



City of Austin

MEMO

**Neighborhood Housing and Community Development Office**

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**DATE:** August 16, 2016

**TO:** Mayor and Council

**FROM:** Rosie Truelove, Interim Director, Neighborhood Housing and Community Development

**SUBJECT:** Resolution No. 20151015-038: Density Bonus Programs and Fee-in-lieu of Onsite Affordable Housing – Final Report

This memorandum provides an update to City Council Resolution No. 20151015-038 which directed the City Manager to explore various elements of the City's density bonus programs related to the fee-in-lieu of onsite affordable housing requirements.

The Neighborhood Housing and Community Development (NHCD) Office completed the draft report, and presented it to the City Council Housing and Community Development Committee on August 1, 2016. Committee action and stakeholder comments were incorporated into the final report attached to this memorandum that will be posted to the NHCD website.

Should you have any questions, please do not hesitate to contact Neighborhood Housing and Community Development Office staff:

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cc: Marc A. Ott, City Manager  
Bert Lumbreras, Assistant City Manager  
Greg Guernsey, Director, Planning and Zoning Department



Neighborhood Housing  
and Community Development Office

# **City of Austin Density Bonus Policy**

**Response to Resolution No. 20151015-038**

Report and Recommendations on the Density  
Bonus Fee-In-Lieu of onsite affordable housing units

August 2016

1. **Understanding the directive from City Council**
  - Resolution No. 20151015-038
2. **Affordable Housing goals and gaps**
  - Austin Housing Plan goals
  - City of Austin affordable housing deficit – current and projected future needs
  - Imagine Austin Vision and Priorities
3. **Overview of current density bonus programs**
  - Affordable housing requirements - on-site or fee-in-lieu
  - Number of units secured / amount of fees secured
  - Where are fees dedicated for reinvestment
4. **Cost of constructing, preserving, and buying-down affordable housing**
  - Estimated costs of constructing affordable housing (primary focus on new construction)
  - Affordable rents and sales prices by income level
  - Cost of buying down market rate units to affordable price points
5. **How do other cities structure density bonus policies**
  - National perspective
  - Review of 8 communities including with mandatory or voluntary inclusionary housing policies
6. **Recommendations for potential code amendments and future actions**

In December of 2015 the Austin City Council passed a resolution directing staff to analyze the City's current policies related to density bonus programs and the option to pay a fee in lieu of providing onsite affordable housing. This report summarizes the research and analysis conducted by the Neighborhood Housing and Community Development Office in response to Resolution No. 20151015-038.

This document is an initial draft report. Neighborhood Housing and Community Development staff will present the report findings and recommendations to the City Council Planning and neighborhoods Committee in June 2016. A summary of the discussion held at the Council Committee in June will be incorporated into the final report.

## Council Resolution No. 20151015-038

Council Resolution No. 20151015-038 directed the City Manager to explore the City of Austin density bonus programs, cost of developing housing, and the policies of other cities relating to fees in lieu of onsite affordable housing units. The resolution further directed the City Manager to develop recommendations for potential code amendments based on the aforementioned analysis.



# Executive Summary

## Overview

This report is meant to function as a reference document; a single place to access information that responds to the questions presented in City Council Resolution No. 20151015-038. Included in this report is an overview of the existing policies that regulate the affordable housing community benefit tied to the Austin density bonus programs. The Austin density bonus programs have secured a total of 1,662 units predominantly at 60% MFI and below. A total of 96 developments have participated in a density bonus program in Austin.

This report refers to density bonus *policies*, which are policies that reside in the City land Development Code, are set by ordinance, and contain regulations. This report also refers to density bonus *programs*, meaning the implementation of the density bonus regulations. As the authors of this report, Neighborhood Housing and Community Development Office staff frame the research and findings through a lens that focuses on the City's mission to develop and preserve long term housing affordable to households at all income levels in all parts of Austin. Density bonus policies are an invaluable voluntary inclusionary housing incentive tool, especially for a city within a state that limits the tools available to meet local affordable housing goals. In this report *Inclusionary Housing* and *Inclusionary Zoning* refer to both mandatory and voluntary policies.

Based on the research conducted for this report The Neighborhood Housing and Community Development Office recommends that City Council consider engaging a third party consultant to conduct a comprehensive economic analysis to determine recommended formulas for calculating affordable housing community benefits. Staff believes this formula should be tied to the value of bonus entitlements. Staff additionally recommends that the third party consultants include experts in inclusionary housing policy. This will ensure that any policy decisions are informed by economics and are also measured against their ability to support Austin's goals for securing permanent housing affordable to a spectrum of households in all parts of the City.

## Summary of Findings

### Austin Density Bonus Policies

- Austin's Density Bonus policies vary greatly in regards to regulations, incentives, community benefits, and affordable housing production.
- Out of 10 policies 4 do not include a fee-in-lieu option and 6 include a partial or full fee-in-lieu option.
  - Regulation of the fee-in-lieu option also varies from policy to policy.
- Economic analysis did not inform calculation of affordable housing or community benefits across all policies

### Density Bonus Policies in Other Cities

- In a survey of 8 communities we found that policies related to density bonus programs vary from community to community.
  - **There is no clear “Best Practice”** - Every state is working to find the policy that best fits the specific needs of their community and the current development market environment.
- Texas is now the only state that prohibits mandatory inclusionary zoning. Oregon recently passed legislation revising the State inclusionary housing laws that had previously prohibited mandatory inclusionary housing.
- Many states with mandatory inclusionary housing policies also provide development incentives to secure long-term affordable housing.

# **Austin's Affordability Housing Goals & Gaps**

# Affordability Housing Goals & Gaps

## Imagine Austin: Household Affordability



### Vision:

Economically mixed and diverse neighborhoods across all parts of the city have a range of affordable housing options, where all residents have a variety of urban, suburban, and semi-rural lifestyle choices.

**Policy HN P1:** Distribute a variety of housing types throughout the City to expand the choices available to meet the financial and lifestyle needs of Austin's diverse population.

**Action HN A1:** Establish regulations and programs to promote development of a variety of market rate and affordable housing types within compact, activity centers and corridors served by transit.

**Action HN A3:** produce regulations and enhance programs to promote affordable housing throughout Austin by:

- Allowing for diverse housing types throughout Austin
- Balancing homeownership and rental opportunities
- Examine regulations that adversely affect affordable housing and consider approaches to minimize cost impacts for units attainable for families at significantly less than market value

## Austin Strategic Housing Plan

### AFFORDABLE HOUSING POLICY PRIORITIES

- Create New and Affordable Housing Choices for all Austinites in all Parts of Austin
  - Land development code that allows for the development of a diversity of housing types
  - Geographic dispersion
- Foster equitable communities
  - Remove barriers to furthering Fair Housing Choice
- Invest in housing for those most in need
- Prevent Households From Being Priced Out of Austin
- Help Austinites Reduce their Transportation Costs

The draft Austin Strategic Housing Plan was released for public review in June 2016 and can be accessed at the following link: <http://austintexas.gov/news/correction-draft-austin-housing-plan-available-public-review-0>

# Affordability Housing Goals & Gaps

Draft Austin Strategic Housing Plan  
released for public comment June 2016

## Community Goals

**75,000 Housing Units in 10 Years:**  
35,000 Affordable Units (80% MFI and below); and  
40,000 Market Rate Units



## Neighborhood Housing and Community Development Targets

### Housing for All

- Serve at least 20 unduplicated people under 20% MFI without a voucher each year
- 50% of new affordable housing units created to be adaptable and 25% to be accessible -
- Support the production of 50 Permanent Supportive Housing (PSH) units each year, with half of those being Housing First

### Family Friendly Housing

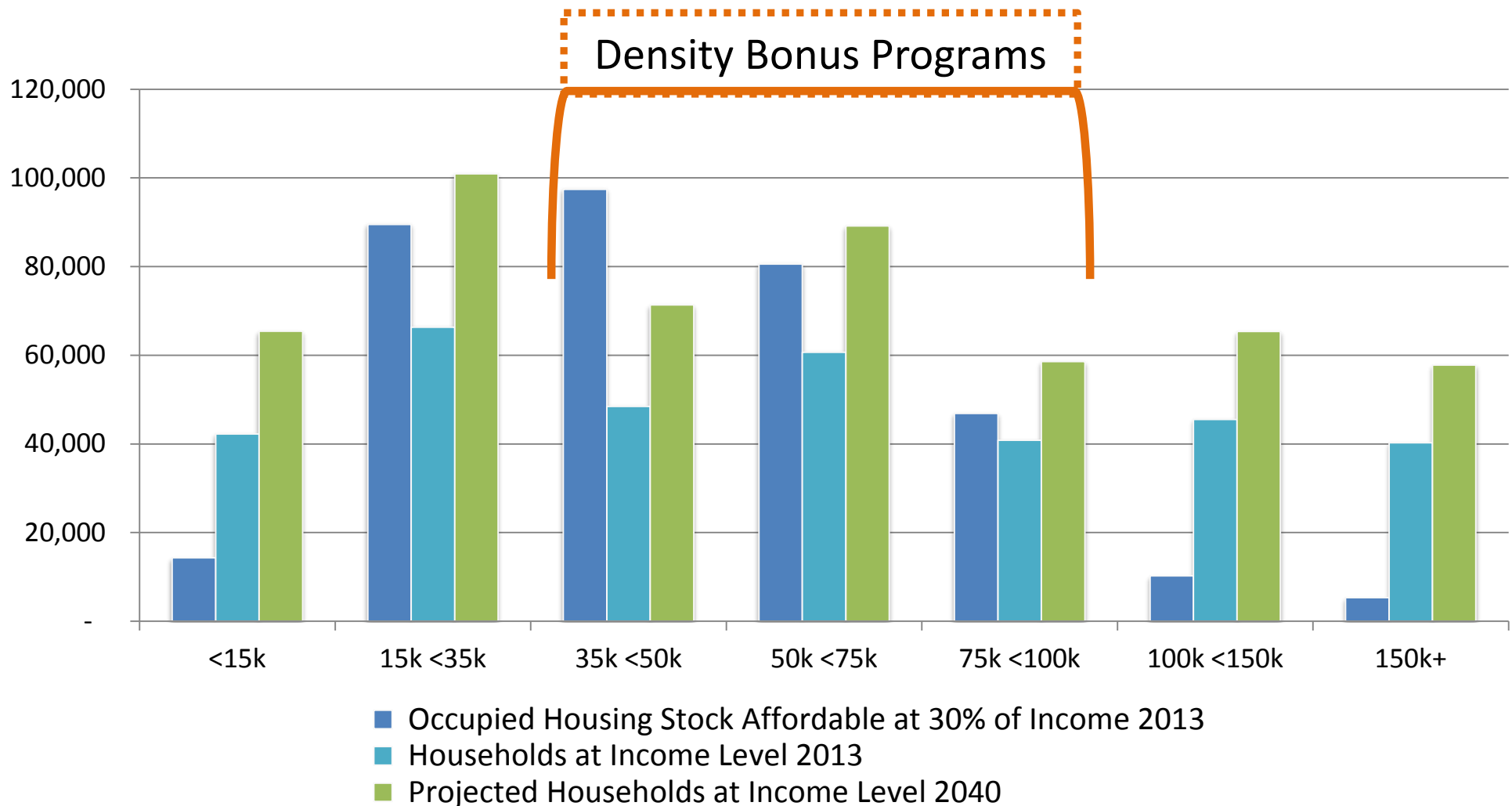
- 25% of affordable housing units that are created or preserved should have two or more bedrooms

### Linking Housing with Transportation

- 25% of affordable housing created or preserved to be within ¼ mile of high frequency transit

# Affordability Housing Goals & Gaps

The current City of Austin Density Bonus programs serve households at 50-120% of the Median Family Income (MFI) for the Austin Metropolitan Statistical Area (MSA). This chart shows projected need for affordable housing from 2013-2040. The 2014 Comprehensive Housing Market Analysis findings did not show a current deficit in housing units affordable to households earning more than \$25,000 annually. However, we can see from the data provided here, that there will likely be a future deficit of housing affordable to households at all income levels. Additionally, many of the units currently available at a lower price point are not restricted and therefore market trends can result in the loss of currently market rate affordable units.



Source: Fregonese & Associates, 2016

# Affordability Housing Goals & Gaps

**2016 Austin-Round Rock MSA**  
Income levels are based on a  
four person household

Household  
Income levels  
served by the  
Austin density  
bonus policies

**30% MFI = \$28,300**

**60% MFI = \$46,680**

**50% MFI = \$38,900**

**80% MFI = \$62,250**

**100% MFI = \$77,800**

**120% MFI = \$93,360**

Annual Household Income	Projected 2040 unit Gap
less than \$15,000	25,000 units
\$15,000-\$35,000	35,000 units
\$35,000-\$50,000	20,000 units
\$50,000-\$75,000	30,000 units
\$75,000-\$100,000	15,000 units
\$100,000-\$150,000	20,000 units
more than \$150,000	15,000 units

Source: Fregonese & Associates, 2016

The 2014 Comprehensive Housing Market Study found that currently there is a need for close to 48,000 units that would be affordable to households making \$25,000 a year or less. This means that Austin is experiencing a significant housing deficit for households below 30% of the area median family income. While the existing density bonus policies do not secure on-site units affordable to this income level, revenue secured through the fee-in-lieu of on-site affordable units provide a funding source to support the development and preservation of housing affordable to the lowest income households.

**2014 Gap**  
**47,698 units**

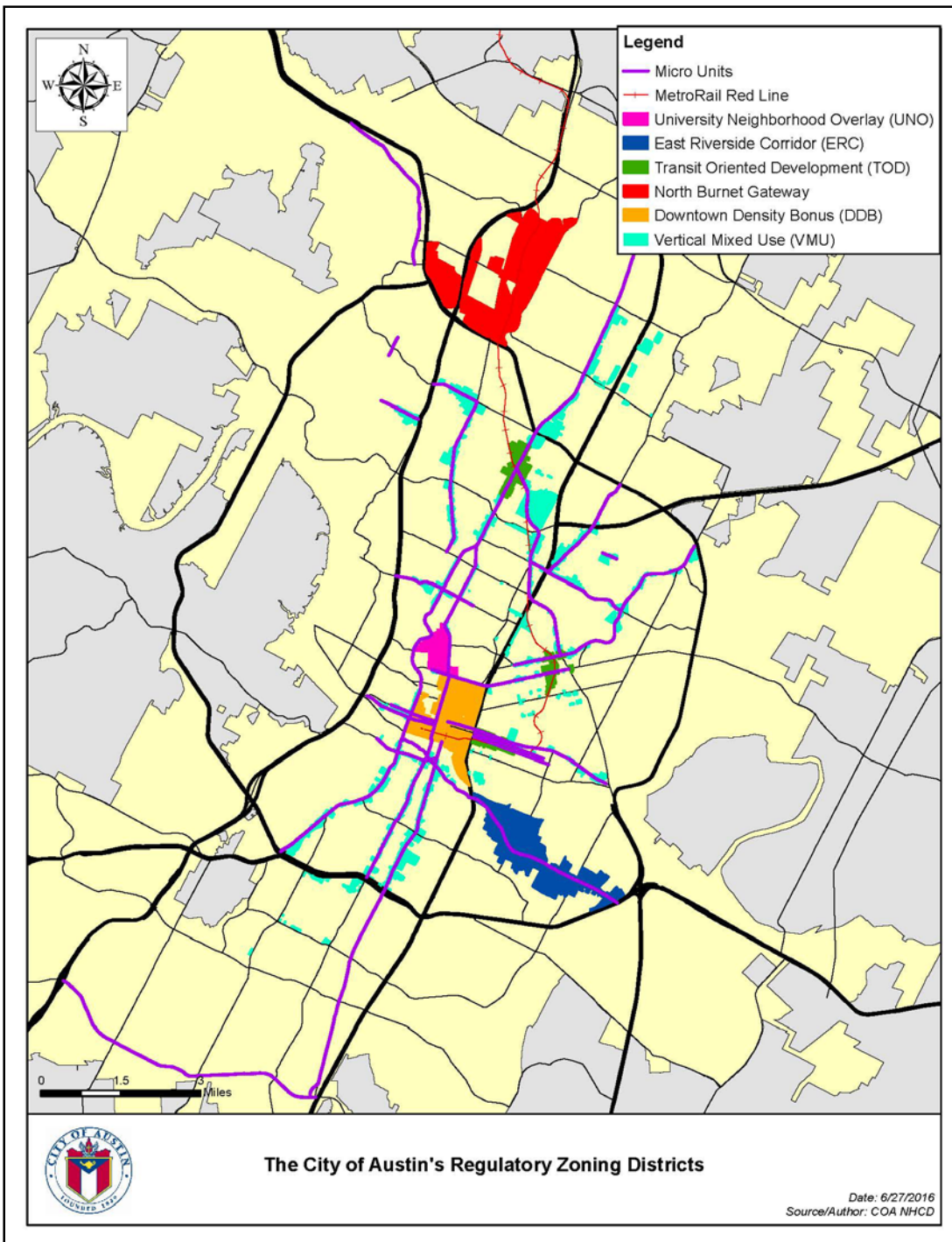


**2012 Gap**  
**40,924 units**

# **Austin Density Bonus Policies and Programs**

# Austin Density Bonus Policies + Programs

## 10 Density Bonus Programs each regulated by a different ordinance



There is an additional Rainey Street specific density bonus within the Downtown Density Bonus overlay.

The location of the density bonus area, the specific elements of the bonus program, and the current real estate market are all factors that impact the effectiveness of a particular density bonus policy to produce affordable housing units.

For a detailed summary of each policy please refer to the development incentives chart on the NHCD website

<http://www.austintexas.gov/page/development-incentives-and-agreements>

# Austin Density Bonus Policies + Programs

## OPPORTUNITIES

- Secure community benefits including inclusionary affordable housing without the use of City cash subsidies.
- Supports geographic dispersion goals
- Public-private collaboration and exchange

## CHALLENGES

- Each program is unique and was created independently of the others
- Development incentives and community benefit requirements vary
- Stakeholders and staff have expressed benefits of standardization of density bonus programs

## Density Bonus Affordable Housing Process

The density bonus programs are a public private collaboration and require ongoing coordination between the developer applicant and the Planning and Zoning Department, Development Services Department, Neighborhood Housing and Community Development Office, and other City departments.

Coordination between City departments and developer applicant



Ongoing communication and tracking of development progress



Restrictive covenant signed and filed prior to issuance of Certificate of Occupancy



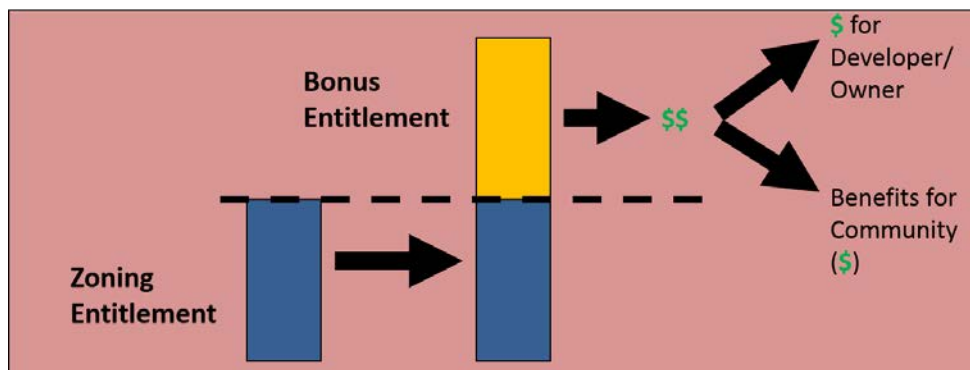
Long term monitoring and technical assistance

### Community Benefits can include:

- Affordable housing (units or fee)
- Public open space
- Green building

### Entitlements/Privileges can include:

- Additional density (FAR: Floor Area Ratio) or units per acre
- Additional height
- Parking reductions



# Austin Density Bonus Policies + Programs

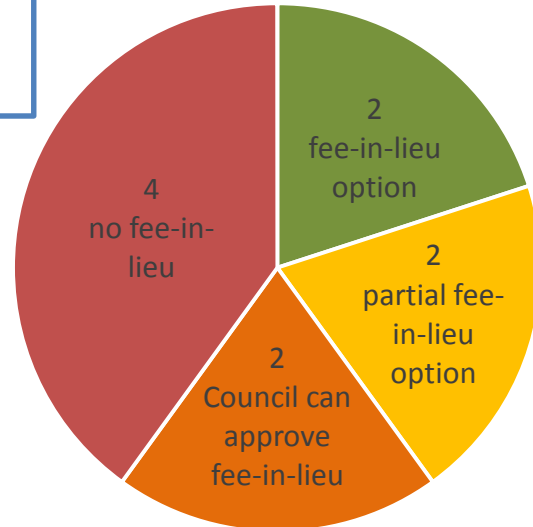
## Fee-in-lieu vs on-site affordable units

Out of the ten density bonus policies/programs six contain an option for partial or full payment of a fee-in-lieu of providing onsite affordable housing units.

Each fee amount was set using a different methodology at the time the specific density bonus policy was created. Fee amounts range from \$0.50-\$10 per square foot based.

Many of the Austin Density Bonus ordinances specify the use of the Consumer Price Index (CPI) to measure appropriate annual fee adjustments. These ordinances also allow for the Director of Neighborhood Housing and Community Development Office to identify an alternative index. Fiscal Year FY16-17 will mark the first year that the index has increased significantly enough to adjust the fee amounts. For example, the fees for Transit Oriented Development Density Bonus will increase from \$10 to \$11 in October 2016.

The tables provided on the subsequent pages will follow the color code set in this pie chart



### No Fee-in-lieu option:

Micro Units  
Rainey Street  
S.M.A.R.T. Housing Single & Multi-Family Greenfield  
Vertical Mixed Use

### Council can approve fee-in-lieu:

Planned Unit Development (density bonus only)  
Transit Oriented Development

### Partial fee-in-lieu option:

East Riverside Corridor (limited to developments above 90ft)  
University Neighborhood Overlay

### Fee-in-lieu option:

Downtown Density Bonus  
North Burnet Gateway (requires approval by Director of NHCD)

## Density Bonus Affordable Housing Data

Data provided in the “Austin Density Bonus Programs” section of this report is based on inventory assessment completed in May of 2016 by Neighborhood Housing and Community Development staff. While the City of Austin uses reasonable efforts to provide accurate and up-to-date information, some of the information provided may be unverifiable at this time and is subject to change without notice. The unit count may include developments that chose to include a greater percentage of affordable units than is required by code. In some cases, a developer may have also chosen to provide units at lower MFI levels than required by code. When such a case arises it is most often due to requirements set by specific funding sources accessed by a developer, such as City of Austin funds, federal housing developer assistance funds, or tax credits.

This data set does not include developments that are regulated by individual master development agreements such as the Robert Mueller Municipal Airport development. The purpose of this data analysis is to look at the performance of density bonus policies in the Austin land Development Code.

### Data Characteristics

- Tracking developments is a manual process that requires significant staff time.
- Developments are in flux throughout the development process and therefore unit counts and fee amounts are not stagnant.
- The data analyzed in this report does not include Planned Unit Developments (PUD) or any other developments currently under negotiation or developments where there is not yet a preliminary affordability requirement calculation.
- Density bonus programs are implemented collaboratively by the Planning and Zoning Department, Development Services Department, and the Neighborhood Housing and Community Development Office. Staff is required to work in close coordination in order to maintain accurate and current data.

# Austin Density Bonus Policies + Programs

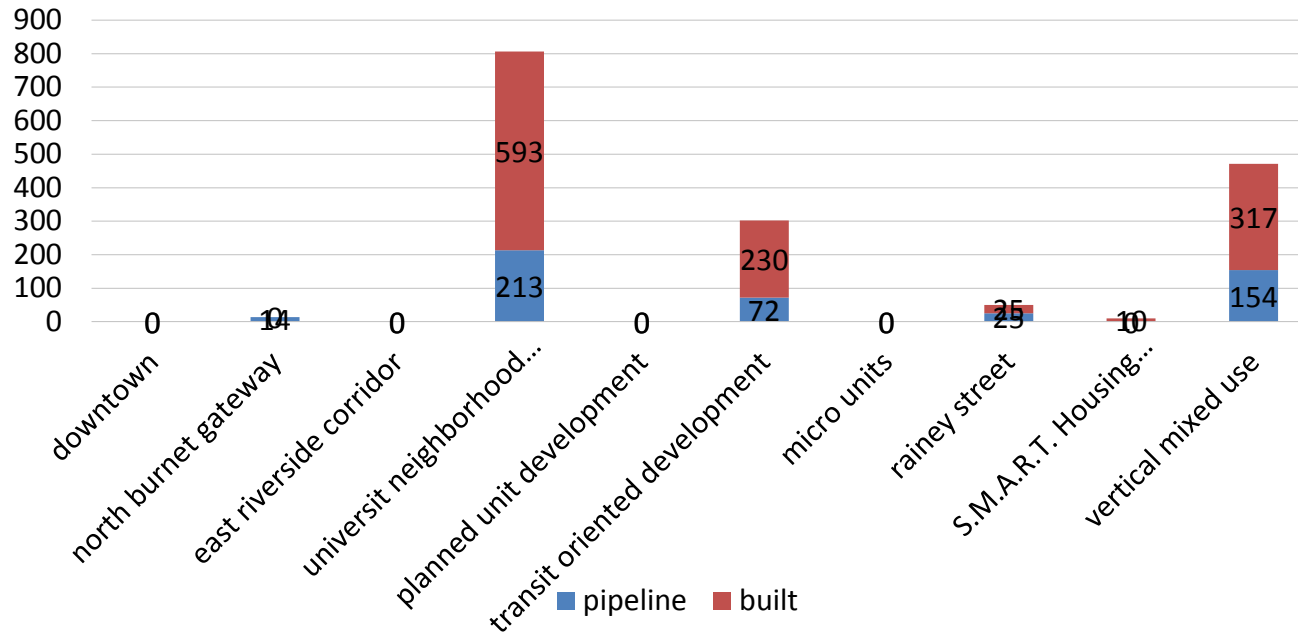
## Summary of Density Bonus Affordable Housing Outcomes

### Total units by Median Family Income (MFI) level

	120% MFI	100% MFI	80% MFI	65% MFI	60% MFI	50% MFI	30% MFI*	Total
Built Units	0	0	714	9	220	217	15	<b>1,175</b>
Anticipated Units	0	0	136	0	313	29	0	<b>478</b>
<b>Total</b>	<b>0</b>	<b>0</b>	<b>850</b>	<b>9</b>	<b>533</b>	<b>246</b>	<b>15</b>	<b>1,653</b>

\*The units at 30% MFI are located in a TOD project that voluntarily chose to include units at this MFI level as part of the affordable housing development pro forma

### 2016 Density Bonus Unit Count



#### Top Performers

1. University Neighborhood Overlay – partial fee-in-lieu
2. Vertical Mixed Use – no fee-in-lieu
3. Transit Oriented Development – City Council may approve fee-in-lieu

Total fees in lieu of onsite units secured through density bonus programs = \$4,831,364

## Density Bonus Policies with a Fee-in-lieu Option

Model	Affordability MFI	Onsite Calculation	Fee-in-lieu
Downtown Density Bonus (DDB)	120% Ownership / 80% Rental	10 bonus square feet for each 1 square foot of on-site affordable space.	\$3-\$10/bonus square foot
North Burnet Gateway (NBG)	80% Ownership / 60% Rental	10% of bonus area	\$6/bonus square foot – 50% to Housing Trust Fund/ 50% to Community Benefits Fund
East Riverside Corridor (ERC)	80% Ownership / 60% Rental	4 bonus square feet for each 1 square foot of on-site affordable space.	\$0.5/bonus square foot
University Neighborhood Overlay (UNO)	80% AND 65% Ownership and Rental OR 60% AND 50% Ownership and Rental	10% of units/ bedrooms	\$0.5-\$1/square foot of net rentable floor area in the multi-family residential use or group residential use
Planned Unit Development (PUD)	80% Ownership / 60% Rental	10% of the rental units or rental habitable square footage, 5% of the owner occupied units or owner occupied habitable square footage	\$6/bonus square foot Fee option dependent on City Council approval
Transit Oriented Development (TOD)	MFI varies by district 80% Ownership / 60% Rental or 50% Rental	10% or 15% of total square footage	\$10/bonus square foot Fee option dependent on Council approval

# Density Bonus Policies with a Fee-in-lieu Option

This chart includes the full universe of units and fees both anticipated and completed– all dollar amounts are rounded to the nearest dollar

Model	Affordable Units	Year Introduced	Total Developments Participating	Total Fees-in-lieu	Fee investment Dedication
Downtown Density Bonus (DDB)	0	2013	3	\$2,352,960	<a href="#">Permanent Supportive Housing</a>
North Burnet Gateway (NBG)	14	2009	1	\$0	Within 2 miles of NBG boundaries
East Riverside Corridor (ERC)	0	2013	0	\$0	Fees are paid into the Transit Area Housing Assistance Fund
University Neighborhood Overlay (UNO)	806	2004	50	\$1,695,252	Fees are paid into the University Neighborhood Overlay Trust Fund
Planned Unit Development (PUD)	0	2008	2*	\$23,250	No restrictions
Transit Oriented Development (TOD)	302	2009	12	\$759,902	Within ½ mile of the TOD boundaries

\*One of the PUD developments accessing the density bonus has no residential use and was approved prior to the establishment of a fee-in-lieu for non-residential developments

## Accounting of fee-in-lieu revenue

At the time of this report no payments of fees in lieu of on-site affordable housing units secured through the Downtown Density Bonus program have been made to the City. Payments are made when a development applies for the Certificate of Occupancy, and thus far no projects participating in the program have reached that milestone. Staff anticipates the first payments will be received in calendar year 2016.

\$23,250 – Planned Unit Development density bonus

\$1,695,251.75 in fee-in-lieu payments have been made to the City by developments that have accessed the University Neighborhood Overlay density bonus.

The following fee payments have been reinvested in the community to support the City's affordable housing goals.

\$837,500 - Super Co-Op, 1905 Nueces Street, (College Houses)

The funds were used for debt reduction and were applied to 50 “units/beds” for persons with incomes at or below 50% MFI at the Super Co-Op

\$628,089 - Ruth R. Schulze Co-Op, , 915 W. 22nd Street, (University ICC)

award of UNO funds was approved on April 17, 2014 for \$628,089 for the University Inter-Cooperative Council's “Ruth R. Schulze Co-Op” - loan has not closed

\$31,945 University Neighborhood Overlay density bonus policy analysis conducted by Economic & Planning Services in 2011

Remaining UNO Trust Fund balance = \$825,806.75

# Density Bonus Policies with a Fee-in-lieu Option

The Downtown Density Bonus has a fee of \$0 for non-residential development which essentially translates to no affordability requirement on non-residential developments that participate in that density bonus program. Thus far 4 developments have accessed the density bonus program, and of those 4 developments, 3 of these developments include a residential use and are therefore subject to the affordable housing community benefit requirement.

Additionally there is a provision in the Vertical Mixed Use development code that speaks to a fee for non-residential developments. However, the fee amount and dedication were never established. This means that similarly to the Downtown Density Bonus program there is no affordability requirement tied to non-residential developments that participate in the Vertical Mixed Use Density Bonus program. The fee amount must be set by City Council action.

**Chapter 25-2-172, Section 4.3.3 (F)(1)(c) Fee for Upper-Level Nonresidential Space.** The developers of VMU buildings that contain nonresidential uses above the ground-floor shall pay a fee as set by the City Council for all climate-controlled nonresidential space above the ground floor. At the same time that it sets the amount of the fee, the City Council shall also identify a means by which fees paid pursuant to this section shall be reserved only for expenditure within the area of the City from which they were collected.

A fee-in-lieu was recently added to the Planned Unit Development density bonus policy for non-residential developments.

# Density Bonus Policies with No Fee-in-lieu Option

This chart includes the full universe of units and fees both anticipated and completed

Model	Affordable Units	Year Introduced	Total Developments	Affordability MFI	Onsite Calculation
Micro Units	0	2014	0	80% ownership / 50% rental	10% of <500 sq.. ft.. units or 3BR units
Rainey Street	50*	2005	4	80% Ownership and Rental	5% of dwelling units square footage
S.M.A.R.T. Housing Greenfield	10	2008	1	80% and 100% Ownership / 80% Rental	10% Ownership (single-family) 5% Ownership / 10% Rental (multi-family)
Vertical Mixed Use (VMU)	471	2010	24	80% and 100% Ownership / 80% or 60% Rental	10% of units

\*Affordable Units were built under the previous Rainey Street Density Bonus policy that did not include a long-term affordability requirement and therefore it is unlikely that these units remained available at an affordable price point after the initial leasing.

All density bonus policy currently require that rental units remain affordable for a minimum of 40years and ownership units remain affordable for a minimum of 99 years. In the past Rainey Street and the University Neighborhood Overlay allowed for shorter affordability periods. In 2014 the Planned Unit Development density bonus policy was amended to require ownership units to remain affordable in perpetuity. Some density bonus policies require participants to accepts Housing Choice Vouchers.

# **Cost of Construction, Rents, and Sales Prices in Austin**

## Why look at cost of construction, rents, and sales prices?

In looking at the costs associated with constructing, renting, and buying housing we gain insight into:

- the buying power of fee-in-lieu funds to build new construction, buy-down units from market rate, provide down payment assistance or other subsidies, etc.
- the cost to a developer to provide on-site affordable housing
- Costs of providing affordable housing can be used in the calibration of density bonus incentives and community benefits

## Cost of Construction Data

Various indexes can be utilized in the calibration of density bonus entitlements and community benefits. In this report staff looks at the cost of constructing housing in Austin through data obtained through the ongoing CodeNEXT initiative as well as information provided in applications to the City's Rental Housing Development Assistance (RHDA) program. Staff accessed multiple data sources to determine current average rental rates and sales prices within the Austin City Limits. This report includes rental and sales price data produced by the Austin Board of Realtors, Austin Investor Interests, LLC, and Zillow. The data provided in this report represents one component of information necessary to develop a thoughtful and effective density bonus policy.

Data limitations:

- CodeNEXT focus areas do not include actual cost of land – these are modeled typologies rather than examples of real world development budgets and pro formas.
- Budgets included in RHDA applications are estimated costs and not reflective of total final costs.
  - Examples provided do not provide a statistically significant sample, they are included in this report only as a snap shot of recently funded affordable housing developments.
- Data does not include qualitative information that could be obtained through local stakeholder expertise.

## CodeNEXT Envision Tomorrow Data

Fregonese Associates were contracted by the City of Austin to serve as consultants on the CodeNEXT initiative. Fregonese in collaboration with the City's CodeNEXT staff identified 9 focus areas to model for the 2015 CodeNEXT Sound Check workshops. Utilizing the Envision Tomorrow software the consultants were able to model a variety of building types that include both single and multi-family residential developments.

- Uses 2015 RS Means data. RS Means provides cost information to the construction industry so contractors in the industry can provide accurate estimates and projections for their project costs.
- Land value is maximum residual land value – based on the maximum amount that could be dedicated to purchasing land and still have the overall project budget work out
- Used CoStar data from 2015 for achievable rents

For the purpose of this report NHCD staff only utilized data for development types that include at least 70% residential use. The building types represent both building typologies currently found in Austin as well as new building types that could be accommodated in the revised land development code.

# Cost of Construction in Austin: CodeNEXT Envision Tomorrow Data

## CodeNEXT Focus Areas

Focus Area	\$cost per sq. ft.	#1 cost per unit (total value/# units)	#2 cost per unit (Net Sq. Ft per unit x cost per sq. ft.)
Lamar/Justin	\$219	\$244,648	\$237,476
MLK/Chicon	\$264	\$427,439	\$419,199
1st/Oltorf	\$270	\$443,712	\$435,572
12th/Hargrave	\$238	\$389,038	\$381,962
Manchaca/Slaughter	\$146	\$218,596	\$212,455
Stassney/Nuckols	\$134	\$193,002	\$193,002
183/McNeil Subdivision	\$157	\$247,156	\$247,156
183/McNeil Commercial	\$145	\$218,092	\$212,289
<b>Overall Averages</b>	<b>\$197</b>	<b>\$297,710</b>	<b>\$292,389</b>

## CodeNEXT Building Typologies

Building Type Name	Avg. Cost Per Sq. Ft.	AVG #1 cost per unit (total value/# units)	AVG #2 cost per unit (Net Sq. Ft per unit x cost per sq. ft.)
T3E - Med SF	\$199	\$596,871	\$596,871
T3N.M - Cottage Court	\$199	\$304,996	\$304,971
T3N.M - Med SF	\$199	\$596,810	\$596,810
T3NH - Cottage Court	\$199	\$302,348	\$302,348
T3N.H - Med SF	\$199	\$591,879	\$591,879
T3NH- Stacked TH	\$168	\$319,724	\$319,724
T4MS - Rowhouse Medium TH	\$168	\$323,484	\$323,459
T4N.L - Cottage Court	\$199	\$251,977	\$252,002
T4N.L - Quadplex - Small	\$196	\$196,364	\$196,364
T4N.M - Cottage Court SF	\$199	\$249,897	\$249,875
T4N.M - Multiplex Medium MF	\$197	\$164,288	\$164,300
T5MS - Mid Rise MU	\$206	\$176,359	\$134,033
T5N.L - Multiplex Large MF	\$201	\$161,854	\$161,826
T5N.L - Rowhouse Large TH	\$168	\$325,198	\$325,211
T5N.M - Mid Rise	\$207	\$186,932	\$134,591
T5N.M - Stacked Flats MF	\$201	\$142,302	\$130,444

# Cost of Construction in Austin: COA RHDA Funding Applicants

Affordable housing developers applying for funding assistance through the Neighborhood Housing and Community Development Office must submit an estimated development budget as part of the funding application.

We looked at four estimated budgets for developments that applied for funding through the Rental Housing Development Assistance program in 2014-2016. As you can see from the examples, cost per square foot differs even between two locations that are relatively close to each other, in the example of the MLK Transit Oriented District (example 3) and the Robert Mueller Municipal Airport Development (example 4)

## Example 1

Four-plex in the West Gate area  
Renovation of existing development

**Total estimated cost: \$520,223**

4 Rental units:

3 affordable at 50% MFI

1 market rate

Average size: 950 sq.ft.

**Average cost per unit = \$130,055**

**Average cost per sq.. ft.. = \$137**

## Example 2

PSH on William Cannon  
New Development

**Total estimated cost: \$2,669,162**

20 Rental Units:

20 affordable PSH

0 market rate

Units at 380 sq.. ft..

**Average cost per unit = \$133,458**

**Average cost per sq.ft. = \$351**

## Example 3

Large mixed-use multifamily in the MLK TOD  
New Development

**Total estimated cost: \$32,500,000**

225 Rental units:

53 affordable at 30-50% MFI

172 market rate

Average size: 493 sq.ft.

**Average cost per unit = \$144,444**

**Average cost per sq.. ft.. = \$293**

## Example 4

Large mixed-use multifamily in RMMA  
New Development

**Total estimated cost: \$39,923,920**

240 Rental Units:

95 affordable at 30-60% MFI

145 market rate

Units at 524-1200 sq.. ft..

**Average cost per unit = \$166,350**

**Average cost per sq.ft. = \$199**

# Cost of Housing in Austin: Rental Housing

## Austin Area income and affordable rental rates by household size

“Affordable” generally means that a household spends no more than 30% of their income on housing expenses. For the calculation of affordable rental prices staff made the assumption that a household will spend 2% of their monthly income on utilities and the remaining 28% would go towards rent. The Area Median Family Incomes (MFI) used in the chart below are based on the income chart the U.S. Department of Housing and Urban Development (HUD) issued in June 2015 for the Austin-Round Rock Metropolitan Statistical Area (MSA)

	Annual Income			Monthly Income			Affordable Monthly Rent	
median Income Limit	1 person household	4 person household		1 person household	4 person household		1 person household	4 person household
100%	\$53,750	\$76,800	/12=	\$4,479	\$6,400	x28%=	\$1,254	\$1,792
80%	\$43,050	\$61,450	/12=	\$3,588	\$5,121	x28%=	\$1,005	\$1,434
60%	\$32,250	\$46,080	/12=	\$2,688	\$3,840	x28%=	\$753	\$1,075
50%	\$26,900	\$38,400	/12=	\$2,242	\$3,200	x28%=	\$628	\$896
30%	\$16,150	\$24,250	/12=	\$1,346	\$2,021	x28%=	\$377	\$566

The current Austin practice for setting rental limits for income restricted units secured through a density bonus program is as follows: efficiency/1-bedroom= 1-person household, 2-bedroom= 2-person household, 3-bedroom= 3-person household. NHCD may choose to adjust this practice at any time.

## Cost of providing affordable rental units

When calculating the cost of providing rental units at affordable price points we look at the difference between a market rate rent and the affordable rent amount. This allows us to determine the amount of subsidy required to “buy-down” a unit to an affordable price point. From the perspective of a developer or property owner this amount is the amount of money a development will lose out on by providing units at a rate lower than what the market can bear. This may be referred to as the “opportunity cost”.

One of Austin’s primary goals regarded affordable housing is to ensure that the units remain affordable long term. Therefore when looking at the cost of providing affordable housing we look at the cost over the duration of the required affordability period.

We then must consider the cost of buying down a single unit for the total 40 year affordability period.

- staff applied a Net Present Value calculation to the cost of buying down a single unit.

**Formula:  $(1/1.06)^{(\#years)} \times (\text{annual buy-down}) = \text{total buy-down amount}$**

- The sum of all annual buy-down amounts equals the amount of money the City would need to pay a property owner in order to buy 40 years of affordability in year one.
- The formula includes a 6% discount rate to determine the current value (net present value) of future cash flow. This discount rate is provided as an example.
- All calculations are estimates and are provided in this report for illustrative purposes only.

It can be difficult to identify accurate data on area market rate rents and therefore the dollar amounts provided are an estimate. On the following page staff has calculated the buy-down amount required for a 1-bedroom and a 3-bedroom unit at various affordable price points. This calculation was completed based on two different market rate rent data sources.

# Cost of Housing in Austin

## Estimated cost of a 1 bedroom unit

Market rate based on The Austin Multi-Family Trends Report 2015 4th Quarter - Austin MSA averages by bedroom size. Produced by Austin Investor Interests, LLC

	Affordable 1 bedroom (1 person household income)	Buy-Down 1 year (subsidy required)	Total Buy-Down for 40 years of affordability
<b>Average Market Rate Rent</b>	\$976		
<b>80% MFI</b>	\$1,005	No subsidy	<b>No subsidy</b>
<b>60% MFI</b>	\$753	\$223	<b>\$40,264</b>
<b>50% MFI</b>	\$628	\$348	<b>\$62,833</b>
<b>30% MFI</b>	\$377	\$599	<b>\$108,153</b>

Market rate based on Zillow Data Austin Median Rental List Price for April 2016

	Affordable 1 bedroom (1 person household income)	Buy-Down 1 year (subsidy required)	Total Buy-Down for 40 years of affordability
<b>Average Market Rate Rent</b>	<b>\$1,100</b>		
<b>80% MFI</b>	\$1,005	\$95	<b>\$17,153</b>
<b>60% MFI</b>	\$753	\$347	<b>\$62,653</b>
<b>50% MFI</b>	\$628	\$472	<b>\$85,222</b>
<b>30% MFI</b>	\$377	\$723	<b>\$130,542</b>

# Cost of Housing in Austin

## Estimated cost of a 3 bedroom unit

Market rate based on The Austin Multi-Family Trends Report 2015 4th Quarter - Austin MSA averages by bedroom size. Produced by Austin Investor Interests, LLC

	Affordable 3 bedroom (4 person household income)	Buy-Down 1 year (subsidy required)	Total Buy-Down for 40 years of affordability
<b>Average Market Rate Rent</b>	<b>\$1,534</b>		
<b>80% MFI</b>	\$1,434	\$100	<b>\$18,056</b>
<b>60% MFI</b>	\$1,075	\$459	<b>\$82,875</b>
<b>50% MFI</b>	\$896	\$638	<b>\$115,194</b>
<b>30% MFI</b>	\$566	\$968	<b>\$174,778</b>

Market rate based on Zillow Data Austin Median Rental List Price for April 2016

	Affordable 3 bedroom (4 person household income)	Buy-Down 1 year (subsidy required)	Total Buy-Down for 40 years of affordability
<b>Average Market Rate Rent</b>	<b>\$1,800</b>		
<b>80% MFI</b>	\$1,434	\$366	<b>\$66,083</b>
<b>60% MFI</b>	\$1,075	\$725	<b>\$130,903</b>
<b>50% MFI</b>	\$896	\$904	<b>\$163,222</b>
<b>30% MFI</b>	\$566	\$1,234	<b>\$222,806</b>

# Cost of Housing in Austin: Ownership Housing

The Austin Board of Realtors provided an unpublished informal data analysis for the Neighborhood Housing and Community Development Office. This data allows us to look at median sales prices for detached housing, attached housing, and all residential sales. The Austin Board of Realtors define “attached housing” as one side of a duplex, condo, and townhouse. “Condo” is an ownership model not necessarily a housing typology and therefore the data includes multiple housing typologies that utilize a condominium

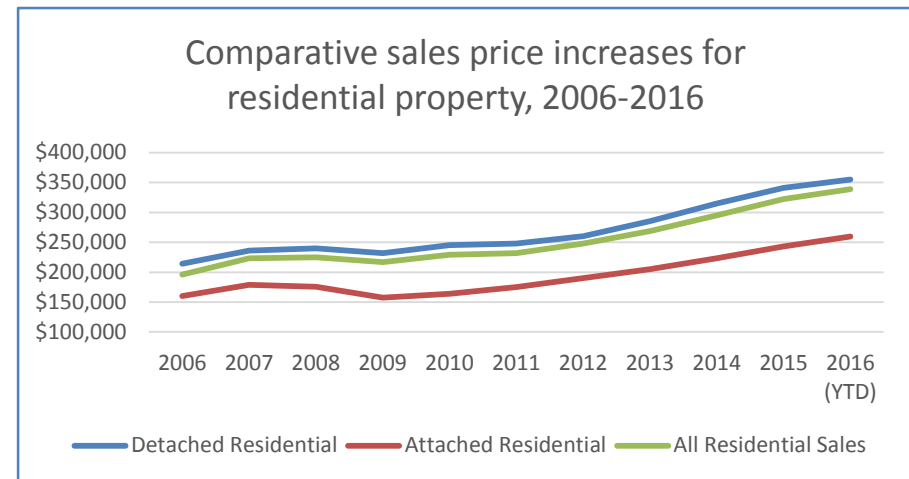
ownership model. The 2016 values include data from 01/01/2016 - 06/06/2016.

Primary Year	Detached Residential		Attached Residential		All Residential Sales	
	# of Sales	Median Sales Price	# of Sales	Median Sales Price	# of Sales	Median Sales Price
<b>2014</b>	11,094	\$315,000	2,716	\$223,444	13,847	\$295,000
<b>2015</b>	11,388	\$341,000	2,625	\$243,000	14,055	\$322,500
<b>2016 (YTD)</b>	4,319	\$355,000	1,049	\$259,900	5,389	\$339,000

Using the median residential sales price provided by The Austin Board of Realtors, NHCD staff calculated the difference between the median sales price and an estimated affordable sales price for households at 80-120% of the area median family income.

% Area Median Family Income	Annual Income for a 4 person household	Estimated Affordable Sales Price	Buy-Down (Subsidy) Required for \$339,000 house
120%	\$92,160	\$276,480	<b>\$62,520</b>
100%	\$76,800	\$230,400	<b>\$108,600</b>
80%	\$61,450	\$184,350	<b>\$154,650</b>

Estimated affordable sales price is based on a calculation of 3 times the annual household income



Source: Austin Board of Realtors

Based on a median sales price of \$339,000 an estimated subsidy of \$62,520-\$154,650 is required to achieve affordable sales prices for households with income from 120% to 80% of the area median family income.

# **National Density Bonus Inclusionary Housing Policies**

## Defining Inclusionary Housing and Inclusionary Zoning

The Density Bonus policy model is a tool available to municipalities to support the development of inclusive communities. In this report we refer to the density bonus tool or any developer incentive model as an *Inclusionary Housing Policy*. *Inclusionary Zoning* is often used interchangeably with *Inclusionary Housing*. Inclusionary Housing or Zoning refers to municipal policies that require a given share of new construction to be affordable to households at specific income levels.

Inclusionary Housing Policies come in two distinctive forms; Mandatory and Voluntary.

The State of Texas is the only state in the U.S. that explicitly prohibits Mandatory Inclusionary Zoning. This means that Austin is permitted to set inclusionary housing policies, however, participation in these policies is always voluntary. In the case of Austin's density bonus programs a developer may choose to access additional development entitlements made available through the density bonus policy. If the developer chooses to access these entitlements they are then obligated to meet the affordable housing requirements set out in the policy.

This section provides information on national inclusionary housing policies:

- Reference to general inclusionary housing policies and inclusionary zoning includes both mandatory and voluntary policies
- Some municipalities structure their inclusionary policies to allow voluntary participation even within states that permit mandatory inclusionary housing.

# National Inclusionary Housing Policy Resources

## Grounded Solutions Network



*Grounded Solutions Network is supporting strong communities from the ground up. We work nationally, connecting local experts with the networks, knowledge and support they need. Grounded Solutions Network helps promote housing solutions that will stay affordable for generations so communities can stabilize and strengthen their foundation, for good. [The National Community Land Trust Network](#) and [Cornerstone Partnership](#) have formed a new organization—bringing together an extensive network of member practitioners from local communities who have a deep understanding of best practices for the sector.*

The information included on the following pages was sourced from a variety of presentations and briefing memos produced by Cornerstone Partnership including ***Best Practices in Inclusionary Housing and Policy Design & Pros & Cons of Establishing an In-Lieu-Fee, Best Practices in geographic Scoping and Tiering of Inclusionary Housing Policies, and Economics of Inclusionary Housing Policies: Effects on Housing Prices.***

Cornerstone Partnership identifies the following opportunities and challenges of density bonus policies that allow for a fee-in-lieu of on-site affordable housing:

### In-lieu Fees Opportunities:

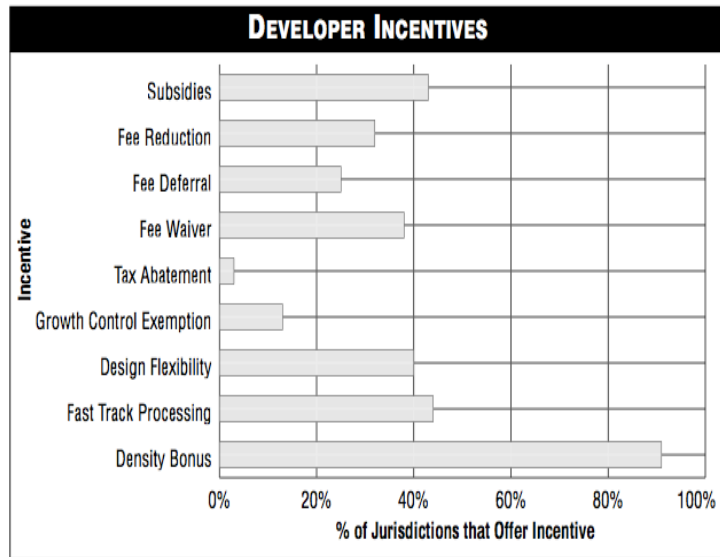
- Legal desirability of flexibility
- More units
  - Potential for leverage of outside funds
  - Use expertise of nonprofits
  - Can simplify financing of market rate units, particularly if development community is not used to Inclusionary Zoning
- On site performance can be hard to monitor and manage (income verification, HOA dues)
- More flexibility in what units are built

### In-lieu Fees Challenges:

- Prices often set too low (not properly calibrated)
- Can slow down the process
- Can be difficult to get units in neighborhoods if land is not available or too expensive
- There may not be strong non-profits to give the money to
- Subsidies may already be spoken for

# National Inclusionary Housing Policy Resources: Grounded Solutions Network

The Cornerstone Partnership presentation on the pros and cons of in-lieu fee policies states that Density Bonus is the most common form of incentive offered in exchange for affordable housing community benefits. Parking ratio Reductions are also offered by many communities though they were not included in the chart on the right. The chart is the product of a survey of 170 California inclusionary zoning programs conducted by Nonprofit Housing Association of Northern California.



## Best Practices for In-lieu fee policies:

- Have a preference
- Set a meaningful fee
- Target expenditure of fees
- Track and report results

## How are in-lieu fees set?

- Arbitrary
- What the Market Will Bear
- Affordability Gap
- Production Cost

The Cornerstone Partnership website includes tools to assist local practitioners and policy makers in the design of their inclusionary housing programs, however the organization emphasizes that the tools are only as good as the data and metrics used for policy calibration. The Cornerstone Partnership policy brief titled *Best Practices in Geographic Scoping and Tiering of Inclusionary Housing Policies* looks at different inclusionary housing policy models and provides examples of how various cities apply these models. The following two pages provide a summary of the policy brief.

Cornerstone Partnership highlights that:

*Cities across the United States face challenges when crafting inclusionary housing policies that are effective, but also flexible enough to address the individual needs of each of these diverse neighborhoods.*

# National Inclusionary Housing Policy Resources: Grounded Solutions Network

Goal: structure an inclusionary housing policy that will both produce new affordable housing and support economic revitalization in urban neighborhoods with weaker housing markets.

Fact: *“According to a recent study commissioned by the Lincoln Institute of Land Policy, approximately 500 jurisdictions in 27 states and Washington D.C. have some form of inclusionary housing policy. These vary widely in form, but the vast majority of these policies are mandatory, rather than voluntary, and apply to an entire jurisdiction (city or county), rather than a specific set of project types or geographic zones.”*

Best Practice: In high-cost or strong housing market cities, a single policy which applies uniformly across the jurisdiction is often preferable for ease of administration.

- avoids the unintended market consequences of applying policies differently across the same jurisdiction (i.e. market preferences to develop in areas not subject to inclusionary housing policies)
- can deliver the added benefit of providing clarity to developers and land owners who may find more nuanced or layered inclusionary policies overly complicated or confusing.

Cornerstone Partnership recommends that Cities take into account the following key considerations when deciding whether to vary or tier production requirements based on neighborhood market conditions:

## • **Clear and Reliable Data Metrics and Standards:**

- *If the policy will be indexed to one or more data metric, such as median income or median sale price, the source of the data should be easily obtainable and updated regularly.*
- *The ordinance or policy language identifying the metric or metrics to be used should also specify the exact time frame for updating the data and the process by which this update will affect policy changes at the neighborhood level.*
- *Staff responsibility and funding for this process should also be clearly identified and built into the ongoing administration of the program.*

## • **Clear and Transparent Policy Guidance:**

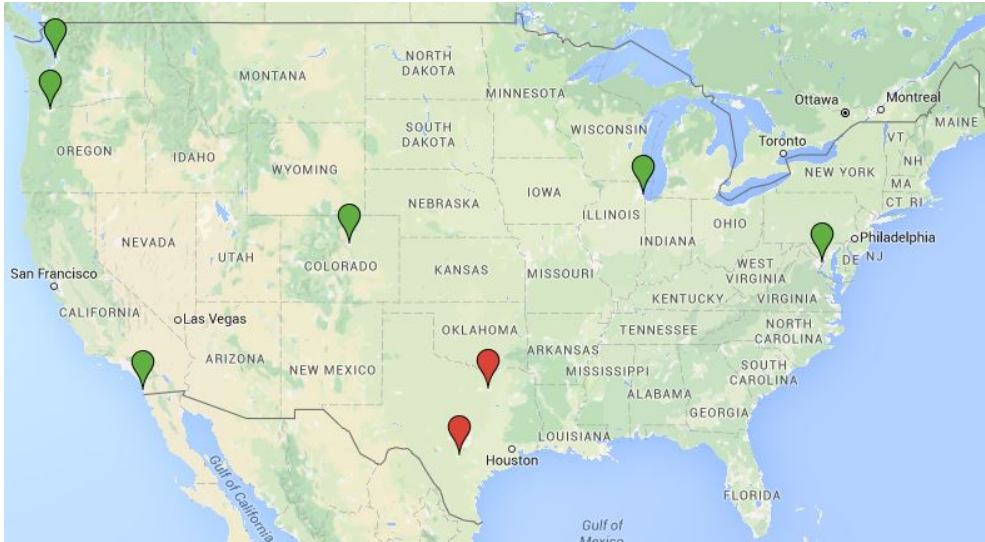
- *The national evidence around best practices suggests that often relatively simple and straightforward policies are the most effective over the long-term. This is true both in terms of unit production and certainty and clarity for developers and landowners.*
- *To the extent possible, cities should standardize policy requirements and guidance around new mandatory requirements, even where some neighborhoods have lower production targets or AMI/MFI level targets than others.*

# National Inclusionary Housing Policy Resources: Cornerstone Partners

Model	Elements	Opportunities	Challenges	Examples
<b>Geographically-Targeted Policies by Census Tract</b>	Inclusionary housing policies apply only to specifically designated census tracts	A variety of relevant data sets are available at the census tract level	<ul style="list-style-type: none"> <li>No one metric can perfectly indicate a rapidly changing neighborhood housing market</li> <li>Census tract is not an ideal unit for calibrating policy in dense urban areas</li> </ul>	<b>Charlotte, NC</b> Voluntary policy that only applies to census tracts where the median home sales price is at or above the MSA median <b>Tallahassee, FL</b> Mandatory policy in all tracts where the MFI is greater than the countywide median
<b>Policies Limited to Specific Zoning Districts</b>	Inclusionary Policy applies only to specific zoning or planning districts	Public sector can take advantage of the increased real estate value in density bonus areas	Challenge for development industry to understand the varying requirements and entitlements	<b>Washington, D.C.</b> Mandatory policy applies to mid and high density zones within the city <i><b>Austin also uses this model.</b></i>
<b>Policies that Vary by Project Type</b>	Inclusionary policies calibrated by project type	Applying inclusionary requirements by project rather than geographic area allows cities to create policy that responds to actual development activity rather than being limited to administrative boundaries	These policies are very complex and therefore difficult to interpret and implement	<b>Chicago, IL</b> Mandatory policy applies selectively to projects with 10 or more units that receive a specific zoning change, include land purchased from the City, receive financial assistance from the City, are part of a Planned Development in a downtown district <b>Denver, CO</b> the affordability target by Area Median Income (AMI) level varies according to construction type.

# What Do Other Cities Do?

## 8 national case studies



### Inclusionary Housing Policies

#### Voluntary (red):

Dallas, TX  
San Antonio, TX

#### Mandatory (green):

Arlington County, VA  
Chicago, IL  
Denver, CO  
Portland, OR  
San Diego, CA  
Seattle, WA

## Primary Research Questions:

- What is the best way to calculate a fee-in-lieu?
- How effective are fee-in-lieu structures, and what are best practices in implementing them?
- Within each policy, what are the gives, and what are the gets?
- What other incentives can Density Bonuses be tied to?
- Which policy components are favorable to Austin's housing ecosystem and which are feasible?
- What can we be doing that we are not currently doing?

Texas is now the only state that prohibits mandatory inclusionary zoning by law

# What Do Other Cities Do?

## Research Methodology

- Identified comparable communities and communities known to have inclusionary housing policies
- Only included communities with information available regarding fee-in-lieu and on-site affordable housing policies
- Obtained information available on city/county websites
- Contacted local program staff when possible

## Challenges to obtaining information

- Limited information is available publicly through websites
- Contacting local practitioners is very time consuming
- Very limited data available on the effectiveness of policies (.i.e. how many affordable units or in-lieu fees secured)
- No comprehensive national database to refer to

## What did we learn

- Research into the effectiveness of fee-in-lieu structures was inconclusive and therefore staff was not able to identify “the best” way to calculate a fee-in-lieu
- No two policies look alike / each policy approach is unique and specifically designed for the geographic area
- Every city is working to find the policy that best fits the specific needs of the community and the current development environment
- Most mandatory inclusionary policies still include some sort of incentive or subsidy
- Recent policy revisions are informed by comprehensive study of local policies and housing development market
- Other communities do not have as many different density bonus policies as Austin

## Useful Future Analysis

- Number of units produced through each policy?
- When is participation mandatory and when is it voluntary?

# What Do Other Cities Do: Fee-in-lieu Policy

City	Mandatory Inclusionary Housing Permitted by State	Mandatory or Voluntary Local Program	Fee-in-lieu y/n	Fee-in-lieu Formula
Dallas, TX	no	voluntary	yes	Cost of construction x number of units not constructed
San Antonio, TX	no	voluntary	no	n/a
Arlington, VA	yes	voluntary	yes	\$ per square foot of bonus FAR
Chicago, IL	yes	voluntary	yes	Bonus FAR x 80% x median cost of land per buildable square foot
Denver, CO	yes	mandatory	yes	Percent of sales price based on zone
Portland, OR	yes	mandatory	yes	\$ per bonus square foot based on residual value modeling
San Diego, CA	yes	mandatory (upon rezoning)	yes	\$ per square foot depending on number of units
Seattle, WA	yes	voluntary (linkage fee will be mandatory)	yes	\$ per net square foot of new building area

# What Do Other Cities Do?

## Dallas, TX

### Entitlements:

- More units than is typically allowed

### Community Benefits:

- Cash payments into Housing Production Trust Fund
- Affordable Units

The Dallas density bonus policy was introduced in response to the Walker Consent Decree entered in 1990

- The number of required units varies with the density requested.
- Units are required to be deed-restricted in perpetuity.
- Rigorous requirements for minimum unit size, unit mix, family income, family makeup, property location, etc.

Many properties have been rezoned as multifamily under the program but no one has taken advantage of the bonuses as of yet. The City of Dallas is currently looking at additional affordable housing initiatives, and may have amendments later this year.

## Dallas Fee-in-lieu Calculation

- The amount of the payment required is calculated by multiplying the cost of constructing the multifamily dwelling unit required by the number of units of that size that will not be required by reason of the payment.
- The director determines the new costs of constructing multifamily dwelling units based on the formula to the right.

Cost of Constructing Type of Multifamily Unit	X	Dallas Cost Index	X	Historical Cost Index for Year Historical Cost Index for 1993	X	Cost of Constructing Type of Multifamily Unit In Year X
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## San Antonio, TX

### Entitlements:

- More units than is typically allowed by code

### Community Benefits:

- The bonus is available according to the chart

Category	Set Aside	Density Bonus	Time Period
Low income (80% AMI)	10%	20%	50 years
Very low income (50% AMI)	5%	10%	

# What Do Other Cities Do?

## Arlington County, VA

### Entitlements:

- More units than is typically allowed by code – voluntary for by-right zoning applications, but mandatory for development applications that apply through the Special Exception Site Plan, i.e. for greater density or land use change.

### Community Benefits:

- On-site units, off-site units nearby, off-site units away further away, cash contributions, green building (LEED certifications), community benefits

## Arlington County Fee-in-lieu Calculation

- Cash contributions may also be made in lieu of affordable units. The payment amount corresponds to the level of density that is requested in the development application.
- In general, staff indicate that the fee-in-lieu rates result in fees per unit of between \$70,000 and \$100,000.
- The following fees per square foot are assessed to the entire building floor area.
  - Up to 1.0 FAR: \$1.84 per square-foot
  - 1.0 to 3.0 FAR: \$4.91 per square-foot
  - 3.0 FAR and higher: \$9.83 per square-foot

## Arlington County Other Contribution Options

- The Developer has the option to provide additional community benefits, including contributions toward library, fire, or school facilities.
- Green Building Density Bonus Program
  - The County instituted its initial green building density bonus program in 1999. The program provides additional density to development that meets different levels of LEED certification.
    - LEED Silver: 0.25 FAR
    - LEED Gold: 0.35 FAR
    - LEED Platinum: 0.45 FAR

# What Do Other Cities Do?

## Chicago, IL

### Entitlements:

- Additional square footage for residential development projects in downtown zoning districts

### Community Benefits:

- Affordable units **or** a financial contribution to the city's Affordable Housing Opportunity Fund
- Developments with on-site units receive four square feet of market-rate bonus space for every foot of affordable housing provided.

### Method = Geographically targeted through zones

- The zone map is divided up by community area: “downtown” (location specific), “higher income” (income specific), and “low-moderate income” (income specific).
- Higher income areas are census tracts that are higher income (50% of households or more earn more than 60% of the Chicago median income) AND low poverty (poverty rate is less than or equal to 25%)
- Low-moderate income areas are census tracts that are lower income (more than 50% of households earn less than 60% of the Chicago median income OR high poverty (the poverty rate is greater than 25%))

### Fee-in-lieu calculation

Formula for Off-site Affordable Housing Zoning Bonus	
<i>Financial Contribution</i>	$= \frac{\text{Bonus floor area achieved via affordable housing bonus}}{\text{Median cost of land per buildable square foot}^*} \times 80\%$ <small>*cost will be updated regularly</small>
Submarket (Table for use with the Density Bonus fees-in-lieu calculations)	Median Land Price per Base FAR Foot
Loop: Chicago River on north/west; Congress on south; Lake Shore Dr on east	\$31
North: Division on north; Chicago River on south/west; Lake Shore Dr. on east	\$43
South: Congress on north; I-55 on south; Chicago River on west; Lake Shore Dr. on east	\$22
West: Lake on north; Congress on south; Chicago River on east; Racine on west	\$29

**Outcomes:** The Density Bonus has resulted in the construction of 5 on-site affordable units and resulted in in-lieu collections of nearly \$33 million.

# What Do Other Cities Do?

## Denver, CO

### Entitlements:

- Cash subsidy of \$250,000 per development per program year
- Mandatory program; units must be affordable up to 80 percent MFI, and are to be deed-restricted as permanently affordable

### Community Benefits:

- Requires for-sale residential projects of 30 units or more to set aside 10% of the units as affordable,
- Does not apply to rental units because of state-law
- Fee-in-lieu (under certain circumstances), tiered by zone using economic modeling

## Denver's "Alternative Satisfaction" Option (Fee-in-lieu)

- Low Zones: cash incentive is \$2,500 per affordable unit built; fee-in-lieu payment equals 25% of the sales price of an affordable unit
- Medium zones: cash incentive is \$6,500 per affordable unit; fee-in-lieu payment equals 50% of the sales price of an affordable unit
- High zones: cash incentive is \$25,000 per affordable unit; fee-in-lieu payment equals 70% the sales price of an affordable unit

## Denver's Recent Policy Revisions

- Before the 2014 policy revisions, a majority of developments opted to pay the fee-in-lieu.
- The 2014 policy revisions stipulated for a third-party developer ombudsman (funded externally) to serve as a go-between for the developer and the City.
- Affordable projects: more than 1,100 units have been built since 2002
- Developer contributions: approximately \$7 million
- Funds leveraged to accomplish: construction, buy down of affordability levels, rehab

# What Do Other Cities Do?

## Portland, OR

The following tables illustrates two basic options for the utilization of the residual value of the density bonus:

- 1) utilization of 100 percent of density bonus through provision of affordable housing at 60 percent MFI
- 2) utilization of 100 percent of density bonus through payment of a cash contribution in place of affordable housing.

## Portland Calculation of Onsite Affordability Units as Percent of Density Bonus Floor Area

**Table 4**  
**Onsite Affordable Housing as Percent of Density Bonus Floor Area**

	SQFT of Density Bonus Allocated to Onsite Affordable Housing					
	3:1	4:1	5:1	6:1	8:1	12:1
<b>Affordability Level</b>						
80% MFI	45%	30%	30%	30%	20%	25%
60% MFI	30%	25%	25%	20%	15%	20%
50% MFI	25%	20%	20%	20%	15%	15%
40% MFI	20%	20%	20%	20%	15%	15%
30% MFI	20%	15%	15%	15%	10%	15%

Source: Economic & Planning Systems

H:\3069-Portland OR Bonus Density Analysis\Modell\3069-Model-052915.xlsx\TABLE 7 - MIV Summary

## Portland's Cash Contribution Matrix

	Base Entitlement					
	3:1	4:1	5:1	6:1	8:1	12:1
<b>Cash Contributions by Incentive Premium Levels per SQFT</b>						
15% Incentive Premium	\$28.60	\$29.04	\$31.16	\$33.96	\$27.81	\$30.58
10% Incentive Premium	\$30.28	\$30.75	\$33.00	\$35.96	\$29.45	\$32.37
5% Incentive Premium	\$31.96	\$32.45	\$34.83	\$37.96	\$31.08	\$34.17
<b>Total</b>						
15% Incentive Premium	\$428,938	\$580,769	\$779,123	\$1,018,813	\$1,112,485	\$1,375,904
10% Incentive Premium	\$454,170	\$614,932	\$824,954	\$1,078,744	\$1,177,926	\$1,456,840
5% Incentive Premium	\$479,401	\$649,095	\$870,785	\$1,138,674	\$1,243,366	\$1,537,775
<b>Net Additional Profit</b>						
15% Incentive Premium	\$75,695	\$102,489	\$137,492	\$179,791	\$196,321	\$242,807
10% Incentive Premium	\$50,463	\$68,326	\$91,662	\$119,860	\$130,881	\$161,871
5% Incentive Premium	\$25,232	\$34,163	\$45,831	\$59,930	\$65,440	\$80,936
<b>per unit / cash contribution</b>						
15% Incentive Premium	\$85,788	\$116,154	\$129,854	\$145,545	\$158,926	\$171,988
10% Incentive Premium	\$90,834	\$122,986	\$137,492	\$154,106	\$168,275	\$182,105
5% Incentive Premium	\$95,880	\$129,819	\$145,131	\$162,668	\$177,624	\$192,222

Portland introduced a revised inclusionary housing policy in 2015 informed by recommendations made by Economic & Planning Systems consulting firm:

“A project that chooses to provide affordable housing at 80 percent MFI, for example, could feasibly set aside between 20 and 45 percent of the density bonus floor area as affordable housing. A project that chooses to provide affordable housing at 60 percent MFI, for example, could set aside between 15 and 30 percent of the density bonus as affordable housing.”

# What Do Other Cities Do?

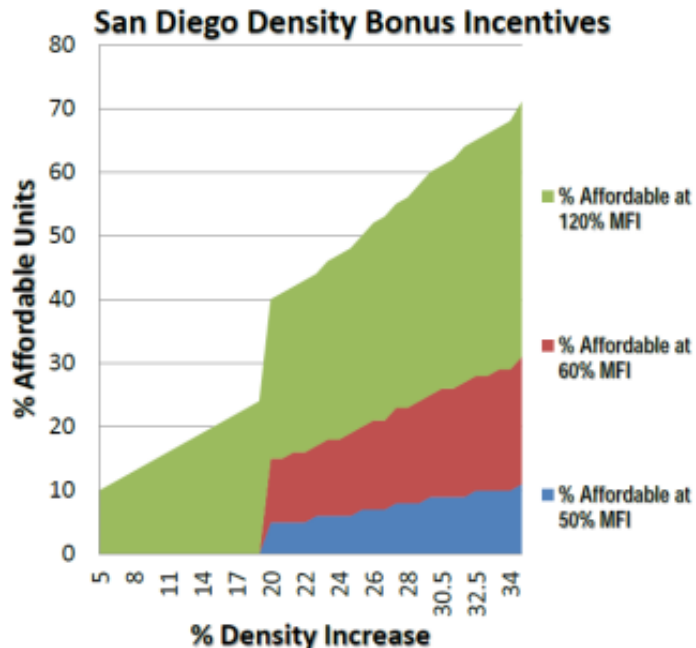
## San Diego, CA

### Entitlements:

- 20% density bonus for rental developments
- For each 1% increase above the required percentage of affordable, the density bonus shall be increased by 1-2.5 percentage points, up to a maximum of 35% density bonus. Additional maximum density is tied to the MFI level on the affordable units.
- 5% density bonus for developments with for sale units

### Community Benefits:

- 5%-10% of the units set-aside as affordable to low or very low income for a period of 30 years (rental developments)
- 10% of the units set-aside for moderate-income households (developments with for sale units)



#### Very Low Income (50% Median Family Income)

- 5% of units set aside as affordable

#### Low Income (60% Median Family Income)

- 10% of units set aside as affordable

#### Moderate Income For Sale Units (120% Median Family Income)

- 10% of units set aside as affordable

### Additional density bonus policies to assist subpopulations:

Seniors: The Affordable Housing for the Elderly Program targets senior citizens requiring that all units house elderly households with 35% of total units are reserved for very low-income elderly households.

Families: The Housing for Lower Income Families Program allows the development of low-income housing with up to 20 units per acre in designated areas, provided that all of the units are affordable to low-income families.

Source: San Diego Housing Commission Density Bonus Guidelines and Procedures

# What Do Other Cities Do?

## San Diego, CA

**TABLE 1 - Inclusionary Affordable Housing Fee Rates  
for Residential Projects Deemed Complete After July 1, 2015**

Units in Development	Fee Rate
2	\$1.90/sq. ft.
3	\$2.85/sq. ft.
4	\$3.81/sq. ft.
5	\$4.76/sq. ft.
6	\$5.71/sq. ft.
7	\$6.66/sq. ft.
8	\$7.61/sq. ft.
9	\$8.56/sq. ft.
10 or more	\$9.51/sq. ft.

**TABLE 2 - Inclusionary Affordable Housing Fee Rates  
for Condominium Conversion Projects**

Units in Development	Fee Rate
2	\$0.95
3	\$1.42
4	\$1.90
5	\$2.38
6	\$2.85
7	\$3.33
8	\$3.80
9	\$4.28
10 units or more	\$4.75

# What Do Other Cities Do?

## Seattle, WA

### Entitlements:

- Extra development capacity (extra floor area above the base high or base floor area ratio, or FAR)
- Tax exemptions
- Tax-exempt bonds in conjunction with 4% LowIncome Housing Tax Credit

### Community Benefits:

- “Low-income” housing, up to 80% of area median income (AMI), primarily less than or equal to 60% AMI
- Coverage of child care costs under certain circumstances
- Cash contributions
- In certain zones, the developer may purchase Housing TDR

## Seattle’s New “Linkage Fee,”

- Seattle is currently phasing in a new linkage fee model
- Before linkage fee proposition, very few developers were building affordable units on-site, and instead opting for the fee.
- Resolution 31444 (5.06.2013) called for “a thorough review and update of Seattle’s incentive zoning and other affordable housing program and policies focused on creating affordable Workforce Housing by establishing an Expert Advisory Team that will advise and make recommendations to the City Council.”
- The City hired consultants to advise on this issue.

# What Do Other Cities Do?

## Seattle, WA

### Consultant Findings

- The consultant found that while the IZ program has provided significant resources for affordable housing (\$31 million from 2001-2013). However the program was limited in its ability to provide significantly more affordable housing due to the following:
  - (a) Inclusionary Zoning is geographically limited in scope
  - (b) It is a voluntary program even in the areas it applies.
- The consultants recommended expanding the geographic scope of the program and make it apply to all commercial and multi-family residential projects.
- The consultants also recommended increasing the fee, and their analyses suggest it can be done without significantly slowing down growth and development.

### Linkage Fee Tenets

- Replace the IZ program with the housing linkage fee for all commercial and multi-family residential development.
- The fee would be based on the square footage of the project and would be set at the level required to produce 3%-5% of the units being created at an affordable level.
- Developers would still have the choice they have today - produce 3%-5% of the units in a project as affordable units (with a 99-year period of affordability) or pay the housing linkage fee.
- The fee would apply in all urban villages and centers, commercial zones and low-rise zones. The fee would not apply in the single-family zones or to single-family home development.

# What Do Other Cities Do?

## Seattle, WA

### Projected Fee Table

	Commercial Uses	Residential Uses
<b>Higher Cost Areas</b>	\$16-22 / net square foot of new building area (NSF)	\$16-22 / NSF
<b>Medium Cost Areas</b>	\$10-12 /NSF	\$10-12 /NSF
<b>Lower Cost Areas</b>	\$5-7 / NSF	\$5-7 / NSF

# Recommendations

NHCD's primary recommendation would be for the City Council to direct that a **comprehensive economic analysis** be conducted utilizing a third party consultant to determine recommended fee-in-lieu amounts and on-site affordability requirements based on value of bonus entitlements.

- a. Consultant should include experts in inclusionary housing policy for long-term affordable housing
- b. Analysis will inform expanded density bonus programs under CodeNEXT
- c. Consider the impact of affordable housing requirements on market rate housing prices

Additionally NHCD recommends that density bonus policies have a standardized affordable housing formula and requirements. This standardization should be informed by the comprehensive economic analysis and calibrated to be responsive to the value of development incentives offered to developers.

## **A comprehensive economic analysis could inform the following specific policy elements:**

1. Identify where the fee-in-lieu amount can be increased both based on the market demand and as a mechanism to incentivize developers to choose to provide on-site affordable housing
2. Establish a fee-in-lieu amount above \$0 for non-residential developments in all density bonus areas
3. How many developments have chosen not to access the density bonus in each area and why?
4. Could the Vertical Mixed Use density bonus sustain an increased affordability requirement? (i.e. 25% of residential square footage)
5. Should developers have a choice to provide fewer units if these units are affordable to lower median family income levels?
6. Does economic modeling support the CodeNEXT recommendations to expand density bonus policies to more geographic areas and introduce a missing middle density bonus policy?
7. What are the economic implications of maintaining or removing a fee-in-lieu option?
8. What are the development market conditions and incentive entitlements that encourage or discourage participation in Austin density bonus policies as they exist today?

## **Additionally staff has identified the following interim interventions that could enhance our current density bonus policies**

1. Explore the possibility of extending affordability periods
2. Add Housing Choice Voucher provision to all density bonus programs
3. Consider amending the TOD affordability requirements to minimize requests for partial or full fee-in-lieu approval
  - Define how staff and City Council are to determine if a request for fee-in-lieu approval is “compelling”
  - Identify what factors lead a developer to request the fee-in-lieu option (i.e. on-site affordable housing requirement based on entire square footage rather than residential square footage)
5. Explore the possibility of including affordable housing community benefits in the Planned Unit Development Tier 1 requirements

NHCD does not recommend interim amendments to either the East Riverside Corridor or University Neighborhood Overlay

# Additional Recommendations

We recommend that the City Council also move forward on recommendations made in the following reports and presentations:

## **2015 Fair Housing Action Plan / Analysis of Impediments to Fair Housing Choice**

- Work through the CodeNEXT process to modify land use and regulatory requirements to expand housing choice and reduce housing access barriers.
- Strengthen and align density bonus programs in terms of formula for calculating the number of units, accessibility requirements, the affordability period, and on site requirements.
- Maintain and strengthen policies through the CodeNEXT process that provide incentives for the development of affordable housing for households below 50%, 60% and 80% MFI
- Revise VMU, PUD to require 60% MFI rental and 80% owner throughout Austin when on-site affordable units are required.
- Secure longer affordability periods for VMU and other programs that are successful in providing affordable housing.
- Require units with city incentives or subsidies to accept vouchers to ensure source of income protection in accordance with Fair Housing regulations.

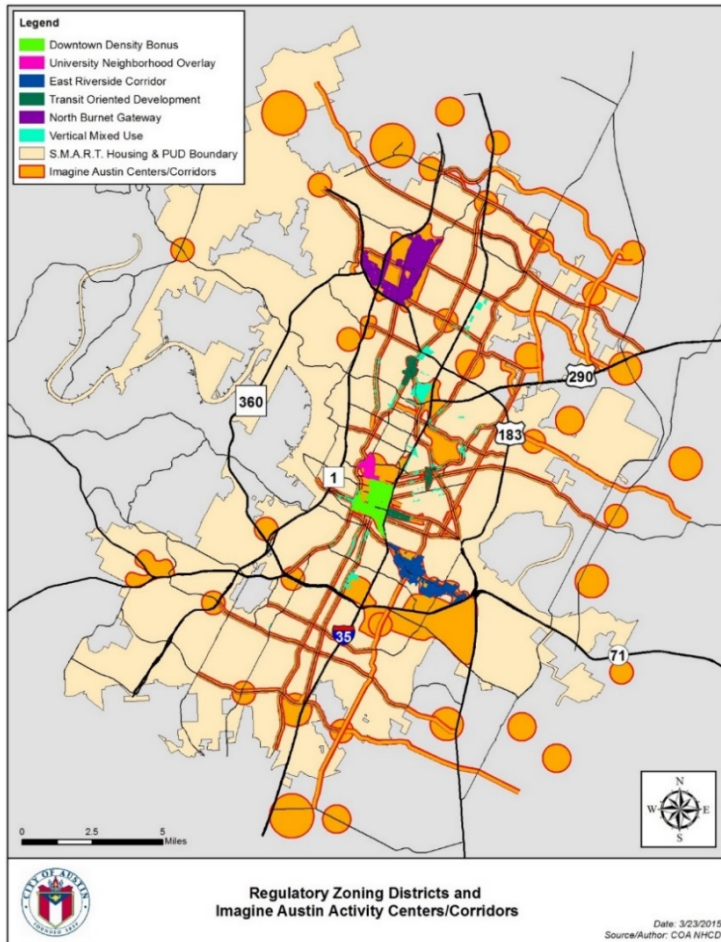
## **Housing+Transit+Jobs Action Team 2014 Recommendations**

- Align density bonus programs with Federal Transit Administration Guidelines
  - Change median family income (MFI) requirements for rental housing to no greater than 60% MFI
  - Remove fee-in-lieu option along core transit corridors
  - Connect additional entitlements to the provision of affordable housing

# Additional Recommendations

## CodeNEXT 2016 Affordability Prescription Paper

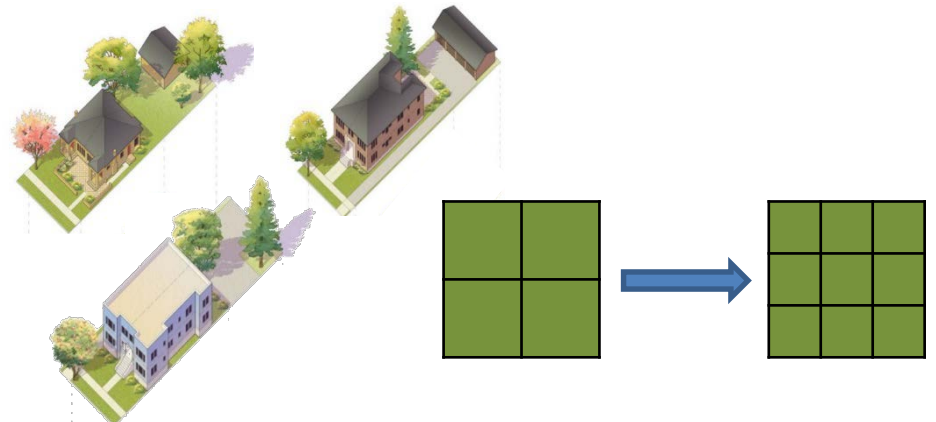
### 1. Expand density bonus programs to Imagine Austin Centers and Corridors



The prescription paper further states that all revisions to the code should align with Federal Transportation Agency (FTA) criteria. This recommendation is consistent with recommendations made by the Austin Housing+Transit+Jobs Action Team in 2014

### 2. Introduce a “missing middle density bonus”

This potential approach would introduce a density bonus for missing middle housing types allowing a greater number of units to be developed within the same size building height and bulk. This approach would allow for increased density within building forms that are context appropriate for many residential neighborhoods. Most importantly the new bonus program would secure long-term affordable housing units in areas not currently eligible to participate in a density bonus program.



Missing Middle Housing is a term used to describe a range of housing types fairly rare in Austin: occupying the spectrum between detached single-family housing and large multi-family housing products. Missing Middle Housing provides a range of housing types with incremental increases in density ranging from accessory dwelling units, duplexes, triplexes, fourplexes, courtyard housing, bungalow courts, townhomes, multiplexes, live/work units, studios or “micro units” as well as those offering larger units, with multiple bedrooms for family households. Missing middle housing is typically found in walkable communities, can have higher density than what we actually perceive due to their small nature, and can blend into many types of neighborhoods due to their scale and form.

# Presentation of Report Findings and Recommendations

Neighborhood Housing and Community Development staff brought the report findings and recommendations to the City Council Housing and Community Development Committee on August 4, 2016. Below is a summary of the discussion and actions that took place at the Council Committee.

## Committee Action:

- Motions to support all of the staff recommendations
- The draft committee motion sheet can be found here <http://www.austintexas.gov/edims/document.cfm?id=259994>
  - In addition to the items found on this motion sheet the committee also moved to support the staff recommendation related to including affordable housing in the Planned Unit Development tier 1 re

A Transcript and recording of the Council Committee meeting can be found at the following link: <http://www.austintexas.gov/department/city-council/2016/20160801-hcdc.htm>

## Other Related Council Actions:

- Council Resolution No. 20160616-035 “Fair Housing Initiative” included direction that supports staff recommendations for:
  - Comprehensive economic analysis of density bonus policies
  - Inclusion of Housing Choice Voucher provision to all density bonus programs