

**Meeting Summary**  
**CodeNEXT Density Bonus Analysis Stakeholder Meetings**  
**December 6 and 7, 2016**

**CodeNEXT Overview**

- Jorge Rousselin, CodeNEXT Project Manager with the City of Austin's Planning and Zoning Department provided an overview of the CodeNEXT process and timeline. See the draft CodeNEXT timeline in the presentation for more detail.
- EcoNW is the consulting firm conducting density bonus analysis and calibration. This analysis is occurring in tandem with the CodeNEXT process: the base zoning recommendations in CodeNEXT's draft code will be used to model potential density bonus areas and generate policy recommendations.

**Density Bonus Analysis**

- What is a density bonus? A density bonus allows a property owner to build more (units, height, etc.) on his/her land than is allowed by the lot's base zoning entitlements in exchange for providing some community benefit (in this case, affordable housing).
  - Austin currently has seven density bonus policies with differing regulations. State legislation limits municipalities from requiring private landowners to construct and retain affordable units as a zoning requirement (inclusionary zoning). Thus, density bonus policies are a powerful tool for incentivizing the voluntary provision of affordable housing.

***The analysis process***

- Abe Farkas and Ian Carlton with EcoNW provided context around the density bonus analysis the firm will complete under the CodeNEXT contract.
- The density bonus analysis conducted by EcoNW is scheduled to take place from September 2016 through February 2017. EcoNW will be analyzing where in the city a density bonus is likely be utilized by developers, and then honing in on those areas for further bonus calibration and analysis. The final deliverable will be specific recommendations to properly design and calibrate density bonus policy in the context of the new land development code.
  - Mapping of the density bonus areas will occur alongside the mapping of the overall land development code. The mapping will go through several iterations as the base zoning in CodeNEXT is adjusted through the public review process.
  - The initial density bonus analysis is focused on opportunities to incentivize on-site affordable housing units. The opportunity for developers to pay a fee in lieu of providing affordable housing in their developments would be considered after this initial analysis and would be based on the density bonus policies that are developed.
  - EcoNW's analysis focuses on opportunities for bonuses to be used in new developments; strategies to preserve existing affordable housing units may be investigated during Phase 2 of the CodeNEXT process.

## ***Model inputs***

- To conduct the analysis, EcoNW is compiling data for several input variables, including:
  - construction costs for many different types of development (including costs of different parking structures)
  - rents (or sale prices) that could be expected from different types of development in different areas
  - vacancy rates for office, multifamily, and retail uses
  - base zoning restrictions a return on cost metric is being used in place of a return on investment metric that is not yet included
- These inputs will be used in a model that applies these variables to different areas of the city to see where a developer would take advantage of a density bonus program if one were offered.
  - It is important to understand developer behavior (i.e., whether they would take advantage of a density bonus in a certain area) to determine where a density bonus program would be used and what types of bonuses and community benefits could be provided: if construction costs are so high that a developer wouldn't build a certain type of structure on a certain lot, having a density bonus in place there would not be effective because a developer would not take advantage of it.
- To illustrate this point, EcoNW showed a series of interactive maps made for the Seattle, Washington area. The maps showed locations where 3 different types of buildings (3-story apartments, 5-story apartments with podium construction, and a skyscraper/tower) would be built, only taking the costs of construction and the potential rents into account. (Cost of land and what is allowed by zoning were not included in the model.) This "unconstrained" analysis showed that a developer could only generate a profit in specific areas – if costs are too high or rents are too low to generate much of a profit by building at a lower density, a developer would be unlikely to seek a density bonus in that area. Similarly, if a developer can generate enough profit in an area by building what's allowed through base zoning, he/she may not utilize a density bonus there either.
  - The maps showed that there were more areas where a developer would generate a profit building a 3-story apartment building, fewer areas where a 5-story podium building would be built, and even fewer areas where a tower would be built. Factoring in land costs or zoning restrictions would narrow these areas even further.
  - The exercise showed that these factors need to be considered when thinking about where density bonuses can be employed in Austin – some places will provide enough profit without a bonus, so a developer would have no incentive to use a density bonus there.
- The group discussed the different data sources (included on the 2<sup>nd</sup> page of the map packet)
  - Land values were sourced from the Travis County Appraisal District and the City of Austin
  - Construction costs were provided and validated by local development experts in Austin
  - Assumptions around return on investment and capital rates are also validated by local experts
  - Sale prices for single family homes and condos are taken from the local MLS
  - Rental prices for multifamily units, offices, and retail spaces are obtained from CoStar
- The group also discussed definitions for inputs:

- Multifamily is defined as developments with 20 or more apartment units
  - Condo is defined as two or more attached, for-sale units
  - “Imputed” as shown on the maps of inputs means that there was not enough data in that census tract area for EcoNW to feel confident in the average for that tract, so they took observation points from adjacent areas to obtain enough data to assign an average value to the census tract
- The attendees were asked to look at the maps showing the different inputs being considered for the Austin model. Attendees were asked to focus on areas where development is occurring – these areas are more likely to be ones where density bonuses would have value.

#### ***Next steps***

- Feedback on the inputs will be assessed and triangulated, then the analysis will proceed.
- EcoNW will share out the inputs and data that went into the model, including pro forma costs and operating cost assumptions for multifamily, retail and office uses.
- The mapping portion of the analysis will be iterative with the CodeNEXT mapping process as base zoning recommendations change due to public input and review of the code.
- The analysis will ultimately yield density bonus policy recommendations and geographic areas where they should be implemented.