



**HOUSING &
PLANNING**

Downtown Density Bonus Program Affordable Housing Fee Calibration

September 15

Downtown Commission

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- Draft Fees
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Resolution No 20210422-039

FAR Policy

- Amend City Code section 25-2-586 (Downtown Density Bonus Program) to amend subsection (B)(6).
- The amendments shall maximize participation in the Program and maximize community benefits, especially the funding of permanent supportive housing and housing vouchers.
- Before deliberation on the code changes by the Planning Commission or City Council, the City Manager is directed to present a report on Floor to Area Ratio best practices.

Interim Fees

- Implement interim revisions to the in-lieu affordable housing fees for residential development for the Downtown Density Bonus Program;
- Implements interim revisions to the in-lieu affordable housing fees for non-residential development for the Downtown Density Bonus Program and Rainey Density Bonus Programs; and
- Moves revised fees described above to the City Fee Schedule so they can be updated more effectively.

Fee Calibration

- Update the fee-in-lieu analysis provided by EcoNorthwest to reflect current market conditions and existing zones of the Downtown Density Bonus Program area and return to Council with, if necessary, an item for action no later than August 26, 2021, or prior to budget approval if possible.



Resolution No 20210422-039



The City Council directs the City Manager to post an item for action on May 20, 2021 that accomplishes the following:

- Implements interim revisions to the in-lieu affordable housing fees for residential development for the Downtown Density Bonus Program;
- Implements interim revisions to the in-lieu affordable housing fees for non-residential development for the Downtown Density Bonus Program and Rainey Density Bonus Programs; and
- Moves revised fees described above to the City Fee Schedule so they can be updated more effectively.



Interim Fees

Based on LDC Revision calibrated fees for the Downtown Density Bonus Program:

- Calibrated using late 2019 market dynamics
- Based on new zones of the LDC Revision
- Calibrated to a site’s base zoning not the downtown sub-district
- Tuned to specific requirements of proposed LDC Revision

LDC Revision Calibrated DDBP fees

| Zone or Subdistrict | Residential In-Lieu Fee per Square Foot of Bonus | Commercial In-Lieu Fee per Square Foot of Bonus |
|---------------------|--|---|
| CC Zones | \$10 | \$12 |
| DC Zone | \$12 | \$18 |
| Rainey Subdistrict* | \$5* | \$12 for CC Zones \$18 for DC Zones |

*This district requires that a developer provide both on-site affordable units and pay a fee. These fees are calibrated such that they account for the additional set-aside requirement for affordable units.

from January 28, 2020 memo from economic consultants, EcoNorthwest



Resolution No 20210422-039

- Update the fee-in-lieu analysis provided by EcoNorthwest to reflect current market conditions and existing zones of the Downtown Density Bonus Program area and return to Council with, if necessary, an item for action no later than August 26, 2021, or prior to budget approval if possible.



2021 Calibrated Fees

| Base Zoning or District | 2021 Interim Fees | |
|-------------------------|-------------------|------------|
| | Residential | Commercial |
| CBD | \$12 | \$18 |
| All other base zones | \$10 | \$12 |
| Rainey (all zones) | \$5 | \$12 |

\$ per square foot of bonus area

- The in-lieu fees for residential development could be higher than the interim fees.
 - Increased construction costs
 - Increased condo sales prices
 - Removal of artificial cap on sales prices
- The interim in-lieu fees for commercial development are not supported by current commercial market conditions.
 - Decrease in market office rents
 - Increase in operating costs (including property taxes)



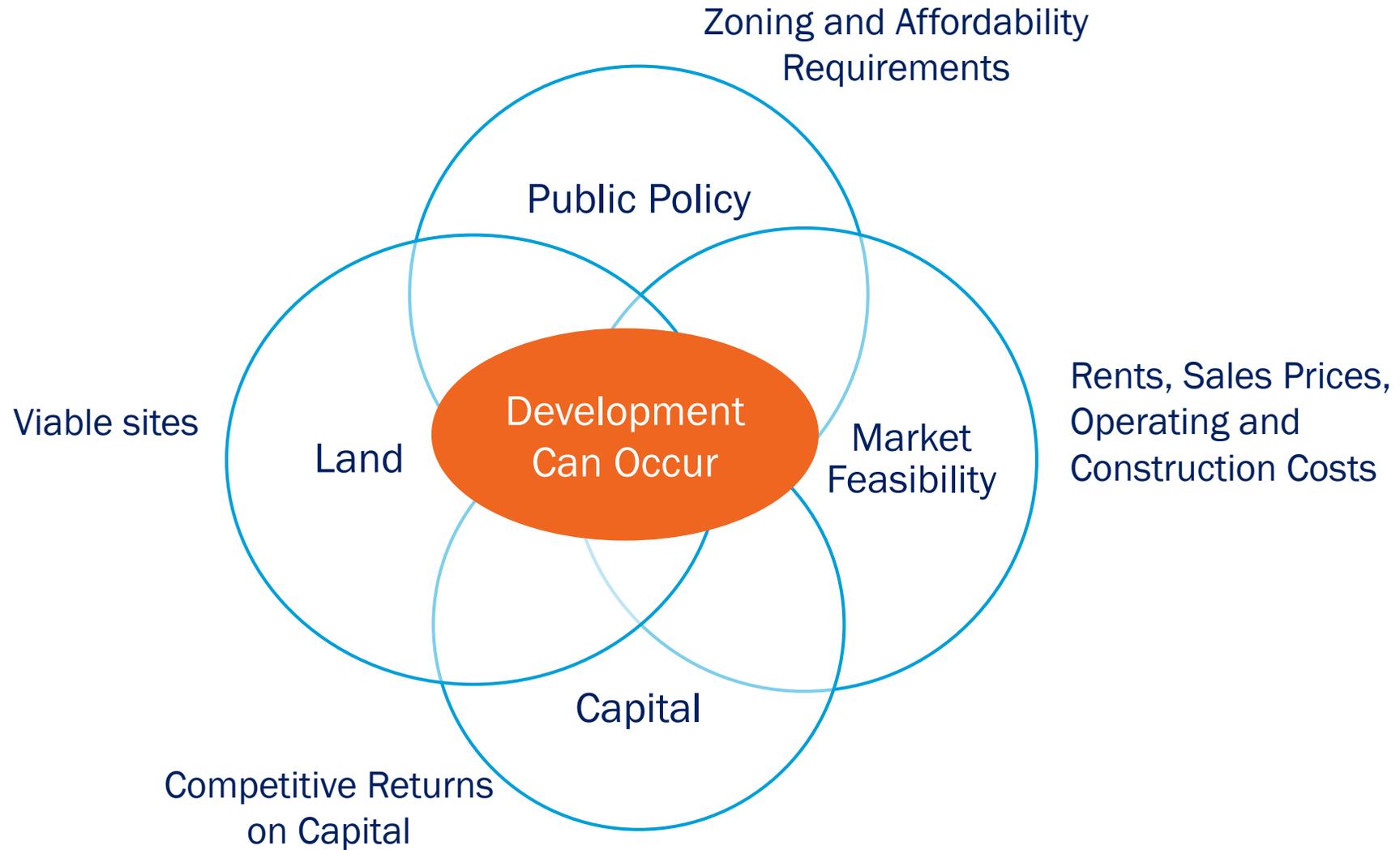
2021 Calibrated Fees

- Calibrated by City of Austin staff using a modeling tool created by economic consultants, EcoNorthwest
- Incorporated feedback from Downtown Austin Alliance and the Real Estate Council of Austin
- Staff recommend revisiting again next fiscal year due to uncertain future of commercial market

| Base Zoning or District | 2021 Calibrated Fees | |
|-------------------------|----------------------|----------------|
| | Residential | Commercial |
| CBD | \$12 to \$24 | \$2.50 to \$18 |
| All other base zones | \$10 to \$16 | \$2.50 to \$12 |
| Rainey (all zones) | \$5 to \$18 | \$2.50 to \$12 |



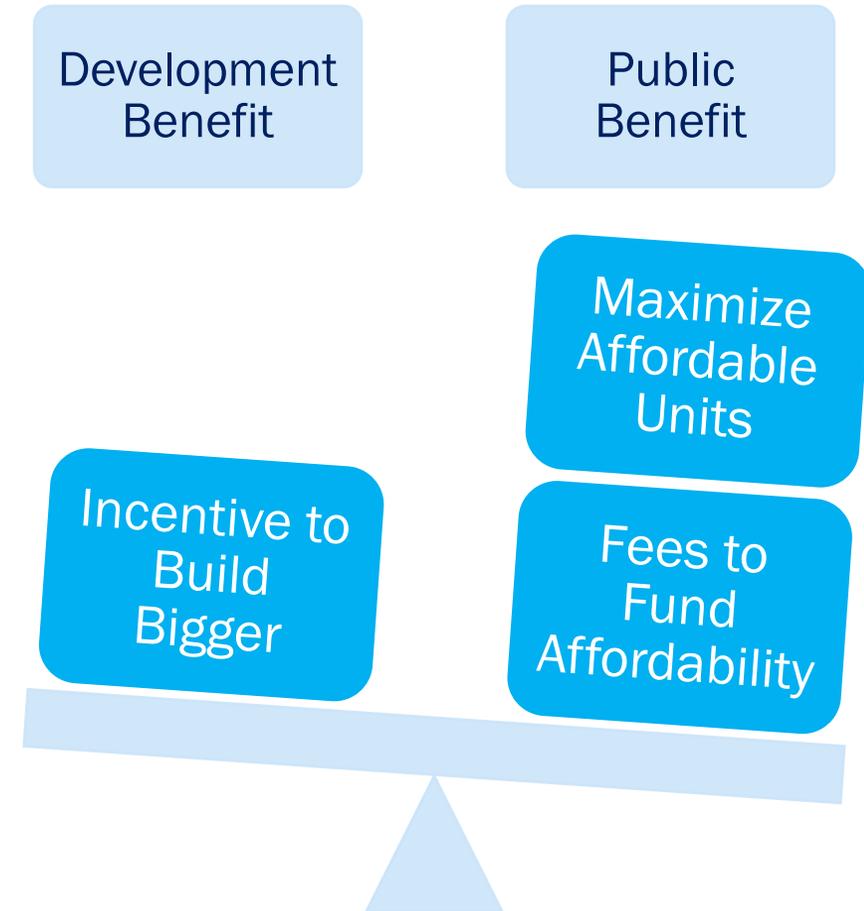
Fee Calibration





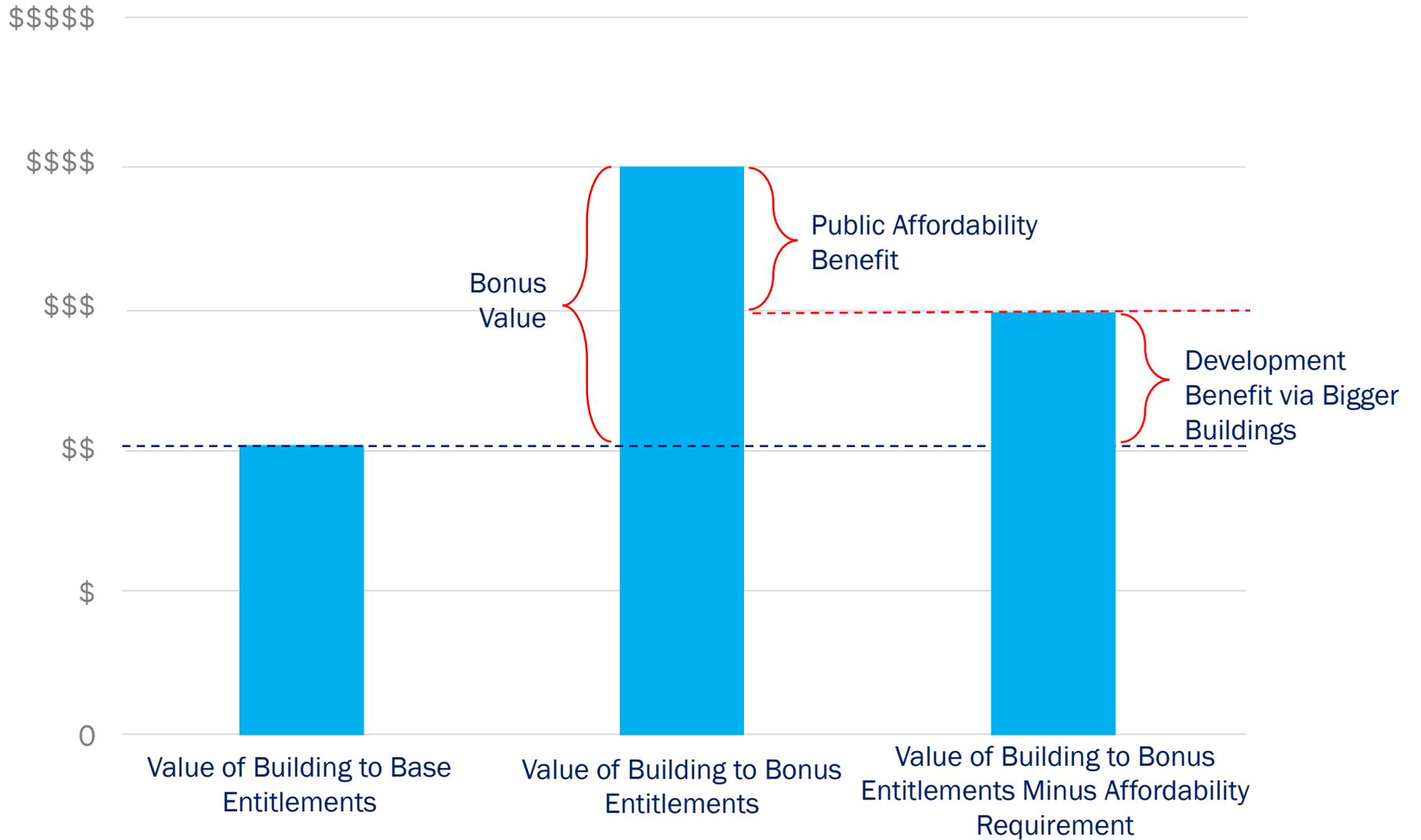
Fee Calibration

- DDBP is a voluntary program that relies on an incentive-based approach to having the private market deliver community benefits
- We employ the same financial considerations a real estate developer would use to evaluate the value of bonus entitlements compared to base entitlements
- Without participation in the bonus, no bonus units – market-rate or affordable – will be constructed
- Careful calibration needed to maximize public benefit and achieve policy goals



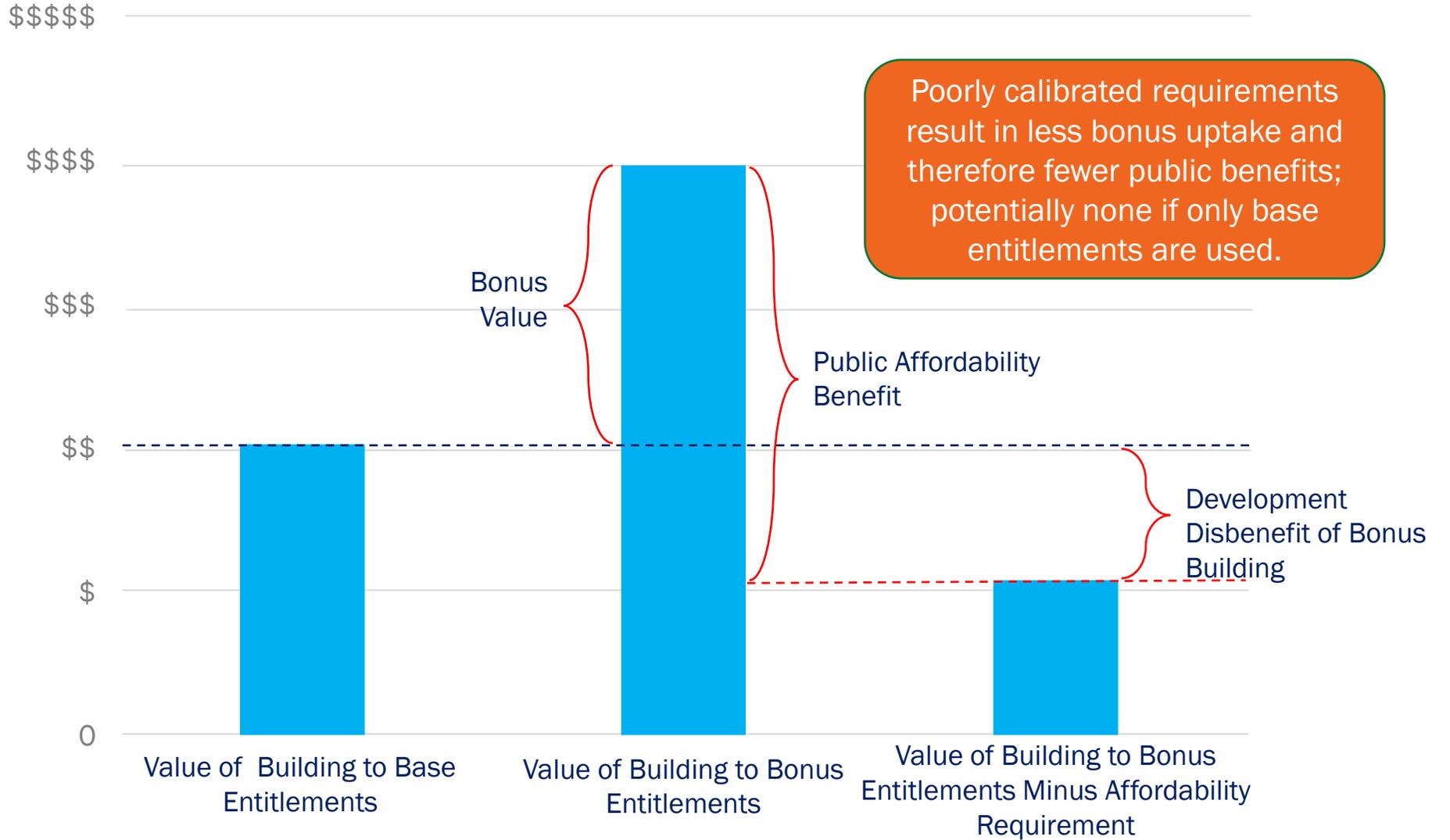


Calibrating Density Bonuses





Density Bonus Value





Discussion and Next Steps



Discussion

Maximize Community Benefit

- Fees in lieu of affordable housing are specifically directed towards low barrier approaches to housing people who are chronically homeless

Keep flexibility and resilience in program to account for fluctuations in market

- Development conditions are rapidly evolving, but the future of demand for downtown office space is uncertain

Recalibration Frequency

- Annually in the near term due to uncertain circumstances, but potentially less frequently going forward
- Provide some predictability for projects to plan around
- Tune to market conditions to maximize community benefits while not disincentivizing development





Next Steps

- Design Commission briefing: September 27
- City Council: September 30

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Additional Informational Slides

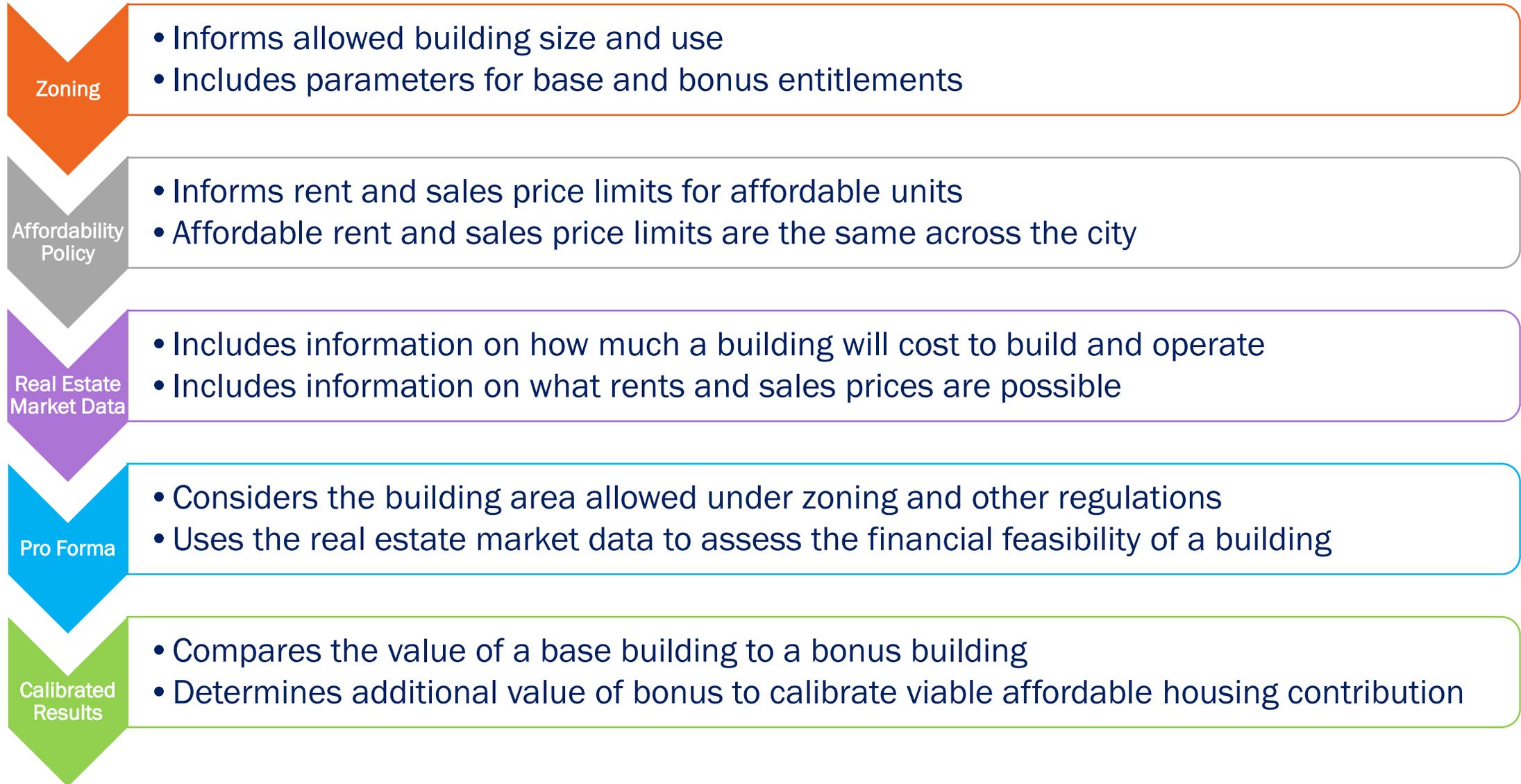


2014 Fees – Ordinance No 20140627-105

| Development Type | Downtown District | Development Bonus Fee (\$/SF Bonus Area) |
|------------------|--|---|
| Residential | Core/Waterfront District | \$10 |
| | Lower Shoal Creek & Rainey Street District | \$5 |
| | All other districts | \$3 |
| Office | All districts | No fee |
| Hotel | All districts | No fee |



Calibration approach





Staff Calibrated Inputs

- Zoning
 - Tune to existing LDC zones and bonus entitlements
 - Identify base to bonus combinations on the ground today
 - Determine most prevalent zoning/bonus combinations and potential (re)development parcels
- Affordable Housing Policy
 - HUD Median Family Income 2021
 - Maximum rents and sales prices of affordable units
- Real Estate Market Data
 - Market rate rents and sales prices
 - Parking demand
 - Construction costs
 - Operating costs
 - Investment metrics



Zoning and Site Inputs

- 13 Base to Bonus Combinations
 - 4 base zones
 - 10 bonuses

- Prototypical Lot sizes
 - 10,000 sq ft
 - 15,000 sq ft
 - 20,000 sq ft
 - 30,000 sq ft
 - 40,000 sq ft

| Base Zone | Bonus Entitlement |
|-----------|----------------------------|
| CBD | 25:1 FAR; unlimited height |
| CBD | 15:1 FAR; unlimited height |
| DMU | 25:1 FAR; unlimited height |
| DMU | 15:1 FAR; unlimited height |
| DMU | 15:1 FAR; 400' height |
| DMU | 8:1 FAR; 200' height |
| CS | 15:1 FAR; 400' height |
| CS | 8:1 FAR; 200' height |
| CS | 5:1 FAR; 120' height |
| CS | 4:1 FAR; 100' height |
| CS | 3:1 FAR; 90' height |
| CS | 3:1 FAR; 50' height |
| MF-4 | 3:1 FAR; 90' height |

FAR = Floor Area Ratio



Affordable Housing Policy Inputs

- 2021 HUD Median Family Income for the Austin MSA
 - \$98,900 for a family of four
- Increased max rents and max sales prices
- No change to onsite set-aside rates
- No change to affordability depth
- 50% of bonus value is directed towards fees (proportion of bonus upside dedicated to affordable housing community benefit – fees or onsite)



Discussion – Residential in focus

Key Differences from 2019 Calibration

- Significantly Increased Construction Costs
- Significantly Increased Sales Prices
- Moderately Increased Rents
- Increased Operating Expenses
- Removed artificial cap on sales prices to compensate for parking maximum impact

| | 2021 Calibrated Fees |
|----------------------|----------------------|
| CBD | \$12 to \$24 |
| All other base zones | \$10 to \$16 |
| Rainey (all zones) | \$5 to \$18 |

Key Considerations: Maximizing Housing

- Maximize the affordable housing community benefit and provide more housing vouchers for people experiencing homelessness
- Keep flexibility and resilience in program to account for fluctuations in market
- Incentivize the creation of housing downtown



Discussion – Commercial in focus

Key Differences from 2019 Calibration

- Moderately Increased Construction Costs
- Decreased Market Rents
- Increased Operating Expenses
- Uncertainty in future demand for Downtown office space

| | 2021 Calibrated Fees |
|----------------------|----------------------|
| CBD | \$2.50 to \$18 |
| All other base zones | \$2.50 to \$12 |
| Rainey (all zones) | \$2.50 to \$12 |

Key Considerations: Future of Commercial Market

- Under today’s conditions commercial fees are not viable...but neither is new construction generally.
- Keep flexibility and resilience in program to account for fluctuations in market
- Estimate circumstances under which commercial construction would be viable again and set fee to that rate
- Assume annual recalibration



Residual Land Value / How much could a developer pay for land

Income - Construction Costs - Investment Returns = RLV

After rents and sales operating costs and commissions

Materials, Labor, Planning, Permitting, etc

Needed to attract capital for the project

