DRAFT MEMORANDUM

To: Rosie Truelove, Director, City of Austin Housing & Planning Department

From: Darin Smith and Luke Foelsch, Economic & Planning Systems

Subject: Statesman PUD Economic Analysis; EPS #221035

Date: July 8th, 2022

Economic & Planning Systems, Inc. (EPS) has been retained by the City of Austin ("the City") to review the feasibility implications related to the proposed PUD ("the Project") for the property at 305 South Congress, known as the Statesman property. The intent of this review is to provide the City with a third-party opinion as to whether the results of the 2020 ECONorthwest analysis that pertain to the infeasibility of the Statesman PUD remain reasonable based on current real estate economics in the Austin market, the extent of the cost impacts to project feasibility of the requested Planning Commission and City Council First Hearing amendments, and the value of the benefits to which the Developer has already agreed. The specific questions addressed in this memo include:

1. Have current market economics changed the findings of the 2020 ECONorthwest analysis regarding the feasibility of the Statesman PUD?
2. What are the costs associated with the six (6) Planning Commission / City Council requests to which the Developer has not agreed?
3. What is the value of the benefits already agreed upon in the PUD?

EPS has worked with City staff and the Developer in the pursuit of answering these questions in an abbreviated time frame, building from the earlier ECONorthwest analysis, and utilizing the best available updated data from industry standard sources. At the City's request, EPS can continue to work with staff and the Developer over the next few months to conduct a more thorough analysis of the overall Statesman PUD project economics, including a more detailed estimation of market-supported real estate values, development costs, and the ability of the project to bear community benefits beyond those already offered.

The Economics of Land Use

Economic & Planning Systems, Inc.
1330 Broadway
Suite 450
Oakland, CA 94612
510 841 9190 tel

Oakland
Sacramento
Denver
Los Angeles

www.epsys.com

Background

The Statesman PUD property located at 305 South Congress has been envisioned by its owners and prospective developers as a high-density, mixed-use development along the southern shoreline of Ladybird Lake just east of the Congress Avenue Bridge. The property represents the eastern-most parcel included in the South Central Waterfront planning area, for which the City is considering major regulatory changes and public financing approaches to transform the area into a similarly high-density, mixed-use district with a variety of community benefits such as improved infrastructure, parklands, and affordable housing.

A memo dated June 16, 2020 with the subject line "Updated 2020 SCW Financial Tool – Key Takeaways and Technical Methods" was submitted by consultants at ECONorthwest retained by the City of Austin. This memo provided an update to a 2016 financial analysis for the South Central Waterfront Vision Framework Plan (SCW Framework Plan), which modeled three buildout scenarios of the entire district. While this study did not focus solely on the Statesman PUD, but rather the entire district within which the Statesman PUD is located, it is possible to isolate findings related specifically to the Statesman PUD from materials made public. EPS has made the best possible estimates given the available information regarding this analysis without having access to the actual ECONorthwest financial modeling tool to review detailed assumptions or methodologies.

Summary of Development Assumptions

The current PUD proposal for the Statesman Site indicates the following programmatic assumptions:

Table 1 Statesman PUD Proposed Development Mix

Land Use	Gross Square Feet	Units
Residential		
Residential Rental	1,336,500	1,188
Residential Ownership	308,500	190
Total Residential	1,645,000	1,378
Commercial		
Office	1,495,000	-
Retail	150,000	-
Hotel	220,000	-
Total Commercial	1,865,000	-
Overall Total	3,510,000	1,378

Source: Endeavor Real Estate Group; Economic & Planning Systems

EPS Findings

Over the past month, EPS received and reviewed materials provided by the City and Developer. In addition to the 2020 ECONorthwest study results (*Updated 2020 SCW Financial Tool – Key Takeaways and Technical Methods*, dated June 16, 2020), EPS received more detailed information from the City and the Developer. From EPS' review of the project-related materials, along with market data and research from industry standard sources, EPS has formulated the following opinions:

1. **The 2020 study results indicate a $146 million funding shortfall for the Statesman Site. While real estate values have generally risen since that initial analysis, area construction cost inflation has outpaced market values, suggesting an *increase* in the estimated funding shortfall in 2022.**

In a presentation given to the South Central Waterfront Advisory Board on September 23, 2020, entitled "SCW Financial Analysis & Calculator," financial feasibility results for two district buildout scenarios are presented. The second scenario, Scenario B, considers the buildout scenario currently being proposed for the Statesman PUD of 3.5 million total square feet of development.

Slide 15 of the above referenced presentation provides Statesman Site-specific results which utilize 2019 market data. As displayed in **Table 2**, the results indicate a funding shortfall for the Statesman Site of $146 million, and a development value of $1.73 billion. This implies a $1.88 billion development cost for the Statesman Site.

Table 2 Original Statesman Site Funding Shortfall – 2019 Market Data

Item	Value
Statesman Site (2019 Estimate)	
Funding Shortfall	$146,039,175
Value of Development	$1,729,770,257
Implied Development Cost	$1,875,809,432

Source: "SCW Financial Analysis & Calculator : September 23, 2020" using 2019 market data; Economic & Planning Systems

According to the City's consultants from ECONorthwest, their results suggested that the package of development entitlements envisioned for the Statesman PUD property could not support the full suite of requested community benefits and would require some financial assistance from the City and/or improvements to market conditions to achieve feasibility.

To determine whether this feasibility conclusion for the Statesman Project may have improved based on subsequent market conditions, EPS first determined changes to the relevant value metrics. **Table 3** breaks down the project's 3.5 million square feet into each component land use and applies the change in market value for each land use to arrive at a weighted average change in market value for the total project.

Table 3 Changes in Market Values 2019 – 2022

Land Use	Square Feet #	Square Feet %	Change in Market Value 2019 - 2022	Adjustment Factor
Residential				
Rental	1,336,500	38%	30.2%	CoStar Group data[1]
Ownership	308,500	9%	61.6%	Redfin data[2]
Commercial				
Office	1,495,000	43%	15.6%	CoStar Group data[1]
Retail	150,000	4%	8.0%	CoStar Group data[1]
Hotel	220,000	6%	12.0%	CoStar Group data[1]
Total	**3,510,000**	**100%**	**24.7%**	**Weighted average of market changes based on product mix[3]**

[1] Changes in market values found using CoStar Group data for residential rental, office, and retail by taking percent change in asking rents from 2019 to 2022 (Year-To-Date) for Downtown Austin market area. Market value change for hotel found using CoStar Group data by taking percent change in monthly RevPAR for hospitality uses in the Downtown Austin market area from September 2019 to April 2022.

[2] Change in market value for residential ownership found using Redfin data by taking percent change in median condominium sale price from September 2019 to April 2022 within the 78704 Zip Code. The same data was also retrieved for Zip Code 78701 which returned a slightly lower percent change, so the more aggressive rate was used.

[3] Change in Market Values are weighted by percent of building square footage rather than the percent of market value each land use represents because that information was not possible to glean from materials to which EPS had access.

Source: CoStar Group; Redfin; Economic & Planning Systems

Because the original analysis utilized 2019 market data, the percent change in average rent/sale prices for each land use in the Downtown Austin market from 2019-2022 were retrieved from CoStar Group and Redfin. As shown in **Table 3**, ownership residential sale prices saw the largest jump of over 60 percent, while retail uses experienced the most modest increase of only eight percent in rent values. The averages in market value changes for each land use are weighted by the proportion of the Project's total square feet that each land use represents, resulting in an increase in the Project's total value of 24.7 percent. This overall rate of increase is very strong, and especially so in the residential components of the project, which represent nearly half of its total square footage.

Table 4 applies the 24.7 percent increase to the 2019 project value estimate of $1.73 billion to arrive at a May 2022 project value estimate of $2.16 billion. The project costs are also adjusted from September 2019 values to May 2022 values using historical cost indices per Engineering News Record (ENR) for the Dallas area, as that is the nearest geography for which ENR provides regional historic cost indices. ENR's Construction Cost Index (CCI) provides an estimate that accounts for changes in key construction materials (steel, cement, and lumber) and utilizes union wages for common laborers. ENR's Building Cost Index (BCI) provides a similar estimate using the same construction materials but utilizes local union wages plus fringes for skilled laborers including carpenters, bricklayers, and iron workers, and may be more representative of complex high-rise development such as that envisioned for the Statesman PUD. Since September 2019, the CCI has increased by 27.7 percent and the BCI has increased by 36.1 percent. As applied to the original 2019 project cost estimate of $1.88 billion, this results in a current project cost of between $2.39 and $2.55 billion. When subtracted from the updated project value estimate, the results indicate that the Statesman Project may have a funding shortfall of between $238 and $398 million, an increase from the estimated shortfall of $146 million in 2019.

Table 4 Statesman Project Surplus/Shortfall Change from 2019 - 2022

Item	2019 Estimate[1]	Percent Change	May 2022 Estimate	Adjustment Factor
Project Value	$1,729,770,257	24.7% [2]	$2,156,232,832	Percent change per **Table 3**
Project Cost				
Low Estimate	$1,875,809,432	27.7%	$2,394,668,200	ENR CCI for Dallas[3]
High Estimate	$1,875,809,432	36.1%	$2,553,870,156	ENR BCI for Dallas[3]
Project Shortfall				
Low Estimate			-$238,435,368	
High Estimate			-$397,637,324	

[1] 2019 estimates from ECONorthwest feasibility analysis dated September 23, 2020 which uses 2019 market data.
[2] Per **Table 3**.
[3] Construction Cost Index and Building Cost Index. Dallas is closest market for which Engineering News Record (ENR) publishes historic cost indices.

Source: Engineering News Record Construction Cost Index and Building Cost Index; Economic & Planning Systems

While it is true that market value metrics in the Downtown Austin area have increased since the original 2019 study was conducted, area construction costs have increased at an even faster clip. As a result, market economics suggest that the Project is less feasible now than in 2019.

2. **The estimated costs of the six amendment requests range from a low of $2.7 million to a high of $265.9 million. Past analysis and current market economics suggest the project is infeasible prior to the addition of any of these amendment requests, so each request would send the project further into infeasibility.**

During its April 7th, 2022 Regular Meeting, the Austin City Council approved an ordinance rezoning the Project site to allow for the proposed PUD under the condition of 11 additions/amendments provided by the Council as well as the 21 amendments previously provided by the Planning Commission. Of these additions/amendments, six were identified by the Developer as adding too great a cost burden such that none can be borne by the Project. This section describes each of these six requests, the methodology undertaken by EPS to estimate their cost, and the resulting cost burden estimates. **Table 5** presents a summary of the total cost estimates for each of the six requests, ranging from a low of $2.7 million to a high of $265.9 million. While the previous section suggests the Project is currently facing a substantial financing shortfall prior to the inclusion of any of these additions, and each one would only increase the funding gap, this section aims to provide a sense of how great an additional cost burden each amendment request might create.

Table 5 Summary of Amendment Request Costs

Item	Total Cost	Description
PC 14	$6,291,450	4% of Rentals at 60% Avg. MFI rather than 80% MFI
PC 16	$2,673,000	Capital Cost of Pier & Water Steps
PC 17	$9,913,930	Revenue/Value Impact of Added Park Maintenance Costs
PC 20	$15,682,140	Capital Cost of Specific TIA Improvements
PC 21	$265,907,555	Affordable Housing at 60% and 80% on Bonus SF
CM KT 10	$59,886,060	10% of Rentals at 60% MFI, 5% Condos at 80% MFI with HOA Affordability Adjustments

Source: Economic & Planning Systems

***Planning Commission (PC) 14** – Four percent of Rentals at 60 percent Average MFI rather than 80 percent MFI*

The PC 14 amendment states "On site affordable rental units shall be provided up to 80 percent MFI such that all on site affordable units are provided on average at 60 percent MFI." The Developer states they have already agreed to 80 percent MFI (Median Family Income), and a TIRZ or other public funding mechanism would be required to pay for the incremental cost of offering the affordable housing at a 60 percent average MFI as opposed to the 80 percent MFI currently contemplated.

The incremental cost of this request is reflected in the difference in rents and associated unit values between a development mix with an average of 60 percent MFI versus 80 percent MFI. As shown in **Table 6**, maximum rents allowed at 60 percent MFI are several hundred dollars lower per month than the same unit could generate at 80 percent MFI. This reduced rent lowers the annual revenues from the units by several thousand dollars and using current market capitalization rates for downtown Austin apartment buildings, the units themselves are worth over $100,000 less at 60 percent MFI than at 80 percent MFI. Applying these differences to the total number of affordable units proposed by the developer (4 percent of all rental units, or 48 units), the total effect of this request would be to lower the project's value by roughly $6.3 million.

Table 6 Value Difference of 60 percent MFI and 80 percent MFI

Unit Type	Rent at 80% MFI[1]	Rent at 60% MFI[1]	Diff. per Month	Diff. per Year	Cap Rate[2]	Unit Value Difference	# of Aff. Units[3]	Total Value Difference
Studio	$1,546	$1,159	$387	$4,644	4.00%	$116,100	8	$928,800
1-Bedroom	$1,656	$1,242	$414	$4,968	4.00%	$124,200	26	$3,229,200
2-Bedroom	$1,986	$1,489	$497	$5,964	4.00%	$149,100	12	$1,789,200
3-Bedroom	$2,295	$1,721	$574	$6,885	4.00%	$172,125	2	$344,250
Total							**48**	**$6,291,450**
Formula	*a*	*b*	*c = a - b*	*d = c * 12*	*e*	*f = d / e*	*g*	*f * g*

[1] Maximum rents for various unit sizes provided by AHFC.
[2] Capitalization Rate from CoStar Group data for Class A Multifamily in Downtown Austin.
[3] Affordable unit count reflects 4 percent of rental units per PUD plan.

Source: Austin Housing Finance Corporation; Economic & Planning Systems

PC 16* – *Capital Cost of Pier & Water Steps

The PC 16 amendment states "The Great Steps, the Great Lawn, Pier, amenitized Water Quality Ponds, Water Steps, and 1,700 linear feet of reconstructed Hike & Bike Trail shall be constructed by the developer, contingent on PARD design approval, irrespective of Park Development Fee contribution. Developer shall provide fiscal surety for the value of these improvements." The Developer agrees to the construction of these items with the exception of the Pier and Water Steps, and does not agree to provide fiscal surety for the value of these improvements. The Developer also wishes to remove the "irrespective of Park Development Fee contribution" portion of the amendment. The cost estimate for the construction of the Pier and Water Steps were provided by the Developer's contractor, DPR Construction, via the Developer and are shown in **Table 7**.

Table 7 Cost Estimate of Pier and Water Steps

Item		Cost Estimate	Notes
Pier		$1,925,000	per DPR Construction[1]
Water Steps		$748,000	per DPR Construction[1]
	Total	**$2,673,000**	

[1] Cost estimates provided by DPR Construction (the Developer's contractor) via the Developer.

Source: DPR Construction; Economic & Planning Systems

As shown above, the total estimated construction cost of the Pier and Water Steps is $2.7 million. Beyond the park-related improvement items agreed upon as part of PC 16, the Developer agreed to provide and improve a 1.59-acre "parkland easement" as a PUD project cost, to dedicate 6.53 acres of unimproved parkland to PARD, and to make the Parkland Dedication In-Lieu Fee and Parkland Development Fee payments in excess of those typically required, as described further in **Section 3**. Based on City and Developer calculations, the Parkland Dedication In-Lieu Fee is estimated to be $3.7 million and the Parkland Development Fee is estimated to be about $950,000, for a total of $4.6 million.

PC 17 – Revenue/Value Impact of Added Park Maintenance Costs

The PC 17 amendment states "Applicant shall keep and maintain the City Parkland within the PUD boundaries in a good state of appearance and repair to at least a "Level One" standard based on current City park maintenance standards at the sole expense of the Applicant its successor and assigns. Level One includes specific maintenance requirements by PARD for Turf Care, Fertilizer, Irrigation, Litter Control / Graffiti, Pruning, Disease and Pest Management, Tree and Plant Care, Security Lights / Flag Poles / Park Signage, Trails, and Sustainability." The Developer states that as a public park, maintenance can be funded by a number of sources, and lists a few examples such as a TIRZ, the DAA PID, and The Trail Foundation.

Table 8 estimates the impact to PUD feasibility that would result from the Developer bearing the cost of maintaining the City Parkland acres as requested in PC 17. This amendment pertains to 6.53 acres of City Parkland, at an estimated annual maintenance cost of $80,465 per acre, resulting in an estimated $525,438 in total annual maintenance expenses. This annual expense is capitalized by the existing market capitalization rate per CoStar Group data, and the total impact of $9.9 million represents the reduction to project value that would result from the added maintenance expense of PC 17 amendment acceptance.

Table 8 Value Impact of Added Park Maintenance Costs

Item	Value	*Formula*	Description
City Parkland Acres	6.53	*a*	Dedicated waterfront parkland excluding 1.59-acre parkland easement PUD will maintain.
Maintenance Cost per Acre	$80,465	*b*	Estimate per City of Austin Parks and Recreation Department
Total Annual Costs	$525,438	*c = a * b*	
Cap Rate	5.3%	*d*	CoStar Group capitalization rate for Downtown Austin Class A commercial properties as of May 2022.
Impact on PUD Feasibility	**$9,913,930**	*c / d*	Deduction to project value based on operating expenses of parkland maintenance.

Source: City of Austin Parks and Recreation Department; CoStar Group; Economic & Planning Systems

The cost to the developer of the 1.59-acre parkland easement maintenance referenced in **Table 8** that will be undertaken by the PUD development is estimated in Section 3.

PC 20 – Capital Cost of Specific TIA Improvements

The PC 20 amendment states "irrespective of the ROW land value for the Barton Springs extension, Developer shall pay 100 percent of improvements listed in the TIA memo, Table 2 … except for Westbound Receiving Lane which is not recommended." The Developer's response is that this amendment would add too great a cost burden to the project, and that "a TIRZ or other public funding mechanism will be required to pay for the improvements of Barton Springs Extension."

The above referenced improvements from Table 2 of the TIA memo are shown in **Table 9**. The Developer's contractor, DPR Construction, provided the cost estimates included.

Table 9 Capital Cost of Specified TIA Improvements

Improvement[1]	Location[1]	Cost Estimate[2]
Barton Springs Extension	Barton Springs Rd east of S Congress Ave	$15,494,000
6 ft Protected Bike Lane with 2 ft Curb Buffer	East curb of S Congress Ave between Bridge to Riverside Dr	$188,140
Bike and Pedestrian Facility	Riverside Drive Access	(Included in Barton Springs cost estimate above)
Total		**$15,682,140**

[1] Per Table 2 of "Statesman PUD - 305 S. Congress Transportation Impact Analysis Final Memo C814-89-0003.02" dated December 13, 2021.

[2] Cost estimates provided by DPR Construction (the Developer's contractor) via the Developer.

Source: DPR Construction; Economic & Planning Systems

Related to this request, the Developer has agreed to provide 1.92 acres of Right-of-Way for the Barton Springs extension, the value of which is estimated in **Section 3**.

***PC 21* – Affordable Housing at 60 percent and 80 percent MFI on Bonus Square Feet**

The PC 21 amendment states "If South Central Waterfront Regulating Plan and financial plan are not approved by City Council prior to City Council voting on this PUD, Applicant shall meet current Code requirements for affordable housing for PUDs: 10 percent of bonus square footage shall be allocated to rental units at 60 percent MFI, and 5 percent of the bonus square footage shall be allocated to ownership units at 80 percent MFI, or 4 percent of all affordable units, whichever one is greater. Units shall be provided on site." The Developer responded indicating the added cost burden of this request cannot be borne by the project and that a public funding mechanism would be "required to pay for the incremental affordable housing cost above 4 percent at 80 percent MFI to make the project financially feasible."

EPS has confirmed with the City that the bonus square footage referenced in this amendment is calculated as the difference between the proposed PUD entitlement of 3.515 million square feet and the property's current PUD entitlement of 660,000 square feet, resulting in 2.855 million bonus square feet. Ten percent of this bonus square footage would be 285,500 square feet, thus requiring affordable pricing on over 20 percent of the total 1.34 million gross square feet currently envisioned for rental housing under the proposed PUD. The additional requirement that 5 percent of bonus square footage be set at affordable for-sale prices would sum to 142,750 square feet, or nearly half of the 308,000 square feet of envisioned for-sale housing square footage.

The following two tables estimate the total implied subsidy of the affordability program requested in PC 21. The first, **Table 10**, displays the calculations used to estimate the total impact on project value from providing the affordability program requested in PC 21. EPS derives this estimate by capitalizing the reduction in rent or sales value that would be created by converting this amount of market rate residential square feet into affordable residential square feet at the MFI levels requested.

Table 10 Impact to Project Value of PC 21 Request

Item	*Formula*	PC 21 Request
Rental Unit Financial Impact		
Monthly Market Rate Rents per Sq. Ft.[1]	*a*	$4.00
Monthly Affordable 60% MFI Rents per Sq. Ft.[2]	*b*	$1.45
Monthly Rent Reduction per Sq. Ft.	*c = a - b*	$2.55
Annual Rent Reduction per Sq. Ft.	*d = c * 12*	$30.56
10% of Bonus Sq. Ft.[3]	*e*	285,500
Total Annual Rent Reduction	*f = d * e*	$8,723,467
Cap Rate[4]	*g*	4.00%
Impact on Project Value	*h = f / g*	**$218,086,684**
For-Sale Financial Unit Impact		
Market Rate Sales Price per Sq. Ft.[5]	*i*	$727.40
Affordable 80% MFI Sales Price per Sq. Ft.[6]	*j*	$179.82
Price Reduction per Sq. Ft.	*k = i - j*	$547.58
5% of Bonus Sq. Ft.[3]	*l*	142,750
Impact on Project Value	*m = k * l*	**$78,167,071**
Total Implied Subsidy of PC 21 Request	*h + m*	**$296,253,755**

[1] Value based on Developer's pro forma but consistent with CoStar data on asking rents for Downtown Austin Class A Multifamily.
[2] Blended average of City-provided unit rents at 60% MFI as applied to Developer's proposed rental unit mix.
[3] Total bonus square feet calculated as 2,855,000.
[4] Capitalization Rate from CoStar Group data for Class A Multifamily in Downtown Austin as of May 2022.
[5] Based on ECONorthwest's 2019 market assumptions inflated to current market value based on 61% growth in median condo sale prices from 2019 - 2022 in Zip Code 78704 per Redfin.
[6] Blended average of City-determined affordable sales prices by unit as applied to Developer's proposed for-sale unit mix.

Source: Endeavor Real Estate Group; CoStar Group; City of Austin; Redfin; Economic & Planning Systems

As shown above, the total implied subsidy of providing the amount of affordable square footage contemplated in PC 21 is estimated to be over $295 million. However, since the Developer already has a proposed affordability plan which PC 21 would replace, the difference in subsidy between the two programs represents the true implicit cost of the PC 21 request. **Table 11** estimates the subsidy of the Developer’s proposed affordability plan and nets it out from the PC 21 subsidy value to arrive at the difference.

Table 11 Subsidy Difference between Developer's Proposal and PC 21

Item	Formula	Developer's Proposed Affordability Plan
Rental Unit Financial Impact		
Monthly Market Rate Rents per Sq. Ft.[1]	*a*	$4.00
Monthly Affordable 80% MFI Rents per Sq. Ft.[2]	*b*	$1.94
Monthly Rent Reduction per Sq. Ft.	*c = a - b*	$2.06
Annual Rent Reduction per Sq. Ft.	*d = c * 12*	$24.74
Affordable Sq. Ft. (4% of all Rental Units)	*e*	43,250
Total Annual Rent Reduction	*f = d * e*	$1,069,848
Cap Rate[3]	*g*	4.00%
Impact on Project Value	*h = f / g*	**$26,746,200**
For-Sale Unit Financial Impact		
Total For-Sale Units	*i*	190
4% of For-Sale Units	*j = i * 0.04*	8
In-Lieu Fee per Required Affordable Unit	*k*	$450,000
Total In-Lieu Fee	*l = j * k*	**$3,600,000**
Total Implied or Direct Subsidy of Developer Proposal	*h + m*	**$30,346,200**
Total Implied Subsidy of PC 21 Request	per **Table 10**	$296,253,755
Subsidy Difference between Developer's Proposal and PC 21		**$265,907,555**

[1] Value based on Developer's pro forma but consistent with CoStar data on asking rents for Downtown Austin Class A Multifamily.
[2] Blended average of City-provided unit rents at 80% MFI as applied to Developer's proposed rental unit mix.
[3] Capitalization Rate from CoStar Group data for Class A Multifamily in Downtown Austin as of May 2022.

Source: Endeavor Real Estate Group; CoStar Group; City of Austin; Economic & Planning Systems

As shown, the total additional cost to the project of PC 21 is estimated to be just under $266 million.

<u>Councilmember (CM) KT 10</u> – 10 percent of Rentals at 60 percent MFI, 5 percent of Condos at 80 percent MFI

The CM KT 10 amendment from the Planning Commission also relates to the provision of affordable housing. It states that "The project shall provide the following amount of on-site affordable housing: If rental, 10 percent rental housing at 60 percent MFI for 40 years; If ownership units, 5 percent ownerships units at 80 percent in perpetuity with a plan for managing homeowner association (HOA) fees in a manner that doesn't burden residents in the affordable units."

The Developer's response reiterates their proposed affordability program, and similar to the response for PC 21, indicates that a public funding mechanism would be required to pay for any incremental affordable housing costs above the amount to which they have already agreed. The Developer states that per agreement with City staff and in compliance with the 2016 SCW Plan, the PUD will commit to four percent of rental units at 80 percent MFI. In terms of the ownership units, the Developer states that at the owner's election, they will fulfill one of two options to satisfy the requirements for the for-sale condo units, those options being:

1. "Pay $450,000 per condo unit on 4 percent of the condo units built as a fee-in-lieu payable pro rata after every 25 units are sold, **<u>or</u>**
2. The owner will provide 4 percent of the total ownership units in the form of an equivalent number of deed restricted for-rent multifamily units within the South Central Waterfront District at 80 percent MFI for a period not less than 40 years from the date of the first certificate of occupancy for the condo development."

The first step necessary in estimating the financial impact of this amendment request is to determine the prices that the Developer would be allowed to charge for ownership units at 80 percent MFI when HOA Fees are included in the cost estimates. **Table 12** demonstrates the maximum allowable sales price for 1, 2, and 3-bedroom units at 80 percent MFI using the method utilized by the City of Austin Housing and Planning Department, with an adjustment made to the monthly HOA fee amounts.

The City's standards for affordable home sale prices includes a monthly HOA fee assumption of $111 per unit. The resulting affordable prices for the 1, 2, and 3-bedroom units would be $211,400, $249,400, and $285,000 respectively. However, the $111/month HOA assumption is not consistent with typical HOA fees for the type of housing envisioned for the Statesman PUD property.

EPS understands, through conversations with City staff, that condo buildings are not allowed by law to differentiate the HOA requirements based on the affordability status of the unit but rather can only vary the fee based on unit size, though EPS has yet to get explicit confirmation of this understanding from legal counsel. For this analysis, EPS averaged two HOA Fee per square foot figures for recent Downtown high-rise condo buildings (provided by the Developer) to arrive at the $0.87 monthly fee per square foot utilized in the table below. As applied to the unit sizes proposed, this amounts to a monthly HOA fee of $865 for the 1-bedroom units up to almost $2,000 for the 3-bedroom units (as compared to the $111 traditionally used across all unit sizes). As shown in **Table 12**, incorporating this more realistic monthly HOA fee in this calculation greatly reduces the feasibility of these units, and in the case of the 3-bedroom units, the affordable price drops into the negative, meaning that the developer would essentially have to offer those units for free because the homeowners' limited housing expense budget would be fully spent on HOA fees.

Staff has acknowledged HOA fees act as a significant hindrance to the provision of affordable units in luxury high rise condos in desirable Austin areas

In conversations with the relevant City departments, staff has acknowledged that HOA fees act as a significant hindrance to the provision of affordable units in luxury high rise condos in desirable Austin areas for the reasons stated above. If the product being proposed in the Statesman PUD is indeed required to charge HOA fees on an equitable per square foot basis (as is the understanding of EPS at the writing of this memo), and the homebuyers' overall housing costs are limited based on 35 percent of their gross income, then the amount that these affordable unit households are allowed to pay for the housing itself is substantially reduced (as shown in **Table 12**) and the impact on project feasibility is heightened.

Table 12 Price per Square Foot of 80 percent MFI Ownership Units with HOA Fees Included

Item	1 Bedroom Unit	2 Bedroom Unit	3 Bedroom Unit	Total
Affordable Price Point Calculation				
Household Size	1	2	3	
Maximum Income at 80% MFI[1]	$55,400	$63,300	$71,200	
Target Buyer Income[1]	$48,450	$55,400	$62,300	
Target Buyer Monthly Income	$4,038	$4,617	$5,192	
Target Front End ratio	$1,413.13	$1,615.83	$1,817.08	
Avg. Unit Sq. Ft.	1,000	1,450	2,211	
Avg. Monthly HOA Fee per Sq. Ft.[2]	$0.87	$0.87	$0.87	
Monthly HOA Fee	$865.00	$1,254.25	$1,912.52	
Monthly Taxes[3]	$149	$96	$0	
Monthly Insurance	$15	$18	$20	
Monthly Ground Lease Fee	-	-	-	
Monthly Reserve Fee	-	-	-	
Principal & Interest	$384.13	$247.58	-$115.43	
Monthly Interest Rate	4.00%	4.00%	4.00%	
Loan Period (in months)	360	360	360	
Down payment and closing costs	-	-	-	
Affordable Mortgage	$80,727.50	$52,031.98	-$24,259.05	
Affordable Price	**$80,700**	**$52,000**	**-$24,300**	
Proposed Ownership Program				
Unit Mix	50%	40%	10%	100%
Ownership Units	95	76	19	190
Sq. Ft. per Unit	1,000	1,450	2,211	
Total Sq. Ft.	95,000	110,200	42,009	247,209
Affordable Price[4]	$80,700	$52,000	$0	
Affordable Price per Sq. Ft.	$80.70	$35.86	$0.00	**$47.00**

[1] per City of Austin, Neighborhood Housing and Community Development Office.
[2] Average of the per sq. ft. HOA Fees of two recently constructed high-rise residential condo towers in Austin (Austin Proper and the Austonian).
[3] Monthly taxes set to equal 2.22% of affordable price, which is the current tax rate on properties within Austin.
[4] Affordable Price values from above. Value for the 3 Bedroom Unit set to 0 as the calculated price is negative.

Source: City of Austin, Neighborhood Housing and Community Development Office; Endeavor Real Estate Group; Economic & Planning Systems

With the allowable price per square foot for 80 percent MFI units derived, the next step in estimating the cost of the CM KT 10 amendment is to determine the financial impact of the requested affordability program on the Project. Utilizing the same method as the PC 21 calculations in the previous section, **Table 13** displays the calculations used to estimate the total impact on project value from providing the affordability program requested in CM KT 10. EPS derives this estimate by capitalizing the reduction in rent or sale value that would be created by converting this amount of market rate residential square feet into affordable residential square feet at the MFI levels requested, integrating the HOA fee coverage requirement into the for-sale financial unit impact. The subsidy of the Developer's proposed affordability program of $30 million (as calculated in **Table 11**) is subtracted from the implied subsidy of the CM KT 10 request to arrive at the difference.

Table 13 Subsidy Difference between Developer's Proposal and CM KT 10

Item	*Formula*	CM KT 10 Request
Rental Unit Financial Impact		
Monthly Market Rate Rents per Sq. Ft.[1]	*a*	$4.00
Monthly Affordable 60% MFI Rents per Sq. Ft.[2]	*b*	$1.45
Monthly Rent Reduction per Sq. Ft.	*c = a - b*	$2.55
Annual Rent Reduction per Sq. Ft.	*d = c * 12*	$30.56
10% of Rental Residential Sq. Ft.[3]	*e*	107,115
Total Annual Rent Reduction	*f = d * e*	$3,272,889
Cap Rate[4]	*g*	4.00%
Impact on Project Value	*h = f / g*	**$81,822,228**
For-Sale Unit Financial Impact		
Market Rate Sales Price per Sq. Ft.[5]	*i*	$727.40
Affordable 80% MFI Sales Price per Sq. Ft. (with HOA Fee)[6]	*j*	$47.00
Price Reduction per Sq. Ft.	*k = i - j*	$680.40
5% of Ownership Residential Sq. Ft.[7]	*l*	12,360
Impact on Project Value	*m = k * l*	**$8,410,032**
Total Implied Subsidy of CM KT 10 Request	*h + m*	**$90,232,260**
Total Implied or Direct Subsidy of Developer Proposal	*per* ***Table 11***	$30,346,200
Subsidy Difference between Developer's Proposal and CM KT 10		**$59,886,060**

[1] Value based on Developer's pro forma but consistent with CoStar data on asking rents for Downtown Austin Class A Multifamily.
[2] Blended average of City-provided unit rents at 60% MFI as applied to Developer's proposed rental unit mix.
[3] Total rental residential square feet is 1,071,145 per unit mix data provided by Developer.
[4] Capitalization Rate from CoStar Group data for Class A Multifamily in Downtown Austin as of May 2022.
[5] Based on ECONorthwest's 2019 market assumptions inflated to current market value based on 61% growth in median condo sale prices from 2019 - 2022 in Zip Code 78704 per Redfin.
[6] Per **Table 12**.
[7] Total ownership residential square feet is 247,209 per unit mix data provided by Developer.

Source: Endeavor Real Estate Group; CoStar Group; City of Austin; Redfin; Economic & Planning Systems

As shown above, the total implied subsidy of providing the amount of affordable square footage contemplated in CM KT 10 is estimated to be over $90 million. However, since the Developer already has a proposed affordability plan which CM KT 10 would replace, the difference in subsidy between the two programs represents the true implicit cost of the request. The $30 million implied subsidy of the Developer's affordability plan is subtracted to arrive at the difference of $59.9 million, which represents the net implied cost to the project of the CM KT 10 request.

The various requested amendments from the Planning Commission and City Council are not necessarily additive. Three of them reflect mutually exclusive alternatives regarding affordable housing and vary in economic impact from roughly $6 million to over $265 million.

3. The community benefits of the Project that the Developer has already agreed to are estimated to cost a total of between $117.6 and $179.5 million. These include affordable housing and commercial space, the added costs of underground parking, park fees in excess of the City's standards, parkland easement maintenance costs, and right-of-way dedications. The figures do not include parkland dedications, easements, or improvements generally required of development not under a PUD.

The Developer has agreed to a number of selected specific PUD project requirements for which this section estimates the "public value." **Table 14** summarizes the six identified community benefits provided as part of the proposed PUD project, with the specific calculations for each item provided in the rest of this section. As shown, the total value of all agreed-upon benefits ranges from a low estimate of $117.6 million to a high estimate of $179.5 million.

Table 14 Summary of Value of PUD Agreed-Upon Benefits

PUD Agreed-Upon Benefits	Total Value	Description
Affordable Housing	$30,346,200	4% of Rentals at 80% MFI, In-Lieu Fee for 4% of Condos
Affordable Commercial	$1,862,069	4% of Retail Space rented at 60% of Market Value
Underground Parking	$70,927,088	Added Cost of Constructing 3,981 Spaces Underground vs. Above-Ground
"Superior" Parkland Dedication & Improvement Fees	$165,300	"Superior" Parkland Fees at $100 per Unit and $100 per Hotel Room
Parkland Easement Maintenance Costs	$1,733,377	Capitalized Revenue Impact of $91.9K Annual Costs for 1.59 Acres
Dedicated Land for TIA Improvements		1.92 Acres of Otherwise Developable Land for Barton Springs Extension and Bike / Ped Facillity
Low Estimate	$12,545,280	
High Estimate	$74,435,328	
Total of Agreed-Upon Benefits		
Low Estimate	**$117,579,314**	
High Estimate	**$179,469,362**	

Source: Economic & Planning Systems

Affordable Housing

Per agreement with City staff and in compliance with the 2016 SCW Plan, the Developer is committing to an affordability program that includes the dedication of four percent of total rental units (or 48 units) at 80 percent MFI and four percent of the total for-sale condo units (or 8 units) for a total of 56 affordable units. The Developer proposes to satisfy this commitment with the on-site provision of the 48 rental units affordable at 80 percent MFI and by payment of the fee-in-lieu at $450,000 per unit for the 8 for-sale affordable condo units.

The estimated impact to the Project's feasibility of this proposed affordability program is calculated in **Table 11** and results in a total of $30,346,200 in implied or direct subsidy.

Affordable Commercial

The proposed Project includes the provision of four percent of commercial square footage at 60 percent of market rate lease values as requested by the Austin Planning Commission. The Project proposes a total of 150,000 square feet of retail, resulting in 6,000 square feet of affordable commercial space, which includes 1,000 square feet dedicated to bat education. **Table 15** shows the calculations used to estimate the impact of the affordable commercial space on project value. The value difference between the market lease rate and the 60 percent affordable lease rate across the 6,000 square feet is capitalized, resulting in an estimated impact of $1.9 million.

Table 15 Value of Affordable Commercial Space

Item	*Formula*	Value
Total Project Retail Sq. Ft.	*a*	150,000
Percent to be Discounted	*b*	4.00%
Discounted Retail Sq. Ft.	*c = a * b*	6,000
Monthly Market Rate NNN Lease Rate per Sq. Ft.[1]	*d*	$45.00
Discounted to 60%[2]	*e = d * 0.6*	$27.00
Implied Discount per Sq. Ft.	*f = d - e*	$18.00
Total Discount per Year	*g = c * f*	$108,000
Cap Rate[3]	*h*	5.80%
Impact on Project Value	*g / h*	**$1,862,069**

[1] Average annual NNN (Triple Net) rent from CoStar Group data for Retail developments built since 2010 in Downtown Austin as of May 2022.

[2] Planning Commission has requested that discounted space be offered at 60% of market rate.

[3] Capitalization Rate from CoStar Group data for Retail in Downtown Austin as of May 2022.

Source: CoStar Group; Economic & Planning Systems

Underground Parking

The Developer is proposing to construct 95 percent of the required parking spaces (3,981 spaces) in an underground format. The Developer is not required to construct the parking underground, and the Developer is choosing to place the majority of the required parking underground as opposed to constructing above-ground parking structures despite the higher construction costs associated with subterranean parking. The Developer considers this a community benefit as this is a noncompulsory decision that will preserve the lakefront viewsheds, a public good, by keeping them unobstructed by large parking garages.

Table 16 calculates the added cost of constructing the 3,981 parking spaces underground as opposed to above-ground. The hard costs per parking space for both formats were provided by DPR Construction via the Developer, and a soft cost estimate of 20 percent was added. The Developer contended soft costs would equal 25 percent of hard costs, while EPS estimated 18 percent, so a conservative estimate of 20 percent is utilized. As shown below, the added cost of underground parking is estimated at $70.9 million.

Table 16 Added Cost of Underground Parking

Item	*Formula*	Value
Cost per Underground Parking Space[1]	*a*	$65,816
Cost per Above-Ground Parking Space[1]	*b*	$48,000
Cost Difference per Space	*c = a - b*	$17,816
Proposed Underground Parking Spaces	*d*	3,981
Total Added Cost of Underground Parking	*c * d*	**$70,927,088**

[1] Hard costs provided by DPR Construction via the Developer. Soft costs of 20 percent of hard costs added to arrive at values shown.

Source: DPR Construction; Economic & Planning Systems

"Superior" Parkland Dedication & Improvement Fees

The Project is subject to the Parkland Dedication Fee and Parkland Development Fee that any project would be subject to as required by current City code. As such, EPS does not consider this to constitute a Community Benefit as it is not "superior," or above and beyond, what a typical project would pay. However, the Developer has agreed to an additional fee superior to what is normally required in the amount of $100 per unit and $100 per hotel room, which EPS does consider a Community Benefit. **Table 17** shows the total value of these superior fees that the Developer has agreed to, summing to $165,300. Note that EPS has assumed the additional fee on residential units will be charged to all 1,378 units and the affordable units will not be exempt.

Table 17 "Superior" Parkland Fee Amount

Item	*Formula*	Value
Proposed Housing Units[1]	*a*	1,378
Additional Parkland Fee per Unit	*b*	$100
Proposed Hotel Rooms	*c*	275
Additional Parkland Fee per Room	*d*	$100
Total "Superior" Parkland Fees	*(a * b) + (c * d)*	**$165,300**

[1] EPS assumes the additional parkland fee per unit is charged to all units, not just the Market Rate units.

Source: Economic & Planning Systems

Parkland Easement Maintenance Costs

The Developer has agreed to dedicate a park access easement of 1.59 acres through plazas and connections for public access and to maintain this acreage as well. The estimated annual maintenance cost (per City of Austin Parks and Recreation Department with input from PARD partners, field experts, and other stakeholders) for this mainly hardscaped area is $91,869. **Table 18** capitalizes this value to estimate its impact on Project feasibility as it is an ongoing operating expense, resulting in a total impact estimate of $1.7 million.

Table 18 Parkland Easement Maintenance Cost

Item	*Formula*	Value
Estimated Annual Maintenance Cost of 1.59-Acre Easement[2]	*a*	$91,869
Cap Rate[2]	*b*	5.3%
Impact on Project Feasibility	*a / b*	**$1,733,377**

[1] Estimate provided by the City of Austin Parks and Recreation Department.
[2] CoStar Group capitalization rate for Downtown Austin Class A commercial properties as of May 2022.

Source: City of Austin Parks and Recreation Department; CoStar Group; Economic & Planning Systems

Dedicated Land for TIA Improvements

The Developer has agreed to provide 1.92 acres of right-of-way for the Barton Springs extension project. The value of this land is estimated in **Table 19**. A range of estimates is provided because the value of land in this area can vary significantly depending on perspective. The City of Austin Financial Services Department indicates that base land values along South Congress range from $150 to $200 per square foot, but the Office acknowledges the value of land in the downtown area with CBD zoning has reached levels up to $1,800 per square foot, with the caveat that the Statesman PUD Project does not exhibit the same characteristics as CBD zoning, such as unlimited height restrictions. The Developer provided an estimate of $355 per land square foot based on a recent comparable site, and Jones Lang LaSalle (JLL) data for Austin CBD land sale comps average $890 per land square foot. As such, EPS has presented a range of values to acknowledge the variability in land value estimates.

Table 19 Value Estimate of Dedicated Land for TIA Improvements

Description	*Formula*	Value
Dedicated Right-Of-Way Acreage	*a*	1.92
Land Value per Sq. Ft.		
Low Estimate[1]	*b*	$150
High Estimate[2]	*c*	$890
Land Value per Acre		
Low Estimate	*d = b * 43,560*	$6,534,000
High Estimate	*e = c * 43,560*	$38,768,400
Total Value		
Low Estimate	*a * d*	**$12,545,280**
High Estimate	*a * e*	**$74,435,328**

[1] Low Estimate via City of Austin Financial Services Department.
[2] High Estimate via JLL CBD Land Sale Comps for Austin Texas between 2017 and 2021.

Source: City of Austin Financial Services Department; JLL; Economic & Planning Systems

As shown, the value of the 1.92 acres of dedicated land is estimated to be worth between $12.5 million and $74.4 million.