

Bold moves are necessary by the public sector

If a truly vibrant urban environment is a goal for Downtown, proactive measures are essential.

By Donald J Henderson, Board Chairman, Downtown District and F. Xavier Peña, Board Chairman, Downtown Redevelopment Authority

In October 2004, the Downtown District and other downtown organizations and stakeholders released a Houston Downtown Development Framework that mapped out a vision for the next twenty years. The vision is for Downtown to not only grow, but to grow well and continue the transition from a large Texas city to a world-renowned metropolis defined by its Downtown and central city.

One of the four components of the Framework is to build residential Downtown. The Framework states: *The most important participants in an active street life will be the people who live here. To support this key component of its vision, Downtown should build significantly upon the stock of housing added since the mid-1990s. An expanding population will provide a reliable base of demand for goods and services and will enhance security by putting more pedestrians on the street. Well-designed residential buildings also lessen the “emptiness” of streets during non-business hours. Finally, office tenants will find Downtown more attractive if a reasonable share of their employees can have the option of living close to work. With most historic structures restored, Downtown should focus on new construction; work toward a residential population of 20,000; and offer a wide range of residential properties, from the most affordable to luxury developments.*

The strategy was to encourage and promote residential development and to focus on developing amenities and services to support a residential market. Unfortunately, from 2004 to 2010, we only saw two new residential projects built and only one of those was new construction. Today, there are 2,614 residential units in Downtown with approximately 3,600 residents.

Why is that, especially when (as stated in “*Ease up on subsidies,*” editorial on March 28) we have public improvements in place downtown such as sports stadiums, theater venues, dining and entertainment options, new park spaces and a multitude of transportation options? Shouldn’t these public improvements be incentive enough for developers? Clearly the residential development numbers through 2010 prove that public improvements alone are not incentive enough.

In January 2012, Urban Land Institute Houston put together a panel of experts to study the area around the George R. Brown Convention Center and provide a report with recommendations. The panel quickly identified the greatest market potential for the area as residential development. The report states that not only would such projects satisfy an unmet need in the marketplace, but they and their residents would also do more than any other type of use to add life to the street and create the well-connected, active, 24/7 environment that is needed to tie together all of the existing parts of the study area. The panel recognized, however, that without public incentives, land values west of U.S. Route 59 are prohibitively expensive for the type of residential product that would be in greatest demand i.e. that which would be affordable to a broad spectrum of those working in Downtown. With incentives, the

projects are not only doable, but they are a means of protecting, enhancing and maximizing the value of the significant public and private investments that have already been made in the area.

Our follow up research found that net development costs to build Downtown are higher compared to other equivalent markets within the central city. In 2012, we estimated a delta of \$23,000 per door and now based on our experience with projects in the program and comparables within the marketplace, the number appears to be closer to \$27,000 per door. When costs are that high, property can either sit for eternity and be used as a surface parking lot or a developer can come and build what is most cost effective with minimal risk, which in today's market is a high-rise office tower. But we do not want Downtown to be an office park, we want a true mixed-use neighborhood.

Given these higher costs, creating a viable Downtown housing market cannot be accomplished by the private sector alone. As a solution to combat the disparity between development costs and market conditions, the City of Houston, Downtown District and Downtown Redevelopment Authority created the Downtown Living Initiative, a program that incorporates financial and other benefits to assist in the development of mixed use residential development. A qualifying project in the Program receives a reimbursement of the lesser of (i) \$15,000 per residential unit or (ii) seventy-five percent (75%) of the incremental City of Houston property tax and the Downtown District incremental assessment paid per unit over 15 years from the project's completion. In August 2012, City Council approved the District's program and capped it at 2,500 units by June 30, 2016. Based on the proven interest in the program and to continue momentum, we are asking Council to increase this cap from 2,500 to 5,000 units for the combined program area. The cutoff date would not change, nor would the financial incentive.

It's important to note that these projects will be generating tax revenue for the City the calendar year after they open their doors and the reimbursement to developers will be coming from the new tax revenue paid by the developer. Moreover, having a stronger residential base will then increase the value of office, hotel and other types of properties that will generate new tax revenue for the City that can support improvements not only in Downtown but also in Houston neighborhoods. Plus, residents living Downtown save the City and other public agencies money on infrastructure and transportation costs.

It's also important to note that the Downtown Living Initiative requires developers to comply with essential guidelines that aid in creating supportive urban design with residential streets featuring street trees, enhanced lighting, active ground floor uses and appropriate sidewalk design. Because there is currently no requirement within Houston for buildings to address the street in a particular manner, the program assists in creating the vibrant 24/7 pedestrian environment that was laid out in the 2004 Framework.

We know that more and more people want to live close to work with amenities and services within walking distance such as shopping, entertainment, park spaces and access to public transportation, especially the 25-34 year olds with a four-year degree. Even our target number of 20,000 residents is far

below cities that are considered vibrant and walkable: New York (65,700), Chicago (53,800), Philadelphia (57,200), Washington D.C. (28,200) and Los Angeles (21,100).

The Downtown residential population is made up of professionals with a median household income of \$58,975 (77002 and 77010 zip codes/2010 U.S. Census), as compared to the median household income for Houston which is \$41,828. They are teachers, engineers, nurses, writers, retirees, students and, yes, corporate executives too. Downtown provides opportunities to own your home or rent, and the new housing coming online is a diversity of projects from mid-rise to high-rise with varying price points. If not for the incentives we are advocating for, residential rental rates would be so high in order for the project to make financial sense, no one could afford to live in them except for the very wealthy. That is not what we want.

We want Downtown Houston to be a 24-hour neighborhood where people live and work. In fact, according to the 2013 Kinder Houston Area Survey, the majority of Houstonians believe that it is “very important” for the future of Houston to make major improvements in Downtown—an all time high since the question was asked beginning in 1995. We support a philosophy that favors eclectic, pedestrian-friendly neighborhoods—yes, an urban planner’s dream—but it is the future of development in Houston as well as cities across the country. We continue to hear that development in Downtown Houston is not feasible but for the incentives being provided through the Downtown Living Initiative. If we could add another 5,000 units in the next five years, to our existing 2,614 units, it will put us on track to meet our future goal of 20,000 residents by 2025.