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Incentive package: \$173,400 per condo

Downtown tower got \$10M from city

BY RICHARD WEBNER STAFF WRITER

A luxury hotel and condo tower being built on the River Walk has received a \$10 million incentive package from the city — or about \$173,400 for each condo — through a program to encourage downtown housing.

The city awarded the incentives in August for the Arts Residences and Thompson San Antonio hotel, a \$116 million construction project set to break ground today across the river from the Tobin Center for the Performing Arts, according to a document obtained from the city last week through an open records request. The 20-story tower will include 162 hotel rooms and 58 condos costing between \$400,000 and \$4.5 million, said Acho Azuiké, chief operating officer and managing director of DC Partners, a Houston firm that's building the tower.

The \$10 million package is the largest ever awarded through the city's Center City Housing Incentive Policy, which was created in 2012 as part of then-Mayor Julián Castro's push for a "Decade of Downtown." Earlier this month, City Council voted to put the program on hold after criticism that incentives are no longer needed in parts of downtown where the real estate market has strengthened in recent years, such as the Museum Reach stretch of the River Walk.

The incentives include a \$9.5 million reimbursement of city property taxes, \$225,774 in water utility fee waivers and \$315,453 in city fee waivers, according to the city records.

District 6 City Councilman Greg Brockhouse, a frequent critic of the city's incentive policies, said the incentive package "flies in the face of fiscal responsibility."

"I think that is just a ludicrous amount of money to incentivize a downtown development," he said. "That plainly exemplifies why people have had enough of incentivizing these massive developments in the downtown corridor."

John Jacks, director of the Center City Development and Operations Department, said in an email that the project will bring stability to the downtown real estate market by creating for-sale housing; most new downtown housing has been apartments. The unusual shape and small size of the 0.66-acre lot where the tower will be built made it financially difficult to develop, he said.

"Without these incentives, the project would remain a surface parking lot," he said.

When the City Council approved CCHIP in 2012 and renewed it in 2016, it gave city staff the discretion to award incentives to projects that meet certain standards. Thus, council members didn't vote on the incentives for the Arts Residences.

The project's exemption from city property taxes will last 15 years, but the San Antonio Independent School District is expected to collect \$26.5 million from it during that time, Jacks said. In the meantime, the city will collect taxes from its hotel rooms, parking garage and retail space.

Azuike said the hotel and condo tower would help bring more retail and other new construction to its area of downtown, which is now largely occupied by parking lots.

"It's a great project that's going to come in and add to the skyline," he said. "There's a lot of change coming to downtown San Antonio right now, with all the new employers moving there. We're looking to add to the excitement and bring housing downtown, as well as a nice hotel."

Among CCHIP projects, the Arts Residences has the highest ratio of incentive dollars for each living unit by far, according to the city records. By comparison, in December the city awarded a \$4.5 million package for Heritage Plaza, a 343-unit apartment complex planned at Main Plaza and Dwyer Avenue in south downtown. That comes out to \$13,050 per apartment, less than a tenth of the Arts Residences' \$173,400.

The Arts Residences is the first construction project that includes hotel rooms to receive CCHIP incentives. One of the goals of CCHIP was to bring more local residents to the tourism-dominated downtown, where demand for hotels has driven up land prices, city officials have said.

Azuike said he expects the Arts' condos to be the most luxurious in San Antonio, beating even the Alteza Residences that occupy the top 10 stories of the Grand Hyatt hotel. The building will offer its residents amenities such as 24-hour room service and a spa, a ballroom, a rooftop bar, a pool deck and a top-of-the-line restaurant, according to a news release from DC Partners. Five of the condos will be penthouses with 12-foot ceilings and wine coolers in their kitchens.

Forty percent of the development's condos have already been sold, according to the release.

DC Partners is funding about 35 percent of the project through the federal EB-5 program, which allows foreign investors to obtain permanent residence in the U.S. by making an investment of at least \$1 million — or \$500,000 in an area with high unemployment — that creates at least 10 jobs. Eighty investors from Latin America, Nigeria, China, India, Vietnam and other countries are helping finance the project, Azuike said.

CCHIP has recently come under scrutiny as Brockhouse and other local politicians question whether incentives are still needed in luxury real estate markets such as the Broadway corridor and the Pearl. Developers and other advocates of the incentives say

they help build a tax base in the urban core and create the downtown housing that San Antonio needs to compete with other cities in attracting talented young workers.

The city has used the program to award \$97 million in incentives for 64 construction projects that will include 6,543 housing units when they are all complete, Jacks said. The incentives awarded include \$72.6 million in property tax reimbursements.

The city has ordered a housing study to evaluate the program, which is set to expire in June, and to consider an affordability requirement for new housing incentives. In August, Mayor Ron Nirenberg created a Housing Policy Task Force to research possible changes to the city's housing policies. The council likely will hear recommendations in May and vote on them this summer or early fall.

Local community empowerment organization COPS/Metro Alliance wants the city to use incentive money to help local residents fix up their homes rather than on downtown development, housing co-chair Linda Ortega said.

"We would like to start thinking of the 'Decade of the Neighborhoods,' " she said. "We understand that San Antonio needs to make downtown a better place to live, but that will be for a very small portion of people. The greater need is really owner-occupied housing."

The city has awarded three other incentive packages to developers over the past six months, apart from Arts Residences and Heritage Plaza. The 53-unit Floodgate apartment complex on the River Walk, whose developer, Keller Henderson, said it will offer rents at the until-now-unheard-of-rate of \$4 a square foot, received a \$3.9 million package in December, according to the city records.

A 200-unit project named St. John's Square, planned at Nueva and St. Mary's streets, has been awarded \$3.2 million. The developer is Weal Development, which is led by developer Dennis McDaniel of Austin, state corporate filings show.

A \$3 million package has been awarded to the Durango, a 12-story, 70-unit apartment complex that Wimberley company Laney Development plans to build at 421 S. Presa St., the records show.

Two construction projects by Cleveland-based company NRP Group are likely to receive CCHIP incentives because their applications were submitted before the council put the program on hold, according to Jacks' statement. One of them is an apartment complex with up to 350 units that NRP plans to build at Hemisfair, and the other is a 284-unit complex at Broadway and Jones Avenue in north downtown.

For the Broadway development, NRP is partnering with a city nonprofit, the San Antonio Housing Trust Public Facility Corp. Under a complicated new deal structure, NRP will receive a full property tax exemption on the complex in return for reserving half the units for local residents making up to 80 percent of San Antonio's median household income, or roughly \$49,000 a year.