

The Economics of Land Use



Final Report

Waco Downtown Market Study and TIF Strategy

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1. INTRODUCTION AND SUMMARY OF FINDINGS

Project Overview and Approach

Downtown Waco is the historic center of the City of Waco as well as the county seat for McLennan County. Like many cities of a similar size, the Downtown area experienced a noticeable decline when regional and community serving retail uses began to move to planned shopping centers at suburban locations in the 1960s and 1970s. This resulted in lower value uses occupying street level commercial spaces with associated lower rents and property values and higher vacancies. And although the retail/commercial sector languished, Downtown has remained an important government and business hub. Downtown remains the historic core of the city with a critical mass of government, business, civic, and visitor-oriented facilities.

The City has completed a number of plans for Downtown revitalization over the last 30 years with some modest successes. However, the completion of the *Imagine Waco Plan* in 2010 generated heightened interest and excitement about the future of the greater Downtown area. The Plan also recognized a number of positive economic conditions to support a vision for the area's revitalization. First and foremost, the commitment to restoring and rejuvenating its Downtown riverfront including not only park and Riverwalk improvements, but also attracting housing, lodging, and entertainment uses. The Plan also acknowledged a greater interest in Downtown's historic resources including connecting across the Brazos River to the East Elm Historic District. The Waco Downtown Tax Increment Financing District (Reinvestment Zone #1) provides an important implementation tool for providing public assistance to eligible Downtown improvement projects.

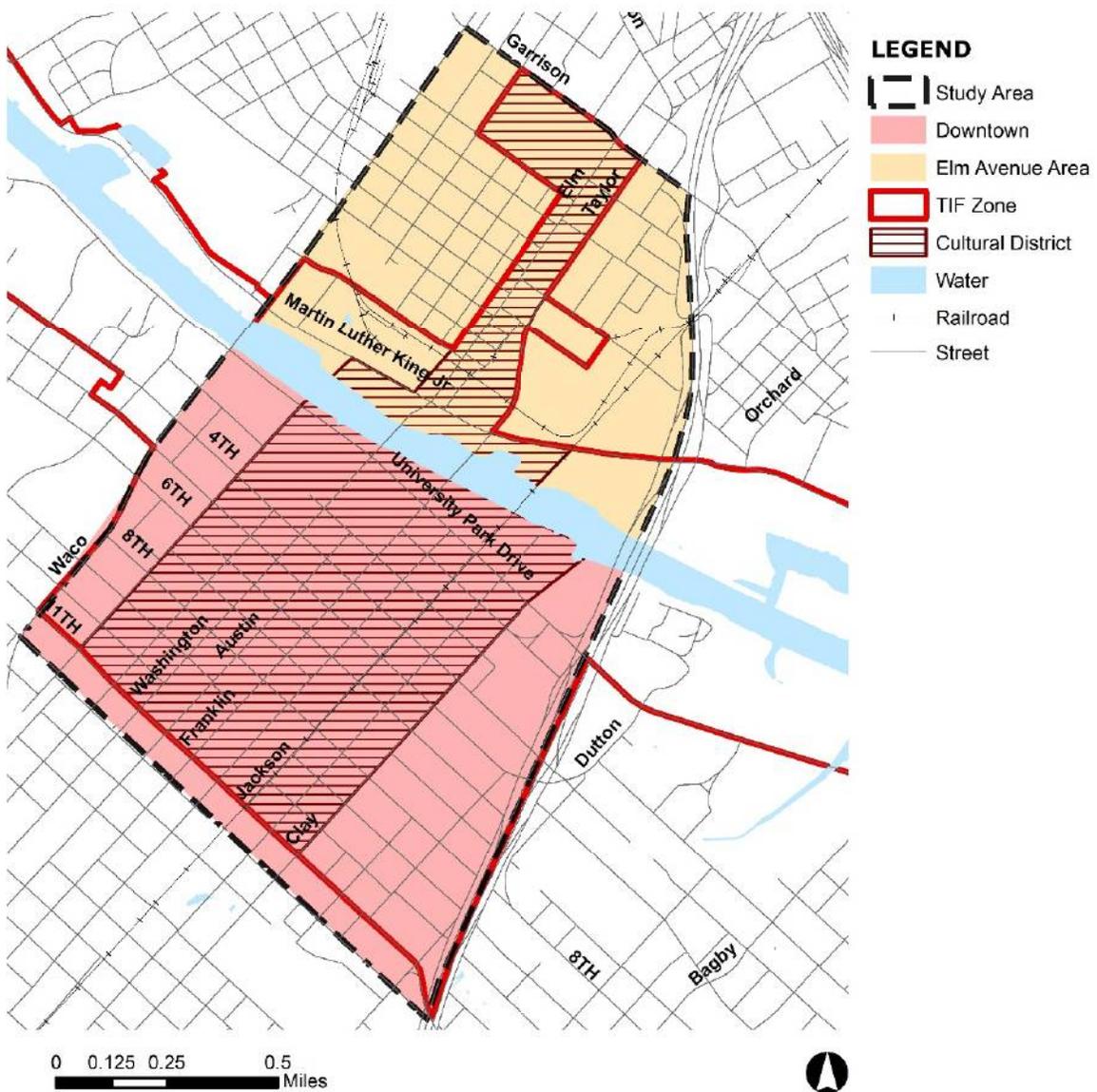
The *Downtown Market Study* assesses market conditions and opportunities within the TIF district boundary which includes the Downtown core as well as the larger riverfront zone extending west beyond Cameron Park and the zoo east to the Baylor University campus. The Study includes development potentials over the next 10 years for a full range of Downtown uses by property classification including retail, entertainment, office, residential, and lodging. The intent of the market study is to compile a well-grounded assessment of Downtown's development opportunities and potentials and to inform the TIF Investment Strategy (TIF Strategy) that prioritizes the use of remaining TIF resources plus the anticipated revenues to be collected over the remaining years of the TIF district.

There are two major components of the project. The first is an analysis of market conditions (Market Study, Chapters 1 through 8) to provide a baseline understanding of conditions and future opportunities for all stakeholders. The second component is a strategic for the use of TIF (TIF Investment Strategy, Chapter 9) over the remaining period of the district.

Project Study Area

The project Study Area, shown in **Figure 1**, is bound by Garrison Street (NE), Waco Drive (NW), 11th Street (SW), and I-35 (SE). For the purpose of this downtown market analysis, the Study Area does not follow the TIF district boundary. The Study Area excludes the Brazos River Park extensions and includes additional land adjacent to Elm Avenue in the Northeast Riverside Neighborhood. The Downtown area is also broken down into two subareas, the area north of the Brazos River (Elm Avenue area) and the area south (Downtown). Downtown is home to the central business district, thriving Austin Avenue, the Magnolia at the Silos shopping area, and an array of housing options. The Elm Avenue area is adjacent to McLane Stadium and other public amenities, but this area has received less private investment over the years.

Figure 1
Project Study Area



Market Study Summary

The following are the findings from the Market Study completed to develop the TIF Strategy.

- 1. Downtown housing development, which has averaged over 80 new units per year over the last decade, is expected to continue to gain momentum and capture a larger share of housing growth.**

The Downtown area has successfully attracted a growing number of new housing units in the past decade. The use of tax increment financing (TIF) to incentivize development has been an important component. A number of major housing projects including Brazos Promenade and Brazos Commons will have the capacity to add an additional increment of development above existing levels. Over the next 10 years, it is estimated the Study Area will be able to capture an increased share of citywide multifamily housing and average over 100 new units per year.

- 2. Downtown is becoming more attractive for new office development as both employers and employees are seeking more amenity-based locations; however, current rental rates may not support new construction.**

Downtown's renewed vibrancy is being driven by increased visitation and housing and retail development, which is stimulating interest in working Downtown. The larger, traditional office buildings continue to be the most attractive to tenants with lease rates at \$18 to \$19 per square foot. The growing demand for office space, particularly with dedicated parking, has raised the rental rates for Class B and C properties. New speculative office development may be difficult to attract without creative project structure, financing and use of incentives. The continued incremental growth of the office market through renovations and rehabilitation of existing buildings for office uses and attraction of build to suit office spaces for local businesses will add to the office inventory and increase support for new construction.

- 3. Retail space in the Study Area is growing due to increased visitation, but there is the need and opportunity for everyday retail uses to support the continued growth of Downtown housing.**

The growth of retail uses in Downtown has been primarily entertainment related uses (restaurants and bars), which are more oriented to students, daytime employment and visitors, and a niche of home decoration and home furnishings businesses driven by the Magnolia Market at the Silos. The Downtown area has also successfully attracted a growing number of new housing units in the past decade. The Study Area lacks more locally oriented retail options and could also benefit from an increased diversity of dining options including more sit-down restaurants. As the housing and employment base grows, more every-day and service retail will be desired and supportable.

4. The hotel market in the Study Area is strong resulting in a substantial amount of new planned hotel development; however, some diversity of product is needed.

The visitation to Waco, driven largely by the Magnolia Market, has generated an increase of hotel utilization. The city's occupancy rate is the third highest in the state at nearly 75 percent. There are 257 hotel rooms under construction and 387 proposed hotel rooms in Downtown Waco, which if built will largely accommodate tourist visitor demand. However, there are a number of gaps in the hotel inventory. Another mid-range, full service hotel similar to The Hotel Indigo would be supportable as it is the most successful Downtown property in terms of occupancy and room rates. The Convention and Visitor's Bureau has identified the desire for another full-service hotel with meeting and banquet space capable of being the headquarters hotel for a major convention in addition to the Hilton which currently serves this function. Such a hotel would likely require substantial public investment to attract a developer and operator for what is an unproven market. The City and CVB would be advised to commission a meeting and convention feasibility study to determine if this investment is supportable. A small independent boutique hotel is also a missing niche. The development of a boutique hotel relatively close to the Magnolia would be a desirable addition and diversification of the hotel inventory. The previously proposed renovation of the Old Geyser warehouse as a 55-room boutique hotel is an example of the size and scale of project that would be supportable in Downtown Waco.

5. The City and arts community have taken a number of important steps to establishing Downtown as a center for arts and culture.

The City of Waco and its partners formed a Cultural District in the Study Area in 2016 to designate the area as a center for arts and culture and create an agency to advocate for the arts in Downtown. The Study Area and the City of Waco lacks a center, or concentrated location, for arts and culture within the community. The Arts Center of Waco has recently purchased the LULAC Building on South 8th Street for its new home. The new arts center will fulfill an important gap as a location for arts programming and education. It will potentially also have space for art shows and exhibitions. There will continue to be a need for additional gallery and art "maker" spaces, some of which could be located in the new arts center or in nearby properties. The concentration of these uses in a defined location close to the Arts Center can help create an arts district within the downtown area. This area of downtown is likely to be more affordable than the Austin Avenue where arts and artists are being priced out.

The lack of performance space has also been a pressing need; however, the expansion of the Hippodrome including two additional movie screens will free up the historic main theater for additional usage for dance, music, and theater performances. There is also an opportunity for more bars and beer halls with the capacity for small bands, comedy and other acts.

6. Downtown Waco is an important visitor destination for the region and its growth should be based on becoming a larger and more diverse dining and entertainment location.

The Magnolia at the Silos is by far the largest entertainment destination draw in both downtown and the city as a whole with over 1.6 million visitors a year. It generates more visitors and more spending than all of the remaining visitor attractions combined. The Magnolia is a unique and homegrown shopping and entertainment center that happened organically without economic development efforts.. Waco is fortunate to have this visitation draw within its downtown as it also generates significant business for other downtown retail, dining and lodging facilities.

Other entertainment destination uses that combine sports and bars (e.g., Punch Bowl, Dave and Busters, Top Golf) and uses that combine cinema with bars (e.g., Alamo Drafthouse) can be pursued to diversify the entertainment mix but are considered low probability prospects as they generally prefer suburban locations with plenty of nearby parking. Waco will be more well-served by continuing to build a critical mass of unique local retail and dining attractions that are desired by both residents and visitors. This includes the food halls, microbreweries, distilleries, and a wider range of restaurants.

7. The Study Area has an estimated 160 acres of vacant and underutilized land indicating that land supply is not a constraint to continued Downtown growth.

The Study Area has a large amount of vacant and underutilized sites to attract new development. The City of Waco and other public/tax-exempt entities own approximately half of the vacant acreage in the downtown subarea. The Elm Avenue area also has a large amount of vacant properties. The lack of developable sites is therefore not a constraint to redevelopment. The conditions affecting these sites (i.e. infrastructure, environmental issues) are larger concern in terms of where development might occur. The City has done a good job of attempting to utilize its land holdings by soliciting developers and trying to attract and leverage development around major public investments, such as the Riverwalk. The focus going forward should be to support efforts to address barriers to development, specifically infrastructure issues, and encourage development around major public investments.

TIF Investment Strategy Summary

The TIF Investment Strategy serves as the implementation component of this study. It provides a review of historic allocation of TIF funding by project type and the existing framework within which the TIF Zone functions including existing downtown plans, policies and goals and objectives. A proposed delineation of the Study Area into four distinct districts is also presented. Lastly, EPS' recommendations for TIF investment priorities are provided including a proposed allocation annual resources between development projects and public improvements, criteria for evaluating development projects, a project prioritization process for infrastructure projects, and specific recommendations for each land use category.

The City of Waco's TIF Zone 1 currently generates approximately \$12 million in annual tax increment revenue. The annual increment has grown substantially in recent years as more development has occurred in the downtown and property values have increased. As a result, the property values (and the associated increment) are expected to increase over the remaining 15 years of the zone which will expire in 2032. However, the portion of increment available for use will decrease in fiscal year 2022-23 as the Waco Independent School District's (ISD) portion of the tax increment will no longer be collected. This will reduce annual increment approximately in half. For the remainder of the TIF Zone, the increment is forecast to total \$6.5 to \$8.5 million annually.

With the reduction in increment in 2022-2023, the need to be more strategic with the use of TIF funding will grow. The size of projects and requests being made to the TIF Board could create a situation where a handful of projects could account for the vast majority of annual increment and or limit the number of projects that can be supported.

The TIF Boards overall goals for the TIF Zone are still relevant and applicable. However, more detailed objectives were developed and shown below to provide additional direction on TIF investment.

- Continue to utilize TIF to leverage private investment
- Continue to support development along the Brazos River
- Continue to encourage a mixture of development along Elm Avenue with a focus on preservation and re-use of existing buildings
- Increase the number of people living and working downtown
- Address infrastructure deficiencies in order to facilitate development and attract investment
- Utilize TIF funds to leverage and support additional investment from other public, non-profit, and private partners
- Support district specific objectives

The recommended strategies developed in the study are summarized in **Table 1**. The strategies are organized into seven groups.

Table 1
Recommended TIF Investment Strategies

Project Type/Strategy
Development Project Priorities
1. Create a base TIF contribution investment cap of 15 percent of total project costs.
2. Develop a list of priority development projects desired in the downtown and consider allowing for greater investment of TIF funds into these projects.
3. Identify project categories that are sufficiently developed within the Study Area and for which TIF public investment is no longer required to address project feasibility.
4. Require projects with TIF contributions to phase in TIF payments over a two to five-year period.
5. Create performance limits/thresholds for TIF contributions.
Public Improvement Priorities
1. Work with City Center Waco and downtown stakeholders to develop a system for prioritizing downtown projects and programs.
2. Create a public improvement program seed fund with a process for application to TIF Board for funding.
3. Invest in priority pedestrian and multimodal streets/pathways within each downtown district.
4. Create a transportation demand management program for downtown.
5. Create a parking management program for downtown.
Housing
1. Strengthen TIF investment criteria to prioritize TIF assistance for projects with extraordinary costs or for high quality housing development projects that contribute to the desired mix of development uses within the downtown districts.
2. Utilize TIF funds to incentivize housing and mixed-use projects in the Elm Avenue neighborhood district.
3. Encourage the development of long term affordable housing units through the use of available affordable housing tools in order to proactively build an inventory of affordable units in downtown.
Retail
1. Actively recruit and support a downtown grocery store.
2. Target the use of TIF incentives to retail projects that are located in the downtown Study Area districts.
3. Discontinue the use of TIF incentives for highway-oriented retail projects.
Office
1. Continue to provide TIF assistance for building conversions and renovations that provide space for small office uses and that contribute to reinvestment in the downtown environment.
2. Work with the Waco/McLennan County Economic Development Corporation to promote partnerships for Waco employers to partner in the development of a multi-tenant office building.
Hospitality
1. Work with the Waco CVB to develop a full-service hotel with the ability to host conventions and meetings.
2. Prioritize TIF assistance to hotel and lodging projects that diversify the hospitality mix.
Arts, Culture, and Entertainment
1. Assist Arts Center Waco with the development of a community arts center to be the central location for arts programming, education, and exhibits in downtown Waco.
2. Utilize TIF funds to help fund initiatives developed by newly formed cultural district.
3. Identify opportunities to provide a building and spaces to support artisans and artists in or near the new Arts Center.

2. DEMOGRAPHIC AND ECONOMIC TRENDS

This chapter provides a summary of demographic and economic trends impacting Downtown Waco. This summary includes information regarding population and household growth and characteristics, employment levels by industry, City of Waco development trends, and future growth forecasts for the region.

Population and Households

The City of Waco has a population estimated at over 133,000 with 50,000 households. In 2017, the Study Area had a population of 3,881. The Elm Avenue area had a population of 756 people with 278 households and the Downtown portion had a population of 3,125 people with 1,253 households. Downtown accounts for 81 percent of the Study Area population, and the Study Area makes up about 3 percent of the City of Waco population. Due to smaller household sizes Downtown, the Study Area captures 8 percent of households in the city.

Since the year 2000, the City of Waco and McLennan County both experienced a steady growth in population and households with an annual growth rate of 0.75 to 0.85 percent. The city has grown at an average of 356 new households per year since 2000. Waco's share of county growth increased by 14 percent from 40 percent between 2000 to 2010 to 54 percent from 2010 to 2017.

The Study Area subareas have a different story. The Elm Avenue area has experienced a decrease in households and population over the past 17 years. Downtown saw a small bump in population at one-third of a percent, but households grew at a relatively fast rate of more than 2 percent during this time. A flat or declining population growth rate coupled with an increasing household base in downtown areas is typical for many revitalizing downtowns. Downtown areas typically attract smaller households (persons per household) and often replace larger households. The majority of growth across all geographies occurred since 2010.

Figure 2
Population and Household Growth, 2000-2017



Source: ESRI, Economic & Planning Systems

Household Composition

The City of Waco and McLennan County both have larger household sizes and a majority of households are family households. Household sizes have grown slightly since 2010, and the county average household size is presently 2.6 people per household. Additionally, over 65 percent of households in McLennan County are family households, compared to 58 percent within the city.

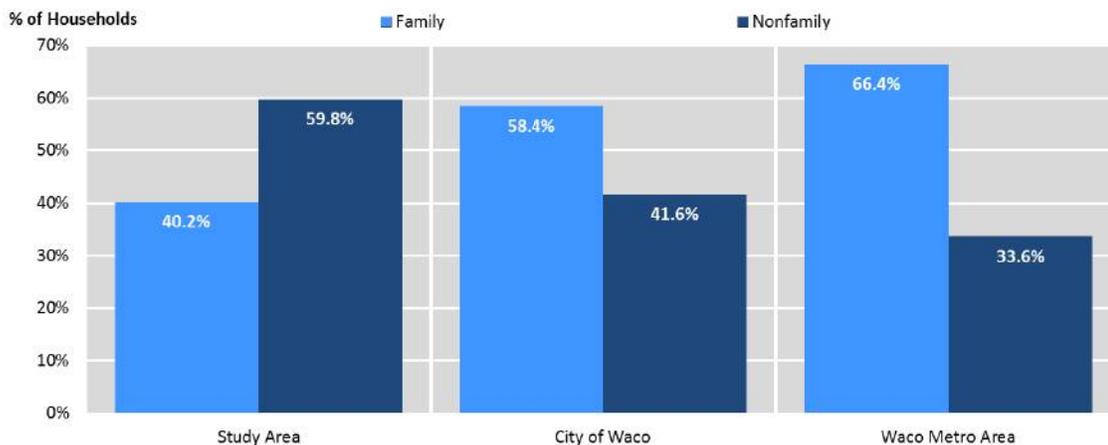
Generally, the Study Area has smaller households and less family households. The average household size in the Study Area is 2.26 people per household. This average decreased slightly from 2000 from 2.29. Approximately 60 percent of the Study Area households are non-family households compared to 41 percent in the City of Waco.

Table 2
Average Household Size

Average Household Size	Study Area	City of Waco	McLennan County
Avg. HH Size 2010	2.29	2.52	2.60
Avg. HH Size 2017	2.26	2.54	2.61

Source: ESRI; Economic & Planning Systems

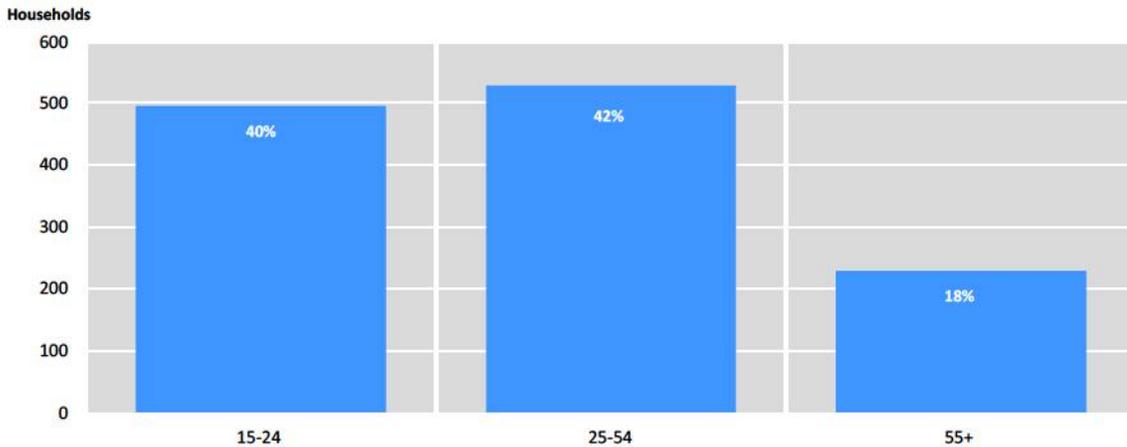
Figure 3
Family and Nonfamily Households, 2010



Source: ESRI; Economic & Planning Systems

The householders within the Study Area are evenly split between younger householders age 15 to 24, which are likely largely Baylor students, who make up 40 percent of householders and householders 25 to 54 years old who make up 42 percent of householders. The remaining householders are age 55 or older, who make up of 18 percent of householders, as shown in **Figure 4**.

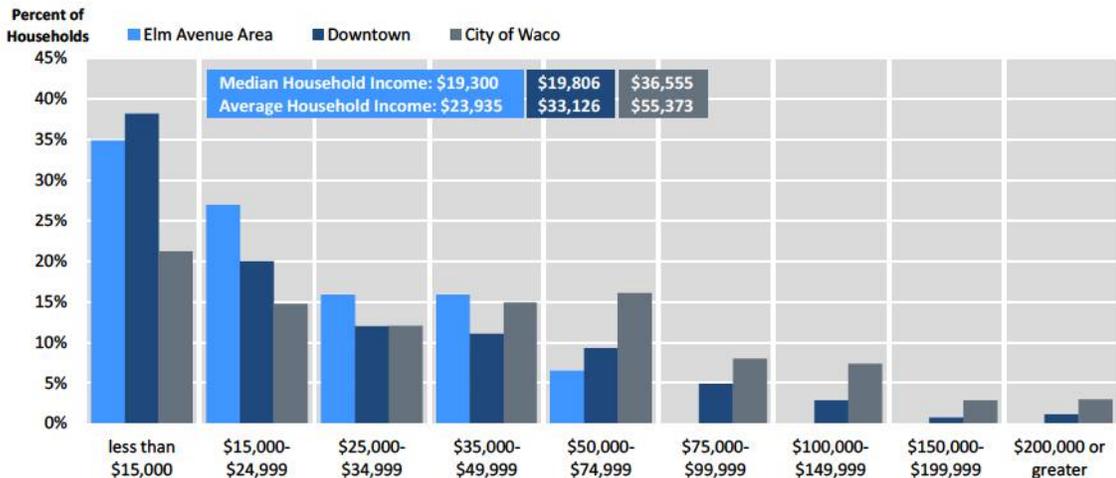
Figure 4
Households by Age of Householder, 2017



Source: ESRI Business Analyst; Economic & Planning Systems

In 2017, the median household income in the Study Area at about \$19,000 was considerably less than citywide at \$36,555. Median household income is relatively consistent between the Downtown and Elm Avenue area subareas, but average household income varies reflecting the presence of higher income households. In the Elm Avenue area, the average household income is \$23,935 compared to the Downtown area at \$33,126. As shown in **Figure 5** the Elm Avenue area has no households over the \$75,000 threshold, whereas the Downtown area has households in all income categories shifting the average household income higher.

Figure 5
Household Income, 2017



Source: ESRI; Economic & Planning Systems

Overall, there is a higher concentration of households on the lower end of the distribution in the Study Area. The lower than average household incomes in the Downtown subarea are likely impacted by the presence of students, who account for approximately of 40 percent of householders, and existing affordable housing (public housing and income restricted housing unit). The average household income in Downtown for households with householders age 25 to 54 is \$45,117, as shown in **Table 3**. The achievable rents and sale prices for market rate housing, especially new market rate housing, indicate that the household incomes of many Downtown residents is higher than one would assume based on the median household income. The average income for older residents in Downtown indicates that non-student households have higher incomes that are supporting new market rate apartments.

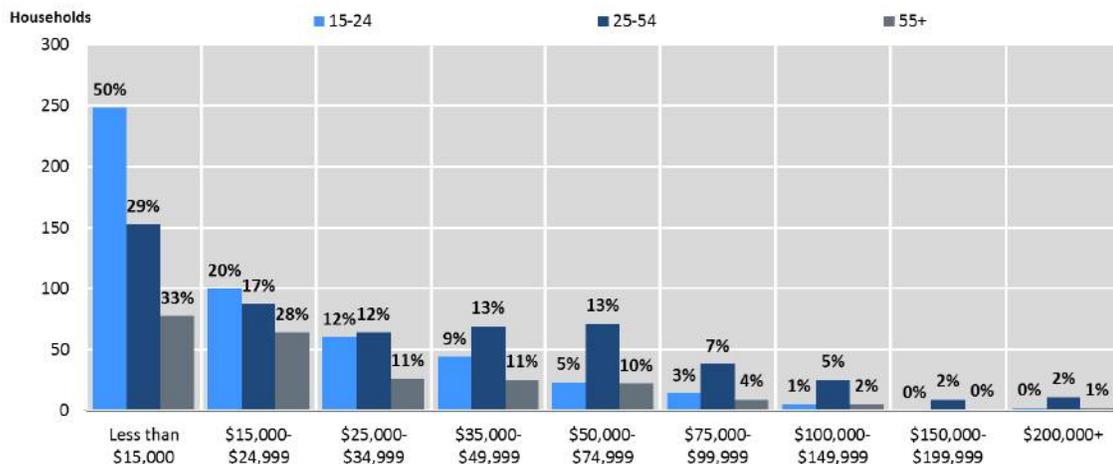
Table 3
Median and Average Income by Age of Householder, 2017

Householder Age	Downtown		Elm Area		City of Waco	
	Median	Average	Median	Average	Median	Average
15-24	\$15,000	\$22,532	\$16,551	\$19,643	\$14,937	\$24,944
25-54	\$28,549	\$45,117	\$22,703	\$26,475	\$43,821	\$62,193
55+	\$19,720	\$31,492	\$18,235	\$22,580	\$37,656	\$59,434

Source: ESRI Business Analyst; Economic & Planning Systems

The distribution of householders by household income shows that half of householders under 25 earn less than \$15,000 annually, which indicates these are mostly students. The middle age householders (age 25 to 54) account for the majority of householders earning over \$35,000 annually, as show in **Figure 6**. Older householders (over 55) are predominately lower income with 72 percent of households earning less than \$35,000 annually.

Figure 6
Householders by Age of Householder and Income, 2017



Source: ESRI Business Analyst; Economic & Planning Systems

Employment Trends

Employment growth in the region has picked up in recent years. Annual growth rate in McLennan County grew from 0.7 percent from 2002 to 2010 to 1.7 percent from 2010 to 2015. The City of Waco and the Study Area are consistent with this trend, with growth occurring primarily between 2010 and 2015. The Study Area experienced higher rates of growth than both the city and county, with an annual growth rate of 2.2 percent and an increase in employment by 1,289 jobs from 2010 to 2015.

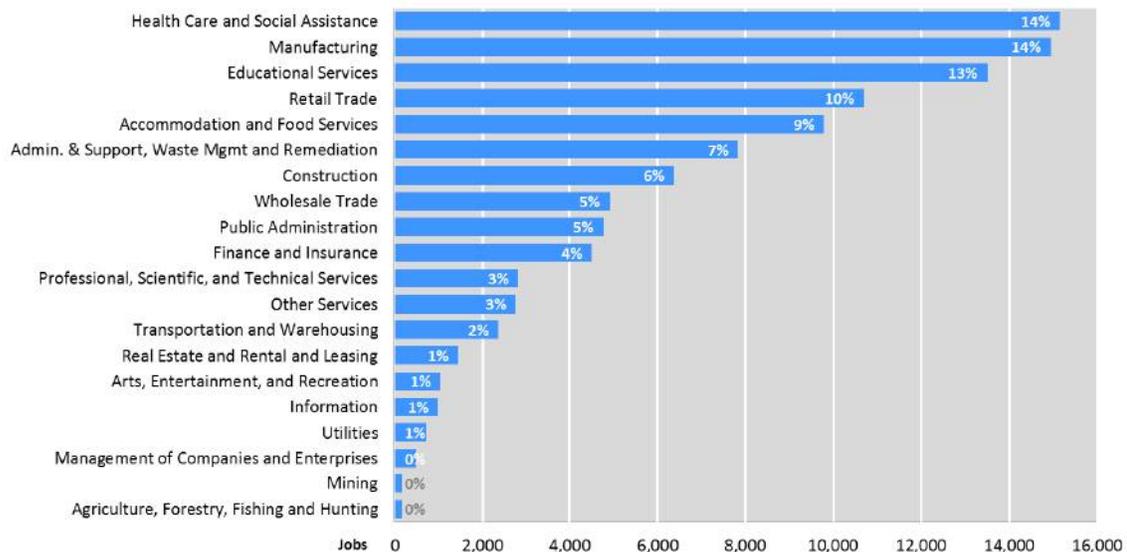
Table 4
Employment Growth, 2002-2015

Area	2002	2010	2015	2002-2010			2010-2015		
				Total	Ann. #	Ann. %	Total	Ann. #	Ann. %
Study Area	10,968	11,361	12,650	393	49	0.4%	1,289	258	2.2%
City of Waco	70,163	71,717	74,829	1,554	194	0.3%	3,112	622	0.9%
McLennan County	92,086	97,063	105,395	4,977	622	0.7%	8,332	1,666	1.7%

Source: LEHD; Economic & Planning Systems

The largest industries in McLennan County in 2015 were health care and social assistance, manufacturing, and educational services. These three industries make up 41 percent of all employment in the county, as shown in **Figure 7**.

Figure 7
McLennan County Employment, 2015



Source: LEHD; Economic & Planning Systems

The Study Area accounts for approximately 12 percent of employment in McLennan County (**Table 5**). The largest employment sectors in Downtown include education, public administration, health care, accommodations and food service, and finance and insurance. Together these five industries account for over 80 percent of employment in the Study Area. Of the 10 largest employers in Waco, four of them are based Downtown including Waco Independent School District, the City of Waco, McLennan County offices, and portions of Baylor University. Non-public or institutional employment industries with high concentrations include finance and insurance, accommodations and food service, information, and professional services.

Table 5
Study Area Employment, 2015

Sector	Study Area	McLennan County	Study Area Share
Educational Services	3,132	13,498	23.2%
Public Administration	3,073	4,769	64.4%
Health Care and Social Assistance	2,132	15,149	14.1%
Accommodation and Food Services	1,364	9,778	13.9%
Finance and Insurance	566	4,509	12.6%
Wholesale Trade	383	4,915	7.8%
Professional, Scientific, and Technical Services	377	2,807	13.4%
Admin. & Support, Waste Mgmt and Remediation	241	7,834	3.1%
Information	236	984	24.0%
Retail Trade	196	10,701	1.8%
Transportation and Warehousing	183	2,360	7.8%
Utilities	165	720	22.9%
Manufacturing	156	14,939	1.0%
Arts, Entertainment, and Recreation	142	1,038	13.7%
Other Services, except Public Administration	118	2,761	4.3%
Construction	106	6,372	1.7%
Real Estate and Rental and Leasing	77	1,438	5.4%
Management of Companies and Enterprises	3	482	0.6%
Agriculture, Forestry, Fishing and Hunting	0	170	0.0%
Mining	0	171	0.0%
Total Employment	12,650	105,395	12.0%

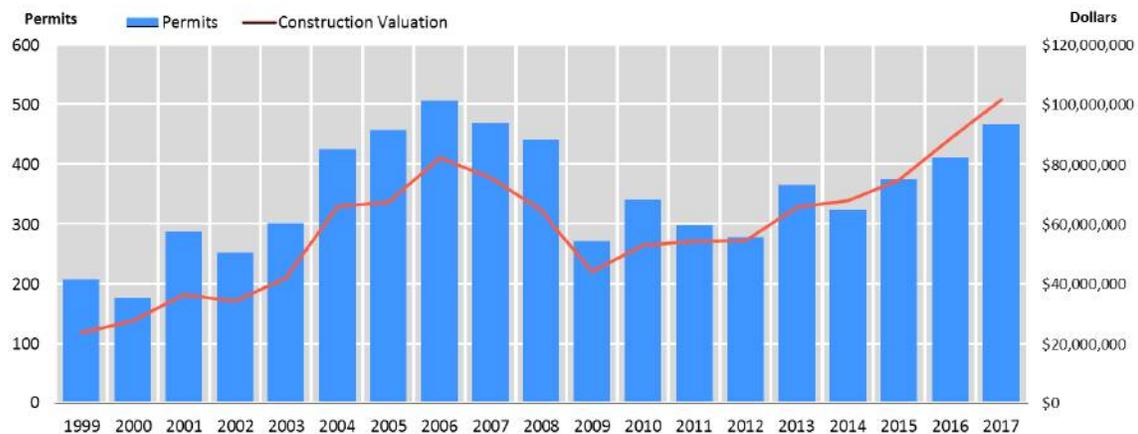
Source: LEHD, Economic & Planning Systems

Recent Development Trends

Residential Construction

Single family housing development throughout Waco generally follows national trends, reaching maximum production between 2004 and 2008 with over 400 residential permits annually. (Note: permit does not equal a housing unit.) During the Great Recession, permit activity dropped significantly but still maintained an annual average of over 250 permits per year from 2009 to 2012, as shown in **Figure 8**. Development activity picked up again in 2013 and permits exceed 400 permits per year in 2016 and 2017 and are approaching pre-recession levels.

Figure 8
Single Family Residential Permit Trends, 1999-2017



Source: City of Waco; Economic & Planning Systems

Since the Great Recession, housing construction has steadily increased to pre-recession production in 2017. In the past five years (according to data from the City of Waco), 58 percent of new units were multifamily. Historic averages from 2000 to 2016—according to U.S. Census building permit data (C-40)—indicate an overall average of around 40 percent of units being in multifamily developments.

Table 6
Waco Residential Building Permit History, 2000-2016

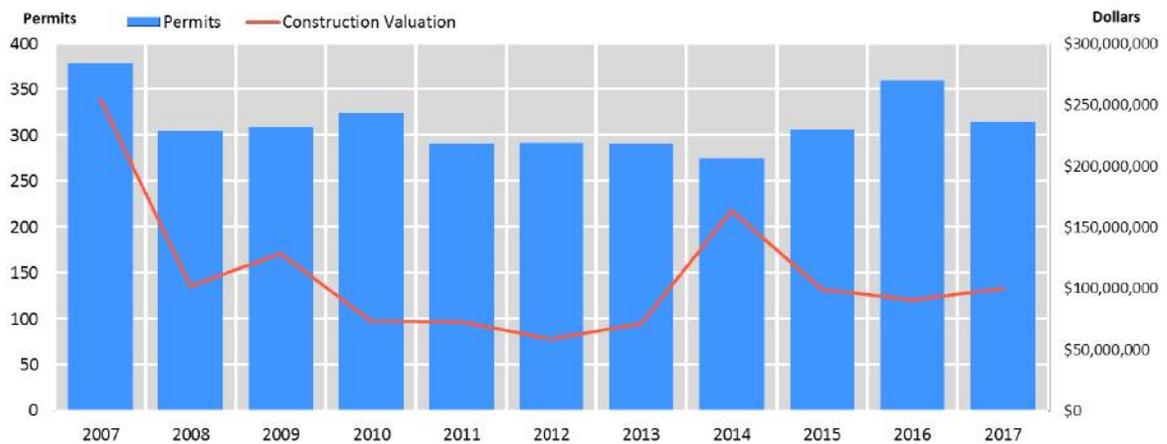
Description	2000-2016		%
	Total	Average	
Building Count			
Single Family	6,355	374	88.6%
Duplex	463	27	6.5%
3-4 Units	90	5	1.3%
5+ Units	<u>261</u>	<u>15</u>	<u>3.6%</u>
Total	7,169	422	100.0%
Units			
Single Family	6,355	374	50.8%
Duplex	926	54	7.4%
3-4 Units	350	21	2.8%
5+ Units	<u>4,880</u>	<u>287</u>	<u>39.0%</u>
Total	12,511	736	100.0%

Source: C40; Economic & Planning Systems

Commercial

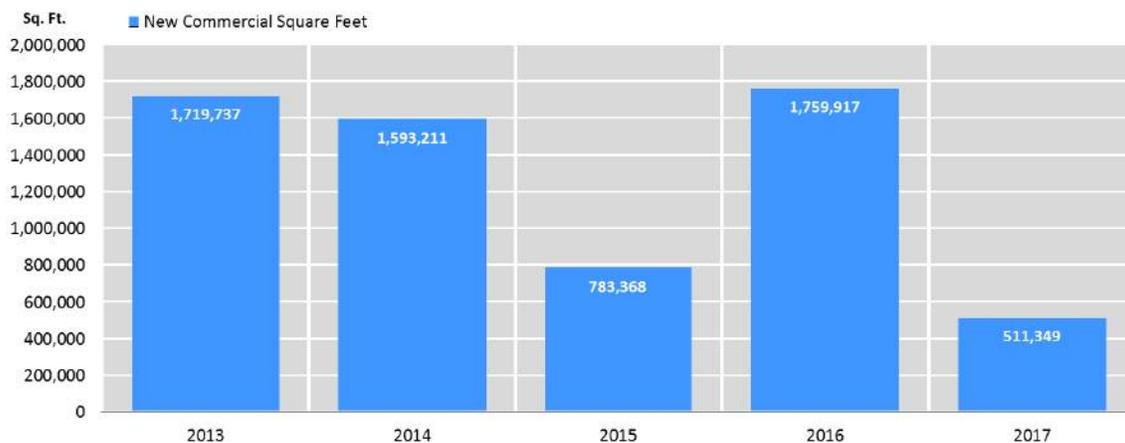
The amount of commercial permit activity in the City of Waco over the past decade has remained relatively consistent with over 250 permits annually. Permitted construction value decreased from a high in 2007 and remained relatively flat from 2008 to 2013, as shown in **Figure 9**. Over the past five years, commercial development in Waco has been stronger and the City has averaged over 1.5 million square feet in new commercial space permitted, as shown in **Figure 10**.

Figure 9
Commercial Permit Trends, 2007-2017



Source: City of Waco; Economic & Planning Systems

Figure 10
Commercial Deliveries in Square Feet, 2013-2017



Source: City of Waco; Economic & Planning Systems

Regional Forecasts

The City of Waco commissioned the Perryman Group, an economic and financial analysis firm, to perform an Impact Analysis of Waco’s projected growth until 2040 in order to better manage and support future infrastructure growth in the City. These forecasts provide an estimate for new population and employment in the Waco MSA through 2040. The MSA is estimated to grow by approximately 60,000 residents from 2020 to 2040, which is an annual rate of 0.85 percent. This rate of growth matches with historic trends. The estimated demand for new households in the MSA is 21,818 from 2020 to 2040 assuming household growth matches population growth, as shown in **Table 7**. The City of Waco has captured approximately half of the household growth since 2000 and 56 percent of household growth in the MSA since 2010. If this capture continues, the City of Waco is expected to grow by approximately 11,000 households from 2020 to 2040.

Table 7
Waco MSA Population and Household Forecast, 2016-2040

Description	2016	Projected			2020-2040		
		2020	2030	2040	Total	Ann. #	Ann. %
Population	263,833	272,762	295,841	322,960	59,127	2,464	0.85%
Households	97,355	100,650	109,166	119,173	21,818	909	0.85%

Source: The Perryman Group; Economic & Planning Systems

The Perryman Group also developed estimated change in employment by industry with associated annual growth rates. The growth rates were applied to the 2016 employment totals for each industry to estimate new employment growth. The Waco MSA is estimated to grow by 50,000 jobs from 2016 to 2040, which would be an annual rate of 1.48 percent. This rate of employment growth is higher than the forecast for population and likely would result in higher population growth if achieved.

Table 8
Waco MSA Employment Forecasts, 2016-2040

Description	Projected		2016-2040		
	2016	2040	Total	Ann. #	Ann. %
Natural Resources, Mining, & Const.	7,300	9,626	2,326	97	1.16%
Total Manufacturing	16,400	20,334	3,934	164	0.90%
Trade	17,100	23,536	6,436	268	1.34%
Transportation, Warehousing, & Utilities	3,400	4,256	856	36	0.94%
Information	1,100	1,154	54	2	0.20%
Finance, Insurance, & Real Estate	6,800	8,593	1,793	75	0.98%
Services	47,500	78,035	30,535	1,272	2.09%
Government	19,200	23,357	4,157	173	0.82%
Total	118,800	169,024	50,224	2,093	1.48%

Source: BLS; The Perryman Group; Economic & Planning Systems

3. HOUSING DEVELOPMENT

This chapter of the report evaluates housing development opportunities for Downtown Waco. It begins with a summary of national economic and demographic trends and the demand for housing products to meet these changes. Recent housing development trends in Downtown Waco are then profiled along with a forecast of housing demand for the next 10 years.

National Housing and Demographic Trends

The U.S. housing market is changing, due in part to broad demographic shifts as well as the lingering aftereffects of the Great Recession. The Baby Boom and Millennial generations are the two largest demographic segments with the greatest impacts on housing demand.

Housing Mix – Since the end of the recession, there has been an increase in demand for multifamily housing, primarily apartments. The percentage of households that own their own home has declined from 68.5 percent in 2006 to 63.6 percent in 2017. This is partially due to households experiencing a loss of net worth due to lost income and unemployment, the crash in housing prices, and high household debt. It is however also due to Millennials deferring or postponing buying their own home for other reasons including employment mobility and lifestyle.

Housing Location – The Baby Boomer and Millennial generations are also showing preferences for walkable locations, close to shopping and services and social activities and networks. These two groups account for about 41 percent of the U.S. population (39 percent in Waco weighted towards student age population). Even if only a small percentage of these people migrate towards different housing types or neighborhood types, it has a large impact on the housing market.

Multifamily Housing Product – The demand for more urban housing products is not exclusively price driven. Millennials and Boomers and others seeking urban housing are willing to pay a higher premium for location, quality, and amenities. The luxury segment of the apartment market has been the fastest growing product nationally.

Single Family Housing Product – With respect to single family housing, at least two national housing surveys indicate a likely shift in demand toward denser single household detached housing types, such as townhomes and row and a shift away from lower density and single use single household home neighborhoods. The Baby Boom generation shares many of the same preferences for housing as the Millennials—modest cost, low maintenance, and close to shopping and services and social activities and networks.

Local Conditions and Trends

Housing Occupation and Tenure

The Study Area has a relatively higher percentage of vacant housing units, as 12.8 percent of units are considered vacant. The vacant units are a mixture of unoccupied homes and units for sale or rent. There also may be a portion of units considered vacant that may actually be vacant lots where homes have been demolished due to poor conditions or for redevelopment. The percentage of vacant units is higher in the Elm Avenue area.

Table 9
Occupied and Vacant Housing, 2017

Description	Study Area		Elm Avenue Area		Downtown		City of Waco	
	Count	Share	Count	Share	Count	Share	Count	Share
Occupied	1,531	87.2%	278	79.9%	1,253	89.1%	49,450	90.9%
Vacant	<u>224</u>	<u>12.8%</u>	<u>70</u>	<u>20.1%</u>	<u>154</u>	<u>10.9%</u>	<u>4,936</u>	<u>9.1%</u>
Total	1,755	100.0%	348	100.0%	1,407	100.0%	54,386	100.0%

Source: ESRI; Economic & Planning Systems

Downtown and Elm Avenue area have different housing characteristics. In Downtown, 88 percent of units are renter-occupied compared to 39 percent in the Elm Avenue area and 56 percent in the City of Waco. Elm Avenue area has a relatively high inventory of owner-occupied units at around 61 percent, 15 percent higher than the citywide share.

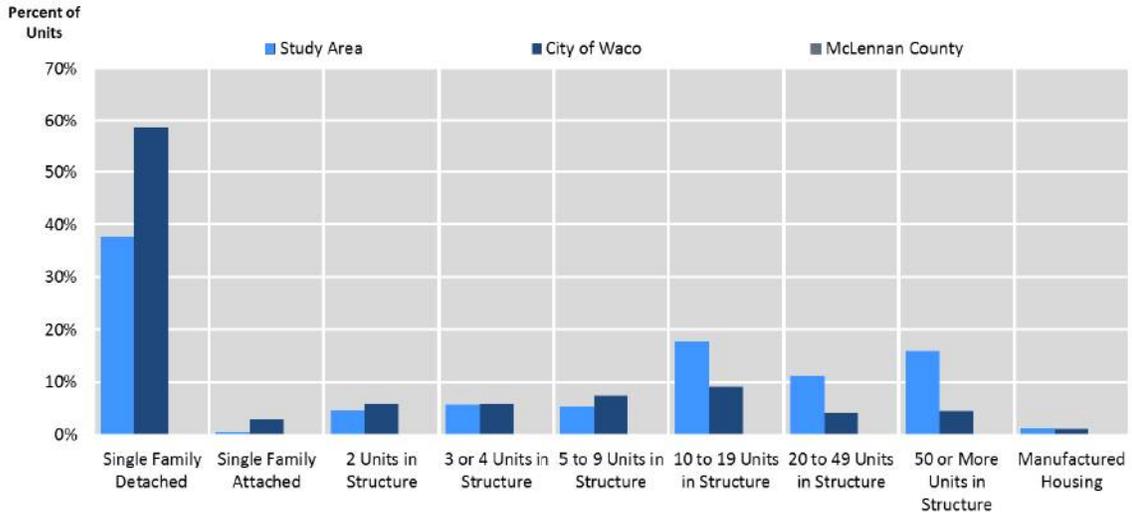
Table 10
Occupied Housing Tenure, 2017

Description	Study Area		Elm Avenue Area		Downtown		City of Waco	
	Count	Share	Count	Share	Count	Share	Count	Share
Owner-Occupied	324	21.2%	169	60.8%	155	12.4%	21,764	44.0%
Renter-Occupied	<u>1,207</u>	<u>78.8%</u>	<u>109</u>	<u>39.2%</u>	<u>1,098</u>	<u>87.6%</u>	<u>27,686</u>	<u>56.0%</u>
Total	1,531	100.0%	278	100.0%	1,253	100.0%	49,450	100.0%

Source: ESRI; Economic & Planning Systems

The Study Area has a relatively even split between single family homes and multifamily units. Thirty eight percent of houses in the Study Area are single family detached homes, which is lower than City of Waco at 60 percent of units being single family detached.

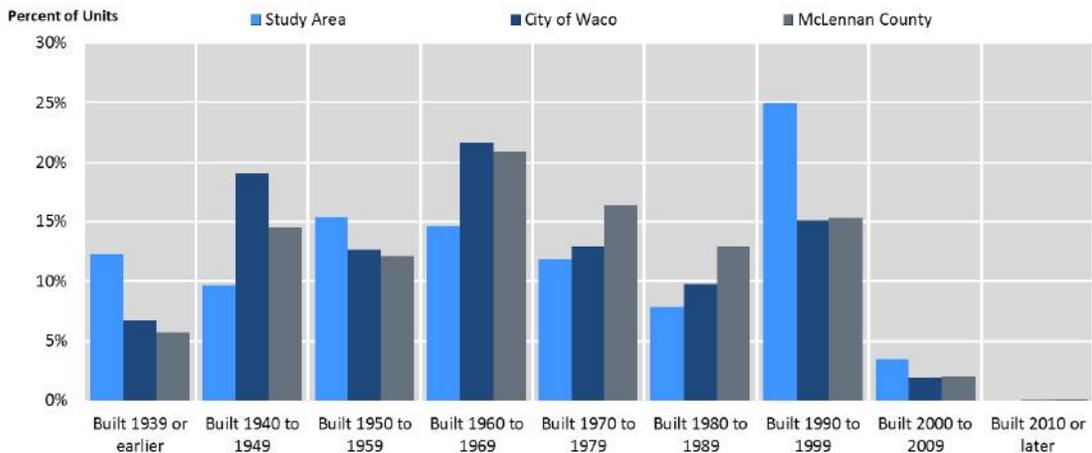
Figure 11
Housing Type, 2015



Source: ESRI, Economic & Planning Systems

The Study Area has a greater share of housing units built before 1940 than the City, as shown in **Figure 12**. The decade with the largest amount of new housing units built in the Study Area was the 1990's when a quarter of units were constructed. The ESRI data gathered for this project includes estimates for housing units built by decade based on U.S. Census data. The data does not appear to capture new development in the Study Area or City of Waco. To capture development trends for the City and in the Study Area, EPS utilized City of Waco building permit data, TIF applications, and primary research.

Figure 12
Housing Units by Year Built



Source: ESRI, Economic & Planning Systems

Housing Development Trends

The housing development trends over the past 10 years were analyzed for the Study Area. The majority of new units have been built in Downtown, with only a handful of single family homes built in the Elm Avenue area, as shown in **Figure 13**. According to data from the TIF District, there have been 743 units built in the Study Area since 2008, as shown in **Table 11**. The 743 units account for 10 percent of units built in the City of Waco since 2008, which capture has increased to approximately 15 percent over the past five years.

Majority of new units in the Study Area—672—are rental units. Sixty percent of units have been built in the past five years, with an average of over 80 new units per year. There have been over 70 for-sale units built since 2008. The for-sale projects have been smaller for-sale condo and townhome projects, which have typically been smaller projects and often within renovated or redeveloped buildings.

Figure 13
Downtown Housing Development, 2008-2018

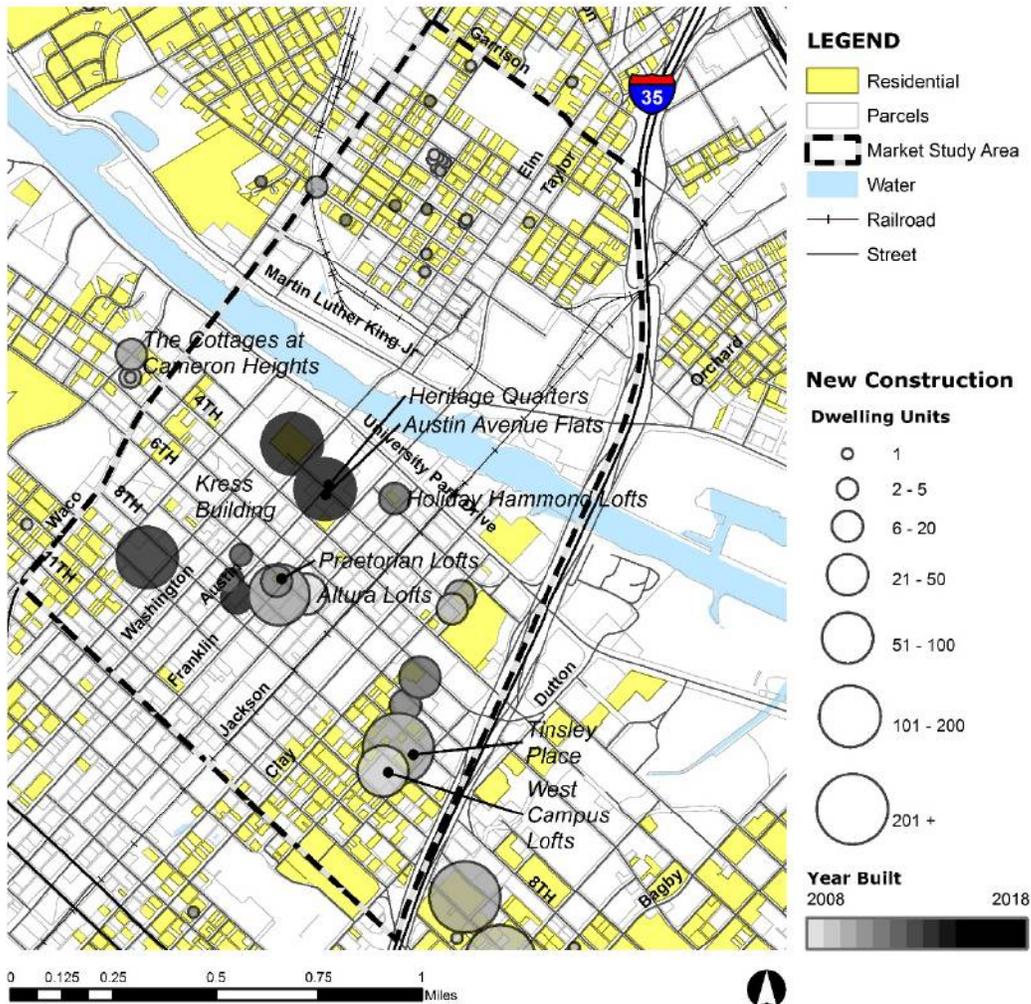


Table 11
Downtown Residential Development, 2008-present

Residential Development	Address	Year Built/ Renovated	Construction Type [1]	Units
For Sale				
Altura Lofts	216 S. Sixth	2016-2018	RR	25
The Cottages at Cameron Heights	401 Bosque	2015	NC	19
The Edison	711 Austin	2011	RR	4
Louis Shoe Building	721 Austin	2010	RR	4
Avenue Lofts	705-707 Austin	2008	NC	<u>3</u>
Total				55
For Rent				
West Campus Lofts	805 S Eighth	2017	NC	68
Franklin Place Phase 1	600 Franklin	2015	NC	63
Cameron Heights	401 Bosque	2015	NC	50
714 Lofts	714 Austin	2013	RR	8
Praetorian Lofts	601 Franklin	2013	RR	20
Tinsley Place	715 Cleveland	2013	NC	200
Kress Building	609 Austin	2011	RR	4
Austin Avenue Flats	330 Austin	2009	NC	49
Historic Lofts at Waco High	815 Columbus	2009	RR	104
Heritage Quarters	215 Washington	2008	NC	<u>106</u>
Total				672

[1] Construction types include New Construction (NC) and Rehab/Renovation (RR)

Source: Economic & Planning Systems

Housing Market Conditions

Rental rates have risen steadily since 2000. The Downtown Study Area rental rates have been growing at rates of 3.3 percent annually compared to the city at 1.8 percent. The average rent in Waco is \$786 (\$0.87 per sq. ft.) and the average rent Downtown is \$900 (\$1 per sq. ft.), as shown in **Table 12**. The average vacancy rate for all units is listed as 11.6 percent, which is higher than the city average, but may not reflect the market accurately.

There are seven Study Area properties tracked by CoStar that are market rate (not income restricted) and not exclusively student oriented. The average rental rate for these properties has been between \$950 and \$1,000 per month over the past year, with an average lease rate per square foot of \$1.12. The vacancy rate for these projects is 3.6 percent (2nd quarter 2018). The newer and larger Downtown rental projects (e.g. Tinsley Place, Franklin Place, Austin Avenue Flats) have even higher rents—ranging from \$1,000 to \$1,500 per month (or \$1.20 to \$1.50 per square foot)—that average \$1,200 per month.

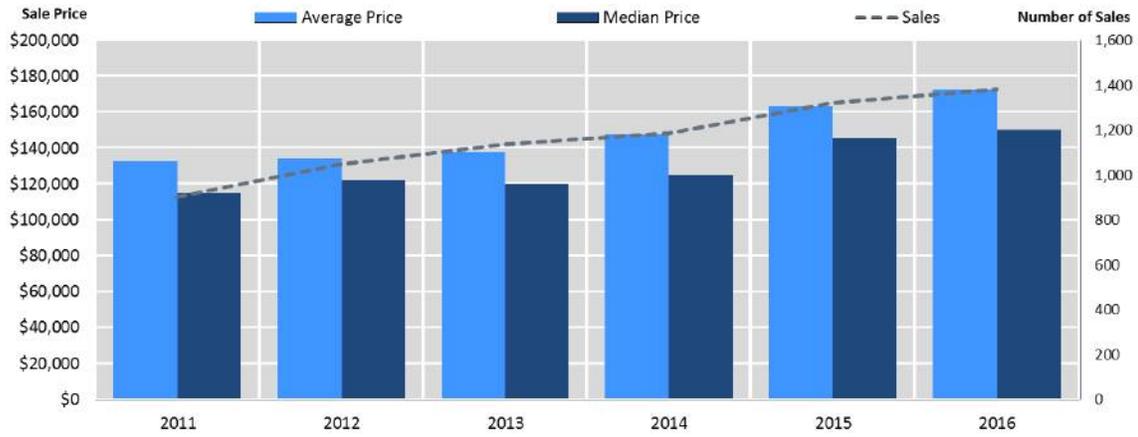
Table 12
Waco Average Rental Rates, 2000-2017

Description	2000	2010	2017	2000-2017		
				Total	Ann. #	Ann. %
Study Area						
Vacancy Rate	3.9%	5.6%	11.6%	7.7%	0.5%	6.6%
Monthly Rent	\$520	\$750	\$900	\$380	\$22	3.3%
Monthly Rent (per sq. ft.)	\$0.56	\$0.79	\$1.00	\$0.44	\$0.03	3.5%
City of Waco						
Vacancy Rate	5.3%	9.4%	9.6%	4.3%	0.3%	3.6%
Monthly Rent	\$577	\$674	\$786	\$209	\$12	1.8%
Monthly Rent (per sq. ft.)	\$0.75	\$0.79	\$0.87	\$0.12	\$0.01	0.9%

Source: CoStar; Economic & Planning Systems

The average home price and the number of homes sales have grown in the City of Waco over the past five years. The average home sale price in Waco is approximately \$170,000, up from \$130,000 since 2011. The majority of home sales in Waco have averaged between \$130,000 and \$200,000. Average prices for condos in Downtown have varied in price point. Condo/lofts in second and third stories of rehabilitated buildings have sold in the \$150,000 to \$200,000 range. Luxury condos in Downtown, such as the Altura Lofts, have been achieving prices above \$250,000; however this is a niche market targeted at Baylor-oriented out of town buyers.

Figure 14
City of Waco Housing Sales, 2011-2016



Source: Texas A&M University; Economic & Planning Systems

Figure 15
City of Waco Housing Sales Distribution, 2016



Source: Texas A&M University; Economic & Planning Systems

Planned Development

There are a number of planned housing developments in Downtown. Three proposed projects are provided below but do not represent all proposed projects these three projects have over 800 units proposed, which is more units than have been built in the past 10 years. The scale of the projects has increased versus other recent projects. These projects propose structured parking garages and, in the case of the Brazos Promenade and Commons projects, more units in the projects.

Proposed Downtown Housing Developments



Brazos Promenade

Located at Brazos Riverfront

Developer: Catalyst Urban Development

Cost: \$94 million

TIF Funding: \$12.2 million

Program:

- 265 multifamily units
- 44 live-work units
- 110 key hotel, 12,000 sf conference space, retail, and restaurant



Brazos Commons

Located at the Riverfront, adjacent to Brazos Promenade

Developer: Brazos Commons LLC

Cost: \$129 million

TIF funding: \$7.9 million

Program:

- 400 dwelling units
- 30,000 sf retail space
- 160 key hotel



Franklin Place Phase 2

Located at 600 Franklin

Cost: \$13.5 million

TIF Funding: \$750,000

Phase 2:

- 96 dwelling units

Student Housing Market

The student housing market driven by Baylor University has had a significant impact on housing in the Downtown area. Enrollment at Baylor has increased by over 2,000 students since 2010. The total enrollment is nearly 17,000 students, as shown in **Table 13**. Going forward, the university has a current policy to limit enrollment to current levels.

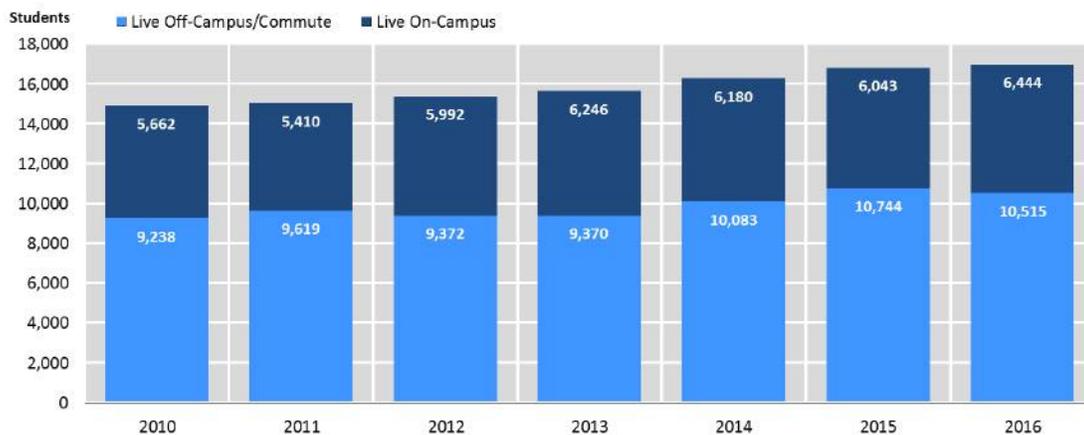
Table 13
Baylor University Enrollment, 2010-2016

Status	2010	2011	2012	2013	2014	2015	2016	2010-2016		
								Total	Ann. #	Ann. %
Undergraduate	12,438	12,575	12,918	13,292	13,859	14,189	14,348	1,910	318	2.4%
Graduate	1,426	1,440	1,470	1,404	1,456	1,629	1,724	298	50	3.2%
Seminary	369	356	344	322	344	361	336	-33	-6	-1.5%
Law/Military	<u>667</u>	<u>658</u>	<u>632</u>	<u>598</u>	<u>604</u>	<u>608</u>	<u>551</u>	<u>-116</u>	<u>-19</u>	<u>-3.1%</u>
Total Enrollment	14,900	15,029	15,364	15,616	16,263	16,787	16,959	2,059	343	2.2%

Source: Baylor University; Economic & Planning Systems

The university estimates 10,515 students live off-campus, as shown in **Figure 16**, which equates to 62 percent of students. The percentage has remained relatively consistent since 2010.

Figure 16
Baylor University Enrollment, 2010-2016



Source: Baylor University; Economic & Planning Systems

Baylor growth and the number of off-campus students have driven interest in student housing development. There have been a number of new student housing projects built in Waco in recent years, including five projects profiled below. The student housing developments are more profitable than the market rate units in the Study Area. Student oriented units average asking rents of \$650 to \$800 per bedroom, depending on the number of bedrooms in the unit. These projects have been able to achieve higher than average rents per square foot (\$1.40 to \$1.80 per square foot) than the market rate projects due to the leasing structures (individual leases by bedroom) and student orientation.

Private Student Housing Developments



URSA

Located at S. University Parks Drive and I-77

- Year Built: 2016
- Units: 250
- Unit Type: 2 or 4 BR

Offering a wide array of amenities from a club house to an on-site pet park, Ursa is geared toward students. Rents range from \$1,530 to \$2,540 per unit and \$635 to \$774 per person. Individual leasing is offered.



The View on 10th

Located at the corner of S. 10th and Speight

- Year Built: 2016
- Units: 257 DU; 718 BR
- Unit Type: 1 to 4 BR

Reserved parking, package receiving and complimentary Starbucks Coffee is highly advertised at this newly constructed student housing complex. Rents range from \$620 to \$999 per bedroom and individual leasing is offered.



OPUS 2430

Located at the corner of Gurley Ln and S. 2nd

- Year Built: 2017
- Units: 151 BR
- Unit Type: 3, 4, or 5 BR

This gated community of townhouse style units is fully-furnished and features a pool, club room, and workout facility. Rents range from \$630 to \$730 per bedroom.



U-Pointe on Speight

Located at Speight and S. 11th

- Year Built: 2017
- Units: 178 DU; 702 BR
- Unit Type: 1 to 5 BR

This student oriented complex is fully furnished, offers individual leasing, and all utilities. Rents range from \$499 to \$1,199 per bedroom. U-Pointe is marketed to provide an academic, healthy, and sociable environment close to the university.



West Campus Lofts

Located at 805 S 8th

- Year Built: 2017
- Units: 68 DU; 180 BR
- Unit Type: 1 to 4 BR

This two-phase student housing project received TIF funding for public improvements of \$465,000. Rich in amenities and privacy, these units are geared toward students.

Conclusions

The demand for housing in the Study Area has been growing. The Study Area captured 15 percent of citywide housing growth in the past 10 years. Proposed projects account for over 800 units, which would account for 10 years of housing development based on recent growth. The rate of capture in the Study Area is likely to increase from 15 percent to 20 percent over the next decade. This equates to demand for an estimated 1,500 units in the Study Area over next 15 years or an average of 100 units per year, which would be an achievable increase from the capture experienced since 2010.

The mix of housing over the last 10 years has been over 90 percent rental housing including a healthy portion of student-oriented developments. Going forward, the housing market can be expected to have less student-oriented housing as this market is believed to be saturated and the Baylor student population is forecast to stay at current levels for the near future. The amount of ownership housing can expect to grow from its current level of 10 percent of the units to an estimated 20 percent.

The cost of development in urban settings is still higher than greenfield areas. The continued use of TIF funds to support housing developments to address public costs is needed to maintain the market momentum.

4. OFFICE DEVELOPMENT

This chapter of the report evaluates the market for office and employment uses in Downtown Waco. This includes a summary of national trends affecting the office market; a review of existing office conditions and utilization; and an assessment of future development opportunities.

Downtown Waco was historically a significant office location including city and county government functions, as well as two major national insurance companies, Alico and National Lloyd's. And although not a large employment sector in a small city, a large percentage of legal, financial and professional and technical services were also originally located Downtown. This changed in the 1980s when National Lloyd's and many of the city's banks moved to new suburban office buildings along Valley Mills Drive, followed by a portion of the professional service firms attracted to newer, bank anchored buildings. The Downtown area has not seen any significant new development over the last 30 or more years. However, there are a number of trends that portend opportunities for new development in the near future as outlined below.

National Market Trends

There are numerous trends, workforce, and demographic factors affecting the national office market. This section discusses the five major trends with the most potential to influence the local market in Waco.

Location Preferences - Nationally, a significant number of companies are leaving suburban office parks or corporate campuses to move to more mixed use, centrally located, and often transit-accessible locations including downtowns. Much of this trend relates to the housing and neighborhood preferences of Generation X and Millennial-aged workers who wish to have more access to amenities near work such as shopping, services, and dining. This mix of land uses allows workers to combine errand and work trips to save time. It also provides a more interesting and pleasant environment—especially for people who wish to spend less time in their cars. Some firms also see value in being close (walking, bicycling, or a short car or transit trip) to customers and other business partners as it allows for convenient frequent contact as well as spontaneous interactions on the street or in restaurants or coffee shops.

Office Space Utilization - Businesses are leasing less office space per person than in past years. Technology has reduced the need for paper records storage space, and new workplace designs are more efficient with open floor plans and shared spaces more common. In these settings, workers are freer to move around an office with a laptop and mobile phone. The National Association for Industrial and Office Parks (NAIOP) reported in 2015 that the average office lease size had dropped by approximately 10 percent from 2004 through 2014. Some of the trend in



efficiency (more workers per square foot of building area) is driven by cost. Fast growing industries like technology are not necessarily cutting space requirements as they desire spacious and luxurious offices to attract the highest skilled talent. Slower growth industries such as law and accounting are reducing their space requirements to cut costs.

Co-working Space - is a new type of office space in which tenants rent desk(s) space in a space shared with other workers and firms. They are popular with small new firms, which can be in any field including professional services, creative industries, and technology. Tenants have access to conference rooms and shared office equipment (e.g. printers). The benefits of co-working space are that they typically have lower tenant finish levels and lower cost than traditional office space and are flexible in that they provide firms a low-cost way to grow from one to a few employees. They also offer, and are marketed for, opportunities for collaboration and knowledge sharing with likeminded people and potential business partners. Some also offer events including networking, speakers, and skill development workshops. Co-working space is popular with entrepreneurs and remote workers. It is becoming more common in major and mid-sized cities but is still a small portion of the total office market.

Innovation Districts –Innovation Districts can be defined as economic development tools that utilize partnerships with higher education institutions, businesses, and government to fuel job growth and redevelopment in targeted locations. Innovation districts are based on the premise that collaboration and productivity result from proximity; therefore, job creation and innovation can be fostered through the intentional clustering of businesses, institutions, ideas, and people.

One model for innovation districts is to anchor the district at a major research institution. These are typically in downtown or mid-town settings. Examples include the Kendall Square/MID cluster in Cambridge; the University City/University of Pennsylvania cluster in Philadelphia; and the Cortex Innovation Community anchored by Washington University and Saint Louis University in Saint Louis.

Urban Reuse – Highly correlated with the above trends is a rise in the reuse of older warehouse and industrial buildings for office, residential and mixed-use developments. These existing historic warehouse buildings are commonly found on the edges of the downtown and within railroad corridors and are especially conducive to open floorplate and co-working office formats.



Office Space Definitions

The Building Owners and Managers Association (BOMA) classifies office space in one of three categories: Class A, Class B, or Class C. These classes vary by market and represent a subjective quality rating of buildings in comparison to others. A combination of factors including rent, building finishes, system standards and efficiency, building amenities, location/accessibility and market perception are used as relative measures.

Class A – This category includes the most prestigious buildings with high quality building materials, state of the art systems, exceptional accessibility and a definite market presence. As a result, they attract the highest quality tenants and command the highest rents.

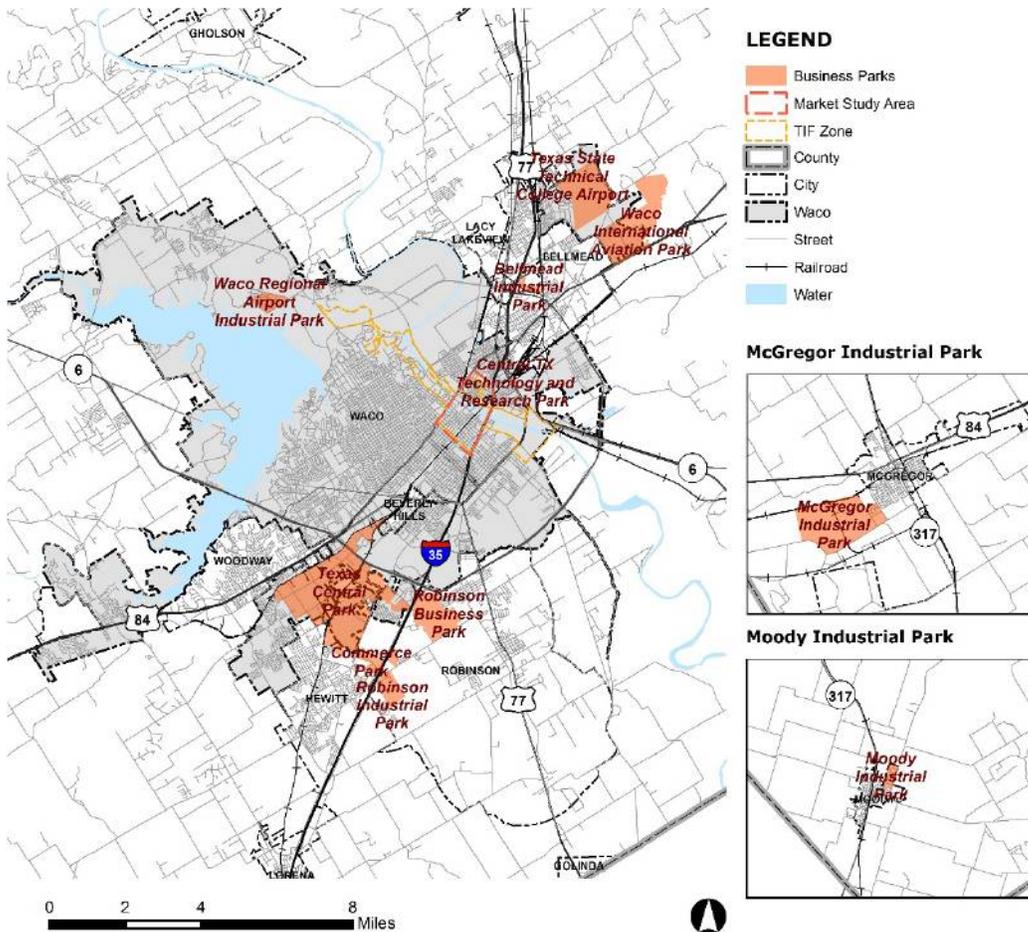
Class B – These buildings are generally older but still have good quality tenants and management with rents in the average range for the area and fair to good building finishes.

Class C – These are older buildings in less desirable areas and in often in need of renovation. They compete for tenants requiring functional space at rents below the average for the area.

Conditions and Trends

The office market in the greater Waco area is largely suburban oriented, with the majority of large employment parks located on the edges of the community, as shown in **Figure 17**. The major office and industrial parks are located either on the northern edge of the city or southern edges near I-35. The major business parks, which predominately contain industrial and flex buildings (as opposed to traditional office spaces), in the Waco area are summarized below.

Figure 17
Waco Business Parks



Competitive Business Parks

Texas Central Park

Located along I-35 near HWY 84
Business Park, Professional Park, and Campus Development

- 3,700/ 836 acres total/available
- Accessible by the Union Pacific Railroad
- Fully-developed greenfield sites available
- Major Tenants: Allergan, Coca-Cola, Alcoa, and Time Manufacturing

Waco International Aviation Park

Located on HWY 84, two miles east of I-35
Aviation and Business Park

- 1,064/ 313 acres total/available
- 200 acres designated Foreign-Trade Zone
- Major Tenants: Sanderson Farms, Dr. Pepper Bottling, and L-3 Platform Integration

Waco Regional Airport Industrial Park

Located at China Spring Rd and Flat Rock Rd
Commercial and General Aviation

- 410 acres
- Major Tenants: Blackhawk Modification, RAM Aircraft, and CenTex Aerospace

Central TX Tech and Research Park

Located at I-35 and HWY 77
Collaborative Tech. and Research Park

- 22+ acres
- Home to the Baylor Research and Innovation Collaborative (BRIC)

Bellmead Industrial Park

Located at I-35 and Research Ave
Industrial, Commercial, and Technology

- 171/101 acres total/available
- Major Tenants: Home Depot, Holiday Inn, and Texas Machine Tool International

McGregor Industrial Park

Located at HWY 84 in McGregor
Industrial, Office, and Commercial

- 9,890/ 3,934 acres total/available
- Major Tenants: Space Exploration Technologies and C3 Call Center

Commerce Park

Located at I-35 and Sun Valley Boulevard
Industrial, Commercial, and Technology

- 177/ 101 acres total/available
- Major Tenants: FedEx Ground, Brazos Mobile Imaging, and restaurants

Robinson Business Park

Located at I-35 and HWY 6
Industrial and Commercial

- 630/ 630 acres total/available
- New/Primarily commercial and light-industrial users
- Located in the City of Robinson

Young Industrial Park

Located at I-35 and Greig
Industrial and Commercial

- 59/50 acres total/available
- Major Tenants: Scholastic Distribution Center and PRuF

Moody Business & Technology Plaza

Located at HWY 317 in Moody
Industrial and Commercial

- 87/87 acres total/available
- New development

Robinson Industrial Park

Located at I-35 and Greig

- 258/95 acres total/available
- Major Tenants: Stewart/Stevenson, Kenworth, Southeastern Freight Lines

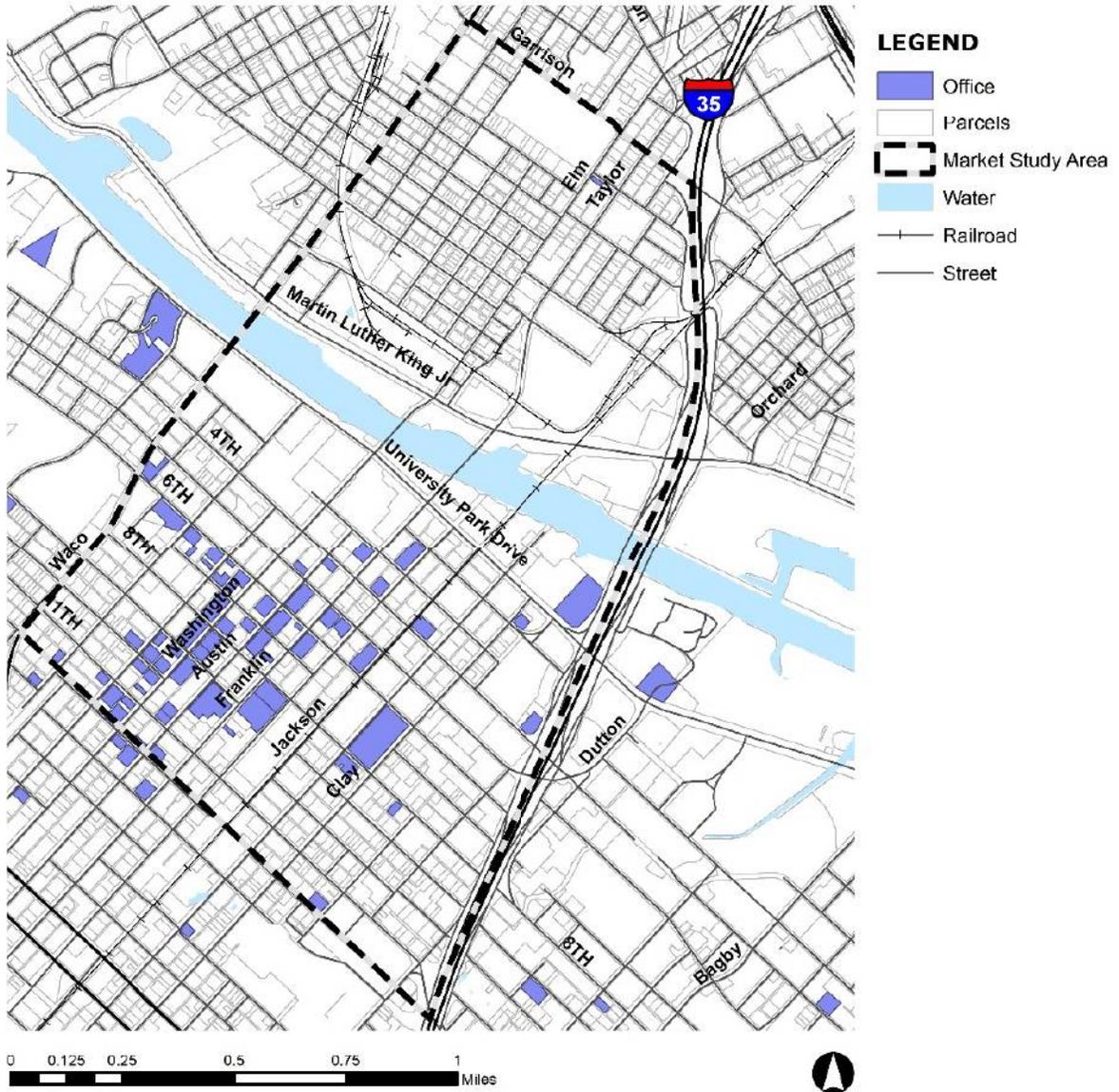
Texas State Technical College Airport

Located at I-35 and E. Crest

- 650/408 acres total/available
- Major Tenants: L3 Technologies, Servion, Trane

Office uses in the Study Area are primarily clustered along Washington Avenue, Austin Avenue and Franklin Avenue, as shown in **Figure 18**. The 1.2 million square feet of office space in the Study Area is spread over 45 buildings. The average size of space is 27,087 square feet. The average year built of office buildings is 1948.

Figure 18
Study Area Office Uses



The City of Waco has an office inventory of 4.4 million square feet, as shown in **Table 14**. The inventory grew by approximately 400,000 square feet over the past decade. The office inventory in the Study Area is 1.2 million square feet, which accounts for 28 percent of the Waco market. The Study Area inventory has not changed in the past decade. The average rental rate in the Study Area, according to CoStar, is \$18.84 per square foot (annually). The average for the City is \$13.28 per square foot. The vacancy rate for office in Downtown is 4.9 percent, which is the same as the citywide average.

Table 14
Office Summary Characteristics, 2007-2017

Description	2007	2010	2017	2007-2017		
				Total	Ann. #	Ann. %
Rentable Building Area						
Study Area	1,213,784	1,213,784	1,213,784	0	0	0.0%
City of Waco	3,952,706	4,196,744	4,354,385	401,679	40,168	1.0%
McLennan County	4,400,879	4,668,913	4,837,766	436,887	43,689	1.0%
Rent						
Study Area	\$8.00	\$8.86	\$18.84	\$10.84	\$1.08	8.9%
City of Waco	\$10.44	\$10.98	\$13.28	\$2.84	\$0.28	2.4%
McLennan County	\$10.45	\$11.49	\$13.18	\$2.73	\$0.27	2.3%
Vacancy						
Study Area	5.5%	5.1%	4.9%	-0.6%	-0.1%	-1.1%
City of Waco	3.6%	3.9%	4.9%	1.3%	0.1%	3.1%
McLennan County	3.4%	4.1%	4.9%	1.5%	0.2%	3.7%

Source: CoStar; Economic & Planning Systems

CoStar data indicates a significant increase in average lease rates within Study Area since 2007. The small sample size of spaces in the Study Area creates a high level of volatility in report data. There are only seven large office properties (over 50,000 square feet) in the Study Area, some of which are company owned buildings. There are no true Class A multi-tenant buildings in the Study Area. The Roosevelt, which was rehabilitated in 2004, offers the closest to a multi-tenant, Class A building.

There is lack of readily available, reliable data related to the office market in Waco. CoStar has an inventory of office buildings and track rents and vacancy however the data can be inaccurate and may not reflect the realities of the market. There is no local brokerage firm that reports downtown specific market data aside from data about spaces for rent. It would be beneficial if an entity can track office market data for the downtown area to be able report up to date and accurate conditions. Building on the inventory below (**Table 15**), tracking quarterly the amount of space for lease and the rental rates for the these spaces in a publically available report would help inform new entrants to the market of conditions. Focusing on buildings with a minimum amount of space, perhaps 10,000 square feet), will reduce the amount of buildings to be tracked.

Table 15
Downtown Waco CoStar Office Inventory, 2017

Address	Building/Office Name	Class	Year Built/ Renovated	RBA
811 Washington Ave	Baylor Towers	B	1955	124,000
701 Clay Ave	Veterans Affairs Regional Office	B	1997	142,524
425 Austin Ave	ALICO Building	C	1910	121,235
900 Washington Ave	Texas Life Insurance	B	1971	106,000
800 Franklin St	Waco Courthouse	B	1935	106,442
400 Austin Ave	Roosevelt	B	1927/2004	88,448
900 Austin Ave	National Lloyd's Building	B	1957	57,332
100 N 6th St	One Liberty Place	B	1924/1985	53,928
510-518 Austin Ave	Bank of America	C	-	36,673
600 Austin Ave	St. Charles Place	C	1985	33,372
601 Franklin Ave	Praetorian Building	C	1914	32,355
826 Austin Ave	Sleeper Building			27,612
217 Mary Ave	River Square Center	B	1911	24,900
823 Washington Ave	Pioneer Savings Building	B	1955	23,347
612 Austin Ave	Health & Human Services Govt Office	B	1911	21,764
724 Washington Ave	Masonic Temple	B	1913	20,190
600 Columbus Ave	Columbus Executive Center	C	1920	18,000
101 S 3rd St	Greater Waco Chamber of Commerce	B	2007	15,391
1001 Washington Ave	-	B	1959	15,092
925 Columbus Ave	Workforce Center	C	1959	13,390
501-505 S 8th St	Percy Medicine Building	C	1913	12,000
209 N 8th St	Texas Baptist Historical Collection	B	1951	11,252
1121 Ross Ave	Planned Parenthood	C	1975	10,448
524 W Waco Dr	The Dwyer Group	B	1986	10,168
800 Washington Ave	Citizens State Bank, Triangle Insurance	B	1965/2007	10,153
528 Austin Ave	Ray J Black & Associates	C	-	9,777
220 N 11th St	Habitat for Humanity	C	1941	9,500
712 Austin Ave	-	B	1918	9,284
204 N 6th St	Moody, Crow, & Darling Attorney	C	1972	8,562
913 Franklin Ave	Franklin Professional	B	2001	7,914
1023 Austin Ave	-	B	-	7,850
614 Franklin Ave	Franklin Place	C	1910	7,560
1025 Austin Ave	-	C	1935	6,900
618 Columbus Ave	-	C	-	6,627
922 Franklin Ave	NeighborWorks Waco	C	-	6,504
1000 Columbus Ave	Arm-Tex Corporation	C	1959	6,362
717 Franklin Ave	-	B	1946	5,864
617 Columbus Ave	-	B	1930	4,065
1019 Washington Ave	AM 1010 KBBW Radio	C	1956	3,254
1101 Washington Ave	-	C	1942	2,775
514 Franklin Ave	Daniel Stark Law	C	-	2,500
506 Franklin Ave	-	C	-	2,462
304 N 6th St	-	C	1985	1,938
900 Columbus Ave	-	C	-	1,384
508 Franklin Ave	-	C	-	1,250
321 S 5th St S	ACSI Environmental Consultants	B	1973	766
Total				1,248,348
Average			1950	27,155

Source: CoStar, Economic & Planning Systems

The average lease rate for the larger office buildings in the Study Area have varied between \$16.00 and \$19.00 over the past five years. The Roosevelt has been able to attract rents in \$18 to \$19 per square foot range (full service), which represents the higher end of the market. Smaller buildings/spaces and Class B and C properties have an even higher variance of rental rates but average lease rates for these properties have increased and range between \$12 and \$16 per square foot. A major factor impacting achievable rents for the Study Area properties is the availability of dedicated parking spaces. Many of the office buildings in the Study Area have a lower number of dedicated parking spaces for office spaces than desired by tenants.

EPS researched available office space within downtown to provide more accurate estimates of rental rates and vacancy. There was 90,831 square feet of space listed for lease that was identified. This amount of vacancy space equates to 7.3 percent of the office space downtown, which is slightly higher vacancy rate than quoted by CoStar but still indicates low vacancy. The average asking rental rate for the office spaces found is \$18.01 per square foot (full service), which is equivalent to the rates quoted by CoStar and also cited during interviews with active brokers in the area. The range of asking rent rates is from \$12.00 per square foot up to \$24.00 per square foot, as shown in **Table 16**.

Table 16
Downtown Office Space for Lease

Address	Building Name/Description	Total RBA (Sq Ft)	Vacant (Sq Ft)	Asking Rent Full Service (per Sq Ft)
900 Washington Ave	Texas Life Insurance	106,000	23,463	\$16.80
400 Austin Ave	Roosevelt ¹	88,448	6,425	\$18.71
510-518 Austin Ave	Bank of America	36,673	25,133	\$24.00
600 Austin Ave	St. Charles Place	33,372	6,633	\$12.00
217 Mary Ave	River Square Center	24,900	15,176	\$18.00
913 Franklin Ave	Franklin Professional	7,914	1,501	\$17.59
217 S 4th Street	Office space above proposed Bookstore	7,000	7,000	\$18.00
618 Columbus Ave	-	6,627	3,000	\$22.00
514 Franklin Ave	Daniel Stark Law	5,000	<u>2,500</u>	<u>\$15.00</u>
Total/Average			90,831	\$18.01

¹ Average rent excludes basement office space renting

Understanding the desire for new office space to attract tenants to Downtown, the City of Waco has been proactive in seeking potential projects. The City issued an RFP for development of parking lots adjacent to the City Hall and Convention Center for office uses. The selected developer, Phillip Williams, has proposed to develop office space and provide additional parking for the Downtown area. The proposed Civic Center project (described below) is planned to build up to 550,000 square feet of office space in three towers. The proposed first phase of the project is a four-story building with approximately 50,000 square feet of space. Other planned projects are summarized below. The majority of activity has been in the rehabilitation of existing buildings into more modern and attractive office spaces.

Recent and Planned Development



Proposed: Civic Center- Phase 1
Located at 4th and Washington

- Developer: Phillip Williams, Dallas
- Cost: Est. \$100 million+

Program:

- 550,000 sq. ft. Class A office
- 30,000 sq. ft. ground level commercial
- 1,200 structured parking spaces
- Park space



Pioneer Savings Building Renovation
Located at Washington Ave and 9th St

- Developer: Jed Walker of Walker Partners
- 23,347 sq. ft.
- TIF Funding: \$179,129
- Ongoing expansion and renovation
- Tenants: 75-employee engineering firm and 25-person New York Life office

Columbus Executive Center
Located at 600 Columbus

- Restoration and renovation
- 20,000 sq. ft.
- Constructed in 1920's
- Office and/or Retail
- TIF Funding: \$519,156

512 Austin Ave
Located at 512 Austin Ave

- Developer: Jim Peevey
- 30,000 sq. ft. office space
- 3-story
- Redeveloped for office/professional firms

Conclusions

Downtown Waco is becoming more attractive for new office development as both employers and employees are seeking more amenity-based locations. Downtown's renewed vibrancy is being driven by increased visitation and housing and retail development which is stimulating greater interest in working Downtown.

The larger, traditional office buildings continue to be the most attractive to tenants with lease rates averaging approximately \$19 per square foot for better properties with dedicated parking. There have also been some recent historic building renovations, many by owner users, including office space on upper floors. There is ample opportunity for larger employers to be located in downtown in build to suit buildings or in multitenant office buildings with dedicated parking for tenants considering the available vacant land. There are also a number of older office buildings and that can be renovated for higher quality space, as well as industrial buildings that can be rehabilitated as office or mixed-use developments.

A challenge for developing new office buildings is that it is difficult for a developer to pre-lease sufficient space to obtain construction financing when most of the office users have been small professional, medical, and technical service firms with an average size of less than 2,000 square feet over the last year. Many of these smaller tenants are also not willing to pay the lease rates that support new construction which are \$25 per square foot or greater.

In the short term, Waco may need to offer incentives to build new office space. These incentives could both make development more feasible and allow for more competitive rents. The city should also look at public/private partnerships with local businesses looking to move or expand and create office space with competitive rents, which overcome pre-leasing barriers.

5. RETAIL DEVELOPMENT

This chapter provides an overview of the retail market conditions in Waco and the Study Area. The chapter begins with a summary of national retail trends impacting Waco. The chapter also has a summary of recent development trends and market conditions within the Study Area and concludes with an overview of opportunities and constraints.

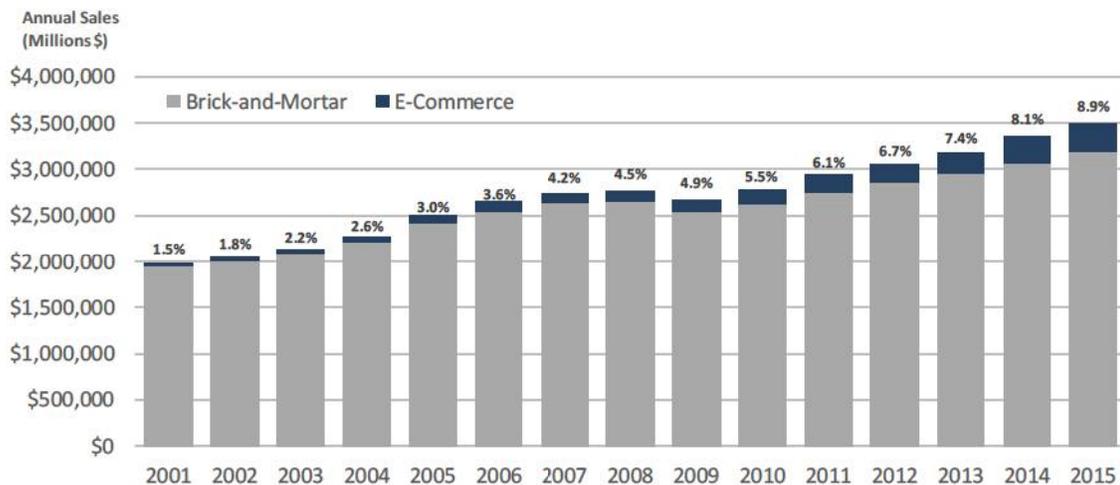
National Retail Market

The retail industry has shifted greatly since the turn of the century, impacted by the growth of internet sales, declining brick and mortar store sales, retail chain consolidations, and demographic shifts and preferences. Collectively, these trends are impacting overall demand for new retail space, as well as the type and location of supportable retail uses.

Rise of E-Commerce

Between 2001 and 2015, total online retail purchases (excluding auto related) grew from approximately \$29 billion to \$311 billion, an 18.5 percent annual growth rate. Online sales accounted for 19 percent of total retail sales growth (**Figure 19**). During the same period, brick and mortar stores grew at a 3.5 percent annual growth rate, decreasing their share of the total retail market from 99 percent to 91 percent. Despite still accounting for only 9 percent of overall spending, the growth in online shopping is impacting the demand for traditional brick and mortar stores. This also affects the way retailers are doing business, pushing them to alter store formats and incorporate online sales and marketing into their business concepts. The list of top online retailers reinforces this point as many have a significant brick and mortar presence as well. This group includes such major retailers as Walmart, Target, Home Depot, Best Buy, and Bed Bath & Beyond.

Figure 19
US E-Commerce Sales, 2001-2015



Other Retail Trends

There are a number of other national trends impacting the retail industry as a whole as well as opportunities for downtown areas as summarized below:

- **Social Media and “Showrooming”**- According to the National Retail Federation, 86 percent of American consumers occasionally research items online before buying in a store; of this, 22 percent conduct this research primarily on blogs and 32 percent primarily on Facebook. Electronics is most researched, followed by apparel, appliances, and then shoes. Many consumers will also look at or try on an item in a store and then price shop and purchase it online.
- **Spending Patterns** - Changes in spending patterns are also affecting the amount and mix of retail space. Millennials, a portion of who are highly mobile, are less likely to accumulate furniture and home furnishings and other large, high cost items. They are also more interested in experiences, emphasizing travel and entertainment over material goods. Their spending patterns are similar to the boomer generation who has already purchased much of the goods they need and are downsizing their homes and accumulated items. Boomers are also spending more of their income on travel, leisure, entertainment, and dining out.
- **Dining Out** - In 2014, spending on food for home consumption was exceeded by spending on food and alcohol outside the home for the first time. In addition, dining out spending grew by 22 percent from 2010 to 2015 compared to 14 percent for food for the home indicating that this trend is the “new normal” and not likely to change anytime soon.
- **Changing Retail Mix** - These changes in spending patterns are impacting the mix of retail space in aggregate and in downtowns in particular. The restaurant, bar, and microbrewery segment has grown rapidly and new food and beverage formats have been introduced (e.g. food halls and market halls, farm to table restaurants, and food trucks). By contrast, GAFO store growth (general merchandise, apparel, furniture, and other specialty goods) is flat or declining.
- **Store and Chain Closures** - Over the past 10 years, there have been over 80 national retail chain bankruptcies including Radio Shack, Linens & Things, Circuit City, Sports Authority, and Borders Books. In 2017, there were 5,300 store closings, including reductions by some of the largest department store chains (e.g., Macy’s, JCPenney, Sears, Kmart, and Sam’s Club). There are fewer stores in the market now, making it more difficult to find tenants for new retail developments. Vacancies are increasing nationally as large blocks of space are vacated by store brands that no longer exist.

Conditions and Trends

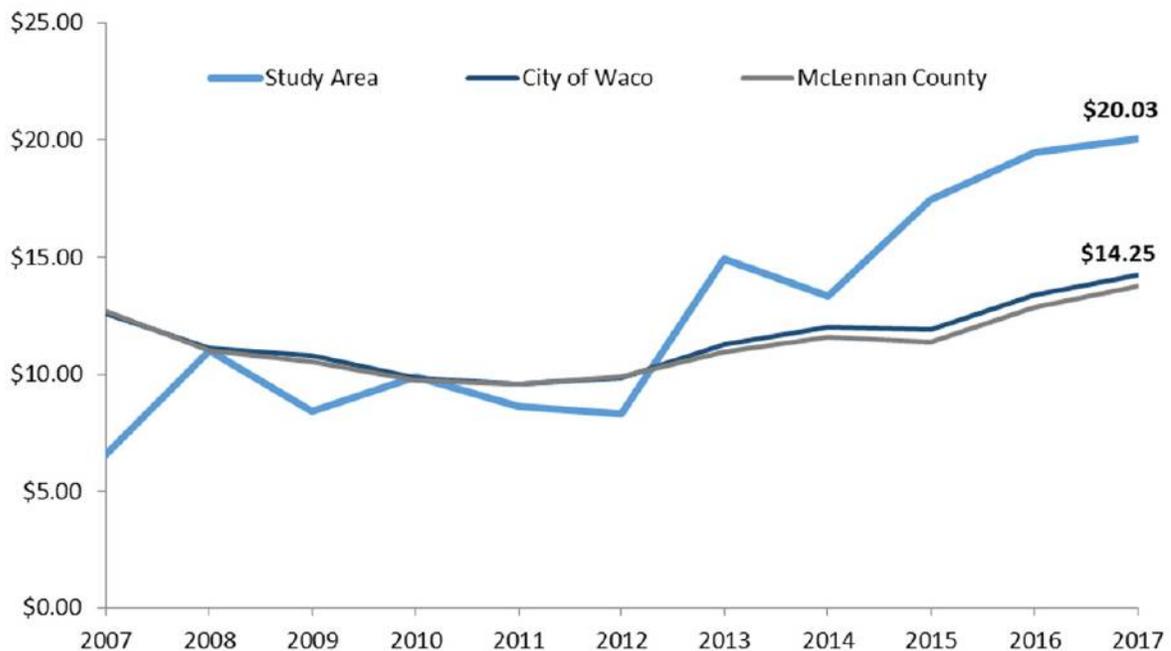
The Study Area has a total of 1.05 million square feet of retail space. The inventory has grown at the same rate as the City of Waco. The Study Area accounts for approximately 10 percent of the retail inventory in the city. The average rental rates for retail have grown significantly as the downtown areas has become more attractive and vibrant. The average rental rate is an estimated \$20.03 per square foot (NNN), as shown in **Table 17** and in **Figure 20**. This is higher than the citywide average of \$14.25 per square foot. The vacancy rate is estimated at 11.9 percent, which is higher than average due to the amount of new space that has come onto the market recently. The vacancy rate was approximately 7 percent at the end of 2016.

Table 17
Retail Summary, 2007-2017

Description	2007	2010	2017	2007-2017		
				Total	Ann. #	Ann. %
Rentable Building Area						
Study Area	1,011,791	1,011,791	1,048,933	37,142	3,714	0.4%
City of Waco	10,644,297	10,706,375	11,113,871	469,574	46,957	0.4%
McLennan County	13,266,390	13,458,382	14,085,736	819,346	81,935	0.6%
Rent						
Study Area	\$6.55	\$9.87	\$20.03	\$13.48	\$1.35	11.8%
City of Waco	\$12.58	\$9.84	\$14.25	\$1.67	\$0.17	1.3%
McLennan County	\$12.71	\$9.75	\$13.73	\$1.02	\$0.10	0.8%
Vacancy						
Study Area	4.5%	2.6%	11.9%	7.4%	0.7%	10.2%
City of Waco	8.6%	7.9%	5.4%	-3.2%	-0.3%	-4.5%
McLennan County	7.2%	6.9%	5.1%	-2.1%	-0.2%	-3.4%

Source: CoStar; Economic & Planning Systems

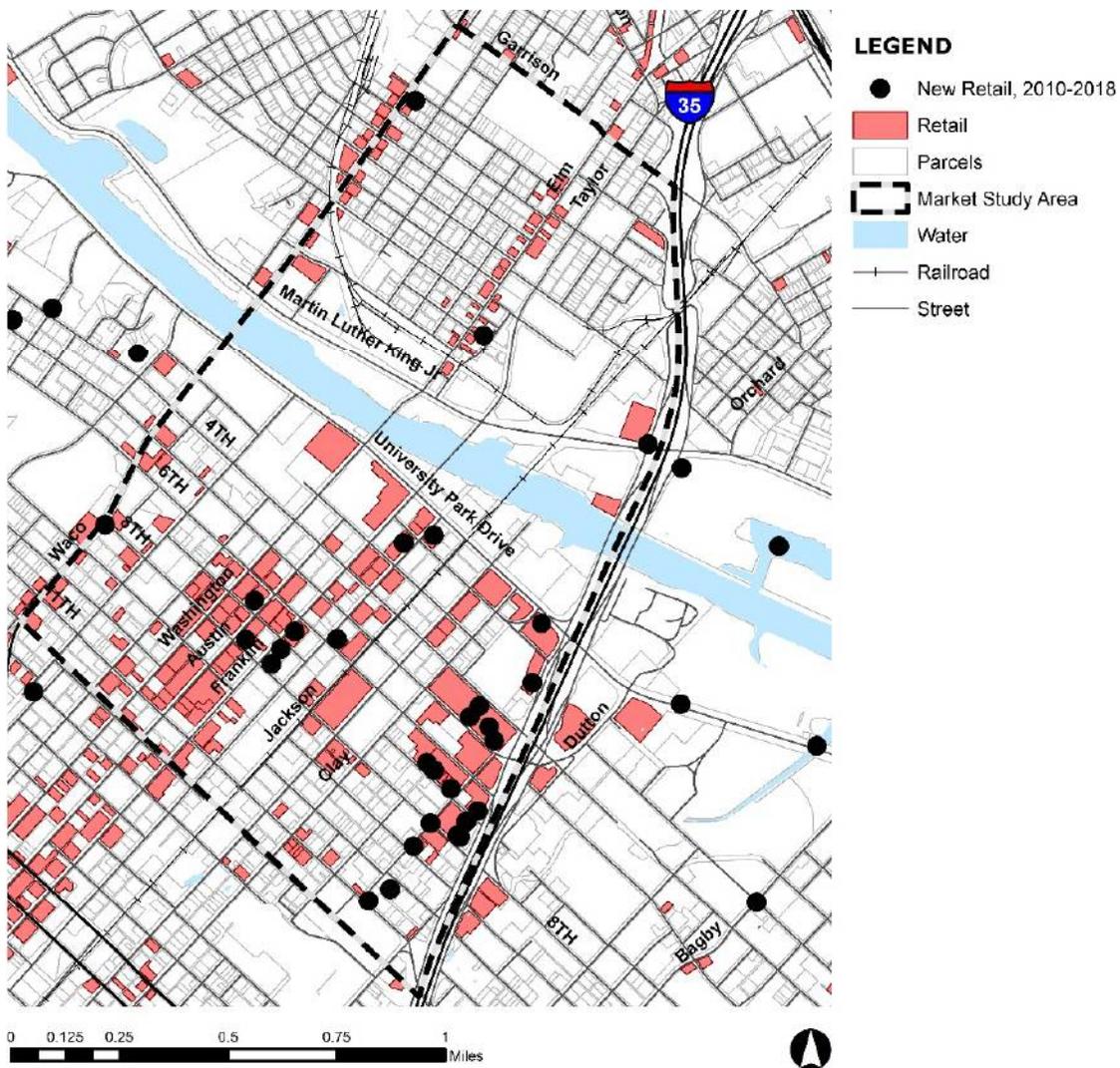
Figure 20
Retail Rents, 2007-2017



The retail uses in the Study Area are generally concentrated in the core of Downtown (along Washington, Austin and Franklin), along I-35 frontage, and on Elm Avenue, as shown in **Figure 21**. New retail development (i.e. new buildings) has occurred primarily along/near Franklin Avenue and along I-35. New retail business activity follows the same pattern except with more activity along Austin Avenue in existing buildings and near Magnolia Market.

Retail growth has been driven by three elements: 1) the growing demand for restaurants and local/unique specialty retail due to housing activity, 2) new retail uses along I-35 oriented more towards Baylor students and highway users; and 3) the proliferation of Magnolia Market spinoff businesses including other home furnishing and décor, arts, crafts, and gifts, and restaurants and bars.

Figure 21
Downtown Retail Development, 2010-2018



Recent Downtown Retail and Mixed Use Projects

Brotherwell Brewing

Located at 400 E. Bridge

Cost: \$ 3.5 million

TIF Funding: \$301,000

- 5,000 sq. ft. lease
- Warehouse renovation

Hippodrome Expansion

Located at 8th and Austin

Developer: Shane and Cody Turner

- Additional movie screens
- Revamped dining setup

Waco Labor Temple

Located in the 700 block of Franklin

Developer: Shane Turner and Todd Behringer

- Waco Running Co,
- Union Hall, a food-and-drink court

Franklin Square

Located at 7th and Franklin

Developer: Waco Mercado LLC

Cost: \$3,944,000

TIF Funding: \$761,667

- Multi-use redevelopment
- 18,000 sq. ft. restaurants and retail

Mary Avenue Market

Located at 300 S. 6th St

Dallas-based developer Marshall Stewman

Opened in 2017

Tenants:

- Hecho En Waco- an upscale Tex-Mex restaurant
- GoodTimber Furnishings
- Iron Willow
- Fox and Gray Pie Peddlers

Mary U Parks Redevelopment

Located at University Parks and Mary

Developer: Shane and Cody Turner

Three phase multi-use redevelopment

Cost: \$5,993,036

TIF Funding : \$925,690

- 26,000 sq. ft. retail and restaurant
- 8,400 sq. ft. office
- 117 surface parking

TFNB Your Bank for Life

Located at 8th and Cleveland

Cost: \$3,538,942

TIF Funding: \$301,345

New bank with free community meeting room

Big Green Garage

Located at 11th and Franklin

Cost: \$1,779,714

TIF Funding: \$477,464

- Garage renovation
- 9,020 sq. ft. retail, restaurant, or office

Planned Downtown Retail and Mixed Use Projects



Jackson Station

Located at 8th and Jackson downtown

Developer: Blake Batson and Chris Clark

Applying for TIF

Opening 2018

Program:

- 9,700 sq. ft.
 - 1 restaurant
 - 5-6 small retail spaces
- 5,000 sq. ft. patio



The Containery

Located at 319 South 4th Street

Developer: 4th & Jackson, LLC

Cost: \$2.1 million

TIF Funding: \$488,078

Program:

- 8,400 sf 1st floor
- 3,500 sf 2nd floor
- 2 buildings constructed of 46 shipping containers



Stratton Building

Located at 8th Street and Austin Ave

Developer: Peter Ellis

Cost: \$5 million

TIF Funding: \$1 million

Program:

- 27 apartment units
- 7,500 sf retail space
- 8,000 sf art showroom

Conclusions

The growth of retail uses in downtown has been primarily entertainment related uses (restaurants and bars), which are more oriented to students, daytime employment and visitors, and a niche of home decoration and home furnishings businesses driven by the Magnolia Market at the Silos. The retail mix and offerings are evolving and new projects are following trends found elsewhere in major metro areas including the development of food halls, breweries and distilleries, and beer gardens. The downtown could also benefit from an increased diversity of dining options including more sit-down restaurants to counter the high number of casual restaurant options. One of the benefits of building a strong mix of eating and drinking options in downtown is that they can appeal to residents and visitors alike.

The addition of the Magnolia Market in the Study Area has created a cottage industry related to home décor, home furnishings, and crafts. Specialty retail shops offering home décor related products have opened near Magnolia and elsewhere in the downtown. These businesses have had a varied rate of success with some thriving while others have closed within a year or two of opening. Despite the failures, there is a niche for these types of businesses that are attractive to the Magnolia based on the visitor population and mix. These businesses would benefit from clustering in the Silo District to benefit from marketing benefits of co-location for comparative shopping. The recently developed Mary Avenue Market project is an example the current trends in tenant mix in that the development is split evenly between restaurants and home décor/specialty retail.

The downtown area lacks more locally oriented retail options to serve the growing number of new housing units added in the past decade. In addition to a lively restaurant and entertainment scene, the most desired and beneficial improvement to the attractiveness of downtown for housing would be a grocery store. As the housing and employment base grows, a grocery store as well as more every-day service retail will prove to be supportable, and continued efforts to attract retailers that serve local residents and workers should continue.

6. HOTEL AND CONFERENCE

This chapter provides a summary of hotel and conference market trends in Waco including an inventory of hotels in the Study Area, market trends, and proposed projects. The chapter concludes with a discussion of opportunities and constraints for the area.

Conditions and Trends

The Study Area contains six hotel properties with a total of 689 rooms. As shown in **Figure 22**, the majority of hotels in the study area are located Downtown along University Park Drive with the exception of the Red Roof Inn that is at the intersection of I-35 and South Martin Luther King Junior Boulevard in the Elm Avenue area. These 689 rooms in the Study Area make up 30 percent of the 2,336 total rooms in the City of Waco, as shown in **Table 18**.

Although the majority of the hotels are linked directly to Baylor University along University Park Drive, the Convention Center is drawing an increasing number of visitors Downtown. The current hotel inventory and event space in the area limit conventions to less than 900 attendees. Additional capacity would allow for an event mix in Downtown that is more oriented to out of town visitors. The limitation is due to a lack of room blocks and supporting conference space.

Figure 22
Downtown Hotel Development, 2010-2018

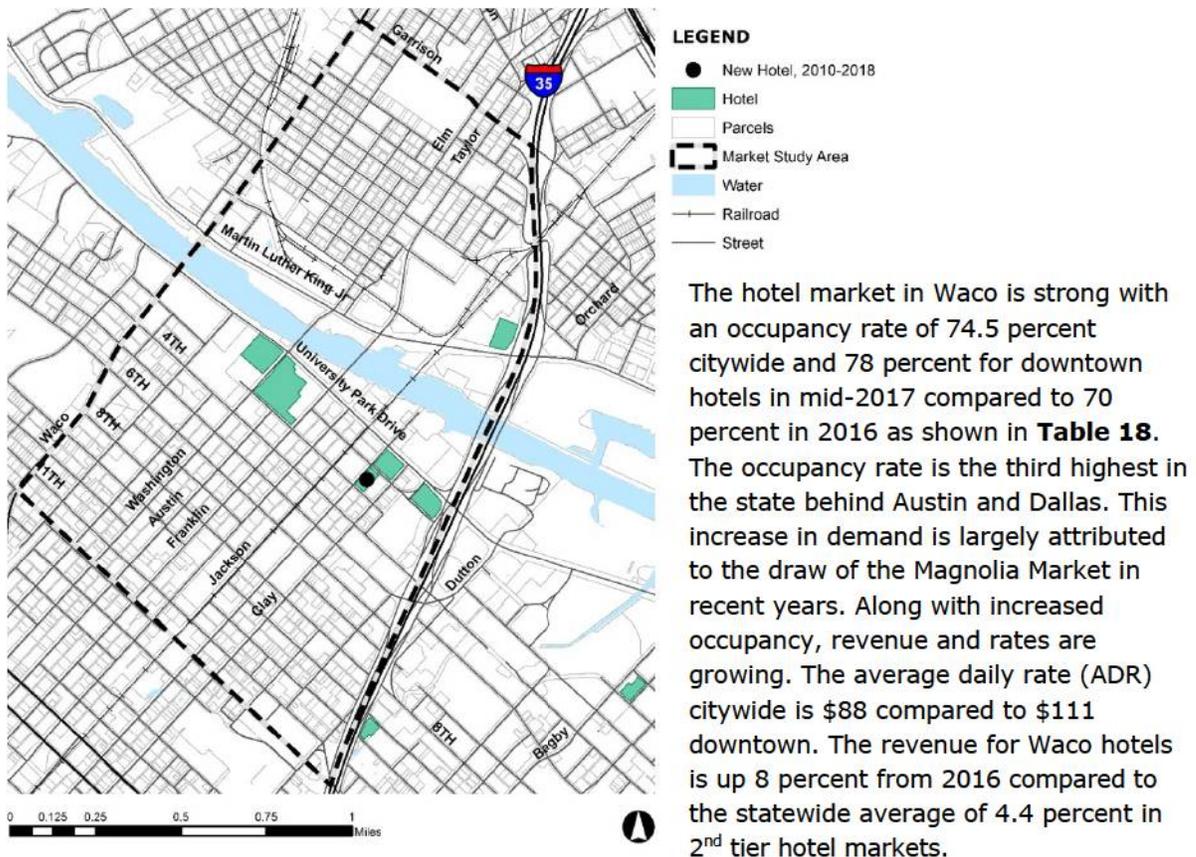


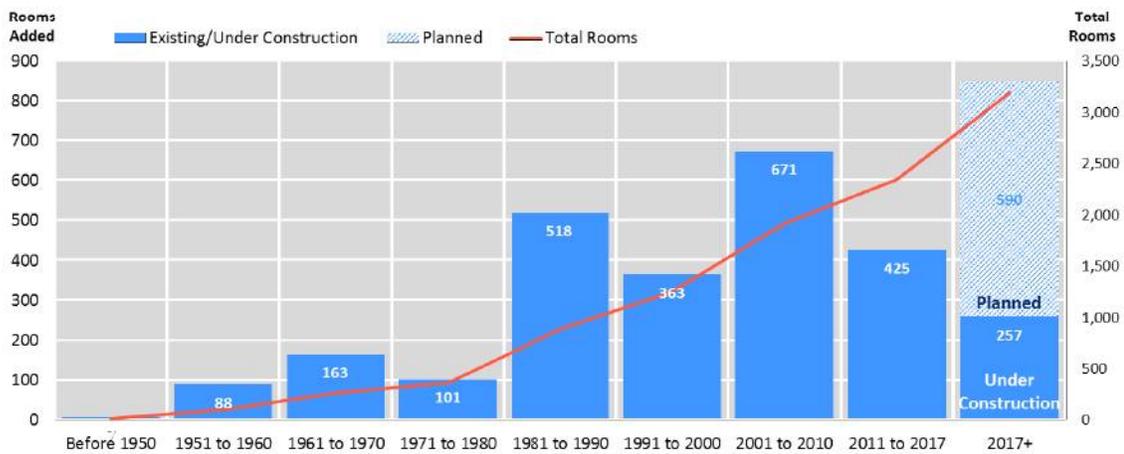
Table 18
City of Waco Hotel Inventory, 2017

Hotel Name	Address	Year Built	Rooms	Percent Occupancy		REV PAR		% Change	
				2016	2017	2016	2017	Occupancy	Revenue
Waco Hilton	113 S. University Parks Dr	1981	195	75.7%	88.0%	\$96	\$118	16.2%	22.8%
Courtyard by Marriott	101 Washington Ave	1997	153	79.4%	81.6%	\$93	\$95	2.8%	1.8%
Hampton Inn & Suites	2501 Market Place Dr	2008	123	82.0%	80.7%	\$106	\$107	-1.6%	0.9%
Best Value Inn	4201 Franklin Ave	1965	121	65.3%	65.8%	\$16	\$15	0.8%	-6.2%
Holiday Inn Express South	5701 Legendlake Parkway	2014	120	82.5%	81.1%	\$96	\$99	-1.7%	2.9%
Executive Suites	115 Jack Kultgen Expwy	1985	112	57.4%	54.3%	\$14	\$10	-5.4%	-26.8%
Hotel Indigo Baylor	211 Clay Ave	2010	111	80.8%	81.8%	\$141	\$151	1.2%	7.3%
Motel 6 Waco South	3120 S. I-35	1985	110	75.0%	76.4%	\$31	\$29	1.9%	-6.1%
Woodspring Suites	705 N. I-35	2006	105	76.1%	78.2%	\$36	\$33	2.8%	-8.6%
Home2 Suites Waco	2500 Bagby Ave	2016	105	0.0%	81.3%	\$0	\$101	0.0%	0.0%
La Quinta Inn Baylor	1110 S. 9th St	1971	101	81.5%	72.8%	\$56	\$57	-10.7%	0.6%
Candlewood Suites	2700 S. New Road	2016	99	69.5%	76.4%	\$42	\$73	9.9%	71.7%
Comfort Suites North	810 N. I-35	2004	99	69.5%	76.9%	\$70	\$71	10.6%	1.2%
Towne Place Suites	5621 Legendlake Parkway	2015	93	72.9%	81.7%	\$86	\$90	12.1%	4.6%
Homewood Suites by Hilton	5620 Legendlake Parkway	2009	88	84.7%	79.3%	\$126	\$126	-6.4%	0.6%
Residence Inn	501 S. University Parks Dr	1997	78	79.1%	83.3%	\$114	\$121	5.3%	5.7%
Super 8 Motel University	1320 S. I-35	1994	78	76.8%	69.0%	\$42	\$41	-10.2%	-1.0%
Comfort Suites South	2700 LaSalle Ave	2005	74	80.3%	81.0%	\$82	\$86	0.9%	5.1%
Quality Inn & Suites	2410 S. New Road	2001	71	83.2%	80.4%	\$80	\$80	-3.4%	-0.4%
Super 8 Waco Mall	6624 Woodway Dr	1986	55	75.1%	72.2%	\$42	\$41	-3.9%	-3.0%
Deluxe Inn	1430 S. I-35	1991	54	81.9%	69.8%	\$22	\$22	-14.8%	-0.5%
Rodeway Inn	3912 Jack Kultgen Expwy	1958	50	79.3%	81.1%	\$26	\$34	2.3%	31.6%
Red Roof Inn	720 Martin Luther King Blvd	1985	40	70.1%	81.0%	\$48	\$56	15.5%	18.1%
Knights Inn	3829 Franklin Ave	1960	38	69.7%	71.2%	\$24	\$26	2.2%	10.1%
Budget Inn	1700 Jack Kultgen Expwy	1970	35	0.0%	70.6%	\$0	\$19	0.0%	0.0%
Barefoot Ski Cable Park	5347 Old Media Rd	2011	8	70.6%	37.2%	\$90	\$43	-47.3%	-52.6%
Cotton Palace B&B	1910 Austin Ave	1910	7	56.0%	68.9%	\$76	\$90	23.0%	18.4%
Jack and Betty Thomas	1700 S. 2nd	1970	7	83.2%	66.2%	\$110	\$101	-20.4%	-7.7%
Bed & Breakfast On White	267 Ruby Dell Ln	1981	6	73.4%	71.7%	\$107	\$88	-2.3%	-17.5%
Total/Average			2,336	70.0%	74.5%	\$65	\$70	6.3%	8.1%

Source: Source Strategies, Inc.; CoStar; Economic & Planning Systems

Occupancy rates and revenues have remained strong in Waco despite the addition of 425 rooms since 2011 and 671 rooms in the previous decade between 2000 and 2010. Over the next several years there are 257 under construction and 590 proposed rooms within seven different hotel developments. Five out of the seven proposed developments with 387 rooms are located Downtown and the remaining two are off I-35 near the Central Texas Marketplace. The addition of 700 rooms to the greater Downtown area will make up 54.6 percent of City of Waco hotel rooms compared to 30 percent in 2017.

Figure 23
Waco Hotel Room Growth



Source: Source Strategies, Inc.; CoStar; Economic & Planning Systems

The majority of proposed hotel projects are limited service hotels. However, there are a few proposed projects that address gaps in the Waco market—which are lack of full-service hotels and boutique/higher-end hotels. The proposed hotel developments are described below. The Brazos Commons project had initial agreements for a full-service operator to bring a hotel with desired amenities such as conference space and ability for room blocks, but the deal has since fallen through. The developer is seeking a replacement hotel flag to complete the deal.

Planned Hotel Developments



Springhill Suites

Located at Jack Kultgen Expressway & University Parks Dr

- Developer: DBG Investments, Dallas
- Cost: \$17.4 million
- 133 suites
- 8-story hotel, 3-story parking garage, and rooftop deck/bar
- Replacing Executive Inn and Suites (Demo)



West Village Project

Located at 10th and I-35/Cleveland

- Cost: \$32,649,152
- TIF Funding: \$3,520,567
- La Quinta Del Sol 124 rooms
- The Aloft 117 rooms
- 130,667 sq. ft. retail/restaurant

Brazos Promenade

Located at Brazos Riverfront

Developer: Catalyst Urban Development

Cost: \$94 million

TIF Funding: \$12.2 million

Program:

- 265 multifamily units
- 44 live-work units
- 110 key hotel
- 12,000 sf conference space, retail, and restaurants
- Public riverfront park with farmers market
- 480 total parking space, 334 garage

Brazos Commons

Located at the Riverfront, adjacent to Brazos Promenade

Developer: Brazos Commons LLC

Cost: \$129 million

TIF funding: \$7.9 million

Program:

- 400 dwelling units
- 30,000 sf retail space
- 160 key hotel
- Restaurant and conference center
- 800 structured parking spaces

Residence Inn

Located next to Central Texas Marketplace

- 105 rooms
- Project Completion 2019

Tru by Hilton

Located next to Central Texas Marketplace

- 98 rooms
- Project completion 2019

Conclusions

The hotel market in Waco and the downtown area is currently strong largely driven by the increase in visitation associated with the Magnolia Market since it opened in the fall of 2016. There are an additional seven projects with 700 rooms under construction or proposed in the downtown area. Most of the recent and planned hotels are limited service or budget rate hotels oriented towards the visitor population.

There are a number of gaps in the hotel inventory. Another mid-range three-star full service hotel similar to The Hotel Indigo would be supportable as it is the most successful downtown property in terms of occupancy and room rates. The Brazos Commons project had proposed the inclusion of a full-service hotel that would address this gap, but the identified hotel operator for the hotel portion of the project has fallen through leaving the developer seeking another anchor hotel tenant.

The Convention and Visitor's Bureau has identified the desire for another full-service hotel with meeting and banquet space capable of being the headquarters hotel for a major convention in addition to the Hilton which currently serves this function. The current levels of meeting and convention activity does not appear to support this need. But current usage of the convention center may be constrained by the absence of a hotel allowing the CVB to host two conventions at the same time. Such a hotel would likely require substantial public investment to attract a developer and operator for what is an unproven market. The City and CVB would be advised to commission a meeting and convention feasibility study to determine if this investment is supportable.

A small independent boutique hotel is also a missing niche. The development of a boutique hotel relatively close to the Magnolia would be a desirable addition and diversification of the hotel inventory. The previously proposed renovation of the Old Geyser warehouse as a 55-room boutique hotel is an example of the size and scale of project that would be supportable in downtown Waco.

7. ARTS, CULTURE, AND ENTERTAINMENT

This chapter contains an inventory of arts, culture, and entertainment businesses, venues and events within Waco and the Study Area. The opportunities and constraints related to arts, culture and entertainment are also summarized.

Visitor Profile and Travel Shed

The Waco MSA attracts a significant number of visitors to the area annually. According to a survey commissioned by the Texas Tourism office in 2016, the estimated person-day visits to the Waco MSA in 2016 was 6.94 million. The majority of these visitors (67 percent) are leisure visitors, as shown in **Table 19**. The majority of visitors are also from within the State of Texas (70 percent) however 30 percent of visitors are from out of state. The vast majority of visitors come to Waco via the automobile and 70 percent of them live within 250 miles of the Waco. The 250 mile radius is a good approximation of the primary tourist/visitor shed for Waco and has a total population within that radius of 25 million. This 250 mile radius encompasses most of the State of Texas including the Austin, Dallas-Ft Worth, Houston, and San Antonio MSAs. The more day-trip, routine visitor shed for Waco is likely within an hour drive (60 miles). This travel shed has an estimated population of 1 million people.

Table 19
Waco MSA Visitor Profile and Travel Shed, 2016

Waco MSA	2016	Waco MSA	2016
Person-Days	6,940,000	Visitor Travel Shed	
Person-Stays	4,350,000	Origin	
		In State	70%
Visitor Profile		Out of State	30%
Leisure Travel	67%	Primary Mode of Transportation	
Business Travel	33%	Air	6.1%
Average Party Size	1.7	Auto	93.6%
Average per person per day Spending	\$115.30	Other	0.4%
Average Age	49.8	Distance Traveled	
Average Household Income	\$97,203	Average (miles)	392
		250 miles or fewer	69.8%
Visitor Shed Population		251 to 500 miles	2.0%
Within 60 miles	1,001,756	501 to 1,000 miles	19.6%
Within 250 miles	25,199,262	1,0001 miles or more	8.6%

Source: The Office of the Governor, Economic Development and Tourism (Texas Tourism), ESRI, Economic & Planning Systems

The Downtown area is major component of the visitor experience within Waco. The major reasons for visitors to come to Waco are related to attractions and amenities within Downtown. Thirty-one percent of respondents to the Texas Tourism visitor survey indicated culinary/dining as a reason for their visit, as shown **Table 20**. As well, 20 percent of visitors indicated shopping was a reason for their visit, which is likely driven largely by the Magnolia Market at the Silos. Business travel and amateur sports were also major drivers of visits.

Table 20
Waco MSA Visitor Reason for Visit

Reason for Visit	%
Culinary/Dining	31.1%
Shopping	20.3%
Visit Friends/Relatives	19.5%
Business	9.8%
Amateur Sports (attend or participate)	4.7%
Museums/Art	3.5%
Parks	3.3%
Outdoor Sports (Fishing, Hiking, Golfing, etc..)	2.7%

Note: Percentages are not additive as multiple activities can be indicated
Source: The Office of the Governor, Economic Development and Tourism (Texas Tourism), ESRI, Economic & Planning Systems

Inventory

The major cultural attractions in Waco are summarized within **Table 21**. The most popular attraction is the Magnolia Market at the Silos. In the last year (2017) the Magnolia Market received an estimated 1,619,925 visitors. The visitation to the Magnolia Market accounts for 64 percent of total visitation to attractions in Waco, as tracked by the Waco Convention and Visitors Bureau. Visitation to many of the other major attractions have grown significantly in the past couple years, likely due to increase exposure to Magnolia Market visitors. The Dr Pepper Museum is another popular attraction in the Study Area, which received 141,260 visitors last year.

Table 21
City of Waco Major Tourist Attractions

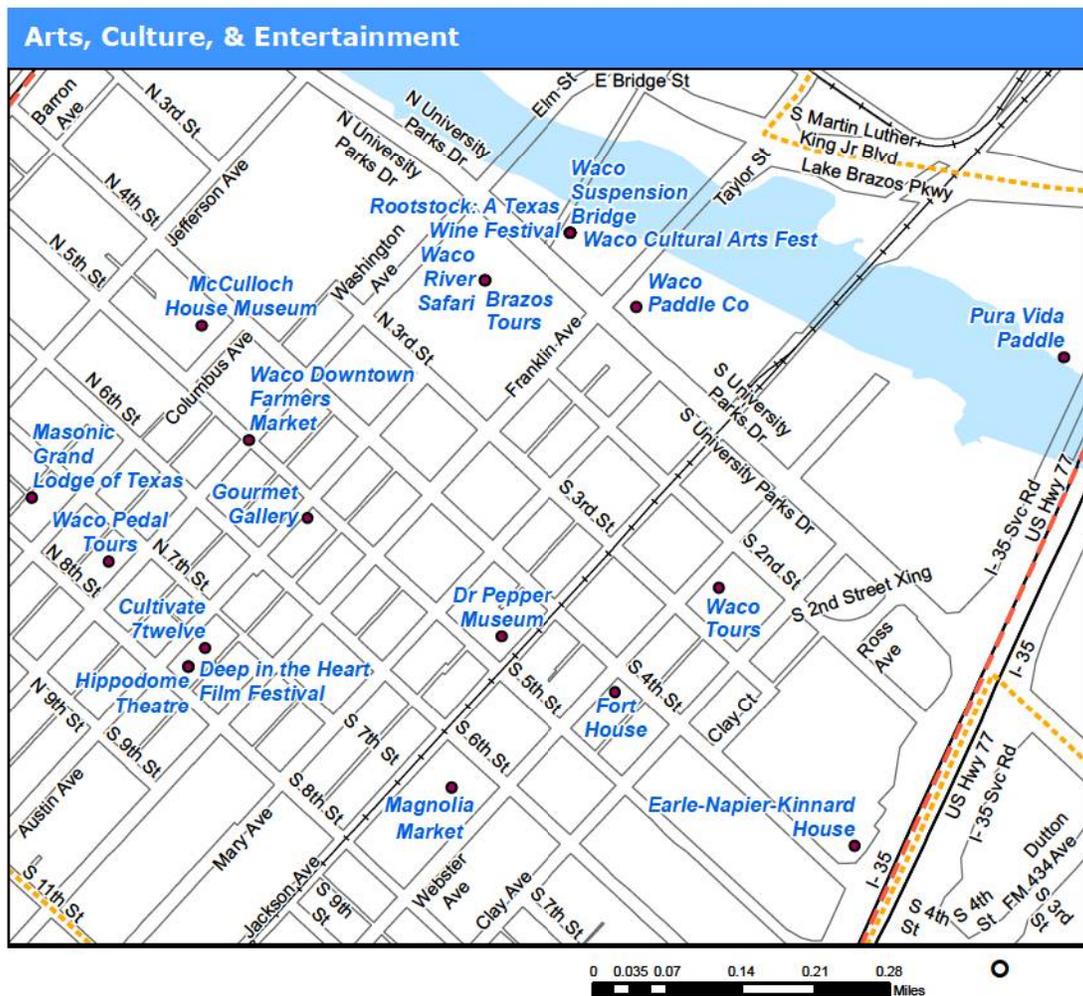
	2014	2015	2016	2017*	Year over Year % Change		
					2014 - 2015	2015 - 2016	2016 - 2017
Magnolia Market	0	138,000	1,172,973	1,619,925	0%	750%	38%
Cameron Park Zoo	239,008	260,143	296,955	326,811	9%	14%	10%
Maybom Museum Complex	130,337	124,395	150,253	157,463	-5%	21%	5%
Dr Pepper Museum & Free Enterprise Inst.	60,219	65,211	110,257	141,260	8%	69%	28%
Texas Ranger Hall of Fame & Museum	62,323	68,950	78,141	93,134	11%	13%	19%
Waco Mammoth National Mon.	20,394	33,474	68,557	100,587	64%	105%	47%
Armstrong Browning	27,224	33,273	31,634	31,460	22%	-5%	-1%
Tourist Information Center	20,524	22,850	23,324	29,657	11%	2%	27%
Waco Civic Theatre	11,215	11,639	17,873	20,338	4%	54%	14%
Texas Sports Hall of Fame	19,369	19,502	15,414	11,838	1%	-21%	-23%
The Art Center	1,381	3,933	7,557	6,720	185%	92%	-11%
Historic Waco Foundations Homes	5,033	5,002	5,402	4,306	-1%	8%	-20%
Lake Waco Wetlands	<u>4,308</u>	<u>3,719</u>	<u>2,510</u>	<u>3,565</u>	<u>-14%</u>	<u>-33%</u>	<u>42%</u>
Totals	606,053	796,844	1,986,032	2,547,064	31%	149%	28%

Source: Waco Convention and Visitors Bureau

In addition to the attractions tracked by the Convention and Visitors Bureau, Waco has other major attractions that drive visitation to the City and Study Area. Baylor University athletics are a major driver of visitation. Other Waco attractions such as the Extraco Center and Hawaiian Falls are major destinations and draw visitors from outside the City and County.

The Study Area contains a growing variety of art galleries, public art, live performance venues, local shops, restaurants, and bars. However, the area lacks any significant public or non-profit cultural or arts venues. The arts scene in the Study Area is primarily retail businesses promoting their art and homemade products. The City and its partners sponsor a variety of festivals held throughout the year at parks in the Downtown area, such as an independent film festival, food and wine festivals, and art festivals. The Hippodrome Theatre serves as the primary performance venue in the Study Area. The recent addition of new movie screens/rooms at the Hippodrome will increase availability of the main theatre for more performances and events, which is a needed addition of capacity for these types of events. The traffic generated by the Magnolia Market has driven the creation of a downtown trolley route that services the major venues in the Study Area. The location of various arts, culture, and entertainment businesses, venues, and events in the Study Area are shown in **Figure 24**.

Figure 24
Study Area Arts, Culture, and Entertainment Venues and Events



Conclusions

In 2016, Waco was designated a State of Texas Cultural District by the Texas Commission on the Arts. The determined district matches closely with the Downtown Study Area including the north side of the Brazos River along Elm Avenue. The Cultural District is located within Waco's Public Improvement District as well as the Tax Incremental Fund zones.

The Cultural District is maintained by Waco's local arts agency—Creative Waco. Creative Waco is organized by an executive director, board of directors, and cultural district committee members. The agency partners with numerous community organizations and supporters and created the Waco Arts Alliance to bring together a network of arts professionals throughout the city. Creative Waco is driven by Waco's Cultural Plan to implement a cultural strategy in the district.

The Study Area and the City of Waco lacks a center, or concentrated location, for arts and culture within the community. The Study Area has a nascent collection of arts and culture related amenities but no real emerging concentration. Arts groups also currently lack permanent locations and venues for performance or display of art work. The Arts and Culture economic impact study found that there is demand for existing venues/events but spending occurring in Downtown is mainly driven by events and not permanent venues.

The ability for the Downtown core to offer potential locations for arts businesses and entities is decreasing given the rises in rental rates in recent years. The emerging nature of the Elm Avenue District and its proximity to the Downtown core make it an appealing location to attract artist and arts related businesses, due to lower land and rental costs, which may serve as a catalyst to development in the area.

The Arts Center of Waco has recently purchased the LULAC Building on South 8th Street for its new home. The new arts center will fulfill an important gap as a location for arts programming and education. It will potentially also have space for art shows and exhibitions. There will continue to be a need for additional gallery and art "maker" spaces, some of which could be located in the new arts center or in nearby properties. The concentration of these uses in a defined location close to the Arts Center can help create an arts district within the downtown area. This area of downtown is likely to be more affordable than along Austin Avenue where arts and artists are being priced out.

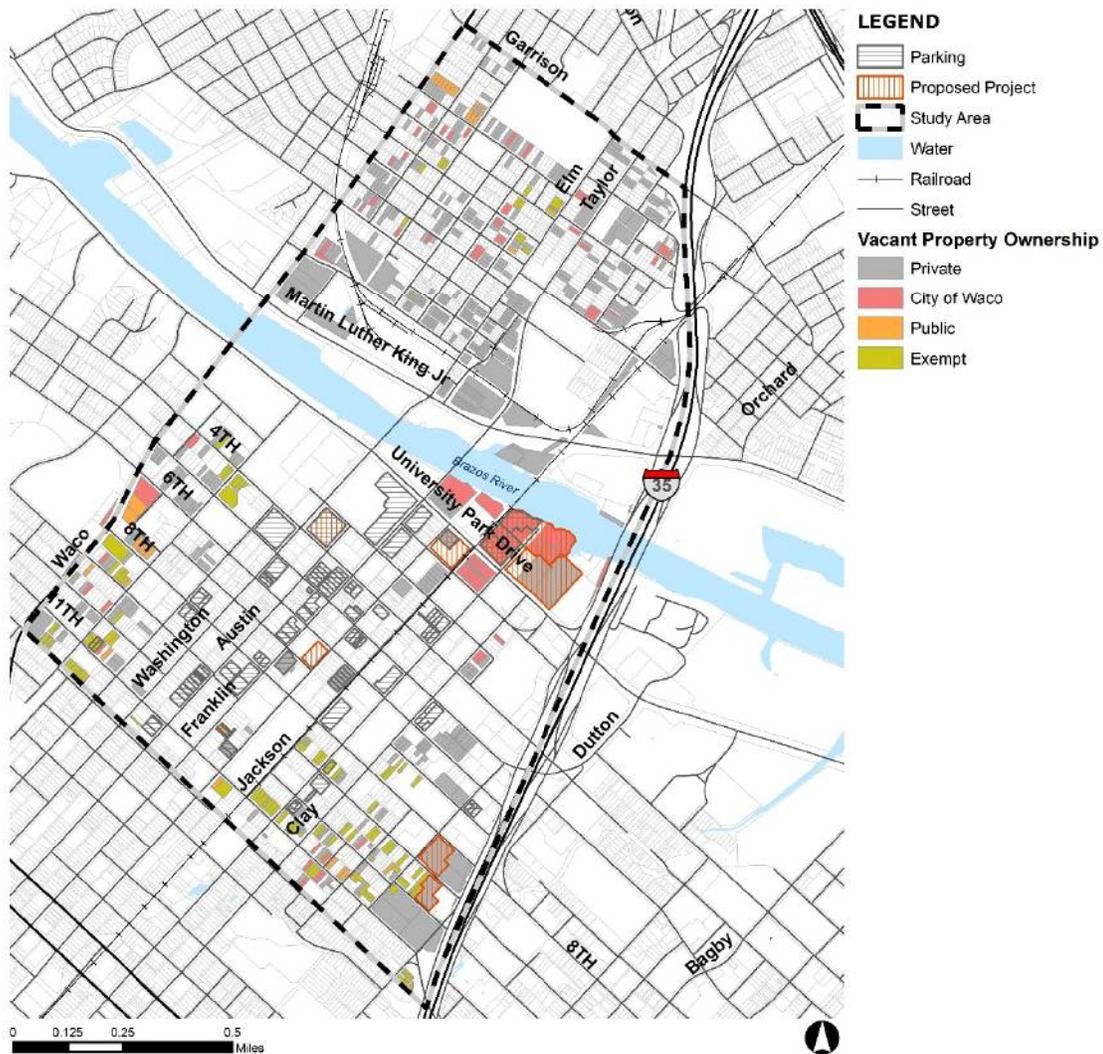
The lack of performance space has also been a pressing need; however, the expansion of the Hippodrome including three additional movie screens will free up the historic main theater for additional usage for dance, music, and theater performances. There is also an opportunity for more bars and beer halls with the capacity for small bands, comedy and other acts.

8. LAND CAPACITY ANALYSIS

The Study Area was analyzed to understand the utilization of land and identify potential areas for infill and redevelopment. Potential redevelopment and infill sites were identified to help locate areas that could attract new development.

The Study Area has a large amount of vacant and underutilized space, as shown in **Figure 25**. The major concentrations within Downtown include the strips of parcels along Austin and Franklin Avenues, concentrations of smaller lots in the southern edge of the Study Area, the River Corridor on both sides and several areas in the Elm Avenue area.

Figure 25
Vacant Property Ownership Map



Downtown and Elm Avenue areas contain over 160 acres of vacant spaces including parking lots for development, as shown in **Table 22**. This includes approximately 24 acres of land that is currently underutilized. The City of Waco owns a significant portion of this land, 20 acres in the Downtown area and 6 acres in the Elm Avenue area. In Downtown, other public and tax exempt entities own a large amount of underutilized land as the vacant acreage is split approximately in half between private and public/tax-exempt owners. The Elm Avenue area has a larger presence of privately owned vacant sites.

Table 22
Vacant Property Ownership by Acreage

Ownership	Downtown		Elm Avenue Area	
	Acres	Pct.	Acres	Pct.
Private	49	54%	64	87%
City of Waco	20	22%	6	8%
Public	4	5%	2	3%
Exempt	18	19%	2	3%
Total	91	100%	73	100%

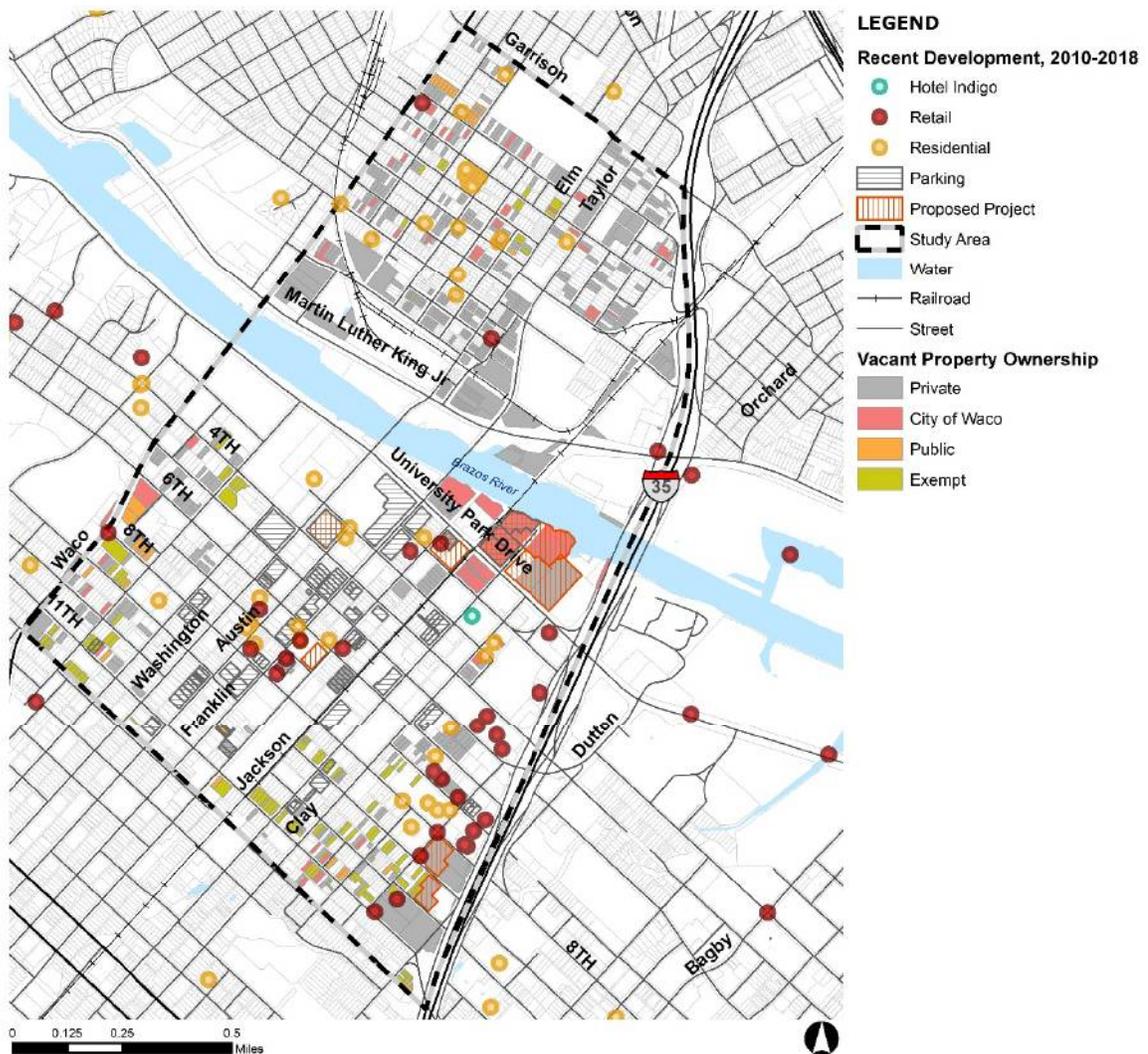
Source: Economic & Planning Systems

The recent development projects were overlaid with the vacant properties map to identify areas that have market momentum that are near vacant areas. A significant amount of new development and reuse of existing buildings has occurred between I-35 and Franklin Avenue. The higher concentration of vacant and underutilized uses has made aggregation more feasible in this area. There will likely continue to be additional aggregation and additional development in this area given the lower than average land prices (compared to elsewhere in the downtown) and demand drivers in the area including access to I-35 and Magnolia Market.

The River Corridor has a large amount of vacant and underutilized parcels and has been identified in several plans as a focus area for new development. The two large proposed projects along the river (Brazos Promenade and Brazos Commons) will take up a significant amount of the opportunity sites on the south side of the river, which will help activate the area and potentially to also spur development on the north side.

The Elm Avenue area has several large vacant sites that can support large development projects. Demand in the areas is currently driven by its proximity to the downtown core. The area needs an increase in activity to help attract new development. However, the area's proximity to Downtown and Baylor University may attract uses oriented towards visitors to those destinations. The large amount of vacant single family parcels in the Elm Avenue area will likely attract small scale infill development once more activity is generated. Small scale, local businesses have located in the area recently—including Lula Jane's and Brotherwell Brewing—which will help increase activity.

Figure 26
Recent Development and Vacant Property Map, 2010-2018



Conclusions

The Study Area has a large amount of potential development sites, which is a major asset. There are likely constraints to redevelopment on many sites (e.g. environmental issues, existing buildings, substandard infrastructure), which increase cost for development. The City and publically owned sites also present an opportunity to attract development. The City has recognized this and has taken proactive steps to solicit developers for their properties. These public private partnerships are often complicated and take longer to develop due to the nature of the public sector but are needed to help attract development and activity to the downtown. The large amount and variety of potential development parcels makes identifying focus areas difficult. Coupling opportunity areas with major investments should be a strategy moving forward.

9. TIF INVESTMENT STRATEGY

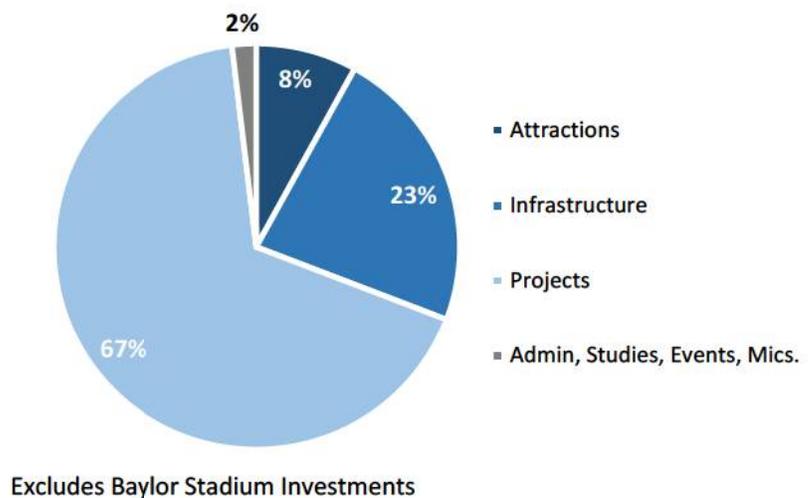
This chapter presents EPS' recommendations for a TIF Investment Strategy, which serves as the implementation component of the study. It begins with a review of historic allocation of TIF funding by project type and the existing framework within which the TIF Zone functions including existing downtown plans, policies and goals and objectives. A proposed delineation of the Study Area into four distinct districts is also presented. The chapter then presents EPS' recommendations for TIF investment priorities including a proposed allocation annual resources between development projects and public improvements. The recommended public improvements projects contained within existing city plans are then prioritized based on a draft set of evaluation criteria that reflect both overall goals and objectives of the TIF Zone as well as the opportunities identified in the market study. The section identifies more specific strategies and actions for implementing the market opportunities for each of the major downtown land use categories.

TIF Zone Investment History

The City of Waco's Tax Increment Financing (TIF) Reinvestment Zone 1 was formed in 1982. TIF zones are formed by municipalities as a tool to assist in addressing blight in economically distressed areas by supporting development or redevelopment that would not occur through private investment only. Tax increment generated within the TIF zone can be used to fund projects that serve a public purpose. The Waco TIF Board has historically allocated its tax increment revenues to variety of project types including public infrastructure improvements, transportation facilities, affordable housing, historic building preservation, environmental remediation, building demolition, and supporting professional services.

Over the life of TIF Zone 1, the TIF Board as allocated over \$50 million in TIF funds to a variety of projects. The primary focus of investments has been supporting private development projects that generate tax increment and spur investment in the area. The TIF Board has allocated 67 percent of its TIF funds to development projects, as shown in **Figure 27**, excluding funds dedicated to the construction of the Baylor Stadium. With the stadium included, the mix is split more evenly between projects and infrastructure.

Figure 27
Completed/Funded TIF Projects by Type



Twenty three percent of funds have been allocated to infrastructure projects, while remaining 10 percent have gone to supporting attractions within the TIF District (e.g., Dr. Pepper Museum), and to fund administrative costs, events, and studies.

In terms of private development projects, the TIF Board has on average funded between 15 to 20 percent of total project costs in a given project, but the amount and percentage has varied greatly depending on the project depending on eligible costs and if the project is a priority. The majority of private development projects funded, as documented in the Market Study, have been for housing projects, with an average investment of \$17,000 per residential unit created.

TIF Zone 1 currently generates approximately \$12 million in annual tax increment revenue. The annual increment has grown substantially in recent years as more development has occurred in the downtown and property values have increased. As a result, the property values (and the associated increment) are expected to increase over the remaining 15 years of the zone which will expire in 2032. However, the portion of increment available for use will decrease in fiscal year 2022-23 as the Waco Independent School District's (ISD) portion of the tax increment will no longer be collected. This will reduce annual increment approximately in half. For the remainder of the TIF Zone, the increment is forecast to total \$6.5 to \$8.5 million annually.

Currently, the TIF Board has over 30 on-going projects that have outstanding funds allocated to totaling over \$40 million plus on-going administrative costs. With the reduction in increment in 2022-2023, the need to be more strategic with the use of TIF funding will grow. The size of projects and requests being made to the TIF Board could create a situation where a handful of projects could account for the vast majority of annual increment and or limit the number of projects that can be supported. This suggests that a review of TIF investments policies and priorities is warranted.

Downtown Plans

The City has undertaken multiple plans addressing the revitalization of downtown over the last 30 years. It was however, the completion of the *Imagine Waco Plan* in 2010 that for many captured the heightened interest and excitement about the future of the Downtown area. The Plan recognized a number of positive economic conditions to support a vision for the area’s revitalization. First and foremost, the commitment to restoring and rejuvenating the downtown riverfront including not only park and Riverwalk improvements, but also attracting housing, lodging, and entertainment uses. The Plan also acknowledged a greater interest in downtown’s historic resources including connecting across the Brazos River to the East Elm Historic District. TIF Zone 1 provides an important implementation tool for providing public assistance to eligible Downtown improvement projects.

Since the *Imagine Waco Plan* was adopted in 2010, there have been several additional studies and plans that have been completed that are focused on downtown or related to downtown. These studies were reviewed by EPS for this study and shown below in **Table 23**.

Table 23
Downtown and Downtown Related Studies and Plans

Downtown Studies/Plans	Year	Related Studies/Plans	Year
Imagine Waco	2010	Econ. Dev. Strategic Plan (Upjohn)	2014
Elm Avenue Plan	2002	Waco City Plan	2016
Downtown Transportation Study	2014	Parks and Open Space Master Plan	2017
PID Open Space Study	2014	Thoroughfare Master Plan	2012
Texas Main Streets Study	2014	Infrastructure and Growth Study (Perryman)	2017
NRN Downtown Development Strategy	2016	Waco Cultural Plan/Arts&Culture Impact	2017
Downtown Parking Study	2017		

Source: Economic & Planning Systems

City Center Waco has inventoried and categorized over 200 proposed projects, programs, and strategies contained in the downtown plans and studies. Funding the public improvement projects alone will greatly exceed the anticipated resources of the TIF Zone, even if TIF is only a partial funding source used to leverage other resources. The TIF Board is therefore seeking guidance on a process for project prioritization that is consistent with the goals and objectives of the TIF Zone, as well as the development opportunities identified in this market study.

The previously adopted goals of TIF Zone 1 are listed in the bullets below:

- Adopt incentives and controls to include special/overlay district guidelines to ensure quality development.
- Provide amenities which enhance the human environment within Brazos River Corridor and TIF Zone 1.
- Encourage a mixture of development along Elm Avenue.
- Utilize TIF to leverage maximum private investment.

- Encourage development along Brazos River to maximize impact of the corridor including passive and active use of the water.
- Develop an integrated financing plan that incorporates projects from all taxing entities.
- Cultivate public support for the development of Brazos River Corridor and within TIF Zone 1.

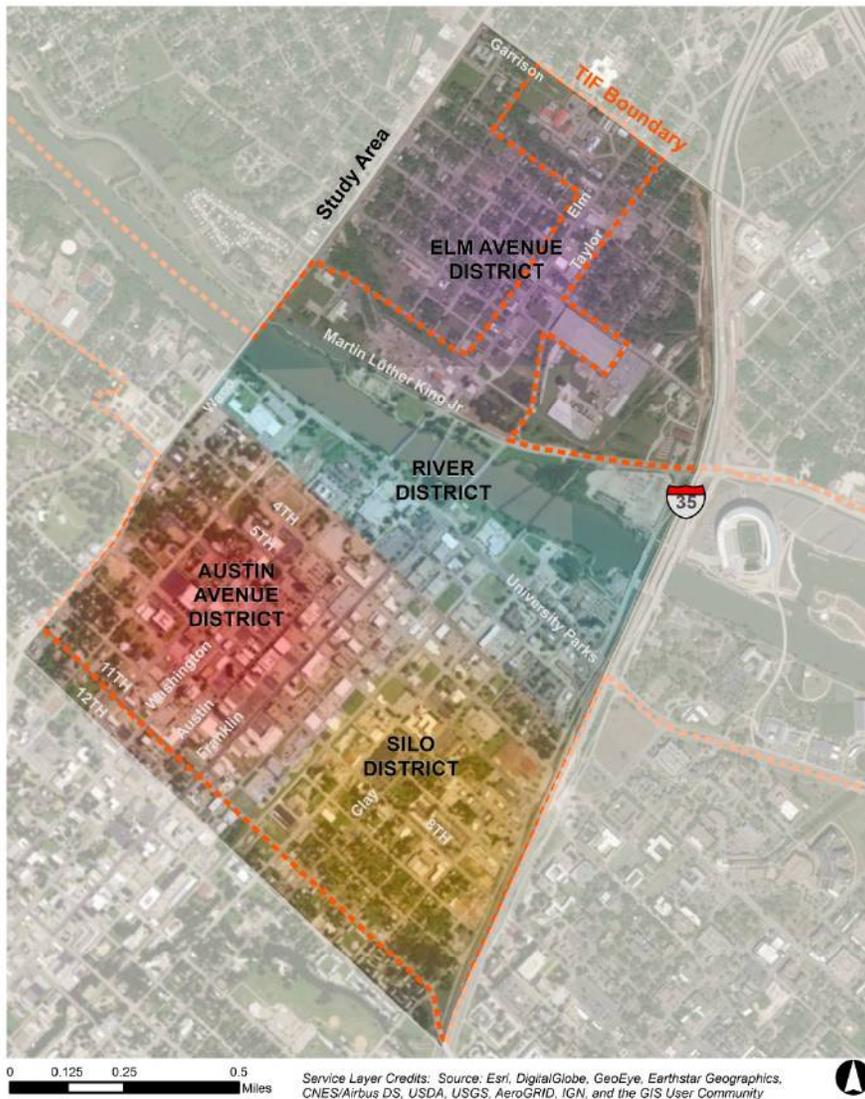
The overall goals continue to be relevant and applicable. The more detailed objectives outlined below provide additional direction on TIF investment priorities.

- **Continue to utilize TIF to leverage private investment** – The use of TIF funds to improve the feasibility of downtown development projects and to pay for desired public improvements and enhancements should be a high priority.
- **Continue to support development along the Brazos River** – The City and TIF Board have invested extensively in the Riverwalk and park improvements along the downtown river corridor. These investments are starting to attract interest from developers that would like to locate adjacent to these amenities, which should be supported and encouraged.
- **Continue to encourage a mixture of development along Elm Avenue with a focus on preservation and re-use of existing buildings** – Elm Avenue is starting to attract development interest for community-oriented retail and restaurant uses as well as housing. There is a limited amount of existing older building stock that should be rehabilitated to allow the area to maintain its existing character.
- **Increase the number of people living and working downtown** – Housing and office development are equally important development goals.
- **Address infrastructure deficiencies in order to facilitate development and attract investment** – A portion of TIF funding should be allocated to infrastructure needs that are a constraint on private development and public improvements that attract additional development and investment.
- **Utilize TIF funds to leverage and support additional investment from other public, non-profit, and private partners** – In many cases, TIF funds can be used as a local match for projects with state and federal funding as well as seed funding for city-funded projects.
- **Support district specific objectives** – The four districts within the downtown Study Area should have their own unique development objectives and mix of uses.

Downtown Districts

The downtown Study Area is relatively large and has multiple areas that have varying market strengths and opportunities. Four distinct districts or neighborhoods are identified to help better understanding opportunities and issues and to help focus efforts by the TIF Board and City to capitalize on market opportunities. The four districts are the Austin Avenue District, River District, Silo District, and the Elm Avenue District, as shown in **Figure 28**. These districts should be integrated into other City plans including the Comprehensive Plan in order to reinforce their importance as well as to tailor future public improvements to their unique attributes.

Figure 28
Downtown Waco Districts



District Market Opportunities

The four districts identified each have unique qualities and issues to address with varying market opportunities. To better focus City, TIF Board, City Center Waco/PID, and private development efforts, the market opportunities and recommended emphasis of activities for each district is described below.

Austin Avenue District

The Austin Avenue District encompasses the city's major private sector office buildings and the historic "main street" commercial core centered on Austin Avenue. Market opportunities and investment priorities for this district should be for office uses, supporting retail, destination restaurant and entertainment, and cultural and civic uses. Austin Avenue serves as the focal street and gathering place within the District. Maintaining and enhancing the historic building stock should be a major objective in this area.

River District

The River District encompasses the Brazos River Corridor and Waco Convention Center area and provides the major gateway connection from I-35 and Baylor University along University Parks Drive. The scale of projects in this area is typically larger and more oriented to visitors. This area is where major tourism supporting projects, such as larger hotels and conference spaces, should be located. As well, major community events are more ideal in this area given its superior connectivity to the interstate and the parking and support amenities that are present to support larger events.

Silo District

The Silo District is anchored by the Magnolia at the Silos development has the opportunity to become a vibrant mixed-use neighborhood oriented around destination retail, crafts and artisan shops and maker spaces, and entertainment venues mixed with housing. This area is also attractive for housing development given its scale and current mixture of uses. Balancing the needs of visitors and residents will be important. The area needs a focal street or gathering place to build on its character. The enhancement of Mary Avenue could serve as that focal point.

Elm Avenue District

The Elm Avenue District has the opportunity to become a unique and vibrant downtown adjacent neighborhood. The retail and entertainment options in the District should focus on Elm Avenue—becoming a mixed use commercial seam binding the surrounding Northeast Heights community. Commercial development should neighborhood-oriented businesses. The area has an opportunity of being a destination for smaller-scale arts and entertainment establishments—building on its history and culture. Maintaining and restoring the existing building stock along Elm Avenue is an important component to the area's character. New infill development should be developed at a compatible scale, no more than 3 to 4 stories as described in the Imagine Waco Plan.

Overall TIF Investment Strategy

The TIF Board has historically used its TIF funds to provide incentives to development projects; fund infrastructure and other public improvements to support new development; and invest in attractions/amenities that draw visitors to downtown. Since the inception of the TIF Zone, approximately two-thirds of funds have gone to projects, one-quarter to public improvements, and a little less than 10 percent to attractions, again not including Baylor Stadium which is treated as an outlier.

The TIF Board should continue to allocate its funds to these three categories with approximately the same levels of priority. Investment in development projects should be the highest priority, however a portion of funding should be set aside to invest in public improvements, for which there is a long list of needs. Investments in attractions is more sporadic and opportunistic, and therefore does not lend itself to an annual allocation. Approximately 65 to 70 percent of the future TIF proceeds should be allocated to development projects. The TIF Board should budget approximately 25 percent of annual increment for use on non-project related public improvement projects on an annual basis.

Public improvement projects include infrastructure (road, sidewalk, storm drainage, utility, or internet) and amenities (streetscape, parks and plazas, or public art) projects. The National Resource Network's *Downtown and Ring Neighborhood Development Strategy* (2016) identified 78 public improvement projects that have been considered or proposed. Currently, these public improvement projects would account for approximately \$3 to \$3.5 million annually, however, funds could decrease to \$1.5 to \$2 million after 2022 due to the loss of school district TIF (not accounting for growth in the overall base). Because of this expected decrease in available funds, a more strategic approach is needed within each major funding category.

Development Project Priorities

The TIF Board and City should continue to invest the majority of its available TIF revenues in identified downtown development priorities. The focus should be on supporting market catalyst projects, which are documented later in the TIF Strategy, supporting key placemaking projects and amenities that can help leverage additional private investment and development. As well, certain types of development projects may not need to be funded going forward given improving downtown market conditions, and/or the projects do not support the vision and efforts in downtown.

The following criteria should be applied to development project applications in order to become more proactive about funding decisions:

- Contributes to goals and objectives of TIF Zone and the applicable Downtown District.
- Project is consistent with applicable downtown plans.
- Potential return on investment (TIF funds contributed versus potential TIF revenue generated).
- Leverages additional public dollars/investments.
- Increases economic activity (jobs, retail sales, visitation).

The following strategies are recommended to help implement these opportunities.

1. Create a base TIF contribution investment cap of 15 percent of total project costs.

Limiting the amount of TIF funds that can be invested in a project will help spread the funding over a greater number of projects and decrease the potential of having to limit the number of projects the TIF Board can support. The average contribution from the TIF Board to projects has been approximately 15 percent, especially in more recent years. The amount of TIF contributions for eligible costs for a project should be capped at up to 15 percent of project costs; however, consider allowing flexibility to this requirement for projects willing to base TIF contributions on expected TIF proceeds created as well as projects that are willing to build off-site public improvements (e.g., sidewalks next to adjacent properties to complete a full face block).

2. Develop a list of priority development projects desired in the downtown and consider allowing for greater investment of TIF funds into these projects.

The market study identified market opportunities and development projects that are most needed to support the downtown and grow the tax base. The TIF Board should identify a list of priority development projects. For these priority projects, greater investment of TIF funds should be allowed, if needed, above the 15 percent cap.

3. Identify project categories that are sufficiently developed within the Study Area and for which TIF public investment is no longer required to address project feasibility.

TIF ineligible projects should include highway oriented commercial development, limited service hotels, and student-oriented housing as further identified in the land use strategies below.

4. Require projects with TIF contributions to phase in TIF payments over a two to five-year period.

Historically, the average project contribution has been around \$400,000, with a maximum contributed of \$4.3 million (excluding the Baylor Stadium project which was \$20 million). Recent development proposals for larger projects have requests for TIF funds of greater than the annual increment generated in the district. Some of these projects are high priorities and warrant providing large amounts in a single year, especially when the TIF Board has a large remaining fund balance. However, going forward the remaining fund balance is likely not large enough and one project could absorb all of the available funds. Phasing of investments is not ideal for private developers, so explore and be open to creative ways to address added risks and financing costs associated with phased investments.

5. Create performance limits/thresholds for TIF contributions.

As larger, more ambitious projects are proposed and funded in the district and the City and TIF Board address its priority projects, there is a potential for funded projects not to materialize. Consider the creation of performance guidelines including a start date deadline to guard against having to continually allocate funds to projects that have been approved but are not moving forward.

Public Improvement Priorities

Historically, the TIF Board has invested a portion of funds in public improvement projects, especially in the early years of the TIF District, in order to improve overall downtown conditions and to attract desired development and reinvestment. As the amount of annual tax increment decreases in 2023, prioritization of funding will become more necessary and will require the TIF Board to be strategic about its use of funds, especially for non-development/return on investment type projects.

City Center Waco has created a list of projects, strategies, and actions from the existing plans and studies listed in **Table 23** above. A number of these projects have been completed or are underway. Others on the list fall into the category of a vision, goal, or strategy that would require more project definition; for example, “preserve historic buildings” is an important goal, but defining a project for how to do this is needed, such as “create a revolving loan fund to provide matching grants for qualified historic preservation investment.” EPS has culled this list to a shorter list of more concrete investments to be prioritized based on their relative importance in achieving TIF goals and objective and to leverage economic development benefits consistent with the findings of the market study as shown in **Table 24**.

Table 24
Identified Downtown Public Improvement Projects

Identified Projects
1 Build Shared Parking Structure(s)
2 Enhanced Pedestrian Connection from River to Elm Avenue District
3 Enhanced Pedestrian Connection from River to Silo District
4 Enhanced Pedestrian Connection from River to Austin Avenue
5 Mary Avenue as Pedestrian-Oriented, Flexible Street Connecting the River to the Silo District
6 Create an Active, Family Friendly Plaza as Focal Point of Elm Avenue District, Bordered by Elm, Bridge, and MLK
7 Convert Franklin and Washington to 2-Way Streets
8 Create a Downtown Festival Street
9 Install Wayfinding Signage that Brands the Districts (Elm, Downtown, River, Silo) and Guides People to and from Each
10 Create a Programmed Urban Park that Provides Central Gathering Space in Front of the Courthouse
11 Create a River Shuttle
12 Establish Gateway Signs for Downtown and its District
13 Create a Venue for Riverfront Festivals, Cultural Events and Music Festivals
14 Expand Opportunities for Boating and Fishing on Brazos River with Addition of Marina
15 Enhanced Pedestrian and Bike Connections from Baylor University

Source: City of Waco; City Center Waco; Economic & Planning Systems

The total cost of these projects is greater than any potential funds TIF can generate and/or the City of Waco is able to allocate. Many of the projects identified—including developing a Festival Market Street, connecting the River to Austin Avenue, or creating a venue for River Festivals—represent new downtown amenity investments; however there are also needs to address inadequate or aging infrastructure that detract the quality of downtown as an attractive location for residential and commercial development such as the lack of sidewalks in areas with pedestrian activity and inadequate internet connectivity for businesses. EPS therefore suggests that further work be done to identify and add some of these infrastructure needs to the list of public improvements.

A more strategic approach to the TIF Board's funding of infrastructure projects and potential programs is therefore needed to ensure TIF funds are available for, and can be allocated to, the highest priority projects. Establishing project priorities is difficult to do. There are inevitably many more projects than available funding, although available funding is not easily quantified because TIF funds may only be a partial funding source. Project types also vary in size, cost and scope and do not easily lend themselves to a comparative analysis. As daunting as the task seems, there can be greater value to undertaking the process as there is to the relative ranking itself.

There are three recommended elements to prioritizing the list of capital project needs, as outlined below:

Project Evaluation Committee - The first is establishing a Project Evaluation Committee (PEC) comprised of key stakeholders to further define the project list and to then review and prioritize the identified projects against a set of evaluation criteria. The PEC should be a relatively small number of senior City staff, TIF Board, and City Center Waco representatives with the knowledge, skillset, and time available to undertake the work required.

Public Improvement List - The second element is compiling and refining the list of potential public improvement projects. After reviewing all of the City's plans and studies with applicability to the Downtown Study Area, it is clear that they currently have varying levels of definition. Some are more of a goal, strategy, or concept rather than a project (e.g., Enhance the Pedestrian Experience or Establish Gateways to Downtown). Some level of project specificity will be needed to evaluate and compare the project including information on project cost, estimated timing, and availability of outside funding.

Evaluation Criteria - The third step in the evaluation process is to evaluate and prioritize a short list of projects against a set of criteria designed to measure each project's consistency with the City's plans, relevance against the development opportunities identified in the market study, and the goals and objectives of the TIF Board. The following draft criteria are identified as a starting point for the PEC to apply to the list of projects:

- Project is identified within existing downtown plan(s).
- Contributes to goals and objectives of TIF District and each sub-district.
- Supports the development opportunities identified in the Market Study by development category.
- Potential return on investment (TIF funds used versus potential TIF revenue generated).
- Leverages additional public/non-profit/private investment.
- Enhances the attractiveness for development and/or address a barrier to development.
- Increases economic activity (jobs, retail sales, visitation).

There is no "right" number of projects that should be included as top priorities. A "Top5" or "Top 10" is a reasonable goal. The most important consideration is the steps and process to determining the most important projects. As indicated the project list will need some level of initial conceptual planning to define the projects and estimated costs. The evaluation criteria should also be discussed and vetted and potentially modified if necessary to reach some level of differentiation between projects. EPS has applied the above draft criteria to the list of identified public improvement projects to provide an initial ranking as shown in **Table 25** on the next page. Based on this initial review, 8 projects were rated a "4" or "5" and can be considered as an initial Top 8 subject to further review and vetting by the PEC.

**Table 25
Priority Projects**

Identified Projects	Identified in plans	Fits goals of TIF and subdistrict	Fits development market opportunities	Enhances attractiveness for development	Leverages public dollars/ investment	Increases economic activity	Total
1 Ped. Connection River to Elm Avenue District	+	+	0	+	+	+	5
2 Ped. Connection River to Silo District	+	+	0	+	+	+	5
3 Ped. Connection River to Austin Avenue District	+	+	0	+	+	+	5
4 Mary Ave. Ped. Connection from River to Silo District	+	+	+	+	0	+	5
5 Plaza Focal Point in Elm Ave. District	+	+	+	+	0	-	4
6 Franklin and Washington 2-way streets	+	-	+	+	0	+	4
7 Festival Street	+	+	0	+	0	+	4
8 Wayfinding Signage	+	+	0	+	0	+	4
9 Riverfront Festival/Art/Cultural Venue	+	+	0	0	0	+	3
10 Programmed Urban Park in Front of Courthouse	+	+	0	+	0	0	3
11 Shared Parking Structure	+	+	0	+	-	-	3
12 River Shuttle	+	0	0	0	0	+	2
13 Gateway Signage	+	0	0	0	0	+	2
14 Enhanced Ped and Bike Connections from Baylor	+	0	0	0	0	+	2
15 Marina to Expand Boating and Fishing	+	0	0	0	0	0	1

Source: Economic & Planning Systems

The following strategies are recommended to help implement the public improvement project prioritization process.

1. Work with City Center Waco and downtown stakeholders to develop a system for prioritizing downtown projects and programs.

As outlined above, the downtown stakeholders should develop a process for identifying and refining priority projects. A short-list of agreed upon projects will help focus efforts and help guide investment plans including the use of TIF funding. The priorities and objectives of various stakeholders may differ but in terms of the TIF Board's priorities, criteria related to potential for attracting additional private development in the TIF District, the leveraging of public dollars to attract additional investment, and addressing priority market opportunities should be considered.

2. Create a public improvement program seed fund with a process for application to TIF Board for funding.

Allocating a specific portion of funds for infrastructure improvements not being made through TIF funding projects can help address and pay for priority investments. It is likely that funding can be used to infrastructure deficiencies in the area. The stakeholders interviewed for the Market Study identified reconstruction of deficient infrastructure in the downtown area a potential use for TIF funds. Specifically identified was the need to improve aging water and sewer lines, address area specific storm-water management issues, and addressing the lack of cable/fiber connections to downtown businesses and residents. The funds can also be used to help seed fund priority amenities and infrastructures that would support and attract new development. The strategy is to use the TIF funds as seed/matching funds for projects, not the primary funder. To help provide clarity and awareness, the TIF Board should develop an application process for potential projects seeking funding. Applicants will likely be City departments, City Center Waco, non-profit groups, and other entities seeking TIF funds for priority investments. The formal process would help the TIF Board align requests with the larger strategy and efforts within downtown instead of a first-come approach.

3. Invest in priority pedestrian and multimodal streets/pathways within each downtown District.

Many of the streets and sidewalks within the Study Area are in need of improvement. As well, there are connections between non-automobile pathways that are needed (e.g., connecting the river/suspension bridge to Austin Avenue). We recommend that the street and sidewalk improvements be prioritized by Study Area District as the needs by area vary. The infrastructure seed fund could be used to spur these projects.

- **Austin Avenue District:** The Austin Avenue is the community's "Main Street" and should continue to be the primary focus retail/pedestrian street in the CBD. Identifying an enhanced connection to Austin Avenue from both the River/Gateway District and the Silos District should be a priority.
- **River District:** The City and TIF Board have invested substantial amounts of money into the improvement of the Riverwalk. These investments have made a great amenity for the community. Attracting development to activate the Riverwalk in segments will enhance the quality. The remaining components are ensuring enhanced connections exist from the other downtown districts. Additional connections over the river may be desired in the future.

- **Silo District:** Much of the Silo District was formerly industrial and lacks adequate sidewalk and street infrastructure in many areas. Funding sidewalk improvements would benefit the district but is likely cost prohibitive and with a lower return on investment. Prioritizing the enhancement of a key pathway/street (or two) would help create a pedestrian path through the district and could attract private investment. The enhancement of sidewalks would be better achieved through requiring new developments to provide new sidewalks and through match grants for existing businesses to partner in funding improvements. Mary Avenue—due to its low traffic levels, flexible right of way, and burgeoning collection of developments along it—would serve as a good priority street. A flexible design that prioritizes pedestrians and allows businesses to “blend” into the street is ideal. The inclusion of amenities/infrastructure (temporary bollards, electrical/water connections, flexible drive lanes and parking stalls) that allow the area to be used as a festival street—identified in several downtown plans—is another strategy to enhance the area.
- **Elm Avenue District:** The focus street in the Elm Avenue District is Elm Avenue. The forthcoming streetscape and lighting improvements will address the major need for a main pedestrian street. Enhanced pedestrian connections to River District from Elm Avenue and creating a plaza focal point on Elm are identified as project priorities.

4. Create a transportation demand management program for downtown.

A transportation demand management (TDM) program focuses on promoting and administering solutions that move trips to off-peak hours, managing communication and temporary solutions to address major traffic events (e.g., downtown festivals/events, football games) and also focuses on increasing awareness and access to mobility options such as transit, the downtown shuttle, biking/bike share, and van pooling. A potential starting point for downtown Waco would be efforts to help coordinate traffic issues related to major events and promotion of the use of alternative modes available. TDM programs can be operated internally initially but may grow to a point where a dedicated entity is needed. In many communities, transportation management associations (TMA) are formed and funded through contributions from area businesses through business organizations, business/public improvement districts, and other organizations.

5. Create a parking management program for downtown.

The downtown parking study commissioned by City Center Waco found that parking issues are more related to the utilization of existing parking and managing peak parking times/areas. The study recommends the implementation of a parking management plan and formation organization that manages parking for the downtown area. The implementation of parking meters, as the study suggests, in high use areas will help address parking issues in a more cost-effective way than trying to pay for additional parking lots/spaces. Invest in more dynamic parking management approaches that allow for the management entity to have flexibility with time periods and rates to achieve greater utilization. Consider coupling a parking benefit district with the parking management strategy. Parking benefit districts are used to manage parking in specific districts with high/ unique parking demands. Most commonly they are used for on-street parking management. Using technology and variable rates to create target occupancy, these districts can create more nuanced management approaches in high demand areas. Parking proceeds, after costs are netted out, generated by metered spaces/pay lots are used to provide transportation solutions for residents/employees,

sidewalks and/or area beautification. The City of Austin has a parking benefit district program that allows for areas with special parking issues to apply to become a district. Its first district was near the University of Texas and was implemented to address parking along a retail street being utilized for day time use from students. The Silo District is a good area to explore this type of program.

Land Use Strategies

This section outlines specific strategies and actions for the major downtown development land use categories including housing, retail, office, hospitality, and arts and culture. The market findings and development opportunities for each category are first summarized followed by specific recommended TIF investment strategies.

Housing

Housing development has been the most active sector in downtown over the last 10 years. There have been 743 housing units completed in downtown since 2008 in a range of formats including new construction, renovation of upper story lofts, and redevelopment of warehouse buildings. Rental housing has totaled 672 units or 90 percent of the total and has included Baylor student-oriented projects as well as others more focused on the downtown workforces. The remaining 10 percent of housing are the 71 for-sale units that have mainly been smaller loft and conversion projects. The TIF Board has played a significant role in providing financial assistance to most if not all of these developments.

There continues to be momentum in the housing sector with more than 800 proposed units in the pipeline, many of which are in the two largest proposed mixed-use projects—Brazos Commons and Brazos Promenade. EPS's market study concluded that downtown housing has the potential to increase its capture of citywide housing demand from 15 to 20 percent over the next 10 years which equates to a demand for 1,000 units or an average of 100 units per year. The demand for student-oriented housing is expected to taper as Baylor is expected to cap enrollment at current levels for the near future. The potential for for-sale housing is expected to increase as an empty nester option in concert with the continued growth of downtown retail and entertainment.

Going forward, we recommend that the TIF Board continue to support housing development but prioritize specific product types and districts. It is an important component of downtown revitalization and key to creating the mixed-use environment that attracts both retail and employment uses. As previously indicated, housing has been the lead market sector and we do not see this changing in the next 10 years. Multifamily housing should continue to be eligible for TIF assistance for extraordinary land assembly or building rehabilitation costs and/or eligible improvements such as façade improvements, sidewalk extensions, or structured parking that improve the public realm. Mixed use projects may justify additional assistance to cross-subsidize uses that cannot achieve rent levels to pay for new construction including office and retail uses. Elm Avenue also warrants additional attention as it is at the beginning point of the revitalization cycle and projects will most likely require greater incentives to be financially feasible.

The following strategies are recommended to help implement these opportunities.

1. Strengthen TIF investment criteria to prioritize TIF assistance for projects with extraordinary costs or for high quality housing development projects that contribute to the desired mix of development uses within the downtown focus areas.

Ten years ago, any housing project was viewed as a worthy TIF investment. Going forward, a standard market rate housing project should be able to achieve market rents or sales prices and not require public assistance. TIF investment should therefore be reserved for projects that have extraordinary costs that cannot be covered by project revenues, or that meet other defined policy objectives worthy of additional public investment. This could potentially include for-sale housing, housing in historic building renovations with extraordinary development costs, and housing developments that are at a greater density with structured parking. The investment of TIF funds into student only housing projects should be discontinued.

2. Utilize TIF funds to incentivize housing and mixed-use projects in the Elm Avenue neighborhood district.

Elm Avenue has languished for some time and is just recently beginning to attract interest in revitalization of existing buildings and new infill development. The streetscape and lighting improvements are expected to also help generate additional developer interest. The neighborhood district is envisioned to develop as a mixed-use area of which housing will be an important component. In the near future, supportable rents are expected to lag other downtown neighborhoods and housing and mixed-use projects will require a higher level of public investment to be feasible and should therefore be a priority for TIF investment.

3. Encourage the development of long term affordable housing units through the use of available affordable housing tools in order to proactively build an inventory of affordable units in Downtown.

While affordability of Downtown is not currently a major issue, as the popularity of Downtown grows there is the possibility of affordable housing options to be priced out of the area. The City should encourage the use of affordable housing financing tools to build an inventory of affordable units within mixed income developments. The use of low income housing tax credits and public facility corporations should be encourage and prioritized to build housing projects that have a mix of market rate units and income restricted units.

Retail

Retail development has been accelerating in downtown over the last five years. The most significant development is the full-block Magnolia Market at the Silos including the Magnolia Home Furnishings Market and Magnolia Bakery along with an extensive outdoor picnic and play area and food truck court. This destination alone is responsible for more than 1.6 million visitors to downtown a year. This additional visitation has also contributed to the sales of other downtown retail establishments—especially restaurants—as well as hotel room occupancies and revenues. The relative success of downtown retail is reflected in rising lease rates that have more than doubled from \$10 to \$20 per square foot since 2010.

There are a number of other recent retail projects that portend the changing nature of downtown Waco retail. First, it is primarily restaurants, bars, and other entertainment uses that are being built or leased including three restaurants in the Mary U Parks development, a new restaurant in the Hippodrome expansion, and three restaurants and 24 food hall stalls in the Union Food Hall project, all currently under construction. The new Brotherwell Brewery in the Elm Street District is also planning a tap room.

Potential retail gaps or needs include a grocery store and other convenience goods, a higher quality white tablecloth restaurant, and a wider array of ethnic food restaurants. A grocery store is priority to support the growing residential population; however, there are not a sufficient number of downtown households to support a store alone, so a potential business will also need to cater to downtown workers and visitors. It also will likely need TIF incentives to address development costs or to write down the lease rate to the level that a grocery store can afford to pay. The retail TIF strategy should also continue to support the expansion of retail and restaurant uses in the primary downtown neighborhoods (CBD, Silos, and Elm Street districts) to create a critical mass of retail space and to support other land uses—primarily housing and office.

The following actions are recommended to help implement these strategic priorities.

1. Actively recruit and support a downtown grocery store.

As indicated, a grocery store is a key amenity that can greatly increase the attractiveness of downtown living, but a use that will likely take additional incentives or partnerships to develop within the next 5 to 10 years. The Brazos Commons or Brazos Promenade projects are potential locations given their size and density, as well as their proximity to Baylor and I-35 as well as the downtown core.

2. Target the use of TIF incentives to retail projects that are located in the downtown Study Area districts.

This primary goal is to create a critical mass of retail uses that is “greater than the sum of the parts” and allow businesses to collectively market as a retail destination rather than just as individual businesses trying to make it on their own. It is also recommended that the TIF Board prioritize sidewalk and streetscape improvements that improve the quality of these retail nodes as pedestrian-oriented districts.

3. Discontinue the use of TIF incentives for highway-oriented retail projects.

The TIF Board should discontinue the use of TIF to fund highway-oriented retail along the I-35 frontage as this type of project does not need public support and there are higher priorities for the use of limited TIF resources. Highway-oriented retail dominated by national chains do not need financial incentives to be feasible. The use of TIF resources should be limited to retail development consistent with the development objectives of the four Study Area Districts.

Office

Although Waco is not a major office market, the downtown area is an important office location including the City and County governmental functions and professional service firms including lawyers, accountants and finance. Alico is the largest single employer with about 200 employees occupying the tallest building downtown at 22 stories and 122,000 square feet of space. However, a significant number of office buildings were lost to the 1953 tornado, and many other downtown office uses moved to the suburbs in the 1980s. There has also not been any significant new office space built in downtown in the last 25 or more years.

There is renewed interest in downtowns across the country for businesses and employees attracted to mixed use environments. There are also a number of new office formats including the conversion of warehouse buildings into open format offices and co-working spaces including the recent conversion of the Woolworth Building at 512 Austin Avenue, and Pioneer Savings Building renovation at 9th and Washington. The proposed Civic Center development on City land at 4th and Washington is an ambitious project that could potentially attract new office-based employers to downtown.

There are significant market and financial challenges to building new office space in downtown. Waco does not have a large office space using workforce. The primary office users are small professional and technical services businesses needing 1,000 to 3,000 square feet of space. It is very challenging to pre-lease enough space to finance new construction. Also, the prevailing office lease rates in downtown are \$18 per square foot for the highest quality space available, which does not support new development and will require lease rates of \$25 or greater per square foot to be feasible.

Where downtown has had success is in the renovation of existing office and commercial buildings by local developers specializing in historic renovation and by professional office tenants interested in owning their own space (e.g., doctors, lawyers, architects, etc.). This type of development is desirable but will need financial support because the financing gap for office uses is greater than for residential development which can support higher rents.

The TIF Board should also partner with employers who want to develop their own office space as a strategy to retain and attract more office uses to downtown. An example project in Castle Rock, Colorado, a small city outside of Denver, formed a creative public private partnership to address the challenges of building and financing office space where there are primarily small users and low lease rates. The Move is a 50,000 square foot office building over structured parking.



The Move, Castle Rock, Colorado

The developer owns a construction company that became an owner tenant of 10,000 square feet. Two other growing Castle Rock businesses also became owners of about 10,000 square feet each (ownership actually resides with separate LLCs comprised of the company leadership). This partnership created the amount of pre-leasing needed to finance the building. The Castle Rock EDC also provided a \$1.0 million seven-year low interest loan that provided about 1/2 of the 20 percent equity for the \$10 million project. The developer also built a loft style building with concrete floors and unfinished ceilings, that while also popular with tenants, kept project costs to a level that space for lease could be initially provided at \$20 per square foot NNN.

The following actions are recommended to help implement these strategic priorities.

1. Continue to provide TIF assistance for building conversions and renovations that provide space for small office uses and that contribute to reinvestment in the downtown environment.

In the short run, the greatest opportunity to increase office employment in downtown is through the conversion and renovation of existing buildings. Office uses have a greater financing gap than housing and will potentially require a greater TIF subsidy to be feasible, but this investment will be important to retaining and expanding employment uses in downtown.

2. Work with the Waco/McLennan County Economic Development Corporation to promote partnerships for Waco employers to partner in the development of a multi-tenant office building.

The Move project profiled above represents only one approach for companies to develop and finance office space. The City, Chamber, and TIF Board should reach out to local companies needing or desiring new office space and propose similar partnership approaches to getting new Class A office projects built and financed. These use of TIF financing incentives, together with an owner/user partner providing a significant pre-leased (or owned) portion of the building can address the existing impediments to getting new office space built and financed.

Hospitality

The Waco downtown hotel market is relatively strong with an annual occupancy rate of 78 percent in 2017 and an average daily rate of \$111. This strong demand has largely been driven by the draw of the Magnolia Market which has dramatically increased downtown Waco visitation since it opened in late 2015. In response to this increase, there are two new hotels under construction (La Quinta and Aloft) with 241 rooms and five others in the pipeline with an additional 700 rooms planned.

According to the Convention and Visitors Bureau, a continuing need is an additional full-service hotel close to the Convention Center with meeting and banquet space and a sufficient number of rooms that can be blocked for events. Most of the recent and planned hotels are limited service and smaller properties with less than 125 rooms each and do not fulfill these needs. The downtown area could also support a smaller independent boutique hotel at the higher end of the price range.

The TIF strategy should prioritize these identified needs. Given the amount of limited service hotels already in the pipeline, additional TIF investments in these projects is not likely to be needed.

The following actions are recommended to help implement these strategic priorities.

1. Work with the Waco CVB to develop a full- service hotel with the ability to host conventions and meetings.

The CVB is often in a disadvantageous position to compete for state conferences due to the lack of a sufficient block of hotel rooms. Many conferences also prefer to have a portion of their events in the headquarters hotel and utilize the convention center for exhibits and overflow needs. Developing and attracting a new convention-oriented hotel to complement the Hilton will take a concerted effort and partnership between the City and CVB and should also be a priority for TIF investment.

2. Prioritize TIF assistance to hotel and lodging projects that diversify the hospitality mix.

The downtown area has added a number of new limited service hotels in the last two years and has five more in various stages of planning. The TIF Board should therefore limit its investment into projects that diversify the product mix and/or address other downtown development needs such as the conversion of existing historic buildings to boutique hotels.

Arts, Culture, and Entertainment

The City of Waco and its partners formed a Cultural District in the Study Area in 2016 to designate the area as a center for arts and culture and create an agency to advocate for the arts in Downtown. The Study Area and the City of Waco lacks a center, or concentrated location, for arts and culture within the community. The Arts Center of Waco has recently purchased the LULAC Building on South 8th Street for its new home. The new arts center will fulfill an important gap as a location for arts programming and education. It will potentially also have space for art shows and exhibitions. There will continue to be a need for additional gallery and art “maker” spaces, some of which could be located in the new arts center or in nearby properties. The concentration of these uses in a defined location close to the Arts Center can help create an arts district within the Downtown area. This area of Downtown is likely to be more affordable than Austin Avenue where arts and artists are being priced out.

The lack of performance space has also been a pressing need; however, the expansion of the Hippodrome including three additional movie screens will free up the historic main theater for additional usage for dance, music, and theater performances. There is also an opportunity for more bars and beer halls with the capacity for small bands, comedy and other acts.



Durango Arts Center, Durango, Colorado

Durango Arts Center - A precedent project is the Durango Arts Center in Durango, Colorado, a 17,000 square foot center in a historic 1920s downtown auto dealership building. The DAC is run as a non-profit corporation to promote the arts in Durango. It has two full-time and five part-time employees and relies heavily on volunteers for operation. The center hosts over 80 community events including exhibit receptions, theatre performances, artist lectures, film screenings and the region’s largest outdoor fine arts and fine craft showcase. The DAC contains a functional and flexible gallery, art library and a lobby gallery that provide three separate exhibit spaces for approximately 25 exhibits per year. The exhibits program includes coordination of related educational programming, such as artist lectures, film screenings and workshops to

cultivate creative dialogue about larger issues in contemporary art practices. The DAC also provides year-round education programs in the visual and performing arts—featuring summer camps, specialized adult workshops and after school art programs.

The following actions are recommended to help implement the Arts and Culture priorities.

1. The TIF Board should assist Arts Center Waco with the development of a community arts center to be the central location for arts programming, education, and exhibits in downtown Waco.

Aside from the Hippodrome there is no downtown venue for arts programming, education and exhibition. The community would benefit from a community arts center that contains space for these uses. A key first step is building a non-profit organization to program and operate such a facility.

2. Utilize TIF funds to help fund initiatives developed by newly formed cultural district.

There is a broad palette of projects and initiatives that can help create and build the organizational capacity around the creative arts in Waco. While the TIF Board's focus and responsibilities are primarily for development and public improvements, it could consider providing seed funding for the development of art studios and creative maker space as a separate project or as a component of a mixed-use development. The Silos and Elm Avenue districts are appropriate for this type of development.

3. Identify opportunities to provide a building and spaces to support artisans and artists in or near the new Arts Center.

The new Arts Center may have limited space available for practicing artists and artist to create their work. It would also be beneficial to develop additional artist maker and gallery spaces clustered near the Arts Center. The TIF Board should prioritize the development of a building to be rehabilitated or built to provide inexpensive work and display spaces to support the growth of the arts and artisans related to the home décor and hand-made, homemade niche forming in the area. These spaces may be a portion of or associated with the Arts Center.