



FINAL REPORT AND RECOMMENDATIONS

Affordable Housing in the City of Austin's Transit-Oriented Development (TOD) Districts

**Plaza Saltillo
Martin Luther King, Jr. Boulevard
Lamar Boulevard/Justin Lane**

August 20, 2008



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1. Introduction

The City of Austin's Transit Oriented Development (TOD) Ordinance is intended to promote pedestrian-friendly, dense, mixed-use development surrounding the future commuter rail stations on the Capital MetroRail line. The TOD Ordinance, approved in May 2005, established six Transit Oriented Districts (TODs) and a Station Area Planning (SAP) process for the TODs, defined specific affordable housing goals for the TODs, and required an analysis of the feasibility of achieving the affordable housing goals.

The TOD Ordinance includes a goal that 25 percent of the new housing units in each Transit Oriented District should be affordable. For owner-occupied developments, the goal is for the affordable units to be sold to households with incomes at or below 80 percent of MFI.¹ For rental developments, the goal is for the affordable units to be occupied by households at or below 60 percent of MFI. To be considered affordable, a homeownership or rental unit must serve a household at each of the corresponding income levels paying no more than 30 percent of its adjusted gross income toward housing costs, including utilities.

The TOD Ordinance also establishes goals targeting lower levels of affordability for Transit Oriented Districts located in the Community Preservation and Revitalization Zone (CP&R Zone). Table 1 below outlines the affordability goals of the TOD Ordinance.

Table 1.1: TOD Affordability Goals

Goal	Owner-Occupied	Rental
General Affordability Goal	25% of new housing units affordable	
	Affordable units at or below 80% MFI	Affordable units at or below 60% MFI
CP&R Zone Goal (Plaza Saltillo and MLK)	Affordable units at or below 60% MFI	Affordable units at or below 50% MFI <ul style="list-style-type: none">▪ 5% units at or below 30% MFI▪ 10% units at or below 40% MFI▪ 10% units at or below 50% MFI

The affordability goals are ambitious. Due to significant development costs, land availability issues, legal limitations, development restrictions, and other challenges described in this report, there is a significant gap between the cost of developing rental and/or homeownership units and the income derived from either the rental or sale of those units to qualified low- and moderate-income residents.

¹ Area Median Family Income (MFI) limits are published by the U.S. Department of Housing and Urban Development (HUD) and are updated annually.

This report identifies challenges to achieving the ambitious affordable housing goals specified in the TOD Ordinance, examines potential development scenarios, and provides recommended strategies. In order to achieve the goals, the City will need to implement multiple strategies which will require a significant amount of public subsidy and/or incentives. In addition, the City will need significant participation from external entities in order to create affordable housing in the TOD areas. Potential partners include non-profit affordable housing developers and the Housing Authority of the City of Austin, as well as the Texas Department of Housing and Community Affairs (TDHCA). Through a combination of incentives, funding sources, and other tools, the TOD affordability goals can be achieved.

2. Definitions

Throughout this report, a variety of technical terms are employed. The information below provides uniform definitions for some of the most common references:

Station Area Plan: The TOD Ordinance (No. 20050519-008) authorizes the creation of Station Area Plans, and directs City staff to conduct a planning process to develop a plan for each Transit Oriented District (TOD). City Council will adopt a Station Area Plan for each TOD by zoning ordinance. A Station Area Plan establishes the permitted uses and defines development regulations for each TOD. The TOD Ordinance also states that Station Area Plans will include an analysis and feasibility review describing potential strategies for reaching the City's affordable housing goals for each of the TODs.

Median Household Income versus Median Family Income (MFI): The U.S. Census Bureau provides a distinction between a "family" and "household." A family consists of two or more people (one of whom is the householder) related by birth, marriage, or adoption residing in the same housing unit. A household consists of all people who occupy a housing unit, regardless of relationship. A household may consist of a person living alone or multiple unrelated individuals or families living together. The median income divides the income distribution into two equal groups, one having incomes above the median, and other having incomes below the median.

Qualified Census Tract (QCT): Under section 42(d)(5)(C) of the I.R.C., as amended by the Community Renewal Tax Relief Act of 2000, a Qualified Census Tract is any census tract (or equivalent geographic area defined by the Bureau of the Census) in which at least 50 percent of households have an income less than 60 percent of the Area Median Gross Income (AMGI) or, where the poverty rate is at least 25 percent and where the census tract is designated as a Qualified Census Tract by the Secretary of Housing and Urban Development.

QCTs are significant because, under the Low Income Housing Tax Credit program (Section 42), a development located in a QCT is eligible for an adjustment of 130% of the qualified basis used in determining the amount of housing tax credits to be awarded.

Transit Oriented Development District Classifications: The TOD Ordinance establishes four distinct types of TOD Districts:

A Neighborhood Center TOD District is located at the commercial center of a residential neighborhood. The average density is approximately 15 to 25 housing units per acre, and typical building height is one to six stories. Land uses permitted include small-lot single-family uses, townhouses, low-rise multi-family residential uses, neighborhood retail and office uses, and mixed-use buildings.

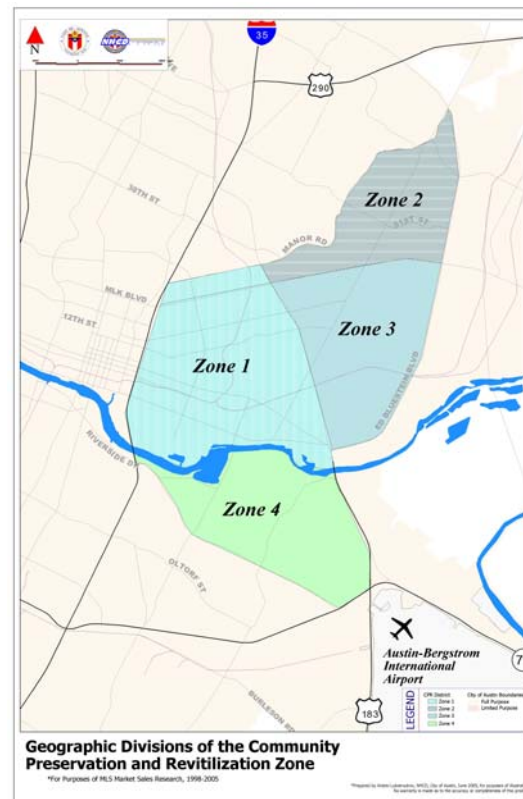
A Town Center TOD District is located at a major commercial, employment, or civic center. The average density is approximately 25 to 50 housing units per acre, and typical building height is two to eight stories. Land uses permitted within the zone include townhouses, low- and mid-rise multi-family residential uses, retail and office uses, and mixed-use buildings.

A Regional Center TOD District is located at the juncture of regional transportation lines or at a major commuter or employment center. The average density is more than 50 housing units per acre, and typical building height is three to ten stories. Land uses in this zone include mid-rise multi-family residential uses, major retail and office uses, and mixed-use buildings.

A Downtown TOD District is located in a highly urbanized area. The average density is more than 75 units per acre, and typical building height is six stories or more. Land uses in this zone include mid- and high-rise multi-family residential uses, large retail and office uses, and mixed-use buildings.

Community Preservation and Revitalization Zone (CP&R Zone) Program: City Council resolution #20050428-043 establishes a program to promote economic and community development for the area bounded by IH-35 (from Manor Road to Riverside Drive), Riverside Drive (from IH-35 to State Highway 71), State Highway 71 (from Riverside Drive to US Highway 183), US Highway 183 (from State Highway 71 to Manor Road), and Manor Road (from US Highway 183 to IH-35).

The program's goals are to support affordable housing and small business development within the Zone. The TOD Ordinance also establishes deeper affordability goals for TOD areas located within the CP&R Zone.



3. TOD Housing Potential

As part of the overall Station Area Planning effort, Economic Research Associates (ERA) provided market data and demand projections in the TOD Districts through the year 2025 (“ERA Station Area Market Analysis”). Assuming that the TOD Districts are built out to full projections and that 25% of the residential units are designated affordable, DMA determined the following maximum potential yield for affordable housing in each of the three TOD Districts:

Table 3.1: TOD Maximum Potential Yield

TOD District	ERA Housing Potential Estimate through 2025 (“high” scenario)	Potential Affordable Housing Unit Yield through 2025 (assumes housing goals are met)
Plaza Saltillo	2,116 units	529 units
Martin Luther King, Jr. Blvd.	1,521 units	380 units
Lamar Boulevard/Justin Lane	1,654 units	414 units

It should be noted that the above affordable unit yields are based solely on a calculation of 25% of the ERA Housing Potential Estimate. These figures are not intended to describe the financial feasibility of a particular number of affordable units.

1. Plaza Saltillo TOD District

Overview

The Plaza Saltillo TOD District lies between East 3rd and East 7th Streets and is bounded by IH-35 on the west and Chicon Street on the east. Because of its proximity to downtown Austin, a significant amount of development activity is taking place in the area surrounding the TOD District.

The northern portion of the site, along East 5th, 6th and 7th Streets, is primarily commercial in nature and includes large warehouses, office suites, retail businesses, and restaurants. On the southern edge of the site, East 4th Street includes more industrial uses, such as a metal recycling center. Beyond both the northern and southern borders of the TOD District, the predominant land use is single-family housing. Saltillo Plaza — a station-like park with open plazas, benches, covered shelters, and other amenities — lies within the Plaza Saltillo TOD District. The plaza is host to a weekly farmers market, as well as numerous public events and parties.

The parcels with the greatest development potential in this TOD District are the eight blocks comprising 11 acres of vacant land owned by the Capital Metropolitan Transportation Authority (Capital Metro). To determine the best use of this property,

Capital Metro secured the services of the ROMA Design Group, an interdisciplinary planning firm based in San Francisco, to create the Saltillo District Redevelopment Master Plan. The Austin City Council and the Capital Metro Board appointed the Saltillo District Community Advisory Group (CAG) to provide community input during the planning process.

The TOD Ordinance establishes specific restrictions unique to the Saltillo TOD area. The Ordinance precludes a Station Area Plan from designating a higher-density Gateway or Midway Zone for any portion of the Saltillo TOD District that lies outside of the 11 acres.

There is a high level of neighborhood interest regarding redevelopment of the Plaza Saltillo TOD District. The Saltillo District CAG has expressed a desire to limit density and increase the level of affordability in new housing development proposed for the 11-acre Capital Metro property.

Demographics

The Plaza Saltillo TOD District and the immediate surrounding area include two Census Tracts — 9.01 and 9.02 — and two Census Block Groups. Census Tract 9.02 is a Qualified Census Tract, thereby enhancing opportunities for affordable housing funded by the Low Income Housing Tax Credit program.

The area within Tracts 9.01 and 9.02 includes 2,123 persons, according to the 2000 U.S. Census. When compared with Austin as a whole, the population is older and the income level of area residents is lower than the city’s median income level. On average, 9.8 percent of the residents are older than age 65 compared to 6.7 percent for the City of Austin. The Median Household Income was \$24,674, which represents 58 percent of the City of Austin’s Median Household Income. The percentage of persons living below the poverty line was 44.4 percent, compared to 14.4 percent for the City of Austin.²

Table 3.2: 2000 Census Data for the Plaza Saltillo TOD District

Block Group	Occupied Housing Units	Total Population	>65 years of age	Median Family Income in 1999	Percent of 1999 Austin MFI	Median Household Income in 1999	Average Household Size	Percent Below Poverty Level	Percent Rental Units
BG 2, Tract 9.01	207	804	9.7%	\$27,875	52%	\$33,750	3.06	16.4%	61.4%
BG 4, Tract 9.02	425	1,319	9.8%	\$21,917	41%	\$19,141	2.91	61.4%	77.2%

The Saltillo area population is predominantly Hispanic/Latino. As the 2000 Census indicates, 87.7 percent of persons in Census Tract 9.02 and 56.7 percent in Census Tract 9.01 identify themselves as Hispanic.

² The 2006 poverty threshold for a family of four is \$20,000; for 1999 it was \$17,029.

While the neighborhood within these two Census Tracts has historically been one of Austin's low-income areas, it is experiencing a significant amount of redevelopment. More than 16 residential or mixed-use projects are currently planned for the area, including 650 residential units. The majority of these developments are located north and east of the TOD District. These projects appear to be marketed to higher income residents, and this trend could result in rising property values and a corresponding increase in property taxes, in addition to changes in the area's demographic composition.

Zoning/Land Use

Current Cost of Land

The average appraised value of real property in this area, as established by the Travis Central Appraisal District (TCAD), is approximately \$700,000 per acre, which is one of the highest land costs of the TOD Districts studied. Even though the Saltillo TOD District is located in an area with incomes lower than the average for the City of Austin, it has become a popular area for redevelopment. As a result, land prices have escalated in recent years, and generally exceed TCAD appraised values.

Housing

According to the 2000 U.S. Census, the Block Groups comprising the study area contain 632 occupied housing units. Most of the housing in the area is single-family in nature, and nearly half of these homes were built prior to 1925. Houses are generally small, with typical sizes ranging from 700 to 1,500 square feet.³ There are many older homes in the area, and renovation of existing homes is common. Single-family infill development is also taking place.

New condominium projects tend to be modern, loft-style developments such as Saltillo Lofts, a mixed-use development with 29 housing units and nine commercial units. Other mixed-use loft projects recently built in the area or under construction include TwentyOne24 (60 units), Waterstreet Lofts (29 units), and Sixth and Brushy (18 units).

Current Cost of Housing

Of the 632 occupied housing units in the TOD District in the 2000 Census, an average of 72 percent of units were renter-occupied. Many of the renter-occupied units are in subsidized housing developments owned by the Housing Authority of the City of Austin (HACA), such as Chalmers Courts on East 4th Street and Santa Rita Courts between East 2nd and Corta Streets, for a total of 255 units. HACA rents are based on income, and residents generally earn 30 percent or less of MFI. Villas on Sixth, a recently completed LIHTC development in the area, serves families between 40 and 50 percent of MFI, and rents range from \$435 for a one-bedroom unit to \$995 for a three bedroom unit.

The ERA Market Study showed that the average rental rate for a unit in the Central Austin Downtown Market in 2006 was \$1,538. While the Central Austin Downtown

³ Source: Travis Central Appraisal District.

Market is not the same specific geography as the Saltillo TOD District, it is the best available comparison.

According to ERA, recent single-family home sales for the immediate Saltillo TOD District area range from a low of \$74 per square foot to a high of \$268 per square foot, with an average sales price of \$132 per square foot. Condominium and loft units in the area tend to sell for higher rates, with the prices of recent developments averaging \$250 to \$300 per square foot

Demand for Housing in the Area

In addition to developments already known to be under construction for the area, the ERA Market Study determined that the Plaza Saltillo TOD could support 102 to 156 housing units in the short term (2007-2010) and 1,096 to 1,960 units in the long term (through 2025), for a total demand over the next 20 years of 1,198 to 2,116 units. For a breakdown of units by housing type, ERA projected at total of 648 to 1,296 condominium or live-work units and 476 to 639 apartment units at a density of 30 units per acre, and 74 to 181 townhouse and duplex units at 15 units per acre.

A variety of factors contribute to housing demand and growth in the Plaza Saltillo TOD District: (1) its proximity to downtown; (2) several master-planning efforts for the area, including the Saltillo District Redevelopment Master Plan and the upcoming Station Area Plan; (3) recent development activity; and (4) the area's appeal to Austin's "creative class."

Zoning and Planning

The TOD District lies primarily in the East Cesar Chavez Neighborhood Planning Area, includes part of the Central East Austin Neighborhood Planning Area and is adjacent to the Holly Neighborhood Planning Area. The Future Land Use Map in the City Council-adopted East Cesar Chavez Neighborhood Plan designates the rail corridor as a future mixed-use area. The Holly Neighborhood Planning Area includes new affordable housing developments in the area such as Villas on Sixth, a 160-unit affordable rental development, and the 105-unit Pedernales Lofts, a S.M.A.R.T. Housing™ development in which 40 percent of the units were sold to households at or below 80 percent of MFI.

Much of the land within the Plaza Saltillo TOD District is zoned CS-MU-CO-NP (Commercial Services Mixed Use Combining District Conditional Overlay Neighborhood Plan). This zoning was established by the East Cesar Chavez Neighborhood Plan zoning ordinance. While the height limit for CS zoning is typically 60 feet, this zoning ordinance establishes for a portion of the TOD District a maximum height limit of 40 feet, allowing development of up to three stories. CS-MU zoning allows a maximum density of 36 to 54 units per acre, depending on unit size, but it is likely that the 40-foot height limit would reduce the actual allowable density.

The TOD Ordinance, while stating that a Station Area Plan may establish site development standards that are different than current zoning, places additional restrictions on the two East Austin TOD Districts within the Community Preservation and

Revitalization (CP&R) Zone. In addition, there are restrictions that apply to the Plaza Saltillo TOD District specifically. The TOD Ordinance notes that:

“A Station Area Plan . . . in a Community Preservation and Revitalization Zone . . . may not prescribe site development regulations that increase building height over the maximum prescribed by the applicable zoning district before adoption of the Station Area Plan, unless . . . the development meets the affordable housing goal[s] [of the TOD Ordinance specific to the CP&R zone].”

Further, the TOD Ordinance precludes a Station Area Plan from increasing allowable heights in the Transition Zone of the Plaza Saltillo District. The Ordinance states that:

“A Station Area Plan . . . for a transition zone in the Plaza Saltillo TOD District may not prescribe site development regulations that increase building height over the maximum prescribed by the applicable zoning district before adoption of the Station Area Plan”.

The Saltillo District Redevelopment Master Plan accounts for the possibility of the Station Area Plan allowing additional height, and recommends 60 foot height limits along 5th Street and one 120-foot building adjacent to IH-35.

2. Martin Luther King, Jr. Boulevard TOD District

Overview

The Martin Luther King, Jr. Boulevard (MLK) TOD District is located in central east Austin, approximately one mile east of IH-35 and the University of Texas campus and one mile from the Robert Mueller Municipal Airport redevelopment site. Two east-west thoroughfares — Martin Luther King, Jr. Boulevard and Manor Road— intersect the TOD District. Airport Boulevard is a major arterial to the east of the site. The station site is located on the south side of Martin Luther King, Jr. Blvd.

As a result of its proximity to downtown and the University of Texas, the area has experienced significant reinvestment in recent years. While large-scale commercial redevelopment is yet to be seen, housing renovation and new construction are widespread, and new restaurants and entertainment venues are locating in the commercial corridor along Manor Road.

Two other factors will affect the area’s development potential. First, many of the large, vacant tracts in the MLK TOD District are within the 100-year floodplain, thereby limiting their development potential. Second, at least two of the large vacant tracts in the TOD District are already in the planning phases for redevelopment.

The 11-acre site north of Martin Luther King, Jr. Blvd. is the projected location for the Redeemer Presbyterian Church, but this substantial property has the potential to

accommodate residential and other uses. In addition, the 22-acre Featherlite Tract south of Martin Luther King, Jr. Blvd. is proposed for a mix of land uses. This tract includes “Chestnut Commons”, a residential development on 3.84 acres fronting on Miriam Avenue between East 14th and East 17th Streets, with 32 single-family homes on small lots and 32 efficiency-style multi-family condominium units.

An existing multi-family development, the Mount Carmel Apartments, lies just outside the TOD District on East 12th Street. This development is very low density and contains 100 subsidized units on 9.6 acres. Even at a moderate TOD density level, the site could contain 146 units and could be a candidate for redevelopment in the future.

Demographics

The area within and immediately surrounding the MLK TOD District includes three Census Tracts (4.02, 8.02 and 8.03) and four Census Block Groups, and is home to 4,287 people according to the 2000 U.S. Census. On average, 17.5 percent of the residents are older than age 65, compared to 6.7 percent for Austin.

Table 3.3: 2000 Census Data for the MLK TOD District

Block Group	Occupied Housing Units	Total Population	>65 years of age	Median Family Income in 1999	Percent of 1999 Austin MFI	Median Household Income in 1999	Average Household Size	Percent Below Poverty Level	Percent Rental Units
BG 1, Tract 4.02	589	1,128	8.6%	\$34,063	63%	\$33,325	1.91	16.5%	59.4%
BG 2, Tract 4.02	474	1,277	25.4% ⁴	\$25,234	47%	\$21,422	2.27	28.2%	60.8%
BG 1, Tract 8.02	337	965	20.3%	\$37,386	69%	\$27,250	2.66	29.2%	30.9%
BG 1, Tract 8.03	353	917	14.7%	\$31,208	58%	\$25,625	2.84	19.3%	49.0%

According to the 2000 Census, Median Family Income in the MLK TOD District is lower than the City of Austin as a whole – between 47 percent and 69 percent of the City’s MFI. The percentage of persons living below the poverty line⁵ was 23.2 percent for the census tracts in the MLK TOD District, compared to 14.4 percent for the City of Austin. Qualified Census Tracts cover the entire TOD District study area.

Anecdotal evidence suggests that significant demographic changes have occurred in the area since the 2000 Census. For this reason, projections cited in the ERA Market Study were also examined. According to ERA, the population of the MLK/Chestnut area is 13,052 persons, comprising 5,137 households.⁶ Persons over the age of 65 make up 12

⁴ This Block Group includes a nursing home and hospice center. It is likely that these residential uses affect the percentage of residents over age 65.

⁵ The 2006 poverty threshold for a family of four is \$20,000; for 1999 it was \$17,029.

⁶ Boundaries for these projections are not defined, but reference the Chestnut neighborhood.

percent of the population, and the Median Household Income is \$30,414, or 52 percent of the region's Median Household Income.⁷

The ERA Market Study shows that, while the median income has increased during the past five years, 35 percent of the area households live on a household income of less than \$20,000 per year. Only eight percent of households have annual incomes over \$100,000, compared to 24 percent in the metropolitan area.⁸ Students and senior citizens may account for some of the income disparity; nevertheless, incomes in the neighborhood remain lower than those in the Austin area as a whole.

The neighborhood around the MLK TOD District is diverse, with 34 percent of residents identifying themselves as White, another 38 percent Black, and 22 percent of "other" race. Thirty-seven percent of the area's residents are Hispanic.

According to the ERA Market Study, the area is home to a variety of households, including recent college graduates, affluent empty-nester households, retired seniors, wealthy young families and couples, as well as moderate-income immigrant families. As more professionals move to the area, the median income is likely to increase and home prices and property taxes are likely to rise. These changes could have a significant impact on the area's demographic composition.

Zoning/Land Use

Current Cost of Land

According to the Travis Central Appraisal District, the average appraised value of land in this area is approximately \$384,000 per acre, slightly more than half the per-acre value of land in the nearby Saltillo TOD District. There are several factors that may contribute to the difference in land values between the MLK TOD District and the Saltillo TOD District: (1) there are still large, undeveloped parcels of land within the MLK TOD District; (2) some portions of the vacant land in the MLK TOD District lie within the 100-year floodplain; and (3) the MLK TOD District is not immediately adjacent to downtown. It should also be noted that actual land prices in the area frequently exceed TCAD appraised values.

Housing

Housing in the MLK TOD District is characterized primarily by single-family detached homes. A significant number of the homes located between Martin Luther King, Jr. Blvd. and East 12th Street were built prior to 1935, in addition to a substantial number of infill homes built within the past decade. The majority of the homes located north of

⁷ Economic Research Associates and Spitzer Associates. Transit Oriented Development Potential, Prepared for Capital Metropolitan Transit Authority: Task III — Station Area Market Analysis, Draft Report: May 9, 2006, page IV-2.

⁸ Economic Research Associates and Spitzer Associates. Transit Oriented Development Potential, Prepared for Capital Metropolitan Transit Authority: Task III — Station Area Market Analysis, Draft Report: May 9, 2006, page IV-2, Table IV-1.

Martin Luther King, Jr. Blvd. were built in the late 1940s and 1950s. Few homes are greater than 2,000 square feet; a characteristic house for the area is a two-bedroom, one-bathroom bungalow of approximately 1,100 square feet.

The area is currently undergoing a transition from an established neighborhood with older homes and an aging, lower-income population to a more affluent community as professionals and artists move into the area. While some older, single-family homes have been renovated, others have been demolished and replaced with larger, more modern homes. Also, in some cases, homes from other neighborhoods have been relocated to the area. New infill housing includes higher priced homes of modern design as well as new duplexes and detached second units built by investors and intended as rental units.

Current Cost of Housing

Of the 1,753 occupied housing units in the TOD District in 1999, an average of 52 percent of units were renter occupied.⁹ At the time of this analysis, no data was available for rental developments completed in the TOD District within the preceding decade. For existing rental developments, current rents for multi-family properties in the area range from a low of \$429 for an efficiency unit to a high of \$750 for a two-bedroom unit.¹⁰ The average rent in non-subsidized housing is \$504 for a one-bedroom and \$662 for a two-bedroom unit, compared to ERA's published 2005 average Austin rents of \$690 and \$923 and a 2006 Austin Fair Market Rent¹¹ of \$658 and \$804 for the same size units.

Table 3.4: Rent Comparison for the MLK TOD District
(all units existing construction built prior to 1995)

Unit Type	MLK TOD District	ERA Market Rents for Austin (2005)	HUD FMR for Austin (2006)
Efficiency	\$445-\$525	\$493	\$578
One Bedroom	\$504	\$690	\$658
Two Bedroom	\$662	\$923	\$804
Three Bedroom	N/A	\$1,212	\$1,093

The rents for these apartments are affordable by current market standards, but the units do not have any rent or income restrictions to guarantee long-term affordability.

The ERA Market Study shows that recent single-family home sales for the immediate MLK TOD District range from a low of \$39 per square foot to a high of \$178 per square foot, with an average sales price of \$120 per square foot.¹² This broad array of prices

⁹ U.S. Census Bureau, Data Set: Census 2000 Summary File 3 (SF3) Sample Data.

¹⁰ Calls made June 15, 2006 to Sandstone I & II on Manor Rd. and on December 14, 2006 to Ancient Oaks, Shady Oaks, Sagebrush, and Eastside Commons on Manor Rd. and Gallo Apartments on East 20th St.

¹¹ Fair Market Rent Fair Market Rents (FMRs) are gross rent estimates; they include shelter rent and the cost of utilities. Using a formula that accounts for a range of rents in an area, the U.S. Department of Housing and Urban Development sets FMRs for an area each year. Affordable housing projects that receive operating expenses or other federal subsidies are required to set rents at or below the Fair Market Rent.

¹² ERA Spitzer Associates, *Appendix B: MLK/Chestnut – Comparative Market Analysis*. Capital Metro: Transit Oriented Development Market Analysis, Task II — Existing Development Conditions, Draft Report: February 2006.

shows the wide range of housing types in the area — dilapidated “tear-downs,” restored historic homes, and new, modern homes and condominiums. For area resale and new construction multi-family units built after 2000 and listed for sale in the Multiple Listing Service database, ERA shows a price range of \$269,900 to \$320,000 per unit, or \$172 to \$208 per square foot.

All of the TOD District parcels, with the exception of the parcels located north of Manor Road, fall within Zone 1 of the Community Revitalization and Preservation (CP&R) Zone as designated by the City of Austin. Zone 1 is noted for its particularly fast growth and a rapid rise in home prices and lot prices. According to the 2005 Community Preservation and Revitalization Program Draft Report, home sales prices in Zone 1 were predicted to exceed city-wide median sales prices within three to four years, and the area was predicted to become unaffordable to most households with incomes at or below 80 percent of MFI by the end of 2007.

Demand for Housing in the Area

The ERA Market Study determined that the TOD District could support 78 to 212 housing units in the short term (2007-2010) and 836 to 1,521 units in the long term (through 2025), for a total demand over the next 20 years of 914 to 1,521 units. ERA projected a unit mix including approximately 430-540 condominium or live-work units at a density of 30 units per acre, 190-400 apartment units at 30 units per acre, and 290 to 500 townhouse and duplex units at 15 units per acre.

Factors cited in the ERA Market Study as contributing to this level of demand are the area’s tree-lined streets and historic homes, proximity to downtown and the University of Texas, and expectations of rising property values in the area.

Zoning and Planning

The MLK TOD District falls within three Neighborhood Planning Areas: Upper Boggy Creek, Chestnut, and Rosewood. The Chestnut Neighborhood Plan, which the City Council adopted in 1999, identifies housing as a major focus. The plan recommends protecting the character of the neighborhood while encouraging quality new development (including mixed-use) and compatible residential infill development. The plan encourages the development of affordable housing, particularly for low-income seniors.

The City Council adopted the Upper Boggy Creek Neighborhood Plan in 2002. The plan calls for limiting commercial development to commercial corridors, and recommends that building height along Martin Luther King, Jr. Boulevard be limited to 40 feet. The plan calls for the promotion of housing at all income levels.

The Rosewood Neighborhood Plan, adopted in 2001, establishes as a priority the rehabilitation of existing housing and new infill development. The plan also recommends that property on the north side of Martin Luther King, Jr. Boulevard (including the Redeemer Tract) be designated for mixed-use development.

3. Lamar Boulevard/Justin Lane TOD District

Overview

The proposed station at the Lamar Boulevard/Justin Lane (Lamar) TOD District will be located at the intersection of North Lamar Boulevard and Airport Boulevard. The TOD District primarily covers the areas along and adjacent to Lamar Boulevard, from Morrow Street on the north to Denson Drive to the south. The southern boundary of the TOD District is approximately 3.5 miles north of the University of Texas campus and 2.5 miles northwest of the Robert Mueller Municipal Airport redevelopment site.

The properties with frontage along Lamar Boulevard and Airport Boulevard are characterized by low-density commercial development. Immediately behind the commercial properties are established single-family residential areas, which also include a few multi-family developments within neighborhoods. There are very few vacant parcels in the area.

The only undeveloped site in the Lamar TOD District is the 74-acre piece known as the Huntsman Tract, which is zoned LI-PDA (Limited Industrial Planned Development Area) and will be developed with a mix of uses at a higher density than that of the surrounding neighborhood. However, the construction of the commuter rail station — coupled with development options in the Lamar/Justin Station Area Plan — may spur the redevelopment of the many small, low-density commercial properties along the two major thoroughfares.

To the south of the station, the triangle between Lamar Boulevard and Airport Boulevard is divided into numerous small parcels of land currently occupied by a variety of commercial uses, and could potentially be redeveloped at a higher density. Many of the existing businesses are either automobile-oriented or rely heavily on the use of warehouse space and may not be the most appropriate long-term uses for this land.

Demographics

The Lamar TOD District and the immediately surrounding area include portions of seven different Census Block Groups within four Census Tracts — 15.03, 15.04, 15.05 and 18.04 — none of which are Qualifying Census Tracts.

The Block Groups that overlap the Lamar TOD District are home to 7,037 people, according to the 2000 U.S. Census. Approximately 9.8 percent of the residents are older than age 65, compared to 6.7 percent of the City of Austin as a whole. Although the Lamar TOD District's Median Household Income in 1999 (\$36,034) was slightly lower than for the City of Austin as a whole (\$42,689), the percentage of people living below the poverty line was only 12.3 percent, compared to 14.4 percent for the City of Austin.

Table 3.5: 2000 Census Data for the Lamar Blvd./Justin Lane TOD District

Block Group	Occupied Housing Units	Total Population	>65 years of age	Median Family Income in 1999	% of 1999 Austin MFI	Median Household Income in 1999	Average Household Size	Below Poverty Level	Rental Units
BG 2, Tract 15.03	314	669	5.2%	\$26,750	49%	\$26,000	2.22	22.3%	79.6%
BG 3, Tract 15.03	703	1,400	8.6%	\$42,045	78%	\$36,957	2.01	11.0%	59.2%
BG 1, Tract 15.04	285	653	13.5%	\$43,611	81%	\$36,458	2.24	6.0%	41.4%
BG 2, Tract 15.04	394	792	15.9%	\$48,100	89%	\$41,471	2.01	5.3%	26.1%
BG 3, Tract 15.05	621	1,109	10.2%	\$48,295	89%	\$34,300	1.84	10.5%	66.3%
BG 4, Tract 15.05	476	1,040	7.2%	\$44,375	82%	\$41,477	2.04	18.3%	53.8%
BG 2, Tract 18.04	594	1,374	9.5%	\$40,938	76%	\$33,922	2.26	12.6%	54.4%

Because the most recent census data is several years old, projections in the ERA Market Study were also examined. According ERA, the population of the Lamar TOD District area is 19,625 people living in 8,017 households.¹³ Persons over the age of 65 make up 10 percent of the population. The Median Household Income is \$43,486, or 74 percent of the region's Median Household Income.¹⁴

Median income in the study area increased between 2000 and 2005. However, according to the ERA projections, 31 percent of the area households still live on an annual household income of less than \$30,000, and only nine percent of households have annual incomes over \$100,000, compared to 24 percent in the metropolitan area. The ERA Market Study indicates that the high proportion of college students and seniors living in the neighborhood may account for these relatively low incomes.

The ERA Study notes that the neighborhoods adjacent to the TOD District are diverse, with 64 percent of residents identifying themselves as White, 40 percent as persons of Hispanic origin, and 23 percent as persons of "other" race. According to the ERA Market Study, the Lamar TOD District area is home to a variety of types of households, including higher-income professionals, transitioning young singles, and retired seniors. Although many of the neighborhood residents in the past have been retired seniors and college students, recent trends show that an increasing number of young professionals and higher-income families are moving into the area.

¹³ Boundaries for these projections are not defined but referenced as the Crestview neighborhood.

¹⁴ Economic Research Associates and Spitzer Associates. Transit Oriented Development Potential, Prepared for Capital Metropolitan Transit Authority: Task III — Station Area Market Analysis, Draft Report: May 9, 2006, page IV-8.

Zoning/Land Use

Current Cost of Land

A sampling of values assessed by the Travis Central Appraisal District shows that the average appraised value of real property within the Lamar Blvd./Justin Lane TOD District boundary is just over \$700,000 per acre. These relatively high values could be due to the fact that nearly all the land in this TOD District is located along major thoroughfares, Lamar Boulevard and Airport Boulevard. Furthermore, most of these parcels have already been developed for commercial uses.

Housing

According to the 2000 U.S. Census, the Block Groups overlapping the TOD District include 3,384 occupied housing units. (The ERA Study, which includes a larger market area, counts 8,017 households.) Of the occupied units, 55 percent were renter-occupied. The majority of the housing units in the area consist of single-family homes built in the 1950s and 1960s. The ERA Study indicates that of recently-sold homes, the average house is 1,256 square feet in size and includes three bedrooms and one bathroom.

Development in the area is well-established, and there are very few undeveloped parcels of land within the TOD District. The area is characterized by automobile-oriented, low-density development. However, because these land uses may not be the most appropriate long-term uses for parcels in the TOD District, properties with such uses could eventually be redeveloped. The majority of the more than 200 individual parcels of land in this TOD District are relatively small tracts supporting commercial uses, which could eventually be redeveloped as mixed-use or higher density residential development.

The only significant undeveloped site in the Lamar TOD District is the 73-acre Huntsman Tract, currently being planned by Trammell Crow and Stratus Properties as a mixed-use, master-planned community. The LI-PDA zoning ordinance for this property allows a maximum of 1,472 residential units. However, the developers for this site have not indicated that affordable housing will be a component of this new development.

Although there are no vacant sites that offer development opportunities inside the TOD District, there are several existing multi-family developments located within the District boundaries. The rents for these apartments are affordable by current market standards, but the units do not have any rent or income restrictions to guarantee long-term affordability. Many of these apartments were built in the 1970s and 1980s and could potentially be rehabilitated or redeveloped as affordable housing.

Current Cost of Housing

Current rents for multi-family properties in the area range from \$450 to \$590 for a one-bedroom apartment and \$625 to \$860 for a two-bedroom apartment. The average rent in the Lamar TOD District is \$520 for a one-bedroom unit and \$732 for a two-bedroom unit, significantly lower than ERA's published 2005 average Austin rents of \$690 and \$923, respectively.

Table 3.6: Rent Comparison for the Lamar Blvd./Justin Lane TOD District¹⁵

Unit Type	Lamar/Justin TOD District	ERA Market Rents for Austin (2005)	HUD FMR for Austin (2006)
Efficiency	N/A	\$493	\$578
One Bedroom	\$520	\$690	\$658
Two Bedroom	\$732	\$923	\$804
Three Bedroom	N/A	\$1,212	\$1,093

Again, these apartments have rents considered affordable by current market standards, but the properties do not have restrictions that guarantee long-term affordability.

The ERA Study showed that recent single-family home sales for the immediate Lamar TOD District area ranged from \$61 to \$211 per square foot, with an average sales price of \$155 per square foot. While most sales were for single-family detached homes, some were newer condominiums. Due to the lack of available, vacant land in the vicinity of the TOD District, little new construction activity has occurred in the area since the 1990s. However, in areas to the south of the TOD District and closer to the University of Texas, new condominium developments are being built. According to ERA, these higher-end condominiums range in price from approximately \$200 to \$375 per square foot.

Demand for Housing in the Area

In addition to developments already known to be planned for the area, ERA estimated that the development potential for the Lamar TOD District is 77 to 152 housing units in the short term (2007-2010) and 1,014 to 1,654 units in the long term (through 2025). The ERA Market Study further projected a unit mix including approximately 300 to 500 condominiums and 400 to 600 apartments at a density of 30 units per acre, and 300 to 500 townhouse and duplex units at 15 units per acre.

According to the ERA Market Study, demand for housing is strong in the Lamar TOD District due to its ease of access via existing roadways and transit, the proximity of nearby amenities such as parks and open space, and the quality of area schools.

Zoning and Planning

The Lamar TOD District is part of the Crestview and Brentwood/Highland Combined Neighborhood Plans, adopted by the City Council in 2004. The plan identifies as its key land use goals the preservation and enhancement of single-family residential areas and housing opportunities for people with disabilities. The plan also recommends mixed-use development along Lamar Boulevard, allowing for higher-density residential uses.

The primary focus of the Crestview Neighborhood Plan is the need for transportation improvements, including enhanced mobility of pedestrians and cyclists. With regard to housing, the plan recommends a mix of residential land use types on the Huntsman Tract, including condominiums and townhouses. The plan also recommends rehabilitation of existing multi-family units.

¹⁵ Calls made to Villages of Lamar (6309 Burns St., 6408 Burns St., 702 Lamar Place, 709 Lamar Place); Circle Oaks II (6409 Burns St.), and Argosy Apartments (1003 Justin Lane).

4. Identification of Issues

There are a variety of challenges to providing affordable housing in the TOD areas, including:

Legal Limitations. The City has limited ability to compel the creation of affordable housing. State law prohibits the use of inclusionary zoning, which is a tool that requires inclusion of a certain percentage of affordable housing in new developments.¹⁶ This prohibition applies to homeownership units as well as to the use of rent control. Accordingly, an incentive-based approach is the primary strategy available to the City to compel developers to include affordable units in new developments.

Multiple Goals and Limited Resources. There are multiple public goals for the TOD Districts, including higher density to support transit, affordable housing, open space, economic development, and high quality pedestrian improvements for walkability. Each component is necessary for a successful TOD, but can only be partially addressed by the private sector. Accordingly, there will be significant competition for limited public resources. Identification of available resources and clear definition of priorities will be crucial to the success of the TODs and the realization of the affordable housing goals.

Limited Public Land. Offering public land for the development of affordable housing can represent as a significant subsidy for residential developers. However, there is a limited amount of publicly-owned land within the three TOD areas, and few of these publicly-owned properties are undeveloped. There are no publicly-owned sites within the MLK TOD.

TOD Ordinance Development Regulations and Restrictions. The TOD Ordinance establishes height restrictions for the Saltillo and MLK TODs, thus limiting the tools available to achieve the affordability goals. The restrictions make even modest increases in height difficult to achieve. It should also be noted that the community feedback received during the Station Area Planning process was not supportive of significant height increases.

Infrastructure Needs. The first three TODs under consideration are located in central Austin, in older, established areas of the city. Much of the infrastructure, including water, wastewater, and storm water drainage, will require upgrades or replacement in order to support significant new development. Accordingly, infrastructure needs will add development costs to affordable housing projects within the TODs.

Land and Construction Costs. Land costs and construction costs both are high. The cost associated with high-rise development (six stories and up) is significantly higher than mid-rise. Because of this reality, height increases beyond a certain level have limited benefit for affordable housing.

¹⁶ As discussed in more detail below, the legislation that prohibits inclusionary requirements does not prohibit the establishment of these requirements in a Homestead Preservation District.

5. Identification of Costs

To capture the true cost of developing affordable housing units in the TOD areas, DMA developed financial scenarios for both rental and homeownership developments in the three TOD areas. Utilizing current market data for a variety of factors, including mid-rise construction costs, land prices, and sales prices, DMA then identified the public subsidy required to make affordability feasible.

As a result of DMA's financial analysis, it became apparent that every project would require some sort of public subsidy in order to achieve the TOD Ordinance affordability goals. This is the case even for developments sponsored by non-profit developers, with donated land and property tax exemptions.

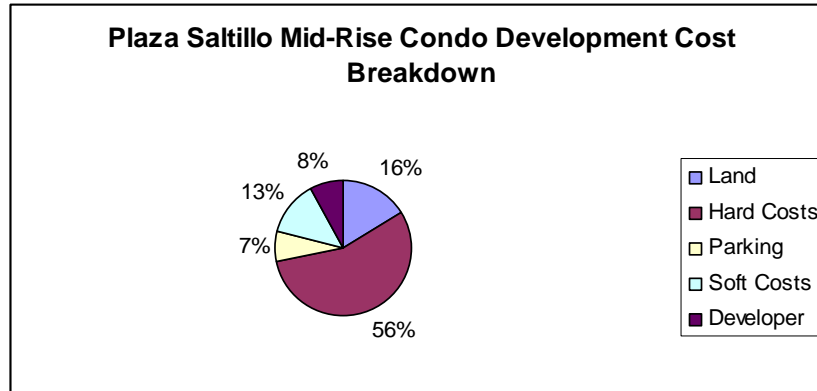
The scenarios in the following section show that the required per-unit subsidies for homeownership units range from \$83,131 to \$149,951 per unit, depending on the TOD. Required subsidies for rental units range from \$75,870 per unit in the Lamar TOD to \$127,623 per unit in the Saltillo and MLK TODs.

Even a project with tax credit equity (as in the 9% and 4% LIHTC) requires additional subsidy. For example, a rental project using 4% tax credits and private-activity bonds would still need additional subsidy of \$41,350 to \$56,800 per unit to be financially feasible.

High-rise development is significantly more expensive than mid-rise development. In addition, public comments throughout the Station Area Planning process expressed desire to limit maximum height caps. Accordingly, DMA utilized cost data for mid-rise type development (two- to five-story) throughout its financial modeling.

Cost Breakdown Example: Saltillo Homeownership Development

Using cost data for the Saltillo TOD,¹⁷ the following pie chart illustrates the cost breakdown for a condominium development in this TOD district:



Actual construction costs (hard and soft costs, parking) constitute the vast majority (86%) of development costs. These costs apply equally to all developers, whether for-profit or nonprofit. While nonprofit developers may have access to free land, or may be able to limit their developer profit, they are still subject to the same market construction costs.

6. Affordable Housing Financial Scenarios

Financial Models

To analyze thoroughly the opportunities for affordability at each of the TOD areas under consideration, DMA developed the following four financial models for affordability:

- ❑ The “Lost Revenue Potential” Model highlights the difference between what a developer could expect to earn on a market-rate project, and what that same developer would earn if the project incorporated affordable units.
- ❑ The Cost Model (9% LIHTC) shows the costs of developing a multi-family rental development utilizing the Low Income Housing Tax Credit program.
- ❑ The Cost Model (4% LIHTC and Private Activity Bonds) is a variation of the second model. Rather than utilizing competitive tax credits, this model utilizes a combination of the 4% tax credits and private activity bonds.

¹⁷ This scenario utilizes data from the 2007 ERA study, which shows the average sales price for a new unit in the Saltillo TOD as \$246 per square foot as of July 2007. A survey of recent sales in the area shows land prices at \$34 per square foot. Soft costs are calculated at 20% of hard costs. Developer equity is calculated at 8% of total sale proceeds.

- ❑ The Homeownership Model — explores developing homeownership units (either condominium or dense, attached single-family), including a variation utilizing a Community Land Trust.

Assumptions

To develop financial models that can be utilized for comparative purposes, DMA staff made some basic assumptions based on prevailing market conditions. Changes to one or more of the assumptions will impact the outcome of the financial models. Except where noted within the narrative of this report, the baseline assumptions are as follows:

- ❑ *Density:* All three TOD areas currently being studied are characterized as “Neighborhood Center” TODs. This designation assumes a certain urban character and density of development. Many of the proposed land uses would permit densities between 36 and 60 units per acre. Because of the existing and planned land use for the three TOD areas, DMA assumed in its financial models that future development would occur on average at 48 units per acre.
- ❑ *Cost:* The most recent market data for each of the three TOD areas shows home sales averaging \$194 per square foot at MLK, \$246 per square foot at Plaza Saltillo, and \$280 per square foot at N. Lamar/Justin. While the volume and timing of recent sales could affect these averages, DMA utilized these numbers when modeling homeownership units at each of the TOD areas.
- ❑ *Construction Costs:* Total construction costs were divided into hard costs, soft costs, and land costs. Hard costs include all construction expenses and average \$130/square foot. This average assumes that the building type is no more than four stories, wood-frame, and wrapped around a parking structure. Soft costs include professional fees, predevelopment expenses, financing costs, etc. and average \$39/square foot. Land costs vary by location and are based on recent market data. Land costs at MLK and Saltillo average \$34/square foot. Land costs at N. Lamar/Justin average \$17/square foot.¹⁸
- ❑ *Unit Size:* In order to calculate development and sales costs, DMA utilized current market data to determine the following average unit sizes:
 - ❖ 750 square feet (studio and one-bedroom)
 - ❖ 1,000 square feet (two-bedroom)
 - ❖ 1,200 square feet (three-bedroom)

¹⁸ It is important to note that sales data was gathered by zip code. TOD boundaries do not correlate exactly to designated zip codes. Because there was no recent sales data for undeveloped land in the 78722 zip code (the vast majority of the MLK TOD), data for adjacent zip codes was used. Accordingly, both the MLK and the Saltillo TOD share the same land cost averages, based on their proximity to each other.

- ❑ *Unit Mix:* Models are based on a theoretical 100-unit development. Studio/one-bedroom units account for 30% of the units, two-bedroom units for 60% of the units, and three-bedroom units for 10% of the units. This unit breakdown is based on recent market data. Because of limited market demand, units larger than three bedrooms were not considered.
- ❑ *Affordability:* Affordability levels are based on the TOD Ordinance goals. Specifically, at least 25% of the new housing should serve homeowners at or below 80% MFI. At least 25% of the new rental housing should serve households at or below 60% MFI.¹⁹ In the CP&R Zone, which includes Saltillo and the vast majority of MLK,²⁰ at least 25% of new owner-occupied housing in should serve households at or below 60% MFI. At least 25% of rental units should serve households at or below 50% MFI.²¹
- ❑ *Operating Costs:* Financial models for rental housing assume an average total operating cost of \$4,093 per unit. This number is based on the Texas Department of Housing and Community Affairs' "Actual Average Operating Expense Statements as of Year End 2005" database (the most current actual data available) using data for Region 7, which includes the City of Austin.
- ❑ *Utilities:* Electric and gas expenses are assumed to be paid by the tenant and not included in general operating costs. Water and trash services are assumed to be paid by management and included in the general operating costs.
- ❑ *Debt Coverage Ratio:* Financial models for rental housing assume a conservative 1.20 debt coverage ratio, slightly more restrictive than the current minimum 1.15 ratio utilized in TDHCA's underwriting process.
- ❑ *Property Taxes:* Financial models for homeownership include estimates for insurance and property taxes utilized by the City of Austin's Neighborhood Housing and Community Development Department.

¹⁹ Housing goals are further divided into sub-goals; specifically, rental units are targeted as follows: 10% of units for 40%-60% MFI; 10% of units for 30%-40% MFI; and 5% of units for at or below 30% MFI. Homeownership units are targeted as follows: 10% at 70%-80% MFI; 10% at 60%-70% MFI; and 5% of units at or below 60% MFI.

²⁰ Only a few parcels of land in the MLK TOD lie outside of the CP&R Zone. Accordingly, for purposes of this study, the entire MLK TOD is considered within the CP&R Zone.

²¹ CP&R Zone rental housing goals are further divided into sub-goals; specifically, rental units are targeted as follows: 10% of units for 40%-50% MFI; 10% of units for 30%-40% MFI; and 5% of units for households at or below 30% MFI. Homeownership units are all targeted to households at or below 60% MFI.

Scenarios

DMA has provided several financial scenarios for the achievement of the TOD affordability goals. The models below consider both private-sector and public-sector financing and include both rental and homeownership projects.

1. Lost Revenue Potential Model

In the current real estate climate, there is high demand for market-rate housing, and private developers have no financial incentive to provide affordable units. Accordingly, ways must be found to incentivize affordable housing in the private market.

The Lost Revenue Potential model provides an estimate of the dollar amount a private developer would forgo financially by including affordable units (and, thus, lower rents and lost revenue) in a multi-family development. For example, the market rent for a two-bedroom apartment in the vicinity of the N. Lamar/Justin Lane TOD is \$1,600/month. However, if that same unit were designated “affordable” to a family at or below 30% MFI, the maximum rent would be \$382/month. Accordingly, a developer would forgo \$1,218/month ($\$1,600 - \$382 = \$1,218$) in order to provide one affordable unit to a very low-income family. While the public benefit is indisputable, without any compelling incentives, most developers would be unwilling to make this type of financial sacrifice.

The financial model below shows the financial impact of providing affordable housing (25 units out of a 100-unit apartment complex) in the N. Lamar/Justin Lane TOD.

**Table 6.1: Lost Revenue Potential Model— N. Lamar/Justin Lane TOD
100-Unit Rental Development**

20yr @ 7.5%²²

Income Designation	# of Units	# of Bedrooms	Fed. Aff. Rent Limit	Market Rent	Rent Gap	Subsidy per unit	Total Subsidy
30%	2	1	\$326	\$1,200	\$874	\$108,491	\$216,983
30%	3	2	\$382	\$1,600	\$1,218	\$151,193	\$453,579
40%	3	1	\$459	\$1,200	\$741	\$91,982	\$275,946
40%	6	2	\$542	\$1,600	\$1,058	\$131,332	\$787,991
40%	1	3	\$613	\$1,920	\$1,307	\$162,241	\$162,241
60%	2	1	\$726	\$1,200	\$474	\$58,839	\$117,677
60%	6	2	\$886	\$1,600	\$714	\$88,630	\$531,782
60%	2	3	\$983	\$1,920	\$937	\$116,312	\$232,624
Total Subsidy Required for 25 Affordable Units:							\$1,896,739

²² The subsidy is amortized at a rate of 7.5% over a period of 20 years, which represents the useful life/affordability period.

The affordability profile meets the TOD Ordinance affordability goals. Specifically, 25% of the units are affordable to households at or below 60% MFI. In addition, the TOD Ordinance subgoals are met by providing affordable units to households with incomes at or below 30% MFI, between 30% and 40% MFI, and between 50% and 60% MFI.

To achieve these affordability targets, however, a developer would forgo significant revenue — more than \$22,000/month for the 25 affordable units. Amortized over 20 years at 7.5% (a reasonable term for a bank note), the present value of this financial loss is nearly \$2 million. Therefore, in order to financially motivate a developer to provide the affordable units, the public subsidy required would be \$1,896,739 or \$75,870/unit.

Both the Plaza Saltillo and the MLK TOD areas are located in the CP&R Zone and have deeper affordability goals.²³ Accordingly, DMA developed a slightly modified Lost Revenue Potential model for use within these two TOD areas.

**Table 6.2: Lost Revenue Potential Model— Plaza Saltillo and MLK TODs
100–Unit Rental Development**

Income Designation	# of Units	# of Bedrooms	Fed. Aff. Rent Limit	Market Rent	Rent Gap	Subsidy per unit	Total Subsidy
30%	2	1	\$326	\$1,245	\$919	\$114,077	\$228,155
30%	3	2	\$382	\$1,695	\$1,313	\$162,985	\$488,956
40%	3	1	\$459	\$1,245	\$786	\$97,568	\$292,704
40%	6	2	\$542	\$1,695	\$1,153	\$143,124	\$858,746
40%	1	3	\$613	\$1,865	\$1,252	\$155,413	\$155,413
50%	2	1	\$592	\$1,245	\$653	\$81,058	\$162,117
50%	6	2	\$702	\$1,695	\$993	\$123,263	\$739,579
50%	2	3	\$798	\$1,865	\$1,067	\$132,449	\$264,898
Total Subsidy Required for 25 Affordable Units:							\$3,190,568

In this scenario, the affordability targets are deeper, with 25% of units serving households at or below 50% MFI. In addition, market rents are slightly higher, taking into account the higher rents that can be realized at the Saltillo and MLK TODs. As a result, the gap between affordable and market rents is larger and the required subsidy per unit is higher. In this scenario, the subsidy needed to compensate a private developer for providing 25 units meeting CP&R affordability goals would be \$3,190,568, or \$127,623/unit.

The Lost Revenue Potential financial model is similar to the model utilized in 2007 during City of Austin negotiations with Ardent Residential. The City Council approved a 40-year, deferred, zero-percent loan to Ardent in exchange for 10% affordable units in the newly redeveloped Stoneridge Apartments on South Lamar Blvd. The 30 units that were required to be affordable for households at or below 80% MFI under the Vertical

²³ See footnote 21, above.

Mixed Use Ordinance were committed to households at or below 50% MFI. Council approved a loan of \$710,350, with additional fee reimbursements of nearly \$400,000.

2. Cost Model – 9% LIHTC and 4% LIHTC with Private Activity Bonds

The Low Income Housing Tax Credit (LIHTC) program is the nation’s main financing tool for affordable housing production. The LIHTC program is utilized in nearly 90% of newly-developed affordable housing units across the country, and produces more than 140,000 affordable rental units annually. The Texas Department of Housing and Community Affairs (TDHCA) administers the state’s tax credit allocation.

To calculate the public subsidy required in a LIHTC project, DMA created several financial profiles of a typical tax credit project using assumptions described above.

a) Plaza Saltillo and MLK TODs: 9% and 4% LIHTC Scenarios

The model below shows an LIHTC development in either the Plaza Saltillo or MLK TOD. The unit mix and MFI levels were selected because of TDHCA’s scoring criteria and the competitive nature of the 9% LIHTC program. The example development includes 100 units, with 100% affordability, ranging from 30% MFI to 60% MFI.

**Table 6.3: Cost Model — 9% LIHTC
Plaza Saltillo and MLK TODs - 100-Unit Rental Development**

Unit Type	Square Feet Per Unit	Number Of Units	Gross Monthly Rent	Monthly Utility Allowance	Tenant Paid Rent
1 BR, 1 Bath @ 30% MFI	750	2	400	74	326
1 BR, 1 Bath @ 40% MFI	750	3	533	74	459
1 BR, 1 Bath @ 50% MFI	750	8	666	74	592
1 BR, 1 Bath @ 60% MFI	750	17	800	74	726
2 BR, 2 Bath @ 30% MFI	1,000	2	480	98	382
2 BR, 2 Bath @ 40% MFI	1,000	5	640	98	542
2 BR, 2 Bath @ 50% MFI	1,000	14	800	98	702
2 BR, 2 Bath @ 60% MFI	1,000	33	960	98	862
3 BR, 2 Bath @ 30% MFI	1,200	1	554	126	428
3 BR, 2 Bath @ 40% MFI	1,200	2	739	126	613
3 BR, 2 Bath @ 50% MFI	1,200	3	924	126	798
3 BR, 2 Bath @ 60% MFI	1,200	10	1,109	126	983
Sources			Uses		
Mortgage	\$4,200,000				
Deferred Developer Fee	\$571,580		Land	\$3,085,500	
Tax Credit Equity	\$10,798,920		Construction	\$12,441,000	
Additional Subsidy Required	\$3,675,000		Soft Costs	\$3,719,000	
Total Sources	\$19,245,500		Total Uses	\$19,245,500	

To achieve these levels of affordability, a tax credit developer would require \$3,675,000 in public subsidy. This amounts to \$36,750 per unit.

Using the same assumptions with a different funding combination, the required public subsidy is significantly higher. If a developer were to instead utilize the noncompetitive 4% LIHTC program, in combination with Private Activity Bonds, the tax credit equity generated would be significantly less (\$6.7 million versus \$10.7 million) and the mortgage would be higher (\$6.2 million versus \$4.2 million). Accordingly, the project's debt service is more burdensome, and the deeper affordability cannot be achieved. Whereas the 9% LIHTC project includes 25 units at 50% MFI, the 4% LIHTC model needs to serve a higher income level (60% MFI) to support the project's debt.

As shown in the following table, the result is that the 4% LIHTC model requires a more significant level of public subsidy — \$5,680,000 (\$56,800/unit) in order to achieve the TOD affordability goals.

**Table 6.4: Cost Model — 4% LIHTC
Plaza Saltillo and MLK TODs - 100-Unit Rental Development**

Unit Type	Square Feet Per Unit	Number Of Units	Gross Monthly Rent	Monthly Utility Allowance	Tenant Paid Rent
1 BR, 1 Bath @ 30% MFI	750	2	400	74	326
1 BR, 1 Bath @ 40% MFI	750	3	533	74	459
1 BR, 1 Bath @ 60% MFI	750	25	800	74	726
2 BR, 2 Bath @ 30% MFI	1,000	2	480	98	382
2 BR, 2 Bath @ 40% MFI	1,000	5	640	98	542
2 BR, 2 Bath @ 60% MFI	1,000	47	984	98	862
3 BR, 2 Bath @ 30% MFI	1,200	1	552	126	428
3 BR, 2 Bath @ 40% MFI	1,200	2	439	126	613
3 BR, 2 Bath @ 60% MFI	1,200	13	1,109	126	983
Sources			Uses		
Mortgage	\$6,264,000				
Deferred Developer Fee	\$563,223		Land	\$3,085,500	
Tax Credit Equity	\$6,738,277		Construction	\$12,441,000	
Additional Subsidy Required	\$5,680,000		Soft Costs	\$3,719,000	
Total Sources	\$19,245,500		Total Uses	\$19,245,500	

b) N. Lamar/Justin TOD: 9% and 4% LIHTC Scenarios

A portion of the Lamar TOD is within a Qualified Census Tract (QCT), which would enable a development to obtain a 130% increase in tax credit equity. Accordingly, DMA developed financial models for both QCT and non-QCT developments. The first scenario (below) shows a 100-unit project utilizing competitive 9% Low Income Housing Tax Credits. 100% of units are affordable to households at or below 60% MFI.

Because the average cost of land in the N. Lamar/Justin TOD is approximately half of the cost in the Saltillo and MLK TOD areas (\$17/square foot versus \$34/square foot), estimated development costs in the N. Lamar/Justin TOD are somewhat lower. However, lower land costs do not negate the need for subsidy. To develop this 100-unit project, a private developer would require \$2,140,000 in additional public subsidy, or \$21,400/unit.

Table 6.5: Cost Model — 9% LIHTC
N. Lamar/Justin Lane TOD - 100-Unit Rental Development

Unit Type	Square Feet Per Unit	Number Of Units	Gross Monthly Rent	Monthly Utility Allowance	Tenant Paid Rent
1 BR, 1 Bath @ 30% MFI	750	2	400	74	326
1 BR, 1 Bath @ 40% MFI	750	3	533	74	459
1 BR, 1 Bath @ 50% MFI	750	8	666	74	592
1 BR, 1 Bath @ 60% MFI	750	17	800	74	726
2 BR, 2 Bath @ 30% MFI	1,000	2	480	98	382
2 BR, 2 Bath @ 40% MFI	1,000	5	640	98	542
2 BR, 2 Bath @ 50% MFI	1,000	14	800	98	702
2 BR, 2 Bath @ 60% MFI	1,000	33	960	98	862
3 BR, 2 Bath @ 30% MFI	1,200	1	554	126	428
3 BR, 2 Bath @ 40% MFI	1,200	2	739	126	613
3 BR, 2 Bath @ 50% MFI	1,200	3	924	126	798
3 BR, 2 Bath @ 60% MFI	1,200	10	1,109	126	983
Sources			Uses		
Mortgage	\$4,200,000				
Deferred Developer Fee	\$563,830		Land	\$1,542,750	
Tax Credit Equity	\$10,798,920		Construction	\$12,441,000	
Additional Subsidy Required	\$2,140,000		Soft Costs	\$3,719,000	
Total Sources	\$17,702,750		Total Uses	\$17,702,750	

Use of 4% tax credits instead of the 9% tax credit model results in increased subsidy requirements. As in the MLK/Salttillo model, the use of 4% tax credits results in a lower level of tax credit equity generated, a higher mortgage, and reduced affordability. Whereas the 9% LIHTC project includes 25 units at 50% MFI, the 4% LIHTC model needs to serve a higher income level (60% MFI) to support the project's debt. Under this scenario, the developer requires \$5,690,000 in public subsidy (or \$56,900/unit).

Table 6.6: Cost Model — 4% LIHTC (non-QCT)
N. Lamar/Justin Lane TOD - 100-Unit Rental Development

Unit Type	Square Feet Per Unit	Number Of Units	Gross Monthly Rent	Monthly Utility Allowance	Tenant Paid Rent
1 BR, 1 Bath @ 30% MFI	750	2	400	74	326
1 BR, 1 Bath @ 40% MFI	750	3	533	74	459
1 BR, 1 Bath @ 60% MFI	750	25	800	74	726
2 BR, 2 Bath @ 30% MFI	1,000	2	480	98	382
2 BR, 2 Bath @ 40% MFI	1,000	5	640	98	542
2 BR, 2 Bath @ 60% MFI	1,000	47	984	98	862
3 BR, 2 Bath @ 30% MFI	1,200	1	552	126	428
3 BR, 2 Bath @ 40% MFI	1,200	2	439	126	613
3 BR, 2 Bath @ 60% MFI	1,200	13	1,109	126	983
Sources			Uses		
Mortgage	\$6,264,000				
Deferred Developer Fee	\$565,460		Land	\$1,542,750	
Tax Credit Equity	\$5,183,290		Construction	\$12,441,000	
Additional Subsidy Required	\$5,690,000		Soft Costs	\$3,719,000	
Total Sources	\$17,702,750		Total Uses	\$17,702,750	

The table below profiles a 4% LIHTC development with Private Activity Bonds located within the QCT. This development would generate a greater level of tax credit equity than a similar non-QCT project, and the additional public subsidy required would be less.

Table 6.7: Cost Model — 4% LIHTC (QCT)
N. Lamar/Justin Lane TOD – 100-Unit Rental Development

Unit Type	Square Feet Per Unit	Number Of Units	Gross Monthly Rent	Monthly Utility Allowance	Tenant Paid Rent
1 BR, 1 Bath @ 30% MFI	750	2	400	74	326
1 BR, 1 Bath @ 40% MFI	750	3	533	74	459
1 BR, 1 Bath @ 60% MFI	750	25	800	74	726
2 BR, 2 Bath @ 30% MFI	1,000	2	480	98	382
2 BR, 2 Bath @ 40% MFI	1,000	5	640	98	542
2 BR, 2 Bath @ 60% MFI	1,000	47	984	98	862
3 BR, 2 Bath @ 30% MFI	1,200	1	552	126	428
3 BR, 2 Bath @ 40% MFI	1,200	2	439	126	613
3 BR, 2 Bath @ 60% MFI	1,200	13	1,109	126	983
Sources			Uses		
Mortgage	\$6,264,000				
Deferred Developer Fee	\$565,473		Land	\$1,542,750	
Tax Credit Equity	\$6,738,277		Construction	\$12,441,000	
Additional Subsidy Required	\$4,135,000		Soft Costs	\$3,719,000	
Total Sources	\$17,702,750		Total Uses	\$17,702,750	

Each of these financial models is based on a set of assumptions and current market data. Changes to any of the assumptions will result in different results. For example, operating expenses incorporated into the above models were calculated based on TDHCA's averages for Region 7, which includes the City of Austin. Property taxes (estimated at \$733 per unit per annum, based on TDHCA's most current data²⁴) are included in the average operating expenses. If a property were tax exempt, however, it could support an additional \$879,000 in debt²⁵ or reduce the required public subsidy.

3. Homeownership Model

The TOD Ordinance establishes affordability goals for homeownership: at least 25% of new owner units should serve households at or below 80% MFI. Additional subgoals apply: 10% of units for 70% - 80% MFI; 10% of units for 60% - 70% MFI; and 5% of units for at or below 60% MFI. TOD areas located in the CP&R Zone, which includes both Saltillo and MLK, have a deeper affordability goal: 25% of units should serve households at or below 60% MFI.

The Homeownership Model uses all of the assumptions — development costs, land costs, average sales prices, unit sizes, and unit mix — described in the previous section. In addition, DMA's model incorporates the City's S.M.A.R.T. Housing™ home sale assumptions.²⁶ Specifically, the model is based on the following additional assumptions:

- ☐ Insurance costs average .50% of mortgage.
- ☐ Property tax rates are based on Travis Central Appraisal District figures for 2007.
- ☐ Homeowner utilizes a 30-year, fixed-rate, 6.5% conventional mortgage.
- ☐ Homeowner provides a 3% down payment.
- ☐ Income required to purchase a one-bedroom home is based on a two-person household; income required for a two-bedroom home is based on a three-person household; and income required to purchase a three-bedroom home is based on a four-person household.²⁷

a) Homeownership Scenarios – Plaza Saltillo TOD

For a theoretical 100-unit homeownership development within the Plaza Saltillo TOD, the income needed to purchase a market-rate unit ranges from 113% MFI to 145% MFI.

²⁴ Texas Department of Housing and Community Affairs' "Actual Average Operating Expense Statements as of Year End 2005" database.

²⁵ Calculated based on present value of a 30-year note at 7.5%, which represents typical terms for multi-family debt for a tax credit development.

²⁶ Neither closing costs nor HOA fees are accounted for in this model.

²⁷ U.S. Department of Housing and Urban Development Occupancy Standards.

Table 6.8: Homeownership — Plaza Saltillo TOD**Table A**

	1 bedroom unit	2 bedroom unit	3 bedroom unit
Square Footage	750sf	1000sf	1200sf
Cost to Develop w/Land	\$157,605	\$199,855	\$233,655
Sales Price Per Market	\$184,500	\$246,000	\$295,200
Income Needed to Purchase	\$62,450	\$83,520	\$100,370
% MFI	113%	134%	145%

If homebuyers are provided with \$40,000 in down payment assistance (the maximum that the City of Austin's program currently provides), the income level of eligible purchasers drops to between 88% and 125% MFI. However, these income levels still exceed the TOD goals, as shown in the following table.

Table 6.9: Homeownership — Plaza Saltillo TOD**Table B**

	1 bedroom unit	2 bedroom unit	3 bedroom unit
Income Needed to Purchase Given \$40K in Assistance	\$48,750	\$69,820	\$86,670
% MFI	88%	112%	125%

In order to reach the TOD goals for the CP&R Zone (which includes Plaza Saltillo), the sales price of the units would need to drop significantly and the subsidy provided would need to increase. As shown below, the subsidy required in order to provide 25 units for homeowners at or below 60% MFI would total \$3,418,275, or \$136,731/unit.²⁸

Table 6.10: Homeownership — Plaza Saltillo TOD**Table C**

	1 bedroom unit	2 bedroom unit	3 bedroom unit
To Attain 60% MFI, Price Must Be	\$101,645	\$114,200	\$126,600
Subsidy Per Unit Must Be	\$82,855	\$131,800	\$168,600
Required Subsidy for TOD Recommended Units (all at 60% MFI)	\$414,275 5 units	\$1,318,000 10 units	\$1,686,000 10 units

²⁸ In order to reach the affordable housing goals recommended by the Saltillo District Community Advisory Group (CAG), the public subsidy required would be \$13,837,800.

b) Homeownership Scenarios – MLK TOD

The sole difference between the Plaza Saltillo TOD and the MLK TOD assumptions is the average sales price of units. Based on the most recent market data available, sales prices in the MLK TOD averaged \$194/square foot (versus \$246/square foot for Saltillo). It is important to note, however, there was a limited sample of home sales for the MLK TOD. As a result, the market sales price is actually lower than the average cost to develop based on cost data.

The table below shows the income needed to purchase a market-rate unit in the MLK TOD and the corresponding median family income level:

Table 6.11: Homeownership — MLK TOD

Table A

	1 bedroom unit	2 bedroom unit	3 bedroom unit
Square Footage	750sf	1000sf	1200sf
Cost to Develop w/Land	\$157,605	\$199,855	\$233,655
Sales Price Per Market	\$145,500	\$194,000	\$232,800
Income Needed to Purchase	\$49,090	\$65,710	\$79,000
% MFI	89%	105%	114%

Because the affordability levels do not meet the TOD goals, public subsidy will be required. If homebuyers are provided with \$40,000 in assistance (the maximum that the City of Austin's down payment assistance program currently provides), the income level of eligible purchasers drops to between 64% and 94% MFI. However, these income levels still exceed the TOD goals.

Table 6.12: Homeownership — MLK TOD

Table B

	1 bedroom unit	2 bedroom unit	3 bedroom unit
Income Needed to Purchase Given \$40K in Assistance	\$35,390	\$52,010	\$65,300
% MFI	64%	83%	94%

In order to reach the TOD goals for the CP&R Zone (which includes the majority of the MLK TOD), the sales price of the units would need to be reduced significantly and the subsidy provided would need to be correspondingly increased. As shown below, the subsidy required to provide 25 units for homeowners at or below 60% MFI would total \$2,078,275 (\$83,131/unit).

Table 6.13: Homeownership — MLK TOD**Table C**

	1 bedroom unit	2 bedroom unit	3 bedroom unit
To Attain 60% MFI, Price Must Be	\$101,645	\$114,200	\$126,600
Subsidy Per Unit Must Be	\$43,855	\$79,800	\$106,200
Required Subsidy for TOD Recommended Units (all at 60% MFI)	5 at 60% \$218,275	10 units at 60% \$798,000	10 units at 60% \$1,062,000

c) Homeownership Scenarios – N. Lamar/Justin Lane TOD

In the N. Lamar/Justin TOD, land costs are the lowest of the three TOD areas (\$17/square foot), but sales prices are the highest (\$280/square foot). In order to purchase a market-rate unit in the Lamar TOD, a buyer would need an income between 129% MFI and 165% MFI.

Table 6.14: Homeownership — N. Lamar/Justin Lane TOD**Table A**

	1 bedroom unit	2 bedroom unit	3 bedroom unit
Square Footage	750sf	1000sf	1200sf
Cost to Develop	\$142,178	\$184,428	\$218,228
Sales Price Per Market	\$210,000	\$280,000	\$336,000
Income Needed to Purchase	\$71,190	\$95,170	\$114,350
% MFI	129%	153%	165%

As with the previous two TOD areas, first-time homebuyer assistance from the City of Austin is not sufficient to make the units affordable to households at or below 80% MFI:

Table 6.15: Homeownership — N. Lamar/Justin Lane TOD**Table B**

	1 bedroom unit	2 bedroom unit	3 bedroom unit
Income Needed to Purchase Given \$40K in Assistance	\$57,490	\$81,460	\$100,650
% MFI	104%	131%	145%

In order to reach the TOD goals of 25% affordable units (10% at or below 80% MFI; 10% at or below 70% MFI; and 5% at or below 60% MFI), the following sales prices and subsidies would be required:

Table 6.16: Homeownership — N. Lamar/Justin Lane TOD
Table C

	1 bedroom unit	2 bedroom unit	3 bedroom unit
To Attain 60% MFI, Price Must Be	\$101,645	\$114,200	\$126,600
Subsidy Per 60% Unit Must Be	\$108,355	\$165,800	\$209,400
To Attain 70% MFI, Price Must Be	\$118,000	\$123,600	\$147,500
Subsidy Per 70% Unit Must Be	\$92,000	\$156,400	\$188,500
To Attain 80% MFI, Price Must Be	\$135,000	\$151,500	\$168,000
Subsidy Per 80% Unit Must Be	\$75,000	\$128,500	\$168,000
Required Subsidy for TOD Recommended Units	5 units at 60% \$541,775	5 units at 70% and 5 units at 80% \$1,424,500	5 units at 70% and 5 units at 80% \$1,782,500

In summary, in order to provide 25 units at the targeted affordability levels, the public subsidy required would be \$3,748,775 (\$149,951/unit).

d) Homeownership Scenarios – Community Land Trust

DMA created homeownership scenarios for each of the TOD areas based on a Community Land Trust model. By removing both the cost of land from the development costs and the property tax burden from the income required to purchase, the units can be made *more* affordable yet not *sufficiently* affordable to meet TOD goals.

In the scenario below, the percent of MFI required to purchase a unit at either Plaza Saltillo or MLK ranged from 89% to 123% (depending on the size of the unit). The MFI ranged from 113% to 150% at N. Lamar/Justin.

Table 6.17: Community Land Trust Model
Homeowner with no Initial Land Costs or Property Taxes

TOD District	Income/MFI Required One-Bedroom Unit	Income/MFI Required Two-Bedroom Unit	Income/MFI Required Three-Bedroom Unit
Plaza Saltillo	\$49,320 (89% MFI)	\$69,360 (111% MFI)	\$85,400 (123% MFI)
MLK	\$49,320 (89% MFI)	\$69,360 (111% MFI)	\$85,400 (123% MFI)
N. Lamar	\$62,660 (113% MFI)	\$85,470 (137% MFI)	\$103,720 (150% MFI)

As the following table shows, when coupled with the City’s first-time homebuyer funds (in the full amount of \$40,000) homes become affordable to households at 65% MFI to 104% MFI at Plaza Saltillo and MLK. At the N. Lamar/Justin TOD, the MFI levels range from 90% to 131%.

Table 6.18: Community Land Trust Model
Homeowner with no Initial Land Costs or Property Taxes
PLUS \$40,000 in First-Time Homebuyer Assistance

TOD District	Income/MFI Required One-Bedroom Unit	Income/MFI Required Two-Bedroom Unit	Income/MFI Required Three-Bedroom Unit
Plaza Saltillo	\$38,180 (65% MFI)	\$59,250 (90% MFI)	\$72,360 (104% MFI)
MLK	\$38,180 (65% MFI)	\$59,250 (90% MFI)	\$72,360 (104% MFI)
N. Lamar	\$49,630 (90% MFI)	\$72,440 (116% MFI)	\$90,690 (131% MFI)

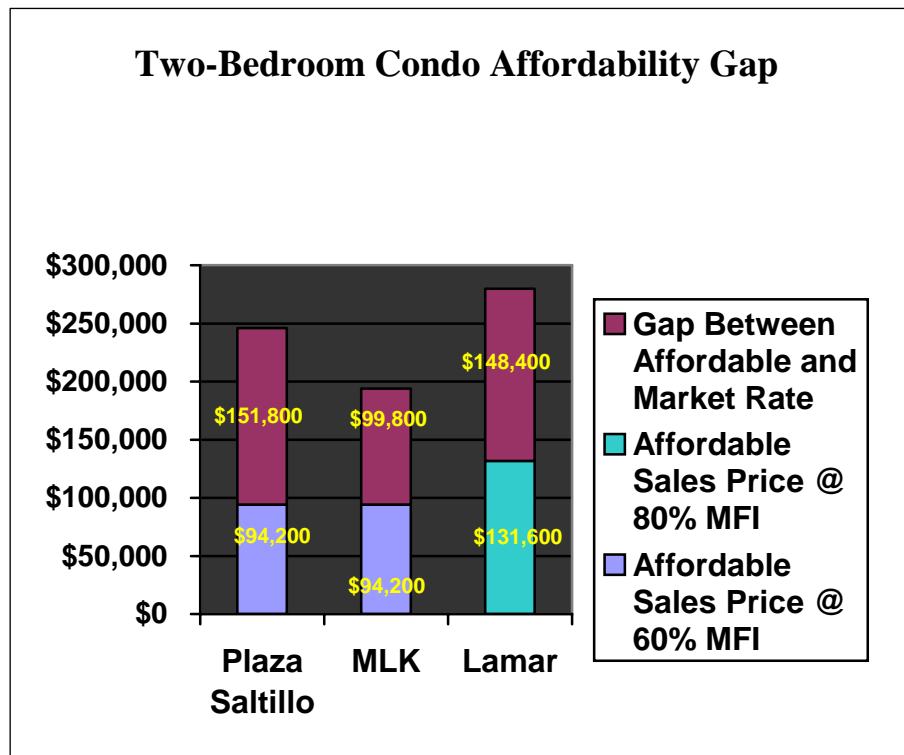
While the Community Land Trust concept would allow homeownership units built in TODs to serve buyers with lower incomes, it is unlikely to provide sufficient relief to meet TOD goals. This is the case even when the maximum level of City of Austin downpayment assistance is applied.

7. Project Scenarios that Show Success in Meeting TOD Goals

As illustrated by the financial models in the preceding section, there is a financing gap for the development of affordable units in TOD areas. However, this gap can be closed by utilizing a variety of regulatory and financial incentives.

Affordability Gap Analysis Summary

Using current market data for all three TOD areas under consideration, DMA developed the following affordability gap profile:

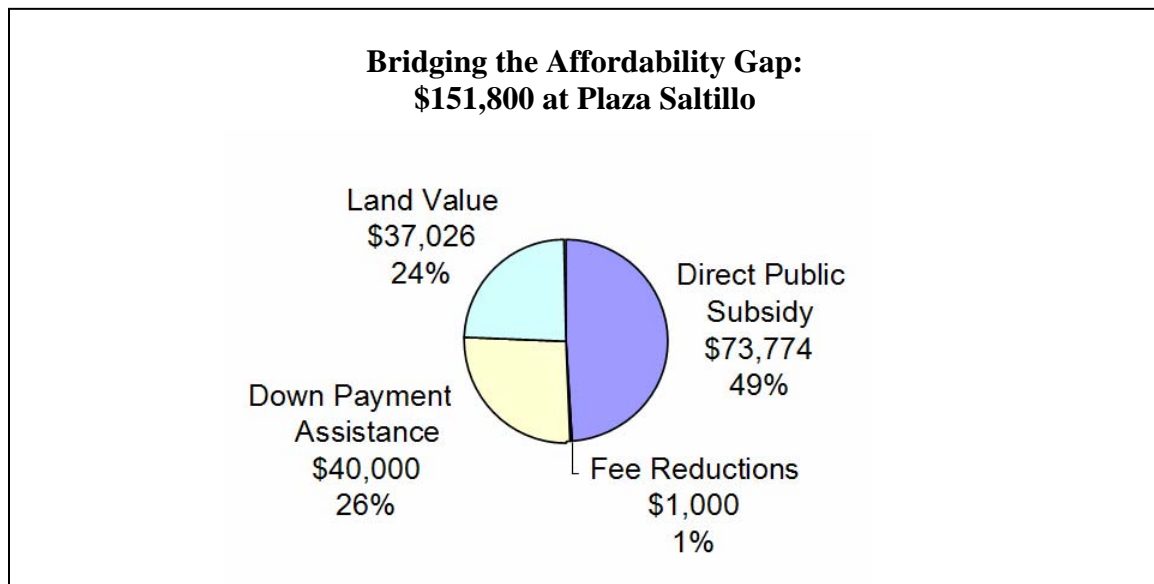


Based on current market data, the sales price for a two-bedroom, 1,000 square foot unit in the Plaza Saltillo TOD District is \$246,000. The maximum price affordable to a three-person household at or below 60% MFI (the Plaza Saltillo TOD affordability goal for homeownership) is \$94,200. This leaves a gap of \$151,800.

Because the market price for a two-bedroom condo in the MLK TOD area is slightly less (\$194,000), the affordability gap is lower (\$99,800). However, the market rate in the Lamar TOD (\$280,000) is significantly higher, and while the Lamar TOD affordability goal is higher (80% MFI), an affordability gap of \$148,400 remains. *To fill the affordability gap in the TOD areas, multiple sources of incentives and subsidies will be required.*

1. Homeownership Scenario

The graph below illustrates the financial gap for the development of hypothetical owner-occupied, affordable condominium developments in the Saltillo TOD area. This example shows the most likely sources of subsidy or assistance that could bridge the gap.



Using the City's S.M.A.R.T. Housing™ program, the average per-unit fee reduction would be approximately \$1,000 (in addition to financial benefits from expedited plan review). If the land cost were eliminated using a Community Land Trust, or a City-owned land lease model wherein the City purchases the land and leases it to a developer at a nominal rate, additional savings of \$18,513 to \$37,026 per unit (depending on the TOD area) would be possible.

Even fee waivers and removing land costs, however, is not sufficient to reach even the upper range of the TOD affordability goals. In the examples above, a combination of financial tools are needed in order to close the affordability gap, including fee reductions, elimination of land costs, waivers, and public subsidy, including City of Austin Down Payment Assistance and General Obligation Bond funding.

It is important to note that any developer — non-profit or for-profit — will face this affordability gap. While non-profit developers are motivated by a mission to provide affordable housing and may have access to types of funding that are not available to for-profit developers, non-profits are still subject to the same development costs to construct the units, and in the case of some funding sources, may be required to sell units at fair market value.

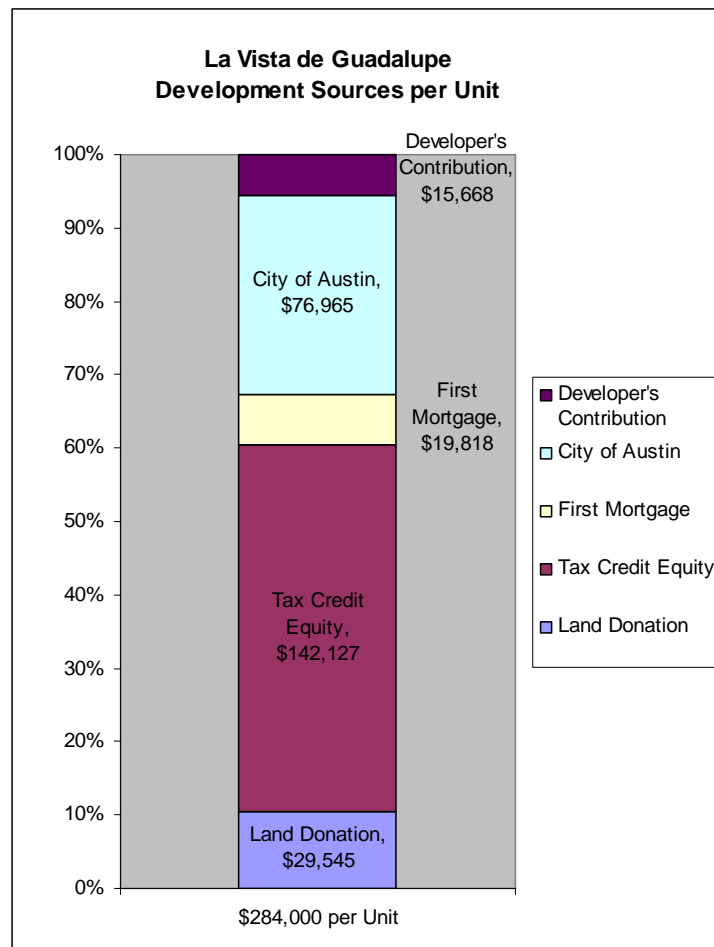
2. Rental Scenario

Although the financial sources and uses in a rental model are slightly different, these developments also require significant subsidy. The following is an example of a rental development currently under construction one block from the Plaza Saltillo TOD.

1. GNDC La Vista de Guadalupe Development

Guadalupe Neighborhood Development Corporation (GNDC) is the non-profit sponsor of La Vista de Guadalupe, a 22-unit rental development. This project is located just outside of the TOD district, and the construction type and density (44 units per acre) are similar to the type of building that would be appropriate in the TOD. The development is 100% affordable with very low rents. Approximately 30% of the units will have rents affordable to families at 30% MFI; 15% of the units will have rents affordable at 40% MFI; and 55% of the units affordable at 50% MFI.

The graphic below shows the layers of funding and subsidy amounts that were required for this development.

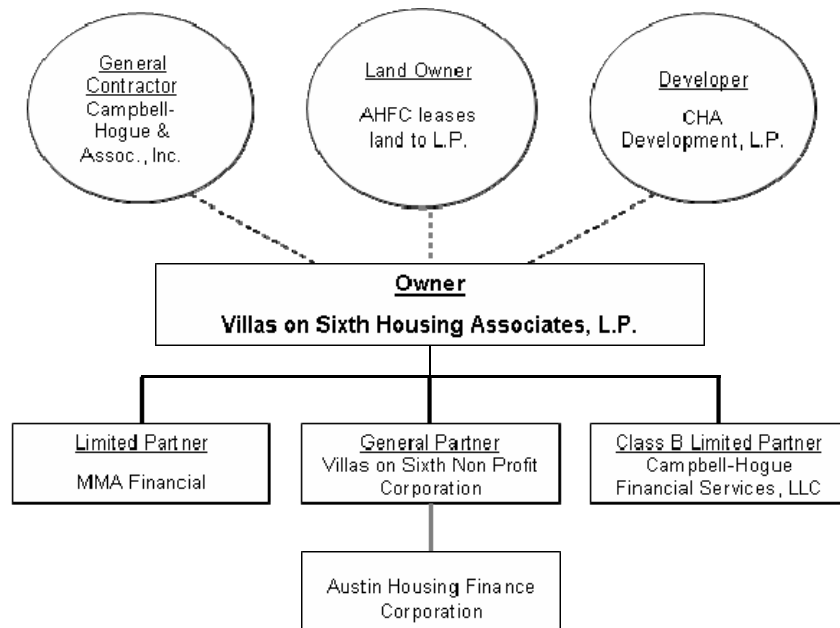


The largest source of funds for this development is the equity from Low Income Housing Tax Credits, but several other sources are critical to making the project work. The land for this development is valued at \$650,000 (nearly \$30,000/unit) but was donated to the project by the non-profit sponsor. (GNDC purchased the land more than 20 years ago at a very low price.) Also, the developer has elected to forgo more than half (\$344,000) of the developer's fee (identified as "Developer's Contribution" in the bar chart above) in order to make the project financially feasible. In addition, the City of Austin has committed almost \$1.7 million, or \$77,000 per unit, to this development.

2. Villas on Sixth Street Development

Another model of affordable rental development is the Villas on Sixth Street, in which in the Austin Housing Finance Corporation (AHFC) acted as a direct participant in a housing development. In 2003, AHFC partnered with a private developer to build a multi-family development using Housing Tax Credits. Villas on Sixth Housing Associates, L.P., the entity that owns the development, is a true partnership between public and private interests. AHFC created a new non-profit corporation, Villas on Sixth Non Profit Corporation, to be the general partner of this limited partnership. The tax credits were sold to MMA Financial, and one of its entities is the limited partner. An entity of Campbell-Hogue's, Campbell-Hogue Financial Services, LLC, owns a minority share of the project and acts as a guarantor, since the non-profit cannot.

In addition, AHFC purchased the land for the development and leases it back to the partnership, which allows the property to be exempt from property taxes.



This creative partnership allowed the City to work with an experienced developer familiar with this type of development and the complex financing mechanisms involved, while at the same time ensuring long-term affordability.

8. Analysis of Density Bonus

A density bonus program allows an increase in the number of units that could be developed on a parcel of land in exchange for public benefits, such as affordable housing. A density bonus typically offers relaxed development standards (e.g., Floor to Area Ratio or FAR, building coverage, setback requirements) or a height increase above what the zoning district would otherwise allow.

A density bonus program could be an important tool to achieve a portion of the TOD goals. However, there are a number of factors that must be taken into consideration in order to maximize the effectiveness of a density bonus program.

Construction costs per square foot rise with taller building heights, thereby limiting the benefit of incremental height increases. In fact, the per-unit cost of mid-rise development is estimated to be approximately 60% of high-rise development.²⁹ Mid-rise development utilizes lightweight steel or wood-frame structural systems. High-rise developments require significant investment in elevators and core components, fireproofing, and multi-level structured parking, all of which contribute to increased development costs.

In addition, concerns regarding density and compatibility with surrounding neighborhoods were expressed in public meetings held during the Station Area Planning process. Although some participants voiced support for increased density (including height bonuses in exchange for affordable units), many participants were concerned with increased density, especially as related to height. Several Saltillo Station Area Plan participants expressed concerns about the neighborhood becoming too urban and densely developed. In addition, several participants in the Lamar Station Area Plan were adamant about limiting maximum TOD development height to two or three stories.

For a new development to attain the TOD Ordinance goal of 25% affordability, a density bonus would need to offer significant benefit to a developer. As shown in the models below, only by doubling the density of a development (100% increase in FAR or height) and requiring that 50% of the bonus area be affordable, would a single development begin to meet the 25% affordability goal set in the TOD Ordinance.

To incentivize developer participation, a density bonus program must provide a net financial benefit (e.g., a sufficiently higher profit). Because a developer will lose revenue on the affordable units, the benefit gained from the additional units must outweigh the loss.

²⁹ Downtown Austin Plan, Phase I: Issues and Opportunities, page 88.

25% Density Bonus Scenario

In light of public concerns regarding density and height limitations, DMA modeled a theoretical mid-rise development, with and without a density bonus. The following table profiles a 100-unit market rate condominium development on a 2.5-acre site (with no density bonus) and that same development with a 25% density bonus. The cost and sales assumptions are based on market data from the Saltillo TOD District. In the case of the 25% density bonus, the developer is granted relaxed FAR or additional height in exchange for 25% affordability in the additional (“bonus”) area.

Table 8.1: 25% Density Bonus

	No Bonus 100-Unit Development	25% Density Bonus 125-Unit Development
Market Rate Units	100	119
Affordable Units	0	6
Total Land Cost	\$3,702,600	\$3,702,600
Total Project Cost	\$19,039,350	\$22,901,000
Additional Cost	n/a	\$3,861,650
Market Rate Sales	\$22,324,500	\$26,494,200
Additional Sales	n/a	\$4,169,700 (market rate)
Affordable Sales (60% MFI)	n/a	\$684,890
Total Sales Less Cost	\$3,285,150	\$4,278,090

In this scenario, the community gains six affordable units, or 5% of the total new units built. The private developer increases the return on investment, and there is no additional public subsidy. The only “cost” to the public is the additional FAR or height granted.

However, considering the ambitious TOD affordability goals, the six-unit gain in affordability is modest. Even if every new development within the TOD District took advantage of this type of density bonus, there would need to be more than 6,000 new units within the Plaza Saltillo TOD to provide 300 affordable units. Clearly, a density bonus would need to be combined with additional tools in order to make a substantial impact on affordability.

It should be noted that the 125-unit density bonus example above only includes 25% affordability in the *bonus* area, rather than 25% of the *total* area. The TOD Ordinance currently prohibits any increase in building heights in the CP&R Zone over the current maximum heights unless 25% of the *all units* in the development receiving the height increase are affordable. In order to develop the same 2.5-acre site and incentivize affordability in at least 25% of the total units, the density bonus would need to be more significant.

100% Density Bonus Scenario

In the scenario below, the developer is granted a 100% density bonus (from 40 units per acre to 80 units per acre). Accordingly, the site now accommodates 200 units, 50 of which will be designated affordable (25% of the total units). The basic assumptions, including land cost and the development costs, remain the same as in the previous model.

Table 8.2: 25% Density Bonus

	No Bonus 100-Unit Development	100% Density Bonus 200-Unit Development 25% Total Affordability
Market Rate Units	100	150
Affordable Units	0	50
Total Land Cost	\$3,702,600	\$3,702,600
Total Project Cost	\$19,039,350	\$34,376,100
Additional Cost	n/a	\$15,336,750
Market Rate Sales	\$22,324,500	\$33,517,500
Additional Sales	n/a	\$11,193,000
Affordable Sales (60% MFI)	n/a	\$5,483,235
Total Sales Less Cost	\$3,285,150	\$4,624,635

In this scenario, the additional allowable density may be sufficient to induce a developer to build a project with 25% affordable units. However, there are limitations to the density and height bonus model. Development costs increase disproportionately once the building transitions from a mid-rise to a high-rise structure. In addition, increased risk accompanies the increased number of units. The developer must market and sell the additional units (both market-rate and affordable) in order to realize the additional return on investment.

Considering the increased construction costs associated with significant increases in height, as well as concerns voiced by residents during the Station Area Planning Process, a two-tier density bonus program is recommended, and is described in more detail in the “Recommendations” section below.

9. Recommendations

In the following section, DMA has provided recommended tools and strategies for the achievement of the TOD Ordinance affordability goals. To realize these goals, the City must utilize a multifaceted approach, utilizing a variety of tools rather than any one single solution.

In addition, DMA recommends that the policies implemented to achieve housing affordability within the TOD areas should be reviewed and analyzed after a period of time to determine success in meeting affordability goals and to identify opportunities for adjustments to the policies.

DMA recommends the following:

Recommendation #1: Implement Density and Height Bonus Program

Density Bonus

The City Council has adopted a Vertical Mixed Use (VMU) density bonus with affordability requirements, as part of the Design Standards and Mixed Use ordinance. Although it is too early to determine the success of the VMU density bonus incentives, a similar strategy should be established for the TOD Districts, which are intended to have a mixed-use character similar to that envisioned for VMU developments.

To incentivize affordable housing development in the TOD Districts, the City should exempt properties from Floor-Area-Ratio (FAR), maximum densities, building coverage limits, and setback requirements, in exchange for *10% of the total residential square footage* being designated affordable. As in the VMU Ordinance, the affordability period should be a minimum of 99 years for owner-occupied units and 40 years for rental units.

The calculation for the required affordable units is based on habitable square footage. For example, a 30,000 square foot project that receives an additional 15,000 square feet (due to FAR and other exemptions), would be required to set aside 10% of the total square footage (10% of 45,000 square feet, or 4,500 square feet) for affordable units.

There are several reasons for calculating based on habitable square footage rather than number of units. The square footage requirement gives the developer greater flexibility in determining the allocation of unit sizes and thus enables the developer to better respond to market needs. If the requirement is calculated based on number of units, the result will most likely be smaller one-bedroom units. However, if the developer is given the freedom to apportion unit mixes (and is simply required to make a certain total square footage affordable), there is greater likelihood that family-sized units will be incorporated.

Since the density bonus will offer a similar benefit as that offer in the VMU Ordinance, the income limits on the affordable units should be similar — a maximum of 80% MFI for homeownership units and 60% MFI for rental units. In order to reach the affordability targets set in the TOD Ordinance; however, the City will need to make available additional incentives or subsidies.

In order to “buy down” the affordability of a unit (e.g., reduce the affordability level from 80% MFI to 70% MFI), it is estimated that the present value cost is \$25,000 per 10% increment. Accordingly, each 10% incremental reduction in MFI will cost \$25,000 per unit in subsidy to offset the lost income to a developer. The TOD affordability goals are more ambitious than the VMU goals. Therefore, the density bonus alone is insufficient to incentive a residential developer to incorporate affordable units serving households at the income levels specified in the TOD Ordinance.

Because the density bonus alone will not achieve the affordability targets, the approach will need to be coupled with additional incentives and public subsidies. As in the case with VMU policy, the City must have the option to subsidize additional affordable units within the development. The effectiveness of this density bonus and its affordability requirements should be reviewed within one year of implementation.

DMA recommends that density bonuses be available to *any type* of development within the TOD Districts, including residential, non-residential, and mixed-use. For non-residential projects that utilize the bonus, the developer would be required to pay a fee-in-lieu (rather than develop on-site affordable units) as described further below.

Height Bonus

DMA recommends that the City of Austin institute a height bonus to allow up to a total building height of 60 feet in the TOD Mixed Use Subdistrict of the Lamar, Saltillo, and MLK TODs. Only those properties that currently have a height entitlement of less than 60 feet would be eligible for the height bonus. To access the height bonus, *25% of the bonus area (square footage)* must be reserved for households meeting the affordability goals established for each TOD. As an example, a developer seeking additional height equal to 100,000 square feet would need to provide affordable units within the development totaling 25,000 square feet. For developments that do not contain residential units, the relevant fee-in-lieu must be paid.

As discussed previously, a height bonus allowing building height above five stories may have limited utility in creating affordable units because of the corresponding increase in costs in high-rise development. In addition, in light of comments from neighborhood stakeholders regarding compatibility with surrounding single-family neighborhoods, it is apparent that significant increases in height are not broadly supported. The City’s approach to height bonuses should be to provide moderate height entitlements in defined locations around the transit stops, where the highest densities are appropriate.

In certain cases, a developer may request both a density bonus and a height bonus. In this situation, the project would need to include 10% affordability in the total project (pre-height increase), as well as an additional 25% affordability in the bonus height area.

Currently, the TOD Ordinance limits the City's ability to increase heights in that part of the Saltillo TOD that is designated in the draft Station Area Plan as TOD Mixed Use, but falls outside of the 11-acre Capital Metro property. In addition, the TOD Ordinance establishes stringent affordability requirements for a height bonus in the CP&R Zone. Specifically, the TOD Ordinance requires that 25% of the *total* development meet affordability targets (rather than 25% of the *bonus* area, as DMA recommends). Accordingly, in order to implement DMA's height bonus recommendations, an amendment to the TOD Ordinance will be necessary.

Fee-In-Lieu

DMA recommends a fee-in-lieu payment in the amount of \$10 per square foot of additional benefit. This amount conforms to the fee-in-lieu recommendation of the Affordable Housing Incentives Task Force and the amount adopted by the City Council for the downtown density bonus ordinance. The fee-in-lieu amount should be reviewed and adjusted annually. Any funds captured through the fee-in-lieu program should be utilized for affordable housing within the TOD Districts.

Typically, a fee-in-lieu option is offered to residential developers who opt to not provide on-site affordable units, or to developers of commercial properties. The fee-in-lieu for the TODs should be required of all commercial developments that utilize a height bonus and/or density bonus, and should also be available to residential or mixed-use developments on a more limited basis.

Because the intent of the TOD Ordinance is to develop affordable housing *within* the TOD Districts, developers should be encouraged to develop on-site affordable units. A residential developer seeking fee-in-lieu should have a compelling economic basis for not providing on-site affordable units. A compelling reason might include that the funds will be directed to a stand-alone 100% affordable development in the TOD District.

Recommendation #2: Encourage HTC Developments and Dedicate Appropriate Resources

Based strictly on financial realities, the most cost-effective use of public subsidies is to supplement traditional Housing Tax Credit (HTC) development.³⁰ According to DMA's financial models, the public subsidy required for a 4% tax credit project with private

³⁰ Because of the competitive nature and difficult scoring criteria of the 9% tax credit program, a project financed with 4% tax credits and private activity bonds is the most likely scenario. The project profile is similar to the 9% LIHTC development, but the public subsidy required is slightly higher.

activity bonds is estimated to be \$56,800 per unit. In this scenario, 100% of the units would serve households at or below 60% MFI, thereby meeting or exceeding the TOD affordability goals. A competitive tax credit proposal could exceed the identified TOD affordability goals and provide a large number of units in one location. Accordingly, the City should develop partnerships with qualified developers of affordable housing to explore tax credit development within the TODs.

The most likely source of the public subsidy is the \$55 million Affordable Housing General Obligation Bonds. Approved in November 2006, the bond funds will be allocated over a period of seven years. DMA recommends that the City consider dedicating a substantial portion of the funds to affordable housing projects developed within the first three TOD Districts.

However, with estimated rental subsidies ranging from approximately \$50,000 to more than \$100,000 per unit, and homeownership subsidies significantly higher, *the City would have to dedicate the vast majority of the GO Bonds in order to meet all the goals specified in the TOD Ordinance* and would have limited ability to provide funding for projects outside of TOD areas. Given the funding gap in each TOD District, it is unlikely that GO Bonds alone will achieve the affordability goals.

Recommendation #3: Identify and Utilize Publicly-Owned Land

The City of Austin should review and prioritize publicly-owned land to identify those properties most likely to accommodate residential uses. The City owns two parcels immediately adjacent to the TOD District. One parcel is less than one-half acre and could be an opportunity for small-scale infill residential development. In addition, the other parcel — currently operating as a City mail room and uniform services facility — is under consideration for inclusion in the District and would be zoned as Live/Work/Flex. At 3.07 acres and current zoning of 45 units per acre, the site could potentially accommodate 138 units. The City should evaluate parcels such as these to determine their “highest and best use,” taking into consideration consistency with the TOD development standards.

The City could solicit proposals for residential development on the sites it owns and require a baseline level of affordability that conforms to the TOD Ordinance. For sites that are not owned by the City but rather by an affiliated public entity, the City should take the lead in negotiations to ensure that those sites are developed in accordance with demonstrated public need.

Eleven of the approximate 130 acres within the Plaza Saltillo TOD are owned by Capital Metro. In the Saltillo District Redevelopment Master Plan (not yet adopted by the City Council or the Capital Metro Board), the ROMA Design Group estimates that the 11-acre Capital Metro property could accommodate a proposed 590-675 housing units, 25% of which would be designated affordable (147 – 169 units). The affordability targets in the ROMA plan were established with the assumption that a portion of the land with frontage

on IH-35 could be utilized for dense, high-rise, market-rate commercial construction; however, this component of the plan has not received broad community support.

However, a more modest increase to a 60 foot height limit on the 11-acre property would help to meet the ambitious affordability goals within the Plaza Saltillo TOD District, without compromising neighborhood concerns regarding compatibility and density in the remainder of the TOD.

The City of Austin owns a 5.8-acre tract in the approximate 200-acre N. Lamar/Justin Lane TOD District. This tract could accommodate 261 housing units if it were to be developed at medium density (e.g., 45 units per acre). The City could solicit proposals for residential development on that site and require a baseline level of affordability that conforms to TOD Ordinance goals.

As an alternative, the City could solicit proposals from tax credit developers to undertake a 100% affordable development. The 2007 ERA Market Study estimated the potential market demand for affordable housing in the Lamar TOD to be between 325 and 414 units. A 261-unit affordable housing development would make a substantial impact on the market demand and would help to meet the 25% TOD affordability goal.

Recommendation #4: Provide Menu of Incentives Within TODs

The City should adopt a policy that offers developers within the TOD Districts a package of incentives in exchange for provision of affordable units on-site. The incentives could be scaled based on the level of affordability and the percentage of affordable units provided. Incentives could include additional fee waivers and expedited review beyond what the S.M.A.R.T. Housing™ program currently provides. The incentives should be available to developments *throughout the entire TOD District*, not just a designated area.

Fee Waivers. The City currently waives certain development fees through its S.M.A.R.T. Housing™ program. In addition to existing S.M.A.R.T. Housing™ fee waivers, additional fee waivers for affordable housing in TOD areas could include the following:

- ☐ Drainage
- ☐ Electrical meters
- ☐ Street lighting
- ☐ Water meters
- ☐ Sewer taps
- ☐ Street closure fee
- ☐ License agreements
- ☐ Austin Energy fees
- ☐ Any and all other City fees

Expedited Review. Building on the recommendations of the City's Affordable Housing Incentives Taskforce, the City should offer a reliable and consistent expedited review and approval process. This fast-track review and approval would expand upon the existing

S.M.A.R.T. Housing™ process. Expedited development review and inspection processes should encompass the following:

- ☐ Legal review of easements, covenants, and other instruments
- ☐ Austin Water Utility technical review of site plans and subdivisions
- ☐ Service Extension Request review
- ☐ License agreement review
- ☐ Utility construction plan review
- ☐ Right-of-Way management plan review
- ☐ Utility inspection
- ☐ Utility connections
- ☐ Street light installation
- ☐ Expedited zoning and platting review

Maximize Public Tax Exemptions. Through creative public-private partnerships, the City of Austin can foster affordability via tax exemptions. The City of Austin (through Austin Housing Finance Corporation) can purchase a vacant and/or underutilized parcel of land and lease it back to a developer for affordable housing. With a long-term land lease, the developer creates, owns, and/or manages the affordable housing. However, because the land is owned by a public entity, it is 100% tax exempt.

The benefits of this type of partnership are two-fold. First, the tax exemption lowers the overall operating costs of the property. Depending on the appraised value of the property, the benefit is equivalent to \$7,000-\$10,000 per unit in up-front, direct subsidy. Second, locating the property on City-owned land can guarantee long-term or permanent affordability. The City has facilitated this type of arrangement with organizations, such as the non-profit Foundation Communities and for-profit developer Campbell-Hogue (Villas on Sixth). This type of public-private partnership is probably best suited for multi-family rental developments where the majority of the units are rent-restricted.

While tax exemption is technically a form of subsidy, it may be seen as more palatable than direct subsidy because it represents foregone income, rather than cash outflow. The current appraised value of many of the vacant properties in TODs is negligible compared with their potential as fully improved properties. Accordingly, the assessing entity is not necessarily losing existing income, but forgoing future income.

Recommendation #5: Utilize Homestead Preservation District Tools

In 2007, the City of Austin adopted a Homestead Preservation District, which gives the City additional tools to help create and preserve affordable housing. The district includes the Plaza Saltillo TOD and the majority of the MLK TOD.

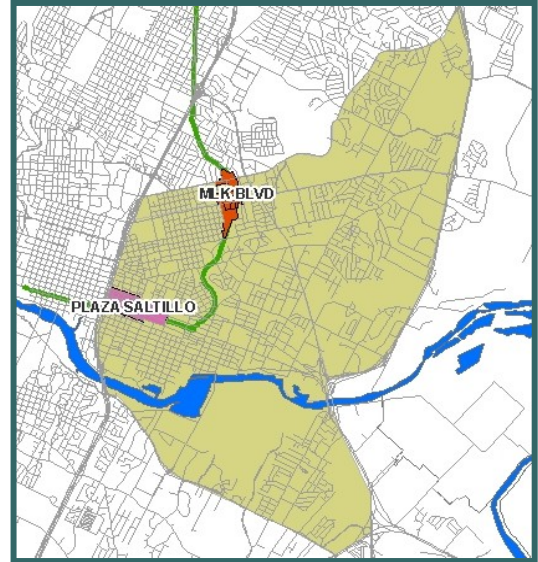
DMA recommends that the City of Austin maximize the use of the available Homestead Preservation District tools. Within the District, the City has the ability to create a TIF district, a land bank, and a Community Land Trust. The Homestead Preservation District

is also exempt from the statewide prohibition against the use of mandatory inclusionary housing programs. However, in order to implement a mandatory inclusionary program, the City must conduct a nexus study to justify any affordable housing requirements.

The revenues collected in a TIF district established under the Homestead Preservation Act must be used for the development, construction, and preservation of affordable housing. The City is currently exploring the creation of such a TIF and is seeking for participation by Travis County, as the City's share of tax revenue is a relatively small portion of taxes collected in the area.

The City is also working to develop a citywide Community Land Trust that would allow for the long-term preservation of affordable units. The land trust could also be used as a land bank to acquire and assemble parcels of land for future affordable housing developments, which could be especially important for the MLK TOD, where there are no publicly-owned properties within the TOD boundaries.

Homestead Preservation District with Saltillo and MLK TOD Areas



10. Conclusion

Planning for the TOD Districts has been a thorough process involving neighborhoods, the City of Austin, private developers, affordable housing advocates, and other stakeholders. DMA's recommendations are the result of careful consideration of all interested parties with the goal of the creation of a vibrant, diverse, and affordable community.

The TOD Ordinance and the Station Area Plans provide opportunities for increasing affordable housing. However, the affordability goals in the Ordinance are ambitious. Due to significant development costs, land availability issues, legal limitations, development restrictions, and other challenges described in this report, there is a significant gap between the cost of developing rental and/or homeownership units and the income derived from either the rental or sale of those units to qualified low- and moderate-income residents.

Financial Models

To analyze this funding gap, DMA developed the range of financial models included in this report. These models are summarized in the following table:

Location	Financial Model	Additional Subsidy Required
<i>Plaza Saltillo</i>	Rental - Lost Revenue Potential	\$127,623 per unit
	Rental - 9% LIHTC Development	\$36,750 per unit
	Rental - 4% LIHTC/Bonds	\$56,800 per unit
	Homeownership	\$136,731 per unit
<i>MLK</i>	Rental - Lost Revenue Potential	\$127,623 per unit
	Rental - 9% LIHTC Development	\$36,750 per unit
	Rental - 4% LIHTC/Bonds	\$56,800 per unit
	Homeownership	\$83,131 per unit
<i>Lamar</i>	Rental - Lost Revenue Potential	\$75,870 per unit
	Rental - 9% LIHTC Development	\$21,400 per unit
	Rental - 4% LIHTC/Bonds	\$56,900 per unit
	Rental – 4% LIHTC/Bonds in QCT	\$41,350 per unit
	Homeownership	\$149,951 per unit

As shown above, DMA's analysis indicated that every type of project would require some sort of public subsidy in order to achieve the TOD Ordinance affordability goals, and this is also the case for developments sponsored by non-profit developers, with donated land and property tax exemptions. Based strictly on financial realities, the most cost-effective use of public subsidies is to supplement traditional Housing Tax Credit (HTC) development.

Community Land Trust

For homeownership developments, DMA staff also modeled Community Land Trust (CLT) scenarios for each of the TOD areas. By removing both the cost of land from the project as well as the property tax burden from the income required to purchase, the CLT concept would allow units to serve buyers with lower incomes. However, a Community Land Trust is unlikely to provide sufficient relief to achieve TOD affordability goals. This is the case even with the maximum level of City of Austin down payment assistance.

Development Bonuses

In addition, a density and height bonus will enable a privately-financed development to provide a minimal percentage of affordable units. However, a development bonus alone will be insufficient to incentive a residential developer to incorporate affordable units serving households at the lower income levels specified in the TOD Ordinance.

Use of General Obligation Bond Funds

DMA recommends that the City consider dedicating a substantial portion of the funds to affordable housing projects developed within the first three TOD Districts. However, with estimated rental subsidies of more than \$127,000 per unit, and homeownership subsidies significantly higher, the City would have to dedicate the vast majority of the GO Bonds in order to meet all the goals specified in the TOD Ordinance and would have limited ability to provide funding for projects outside of TOD areas.

Recommendations

Despite these challenges, the TOD affordability goals can be achieved. But in order to achieve the goals, the City will need to implement multiple strategies which will require a significant amount of public subsidy and/or incentives. Significant participation from external entities will be crucial to realization of the TOD affordability goals, including participation by non-profit and for-profit developers, and involvement of other funding entities such as the Texas Department of Housing and Community Development.

Austin has many tools to promote housing affordability within the TOD areas. There is not one single solution to housing affordability. Rather, taking into consideration the unique nature of each potential development within each TOD area, DMA recommends that the City select a combination of tools including the following:

- ☐ Implementing a density and height bonus program
- ☐ Encouraging Housing Tax Credit developments and dedicate appropriate resources
- ☐ Identifying and utilizing publicly-owned land
- ☐ Providing a menu of incentives within TODs
- ☐ Utilizing Homestead Preservation District tools

By implementing these recommendations as part of a comprehensive strategy, the City can work with housing stakeholders to achieve the TOD housing affordability goals.