

Prescriptions for Affordable Housing for Austin

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**Bo McCarver, Ph.D., Chair
Blackland Community Development Corporation**

Background: As Austin experiences another building boom, the real estate industry is following the money and constructing new upscale housing beyond the means of low and middle income households. Many inner city neighborhoods are presently “under siege” as heritage homes are purchased, bulldozed and replaced with expensive condo regimes, often with architectural features alien to those around them. These pervasive developments increase the property taxes on surrounding legacy households while creating austere, “social holes” as gated belvedere (1) structures systematically appear, block-by-block. Faced with fenced, “ghost neighbors” and property taxes that double every two or three years, many legacy homeowners sell and move away from the city.

A new condo regime (upscale duplex) on East 22nd Street; the rear unit was recently offered for lease for almost \$4,000 per month.



As Austin expels its workforce, economic and racial segregation is further sharpened; public schools are weakened, and streets and roads are increasingly clogged as workers fight longer daily commutes to retain their inner city jobs. The situation is strikingly similar to that of San Francisco and Portland, where expensive hipster housing has forced workers out of the cities. (2)

The *Code Next* menu for increasing the stock of affordable housing asserts two concepts: increase the incentive program and streamline the permitting process. Shortening the permitting time will produce only nominal gains for builders and those may not necessarily be translated into more affordable units. The city's incentive programs have produced only 1,165 affordable units since 2005 (3) and many were for very short periods of affordability. Incentives don't work.

(1) “Belvedere”: a structure designed to command a view, *Merriam-Webster Dictionary*

(2) Semuels, Alana; “Can Portland Avoid Repeating San Francisco’s Mistakes?” *The Atlantic*; May 17, 2016

(3) Code Next Affordability Prescriptions, *City of Austin*, p. 14

What Can Be Done?

(1) Enact mandatory affordable housing set-asides in all new residential developments in Homestead Preservation Districts.

State law allows Austin to implement affordable housing set-asides in its Homestead Preservation Districts. (4) The city council has already implemented tax increments (TIFs) in the districts and is considering affordable housing set-asides. If enacted, the city council will need to contract with a professional company to do a nexus study to determine the percentage of housing set-asides and tiers of affordability. The study will consider Austin's need for affordable housing by looking at population demographics, construction costs and many other variables. The process includes the input of builders for it is important to provide enough profit to not discourage construction. Typical set-aside percentages are from 9 – to 20 percent and the study must be redone at least every ten years as construction costs and demographics shift. *Words of caution: allowing liberal fee-in-lieu buyouts for builders who do not want to integrate their upscale developments can further segregate housing.* (The citizens of Boston designated such housing as “snob housing.”)

(2) Pursue state legislation that will allow for affordable housing set-asides city-wide.

It is in the long-term interests of Austin to provide housing for its workforce in all quadrants of the city. While implementing affordable housing set-asides in Homestead Preservation Districts is an important first step, it will not adequately address the economic and racial segregation of the city. The city and Travis County Legislative representatives should prepare and push bills allowing for inclusion of affordable units in all city housing developments.

(3) Enact linkage fees for new and rehabilitated commercial developments in Homestead Preservation Districts while enacting linkage fees for new and rehabilitated residential and commercial developments in areas outside Homestead Preservation Districts.

Linkage fees force developers to pay a builder's fee for each square foot of new or rehabilitated construction, typically \$2 - \$5 per square foot. If Austin placed a flat, \$2 linkage fee on such developments, it would generate approximately \$60 million per year that could be used for development of affordable housing. The amount of the fees would need to be determined a professional nexus study similar to that for housing set-asides.

If a builder is participating in a set-aside program, they should not also have to pay a builder's fee, hence, if housing set-asides are implemented in Homestead Preservation Districts, residential builders who provide mandatory affordable units and would not have to pay a builder's fee. If a fee-in-lieu policy is adopted in a set-aside program, it will have to be carefully calculated and compared to builder's fees, if linkage fees are adopted. *More words of caution: unless the linkage fees are carefully applied and reinvested in affordable units in all quadrants of the city, they can perpetuate segregated housing.*

(4) Way, Heather; “The myth about the inclusionary zoning ban in Texas,” *Which Way Austin*, May 15, 2015.

Resolution

City of Austin Community Development Commission

June 14, 2016

Whereas, in order to keep Austin economically viable into the future it is necessary to better accommodate its workforce with affordable housing, quality schools and an efficient transportation system on which to commute; and

Whereas, providing housing in developments throughout the city for low and moderate income residents will retain the workforce, better integrate public schools and reduce traffic congestion; and

Whereas, Texas allows Austin to require affordable housing to be included in Homestead Preservation Districts, an opportunity that should be expanded to the entire municipality; and

Whereas, builders of new residential and commercial developments should help pay for housing the workforce needed to maintain and operate the housing units and for workers in new industries;

Therefore, be it resolved, the Community Development Commission supports inclusion of housing affordable for low and moderate-income households in development projects city-wide and urges the City to implement such set-asides in homestead preservation districts and press enabling legislation in the upcoming session to allow affordable housing set asides in all quadrants of the city.

Be it also resolved, that the commission urges the city council to pursue implementation of linkage fees for builders of commercial developments citywide and for builders of residential housing outside of Homestead Preservation Districts.