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# **FINAL REPORT**

## **RECOMMENDATIONS TO CATELLUS: MIXED INCOME RE-DEVELOPMENT OF ROBERT MUELLER AIRPORT**

**By Paul Brophy and Associates**

Based on convening of  
March 10-11, 2005  
Austin, Texas

Moderated by: *Paul Brophy*  
Guest Experts: *Michael Brown*  
*Robert Jodan*  
*Willie Jones*  
*Kevin McCormack*  
*Bernie Tetreault*  
*Peter Werwath*  
Coordinated by: *Frances Ferguson*

## **FINAL REPORT**

**To:** Greg Weaver, Catellus Development

**Fr:** Paul C. Brophy

**Re:** General Summary of the Mueller Development Symposium,  
March 10-11, 2005

**Date:** March 24, 2005

**Cc:** *Michael Brown*  
*Frances Ferguson*  
*Robert Jodan*  
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*Kevin McCormack*  
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**Catellus Development, with assistance from the Enterprise Foundation and Neighborhood Reinvestment Corporation sponsored a two-day symposium on the Mueller Development. The session was held March 10-11, 2005 in Austin.**

**Catellus' motivation in sponsoring the symposium was to:**

- **gain knowledge and community support for increasing the probabilities that the mixed-income nature of the project will be successful;**
- **to help ensure that the affordable component can reach to lower income people;**
- **that the affordable housing can remain affordable for a longer time period than is considered typical.**

*Those copied on this memo were panelists invited to the session, and were asked to share their observations on ways to see to it that the Mueller Development succeeds. What follows is a general summary of the key points raised by the panelists.*

## **1. General Observations**

The Mueller Development is a 700-acre redevelopment of Austin's former airport, a prime site near downtown and the University of Texas at Austin. The approved plan calls for the development of 4,000 homes of mixed income and tenure. The legal arrangement between Catellus—the land developer for the site—and the City of Austin is that 25% of the units must be made affordable for low and moderate-income households.

The overall reaction of panelists is that this is a remarkable opportunity for the City of Austin. There are few cities in the nation that in the past 25 years have had such a dramatically important development possibility.

The location and scale of the development means it will not only become a desired destination in itself, but its scale is such that the project has the potential to stimulate improvement in the area around the airport site as well. This project will have market consequences for much of Austin.

Prompted by sophisticated, dedicated and visionary community leaders, the City has managed a developer selection process resulting in the engagement of Catellus, a responsible and responsive developer that is not only aiming to meet the letter of the agreement it has with the City, but also to honor the spirit of the agreement. However, even with all of these positive elements, there are many challenges, described below, in executing a mixed-income project of this scale.

The intent of the developer is to evaluate and help to tap the potential of the various methods and tools, in part or in combination, in the development of affordable housing within Mueller.

## **2. Marketing Mueller**

Catellus will set the overall marketing approach for Mueller, and will control the overall message and brand for the project. In the view of the panelists, this is the right path.

Critical to the success of mixed-income housing is for developers to understand mixed income in its market context. In the case of Mueller, this market understanding reveals two realities. First, Austin is experiencing significant property value escalation now that the city's population has begun to grow again. Second, relative to other parts of Austin, the part of town in which Mueller is located is more moderate in price because the area has generally been one of mixed-race and moderate income.

This means that Mueller must establish itself in the market place as a new Austin address—a very desirable place to live. The fact that it will be a mixed-income and mixed-race development needs to be understood, but is not likely to be the headline in the marketing strategy for the development.

Keenly aware of the challenge of marketing a large-scale mixed-income development in this kind of setting, panelists offered the following recommendations:

Market Mueller as a great new Austin address;

- Do not market the development as an affordable project;
- Establish one point of contact to reach prospects versus separating affordable prospects into two points of entry. Once a prospect is in process, they can then be tracked according to their income levels;
- Marketing materials should respect the subtleties of marketing to a diverse group of prospective newcomers;
- Create a mix of housing types without correlating housing types with income. For example, avoid creating one category of unit for low-income residents;
- Use sophisticated market analysis techniques in order to be clear on the kind of residents who will be attracted to this site. There are a few market analysis firms that are able to disaggregate the “urban friendly” market into its component parts. Such a firm should be engaged to help

Catellus and vertical builders of housing reach the various market segments;

- Market units to residents of the surrounding neighborhood.

### **3. Creating Demand for Affordable Homeownership**

One of the key challenges of Catellus and its partners in meeting its affordable housing commitment is to find qualified moderate-income buyers who can be attracted to the Mueller development. The operative word here is “qualified.” There are many renters who aspire to the American dream of homeownership who will be attracted to the Mueller development, but who will be unable to qualify for affordable homes because of poor credit and/or too much debt.

These aspiring, but frustrated, applicants will need excellent homeownership counseling in order to qualify for a mortgage so they can become homeowners. However, Austin’s homeownership counseling system does not appear to be currently up to the challenge of helping a large number of renters qualify for homeownership.

This is a citywide deficiency that will affect the homebuilders’ ability to sell property to the intended customers. Catellus should not be held responsible for correcting this citywide problem yet; Catellus cannot ignore the gap or else be handicapped in helping its homebuilders find qualified buyers of affordable homes.

Catellus is encouraged to work with City government and others to set up a task force to improve Austin’s homeownership counseling system. Catellus should insist that such a task force be created, and Catellus is encouraged to be an active participant but not positioned to lead the task force. The reason is that the work of the task force is intended to improve the overall homeownership counseling capacity in Austin for the direct, but not exclusive benefit, of those moderate-income households that will buy homes in Mueller. Improvements to the homeownership counseling

system should be of benefit to renters who choose to buy anywhere in Austin.

This new system will take funding and new capacity. It is possible that if the new system is connected to the Neighborhood Reinvestment Corporation, by being certified as a Neighborworks organization, it could receive some funding from the Neighborhood Reinvestment Corporation and take advantage of their well developed curriculum and counseling certification program.

#### **4. Reaching Lower-Income Households**

The panel was asked to advise on how Catellus could structure the financing approach to the development so that those buying and renting affordable housing could be lower income than 80 percent of median—the upper threshold for the definition of “affordable.” This is a challenging prospect because the most obvious source of subsidy to reach a lower-income group—the tax increment that will result from the project—is needed to pay the public infrastructure costs of the development. Without this subsidy source, Catellus is challenged to be very imaginative in its approaches. Panelists suggest the following:

- Wherever possible, Catellus could sell land to developers who are responsible for producing housing for a mix of incomes. This permits builders to internally subsidize the affordable component by moving some profit from the higher-end units to support the less profitable lower-income units,
- Catellus is committed to paying the City of Austin for land sold consistent with the appraised value of the land. Within this constraint, and in instances in which Catellus cannot identify builders capable of building both market and affordable units, Catellus could charge more for land to homebuilders building high-end houses and less for land to those building affordable housing. This scenario could create, in effect, an internal subsidy within the project. The City will receive the same aggregate payment for the land,

but its distribution between high-end and affordable housing will permit the affordable housing to cost less than otherwise would be the case. (Note: this requires some careful oversight of the homebuilder lot takedown and housing pricing approaches.)

- Catellus is encouraged to explore the possibility of using the Section 8 Homeownership program with the Austin Housing Authority in order to determine whether this program--one which has the Housing Authority paying part of the homeowners' monthly payments--is feasible in the Muller project.
- For rental housing, Catellus is encouraged to seek a master agreement with state officials doling out the low-income housing tax credit in order to assure low-income housing tax credit allocations will be available to the project via developers who apply for it. In addition, Catellus is encouraged to also explore two possibilities with the Austin Housing Authority: (1) the use of project-based Section 8 units, a device to lower rents for very low income households, and (2) having the Authority lease units from unit rental developers to provide housing for very low-income households. Under these arrangements, the property owner has discretion, within legal constraints, to screen potential tenants, and to enforce lease provisions.

## **5. Lengthening the Term of Housing Affordability**

In an environment where the primary concern in Austin has become long-term housing affordability where it once was neighborhood revitalization, there is a desire among Mueller stakeholders to figure out how to produce some amount of affordable housing in Mueller which can remain affordable for many years. The panel was asked to review this need and make recommendations, within the important constraint of balance.

In order to attract many affordable homebuyers, it is necessary to provide housing that is typically American---that is, the homebuyer is able to benefit from increased home value, thereby building family wealth. The approaches to long-term affordability are as follows:

- In rental settings, require that a portion of the rental units remain rent-controlled over a long period of time. This approach must be used with care, and can be controlled by covenants running with the deed to the land.
- In homeownership settings, a promising approach to long-term affordability is the use of a community land trust. Austin does not have a community land trust, but discussions are underway to create one. This approach has been quite successful in other places in lengthening the affordability period by limiting the share of appreciation that goes to a homeowner. The trust owns the land under the home, and is able to control the sales process. This device should be used at Mueller. Its use will be constrained, however, because the nascent Austin Land Trust must find the capital it needs to purchase land from Catellus. One possible route to this capital is to connect the need for long-term affordability to the employers in the area whose employees are candidates for homeownership at Mueller.

## **6. Financing Tools**

The panel identified two emerging financing tools that might be useful to making homes in Mueller affordable.

- *New Markets Tax Credit.* This federal program provides a tax credit to businesses investing in qualified businesses in designated census tracts. If the Mueller site is qualified, the use of New Markets Tax Credits could provide a source of capital for the project that could be used to provide subsidies to create affordable housing. The credit can be structured so that it makes cash available on an up-front basis. Although there are many structuring issues, if the site is qualified, the panel



recommends that Catellus connect with tax credit experts to take advantage of this program.

- *Housing Equity Partnerships/Employer Assisted Housing.* All of the housing built at Mueller is likely to appreciate in value, including the affordable housing units. In such an appreciating environment, it is possible to attract private capital that can be invested in affordable homeownership units in exchange for a share of the appreciation. This approach is used by some universities in order to provide help to faculty and employees who are challenged to buy homes in very expensive markets. It is also used in a few instances by nonprofits and city governments in high-cost areas. The possibility exists in Austin to attract private capital that is seeking a market rate of return and is close enough to the Austin housing market to understand that the homes on the Mueller site are likely to appreciate significantly. This capital could be provided on a house-by-house basis, or investors could invest in a fund that would place the capital in homes using a second mortgage as a device. The investors' return would be the average return coming from appreciated sales proceeds when homes are sold. Although this financing tool is not in wide use, the Mueller development is a prime candidate for its use. This creative approach to attracting capital could augment the land trust – but does not preserve affordability to the same degree as the land trust.

## **7. Developing a Civic Strategy for Mueller**

The Mueller development is more than a new mixed-use neighborhood. It is also a major economic development opportunity. As former mayor Kirk Watson told the panel, the business community sees Mueller as one of Austin's key economic development elements. In this context, one key challenge for Catellus, City government, and the neighborhood leaders supporting Mueller is to tap the broader civic interest about Mueller so that this self-interest can become an organized force to ensure Mueller's success.

The panel suggests that Catellus and other Mueller stakeholders organize a new civic organization, tentatively called here, the "Friends of the Mueller Development." This group should consist of a range of

leaders that have a stake in Mueller's success, both as a new residential neighborhood and as a major economic development engine for Austin. The mission of this group would be to take whatever steps are needed to advocate for the execution of the Mueller vision. The group could be the spark plug to move the forces needed to improve homeownership counseling; to implement innovative financing tools; to catalyze work to improve the schools serving Mueller; to see to it that the proper connection is made between the community land trust approach and the project. These specifics are examples of the group's broader mission—to do whatever it takes to help Mueller become an excellent place to live and work.

Such an organization is both feasible and necessary, given the scale of Mueller and the citywide interest in Mueller's success.

## **8. Closing Comments**

The build-out of the Mueller development will take a decade or longer, depending on the strength of home sales and the overall strength of the Austin housing market and economy. The goal of creating a mixed-income community is challenging, but attainable. The challenge today is to both get the first phase of the project underway and to put in place civic machinery and processes that work toward the long-term success of Mueller.

The symposium brought to Austin talented, seasoned professionals skilled in mixed-income development who are deeply impressed with the quality of the opportunity, the leadership in Austin, and the harmonious working relationships among key stakeholders. The suggestions made by the panel and summarized in this memo, can serve as a check-list of possible approaches and tools for Catellus to consider pursuing in order to achieve a desired balance and in building a sense of goodwill among the key stakeholders.

There is much about mixed-income development which the panel did not discuss. These issues include how to build community when a diverse group of people are living together, ensuring the engagement of the school district for school quality over time, connecting quality neighborhood amenities to the mixed-income housing, and working to

**create opportunities for the low-income population in Mueller to become part of the economic mainstream through job training and placement and adequate provision of social services. These agenda items need to be tended to as the project moves into execution.**