

Planning Commission Codes and Ordinance Committee – Household Affordability Discussion
Direction of Imagine Austin Comprehensive Plan

Overarching intent of IACP: Sustainability for Austinites of Today and Tomorrow

1. Six Core Principles:

- * Grow as a compact, connected city
- * Integrate nature into the city
- * Provide paths to prosperity for all
- * **Develop as an affordable and healthy community**
- * Sustainably manage water, energy and other environmental resources
- * Think creatively and work together

2. Eight Priority Programs

- * Invest in a compact and connected Austin
- * Sustainably manage our water resources
- * Continue to grow Austin's economy by investing in our workforce, education systems, entrepreneurs, and local businesses
- * Use green infrastructure to protect environmentally sensitive areas and integrate nature into the city
- * Grow and invest in Austin Creative economy
- * **Develop and maintain household affordability throughout Austin**
- * Create a Healthy Austin Program
- * Revise Austin's development regulations and processes to promote a compact and connected city.

The basics of Household Affordability

1. The increasing gap between income levels and cost of living is the root of the problem.
2. To make accessible market rate housing we either have to increase income levels, or reduce the cost of living.
 - A. Income levels
 - * The ability of the COA to impact income levels at the low end is limited
 - * The COA's economic development policies are focused in high paying jobs that then assume a trickle down effect for lower income levels.
 - * According to the Forbes, the Median Household income change from 2007 to 2012 was down 5.4% at a low unemployment rate of 5.4%
 - B. Cost of Living
 - * The economic development policies that result in higher income levels for some also result in bidding up all goods and services in the community for everyone, adding to the overall cost of living.
 - * Increased property valuations due to economic growth have resulted in higher property taxes which increases the cost of living burden for moderate and lower income levels.
 - * Attempts to address the property tax burden in East Austin with the Homestead Preservation District has not been implemented nor are there other programs available to stabilize property taxes for moderate and low income households.
 - * The COA has chosen not to implement a Homestead exemption like other jurisdictions have.

- * The increase in cost of housing is not being offset by decreases in transportation and utility costs especially for moderate and lower income communities
3. If sufficient market rate housing cannot be achieved then there will need to be a funding source to subsidize the acquisition or construction of affordable housing.
 - A. Funding subsidized housing from property and sales taxes further burdens moderate and lower income households since these taxes are by nature regressive. Such programs help a few but increase the cost of living for everyone
 - B. Density Bonus programs result in minor amounts of new affordable housing and in some cases cause existing affordable housing to be replaced with much more expensive housing.
 - C. Federal funding is dwindling as is private foundation grants. Many traditional sources of funding affordable housing are being phased out.

Is the solution in "supply side" economics?

1. It is assumed by many that simply increasing the supply of housing will drive down the cost of housing due to lessen demand.
 - A. Lender's do not lend to intentionally over build the supply of housing so as to drive down the cost of housing, it is illogical, They may, from time to time, make mistakes or fail to do their due diligence, but it is not done on purpose.
 - B. The amount of capital in a given market is limited in most cases. So that capital gravitates to the most productive income producing projects, the high end market.
 - C. The Zoning capacity analysis done during the IACP process showed that if the existing zoning was utilized we could double the population of the city without up zoning. However the development community rightly points out that much of the existing zoning capacity will not be redeveloped and therefore they contend that we need more zoning capacity to enable the market to provide the growth in the housing stock that is needed to bring down the price of housing. But they had not provided any analysis of just how much of the added zoning capacity is needed to meet market demand.
2. It is also assumed that if you drive down the cost to build housing it will be reflected in the market price for that housing.
 - A. Part of this myth is that if you eliminate zoning regulations to allow more density, thus more units per land area, the land cost per unit will go down and then the market price will go down. Not so, the market while having some fluidity is determined by the demand side, so as long as the demand is high there will be no discount due to lower land costs.
 - B. Another part of this myth is that if you reduce project soft costs related to regulations, permitting, inspections, and red tape then that savings will be passed on to the consumer, again a fallacy in a hot market economy.

- C. The consequence of this is that if entitlements are increased, regulations relaxed and constraints eliminated there is no mechanism that ensures that the savings produced by such policy changes we actually result in more affordable housing.
3. Another assumption is that building denser will result in other cost of living reductions
- A. It is suggested that by increasing density the overall cost will go down for the city due to the concentration of utilities in a smaller area thus avoiding the cost of a sprawling infrastructure. However this "in-fill" concept ignores the reality that if you increase density sufficiently above the current capacity you will have to rebuild a significant amount of the infrastructure to service the new density and that will be very expensive in already built up areas.
- B. It is also suggested that this increase in density will allow for mass transit reducing transportation costs by eliminating the need for the private car. This may work for some portion of the population that have a predictable lifestyle, but for most moderate and lower income workers the transit options available never be sufficient to make it possible for them to eliminate the use of a private vehicle.
- C. It has also been suggested that there is a demographic shift taking place where many more people want to live in a more dense urban area. The irony is that the rising cost of living is not only driving the lower income folks out of the city (where there is no transit options and the cost of providing new infrastructure falls on counties or smaller communities) but has begun to push moderate income families out of the city. And as Ryan Robinson documents over 71% of the growth in the Metropolitan Austin Area is outside of the city limits. Even if the city's goal of having 25,000 residents downtown it is a drop in the bucket in a city predicted to be 1.25 million.
- D. While there are many studies that support these assumption, it is great example of "sub optimization" and compartmentalized thinking. In fact the staff working on the LDC re-write have been asked to provide an studies which show that adding density reduces the cost of living, the number of cost burdened household or total cost of providing city services. None has been provided.
- E. As a counter point to these assumptions is the city of Houston. Houston has no Zoning, nada, you can build anywhere just about anything. Has the lack of zoning produced an abundance of affordable housing, prevented sprawl or provided the density needed to make the investment in public transit work?

Comprehensive solutions to address Household Affordability

1. Shared responsibility and sacrifice

The simple solution of adding density to existing residential neighborhoods is a one sided approach that is unfair and will not succeed in providing the affordable housing that we need. So what are the other interested parties bring to the table as their contribution to solving this problem?

- A. Are the housing advocates working as hard to preserve existing single family housing to ensure sustainability of our existing residents of our neighborhoods?
- B. Is the development community will to reduce profit margins to ensure more affordable housing?
- C. Are the financial lenders stepping up to reduce borrowing costs and requirements to enable developers to build more affordable housing?
- D. Is the design profession forgoing design opportunities to produce more affordability?
- E. Is the city willing to reconfigure it's economic development strategy to lessen the adverse impact that the current policy has created?
- F. Are the various Chambers of Commerce willing to set realistic goals that move us toward a more sustainable economy and a more affordable city?

2. Do the heavy lifting and not take the easy way out.

Solving the Household affordability issue is a very complicated endeavor. Grabbing hold of a simple approach (density) will not get us there and will be in conflict with the IACP state objective to create a sustainable community for everyone, those who live here today and for those coming tomorrow. We should work to find a solution that has the minimum adverse impact on our existing community, we should do no harm if we can find an alternative way to achieve this goal. This will take looking at both the supply and demand factors contributing to the shortage of affordable housing.

3. We need a fundamental business (economic) plan to shape our future.

Reliance on just land use, transportation and infrastructure planning can not achieve our goals. Each option we have to address the household affordability issue has to be assessed economically for the impact on the entire community. We not only need a sustainability officer who is looking at environmental sustainability, but also an economic prosperity officer who is not just working to promote Austin's growth in the hope that such growth will raise all boats. We need a first rate economist now working on this problem.

4. The assumption that growth is inevitable and there is nothing we can do about it is wrong?

This assertion ignores the fact that we do a lot to promote growth that more and more seems unsustainable. We have to recognize that many of our city initiatives are promoting growth at the cost of a endangered environment and are economically a detriment to providing affordable housing for our changing population.

5. Be really future oriented

We must be future oriented in the assessment of what global environmental and economic changes will be coming down the road. The drought in Texas is likely to continue, manufacturing will follow cheap labor, intellectual property can be found any where in the world. We have identify and to recognize the fundamental shifts that will take place in the world economy now if we are to prepare for sustainable tomorrow. Assuming the past as the predictor for the future is wishful thinking at best.

MARKET TRENDS AND ISSUES FOR AFFORDABLE HOUSING IN AUSTIN

JUNE 2013

The City of Austin's Neighborhood Housing and Community Development Department (NHCD) has retained Economic & Planning Systems (EPS) to provide observations regarding market dynamics and their implications for affordable housing needs and policies in Austin. This memorandum represents an overview of major trends in housing pricing, income and job growth, and housing supply characteristics, as well as an assessment of the need for and prospective benefits of a robust and multi-faceted housing strategy for the City.

The Economics of Land Use



Market Dynamics

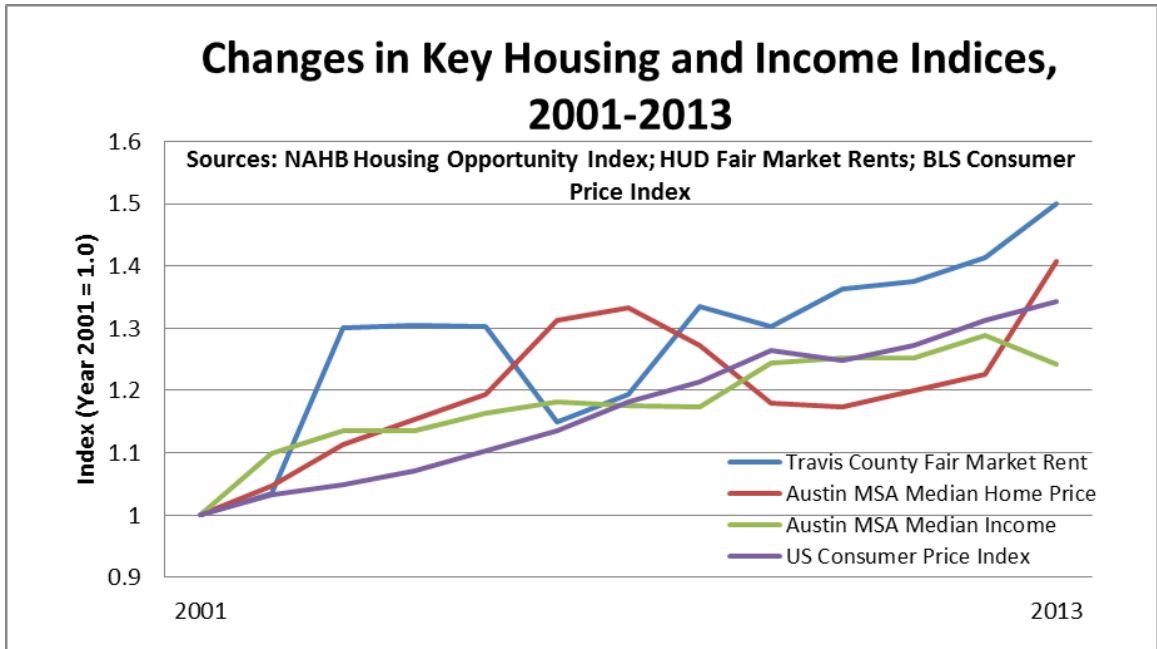
- 1. Housing prices in the Austin region have grown more quickly than income levels or general inflation, placing many housing options out of reach for lower-income households.**

The figure below indicates that, since 2001, nominal median household incomes in the Austin area have increased by only about 25 percent while general inflation (represented by the Consumer Price Index) has increased by roughly 35 percent. During the same period, median home prices have increased by 40 percent, and median rents have increased by 50 percent. The housing bubble and subsequent recession are evident in this figure (seen in the volatile median home price trendline), but the longer-term, multi-cycle trend clearly indicates that income growth has not kept pace with housing prices, particularly for rental housing. Rent price growth was somewhat opposite of for-sale home pricing – when one rose, the other fell – but very recent trends indicate strong growth in both sectors concurrently.

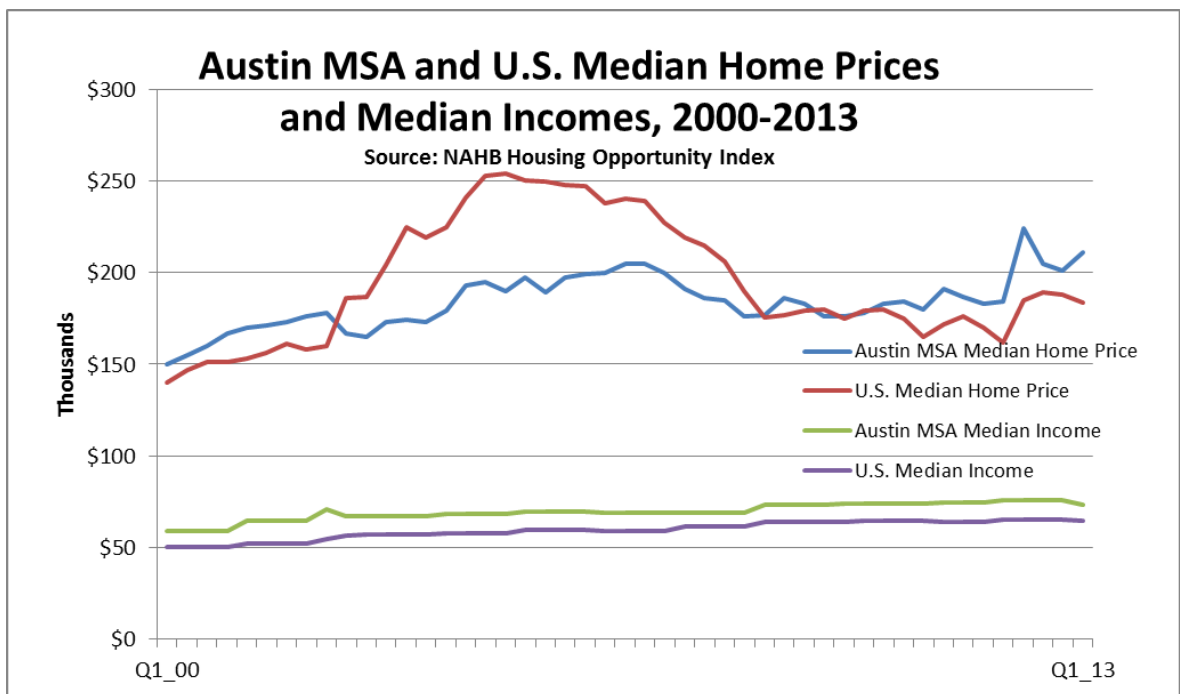
*Economic & Planning Systems, Inc.
2501 Ninth Street, Suite 200
Berkeley, CA 94710-2257
510 841 9190 tel
510 841 9208 fax*

*Berkeley
Denver
Los Angeles
Sacramento*

www.epsys.com



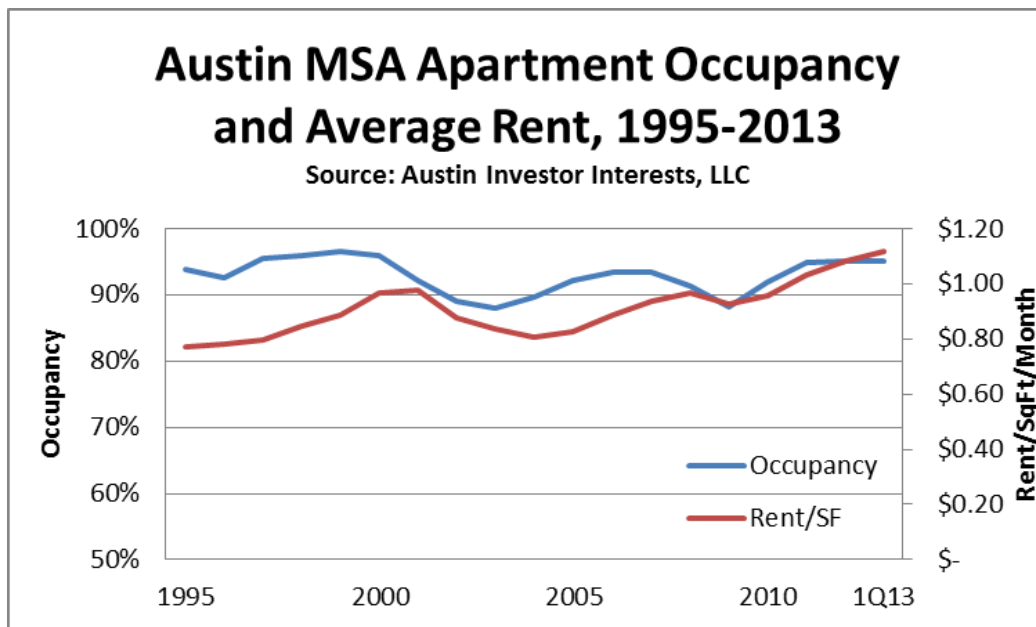
Austin area home prices have been less volatile than national trends. The following figure compares the median home prices (for-sale) in the Austin Metropolitan Statistical Area¹ (MSA) versus the United States from 2000-2013, and indicates much more steady growth in Austin area prices. Nationally, median home prices are more than 25 percent below the peaks reached in 2005-2006, while the Austin area’s home prices are higher now than in its 2007 local peak. The figure also indicates that national income levels have risen slowly, as they have in Austin.



¹ The Austin MSA is comprised of Bastrop, Caldwell, Hays, Travis, and Williamson Counties.

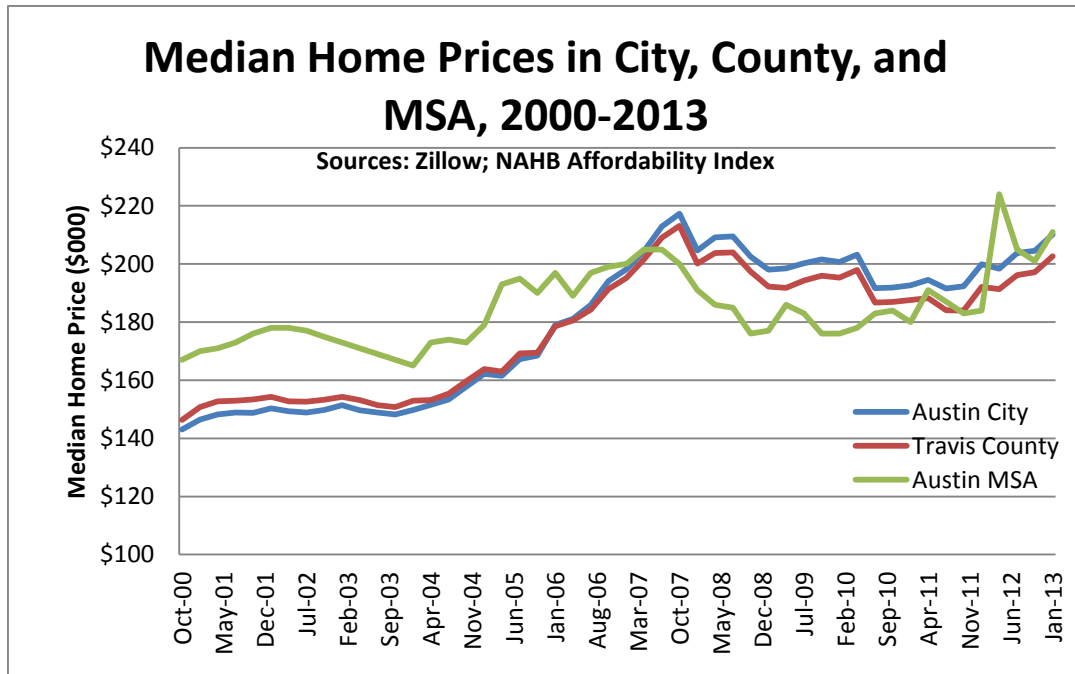
Part of the reason for the divergence of housing prices and incomes is that financing terms – particularly very low mortgage interest rates – have made higher housing prices affordable at the same level of income. A household earning \$50,000 can qualify for a \$300,000 home under current financing terms (4.0 percent interest on a 30-year mortgage with 20 percent down payment), whereas the same household could afford only a \$200,000 home with interest rates closer to historical norms of 7.5 percent.

While the change in home financing terms can explain some of the housing price escalation, it does not explain it all. Renters do not benefit from such low interest rates, yet are also paying more for their housing. According to Austin Investor Interests, LLC, the Austin region’s apartment rent rates reached an all-time high in the first quarter of 2013, and occupancy rates exceeded 95 percent – also near the highest point since 1995. Still, the MSA’s average remains relatively affordable, with the average rent of \$958 per month for all apartments being affordable to households earning about \$40,000 per year, or less than 60 percent of Area Median Income. It is worth noting that rent price drops have followed periods of decreasing apartment occupancy rates – typically the result of a major increase in apartment supply rather than an actual decrease in the number of renting households. Those cyclical rent reductions have been temporary, however, as the overall trend continued to push rents upward.

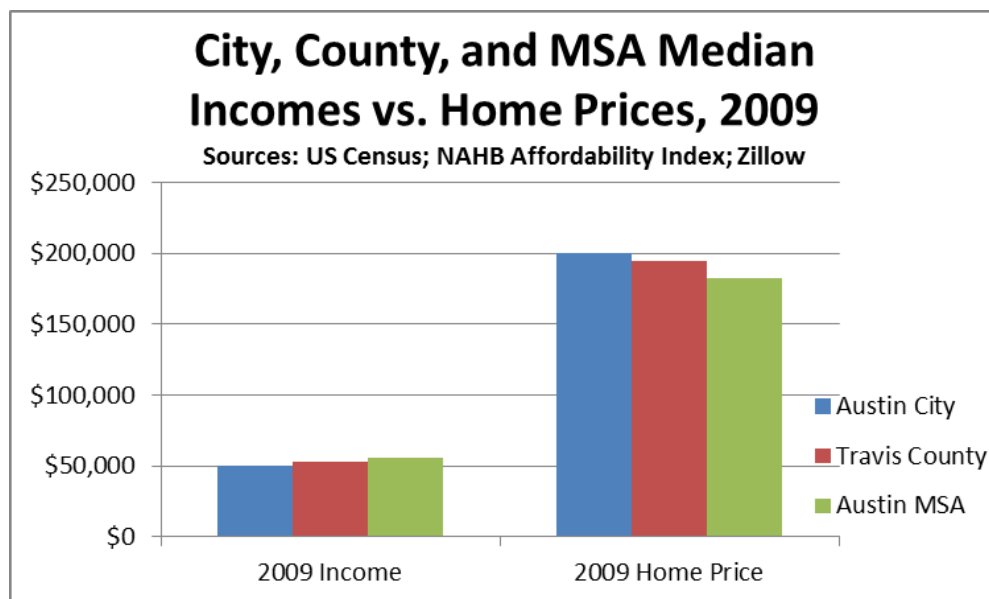


2. The City of Austin has greater issues with housing affordability than the region generally, with higher housing prices and lower income levels.

Within the City limits, the region’s housing trends have been somewhat more pronounced. The figure below indicates that in 2000, for-sale home prices in Austin were lower than average for the County and greater region. However, starting around 2007, prices within the City surpassed those of the larger areas, and remain higher today.

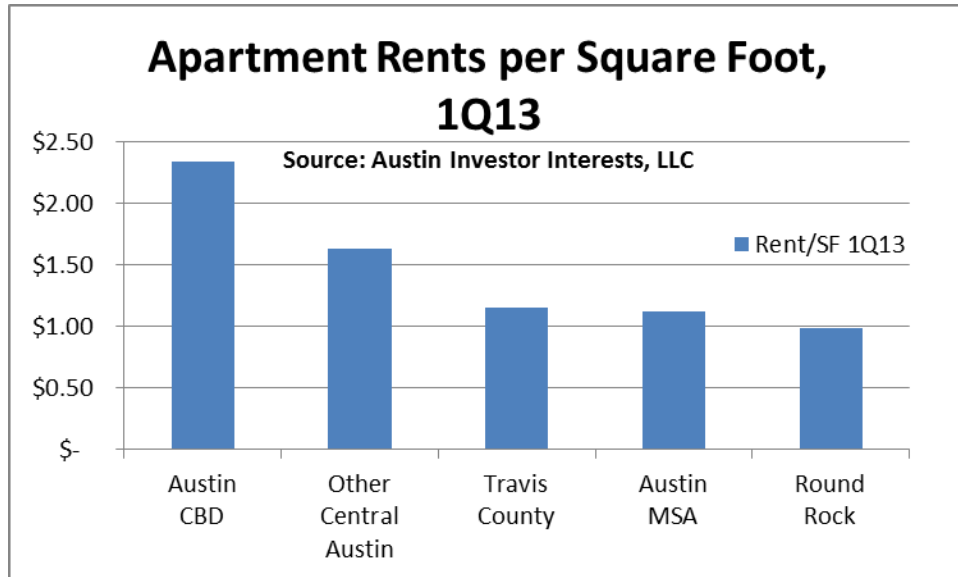


Even as home prices became higher within the City than in the greater region, the City’s income levels remained lower. The figure below shows the most recent (2009) data available from the US Census American Community Survey regarding median household income, and indicates that the City’s income levels were roughly 6 percent lower than the County’s and 11 percent lower than the MSA overall. These relationships are the opposite of those shown on the figure above, in which the MSA’s housing prices were the lowest and the City’s were highest.

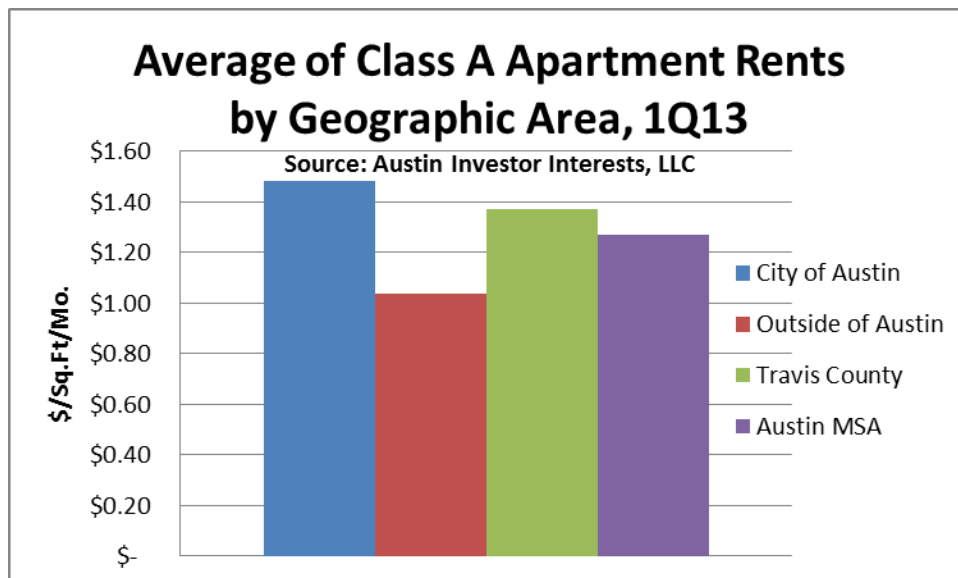


As with for-sale housing prices, apartment rents in Austin are also higher than in the greater region. As shown below, current market-rate apartment rents in downtown Austin are roughly \$2.40 per square foot, and over \$1.60 in the rest of the Central Austin market. These rents are roughly 50 to 100 percent higher per-square foot than are found in the County and MSA overall,

and a sharp contrast to the neighboring city of Round Rock, where average rents are under \$1.00 per square foot. While there are neighborhoods of Austin where rents are less expensive than in the CBD and Central area, this chart illustrates the comparatively high cost of rental housing in the City to its surrounding market context.

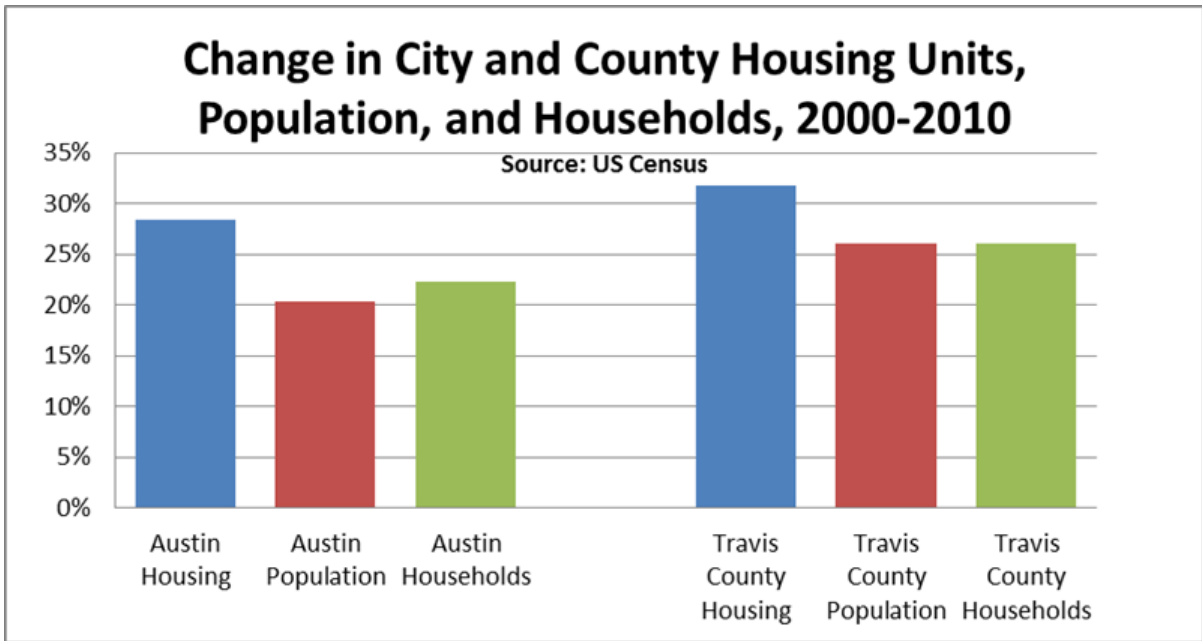


The chart below further illustrates the rent differences between geographic areas. As shown, the average rent for “Class A” apartments (typically, recent construction with attractive amenities) among submarkets within the City of Austin is nearly 50 percent higher than in submarkets outside the City, and the City’s high rents drive the overall averages for the County and MSA.



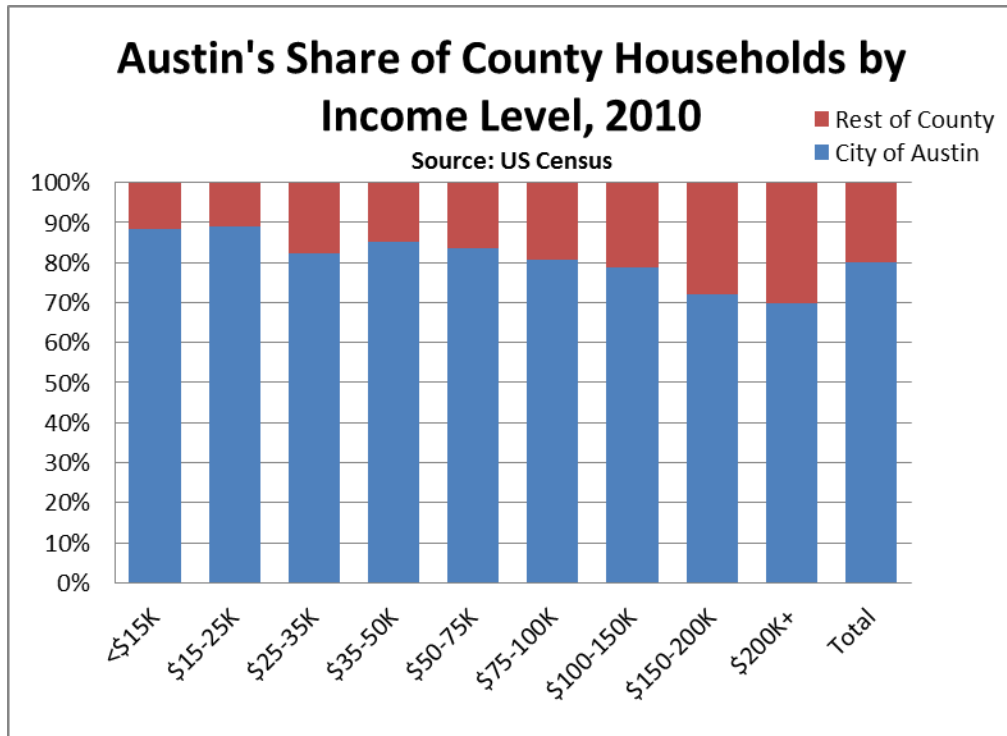
Importantly, the increase in local housing prices cannot be wholly attributed to a constrained housing supply. As shown on the figure below, the City and County both added housing units more quickly than they added population or households from 2000 to 2010. This rapid housing growth resulted in significantly more vacant units at the end of the decade than at the beginning, yet housing prices – particularly rent rates – grew faster than incomes. This fact suggests that

dynamics other than simple supply and demand (housing growth vs. household growth) were affecting housing prices, such as the City and region’s considerable cachet among technology companies as well as the “creative class” of young workers willing to pay high housing prices for high quality of life. This fact further suggests that housing prices are unlikely to be reduced for the long-term through substantial additions to the housing supply. Indeed, profit-driven housing developers are likely to reduce production of new units if prices or occupancy rates diminish, making it very difficult to plan for and implement enough housing to make a lasting effect on housing prices.

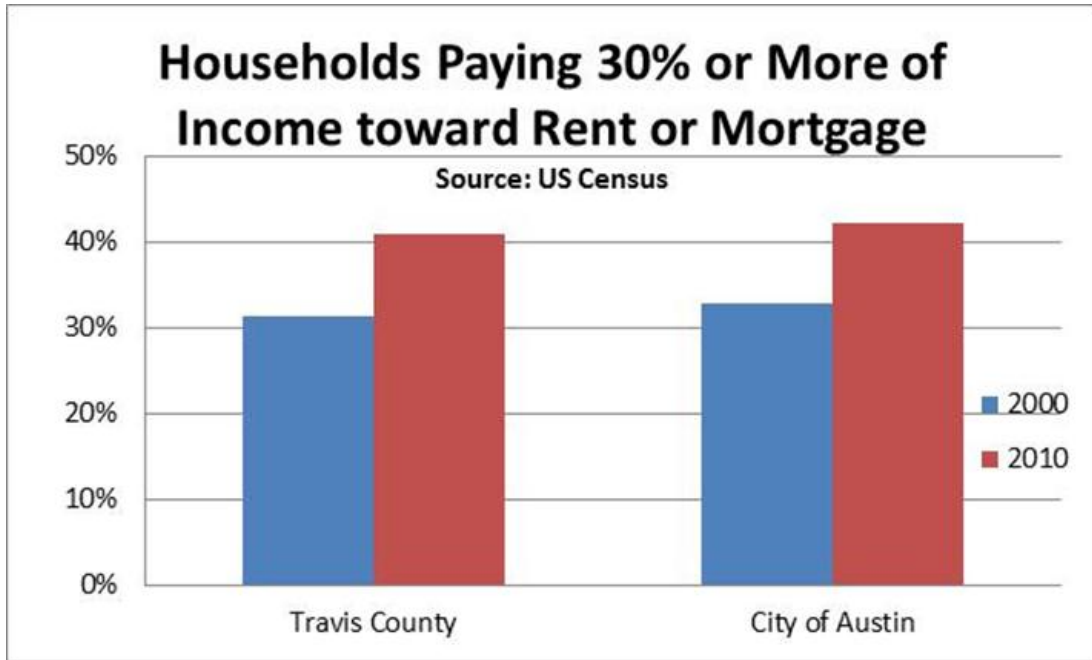


Along with higher than average housing prices, the City of Austin also has a high proportion and number of households at the lowest income levels. According to the Census, between 2000 and 2010 the City gained nearly 10,000 households earning less than \$15,000 per year – a 24 percent increase, compared to the overall number of households growing by only 22 percent. Importantly, these income figures are not adjusted for inflation, meaning that the households at this extremely-low income level have significantly less spending potential in 2010 than they did in 2000.

Moreover, the City has a significantly higher proportion of the lowest-income households than does the County overall. As shown below, the City comprises roughly 80 percent of all households in the County, but nearly 90 percent of the lowest-income households and only 70 percent of the highest-income households. This income distribution, combined with the City having higher housing costs than the County or region, illustrates the challenge of creating and maintaining housing affordability in the City of Austin.

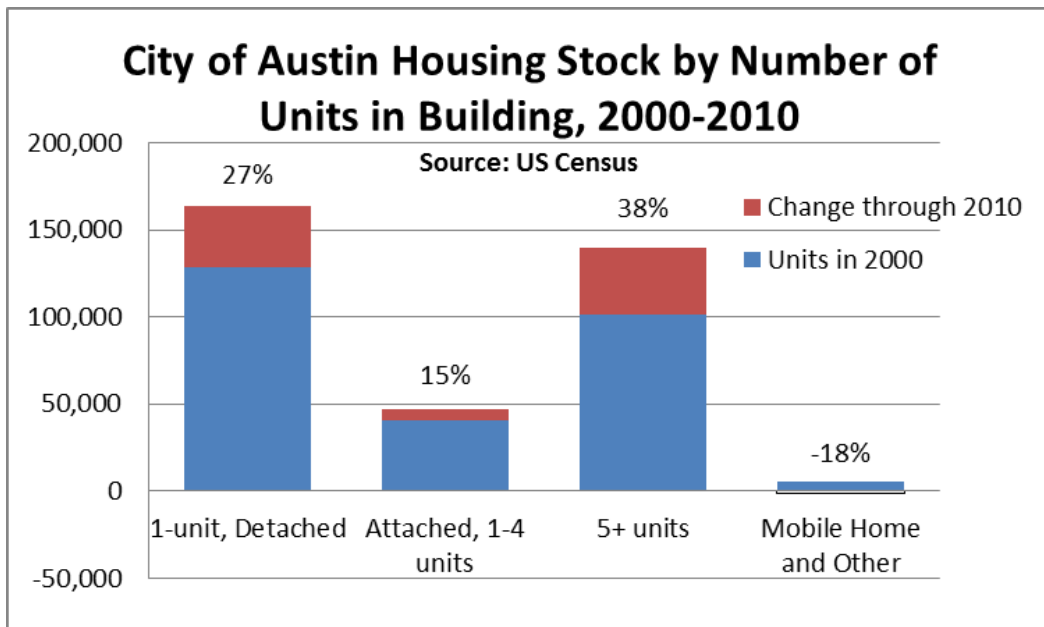


Overall, 26 percent of all households in the City of Austin earned less than \$25,000 in 2010, which was not sufficient income to be able to afford the average “Class C” apartment in the City at that time (assuming 30 percent of household income used for rent, per HUD standards). With rent levels having escalating rapidly since 2010 while incomes remained flat, this disconnect is sure to be greater today. Indeed, the problem of housing cost burdens has increased dramatically in the City and region in recent years. The figure below shows that in 2000, just over 30 percent of households in the City and County were paying more than 30 percent of household income toward housing costs. By 2010, over 40 percent of households in each area faced cost burdens. Again, with housing prices rising quickly since 2010 while income levels remained flat, the City certainly has an even greater proportion of cost-burdened households today.

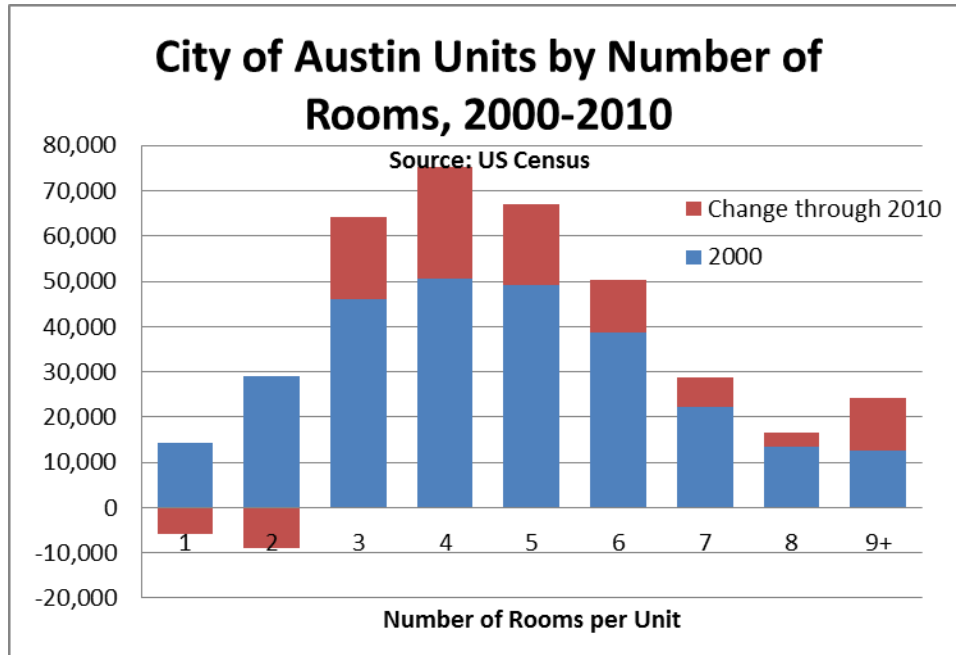


3. Austin’s housing stock is changing, with larger units and more multifamily housing than in the past but a loss of many *de facto* affordable units.

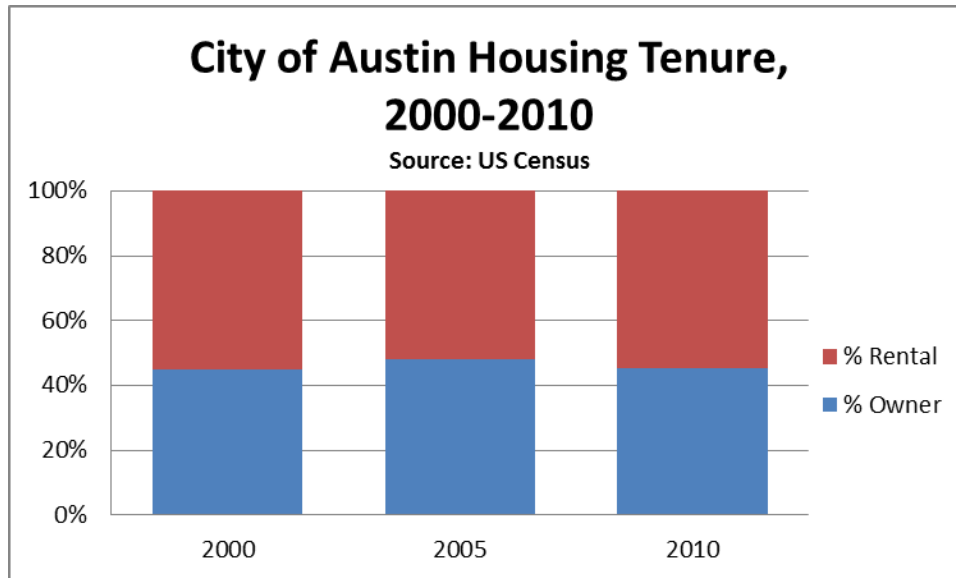
Between 2000 and 2010, the City of Austin’s housing stock grew by 28 percent overall, adding nearly 80,000 units. However, the figure below shows that the composition of the housing stock shifted, with major additions in multifamily units but actual unit reductions in some categories – including mobile homes. Overall, multifamily developments with 5 or more units increased from 37 to 40 percent of the total housing supply from 2000 to 2010, indicating a growing interest in multifamily housing by consumers and developers. But the reduction in mobile homes and other non-traditional housing options likely represents a reduction in the number of lower-priced units in the City.



Another notable shift is the increasingly large size of housing units. The figure below indicates that the number of units with only one or two rooms (total rooms, excluding bathrooms) has diminished since 2000, while the number of units with nine or more rooms nearly doubled. Units with three to five total rooms (typically, one- and two-bedroom units) also grew faster than average for the period. Overall, the average number of rooms per unit increased from 4.6 to 4.9, even as the typical household size was slightly diminishing – from 2.40 in 2000 to 2.37 in 2010. This fact suggests the market has embraced larger units, which are likely to have and retain high prices, while losing a substantial number of likely *de facto* “affordable” one- and two-room units.

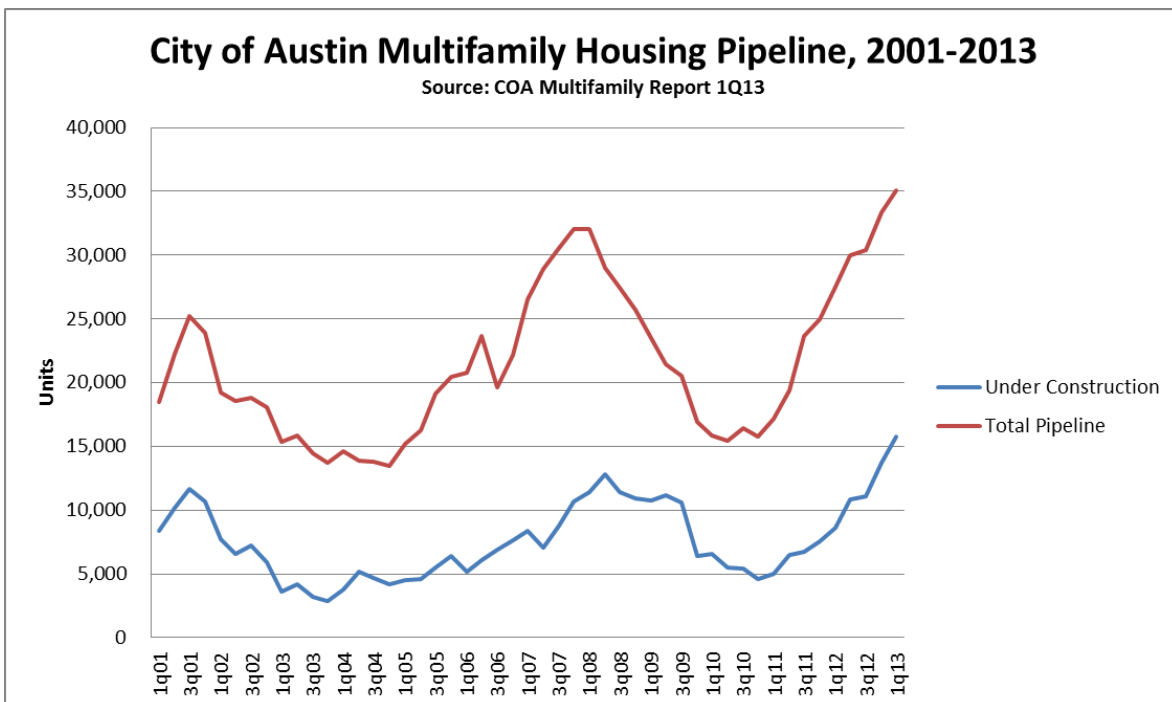


There has *not* been a dramatic shift in the rate of homeownership in Austin. In both 2000 and 2010, 55 percent of occupied units in Austin were rentals, and 45 percent owner-occupied. These proportions shifted slightly during the housing bubble, with owner-occupancy reaching as high as 48 percent in 2005. Though Census data suggests that owner-occupancy declined to 43 percent in 2011, the long-term trend does not suggest a major change in Austin’s homeownership rate.



4. Current development activity in the City indicates a continued focus on multifamily housing, including many high-density and large-scale projects.

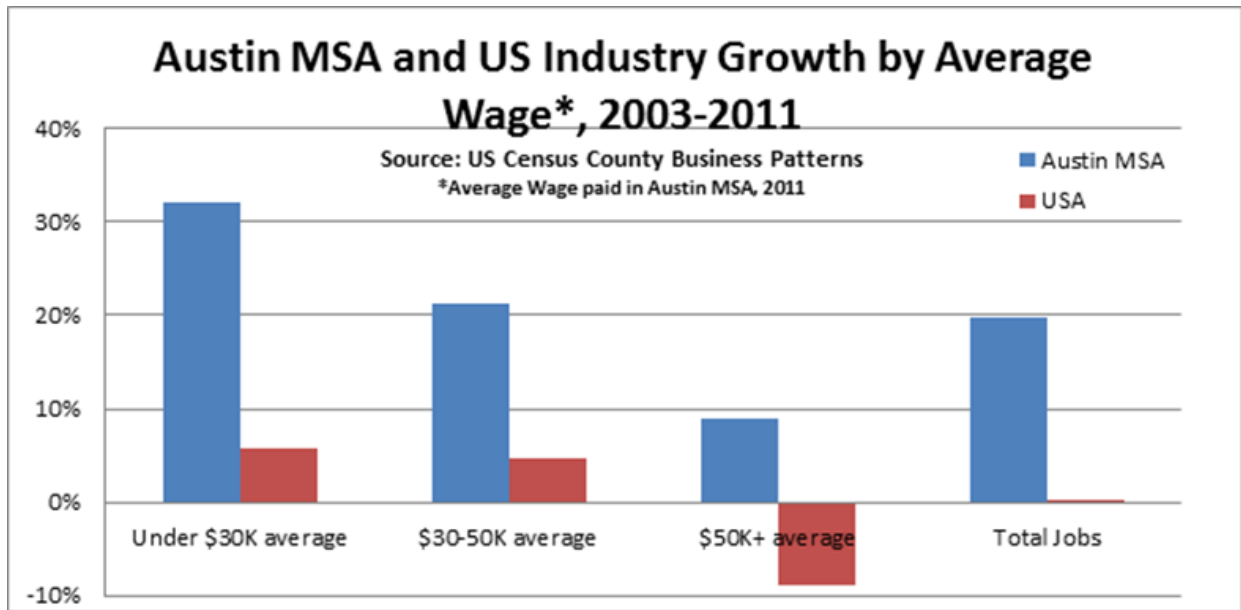
The City’s development pipeline indicates that the housing market has rebounded well following the national recession. Following a severe dip in the number of multifamily units proposed and under construction that “bottomed out” in late 2010, there are currently more multifamily units in planning and construction than at any time since 2001, and over 15,000 multifamily units currently under construction in Austin. This data clearly demonstrates that the development industry is responding to strong near-term market opportunities, although it should also be noted that past cycles of high housing growth have been followed by periods of temporarily declining housing prices, occupancy rates, and new construction.



The types of multifamily projects in the pipeline are very diverse. Five projects completed construction in the first quarter of 2013, and ranged from 18 to 73 units per acre with an average of 25. Meanwhile, 12 projects initiated construction during the same quarter, and had an average density of 27 units per acre but ranged from 7 to 381. Four of the 12 projects that commenced construction had densities in excess of 100 units per acre. The 12 new projects had an average size of over 260 units, indicating that large projects are dominating the current multifamily development activity.

5. The Austin area has gained many jobs in lower-wage industries whose workers struggle to afford market-rate housing.

Between 2003 and 2011, the Austin MSA gained 108,000 jobs, growing by a total of 20 percent, while the national employment base was virtually unchanged as the figure below indicates. This difference reflects the City and region’s great success at attracting and retaining employment through very challenging economic times. However, in both the Austin region and the nation, industries with average wages under \$30,000 per year (retail, restaurants, hotels, and recreation) grew substantially faster than average while the group of industries paying average wages over \$50,000 (finance, manufacturing, professional services, management, etc.) grew slower than average. The growth in these high-wage industries is a very positive indicator for the Austin area, as employment in those industries contracted as a group at the national level. As the City of Austin has the vast majority (over 70 percent) of jobs in the MSA, trends in the City generally reflect those in the broader region.



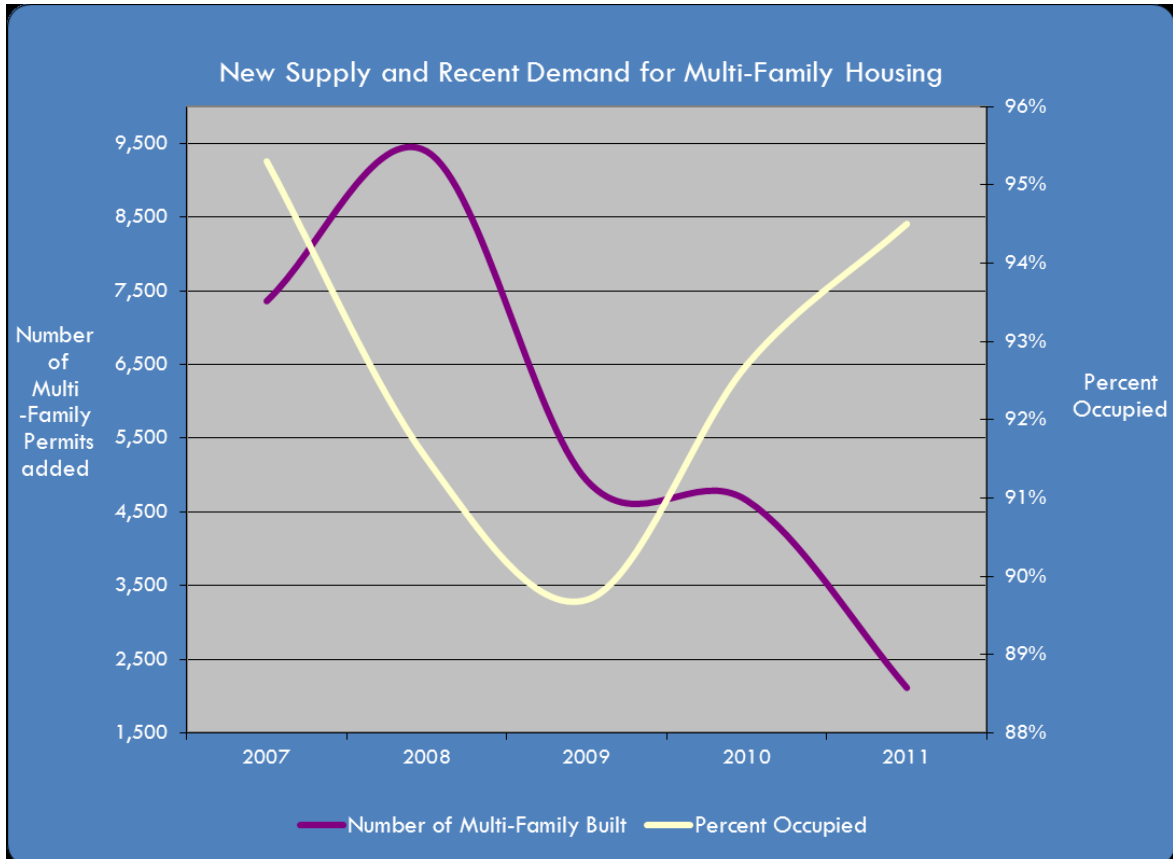
Policy Considerations

The market dynamics described above point to several policy considerations for the City of Austin.

1. The City must continue to build housing at a fast pace to meet current and future demand, or face even more rapid escalation of housing prices.

According to the City of Austin’s demographer, the City of Austin population is expected to grow from 842,750 today to 1.3 million by 2045, adding an average of roughly 6,000 households per year during that period (at roughly 2.5 people per household). The Census indicates that the City added 7,838 units per year from 2000 to 2010, and CAMPO indicates that the City of Austin has issued 5,917 housing permits per year between 2007 and 2011. The City will need to continue to permit similar levels of housing growth to accommodate an increasing population in the future.

Building more housing overall is likely to help keep market-rate prices relatively affordable. As demonstrated by the figure below from CAMPO’s Growth Monitoring Report from January 2013, there is an inverse relationship between housing production and the occupancy rates of the housing supply. As lower occupancy rates cause housing producers to offer units at lower price points, it would be expected that facilitating housing production will keep prices in check. However, these production/occupancy/rent relationships are cyclical, and the long-term trends show increasing housing costs and increasing cost burdens even through periods when housing production has been very high.



2. The demand for affordable housing in the City of Austin is great and growing.

Since 2000, housing prices have risen more rapidly than income levels, and more households than ever are paying high cost burdens for their housing, particularly within the City of Austin. While jobs have grown impressively in the Austin area, a high proportion of those jobs are at lower-income levels and the workers have difficulty affording market-rate housing prices. Austin also has a very high proportion of households earning extremely low income levels, and has seen its poverty rate increase in recent years to points significantly above the County, regional, State, and national levels. Some of these market-based trends appear to have gotten worse since the 2009 release of the City's Comprehensive Housing Market Study – a document that recommended constructing 1,000 or more affordable units per year to meet future demand and potentially start to address existing “gaps” between available supply and affordability needs. An updated comprehensive assessment of affordable housing needs is expected to be conducted starting in 2014, which can address affordability needs by demographic group, income level, and geographic area more specifically than has been attempted here.

3. A robust affordable housing program can be an important part of a City and region's environmental justice, economic development, and transportation planning initiatives.

Numerous studies have linked the improvement of local and regional transportation systems to increased property values. The City's consideration of urban rail service has acknowledged those links as a potential (though not certain) source of funding for some of the system. Similarly, the attraction of jobs to a City or region brings opportunity and prosperity for many, but also creates additional demand for housing in an innately finite supply of units and developable land. The paradox of urban investment and improvement is that it can result in the economic displacement of previous residents, if those residents cannot pay the rents, taxes, or other costs required to enjoy the improvements. Austin has grappled with this issue for many years, as it is recognized as a national model for economic development and quality of life but also faces concerns over “gentrification” of its lower-income communities. Affordable housing programs can help to keep economically at-risk families in their homes or neighborhoods, and can be a key component of an economically and demographically diverse, growing, and ever-improving community.

Moreover, affordable housing can be a key component of attracting and retaining businesses. Austin has obvious links to the technology companies that have driven the economy of Silicon Valley. The Silicon Valley Leadership Group is a consortium of companies – such as Apple, Cisco, eBay, IBM, etc. – that work together to advance various policy initiatives, including promoting affordable housing throughout the region. The group's website states:

“On an annual basis, the Silicon Valley Leadership Group surveys its members in order to highlight the good and bad elements of doing business in Silicon Valley. Each year, housing is cited as a top impediment. Housing affordability along with cost of living issues serve as a choke point for recruiting and retaining top talent to Silicon Valley.”

To maintain its successes in economic development, the City of Austin may benefit from continuing its dedication to providing housing for a wide spectrum of workers and income levels.

Relatedly, the City and region can benefit from the transportation benefits associated with having affordable housing near jobs. As previously noted, the City gained proportionately more jobs than employed workers during recent years, resulting in an increased jobs/housing imbalance – the City has over 70 percent of the region’s jobs, but less than half of the region’s employed residents. These trends have resulted in increased in-commuting that contributes to regional traffic congestion and related externalities (air quality, safety, etc.). Providing housing that is affordable to the City’s diverse workforce can help to alleviate these transportation issues, while also reducing the overall housing/ transportation cost burden on lower income households. Data from the Center for Neighborhood Technology indicate that residents in several neighborhoods near downtown Austin spend as little as 16 percent of their income on transportation costs, while residents of Pflugerville and Cedar Park pay roughly 26 percent, and Buda residents pay 28 percent. Clearly, financial trade-offs are being made, with lower-priced housing in the region’s suburbs being offset by higher transportation costs. Compared to those choices, affordable housing within Austin can represent a net gain for its lower-income residents, providing similarly-priced housing *and* lower transportation costs.

Each of these relationships speak to the value of having an affordable housing program in the City of Austin that responds to evolving needs and capitalizes on dynamic opportunities. The program will need to expand along with the overall population and employment base, and can meet the community’s needs in a variety of ways ranging from new construction or preservation of units to workforce development and financial literacy programs that enhance families’ ability to generate, retain, and utilize their own earnings. The ultimate benefits of such programs and investments can be enjoyed not only by the residents of the affordable units, but by their employers and fellow community members.