



# Banking and Community Perspectives

ISSUE 3 2012

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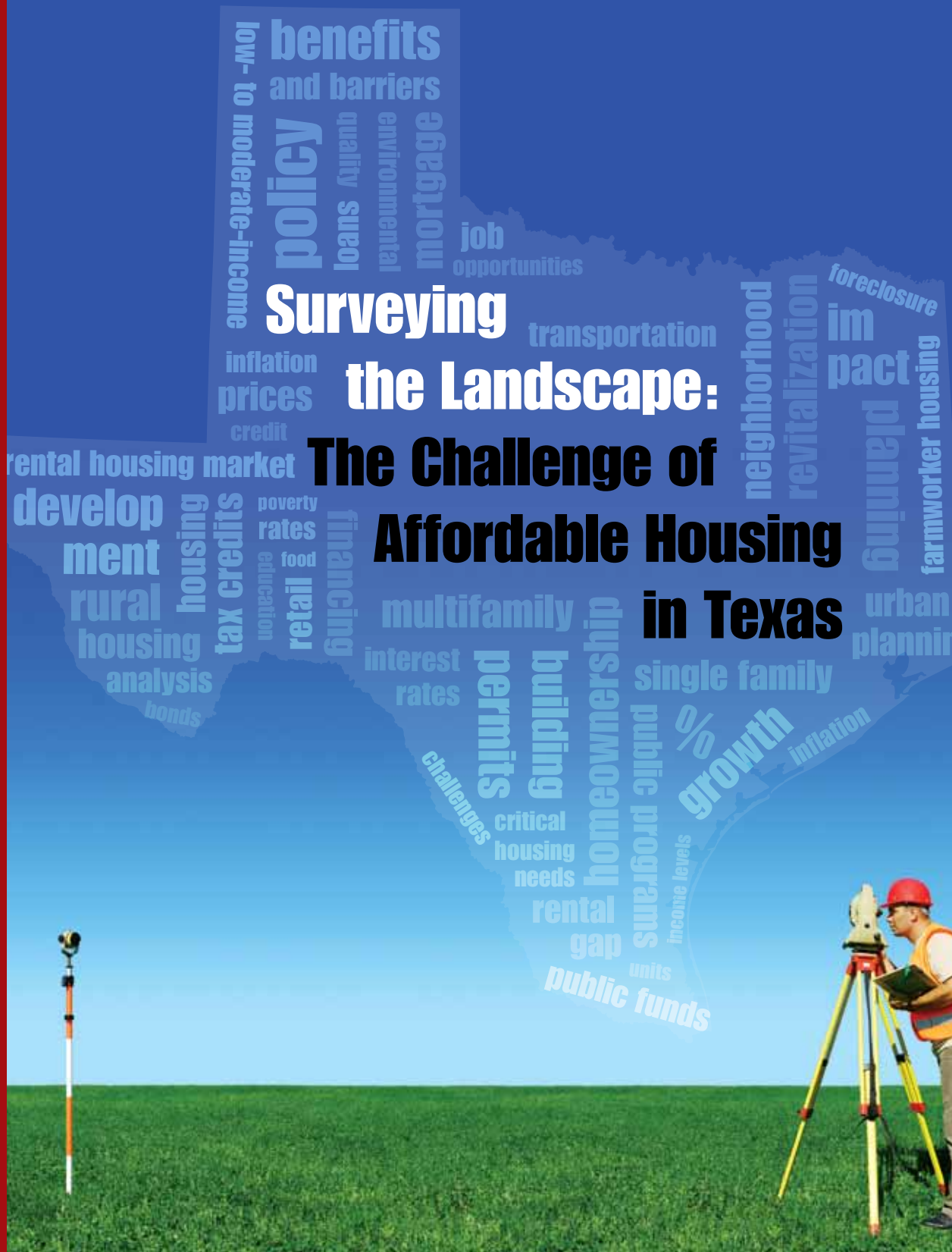
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# Banking and Community Perspectives

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**T**he Texas housing market has finally turned the corner after a long stagnancy and become a contributing factor to the economic recovery. And yet in many areas, housing for low- and moderate-income (LMI) households is still in short supply. This special issue of Banking and Community Perspectives looks at the challenge of affordable housing in Texas, spotlighting underlying trends and innovative approaches to increasing availability.

Across the state, multifamily construction has begun to rebound to meet a growing demand for rentals. But in some communities, rents are increasing faster than mortgage costs—which reduces the stock of affordable rental housing.

In the vast rural areas of Texas, housing developers continue to encounter difficulty reaching economies of scale with scattered sites, and this contributes to a shortage of affordable housing. Moreover, the seasonality of migrant workers poses challenges for communities trying to find shelter for farmworkers. Two studies commissioned by the Texas Department of Housing and Community Affairs provide recommendations to improve housing delivery to rural residents and farmworkers.

Increased drilling activities have lifted the Permian Basin from economic recession and sent workers flocking to oil boom towns. But development has not kept pace with demand, and housing for incoming workers and local LMI households is scarce.

The Houston area is dealing with housing problems caused by the economic downturn and damage from Hurricane Ike. The city of Houston is taking a holistic approach to stabilizing these neighborhoods. The city of Dallas, meanwhile, has been using creative financing mechanisms to help overcome barriers to transit-oriented development in underserved areas.

This survey of the affordable-housing landscape reveals the complexity of the challenge facing communities, especially in this postrecession period, but it also offers hope that much can be done to meet the housing needs of lower-income populations throughout Texas.

Alfreda B. Norman  
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# Texas Sees Postrecession Turnaround in Rental Housing Market

By Wenhua Di

It's not surprising that the rental market has picked up and led the recovery from the housing crisis. Families have lost their homes to foreclosure, young adults uncertain about job prospects have delayed home purchases and more people have enrolled in college and need housing. Further, many households face challenges meeting down payment and credit requirements for buying homes as stringent underwriting criteria have made it more difficult to qualify for a mortgage.

For most areas of the country, the demand for rental housing has grown rapidly. During 2011, the number of renter households went up by 1 million.<sup>1</sup> The homeownership rate has gradually declined to 65.5 percent from the historic high of 69.2 percent in 2004 (*Figure 1*). Homeownership trends vary across Texas metros, and the overall rate for the state has stayed around 65 percent.

As a result of this demand for rental housing, the national rental vacancy rate dropped from 10.6 percent in 2009 to 9.5 percent in 2011.<sup>2</sup> Texas' metropolitan areas have some of the nation's lowest vacancy rates. From 2006 to 2010, renter-occupied housing in Texas increased by 184,000 units, which accounts for 43 percent of all occupied housing units added. The demand has been met through not only vacant multifamily units, but also 91,500 additional single-family units. The latter accounted for almost half of total renter-occupied units added in Texas over the four-year period.

Since the government's homebuyer tax credit expired in 2010, multifamily permits and starts have rebounded (*Figure 2*). The owner-occupied market is still under pressure, partly due to a large inventory of distressed sales. The share of homes with negative equity was 22.5 percent in the U.S. and 9 percent in Texas as of September 2012, suggesting a shadow inventory that may emerge when housing prices improve.<sup>3</sup> Construction of single-family homes is not recovering as quickly as it is for multifamily homes.

Still, the rental market has tightened in almost all major metros in Texas, particularly for multifamily properties that are professionally managed.<sup>4</sup> Rents have gone up relative to mortgage payments since the recession started. The median cost to rent in Texas increased from \$711

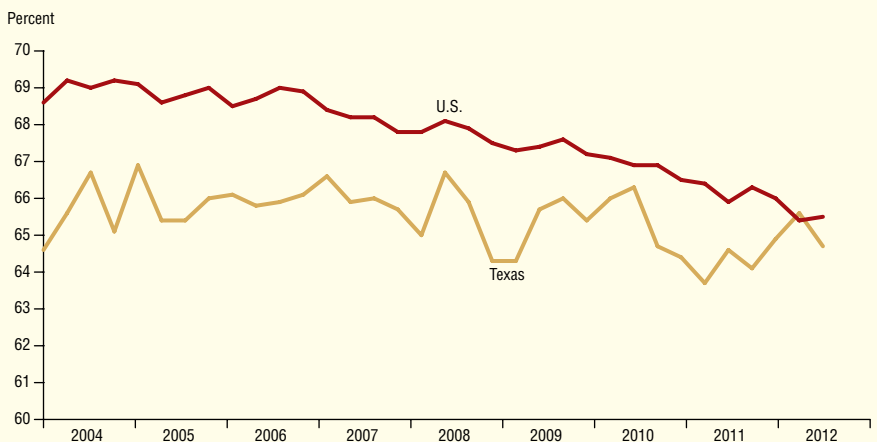
in 2006 to \$786 in 2010, a 2 percent increase when adjusted for inflation. In addition, the renter's cost distribution also shifted to the higher end over the same period (*Figure 3*). In contrast, the median monthly housing cost for owners with a mortgage changed little in real terms over those years.

## Is the Market Overbuilding?

If the number of rental units added cannot keep up with demand, rents will continue to rise. But in some markets, if too many new units are delivered too quickly, rents may drop sharply. Overall, multifamily deliveries are still lower than absorption. The construction activities in Texas have not yet recovered to pre-recession levels despite recent upward trends.

Figure 1

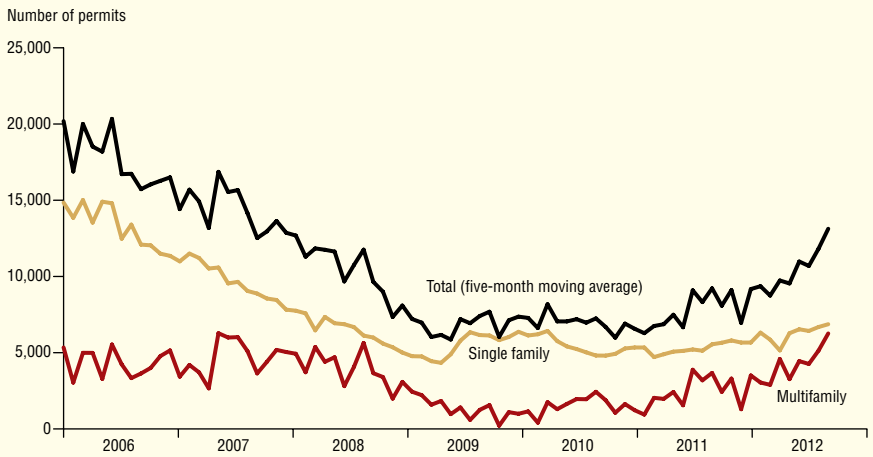
### Texas Homeownership Holding Near 65 Percent



SOURCES: Census Bureau/Haver Analytics.

Whether the multifamily sector is overbuilding also depends on future demand for rentals. In recent years, Texas has had the largest population and job growth among all states.

**Figure 2**  
**Multifamily Driving Uptick in Texas Residential Building Permits**



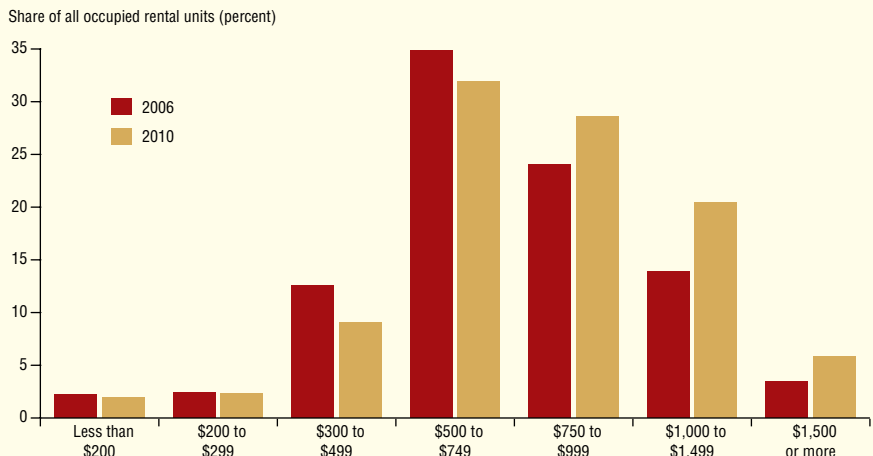
SOURCE: Census Bureau/Haver Analytics.

Whether the multifamily sector is overbuilding also depends on future demand for rentals. In recent years, Texas has had the largest population and job growth among the states. The demand for both rental and owner-occupied housing will continue to increase and help absorb the new units produced. Household preferences also change over time for different demographic groups. More higher-income or younger households embrace the idea of renting for style and mobility.

Nationally, rentership increased from 2006 to 2011 for all age groups except those 65 years and older.<sup>5</sup> Texas saw a small increase (0.8 percentage points) in rentership in the 35-to-44 age group from 2006 to 2010. There was no observable increase in rentership for those age 35 and younger in Texas, and there was a decrease in rentership for those age 45 to 74.<sup>6</sup> Some renters choose homeownership when the cost of buying compares favorably with renting.

Another factor that can influence the

**Figure 3**  
**Upper End of Rental Market Sees Growth**



SOURCE: American Community Survey.

**Table 1**

**Housing Cost Burdens Increase for Renters in Texas**

Occupant income	Renter-occupied units added		Units with housing cost burden (percent)			
	Number	Percent	Renter occupied		Owner occupied	
	2006–10	2006–10	2006	2010	2006	2010
<20k	-30,502	-3.6	90	91	70	69
20-35k	13,639	2.1	57	65	46	46
35-50k	36,735	8.5	18	25	33	35
50-75k	65,938	17.6	6	8	20	21
>75k	91,368	34.5	1	8	6	6

NOTES: Occupant incomes are nominal value. Households are considered cost-burdened if they devote more than 30 percent of their income to housing. Costs of owners without a mortgage are not included in calculation.

SOURCE: American Community Survey.

Rent inflation is higher in the upper-end market, which pushes higher-income households to seek lower-cost alternatives. This has left a relatively smaller number of units available for lower-income households.

rental market is the financing of multi-family development. Fannie Mae, Freddie Mac and the Federal Housing Administration (FHA) are still backing most new multifamily loans. The magnitude of government support may not be sustainable, with federal fiscal challenges looming large and the reform of government-sponsored enterprises (GSEs) continuing. Banks, insurance companies and private investors remain cautious about opportunities and decisions regarding multifamily developments given the uncertain future of GSE and FHA guarantees.

**Widening Affordable-Rental Gap**

From 2006 to 2010, the number of renter-occupied units in Texas increased 6.5 percent to 3 million. As Table 1 suggests, higher-income renters grew disproportionately compared with other income groups. Rent inflation is higher in the upper-end market, which pushes higher-income households to seek lower-cost alternatives. This has left a relatively smaller number of units available for lower-income households.

Considering that real median household income barely increased (by only 2 percent in Texas) over the four-year period, the discrepancy between demand for and availability of affordable rental units increased. For households making less than \$20,000 a year, housing options became so limited that many may have doubled up with other families or become homeless.

The share of renters classified as “housing cost burdened” increased from 2006 to 2010 at all income levels.<sup>7</sup> For occupants with incomes between \$20,000 and \$35,000, the share increased 8 percentage points to 65 percent. For those with incomes between \$35,000 and \$50,000, the share increased 7 percentage points to 25 percent.

Meanwhile, homeownership has become a relatively affordable option because of low mortgage rates and price stagnancy. The share of owners considered housing cost burdened remained almost unchanged at all income levels from 2006 to 2010.<sup>8</sup> For lower-income households, homeownership with a fixed-interest mortgage can reduce the impact of future rent inflation and provide opportunities to preserve assets and build equity.

**Notes**

<sup>1</sup> The State of the Nation’s Housing 2012, Joint Center for Housing Studies of Harvard University, June 14, 2012, [www.jchs.harvard.edu/research/publications/state-nation%20%80%99s-housing-2012](http://www.jchs.harvard.edu/research/publications/state-nation%20%80%99s-housing-2012).

<sup>2</sup> See note 1.

<sup>3</sup> The MarketPulse, CoreLogic, November 2012. Data as of September 2012.

<sup>4</sup> CBRE Multi-Housing Outlook with MPF Research, CBRE, 2012.

<sup>5</sup> See note 1. Data based on JCHS tabulations of Census Bureau Housing Vacancy Survey.

<sup>6</sup> American Community Survey, 2006 to 2010.

<sup>7</sup> Households that pay more than 30 percent of their income for housing are considered cost burdened.

<sup>8</sup> Only the costs of owners with a mortgage are included in the calculation.



# Houston Taking Holistic Approach to Affordable-Housing Development

By Jackie Hoyer

In Houston, the affordable-housing market has been affected not only by the economic downturn, but also by the lingering effects of Hurricane Ike. The city must grapple with a large inventory of blighted houses as well as persistent tax deficiencies that stand in the way of redevelopment.

Faced with widespread foreclosures and neglected properties along with dramatic decreases in federal funding, the city of Houston adopted a holistic approach to neighborhood revitalization to get the “most bang for the buck,” according to Neal Rackleff, director of the city’s Housing and Community Development Department, who spoke with the Federal Reserve Bank of Dallas about steps the city is taking to address the situation.

The city has found that concentrated development is more effective over the long term than a scattered-site approach, so there has been a shift under the current mayoral administration to “breaking down silos.”

Drawing on Disaster Recovery funds from the 2008 hurricane, the city has identified Neighborhoods of Opportunity to target. It plans to use additional resources and economic incentives and to look at issues beyond housing, such as food deserts and commercial opportunities.

“We think that blight remediation is a big part of stabilizing neighborhoods,” Rackleff emphasized, while acknowledging that funds are thin and the city cannot eliminate all blight. Despite geographic limitations, he said, the city aims for its work “to be a model,” calling

it “an overall process, a holistic approach that can be replicated in the future.”

Rackleff described several issues affecting the affordable-housing market in Houston. Among them are the impact of public funds, affordable-housing trends and other types of funding sources.

Neighborhood Stabilization Program dollars administered by the city put only a small dent in the housing issue around stabilizing communities, Rackleff said.

The number of blighted and neglected properties has only been exacerbated by foreclosure issues in Houston. Over the past two years, the Housing and Community Development Department demolished 850 single-family homes that were abandoned or unsafe.

## Affordable Housing Trends: Single Family

Single-family development in Houston has seen “very significant challenges,” Rackleff said. The Housing and Community Development Department program under the former administration (2008), which gave deep subsidies to builders for new affordable homes, did not survive the downturn. A number of these homes still in inventory have not been sold. But it was found that homes built on contiguous lots (“in clusters of 10 or so”) sold much better than those built using a scattered-site approach, Rackleff noted.

Potential homeowners are more likely to buy in revitalized areas where they see several new homes together, so building a



Disaster Recovery funds have supported affordable-housing projects including the Reserve At Creekbend in Houston. *City of Houston*



Potential homeowners are more likely to buy in revitalized areas where they see several new homes together, so building a whole block is more effective.



*City of Houston*

The Disaster Recovery multifamily allocation of \$47 million went to projects such as the Villa del Prado Apartments.

whole block is more effective, he said.

Rackleff views the tightening of credit criteria to obtain a mortgage as an obstacle to low- and moderate-income (LMI) single-family purchases. “It is much more difficult to get homes financed for everybody,” he said, adding that the tightening is especially discouraging for LMI buyers.

Rackleff sees more promise in single-family homeownership through programs such as Houston Habitat for Humanity, in which flexible terms of the zero-percent

mortgages are set by the nonprofit organization. Noting that Houston Habitat for Humanity recently received \$1 million from the city to construct 11 homes, Rackleff stressed that this LMI builder’s production capacity is a key to success.

### **Affordable Housing Trends: Multifamily**

The city’s biggest role is to bring gap financing to make multifamily housing work. Rackleff is also seeing developers

**The city is working with the Houston Housing Authority, Houston Finance Corporation and Local Initiatives Support Corporation to develop a strategy to impact communities around rehabilitated or newly constructed multifamily areas.**

use Low Income Housing Tax Credits (LIHTC) and notes they are doing deals that are 100 percent affordable to maximize the equity from the sale of the credits.

With these efforts and others, Rackleff said, Houston’s production of affordable multifamily housing has significantly increased. The city has invested \$141 million since 2010 on rehabilitation or construction of 6,380 multifamily units. Funding has come primarily from Disaster Recovery I, HOME (a U.S. Housing and Urban Development program), Tax Increment Reinvestment Zone Affordable Housing, and Homeless and Housing Bond programs.

**More Funding Sources**

The city was awarded \$60 million in Community Development Block Grant Disaster Recovery funds from Hurricane Ike (Round I) through the state General Land Office to be used for new construction and rehabilitation of units. The allo-

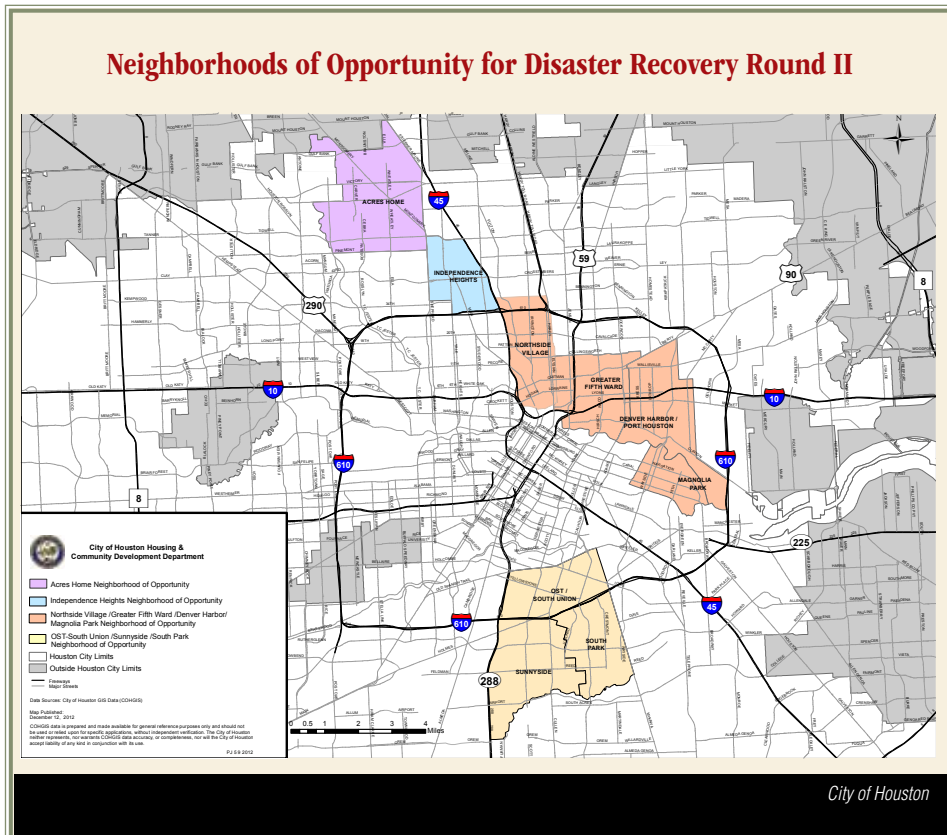
cation is \$13 million for single-family and \$47 million for multifamily projects.

Funds were distributed using a three-pronged approach: 1) single-family home repair, 2) homebuyer assistance and 3) multifamily rehabilitation. Examples of projects that have used these funds are the Reserve At Creekbend, HollyView Apartments, Vista Bonita Apartments and Villa del Prado Apartments.

Round II of the Disaster Recovery funding is on the table in Houston, and an agreement with the state is yet to be worked out. The city plans to use these funds in a more targeted way in several inner-city Neighborhoods of Opportunity (see highlighted areas on map).

The city is working with the Houston Housing Authority, Houston Finance Corporation and Local Initiatives Support Corporation to develop a strategy to impact communities around rehabilitated or newly constructed multifamily areas. According to Rackleff, the idea is to revitalize the entire area and stop developing silos of improvement.

The city’s Housing and Community Development Department is using a request-for-proposals (RFP) approach with local developers to leverage the Disaster Recovery Round II funds. These funds will be granted to the most innovative and financially viable proposals. Hopes are that projects will access several funding sources to make “efficient use” of the Disaster Recovery dollars, Rackleff said.





# Oil Boom's Benefits and Burdens: Worker Influx Stresses Supply of Affordable Housing

By Roy Lopez

**T**he Permian Basin oil industry is flourishing, and the unintended consequences of the economic infusion have been resonating for the past several months. Fueled by strong crude oil prices that keep rig counts high and by technology improvements that reduce oil exploration risk, boom times are back in this part of the state.

The Permian Basin is in West Texas, and the heart of the region is Midland–Odessa. The 20-county area has roughly 550,000 residents and is growing rapidly. Since 2000, the combined populations of Midland and Ector Counties alone have risen by more than 40,000 to roughly 280,500, according to census figures. Median family incomes have also increased by more than a third.<sup>1</sup>

“This region has found its catalyst for creeping out of a recession, and once again, the driver is found right under our feet,” said Jill Miller of the Odessa Housing Finance Corporation.

The impact on housing, specifically workforce housing, has been especially striking. City and county officials, community development groups, developers and financial institutions are rallying to address the problems, but barriers and sheer demand are impacting progress. People from across the country are coming to this employment-rich area to locate or take work in the oil industry and are finding that housing comes at a premium—if at all.

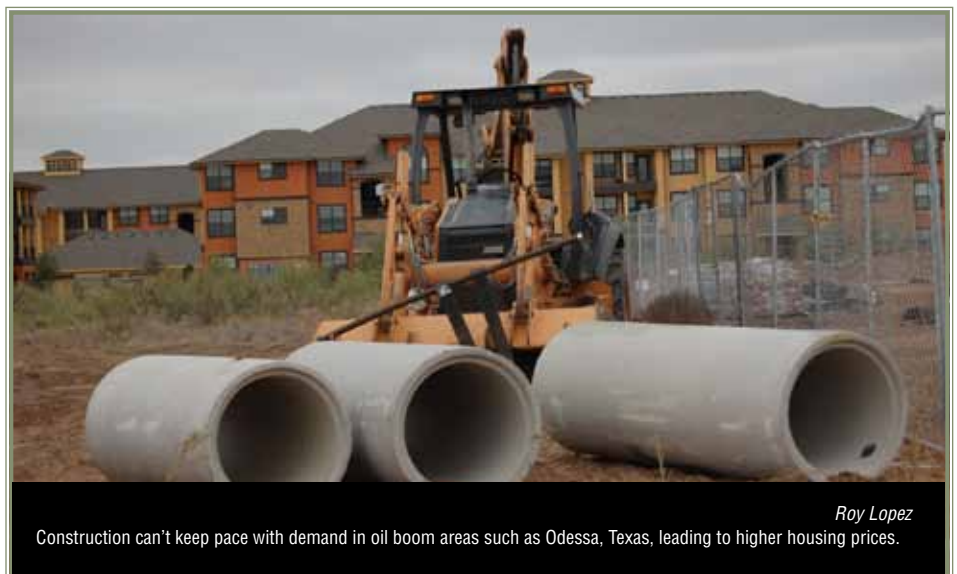
## Inflated Prices, Scams

Word is spreading about the Permian Basin's boom and its enviable unemployment rate of around 3 or 4 percent. Forbes recently ranked Odessa and Midland first and second, respectively, on its list of best small cities for job growth. The energy sector is the vehicle, but multiplier effects on other local industries are growing and stretching human resources across the economy.

Anecdotes about housing in the region are becoming legendary. Miller tells of unimproved rental properties that three years ago leased for \$500 a month but today are renting for \$1,500 and have waiting lists of over eight months. Motels are at capacity and leasing for over \$500 a week, and housing scams have begun to surface.

Stories like these abound, and the ramifications are troubling, according to Odessa Salvation Army Lieutenant Joe Contreras. He reports that over 50 percent of those within his facility are working-homeless residents. “They have jobs, but once they get to town, they can't find housing ... and the situation is only getting worse,” Contreras said. The conditions have reached a critical juncture, he said, with reports of families living in cars and in storage units—not for lack of income, but for lack of affordable housing.

Reports of families doubling or even tripling up within a home are becoming more common. David Diaz, executive director of the Midland Community Development Corporation (CDC), said



Roy Lopez

Construction can't keep pace with demand in oil boom areas such as Odessa, Texas, leading to higher housing prices.

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**“It’s a two-tiered problem: I not only see the shrinking inventory of workforce housing at affordable prices, I see a squeeze on traditional low- and moderate-income residents who have been living here for years.”**

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that “with limited lots to build on and strong population growth, the results are higher-priced and unorthodox housing solutions.”

“It’s a two-tiered problem: I not only see the shrinking inventory of workforce housing at affordable prices, I see a squeeze on traditional low- and moderate-income [LMI] residents who have been living here for years,” said city of Midland Community Development Manager Sylvester Cantu. The situation has been especially hard on LMI families, seniors and people with disabilities. Residents have seen their property values rise, but this is creating increased tax liabilities that place new burdens on homeowners and, indirectly, on renters. Renters are finding long-term leases scarce as landlords seek to increase rental rates more often.

Meanwhile, home prices are on the rise, with construction costs increasing due to such factors as the aggressive recruitment of construction workers into oil-related businesses. “Former construction workers are out in the oil patch, making twice as much as they used to make, which has created quite the demand for roofers, framers, handymen and general contractors,” noted Cantu.

### **More Homes Needed**

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According to city estimates, Midland alone needs 5,000 single-family and multifamily units to meet today’s demand. Private developers are responding, but, according to Shane Louder, senior vice president of Community National Bank, “those units tend to target a market that might be a bit out of reach for the average worker.”

“Our community needs affordable multifamily workforce housing,” Louder added. “Too much of our labor force living in hotels is unsustainable.”

Given average household income of just over \$50,000 for the counties of Midland and Ector, the estimated home price a family could reasonably afford

is between \$127,000 and \$143,000. “Our community’s biggest need is single-family homes priced between \$80,000 and \$140,000,” noted Cantu. “With the average starting home price in Midland well over \$240,000, there is a disconnect.”

“This has been a difficult situation. Too many residents are being priced right out of the market,” said Michael Marrero, assistant city manager for the city of Odessa.

Companies realize that many Permian Basin cities are not able to meet critical housing needs, so they develop their own temporary, self-contained units for workers. Some have begun to establish work camps for many of their oilfield staff. The camps are made up of single-resident occupancy units that house between 100 and 200 people, mostly men.

### **Infrastructure Development Behind**

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Many private sector single-family and multifamily developers are flocking to the area from Lubbock, Dallas and Austin in hopes of meeting part of the demand. However, housing development is increasingly delayed by the need for sewer and wastewater systems and roads.

“Private sector developers will be the primary partner in meeting the housing demand,” Marrero said. “The public sector’s role will be to annex, move the permitting process forward, fill financing gaps and develop infrastructure to expand the availability of developable land.”

The city of Odessa is undertaking \$65 million in capital improvements for water- and sewer-line extensions throughout the city, and several new multifamily low-income tax credit properties are under construction. In Midland, the city has been exploring density bonuses for developers. Density-bonus ordinances permit developers to increase the square footage or number of units allowed on a piece of property if they agree to restrict the rents or sales prices

of a certain number of the units for low-income or senior households.

The local banking industry also has been trying to respond to the need for housing. But competition is fierce, with private equity firms and banks looking to invest capital in this boom area.

“Our balance sheets are awash in liquidity because of the boom—we are always looking for opportunities,” said Community National Bank’s Louder.

In the past, Community National Bank partnered with Midland CDC on land assembly in South Midland, invested in low-income housing tax credits and provided interim construction financing for Midland CDC and Habitat for Humanity homes.

In the current environment, Louder said, the bank’s efforts to address housing needs have been held back by challenges that include a backlogged appraisal system.

Midland CDC has also felt the benefits and burdens of the current market. “Our entire housing inventory is presold. Our largest obstacle is finding available lots at reasonable prices,” said Diaz, noting that the CDC’s homes sell for an

average of \$119,000, up \$10,000 in one year. “However, the saving grace for our families has been historically low interest rates.”

### Seeking Sustainable Solutions

The Permian Basin region is playing catch-up with housing as need far outpaces supply. The dynamics are evolving, but public and private partnerships are working to create sustainable solutions that address some of the demand. However, obstacles such as rising land prices and construction and utility costs threaten affordability. Other looming threats include mounting tax burdens to pay for infrastructure and schools.

Even with numerous barriers to overcome, the Permian Basin in many ways is well-positioned to manage growth. The area has become accustomed to boom-and-bust cycles. Banks and housing entities are cautious about overinflating the market. They learned that lesson the hard way in the 1980s when the area was left with a glut of housing after the bust.

Diaz said other areas of the state, notably the Eagle Ford Shale region, are struggling with similar housing shortages

and are looking to the Permian Basin for leadership on solutions. “We have been through this before,” he said. “We will roll up our sleeves and make affordable housing the area’s top priority again—it’s time.”

#### Note

<sup>1</sup> “Three Decades After Oil Bust, Permian Basin Booms Again,” by John MacCormack, *San Antonio Express-News*, Aug. 12, 2012.



Workers attracted to plentiful jobs in the Permian Basin often can't find affordable housing and must turn to motels such as this one in Odessa, Texas.

Roy Lopez

# Rural Texas Studies Identify Housing Needs, Challenges and Strategies

By Roy Lopez and Tanya Ferencak

In 2010, the Texas Department of Housing and Community Affairs (TDHCA) formed the Rural Housing Workgroup to better understand the housing challenges faced by rural populations. Based on input from the Texas Legislature as well as the workgroup, TDHCA enlisted Bowen National Research to conduct both the Texas Statewide Rural Housing Analysis and the Texas Farmworker Housing Analysis.<sup>1</sup>

Bowen National Research studied demographic shifts, assessed current housing needs and recommended policy adjustments to more effectively deliver affordable housing to both rural and farmworker populations.

## Statewide Rural Housing Analysis

The Texas Statewide Rural Housing Analysis used the U.S. Office of Management and Budget definition of rural counties as “non-MSA,” or those that do not represent metropolitan statistical areas. Findings suggest that affordable housing remains a pressing need in the 177 Texas counties identified as rural, despite only modest population growth in those areas of the state.

Pointing to estimated rural Texas population growth of 1.3 percent to just over 3 million from 2010 to 2015, the study concludes that much of the housing demand can be met through “replacement, renovations and modifications of the existing housing stock.”

While all low-income segments have significant housing needs, the report notes that rental housing gaps are largest among households with income below

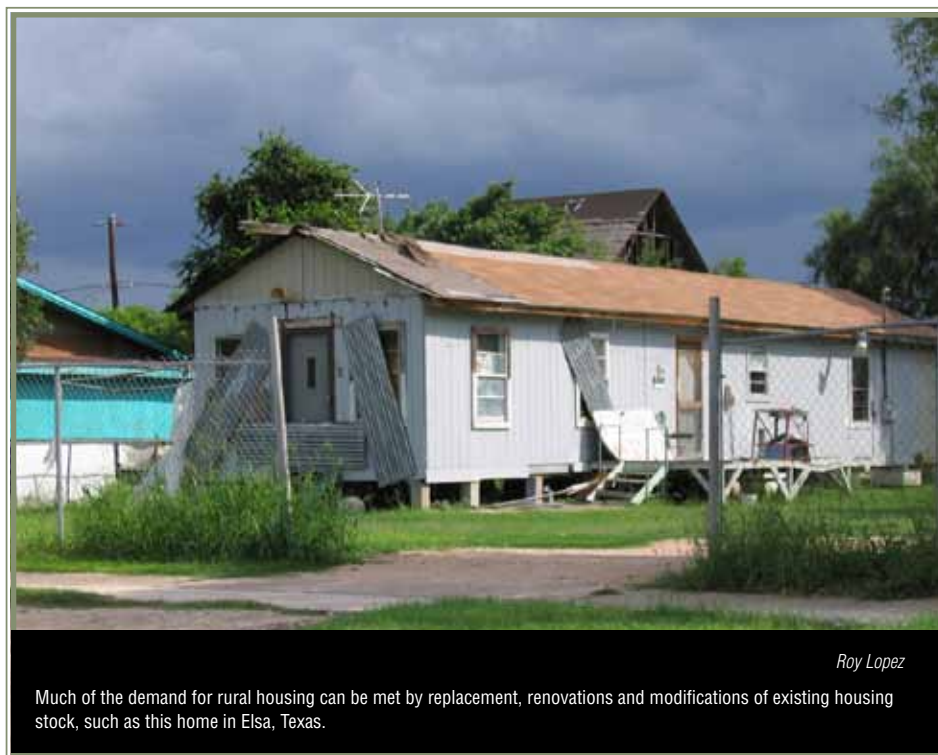
30 percent of area median household income (AMHI) and that for-sale housing gaps are largest among those with incomes between 31 percent and 80 percent of AMHI.

The Bowen survey projected the gap in affordable rental housing for Texas’ rural communities to be 85,215 units by 2015. This number represents the units that will be occupied by households that are rent burdened or living in overcrowded or substandard housing, and new households that will be added to the market and require rental housing by 2015. Not surprisingly, the highest need for rental housing in rural areas was found to be among the poorest residents. The survey indicates that half of those units, or 45,269, are needed

for households with incomes at or below 30 percent of AMHI.

The report details key barriers to affordable-housing development, including rehabilitation of existing single-family homes.

Income constraints, influenced by seniors and others who may be on fixed incomes, were identified as a major hurdle. These populations are found disproportionately in rural Texas. Median household income in rural Texas (projected to be \$49,724 in 2015) is expected to be about 34 percent lower than in urban Texas. With higher poverty rates than in urban Texas, rural Texas often has affordability challenges, even in areas with lower costs of living.



Roy Lopez

Much of the demand for rural housing can be met by replacement, renovations and modifications of existing housing stock, such as this home in Elsa, Texas.



Another impediment to affordable-housing development is the difficulty of making small, affordable rental-housing projects financially feasible. It becomes difficult to reach economies of scale in small population centers. Deep subsidies are needed because multifamily developments are hard to finance without proper cash flow to service the debt. Given cutbacks within many state and federal subsidy programs, gap-financing subsidies are increasingly difficult to attain for many rural communities and developers.

In addition, a lack of staff capacity at the local level and greater program complexities are making housing development increasingly unachievable in rural Texas. Developer Mark Mayfield, chief executive officer of the Texas Housing Foundation, said that “sometimes the learning curve needed to develop affordable housing is too steep, and communities shy away from it.”

Despite many barriers, housing development has taken place throughout rural parts of the state. The Bowen study identified 42,307 affordable multifamily-housing units in the 177 counties, plus an additional 12,121 Housing Choice Vouchers in use.<sup>2</sup> According to affordable-housing providers in the study, the overall occupancy rate for their units has been consistently at or near 97 percent, which suggests slow turnover and a high need for subsidized units.

“It is evident that there remains a continued need for affordable housing in rural Texas and the support of the programs that help maintain and create such housing,” the analysis concludes.

The report makes a number of recommendations to improve the affordable-housing-delivery system in Texas, including: 1) modifying the low-income housing tax credit (LIHTC) program to give more consideration to rural developments, 2) providing more marketing and education for first-time homebuyer programs in rural markets, 3) stepping up community outreach efforts to educate local financial

institutions about the existing products and the need for housing and 4) creating regional rural-housing resource centers throughout Texas that would increase development capacity among nonprofits, private developers, housing authorities, local municipalities and councils of government.

### **Texas Farmworker Housing Analysis**

Many of the financial barriers faced by rural residents also impede farmworkers. The Texas Farmworker Housing Analysis projects a gap for rural farmworker housing units of 28,531 units by 2015. This represents the number of farmworkers who will not be housed in farmworker-designated housing yet will still have a need for safe and sanitary affordable housing. In the analysis, 49 rural counties were evaluated as farmworker counties. These rural counties contained more than 1,000 migrant/seasonal farmworkers in an enumeration survey completed in 2000.

Farmworker housing can be provided on farm, by the grower or off farm. Off-farm housing can include U.S. Department of Agriculture (USDA)-financed migrant-labor housing facilities, conventional/affordable apartments, colonias, hotels, recreational vehicles or even tents. Like the agricultural work, the housing tends to be seasonal or temporary.

“This seasonal nature makes it difficult for farmworkers to secure safe and affordable housing outside of designated migrant-labor housing facilities,” said Kathy Tyler, housing services director at Motivation Education and Training. “The seasonal nature also makes it difficult to finance development.”

The irony is that despite great seasonal demand, many USDA housing facilities throughout the state are struggling to stay solvent because they are vacant for large portions of the year. This disrupts cash flow. An estimated 90 percent of all farmworkers in Texas earn less than \$30,000 a year, with over 47 percent of those earning \$10,000 to \$19,999.

With wages low, it is not surprising that farmworkers occupy some of the worst housing in the state. Tyler said most affordable-housing programs address the needs of workers making between 50 percent and 80 percent AMHI. “There is a disconnect, when most farmworkers are well below 30 percent of AMHI,” added Tyler.

The study makes several recommendations to spur and streamline farmworker housing development, including: 1) clarifying farmworker housing-facility requirements, 2) raising development requirements so that farmworker housing projects can be eligible for LIHTCs, 3) establishing a predevelopment loan program and 4) establishing a rental operating-subsidy program that can mitigate the risks associated with fluctuating occupancies.

### **Beyond the Studies**

As the rural and agricultural landscapes change technologically, economically, socially and demographically, the need for housing to serve these populations has never been more pressing, according to the TDHCA/Bowen analyses. The two studies offer a baseline for affordable-housing demand and identify obstacles that make development difficult in rural areas. The challenge, according to Kate Moore, policy adviser at TDHCA, will be to identify how to use these studies to adjust programs to meet the significant affordable-housing needs of rural and urban Texas.

### **Notes**

<sup>1</sup> See Bowen National Research for details on the two research studies, dated September 2012, at [www.tdhca.state.tx.us/housing-center/docs/12-Rural-Farm-Analysis-Rural.pdf](http://www.tdhca.state.tx.us/housing-center/docs/12-Rural-Farm-Analysis-Rural.pdf) and [www.tdhca.state.tx.us/housing-center/docs/12-Rural-Farm-Analysis-Farmworker.pdf](http://www.tdhca.state.tx.us/housing-center/docs/12-Rural-Farm-Analysis-Farmworker.pdf).

<sup>2</sup> The Housing Choice Voucher program is the federal government's chief program to help very-low-income families, the elderly and the disabled afford decent, safe and sanitary housing in the private market. Because housing assistance is provided on behalf of the family or individual, participants are able to find their own housing, including single-family homes, townhouses and apartments.

# Affordable Housing Coming to Dallas Via Transit-Oriented Development

By Emily Ryder

**T**ransit connects individuals with employment, education and resources such as food, retail and financial establishments. Accordingly, access to transportation is fundamentally important to working households, particularly those in lower- to middle-income (LMI) brackets.

With commute times growing and gasoline prices rising, policy and planning have the potential to shape social and economic opportunity within cities across the nation (*see Box 1*). Sustainable, innovative and inclusive planning is increasingly crucial. One particularly impactful method used to develop communities in Texas and elsewhere is transit-oriented development (TOD).

A TOD is generally defined as a high-density, mixed-use development around which public transit is accessible within less than half a mile. The benefits of this type of urban planning are well-documented. In general, TOD projects have the ability to improve employment, health, financial security, economic development and environmental quality.<sup>1</sup>

The benefits can be even greater for LMI families, which are often more dependent on public transportation access and less likely to own a car. More than 40 percent of future demand for housing near transportation will come from LMI households, according to estimates by the Center for Transit Oriented Development.<sup>2</sup>

## Box 1: Transportation Costs Often a Burden for Lower-Income Families

Transportation costs are typically the second-highest expense for American households, right behind the cost of housing.<sup>1</sup> There has always been a trade-off between proximity to job opportunities and a lower cost of living. For low- to moderate-income (LMI) families in search of affordable housing, this trade-off represents more than an inconvenience; it can be an insurmountable barrier to employment and economic stability.

The share of U.S. workers with long commutes has climbed again after reversing course during the recent recession (*see figure*). Gas prices, meanwhile, have been on a steady upward path. Both are making it difficult for LMI households to live on the outskirts of metropolitan areas.

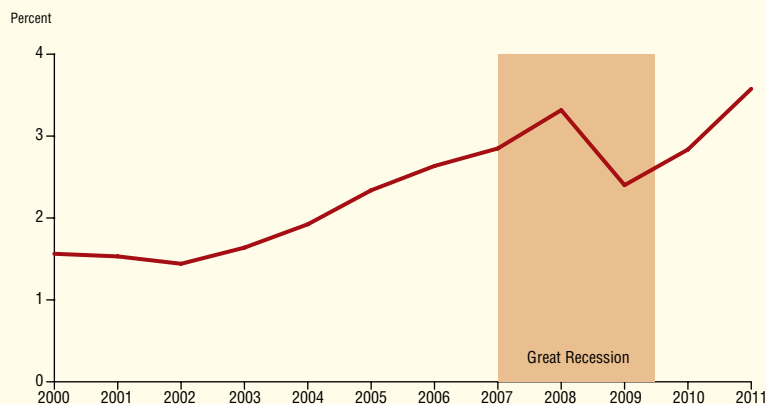
Although the average family spends approximately 19 percent of household income on transportation costs, those with access to public transit spend only 9 percent.<sup>2</sup> For LMI families, this difference represents a significant reduction of their household burdens.

### Notes

<sup>1</sup> "Preserving Opportunities: Saving Affordable Homes Near Transit," Center for Transit-Oriented Development, [www.ctod.org/portal/node/2182](http://www.ctod.org/portal/node/2182).

<sup>2</sup> See note 1.

### Share of Workers Commuting More than 45 Minutes to Work Climbs



SOURCES: American Community Service; Census Bureau.

## Lancaster Urban Village: Vision, Plan and Financing

Although modern concepts of TOD projects date back more than two decades, they have often failed to incorporate affordable housing, and this oversight has left LMI families behind.<sup>3</sup>

Indeed, Dallas TODs such as Mockingbird Station and the West Village have been built around higher-income communities and feature high-end retail shops and residential lofts that are unaffordable for most LMI households.<sup>4</sup> However, that is about to change in Dallas.

Lancaster Urban Village, which broke ground in March of this year, expects to open its first residential units in early 2013. The development, located in a southern Dallas census tract with median household income of \$23,500 and 18.4 percent unemployment, puts affordable housing and workforce development at the heart of its mission and vision.<sup>5</sup> The Lancaster initiative is mindful and inclusive of the demographics of its neighborhood. About 59 percent of the residents in the TOD's census tract are black, and 40 percent are Latino. The poverty rate is 41 percent, nearly three times the national average.<sup>6</sup>

This 3.5-acre development will include 193 residential units, 14,000 square feet of office and retail space, and an expansion of the Urban League of Greater Dallas and North Central Texas to include space for trade-skill and workforce development classes. More than half of the apartments will have income restrictions, keeping the units affordable to LMI individuals and families. Mixing affordable units with those that are market rate will also reduce income segregation and may improve economic mobility.

The future site of Lancaster Urban Village is a formerly undeveloped area near Dallas Area Rapid Transit (DART) light-rail stations in what is known as the Lancaster Corridor. The stations service the VA Medical Center, Lancaster-Kiest Shopping Center, Paul Quinn College and Cedar Valley College.

While the northern Dallas region has enjoyed strong economic development, southern Dallas has not. Although 45 percent of Dallas' population is south of the Trinity River, this area represents only 15 percent of the total tax base.<sup>7</sup> The development neighborhood along Lancaster Road was a high-crime area with run-down, dilapidated buildings. Thanks to community leaders, these buildings have been knocked down over the past two years, paving the way for reinvestment and revitalization.

Financing this type of TOD in a low-income area with multiple purposes—retail, residential and office—presents challenges. Yet the city of Dallas was able to creatively harness various funding methods to make the concept a reality.

The groundwork for the project began in 2008 when the Dallas Office of Economic Development created the TOD Tax Increment Financing (TIF) District, spanning from North Dallas to the Lancaster Corridor (see *Box 2*). This TIF district consists of four subdistricts, one of which is Mockingbird Station, along with three less-developed regions, including Lancaster Corridor (see *map, page 16*). The strength of this type of TOD TIF project lies in its funding structure—an increment-sharing arrangement in which some projected revenue increases are passed from the higher-income subdistricts to lower-income ones. In this way, the TIF incremental revenue generated in the Mockingbird station area not only funds its TIF incentives, but also subsidizes development in the southern subdistricts.

A requirement for development of mixed-income housing in all TIF-financed projects ensures that affordable housing will be an integral component of each development. TIF districts are

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**Although modern concepts of transit-oriented development projects date back more than two decades, they have often failed to incorporate affordable housing, and this oversight has left lower- and middle-income families behind.**

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### **Box 2: TIF Districts and TODs**

Tax-increment financing (TIF) is a public financing method often used by cities to subsidize new private investment in targeted areas. TIFs use the projected increase in tax revenue that will be generated by a public improvement project to finance the debts incurred to pay for the project.

TIF districts are designated areas in which future gains in tax revenue can generate a source of funding for community improvements. In 2007, the city of Dallas amended local TIF laws to create special categories for transit-oriented developments (TODs), making it easier to combine TIFs and TODs.

For more information on TIFs in Dallas, see [www.dallas-ecodev.org/incentives/tifs-pids](http://www.dallas-ecodev.org/incentives/tifs-pids).

**The groundwork for the Lancaster Urban Village began in 2008 when the Dallas Office of Economic Development created the TOD Tax Increment Financing District, spanning from North Dallas to the Lancaster Corridor.**

not always transportation related, but in this case, the city of Dallas combined the two. This shared-increment area, running north to south along the transit line, allows the higher growth in North Dallas to fund the southern sector, too.

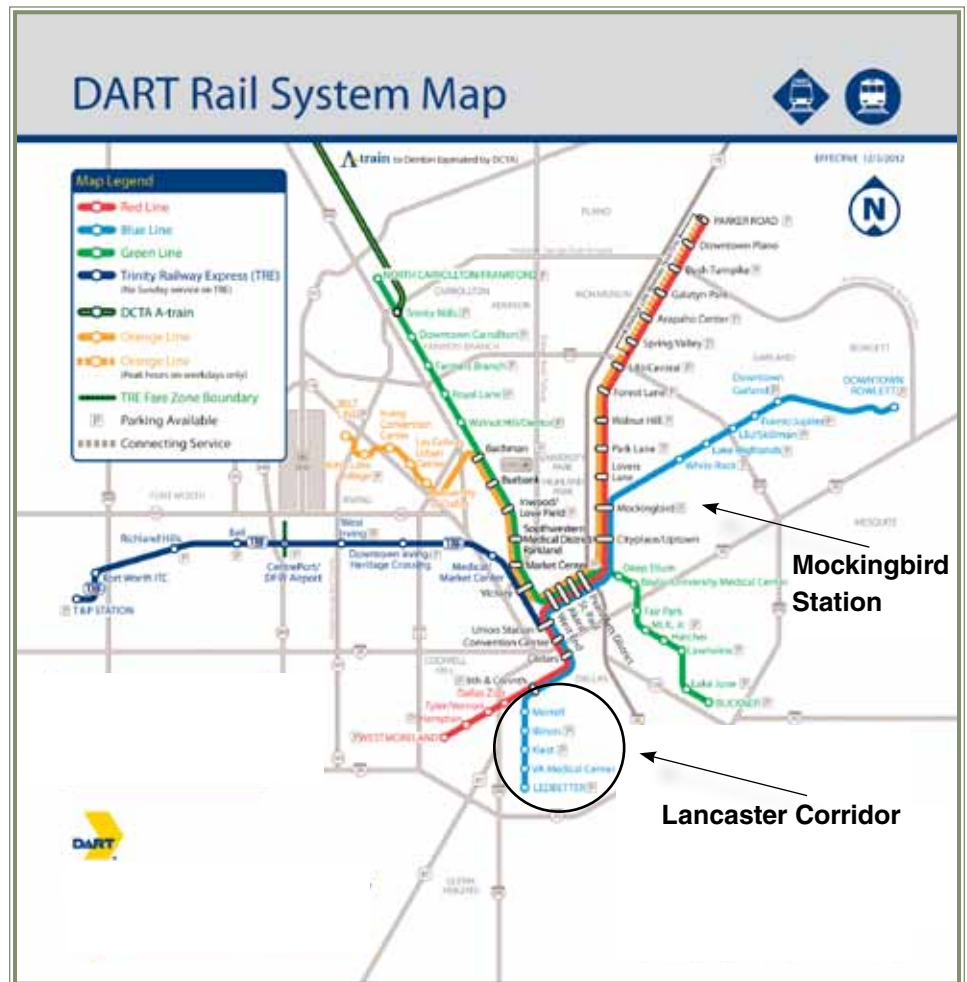
Because TIF funds are generated by future increases in property values, the funds are typically not available as a source of project financing; rather, they are used to back loans—in this case, Housing and Urban Development (HUD) Section 108 loans. This type of loan is guaranteed by the government and funds a large portion of Lancaster Urban Village. Additional financing is needed to fund the rest of the project, with sources including HUD Section 221(d)(4) loans, the New Markets Tax Credit Program and public-private partnerships (see Box 3). TIF funds are not backed by the full faith and credit of the city. They are contingent liabili-

ties, backed solely by the TIF revenue stream, if and when it develops.

**Benefits and Barriers**

With positive returns seen in areas of health, environment and economic development, TODs have the power to reshape a community. However, funding new TOD projects can be a challenge. Sufficient demand in multiple markets at once—retail, residential and office—is required for mixed-use development but is often not present. This concern is particularly salient in lower-income or unproven market areas, where investors may be more concerned about risk.

According to lessons learned by the city of Dallas, securing outside sources of funding such as Low Income Housing Tax Credits and New Markets Tax Credits may be necessary to overcome these possible shortfalls.<sup>8</sup>

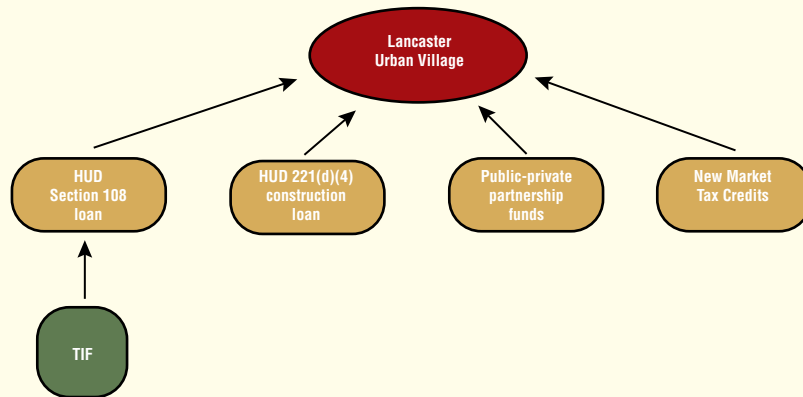




### Box 3: Sources of Lancaster Funding

Lancaster Urban Village benefits from increment-sharing across the TIF district, which provides backing for loans. The project's financing comes from several sources:

- HUD Section 108: Federally guaranteed loan for the purpose of economic development, housing rehabilitation or construction benefiting low- and moderate-income persons. See: [http://portal.hud.gov/hudportal/HUD?src=/program\\_offices/comm\\_planning/communitydevelopment/programs/108](http://portal.hud.gov/hudportal/HUD?src=/program_offices/comm_planning/communitydevelopment/programs/108).
- HUD Section 221(d)(4): Insures mortgage loans against losses for multifamily residential units; used to foster affordable housing development. See: [www.hud.gov/offices/hsg/mfh/progdesc/sro221d3n4.cfm](http://www.hud.gov/offices/hsg/mfh/progdesc/sro221d3n4.cfm).
- New Markets Tax Credit Program: Designed to attract investment capital to low-income communities by giving investors a tax credit in exchange for making equity investments in community development entities. See: [http://cdfifund.gov/what\\_we\\_do/programs\\_id.asp?programID=5](http://cdfifund.gov/what_we_do/programs_id.asp?programID=5).



With positive returns seen in areas of health, environment and economic development, transit-oriented developments have the power to reshape a community.

The potential is great for Lancaster Urban Village to spur economic growth in the region. The development's close proximity to the VA Medical Center will appeal to the hospital's employees. And its new commercial space and retail will be a draw for the more than 30,000 annual visitors to the hospital area.

Said Dallas Mayor Mike Rawlings: "This Lancaster Corridor is going to be in the next decade one of the most vibrant corridors in the city of Dallas. Mark my words."<sup>9</sup>

#### Notes

<sup>1</sup> Denver Regional Council of Governments, <http://tod.drcog.org/what-are-benefits-tod>, and Center for Transit-Oriented Development, [www.mitod.org/whatisTOD.php](http://www.mitod.org/whatisTOD.php).

<sup>2</sup> "Planning for TOD at the Regional Scale: The Big Picture," Center for Transit-Oriented Development, Aug. 1, 2011, <http://reconnectingamerica.org/resource-center/books-and-reports/2011/ctod-guidebook-explores-importance-of-planning-for-tod-at-regional-scale>.

<sup>3</sup> "Histories of Transit-Oriented Development: Perspectives on the Development of the TOD Concept," by Ian Carlton, Institute of Urban and Regional Development, University of California, Berkeley, Fall 2007.

<sup>4</sup> City of Dallas Economic Development, [www.dallas-ecodev.org/redevelopment/tod](http://www.dallas-ecodev.org/redevelopment/tod).

<sup>5</sup> American Community Survey, U.S. Census Bureau, 2010.

<sup>6</sup> See note 5.

<sup>7</sup> "Grow South," by Dallas Mayor Mike Rawlings, city of Dallas presentation, [www.dallascityhall.com/government/mayor/pdf/GrowSouth.pdf](http://www.dallascityhall.com/government/mayor/pdf/GrowSouth.pdf).

<sup>8</sup> "Transit-Oriented Tax Increment Financing: Using Tax Increment Financing in Dallas," by Karl Studdins, Dallas Office of Economic Development, Aug. 30, 2012.

<sup>9</sup> "Onward with Lancaster Urban Village," by Roy Appleton, *Dallas Morning News*, March 29, 2012.

# Notes from the Field: Interview with Texas Development Finance Manager

**T**he Federal Reserve Bank of Dallas recently interviewed David Danenfelzer, manager of development finance at the Texas State Affordable Housing Corporation (TSAHC), a nonprofit organization established by the state of Texas in 1994 to serve the housing needs of low-income families and other underserved populations in Texas. TSAHC's programs support sustainable homeownership, affordable housing development and foreclosure prevention programs statewide. Danenfelzer provided insights into housing trends in Texas with a focus on low- and moderate-income (LMI) households.

## **Q: What types of funding and financing are being used to maintain or increase the supply of rental housing for LMI households?**

A: Tax credits, bonds and—a distant third—government funding.

Tax credits are still king because of what they bring to the table. Low-income housing tax credits (LIHTCs) and other tax credits are trending up in value and attracting more investor interest.

However, we are starting to see that many properties originally financed with LIHTCs have met their 15-year affordability requirement. While some nonprofit developers are trying to maintain affordability after the 15-year requirement, a large number of for-profits are opting out. Under state and federal rules, they must market the properties to nonprofits first, but if there are no buyers, then the properties can be sold to any new owner without continuing the affordability restrictions on the property.

Now let's look at bonds. An interesting challenge right now is that the relationship between taxable and tax-exempt debt is not what it normally has been. Taxable yields currently are lower than tax-exempt yields, even though the latter's original



David Danenfelzer

purpose was for investors to earn less interest in exchange for not paying tax on that interest. Taxable bonds are also less expensive to issue—because of regulatory and legal factors—than tax-exempt bonds. This upside-down situation has caused considerable disruption in the use of bond financing for affordable rental housing.

## **Q: What is the trend in vouchers used for single-family and multifamily rental housing?**

A: One trend we've seen over the last eight to 10 years is programs that enable tenants who hold vouchers to buy homes. Those programs, offered by many local public housing authorities, have slowed down over the last couple of years but will probably go back up with the housing and mortgage markets and as more voucher holders develop the ability to maintain homeownership on their own.

A lot of public housing agencies are using tenant-based rental vouchers. Renters receive a voucher for a portion of the market rent that can be used at any property that accepts vouchers. HUD [the U.S. Department of Housing and Urban

Development] supports this option because tenants can move to where the better schools and jobs are.

## **Q: Are community development corporations (CDCs) and other nonprofits building rental housing for LMI households?**

A: The CDC share of new housing units has remained relatively stable. Access to federal or state subsidies is now more limited. Many CDCs have slowed down a little or decreased their growth goals, just like for-profit developers. But the more successful CDCs have maintained a steady flow of new units and projects. Some examples are:

- Central Texas: Foundation Communities has continued to produce LMI and extremely-low-income housing over the past five to six years. The group just completed M Station, a 133-unit apartment complex in central East Austin, and is planning another next year. Texas Housing Foundation has been active even during the economic downturn in smaller markets. It may not be doing as much as before, but it has been active and done an amazing job in managing its existing portfolio.
- Dallas–Fort Worth metropolitan area: Tarrant County Housing Partnership, Citywide CDC and Builders of Hope have all continued to stay active, especially in their response to foreclosures and acquisition/rehabilitation development.
- Houston: Covenant Community Capital and New Hope Housing, which does single-resident-occupancy facilities for extremely-low-income residents, have both been very active in the Houston market.
- The Valley: Affordable Homes of South Texas and CDC of Brownsville, which historically have been the main single-family developers in Hidalgo and Cameron Counties, respectively, are seeking to enter the multifamily rental market and are rebounding in single-family production as well.
- El Paso: Tierra Del Sol, which is based in New Mexico and works a lot in El Paso, and El Paso

Collaborative are both busy and looking for new deals.

- Across Texas: Cesar Chavez Foundation, which is based in California, works in Texas a lot and has been recapitalizing properties.
- National nonprofits that have invested in Texas: Rainbow Housing, which is based in San Francisco, has bought many existing affordable properties; American Opportunities Foundation, which is based in Atlanta, has increased its portfolio in Texas; Neighborhood Development Corporation has stabilized existing properties over the last couple of years by putting capital improvements in properties to maintain them or make them more attractive to new investors.

**Q: Who are the investors in rental housing for LMI households and has the number of investors changed?**

A: There are three investment groups: the government, banks and private investors. Government investing has tapered off. Government entities don't provide subsidies as large as they used to in order to spread funding around to more units or projects, but these subsidies have less impact as construction costs increase each year. Banks have been very restrictive in lending, but private investors are coming back.

**Q: How would you describe homeownership trends in Texas?**

A: We've seen a gradual step back from homeownership as a first choice or option for most households over the past few years, largely due to tighter credit conditions. For example, the minimum credit score for a mortgage applicant has gone from 580 to 640. People who lost their jobs even temporarily could hurt their credit scores by not paying their bills in full and on time, and may find they can't access new credit.


A second obstacle to homeownership is the down payment required for a mortgage loan. Potential homeowners are having a hard time saving the 10 to 20 percent down payment for a conventional loan, or perhaps even the 3.5 percent required for an FHA [Federal Housing Administration] loan. Some down-payment assistance programs are available. Our programs offer a 5 percent grant toward down payment and

closing costs to borrowers qualifying under our Professional Educators, Texas Heroes and Home Sweet Texas Home Loan programs.

We are seeing increases in home sales in some markets, such as Austin, Dallas and Houston. There is a lot of activity compared to the last three to four years in these markets. There has also been a real upturn in smaller-market areas that have been strongly impacted by the oil, gas and wind industries. There are very large investments in these energy resources across our state, from

Victoria to the border along the Interstate Highway 77 corridor. For example, the Eagle Ford Shale is about 80 miles outside of San Antonio, and we are seeing a high demand for housing there because of the number of good-paying jobs.

—Elizabeth Sobel Blum and Julie Gunter



The Texas State Affordable Housing Corporation (TSAHC) has created a virtual toolbox for consumers who are considering homeownership. Its Texas Financial Toolbox is a searchable database for consumer resources including financial education and credit counseling, homebuyer education, foreclosure-prevention counseling and homeownership programs such as down-payment assistance.

When creating the website, TSAHC invited municipalities and nonprofit organizations offering any of these homeownership services to post their programs, classes and other services directly to the database. For example, when searching for homebuyer education services in Dallas, a list is provided that includes Business and Community Lenders of Texas, the city of McKinney, the Dallas County Home Loan Counseling Center and the Urban League of Greater Dallas. A Texas Mortgage Calculator tool is included in the toolbox to help potential homebuyers establish a price range for an affordable mortgage.

For information on listing in the toolbox, representatives of homeownership organizations may contact Paige Omohundro at TSAHC, [pomohundro@tsahc.org](mailto:pomohundro@tsahc.org), or submit their program information directly at [www.texasfinancialtoolbox.com](http://www.texasfinancialtoolbox.com).

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