AFFORDABLE HOUSING IN DALLAS

MARCH 19, 2019

Allison Salas Fasy, The Mike & Merry Terry Family Foundation
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The State of Housing Affordability in Dallas, Texas

City of Dallas, Texas
Road Map

- Overview of the problem
- Goals of the Comprehensive Housing Policy
- Next Steps
The Problem:

- Dallas has a housing shortage of approximately 20,000 units
- Six out of ten families are housing cost-burdened
- Families do not have sufficient opportunities to build asset wealth and break multi-generational cycles of poverty

**Spend 30% or less of income on housing**

**Spend more than 30% of income on housing**
The Problem:

- Families do not have sufficient opportunities to build asset wealth and break multi-generational cycles of poverty.

Per the federal poverty guidelines, a family of 4 earning $25,750/year or less is living in poverty.

- Since 2000, the number of people in poverty in Dallas has increased nearly 40%, while the city’s total population increased about 7.6%.

- Data reveals that 27.7% of Hispanics (approximately 145,600) and 30.9% of African Americans (approximately 95,270) in Dallas live below the poverty line.

- In 2016, the City of Dallas had 36 R/ECAPs. R/ECAPs have a nonwhite population of 50 percent or more and a poverty rate of 40 percent or more.*

- An estimated 3,000, or 28%, of families using Housing Choice Voucher live in R/ECAPs in Dallas.*

*Data is from the North Texas Regional Housing Assessment
The Problem:  • Families do not have sufficient opportunities to build asset wealth and break multi-generational cycles of poverty

Transportation costs are higher for families living in high-poverty neighborhoods

According to the University of Texas at Arlington’s Center for Transportation, Equity, Decisions and Dollars:

• the typical Dallas household spends more than 19% of its income on transportation (15% is the affordability threshold outlined by the federal Location Affordability Index).

• Most households in southwest and southeast neighborhoods spend even more – 20-26% – almost as much as on housing.

• 65% of residents in the “transit-dependent” core have access to fewer than 4% of jobs in the region within a 45-minute commute.
The Problem: Families do not have sufficient opportunities to build asset wealth and break multi-generational cycles of poverty.

There is less access to credit for businesses located in high-poverty neighborhoods.

According to the North Texas Regional Housing Assessment:

- Thirty-nine percent of Dallas County CRA loans went to businesses located in census tracts where family incomes are greater than 120% of the area median income for the DFW MSA.

- Around 15% of CRA dollars went to communities with median incomes below 50% of area median income.
The Problem:

- Six out of ten families are housing cost-burdened

According to research from the Bush Institute-SMU Economic Growth Initiative, Dallas is becoming less affordable:
- Over the last decade, median home prices in the DFW metro area have risen from 51% of the average level for top 40 US metros to 82%, adjusted for household income levels.
- As of August 2018, the median transaction price for a single family home in Dallas County was $268,200, up 73% since 2007.

According to the North Texas Regional Housing Assessment for the City of Dallas:
- In Dallas, 50% of homeowners are white, 28% are Hispanic, 19% are black and 2.5% are Asian/PI.

Let's do the math:
- Median income in Dallas = $45,215
- Spend <30% income on housing = $15,071 or $1,255/month
- Median home sales price = $268,200 or $1,629/month (mortgage, taxes and insurance)

According to SmartAsset, the median rent for a 1-bedroom apartment is $992.
Person earning $15/hour would need to work 66 hours/month to pay rent (41% of total monthly hours)
Three Broad Goals

- Create and maintain affordable housing units throughout Dallas
- Promote greater fair housing choices
- Overcome patterns of segregation and concentrations of poverty through incentives and requirements
Analysis and Development of the Policy

- Market Value Analysis (MVA) was completed by the Reinvestment Fund in early 2018
- MVA is a data-driven tool that helps residents and policy makers analyze the local real estate market at a census block level
- MVA is built on local administrative data and validated by local experts
- View the MVA at: http://dallascityhall.com/departments/pnv/Pages/MarketValueAnalysis.aspx

<table>
<thead>
<tr>
<th>MVA Category</th>
<th>Median Sales Price</th>
<th>Variation Sale Price</th>
<th>Percent Owner Occupied</th>
<th>Percent New Construction</th>
<th>Percent Rehabilitation</th>
<th>Percent Subsidized Units</th>
<th>Percent Code Violations</th>
<th>Percent Vacant Homes</th>
<th>Percent Foreclosure Filings</th>
<th>Household Density (reference only)</th>
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<tbody>
<tr>
<td>A (29 areas)</td>
<td>$1,037,300</td>
<td>0.57</td>
<td>81%</td>
<td>2.6%</td>
<td>3.6%</td>
<td>1%</td>
<td>1%</td>
<td>2.4%</td>
<td>&gt;1%</td>
<td>3.0</td>
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<td>B (217 areas)</td>
<td>$463,990</td>
<td>0.48</td>
<td>85%</td>
<td>1.2%</td>
<td>4.4%</td>
<td>2%</td>
<td>&gt;1%</td>
<td>1.2%</td>
<td>&gt;1%</td>
<td>3.7</td>
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<td>C (197 areas)</td>
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<td>31%</td>
<td>1.8%</td>
<td>1.2%</td>
<td>4%</td>
<td>1%</td>
<td>1.7%</td>
<td>1%</td>
<td>8.5</td>
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<td>D (96 areas)</td>
<td>$267,150</td>
<td>0.42</td>
<td>69%</td>
<td>0.5%</td>
<td>2.9%</td>
<td>4%</td>
<td>1%</td>
<td>1.8%</td>
<td>&gt;1%</td>
<td>4.9</td>
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<td>E (124 areas)</td>
<td>$140,300</td>
<td>0.32</td>
<td>13%</td>
<td>1.1%</td>
<td>0.3%</td>
<td>13%</td>
<td>2%</td>
<td>2.3%</td>
<td>3%</td>
<td>15.8</td>
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<td>F (124 areas)</td>
<td>$117,550</td>
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<td>73%</td>
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<td>1.5%</td>
<td>5%</td>
<td>2%</td>
<td>1.8%</td>
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<td>5.0</td>
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<td>G (61 areas)</td>
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<td>26%</td>
<td>0.4%</td>
<td>0.6%</td>
<td>63%</td>
<td>4%</td>
<td>3.8%</td>
<td>7%</td>
<td>12.3</td>
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<td>H (124 areas)</td>
<td>$72,400</td>
<td>0.55</td>
<td>60%</td>
<td>0.4%</td>
<td>1.3%</td>
<td>8%</td>
<td>6%</td>
<td>3.7%</td>
<td>4%</td>
<td>5.7</td>
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<tr>
<td>I (65 areas)</td>
<td>$41,500</td>
<td>0.76</td>
<td>46%</td>
<td>0.7%</td>
<td>1.0%</td>
<td>17%</td>
<td>21%</td>
<td>7.5%</td>
<td>5%</td>
<td>7.1</td>
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<tr>
<td>Avg. Dallas Block Group</td>
<td>$133,300</td>
<td>0.44</td>
<td>48%</td>
<td>0.9</td>
<td>1.6</td>
<td>12%</td>
<td>3%</td>
<td>2.6%</td>
<td>1%</td>
<td>8.5</td>
</tr>
</tbody>
</table>
Production Goals and Income Bands to be Served

- Create 3733 homeownership units
  - 55% market rate, 45% low/mod-income
- Create 2933 rental units
  - 40% market rate, 60% low/mod-income
- The policy focuses on serving families at 30% to 120% Area Median Income (AMI)
Programs, Tools and Strategies
New Development

Strategy: Incentivize private investment for the development of quality, sustainable housing that is affordable to residents of the City.

- New Construction and Substantial Rehabilitation Program
- Dallas Urban Land Bank Demonstration Program
- Other strategies
  - Code lien foreclosures
  - Infrastructure development
  - Tax increment financing districts
  - Housing trust fund
  - Comprehensive planning
  - Code enforcement sweeps
Preservation of Existing Housing Stock

Strategy:
Preserve existing housing stock by financing home improvements that address health, safety, accessibility, and structural/deferred maintenance deficiencies; granting tax freezes to owners who make improvements to their properties; and incentivizing developers to preserve affordable housing.

- Home Improvement and Preservation Program
  - Including Rental Rehabilitation and Reconstruction

- Neighborhood empowerment zones & express plan review

- Incentive zoning

- Accessory dwelling units

- Other strategies
  - Community land trusts
  - Homestead preservation districts
Direct Assistance

Strategy:
Enable persons to purchase homes within the City by providing direct funding assistance to homebuyers and enable persons using housing vouchers to access quality, sustainable housing throughout Dallas by providing direct assistance to eligible landlords and developers

- Dallas Homebuyer Assistance Program
- Voucher Sublease Program
Thank You

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http://www.dallashousingpolicy.com
Appendix
Geographic Focus

Redevelopment Areas (4)
- Catalytic project scheduled to occur within the next 12 months that is supported by a third-party, independent market analysis. Project must include new housing production with affordable units offered for sale or rent to a mix of income bands.

Stabilization Areas (8)
- Weaker real estate markets (G,H,I) surrounded by stronger markets (A-E), and, as such, are at risk of displacement based on market conditions and scheduled redevelopment projects.

Emerging Market Areas (3)
- A blend of middle markets (C,D,E) with mostly G,H,I markets. Needs intensive environmental enhancements, public infrastructure assessments and corrective plans, code enforcement, master planning and formalized neighborhood organizations to be prepared for real estate investment.
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A Toolkit of Options to Encourage Mixed-Income Housing

2016 Recommendations – Now 2019
The Challenge
Can we address a regional issue through a local solution?

The Response
Dallas can be a leader in solving this challenge, but it cannot be done alone.

Our Strategy
Create a toolkit of options designed to encourage mixed-income housing.

The Result
A predictable process for creating a vibrant community that is more inclusive and sustainable over time.
Executive Summary

The housing crisis is a complex and challenging issue facing our city. There is no magic bullet nor a one-size-fits-all solution.

Addressing the crisis and providing affordable housing to our community will require a variety of tools. Recognizing the constraints, we suggest a set of recommendations that prioritize providing options, flexibility and predictability, as we believe this will ultimately produce the greatest number of affordable units. These options may be used independently or in tandem since gap financing is necessary to produce affordable units.

Our recommendations focus on multifamily housing and offer a toolkit of options to encourage mixed income housing and affordable housing targeted to households with incomes between 80% to 140% of AMI.
## Reviewed Cities

<table>
<thead>
<tr>
<th>Austin, TX</th>
<th>Denver, CO</th>
</tr>
</thead>
<tbody>
<tr>
<td>Houston, TX</td>
<td>Boulder, CO</td>
</tr>
<tr>
<td>Fort Worth, TX</td>
<td>Seattle, WA</td>
</tr>
<tr>
<td>New York, NY</td>
<td>Portland, OR</td>
</tr>
<tr>
<td>San Diego, CA</td>
<td>Miami, FL</td>
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<td>San Jose, CA</td>
<td>West Palm Beach, FL</td>
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<td>Washington, DC</td>
<td>Phoenix, AZ</td>
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<tr>
<td>Chicago, IL</td>
<td>Philadelphia, PA</td>
</tr>
<tr>
<td>Boston, MA</td>
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</table>
What Does “Affordable” Mean?
What Is Affordable Housing?

• Affordable housing is commonly defined as housing for which the occupants are paying no more than 30% of their gross income for housing costs, including utilities, as defined by HUD.

• According to the American Community Survey conducted by the U.S. Census Bureau, nearly 50% of Dallas County renters were paying more than 30% of their income for housing. (Source: US Census, ACS 3-year Estimates, 2011-2013)

• Affordability assumptions are based on Dallas Metropolitan Statistical Area Median Income (see Addendum for definition of AMI) for a family of 4, as established by HUD. FY 2015 AMI is $70,400.
What is Mixed-Income Housing?

- Mixed income housing contributes to the diversity and stability of American communities.

- According to HUD, a mixed-income housing development is generally comprised of housing units with a mix of market-rate housing and varying levels of affordable housing (at or below 140% AMI).

- The “mix” can differ from community to community based on the local housing market and marketability of the units themselves.

- Research shows that mixed-income communities that result in socio-economically diverse schools contribute to higher performance of low-income students.

- Sound policy will encourage mixed-income housing.
## Example Occupations by Income

<table>
<thead>
<tr>
<th>Occupation</th>
<th>Minimum Wage - Maximum Wage</th>
<th>Maximum Affordable Rent Range (30%)</th>
<th>AMI Range (Family of 3)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Police</td>
<td>$44,658 - $105,541</td>
<td>$1,116-$2,638</td>
<td>&gt;67% to &gt;140%</td>
</tr>
<tr>
<td>Fire</td>
<td>$44,658 - $105,541</td>
<td>$1,116-$2,638</td>
<td>&gt;67% to &gt;140%</td>
</tr>
<tr>
<td>Teacher</td>
<td>$47,000 - $78,200</td>
<td>$1,175-$1,955</td>
<td>&gt;67% to &gt;120%</td>
</tr>
</tbody>
</table>

Sources:  
The average rent in Dallas for a 2-bedroom apartment is $1,560, as of February 2016.

<table>
<thead>
<tr>
<th>Submarket</th>
<th>2015 MF Rental Data</th>
<th>2013 MF Rental Data</th>
<th>2011 MF Rental Data</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Effective Rent</td>
<td>1BR Rent</td>
<td>2BR Rent</td>
</tr>
<tr>
<td>Downtown/West End Historic</td>
<td>$1,999</td>
<td>$1,714</td>
<td>$2,415</td>
</tr>
<tr>
<td>Uptown/Oak Lawn</td>
<td>$1,448</td>
<td>$1,156</td>
<td>$1,813</td>
</tr>
<tr>
<td>North/Oak Cliff</td>
<td>$770</td>
<td>$671</td>
<td>$834</td>
</tr>
<tr>
<td>Fair Park/South Dallas</td>
<td>$627</td>
<td>$548</td>
<td>$653</td>
</tr>
<tr>
<td></td>
<td>$1,542</td>
<td>$1,303</td>
<td>$1,926</td>
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<tr>
<td></td>
<td>$1,290</td>
<td>$1,014</td>
<td>$1,661</td>
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<tr>
<td></td>
<td>$727</td>
<td>$611</td>
<td>$767</td>
</tr>
<tr>
<td></td>
<td>$690</td>
<td>$588</td>
<td>$713</td>
</tr>
</tbody>
</table>

Source: REIS and MPF/Yieldstar
Understanding the Current State of Affordability
Overview of Recommendations

**Local Recommendations**
- Create Area Plans Targeting High Opportunity, Transitional Areas and Revitalization Areas
  - (Austin, Chicago, Miami, New York)
- Offer a Variety of Incentive Opportunities and Enhance Current Incentive Tools
  - (Austin, Denver, Philadelphia, Phoenix)
- Establish Dedicated Funding Streams
  - (Austin, Ft. Worth, Seattle, West Palm Beach)
- Modify Zoning Code to Amend Ch. 51 and Ch. 51A
- Offer Alternatives to On-Site Affordable Housing
  - (Austin, Boston, Portland, San Jose)

**Regional Recommendations**
- Utilizing local incentive opportunities and alternatives to on-site development to encourage affordable housing outside the City of Dallas.

**Implementation and Timing**
Local Recommendations: Create Area Plans
Create Area Plans- MVA

• City of Dallas should create area plans in order to address targeted needs within specified areas. A one-size-fits-all approach will not work. Area plans also create predictability. Three types of areas should be considered:

• High Opportunity Areas are census tracts where:
  • the income falls at or above 80% of the area median income,
  • the poverty rate is no more than 15%, AND
  • there is not already a heavy concentration of subsidized housing.

• Transition Areas: rapidly redeveloping areas that may lose sufficient affordable housing. Specific criteria for Transition Areas to be defined by City Council.

• Revitalization Areas: Additional areas as defined by the City of Dallas.
Local Recommendations:
Enhance Incentive Tools
The Problem of the Funding Gap Explained

- Projects that offer affordable units struggle to obtain financing through traditional means.
- Investor partners will currently invest in projects only with the following yields of return:
  - Stick Construction – 6.75% to 7% yield
  - High-rise construction – 6.50% to 6.75% yield

\[
\text{Net Operating Income (NOI) / Project Cost} = \text{Yield}
\]

- Net operating income (NOI) per unit significantly decreases when affordable housing is included. This is what makes a project difficult to finance.
  - Cost of building a unit is the same whether it is rented at market rate or below market rate.
  - Adding affordable units lowers yield because of below-market rents.

- BOTTOM LINE: Incentives must be available to offset the economic impact of each unit offered below market rents.
Funding Gap Examples

When a development project incorporates affordable units, the revenue for the project decreases but the costs remain the same. This typically lowers the yield below what investors are willing to accept in achieving a return on their investment.

The funding gap ranges widely based upon the type of development, the level of household income (AMI) targeted, and the percentage of units rented at those targeted affordable rates.

<table>
<thead>
<tr>
<th>Stick (Low Rise) Building Development Example</th>
<th>High Rise Building Development Example</th>
</tr>
</thead>
<tbody>
<tr>
<td>338 Units, $57.97M total project cost</td>
<td>350 Units, $87.75 M total project cost</td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>20% of Units</th>
<th>5% of Units</th>
</tr>
</thead>
<tbody>
<tr>
<td>No. of Units</td>
<td>68</td>
<td>17</td>
</tr>
<tr>
<td>40% AMI</td>
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<tr>
<td>Total Funding Gap</td>
<td>$14,888,073</td>
<td>$3,722,018</td>
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<tr>
<td>Funding Gap Per Unit</td>
<td>$218,942</td>
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<tr>
<td>120% AMI</td>
<td></td>
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</tr>
<tr>
<td>Total Funding Gap</td>
<td>$1,255,555</td>
<td>$313,889</td>
</tr>
<tr>
<td>Funding Gap Per Unit</td>
<td>$18,464</td>
<td></td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>20% of Units</th>
<th>5% of Units</th>
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</thead>
<tbody>
<tr>
<td>No. of Units</td>
<td>70</td>
<td>18</td>
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<tr>
<td>40% AMI</td>
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<tr>
<td>Total Funding Gap</td>
<td>$27,430,366</td>
<td>$7,053,523</td>
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<tr>
<td>Funding Gap Per Unit</td>
<td>$391,862</td>
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<tr>
<td>120% AMI</td>
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<tr>
<td>Total Funding Gap</td>
<td>$12,383,510</td>
<td>$3,184,331</td>
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<tr>
<td>Funding Gap Per Unit</td>
<td>$176,907</td>
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Filling the Gap: Offer a Variety of Incentive Opportunities

Incentive Opportunities:

- Reductions in Parking Requirements
- Fee Waivers (Building Permit & Water)
- Tax Abatements
- TIFs
- Density Bonuses
- Reduce Land Costs:
  - Public Land Write-downs
  - Community Land Trust
- Housing Trust Fund or Other Dedicated Revenue Source
- G.O. Bonds
Reduce Land Costs

Utilize Government-Owned Land Write Downs
• Texas State Law allows government entities, including cities and counties, to sell their land at a price that is much lower than fair market value if it serves a public purpose.
• A public purpose can include Affordable Housing.

Institute a Community Land Trust
• This nonprofit entity may execute 99-year ground leases with developers targeting affordable residential units. Allowing the Trust to lease the land for development, lowers the overall project costs as the developer pays only for the structure built and not the underlying land. The lease agreement also ensures the inclusion of mixed income and affordable housing.
Local Recommendations: Establish Dedicated Funding Streams
Housing Trust Fund

What Does the Housing Trust Fund Do?

• Funding can be awarded by a Housing Trust Fund to a private or non-profit developer to be used for the production of affordable single family and multifamily housing.
  • Funds can be available in grant or loan form to offer gap financing for projects complying with affordable housing requirements.
  • Funds can be used to initiate projects in specified areas of need.

Trust Fund Management

• A Housing Trust Fund should be managed by a “qualified” non-profit entity.

Examples Across the US

• Cities including Austin, Boston, and D.C. have Housing Trust Funds.
G.O. Bonds

Establish a bond program prioritizing investment in affordable housing. The program may set primary investment areas including:

- Rental Housing Development Assistance
- Home Ownership Programs

The City of Austin has approved $120 million in G.O. bonds for affordable housing since 2006.
THISTLE’S COMMUNITY LAND TRUST (CLT)

- How it Works Thistle acquires and builds affordable homes and limits the sales price on these homes. Thistle through the CLT owns the land, and qualified people buy the homes. Thistle and the homebuyer sign a 99-year renewable land lease that allows the buyer to use the land.

- Traditional Financing is Available for CLT Homes Community lenders work with Thistle to provide financing. The Thistle Land Lease is approved by Fannie Mae.

- Benefits of CLT Homeownership CLT homeowners enjoy most of the same rights as market rate homeowners, and the average Thistle CLT home seller earns the value of appreciation of the home. The CLT resale home price is determined by a formula based on the housing market. Limited resale prices ensure that homes are affordable to future buyers. Thistle maintains an interest list of qualified buyers.

- Costs of CLT Homeownership A monthly land lease fee (typically $35-50) paid to the CLT to cover land taxes and CLT program administration. All CLT homeowners agree to limit the price of their homes when they sell.
Local Recommendations: Amend Zoning Code
Payment in Lieu Option

The City of Dallas already has an option for a Payment in Lieu in Chapter 51A-4.900, the section on Affordable Housing. The use should be expanded for a variety of Multi-Family Developments to participate and pay a fee as an alternative to providing affordable units.

How Will the Payment of Fee in Lieu Work?

• It can be assessed at the Building Permit stage for all new Multifamily Residential projects requesting density bonuses of greater than 50 units.
• Update Assessment for Multifamily = $8-$10 per net rentable square foot.
• The fee can be paid into a Housing Trust Fund.
Regional Recommendations
Regional Recommendations

- Land Write-Downs can be used by any municipality to encourage development of affordable units.

- Grants or Loans from a Housing Trust Fund can be used to build affordable units outside the limits of the City of Dallas.
Timing and Implementation
Implementation & Timing Recommendations

• **Phased-in Over Time**
  • Work with stakeholders to determine implementation of policy tools in the short-term, medium-term and long-term.
  
  • Careful consideration must be given to the timing of implementation in order to give developers and land owners sufficient time to assess the impact on land prices. It is important to note that timing between land acquisition and the commencement of the development is typically a 3-year process.

• **Term of Affordability in Area Plans**
  • The term of affordability should be based upon the needs outlined in individual area plans and range from 5 to 15 years.
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