# EXECUTIVE SUMMARY
# Austin Housing Market Analysis

In fall 2008, BBC Research & Consulting of Denver (BBC) was contracted by the City of Austin to conduct a comprehensive housing market study. The study's purpose was to identify the existing and future housing needs of residents in Austin and to support the development of a targeted plan for meeting these needs. The study paid particular attention to the needs of three resident groups: low income residents, families and workforce. The study used the most recent data and information on resident demographics, housing prices and future growth trends. It also relied significantly on public input consisting of focus groups with stakeholders, public hearings with residents and three survey efforts.

This executive summary presents the top findings from the study. It also contains our recommendations for better meeting housing needs.

## Who Lives in Austin?

Nearly 750,000 people lived in the City of Austin in 2007.[1] These residents lived in a diversity of housing situations typical of medium and large cities similar to Austin, like Denver and Portland. In Austin, in 2007:

- 19 percent of households were married couples with children;
- 18 percent were married couples without children;
- 16 percent lived in family situations other than married couples with/without children—for example, single parents; and
- The remainder (47 percent) lived in non-family households—for example, unrelated adults living together such as students and single persons.

Overall age demographics in Austin are following national trends, with a large population of Baby Boomers approaching retirement age. Unique to Austin is its declining population of recent college graduates, who may be finding employment elsewhere or leaving, as Austin becomes more expensive than other cities in Texas, such as Dallas. For example, according to recent Census estimates, the average rent in Austin was $810 and the average median home value was $178,8000, as compared to a monthly gross rent of $738 and a median home value of $128,200 in Dallas.[2] Per the most recent Quarterly Census of Employment and Wages (QCEW) from the Texas Workforce Commission, the average weekly wage of someone employed in the elementary or secondary school subset of the educational services industry in Travis County is $792 ($41,200 per year), as compared to $876 in

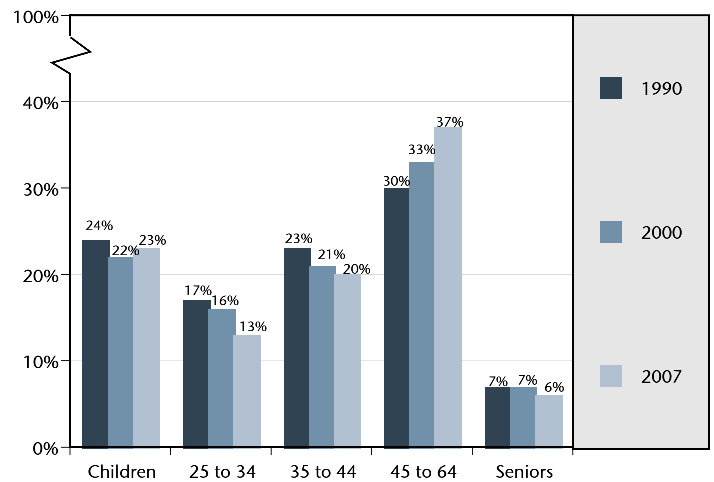
[1] 2007 ACS estimate is 749,659. The 2008 City of Austin Demographer Ryan Robinson and Planning Department's estimate is 750,525. The Texas State Demographer had a January 1, 2008 estimate of 736,172.

[2] Median Home Value and Median Gross Rent taken from 2005-2007 3-year American Community Survey (ACS) estimates. The ACS was used for the median home value instead of the Texas A&M Research Real Estate Center data to reflect place-level home prices, as opposed to regional home prices presented by the Texas A&M Research Real Estate Center,

Dallas County ($45,600 per year).[3] Thus, recent college graduates starting in moderately paying jobs like teaching with relatively homogenous wages may find the higher rents and home prices in Austin difficult to afford. Since 1990, the city's proportion of college age students and young adults has declined relative to the proportion of residents between the ages of 45 and 64, as shown in Exhibit ES-1.

**Exhibit ES-1.**
**Population by Age Cohort, Austin, 2007**

Source:
U.S. Census Bureau, 2000 and 2007.




## Growth of the Austin MSA

Austin's population growth has been steady since 1990. However, population growth in the communities surrounding Austin has grown more quickly than Austin. Although Austin still comprises a very large portion of the Austin-Round Rock MSA, other cities within the region have absorbed a disproportionate amount of population growth, as shown in Exhibit ES-2. Specifically, Austin represents 47 percent of the MSA population—but 34 percent of the 1990 to 2007 MSA growth.

**Exhibit ES-2.**
**Population Growth for the Austin Round-Rock MSA and Municipalities, 1990 to 2007**

| | 1990 | 2000 | 2007 | Population Growth 1990-2007 | Percent of Population Growth 1990-2007 | Compound Average Annual Growth Rate 1990-2007 | Percent of MSA Population | Percent of Growth in MSA 1990-2007 |
|---|---|---|---|---|---|---|---|---|
| **Austin MSA** | **781,572** | **1,249,763** | **1,565,606** | **784,034** | | | | |
| Austin | 465,577 | 656,562 | 728,821 | 263,244 | 57% | 2% | 47% | 34% |
| Round Rock | 30,923 | 61,136 | 98,105 | 67,182 | 217% | 4% | 6% | 9% |
| Cedar Park | 5,161 | 26,049 | 51,062 | 45,901 | 889% | 9% | 3% | 6% |
| Georgetown | 14,842 | 28,339 | 45,565 | 30,723 | 207% | 4% | 3% | 4% |
| Pflugerville | 4,444 | 16,335 | 32,439 | 27,995 | 630% | 8% | 2% | 4% |
| Kyle | 2,108 | 5,314 | 23,367 | 21,259 | 1008% | 9% | 1% | 3% |
| Leander | 3,398 | 7,596 | 22,116 | 18,718 | 551% | 7% | 1% | 2% |
| Bastrop | 4,044 | 5,340 | 8,261 | 4,217 | 104% | 3% | 1% | 1% |
| Buda | 1,795 | 2,404 | 5,827 | 4,032 | 225% | 4% | 0% | 1% |

Note: Population totals for the municipalities will not aggregate to total population of the MSA. 2007 Population number for Austin is from the Texas State Data Center to remain consistent with data for other municipalities. Previous Austin population statistics utilized the Census and the Austin Demographer.

Note: This represents total population, as opposed to daytime population.

Source: U.S. Census and Texas State Data Center

[3] Wage data from the 3rd Quarter 2008 Quarterly Census of Employment and Wages (QCEW) and the Texas Workforce Commission. Data is only provided at the county level. Travis County was used as a proxy for the city of Austin. Yearly wage estimate assumed a 52 week work year.

## Changes in Austin's Affordability

Although some individuals may prefer a suburban lifestyle, the growth that has occurred on the outskirts of the city may be driven in some measure by the affordability of housing in the areas outside of Austin's city limits. Housing costs in Austin have risen by 85 percent in the past 10 years. The median value of a single family home in Austin was $129,900 in 1998. By 2008, the median had increased almost 90 percent to $240,000.[4]

The median prices reported by BBC differ from those reported by the Texas A&M Real Estate Center because of 2 methodological differences: area of geographic analysis and the type of listing analyzed. With data provided directly from the Austin Board of Realtors (ABOR), BBC Research & Consulting analyzed listings within the city of Austin, as opposed to the Austin-Round Rock MSA. Additionally, BBC Research & Consulting methodology includes ***all*** listings, which includes not only sold listings, but also expired and withdrawn listings.

Austin has a larger renter population. Renters in Austin are divided into three categories: temporary residents of Austin (primarily students), individuals that chose to rent and those that simply can not afford to purchase a home. In 2008, 13 percent of Austin renters could afford the median priced home for sale.

Exhibits ES-3 on the following page shows how housing affordability has changed in the past 10 years for one segment of the market: households earning between 51 and 80 percent of the median family income (MFI). This is equivalent to households with incomes of $34,554 and $55,280 in 2008 dollars[5].

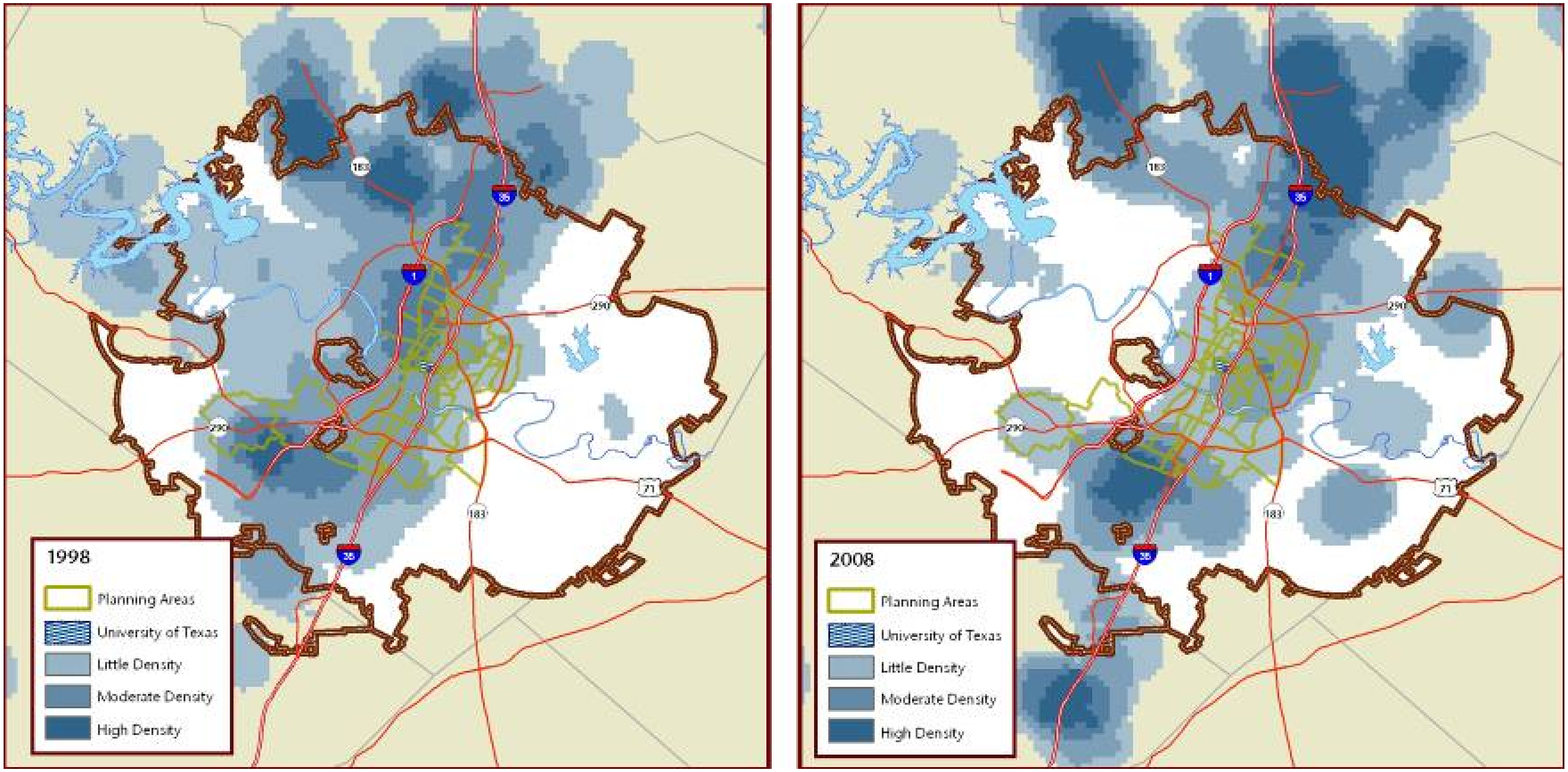
As demonstrated by the exhibit, the supply of affordable housing has increased in the southwest and northern portions of the region, in addition to East Austin. This has occurred as the supply of affordable housing has decreased in central, west and northwest Austin.

In sum, during the last ten years, housing Austin's workforce has become a regional task. And this is likely to continue unless the city takes actions to increase the supply of affordable housing within city boundaries. This begins with addressing current housing needs—and then ensuring that the city's affordability gap does not increase in the future.

[4] 2008 statistics include listings from January 1, 2008 through October 31, 2008.

[5] It should be noted that "density" means more units in a given geographic area. It does not imply density of land use.

**Exhibit ES-3.**
**Location of Detached Single Family Units Affordable to 51% to 80% MFI, Austin Region, 1998 and 2008**




Note: 51% to 80% of MFI is the income range of $34,554 to $55,280

Note: Assumption is made that households seek housing units near the top of their affordability threshold. Thus, units shown in these maps are priced between $111,874 and $178,165. "Density" as used in the maps means more units in a given geographic area. It does not imply density of land use.

Source: MLS and BBC Research & Consulting.

## 2008 Housing Needs

**Rental needs.** Austin has a very large need for affordable rentals. In 2008, the city's renters earning less than $20,000 per year—46,300 renters—had just 7,150 affordable units in the market from which to choose. This means that there are 39,150 more renters earning less than $20,000 per year than units in the market affordable to them, even after accounting for subsidized units and vouchers. In other words, just 1 in 6 renters earning less than $20,000 can find affordable housing. We estimate that 25 percent of these renters in need (9,400) are students.

The mismatch between renter incomes and the availability of units is most severe for renters earning less than $10,000 per year: These 21,700 renters had just 2,400 units affordable to them in 2008, leaving a shortage of 19,300 units.

Although many of these renters are students, most are not. In addition to students, these renters represent seniors living on fixed incomes; retail, housekeeping and grocery workers; and single parents.

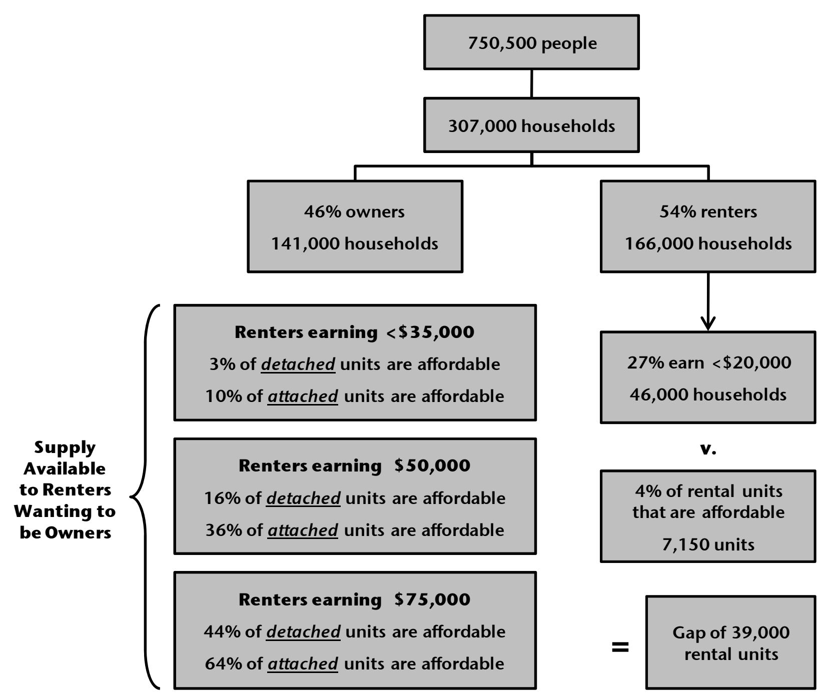
**Homeownership needs.** To buy in Austin, potential homeowners must earn at least $50,000 before one-third of attached units and just 16 percent of detached units become affordable. Renters earning $75,000 have many more choices; however, just 13 percent of Austin's renters earn this much.

Austin has a need for homes priced between $113,000 and $240,000 to enable its renter population earning between $35,000 and $75,000 per year to become homeowners. In many cities, this demand for affordable homes is partially fulfilled through attached housing; however, in Austin, this ownership product is limited.

Exhibit ES-4 summarizes the city's 2008 affordability gap.

**Exhibit ES-4.**
**Gap in Rental and Homeownership Supply and Demand, 2008**

Source:
BBC Research and Consulting.



**Property tax increases.** The gaps analysis above does not demonstrate the increased burden that property tax increases are placing on some of Austin's current renters and homeowners. In some neighborhoods, rapidly increasing property appraisals are leading to much higher tax bills, which might be unaffordable to some homeowners. For example, one Holly neighborhood property appraised at $77,000 in 2003. In 2008, the property appraised for $158,000. Although tax rates actually decreased, the increase in appraised value caused the tax bill to rise from $700 in 2003 to $3,100 in 2008. Additionally, this property was receiving a homestead exemption, meaning that some taxing units were not taxing on the fully appraised value, thereby lowering the overall tax bill. If the property had not received a Homestead Exemption and had been a rental property, for example, the full tax bill would have been nearly $3,500.

Renters are not immune to these increases, even though they do not pay property taxes directly. Landlords pass on the cost of property taxes to their renters, so as property taxes rise, so does monthly rent. Property taxes are one reason that rents are higher in Austin than in other comparable cities.

**Austin relative to Denver.** BBC conducted a study very similar to Austin's housing market analysis for the City and County of Denver in 2006. Compared to Denver:

- **Rental gap.** Like Austin, Denver has a large mismatch between supply and demand for its lowest income renters. However, Denver's rental market provides many more affordable units to renters earning less than $20,000 per year (15,600 units compared to Austin's 7,150 units). Denver's rental gap diminishes at the $20,000 income mark, meaning that Denver's lower income renters who have to "rent up" in order to find somewhere to live likely face lower levels of cost burden than in Austin.

- **Homeownership gap.** Denver's detached single family unit price distribution and affordability is similar to Austin's; however, Denver offers more affordable homeownership options because it has a larger attached housing market. In Denver, during 2005, there were 4,200 attached homes for sale affordable to potential buyers earning $50,000 and less. This compares to Austin's 950 homes in 2008. (And, Austin has about 40 percent more renters earning less than $50,000 than Denver does). Overall, Denver had 10,000 attached homes on the market for purchase in 2005. By comparison, Austin had 2,700 in 2008.

## Austin's Future and Development Choices

Austin's economy rebounded well from the tech-related recession early in this decade. The city is predicted to be less affected than other cities by the current recession because of the types of industries in Austin. Recruitment efforts of technology-based firms, specializing in semiconductor, clean energy, biomedical and wireless technology, have succeeded in creating a large number of high paying jobs and relatively low levels of unemployment in the city. However, not all residents' jobs reside in such high-paying industries—and within these industries, not all jobs are high paying.

On average, executive jobs and engineering jobs do pay well, averaging between $80,000 and $90,000 per year. However, beginning positions in these occupations earn much less. Retail workers, which comprise the largest occupational category in Austin, earn an average of $22,000 per year. These are some of the residents who make up the low income renters who can't find affordable rentals in Austin.

Although Austin's employment is relatively spread throughout the city, its moderate and high paying jobs are heavily concentrated around Mo-Pac, in the southwest and western portions of the city, and downtown, as well as in north Austin. Housing in central and west Austin serves these employment centers well. However, since these areas have developed into the most expensive parts of the city, other residents are finding more affordable opportunities elsewhere. Essentially, the downtown and west Austin housing markets are currently catering to a small subset of workers, while young professionals and lower-earning workers are moving further away from Austin's employment opportunities, creating increased traffic along major arteries.

During the next 12 years, we predict that:

- By 2020, the city will need to develop 12,000 rental units (1,000 per year) priced at $425 and less to meet the growing needs of low income renters. To only modestly lower the current low income rental gap and meet growing housing needs, as many as 16,500 units (1,370 per year) should be constructed.

- Renters wanting to buy will face greater challenges in Austin's housing market. Renters earning less than $75,000 will have fewer affordable for sale options, in addition to having difficulty saving for a downpayment because of the high rents within Austin.

- Future growth of homeowners will demand a slightly different distribution of price points than the city has now. To accommodate future homeowners:
  - 8 percent of the units must be priced at $113,000 and less (likely small condos);
  - 13 percent at $113,000 to $160,500 (a mix of condos and townhomes);
  - 21 percent at $160,500 to $240,400 (condos, townhomes, cottages and small single family detached units); and
  - 58 percent more than $240,400 (range of housing options).

The city is in a critical juncture of deciding how to address its existing and future housing needs. And, although we can't completely predict how the city will change in the future, two things are very likely:

1. **Austin's growth will continue.** The city is a very desirable place to live by many measures, and both employers and workers will continue to consider the city as their future home.

2. **Growth will put pressure on housing supply.** Unless supply keeps up with demand, prices will increase.

The city has three ways of dealing with this growth:

- **Slow growth.** Austin can intentionally slow down growth and rely on communities outside of Austin to fill the demand for new housing. Boulder, Colorado is a good example of this phenomenon. Its Residential Growth Management System, which limits the number of building permits issued each year, led to an explosion of new development in the communities outside of Boulder. Boulder, a city of about 50,000 housing units has more than 100,000 jobs. This means that many workers must live outside of the city and commute in because there are not enough housing units for them to live in the city.

- **Increased density.** Austin can grow denser to accommodate increased housing demand. Not everyone will choose to live in denser or attached housing; however, the survey conducted for this study revealed that many households, including those with children, would be willing to make the trade-off of living in attached housing to reside in their neighborhood of choice.

  Many people equate increased density with increased traffic congestion. This perception does not consider the alternative that without increased density, people will be forced to locate outside of an area and drive in to work. Density done well, especially density coupled with good public transit, can relieve traffic congestion.

- **Increased sprawl.** Finally, Austin can grow out to accommodate increased housing demand, as long as developable land is available.

## Recommendations for Addressing Housing Needs

The City of Austin and Austin community has shown leadership and progressive action in addressing affordable housing needs to date. Some of the major efforts of the city include:

- Passed a $55 million General Obligation (GO) bond dedicated to affordable housing activities;
- Annually dedicate General Fund monies to support affordable housing;
- Established the SMART Housing Program to provide incentives to private sector contribution to affordable housing solutions;
- Require that a portion of additional tax revenues from city-owned redeveloped properties be dedicated to affordable housing.

However, market forces have been stronger in changing the landscape of affordability in Austin. This means that addressing affordable housing needs will need to be a continued effort.

If Austin had not accomplished the above efforts—and if the city's housing continues to become more expensive as demand for living in Austin continues—the following scenarios are likely to occur:

- The city's 39,000 low income renters who cannot afford to pay their rent and utilities will continue being cost burdened. As the city's population grows, demand for housing will rise (without a commensurate increase in supply), prices will go up and so will property taxes. Low income renters will pay more for housing as property taxes rise and landlords pass on these costs, putting the lowest income renters at a greater risk of homelessness. Moderate income renters will have less to save for a downpayment, reducing their likelihood of being homeowners. Property owners may reduce efforts on upkeep to manage increased taxes, reducing the quality of the affordable rental housing stock.

- Many current owners in the city will find their property taxes harder to afford. Lower income owners and those on fixed incomes (seniors and persons with disabilities) may find the tax increases unmanageable. If they decide to sell their homes, they will realize income from the gain in value—however, they will need to move out of the city to afford another home.

- The city's workers will be less likely to be able to afford to live in the city, so more people will buy homes outside of Austin and commute longer distances to work. Those who can afford to buy in the city may be unwilling to make the trade-off because the products they can buy outside the city offer much more in terms of condition and size. They, too, will commute into the city. The city will be at risk of losing its middle class as they leave the city to purchase homes—leaving the wealthy and low income renters.

Therefore, to avoid having an even larger number of low income renters who struggle to meet their monthly rental payments, to avoid having moderate income renters leaving the city to purchase homes, to avoid increased traffic congestion, to avoid a drain on revenues as people leave for more affordable housing—the city should continue addressing needs by making changes to its policies and generate additional revenue to meet housing needs.

As mentioned above, the city has spearheaded many large efforts to address existing affordable housing needs. These efforts have been part of the city's overall goals to ensure that everyone from musicians to high-tech executives can call Austin home. The city has also worked hard to preserve its environmental landscape. All desirable cities and towns struggle to find the balance between environmental preservation, managing growth rates and keeping housing costs at a reasonable level. Austin is no exception.

Market forces are very powerful however, and Austin has a strong national reputation as a desirable city in which to live. Therefore, Austin will grow. The city can grow up (become more dense), or the city can grow out (become more sprawling). Growing up will involve some trade offs, but growing out will cost much more in terms of traffic congestion, potential loss of employment centers, loss of tax revenues and, perhaps more serious, a loss of community identity.

**Recommendation No. 1—Reevaluate the zoning and development process.** Austin's current process of evaluating applications for residential development is community based. The city's zoning and land use regulations also reflect the city's dedication to environmental preservation and commitment to smart growth.

These principles are part of what makes Austin a great city. However, they can conflict with providing affordable housing for residents and workforce. In desirable areas where there is much demand for housing, anything that constrains the supply leads to increased housing costs.

We have identified several opportunities for the city to modernize its current development process that will reduce the barriers to affordable housing development in Austin. These include:

- Reconsider the role that many neighborhoods groups are playing in development decisions.
- Develop a strong, citywide Comprehensive Plan that guides development and forms the basis for the acceptance or denial of development applications.
- Increase density by approving dense developments that offer opportunities for affordable, attached housing products.
- Educate residents about the need for workforce housing in Austin and the consequences of not meeting current and future needs for housing.

**Balance neighborhood-based development.** Neighborhood groups are very involved in Austin's residential and commercial land use and development process. Although the city has a citywide Comprehensive Plan that has been existence for more than 30 years, its updates have been modest. Existing neighborhood plans are much more detailed and play a strong role in the development evaluation process. Development is also heavily influenced by the many zoning and land use ordinances that are passed by city council each year. In sum, there is no strong, comprehensive guiding document for development in Austin.

We recognize that this has enabled the neighborhoods to play a significant role in how they develop. It has also created a patchwork planning process. Furthermore, we are unable to identify coordination of the neighborhood plans to ensure an appropriate distribution of community needs such as affordable housing.

Many cities, of comparable size to Austin, rely heavily on the influence and direction of neighborhood groups to guide land-use and development decisions. Many cities like Austin have neighborhood-level planning documents. These neighborhood groups are also very involved in the process through public hearings, written and oral comments, meetings with planning staff, planning commissioners and city council members.

For example, neighborhood groups are relied upon heavily in Santa Fe, particularly when it comes to preserving the historical integrity of architecture and design of its historic buildings. Neighborhood groups are given early notification of proposed projects, which provides them the opportunity to support or challenge projects coming into their neighborhoods. However, Santa Fe's General Plan provides necessary guidelines to determine whether neighborhood group reactions align with city-level growth goals or represent neighborhood sentiments.

Raleigh, North Carolina is another community with very strong neighborhood influence. Currently, 18 CACs participate in development decisions throughout the city and have been very interactive in current efforts to update Raleigh's Comprehensive Plan. In some instances, neighborhood plans have been and will be adopted as part of the city's comprehensive plan to ensure that city-level and neighborhood-level goals align.

Other communities with strong neighborhood influence include San Jose, California, Baltimore, Maryland and Denver. However, all communities are guided by a city-level General or Comprehensive Plan.

The city's current neighborhood-based planning process does very little to facilitate the development of affordable housing ***on a citywide basis***. Some of the neighborhood plans have affordable housing as a goal; others do not. We were also told many times in our focus groups with more than 100 stakeholders that Austin has lost many affordable units to neighborhood resistance.

Austin is not unusual in this regard. Residents in every city and town are notoriously resistant to density, and the more affordable the project and the greater the density, the higher the resistance. Neighborhoods often forget that a desirable city will grow; they cannot stop this momentum. Restricting workers from obtaining housing in an area does not mean these workers will go away—they may live farther away, but they still need to drive to work. Growth limits almost always lead to increased traffic congestion and the leapfrog effect of affordable housing being pushed farther and farther from employment centers.

Neighborhoods often use declining property values as successful arguments to fight affordable housing developments. Many academic studies have adeptly demonstrated that the effect of density and affordable developments on property values is not negative.

These arguments should not be construed to imply that neighborhoods should not have an active role in the planning process or that any one neighborhood should provide a disproportionate share of affordable housing. It is imperative that cities have transparent goals, housing policies and a strong citywide planning structure to ensure that affordable housing is a community benefit that is shared equally and evenly distributed throughout a city.

**Develop a strong Comprehensive Plan.** The city will soon begin the process of updating its Comprehensive, or General Plan. The balance of multifamily and small lot single family zoning needs to be examined in the context of the types of housing needed to serve the city's future workforce to ensure that the city's comprehensive plan contains the proper land uses to meet future housing needs.

The comprehensive planning process must also contain a review and recommendations of model ordinances in other cities that allow greater opportunity for affordable housing development.

**Increase density.** Until only recently have density standards in Austin been relaxed. Although density in the form of multifamily products has not become common practice within the city, Austin's condominium market has expanded and evolved into a viable product, particularly in the downtown market.

High density projects, which capitalize on economies of scale to provide greater affordability, will be necessary to meet the housing gaps of new workers wanting to buy homes in Austin, which should be priced between $113,000 and $240,400. Density—combined with development and operational subsidies—will also be key to meeting the needs of the many low income renters in Austin who have extremely limited choices in the city.

To meet its current and future housing needs Austin will need to continue adding density to neighborhoods located near major employment areas to house workers and minimize commutes and traffic congestion. The city should also seek out and proactively plan for more new urbanist development opportunities like Mueller to meet the needs of families who desire to live within city boundaries and near places of employment.

It is unclear, based on a review of the city's recent update to its existing Comprehensive Plan and future land use map, how much land is dedicated to high density single family development and multifamily development (e.g., single family detached homes on 3,500 sq. feet lots and multifamily density of 20 units/acre). These uses appear minimal compared to the amount of land dedicated to standard single family residential.

Increased density will need to involve an affordability component that exceeds what the city has in place now—that is, requiring that the affordable units be built and/or raising the fee-in-lieu amount. Recent condominium projects are nowhere near to meeting affordability needs within the city: condos sold in 2008 and constructed in 2006 or later had a median listing price of $299,000.

**Educate residents.** The city needs a concerted educational effort to demonstrate that density can be attractive, mitigate traffic congestion and be a key solution to a more balanced housing stock. It would be appropriate to begin this effort during the comprehensive planning process since the process is likely to be well attended by neighborhood representatives and residents. In addition, the first few model developments that are affordable and dense must be economically feasible and attractive, as these will be important to get future neighborhood buy-in for these types of products.

**Recommendation No. 2—Set affordable housing targets.** Without goals for affordable housing and a citywide, strong Comprehensive plan, what is to prevent all neighborhoods from limiting the amount of affordable housing and density they allow and support?

To ensure that affordable housing is a priority in the city and that all neighborhoods share in the provision of this community asset, the city must set affordable housing targets. City leaders need to establish a target proportion of affordable rental and for sale housing in 5, 10 and 12 years (to 2020). The city should also monitor its needs on a regular basis and adjust its target as needed.

Mandates associated with affordable housing production are not legal in Texas. However, establishing goals and providing incentives for developers to help cities reach those goals are legal in the state—and are very important if housing policies are to be effective.

Other cities with established housing goals include:

- Tucson's General Plan (Comprehensive Plan) has a target of 10 percent of units in the city should be affordable. The city monitors this through an annual production report.
- In 1990, the City of Boulder set a target of having 5 percent of its housing stock be permanently affordable. In 1995, the city revised its target of permanently affordable housing stock to 10 percent.
- Massachusetts has a state law (the "anti-snob zoning" law) that requires all towns to have at least 10 percent of their housing stock affordable to households at 80 percent of the MFI to avoid being subject to mandatory housing projects. The law has been in effect since 1969.

For Austin, the rental target should focus on units affordable at 30 percent of the MFI, or for renters earning less than $20,730 per year (about the wage of an average retail worker). We estimate that about 5 percent of the city's rental stock is affordable to households making 30 percent of the MFI and less.

For homeownership, the city should focus on ensuring that at least 10 percent of units in new developments are affordable to households earning 80 percent of the MFI and less (about $55,000). This can be encouraged through more aggressive negotiations with developers and offering fast track approval, density bonuses and increased fee waivers.

**Recommendation No. 3—Examine regulatory barriers to housing development.** A comprehensive review of the development process in Austin and related barriers to affordable housing development was beyond the scope of this study. That said, regulatory barriers were frequently mentioned in our interviews and focus groups—specifically, that the city has regulations and processes in place that significantly raise development costs, discourage density and, as such, restrict the development of affordable housing.

The city should conduct a study that examines in-depth the specific barriers to affordable housing development. This should be done in conjunction with the comprehensive planning process the city will soon begin. Based on the comments we received during the study process through our focus groups with more than 100 attendees, such a study should:

- Examine how infrastructure requirements raise the cost of housing development.
- Examine the effect of zoning ordinances on development costs and the production of affordable small lot, attached/duplex units.
- Diagram the number of departments that have a role in the approval process and quantify the time it takes from the development application to approval for different types of residential applications, including affordable projects. Recommend how the development process can be streamlined, especially for affordable projects (see fast track approval below).
- Assess the impact the role neighborhood opposition has on the development of affordable and attached housing.
- Examine how the city's waste removal requirements raise the cost of development. Many stakeholders said that costs could be reduced if "there were a cheaper way to tie into the city's sewer system."

**Recommendation No. 4—Consider additional development incentives to produce affordable housing.** The city should consider two changes to encourage developers to build affordable housing:

- **Raise fee waivers.** The current fee waivers of $2,500 for single family homes and $1,000/unit for multifamily developments are helpful, but not significant enough to make a big difference in affordability. Additional fee waivers would be beneficial.
- **Fast track approval.** Projects that meet city targets for affordability should go directly to the top of the development queue and receive fast track approval. These projects must contain the actual development of affordable housing (i.e., developments receiving density bonuses by paying an in-lieu fee would not receive fast track approval). The city should diagram the fast track approval process and demonstrate the amount of time and cost a developer will save through fast track approval.

  The fast track approval must be carefully constructed and involve developer input. For example, Denver offers such a program but it is seldom used because the developments eligible for fast track approval must wholly comply with existing site plans.

**Recommendation No. 5—Supplement existing funding.** We think it is wonderful that the city has raised funding for affordable housing through its General Obligation Bond; Austin is one of few cities in the country that has been able to raise money for affordable housing through bonding. The city is also rare in that it annually provides General Fund monies to support affordable housing and a portion of redevelopment funds from city-owned properties are dedicated to affordable housing activities.

However, there is never enough money to meet all affordable housing needs, and the needs of Austin's residents—particularly very low income renters—are very high. The city would benefit from supplementing the bond dollars with other, ongoing revenue sources.

The city should explore alternative revenue sources to supplement affordable housing funding. Many Western cities—e.g., Reno, Nevada and Tucson, Arizona—levy condominium conversion fees and use these fees to fund housing trusts. It is unfortunate that Texas law prohibits such a revenue source, which would be a very reasonable method for generating funds for affordable housing. Currently rental stock is being removed from the inventory and replaced with mostly non-affordable condominiums, which is displacing renters and reducing the overall affordability of housing in Austin.

We also recommend that in the future the city examine the level of the fee-in-lieu amounts that developers pay to receive density bonuses under the S.M.A.R.T. Housing initiative. At $.50 per square foot for rentable floor area in the University Neighborhood Overlay, it is difficult to imagine why developers would not take the in-lieu option.

Given that the city may not mandate affordable housing, downtown developers currently have two choices under the current policy framework: pay a $10 per bonus square foot in the downtown area or seek Central Urban Redevelopment (CURE) Combining District rezoning. Given that, to date, developers have chosen to navigate the rezoning process rather than pay the downtown fee in lieu, one can deduce that the fee in lieu needs further review to ensure that it is tied to the market. The current fee in lieu may require further evaluation as currently, it does not appear to be an attractive option for developers. Recognizing that the Downtown Austin Plan is currently underway, this plan serves as an additional opportunity to evaluate the City's density bonus program.

**Recommendation No. 6—Establish a land banking program.** Land banking is a program whereby land is acquired by a division of government or nonprofit with the purpose of developing affordable/workforce housing or engaging in revitalization activities. After a holding period, the land is sold to a nonprofit or private developer, often at a price lower than market, who agrees to the land use conditions (e.g., creation of affordable/workforce housing).

Land bank programs can serve dual purposes. While some programs are created solely for the acquisition of land for future affordable housing development, others have broader long-term community planning goals. In distressed communities, land banking programs allow cities to acquire vacant and underperforming parcels, be a catalyst for redevelopment, and to benefit from increased tax revenues from the properties. In communities with rapidly rising land costs, land banking programs promise a long-term savings to taxpayers: for example, when public buildings need to be constructed, they can be built at less than the current market cost due to the earlier acquisition of the property by the land bank.

The City of Austin should establish a land bank to which private property may be donated (with potential tax benefits) and public property may be held for future affordable housing development. The city can also purchase appropriate parcels to add to the land bank as they become available. The city should explore partnerships with the school district, utility companies and other public landowners to donate the land for affordable housing in exchange for a certain proportion of the units that have first right of refusal to public sector employees (e.g., teachers).

**Recommendation No. 7—Consider alternative financing sources through CDFIs.** Community Development Financial Institutions (CDFIs) are lending institutions with a specific purpose of serving a particular community by increasing the amount of loan capital in an underserved area. The services offered by CDFIs differ—some operate much like a traditional bank or credit union and offer consumer as well as commercial products; others operate only to make loans for creation of affordable housing.

The city has several CDFIs which provide consumer and small business lending. The city should consider establishing or expanding its existing CDFI network to provide below market financing to developers of affordable housing. Such a CDFI would enable nonprofit and private sector developers to acquire property and begin the early stages of the development process before other, more permanent funding sources and federal and state grants are approved. The developers we interviewed for this study agreed that this would be a welcome tool to support affordable housing development.

**Recommendation No. 8—Replicate and adapt best practice models for Texas.** We recognize that the city is constrained in many ways from using many of the affordable housing tools that exist in other cities because of Texas State Law. For example, Austin cannot adopt the "quick fix" of inclusionary zoning that produces the bulk of affordable units in many cities.

We recommend, however, that the city collaborate with other high cost Texas communities to make state lawmakers aware of the barriers that some state laws create—such as the inability of cities to provide property tax rebates to low income renters.

Property taxes in Texas are higher than in many other areas in the West, since the state does not have an income tax. In more affordable areas, the impact is not as significant as in a community like Austin that has high home prices in addition to relatively high property taxes.

The effect of property taxes on Austin residents is twofold:

1. Rents are relatively high, as landlords pass on the property taxes to renters. Since renters are paying more for rent than in other cities, they have less to save for a downpayment on a home. This makes homeownership even more difficult to attain.

2. Some owners find that their property taxes are increasingly more difficult to pay. As their properties have appreciated, their taxes have risen considerably. Lower income owners and those on fixed incomes (seniors and persons with disabilities) may find the tax increases unmanageable. If they decide to sell their homes, they will realize income from the gain in value—however, they will most likely need to move out of the city to afford another home. In addition, it can be very stressful and difficult for seniors and persons with disabilities to manage a move.

Several cities and states have addressed this issue by providing rebates of property taxes to lower income renters. New York City has such a program, as does the State of Minnesota. Property owners are required to provide renters with an annual statement showing how much of their rent was made up of property taxes; renters then file for a rental rebate once a year.

Austin could provide property tax relief to owners, but the city is prevented by state law from targeting the relief based on income. As such, it would be difficult to provide an adequate benefit to low income owners without realizing a tremendous loss in city revenues. Although we recognize these barriers, we still recommend that the city investigate ways to provide property tax relief under state law and work with other similar communities to bring this barrier to the attention of lawmakers.