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Austin Housing and the Critical Workforce

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Austin Housing and the Critical Workforce

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Professional Report

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Abstract

Austin Housing and the Critical Workforce

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The University of Texas at Austin, 2011

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Abstract: This professional report is a study of urban housing market forces, housing opportunities of the critical workforce population, Austin's housing market and an analysis of the apartment market in Austin between 2000 and 2010. The report analyzes the supply and demand of property, its influence on the costs of development and how cities intervene into the market to create housing opportunities for the critical workforce. The income levels of the critical workforce in Austin are related to the current market conditions of the apartment market.

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Executive Summary

The purpose of this report is to answer the following questions. What are the factors that affect the changing affordability of housing? Who is the critical workforce and why do cities create policies to support their access to housing? How do these changes in affordability in Austin affect the housing options for the critical workforce? What interventions are put into place to accommodate for workforce housing? How has the rental market in Austin evolved over the past decade? What type of apartment product is expected in Austin in the near future?

First, the factors that affect housing costs to the consumer are studied through an analysis of supply and demand are discussed. Demand is dictated by the market and an increase in demand results in higher price per housing unit. Supply reacts to increasing demand by bringing more units of housing to the market. If the public or private sector is unable to free constraints to boost supply, the price of housing will continue to rise. The report focuses on the intervention methods that provide necessary housing by city policy and community based organizations.

Secondly, the report analyzes the critical workforce population and their housing options in Austin. These workers, including school teachers, police, firemen, nurses and EMS workers, provide necessary services to keep the city functioning at a basic level. The study looks at their financial means in Austin and identifies the levels at which they are able to buy or rent housing in the city. Analysis points to the apartment market as the most accommodating form of housing for the critical workforce with respect to affordability. The report looks at studies that defend the investment of workforce housing as well as actions made by the City of Austin to support affordable housing options, including the S.M.A.R.T. Housing program and the Good Neighbor Next Door Program.

Thirdly, the report focuses on the housing needs of Austin as identified by third party researchers. The current levels of housing supply and the citizens' need for rental and

ownership units are analyzed. The report looks at the business of bringing single family lots to market along with the potential struggles on the horizon.

Fourth, the report analyzes how the apartment rental market in Austin has evolved in the past decade. Each subdistrict in Austin is described by their rental rate, occupancy rate, units added and absorbed units per year. An image of the relationship between market demand and supply throughout the entire market is captured. The levels of rental rate and occupancy rate mirror one another consistently throughout the market, except for the Central market area in which rental rates continue to climb despite changes in occupancy or supply. Over the past decade, there have been periods of building boom and reciprocal years of absorption boom, an indicator of the development market's delayed reaction to market demands.

Finally, the report looks at planned multi-family developments in the Austin region and the creation of the Imagine Austin comprehensive plan to enlighten the continued struggles of bringing affordable housing units to market. With scarce lending, banks are hesitant to freely open credit, and as a result, only established development firms are currently working towards bringing higher end apartments to already established areas of town. Some affordable housing advocates are skeptical of the City's push for dense nodes with the thought that the high value projects will serve to only push the working class away from their communities.

Chapter 1: The Market of Housing

Our communities cannot function appropriately without their critical workforce. This important group of citizens has jobs that are essential for the city to operate at a base level. Though the type of jobs may be different depending on the location, economic and geographic situation of each city, societies around the world value the workers' access to housing near their place of employment as a priority to ensure the continual function of their city.

In the city of Austin, the critical workforce is defined by necessary health, service and public safety jobs such as teachers, police, firemen, EMS workers and nurses. In this chapter, we will focus on the economics behind the market forces that determine the housing costs and influence the housing options of the critical workforce. In later chapters we will focus more on this group in Austin and the issues that they face with regards to housing access.

How we value residential property

Along with food and water, shelter is one of the three primary human needs. With an infinite amount of types, conditions and uses, there are an infinite amount of values associated with a person's home. This chapter focuses on the reasoning behind the valuation of housing through supply and demand and how certain factors may influence who is able to live in a community and who is not. In first focusing on how the housing market works in our cities, the report will eventually apply these market principles to assess the interventions of cities into the housing market to provide housing for an important group of citizens, the critical workforce.

Leading real estate scholars David C. Ling and Wayne R. Archer¹ explain that real estate can be defined as the land and its permanent improvements. Improvements on the land include any fixed structures such as buildings, fences, walls, and decks. Improvements to the land include components necessary to make the land suitable for building construction or other uses (Ling & Archer, 2010). Simply put, a housing consumer is paying both for the structure in which

¹ Ling, D. C., & Archer, W. R. (2010). *Real Estate Principles, A Value Approach*. New York: McGraw-Hill.

they live as well as the land upon which it stands. However, the valuation of the two variables, land and improvements, is accomplished quite differently.

Ling and Archer explain the value of the improvement is based on what is actually built on or attached to the land. The improvement value is stable across markets within a region, meaning the value of a housing structure is similar to the identical structure in a different part of the city. However, where the value of housing becomes inconsistent, variable and an investment commodity is in the value of the land. The market value of land is based on externalities outside of the type and condition, but mainly on the location, association to other properties and services, development entitlements and investment potential.

Bundled into a single monthly mortgage payment or rental payment are an array of values. First, the consumer is paying for the value of the building structure. The consumer is also paying for the value of the land, which is appraised in relation the other comparable properties in the immediate area. Lastly, the owner and the renter are paying for the property taxes as assessed by the appraised value of the property itself and comparable properties in the area. The location of the housing unit is the single most influential and variable factor in the cost of the property. The market determines the value of the location through the basic economics of supply and demand.

Supply, Demand and Value

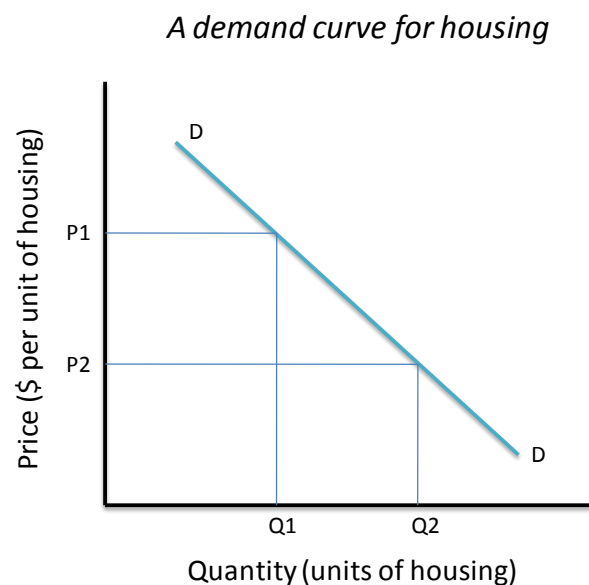
Supply and demand are two driving market forces at work in the housing market. The relationship between supply and demand dictates the price and availability of housing. We will examine these two forces on an elementary level in order to provide background to the evolving affordability in the housing market.

Michael Oxley illustrates the market forces influencing housing affordability in his book Economics, Planning and Housing². Oxley explains that demand involves a willingness and an ability to purchase, and thus depends on preferences and financial resources (Oxley, 2004). The

²Oxley, M. (2004) *Economics, Planning and Housing*. New York, NY: Palgrave Macmillian.

demand of a housing unit depends on an extensive variety of factors associated with the product. He describes the complexity of the choice and options reflect the complexity of the item under demand (Oxley, 2004). Aforementioned factors pertaining to the improvement value, its condition and amenities affect the level of demand. In addition, attributes like the location of the property, and its proximity to work, school or place of entertainment all contribute to the level of individual demand for housing. The level of demand determines how many units are sold at a certain price. If the level of demand is stable and prices increase, the number of units demanded decreases. In the same situation, if prices decrease, the number of units demanded will increase.

Figure 1.1 Demand curve

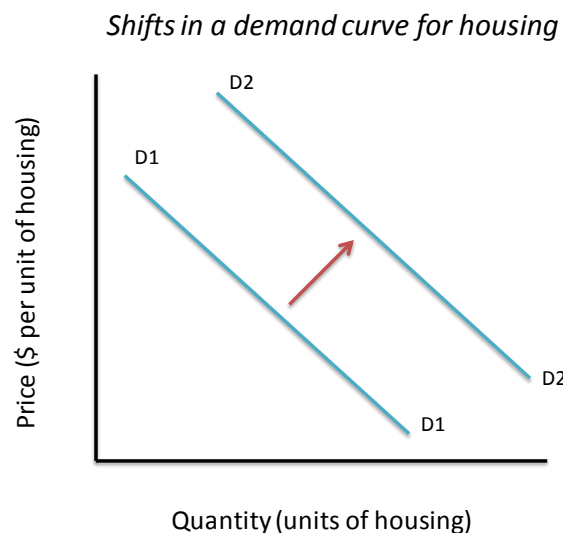


Source: Economics, Planning and Housing, Michael Oxley

Figure 1.1: The demand curve shows the relationship between the price of housing and the quantity of housing demand. The price might be the purchase price of owner-occupied housing or rental payments for rented housing. The demand curve shows a desire to 'buy' (this might mean purchasing a house or renting a house) backed up by the financial resources to buy. If the prices fall from P1 to P2 quantity demand increases from Q1 to Q2. The change from Q1 to Q2 is caused only by the other factors influencing demand remaining constant (Oxley, 2004).

As dictated by the market, demand for a housing unit may rise. This could be because of an increased desire to live in a certain area, highly sought amenities, recent investment in infrastructure or linkages, or even an area marked as “up-and-coming”. Changes in the ability to afford a dwelling may cause demand to increase. This will cause the number of units sold to increase if prices remain constant. The market is expected to adapt to this increase in demand and the demand for units will decrease as price increases. Other factors that can influence demand are changes in interest rates making housing more or less affordable. In a situation when the market causes the demand curve to shift upwards, the number of units demanded increases at the same price. In order to maximize profit and control the inventory of units, the seller market will increase the prices to makes higher profit while selling the same amount of units.

Figure 1.2 Shift in demand curve



Source: Economics, Planning and Housing, Michael Oxley

Figure 1.2: A shift in the demand curve for housing is caused by a change in something other than the price of housing. At any given price, demand is greater with D2 than with D1 (Oxley, 2004).

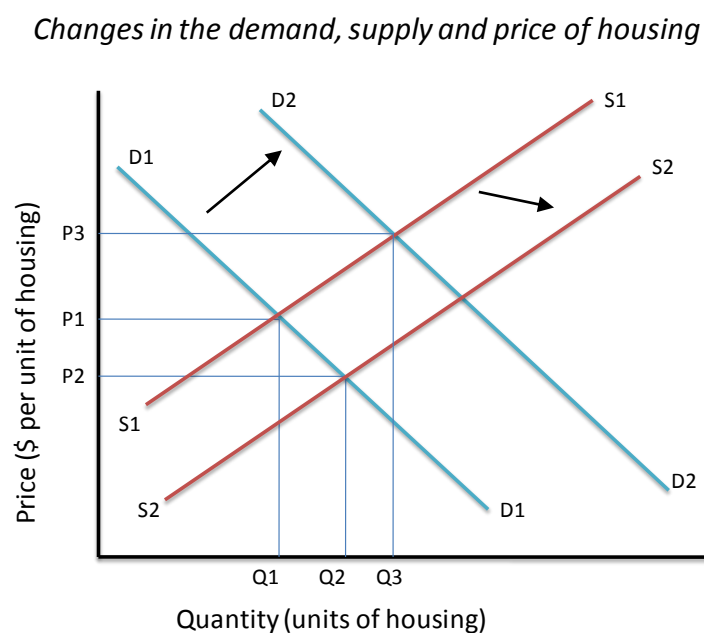
Complementary goods also can have an effect of demand for housing. Oxley explains that large increases in transport costs may reduce the demand for rural houses that had previously been very attractive to households commuting to cities (Oxley, 2004). The cost of transportation, especially in auto-dependent cities, such as Austin, is a growing factor that influences the decisions of housing demand based on location. This is a growing trend in many urban regions in the country as the cost of gasoline increases strain on consumers. The desire to be closer to the city center and the amenities it provides is causing demand and prices of housing to increase near the urban core. That cost of transportation particularly affects the critical workforce who often rely on more affordable housing in the suburbs to satisfy their housing demands.

As demand increases due to the desirability of living in a particular place or in a certain sort of dwelling, the market reacts by increasing the cost of housing. The way this works from a property specific perspective is through the practice of valuing property based on comparable sites. In order to value a particular subject site, the experts analyze properties within a market area and calculate a value of the subject. One can see that a single property is not an island if its value is based on comparable properties in the neighborhood. Property tax is based on the appraised value of the property. This appraised value is based on the value of comparable sites which is based on the demand of the sites. Again, the demand of the site is based on countless factors including housing type, quality, location, amenities or some other market driven intangible factors.

The supply of housing is the amount of available units on the market. There are two sources of the housing supply. Supply from the existing stock and supply from house building, both of which combine to create the supply coming onto the market (Oxley, 2004). First, people can move into vacant units and decrease the supply, or people can move out of units and increase the available supply. The second event is the building or destruction of inventory. A new single family subdivision or apartment complex will increase the supply. The destruction of homes to make way for a new highway or new development will decrease the supply.

The forces of supply and demand work in the housing market to attempt to provide what the public is demanding. The figure below brings together both the supply and demand curves to represent the market demands and the availability of units. Shifts in supply and demand dictate the market price for housing and the number of available units absorbed by the market.

Figure 1.3 Changes in demand and supply curves



Source: Economics, Planning and Housing, Michael Oxley

Figure 1.3 The figure illustrates how increased shifts in demand from D1 to D2 will increase the price and quantity of housing units demanded. Also, as supply increases from S1 to S2, the price decreases and the quantity sold increases (Oxley, 2004).

The nature of developing land and building new units is an expensive and time consuming process. Because of this, the development community is often trying to predict the market in order to have available units when the demand is increasing. Predicting the market appropriately results in a healthy absorption of new units. If the builder is unable to predict the

demand of the market or fails to bring the correct product to the market, the success of a project will be jeopardized. With a number of developers trying to predict the market at the same time and a lack of coordination between firms, there may be too many units of the same product type delivered at the same time. This floods the supply of the market and leads to lower prices for the consumers and financial uncertainty for the investors.

Need vs. Demand

Public intervention has great influence on the supply of housing. Local ordinances, land planning guidelines, and restrictions on use and density significantly limit the freedom of the private market to develop new housing units as demanded (or as perceived as demanded) by the developer. In an area of high residential demand, restrictions on density can significantly weaken the supply of available units and can cause the cost of living to increase. Requiring a certain amount of parkland dedication or development fees can disincentivize developers to work in a particular region. The most critical part of the job for a housing developer is getting the local municipality to approve their project to add supply to a market with perceived demand. In the highly regulated development conditions of Austin, the option of producing new housing for the critical workforce becomes restricted.

Cities ideally make planning decisions to satisfy both demand and need. There is a difference between demand, what a consumer wants according to their means, and need, what a consumer actually needs aside from financial means. For example, a police officer with a family may need housing near their place of employment but can only demand a unit in a more affordable area of town. A city may even dictate policy on what an entire community needs over what the market may be demanding. In Austin there is a great market demand for housing development in “environmentally sensitive” areas of town because of geographically its central proximity and unique landscape. Yet, the City of Austin has made policy to restrict intense levels of development in these regions in order to protect aquifers or endangered species from

pollution. In this case, the city is restricting the ability for the private sector to satisfy consumer demand with the case that it is not was the city “needs.”

Cities also make policy decisions and programs to incentivize the sort of developments that they believe their citizens want and need. For some cities, as we will learn, there is a great deal of emphasis on providing affordable housing to the critical workforce. Offering density bonuses and development incentives to encourage investment in identified areas is one way cities can use their power to influence housing supply. Comprehensive plans often reflect these priorities of future growth areas and density expectations. These plans, if they have weight and supportive policy, are useful tools for consumer and developers to make the best decisions of where to invest their money according to each of their demands.

The Effect of Gentrification on Critical Workforce Housing

From the perspective of equity, the market forces controlling the supply and demand of housing are inefficient. If the community’s hope is to provide fairness and justice in access to housing, there must be market intervention to combat housing inequities. In communities that already have high property values and little available land for new development, the mission to provide affordable housing options is limited. However, in many cities, neighborhoods that were once home to members of the critical workforce are getting pushed out by increasing property values and property taxes. This sort of event is commonly called gentrification, and we can look to these events to illustrate the relocation of residents and the byproduct of the market working in a changing community that can limit the housing options available to the critical workforce.

Gentrification can be defined simply as the event in which new landowners of a higher socio-economic status move into a comparatively lower economic community. The increase in economic investment in the community increases the values of neighboring properties, in effect causing the increasing higher property taxes forcing the previous residents to relocate to a more affordable community. It is an economic and often times cultural shift from a working

class neighborhood to a “gentry” neighborhood. Gentrification can negatively affect the available stock of housing for the critical workforce who may be priced out of their neighborhood.

The desire for some to live in a gentrifying neighborhood increases the demand and, in effect, the price of housing within the neighborhood. If possible, the market will react and the supply of housing will increase. However, typical gentrifying inner city neighborhoods are older neighborhoods that are near the city center and have limited land for new development, thus restraining the ability to increase supply to keep pace with demand. The effect is a continual increase in the cost of housing, property value and property tax.

The question of many concerning gentrification is: Where do the current residents go? The answer? Somewhere else. The residents of the community who cannot afford to keep up with the tax payments are forced to relocate. One can imagine the multitude of stories of a family that owns their home outright but is forced to sell because of increasing property taxes. Some say that it is just the way that capitalism works and it is a fact of life. Others, particularly the people who own homes in these gentrifying communities, have found unique ways to block increasing property values and allow them to stay in their neighborhood.

One such example is the Blackland Neighborhood in East Austin. Situated just east of Interstate 35, abutting against the reaches of The University of Texas, the neighborhood is composed of a variety of historic homes varying in size and architectural style. The neighborhood is in a prime location and sits at the top of a changing East Austin region. There are some traces of new construction, but for the most part, the neighborhood is still home to residents and families that have not given into the pressures of being bought out by speculative investors. This would not have been possible without a long battle between the neighborhood and the University of Texas, who began to buy blocks to expand into the neighborhood. According to an article written in February 1990 by Ralph D. Tomlinson titled, “Victory with a Price³”, the University turned over an area of 8 blocks and 22 houses back to the City of Austin. Because of community organization, pressure from City Council and the public, the land bought

³ Tomlinson, R. (1990, February) Victory with a Price. *Polemicist*, pp 3,16.

at market value for University expansion was now to be repurposed as affordable and transitional housing.

Today, the Blackland Community Development Corporation⁴ (BCDC) is responsible in preserving the housing stock for the current residents and opening the neighborhood to other low and median income families. The BCDC combats speculative investment in the neighborhood by organizing community members to not give into an interested buyer. Once one home is bought at an increased speculative value, the rest of the properties on the block increase in appraisal value and so do the property values. Next, the BCDC raises money through donations and partnerships to buy properties in the neighborhood and transition them to affordable units. From transitional housing for homeless to affordable housing for families, seniors and those with disabilities, the Blackland neighborhood is able to maintain a unique community character that serves a needy portion of the population. Instead of allowing gentrification to push its people out, the community is inviting those most in need to come and stay.

Outside of organized community groups like Blackland in Austin, cities are tackling the negative externalities of gentrification in other ways. Through affordable housing programs, federal grants and price ceilings, public interventions are very common and ensure the basic necessity of housing for a community's citizens and most importantly, the critical workforce.

This report will now focus more closely on the residential market in the City of Austin and the effect that the market and public interventions have on the critical workforce. Again, for the sake of this study, we will identify the critical workforce as those people who hold employment as public school teachers, police, firemen, emergency medical service employees and nurses. The rationale for focusing on this segment of the population will be discussed in the following chapter.

⁴Blackland Community Development Corporation, 2008. <http://www.main.org/blacklandcdc/>

Chapter 2: The Critical Workforce and Housing

The Critical Workforce

We will first assess the critical workforce in Austin and their starting and average income levels according to their occupation. We will also assess the parameters of rental and ownership housing affordability given these incomes in the city of Austin. We will continue to assess the needs of critical workforce housing given the affordability parameters and other factors influencing housing choice and options for the consumer group.

For this report, we will define the critical workforce of Austin as those who are employed full-time in the following public sector jobs: public school teachers, policemen, firemen and emergency medical service professionals (ambulance drivers, paramedics, etc) and registered nurses.

It is important to distinguish the critical workforce from the standard workforce because of the nature their jobs. The critical workforce jobs are highly necessary to the continual function of a community. A public school system could not function without teachers, law enforcement requires police and fire emergencies and medical emergencies need firemen and paramedics. There is no discounting other service sector jobs including city staff, sanitation employees, security guards or service workers, but the identified critical workforce provides the backbone of a large and critical staff to ensure a functioning city. The importance of the critical workforce to the community is not reflected in their relatively low pay grade. Considering their wages, the critical workforce is often priced out of the neighborhoods in which they serve. We will discuss how this can negatively affect the city's success and why some communities make housing for the critical workforce a priority.

Aside from the importance of critical workforce employees to the communities in which they serve, their financial compensation often is lower than private sector salaries. The average salaries of critical workforce employees in the city of Austin are shown in Figures 2.1 and 2.2.

Figure 2.1 Critical workforce starting and average salaries

Critical Workforce Salaries		
Austin, TX - 2011		
	Starting salary	Average salary
Teacher	\$36,000	\$49,609
Fireman	\$35,000	\$39,818
Police	\$38,000	\$49,021
EMS	\$26,000	\$36,000
Nurse	\$51,000	\$61,314
<i>Information courtesy of City of Austin</i>		

In comparison to these salaries, here are a select number of private sector job and corresponding salaries.

Figure 2.2 Private sector salaries

Private Sector Salaries		
Austin, TX - 2011		
	Starting salary	Average salary
Accountant	\$51,000	\$75,000
Lawyer	\$68,000	\$90,000
Realtor	\$64,000	\$85,000
University professor	\$54,000	\$90,000
General doctor	\$100,000	\$138,000
<i>Information courtesy of payscale.com</i>		

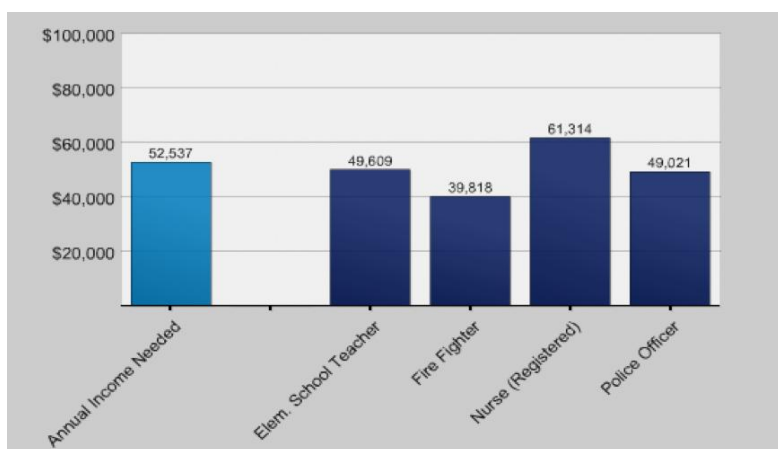
The above figures are averages and do not fully reflect the economic advantages of a private sector job. Given incentive pay, bonus options, commission bonuses, ownership allowances and stock options, these incomes often exceed beyond the average level. Such options for higher salaries present in the private sector are not equally present in the public sector. Financial compensation does not reflect the importance of the critical workforce to our communities and society.

Critical Workforce Housing Affordability

The common rule on how much one should spend on housing (rental payments or mortgage payments) should not exceed one third of monthly gross income. According to the Department of Housing and Urban Development, exceeding 35% of gross income on housing can force serious cuts in other necessary expenses and could cause significant strain on the economic health of a household.

Given this rule of thumb, there are many resources that one can use to see just how far a paycheck will go in a community. The following data is courtesy of the National Housing Conference (NHC). The graphs illustrate the affordability of owning housing and renting housing according to the job's average salary.

Figure 2.55 Homeownership Market — Austin, TX, 2009



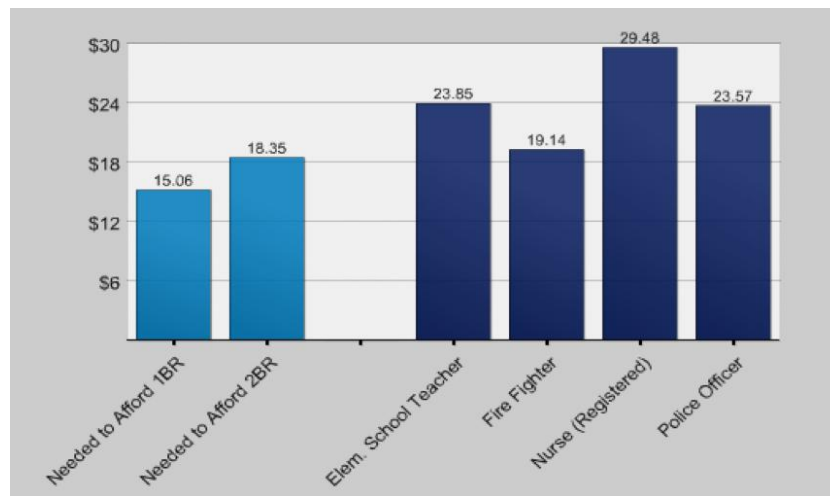
Source: National Housing Conference

Median Priced Home: \$176,000

⁵According to the NHC, "data on the median-priced home are from the National Association of Home Builders' Housing Opportunity Index for the fourth quarter (4Q) of 2009. The annual income needed to qualify for a mortgage was calculated using the average prevailing interest rate, assumes a 10 percent down payment and the use of private mortgage insurance, and includes principal, interest, taxes and insurance. Wage data are as of November 2009 and were obtained from a proprietary database of salary information by geographic location maintained by Salary.com. Source: National Housing Conference

Figure 2.6 Rental Market — Austin, TX, 2009

Fair Market Rent: 1BR \$783/month, 2BR \$954/month



Source: National Housing Conference⁶

According to the data provided by the NHC and the average salaries of people employed in the critical workforce, it is clear that the cost of owning a home is significantly higher than that of renting. With the exception of a registered nurse, on a single salary, none of the jobs rewarded enough to afford the cost of owning a median priced home. The data also does not illustrate the scarcity and high demand of median priced homes. Simply to say it is a challenge for a household on a single critical workforce salary to afford the cost of a median priced home, \$176,000.

Entry level single family housing, priced between \$110,000 to 150,000, is a more affordable home ownership option for the critical workforce single salary family. Given the

⁶According to the NHC, rental data are from the U.S. Department of Housing and Urban Development's report on Fair Market Rents for the year 2010 and are based on a survey of recently occupied units. The Hourly Wage Needed to Afford is the hourly wage that must be earned so that this rent does not exceed 30 percent of income, a standard measure of affordability. It is based on a concept developed by the National Low Income Housing Coalition. Wage data are as of November 2009 and were obtained from a proprietary database of salary information by geographic location maintained by Salary.com. Source: National Housing Conference

lower cost of the home, paying rent on an entry level home is significantly more affordable than the typical median home value. Yet, we will see in Chapter 3, the location of these entry level homes is moving further away from the central core of the city. The associated costs of commuting and distance from amenities or services often significantly add to the cost of living.

Therefore, the rental market incurs much of the responsibility to provide necessary housing for the critical workforce. All of the identified jobs are able to rent an average priced one-bedroom or two-bedroom unit. Yet, the data does not take into account the growing inventory of available units or the location of rental housing. Such analysis will be broken down on an Austin subdistrict level in Chapter 4.

Figures 2.7 and 2.8 below illustrate the parameters of housing expenses for members of the critical workforce. The salaries are based on starting salaries (Figure 2.7) and average salaries (Figure 2.8) and the maximum rents are based on 30% of that income. Utility expenses, an average of \$70, are taken out of the total amount allocated to housing to find the maximum amount able to be allocated to only rent.

Figure 2.7 Maximum rent allocation per job (starting salary) in Austin

	Starting Salary	30% income to rent	Max rent and utilities/month	Max rent/month	Max amount able to pay for 1 BR, per sq. ft.	Max amount able to pay for 2 BR, per sq. ft.	Max rent for 900 sq ft unit
Teacher	\$36,000	\$10,800	\$900	\$830	\$1.11	\$0.82	\$0.92
Fireman	\$35,000	\$10,500	\$875	\$805	\$1.08	\$0.80	\$0.89
Police	\$38,000	\$11,400	\$950	\$880	\$1.18	\$0.87	\$0.98
EMS	\$26,000	\$7,800	\$650	\$580	\$0.78	\$0.57	\$0.64
Nurse	\$51,000	\$15,300	\$1,275	\$1,205	\$1.62	\$1.19	\$1.34

Data source: salary.com and money.bundle.com, and Michael Bluejay Inc.

Figure 2.9 Maximum rent allocation per job (average salary) in Austin

	Average Salary	30% income to rent	Max rent and utilities/month	Max rent/month	Max amount able to pay for 1 BR, per sq. ft.	Max amount able to pay for 2 BR, per sq. ft.	Max rent for 900 sq ft unit
Teacher	\$49,609	\$14,883	\$1,240	\$1,170	\$1.57	\$1.16	\$1.30
Fireman	\$39,818	\$11,945	\$995	\$925	\$1.24	\$0.92	\$1.03
Police	\$49,021	\$14,706	\$1,226	\$1,156	\$1.55	\$1.15	\$1.28
EMS	\$36,000	\$10,800	\$900	\$830	\$1.11	\$0.82	\$0.92
Nurse	\$61,314	\$18,394	\$1,533	\$1,463	\$1.96	\$1.45	\$1.63

Data source: salary.com and money.bundle.com, and Michael Bluejay Inc.

A simplified version of the data is shown in Figure 2.9 below. The calculations are based on starting salary in Austin, allocating 30% of income to rent and utilities and subtracting \$70 for utilities. According to these figures we can translate rent to a monthly mortgage payment. The maximum home value each worker is able to own is based on a 5% interest, 2.75% property tax, 30 year mortgage with a \$10,000 down payment. The principle and interest payments are based on the maximum amount each worker can pay each month in rent.

Figure 2.10 Maximum monthly rent and home price per job (starting salary) in Austin

	Starting Salary	Max amout able to pay in rent	Max home price able to buy
Teacher	\$36,000	\$830	\$123,958
Fireman	\$35,000	\$805	\$120,715
Police	\$38,000	\$880	\$130,445
EMS	\$26,000	\$580	\$91,527
Nurse	\$51,000	\$1,205	\$172,606

Data source: salary.com and money.bundle.com, and Michael Bluejay Inc.

Figure 2.11 Maximum monthly rent and home price per job (average salary) in Austin

	Average Salary	Max amount able to pay in rent	Max home price able to buy
Teacher	\$49,609	\$1,170	\$168,092
Fireman	\$39,818	\$925	\$136,334
Police	\$49,021	\$1,156	\$166,185
EMS	\$36,000	\$830	\$123,958
Nurse	\$61,314	\$1,463	\$206,506

Data source: salary.com and money.bundle.com, and Michael Bluejay Inc.

In comparing the two income categories of starting salary and average salary, one can see the shift in ability for workers to afford as their salary increases. We will see in Chapter 4 how well the workers earning a starting salary and those earning an average salary can afford to live in different regions of Austin.

Other costs associated with owning a home, like the down payment and higher utilities, are not included in the maximum home values available for purchase above. Given these high start-up costs of saving for the down payment and higher monthly bills, rental units are often a more affordable alternative to housing. Given these parameters, we will discuss in further chapters how these income levels of the critical workforce in Austin compare to the levels of affordability around the city.

Community Priority for Critical Workforce Housing

The critical workforce is unique in that the jobs directly serve the community in which they are located. A teacher teaches students from the neighborhood, a policeman protects the community, a fireman has a region of town in which they are responsible, and EMS and nurses are often “on call” to work in sudden cases of emergencies.

Yet, many urban communities in our country are undergoing a great deal of revitalization. This change brings new investment to the area and also increases the cost of buying or renting housing. Too often the members of the critical workforce jobs are priced out

of the community in which they serve. A worker whose job it is to serve the community is not able financially to be a resident of that community. Given their weak monetary compensation, the critical workforce is required to narrow their housing options. These workers seek housing outside their community in neighborhoods, or even other cities, that provide housing options that suit their salary and needs.

Though the economics of housing demand, value and supply are necessary to maintain a healthy market of production, there is also a need to provide housing in the communities for those who are critical to the community's ability to function. The teachers, police, firemen, nurses and paramedics are important (if not the most important) workers in our communities. Cities that choose to intervene to support critical workforce housing within the communities in which they serve claim direct benefits to their city's functionality and community building.

The Roots of Critical Workforce Housing

A frequently cited example of workforce housing is the program in Aspen, Colorado. The Aspen/Pitkin County Housing Authority (APCHA), which first began in 1974, was created to address the shortage of available housing for the city's workforce. In a city heavily reliant on winter tourism, many of the ski-lift operators, instructors, hotel staff and retail employees were often priced out of the community and were forced to live in neighboring towns. In the snowy seasons, hazardous driving conditions along the roads into Aspen delayed or inhibited the workforce's ability to get to their place of employment. After heavy winter storms, the city was left paralyzed by a lack of workers that were stranded outside of the city.

The city began the program to allow the critical workforce of Aspen to apply for housing within the city. Contrary to Austin's critical workforce of teachers, police, firemen, EMS workers and nurses, Aspen's critical workforce is defined as any full time employee working in Aspen or Pitkin County. According to Affordable Housing Guidelines of Aspen and Pitkin County⁷, the

⁷Authority, A.C. (2011). *Affordable Housing Guidelines*. Aspen, CO: Aspen/Pitkin County.

housing authority created legislation to provide housing opportunities for persons who are or have been actively employed by a business which provides goods and services to individuals, other businesses, or institutional operations in Pitkin County (APCHA 2011),

Ground rules were set in order to ensure that the workers receiving the housing opportunities were both in need of the housing and qualified as a critical worker. They must work full-time, claim the residence as their primary, meet the income and asset requirements and re-qualify for the program every two years.

The housing authority has set qualifying categories of incomes and household size. In order to qualify for rental units, the workers must fall into one of four income and asset categories. The income and asset qualifications are below:

Figure 2.12 Maximum incomes to qualify for a rental unit in Aspen

Maximum Incomes for RENTAL Units Only				
No. of Adults	Category 1	Category 2	Category 3	Category 4
One Adult	\$33,000	\$50,000	\$82,000	\$133,000
Two Adults	\$47,000	\$75,000	\$123,000	\$198,000
Three Adults	\$56,000	\$88,000	\$143,000	\$232,000
Net Assets not in excess of	\$100,000	\$125,000	\$150,000	\$175,000

Source: Aspen/Pitkin County Housing Authority

According to the City of Aspen and Pitkin County, more than 60% of Aspen's workers are housed in over 2,800 units, with 1,500 being ownership and 1,300 being rental. That city is able to do this by purchasing apartment complexes and building units that will be strictly for the workforce. However, the high demand for housing has led to considerable budget constraints

of the housing authority as the city continues to provide housing opportunities in a community with high property values.

The City of Aspen adapts the workforce housing program to restrict those who abuse the system. Allegations of abusing the program to buy a second home have led to tougher regulations and qualifications for housing allowance. The city also has very ambitious plans to expand the program to reach even more workers. To pay for this initiative, there are three funding methods. First, according to the Aspen Affordable Housing Strategic Plan, a 0.25% sales tax is dedicated to workforce housing. Secondly, the city relies on a 1.5% Real Estate Transfer Tax (RETT) paid when there is a transfer of property ownership between two parties. Lastly, if developers of new residential units pay housing dedication fees that support the workforce housing program. A majority of the fund come from the RETT, which is essentially a tax on the private purchasing of real estate in the city to subsidize the housing initiatives. The sales tax, RETT, and dedication fees do not completely cover the city's goal to raise \$100 million by 2012, and given the most recent recession, revenues are considerably lower than budgeted. The shortfall is predicted to put considerable strain on the city budget considering the costly dollar value of property in Aspen (APCHA 2011).

Though Aspen's efforts in providing housing for their critical workforce work for their community, their model is not necessarily applicable to a large metropolitan city such as Austin. First, the critical workforce for Austin and Aspen are defined quite differently. Aspen's critical workforce is defined by any full-time person working the city while Austin's critical workforce is particularly health and safety employees. It can be argued that Aspen's workforce, if not located within the city limits, could be conditionally unable come to their jobs given harsh winter conditions. When there is a large winter storm, the entire city would shut down if workers could not get to their jobs. Access in and out of Austin does not have the same physical constraints of Aspen and thus the need for critical workforce housing in Austin is backed by equitable housing opportunity interests rather than barriers of weather conditions.

Austin's Critical Workforce Anecdotes

There are many benefits having critical workers live near their place of work. First, teachers serve a critical role in the community in working with children. In many cases, children spend more time interacting with their teachers at school than their own parents or guardians at home. Teachers are often asked to come to school early and stay late to spend extra time with their students. In a society of parents working long hours, we rely heavily on teachers to raise our children. This increases the stress on the teachers, especially for those who must commute long distances to and from work.

A teacher relying on a single income could be priced out of living in the community in which they work. This can have direct effects on the teacher by sacrificing their time, and the cost of commuting and could lead to the teacher leaving the school to work closer to their own home. Given the competition between communities for quality schools and teachers, the restrictive housing options can negatively affect the city's quality of schools and teachers. As teachers are excluded from a community, the school's ability to compete for the best talent is at risk. Some cities view the pricing out of teachers represents the market's failure to provide a necessary social service.

According to public data⁸collected from the Austin Independent School district, few teachers actually live in the same zip code in which they teach. Out of 815 sampled teachers in the Austin Independent School District, only 121 live in the same zip code as their school representing only 14.8% of the teachers. Of the teachers who teach in the Central market area(zip codes 78701, 78703 and 78705), only 15.3% live in that same market area. As we examine the data more closely, only 8.3% of the teachers that teach in the Central market area actually live in the same zip code as their school.

In a survey of the Hyde Park Firehouse in Central Austin, out of 10 firemen employed at the house, only one lives in the city of Austin (approximately 15 minutes from the firehouse). The rest live in the surrounding areas of Cedar Park, New Braunfels, San Antonio, Killeen,

⁸ Data collected for this study are from open records made available by the office of Human Resources of Austin Independent School District, February 2011.

Georgetown and Kyle. In asking one fireman, who has a wife and a five-year old daughter, about the location of his home from his place of work, he explained, “Of course I would live in this neighborhood if I could, but it is just too damn expensive here.”

In another survey of two Austin Police on patrol in downtown Austin, the men explained their housing conundrum. “I love downtown Austin and I like patrolling here,” one officer explained, “but there is no way I could live here.” The officer went on to tell how he and his wife rent a home in North Austin but once they start a family, he thinks they will move to Round Rock or Pflugerville. “No officers at our station live anywhere close to work. Is it a pain, yes, but it is a reality.” The other officer lived over 30 minutes from his station in downtown Austin and would not have it any other way. He explained that he could get a lot more home for his dollar in the suburbs. He also explained that he did not want to live in the same community as the citizens he serves. “I want to have a separate work life and a personal life. I don’t want to run into anyone that I have arrested at the grocery store,” he explained.

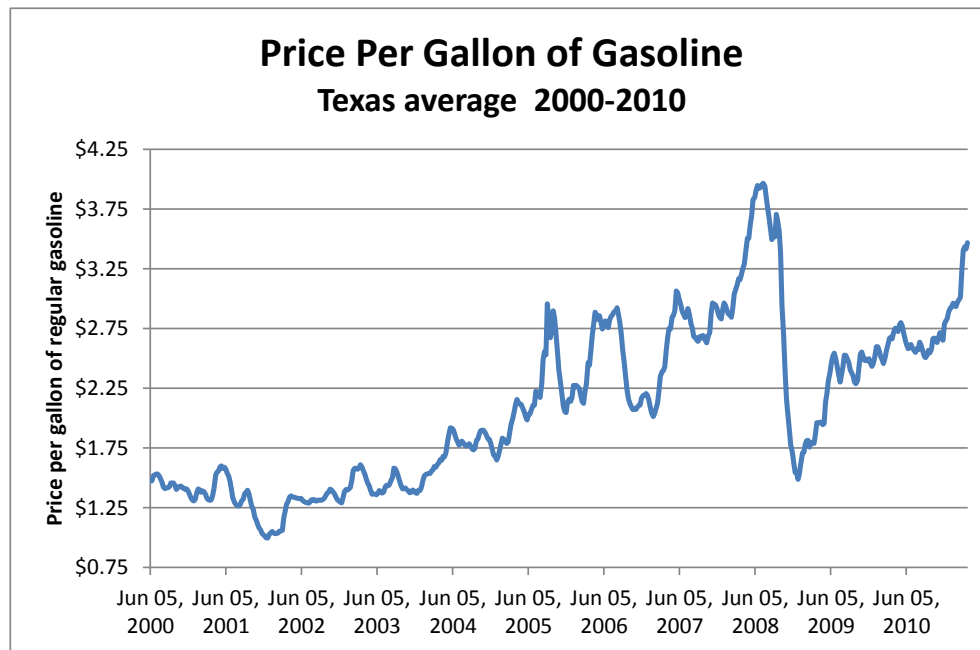
The Cost of Commuting

Given the relatively weak land use controls of municipalities and absent land use control by counties, Texas has policies in place that encourage development outside the urban core. As the critical workforce is forced to leave their communities because of increasing property values brought on by speculative purchasing of neighboring properties, people are forced to find a new place to live. In general, these new locations are further away from the center of the city. Instead of incentivizing rent controls or density to open the core for more residents at diverse economic levels, Texas supports sprawl to account for a lack of housing affordability within the city.

As members of the critical workforce are forced to rely on housing options far from their place of work, they are also incurring a high cost of commuting. This cost can be divided into financial cost and the cost of lost time. The cost of gasoline has risen considerably in the past decade and is continually emerging as a growing cost for families across the country. As

families gravitate to communities with homes they can afford and other amenities such as with “good schools” and low crime, their options are often limited to suburban areas. These areas may or may not be near their place of work. If they are not, one of the principle costs of living is commuting between home and work.

Figure 2.13 Price per gallon of gas 2000-2010 in Texas



Price per gallon source: Energy Information Administration

The average cost for a gallon of regular unleaded gasoline in Texas in March, 2011 is \$3.43. This cost per gallon of gas, the varying levels of vehicle efficiency and distance of daily commute are shown below.

Figure 2.14 Cost of commuting by automobile in Texas

Cost of commuting by automobile in Texas								
March 14, 2011								
3.43 per gallon		Daily 2-way commute in miles						
		5	10	15	20	30	40	60
Miles per gallon of gas	10	\$1.72	\$3.43	\$5.15	\$6.86	\$10.29	\$13.72	\$20.58
	15	\$1.14	\$2.29	\$3.43	\$4.57	\$6.86	\$9.15	\$13.72
	20	\$0.86	\$1.72	\$2.57	\$3.43	\$5.15	\$6.86	\$10.29
	25	\$0.69	\$1.37	\$2.06	\$2.74	\$4.12	\$5.49	\$8.23
	30	\$0.57	\$1.14	\$1.72	\$2.29	\$3.43	\$4.57	\$6.86
	35	\$0.49	\$0.98	\$1.47	\$1.96	\$2.94	\$3.92	\$5.88
	40	\$0.43	\$0.86	\$1.29	\$1.72	\$2.57	\$3.43	\$5.15
	50	\$0.34	\$0.69	\$1.03	\$1.37	\$2.06	\$2.74	\$4.12

Price per gallon source: Energy Information Administration

Figure 2.15 Cost of commuting in Texas at \$3.43 per gallon

Cost of Commuting in Texas at \$3.43 per gallon				
	1 day	1 week (5 days)	1 month (22 days)	1 year (250 days)
20 miles @ 20 mpg	\$3.43	\$17.15	\$75.46	\$857.50
30 miles @ 20 mpg	\$5.15	\$25.73	\$113.19	\$1,286.25
40 miles @ 20 mpg	\$6.86	\$34.30	\$150.92	\$1,715.00

Price per gallon source: Energy Information Administration

As seen in Figure 2.13, the price of gas has increased significantly over the past decade. Figure 2.14 illustrates the daily expense of commuting with March 2011 gas prices depending on daily miles traveled. Figure 2.15 illustrates the cost of commuting over the course of time.

The distance between Round Rock and Downtown Austin is about 20 miles. Driving a vehicle that averages 20 miles per gallon, a person living in Round Rock spends about \$1,715 on their work commute per year. This does not include any additional travel outside of just the daily commute. This can cause considerable strain on members of the critical workforce who are forced to commute to their place of work.

Considering the high cost of gas and time spent in traffic, a long commute to and from work is financially and time consuming. For those who cannot afford to live in the urban core or near their place of work, the cost of commuting is an inescapable burden.

The Costs and Benefits of Critical Workforce Housing

Hal Ferris, principal of Lorigin Development in Seattle, shares a viewpoint⁹ that workforce housing is negatively impacted with the onset of increased rental rates and new development. He states that the lack of workforce housing hurts the environment and is expensive for cities. Because of the absence of affordable options in the city, the number of people seeking residence away from their work increases. This increases sprawl and vehicle miles traveled and thus increases the city's footprint and high environmental stress. He also makes the case that retaining critical workforce housing an economic development issue considering some businesses want to locate in a place where their workers can find an affordable place to live near their place of work. Ferris also states that development projects with units for the critical workforce are a better sell for investors because of the high demand for the units. He argues that local governments should give favorable tax breaks for affordable projects (Ferris, 2007).

The Twin Cities in Minnesota conducted a study of their workforce housing situation and needs. The study, entitled "Workforce Housing: The Key to Ongoing Regional Prosperity"¹⁰, attempts to assess the economic impact of workforce housing in the cities as a means to provide housing for the city's most critical workers and assess the future needs and actions that will further the cities' progress.

The economy in the Twin Cities at the time of this study was booming with a very low unemployment rate and a growing number of jobs. However, the stock of available housing for those at the workforce levels was shrinking. The study sites an unhealthy vacancy rates that can

⁹*Workforce Housing is a Silent Epidemic*, Seattle Daily Journal, 2007

¹⁰"Workforce Housing: The Key to Ongoing Regional Prosperity", Maxfield Research Inc. and GVA Marquette Advisors, 2001

only be solved by the production of new housing units that will satisfy the pent-up demand to provide affordable housing choices.

The report summarizes the need for 31,700 more units to be built in the next five years must be met with a \$1.5 billion in funding through public and private partnerships. This estimated \$1.5 billion is necessary to subsidize the development of units in order to offset the costs of construction and provide affordable housing options. With this investment, the researchers believe that the city will begin to collect over \$1.1 billion annually through consumer spending and business income. An additional \$1.6 billion in construction benefits will go to the cities, bringing the total benefits to nearly \$3 billion once the units become occupied. Lastly, the report makes the case that over the next 15 years, the \$1.5 billion investment will generate a net gain of \$12.2 billion to the local economy. This is the equivalent of every investment dollar stimulating \$8.13 in economic benefit over the next 15 years. (Maxfield, 2001).

Not all Critical Workforce Employees Require Affordable Housing

It should be noted that not all people who have jobs in the critical workforce actually need or would qualify for affordable housing or can actually live in the communities in which they serve. Household income of the critical workforce is not limited to just one person as many workers are part of a dual income family. In this case, the options for housing increase greatly. In addition to living in a dual income household, the housing options in a community could be priced at a level in which affordable housing interventions are not necessary. Lastly, a worker may already own a home in their community that allows them to live in an area that may otherwise have barriers to entry through high property values. All of these situations would allow an individual within the critical workforce access to housing in the community in which they serve.

Aside from the positions of equity to provide our most critical workers housing near their jobs and the arguments of economic development and regional prosperity, there are many factors that must be taken into account in order for cities to support workforce housing.

In the following chapter, we will discuss the need to provide and initiatives to encourage critical workforce housing in Austin.

Chapter 3: Austin Housing Market Conditions and Interventions

In this chapter, we will dissect two unique studies that seek to describe the housing conditions in Austin and give recommendations on solving the shortage of supply. The first study is called the *City of Austin Comprehensive Housing and Market Study*¹¹ and was conducted in 2008 by BBC Research & Consulting of Denver. The second report is called *The Future of Single Family Land Development and Home Building*¹² and was generated by the Home Builders Association of Greater Austin in 2010. We will compare these studies to what we know about the housing parameters of Austin's critical workforce.

We will also analyze two interventions taking place in Austin that seek to provide affordable housing options for the critical workforce, including S.M.A.R.T. Housing and HUD's Good Neighbor Next Door Program.

BBC Comprehensive Housing Study

In the fall of 2008, BBC Research & Consulting of Denver was contracted by the City of Austin to conduct a comprehensive housing market study. The city is using this study to support the writing of the Imagine Austin Comprehensive Plan and garner support for affordable housing development.

The BBC study is structured to evaluate the current housing conditions in the city, analyze the demographic trends, and survey the population of their housing preferences. The study is very thorough and provides a great deal of data to inform the public of the affordability and direction of housing in Austin.

According to the study, Austin housing has become more expensive than other cities in Texas, such as Dallas. For example, according to recent Census estimates, the average rent in

¹¹ *City of Austin Comprehensive Housing and Market Study*, BBC Research & Consulting, 2008.

¹² Savio, H., & Bulow, B. (2010). *The Future of Single Family Land Development and Home Building, Austin, Texas*. Austin: Home Builders Association Greater Austin.

Austin was \$810 and the average median home value was \$178,800, as compared to a monthly gross rent of \$738 and a median home value of \$128,200 in Dallas. As previously mentioned in Chapter 2, the maximum amount that the critical workforce on a starting salary can pay in rent is: \$580 for EMS workers, \$805 for firemen, \$830 for teachers, \$880 for police and \$1,205 for registered nurses. According to the citywide average calculated by BBC, the \$810 average rent is only attainable by nurses, police and teachers. In addition, only the wages earned by a registered nurse are high enough to afford a median valued home in Austin. Yet, we will see in Chapter 4 the varying rental costs per subdistrict of Austin. Some areas may be affordable for the critical workforce to rent, while others may not.

Austin's population growth has been steady since 1990. However, population growth in the communities surrounding Austin has been more rapid than within 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 Figure 3.1. Specifically, Austin represents 47 percent of the MSA population—but 34 percent of the 1990 to 2007 MSA growth (BBC, 2008).

Figure 3.1 Population growth in the Austin MSA

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

Source: BBC Research & Consulting

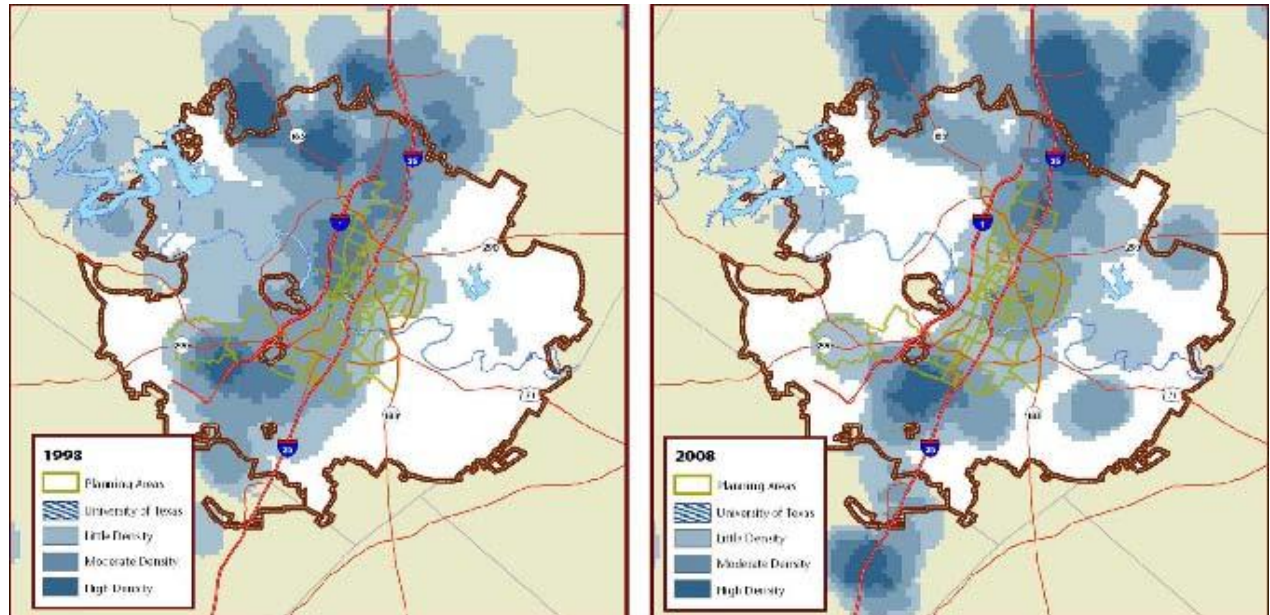
Changes in Austin's Affordability

BBC makes the case that the growth of the suburban areas of Austin may be driven in some measure by the affordability of housing in the areas outside of Austin's city limits. According to the summary, 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.

The study says that 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 more 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. (3).

Figure 3.2 below illustrates the migration of affordable units of housing away from the center city between 1998 and 2008.

Figure 3.2: Location of detached single family units affordable to 51% to 80% MFI



Source: MLS and BBC Research & Consulting.
Incomes (\$34,554 to \$55,280), Austin Region, 1998 and 2008

The maps in Figure 3.2 illustrate the density of housing units that are affordable to those households with family incomes 51% to 80% of the median income for the city. These homes range from \$111,874 to \$178,165. The maps show how affordable homes are becoming rapidly more available north, south and east of the city while there are less dense pockets of affordable units in the center and west of the region.

Affordability Needs

While the critical workforce starting salaries range from \$26,000 (EMS workers) to \$51,000 (nurses), the BCC study focused on people earning less than \$20,000 per year and states that Austin is in great need for affordable rental units for this income bracket. According to their research, there are only 7,150 affordable units in the market for this portion of the population. This means that there are 37,600 renters that cannot find units that they can afford. In other words, only 1 in 6 renters that earn less than \$20,000 annually can find affordable housing. The study estimates that 25% of these renters are students.

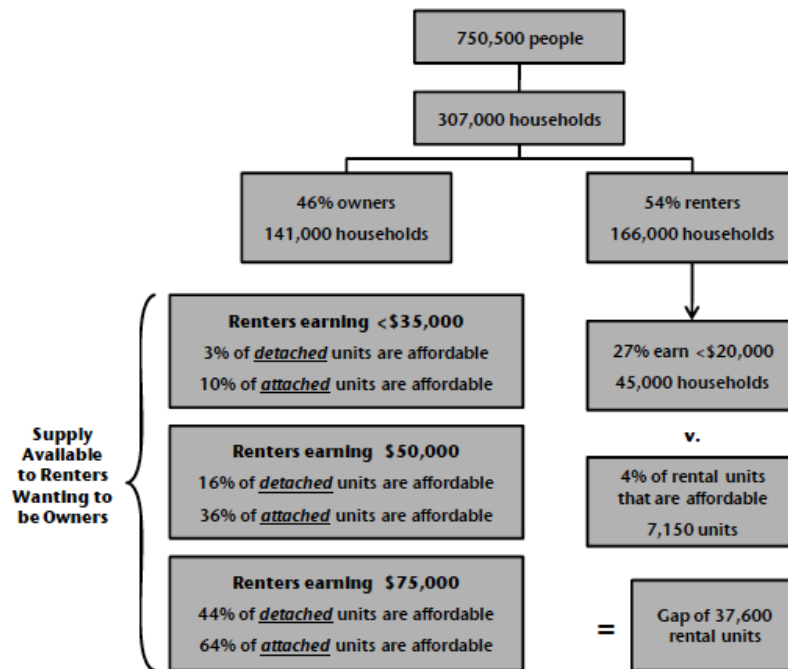
The study continues to explain that potential homeowners must earn at least \$50,000 before one-third of attached units and just 16 percent of detached units become affordable. Renters earning \$75,000 have many more choices—however, just 13 percent of Austin’s renters earn this much. Austin has a need 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. (BBC, 2008)

Figure 3.3 on the following page illustrates graphically Austin’s current gaps in rental units and homeownership supply.

Figure 3.3 Housing gaps in Austin

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

Source:
BBC Research and Consulting.



Source: BBC Research & Consulting

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. (BBC, 2008)

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. (BBC, 2008)

Recommendations of BBC

According to their research and studies, the consulting group came up with a series of housing needs for Austin. They are as follows: 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. (BBC, 6)

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 down payment because of the high rents within Austin. (BBC, 6)

The group also gave recommendations for future developments in the city to accommodate for the housing needs. BBC says that future growth of homeowners will demand a slightly different distribution of price points than the city has now. To accommodate future homeowners, 8% of the units must be priced at \$113,000 and under (likely small condos); 13% at \$113,000 to \$160,500 (a mix of condos and townhomes); 21% at \$160,500 to \$240,400 (condos, townhomes, cottages and small single family detached units); and 58% more than \$240,400 (range of housing options). (BBC, 2008)

Home Builders Association Study

In December of 2009, the Home Builders Association (HBA) of Greater Austin¹³ came together to share their experience and knowledge on the future of single family land development in that Austin area. In bringing together developers, home builders, planners, engineers and architects, HBA was able to provide an analysis of the current conditions of land development and offer their input on the direction of housing development.

The group focuses both on the evolving attitudes and preferences of consumers as well as the societal priority shifts considering the current economic and environmental conditions. They sought to address the tight supply of capital and the problems facing new lot development.

The report explains that in order to function efficiently, the home builder representatives said their companies needed to keep 18 to 24 months of lot supply in front of their building crews with either developed lots or subdivision plans with are approved and able to be quickly constructed (HBA, 2009). There is an increased demand for developed lots for builders to keep pace with the demands of new homes. However, the study explains that the recent recession has significantly restricted the supply of vacant developed lots.

The group determined that in the near future, the strict financial markets will provide heavy difficulty in doing large scale master-planned land developments. Instead, prime locations for new building will be Phase Two and Three projects in successful master planned communities (10). All of the builders projected that new lot development is going to be tremendously curtailed even in this relatively strong market (HBA, 2009).

The group states that there is a grave demand for first time buyer housing, but that even the most moderate uptick in cost can be the difference between making a sale or not. Due to the high costs of development requirements, including a drawn-out permitting process, fees and restrictive environmental regulations, the new housing product can price-out a large

¹³Savio, H., & Bulow, B. (2010). *The Future of Single Family Land Development and Home Building, Austin, Texas*. Austin: Home Builders Association Greater Austin.

portion of the market.

The HBA noted that only 30 percent of all the houses built will be more expensive than the \$175,000 average price range that most Central Texas buyers would be able to afford. That probably will mean that most development will be east of Interstate-35 in the State Highways 130 corridor (HBA, 2009). Given the current pay levels of the critical workforce, future new housing will be located in the on the periphery of Austin, outside of the city limits. Workers living in this region will inevitably face high costs of commuting to work and services.

The main take away from the focus group is “before new lot development will take place, there will likely have to be firm agreements between builders, bankers and developers. Those agreements will require much higher capital equity ratios and firm contracts with builders to take down the lots after development. There will be little room for permitting delays” (HBA, 2009).

So, what does this mean to the critical workforce? The restrictive capital lending market, decreasing supply of vacant developed lots and high price of available lots will cause new housing development to potentially be more expensive and less prevalent. The demand for new housing will be met with a lagging supply, causing the price to the consumer to rise.

The group has decided that new ways will be found to structure deals for new lots to be developed (HBA, 2009), but that highly sought amenities like swimming pools and community centers will be traded for less costly greenbelts and parks. Also, with the high costs of extending utilities, the proximity to these lines will be crucial.

Public interventions for critical workforce housing

If there are certain economic constraints that keep a person or family from being able to live in the same community they serve, some cities set policy to compensate for this barrier while stimulating density and the regional tax base. Intervening in the supply side of the housing market to set aside opportunities for members of the critical workforce will provide housing options for these civil servants within the community they serve.

As reflected in the BBC Housing Study and the Home Builders Association, Austin is in great need for new affordable housing stock and interventions to boost supply. There is a great demand and a grave need for the current and the future population. However, because of stringent land code, high costs of fees, urban design requirements and a lack of developable supply of land, building workforce housing on already expensive land is not financially feasible. Thus, developers are only able to build such housing outside the urban core where the cost of land is such that building affordable units makes sound business sense. In order for Austin to satisfy the demand for affordable housing for the critical workforce, there must be changes in the City policy to affect the supply and affordability.

Austin's S.M.A.R.T. Housing Program

In the year 2000, the City of Austin created the S.M.A.R.T. Housing program to incentivize the development of affordable housing units (housing for those earning 80% of the median family income). The program offers development fee waivers and fast-tracked approval for projects that qualify as S.M.A.R.T. However, there are some imperfections in the continual inventory of “reasonably priced” rental units. After five years the restrictive leasing of these units expires and the units adhere to market rates. The S.M.A.R.T. units available for purchase are delivered to the market at an 80% MFI affordable price, but the resale of the homes may exceed the “reasonable price.”

According to the program's mission statement¹⁴, The S.M.A.R.T. Housing (Safe, Mixed-income, Accessible, Reasonably-priced, Transit-oriented) policy initiative is designed to stimulate the production of affordable housing for low and moderate income residents of Austin. S.M.A.R.T. Housing meets the City's Green Building standards and is located in neighborhoods throughout the City of Austin. Through the S.M.A.R.T. Housing policy, the City of Austin provides fee waivers and S.M.A.R.T. Housing development review, typically faster than

¹⁴Development, N.H. (2007). *S.M.A.R.T. Housing Policy Resource Guide*. Austin, TX: City of Austin.

conventional review. This initiative applies to new single-family, multi-family and infill development.

In choosing to participate in the voluntary program, the typically long and complicated maze of subdivision review is streamlined and development fees are discounted for S.M.A.R.T. housing projects. The City of Austin offers developers a shortcut in getting a project approved and supported in exchange for a needed supply for affordable and more efficient homes for the workforce population.

The program applies to all types of housing development and requires a certain percentage of the units to be affordable to those with median family incomes of 80% or less. The developer and city exchange is shown in Figure 3.4.

Figure 3.4 S.M.A.R.T. Housing exchange between developer and city

A builder provides:	The City of Austin provides:
10% S.M.A.R.T. Reasonably Priced	25% Fee Waviers & Fast-Track Review
20% S.M.A.R.T. Reasonably Priced	50% Fee Waviers & Fast-Track Review
30% S.M.A.R.T. Reasonably Priced	75% Fee Waviers & Fast-Track Review
40% S.M.A.R.T. Reasonably Priced	100% Fee Waviers & Fast-Track Review

Source: S.M.A.R.T. Housing Resource Guide

“Reasonably-priced units” are those units rented or sold to families who earn no more than 80% of median family income and who would spend no more than 30% of their family income on housing (or up to 35% if a household member receives City-approved homebuyer counseling). (S.M.A.R.T. Housing Resource Guide, 5). According to the Department of Housing and Urban Development, the 2010-2011 median family income for Austin is \$73,800 for a

family of four. Given this figure, 80% MFI is a household income of \$59,050 (family of four), \$53,150 (family of three), \$47,250 (family of two) or \$41,350 (family of one).¹⁵

According to their incomes, these families can afford to own or rent on certain levels. The most expensive home that their incomes can afford are shown in Figure 3.5:

Figure: 3.5 S.M.A.R.T. Housing Qualifications and Maximum Housing Costs¹⁶

	Annual income	Max price of home	Max rent per month
Family of 4	\$59,050	\$201,795	\$1,476.25
Family of 3	\$53,150	\$179,572	\$1,328.75
Family of 2	\$47,250	\$160,444	\$1,181.25
Family of 1	\$41,350	\$141,316	\$1,033.75

Source: *How much home can you afford?*, Michael Bluejay Inc.

Figure 3.6 The critical workforce starting salaries and owning or renting parameters

	Starting Salary	Max amount able to pay in rent	Max home price able to buy
Teacher	\$36,000	\$830	\$123,958
Fireman	\$35,000	\$805	\$120,715
Police	\$38,000	\$880	\$130,445
EMS	\$26,000	\$580	\$91,527
Nurse	\$51,000	\$1,205	\$172,606

Source: *salary.com*, *How much home can you afford?*, Michael Bluejay Inc.

Compared to the starting incomes of the critical workforce, the 80% MFI requirement of S.M.A.R.T. aligns generously with most critical workforce jobs with starting salaries. Every job,

¹⁵(U.S. Department of Housing and Urban Development (HUD) and Texas Department of Housing and Community Affairs).

¹⁶The value of homes is based on a 30 year, 5% interest rate, mortgage with a \$10,000 down payment and 2.5% property tax.

given a single income household, would qualify at every level, except for nurses who do not qualify to rent or own unless they are the single income in a family of 3 or more.

The S.M.A.R.T. program only requires that the affordable units be provided as affordable for a certain period of time. Apartment rental units must stay affordable for at least five years and owner occupied units must stay affordable for one year. After the time expires and there is not another funding source in place, the units will return to the market rate as seen in Figure 3.7.

Figure 3.7 S.M.A.R.T. Housing affordability requirements

Type of Housing Unit	Affordability Requirement
For “reasonably-priced” rental units (single- or multi-family)	Units must be “reasonably-priced” for at least 5 years (unless another funding source requires a longer affordability period)
For “reasonably-priced” home- ownership units (single-family or condominium)	Units must be “reasonably” priced for at least 1 year (unless another funding source requires a longer affordability period)

Source: S.M.A.R.T. Housing Resource Guide

Fee Waivers

If a project is approved as S.M.A.R.T., then the project is eligible for fee waivers depending on the percentage of units identified as S.M.A.R.T. The program gives the following figures as average fee waivers.

The S.M.A.R.T Housing Resource guide explains that single family infill units can waive approximately \$1,500 per unit. Single family subdivisions can waive approximately \$2,650 per unit. Multifamily units can waive \$1,250 per unit. These fee waivers can really assist the

developer in making the project financially feasible. For example, an apartment project with 300 units that offers 40% of the units at an affordable level, 100% of the fees are waived. At \$1,250 per unit, total savings for the developer are \$375,000.

Since 2000, over 10,000 S.M.A.R.T. units have come to market. Of these units, 60% are single family and 40% are multifamily rental units. Currently there are 43 apartment complexes in Austin that are leasing S.M.A.R.T. units.

KB Home's Participation With S.M.A.R.T.

In order to get a full perspective of the S.M.A.R.T. Housing program, I spoke with Roger Arriaga, the Director of Government Affairs at KB Home, a single family land developer and home builder with a branch in Central Texas. Prior to joining KB Home, Roger ran affordable housing programs for the City of Austin and worked alongside former Mayor Kirk Watson doing financial budgeting work.

Roger explains that the City of Austin adopted the S.M.A.R.T. program to satisfy a need for affordable housing near downtown. Because of increasing gentrification in East Austin and a negative perception of affordable housing projects, the city came up with the program to incentivize developers to build affordable units.

From the perspective of his own company, Roger explains that KB's business model already aligned with the goals of the S.M.A.R.T. Housing program. Both the home builder and the city hope to create quality affordable housing. Once KB received certainty of the rules and guidelines guaranteed by the city, KB joined the program.

For KB Home, the program's benefits were the fact that they could receive expedited development reviews and fee waiving for many of the practices that they were already doing. This included building energy efficient, ADA compliant and quality first-time buyer housing. In fact, since 2000, KB Home has brought more than 2,500 S.M.A.R.T. Housing units to market, spread out over six subdivisions around the Austin area.

Roger expresses that there are some challenges to comply with the program. It is a challenge to ensure that 40% of all of their built units are sold to people with 80% MFI because of a lack of loan approval assistance. Roger suggests that the city play a role in assisting those trying to buy units of the program down payment assistance. Currently no policy is in place that offers a direct link or incentive for down payment assistance for the purchase of new homes.

In addition, Roger feels like the popularity of the program has significantly bogged down the expected “guaranteed expediting” of approvals. New city design codes also increased the construction costs of the builder and erase the fee waiver benefits. In addition, changes to the public transportation routes of Capitol Metro are providing challenges in the site accessibility qualification. Also, Capitol Metro’s support of grid-style road network, while the consumer prefers cul-de-sacs, offer more challenges for developers to follow necessary guidelines.

The S.M.A.R.T. housing program has been successful in allowing developers certain incentives to build projects that align with city goals. Yet, if the city’s goal is to bring more affordable units to the market, there is still a timeline of when these units expire as “affordable” and return to “market rate.” For owner-occupied units, the home must only be sold first to a person of 80% MFI, then after one year the resale is open at the market level. For a rental unit, the unit only needs to stay at the affordable rate for five years. These new units may be immediately affordable when they come to market, but after a certain date, their affordability requirement expires.

For S.M.A.R.T. rental units, the apartment owner is leasing a certain number of units below the market price. The owner passes on this collection loss to the renters who are playing market rent and will inevitably cause their rent to increase to compensate for the affordable units. So, in fact, the developers or apartment owners are not the ones who are paying the cost of affordable housing, but the other consumers who are paying an inflated market price to cover the costs.

HUD's Good Neighbor Next Door Program

The Federal Department of Housing and Urban Development has a program aptly named the "Good Neighbor Next Door" program (GNND). The program identifies areas in the country that are revitalization areas and attempts to incentivize their definition of good neighbors to move there. These good neighbors are law enforcement officers, firefighters, emergency medical technicians and teachers, or the previously described critical workforce. HUD offers a generous 50% discount off the list price of the identified properties in select neighborhoods.

In a March of 2011 search for available properties in Texas, there were 11 total listings. Three of the listings were in Dallas County, and the 8 remaining listings were located in Bexar County or San Antonio.

The requirement to be eligible for the GNND program is that the person buying the home must live in the home for a full 36 months before moving. After the three years, the person may sell the home at a normal listing price and keep the profits.

The GNND attempts to solve two problems. The program offers a serious financial benefit to members of the critical workforce. A 50% reduction in housing is a significant discount and makes a considerable impact on any person's wallet. The program also calls attention to the idea that housing for the critical workforce is very important and should be a high priority in our communities.

The GNND program does not address the need for available and affordable housing in relation to where the workers work and where they live. A property that is part of GNND may be in a convenient location in relation to place of work, but this is not a priority or a mission of the program. The program simply wants to bring people with stable jobs to be "good neighbors" in an area in need of revitalization. The program does not serve to bring the critical workforce into areas where they otherwise might not qualify to live.

Chapter 4: Austin Apartment Market Study 2000-2010

The final section of this report of the causes and effects of the market and interventions to housing affordability will focus directly on the Austin multi-family rental market between the years 2000 and 2010. In creating a comprehensive study of the changing rental rates, occupancy, units added and absorption of units over the past 10 years, the evolving story of housing in the region is revealed.

The number of factors and type of data points about the apartment market are extensive and quite overwhelming. Therefore, the focus will be broken down between market districts in the city that are used by the real estate community in Austin for location and research. These subdistricts (Figure 4.1) are separated by major transportation thoroughfares and geographic features (ie: Interstate 35 and the Colorado River). This will provide a snapshot of each subdistrict of the entire market. For each subdistrict, the data of rental rate per square foot, percent occupied, units added and absorption in the districts were gathered. These three data points provide picture of the market history and relationships between supply and demand in the apartment rental market.

The data for this analysis is provided by Capitol Market Research (CMR) a local Austin real estate consulting company. The company conducts a semiannual apartment market survey in which they call upon apartment projects with 50 or more units. In the city of Austin and southern Williamson County, CMR surveys 147,045 units over 636 apartment communities. The researchers ask the apartment leasing agents for current availability and price for each unit. The prices are the effective rates, which are the rates that take into account any special rates and are applied over the course of the 12-month lease. They gather the information into a database and then run the numbers for each of the nine subdistricts. After the study is complete, the company sells the aggregated subdistrict and city wide data to developers or interested parties that use the data to inform their development opportunities.

The project specific data that is collected and has been collected over the past 20 years is proprietary and so is not available for the public. However, the semiannual reports that

provide subdistrict level data are available for research and use, upon request. The archive of the reports was used to create this report of the Austin apartment market over the past decade.

Though each report goes into great detail the movements and events in the apartment market as well as a breakdown of unit type, only the data of the average rental rates, occupancy rates, units added and absorption per subdistrict were used for this report, as previously mentioned.

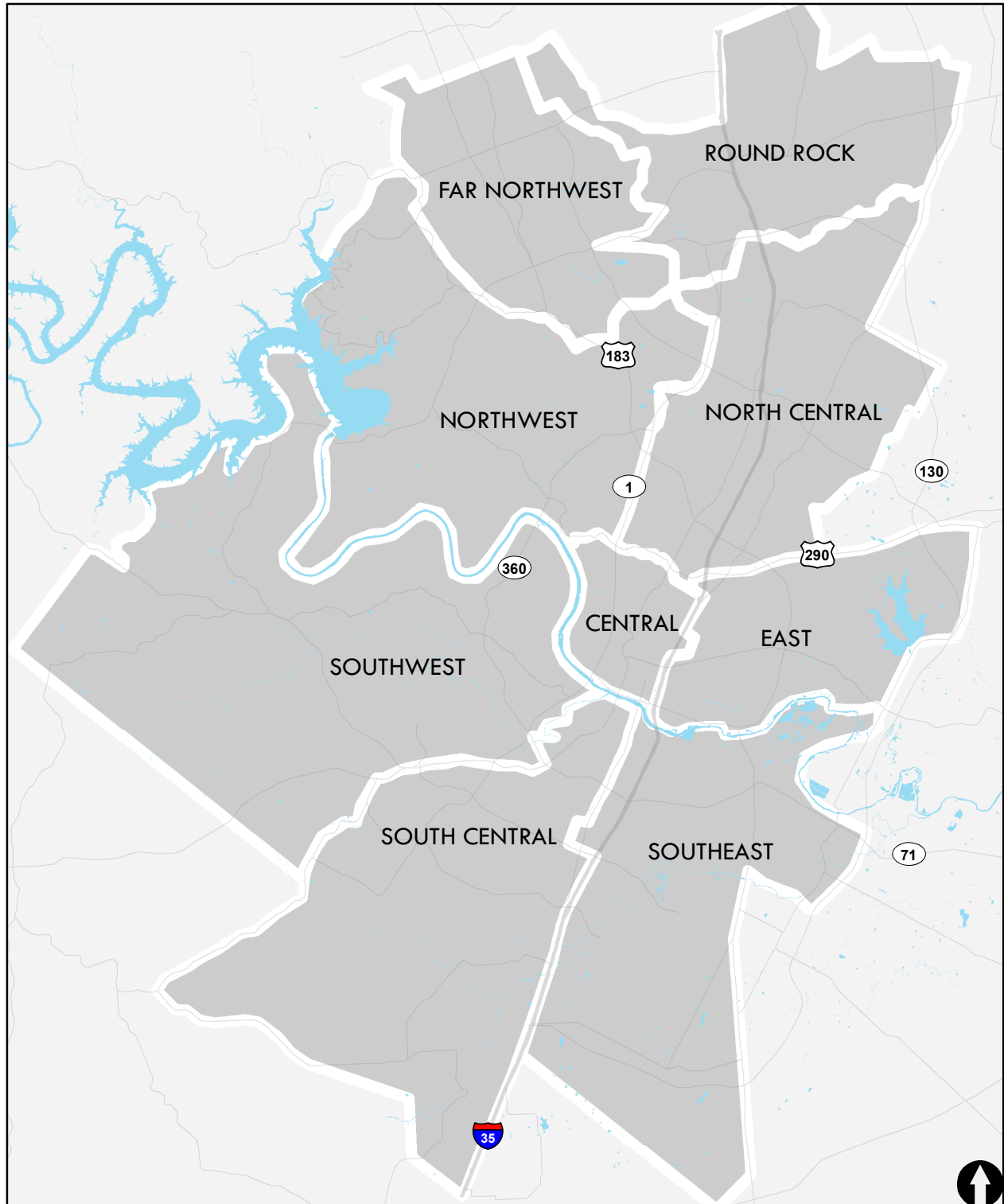
The following reference maps will serve to enlighten the data study to follow:

Figure 4.1 This is a reference map of the nine subdistricts in Austin as used in this study of the apartment market 2000 -2010.

Figure 4.2 This is a map illustrating the parcels of land that are currently used as multi-family residential property.

Figure 4.3 This map illustrates the rental and occupancy rates of the different subdistricts in Austin. We will focus more in individual subdistricts later in this chapter. Accompanying maps showing the changing rates in each subdistrict follow Figure 4.3.

Figure 4.1



Apartment Market Area Reference Map

CITY OF AUSTIN
APARTMENT MARKET STUDY 2000-2010

- Major roads
- Lakes and rivers
- Selected market area

Miles
0 2.5 5 10

Data courtesy: Capital Market Research and City of Austin
Datum: NAD 1983 Projection: Texas Central FIPS 4203

Patrick T. Connor, 2011

Figure 4.2

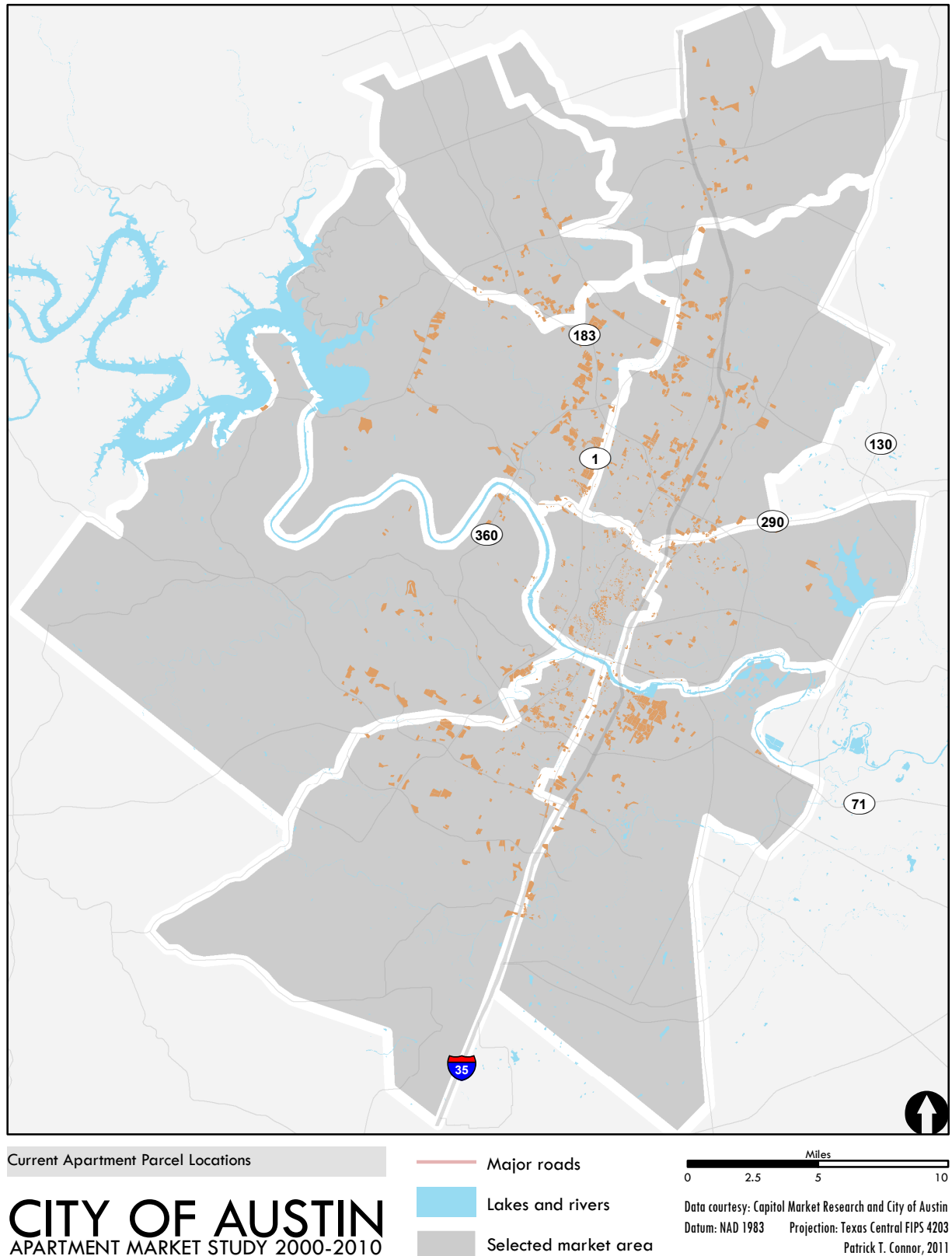
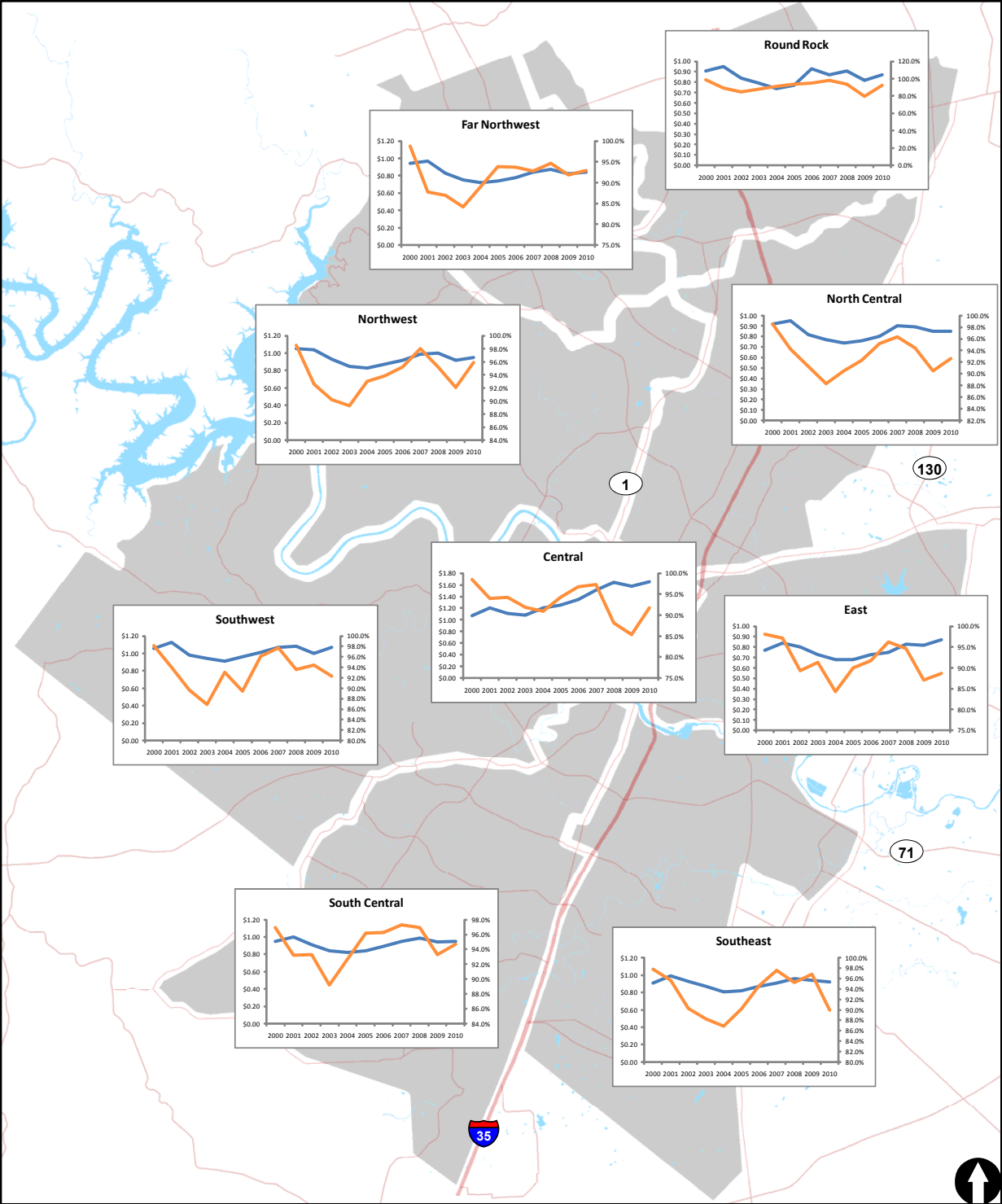


Figure 4.3



Citywide Rental and Occupancy Rates, 2000 - 2010

CITY OF AUSTIN

APARTMENT MARKET STUDY 2000-2010

- Chart features**
- Rental rate
 - Occupancy
- Map features**
- Major roads
 - Lakes and rivers
 - Selected market area

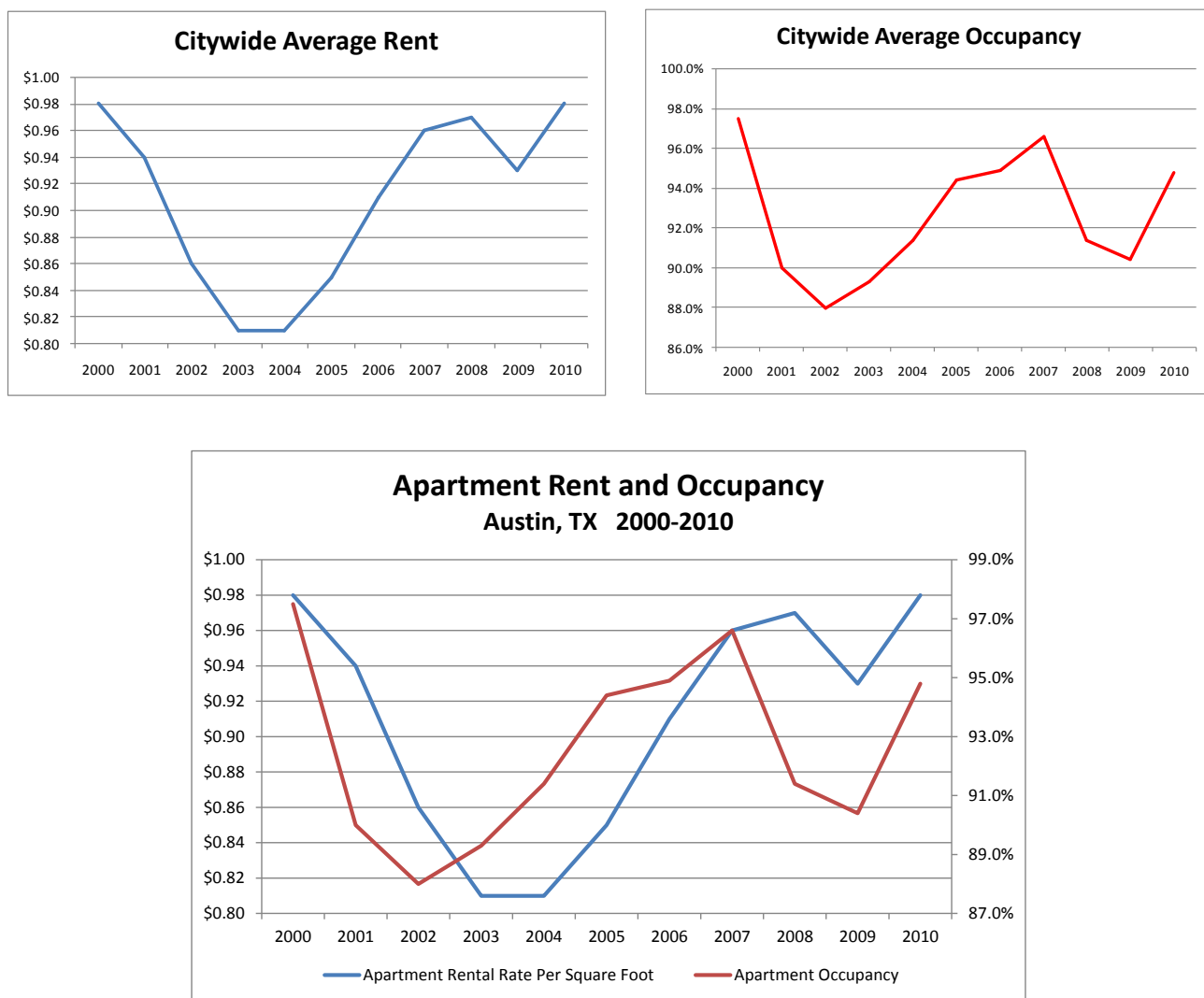
Miles
0 2.5 5 10

Data courtesy: Capital Market Research and City of Austin
Datum: NAD 1983 Projection: Texas Central FIPS 4203
Patrick T. Connor, 2011

Price and Occupancy Dictated by Demand

Rental rates and occupancy demonstrate the levels of affordability (rental rate) and availability (occupancy rate). We can look at the two data points of rental rate and occupancy rate to create an image of the apartment market. Times in which units are in the highest demand are shown in periods of increasing rental rate and occupancy, whereas times of lower rates and occupancy demonstrate a decrease in demand.

Figure 4.4 Citywide rental rates and occupancy rates, 2000-2010



Source: Capitol Market Research

In glancing at the graphs in Figure 4.4, one can make two observations. First, rental rate and occupancy rate seem to decrease and increase together throughout the decade. Secondly, rental rates lag behind occupancy rates, as to say the price of rental units is dictated by the occupancy of the complex.

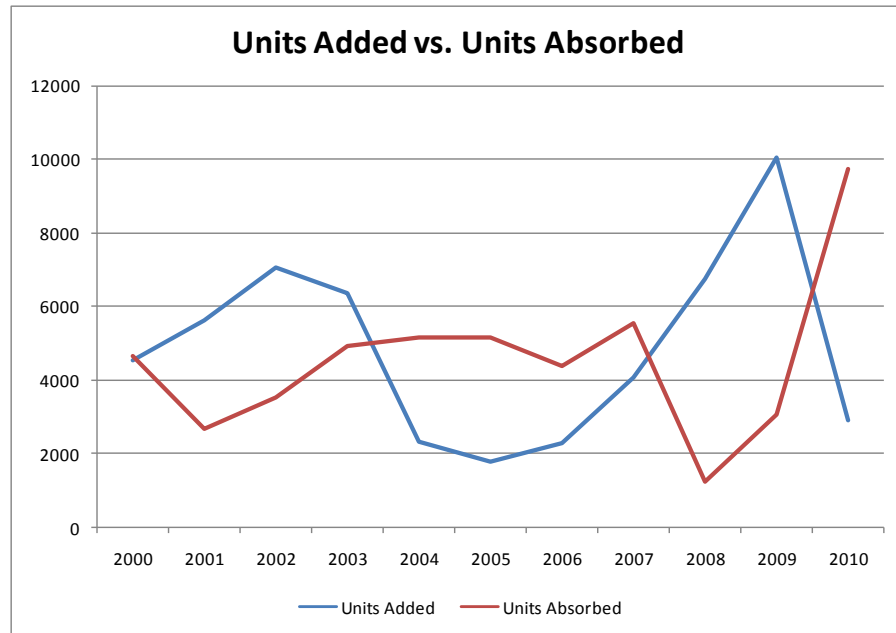
It is common practice for apartment owners to drop prices in order to increase occupancy and raise prices in times of high occupancy. These price adjustments change the quantity of units demanded but do not change the level of demand. Depending on the comparable rates of properties near a subject, an apartment complex is constantly adjusting prices to stay competitive without pricing out the market. Just like a sale at a store, owners will lower prices to increase the units rented. If demand for units is growing in the community, then the apartments will tend to raise rents to maintain a level of high occupancy and maximize income.

Price and Occupancy dictated by Supply

We have spoken mainly on the effects of demand on rental rates and occupancy. However, the level of supply can also affect the changing prices and occupancy in apartment rentals. An addition of new units is a market reaction when demand is growing. Typically, the delivery of new units to the market will lower the overall occupancy rate, as it takes time for projects to “lease-up” and stabilize (usually 90% occupancy).

We can look at Austin data of when new units are added to the market and the absorption of these units. Absorption is a term used to describe the change in occupied units. For example, if 200 new units were added to the market last year, and 120 of these new units were occupied at the end of the year, the absorption for that year is 120.

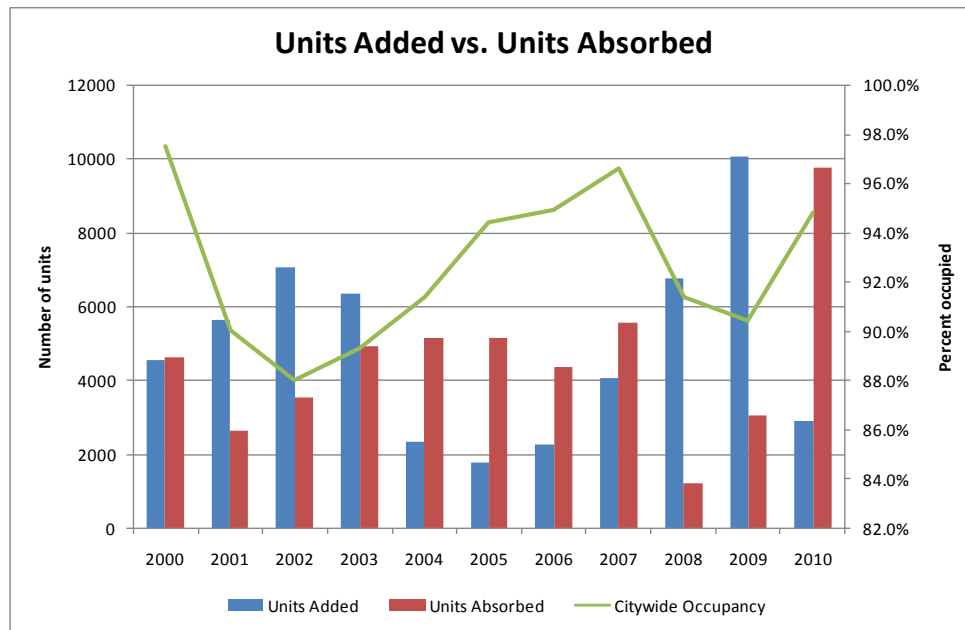
Figure 4.5 Units added compared to units absorbed in Austin, 2000-2010



Source: Capitol Market Research

Figure 4.5 illustrates the number of units added per year and the change in the number of units occupied per year (absorption). Given the time consuming and expensive nature of bring new units to market, we can clearly see times of building boom met with a period of recovery and absorption. Particular notice should be taken to what happened in 2009 and 2010. The addition of new units fell significantly while the demand for units increased. Possible explanations for this relationship are based on the housing crisis, where demand for new homes decreased because of strict lending ordinances. As fewer people were able to buy homes, the demand for rental units increased and boosted absorption. Credit markets also stalled the development of new units and explains the falling number of units added to the market.

Figure 4.6 Units added compared to units absorbed and occupancy in Austin, 2000-2010



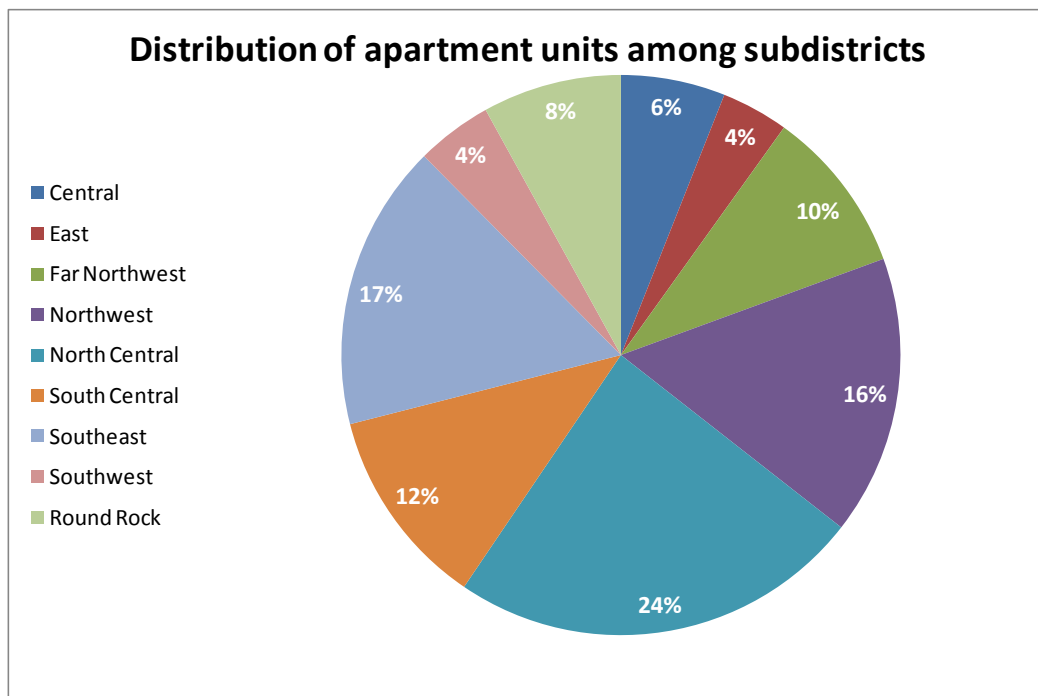
Source: Capital Market Research

Figure 4.6 is based on the same data as figure 4.7 but includes citywide occupancy. One can see that occupancy falls during times of adding units to market, and occupancy rises during times of high absorption. The development market attempts to predict the building and absorbing level of the market. Given similar data, developers often are on the same schedules of building and waiting. This is a contributing factor to the building booms and absorption booms throughout the decade.

Submarket Specific Data Analysis

The apartment market will now be analyzed by subdistrict level by looking how the units are dispersed throughout the city, where new units are being added, and how well the units are being absorbed into the market. The average rental rates for each district will dictate the certain members of the critical workforce that can live in each area of Austin.

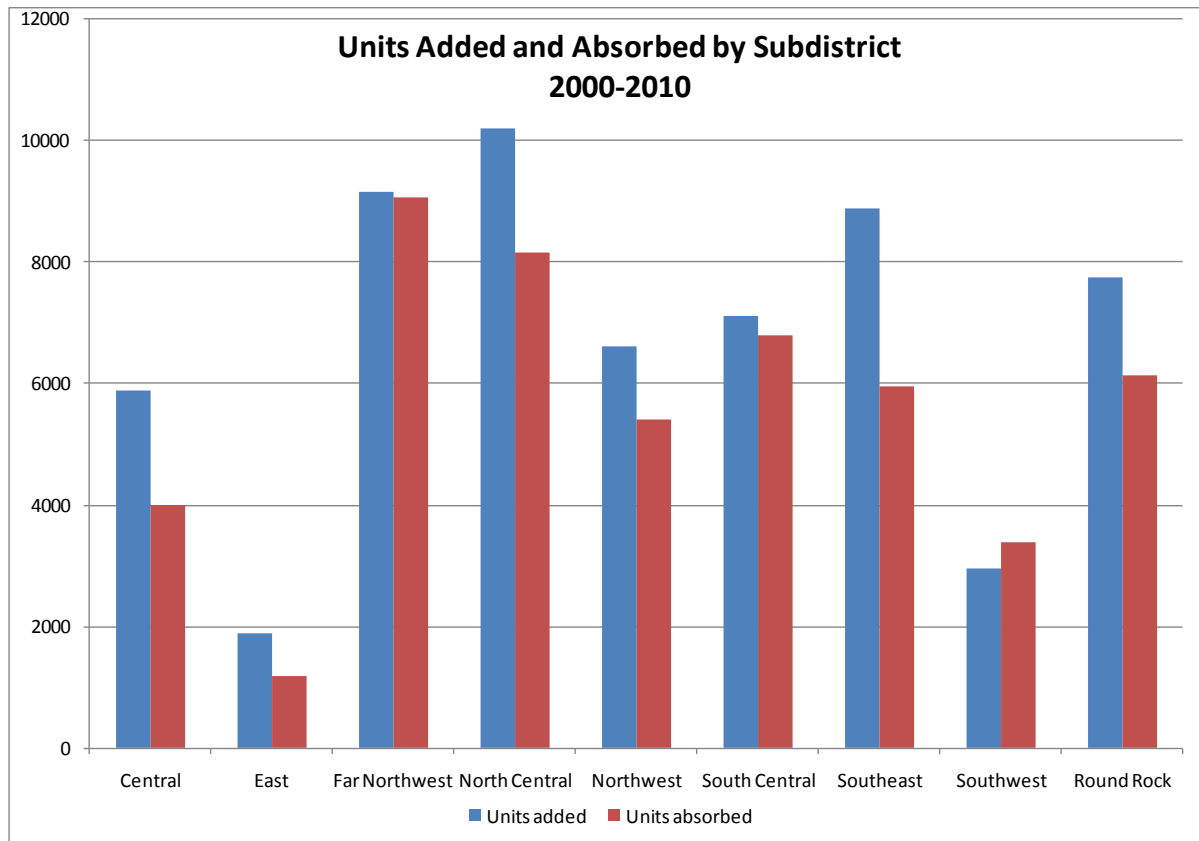
Figure 4.7 Distribution of apartment units in the region:



Source: Capitol Market Research

Though the subdistricts are not the same in size or density, we can see the level of apartments in each subdistrict. Northwest and North Central have the most apartment units, while South West, East and Central have the least number of units. This could be an effect of the lack of available land in the Central and East and the highly restrictive development regulations in South West.

Figure 4.8 Units added and absorbed by subdistrict



Source: Capitol Market Research

Ideal market conditions when comparing the number of units added and the number of units absorbed, are for these two numbers to be closely matched. In most subdistricts, the number of units added is greater than the number of units absorbed during the decade (Central, East, North Central, Northwest, Southeast and Round Rock). Other subdistricts actually had close to even units added and absorbed, including Far Northwest and South Central. The Southwest market area actually had greater absorption than units added. This means that there is a greater demand for units than there is a supply of units in the Southwest market area, which actually has the least number of apartments in the city.

Figure 4.9 New apartments added as a percentage of all apartments in subdistricts

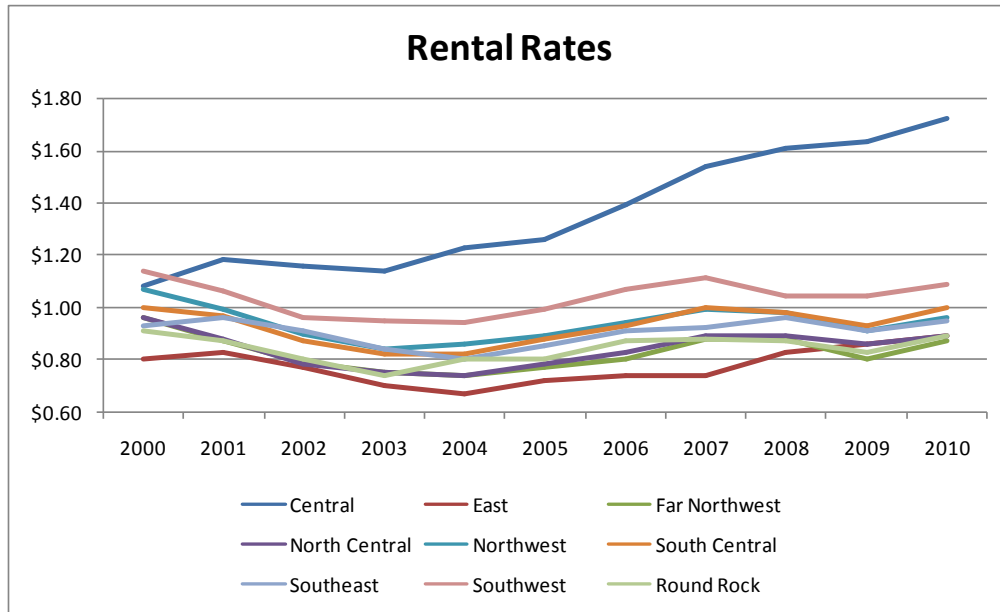
New Apartment Units Added Between 2000-2010			
	Units added 2000-10	Total Units	% Added this past decade
Central	5,891	8,849	67%
East	1,883	5,700	33%
Far Northwest	9,159	13,989	65%
Northwest	10,200	23,771	43%
North Central	6,617	35,129	19%
South Central	7,120	16,994	42%
Southeast	8,883	24,365	36%
Southwest	2,953	6,457	46%
Round Rock	7,745	11,794	66%
	60,451	147,048	41%

Source: Capitol Market Research

Figure 4.9 shows where new units were added in the Austin area over the past decade and their percentage of the total number of units in each subdistrict. We can see that the Central market area increase the number of units by 67%, while Far Northwest and Round Rock had similar percentage growth. The greatest number of units were added in the Northwest market area.

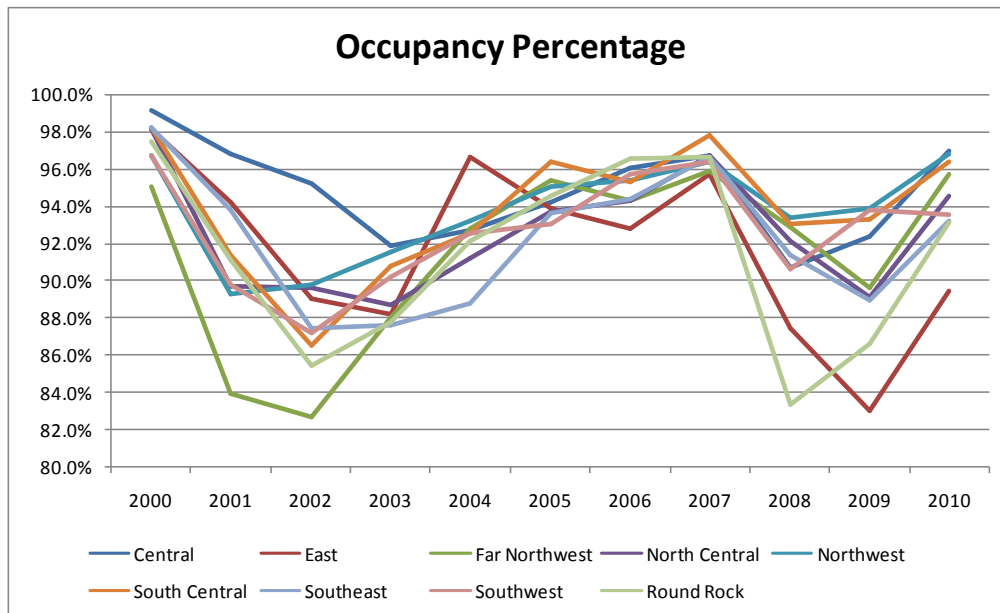
Rental Rates and Occupancy Rates

Figure 4.10 Rental Rates by Subdistrict



Source: Capitol Market Research

Figure 4.11 Occupancy Rates by Subdistrict



Source: Capitol Market Research

Figures 4.10 and 4.11 show the changing levels of rental rate and occupancy rate per subdistrict per year. We will analyze each subdistrict more closely, but we can see a few trends. For the most part, rental rates and occupancy rates rose and fell together between each subdistrict. The one anomaly is the rental rates in the Central market area. The rental rates in this subdistrict increased, on average, 5% each year for the past decade. Given the shortage of available land, high property costs and increased demand to live in the central core, rental rates continued to increase throughout the decade.

The Critical Workforce's Housing Affordability by Subdistrict

Based on the average rental rates of each subdistrict, we can gauge the level of affordability for the members of the critical workforce. Figures 4.12 and 4.13 below illustrate whether the critical workforce can afford to live in each subdistrict based on average price per square foot in a 900 sq. ft. unit. Figure 4.12 shows affordability by job based on starting salary and Figure 4.13 shows affordability by job based on average salary.

Figure 4.12 The ability for the single income critical workforce family to rent by subdistrict based on a starting salary

				Ability to rent 900 sq ft on a single income on a <i>starting</i> salary				
				Teacher (\$0.92/sq ft max)	Fireman (\$0.89/sq ft max)	Police (\$0.98/sq ft max)	EMS (\$0.64/sq ft max)	Nurse (\$1.34/sq ft max)
Central	\$1.72	\$1,283	\$1,735	no	no	no	no	no
East	\$0.89	\$664	\$898	yes	yes	yes	no	yes
Far Northwest	\$0.87	\$649	\$878	yes	yes	yes	no	yes
North Central	\$0.89	\$664	\$898	yes	yes	yes	no	yes
Northwest	\$0.96	\$716	\$969	no	no	yes	no	yes
South Central	\$1.00	\$746	\$1,009	no	no	no	no	yes
Southeast	\$0.95	\$709	\$959	no	no	yes	no	yes
Southwest	\$1.09	\$813	\$1,100	no	no	no	no	yes
Round Rock	\$0.89	\$664	\$898	yes	yes	yes	no	yes

Source: Capitol Market Research

Figure 4.13 The ability for the single income critical workforce family to rent by subdistrict based on an average salary

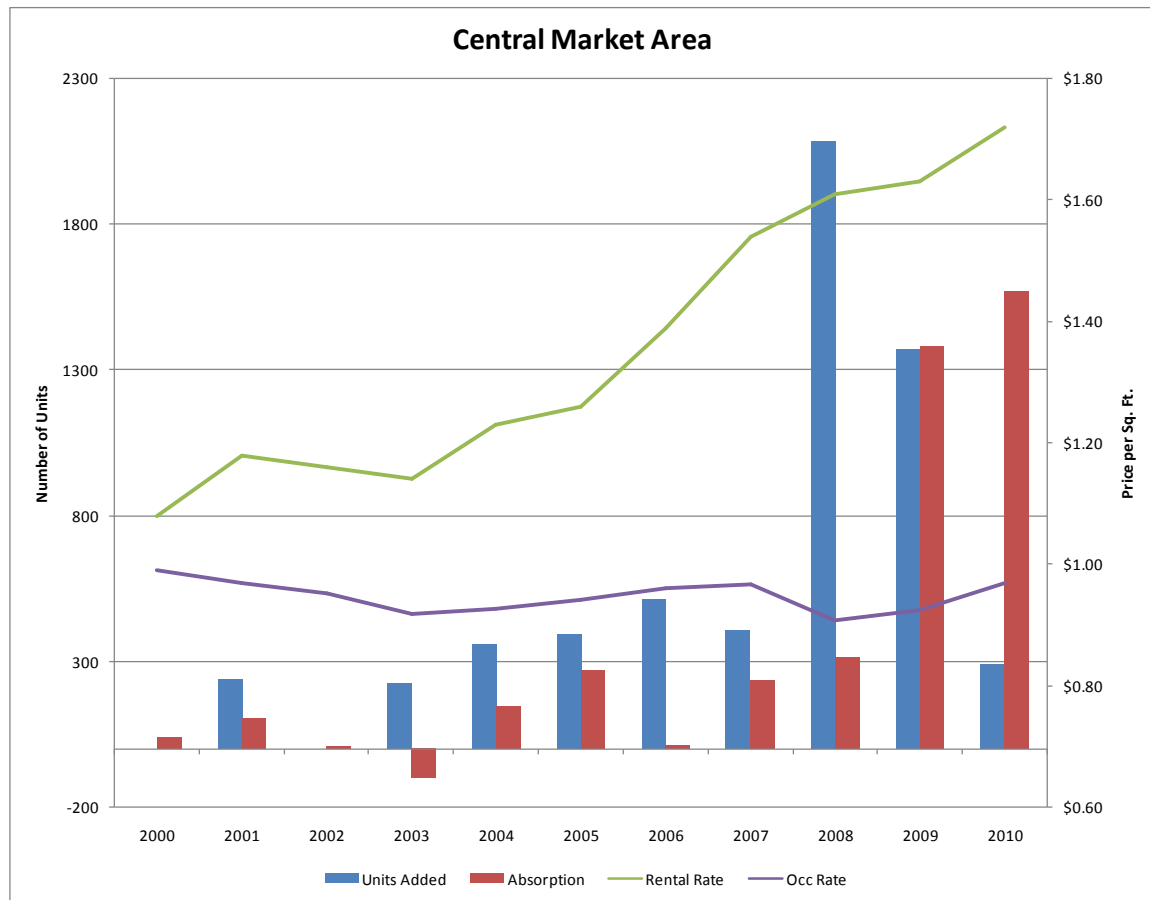
				Ability to rent 900 sq ft on a single income on an <i>average</i> salary				
				Teacher (\$1.30/sq ft max)	Fireman (\$1.03/sq ft max)	Police (\$1.28/sq ft max)	EMS (\$0.92/sq ft max)	Nurse (\$1.63/sq ft max)
Central	\$1.72	\$1,283	\$1,735	no	no	no	no	no
East	\$0.89	\$664	\$898	yes	yes	yes	yes	yes
Far Northwest	\$0.87	\$649	\$878	yes	yes	yes	yes	yes
North Central	\$0.89	\$664	\$898	yes	yes	yes	yes	yes
Northwest	\$0.96	\$716	\$969	yes	yes	yes	no	yes
South Central	\$1.00	\$746	\$1,009	yes	yes	yes	no	yes
Southeast	\$0.95	\$709	\$959	yes	yes	yes	no	yes
Southwest	\$1.09	\$813	\$1,100	yes	no	yes	no	yes
Round Rock	\$0.89	\$664	\$898	yes	yes	yes	yes	yes

Source: Capitol Market Research

Given the information in Figures 4.12 and 4.13, the most affordable subdistricts in town are the East, Far Northwest, North Central and Round Rock market areas. Central, Northwest, South Central and Southwest are very restrictive to members of the critical workforce with a single income household, especially for those with a starting salary.

The following pages of Figures 4.14 – 4.22 will dissect each of the submarket areas on the varying levels of rental rate, occupancy rate, units added and units absorbed between 2000 and 2010. A brief summary for each submarket follows below each figure.

Figure 4.14 Central Market Area

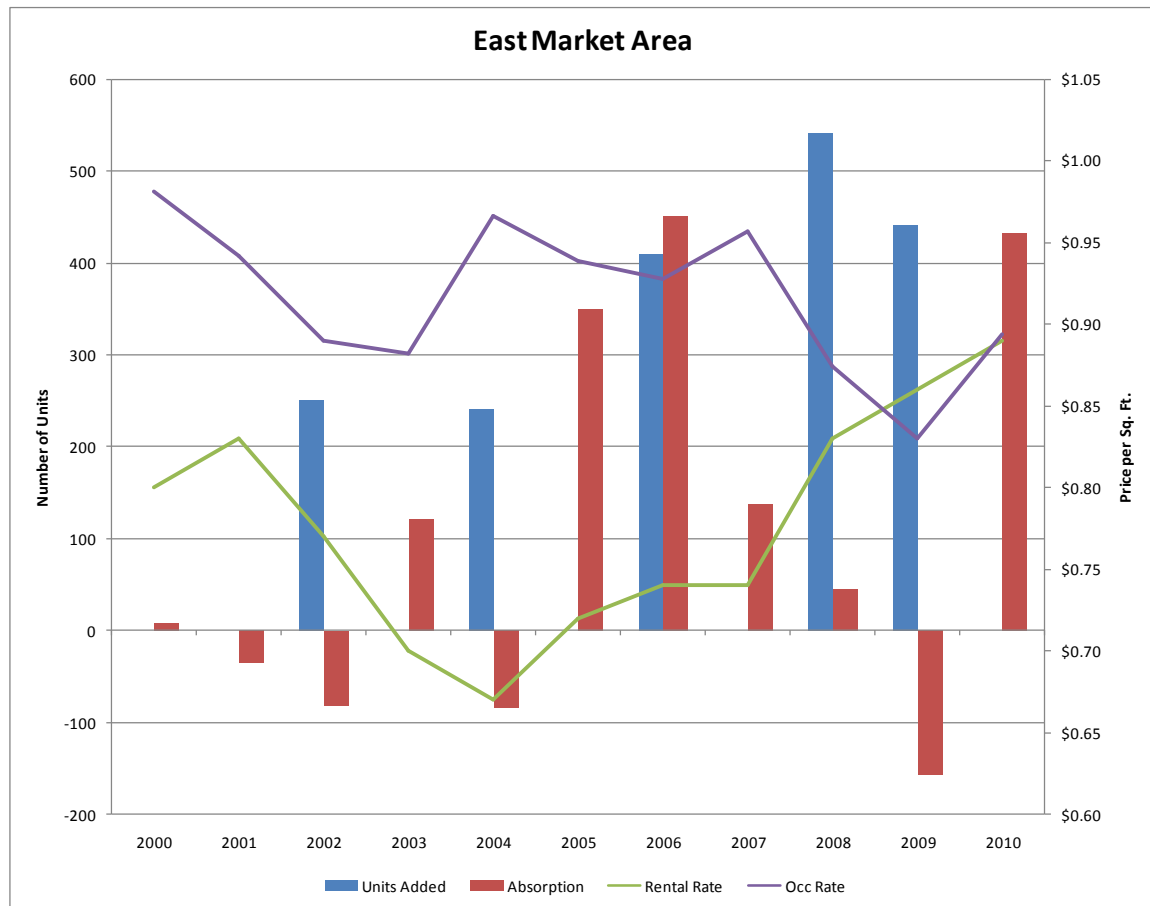


Source: Capitol Market Research

Overview:

In the Central Market area, 67% of its apartment units were added between 2000 and 2010. The rental rates rose steadily from \$1.08 in 2000 to \$1.72 in 2010 in this area and enjoys the highest average rental rates in the city. Occupancy rates remained steady throughout the decade aside from an addition of over 3,300 units between 2008 and 2009. Affordable units in the area are few and in high demand. According to average salaries, no member of the critical workforce can afford to rent in the Central market area with a single income household.

Figure 4.15 East Market Area

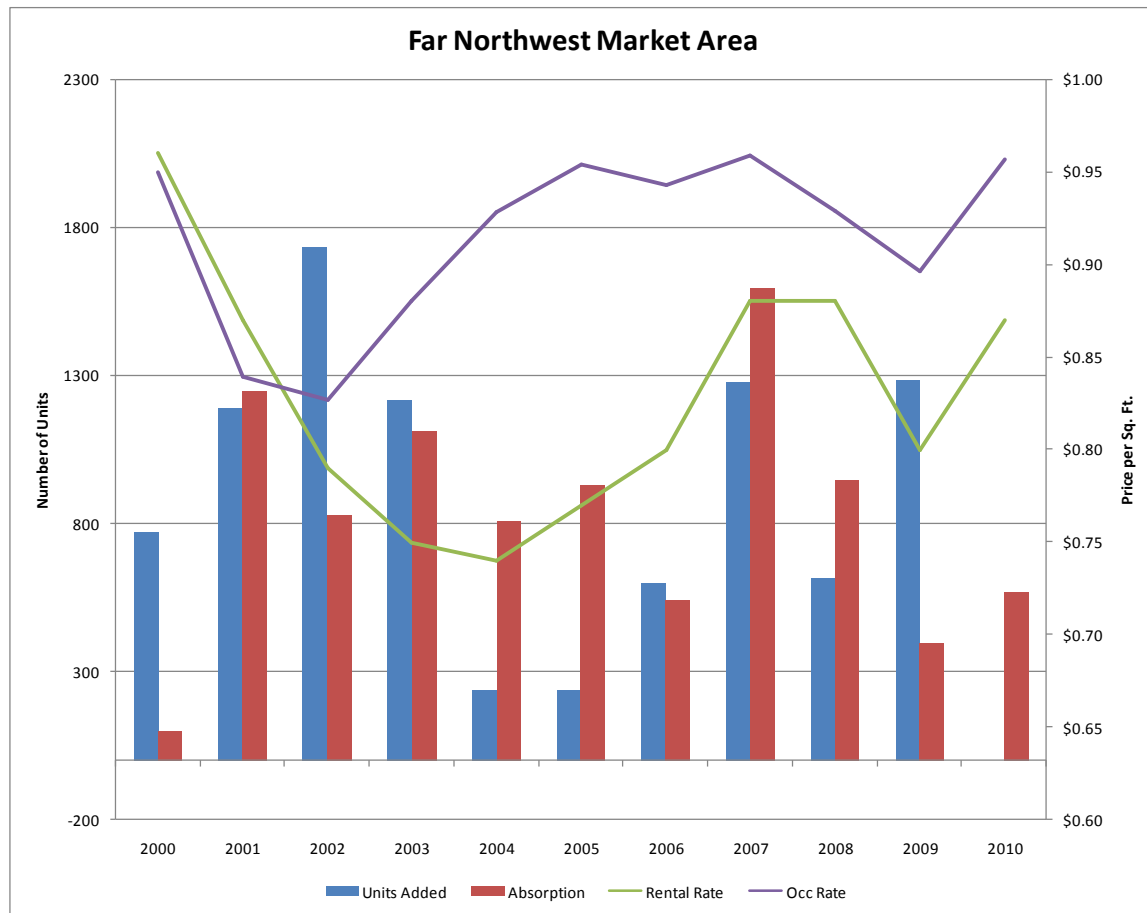


Source: Capitol Market Research

Overview:

In the East Market area, 33% of its apartment units were added between 2000 and 2010. The area has the lowest rental rates in the city, \$0.89 per sq. ft. and has a fluctuating occupancy around 90%. The area saw periods of new projects coming to market, but it has seen the lowest number of new units than any other area with 1883 added in the past decade.

Figure 4.16 Far Northwest Market Area

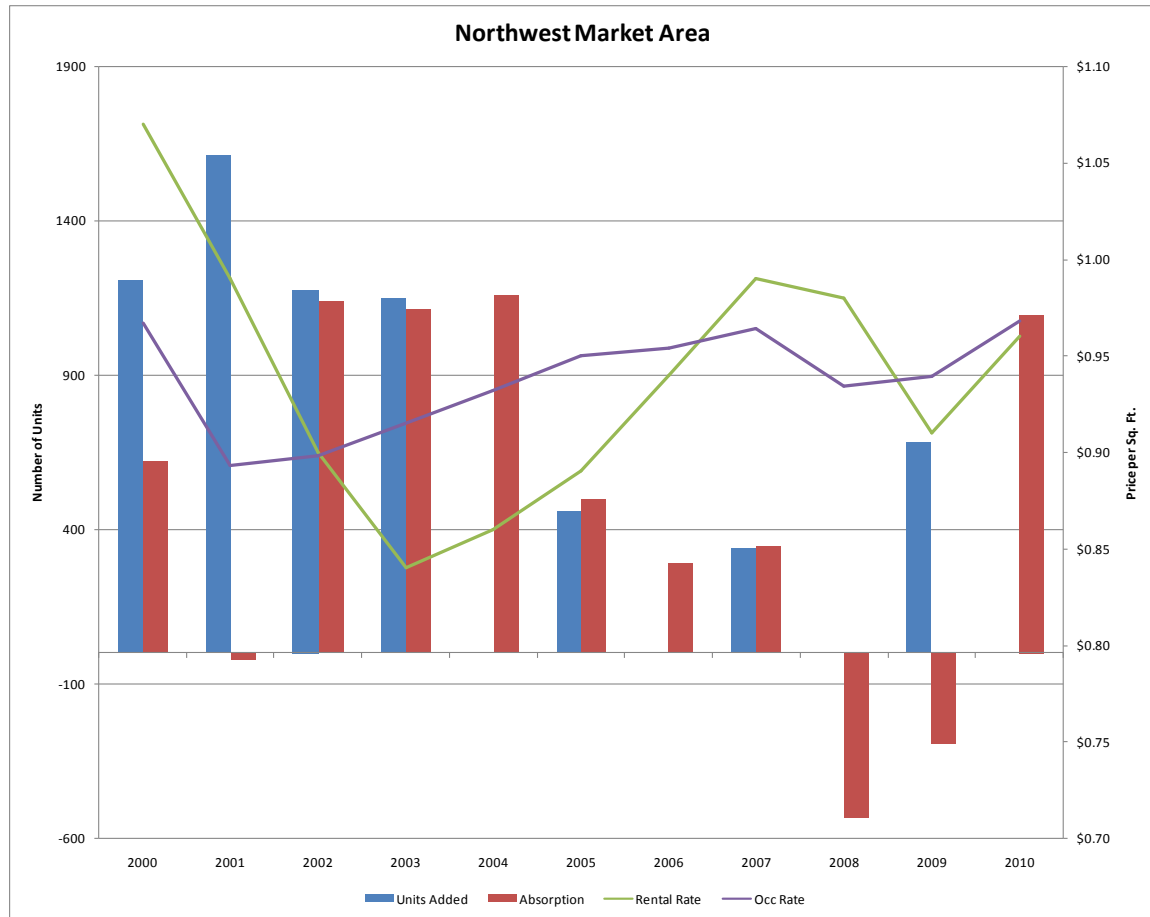


Source: Capitol Market Research

Overview:

The Far Northwest market area has seen a great deal of new apartment development over the past decade, with 65% of its total units added during the time period. The continual addition of new supply might affect the lower than average rental rate of \$0.87 per sq. ft. as well as the fluctuating occupancy rates.

Figure 4.17 Northwest Market Area

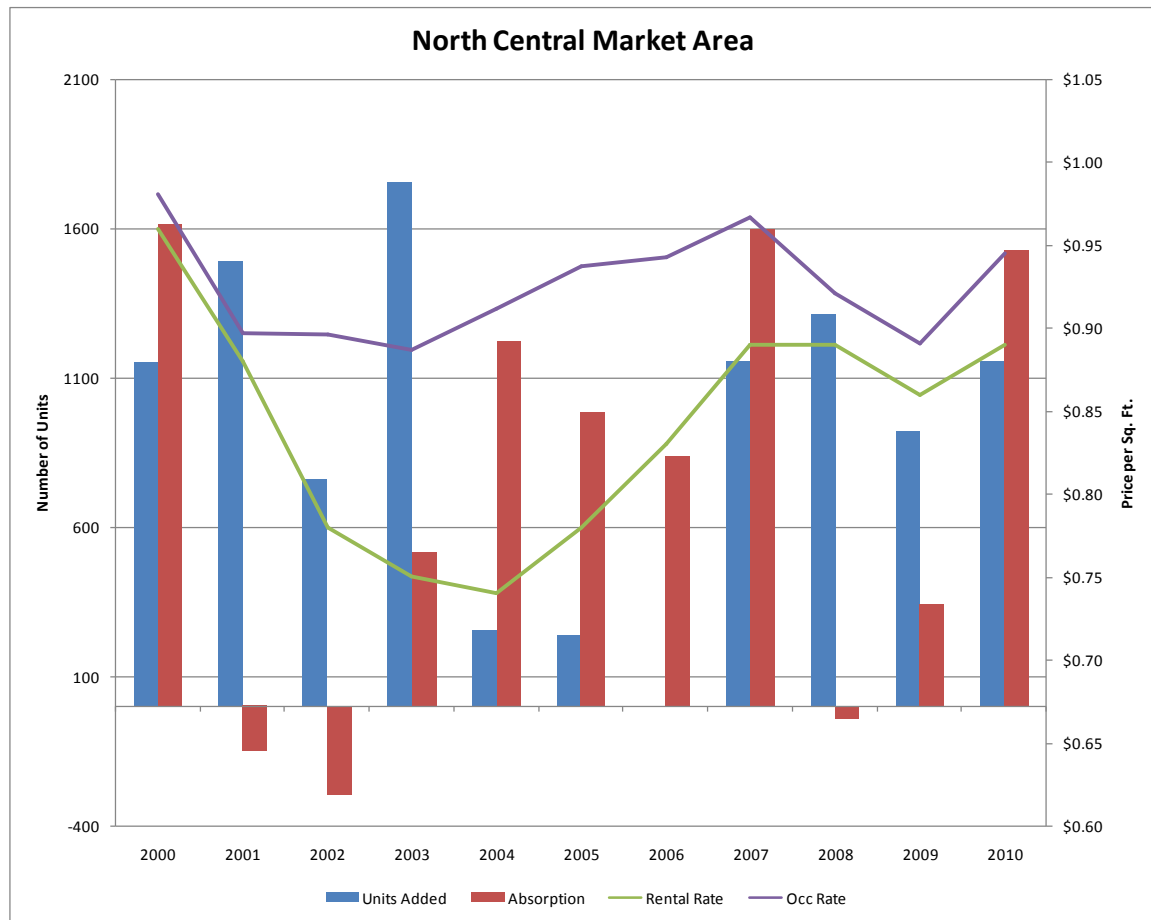


Source: Capitol Market Research

Overview:

The Northwest market area saw a building boom at the beginning of the decade but has since slowed its additions to supply. Rental rates and occupancy rates have rebounded after a period of additions to the market. The area has average rental rates and healthy occupancy.

Figure 4.18 North Central Market Area

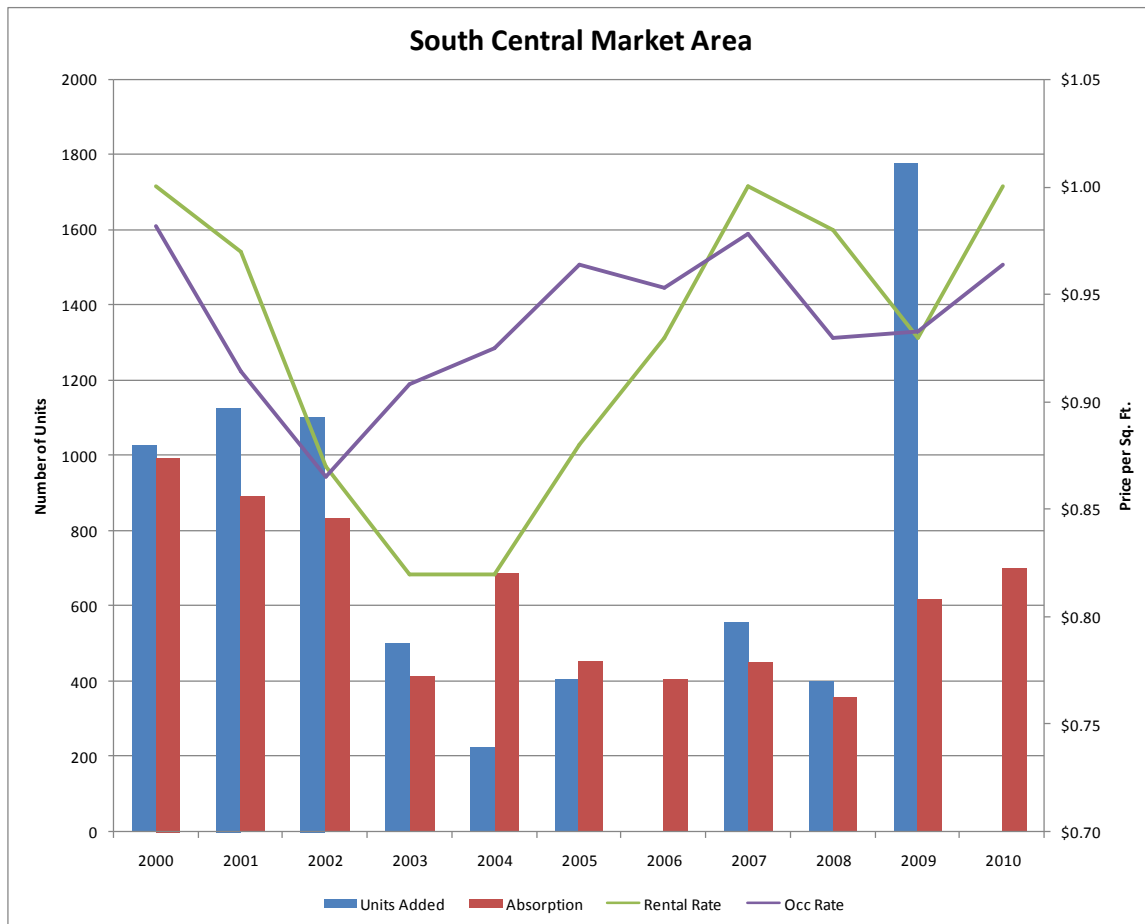


Source: Capitol Market Research

Overview:

The North Central market area has added 19% of its apartment stock over the past decade. The area has seen a dramatic fluctuation of rental rates from \$0.96 per sq. ft. in 2000 to a low point of \$0.74 in 2004. The drop in price could have been caused by an excess of supply brought on by the addition of nearly 5,000 new units between 2000 and 2003.

Figure 4.19 South Central Market Area

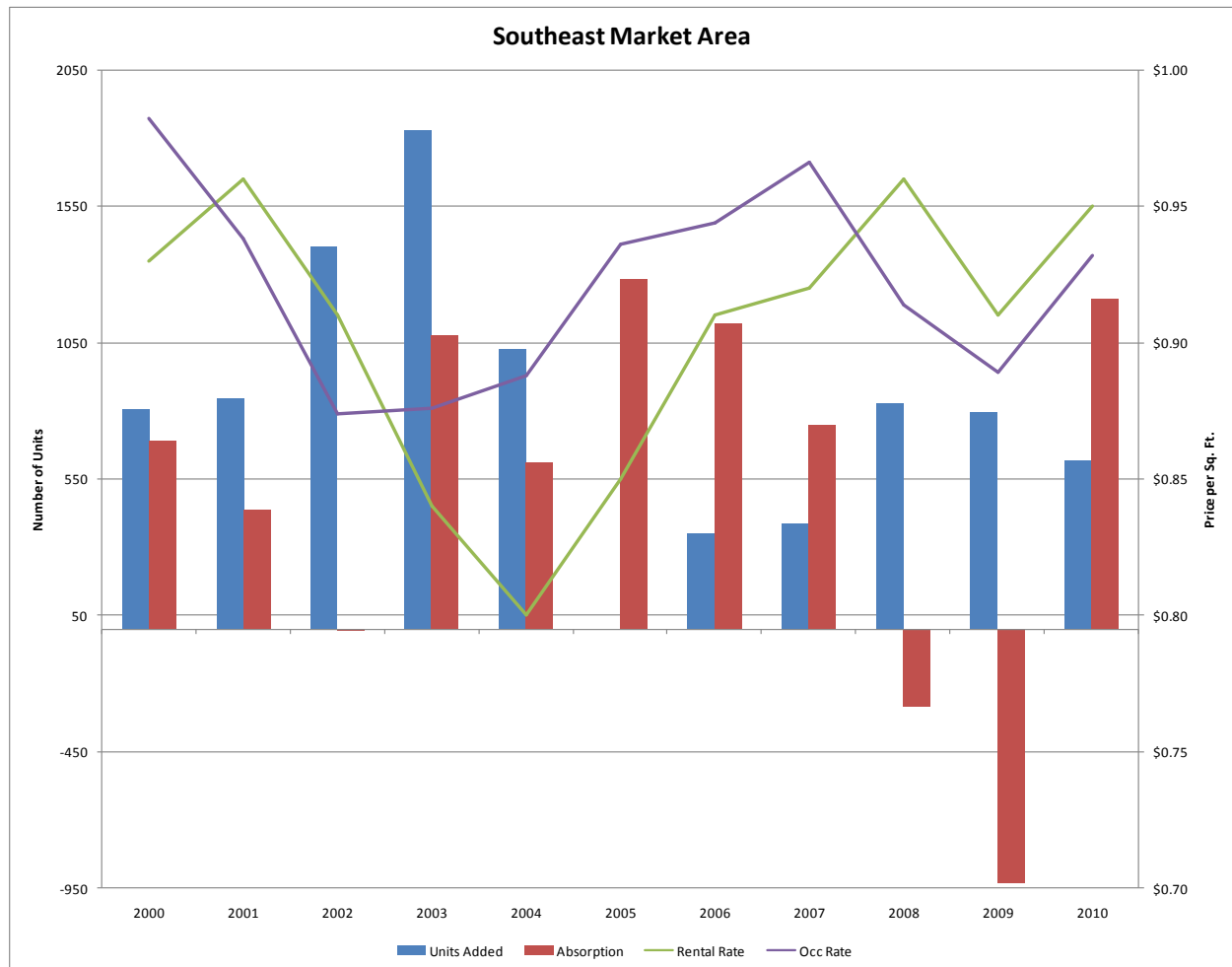


Source: Capitol Market Research

Overview:

The South Central market area has seen 42% of its units added to the market in the past decade. A period of time of low rental and occupancy rates at the beginning of the decade rebounded during a period of steady absorption later in the decade. The area enjoys higher than average occupancy and rental rates.

Figure 4.20 Southeast Market Area

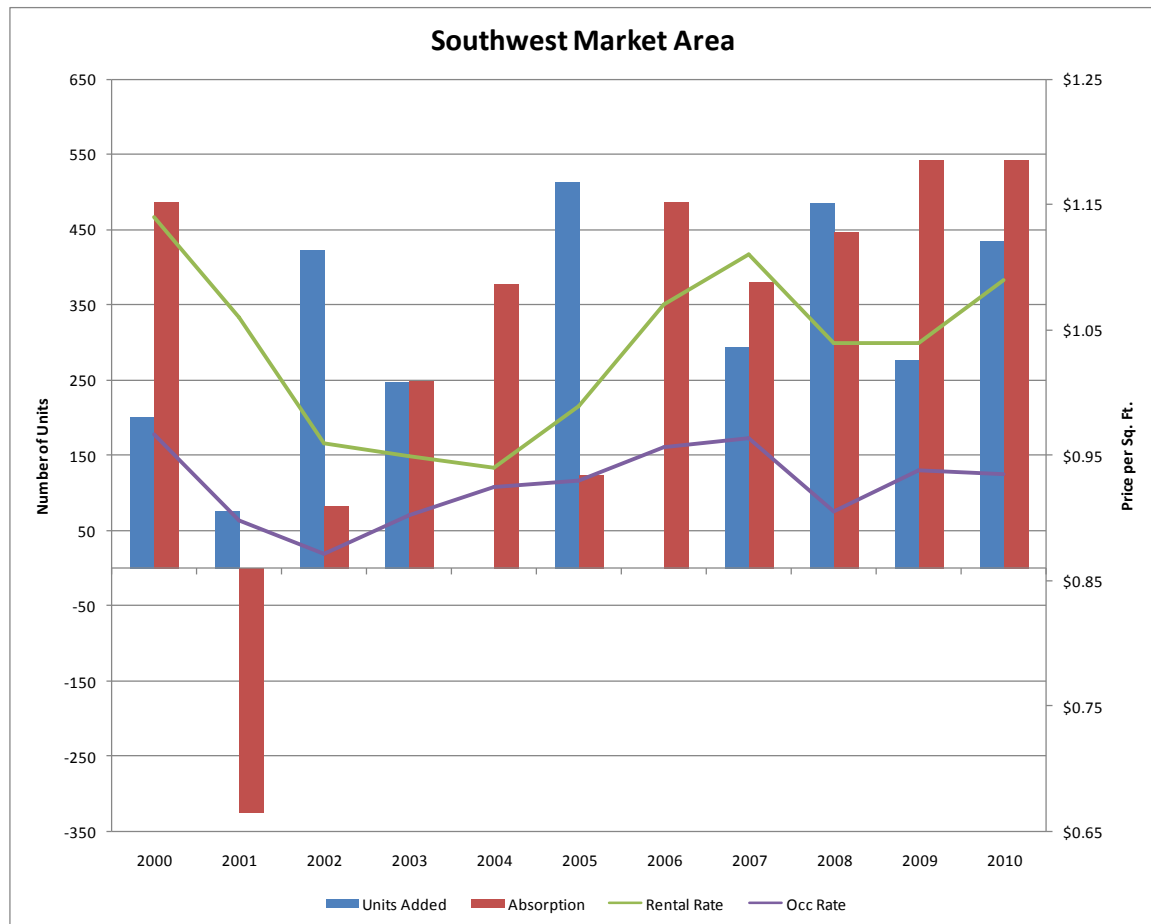


Source: Capitol Market Research

Overview:

The Southeast market area has seen 36% of its units added in the past decade. Rental rates hit a low of \$0.80 in 2004, but they have since rebounded. A significant drop in the number of units occupied was caused by a decrease in supply brought by redevelopment of older complexes. The area has a high volume of units and has been known in the past to offer affordable options.

Figure 4.21 Southwest Market Area

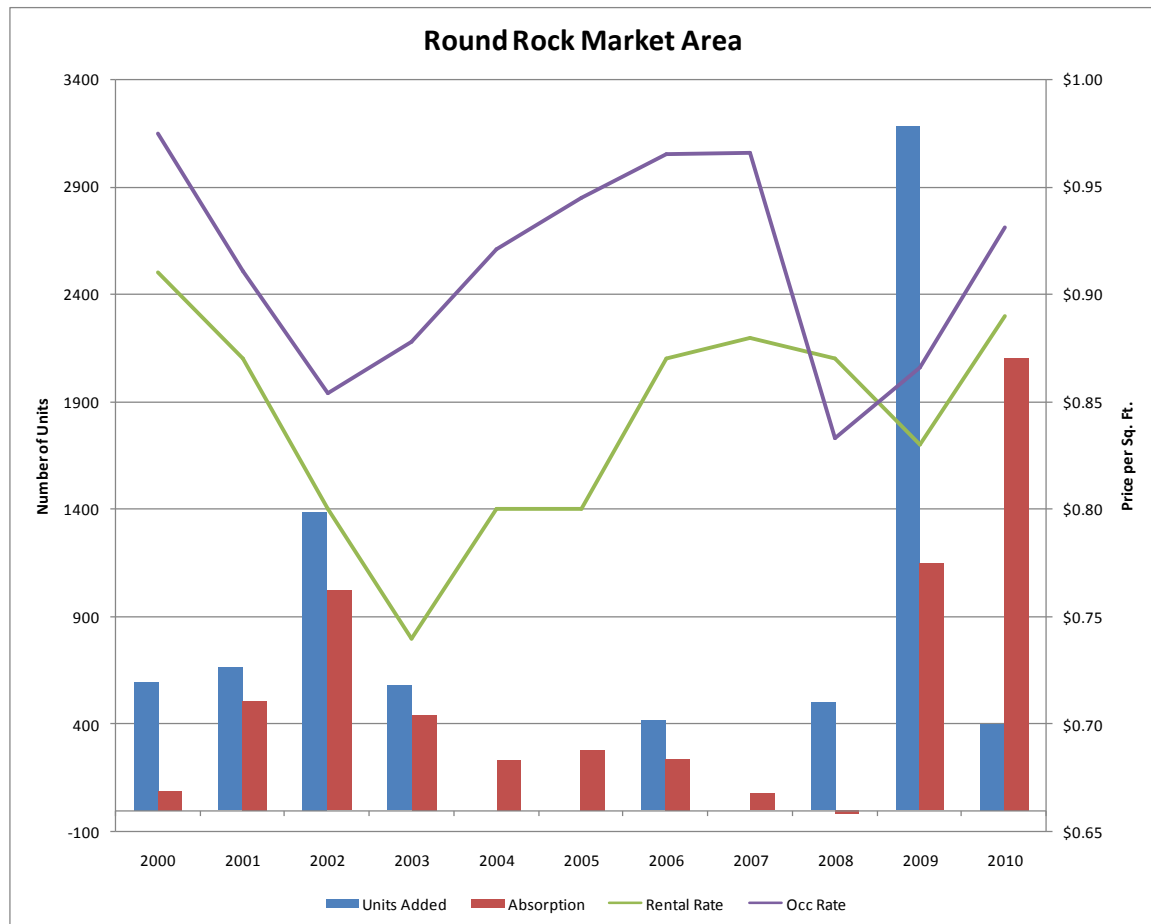


Source: Capitol Market Research

Overview:

The Southwest market area is the second smallest market in the region. Over the past decade 46% of its total units were added. Located in an “environmentally sensitive” area, there is weak city support for development in this part of town. Still, the area has seen high rents and stable occupancy throughout the decade. Strong absorption has allowed for rents to increase in recent years.

Figure 4.22 Round Rock Market Area



Source: Capitol Market Research

Overview:

The Round Rock market area has seen 66% of its apartment units added in the past decade. A period of oversupply and weak demand prompted rents to drop \$0.17 between 2000 and 2003. However, rents and occupancy have rebounded to \$0.89 per sq. ft. and 93.1% occupancy. The suburban area carries 11,794 total units, over 2,000 more than then Central Austin market area.

Figure 4.24

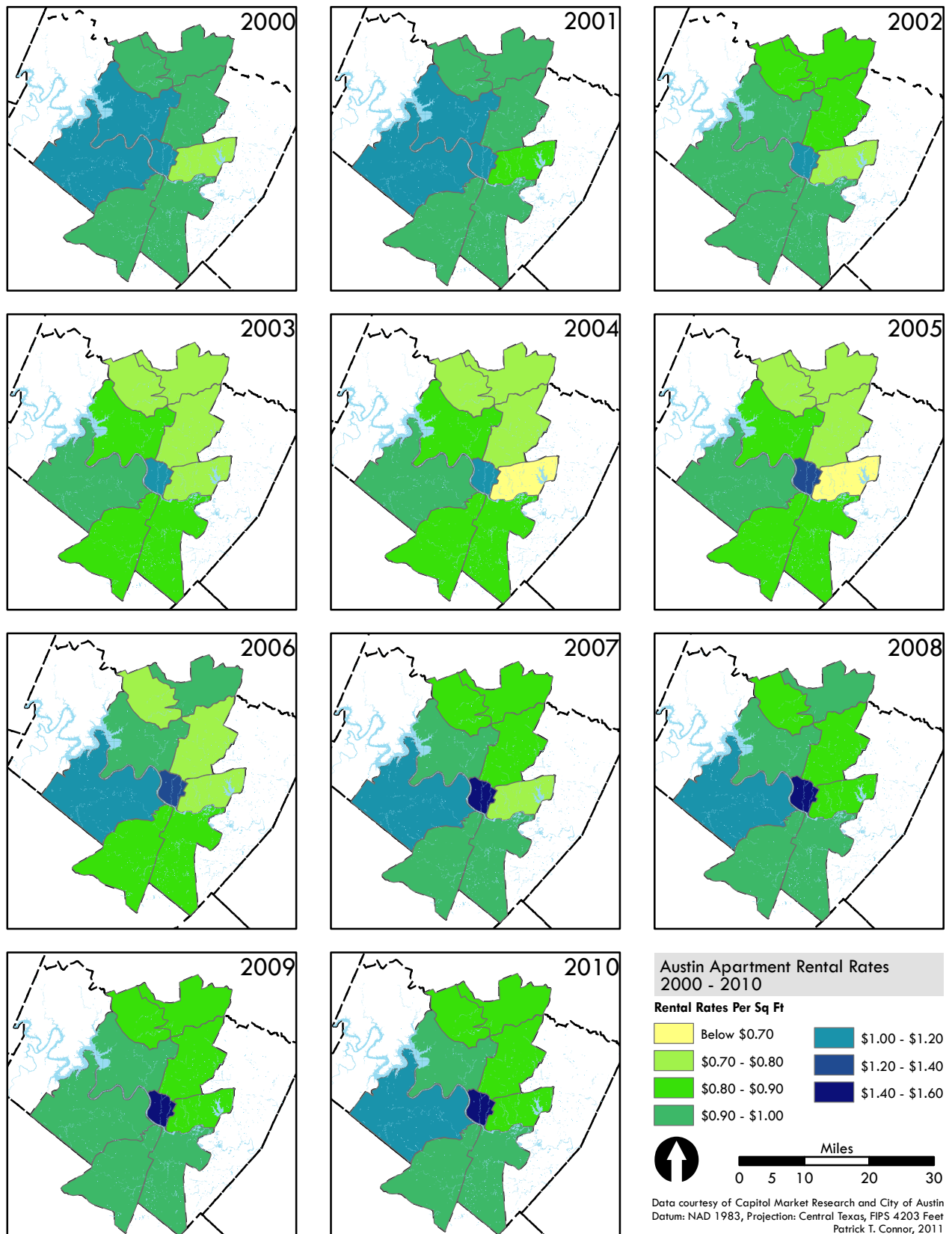
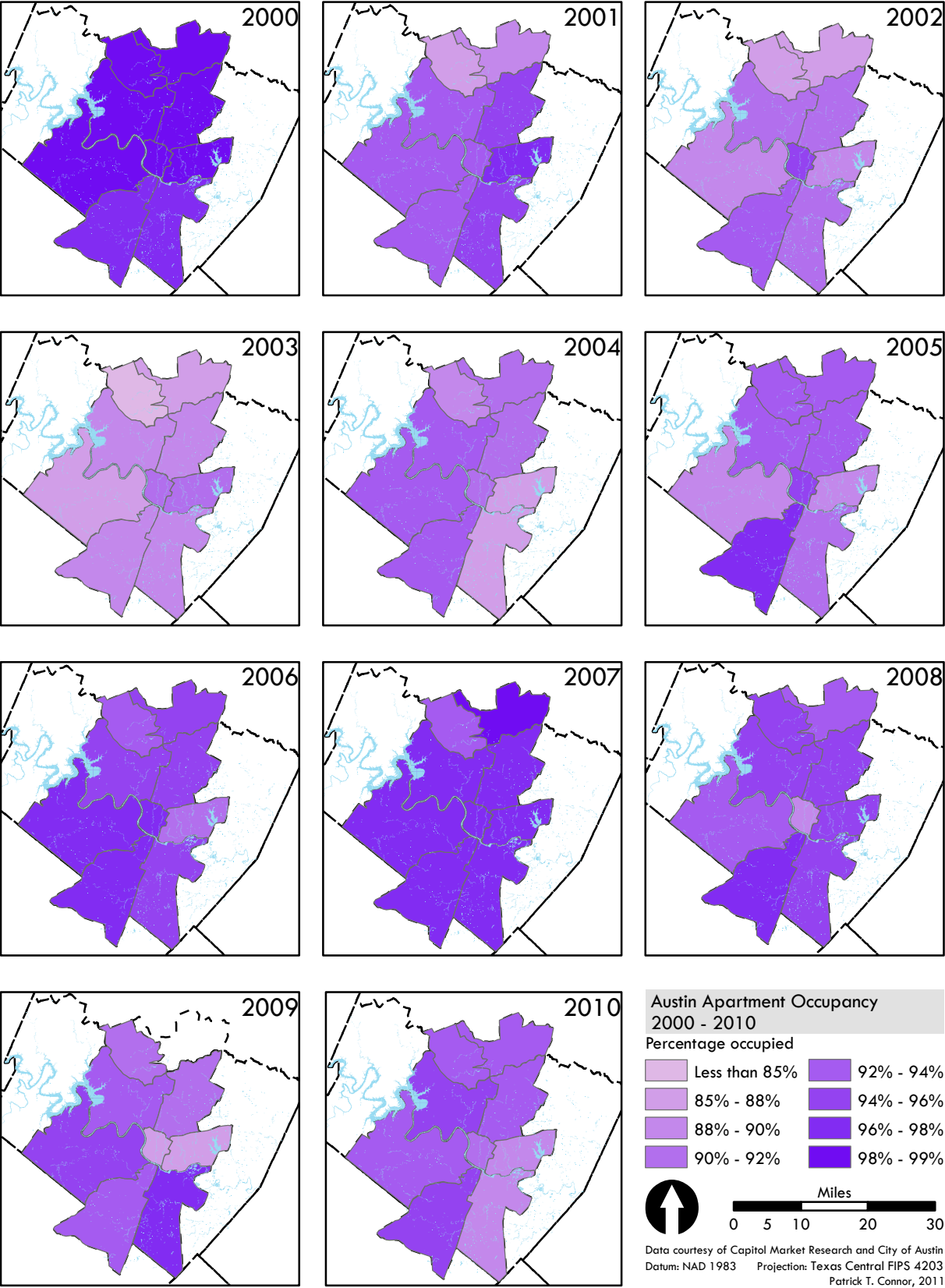


Figure 4.23



Looking Closer at the Central Market Area

Outside of the Central market area, the apartment market consistency follows the supply and demand principles. Rental rates and occupancy rise and fall relatively together in reaction to market forces. Development of apartments in the suburban regions is healthy and provides new units to come online for consumers. Heavy development in the early second half of the decade and slowing development towards the end is reflected in an over saturated market and a more recent growing market of lower supply.

The Central market area, however, has seen consistent rental rate increases throughout the decade. Regardless of fluctuating occupancy, the rental rates continue to rise. In addition, slow development in this region because of the lack of raw land and development restrictions have led to less new units in the market and lower comparative absorption figures. This is an interesting case because the Central market area is home to the University of Texas, the state Capitol and the central business district. The region is a focal point for education, jobs and city services. High demand to live in the Central market area has allowed demand to increase along with rental rates. Yet, because of the high cost of land and weak development incentives, the market is slow to provide new units in the market to bring down the prices in this region.

The Central market area is an area that city officials and developers are focusing on in order to provide increase supply of rental housing units at affordable rates. Students and the critical workforce enjoy a great deal of activity in the central market area and opportunities to live near the area are necessary.

The market is not a perfect system and often leads to exclusivity of housing location in areas of highest service and access. Interventions and incentives instituted by local governments are the only way to provide equitable housing opportunity in the city center. The appropriate government actions that intervene into the supply and price of housing while also offering incentives for private development, will direct Austin to become a more rentable city.

Figure 4.25 Central Market Area home listings

Central Market Area Listings			
Year of Completion		Listing Price	
Average	1975	Average	\$551,284.34
Median	1981	Median	\$349,450.00
Square Footage		Price Per Sq. Ft.	
Average	1771	Average	\$273.63
Median	1305	Median	\$244.94

Source: Austin Board of Realtors, current listings March 21, 2011

623 total listings for single family, condo, townhome or duplex

Figure 4.26 Number of listing per price per sq. ft.



Source: Austin Board of Realtors, current listings March 21, 2011

Based on the units available for purchase on the market and the ability to buy a home by the critical workforce (between \$91,000 for EMS workers and \$172,000 for nurses on a starting salary and \$124,000 for EMS workers and \$206,000 for nurses on an average salary),

the average and median prices of units greatly exceeds the affordability level of a critical workforce employee with single income household. If the worker is part of a dual income home, then buying a home in the Central market area may be possible depending on the income of the entire household.

Because of the high demand for housing and low supply or high price of available land for new development, the Central market area of Austin is increasingly becoming more and more unaffordable. Home to the University of Texas, State Capitol, historic neighborhoods and activity centers, the Central market area holds many amenities and significance that the rest of Austin does not.

Despite a high need for the critical workforce to serve their duties in the Central market area, there is a shrinking window of opportunity for these people to live in the community they serve. If they are not already living in the area, there are considerable affordability barriers that drastically limit the number of affordable options in the region.

Chapter 5: Austin Future Apartment Development

Since the dawn of the most recent recession in 2008 and a freeze of credit market, capital available for new development, especially housing construction, has been nearly shut off. Over the past two years, the economy has taken plenty of blows and trimmed fat, but it is beginning to build itself again. However, since the banks were not lending and little housing development activity, there is a significant lack of supply.

As we have discussed, when there is a decrease in supply, the prices of units will rise and affordability is at risk. This is clearly seen in the increase from 90.4% to 94.8% in apartment occupancy in 2009 and 2010. Prices also increased in the past year from an average of \$0.93 per sq. ft. to \$0.98 per sq. ft.

As the economy continues to heal, consumers are seeing the rental rates on their units increasing because of a continuing demand to live in the region and a lack of new units coming to the market. However, there are movements in the apartment development community that should bring new units to the market, but at what price level?

According to articles written in the Austin American-Statesman¹⁷ newspaper, developers are beginning to partner with the necessary individuals in hopes to seize the high demand and low supply of apartment units in Austin. One such partnership is HPI Real Estate and Captex Development Co. that have come together in hopes to bring about four apartment projects to market. Their product focus will be “Class A (top tier) suburban and urban properties... rents can be expected to range from about \$800 to \$1300 or \$1400” according to representatives from HPI (Novak, 2011).

Other firms like Post Properties, Colonial Properties Trust and Simmons Vedder are positioning to start projects in the Austin region. Thanks to exploratory conversations with

¹⁷“Densely urbanist vision of growth up for deliberation” – Marty Toohey, American-Statesman, February 27, 2011

“Firm forms to build apartments” – Shonda Novak, American-Statesman, March 1, 2011

“Apartment Market Tightens” – Shonda Novak, American-Statesman, February 6, 2011

lenders and reachable lending parameters, the developers feel very confident that they will get these projects off the ground. Colonial Grand is expecting to bring 296 high end units to market and hopes to take advantage of the young professional renting population. Simmons Vedder plans on beginning construction of new projects near former projects in the Mueller subdivision and The Triangle. Strong interest from banks and partners should provide the necessary capital support (Novak, 2011).

The American-Statesman reports that San Antonio National Bank has reserved \$15 million for new multifamily projects in Central and South Texas and hopes to take advantage of the rebounding Austin market (Novak, 2011).

The flood of luxury apartments in the downtown market area caused challenges during the recession, resulting in owners significantly decreasing rents in order to bring increase occupancy. Two AMLI downtown projects, for example, had to drop rents by 16% to boost occupancy. Yet, according to AMLI CEO Gregory Mutz, in early 2010 the market stabilized, and now AMLI considers Austin from evolving from one of the toughest to one of the company's best submarkets (Novak, 2011).

In regards to affordable housing options for the critical workforce in Austin, the projects that are set to come on line in the next couple of years are not planned to be marketed to the critical workforce. Given the high cost of land and high demand, the units will exceed many of their affordability levels.

Meanwhile, the City of Austin is continuing to create and approve its first citywide comprehensive plan since 1979, named Imagine Austin. With pro-growth to slow-growth to no-growth interests at the table, the city has approved a desired development plan that identified density nodes for future development guidance. The map is poised to support nodes that the city will incentivize density and regional centers, rather than only supporting high density downtown (Toohey, 2011).

Density has a different meaning to different people. Some view density as the luxury condos downtown that have driven the property taxes of surrounding neighborhood upwards.

Others see density as the only way to begin to offset the high cost of land and to bring affordable units to regional centers (Toohey, 2011).

Bo McCarver, director of the Blackland Community Development Corporation, has recently come out to express that the city is using urban density as a marketing tool to attract wealthy residents. He also states that city efforts to make developers offer affordable housing have largely failed. McCarver says that the city's plan for higher density will drive the city's low-income residents out of their communities and the more it will cost them to drive to their jobs (Toohey, 2011).

Conclusions

This report focused on the market forces that contribute to the changing costs of housing in Austin. The report concludes that the critical workforce, despite their necessary service to the community, is vulnerable to increasing prices and often are priced out of the communities they serve. With the shrinking supply and high value of developable land in the urban core, the City and other groups are forced to intervene in the market to promote affordable housing options through the S.M.A.R.T. Housing program, non-profits and neighborhood organizing.

Because of the high costs of ownership, much of the responsibility in providing affordable alternatives is placed on the apartment rental market. Yet, over the past decade, the cost of apartment housing in the Central market area of Austin has increased at an average of 5% per year. Given their annual earnings, a single income household earning the average salary of any job in the critical workforce is unable to pay the average rental rate in the Central market area.

This increased cost of living has a number of effects on the critical workforce and the community as a whole. First, some service workers are forced to live outside the urban core in suburban areas or other cities entirely. This increases their costs of commuting and may even contribute to them finding work nearer to their home. As the housing options weaken in the

inner city, so does the city's ability to compete for members of the critical workforce.

Surrounding cities, like Round Rock and Cedar Park, benefit from the high cost of living in Austin by absorbing workers.

The S.M.A.R.T. Housing program is used by developers, but given the expiration date of the need to provide affordable units, one has to wonder if the program is sustainable enough to provide affordable housing. After just five years, an affordable rental unit in a S.M.A.R.T. project expires and returns to market rent. In addition, as gentrification spreads into East Austin, more neighborhoods that could house the critical workforce are becoming less affordable.

The City of Austin advocates for an increase in density to help increase supply and provide more affordable units. However, the cost of building dense housing is very expensive in addition to the highly valued land. In order to offset the high costs of new housing in the urban core, one market intervention is to subsidize the cost of land. If the cost of land is less, the developer can use the savings to provide lower rents to the market. In order to keep the rents low, the City will have to enforce the affordability requirement for the units.

The competition for housing between students, young professionals and the critical workforce is very intense in Austin. One option to provide housing for the teachers, police, firemen, EMS or nurses is to combine the critical job requirement of the Good Neighbor Next Door program with the development incentives of S.M.A.R.T Housing. This would limit the availability of affordable housing for the critical workforce.

Given the budget constraints of the City and the State and the free market ideology of Texas politics, dramatic market interventions to provide housing for the critical workforce are next to impossible. Therefore, community groups, non-profits, and public-private partnerships will be forced to rise and meet the need for housing opportunities for the critical workforce. In the meantime, limited apartment vacancy, increasing population, record high gas prices, and highly sought after amenities will continue to boost the market demand and cost to live in the Central Austin market area.

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