

Maintaining Houston's Affordability for Working Class Families

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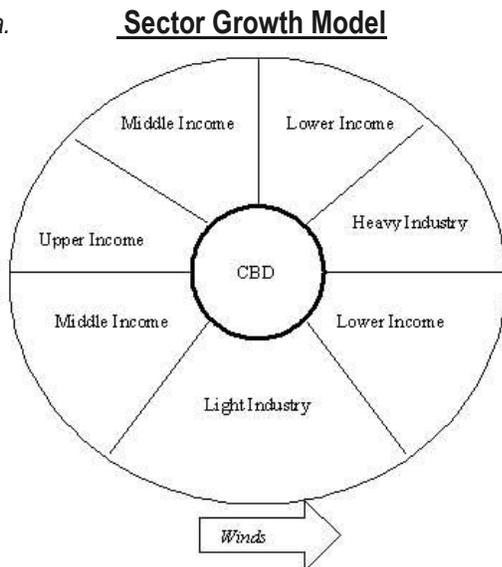
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INTRODUCTION

Long viewed as a hidden gem largely outside the nation's spotlight, the city of Houston has been ranked as the best place to live in several different categories by national and international publications over the last five years. Likely due to its new found popularity, and the region's economic prowess, the Bayou City is becoming a less affordable place to live. Houston has long been renowned for its real estate affordability and good neighborhoods making the city score high on the quality of life index. However, as the city weathered the recession and continued to create new jobs, the demand of new residents led to a real estate spike, drove up land and rent prices in good neighborhoods and within the urban core. The success of the real estate market and the lack of supply has led to a dearth of affordable real estate options in quality neighborhoods, leaving less desirable neighborhoods as the only places where working class families can find a place they can afford to live.

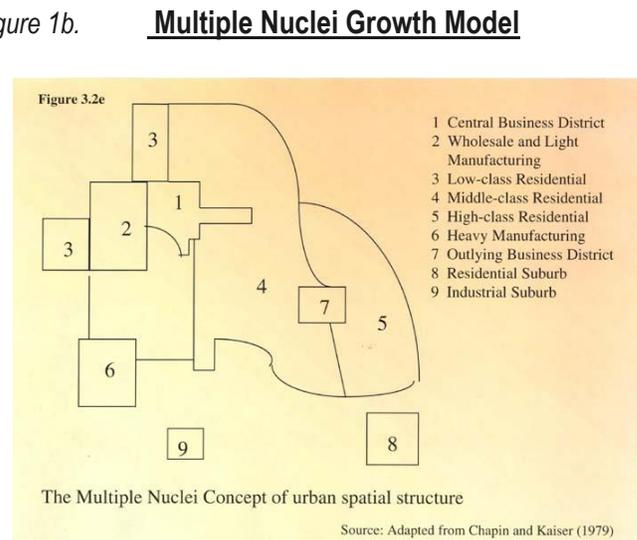
The growth of the Houston Metropolitan Statistical Area ("MSA") has followed both the Sector Growth and Multiple Nuclei theories. In the "sector growth" theory of development, growth occurs along the periphery of the central business district, as seen in inner-loop Houston. While in the "multiple nuclei" theory, development growth occurs as new urban centers form within residential areas. The "multiple nuclei" theory has characterized Houston's expansion over the last four decades, and has helped the region thrive as city dwellers were able to find new enclaves to raise their families in suburban settings. Over the last 20 years, "re-urbanization" has drawn more affluent residents back into the city's inner core, gradually replacing the old sector growth order. This shift has been accompanied by a cross-migrational pattern where suburban, previously quality affordable neighborhoods abandoned by original occupants, are being replaced by newer low-to-moderate income families. These shifting trends have led to what is increasingly becoming a broad based urban/suburban need for quality affordable housing.

Figure 1a.



Note: Similar to Houston's Growth Model

Figure 1b.



Note: For illustrative purposes only

Some of the critical factors to consider when looking at housing affordability include income, poverty, neighborhoods, housing availability, and public policy. This paper examines the current real estate market, income levels of working class families, availability of affordable housing options for those families, and suggests policy proposals to deal with the affordable housing gap in order to stem the looming affordability crisis within Houston's urban core and its exurban neighborhoods.

INCOME AND HOUSING NUMBERS

According to the U.S. Census Bureau data, Houston's 2015 median household income is \$48,258. In its June 2015 report, the Houston Association of Realtors' numbers indicate the median home sold in the Houston MSA was priced at \$223,000, a figure simply out of reach for most families.¹ With a population of 2.2 million residents, and an average household size of 2.70 persons, only 45% of Houston households live in owner-occupied dwellings.² The homeownership percentage is low in comparison to other major American cities, and is further compounded by the fact that Houston's demand is causing housing values to grow at a much faster pace than median family income. A continuation of this trend will likely lead to further decline in homeownership rates, but more troubling is the fact that short supply and increasing demand by residents looking to live within Houston's urban core, is driving real estate prices significantly higher.

In 2011, the US Census estimated a Houston median household income of \$42,811, which means median income has risen about 12.7% over the last four years.³ Over that same period, however, median home values rose from \$161,000 in the Houston MSA to \$223,000, an approximate 38.5% increase (\$123,000 to \$187,176 in the City of Houston or a 52% increase). The homeownership rate in the MSA is down 6-8% from 2010 at the peak of the economic recession, and the cost of renting a home has grown significantly in every housing category over that time span. The outlook is even more dire for millennials and Nextgen whose median income at \$35,034 qualifies them to purchase a home, though not at Houston's median home price.⁴ There is also a rising trend within the group where those able to purchase a home are opting to rent in order to be closer to work or the inner city, a fact bolstered by a recent survey where a majority of millennials plan to put off buying a home till 2018 and beyond.⁵

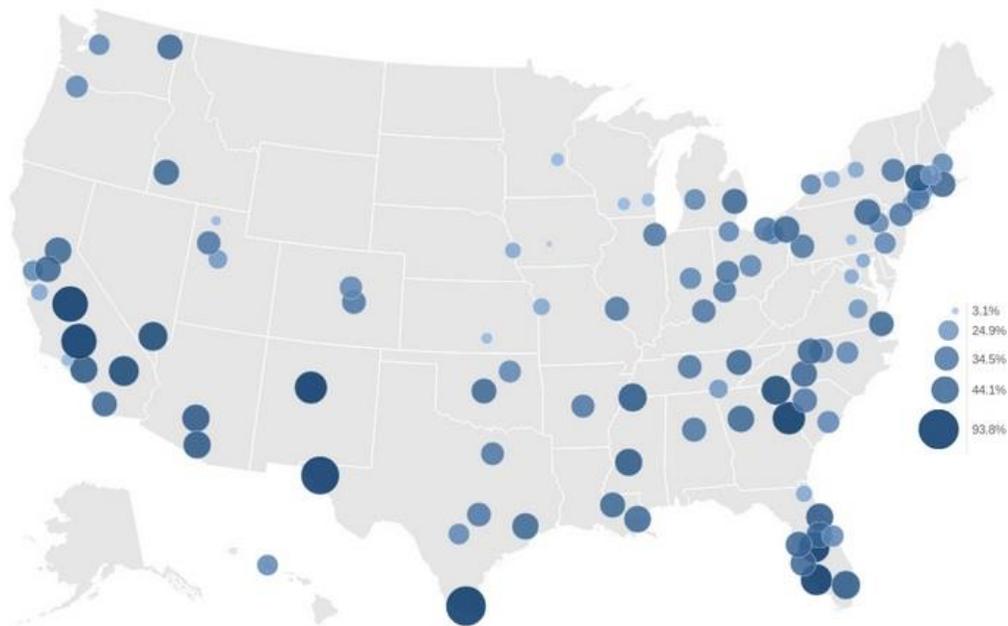
The conventional measure of housing affordability stipulates that households should spend 30% or less of their income on housing expenses. In a study conducted by Rice University's Shell Center for Sustainability, the results indicated that in five of Houston's 11 city council districts, 31% of households spent in excess of 30% of their income on housing.⁶ The study further ranked Houston 26th on the list of top 50 U.S. cities for affordability when transportation costs were factored in, a fact best appreciated by suburban residents most familiar with Houston's traffic. In a separate report by the Harvard Joint Center for Housing Studies, 45.5% of renter households in the Houston MSA spent more than 30% of their income on housing.⁷

POVERTY NUMBERS

Concentration of poverty continues to be a problem throughout the United States, though there has been a marked shift in where it persists. In the aftermath of the economic downturn from the early 2000's and the 2008 recession, poverty has become more concentrated in distressed neighborhoods, and has shifted from big cities and rural areas, into suburban and exurban areas. According to a 2014 report, analyzing the American Communities Survey (2008-2012), by the Brookings Institution, the concentration of poverty is exacerbating the challenges facing disadvantaged neighborhoods—namely escalating crime rates, failing schools, poorer health outcomes, and fewer employment opportunities—making it harder for families to break the cycle of poverty.⁸ The report further cites that the number of distressed neighborhoods, census tracts where poverty rates exceed 40 percent, rose by 75% during the 2000's, and nearly every major metropolitan area witnessed the growth of suburban poverty during the same time period. These numbers accentuate the fact that the issue of poverty is no longer just an urban or rural issue, but rather has become a broader issue that must be addressed in all parts of the country. And the future economic success of cities such as Houston is inextricably linked to the ability to offer quality affordable housing options, a critical element of breaking the cycle of poverty.

The graphic below indicates that, following the 2008 economic downturn, the Houston region now has 44.1% of its poor suburban residents living in high poverty or distressed neighborhoods.

Share of Suburban Poor Living in High Poverty or Distressed Neighborhoods, 2008-12



Source: Brookings Institution analysis of American Community Survey data

HOUSTON'S HOUSING SITUATION

Houston's leaders' primary objective going forward has to be determining how we provide quality housing options at an affordable cost for both renters and homeowners within the city limits. Data from the Texas Department of Housing and Community Affairs indicates that as of January 1, 2015, 46,261 affordable housing units (7,700 restricted for seniors 55 and above) were available in Houston from the state's Housing Tax Credit programs.⁹ Data from the Houston Housing Authority shows that 4,825 housing units are available (not including 1,200 Housing Tax Credit units), while the agency administers about 17,000 vouchers, making a total of approximately 23,000 housing units the agency is responsible for.¹⁰ Combining data from both agencies, we can approximate that affordable/rent-restricted housing units for Houston's low to moderate income families, earning between \$15,000 and \$42,800 or 30% to 60% of Area Median Income (AMI), totals out to 70,000 housing units.

Analysis of the household and population data from the American Communities Survey shows that of the slightly over 800,000 households within the city of Houston, 345,000 of them have household incomes of \$35,000 or less, while another 110,000 earn between \$35,000 and \$50,000. The numbers further indicate that approximately 16,200 households earning below \$35,000 annually live in owner-occupied housing units, and approximately 14,000 households earning between \$35,000 and \$50,000 own their homes, a total of just over 30,000. These numbers include senior households aged 55 years and above, where 126,225 earn below \$35,000, and 37,211 earn between \$35,000 and \$50,000 for a total of 163,436 households. These statistics confirm that homeownership has not been a viable option for most of Houston's working class families, leaving over 300,000 Houston households with rental housing as their primary option. Taking into account other socioeconomic factors such as credit, employment stability, and upward mobility, you find that most of those residents simply are unable to leverage homeownership as a tool to climb up the economic ladder.

This leaves approximately 270,000 households having to rely on market driven supply for affordable housing options. Those market forces do supply many of the households within that gap, though the options might be

limited to substandard dwelling units. Furthermore, over 50% of those households spend above the recommended 30% of their income on housing, leaving less for other living expenses. Houston still maintains affordability in certain areas, a fortuitous benefit of its free market and sprawl growth model. There are a number of older neighborhoods that have owner-occupied and rental homes available at modest prices, and there are homes in ex-urban neighborhoods that have been developed over the last 30-40 years. The housing supply in these areas are usually an aging stock surrounded by declining neighborhoods. Based on the present development market (construction prices and land costs), it is impractical to rehabilitate some of the older housing, and developers are unable to develop new homes priced at or below the city's median price. In August 2015, of the 5,700 homes with a 'Houston' address on the Houston Association of Realtors' Multiple Listing Service, 32% were priced below \$220,000, and a mere 19% were priced at or below \$160,000

In the multifamily sector Class B and C+ apartments scattered throughout Houston's city limits, have experienced significant rental rate increases, driving a lot of residents to Class C and D complexes, the remnants of the apartment developments built from 1960s to 1980s that likely account for 60% or more of the affordable apartment inventory in the market. Listings for affordably priced rentals and apartments are primarily concentrated on the eastern half of the Inner Loop, and in areas spread out around the city's periphery, where transportation options are limited and costs are significant. The single-family residences in those areas have become rentals due to stagnant market conditions, where rental values have risen faster than home values. This market condition has been driven, in part, by few buyers at income levels that qualify them for a mortgage. A number of these neighborhoods are ripe for redevelopment and significant infrastructural investment that, if done right, can turn those neighborhoods into thriving communities yet again.

Figure 2a.

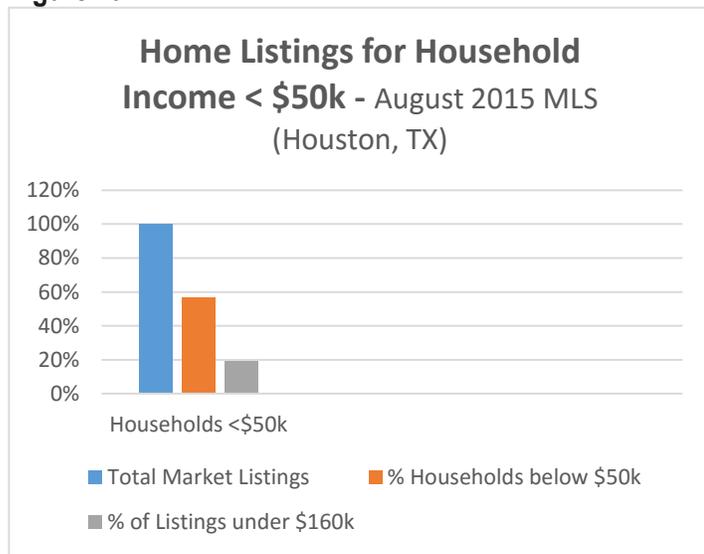


Figure 2a. shows the number of homes for in August 2015 on the Houston MLS priced below Houston's affordability cap of \$160,00, and compares that percentage to the percent of households earning less than \$50k annually

Figure 2b.

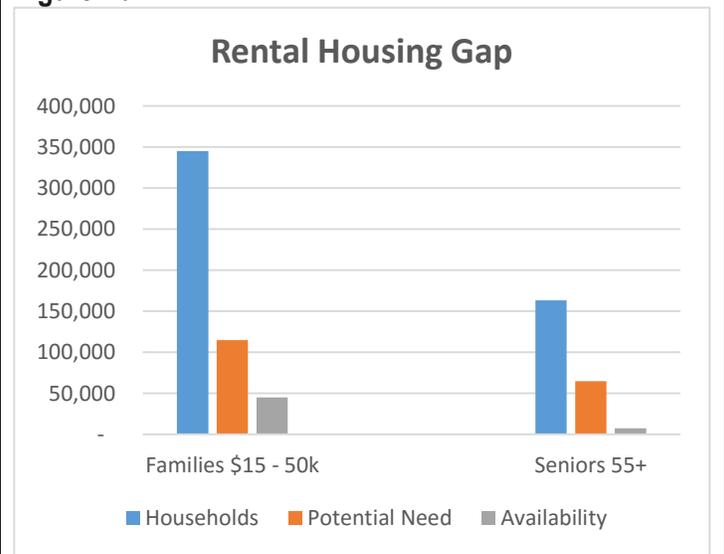


Figure 2b. depicts the gap between the number of households needing affordable housing and the availability of housing restricted to low to moderate income households.

RECOMMENDATIONS: A PATHWAY FORWARD

The City's embrace of higher density housing has been a positive step in the right direction, however, the City will need to do much more to meet the housing shortage it faces. The City needs to place emphasis on single and multi-family housing development, and must maintain a fair and balanced approach where neighborhood objection to high density multifamily housing, the proverbial Not In My Back Yard ("NIMBY"), does not become the prevailing wind that dictates housing policy decisions. To achieve its aims, the City needs to collaborate with various stakeholders including developers, non-profit organizations, real estate professionals, TIRZ's (tax increment reinvestment zones) and neighborhood organizations to generate a workable needs and market driven plan for affordable housing.

Rental Housing

Projections from Houston's demographic forecasters anticipate that the city's population will continue to grow at a steady pace over the next decade. Using this data, the City can estimate a goal of affordable rental housing units to be built within the City limits over the next 10 years. Furthermore, the City should establish targets for development of housing in certain opportunistic areas with good schools that are within proximity of major employment centers including areas such as Downtown, The Texas Medical Center, Greenway Plaza, Galleria, Town & Country, Energy Corridor, The Woodlands, and NASA/Clear Lake. The City can begin by establishing the following baseline goals:

- Develop 20,000 rental units for working class families over the five year period from 2016 - 2020
- Set an average target number of affordable housing units per square mile in high opportunity areas

The City should take action to implement the following:

- Replicate the \$15,000 per door incentive program used to drive development of residential units in the eastern half of Downtown, by offering abatements to developers whose projects incorporate at least 60% of the units restricted to below market rents for residents within 30–80% AMI.
- Leverage existing HOME and CDBG funds with state 4% Tax Exempt Bonds and 9% Housing Tax Credits to drive development of affordable housing in target areas.
- Utilize CIP spending to drive infrastructural improvements in target areas, and apply housing dollars from TIRZ's, and development incentives such as tax abatements and lower permit fees to accelerate workforce housing development
- Implement a standard reimbursement for builders who tear down structures cited as dangerous buildings by the City, provided they construct affordable housing in its place within three years
- Establish a policy when City funds are expended towards a development or City-owned land is involved that requires inclusion of between 10 - 25% below market rate housing units in the project.
- Reserve portions of City-owned land in higher opportunity areas for construction of mixed income and affordable developments (an example is the pending sale of the Municipal Court Complex).
- Incorporate fast-track permitting for "affordable" housing to facilitate faster delivery of housing units.
- Fast-track the Planning Department approval process for developers with an established track record with the City.

Home Ownership

The goal of achieving development of affordable homes within the urban core must focus on overcoming the significant barriers of high cost of land, scarcity of assembled large contiguous tracts, lack of qualified buyers, tightened mortgage requirements, and the unfavorable risk/reward ratio that drives most builders to respond to the needs of the higher end of the market. The City of Houston needs to rebuild and rebrand its

homeownership incentive program to make it more robust, flexible, and accommodating to the development of affordable single-family homes within the urban core. Some of the proposed goals for City's single family program should include:

- Achieve a 40% conversion rate of Land Assemblage Redevelopment Authority (LARA) owned lots into developed single-family dwelling units from 2016 – 2020.
- Facilitate construction of 10,000 single family homes for working class families from 2016 – 2020.
- Partner with developers and offer reimbursements for infrastructural improvements (sidewalks, lighting, pocket parks) in communities needing revitalization.

The City should also take action to implement the following:

- Raise the affordability cap on home sales prices on a sliding scale up to \$220,000, enabling builders to acquire land from public entities at a de minimis amount and still build a quality home.
- Expand the City's service worker homebuyer incentive program to include policemen, firefighters, non-managerial city workers, teachers, nurses, and Metro service employees.
- Expand first time homebuyer assistance programs and partner with area banks on establishing more favorable lending requirements, downpayment assistance, and second mortgage coverage.
- Create a fast-track permitting process for builders constructing homes under the city's affordable housing program, and lessen permit and impact fees to help achieve affordability price targets.
- Compile a singular database of city-owned land, and hasten the process of reclaiming tax delinquent properties within certain nodes targeted for housing development to facilitate land assemblage for development of single family homes.
- Establish a policy when City funds are applied towards a development or City-owned land is involved that requires development of a certain percentage of homes at or below the affordability cap.
- Establish a standard tax rebate to reimburse developers who tear down structures cited as dangerous buildings by the City, provided they build affordable housing in its place within three years.

SUMMARY CONCLUSION

The City of Houston needs to commission a Comprehensive Housing Market Analysis, which would measure income and households against housing options available that fit within the 30 percent income test. This study would help the City better understand the shortages in affordable housing, identify areas of greatest need, and offer a defined basis on which to prioritize affordable housing development. The study should quantify the percent of current dwelling units that are substandard housing, and those that need to be rebuilt or rehabilitated to extend their useful life. Quantitative data from this study should be evaluated against the aforementioned recommendations to ascertain if the suggested actions go far enough in helping the City meet its long-term affordable housing needs.

Houston's population is projected to continue to grow at an annual rate of 1.36%, which means the city will add 181,000 residents by the end of the next Mayor's term. Though the City will maintain population growth, its growth rate continues to lag behind the MSA, leaving it at a net population loss, relative to the region, and at further risk of erosion of its comparative tax base.¹¹ Beyond its population growth, Houston's upward real estate trend is emblematic of trends endured by other markets, where escalating real estate values have driven working class families out of the city limits. A nearby example of such a market is Austin, TX, where rents increased 50% from 2004 to 2013, young professionals are being driven out of the City's core, and just six neighborhoods have rental listings priced on average at or below \$1,000 per month.¹²

With comprehensive study data available, the City's Housing and Community Development Department can work with the Planning Department and community stakeholders to apply necessary revisions to the goal of affordable housing units needed to be completed within the 5 year span from 2016 to 2020. The data can also help establish a more comprehensive decade-long forecast. This longitudinal forecast can then be

incorporated into a prioritization chart, where housing development numbers are targeted by geographic area, type (family or elderly), and category (rental or owner occupied). Lastly, the action plan should be integrated within the City's Neighborhoods and Public Works & Engineering Departments, so that they can be part of the process of improving target neighborhoods, and prioritizing capital improvement spending.

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