

Memorandum



CITY OF DALLAS

DATE February 12, 2016

TO Housing Committee Members: Scott Griggs, Chair, Carolyn King Arnold, Vice-Chair, Mayor Pro-Tem Monica R. Alonzo, Tiffinni A. Young, Mark Clayton, and Casey Thomas, II

SUBJECT A Toolkit of Options to Encourage Mixed-Income Housing

On Tuesday, February 16, 2016, you will be briefed on A Toolkit of Options to Encourage Mixed-Income Housing. A copy of the briefing is attached.

Please let me know if you have any questions.

A handwritten signature in black ink, appearing to read 'Alan E. Sims'.

Alan E. Sims
Chief of Neighborhood Plus

c: The Honorable Mayor and Members of the City Council
A. C. Gonzalez, City Manager
Rosa A. Rios, City Secretary
Warren M.S. Ernst, City Attorney
Craig Kinton, City Auditor
Daniel F. Solis, Administrative Judge
Ryan S. Evans, First Assistant City Manager
Eric D. Campbell, Assistant City Manager
Jill A. Jordan, P. E., Assistant City Manager
Mark McDaniel, Assistant City Manager
Joey Zapata, Assistant City Manager
Jeanne Chipperfield, Chief Financial Officer
Sana Syed, Public Information Officer
Elsa Cantu, Assistant to the City Manager – Mayor and Council



A Toolkit of Options to Encourage Mixed-Income Housing

TREC Presentation to the
Dallas City Council Housing Committee

February 16, 2016

The Challenge

Can we address a regional issue through a local solution?

The Response

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

Our Strategy

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

The Result

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

Executive Summary

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

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

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

Overview of TREC Process

- Formed Working Group of Industry Experts
 - *Met Weekly for 4 months*
- Compared and Analyzed Best Practices of 17 Cities Across the Country
- Consulted with the Ron Terwilliger Foundation, National Multifamily Housing Council, City staff, and Councilmembers
- Identified Current Location of Affordable Housing Properties, Relevant Zoning Designations and City-owned Land Through Interactive Regional and Local Maps.
 - *Statistical Data Mapped*
- Compiled Recommendations and Tested Them Using Real-life Examples

Affordable Housing Working Group

Stephen Bancroft, Trammell Crow Residential

Mary Ann Barnett, Butler Burgher Group

Brandon Bolin, Ground Floor Development

Britton Church, JLB Partners

Macey Davis, The Davis Advocates

Vance Detwiler, Prescott Realty Group

Myron Dornic, Jackson Walker

Matt Enzler, Trammell Crow Residential

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Justin Goertz, Marvin F Poer & Company

Gerry Hedgecock, Crow Holdings

Stephanie Keller Hudiburg, The Real Estate Council

Matty Jones, Coats Rose

Suzan Kedron, Jackson Walker

Kennis Ketchum, Portfolio Development

Scott Krikorian, Trammell Crow Company

Blanca Laborde, Attorney at Law

Linda McMahon, The Real Estate Council

Susan Mead, Jackson Walker

Brian Mullen, Streetlights Residential

Robert Munding, Commit!

Claire Palmer, The Law Offices of Claire G Palmer

Rick Perdue, Mill Creek Residential

Katy Slade, Gables Residential

Neal Sleeper, Cityplace Company

Pamela Stein, ULI North Texas

Jonathan Vinson, Jackson Walker

Bob Voelker, Streetlights Residential

Reviewed Cities

Austin, TX

Houston, TX

Fort Worth, TX

New York, NY

San Diego, CA

San Jose, CA

Washington, DC

Chicago, IL

Boston, MA

Denver, CO

Boulder, CO

Seattle, WA

Portland, OR

Miami, FL

West Palm Beach, FL

Phoenix, AZ

Philadelphia, PA

What Does “Affordable” Mean?

What Is Affordable Housing?

- Affordable housing is commonly defined as housing for which the occupants are paying no more than 30% of their gross income for housing costs, including utilities, as defined by HUD.
- According to the American Community Survey conducted by the U.S. Census Bureau, nearly 50% of Dallas County renters were paying more than 30% of their income for housing. (Source: US Census, ACS 3-year Estimates, 2011-2013)
- Affordability assumptions are based on Dallas Metropolitan Statistical Area Median Income (see Addendum for definition of AMI) for a family of 4, as established by HUD. FY 2015 AMI is \$70,400.

What is Mixed-Income Housing?

- Mixed income housing contributes to the diversity and stability of American communities.
- According to HUD, a mixed-income housing development is generally comprised of housing units with a mix of market-rate housing and varying levels of affordable housing (at or below 140% AMI).
- The “mix” can differ from community to community based on the local housing market and marketability of the units themselves.
- Research shows that mixed-income communities that result in socio-economically diverse schools contribute to higher performance of low-income students.
- Sound policy will encourage mixed-income housing.

2015 Median Family Income

Fiscal Year 2015 Median Family Income

Dallas Region

Area Median Income (AMI)	Income Level	Dollar Amount by Family Size			
		1	2	3	4
30%	Extremely Low Income	\$14,800	\$16,900	\$20,090	\$24,250
50%	Low Income	\$24,650	\$28,200	\$31,700	\$35,200
60%	Moderate Income	\$29,568	\$33,792	\$38,016	\$42,240
67%		\$33,018	\$37,734	\$42,451	\$47,168
80%		\$39,450	\$45,050	\$50,700	\$56,300
100%	Average	\$49,280	\$56,320	\$63,360	\$70,400
120%	Middle Income	\$59,136	\$67,584	\$76,032	\$84,480
140%		\$68,992	\$78,848	\$88,704	\$98,560

Source: City of Dallas Neighborhood Plus Plan, HUD FMR Area Estimates for the Dallas Area 2015

Note: "Dallas Region" indicates the Dallas, TX HUD Metro FMR Area, so all information presented here applies to all of the Dallas, TX HUD Metro FMR Area. The Dallas, TX HUD Metro FMR Area contains the following areas: Collin County, TX; Dallas County, TX; Delta County, TX; Denton County, TX; Ellis County, TX; Hunt County, TX; Kaufman County, TX; and Rockwall County, TX.

How Does AMI Apply?

It is important to note that in higher density areas like Uptown and Downtown Dallas, most apartments are studio, 1-bedroom and 2-bedroom units.

Generally, these units are intended for up to three persons. Therefore, the income levels in the next slide reflect the actual income of the rental population.

Example Occupations by Income

City of Dallas Example Wage Ranges by Occupation

Occupation	Minimum Wage - Maximum Wage	Maximum Affordable Rent Range (30%)	AMI Range (Family of 3)
Police	\$44,658 - \$105,541	\$1,116-\$2,638	>67% to >140%
Fire	\$44,658 - \$105,541	\$1,116-\$2,638	>67% to >140%
Teacher	\$47,000 - \$78,200	\$1,175-\$1,955	>67% to >120%

Sources:

http://dallascityhall.com/departments/humanresources/DCH%20Documents/pdf/CompClass_FirePaySchedule_AttachB.pdf
http://dallascityhall.com/departments/humanresources/DCH%20Documents/pdf/CompClass_PolicePaySchedule_AttachB.pdf
<http://www.dallasisd.org/cms/lib/TX01001475/Centricity/Domain/110/DISD%202015-2016%20Salary%20Handbook%20FINAL.pdf>

Average Rents In Dallas Vary by Area

One Size Does Not Fit All

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

2015 MF Rental Data					
Submarket	Effective Rent	1BR Rent	2BR Rent	3BR Rent	4BR Rent
Downtown/West End Historic	\$1,999	\$1,714	\$2,415	\$3,168	N/A
Uptown/Oak Lawn	\$1,448	\$1,156	\$1,813	N/A	N/A
North/Oak Cliff	\$770	\$671	\$834	\$867	N/A
Fair Park/South Dallas	\$627	\$548	\$653	\$780	N/A
2013 MF Rental Data					
Submarket	Effective Rent	1BR Rent	2BR Rent	3BR Rent	4BR Rent
Downtown/West End Historic	\$1,542	\$1,303	\$1,926	\$2,308	N/A
Uptown/Oak Lawn	\$1,290	\$1,014	\$1,661	\$2,514	N/A
North/Oak Cliff	\$727	\$611	\$767	\$903	N/A
Fair Park/South Dallas	\$690	\$588	\$713	\$858	N/A
2011 MF Rental Data					
Submarket	Effective Rent	1BR Rent	2BR Rent	3BR Rent	4BR Rent
Downtown/West End Historic	\$1,445	\$1,233	\$1,778	\$2,057	N/A
Uptown/Oak Lawn	\$1,312	\$1,055	\$1,617	\$2,141	N/A
North/Oak Cliff	\$690	\$594	\$732	\$864	N/A
Fair Park/South Dallas	\$672	\$555	\$700	\$837	N/A

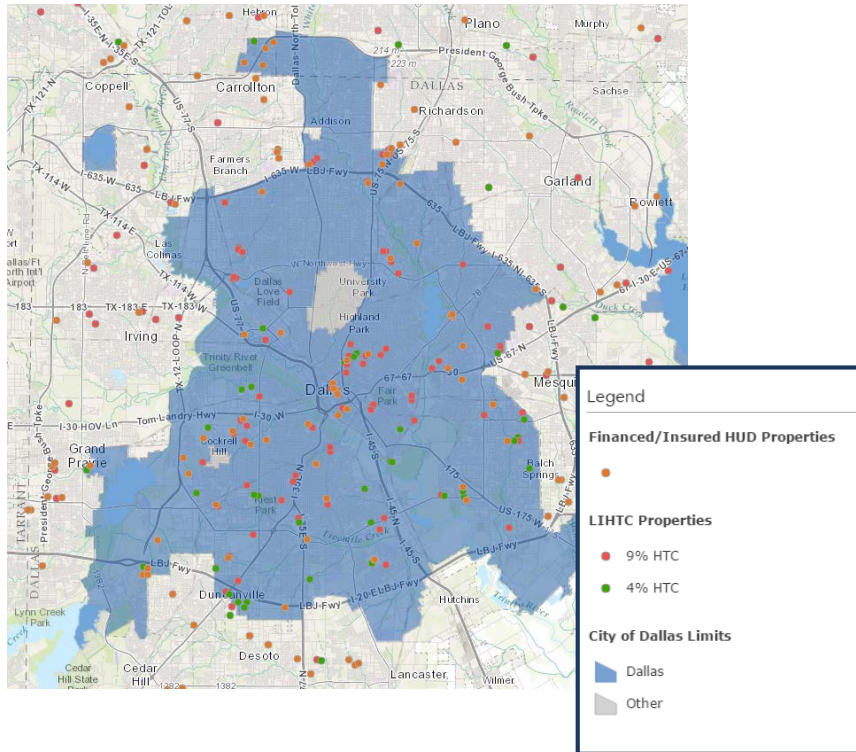
Source: REIS and MPF/Yieldstar



Understanding the Current State of Affordability

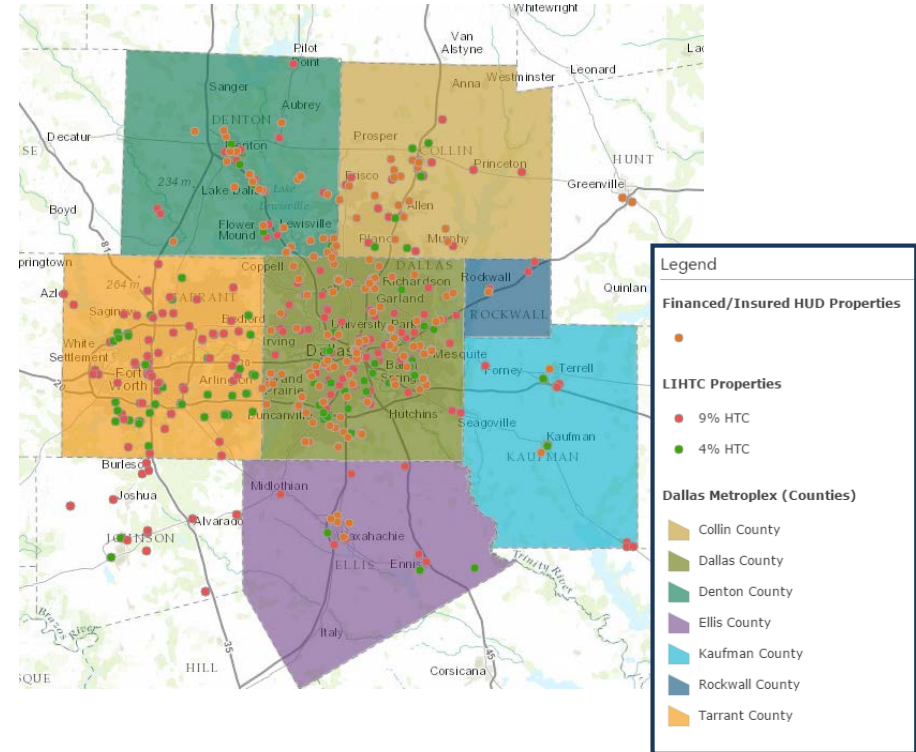
Current LIHTC & Financed/Insured HUD Properties

City of Dallas

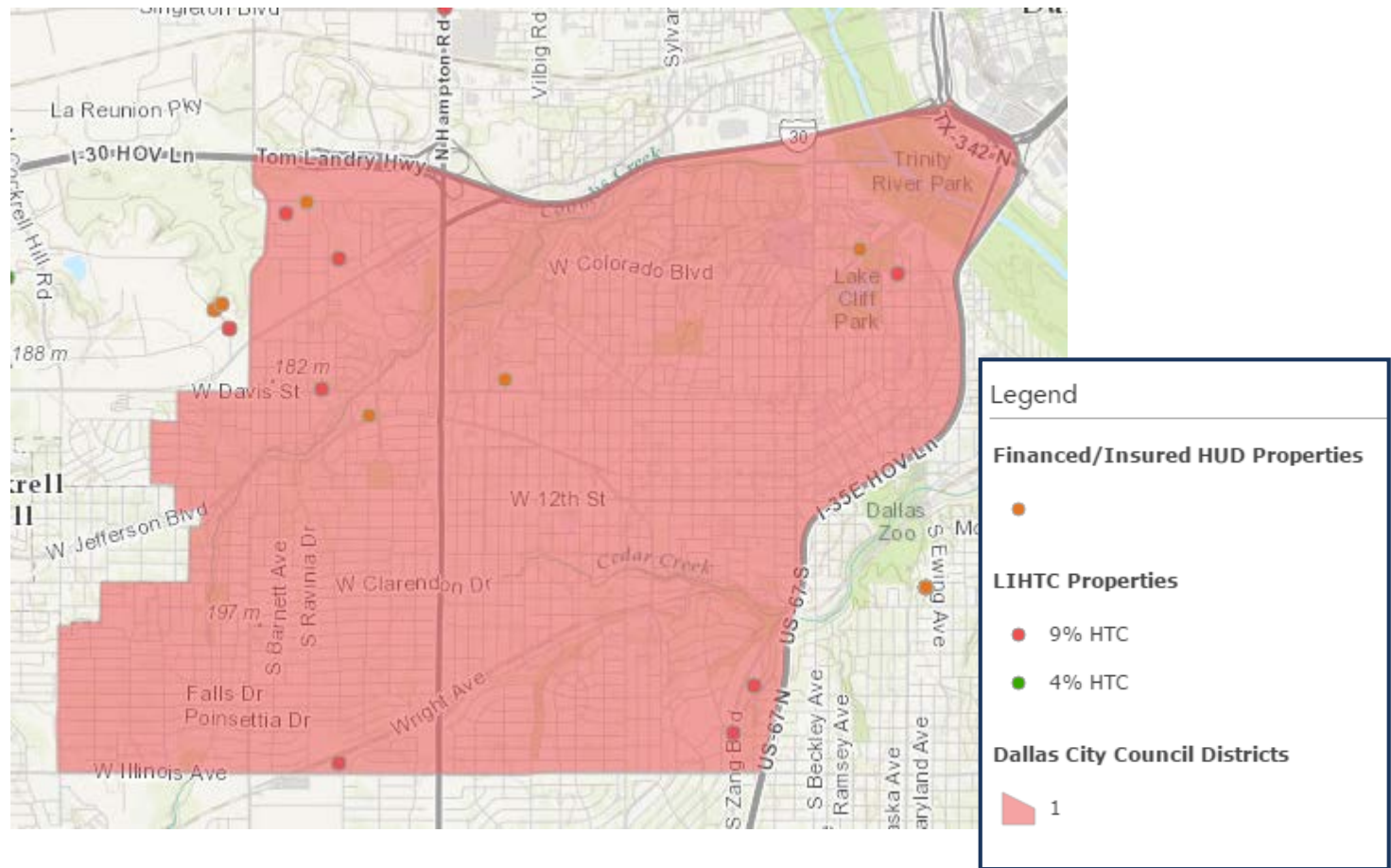


Region

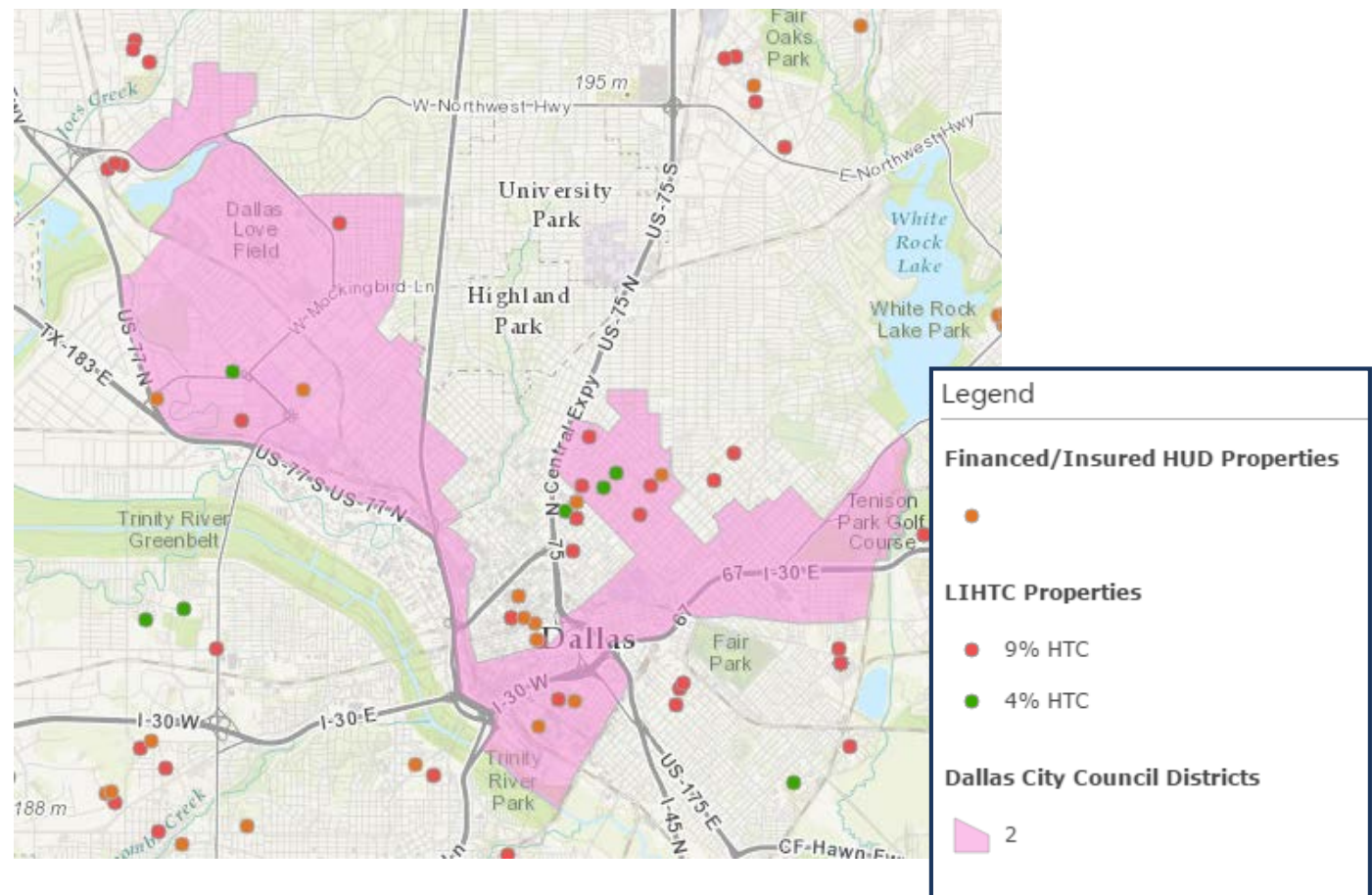
(Dallas, Colin, Denton, Kaufman, Rockwall, Hunt and Ellis Counties)



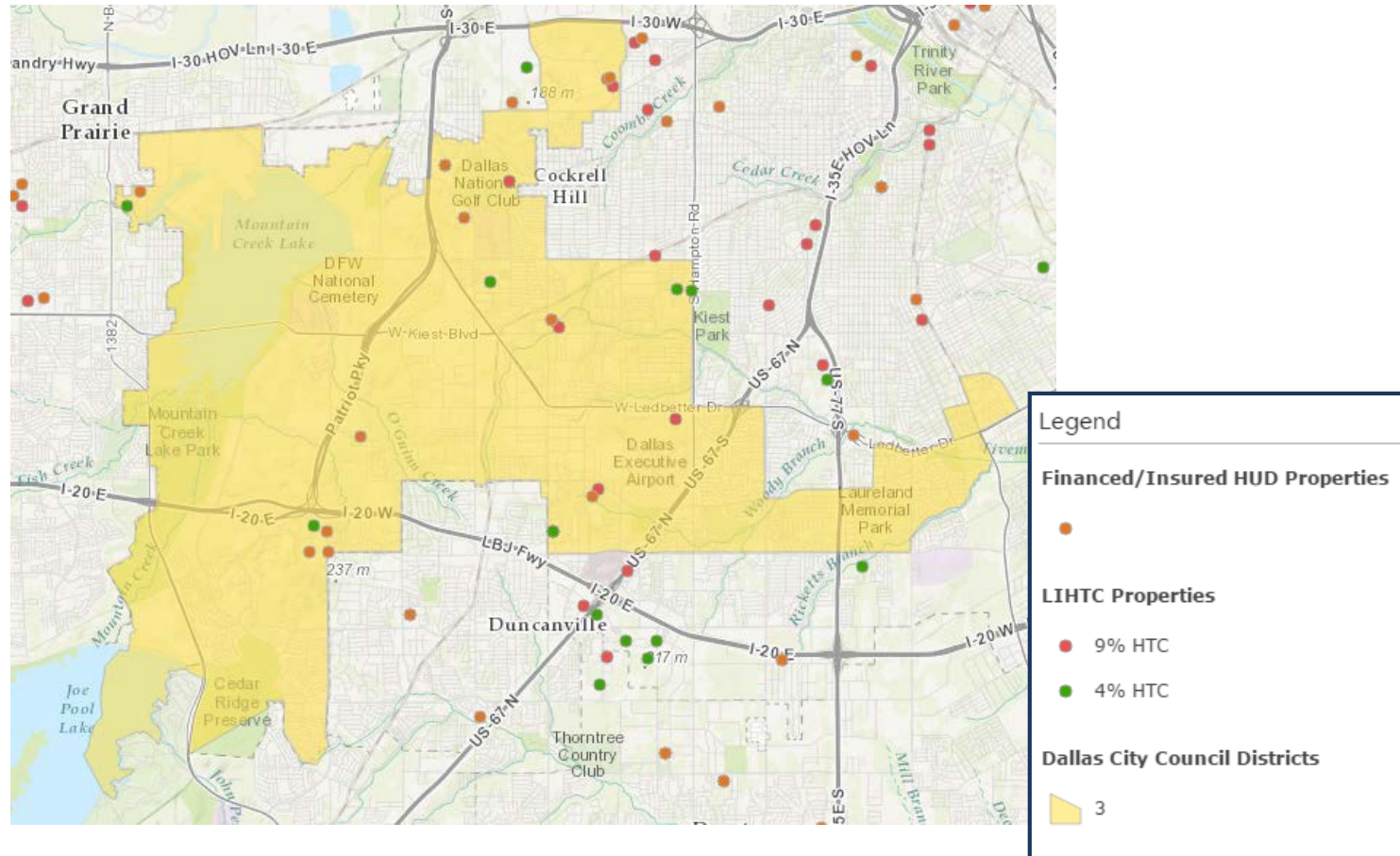
District 1 – Councilmember Griggs



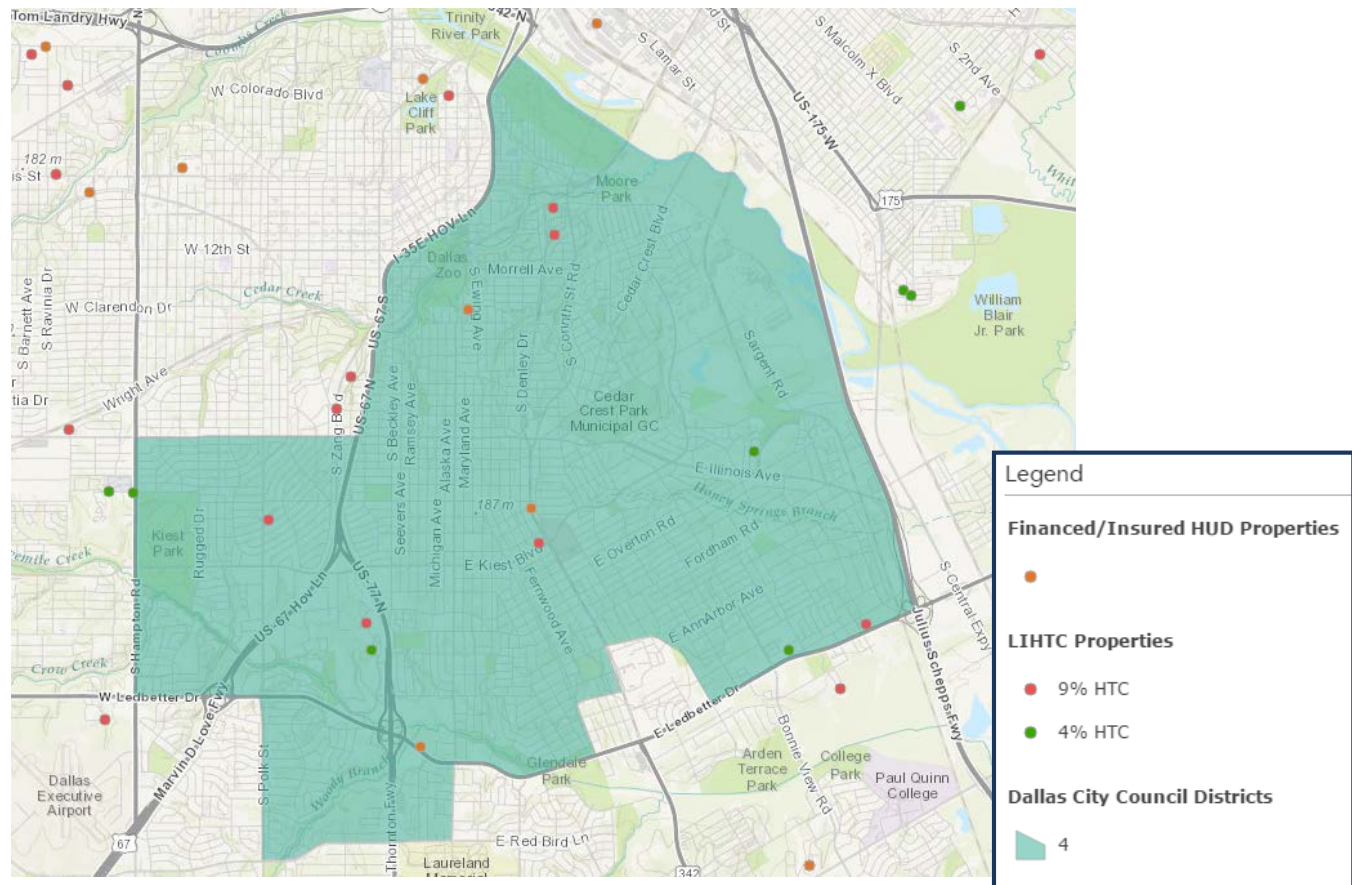
District 2 – Councilmember Medrano



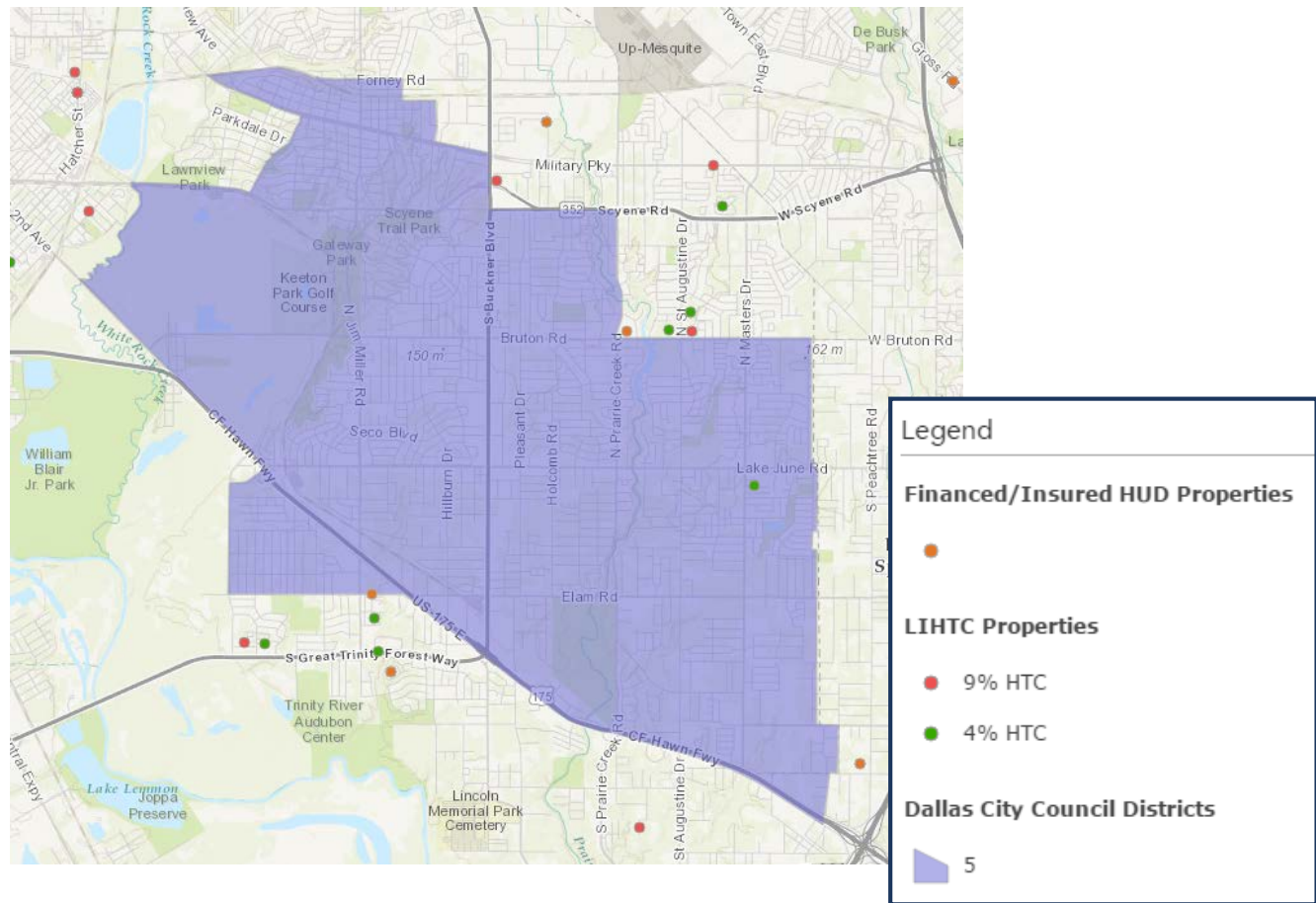
District 3 – Councilmember Thomas



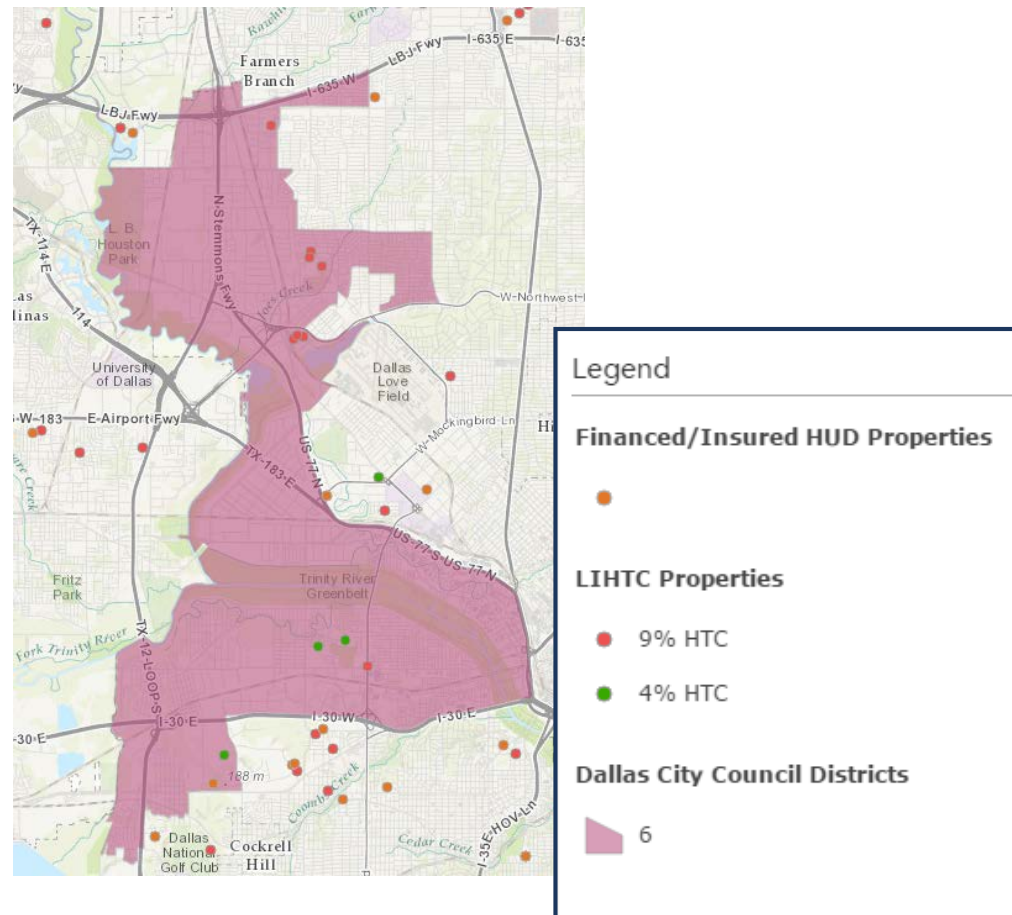
District 4 – Councilmember Arnold



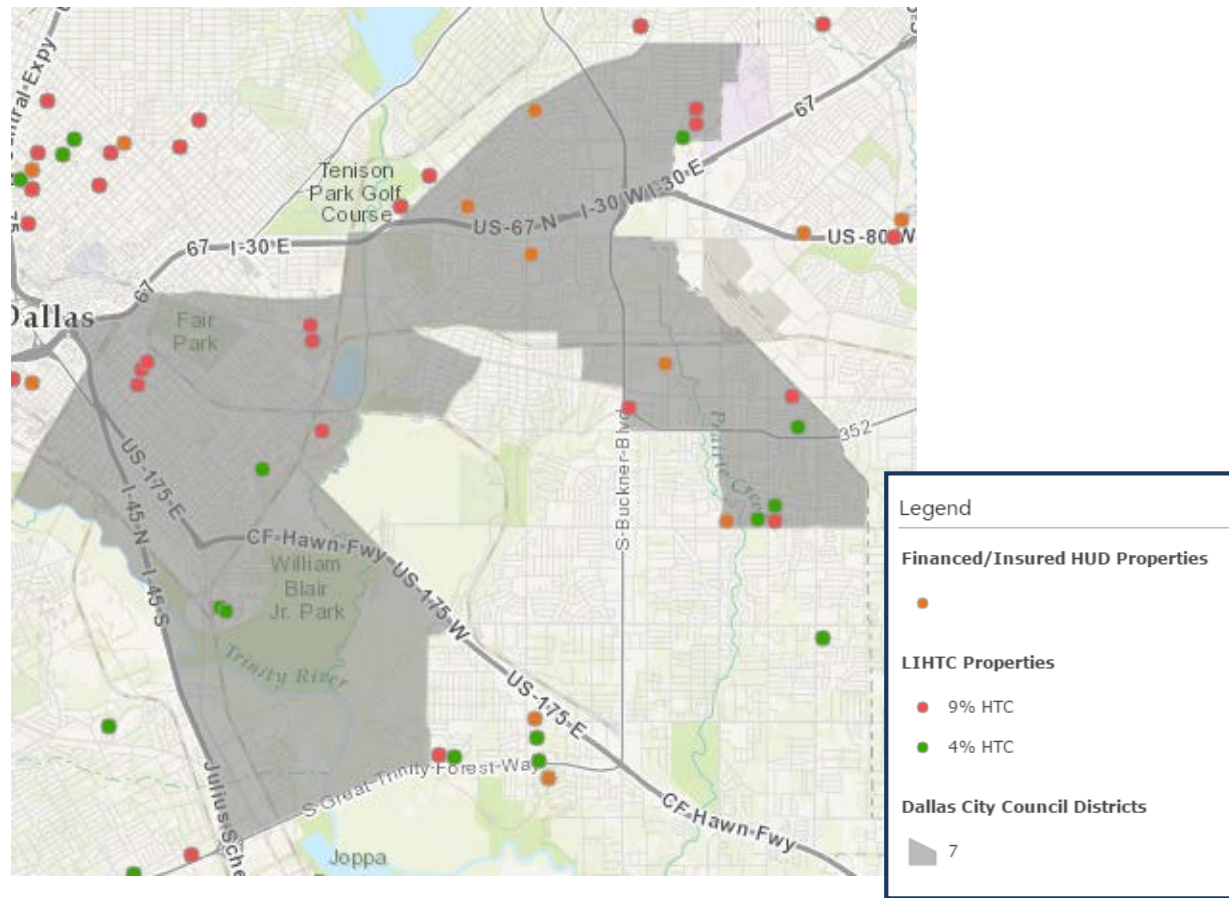
District 5 – Councilmember Callahan



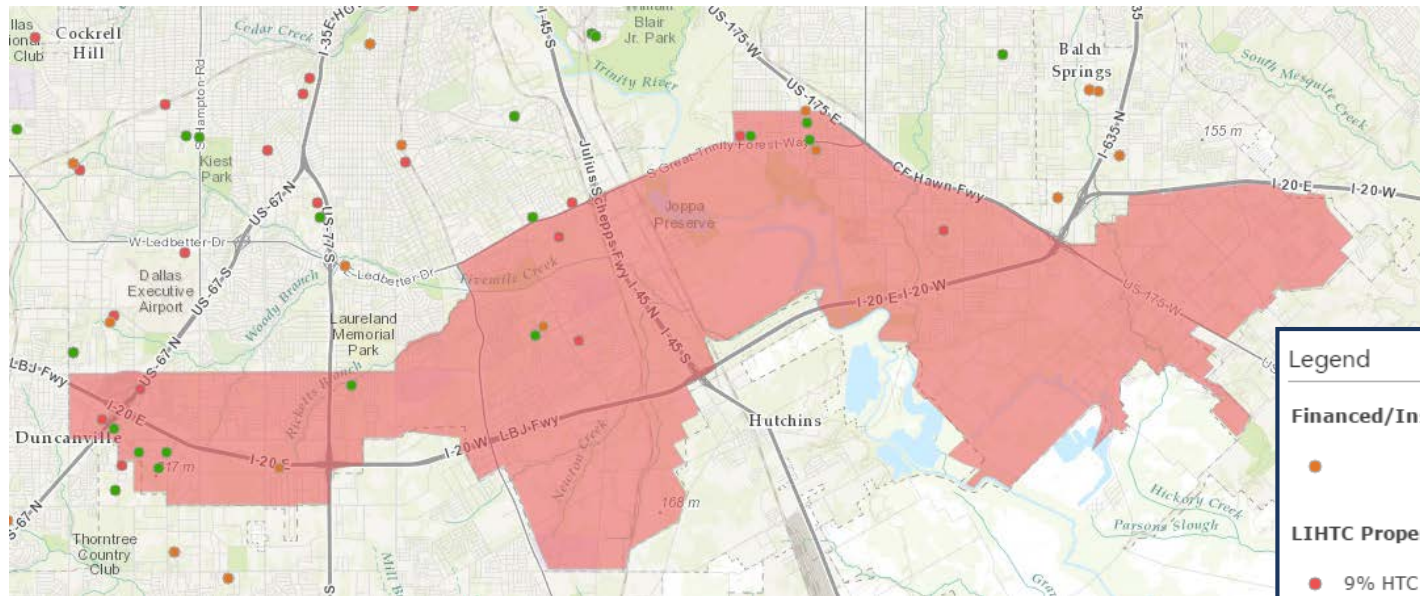
District 6 – Councilmember Alonzo



District 7 – Councilmember Young



District 8 – Councilmember Wilson



Legend

Financed/Insured HUD Properties



LIHTC Properties

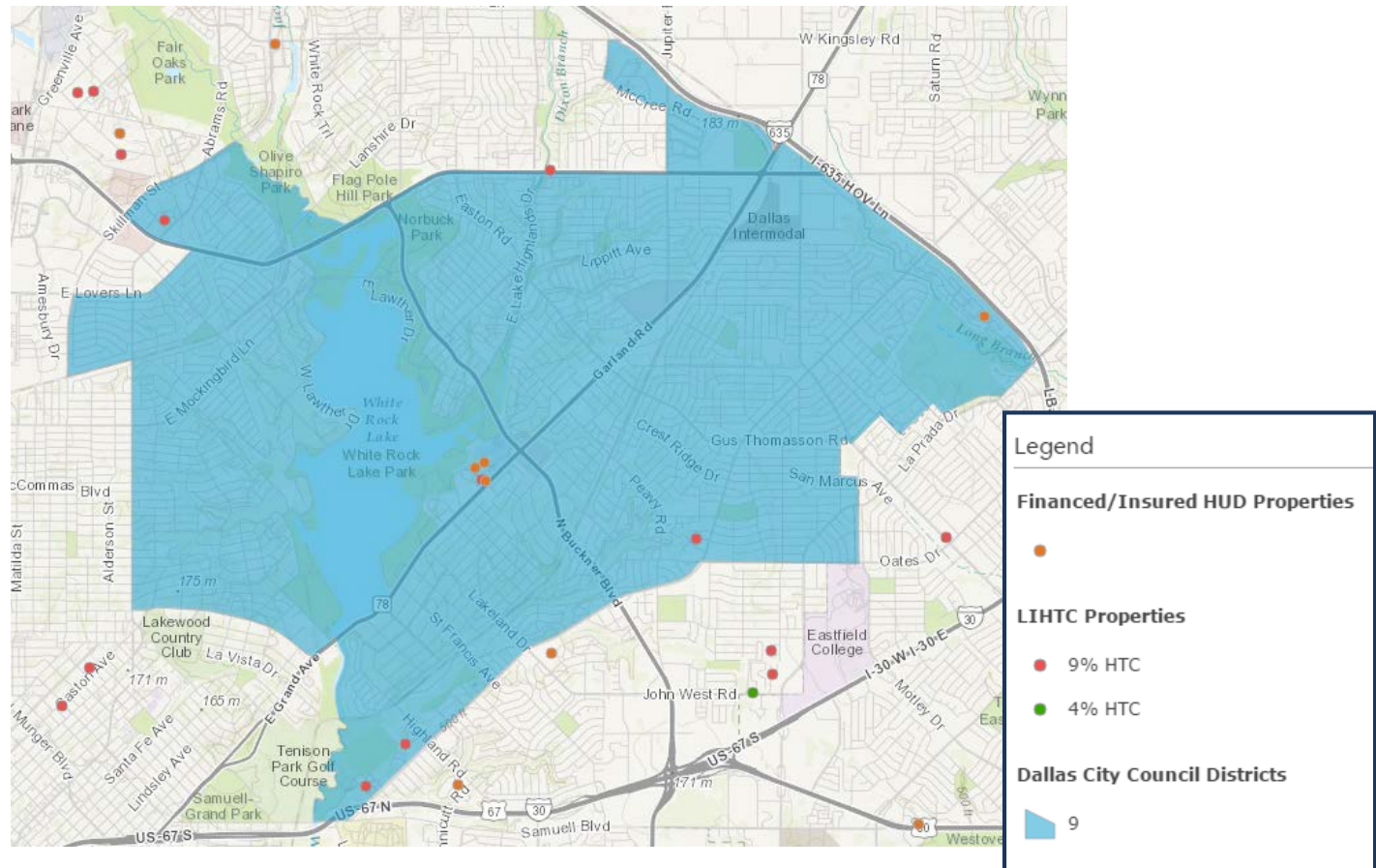


Dallas City Council Districts

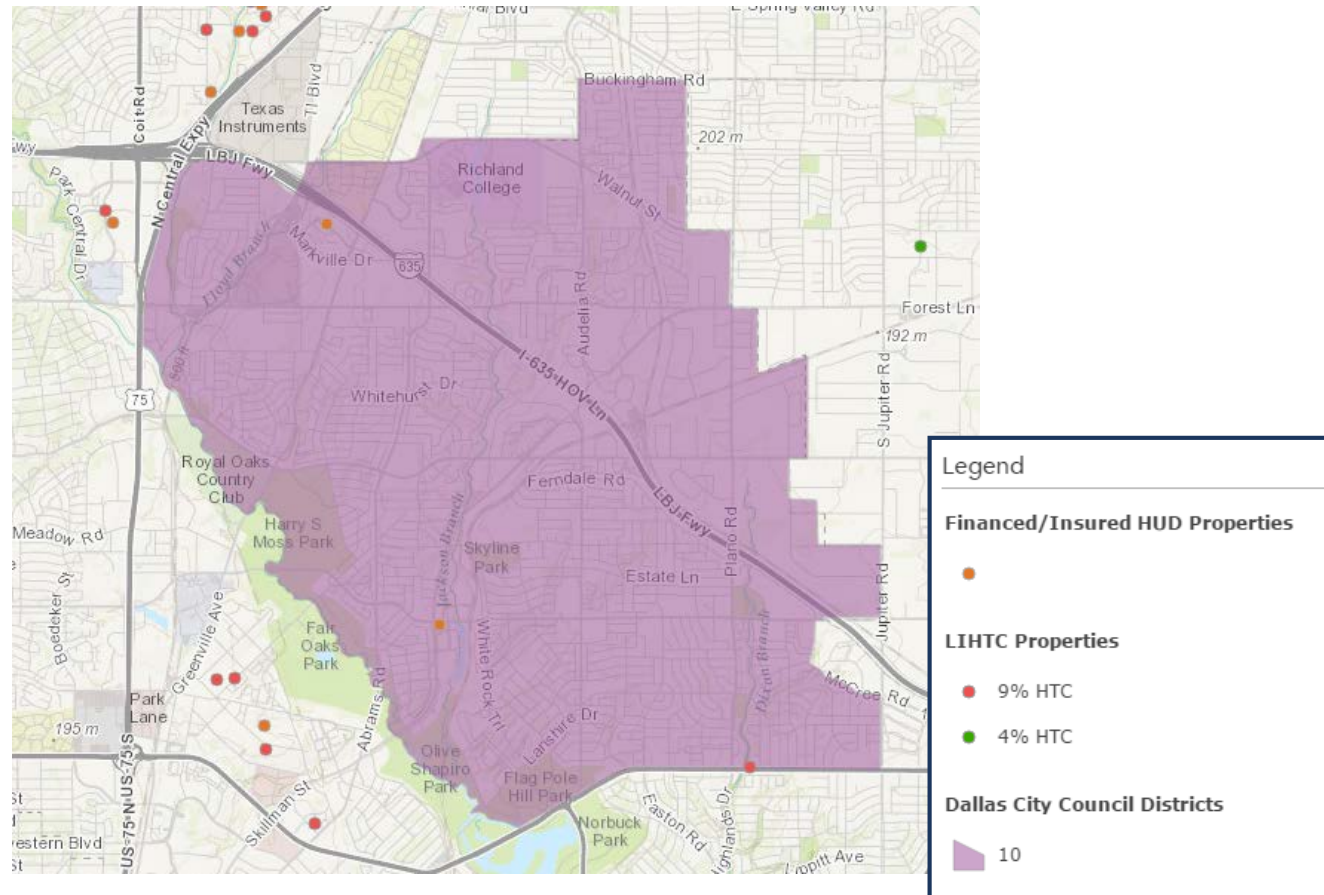


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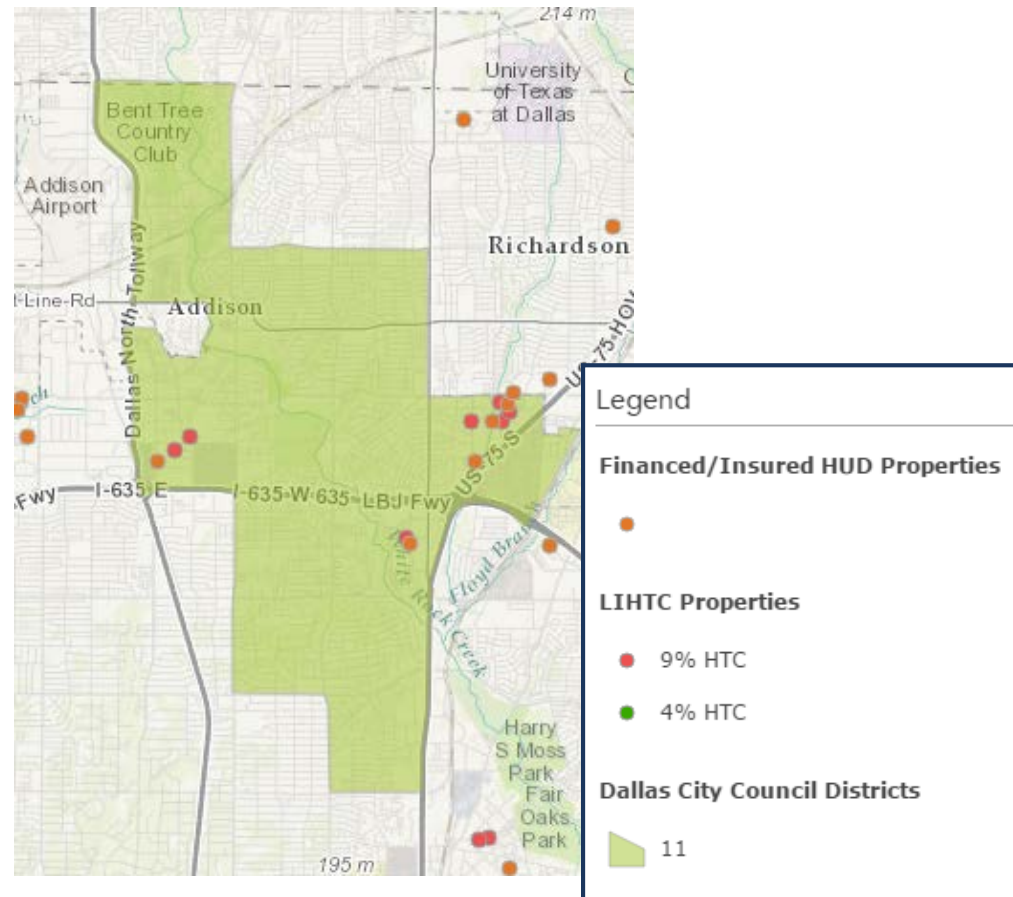
District 9 – Councilmember Clayton



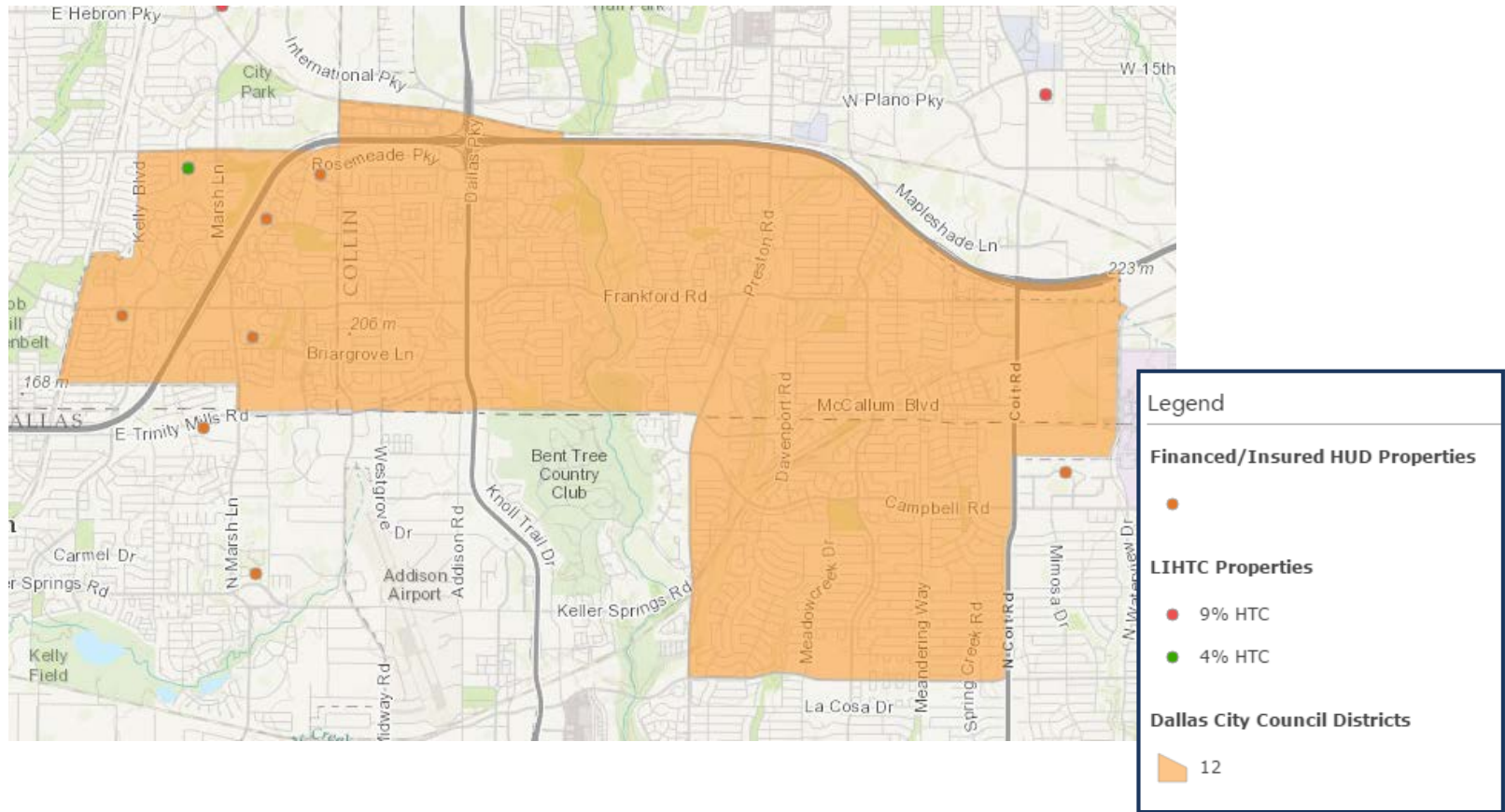
District 10 – Councilmember McGough



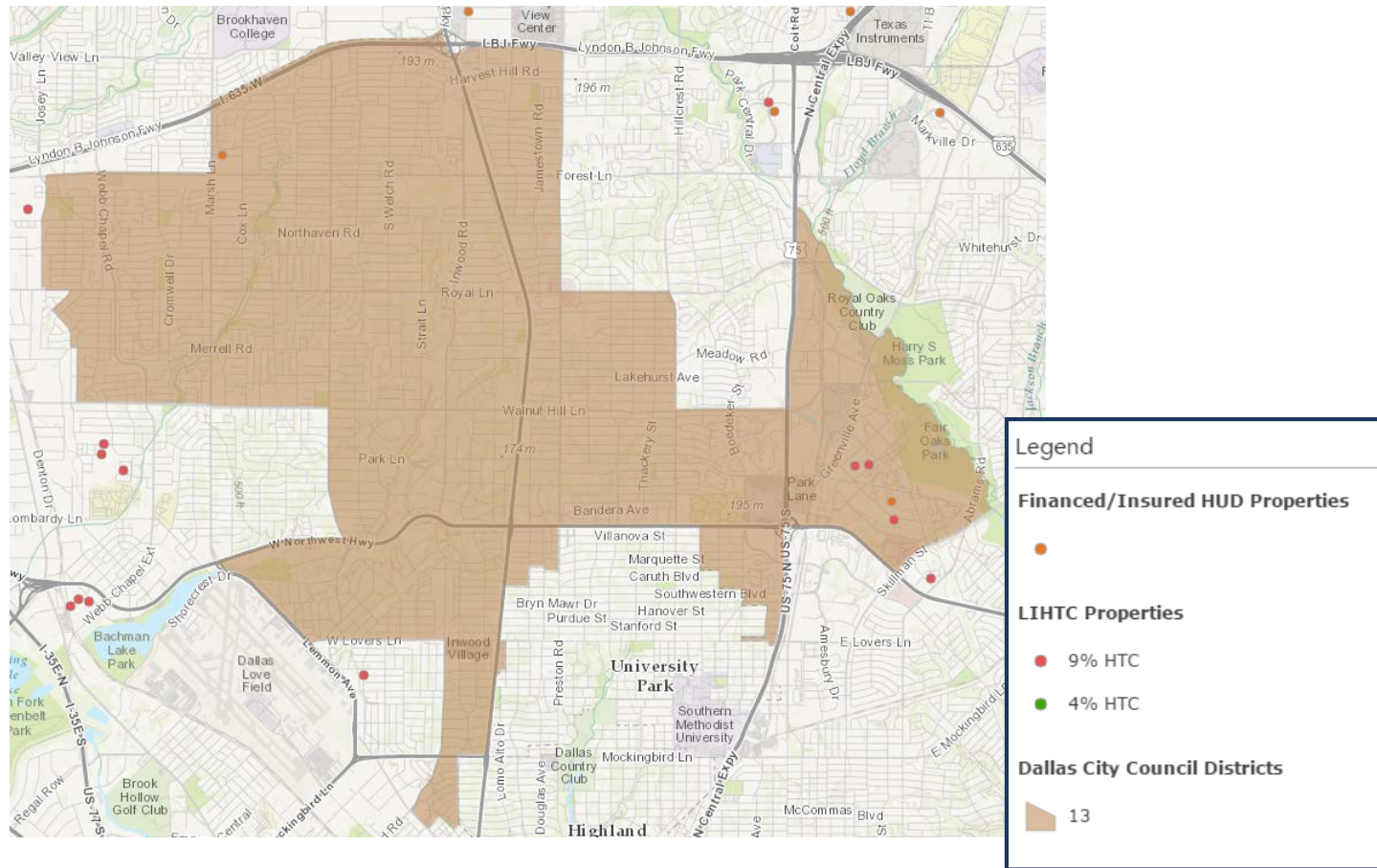
District 11 – Councilmember Kleinman



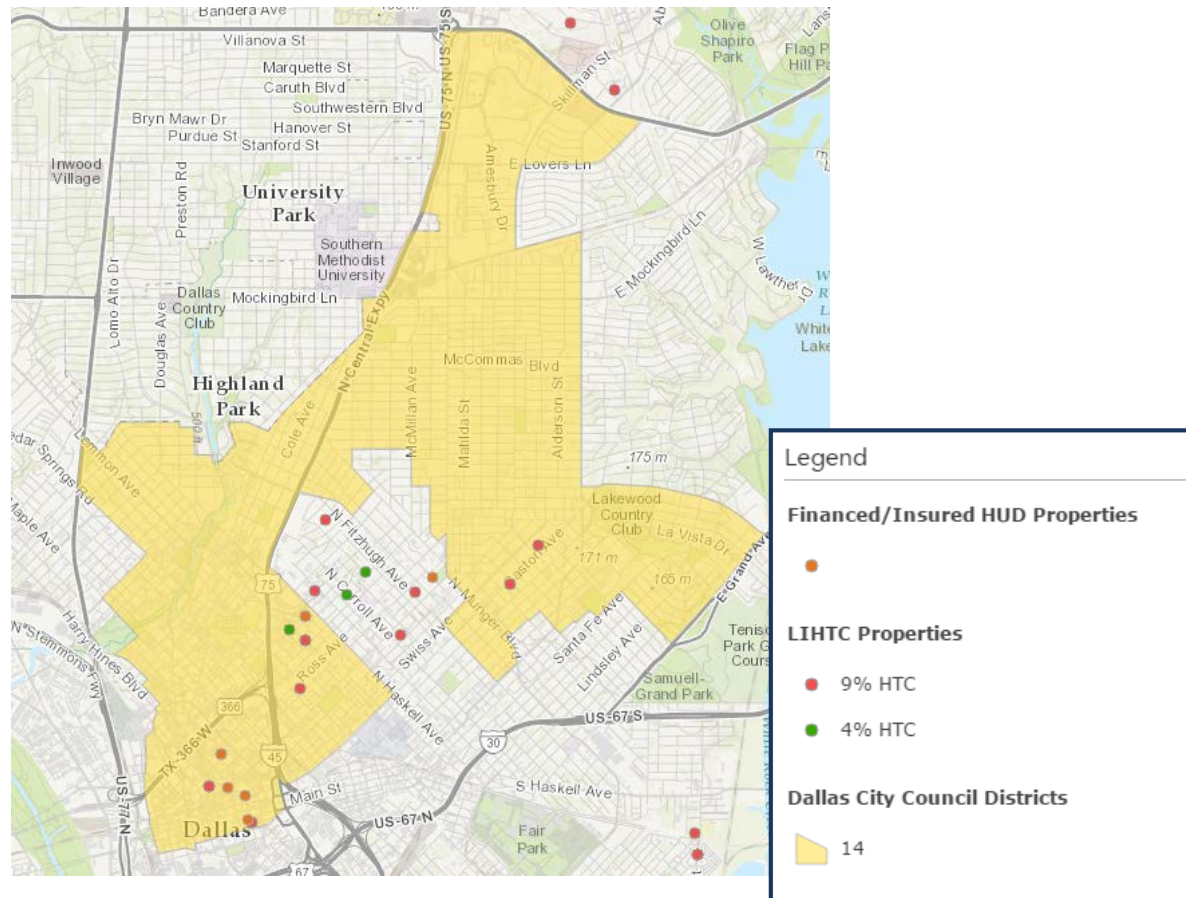
District 12 – Councilmember Greyson



District 13 – Councilmember Gates



District 14 – Councilmember Kingston



Current Affordable Housing Policy Tools

City of Dallas

Existing Government Subsidies By Income Group	
Up to 80% AMI	<p>Low Income Housing Tax Credit,</p> <p>Project-based Vouchers,</p> <p>City of Dallas G.O. Bonds,</p> <p>Section 8 Vouchers,</p> <p>Community Development Block Grant (CDBG) / HOME Funds</p> <p>TIF/Tax Abatements</p>
80% AMI to 140% AMI	G.O. Bonds



Working Group Recommendations: A Focus on Mixed-Income Housing

Overview of Recommendations

Local Recommendations

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

Regional Recommendations

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

Implementation and Timing



Local Recommendations: Create Area Plans

Create Area Plans

- City of Dallas should create area plans in order to address targeted needs within specified areas. A one-size-fits-all approach will not work. Area plans also create predictability. Three types of areas should be considered:
- High Opportunity Areas are census tracts where:
 - the income falls at or above 80% of the area median income,
 - the poverty rate is no more than 15%, AND
 - there is not already a heavy concentration of subsidized housing.
- Transition Areas: rapidly redeveloping areas that may lose sufficient affordable housing. Specific criteria for Transition Areas to be defined by City Council.
- Revitalization Areas: Additional areas as defined by the City of Dallas.



Local Recommendations: Enhance Incentive Tools

The Problem of the Funding Gap Explained

- Projects that offer affordable units struggle to obtain financing through traditional means.
- Investor partners will currently invest in projects only with the following yields of return:
 - Stick Construction – 6.75% to 7%
 - High-rise construction – 6.50% to 6.75%
- Net operating income (NOI) per unit significantly decreases when affordable housing is included. This is what makes a project difficult to finance.
 - Cost of building a unit is the same whether it is rented at market rate or below market rate.
 - Adding affordable units lowers yield because of below-market rents.
- BOTTOM LINE: Incentives must be available to offset the economic impact of each unit offered below market rents.

Funding Gap Examples

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

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

Stick (Low Rise) Building Development Example		
338 Units, \$57.97M total project cost		
	20% of Units Affordable	5% of Units Affordable
No. of Units	68	17
40% AMI		
Total Funding Gap	\$14,888,073	\$3,722,018
Funding Gap Per Unit	\$218,942	
120% AMI		
Total Funding Gap	\$1,255,555	\$313,889
Funding Gap Per Unit	\$18,464	

High Rise Building Development Example		
350 Units, \$87.75 M total project cost		
	20% of Units Affordable	5% of Units Affordable
No. of Units	70	18
40% AMI		
Total Funding Gap	\$27,430,366	\$7,053,523
Funding Gap Per Unit	\$391,862	
120% AMI		
Total Funding Gap	\$12,383,510	\$3,184,331
Funding Gap Per Unit	\$ 176,907	

Filling the Gap: Offer a Variety of Incentive Opportunities

Incentive Opportunities:

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

Implementing Incentive Opportunities

- **Establish a Clearly Defined Point System:** Create a new incentive program with stakeholder input that allows developers to earn points toward financial incentives and/or entitlements.
 - Points are given based on the housing needs identified in the area plans.
 - Points are scaled based on the number of affordable units provided and range of housing for varied income levels, ie: more points given for desired income levels identified in the area plans.
 - Cities like Phoenix and Austin have similar models.
- **Modify Current Incentive Policies:**
 - Amend existing TIF Policies to encourage a greater range of mixed-income housing.
 - Amend Public Private Partnership Program to include Water Utilities.
 - Tax Abatement, Fee Waivers, and Parking Reductions.
- **Offer Incentives to All Zoning Districts:** All zoning districts, including those newly proposed (see slide 45 for explanation), should be allowed to earn incentives to apply toward building affordable units if needed.

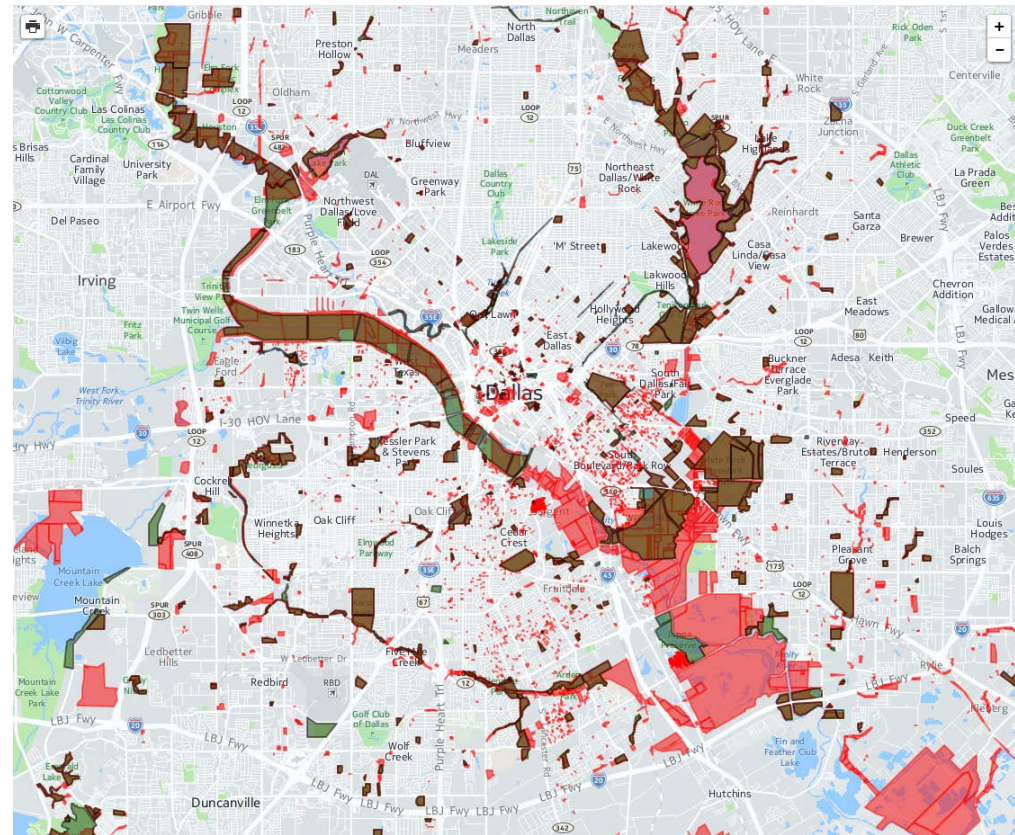
Reduce Land Costs

Utilize Government-Owned Land Write Downs

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

Institute a Community Land Trust

- This nonprofit entity may execute 99-year ground leases with developers targeting affordable residential units. Allowing the Trust to lease the land for development, lowers the overall project costs as the developer pays only for the structure built and not the underlying land. The lease agreement also ensures the inclusion of mixed income and affordable housing.





Local Recommendations:
Establish Dedicated Funding Streams

Housing Trust Fund

What Does the Housing Trust Fund Do?

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

Trust Fund Management

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

Examples Across the US

- Cities including Austin, Boston, and D.C. have Housing Trust Funds.

G.O. Bonds

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

- Rental Housing Development Assistance
- Home Ownership Programs

The City of Austin has approved \$120 million in G.O. bonds for affordable housing since 2006.



Local Recommendations:
Amend Zoning Code

Amend Zoning Code

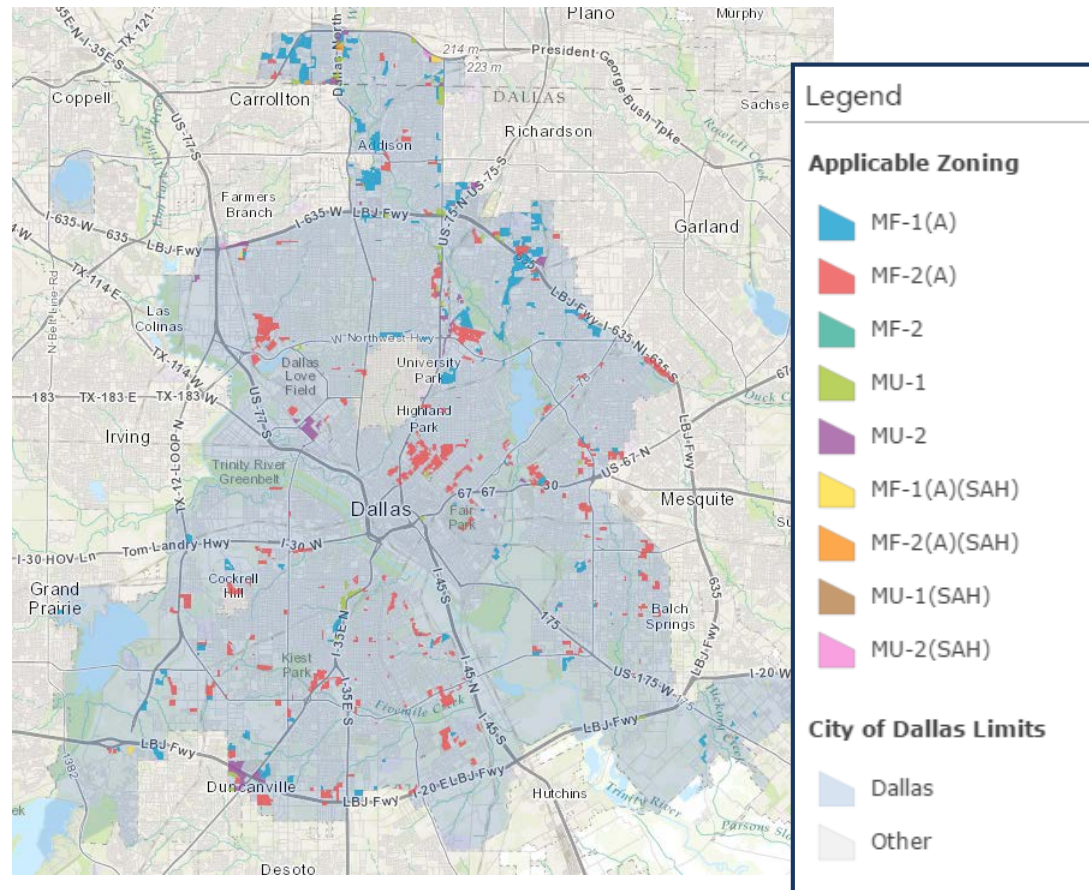
- Chapter 51A of the City of Dallas code currently addresses affordable housing. However, the current ordinance is underutilized. It only applies in a small number of Standard Affordable Housing (SAH) districts and targets housing for households with incomes up to 50% of AMI.
- The Working Group proposes amending this section of the code in order to produce more affordable units in the City of Dallas.

Amend Zoning Code continued

- **Amend Definitions in Chapter 51A (e.g. Affordable Housing Section 51A-4.900) by:**
 - Allow Standard Affordable Housing (SAH) to apply to households with incomes up to 80% of AMI (currently at 50%).
 - Create a new category for affordability called Middle Income Housing (MIH) to target households with incomes between 80% - 140% of AMI.
- **Amend zoning categories MF-1(A) MF-2(A) and MU-1 & MU-2 by:**
 - Allow increases in height, density and lot coverage provided that a certain percentage of affordable units are included in the project. These changes may apply only if the requirement of affordable units is met.
 - Preserve the existing Residential Proximity Slope in all instances.
 - This does not preclude ability to receive financial incentives if needed.

Mapping Zoning Districts Impacted by Amendments

MF-1(A)
 MF-2(A)
 MF-2
 MU-1
 MU-2
 MF-1(A)(SAH)
 MF-2(A)(SAH)
 MU-1(SAH)
 MU-2(SAH)





Local Recommendations:
Offer Flexible Alternatives

Payment in Lieu Option

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

How Will the Payment of Fee in Lieu Work?

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

Off-Site Linkage Option

- A developer should have the option to satisfy any affordable housing requirements through off-site development of affordable units.
- A development project in Dallas can comply with all or part of affordable housing requirements if it links its project to another project located in one of the city-designated area plans developing affordable units as approved by the City of Dallas.
- Funds may be used from a Housing Trust Fund to close the gap of funding needed for the off-site project.



Regional Recommendations

Regional Recommendations

- Land Write-Downs can be used by any municipality to encourage development of affordable units.
- Grants or Loans from a Housing Trust Fund can be used to build affordable units outside the limits of the City of Dallas.
- Off-site Linkage Option: Allow projects located outside the limits of the City of Dallas to comply with affordable housing requirements with approval by City of Dallas Housing Director.

Timing and Implementation

Implementation & Timing Recommendations

- **Phased-in Over Time**
 - Work with stakeholders to determine implementation of policy tools in the short-term, medium-term and long-term.
 - Careful consideration must be given to the timing of implementation in order to give developers and land owners sufficient time to assess the impact on land prices. It is important to note that timing between land acquisition and the commencement of the development is typically a 3-year process.
- **Term of Affordability in Area Plans**
 - The term of affordability should be based upon the needs outlined in individual area plans and range from 5 to 15 years.



Questions?



Addendum

Definition of AMI

Area median income (AMI) is the average income for a defined geographical area. This average is based on the American Community Survey conducted by the US Census Bureau. AMI is frequently used in government programs. HUD uses AMI to set income limits determining eligibility for many of its programs.

According to HUD, “ (Median family income (MFI) estimates for Fiscal Year (FY) 2015) are calculated for each metropolitan and nonmetropolitan area using the Fair Market Rent (FMR) area definitions applied in the Section 8 Housing Choice Voucher Program.

The 2008-2012, 5-year American Community Survey (ACS) and Puerto Rico Community Survey (PRCS) income data are the basis of FY 2015 Income Limits for all areas of geography, except for the U.S. Virgin Islands and the Pacific Islands.

Separate HUD MFI estimates are calculated for all Metropolitan Statistical Areas (MSAs), HUD Metro FMR Areas, and nonmetropolitan counties.”

Source: US Department of Housing and Urban Development, March 2015
<https://www.huduser.gov/portal/datasets/il/il15/Medians2015.pdf>