MEMORANDUM

To: Jim Adams, McCann Adams Studio

From: Dan Guimond and Brian Duffany, Economic & Planning Systems

Subject: Hensley Field Affordable Housing Plan; EPS #193062

Date: December 22, 2021

This memorandum sets out a proposed affordable housing plan and strategy for the Hensley Field Redevelopment Master Plan. The proposed housing plan is based on a master plan goal of providing affordable housing choices that support an inclusive community of socially and economically diverse residents. It was developed based on current and projected housing market conditions, area household incomes, and a review of successful affordable housing programs. In particular, the housing program and strategy implemented at Mueller, the redevelopment of Austin's former 700-acre airport, has guided the recommendations. Lessons learned from other successful mixed use communities including Stapleton in Denver are also referenced. The proposed plan is outlined in four sections as listed below:

- Housing Affordability Targets
- Affordable Housing Mechanisms
- Affordable Housing Funding
- Other Program Considerations

Housing Affordability Targets

The intent is to ensure that a certain percentage of housing developed at Hensley is affordable to low and moderate income households. Affordable ownership housing is generally defined as housing that is priced to be affordable to households earning 80 percent or less of the area median income. The HUD defined AMI for the City of Dallas in 2021 is $89,000 for a family of four persons; thus, 80 percent of AMI would be $71,200. The City of Dallas has not adopted any citywide affordable housing requirements but does require that housing projects in tax increment redevelopment zones (TIRZs) receiving tax increment financing (TIF) funds have a minimum of 20 percent of housing affordable to households at or below 80 percent AMI.

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The Mueller Redevelopment in Austin, a similar-sized airport redevelopment project established an overall goal of 25 percent affordable housing in its Affordable Housing Strategy that was completed for the master developer in 2005. The affordability level was set at or below 80 percent AMI for ownership housing and at or below 60 percent AMI for rental housing. At the time of initial development, Mueller was in a low to moderate income area. However, the Austin market, and the Mueller development specifically, experienced rapid housing price appreciation in subsequent years affirming the importance of establishing an affordable housing target early.

Based on current market conditions, a significant portion of the Hensley Field market area is moderately priced with an existing housing stock that is affordable to 80 percent AMI households without subsidies. However, newer single family detached housing in nearby Grand Prairie is currently priced at $325,000 and above, out of reach for these households that would need housing priced below approximately $285,000 based on current financing terms. It is also important to consider that development at Hensley Field will be at least three years away and housing values in southwest Dallas and elsewhere in the region are likely to continue to climb – reducing housing options for lower income households. Thus, as Hensley Field is expected to be developed over a 20-year or greater time period, establishing housing affordability targets as part of the initial plan will become increasingly important to maintaining affordable housing as an essential component of a diverse community.

Recommended Affordability Target

The overall housing affordability targets are a matter of policy as well as good practice. As noted, Mueller in Austin set a goal of 25 percent affordable for all housing at 80 percent AMI for ownership housing and 60 percent for rental housing. At Stapleton, a 4,700-acre airport redevelopment in Denver, CO, the master developer was required to build a minimum of 10 percent of for-sale housing at 80 percent AMI or below and 20 percent of all rental housing at 60 percent AMI or below. In Dallas, an applicable benchmark for determining an appropriate rate at Hensley Field is the City's affordable housing requirement for use of TIF funds, which is 20 percent of all housing at 80 percent AMI or below.

Our initial recommendation for a Hensley Field development affordable housing target is to consider establishing an overall 20 percent affordability target for all housing development, at 80 percent AMI or below for ownership housing, and at 60 percent AMI or below for rental housing. Given current area market conditions, we believe setting a lower maximum income target for rental housing is appropriate. Using 80 percent AMI for rental housing is too close to what is being built as market rate rental housing in the Hensley Field area.

Consideration should be given for providing a mechanism to adjust the affordability targets in the future if market conditions change. At Mueller, housing prices have increased to such a degree that the 80 percent AMI or below limitation is too large a price discount from market rate housing costs to be feasible for all affordable units as there is a large financing gap for the builder. The master developer at Mueller has committed to building an additional 10 percent of homes at 80 to 120 percent of AMI. Our recommendation would be to allow for a portion of affordable housing to be priced for households in the 80 to 120 percent of AMI income range if housing prices at Hensley Field appreciate at a similar rate in the future.

Affordable Housing Mechanisms

The housing affordability targets are expected to be met by a combination of approaches including housing subsidies, but also by an "affordable by design" housing mix that include smaller more affordable market rate housing products that can be priced within reach of low and moderate income households. The potential tools for providing affordable housing are reviewed below followed by a recommended program.

Housing Subsidies

The Mueller affordable housing model is implemented by the master developer (Catellus) and the Mueller Foundation, a nonprofit entity formed by Catellus to manage and operate the affordable housing plan and program. For affordable ownership housing, the master developer sells individual lots to builders who are responsible for producing 25 percent of their allotment of units at affordable levels. The housing builder cross-subsidizes the market rate units with the affordable units. The master developer participates in the subsidy of the affordable housing units by selling the lots at a discount compared to the market rate units. The master developer has been able to achieve the 25 percent affordable requirement overall as the project has been extremely successful and has attracted multiple builders who are willing to comply with these requirements. On an individual lot sale basis, the goal is easier to meet with middle income priced housing than it is with higher end housing, so there is some variance in the amount and type of affordable homes negotiated in each lot sale agreement.

A challenge at Mueller has been maintaining the affordability of housing upon resale. The development initially used a "shared equity" model. Prior to 2009, upon resale of an affordable housing unit, the homeowner/seller received 70 percent of the sale price appreciation and the Mueller Foundation received 30 percent of the appreciation. The Foundation was also seeking to buy back as much of these homes as possible to maintain an affordable housing inventory. The Mueller Foundation had a first right of refusal and was using its resources to buy back the affordable units; however, it could not afford to buy back all the affordable homes resulting in a reduction of the affordable inventory. After the 2009-2010 recession, the shared appreciation model was changed and replaced with a 2.0 percent annual appreciation cap placed on the resale of affordable units. This lower cap on appreciation has been more effective.

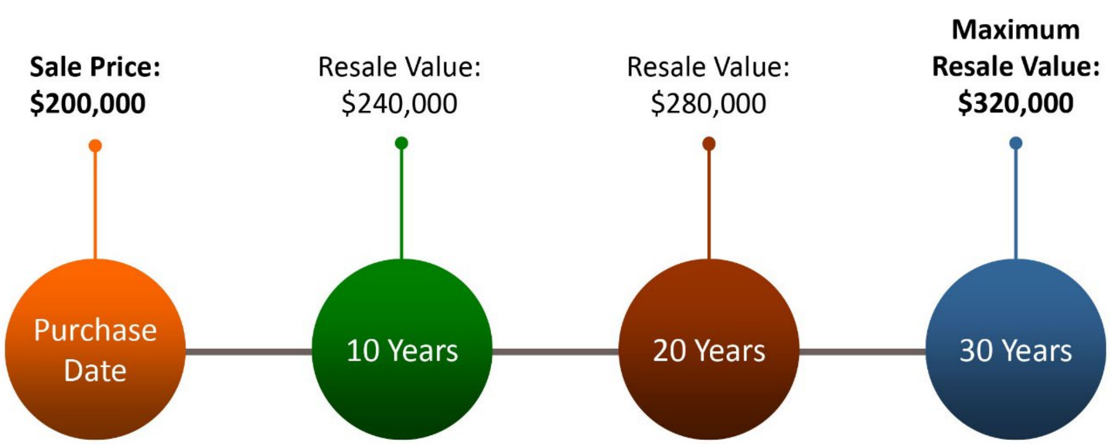
An alternative to the shared equity model is a community land trust (CLT). A CLT provides long term affordable home ownership units to low and moderate income households through a structure whereby the trust owns the land, and the homeowner owns the improvements on the land (residence). The trust provides the homeowner a 99-year ground lease at a nominal rate that subsidizes the cost of the housing unit. Assuming the land value of a typical home at approximately 20 percent of total taxable value, the price of the unit can be reduced by 20 percent to the eligible buyer.

The CLT model has a number of advantages over the shared equity model. The Mueller Foundation and the Mueller master developer both indicate that a drawback to the shared equity model was the County appraiser did not recognize the impact of the deed restrictions appreciation on taxable value for purposes of determining property taxes. The State passed legislation in 2012 that allows for property tax exemptions for CLTs. CLT organizations in Texas are eligible for a 100 percent property tax exemption on the land held in the CLT if: 1) the local taxing entities adopt a CLT-specific property tax exemption, and 2) the local government designates the organization as a CLT under Section 373B of the Local Government Code. The City of Austin has adopted a 100 percent exemption for land owned by a CLT organization designated by the City. To qualify for the tax exemption, the CLT is limited to buyers at or below 80 percent AMI and at least 25 percent must be to buyers at or below 60 percent AMI. However, for CLT properties in a single subdivision or in the same geographic area, 20 percent of the CLT homes may be sold to families with incomes of up to 120 percent AMI. The City of Dallas has adopted a similar tax exemption in 2020 for CLTs in the city.

There are over 240 CLTs in the U.S. in 47 states. The first CLT in Texas was formed in 2011 by the Guadalupe Neighborhood Development Corporation (GNDC) in Austin. The GNDC built a subdivision with 30 single family homes and 60 duplexes and townhomes. GNDC has also used the CLT model on existing single family homes on noncontiguous sites elsewhere in East Austin. The City of Houston started a citywide CLT in 2018 that was seed funded with $1.15 billion in federal disaster funds from Hurricane Harvey, and with much of the land provided by the Land Assemblage Redevelopment Authority that acquired properties through foreclosure for delinquent taxes.

The key to maintaining long-term affordability is the CLT resale formula. The resale formula is designed to strike a balance between homeowner appreciation and maintaining long term affordability. The most common formula is for the CLT to allow the sales price to go up a fixed amount each year capped at a fixed number of years. As shown in the example below, an initial sale price of $200,000 with 2.0 percent annual appreciation and capped at 30 years would reach a maximum resale price of $320,000 in the 30th year.

Figure 1. Resale Appreciation at 2 Percent Per Year Capped at 30 years



Resale appreciation can also be based on an appraisal-based formula, or a formula based on the CPI or other index. The key component is the CLT holding the ground lease and controlling the terms of the sale which allows it to maintain an inventory of affordable homes. For multifamily ownership housing, using restrictive covenants rather than a ground lease may be necessary if there is not a distinct parcel attached to each housing unit.

Rental Housing

The Mueller project has achieved its goal of 15 percent of rental units affordable to households at 60 percent or less AMI through a combination of development agreements and Low Income Housing Tax Credit (LIHTC) projects. (In contrast, Stapleton relied on LIHTC project entirely.) Mueller built three LIHTC projects, one for 55 and older adults, one for workforce housing and one for families including support services. Each LIHTC project includes 10 percent market rate units. There have been five private developed apartment projects completed; the first two included 10 percent affordable units and the next three had 15 percent affordable units. All of the affordable units in market rate projects are deed restricted for 49 years. The affordable component of the market rate projects at 10-15 percent plus the three LIHTC projects brings the total percent of affordable rental units to about 25 percent overall.

A similar approach to implementing the affordability targets for rental units at Hensley Field is recommended. Through a combination of LIHTC projects built for target needs including seniors, families with support needs, and workforce housing, a significant portion of the affordability targets can be met. However, we also recommend an overall requirement of 15 percent of all privately developed apartments to be income restricted at 60 percent AMI or below in order to reach the target of 20 percent rental affordability.

Affordability by Design

A component of the Hensley Field approach to housing diversity is the development of a range of housing products that are designed to be affordable to the local area workforce. The for-sale housing mix is planned to include smaller and higher density housing that can be priced to be affordable to households in the 60 to 120 percent of AMI as shown in **Table 1** below.

Table 1. Hensley Master Plan Affordable by Design Products

Product	Lot Size	Average SF	Price per SF	2021 Sale Price	AMI Level
Cottage Home	45 x 30	1,000	$210	$210,000	60-80%
4-plex Unit	90 x 100	1,200	$210	$252,000	60-80%
Zero Lot Line Home	26 x 60	1,400	$200	$280,000	80%
Townhouse	90 x 22.5	1,800	$200	$360,000	80-100%
Single Family	90 x 40	2,000	$200	$400,000	120%

Source: Economic & Planning Systems

Affordable Housing Mechanism Recommendations

Based on the team experience at Mueller, as well as with other large redevelopment master plan communities including Stapleton, we recommend establishing a 501-c-3 nonprofit foundation to manage and operate the affordable housing program as well as other community enhancement initiatives and philanthropic activities.

A community land trust is recommended as the primary tool for implementing the affordable housing targets for ownership housing. It can be used on an individual subdivision basis as well as a dispersed basis such that the CLT units are not distinguishable from adjacent market rate units. A CLT also has important tax benefits to the homeowner and the foundation as detailed above. The CLT is recommended to use a relatively low deed restriction on appreciation of 2 percent per year on ownership housing. Other housing mechanisms should be utilized to fulfill a portion of the rental affordable housing inventory including LIHTC projects.

Affordable Housing Funding

Operation and management of the affordable housing plan and program will require an ongoing funding source. The Mueller Foundation in the Mueller Development is responsible for its affordable housing program and includes four primary sources:

- An affordable housing contribution paid by the builder when lots are purchased from the master developer called the Builder Affordability Fee.
- A community assessment fee (real estate transfer fee) of 0.25 percent that applies to all residential and commercial resales in perpetuity. The inclusion of commercial properties (including multifamily apartment complexes and retail and office properties) has generated revenues from larger value transactions.
- The third is revenue from the Foundation's equity ownership in the resale of homes through the shared equity program (both sales under the 30/70 percent shared equity formula and later as a share of the 2 percent appreciation allowance on resales). The Foundation receives the 30 percent appreciation on Group 1 (shared equity) sales. It also receives a share of the appreciation on Group 2 (2% appreciation) sales.
- Under the City of Austin's SMART Housing Program, the Mueller Foundation collects a fee on new home sales. The program speeds up the permitting process and reduces permit fees. Fees are $500 to $700 per home.

Additionally, it has been suggested that TIF funds from the Cypress Waters development that it has declined to use could be transferred to Hensley Field to help finance a portion of affordable rental housing. This strategy has merit and should be further investigated. The TIF funds generated from development within Hensley Field are anticipated to be needed and used for infrastructure needs and would therefore not be available for vertical development. However, if additional externally generated TIF can be tapped for affordable housing, it could provide an important funding source.

Recommended Funding Mechanisms

We propose a similar set of funding sources for the nonprofit Foundation to be set up to manage and operate the Hensley Field affordable housing program including the following elements:

- Builder Affordability Fee paid when a lot is purchased from the master developer.
- A real estate transfer fee of 0.25 percent on the resale of all homes and 0.25 percent on any commercial sales after initial development in perpetuity.
- Equity revenue from the resale of affordable homes.
- Invest Cypress Waters TIF funds in affordable housing rental projects.

Other Program Considerations

We envision the affordable housing plan to be a component of the Implementation Section of the Master Plan so final decisions can be deferred until that time. However, some input or confirmation of the affordable targets and basic program structure should be sought in the interim including:

- Are the proposed 20 percent for sale and 20 percent rental affordable housing goals the appropriate targets for the master developer at Hensley Field?
- Are the proposed affordable income limits of 80 percent AMI or below for for-sale housing and 60 percent or below for rental housing appropriate for initial development?
- Can or should some provision be made to adjust the affordable housing limits at a later date if market conditions change?
- Does the City support the recommendation to establish a CLT for building and maintaining affordable for-sale housing?
- Does the City support the formation of a nonprofit foundation to collect affordable housing funds and to operate and manage the components of the affordable housing plan?
- Does the City support the implementation of a Builder Affordability Fee and a 0.25 percent real estate transfer fee to fund the affordable housing foundation?
- Is the City willing to consider the transfer of unused Cypress Waters TIF funds for affordable housing at the Hensley Field development?