



Affordable Austin: Building the Housing We Need at Prices We Can Afford

*"Any approach to housing affordability that ignores the supply side will ultimately run into a problem familiar from the children's game musical chairs — if there aren't enough homes to go around, someone has to lose out."*¹

Introduction

The Austin economy is the envy of much of the nation, attracting jobs and new residents at a faster pace than most other American cities for nearly a decade.

Rapid expansion and change has brought opportunity and challenges to a city that has long been torn between progress and nostalgia. Nowhere is that more true in Austin today than when it comes to the issue of housing.

Residential development has transformed the Austin skyline and blurred historic racial barriers, but skyrocketing prices and valuations have also fueled growing anxiety about affordability and access, especially in the core city.

In the last two decades Austin's housing market has gone from the least expensive to the most expensive among Texas's four major metropolitan areas. The average rent in the Austin area increased 50 percent from 2004 to 2013 while median incomes rose by only 9 percent.²

Today half the city's renters and 28 percent of homeowners spend more than the recommended 30 percent of their income on housing.³

With many Austin workers priced out of all but the city's periphery and an increasing number of long-time homeowners struggling financially to stay, there is growing demand for new city policies to address the problem.

For some the answer lies in enacting new measures that would freeze today's housing in place to slow appreciation.

The Real Estate Council of Austin argues that these measures are counterproductive, serving only to preserve the root cause of the problem: too little housing.

¹ Yglesias, Matt. ["Everything you need to know about the affordable housing debate"](#) Vox.com

² Capitol Market Research and Texas A&M Real Estate Center via the *Austin American Statesman*. Toohey, Marty. "Austin's renters face soaring costs in 'extraordinary market'" May 3, 2014.

³ 2014 Comprehensive Housing Market Analysis. BBC Research and Consulting for the City of Austin. Executive Summary. pg. 8

With more than 100 people moving to the region each day, Austin simply isn't adding enough housing to meet demand, and the new housing that city policies encourage often doesn't meet the needs or incomes of much of our workforce.

Austin can build its way out of this affordable housing crisis, but only if it encourages housing of all types for a variety of income levels in neighborhoods throughout the city.

High Demand. High Prices.

With an urbanized area (within and outside the city limits) that has ballooned to encompass a sprawling 523 square miles, Austin at first glance would not seem to suffer from insufficient development.

But the numbers tell a different story.

From 2000 to 2012, the Austin region grew by nearly 570,000 people.⁴ During this time, the number of housing units within the city limits increased by only about 84,000.⁵

With approximately 70 percent⁶ of area jobs still within the city, the impact on area roadways was predictable, as was the effect on home values. More and more buyers proved willing to pay a premium to avoid painfully long commutes and live closer to central city amenities.

From 2000 to 2012, median home values in the city increased 78 percent to \$222,100.⁷ The proportion of houses valued at more than \$300,000 increased from just 10 percent in 2000 to 31 percent in 2012.⁸

These ballooning home values impacted more than just homebuyers, as property taxes paid by Austin homeowners increased by an average of 40 percent between 2008 and 2014.⁹

Austin renters also felt the financial pain of a severe housing shortage as occupancy rates reached as high as 97 percent, and rent rates hit new records and continued to climb even as vacancies increased with new supply hitting the market.

The average rent for an 800-square-foot apartment in the Austin area hit a record \$1,000 a month in the first half of 2014, but even that doesn't give the full picture as it includes far cheaper areas outside of the city.¹⁰

⁴ U.S. Census population estimates.

⁵ 2014 Comprehensive Housing Market Analysis. "Housing Market Gaps." Pg. 1

⁶ City of Austin Demographer Ryan Robinson

⁷ 2014 Comprehensive Housing Survey. "Housing Market Gaps." Pg. 14

⁸ 2014 Comprehensive Housing Survey. "Executive Summary." Pg. 7

⁹ [Texas Public Policy Foundation](#)

A 2013 city survey found that central city rental rates were 50 to 100 percent higher than elsewhere in Travis County and the overall MSA,¹¹ a finding consistent with the most recent average rental rate of \$1,968 in the Central Business District.¹²

With more than 18,000 apartments under construction and 8,000 more scheduled to break ground by early next year, experts predict that regional occupancy and rental rates are likely to fall somewhat in the coming year.¹³ But the location and high starting prices of many of these new developments mean any decreases in rental rates are unlikely to be enough to bring many units within affordable range of the average Austin worker, whose income has not risen nearly as fast as the city's cost of living.

What's affordable?

Just as beauty is in the eye of the beholder, affordability also varies greatly depending on the person defining it.

Austin's reputation as a magnet for well-educated young professionals is well earned, as the region has added an average of 17,000 college graduates per year since 2000, the fourth-biggest gain of any large metro area in the country.¹⁴

With average earnings of \$85,608 a year, the majority of these households can afford to pay more than \$2,000 a month for housing and utilities, enough to at least rent in almost any area of the city including downtown.¹⁵

But most Austin area workers do not have a college degree and earn far less.

More than 60 percent of the 100,000 new jobs added in the Austin region in the last decade were in sectors that pay less than \$45,000 a year, a trend that is expected to continue. Approximately 26,000 of these jobs were in the leisure and hospitality industry and paid less than \$20,000 a year.¹⁶

Today the median salary in the Austin MSA is just \$36,360.¹⁷

Using the traditional measure of affordability (the 30 percent rule) households at this income level should pay no more than \$909 a month in rent and utilities,

¹⁰ Capitol Market Research. "[2014 Austin Apartment Market Mid-Year Summary](#)" June 2014

¹¹ [Market Trends and Issues for Affordable Housing in Austin](#) City of Austin Demographer. June 17, 2013. Pg. 4

¹² Buchholz, Jan. "[Austin apartment market still on fire; could mean rent relief is on its way](#)" *Austin Business Journal*. Oct. 28, 2014. (data from Austin Multi-Family Trend Report published by Austin Investor Interests)

¹³ *Ibid*

¹⁴ Civic Analytics. "[Adjusting to Life as the Human Capital](#)" Oct. 30, 2014

¹⁵ U.S. Census Bureau via Civic Analytics. "[Adjusting to Life as the Human Capital](#)"

¹⁶ 2014 Comprehensive Market Survey "Executive Summary" pg. 5

¹⁷ [Austin Regional Chamber](#)

making it extremely difficult for them to find rental housing in nearly any Austin neighborhood today.

Housing Needs

A Comprehensive Housing Market Analysis sponsored by the City of Austin in 2014 identified a shortage within the city of approximately 48,000 rental units affordable to households making less than \$25,000 a year, which should pay no more than \$625 a month for rent and utilities.

The study also found a 10,660-unit shortage for households making less than \$35,000 a year and able to pay no more than \$875 a month in rent and utilities.¹⁸

While the study did not identify a clear rental housing gap for households making more than \$35,000 a year, the market for units renting for no more than \$1,000 a month, or about what a household earning \$40,000 can pay, is tight and getting tighter.

Comprised mostly of older and smaller apartment buildings as well as ageing duplexes, accessory dwellings and houses, Class B and C properties in Austin have even higher average occupancy rates than newer properties. Earlier this year, average rental rates in these properties for the MSA hit \$920 for an 800 square-foot apartment, compared to \$1,088 for Class A apartments.¹⁹

Even if working and moderate-income households can afford the price, these homes are often very difficult to find. Rising rents in newer properties has priced out more households and increased competition for these cheaper units.

Redevelopment has exacerbated the problem by eliminating or upgrading many previously affordable housing options in many areas of the city.

Austin lost 7,000 rental units considered affordable to households earning less than \$25,000 a year *just from 2012 to 2014* due to redevelopment and price increases.²⁰ And without intervention that trend will continue.

Housing Works reports that 45 percent of Austin's rental housing was built in the 1970s and 1980s and is "ripe for redevelopment and significant capital improvements."²¹

¹⁸ 2014 Comprehensive Housing Market Analysis. Executive Summary. pg. 8

¹⁹ 2014 Comprehensive Housing Market Analysis. "Housing Market Gap." pg. 8/ The Austin Multifamily Trend Report, Austin Investor Interest 1Q 2014

²⁰ 2014 Comprehensive Housing Market Analysis. Executive Summary Pg. 8

²¹ Housing Works. "Taking Action: Preservation of the Affordable Housing in the City of Austin." July 2014 pg. 11

Austin's affordable rental housing may be hard to find, but it's easy to know where to look.

Analyzing data from Zillow, Civic Analytics reported earlier this year that just six neighborhoods had listings for apartments priced at or below \$1,000 a month: Highland, St. Johns, Heritage Hills, North University, Parker Lane and Pleasant Valley.²²

Listings for affordably priced houses for sale are also extremely limited and concentrated on the city's periphery, where transportation costs are higher than in the central city.

Households making no more than \$50,000 could reasonably afford to pay up to \$183,000 assuming a 5 percent down payment and 4.5 percent interest rate, according to the city housing analysis.²³

The report found that these households could afford just 24 percent of the homes on the market in 2013 and noted that the share would be far lower if interest rates returned to 2008 levels.²⁴

More recently, just 88 houses were listed for \$180,000 or less on the Austin Board of Realtor's Multiple Listing Service in October, and just 123 houses sold for less than that price in September.

Austin area homebuilders have been challenged to increase the supply of affordable homes, but high land costs and more restrictive lending requirements have spurred many to aim at the higher end of the market.

In the first half of this year homebuilders in the Austin MSA started 22 percent more homes priced between \$500,000 and \$750,000 than priced below \$150,000.²⁵ Given that land and housing is cheaper in suburban and exurban areas, the ratio is likely even more lopsided within the city limits.

Higher density developments, such as condominiums, lower per-unit land prices and total cost to the buyer. But the heavy concentration of this type of development in pricey areas in and near Downtown Austin has pushed prices higher for these units as well.

In 2013, the median sales price of an Austin condo built in 2010 or later was \$309,000.²⁶

²² Kelsey, Brian. Civic Analytics. "[Debating Austin's Future](#)" Aug. 25, 2014

²³ 2014 Comprehensive Housing Survey. "Executive Summary" pg. 10

²⁴ 2014 Comprehensive Housing Survey. "Housing Market Gap" pg. 29.

²⁵ Novak, Shonda. "Austin area homestarts flat in second quarter" *Austin American Statesman*. July 7, 2014 (quoting MetroStudy)

²⁶ 2014 Comprehensive Housing Survey. "Housing Market Gaps" pg. 22

How much housing does Austin need?

With average rental rates and median home prices at or near historic highs, few people looking for a house or apartment in Austin today would consider the housing market “balanced.”

But the city would need to add a minimum of nearly 69,000 housing units by 2025 just to maintain today’s tight market, as it accommodates a projected increase of 165,497 residents in the city.²⁷

Even that wouldn’t be enough to keep prices from sharply increasing given that the entire region is expected to add more than 759,889 residents by 2025.²⁸ Assuming an average of 2.4 people per household, Central Texas will need to add 316,620 more housing units to accommodate this increase.

With approximately 60 percent²⁹ of today’s workers already commuting in from other cities, the impact of absorbing most of our regional population growth outside of the city would be disastrous for our roadways, environment, economy and quality of life. It would also send housing prices through the roof in central areas of the city where only an affluent few could afford to live.

That’s why the Real Estate Council of Austin is calling for **100,000** new housing units within the city limits by 2025, to stay ahead of our continued growth and bring more balance to the housing market.

Austin needs more housing throughout the city, but it cannot afford to continue the low-density suburban style development pattern city policies have encouraged for more than 70 years.

Density is a dirty word in many areas of the central city, but the argument that our urban core cannot reasonably accommodate more people isn’t true.

Since 1980 Austin’s population has increased by more than 150 percent but it’s average density has actually fallen slightly to less than two housing units per acre.³⁰ Austin today is far less dense than Houston, Dallas or San Antonio.

Only 4 percent of homeowners live in duplexes, triplexes, or fourplexes while 5 percent live in condominiums. Only half of renters live in apartment buildings.³¹

²⁷ Population projections from City of Austin Demographer. Assumes median household size of 2.4.

²⁸ [City Demographer Ryan Robinson](#)

²⁹ 2014 Comprehensive Housing Survey “Demographic Context” pg 15

³⁰ 2014 Comprehensive Housing Survey. “Housing Market Gaps” pg 1

³¹ 2014 Comprehensive Housing Survey “Executive Summary” pg. 14

Today many of the same groups who argue loudest against increasing density are the same ones complaining about the redevelopment of smaller, older homes into larger more expensive ones. But the two are directly related.

Land prices in many areas of Austin are too expensive to build moderately priced single-family houses. The land price per unit is simply too high.

Current limits on density, or density caps, are directly harming our ability to add more affordable housing.

“As currently codified, the “Density Cap” limits affordable housing by reducing the potential number of dwelling units on a particular site and driving up per-unit land cost,” city consultants Opticos concluded in their Code Diagnosis report earlier this year.³²

RECA is not suggesting that we stop building single-family homes in the city limits, as there will always be a need and market for this product type. As well, more large and high-end apartment buildings are needed along major corridors to satisfy demand among higher-income groups and prevent the filtering up of more affordable housing.

But the high cost of building these developments, particularly in high-demand areas in and around downtown, means that few affordable units will be added even with city incentives, as the city’s Downtown Density Bonus Program has demonstrated.

To truly impact affordability, the City of Austin must go back to its roots, when a variety of housing types aimed at a broad range of incomes were a normal part of every neighborhood. Small apartment buildings, duplexes, condominiums and accessory dwellings can all be built at a lower cost per unit than single-family houses or large apartment complexes.

There is a growing market for these housing types in Austin where single-member and two-person households without children are the two most common household types.

A 2013 survey by the Urban Land Institute found that 61 percent of respondents said they would prefer a smaller home with a shorter commute over a larger home with a longer commute; 52 percent would prefer to live in mixed-income housing and 51 percent preferred access to public transportation.

The preference was even stronger among Millennials, one of Austin’s fastest growing demographics. Nearly 60 percent of survey respondents in this group

³² Opticos. Code Diagnosis. “Lack of Household Affordability and Choice” pg. 54 May 5, 2014

expressed a preference for diversity in housing choices while 76 percent placed high value on walkability in communities.³³

RECA is not the first group to advocate that Austin add more housing of this type.

Investing in compact, connected and complete communities is a top priority of the *Imagine Austin* long-term vision for the city's future.

The recently completed Code Diagnosis of the city's Land Development Code recommended that density caps be revised as one way the city could "better assist in reducing costs and enabling the creation and preservation of more quality affordable housing units." Reducing parking requirements and minimum lot sizes were also suggested.³⁴

The city's Comprehensive Housing Market Analysis urged the city to "encourage a broader use of neighborhood infill" and suggested that "Creating attached home alternatives for both homeowners and renters would help broaden the choices of affordable products to buy and rent."³⁵

Austin developers realize that there is a market for this type of medium density housing, but current city policies make the development of these alternative housing types too onerous and unpredictable for many to want to take the risk even when technically allowed under the current code.

Revising regulations to allow developers to more easily build these product types would result in far more affordable housing in more Austin neighborhoods and enable the city to move forward in its quest to build the complete communities envisioned in the *Imagine Austin* plan.

Conclusion

The affordability crisis in Austin today is rooted in basic supply and demand and can only be resolved by adding more housing. With nearly 760,000 new people expected to move to the region in the next 10 years, Austin cannot afford to continue the same restrictive development policies that have already priced so many area workers out of the city.

From the escalating costs of providing public services to crippling traffic congestion and pollution, the consequences of continuing to develop as Austin has been during a prolonged period of robust growth would be disastrous.

³³ Urban Land Institute. "American in 2013: A ULI Survey on America's Views on Housing, Transportation and Community."

³⁴ Opticos. Code Diagnosis. pgs. 60-61

³⁵ 2014 Comprehensive Housing Market Analysis. "Executive Summary" pg. 14

The Austin real estate community is ready to respond to the needs of a market clearly clamoring for change. Several of the city's own consultants have concluded that more infill development and more flexibility in preserving aging affordable housing are necessary to address this need.

Change can be difficult, but in this instance the way forward actually borrows from our past. Walk around almost any central city neighborhood today, and you will see that garage apartments, small apartment buildings and duplexes are already part of the social fabric. But we need more.

Just as Austin's population has grown and diversified, so must its housing. We need to embrace a vision of building — and establishing policies that allow for — all kinds of housing, in all parts of town, at a variety of price points, at a pace that keeps up with growing local demand. With the right rules and investment priorities in place, we can achieve RECA's call for 100,000 new units by 2025 and help restore balance and affordability to Austin's housing market.