

Incentivizing Affordable Housing Unit Production

One Dallas Options

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Introduction to the City and Consultant Team



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**Daedalus Advisory
Services**

Specializing in economic development,
incentives creation and growth planning for
cities across the US

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Quantitative Lead

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The goal of our work is to design a simple, voluntary, market-friendly affordable housing incentive system



This framework should

- not interfere with existing affordable housing programs;
- increase the exchange incentives for affordable housing beyond current standards;
- increase options available to developers;
- create more affordable unit production or revenue for affordable housing.



Our broader scope of work supports the research through development and implementation of an expanded One Dallas initiative



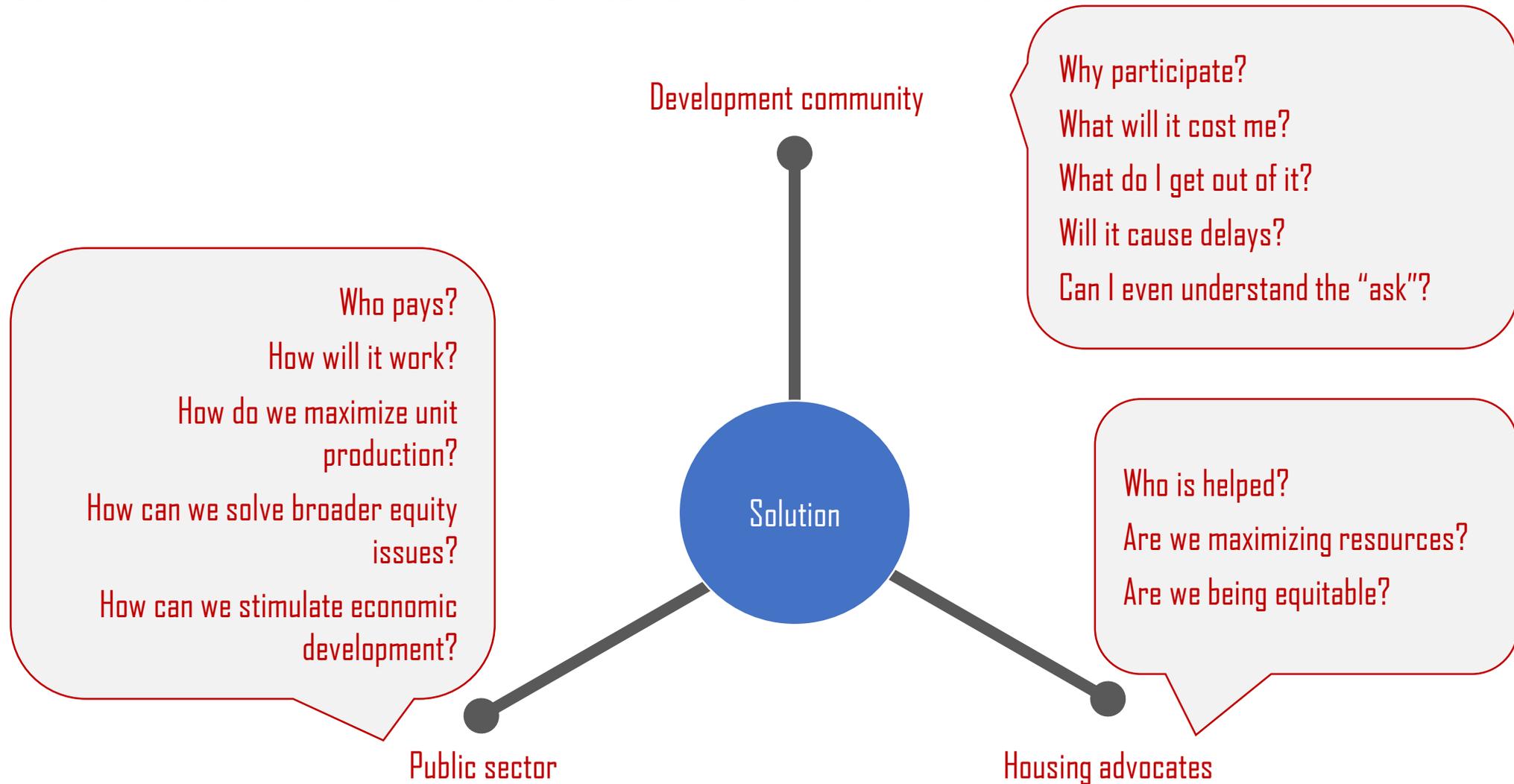
Our scope includes

1. Research & recommend a new voluntary affordable housing incentive framework focused on the market rate developers who are otherwise outside of an affordable housing focus
2. Generate feedback and guidance on this framework through stakeholder meetings
3. Refine the framework as guidance suggests with a goal of balancing interests appropriately
4. Document the resulting framework and supporting tools in a public-facing, easy to use way

Our meeting today is part of this task



We approach the challenge as one of balancing interests among well-meaning parties who are focused on different parts of the issue

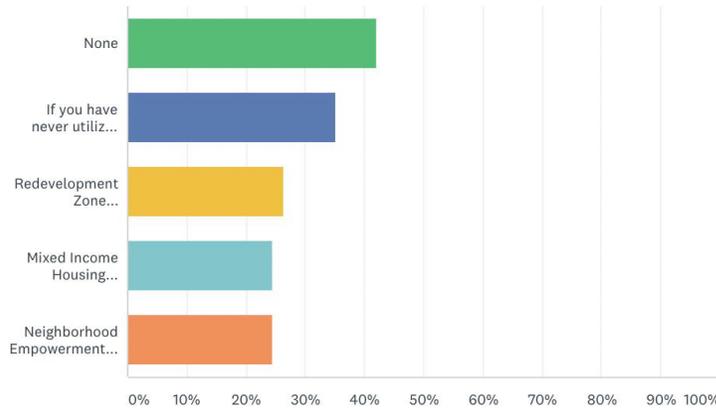


Our developers' survey highlights shows that they are not using the current affordable housing incentives well, though they would under different terms



Which of the following current development incentives from the Comprehensive Housing Policy (CHP) have you used?

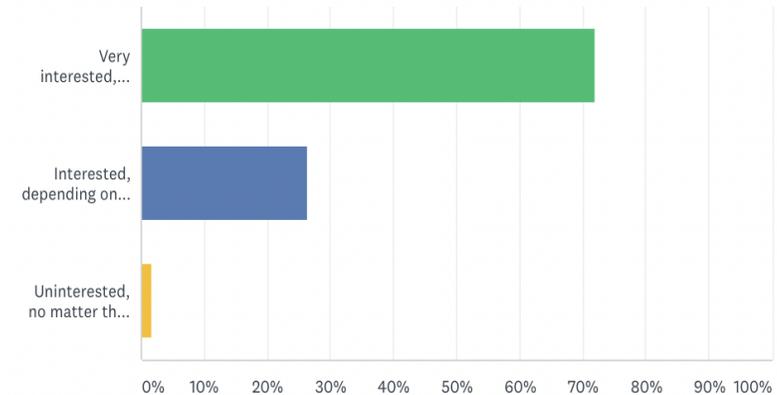
Answered: 57 Skipped: 0



ANSWER CHOICES	RESPONSES
None	42.11% 24
If you have never utilized city-provided development incentives, please explain why not.	35.09% 20
Redevelopment Zone Incentives: any incentive within this category, including funding through the New Construction and Substantial rehabilitation Program and any notice of funding availability	26.32% 15
Mixed Income Housing Development Bonus: any density bonus, height bonus or lot coverage bonus	24.56% 14
Neighborhood Empowerment Zone Subsidies: any property tax freeze, development fee reimbursements, density bonuses, and accessory dwelling units	24.56% 14
Total Respondents: 57	

If the city had easy to use affordable housing unit incentives that offset the costs of providing affordable units, how interested would you be in using them?

Answered: 57 Skipped: 0



ANSWER CHOICES	RESPONSES
Very interested, depending on details	71.93% 41
Interested, depending on details	26.32% 15
Uninterested, no matter the details	1.75% 1
TOTAL	57

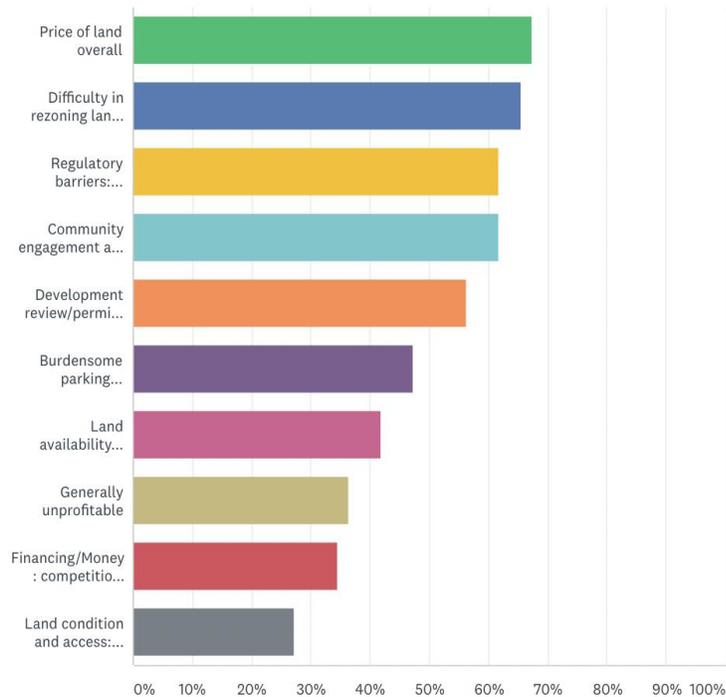


Developers indicated that they are constrained as much (or more) by regulatory and process issues as capital



What are the top barriers to developing affordable housing in Dallas (not in order of importance). Check all that apply.

Answered: 55 Skipped: 0



ANSWER CHOICES	RESPONSES
\$ Price of land overall	68.42% 39
R Difficulty in rezoning land from any of: public opposition, time, money, risk	64.91% 37
R Regulatory barriers: interaction with city agencies, landmark, etc. coordinating development review: especially on unique projects	61.40% 35
R Community engagement and NIMBY opposition	61.40% 35
R Development review/permitting process	56.14% 32
R Burdensome parking standards or insufficient parking reduction bonus	47.37% 27
L Land availability near TOD and employment areas	43.86% 25
\$ Generally unprofitable	38.60% 22
\$ Financing/Money: competition for the same set of LIHTC funds	35.09% 20
L Land condition and access: much of the available land has "issues," such as environmental cleanup, incomplete streets, disinvestment in city infrastructure	26.32% 15
Total Respondents: 57	

R = Regulatory

\$ = Financial

L = Land



Their core concerns about any new affordable housing incentive program were direct



- × Likely too complex
- × Won't make financial sense
- × Will not allow a reasonable fee in lieu
- × Will be too geographically constrained
- × Would focus too much (or at all) on low AMIs
- × Would not address the key challenge of permitting speed and rezoning



What did they want for a voluntary affordable housing incentive program instead?



A program that:

- ✓ Is simple to understand and use
- ✓ Makes financial sense
- ✓ Allows a reasonable fee in lieu
- ✓ Applies city-wide
- ✓ Reduces negotiations and speeds permitting approvals



Housing advocates were wary of providing additional development incentives and wanted caveats on the program's details



Housing advocates said to:

- + Maintain rules around unit qualification and sizing
- + Focus primarily north of I30
- + Include lower AMIs (under 60% AMI)
- + Maximize affordable unit minimums for participation



And the city said that their objectives require a complex balancing act to maintain fairness, practicality and equity



Balancing locations



Maintaining upzoning around transit stations



Reaching a wide band of income bands



Creating incentives that the market actually use



Allowing for breadth of developments (tenure, size and type of construction)



Realizing that the public sector can't deliver needed units alone



The city must also protect its scarcest resources (capital) while generating the social goods the program aims for (units + funding for affordable housing)



Provide three types of incentives (in this order):

- **Regulatory:** such as density, height and /or FAR bonuses, parking reductions, etc.
- **Administrative:** such as permitting speed and selected fee re-imburements
- **Fiscal:** such as tax increment financing or project specific gap financing



Collectively, these inputs provide the framework for the expanded incentive approach



Outline of the proposed additional incentive approach

- Provide these new incentives across the city where zoning makes sense
- Create a program that is simple to understand and use by both developers and the city
- Make the program financially attractive to maximize usage
- Exclude current PDs, but allow new PDs to opt in to the program
- Create incentives and tools in Tiers that increase incentives offered as affordability (AMI level) decreases or in-lieu fee paid increases
- Allow developers to choose the Tier level desired as best fits their project
- Preference building on-site, but allow off-site options and a fee in-lieu for both residential and non-residential developments
- Create a participation floor of 20 total market rate units





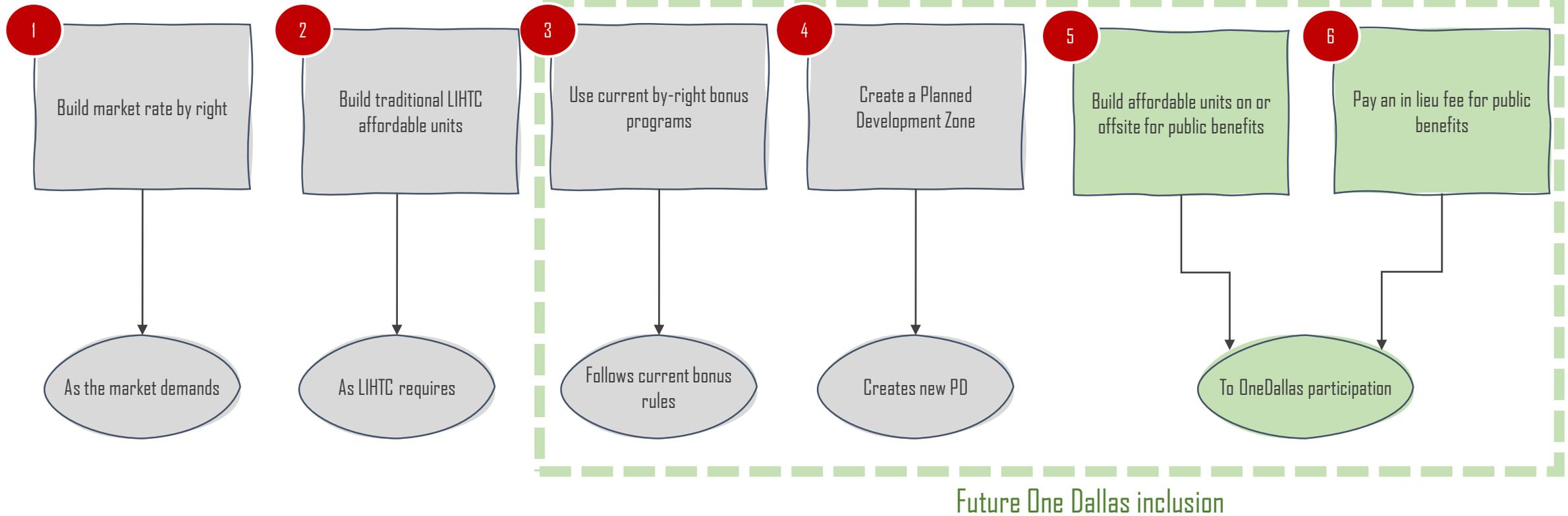
And a menu of incentives across different categories that are desirable to the development community and acceptable to wider stakeholder groups





One Dallas increases the current menu of options available to developers and increases the likelihood of generating either units or in lieu fees from market rate investments

For any given project a developer can...



This voluntary program creates a tier-based system that exchanges economic value for either affordable unit production or in-lieu fees paid



ALL NUMBERS INDICATIVE FOR DISCUSSION PURPOSES

	TIERS		
	1	2	3
Minimum affordable unit % of units @	5%		
	<50% AMI	51-80% AMI	81-100% AMI
Indicative in lieu fee / psf	\$ 3.07	\$ 2.07	\$ 1.04

Type		1	2	3
Regulatory	Density bonus	20%	10%	5%
Regulatory	FAR bonus	25%	15%	5%
Regulatory	Height bonus	25%	15%	5%
Regulatory	Parking stall reduction*	100%	50%	25%
Regulatory	Re-zonings (specific and overlay)	Yes	Yes	No
Process	Expedited review of plans	Priority	Priority	Standard
Process	Streamlined / prioritized development permitting process	Priority	Priority	Standard
Fiscal	Development fee reimbursements	100%	50%	20%
Fiscal	Development fee deferrals (payments made up to 24 months after permitting)	100%	50%	20%
Fiscal	Reimbursements of rezoning fees	100%	50%	20%
Fiscal	No / limited developer responsibility for offsite water/wastewater/storm infrastructure upgra	\$ 250,000	\$ 150,000	\$ 75,000
Fiscal	Cost reductions or grants of city-owned land	100%	50%	20%
Fiscal	Tree removal fee mitigation	50%	25%	10%
Fiscal	Graduated property tax abatements	Yes	Yes	Yes
Fiscal	Housing grants/Other financing mechanisms	Yes	Yes	Yes

We are also evaluating adding a 20% bonus to each tier for projects south of I-30



The next steps after your guidance will refine the framework and involve additional outreach on more technical items



Refining the approach

- making changes as recommended here;
- holding discussions with city staff (esp. planning, zoning, permitting);
- continuing to test the supporting financial model to calibrate the incentives, minimum percentage of affordable units and in lieu fee amounts.



Open discussion...



What did you love?



What did you hate?



What should we explore more?



Appendix items follow

From our research, we found that any potential affordable housing incentive solution should recognize key constraints



- First: the need for affordable housing is real and not going away and government resources are not able to solve the problem without private sector assistance;
- Second: math is real, costs are real, capital is mobile and market-rate development is a competitive business;
- Third: voluntary programs will not be successful unless there is an exchange that is valued more than what is given up;
- Fourth: existing affordable housing programs, from LIHTC to local initiatives, are often highly constraining to a developer and not sufficiently attractive to induce use;
- Fifth: fees in lieu of units are not perfect but can be structured to be second-best to onsite units, providing a useful mechanism to encourage program participation;
- Sixth: part of solving affordable housing is supporting additional economic development in areas where it has not, historically, been generated.



We performed additional analysis on the fee in lieu issue to understand if fee in lieu offered more positives than negatives



A fee-in-lieu of creating onsite affordable housing units:

- is **attractive to developers for its simplicity and certainty** - also should be sized such that it is positively balanced with incentives taken (2020 Dallas Nexus study gives guidance)
- **can apply to rental or for sale developments**; residential, and potentially non-residential (such as office or retail uses)
- is **typically paid into an affordable housing trust fund** to support emerging local priorities:
 - specific parcels, e.g., targeted parts Dallas
 - filling affordable housing gaps - building units that are not typically supplied by the market, e.g., 3 bedrooms and flexible family-sized units
 - hard to fill housing for seniors housing, workforce or others
- helps to leverage units in areas where production costs are lower or NOAH options need additional financing to maintain
- does provide a mechanism for not including units onsite, which can be a positive outcome, depending on the project



Similarly, supporting new incentives only above I-30 suggests that such a focus may deprive southern Dallas of investment potential, both now and in the future



A **city-wide incentive** program:



- supports investment and jobs to all areas of the city over the medium to long term;
- creates a long term sustainable mechanism to raise incomes and opportunities for residents, particularly in areas that are emerging as possible development areas;
- provides a way for southern Dallas to become more competitive over time as its cost basis is lower than for northern Dallas;
- allows affordable unit production potential to be maximized over time as competitive sites come to market.



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The logo of the City of Dallas, featuring a stylized white 'D' with a leaf-like symbol inside, set against a dark blue background with a fine grid pattern.

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