

An aerial night view of a city skyline, likely Los Angeles, with numerous skyscrapers illuminated. A large red circle is overlaid in the center, containing white text. The text reads: "A Toolkit of Options to Encourage Mixed-Income Housing".

**A Toolkit of
Options to
Encourage
Mixed-Income
Housing**

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

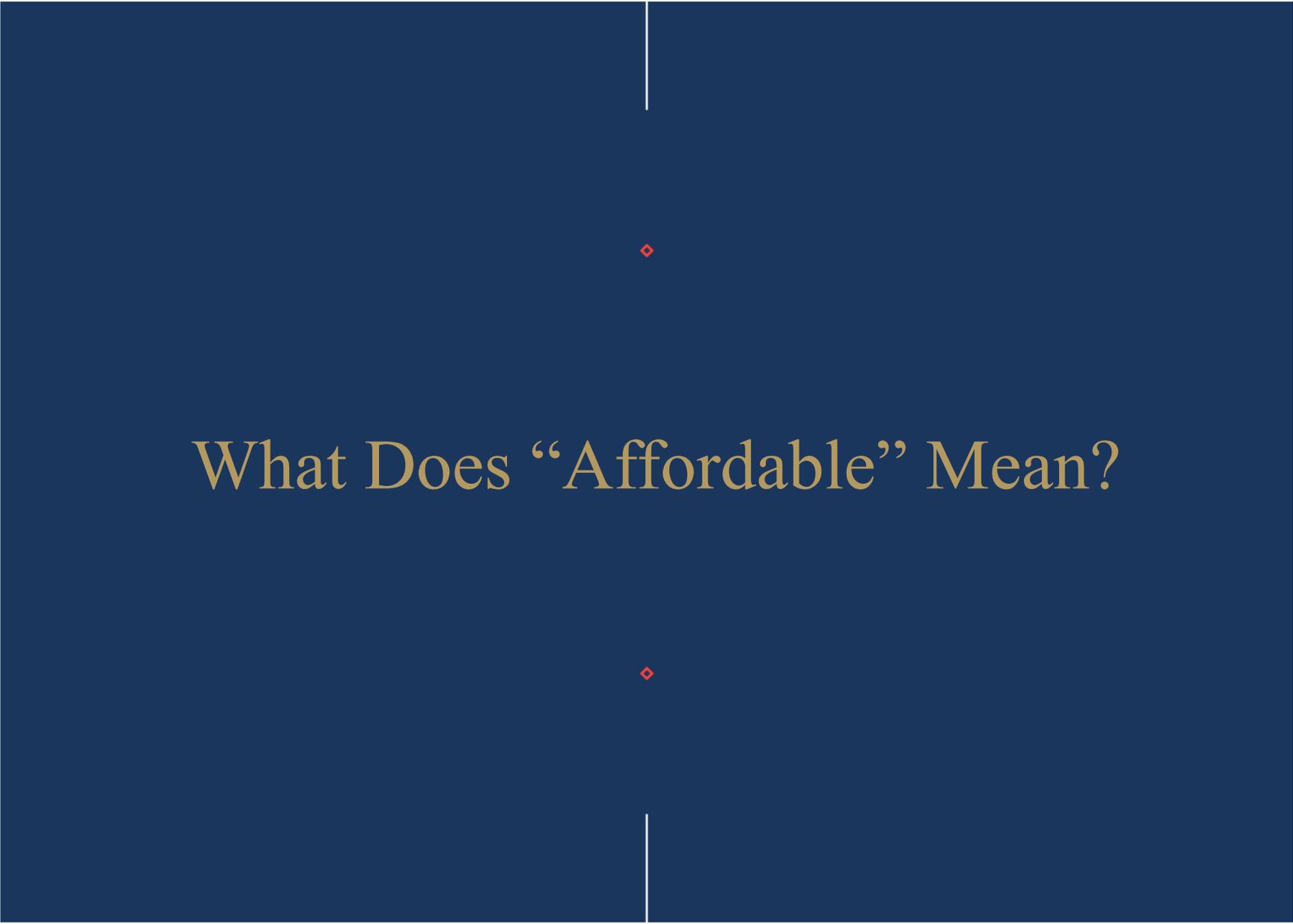
The housing crisis is a complex and challenging issue facing our city. There is no magic bullet nor a one-size-fits-all solution. The preliminary findings of the Housing Nexus Study outlined the ongoing challenges – and vast need – for affordable housing in the City of Dallas.

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 60% to 120% of AMI.

Overview of TREC Process

- Formed working group of industry experts
- Compared and analyzed best practices of 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
- Compiled recommendations and tested them using real-life examples
- Reviewed policy implementation, current conditions, & revised recommendations



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 ACS Census data, almost 50% of Dallas households pay more than 30% of their income on housing and more than 20% of households spend more than 50% of income on housing costs.
- 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 2019 AMI is \$86,200.

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.
- In the recent *Guide to Reducing Child Poverty in Dallas*, the Child Poverty Action Lab affirmed: “Children who grow up in housing that is healthy and safe, affordable, stable, and in a community that begets opportunity are more likely to realize better education, health, and economic outcomes over the course of their lifetimes.”
- In 2019, Council retitled Chapter 20A as “Fair Housing and Mixed Income Housing” and defined *mixed-income housing program* as “a program administered by the department in which each owner using a development bonus participates.”

2019 Average Median Family Income

Fiscal Year 2019 Average Median Family Income

Dallas Region

Area Median Income (AMI)	Income Level	Dollar Amount by Family Size			
		1	2	3	4
30%	Extremely Low Income	\$ 17,500	\$ 20,000	\$ 22,500	\$ 25,850
50%	Low Income	\$ 30,150	\$ 34,500	\$ 38,800	\$ 43,100
60%	Moderate Income	\$ 34,920	\$ 39,900	\$ 44,880	\$ 49,860
70%		\$ 42,238	\$ 48,272	\$ 54,306	\$ 60,340
80%		\$ 48,250	\$ 55,150	\$ 62,050	\$ 68,950
100%	Average	\$ 60,340	\$ 68,960	\$ 77,580	\$ 86,200
120%	Middle Income	\$ 72,408	\$ 82,752	\$ 93,096	\$ 103,440
140%		\$ 84,476	\$ 96,544	\$ 108,612	\$ 120,680

Source: https://www.huduser.gov/portal/datasets/il.html#2019_query

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)
Teacher	\$52,000 - \$103,476	\$1,300-\$2,587	>80% to >140%
Fire	\$60,000 - \$115,361	\$1,500-\$2,884	>100% to >140%
Police	\$60,000 - \$115,361	\$1,500-\$2,884	>100% to >140%

Sources:

https://dallascityhall.com/departments/humanresources/DCH%20Documents/pdf/CompClass_FirePaySchedule_AttachB.pdf

https://dallascityhall.com/departments/humanresources/DCH%20Documents/pdf/CompClass_PolicePaySchedule_AttachB.pdf

<https://www.dallasisd.org/cms/lib/TX01001475/Centricity/Domain/110/2018-2019%20Compensation%20Handbook.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 \$1,369 as of Q2 2020.

YTD 2020 MF Rental Data					
Submarket	Effective Rent	Studio Rent	1BR Rent	2BR Rent	3BR Rent
Downtown/Uptown	\$1,734	\$1,288	\$1,531	\$2,167	\$3,343
Oak Lawn/Knox	\$1,799	\$1,273	\$1,555	\$2,292	\$4,629
North Oak Cliff	\$1,247	\$1,094	\$1,180	\$1,346	\$1,335
Zang/Cedars/Fair Park	\$1,158	\$1,115	\$1,104	\$1,193	\$1,283
2019 MF Rental Data					
Submarket	Effective Rent	Studio Rent	1BR Rent	2BR Rent	3BR Rent
Downtown/Uptown	\$1,774	\$1,309	\$1,572	\$2,247	\$3,212
Oak Lawn/Knox	\$1,713	\$1,289	\$1,486	\$2,217	\$4,257
North Oak Cliff	\$1,149	\$974	\$1,104	\$1,211	\$1,269
Zang/Cedars/Fair Park	\$1,172	\$1,155	\$1,097	\$1,231	\$1,269
2018 MF Rental Data					
Submarket	Effective Rent	Studio Rent	1BR Rent	2BR Rent	3BR Rent
Downtown/Uptown	\$1,695	\$1,235	\$1,504	\$2,112	\$3,014
Oak Lawn/Knox	\$1,571	\$1,121	\$1,353	\$2,038	\$3,458
North Oak Cliff	\$1,089	\$932	\$1,030	\$1,147	\$1,195
Zang/Cedars/Fair Park	\$1,157	\$1,081	\$1,011	\$1,120	\$1,201

Source: REIS and MPF/Yieldstar

Working Group Recommendations:
A Focus on Mixed-Income Housing

Policy Wins

- Council adopted the City of Dallas **Comprehensive Housing Policy**, including Community Land Trusts, the Housing Trust Fund, and Market Value Analysis.
- From October 2019 to now, the City has passed 4 new housing policies and confirmed production (built or under construction or rehabilitation) of **2,626 affordable homes**.
- From July 2019 through June 2020, Council approved 8 zoning cases with a **mixed-income development bonus** element. The cases generally exchanged height, FAR, and maximum dwelling units per acre for between 5% and 15% of the units being reserved for households between 51% and 100% of AMI.
- Council established a **Public Facilities Corporation** in June 2020 to support the growth and development of mixed-income housing.
- Launched a **1,000-Unit Affordable Housing Challenge** to catalyze opportunities on public land adjacent to transit.

Current Affordable Housing Policy Tools within City of Dallas

Existing Government Support By Income Group

Up to 80% AMI	Low Income Housing Tax Credit, Project-based Vouchers, City of Dallas G.O. Bonds, Section 8 Vouchers, Community Development Block Grant (CDBG) / HOME Funds, TIF/Tax Abatements, Land Bank, Mixed-Use Development Bonus
80% AMI to 140% AMI	G.O. Bonds, Mixed-Use Development Bonus

Overview of Recommendations

Initial Recommendations	Status	Future Recommendations
Create area plans	✓ Reinvestment Strategy Areas	
Create a variety of incentive opportunities & tools	✓ Mixed Income Housing Development Bonuses	Enhance incentive opportunities; expand TIF eligibility; expand Ch. 20A tools; amend Community Land Trust program
Establish dedicated funding streams	✓ Housing Trust Fund	Dedicate funding stream for HTF
Amend Ch. 51 and 51A	✓ Mixed Income Housing Development Bonuses	Expand eligibility beyond current zoning categories
Offer alternatives to on-site affordable housing		Establish fee-in-lieu program
		Increase LIHTC market rate units
Implementation and Timing		Phase-in programs over time

◇

Future 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% yield
 - High-rise construction – 6.50% to 6.75% yield

$$\text{Net Operating Income (NOI) / Project Cost} = \text{Yield}$$

- 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, \$67.60 M total project cost		
	20% of Units Affordable	5% of Units Affordable
No. of Units	68	17
60% AMI		
Total Funding Gap	\$12,590,018	\$3,147,504
Funding Gap Per Unit	\$185,147	
120% AMI		
Total Funding Gap	\$560,575	\$140,144
Funding Gap Per Unit	\$8,244	

High Rise Building Development Example		
350 Units, \$140.00 M total project cost		
	20% of Units Affordable	5% of Units Affordable
No. of Units	70	18
60% AMI		
Total Funding Gap	\$32,829,879	\$8,441,969
Funding Gap Per Unit	\$468,998	
120% AMI		
Total Funding Gap	\$18,482,390	\$4,752,614
Funding Gap Per Unit	\$264,034	

Filling the Gap: Offer a Variety of Incentive Opportunities

Incentive Opportunities:

- Reductions in Parking Requirements
- Fee Waivers (Building Permit & Water)
- Tax Abatements
- TIFs (potential expansion beyond 80% AMI)
- Implementation of Public Facilities Corporations
- Reduce Land Costs
- Housing Trust Fund or Other Dedicated Revenue Source
- G.O. Bonds
- 1,000 Unit Housing Challenge

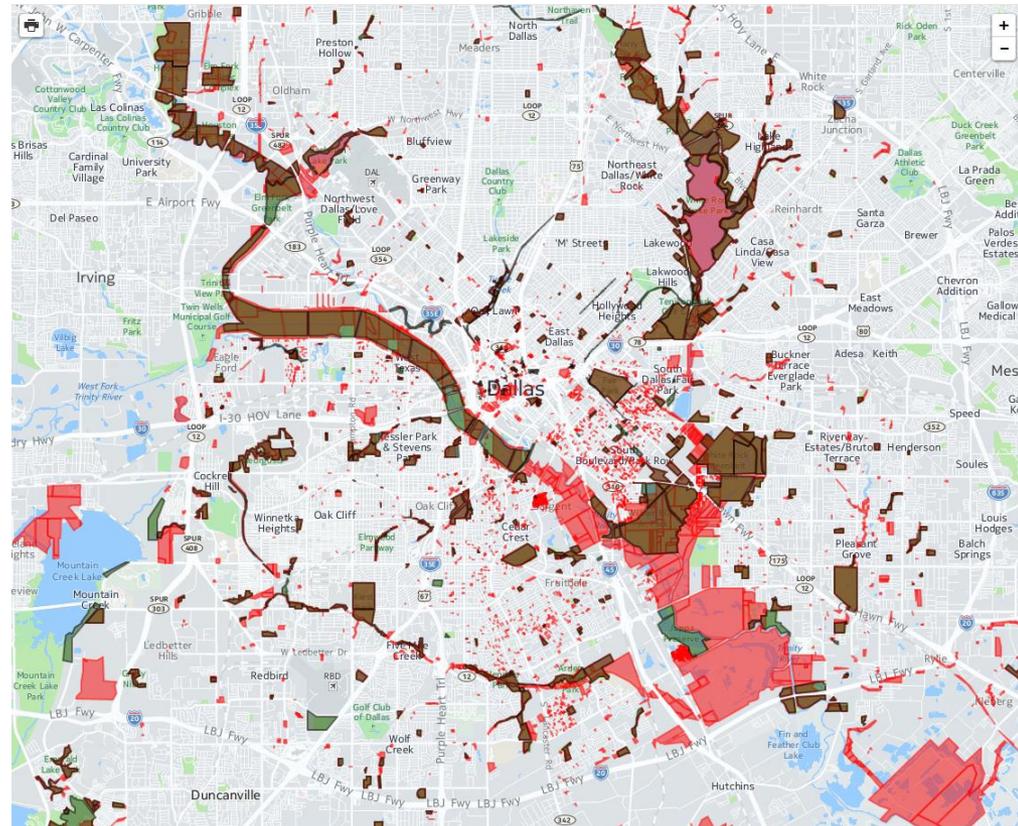
Enhance Incentive Opportunities

- **Modify Current Incentive Policies:**
 - Amend existing TIF Policies to encourage a greater range of mixed-income housing. Allow TIF eligibility for 80% + AMI.
 - Amend Public Private Partnership Program to expand existing areas
 - Tax Abatement, Fee Waivers, and Parking Reductions.
 - Amend Community Land Trust Program
- **Offer Incentives to All Zoning Districts:** All zoning districts, including planned development districts, should be allowed to earn incentives to apply toward building affordable units if needed.

Reduce Land Costs

Amend Community Land Trust

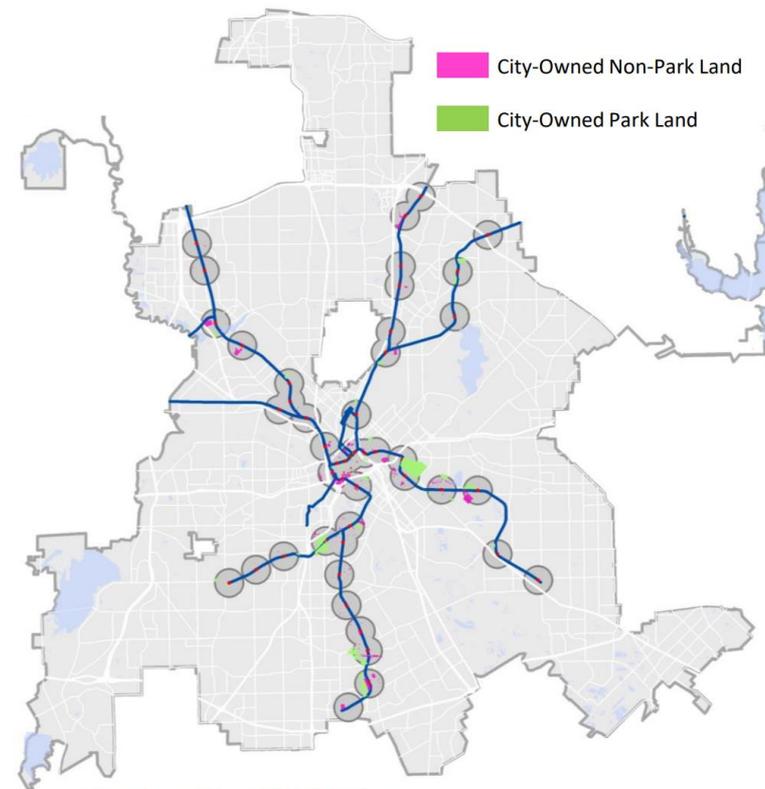
- This nonprofit entity may execute 99-year ground leases with developers targeting affordable residential units. Allowing the Trust to lease the land for development, lowers the overall project costs as the developer pays only for the structure built and not the underlying land. The lease agreement also ensures the inclusion of mixed income and affordable housing.
- Amend Community Land Trust by restructuring property tax rebate opportunity. City of Dallas presently has opted out of state statute exempting non-profits from property taxes on land trust projects.



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.
- e.g. 1000-Unit Affordable Housing Challenge



City-Owned Land in TOD Areas

◇

Future Recommendations:
Establish Dedicated Funding Streams

◇

Housing Trust Fund

What Does the Housing Trust Fund Do?

- Established in 2019 Comprehensive Housing Plan
- 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

- City issued an RFP for a qualified non-profit entity to manage Housing Trust Fund.

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 **\$370 million** in G.O. bonds for affordable housing since 2006.

TREC recommends funding HTF through general obligation bonds.

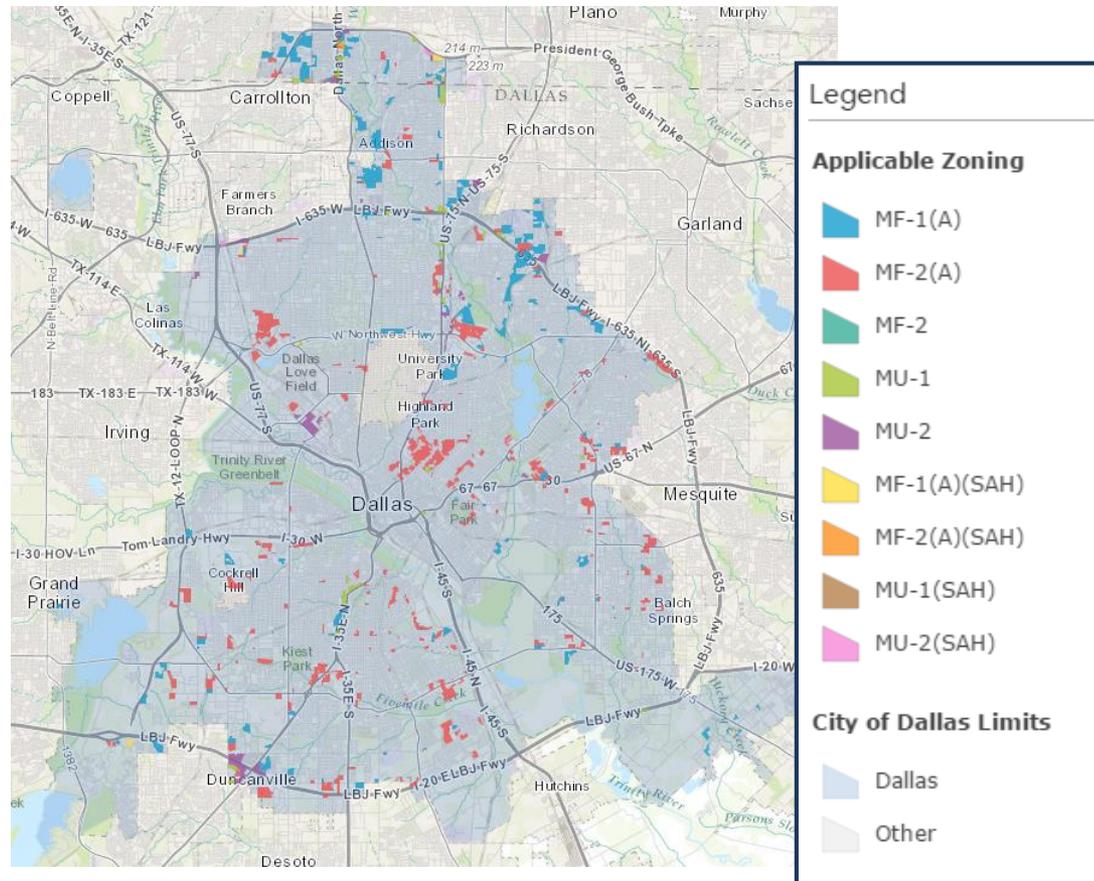
◇

Future Recommendations:
Expand Eligibility for Development
Bonuses under Ch. 51 and 51A

◇

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)



Future Recommendations:
Offer Flexible Alternatives

Payment of Fee in Lieu Option

The City of Dallas already has an option for a Payment of Fee 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.
- Consider expanding the taxable base beyond Multifamily to broaden possible impact and revenue potential.
- 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.

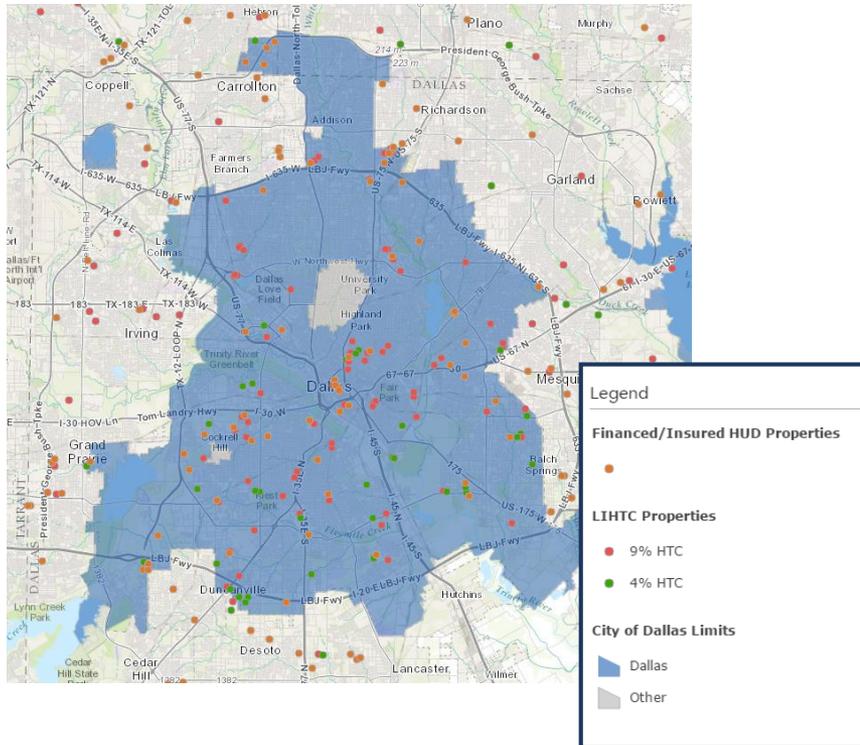
◇

Future Recommendations:
Increase Market Rate Units
through LIHTC

◇

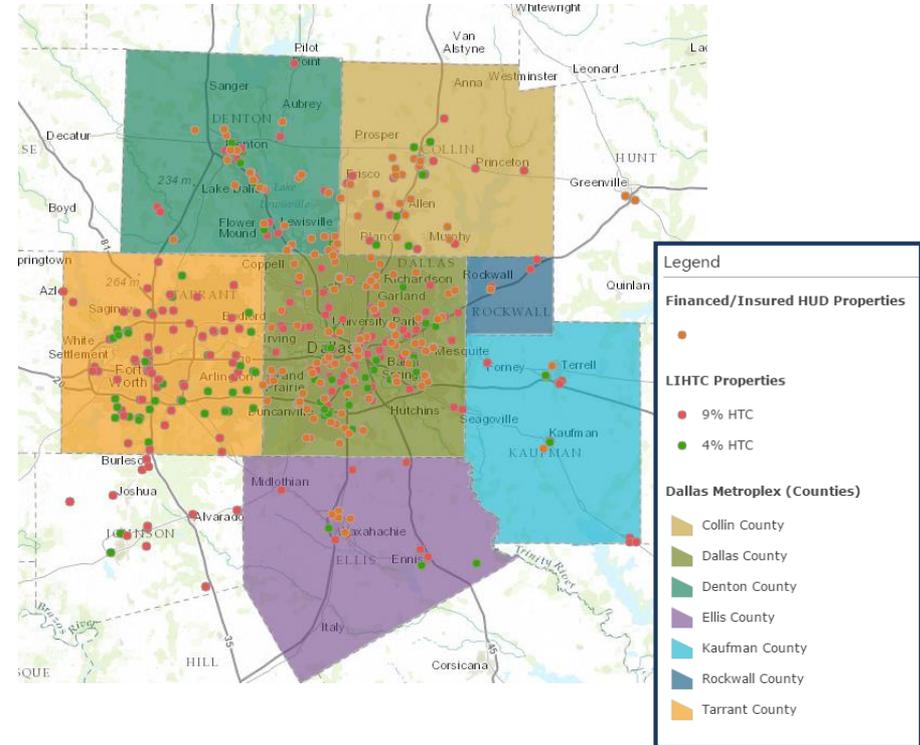
LIHTC & Financed/Insured HUD Properties (2016)

City of Dallas



Region

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



◇

Future Recommendations:
Timing and Implementation

◇

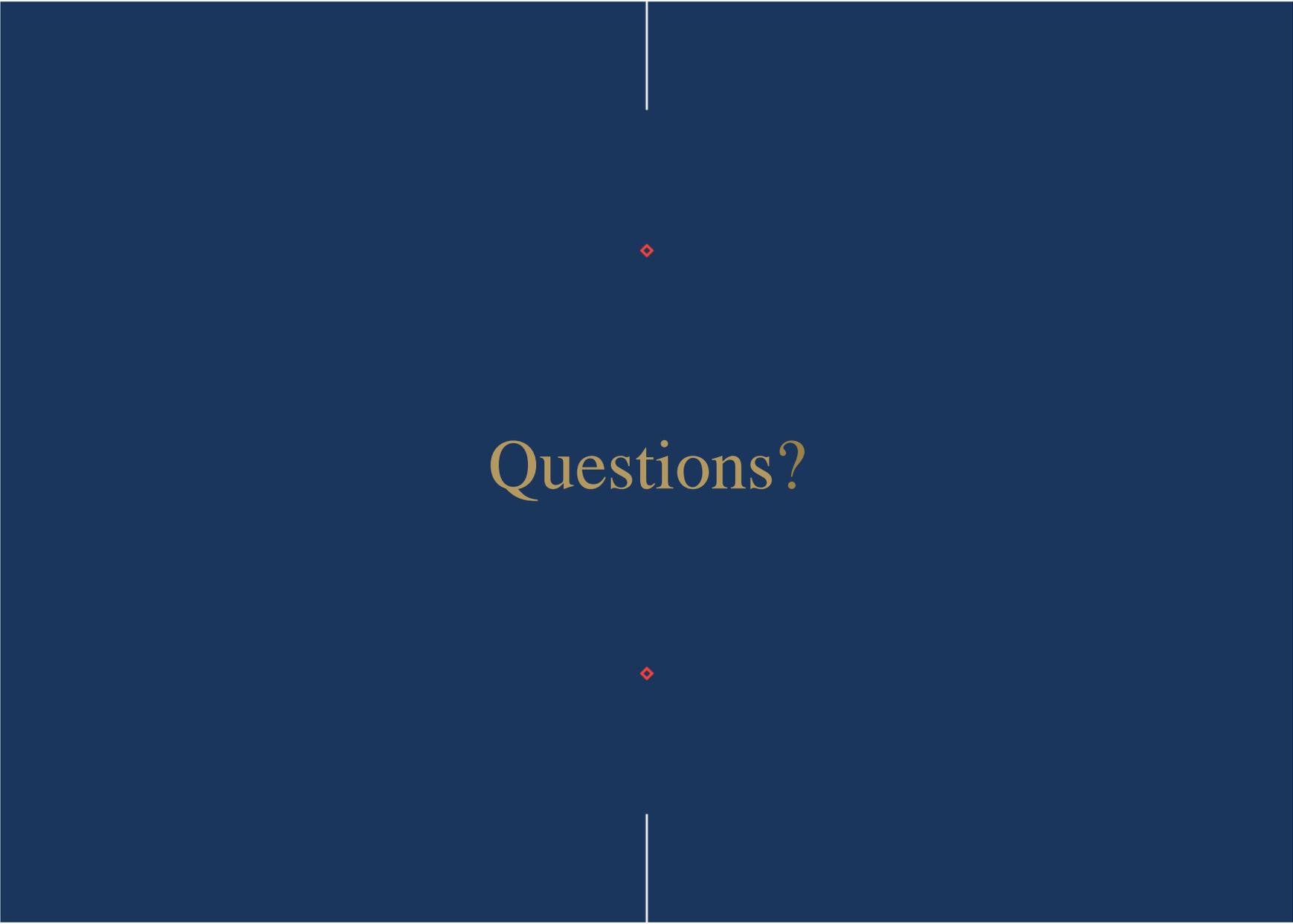
Implementation & Timing Recommendations

- **Phased-in Over Time**

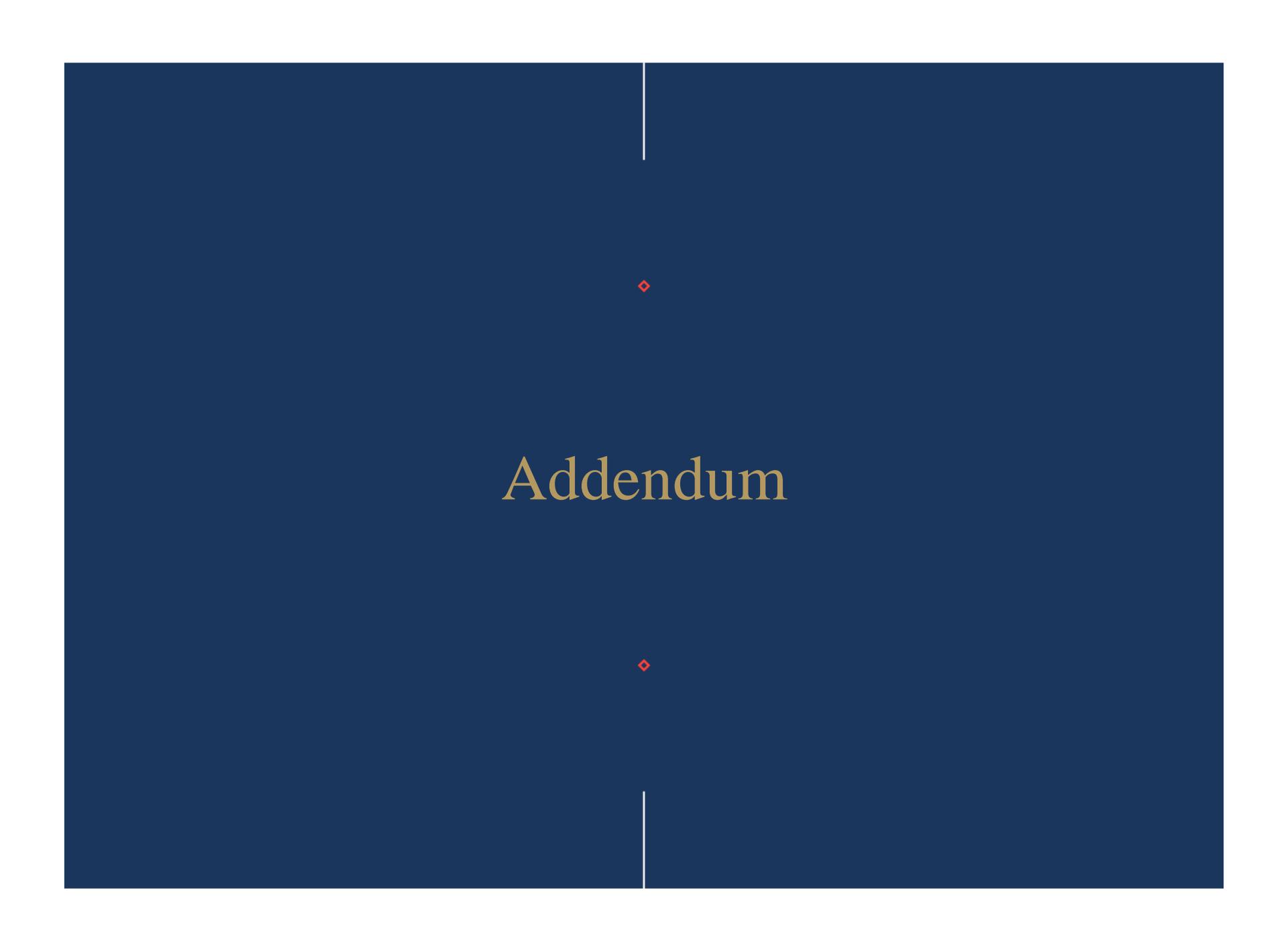
- Work with stakeholders to determine implementation of policy tools in the short-term, medium-term and long-term.
- Careful consideration must be given to the timing of implementation in order to give developers and land owners sufficient time to assess the impact on land prices. It is important to 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>

Average Dallas Rents (2011, 2013, 2015)

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

Expanded Funding Gap Examples

Total Funding Gap - Wrap						
Area AMI Percentage						
	30%	60%	80%	100%	120%	
Units	5%	\$4,652,133	\$3,147,504	\$2,144,467	\$1,142,908	\$140,144
	10%	\$9,304,265	\$6,295,009	\$4,288,933	\$2,285,817	\$280,288
	15%	\$13,956,398	\$9,442,513	\$6,433,400	\$3,428,725	\$420,431
	20%	\$18,608,530	\$12,590,018	\$8,577,866	\$4,571,634	\$560,575
Per Unit Funding Gap - Wrap						
Area AMI Percentage						
	30%	60%	80%	100%	120%	
All	\$273,655	\$185,147	\$126,145	\$67,230	\$8,244	

Expanded Funding Gap Examples

		Total Funding Gap - Tower				
		Area AMI Percentage				
		30%	60%	80%	100%	120%
Units	5%	\$10,287,809	\$8,441,969	\$7,211,467	\$5,982,781	\$4,752,614
	10%	\$20,004,073	\$16,414,940	\$14,022,297	\$11,633,185	\$9,241,195
	15%	\$30,291,882	\$24,856,909	\$21,233,765	\$17,615,966	\$13,993,809
	20%	\$40,008,145	\$32,829,879	\$28,044,595	\$23,266,371	\$18,482,390
		Per Unit Funding Gap - Tower				
		Area AMI Percentage				
		30%	60%	80%	100%	120%
	All	\$571,545	\$468,998	\$400,637	\$332,377	\$264,034