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No Room at the Complex

As the condos multiply, Austin renters look for a place to land

By Wells Dunbar

Like tens of thousands of my fellow Austinites, I'm still hanging pictures, cleaning up after the cable installer, cursing a blue streak assembling that couch from IKEA – and still settling in from my move in August.

And if you're like me, you probably had a hell of a time finding and acquiring your new digs: ceaselessly scouring Craigslist for rent south of \$650 or deals in Hyde Park (good luck finding those two together) or a similarly close-in neighborhood or whatever foolishly optimistic parameters you defined for yourself; clicking through to real estate agents' worthless websites requesting names, addresses, and a first-born child before they'd cough up a listing.

And after all the Web rigmarole, you met with an apartment locator or two (or three or four), where you heard the same story again and again: Austin's changed. That ideal apartment in the funky little complex close to everything is gone – at any price you could afford, at least. Gone from Hyde Park, gone from South Congress (no news there – seriously, why'd you even bother adding it to your RSS?), and practically gone from the Central Texas city as a whole. The story of the Stoneridge Apartments on South Lamar is exemplary of the trend, with its 141 affordable, if older, units marked for demolition and replacement by more expensive condominiums. And the gentrifying trend is spreading. The latest collateral damage in the city's capital-accumulating real estate boom is off Riverside Drive, where a sprawling apartment complex (the front line in the battle over development along Lady Bird Lake) – with 750 units renting to families earning less than 50% of the median family income – is waiting to be plowed under for more than twice that many new condos, at a price few current residents will be able to afford.

Well, it may be small comfort – in fact, it's no comfort at all – but it ain't just you and me.

Indeed, the local experts confirm that the wave we're precariously riding carries a wholesale displacement of Austin's renters, her younger and newer citizens: recent college grads, musicians, writers, scenesters, and, yes, journalists – those members of the vaunted "creative class" still ascendant – plus the waiters, bartenders, busboys, chefs, and retail workers, the service employees who seamlessly facilitate our (and especially our financial betters') enjoyment of the city.

The Conversion Crunch

"Austin is at risk of losing its existing low-cost rental housing faster than it can build new affordable units," warns a study prepared by the UT School of Law's Community Development Clinic. Citing Stoneridge as "indicative of a larger trend happening in the city and around the country," the report says "the rising real-estate market has resulted in thousands of affordable rental units being replaced with expensive lofts, condos, apartments, and homes."

Kelly Weiss, community development administrator for the Austin Housing Finance Corp., is trying to track conversions of rental units to condos or other higher-priced housing but says: "There's no one set place where data on this issue is going to be collected. No one's required to collect it, so no one does." Still, she's awed by the scale of change reflected in the data collected from just one private investor firm. Comparing a year's data against the Austin

Board of Realtors' Multiple Listings Service database, she's seen about 1,000 apartments lost to condo conversions – "just from that small housing stock." As high as that number sounds, it's apparently not an anomaly. "My guess is it's really just the tip of the iceberg," says Weiss. And these were affordable apartments, too – affordable for those earning 60% or less of Austin's median family income.

As Austin's apartments grow older and outdated, condo conversions are destined to accelerate – the market's lending policies effectively incentivize them. "If an apartment owner is at a point with an older unit where there's a lot of deferred maintenance," says Weiss, "it may be more cost-effective to sell it for a condo conversion" instead of repairing it. And lots of apartments are showing their age. "When a property gets 40 years old, as a lot of these properties are – all these apartments built in the Sixties, Seventies – they are basically functionally obsolete," says Frances Ferguson, board president of HousingWorks, a local nonprofit dedicated to keeping Austin affordable. (See "Working for Affordability," p.40.) Citing well-worn properties along central arterials like Riverside, Lamar, Burnet Road, and North Loop, she says, "Since there are no appropriate tools to rehab these apartments and keep them affordable, the investor's decision is to sell."

Indeed, the multifamily loan market prioritizes larger, newer construction: It's harder and less profitable to reinvest in smaller, existing apartments while keeping the rent reasonable. The Community Development Clinic study notes that "financing for smaller multifamily properties is one of the most significant gaps in the mortgage industry" and says loans are tailored to projects usually 50 units and up; for Freddie Mac, one of the multifamily market's biggest lenders, the average loan size is \$10 million-15 million, far beyond what's needed to rehab older apartments affordably. "It's not that private investors are bad guys," says Ferguson; "it's that individual investment decisions, each of which make sense on their own, create an aggregate problem."

Factor in Austin's strong housing market (which, says Weiss, "still hasn't really felt the dip" from the nationwide subprime mortgage meltdown), continued Downtown construction of luxury condominiums, and the dizzying occupancy rates generated by tens of thousands of local college students (and inadequate numbers of dormitory units), and you've got a serious affordability problem for renters. "Those who've worked [providing housing] at the low-income end have always recognized the problem," Ferguson says. "But in recent years, it's become a problem for people with more moderate income."

Walking the Tightrope

Even in Austin, where every public issue has its own task force, commission, and constituency, it's hard to overemphasize affordability: In the city's annual citizen survey, it placed third in overall community priorities, only after gridlock and growth management (problems exacerbated by a lack of cheap rent in the city) and ahead of issues like crime and pollution. For many Austinites, affordable housing – or rather the increasing and broadening lack thereof – is not simply an economic issue; it also runs counter to the city's idealized conception of itself. While the cheap-rent, slacker-mecca mythology imprinted in the DNA of Austin weirdness always seemed a bit of an exaggeration, the increased marginalization of students and starving artists threatens to rob the city of its identity in a very real way.

One official city response has been the Affordable Housing Incentives Task Force, chaired by City Council Member Jennifer Kim. In February, the task force issued recommendations on ways to incentivize developers to build affordability into their projects; in June, the first round of recommendations (several "enhancements" to the city's SMART Housing policy to "encourage developer participation") was adopted; further SMART recommendations come to City Council this month. One criticism is that the recommendations apply only to increasingly rare "greenfield" sites (plots without prior construction). City staff members are currently working with stakeholders to create a preservation policy for Austin's existing housing stock, with a deadline of next March.

The city will also be undertaking a \$300,000 study of the local affordable-housing market. Kim calls it an important step, not only to get a handle on the current scope of the rental crunch but also as a bargaining chip. "What's the price our community has to pay in losing affordable-housing stock when new development comes in?" Kim asks. "We can then show that to developers, that when you put a 12-story high-rise here, we lose so many affordable units. We need that type of analysis and study to show we're judicious and fair with everyone." Kim hopes soon to hold a stakeholders' summit, setting the scope of the work.

All of this preparation and study admittedly takes time, and it's hard not to be dismayed by the lag between recommendations and action – especially in this quickly changing housing market. Kim says the city walks a tightrope in attempting to craft policy that would have a maximum impact in preserving affordability but still actually be adopted by the private sector. "It's definitely a balancing of priorities, making sure that people will take advantage of [the measures we implement]," she says. "If developers say, 'Well, forget it; we won't do it,' then we'll have lower density," she continues, foreseeably leading to higher rents, among a host of collateral side effects. "I understand that [frustration], because you see condos going up and no affordable properties going in. At the same time, you need to make sure [developers] are not going to be overburdened. ... I don't think the people realize [that] the harder people make it to get the incentives, the less likely [they're] going to be used."

'Make It Pencil'

While the city's incentive-based policies can reflect a maddening, laissez-faire quality, they're one of several available tools. The Community Development Clinic study identifies six mechanisms for preserving affordable rental housing: public funding, private finance tools, tax tools, zoning and land-use policies, regulatory tools, and a catchall of other strategies (see "Affordability Toolbox," at left). Some already have been used locally, including tax waivers, a tax increment financing zone for the Eastside's homestead preservation district, and the \$55 million in voter-approved affordable-housing bonds; others would be harder to execute in a state that treats property rights as reverently as Texas.

Yet you don't have to look far to find an agency using several of these tools – the Austin Affordable Housing Corp., a nonprofit subsidiary of the Housing Authority of the City of Austin. Mention "subsidized housing," and images of cheaply built and quickly dilapidated properties come to mind. The Bent Tree Apartments, however, are nothing of the sort. Located in Northwest Hills near MoPac and Highway 183, the 126-unit complex is inviting and well-kept, with tennis courts and a pool on the grounds and units that feature tile back-splashes and new paint and carpeting. It's also subsidized by the AAHC: A one-bedroom costs \$550, a two-bedroom is \$635, and a two-bedroom/two-bathroom with washer-dryer connections runs about \$715. Somewhat surprisingly, there's no long waiting list nor strenuous minimum-income requirements – just a normal apartment waiting list, at a recent glance listing 10 or so names.

Despite investing a quarter-million dollars into Bent Tree since the agency bought it three years ago, AAHC keeps the rents approximately \$90 below those in the surrounding area, at what it calls a "fair market value." Several measures serve to offset the agency's costs. One is due diligence in purchasing properties at a good price; the corporation's tax-free status also lets it keep and reinvest more of its earnings. But in recent years, the AAHC's most effective strategy has been its use of private revenue-generating streams. In 2004, it bought Eastland Plaza, a shopping center on Airport Boulevard that pulls in close to \$500,000 for the organization annually. The results are twofold: Money is folded back into the AAHC's endeavors, while, ultimately, Eastland will be used for job-training, as part of the social services the Housing Authority offers its public-housing residents.

Bent Tree might seem a world away from the Rosewood or Booker T. Washington public-housing complexes on the Eastside, but they're simply different points on one continuum of affordability. "All affordable housing is in relation to the neighborhood it's in," says Ron Kowal, AAHC vice president of housing development and asset management. For the AAHC, complexes like Bent Tree figure in the mix equally with Sterling Village, more modest North Lamar properties that cater to the neighborhood's large immigrant population. Sterling Village rent rates also hover some \$75-90 under nearby market rates – one-bedrooms start at \$455, and two-tos reach \$665. The property and units are clean and well-kept; during a recent visit, a Housing Authority truck was hauling off old appliances and couches, one of the benefits of having its own core property-management infrastructure.

In some ways, the AAHC is an anomaly. With the Housing Authority, it has the resources of a public agency, but because it is charged with a single mission that overlaps only minimally with other city functions, there's less bureaucratic overhead or interference. In one sense, AAHC operates like an independent business or developer – seeking deals on properties to increase its portfolio. But since it's not required to generate sufficient profits to appease shareholders (at the expense of tenants), nor to pay property taxes, it is able to purchase and upgrade properties with an exclusive focus on self-sustaining affordability. "Ultimately it has to pencil – it has to pay for itself," says Kowal. Indeed, AAHC relies on no city or federal money, with all its funding coming from its private revenue streams or another nonprofit Housing Authority subsidiary, Southwest Housing Compliance Corp. (which performs management

reviews of all Sector 8 housing in Texas and Arkansas). With one foot in the public realm and another in the private sector, it has become an effective model.

HousingWorks' Ferguson applauds HACA and its work but hopes AAHC's current focus on affordable yet market-rate apartments doesn't distract the agency from helping the people it was originally conscripted to assist: residents of HACA's public housing, earning 30% or less than median family income. "HACA has eminent domain powers, bond-issuing rights," says Ferguson. "Others are not equipped with that kind of tool kit."

The Invisible Hand

HACA's effectiveness arises from the instruments at its disposal: a combination of public (tax waivers, government assistance) and private (development and revenue-generating) tools. Similarly, preserving affordable options for renters has two simple, if not necessarily popular, components: spending money and making sure it's spent well.

"A progressive preservation policy cannot be implemented without large amounts of public funding," reads the Community Development Clinic study. "Cities around the country that have successfully preserved large numbers of rental housing units have done so only with the benefit of significant state or local funds designated for affordable rental housing preservation." Austin's \$55 million in affordable-housing bonds provide a step in the right direction, but, as we've seen, the slow-moving bureaucracy of the city means slow implementation. For just one example, the city is just now getting around to releasing a NOFA (notice of funds availability) for part of the bond dollars approved for affordable housing last year.

Also, the city's overreliance on financial and other incentives to lure developers into including affordable rentals in their projects has been a well-intentioned but ultimately hands-off approach and, thus far, ineffective for preserving, let alone increasing, the city's existing stock of affordable rental units. Compared to the AAHC, a quasi-public-sector agency but with a much more specialized mission, the city endures all the red tape with far fewer of the benefits. "The public sector is a very blunt instrument," remarks Ferguson. "We can have an awfully goddamn-long policy debate, then turn around and see all the housing is gone."

It would seem a fleet-footed, nonprofit, private-sector response – one benefiting from the funds and legal authority of government – is the best bet to preserve existing apartments before they're converted. Kim points to the city's previous partnerships with nonprofits – Foundation Communities, which converted an extended-stay hotel on I-35 into efficiency apartments for the formerly homeless, or Habitat for Humanity, which has its own miniature neighborhood of homes by Riverside and Pleasant Valley on city-donated land – as examples of productive partnerships the city has made. But those projects are both on the lower reaches of the affordability continuum, whereas much of the need is less extreme, less visible but much, much more mainstream. While the city's housing bonds help first-time homebuyers earning up to 80% median family income (but concentrate on the 50-65% range), there's nothing to help renters earning more than 50% MFI. As Austin's real estate boom continues to squeeze those who haven't felt the pinch previously and as condo conversions continue to cut into their rental options, much more dramatic and persistent action will be required to preserve whatever affordability Austin has left.

Wait 'Til Next Year

As the summer came to the end, my quest for an affordable apartment on a writer's salary did, too. Somehow, finally, I lucked out – after several false starts, I found an older property along Duval Street, a few blocks above 45th. Although under new ownership, it had escaped the condo craze – it wasn't flipped but refurbished (i.e., a coat of paint and refinished floors). I'm locked in at a quasi-affordable \$625 for the next 11 months – when the lease is up and in all probability the hunt begins again.

Maybe by next summer the city's myriad boards and task forces will have issued reports, charts, and recommendations enabling me to plan my next move. To somewhere up in Pflugerville.

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