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Texas Senate Committee on Intergovernmental Relations
Hearing on "Recommendations on Texas Housing Programs"
March 27, 2008

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INTRODUCTION

Mr. Chairman, members of the Committee:

Thank you for the privilege of testifying before this committee today. I am testifying on behalf of the J. McDonald Williams Institute. As a researcher who studies the issues facing America's cities, I want to share with you my perspective on affordable housing and its importance to our cities' futures. Specifically, I want to share what we know about the changing nature of affordable housing issues, and suggest key strategies that one might consider in an attempt to provide inclusive, affordable communities for today's Texans, as well as the 13 million expected to come to Texas over the next 20 years. The perspective I share today is not purely theoretical—the effects of affordable housing shortages and other quality-of-life factors are already impacting Texas's city economies. The effects of our housing challenges extend beyond the construction and homeownership markets and into issues with land use, air quality, and employment.

STATE OF AFFORDABLE HOUSING IN TEXAS

It is generally accepted that households who spend 30% or more of their income on housing expenses face a significant challenge in meeting the other costs of living. People living in these circumstances are termed "housing challenged." According to the 2006 American Community Survey, 37% of U.S. households were housing challenged, up from only 30% in 2003. While Texas's ranking among the other states moved from 17th to 28th, it's largely due to things growing significantly worse in other states, not getting better in Texas. In fact, housing challenged households in Texas increased from 29% to 33%. In contrast, California remained among the most housing challenged states, with a shift from 42% in 2003 to 52% in 2006.

MIGRATION OF THE HOUSING CHALLENGED

Within Texas, there have been significant changes in the distribution of the housing challenged population. Among those who mortgage their homes in Texas, the percentage

who were housing challenged remained relatively stable from 2005 to 2006 at roughly 33% (nationwide there was an increase from 35% to 37%). A similar statewide stability was seen for those who rent their homes, remaining roughly constant at 45% in 2005 and 2006 (unlike mortgage holders, the nationwide pattern showed similar stability at roughly 46%). While statewide rates remained stable, real change was seen within the state's metropolitan areas. For mortgaged homeowners, Texas's metropolitan areas realized a one percentage point gain from 2005 to 2006, moving from 33% to 34% housing challenged. For this mortgaged population, the metro increases were largest outside of the principal cities, where the percentage of housing challenged owners grew by almost two percentage points from roughly 31% to 33%. To put these numbers in context, this equates to an additional 33 thousand housing challenged mortgaged households in metropolitan areas, with 26 thousand of those falling outside of the main cities.

A different trend was seen for renter-occupied housing units. As indicated earlier, statewide rates of renter households that were housing challenged remained roughly stable. In the state's largest metros, there was a measureable *decrease* in the percentage of renter households that were housing challenged, dropping from just over 46% to 45%, with an almost two percentage point drop inside the metros' principal cities (from 48% to 46%). Again, to place these numbers in context, Texas's largest metropolitan areas include more than 2.5 million renting households. There were roughly 35 thousand fewer housing challenged renter households in 2006, with approximately 30 thousand of that decrease occurring *inside* the largest metros' principal cities.

That's a lot of information to digest, so allow me to briefly comment on what I believe it tells us. While the percentage of households in Texas who are housing challenged has remained roughly constant, we're seeing changes in where these households live. We are seeing in our larger metro areas that the housing challenged population is increasing among mortgage holders, and particularly so in the "suburbs," while it is decreasing among renters, and particularly so in the "inner cities." I believe what we are seeing is the very real impact of the "homeownership rush." As an increasing availability of lending programs continued to reduce qualification standards, the data may suggest we witnessed the migration of housing challenged renters into housing challenged homeownership. While homeownership is an invaluable tool for wealth building and empowerment, executed without sufficient preparation, training, and qualification, it can be the vehicle for financial ruin. At least for those making more than the lowest wages, a financially challenged householder in a lease situation will find it much easier than a homeowner to mitigate his or her housing costs. Homeowners disproportionately suffer the effects of market forces when trying to sell to "downsize" their housing costs. While renters might feel this market impact through the decisions of their landlords, multi-unit owners have the luxury of spreading that cost increase across multiple properties; single family owners do not enjoy such a luxury.

THE BURDEN OF HOUSING COSTS ON THE POOR

While the percentage of housing challenged households in Texas shows differences in geographic distribution, there is also a significant difference in the housing experiences of the poor, middle, and upper income groups. As one might expect, lower-income homeowners and renters were more likely to be housing challenged than their non-poor peers. Among Texas renters, roughly 90% of those in the lowest income category (households making less than \$20 thousand per year) were housing challenged in 2006; 98% of mortgaged homeowners in this bracket were similarly housing challenged. This pattern was roughly similar inside and outside of Texas metro areas, though low-income renters living outside of metro areas were less likely to be housing challenged. These percentages reflect a very slight increase from 2005 levels among the lowest-income renters and mortgage holders, within the established margin of error.

More significant changes are seen in the higher income brackets. Beginning with those making \$35 to \$50 thousand per year, the percentage who were housing challenged increased by roughly five percentage points, from 48% to 53%, for mortgaged homeowners, and by three percentage points, from 16% to 19%, for renters. Roughly similar increases were seen across other income groups as well.

While lower-income groups are indeed more likely to be housing challenged, their higher income peers are beginning to close the gap. This suggests the need to address housing policy using a holistic approach, rather than any single fixes designed to target one income group to the exclusion of others.

STRATEGIES TO AFFECT CHANGE

While the data presented in the American Community Survey illustrate the stark reality of increases among the housing challenged population, Texas remains among the more affordable places to live. With the Census Bureau projecting an increase of 13 million persons by 2030, we now have the opportunity to shape a policy environment that promotes affordable housing opportunities in an inclusive, responsible, and sustainable way.

INCLUSIONARY HOUSING POLICIES

Housing policy scholars have long lamented the deleterious effects of housing markets that tend to create income stratification in communities. Indeed, one of the major criticisms of public housing strategies targeting only low and extremely low income residents is that they create concentrations of severe poverty. With large enough concentrations comes out-migration of businesses, elevated levels of crime, and a public disinvestment in community wellbeing; in effect, these severely distressed communities may be “left behind.” Through the development of income-diverse communities, it is hoped that this disinvestment will be

reversed, making each neighborhood a neighborhood of choice and improving the quality of life for all.

Inclusionary housing policies encourage the development of affordable housing, in mixed income arrangements, by offering developers relief from various regulatory burdens (most prominently, restrictions on the number of housing units that can be built on a given parcel of land). In return, a certain percentage of the units in the development must be affordable to people in a specific income range.

Although widely used in other sections of the country, broad-based inclusionary housing policies (often encompassing an inclusionary zoning component) are unknown in Texas. Indeed, Texas law appears to forbid local governments from requiring builders to include affordable units in new developments.

The arguments in favor of inclusionary programs are varied and complex. In general, supporters suggest that inclusionary housing programs address a real and growing shortage of affordable units that market mechanisms patently have failed to correct. Furthermore, they are thought to promote smart growth by creating a closer match between job centers and housing centers, reducing traffic congestion, air pollution, and transportation outlays. Finally, they are thought to support sustainable economic growth by ensuring that cities can attract workers across the income scale, especially in critical trades such as teaching, nursing, and public safety. Most importantly, the affordable housing that these policies create will be spread over a variety of community types and neighborhoods, lessening the effects of concentrated poverty.

Conceptually, perhaps the most comprehensive way of framing the case for inclusionary policies is that, in 21st century urban America, housing is infrastructure. Just as an adequate transportation system is essential to a region's economic health, sufficient housing stock, in the right places and at the right price points, is essential to sustainable growth. Therefore, state and city officials should explore all the tools at their disposal to spur the creation of that housing stock.

In Texas, some progress has been made towards developing more inclusionary housing practices through small, local projects, particularly those utilizing HUD's HOPE VI program. Thus far, the broad-based inclusionary housing policies that have become common in some regions of the country have remained unknown in Texas. Therefore, extensive study, outreach, and discussion are necessary first steps if any campaign on behalf of broader inclusionary policies is to succeed—and if the policies put forth are to prove effective.

To succeed, any campaign will need broad-based support from community residents, nonprofit housing developers, social justice organizations, public officials, and, ultimately, at least some for-profit developers. The discussion, and any coalition resulting from it, should happen regionally, because the housing market is a regional entity, not bounded by political jurisdictions. Without engagement by stakeholders across the region, any action is likely to prove fruitless. It would seem that the necessary exploratory conversations would

best occur under the auspices of a task force representing an array of key regional stakeholders.

Some inclusionary policies aim to maximize the production of new units. Some are more concerned with deconcentrating poverty and racial segregation. Most policies are designed to promote homeownership, but others apply to rental housing. In addition, some policies stress wealth creation by allowing buyers to realize 100 percent of the appreciation of their homes; others favor keeping units affordable over time through some sort of equity-sharing. Discussions should encompass—though they need not resolve—these questions of fundamental intent.

With a few exceptions, existing inclusionary programs are on the East and West Coasts, where land is in extremely short supply and housing prices are, consequently, extremely high. Logic suggests that density bonuses, which are the predominant tool for cushioning affected developers against a loss of revenue, will be most effective in markets where land costs are a very large share of total development costs. That is less true in North Texas than in, say, Boston or San Francisco. Thus it would seem prudent to commission an in-depth analysis of how inclusionary mandates might play out in this market.

POLICIES AND PRIORITIES ON SUSTAINABLE GROWTH

A broader movement is afoot in the building, economic development, infrastructure, and housing communities. What began with “green building” certification is now moving toward smart, sustainable, and inclusive growth priorities. LEED, the organization that provides green building certification, now has developed LEED-ND, a set of standards related to the development of inclusive neighborhoods. On a more pragmatic scale, a group of scholars and designers from around the US is now studying an inclusive development framework, known as SEED: Socially, Environmentally, and Economically sustainable Development. The aim of these and other efforts is to provide a framework for answering design and development questions that provides for holistic responses and smart growth strategies. This work is largely supported by a strong contingent of Texas scholars, planners, and developers. It is imperative that the state embrace these new framing sets as they become available.

CONCLUSION

In closing, I would like to thank the committee for its time, and thank you, Mr. Chairman, for the opportunity to present to you today. Clearly, Texas is at a crossroads in its history. Even today, urban planners are beginning to refer to the Houston-Austin-Dallas area as the *Golden Triangle*; they envision a day in the not-too-distant future when the built environment will stretch across the state’s eastern half. The decisions that Texas makes today must provide for the inclusive communities that will fuel our growth and fulfill our children’s dreams of tomorrow.

ABOUT THE J. MCDONALD WILLIAMS INSTITUTE

The J. McDonald Williams Institute is a public policy think tank dedicated to providing research that results in improved quality of life in the neighborhoods of the nation's urban centers. The Institute's offices and heart lie in Dallas, where it draws upon the national body of urban sociological research to enlighten public policy in Dallas, while simultaneously engaging Dallas's residents, businesses, and policymakers in research that improves understanding nationwide. Using the most rigorous analytical tools and methods available, the Institute's researchers illuminate and clarify the complex issues faced by the residents of distressed communities.

Using a combination of quantitative and qualitative research methods, as well as cutting-edge GIS mapping techniques, the Institute has established a reputation for producing research that is informative, actionable, and place-based. The Institute also operates several collaborative programs designed to engage other researchers from across the country to help in its efforts to find proven solutions to the real-world problems affecting distressed communities.

Chief among the Institute's assets are its research centers. Partnering with local universities, these research centers marshal the intellect of the city's brightest scholars and most talented students to look at issues germane to the public policy debate. The Williams Institute Center for Urban Economics at the University of Texas at Dallas (UTD) and the Williams Institute Center for Community Health at the University of North Texas (UNT) Health Science Center provide the latest research in the fields of economic and health disparity, focused through the Institute's lens on Quality of Life.