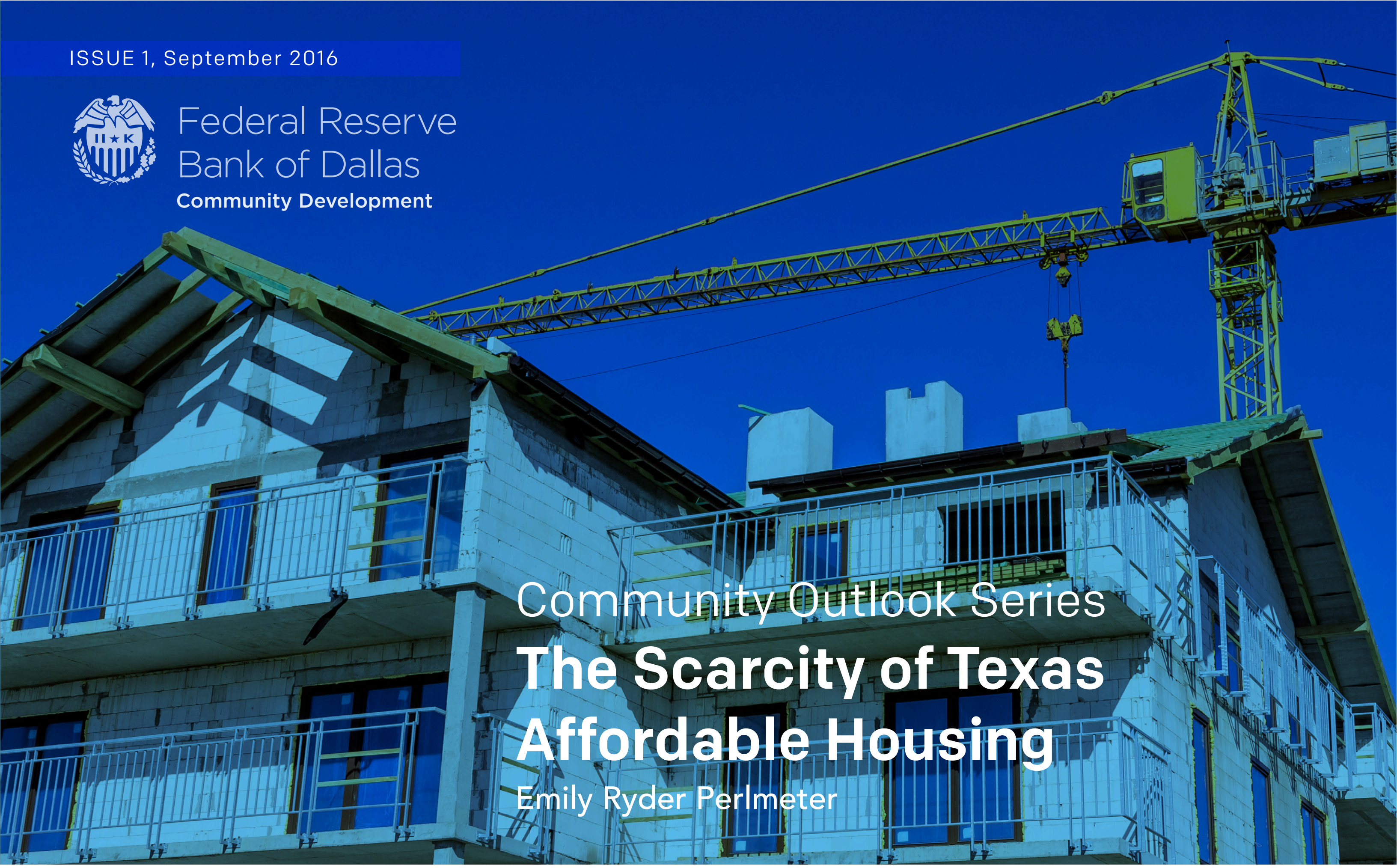

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Community Development

Community Outlook Series

The Scarcity of Texas Affordable Housing

Emily Ryder Perlmeter

Launched in 2016, the Community Outlook Series features analysis on a rotating set of community development topics. The series uses survey data and qualitative interviews to assess the needs, successes and challenges of low- and moderate-income families across Texas as well as the organizations that serve them. The topic of this inaugural report is affordable housing.

The State of Affordable Housing

In 2016, the Dallas Fed launched a poll of developers to assess the state of affordable housing in Texas. Responses were analyzed, and existing secondary data were added for context. This report summarizes those results.

Introduction

Texas has long boasted a strong economy, favorable business conditions and a relatively low cost of living that includes affordable home prices. These claims have made it attractive to residents of other states and countries. "If you want to own a cheap home," a 2015 CBS News article declared, "you may want to head to Texas."[1]

Despite the state's sunny reputation, the reality is far more complex. Most Texans do not enjoy the same level of affordability available to them in prior decades.

According to the Texas A&M Real Estate Center, the median sales price of a house has increased 75 percent since 2000, far outpacing inflation.[2] Median household incomes have increased just 31 percent in that time span, with their real values mostly stagnant.[3] Today, more than 43 percent of Texans can't afford a house over $150,000—yet the median sales price is $196,000.[4]

Unsurprisingly, a third of all Texas households and nearly half of renters in the state are cost burdened—meaning that more than 30 percent of their income goes to housing costs.[5] Housing prices and incomes vary greatly by region. The cost–burden rate exceeds 50 percent for renters in some metro areas and counties. The rate is lower for homeowners across the state, but at close to 30 percent, it's still a sizable and growing concern.

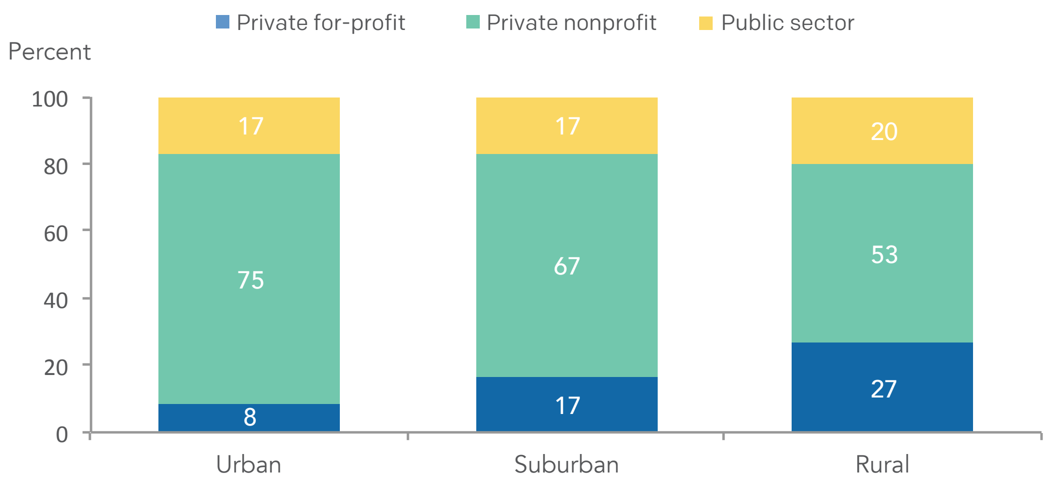
The Poll: Development Trends, Obstacles

As costs continue to rise and real incomes remain stagnant, much of the responsibility for preserving affordable options for working families falls to the diverse group of affordable-housing developers in the state. These developers work to repair, preserve and build units that are within reach of low- and moderate-income (LMI) residents, and they often do so with severely limited resources.

To understand and analyze the trends, challenges and emerging issues in Texas affordable-housing development, the Federal Reserve Bank of Dallas launched a poll of developers in March 2016 and conducted in-depth interviews with eight of them. This report is a discussion of the findings in aggregate, followed by a qualitative exploration of critical affordable-housing issues in five Texas regions.

Responses came from 52 affordable-housing developers that have headquarters in more than two dozen Texas counties and provide services to rural, suburban and urban communities.[6] The sample is comprehensive and representative. Eighty percent of respondents are private sector developers—65 percent nonprofit and 15 percent for-profit. The remaining 20 percent are public sector developers. Respondents were evenly split between urban (47 percent) and suburban/rural (53 percent). Chart 1 shows the distribution of developers in the sample by type, based on where their work is concentrated.

Chart 1: For-Profit Developers More Active in Rural Areas



Those targeting urban areas were more likely to be nonprofit organizations than those targeting rural communities. In the sample, private for-profits were 3.4 times more likely to operate in rural versus urban communities.

The majority of organizations focus on single-family owner-occupied units, with 54 percent of respondents indicating they produce these units "often" or "exclusively." This was followed by multifamily rental units at 29 percent. Only one respondent produced multifamily owner-occupied housing "often" or "exclusively." Those who marked "other" indicated they were involved with rehab or critical repair.

Table 1: Developments by Funding Source
(Percent of responses)

Source	At least 1 percent of funding	At least 50 percent of funding
Federal programs	46	27
Internal fundraising	43	12
Local programs	37	6
Foundations/grants	35	4
State programs	29	2
Private lending	28	10
Housing tax credits	26	14

Financing and Production

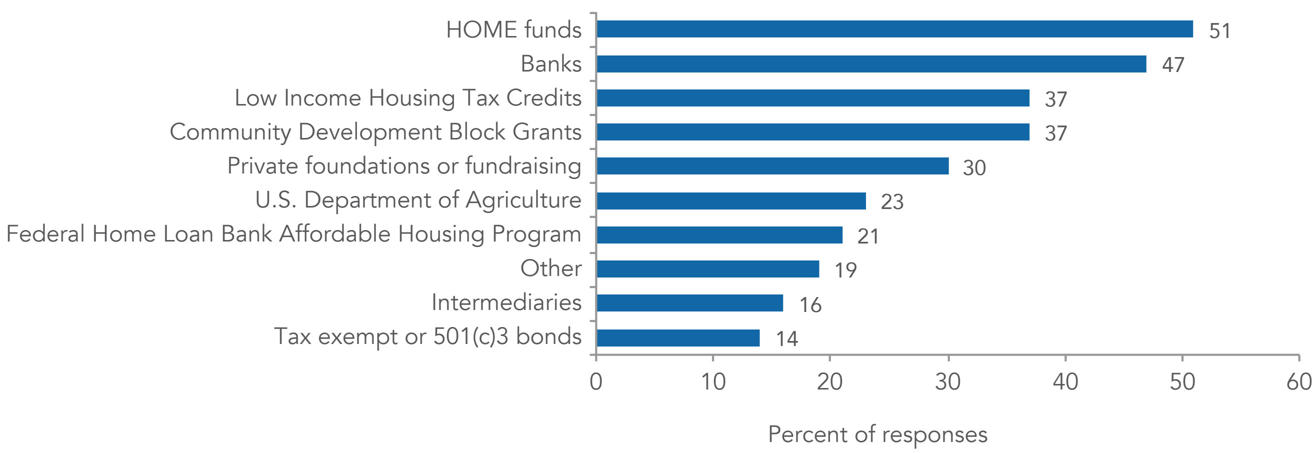
To understand how developers acquire financing, the Dallas Fed asked them to estimate the percentage of funding obtained from each source for their most recent project. Federal programs such as Housing Choice Voucher (Section 8) and HOME were typically the largest sources of funding.[7] Twenty-seven percent of respondents indicated that federal programs financed at least half of their most recent development *(Table 1)*.

Breaking these down by developer type, those developing single units—either owner occupied or rental—were more likely to rely on internal fundraising to finance large portions of their recent development than those focused on multifamily properties. Additionally, multifamily developers relied more heavily on Low Income Housing Tax Credits (LIHTCs) to finance at least 50 percent of their project.

Chart 2 shows that the majority of respondents used HOME federal block grants (51 percent) offered through the U.S Department of Housing and Urban Affairs (HUD), closely followed by bank financing (47 percent). Those who indicated "other" listed the Neighborhood Stabilization Program, city general obligation bonds, Colonia Self-Help Center funds and Veterans Affairs Supportive Housing vouchers, among others.

Urban developers were more likely to use Community Development Block Grants, while suburban developers indicated higher usage of private foundations or fundraising. Developers focused on rural areas used U.S. Department of Agriculture (USDA) funds—geared to help with rural developments—at much higher rates than urban or suburban organizations.

Chart 2: Top 10 Sources of Funding for Latest Project



NOTE: Respondents could check more than one box.

Regarding the number of units completed in 2015, responses ranged from 0 to 3,600. For-profit developers reported producing more units—an average of 145—than public sector developers or private nonprofits, with the exception of one outlier, a 3,600-unit public developer. There was little difference between urban, suburban and rural developers in terms of number of units produced.

Organizational Performance and Capacity

Next, we asked how the following indicators changed for developers: funding sources, organizational capacity, community support and the need for affordable housing *(Table 2)*.

A diffusion index is used to summarize all three percentages (increase/no change/decrease) into one number for each question. If the index is greater than 50, the attitudes of business owners are positive. If it is lower than 50, the attitudes are negative. If it is 50, there is no change.

Overall, developers were positive about organizational capacity and community support, with diffusion indexes of 59 and 56, respectively. Only 12 percent of respondents saw their organization's capacity decline in 2015, while 29 percent saw it improve.

Funding is a different story. Nearly 40 percent of respondents noted a decline in funding in 2015, putting the diffusion index at 39, far less than the baseline of 50. Furthermore, when asked about the need for affordable housing, developers were clear: With a diffusion index of 89, the vast majority saw an increase in 2015. In fact, no respondents reported a decrease. Despite the small improvements developers saw in capacity and support, the need for affordable housing in Texas communities continued to grow.

Types of Developments

The Dallas Fed also asked respondents to indicate if they had recently developed projects with traits targeting special populations. Thirty-two answered positively, with most saying they developed units that were mixed use or mixed income or had environmentally friendly components. Others targeted senior, veteran or disabled households *(Chart 3)*.

Barriers

The fact that almost a third of Texans with mortgages—and more than 49 percent of renters—are cost burdened suggests a significant shortage of available affordable housing.[8] The poll asked respondents about the greatest barriers to developing affordable housing in their communities.

As Chart 4 illustrates, the top concern was cost or funding, garnering 26 responses, or 57 percent of total responses. In second place was economic or market conditions.

Table 2: Affordable Housing Indicators in 2015

Indicator	Percent increase	Percent no change	Percent decrease	Diffusion index*
Funding sources	17	44	39	39
Organizational capacity	29	59	12	59
Community support	22	68	10	56
Need for affordable housing	78	22	0	89

*The diffusion index summarizes the three percentages (Increase/No change/Decrease) into one number for each question and is calculated by adding the percentage of the "Increase" responses to half of the percentage of the "No change" responses and then multiplying that total by 100. If the index is greater than 50, the attitudes of the service providers are positive. If it is lower than 50, the attitudes of the service providers are negative. If it is 50, there is no overall change in attitudes.

NOTE: Percentages may not add to 100 due to rounding.

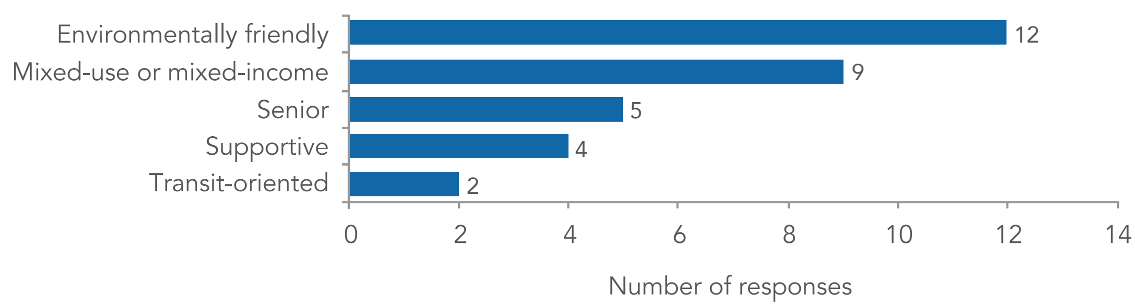
When asked to expound upon their selections, respondents discussed the rising price of land most frequently. Rising costs coupled with limited funding—lack of grants, public funding or private support—can make new builds prohibitively expensive. Indeed, the data bear this out: The average price per acre for small land sales across Texas has been on the rise.[9] These land concerns seem to be particularly strong for responding developers in rural counties. Economic conditions are closely tied to these problems. As one developer laments, "Construction and land costs are simply outpacing funding."

Across all geographies, another top barrier was regulations, coming in third. Multifamily developers represented a slight majority of respondents for this category (53 percent), although those developing single-family owner-occupied units accounted for 47 percent. No single-family rental developer selected this as an issue.

Qualified Allocation Plans (QAPs)—rules through which states evaluate and score proposed developments to allocate project tax credits—were seen as "unpredictable" and were an oft-cited source of consternation for developers over the past year. Commenters had much to say about this topic. Below are some responses, edited for publication:

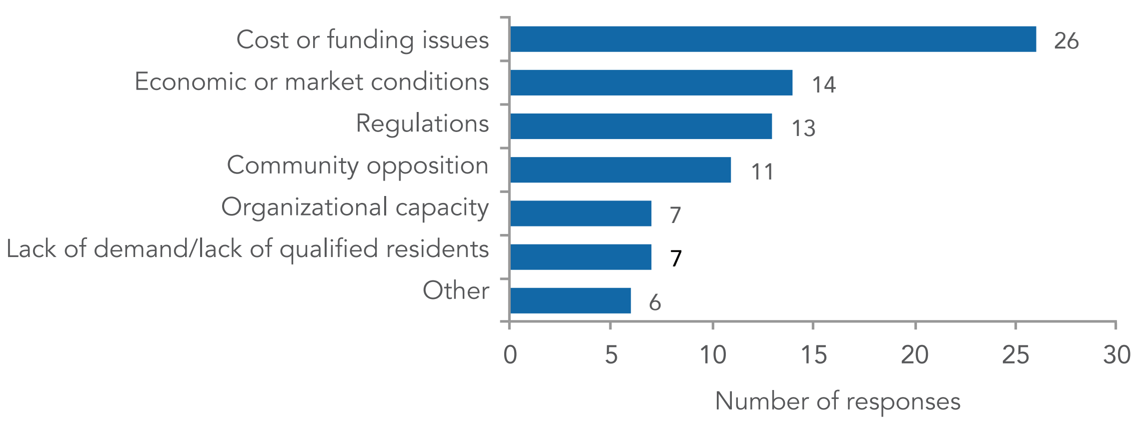
- "Area median-income restrictions are too inflexible for rural and the hardest-hit neighborhoods. Identifying income-eligible buyers who can meet current underwriting requirements is a huge challenge."
- "Tax-credit regulations through QAPs seem to be discouraging urban affordable housing."
- "Buyers can meet the income requirements and qualify for an FHA (Federal Housing Administration) loan but still not pass the Neighborhood

Chart 3: Environmental Features Top Specialized Developments



NOTE: Respondents could check more than one box.

Chart 4: Financial Concerns Rank High as Barriers to Development



NOTE: Respondents were asked to list their top two concerns.

Stabilization Program requirements that are passed down from HUD/Texas to local communities. This is a major barrier for us."

Although the community-opposition concern drew fewer responses, Not In My Backyard (NIMBY) attitudes and lack of local support still plague developers. These concerns are more concentrated in certain areas, such as Dallas and Houston. As one developer in Dallas noted, "Housing tax credits require resolutions of support. These are very difficult to obtain."

Regulatory and Policy Barrier Specifics

Because the inability to complete projects is such a large issue, developers were also asked what specific regulations or policies affected the feasibility of their projects. These were separated into federal, state and local categories. Under the federal category, the majority of respondents indicated that environmental regulations, building codes and public notices/hearings were not barriers to their developments. However, most noted that location and site standards were, with 45 percent saying these factors were "somewhat a barrier" and another 15 percent saying they were a "substantial barrier" to their latest development. Local regulation and policy barriers are found in Chart 5.

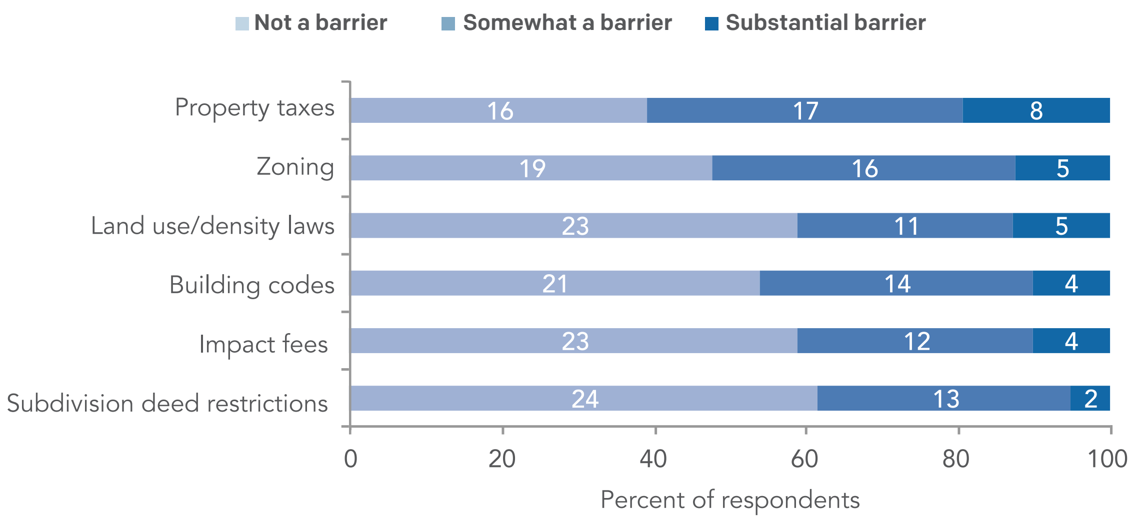
The majority of respondents said property taxes were at least somewhat of a barrier to their latest project. Certain projects may be granted a tax exemption through such programs as Community Housing Development Organization set-asides. However, not every project or entity is eligible; the formal application process is open only to nonprofit organizations with particular board structures.

> **"Housing tax credits require resolutions of support. These are very difficult to obtain."**
> Dallas developer

According to a 2015 Texas State Affordable Housing Corporation report, the state's property taxes were the second highest in the country in 2014.[10] Turning to this survey's county breakdowns, respondents in Brazos, El Paso, Harris, Hidalgo and Midland counties were the most likely to report property taxes as a substantial barrier.

Median property taxes by county do seem to correspond with feedback from surveyed developers: Brazos, El

Chart 5: Taxes and Zoning Are Biggest Local Barriers



NOTE: Respondents could check more than one box.

Paso, Harris, Hidalgo and Midland counties all report median real estate taxes of $1,500 or more (*Chart 6*). The Dallas–Fort Worth and Austin–Round Rock metropolitan statistical areas (MSAs) also have high median taxes, but developers in those areas were not as likely to point to property taxes as a substantial barrier. However, housing prices in those cities are higher on average; the effective property tax rate—defined as the property tax paid divided by the value of the home, which is not reported here—is potentially lower.

Finally, the Dallas Fed asked about the seriousness of barriers outside of regulations or policies. Chart 7 shows that while financing and community opposition concerned developers, costs were the greatest barrier. Nineteen respondents (48 percent) indicated that the cost of land was a substantial barrier. Development costs in general were another substantial barrier, garnering 16 responses, with an additional 18 describing the issue as somewhat a barrier.

Chart 6: Estimated Typical (Median) Annual Real Estate Taxes Paid, 2014

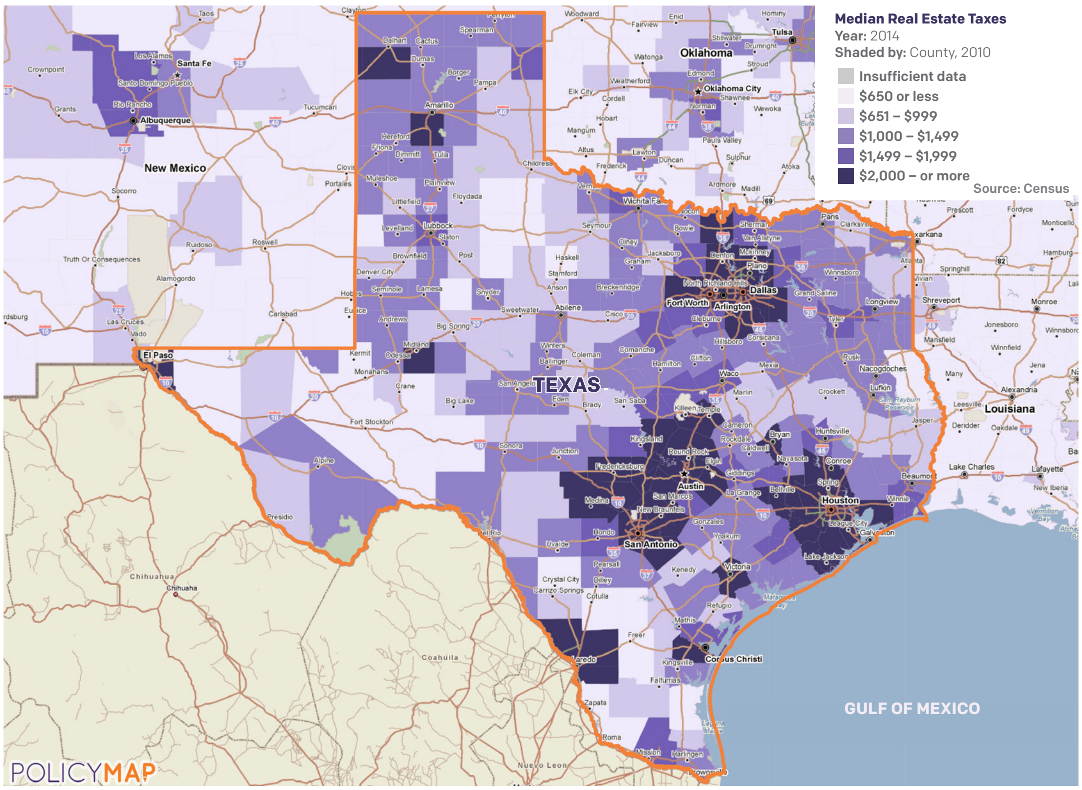
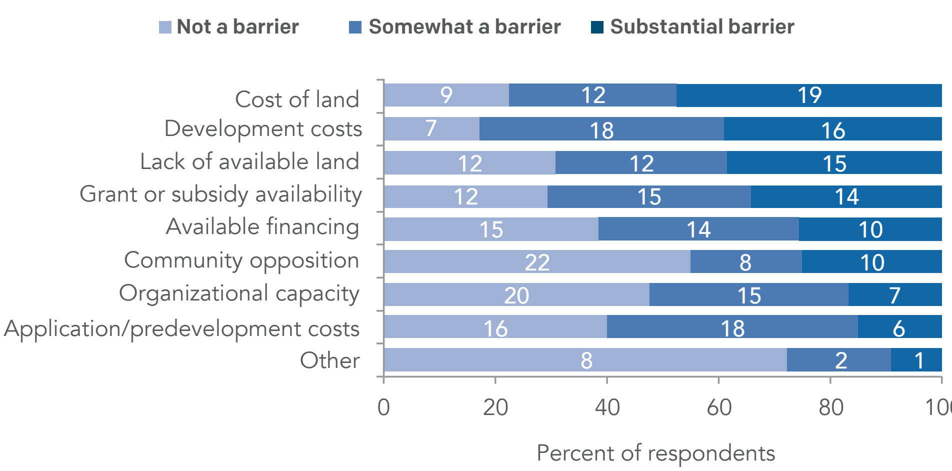


Chart 7: Costs Seen as Substantial Barriers to Most Recent Project



Key Findings

Based on survey responses, it's clear that growing costs and insufficient funding are among the issues bedeviling developers who are trying to increase the supply of affordable housing in Texas. The short supply makes it difficult not only for low-income residents—but also those with median incomes—to find decent housing in Texas.

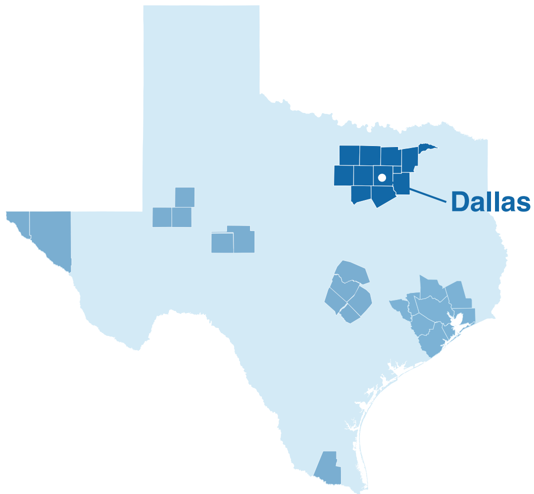
A third of all Texas households direct a disproportionately large chunk of their income toward housing costs. And an even larger proportion of households can't afford an average-priced home in the state. These issues are pushing some workers farther away from their jobs, others into inadequate housing and likely others into homelessness.

While little can be done about escalating housing and land prices in Texas, respondents point to greater public support of affordable-housing initiatives and regulatory modifications as possible immediate remedies to the problem of too little affordable housing.

Profiles of the Five Texas Regions

The Dallas Fed took a deeper look at individual regions of the state to get a clearer understanding of how these findings vary geographically and to broaden knowledge about affordable-housing development in local communities.

North Texas



Top funding sources: Bank financing, LIHTC, HOME and CDBG

Top barriers: Community opposition and costs

The Dallas–Fort Worth–Arlington MSA is home to 7.1 million people, making it the largest MSA in Texas and the fourth largest in the United States. Major industries include business and finance, defense, IT and education.[11] The poverty rate is 14.8 percent, a few percentage points below the state average of 17.7 percent. Fair-market rents for a two-bedroom unit are around $986 a month, higher than in surrounding, more rural regions.[12] Almost 4 percent of Dallas County households live in units subsidized by HUD, although the percentage is substantially lower in Collin, Denton, Ellis, Rockwall and Tarrant.

Within the sample, top barriers to development in this region were community opposition and costs. Jean Brown, executive director of Green Extreme Homes, works primarily in Dallas, Collin and Denton counties and sees community opposition issues firsthand. Her organization, a community development corporation (CDC), has produced four tax-credit developments in Plano and one in Frisco.

> **"It takes an incredible amount of community engagement to educate and change attitudes."**
> Jean Brown, Green Extreme Homes CDC

Says Brown, "Collin County residents view tax-credit developments very negatively. They think property values will go down, crime will increase and they'll be surrounded by people without jobs. It takes an incredible amount of community engagement to educate and change attitudes."

To be eligible to apply for a 9 percent tax credit, developers must obtain a letter of support from state representatives, which can only be accomplished with backing from homeowners associations (HOAs) in the district, she notes.

"We meet with every single HOA group in the city to explain what we are trying to accomplish," Brown says. She then describes a near-Sisyphean struggle to break these false perceptions. After working to dispel the notions about tax-credit housing, she finds awareness doesn't seem to stick from one project to another. "It's like pushing a boulder up a mountain and then standing on the top watching it teeter. You would think we would not have to go through this process each and every time, but we get so many letters of opposition with each new project, we have to start all over."

Costs are a concern for Mike Meyer, president of Brooke Community Development, a for-profit DFW developer. "Access to capital is a serious problem," he says. "Sometimes we end up having to use hard-money lenders [typically private parties issuing asset-based loans], at high interest rates. With low-margin developments, lower-cost capital is a necessity."

He also believes that regulations are a significant barrier. "The basic rules should be transformed into guidelines as opposed to inflexible rules that cannot be appealed or subject to exceptions," he says. He explains that the single-family development set-aside rules specify that all units must be sold to households at or below 80 percent of area median income (AMI): "It's hard to get builders or lenders to engage unless it's a clearly economically feasible deal. If you have to hold every single unit for an 80 percent AMI buyer, a lot of times they end up vacant for six months or a year."

He says he has tried to get regulators to be a bit more flexible. "With one development, I wanted to advocate for a small portion of units to be available to higher-income buyers—so that there would be less initial risk. The majority would have gone to LMI families; those units take longer to fill. But unfortunately, the rules are inflexible. So zero affordable units have been built. Economically, it was too big a risk."

Courtesy of Texas State Affordable Housing Corporation

Gulf Coast

Top funding sources: HOME and LIHTC

Top barriers: Community opposition and lack of qualified residents

The second-largest metro area in Texas is the Houston MSA. Consisting of nine counties, the region abuts the Gulf of Mexico and is home to important international seaports and shipping hubs as well as a leading energy industry and strong business sector. Despite the vibrant economy, 24 percent of children live in poverty.[13] The Greater Houston area also has one of the highest homeowner cost-burden rates in the state; in fact, more than 10 percent of Harris County homeowners direct over 50 percent of their income toward housing costs.

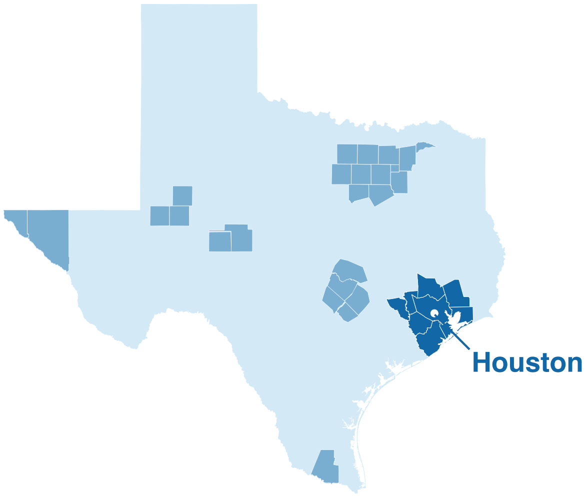
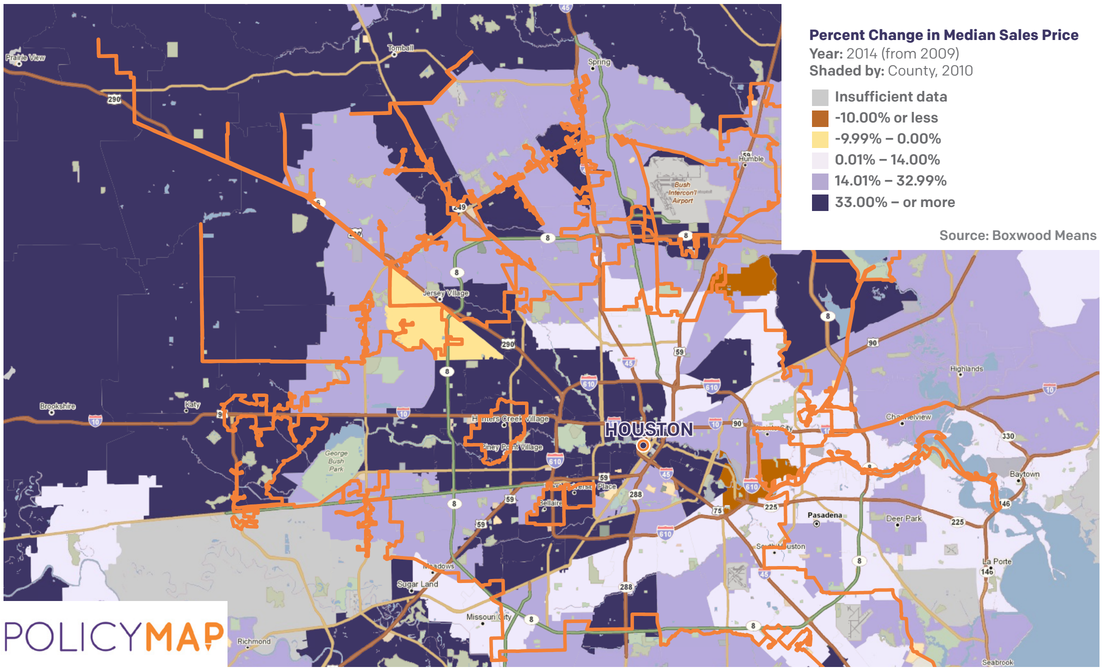


Chart 8: Percent Change in Median Sales Price of Residential Home, 2014



Within Houston, development is not occurring evenly across the city. According to Rice University's Kinder Institute, gentrification is focused in certain regions, while it poses only a moderate threat to affordable housing in others.[14] Some ZIP codes saw housing prices rise more than 33 percent from 2009 to 2014, while others increased only a fraction of that and still others decreased *(Chart 8)*.

Mary Lawler, executive director of Houston-based affordable-housing nonprofit Avenue CDC, is mindful of the redevelopment of certain Houston regions and the impact on those communities.

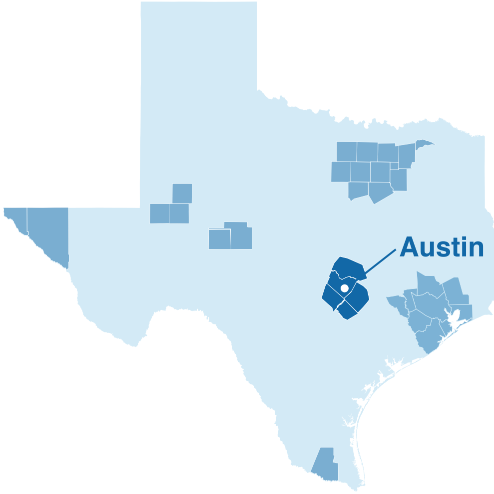
"There are certain neighborhoods that are being overrun and erased," she says. "Avenue CDC actually got started after residents of the old Sixth Ward [an area with a high concentration of Victorian-era homes] organized to prevent that from happening."

This grassroots legacy has mitigated some NIMBY barriers. Lawler explains, "We have a history of working very closely with residents in certain defined communities. People know us and the quality of our work, and we have not had opposition to proposed developments there." She adds, "I will say that during the expansion of our organization into other areas of Houston, we did indeed hit a NIMBY wall."

Lawler also describes the necessity of finding a balance between developing affordable units in high-opportunity areas—such as those in low-poverty census tracks and high-performing school districts—and the need to continue to invest in LMI neighborhoods, particularly those poised for redevelopment. "The time to develop affordable housing in a gentrifying neighborhood is before it gentrifies," she explains. "I understand the state's response to the Fair Housing [Act] lawsuit, but it is missing nuance. Had these rules been in effect earlier, we would not have been able to preserve affordable units in areas that have since gentrified."[15]

Further, she says, "We understand the research that shows kids do better in higher-income areas. Of course, some resources should go to these high-opportunity areas, but I'd argue that it's unfair to deny these scarce and wonderful resources to low-income and minority-concentrated areas. We've started to refer to it as the modern-day redlining—distressed areas aren't eligible for reinvestment at all. We're just arguing for a balanced approach."

Central Texas



Top funding sources: Bank financing and CDBG

Top barriers: Regulations and costs

Texas' capital city of Austin, located in Travis County, is home to over 900,000 people. By some measures, it is the fastest-growing city in the country.[16] Austin is surrounded by the counties of Bastrop, Caldwell, Hays and Williamson. The Greater Austin MSA just passed the 2 million-population mark—a 17 percent increase from just five years ago—ranking it fourth in Texas and 35th in the country. Rental price increases have matched population growth as demand for housing has outpaced supply.

Median rent rose 18 percent from 2009 to 2014, while the median housing sales price soared almost 43 percent.[17] Austin now ranks as one of the state's least-affordable cities, according to the Texas A&M Real Estate Center's Housing Affordability Index. On top of these affordability issues are the well-publicized bureaucratic problems with the city's planning and zoning functions. A 2015 independent report found hundreds of problems within the then-combined Planning and Development Department, including excessive permit wait times, project delays, cumbersome zoning requirements and complex land development codes.[18]

It comes as no surprise that the top-reported barriers in the sample were regulations and costs. "We are seeing the suburbanization of poverty," says Mandy De Mayo, executive director of HousingWorks Austin.

"For low-income people, the farther out they go, the less-connected they are to jobs and other opportunities. Our infrastructure is being taxed. We are pushing people out because of lack of affordability—and then wondering why our roads are so clogged."

This out-migration has not been proportionate: A study recently showed that Austin was the only major fast-growing city that saw its African-American population decrease; the majority of those who relocated pointed to affordability issues as the reason.[19] While some households are moving just beyond the city, others are moving to the surrounding rural counties. Complicating matters is the fact that the rural communities experiencing the influx have too few housing units to accommodate demand.

> **"We are seeing the suburbanization of poverty."**
>
> Mandy De Mayo, HousingWorks Austin

Mark Mayfield is president and CEO of the Burnet County-based Texas Housing Foundation. He says he's seen this "massive migration" firsthand: "Many low- and moderate-income people have had to flee the urban areas simply because they cannot afford to live there. So they come out to our area, Marble Falls, and others. But we are at capacity—so how are we going to be able to absorb these folks?" He describes the difficulties in putting together deals for affordable-housing development in rural areas, noting that most new units are priced at market rates. "Affordable developments are just not economically feasible without tax credits or grants," he says. "And those funding sources are few and far between for rural communities."

Mayfield also says he believes misperceptions have played a part in limiting the development of affordable units. "Many people, including our lawmakers, believe that affordable means only subsidized, or only for people without jobs who can't make it on their own," he says. "And that's simply not the case. It comes down to simple economics: Someone who makes $30,000 a year can't afford most of the stock. These are people with necessary jobs, like service or retail—they're hardworking folks."

HousingWorks' De Mayo is a bit more positive, noting that in 2013, Austin voters approved $65 million in affordable-housing bonds: "I think this speaks strongly about citizens caring about affordability." Still, she says of Central Texas: "The affordable-housing crisis is a multibillion-dollar crisis. We know we can't come up with that locally. So our strategy has to be focused on programs and policies in concert with increased financial investment."

Courtesy of Texas State Affordable Housing Corporation

West Texas

Top funding sources: CDBG and private/internal fundraising

Top barriers: Costs and economic or market conditions

The western region of Texas is home to metro areas such as El Paso, Lubbock, Amarillo, Midland–Odessa and San Angelo. These MSAs are diverse, but a few industries dominate, including agriculture, energy and, due to the presence of Fort Bliss in El Paso, defense.

El Paso's proximity to the border makes it uniquely positioned for trade, tourism and cross-border retail and manufacturing. Unfortunately, many of El Paso's top sectors are relatively low paying.[20] The majority of residents are Hispanic of Mexican descent, and a quarter live in poverty. So while the cost of living might be lower than in other metro areas, residents still struggle to find housing. "Even though prices are low by national standards, home affordability is low due to low family incomes," says Larry

Garcia, board member of the National Association for Latino Community Asset Builders. "This is especially true for first-time homebuyers." This crisis of affordable housing has contributed to the proliferation of colonias, unincorporated residential areas that may lack basic necessities such as potable water, electricity and paved roads.[21] An estimated 90,500 people live in substandard or unsafe conditions in the El Paso County colonias.

In an example of a creative financing structure, the Housing Authority of the City of El Paso (HACEP) has embarked on a five-year initiative called the Rental Assistance Demonstration (RAD) with the goal of rehabilitating most of the city's nearly 5,000 units. By opening up access to 9 percent and 4 percent federal housing tax credits and private capital such as tax-credit equity and debt, HUD is allowing HACEP to redevelop these properties to preserve and create public housing units and other affordable apartments. Once complete, the project will be a $1.2 billion investment in public housing for El Paso. The challenge has been to move current residents into other public housing units while the rehabilitation takes place.

San Angelo lies just to the east of El Paso and the Permian Basin cities of Midland and Odessa and just south of the Texas Panhandle, in the Concho Valley. Although San Angelo isn't typically considered the heart of the Permian Basin, the oil industry remains important there and employs a sizable percentage of the population, as do agriculture and telecommunications. While Midland–Odessa's housing prices have soared in recent years, making the area less and less affordable, San Angelo's changes have been more modest. Its median home sales price is $161,500, compared with Midland's nearly $240,000.[22] And although average incomes are higher in Midland, housing affordability has historically been about 25 percent greater in San Angelo, according to the Texas A&M Real Estate Center.

This might be changing, according to Judy Sikes, executive director of Habitat for Humanity of San Angelo. "In our community, median household income is decreasing. Income is not keeping up with the cost of living." Indeed, annual median household incomes dipped from 2013 to 2014 and poverty levels have risen.[23]

"Recently, we have been experiencing an increase in rental housing availability, partly due to these factors," she says. But this increase may also be due to the aftermath of the oil boom: "We had a lot of apartments and motels that were targeted for weekly stays, but when the oil industry dipped, we had a lot of vacancies and underutilized stock. Unfortunately, much of this is not housing we think leads to homeownership, or housing that builds stability or independence."

> **"We could double our production without changing how we run—if we could just find the money to do it."**
>
> Judy Sikes, Habitat for Humanity of San Angelo

As a Habitat affiliate, the organization seeks funding mostly through fundraising and grants within its community—to avoid taking from another affiliate's pot, Sikes says.

"We are in a really giving community," she says of San Angelo. "But it's still a challenge to raise enough of the necessary funds or to find the right sources that match our needs. For Habitat, the structure is there. We could double our production without changing how we run—if we could just find the money to do it."

South Texas

Top funding sources: USDA, HOME and intermediaries

Top barriers: Costs and regulations

The Rio Grande Valley is home to the cities of Brownsville and Harlingen as well as McAllen, part of the McAllen–Edinburg–Mission MSA. Although the cost of living in South Texas is one of the lowest in the state, the region's cities are among America's poorest.[24] The McAllen MSA has one of the largest shares of households living under the poverty line in the state and nation, at 35 percent.

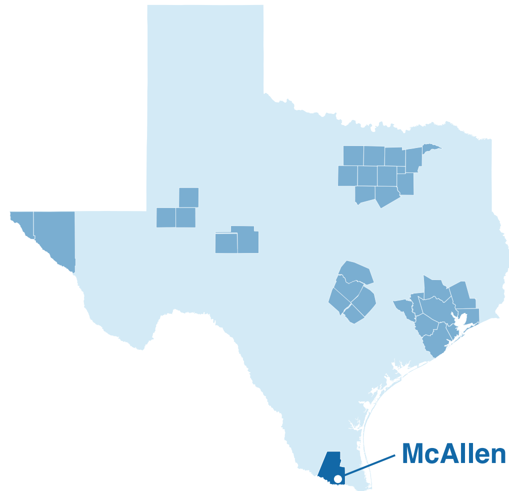
While its cost of living is lower, the MSA is one of the top five least-affordable Texas metros, according to the Texas A&M Real Estate Center.[25] Despite this, the homeownership rate of 68 percent is higher than in most other MSAs.

South Texas is also home to a large percentage of Texas' migrant and seasonal farmworkers. These agriculture workers are responsible for a substantial portion of the state's economy, with one out of every seven Texans working an agriculture job in a $100 billion industry.[26]

Kathy Tyler is housing services director for Motivation Education and Training Inc., an organization that rehabilitates homes in each of the Rio Grande Valley counties. Much of the work is done in the colonias. "Many of the farmworkers we serve have built their own housing from found materials but unfortunately find themselves in a tenuous legal ownership status," she says, referencing the thousands of unrecorded contracts for deed plaguing colonia residents.[27] As in El Paso, colonias sprung up in the area as a consequence of the lack of affordable options.

Alternatives to these informal homes are the USDA's Section 514/516 and 515 programs. Section 514/516 refers to financing for units specifically for farmworkers and their families, while Section 515 provides mortgages and rental assistance for low-income families, including the elderly. Though vital for low-income rural residents and farmworkers, Section 514/516 and 515 supplies have been dwindling over the years.

"We've lost more than half the inventory we had," Tyler says, referring to units that lost program support and, thus, affordability. These losses will intensify because Texas stands to lose 28 properties—or almost 600 units—through 2019 when the mortgages mature out of



these programs. Exacerbating this problem is the fact that low-income residents will no longer receive the critical rental assistance they are accustomed to under these USDA programs, leaving them without alternative housing.

> **"We've lost more than half the inventory we had."**
>
> Kathy Tyler, Motivation Education and Training Inc.

Although the maturing-mortgage problem is national, Texas is overrepresented, with 10 percent of the maturing stock. The good news, Tyler says, is that "USDA has not made it difficult to stay in the program. What you have to do is defer your mortgage or apply for an additional loan."

She argues that state initiatives such as education, funding and training should be in place to help combat the loss of these resources. "It's truly a shame when units go out of service," she says. "It means no one is paying attention."

Community Outlook Series

Federal Reserve Bank of Dallas

Contact the Dallas Fed's Community Development Department to find out how to get involved in initiatives across the state to increase the availability of safe, affordable housing. For more information about this report, email Emily Ryder Perlmeter at Emily.perlmeter@dal.frb.org.

Notes

[1] "If You Want an Affordable Home, Move to These States," by Michael Casey, CBS News, Jan. 13, 2015. www.cbsnews.com/news/if-you-want-an-affordable-home-head-to-texas-or-pennsylvania.

[2] Housing Activity for Texas, Texas A&M Real Estate Center data, www.recenter.tamu.edu/data/housing-activity#!/activity/State/Texas.

[3] See 2010 and 2014 American Community Survey 1-Year Estimates, Census Bureau.

[4] "Texas Housing Market 2016," by James P. Gaines, Texas A&M Real Estate Center, presentation to the Federal Reserve Bank of Dallas, Feb. 12, 2016, http://www.dallasfed.org/research/events/2016/16shelter.cfm.

[5] See 2014 American Community Survey 5-Year Estimates, Census Bureau.

[6] Not every respondent entered a headquarters county.

[7] Most subsidy programs have income restrictions for residents, not to exceed 80 percent of area median income. Some are restricted further, to 50 percent or 30 percent.

[8] See note 5.

[9] Texas Small Land Sales Report, 2015 edition, www.texasrealestate.com/uploads/files/general-files/LandReport.pdf.

[10] "Property Tax Exemptions Available for Texas Homeowners," by Katie Caflin, Texas State Affordable Housing Corporation, April 10, 2015, www.tsahc.org/blog/post/property-tax-exemptions-available-for-texas-homeowners.

[11] "At the Heart of Texas: Cities' Industry Clusters Drive Growth," Federal Reserve Bank of Dallas Special Report, February 2016, www.dallasfed.org/research/heart/index.cfm.

[12] Taken from Fair Market Rent for a Two-Bedroom Unit, Department of Housing and Urban Development data, courtesy PolicyMap.com.

[13] See note 5.

[14] See *The UrbanEdge* blog, http://urbanedge.blogs.rice.edu/2015/11/05/here-are-four-myths-about-houstons-growth/#.V5FL1SUUXL9.

[15] In 2015, the U.S. Supreme Court ruled that the Low-Income Housing Tax Credit program administered by the state of Texas reinforced segregation in Dallas by awarding credits disproportionately to projects in low-income, minority neighborhoods. The effect of this, the ruling argued, was to essentially concentrate minorities and segregate them from more affluent, white neighborhoods. The award criteria for tax credits were altered in aftermath of this ruling, with more emphasis given to projects in lower-poverty census tracts and proximities to high-performing public schools.

[16] See "America's Fastest-Growing Cities 2016," by Erin Carlyle, Forbes, March 8, 2016, www.forbes.com/sites/erincarlyle/2016/03/08/americas-fastest-growing-cities-2016/#53b4ae197056.

[17] Taken from Median Sales Price of a Residential Home in 2014, Boxwood Means Inc. data, courtesy PolicyMap.com.

[18] "City Shares Complete Zucker Report," city of Austin press release, May 11, 2015, www.austintexas.gov/news/city-shares-complete-zucker-report.

[19] "Those Who Left: Austin's Declining African American Population," by Eric Tang and Bisola Falola, Institute for Urban Policy Research and Analysis, University of Texas at Austin, May 20, 2016, http://liberalarts.utexas.edu/iupra/news/10650.

[20] See note 11.

[21] See "Las Colonias in the 21st Century," Federal Reserve Bank of Dallas microsite, http://dallasfed.org/microsites/cd/colonias/background.html.

[22] See the Texas A&M Real Estate Center's Texas Housing Affordability Index, www.recenter.tamu.edu/data/housing-activity/#/thai.

[23] See "Estimate of Median Household Income for Tom Green County, Texas," Census Bureau, https://fred.stlouisfed.org/series/MHITX48451A052NCEN, and "Estimate of People of All Ages in Poverty for Tom Green County, Texas," Census Bureau, https://fred.stlouisfed.org/series/PEAATX48451A647NCEN, both retrieved from the FRED database, Federal Reserve Bank of St. Louis, June 2016.

[24] "Rio Grande Valley Tops List of 'America's Poorest Cities,'" by Jason Cohen, *Texas Monthly*, Jan. 21, 2013, www.texasmonthly.com/articles/rio-grande-valley-tops-list-of-americas-poorest-cities.

[25] See note 22.

[26] See the Texas Department of Agriculture website, https://texasagriculture.gov/About/TexasAgStats.aspx.

[27] See "Las Colonias in the 21st Century: Progress Along the Texas–Mexico Border," by Jordana Barton, Emily Ryder Perlmeter, Elizabeth Sobel Blum and Raquel R. Marquez, Federal Reserve Bank of Dallas Special Report, April 2015, http://dallasfed.org/assets/documents/cd/pubs/lascolonias.pdf.