

# Houston Taking Holistic Approach to Affordable-Housing Development

By Jackie Hoyer

In Houston, the affordable-housing market has been affected not only by the economic downturn, but also by the lingering effects of Hurricane Ike. The city must grapple with a large inventory of blighted houses as well as persistent tax deficiencies that stand in the way of redevelopment.

Faced with widespread foreclosures and neglected properties along with dramatic decreases in federal funding, the city of Houston adopted a holistic approach to neighborhood revitalization to get the “most bang for the buck,” according to Neal Rackleff, director of the city’s Housing and Community Development Department, who spoke with the Federal Reserve Bank of Dallas about steps the city is taking to address the situation.

The city has found that concentrated development is more effective over the long term than a scattered-site approach, so there has been a shift under the current mayoral administration to “breaking down silos.”

Drawing on Disaster Recovery funds from the 2008 hurricane, the city has identified Neighborhoods of Opportunity to target. It plans to use additional resources and economic incentives and to look at issues beyond housing, such as food deserts and commercial opportunities.

“We think that blight remediation is a big part of stabilizing neighborhoods,” Rackleff emphasized, while acknowledging that funds are thin and the city cannot eliminate all blight. Despite geographic limitations, he said, the city aims for its work “to be a model,” calling

it “an overall process, a holistic approach that can be replicated in the future.”

Rackleff described several issues affecting the affordable-housing market in Houston. Among them are the impact of public funds, affordable-housing trends and other types of funding sources.

Neighborhood Stabilization Program dollars administered by the city put only a small dent in the housing issue around stabilizing communities, Rackleff said.

The number of blighted and neglected properties has only been exacerbated by foreclosure issues in Houston. Over the past two years, the Housing and Community Development Department demolished 850 single-family homes that were abandoned or unsafe.

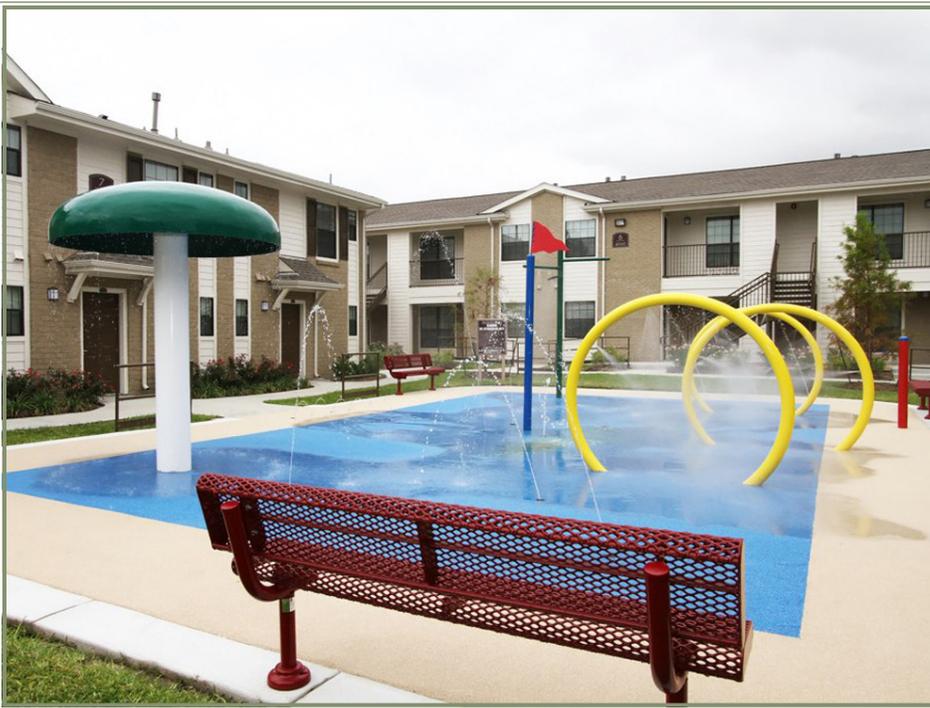
## Affordable Housing Trends: Single Family

Single-family development in Houston has seen “very significant challenges,” Rackleff said. The Housing and Community Development Department program under the former administration (2008), which gave deep subsidies to builders for new affordable homes, did not survive the downturn. A number of these homes still in inventory have not been sold. But it was found that homes built on contiguous lots (“in clusters of 10 or so”) sold much better than those built using a scattered-site approach, Rackleff noted.

Potential homeowners are more likely to buy in revitalized areas where they see several new homes together, so building a



Disaster Recovery funds have supported affordable-housing projects including the Reserve At Creekbend in Houston. *City of Houston*



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City of Houston

The Disaster Recovery multifamily allocation of \$47 million went to projects such as the Villa del Prado Apartments.

whole block is more effective, he said.

Rackleff views the tightening of credit criteria to obtain a mortgage as an obstacle to low- and moderate-income (LMI) single-family purchases. “It is much more difficult to get homes financed for everybody,” he said, adding that the tightening is especially discouraging for LMI buyers.

Rackleff sees more promise in single-family homeownership through programs such as Houston Habitat for Humanity, in which flexible terms of the zero-percent

mortgages are set by the nonprofit organization. Noting that Houston Habitat for Humanity recently received \$1 million from the city to construct 11 homes, Rackleff stressed that this LMI builder’s production capacity is a key to success.

### **Affordable Housing Trends: Multifamily**

The city’s biggest role is to bring gap financing to make multifamily housing work. Rackleff is also seeing developers

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use Low Income Housing Tax Credits (LIHTC) and notes they are doing deals that are 100 percent affordable to maximize the equity from the sale of the credits.

With these efforts and others, Rackleff said, Houston's production of affordable multifamily housing has significantly increased. The city has invested \$141 million since 2010 on rehabilitation or construction of 6,380 multifamily units. Funding has come primarily from Disaster Recovery I, HOME (a U.S. Housing and Urban Development program), Tax Increment Reinvestment Zone Affordable Housing, and Homeless and Housing Bond programs.

**More Funding Sources**

The city was awarded \$60 million in Community Development Block Grant Disaster Recovery funds from Hurricane Ike (Round I) through the state General Land Office to be used for new construction and rehabilitation of units. The allo-

cation is \$13 million for single-family and \$47 million for multifamily projects.

Funds were distributed using a three-pronged approach: 1) single-family home repair, 2) homebuyer assistance and 3) multifamily rehabilitation. Examples of projects that have used these funds are the Reserve At Creekbend, HollyView Apartments, Vista Bonita Apartments and Villa del Prado Apartments.

Round II of the Disaster Recovery funding is on the table in Houston, and an agreement with the state is yet to be worked out. The city plans to use these funds in a more targeted way in several inner-city Neighborhoods of Opportunity (see highlighted areas on map).

The city is working with the Houston Housing Authority, Houston Finance Corporation and Local Initiatives Support Corporation to develop a strategy to impact communities around rehabilitated or newly constructed multifamily areas. According to Rackleff, the idea is to revitalize the entire area and stop developing silos of improvement.

The city's Housing and Community Development Department is using a request-for-proposals (RFP) approach with local developers to leverage the Disaster Recovery Round II funds. These funds will be granted to the most innovative and financially viable proposals. Hopes are that projects will access several funding sources to make "efficient use" of the Disaster Recovery dollars, Rackleff said.

