



Missing Middle Housing: A Regional Conversation

Houston-Galveston Area Council Peer Exchange



Breakfast tacos, water, and coffee are out in the foyer.



Restrooms are down the hall to the left.



Please register if you didn't when you came in.





Missing Middle Housing: A Regional Conversation

Houston-Galveston Area Council Peer Exchange

Agenda

8:30 a.m. - 9:00 a.m. – Sign-in and Breakfast

9:00 a.m. - 10:30 a.m. – Expert Panel

10:30 a.m. - 10:45 a.m. – Break

10:45 a.m. - Noon – Facilitated Discussion



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Framing the Discussion: Pre-Covid Market Demand Trends

Between 2010-2019, demand was strong for rental apartments at the expense of single-family homes and condos, with growth in demand for infill housing, potentially at the expense of larger lot-suburban communities.

- **Urbanization:** Global trends favoring urbanization have been accelerating for decades.
- **Home Prices:** Home prices and rents since 2015 have accelerated faster than incomes, creating broad challenges with affordability across all markets.
- **Household Shifts #1:** The anticipated pivot of Millennials from rental into home ownership is anticipated over the next 5 years, with a larger share of households expected to skip the "starter house".
- **Household Shifts #2:** Anticipated growth in the senior share of households through 2035 (including people over 80) will create increased demand for housing targeted toward senior populations.
- **Parking:** Changing expectations for parking in urban environments: In general, fewer personal vehicles, with residents leveraging transit and ride share / bike share. Reduced parking demand is flowing into design changes for multi-family housing (reduced parking requirements per unit).

Framing the Discussion: Pre-Covid Market Demand Trends

- **Impact of Regulation - Property Taxes:** While reduced federal mortgage interest deductions on "upper-bracket" homes seems to be influencing the marketability of more expensive older suburban homes. State legislative efforts to cap growth in residential values to control property taxes are placing pressure on municipalities that remain dependent on property taxes to fund municipal services.
- **Impact of Regulation - Mortgage Approvals:** While underwriting criteria have reportedly softened slightly as of late, credit scores and income verification have become stricter, making it harder for people to obtain a mortgage (Great Recession).
- **Housing Amenities:** Changing expectations for housing amenities: connectivity, live / work, co-living & "collaborative consumption" and the home office, energy efficiency, indoor/outdoor spaces, Airbnb-linked design considerations, and installation of electric vehicle charging systems on a larger scale.
- **Niche Markets:** Relocating corporate employees from one city to another who tend to favor urban locations for their initial stay in a new city.

Framing the Discussion: Pre-Covid Market Demand Trends

- **Changes to Federal Affordable Housing (Section 8):** HUD has made changes to their benchmark rents for Section 8 vouchers such that thresholds can now be indexed at a neighborhood level rather than at a metro area level. While this change is expected to reduce concerns about displacement, there are neighborhoods where it may be having the opposite effect, accelerating gaps between naturally affordable housing units and renovated units.
- **Economic Development:** Available housing stock factors into company site relocation decisions, and lack of affordable / workforce housing can limit local positioning.

Framing the Discussion: Pre-Covid Market Supply Trends

- **Zoning and Land Use:** Regulatory constraints which remain in place across North American cities generally encourage single-family construction at the expense of greater density.
- **Local Government Entitlement Policy:** Municipal zoning codes tend to make infill development more difficult, especially due to extended entitlement and development review policies.
- **The Missing Middle:** The unfolding impact of "missing middle" housing, i.e., housing units not built since 1970 due to the advent of "single-family" zoning districts. The big outcome / symptom of middle-class housing not built is a concern that resulting neighborhoods lose the ability support the full spectrum of commercial and community amenities.
- **Structural Housing Shortage:** An insufficient pace of residential construction between 2010 and 2014, due to the Great Recession. Many cities continue to struggle with a gap in housing inventory not built prior to 2015.
- **Obsolescence:** Impact of obsolete older housing units, generally 50 years of age or older and not renovated, in neighborhoods where home values have stagnated.

Framing the Discussion: Post-Covid Housing Indicators

Housing has been severely impacted by the pandemic and its associated **rise in interest rates**. Many of the structural trends governing the housing market have been in place since 2010, in context with an extended period of economic growth:

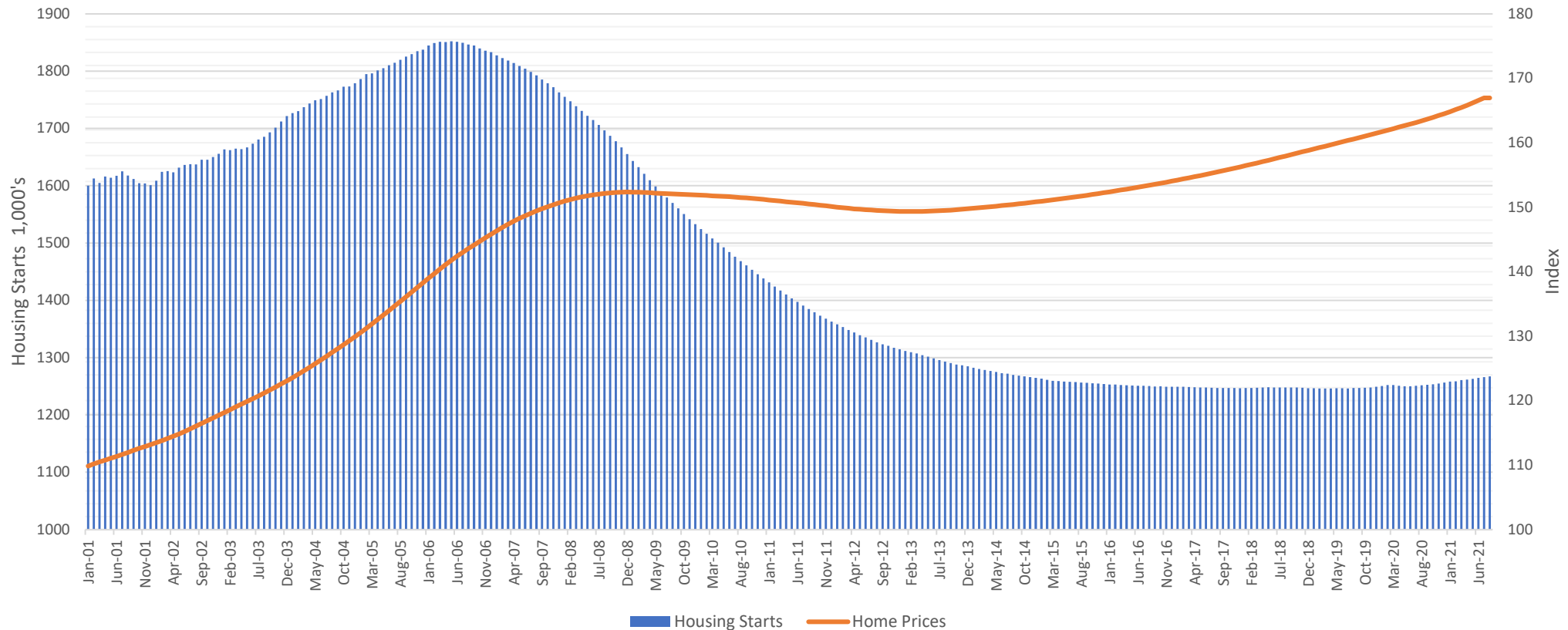
- The pace of US housing unit **construction has slowed** from long-term averages.
- Reinvesting in older (pre-1960) homes, which represent 28% of US inventory, and replacing lost inventory; the US Census estimates that about **350,000 housing units annually** need to be built just to replace lost units.
- While US Census data suggests that aggregate residential construction costs have generally accelerated only in line with **inflation** since 2000, home values have grown at a faster pace. Drivers of change may include, **increasing land costs, changes to building codes, and shortages of skilled trades labor, general contractors, and developers**. Sources such as the Federal Housing Finance Agency have specifically identified higher land costs as a specific challenge in housing affordability.

Framing the Discussion: Post-Covid Housing Indicators

- **The Missing Middle:** Just now beginning to see the unfolding impact of "missing middle" housing, i.e., housing units not built since 1970 due to the advent of "single-family" zoning districts, which have over time encouraged either single family or multi-family housing, at the expense of townhome, rowhouse and duplex construction.
- According to Federal Housing Finance Agency research, **underlying residential land values** in larger metropolitan areas **appreciated at a 7.6% annual rate** between 2012 and 2019.

Framing the Discussion: Post-Covid: The Perfect Storm

Figure 8. Cumulative Average, Housing Starts (1,000's) / Case Shiller Home Price Index; FRED



Traditional Barriers to Community Investment

- Plans are not grounded in market and fiscal realities
- Lack of trade area intelligence
 - **Physical barriers**
 - Location of possible competition (commonly referred to as “comps” in real estate)
 - Proximity to **population, employment, and activity centers**
 - **Regulatory** (zoning, entitlements, deed restrictions, minimum requirements, etc.)
 - Market factors – conditions which set **sale and lease prices**, influence **capital flows**, suggest **excesses and voids**, influence **interest rates**, and ultimately impact potential **project values**.
 - **Drive times, spending, and commuting patterns** – consumer habits and biases
- No genuine **relationship-building with developers and investors** (folks that will actually implement community vision)
- **Financial gaps** exist that are never closed/addressed
 - No political consensus or will to close gap
 - No capacity to quantify gap (development proforma)

Barriers to Missing Middle Housing

- Plans are not grounded in market and fiscal realities
- Lack of trade area intelligence
 - **Physical barriers**
 - Location of possible competition (commonly referred to as “comps” in real estate)
 - Proximity to **population, employment, and activity centers**
 - **Regulatory** (zoning, entitlements, deed restrictions, minimum requirements, etc.)
 - Market factors – conditions which set **sale and lease prices**, influence **capital flows**, suggest **excesses and voids**, influence **interest rates**, and ultimately impact potential **project values**.
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A Closer Look: Closing the Financial Gap

- As an alternative to a for-rent study in Arlington, VA, AECOM Economics + Advisory uses an analysis to determine the feasibility of developing **market-rate for-sale product** to address the missing middle in the housing market. The analysis considers **120% and 100% AMI (Area Median Income) to determine affordable housing prices.**
- Crucial to creating sustained construction, it is assumed that **developers will need to make “normal profit” in order to willingly participate in any Missing Middle-type housing project.** Where a project generates a lower financial return, then financial subsidies / incentives are considered.
- The process has been informed by interviews with developers active in the area as well as benchmarking of market data through public sources. The analysis therefore starts from a clear and thorough understanding of existing market rate pricing, costs, and timing.

A Closer Look: Closing the Financial Gap

Project concepts identified to test are shown to the right. Intention was to test distinct unit mixes and lot sizes.

- **Single Lot** (~6,000 sf) – **4-plex and 6-plex**. Single lot multifamily development is particularly important as many lots are not easily aggregated and single lot development can benefit from a streamlined entitlement process. These projects are envisioned to be 4 unit developments, but options up to 6 units are considered.
- **Double Lot** (~12,000 sf) – **Micro Units**. An emerging concept where efficiencies (250-400 sf) are matched with shared kitchens (and other high quality amenities). These projects are priced for middle income singles or new entrants to the workforce.
- **Triple Lot** (~18,000 sf) – **Mixed Small Units**. These projects are currently being developed but are constrained by availability of multiple lots and the ability to progress efficiently through the entitlement process. The example shown combines sixteen 2-bedroom condo apartments with two 4-bedroom for-sale townhomes attached on the corners.



Closing the Financial Gap

AECOM developed a high level pro forma to allow consistent evaluation of multiple project concepts. The approach progresses through three stages of analysis

- **Scenario 1 Existing Conditions –**
 - Based on publicly available inputs and interviews with developers, the three project concepts are tested for financial viability within the existing framework. This results in projects that are generally unprofitable.
- **Scenario 2 Solving for a Market Rate Solution –**
 - Without explicitly proposing policy changes, inputs that are most flexible (not construction costs, land prices, market sale prices) are adjusted to determine the level where developers will pursue these projects. Reducing the entitlement length will also reduce a developer's return requirement.
- **Scenario 3 Missing Middle Solution –**
 - Once market rate projects are validated, solutions targeted at 120% and 100% AMI buyers are evaluated. The goal is to identify whether market-driven solutions are possible, and if not, what incentives or subsidies might be required to make them viable.

Key Assumptions (Existing)	
Woodframe Construction Costs	\$150-\$180/sf
Concrete (Brick & Block) Construction Costs	\$220-\$260/sf
Land Costs (Single Lot)	\$125/sf (\$750k)
Lot Coverage	40% – 50%
Parking Ratios	1.5 – 2.0
4.1 Site Plan Process Costs	\$450k - \$1.5 million
4.1 Permit & Fees	\$10k - \$15k/unit
4.1 Site Plan Pre-Development	1.5 – 2 years
Market Sale Price (3 BR)	\$560 - \$510/sf
Market Sale Price (2 BR)	\$540 - \$490/sf

Closing the Financial Gap

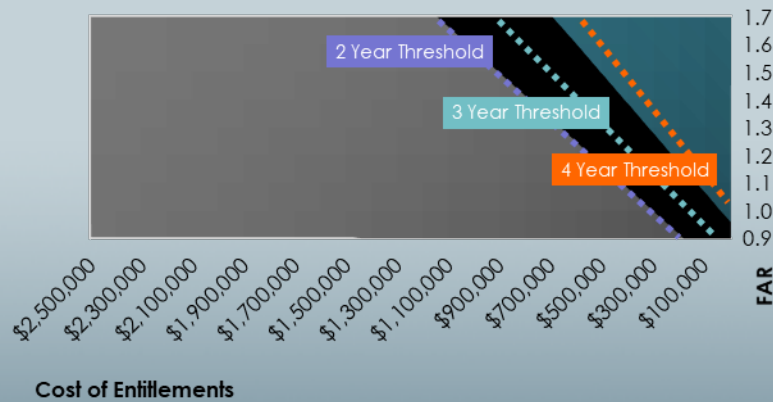
- Developers require different equity multiples based on a project's anticipated completion schedule. Longer projects require a greater equity multiple compared to shorter term projects. Typical return thresholds are presented below:

Time Period	<2 Year	3 Year	4 Year
Equity Multiple	1.5x	1.8x	2.1x

- Given the different entitlement costs and density of the various product types, developer equity multiple thresholds are presented below:

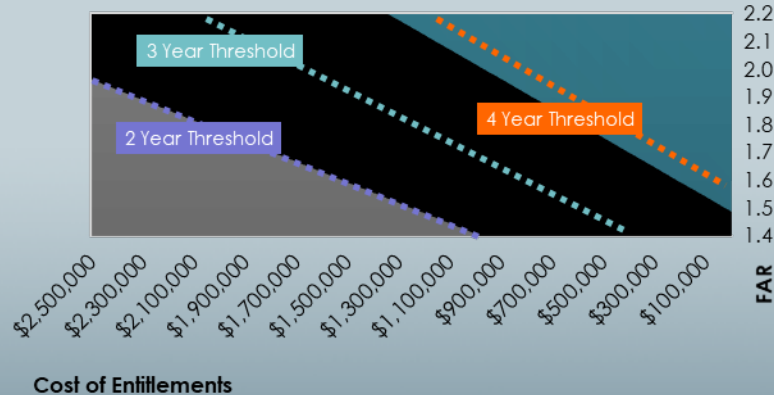
Threshold - Small Lot Condominiums

Less than 1.5x EM 1.5x - 2.0x EM Greater than 2.0x EM



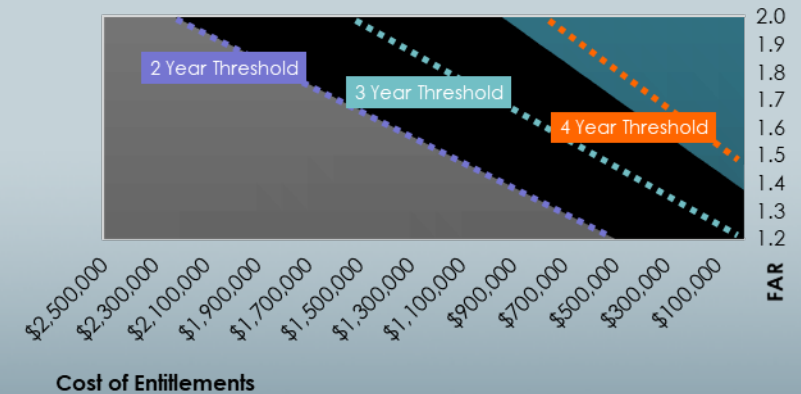
Threshold - Mixed

Less than 1.5x EM 1.5x - 2.0x EM Greater than 2.0x EM



Threshold - Micro Units

Less than 1.5x EM 1.5x - 2.0x EM Greater than 2.0x EM



Closing the Financial Gap

Site Plan & Development Costs

- **4-plex –**
 - Assumed as stick-built with two floors and two units per floor. With only a stairway to the 2nd floor, it is assumed to be very efficient.
 - All units are assumed as 2-bedrooms at roughly 1,200 sf each.
 - Assumed simple stick-built construction, but still requiring a relatively long and complex process covering fees and extended community engagement.
 - Most expensive per unit due to lower FAR and higher per unit pre-development costs.
- **Mixed Small Units –**
 - Slightly lower coverage ratio, but more floors provide for a higher FAR.
 - Assumed as sixteen (16) ~1,100 sf 2-bedrooms and two (2) 2,200 sf townhomes on the ends
 - Construction of simple brick and block. Efficiency in per unit cost compared with the 4-plex
- **Micro Units –**
 - 26 studios / efficiencies with shared kitchens as well as additional amenities
 - Most expensive construction (@ \$513 psf) due to small unit sizes and additional amenities.

Concept	4-plex	Mixed Small Units	Micro Units
Lot Size (sf)	6,000	18,000	12,000
Coverage Ratio	45.00%	35.00%	40.00%
Floors	2.0	4.0	3.0
FAR	0.9	1.4	1.2
Efficiency (GBA / RBA)	88.00%	86.00%	80.00%
Parking Ratio	1.6	1.6	1.2
Units	4.0	18.0	26.0
Average Unit (sf)	1,188	1,204	443
Units / Acre	29	44	94
Total Development Cost	\$2,421,750	\$10,409,250	\$7,406,500
4.1 Site Plan Process Costs	\$467,000	\$1,146,000	\$1,103,000
4.1 Permit & Fees	\$62,000	\$286,000	\$276,000
Total Project Timing	3.5 years	3.5 years	3.5 years
Development Cost Per Unit	\$605,438	\$578,292	\$284,865
Development Cost Per Sf	\$449	\$413	\$513

Closing the Financial Gap

Market & Performance

- **4-plex** –
 - Value per unit approximate to total cost per unit, so breakeven return
 - Sale price (@ \$500 psf) constrained by limited amenities and larger units
- **Mixed Small Units** –
 - Value per unit slightly higher even than 4-plex due to primary unit cost, but not acceptable returns.
 - More premium pricing achieved
- **Micro Units** –
 - Higher price point per sf (@ \$650 psf) due to small unit and more amenities
 - Performance improved compared to 4-plex, but not to the extent of mixed small units

Concept	4-plex	Mixed Small Units	Micro Units
Sale Price(\$/sf)	\$500	\$525	\$650
Unit Price(\$/unit)	\$594,000	\$632,100	\$288,000
Closing Costs 3% (\$/unit)	\$19,750	\$21,055	\$9,577
Total Proceeds	\$2,634,976	\$12,617,944	\$8,304,168
<i>Proceeds Per Unit</i>	\$658,744	\$700,997	\$319,391
Profit	\$121,226	\$1,772,694	\$703,668
Equity Multiplier	1.02x	1.41x	1.21x
Desired Equity Multiplier	2.10x	2.10x	2.10x
Funding Gap	\$791,241	\$2,152,169	\$1,970,577

Key Takeaways

- All alternative development concepts are negatively impacted by high land costs, relatively low FAR, and an extended pre-development process that includes significant additional costs and increase return requirements.
- Requiring approximately 3.5 years to complete, none of the developments would meet a developer's equity multiple requirement. A gap amount needed to meet developer's return expectations is presented.
- Current system incentivizes a focus on larger sites for higher density residential concepts, particularly those not competing for single family homes. These generally have lower land costs per sf and entitlement costs do not increase in a linear way with project scale.

Closing the Financial Gap

Site Plan & Development Costs

Compared to the existing conditions, scenario 2 envisions increased density throughout all product types. Total project timing is also reduced to 2.5 years meaning less required returns from a developer. Parking ratios are reduced to minimize structured parking.

Entitlement costs are adjusted to arrive at target private returns

- **6-plex –**
 - 4-unit projects have become 6-unit projects with slightly lower efficiency.
 - Assumed to offer primarily efficient 3 BR units
 - Construction costs increase to rise to 3 floors
 - Fees reduced substantially as assumed a single lot, by-right project – lowest total project cost (\$349/sf)
- **Mixed Small Units –**
 - Site coverage increases substantially with 22 2 BR units (3 floors at 6 units per floor) and 2 townhomes
 - 30% of parking is structured in rear of ground floor
 - Increased cost for structured parking but reduced fees and pre-development expenses
- **Micro Units –**
 - Slightly increased unit count (30 vs 26) via higher coverage ratio and slightly smaller units
 - 30% of parking is structured in rear of ground floor

Concept	6-plex	Mixed Small Units	Micro Units
Lot Size (sf)	6,000	18,000	12,000
Coverage Ratio	55.00%	45.00%	45.00%
Floors	3.0	4.0	3.0
FAR	1.7	1.8	1.4
Efficiency (GBA / RBA)	86.00%	86.00%	80.00%
Parking Ratio	1.2	1.2	1.0
Units	6.0	24.0	30.0
Average Unit (sf)	1,419	1,161	432
Units / Acre	44	58	109

Total Development Cost	\$3,460,007	\$11,888,093	\$6,846,288
4.1 Site Plan Process Costs	\$428,757	\$950,343	\$225,788
4.1 Permit & Fees	\$93,000	\$371,000	\$309,000
Total Project Timing	2.5 years	2.5 years	2.5 years
Development Cost Per Unit	\$576,668	\$495,337	\$228,210
Development Cost Per Sf	\$349	\$367	\$423

Closing the Financial Gap

Market & Performance

- **6-plex –**
 - Increased density allows for more sellable space in the building (approximately 75%). Combined with reduced pre-development costs and faster project timeline, returns meet developer thresholds.
- **Mixed Small Units –**
 - 25% increase in sales value achieved through higher site coverage combined with reduced costs allow for a healthy return
- **Micro Units –**
 - 10% increase in sales value through slightly higher site coverage.
 - Primary shift from reduced pre-development costs.

Concept	6-plex	Mixed Small Units	Micro Units
Sale Price(\$/sf)	\$500	\$525	\$650
Unit Price(\$/unit)	\$709,500	\$609,525	\$280,800
Closing Costs 3% (\$/unit)	\$23,000	\$19,708	\$9,067
Total Proceeds	\$4,583,494	\$15,750,554	\$9,070,086
<i>Proceeds Per Unit</i>	\$763,916	\$656,273	\$302,336
Profit	\$985,487	\$3,389,461	\$1,951,799
Equity Multiplier	1.80x	1.80x	1.80x
Desired Equity Multiplier	1.80x	1.80x	1.80x
Pre-development Reduction	\$38,243	\$195,657	\$877,212

Key Takeaways

- Increasing density allows the developer to spread land acquisition costs across more sellable space improving performance
- Allowing for an entitlement process that is shorter and with a cost more proportional to the project scale reduces a developer's return requirement to a 1.8x equity multiple.
- For the Micro Units, the main way to make project more profitable is to make the pre-development process less expensive.

Closing the Financial Gap

Site Plan & Development Costs

Scenario 3 solves for the missing middle at 120% and 100% AMI levels. Parking ratios are reduced to 1.0 to avoid additional structured parking where possible. Construction costs are reduced to more affordable finishes and other cost savings. Entitlement costs are varied across the different levels of affordability to show market returns.

- **6-plex –**
 - 6 Unit layout remains roughly the same with limited ability to change unless validating additional units possible. Achieves the lowest cost per sf in both the 120% and 100% AMI cases.
- **Mixed Small Units –**
 - Site coverage further increased with 8 efficient 2 bedroom units per floor assumed (950 sf) combined with 2 efficient 4-bedroom townhomes (1,800 sf)
 - 30% of parking as structured remains constant due to lower parking ratio.
 - Increased density combined with cost reductions lowers cost per sf.
- **Micro Units –**
 - Coverage ratio increased with unit count growing to 35.
 - 50% of parking now structured , assumed as a ground floor podium.

Concept	6-plex	Mixed Small Units	Micro Units
Lot Size (sf)	6,000	18,000	12,000
Coverage Ratio	55.00%	55.00%	55.00%
Floors	3.0	4.0	3.0
FAR	1.7	1.8	1.4
Efficiency (GBA / RBA)	86.00%	86.00%	80.00%
Parking Ratio	1.0	1.0	1.0
Units	6.0	34.0	35.0
Average Unit (sf)	1,419	1,002	453
Units / Acre	44	82	127

With Pricing Reflective Affordability at 120% of AMI

Total Development Cost	\$3,262,250	\$14,044,750	\$8,813,500
4.1 Site Plan Process Costs	\$467,000	\$1,146,000	\$1,103,000
4.1 Permit & Fees	\$93,000	\$525,000	\$361,000
Total Project Timing	2.5 years	2.5 years	2.5 years
Development Cost Per Unit	\$543,708	\$413,081	\$251,814
Development Cost Per Sf	\$330	\$355	\$445

With Pricing Reflective Affordability at 100% of AMI

Total Development Cost	\$3,217,238	\$12,898,750	\$8,813,500
4.1 Site Plan Process Costs	\$421,988	\$0	\$1,103,000
4.1 Permit & Fees	\$93,000	\$525,000	\$361,000
Total Project Timing	2.5 years	2.5 years	2.5 years
Development Cost Per Unit	\$536,206	\$379,375	\$251,814
Development Cost Per Sf	\$325	\$326	\$445

Closing the Financial Gap

Median Income Levels

Household Size	120%	100%	80%
1	\$102,000	\$85,000	\$68,000
2	\$116,520	\$97,100	\$77,680
3	\$131,040	\$109,200	\$87,360
4	\$145,560	\$121,300	\$97,040

Maximum Affordable Home Price

Household Size	120%	100%	80%
1 (Micro Units)	\$405,000 \$894 per sf	\$338,000 \$746 per sf	\$270,000 \$596 per sf
2	\$463,000	\$386,000	\$309,000
3 (2 Br Units)	\$521,000 \$558 per sf	\$434,000 \$465 per sf	\$347,000 \$372 per sf
4 (Townhome)	\$578,000 \$275 per sf	\$482,000 \$230 per sf	\$386,000 \$184 per sf

Affordable Price Methodology

- Maximum affordable housing prices are a function of an individual's income. No more than 33.0% of an individual income should be spent on housing.
- Typically financed through a loan, the maximum affordable home price is the mortgage payment plus carry that equals 33.0% of income at the 120%, 100%, and 80% AMI figures.
- For current product types, household size lines up best up through 3-bedroom units, while townhomes are likely oversized for the constrained pricing

Loan & Sale Assumptions

- Down Payment: 3.5%
- Loan Amortization: 30 year
- Interest Rate: 4.5%
- Closing Costs: 3.0%

Closing the Financial Gap

Market & Performance

- **6-plex –**
 - Sale prices are below market in the 100% AMI case and above market in the 120% AMI case.
 - In the 100% AMI case, a developer may reach their return requirements with a modest decrease in entitlement costs. In 120% case, developer returns are met without any change.
- **Mixed Small Units –**
 - Lower sale price in the 100% AMI case compared to market rate at \$525/sf.
 - Return hurdles are not met in the 100% AMI case. The entitlement costs were reduced to \$0, but the development is still unfeasible.
 - The townhome sale prices at \$230/sf weighs the project down – if prices for townhomes were at market the gap to reach profitability is reachable at approximately \$1 million reduction.
- **Micro Units –**
 - Market returns are met at both the 120% and 100% AMI cases, but price points are above market rate at \$650/sf. Achieved performance likely closer to market.

Key Takeaways

- **Affordable housing can be met with each product type at the 120% AMI case. Sale prices are at or above market rates in each instance.**
- **Under the 100% AMI case, 6-plex and Micro Units are feasible. Single Lots Units would require slight decrease in pre-development costs.**
- **Development of Mixed Small Units is only feasible under the 120% AMI case. The low sale prices under the 100% AMI case would make them less attractive to developers.**

With Pricing Reflective Affordability at 120% of AMI

Concept	6-plex	Mixed Small Units	Micro Units
Sale Price(\$/sf)	\$558	\$526	\$894
Unit Price(\$/unit)	\$792,071	\$527,148	\$404,617
Closing Costs 3% (\$/unit)	\$25,667	\$17,029	\$13,057
Total Proceeds	\$5,116,916	\$19,297,640	\$15,247,725
Proceeds Per Unit	\$852,819	\$567,578	\$435,649
Profit	\$1,700,666	\$4,673,890	\$5,977,225
Equity Multiplier	2.59x	1.96x	3.11x

With Pricing Reflective Affordability at 100% of AMI

Concept	6-plex	Mixed Small Units	Micro Units
Sale Price(\$/sf)	\$465	\$438	\$746
Unit Price(\$/unit)	\$659,806	\$439,179	\$337,680
Closing Costs 3% (\$/unit)	\$21,333	\$14,176	\$10,914
Total Proceeds	\$4,262,460	\$16,077,301	\$12,725,262
Proceeds Per Unit	\$710,410	\$472,862	\$363,579
Profit	\$917,221	\$2,696,551	\$3,529,762
Equity Multiplier	1.80x	1.55x	2.19x

Desired Equity Multiplier	1.80x	1.80x	1.80x
Pre-development Reduction	\$45,012	\$1,146,000 +	\$0

Closing the Financial Gap: Key Takeaways

- **At 120% AMI sale prices levels, new development is feasible at higher densities with shorter pre-development schedules.** Affordable housing prices are consistently above market prices at all envisioned product types. Market comparable pricing is expected to be the default in any development situation.
- **The reduced entitlement period is a driving force for making development feasible.** A developer's return threshold is reduced from 2.1x to 1.8x by decreasing the pre-development time by about a year.
- **At the 100% AMI level, the mixed small unit development is not feasible.** This is a result of the two townhome units which are substantially under market. Setting these townhomes to market pricing with 2 bedrooms at 100% AMI levels, the mixed small unit development would be viable given a reduction of about \$1 million in site plan process costs.
- **Micro units are feasible under both the 120% and 100% AMI levels.** Applying the 1-person household pricing to the concept far exceeds our estimated market pricing. However, at market pricing, the concept would provide a viable solution for single person households.



GRANICUS

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Best Practices

1. “Short-term rentals” can mean a spectrum of users and uses
2. Professionalization of industry trends towards those with property and capital
3. Gap between long-term rents and short-term rental income creates pressure on renters and homebuyers
4. Most expensive neighborhoods are not where pressure emerges
5. Always easier to protect units than try to rollback changes
6. Get ahead of preemption, whether it’s imminent or not

Best Practices

1. Prevent Conversion of Long-term Housing to STR

- Hignell-Stark et al. vs. City of New Orleans (Aug. '22) limits some tools in Texas
- Geographic / zoning-based bans
- License caps
- On-site operators

2. Rollback Conversions

- Tip operator balance sheet back towards long-term housing
- Limit investor pressure on residential housing market for STRs
- Watch how assessors treat STR and comparables

3. Leverage Conversions

- Use STR industry to produce or subsidize long-term housing
- Hotel Occupancy Taxes in Texas can only be used to “promote tourism, arts and culture and historic preservation”

Case Studies



Prevent Conversion *Durango, CO.*

- Town cap of 2-3% of housing units
- Blockface limits
- Bans in vulnerable neighborhoods



Rollback Conversion *Sedona, AZ.*

- \$240k in homeowner subsidies to flip from STR to LTR
- \$10k for 3-bedrooms
- 35 long-term rental units opened
- Summit Co.: \$1M in incentives netted 74 STR conversions



Leverage Conversion *Various – NOLA, etc.*

- \$1 fee to the Neighborhood Housing Improvement Fund
- Massachusetts: 3% Community Impact Fee on ‘professionally-managed’ STR units
- Other ideas: TDRs, ADU grace periods, Development bonuses...



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Houston, Texas

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Livable Places Houston

The Livable Places Action Committee is **creating opportunities** within our development standards that **encourage housing variety and affordability.**

Creating more **accessible, diverse, and inclusive** neighborhoods with a greater variety of housing and transportation choices.



EQUITABLE

Creating **safer, more walkable** neighborhoods that are less car-dependent, with **better access to transit and bike facilities**.



EQUITABLE



WALKABLE

Creating a greater variety of **housing options at more attainable price points** for all Houstonians.



EQUITABLE



WALKABLE



AFFORDABLE

LIVABLE PLACES BUILDS ON EXISTING PLANS...

PLAN HOUSTON
Opportunity. Diversity. Community. Home.

Final Report
September 30, 2015

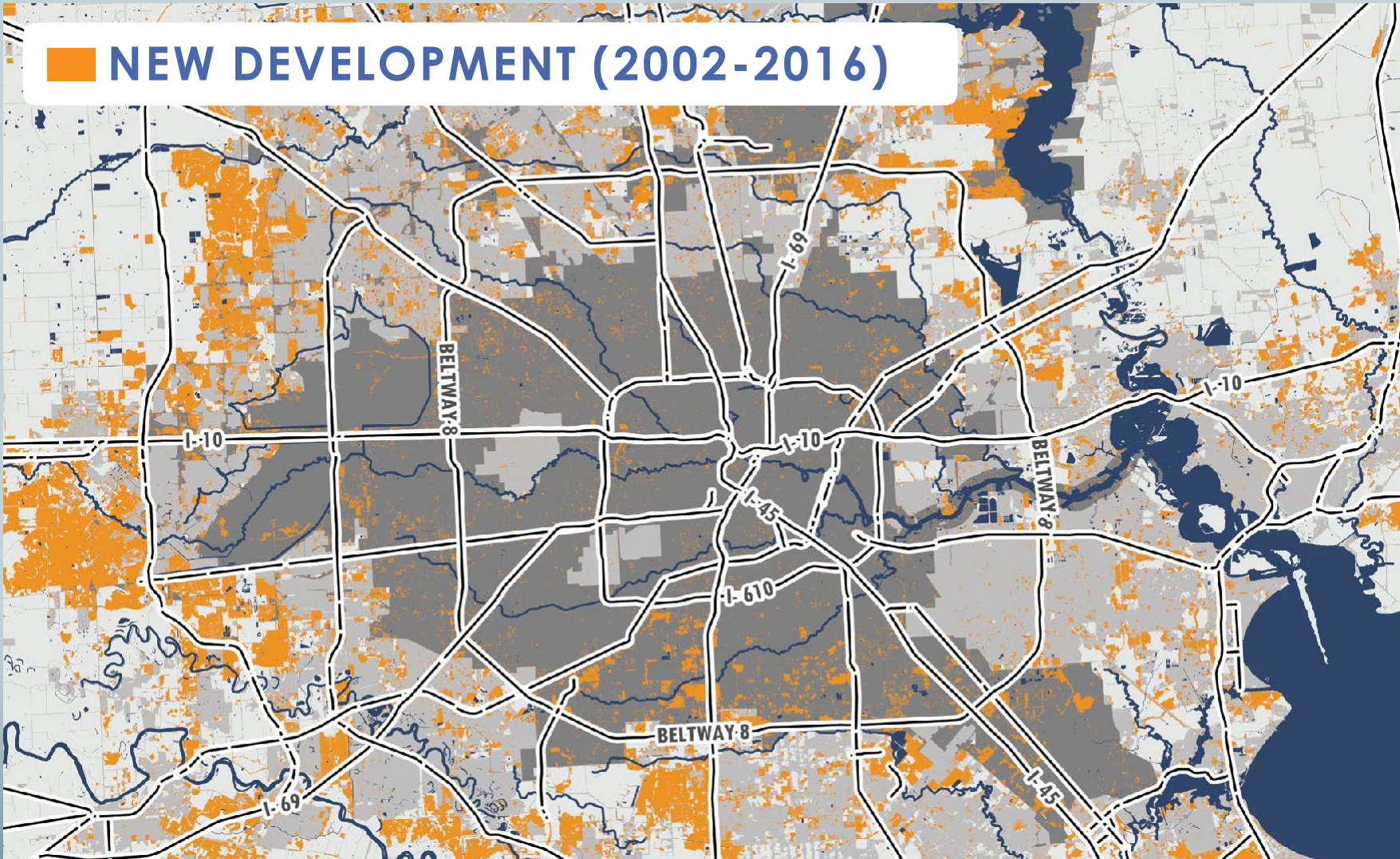
City of Houston
planhouston.org



COMPLETE COMMUNITIES
ACTION PLAN

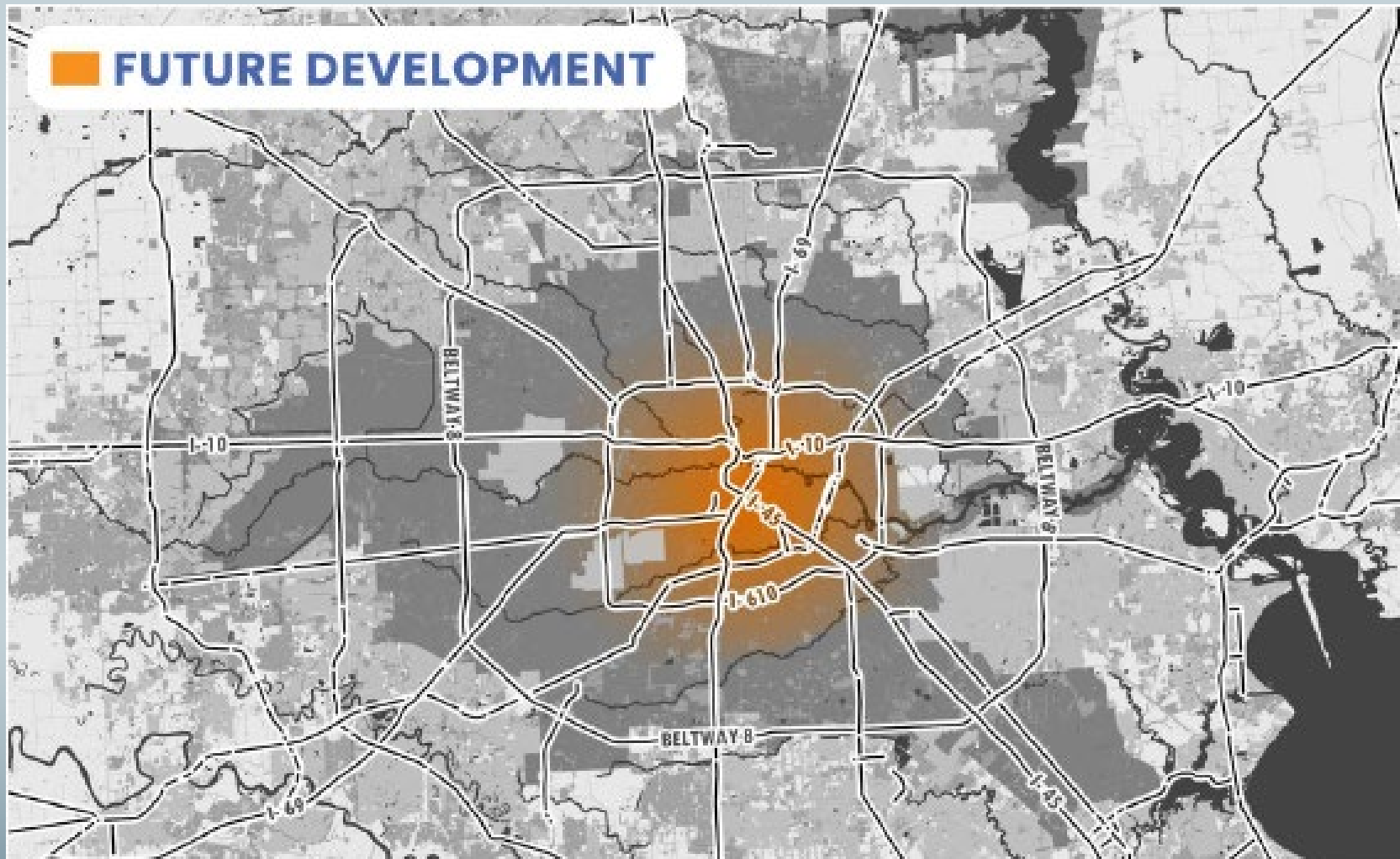
HOUSTON City of Houston Mayor Sylvester Turner City of Houston Planning and Development Department July 2018

REDUCE SPRAWL



- ✗ Increases impervious areas (more pavement)
- ✗ Increases cost of infrastructure (road and utility extension and maintenance)
- ✗ Increases overall reliance on cars and driving
- ✗ Degrades environment, water and air quality

AND ENCOURAGE MORE INFILL NEAR THE CORE

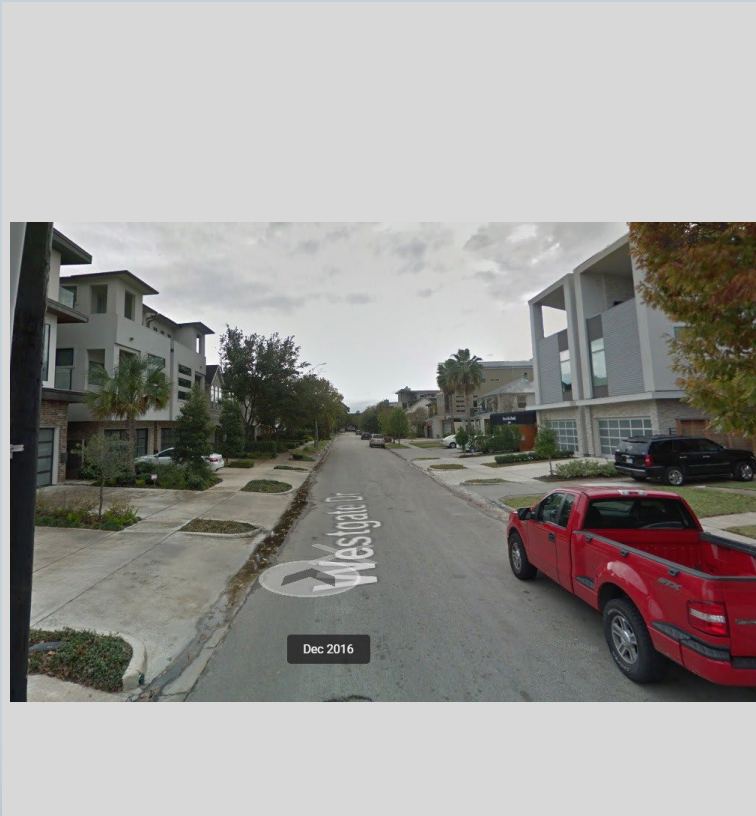


- ✓ Reduces development pressure on greenfield areas
- ✓ Maximizes use of existing infrastructure
- ✓ Encourages use of multi-modal transportation options
- ✓ Facilitates safer, more walkable, amenity-rich neighborhoods

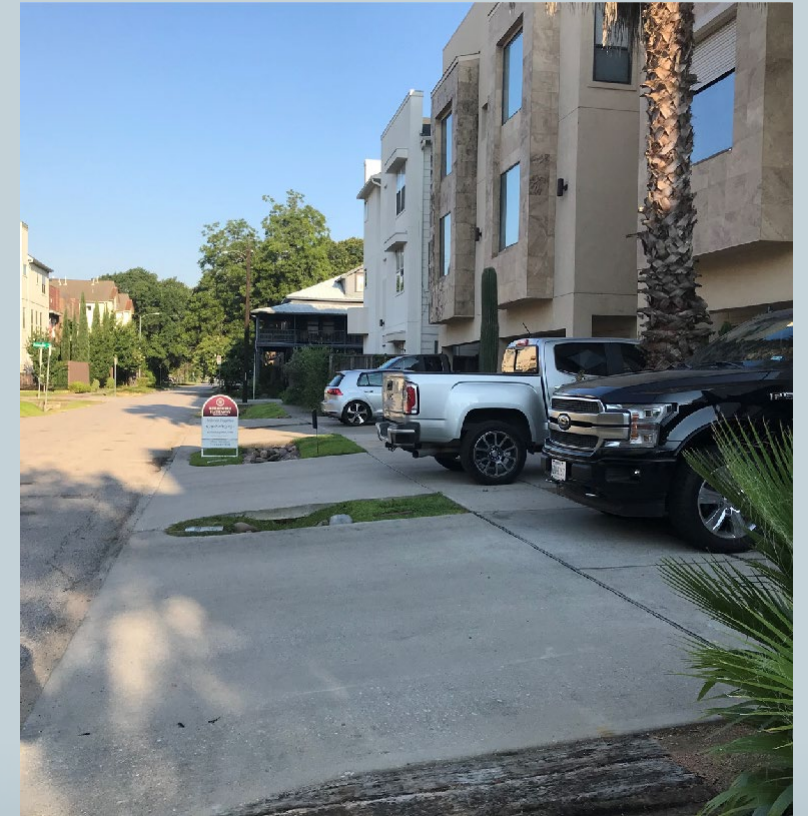
THE CONSEQUENCES OF THE CURRENT RULES



+ Typical Narrow Front-Loading Lot Development



+ Streets With No Parking



+ Unusable Sidewalks

LIVABLE PLACES ENCOURAGES HOUSING LIKE THIS:

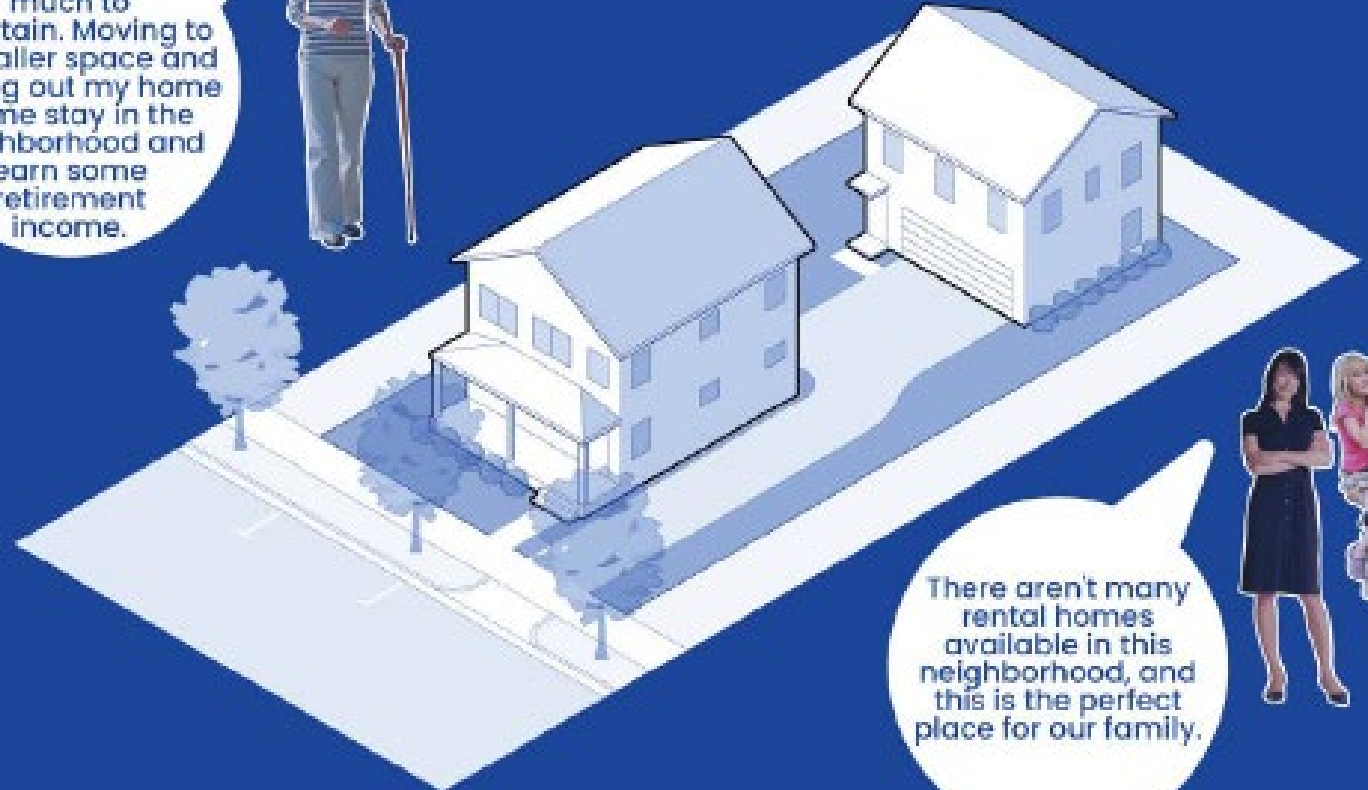
SECOND DWELLING UNITS

An additional dwelling unit on a single family lot located above a garage or in a separate structure

Change:

Eliminating limit of dwelling unit size; allowing parking requirements based on unit size

My old house was too much to maintain. Moving to a smaller space and renting out my home let me stay in the neighborhood and earn some retirement income.



There aren't many rental homes available in this neighborhood, and this is the perfect place for our family.



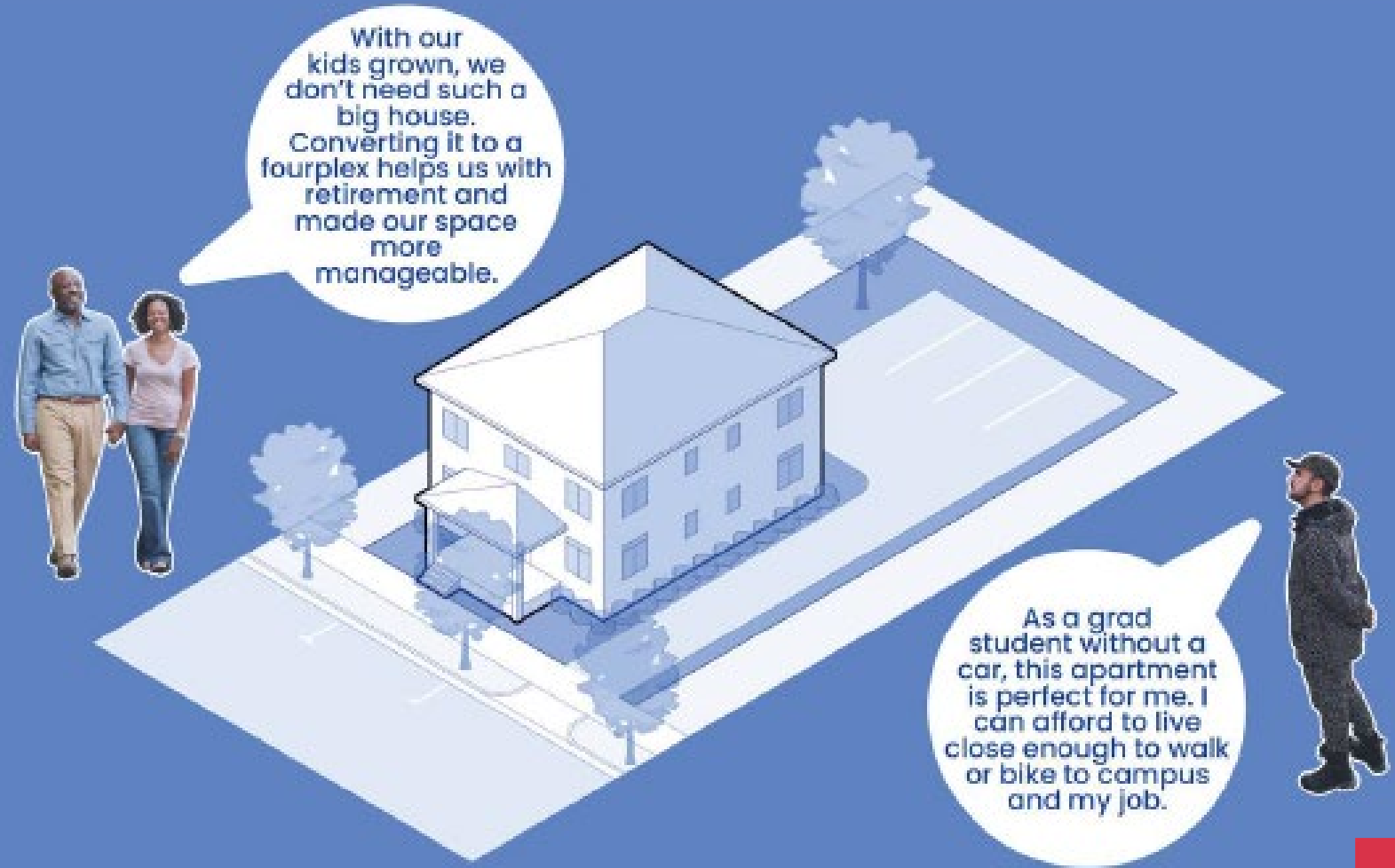
AND THIS:

MULTI-UNIT RESIDENTIAL

A triplex, multiple duplexes, a fourplex, or multiplex with up to 8 dwelling units

Change:

Reducing driveway width;
reducing parking requirements;
reducing multi-family regulations



AND THIS:

NARROW-LOT DEVELOPMENT

A single-family home located on a narrow lot that fronts a street but with shared or rear vehicular access

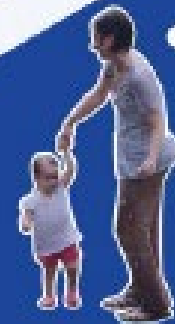
Change:

Requiring rear/side vehicular access via alley or shared driveway when possible, otherwise allowing common narrow drives

As an at-home tutor, I love that my block has an alley because it helps keep the sidewalk clear for my students. On-street parking is easier without lots of driveways.



Since my neighbors have front yards and porches facing the street, I feel safer walking my kids to school, the park, and the library.



AND THIS:

COURTYARD STYLE DEVELOPMENT

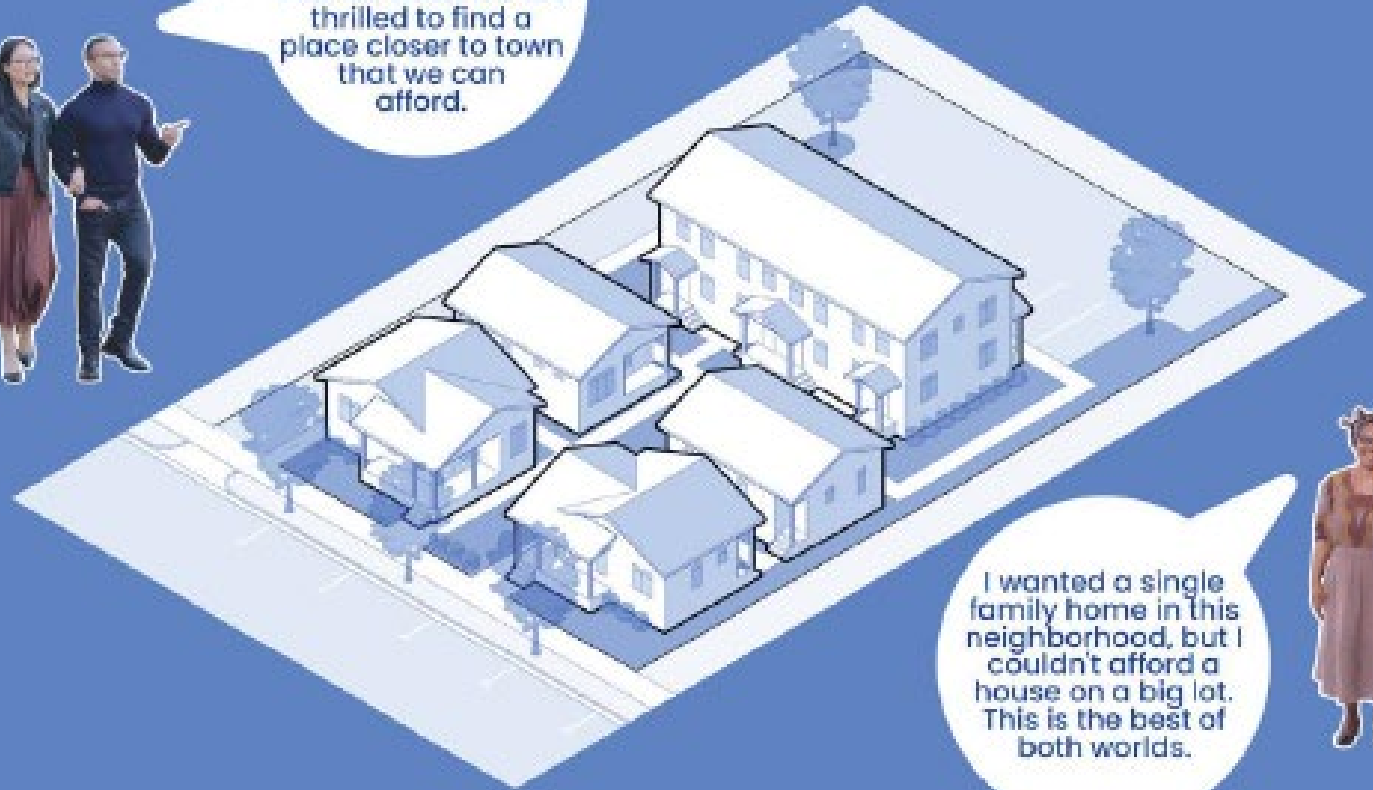
A cluster of single-family homes located around a shared courtyard

Change:

Allowing lots to front on common courtyard space; eliminating minimum lot size and maximum density with height restriction; allowing decoupled parking from lot



The commute from our house in Katy to the Texas Medical Center took over an hour. We are thrilled to find a place closer to town that we can afford.



I wanted a single family home in this neighborhood, but I couldn't afford a house on a big lot. This is the best of both worlds.



RIGHT-SIZING PARKING MINIMUMS:



***Parking minimums** = the minimum total parking spaces that a builder must provide on-site for a new development.


Reducing parking minimums DOES NOT remove existing parking nor ban builders from adding more parking than is required.


Activities to better engage committee members and the public

[UPLOAD FAVORITE PIC](#) | [ARTICLES](#) | [COMMENT/QUESTION](#)

Post a pic of something you like about a neighborhood! [f](#) [t](#) [in](#) [✉](#)


12 days ago
Post a picture on the board or leave a comment via SMS by texting 833-408-2362! Sort by 'new' if you want to see the most recent comments first.


 To add your idea
[Sign In / Register](#)

 **Coolynn**
5 days ago

An attractive 8-plex building


I loved this building. It is an 8-plex but doesn't really look like 8 units. There is enough permeable space to have trees, shrubs and plants. All

1 Comment 

 **Suvidha B**
5 days ago

Apartment in midtown

I used to love living in this apartment as it was close to work. At that time we owned one car and had no kids. It was little expensive but very





0 Comment 

Complete Communities

Complete Streets

[more..](#)

Major Milestones

-  **Public Engagement**
Be a part of the **Ideas** that will help shape Houston's Future. Participate in the public engagement throughout the Livable Places Initiative.
[#LivablePlacesHouston](#)
-  **Minor Technical Amendments**
-  **Code(s) Study**
-  **Development Code Recommendations**



ADU | HOU

ACCESSORY DWELLING UNITS | HOUSTON
DESIGN BOOK

A practical and creative collection of
small homes with big possibilities

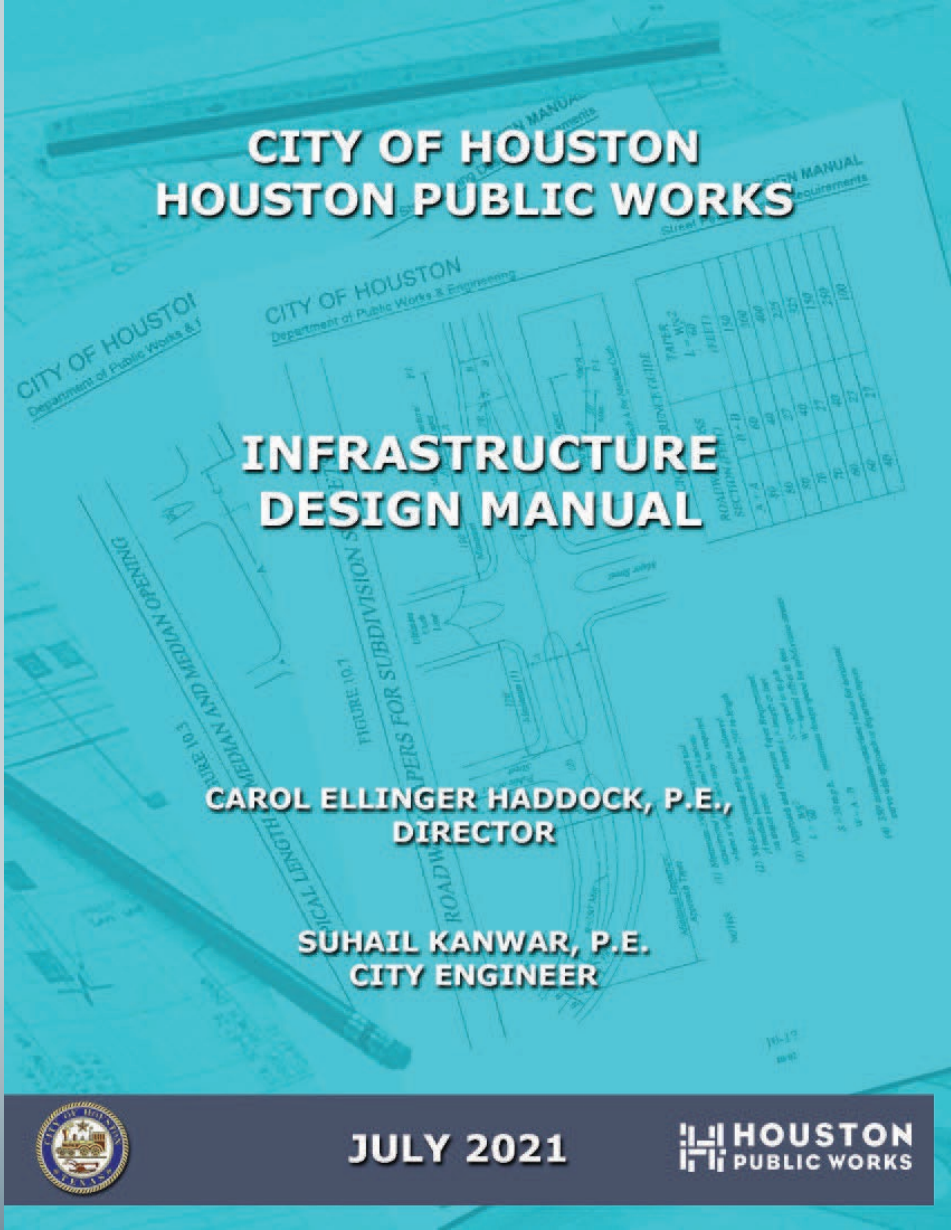






Challenges

- City's engineering standards
- Parking





Livable Places Houston



LetsTalkHouston.org/Livable-Places



Curtis Davis, R.A.

Houston, Texas

Coordinating Team Member - HHC

Development Consultant – ReBuildit Collaborative

Adjunct Professor of Architecture – Gerald D. Hines College of Design

cdavis.rbic@gmail.com

How can MMH be Equitable and Financially Sustainable for Both Residents and Developers?

Develop

Shared Understanding of a Community's Housing Market.

Broadly communicate community social characteristics.

Broadly communicate community physical characteristics.

Establish

Community-Wide Housing Investment Priorities.

Develop effective intervention strategies in weak markets.

Support sustainable growth in strong markets.

Determine

Community-Focused Housing Investment Strategies.

Public Investment via Bond Funds for loans, Capital Improvements and Tax Policies.

Leverage private investment with public and philanthropic investment.

USING THE 2022 HOUSTON MARKET VALUE ANALYSIS TO DEVELOP A METHODOLOGY FOR ESTABLISHING SHARED INVESTMENT PRIORITIES

<https://houstontx.gov/housing/research.html#maps>



The Market Value Analysis (MVA) is a tool to help residents and policymakers identify and understand the elements of their local real estate markets. It is an objective, **data-driven tool** built on local administrative data and validated with local experts.

With an MVA, public officials and private actors can more precisely **target intervention strategies** in weak markets and **support sustainable growth** in stronger markets.

Housing Market Indicators

- Property Value and Investment
- Blight, Distress, and Vacancy
- Housing Stock and Land Use

Factors Influencing Market Growth and Development

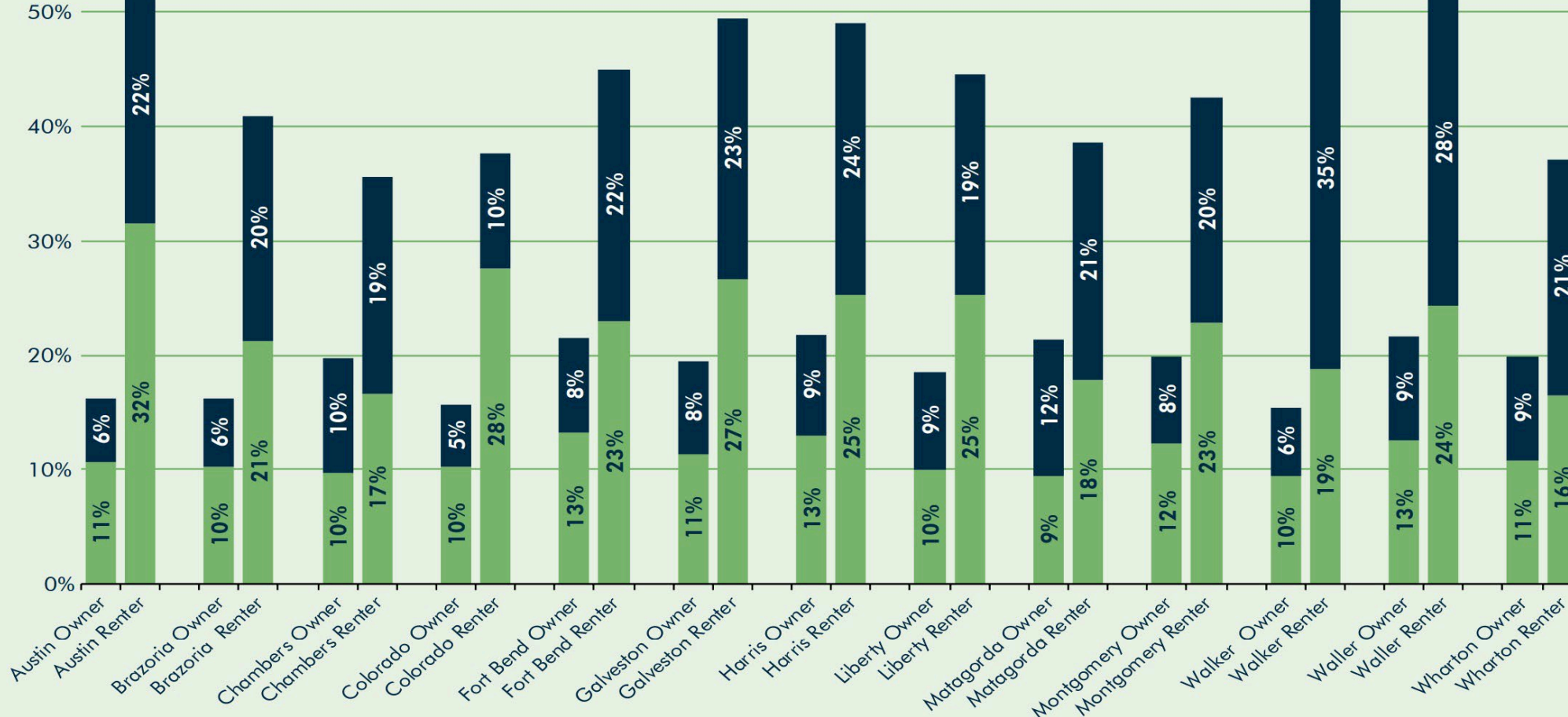
- Mortgage Credit
- Flood Risk
- Vacant Land
- Housing Affordability

Cost Burdened Population

Residents who spend more than 30% of their household income on housing costs are considered cost-burdened. Within the region, 25.4% of households are cost-burdened. Of those cost-burdened households, 43.3% spend more than half of their household income on housing.

Regional Housing Cost Burden

REGIONAL HOUSING BURDEN



Harris County 2019

Income Cohort	Family Income	Monthly Rent Affordable	Percent of Renter-Occupied Households (Demand)	Percent of Rental Units (Supply)	Oversupply or (-) Undersupply
Extremely Low-Income	\$0 - \$18,350	\$0 - \$459	19.9%	3.2%	-17%
Very Low-Income	\$18,351 - \$30,550	\$460 - \$764	16.2%	13.9%	-2%
Low-Income	\$30,551 - \$48,850	\$765 - \$1,221	20.5%	45.9%	25%
Workforce	\$48,851 - \$73,320	\$1,222 - \$1,833	18.3%	26.4%	8%
Market-Rate	\$73,321+	\$1,834+	25.0%	10.6%	-14%

Source: Department of Housing and Urban Development, U.S. Census Bureau

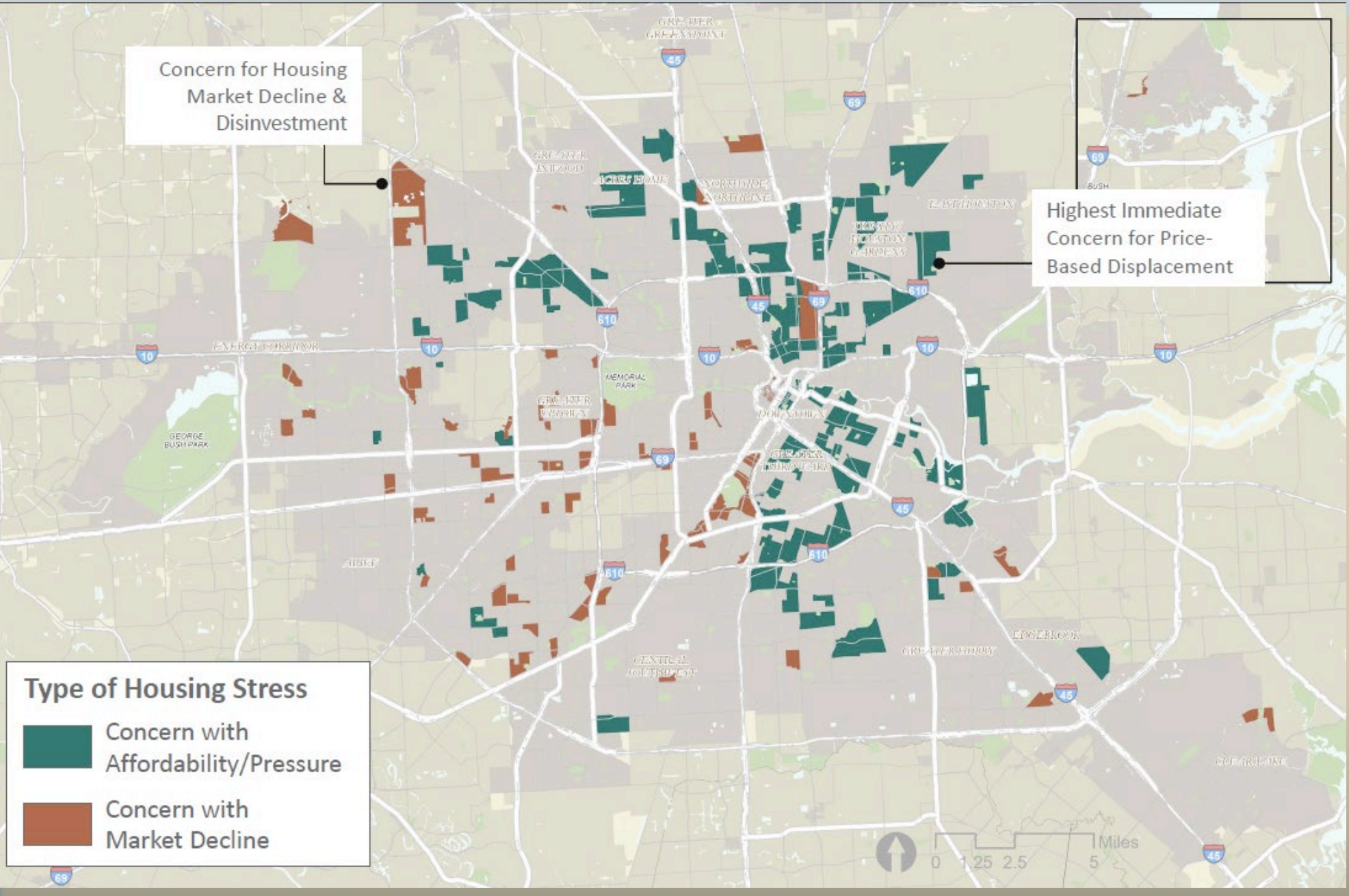


TEXAS A&M UNIVERSITY
Texas Real Estate Research Center



Houston-Galveston
Area Council

Identify Priority Areas





Self Employed
Folks



First Time
Seekers



Elders &
Tight Incomes



Anxious
Folks



Single
Parent Families



Houston
Transplants



Non-English
Speaking Immigrants

Owner Occupants & Renters

Illustrations from various artists on icons8.com

Equity & Financial Sustainability for Owner Occupants & Renters

Develop a set of community resident profiles that are more nuanced than census data.

Establish forums and channels of communication through homeowner associations, community centers & groups, churches, and schools.



connective



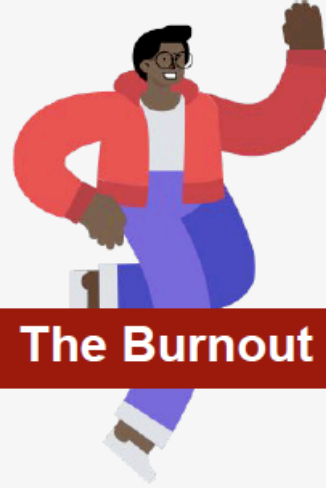
The Strategist

“I’ve been doing this for the past 15 years. I started doing this with a friend to strategically build wealth and then one property after another, here I am. This isn’t my primary source of income but more like my retirement plan.”



The Novice

“I became a landlord when I moved into a new place. It was serendipity. I bought another property right before the COVID. Bad timing. I’m not looking at this as a source of income right now, more like a future return on investment. Let’s see how this goes!”



The Burnout

These were folks who were doing this for some time yet weren’t business savvy.

They had low debt and might have inherited the property but weren’t running their shop as effectively as The Strategist.



Equity & Financial Sustainability for Landlords & Developers

Through interviews and focus groups, develop landlord and small developer profiles that operate in your community.

Promote and/or co-sponsor opportunities to bring individuals and small businesses together to share visions and strategies.

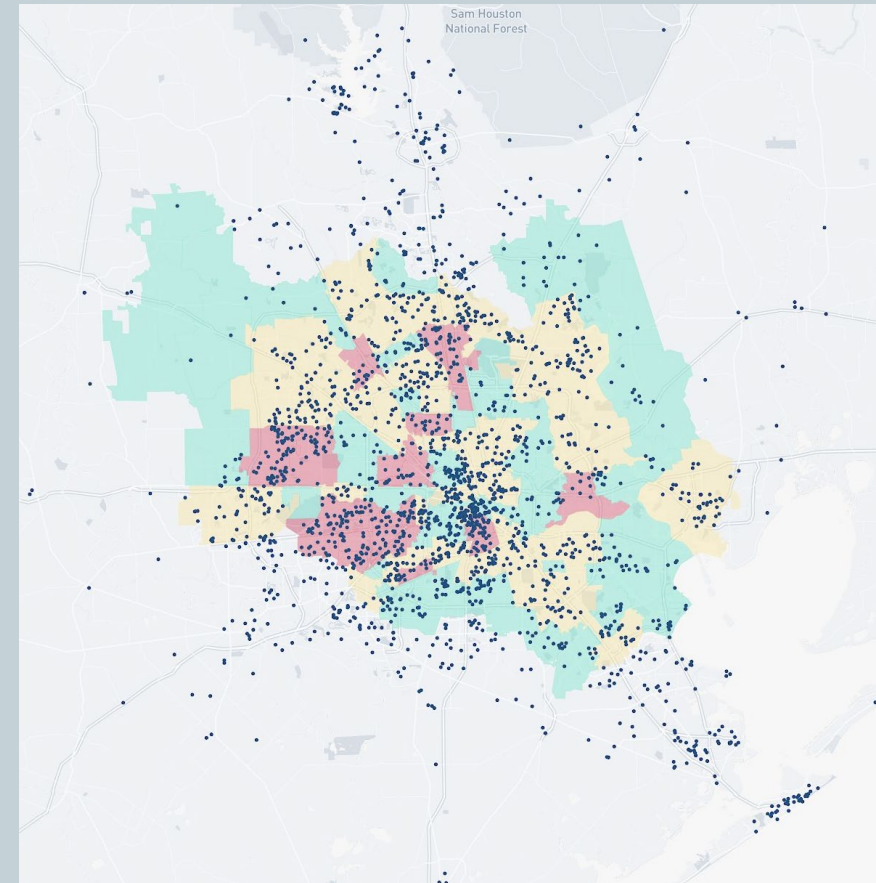
Tips and Tricks

Communicate - Communicate - Communicate

- Seek to understand... then seek to be understood
- Develop a shared-understanding
- Develop a shared-vision(s)

Build Strategic Relationships & Establish Trust

- Establish strategies
- Collaborate
- Make commitments
- Access and/or Develop “Platforms” for services & strategic relationships
- Exercise accountability



Note: Map shows Avail units overlaid on map of low (green), moderate (yellow), and high-risk (red) areas of Houston identified by Kinder Institute.

“Avail: a national property management platform” - <https://www.avail.co/>

Potential Funding Sources

Housing Trust Funds

- County Issued Bonds
- Municipality Issued Bonds
- TIRZ Issued Bonds

Tax Policy

- Targeted Exemptions
- Community Land Trusts
- Other State Mechanisms

Shared Equity Strategies

- Limited Equity Cooperatives
- Community Land Trusts

Short break

When we return, we will begin the facilitated discussion.



Breakfast tacos, water, coffee, and other snacks are out in the foyer.



Restrooms are down the hall to the left.



Facilitated Discussion



Ronnie Barnes

Director,
Public Services



Luis Nunez

Director,
Economics + Advisory



Jeffrey Goodman

Planning Policy
Consultant



GRANICUS



Jennifer Ostlind

Deputy Director,
Planning and Development



Curtis Davis

Coordinating Team Member – HHC
Development Consultant –
ReBuildit Collaborative

