EXECUTIVE SUMMARY

According to the Community Action Network, housing affordability in Austin reached crisis proportion in the late 1990’s. Their report cited costs for construction, financing, land prices and regulatory barriers, such as compliance with environmental and inspection regulations, in explaining the rapid rise of real estate prices.

Prior to implementation of S.M.A.R.T. Housing™, Austin had an active building community, but very little of the housing development was affordable. The 1999 Through the Roof report, the Housing Market Study for the Consolidated Plan 2000-05, and community concerns regarding the lack of affordable housing served as a catalyst for change. City leaders became aware of affordable housing as a major community issue, and took a leadership role in creating solutions to address the problem.

The S.M.A.R.T Housing™ Initiative

In April 2000, Austin city council passed a resolution creating S.M.A.R.T. Housing™ in order to moderate the trends that made much of the local real estate unaffordable for low and medium income families. In addition to the core features of S.M.A.R.T. Housing™, such as fee waivers, special development review, and staff advocacy, the council directed staff to: 1) prepare an affordability impact statement on any proposed ordinance or rule that could impact housing affordability, 2) identify strategies for expedited processes for developments that meet S.M.A.R.T. Housing™ standards, 3) identify changes to existing regulations that could enhance S.M.A.R.T. Housing™, and 4) set aside 40% of the increased tax value on any property that was owned by the city of Austin in 1997 and that later becomes available for private development.

The S.M.A.R.T. Housing™ Initiative represents a shift from a regulatory to an incentive-based development model. In urban areas where restrictions and regulations are the preferred method of achieving public benefits, developers face an increased risk due to uncertainty of costs. This acts as a disincentive to achieving public benefits in development. In contrast, the S.M.A.R.T. Housing™ concept is a development policy that utilizes a voluntary, incentive-based approach to encourage developers to build housing that is affordable, meets elevated construction standards, and is located near transit.

The program provides strong incentives for high-quality, affordable housing, and gives developers access to an efficient, fast, and consistent development process. In turn, developers give back to the city and the citizens of Austin as a whole. Citizens benefit from higher quality housing that meets city standards for safety, accessibility for people with disabilities, affordability, energy efficiency (via Green Building standards), and which facilitate transit-oriented lifestyles.
The S.M.A.R.T. Housing™ Initiative clearly defines the public benefits desired by the city of Austin, and then promotes a creative partnership between the city and developers of housing to realize those benefits. As a result, “preferred” housing development—i.e. housing that meets standards for safety, affordability, and accessibility—enjoys preferred treatment through the development review system.

**Results of S.M.A.R.T. Housing™**
The results suggest that the shift to an incentive-based program and the partnership with developers this has fostered have been a considerable joint success:

- More than 4,900 S.M.A.R.T. Housing™ units have been completed, and nearly 80% of these have been affordable to families at or below 80% of the Median Family Income (MFI).
- Since 2001, an increasing proportion of all single-family housing citywide has been S.M.A.R.T. Housing™. In 2004, 21% of all building permits issued for single family residences in Austin were S.M.A.R.T Houses. That year alone, nearly 600 new homes were built in the Austin area under the auspices of S.M.A.R.T. Housing.
- The program is projected to continue growing at an impressive rate. To date, over 26,000 units have been certified to participate in S.M.A.R.T. Housing™; of these, 14,500 certifications were for single-family homes.
- A survey of major subdivisions constructed through the program revealed that through time, more housing units have become affordable at lower income levels. The survey showed that from 2001 to 2004, the ratio of units affordable to families at or below 60% MFI increased by more than 25%.

**Keys to Success**
The face-to-face problem-solving of the staff, supported by the highest levels of city government has been integral to the success of S.M.A.R.T. Housing™. City council and the city manager’s office have made it clear that S.M.A.R.T. Housing™ is a priority in Austin, and one which is crucial to implementing an affordable housing policy.

In addition to the support of city policymakers, S.M.A.R.T. Housing™ has gained success by providing proactive development review, identifying the legitimate interests of affected neighborhoods and working with the community toward mutually acceptable outcomes, coordinating activity with other city departments, sharing responsibility with the development community, and securing broad-based funding to serve families at all income levels.

**Challenges for the Future**
S.M.A.R.T. Housing™ has proved a solid foundation for all affordable housing sanctioned by or financed through the city of Austin, and has effectively overcome challenges as they have arisen through the process.

Although S.M.A.R.T. Housing™ has been a success, it does face challenges, such as: promoting too much demand to allow full fee waivers without impacting utility rates, maintaining longer term affordability without decreasing building, serving lower income residents without increasing the concentration of poverty in traditionally low-income neighborhoods, amending local accessibility requirements that exceed national standards without “watering down” the goal of increased accessibility for people with disabilities, and recognizing that the goals of increasing density and tax base may conflict with goals of increasing housing affordability and mitigating gentrification.
I. **BACKGROUND**

A. **Economic and Demographic Profile of Austin**

During the last 50 years, Austin has grown dramatically to a population of more than 659,000 in 2003. The *Economic and Demographic Profile*, completed by Market Street Services for the Greater Austin Chamber of Commerce in 2003, cites the following trends in explaining the region’s economic and population growth between 1980 and 2000:

♦ Consistent and substantial annual increases in population and jobs;
♦ A decreasing unemployment rate;
♦ Substantially greater income on both a regional and per capita basis, as well as declining poverty; and
♦ A disproportionate share of young, well-educated adults.

The Market Street study claims notes three more recent trends that have changed that profile:

♦ **Unemployment has risen considerably.** Austin, Travis County, and the MSA have all suffered higher rates of unemployment since the recession hit in 2000, ranging from 5.7% to 6.2% in 2003.

♦ **Total work earnings and per capita income for the region have declined.** As of 1990, there was an increasing disparity between the number of people in the lowest and highest income categories. The number of households earning incomes over $50,000 grew by an overwhelming 640% between 1980 and 1990. During the same period, the number of (very) low-income households -- those earning 50% of the area’s median family income -- grew by an estimated 10 to 15%. From 1990-2000, the average weekly wages nearly doubled, while low-wage jobs grew at a rapid pace.

♦ **In-migration has leveled off, and population growth rates for the area have stabilized.** From 2000 to 2003, population numbers for the city of Austin remained relatively stable around 660,000.

B. **Defining the Affordable Housing Situation in Austin, Texas**

*Historic Precedents*

According to the HUD publication *Cityscape*, Austin was the most affordable city in the United States from 1970-1990 in per capita income compared with average rents and mortgages.

From the 1980s to the present, real estate in Austin has been characterized by cycles of high demand shifting to oversupply. Housing construction in the early- and mid-1980’s can be described as a “building boom” generated in large part by exuberant investment in new apartment construction. During the 1990s, the housing market was transformed by continuing growth, particularly with high-wage employment opportunities.

Yet, according to the 1999 *Through the Roof* report published by a broad-based coalition of the Austin community and sponsored by the Community Action Network, housing affordability in Austin had reached crisis proportion by the end of the 1990s. According to the report, the following factors contributed to the lack of affordable housing:

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♦ **Costs for construction** (financing and infrastructure/development and price/ availability of land);

♦ **Regulatory barriers**, such as compliance with environmental, land use controls and inspection and review regulations, and neighborhood opposition;

♦ **Other market forces**, such as competition and absorption rates, the developer’s need for profitability and maximizing return on investments, and the availability of qualified homebuyers and tenants.

Rapid inflation in housing costs made it more difficult for citizens in lower income brackets to buy homes. Without housing subsidy programs such as down payment assistance, below-market-rate interest, or deferred loans, first-time home buyers at or below 50% of median income found it very difficult to purchase a home in Austin in 1990 and virtually impossible in 1999.

**Components of Affordability**

Many households that have incomes below 30% of median income cannot afford average rent levels. Households at the poverty level or on public assistance have incomes at 15% to 20% of area median income, and without subsidized housing, must spend most of their incomes on housing.

In Austin, individuals and families living on public assistance have few choices. Subsidized housing is available through the Housing Authority of the City of Austin (HACA). Tenants in HACA developments pay rents of no more than 30% of their monthly income. However, time on the HACA waiting list can be as long as three years for some types of housing. Few market-rate units were available at or below $400 per month.

In 1999, families living at the poverty level needed an annual rent supplement of $6,300 to afford the average market rent for a two bedroom apartment, or $8,644 for a three bedroom apartment.

**Housing in Austin after 2000**

At present, Austin has the highest proportion of renter-occupied versus owner-occupied housing units of any metropolitan area in Texas. More than one-half of all occupied residential units (52%) in city limits are rental units.

Austin also has the highest median home value (owner-occupied housing units) in the state (see Figure 1) with a median home value of $161,616 and a median family income in the Austin MSA of $67,300.

In recent years, home builders have moved outside of the city limits into exurban areas where land prices are comparatively low. In 2003, only 25.73% of all area single family building permits were issued for homes within Austin, with the balance being homes built elsewhere in the region. Since many exurban residents commute to jobs inside Austin’s city limits, this trend increases costs to upgrade the city’s infrastructure, without a corresponding contribution to the tax base.
II. **S.M.A.R.T. Housing™: The Foundation of Austin’s Housing Strategy**

*Subsidy model to development incentive model*

Prior to implementation of S.M.A.R.T. Housing™, Austin had an active building community, but very little new residential development was affordable. The 1999 *Through the Roof* report, the Housing Market Study for the Consolidated Plan 2000-05, and community concerns regarding the lack of affordable housing served as a catalyst for change. City leaders became aware of affordable housing as a major community issue, and the city took a leadership role in creating solutions to address the problem.

As a foundation of that role, the city of Austin’s Neighborhood Housing and Community Development Department (NHCD) created a “Housing Continuum” to use as a framework for investment, to link housing programs through the community, and to assist residents in moving into the private housing market. The Continuum extends across eight categories (see below), and allows NHCD to evaluate program ability to assist residents in moving toward self-sufficiency. The Continuum also provides a framework for collaboration and partnerships. Both the quantitative analysis of Austin's housing needs and feedback from stakeholders has reinforced the fact that there are pressing needs at every level of the Continuum. It reflects the reality that the housing crisis impacts both the very poor, as well as the moderate income families.

![Median Home Value 2002 in Selected Areas](image)

*Figure 1: Median Home Value in Texas Cities, 2002*

![Existing Housing Continuum](image)

![Ideal Housing Continuum](image)

*Figure 2: Existing Housing Continuum*

*Figure 3: Ideal Housing Continuum*
The increasing lack of affordable housing made it apparent that the city needed to analyze the obstacles to building affordable housing in Austin.

NHCD began by evaluating the following barriers to affordability:

- Barriers associated with the Development Review Process;
- The lack of quality standards for affordable housing developments in Austin;
- The NIMBY phenomenon; and
- Costs of regulating housing development;

With an overarching policy framework in place and barriers identified, efforts shifted to identifying policies that could make Austin's housing more affordable for owners and renters and, at the same time, address legitimate stakeholder concerns. Following much negotiation, the NHCD defined “preferred housing” in the city and resolved that it should meet the goals listed below:

- Stimulate the production of reasonably-priced housing for low and moderate-income residents of Austin;
- Increase the standard of Austin’s housing supply;
- Improve accessibility standards;
- Improve energy efficiency; and
- Increase transit-oriented housing options

With these objectives in mind, the city of Austin created S.M.A.R.T. Housing™:

- Safe (meeting nationally recognized building code and locally approved land-use standards)
- Located in Mixed-income neighborhoods
- Accessible to people with disabilities
- Reasonably priced (serving families at 80% MFI or below who spend no more than 30% of their gross income on mortgage or rent and utilities)
- Transit-oriented (located within a specified distance of a transit stop at full occupancy)
- Meets Austin's internationally recognized Green Building standards

In this proposed initiative, the city would provide incentives for developments that would meet the above standards. Following extensive stakeholder discussions and public review, all affected boards and commissions recommended adoption of the S.M.A.R.T Housing™ policy. The city council adopted the initiative on April 20, 2000, with these additional components:

- Prepare an affordability impact statement on any proposed ordinance or rule that could impact housing affordability prior to consideration by boards, commissions, or city council;
- Identify strategies for expediting zoning changes for housing developments that meet S.M.A.R.T. Housing™ standards;
- Identify possible changes to existing regulations that could enhance S.M.A.R.T. Housing™; and
- Set aside 40% of the increased tax value on property owned by the city of Austin in 1997 that becomes available for private development.

These additional components have proven to be important to the success of this policy.
III. **Structure and Results of S.M.A.R.T. Housing™ Initiative**

A. **S.M.A.R.T. Housing™ Solutions to Regulatory Barriers**

The success of S.M.A.R.T. Housing™ stems from its shift away from strict regulatory policy and enforcement measures to incentives that encourage developers to build housing that meets the needs of the citizens of Austin. The S.M.A.R.T. Housing™ program specifically addresses regulatory barriers in the following ways:

**Barrier: Inspection/Development Review Regulation / Solution: Special Review**

Developments that meet S.M.A.R.T. Housing™ standards are eligible for special development review. The S.M.A.R.T. Housing™ Review Team is a customer-oriented, highly skilled team of reviewers that moves compliant site plan and subdivision applications through the development review process quickly. Members include representatives from Watershed Protection and Development Review, Fire, the Water Utility, and Austin Energy (the electric utility). All attend pre-submittal meetings and work to resolve issues in areas of overlapping jurisdiction.³

The S.M.A.R.T. Housing™ Review Team reduces costs through fast-track review of subdivisions and site plans, provides consistent interpretation of city codes, ordinances, and technical standards, and works to identify compliance alternatives for developments facing unanticipated challenges.

By providing advocacy, certainty and clarity throughout the development review process, the average completion time for S.M.A.R.T. Housing™ subdivision and site plan reviews has been reduced to approximately half the time of conventional reviews. The prompt turnaround for S.M.A.R.T. Housing™ applications makes this an especially attractive option for developers concerned with market pressures and seasonal building constraints:

<table>
<thead>
<tr>
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</thead>
<tbody>
<tr>
<td>Subdivision applications/site plans:</td>
<td>60 days</td>
<td>30 days</td>
</tr>
<tr>
<td>Building plans:</td>
<td>28 days</td>
<td>14 days</td>
</tr>
<tr>
<td>Residential building permit:</td>
<td>7 days</td>
<td>2 days</td>
</tr>
</tbody>
</table>

The speed of this review period, however, depends on how staff and the applicant perform. Providing corrections, responding to comments, and ultimately securing an approval in a timely manner is a responsibility that staff and the applicant’s design team share. In other words, this review team allows the city to hold the developer accountable for their response time to staff comments. This has led to a change in the culture for S.M.A.R.T. Housing™ Reviews.

³ Establishing S.M.A.R.T. Housing™ as a priority for both council and the city manager has reduced internal conflict and has institutionalized the program and process. There has not been a specific cross-training initiative across department lines other than the information sharing that occurs at pre-submittal meetings.
The special review times made available to S.M.A.R.T. Housing™ developments do not mean that projects are allowed to bypass any requirements of the Land Development Code or Building Code. On the contrary, the S.M.A.R.T. Housing Review Team rigorously reviews all developments for consistency with code requirements. When possible, staff will assist applicants in finding alternative methods of complying with code; however, none of the technical requirements of the Land Development Code or Building Code are waived.

The S.M.A.R.T. Housing™ Review Team is funded through an allocation from the NHCD. This has been very beneficial to the partnership with the Development Review Department.

Based on this team’s success, citywide changes are being made to the development process. These include site visits and pre-submittal meetings as tools to anticipate regulatory issues that the applicant may not have considered in the preliminary design.

**Barrier: Few housing units are built to environmentally-sound standards, and seldom are units accessible to the disabled and elderly / Solution: Green Building and visitability standards with options for flexibility of design.**

All S.M.A.R.T. Housing™ developments must meet city of Austin Green Building standards, but each applicant can select from a list of options to achieve a Green Building rating. Visitability standards require that all S.M.A.R.T. Housing™ single-family, duplex, and triplex construction include one accessible entrance door, but the builder can choose to locate this door on the front, rear, or side of the dwelling. While a front porch is required for single-family and duplex units, the layout of the porch is not prescribed.  

**Barrier: Conflicts and lack of communication with city departments / Solution: Staff advocacy through the process.**

The S.M.A.R.T. Housing™ initiative designates the NHCD as, the single point of contact to facilitate S.M.A.R.T. Housing™ developments. Accordingly, NHCD staff as well as the S.M.A.R.T. Housing™ Development Review Team assists builders and developers in resolving development-related issues with other city Departments. Staff is available to facilitate discussions and to find solutions; provide advocacy in zoning and variance cases; and to discuss opportunities to improve the city's Land Development Code.

The development community seeks decisions that are predictable, fair, and cost-effective. In response, the S.M.A.R.T. Housing™ Development Review Team ensures that the review process works smoothly, and provides consistent interpretations of city codes, ordinances, and technical standards.

**Barrier: Unintended regulatory barriers / Solution: Affordability Impact Analysis**

The S.M.A.R.T. Housing™ initiative also designates the NHCD as the lead agency on housing policy issues. All proposed code amendments, rule changes, neighborhood plans and changes in development

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4 "Visitable" applies to new single-family, duplexes, and triplexes that meet Austin levels of accessibility; these units are not regulated by federal law. "Accessible" means that the unit meets Austin Building Code accessibility standards for a new building with four or more units. "Adaptable" means that the unit meets the federal Fair Housing Act standards for a new building with four or more units.
fees are required to include any identified likely impacts on housing affordability. This analysis has proven beneficial in adjusting proposed policies to mitigate unintended costs to housing affordability. For example, a proposed ordinance for street connectivity between new and existing subdivisions was not approved when the potential impact on increasing housing costs was identified and alternate proposals raised safety concerns. In addition, some proposed Neighborhood Plans have created impediments to housing affordability. The Affordability Impact Analysis highlighted these impediments prior to commission or city council action, and in some cases the plans have been modified to create greater affordability.

**Barrier: Skeptical development community / Solution: Development fee waivers**

The city of Austin waives fees for developments that the Department of Neighborhood Housing and Community Development has certified as S.M.A.R.T. Housing™. It allows full or partial fee waivers for developments that make a portion of their units reasonably-priced (available to families who earn no more than 80% of median family income and who would spend no more than 30% of their family income on housing). Fee waivers for up to 1,000 living unit equivalents can be provided annually.

Developments requesting S.M.A.R.T. Housing™ incentives for four or fewer housing units are required to be 100% reasonably priced and meet all other S.M.A.R.T. Housing™ standards. Developments involving five or more housing units could receive full or partial waivers using the sliding scale listed below if all of the units meet S.M.A.R.T. Housing™ development standards. The sliding scale creates incentives for “reasonably-priced” housing while addressing neighborhood concerns that all affordable housing developments not be concentrated in one neighborhood or one part of the city.

<table>
<thead>
<tr>
<th>If a builder provides:</th>
<th>The city of Austin provides fee waivers of:</th>
</tr>
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<tbody>
<tr>
<td>10% Reasonably-Priced Units</td>
<td>25%</td>
</tr>
<tr>
<td>20% Reasonably-Priced Units</td>
<td>50%</td>
</tr>
<tr>
<td>30% Reasonably-Priced Units</td>
<td>75%</td>
</tr>
<tr>
<td>40% Reasonably-Priced Units</td>
<td>100%</td>
</tr>
</tbody>
</table>

Fees waived for S.M.A.R.T. Housing™ developments include zoning, site plan, subdivision, building permit, construction inspection, and capital recovery fees. During the first three fiscal years of S.M.A.R.T. Housing™, the city of Austin waived $3,535,018 in fees for S.M.A.R.T. Housing™ developments.

Fee losses are partially offset by property taxes from new S.M.A.R.T. Housing™ units as well as increased revenue from customers of city-owned utilities. In addition, developers who owned property outside city limits have requested voluntary annexation in order to participate in S.M.A.R.T. Housing™. To date, properties with proposed S.M.A.R.T. Housing™ developments representing 8,596 units have completed voluntary annexation. These annexed properties, which could have been remained outside of Austin, are now within city limits and contributing to the city’s tax base. Other property owners are seeking annexation for land with proposed S.M.A.R.T. Housing™ developments totaling an additional 6,286 units.

For departments, which had typically budgeted on the basis of certain revenues, this has meant a more considered review as part of the annual budget process and one related mid-year budget amendment during the past five years.
Barrier: Lack of Available Land for Housing/ Solution: Access to Surplus Property

The S.M.A.R.T. Housing™ resolution provides a public non-profit, the Austin Housing Finance Corporation, the right of first acceptance of any surplus city property to determine if S.M.A.R.T. Housing™ is a viable option for the site. By providing surplus city lands suitable for housing at below market prices, the city encourages construction of more reasonably priced homes. For example, the Oak Springs Villas senior housing development benefited from 3.3 acres of city-owned property. Completed in 2004, this S.M.A.R.T. Housing™ development includes 55 rental units for seniors of ages 62 and older with yearly incomes of no more than 50% MFI.

Barrier: Not In My Back Yard (NIMBY)/ Solution: Dialogue with Neighborhoods

Prior to S.M.A.R.T. Housing™, petitions filed by neighborhood residents were successful in thwarting zoning cases for proposed affordable housing developments. S.M.A.R.T. Housing™ policy requires that developers seeking a zoning change meet with adjacent neighborhoods and address legitimate issues before filing a zoning application. As a result of this early dialogue between developers and neighborhood groups nearly all S.M.A.R.T. Housing™ zoning cases have been successful.

S.M.A.R.T. Housing™ Benefits to All Parties

The S.M.A.R.T. Housing™ program provides incentives for high-quality, affordable units, and gives developers access to an efficient, fast, and consistent development process. In turn, developers give back to the city and the citizens of Austin as a whole. The returns are invaluable, and are present in the interactions between developers, city, and citizens:

What incentives does the city of Austin provide for developers?

♦ Fee Waivers
♦ Advocacy
♦ Special Expedited Review
♦ Clarity of Standards
♦ Identification of additional regulatory barriers

How does the city of Austin benefit from this incentive program?

♦ Housing Policy Review
♦ Access to surplus property
♦ Increased tax base
♦ Economic sustainability
♦ Enhanced building standards

And, most important, what do the citizens of Austin gain from S.M.A.R.T. Housing™?

♦ Higher quality housing meeting safety standards
♦ Accessibility for people with disabilities

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5 Surplus property is offered to our department for purposes of constructing affordable housing. Some of this property may not be suitable for housing and is not transferred. Surplus city property can be used to underwrite affordability goals (capturing 40% of the increase in property tax revenue on formerly unimproved city land) by negotiating long term leases with non-profit organizations and reducing costs associated with taxes and land acquisition. Property not transferred may be sold for private development.
Larger supply of affordable homes and rental units
♦ Housing units that meet City of Austin Green Building standards
♦ New homes located close to transit stops

B. Implications of the S.M.A.R.T. Housing™ Initiative for the City of Austin

Economic Impacts of Housing Construction
S.M.A.R.T. Housing™ encourages developers to provide a percentage of reasonably-priced housing by offering development fee waivers, special development review times, and advocacy. While the initial benefit is directed to the developer, the ultimate benefit goes to the families that move into this housing, the neighborhoods in which it is built, and to the city of Austin as a whole. High quality, reasonably priced housing - both for homeownership and rental - has a major impact on the social and economic health of a city. According to the National Association of Home Builders, the impact of reasonably priced housing is considerable:

1,000 single-family homes generate:
2,448 fulltime jobs in construction & related industries\(^6\)
$79.4 million in wages; and
$42.5 million in federal, state, local revenues and fees.

1,000 multifamily units generate:
1,030 fulltime jobs in construction & related industries;
$33.5 million in wages; and
$17.8 million in federal, state, local revenues and fees.

The program’s first year goal was to certify 600 units for participation in the fee waiver program. This goal was more than achieved, surprising even the building community, with 6,000 units requesting certification. To date, more than 26,000 units have been S.M.A.R.T. Housing™ certified\(^7\).

Certified units to date:
26,299
Single Family certified:
14,564
Multi-Family certified:
11,735
Reasonably Priced certified:
13,611 (52%)

If all of the 14,564 single-family S.M.A.R.T. Housing™ certified units were to be built out, the impact on the economy would be:
♦ 35,496 full-time jobs in construction-related industries created;
♦ $1.2 billion in wages earned; and
♦ $616 million in combined federal, state and local revenues.

If all of the 11,735 multi-family S.M.A.R.T. Housing™ certified units were to be built out, the impact on the economy would be:

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\(^6\) All full-time construction job figures shown are for one year. Thus, if 1,000 homes generate 2,448 jobs, and these homes are built over a period of 10 years, they will generate 249 jobs per year.

\(^7\) S.M.A.R.T. Housing™ Certified means that the Builder/Developer has agreed to provide a percentage of the residential units to families at or below 80% median family income and meet all design requirements on all of the units. The developer is then authorized to enter the zoning or plan review process and eligible to receive fee waivers.
♦ 12,051 full-time jobs in construction-related industries created;
♦ $392 million in wages earned; and
♦ $208 million in combined federal, state and local revenues.

Benefits to the Homebuyer and Renter

More Affordable Housing and Housing Choice: S.M.A.R.T. Housing™ developments provide a broad array of affordable housing choices, including single-family infill, new subdivisions, and multi-family apartments and condominiums. Currently, the first S.M.A.R.T. Housing™ live-work development has been completed and other mixed-use developments are preparing to enter the development review process.

Higher Quality Housing: Safe, Energy Efficient, Transit Oriented and Accessible: While not all of the units in any given S.M.A.R.T. Housing™ development are required to be affordable, all units are required to meet transit-oriented, Green Building, and accessibility or visitability standards that exceed city of Austin code standards. This results in new dwelling units that are more energy efficient, accessible, and located close to transit service.

Prior to S.M.A.R.T. Housing™, Austin adopted the 1998 Visitability Ordinance, which required any single-family, duplex or triplex units receiving city assistance to be visitable to persons in a wheelchair. From 1998 to 2000, this ordinance alone only yielded 125 visitable units city-wide. However, since the inception of S.M.A.R.T. Housing™, builders have produced 1,431 visitable single-family units.

Similarly, S.M.A.R.T. Housing™ multi-family developments must provide at least 10% accessible or adaptable units, regardless of whether or not all units are reasonably priced. This percentage exceeds the building code of 2% accessible or adaptable units.

C. Production Results of the S.M.A.R.T. Housing™ Initiative

In the first six months of 2000, prior to the implementation of S.M.A.R.T. Housing™, 1,600 building permits for new single-family homes were issued in the city of Austin. Of those 1,600 permits, only 44 were for houses under 1,400 square feet (an indicator of affordability). Of the 44 houses assumed to be affordable, 27 (or 61%) were funded by the City of Austin.8

Since implementation, S.M.A.R.T. Housing™ permits have increased from 10% of all single-family permits issued in 2001 to 21% of all single-family permits issued in 2004, as shown in the table below.

<table>
<thead>
<tr>
<th>S.M.A.R.T. Housing™ Permits as a Percentage of citywide Permits</th>
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</thead>
<tbody>
<tr>
<td>Calendar Year</td>
</tr>
<tr>
<td>Citywide Building Permits Issued for Single Family Residences</td>
</tr>
<tr>
<td>Building Permits Issued for S.M.A.R.T. Housing™ Single Family Residences</td>
</tr>
<tr>
<td>S.M.A.R.T. Housing™ Building Permits for Single Family Residences as a Percent of Total</td>
</tr>
</tbody>
</table>

8 Watershed Protection Development Review Department, Building Permit data.
The goal of the program is to achieve the target of 40% of the units serving families at 80% MFI or below. Again, the program has surpassed that goal, attaining lower median family incomes and higher percentages of affordable units. As for affordability, S.M.A.R.T. Housing™ has shown remarkable results:

- 78% of completed S.M.A.R.T. Housing™ units are reasonably priced (i.e. serving families at or below 80% MFI). Of these units:
  - 39% of completed, reasonably-priced S.M.A.R.T. Housing™ homeownership units serve families at or below 60% MFI; and
  - 88 percent of completed, reasonably-priced S.M.A.R.T. Housing™ rental units serve families at or below 60% MFI.

Experience has shown that, when a builder/developer signs a contract to be to rent or sell 40% of the units in a new development to households at the 80% MFI level, the development generally exceeds these targets both in terms of the percentage of affordable units and the MFI levels served. The affordability levels achieved are not due to S.M.A.R.T. Housing™ alone, however. Many of these results are possible because of other funding sources attached to these developments, particularly in the multi-family developments. The following table shows the breakdown of income levels served by completed S.M.A.R.T. Housing™ units, and the percentage of units in each category:

<table>
<thead>
<tr>
<th>Total Reasonably-Priced Units by MFI Served</th>
<th>FY 2000-2001 through FY 2003-2004</th>
</tr>
</thead>
<tbody>
<tr>
<td>Median Family Income</td>
<td>0-30%</td>
</tr>
<tr>
<td>Homeownership</td>
<td>2.3%</td>
</tr>
<tr>
<td>Rental</td>
<td>5.2%</td>
</tr>
</tbody>
</table>

S.M.A.R.T. Housing™ production continues to increase annually, particularly in single-family construction. While the volume of new multi-family certified and completed developments has been subject to periodic market fluctuations, certifications for single-family subdivisions have continued to increase dramatically.

Completed units to date: 4,948
Single Family completed units: 1,431
Multi-Family completed units: 3,517
Reasonably Priced completed units: 3,856 (78%)
The success of S.M.A.R.T. Housing™ is readily seen in aggregate production values, as the bar graph below demonstrates.

KB Home, which has partnered with American CityVista, is one of the national volume builders participating in S.M.A.R.T. Housing™ since 2000. The graph below shows one example of the success of the S.M.A.R.T. Housing™ program. Each year, the number of affordable units in KB Home / American CityVista subdivisions has increased, with a higher percentage of homes sold to families at lower income levels.
In short, S.M.A.R.T. Housing™ incentives have yielded surprising results, both in terms of the number of developments participating in the program, and the number of completed units. More striking are the MFI levels of home sales achieved by single-family volume builders, even in the absence of subsidies, as well as the overall percentage (79%) of reasonably-priced completed units.

It is important to note that those S.M.A.R.T. Housing™ multi-family developments serving families at or below 60% MFI did require subsidies such as state low-income housing tax credits, CDBG or HOME funding, or other federal loans and grants. Future S.M.A.R.T. Housing™ multi-family developments serving these lower income levels are also likely to require subsidies, especially as costs for construction and land continue to rise.

IV. KEYS TO SUCCESS

Several factors have been critical to the success of S.M.A.R.T. Housing™ in Austin, and are relevant to other jurisdictions considering the establishment of a similar initiative. During the course of developing and implementing S.M.A.R.T. Housing™ in Austin, staff has learned valuable lessons about several vital features of the program.

City Council and Executive Buy-In: Getting departments to work together on an affordable housing initiative may be a difficult task. The different departments involved may have conflicting goals and missions. The key to the success of the program has been the face-to-face problem solving of the staff, supported by the highest level of city government. The city manager established an interdepartmental team to identify reasonable review times based on requiring applicants to attend pre-submittal meetings; requiring complete plans without variance requests; and timely applicant re-submittal of corrected plans.9

In Austin, the city council has made it clear that S.M.A.R.T. Housing™ is a city priority. This attitude is reflected in council’s adoption of additional funding sources for housing development, and in its affirmative votes for S.M.A.R.T. Housing™ zoning cases. Nothing is more crucial to implementation of an affordable housing policy than the support of city management. When the city manager’s office clearly communicates to departments that affordable housing is a high-priority, department directors understand they have a role in achieving this objective.

Proactive Problem-Solving Development Review: Providing proactive problem-solving development review is an important component to having a successful program. This reduces costs through fast-track review of subdivisions and site plans, and provides consistent interpretation of city codes, ordinances, and technical standards. In Austin, the S.M.A.R.T. Housing™ Review Team works to identify compliance alternatives for those developments facing unanticipated challenges.

Providing greater certainty in the development process can reduce risks, save valuable time, and reduce the financing necessary for development. The S.M.A.R.T. Housing™ review process includes communication with applicants when a development proposal is at a very preliminary stage. This early communication enables staff to provide up-front information about the potential hurdles a development might face, and alerts applicants to any lengthy approvals needed – such as a variance or a service extension request. The S.M.A.R.T. Housing™ Development Review Team ensures that the review process works smoothly, and provides consistent interpretation of city codes, ordinances, and technical standards.

9 Variances are allowed but are discouraged. Fast track review does not begin until the outcome of the zoning change or variance is known.
Identify Legitimate Interests of the Neighborhoods to Avoid NIMBY: Neighborhoods have a legitimate right to be concerned about the potential impact of nearby developments. Issues of traffic, safety, management of rental properties, school capacity and environmental impact can be legitimate issues. However, neighborhood stakeholders do not have the right to violate Fair Housing Laws by attempting to dictate who lives in their neighborhood. By working with neighborhoods early in the development process and hearing their legitimate concerns, staff can ensure that a development will have a minimal negative impact and that most NIMBY issues can be resolved.

Interdepartmental Cooperation: Because so many departments are involved in site plan and subdivision review, interdepartmental and cooperation is crucial. In Austin, Housing staff coordinate closely with staff from other departments, including: Planning, the Water/Wastewater Utility, Austin Energy (the electric utility), Public Works, and Development Review. Each department has at least one single point of contact who will respond quickly to Housing staff. Additionally, Housing staff works as needed with external organizations such as the School District and with Capital Metro (the transit authority).

Shared responsibility with the development community: When the city commits to providing faster review for S.M.A.R.T. Housing™ developments, it is crucial for staff to fulfill this pledge. If this is done successfully, more builders will participate. It is also crucial to create a new sense of shared responsibility with the development community. For this reason, S.M.A.R.T. Housing™ emphasizes that a successful site plan review or subdivision review depends on the the performance of the applicant’s design team as well as the performance of the staff. The applicant’s engineers need to provide complete submittals and respond to staff’s comments in a timely manner. In S.M.A.R.T. Housing™, special review times will not be available if the applicant fails to respond in a timely manner to city review comments. In addition, it is imperative that if standards are not met, fees must be repaid to the city.

Commitment to Affordability: Financial resources from both the public and private sectors are required to achieve desired results for affordability. Creative and substantial financing mechanisms to be explored should include direct subsidies through low interest loans or tax credits, cost sharing on infrastructure, density bonuses, bond financing, and tax increment financing. Staff must be encouraged to be creative in seeking partnerships, policy incentives and other financing mechanisms.

Broad Funding for Program: Finally, a successful affordable housing strategy must include a commitment to serve people at all income levels. Some critics and advocates will maintain that housing policy should focus on very low-income families. The S.M.A.R.T. Housing™ Policy must be seen as the foundation of the housing policy that includes other federally and non-federally funded housing programs. The city of Austin has demonstrated its commitment in the form of General Fund commitments to support housing developments and the S.M.A.R.T. Housing™ Initiative.10

V. CHALLENGES FOR THE FUTURE

Enhancing the S.M.A.R.T. Housing™ Model
Since its inception, S.M.A.R.T. Housing™ has been a solid foundation for all affordable housing sanctioned by or financed through the city of Austin and the Austin Housing Finance Corporation. It is not the primary source of funding that creates the affordability, but it is a minimal standard by which public benefits can be identified and supported.

10 S.M.A.R.T. Housing™ staff and the Review team staff salaries are paid by general fund dollars. In addition general fund dollars are provided for affordable housing construction activities in our S.M.A.R.T. Housing™ CIP budget.
Recently, the city has enhanced the S.M.A.R.T. Housing™ Model with two additional models that essentially include the use of a modified density bonus and a modified form of voluntary inclusionary zoning. Both of these models can be used to address some of the challenges faced in the limitations of the policy as it exists currently, particularly in areas of the city where few S.M.A.R.T. Housing™ units were built in the past five years.

Although S.M.A.R.T. Housing™ has been a success, it also has its critics and its ongoing challenges.

1. Too much demand to allow full fee waivers without impacting utility rates.
2. Maintaining longer term affordability on Housing without decreasing builder participation
3. Serving lower income residents without increasing the concentration of poverty in traditionally low-income neighborhoods
4. Amending local accessibility requirements that exceed national standards without “watering down” the goal of increased accessibility for people with disabilities
5. Recognizing that the goals of increasing density and tax base may conflict with goals of increasing housing affordability and mitigating gentrification

Certain geographic areas have not experienced affordable housing development in the past decade and that has not changed with S.M.A.R.T. Housing™.

Certain land use and building regulations that were not evident as impediments to housing affordability have emerged as barriers as more builders consider developing under S.M.A.R.T. Housing™. The high costs associated with surface or garage parking have been identified by many prospective S.M.A.R.T. Housing™ builders. This cost issue must be balanced with the neighborhood concerns about too many cars on the street.

Some critics contend that increasing housing production in neighborhoods close to downtown will raise appraisals and associated property taxes, driving long-time residents out of their neighborhoods. These are challenges in identifying how S.M.A.R.T. Housing™ policies can mitigate rather than exacerbate the gentrification pressures that already exist in neighborhoods located close to downtown.

Finally, there is recognition that the housing affordability policy needs to be re-examined in light of changing market conditions. Changes in rental occupancy rates and mortgage interest rates may cause priorities to shift rapidly to address the gap that the market is not addressing.

VI. How to Implement a S.M.A.R.T. Housing™ Program in Your Community

1. Assess needs. The first step to developing a program similar to S.M.A.R.T. Housing™ is to identify the housing needs in your community, working with all stakeholders in the community (policymakers; staff; non-profit and for-profit builders; low-income housing advocates; business, neighborhood, and environmental leaders; and tenant organizations).
   - What income levels are not being served by the housing market?
   - Are both rental and homeownership units needed?
   - Are both rehabilitation and new construction needed?

2. Define “preferred housing”. Next, decide what kind of housing your jurisdiction wants to attract. In Austin, the desired features identified were Safety, Mixed-income development, Accessibility / visitability, Reasonably-priced housing, Transit-Oriented design, and Green Building.
   - What are the affordability targets?
   - Are there special design or construction features that are desired?
3. **Recognize the barriers.** Having established that affordable housing is an issue and having identified the characteristics of “preferred housing,” the next task is to identify barriers to the construction (or rehabilitation) of affordable housing. Discussions with builders and developers (both for-profit and non-profit) will be helpful.
   ♦ Why isn’t the market producing affordable housing?
   ♦ Is vacant land available to builders at affordable prices?
   ♦ Do neighborhoods consistently oppose the rezoning of available vacant land allow for housing construction at sufficient densities?
   ♦ Do any of the jurisdiction’s policies or practices inadvertently hamper affordable housing construction?

4. **Identify solutions.** Once the impediments to affordable housing are understood, determine what solutions are available. For example, Austin chose to provide fee waivers and special review times for developments meeting the “preferred housing” standards of S.M.A.R.T. Housing™. Making these solutions a reality required the establishment of a special development review team to focus exclusively on S.M.A.R.T. Housing™ single-family subdivisions and multi-family site plans.
   ♦ What benefits can the jurisdiction provide?
   ♦ What federal and non-federal funding resources are available?
   ♦ Do the jurisdictions have other initiatives it would be logical to pair with? (For example, a program to incentivize infill development).
   ♦ Are there external organizations to partner with? (For example, a city might partner with a surrounding county, a Housing Authority, or a neighborhood-based housing development non-profit.)

5. **Secure formal approvals.** When the jurisdiction has identified a package of solutions, it may be necessary to secure approvals by boards and commissions to formalize the housing initiative. Also, adoption by ordinance or resolution can give the initiative more clout. A formal approval of the initiative at a public meeting provides an opportunity for commissioners or council members to demonstrate their support for affordable housing.
   ♦ Were board and commission members kept informed about the development of the initiative from the beginning?
   ♦ Have other departments and upper-level management such as the city manager signed off, and are the proposals ready for board/commission approvals?
   ♦ Is public opposition expected?
   ♦ Following approval, when will the program have budget authority?

6. **Implement the initiative.** Support from high-level staff such as the city manager and the head of the Budget Office will be crucial in implementing any incentive programs and/or organizational changes. Establish an inter-departmental team, including a Single Point of Contact (SPOC) from all affected departments.
   ♦ What departments affect the development review process?

7. **Monitor for compliance.** If any public dollars go into developments, you will want to ensure that the jurisdiction is reaping the appropriate public benefits – and meeting any applicable state or federal requirements.
   ♦ How often should monitoring for income compliance take place?
   ♦ Are legal controls (e.g. deed restrictions) necessary to ensure long-term affordability?
   ♦ Are any special inspections required during the construction phase?
8. **Track your progress and tell your story.** Make sure that public officials and the media know about your successes. Groundbreakings, ribbon cuttings, and press releases are a great way to highlight projects. Keep track of vital statistics.
   ♦ *How many units has your program helped to create?*
   ♦ *What income levels do your units serve?*
   ♦ *What were production levels of affordable units before your program began?*

9. **Update the program.** On an ongoing basis, identify improvements to the housing policy and needed changes to the development process, zoning and subdivision codes, etc. In the third year of S.M.A.R.T. Housing™, Austin made changes to single-family affordability periods and to the Visitability Ordinance; changed the process for submitting S.M.A.R.T. Housing™ building permits; and adopted code amendments to facilitate the development of small-lot subdivisions.
GROUP DISCUSSION EXERCISES

1. Identify regulatory barriers that exist in your local community that contribute to the lack of affordable housing.

2. Identify causes of the affordable housing crisis in your communities.

3. Define public benefits of housing development that would be appropriate for your community.

4. With those at your table taking the viewpoints of a central city, inner ring suburbs, and outer/agricultural cities and counties, discuss ways in which you could work together to encourage SMART, affordable development to serve all your current and future residents. How might incentives or affordability strategies cross jurisdiction boundaries?

5. In built-out/landlocked communities, opportunities for new affordable housing, or any infill development, can be limited. What opportunities might you explore to implement a S.M.A.R.T. Housing™ program in such an environment?