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Public Notice: Department of Unintended Consequences

Could the new land development code actually make Austin less affordable?

BY NICK BARBARO, JANUARY 24, 2020, NEWS

In the ongoing debate about Austin's Land Development Code rewrite, there's usually a point when someone says, "Well, we can't wait any longer – we've got to do something." Unfortunately, this ignores the very real possibility that – in its haste to put this whole mess behind them – City Council could actually make things *worse*, especially when it comes to affordability.

Pretty much everything about the new code will be a boon to landowners, developers, and wealthier residents. But the current draft stands to leave lower income residents, especially renters, more screwed than they already are. Given that Austin is now ranked second in the entire country for the number of new multifamily housing permits being issued (per a recent report by RealPage, a global provider of software and data analytics for the real estate industry), there's clearly enough breathing room to get this rewrite right. So let's review some basic facts:

- **You can't build your way to affordability in a hot market.** Supply/demand theory only works if demand is fixed – not the case in today's Austin where more newcomers arrive every day. Moreover, for-profit developers are – hello! – profit-driven. If rents or purchase prices start to flatten, they'll simply stop building.
- **Density doesn't equal affordability.** Areas of Austin that have already seen big increases in density have also seen big increases in rents. Moreover, consultants have been unable to point to a single growing city in the U.S. where the kind of upzonings proposed by the new code have actually resulted in greater affordability.
- **Upzonings will increase sales prices and rents.** Financial analysts and real estate professionals estimate that the proposed increases in entitlements in the new RM1 zoning, for example, will cause valuations in central neighborhoods to increase by 50%-70% for the land alone, meaning sales prices and rents will follow. In theory, homeowners could add an income-producing second unit if they had \$150,000-250,000 on hand, could wait years to recoup their investment, and didn't mind losing a chunk of their homestead exemption for the portion of their property that now contains a rental unit. In practice, they'd likely be better off selling to a developer and moving to Pflugerville or beyond. Renters, of course, will be displaced without any such payout.
- **New entitlements will incentivize demolitions of existing market-affordable housing (and small retail spaces, as well).** Paradoxically, the proposed new entitlements risk destroying much of the market-affordable "missing middle" housing that already exists in the same areas targeted for upzonings under the new map. These include garage apartments, duplexes, and complexes under five units – all too small to have been counted in the

city's effort to retain market-affordable rentals, which only looked at complexes of five units or more. According to real estate number crunchers, a new 1,000-square-foot missing middle unit in these same areas will cost roughly \$3,000 a month – only "affordable" if you're a family of three making \$120,000 a year.

- **Financial impacts will hit longtime residents and renters in older neighborhoods the hardest.** The financial impacts of proposed upzonings will be felt most acutely by those living on or near corridors, which are concentrated in Austin's older central and central east neighborhoods. Until the last tech boom, these were not generally wealthy areas, and many longtime residents already struggle with rising property taxes or rent. As is often noted, homeowners always have the option to sell, though it means an agonizing decision to leave behind friends, family, and a community they helped build. Again, the many renters in these areas will have no such recourse.

- **Upzonings favor corporate and absentee investors.** The increases in land valuations, property taxes, and rent will shift development opportunities from homeowners and small local developers to large corporate investors (few prospective homeowners are in a position to outbid your average oligarch). As more land is sold to speculators, more wealth leaves our community, leaving fewer residents with the chance to build equity through homeownership. As Planning Commissioner Carmen Llanes-Pulido recently noted, tools do exist to capture some of this transfer of wealth for local benefit, such as California's tax on outside investors, but City Council would need to build in reasonable time – say, six months – to explore these options and apply them *before* the rezonings.

Finally, even if we set aside affordability issues and focus only on increasing the number of housing units, the draft map disproportionately concentrates these in central and central east neighborhoods, utterly failing to meet Imagine Austin's goal of creating complete communities throughout the city. Nor does it achieve the current Council's directive to prioritize "all types of housing for all kinds of people in all parts of town." Instead, it simply seeks to increase the number of people and vehicles pouring into existing bottlenecks, and ignores the fact that many major employers – such as the huge new Apple campus – are located well outside the urban core.

Arguably, the real root of Austin's housing woes is the state's heinously regressive tax structure, an issue beyond city control and one with no fix in sight. Still, Council could take some actions to ensure that the new code at least doesn't make things worse for those already struggling. These might include establishing an emergency task force to determine economic and tax impacts of proposed rezonings before enacting the new code; exploring ways to capture outside investment for local benefit; tying strong affordability requirements to any increase in entitlements over current zoning; and allowing time to better plan transition areas to ensure we keep all existing market-affordable units – especially the existing missing middle – and not just the big complexes. Finally, and most important, we need to map an equitable amount of new housing capacity throughout the city, including the so-called high-opportunity areas in the west and northwest Council districts.

It's true we've got to do something, if only to put this shit show to rest. But let's take the time to make sure we're actually making things better, not worse.

Supplemental Staff Report 3

This all becomes relevant this week as City Council starts to get a look at parts of the newest draft of the LDC rewrite, the one they'll consider and presumably vote on upon second reading in a couple more weeks. That's

precious little time for anyone to consider what is intended to be the **last major round of revisions** before a final draft is prepared for Council's approval as soon as late March. At their work session this week, Council got a staff briefing on that schedule and spent about 10 minutes talking about how they're going to manage their time. Here are some highlights:

- Supplemental Staff Report 3 will "be out in the next couple weeks so you all can see the response to all those amendments" that Council directed at first reading in December.
- Staff is still "working toward completing **the new map**," but is scheduling Council members "to come look at a preview of that map" in 45-minute blocks this Friday, Jan. 24.
- Staff will present **an overview of the supplemental report** to the Council's Housing and Planning Committee this coming Tuesday, Jan. 28, 10am-noon.
- At **two special called Council work sessions** Feb. 4-5, staff will present deep dives on the Affordable Housing Bonus Program, Housing Capacity, and "the new map, which is going to look significantly different after the amendments you made at first reading" (Tuesday, 1pm); and zone modeling/rendering, the Preservation Incentive, and changes to floor/area ratio, impervious cover, and other non-zoning regs (Wednesday, 9am).
- **Second-reading votes** are tentatively scheduled for Tue.-Thu., Feb. 11-13, though there was some waffling about times and discussion on how to work around preexisting meetings.

"**Our Community, Our Voice: Photographs from *The Villager Newspaper***" is the new exhibit at the **Austin History Center**, "illustrating the vibrancy of Austin's Black population" through 46 years of photos from the East Austin weekly newspaper. Opening reception Thursday, Jan. 30, 6:30-8:00pm at the AHC, 810 Guadalupe.

That's also the first day of **Growing Your Roots 2020: The Inaugural African American Genealogy Conference of Austin, Texas**, a free four-day conference hosted in the state Capitol by the AHC: speakers, panels, workshops, exhibitions, and more. Free, but register at library.austintexas.gov/ahc/growingyourroots.

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