

MULTIFAMILY DEVELOPMENT'S FUTURE

Factors — both local and national — are forcing changes in apartment development.

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Several national and local factors are simultaneously coalescing — forcing changes in the way housing in general, and apartments in particular, are developed, as the economy emerges from the current recession and development resurges. The good news is that multifamily will likely be one of the first types of new construction to emerge after the downturn, but demographic shifts, congestion and air pollution concerns, changing economic norms, and new national policies will force the development community to rethink the apartments that are built in 2010 and beyond.

A changing demographic in Texas, composed increasingly of Millennial generation singles, vibrant empty nest-

ers, immigrants and retirees — and less of married couples with children — is looking for new housing choices. These groups place a greater emphasis on diversity, place, community and sustainability. The suburbs are mainly attractive to young families with children, but whereas 50 percent of households in the 1950s had children, today only 33 percent contain children and, more importantly, only 12 percent of new households over the next 20 years will have children.

Pollution, global warming and traffic congestion have become significant problems in Texas' major cities. Residential buildings account for 20 percent of carbon emissions and transportation counts for one-third of carbon

emissions. Texas is projected to grow by 50 percent in the next 25 years and to double in population by 2050. Traffic and air quality will drastically deteriorate if we continue our prior development trends of expanding metro areas into farther flung suburbs and exurbs, and we simply cannot afford the low density infrastructure necessary to support this sprawl. Already, the average employee in the United States spends more than an entire work week per year stuck in traffic. Traffic congestion puts a huge burden on our nation's economy, draining \$78 billion in production annually through 4.2 billion lost hours and 2.9 billion gallons of wasted fuel, according to the Texas Transportation Institute.

Most economists are saying that after we recover from the recession, household savings in the United States will increase dramatically. Oil is again hovering around \$70 a barrel and as the economy improves will likely soar back to \$80 to \$100 a barrel. With the combined housing and transportation costs in America accounting for close to 60 percent of average household income, renters will be looking for ways to save on both housing and transportation costs. Although there will continue to be a market for \$1.60/square foot and up rents in the "higher rent districts" around the urban core, the post-recession changing economic realities will highlight the need for more affordable workforce housing that is also close to transit-nodes, allowing the vast entry-level employee base and middle class to also enjoy the reduced housing/transportation benefits of urban living.

In the face of these challenges, HUD, DOT and EPA have announced a joint program to bring federal housing, transportation, and infrastructure

The average American household now spends 34 percent of their annual budget on housing and 18 percent on transportation — the combined total of 52 percent of their budgets wrapped up in these two largest expenses. For low-income working families, the impact is more serious — with transportation representing almost a third of their costs.

The extremes can be eye-opening — the average Houston-area household spends over \$11,000 per year on transportation.

investments together in an integrated manner. In announcing the program, HUD Secretary Shaun Donovan said that “designing communities so people have the option to drive less and have shorter commutes to work, shopping and recreation, is not just good for the environment; it also improves quality of life. We must recreate the linkage between housing and transportation planning and support development of new land use and zoning plans that think forward to long-term sustainable communities.”

One of the express goals of this new joint program is to expand location and energy-efficient housing choices for people of all ages, incomes, races and ethnicities to increase mobility and lower the combined cost of housing and transportation. HUD and other federal agencies are some of the few “lenders” available for multifamily housing in the current economic climate, and the new administration has clearly indicated that federal financing for housing going forward is going to put the “UD” (urban development) back in HUD, examining regional sustainability as a factor.

Although suburban residential development will continue, these federal initiatives and the combined effects of Texas’ future growth and the resulting impact on traffic congestion and pollution, along with higher savings rates and changing market demographics, will cause multifamily development to occur in the urban core and inner-tier suburbs with shorter drivable commutes and locations along mass transit nodes.

Creating suburban density along mass transit lines will necessitate changes to our “not-in-my-backyard” aversion to density and mixed-income/mixed-use housing, and developers will need to engage the community earlier and more often than ever before. Residents frequently fear that transit-oriented development will take away from the character of their community, create traffic congestion and, particularly with affordable housing components, lower property values.

City officials and politicians will need to promote new zoning concepts like transit-zoning and form-based codes versus traditional Euclidean zoning, to allow density to occur in transit areas. Developers, cities and transit agencies must promote the benefits of transit-oriented development, including more housing choices, lower combined housing/transportation costs, less congestion/shorter commutes, and better air quality, as well as the opportunities to revitalize underutilized industrial property along rail tracks.

Cities, transit agencies and developers will also need to work more closely in a cramped lending environment to promote transit-adjacent development. Frequently, land costs and the need for structured parking and retail components, along with environmental and market factors involved in redevelopment of industrial areas along rail lines, make mixed-use/mixed-income apartments more expensive and require higher equity components than the financing markets will bear, necessitating public financing of a portion of the project’s capital stack. Apartment

developers and cities will increasingly turn to the alphabet soup of TIFs (tax increment financing districts), NEZs (neighborhood empowerment zones), MMDs (municipal management districts), Chapter 380 loans or grants, tax abatements, ground leases and other public/private resources to assist in financing these developments.

With Texas likely to lead the nation in population and employment growth over the next 20 to 30 years, Texas’ development challenge is to arrive at a more holistic understanding of and commitment to building housing closer to employment centers and along transit-lines/corridors, promoting urban “infill” growth and denser suburban growth in ways that minimize auto dependency, conserve land and energy and improve the environment. The Texas multifamily real estate community has always shown incredible creativity and leadership, and it will adapt to meet the needs arising from these new demographic, economic and environmental factors.

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