San Antonio Express-News

‘Affordable’ housing at issue

City nonprofit’s deal with developer drawing questions

BY RICHARD WEBNER STAFF WRITER

As San Antonio struggles with a shortage of affordable housing, a city nonprofit is teaming with national developer NRP Group to build apartment complexes with half their units reserved for residents who make less than the local median wage.

But those complexes, created under a complicated new deal structure, would deprive the city, county and local school districts of tens of millions of dollars in property tax revenue in coming decades, according to interviews and an analysis of land records.

And in some cases, it’s unclear whether they truly will be affordable.

The San Antonio Housing Trust Public Facility Corp., a nonprofit created by the city in 2009 and overseen by five City Council members, is stepping up its use of the deal structure.

The deals work like this: The city nonprofit buys the land the complexes are built on, so they’re exempt from property taxes under state law. The developer also doesn’t have to pay sales taxes on purchases made for their construction.

In return, the developer agrees to rent half the units to tenants making up to 80 percent of San Antonio’s median household income, or about $49,000 a year.

The city nonprofit owns a small share of the complexes — 15 percent, in the case of a $57 million project planned at Broadway and Jones Avenue, which will have 284 units with rents ranging between $1,025 for a one-bedroom up to $2,900 for a two-bedroom penthouse, said Dan Markson, NRP’s senior vice president of development.

He pointed out that no affordable housing has been built along the Broadway corridor.

“The downtowns all over Texas gentrified so fast that people’s heads are spinning,” he said. “What we want to make sure of is that our neighborhoods are diverse on income levels. … It’s not going to happen without public-private partnerships.”

The deal structure was used to build a complex near Morgan’s Wonderland that opened in June, and for four other complexes either planned or under construction, including the Broadway project, said Jim Plummer, an attorney for the city nonprofit.

The five complexes will include 1,475 apartment units altogether, half of them reserved for residents with below-median incomes, he said.

Each complex will deprive the city of an estimated $15 million in property taxes in the long term, Plummer said. The city nonprofit is expected to make back more than that through its partial ownership, he said.

He couldn't say how much property tax revenue will be lost by the county, school districts and other entities.

The deals require the approval of the five City Council members on the city nonprofit's board, but not the council itself, Plummer said.

Supporters of the deal structure say it creates affordable housing and allows developers to build complexes in parts of the city where they wouldn't make financial sense otherwise.

"We have seen a decline in federal resources in affordable housing, so communities have to be a little bit more creative in how we create affordable housing," said Verónica Soto, director of the city's Neighborhood and Housing Services Department.

But others doubt whether the apartments really are affordable.

Austin Investor Interests, a firm that analyzes the local multifamily market, only calls a complex affordable if at least half the units are rented by a household making no more than 60 percent of the local median income, or around $37,000, said Robin Davis, the firm's manager.

"It is my opinion that 80 percent (of the local median income) is not affordable," she said.

The Department of Housing and Urban Development defines low-income families as those making no more than 80 percent of the local median income per year. Developers receiving federal tax credits for affordable housing must set aside a portion of their units for renters making 60 percent, at the most, of the local median income.

Some of the deals reached by the city nonprofit limit rents in the complexes to 30 percent of the income of the low-income renters — the federal government's standard for affordability — but others do not, Plummer said. That means the developers can charge any rents they want as long as they rent to tenants making no more than 80 percent of the median income.

NRP Group's role

The city nonprofit and NRP Group, a Cleveland-based company that is one of the most active multifamily builders in San Antonio, came up with the idea for the deal structure as a way to solve the problem of a lack of market-rate apartments in some local neighborhoods, Plummer said. It first was used to build Cevallos Lofts in South-town in 2012.

NRP Group has been involved in every complex built so far through the city nonprofit.

The nonprofit pays Plummer to make recommendations on deals to pursue — District 1 City Councilman Roberto Treviño called him the nonprofit's "financial guy."

NRP also has paid him for legal work on a few matters, such as an apartment complex it plans to build at Hemisfair, but never for a city nonprofit deal, Plummer said.

"I don't normally work for" NRP, he said. "I might do a one-off here and there to help them."

The deal structure was pioneered in San Antonio, but NRP and other developers have approached municipalities all over Texas that either are starting to use it or are considering it, including Boerne, Houston, Dallas, Fort Worth, Burleson and Garland, Plummer said.

As the municipalities set up their own nonprofits, they often hire Plummer because of his experience, he said. The nonprofits then pay him for the work, he said.

Treviño, who is on the nonprofit's board, said board members try to space the complexes throughout the city to prevent too much property tax from being drained from any particular area.

The nonprofit uses the revenue it collects from its partial ownership of the complexes for services such as a $1.25 million roof repair program that has fixed about 150 roofs so far, he said.

"It's a win-win — we develop more affordable projects, we build revenue in the accounts," he said.

"Missing middle"

The complexes created through the city nonprofit's deals serve the "missing middle" — residents such as teachers, police officers and firefighters who might struggle to find cheap housing but aren't helped by other government programs, Markson said.

He pointed out that no affordable housing has been built along the Broadway corridor, which has filled up with luxury apartment complexes recently.

"The downtowns all over Texas gentrified so fast that people's heads are spinning," he said. "What we want to make sure of is that our neighborhoods are diverse on income levels. … It's not going to happen without public-private partnerships."

The new deal structure comes as Mayor Ron Nirenberg shifts the focus of the city's housing policy to affordability. Earlier this month, the City Council voted to halt an incentive program for downtown housing that has spawned numerous luxury complexes.

It's likely the Housing Policy Task Force he created in August will study the deals as it researches possible changes to the city's housing strategy. The council is expected to hear the task force's recommendations in May and vote on them this summer or fall.

Bexar County Judge Nelson Wolff said he supported making these deals if they bring growth to a blighted neighborhood, but not to areas with healthy markets. NRP Group has approached the county about doing a similar deal near Lone Star Brewery, he said.

"You have to be careful popping these everywhere, because it's going to have a detrimental effect on the county and school districts," he said.

After Cevallos Lofts opened in 2012, Plummer and others credited the complex with helping bring about the rejuvenation of Southtown.

Five years passed before the next complex was built, Upton at Longhorn Quarry on Wurzbach near Morgan's Wonderland.

NRP is building another one named the Baldwin in the St. Paul Square neighborhood near the Alamodome, and it plans to construct others at Jones and Broadway, the Red Berry estate on the East Side, and on Foster Road in the Northeast Side, Plummer said.

Along with the five complexes built with the city nonprofit, NRP also has developed two complexes with the Brooks Development Authority, a nonprofit that manages the redevelopment of the former Brooks Air Force Base on the South Side.

Broadway and Jones

The complex at Jones and Broadway will sit on 2.6 acres of land that has been owned since 1999 by local developer James Lifshutz, who plans to purchase the building's 16,700 square feet of ground-floor retail space. He will pay property taxes on the commercial space, Plummer said.

The city nonprofit has negotiated a purchase price of $4.5 million, Plummer said. The land's value has skyrocketed from $1.7 million in 2014 to $4.9 million last year, according to the Bexar Appraisal District.

The nonprofit then will lease the land to NRP for $25,000 a year for 75 years and charge the company a $250,000 "structuring fee," Plummer said. NRP will pay to build the complex, which will be 15 percent owned by the city nonprofit, he said.

"The public sector benefits more than they would in property taxes," Markson said. "Seventy-five years from now, when these leases expire, the city will have a wealth of property that it can choose to continue to maintain as affordable housing or not."

Because the city nonprofit will own the land, it will receive full property tax exemption, Plummer said. It's impossible to say how much that will cost the city over 75 years. Last year, the property's tax bill came to a total of $139,351, including $75,263 for SAISD, $27,415 for the city and $14,301 for Bexar County, but the taxes would go up when the apartment complex is built.

The requirement to rent to residents making 80 percent of the median income lasts for only 15 years, Plummer said. After that, the complex's owner could choose to rent it at market rates, but it no longer would receive the property tax exemption.

Despite owning the land, the city nonprofit doesn't get to decide when or if to sell the property. That decision rests with the investment fund that puts up the capital for the project, Plummer said. It's difficult to raise money for an apartment complex without giving the investor that ability, he said.

If the investor decides to sell, the nonprofit gets to collect 15 percent of the complex's operating income for the rest of the 75-year lease, Plummer said.

The complex at Jones and Broadway also is expected to receive incentives through the city's Center City Housing Incentive Policy, but it's not yet clear how much, Assistant City Manager Lori Houston said in an email.