Houston Housing Authority created over 100 tax deals. Only 1% of these units serve the neediest.

By R.A. Schuetz, Yilun Cheng, Amelia Winger, Houston Chronicle
Aug 12, 2024

A Houston Housing Authority audit reveals a disconnect between the goal and outcomes of its controversial tax deals: While the agency uses the housing shortage for its lowest-income residents to justify the program, the tax incentive has resulted in minimal gains for Houston's most needy families.

Only 1% of the tens of thousands of tax-exempt units created during a seven-year period actually target the needs of Houston's extremely low-income residents, according to a Houston Chronicle analysis. The vast majority of affordable units created by the program cater to households with higher incomes already served by the market.

The deals involve completely exempting apartment complexes from property taxes in exchange for making some units affordable and paying the housing authority a fee. This has saved large apartment complexes more than $1 million a year in taxes, although some of the 107 developments with fewer units listed in the audit yielded lower tax breaks. As of April, the housing authority audit said it had collected $53 million in fees from the deals, which it says will be used for the public benefit.

Since the program has mainly created units at income levels where there is little to no affordable housing shortage in the Houston region, the tax break program is largely redundant, aside from benefiting developers, said Sarah Saadian, senior vice president of public policy and field organizing at Washington D.C.-based National Low Income Housing Coalition. The nonprofit advocates for housing policies that create affordability for those with low incomes.

"If you're providing a tax incentive for what developers would have already been providing, then you're not getting a lot of bang for your buck," Saadian said. "This sort of approach isn't going to address the underlying causes of the housing crisis."

Out of the 30,500 apartment units that no longer pay property taxes due to deals with the Houston Housing Authority, only 270 units are affordable for those with extremely low incomes, defined as earning less than 30% of the region's area median income (AMI) or living below the poverty line. Median income calculations depend on a family's size. For a two-person household, that would be $22,710 a year, which translates to a $567 one-bedroom apartment.

The Houston area ranks among the worst in the nation when it comes to the shortage of apartments affordable to extremely low-income households, according to the National Low Income Housing Coalition report cited in the housing authority audit. It's second only to the Las Vegas area.

Moreover, most of these 270 units were intended to replace public housing demolished for the massive I-45 expansion and do not increase the overall pool of housing for families in this income bracket.

Over half of the total tax-exempted units cater to market-rate renters, meaning there are no restrictions on what the developers can charge. Another 10,600 units are designated for households earning less than 80% of Houston's AMI, and 5,700 units for those earning less than 60%. Affordable rents for such households, according to agreements made between developers and the housing authority, are $1,514 and $1,135, respectively, for a one-bedroom apartment in 2024.

Jay Mason, director of real estate investment and development at the Houston Housing Authority, said in an emailed statement that adding units affordable to residents earning below 30% AMI is “exceedingly difficult” in a tax break deal without other resources like project-based housing vouchers. Project-based vouchers, an affordable housing solution that existed long before tax break deals became popular, use federal dollars to make up the gap between what a tenant can afford and a unit’s total rent and utility costs. The Houston Chronicle asked multiple times if a reporter could discuss the audit with an official at the housing authority, but the requests were not granted.

He added the housing authority uses fees collected from developers through the tax-exempt deals to support other projects that more directly serve the city’s lowest-income families. For example, these funds have been used to support the redevelopment of the Cuney Homes public housing complex, Mason said.

“This balanced strategy allows us to immediately address deeper affordable housing needs while working towards long-term solutions for our most vulnerable residents," Greenstein said.

Mary Benton, Mayor John Whitmire's spokesperson, said the housing authority produced the audit report after the mayor asked its leadership to review all aspects of its business. The new mayor has leveled repeated criticisms against the authority's projects and overhauled its board in a highly unusual move in February.

"Of course, I'm concerned about the previous HHA board that I inherited. Many operated with an apparent disregard for those with the most critical need for affordable housing options," Whitmire told the Chronicle. "I put the new HHA Board in place to make Houston the most affordable big city in America. They must meet that mission while being transparent, accountable, and avoiding conflicts of interest."

Houston's affordable housing shortage

Stephanie Winn has experienced Houston's affordable housing crisis first-hand.

She works as a security guard for $14 an hour. That places her around 40% of the Houston area's median income, where the supply of housing has fallen far behind demand, according to the National Low Income Housing Coalition report. To find an apartment she could afford, she waited two and a half years for a spot at Coppertree Village Apartments, a building made affordable through project-based vouchers. During the wait, she sometimes slept in her car between shifts, even with a newborn daughter.

Even securing an apartment didn’t guarantee stable housing. Winn said the roof leaked when it rained, and after the May derecho left her unit with water damage, she and her daughter moved into a FEMA-funded hotel for months.

Even before the disaster, Winn had been looking for an apartment in areas with better schools and lower crime rates, which fits the description of many of the tax-break properties. But so far, she’s struck out.

“Unfortunately, there’s a shortage,” Winn said.

While FEMA had arranged to pay for a hotel through Aug. 25, Winn said that on Aug. 7 the hotel unexpectedly told her she had to leave within hours. She scrambled — and ultimately succeeded — in finding another hotel.

Across the nation, households earning below 30% AMI are the only group that always faces a housing shortage, and often a severe one, Saadian explained. This gap usually disappears somewhere between the 60% and 80% AMI range, where private developers typically meet the demand without incentives.

In Houston, there is actually a surplus of housing affordable to those around 80% AMI level, research by the coalition based on U.S. Census data reveals. Local public investments should, therefore, focus on populations with more urgent needs, according to Saadian.

“If you're not providing a real benefit to renters, then you have to go back to the drawing board and look to see if there's a better, more strategic way of using those resources,” Saadian said.

Strategically allocating resources hinges on defining affordability.

A two-person household earning 30% of the Houston area's median income, or $22,710 a year, could afford roughly $567 for a one-bedroom apartment in 2024, according to the calculations used by the housing authority's tax break deals.

Almost two-thirds of the "affordable" units created by the tax break deals allow apartment complexes to charge up to $1,514 for a one-bedroom apartment. The average price for any apartment in the Houston area is $1,274, according to the real estate data firm MRI ApartmentData.

A third of the affordable units allow apartment complexes to charge as much as $1,135 for a one-bedroom apartment.

A recent, and controversial, tool

Tax break deals using what are called public facility corporations, or PFCs, have existed since 2015, when then-state Sen. Craig Estes introduced them in a last-minute amendment to finance legislation.

The legislation's 100% tax break, worth tens of millions per deal, is an unusually large concession. The exemptions originally lasted for up to 99 years. By contrast, another common affordable housing tool, low-income housing tax credits, are far less lucrative for developers and can command steep competition.

The PFCs allowed the housing authority to quickly add to its roster of affordable units in affluent neighborhoods known for their schools, where it had previously faced blowback. One PFC deal, for example, stands next door to the notoriously failed mixed-income housing development in the wealthy Tanglewood area.

The failed development on Fountain View Drive was subject to a slew of requirements, including, as a low-income housing tax credit deal, a vote by City Council. When neighbors revolted, then-mayor Sylvester Turner refused in 2016 to put it on the agenda, leading to a federal Civil Rights Act investigation. The PFC deal next door, on the other hand, passed in 2022 through a housing authority board vote without fanfare or discussion.

But housing advocates argued state law for the deals too laxly defined affordability and lacked transparency about how the tax breaks translated to rent discounts. In 2023, the state legislature responded to these concerns by requiring that 60% of the tax break received by developers go to reducing rents from what the market dictated. The reforms only apply to PFC deals brokered after the law's passage.

Since then, the housing authority has moved to using different parts of the state tax code to broker similar tax break deals without triggering those requirements. When asked at the time why it was using a different part of state law instead of the newly reformed PFC law, the housing authority responded, "We are currently using the state-provided tools available to create affordable housing."

Taylor Laredo, a community navigator at the nonprofit Texas Housers who has worked with many voucher holders, said the audit showed what the families he works with have experienced: Many of the affordable units created through the tax break program are not affordable enough for their needs.

"I am concerned that (the housing authority's) current model for promoting housing affordability in the greater

Houston area might actually be contradictory with their aim of providing the lowest income households with decent, safe and quality opportunities to obtain truly affordable housing," he said.

While Laredo said it was important for Houston to ensure there is quality housing available for families earning 60% or 80% of the area's median income, he called on the housing authority to diversify the affordability created by its tax break program.

"They cannot be forgotten, the families at 30% or 50% (of AMI)," he said. "Where are their options in this clearly robust and growing portfolio?"