Out of Reach: Why San Antonio can't get a grip on its affordable housing crisis

With construction costs and interest rates soaring, developers are struggling to make the numbers work for their affordable housing projects.

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More than 60,000 families are waiting to get an affordable housing unit from Opportunity Home San Antonio, the local housing authority. Lisa Vogt and her three children are among them.

Like many on the list, Vogt can tell a story about how the circumstances of her life, coupled with San Antonio's severe housing shortage, have driven her to desperation.

She put her name on the authority's waiting list four years ago as part of an effort to build a new life after she'd finished a 38-month prison sentence on charges of aiding in the distribution of heroin. Her boyfriend had been dealing from the apartment they shared, she said.

"I made a mistake when I was younger," she said. "I paid my consequences and learned from it. And I never repeated that mistake."

As a single mother, she had a hard time finding an affordable home even if most landlords didn't turn her away because of her conviction. When her mother moved to Georgia last year, she could only secure a place — an old house in Southeast San Antonio — by paying the entire year's rent up front: nearly $21,000. She used money from the sale of her late grandmother's home.

Vogt liked the rental house, but it had just been remodeled in what she described as a "rush job." The electricity would periodically cut out, and she had to lay extension cords through the hallways to keep the lights on, she said. For three months, there was no hot water.

In September, her landlords served her with an eviction notice. She believes it resulted from unpaid CPS Energy bills, which led the utility to cut her power. She tried to put the account in her name, but she couldn't because the house didn't pass its code inspection after the remodel, she said.

Since then, Vogt and her three kids have been living with her cousin — and her three kids — in a three-bedroom house on the North Side.

"With seven kids and two adults, it's pretty squeezed," she said. "She said I could stay with her as long as I needed, but you don't want to overstay your welcome. I'm always telling her I need to find something. I need to find a place."

Over the past decade, and especially the past five years, the City of San Antonio and other local entities — including Opportunity Home, until August known as the San Antonio Housing Authority — have focused on producing housing to fit the budgets of people like Vogt, whose incomes are below the local median wage.

Those local entities have revamped policies or created new ones, hired staff and taken on hundreds of millions of dollars in debt to create the thousands of affordable housing units San Antonio sorely needs. As of 2019, some 170,000 Bexar County households spent more than 30% of their incomes on housing, according to a city housing report. That percentage is the threshold at which experts consider housing to be unaffordable.

Yet with construction costs and interest rates soaring, developers are struggling to make the numbers work for their affordable housing projects. Those challenges come even as developers enjoy access to a wider range of local tools and deeper wells of local funding than ever before.

Two of the San Antonio Housing Trust's key projects recently fell through due to the current price spikes, said Pete Alanis, executive director of the city-created nonprofit.

One of those proposed developments, Patriot's Pointe on the far South Side, would have included 48 units for residents making less than 30% of the area median income (AMI) —about $25,050 annually. Housing units targeting that price point are rare and valuable, falling within the budgets of low-income workers such as maids, cooks and many employed in the city's large hospitality sector.

"That's what we're facing right now: an increase in construction costs, due to inflation, and an increase in interest rates," Alanis said. "That's your double whammy. That's why you see deals exploding. They're just busting at the seams."

Those difficulties come as the city falls behind on a goal it set in 2018 to spur production of 6,344 units over the next decade for residents making 31%-50% of the area median income, or between $25,885 and $41,750 yearly. Those goals arose after Mayor Ron Nirenberg was elected to his first term on promises to make housing more affordable.

As of last year, San Antonio was only 22% of the way toward reaching that goal. Only 1,411 units are either built, under construction or in the pipeline, according to city records. The city fell short on that target even though it surpassed 10-year goals on housing for other income levels.

The economic headwinds haven't sunk any projects for NRP Group, a Cleveland-based developer with a strong presence in San Antonio. Even so, they have slowed the pace at which NRP can take on new ones, said Debra Guerrero, its senior vice president of strategic partnerships and government relations.

In 2020 and 2021, NRP built 1,757 affordable housing units spread between eight Bexar County apartment complexes, Guerrero said. This year, it expects to finish just one complex, Viento Apartments, just down the road from Texas A&M University-San Antonio.

Like most affordable housing projects these days, Viento relies on a patchwork of funding, including about $27 million in tax credits from the Texas Department of Housing and Community Affairs.

A partnership with the Housing Trust will ensure the development receives a property tax exemption, and Opportunity Home is chipping in $38 million of tax-exempt bonds. Next month, city council will vote whether to award NRP money from the $150 million housing bond voters passed last year.

Just the same, Viento wasn't an easy build. Construction costs soared from $120,000 per unit to $153,000, adding $10 million to the budget, Guerrero said. Since January, rising interest rates, driven by the Fed's effort to curb inflation, tacked on another $7 million.

"[T]he way that the world is right now [has] prevented us from proposing new transactions," she said. "That's where the real harm is coming: Two years from now, we're not going to have those units on the ground. We're not going to be under construction for anything."

Housing first-aid

San Antonio resident Janet Garcia only had to wait a year or so on Opportunity Home's list before she got a phone call telling her that her name had come to the top.

The call, which she received about four years ago, was well-timed. A week earlier, she'd become homeless, sleeping in her car with her son and daughter.

She moved into Alazán-Apache Courts on the West Side, one of San Antonio's oldest public housing projects, built in 1941. She flourished there, becoming president of its resident council. While doing volunteer work, she made contacts that led to a job at the Charles A. Gonzalez Senior Community, where she now works as an assistant manager.

In April, she moved into a three-bedroom apartment at Legacy at Alazán, a complex built through a partnership between Opportunity Home and NRP Group. Unlike her old place, the apartment has central heating and air conditioning along with access to a washer and dryer. Before, she'd had to hang her clothes to dry inside during the winter.

The rent is $427 a month.

"Landing at the Courts has been the best thing that's happened to me in my life," Garcia said. "When I went there, I didn't have a car — no nothing. I didn't know anyone. I don't have family here at all. My family became the community, my neighbors. In order for me to be able to work and volunteer and do the things that I wanted to do to make a change for my community, I had to rely on my neighbors."

Until last year, Opportunity Home had planned to demolish Alazán-Apache and replace it — in partnership with private developers — with a community featuring a mixture of incomes but with fewer units priced for deep affordability. It was the same approach the agency took with two other local housing projects: East Meadows on the East Side and Victoria Courts, which replaced the old Victoria Commons near Hemisfair.

Under the leadership of President and CEO Ed Hinojosa Jr., Opportunity Home has abandoned that mixed-income redevelopment model, which had been touted as the best practice for building affordable housing since at least the Clinton administration.

The agency is now looking to rebuild Alazán-Apache and preserve it as old-school, government-owned public housing. The plan is to carry out the development in phases, moving existing residents into newly built units before the old buildings are destroyed.

The first new structure, with 88 units, will be built on a baseball field, Hinojosa told the *Current*. The agency expects to fund it with $16 million from its own budget plus $8 million from the city's housing bond.

The rationale for the old mixed-income model was that it kept people who lived in poverty from being segregated, theoretically bringing them closer to opportunity. Many housing advocates in San Antonio, Hinojosa among them, have turned away from that thinking, however.

The new approach preserves crucial units priced for deep affordability, Hinojosa said. It also prevents families from being displaced and uprooted from their social networks, including kids being pulled from their schools. What's more, the shift in thinking comes as the city has lost 1,700 public housing units since the late '90s.

Opportunity Home isn't the only local housing entity to undergo a profound policy shift in recent years.

The two goals undergirding its new approach — to prevent displacement and create deep affordability — have guided new policies from the city, the San Antonio Housing Trust and other groups.

After voters approved updates to San Antonio's charter last year, letting the city issue bonds for affordable housing, $150 million for housing was tucked into the $1.2 billion 2022-2027 bond package voters approved earlier this year. The city plans to use that money to create housing for the homeless, help residents pay for home repairs and to fill budget gaps in affordable housing projects such as Viento.

Last year, the city appointed its first chief housing officer: Mark Carmona, the former president and CEO of Haven for Hope, a nonprofit that helps the homeless.

Under the leadership of Alanis, the Housing Trust has stopped inking deals offering property tax exemptions to developers for the construction of apartment complexes without affordable units. Those transactions came under fire for encouraging gentrification and draining local governments of tax revenue.

The city also allowed its downtown housing incentive program — the Center City Housing Incentive Policy, or CCHIP — to expire during the COVID-19 pandemic. As with the Housing Trust's phased-out deals, critics considered CCHIP a harbinger of gentrification.

Among leaders in San Antonio, there's a new mindset when it comes to housing. In broad terms, the policies are now focused on creating affordability, where they had previously placed greater emphasis on economic development.

A new housing plan

If it seems as though the city, Opportunity Home and the Housing Trust have changed their minds in coordination with each other, they largely have.

The guidepost for the policy shift has been the Strategic Housing Implementation Plan (SHIP), a 77-page report drafted last year by the city, Bexar County, Opportunity Home and the San Antonio Housing Trust. That document lays out policies intended to address the affordable housing crisis. It sets a goal of producing 10,611 affordable rental units and preserving 15,533 homes and rentals over the next decade.

SHIP sprung from the work of the Mayor's Housing Policy Task Force, a group Nirenberg formed shortly after his election in 2017 to reshape housing policy and emphasize affordability. He'd made affordable housing a central campaign issue, blasting his opponent, then-Mayor Ivy Taylor, for applying "band-aid" policies when a "tourniquet" was needed.

By the time Nirenberg took office, the city had already begun taking on a larger role in affordable housing. At the time, the market was overheating following a long recovery from the Great Recession. Shortly before Nirenberg's election, the city also created the Neighborhood Housing Services Department, which now oversees housing assistance programs. The 2017-2022 housing bond included $20 million for a pilot program to fund affordable housing — the first of its kind in San Antonio.

But even as Nirenberg steered the city's policies toward affordability, prices continued to soar, especially after the pandemic.

From January 2020 to October of this year, the median cost of a home in the San Antonio-New Braunfels metro area leapt 43%, rising from $224,499 to $321,000, according to the Texas Real Estate Research Center at Texas A&M University.

Meanwhile, the average apartment rent in the San Antonio region jumped from $1,002 a month at the start of 2020 to $1,269 in the third quarter of this year, according to Austin Investor Interests, which analyzes the local multifamily market. That constitutes a 27% increase.

As those prices went up, so did the need. Opportunity Home's waiting list grew from about 35,000 families pre-pandemic to "well over" 60,000 today, Hinojosa said.

Bridging the gap

On a recent Wednesday morning, employees of affordable-housing nonprofit Alamo Community Group gathered around their computer screens to watch a man pull numbers from an old-fashioned lottery machine, the kind that spits out plastic balls.

If he pulled a low enough number — under 30 would be good — Alamo Community Group would have a good shot at getting the bonds it requested from the state's Texas Bond Review Board to use in building Cattleman Square Lofts, a West Side apartment complex. With all 138 of its units set to be affordable — 21 of them reserved for those making up to 30% of AMI — the project would be a major win for housing advocates.

However, over the past year, interest rates and construction costs threatened to kill Cattleman Square. Scrambling to fill a widening budget gap, Alamo Community Group kept the project afloat by securing commitments from the city for millions of dollars from the housing bond. It also got the county to promise further millions in federal pandemic-relief funds.

If Alamo Community Group won the bonds, clearing the way to receive millions in state tax credits, the funds would probably be enough to get the project to the finish line.

As employees with the nonprofit watched the on-screen lottery, the man pulling the numbers called them out so quickly that when he got to the Cattleman Square project, no one was sure what he'd said.

"We were like, 'Was that 25, or was it 45?'" said Jennifer Gonzalez, Alamo Community Group's executive director. "We're emailing the tax credit consultant. Did anybody hear what that number was? Did they post the list yet? Is there a rewind button?"

The number was 25. So, after more than three years of work, Gonzalez is confident construction will begin on the complex this spring.

The nonprofit's work to keep Cattleman Square on track shows that in today's economy, a never-say-die resourcefulness is needed to make affordable housing projects work.

The process might be compared to patching together a quilt. Often, it requires the quilter to dive deep into a basket of cuttings to collect just the right assortment to fit into one solid whole. Sometimes, those cuttings are hard to come by.

"Every single project is at risk," said Alanis of the city-backed Housing Trust. "There is not one project where we are like, 'Oh, this is not going to be a problem.' Every project has a gap. Every project has interest-rate uncertainty. It's extremely difficult right now to figure out ways to get projects done."

Most of today's affordable housing projects make use of low-income housing tax credits (LIHTCs), a federal funding mechanism that's been around since the '80s. The TDHCA distributes the credits in a highly competitive process that prioritizes projects with deep levels of affordability. Upon receiving the credits, a developer sells them to a corporation that uses them to reduce its tax liability.

Typically, and especially with costs escalating, an affordable housing project will require sources of funding beyond tax credits and bonds. These sources are often referred to as "gap financing," because they're filling a gap in the budget.

One common approach to filling that hole is to partner with the San Antonio Housing Trust or another governmental nonprofit to receive a property tax exemption under state law.

The developer might apply for funding from a Tax Increment Reinvestment Zone, or TIRZ, or from federal programs such as Community Development Block Grants. Cattleman Square won incentives through CCHIP before that policy expired.

The project will nearly always require a loan from a bank, which is why the recent rise in interest rates has made things tricky. When the rates rise, it lowers the amount a developer such as Alamo Community Group can afford to borrow. Thus, the gap grows.

With a market-rate apartment project, the developer could simply raise the unit rents to offset the higher borrowing costs. But that can't be done for an affordable project, especially after the developer has pledged to offer certain affordability levels in the application for the bonds and tax credits.

So, the developer must get creative — or make sacrifices. In the case of Cattleman Square, Alamo Community Group waived its development fee and cut costs by abandoning plans to renovate the interior of a historic building. Instead, that structure will sit empty. With one of its prior projects, Mission Reach Lofts in north downtown, the nonprofit lowered ceilings to reduce the amount of cement that was needed, Gonzalez explained.

"It's constant heart failure. It's constantly beating our head against the wall," she said. "This project has probably been the hardest project we've ever done. We solve one problem, and then another problem comes up. And then we think we've solved that one, and then something changes, again. It has been this constant moving target."

One of SHIP's recommendations was to create what it calls a "dedicated revenue source for gap financing" — a source of funds affordable-housing developers can tap to fill holes in their budgets.

The city is doing that with its housing bond. Of the $150 million total, $75 million is devoted to producing, buying or rehabilitating affordable housing.

Next month, city council will vote whether to distribute the first round of those funds to Cattleman Square, Viento and other projects. Another round is likely to be distributed in the spring, said Mark Carmona, the city's chief housing officer, told the Current.

After that, the funds will likely be exhausted, leaving another four years before voters consider a new bond package.

"I'm impressed with the fact that with the bond money, they tried to get it out as quickly as they can," NRP Group's Guerrero said. "But sadly, it's not going to be enough. It's going to run out quickly, because they're having to leverage more money than they thought they would a year ago, because of things we can't control."

Still, Guerrero and other housing leaders said they expect economic conditions to improve, making projects easier to complete. "My outlook is, in two years, I hope the world is better," she added.

Alanis with the Housing Trust said he's starting to see construction and labor costs reach a peak.

"As we head toward what could well be a recessionary period, we anticipate those to fall," he said. "Now are they going to fall pretty low to make up for the interest rate hikes, within the next six months? Probably not."'

Yet residents such as Lisa Vogt have little room for patience. The search for an affordable home is too urgent to wait the months or years it might take for the economy to turn around.

Vogt is looking for something that sounds simple: a decent place in a decent neighborhood where she and her children can live together. After completing her prison sentence, she promised that she wouldn't leave them again.

"My kids were not even together the whole three years I was incarcerated — they were separated and moving from house to house. You know, certain things happened to my kids that I wasn't there to protect them from," she said. "So, it was like, this isn't an option. I cannot leave my kids again. If I have to struggle to make ends meet, I'll do that."

Around the time the electricity was turned off at her house in Southeast San Antonio, Vogt received a notification from Opportunity Home that she could begin the pre-eligibility process.

She filled out the application and emailed it back. Since then, she's called the agency several times.

"I've told them my situation, I've told them this is kind of an emergency," she said. "They said, 'Well, we're backlogged. You just have to be patient with us.'"

San Antonio Affordable Housing Timeline

2001: San Antonio Housing Authority begins demolition of the New Deal-era Victoria Courts public housing complex with plans to redevelop it as a mixed-income community.
• Silver Ventures buys the Pearl and begins renovations, a milestone in the redevelopment of San Antonio's urban core.
2010: Mayor Julian Castro declare the "Decade of Downtown."
• The city creates the Inner City Reinvestment Infill Policy, or ICRIP, offering fee waivers to developers to promote development in the urban core.
• NRP Group breaks ground on Cevallos Lofts in collaboration with the San Antonio Housing Trust Public Facility Corp., or SAHTPFC, a newly created city nonprofit that offers property tax exemptions to developers for building mixed-income housing.
2012: The city launches the Center City Housing Incentive Policy, or CCHIP, offering financial incentives to developers with an aim toward stimulating a downtown housing market.
• With a federal grant, SAHA kicks off the redevelopment of the New Deal-era Wheatley Courts public housing complex into a mixed-income community.
2017: Housing affordability is a major sparring point in the mayoral campaign between Ivy Taylor and Ron Nirenberg. Nirenberg argues that Taylor's policies have acted as a "band-aid" for the problem when the city needs a "tourniquet."
• After becoming mayor, Nirenberg puts a moratorium on CCHIP amid concerns that it has contributed to rising housing prices and gentrification.
• Nirenberg announces the creation of the Mayor's Housing Policy Task Force, charged with developing a comprehensive housing policy for the city.
• The city creates its Neighborhood and Housing Services Department, which will oversee many housing-affordability programs.
• Voters approve the city's first housing bond package, raising $20 million for affordable housing projects.
2018: City Council adopts changes to CCHIP and ICRIP in response to gentrification concerns, requiring affordable units to be built in some projects receiving incentives.
2019: Pete Alanis becomes executive director of the SAHT. In coming years, he will press for deeper levels of affordability and will step back from making deals with for-profit developers.
2020: The city allows CCHIP to expire. During the Covid-19 pandemic, city council pumps $50.3 million into San Antonio's emergency housing assistance program to help residents cover rent and mortgage payments.

2021: City council approves a new 10-year plan for affordable housing, the Strategic Housing Implementation Plan, which sprung from the recommendations of the Mayor's Housing Policy Task Force.

• Mark Carmona is appointed the city's first chief housing officer.

• SAHA cancels its plans to partner with NRP Group to demolish Alazán Courts on the West Side and redevelop it as a mixed-income community. It instead presents a plan to rehabilitate the complex, preserving it as public housing.

• San Antonio voters approve changes to the city's charter allowing the city to issue bonds for affordable housing.

2022: SAHA rebrands itself as Opportunity Home San Antonio.

• Voters pass the $1.2 billion bond package, which includes a $150 million for housing.