



TEXAS TECH UNIVERSITY
Masters of Public Administration™



THE TEXAS LYCEUM

POLICY BRIEF

NOVEMBER 2023

AFFORDABLE MILITARY HOUSING

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Policy Recommendations



Establish
State
Defense
Community
Districts
(DCDs)



Update
Local
Housing
Regulations



Offer
DCD and
Veteran
Financial
Incentives



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Introduction

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An adequate standard of living, including housing, is recognized as a basic human right (United Nations, n/d). The U.S. Department of Housing (HUD) defines affordable housing as 30% or less of the gross household income, including utilities (Thorsby, 2022). A Military Family Lifestyle Survey (2022) found that access to affordable housing was a top-five concern (Jessica D. Strong, 2022). 81% of active-duty respondents reported that out-of-pocket expenses were more than \$200 over Base Allowance Housing (BAH). Texas has a veteran population of 1.5 million and an active-duty population of approximately 175,000 (Manzanetti, 2022). Combined, they make up about 5.6% of the Texas population. Finding affordable housing, or even housing in general, is a significant challenge due to the current shortages in Texas.

The Texas housing crisis is caused by several key variables, including material supply shortages, local development permitting processes, and the state's growing population. These factors have resulted in a housing shortage in Texas, an increasingly serious concern for many Texas taxpayers. Property valuations have risen due to the housing shortage, increasing property taxes across the state. No single solution will address all these issues, nor would it apply to every community in Texas. Therefore, taking a holistic view of resolving the housing crisis will require participation from all stakeholders.

Affordable housing should improve the quality of life for the residents. This means the housing location should include good schools and provide a community conducive to long-term success (Johnson, 2016). Military families are not asking for affordable housing but quality affordable housing that meets all their needs. The Department of Defense (DOD) has become increasingly concerned with the lack of affordable housing and its impact on military personnel's readiness. Therefore, the DOD is establishing a community scorecard with specific metrics to measure and ensure quality affordable housing is accessible.

Veterans do not face the same mobility issues as active-duty personnel, whom are required to relocate frequently. Relocation requires finding a quality community, affordable housing within that community and, if necessary, employment for the spouse. This affects the household income differently for an active-duty family. This paper tries to denote what challenges and recommendations are specific to an active-duty family and those specific to a veteran family.

Challenges in Texas

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Texas Housing Shortage

Texas leads the nation in the number of homes built but still had a deficiency of 330,000 units in 2019 (Joshua Fechter, 2023). A 6-month supply of housing is considered the norm. In 2021, Texas had a housing surplus of just two months and saw that surplus dwindle to 15 days by 2022. Obtaining necessary permits and land entitlements requires approximately 6 – 8 months, and building a standard home requires another 6 – 8 months. A supply shortage with apartment rentals further impedes progress.



Demand for multi-family rental units is also high. Multi-family development includes apartments, duplexes, condominiums, and cottage-style housing. This type of housing is often most suitable for single military personnel or families that anticipate staying four years or less. While Texas tops the state ranking for construction of apartment buildings, with more than 56,000 units under construction annually (Brown, 2022), the forecasted growth requires even more.

Approximately 230,000 multi-family units will need to be constructed by 2035 to accommodate the growing population in North Texas alone. That means that an additional 19,000 units need to be built annually for the next 12 years. Construction of multi-family units requires the same amount of time for permitting, 6 – 8 months, but requires 12 – 18 months for construction. To increase the housing supply, the permitting process and construction timeline must be sped up, however, any attempts to streamline this process should be considered at the local level to avoid any unintended consequences.

The Texas population is booming. The state population is the second largest in the United States. In addition, Texas has the highest resident retention rate with 82% of those born in Texas continuing to live in Texas. Simultaneously, 2018 Federal Reserve Bank of Dallas study noted that, an average of 3,800 people move to Texas weekly (Realty, 2022). Because of retention and growth, the housing supply will remain inadequate to meet projected demand.

Higher demand combined with high occupancy rates limits supply and creates a highly competitive market, benefiting sellers. Buyers are often caught in bidding wars, submitting offers well above the asking price. Texas's current real estate market requires buyers and renters to act quickly and accept transactional obligations that are typically the responsibility of sellers. The buyer has limited negotiation power leading to increased out-of-pocket expenses and leaving no equity in the home. The challenges within the Texas housing market affect every resident but create an even greater challenge to military families.



Texas Rising Cost of Housing

According to Zillow, Inc., the average time to purchase a home, usually takes four to five months, with the largest part of the process being searching and placing the home under contract (Jordan, 2021). Military personnel usually are notified of where their next duty station will be multiple months prior to moving, giving them ample time to search for a residence. However, in Texas, a home's average availability is 30 days or less, requiring potential buyers to be ready to act immediately. "For many who want to purchase a home, it means offering tens of thousands of dollars above asking price and bidding against multiple buyers in a fiercely competitive market" (Jowers, 2021). The final asking price, in many cases, is more than the estimated value, leaving the buyer with no equity.

The limited housing supply has also impacted property values. Since October 2018, home values have increased by 40% (\$100,000), with the median average sales price at approximately \$350,000. Rising property valuations yield higher property taxes, increasing the financial burden on homeowners, landlords, and renters (Allan Cole, 2023). Property taxes are considered a regressive form of taxation since they are not commensurate with income. As property values increase, the percentage of household income dedicated to housing increases beyond affordable limits.

Rising interest rates and inflation have also created additional financial burdens for households. “The U.S. Federal Reserve announced September 20th that interest rate would remain in the range of 5.25% to 5.5%.” (Cooban, 2023). Interest rates were increased with the intent of reducing inflation to a manageable rate near 2%. If the current interest rate range doesn't show improvement related to controlling inflation, additional hikes may be required. Both interest rates and inflation increase the cost of mortgages and rent and impact development. As interest rates and inflation climb the price to build homes or develop apartment buildings becomes cost prohibitive, further impacting the housing supply.

Local government codes and regulations also contribute to the cost of housing. Municipalities adopt building codes, land use regulations, and design criteria which have an impact on overall construction cost. “Local land development policies and permitting processes often reflect decades of amendments and regulatory responses to specific issues that are no longer relevant.” (Allan Cole, 2023). Advances in construction technology or material specifications occur annually to address common maintenance and operation issues. However, ordinances and regulations do not keep pace with these changes, remaining unchanged for decades sometime, requiring developers to follow antiquated processes that cost more time and money. Delays and costs related to development codes are then passed on to the buyer or renter.

These issues create obstacles to military families securing satisfactory housing. Temporary or base housing is in short supply around the country. The temporary housing allowances provided by the military to active-duty personnel only allow for 10 days. Longer searches require military families to absorb the additional expenses. VA loan limitations cannot cover costs beyond the estimated value of the property. High demand, inflation, and interest also apply pressure to household finances of military families. The amount of time needed to close a real estate transaction off base can be costly. Increases to Basic Housing Allowance (BAH) for active-duty military families is still not enough to address market increases. The task of finding a home at a reasonable cost is nearly impossible in Texas and even when affordable housing is available it may not meet a reasonable standard of living.

Quality of Life

Texas is attracting residents from across the country because of its promised high quality of life. Benefits include, but are not limited to, economic growth, cost of living, property tax exemption, no state income tax, and educational benefits. Texas has been well-ranked for its workforces, access to capital, the economy, cost of living, places to buy a home, and places to retire (Texas Economic Development Corporation, 2022). However, Texas has not escaped criticism for issues that negatively impact quality of life, specifically in the areas of health and inclusion (Karlis, 2023). In the 2023 CNBC Study “Life, Health & Inclusion (LHI)” Texas earned an “F” with just 53 points out of 325 (Cohn, 2023). The study identified that Texas was not in the top 25 for indicators contributing to quality of life, such as crime rates, environmental quality, healthcare, and inclusivity. It is necessary for the state's leadership to consider how a variety of issues contribute to quality of life, including housing costs.

The neighborhood and community in which one resides influences the standard of living by the services and opportunities available. A successful community provides access to quality education, healthcare,

childcare, housing, infrastructure, and employment opportunities for spouses. These services create safety, stability, and a connection to the local community.

The conditions of the Texas housing market and circumstances of military ordered moves reviewed in this policy brief show the threat to a high quality of life for Military families relocating to Texas. These are major concerns for military families and is of great concern to the Department of Defense. The 2022 National Defense Authorization Act (NDAA) amended 10 USC Sec 1781b, creating a requirement for each of the military branches to evaluate key quality of life factors in a community when considering military basing decisions. Section (c) states “Housing – with regard to the military housing area in which an installation subject to a basing decision covered by subsection (a) is or will be located, the Secretary of the military department concerned shall take into account the extent to which housing (including military family housing) that meets Department of Defense requirements is available and accessible to members of the Armed Forces through the private sector in such military housing area.” [citation: Pub. L. 116–283, div. B, title XXVIII, §2883, Jan. 1, 2021, 134 Stat. 4370] This subsection of DOD code mandates the creation of metrics to measure the performance and effectiveness of the readiness program for the armed forces. Accessibility and availability of quality affordable housing, both on and off base, is one specific metric to be addressed. A limited supply of housing meeting the established requirements will impact decisions related to specific military units and major headquarters locations. Specific metrics have not yet been published but should be available for reference in late 2023 or early 2024.

Policy Recommendations 3



State Defense Community Districts

It is recommended that Texas develops a new type of special district, a limited purpose government. Requirements to establish a Defense Community Districts (DCD) should consider 3 elements, proximity, minimum military population, and economic influence. DCDs should be designated by the state and granted specific authorities to promote military housing. The Texas Military Preparedness Commission (TMPC) should be given state authority over these districts to create guidelines for housing development. Guidelines should align with DoD requirements and metrics to ensure community viability. A board of directors, comprised of residents of the DCD, should be given local authority and oversight. Board members should be diverse with backgrounds in the public, private, and military sectors. The DCD board would be charged with the preparation and approval of an investment and reinvestment plan focused on housing and supporting infrastructure.

This plan should be coordinated and approved by the local government to ensure the investment-reinvestment plan is in accordance with future local master plans. Master planning includes current and future land use, current and future transportation systems, and current and future public utility requirements. These special districts could give eligibility for funding incentives to update or improve the surrounding infrastructure and create a higher quality of life. Special districts like these exist in many forms around the state already, so adapting the rights and authorities could be relatively simple. Defense Community Districts would focus primarily on supporting active-duty military families and the installation. This policy recommendation is focused mainly on supporting active-duty personnel and military installations.



Local Regulations

The Texas Local Government Code, Section 214.905, prohibits a city's ability to require any developer to preserve a percentage of homes for low to moderate income households. This section could be revised to allow inclusionary zoning across Texas, specific to the promotion of housing for active-duty personnel and veterans. An appropriate price range could be established based on eligible economic incentives in relation to construction costs. For example, if a development was outside a DCD, then eligible incentives would be less and the housing cost would be greater than housing located within a DCD.

State law should be passed requiring local government codes be evaluated and updated at a frequency of 3 to 5 years to address advances in technology and updated building codes. In some instances, regulations may have been codified more than a decade or even longer. Outdated regulations and design criteria can have major development cost implications which may not be necessary. It is recommended that all communities associated with a DCD be required to develop a strategic plan to revise regulations at the prescribed frequency to retain DCD status.

Updating regulations and construction requirements requires staff resources which may not be available for smaller communities. Grant opportunities must be created to add necessary staff to perform these duties either as full-time employees or augmented staff. Grants would offset local community costs while allowing business processes to become more effective and efficient.



Defense Community District and Veteran Financial Incentives

Development fees associated with the construction of housing can be very expensive and are typically passed on to the end user. State law could be passed to discount these fees for housing developments located within a DCD. This would remove part of the financial burden for the developer, equating to lower costs. It is recommended that legislation be created to discount development fees, and create additional grant opportunities to offset some of the cost burden incurred by the local government. Therefore, the developer, State and local government would share in this cost.

The Defense Economic Adjustment Assistance Grant (DEAAG) is an infrastructure grant program designed to assist defense communities (Commission, 2023). This grant is open to local governments or other public sector entities to improve existing or new infrastructure in support of military readiness. There are no grant or loan opportunities available to the private sector at this time, therefore similar incentives should be created focused on promoting housing developments for veterans and active-duty personnel. Grant and loans available to the private sector would offset a portion of the financial burden on the developer and ensure a portion of the housing would be designated for active-duty or veterans.

Veterans don't retire outside the last military installation they served, but typically relocate to an area that wouldn't qualify as a Defense Community District. Therefore, to promote development specific to veteran housing, legislation should be passed to create grant and loan opportunities focused on creating affordable housing opportunities for these individuals and their families. Additional financial incentive for veteran housing could include discounted permitting fees and potentially other development related costs.

Conclusion

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The sacrifices made by our veterans and being made by our active-duty personnel should be rewarded with access to quality affordable housing. Solutions to the supply shortages, increasing costs, and provide a high quality of life requires compromise among all stakeholders. There will not be a single answer for every community but cooperation between the State, local government, and private sector a solution to reduce the financial burden on military families can be found. Texas cannot legislate all the issue affecting the housing shortage or increasing costs. However, creating a development environment that considers all stakeholders financial burden focused on providing military family housing is possible. Working together to take action for our military families will close this divide.

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