



Focus On: El Paso, Texas

MARK O'MEARA, COPY EDITOR, NOVOGRADAC

El Paso, Texas, has a large military presence, which creates stability for the city. It is home to the William Beaumont Army Medical Center, Biggs Army Airfield and Fort Bliss.

“There is a lot of government and law enforcement employed in El Paso. Literally almost every branch of the U.S. government resides in the city,” said Dana Mayo, executive managing director at Hunt Capital Partners, a national tax credit syndicator whose parent company, Hunt Companies Inc., is based in El Paso. “El Paso has a stable economy as a result of that.”

Roy Lopez, senior vice president of Investment Builders Inc., said that because of the military presence in El Paso, the city wasn't hit as hard as the rest of the country by the housing crisis. “El Paso has been experiencing steady growth year after year,” he said. Investment Builders Inc., owned by Ike Monty, is a housing developer, owner and contractor with more than 2,300 low-income housing tax credit-(LIHTC)-financed apartments in El Paso.

The other major employment sectors in El Paso include health care/social assistance, education services and retail trade, according to a Novogradac market study.

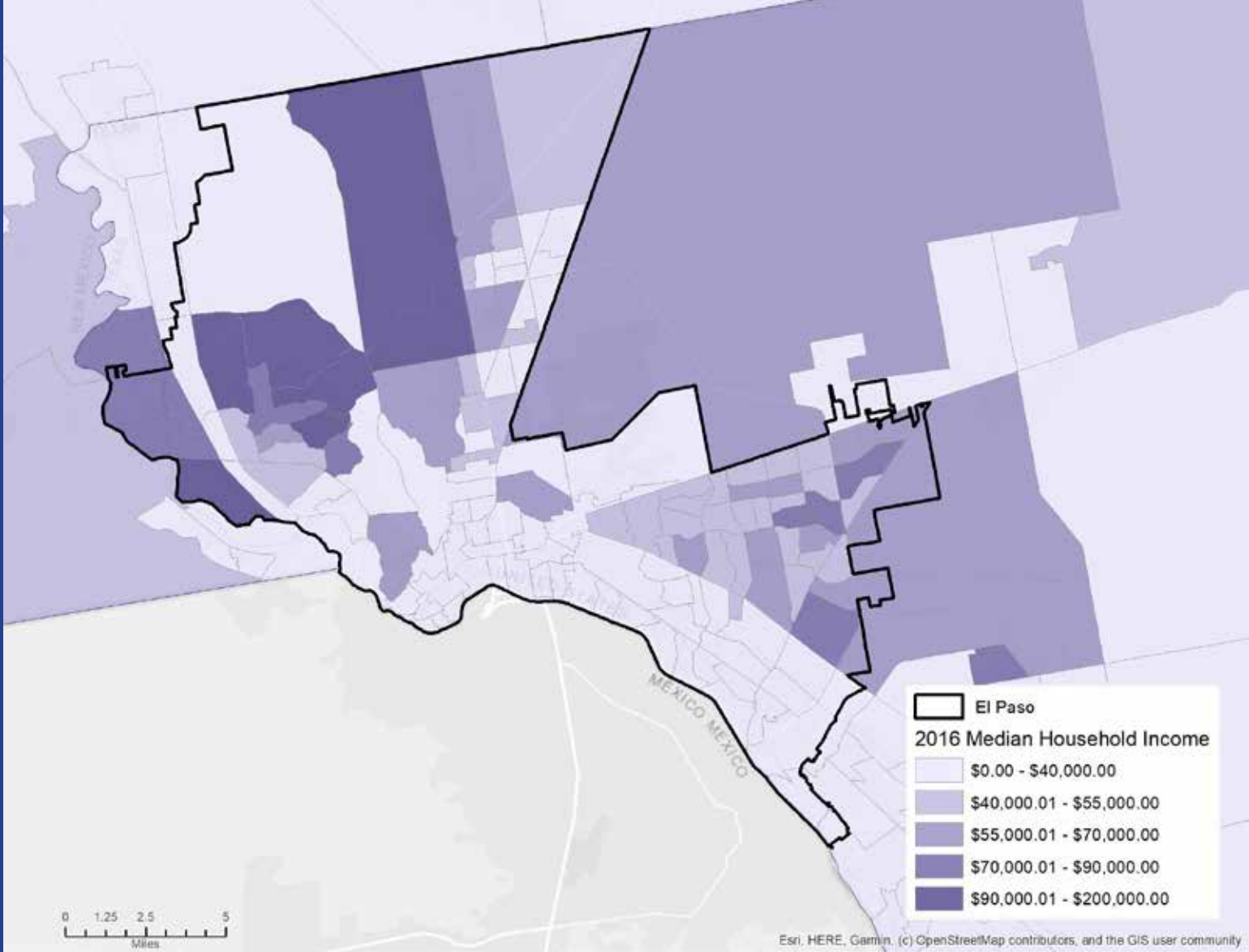
“Texas has a booming economy. Folks are coming here for work,” said Roger Arriaga, executive director of the Texas Affiliation of Affordable Housing Providers, a trade association representing the state's builders, developers and funders of affordable housing. “But the housing stock is dwindling compared to the number of people coming to Texas. ... There is a supply issue as a whole.”

YEAR	POPULATION		UNITED STATES	
	EL PASO, TEXAS METROPOLITAN STATISTICAL AREA			
	NUMBER	ANNUAL CHANGE	NUMBER	ANNUAL CHANGE
2000	682,950	-	281,038,168	-
2010	804,123	1.8%	308,745,538	1.0%
2018	874,325	1.1%	330,088,686	0.8%
2023	913,652	0.9%	343,954,683	0.8%

Source: Esri Demographics 2018, Novogradac Consulting LLP, August 2019

About El Paso

Located at the western-most tip of Texas, El Paso sits along the Rio Grande, which separates the United States from Mexico. El Paso is the seat of El Paso



Median Household Income in El Paso, Texas



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County and is part of the El Paso, Texas metropolitan statistical area (MSA).

The population of the MSA was 874,325 in 2018, according to a Novogradac market study. During the next five years, the population of the MSA is expected to increase to 913,652 by 2023—an annual growth rate of 0.9 percent, slightly higher than the national population growth rate of 0.8 percent.

Household Income

Residents in the MSA earn much less than the national average. The median household income in the MSA was

\$43,232 in 2018. By comparison, the national median household income was \$58,100 in 2018. The gap will continue to widen: the median household income in the MSA is expected to grow by 2.5 percent annually until it reaches \$48,614 in 2023. In contrast, the national median is expected to increase by 2.6 percent annually until 2023, when it reaches \$65,727.

In 2018, there were 100,134 renter households in the MSA, 36 percent of which were rent-overburdened, meaning they spent at least 35 percent of their income on rent. This is slightly below the national average of 39.5 percent. By comparison, approximately 19.6

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percent of renters in the MSA are considered extremely rent overburdened, meaning they spend at least 50 percent of their income on rent—also below the national average of 24.6 percent.

YEAR	MEDIAN HOUSEHOLD INCOME			
	EL PASO, TEXAS METROPOLITAN STATISTICAL AREA		UNITED STATES	
	NUMBER	ANNUAL CHANGE	NUMBER	ANNUAL CHANGE
2000	\$32,526	-	\$44,872	-
2018	\$43,232	1.8%	\$58,100	1.6%
2023	\$48,614	2.5%	\$65,727	2.6%

Source: Esri Demographics 2018, Novogradac Consulting LLP, August 2019

“We have double-digit percentages of families who are cost-burdened and extremely cost-burdened,” said Arriaga. “They have less money for other quality of life necessities, giving up health care, education and transportation in order to afford housing.”

Arriaga said that the average rent in El Paso is \$775 per month. Furthermore, he said that less than 2 percent of available housing is less than \$500 per month. “A lot of people are chasing those apartments,” said Arriaga.

The Texas Department of Housing and Community Affairs (TDHCA) has administered LIHTCs (both 4 and 9 percent) to 109 developments in El Paso. TDHCA multifamily financing also includes the direct loan program and multifamily mortgage revenue bonds.

“We like El Paso as a tax credit market because it’s so stable. It’s large enough for development, but the market doesn’t get overbuilt,” said Mayo. “It gets a couple tax credit deals each year.”

Hunt Capital Partners has invested in 14 LIHTC developments in El Paso totaling 3,179 apartments, including a massive U.S. Department of Housing and Urban Development (HUD) Rental Assistance Demonstration

(RAD) development with 1,590 apartments that also used LIHTCs. Hunt has invested nearly \$227 million of LIHTC equity in El Paso.

“Tax credit rents in El Paso are a bargain compared to market-rate rents,” said Mayo.

“Tax credit units lease up quick. There is a balance between market-rate and affordable housing,” said James Crowder, senior director, project management at Hunt Capital Partners.

Investment Builders Inc.’s affordable housing portfolio in El Paso is proof of that. Lopez said his portfolio has, on average, a 95 percent occupancy rate. “There is quite a demand for affordable housing,” said Lopez. “We can’t build it fast enough.”

Benefits, Barriers to Development

El Paso has benefits and barriers to developing affordable housing within its city limits.

Mayo said it is relatively inexpensive to build and operate affordable housing in El Paso.

Crowder said financing LIHTC properties in El Paso is easier than elsewhere. Crowder called El Paso LIHTC deals, “old school.”

“Developers only need tax credits and permanent financing to finance affordable housing deals in El Paso. There is no need for soft money to get deals done,” said Crowder. “Investors don’t say no to El Paso. The market fundamentals are ideal for LIHTCs.” He said El Paso LIHTC developments typically have low risk profiles with low recapture rates. Mayo added that El Paso LIHTC developments are, “safe and stable investments.”

Mayo said the Housing Authority of the City of El Paso was a very early adopter of the RAD program.

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“The Housing Authority of the City of El Paso was HUD’s poster child for the RAD program,” said Mayo. “It helped get the RAD program off the ground.”

Hunt Capital Partners’ 1,590-apartment RAD investment was with the Housing Authority of the City of El Paso. “We have done a lot of their conversions. We converted a quarter of their public housing stock to RAD in one transaction,” said Mayo. “The housing authority put all of its 6,000 public housing units on HUD’s first RAD RFP, which had a cap of 60,000 units, but ultimately only received applications for about 16,000 units.”

Lopez has found that the city is supportive of continued affordable housing growth.

“The city has become more engaged in the last two to three years,” said Lopez. “The city is being more strategic on where it wants affordable housing.” Lopez said the city is focused on infill and senior affordable housing.

In terms of barriers, Mayo said El Paso is isolated geographically. As a result, he said there are only a handful of players active in the city’s affordable housing market.

“The market is not as frothy as a lot of larger markets. There is not a lot of Community Reinvestment Act demand,” said Crowder, who added that LIHTC pricing in El Paso is in the high 80-cents-per-credit range.

Arriaga said 9 percent LIHTCs are extremely competitive across Texas. “The LIHTC is hyper-competitive in Texas,” said Arriaga. “The challenge is how to equitably disperse these resources.” He said this proves challenging as the 9 percent LIHTC is oversubscribed up to five times over.

“I respect our members. They are threading a needle with all of the tax credit requirements and HUD specified rents,” said Arriaga. “They are capped in terms of revenue, have rigorous compliance requirements, and have ample soft costs (attorneys, accountants, etc.)”

Arriaga said a lack of housing affordable to folks at all income levels is another barrier. He is worried that this lack of supply may limit growth across the state.

Conclusion

El Paso is a great place for continued affordable housing development as the city has a much lower-than-average median household income, high occupancy rates for affordable housing and has an engaged city government.

“I don’t see any let up in the demand for affordable housing,” said Lopez. ❖

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