Montgomery County, Maryland

RENTAL HOUSING STUDY STRATEGY COMMITTEE

POLICY STRATEGY: RECOMMENDED TOOLS FOR CONSIDERATION

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DRAFT FOR DISCUSSION ONLY

PROJECT OVERVIEW

DATA COLLECTION AND EXISTING CONDITIONS

- Identify Data Needs
- Identify Key Stakeholders
- Review Background Materials
- Neighborhood Assessment
- Focus Groups and Stakeholder Interviews

ANALYSIS

- Local and State Policy Analysis
- Best Practices Analysis
- Financial Feasibility Model
- Cost/Benefit Assessment

RECOMMENDATIONS

- Identify Options
- Develop Recommendations
- Draft Final Report
- Meet with Advisory Committee, Planning Board, County Executive and County Council

INTRODUCTION

- The tools presented today reflect best practices on how to meet the rental housing preservation and production priorities identified through this effort.
- These tools are recommendations of the RKG Associates Team, vetted through the Technical Advisory Committee and the Strategic Advisory Committee.
- The potential strategy thresholds presented reflect one approach to implementing the proposed tool. While these thresholds have been tested for market viability, they are not the only way for the County to implement.
- Ultimately, the Planning Commission and the County Council will decide—with support from M-NCPPC and DHCA–on which tools to pursue and how to pursue them.

DEFINING PRIORITIES

The County's priorities and principles will guide decisions about specific policy recommendations.

- The County is committed to actively promoting policies to expand housing opportunities countywide.
- Scattered site opportunities along with income diversity remain key goals of County policy.
- Flexibility—combined with predictability—is essential.
- Income diversity remains a key goal of County policy.
- Preservation and production is a balancing act – production is necessary for preservation.
- The County will promote policies which produce a vibrant yet stable and sustainable housing marketplace.

POLICY RECOMMENDATIONS

MPDU Program*

Increase Requirement
FAR-Based Option
Sliding Scale Option
Off-Site Option (Within Planning Area)

Land Use/Zoning Tools

Adaptive Re-Use
Reduced Parking Requirements
Modified Bonus Density*
Public Land/Co-location*

Preservation Tools

Inventory of At-Risk Properties
Expanded Right of First Refusal*
Redevelopment / Preservation Incentives
Financial Education

Financial Tools

General Appropriations
PILOT for Small Projects
Demolition Fees
Tax Increment Financing
9% Credit Set Aside
Local Housing Vouchers

*Revisions to current County policies

POLICY RECOMMENDATIONS

MPDU Program

Increase Requirement

FAR-Based Option

Sliding Scale Option

Off-Site Option

MPDU PROGRAM
INCREASE REQUIREMENT OPTION

- **Option:** Revise the County’s MPDU program to require a greater percentage of income controlled units
- **Benefit:** Potentially increase production of below market-rate housing
- **Location:** Throughout Montgomery County, Potentially varied by planning area or some other subdivision of the County
- **Challenge:** Could have potentially chilling impact on new rental housing construction for a period of time, Forces changes to CR zone requirements, How do you deal with in process developments?
- **Cost:** Impacts to developers will depend on location, type, and size of project

MPDU PROGRAM
FAR-BASED OPTION

- **Option:** In cases where density is calculated using FAR rather than units, also calculate the MPDU requirements based on FAR. This will allow flexibility in determining the types of below-market rate housing needed on a project-by-project or neighborhood-by-neighborhood basis
- **Benefit:** Meet needs for specific unit types (e.g. 3+ bedroom units) depending on need in different neighborhoods
- **Location:** Throughout the County
- **Challenge:** Negotiated process could extend development timeline, Could reduce total number of bedrooms/units, Impact on design would require early settlement
- **Cost:** Impacts based on change to MDPU percentage requirements

CONSIDERATIONS
FAR OPTIONS (310 UNIT COMPLEX)

Mix	MPDU Units (at 12.5%)
Market Average Mix	39
All Efficiencies	58
All One Bedrooms	43
All Two Bedrooms	32
All Three Bedrooms	26

MPDU PROGRAM
SLIDING SCALE OPTION

- **Option:** Create a menu of income targets and set-aside percentages that developers can choose from to meet their affordability obligations
- **Benefit:** Meet needs below (and above) incomes of current households served by the MPDU program
- **Location:** Throughout the County with different options in different neighborhood types
- **Challenge:** Specifying appropriate set-aside percentages and income thresholds, Could reduce the number of income-restricted units that are produced
- **Cost:** $0 if percent requirement balance change in revenue loss for developer, Will vary by location if ratios are not balanced to financial impact

CONSIDERATIONS
SLIDING SCALE OPTION

Sliding Scale Ratios
By Income Threshold for Example Neighborhoods

		Income Target		
	STUDY AREA	**50%**	**MPDU**	**80%**
Set Aside Percentage	Route 29 Corridor East	9.0%	12.5%	20.5%
	Friendship Heights/Bethesda/White Flint	10.5%	12.5%	15.0%
	Potomac	10.0%	12.5%	17.0%
	Germantown & Vicinity	9.0%	12.5%	22.5%

MPDU PROGRAM OFF-SITE OPTION

- **<u>Option:</u>** Revise the County's MPDU program to allow more options for developers to build affordable units on alternative sites within the same Planning Area with approval of DHCA director
- **<u>Benefit:</u>** Potentially increase production of below market-rate housing
- **<u>Location:</u>** Existing Metro-accessible neighborhoods, Future Purple Line neighborhoods
- **<u>Challenge:</u>** Developing MPDUs in high-opportunity areas, Availability of appropriate sites, Agreement on cash value
- **<u>Cost:</u>** Potential to deliver more units for same cash value depending upon location of sending and receiving sites

IMPLEMENTATION OPTIONS

- Increase Requirement
  - Mitigate increase in MPDU requirement to 15% to requiring 5% at 50% of AMI and 10% at 80% of AMI; **OR**
  - Increase the MPDU requirement to 15% of all units, paced at a 0.5% increase each year for the next five years
- FAR Based
  - Change requirement from % of units to % of total building square footage
- Sliding Scale
  - Create a location-based MPDU requirement that scales % of units required based on AMI target
- Off Site Within Same Planning Area
  - Allow off-site development within same planning area for up to 50% of the on-site requirement in exchange for a 1.5:1 delivery of new MPDU units/square footage

POLICY RECOMMENDATIONS

Land Use/Zoning Tools

Adaptive Re-Use
Reduced Parking Requirements
Modified Bonus Density
Public Land/Co-location

LAND USE/ZONING TOOLS
ADAPTIVE RE-USE

- **Option:** Identify underutilized buildings (commercial, schools) for conversion to housing
- **Benefit:** Expand overall housing development options
- **Location:** Throughout the County
- **Challenge:** Determining appropriate properties for re-use, Financing adaptive re-use projects, Neighborhood opposition
- **Cost:** Will vary by site/opportunity
- **Recommendation:** Inventory potential re-use buildings (underutilized sites), Perform feasibility studies, Engage property owners

LAND USE/ZONING TOOLS
REDUCED PARKING REQUIREMENTS

- **Option:** Conduct a comprehensive review of parking requirements, including parking for MPDUs
- **Benefit:** Potentially lower overall development costs to create more affordable housing options
- **Location:** Existing Metro-accessible neighborhoods
- **Challenge:** Financing of projects with limited parking, Neighborhood opposition, Potentially modest impact on costs/affordability
- **Cost:** $0 to implement
- **Recommendation:** Revisit 2011 parking study for recommendations; Implement parking reduction strategies for Purple Line neighborhoods

LAND USE/ZONING TOOLS
MODIFIED BONUS DENSITY

- **Option:** Revise current density bonus programs to better reflect development costs and economic conditions in local submarkets
- **Benefit:** Appropriate density bonus provisions could facilitate the development of more housing (including more MPDUs)
- **Location:** Existing Metro-accessible neighborhoods, Future Purple Line neighborhoods
- **Challenge:** Opposition to higher-densities, Determining appropriate density bonus
- **Cost:** $0 to implement
- **Recommendation:** Increase bonus density allowances for 20% of units to be affordable, following similar formula currently employed for the 15% rule. An example would be to increase the points for housing in the CR zones as determined in the Master Planning process.

LAND USE/ZONING TOOLS
PUBLIC LAND/CO-LOCATION

- **Option:** Expand use of publically-owned (and non-profit owned) land
- **Benefit:** Free/reduced-price land can reduce overall cost of development and allow for more affordable units
- **Location:** Throughout the County
- **Challenge:** Determining sites appropriate for housing development, Creating a transparent process for allocating public land to housing, Loss of use of land for future public needs
- **Cost:** Revenues will vary based on sale price of land (subsidies for price controlled housing)
- **Recommendation:** Expand, through the Master Planning process, the availability of public and not-for-profit owned land for development of affordable housing

POLICY RECOMMENDATIONS

Preservation Tools

Inventory of At-Risk Properties
Expanded Right of First Refusal
Redevelopment / Preservation Incentives
Financial Education

PRESERVATION TOOLS
INVENTORY OF AT-RISK PROPERTIES

- **Option:** Conduct a comprehensive inventory of market-rate affordable rental properties, map the locations and track information on these properties
- **Benefit:** Potentially preserve existing affordable rental housing
- **Location:** Existing Metro-accessible neighborhoods, Future Purple Line neighborhoods, Existing rental neighborhoods
- **Challenge:** Defining ‘at-risk,’ Implementing strategies to preserve market-rate affordable units after they are identified
- **Cost:** Staff time to prepare the inventory
- **Recommendation:** Invest staff time to inventory at-risk properties, Establish prioritization criteria, rank inventoried assets

PRESERVATION TOOLS
EXPANDED RIGHT OF FIRST REFUSAL

- **Option:** Continue to aggressively utilize the County's RoFR program and identify new, dedicated funding sources to preserve affordable housing
- **Benefit:** Work with non-profit developers to preserve existing affordable rental housing
- **Location:** Future Purple Line neighborhoods, Existing rental neighborhoods
- **Challenge:** Generating sufficient resources to assist with property purchase
- **Cost:** Market value of property, $300 to $600 PSF for existing MF properties, Could be more if zoning allows increased density
- **Recommendation:** Use at-risk list to determine action, Fund greater acquisition efforts

PRESERVATION TOOLS
REDEVELOPMENT WITH PRESERVATION

- **Option:** Allow the shifting of density from one part of a site to another such that a complete project conforms to density requirements
- **Benefit:** Potentially preserve existing affordable rental housing while encouraging redevelopment
- **Location:** Future Purple Line neighborhoods, Existing rental neighborhoods
- **Challenge:** Identifying appropriate sites, Neighborhood opposition
- **Cost:** $0 to implement
- **Recommendation:** Use at-risk list to determine eligibility, Determine the suitability of preservation as part of the redevelopment strategy, Ensure equal value of preservation, Establish higher MPDU threshold (i.e. 20% affordable; 25% in CR zone)

PRESERVATION TOOLS FINANCIAL EDUCATION

- **Option:** Provide financial education/credit counseling for income-qualified households to make them more creditworthy tenants
- **Benefit:** Improves potential for households that can afford to rent existing units to find suitable housing, Can be tied into ownership programs, Partner with private entities already executing program
- **Location:** All of Montgomery County
- **Challenge:** Counseling does not guarantee results, Willingness of renters to use program, Access for non-County residents
- **Cost:** Establishing program/staffing, Operating program (costs vary based on size)
- **Recommendation:** Build financial education program for potential renters in Montgomery County, Investigate potential to partner with private sector

POLICY RECOMMENDATIONS

Financial Tools

General Appropriations

In Lieu Fee for Small Projects

Demolition Fees

Tax Increment Financing

9% Credit Set Aside

Local Housing Vouchers

FINANCIAL TOOLS
GENERAL APPROPRIATIONS

- **Option:** Increase County funding for price controlled rental housing preservation/development
- **Benefit:** Production/preservation of more rental housing affordable to low-income households
- **Location:** Throughout the County
- **Challenge:** May be politically challenging to increase funding, Balancing funding priorities
- **Cost:** Based on increased commitment
- **Recommendation:** Increase minimum funding threshold to $100 Million

FINANCIAL TOOLS
IN LIEU FEE FOR SMALL PROJECTS

- **Option:** Require a payment to the housing trust find for smaller projects not subject to the MPDU program requirements (<20 units)
- **Benefit:** Increase resources for acquisition and/or development of housing
- **Location:** Throughout the County
- **Challenge:** Could hurt smaller projects, Setting the payment appropriately, Opposition from developers, Limited applicability and impact,
- **Cost:** The value difference between market rate and 65% of AMI (under current MPDU program)
  - $250,000 to $1,000,000 per unit in FH/B/WF
  - $100,000 to $240,000 per unit in Rt. 29
- **Recommendation:** Calculate payment using half of the approved MPDU ratios

FINANCIAL TOOLS
DEMOLITION FEES

- **Option:** Evaluate requiring property owners to pay a fee and/or tax for every demolished residential unit.
- **Benefit:** Increase resources for acquisition and/or development of housing. Slow pace of condo conversion and preserve rental units.
- **Location:** Throughout the County
- **Challenge:** Setting the fee/tax, Opposition from property, Potentially limit development of condominiums
- **Cost:** Cost to project dependent on tax rate
- **Recommendation:** Implement a $0 to $3 per square foot tax based on ranking on the at-risk list

FINANCIAL TOOLS
TAX INCREMENT FINANCING

- **Option:** Develop a TIF program for affordable housing
- **Benefit:** Increase resources for acquisition and/or development of housing.
- **Location:** Throughout the County, Future Purple Line neighborhoods
- **Challenge:** Opposition from residents/elected leadership, Legal obstacles, Could hurt County's Bond rating
- **Cost:** $0 following 'but for test' logic, Deferred collection of incremental revenues for duration of TIF
- **Recommendation:** Allow TIF at 75% of increment for 20 years for either an increase in unit/FAR ratio or a greater discount from MPDU income threshold (i.e. 30% of AMI)

FINANCIAL TOOLS
9% CREDIT SET ASIDE

- **Option:** Work with Prince George's County to lobby for special set aside of 9% credits using the Northern Virginia set aside s a model
- **Benefit:** Production of more rental housing affordable to low-income households
- **Location:** Throughout the County
- **Challenge:** May be politically challenging to change state policy, Need buy-in and cooperation from PG County counterparts
- **Cost:** Lobbying costs to state government
- **Recommendation:** Partner with Prince George's County to lobby for regional set aside

FINANCIAL TOOLS
LOCAL HOUSING VOUCHERS

- **Option:** Consider expanding the local housing voucher program, funded with dedicated resources. Target subsidies at households that are most in need and/or are not being served by other programs. Give preference to seniors, disabled persons and low-income individuals with jobs in the County.
- **Benefit:** Increase access to housing among lowest-income households
- **Location:** Throughout the County
- **Challenge:** Requires additional and on-going resources, Potential lack of units to take vouchers
- **Cost:** Voucher program to 30% of AMI
  - $21,000 to $63,000 annually per unit in FH/B/WF
  - $13,000 to $22,000 annually per unit in Rt. 29
- **Recommendation:** Fund additional 10 vouchers annually for 5 years

OTHER TOOLS CONSIDERED

Off Site Density Averaging
Property Tax Abatement
Commercial Linkage Fees
Eviction Prevention
Rent Stabilization
4% LIHTC Program

LAND USE/ZONING TOOLS
DENSITY AVERAGING

- **Option:** Allow varying densities on parcels within a specified zone/area such that the overall maximum density remains unchanged
- **Benefit:** Flexibility in development opportunities could lead to the production of more housing overall
- **Location:** Future Purple Line neighborhoods, Existing rental neighborhoods
- **Challenge:** Identifying appropriate areas for density averaging, Willingness of owners to sell density, Limits an areas potential to accommodate
- **Cost:** Transaction costs for transfer of density (if covered by the County)

PRESERVATION TOOLS
PROPERTY TAX ABATEMENT/EXEMPTION

- **Option:** Offer a property tax exemption to owners of affordable rental properties on the additional value created by any improvements or renovations for a determined period in exchange for committed affordability
- **Benefit:** Preserve existing affordable rental housing
- **Location:** Existing Metro-accessible neighborhoods, Future Purple Line neighborhoods, Existing rental neighborhoods
- **Challenge:** Creating a sufficient incentive for property owners to commit to long-term affordability, Likely have to layer other inducements
- **Cost:** Will vary based on unit size, could range from $0.60 PSF (efficiency=$360; 3BR=$825) to $1.20 PSF (efficiency=$720; 3BR=$1,650) in abatements per unit per year
  - $75 PSF to $150 PSF in rehabilitation cost estimate

FINANCIAL TOOLS
COMMERCIAL LINKAGE FEES

- **Option:** Evaluate assessing commercial linkage fees on new commercial construction
- **Benefit:** Increase resources for acquisition and/or development of housing
- **Location:** Throughout the County
- **Challenge:** Setting the payment appropriately, Opposition from developers, Potential negative impact on economic growth
- **Cost:** Impacts to commercial projects will depend upon fee structure

PRESERVATION TOOLS
EVICTION PREVENTION

- **<u>Option:</u>** Create a broad eviction prevention program that includes a good cause eviction law, expanded renter counseling and short-term assistance to renters
- **Benefit:** Allow low-income renters to remain in their homes
- **<u>Location:</u>** Throughout the County
- **<u>Challenge:</u>** Opposition to good cause eviction law from property owners
- **<u>Cost:</u>** Potential legal fees for arbitration/ litigation, Assisting residents with arrearages

PRESERVATION TOOLS
RENT STABILIZATION

- **Option:** Establish a fixed annual rent increase thresholds for rental units within the County
- **Benefit:** Controls how fast rents can escalate compared to natural market appreciation,
- **Location:** Throughout the County; Metro-accessible neighborhoods
- **Challenge:** Ties benefit to unit and not resident, Enables abuse of system over long term, Creates disincentive for modernization/upkeep and new investment
- **Cost:** $0 operating costs

FINANCIAL TOOLS
EXPANDED USE OF 4% CREDIT

- **Option:** Convene a group of developers and public officials to better understand barriers to wider utilization of the 4% tax credit and how to expand use of it.
- **Benefit:** Production and preservation of more rental housing affordable to low-income households
- **Location:** Throughout the County
- **Challenge:** Tax credits do not cover the loss in value from lower income threshold requirement; Likely would need to use tax-exempt bonds
- **Cost:** The difference between the value of the 4% vouchers and the loss of delivering units at 50% AMI
  - $35,000 to $40,000 per unit for MPDU units
    - $300,000 to $1,000,000 for market rate in FH/B/WF
    - $150,000 to $300,000 for market rate in Rt. 29

NEXT STEPS

RECOMMENDATIONS

- Identify Options
- Develop Recommendations
- Draft Final Report
- Meet with Advisory Committee, Planning Board, County Executive and County Council