July 2017

Rental Housing Study
Technical Document
Montgomery County, Maryland

Prepared by:

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1 INTRODUCTION

A. INTRODUCTION

Montgomery County is a place of diversity – ethnically, racially and economically. The county boasts strong schools, major employment centers and a range of amenities that make it a highly desirable area in which to live. Despite the county's pioneering efforts to spur price-appropriate rental housing for a range of income levels through new development, housing market conditions within the Washington, DC metropolitan area continue to put substantial pressure on Montgomery County's rental housing market. Simply put, the supply and demand equilibrium has been out of balance for decades, with demand constantly outweighing supply.

This phenomenon is not unique to Montgomery County or the Metro DC area, as major metropolitan regions throughout the United States have not encouraged development of rental housing for a number of reasons. However, the economic expansion—and consequently household growth—of the Metro DC area has exacerbated the rental housing shortage, with documented research showing existing market-rate affordable housing steadily diminishing as rental rates increase faster than income.

Exacerbating this challenge is the sustained pressure from the development community to maximize the development potential within the county. This tension affects those properties that have the potential to yield substantially higher returns if existing housing is demolished and replaced with higher-intensity, more lucrative development. Regional reinvestment patterns reveal that suburban-scale retail centers and older, less dense garden apartment complexes tend to be most targeted for such replacement. The repositioning of older apartment complexes, which tend to have the most affordable rental rates, for newer, more upscale, mixed-use developments adversely affects price diversity.

Montgomery County, through its Planning Department, which is part of the Maryland-National Capital Parks and Planning Commission (M-NCPPC), and the Department of Housing and Community Affairs (DHCA), has undertaken a thorough assessment of the county's rental housing market in an effort to understand the stressors that have the greatest impact on rental housing affordability. This report is aimed at [1] determining issues, barriers, and opportunities related to price-appropriate rental housing; [2] understanding the geographic impact of housing cost/development relevant to rental housing supply/demand balance; and [3] determining a "business case" for recommending new and modified housing policies that address the county's need within the context of its overall growth and development goals and objectives.

A consulting team led by RKG Associates, Inc. of Alexandria, VA (RKG) was retained to perform the analysis and work with the client team and an advisory committee of community and housing leaders in Montgomery County. The team's goal is to provide recommendations on how county leadership can position itself for success into the future. The RKG team includes APD Urban Planning and Management of Atlanta, GA (APD) and Lisa Sturtevant & Associates of Alexandria, VA (LSA).

RKG is a full-service economic, planning and real estate consulting firm with extensive experience analyzing residential markets and residential financial modeling. RKG analyzed the existing conditions of rental housing in Montgomery County and evaluated the current and potential market needs by income level. The firm also produced an interactive financial feasibility model to assess the potential impact new and revised policies can have on the viability of rental housing preservation and development.

In addition to these efforts, APD provided the Neighborhood Assessment to assess the feasibility of area-specific recommendations based on the immediate market context and potential. LSA was included as a policy and best practices expert. LSA helped tie the market research and analysis into policy recommendations and best practices that are relevant to Montgomery County.

Name	Title	Agency
Nicola Whiteman	Senior Vice President of Government Affairs	Apartment and Office Building Association of Metropolitan Washington
Gustavo Torres	Executive Director	CASA
Monica Warren-Jones	Director, Capital Solutions	Enterprise Community Partners
Dick Knapp	Senior Vice President	Foulger-Pratt
Stacy Spann	Executive Director	Housing Opportunities Commission of Montgomery County
Linda McMillan	Senior Legislative Analyst	Montgomery County Council
Uma Ahluwalia	Director	Montgomery County Department of Health and Human Services
Clarence Snuggs	Director	Montgomery County Department of Housing and Community Affairs
Jay Greene	Division Chief, Housing	Montgomery County Department of Housing and Community Affairs
Matt Greene	Senior Planner	Montgomery County Department of Housing and Community Affairs
Gwen Wright	Director	Montgomery County Planning Department
Rose Krasnow	Deputy Director	Montgomery County Planning Department
Caroline McCarthy	Chief, Research and Special Projects Division	Montgomery County Planning Department
Robert Ruiz	Manager for Research and Special Projects	Montgomery County Planning Department
Lisa Govoni	Housing Planner	Montgomery County Planning Department
Matt Losak	Executive Director	Montgomery County Renters Alliance, Inc.
Sally Sternbach	Acting Director	Montgomery Economic Development
Robert Goldman	President	Montgomery Housing Partnership
Ilana Branda	Manager, Policy & Neighborhood Development	Montgomery Housing Partnership
David Hillman	Chief Executive Officer	Southern Management Company
Leila Finucane	President	Victory Housing

Over the course of 18 months, the RKG team met with the client team and Advisory Committee to present the findings of the analyses, present potential implementation strategies and garner feedback and input on how to refine and focus the final recommendations. The Technical Advisory Committee included representatives from M-NCPPC and DHCA. The Strategy Advisory Committee comprised representatives from county leadership, housing advocacy groups, for-profit and non-profit developers, and key stakeholders with knowledge and critical perspectives on rental housing (Table 1-1).

Most critical to understanding Montgomery County's rental housing market, several focus groups and interviews were conducted with a broader range of stakeholders, including representatives from the residential broker community, multi-family developers, housing advocates, property managers, non-profit organizations and interested citizens that were not part of the Technical or Strategic Advisory Committees.

These efforts produced two documents finalized upon completion of the project. The first is this technical document, including the detailed countywide and neighborhood-specific analysis of rental housing in Montgomery County. The second is a recommendations and tools report that provides the final recommendations and action items for county leadership to position Montgomery County to be even more efficient and effective with its resources. The recommendations and tools report is the result of the analysis outlined within this document, stakeholder feedback gathered throughout the project, input from the Technical and Strategy Advisory Committees, and M-NCPPC staff and collective content-area expertise from the RKG team.

1. Definition of Terms

A housing affordability analysis compares the ability of households in each geography to pay for housing as compared to the cost for housing within that same geographic area. There is no greater misunderstanding than with the term "affordable housing." Affordable housing is often interpreted as another way to say "subsidized housing" or "public housing." While subsidized housing and public housing are components of affordable housing, they do not make up the entirety of this classification.

It is easy to see why there is confusion and misinterpretation of the term "affordable," as there is no single definition of the term that is applied universally throughout the United States. However, it is important that this term, and other housing classification terminology, be clearly defined prior to engaging in an assessment of data. Within the context of the Rental Housing Study, the following terms and their definitions are applied as follows:

- **Affordability** – Affordability is calculated based on an individual household's reasonable ability to pay for housing. The US Department of Housing and Urban Development (HUD) defines affordability for rental housing as no more than 30 percent of the household's gross income.
- **Affordable Housing** – Affordable housing is the overarching term used to describe all housing priced at a level that will not cause a given household to become housing cost-burdened.
- **Area Median Income** – Area median income, or AMI, is defined as the median income for a given region. The AMI is officially established by HUD each year and varies widely based on the geographic market.
- **Cost-Burdened** – The relationship between household income and the percent of that income spent on housing. A household is cost-burdened if more than 30 percent of gross income goes to housing costs.
- **Extremely Low Income** – Defined by HUD as households earning below 30 percent of AMI.
- **Very Low Income** – Defined for this study as households earning below 50 percent of AMI.
- **Low Income** –HUD places a limit on the income thresholds for the "Low Income" classification, in terms of qualifying for certain HUD grants and funding programs. HUD defines the "Low Income" classification as up to 80 percent of the local AMI or 100 percent of the national AMI, whichever is lower for the purposes of public housing and Section 8.
- **Moderate Income** – Defined for this effort as households earning below 100 percent of AMI. Moderate income is defined differently for certain HUD agencies.
- **Market-Rate Affordable** – Market-rate affordable is housing that receives no public subsidy, but is naturally affordable to households earning below 80 percent of AMI for rental.
- **Market-Rate Housing** – Market-rate housing is housing that receives no public subsidy. This housing includes all units not affordable to households earning below 80 percent of AMI for rental.
- **Moderately Priced Dwelling Units**– Moderately priced dwelling units (MPDUs) include rental and ownership units that serve households with incomes up to approximately 60 to 70 percent of the AMI. At least 12.5 percent of the total number of units in every subdivision or high-rise building of 20 or more units must be moderately priced.
- **Ability to Pay** – The maximum amount a household can spend on housing without being cost-burdened.

2. Data Sources

The consultant team used a myriad of primary and secondary data sources to complete this Rental Housing Study, as well as anecdotal feedback from local experts and key stakeholders. The following list details the empirical sources used.

Table 1-2

Data Sources for Analysis

Source	Table	Description	Date	Data Provider
American Community Survey (ACS)	B01001	Sex By Age	2005-2009, 2010-2014	United States Census Bureau
American Community Survey (ACS)	B01002	Median Age by Sex	2005-2009, 2010-2014	United States Census Bureau
American Community Survey (ACS)	B01003	Total Population	2005-2009, 2010-2014	United States Census Bureau
American Community Survey (ACS)	B02001	Race	2005-2009, 2010-2014	United States Census Bureau
American Community Survey (ACS)	B03002	Hispanic or Latino Origin by Race	2005-2009, 2010-2014	United States Census Bureau
American Community Survey (ACS)	B03003	Hispanic Latino Origin	2005-2009, 2010-2014	United States Census Bureau
American Community Survey (ACS)	B08301	Means of Transportation to Work	2005-2009, 2010-2014	United States Census Bureau
American Community Survey (ACS)	B08303	Travel Time to Work	2005-2009, 2010-2014	United States Census Bureau
American Community Survey (ACS)	B11001	Household Type (Including Living Alone)	2005-2009, 2010-2014	United States Census Bureau
American Community Survey (ACS)	B11007	Households by Presence of People 65 Years and Over, Household Size and Household Type	2005-2009, 2010-2014	United States Census Bureau
American Community Survey (ACS)	B19001	Household Income in the Past 12 Months (in	2005-2009, 2010-2014	United States Census Bureau

		2014 Inflation-Adjusted Dollars)		
American Community Survey (ACS)	B19013	Median Household Income in the Past 12 Months (In 2014 Inflation-Adjusted Dollars)	2005-2009, 2010-2014	United States Census Bureau
American Community Survey (ACS)	B25001	Housing Units	2005-2009, 2010-2014	United States Census Bureau
American Community Survey (ACS)	B25003	Tenure	2005-2009, 2010-2014	United States Census Bureau
American Community Survey (ACS)	B25007	Tenure by Age of Householder	2005-2009, 2010-2014	United States Census Bureau
American Community Survey (ACS)	B25008	Total Population in Occupied Housing Units by Tenure	2005-2009, 2010-2014	United States Census Bureau
American Community Survey (ACS)	B25009	Tenure by Household Size	2005-2009, 2010-2014	United States Census Bureau
American Community Survey (ACS)	B25010	Average Household Size of Occupied Housing Units by Tenure	2005-2009, 2010-2014	United States Census Bureau
American Community Survey (ACS)	B25032	Tenure by Units in Structure	2005-2009, 2010-2014	United States Census Bureau
American Community Survey (ACS)	B25063	Gross Rent	2005-2009, 2010-2014	United States Census Bureau
American Community Survey (ACS)	B25068	Bedrooms by Gross Rent	2005-2009, 2010-2014	United States Census Bureau
American Community Survey (ACS)	B25118	Tenure by Household Income in the Past 12 Months (in 2014 Inflation-Adjusted Dollars)	2005-2009, 2010-2014	United States Census Bureau
American Community Survey (ACS)	DP04	Selected Housing Characteristics	2005-2009, 2010-2014	United States Census Bureau

American Community Survey (ACS)	S0101	Age	2005-2009, 2010-2014	United States Census Bureau
American Community Survey (ACS)	S1701	Poverty Status in the Past 12 Months	2005-2009, 2010-2014	United States Census Bureau
American Community Survey (ACS)	S1501	Educational Attainment	2005-2009, 2010-2014	United States Census Bureau
American Community Survey (ACS)	N/A	Components of Population Change	2010-2014	United States Census Bureau
Comprehensive Housing Affordability Strategy (CHAS)	Table 7	Renter Occupied Cost Burden by HAMFI	2008-2012	United States Department of Housing and Urban Development
Comprehensive Housing Affordability Strategy (CHAS)	Table 8	Renter Occupied Cost Burden by HAMFI Thresholds	2008-2012	United States Department of Housing and Urban Development
Comprehensive Housing Affordability Strategy (CHAS)	Table 9	Renter Occupied Cost Burden by Race by HAMFI Thresholds	2008-2012	United States Department of Housing and Urban Development
Comprehensive Housing Affordability Strategy (CHAS)	Table 12	Renter Occupied Year Structure Built	2008-2012	United States Department of Housing and Urban Development
Comprehensive Housing Affordability Strategy (CHAS)	Table 15C	Renter Occupied Units by HAMFI by RHUD Threshold	2008-2012	United States Department of Housing and Urban Development
Comprehensive Housing Affordability Strategy (CHAS)	Table 16	Renter Occupied Elderly Family by HAMFI	2008-2012	United States Department of Housing and Urban Development
Comprehensive Housing Affordability Strategy (CHAS)	Table 18C	Rent by Units in Structure by RHUD Threshold	2008-2012	United States Department of Housing and Urban Development
Environmental Systems Research Institute (ESRI) Demographics	Demographic and Income Profile	Population	2015-2020	ESRI ArcGIS
Environmental Systems Research Institute (ESRI) Demographics	Demographic and Income Profile	Households	2015-2020	ESRI ArcGIS
Environmental Systems Research Institute (ESRI) Demographics	Demographic and Income Profile	Families	2015-2020	ESRI ArcGIS

Environmental Systems Research Institute (ESRI) Demographics	Demographic and Income Profile	Race and Ethnicity	2015-2020	ESRI ArcGIS
Environmental Systems Research Institute (ESRI) Demographics	Demographic and Income Profile	Average Household Size	2015-2020	ESRI ArcGIS
Environmental Systems Research Institute (ESRI) Demographics	Demographic and Income Profile	Owner Occupied Housing Units	2015-2020	ESRI ArcGIS
Environmental Systems Research Institute (ESRI) Demographics	Demographic and Income Profile	Renter Occupied Housing Units	2015-2020	ESRI ArcGIS
Environmental Systems Research Institute (ESRI) Demographics	Demographic and Income Profile	Median Age	2015-2020	ESRI ArcGIS
Environmental Systems Research Institute (ESRI) Demographics	Demographic and Income Profile	Median Household Income	2015-2020	ESRI ArcGIS
OnTheMap	Work & Home	Total Primary Jobs	2013	United States Census Bureau
OnTheMap	Work & Home	Jobs by Worker Age	2013	United States Census Bureau
OnTheMap	Work & Home	Jobs by Earnings	2013	United States Census Bureau
OnTheMap	Work & Home	Jobs by NAICS Industry Sector	2013	United States Census Bureau
OnTheMap	Work & Home	Jobs by Worker Race	2013	United States Census Bureau
OnTheMap	Work & Home	Jobs by Worker Ethnicity	2013	United States Census Bureau
OnTheMap	Work & Home	Jobs by Worker Educational Attainment	2013	United States Census Bureau
OnTheMap	Work & Home	Jobs by Worker Sex	2013	United States Census Bureau
OnTheMap	Work & Home	Total Private Jobs	2013	United States Census Bureau

OnTheMap	Work & Home	Private Jobs by Worker Age	2013	United States Census Bureau
OnTheMap	Work & Home	Private Jobs by Earnings	2013	United States Census Bureau
OnTheMap	Work & Home	Private Jobs by NAICS Industry Sector	2013	United States Census Bureau
OnTheMap	Work & Home	Private Jobs by Worker Race	2013	United States Census Bureau
OnTheMap	Work & Home	Private jobs by Worker Ethnicity	2013	United States Census Bureau
OnTheMap	Work & Home	Private Jobs by Worker Educational Attainment	2013	United States Census Bureau
OnTheMap	Work & Home	Private Jobs by Worker Sex	2013	United States Census Bureau
Montgomery County Assessor Database	N/A	Single Family Housing	2014	Montgomery County Assessor Office
Montgomery County Assessor Database	N/A	Multifamily Family Housing	2014	Montgomery County Assessor Office
Montgomery County Assessor Database	N/A	Non-Owner Occupied Housing	2014	Montgomery County Assessor Office
Rental Housing Survey	N/A	Multifamily Housing Supply	2014	Montgomery County Department of Housing and Community Affairs
Rental Housing Survey	N/A	Current Monthly Rents	2014	Montgomery County Department of Housing and Community Affairs
Rental Housing Survey	N/A	Market Units	2014	Montgomery County Department of Housing and Community Affairs
Rental Housing Survey	N/A	Subsidized Units	2014	Montgomery County Department of Housing and Community Affairs

2 *STUDY AREA IDENTIFICATION*

A. INTRODUCTION

Montgomery County is a large county with a diverse housing market. It includes everything from urban centers, such as downtown Silver Spring and Bethesda, to suburban and rural marketplaces primarily to the north and west. While this diversity is an asset to the county, the Technical and Advisory Committees recognize that these varied development patterns and intensities influence the supply/demand equilibrium affecting rental housing. To understand the nuanced dynamics of rental housing affordability and opportunity throughout Montgomery County, the county was subdivided into 12 subareas.

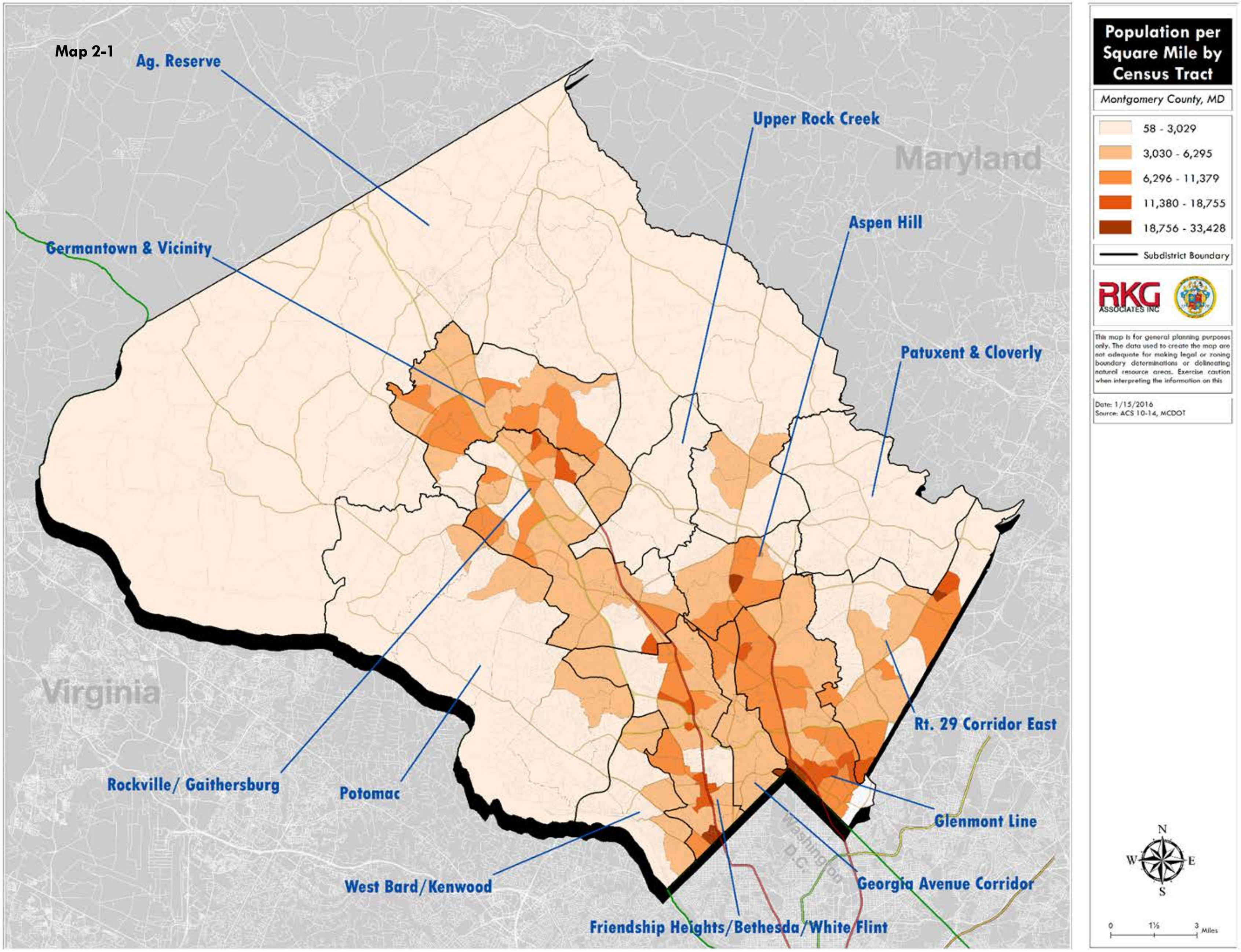
The Neighborhood Analysis required a greater level of specificity to identify potential area-specific opportunities. For this analysis, the RKG team along with the Technical and Advisory Committees defined four neighborhood typologies. This chapter describes the process of identifying these study areas and their role in framing the analysis presented within both this document and the accompanying Strategy Document.

B. SUBAREA IDENTIFICATION

To divide Montgomery County into subareas for the Rental Housing Study, the consultant team initially evaluated the county according to a variety of socioeconomic characteristics. The first step in creating subareas for Montgomery County was to extract data or indicators that tend to cluster together and create unique market dynamics. For this task, the consultant team used a number of socioeconomic variables from the 2009-2013 American Community Survey. These factors included (but were not limited to):

- Population density
- Housing unit density
- Median household income
- Median rent rate
- Minority population as a share of all persons
- Ratio of rental housing
- Median age of residents

Due to the nuances that exist among a heterogeneous sample, such as Montgomery County, all the data used was at the census tract level. Examples of this analysis are provided in Map 2-1.


Map 2-1
Ag. Reserve
Upper Rock Creek
Maryland
Aspen Hill
Germantown & Vicinity
Patuxent & Cloverly
Virginia
Rt. 29 Corridor East
Rockville/ Gaithersburg
Potomac
Glenmont Line
West Bard/Kenwood
Georgia Avenue Corridor
Friendship Heights/Bethesda/White Flint
Washington D.C.
Population per Square Mile by Census Tract
Montgomery County, MD
58 - 3,029
3,030 - 6,295
6,296 - 11,379
11,380 - 18,755
18,756 - 33,428
Subdistrict Boundary
RKG ASSOCIATES INC
This map is for general planning purposes only. The data used to create the map are not adequate for making legal or zoning boundary determinations or delineating natural resource areas. Exercise caution when interpreting the information on this
Date: 1/15/2016
Source: ACS 10-14, MCDOT
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3
Miles

The next step was to transform each of the variables so that they were commensurable; thus, percentages were calculated on the same plane as counts, dollars and/or age. The ensuing linear equation was used to standardize differing data types on a 1-10 scale:

$$y = 1 + \frac{(x - A)(10 - 1)}{B - A}$$

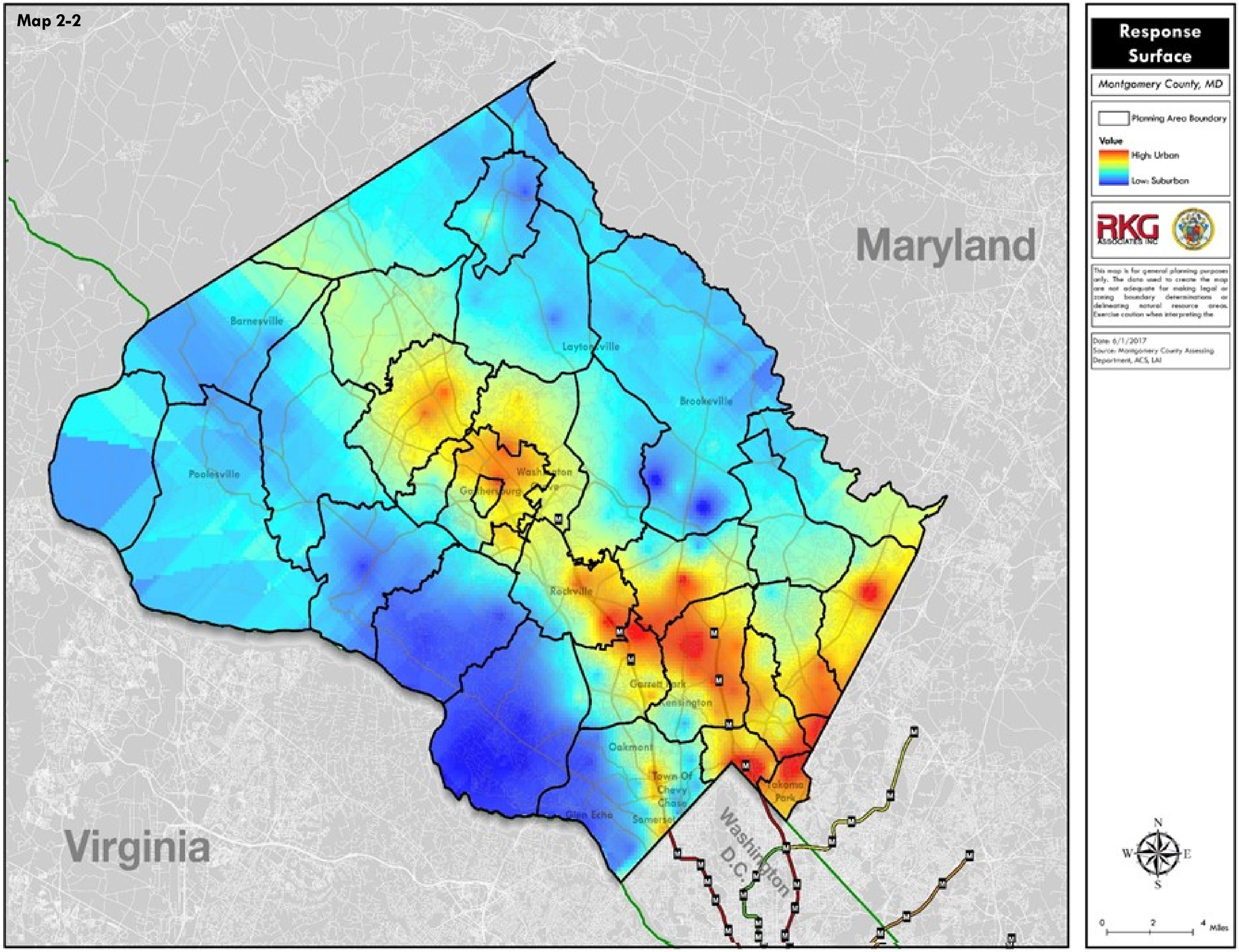
A = lowest census tract value for that variable
B = highest census tract value for that variable
x = actual value for the census tract being analyzed
y = standardized score for that tract in that variable

If x = A, this yields y= 1+0 as required, and if x = B, y = 1+10-1 = 10 as required. Once all the variables were standardized, RKG Associates summed them together and standardized the result for ease of interpretability. For the purpose of translating the standardized scores from the census tracts to Montgomery's unique planning areas, the consultant team chose to project the values for each census tract across fitted, vector-based scoring within the county, or response surface, and extract the predicted value to the centroid of each planning district (Map 2-2). The resulting step was to join the centroids to their original polygons and categorize the predicted values into five, equal interval classes.

The response surface analysis was then overlaid onto a boundary map for the county's 28 defined planning areas. RKG Associates and the Technical Advisory Committee worked together to use the socioeconomic analysis with the planning area boundaries to define the 12 planning subareas to perform the supply/demand and affordability analyses. The initial 12 subareas were reviewed by the Strategic Advisory Committee for their input. This examination led to a final set of subareas that incorporated both the groupings of socioeconomic characteristics outlined above as well as additional emphasis on existing planning area boundaries. The final 12 subareas can be seen in Map 2-3.

For this document and the Strategy Document, these subareas are referred to as Friendship Heights/Bethesda/White Flint, Rosemary Hills/ Kensington, Silver Spring/Glenmont, Route 29 Corridor East, Patuxent & Cloverly, Aspen Hill, Upper Rock Creek, Agricultural Reserve, Germantown & Vicinity, Rockville/Gaithersburg, Potomac, Westbard/Kenwood.

It is important to note that the Agricultural Reserve includes the settled areas within its overall boundary, including Poolesville and Damascus. This distinction is relevant when reviewing the data analyses in the following chapters, as the Agriculture Reserve zoning precludes most development, particularly relating to development density. Limitations in the data made it impossible to separate these settled areas from the remainder of the greater Agricultural Reserve land.


Map 2-2
Maryland
Virginia
Barnesville
Poolesville
Laytonsville
Brookeville
Washington Grove
Gaithersburg
Rockville
Garrett Park
Kensington
Oakmont
Town Of Chevy Chase
Somerset
Glen Echo
Takoma Park
Washington D.C.
Response Surface
Montgomery County, MD
Planning Area Boundary
Value
High: Urban
Low: Suburban
RKG ASSOCIATES INC
This map is for general planning purposes only. The data used to create the map are not adequate for making legal or zoning boundary determinations or delineating natural resource areas. Exercise caution when interpreting the
Date: 6/1/2017
Source: Montgomery County Assessing Department, ACS, LAI
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2
4
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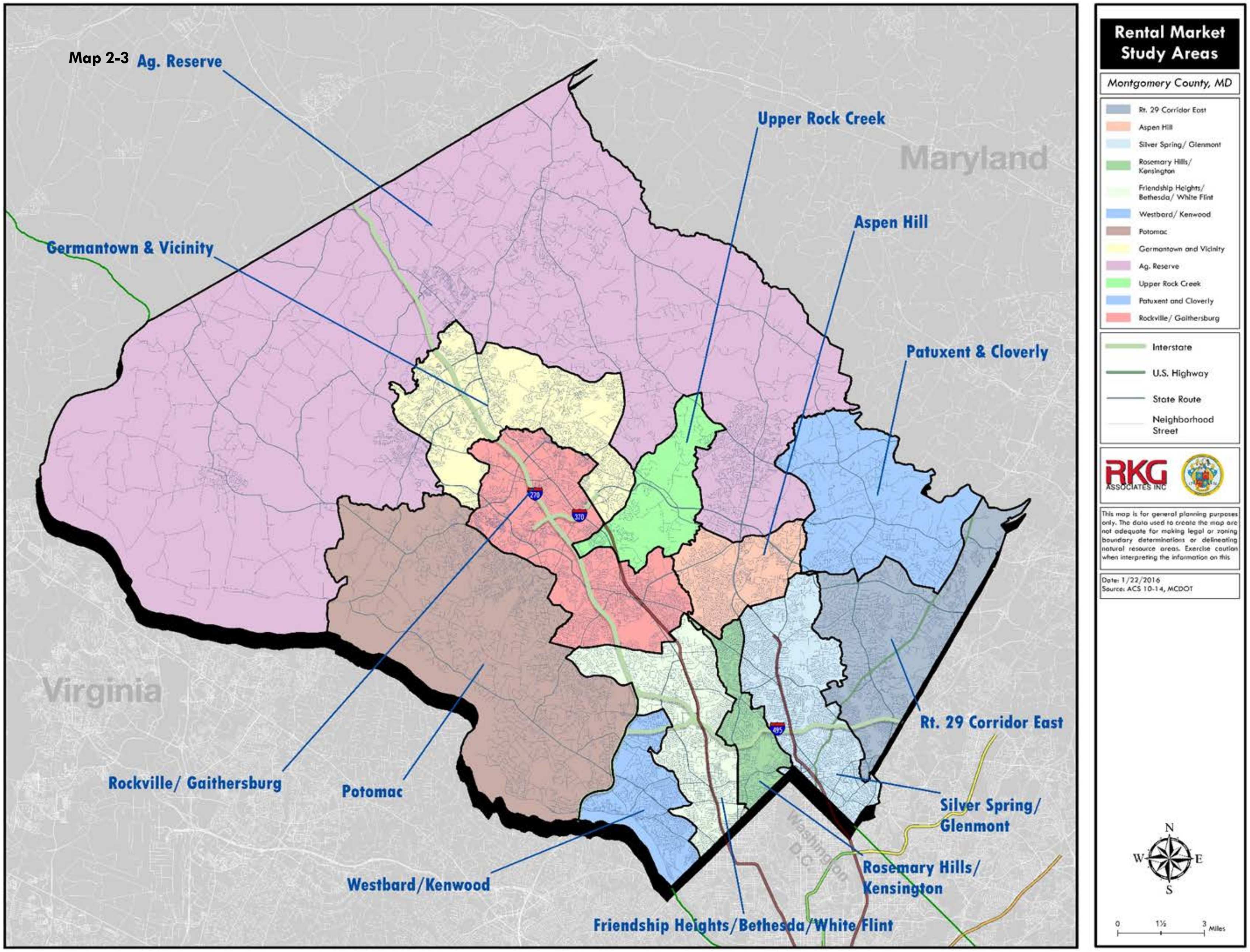
Map 2-3
Ag. Reserve
Upper Rock Creek
Maryland
Aspen Hill
Germantown & Vicinity
Patuxent & Cloverly
Virginia
Rt. 29 Corridor East
Rockville/ Gaithersburg
Potomac
Silver Spring/ Glenmont
Rosemary Hills/ Kensington
Westbard/Kenwood
Friendship Heights/Bethesda/White Flint
Washington D.C.
270
370
495
Rental Market Study Areas
Montgomery County, MD
Rt. 29 Corridor East
Aspen Hill
Silver Spring/ Glenmont
Rosemary Hills/ Kensington
Friendship Heights/ Bethesda/ White Flint
Westbard/ Kenwood
Potomac
Germantown and Vicinity
Ag. Reserve
Upper Rock Creek
Patuxent and Cloverly
Rockville/ Gaithersburg
Interstate
U.S. Highway
State Route
Neighborhood Street
RKG ASSOCIATES INC
This map is for general planning purposes only. The data used to create the map are not adequate for making legal or zoning boundary determinations or delineating natural resource areas. Exercise caution when interpreting the information on this
Date: 1/22/2016
Source: ACS 10-14, MCDOT
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C. NEIGHBORHOOD IDENTIFICATION

In addition to subareas, the RKG team identified specific neighborhoods within Montgomery County to serve as examples of larger character area typologies that were analyzed as part of the Neighborhood Assessment using investment criteria for both affordable housing development and preservation. Analysis of the investment criteria returned many key findings with respect to each typology and helped to narrow the focus of the character area typology and identify the study areas (Table 2-1).

Table 2-1
Key Typology Findings

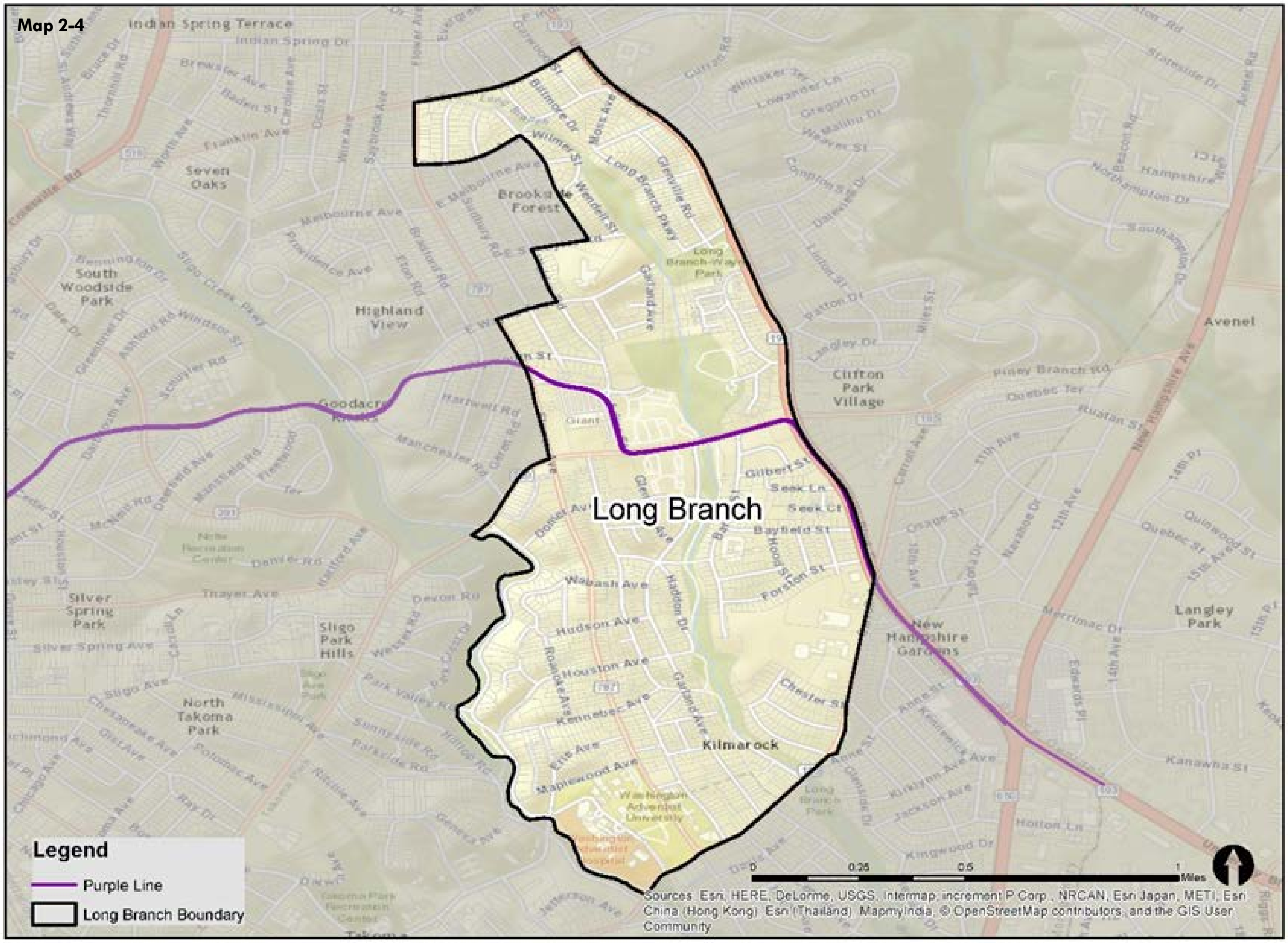
TYPOLOGY	KEY FINDINGS	FOCUS
PROXIMITY TO FUTURE PURPLE LINE	* Nearly half of renter households are cost-burdened. * Employees typically have higher commute times to work. * Generally, more underutilized parcels near proposed transit stops.	Successful integration of transit-oriented development without gentrification.
PROXIMITY TO EXISTING METRO LINE	* Neighborhoods have a high percentage of commuters who use public transit. * Variety of rental unit types located in neighborhoods. * Proximity to a number of community amenities. * Generally, more underutilized parcels near proposed transit stops.	Continued redevelopment and successful implementation of MPDUs over the next few years.
ESTABLISHED SUBURBS	* Generally, a lower percentage of renters, but higher percentage of cost burdened households. * More likely to have three-bedroom unit availability * Generally, fewer underutilized parcels but parcels have larger acreage.	Increase density while maintaining neighborhood and development character.
CONCENTRATIONS OF EXISTING RENTAL UNITS	* Neighborhoods have higher numbers of public transit commuters, but these individuals constitute a lower percentage of all commuters. * Variety of rental unit types located in neighborhoods. * Contain highest percentage of single family rental units. * Proximity to several community amenities.	Create affordability where lack of transportation options and isolation are primary factors.

Based on investment criteria ratings and feedback from the Technical Committee, a model neighborhood was selected that was most representative of each typology as follows:

- Proximity to Future Purple Line – Long Branch (Map 2-4)
- Proximity to Existing Metro Line - North Bethesda (Map 2-5)
- Established Suburbs – Kensington (Map 2-6)
- Concentration of Existing Rental Units – Germantown (Map 2-7)

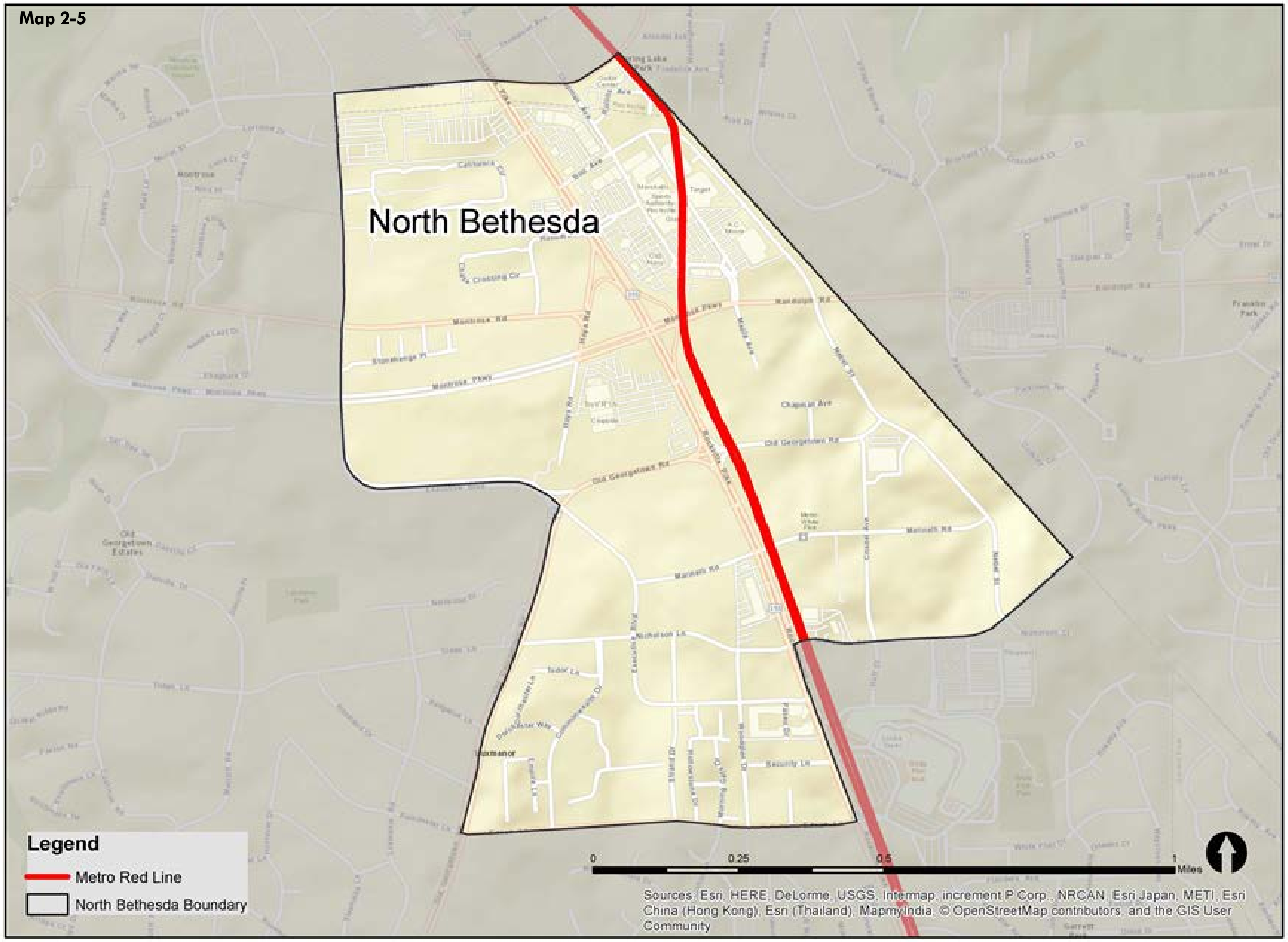
Once each model neighborhood was selected, a more detailed examination of each was completed. This analysis was necessary to gain an understanding of the opportunities and challenges that exist around preserving rental units or developing new rental units in different types of neighborhoods within the county. Maps of each of the four neighborhoods are located on the following pages.

Montgomery County: Long Branch - Base Map



Source: APD Urban Planning and Management, LLC, 2015; Montgomery County; RKG Associates Inc, 2015, Census Tiger Files, 2010

Montgomery County: North Bethesda - Base Map



Source: APD Urban Planning and Management, LLC, 2015; Montgomery County; RKG Associates Inc, 2015, Census Tiger Files, 2010

Montgomery County: Kensington - Base Map

APD Urban Planning Management

Source: APD Urban Planning and Management, LLC, 2015; Montgomery County; RKG Associates Inc, 2015, Census Tiger Files, 2010

Montgomery County: Germantown - Base Map

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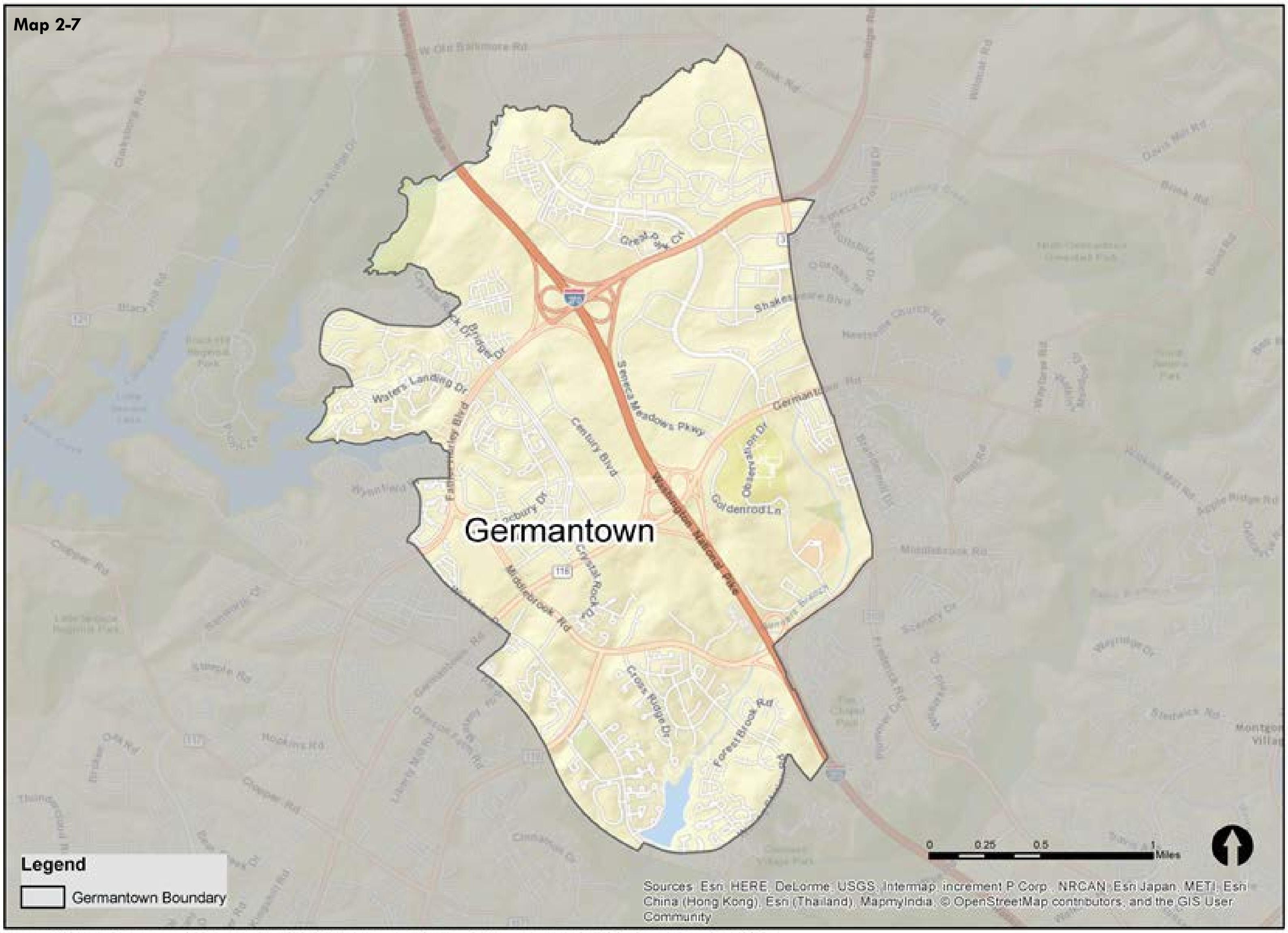


Source: APD Urban Planning and Management, LLC, 2015; Montgomery County; RKG Associates Inc, 2015, Census Tiger Files, 2010

3 SOCIOECONOMIC ANALYSIS

A. INTRODUCTION

In order to better understand Montgomery County residents' demand for rental housing, the RKG team analyzed a variety of socioeconomic data ranging from population trends to at-place employment. This analysis provides insight into the well-known diversity within the county and frames the discussion of rental housing demand at a subarea level. Additionally, the socioeconomic study led the RKG team to identify the characteristics of existing and potential renters throughout the county.

B. MAJOR FINDINGS

- ***Population and household data indicate that there is an urban/suburban/rural dichotomy in development patterns within Montgomery County.*** Population and household densities are greater inside Interstate-495 (Capital Beltway) and along Interstate-270, reflecting higher intensity development in these areas. Population and household density is lowest in the northern and western parts of the county, exemplifying the range of development patterns. From a housing perspective, this variation in development patterns indicates that rental housing is not one-size-fits-all, but varies in type, density and prevalence consistent with the diversity of development within the county.

- ***Settlement patterns defined primarily by preference and income.*** Increases in the population of persons 25 years to 34 years of age are most notable within subareas where development clustered around transit. Conversely, the greatest increase in the population of persons 65 years of age or older generally occurs in subareas that are more affluent and suburban. The demographic data also indicate settlement patterns and housing preferences, which affect demand for rental housing throughout the county.

- ***Montgomery County's population is diverse and still diversifying.*** Most the county's population consists of racial and ethnic minorities. The Hispanic population experienced a notable increase in recent years, particularly in areas that are most affordable and transit-focused. During this time, the county has also experienced notable international migration to diversify its communities further. The growth of both populations impact rental housing as cultural influences and priorities can affect housing choices.

- ***A strong correlation exists between education and income in Montgomery County.*** Overall, there is a comparatively high level of education attainment in every subarea that has generally led to higher incomes. These higher incomes are driving up costs of living, including housing. At a subarea level, the areas with the highest levels of education attainment are more affluent with substantially higher average household incomes.

- ***Real household income has not kept pace with the Consumer Price Index (CPI).*** While there are areas of affluence within the county, incomes in these areas have generally declined in terms of real income. Only two subareas, Silver/Glenmont and Rosemary Hills/Kensington, experienced real income growth since the 2008 recession. This general decline impacts housing affordability as incomes have not kept pace with the increasing costs of living, particularly for the lowest income households.

- ***The I-270 corridor is the employment center for Montgomery County.*** A substantial portion of the jobs in Montgomery County are located along this corridor, from White Flint to Gaithersburg. Government jobs represent a notable portion of the employment in this area. This corridor is also a major importer of workers, creating an opportunity for additional rental housing demand from commuters that are interested in living closer to their jobs.

C. METHODOLOGY

1. Data Sources

A full list of the data collected and considered during the analysis of rental supply and demand can be found in Chapter 1. The primary sources for the demographic analysis in this chapter are the 2009 and 2014 American Community Survey 5-Year estimates from the US Census Bureau. Economic data came from *On The Map*, an online data analysis tool created and maintained by the US Census Bureau's Center for Economic Studies that uses Longitudinal-Employer Household Dynamics (LEHD) Program Origin Destination Employment Statistics (LODES).

D. POPULATION

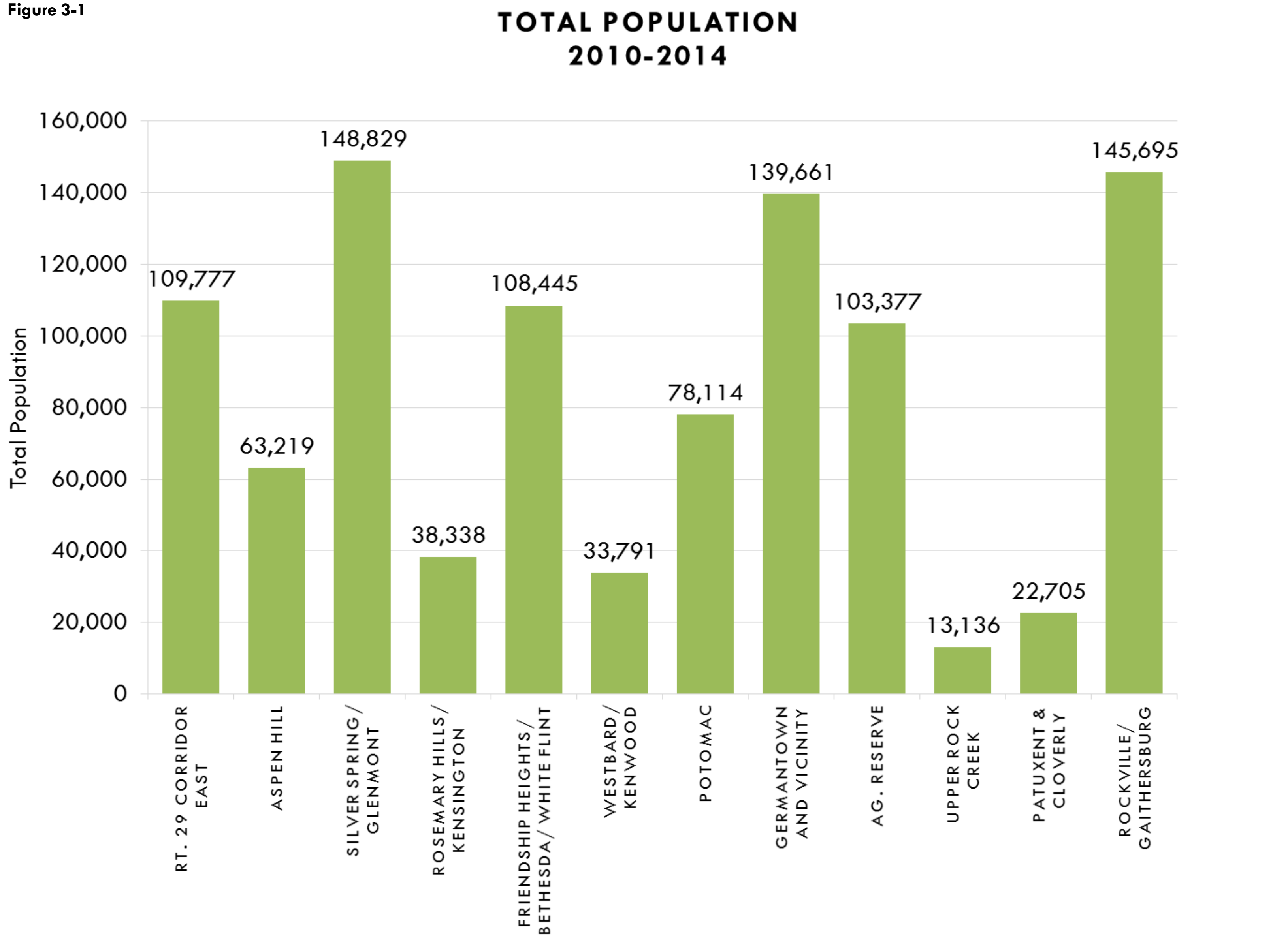
Montgomery County has experienced steady growth in population since 2000[1] and, as of 2014, has an estimated 1,005,087 residents. The county's population clusters near major employment centers and major transportation corridors, such as I-495, I-270 and the Metrorail system. Approximately 43 percent of Montgomery County residents live in three subareas: Silver Spring/Glenmont (148,829), Germantown & Vicinity (139,661) and Rockville/Gaithersburg (145,695) (Figure 3-1). These subareas include major employment centers, such as Rockville and Silver Spring, or include parts of the major transportation corridors mentioned previously.

Population density by both census tract and persons per square mile further supports the concentrations of residents near employment centers and along major transportation routes (Map 3-1, Figure 3-2). In addition to Silver Spring/Glenmont (7,069 persons per square mile), Aspen Hill (5,605 persons per square mile) has the highest population per square mile.

Conversely, subareas such as the Agricultural Reserve (416 persons per square mile), Patuxent & Cloverly (875 persons per square mile) and Upper Rock Creek (1,048 persons per square mile) have the lowest population density. These differences indicate that Montgomery County has a range of development patterns. Areas of urban/suburban development density are located along major transportation routes and exurban development patterns are primarily in the northern and western parts of the county. Furthermore, while often valued for their more suburban feeling, communities inside the Beltway (I-495) more closely resemble urban development patterns than their exurban or rural counterparts elsewhere in the county, as shown by population density statistics.

[1] Conclusion based on comparison of 2000 Decennial Census data to ACS 2014 5-Year estimates.

Figure 3-1



Source: ACS 2010-2014

Map 3-1

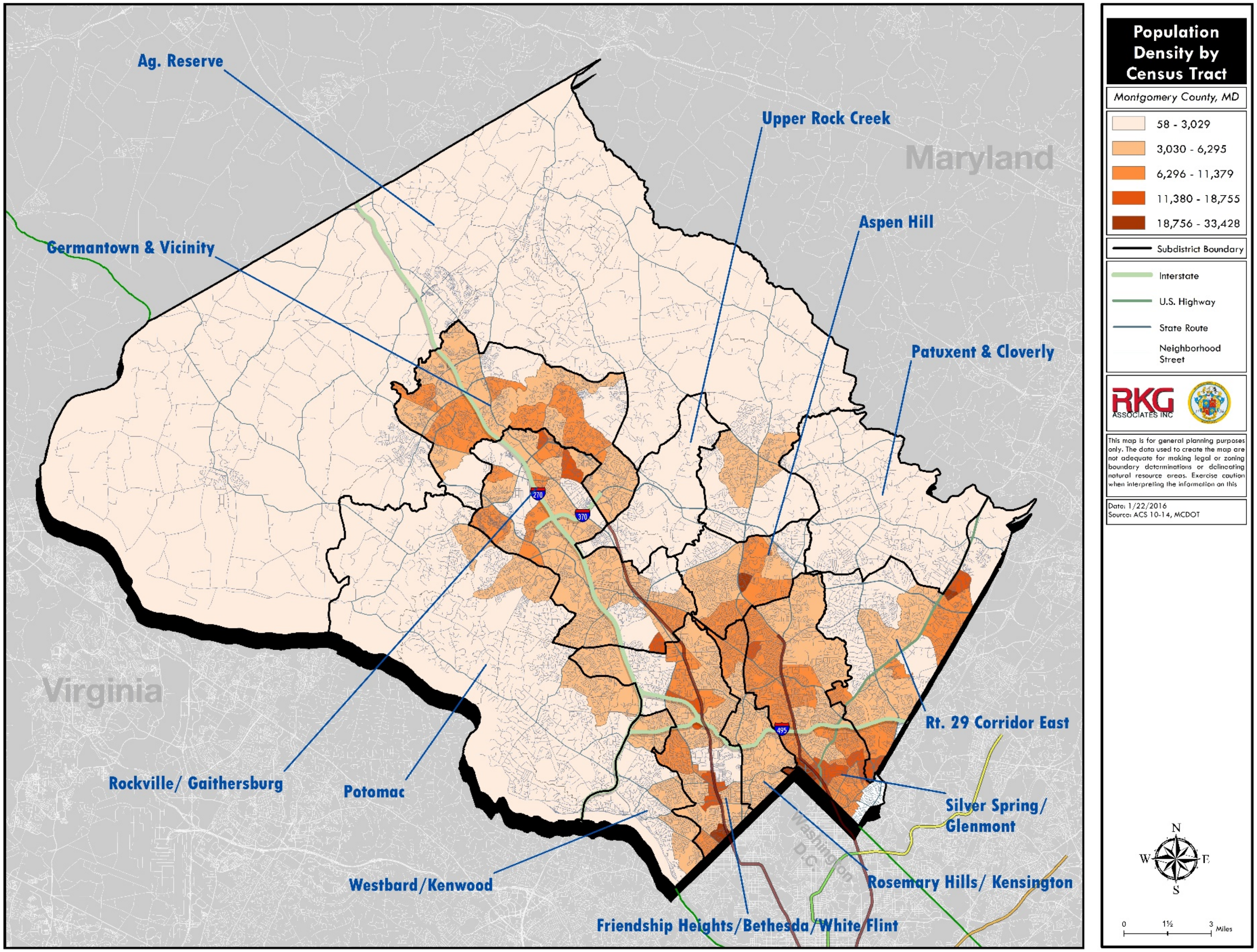
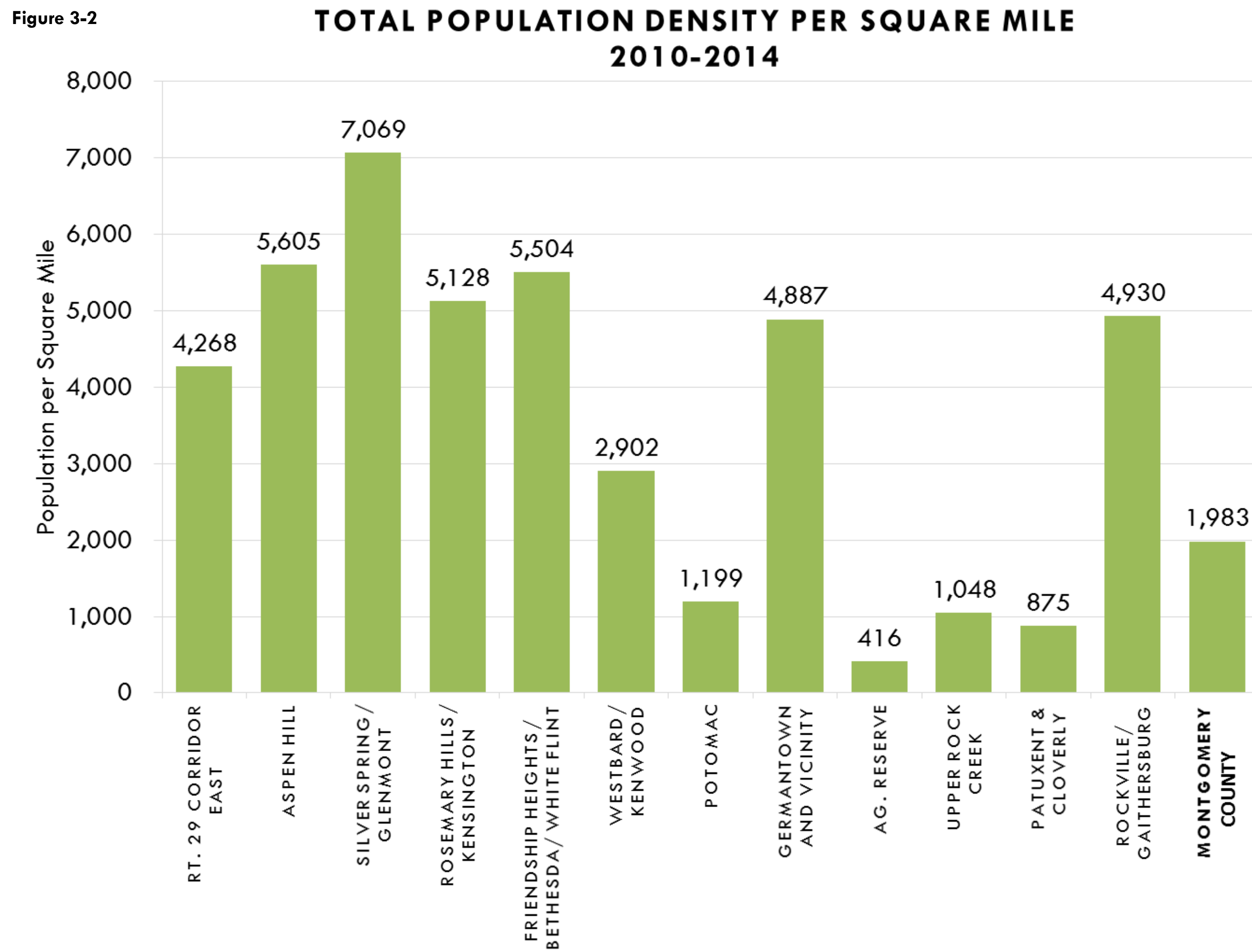

Population Density by Census Tract
Montgomery County, MD
58 - 3,029
3,030 - 6,295
6,296 - 11,379
11,380 - 18,755
18,756 - 33,428
Subdistrict Boundary
Interstate
U.S. Highway
State Route
Neighborhood Street
RKG ASSOCIATES INC
This map is for general planning purposes only. The data used to create the map are not adequate for making legal or zoning boundary determinations or delineating natural resource areas. Exercise caution when interpreting the information on this
Date: 1/22/2016
Source: ACS 10-14, MCDOT
0 1½ 3 Miles
Maryland
Virginia
Washington D.C.
Ag. Reserve
Upper Rock Creek
Aspen Hill
Germantown & Vicinity
Patuxent & Cloverly
Rt. 29 Corridor East
Rockville/ Gaithersburg
Potomac
Silver Spring/ Glenmont
Westbard/Kenwood
Rosemary Hills/ Kensington
Friendship Heights/Bethesda/White Flint

Figure 3-2



Square Miles	26	11	27	7	20	12	65	29	248	13	26	30	507

Source: ACS 2010-2014

E. AGE

Rental housing can provide an affordable alternative to owning a home for households with limited incomes. In addition, it has become a more frequent choice for two distinct age cohorts in the United States. Millennials and late Generation Xers in their 20s and 30s are choosing to rent longer than previous generations at their age. This population often gravitates toward walkable, public transit-friendly locations to mitigate the expense of car ownership and enjoy an activity-rich environment steps from their homes.

Within Montgomery County, retirees and seniors are also seeking rental units at a comparatively high level. This cohort of persons 65 years of age and older are typically choosing to downsize or seeking the convenience of maintenance-free housing.

Younger residents have moved into Montgomery County, particularly in the relatively affordable areas of the county. Between 2009 and 2014, the population of persons 25 to 34 years of age in Montgomery County grew by a total of 20,101 persons. At a subarea level, this age cohort grew in all submarkets except the Westbard/Kenwood subarea. Westbard/Kenwood has a generally older population with a large concentration of senior households as a share of all households (37 percent) just below the similarly populated Aspen Hill (40 percent) (Figure 3-3).

The Silver Spring/Glenmont subarea experienced the greatest growth of persons 25 to 34 years of age (3,984), a 76 percent increase during this time period. Given its proximity to the District of Columbia, University of Maryland at College Park to the east and Metrorail, this area is attractive to Millennials, young professionals and married couples/young families looking for affordable housing options within the county (Figure 3-4). Other notable, nominal increases in this age cohort have occurred in Rockville/Gaithersburg (3,890), Friendship Heights/Bethesda/White Flint (2,641) and Route 29 Corridor East (2,663). These areas include or are in close proximity to major employment centers and have transportation access.

Retirees and seniors age 65 and older have experienced a similarly notable net change in population (16,961) between 2009 and 2014, according to American Community Survey 5-Year estimates. Likely attracted to an exurban lifestyle with suburban retail and amenities, this group grew the most within the Germantown & Vicinity (3,265), Agricultural Reserve (3,088) and Rockville/Gaithersburg (3,027) subareas (Figure 3-5).

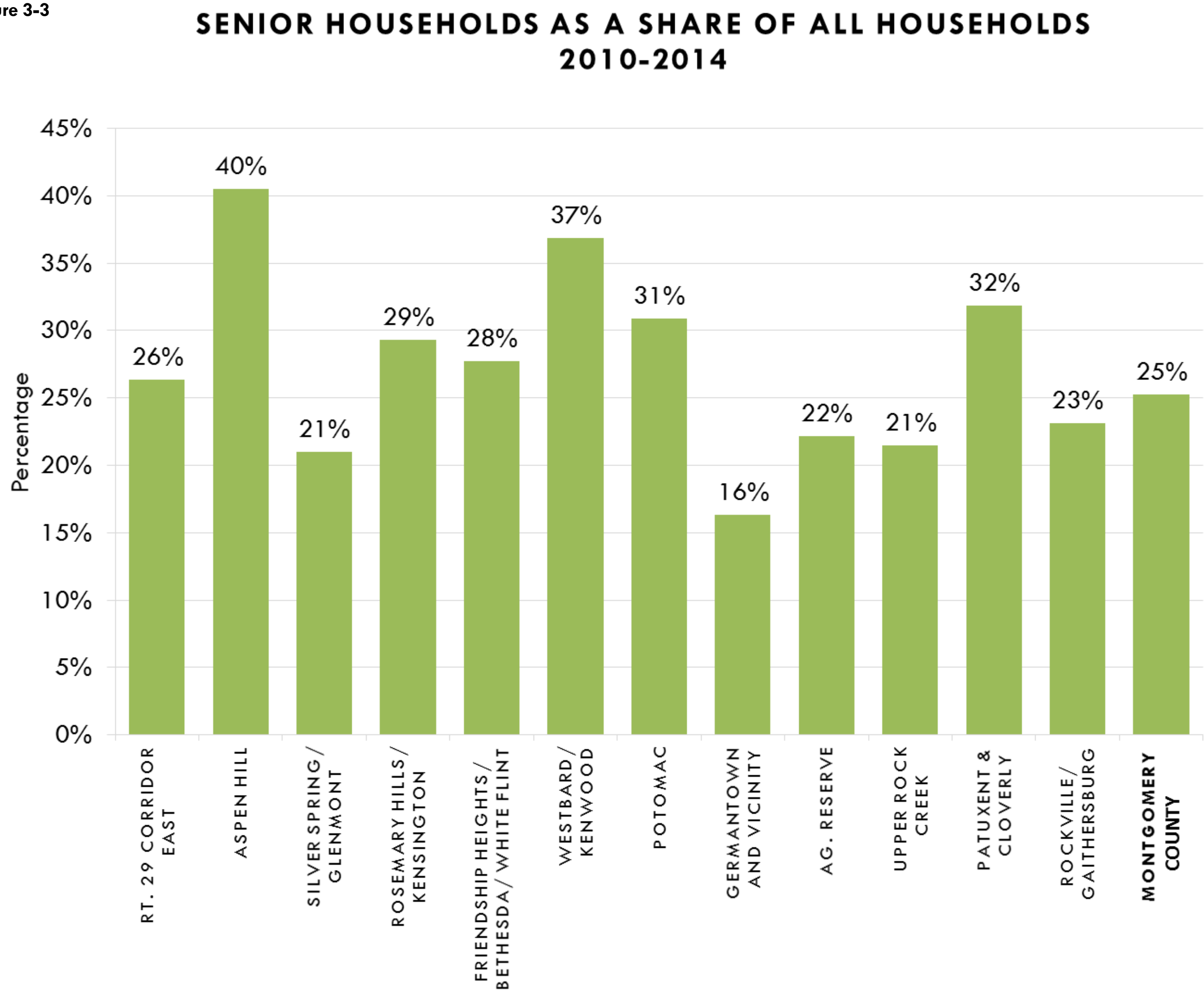
For Germantown & Vicinity, and the Agricultural Reserve, this growth of seniors also represents a change in this portion of the population between 41 percent and 46 percent. This notable rate of growth indicates that this age cohort is attracted to areas beyond the Capital Beltway both for affordability and lifestyle. The notable growth in these subareas suggest that walkability is not as high a priority for everyone in this age cohort, as is the slower, quieter lifestyle typical of the suburbs/exurbs.

The analysis of population by age range indicates that the urban/rural dichotomy of Montgomery County is not only pronounced in terms of development intensity as expressed through population density, but also exists within the preference of two age cohorts that are likely to generate rental housing demand. Younger persons cluster near transportation and major employment centers, while retirees and seniors seek a variety of options, including the more affluent, suburban locations.

The exception is Rockville/Gaithersburg, which appears to be the subarea where these varying lifestyle priorities meet. In this subarea, both age groups experienced notable nominal growth. The younger cohort has access to Metrorail and I-270 for commutes and employment centers in both Gaithersburg and Rockville. This area also provides an amenity-rich, suburban lifestyle with regional rail access for retirees and seniors.

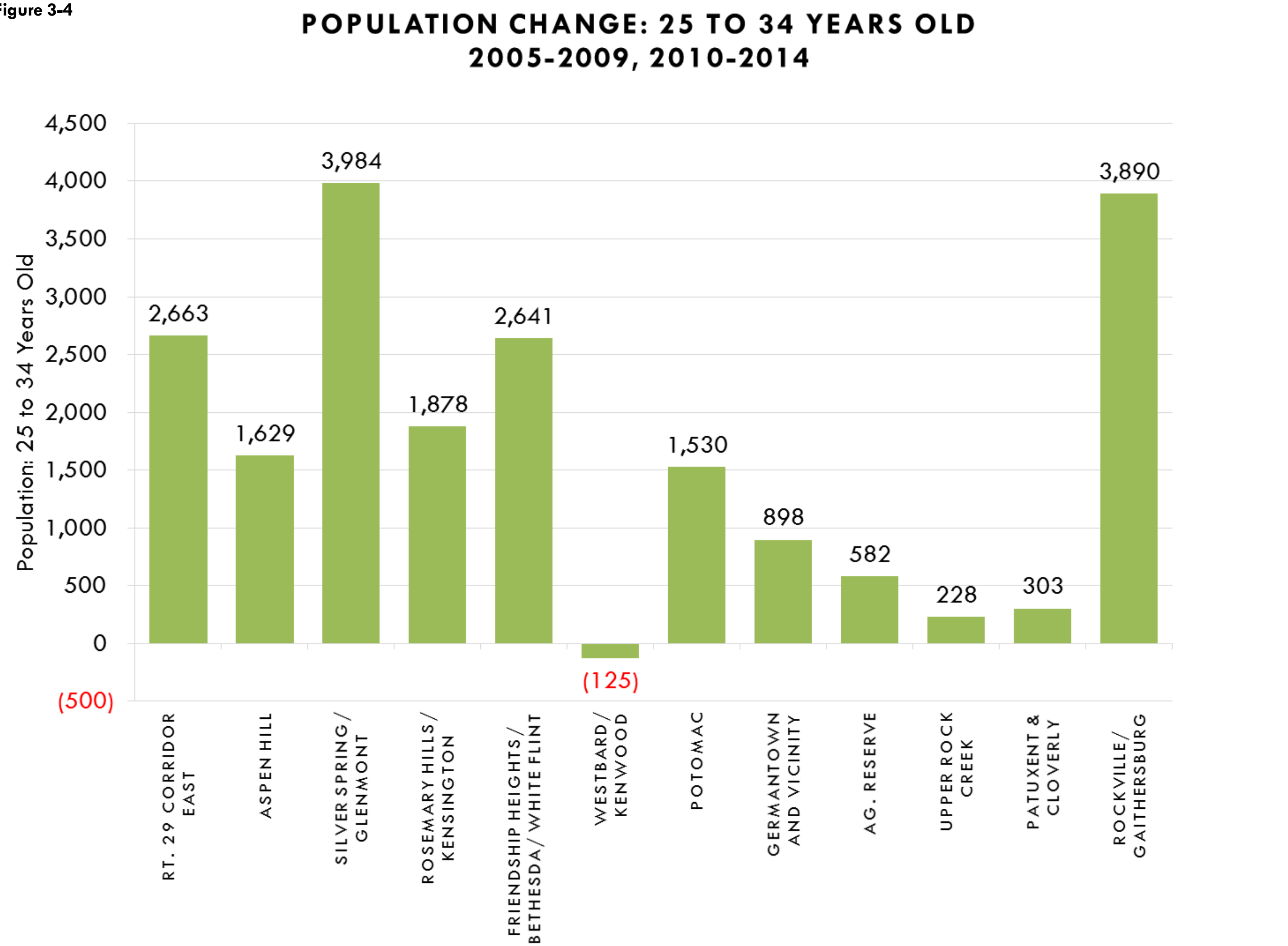
The data indicate that demand for rental housing is strongest in areas that have strong transportation access and substantial quality of life amenities. While different age cohorts have differing priorities, those areas of Montgomery County with good amenities are in high demand.

Figure 3-3



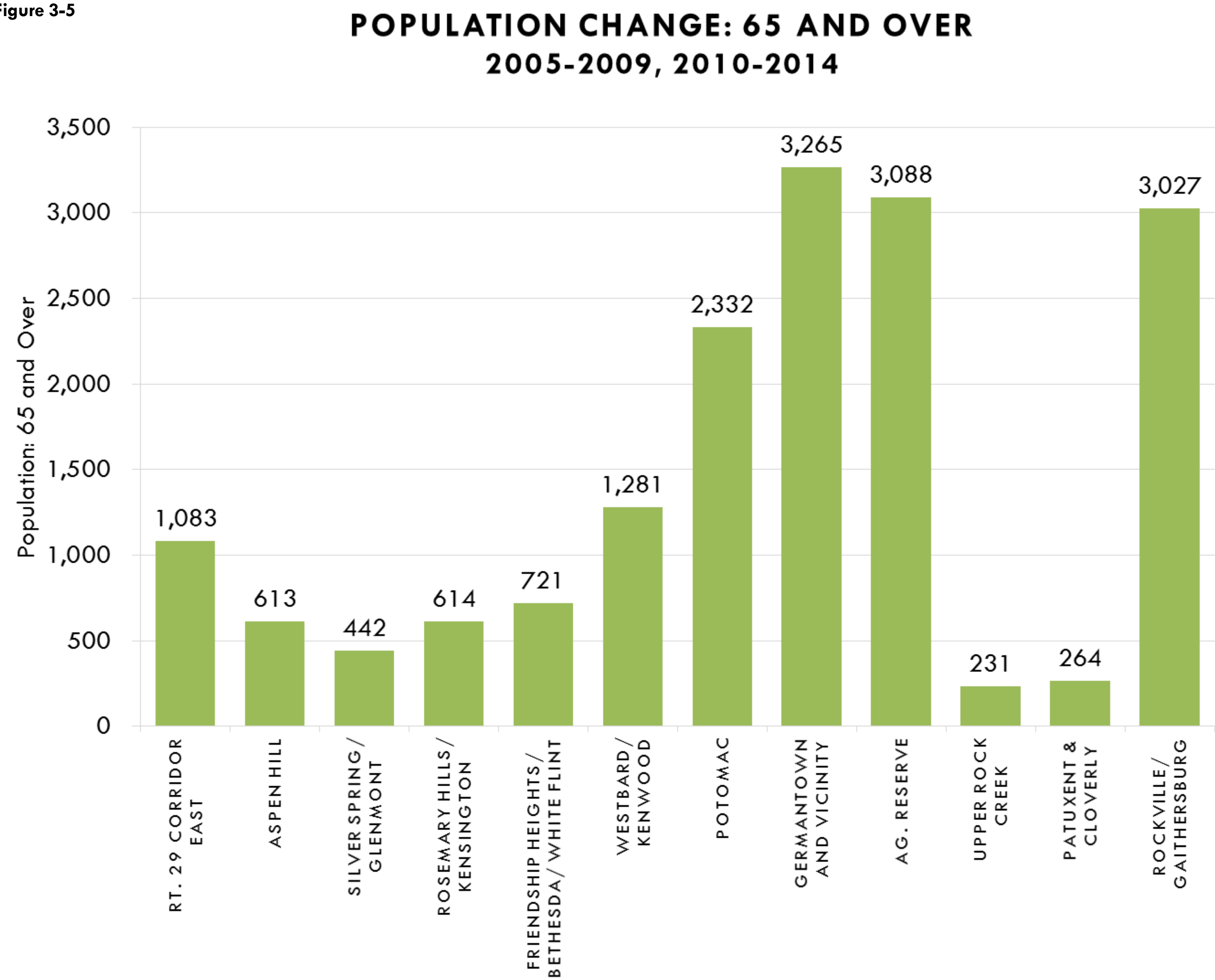
Source: ACS 2010-2014

Figure 3-4



Source: ACS 2005-2009, ACS 2010-2014

Figure 3-5



Source: ACS 2005-2009, ACS 2010-2014

F. RACE/ETHNICITY

A major asset of Montgomery County is its ethnic and racial diversity. Based on 2014 estimates that identified persons in Montgomery County by race or Hispanic[2], the county has a majority minority population that represents 54 percent of the population (Figure 3-6). This diversity is most notable in the high minority concentration areas of Route 29 Corridor East (76 percent) and Germantown & Vicinity (66 percent).

Within the Route 29 Corridor East, the largest minority concentration is composed of black or African American persons (37 percent). In Germantown & Vicinity, the largest concentration of minority persons is evenly distributed between Hispanic persons (22 percent) and black or African American persons (21 percent). Conversely, white persons comprise a majority of the population in Friendship Heights/Bethesda/White Flint (68 percent) and Westbard/Kenwood (78 percent).

The Hispanic population experienced notable growth of 37,888 persons between 2009 and 2014 within the county. This population has increased at the greatest rate within Upper Rock Creek (75 percent) and Rosemary Hills/Kensington (59 percent) (Figure 3-7). Of these two subareas, only in Rosemary Hills/Kensington does the Hispanic population represent a notable portion of the population (23 percent), the third highest concentration of Hispanic persons in any one subarea.

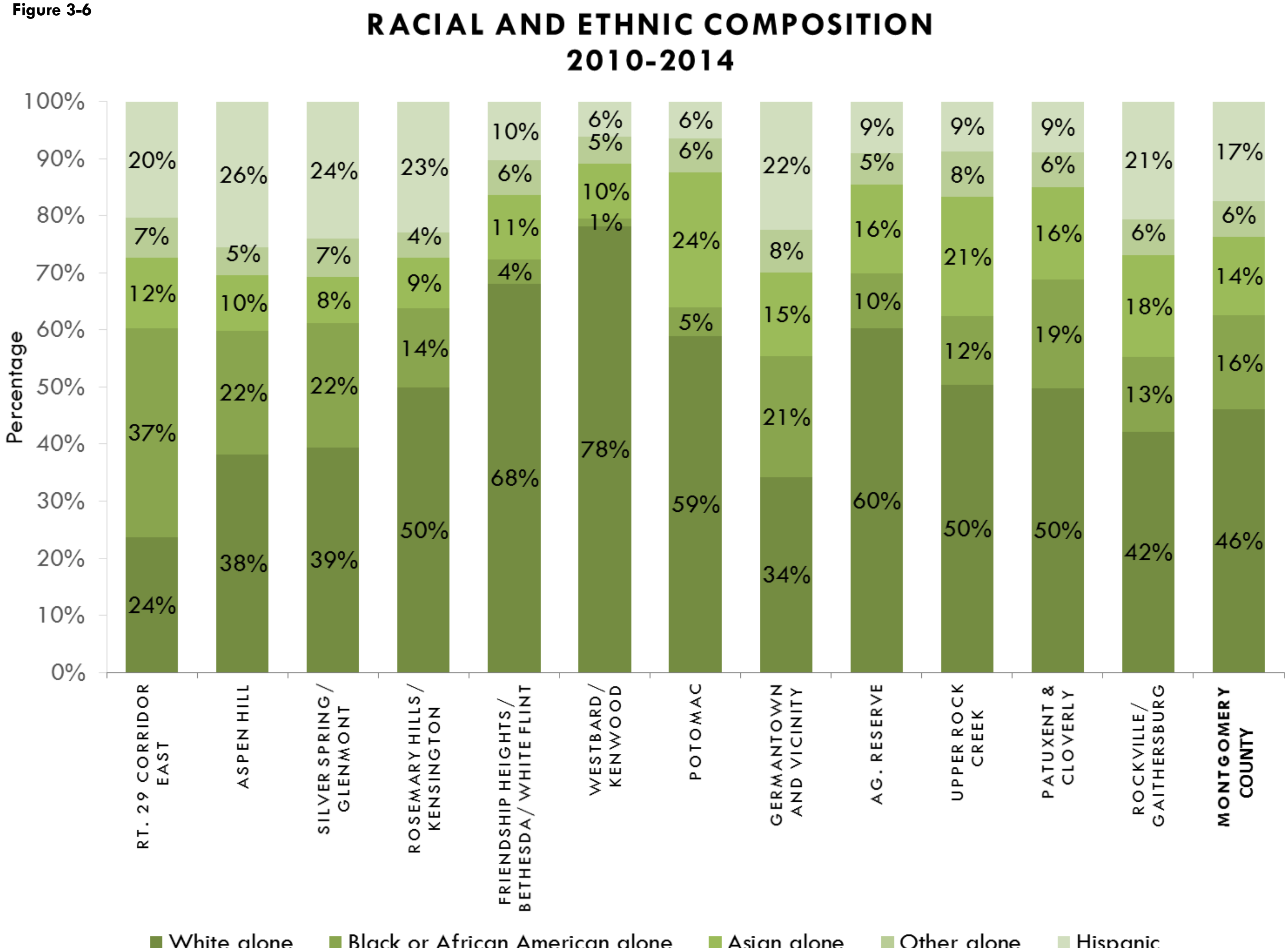
Another subarea that experienced notable growth in the Hispanic population is Aspen Hill (43 percent). Hispanic persons now comprise 26 percent of the Aspen Hill subarea, the largest concentration of all subareas. Recent growth of the Hispanic population in Montgomery County indicates that growth has been concentrated in areas that are relatively affordable and transit-oriented.

From a rental housing perspective, the growing diversity within Montgomery County has and will continue to have an impact on the demand for these units. As a recent article relating the impact of an explosion and fire at an apartment complex in Silver Spring pointed out, finding affordable housing options in adequate condition for recent immigrants can be a challenge[3]. This difficulty is particularly true when households do not own a car, making access to public transportation essential.

The high level of diversity within Montgomery County also indicates that housing preferences may vary. For instance, anecdotal data indicate minority households, particularly immigrant households, have a higher propensity to have multigenerational households. By recognizing these differences in housing preferences, accommodating the rental housing need of this population can be better met in an affordable manner.

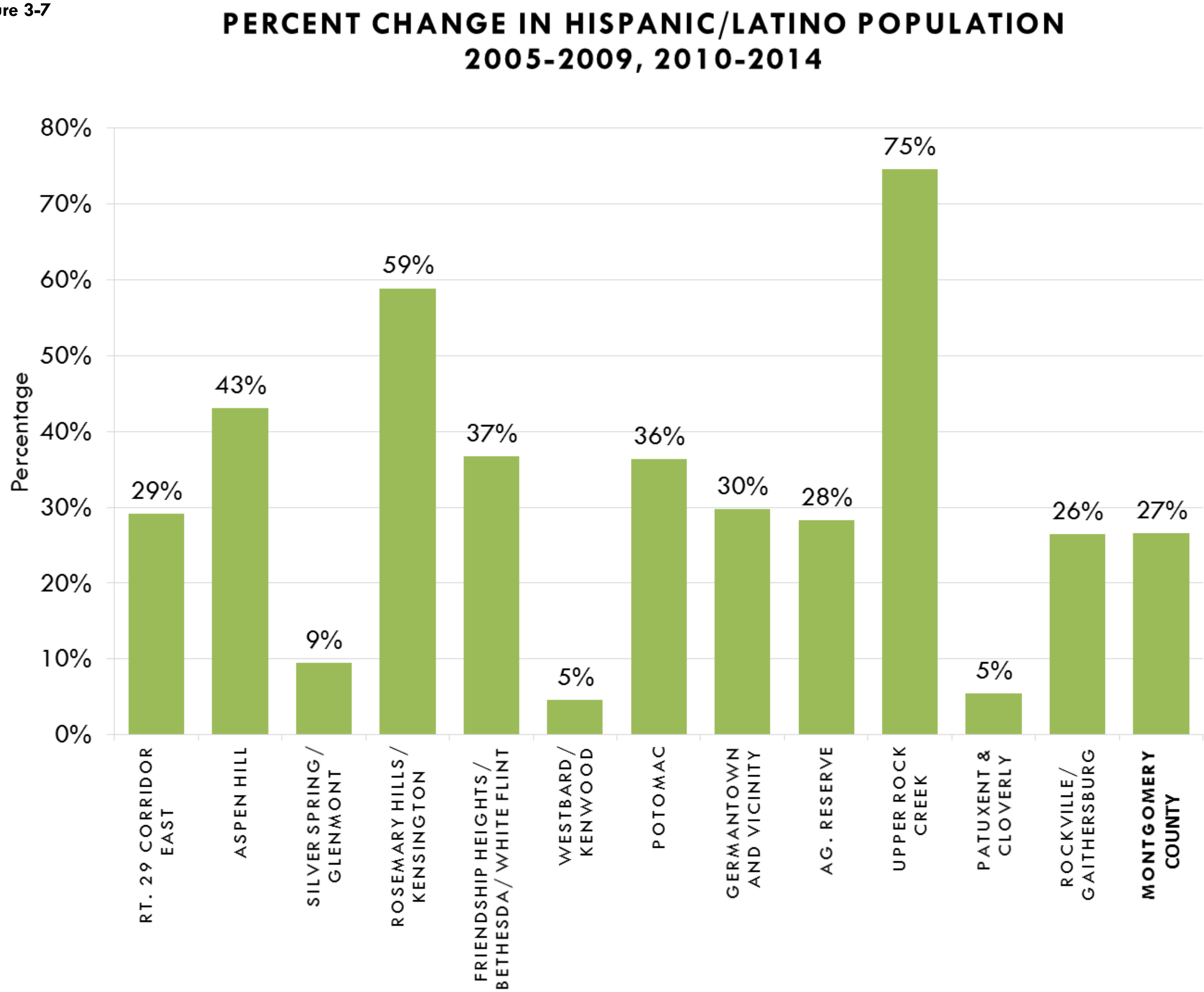
[2] For this analysis, persons identified by race were also identified as non-Hispanic. Although persons who identify as Hispanic can be of any race, they were only innumerate as Hispanic.
[3] "For immigrant residents displaced by Silver Spring fire, finding new home may not be easy." *The Washington Post*, August 20, 2016.

Figure 3-6



Source: ACS 2010-2014

Figure 3-7



Source: ACS 2005-2009, ACS 2010-2014

G. MIGRATION

Current migration patterns analyzed at the county level indicate that there was a growth in net in-migration of 28,063 people between 2010 and 2014 based on 2014 estimates (Figure 3-8). Montgomery County experienced a large net migration of persons from an international location (41,195) during this period. At the same time, there was a loss of net domestic migration (13,132), meaning that a greater number of the domestic population moved out of Montgomery County than migrated in.

This shift indicates that the overall growth in the number of persons migrating to Montgomery County is primarily due to international migration. The increase supports the strong international diversity of Montgomery County and indicates that it is location that is particularly attractive to recent immigrants. Additionally, the large amount of international net migration further indicates that understanding the rental housing needs of this population is essential to ensuring the adequate supply of dwellings.

H. EDUCATION ATTAINMENT

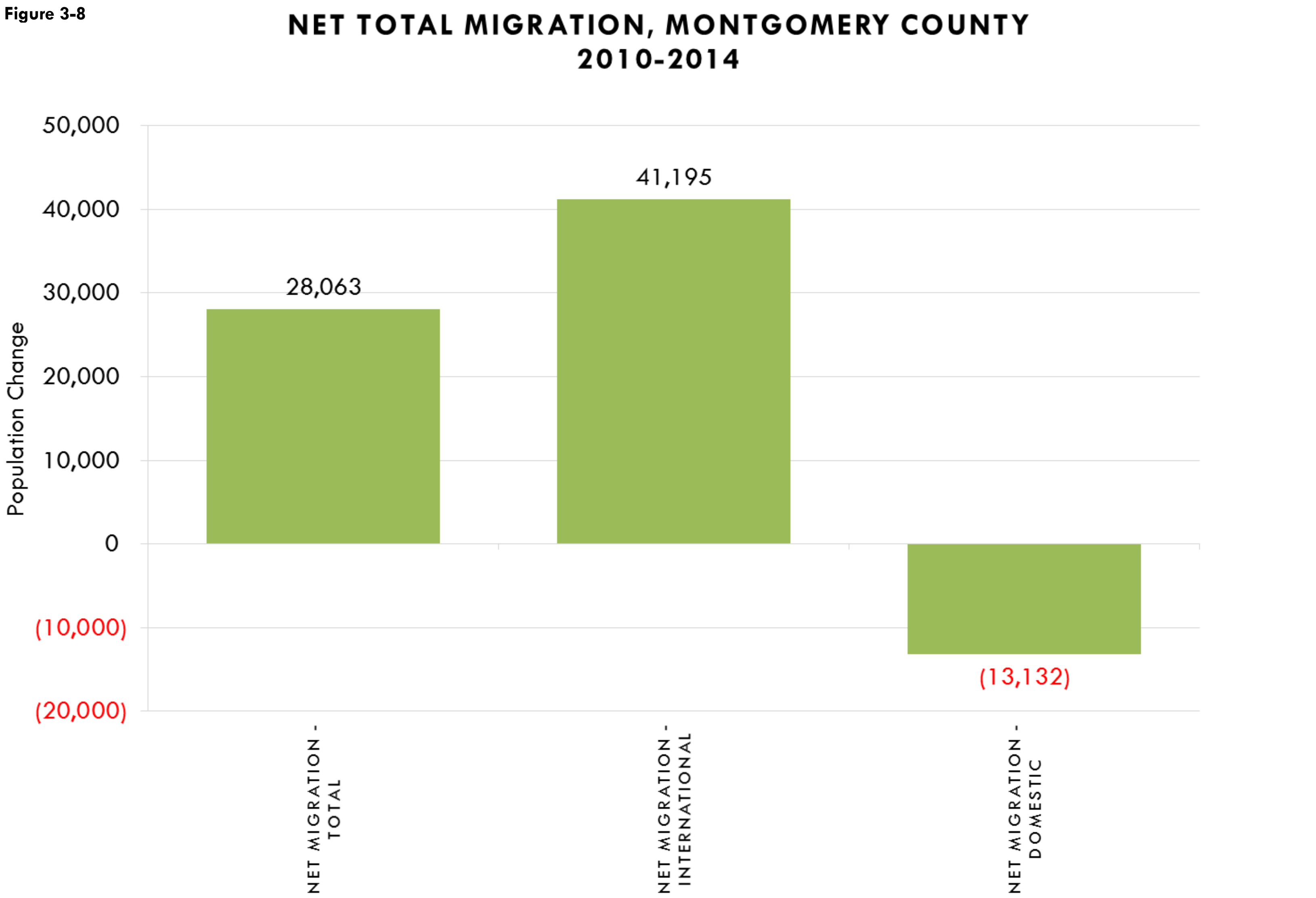
Based on 2014 estimates, all subareas have a comparatively high level of educational attainment. Within the population of persons at least 25 years of age in the county, more than half (58 percent) have at least a bachelor degree (Figure 3-9). The higher the level of education within a community, the higher the income of the population/households overall. This correlation is particularly true in Montgomery County. The overall high level of educational attainment reflects generally higher income levels throughout the county, facilitating increased housing costs across the market.

The correlation of educational attainment and income is further illustrated at a subarea level. Subareas with the highest concentration of well-educated individuals at least 25 years of age are also the ones with the highest median household incomes. These include Westbard/Kenwood (82 percent), Potomac (78 percent) and Friendship Heights/Bethesda/White Flint (77 percent).

Conversely, the subareas with the most modest median household incomes also have the lowest concentrations of adults with at least a bachelor degree. Aspen Hill (43 percent), Route 29 Corridor East (45 percent) and Germantown & Vicinity (47 percent) all have fewer than 50 percent of adult residents with a post-secondary degree. These particular subareas are not as affluent as those mentioned previously and are located farther away from the District of Columbia.

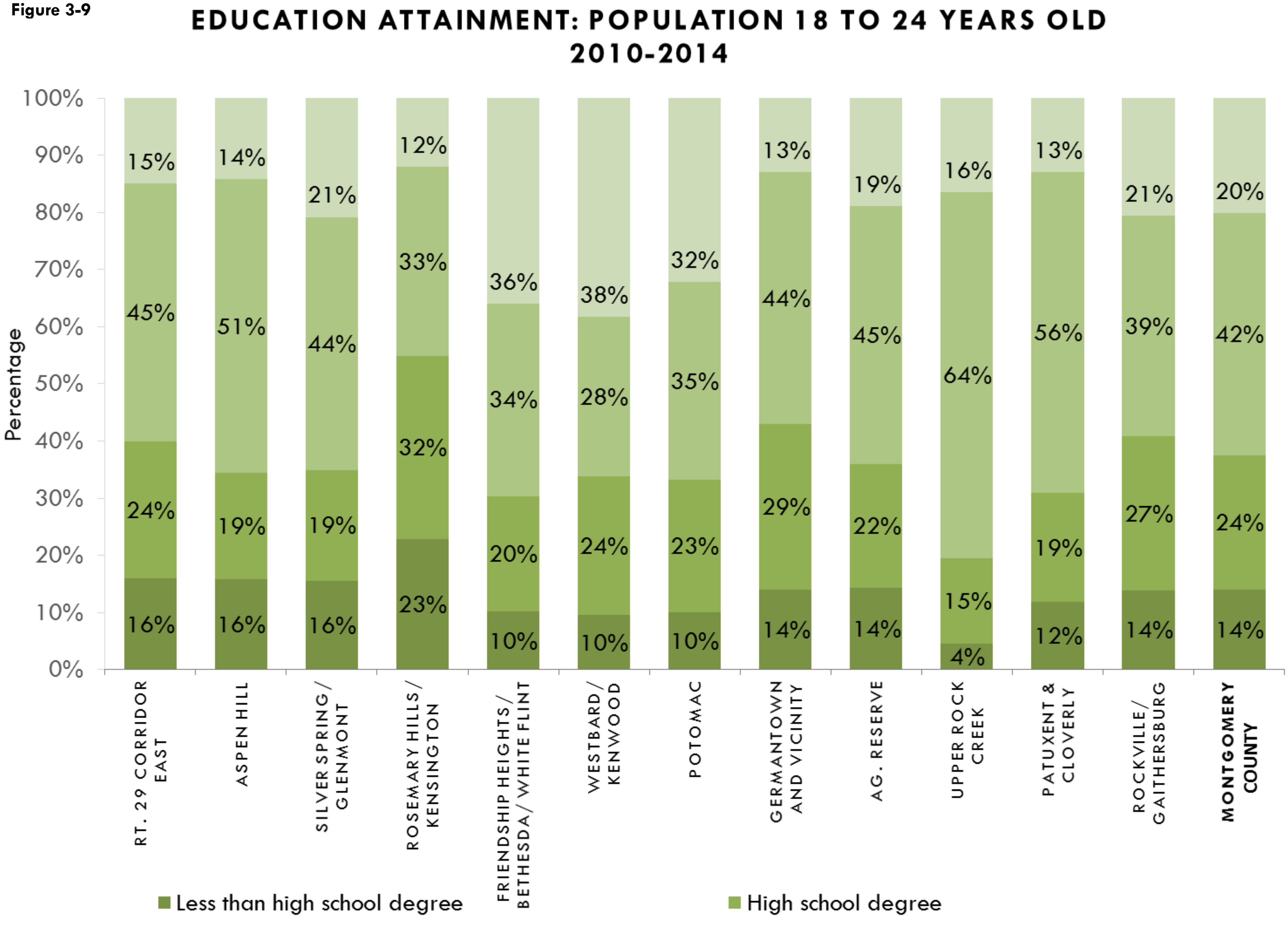
A high level of educational achievement even exists within a younger portion of the population, persons between 18 years and 24 years of age, in Montgomery County. Approximately 62 percent of this age cohort has attained at least some college/associate degree based on 2014 5-Year estimates (Figure 3-10). The greatest numbers of persons with at least a bachelor degree are in Westbard/Kenwood (38 percent), Friendship Heights/Bethesda/White Flint (36 percent) and Potomac (32 percent), further supporting the conclusion that subareas with higher educational attainment are correlated with higher incomes in these more affluent areas.

Figure 3-8



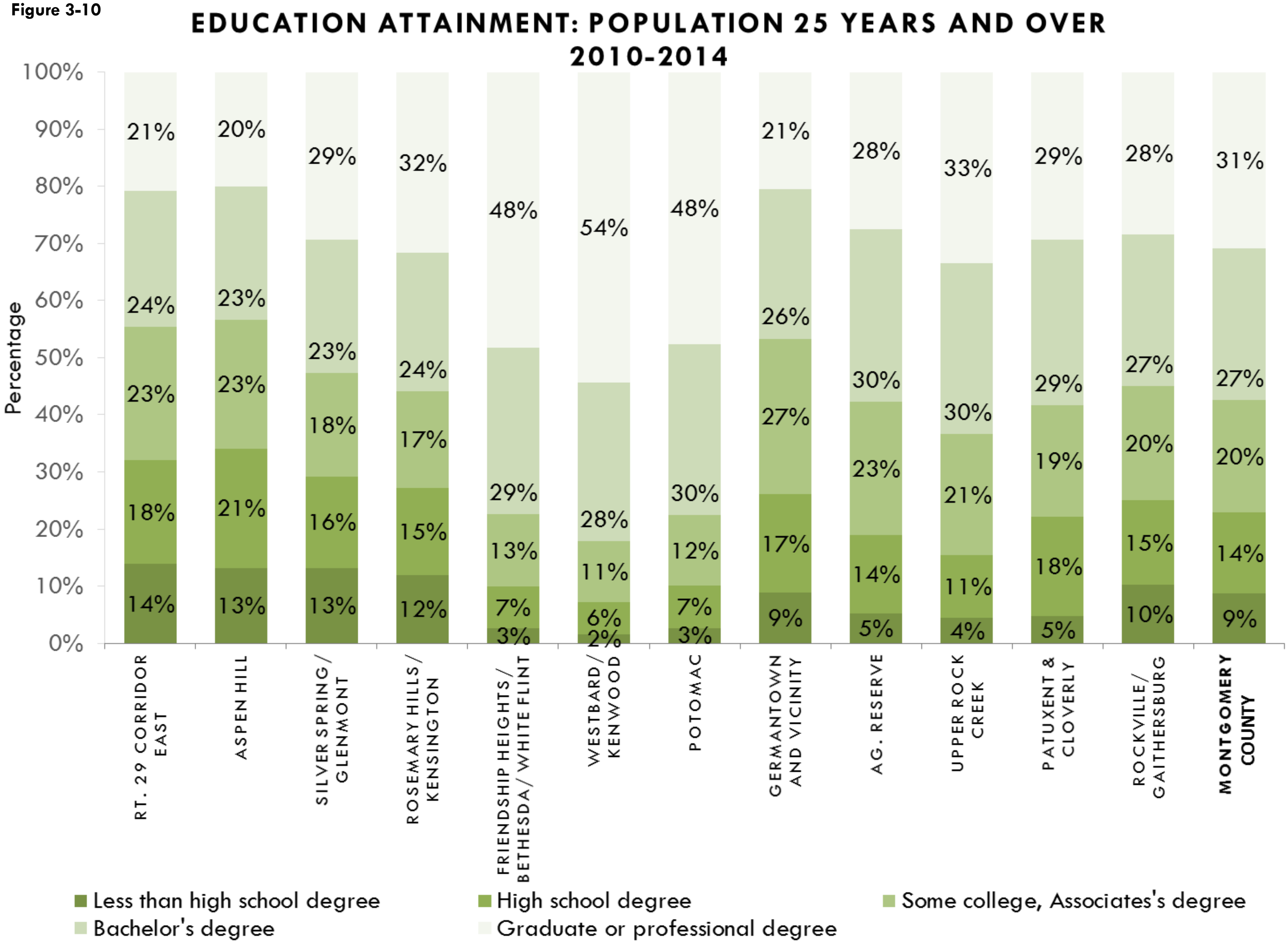
Source: Components of Population Change ACS 2010-2014

Figure 3-9



Source: ACS 2010-2014

Figure 3-10



Source: ACS 2010-2014

I. HOUSEHOLDS

Like population trends, the subareas with the largest number of households in 2014 are near or include major transportation corridors: Silver Spring/Glenmont (56,000), Rockville/Gaithersburg (54,316), Germantown & Vicinity (48,204), and Friendship Heights/Bethesda/White Flint (47,057) (Figure 3-11).

Household density per square mile is also similar to population density. In Montgomery County, greatest density is in Silver Spring/Glenmont (2,660 households per square mile), Friendship Heights/Bethesda/White Flint (2,388 households per square mile) and Aspen Hill (2,085 persons per square mile) (Figure 3-12).

Ultimately, household density patterns mirror the dichotomy expressed through population density. Higher intensity development and household density are greatest in subareas with major transportation corridors. Lowest development intensity is in subareas with exurban and rural development patterns, such as the Agricultural Reserve, Patuxent & Cloverly, and Upper Rock Creek.

J. HOUSEHOLD INCOME

Household incomes vary greatly across the county. Based on an analysis of 2014 estimates of median income by US Census Tract, the greatest concentrations of affluence are in the western part of the county, particularly in the Potomac, Westbard/Kenwood and Friendship Heights/Bethesda/White Flint subareas with median incomes between approximately $143,700 and $250,000 (Map 3-2).

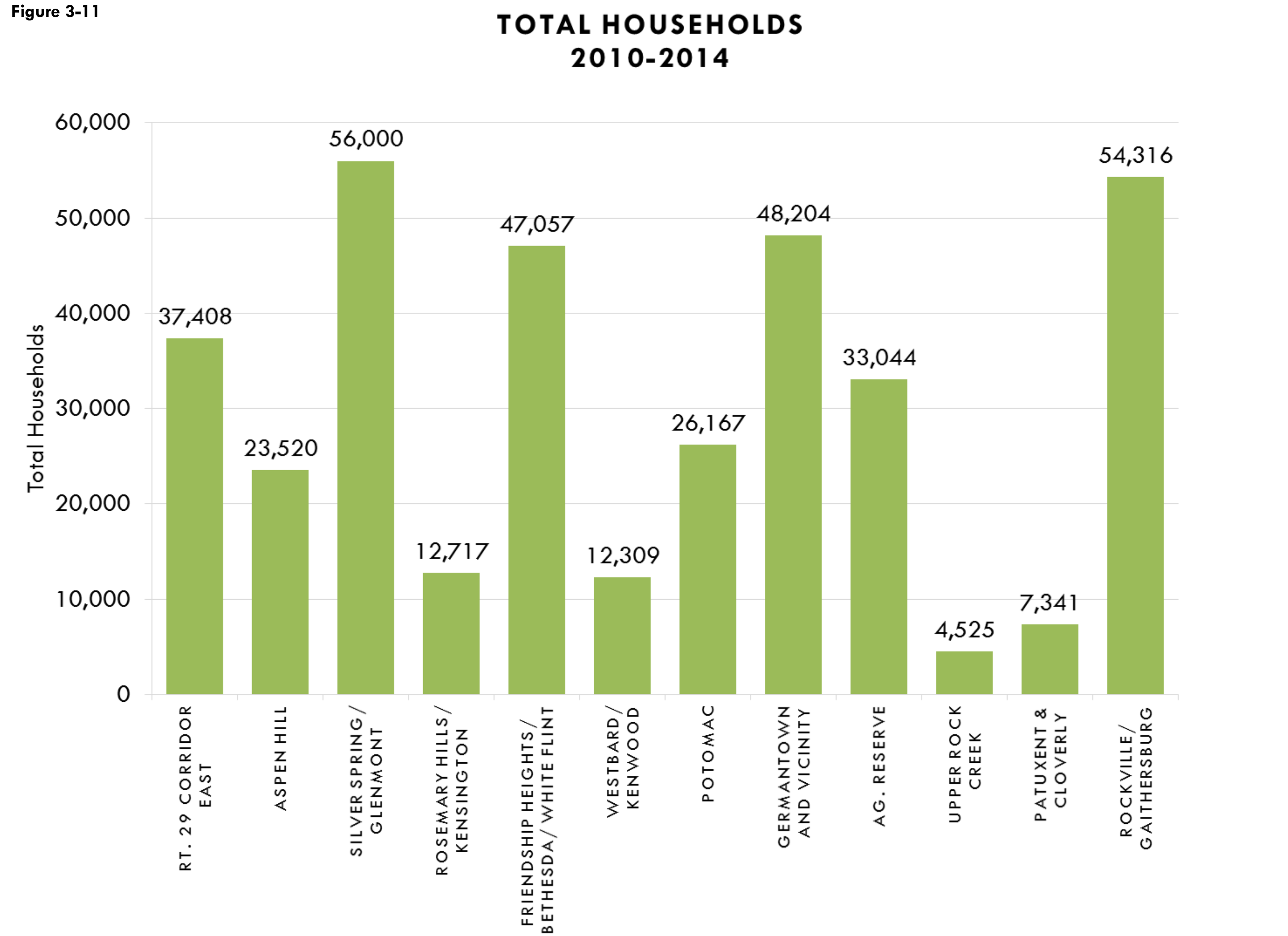
Areas with the lowest median incomes, from approximately $45,800 to $75,300, are located primarily on the eastern boarder of the county and in census tracts adjacent to Metrorail lines in the central part of the county. From a rental housing perspective, this situation illustrates that households with lower incomes are likely to seek the most affordable housing with good transit and transportation access.

When 2009 income estimates were adjusted to 2014 dollars and compared to the 2014 income estimates, the average household income declined for the county overall ($2,730) during this period (Figure 3-13, Figure 3-14). Average household income in real dollars has declined since 2009 for the vast majority of subareas, particularly Patuxent & Cloverly ($23,876, a 16 percent decline), Potomac ($12,146, a 6 percent decline) and the Route 29 Corridor East ($10,791, a 12 percent decline). This decline had the greatest impact in Patuxent & Cloverly (16 percent), and the Route 29 Corridor East (12 percent) in terms of the portion of income lost.

The only subareas that experienced a growth in average income in current dollars were Silver Spring/Glenmont ($1,301) and Rosemary Hills/Kensington ($7,786). These statistics indicate that in most subareas, household incomes are not keeping pace with inflation. As costs of living and housing continue to increase, the amount of rent that households can afford declines. To this point, existing county residents—particularly at the more modest income levels—are susceptible to be displaced, based on factors beyond their control.

The analysis of average household income throughout Montgomery County also further illustrates the diversity in socioeconomic status within the county and the lack of diversity in certain areas of the county. Given the county's longstanding focus on being inclusive and providing all residents choice in where and how to live, understanding the affordability of rental housing is a critical next step. It is essential to encouraging the development of units to meet this demand by location.

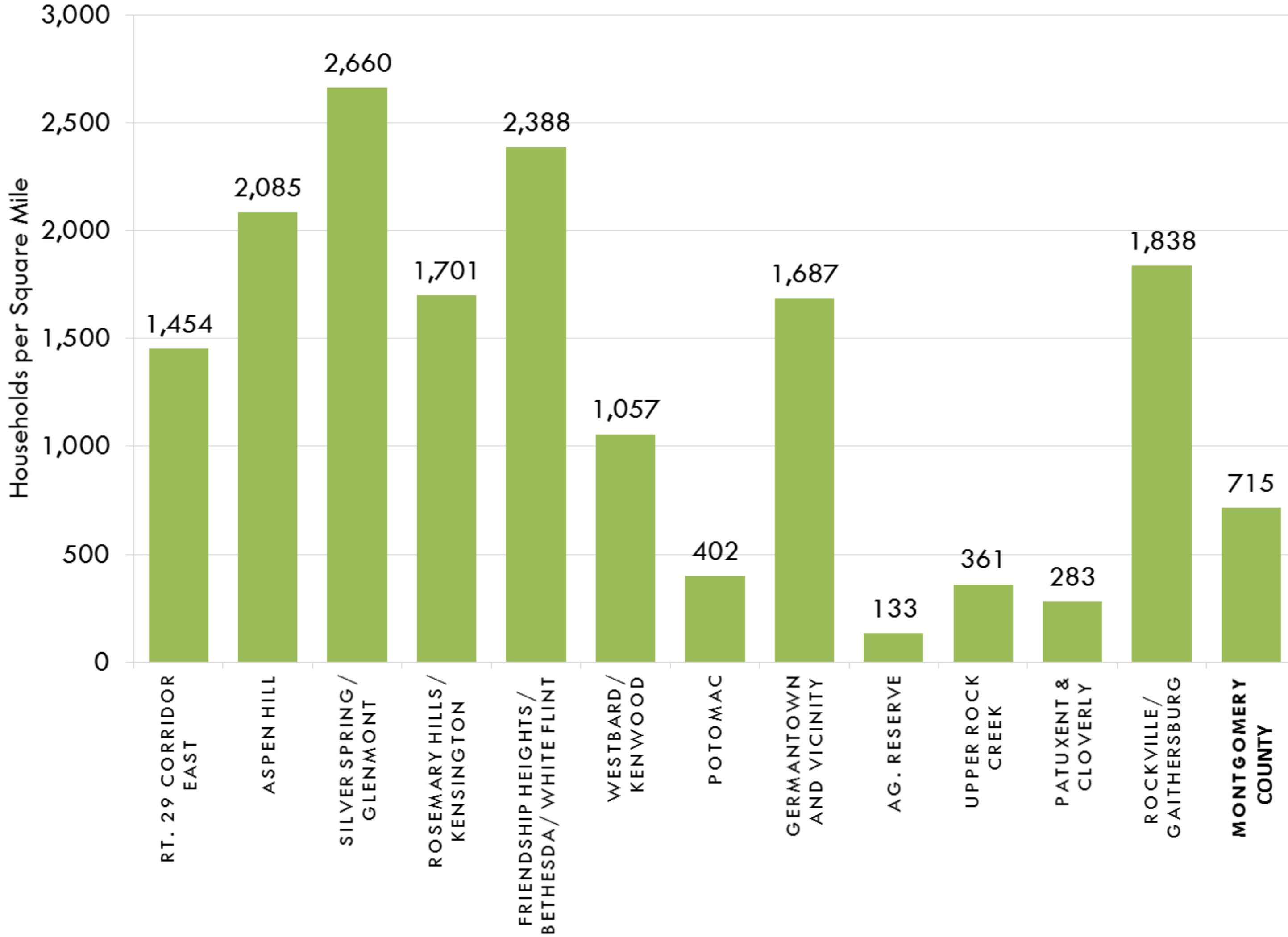
Figure 3-11



Source: ACS 2010-2014

Figure 3-12

TOTAL HOUSEHOLD DENSITY PER SQUARE MILE 2010-2014



Square Miles **26** **11** **21** **7** **20** **12** **65** **29** **248** **13** **26** **30** **507**

Source: ACS 2010-2014

Map 3-2

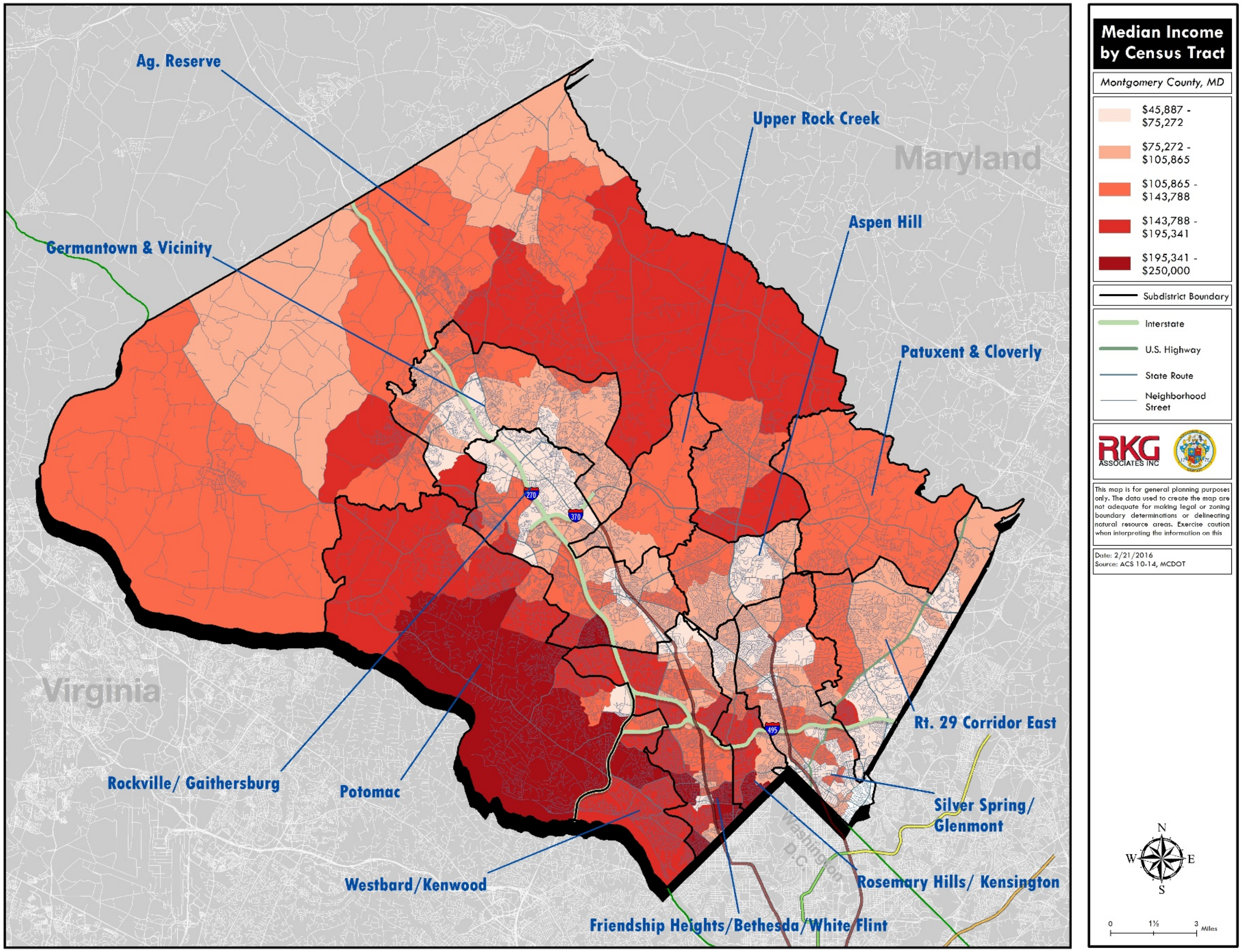
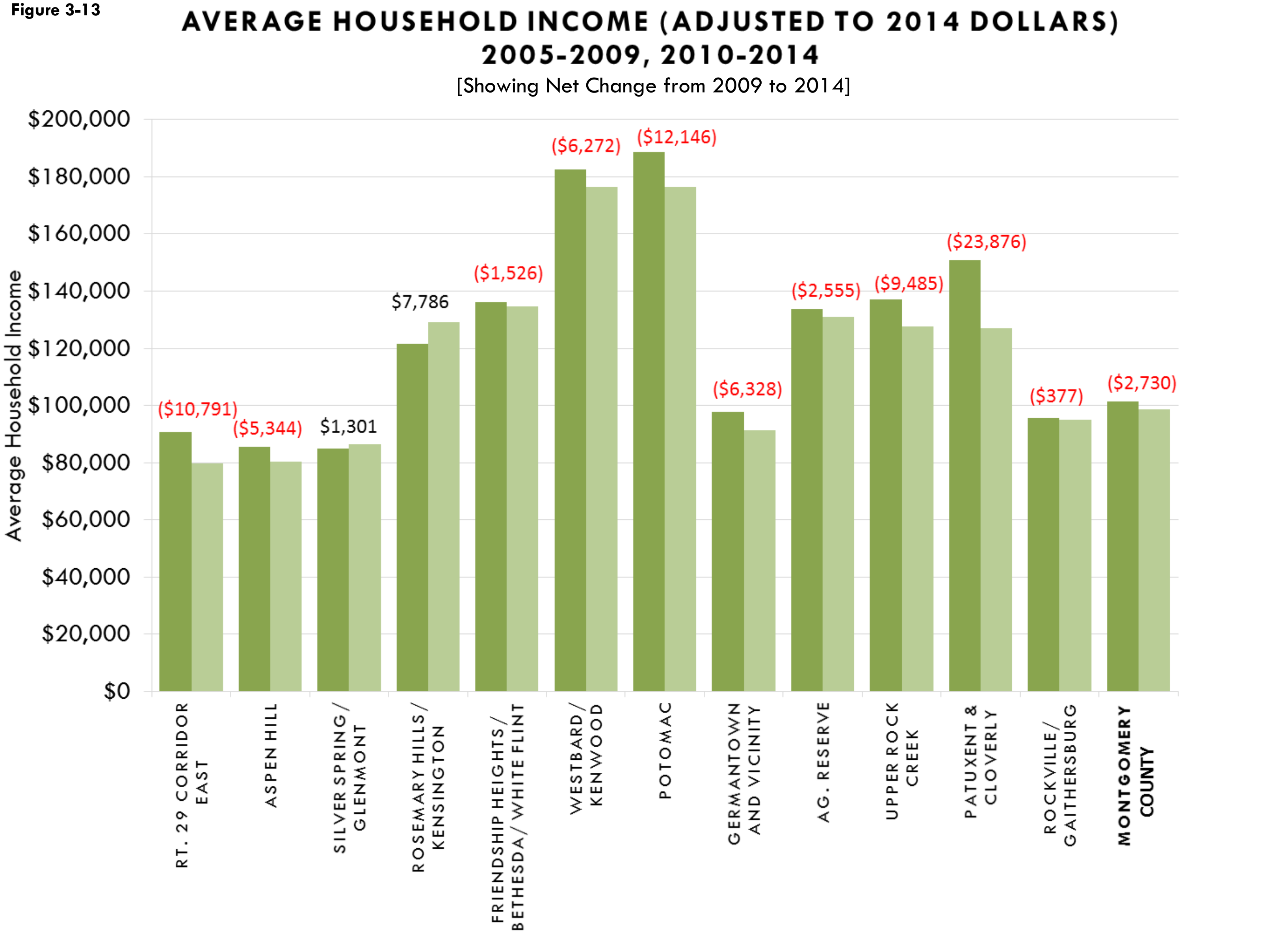
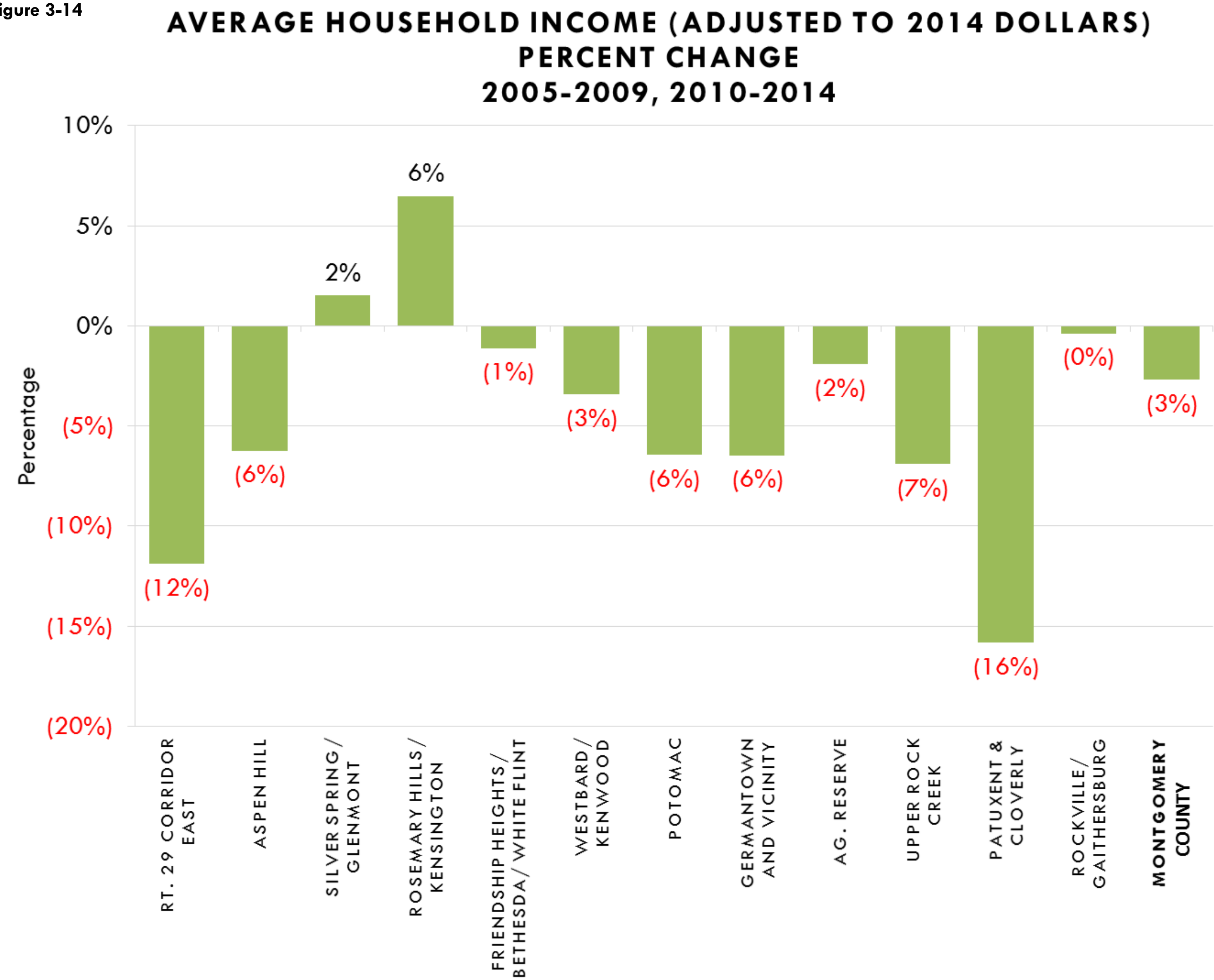

Ag. Reserve
Upper Rock Creek
Maryland
Aspen Hill
Germantown & Vicinity
Patuxent & Cloverly
Virginia
Rt. 29 Corridor East
Rockville/ Gaithersburg
Potomac
Silver Spring/ Glenmont
Westbard/Kenwood
Washington D.C.
Rosemary Hills/ Kensington
Friendship Heights/Bethesda/White Flint
270
370
495
Median Income by Census Tract
Montgomery County, MD
$45,887 - $75,272
$75,272 - $105,865
$105,865 - $143,788
$143,788 - $195,341
$195,341 - $250,000
Subdistrict Boundary
Interstate
U.S. Highway
State Route
Neighborhood Street
RKG ASSOCIATES INC
This map is for general planning purposes only. The data used to create the map are not adequate for making legal or zoning boundary determinations or delineating natural resource areas. Exercise caution when interpreting the information on this
Date: 2/21/2016
Source: ACS 10-14, MCDOT
N
W
E
S
0
1½
3
Miles

Figure 3-13



Source: ACS 2005-2009, ACS 2010-2014

Figure 3-14



Source: ACS 2005-2009, ACS 2010-2014

K. ECONOMIC BASE

The location and type of jobs in a community, as well as the type commuting patterns of residents and workers can have a notable impact on housing demand in a community. This effect is particularly true for rental housing when attempting to identify where rental housing is most needed and at what level of affordability. The Affordability Analysis Chapter in this report examines rental housing supply and demand based on location and affordability.

Basic economic metrics provided the consultant team with an understanding of where jobs are primarily located and the basic characteristics of employees. Additionally, this information provides an understanding of the level of commuting activity and the opportunity to accommodate these workers with housing options within the county.

1. At-Place Employment

At-place employment reflects the number of jobs within an identified area. For this analysis, at-place employment was analyzed for each subarea. This analysis reflects all jobs in all employment sectors, including public administration. In 2013, the subareas with the greatest number of jobs were Friendship Heights/Bethesda/ White Flint (134,415), Rockville/Gaithersburg (126,607) and Silver Spring/Glenmont (48,091) (Figure 3-15).

All of these subareas have Metrorail access and are in close proximity to or include major government employers. This high rate of employment is further supported by jobs per square mile by subarea. Here, too, the subareas of Friendship Heights/Bethesda/White Flint (6,822), Rockville/Gaithersburg (4,284) and Silver Spring/Glenmont (2,284) have the greatest number of jobs per square mile, supporting their status as major employment centers in the county (Figure 3-16).

Top sectors include professional, scientific and technical services (MedImmune, Westat, Henry M. Jackson Foundation, consulting firms), health care and social assistance (Adventist HealthCare, Holy Cross Hospital, Kaiser Foundation Health Plan), public administration (county government, National Institutes of Health, US Food and Drug Administration), National Oceanic and Atmospheric Administration), Education Services (Montgomery College) and retail trade (Giant Food, Target, Safeway).[4]

These top employment clusters, with the exception of retail trade, indicate that most jobs in Montgomery County are white-collar, high-skilled and semi-skilled jobs that require advanced levels of education or training. The prominence of retail trade as a major employment sector also indicates that low skill, white collar jobs are also a notable part of the county economy. However, incomes for retail trade jobs are typically below that of the other top employment sectors. From a housing perspective, the diversity of employment concentration indicates that the need for housing is diverse within the county.

2. Employment Export/Import Analysis

Employment export/import is defined as the difference between the number of workers that live within the subarea and the number of jobs within that subarea. Therefore, if the number of jobs in an area exceeds the number of resident workers, the subarea is an employment importer. Conversely, if there are a greater number of resident workers than jobs, the subarea is an employment exporter.

Overall, Montgomery County is an importer of workers with more jobs in the county than resident workers by 12,575 (Figure 3-17). This situation is largely due to major employment centers that are notable importers, such as Friendship Heights/Bethesda/White Flint (91,310) with workers commuting to the

[4] Employer examples from "Major Employers in Montgomery County, Maryland", Montgomery County Department of Economic Development and Maryland Department of Commerce, 2015.

subarea for jobs at major employment centers, such as the National Institutes of Health and Kaiser Foundation Health Plan.

Another notable importer of employment is Rockville/Gaithersburg (67,032) due to the large number of jobs associated with the county government, the US Food and Drug Administration, MedImmune and Westat. Employment clusters within these subareas were largest within the professional scientific and technical services, public administration and health care and social assistance industry sectors, which are consistent with the major employers in these subareas.

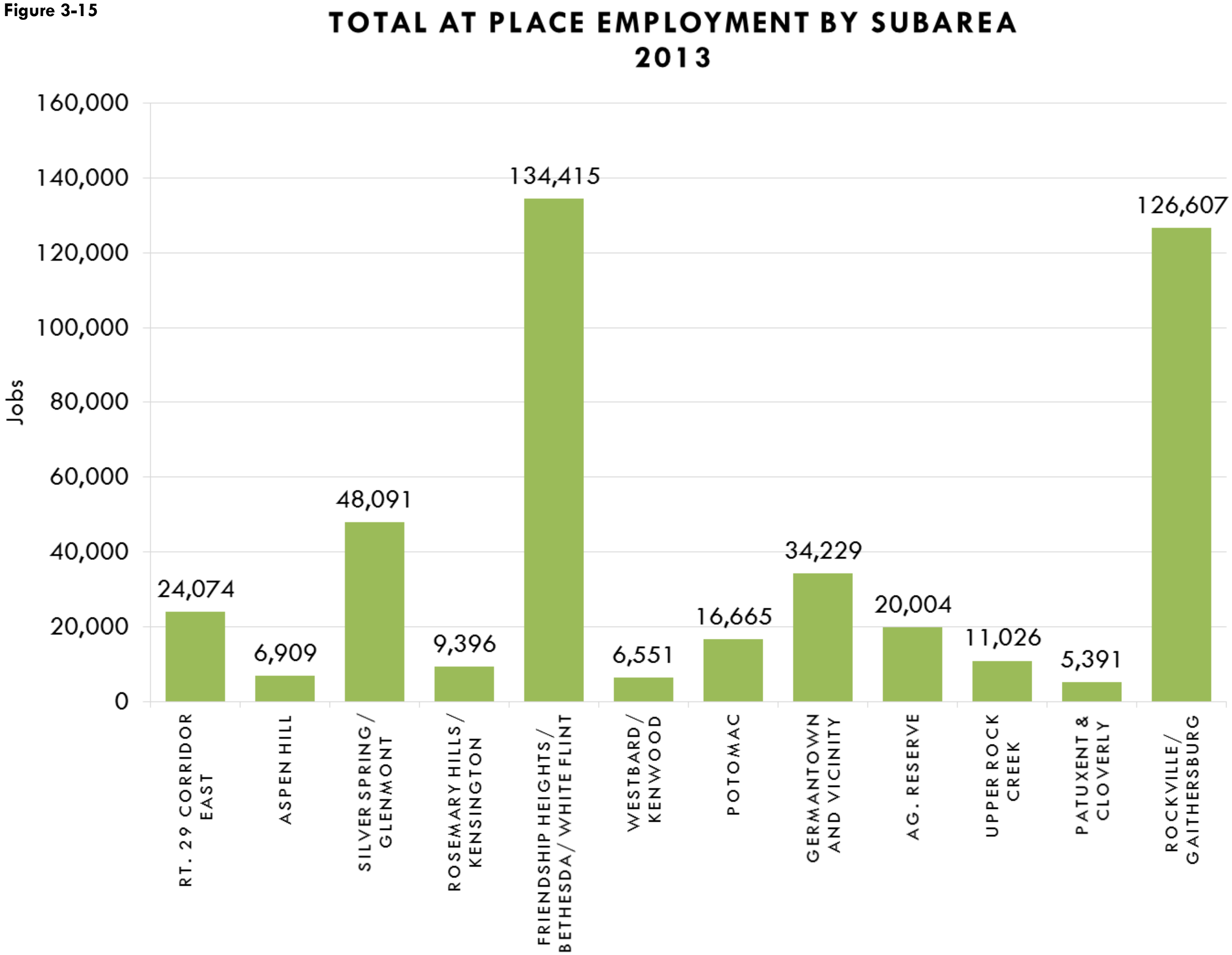
Major employment exporters in the county include the Agricultural Reserve (31,076), Germantown & Vicinity (27,693), and Route 29 Corridor East (22,606). Workers that live within these subareas commute to jobs outside the county or to other subareas within the county, such as Friendship Heights/Bethesda/White Flint and Rockville/Gaithersburg. Due to the high import rate within these two subareas, there is the potential to capture additional demand for housing from current commuters.

While some workers have chosen to live in subareas such as the Agricultural Reserve because they appreciate the suburban/exurban lifestyle, workers that are commuting from other subareas and outside the county might find rental options closer to work to be attractive. Such rental choices may particularly be the case if these rental housing options are located within higher density developments and along major public transportation routes.

To this point, the analysis indicates that existing county residents will have to compete with households from outside Montgomery County for any new supply provided in the marketplace. This competition for rental housing is an important distinction, as the affordability analysis focuses exclusively on existing county households.

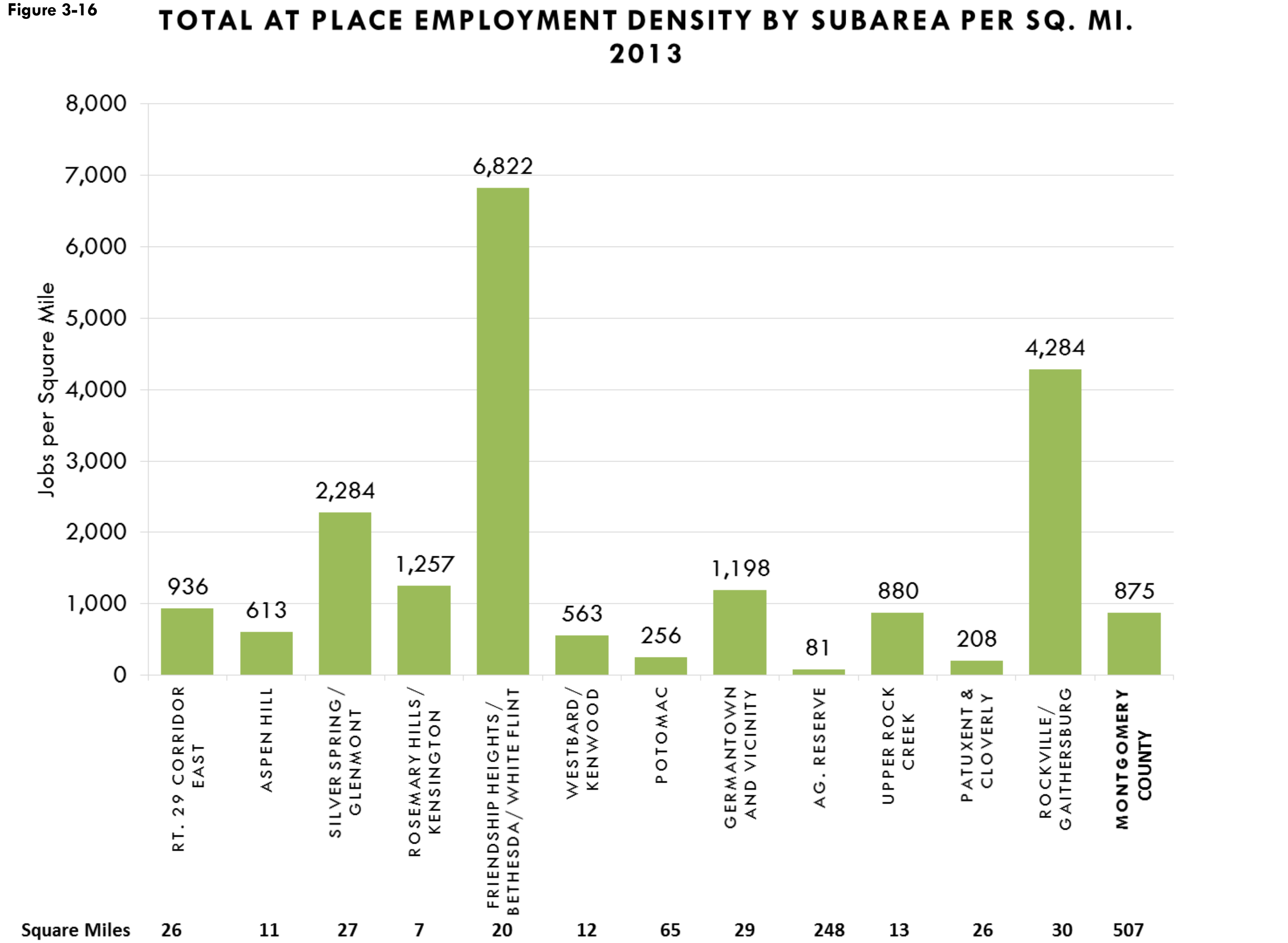
In short, any new units added to the county's supply—at any price point—will attract demand from all over the Washington, DC metropolitan area and beyond. It should not be assumed that any policy changes will exclusively address needs of Montgomery County households. That said, inaction will continue to adversely impact existing residents, as prices most likely will continue to climb while ability to pay lags.

Figure 3-15



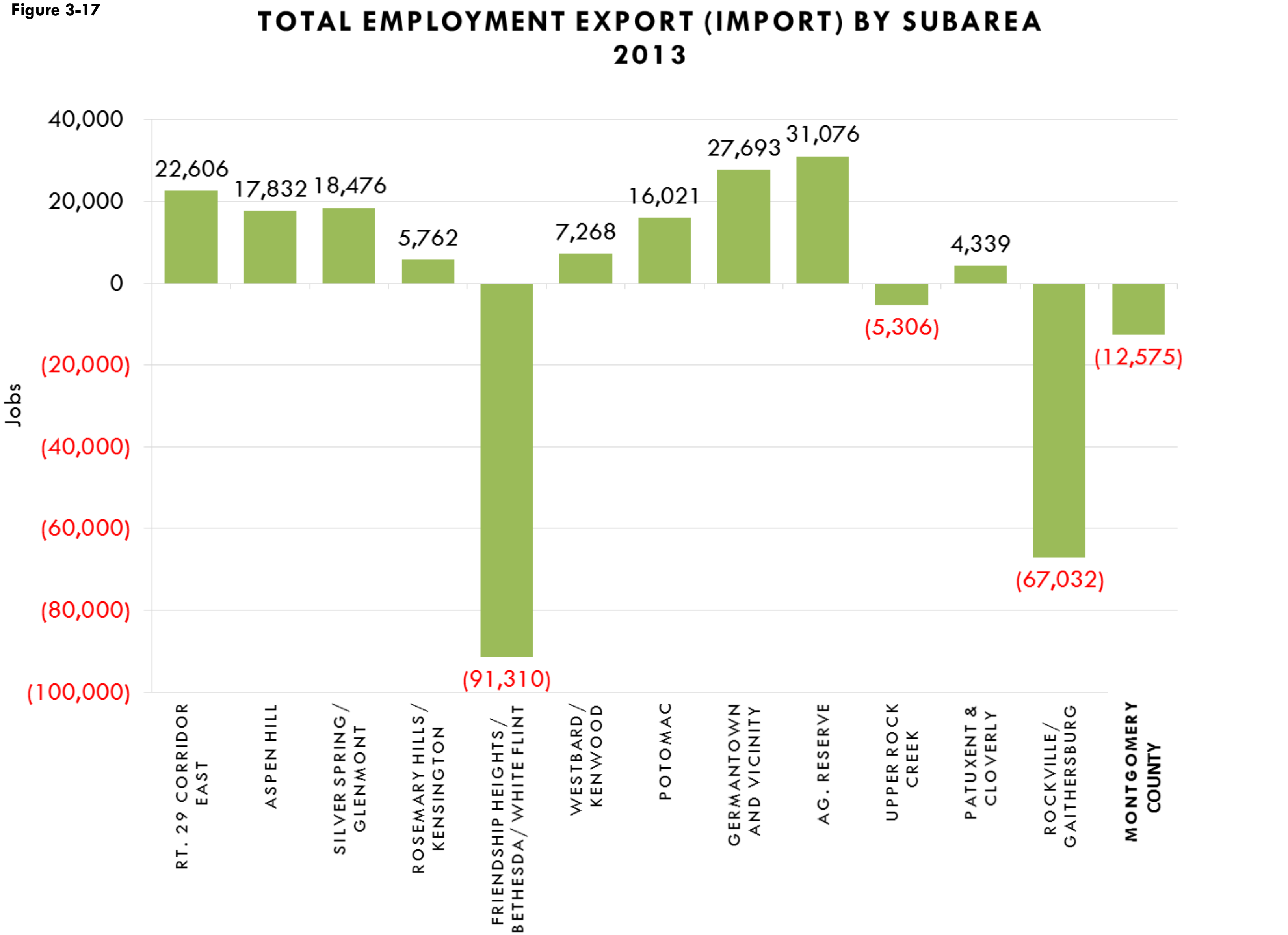
Source: OnTheMap 2013

Figure 3-16



Source: OnTheMap 2013

Figure 3-17



Source: OnTheMap 2013

4 RENTAL HOUSING ANALYSIS

A. INTRODUCTION

The phrase “rental housing” often recalls large apartment complexes and suburban garden-style apartments. Historically, renting a home was viewed as the lesser alternative to owning a home. In recent years, however, demand for rental housing has increased as Millennials and younger Generation Xers are choosing to rent for longer to better match their transient lifestyles. Furthermore, households at a range of income levels are renting by choice or necessity in an effort to offset economic hardship experienced during the 2008 recession.

As demand for rental housing has increased, many markets have experienced a diversification in rental supply to meet this demand, resulting in a number of single-family conversions into full-house rentals or multiple rental units. With these more recent trends in mind, the consultant team analyzed the existing supply and demand for rental housing within Montgomery County and its subareas to more fully understand the rental market as it exists today.

B. MAJOR FINDINGS

- ***Rental housing accounts for approximately one-third of all units in Montgomery County.*** These units are concentrated primarily along Metrorail lines and near employment centers where development intensity is greatest. A notable number of units are rental conversions—or units traditionally owner-occupied that have been converted for rental use—that accommodate less traditional renters and larger households. The greatest number of these units are in older communities inside Interstate-495, high employment centers and areas with more traditional, single-family development patterns. While comprising less than half of the total housing inventory in the county, rental units have been built or converted for rental use in the areas where they are in the greatest demand and include a variety of unit sizes and building types to meet the range of rental housing needs in the county.

- ***The renter population in Montgomery County is more diverse than many other communities.*** Notable portions of rental households have more than three people, numbers influenced by the wide range of larger traditional rental units in older multifamily buildings. Additionally, larger renter households with means that prefer single-family style living have contributed to the relatively high level of single-family unit conversions in the county to accommodate this demand. In addition to larger households, renters in Montgomery County earn a wide range of incomes, from extremely low and modest incomes to higher incomes of more than 120 percent of area median income ($115,560). Therefore, the demand for rental units includes those who cannot afford other housing options and those who prefer to rent for other reasons, such as a flexible commitment, amenities and low maintenance.

- ***The renter population diversity extends beyond household size and characteristics to age.*** More than half of the renter households in Montgomery County are older than 35 years of age. Active adults (55 and older) account for one quarter of all renter householders. This number indicates that renter households are not just young persons in their 20s, but also established households and members of the Baby Boomer generation. The range in age of renter households will shape the types of unit and amenities that will be necessary to address their respective preferences. Developers of new rental housing units will need to account for location amenities and attributes when designing product types.

- ***Montgomery County rental base provides a range of offerings.*** The variety of rental housing developments, particularly regarding the difference in age, has created a naturally occurring range of price points and product types. Simply put, the older rental supply typically rents for less than newly built units. However, market forces are eroding this natural affordability. At a base level, the imbalance between supply (relatively low) and demand (extremely high) within the market is driving up costs for existing tenants. This challenge is exacerbated by the continued, and increasing, demand for rental housing in Montgomery County from potential renters currently living elsewhere. These factors, in combination with the loss of real income for current renter households due to the recent economic downturn, have reduced the number of naturally occurring market-rate affordable units.

C. METHODOLOGY

1. Data Sources

A full list of the data collected and considered during the analysis of rental supply and demand can be found in the Chapter 1. The following sources are those primarily used for this analysis. Like the socioeconomic analysis, a substantial portion of the data for the rental demand analysis is from the US Census Bureau's 2010-2014 American Community Survey (ACS) 5-Year estimate data. The rental supply analysis was primarily based on Maryland's assessment and taxation records for property records in the county. This data was initially reviewed for analysis applicability and missing data. When possible, estimates for similar properties were used to fill in missing information; in other instances, unique case records were considered outliers and removed from the analysis.

While not an exact accounting of real property, tax assessment data provides the most current and comprehensive source for this type of information, including fair market values, year built and building size information. The consultant also used the 2014 Rental Housing Survey conducted by the Montgomery County Department of Housing and Community Affairs (DHCA). This survey provided the consultant with a range of data on approximately 800 apartment complexes in the county.

While not exhaustive, the survey covers a substantial portion of the rental housing in Montgomery County and is conducted by DHCA annually to provide a variety of stakeholders with information on vacancies, rent increases and other data to identify market trends. Any other data used for the analysis of the supply and demand for rental housing in Montgomery County not described previously is noted within this chapter.

D. RENTAL DEMAND

Approximately one in three (33 percent) households are renters in Montgomery County based on 2010-2014 ACS estimates of occupied units. Although renter households exist in all subareas, the greatest concentration of renter households is located in close proximity to public transportation and major transportation corridors where development is more intense. This section focuses on the characteristics of these households and their incomes which provide the basis for understanding rental demand in the county.

1. Age of Householder

When renter households and age of head of household are analyzed, the youngest householders (34 years and under) comprise the greatest portion of renter householders in subareas with MetroRail access, Silver Spring/Glenmont (40 percent) and Friendship Heights/Bethesda/White Flint (38 percent) (Figure 4-1). Households headed by younger householders, those under 35 years old, are also highly concentrated in subareas near employment centers, including Germantown & Vicinity (37 percent), and Upper Rock Creek (38 percent).

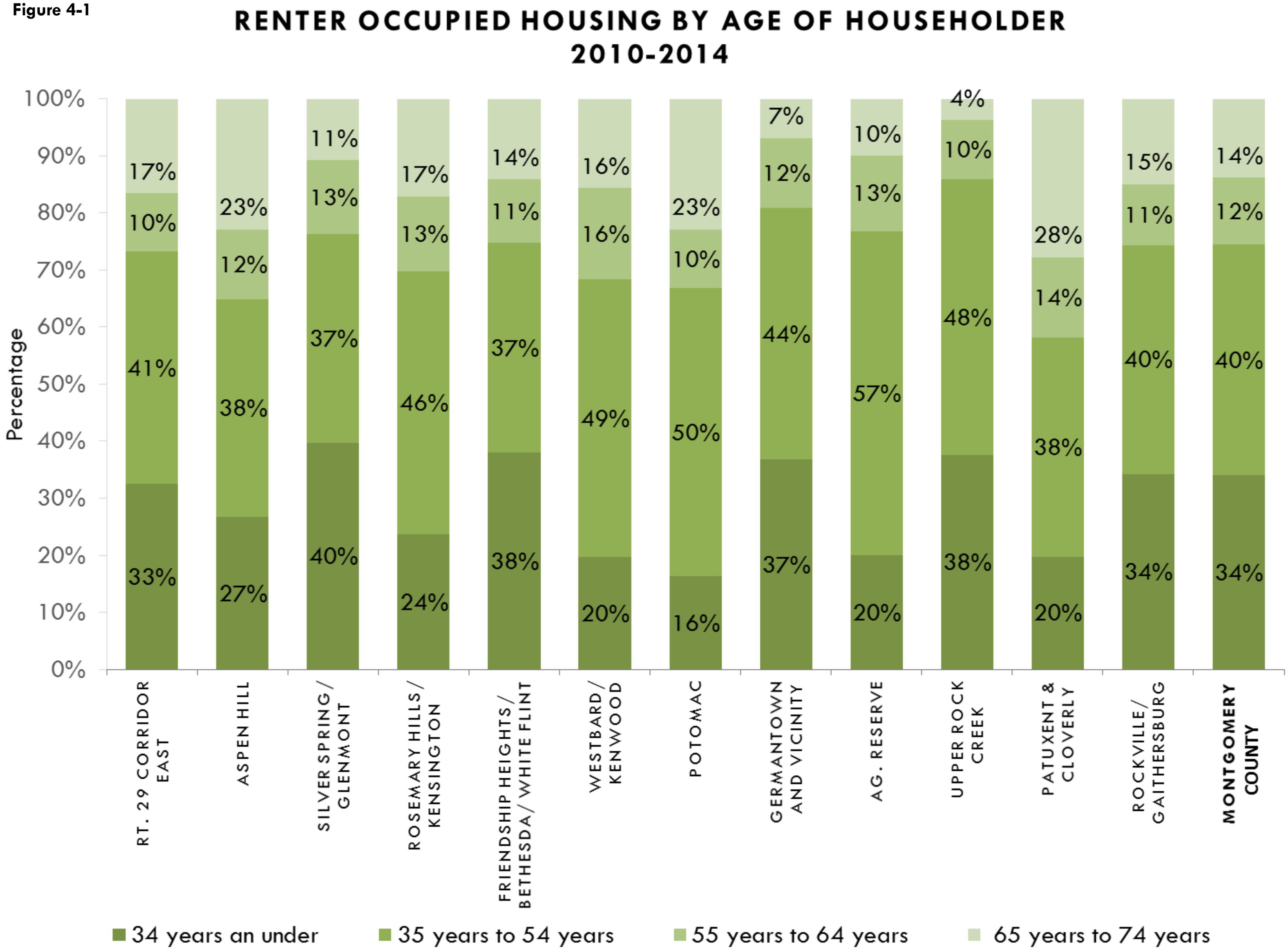
Additionally, subareas with the largest concentrations of retiree renter households, with a householder between 65 and 74 years of age, include Patuxent & Cloverly (28 percent), Potomac (23 percent) and Aspen Hill (23 percent). These percentages further support age cohort trends discussed within the Socioeconomic Chapter and indicate that younger populations are concentrating near transit and employment centers, while retirees are more diverse in their rental housing demand. The households headed by older persons tend to value existing community connections as much or more than the conveniences of transportation access and nearby amenities.

Using 2005-2009 and 2010-2014 ACS 5-Year estimates to examine recent trends in renter-occupied units by age cohort, notable changes are evident, particularly in the empty nester cohort (55 years to 64 years of age). Both Aspen Hill and Germantown experienced a notable growth in renter households between ages 55 to 64, of 149 percent and 100 percent respectively.

The Rosemary Hills/Kensington subarea also experienced significant increases of renter-occupied housing for householders 55 to 64 years of age (157 percent) as well as 34 years of age and under (110 percent) and 35 to 54 years of age (98 percent) during this period, likely due to a growth in renter-occupied units by approximately 83 percent.

Additionally, Westbard/Kenwood also experienced a substantial increase in renter-occupied households of 65 years and older (135 percent). The notable increase of renter households between 55 years and 74 years of age indicates that empty nesters and seniors are downsizing and seeking locations near their current residences that have more amenities and less home maintenance.

Figure 4-1



Source: ACS 2010-2014

2. Renter Household Size

Renter households tend to be smaller in size because rental units are often smaller in size. In Montgomery County, this smaller household size is generally the case. An estimated 62 percent of renter households in 2014 were small 1-person (35 percent) or 2-person (28 percent) households (Figure 4-2). However, the remaining 37 percent of renter households had a greater share of 4 or more person households (21 percent) than 3-person households (16 percent). These percentages indicate that demand for rental housing cannot be captured with what the market is currently supplying in rental housing, which is primarily composed of 1-bedroom and 2-bedroom units.

From a subarea perspective, households gravitate to what units are readily available. Small 1- and 2-person renter households are concentrated within subareas with substantial apartment complex developments. Areas such as Silver Spring/Glenmont (17,566), Rockville/Gaithersburg (15,227) and Friendship Heights/Bethesda/White Flint (15,133) have the highest concentrations of these smaller units (Figure 4-3).

This finding is consistent with the notable growth of persons within the 25 to 34 years of age cohort in these subareas, which typically have smaller household sizes. Conversely, the greatest nominal concentration of 3 and more person renter households is in Rockville/Gaithersburg (9,161), Silver Spring/Glenmont (8,004), Germantown & Vicinity (6,875) and Route 29 Corridor East (6,659). Of these, the greatest nominal concentration of renter households with 5-plus persons are in Silver Spring/Glenmont (2,306) and Rockville/Gaithersburg (2,274). These two subareas also have a moderate to large number of 3 bedroom and larger rental units (particularly converted ownership units for rent) with the capacity for larger households.

3. Household Income by Affordability

While the characteristics of renter households outlined above provide insight into the correlation between rental housing type and size of renter households, demand for rental housing is ultimately determined by the amount a household can pay for housing. To that end, the consultant team analyzed renter household income by affordability thresholds.

These thresholds are determined by using the US Department of Housing and Urban Development (HUD) Income Limits, which are based on the area median income (AMI) for the Washington – Arlington – Alexandria, DC-VA-MD HUD Metro Fair Market Rent Area. These limits are primarily used to identify household income qualifications for a range of HUD-based rental assistance programs. The rental income analysis for this study uses the income limits calculated by HUD for 3-person households to reflect the median household size of Montgomery County renter households.

Based on the HUD AMI Income Limits for 3-person households, affordability thresholds were established at 30 percent of AMI (extremely low income), 50 percent of AMI (very low income), 80 percent of AMI (low income), 100 percent of AMI and 120 percent of AMI (Table 4-

Table 4-1
HUD Household Income Thresholds, FY2014
Washington-Arlington-Alexandria, DC-VA-MD HUD Metro FMR Area

	Persons in Household		
Income Bands	**2**	**3**	**4**
Extremely Low (30%) Income Limits	$25,700	$28,900	$32,100
Very Low (50%) Income Limits	$42,800	$48,150	$53,500
Low (80%) Income Limits	$54,800	$61,650	$68,500
100% AMI	$85,600	$96,300	***$107,000***
120% AMI	$102,720	$115,560	$128,400

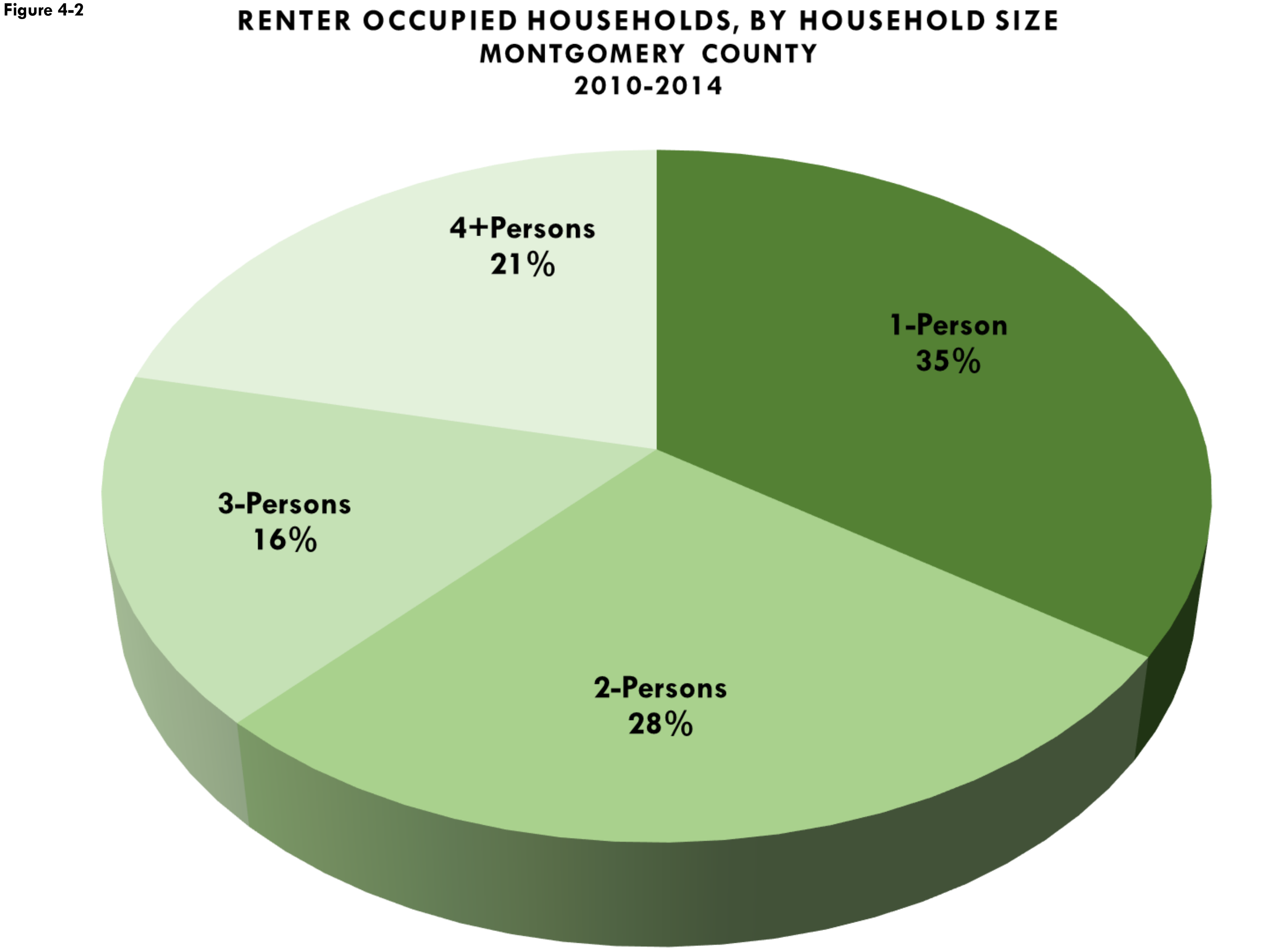
Source: HUD AMI 2014, DHCA, RKG

1). For the analysis of renter household income, these income thresholds were used to assess each census tract and subarea. Affordability thresholds are also a critical piece of rental housing demand within the affordability analysis discussed in more detail later in this report.

At a census tract level, median household incomes by affordability threshold are similarly distributed throughout the county as the median household incomes discussed in Chapter 3. Tracts with lower median household incomes at or below 80 percent of AMI (low income) are concentrated in the central part of the county and on the far eastern edge bordering Prince George's County along Route 29 (Map 4-1).

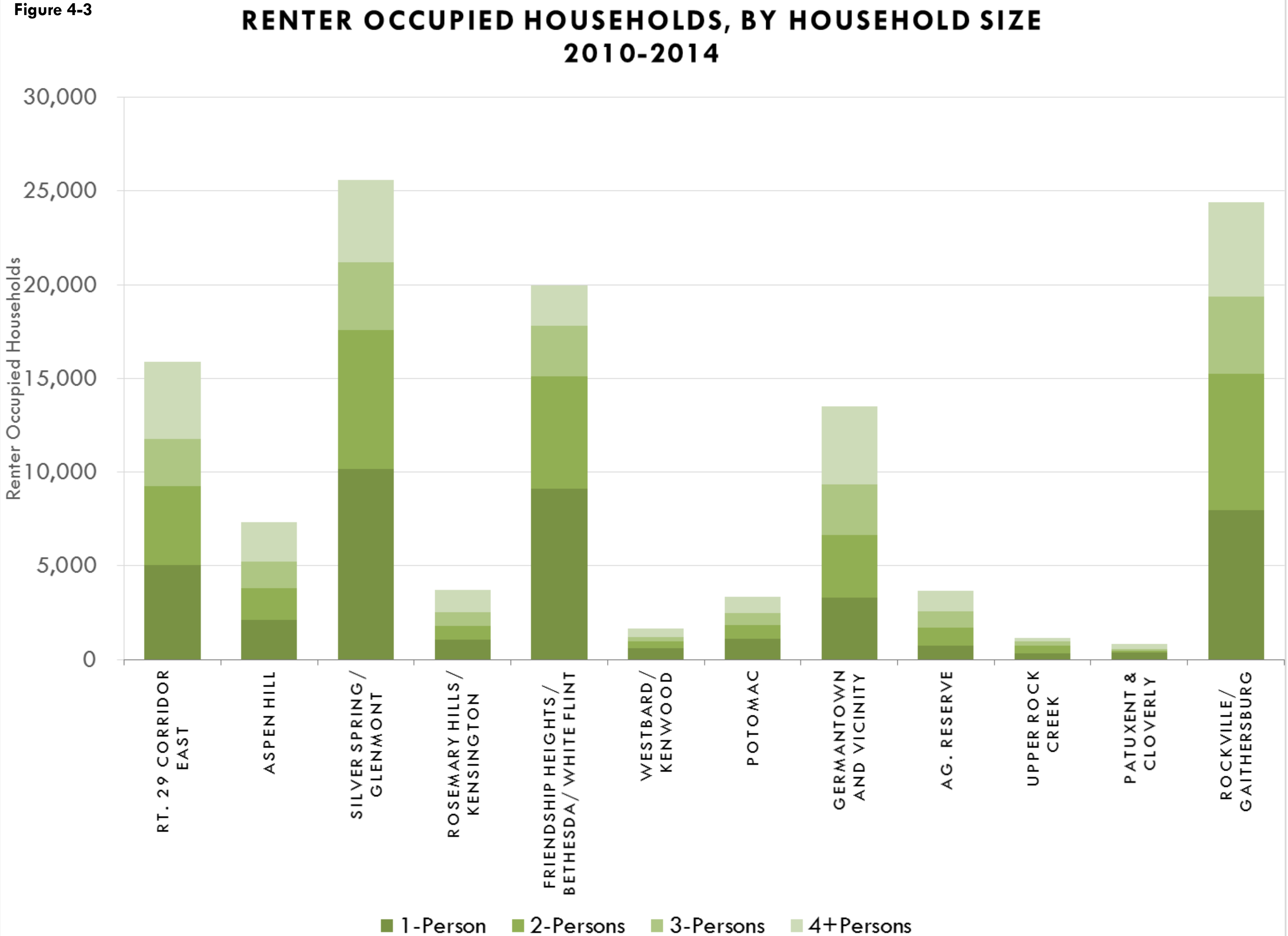
Higher income households with median incomes greater than 120 percent of AMI cluster along the southwestern and northern parts of Montgomery County, including subareas with great affluence, such as Potomac and Westbard/Kenwood. The geographic distribution of household income indicates that lower income renters are more often found near major public transportation routes, near employment centers and areas with relatively smaller housing units. In contrast, areas that have a more suburban/exurban setting tend to have a higher concentration of affluent renters.

Figure 4-2

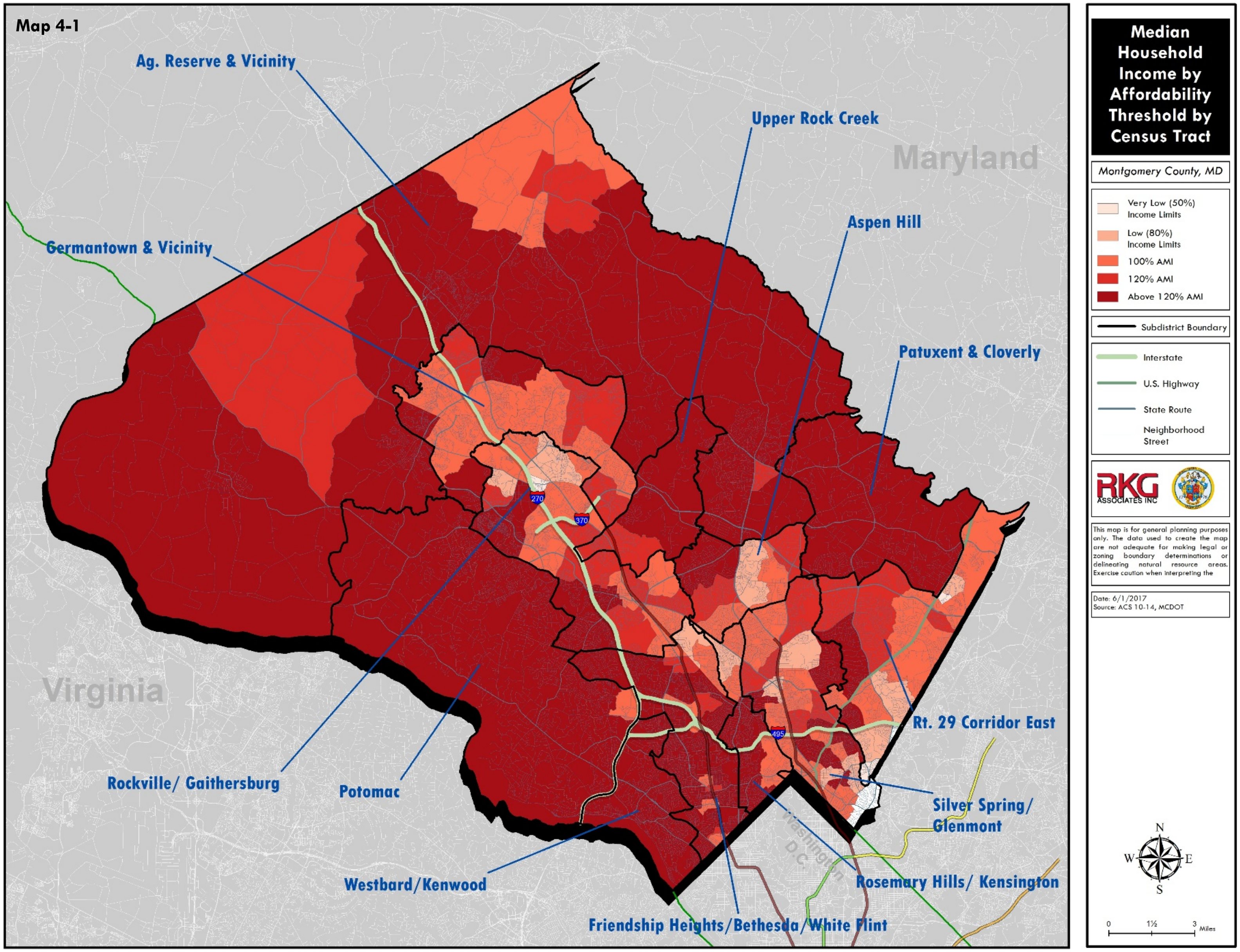


Source: ACS 2010-2014

Figure 4-3



Source: ACS 2010-2014


Map 4-1
Ag. Reserve & Vicinity
Upper Rock Creek
Maryland
Aspen Hill
Germantown & Vicinity
Patuxent & Cloverly
270
370
Virginia
Rt. 29 Corridor East
495
Rockville/ Gaithersburg
Potomac
Silver Spring/ Glenmont
Washington DC
Rosemary Hills/ Kensington
Westbard/Kenwood
Friendship Heights/Bethesda/White Flint
Median Household Income by Affordability Threshold by Census Tract
Montgomery County, MD
Very Low (50%) Income Limits
Low (80%) Income Limits
100% AMI
120% AMI
Above 120% AMI
Subdistrict Boundary
Interstate
U.S. Highway
State Route
Neighborhood Street
RKG ASSOCIATES INC
This map is for general planning purposes only. The data used to create the map are not adequate for making legal or zoning boundary determinations or delineating natural resource areas. Exercise caution when interpreting the
Date: 6/1/2017
Source: ACS 10-14, MCDOT
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E. RENTAL SUPPLY

The rental supply analysis in this chapter focuses on the characteristics of rental housing in Montgomery County and its subareas. A discussion of rental housing from a cost perspective is included within the rental supply discussion within the Affordability Analysis Chapter.

1. Renter-Occupied Units

Renter-occupied housing units comprise about one-third of all housing units in Montgomery County (Figure 4-4). Subareas within the county that have a more urban scale and are proximate to multimodal transportation access and employment centers have the largest concentrations of rental housing. These concentrations are particularly the case in Silver Spring/Glenmont (46 percent), Rockville/Gaithersburg (45 percent), Route 29 Corridor East (43 percent) and Friendship Heights/Bethesda/White Flint (42 percent).

In contrast, the more suburban and exurban subareas, such as Agricultural Reserve (11 percent), Patuxent & Cloverly (11 percent), and Potomac (13 percent), have very little rental housing. Based on the distribution of household incomes discussed previously in this chapter, the portion of renter-occupied units is more a product of location and development patterns than an indication of socioeconomic characteristics.

2. Rental Housing Characteristics

Earlier in this report, the population diversity within Montgomery County was highlighted. This diversity is not only present within the population in terms of socioeconomic diversity, but also in development patterns and housing characteristics. Accommodating the range of rental demands associated with this diversity has led to a wide range of rental housing in the County. To better understand this variety, the consultant team examined a number of rental housing characteristics using ACS data, tax assessment data and the county’s 2014 Rental Survey.

Type of Unit

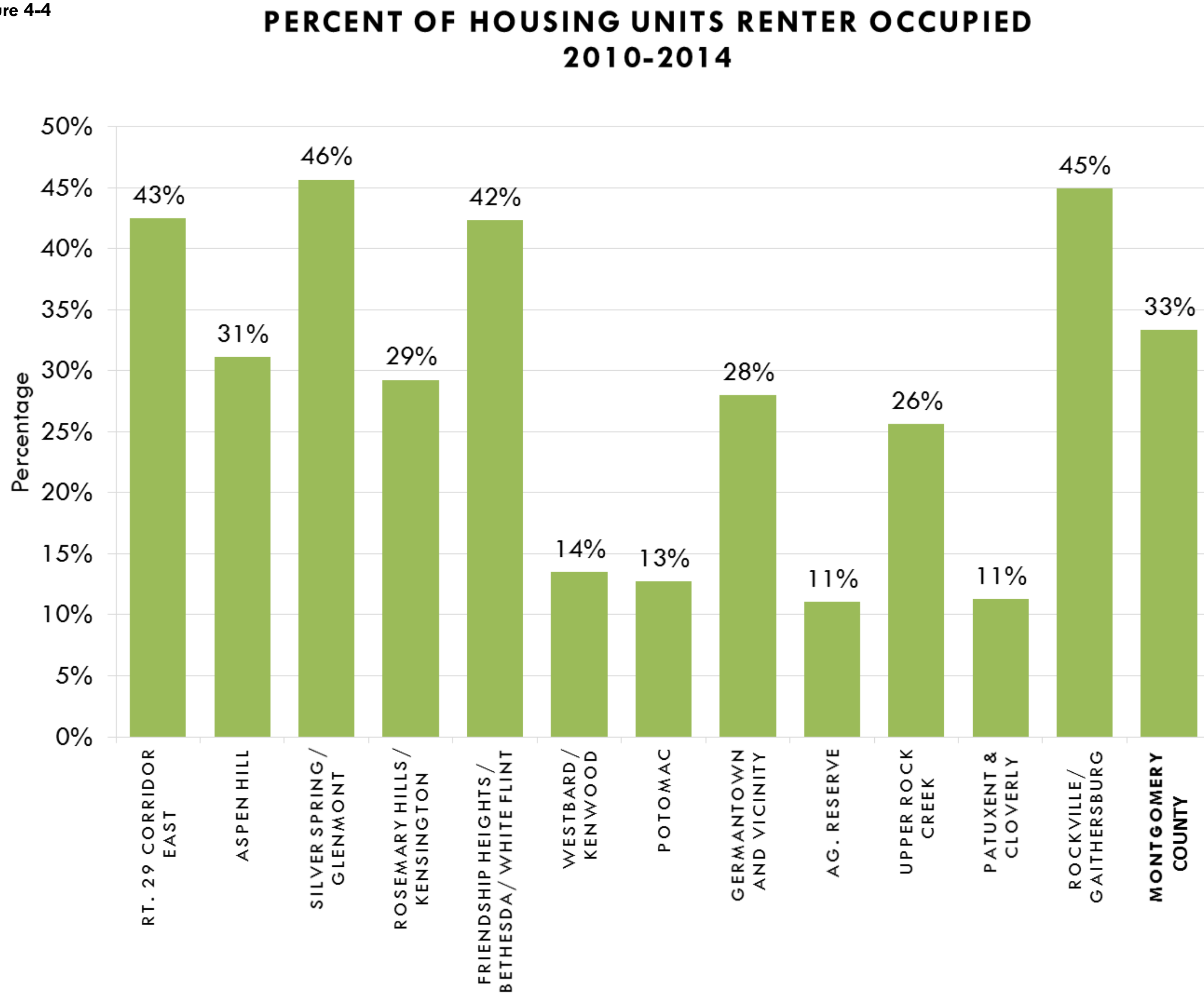
The analysis of rental housing by building type demonstrates that rental housing can take many forms. Using tax assessment records and American Community Survey data for 2014, the consultant team identified the distribution of rental units across three unit types: multifamily rental buildings, condominiums and single-family units.

Consistent with the typical perception of rental housing, multifamily units are the primary source of rental units in all subareas. Approximately 80 percent are traditional apartment units in multifamily buildings. The remaining 27,206 units are individually owned dwellings that have been converted to rental housing, including more than 17,600 single-family units (including townhouses, or other single-family attached and single-family detached units). While comprising only a small portion of the total units, the conversion units are critical for the supply/demand equilibrium given the relatively low vacancy rate for rental housing.

The distribution of the rental housing units is largely dependent on the total unit count for each subarea. Silver Spring/Glenmont and Friendship Heights/Bethesda/White Flint have the highest concentration of rental units. However, concentrations of conversion units are not dependent on total unit count. Friendship Heights/Bethesda/White Flint (3,694 condos, 2,010 single family), and Germantown & Vicinity (1,808 condos, 4,740 single family) have the highest total conversion units (Figure 4-5). In contrast, subareas where conversions represent the largest share of rental housing are the more suburban and exurban areas. Conversions account for more than 50 percent of all rental units in Potomac, Westbard/Kenwood and the Ag Reserve[1].

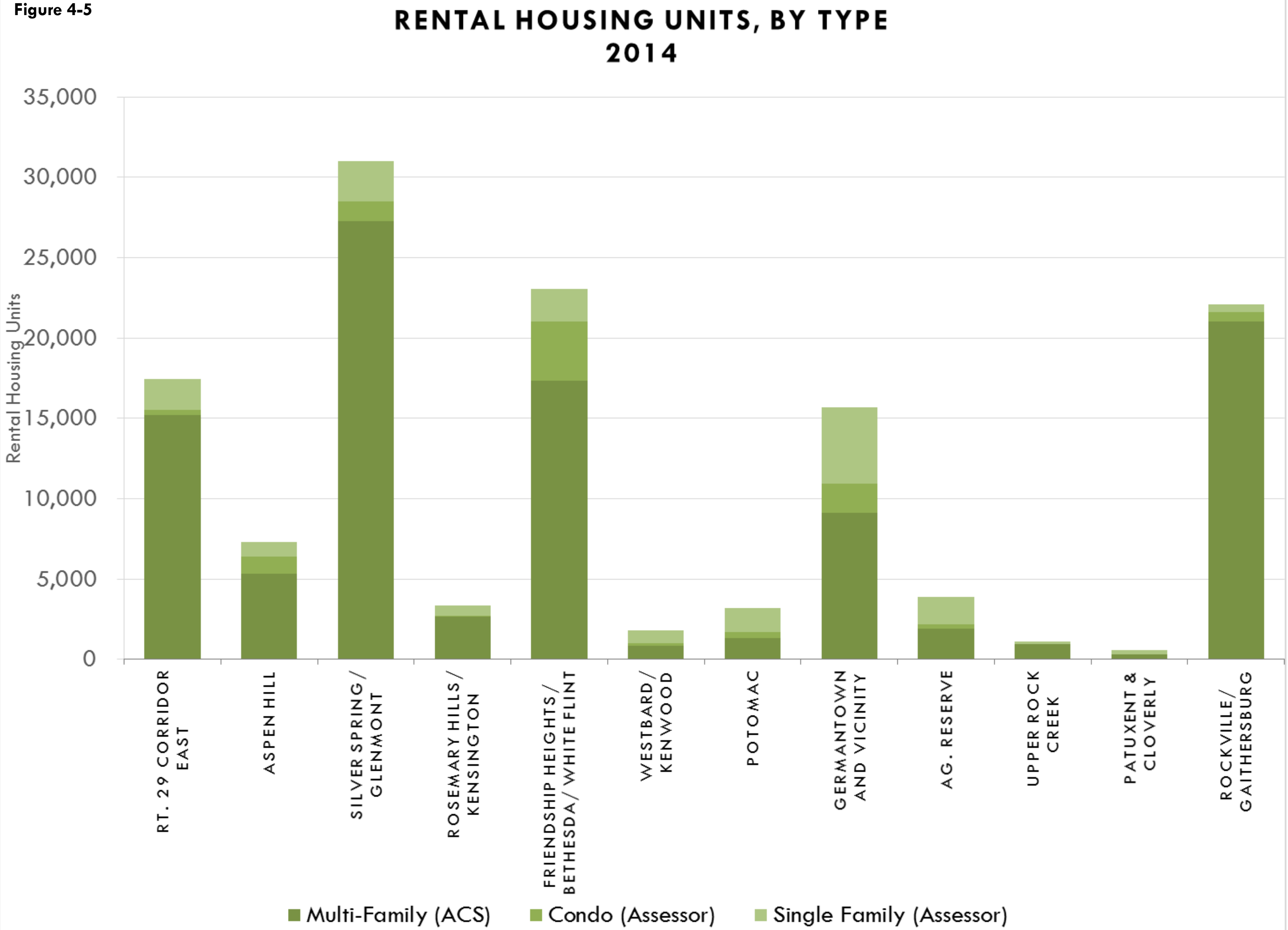
[1] The Ag Reserve study area in this report, which includes Olney, does not have the same boundaries as the Agricultural Reserve defined in master plans.

Figure 4-4



Source: ACS 2010-2014

Figure 4-5



Source: 2014 County Assessment, 2014 County Rental Survey, ACS 2010-2014

The large number of traditionally owner-occupied housing units being rentals indicates a demand for larger and higher priced dwellings that apartment living does not satisfy. This finding is not surprising, as the greater Washington, DC area has a substantial number of short-term and transient employment opportunities, particularly through the military and federal government.

While part of the conversion activity reflects a lack of adequate supply, particularly for larger households, Montgomery County's rental market is complex. Simply adding more large apartment units will not satisfy all demand segments. Conversely, the county's supply/demand equilibrium would be adversely affected if the ownership climate changed and several of the converted units returned to owner occupancy.

Bedroom Count

To understand whether rental units meet the needs of the wide range of renter household sizes in Montgomery County, the consultant team analyzed the number of rental units by bedroom count. From a more global perspective, the conversion rental units have a profound impact on rental housing availability. When conversions are included, the largest portion of rental units (39%) have 3+ bedrooms (Figure 4-6). However, the share of rental units with 3+bedrooms only accounts for 26 percent when the conversions are removed from the analysis (Figure 4-7).

Furthermore, the age of the traditional rental units also impacts the distribution of supply by bedroom count. Almost all the 3+bedroom units were built prior to 2000. This fact is significant when considering the correlation between potential redevelopment and age of complex. Simply put, redevelopment of apartment complexes removes several larger apartments and replaces almost none.

The subareas with the largest number of 3+ bedroom units are Germantown & Vicinity (9,674), Silver Spring/Glenmont (9,170) and Friendship Heights/Bethesda/White Flint (8,188). This distribution is consistent with the notable number of single-family rental units in each subarea (Figure 4-8). Additionally, in suburban and exurban subareas, 3+ bedroom units comprise a substantial portion of the rental unit inventory. This is particularly the case in the Agricultural Reserve (79 percent), Patuxent & Cloverly (78 percent), and Potomac (75 percent) subareas, although the total number of rentals in these areas in small. These percentages reflect the greater frequency with which single-family units are used to meet existing rental demand, based largely on existing land use patterns, which are generally lower density and more reflective of a traditional suburban, single-family residential area.

There is a strong correlation between household size and rental unit size. The subareas with the greatest concentration of smaller apartment units—Silver Spring/Glenmont, Friendship Heights/Bethesda/White Flint and Rockville/Gaithersburg (Figure 4-8)—also have the greatest number of 1-person and 2-person households. Smaller households in these subareas are not surprising, given ownership units have a higher tendency to have multiple residents. As noted in the Socioeconomic Chapter, these subareas generally have higher density development along Metrorail and around major transportation corridors. The county historically has encouraged multifamily development in these areas.

Year Built

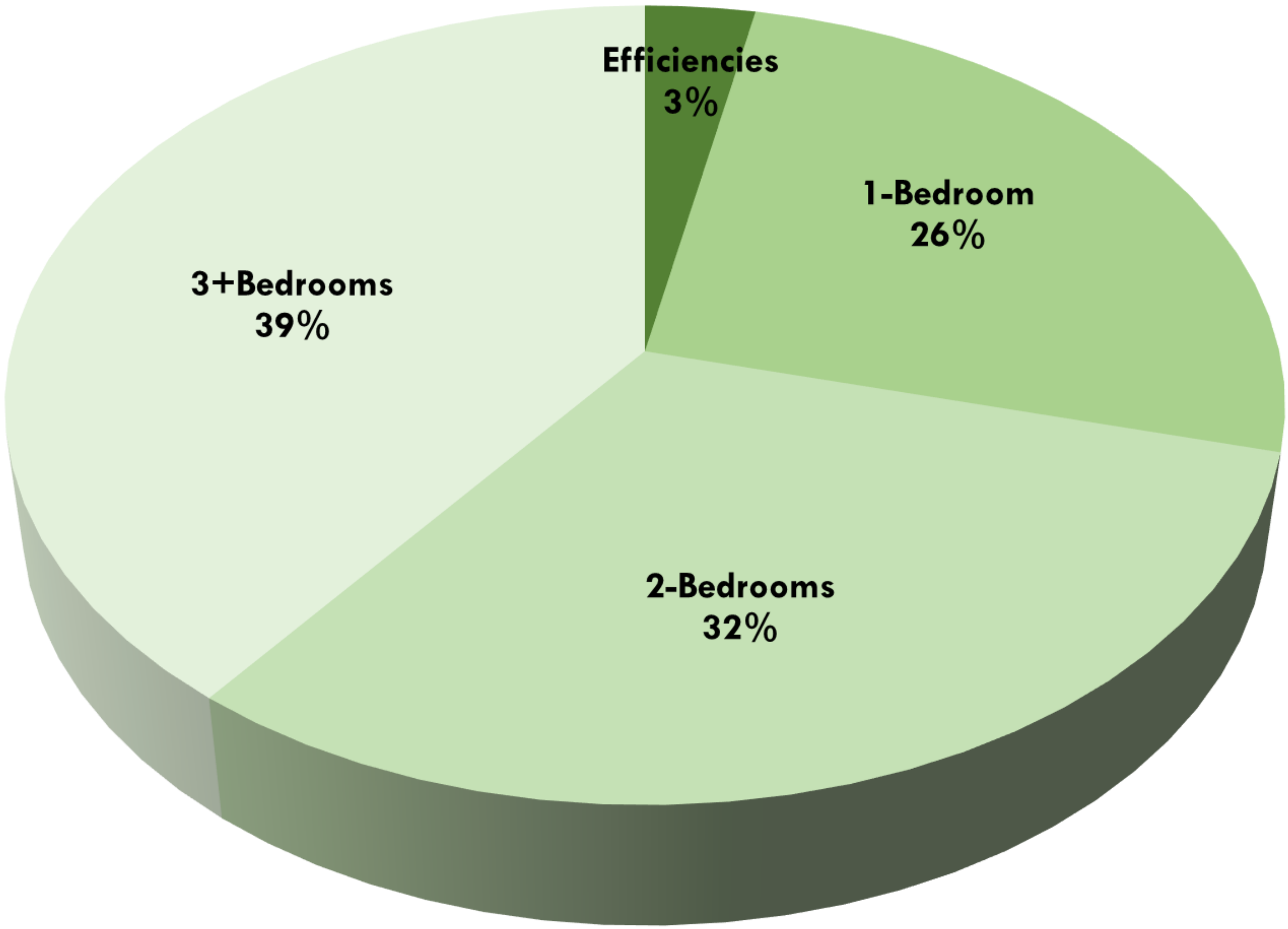
Most of the rental housing in Montgomery County is older stock. Only 14 percent of the rental units have been built since 2000 (Figure 4-9). The age of the rental housing stock also varies by subarea. The oldest rental housing units built prior to 1980 comprise the largest portion in the inner suburb areas of the county, particularly the Rosemary Hills/Kensington (87 percent), Silver Spring/Glenmont (75 percent) and Westbard/Kenwood (72 percent) subareas.

Conversely, newer rental housing stock built since 1980 comprises the greatest portion of the Upper Rock Creek (83 percent), Germantown & Vicinity (74 percent), and Agricultural Reserve (64 percent) subareas.

The higher concentration of newer rental units in these subareas is likely due to the expansion of rental housing into more suburban and exurban areas of the county. That newer rental units in these subareas are primarily larger and a notable portion are single-family conversions explains the migration of renter households to the more affordable, larger units in these subareas farther away from the areas inside I-495.

Figure 4-6

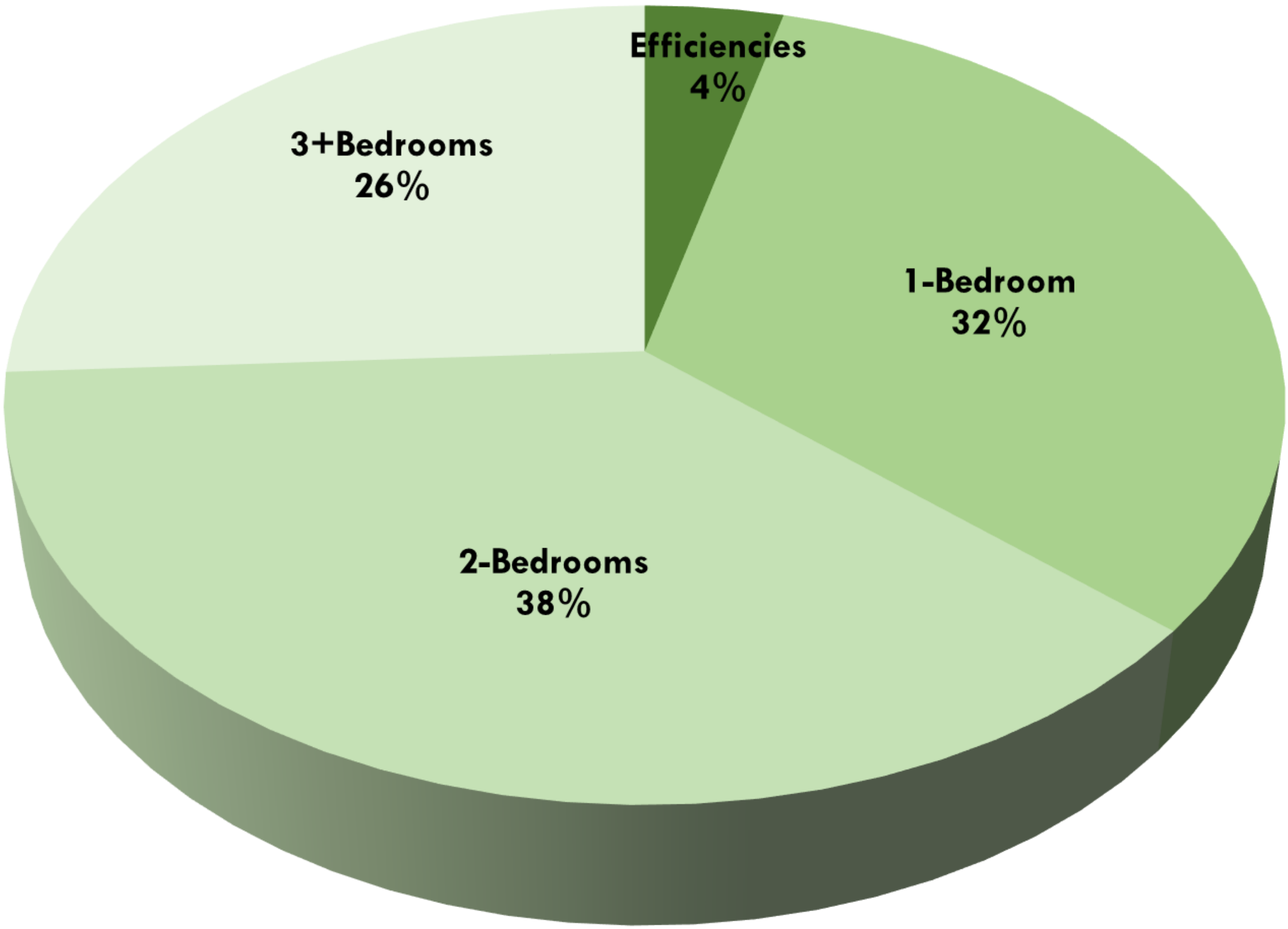
RENTAL HOUSING UNITS, BY BEDROOM COUNT
ALL RENTAL UNITS
2014



Source: 2014 County Assessment, 2014 County Rental Survey, ACS 2010-2014

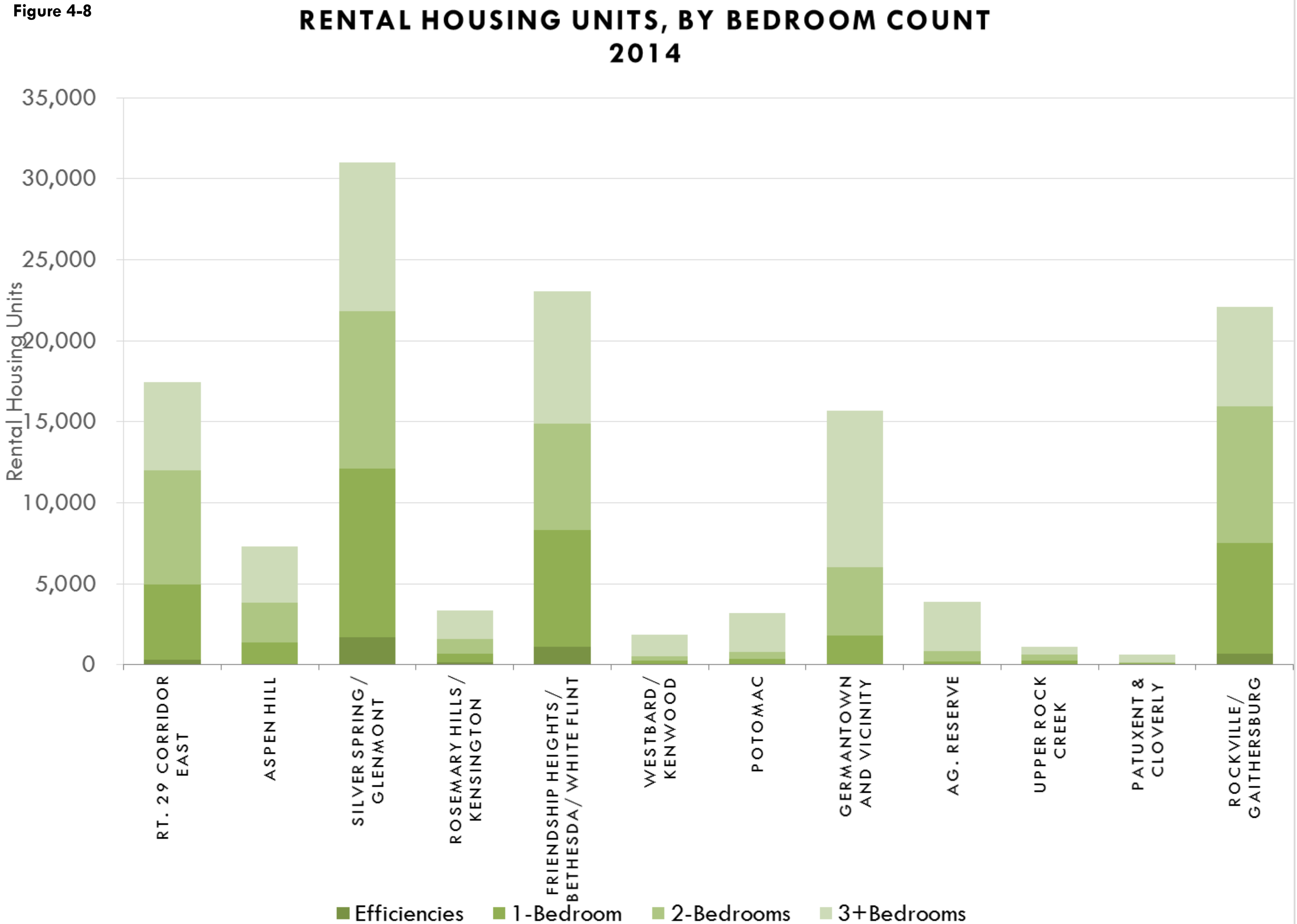
Figure 4-7

RENTAL HOUSING UNITS, BY BEDROOM COUNT APARTMENTS ONLY 2014



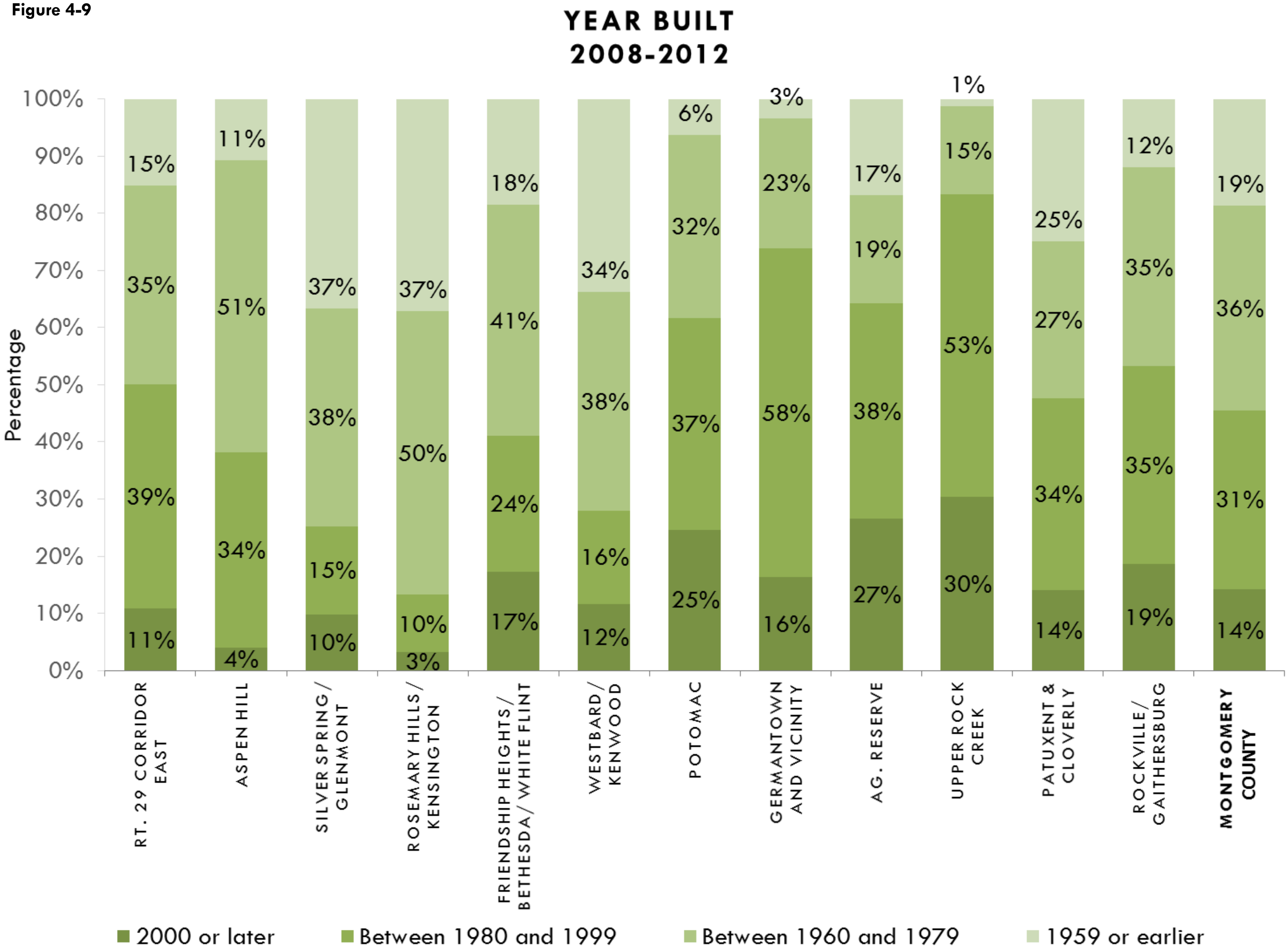
Source: 2014 County Assessment, 2014 County Rental Survey, ACS 2010-2014

Figure 4-8



Source: 2014 County Asssessment, 2014 County Rental Survey, ACS 2010-2014

Figure 4-9



Source: CHAS 2008-2012

F. BROKER FEEDBACK

Through a series of one-on-one interviews and focus groups, the consultant team spoke with locally active real estate brokers, industry professionals and rental housing stakeholders in order to gain an understanding of rental housing from an on-the-ground perspective. The following are the major take-aways from these discussions about the rental housing market, particularly from local brokers and industry professionals.

1. Major Findings

- While there are existing long-term renters who have established roots in Montgomery County, new renters often view renting as a short-term commitment. There are mixed opinions about why this is happening; some respondents see this change as a systemic shift in how younger people look at housing. Others believe it is the result of consistently increasing housing costs, causing renters to move around to find affordable housing.

- Education and job opportunities are the primary attractors for Montgomery County residents. Renters typically stay 2-3 years in the region and then move on. They are looking for affordable housing that is close to their work and Metrorail.

- Prince George's County is becoming more attractive for lower income renters. It is less expensive than Montgomery County in terms of the cost of living. Those interviewed also reported that the quality of schools is less of a factor in Montgomery County's lower cost neighborhoods compared to similarly priced neighborhoods in Prince George's County.

- The most stable rental properties are in minority neighborhoods with affordable housing options. The apartment complexes in these neighborhoods were reported to have the longest tenure for renters, primarily due to the housing preferences of minority renters—particularly for immigrant households. It was reported that the social connections in these neighborhoods are valued more than location and socioeconomic factors.

- The biggest factors impacting rental housing cost are the quality of the housing stock and the location, particularly if the location is closer to DC and near Metrorail. The quality of the housing stock generally is correlated with the age of the complex. Generally, an equivalent unit will cost more if it is newer and/or it is near Metrorail.

- New construction typically has smaller units, in square footage, than older developments. The steadily declining size is primarily due to efforts to reduce the cost of construction compared to rent levels. It was reported that the cost of construction has outpaced the increase of rent levels.

- The Baby Boomer market has two distinct demand groups. The first comprises long-time renters that value the stability of their long-term rentals. The second group typically consists of homeowners looking to downsize who see rental housing as transitional (3-5 years) as they determine where they want to permanently retire.

- Millennials are a large part of the new demand for rental housing. Local real estate professionals indicate that they are not stable tenants as their financial and personal situations change more than previous generations, making them highly transient.

- Empty nesters and Millennials are looking for different rental housing experiences. Empty nesters want larger units (2+ bedrooms) with outdoor views, closet spaces and kitchens. These priorities are different from the preferences of Millennials. Millennials are substantially more price-sensitive and are willing to forego in-complex amenities for access and proximity to transit and services.

Feedback on the current rental market in Montgomery County from area brokers and industry professionals further supports the findings from market and demographic data showing that renter households in the county are diverse in terms of living preferences, incomes and level of transience. Millennials and empty nester/Baby Boomers are clearly on the minds of local real estate professionals because these two groups continue to grow and demand more rental units.

Interviewees also emphasized the impact of Metrorail access, particularly for the cost and quality of rental units within the county. Additionally, surrounding markets, such as Prince George's County, are in competition for lower income renter households because the cost of living, including the cost of housing, remains higher in Montgomery County

5 AFFORDABILITY ANALYSIS

A. INTRODUCTION

The affordability analysis is a critical part of understanding the existing balance of rental housing supply and demand at a variety of price points. It helps identify where there are mismatches and indicates potential opportunities for additional rental units, redevelopment of existing units or, in a few instances, a reduction of units. The affordability analysis relies primarily on the US Department of Housing and Urban Development's definition of affordability. This nationally recognized metric for judging affordability establishes the criteria in a manner that is consistent with many federal housing programs.

Over the next several pages of this report, the rental housing supply in Montgomery County is analyzed by affordability and compared to the existing rental housing demand. The results of this analysis help to inform future development, redevelopment and incentive efforts by identifying what type of housing is most needed in each subarea. Additionally, this analysis can be used to consider alternate scenarios to the county's existing inclusionary zoning requirements that might better meet the current need for rental housing.

B. MAJOR FINDINGS

- ***The income level of renter households in Montgomery County is diverse.*** More than 73 percent of renter households earn less than 100 percent of the area median income (AMI) for a 3-person household ($96,300). Additionally, nearly 40 percent of these renter households earn less than 50 percent of AMI ($48,150). In some subareas, a substantial majority of households have low to moderate incomes, indicating that most demand for rental units in these communities is generated by lower income households. That said, more than 20 percent of rental households earn more than 120 percent of AMI ($115,561), creating a diverse housing market.

- ***Households at the lowest incomes are the least served in Montgomery County***. There are more renter households earning 50 percent of AMI or less than rental units that are priced appropriately and affordable for these households. The shortage of units is most notable for households earning 30 percent of AMI or less, indicating that the current market for rental housing units is beyond the maximum affordability for these households. Providing price-appropriate units will likely require public investment, such as subsidies, because existing market forces and zoning regulations are not meeting this need.

- ***Affordability is greatest in smaller units.*** The market data indicate that smaller units (efficiencies and 1-bedroom units) tend to have much lower rents than larger units (2+ bedrooms). This finding is logical, given larger units tend to have more living space than smaller units. However, 1-bedroom and efficiency units only meet the needs of smaller households of 1- or 2- persons. Larger households with the lowest incomes will have difficulty finding an affordable unit that is an appropriate size. Only a small number of 3+ bedroom units are affordable to households earning below 80 percent of AMI. Flexible, multi-functional spaces such as dens provide more options for larger households with low incomes in addition to more traditional rent-based assistance.

- ***The rental market in Montgomery County is unbalanced at lowest and highest ends***. Notable shortages of rental units exist for households earning under 30 percent of AMI and those earning more than 120 percent of AMI. While households earning moderate and higher incomes may prefer not to maximize their ability to pay and can find rental units priced for lower thresholds, the shortage of housing units within the under 30 percent of AMI threshold indicates that these households are cost-burdened and spending more than 30 percent of their annual incomes on housing. This shortage influences the approach to providing additional units for these households and how they might impact the market overall.

- ***Concentration of units between 50 percent and 100 percent of AMI indicates further market unbalance.*** The substantial concentration of units within this AMI range has led to a surplus of units compared to the number of households that can afford housing in this price point. The notable number of rental units in this category is due to several factors, including the inclusionary zoning requirement capped at 65 percent of AMI and the existence of an older rental housing stock. While this supply provides ample options for higher income households seeking to minimize housing costs, it impacts the distribution of the rental housing supply across the affordability thresholds.

- ***Approximately 50 percent of all renter households in Montgomery County are cost-burdened.*** As the shortage of price-appropriate rental units for the lowest incomes indicates, cost-burdening is a much greater issue for lower income households. A substantial majority of households earning 50 percent of AMI or less are cost-burdened and a notable portion of households with the lowest incomes are spending more than 30 percent of their annual income on housing and are most vulnerable. This situation is impacted by the pricing of units throughout the county where most units are priced affordably for households earning 50 percent to 100 percent of AMI and, in most subareas, most larger units of 3+ bedrooms are priced at moderate to high prices affordable only to households earning at least 80 percent of AMI.

- ***New development will be necessary to meet the need of existing/growing unmet demand for units that are affordable for a range of incomes.*** The preservation of existing market-rate, affordable rental housing is a more cost-effective way of delivering affordability outside the county's moderately priced dwelling unit (MPDU) program. This way of achieving affordability is particularly true given the demand for 3+ bedroom units and the need to protect these assets within the Montgomery County rental market. However, the supply/demand equilibrium indicates that preservation is only one small piece of addressing existing and future rental housing needs for Montgomery County. To this point, greater investment in new construction, in addition to the MPDU program, needs to be a part of the county's approach to addressing rental housing needs.

C. METHODOLOGY

1. Definition of Terms

As noted in Chapter 1 – Introduction, a housing affordability analysis compares the ability of households in a given geography to pay for housing as compared to the cost for housing within that same geographic area. There is no greater misunderstanding than with the term "affordable housing." Affordable housing is often interpreted as another way to say "subsidized housing" or "public housing." While subsidized housing and public housing are components of affordable housing, they do not make up the entirety of this classification. It is easy to see why there is confusion and misinterpretation of the term, as there is no single definition of the term that is applied universally throughout the United States. However, it is important that this term, and other housing classification terminology, be clearly defined prior to engaging in an assessment of data. Within the context of the Rental Housing Study, the following terms and their definitions are applied throughout this effort:

- **Affordability** – Affordability is calculated based on an individual household's reasonable ability to pay for housing. The US Department of Housing and Urban Development (HUD) defines affordability for rental housing as no more than 30 percent of the household's gross income.
- **Affordable Housing** – Affordable housing is the overarching term used to describe all housing priced at a level that will not cause a given household to become housing cost-burdened.
- **Area Median Income** – Area median income, or AMI, is defined as the median income for a given region. The AMI is officially established by HUD each year and varies widely based on the geographic market.
- **Cost-Burdened** – The relationship between household income and the percent of that income spent on housing. A household is cost-burdened if more than 30 percent of gross income goes to housing costs.
- **Extremely Low Income** – Defined by HUD as households earning less than 30 percent of AMI.
- **Very Low Income** – Defined for this effort as households earning less than 50 percent of AMI.
- **Low Income** –HUD places a limit on the income thresholds for the "Low Income" classification, in terms of qualifying for certain HUD grants and funding programs. HUD defines the "Low Income" classification as up to 80 percent of the local AMI or 100 percent of the national AMI, whichever is lower for the purposes of public housing and Section 8.
- **Moderate Income** – Defined for this effort as households earning less than 100 percent of AMI. Moderate income is defined differently for certain HUD agencies.
- **Market-Rate Affordable** – Market-rate affordable is housing that receives no public subsidy, but is naturally affordable to households earning less than 80 percent of AMI for rental.
- **Market-Rate Housing** – Market-rate housing is housing that receives no public subsidy. This housing includes all units not affordable to households earning less than 80 percent of AMI for rental.
- **Moderately Priced Dwelling Units**– Moderately priced dwelling units (MPDUs) include rental and ownership units that serve households with incomes up to approximately 60 to 70 percent of the AMI. At least 12.5 percent of the total number of units in every subdivision or high-rise building of 20 or more units must be moderately priced.
- **Ability to Pay** – The maximum amount a household can spend on housing without being cost-burdened.

2. Data Sources

The RKG team used the most recent market data available at the time of this analysis. A full list of the data collected and considered during the analysis of rental supply and demand can be found in Chapter 1. The primary data sources used for the affordability analysis are the same as those referenced within the rental housing analysis. Renter household income, which is used to identify demand, is based on American Community Survey (ACS) 2014 5-Year estimates. ACS data was also used to determine the total number of rental units in Montgomery County and each subarea.

Described more in-depth later in this section, the DHCA 2014 Rental Housing Study and 2015 property tax assessment data from the State of Maryland Department of Assessments & Taxation for Montgomery County provided the basis for identifying the supply of rental housing by range of rents. Additionally, as mentioned within the rental housing analysis, the income limits used for determining the affordability thresholds are 3-person income thresholds generated by HUD for fiscal year 2014 (Table 5-1). To further understand the extent to which housing is priced appropriately for renter households in Montgomery County, the consultant also used Comprehensive Housing Affordability Strategy (CHAS) data based on ACS 2012 5-Year estimates, which identifies households within each affordability threshold that are cost-burdened.

3. Demand Analysis

As discussed in the Rental Analysis Chapter, demand for rental housing is ultimately determined by the amount a household can pay for housing. To that end, the consultant team analyzed renter household income by affordability threshold. These thresholds are determined by using the US Department of Housing and Urban Development (HUD) Income Limits, which are based on the area median income (AMI) for a 4-person household for the Washington – Arlington – Alexandria, DC-VA-MD HUD Metro Fair Market Rent Area. The rental income analysis for this study uses the income limits calculated by HUD for 3-person households to reflect the median household size for Montgomery County renter households.

Demand for rental housing was determined based on household income. The housing demand analysis utilized 2014 ACS 5-Year estimates to determine the number of rental households that fell within the HUD income thresholds (Table 5-1).

Table 5-1
HUD Household Income Thresholds, FY2014
Washington-Arlington-Alexandria, DC-VA-MD HUD Metro FMR Area

	Persons in Household		
Income Bands	**2**	**3**	**4**
Extremely Low (30%) Income Limits	$25,700	$28,900	$32,100
Very Low (50%) Income Limits	$42,800	$48,150	$53,500
Low (80%) Income Limits	$54,800	$61,650	$68,500
100% AMI	$85,600	$96,300	***$107,000***
120% AMI	$102,720	$115,560	$128,400

Source: HUD AMI 2014, DHCA, RKG Associates, Inc., 2016

4. Supply Analysis

The supply analysis methodological framework was developed to distribute the DHCA 2014 Rental Housing Survey Data across HUD-delineated rent thresholds for all unit types (i.e. efficiency, 1-bedroom, 2-bedrooms, 3+ bedrooms) in all multifamily developments. Specifically, the rent data within the Rental Housing Survey was used to identify the portion of rental units within each affordability threshold by unit size (Table 5-1). This information was combined with the distribution of all rental units collected by the 2014 ACS to distribute all rental units across all subareas.

Table 5-2
Rental Unit Supply Thresholds, FY2014*
Washington-Arlington-Alexandria, DC-VA-MD HUD Metro FMR Area

	Rents	
Income Bands	**Minimum**	**Maximum**
Less than 30% of AMI	$0	$723
30% to 50% of AMI	$724	$1,204
50% to 80% of AMI'	$1,205	$1,541
80% to 100% of AMI	$1,542	$2,408
100% to 120% of AMI	$2,409	$2,889
121% of AMI and Above	$2,890	

Source: HUD AMI 2014, DHCA, RKG Associates, Inc., 2016
*3-Person Households

Additionally, data on housing units converted into rental units was extracted from the assessors' database and summarized in a similar manner, using market rents provided by a local realtor. This method allowed for the determination of the number and unit types that fall within the specific rent thresholds established by HUD for fiscal year 2014. Data from the multifamily and rental conversion units were combined to determine the total housing supply by rent threshold and by unit type for each subarea and the county.

D. RENTAL DEMAND

Although renter household incomes skew below area median income, demand for rental housing is distributed across all income thresholds. Renter households earning below 100 percent of AMI total approximately 73 percent of all demand (Figure 5-1). That said, all thresholds, except for 100 percent to 120 percent of AMI, have at least 12 percent of all demand. Households earning between 80 percent and 100 percent of AMI constitute the largest share of rental housing demand (23 percent). It is worthy to note that households earning below 30 percent of AMI account for approximately 22 percent of all demand, totaling almost 26,600 households.

The distribution of renter households by income is disproportionate within the 12 subareas. The Route 29 Corridor East and the Aspen Hill subareas have the highest concentration of extremely low and very low income households, while the Westbard/Kenwood, Friendship Heights/Bethesda/White Flint and Upper Rock Creek have the highest concentration of renter households earning above 100 percent of AMI (Figure 5-2).

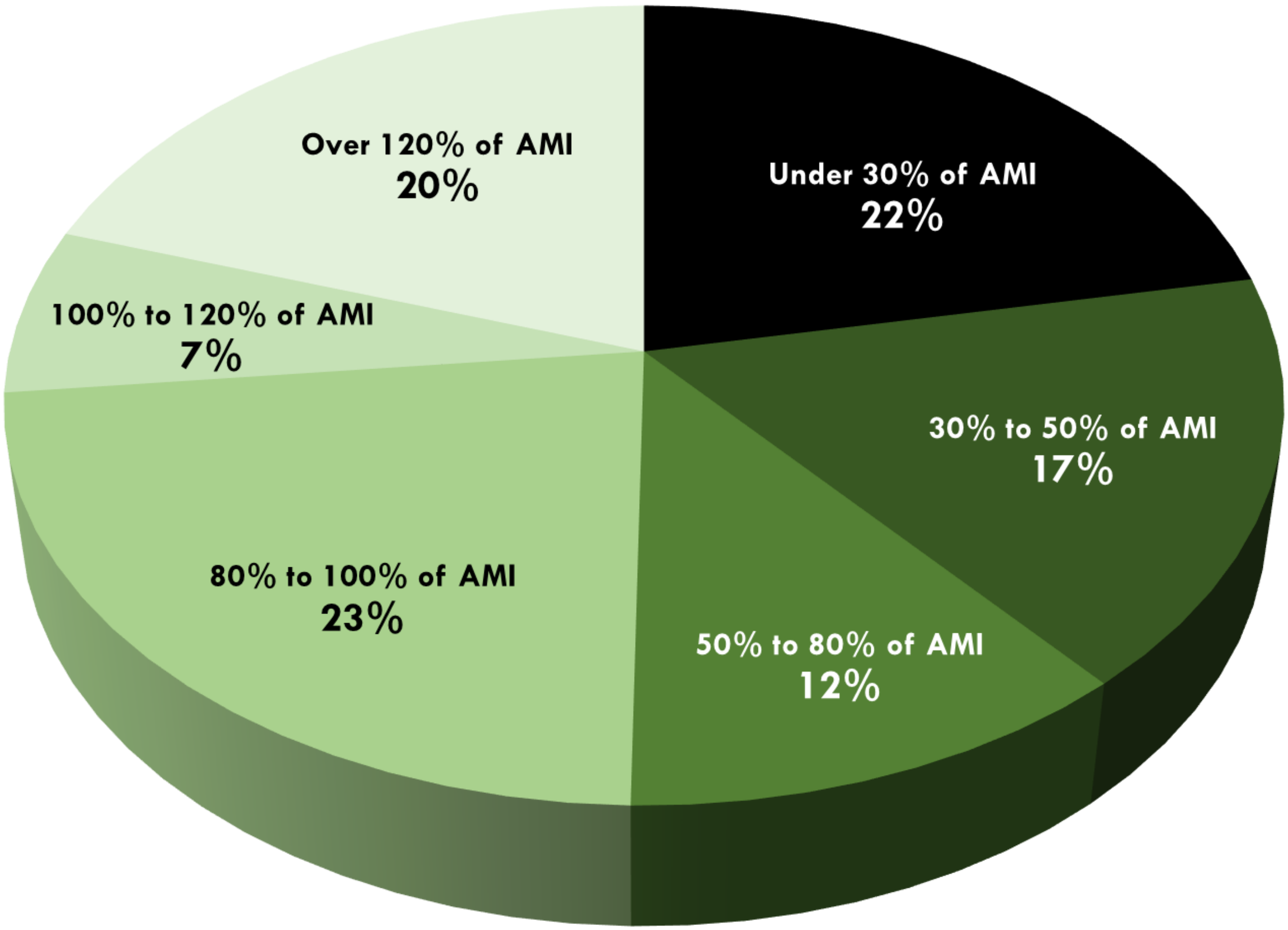
While these findings are unsurprising, given the relative cost of housing and incomes reported in the socioeconomic analysis, they reveal that diversity of housing choice is not evenly distributed throughout the county. At a base level, the data indicate that additional efforts need to be pursued to provide greater price diversity in certain parts of the county while initiatives to bring better services/amenities are necessary to make higher cost housing possible in others.

It is important to note that the demand data does not include households that currently live outside Montgomery County. Excluding households that do not live in the county, but might choose to relocate to its communities if given the opportunity, substantially reduces the potential demand.

The Rental Housing Study first seeks to serve existing renter households already living in Montgomery County and to understand their needs relative to price appropriate housing. Any additional demand coming from the greater Washington, DC region and beyond will only increase the potential shortage of affordable housing.

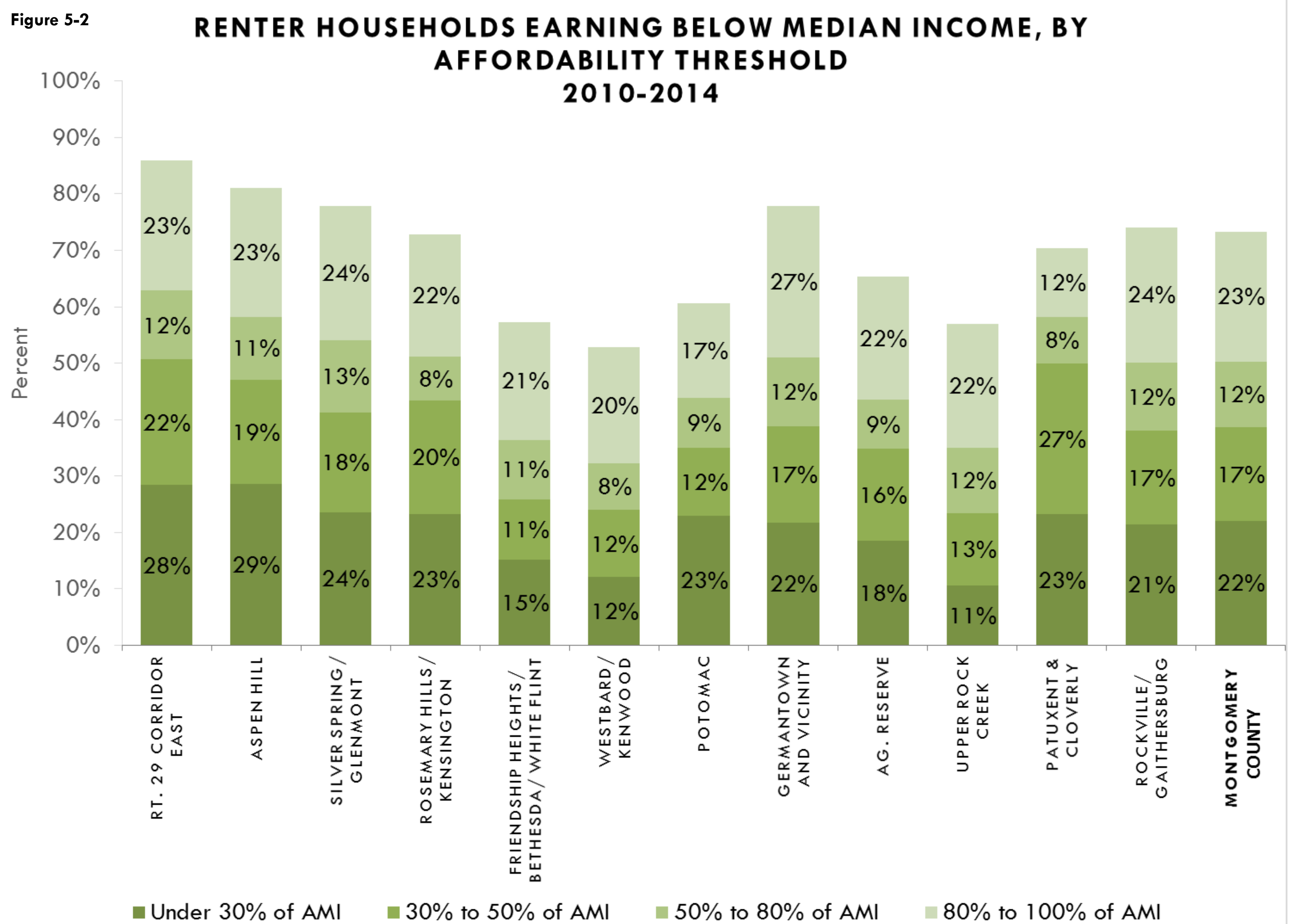
Figure 5-1

RENTAL HOUSING DEMAND, BY AFFORDABILTY THRESHOLD 2010-2014



Source: ACS 2010-2014

Figure 5-2



Source: ACS 2010-2014

E. RENTAL SUPPLY

The supply side analysis focuses on the type and price of housing that exists within Montgomery County and its 12 subareas. The data was parsed by bedroom count to understand the level of affordability for different sized households.

1. Gross Rent Analysis

Most rental units in Montgomery County (57 percent) have gross rents greater than $1,500 per month (Figure 5-3). Subareas with a higher portion of units with gross rents greater than $1,500 include Westbard/Kenwood (88 percent), Upper Rock Creek (78 percent), Friendship Heights/Bethesda/White Flint (75 percent), Potomac (67 percent) and Patuxent & Cloverly (62 percent). While affluent subareas such as Friendship Heights/Bethesda/White Flint, Westbard/Kenwood and Potomac have households that can afford higher rents, the commonality among all of these subareas is that they all have a notable concentration of 3+ bedroom units ranging from 36 percent to 78 percent of the rental unit inventory. In most cases, majority of these 3+ bedroom units are ownership conversion units that garner a higher rent because they are often entire single-family homes.

Conversely, units with gross rents less than $1,250 per month account for almost one quarter (24 percent) of the rental unit inventory in the county. More than half of the subareas have at least a quarter of rental units priced at less than $1,250. Subareas with a notably higher proportion of units above that of the County include Rosemary Hills/Kensington (34 percent), Patuxent & Cloverly (32 percent), and Silver Spring/Glenmont (32 percent). Additionally, the greatest portion of these units in Rosemary Hills/Kensington and Patuxent & Cloverly rent for less than $1,000 per month.

2. Rental Unit Affordability

When reviewing rental housing distribution using HUD's income thresholds, it becomes clear that Montgomery County's moderately priced dwelling unit (MPDU) program has been very effective. Approximately two thirds (66 percent) of the rental housing units in the county have rents that are affordable for households earning between 50 percent to 100 percent of AMI (Figure 5-4). These units range in rent from $1,205 to $2,408 per month, and are at the maximum affordability for households earning $48,150 to $96,300 annually. Only 19 percent are priced appropriately for households earning less than 50 percent of AMI. Surprisingly, only 8 percent of rental units are priced appropriately for households earning more than $115,560 (120 percent of AMI), although high income households may not need to spend such a significant amount of their income on rent.

This distribution of affordability contrasts the demand analysis just presented in this chapter. The data indicate that households earning below 50 percent of AMI and those earning above 100 percent of AMI are underserved in terms of supply. In other words, the supply of rental housing for the lowest and highest income groups is less than the demand for these groups.

For higher-income earners, it means there are not enough units in their price range to maximize their ability to pay. As these higher income households consume more affordable units, the supply available to lower income households is reduced. Ultimately, the very and extremely low earning households become priced out of the market, and must pay more than 30 percent of their gross income to stay in the county, effectively becoming cost-burdened.

When considering affordability by bedroom count, the challenges for very low and extremely low income households are exacerbated. The data indicate that households that earn more than 80 percent of AMI have much greater choice than more modest income households. This choice is most evident for units with two or more bedrooms. Households earning 80 percent of AMI can afford 60 percent of all 2-bedroom units in the county (without being cost-burdened).

Households earning 50 percent of AMI can only afford 15 percent of these units (Table 5-3, Figure 5-5). For 3-bedroom units, only 19 percent are affordable at 80 percent of AMI, and 6 percent at 50 percent of AMI. Most of these larger units are subsidized, so they are unavailable on the open market. Households

Table 5-3
Rental Unit Supply by Affordability Threshold
Montgomery County, Maryland

	UNITS					UNIT DISTRIBUTION				
	EFF	1BR	2BR	3+BR	TOTAL	EFF	1BR	2BR	3+BR	TOTAL
MULTI-FAMILY UNITS										
Under 30% of AMI	618	2,425	1,744	975	5,762	15.0%	7.3%	4.5%	3.7%	5.6%
30% to 50% of AMI	1,509	11,304	4,559	2,085	19,457	36.7%	33.9%	11.6%	7.8%	18.8%
50% to 80% of AMI	1,358	10,125	17,853	5,963	35,299	33.0%	30.3%	45.6%	22.3%	34.2%
80% to 100% of AMI	617	8,602	12,200	14,598	36,017	15.0%	25.8%	31.2%	54.7%	34.9%
100% to 120% of AMI	3	387	1,485	1,318	3,193	0.1%	1.2%	3.8%	4.9%	3.1%
Above 120% AMI	8	526	1,312	1,754	3,600	0.2%	1.6%	3.4%	6.6%	3.5%
Total	4,113	33,369	39,153	26,693	103,328	4.0%	32.3%	37.9%	25.8%	100.0%
OWNERSHIP CONVERSION UNITS										
Under 30% of AMI	0	0	0	0	0	0.0%	0.0%	0.0%	0.0%	0.0%
30% to 50% of AMI	10	184	61	0	255	52.6%	51.3%	3.1%	0.0%	0.9%
50% to 80% of AMI	9	116	630	526	1,281	47.4%	32.3%	31.9%	2.1%	4.7%
80% to 100% of AMI	0	58	1,024	12,799	13,881	0.0%	16.2%	51.8%	51.5%	51.0%
100% to 120% of AMI	0	0	159	4,344	4,503	0.0%	0.0%	8.0%	17.5%	16.6%
Above 120% AMI	0	1	103	7,182	7,286	0.0%	0.3%	5.2%	28.9%	26.8%
Total	19	359	1,977	24,851	27,206	0.1%	1.3%	7.3%	91.3%	100.0%
ALL RENTAL UNITS										
Under 30% of AMI	618	2,425	1,744	975	5,762	15.0%	7.2%	4.2%	1.9%	4.4%
30% to 50% of AMI	1,519	11,488	4,620	2,085	19,712	36.8%	34.1%	11.2%	4.0%	15.1%
50% to 80% of AMI	1,367	10,241	18,483	6,489	36,580	33.1%	30.4%	44.9%	12.6%	28.0%
80% to 100% of AMI	617	8,660	13,224	27,397	49,898	14.9%	25.7%	32.2%	53.2%	38.2%
100% to 120% of AMI	3	387	1,644	5,662	7,696	0.1%	1.1%	4.0%	11.0%	5.9%
Above 120% AMI	8	527	1,415	8,936	10,886	0.2%	1.6%	3.4%	17.3%	8.3%
Total	4,132	33,728	41,130	51,544	130,534	3.2%	25.8%	31.5%	39.5%	100.0%

Source: U.S. Census Bureau, Montgomery County Department of Finance, RKG Associates, Inc., 2016

earning at or below 50 percent of AMI are limited in choice to efficiency and 1-bedroom units. This limitation has substantial impact on affordability within Montgomery County, as larger, lower-income households have very few options to avoid being cost-burdened.

The breakdown of rental pricing by bedroom count is consistent with national averages. In general, the larger the unit (from a bedroom count perspective), the higher the asking monthly rent will be (Table 5-3). The subsidized housing available in the Montgomery County provides some variety of units (subsidized units represent almost 100 percent of those priced affordable to households earning below 30 percent of AMI). However, market-rate housing provides much less variety at the lowest and highest ends. Units priced between 30 percent and 50 percent of AMI are predominantly efficiencies or 1-bedroom units. There is some variety between 50 percent and 100 percent of AMI, but comparatively few small units exist that are priced for households earning more than 100 percent of AMI. Even with the recent multifamily development activity, the market has substantially less supply at the top end than it does demand.

From a subarea perspective, affordability of rental housing units effectively mirrors income thresholds (Figure 5-6). Subareas with the largest portions of rental units priced at or above 100 percent of AMI are located in the more affluent subareas of Westbard/Kenwood (68 percent), Potomac (48 percent) and Friendship Heights/Bethesda/White Flint (39 percent).

Conversely, approximately one in four rental units are affordable for households earning 50 percent of AMI or less in Silver Spring/Glenmont (26 percent), Rockville/Gaithersburg (25 percent), Rosemary Hills/Kensington (24 percent) and Route 29 Corridor East (24 percent). The data indicate location influences cost similar to age of the unit, total size and amenities available. Anecdotal data form local real estate professionals corroborate this finding, as factors, such as perception of school quality, perceived safety of the neighborhood and convenience to transportation, all impact demand and, therefore, pricing.

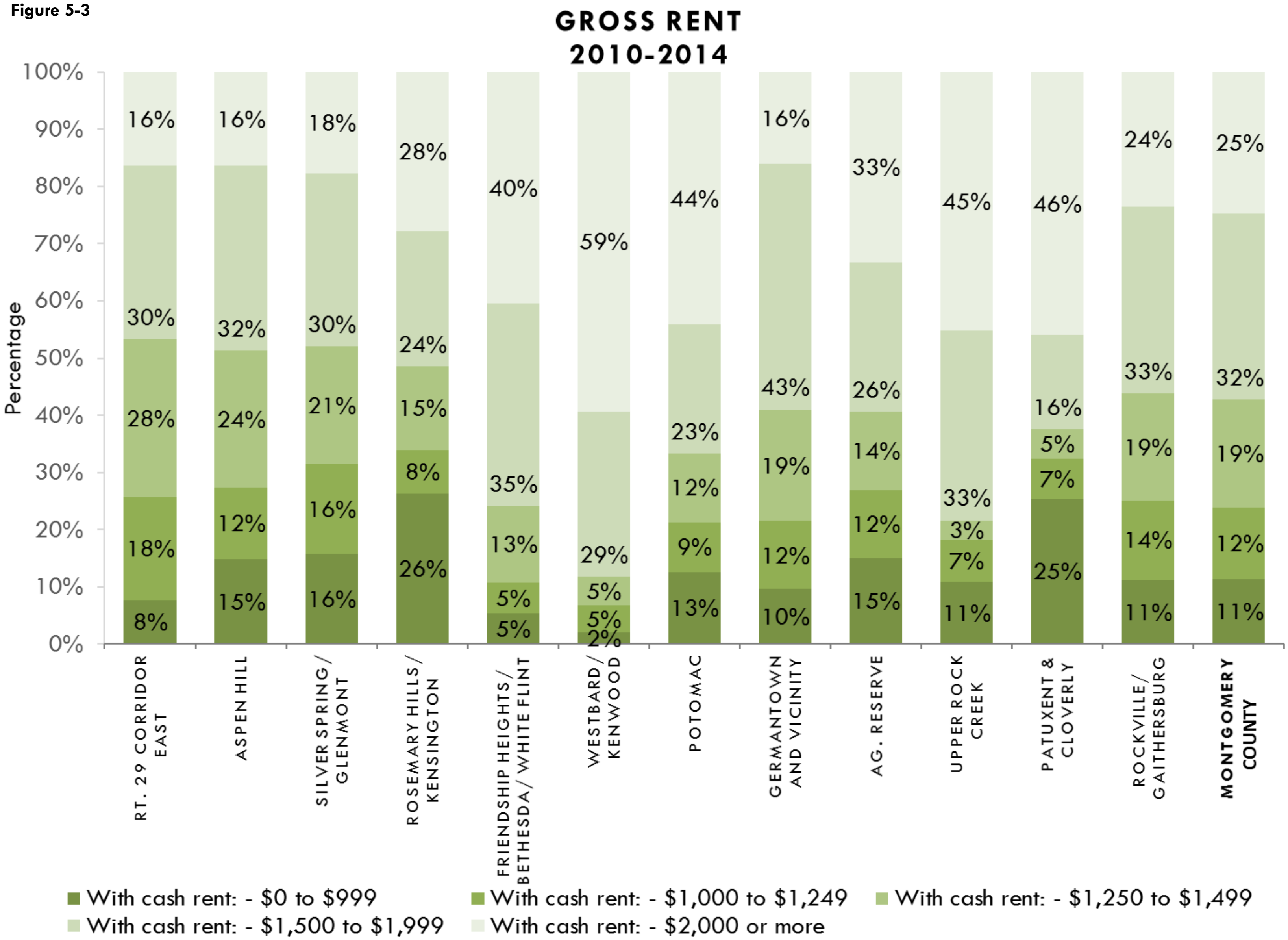
3. Subarea Analysis

The analysis of rental units by affordability outlines the distribution of rental units by price at a subarea level. Subareas with a large concentration of units priced for households earning between 50 percent and 100 percent of AMI tend to be less densely developed parts of the county, such as Aspen Hill, Upper Rock Creek and Germantown & Vicinity where the price of housing and other costs of living are generally more affordable. Unfortunately, these areas also tend to be the most removed from the county's larger employment centers and have fewer transportation choices. Conversely, subareas with notable affluence, such as Friendship Heights/Bethesda/White Flint, Potomac and Westbard/Kenwood, have concentrations of high priced units of at least $2,409 per month (affordable to those earning more than 100 percent of AMI).

In contrast, units priced below 30 percent of AMI, which tend to be publicly subsidized units, have been strategically located within the county. These units are most often located near employment centers and along major public transportation routes. These strategically placed units illustrate that certain measures have been effective at distributing price diversity.

In order to further understand the supply rental units in each subarea beyond what is discussed in the analysis of rent by affordability threshold, the consultant analyzed rental units by type (multifamily and ownership conversion units) and bedroom size at each affordability threshold. The following are the major findings for each subarea.

Figure 5-3

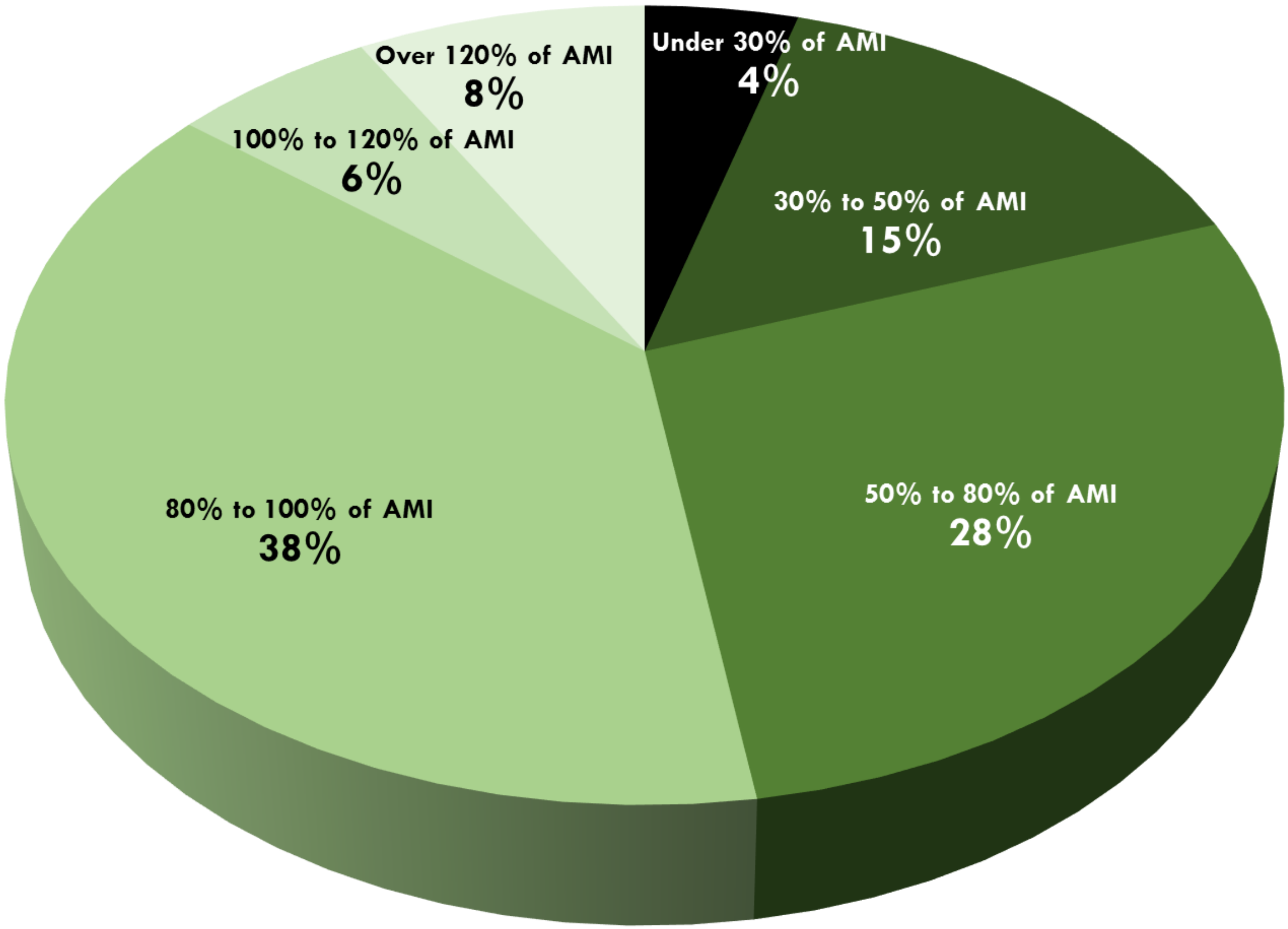


	$0 to $999	$1,000 to $1,249	$1,250 to $1,499	$1,500 to $1,999	$2,000 or more
RT. 29 CORRIDOR EAST	8%	18%	28%	30%	16%
ASPEN HILL	15%	12%	24%	32%	16%
SILVER SPRING / GLENMONT	16%	16%	21%	30%	18%
ROSEMARY HILLS / KENSINGTON	26%	8%	15%	24%	28%
FRIENDSHIP HEIGHTS / BETHESDA / WHITE FLINT	5%	5%	13%	35%	40%
WESTBARD / KENWOOD	2%	5%	5%	29%	59%
POTOMAC	13%	9%	12%	23%	44%
GERMANTOWN AND VICINITY	10%	12%	19%	43%	16%
AG. RESERVE	15%	12%	14%	26%	33%
UPPER ROCK CREEK	11%	7%	3%	33%	45%
PATUXENT & CLOVERLY	25%	7%	5%	16%	46%
ROCKVILLE / GAITHERSBURG	11%	14%	19%	33%	24%
MONTGOMERY COUNTY	11%	12%	19%	32%	25%

Source: ACS 2010-2014

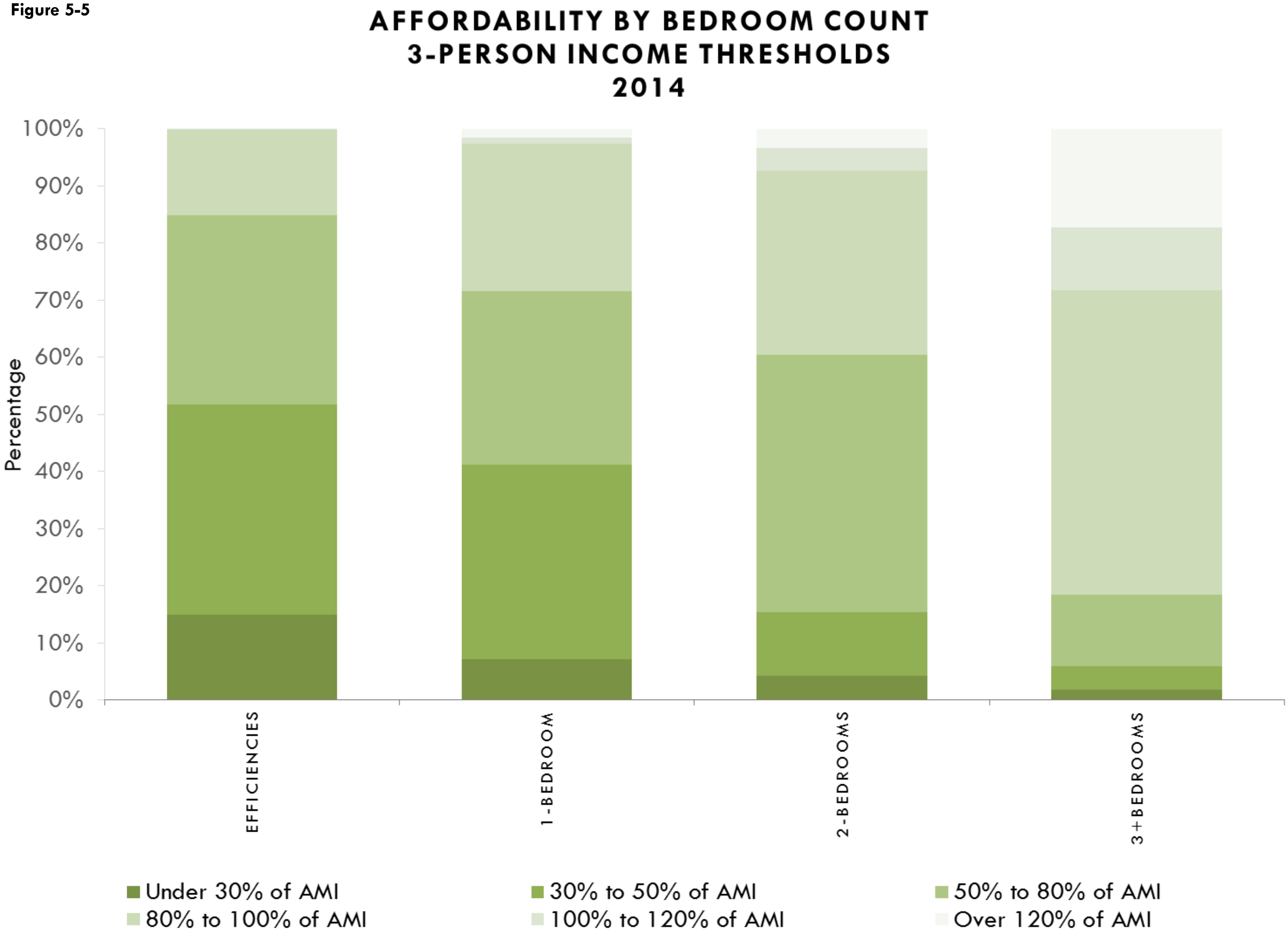
Figure 5-4

RENTAL HOUSING SUPPLY, BY AFFORDABILITY THRESHOLD 2014



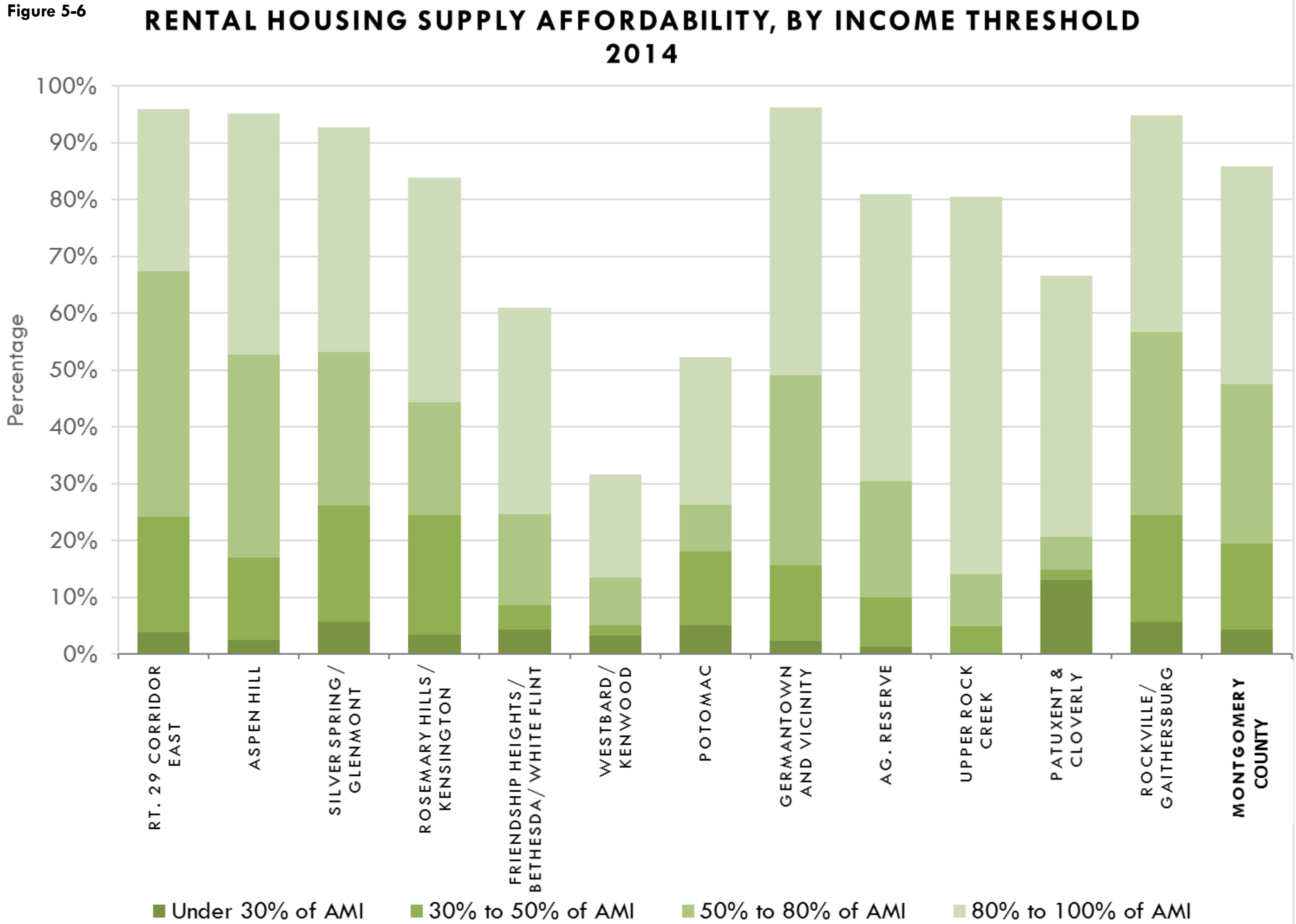
Source: 2014 County Assessment, 2014 County Rental Survey, ACS 2010-2014

Figure 5-5



Source: 2014 County Assessment, 2014 County Rental Survey, ACS 2010-2014

Figure 5-6



Source: 2014 County Assessment, 2014 County Rental Survey, ACS 2010-2014

Subarea 1: Route 29 Corridor East

Like Montgomery County, the Route 29 Corridor East subarea has a majority of rental units priced between $1,205 and $2,408 per month (Table 5-4). However, the subarea has a higher concentration of units priced between $1,205 and $1,541 (43 percent) than the county due to the number of 1-bedroom (2,066) and 2-bedroom (4,515) multifamily units rented within this price range (40 percent). Additionally, Route 29 Corridor East has a notably smaller portion of ownership conversion units priced at $2,890 and greater (6 percent), resulting in the majority (89 percent) of ownership conversion units priced affordably for households of middle incomes and priced between $1,542 and $2,889 per month.

Table 5-4

Rental Unit Supply by Affordability Threshold
Subarea 1: Route 29 Corridor East

	UNITS					UNIT DISTRIBUTION				
	EFF	1BR	2BR	3+BR	TOTAL	EFF	1BR	2BR	3+BR	TOTAL
MULTI-FAMILY UNITS										
Under 30% of AMI	21	257	244	161	683	7.1%	5.6%	3.5%	4.7%	4.5%
30% to 50% of AMI	213	2,213	781	309	3,516	72.1%	48.1%	11.3%	9.1%	23.1%
50% to 80% of AMI	61	2,066	4,515	818	7,460	20.7%	44.9%	65.3%	24.0%	49.0%
80% to 100% of AMI	0	63	1,352	2,109	3,524	0.0%	1.4%	19.5%	61.9%	23.1%
100% to 120% of AMI	0	4	10	3	17	0.0%	0.1%	0.1%	0.1%	0.1%
Above 120% AMI	0	1	14	8	23	0.0%	0.0%	0.2%	0.2%	0.2%
Total	295	4,604	6,916	3,408	15,223	1.9%	30.2%	45.4%	22.4%	100.0%
OWNERSHIP CONVERSION UNITS										
Under 30% of AMI	0	0	0	0	0	0.0%	0.0%	0.0%	0.0%	0.0%
30% to 50% of AMI	1	29	0	0	30	50.0%	100.0%	0.0%	0.0%	1.4%
50% to 80% of AMI	1	0	72	0	73	50.0%	0.0%	44.4%	0.0%	3.3%
80% to 100% of AMI	0	0	89	1,346	1,435	0.0%	0.0%	55.6%	66.3%	64.6%
100% to 120% of AMI	0	0	0	547	547	0.0%	0.0%	0.0%	27.0%	24.6%
Above 120% AMI	0	0	0	137	137	0.0%	0.0%	0.0%	6.7%	6.2%
Total	2	29	161	2,030	2,222	0.1%	1.3%	7.2%	91.4%	100.0%
ALL RENTAL UNITS										
Under 30% of AMI	21	257	244	161	683	7.1%	5.5%	3.4%	3.0%	3.9%
30% to 50% of AMI	214	2,242	781	309	3,546	72.1%	48.4%	11.0%	5.7%	20.3%
50% to 80% of AMI	62	2,066	4,587	818	7,533	20.9%	44.6%	64.8%	15.0%	43.2%
80% to 100% of AMI	0	63	1,441	3,455	4,959	0.0%	1.4%	20.4%	63.5%	28.4%
100% to 120% of AMI	0	4	10	550	564	0.0%	0.1%	0.1%	10.1%	3.2%
Above 120% AMI	0	1	14	145	160	0.0%	0.0%	0.2%	2.7%	0.9%
Total	297	4,633	7,077	5,438	17,445	1.7%	26.6%	40.6%	31.2%	100.0%

Source: U.S. Census Bureau, Montgomery County Department of Finance, RKG Associates, Inc., 2016

Subarea 2: Aspen Hill

Just like the Route 29 Corridor East subarea and county, Aspen Hill has a majority of rental units priced between $1,205 and $2,408 per month (Table 5-5). In addition, a notable concentration of these multifamily units (47 percent) are priced between $1,205 and $1,541 due to a substantial portion of 2-bedroom units (77 percent) in this subarea falling within this price range.

Aspen Hill also has a high concentration (60 percent) of 1-bedroom units priced between $724 and $1,204. These affordable rents have led to an overall higher concentration of moderately and lower priced 1-bedroom and 2-bedroom units in this subarea, than for the rest of the county. Most of Aspen Hill's ownership conversion units are larger 3+ bedroom units that are priced between $1,542 and $2,408. These data points indicate that the relatively small inventory of rental units in Aspen Hill are lower priced than the county average, but similar in price to those units in the Route 29 Corridor East subarea.

Table 5-5
Rental Unit Supply by Affordability Threshold
Subarea 2: Aspen Hill

	UNITS					UNIT DISTRIBUTION				
	EFF	1BR	2BR	3+BR	TOTAL	EFF	1BR	2BR	3+BR	TOTAL
MULTI-FAMILY UNITS										
Under 30% of AMI	36	118	22	3	179	68.4%	9.1%	0.9%	0.2%	3.4%
30% to 50% of AMI	13	784	247	3	1,047	25.0%	60.4%	10.8%	0.2%	19.7%
50% to 80% of AMI	0	347	1,767	396	2,510	0.0%	26.7%	77.1%	23.8%	47.3%
80% to 100% of AMI	0	6	249	1,253	1,508	0.0%	0.5%	10.9%	75.4%	28.4%
100% to 120% of AMI	0	8	2	3	13	0.0%	0.6%	0.1%	0.2%	0.2%
Above 120% AMI	4	35	6	5	50	6.6%	2.7%	0.2%	0.2%	0.9%
Total	53	1,298	2,293	1,663	5,307	1.0%	24.5%	43.2%	31.3%	100.0%
OWNERSHIP CONVERSION UNITS										
Under 30% of AMI	0	0	0	0	0	0.0%	0.0%	0.0%	0.0%	0.0%
30% to 50% of AMI	1	13	0	0	14	50.0%	50.0%	0.0%	0.0%	0.7%
50% to 80% of AMI	0	13	72	0	85	50.0%	50.0%	50.0%	0.0%	4.3%
80% to 100% of AMI	0	0	72	1,509	1,581	0.0%	0.0%	50.0%	83.5%	79.9%
100% to 120% of AMI	0	0	0	276	276	0.0%	0.0%	0.0%	15.3%	14.0%
Above 120% AMI	0	0	0	22	22	0.0%	0.0%	0.0%	1.2%	1.1%
Total	1	26	144	1,807	1,978	0.1%	1.3%	7.3%	91.4%	100.0%
ALL RENTAL UNITS										
Under 30% of AMI	36	118	22	3	179	66.7%	8.9%	0.9%	0.1%	2.5%
30% to 50% of AMI	14	797	247	3	1,061	25.9%	60.2%	10.1%	0.1%	14.6%
50% to 80% of AMI	0	360	1,839	396	2,595	0.0%	27.2%	75.5%	11.4%	35.6%
80% to 100% of AMI	0	6	321	2,762	3,089	0.0%	0.5%	13.2%	79.6%	42.4%
100% to 120% of AMI	0	8	2	279	289	0.0%	0.6%	0.1%	8.0%	4.0%
Above 120% AMI	4	35	6	27	72	7.4%	2.6%	0.2%	0.8%	1.0%
Total	54	1,324	2,437	3,470	7,285	0.7%	18.2%	33.5%	47.6%	100.0%

Source: U.S. Census Bureau, Montgomery County Department of Finance, RKG Associates, Inc., 2016

Subarea 3: Silver Spring/Glenmont

The Silver Spring/Glenmont subarea has a larger rental unit inventory of approximately 31,000 units that is priced similarly to the county's (Table 5-6). However, there is a greater concentration of 3+ bedroom ownership conversion units priced between $1,542 and $2,408, similar to Route 29 Corridor East and Aspen Hill, and a smaller portion (9 percent) of units priced above $2,889 than at the county level.

These prices indicate that rental units in Silver Spring/Glenmont are moderately priced, but the subarea has a more even distribution of lower priced units than Route 29 Corridor East and Aspen Hill. This distribution is likely influenced by the subarea's larger rental unit inventory, fostered by more intense development patterns and a large number of older apartment complexes within the rental housing stock.

Table 5-6
Rental Unit Supply by Affordability Threshold
Subarea 3: Silver Spring/Glenmont

	UNITS					UNIT DISTRIBUTION				
	EFF	1BR	2BR	3+BR	TOTAL	EFF	1BR	2BR	3+BR	TOTAL
MULTI-FAMILY UNITS										
Under 30% of AMI	131	842	609	213	1,795	7.8%	8.1%	6.4%	3.7%	6.6%
30% to 50% of AMI	655	3,614	1,713	322	6,304	38.9%	34.9%	18.1%	5.6%	23.1%
50% to 80% of AMI	714	2,606	3,243	1,730	8,293	42.5%	25.2%	34.2%	30.0%	30.4%
80% to 100% of AMI	181	3,243	3,269	3,165	9,858	10.8%	31.3%	34.5%	54.8%	36.1%
100% to 120% of AMI	0	37	506	223	766	0.0%	0.4%	5.3%	3.9%	2.8%
Above 120% AMI	0	7	141	119	267	0.0%	0.1%	1.5%	2.0%	1.0%
Total	1,681	10,349	9,481	5,772	27,283	6.2%	37.9%	34.8%	21.2%	100.0%
OWNERSHIP CONVERSION UNITS										
Under 30% of AMI	0	0	0	0	0	0.0%	0.0%	0.0%	0.0%	0.0%
30% to 50% of AMI	3	20	0	0	23	100.0%	40.0%	0.0%	0.0%	0.6%
50% to 80% of AMI	0	19	62	0	81	0.0%	40.0%	23.1%	0.0%	2.2%
80% to 100% of AMI	0	10	208	2,159	2,377	0.0%	20.0%	76.9%	63.5%	63.9%
100% to 120% of AMI	0	0	0	919	919	0.0%	0.0%	0.0%	27.0%	24.7%
Above 120% AMI	0	0	0	320	320	0.0%	0.0%	0.0%	9.4%	8.6%
Total	3	49	270	3,398	3,720	0.1%	1.3%	7.3%	91.3%	100.0%
ALL RENTAL UNITS										
Under 30% of AMI	131	842	609	213	1,795	7.8%	8.1%	6.2%	2.3%	5.8%
30% to 50% of AMI	658	3,634	1,713	322	6,327	39.1%	34.9%	17.6%	3.5%	20.4%
50% to 80% of AMI	714	2,625	3,305	1,730	8,374	42.4%	25.2%	33.9%	18.9%	27.0%
80% to 100% of AMI	181	3,253	3,477	5,324	12,235	10.7%	31.3%	35.7%	58.1%	39.5%
100% to 120% of AMI	0	37	506	1,142	1,685	0.0%	0.4%	5.2%	12.5%	5.4%
Above 120% AMI	0	7	141	439	587	0.0%	0.1%	1.4%	4.8%	1.9%
Total	1,684	10,398	9,751	9,170	31,003	5.4%	33.5%	31.5%	29.6%	100.0%

Source: U.S. Census Bureau, Montgomery County Department of Finance, RKG Associates, Inc., 2016

Subarea 4: Rosemary Hills/Kensington

The Rosemary Hills/Kensington subarea has a disparate supply of rental housing. The more traditional apartment-style rental housing is similar in size and price point to the more affordable areas of the county (i.e. Aspen Hill and Route 29 Corridor East). This relatively small inventory of rental units offers smaller 1-bedroom and 2-bedroom units priced predominantly for households earning between 50 percent and 100 percent of AMI. The greatest numbers of rental units in Rosemary Hills/Kensington are priced $724 to $2,408 per month, similar to the Silver Spring/Glenmont subarea (Table 5-7).

However, this subarea has a relatively small inventory of rental units (3,359) that has created a skewed apportionment of housing by size and price point. For example, Rosemary Hills/Kensington has a relatively high concentration of multifamily 1-bedroom units (44 percent), priced from $1,205 to $1,541 per month compared to the county average. In comparison, this subarea also has a relatively high concentration of 2-bedroom units (30 percent), priced between $724 and $1,204. Despite these data anomalies, the traditional rental supply is comparatively affordable.

In contrast, the subareas rental conversion units account for a proportionally larger share of the local rental market (compared to the rest of the county) and are priced more similarly with the most expensive subareas (i.e. Potomac). Most notably, approximately 44 percent of 3+ bedroom ownership conversion units are

Table 5-7
Rental Unit Supply by Affordability Threshold
Subarea 4: Rosemary Hills/Kensington

	UNITS					UNIT DISTRIBUTION				
	EFF	1BR	2BR	3+BR	TOTAL	EFF	1BR	2BR	3+BR	TOTAL
MULTI-FAMILY UNITS										
Under 30% of AMI	1	15	26	71	113	0.7%	2.9%	3.0%	6.3%	4.2%
30% to 50% of AMI	116	192	258	140	706	73.7%	36.4%	30.1%	12.3%	26.4%
50% to 80% of AMI	40	234	333	57	664	25.5%	44.4%	38.9%	5.1%	24.8%
80% to 100% of AMI	0	86	221	745	1,052	0.0%	16.3%	25.8%	65.7%	39.3%
100% to 120% of AMI	0	0	19	66	85	0.0%	0.0%	2.2%	5.9%	3.2%
Above 120% AMI	1	0	0	56	57	0.0%	0.0%	0.0%	4.8%	2.1%
Total	158	527	857	1,135	2,677	5.9%	19.7%	32.0%	42.4%	100.0%
OWNERSHIP CONVERSION UNITS										
Under 30% of AMI	0	0	0	0	0	0.0%	0.0%	0.0%	0.0%	0.0%
30% to 50% of AMI	0	3	0	0	3	50.0%	37.8%	0.0%	0.0%	0.4%
50% to 80% of AMI	0	3	0	0	3	50.0%	37.8%	0.0%	0.0%	0.4%
80% to 100% of AMI	0	2	50	221	273	0.0%	24.3%	100.0%	35.4%	40.0%
100% to 120% of AMI	0	0	0	126	126	0.0%	0.0%	0.0%	20.3%	18.5%
Above 120% AMI	0	1	0	276	277	0.0%	0.0%	0.0%	44.3%	40.6%
Total	0	9	50	623	682	0.0%	1.3%	7.3%	91.3%	100.0%
ALL RENTAL UNITS										
Under 30% of AMI	1	15	26	71	113	0.6%	2.8%	2.9%	4.0%	3.4%
30% to 50% of AMI	116	195	258	140	709	73.4%	36.4%	28.4%	8.0%	21.1%
50% to 80% of AMI	40	237	333	57	667	25.3%	44.2%	36.7%	3.2%	19.9%
80% to 100% of AMI	0	88	271	966	1,325	0.0%	16.4%	29.9%	55.0%	39.5%
100% to 120% of AMI	0	0	19	192	211	0.0%	0.0%	2.1%	10.9%	6.3%
Above 120% AMI	1	1	0	332	334	0.6%	0.2%	0.0%	18.9%	9.9%
Total	158	536	907	1,758	3,359	4.7%	16.0%	27.0%	52.3%	100.0%

Source: U.S. Census Bureau, Montgomery County Department of Finance, RKG Associates, Inc., 2016

priced above $2,890, resulting in a substantially higher concentration of conversion units at this price range (41 percent) than at the county level.

Subarea 5: Friendship Heights/Bethesda/White Flint

The Friendship Heights/Bethesda/White Flint subarea includes areas of affluence, particularly just outside of the District of Columbia. Consistent with these concentrations of higher income households, the largest portion of the rental unit inventory extends higher in price when compared to Montgomery County and the subareas discussed thus far.

The greatest portion of units are priced between $1,542 and $2,408 (36 percent) and more than $2,889 (29 percent) with less than 5 percent priced below $724 per month (Table 5-8). Similar to other subareas and the county, the concentration of moderately priced units is due to a concentration of multifamily 1-bedroom (51 percent) and 2-bedroom (39 percent) units priced between $1,542 and $2,408. The highest priced units are overwhelmingly composed of 3+ bedroom ownership conversion units. Overall, while the Friendship Heights/Bethesda/White Flint subarea does have moderately priced rental housing units, rent rates in this subarea are generally higher than the county overall, particularly for larger ownership conversion units.

Table 5-8
Rental Unit Supply by Affordability Threshold
Subarea 5: Friendship Heights/Bethesda/White Flint

	UNITS					UNIT DISTRIBUTION				
	EFF	1BR	2BR	3+BR	TOTAL	EFF	1BR	2BR	3+BR	TOTAL
MULTI-FAMILY UNITS										
Under 30% of AMI	77	418	375	148	1,018	6.9%	5.9%	6.1%	5.0%	5.9%
30% to 50% of AMI	146	663	161	12	982	13.1%	9.3%	2.6%	0.4%	5.7%
50% to 80% of AMI	468	1,651	1,396	123	3,638	41.9%	23.2%	22.8%	4.1%	21.0%
80% to 100% of AMI	423	3,602	2,392	1,140	7,557	37.8%	50.6%	39.0%	38.3%	43.6%
100% to 120% of AMI	3	305	736	394	1,438	0.2%	4.3%	12.0%	13.2%	8.3%
Above 120% AMI	1	478	1,073	1,161	2,713	0.1%	6.7%	17.5%	39.0%	15.6%
Total	1,118	7,117	6,133	2,978	17,346	6.4%	41.0%	35.4%	17.2%	100.0%
OWNERSHIP CONVERSION UNITS										
Under 30% of AMI	0	0	0	0	0	0.0%	0.0%	0.0%	0.0%	0.0%
30% to 50% of AMI	0	0	0	0	0	0.0%	0.0%	0.0%	0.0%	0.0%
50% to 80% of AMI	4	34	15	0	53	100.0%	44.4%	3.6%	0.0%	0.9%
80% to 100% of AMI	0	42	237	518	797	0.0%	55.6%	57.1%	9.9%	14.0%
100% to 120% of AMI	0	0	118	768	886	0.0%	0.0%	28.6%	14.7%	15.5%
Above 120% AMI	0	0	44	3,924	3,968	0.0%	0.0%	10.7%	75.3%	69.6%
Total	4	76	414	5,210	5,704	0.1%	1.3%	7.3%	91.3%	100.0%
ALL RENTAL UNITS										
Under 30% of AMI	77	418	375	148	1,018	6.9%	5.8%	5.7%	1.8%	4.4%
30% to 50% of AMI	146	663	161	12	982	13.0%	9.2%	2.5%	0.1%	4.3%
50% to 80% of AMI	472	1,685	1,411	123	3,691	42.1%	23.4%	21.6%	1.5%	16.0%
80% to 100% of AMI	423	3,644	2,629	1,658	8,354	37.7%	50.7%	40.2%	20.2%	36.2%
100% to 120% of AMI	3	305	854	1,162	2,324	0.3%	4.2%	13.0%	14.2%	10.1%
Above 120% AMI	1	478	1,117	5,085	6,681	0.1%	6.6%	17.1%	62.1%	29.0%
Total	1,122	7,193	6,547	8,188	23,050	4.9%	31.2%	28.4%	35.5%	100.0%

Source: U.S. Census Bureau, Montgomery County Department of Finance, RKG Associates, Inc., 2016

Subarea 6: Westbard/Kenwood

Westbard/Kenwood has a limited supply of rental units (1,826), a majority of which (60 percent) are priced above $2,889 (Table 5-9). These rental units create a substantially higher concentration of high priced units than in any other subarea and the county overall. While a majority of multifamily units are priced above a more modest $1,542, Westbard/Kenwood has more ownership conversion units than multifamily rental units within its housing stock. This high number of conversion units impacts the overall distribution of units, particularly as the vast majority of units are 3+ bedrooms and most (87 percent) are priced above $2,889 per month. Given the affluence of this subarea and its proximity to other affluent subareas, including Potomac and Friendship Heights/Bethesda/White Flint, the high priced rental units are consistent with the incomes level of households likely renting in this subarea.

Table 5-9
Rental Unit Supply by Affordability Threshold
Subarea 6: Westbard/Kenwood

	UNITS					UNIT DISTRIBUTION				
	EFF	1BR	2BR	3+BR	TOTAL	EFF	1BR	2BR	3+BR	TOTAL
MULTI-FAMILY UNITS										
Under 30% of AMI	3	16	5	36	60	8.8%	7.3%	2.6%	8.3%	6.9%
30% to 50% of AMI	2	15	15	0	32	5.9%	6.6%	8.6%	0.0%	3.7%
50% to 80% of AMI	26	39	4	72	141	79.4%	17.5%	2.2%	16.7%	16.3%
80% to 100% of AMI	2	152	130	0	284	5.9%	68.5%	74.0%	0.0%	32.8%
100% to 120% of AMI	0	0	18	36	54	0.0%	0.0%	10.0%	8.3%	6.2%
Above 120% AMI	0	0	4	290	294	0.0%	0.0%	2.6%	66.7%	34.0%
Total	33	222	176	434	865	3.8%	25.7%	20.3%	50.2%	100.0%
OWNERSHIP CONVERSION UNITS										
Under 30% of AMI	0	0	0	0	0	0.0%	0.0%	0.0%	0.0%	0.0%
30% to 50% of AMI	0	0	0	0	0	50.0%	0.0%	0.0%	0.0%	0.0%
50% to 80% of AMI	0	13	0	0	13	50.0%	100.0%	0.0%	0.0%	1.4%
80% to 100% of AMI	0	0	0	48	48	0.0%	0.0%	0.0%	5.5%	5.0%
100% to 120% of AMI	0	0	35	70	105	0.0%	0.0%	50.0%	7.9%	10.9%
Above 120% AMI	0	0	35	760	795	0.0%	0.0%	50.0%	86.6%	82.7%
Total	0	13	70	878	961	0.0%	1.4%	7.3%	91.4%	100.0%
ALL RENTAL UNITS										
Under 30% of AMI	3	16	5	36	60	9.1%	6.8%	2.0%	2.7%	3.3%
30% to 50% of AMI	2	15	15	0	32	6.1%	6.4%	6.1%	0.0%	1.8%
50% to 80% of AMI	26	52	4	72	154	78.8%	22.1%	1.6%	5.5%	8.4%
80% to 100% of AMI	2	152	130	48	332	6.1%	64.7%	52.8%	3.7%	18.2%
100% to 120% of AMI	0	0	53	106	159	0.0%	0.0%	21.5%	8.1%	8.7%
Above 120% AMI	0	0	39	1,050	1,089	0.0%	0.0%	15.9%	80.0%	59.6%
Total	33	235	246	1,312	1,826	1.8%	12.9%	13.5%	71.9%	100.0%

Source: U.S. Census Bureau, Montgomery County Department of Finance, RKG Associates, Inc., 2016

Subarea 7: Potomac

Similar to Friendship Heights/Bethesda/White Flint, Potomac has a majority of rental units priced above $1,541 per month (Table 5-10). Within the smaller multifamily rental unit inventory (1,324), Potomac has a greater concentration of units than in the county. These units are priced between $724 and $1,204 due to a large concentration (48 percent) of 3+ bedroom units at this price in income-controlled buildings that have kept prices low. Ownership conversions, which account for most rental units in the subarea similar to Westbard/Kenwood, are primarily larger 3+ bedroom units as in the surrounding county. The majority (52 percent) of Potomac conversion units have prices greater than $2,889 per month, similar but at a smaller concentration to that of Westbard/Kenwood. Overall, Potomac has a limited supply of rental housing. While income control measures have maintained lower rent levels for a small portion of units within the subarea, the market for rental units is substantially higher in price, further increased by the predominance of the subarea's ownership conversion units, which typically garner higher rents.

Table 5-10
Rental Unit Supply by Affordability Threshold
Subarea 7: Potomac

	UNITS					UNIT DISTRIBUTION				
	EFF	1BR	2BR	3+BR	TOTAL	EFF	1BR	2BR	3+BR	TOTAL
MULTI-FAMILY UNITS										
Under 30% of AMI	0	135	15	10	160	0.0%	38.8%	5.2%	1.4%	12.1%
30% to 50% of AMI	0	54	6	329	389	0.0%	15.6%	2.1%	47.8%	29.4%
50% to 80% of AMI	0	107	102	30	239	0.0%	30.9%	35.1%	4.3%	18.1%
80% to 100% of AMI	0	49	146	135	330	0.0%	14.3%	50.4%	19.6%	24.9%
100% to 120% of AMI	0	2	17	125	144	0.0%	0.4%	5.9%	18.1%	10.9%
Above 120% AMI	0	0	3	59	62	0.0%	0.0%	1.3%	8.7%	4.7%
Total	0	347	289	688	1,324	0.0%	26.2%	21.8%	52.0%	100.0%
OWNERSHIP CONVERSION UNITS										
Under 30% of AMI	0	0	0	0	0	0.0%	0.0%	0.0%	0.0%	0.0%
30% to 50% of AMI	1	24	0	0	25	50.0%	100.0%	0.0%	0.0%	1.4%
50% to 80% of AMI	1	0	22	0	23	50.0%	0.0%	16.7%	0.0%	1.2%
80% to 100% of AMI	0	0	89	402	491	0.0%	0.0%	66.7%	23.8%	26.5%
100% to 120% of AMI	0	0	0	343	343	0.0%	0.0%	0.0%	20.3%	18.5%
Above 120% AMI	0	0	23	945	968	0.0%	0.0%	16.7%	55.9%	52.3%
Total	2	24	134	1,690	1,850	0.1%	1.3%	7.2%	91.4%	100.0%
ALL RENTAL UNITS										
Under 30% of AMI	0	135	15	10	160	0.0%	36.4%	3.5%	0.4%	5.0%
30% to 50% of AMI	1	78	6	329	414	50.0%	21.0%	1.4%	13.8%	13.0%
50% to 80% of AMI	1	107	124	30	262	50.0%	28.8%	29.3%	1.3%	8.3%
80% to 100% of AMI	0	49	235	537	821	0.0%	13.2%	55.6%	22.6%	25.9%
100% to 120% of AMI	0	2	17	468	487	0.0%	0.5%	4.0%	19.7%	15.3%
Above 120% AMI	0	0	26	1,004	1,030	0.0%	0.0%	6.1%	42.2%	32.4%
Total	2	371	423	2,378	3,174	0.1%	11.7%	13.3%	74.9%	100.0%

Source: U.S. Census Bureau, Montgomery County Department of Finance, RKG Associates, Inc., 2016

Subarea 8: Germantown & Vicinity

Unlike the higher priced subareas of Potomac, Westbard/Kenwood and parts of Friendship Heights/Bethesda/White Flint, Germantown & Vicinity has 15,670 rental units exhibiting a similar distribution pattern to that of Montgomery County (Table 5-11). The majority (81 percent) of units are priced between $1,205 and $2,408. Germantown & Vicinity does have a higher concentration of units (47 percent) priced between $1,542 and $2,408 than in the county. This concentration is due to the more than 4,900 3+ bedroom ownership conversion rental units that are priced at this level. Given that conversion units comprise approximately 42 percent of rental units in Germantown & Vicinity, these 3+ bedroom units impact the total unit distribution.

In general, the Germantown & Vicinity subarea is more moderately priced when compared to the higher priced areas discussed previously. This pricing is most notable in the concentration of moderately priced multifamily units similar to Route 29 Corridor East and Aspen Hill. Additionally, Germantown & Vicinity has a concentration of large ownership conversion units priced below more affluent areas, indicating that these large units are more affordable to a broader range of households.

Table 5-11
Rental Unit Supply by Affordability Threshold
Subarea 8: Germantown and Vicinity

	UNITS					UNIT DISTRIBUTION				
	EFF	1BR	2BR	3+BR	TOTAL	EFF	1BR	2BR	3+BR	TOTAL
MULTI-FAMILY UNITS										
Under 30% of AMI	28	89	129	116	362	75.0%	5.4%	3.4%	3.2%	4.0%
30% to 50% of AMI	0	890	384	674	1,948	0.0%	53.9%	10.2%	18.2%	21.4%
50% to 80% of AMI	0	622	2,380	1,482	4,484	0.0%	37.7%	63.6%	40.1%	49.2%
80% to 100% of AMI	9	34	844	1,421	2,308	25.0%	2.0%	22.5%	38.5%	25.3%
100% to 120% of AMI	0	13	5	0	18	0.0%	0.8%	0.1%	0.0%	0.2%
Above 120% AMI	0	2	0	0	2	0.0%	0.1%	0.0%	0.0%	0.0%
Total	37	1,650	3,742	3,693	9,122	0.4%	18.1%	41.0%	40.5%	100.0%
OWNERSHIP CONVERSION UNITS										
Under 30% of AMI	0	0	0	0	0	0.0%	0.0%	0.0%	0.0%	0.0%
30% to 50% of AMI	2	87	44	0	133	50.0%	100.0%	9.2%	0.0%	2.0%
50% to 80% of AMI	2	0	271	493	766	50.0%	0.0%	56.9%	8.2%	11.7%
80% to 100% of AMI	0	0	161	4,915	5,076	0.0%	0.0%	33.8%	82.2%	77.5%
100% to 120% of AMI	0	0	0	426	426	0.0%	0.0%	0.0%	7.1%	6.5%
Above 120% AMI	0	0	0	147	147	0.0%	0.0%	0.0%	2.4%	2.2%
Total	4	87	476	5,981	6,548	0.1%	1.3%	7.3%	91.3%	100.0%
ALL RENTAL UNITS										
Under 30% of AMI	28	89	129	116	362	68.3%	5.1%	3.1%	1.2%	2.3%
30% to 50% of AMI	2	977	428	674	2,081	4.9%	56.2%	10.1%	7.0%	13.3%
50% to 80% of AMI	2	622	2,651	1,975	5,250	4.9%	35.8%	62.8%	20.4%	33.5%
80% to 100% of AMI	9	34	1,005	6,336	7,384	22.0%	2.0%	23.8%	65.5%	47.1%
100% to 120% of AMI	0	13	5	426	444	0.0%	0.7%	0.1%	4.4%	2.8%
Above 120% AMI	0	2	0	147	149	0.0%	0.1%	0.0%	1.5%	0.9%
Total	41	1,737	4,218	9,674	15,670	0.3%	11.1%	26.9%	61.7%	100.0%

Source: U.S. Census Bureau, Montgomery County Department of Finance, RKG Associates, Inc., 2016

Subarea 9: Agricultural Reserve & Vicinity

As noted in Chapter 2, the Agricultural Reserve and Vicinity area incorporates a few settled areas, including Olney, Clarksburg, Poolesville, and Damascus, as well as some areas adjacent to the Agricultural Reserve boundary that are within the same census tract. To this point, there is some residential development despite the Agricultural Reserve's zoning restrictions on development. The largest portions of these rental units in the Agricultural Reserve and Vicinity subarea are priced between $1,205 and $2,408, similar to the county as a whole and the less affluent subareas (Table 5-12). The subarea does have a notably higher concentration of units priced between $1,542 and $2,408 when compared to the county.

However, this concentration is like other more suburban/exurban subareas, such as Germantown & Vicinity, and Upper Rock Creek. Half of the Agricultural Reserve rental unit inventory is priced within this range due to a concentration of 3+ bedroom ownership units (1,050) and multifamily units (635) at that price. Rental units in the Agricultural Reserve are priced similarly to those in areas similar in development patterns and the Reserve has a concentration of mid-priced units due to the prominence of ownership conversion units within this subarea.

Table 5-12
Rental Unit Supply by Affordability Threshold
Subarea 9: Agricultural Reserve

	UNITS					UNIT DISTRIBUTION				
	EFF	1BR	2BR	3+BR	TOTAL	EFF	1BR	2BR	3+BR	TOTAL
MULTI-FAMILY UNITS										
Under 30% of AMI	0	9	17	22	48	0.0%	5.5%	3.6%	1.8%	2.5%
30% to 50% of AMI	0	67	110	148	325	0.0%	40.1%	22.9%	11.8%	17.1%
50% to 80% of AMI	0	80	132	450	662	0.0%	48.6%	27.3%	35.9%	34.8%
80% to 100% of AMI	0	10	223	635	868	0.0%	5.8%	46.2%	50.6%	45.6%
100% to 120% of AMI	0	0	0	0	0	0.0%	0.0%	0.0%	0.0%	0.0%
Above 120% AMI	0	0	1	0	1	0.0%	0.0%	0.0%	0.0%	0.0%
Total	0	166	483	1,255	1,904	0.0%	8.7%	25.4%	65.9%	100.0%
OWNERSHIP CONVERSION UNITS										
Under 30% of AMI	0	0	0	0	0	0.0%	0.0%	0.0%	0.0%	0.0%
30% to 50% of AMI	1	0	16	0	17	50.0%	0.0%	11.1%	0.0%	0.9%
50% to 80% of AMI	1	26	81	27	135	50.0%	100.0%	55.6%	1.5%	6.8%
80% to 100% of AMI	0	0	48	1,050	1,098	0.0%	0.0%	33.3%	57.6%	55.1%
100% to 120% of AMI	0	0	0	457	457	0.0%	0.0%	0.0%	25.1%	22.9%
Above 120% AMI	0	0	0	287	287	0.0%	0.0%	0.0%	15.8%	14.4%
Total	2	26	145	1,821	1,994	0.1%	1.3%	7.3%	91.3%	100.0%
ALL RENTAL UNITS										
Under 30% of AMI	0	9	17	22	48	0.0%	4.7%	2.7%	0.7%	1.2%
30% to 50% of AMI	1	67	126	148	342	50.0%	34.9%	20.1%	4.8%	8.8%
50% to 80% of AMI	1	106	213	477	797	50.0%	55.2%	33.9%	15.5%	20.4%
80% to 100% of AMI	0	10	271	1,685	1,966	0.0%	5.2%	43.2%	54.8%	50.4%
100% to 120% of AMI	0	0	0	457	457	0.0%	0.0%	0.0%	14.9%	11.7%
Above 120% AMI	0	0	1	287	288	0.0%	0.0%	0.2%	9.3%	7.4%
Total	2	192	628	3,076	3,898	0.1%	4.9%	16.1%	78.9%	100.0%

Source: U.S. Census Bureau, Montgomery County Department of Finance, RKG Associates, Inc., 2016

Subarea 10: Upper Rock Creek

The majority (66 percent) of Upper Rock Creek's rental units are priced between $1,542 and $2,408 (Table 5-13). This concentration is greater than that of the county and any other subarea, although the Agricultural Reserve subarea does have a notable concentration of units in this price range as well.

Rental units that fall within this price range in Upper Rock Creek include a majority of the 1-bedroom, 2 bedrooms and 3+ bedrooms in multi-unit complexes and less than one third (30 percent) of rental unit conversions. Additionally, the small number of ownership conversion units are primarily priced above $1,542 per month and distributed at a range of prices above this amount.

Overall, multifamily rentals in Upper Rock Creek are moderately priced, with a limited number of ownership rental units that range from moderately priced to high priced. Ultimately, there are so few units within the inventory that a larger trend is impossible to discern.

Table 5-13
Rental Unit Supply by Affordability Threshold
Subarea 10: Upper Rock Creek

	UNITS					UNIT DISTRIBUTION				
	EFF	1BR	2BR	3+BR	TOTAL	EFF	1BR	2BR	3+BR	TOTAL
MULTI-FAMILY UNITS										
Under 30% of AMI	1	0	0	0	1	12.7%	0.0%	0.0%	0.0%	0.1%
30% to 50% of AMI	1	50	2	0	53	35.6%	22.4%	0.4%	0.0%	5.7%
50% to 80% of AMI	2	48	46	0	96	35.4%	21.5%	11.5%	0.0%	10.3%
80% to 100% of AMI	1	124	342	216	683	16.0%	56.1%	86.7%	69.7%	73.3%
100% to 120% of AMI	0	0	6	88	94	0.1%	0.0%	1.4%	28.4%	10.1%
Above 120% AMI	0	0	0	5	5	0.2%	0.0%	0.0%	1.8%	0.6%
Total	5	222	396	309	932	0.5%	23.8%	42.5%	33.2%	100.0%
OWNERSHIP CONVERSION UNITS										
Under 30% of AMI	0	0	0	0	0	0.0%	0.0%	0.0%	0.0%	0.0%
30% to 50% of AMI	0	1	0	0	1	50.0%	37.8%	3.4%	0.0%	0.5%
50% to 80% of AMI	0	1	5	0	6	50.0%	37.8%	36.0%	0.0%	3.2%
80% to 100% of AMI	0	0	7	50	57	0.0%	24.3%	52.7%	29.3%	30.5%
100% to 120% of AMI	0	0	1	56	57	0.0%	0.0%	5.4%	32.8%	30.5%
Above 120% AMI	0	0	1	65	66	0.0%	0.0%	2.5%	37.9%	35.3%
Total	0	2	14	171	187	0.0%	1.1%	7.5%	91.4%	100.0%
ALL RENTAL UNITS										
Under 30% of AMI	1	0	0	0	1	20.0%	0.0%	0.0%	0.0%	0.1%
30% to 50% of AMI	1	51	2	0	54	20.0%	22.8%	0.5%	0.0%	4.8%
50% to 80% of AMI	2	49	51	0	102	40.0%	21.9%	12.4%	0.0%	9.1%
80% to 100% of AMI	1	124	349	266	740	20.0%	55.4%	85.1%	55.4%	66.1%
100% to 120% of AMI	0	0	7	144	151	0.0%	0.0%	1.7%	30.0%	13.5%
Above 120% AMI	0	0	1	70	71	0.0%	0.0%	0.2%	14.6%	6.4%
Total	5	224	410	480	1,119	0.4%	20.0%	36.6%	42.9%	100.0%

Source: U.S. Census Bureau, Montgomery County Department of Finance, RKG Associates, Inc., 2016

Subarea 11: Patuxent & Cloverly

Similar to Upper Rock Creek, Patuxent & Cloverly has a small rental unit inventory of 601 units (Table 5-14). Like highly affluent subareas, the majority of these units are priced above $1,541 per month with the largest portion of units (46 percent) priced between $1,542 and $2,408. This concentration of units is primarily due to the 3+ bedroom multifamily units within the subarea that fall within this price range.

Additionally, ownership conversion units in Patuxent & Cloverly more closely resemble the price distribution in Upper Rock Creek than the county as a whole. Most ownership conversion units are priced above $1,541 per month. However, though similar to Upper Rock Creek, the limited number of these units limits the ability to identify a larger trend beyond their moderate to high price range.

Table 5-14
Rental Unit Supply by Affordability Threshold
Subarea 11: Patuxent & Cloverly

	UNITS					UNIT DISTRIBUTION				
	EFF	1BR	2BR	3+BR	TOTAL	EFF	1BR	2BR	3+BR	TOTAL
MULTI-FAMILY UNITS										
Under 30% of AMI	38	39	0	0	77	100.0%	92.6%	0.0%	0.0%	24.3%
30% to 50% of AMI	0	1	5	2	8	0.0%	1.2%	18.8%	1.1%	2.5%
50% to 80% of AMI	0	3	22	0	25	0.0%	6.2%	81.3%	0.0%	7.9%
80% to 100% of AMI	0	0	0	199	199	0.0%	0.0%	0.0%	95.5%	62.9%
100% to 120% of AMI	0	0	0	7	7	0.0%	0.0%	0.0%	3.4%	2.2%
Above 120% AMI	0	0	0	0	0	0.0%	0.0%	0.0%	0.0%	0.1%
Total	38	43	27	208	316	12.0%	13.6%	8.5%	65.8%	100.0%
OWNERSHIP CONVERSION UNITS										
Under 30% of AMI	0	0	0	0	0	0.0%	0.0%	0.0%	0.0%	0.0%
30% to 50% of AMI	0	1	1	0	2	50.0%	37.8%	3.4%	0.0%	0.7%
50% to 80% of AMI	0	2	8	0	10	50.0%	37.8%	36.0%	0.0%	3.5%
80% to 100% of AMI	0	1	11	65	77	0.0%	24.3%	52.7%	25.0%	27.0%
100% to 120% of AMI	0	0	1	116	117	0.0%	0.0%	5.4%	44.4%	41.1%
Above 120% AMI	0	0	0	79	79	0.0%	0.0%	2.5%	30.6%	27.7%
Total	0	4	21	260	285	0.0%	1.4%	7.4%	91.2%	100.0%
ALL RENTAL UNITS										
Under 30% of AMI	38	39	0	0	77	100.0%	83.0%	0.0%	0.0%	12.8%
30% to 50% of AMI	0	2	6	2	10	0.0%	4.3%	12.5%	0.4%	1.7%
50% to 80% of AMI	0	5	30	0	35	0.0%	10.6%	62.5%	0.0%	5.8%
80% to 100% of AMI	0	1	11	264	276	0.0%	2.1%	22.9%	56.4%	45.9%
100% to 120% of AMI	0	0	1	123	124	0.0%	0.0%	2.1%	26.3%	20.6%
Above 120% AMI	0	0	0	79	79	0.0%	0.0%	0.0%	16.9%	13.2%
Total	38	47	48	468	601	6.3%	7.8%	8.0%	77.9%	100.0%

Source: U.S. Census Bureau, Montgomery County Department of Finance, RKG Associates, Inc., 2016

Subarea 12: Rockville/Gaithersburg

Similar to the county and a number of the subareas, a majority of units in Rockville/Gaithersburg are priced between $1,205 and $2,408 per month (Table 5-15). Analysis from earlier in this chapter illustrates the diverse range of prices for this subarea. Rockville/Gaithersburg does have a greater concentration of efficiency (52 percent) and 1-bedroom (41 percent) units priced between $724 and $1,204 than at the county level.

Additionally, this subarea has a larger concentration of owner-occupied units priced above $2,889 than in other subareas, such as Silver Spring/Glenmont and Aspen Hill, that have concentrations of middle and low prices as well. Most interesting is the distribution of 1 to 3+ bedroom multifamily units priced below $2,409 per month and a majority of ownership conversion units priced from $1,542 to $2,408. These prices illustrate the range of units within this subarea at prices that are affordable to a range of households.

Table 5-15
Rental Unit Supply by Affordability Threshold
Subarea 12: Rockville/Gaithersburg

	UNITS					UNIT DISTRIBUTION				
	EFF	1BR	2BR	3+BR	TOTAL	EFF	1BR	2BR	3+BR	TOTAL
MULTI-FAMILY UNITS										
Under 30% of AMI	282	487	302	195	1,266	40.5%	7.1%	3.6%	3.8%	6.0%
30% to 50% of AMI	363	2,761	877	146	4,147	52.3%	40.5%	10.5%	2.8%	19.7%
50% to 80% of AMI	47	2,322	3,913	805	7,087	6.8%	34.0%	46.8%	15.6%	33.7%
80% to 100% of AMI	1	1,233	3,032	3,580	7,846	0.2%	18.1%	36.3%	69.5%	37.3%
100% to 120% of AMI	0	18	166	373	557	0.0%	0.3%	2.0%	7.2%	2.6%
Above 120% AMI	2	3	70	53	128	0.2%	0.0%	0.8%	1.0%	0.6%
Total	695	6,824	8,360	5,152	21,031	3.3%	32.4%	39.8%	24.5%	100.0%
OWNERSHIP CONVERSION UNITS										
Under 30% of AMI	0	0	0	0	0	0.0%	0.0%	0.0%	0.0%	0.0%
30% to 50% of AMI	1	6	0	0	7	50.0%	44.4%	0.0%	0.0%	0.7%
50% to 80% of AMI	0	5	22	6	33	50.0%	33.3%	28.2%	0.7%	3.1%
80% to 100% of AMI	0	3	52	516	571	0.0%	22.2%	66.7%	52.5%	53.1%
100% to 120% of AMI	0	0	4	240	244	0.0%	0.0%	5.1%	24.4%	22.7%
Above 120% AMI	0	0	0	220	220	0.0%	0.0%	0.0%	22.4%	20.5%
Total	1	14	78	982	1,075	0.1%	1.3%	7.3%	91.3%	100.0%
ALL RENTAL UNITS										
Under 30% of AMI	282	487	302	195	1,266	40.5%	7.1%	3.6%	3.2%	5.7%
30% to 50% of AMI	364	2,767	877	146	4,154	52.3%	40.5%	10.4%	2.4%	18.8%
50% to 80% of AMI	47	2,327	3,935	811	7,120	6.8%	34.0%	46.6%	13.2%	32.2%
80% to 100% of AMI	1	1,236	3,084	4,096	8,417	0.1%	18.1%	36.5%	66.8%	38.1%
100% to 120% of AMI	0	18	170	613	801	0.0%	0.3%	2.0%	10.0%	3.6%
Above 120% AMI	2	3	70	273	348	0.3%	0.0%	0.8%	4.4%	1.6%
Total	696	6,838	8,438	6,134	22,106	3.1%	30.9%	38.2%	27.7%	100.0%

Source: U.S. Census Bureau, Montgomery County Department of Finance, RKG Associates, Inc., 2016

F. AFFORDABILITY ANALYSIS

The strength of the affordability analysis as a tool for understanding current rental housing dynamics lies in the comparison of the existing rental supply of units distributed across the affordability thresholds to the corresponding demand by existing renters within each threshold. This comparison highlights rent ranges where there is either a surplus of units or a shortage of units to meet existing demand, and the impact these discrepancies can have on current renters, particularly if they lead to cost-burdened households

1. County-Wide Affordability

For all rental units in Montgomery County (including conversions and condominiums), there is an overall surplus of 9,555 rental units. This finding is not surprising, as all markets have some level of vacancy. However, the balance of supply and demand varies by income/affordability. The Montgomery County market has a substantial surplus of units within the 50 percent to 80 percent of area median income (AMI) threshold (22,587 more units than households earning in that range) and the 80 percent to 100 percent of AMI threshold (22,000 more units than households earning in that range). This imbalance is facilitated by inclusionary zoning regulations. The base regulations require 12.5 percent of new rental units be affordable to households earning 65 percent of AMI or less (Figure 5-7). While there are variations in the percent requirement (i.e. 15 percent) and income target (i.e. 70 percent) in certain areas of the county, the effect is the same.

The large surplus of units (compared to the income of existing renters in Montgomery County) within these affordability thresholds is offset by shortages within other thresholds. Most notably, there are substantially more households earning less than 30 percent of AMI (20,830 more households earning in this range than units priced appropriately) and more than 120 percent of AMI (13,253 more households earning in this range than units priced appropriately). While a shortage of luxury rental units forces high income households to consume housing that does not maximize their ability to pay, the shortage of units priced to households earning less than 30 percent of AMI indicates that there are a substantial number of extremely low income households that are cost-burdened (further detailed in the next section).

The data indicate that the variety of rental housing is inconsistent with market demand. From a cost perspective, there are more high-income households than there are units priced to maximize their ability to pay, despite recent residential developments focusing on the luxury market. The disparity in supply and demand is greatest for smaller high-income households, since most higher cost rental units are larger (2+ bedrooms). Since single family conversions usually have more than 2+ bedrooms. These households are forced into a larger unit regardless of their space needs if they seek to maximize their spending power. From a unit size perspective, the number of larger rental units (3+ bedrooms) has declined in the county due to market fluctuations (ownership reconversions) and redevelopment (traditional apartments). These findings indicate that larger households—particularly with higher incomes—have few rental options that allow them to maximize their ability to pay.

As a result, these persons are forced into three options: [1] rent a unit that does not maximize their ability to pay; [2] rent a unit that maximizes their ability to pay, but not necessarily fits their space needs; or [3] find a traditional ownership unit in that price point to rent. Each of these scenarios places additional pressure on the market that adversely impacts other households seeking suitably sized and priced housing. Regarding the issue of an individual or a household maximizing the ability to pay, the consultant team assumes that people will spend what they can reasonably afford to live in the nicest home or apartment that meets their needs. If there are no homes or apartments priced at their affordability level, they will pay less for the next best unit.

The downward pressure in the rental market is particularly challenging because households at the lowest income levels tend to have the greatest barriers to homeownership (i.e., credit history, available down payment, etc.). If a lower-income worker is creditworthy and has sufficient resources for a down payment, that individual retains the opportunity to buy or rent a property. Individuals without the credit history or down payment are limited to renting.

Thus, there is little option for the latter, other than paying for housing above the HUD-defined threshold (becoming cost-burdened) or finding housing outside Montgomery County. The lack of market-rate 2- and 3-bedroom units priced below 80 percent of AMI exacerbates the challenge for modest income families that choose or must rent. Anecdotally, real estate professionals have noted that households are combining to have income sufficient to rent larger apartments in Montgomery County. This arrangement has direct and indirect impacts on the housing market, as 2- and 3-bedroom units are not built to handle multiple households.

It is well documented that housing preference is shifting away from traditional homeownership in suburban development of single-family houses toward more compact, infill, pedestrian scale development. The economic downturn and its impact on the local, regional and national housing markets have accelerated these shifts by necessity as much as preference. To these points, having insufficient housing options, particularly rental housing that would appeal to younger and more mobile persons, could impact whether local workers remain continue to live or whether companies can be successful at recruiting new talent. In either case, the continued imbalance in supply and demand will continue to drive prices higher, further eroding the little affordability currently present in Montgomery County.

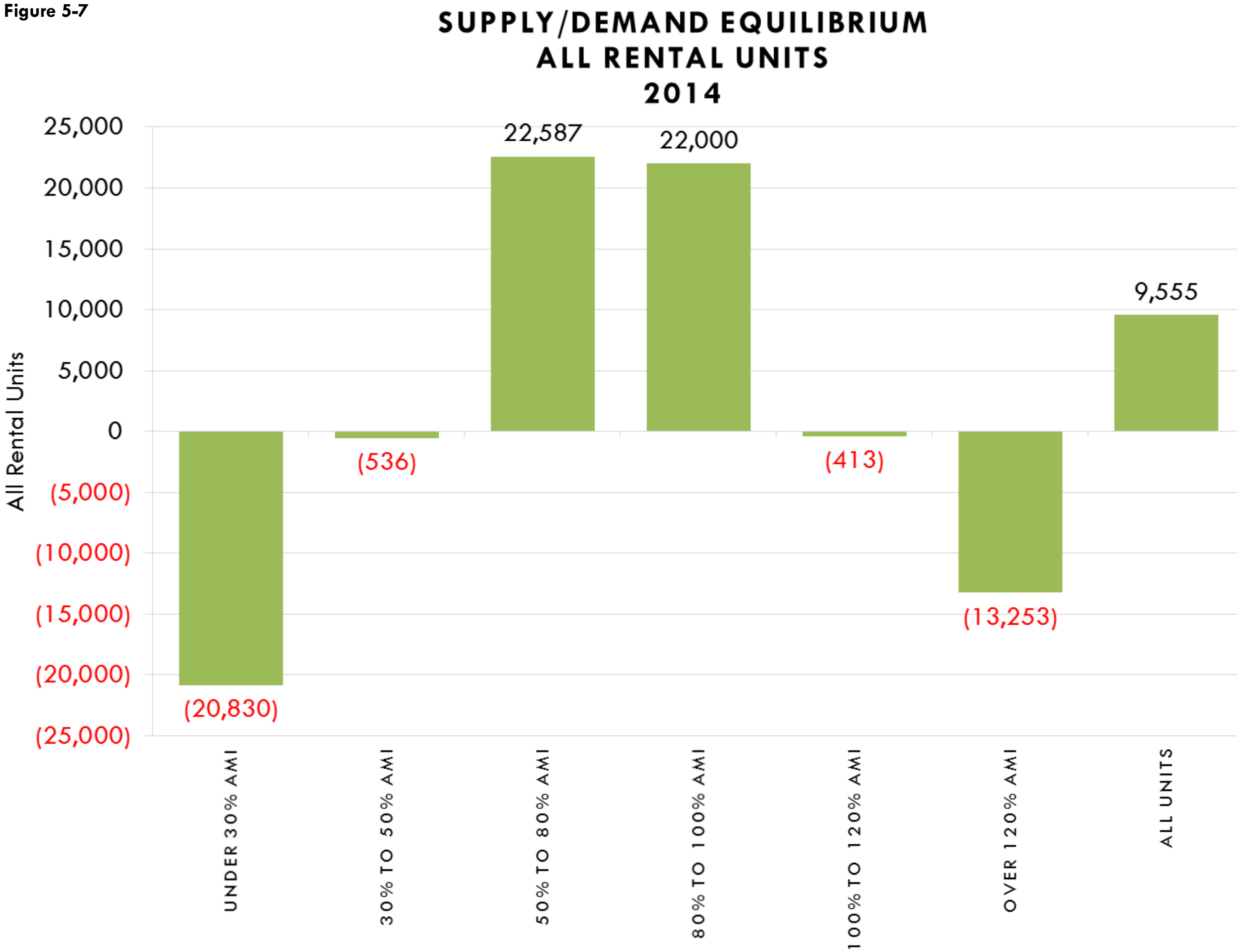
2. Rental Conversions

Rental conversions play a substantial role in the rental supply and demand equilibrium. At a base level, Montgomery County goes from a surplus of 9,555 units to a shortage of 17,651 rental units if these traditional ownership units reverted to owner occupancy (Figure 5-8). Anecdotal data from real estate professionals indicate the number of converted units can fluctuate based on economic cycles (i.e. units revert to ownership in strong economic markets). This uncertainty effects pricing and availability, particularly in neighborhoods with strong transportation access and desirable amenities.

On a more nuanced level, rental conversions typically are larger and concentrated at the higher cost AMI thresholds. More than 91 percent of rental conversions have 3+ bedrooms as compared to approximately 26 percent of traditional apartment units. Fluctuations in the rental conversion market do not only adversely impact the market equilibrium, they also almost exclusively impact the large unit equilibrium. From a cost perspective, more than 43 percent of conversions are priced above 100 percent of AMI (compared to just 7 percent for traditional apartments). Rental conversions provide supply for the most affluent renters in Montgomery County.

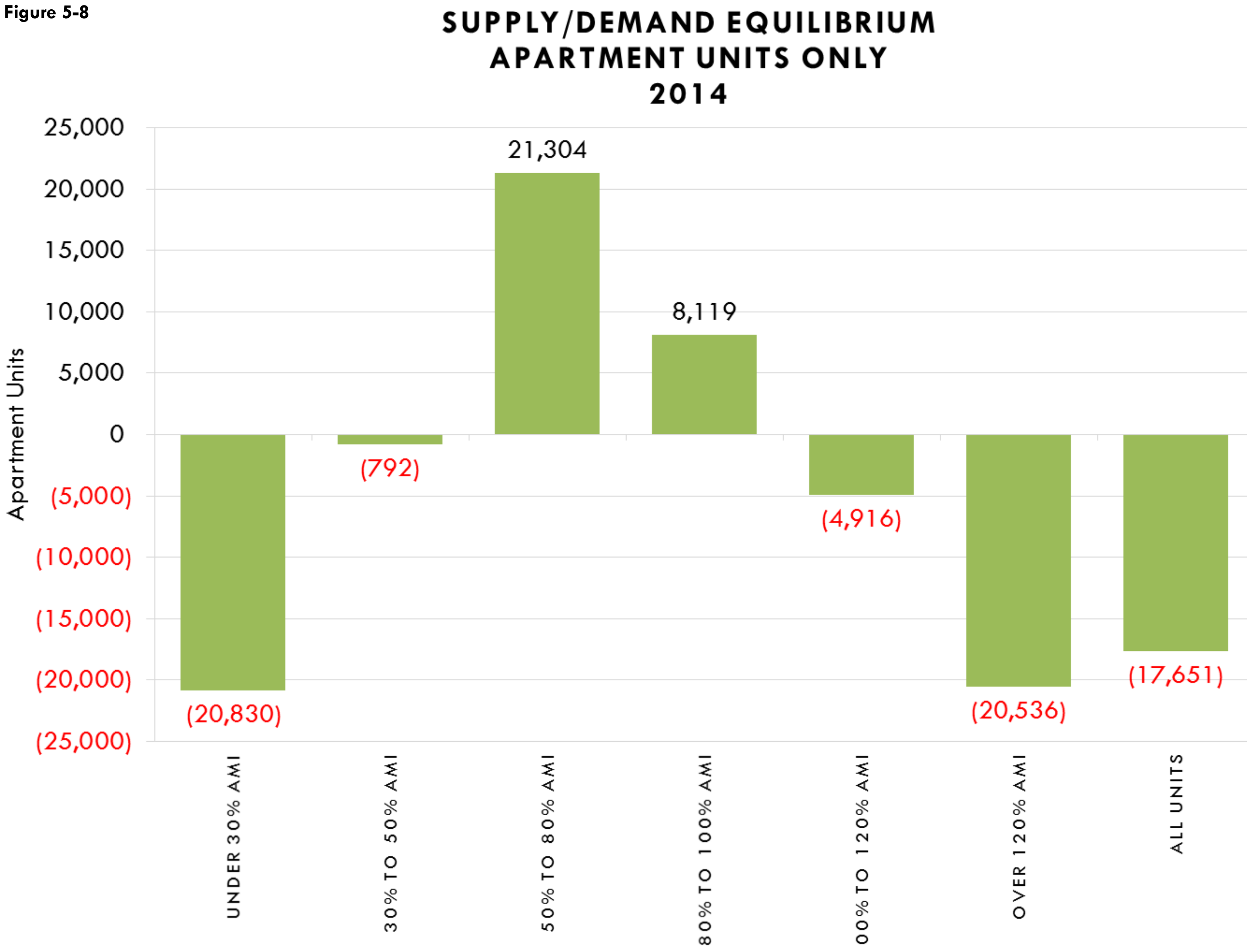
The importance of rental conversions is evident at the subarea level as well. Figures 5-9 and 5-10 reveal that the loss of rental conversions would adversely impact the rental equilibrium in all but one of the subareas. Only the Silver Spring/Gaithersburg submarket would retain a net surplus of rental units without any conversion units.

Figure 5-7



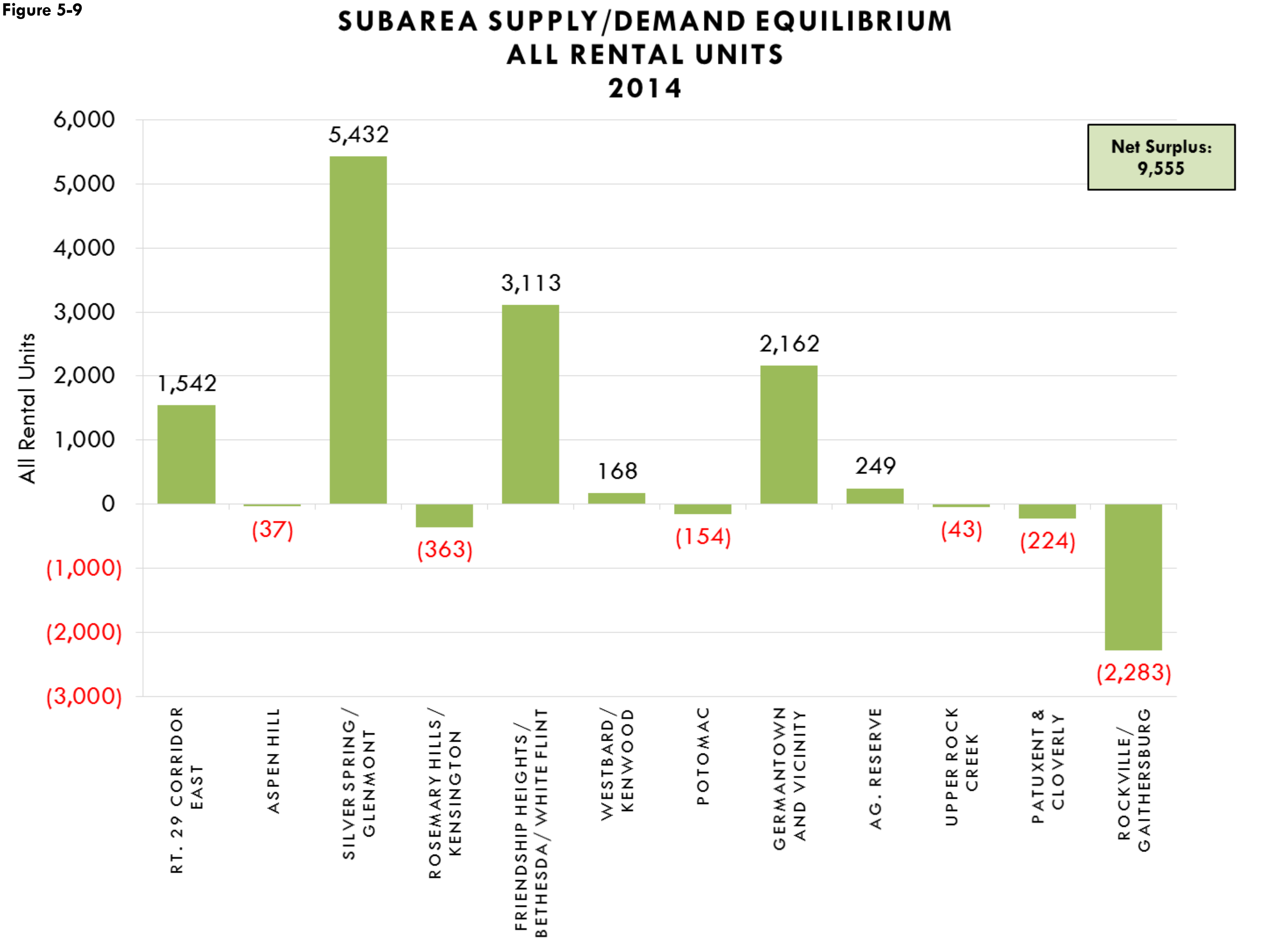
Source: 2014 County Assessment, 2014 County Rental Survey, ACS 2010-2014

Figure 5-8



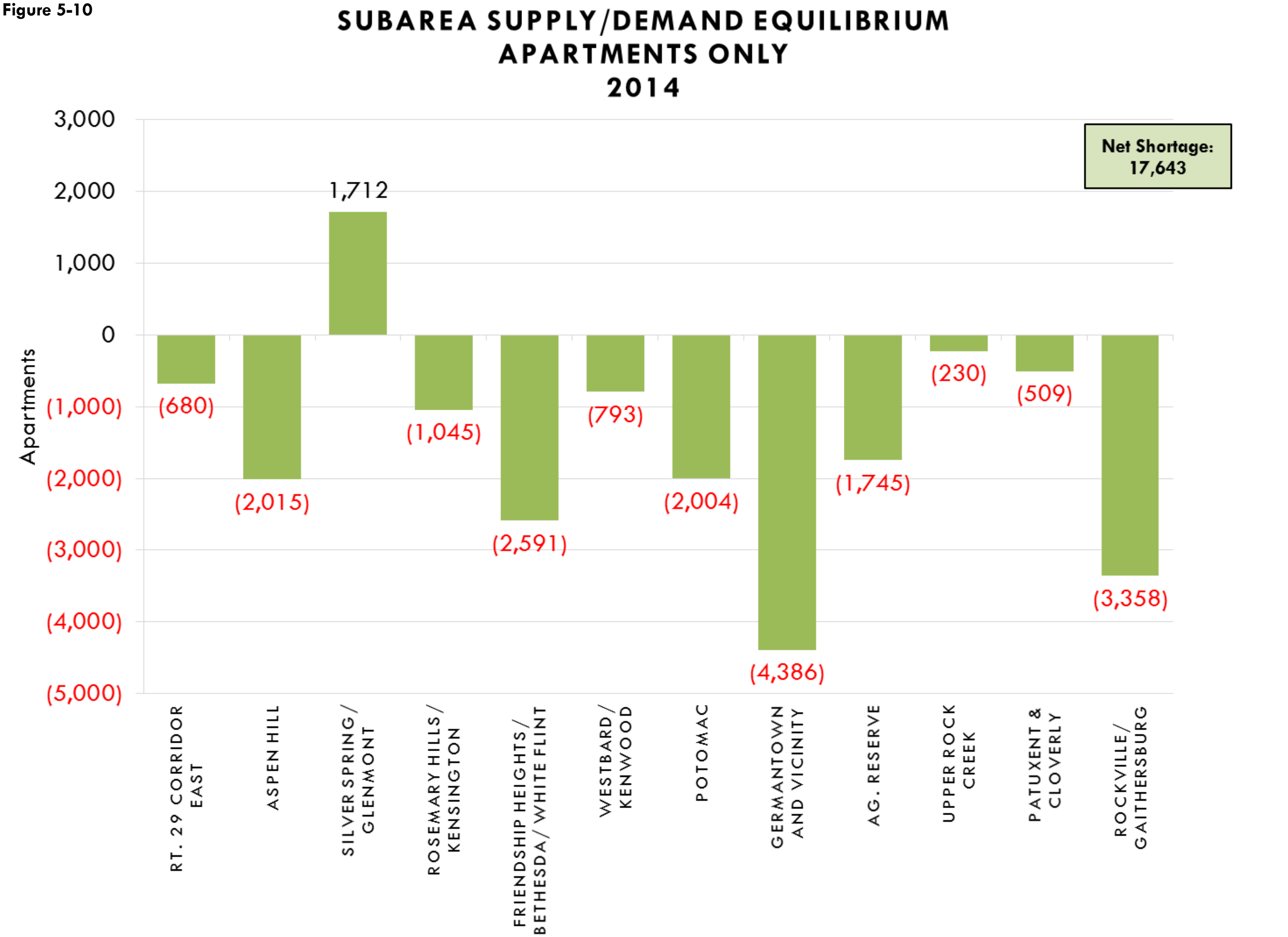
Source: 2014 County Assessment, 2014 County Rental Survey, ACS 2010-2014

Figure 5-9



Source: 2014 County Assessment, 2014 County Rental Survey, ACS 2010-2014

Figure 5-10



Source: 2014 County Assessment, 2014 County Rental Survey, ACS 2010-2014

G. COST-BURDENED HOUSEHOLDS

Households become cost-burdened when more than 30 percent of annual gross income is spent on housing. Based on the substantial surplus of rental units in Montgomery County between 50 percent and 100 percent of AMI, there are a notable number of households that earn less than 50 percent of AMI ($48,150), but are renting units in this range due to the shortage of units priced appropriately to their ability to pay. To further understand the level of cost burden within the county, the consultant used HUD's 2012 Comprehensive Housing Affordability Strategy (CHAS) data, which documents the number of cost-burdened households by affordability threshold, to understand the level of this occurrence at a county and a subarea level.

CHAS data indicates that a notable portion (47 percent) of Montgomery County renter households spend more than 30 percent of their annual income on housing. At least 38 percent of the renter households within each subarea are cost burdened (Figure 5-11). In most subareas, 40 percent to 50 percent is common. The highest rates of cost-burdened renter households are in Patuxent and Cloverly (62 percent), Route 29 Corridor East (60 percent), Aspen Hill (55 percent) and Germantown & Vicinity (52 percent). These are all subareas where concentrations of extremely low income households (30 percent of AMI) are notable and rental prices are modest. However, few units are priced below $724 and priced appropriate for households earning less than 30 percent of AMI.

Given that most of Montgomery County's rental housing supply is priced above the 50 percent of AMI threshold, cost-burdening is more prevalent for lower income households. Substantial portions of renter households in the 30 percent to 50 percent of AMI threshold (87 percent), under 30 percent of AMI threshold (80 percent) and 50 percent to 80 percent of AMI threshold (68 percent) are spending more than 30 percent of their gross income on housing (Figure 5-12).

It is noteworthy that cost-burdening is higher for earners making 30 percent to 50 percent of AMI earners than for those making under 30 percent of AMI earners due to their lack of access to publicly assisted housing. Households in this second affordability threshold are at a particular disadvantage because they do not qualify for many of the housing assistance programs, but are competing with similar households for units just out of their range of affordability.

This situation indicates that extremely low and very low income households are having the greatest difficulty affording housing in Montgomery County. In contrast, approximately 9 percent of renter households earning 100 percent of AMI or more are cost-burdened, further supporting the finding that lower income households in Montgomery County have the greatest challenge in finding housing units priced appropriately.

Balancing household finances when housing costs are high is challenged further when households spend more than 50 percent of gross income on housing. In Montgomery County, households with this level of cost burden are almost exclusively concentrated in the under 30 percent of AMI threshold (or below $28,900) and the 30 percent to 50 percent of AMI threshold (or earning between $28,900 to $48,149 (Figure 5-13).

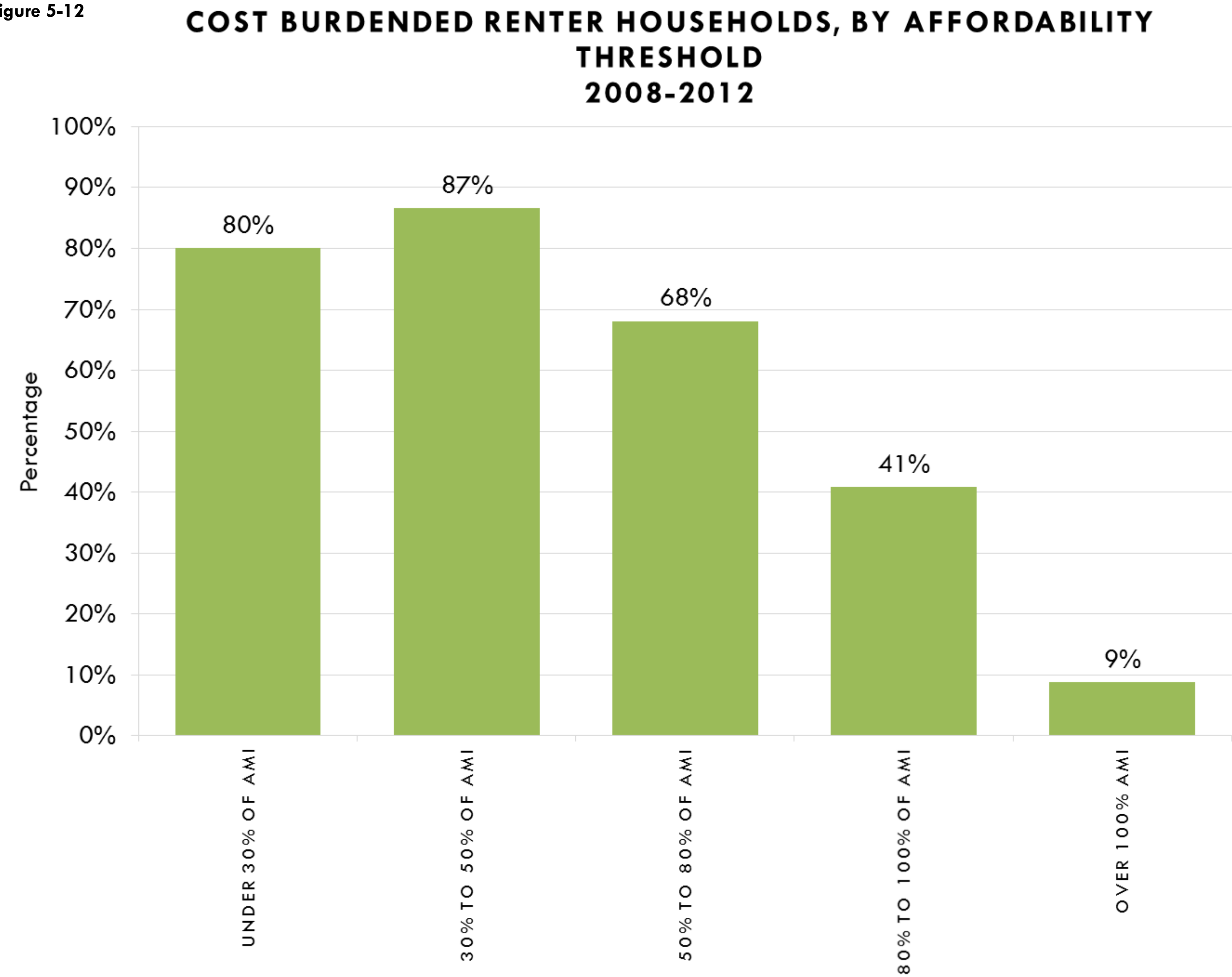
Figure 5-11

Table 5-11
Rental Unit Supply by Affordability Threshold
Subarea 8: Germantown and Vicinity

	UNITS					UNIT DISTRIBUTION				
	EFF	1BR	2BR	3+BR	TOTAL	EFF	1BR	2BR	3+BR	TOTAL
MULTI-FAMILY UNITS										
Under 30% of AMI	28	89	129	116	362	75.0%	5.4%	3.4%	3.2%	4.0%
30% to 50% of AMI	0	890	384	674	1,948	0.0%	53.9%	10.2%	18.2%	21.4%
50% to 80% of AMI	0	622	2,380	1,482	4,484	0.0%	37.7%	63.6%	40.1%	49.2%
80% to 100% of AMI	9	34	844	1,421	2,308	25.0%	2.0%	22.5%	38.5%	25.3%
100% to 120% of AMI	0	13	5	0	18	0.0%	0.8%	0.1%	0.0%	0.2%
Above 120% AMI	0	2	0	0	2	0.0%	0.1%	0.0%	0.0%	0.0%
Total	37	1,650	3,742	3,693	9,122	0.4%	18.1%	41.0%	40.5%	100.0%
OWNERSHIP CONVERSION UNITS										
Under 30% of AMI	0	0	0	0	0	0.0%	0.0%	0.0%	0.0%	0.0%
30% to 50% of AMI	2	87	44	0	133	50.0%	100.0%	9.2%	0.0%	2.0%
50% to 80% of AMI	2	0	271	493	766	50.0%	0.0%	56.9%	8.2%	11.7%
80% to 100% of AMI	0	0	161	4,915	5,076	0.0%	0.0%	33.8%	82.2%	77.5%
100% to 120% of AMI	0	0	0	426	426	0.0%	0.0%	0.0%	7.1%	6.5%
Above 120% AMI	0	0	0	147	147	0.0%	0.0%	0.0%	2.4%	2.2%
Total	4	87	476	5,981	6,548	0.1%	1.3%	7.3%	91.3%	100.0%
ALL RENTAL UNITS										
Under 30% of AMI	28	89	129	116	362	68.3%	5.1%	3.1%	1.2%	2.3%
30% to 50% of AMI	2	977	428	674	2,081	4.9%	56.2%	10.1%	7.0%	13.3%
50% to 80% of AMI	2	622	2,651	1,975	5,250	4.9%	35.8%	62.8%	20.4%	33.5%
80% to 100% of AMI	9	34	1,005	6,336	7,384	22.0%	2.0%	23.8%	65.5%	47.1%
100% to 120% of AMI	0	13	5	426	444	0.0%	0.7%	0.1%	4.4%	2.8%
Above 120% AMI	0	2	0	147	149	0.0%	0.1%	0.0%	1.5%	0.9%
Total	41	1,737	4,218	9,674	15,670	0.3%	11.1%	26.9%	61.7%	100.0%

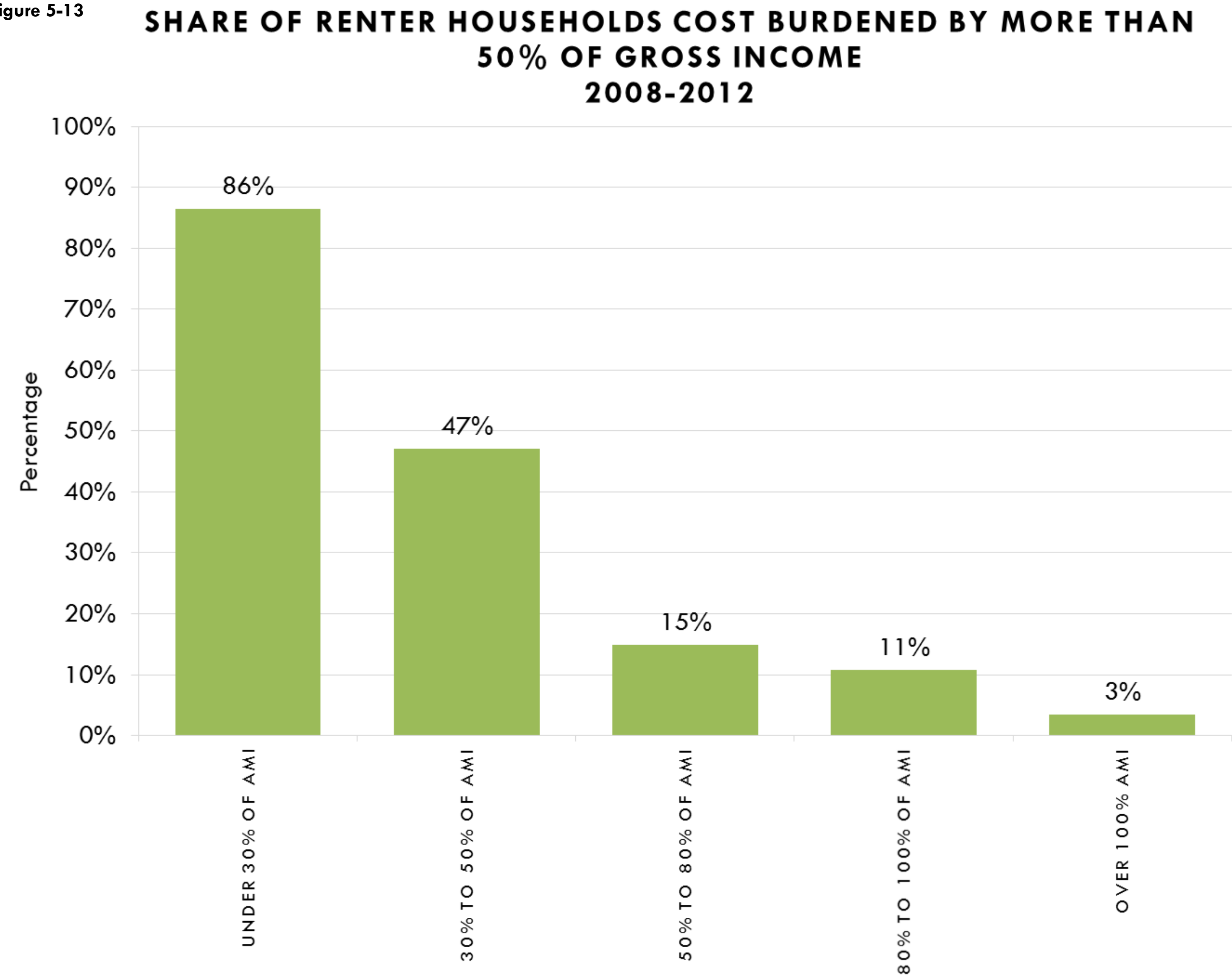
Source: U.S. Census Bureau, Montgomery County Department of Finance, RKG Associates, Inc., 2016

Figure 5-12



Source: CHAS 2008-2012

Figure 5-13



Source: CHAS 2008-2012

6 *NEIGHBORHOOD ASSESSMENT*

A. INTRODUCTION

The intent of the Rental Housing Study is to identify policies, programs and strategies to ensure the county's rental housing supply/demand equilibrium is optimized. APD Urban Planning and Management, LLC was retained by RKG Associates, Inc. to provide a Neighborhood Assessment of potential locations in Montgomery County where affordable rental units could be developed or affordable rental housing could be preserved.

For purposes of this study, housing is considered affordable when approximately 30 percent to 35 percent of a household's gross income (for households earning up to 120 percent of area median income) is spent on rent or principal, interest, condominium or homeowners' association fees, property taxes and private mortgage insurance. Therefore, affordable housing is unique to each household based on its income.

The goal of the Neighborhood Assessment is to gain a comprehensive understanding of factors that influence preservation or development of affordable rental housing at the community level. This analysis required an examination of the opportunities and challenges associated with preserving rental units or developing new rental units in different types of neighborhoods within the county. The findings from the Neighborhood Assessment are used to set the foundation for development of policy recommendations that advance the opportunities for preservation and/or introduction of new affordable rental units.

B. METHODOLOGY

1. Approach

In order to best understand these opportunities and challenges, a four-step approach and methodology was utilized – define, identify, select and analyze. First, four (4) character area types or typologies were *defined* that represented unique rental housing markets in Montgomery County. Corresponding neighborhoods for each character area typology were identified. Second, investment criteria were *identified* that would comprise a character area typology. Third, from the corresponding neighborhoods, a model neighborhood was *selected* that would best exemplify each typology. Fourth, data was *analyzed* for each representative neighborhood selected. Findings from this approach are discussed in the Neighborhood Profiles section below.

2. Data Sources

Estimates for commuter types, household rents, renter incomes, cost burdens, occupancy, population growths, commute times, household vehicles, unit ages, housing units were provided by the US Census Bureau, 2014 American Community Survey 5-Year Estimates. Labor market data from 2014 for each neighborhood was provided by the US Census Bureau, Center for Economic Studies. Rental data provided by the 2014 Montgomery County Rental Facilities Survey was reviewed for statistical purposes.

3. Definition of Character Area Typology

Character area typologies are considered as defined geographies that display unique characteristics affecting preservation of existing affordable rental units or development of new affordable rental units. For this study, a rental density analysis was used as the foundation for identification of potential typologies in Montgomery County. Based on this initial step, four unique groups of characteristics, or typologies, emerged (Table 6-1).

Two of the four character area typologies were based solely on level of concentration of rental housing. The typology called Concentration of Existing Rental Units identifies areas that have a higher concentration of rental housing units, while the category titled Established Suburbs identifies areas that have a lower concentration of rental housing units. Best practice indicates affordable rental housing can be effective when it is planned around mass transit; therefore, two additional character area typologies were defined based on existing Metro transit and proposed light rail routes: Existing Metro Line and Future Purple Line.

Table 6-1
Character Area Typology Chart

TYPOLOGY	DEFINITION	ASSUMPTIONS
PROXIMITY TO FUTURE PURPLE LINE	Neighborhoods that are to be included in the future Purple Line light rail transit system.	By 2020, the future Purple Line will be completed with new transit stops within the communities of Takoma Park, Silver Spring, Chevy Chase and Bethesda. Considering the possibility of a light rail transit system, these areas and other nearby areas can be considered prime candidates for the potential infill of transit-oriented affordable housing.
PROXIMITY TO EXISTING METRO LINE	Neighborhoods that have existing Metro Red Line service.	Taking into consideration the concentration of rentals and underutilized properties near the Metrorail service, each area may provide an opportunity to preserve existing affordable rental housing and provide new infill that could include the addition of affordable rental units.
ESTABLISHED SUBURBS	Neighborhoods that have limited public transportation (i.e. no Metro line).	Established suburbs (as listed) are not served by the Metro Red Line or have limited public transit. Because the areas generally contain a lower concentration of housing, they may offer opportunities for new infill of affordable housing through increased density.
CONCENTRATIONS OF EXISTING RENTAL UNITS	Neighborhoods that have a high concentration of affordable rental units.	By identifying areas with a high concentration of rentals, strategic areas could be targeted for preservation of affordable housing. Moreover, supporting existing housing and creating a diverse housing stock can be viewed as important components to revitalizing each community.

Within each typology, several corresponding neighborhoods were identified that met the overall definition. The first typology, *Proximity to Future Purple Line*, focused on neighborhoods that were on or near the future light rail line. These neighborhoods include Bethesda, Chevy Chase, Chevy Chase Lake, Silver Spring, Long Branch and Takoma/Langley. Neighborhoods located on the existing Red Line were included in the *Proximity to Existing Metro Line* typology. They include Shady Grove, Rockville, Twinbrook, North Bethesda, White Flint, Grosvernor-Strathmore, Chevy Chase, Friendship Heights, Bethesda, Takoma Park, Silver Spring, Forest Glen and Wheaton-Glenmont.

In contrast to the first two character area typologies, the *Established Suburbs* typology looked at neighborhoods that have limited public transportation or no rail line. These neighborhoods are Rockville, Bethesda, Potomac, Garrett Park, Aspen Hill, Kensington, Silver Spring, White Oak, Calverton, Fairland and Burtonsville. Finally, while there were a number of potential neighborhoods corresponding with the *Concentration of Existing Rental Units* typology, only neighborhoods with the highest concentrations of rental units were considered. These are Germantown, Montgomery Village, Rockville, Olney, Leisure World, Wheaton-Glenmont, Chevy Chase, Bethesda and Silver Spring.

4. Identification of Character Area Typologies

Once the four character area typologies were established and corresponding neighborhoods were identified, relevant criteria were selected to define each typology and assist with selecting a representative neighborhood. Selecting relevant criteria was necessary to assist with defining areas that have the most potential for new infill of affordable rental housing and/or preservation of existing affordable housing. Several of the criteria selected were driven by what factors developers would look for when considering housing development (i.e. land availability) while other criteria are used to identify households that most likely would look for affordable rental housing (i.e. percentage of commuters who take public transit to work).

Investment Criteria Matrix

The goal of determining the initial criteria was to establish and define characteristics that best represent each character area typology. To achieve this goal, data was obtained from Montgomery County and the US Census related to housing, demographics and potential development. As a number of potential investment criteria could be examined, criteria selection was narrowed down to general demographics, criteria specific to renters, criteria that would be related to transit and criteria that would be specific to development of rental markets.

General Criteria

General criteria examined demographics related to housing, such as population growth (Table 6-2).

Table 6-2
General Investment Criteria

CRITERIA	DEFINITION	RATIONALE FOR SELECTION
POPULATION GROWTH	Population growth between Census 2010 and 5-Year ACS Estimates (2009-2014) within identified geography.	Population growth can be considered an indicator for the demand for both market-rate and affordable rentals. A developer would look at higher growth area as opposed to slow or no growth areas.

Renter Specific Criteria

Renter specific criteria examined average gross rent, average renter household income, percentage of cost burdened rental households and percentage of both multi-family and single-family units (Table 6-3).

Table 6-3
Renter Specific Investment Criteria

CRITERIA	DEFINITION	RATIONALE FOR SELECTION
AVERAGE GROSS RENT	Average gross rent within identified geography.	A developer would look at a median gross rent to determine profit potential. A higher return on investment may provide the opportunity for a developer to set aside a higher number of affordable units.

AVERAGE RENTER INCOME	Average household income for rental households within identified geography.	A developer would look at median renter income to determine if an area can absorb affordable or market-rate units.
PERCENTAGE OF RENTER HOUSEHOLDS	Percentage of renter households residing in identified geography.	A developer would target areas with a high percentage of renters for new development.
COST--BURDENED HOUSEHOLDS	Percentage of renter households paying more than 30% of household income for housing.	High cost-burdened areas suggest a need for affordable housing.
PERCENTAGE OF MULTI-FAMILY RENTAL UNITS	Percentage of housing units in traditional rental properties (apartments) within identified geography.	A developer would look at concentrations of rental units or housing to determine if an area demands rental housing.
PERCENTAGE OF SINGLE-FAMILY RENTAL UNITS	Percentage of non-owner occupied single-family rental units within identified geography.	Areas that have existing concentrations of non-owner occupied housing could be identified for affordable rental units.

Transit-Specific Criteria

Transit-specific criteria included proximity to public transit lines, average commute travel times, percentage of renter households without vehicles and whether or not public transit is or will be available (Table 6-4).

Table 6-4
Transit Specific Investment Criteria

CRITERIA	DEFINITION	RATIONALE FOR SELECTION
PROXIMITY TO EXISTING METRO RED LINE	Identified geography within one mile of existing public transit (excluding MARC).	A developer would consider walkability as a consideration in developing affordable rental housing near the existing Metro Red Line.
PROXIMITY TO PUBLIC TRANSIT	Identified geography that is within one mile of the future purple line (excluding MARC).	A developer would consider walkability as a consideration in developing affordable rental housing near the Future Purple Line.
PUBLIC TRANSIT COMMUTERS	Percentage of commuters who travel on public transit within identified geography.	Areas in Montgomery County that see a high usage of public transit can be helpful in identifying areas that demand affordable housing.
AVERAGE TRAVEL TIME	Average commute time from identified geography to work.	Longer commute times may indicate a demand for affordable housing near job centers.
LACK OF VEHICLE AVAILABILITY	Percentage of households without vehicles within identified geography.	Households without vehicles are among many indicators of lower income households.
LIMITED ACCESS TO TRANSIT	Availability of public transit greater than one mile from identified geography.	A renter seeking affordable housing would be more inclined to seek housing in communities that have transit options.

Development Criteria

Development criteria included investment criteria that would be important to overall development, such as available land (county owned, vacant or underutilized parcels) and access to community amenities (Table 6-5).

Table 6-5
Development Investment Criteria

CRITERIA	DEFINITION	RATIONALE FOR SELECTION
JOBS-HOUSING BALANCE	Number of all jobs per all housing units.	Accessibility and proximity to employment are important factors for households seeking affordable rental housing. Rents may be lower the farther away from the city into the suburbs, but higher transit costs can still make those areas more expensive places to live for employed residents.
COUNTY LAND AVAILABILITY	Number of non-park county-owned parcels within identified geography.	Availability of non-park county-owned land as an asset to delivering affordable housing projects.
UNDERUTILIZED/VACANT PARCELS	Estimated potential for new residential rental housing based on vacancy, lot size, age, transit score, walkability score and potential floor area ratio (FAR).	A developer seeking to build new housing would search a community for underutilized parcels that have potential for higher density.
PUBLIC AMENITIES	Number of public amenities (schools, parks, libraries, hospitals) within identified geography.	The presence of public amenities within a neighborhood (parks, schools, hospitals, libraries) is an important factor when developing housing. Additionally, potential tenants would want to see these amenities near their homes.

Underutilized and vacant properties are particularly important when there is a potential for housing redevelopment, particularly for medium and high density housing. For purposes of this study, an underutilized parcel is defined as a property that has a high degree of redevelopment potential and is likely to be seen as attractive or more attractive by commercial real estate investors.

To discover and highlight the available underutilized parcels in the various neighborhoods, a metrics evaluation system was created to score potential parcels on their likelihood to be redeveloped in the future. Evaluation metrics included lot size, amount of land assemblage required to create a viable project, current income generation, estimated commercial potential, age of structure if applicable, maximum density potential in consideration of current zoning classification and neighborhood market characteristics. Properties considered underutilized were rated based on a mix of these evaluation metrics.

C. TYPOLOGY KEY FINDINGS/MODEL NEIGHBORHOODS

Corresponding neighborhoods within each character area typology were analyzed using the investment criteria defined above. Analysis of the investment criteria returned a number of key findings with respect to each typology that helped to narrow the focus of the character area typology (Table 6-6).

Table 6-6
Key Typology Findings

TYPOLOGY	KEY FINDINGS	FOCUS
PROXIMITY TO FUTURE PURPLE LINE	* Nearly half of renter households are cost-burdened. * Employees typically have higher commute times to work. * Generally, more underutilized parcels are near proposed transit stops.	Successful integration of transit-oriented development without gentrification.
PROXIMITY TO EXISTING METRO LINE	* Neighborhoods have a high percentage of commuters who use public transit. * Variety of rental unit types are located in neighborhoods. * Proximity to a number of community amenities. * Generally, more underutilized parcels are near proposed transit stops.	Continued redevelopment and successful implementation of MPDUs over the next few years.
ESTABLISHED SUBURBS	* Generally, a lower percentage of renters, but higher percentage of cost-burdened households. * More likely to have three-bedroom unit availability. * Generally, fewer underutilized parcels but parcels have larger acreage.	Increase density while maintaining neighborhood and development character.
CONCENTRATIONS OF EXISTING RENTAL UNITS	* Neighborhoods have higher number of public transit commuters, but these individuals constitute a lower percentage of all commuters. * Variety of rental unit types are located in neighborhoods. * Contain highest percentage of single-family rental units. * Proximity to several community amenities.	Create affordability where lack of transportation options and isolation are primary factors.

Based on investment criteria ratings and feedback from M-NCPPC, a model neighborhood was selected that was most representative of each typology.

- Proximity to Future Purple Line – Long Branch
- Proximity to Existing Metro Line - North Bethesda
- Established Suburbs – Kensington
- Concentration of Existing Rental Units – Germantown

Once each model neighborhood was selected, a more detailed examination was completed for each of the model neighborhoods. This analysis was necessary to gain an understanding of the opportunities and challenges that exist around either preserving rental units or developing new rental units in different types of neighborhoods within the county.

D. NEIGHBORHOOD ASSESSMENTS
Typology: Future Purple Line/Neighborhood: Long Branch

1. Background

The Long Branch neighborhood, a first ring suburb with very little redevelopment in recent years, is located near the middle of the Future Purple Line typology area. According to 2014 ACS 5-Year estimates, the Long Branch neighborhood study area has a population of 11,265. It has seen a population increase of 1 percent since 2010. There are 3,780 households, 2,503 (66 percent) of which are renter households. The average household size is 2.8 persons and the average family size is 3.4. Families comprise 59 percent of the households, with an average household size of 3-4 persons. The median age is 33 years old while 7 percent of the neighborhood population is older than 65. The median household income is $56,366 and the per capita income is $27,225. The average age of residential housing in Long Branch is 60 years (1956). Approximately 64 percent of the population identify as black or another race, while 46 percent of the population identifies their ethnicity as Hispanic.

2. Investment Criteria Matrix

Table 6-7
Long Branch: Investment Criteria

TYPOLOGY INVESTMENT CRITERIA	LONG BRANCH	COUNTY
POPULATION GROWTH (2010-2014)	1.01%	3.43%
AVERAGE GROSS RENT	$1,187	$1,611
AVERAGE RENTER INCOME	$53,088	$60,276
PERCENTAGE OF RENTER HOUSEHOLDS	66.22%	33.36%
COST BURDENED HOUSEHOLDS	46.76%	51.54%
PERCENTAGE OF MULTI FAMILY RENTAL UNITS	96.46%	79.53%
PERCENTAGE OF SINGLE FAMILY RENTAL UNITS	3.39%	13.30%
JOBS-HOUSING BALANCE	0.7	1.30
PROXIMITY TO EXISTING METRO RED LINE	No	N/A
PROXIMITY TO FUTURE PURPLE LINE	Yes	N/A
PUBLIC TRANSIT COMMUTERS	25.76%	15.50%
AVERAGE TRAVEL TIME	40.08 min	34.40 min
LACK OF VEHICLE AVAILABILITY	25.17%	17.48%
LIMITED ACCESS TO TRANSIT	Yes	N/A
COUNTY LAND AVAILABILITY	11	N/A
UNDERUTILIZED PARCELS	15 (19.48 acres)	N/A
VACANT PARCELS	32 (5.82 acres)	N/A
PUBLIC AMENITIES	17	1,079

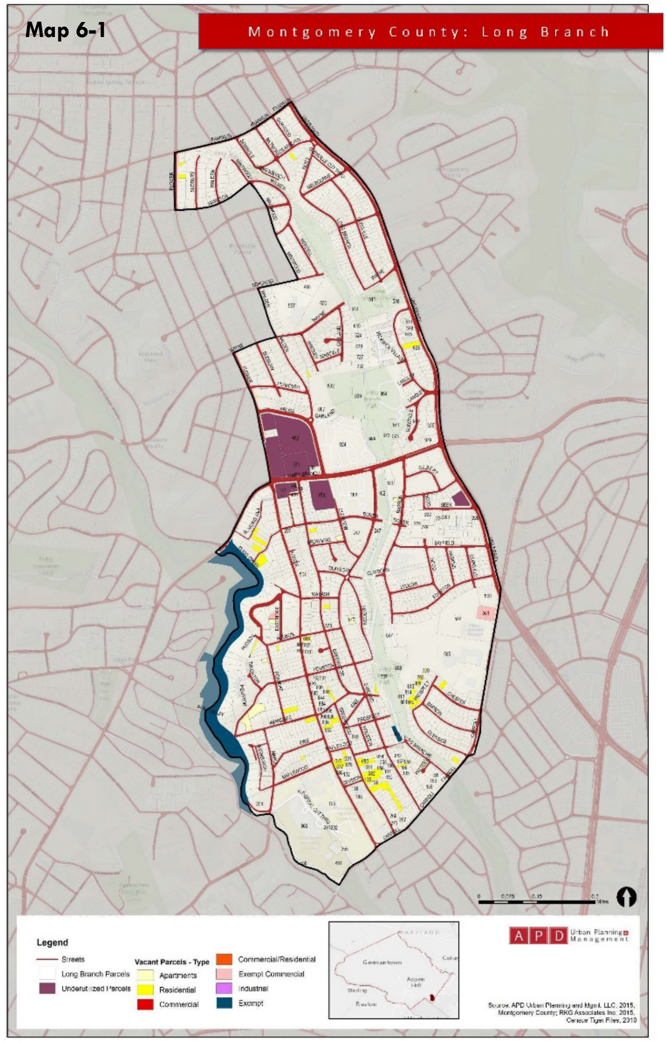
Sources: ESRI 2015; American Community Survey, 2014 5-Year Estimate; APD Urban Planning and Management, LLC; RKG Associates, Inc; The Maryland-National Capital Park and Planning Commission

3. Inventory[1]

There is a little diversity of rental unit types in the Long Branch neighborhood, with the majority of rental units either small multi-family (37 percent) or garden apartments (29 percent) (Figure 6-1). Existing rental units are affordable, as nearly 95 percent are affordable for households with incomes at or below 80 percent AMI ($61,650). However, the percent of cost-burdened residents in Long Branch (47 percent) could increase as the neighborhood's access to public transit improves.

[1] American Community Survey, 2014 5-Year Estimate; APD Urban Planning and Management, LLC; Maryland-National Capital Park and Planning Commission

4. Field Observations[2]



There are at least 15 underutilized parcels (approximately 19.48 acres in total) within walking distance to the neighborhood commercial center (Map 6-1). These parcels include areas near the major corridors/future Purple Line stops of Piney Branch Road/Flower Avenue and Piney Branch Road/University Boulevard. These areas are low income-generating commercial and local retail shops primarily located on Piney Branch Road. There are 32 vacant parcels (approximately 5.82 acres in total) dispersed across the neighborhood study area. Vacant lots are small and are primarily being used as side yards by residents. Several community amenities are currently in place that are and would be attractive to both current and new residents. There is a large cultural supermarket just outside of the neighborhood boundary that would be considered underdeveloped. If any redevelopment were to occur at this major intersection (University Boulevard and Piney Branch), this parcel would need to be included.

5. Analysis of Affordability Supply and Demand[3]

There is a mismatch in the demand and supply of rental units in Long Branch. Households with four (4) or more persons consist of 22 percent of the demand for rental units, while less than 11 percent of rental units have three (3) or more bedrooms. While an overwhelming majority of rental units (88 percent) in the neighborhood are either one (1) or two (2) bedroom units, only 58 percent of all rental demand is derived from one (1) and two (2) person households.

The majority of rental units (66 percent) are priced appropriately for households between 30 percent and 50 percent of area median income, yet the demand for rental units at this same affordability level is approximately 30 percent. Conversely, less than 1 percent of rental units are price appropriate for households at 100 percent of AMI and above, yet nearly 15 percent of Long Branch renter households have incomes greater than 100 percent of area median income.

[2] APD Urban Planning and Management, LLC; Maryland-National Capital Park and Planning Commission
[3] American Community Survey, 2014 5-Year Estimate; APD Urban Planning and Management, LLC; Maryland-National Capital Park and Planning Commission

6. Affordability at Various Income Levels[4]

A shortage of rental units exists at both ends of the affordability spectrum in Long Branch. There is a shortage of rental units which are price appropriate for households at 80 percent or above AMI (787) (Figure 6-2). A shortage of price appropriate rental units for households at or below 30 percent AMI (668) also exists. The Long Branch neighborhood has done a fantastic job at supplying workforce housing (price appropriate rental units for households between 30 percent and 80 percent of AMI).

The supply of rental units in the 30 percent to 80 percent of AMI range demand exceeds (1,522 units); nearly all of these units are market-rate and subject to rate increases. There is a large shortage (668 units) for rentals which are price appropriate for extremely low (30 percent) incomes. A smaller shortage (330) exists for rental units that are price appropriate for average and higher than average incomes (100 percent AMI and more).

7. Identification of Primary Neighborhood Barriers

Significant neighborhood opposition to the rezoning of existing market-rate affordable housing has led county leadership to steer development toward the older commercial establishments that primarily line Piney Branch Road. With 66 percent of rental housing stock in the small multi-family and garden units[4], and the average age of rental housing being 60 years[5], an intentional, strategic rehab program coupled with a code enforcement program will be necessary to preserve the physical rental housing stock in Long Branch.

Only approximately 4 percent of Long Branch rental units are affordable to households at or below 30 percent of AMI, yet there are more than 30 percent of all renter households with incomes at or below 30 percent of AMI.[6] With the mismatch of rental housing supply and demand in both unit size and affordability, preservation of affordability must be addressed as well.

Development of an at-risk properties database that tracks market-rate units and detects potential changes in affordability could trigger actions that would limit the conversion of these affordable, market-rate rental units or create sliding rent scales to promote more units devoted to the 30 percent and below AMI households. Rather than rezone or upzone existing rental units, enacting a floor area ratio (FAR) set aside that ties affordability requirement to percentage of FAR rather than total number of units would increase development flexibility. Connecting affordability to FAR could also provide incentives for transit-oriented developers to include more 3+ bedroom units or units developed for households at or above 100 percent of AMI.

8. Key Factors Leading to Affordability

Currently, Long Branch is accessible by multiple public bus routes which run through the neighborhood. With the introduction of two stops on the Purple Line, access to more affordable workforce housing will increase for households that may be cost-burdened, have long commute times and have limited means of transportation. Average commute time for Long Branch residents is 40 minutes. Approximately one in four (24 percent) of Long Branch households is currently without a car or vehicle, and the neighborhood already has a higher than average percentage of residents using public transit (25 percent).[7] These groups would likely increase with the arrival of new light rail stops.

[4] American Community Survey, 2014 5-Year Estimate; APD Urban Planning and Management, LLC; Maryland-National Capital Park and Planning Commission
[5] ESRI 2015
[6] American Community Survey, 2014 5-Year Estimate; APD Urban Planning and Management, LLC; Maryland-National Capital Park and Planning Commission
[7] American Community Survey, 2014 5-Year Estimate

Many of the underutilized and vacant parcels are located on main thoroughfares (Piney Branch, around Houston Avenue and on or near Flower Avenue and Greenwood Avenue) and are primarily commercial properties. Creation of public/private partnerships for transit-oriented and mixed-use development along these major thoroughfares could boost affordability. Having the ability to convert underutilized parcels in any type of setting or location would allow affordable housing to be made available in the form of single-family rentals or multi-family rentals for households with incomes at or below 30 percent of AMI, depending on the existing zoning of the underutilized land.

9. Primary Threats to Continued Affordability

Field observations indicated older rental housing units were not well maintained, indicating a potential loss of available rental units due to deterioration of the rental structures. Renovation of existing buildings for the use of affordable housing preserves existing housing stock in established neighborhoods like Long Branch and creates new affordable housing in buildings previously used for other uses. To ensure existing affordable housing is kept up to code, renovations and rehabilitation projects must take place periodically. In buildings that are occupied, an effort must be made not to permanently displace families through construction or increase rent prices because of newly renovated features made available.

Most rental units are located on or near main thoroughfares (Piney Branch, around Houston Avenue and on or near Flower Avenue and Greenwood Avenue) have the potential for displacement if preservation of affordability is not addressed. Property tax exemptions and abatements along with demolition fees that limit conversion of affordable rental units to market-rate units are two options.

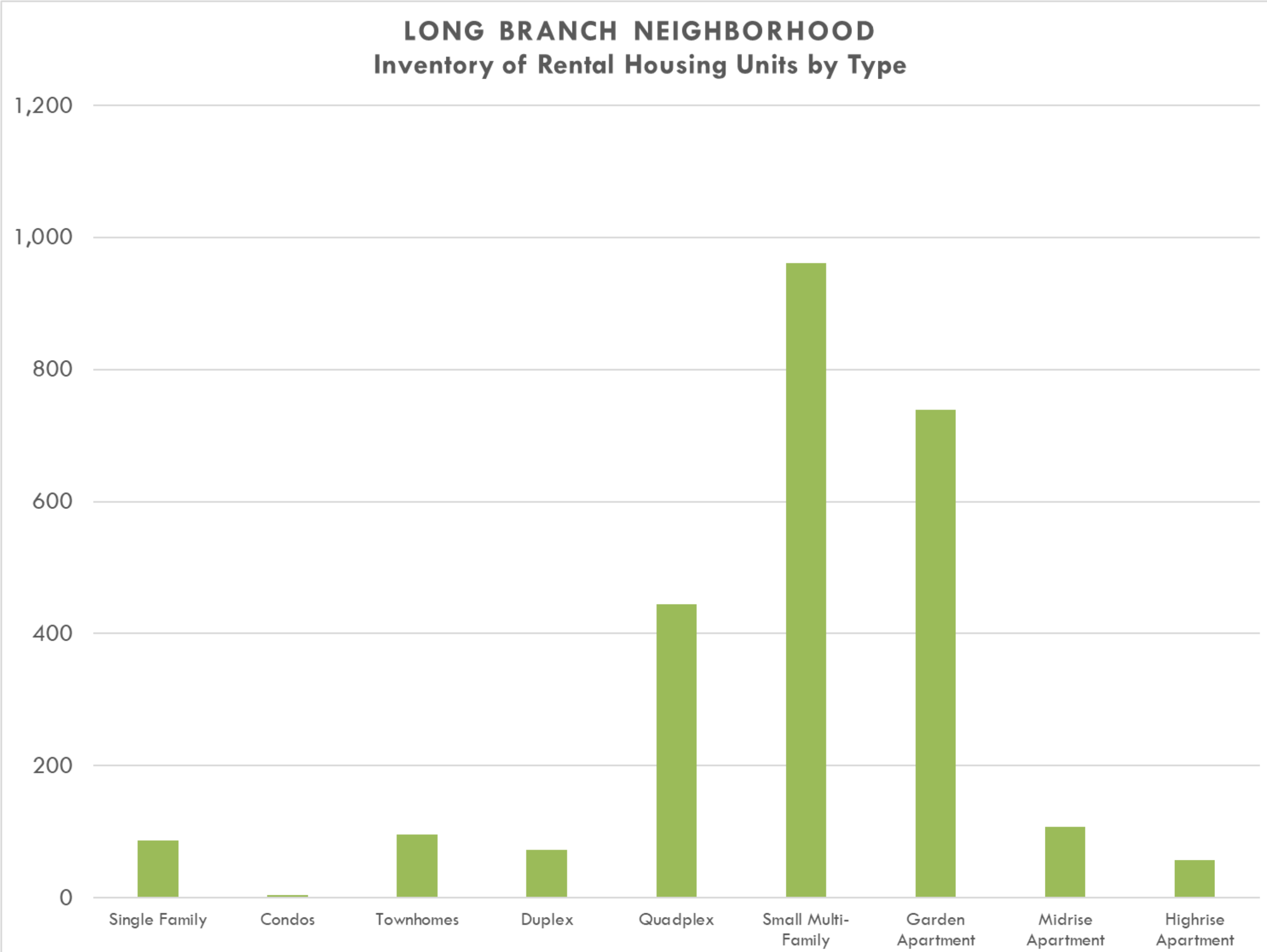
An excess of market rate units (66.1 percent of all Long Branch rental units) that are currently affordable for households in the 30 percent to 50 percent of AMI range (1,173 units) are subject to rent increases if an affordability preservation plan is not enacted.[8] Creation of a database of at-risk properties such as these could track and detect potential changes in affordable housing stock within a particular community. Additionally, this database could be used to determine income targets and assist in creating a sliding rent scale to be able to promote more rental units devoted to the 30 percent of AMI threshold.

10. Implications for Proximity to Future Purple Line Typology Neighborhoods

Long Branch is a largely minority community and in similar communities where a major development is due to come online, the perceived threat of gentrification is always a concern. Successful integration of transit-oriented development without gentrification is fundamental to addressing both preservation of existing rental units and preservation of affordability in neighborhoods that fall under the Proximity to Future Purple Line typology like Long Branch. Significant neighborhood opposition to the rezoning of existing market-rate affordable housing, a large stock of older, poorly maintained small multi-family rental units and an excess of market-rate units for households at 50 percent and below area median income point to the necessity to preserve the existing rental housing in Long Branch and similar neighborhoods that fall under this typology.

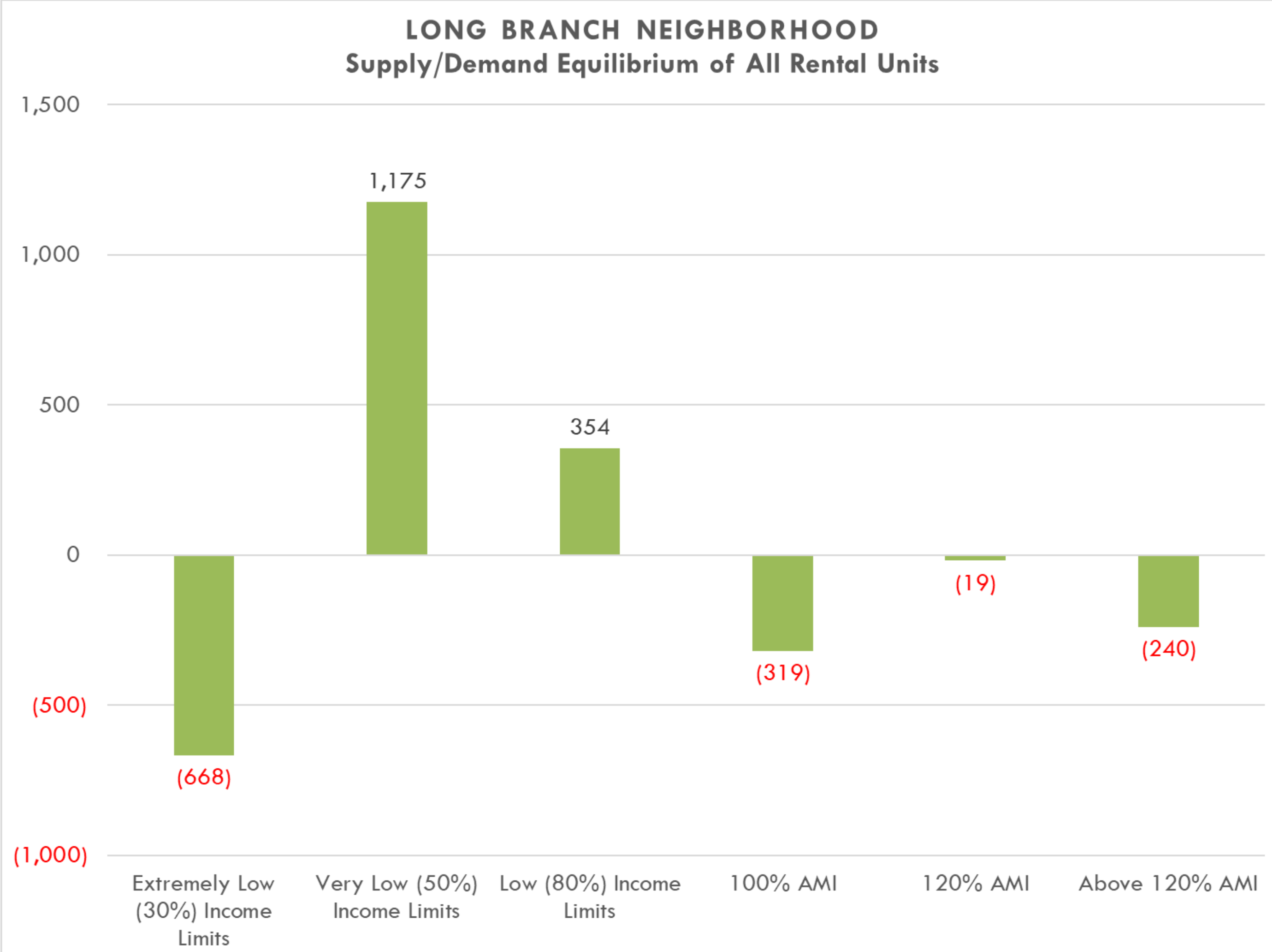
[8] American Community Survey, 2014 5-Year Estimate; APD Urban Planning and Management, LLC; Maryland-National Capital Park and Planning Commission

Figure 6-1



Source: DHCA Rental Facilities Survey, 2012; Rental Single Family Units (DHCA), 2014; Rental Condo Units (DCHA), 2014

Figure 6-2



Source: DHCA Rental Facilities Survey, 2012; Rental Single Family Units (DHCA), 2014; Rental Condo Units (DCHA), 2014, RKG Associates, Inc., 2016

E. NEIGHBORHOOD ASSESSMENTS
Typology: Existing Metro Line/Neighborhood: North Bethesda

1. Background

North Bethesda is located just north of downtown Bethesda, MD, on the western end of the Metro Red Line. It is about four miles northwest of Washington, DC. In contrast to Long Branch, North Bethesda has existing Metrorail service and has seen a 10 percent increase in population since 2010. This growth is likely due to transit-oriented development near its one Metrorail station.

Based on 2014 ACS 5-Year estimates, the North Bethesda neighborhood study area has a population of 9,118. There is a total of 3,780 households[9] in North Bethesda, with 2,503 (66 percent) being renter households. The average household size is 1.71 persons and the average family size is 2.48, with families comprising 39 percent of all North Bethesda households. The median age is 41 years old, while 23 percent of North Bethesda's population is older than age 65. The median household income is $82,317 and the per capita income is $64,071. The average age of residential housing in the North Bethesda neighborhood is 22 years (1995).

2. Investment Criteria Matrix

Table 6-8
North Bethesda: Investment Criteria

TYPOLOGY INVESTMENT CRITERIA	NORTH BETHESDA	COUNTY
POPULATION GROWTH (2010-2014)	10.23%	3.43%
AVERAGE GROSS RENT	$1,792	$1,611
AVERAGE RENTER INCOME	$77,782	$60,276
PERCENTAGE OF RENTER HOUSEHOLDS	61.60%	33.36%
COST BURDENED HOUSEHOLDS	44.12%	51.54%
PERCENTAGE OF MULTI FAMILY RENTAL UNITS	82.98%	79.53%
PERCENTAGE OF SINGLE FAMILY RENTAL UNITS	1.86%	13.30%
JOBS-HOUSING BALANCE	3.47	1.30
PROXIMITY TO EXISTING METRO RED LINE	Yes	N/A
PROXIMITY TO FUTURE PURPLE LINE	No	N/A
PUBLIC TRANSIT COMMUTERS	30.69%	15.50%
AVERAGE TRAVEL TIME	33.90 min	34.40 min
LACK OF VEHICLE AVAILABILITY	18.31%	17.48%
LIMITED ACCESS TO TRANSIT	Yes	N/A
COUNTY LAND AVAILABILITY	31	N/A
UNDERUTILIZED PARCELS	25 (90.08 acres)	N/A
VACANT PARCELS	9 (16.82 acres)	N/A
PUBLIC AMENITIES	1	1,079

Sources: ESRI 2015; American Community Survey, 2014 5-Year Estimate; APD Urban Planning and Management, LLC; RKG Associates, Inc; The Maryland-National Capital Park and Planning Commission

3. Inventory[10]

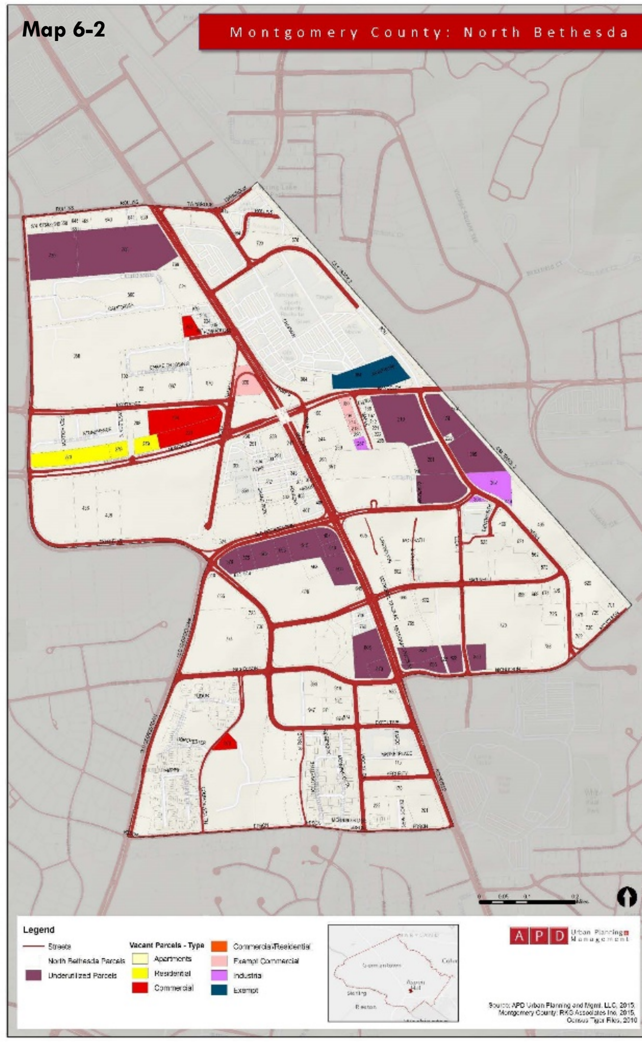
In North Bethesda, high-rise apartments comprise 67 percent of total rental units and contain 50 or more units per building (Figure 6-3). Condominiums are the second most common type of rental units. They comprise 15 percent of all rental units in the neighborhood. Less than 3 percent of rental units are single-family homes. Existing rental units are generally affordable for households at or above 80 percent of area

[9] American Community Survey, 2014 5-Year Estimate
[10] American Community Survey, 2014 5-Year Estimate; APD Urban Planning and Management, LLC; Maryland-National Capital Park and Planning Commission

median income. Fewer than 3 percent of all rental units are affordable for households at or below 30 percent AMI.

4. Field Observations[11]

Field observations revealed some parcels, initially identified as vacant, displayed signs for development applications. These properties included the Marriott Conference Center (across from the White Flint/North Bethesda Metro Station) and an office building located on the corner of Montrose Parkway and Hoya Street (Map 6-2). The remaining vacant parcels identified were located on Marinelli Road (behind the Metro Station) or on Montrose Parkway and Hoya Street. These parcels could be used for new medium/high density rental development.



Also, some of the Pike and Rose development had been completed. Commercial properties in North Bethesda were suburban-style commercial developments (one- to two-story developments with large parking lots) and visibly underutilized. Many of the high-rise apartments were located near the Red Line Metro Station. However, several high-rise apartments were situated toward the western boundary of North Bethesda and were part of the Jewish Community Center of Greater Washington (senior living facilities).

5. Analysis of Affordability Supply and Demand[12]

Approximately 22 percent of rental units in North Bethesda have 3+ bedrooms, and there are approximately 23 percent of North Bethesda households that are compatible in household size (three or more persons) with these units. However, the average household size is 1-2 persons, indicating that larger units are likely being occupied by smaller households. Demand for 43 percent of rental units is derived from households with 100 percent or more of AMI, yet only 29 percent of rental units are priced appropriately for households at 100 percent of AMI or higher, creating an unavailability of units for lower income households.

[11] APD Urban Planning and Management, LLC; Maryland-National Capital Park and Planning Commission
[12] American Community Survey, 2014 5-Year Estimate; APD Urban Planning and Management, LLC; Maryland-National Capital Park and Planning Commission

6. Affordability at Various Income Levels[12]

A large portion (48 percent) of rental units in North Bethesda are price appropriate for households earning between 80 percent and 100 percent of AMI. Compared to other neighborhoods studied, North Bethesda has a large percentage (29 percent) of rental units which are price appropriate for households between 100 percent and above AMI. Less than 3 percent of rental units in the area are price appropriate for households at or below 30 percent of AMI. There is a need for new affordable units for households earning at or higher than 120 percent, but the necessity for units for households earning at or below 50 percent of AMI (497) is even greater (Figure 6-4).

While rental housing in North Bethesda is affordable for households earning 50-120 percent of AMI, the lack of housing available for households at or greater than 120 percent of AMI creates downward pressure on the market, leaving those lower income households with fewer available, affordable rental units.

7. Identification of Primary Neighborhood Barriers

Average rents in North Bethesda are the highest rents of any of the character area typologies. The difference between the average market rate rent ($1,893) and the average below market rate rent ($1,142) is significant, and there is a real risk of this gap widening[13] as the population continues to increase over the next few years. The neighborhood has seen significant growth within the past several years – 10 percent population growth between 2010 and 2014 - and is projected to steadily increase in the coming years.[14] Approximately 44 percent of renters are cost-burdened[14] even though 76.3 percent of renters have household incomes at or above 80 percent of AMI, indicating downward pressure on the rental market.[15]

Recent/pending residential developments will continue to reshape the market. Pike and Rose is currently in Phase II, North Bethesda Gateway's initial project, East Village, has been approved and a Phase II is being proposed, Gables Pike District is scheduled to start construction in 2017 and North Bethesda Center is in various stages of development. However, with the current moderately priced dwelling unit (MPDU) maximum of 15 percent of a residential development's units set aside for moderate incomes, this current structure could be a deterrent to balancing affordability in North Bethesda unless it is modified.

8. Key Factors Leading to Affordability

The White Flint/North Bethesda Metro Station has shown its importance in redevelopment and will continue to be a resource for residents. The further improvement of Rockville Pike into a transit-oriented corridor, with the possible inclusion of the MD 355 bus rapid transit (BRT) route currently being studied, offers to leverage existing transit resources already in the area. White Flint has a special tax district in which an ad valorem tax is added to all non-residential properties in the district. Implementation of a sliding scale rental program could accommodate both lower and higher income households.

Underutilized and vacant parcels, particularly those located adjacent to transportation infrastructure, provide an opportunity for off-site MPDU compliance. North Bethesda has 20 underutilized parcels[15] within walking distance to the neighborhood commercial center (near major corridors and the existing Metro station). These underutilized parcels amount to 90.08 acres.[15]

Several of the identified underutilized parcels are at the maximum FAR of 4.0, but redevelopment of these and other underutilized parcels could be ideal to increase density for lower income households. As noted

[13] 2014 Montgomery County Rent Facilities Annual Survey
[14] American Community Survey, 2014 5-Year Estimate
[15] American Community Survey, 2014 5-Year Estimate; APD Urban Planning and Management, LLC; Maryland-National Capital Park and Planning Commission

above, vacant parcels provide opportunities for new medium or high density rental development (i.e. Citadel Ave and Marinelli Road; near Montrose Parkway and Hoya Street). Inclusionary zoning through increased set asides for MPDUs for high density residential development would be appropriate for the higher income households.

9. Primary Threats to Continued Affordability

Currently, 62.5 percent of existing rental units are affordable to households with incomes between 50-100 percent of AMI[16]; however, these units are generally occupied by households with incomes at or greater than 120 percent of AMI. Unless strategies are created that allow current units to be made available to lower income households, this downward pressure from higher income households will continue, eventually pricing lower income households out of North Bethesda.

Increasing the MPDU requirement to a minimum of 20 percent or requiring off-site MPDU compliance could be one of those strategies. Off-site MPDU compliance could become a more viable alternative with an easier approval process from the county. North Bethesda's high property prices offer a strong incentive for developers to select an alternative off-site location with less expensive land and materials to develop an affordable component with a greater unit total.

Just as available vacant land and underutilized parcels provide an opportunity to create affordable rental units, they can also be viewed as a threat to continued affordability. Current average market-rate rent is significantly higher than the average below market-rate rent, and a significant number of households can afford to pay the market-rate rents. Current demand for rental units for higher household incomes coupled with projected neighborhood population increases place pressure on developers to maximize return on investment.

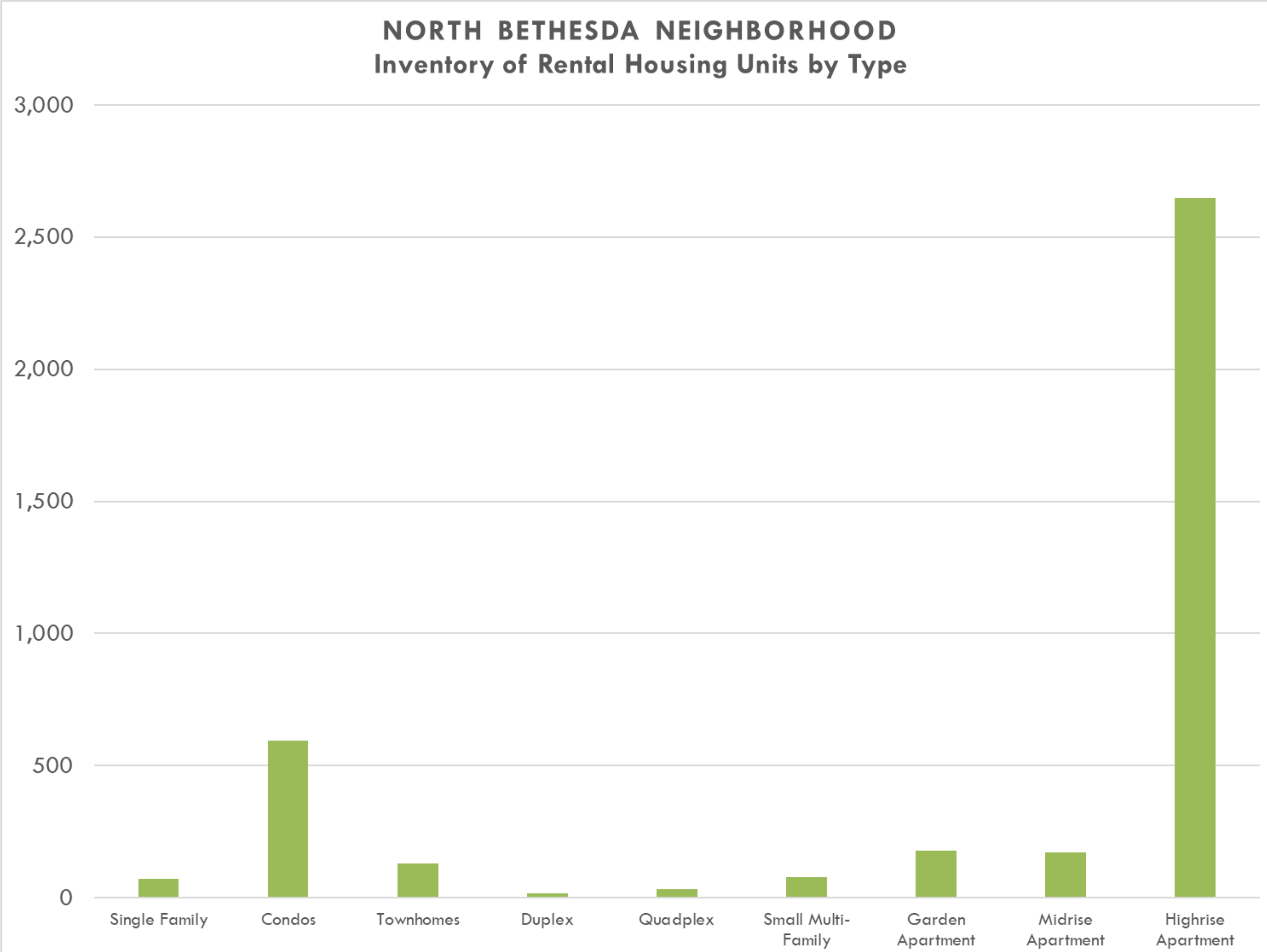
10. Implications for Proximity to Existing Metro Line Typology Neighborhoods

Neighborhoods in close proximity to existing Metro lines such as North Bethesda will need to prepare for successful implementation of the large number of MPDUs slated to come online within the next five (5) years. MPDUs will house an increasing number of residents and their successful implementation will require matching a diverse set of housing needs. It will be important to address affordability for existing renter households, for example, by locating affordable renter housing for lower income households adjacent to transportation infrastructure.

Future rental housing needs can be addressed through modification of current developer incentives that will show up in new mixed-use developments. These needs will require a variety of incentives, such as streamlined in-lieu fee processes, special tax districts, increasing set-asides or tying FAR set-asides to affordability, rather than number of units, and even reduced parking requirements.

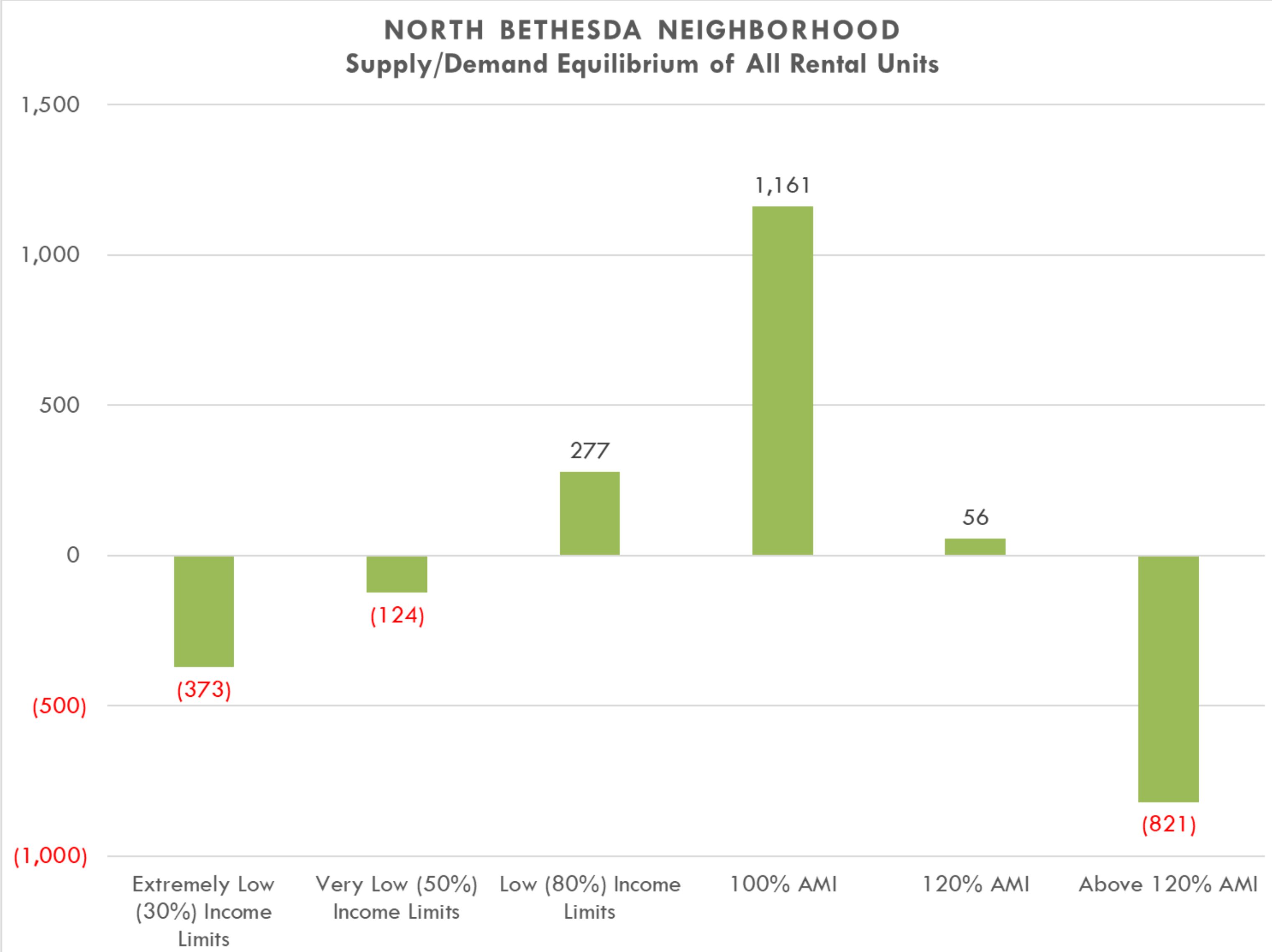
[16] American Community Survey, 2014 5-Year Estimate

Figure 6-3



Source: DHCA Rental Facilities Survey, 2012; Rental Single Family Units (DHCA), 2014; Rental Condo Units (DCHA), 2014, RKG Associates, Inc., 2016

Figure 6-4



Source: DHCA Rental Facilities Survey, 2012; Rental Single Family Units (DHCA), 2014; Rental Condo Units (DCHA), 2014, RKG Associates, Inc., 2016

F. NEIGHBORHOOD ASSESSMENTS
Typology: Established Suburb/Neighborhood: Kensington

1. Background

The Kensington neighborhood is an established suburb buffered by the Rock Creek Trail to the east and surrounded by several small to mid-sized cities. The Kensington neighborhood encompasses all of the City of Kensington, the western sections of South Kensington and portions of the southwestern section of North Kensington. The neighborhood is bisected east-west by the MARC line and has one station on the line.

Kensington has a population of 4,651 based on 2014 ACS 5-year estimates. It has seen a population decrease of 5 percent since 2010. There are 1,917 households[17] in the neighborhood, with 569 (33 percent) being renter households. The average household size is 2.4 persons and the average family size is 3.2, with families comprising 79 percent of all Kensington households. The median age is 44.1 years old, while 19 percent of Kensington's population is older than age 65. The median household income is $84,695 and the per capita income is $48,508. The average age of residential housing in the Kensington neighborhood study area is 61 years (1956).

2. Investment Criteria Matrix

Table 6-9
Kensington: Investment Criteria

TYPOLOGY INVESTMENT CRITERIA	KENSINGTON	COUNTY
POPULATION GROWTH (2010-2014)	-4.68%	3.43%
AVERAGE GROSS RENT	$1,213	$1,611
AVERAGE RENTER INCOME	$47,838	$60,276
PERCENTAGE OF RENTER HOUSEHOLDS	32.59%	33.36%
COST BURDENED HOUSEHOLDS	45.63%	51.54%
PERCENTAGE OF MULTI FAMILY RENTAL UNITS	80.25%	79.53%
PERCENTAGE OF SINGLE FAMILY RENTAL UNITS	19.75%	13.30%
JOBS-HOUSING BALANCE	2.60	1.30
PROXIMITY TO EXISTING METRO RED LINE	No	N/A
PROXIMITY TO FUTURE PURPLE LINE	No	N/A
PUBLIC TRANSIT COMMUTERS	13.15%	15.50%
AVERAGE TRAVEL TIME	34.07 min	34.40 min
LACK OF VEHICLE AVAILABILITY	37.43%	17.48%
LIMITED ACCESS TO TRANSIT	Yes	N/A
COUNTY LAND AVAILABILITY	25	N/A
UNDERUTILIZED PARCELS	7 (16.66 acres)	N/A
VACANT PARCELS	46 (6.75 acres)	N/A
PUBLIC AMENITIES	17	1,079

Sources: ESRI 2015; American Community Survey, 20145-Year Estimate; APD Urban Planning and Management, LLC; RKG Associates, Inc; The Maryland-National Capital Park and Planning Commission

3. Inventory[18]

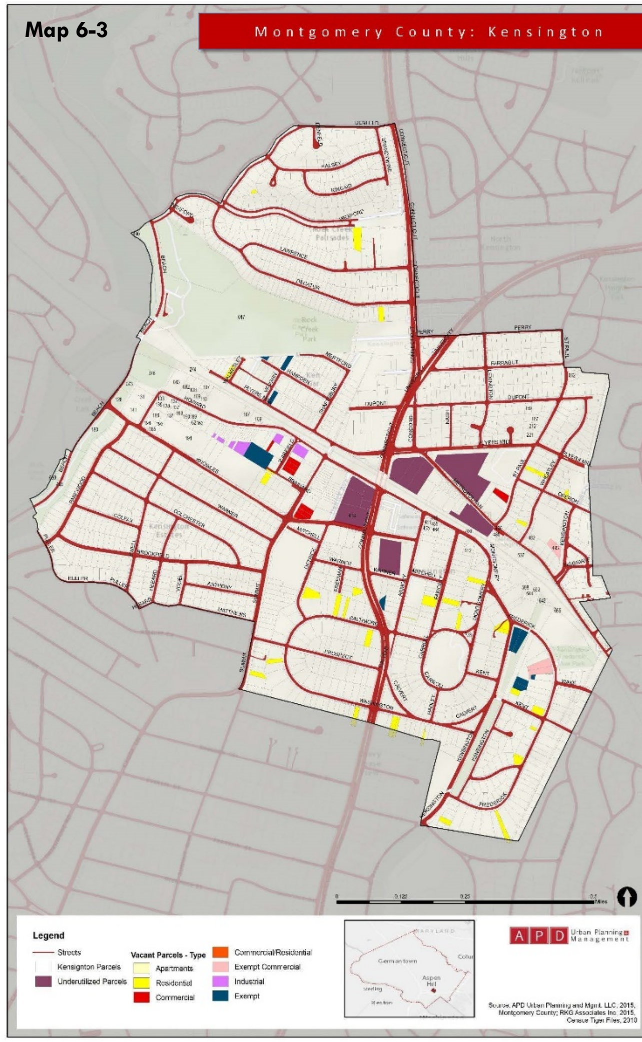
The Kensington neighborhood offers a small diversity of rental unit types. High-rise apartments comprise approximately 42 percent of the total rental units and consist of 50 or more units per building (Figure 6-5). Single-family rental units are the second most common type of rental units (20 percent) in the neighborhood. Garden apartments are the third most common type of rental units (6 percent) and consist of 10 to 19 units per building. More than half of the existing supply of rental units (64 percent) are affordable

[17] American Community Survey, 5-Year Estimate
[18] American Community Survey, 2014 5-Year Estimate; APD Urban Planning and Management, LLC; Maryland-National Capital Park and Planning Commission

for households with incomes at or below 80 percent of AMI. The percent of cost-burdened households is relatively low (44 percent) compared to the county, but could increase due to supply constraints renovation of older rental housing stock.

4. Field Observations[19]

Numerous parcels in the Kensington neighborhood were identified as either underutilized or vacant. Seven (7) parcels were identified as underutilized and approximated to a total of 16.7 acres. All the underutilized parcels were located on or near the vicinity of Connecticut Avenue, the major north-south corridor for the neighborhood. Underutilized parcels located on the intersection of Howard Avenue and Connecticut Avenue comprise a variety of small retail shops with a tremendous amount of parking. Underutilized parcels located to the north of the MARC rail line along Plyers Mill Road and Metropolitan Avenue consist of various small industrial parcels.



The parcel on the corner of Plyers Mill Road and Connecticut Avenue was listed for sale, presenting an opportunity for redevelopment. There were 46 parcels which were identified as vacant lots, totaling 6.75 acres. Most previously identified residential vacant parcels were labeled as occupied due to observed new home construction on these lots. Several vacant industrial and commercial lots were confirmed on Howard Avenue and Detrick Avenue on the western section of the neighborhood study area (Map 6-3).

5. Analysis of Affordability Supply and Demand[20]

A mismatch between supply and demand for rental units in the Kensington neighborhood exists for both bedroom suitability and rental affordability. One person households generate 52 percent of the demand for rental units, while only 43 percent of rental units consists of one bedroom and efficiency units. The mismatch is also present for larger households in the neighborhood. Households with three or more persons generate 18 percent of the total demand for rental units, while 20 percent of the available rental housing are single-family homes (21 percent of rental units consists of three or more bedrooms). Rental affordability is nonexistent for households with 30 percent AMI or below. The demand for price appropriate rental units for households at or below 30 percent AMI is

[19] APD Urban Planning and Management, LLC

[20] American Community Survey, 2014 5-Year Estimate; APD Urban Planning and Management, LLC; Maryland-National Capital Park and Planning Commission

41 percent. The availability of rental units at or below 30 percent AMI is less than 1 percent. The Kensington neighborhood has done an efficient job in providing affordable housing between 30 percent AMI and 80 percent AMI. The supply of rental housing between 30 percent AMI and 80 percent AMI is 64 percent, while the demand for rental units which are price appropriate for households between 30 percent AMI and 80 percent AMI is 26 percent. Households making over the annual median income also experience a mismatch in rental units within the Kensington neighborhood. The demand for rental units at or above 100 percent AMI is 16 percent while the availability for price appropriate rental units for those households is 12 percent.

6. Affordability at Various Income Levels[20]

The shortage of rental units is much greater at the lower spectrum of affordability compared to the high end of the affordability spectrum. The shortage of rental units which are price appropriate for households at or below 30 percent AMI is 231 units (Figure 6-6). The shortage for rental units that are price appropriate for households at or above 100 percent of AMI is 28 units. The Kensington neighborhood has a surplus of workforce housing. The excess of rental units which are price appropriate for households between 30 percent and 80 percent AMI is 240 units. The largest supply of rental units is price appropriate for households between 50 percent and 80 percent of AMI (140).

7. Identification of Primary Neighborhood Barriers

The primary barrier for any type of development to occur in an Established Suburb typology is the preservation of the current character area. The Established Suburb typology can be characterized by low, one-story commercial developments with single-family homes in the vicinity. Any development beyond these established metrics is typically opposed by the community. However, developments beyond the established character area do exist in the neighborhood. The presence of 231 high-rise apartment units, 34 mid-rise apartment units and 87 garden apartment units[21] proves residents have had an appetite for denser developments in Kensington.

The commute in and out of the neighborhood, as well as mobility within the neighborhood, present barriers to development and redevelopment. The limited schedule of the MARC commuter line constrains the advantages provided by transit access. The current number of residents who commute using transit options hovers at 13 percent[21]. An increase in the frequency of the MARC commuter train would enable a potential increase in transit commuters and development opportunities. Mobility within the neighborhood presents a barrier affecting affordable development.

Kensington also has a relatively large number of residents older than age 65 (19 percent).[22] The commute and travel patterns for this specific age cohort may require additional sidewalk features and safety amenities. Compounding the mobility issue, 37 percent of Kensington residents lack access to a vehicle.[22] The creation of a safe pedestrian network, which also connects the neighborhood, could foster a positive climate for development.

8. Key Factors Leading to Affordability

The Kensington neighborhood offers transit access by bus routes and limited access by the MARC commuter line. Multiple bus routes travel along the major corridors in the Kensington neighborhood study area, allowing mobility within the neighborhood and with outside neighborhoods. The bus routes are

[21] American Community Survey, 2014 5-Year Estimate; APD Urban Planning and Management, LLC; Maryland-National Capital Park and Planning Commission
[22] American Community Survey, 2014 5-Year Estimate

located on major corridors, such as Connecticut Avenue for north-south access and Knowles Avenue and Plyers Mill Road for east-west access.

The MARC commuter station is located in an older section of the neighborhood. The station is surrounded by low density commercial and industrial properties, several garden apartments and a high-rise apartment building. The low density commercial and industrial lots in the proximity of the station present perfect redevelopment opportunities to introduce affordable rental units into the neighborhood. A pedestrian connection allowing foot traffic across the rail line could enhance this redevelopment.

9. Primary Threats to Continued Affordability

Redevelopment of older single-family housing in the study area presents a dual threat to both the affordability of rental units and the availability of single-family rental units. The average age of residential housing in the Kensington neighborhood study area is 61 years old. Combined with 109 single family rental units[23] in the neighborhood, this age indicates that a majority of the rental units are older homes.

Any type of single-family redevelopment should target the older housing stock in the neighborhood. Subsequently, the renovation or tear-down of an older home displaces the renter household, increases the rent of nearby single-family rental units due to increased property taxes and either removes the home from the rental market or re-introduces it into the rental market at a higher cost. Elimination of regulations prohibiting accessory dwelling units now allow developers and remodelers of single-family units to include accessory dwelling units on the property to alleviate the shortage of 1-bedroom rental units. These accessory dwelling units provide homeowners with opportunities for additional income and do not alter the physical character of the neighborhood.

The development character for the neighborhood is a crux to the creation of additional affordable housing units. Preservation of the current community character area limits most types of development, which would be either too dense or out of character with the established community character. Limiting the density of affordable housing developments creates a difficult situation for affordable housing developers. These limits impose a strain on the project’s financial feasibility, especially affordable rental housing at the lower spectrum of affordability (under 30 percent of AMI). The usage of transferable development rights may achieve the compromise between protecting the community character and providing affordable housing.

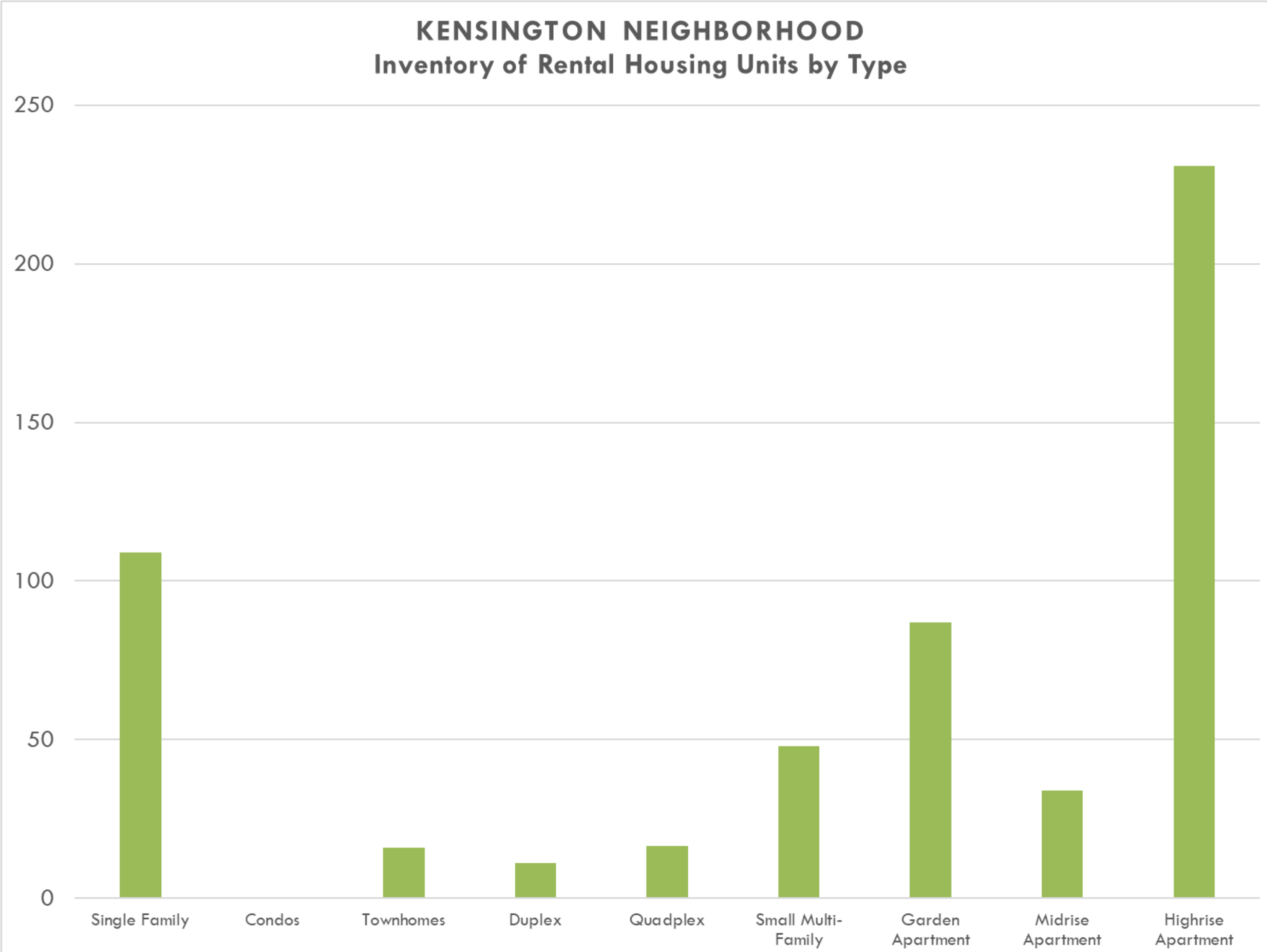
10. Implications for Proximity to Established Neighborhoods Typology Neighborhoods

The preservation of the current community character area poses an enormous hurdle for any type of affordable housing development to occur in the neighborhood. Successful implementation of creative affordable housing solutions, such as accessory dwelling units, transfer of development rights and property tax exemptions and abatements will be needed to introduce the needed affordable housing.

Attention must be paid to pedestrian connectivity and safety, and aging in place due to the large presence of senior residents in the established suburbs. The Kensington neighborhood has a higher percentage of senior adults in comparison with other neighborhoods studied.

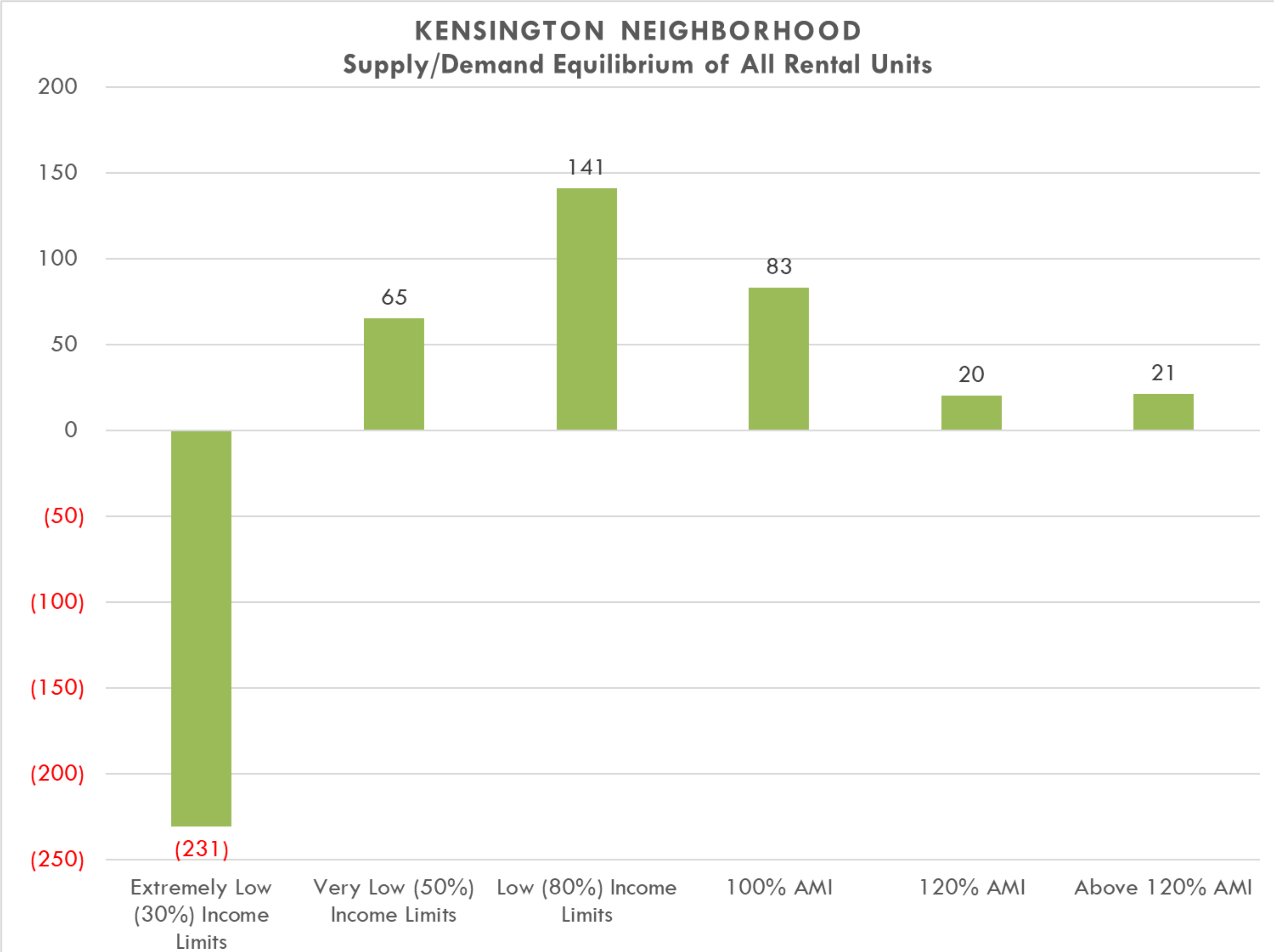
[23] American Community Survey, 2014 5-Year Estimate; APD Urban Planning and Management, LLC; Maryland-National Capital Park and Planning Commission

Figure 6-5



Source: DHCA Rental Facilities Survey, 2012; Rental Single Family Units (DHCA), 2014; Rental Condo Units (DCHA), 2014, RKG Associates, Inc., 2016

Figure 6-6



Source: DHCA Rental Facilities Survey, 2012; Rental Single Family Units (DHCA), 2014; Rental Condo Units (DCHA), 2014, RKG Associates, Inc., 2016

G. NEIGHBORHOOD ASSESSMENTS
Typology: Concentration of Existing Rental Units/Neighborhood: Germantown

1. Background

The Germantown neighborhood was envisioned as a corridor city located along Interstate 270. It is located to the north of Gaithersburg and to the south of Clarksburg. The neighborhood study area is bounded by Little Seneca Creek and Father Hurley Boulevard to the north, North Frederick Road to the East, Middlebrook Road/Waring Station Rd/Wisteria Drive to the south, and the MARC commuter line/Wisteria Drive to the east.

Based on 2014 ACS 5-Year estimates, the Germantown neighborhood study area has a population of 30,682. It has seen a population increase of 3 percent since 2010. There are 13,227 households, with 6,143 (46 percent) renter households. The average household size is 2.5 persons and the average family size is 3.23 persons, with families comprising 64 percent of all Germantown households. The median age is 33.4 years old, while 6 percent of Germantown's population is older than age 65. The median household income is $76,565 and the per capita income is $34,724. The average age of residential housing in the Germantown neighborhood study area is 28 years (1989).

2. Investment Criteria Matrix

Table 6-10
Germantown: Investment Criteria

TYPOLOGY INVESTMENT CRITERIA	GERMANTOWN	COUNTY
POPULATION GROWTH (2010-2014)	3.49%	3.43%
AVERAGE GROSS RENT	$1,553	$1,611
AVERAGE RENTER INCOME	$62,698	$60,276
PERCENTAGE OF RENTER HOUSEHOLDS	46.44%	33.36%
COST BURDENED HOUSEHOLDS	51.40%	51.54%
PERCENTAGE OF MULTI FAMILY RENTAL UNITS	81.29%	79.53%
PERCENTAGE OF SINGLE FAMILY RENTAL UNITS	12.61%	13.30%
JOBS-HOUSING BALANCE	1.39	1.30
PROXIMITY TO EXISTING METRO RED LINE	No	N/A
PROXIMITY TO FUTURE PURPLE LINE	No	N/A
PUBLIC TRANSIT COMMUTERS	10.59%	15.50%
AVERAGE TRAVEL TIME	41.37 min	34.40 min
LACK OF VEHICLE AVAILABILITY	11.15%	17.48%
LIMITED ACCESS TO TRANSIT	Yes	N/A
COUNTY LAND AVAILABILITY	115	N/A
UNDERUTILIZED PARCELS	4 (38.53 acres)	N/A
VACANT PARCELS	60 (232.25 acres)	N/A
PUBLIC AMENITIES	6	1,079

Sources: ESRI 2015; American Community Survey, 20145-Year Estimate; APD Urban Planning and Management, LLC; RKG Associates, Inc; The Maryland-National Capital Park and Planning Commission

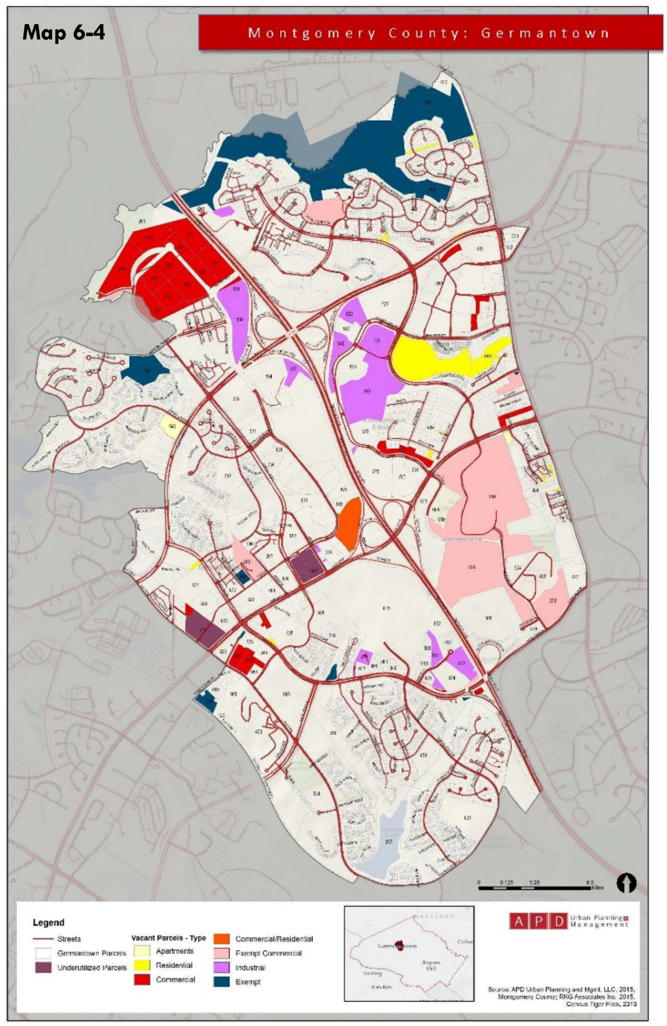
3. Inventory[24]

The Germantown neighborhood has a greater diversity of rental units compared to the other model neighborhoods. The most common types of rental units in the study area are garden apartments. These rental units consist of 39 percent of the total rental units by type and have 10 to 19 units per building (Figure 6-7).

The second most common type of rental unit in the neighborhood are rental townhomes. These rental units consist of 14 percent of the total rental units by type. Single-family rental units follow closely with 13 percent of the total rental units by type. The fourth most common type of rental units in the study area are small multi-family units. These rental units consist of 13 percent of the total rental units by type. More than half of the rental units in the study area are affordable (61 percent) for households with incomes at or below 80 percent of AMI ($61,650).

4. Field Observations[25]

Several parcels in the neighborhood were identified as either vacant or underutilized parcels. Vacant parcels identified in the neighborhood totaled to 60 parcels, or 232.3 acres. A previously identified vacant parcel on Father Hurley Boulevard has been slated for the Phase II expansion of the Churchill Senior Living Facility. Several other previously identified vacant lots near the Little Seneca Creek are part of the Black Hill Development. There are several vacant lots located within the Seneca Meadows Corporate Center and the Century Technology Campus. Vacant lots in the Seneca Meadows Corporate Center will be perfect targets for affordable housing due to their proximity to the Seneca Meadows Shopping Center, Montgomery College at Germantown and Holy Cross Hospital.



Several barriers to development of these vacant lots include rezoning the lots from industrial to medium density residential uses as well as dealing with a stream running through the middle of the property. Vacant lots situated in the Century Technology Campus present opportunities to situate affordable housing due to the surrounding amenities, such as the Germantown Library, the bus transfer station on Germantown Road and the Germantown Town Center Urban

[24] American Community Survey, 2014 5-Year Estimate; APD Urban Planning and Management, LLC; Maryland-National Capital Park and Planning Commission
[25] APD Urban Planning and Management, LLC

Park (Map 6-4). Barriers to development of vacant lots include rezoning to medium density residential or mixed-use zoning.

Underutilized parcels identified in the neighborhood provide additional opportunities for placement of affordable housing. Four (4) underutilized parcels were identified in the neighborhood. These four parcels amount to 38.5 acres. All four underutilized parcels are suburban shopping centers located off major thoroughfares, including Middlebrook Road, Wisteria Drive and Germantown Road. Each underutilized parcel has numerous parking spaces with retailers ranging from local to national chain stores. An opportunity to create density and insert affordable housing in such lots is present.

5. Analysis of Affordability Supply and Demand[26]

A mismatch between supply and demand for rental units in the Germantown neighborhood exists for rental affordability and unit housing size at all levels. There is an enormous mismatch in the supply and demand of affordable rental units at the very low end of the affordability spectrum. Demand for price appropriate rental housing for households at or below 30 percent of AMI is 24 percent. The supply for affordable rental units at 30 percent of AMI (or $723) is 3 percent.

On the opposite spectrum of affordability, the demand for rental units which are price appropriate for households with an AMI of 100 percent or greater is 21 percent. The supply for rental units which are affordable for households at or above 100 percent AMI ($2,889) is 4 percent. There is an oversupply of workforce housing, or rental units price appropriate for households between 30 percent and 80 percent of AMI. The demand for workforce housing is 25 percent while the supply is 57 percent. An oversupply of units at the 80 percent to 100 percent of AMI level also exists. Demand for rental housing which is price appropriate for households between 80 percent and 100 percent of AMI is 29 percent. The supply for such housing is 38 percent.

The mismatch for rental housing unit size exists for all household sizes except one-person households. The demand from one-person households is 26 percent, while approximately 22 percent of Germantown rental units are 1-bedroom units and efficiency units. In addition, the supply of 2-bedroom units in the neighborhood is 51 percent. The demand for rental units from two-person households is 30 percent. The demand for rental units with households of three or more people is 43 percent. The supply of rental units with three or more bedrooms is 27 percent. The mismatch shows that initial rental units built were targeted for single person households. The data suggests that the renter population is now characterized by larger households, rather than the smaller households as originally intended.

6. Affordability at Various Income Levels[27]

The shortage of rental units is greater at the lower spectrum of affordability compared to the higher end of affordability spectrum. The shortage of rental units which are price appropriate for households at or below 30 percent of AMI is 1,230 units (Figure 6-8). The shortage of rental units price appropriate for households at or above 100 percent AMI is 913 units.

There is an enormous surplus of affordable housing between 50 percent and 100 percent of AMI (1,604). Due to the constrained supply of rental housing at the higher echelon of affordability, many renters who can afford rental housing at higher prices (100 percent of AMI or greater) have decided to live in lower

[26] American Community Survey, 2014 5-Year Estimate; APD Urban Planning and Management, LLC; Maryland-National Capital Park and Planning Commission
[27] American Community Survey, 2014 5-Year Estimate; APD Urban Planning and Management, LLC; Maryland-National Capital Park and Planning Commission

priced rental units. A downward pressure is therefore created on the rental unit market due to the spending habits of such renters. These renters choose to spend their incomes on other commodities or amenities, rather than spending them on rental housing.

7. Identification of Primary Neighborhood Barriers

The lack of transit connectivity presents the largest barrier to the development of affordable housing in the neighborhood. The neighborhood has only limited transit access through bus routes on major corridors, a major bus transit station on Germantown Road and via the MARC commuter rail station. The current number of residents who use transit to commute is 11 percent.[28] These travel decisions culminate to an average travel time of 41.4 minutes[28].

In a car-centric neighborhood, development of affordable housing creates a strain on households with limited budgets. The strain is derived from high transportation costs and other associated travel costs due to lack of transit. Another segment of the population that is affected by minimal transit opportunity is the group of residents without access to vehicles. They constitute 11 percent of the neighborhood residents.[28] The absence of proper pedestrian facilities and connectivity culminates in difficulties for residents to reach their destinations. Lack of pedestrian and transit infrastructure deter an affordable housing developer's interest in a community.

Zoning also presents a barrier to supplying larger affordable housing units. The current demand for larger rental housing units is 44 percent,[29] based on the demand for rental housing from households of three or more persons. Zoning restrictions may not allow for the density required or the layout of rental units with 3+ bedrooms. Usage of floor area ratio (FAR) set asides can provide the neighborhood flexibility for the affordable components of new rental residential projects.

8. Key Factors Leading to Affordability

The Germantown neighborhood has a healthy business climate with a variety of jobs located throughout the neighborhood. The Seneca Meadows Corporate Center, Century Technology Campus, Montgomery College at Germantown and Holy Cross Hospital Campus contain various businesses, industries and institutions providing employment. Additional businesses and retail centers along Germantown Road, Shakespeare Boulevard and Middlebrook Road add to the number of jobs in the neighborhood.

Additionally, the Seneca Meadows Corporate Center and the Century Technology Campus have vacant plots ready to accommodate new businesses. Lastly, the Black Hill development is poised to bring additional office jobs to the neighborhood. The new jobs slated to enter the neighborhood will increase the current jobs-housing ratio of 1.39.[30] The job-housing metric is one of a variety of signals to alert developers of a neighborhood's ability to accommodate additional housing.

Many of the underutilized and vacant parcels are located on main thoroughfares (Germantown Road, Crystal Rock Drive, Seneca Meadows Parkway and Observation Drive) and are primarily large commercial or industrial properties. The large lots will be able to accommodate medium to high density affordable housing developments. Larger affordable housing developments become much more financially feasible and allow projects to target very low income affordable housing (below or at 30 percent of AMI).

[28] American Community Survey, 2014 5-Year Estimate
[29] American Community Survey, 2014 5-Year Estimate; APD Urban Planning and Management, LLC; Maryland-National Capital Park and Planning Commission
[30] American Community Survey, 5-Year Estimate

Programs such as commercial linkage fees, which require developers of new commercial buildings to pay a fee to fund new affordable projects in the area, increase the financially feasibility of affordable housing developments. Tax increment financing (TIF) can assist developers in fully or partially funding affordable housing developments. TIFs assist to make financially difficult affordable housing projects feasible, especially for projects targeting affordable rental units at or below 50 percent of AMI.

9. Primary Threats to Continued Affordability

The lack of transit connections to the rest of the region poses the biggest threat to affordability in the neighborhood. The neighborhood has higher than average commute times and they are expected to increase as the population grows. These factors will increase the cost of commuting and impose a strain on all households, especially those with a limited budget. Affordable housing targeted to households with incomes at or below 30 percent of AMI becomes difficult, creating a situation for residents to be stranded in the neighborhood or experience a long commute.

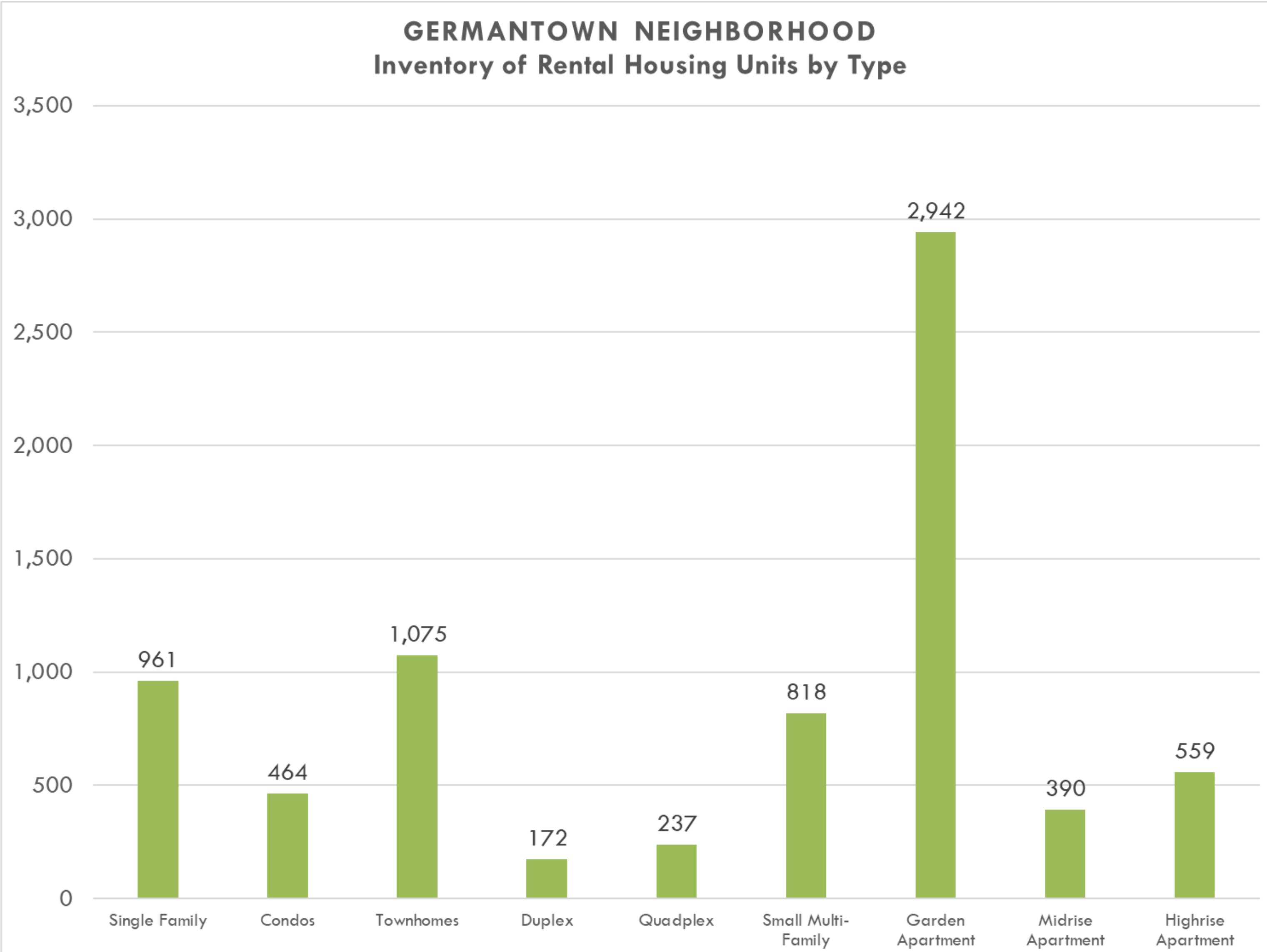
Available vacant land and underutilized parcels provide an opportunity to create affordable rental units, but they can also be viewed as a threat to continued affordability. A shortage of market-rate rental units exists due to the inability of households in Germantown to pay market-rate rents. Developers will maximize their return on investments and create market-rate projects with little to no affordable housing on vacant and underutilized parcels.

Redevelopment of current public land could be another option to secure the addition of affordable housing. Most public land with an existing fire station or police station can be redeveloped to include existing uses along with needed affordable housing options.

10. Implications for Proximity to Established Neighborhoods Typology Neighborhoods

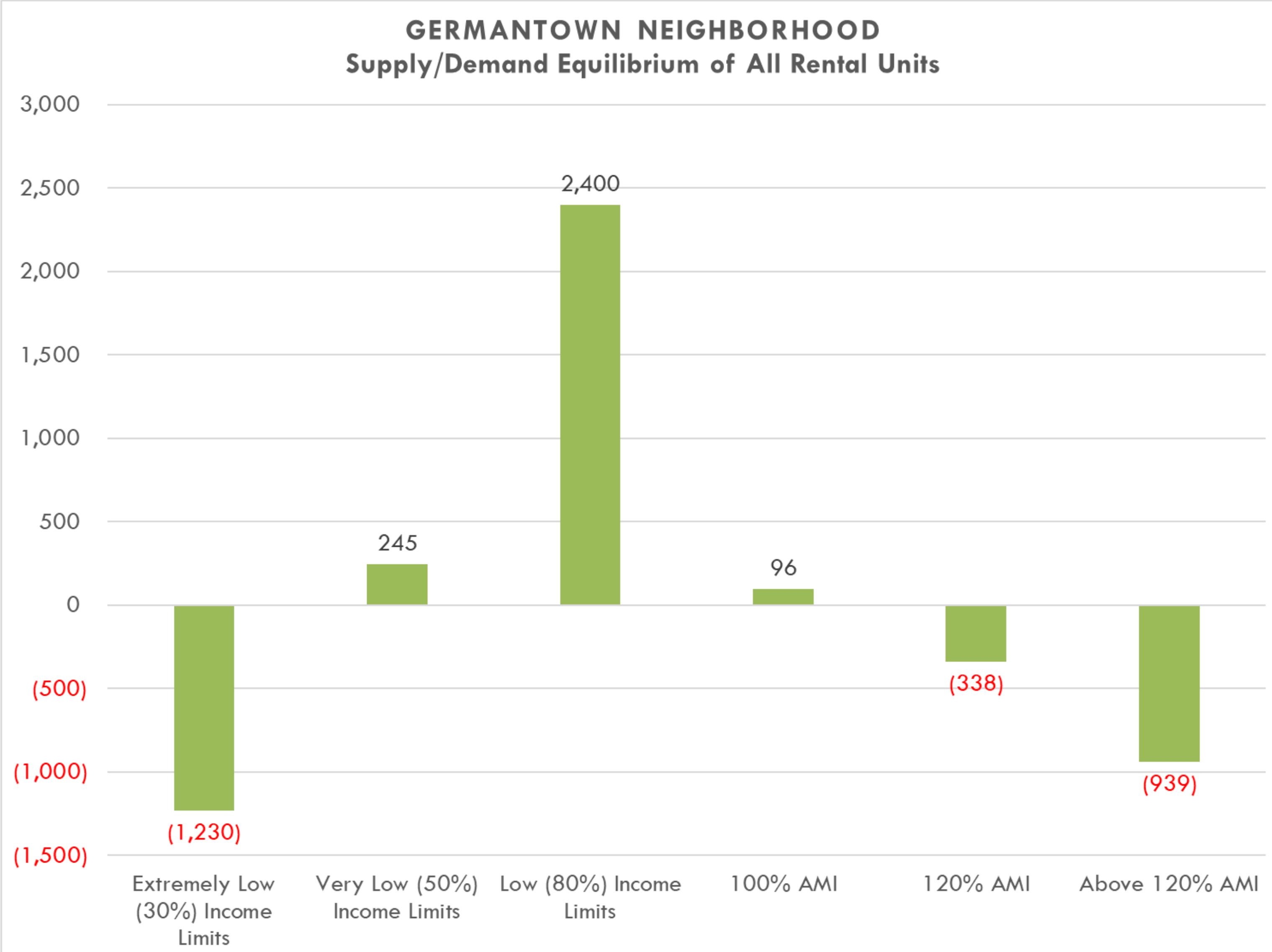
Increased transit investment is fundamental to developing additional affordable housing units. Commute times and cost associated with commutes can present enormous burdens on households with limited budgets. Household spending choices constrain the rental market by consuming the cheaper rental housing and driving renters to pursue cheaper alternatives within and outside the neighborhood. The growing population brings changes in household dynamics, creating a need for affordable housing at the lower end of the affordability spectrum and larger rental housing units.

Figure 6-7



Source: DHCA Rental Facilities Survey, 2012; Rental Single Family Units (DHCA), 2014; Rental Condo Units (DCHA), 2014, RKG Associates, Inc., 2016

Figure 6-8



Source: DHCA Rental Facilities Survey, 2012; Rental Single Family Units (DHCA), 2014; Rental Condo Units (DCHA), 2014, RKG Associates, Inc., 2016

7 STRENGTHS, WEAKNESSES, OPPORTUNITIES AND THREATS ANALYSIS

A. INTRODUCTION

One of the primary goals of the Rental Housing Study is to identify how to better balance the existing supply of rental housing units with the existing and future demand for those units in a manner that is affordable to households at a range of income levels. The product from this study is a financial model to help identify potential opportunities to incentivize the development of housing that is affordable to lower income households with no impact on the cost of development beyond what is already part of the existing inclusionary zoning regulations.

In addition, the consultant team has prepared a strategy document focused on policy, practice and market-based recommendations for providing price appropriate rental housing for Montgomery County residents. A strengths, weaknesses, opportunities and threats (SWOT) analysis is one way to organize existing assets and limitations, and identify specific areas to target within the strategy document. ***Strengths*** can be seen as assets to further promote price-diverse rental housing in the County. ***Weaknesses*** are areas where Montgomery County might be at a disadvantage to meeting this goal. ***Opportunities*** are potential assets/policies that can be pursued within context of market and financial feasibility. ***Threats*** are existing conditions that might hinder future efforts to provide sufficient price appropriate rental housing options to county residents.

B. METHODOLOGY

The SWOT analysis is a compilation of the consultant team's research and observations through its empirical research, interviews with local community leaders and stakeholders, and feedback from the Technical Advisory Committee. SWOT identification and evaluation also included focus groups with a variety of stakeholders, including local rental housing developers, owners and management companies, as well as housing organizations and tenant associations.

Additionally, the consultant team received input from Montgomery County officials and staff to gain a well-rounded and holistic sense of the county's assets in terms of rental housing and what opportunities might assist in meeting the need for affordable rental housing in the county. For this SWOT analysis, each of the four traditional areas of analysis were divided into three primary focus areas: market, policy and implementation capacity when appropriate.

C. STRENGTHS

1. Market

- Local and regional market demand for rental housing is strong at all incomes with the greatest concentration (75 percent) earning less than $100,000 annually. Data indicates that households continue to seek opportunities to live and move into Montgomery County as household formations have increased by approximately 1 percent annually in recent years.

- Right now, households earning between 60 percent to 80 percent of AMI have the greatest housing choice, as there is an overall surplus of units at the maximum affordability for households earning 50 percent to 100 percent of AMI. The majority of these units are either moderately priced dwelling units (MPDUs) or part of older, market-rate affordable complexes.

- Certain areas within the county have broader appeal in general. This appeal is particularly the case for Metrorail corridors, inner subareas, areas with well-regarded elementary schools and locations with readily accessible amenities, and areas where household density is greater and development is more intense.

- Rental housing is most profitable along Metrorail corridors, the future Purple Line and inside the the Intercounty Connector (ICC)/Interstate-495 where concentrations of higher price units are most often located.

- A substantial supply of traditional ownership (single-family) units is augmenting the rental market and increasing the overall diversity of the rental housing stock. For the county as a whole, these conversion units account for approximately 21 percent of the supply of rental units. Many of these units are larger units with 3+ bedrooms, which are less common in typical multi-family apartments.

2. Policy

- The moderately priced dwelling unit (MPDU) program is very effective at delivering units for lower income households. However, the additional units are typically priced affordable for households earning 50 percent to 70 percent of AMI. This range of affordability is due to developers building to the highest allowable income limit – 65 percent of AMI – to reduce the net revenue loss from MPDU units as much as possible.

- That said, the MPDU program has distributed price-controlled housing throughout the county. This distribution reduces the clustering of these units and has led to a substantial supply of units that meet the affordability criterion.

- A number of policies are in place to incentivize beneficial rental development and maintenance:
  - Commercial/Residential zoning has a reward system for additional MPDU production through density bonuses that increase total number of market-rate units.
  - Right of first refusal program exists for the sale of multifamily developments in the county.
  - Code enforcement is responsive in addressing resident concerns with housing conditions.
  - A housing trust fund (Housing Initiative Fund) is in place to incentivize price appropriate housing by providing funding to renovate distressed properties and preserve affordable units throughout the county.

- Certain county-owned land is used to develop income-controlled housing. This practice has the benefit of co-location and allows the county to control these properties to meet existing housing goals and objectives.

3. Capacity

- County leadership is proactively seeking to enhance price appropriate rental housing. This large effort involves a range of stakeholders, from elected officials to the Planning Board and housing advocates.

- The Housing Opportunities Commission (HOC) is stable and a well-positioned implementation partner with the capability to implement many policy opportunities.

- The Department of Housing and Community Affairs (DHCA) provides support for the MPDU process and is proactive in working with developers. This collaboration helps facilitate the process, even though there are a larger number of requirements to be met.

- Committed and experienced non-profit affordable housing development partners exist throughout the region. These partners, including HOC and other non-profit developers and advocates, are active within Montgomery County and engaged with M-NCPPC and DHCA.

D. WEAKNESSES

1. Market

- An imbalance of supply and demand is pushing rents higher. This imbalance is due in part to a shortage of luxury apartments, which leads to higher income households expanding the demand pool for more moderately priced units. Thus, rents have continued to increase due—in part—to these households' ability to pay, further reducing the supply of units for households earning less than $50,000 annually.

- Many of the more cost-effective areas in the county, such as Germantown & Vicinity, do not have the retail proximity, social service amenities or transportation support demanded by renter households.

- Land available for development of new rental housing is limited and redevelopment of developed properties is costly and complex. Placing developable parcels into the Agricultural Reserve designation reduces the supply of available land even further.

- More than 55 percent of rental units in Montgomery County were built prior to 1980. Several property owners have noted that renovation costs start to be comparable to redevelopment costs as the buildings continue to age. These potential costs reduce the incentive to renovate and increase the efficiency and competitiveness of existing buildings, and make redevelopment more attractive.

- The total rental inventory has a notable concentration of 3+ bedroom units (39 percent of the supply), a substantial portion of which are converted traditional ownership units (i.e. single-family houses, townhomes, etc.). The current supply is still insufficient to accommodate families, which is particularly true for more modest income, larger households.

- It was reported by several implementation partners (e.g. Montgomery County Health and Human Services) that there is not enough housing built to accommodate special needs persons, including those with physical/mental disabilities and homeless/transitioning households.

2. Policy

- Commercial-Residential zoning includes affordable housing as one of the options in its menu of benefits to maximize the development capacity. However, developers are not required to choose that benefit. It was reported to the consultant team that it is not always cost-effective to use the density bonus for more providing MPDU housing units.

- The existing MPDU program policy language is very limiting in the delivery of price-controlled units. Most notably, the MPDU policy restricts income thresholds to 65 percent or 70 percent of AMI (depending on zoning). Furthermore, the MPDU policy requires that unit distribution for income-controlled units needs to mirror the market-rate distribution. Other tools that are not currently offered could work with the MPDU policy to expand developers' options.

- Montgomery County uses the entitlement process to require developers to provide assistance in a number of priority areas (i.e. transportation improvements, open space improvements, community amenities, to name a few examples). Housing is only one of these several priorities, limiting the potential delivery of units as resources are spread over a number of policy areas.

- County policies around real estate development often focus on stopping unwanted actions/outcomes instead of encouraging the desired actions/outcomes. This approach is particularly relevant for multifamily rental development. Overly restrictive policies can adversely impact the overall delivery of rental housing as well as increase costs, making the provision of additional, income-controlled housing more challenging.

- Some county spending priorities, such as the Housing Initiative Fund, are determined in an ad hoc manner. Regularly changing priorities for policy implementation reduces certainty for the development community and increases the challenge for staff to implement spending in a consistent manner.

- The length of the development process in the county has been substantial in some instances. Drawn out entitlement processes increase the risk for the development community, including entitlement risk, construction risk and market risk. This risk can translate into increased expenditures, adversely impacting the ability for new projects to increase the delivery of cost-controlled units.

- County impact fees and taxes on new development are substantial and can be onerous to providing affordable housing.

- There is a perception that the approval process and requirements are inconsistent and inconsistently applied. Ultimately, this unpredictability results in cost to the developer. The process needs to be constantly improved to be as consistent and predictable as possible.

- Montgomery County is non-competitive with other regions in Maryland for Low Income Housing Tax Credit (LIHTC) funds, due to substantially higher incomes within the county. These economics limit the county's ability to access this affordable housing tool.

- Montgomery County is a national leader in inclusionary zoning. More specifically, the MPDU program has been emulated in communities throughout the nation since its inception in the 1970s. While community pride in this success is well warranted, there are some in the county who believe that the original approach remains the best approach so they are resistant to potential changes in policy.

Capacity

- Montgomery County invests less than $50 million annually in affordable rental housing efforts. Simply put, this amount is insufficient to meet the community's existing needs. The challenge is exacerbated when projected need is considered.

- The cost of development, particularly land acquisition costs, is a barrier to entry for many small, private and non-profit developers. Access to the market is the initial challenge to increasing price diversity.

- While resources are a challenge for non-profit affordable housing developers, there also are only a limited number of affordable housing developers with whom to partner.

E. OPPORTUNITIES

1. Market

- The potential exists to tap into the value of excess public land. Examples include right-of-way land not needed for transportation projects and co-locating public services with rental housing development to use existing land most effectively.

- In certain markets, such as Friendship Heights/Bethesda/White Flint, preservation of existing units is more cost-effective than building new units. Preservation can mean both rehabilitating existing units as well as redeveloping the site with the same number of units or total bedroom count.

- Older commercial corridors are an opportunity for mixed-use development retrofits. Seizing this opportunity would both maintain the existing commercial space and add residential units.

- Particularly in Metrorail areas, the opportunity exists to recapture development potential in the form of parking fields. Existing spots could be integrated into a structured lot or consolidated/shared parking plan with the new development.

- Micro units, or units under 400 square feet, are gaining popularity in transit-oriented, urban environments and can be used to increase the number of units available near Metrorail stations. This popularity is boosted by growth in the population of Millennials (25 years to 34 years of age) in the county.

2. Policy

- Using flexibility in meeting county MPDU requirements increases opportunities for rental housing and can be done in a number of ways. The county could require a lower MDPU percentage of units meeting lower income targets. In addition, the MPDU requirements could be met on a square footage basis rather than on unit counts. Allowances could be made for off-site unit delivery with a distance requirement for proximity and a payment in lieu of units at a market-rate value.

- An increase in density and height allowances in certain areas, such as near transit stations, would enable additional units to be developed. Effectively, this would be extending the reach and the scale of the county's Commercial-Residential zoning.

- Current resources are insufficient to preserve all of the county's naturally occurring affordable housing. The county can create a tiered system to prioritize preservation based on a set of criteria to target units that meet the greatest needs in the marketplace. Considerations might include the vulnerability of the existing rental population and projects already receiving federal funding.

- Using public land for price appropriate housing development is an option. Using publicly-owned land to encourage housing development can provide more influence over development and reduce the cost of developing a wider range of price- appropriate units to developers. Additionally, it could present opportunities for creative ways to add rental supply while maintaining the overall amount of preserved land. For example, publicly-owned land that is best suited for preservation could be swapped for Agricultural Reserve property that is better suited to accommodate development where market and financially feasible.

- Work needs to continue on creating a more predictable and efficient development approval process.The existing process could benefit from metric-based and streamlined requirements so only administrative approval is needed for smaller projects.

- Another immediate policy option is to modify the waiver of impact fees to encourage a greater number of MPDU units. This approach might be realized through adjusting the impact fee calculations in exchange for a higher percentage of MPDU units and/or targeting a lower income threshold.

- A county voucher program could be created to augment the federal housing choice voucher program to reduce the number of cost-burdened renter households from the current level of 47 percent.

- Given the competitive disadvantages Montgomery and Prince George's County have in securing low income housing tax credit (LIHTC) allocations, the two counties should jointly lobby the state legislature to allocate a percentage of the state's LIHTC funds for projects only in Montgomery and Prince George's County. This proposed action is similar to an effort already in place for northern Virginia.

- Tie access to certain county funds for development/rehabilitation to projects that incorporate accessible units to increase the supply of units for special needs populations. These projects should incorporate universal design.

3. Capacity

- Montgomery County not only has the has the opportunity to increase investment in the Housing Initiative Fund (HIF), but also to shape the distribution requirements for these funds. HIF funds (or a prescribed percentage of these funds) can be mandated to be distributed only for construction and preservation projects. Additionally, an HIF contribution could be required for commercial/residential projects.

- Each jurisdiction in the Metro area allocates some level of funding for price-appropriate housing development and preservation. As a result, there is the opportunity to create a regional housing program that includes a bank account for each jurisdiction funded by that locality. The benefit of this virtual pooling of resources is that it has the potential to attract federal/foundation financial support for programs that overlap boundaries. The structure would need to be set up so that each jurisdiction continues to control its own money.

F. THREATS

1. Market

- A portion of Montgomery County residents opposes multifamily and/or increased development density. This opposition may create political challenges when implementing recommendations that increase rental housing development and/or development densities. Education and outreach efforts will be necessary to allay public concerns and fears.

- New rental unit development located away from services and transportation may reduce unit prices, but decreases the economic value of these units to lower income households that need non-automobile access to employment, retail and support services.

- The future development of the Purple Line has already created substantial real estate activity in areas near proposed stations. Making these areas more transit-accessible can lead to the displacement of rental households as redevelopment occurs and rent levels increase faster than incomes.

- Almost all of the county's larger multifamily units (3+ bedrooms) exist in older housing developments. Very few new construction projects have any 3+ bedroom units at all. As redevelopment of older rental properties continues, the 3+ bedroom supply will decline disproportionately. Adjustments to the regulations for the delivery of MPDU units are essential to slow the reduction of these larger units.

- The imbalance between rental housing pricing and incomes of county renters is most evident for households earning below $50,000 per year (50 percent of area median income). There are more than 20,000 households in this earning cohort that are paying more than 30 percent of their gross income to rent within Montgomery County—a level defined by the US Department of Housing and Urban Development (HUD) as being cost-burdened.

- Currently, traditional ownership units that have been converted to rental provide nearly half of the total 3+ bedroom unit inventory. The reversion of rented ownership units back to ownership will impact the supply-demand balance throughout the county, particularly for larger households.

- As the demand for rental housing continues to increase and the price of new units continues to escalate, there is the potential for the displacement of existing rental communities (particularly ethnic communities) that will disrupt existing social networks.

- There is notable disparity in the needs of the county's different market segments. For example, empty nesters and retirees are looking for amenity-rich and maintenance-free rental housing in a more suburban environment while Millennials are more public transportation-oriented and are looking for closer proximity to employment centers. Immigrant populations tend to have larger households, oftentimes multigenerational. There is no single unit type that can meet the vast need.

- The ability to pay based on HUD's cost-burdening thresholds is only one of a number of financial challenges for households seeking suitable housing. It was reported that creditworthiness also is a barrier to entry, particularly for more modest income households.

- Some participants in the rental market analysis noted there is a small, at-risk segment of the market that requires more than just suitable housing. Senior households with disabled adult children are at risk. The entire family needs access to caretakers and supportive housing, as adult parents become more limited in their caretaking abilities.

- Transportation accessibility for extremely low income and disabled persons is essential, but as the value of units around Metrorail stations increases, these households are often priced out.

2. Policy

- While research shows there are potential benefits to adopting an off-site or payment in lieu of development policy for new rental housing projects, pursuing these options is counter to the county's history of prioritizing mixed-income developments.

- Increasing inclusionary zoning requirements without offsetting benefits could chill the housing market by creating an environment that discourages development because anticipated revenues will not offset development costs necessary to meet expected market rates of return.

- Montgomery County's housing market varies greatly by housing type and location. Implementing a one-size-fits-all approach is not the most effective way to develop or preserve housing. Given the variation in rental supply and demand across the subareas, a case-by-case approach would be more effective.

- The property ownership community is concerned that placing redevelopment restrictions on existing market-rate affordable properties disproportionately impacts owners. Furthermore, forcing older, obsolete assets to be maintained could cause a financial burden for the owner and force residents to live in substandard housing.

- Any policies or recommendations implemented to increase and improve rental housing affordability need to balance the tax burden on residents with investments in programs, such as the Housing Initiative Fund.

3. Capacity

- A lack of increase in financial funding will limit implementation potential and effectiveness.

- Equity investors are only interested in class "A" rental developments in prime locations for high prices. It is more difficult to get funding for secondary and tertiary locations. This situation is challenging, since those non-prime locations often have greater potential for lower cost housing.

8 FINANCIAL FEASIBILITY ANALYSIS

A. INTRODUCTION

At the baseline of any effective real estate policy is the market and financial feasibility assessment. The previous analyses in this study defined the market potential/needs for existing and future rental households in Montgomery County. This chapter focuses on understanding the financial realities of developing and rehabilitating rental housing in the county.

Most real estate investment is a business decision. Private and non-profit development entities will only undertake a new rehabilitation/construction project if it meets that entity's expectations for financial returns. While those expectations vary greatly between the non-profit and private sectors, they are all dependent on the project creating the financial return necessary to sustain the individual investment and organization overall.

This chapter assesses the market influences that development type (i.e. high-rise, mid-rise, senior, etc.) and location (i.e. study area) have on the financial performance of an investment and evaluates the impact that policy changes have on real estate based on these two factors. To this point, there are some policy changes that are best made on a subarea level, rather than countywide. This financial feasibility analysis focuses on identifying those idiosyncrasies so that recommendations regarding the best tools to use can be balanced across the entire county as to not adversely impact certain areas more so than others.

B. MAJOR FINDINGS

- ***Market performance for rental housing development varies within Montgomery County.*** The financial analysis revealed that the cost of land and the potential revenue thresholds differ by location within the county. Not surprisingly, areas closest to Metro, employment centers and community services have the highest land costs as well as the highest rental housing price points. However, the variations in cost/revenues are not proportional. To this point, the financial impact of delivering income-controlled rental units varies.

- ***Changing the target income threshold from the moderately priced dwelling unit income threshold of 65 percent of AMI has substantial effects on the profitability of development***. The moderately priced dwelling unit (MPDU) program's requirement to deliver 12.5 percent of units at 65 percent of AMI has reshaped the real estate market within Montgomery County. Today, land values for new construction are determined, in part, by that MPDU requirement. Shifting the income threshold from 65 percent of AMI to a lower percentage can change a developer's financial proforma by millions of dollars. For example, the value difference between a current MPDU unit and one priced to 30 percent of AMI has a negative financial impact, ranging from $150,000 for an efficiency to $230,000 for a 3-bedroom unit.

- ***While the value differential between MPDU rents and rents affordable to other income levels is fixed, the value differential between income-controlled and market-rate housing rent varies***

throughout the county. The market analysis revealed that rent levels vary throughout the county based on location. New construction rental housing is priced between $2.00 and $5.00 per square foot, depending on where the project is built. To this end, the financial impact of increasing the percentage requirement of income-controlled units will impact the financials of a project differently, depending on where the project is located. In certain study areas (i.e. Route 29 East), the MPDU rent threshold is much closer to market-rate rents than others (i.e. Friendship Heights/Bethesda/White Flint).

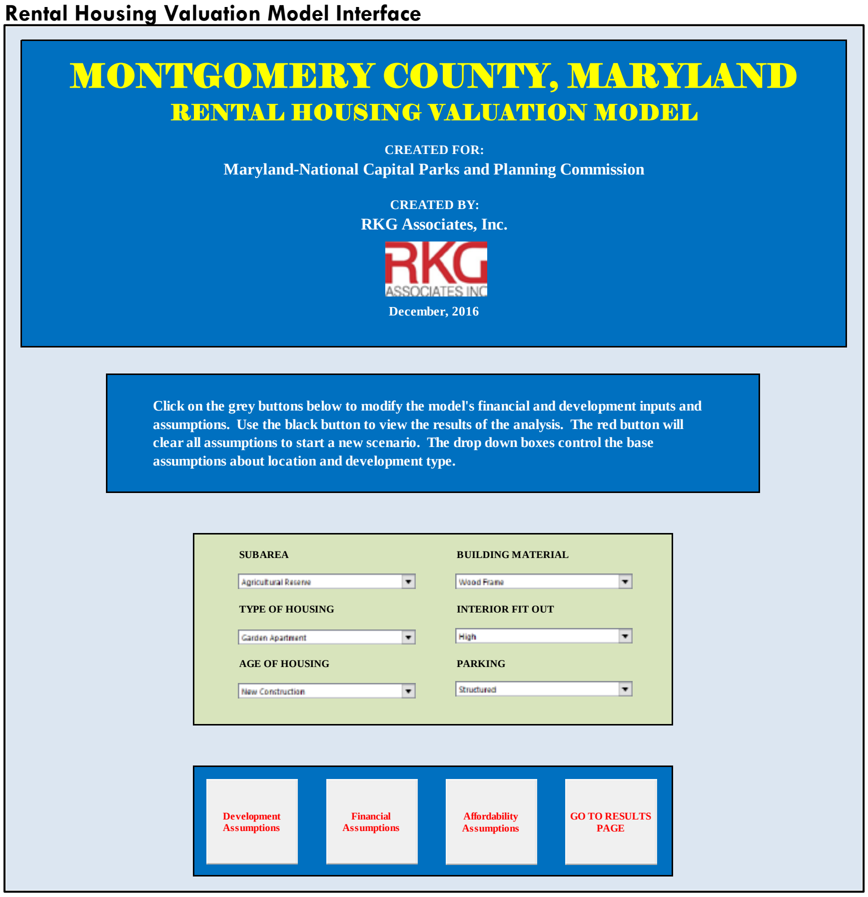
- ***The type of development also influences the financial impacts of changing affordability requirements.*** High-rise development is almost exclusively used within transit-accessible areas. While current zoning regulations limit higher density development to these areas, the financial reality of construction costs/potential revenues would preclude high-rise development in most other areas of the county. That said, there are high-rise, age-restricted rental property developments in non-transit-accessible areas of Montgomery County, primarily because much of this development is subsidized housing. However, the market analysis data indicate that older market-rate renters pay similar monthly rents to the entire market, making age-restriction less influential on financial feasibility than construction type.

- ***Increasing the requirement for the percentage of units to be income-controlled and/or lowering the target income threshold requirement could damper rental housing development.*** Rental housing development costs and revenues generally are fixed based on construction type, location, amenities, etc. For example, the cost of materials and labor to construct a building does not change based on location or affordability requirements. The primary variables that can change are profitability (rate of return) or land costs. Since real estate developments require a level of financial sustainability, the variable most often negotiated is land. Making new construction less profitable by increasing affordability requirements will most likely be manifested in lower land purchase prices. Historic trends in other communities that have implemented similar changes without implementing corresponding cost offsets has resulted in short-term development "freezes" until the marketplace reaches equilibrium.

- ***Rehabilitation of income controlled units typically has a lower per unit cost than new construction.*** While rehabilitation costs will vary based on property condition, the data indicates per unit costs typically are much lower than the net cost of providing a new income-controlled unit. While this lower cost finding indicates preservation is a more efficient expenditure of public dollars to ensure affordability, it has two primary challenges. First, preserving an already affordable unit does not increase supply, it maintains it. Second, the cost for new construction of income-controlled units (through the MDPU program) is borne by the developer and not by the community. Preservation of affordable units will require capital outlay by the county. To this point, preservation is most effective if the county proactively increases its spending on affordable housing.

- ***Finding a balance for financial impacts due to policy changes should be sought.*** The financial feasibility analysis details the potential impacts to the financial performance of a rental housing development based on a series of policy changes. Ultimately, there are potential changes that can adversely impact private sector development and there are other changes that can enhance the financial performance of a proposed development. Enacting new (or changes to existing) policies that balance community vision with financial reality will minimize disruption to product delivery and, therefore, create more effective and efficient policies.

Figure 8-1
Rental Housing Valuation Model Interface



C. METHODOLOGY

The financial feasibility analysis was completed using an Excel-based financial pro forma model. The model was built to accomplish two primary tasks. First, the model tests the relative financial performance of a rental housing development built using current MPDU policies (percentage affordability thresholds and target income thresholds) against proposed changes to those policies. Second, the model provides a capitalized value of units based on the development assumptions for the project (i.e. the value of a high-rise unit in Bethesda compared to a garden-style unit in Aspen Hill). The model is a dynamic, interactive financial tool (Figure 8-1) that relies upon the market assessment work completed by the consultant team. This section provides insight into the methodology used for each component of the model.

1. Data Sources

Because the model measures the financial performance for rental real estate investments, the consultant used several primary and secondary data sources to ensure the model reflects actual conditions in Montgomery County. These sources were consulted in December 2016 and are particularly important for revenue and performance measures, as different areas of the county were assumed to command different rent levels. Specific areas of note include:

- **Rent Assumptions** – The rent analysis combined data provided to the Montgomery County Department of Housing and Community Affairs (DHCA) through its bi-annual rent survey with the consultant's assessment of current advertised rents. The DHCA survey data was inflated to 2016 dollars to ensure the revenue and cost formulas were consistent. The consultant compiled rent thresholds by housing type, subarea and age of unit thusly: [1] subarea – each of the 12 subareas were assessed independently (detailed in previous chapters of this analysis); [2] housing type –the consultant measured rent thresholds for garden-style, high-rise and senior housing developments separately; and [3] age –the consultant separated new construction projects (less than 10-years old) from established communities. Where no data was available, the model defaults to a county average.

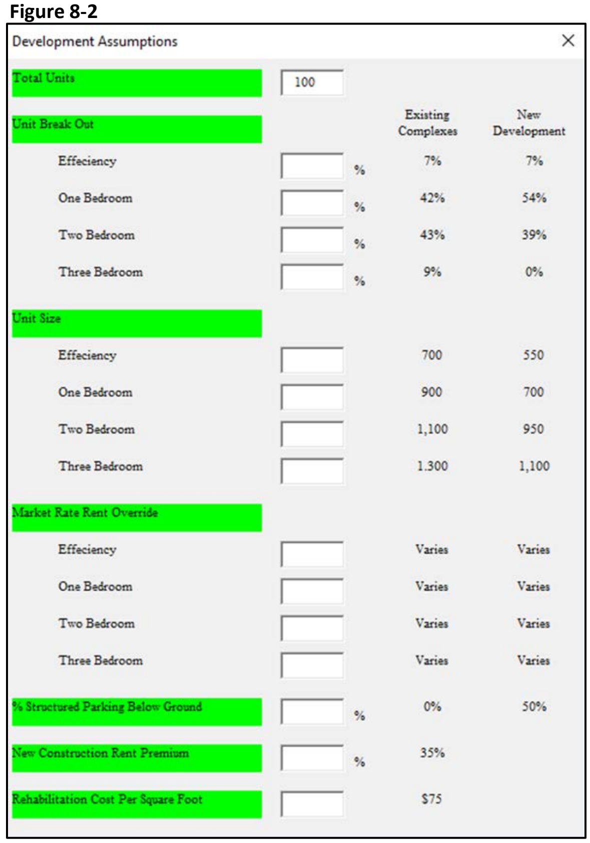
- **Financial Assumptions** – The analysis used several market assumptions relative to the financing of rehabilitation and new construction projects. The consultant collected data from developers, investors and commercial financial institutions to compile current, locally-relevant data points for the model. The model accounts for financing factors, such as debt-to-equity ratios, interest rates, current loan terms and construction/bridge loan terms.

- **Development Assumptions** – The model included several development assumptions related to unit breakout (how many 1-bedroom units, 2-bedroom units, etc.), unit size (square feet by unit size), parking requirements and the ratio of structured parking above and below ground. The assumptions were calculated using current market performance measures, as identified through the Rental Housing Survey and county property assessment data.

- **Construction Cost Assumptions** – The model was calibrated using Marshall and Swift valuation data. Construction data was pulled for the quality build level identified through field research, discussions with developers and M-NCPPC input. The typology data (i.e. type of buildings, construction materials, proposed fit-out, etc.) was then calculated using the Marshall and Swift data, and adjusted for regional construction costs. The final construction cost numbers were presented and approved by the Rental Housing Study Technical Committee.

- **Parking Assumptions** – The model enabled the user to select surface or structured parking. Construction costs (Marshall and Swift valuation) and potential revenues (current parking costs) were calculated for each subarea.

Figure 8-2


Development Assumptions

			Existing Complexes	New Development
Total Units	100			
Unit Break Out				
Effeciency		%	7%	7%
One Bedroom		%	42%	54%
Two Bedroom		%	43%	39%
Three Bedroom		%	9%	0%
Unit Size				
Effeciency			700	550
One Bedroom			900	700
Two Bedroom			1,100	950
Three Bedroom			1,300	1,100
Market Rate Rent Override				
Effeciency			Varies	Varies
One Bedroom			Varies	Varies
Two Bedroom			Varies	Varies
Three Bedroom			Varies	Varies
% Structured Parking Below Ground		%	0%	50%
New Construction Rent Premium		%	35%	
Rehabilitation Cost Per Square Foot			$75	

Source: RKG Associates, Inc. 2017

Source: RKG Associates, Inc. 2017

- **Model Overrides** – The model was created to enable the user to override any of the existing market assumptions with project-specific data (Figure 8-2). This feature was critical for testing the financial sensitivity of development and policy changes on the performance of a given asset. Since the model was intended to test the relative impact of policy changes, the override feature enabled M-NCPPC and DHCA to ensure the testing process was relevant to current market conditions.

It is important to note that most performance metrics do not fluctuate due to changes in affordability policy changes. For example, construction costs do not change because of increasing the MPDU percentage requirement or changing the income target threshold. The cost to construct a building does not change. Another key metric that is not influenced by these policy changes is operating expenses. The cost to maintain, manage and market a unit is fixed regardless of tenant. This fixed cost is particularly important when considering increasing the affordability percent requirement, as costs for the project remain the same despite the decline in revenue.

2. Capitalized Value Versus Financial Performance

Prior to reviewing the results, the reader should understand the difference between the capitalized value analysis and the financial performance analysis; and what those two assessments provide to understanding the cost/benefit of housing policy changes.

- **Capitalized Value Analysis** – Capitalized valuation is the technical term for understanding what an investor would pay for an income-producing asset. In this case, the income-producing asset is a rental housing unit. So, this analysis compares the market value of rental housing units based on its ability to generate positive (or negative) revenue (called net operating income in finance-speak).
-
- To calculate the capitalized value of a rental unit, the model provides a pro forma assessment for each unit type (i.e. 1-bedroom) by location (subarea) and project type (i.e. high-rise). The analysis compares potential income to operational and efficiency losses to identify the net operating income. This value, presented as an annual revenue, is then converted into a market value by applying a capitalization rate. This rate changes on a regular basis based on the perceived risk/reward of investing in real estate in Montgomery County.

  The capitalized value analysis enables M-NCPPC and DHCA to understand how controlling the maximum rent an owner can collect changes the market value of that unit. The difference between the market value for a market-rate unit and an income-controlled unit provides insight into how changes in the MPDU ratio and income threshold can impact the overall value of a rental housing development.

- **Financial Performance Analysis** –The capitalized value assessment provides a snapshot of the value impact that changing affordability requirements will have on a given unit based on location, size and type. The financial performance analysis, in turn, demonstrates the impact these changes have on the profitability of a rental housing development. This analysis incorporates the impacts of the loss of revenue due to additional units being price-controlled or a deeper subsidy for income, or both, as well as the impact on residual value of the units due to the lower net operating income. In other words, this analysis assesses how the change in policy effects the go/no go decision that developers make when analyzing an investment deal.

  The financial performance analysis reveals the total cost that a developer will incur if affordability thresholds are increased or income targets are lowered. Given that almost all costs and revenues are fixed for an investment, save the price of land, this analysis reveals how these new policy

Source: RKG Associates, Inc. 2017

options likely will impact land values and, in turn, investment potential for new rental housing development.

D. CAPITALIZED VALUE ANALYSIS – NEW CONSTRUCTION

As noted, the consultant analyzed the impact of requiring maximum rent levels (tied to income) on the capitalized value of rental housing units. This analysis was performed for each of the 12 subareas for both high-rise and garden apartments for each bedroom count (efficiencies, 1-bedrooms, 2-bedrooms, and 3-bedrooms) at various income thresholds (30 percent of AMI, 50 percent of AMI, 65 percent of AMI, 80 percent of AMI, 100 percent of AMI and market-rate for that subarea). For illustrative purposes, the Table 8-1 details the results of this analysis for newly constructed high-rise development in the Friendship Heights/Bethesda/White Flint subarea.

Table 8-1
Capitalized Value Calculations
New Contstruction, High Rise in Friendship Heights/Bethesda/White Flint Subarea

	30% of AMI	50% of AMI	65% of AMI	80% of AMI	100% of AMI	Market Rate
EFFICIENCY RENTAL CALCULATIONS						
Potential Gross Income	$6,756	$11,232	$14,604	$17,971	$22,464	$27,900
Vacancy and Collection Loss	$257	$427	$555	$683	$854	$1,060
Other Income	$0	$0	$0	$0	$0	$0
Effective Gross Income	$6,499	$10,805	$14,049	$17,288	$21,610	$26,840
Operating Expenses	$15,567	$15,567	$15,567	$15,567	$15,567	$15,567
Net Operating Income	($9,068)	($4,762)	($1,518)	$1,721	$6,043	$11,273
Unit Value	($181,356)	($95,238)	($30,361)	$34,424	$120,866	$225,454
Value Per Square Foot	($363)	($190)	($61)	$69	$242	$451
ONE BEDROOM RENTAL CALCULATIONS						
Potential Gross Income	$7,716	$12,840	$16,692	$20,544	$25,680	$34,200
Vacancy and Collection Loss	$293	$488	$634	$781	$976	$1,300
Other Income	$0	$0	$0	$0	$0	$0
Effective Gross Income	$7,423	$12,352	$16,058	$19,763	$24,704	$32,900
Operating Expenses	$19,082	$19,082	$19,082	$19,082	$19,082	$19,082
Net Operating Income	($11,659)	($6,730)	($3,025)	$681	$5,622	$13,818
Unit Value	($233,189)	($134,603)	($60,491)	$13,622	$112,439	$276,363
Value Per Square Foot	($466)	($269)	($121)	$27	$225	$553
TWO BEDROOM RENTAL CALCULATIONS						
Potential Gross Income	$8,676	$14,448	$18,780	$23,117	$28,896	$50,760
Vacancy and Collection Loss	$330	$549	$714	$878	$1,098	$1,929
Other Income	$0	$0	$0	$0	$0	$0
Effective Gross Income	$8,346	$13,899	$18,066	$22,238	$27,798	$48,831
Operating Expenses	$28,322	$28,322	$28,322	$28,322	$28,322	$28,322
Net Operating Income	($19,976)	($14,423)	($10,256)	($6,084)	($524)	$20,509
Unit Value	($399,515)	($288,461)	($205,114)	($121,674)	($10,482)	$410,181
Value Per Square Foot	($799)	($577)	($410)	($243)	($21)	$820
THREE BEDROOM RENTAL CALCULATIONS						
Potential Gross Income	$9,636	$16,056	$20,868	$25,680	$32,100	$73,350
Vacancy and Collection Loss	$366	$610	$793	$976	$1,220	$2,787
Other Income	$0	$0	$0	$0	$0	$0
Effective Gross Income	$9,270	$15,446	$20,075	$24,704	$30,880	$70,563
Operating Expenses	$40,926	$40,926	$40,926	$40,926	$40,926	$40,926
Net Operating Income	($31,657)	($25,480)	($20,851)	($16,222)	($10,046)	$29,636
Unit Value	($633,131)	($509,610)	($417,027)	($324,444)	($200,923)	$592,727
Value Per Square Foot	($1,266)	($1,019)	($834)	($649)	($402)	$1,185

Source: RKG Associates, Inc. 2017

As the table shows, the capitalized value for market-rate units ranges from $225,454 (efficiencies) to $592,727 (3-bedroom) per unit. Current MPDU threshold requirements (65 percent of AMI) return a market value less than $0 at each level, for example an efficiency has a market value of -$30,361, effectively meaning the units will cost the developer money at an absolute level. Compared to market-rate values, the MPDU program reduces the overall value of new construction high-rise units in this subarea from $255,815 for an efficiency to more than $1 million for a 3-bedroom unit. The analysis of comparative value from market-rate to income-controlled for new construction garden apartment development is not as dramatic, but has similar impacts to the value of development (Table 8-2).

Table 8-2
Capitalized Value Comparison to Market Rate Rents
New Construction Garden-Style Development

	30% of AMI	50% of AMI	65% of AMI	80% of AMI	100% of AMI
Route 29 Corridor East					
Efficiency	($191,845)	($105,727)	($40,849)	($500)	$27,535
One Bedroom	($266,845)	($168,259)	($94,147)	($20,034)	$14,888
Two Bedrooms	($321,454)	($210,401)	($127,053)	($43,613)	$9,378
Three Bedrooms	($401,570)	($278,049)	($185,466)	($92,884)	($5,134)
Silver Spring/Glenmont					
Efficiency	($260,771)	($174,652)	($109,775)	($44,990)	$3,411
One Bedroom	($281,915)	($183,329)	($109,217)	($35,104)	$9,613
Two Bedrooms	($347,200)	($236,146)	($152,799)	($69,359)	$367
Three Bedrooms	($417,534)	($294,013)	($201,430)	($108,847)	($10,722)
Rosemary Hills/Kensington					
Efficiency	($270,896)	($184,777)	($119,900)	($55,115)	($133)
One Bedroom	($317,370)	($218,785)	($144,672)	($70,560)	($2,796)
Two Bedrooms	($358,261)	($247,208)	($163,860)	($80,420)	($3,504)
Three Bedrooms	($494,541)	($371,020)	($278,437)	($185,854)	($62,333)
Friendship Heights/Bethesda/White Flint					
Efficiency	($293,754)	($207,636)	($142,759)	($77,974)	($8,134)
One Bedroom	($381,442)	($282,856)	($208,743)	($134,631)	($35,814)
Two Bedrooms	($489,713)	($378,660)	($295,312)	($211,872)	($100,681)
Three Bedrooms	($529,731)	($406,210)	($313,627)	($221,044)	($97,523)
Westbard/Kenwood					
Efficiency	($247,305)	($161,187)	($96,310)	($31,525)	$8,124
One Bedroom	($377,845)	($279,259)	($205,147)	($131,034)	($32,218)
Two Bedrooms	($479,541)	($368,488)	($285,140)	($201,700)	($90,508)
Three Bedrooms	($440,319)	($316,798)	($224,215)	($131,633)	($8,112)
Patuxent/Cloverly					
Efficiency	($247,305)	($161,187)	($96,310)	($31,525)	$8,124
One Bedroom	($299,872)	($201,287)	($127,174)	($53,062)	$3,328
Two Bedrooms	($364,129)	($253,075)	($169,728)	($86,288)	($5,558)
Three Bedrooms	($440,319)	($316,798)	($224,215)	($131,633)	($8,112)

	30% of AMI	50% of AMI	65% of AMI	80% of AMI	100% of AMI
Aspen Hill					
Efficiency	($247,305)	($161,187)	($96,310)	($31,525)	$8,124
One Bedroom	($324,677)	($226,091)	($151,979)	($77,866)	($5,353)
Two Bedrooms	($330,566)	($219,512)	($136,165)	($52,725)	$6,189
Three Bedrooms	($383,688)	($260,168)	($167,585)	($75,002)	$1,124
Upper Rock Creek					
Efficiency	($247,305)	($161,187)	($96,310)	($31,525)	$8,124
One Bedroom	($299,872)	($201,287)	($127,174)	($53,062)	$3,328
Two Bedrooms	($364,129)	($253,075)	($169,728)	($86,288)	($5,558)
Three Bedrooms	($440,319)	($316,798)	($224,215)	($131,633)	($8,112)
Rockville/Gaithersburg					
Efficiency	($226,366)	($140,248)	($75,371)	($10,586)	$15,452
One Bedroom	($276,617)	($178,031)	($103,918)	($29,806)	$11,468
Two Bedrooms	($354,716)	($243,663)	($160,315)	($76,875)	($2,264)
Three Bedrooms	($434,519)	($310,998)	($218,415)	($125,832)	($2,311)
Potomac					
Efficiency	($247,305)	($161,187)	($96,310)	($31,525)	$8,124
One Bedroom	($386,836)	($288,250)	($214,137)	($140,025)	($41,208)
Two Bedrooms	($567,923)	($456,870)	($373,522)	($290,082)	($178,890)
Three Bedrooms	($771,559)	($648,038)	($555,456)	($462,873)	($339,352)
Germantown & Vicinity					
Efficiency	($247,305)	($161,187)	($96,310)	($31,525)	$8,124
One Bedroom	($291,297)	($192,711)	($118,598)	($44,486)	$6,330
Two Bedrooms	($350,282)	($239,229)	($155,881)	($72,441)	($712)
Three Bedrooms	($417,183)	($293,662)	($201,079)	($108,496)	($10,599)
Agricultural Reserve					
Efficiency	($73,304)	($1,064)	$19,978	$40,989	$69,024
One Bedroom	($301,052)	($202,466)	($128,354)	($54,241)	$2,916
Two Bedrooms	($376,846)	($265,793)	($182,445)	($99,005)	($10,009)
Three Bedrooms	($346,378)	($222,857)	($130,274)	($37,691)	$14,183

Source: RKG Associates, Inc. 2017

As seen in the previous table, the current MPDU program threshold has a substantial impact on the value of units. Only certain subareas of Montgomery County have new construction garden-style apartment complexes where the current asking prices are at or below a level that is affordable to households earning at 100 percent of AMI (which is $96,300 for this analysis). In other words, asking rents for new construction garden-style apartment complexes generally is at or above 100 percent of AMI income affordability. As noted, the relative loss of value is less severe than for high-rise construction projects, but remains a barrier to financial feasibility for rental housing development.

The impact of transitioning from one income threshold requirement to another depends on whether the requirement raises the threshold (higher incomes) or lowers the threshold. In these cases, the impact is fixed regardless of subarea or development type because the only variable is the potential gross income, not the market rent. That said, the impact of changing the threshold requirement can have a substantial impact on the project, particularly for larger projects. Table 8-3 shows the capitalized value change relative to the current 65 percent AMI MPDU income level.

Table 8-3
Capitalized Value Comparison to MPDU Threshold of 65% of AMI
New Construction

	30% of AMI	50% of AMI	65% of AMI	80% of AMI	100% of AMI
Efficiency	($150,996)	($64,877)	$0	$64,785	$151,226
One Bedroom	($172,698)	($74,112)	$0	$74,112	$172,929
Two Bedrooms	($194,401)	($83,348)	$0	$83,440	$194,632
Three Bedrooms	($216,104)	($92,583)	$0	$92,583	$216,104

Source: RKG Associates, Inc. 2017

As mentioned, the change in performance for a real estate investment directly impacts the value of land. To this point, the current MPDU program has impacted land value within the county (ranging from subarea to subarea). That said, it is important to note that the current MPDU program has been in place for more than 40 years. Given the amount of multifamily development that has occurred recently and continues to be pursued, it is evident that land values have adjusted to account for this loss of value (and revenue from a performance perspective). However, future adjustments to the MPDU program likely will impact land values from current levels. Increases in percentage requirements and lowering the target income threshold will adversely impact values, reducing the MPDU percentage requirement or raising the target income threshold will increase land values.

E. CAPITALIZED VALUE ANALYSIS - PRESERVATION

Another part of the financial feasibility analysis assessed the capitalized value impacts of securing long-term affordability commitments through preservation. This analysis focuses on the potential market value impact of an existing, naturally occurring, market-rate affordable unit committing to adjusting its rents to specific income levels. The analysis (Table 8-4) revealed that existing rental housing older than 10 years is relatively more affordable than new construction. All but three of the 12 subareas have average rent levels below 80 percent of AMI for garden-style housing.

Table 8-4
Capitalized Value Comparison to Market Rate Rents
Preservation of Existing Garden-Style Development

	30% of AMI	50% of AMI	65% of AMI	80% of AMI	100% of AMI
Route 29 Corridor East					
Efficiency	($84,642)	($5,080)	$15,961	$36,972	$65,007
One Bedroom	($128,518)	($29,932)	$7,148	$31,185	$63,233
Two Bedrooms	($158,806)	($47,752)	$3,087	$30,148	$66,211
Three Bedrooms	($205,915)	($82,394)	($6,743)	$23,284	$63,345
Silver Spring/Glenmont					
Efficiency	($130,593)	($44,475)	($122)	$20,890	$48,925
One Bedroom	($138,564)	($39,978)	$3,632	$27,668	$59,717
Two Bedrooms	($175,969)	($64,916)	($2,921)	$24,141	$60,203
Three Bedrooms	($216,557)	($93,036)	($453)	$19,559	$59,620
Rosemary Hills/Kensington					
Efficiency	($137,343)	($51,225)	($2,484)	$18,527	$46,562
One Bedroom	($162,201)	($63,615)	($4,641)	$19,396	$51,444
Two Bedrooms	($183,344)	($72,290)	($5,502)	$21,560	$57,622
Three Bedrooms	($267,895)	($144,374)	($51,791)	$1,591	$41,652
Friendship Heights/Bethesda/White Flint					
Efficiency	($152,582)	($66,464)	($1,587)	$13,193	$41,228
One Bedroom	($204,915)	($106,330)	($32,217)	$4,446	$36,494
Two Bedrooms	($270,979)	($159,925)	($76,578)	($9,112)	$26,950
Three Bedrooms	($291,355)	($167,834)	($75,251)	($6,620)	$33,441
Westbard/Kenwood					
Efficiency	($121,616)	($35,498)	$3,020	$24,031	$52,066
One Bedroom	($202,518)	($103,932)	($29,820)	$5,285	$37,333
Two Bedrooms	($264,197)	($153,144)	($69,796)	($6,739)	$29,324
Three Bedrooms	($231,747)	($108,226)	($15,644)	$14,243	$54,304
Patuxent/Cloverly					
Efficiency	($121,616)	($35,498)	$3,020	$24,031	$52,066
One Bedroom	($150,536)	($51,950)	($558)	$23,478	$55,527
Two Bedrooms	($187,255)	($76,202)	($6,871)	$20,191	$56,253
Three Bedrooms	($231,747)	($108,226)	($15,644)	$14,243	$54,304

	30% of AMI	50% of AMI	65% of AMI	80% of AMI	100% of AMI
Aspen Hill					
Efficiency	($121,616)	($35,498)	$3,020	$24,031	$52,066
One Bedroom	($167,072)	($68,487)	($6,346)	$17,691	$49,739
Two Bedrooms	($164,880)	($53,827)	$961	$28,022	$64,084
Three Bedrooms	($193,993)	($70,473)	($2,570)	$27,457	$67,517
Upper Rock Creek					
Efficiency	($121,616)	($35,498)	$3,020	$24,031	$52,066
One Bedroom	($150,536)	($51,950)	($558)	$23,478	$55,527
Two Bedrooms	($187,255)	($76,202)	($6,871)	$20,191	$56,253
Three Bedrooms	($231,747)	($108,226)	($15,644)	$14,243	$54,304
Rockville/Gaithersburg					
Efficiency	($107,657)	($21,539)	$7,906	$28,917	$56,952
One Bedroom	($135,032)	($36,446)	$4,868	$28,905	$60,953
Two Bedrooms	($180,980)	($69,927)	($4,674)	$22,387	$58,449
Three Bedrooms	($227,880)	($104,359)	($11,777)	$15,596	$55,657
Potomac					
Efficiency	($121,616)	($35,498)	$3,020	$24,031	$52,066
One Bedroom	($208,511)	($109,926)	($35,813)	$3,187	$35,236
Two Bedrooms	($323,118)	($212,065)	($128,717)	($45,277)	$8,701
Three Bedrooms	($452,574)	($329,053)	($236,470)	($143,887)	($20,367)
Germantown & Vicinity					
Efficiency	($121,616)	($35,498)	$3,020	$24,031	$52,066
One Bedroom	($144,819)	($46,233)	$1,443	$25,479	$57,528
Two Bedrooms	($178,024)	($66,971)	($3,640)	$23,422	$59,484
Three Bedrooms	($216,323)	($92,802)	($219)	$19,641	$59,702
Agricultural Reserve					
Efficiency	($5,615)	$22,579	$43,620	$64,632	$92,667
One Bedroom	($151,322)	($52,736)	($833)	$23,203	$55,252
Two Bedrooms	($195,734)	($84,680)	($1,333)	$17,223	$53,286
Three Bedrooms	($169,120)	($45,599)	$6,136	$36,163	$76,223

Source: RKG Associates, Inc. 2017

From a financial perspective, garnering commitments from older rental housing developments to offer units at the existing MPDU level (65 percent of AMI) would be substantially less costly to both the county and to the property owner than building new MPDUs. Existing three-bedroom units have the greatest differential in the Potomac subarea, at slightly less than $144,000. In comparison, the differential for new construction three-bedroom units in the same subarea is more than $555,000.

While this total does not consider the potential need for rehabilitation costs of these existing units, local real estate professionals indicate that these costs typically range from $30,000 to $150,000 per unit (or $50 to $100 per square foot). Adding the two values together still offers more than a 50 percent savings than the value impact to new construction. Analysis of older high-rise rental housing properties revealed that the affordability gap at 65 percent of AMI was slightly higher than for garden-style units, but the disparity between the net cost to preserve an older, existing rental unit as an income-controlled unit is substantially lower than the net cost to deliver an income-controlled unit through new construction.

F. FINANCIAL PERFORMANCE – NEW CONSTRUCTION

As noted, the model also analyzes the financial performance of a rental housing development and the relative performance impacts caused by changes to the percent of units committed to affordability and/or the changing the targeted income threshold from current MPDU levels. The consultant, RKG Associates, worked closely with M-NCPPC and DHCA staff to calibrate the model to ensure its proper functionality. Several scenarios were tested across each subarea, development type, development size and age of property.

The results of these analyses varied slightly, but the net financial impacts were similar when policy adjustments were held constant (i.e. changing the requirement from 12.5 percent affordability to 20 percent affordability). To highlight these impacts in a concise manner, RKG Associates used a 250-unit new construction development in the Friendship Heights, Bethesda/White Flint subarea as the subject property to exemplify the impacts.

1. Changing Percentage of Affordability

As noted in this chapter's section D, increasing the percentage of affordability requirement will impact the potential revenue of a unit as well as the residual value of that unit at reversion (sale of the property). Therefore, the impacts of increasing percentage requirements will adversely impact the financial performance of a property. For our subject property, we ran the impacts of increasing the affordability requirement from 12.5 percent to 15 percent, 17.5 percent, 20 percent and 25 percent. The results are detailed in Table 8-5.

As noted, changing the percentage of affordability requirement has a substantial impact on the financial performance of the property. Adjusting from 12.5 percent to 15 percent creates a net value loss between $1.15 and $2.15 million for the investor. Since costs, revenues and profit requirements generally are fixed when making a go/no go decision, this loss of value on the project will manifest in a lower voluntary contribution to other public benefits or a reduction in the value of the land. Based on average land values in this subarea, the change in policy by 2.5 percent in requirement will cost between 12 percent and 25 percent of value for the land holder. Those percentages rise quickly as the required percentage increases. Doubling the requirement to 25 percent for high-rise development effectively renders the land worthless.

As noted, these value differentials and impact of percentages to land values range by subarea. However, the relative impact to the project and potentially to the transactional market are consistent throughout Montgomery County.

Table 8-5
Financial Performance Impact of Percent Affordability Change
250-Unit Complex in Frienship Heights/Bethesda/White Flint Subarea

	12.5%	15.0%	17.5%	20.0%	25.0%
New Construction, High Rise	$0	($2,162,357)	($4,364,827)	($6,749,549)	($11,679,776)
New Construction, Garden Style	$0	($1,154,631)	($2,358,142)	($3,582,623)	($6,232,317)
Estimated Land Value (Market Rate)	$9,104,601	$9,104,601	$9,104,601	$9,104,601	$9,104,601
Loss of Land Value, High Rise	0.0%	-23.8%	-47.9%	-74.1%	-128.3%
Loss of Land Value, Garden Style	0.0%	-12.7%	-25.9%	-39.3%	-68.5%

Source: RKG Associates, Inc. 2017

2. Change in Targeted Income Threshold

Like the change in affordability percentage requirements, there is a correlation between the county's policy and the financial performance of the project. Lowering the income threshold (i.e. 50 percent of AMI) negatively impacts performance, while raising the income threshold (i.e. 80 percent of AMI) improves the financial performance. Table 8-6 reflects the impact on the subject property.

Table 8-6
Financial Performance Impact of Change in Target Income Threshold
250-Unit Complex in Frienship Heights/Bethesda/White Flint Subarea

	30% of AMI	50% of AMI	65% of AMI	80% of AMI	100% of AMI
New Construction, High Rise	($4,433,427)	($1,901,917)	$0	$1,902,698	$4,439,108
New Construction, Garden Style	($4,433,427)	($1,901,917)	$0	$1,902,698	$4,439,108
Estimated Land Value (Market Rate)	$9,104,601	$9,104,601	$9,104,601	$9,104,601	$9,104,601
Loss of Land Value, High Rise	-48.7%	-20.9%	0.0%	20.9%	48.8%
Loss of Land Value, Garden Style	-48.7%	-20.9%	0.0%	20.9%	48.8%

Source: RKG Associates, Inc. 2017

There is one noticeable difference from the percent of unit change. Because the income thresholds are locked to a fixed number (65 percent of AMI), the differential is the same regardless of development type, location or unit size. That said, changing from 65 percent of AMI for 12.5 percent of all units to 50 percent of AMI for 12.5 percent of all units has a financial cost of more than $1.9 million for the project or effectively 20.9 percent of the value of the land.

G. FINANCIAL PERFORMANCE ANALYSIS – PRESERVATION

1. Changing Percentage of Affordability

The results of the financial performance analysis for preservation different greatly from the analysis for new construction. Since most naturally occurring, market-rate rental properties are priced at a level generally affordable to households earning 65 percent of AMI, the financial impact of changing the required percentage of affordable units has virtually no effect. However, it is important to note that the challenge for preserving these rents at levels affordable to households earning 65 percent of AMI is not the immediate financial impact to the project, but the potential loss of flexibility if the owner chooses to redevelop the property.

In short, the cost/benefit analysis for a property owner of these existing complexes compares the current revenue generation with the cost of the rehabilitation cost against the revenue generation of a new construction project (with substantially higher rents) after taking into account the cost of demolition/construction. Agreeing to a long-term commitment of affordability substantially limits that option. This restriction reason is why current agreements tend to be for shorter periods of time (typically 5-10 years).

2. Change in Targeted Income Threshold

The preservation analysis revealed that raising the income threshold requirement (i.e. 80 percent of AMI) had virtually no impact on the financial performance of the subject property, since the market would not support a higher rent threshold to begin with. The only impact resulted from lowering the required income threshold (i.e. 30 percent of AMI), which has similar impacts to the new construction (see Table 8-7).

Table 8-7
Financial Performance Impact of Change in Target Income Threshold
250-Unit Complex in Frienship Heights/Bethesda/White Flint Subarea

	30% of AMI	50% of AMI	65% of AMI	80% of AMI	100% of AMI
Preservation, High Rise	($4,184,501)	($1,795,032)	$0	$0	$0
Preservation, Garden Style	($4,184,501)	($1,795,032)	$0	$0	$0
Estimated Land Value (Market Rate)	$9,104,601	$9,104,601	$9,104,601	$9,104,601	$9,104,601
Loss of Land Value, High Rise	-46.0%	-19.7%	0.0%	0.0%	0.0%
Loss of Land Value, Garden Style	-46.0%	-19.7%	0.0%	0.0%	0.0%

Source: RKG Associates, Inc. 2017

H. COST-BENEFIT ANALYSIS

The analysis reveals several potential cost/benefit implications of changing the county's MPDU requirements for new construction and preservation projects. At a base level, making the requirements stronger will have real impacts on the financial feasibility of a new construction or a rehabilitation/preservation project. If the expectation of the community is that the private sector will absorb these costs, there may be real impacts to the rental housing market.

Most notably, development of new construction project may be temporarily slowed due to existing projects being unable to find/maintain financing due to the reduced performance, investors cancelling land purchases because the pricing is too high and land owners unwilling to sell at the new market paradigm pricing. The initiation of the current MPDU program, however, suggests this impact will be temporary as the market adjusts to the new realities. From a preservation perspective, requiring property owners to absorb the impacts of long-term restrictions for no foreseeable benefit and a potential long-term loss could effectively limit willingness to participate.

That said, the consultant used the financial feasibility analysis to calculate some policy-based cost-benefit analyses to understand what type of tradeoffs the community would have to offer to minimize and eliminate disruption to the market, and encourage private sector participation without a substantial infusion of money to offset the losses. The following concepts reflect the best options for the community to consider and provide the likely level of tradeoffs to accomplish the stated goal.

It is important to note that the consultant's cost-benefit analysis follows the principal of revenue-neutral policymaking. This concept means that policy changes have no financial impact on the performance or profitability of a given real estate asset. In other words, the policy is written so that it gives as much financial benefit to a given project as it extracts in value from changes in regulations.

1. Sliding Scale Requirements

The analysis reveals there are financial impacts to changing either [1] the percentage of units dedicated to affordable price points or [2] the required income threshold target for those units. The sliding scale strategy ties changes in one to counterbalancing changes in the other. In this case, the financial analyses revealed that increasing the percentage requirement (i.e. from 12.5 percent to 15 percent) while increasing the income target (i.e. from 65 percent of AMI to 80 percent of AMI) could balance the financial performance of the project, thus being revenue neutral to the owner.

Those ratios vary by subarea due to differences in the relative rental housing markets, but generally follow the same pattern. Feedback from local development professionals indicated a willingness to engage this approach. Table 8-8 provides a sample of how those ratios would work for different subareas of the county.

Table 8-8
Sliding Scale Ratios
Example Subarea Relationships

		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%

Source: RKG Associates, Inc. 2017

The data indicate that areas with the highest cost housing have the narrowest sliding scale range. Given the substantial difference between market-rate and income controlled rents in these areas, it requires (and offers) little adjustment to maintain financial performance. Less expensive markets are much more sensitive to price changes, enabling much larger swings in set aside requirements for the same income target adjustment. In any case, the data shows that a single countywide policy will have varying levels of effectiveness due to these submarket idiosyncrasies.

2. Changing Set Aside Requirements

One of the strategies presented during this analysis was the potential to make the percentage set aside requirement for affordable housing based on a percentage of the total building square footage rather than the total number of units. This adjustment would enable M-NCPPC and DHCA to determine the most appropriate bedroom count mix for a given project based on the existing needs of the community, location of the development and proximity to specific amenities (i.e. schools, healthcare, social services, etc.).

Implementing this strategy could impact the total number of units delivered from a project. The financial analysis indicated that going to a square footage-based approach would require a tradeoff of total units based the allocation of square footage by bedroom count.

The following example (Table 8-9) shows the results of manipulating an existing, 310-unit, non-age restricted development by changing the mix of units by bedroom count, but maintaining the same amount of square footage and preserving the projects revenue neutrality.

The number of units delivered can vary depending on the final allocation determined by M-NCPPC and DHCA. While it is possible to calculate a mix that retains the base number of units, it is also likely that the actual unit delivery will be higher (or lower), depending on the determined need. It is important to note that changing the base threshold level (i.e. 12.5 percent to 15 percent) will not change this variation, only the final delivered unit count.

Table 8-9
Square Footage Based Allocation
310-Unit Project Example

Mix of Units	Unit Count (at 12.5% Threshold)
Existing Policy (Unit Based Approach)	39
Square Footage Approach	
All Efficiencies	58
All One-Bedrooms	43
All Two Bedrooms	32
All Three-Bedrooms	26

Source: RKG Associates, Inc. 2017

3. Implications

Location has the greatest impact on value differential. Areas surrounding Metrorail corridors and development inside the Intercounty Connector (ICC) have the largest differential due to having the greatest market demand. These areas tend to require the least amount of unit tradeoffs to accommodate different targets. In contrast, the areas with the most affordable housing (i.e. garden-style development in exurban subareas) will require greater shifts in delivery to accommodate greater levels of affordability (in both unit count and income target).

The financial gap for garden apartments is lower due to lower potential rent capture potential. Developers in the highest cost areas seek high-rise level density to capitalize on the market demand and offset the subsidy impact of the existing MPDU program. While having a lower differential can reduce the cost per unit of delivery, sites being considered for garden apartment-scale development are disproportionately challenged when implementing policy changes, as the value impact to land cannot be offset as easily with greater development densities in these locations.

As noted, actual tradeoff impacts vary by subarea and development type. The financial analysis indicates providing greater density as a means to offset losses will be more effective in some areas (i.e. Bethesda) than others (i.e. Germantown and Vicinity). To this point, it may be more cost-effective for the county to buy-down costs for changes in the MPDU requirements in some areas and trade unit totals through density benefits in others.

I. SUMMARY OF ANALYSIS

The rental housing market within Montgomery County is diverse and dynamic. In fact, the county's rental housing market is more accurately described as a collection of several different housing markets within a single, large jurisdiction. The economic and financial realities of rental housing supply and demand can even vary within these smaller independent housing markets (i.e. Bethesda). Whether assessed as neighborhoods, planning areas or subareas (as in this report), the cost/benefit analysis indicates that the unique market dynamics throughout the county make it challenging to apply a single, static housing policy and have it achieve the desired effect everywhere.

Rather, policy decisions should be done on a more local level, balancing the community's vision with the market and financial reality of the subject area. M-NCPPPC and DHCA already have implemented this approach through the Small Area Plan processes for issues within their discretion. The analysis indicates that the county should replicate this approach through its broader housing policies.

This housing study has revealed how different market and physical conditions influence the effectiveness of a given policy concept. At a minimum, any new or modified housing policy should create unique thresholds at the neighborhood typology level (Proximity to Future Purple Line, Proximity to Existing Metro Line, Established Suburbs and Concentration of Existing Rental Units). The financial feasibility and cost/benefit analyses presented in this chapter suggest using the 12 subareas would be more reflective of the varying market conditions for rental housing.

Regardless, creating policies that build in flexibility position Montgomery County to best address the unmet rental housing needs in the most cost-effective manner. The corresponding Strategy Document provided by RKG Associates details the policy opportunities and recommendations for the Planning Board and County Council to consider to better position the Planning Department and Department of Housing and Community Affairs for success in meeting needs for rental housing.