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Montgomery County, Maryland

RENTAL HOUSING STUDY STRATEGY COMMITTEE

POLICY STRATEGY:
RECOMMENDED TOOLS
PROJECT OVERVIEW

DATA COLLECTION AND EXISTING CONDITIONS
- Identify Data Needs
- Identify Key Stakeholders
- Review Background Materials
- Neighborhood Assessment
- Focus Groups and Stakeholder Interviews

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

RECOMMENDATIONS
- Identify Options
- Develop Recommendations
- Draft Final Report
- Meet with Advisory Committee, Planning Board, County Executive and County Council
The County’s priorities and principles will guide decisions about specific policy recommendations.

- The County is committed to actively promoting policies to expand housing options.
- Flexibility—combined with predictability—is essential.
- Economic integration remains a key goal of County policy.
- Preservation and production is a balancing act – production is necessary for preservation.
- Minimizing negative shocks to the local housing market is important.
### POLICY RECOMMENDATIONS

**MPDU Program***
- Increase Requirement
- FAR-Based Option
- Sliding Scale Option
- Off-Site Option

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

**Preservation Tools**
- Inventory of At-Risk Properties
- Expanded Right of First Refusal*
- Redevelopment / Preservation Incentives
- Credit Counseling

**Financial Tools**
- General Appropriations
- PILOT for Small Projects
- Demolition Fees
- Tax Increment Financing
- 9% Credit Set Aside

*Revisions to current County policies
MPDU Program
Increase Requirement
FAR-Based Option
Sliding Scale Option
Off-Site Option
**MPDU PROGRAM INCREASE REQUIREMENT OPTION**

- **Option:** Revise the County’s MPDU program to require a greater percentage of income controlled units

- **Benefit:** Potentially increase production of below market-rate housing

- **Location:** Throughout Montgomery County

- **Challenge:** Could have potentially chilling impact on new rental housing construction for a period of time, Forces changes to CR zone requirements, How do you deal with in process developments?

- **Cost:** $0 up front costs to County, impacts to developers will depend on location, type, and size of project
**Option:** Link affordability requirements to FAR rather than to units, which allows flexibility to determine the types of below-market rate housing needed on a project-by-project or neighborhood-by-neighborhood basis

**Benefit:** Meet needs for specific unit types (e.g. 3+ bedroom units) depending on need in different neighborhoods

**Location:** Throughout the County

**Challenge:** Negotiated process could extend development timeline, Could reduce total number of bedrooms/units, Impact on design would require early settlement

**Cost:** $0 up front costs, $0 impact to project if percent requirement remains unchanged (12.5%)
## CONSIDERATIONS
### FAR OPTIONS (310 UNIT COMPLEX)

<table>
<thead>
<tr>
<th>Mix</th>
<th>MPDU Units (at 12.5%)</th>
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<tbody>
<tr>
<td>Market Average Mix</td>
<td>39</td>
</tr>
<tr>
<td>All Efficiencies</td>
<td>58</td>
</tr>
<tr>
<td>All One Bedrooms</td>
<td>43</td>
</tr>
<tr>
<td>All Two Bedrooms</td>
<td>32</td>
</tr>
<tr>
<td>All Three Bedrooms</td>
<td>26</td>
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**Option:** Create a menu of income targets and set-aside percentages that developers can choose from to meet their affordability obligations

**Benefit:** Meet needs below (and above) incomes of current households served by the MPDU program

**Location:** Throughout the County with different options in different neighborhood types

**Challenge:** Specifying appropriate set-aside percentages and income thresholds

**Cost:** $0 up front costs, $0 if percent requirement balance change in revenue loss for developer, Impact could reach $633,000 per unit (3BR, Friendship Heights/Bethesda/ White Flint at 30% of AMI) otherwise
### Sliding Scale Ratios

By Income Threshold and Study Area

<table>
<thead>
<tr>
<th>STUDY AREA</th>
<th>30%</th>
<th>50%</th>
<th>MPDU</th>
<th>80%</th>
<th>100%</th>
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<tbody>
<tr>
<td>Route 29 Corridor East</td>
<td>6.5%</td>
<td>9.0%</td>
<td>12.5%</td>
<td>20.5%</td>
<td>100.0%</td>
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<tr>
<td>Silver Spring/Glenmont</td>
<td>7.5%</td>
<td>10.0%</td>
<td>12.5%</td>
<td>17.0%</td>
<td>32.0%</td>
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<tr>
<td>Rosemary Hills/Kensington</td>
<td>6.5%</td>
<td>9.5%</td>
<td>12.5%</td>
<td>20.5%</td>
<td>100.0%</td>
</tr>
<tr>
<td>Friendship Heights/Bethesda/White Flint</td>
<td>9.0%</td>
<td>10.5%</td>
<td>12.5%</td>
<td>15.0%</td>
<td>20.5%</td>
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<tr>
<td>Westbard/Kenwood</td>
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<td>9.0%</td>
<td>12.5%</td>
<td>16.0%</td>
<td>35.0%</td>
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<tr>
<td>Patuxent/Cloverly</td>
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<td>9.5%</td>
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<tr>
<td>Aspen Hill</td>
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<td>Upper Rock Creek</td>
<td>6.5%</td>
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<td>12.5%</td>
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<td>100.0%</td>
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<tr>
<td>Rockville/Gaithersburg</td>
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<td>12.5%</td>
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<tr>
<td>Potomac</td>
<td>8.0%</td>
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<td>12.5%</td>
<td>17.0%</td>
<td>32.5%</td>
</tr>
<tr>
<td>Germantown &amp; Vicinity</td>
<td>6.0%</td>
<td>9.0%</td>
<td>12.5%</td>
<td>22.5%</td>
<td>100.0%</td>
</tr>
<tr>
<td>Agricultural Reserve</td>
<td>6.0%</td>
<td>9.0%</td>
<td>12.5%</td>
<td>23.0%</td>
<td>100.0%</td>
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**MPDU PROGRAM OFF-SITE OPTION**

- **Option:** Revise the County’s MPDU program to allow an option for developers to build affordable units on nearby site
- **Benefit:** Potentially increase production of below market-rate housing
- **Location:** Existing Metro-accessible neighborhoods, Future Purple Line neighborhoods
- **Challenge:** Developing MPDUs in high-opportunity areas, Availability of appropriate sites, Redefines ‘community’ for County
- **Cost:** $0 up front costs, Could deliver as many as 5x units for same cash value depending upon location of sending and receiving site
  - Value difference of 2BR is 3:1 from FH/B/WF to Rt. 29
  - Anecdotally 15% to 25% increase for nearby (within 1 mile)
RECOMMENDATIONS

- **Increase Requirement**
  - Mitigate increase in MPDU requirement to 15% to requiring 5% at 50% of AMI and 10% at 80% of AMI; **OR**
  - Increase the MPDU requirement to 15% of all units, paced at a 0.5% increase each year for the next five years

- **FAR Based**
  - Change requirement from % of units to % of total building square footage

- **Sliding Scale**
  - Create a location-based MPDU requirement that scales % of units required based on AMI target

- **Off Site**
  - Allow off-site development for up to 50% of the on-site requirement in exchange for a 1.5-1 delivery of new MPDU units/square footage
  - Must have same cash value (proforma) and must be completed concurrently with proposed development
Land Use/Zoning Tools

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

**ADAPTIVE RE-USE**

- **Option:** Identify underutilized buildings (commercial, schools) for conversion to housing
- **Benefit:** Expand overall housing development options
- **Location:** Throughout the County
- **Challenge:** Determining appropriate properties for re-use, Financing adaptive re-use projects, Neighborhood opposition
- **Cost:** $0 up front costs, $0 to implement
- **Recommendation:** Inventory potential re-use buildings (underutilized sites), Perform feasibility studies, Engage property owners
**LAND USE/ZONING TOOLS**
**REDUCED PARKING REQUIREMENTS**

- **Option:** Conduct a comprehensive review of parking requirements, including parking for MPDUs

- **Benefit:** Potentially lower overall development costs to create more affordable housing options

- **Location:** Existing Metro-accessible neighborhoods

- **Challenge:** Financing of projects with limited parking, Neighborhood opposition, Potentially modest impact on costs/affordability

- **Cost:** $0 up front costs, $0 to implement

- **Recommendation:** Revisit 2011 parking study for recommendations; Implement parking reduction strategies for Purple Line neighborhoods
**LAND USE/ZONING TOOLS**

**MODIFIED BONUS DENSITY**

- **Option:** Revise current density bonus programs to better reflect development costs and economic conditions in local submarkets

- **Benefit:** Appropriate density bonus provisions could facilitate the development of more housing (including more MPDUs)

- **Location:** Existing Metro-accessible neighborhoods, Future Purple Line neighborhoods

- **Challenge:** Opposition to higher-densities, Determining appropriate density bonus

- **Cost:** $0 up front costs, $0 to implement

- **Recommendation:** Increase bonus density allowances for 20% of units to be affordable, following similar formula currently employed for the 15% rule
**Option:** Expand use of publically-owned (and non-profit owned) land

**Benefit:** Free/reduced-price land can reduce overall cost of development and allow for more affordable units

**Location:** Throughout the County

**Challenge:** Determining sites appropriate for housing development, Creating a transparent process for allocating public land to housing, Loss of use of land for future public needs

**Cost:** $0 up front costs, Revenues will vary based on sale price of land (subsidies for price controlled housing)

**Recommendation:** Expand the County’s co-location strategy for emergency service locations and other public land assets
Preservation Tools

Inventory of At-Risk Properties
Expanded Right of First Refusal
Redevelopment / Preservation Incentives
Credit Counseling
**PRESERVATION TOOLS**

**INVENTORY OF AT-RISK PROPERTIES**

- **Option:** Conduct a comprehensive inventory of market-rate affordable rental properties, map the locations and track information on these properties.

- **Benefit:** Potentially preserve existing affordable rental housing

- **Location:** Existing Metro-accessible neighborhoods, Future Purple Line neighborhoods, Existing rental neighborhoods

- **Challenge:** Defining ‘at-risk,’ Implementing strategies to preserve market-rate affordable units after they are identified

- **Cost:** Staff time to compile, approximately 24-48 staff-hours to complete

- **Recommendation:** Invest staff time to inventory at-risk properties, Establish prioritization criteria, rank inventoried assets
Option: Develop a pro-active strategy for the County’s RoFR program and identify new, dedicated funding

Benefit: Work with non-profit developers to preserve existing affordable rental housing

Location: Future Purple Line neighborhoods, Existing rental neighborhoods

Challenge: Generating sufficient resources to assist with property purchase

Cost: Market value of property, $300 to $600 PSF for existing MF properties, Could be more if zoning allows increased density

Recommendation: Use at-risk list to determine action, Fund greater acquisition efforts
**Option:** Allow the shifting of density from one part of a site to another such that a complete project conforms to density requirements

**Benefit:** Potentially preserve existing affordable rental housing while encouraging redevelopment

**Location:** Future Purple Line neighborhoods, Existing rental neighborhoods

**Challenge:** Identifying appropriate sites, Neighborhood opposition

**Cost:** $0 up front costs, $0 to implement

**Recommendation:** Use at-risk list to determine eligibility, Determine the suitability of preservation as part of the redevelopment strategy, Ensure equal value of preservation, Establish higher MPDU threshold (20% affordable; 25% in CR zone)
Option: Provide credit counseling for income-qualified households to make them more creditworthy tenants

Benefit: Improves potential for households that can afford to rent existing units to find suitable housing, Can be tied into ownership programs, Partner with private entities already executing program

Location: All of Montgomery County

Challenge: Counseling does not guarantee results, Willingness of renters to use program, Access for non-County residents

Cost: Establishing program/staffing ($100,000 to $250,000, Operating program (costs vary based on size)

Recommendation: Build credit counseling program for potential renters in Montgomery County
Financial Tools

- General Appropriations
- In Lieu Fee for Small Projects
- Demolition Fees
- Tax Increment Financing
- 9% Credit Set Aside
- Local Housing Vouchers
FINANCIAL TOOLS
GENERAL APPROPRIATIONS

- **Option:** Increase County funding for price controlled rental housing preservation/development

- **Benefit:** Production/preservation of more rental housing affordable to low-income households

- **Location:** Throughout the County

- **Challenge:** May be politically challenging to increase funding, Balancing funding priorities

- **Cost:** Based on increased commitment

- **Recommendation:** Increase minimum funding threshold to $100 Million
FINANCIAL TOOLS
IN LIEU FEE FOR SMALL PROJECTS

- **Option:** Require a payment to the housing trust find for smaller projects not subject to the MPDU program requirements (<20 units)

- **Benefit:** Increase resources for acquisition and/or development of housing

- **Location:** Throughout the County

- **Challenge:** Setting the payment appropriately, Opposition from developers, Limited applicability and impact

- **Cost:** $0 up front costs, The value difference between market rate and 65% of AMI (under current MPDU program)
  - $250,000 to $1,000,000 per unit in FH/B/WF
  - $100,000 to $240,000 per unit in Rt. 29

- **Recommendation:** Calculate payment using half of the approved MPDU ratios
**Option:** Evaluate requiring property owners to pay a fee and/or tax for every demolished residential unit.

**Benefit:** Increase resources for acquisition and/or development of housing. Slow pace of condo conversion and preserve rental units.

**Location:** Throughout the County

**Challenge:** Setting the fee/tax, Opposition from property, Potentially limit development of condominiums

**Cost:** $0 up front costs, Cost to project dependent on tax rate

**Recommendation:** Implement a $1 to $3 per square foot tax based on ranking on the at-risk list
**Option:** Develop a TIF program for affordable housing

**Benefit:** Increase resources for acquisition and/or development of housing.

**Location:** Future Purple Line neighborhoods

**Challenge:** Opposition from residents/elected leadership, Legal obstacles

**Cost:** $0 following ‘but for test’ logic, Deferred collection of incremental revenues for duration of TIF

**Recommendation:** Allow TIF at 75% of increment for 20 years for either an increase in unit/FAR ratio or a greater discount from MPDU requirement (i.e. 30% of AMI)
**Option:** Work with Prince George’s County to lobby for special set aside of 9% credits using the Northern Virginia set aside as a model

**Benefit:** Production of more rental housing affordable to low-income households

**Location:** Throughout the County

**Challenge:** May be politically challenging to change state policy, Need buy-in and cooperation from PG County counterparts

**Cost:** Lobbying costs to state government, Estimated $50,000 to $100,000 annually

**Recommendation:** Partner with Prince George’s County to lobby for regional set aside
Option: Consider establishing a local housing voucher program, funded with dedicated resources. Target subsidies at households that are most in need and/or are not being served by other programs. Give preference to seniors, disabled persons and low-income individuals with jobs in the County.

Benefit: Increase access to housing among lowest-income households

Location: Throughout the County

Challenge: Requires additional and on-going resources, Potential lack of units to take vouchers

Cost: Voucher program to 30% of AMI
- $21,000 to $63,000 annually per unit in FH/B/WF
- $13,000 to $22,000 annually per unit in Rt. 29

Recommendation: Fund pilot program of 10 vouchers
OTHER TOOLS CONSIDERED

Off Site Density Averaging
Property Tax Abatement
Commercial Linkage Fees
Eviction Prevention
Rent Control Stabilization
Payment for Partial Units
4% LIHTC Program
**Option:** Allow varying densities on parcels within a specified zone/area such that the overall maximum density remains unchanged

**Benefit:** Flexibility in development opportunities could lead to the production of more housing overall

**Location:** Future Purple Line neighborhoods, Existing rental neighborhoods

**Challenge:** Identifying appropriate areas for density averaging, Willingness of owners to sell density, Limits an area's potential to accommodate

**Cost:** $0 up front costs, Transaction costs for transfer of density (if covered by the County)
**Option:** Offer a property tax exemption to owners of affordable rental properties on the additional value created by any improvements or renovations for a determined period in exchange for committed affordability.

**Benefit:** Preserve existing affordable rental housing.

**Location:** Existing Metro-accessible neighborhoods, Future Purple Line neighborhoods, Existing rental neighborhoods.

**Challenge:** Creating a sufficient incentive for property owners to commit to long-term affordability, Likely have to layer other inducements.

**Cost:** Will vary based on unit size, could range from $0.60 PSF (efficiency=$360; 3BR=$825) to $1.20 PSF (efficiency=$720; 3BR=$1,650) in abatements per unit per year.
- $75 PSF to $150 PSF in rehabilitation cost estimate.
**Option:** Evaluate assessing commercial linkage fees on new commercial construction

**Benefit:** Increase resources for acquisition and/or development of housing

**Location:** Throughout the County

**Challenge:** Setting the payment appropriately, Opposition from developers, Potential negative impact on economic growth

**Cost:** $0 up front costs, Impacts to commercial projects will depend upon fee structure
Option: Create a broad eviction prevention program that includes a good cause eviction law, expanded renter counseling and short-term assistance to renters

Benefit: Allow low-income renters to remain in their homes

Location: Throughout the County

Challenge: Opposition to good cause eviction law from property owners

Cost: $0 up front costs, Potential legal fees for arbitration/ litigation ($350 per hour and up)
**Option:** Establish a fixed annual rent increase thresholds for rental units within the County

**Benefit:** Controls how fast rents can escalate compared to natural market appreciation,

**Location:** Throughout the County

**Challenge:** Ties benefit to unit and not resident, Enables abuse of system over long term, Creates disincentive for modernization/uptkep

**Cost:** $0 up front costs, $0 operating costs
FINANCIAL TOOLS
FINANCIAL PAYMENT FOR PARTIAL UNITS

- **Option:** Have developers make cash payments for portions of units created by the MPDU requirement (i.e. 12.5%)

- **Benefit:** Increase resources for rehabilitation, acquisition, and/or development of housing

- **Location:** Throughout the County

- **Challenge:** Reduces unit delivery in each MPDU project by 1

- **Cost:** $0 up front costs, $0 to implement
FINANCIAL TOOLS
EXPANDED USE OF 4% CREDIT

- **Option:** Convene a group of developers and public officials to better understand barriers to wider utilization of the 4% tax credit and how to expand use of it.

- **Benefit:** Production and preservation of more rental housing affordable to low-income households

- **Location:** Throughout the County

- **Challenge:** Obstacles to using the 4% credit more may be great in the County, including the need to use tax-exempt bonds

- **Cost:** $0 up front costs, The difference between the value of the 4% vouchers and the loss of delivering units at 50% AMI
  - $35,000 to $40,000 per unit for MPDU units
  - $300,000 to $1,000,000 for market rate in FH/B/WF
  - $150,000 to $300,000 for market rate in Rt. 29
NEXT STEPS

RECOMMENDATIONS

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