Montgomery County, Maryland

RENTAL HOUSING STUDY STRATEGY COMMITTEE POLICY STRATEGY: RECOMMENDED TOOLS

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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

DRAFT

DEFINING PRIORITIES

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

- The County is committed to actively promoting policies to expand housing 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

POLICY RECOMMENDATIONS

MPDU Program

Increase Requirement FAR-Based Option Sliding Scale Option Off-Site Option



MPDU PROGRAM INCREASE REQUIREMENT OPTION

- **Option:** Revise the County's MPDU program to require a greater percentage of income controlled units
- Benefit: Potentially increase production of below market-rate housing
- Location: Throughout Montgomery County
- 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?
- <u>Cost:</u> \$0 up front costs to County, impacts to developers will depend on location, type, and size of project

MPDU PROGRAM FAR-BASED OPTION

- **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
- <u>Challenge</u>: 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)

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

MPDU PROGRAM SLIDING SCALE OPTION

- **Option:** Create a menu of income targets and set-aside percentages that developers can choose from to meet their affordability obligations
- Benefit: Meet needs below (and above) incomes of current households served by the MPDU program
- Location: Throughout the County with different options in different neighborhood types
- Challenge: Specifying appropriate set-aside percentages and income thresholds
- <u>Cost:</u> \$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) elsewise



CONSIDERATIONS SLIDING SCALE OPTION

Sliding Scale Ratios

By Income Threshold and Study Area

| | | Income Target | | | | | |
|------------|---|---------------|-------|-------|-------|--------|--|
| | STUDY AREA | 30% | 50% | MPDU | 80% | 100% | |
| Percentage | Route 29 Corridor East | 6.5% | 9.0% | 12.5% | 20.5% | 100.0% | |
| | Silver Spring/Glenmont | 7.5% | 10.0% | 12.5% | 17.0% | 32.0% | |
| | Rosemary Hills/Kensington | 6.5% | 9.5% | 12.5% | 20.5% | 100.0% | |
| | Friendship Heights/Bethesda/White Flint | 9.0% | 10.5% | 12.5% | 15.0% | 20.5% | |
| | Westbard/Kenwood | 7.0% | 9.0% | 12.5% | 16.0% | 35.0% | |
| | Patuxent/Cloverly | 6.5% | 9.5% | 12.5% | 21.0% | 100.0% | |
| | Aspen Hill | 6.5% | 9.0% | 12.5% | 20.5% | 100.0% | |
| Aside | Upper Rock Creek | 6.5% | 9.0% | 12.5% | 21.0% | 100.0% | |
| Set | Rockville/Gaithersburg | 6.0% | 9.0% | 12.5% | 23.0% | 100.0% | |
| | Potomac | 8.0% | 10.0% | 12.5% | 17.0% | 32.5% | |
| | Germantown & Vicinity | 6.0% | 9.0% | 12.5% | 22.5% | 100.0% | |
| | Agricultural Reserve | 6.0% | 9.0% | 12.5% | 23.0% | 100.0% | |

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



POLICY RECOMMENDATIONS

Land Use/Zoning Tools

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



LAND USE/ZONING TOOLS ADAPTIVE RE-USE

- **Option:** Identify underutilized buildings (commercial, schools) for conversion to housing
- Benefit: Expand overall housing development options
- Location: Throughout the County
- Challenge: Determining appropriate properties for re-use, Financing adaptive re-use projects, Neighborhood opposition
- **<u>Cost:</u>** \$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
- <u>Challenge:</u> 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
- <u>Benefit:</u> 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
- **<u>Cost:</u>** \$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



LAND USE/ZONING TOOLS UNDERDEVELOPED/VACANT LAND

- **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
- <u>Challenge</u>: 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
- <u>Cost:</u> \$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



POLICY RECOMMENDATIONS

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
- <u>Challenge</u>: Defining 'at-risk,' Implementing strategies to preserve market-rate affordable units after they are identified
- <u>Cost:</u> 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



PRESERVATION TOOLS EXPANDED RIGHT OF FIRST REFUSAL

- **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: Us at-risk list to determine action, Fund greater acquisition efforts



PRESERVATION TOOLS REDEVELOPMENT WITH PRESERVATION

- **Option:** Allow the shifting of density from one part of a site to another such that a complete project conforms to density requirements
- Benefit: Potentially preserve existing affordable rental housing while encouraging redevelopment
- Location: Future Purple Line neighborhoods, Existing rental neighborhoods
- **Challenge:** Identifying appropriate sites, Neighborhood opposition
- **Cost:** \$0 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)



PRESERVATION TOOLS CREDIT COUNSELING

- **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



POLICY RECOMMENDATIONS

Financial Tools

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



FINANCIAL TOOLS GENERAL APPROPRIATIONS

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



FINANCIAL TOOLS DEMOLITION FEES

- **Option:** Evaluate requiring property owners to pay a fee and/or tax for every demolished residential unit.
- Benefit: Increase resources for acquisition and/or development of housing. Slow pace of condo conversion and preserve rental units.
- Location: Throughout the County
- Challenge: Setting the fee/tax, Opposition from property, Potentially limit development of condominiums
- **Cost:** \$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

FINANCIAL TOOLS TAX INCREMENT FINANCING

- **Option:** Develop a TIF program for affordable housing
- <u>Benefit</u>: Increase resources for acquisition and/or development of housing.
- Location: Future Purple Line neighborhoods
- <u>Challenge</u>: Opposition from residents/elected leadership, Legal obstacles
- <u>Cost:</u> \$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)



FINANCIAL TOOLS 9% CREDIT SET ASIDE

- **Option:** Work with Prince George's County to lobby for special set aside of 9% credits using the Northern Virginia set aside s a model
- Benefit: Production of more rental housing affordable to low-income households
- Location: Throughout the County
- <u>Challenge</u>: 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



OTHER TOOLS LOCAL HOUSING VOUCHERS

- 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



LAND USE/ZONING TOOLS DENSITY AVERAGING

- **Option:** Allow varying densities on parcels within a specified zone/area such that the overall maximum density remains unchanged
- Benefit: Flexibility in development opportunities could lead to the production of more housing overall
- Location: Future Purple Line neighborhoods, Existing rental neighborhoods
- <u>Challenge</u>: Identifying appropriate areas for density averaging, Willingness of owners to sell density, Limits an areas potential to accommodate
- <u>Cost:</u> \$0 up front costs, Transaction costs for transfer of density (if covered by the County)



PRESERVATION TOOLS PROPERTY TAX ABATEMENT/EXEMPTION

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

FINANCIAL TOOLS COMMERCIAL LINKAGE FEES

- **Option:** Evaluate assessing commercial linkage fees on new commercial construction
- Benefit: Increase resources for acquisition and/or development of housing
- Location: Throughout the County
- Challenge: Setting the payment appropriately, Opposition from developers, Potential negative impact on economic growth
- Cost: \$0 up front costs, Impacts to commercial projects will depend upon fee structure

PRESERVATION TOOLS EVICTION PREVENTION

- **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
- <u>Cost:</u> \$0 up front costs, Potential legal fees for arbitration/ litigation (\$350 per hour and up)



PRESERVATION TOOLS RENT CONTROL STABILIZATION

- **Option:** Establish a fixed annual rent increase thresholds for rental units within the County
- <u>Benefit</u>: 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/upkeep
- 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%)
- <u>Benefit</u>: Increase resources for rehabilitation, acquisition, and/or development of housing
- Location: Throughout the County
- <u>Challenge</u>: Reduces unit delivery in each MPDU project by 1
- **<u>Cost:</u>** \$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
- <u>Cost:</u> \$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





RECOMMENDATIONS

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