

Montgomery County Preservation Study Update



Neighborhood Fundamentals, LLC

April 2020

Agenda

Housing Landscape Overview

Subsidized / Deed Restricted Housing

Naturally-Occurring Affordable Housing

HR&A Scope

The HR&A team has a four-part scope to deliver an analysis of existing affordable housing in Montgomery County and recommended strategies for preservation.

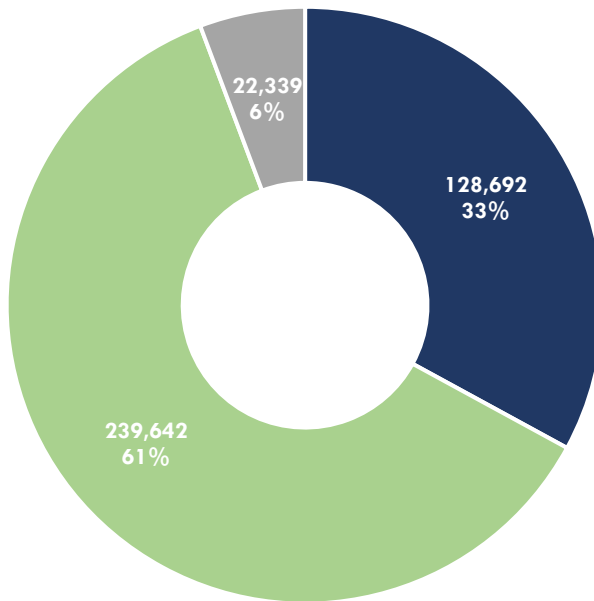
- 1. At Risk Property Inventory Analysis**
 - Unrestricted / Unsubsidized Units
 - Deed-Restricted / Subsidized Units
- 2. Existing County Preservation Policies**
- 3. Best Practices Analysis**
- 4. Recommended Strategies for Preservation**

Housing Landscape

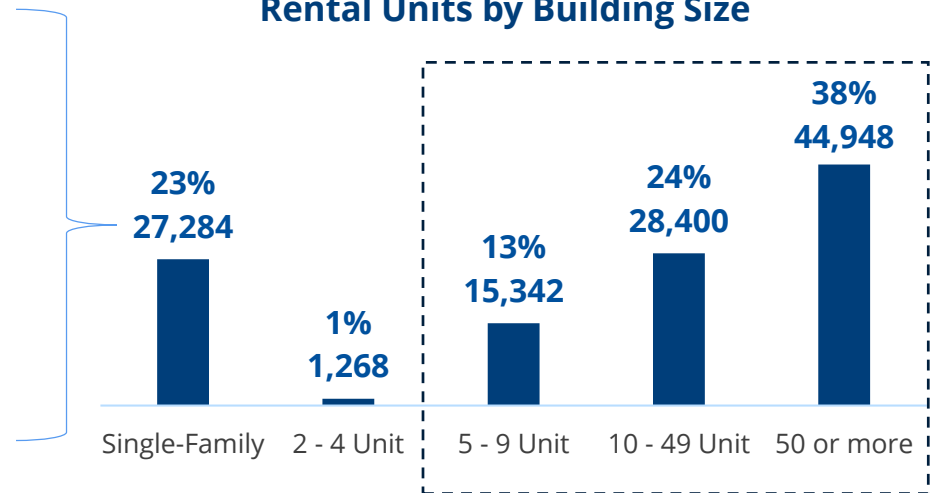
Montgomery County has a population of 1.1m residents with 391k housing units. Of these 240k units (65%) are owner-occupied and 129k units (35%) are renter-occupied.

Montgomery County Housing Units

■ Renter Occupied ■ Owner Occupied ■ Vacant



Rental Units by Building Size



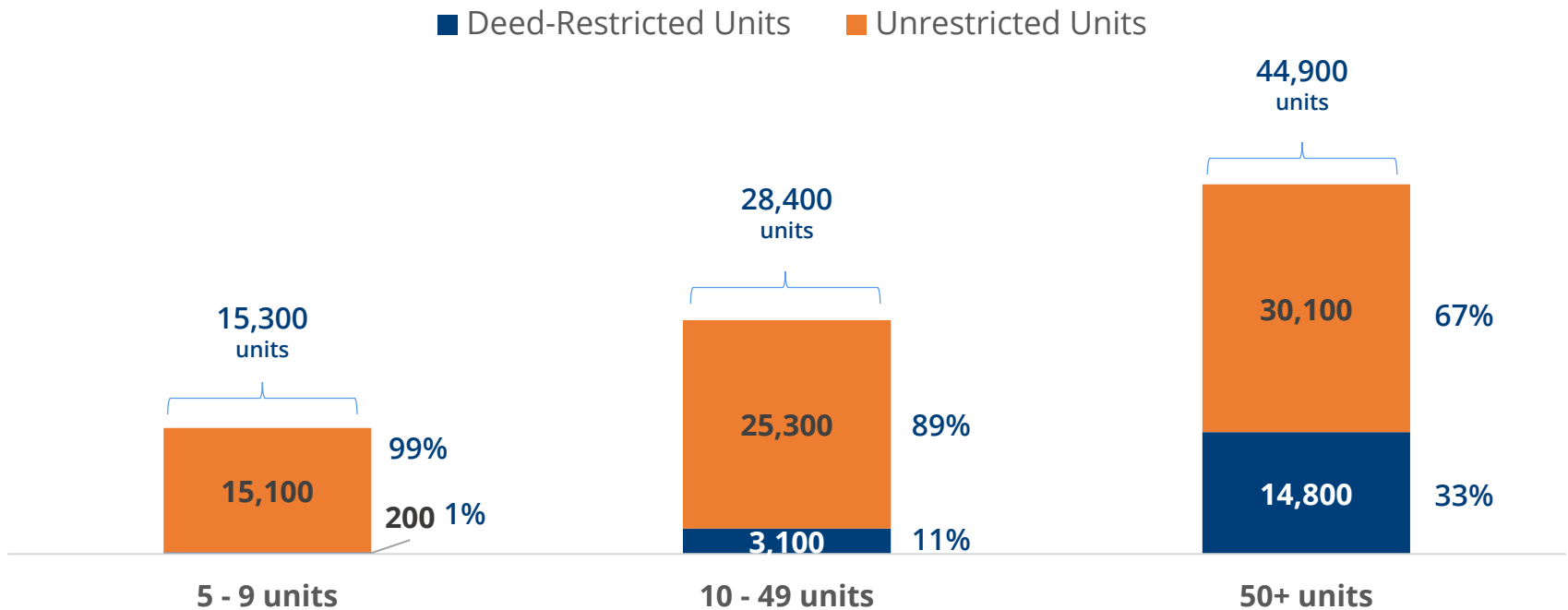
The preservation study focuses on rental multifamily housing.

Source: ACS 2018 1-year

Housing Landscape | Multifamily Housing

20% (18,000 units) of the County's multifamily housing stock is subsidized (deed-restricted). 82% of these units are in large buildings with 50+ units.

Multifamily Units by Building Size and Subsidy Status

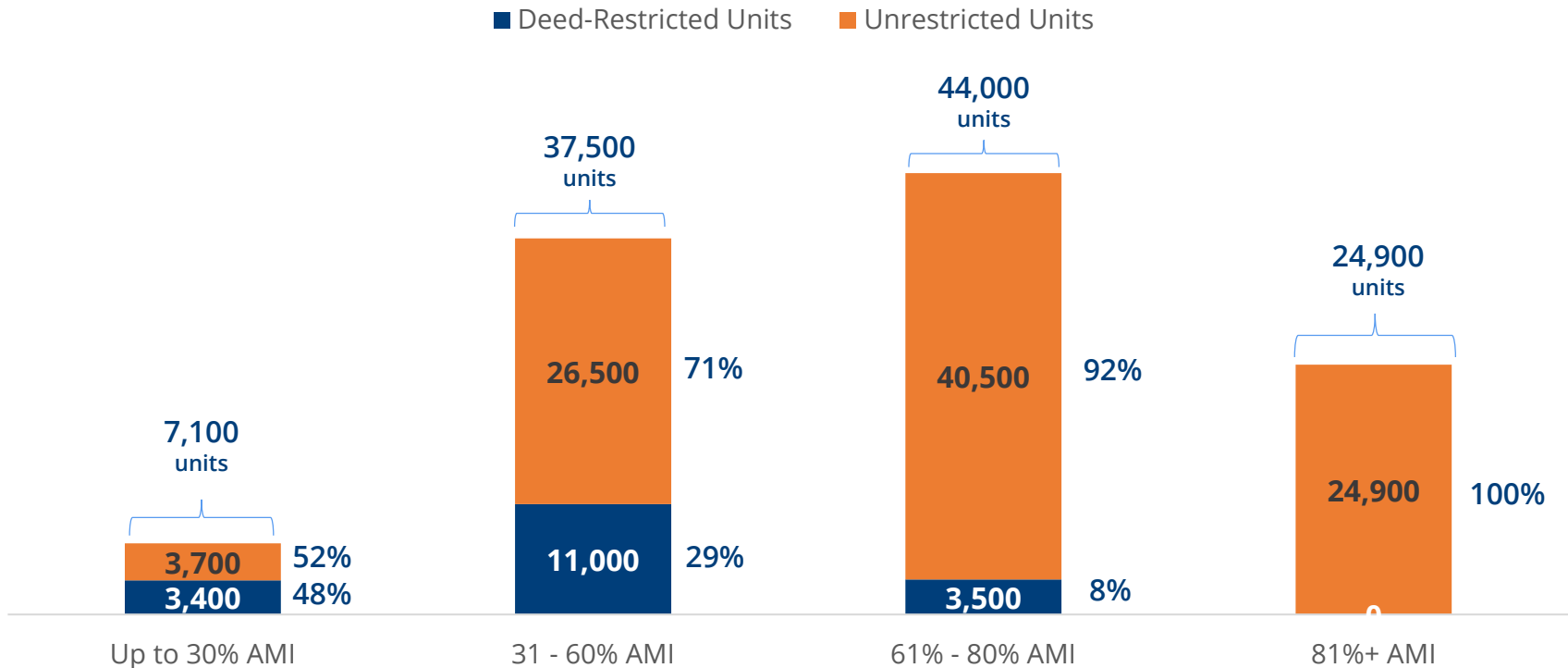


Source: ACS 2018 1-year

Housing Landscape | Multifamily Housing Affordability

The plurality of the County's rental multifamily housing stock is affordable to households earning between 60% - 80% of AMI currently. Deed-restricted units make up 32% of units below 60% of AMI.

Multifamily Units by Affordability Level



Source: ACS 2018 1-year

Housing Landscape

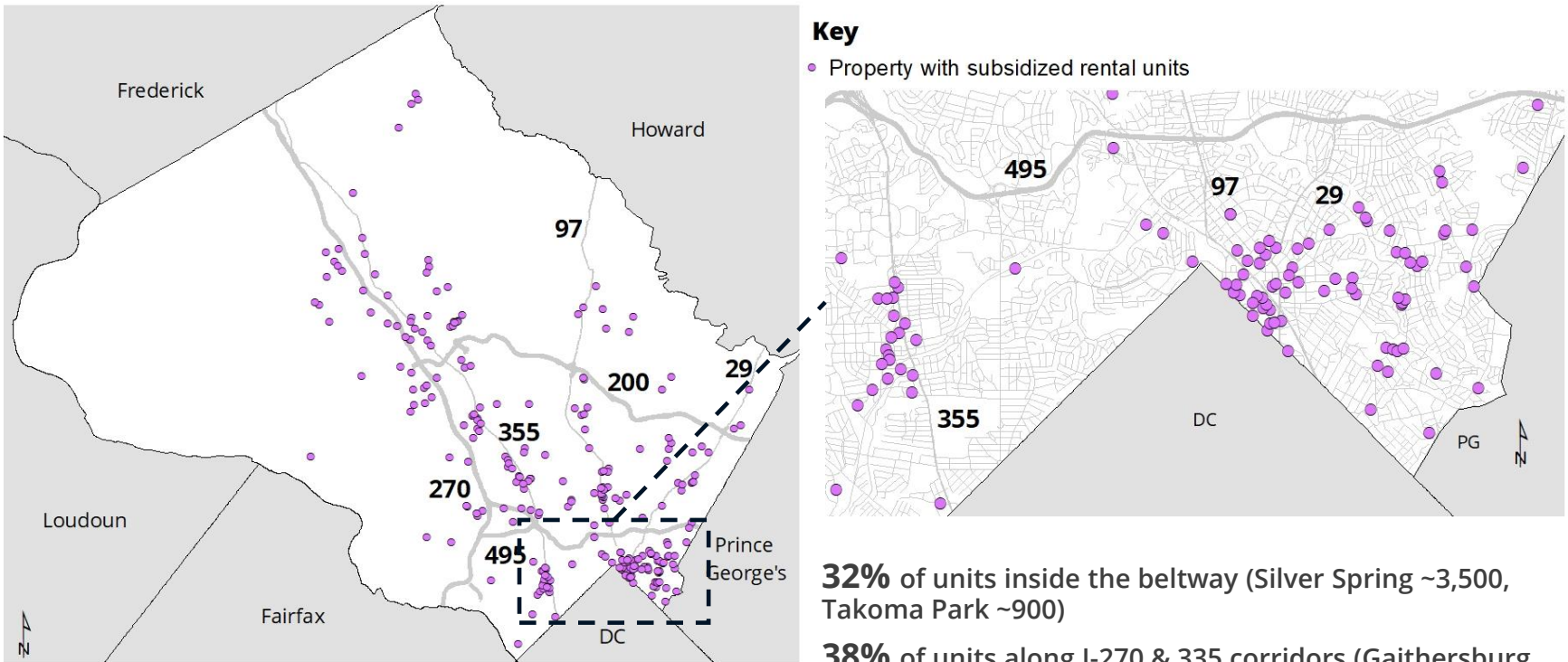
Subsidized / Deed Restricted Housing

Naturally-Occurring Affordable Housing

Current Conditions | Deed-Restricted Housing

There are approximately 18,000 subsidized rental units. Of these units, 32% are inside the beltway and 38% are along I-270 & 335 corridors.

Deed-Restricted Inventory (5+ units), 2020



Source: ACS 2018 1-year

32% of units inside the beltway (Silver Spring ~3,500, Takoma Park ~900)

38% of units along I-270 & 335 corridors (Gaithersburg ~3,000, Rockville ~2,600)

Current Conditions | Age of Inventory

The inventory is relatively old with an influx of new units in the last decade. 35% of the inventory was built in the 1960s and 1970s while 16% was built since 2010.

Montgomery Arms Apts



Silver Spring House



Fields of Gaithersburg



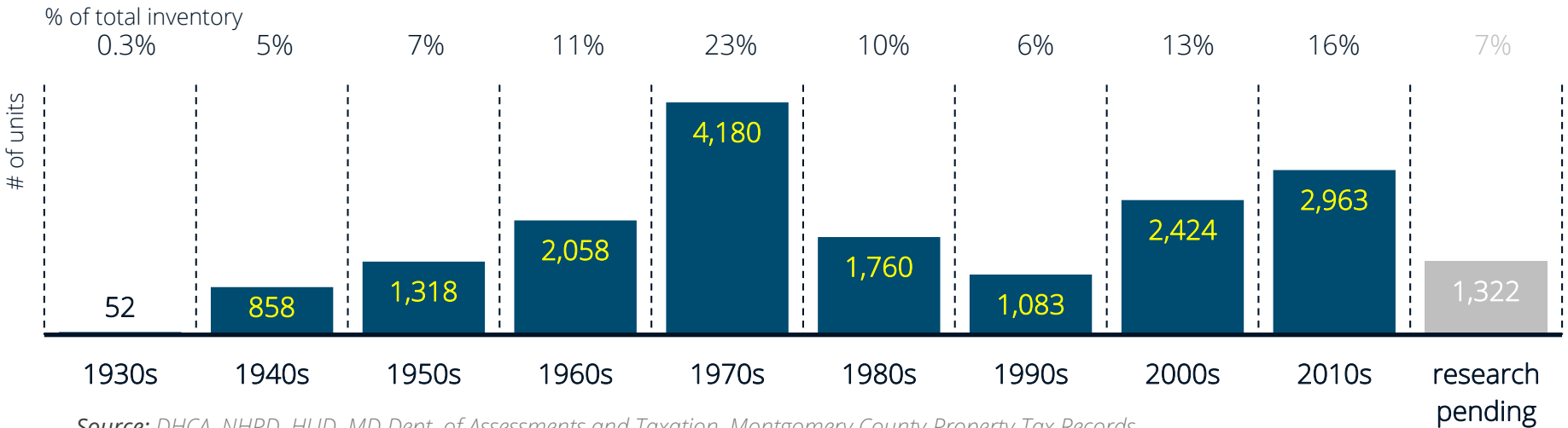
Timberlawn Crescent



Momentum at Shady



Subsidized Rental Inventory, by Decade Built

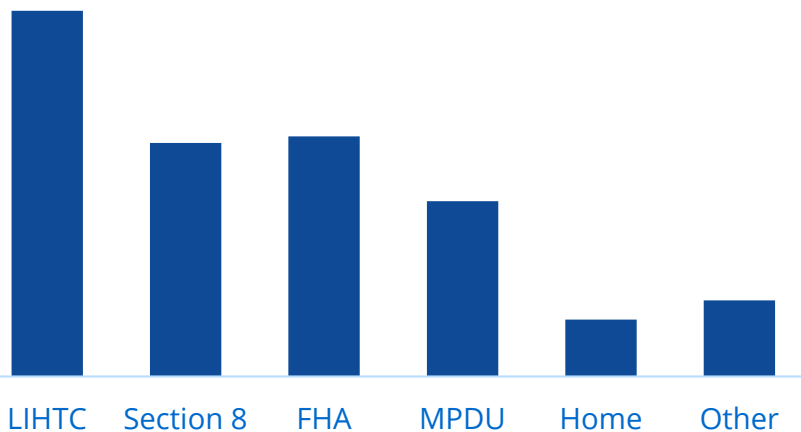


Source: DHCA, NHPD, HUD, MD Dept. of Assessments and Taxation, Montgomery County Property Tax Records

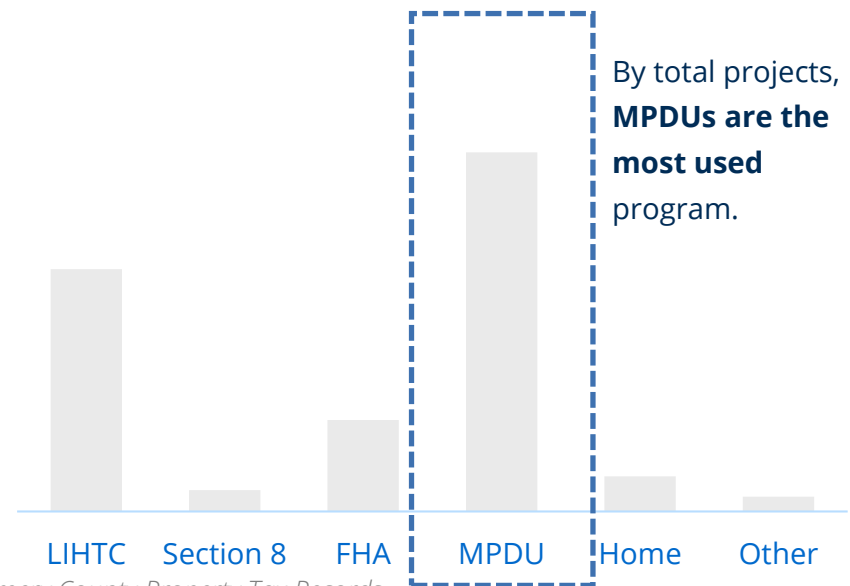
Current Conditions | Units by Subsidy Type

LIHTC has produced 32% of all of the County's existing units—however since 2000, MPDUs have produced 1,200 more units than LIHTC.

Units by Program - All



Units by Program - Built since 2000

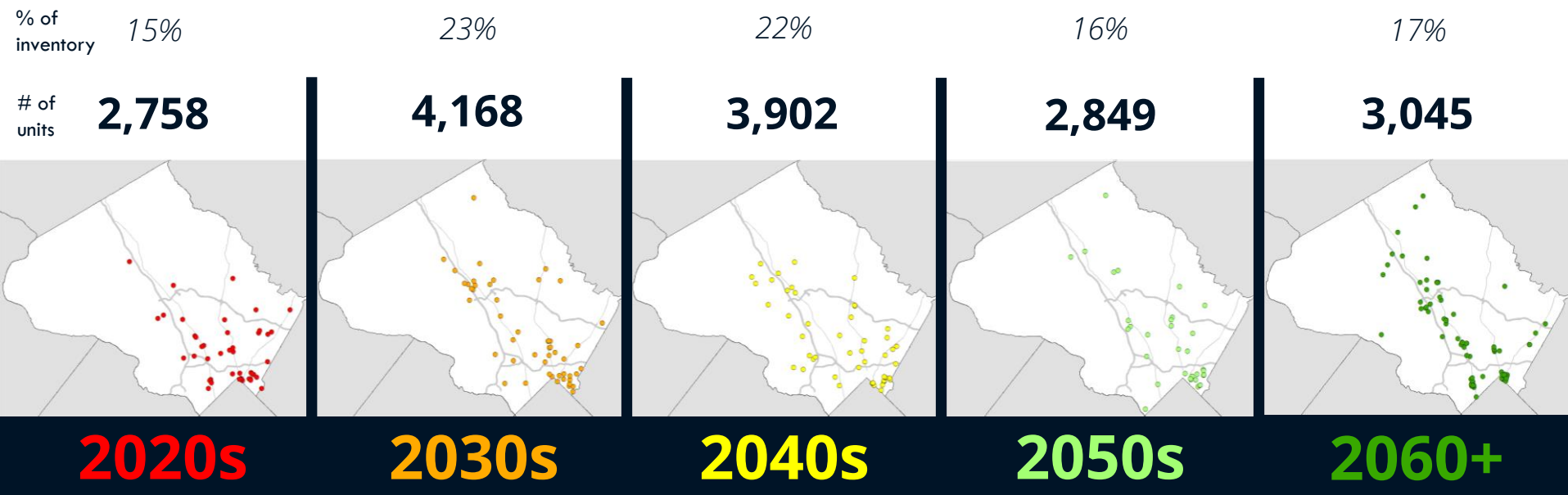


Source: DHCA, NHPD, HUD, MD Dept. of Assessments and Taxation, Montgomery County Property Tax Records

Current Conditions | Affordability Ranges

About 40% of the total inventory have subsidy expirations in the next two decades (7,000 units). Half of these units are inside the beltway.

Subsidized Rental Inventory by Expiration Decade



15% of the total inventory has expirations beyond 2100

Source: DHCA, NHPD, HUD, MD Dept. of Assessments and Taxation, Montgomery County Property Tax Records

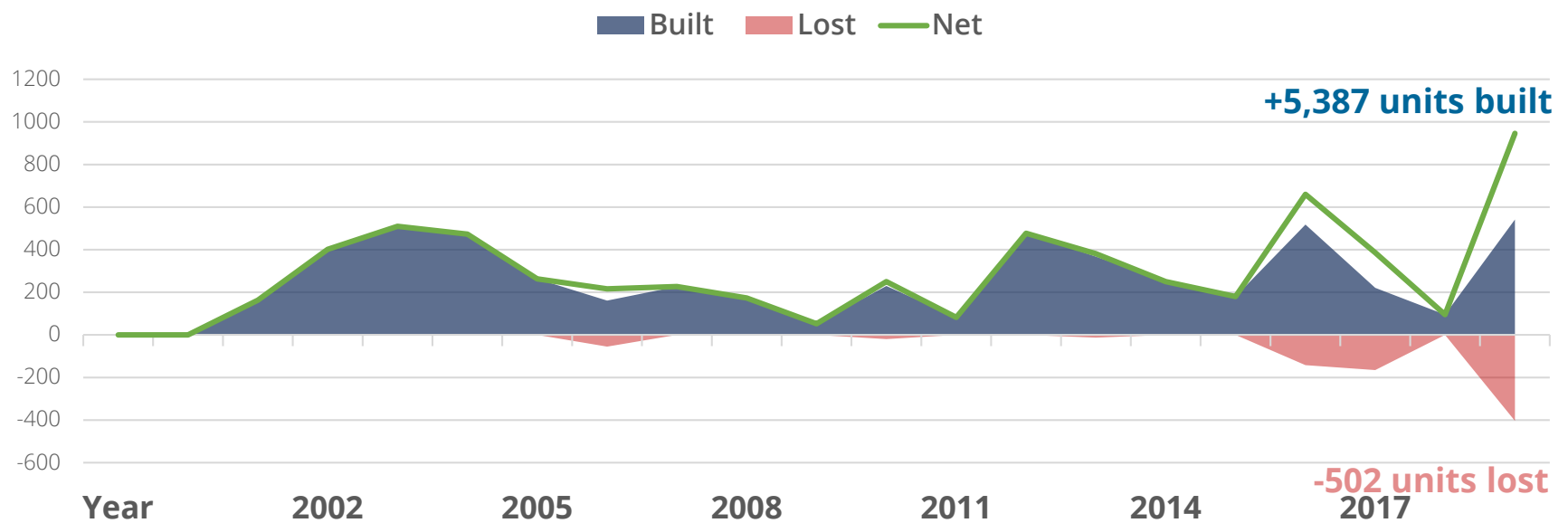
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Historic Trends | Patterns of Inventory Loss / Gain

The County has been building subsidized housing faster than units being lost. Most of the units being lost are Section 8 units within larger market-rate properties, while most being built currently are MPDUs.

Net Change in Subsidized Rental Housing 2000 - 2019



Source: DHCA, NHPD, HUD, MD Dept. of Assessments and Taxation, Montgomery County Property Tax Records

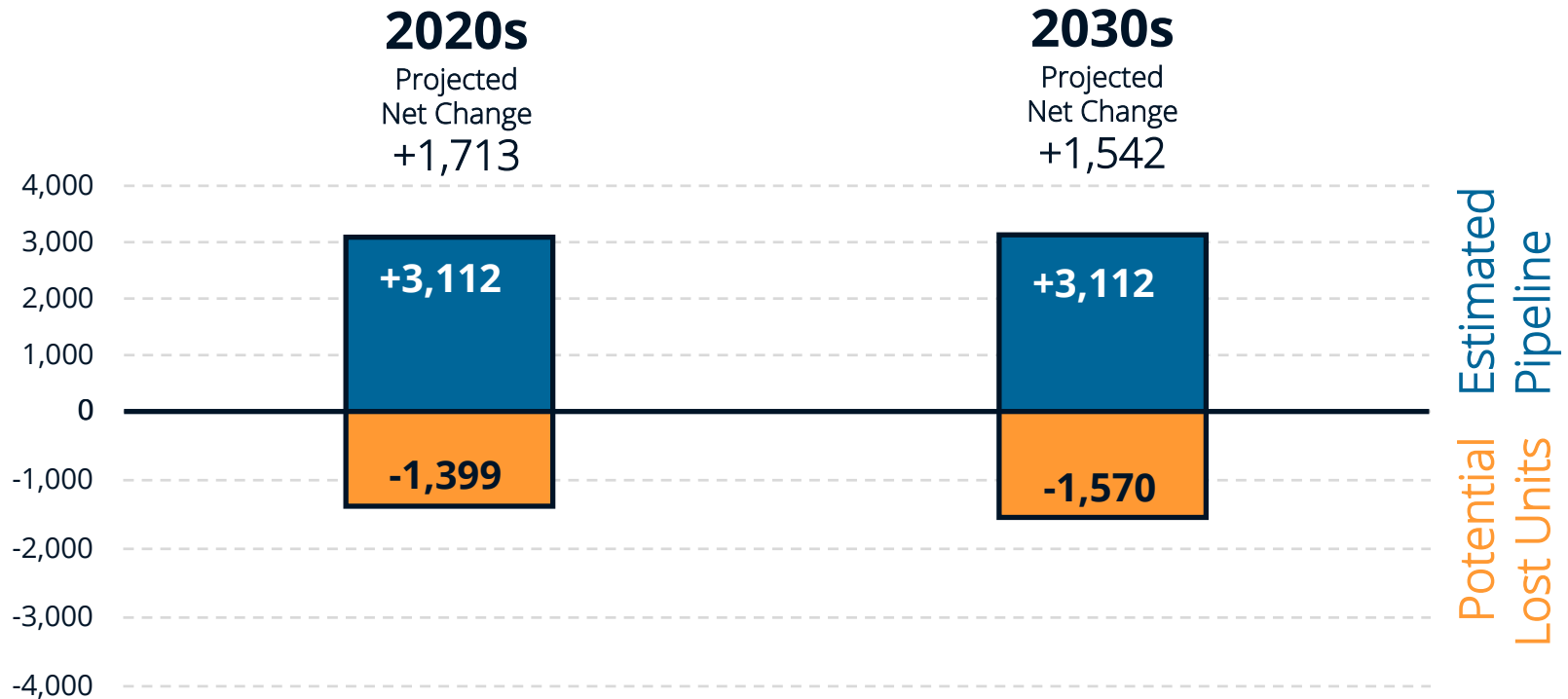
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Future Trends | Estimating Net Loss / Gain

About 60% of the inventory expiring in the 2020s and 2030s are owned by non-profits and classified as lower risk. The remaining are owned by for-profit companies and have a potential to be lost. Nevertheless, development outpaces loss, however newer AMIs may be higher.

Estimated Net Change in Subsidized Rental Housing Inventory, 2020s and 2030s

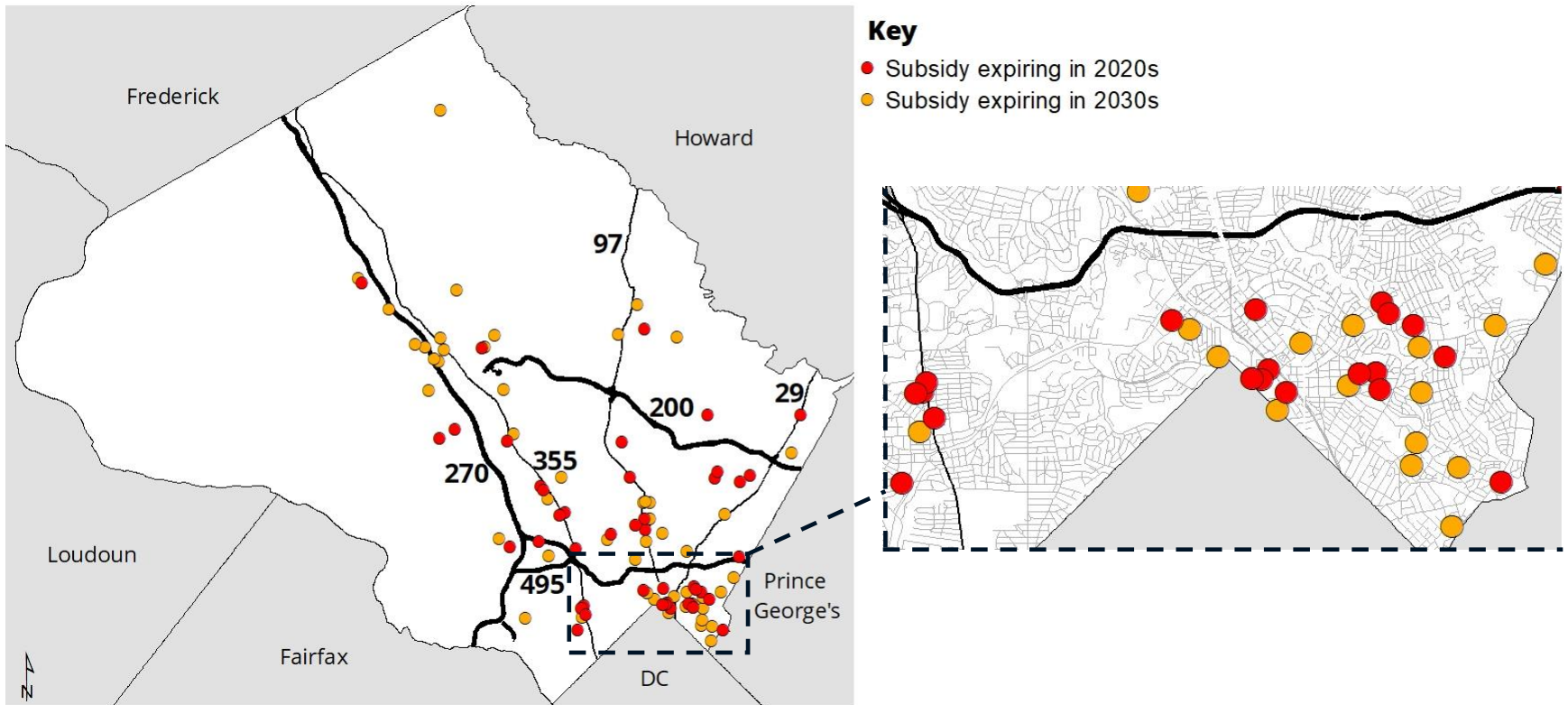


Source: DHCA, NHPD, HUD, MD Dept. of Assessments and Taxation, Montgomery County Property Tax Records

Risk Criteria | Upcoming Subsidy Expirations

- Risk assessment focused on properties with subsidy expirations in the next 20 years

Rental Inventory with Subsidy Expirations 2020s and 2030s

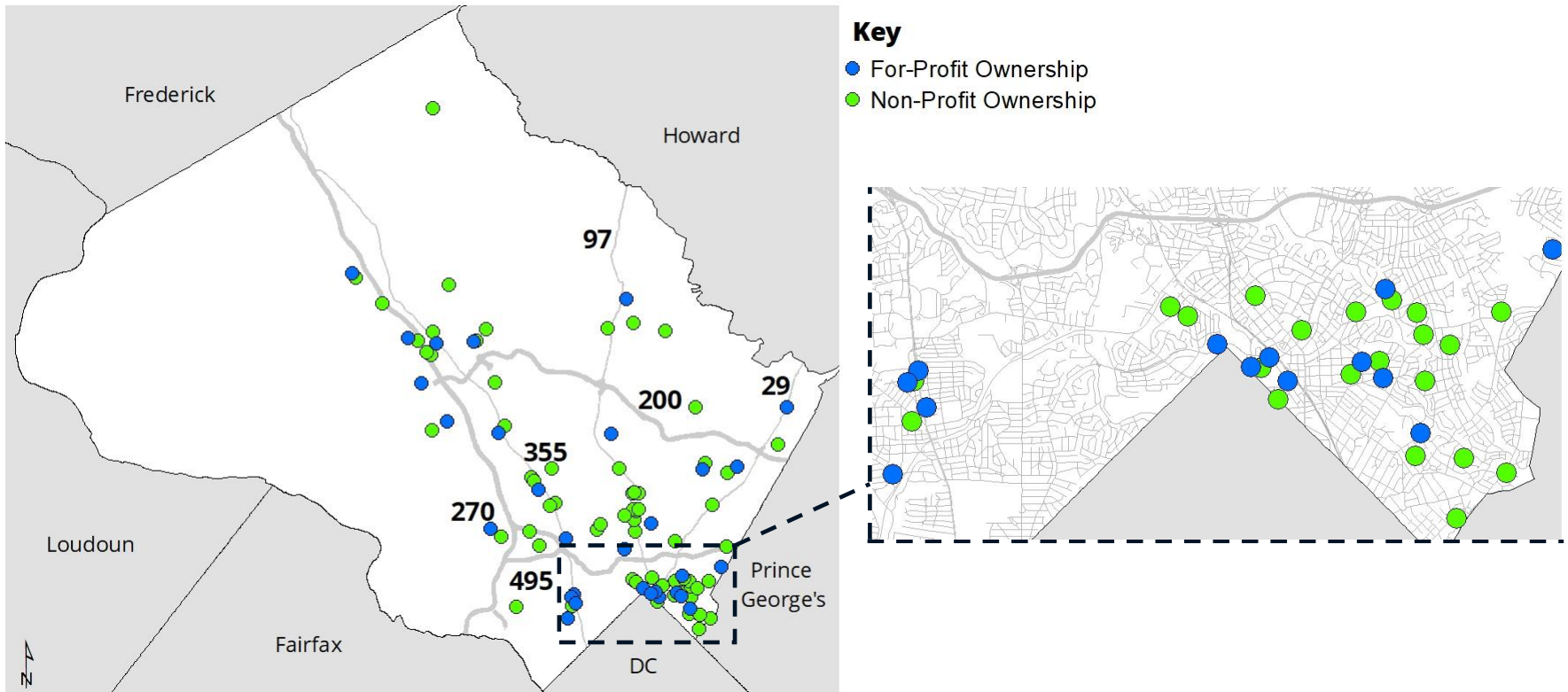


Source: DHCA, NHPD, HUD
LSA

Risk Criteria | Ownership Type

- Units owned by non-profit/mission-based organization less likely to be lost
- Nearly 3,000 units owned by for-profit companies have subsidies expiring in 2020s & 2030s

2020s/2030s Subsidy Expirations by Ownership Type

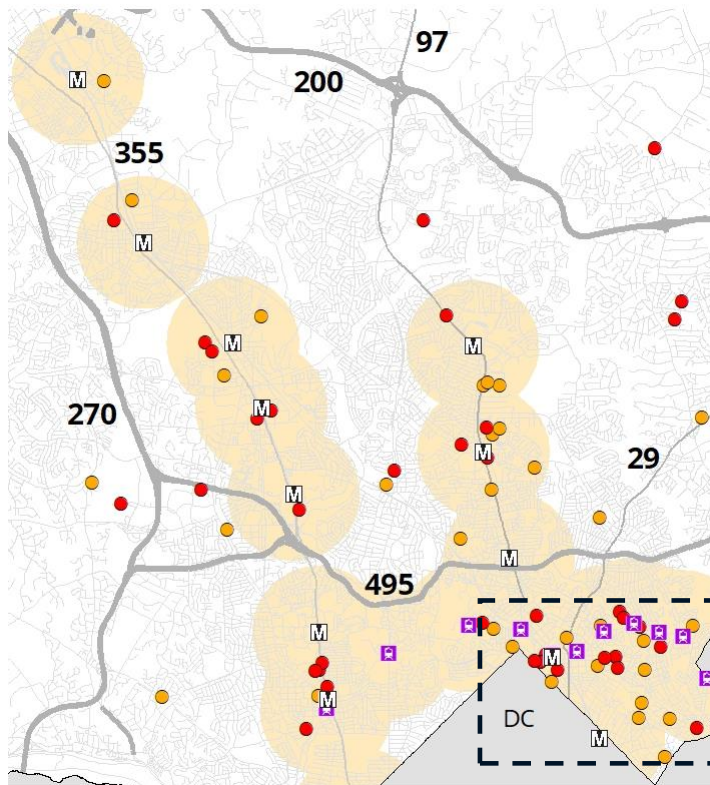


Source: DHCA, NHPD, HUD, MD Dept. of Assessments and Taxation, Montgomery County Property Tax Records

Risk Criteria | Proximity to Transit Infrastructure

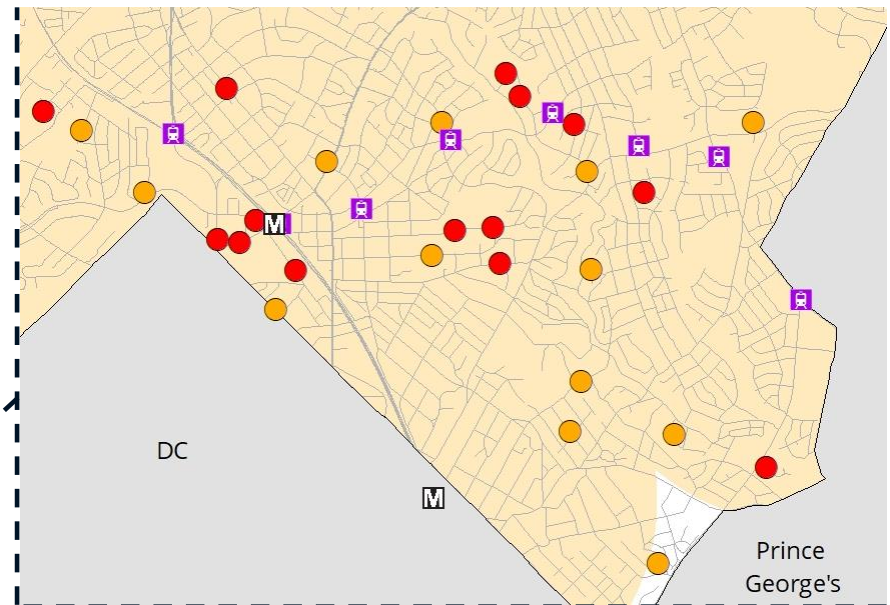
- Rent and development pressure generally higher near transit infrastructure
- About 62% of inventory with upcoming expirations (2020s & 2030s) are near rail stations

2020s/2030s Subsidy Expirations and Rail Transit



Key

- Subsidy expiring in 2020s
- Subsidy expiring in 2030s
- Ⓜ Metro rail Station
- 🚊 Purple Line Station
- 🟡 Within 1 mile of rail station

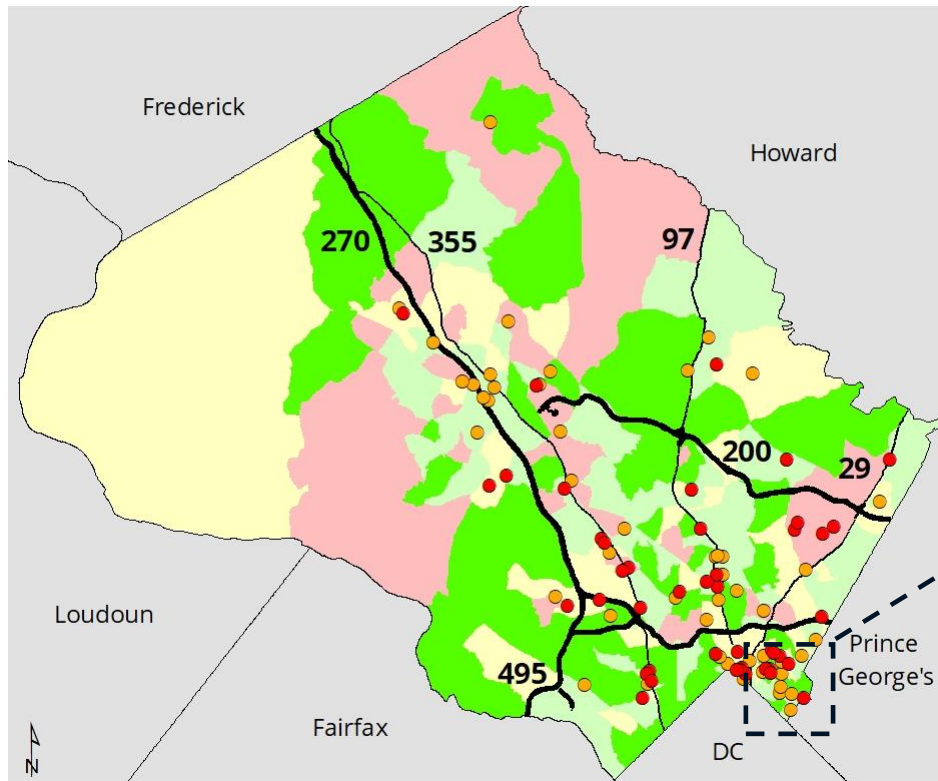


Source: DHCA, NHPD, HUD
LSA

Risk Criteria | Rent Trends in the Neighborhood

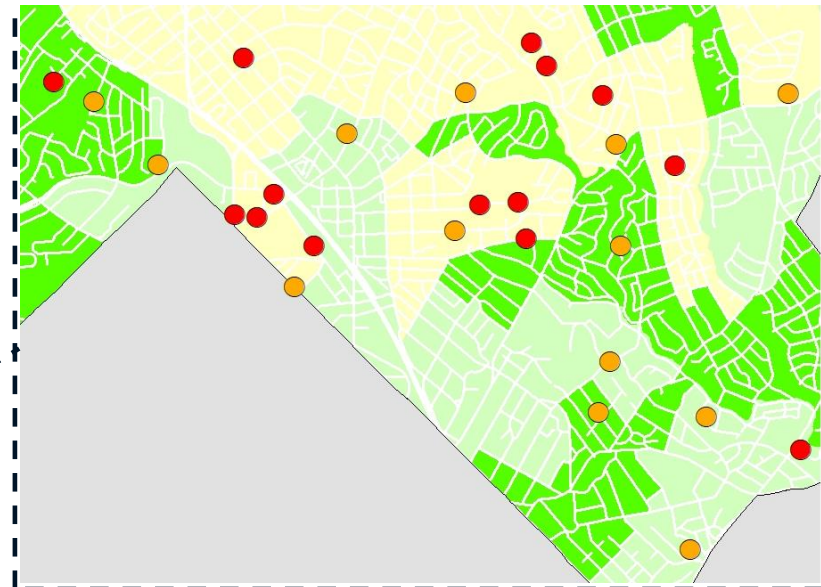
- Upward rent trends in surrounding areas indicator of rent hike/redevelopment pressure

% Change, Median Rent, 2012 to 2017, by Census Tract



Key

- Subsidy expiring in 2020s
- Subsidy expiring in 2030s
- Decline in median rent
- Increase 0% to 10%
- Increase 10% to 20%
- Increase 20% +

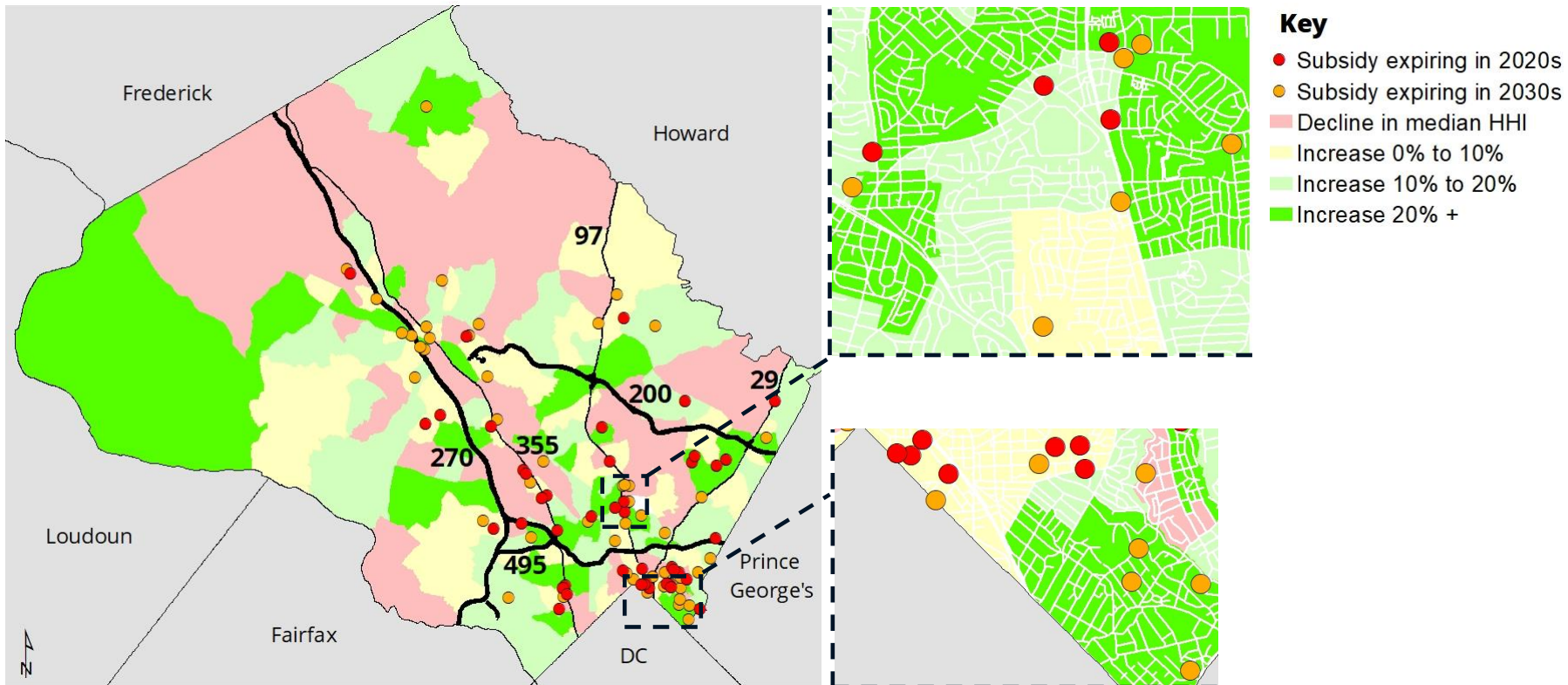


Source: DHCA, NHPD, HUD, U.S. Census Bureau 5-Year American Community Survey

Risk Criteria | Income Trends in the Community

- Income trends in surrounding areas could reflect housing market price shifts/pressure

% Change, Median Household Income, 2012 to 2017, by Census Tract

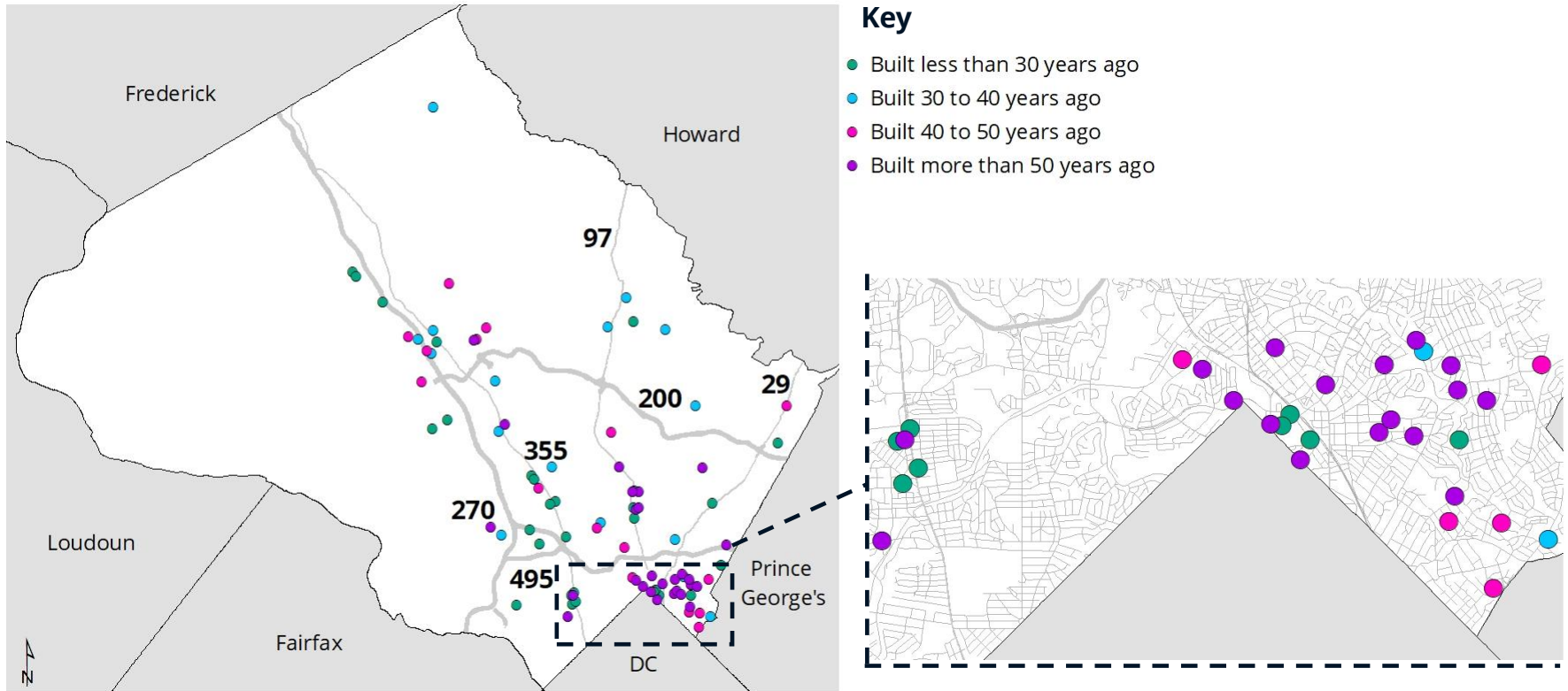


Source: DHCA, NHPD, HUD, U.S. Census Bureau 5-Year American Community Survey

Risk Criteria | Age of the Buildings

- Older buildings more likely to induce major rehab + rent hikes or full redevelopment upon subsidy expiration
- Nearly 5,000 units with expiring subsidies in the next 2 decades are 30+ years old

2020s/2030s Subsidy Expirations by Age of Property



Source: DHCA, NHPD, HUD, MD Dept. of Assessments and Taxation, Montgomery County Property Tax Records

LSA

Risk Assessment | Properties Most At-Risk

- **Applied the risk criteria to the 2020s/2030s expirations; identified higher-risk properties**
- **Over 1,000 units at 40% to 60% AMI affordability; about 400 at 30% AMI or less**
- **Properties owned by for-profit companies in neighborhoods with upward rent trends**
- **In most cases proximate to rail transit and built more than 30 years ago**
- **Income trends are generally rising in and around these communities**

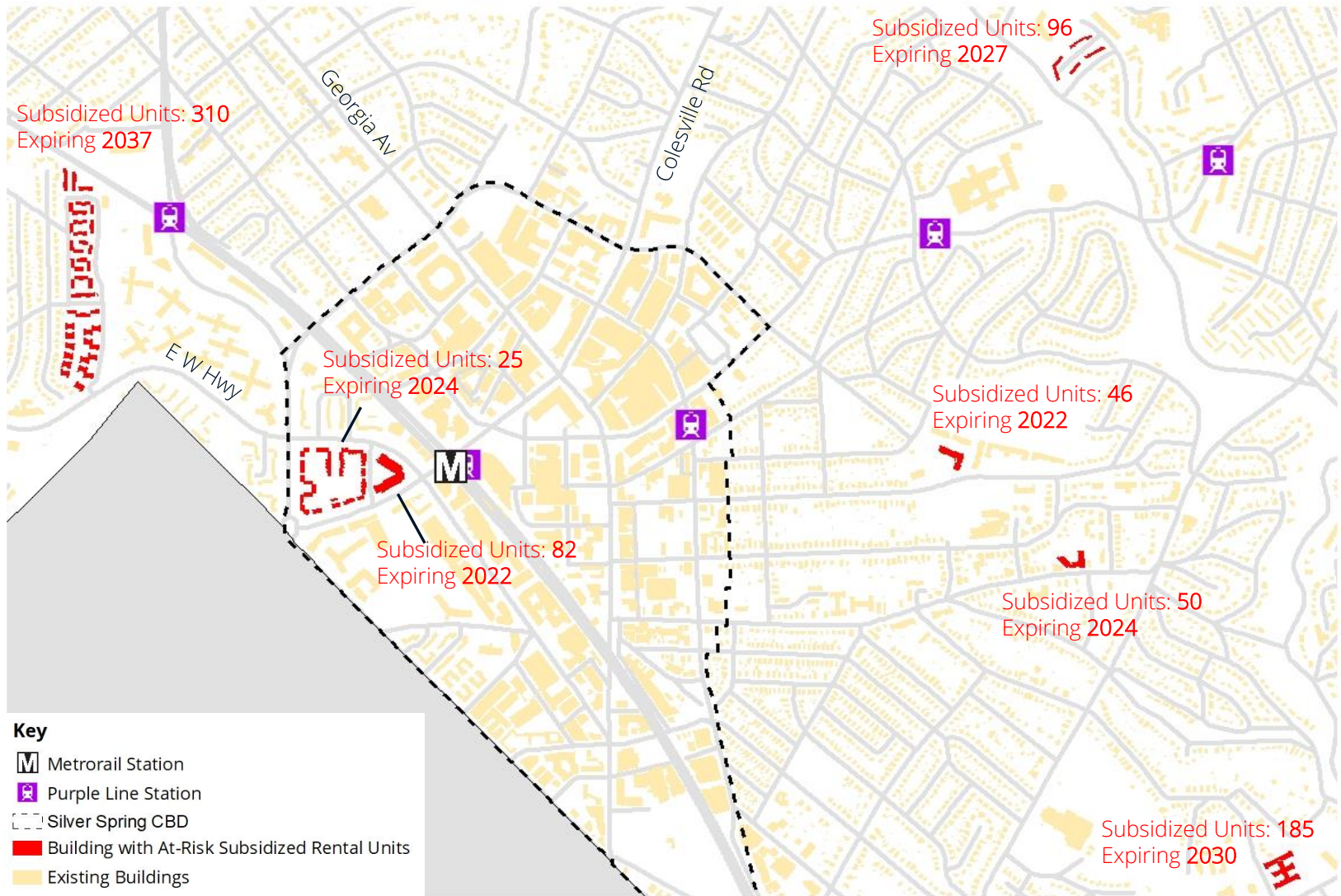
2020s/2030s Subsidy Expirations, Higher-Risk Properties

Census Tract Trends
(2012 to 2017)

Property Name	Subsidy Expiration	Subsidized Units	AMI Ranges			Rail Transit < 1 mile	Ownership Type	Building Age (Years)	Median Rent	Median HH Income
			<30%	40% - 60%	60% - 80%					
Heritage House	2021	100	100	0	0	Yes	For-Profit	39	13%	7%
Silver Spring House	2022	46	0	46	0	Yes	For-Profit	57	9%	1%
Lenox Park	2022	82	0	82	0	Yes	For-Profit	29	7%	1%
Sligo House Apartments	2024	50	0	50	0	Yes	For-Profit	61	9%	1%
Falkland Chase	2024	25	0	25	0	Yes	For-Profit	81	7%	1%
Croydon Manor	2027	96	0	96	0	Yes	For-Profit	71	7%	11%
Fields At Bethesda	2029	369	0	369	0	Yes	For-Profit	67	9%	-3%
Franklin Apartments	2030	185	185	0	0	Yes	For-Profit	65	16%	26%
Fields Of Gaithersburg	2031	168	0	168	0	No	For-Profit	46	20%	15%
Barrington Apartments	2037	310	125	185	0	Yes	For-Profit	68	24%	-4%

Source: DHCA, NHPD, HUD, MD Dept. of Assessments and Taxation, Montgomery County Property Tax Records, Census Bureau 5-Year ACS LSA
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Risk Assessment | Properties Most At-Risk



Source: DHCA, NHPD, HUD, MD Dept. of Assessments and Taxation, Montgomery County Property Tax Records, Census Bureau 5-Year ACS LSA
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Subsidized Housing | Next Steps

- **Link preservation tools and strategies with characteristics of the at-risk inventory**
- **Update estimates with pipeline data**
- **Incorporate feedback / changes**
- **Finalize and present to Planning Board**

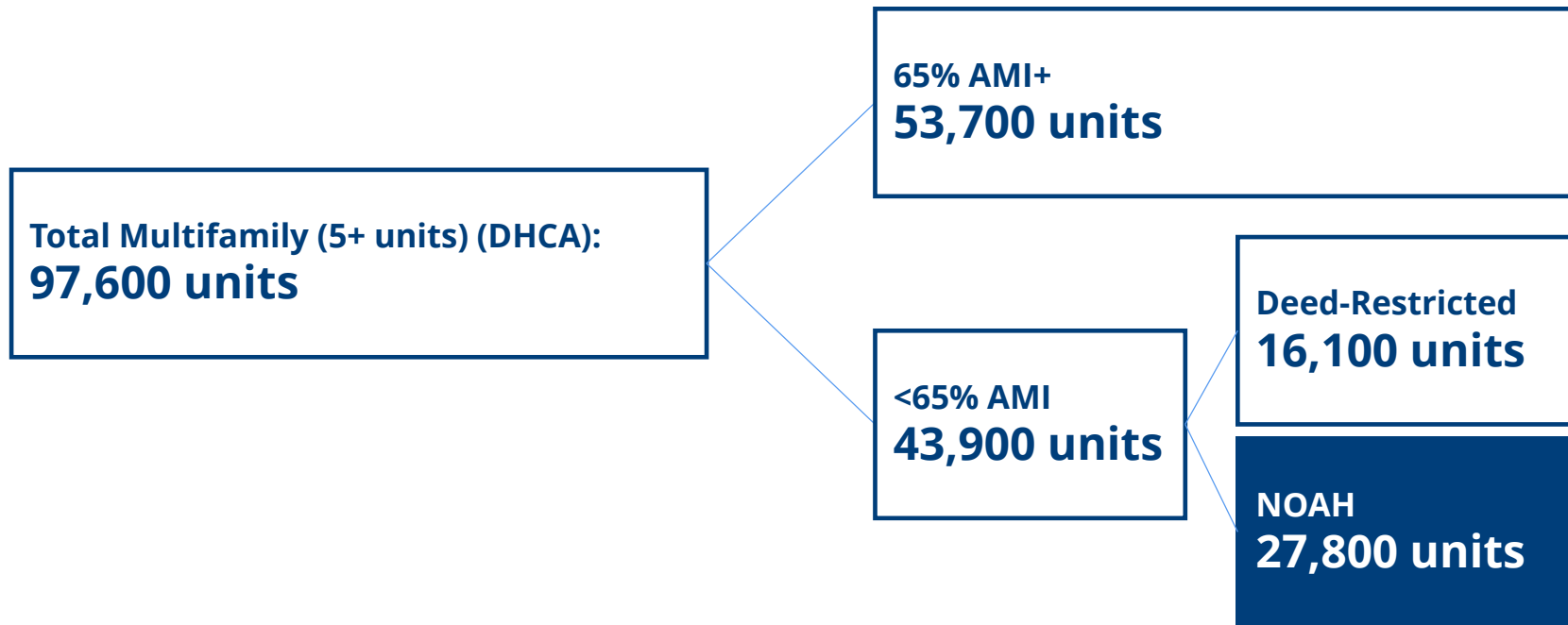
Housing Landscape

Subsidized / Deed Restricted Housing

Naturally-Occurring Affordable Housing

Naturally Occurring Affordable Housing

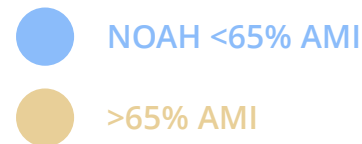
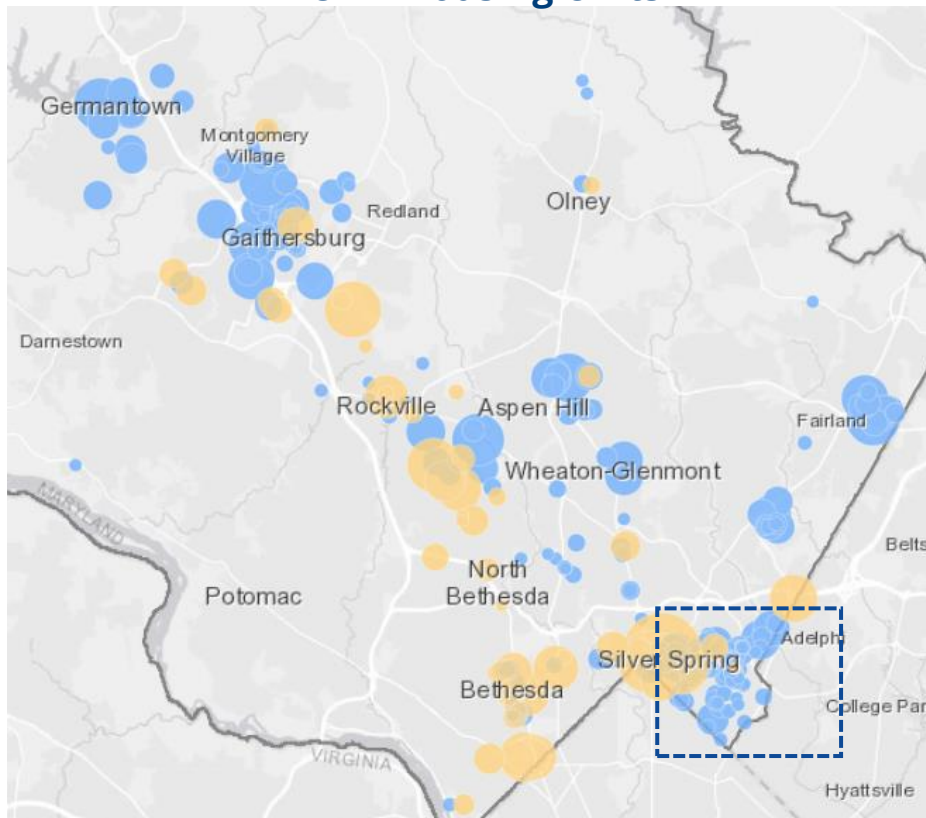
80% of the County's multifamily housing stock is unrestricted—subject to market forces. 35% of these units (27,800 units) renter for less than 65% of AMI—and are classified as naturally-occurring affordable (NOAH).



Sources: DHCA, ACS 2018 1-year

NOAH largely lies on the east side of I-270 and outside the beltway and is consistent with areas that have seen less growth in high-income demand.

NOAH Housing Units

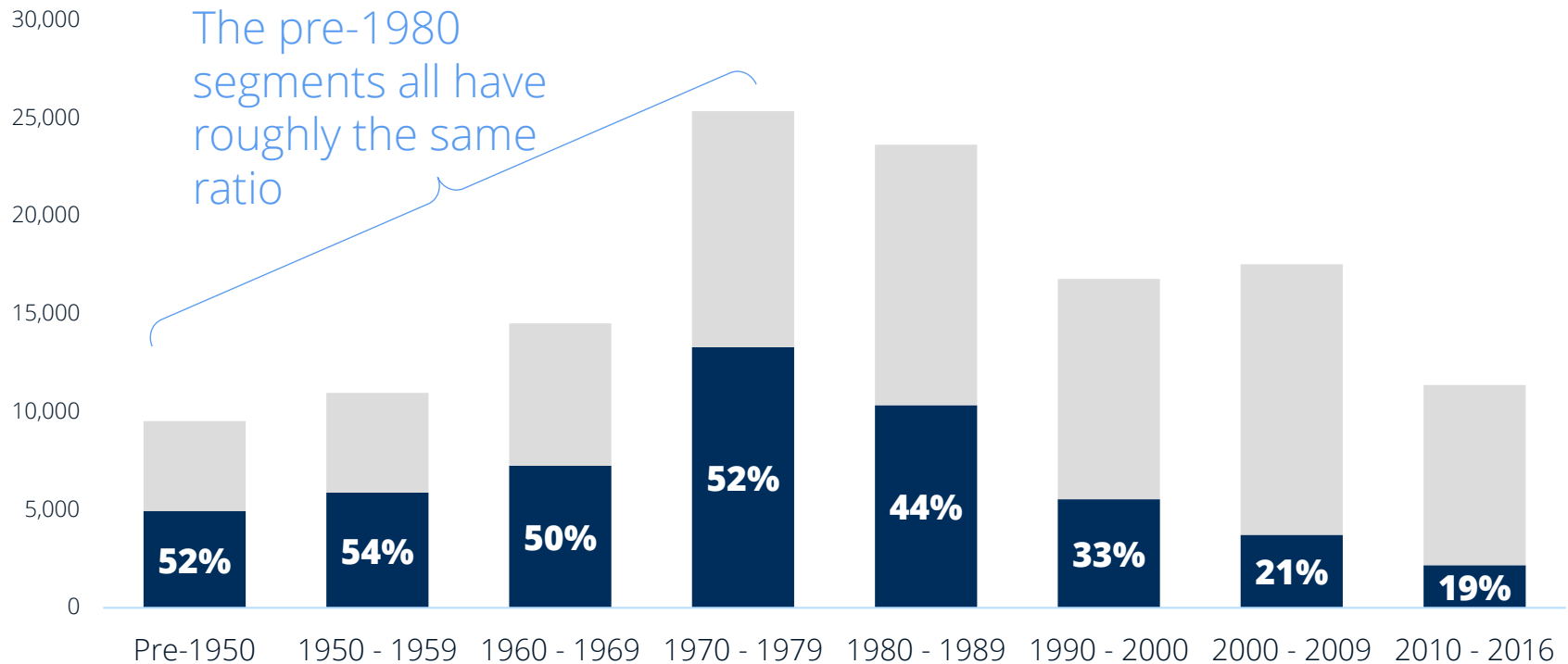


Takoma Park is a notable exception with rent stabilization.

Sources: DHCA, ACS 2018 1-year

78% of units affordable to households earning up to 65% AMI were built before 1990. 50% of units built before 1990 are affordable to these households.

Units Built by Decade and Affordability Level (+/- 60% AMI households)



Sources: DHCA, ACS 2018 1-year

Using these attributes, we calibrated our model to identify affordable housing at a parcel level.

Independent Variables

Source: CoStar

Building Data

Source: Assessment Database

- Land value per unit
- Year Built
- Location (x,y)
- Improvement Value per unit
- Rehab

Block Group Data

Source: ACS 2017 5-year

- Educational Attainment (% with Bachelors)
- Median Rent
- % Non-Hispanic White
- % Renters
- PUMS features

Dependent Variable

Source: DHCA

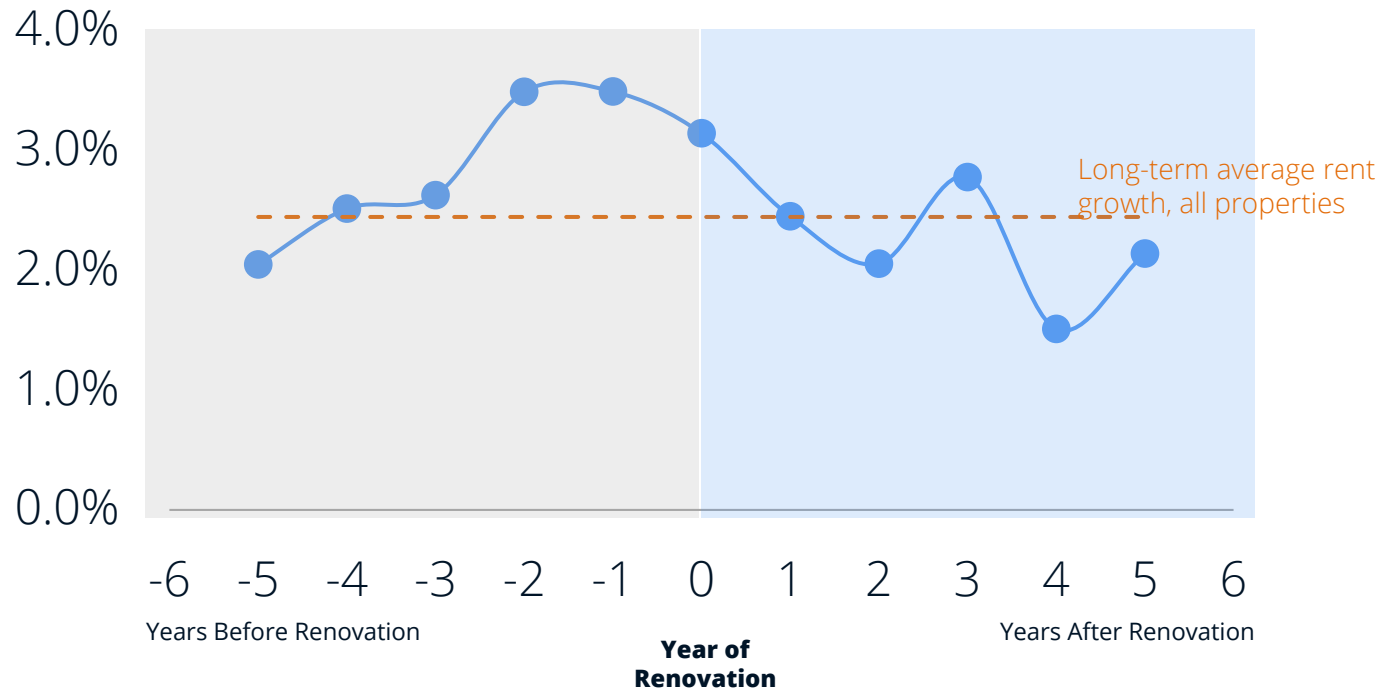
- DHCA rents per SF – translated to Affordable versus not at 65% AMI

Sources: DHCA, ACS 2018 1-year

NOAH | Findings – Rehabilitation

Rehabilitation was not a leading indicator of NOAH rent growth. On average, for properties that underwent rehabilitation, rent growth peaked in the two years before the date of renovation, but rent growth fell back to average or below-average rates post-renovation.

Average Rent Growth Relative to Year of Renovation, Rehabbed Properties in DC-MD-VA Metro Area*



*Regional average used such that analysis captures higher and more significant volume of data on rehabbed properties.

Source: CoStar

NOAH | Findings – Building Age, Location, Size

Based on our independent regressions, building age, location, and building size emerged as the 3 largest indicators of risk.

Typology Description	2018 Median Rent	Annualized Rent Change			Total Units <65% AMI
		2000 - 2018	2010 - 2018	2014 - 2018	
1970s 10 - 19 unit	\$1,570	1.4%	0.9%	0.2%	2,618
1980s 10 - 19 unit	\$1,597	1.0%	0.5%	1.2%	2,462
1970s 50+ unit	\$1,536	0.9%	0.3%	0.1%	2,177
1960s 50+ unit	\$1,611	1.1%	0.7%	-0.8%	1,870
1990s 10 - 19 unit	\$1,623	0.7%	0.1%	-0.1%	1,664
1970s 5 - 9 unit	\$1,480	0.9%	0.0%	-0.5%	1,629
1960s 10 - 19 unit	\$1,571	1.6%	1.3%	1.7%	1,524
1960s 5 - 9 unit	\$1,496	1.1%	1.1%	1.4%	1,162
1980s 5 - 9 unit	\$1,594	0.8%	0.6%	0.2%	1,026
1950s 10 - 19 unit	\$1,423	1.2%	0.5%	-0.1%	968
2000s 50+ unit	\$2,122	0.0%	0.3%	0.1%	917
1980s 50+ unit	\$1,719	0.7%	0.7%	1.6%	864
1990s 50+ unit	\$1,888	-0.5%	-0.4%	-0.7%	798
1950s 5 - 9 unit	\$1,374	1.2%	0.5%	0.1%	739
1950s 50+ unit	\$1,593	1.0%	0.8%	2.8%	699
2010s 50+ unit	\$1,976	0.0%	0.0%	-2.5%	691
2000s 10 - 19 unit	\$1,789	0.3%	0.3%	-1.2%	679
1980s 20 - 49 unit	\$1,586	0.7%	0.2%	0.8%	504
1970s 20 - 49 unit	\$1,577	1.4%	-0.2%	0.2%	477
1930s and before 5 - 9 unit	\$1,327	1.1%	1.3%	1.1%	441
1930s and before 10 - 19 unit	\$1,289	0.7%	0.8%	3.4%	438
1940s 5 - 9 unit	\$1,221	0.7%	0.4%	-0.5%	427

Sources: DHCA, ACS 2018 1-year

These typologies can be summarized into 7 categories that account for 50% of all NOAH currently in Montgomery County.

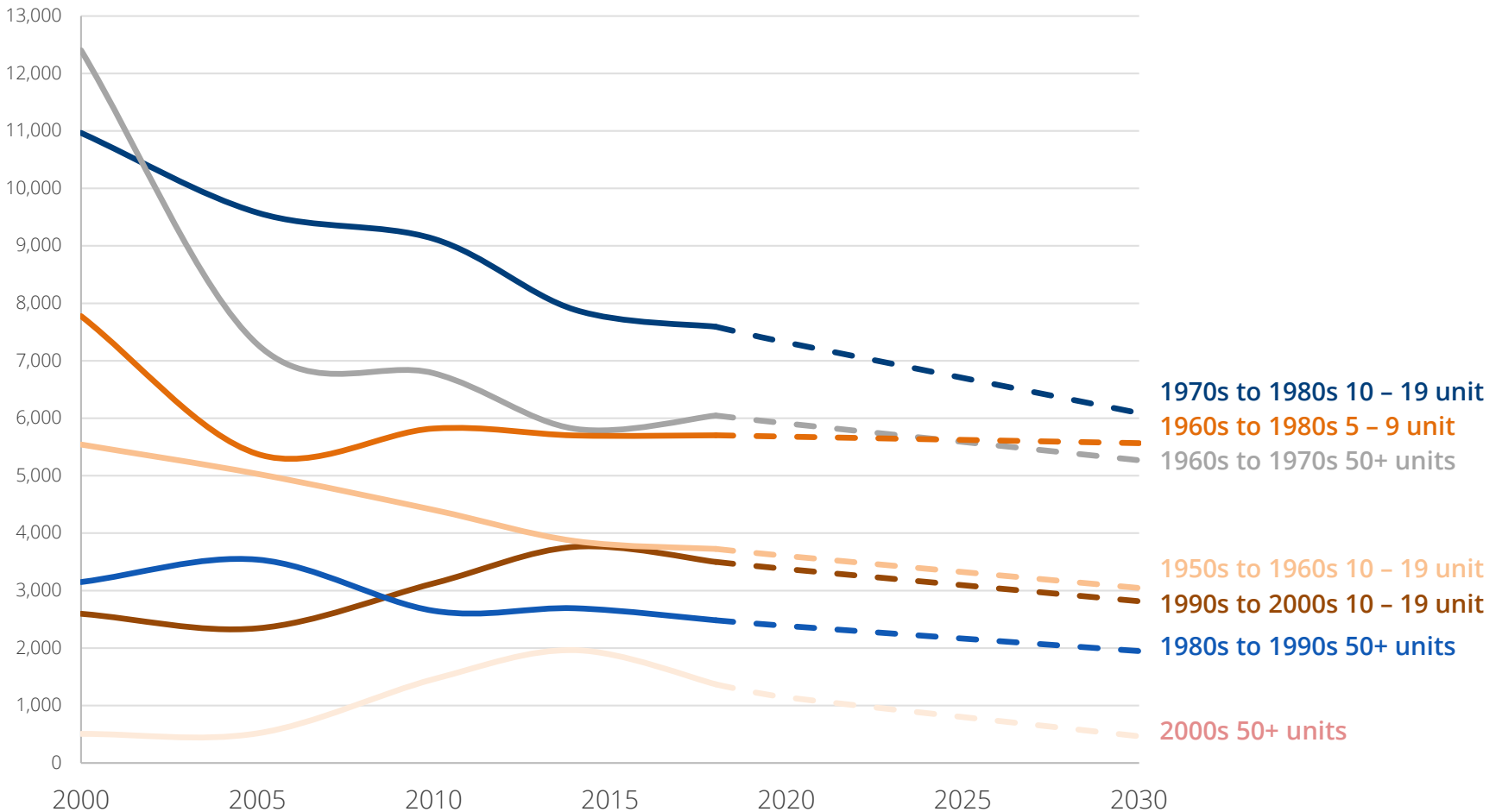
Common NOAH Typologies by Category

Typology	Total Units <65% AMI	Share of NOAH	Median Rent 2018	CAGR (2010 - 2018)
1970s - 1980s 10 - 19 unit	5,080	12%	\$1,583	0.78%
1960s - 1970s 50+ unit	4,046	10%	\$1,571	0.56%
1990s - 2000s 10 - 19 unit	2,342	6%	\$1,671	0.18%
1960s - 1980s 5- 9 unit	3,817	9%	\$1,698	0.66%
1950s - 1960s 10 - 19 unit	2,493	6%	\$1,513	1.14%
2000s 50+ unit	917	2%	\$2,122	0.34%
1980s - 1990s 50+ unit	1,662	4%	\$1,800	0.17%
Total	20,357	49%		

Sources: DHCA, ACS 2018 1-year

NOAH | Findings

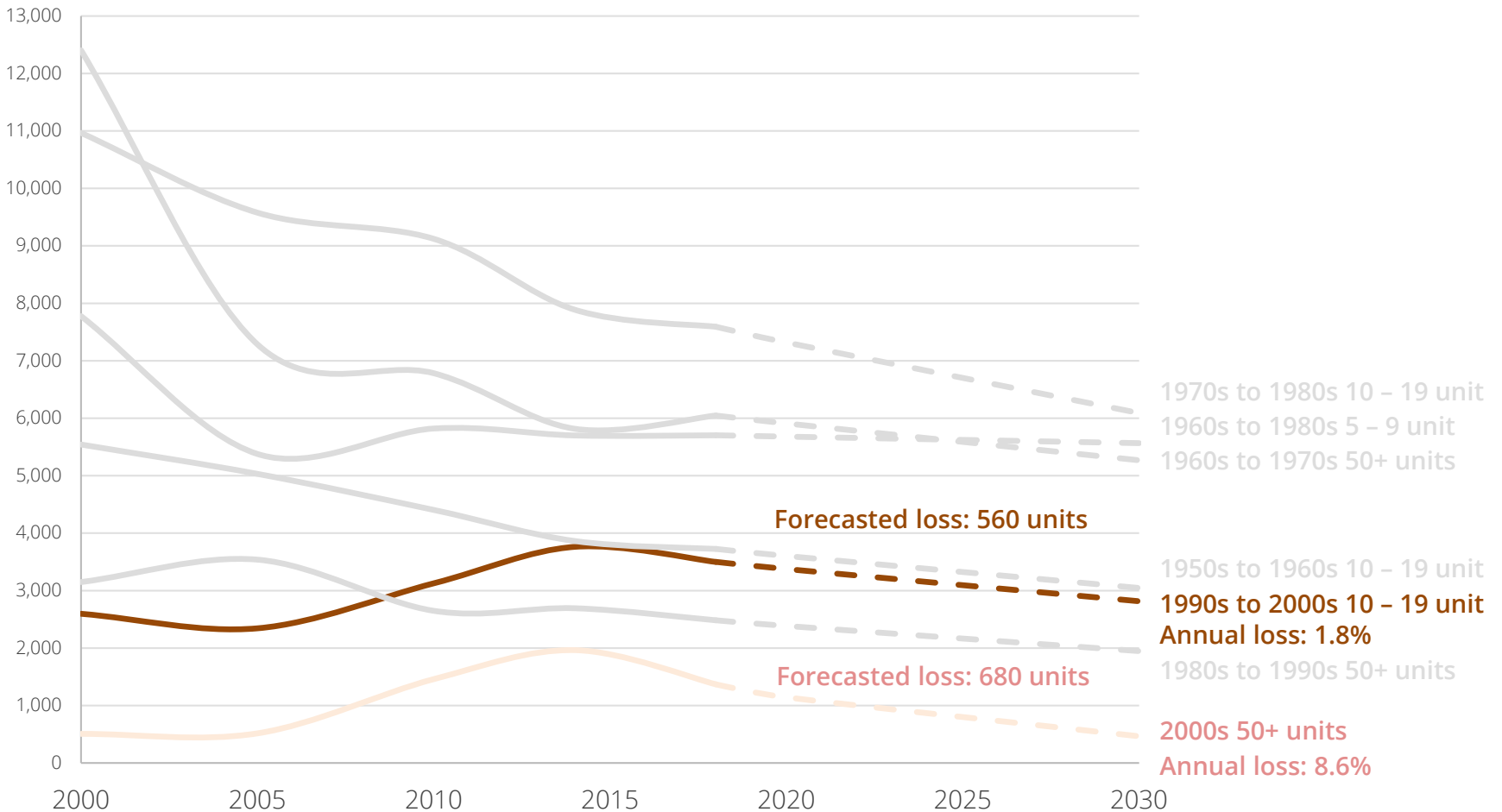
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NOAH | Findings

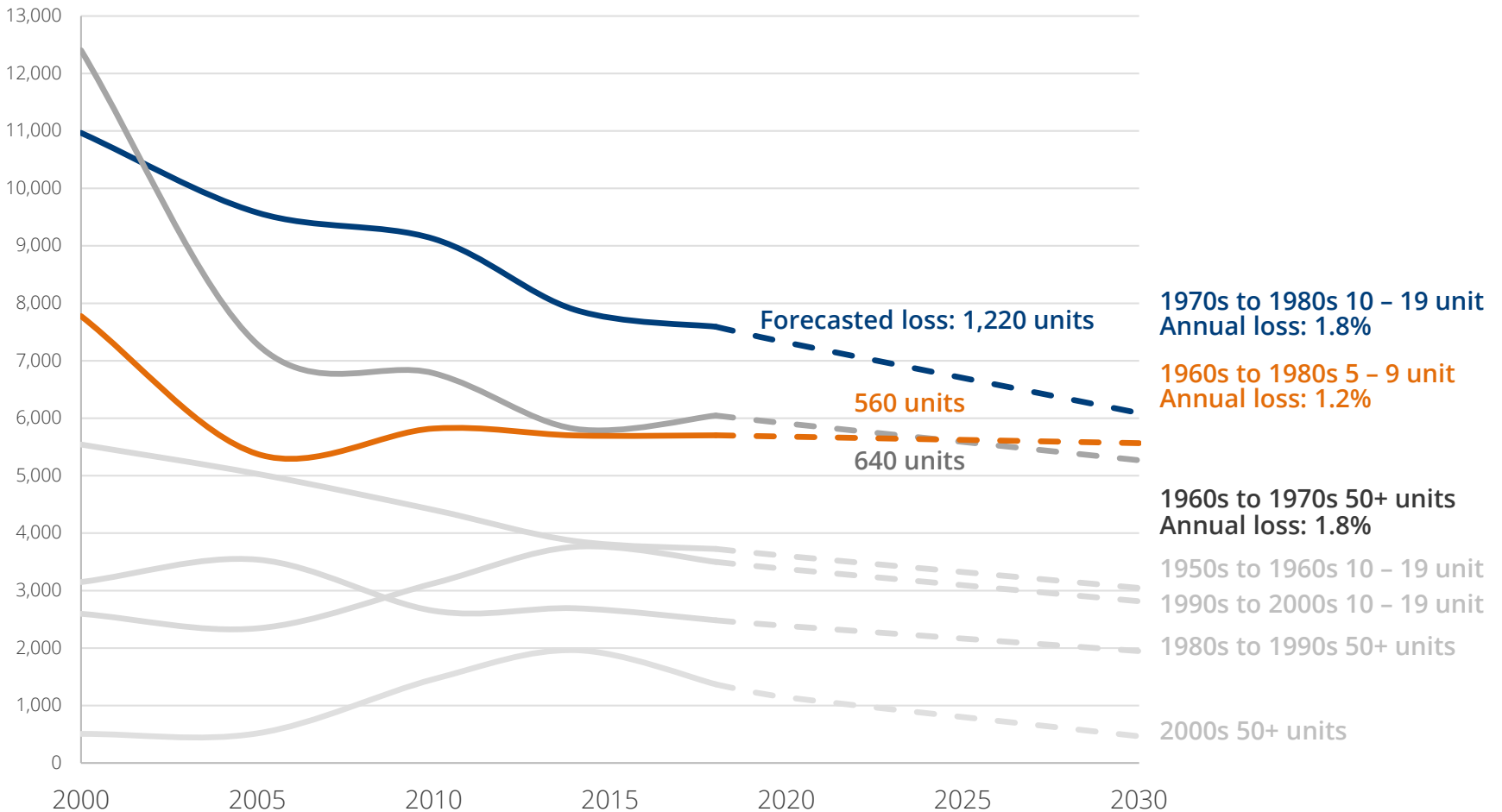
There are fewer newer NOAH units (built after 1990s), but they are losing units at a faster rate



Sources: DHCA, ACS 2018 1-year
HR&A Advisors, Inc.

NOAH | Findings

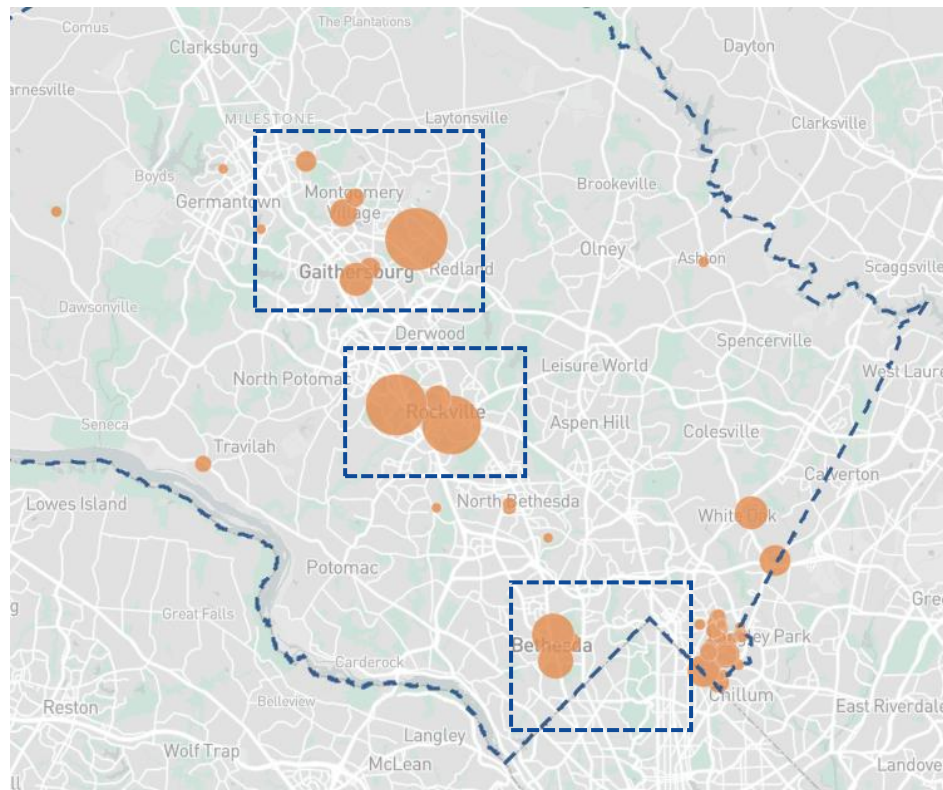
Older units built between the 1960s and 1970s are projected to be lost slower rate, but account for a larger share of lost units.



Sources: DHCA, ACS 2018 1-year
HR&A Advisors, Inc.

Our next steps are to identify the locations with these common typologies and match our ownership and renovation findings to assign higher risk.

1970s to 1980s <50-unit properties



Sources: DHCA, ACS 2018 1-year