

# CALL THE QUESTION:

Will the Greater Washington Region  
Collaborate and Invest to Solve Its  
Affordable Housing Shortage?

Rick Cohen | June 2015

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TO SUPPORT EFFORTS OF THE GREATER WASHINGTON HOUSING LEADERS GROUP

# Acknowledgements

This publication was sponsored by Enterprise Community Partners, with generous financial support from Citi Foundation, and additional support from the Washington Regional Association of Grantmakers.



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The report featured in this publication was prepared by Rick Cohen. This publication also includes summaries of separate reports by the Urban Institute and the Metropolitan Washington Council of Governments, as well as the George Mason University Center for Regional Analysis.

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# Foreword

## WHY THIS REPORT?

Responding to alarming housing needs data released by the Urban Institute and the Metropolitan Washington Council of Governments, and the George Mason University Center for Regional Analysis, a group of public and private sector stakeholders concerned about housing affordability in the Greater Washington region began to meet in June, 2014 to discuss how to solve the shortage of affordable housing. These stakeholders, the Greater Washington Housing Leaders Group (GWHLG), seek to elevate and broaden the housing affordability conversation among public-sector, business and civic leaders, as well as residents around the region, so that everyone understands the need to address this crisis before it has negative impacts on both the local economy and our quality of life. This conversation must address the need for housing affordable to residents at all income levels in communities across the region in order for employers to have access to employees and for workers to be able to work in close proximity to their jobs. Low-income housing needs data as referenced in this publication refers to households making less than 80 percent of the area median income (area median income for the Greater Washington region is approximately \$109,000 in 2015). These families include people working as teachers, police, fire personnel, local government, secretarial, construction, retail, health, hospitality, and entry level employees.

Members of the GWHLG are presenting the housing affordability data contained herein and this paper on potential housing solutions by Rick Cohen to stimulate community and regional leaders to think and act more boldly about strategies to address the formidable affordable housing shortage and to collaborate across state and local jurisdictions to address the crisis.

Furthermore, GWHLG sponsored the plenary session at the annual meeting of the Housing Association of Nonprofit Developers (HAND) on June 23, 2015 with a public and private sector discussion about the ideas and housing needs data included in this publication.

Inspiration for effective metropolitan leadership in solving enormous issues may be found in a recent book: *The Metropolitan Revolution: How Cities and Metros are Fixing Our Broken Politics and Fragile Economy* by Bruce Katz and Jennifer Bradley of the Center for Metropolitan Policy at the Brookings Institution, 2013.

*“Four years after the recession’s official end, it is clear that the real, durable reshaping (of the economy) is being led by networks of city and metropolitan leaders—mayors and other local elected officials, for sure, but also heads of companies,*

*universities, medial campuses, metropolitan business associations, labor unions, civic organizations, environmental groups, cultural institutions, and philanthropies. .... They are ..... deliberately building on their special assets, attributes, and advantages, using business planning techniques honed in the private sector. They are remaking their urban and suburban places as livable, quality, affordable sustainable communities and offering more residential, transport, and work options to firms and families alike.”*

## ACKNOWLEDGEMENTS

The Greater Washington Housing Leaders Group is grateful to the Urban Institute, the Metropolitan Washington Council of Governments (COG), and George Mason University Center for Regional Analysis for sharing their work in developing detailed data on the housing affordability issues across the region and by jurisdiction for this publication. Also, we would like to thank Rick Cohen for his insightful paper challenging our region to think more creatively and boldly in addressing the shortage of affordable housing. Additional thanks go to David Bowers, Gretchen Greiner-Lott, and Diana Meyer for their guidance and contributions to this publication.

We thank Heather Raspberry and the Board of Directors at HAND for enabling the GWHLG to develop the plenary program of its 2015 annual meeting. We would like to thank the Coalition for Nonprofit Housing and Economic Development, the Northern Virginia Affordable Housing Alliance, Enterprise Community Partners, Citi Community Development, the United Way of the National Capital Area, and the Washington Regional Association of Grantmakers for their advice in developing that program.

Finally, thanks to the Washington Regional Association of Grantmakers, especially to Gretchen Greiner-Lott, for ongoing convening of the Greater Washington Housing Leaders Group along with its co-conveners: Enterprise Community Partners, COG, the Community Foundation for the National Capital Region, and Citi Community Development.

# Greater Washington Housing Leaders Group

## Addressing Housing Affordability for Economic Growth and Quality of Life

Since June 2014, the Greater Washington Housing Leaders Group – a collection of more than a dozen public and private sector leaders concerned about housing affordability – has been meeting to examine: 1) the nature of the affordable housing shortage in the greater Washington area; 2) the relationship of housing affordability to economic growth; and 3) strategies to increase affordable housing for low- and moderate-income households in the region.

### THE NEED

In July 2014, The Community Foundation for the National Capital Region released new research, *Housing Security in the Washington Region*, prepared by the Urban Institute and the Metropolitan Washington Council of Governments based on 2011 data, the most recent available. A key finding of the study concludes that, currently, 250,000 households (including 147,000 renter households) making less than 80 percent of the area median income are paying more than half of their gross income on housing costs.

The full extent of the affordable housing shortage required an analysis of future economic growth and accompanying populations. Research from the George Mason University Center for Regional Analysis (CRA) shows that future growth industries for our region will be in the retail, hospitality, healthcare, and construction sectors – jobs which pay lower wages. Thousands of critical jobs in today's workforce also fall in the lower-to moderate-income range, including teachers, health care professionals, entry level office workers, and local government employees. In 2015, CRA developed affordable housing need projections based on their latest regional economic outlook projections showing a need for the region to provide 149,000 new low-income housing units between 2011 and 2023 to accommodate projected job growth in the region.

### THE WORK

The shortage of affordable rental and homeowner opportunities is a serious challenge to the region's economic vitality and quality of life. The high cost of housing is a deterrent for businesses to locate or grow within the region. If people cannot find affordable housing close to jobs, it increases their total housing/transportation costs, affects the amount of time they can spend with their families, and exacerbates our already overburdened transportation systems.

The Greater Washington Housing Leaders Group supports systems change to address the critical housing crisis in our region. The Group envisions broadening support among public, nonprofit and private sector leaders in the region to collaborate in new ways to overcome this serious challenge to our region. In its first year, members of the GWHLG have collaborated on the development and sharing of baseline housing needs data by respected institutions so affordable housing stakeholders will have a common understanding of the scope of the housing shortage. The report that follows was developed to elevate the visibility of the housing crisis and to stimulate creative thinking and strategies to increase affordable housing preservation and production across the Greater Washington region and within its state and local jurisdictions. The Greater Washington Housing Leaders Group will explore how it can facilitate regional collaboration and welcomes additional ideas for addressing the regional housing shortage.

### PARTICIPATING ORGANIZATIONS

The Greater Washington Housing Leaders Group was convened by the Washington Regional Association of Grantmakers (WRAG), Enterprise Community Partners (Enterprise), Metropolitan Washington Council of Governments (COG), The Community Foundation for the National Capital Region (Community Foundation), and Citi Community Development (Citi). Participating organizations include:

2030 Group  
Bernstein Management Corporation  
Citi Community Development  
Coalition for Nonprofit Housing and Economic Development  
Community Development Network of Maryland  
The Community Foundation for the National Capital Region  
Enterprise Community Partners  
George Mason University Center for Regional Analysis  
Housing Association of Nonprofit Developers  
Metro Bankers Group  
Metropolitan Washington Council of Governments  
Northern Virginia Affordable Housing Alliance  
United Way of the National Capital Area  
Urban Land Institute  
Washington Regional Association of Grantmakers

# The Washington Region's Current Housing Needs

*Housing Security in the Washington Region*, researched and prepared in 2014 by the Urban Institute and the Metropolitan Washington Council of Governments, and based on 2011 data, shows critical gaps in affordable housing across a range of income levels in the Washington region. It is also the first study to comprehensively examine housing needs and how housing policies and programs are funded by public and philanthropic sectors in multiple jurisdictions. The Community Foundation for the National Capital Region commissioned the study with generous support from The Morris and Gwendolyn Cafritz Foundation.

Affordability problems affect lower-income and many middle-income households. Although the Washington region has generally higher incomes and wages than most other places in the country, the region has also long been among the country's most expensive metropolitan areas. Meanwhile, incomes have not kept pace with the rising cost of housing.

The cross-jurisdictional study identifies many important gaps in the housing spectrum, from emergency shelters, transitional housing, permanent supportive housing, and rental housing to owner housing. The gaps show an urgent need for more affordable housing in the region, as well as more permanent supportive housing.

The study's key findings include:

## Rental Housing

- Almost half of all renter households in the region have struggled with high housing costs, including more than 150,000 households with severe housing cost burden (i.e., households who pay more than half their income on rent and utilities).
- Among extremely low-income renter households, 86 percent were cost-burdened (paying more than 30 percent of their income on housing), including 72 percent who were severely cost-burdened. The most unaffordable rents were in Arlington, where 91 percent of extremely low-income renters were cost-burdened. Prince William (90 percent), Fairfax (88 percent), and Prince George's (88 percent) followed. Increasing the supply of rental housing affordable for extremely low-income households would reduce homelessness in the region.
- Extremely low-income renters faced competition for affordable units. Higher-income households occupied 40 percent of the units that would have been affordable to the poorest tenants, producing a regional gap of

more than 94,000 rental units for extremely low-income households.

- Very low- and low-income households also faced competition for affordable units from higher-income renters. Forty-six percent of units affordable for very low-income households and 50 percent of units affordable for low-income households were rented by higher-income households. Consequently, 77 percent and 52 percent of very low- and low-income households, respectively, were cost-burdened. Montgomery and Fairfax had too few affordable and available units for very low-income households. The District of Columbia, Prince George's, Prince William and Loudoun lacked sufficient numbers of units for low-income households.

## Homeownership

- Almost one-third (31 percent) of owner-occupied households in the region paid more than 30 percent of their monthly income in housing costs, with cost burden rates ranging from 88 percent for extremely low-income households to 10 percent for high-income households.
- Lower-income households in the region faced competition from higher-income households for affordable homes. Nearly seven in 10 units affordable to very low-income households and two-thirds affordable to low-income households were occupied by someone in a higher income category.
- There were approximately 1.14 million homes (owned or for sale) in the region, most of which were affordable only to middle- or high-income first-time buyers. For low-income first-time buyers, 75 percent of these homes would not be affordable to them without assistance.

## Homelessness

- In January 2013, 11,245 people were homeless in the Washington region. The District of Columbia had more homeless people than in the region's other seven jurisdictions combined.
- Approximately 11 percent (1,259) of the region's homeless population lived on the street, primarily single adults. Even if all available shelter beds were occupied, the region would still fall short of meeting the shelter needs of homeless single adults by 467 beds. One in four homeless persons was chronically homeless. An increase in permanent supportive housing would reduce homelessness among this population.

- Most homeless persons in families and single adults did not need permanent supportive housing. Rather, many only needed affordable rental housing and, in some cases, additional support—such as assistance with securing child care, health insurance, and employment—to help secure a lease and maintain rental payments over time.

**Public and Private Funding**

- Federal spending on housing, such as the Community Development Block Grant and HOME program, is not likely to increase in the near term to fill the gaps in affordable housing in the Washington region. Local jurisdictions will need to find innovative ways to produce more affordable housing by using zoning ordinances and regulatory policies, raising revenue to fill the gaps, and/or leveraging local resources through housing trust funds or offering tax-exempt bonds.

- Nearly half of private grant funding—and the majority of grants larger than \$100,000—were disbursed by Fannie Mae, Freddie Mac, and the Freddie Mac Foundation, which largely ceased charitable giving in 2013. The loss of their charitable giving leaves a large gap in funding for nonprofit organizations, particularly for those providing homeless prevention services, shelter, transitional and permanent supportive housing, or foreclosure-prevention services.

Detailed data for each jurisdiction can be found in the summary and comparative profiles in the appendices of the study. The study, these profiles, and additional data are available at <http://www.urban.org/publications/413161.html>.

**TABLE 1**  
Households at or Below 80% AMI with Severe Cost Burden, 2009-11

	Total	Renter	Owner
DC	53,600	41,000	12,700
Montgomery	50,600	26,700	23,900
Prince George's	51,500	25,100	26,300
Arlington	10,700	8,700	2,000
Alexandria	7,700	6,200	1,400
Fairfax/Fairfax City/Falls Church	44,900	23,900	21,000
Prince William/Manassas/Manassas Park	17,500	9,100	8,400
Loudoun/Fauquier/Clarke/Warren	14,100	6,500	7,700
Washington Region	250,700	147,200	103,600

Notes: Data are rounded to nearest 100. Severely cost-burdened households are those paying more than 50 percent of gross income for housing costs.  
Source: American Community Survey, 2009-11.  
Prepared by NeighborhoodInfo DC ([www.NeighborhoodInfoDC.org](http://www.NeighborhoodInfoDC.org)), 5/13/2015.

# The Washington Region's Future Housing Needs

*The Washington Region's Future Housing Needs: 2023*, researched and prepared in 2015 by the George Mason University Center for Region Analysis, shows a significant increase in the need for low-income housing, especially rental housing. Enterprise Community Partners commissioned the study.

Between 2011 and 2023, the Washington region is projected to add 410,380 new households for a total of 2,524,410 households, including workers and their families, retirees, students and others necessary for a robust region.

A summary of key findings is below.

- Between 2011 and 2023, the region is expected to add 149,000 low-income households earning less than 80% AMI.
- The majority of this increase is forecasted to occur in renter households. The region is forecasted to gain 82,130 low-income renter households by 2023 for a total of 476,070 low-income renter households.

- The remaining increase in low-income households will be owner households. The region is expected to add 66,870 low-income owner households during this time. In 2023, the Washington region is forecasted to be the home for 346,870 low-income owner households.
- Of the increase in low-income households between 2011 and 2023,
  - 71,190 households are expected to be extremely low-income households earning less than 30% AMI (Table 2);
  - 50,980 are forecasted to be very low-income households earning between 30% and 49.9% AMI; and
  - 26,920 are forecasted to be low-income households earning between 50% and 79.9% AMI.

More information and the complete report are available at [http://cra.gmu.edu/pdfs/studies\\_reports\\_presentations/The\\_Regions\\_Future\\_Housing\\_Needs\\_2015.pdf](http://cra.gmu.edu/pdfs/studies_reports_presentations/The_Regions_Future_Housing_Needs_2015.pdf)

**TABLE 2**  
Households by Area Median Income Group, Greater Washington Region, 2011-2023

	2011 Total Households	2023 Total Households	2011-2023 Increase	
			Households	Percent Gain
<b>Extremely Low-income: &lt;30% AMI</b>	269,900	341,090	71,190	26.4%
<b>Very Low-income: 30-49.9% AMI</b>	236,220	287,110	50,890	21.5%
<b>Low-income: 50-79.9% AMI</b>	167,820	194,740	26,920	16.0%
<b>Middle Income: 80-119.9% AMI</b>	634,170	737,300	103,130	16.3%
<b>High Income: 120%+ AMI</b>	805,920	964,180	158,260	19.6%
<b>Total</b>	<b>2,114,030</b>	<b>2,524,410</b>	<b>410,380</b>	<b>19.4%</b>

Sources: 2011 American Community Survey microdata, Metropolitan Washington Council of Governments, and GMU Center for Regional Analysis.

**TABLE 3**

## Households by AMI in 2023 and Number of New Units Needed Compared to 2011, Greater Washington Region

	<30% AMI	30-49.9% AMI	50-79.9% AMI	Low-income Total	80-99.9% AMI	100-119.9% AMI	120%+ AMI	Total
<b>DC</b>								
<b>DC '23</b>	75,250	41,330	22,980	<b>139,550</b>	49,880	23,450	103,130	<b>316,020</b>
Increase from '11	12,600	4,960	1,920	<b>19,490</b>	7,450	3,030	17,380	<b>47,340</b>
<b>Suburban Maryland</b>								
<b>Montgomery '23</b>	43,230	45,940	33,350	<b>122,520</b>	77,770	36,560	170,760	<b>407,610</b>
Increase from '11	5,290	6,550	3,120	<b>14,960</b>	7,400	4,860	20,900	<b>48,110</b>
<b>Prince George's '23</b>	57,020	55,380	37,830	<b>150,220</b>	79,360	32,440	81,350	<b>343,370</b>
Increase from '11	13,450	11,090	6,990	<b>31,540</b>	5,190	110	4,780	<b>41,620</b>
<b>Rest of Suburban MD<sup>1</sup> '23</b>	40,730	31,710	19,980	<b>92,420</b>	56,790	27,230	81,490	<b>257,930</b>
Increase from '11	14,710	6,740	1,810	<b>23,250</b>	8,890	4,980	14,450	<b>51,580</b>
<b>Suburban MD '23</b>	140,980	133,030	91,150	<b>365,160</b>	213,930	96,220	333,600	<b>1,008,910</b>
Increase from '11	33,450	24,380	11,920	<b>69,750</b>	21,480	9,950	40,130	<b>141,310</b>
<b>Northern Virginia</b>								
<b>Arlington '23</b>	13,860	7,560	5,790	<b>27,210</b>	20,780	10,310	56,950	<b>115,260</b>
Increase from '11	4,740	170	1,910	<b>6,820</b>	4,440	1,510	11,100	<b>23,870</b>
<b>Alexandria City '23</b>	9,710	8,450	6,310	<b>24,470</b>	16,090	6,940	32,070	<b>79,570</b>
Increase from '11	2,760	2,320	520	<b>5,590</b>	2,740	490	6,030	<b>14,850</b>
<b>Fairfax<sup>2</sup> '23</b>	41,070	36,480	24,640	<b>102,190</b>	86,390	42,880	213,590	<b>445,050</b>
Increase from '11	2,240	4,760	1,030	<b>8,020</b>	9,750	6,910	15,690	<b>40,380</b>
<b>Prince William<sup>3</sup> '23</b>	19,500	22,260	15,360	<b>57,120</b>	43,940	20,080	70,780	<b>191,920</b>
Increase from '11	3,610	6,400	2,480	<b>12,490</b>	9,690	4,720	15,720	<b>42,610</b>
<b>Rest of Northern VA<sup>4</sup> '23</b>	40,730	38,010	28,500	<b>107,240</b>	71,250	35,130	154,060	<b>367,680</b>
Increase from '11	11,790	7,910	7,140	<b>26,840</b>	12,190	8,780	52,200	<b>100,010</b>
<b>Northern VA '23</b>	124,860	112,760	80,600	<b>318,220</b>	238,460	115,350	527,450	<b>1,199,480</b>
Increase from '11	25,130	21,550	13,080	<b>59,760</b>	38,800	22,420	100,740	<b>221,720</b>
<b>Washington Region</b>								
<b>Washington Region '23</b>	341,090	287,110	194,740	<b>822,940</b>	502,270	235,030	964,180	<b>2,524,410</b>
Increase from '11	71,190	50,890	26,920	<b>149,000</b>	67,730	35,400	158,260	<b>410,380</b>

1 Includes Frederick County, Calvert County, Charles County, and St. Mary's County

2 Includes the cities of Fairfax and Falls Church

3 Includes the cities of Manassas and Manassas Park

4 Includes Clarke County, Culpeper County, Fauquier County, Loudoun County, King George County, Spotsylvania County, Stafford County, Warren County, and Fredericksburg city

Numbers may not add due to rounding.

Sources: 2011 American Community Survey microdata, Metropolitan Washington Council of Governments, and GMU Center for Regional Analysis.

# Ways to Address the Region's Affordable Housing Challenge

## Executive Summary

In the Greater Washington region, the affordable housing need is large and growing. The region and its component local jurisdictions have to address the affordable housing need in order to both sustain a healthy economy and to maintain economically diverse communities. This paper, drawing on current research, various housing plans from other cities, and the perspectives of local leaders, suggests a number of areas where public and private sector initiatives can be deployed to make headway on affordable housing.

Among the suggested strategies, several of which are underway in some jurisdictions of the region, are the following:

### **Increasing sources of capital for affordable housing:**

Including increased and new resources for affordable housing trust funds; considering implementation of a “pay-for-success” approach to affordable housing to leverage private investment; taking advantage of programs from the Department of Veterans Affairs to build housing for returning veterans; working with the state governments in the region to generate new subsidy programs; working with the philanthropic sector to leverage foundation grant and investment capital; and attracting pension fund investment.

### **Increasing the availability of land and property for affordable housing:**

Identifying public land or public facilities where new affordable housing can be located or co-located; assessing opportunities for repurposing commercial office space as affordable housing; providing incentives for developing affordable housing around public transportation hubs and along transitways; and strengthening and expanding inclusionary zoning programs in the region.

### **Reducing the costs of affordable housing development:**

Including streamlining the development and permitting process for affordable housing; consolidating and coordinating public and private sector underwriting; encouraging all jurisdictions in the region to develop and use common or standardized approaches and procedures for affordable housing development; and promoting the variety of incentives offered in the local jurisdictions so that affordable housing developers know clearly what they might be entitled to apply for and utilize in their development pro formas.

### **Generating Political Will**

Overall, given the experience of many in the Greater Washington region, the ideas here may not necessarily be new. The challenge may be less a matter of coming up with effective strategies for increasing the production of affordable housing than a challenge of generating the political will across the region and across sectors to bring these ideas to fruition. The mobilization of public sector, business, and nonprofit advocates working together throughout the region will be the linchpin for making progress. Ultimately, affordable housing must be seen as a fundamental component of an economically healthy region, no less important than water, sewers, and public transportation. With the renewed energies of the public and private sectors, the Greater Washington region can and must sustain and accelerate the area's progress by making major strides in the development and preservation of affordable housing.

# Introduction

Affordable housing is an undeniable need in the Greater Washington region. As the region grows, with projections of over 400,000 households added to the population between 2011 and 2023, nearly 150,000 are expected to be households with incomes below 80 percent of the area's median, and the majority of those new lower-income households will actually be renters. That population change constitutes a significant new affordable housing need on top of the quarter million lower-income households in the region that between 2009 and 2011 were already cost-burdened.

There is no magic bullet solution to the affordable housing challenge facing the Greater Washington region. There won't be a surprising new approach to financing that will unleash vast resources of unimagined dollars, a hitherto untested technique for reducing the costs of housing construction or preservation, nor a dynamic method that reveals land and property awaiting the creation of new affordable housing in the region.

Rather, responding to the enormous crisis of needed affordable housing production and preservation is a matter of doing "what works," what most people engaged in housing production know should be done, but because of the challenge of working across multiple municipal, county, and state jurisdictions and among for-profit, nonprofit, public sector, and other actors are so difficult to bring to fruition. Ultimately, the challenge is both a mix of adapting and adopting the best ideas and practices known in the housing arena and developing the political will to get them done. The Greater Washington region needs to develop a broad-based consensus that will lead to substantive actions within each jurisdiction and at the overall regional level, as well.

This paper draws on the observations of dozens of people from within the Greater Washington region, plus the experience and achievements of housing advocates around the country, the recent research of housing advocates, and a review of affordable housing plans

from other cities and regions to briefly recount what seem to be the most logical, appropriate, and pragmatic strategies that might be undertaken here to make substantial progress toward addressing affordable housing needs in the region. No matter how good the ideas, how impressive the accomplishments of advocates inside and outside of the Greater Washington region, and how persuasive the arguments, ultimately the challenge is one of will, of commitment, of recognizing that affordable housing production and preservation isn't a choice, but a necessity, else the economic progress of this region slides backwards, both in terms of the region's competitiveness within the United States and its competitiveness internationally.

Think of the challenge in this way: All of the ideas, suggestions, and models for affordable housing production and preservation should constitute an argument for affordable housing as infrastructure. In this region, all actors know, sometimes begrudgingly so, that providing adequate affordable housing is perceived as equivalent in importance to water, sewer, roads, and public transportation. In all of those instances of "public" infrastructure, all sectors realize that they must contribute, and, in many cases, collaborate, pool their resources, and address the needs regionally.

While experts inside and outside the region debate just how "regional" multiple jurisdictions in different states can really be, no one debates that the affordable housing challenge is a regional one and must be analyzed and tackled on a regional basis, even if because of jurisdictional boundaries and state laws and regulations, some of the actions will by necessity be implemented locally. Local and regional authorities must address the interdependencies of transportation, water and sewer infrastructure, and economic development with affordable housing preservation and development in order to ensure that this region survives as a destination of choice for a demographic mix that reflects a healthy, diverse community.

# Sources of Capital

Over the last quarter century, the preponderance of affordable housing has been financed with private equity investments incentivized by the Low Income Housing Tax Credit. In most high cost urban regions, additional subsidies have been required to produce housing affordable to low- and moderate-income people. Federal Community Development Block Grants (CDBG) and HOME grants, and, to a lesser extent, local tax revenue or foundation grants have been the source of these subsidies. CDBG and HOME have declined and new strategies will need to make up this gap in financing affordable housing. These strategies include accessing non-traditional federal housing funding; impact investing and other creative uses of foundation endowments; new state resources; and increasing sources of revenue for local housing trust funds.

On the public side, there is little question among most experts that for affordable housing developers to optimally engage in the region to increase their preservation and construction of affordable housing, local governments have to put their own money on the table. That means going beyond CDBG and HOME funds, which have declined precipitously over the past five years:

## LOCAL FUNDING

In this region, Washington’s Housing Production Trust Fund, Arlington’s Affordable Housing Investment Fund, and Montgomery County’s Housing Initiative Fund are sound models of locally funded housing trust funds, but the challenges going forward require legislators and executives to redouble their efforts to direct more and new resources into housing trust funds. Without commenting on the specific sources of capital used in this region, localities around the nation are devoting a variety of creative options for the continuous capitalization of housing trust funds (as distinct from “one-off” capital sources):

- Real estate transfer fees, recordation fees, or documentary stamp taxes, frequently used for state-level housing trust funds
- Unclaimed property funds or “escheats” (a handful of states have tapped unclaimed property funds, recognizing that there is generally little call for the resources and that the cost of managing the funds is minimal)<sup>1</sup>

**TABLE 4**  
Reductions in Community Development Block Grant and HOME Investment Partnership Program Funding, Greater Washington Region, 2010-2014

	2014	2013	2012	2011	2010
<b>DC</b>					
<b>CDBG</b>	13,970,469	14,344,933	13,904,983	16,328,680	19,636,404
<b>Home</b>	4,292,788	4,136,820	4,343,097	8,273,607	9,346,307
<b>Montgomery County</b>					
<b>CDBG</b>	4,119,530	4,182,362	3,821,180	4,663,073	5,562,912
<b>Home</b>	1,456,189	1,370,122	1,326,417	2,212,374	2,491,884
<b>Prince George’s County</b>					
<b>CDBG</b>	4,366,283	4,469,730	4,225,520	5,496,556	6,525,969
<b>Home</b>	1,548,915	1,492,847	1,499,086	2,755,567	3,104,366
<b>Arlington County</b>					
<b>CDBG</b>	1,124,725	1,151,014	1,222,028	1,609,959	1,914,758
<b>Home</b>	545,639	532,435	519,436	1,119,329	1,263,978
<b>Alexandria</b>					
<b>CDBG</b>	722,919	724,748	678,236	1,142,519	1,357,948
<b>Home</b>	338,225	378,687	374,355	815,124	923,041
<b>Fairfax County</b>					
<b>CDBG</b>	4,837,674	4,750,427	4,414,224	5,418,429	6,463,133
<b>Home</b>	1,535,471	1,417,514	1,418,376	2,383,767	2,692,612

- Interest from real estate mortgage escrow accounts
- Developer contributions
- Dedicated revenues from local hotel taxes
- Commercial impact or linkage fees<sup>2</sup> (either for affordable housing built by commercial developers or developers of market rate housing<sup>3</sup> or as contributions to a fund in lieu of construction), based on the concept of the demonstrable nexus between commercial development (or market rate development) and the need for affordable housing
- Capital from the sale of surplus public properties (such as unused schools)

While no one should imagine that locally generated resources can take the place of the federal government, if localities in this region are going to increase momentum for affordable housing they have to generate local resources specifically dedicated to development and preservation.

The challenge that will be raised by the housing development community is whether impact fees or dedicated property tax revenues devoted to affordable housing might be a deterrent on the real estate market. With the appropriate kinds of incentives for developers to produce affordable housing, such as density bonuses and inclusionary zoning, apprehensions that devoting resources or increasing municipal and county commitments to affordable housing will adversely affect the development market are likely to be unnecessarily overstated. Most market predictions show the Washington area to be among the strongest real estate markets in the nation,<sup>4</sup> suggesting that local government officials need not capitulate to fears that impact fees for housing and requirements for affordable housing will undermine the market.

Ultimately, with the shrinking prospects of the CDBG and HOME programs, as well as other sources of U.S. Department of Housing and Urban Development (HUD) funding, localities in this region are going to be compelled to increase their local funding of housing funds from some mechanisms such as devoting a percentage of their property or sales tax revenues or baseline revenues from general funds for affordable housing funding, and using those locally generated funds in combination with CDBG and HOME to leverage access to federal resources, such as they might be. Overall funding commitments from multiple programs administered by HUD (including CDBG, Continuum of Care, Emergency Solutions Grants, HOME Investment Partnerships, Housing Opportunities for Persons with AIDS, and Neighborhood Stabilization Program) reveal massive aggregate reductions to all communities in Virginia, Maryland, and the District of Columbia—in Maryland down to \$79,940,557 in 2014 from \$174,138,449 in 2010; in Virginia, at \$77,148,868 in 2014, down from \$128,937,100 in 2010; and in DC, at \$30,160,947 in 2014, from \$83,600,210 in 2010. While federal government resources may be inconsistent or have

many claimants, the White House and HUD have been generating special programs such as the Social Innovation Fund, the Sustainable Communities program, Promise Neighborhoods (of which there are two in this region), and others that might be usefully deployed in the region if there were significant demonstrations of substantial commitments of local funds.

## PAY FOR SUCCESS

In particular, while the concept might have limited application to a number of social policy scenarios, some observers have recommended a “pay for success” (PFS) strategy that could attract White House support. Also known as social impact bonds (SIBs), PFS is the Obama administration’s preferred nomenclature for financing structures in which private investors, for example, banks or high net worth investors, provide the up-front financing for a particularly innovative housing strategy and then rigorously monitor its implementation and interim accomplishments. Based on the project meeting predetermined, measurable performance goals, the investors are paid back their investment plus a premium for having taken the upfront risk. Housing developers and their government partners could fashion PFS projects around housing mobility, for-profit/nonprofit partnerships, or special need housing developments (for example, for military veterans). Building in extensive data collection, a Washington regional PFS initiative could be packaged in a way to attract White House attention where the administration has specifically made available funding to various cabinet-level agencies for PFS projects and in Congress where legislation is pending for federal government support of state-level SIB projects.

Critical to a SIB/PFS type of venture would be strong data collection methods that could document impact and outcomes. To date, banks such as Bank of America and Goldman Sachs have been strong investors in SIBs and have expressed interest in this financing structure as related to housing. It would seem that two areas of financing that most developers identify as consistently critical needs in the affordable housing development arena—predevelopment financing, needed due to the complexity of affordable housing projects, and bridge financing, to help projects get stabilized in their first three to five years—could be appropriate kinds of projects for SIBs in that the high risk capital investment of private investors could be documented to show impact as projects get underway and are brought to fruition.

## DEPARTMENT OF VETERANS AFFAIRS FUNDING

One area of federal resources that is not going to recede for some time and could be deployed to address clear needs in this region are the housing-related resources of the Department of Veterans Affairs. The Greater Washington region has a strong presence of military families and many are likely to stay in this region after transitioning out of the military. One major program is the

Supportive Services for Veterans Families (SSVF) program, which provides much more than supportive services. The competitive SSVF grants are actively utilized by nonprofits around the nation to provide permanent housing and services to veterans and their families.<sup>5</sup> Communities around the nation have successfully developed permanent veterans housing linked to services (given that many returning veterans from Iraq, Afghanistan, and other overseas theaters come with a number of social, psychological, and physical challenges that must be addressed in addition to their housing needs) through SSVF and other resources (including HUD supportive housing programs), helped by local commitments of rental subsidies and infusions of CDBG, HOME, and occasionally other municipal resources.

VA resources are the only part of the federal budget that has increased regardless of the recent economic recession or even the sequestration. What deters some localities from exploring veterans housing, despite the market and need, is the reputation of the VA itself. In the wake of the past few years of problems with the VA management and oversight of other VA functions, the current VA secretary, Robert McDonald, has made a strong commitment to improve the VA's outsourcing and program implementation functions. In this case, affordable housing developers have a willing federal agency partner looking for willing local developers.<sup>6</sup>

## STATE INCENTIVES

Virginia and Maryland are the two state governments in the Greater Washington region with resources that could be tapped for affordable housing development above and beyond what localities might be able to do with their housing trust funds or other dedicated affordable housing resources, perhaps as an incentive fund to be made available to localities that address and make progress on specific affordable housing targets in this region. In other parts of the country, state legislatures have countered reductions in federal commitments with the generation of state programs for affordable housing in metropolitan regions. For example, in the Twin Cities, a legislative appropriation to the Livable Cities Act (LCA) makes resources available to Minnesota municipalities that come to the table with their own affordable housing matching funds. LCA funds are subsidized into accounts, including a Livable Communities Demonstration Account for affordable housing in general and an Inclusionary Housing Account. The latter has specific relevance to the Greater Washington region as it targets and incentivizes the production of mixed-income housing developments.

A local or regional version of Minnesota's Inclusionary Housing Account could have both Maryland and Virginia appropriate state resources that would be available to two kinds of affordable housing developers: 1) mission-focused private developers whose projects provide some percentage more of affordable housing units than they might ordinarily get through development approvals and density bonuses under current local statutes;

and 2) mixed-income developments generated by partnerships between for-profit and nonprofit developers and managers. The states should be players in and beneficiaries of the region's ability to spur affordable housing development. Their providing an incentive fund for increased proportions of affordable housing in inclusionary housing developments gives the states an opportunity to put "skin in the game" for the specific social policy objective of residential income integration. As envisioned in the *Housing Boston 2020* affordable housing plan, some capital can be provided by developers who might be permitted to choose "cash-out" options in inclusionary zoning so long as the cash-out provisions are comparable to the actual costs of producing an affordable housing unit.<sup>7</sup>

## PHILANTHROPIC CAPITAL

It would be shortsighted to overlook the role of the philanthropic sector as a source of capital for affordable housing development in a number of ways, through grantmaking and through investing tax-exempt endowment resources. The Greater Washington region isn't a major hub of philanthropic capital like Detroit, Chicago, or Cleveland, the latter having capitalized and supported affordable housing development generously for decades. Only one of the top 100 foundations in the United States by grantmaking is in Washington, D.C. (the Community Foundation for the National Capital Region, though its grantmaking is primarily the giving of individual donors); two are in Maryland (the Harry and Jeannette Weinberg Foundation and the Annie E. Casey Foundation, both located in Baltimore and not particularly focused on the Greater Washington region); none are based in Virginia.<sup>8</sup> However, there are models of foundations engaging in affordable housing that can be emulated by the progressive-thinking philanthropists of this region. Moreover, with the advancements in intra- and inter-jurisdictional governance concerning the process of housing development in this region, there is no reason why national foundations located outside of this area could not and should not be convinced to put up resources for affordable housing development here. This region should be no less an attractive and important environment for their philanthropic investments than other metropolitan areas.

Examples of what philanthropic communities are doing in other cities include the following:

- The California Community Foundation has an intensive program to raise money from donors specifically for supporting nonprofit affordable housing producers, leveraging capital for affordable housing, supporting affordable housing advocacy, and organizing residents to support affordable housing development around transit hubs.<sup>9</sup>
- The Arizona Community Foundation partners with the Local Initiatives Support Corporation to provide zero-interest predevelopment loans, repaid when the nonprofit developers receive long-term lender financing.

- The San Francisco Foundation's Great Communities Collaborative capitalized and launched the Bay Area Transit-Oriented Affordable Housing Fund to lend money to developers to build housing at Bay Area rail and bus stop hubs,<sup>10</sup> with additional contributions from other foundations such as the Silicon Valley Community Foundation.

Of particular interest should be when foundations tap their endowments as resources for investment in affordable housing production:

- The Hyams Foundation has made mission-related investments in housing bonds to produce affordable housing.
- The Ford and MacArthur foundations are among the philanthropic investors behind the Housing Partnership Network's (HPN) Housing Partnership Equity Trust for equity investments. Several funders have put resources into HPN's Housing Partnership Investment Fund, providing acquisition and predevelopment loans and lines of credit for affordable housing developers.
- The F.B. Heron Foundation devotes a significant proportion of its endowment to mission-related investments, through below market rate loans for programs of the Community Loan Fund of New Jersey, the Community Reinvestment Fund of Minneapolis, and other affordable housing funders and lenders.
- The Annie E. Casey Foundation, which is active in social impact investing, provided \$45 million in loan guarantees that leveraged a total of \$130 million in other investments, primarily in support of the redevelopment of East Baltimore around Johns Hopkins Hospital, a key anchor institution in Baltimore.

The Greater Washington region's foundation community is already working on the development of a pool of acquisition capital<sup>11</sup> through the auspices of the Washington Regional Association of Grantmakers in conjunction with the Enterprise Community Impact Note. Observers view this as a crucial component of an affordable housing strategy for the region because foundations, unlike all other actors in the affordable housing scene, can think and operate on a regional level superseding the constraints of state, county, and municipal boundaries. Although the aggregate grantmaking of Washington area foundations may be limited, their investment assets are substantial, especially with affordable housing offering foundations the opportunity to receive attractive rates of return.<sup>12</sup> As the examples above show, foundations around the nation have been active promoters of housing funds. But, for mission-related investing, there should be a special emphasis on tapping not just a foundation's five percent for grantmaking, but the other 95 percent of their corpus that they invest in the stock market and other investment options. Moreover, a foundation-generated investment pool can

attract and leverage investments from other sectors, including investments from high net worth individuals and businesses.

## PENSION FUNDS

If foundations can invest their tax-exempt capital in affordable housing and expect a reasonable return on investment, the same holds for the investment of pension funds. Combined with sources of mortgage insurance, pension fund assets can be invested early in affordable housing projects guaranteeing and locking in rates for project predictability. This isn't a new practice, but the Greater Washington region's political and market volatility in past years might have been seen as having a deterrent effect. Now, with the strength of the region's housing market and improvements in housing production and subsidies, investing pension funds in affordable housing is a realistic and feasible option. This has been done in New York City, most recently in 2014 with the investment of \$40 million from city pension funds in the city's Community Preservation Corporation (CPC) lending program.<sup>13</sup> Over its history, CPC has been able to devote \$750 million in city and state employee pension funds as permanent take-out financing for construction loans provided by CPC often for affordable projects done by small developers. Interviewees suggested that in the Greater Washington region, pension funds have been somewhat reluctant to invest as much as they could. Some cited conservative investment priorities, and others suggested the past problems of the region's image concerning local governance in some instances might have scared away some investments. However, the reality of development in this region is different. If the pension funds of employees of local jurisdictions were to begin to open up to investments in affordable housing, they would incentivize pension funds at the state level to invest in the region.

The keys to the effective use of public and private resources in affordable housing development are leverage and circulation. Interviewees more or less endorsed the use of housing trust fund resources, and other investments where appropriate, for a number of uses that expand the resource pie for affordable housing:

- Loan guarantees for permanent private financing
- Debt service guarantees
- Acquisition
- Project subsidy or gap funding
- Local rent/operating subsidies

# Sources of Land and Property

Identifying and generating property for affordable housing development requires great ingenuity given market pressures. It will take proactive work on the part of all local jurisdictions to acquire or protect sites that might be useful for affordable housing before they are lost to other competing purposes.

Without necessarily establishing any one mechanism as superior to another, there are options for increasing the amount and availability of land and property for affordable housing preservation and development:

- The Urban Land Institute issued a report in 2015 calling for a thorough inventory of public property attached to schools, public hospitals, fire and police stations, and municipal buildings that might be appropriate for the development of affordable housing or mixed-income residential development.<sup>14</sup> Not all sites are equally suitable for housing development. Community residents have made it clear that in this region, some public properties should be protected from residential and commercial development pressures, particularly public parks. Around the nation, some localities have established policies inventorying and prioritizing public land for affordable housing, specifically excluding land reserved for parks or open space. Arlington County has already conducted this sort of inventory of surplus properties available for affordable housing development, with criteria meant to exclude properties that might not be suitable due to size, topography, environmental limitations, and other factors. Montgomery County has also conducted a similar analysis. The key is making these reviews a regular practice tied to a disposition strategy that reduces the acquisition costs for potential affordable housing developers.
- The Greater Washington region may be over endowed with commercial office space that is increasingly less attractive and less useful for commercial purposes, but might be converted to affordable housing.<sup>15</sup> The University of Maryland architecture professor Roger Lewis has been among the strongest advocates of converting office buildings to affordable housing, while recognizing that issues of design and cost will necessitate creativity on the parts of both developers and municipal authorities.<sup>16</sup> Among the potential financial resources that would work with the adaptive reuse of older office buildings as affordable housing are New Markets Tax Credits, Historic Preservation tax credits, and the Low Income Housing Tax Credit. While the Greater Washington region's office market may be considered tight compared to other regions, there are substantial numbers of suburban commercial properties in this region that have increasing levels of vacancies due to the changing space needs of potential tenants.

The commercial office vacancy rates in suburban communities are often substantially higher than the vacancy rate for the region overall—over 17 percent in Fairfax County in 2013,<sup>17</sup> for example. Many ideas have been floated for repurposing commercial office parks as schools and community centers, but relatively few have been repurposed for affordable housing. From a review of projects around the nation, it seems as though there might be good prospects for localities and their developers to redevelop commercial office parks as mixed use complexes, with the residential component a mix of affordable and higher cost housing. That will take political will along with developer creativity, as in other repurposed commercial office parks, the affordable housing components envisioned at the outset sometimes do not come to fruition.<sup>18</sup> For the Greater Washington region, this is an opportunity for a model suburban office complex to be repurposed for mixed-income housing and mixed-use.

Overall, experts recommend that the region focus on identifying and developing affordable housing on sites that are not only associated with transportation hubs, but along transit corridors. This is a key component of the U.S. Department of Transportation's Federal Transit Administration (FTA) priorities to promote the linkage of affordable housing and public transportation, particularly through the FTA's New Starts and Small Starts program.<sup>19</sup> The *Housing Policy Plan* of the Metropolitan Council of the Twin Cities region has made the full integration of affordable housing development with public transportation planning happen in three ways:

- Include housing criteria in the land use and development measures for transit way prioritization.
- Define and increase density expectations for new housing and mixed-use development and redevelopment around transit stations and high-frequency transit service.
- Expect local plans and programs to create or preserve a mix of housing affordability near transit stations.

With significant proportions of public land and commercial office space tied to public transportation corridors in this region, prioritizing land acquisition for affordable housing preservation and development in these corridors would appear to be logical and pragmatic. The Metropolitan Washington Council of Governments' *Region Forward* plan establishes a foundation to build on for this work in the region.

In the Greater Washington region, as in many areas of the United States, the need to continue to expand opportunities for inclusionary zoning is essential. No one among the interviewees for this report expressed any

misgivings about inclusionary zoning and density bonuses for affordable housing development. However, parts of the region need not only affordable housing targeted to low- and very low-income populations, but for middle-income populations, as well. In some jurisdictions, addressing a continuum of housing needs, including middle-income housing, may help to achieve a broader base of community support for inclusionary zoning and other affordable housing strategies. However, too much of the focus of affordable housing discussions probably goes to new construction (or repurposed existing properties such as commercial office complexes) and not enough to the preservation of existing affordable housing. In the District, there are significant tools for the preservation of existing affordable housing through rent control, the Tenant Opportunity to Purchase Act, and the District Opportunity to Purchase Act that address affordable housing options for existing residents.

Localities make a huge mistake if they do not make efforts to preserve the existing affordable housing inventory. In many instances, the costs of preservation are lower than the costs of new development. According to the National Housing Trust, “rehabilitating an existing affordable apartment can cost one-third to one-half less than building a new apartment.” Moreover, it is critically important to the community health of this region to find ways of maintaining existing income mixes in neighborhoods without falling prey to the pressures of gentrification. Stabilizing conditions for existing tenants and helping tenants acquire their units as limited equity cooperatives are important affordable housing and anti-gentrification tools. Moreover, for both generating new affordable housing and for maintaining healthy income mixes, it is important to underscore the importance of inclusionary zoning. Montgomery, Arlington, and the District all have inclusionary zoning programs involving some mix of tools such as density bonuses. To make progress on affordable housing goals across the region, given market pressures, it makes sense to increase the affordable housing components of inclusionary zoning requirements.

While the region’s existing inclusionary zoning programs in Arlington and Fairfax counties are useful and highly valued for their achievements along the Columbia Pike in Arlington and in the Tyson’s redevelopment area in Fairfax, there are models of inclusionary zoning in other municipalities around the nation that may have elements worth considering in the Greater Washington region.

- Since 2005, New York City has been adding an overlay of inclusionary zoning in many areas of the city, permitting developers in some 30 areas being rezoned by the city (including the Greenpoint, Hudson Yards, and West Chelsea neighborhoods) to get density bonuses of up to 33 percent in return for pledging 20 percent of the projects as permanently affordable to households below 80 percent of the area median income. Beginning in 2014, Mayor Bill DiBlasio made the inclusionary requirement a mandate for all development in future upzoned or redeveloped neighborhoods.<sup>20</sup>

- Burlington, Vermont has an inclusionary zoning program that permits developers an option for constructing some of the required affordable units off-site, though developers that do so must construct 150 percent as many affordable units as they would have been required to build on-site. In addition, the Champlain Housing Trust, a community land trust, has been designated by the city to administer some of the Inclusionary Zoning homes, prequalify purchasers’ income qualifications, and enforce the deed restrictions for long-term affordability.<sup>21</sup>
- In Cambridge, Massachusetts, the city shifted its inclusionary zoning program from voluntary to mandatory, applicable to any new or converted development of more than ten units. The affordable units, mixed throughout each project to mirror the unit size mix of the entire project, are deed-restricted to be affordable for the lifetime of the building. For the mandatory set-aside, developers can get an increase in allowable floor area ratio (FAR) of as much as 30 percent, but half of the increased FAR must be set aside for affordable units.<sup>22</sup>
- A number of inclusionary zoning programs involve a third party entity, frequently a community land trust (CLT) like Burlington’s, to be involved in administering and guaranteeing the affordability of the deed-restricted affordable units. In Chicago, Chapel Hill, Denver, and Irvine, CLTs enforce the deed-restricted affordability covenants.<sup>23</sup>

There appear to be over 500 inclusionary zoning (IZ) programs in municipalities throughout the United States. The experience to date is that affordable units developed through IZ programs tend to be distributed throughout the communities where IZ tools are used, as opposed to being concentrated in specific residential pockets. As a result, they frequently are situated in areas of diverse income ranges rather than focused in areas of concentrated poverty. In this way, inclusionary zoning achieves a dual goal of producing affordable housing and supporting economically integrated neighborhoods. Strengthening and expanding IZ tools in the Greater Washington region merits consideration in all of the region’s local jurisdictions.

# Strategies for Reducing Costs

There may be limits as to how much savings really can be achieved in the cost of constructing or preserving affordable housing, but advocates and localities should take advantage of the best thinking in the country on this topic.

One regional advocate summarized the mechanism for reducing the cost of affordable housing production: “Mechanisms to reduce the costs of developing affordable housing include reducing development fees and providing expedited permitting for affordable housing.” As summarized in a report co-sponsored by Enterprise Community Partners based on interviews with developers and policy makers, “costs could be lowered by: promoting consolidation, coordination and simplification; removing barriers to reducing construction costs and delays; facilitating a more efficient deal assembly and development timeline,” in addition to appropriate provision and coordination of subsidies.<sup>24</sup> The specific cost-saving recommendations in the Enterprise Community Partners report (co-sponsored with the Urban Land Institute) were as follows:

## 1. Promote cost-effectiveness through consolidation, coordination, and simplification:

“Financiers and regulatory bodies should coordinate to eliminate overlap in the underwriting, due diligence, and ongoing monitoring processes to the greatest extent possible. This collaboration can take several forms, including developing common forms and protocols for a given region, delegating authority to a lead agency, and deal-by-deal negotiations to reconcile standards and paperwork.”

## 2. Remove barriers to reducing construction costs and delays:

Among the specific recommendations are “smart parking requirements,” that is, reducing or eliminating parking requirements due to the presence of and access to public transportation; adjusting size and amenity requirements; allowing for cost-savings through construction techniques and materials; and modified requirements for rehabilitation.

## 3. Facilitate a more efficient deal assembly and development timeline:

The report recommends zoning modifications that would allow for more housing “by-right” as opposed to compelling developers to seek multiple and avoidable waivers, variances, or rezoning; clarifying the requirements and structure for public input into the development review process; and adopting policies for streamlining the development process specifically for affordable housing development.

## 4. Improve and align incentives:

This includes incentives for green building development and energy efficient design; offering property tax abatements for affordable housing; expedited review and permitting for projects with more than the required number of affordable units; and creating “first look” programs for the identification of possible public lands on which affordable housing might be built.

Specifics for reducing affordable housing development costs in the Greater Washington region could include the following:

- Encouraging all jurisdictions in the region to adopt as much as possible a common, standardized approach to permitting and processing affordable housing, so that developers in the region are able to flexibly operate in multiple jurisdictions
- Developing comprehensive checklists so that developers know what they need to prepare prior to submission, so as to avoid the unfortunate problem in some jurisdictions of “returning to go” for submission of incomplete packages
- Ensuring that related agencies in charge of utilities (water, sewer, transportation, gas, electric, etc.) are as fully integrated as possible in the multi-agency development process
- Waiving fees for affordable housing projects
- Easing parking requirements
- Creating easier-to-navigate website portals for affordable housing developers explaining all components of the affordable housing development process in local jurisdictions
- Streamlining the process for applying for funding subsidies so that it can be done all at once rather than sequentially, with private financing and, where appropriate, charitable funding on the table in the package (and to the extent possible relying on one agency as a delegated underwriting entity)
- Clarifying the rules, obligations, and eligibility for government subsidies
- Actively promoting and marketing the programs of local jurisdictions regarding the tax incentives they are prepared to offer affordable housing developers

Despite efforts to reduce costs for developers and owners, there is often little thinking devoted to mechanisms to increase the resources available to occupants of projected affordable housing. In addition to rent subsidies that are

provided to lower-income tenants, the region ought to be addressing opportunities for increasing the incomes of potential occupants of affordable housing. There have been suggestions in the region and around the country for the development of mechanisms for the recruitment and employment of potential occupants in the construction or rehabilitation of affordable housing. A program could be developed along the lines of HUD's Section 3 program. The idea would be to have developers (for-profit and nonprofit) that receive public assistance from local housing programs to provide job training, employment, and contracting possibilities for the future beneficiaries of the housing development and related projects.

Another element of affordable housing that generally gets underplayed is housing operating costs. Some observers believe that energy conservation techniques will add to the upfront development costs of affordable housing; however, energy conservation is necessary. The affordable housing plan of Lexington, Massachusetts includes a major commitment to green development, with a target of ensuring that Lexington's affordable housing contributes to the city's status as a "Green Community." Over the long run, the expectation is that energy conservation techniques will lead to lower operating costs. This is already a focus in several jurisdictions in the Greater Washington region, but merits continuing attention, support, and investment.

# Sources of Political Capital

Ultimately, the feasibility of a strategy to address the region's affordable housing need is a matter of political will. Distinguishing the regions that have made substantial progress on regional affordable housing and those regions that have not have been factors beyond the techniques of financing and building affordable housing. Rather, it has been the willingness of multiple sectors to coalesce around the need and mobilize an effective constituency to promote affordable housing as a vital part of a region's toolkit for achieving and sustaining economic progress.

"The data proving the case for affordable housing is there," one interviewee noted. "The housing advocates and the economic development people know it, but we don't have the political buy-in." Affordable housing is one of the truly difficult issues of public policy. Everyone seems to get it and know it, but it tends to be someone else's problem to solve, something that bedevils localities because the scope is so large and the resources so inadequate. The need is to build and strengthen a broad-based constituency that promotes affordable housing at all levels. There are other coalitions around the nation that have gelled to support new funding initiatives for affordable housing, including massive support among Austin, Texas voters for a \$65 million housing bond and a similarly successful effort for a housing bond approved by voters in Charlotte, North Carolina.<sup>26</sup> These initiatives didn't happen without a mobilized constituency of citizens, businesses, nonprofit and for-profit developers, and government officials. And the ideas in this paper will also fail to progress without broad-based support across the region.

Given the lack of a silver bullet and that every example in this report has been well discussed in the Greater Washington region for decades, the issue still comes down to building a constituency of government leaders, private developers, employers, nonprofits, and local advocates working at every level across this region to cement the building blocks of a regional affordable housing strategy. Based on the input received for this report, the elements of such a constituency might include the following:

- Every jurisdiction in the region committing to assess and address its fair share of affordable housing.
- Every jurisdiction committing to creating and expanding their local housing trust fund resources. It is as much a signal of serious governmental intent as it is a mechanism of affordable housing financing.
- Each jurisdiction should initiate a comprehensive review of its development processing, not just to reduce the length of time it takes to push a development project through to completion, but to increase the predictability and reliability of the process for both for-profit and nonprofit developers.

- The economic development units of each jurisdiction must learn to speak about and advocate for affordable housing. So long as they signal a divorce between economic development and affordable housing, the private sector will not be as committed to affordable housing as it should be. As a corollary, there should be an explicit effort to work with and organize all of the local chambers of commerce to be advocates for affordable housing development in the region.
- Every community should initiate the vital inventories of public land to assess affordable housing development opportunities with schools, community centers, and governmental complexes.
- All of the local jurisdictions should be maximizing their resources to build the capacities of nonprofit developers, as well as mission-focused for-profit developers, offering shared capacity-building programs, generating core operating support resources for developers, and, if possible, organizing centralized bodies to provide for shared resources.
- The chief executives of every municipal and county jurisdiction should be working closely with their philanthropic community peers to devote sizable portions of their investment endowments as market-related investments for affordable housing production.

"I have tried to read and be aware of and learn about best practices locally and around the country," one county official explained, "and I have not come across anything that is new or different or that isn't a variation of what we're doing here." Montgomery County, Arlington County, and the District are actually at the forefront of thinking about affordable housing financing and development. The challenge is political will across all local jurisdictions in the public and private sectors, to increase the commitment of financial capital, policy, and systems changes necessary to preserve and produce more housing that serves low- and moderate-income residents – those who live here now and those projected to move here for the new jobs anticipated to be created in the region.

While there are serious challenges for a regional approach to affordable housing involving jurisdictions that are located in what are essentially three states, there are lessons and models to be adopted from other regions of the United States. In the Twin Cities, for example, the *Housing Policy Plan* of the Metropolitan Council calls for a number of steps that could be adapted to this region in the following ways:

- "Convene regional and local housing stakeholders including practitioners, funders, and advocates, to refine policies and develop programs to respond to the housing needs of low- and moderate-income households throughout the region."

- Work with “government and nonprofit stakeholders that fund housing, to align priorities and investments to meet the housing needs of the region.”
- “Expand and promote greater communication between traditional housing partners and underrepresented housing stakeholders.”
- “Share regional and Council perspectives at housing policy and finance forums.”

From talking to experts in this region, the appetite for a regional coordinating body was not particularly evident, but the desire for consistent and intense affordable housing dialogue, planning, and coordination would be hard to overlook. Through trying to understand, address, and communicate affordable housing issues on a regional basis, this region could emulate the Twin Cities plan by having all parties pursue the following:

- Review local housing and zoning plans to ensure adequate resources and zoning for meeting the continuum of affordable housing needs
- Ask local governments to adopt their fair share of regional affordable housing goals
- Provide federal and local rental assistance to the neediest households
- Ensure region-wide technical assistance to local governments to help them reach their respective housing goals
- Integrate affordable housing effectively with access to transportation and public services
- Collaborate with and convene partners and stakeholders to elevate and expand the regional housing dialogue

The collaboration and messaging has to reach not only public officials who work in affordable housing finance, and not just housing developers, but also the sectors that know the need but may not be as engaged as they should be. This includes the region’s employers and the public at large. A 2014 effort led by the Housing Association of Nonprofit Developers (HAND) retained the Wainger Group to examine how the lack of affordable housing impacted employers and other community stakeholders in the region. The Wainger Group’s recommendations on messaging to raise the visibility and importance of affordable housing in the Greater Washington region are clear and pragmatic, with the ability to reach beyond the existing affordable housing constituency to draw in the sectors that must be involved for long-term success.<sup>27</sup> For example:

- **The Thrive Message:** Housing that is affordable is essential to regional economic growth, a thriving business community and high quality of life.
- **The Compete Message:** Housing that is affordable is essential to a regional economy that can compete effectively for talent in the workforce and a marketplace that can attract new business and industries.

“We have to get smarter faster about using resources,” concluded one agency executive. The algorithm involves a combination of community activism, agency professionalism, and political leadership. The field of action is working through systems that change the dynamic from adversarial to collaborative. The benefits of an affordable housing strategy to speed up the development process and attract new investment leads to improvements in the overall development environment and progress in economic development.

Affordable housing is a crucial component of the region’s economic competitiveness and sustainability. It is not someone else’s problem, and there is no solution that will emerge into the Greater Washington region without a commitment to work across sectors and jurisdictions to make affordable housing production a realizable, practical regional goal. In the seminal treatise on making regional approaches work, *The Metropolitan Revolution: How Cities and Metros Are Fixing Our Broken Politics and Fragile Economy*, authors Bruce Katz and Jennifer Bradley of the Brookings Institution lay out an approach that makes perfect sense for progress on affordable housing in the Greater Washington region. They recommend that advocates “build your network” in which “leaders...work together in a concerted way to drive change.” They say that we need to “begin [with] a vision...bold enough to redefine the identity and image of the metropolis,” look for and focus on the kinds of “intervention(s) [with] the potential to alter the trajectory of an economy,” and “bankroll” the changes needed through “new forms of public-private partnerships to design, finance, deliver and operate core elements of metropolitan infrastructure.” The vision of infrastructure needed here is affordable housing as infrastructure. It is a heavy lift, but hardly impossible if advocates from all sectors see that affordable housing is an issue critical to the region’s future as a vital, competitive economy and as a home to diverse communities and populations.

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- 2 Walnut Creek, California recently studied and enacted a commercial linkage fee <http://www.walnut-creek.org/citygov/depts/cd/housing/linkfee.asp>
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# Interviewees

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