

Northern Virginia's Preservation Challenge

Trends, Threats, and Opportunities



Northern Virginia’s Preservation Challenge: Trends, Threats and Opportunities

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Methodology

This research is informed by a review of existing literature, data analysis and interviews with national, regional, and local practitioners. All interviews were conducted on background to facilitate open and candid discussion. The sources of insights and assertions made throughout this paper that are unaccompanied by a full citation are these practitioner interviews and/or the author's professional experience.

COVER PHOTO: Lacy Court Apartments in Alexandria, Virginia; courtesy of Alexandria Housing Development Corporation.

Dear Colleagues,

In 2011, the Northern Virginia Affordable Housing Alliance published *Charting a Way Forward: Preserving Market Rate Affordable Housing in Northern Virginia's Inner Suburbs*. That report focused on the potential for residential displacement as a result of the approved redevelopment along three major transportation corridors at close-in locations in the City of Alexandria, Arlington and Fairfax County. While these plans created much needed road and transit improvements, increased density and mixed-use development, the threat of demolition/redevelopment loomed over hundreds of low-income households who lived in the older, market-affordable housing there.

As our region grows, our older, multifamily rental communities continue to be at risk. Recently, news by the City of Alexandria that as much as 88% of their market-affordable housing stock had been lost since 2000 due to demolition or redevelopment (18,218 to 2,236 units) drew gasps and widespread media attention. Revitalization of aging corridors are not the only threat. Market pressures from 'value-add' investors who purchase class B and C rental apartments to take advantage of close-in locations and walkable neighborhoods are on the rise. First, some level of renovation is undertaken; then rents are increased and displacement begins.

These processes are slowly eroding our market affordable housing stock and forcing low-income families out of the communities where they work. This disturbing trend has significant consequences for regional economic growth and sustainability.

Northern Virginia's Preservation Challenges: Trends, Threats and Opportunities examines the conditions that can complicate investments in these valuable housing assets, and recommends strategies that localities can use to stabilize and preserve housing as affordable. Preservation continues to be an essential tool for addressing housing affordability, and increasingly a way to secure neighborhoods of opportunity for low-income households being priced-out of our high-cost localities. As our author Michael Spotts notes: "In a resource-constrained environment, bridging the affordability gap requires stemming the loss of the existing stock of affordable homes."

As local governments wrestle with preservation, we hope this research will contribute to the regional conversation, providing insights into creative policies and programmatic strategies for preserving housing affordability in Northern Virginia.

Sincerely,

Michelle Krockner, Executive Director
Northern Virginia Affordable Housing Alliance



Executive Summary

As competition for housing increases in intensity – particularly in close-in locations – the region's low- and moderate-income households face financial strain. Across the Washington, DC region, there are only 49 rental units affordable and available for every 100 households earning 50 percent of AMI or less.¹ Northern Virginia's three inner-jurisdictions – the City of Alexandria, Arlington County, and Fairfax County – have each experienced significant losses in the overall stock of affordable rental homes that outstrip their ability to create new committed affordable units.

Preventing the further loss of rental units available to low- and moderate-income households is critical to expanding economic opportunity and supporting the region's growth. The goal of this report is to inform stakeholders across the Northern Virginia region about the need for preserving affordable rental housing and the potential policy, programmatic, and financial solutions for achieving that goal.

Preservation is a broad category that can refer to a number of different activities, including but not limited to: acquisition/transfer of ownership; refinancing and light recapitalization; rehabilitation of physically distressed properties; site redevelopment

with affordable unit replacement; and incentives for affordable rents. In undertaking these activities, local governments, property owners, and mission-driven developers face a number of challenges related to preservation. While some of these challenges are the result of recent and/or geographically-focused trends, others are more broadly applicable. They include but are not limited to: market pressures and competition from “value-add investors;” capital availability for rehabilitation and redevelopment; zoning and code issues upon rehabilitation or redevelopment; physical deterioration; existing owner interest and capacity; and the potential mismatch between subsidy income limits and current tenant population.

To address these challenges, this report offers 22 recommendations for local and regional stakeholders that fall into three broad categories: interventions to help mission-driven developers acquire properties, interventions to encourage existing owners to maintain affordability, and incentives to encourage affordability through rehabilitation and/or redevelopment. Our four highest-level priorities include: more effectively using public subsidies to leverage/attract private capital for preservation; building capacity to preserve smaller-scale buildings in high-opportunity neighborhoods; adopting or improving property tax abatement

programs to increase utilization by private, market-rate owners; and encouraging equitable redevelopment through zoning and land use flexibility.

Introduction

The Washington, DC metropolitan area has benefited from decades of consistent economic and population growth. This growth has had significant impacts on the housing market in Northern Virginia. Since 2000, as overall metropolitan area incomes increased by 42 percent, household growth in Northern Virginia has exceeded that of 35 states.² As competition for housing increases in intensity – particularly in close-in locations – the region's low- and moderate-income households face financial strain. To illustrate the trajectory of housing costs, from 2000-2018 the cost to rent a two-bedroom apartment in Alexandria increased by 104 percent.³ Had Alexandria's rental housing costs simply increased by the rate of inflation, rental costs for such units would be nearly 43 percent lower than current rates.⁴ Since 2000, Arlington County has lost over 14,500 rental units affordable to households earning 60 percent of area median income (AMI) or less.⁵ Across the broader region, there are only 49 rental units affordable and available for every 100 households earning 50 percent of AMI or less.⁶

- 1 Aurand, Ph.D MSW, Andrew, Dan Emmanuel, Diane Yentel, Ellen Errico, and Marjorie Pang. “The Gap: A Shortage of Affordable Rental Homes.” Washington, DC: National Low Income Housing Coalition, March 2018. <http://nlhc.org/gap>.
- 2 HUD, Office of Housing, 2000-2018. Northern Virginia Regional Commission. “Northern Virginia Population Growth.” Northern Virginia Regional Commission. Accessed May 2, 2018. <http://www.novaregion.org/229/Northern-Virginia-Population-Growth>.
- 3 Seau, Melodie, and Tamara Jovovic. “2018 Apartment Survey Findings: Briefing to the Alexandria Housing Affordability Advisory Committee.” May 2018. https://www.alexandriava.gov/uploadedFiles/housing/info/2017MarketAffordableReport_UpdatedJune2017.pdf.
- 4 Author tabulation of Bureau of Labor Statistics Consumer Price Index - All Urban Consumers data. https://data.bls.gov/timeseries/CUUR0000SA0L1E?output_view=pct_12mths
- 5 Arlington County. “Housing Conservation District.” Arlington County, VA. Accessed May 2, 2018. <https://housing.arlingtonva.us/affordable-housing/housing-conservation-district/>.
- 6 Aurand, et al.

Preventing the further loss of affordable units is critical to expanding economic opportunity and supporting the region's growth. In a resource-constrained environment, bridging the affordability gap requires stemming the loss of the existing stock of affordable homes. Preservation is therefore critical. Furthermore, evidence suggests that in some cases preservation efforts can be more cost-effective than new development.⁷

This report is a follow up to NVAHA's 2011 report: *Charting a Way Forward Preserving Market Rate Affordable Housing in Northern Virginia's Inner Suburbs* (see textbox). The goal of this report is to inform stakeholders across the Northern Virginia region – including elected officials, municipal/agency staff, housing practitioners, and advocates – about the need for preserving affordable rental housing and the potential policy, programmatic, and financial solutions for achieving that goal. This paper will focus on preserving the region's affordable rental housing properties at risk of loss due to rent appreciation, redevelopment, and/or physical deterioration. This includes market-rate housing that is affordable

This includes market-rate housing that is affordable to low- and moderate-income households (hereafter referred to as "market affordable"), as well as income-restricted properties (hereafter referred to as "committed affordable") with expiring subsidy restrictions.

to low- and moderate-income households (hereafter referred to as "market affordable"), as well as income-restricted properties (hereafter referred to as "committed affordable") with expiring subsidy restrictions. This paper does not define a targeted level of "affordable" or "workforce" housing (for instance, 60 percent AMI or below) given the wide range of needs across the spectrum. Instead, we will identify a range of tools that can preserve the lower-cost housing stock, however a jurisdiction chooses to define it. This report also primarily focuses on multifamily properties. Many households rent single-family homes, and regional nonprofits have been successful securing these properties and preserving affordability. However, strategies to address this portion of the rental inventory are sufficiently different from multifamily strategies and thus require an independent examination.

For the purpose of this report, the term "preservation" refers to the preservation of affordability. This definition is inclusive of efforts to preserve both the physical structure and affordability of a property, as well as efforts to acquire and redevelop a specific site with all or a portion of the units reserved as affordable. Finally, analysis and recommendations will focus on the inner Northern Virginia region, including Alexandria, Arlington, and Fairfax County. It also draws on the lessons of past and present corridor- or neighborhood-specific plans that address housing affordability issues, including the Route 1 South Corridor (City of Alexandria and Fairfax County's EMBARK Richmond Highway),⁸ Beaugard Corridor, Seven Corners, Bailey's Crossroads, Columbia Pike, and the Arlington Housing Conservation District.

Key Findings and Recommendations from *Charting a Way Forward: Preserving Market Rate Affordable Housing in Northern Virginia's Inner Suburbs (2011)*

Northern Virginia is challenged by high-demand for housing in close-in neighborhoods, driving redevelopment and threatening the affordability of relatively affordable corridors with large amounts of multifamily rental units. This report focused on the Beaugard (City of Alexandria), Columbia Pike (Arlington County) and Baily's Crossroads (Fairfax County) corridors, which at the time included 7,422 market-rate units affordable at 60% of AMI, 4,100 market-rate units affordable at 80% of AMI, and 2,545 committed affordable units.

Recommendations for preserving the corridors' affordable units included:

- Adopt aggressive preservation/creation goals
- Be flexible in crafting tools for private owners
- Determine where preservation falls among other priorities for public resources
- Use best practices, such as lower tax assessments



In 2017, the Arlington Partnership for Affordable Housing acquired several scattered site market affordable rental properties in the County's Westover neighborhood. These and other properties in the neighborhood were at substantial risk of high-end redevelopment. Acquisition and rehabilitation required financial support from Arlington County as well as Low Income Housing Tax Credits and Historic Tax Credits.

⁷ "Preserving Affordable Rental Housing: A Snapshot of Growing Need, Current Threats, and Innovative Solutions," Evidence Matters, Summer 2013.

⁸ Sampson, D'Arcy. "Embank Richmond Highway: Recommendations for Affordable Housing Strategy in the Route 1 Corridor." Coalition for Smarter Growth, April 2017. City of Alexandria. "Route 1 South Housing Affordability Strategy 2017-2018." City of Alexandria, VA, March 6, 2018. <https://www.alexandriava.gov/planning/info/default.aspx?id=100785>.

The Preservation Landscape and Regional Context

In recent years, Northern Virginia's rate of population growth has largely mirrored that of the broader region. From 2016 to 2017, Northern Virginia's population increased by 1.2% compared to 1.1% for the region as a whole.⁹ The three major inner Northern Virginia jurisdictions added 10,099 residents, which was 15 percent of the metropolitan region total and 27 percent of Northern Virginia's growth.¹⁰ The City of Alexandria, Arlington County, and Fairfax County have

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accounted for nearly a quarter of Virginia's population growth since 2010.¹¹ A strong economy has increased the purchasing power of some of the region's residents. As of September 2017, Arlington and Alexandria had a 2.8 percent unemployment rate with nearly 80 percent labor force participation.¹² However, the economy is highly polarized with a substantial number of lower-wage workers. These jobs are often in local-serving industries such as service occupations and the health sector.¹³ While local industries thrive on their ability to recruit and retain such workers, low wages and high housing costs make it difficult for these workers to afford housing. For a comparison of wages for full-time employees in select occupations to regional housing costs, see the graph below.

It is not until the 80 percent AMI level that the broader regional market approaches equilibrium, with 98 rental units affordable and available for every 100 households (for context on the income levels associated with different percentages of AMI, see table).¹⁵

The inner Northern Virginia jurisdictions have each tracked the cost of housing and the

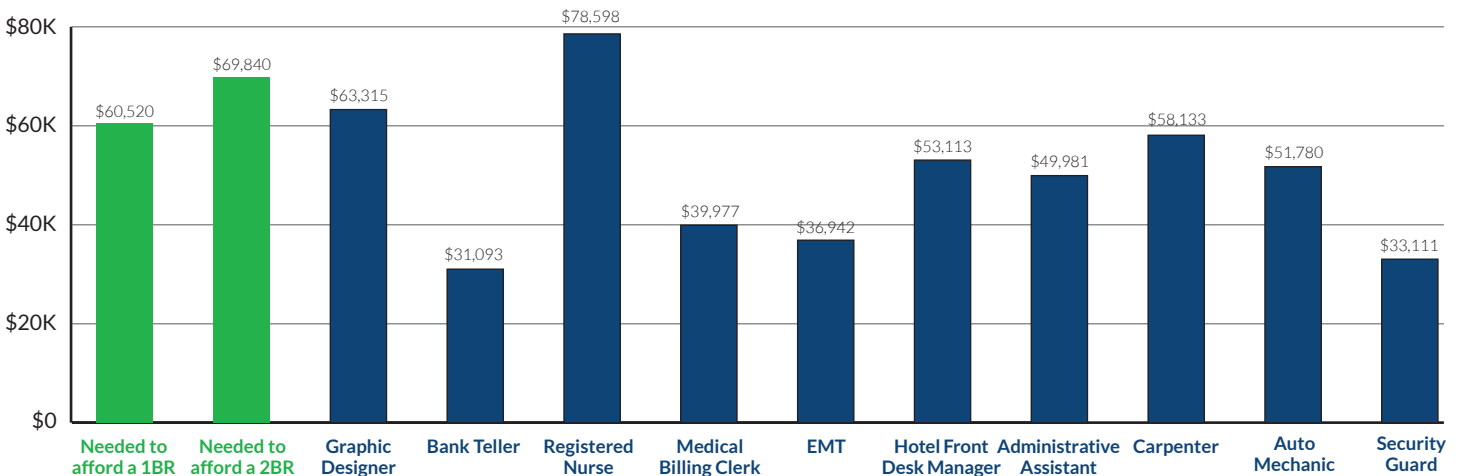
US Dept. of Housing and Urban Development (HUD) 2018 Income Limits¹⁸

% of AMI	1 person household	4 person household
30	\$24,650	\$35,150
40	\$32,840	\$46,880
50	\$41,050	\$58,600
60	\$49,260	\$70,320
80	\$54,250	\$77,450

loss of homes affordable to low- and moderate-income households, and have found that the market affordable stock is rapidly disappearing:

- The City of Alexandria saw an 88 percent reduction from 2000-2018 in market affordable at 60 percent of AMI (from 18,218 to 2,236 units).¹⁶
- During the same time period, Arlington County lost more than 14,500 market affordable units at 60 percent of AMI, mostly as a result of increases in rent.

Comparison of Housing Costs to Select Occupational Earnings Information (NHC Paycheck-to-Paycheck)¹⁴ Washington, DC Rental Market



9 Shanholtz, Spencer. "DC Region Population Estimates and Components, 2016 – 2017." George Mason University Center for Regional Analysis, March 22, 2018. <http://cra.gmu.edu/2018/03/22/population-estimates-2017/>.

10 Ibid.

11 Demographics Research Group. "Virginia Population Estimates." University of Virginia Weldon Cooper Center for Public Service, July 1, 2017. <https://uva-demographics.github.io/main-site/maps/library/virginia-population-estimates-2017/>.

12 Within Alexandria/Arlington, "industries that pay average wages below 80 percent of the average wage account for 37.6 percent of the region's jobs." White, Mark C. "Assessing Alexandria/Arlington's Regional Labor Market." Arlington, VA: George Mason University and the Alexandria/Arlington Regional Workforce Council, March 6, 2017. http://cra.gmu.edu/wp-content/uploads/2017/03/Assessing-AlexandriaArlingtons-Labor-Market_2016.pdf. Page 25.

13 Ibid.

14 For the purpose of this analysis, the National Housing Conference uses median home sales price data from the National Association of Homebuilders and US Department of Housing and Urban Development (HUD) Fair Market Rents. National Housing Conference. "Paycheck to Paycheck Database," September 27, 2017. <https://www.nhc.org/paycheck-to-paycheck/>.

15 Aurand, et al.

16 Seau and Jovovic, 2018.

There are only 2,445 such units left in the County, with approximately 11,000 additional units affordable between 60 and 80 percent AMI.¹⁷

- From 2002-2010, Fairfax County lost 8,000 market affordable units at or below 70 percent of AMI as a result of rent increases, redevelopment, and condominium conversions.¹⁹

These numbers generally do not include market-rate units that have been preserved as committed affordable housing, and thus constitute a net loss of housing opportunities for low- and moderate-income households. Affordable housing production efforts have not historically kept pace with the loss of market affordable units. For example, Arlington county lost 335 units of market-rate affordable housing in 2017, while producing 276 committed affordable units despite significant expenditures of local resources.²⁰ The County's overall committed affordable housing stock of 7,729 units is approximately half of what has been lost in the last 17 years.

Exacerbating preservation challenges is the fact that the subsidy restrictions for many

Affordable housing production efforts have not historically kept pace with the loss of market affordable units. For example, Arlington county lost 335 units of market-rate affordable housing in 2017, while producing 276 committed affordable units despite significant expenditures of local resources. The County's overall committed affordable housing stock of 7,729 units is approximately half of what has been lost in the last 17 years.

committed affordable units eventually expire, leaving properties at risk of conversion to market rate. For example, in 2014 the City of Alexandria lost 76 committed affordable units at what was then known as Parkwood Court when the development's Section 8 Project-Based Rental Assistance contract expired. In addition, Alexandria's redeveloping Route 1 South Corridor has two large privately-owned properties totaling 215 expiring committed affordable units that are the subject of preservation planning efforts organized by the City.²¹ It is difficult to get an estimate of the precise number of units at risk of loss across the region due to overlapping subsidy requirements from various levels of government, as well as the fact that many mission-driven owners intend to maintain affordability after subsidy restrictions expire. That being said, nearly 7,500 units in inner-Northern Virginia will have federal subsidy restrictions expire within the next ten years and a portion of those units can be expected to be at risk of loss.²²

The scale of the preservation challenge therefore requires a concerted and intentional approach. The following sections more closely examine the ways in which housing can be preserved, and the challenges associated with maintaining affordability.

Types of preservation efforts

Preservation is a broad category that can refer to a number of different activities, including but not limited to:

- **Acquisition/transfer of ownership:** Mission-driven entities can acquire rental properties for longer-term operation as affordable housing. Rehabilitation may or may not be a part of the initial workplan, depending on the needs of the property and the financing sources available.
- **Refinancing and light recapitalization:** Most – if not all – stable, well-maintained properties need capital for periodic improvements and refinancing (especially for properties with



The Heritage of Old Town (top) and Olde Towne West III (bottom) apartments are the subject of the Route 1 South Housing Affordability Strategy Process that commenced in 2017.



Wesley Housing Development Corporation intends to acquire and redevelop a 12-unit Fairfax County property near the Huntington WMATA Station into two mixed-use buildings with 126 affordable units (rendering above). This effort was made possible by zoning/land use changes and will require the use of local and state capital sources.

non-amortizing debt, which requires a balloon payment at the end of the term).

- **Rehabilitation of physically distressed properties:** Aging and/or poorly maintained properties are likely to need larger infusions of capital for more significant physical improvements.

17 Arlington County. "Housing Conservation District." Arlington County. "Preserving Our Past and Building for the Future: Arlington County, VA Fiscal Year 2017 (July 1, 2016 - June 30, 2017) Affordable Housing Master Plan Annual Report." Arlington, VA: Arlington County, January 2018. <https://housing.arlingtonva.us/plans-reports/annual-reports/>.

18 Virginia Housing Development Authority, 2018

19 Rogers, Angie. "Charting a Way Forward: Preserving Market Rate Affordable Housing in Northern Virginia's Inner Suburbs." Northern Virginia Affordable Housing Alliance, 2011.

20 Arlington County. "Preserving Our Past and Building for the Future." January 2018

21 City of Alexandria. "Route 1 South Housing Affordability Strategy 2017-2018." March 2018.

22 Author tabulation of National Housing Preservation Database data, April 2, 2018.



In 2008, AHC undertook an extensive rehabilitation of the 90-unit Carousel Court apartments in the Route 7 Corridor in Falls Church. The property had significant deferred maintenance issues and required new HVAC systems, electrical and plumbing upgrades/repairs and new flooring, among other issues. The rehabilitation was financed with Housing Credits and resources from Fairfax County, among other sources.



Arlington's Columbia Pike Neighborhoods Form-Based Code included incentives that allowed the Washington Real Estate Investment Trust to undertake infill construction on the parking lot of the Wellington Apartments, while converting 105 of the existing 710 apartments to committed affordable units for 30 years, without any direct County financial subsidy.²³

- **Site redevelopment:** Some sites may have the potential for additional density. In such cases, a valid preservation effort can include redeveloping all or a portion of the site to preserve or enhance existing affordability. This approach could require tenant relocation assistance to mitigate the effects of temporary or permanent displacement
- **Incentives for affordable rents:** Affordability can be preserved with or without ownership transfer through the targeted provision of financing and/or other incentives (such as property tax relief) to maintain full or partial affordability.

Challenges

Jurisdictions, owners, and developers face a number of challenges related to preservation. Some of these challenges are the result of recent and/or geographically-focused trends, while others are more broadly applicable.

Market pressures and competition from “value-add investors”

The regional housing market is influenced by local, regional and national factors. The tight post-recession rental market and an increase in the number of higher-income renters has spurred a significant amount of investment in higher-end rentals, with competition particularly fierce in high-growth markets.²⁴ Much of this investment is in new construction (particularly in or near transit-served, downtown and/or walkable neighborhoods). However, there are signs that some profit-oriented entities are shifting their focus. There has been some softening in both the Class A and B markets, while vacancy rates

In stronger markets, the combination of short-term rent increases and longer-term redevelopment potential has driven up acquisition costs to a point that makes it difficult for mission-driven entities to compete.

in professionally managed Class C properties remain low.²⁵ Responding to these trends, some investors/owners have begun to seek out performing Class B and C properties, particularly in close-in suburbs with urban characteristics. These “value-add” investors can take advantage of healthy operating margins and increasing property values to invest in the property to reposition it and raise rents.²⁶ In stronger markets, the combination of short-term rent increases and longer-term redevelopment potential has driven up acquisition costs to a point that makes it difficult for mission-driven entities to compete. Where zoned densities are lower, developers are finding it profitable to replace garden style apartments with high-end townhomes that compete in the single-family home market.²⁷ When mission-driven developers compete for these properties, they may lack adequate capital and/or cannot deploy capital as quickly as market-rate competitors.

Capital availability

Preservation minded developers and owners need substantial amounts of capital for acquisition, rehabilitation, and/or redevelopment. Unfortunately, the long-term availability of major affordable housing capital sources is likely to be constrained. The usefulness of capital sources for preservation is determined by three primary considerations: amounts available, the terms and conditions, and the speed of deployment.

Current conditions in Northern Virginia suggest that market-rate, value-add competitors for properties have better capital access/availability that can be more quickly deployed, but the terms and conditions are not necessarily superior to affordable housing sources. However, as interest rates for both short and long-term loans start to increase nationally, this is likely to make preservation more expensive and more difficult.

Further exacerbating these challenges is the projected reduction in capital (investor equity) produced through the Low Income Housing Tax Credit (Housing Credit) program, which uses corporate tax incentives to spur equity investments in affordable

23 Arlington County. “The Trove (Wellington Apartments).” Arlington County Projects & Planning. Accessed May 1, 2018. <https://projects.arlingtonva.us/projects/rhodes/>.

24 “America’s Rental Housing 2017.” Cambridge, MA: Joint Center for Housing Studies of Harvard University (Joint Center), December 2017. <http://www.jchs.harvard.edu/americas-rental-housing>; Pages 7-8.

25 Joint Center; Page 21.

26 Joint Center; Page 23.

27 Arlington County. “County Board Agenda Item: Meeting of December 16, 2017.” Arlington County, VA, December 9, 2018. http://arlington.granicus.com/GeneratedAgendaViewer.php?view_id=2&clip_id=3458.

housing. Legislative changes to the corporate tax code in 2017 were projected to reduce the amount of equity that could be raised by approximately 11 to 14 percent, roughly equating to a loss of 219,200 to 232,200 affordable rental homes.²⁸ A recent increase in the amount of Housing Credits available is estimated to replace approximately 28,400 of the lost units, but the net loss of equity is

still significant.²⁹ In addition, other highly technical provisions that were included in the corporate tax law may be particularly problematic for properties financed using the four-percent Housing Credit, which plays a critical role in many preservation transactions.³⁰ These changes jeopardize the ability of investors in existing properties to claim Housing Credits and make future four-percent Housing Credit transactions more difficult to underwrite.

There are differences in the amount and types of affordable housing preservation capital available based on the building type, generally defined by scale. The traditional financing system has a “window of opportunity” large enough to achieve economies of scale (for both the developer and funder) and small enough to fit within total funding constraints. The characteristics and size of this window can vary dramatically by market. In Northern Virginia, estimates of the window range from 50-100 units on the low end to 100-300 units on the high end. A developer can aggregate multiple properties into a portfolio to achieve scale, but that entails more upfront complexity and includes the challenges of scattered-site property management. However, these smaller buildings are an important source of affordable housing. On the other end of the property size spectrum, Northern Virginia has several older high-rise developments that serve low- and moderate-income households, including Skyline Towers in Fairfax County and Southern Towers in the City of Alexandria. Acquisition and recapitalization of buildings at this scale would significantly exceed the capacity of existing subsidy resources. Therefore, preservation of similar properties held by profit-oriented owners will likely require a substantially different approach that does not require the assumption of ownership of the property.

Zoning and code issues upon rehabilitation or redevelopment

Developers seeking to preserve affordability through redevelopment may face challenges related to land use, building codes and zoning. As previously discussed, some properties may not conform to the present rules on density, setbacks, and parking. Bringing the property into compliance may make rehabilitation or redevelopment with affordability infeasible. Relatively minor modifications to the property can trigger the need to obtain waivers or variances, and the costs and delays associated with that process. For example, in 2012 the Arlington Partnership for Affordable Housing (APAH) renovated Buchanan Gardens, 111 affordable garden-style units. To obtain a building permit for an effort that kept the same number of units but included “bump outs” and reconfigurations to increase the number of family-sized units, APAH had to comply with a number of conditions generally associated with new construction. Incremental cost increases for infrastructure alone were estimated to be nearly \$15,000 per unit.³¹ In 2013, the City of Alexandria adopted parking relief policy for preservation that allowed the rehabilitation of committed affordable units to proceed without having to add parking spaces or obtain a Special Use Permit.³²



Alexandria Housing Development Corporation used 9 percent Housing Credits to rehabilitate the 44-unit Lacy Courts apartments in Alexandria. While financing needs vary by property, this is estimated to be near the lower-bound of scale to effectively use the Housing Credit program. The City of Alexandria also invested a significant amount of capital (\$3.8 million) for the property's original acquisition, which is staying in the project to ensure its feasibility.



The Skyline neighborhood of Fairfax County includes several large-scale apartment and condominium towers.



Buchanan Gardens in Arlington

28 Novogradac, Michael. “Observational Study Corroborates Lower LIHTC Unit Production Due to Lower Corporate Tax Rate.” Novogradac & Company, LLP, January 24, 2018. <https://www.novoco.com/notes-from-novogradac/observational-study-corroborates-lower-lihtc-unit-production-due-lower-corporate-tax-rate>.
 Novogradac, Michael, and Peter Lawrence. “How Many Jobs, Affordable Rental Homes Each State Would Gain Under FY 2018 Omnibus?” Novogradac & Company, LLP, April 4, 2018. <https://www.novoco.com/notes-from-novogradac/how-many-jobs-affordable-rental-homes-each-state-would-gain-under-fy-2018-omnibus>.
 29 Novogradac, Michael, and Peter Lawrence. “How Many Jobs, Affordable Rental Homes Each State Would Gain Under FY 2018 Omnibus?” Novogradac & Company, LLP, April 4, 2018. <https://www.novoco.com/notes-from-novogradac/how-many-jobs-affordable-rental-homes-each-state-would-gain-under-fy-2018-omnibus>.
 30 To claim Housing Credits and losses associated with a Housing Credit-financed property, investors are required to maintain a positive “capital account” balance. The capital account is based on the amount of equity invested in the development. The capital account is depleted as the investor claims losses (including depreciation) from the property. Capital accounts are likely to have a lower initial balance moving forward because of the 2017 corporate tax law’s negative impact on the amount of equity invested in the Housing Credit program. The 2017 law also shortens the depreciation schedule for certain rental properties, which accelerates the rate at which the capital account will be depleted. Four-percent Housing Credit transactions yield even less equity and will be particularly affected by these changes. For a primer on capital accounts, visit: <https://www.youtube.com/watch?v=zvy2KmbWDZw>.
 31 “Fulfilling the Promise: Meeting the Production Goal of Arlington’s Affordable Housing Master Plan.” Arlington, VA, October 2017.
 32 City of Alexandria, VA. “Master Plan Amendment #2013-0005: Housing Master Plan (Staff Report),” 2013. <https://alexandria.legistar.com/LegislationDetail.aspx?ID=1530885&GUID=77B5C262-DD67-4174-B380-CF6C063F2536>.

In other contexts, the additional density needed to replace lost affordable units without financial subsidy may be beyond what land use policies allow and/or what the market will support. Finally, redevelopment of existing properties may generate neighborhood opposition, particularly when density is being added or changes are being made to building form.

Physical deterioration

The long-term viability of rental buildings requires strong property management and adequate reinvestment over time. Failure to do so can have significant consequences. For example, research from 2008 on a subset of Housing Credit financed properties found that after 15 years over a fifth of developments had insufficient reserves to address accumulated rehabilitation needs.³³

While physical deterioration can result from inefficient or incompetent stewardship and/or insufficient reserves, market factors can also have an impact. Owners of committed affordable properties are subject to oversight by the state, local, and private funders and regulators, all of which actively monitor the physical and/or financial condition of the property. This structure helps prevent the deterioration of these properties. However, market affordable properties are not subject to the same level of scrutiny.

Generally, when rents fail to cover the cost of upkeep and there is little financial value in redevelopment or sale of a property (also known as “economic obsolescence”), some property owners may stop investing in the property, exacerbating quality, health and safety issues for the most vulnerable rental households.³⁴ More relevant to the Northern Virginia region, property owners may observe that substantial redevelopment potential has raised the property’s value, making a sale to a developer compelling. Redevelopment pressures are particularly acute in transportation corridors, including along Columbia Pike, Lee Highway, Richmond Highway, and Route 7. An existing

owner seeking to sell the property may choose to forego further investment. In addition to the negative impact on tenants, this process of “equity stripping” results in the accumulation of capital needs that can make a rehabilitation-based preservation effort more difficult to finance and execute.

Local policies can also contribute to physical deterioration. Regulations that increase the costs or risks associated with property improvements can accelerate the process of equity stripping as owners determine that the “highest-and-best-use” of their property is to extract rents at the minimum operating cost while awaiting an adequate purchase offer. This can be particularly problematic with “non-conforming” properties (often built before the adoption of present zoning ordinances and building codes). For example, a property may not have sufficient parking, include “illegal” basement units, or have units in excess of current density requirements. Rehabilitating and/or redeveloping the property may require costly investment to bring the property into full compliance or require navigating the complicated and costly variance and waiver processes. These conditions can create economic obsolescence where it might otherwise not exist.

Existing owner interest and capacity

Policy and financial tools to preserve affordable housing must generally respond to the interests of the private-market property owners who will make the ultimate decision on the future of a property. However, ownership structures may vary significantly. Each structure has its own interests and challenges. Previous research has categorized owners as: “do-it-yourself” part-time owners, small-scale professional owners, and large-scale professional owners.³⁵ Even within these categories there are variances/gradations in capacity and development goals. For example – a small-scale professional owner primarily led by one or a few highly-interested owners will have different priorities than a trustee situation, in which a

Policy and financial tools to preserve affordable housing must generally respond to the interests of the private-market property owners who will make the ultimate decision on the future of a property.

professional operation may be overseen by a more diffuse group of owners (sometimes heirs). When an ownership team includes multiple family and/or corporate partners it can complicate decisions to hold, sell, redevelop, or rehabilitate a property.³⁶ Longer-term owners may also face significant capital gains tax consequences as a result of property value appreciation.³⁷ A property’s ownership characteristics and interests can also shift over time.

The financial characteristics of an individual property can make preservation more difficult. In high-growth areas such as inner-Northern Virginia, existing properties may be producing sufficient cash flow to make redevelopment less attractive. This may be in part because many existing owners’ property management levels are significantly leaner than mission-driven owners. Even owners that adequately address the physical conditions of properties do not have the same level of income qualification and regulatory compliance burdens and/or provide social services as mission-driven owners might.

Longer-term owners with less debt and those with positive cash flow can command higher purchase costs. The current profitability of these properties increases their desirability and allows the current owner to enter sales negotiations from a position of strength. On the other hand, the owner of a profitable property interested in reducing displacement among tenants may also be more willing to be patient as a mission-driven developer assembles a financing package to acquire the property.

33 Edwin Melendez, Alex F. Schwartz, and Alexandra de Montrichard. 2008. “Year 15 and Preservation of Tax-Credit Housing for Low-Income Households: An Assessment of Risk,” *Housing Studies* 23:1, 67–87.

34 Anderson, Bendix. “Affordable Apartments Lost.” *Multifamily Executive*, March 22, 2018. <http://www.multifamilyexecutive.com/property-management/apartment-trends/affordable-apartments-lost>.

35 Greater Minnesota Housing Fund. “The Space Between: Realities and Possibilities in Preserving Unsubsidized Affordable Rental Housing.” Minnesota: Greater Minnesota Housing Fund, 2013. <http://www.gmfh.com/downloads/publications-research-reports/The-Space-Between.pdf>.

36 Rogers, 2011.

37 Ibid.

Mismatch between subsidy income limits and current tenant population

Mission-driven developers generally access affordable housing subsidy resources when preserving a property, and these sources will have clearly defined income limits. However, unrestricted market affordable properties may serve a range of incomes, including households both above and below these thresholds. The strength of the region's rental housing market may mean that these over-income tenants may still struggle to afford other market rate units if displaced as a part of rehabilitation or redevelopment. This can create difficult choices for a developer, either necessitating a mixed-income property or the added complications of a tenant relocation plan. Operating the property as mixed-income can lead to a proportionate decrease in the subsidy funds available, and the resulting market-rate rents may be insufficient to make up for those lost resources (particularly when rehabilitation is involved).

Accommodating under-income tenants can also be difficult. Recapitalizing a property may increase the amount of operating revenue needed to cover debt service. Capital subsidies (or land use incentives such as density bonuses) often target rent levels affordable at 60 percent AMI or higher. The resulting rents may be unaffordable to lower-income tenants without additional household-based support or operating subsidies. The lack of affordable and available homes for the lowest-income households and limited tenant-based supports make this population particularly vulnerable.

Moving forward, there may be increased flexibility to address the mismatch between subsidy limits and tenant incomes. The federal fiscal year 2018 appropriations law included a provision to allow for increased income mixing in newly financed Housing Credit properties. Rent levels will be able to reach up to 80 percent AMI, in exchange for deeper levels of affordability in other units.³⁸ It is too soon to know how this change will impact the Northern Virginia market, or how investment policies of local government may be adapted to adjust for this change.

Preservation Tools

Successful preservation efforts are likely to rely on a range of tools and interventions, often variable by the types of stakeholders involved and the preservation typology. For information on specific preservation-related activities in the City of Alexandria, Arlington County and Fairfax County, see the chart below.

Building mission-driven developer capacity

Scalable preservation efforts require mission-driven owners/developers – whether nonprofit or for-profit – to acquire and/or manage properties. Building the capacity of developers may require technical and/or financial assistance.

Northern Virginia already has several high-capacity mission-driven affordable housing developers capable of undertaking large-scale development and preservation efforts. The impact of these organizations could potentially be magnified with additional access to capital. However, there could be a need for additional capacity for addressing smaller-scale and scattered site properties that fit less well into current developers' operating models.

Capital

Developers have a range of capital needs when undertaking preservation efforts, including acquisition, bridge financing (for the time in between acquisition and any rehabilitation or recapitalization, if relevant), small-scale capital improvements, and permanent capital for substantial rehabilitation or redevelopment.

The Virginia Housing Development Authority (VHDA) provides a significant amount of capital for preservation efforts. VHDA is responsible for allocating the state's Housing Credits, with 4 percent Housing Credits more likely to be utilized for preservation (though 9 percent Housing Credits are occasionally used for this purpose). Some private and nonprofit sector stakeholders also provide equity for preservation. However, these products may be difficult to use in the Northern Virginia market given high acquisition costs. Mission-oriented private equity products may serve as middle-term financing (3-10 years), requiring eventual refinancing and/or recapitalization. Additional subsidy may also be needed to reach lower-income levels.

VHDA also provides the tax-exempt bond financing that is paired with the 4 percent Housing Credit program. In addition, VHDA reinvests a portion of its net revenues into the REACH Virginia program, which provides flexible capital for a range of affordable housing and community development activities including permanent financing, gap funding, acquisition capital, and short-term recapitalization funding.⁴⁰

Private-sector capital is also critical for affordable housing preservation. Banks provide debt for each stage of the preservation process. Financial institutions offer products insured by FHA or securitized by Fannie Mae and Freddie Mac, which have statutory and regulatory obligations or missions to serve this segment of the market.

In addition to providing financial resources directly to preservation transactions, public and philanthropic institutions can provide

Inner-Northern Virginia Jurisdictional Preservation Profiles	City of Alexandria	Arlington County	Fairfax County
Preservation-specific planning and reporting	✓	✓	
Corridor or neighborhood preservation plans	✓	✓	
Local capital/ subsidy	✓	✓	✓
Land Use Incentives for Redevelopment	✓	✓	✓
Property tax incentives	✓	✓	

38 Shelburne, Mark, and Thomas Stagg. "Implementation of LIHTC Income Averaging." Novogradac & Company, LLP, April 3, 2018. <https://www.novoco.com/notes-from-novogradac/implementation-lihtc-income-averaging>.

39 Property tax relief in Alexandria is limited to units owned by the Alexandria Redevelopment and Housing Authority.

40 Virginia Housing Development Authority. "Community Outreach." Virginia Housing Development Authority. Accessed May 2, 2018. <https://www.vhda.com/BusinessPartners/GovandNon-Profits/CommunityOutreach/Pages/Community-Outreach.aspx#.WukPv4gvzIV>

loan subsidies/guarantees to facilitate better interest rates, terms and/or conditions for a wide range of capital sources/uses. For example, the Greater MN Housing Fund Workforce Housing 2.0 Pilot provides loan guarantees and mezzanine loans to reduce need for state/federal subsidies.⁴¹

Finally, when affordable housing is preserved, it is possible to extend the useful life and financial viability of a property through sound underwriting. Though doing so may increase the amount of upfront capital needed, “lifecycle underwriting” can reduce the frequency at which properties require recapitalization and/or are put at risk of loss from the affordable stock. This can be accomplished through robust funding of operating and replacement reserves. The Center for Housing Policy and National Housing Conference have conducted an analysis that indicates that it is possible to use sound underwriting to maintain physical and financial viability for 30-50 years, though whether this time frame is desirable depends on many factors.⁴²

Operating cost reduction

Reducing the operating costs of multifamily properties can help reduce rent levels without jeopardizing financial viability. A common method of accomplishing this goal is to provide local property tax abatement in return for keeping all or a portion of a property's units affordable. Virginia's municipal jurisdictions have the authority to adopt assessment policies that account for the restricted rent and resale potential of a committed affordable unit, thereby reducing the amount owed (Code of Virginia, § 58.1-3295). Virginia also enables municipalities to adopt partial tax exemptions under some circumstances for structures in redevelopment/rehabilitation areas (Code of Virginia, § 58.1-3219.4) and for rehabilitated residential properties (Code of Virginia, § 58.1-3220) but this authority does not address the issue of affordability.

Energy and water-efficiency improvements can also reduce operating costs, particularly for master-metered properties in which the

owner pays for utilities. Capital for such improvements can be provided in the form of a traditional loan or through a structure in which a third-party entity performs the improvements and is repaid through the utility savings.

Another method of reducing a property owner's operating costs is to master lease all or a portion of a property's units. By leasing these units for affordable households, the government or mission-driven entity would generally assume the compliance burden associated with affordable units (such as income verification) as well as reduce the costs of tenant turnover borne by the landlord.

Land use, planning and zoning tools

Jurisdictions can use their municipal authority to facilitate preservation. First, municipalities have a significant amount of property data that can be used to identify properties at risk of loss. Virginia's cities and counties also have the ability to undertake planning efforts at the jurisdictional, neighborhood and/or corridor levels to identify approaches and tools that can facilitate preservation. VHDA provides planning resources through its Community Impact Grant program. The previously mentioned Alexandria Route 1 South preservation planning process is funded through the Community Impact Grant.⁴³

Jurisdictions can use their municipal authority to facilitate preservation. First, municipalities have a significant amount of property data that can be used to identify properties at risk of loss.

Municipalities can provide flexibility regarding density, height, form, parking, set-backs, and lot coverage, among other factors, to improve the economic feasibility of existing properties and/or rehabilitation/redevelopment efforts that include replacement units. Other tools can include special preservation planning districts with targeted

incentives and transfers of development rights. Presently, Virginia law does not allow jurisdictions to adopt “right-of-first-refusal” or “tenant opportunity to purchase” laws, such as those adopted in Washington, DC, which give certain stakeholders a legally mandatory opportunity to acquire a site before it is sold and potentially lost from the affordable stock.⁴⁴

Lessons and Recommendations

Each jurisdiction in the inner-Northern Virginia region has acted to some extent to address the critical need for preservation. However, given the continuing loss of units, more must be done. As this is a regional issue, regional stakeholders should work together to craft a robust policy and financial toolkit that accommodates a range of approaches. There can be no one-size-fits-all approach, because:

- The scale of need (in terms of number of units) is beyond any reasonable amount of capital that could be raised for mission-driven acquisition/development.
- The diversity of building and owner typologies calls for a more customized approach.

A coordinated, multi-faceted preservation strategy will acknowledge these limitations and challenges and include a diverse set of tools that will help in different contexts. Activities by local and regional stakeholders to support preservation can be grouped into three categories: interventions to help mission-driven developers acquire properties, interventions to encourage existing owners to maintain affordability, and incentives to encourage affordability through rehabilitation and/or redevelopment. Given resource limitations, balances between these three approaches will need to be struck. It will likely be beneficial for jurisdictions to identify a range of criteria for prioritizing which strategies are utilized in different circumstances/neighborhoods and which preservation opportunities are most important. For example, governments and funders may have

41 Greater Minnesota Housing Fund, 2013.

42 Brennan, Maya, Amy Deora, Ethan Handelman, Anker Heegaard, Albert Lee, Jeffrey Lubell, and Charlie Wilkins. “Lifecycle Underwriting: Potential Policy and Practical Implications.” Washington, DC: Center for Housing Policy and National Housing Conference, February 2013. Visit <http://www.lcycle.org/> to explore a lifecycle underwriting data tool.

43 City of Alexandria. “Route 1 South Housing Affordability Strategy 2017-2018.”

44 Office of the Tenant Advocate. “Tenant Opportunity to Purchase Act (TOPA).” District of Columbia. Accessed May 2, 2018. <https://ota.dc.gov/page/tenant-opportunity-purchase-act-topa>.

to decide whether mission-driven acquisition capital should be deployed in areas with the greatest redevelopment potential or should be focused on “last bastions of affordability” in high opportunity neighborhoods, regardless of redevelopment potential.

At a high level, a strong policy framework will:

- Continue current efforts to measure and quantify needs to ensure that any actions are well-informed and backed by data;
- Conduct outreach to all relevant stakeholders, including the broader community, funders/lenders, developers, and existing property owners to underscore the importance of preservation and identify the practical considerations that will need to be incorporated into any capital/policy design effort;
- Align the aforementioned planning, monitoring and outreach processes with funding/policy decisions;
- Focus on adequate funding and sound underwriting, as shortchanging upfront expenditures may create longer-term costs and risks;
- Maintain sufficient flexibility to accommodate market shifts and other emerging trends and needs.

Specific actions that regional stakeholders should consider are described below.

Potential actions include barrier removal, modifications to existing policies, and implementation of new concepts/programs. While this section does not focus on state-level activities, it does highlight circumstances in which state action may be necessary to facilitate local/regional action.

Interventions to help mission-driven developers acquire properties

Acquisition for the express purpose of maintaining long-term or permanent affordability is the most straightforward approach to preservation. However, acquisition may require the most upfront capital investment from both the public and private sector and establishing funding sources for this purpose requires both financial sophistication and political will.

Policy modification

- For existing and potential future funding sources, consider allowing “sliding scales” in determining affordability levels for units. This could allow units reserved for higher-income households to cross-subsidize more deeply affordable units, providing more flexibility to creatively finance properties and limiting displacement of over-income tenants. The amount of resources made available should be proportionate to the depth and length of affordability provided, with a strong focus on the most

critical needs identified by the jurisdiction and regional stakeholders.

- As a condition for local funding, require that an owner grant the municipality an option to purchase or right of first refusal. The City of Alexandria includes similar provisions in its affordable housing lending agreements, which enable the City (or a nonprofit designee) to potentially acquire a committed affordable property when subsidy restrictions expire.

New programs/policies

- To compete with market-rate investors and purchasers, explore the possibility of a regional quick-strike acquisition funds and/or lines-of-credit.
- Jurisdictions, philanthropy and the finance sector should explore ways to increase the overall pool of capital, including through “leveraged funds,” loan guarantees or other mechanisms where outlays by mission-oriented entities bring more private capital into the preservation sector (see text box).
- To expand the number of options that a mission driven owner has post-acquisition, explore opportunities for additional medium-term financing that would allow for modest rehabilitation. This gives developers more time to develop an ultimate redevelopment plan.

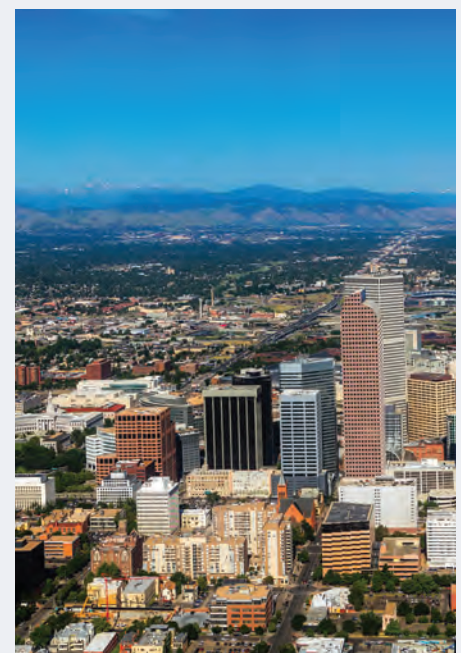
Using Subsidy Dollars to Leverage Private Investment

Government and philanthropic funds can offer favorable terms and conditions for affordable housing financing, but often lack scale. Conversely, private capital is often available at scale but may be too costly or have inflexible terms. Several cities and regions across the US have decided to blend these two models to increase the amount of capital available at favorable terms and conditions. For example, the Denver Regional TOD Fund uses public funds as “first-loss” capital, which attracted additional philanthropic and private capital at more favorable terms than would otherwise have been available.^a

Alternative mechanisms that can generate additional private capital and/or more favorable terms include loan guarantees or interest rate buy downs.

While the current terms and conditions of Northern Virginia’s existing public subsidy resources may be more attractive than could be achieved under a leveraged funding structure, those funds fall far short of demonstrated need. Additional analysis should be conducted to determine whether such structures are feasible and if the benefits of increased capital availability outweigh any additional costs.

^a Hersey, John, and Michael A. Spotts. “Promoting Opportunity through Equitable Transit-Oriented Development (ETOD): Barriers to Success and Best Practices for Implementation.” Promoting Opportunity through ETOD. Washington, DC: Enterprise Community Partners, October 2015. <http://www.enterprisecommunity.org/resources/promoting-opportunity-through-equitable-transit-oriented-development-etod-barriers>



- Work with non-traditional, mission-driven developers to explore a model for preserving smaller-scale and scattered site properties, particularly those under 20 units (see text box below).

Interventions to encourage existing owners to maintain affordability

It is important to acknowledge that not every individual property can be acquired by a mission-driven developer. This does not mean that the affordability of these properties is necessarily lost. There are still opportunities to provide resources and incentives to profit-motivated owners to maintain both short-term and longer-term affordability. Incentives designed to encourage participation by for-profit owners should also be available to mission-driven developers, providing opportunities to provide even deeper affordability or higher numbers of affordable units.

In pursuing these opportunities, it is critically important to consider the interests and motivations of existing owners. Proper stewardship of public resources rightfully requires that agencies design programs and incentives in a way that maximizes public benefit at minimum cost. However, profit-motivated owners are unlikely to participate in voluntary programs designed at the “break-even” point where the public incentives compensate

for foregone profits. Owners value the flexibility to respond to market conditions. Any encumbrance to the property adds risk. Property owners may also be reluctant to take on increased compliance burden. Therefore, if a jurisdiction decides that engaging for-profit property owners is a priority, they should be prepared to offer incentives that compensate for these issues.

Barrier removal

- Conduct outreach to landlords and identify opportunities for “red tape reductions” in exchange for affordability

Improve Property Tax Abatement Programs

Property tax abatements can directly and substantially reduce the operating costs of a rental property. As such, this policy can be an attractive incentive for providing affordability. However, program design matters greatly. The terms and conditions that are beneficial to mission-driven developers may differ from those targeted toward profit-driven owners. For example, a mission-driven developer may prefer a longer-term commitment in order to provide deeper levels of affordability. A for-profit owner may be unwilling to accept longer terms commitments that can encumber the property and reduce its potential market value. While clarity and consistency in program design are important, achieving greater uptake requires that property tax incentives are flexible enough to accommodate the varying circumstances faced by individual property owners and/or acquiring entities. Potential solutions include separate incentive structures for short and long-term commitments or determining incentive amounts through a formula that considers the length of commitment, the depth of affordability, and other relevant factors. Jurisdictions can also support income mixing by providing shallower tax subsidies if an owner forgoes rent increases on a portion of the units.

provisions and/or the acceptance of tenants receiving rental subsidies.⁴⁵

Policy modification

- Expand and improve existing property tax incentives offered for the provision of affordable units. (See text box above). Such expansions may require state legislative action.
- Explore financial options that would give mission-driven owners recapitalization options outside of the Housing Credit pipeline. For example, Massachusetts Housing Partnership has used the HFA Risk-Share program to finance a project using low-interest 40-year amortizing loan with capitalized reserves for the long-term physical and financial viability of the property.

New programs/policies

- Consider the viability of “master leasing” models in which mission-driven entities assume property management responsibilities of all or a portion of units in a market-rate development. The owner would receive a reduced operating burden and a guaranteed, contractual rent without turnover risk, in exchange for the ability to maintain rents in those units at affordable levels.⁴⁶ Given the strength of the region’s rental market and the high occupancy/low turnover environment, financial feasibility may require some level of financial subsidy.

Building Capacity for Small Property Acquisition

Smaller properties (particularly those under 20 units) can suffer from a lack of economies of scale in terms of financing, capital repairs, and property management, making acquisition and ongoing operations more difficult. However, these buildings are a critical component of the affordable housing stock both nationally and regionally. Nationwide, among units renting at or below \$650, nearly half are in buildings with 5-19 units (Joint Center; Page 17). Furthermore, such properties in inner Northern Virginia are sometimes located in lower-density, higher-opportunity neighborhoods, supporting a greater geographic distribution of affordable housing. Supporting the preservation of such properties can be critical to advancing fair housing goals and combatting the legacy of segregation in the community.

Most of the region’s high-capacity, mission-driven developers focus on larger scale development and preservation efforts. The unique and complex attributes of each development model suggests that a focused effort at preserving smaller properties could be more effectively accomplished by organizations, programs, and capital sources specifically dedicated to that purpose. The region’s jurisdictions should consider quantifying the scale of need within this property type and determine whether other proactive steps should be taken. This analysis can be incorporated into existing conversations about the “missing middle” housing stock.

45 Ginsburg, Elizabeth. “Enterprise and HPD Launch Landlord Ambassadors Program to Preserve Affordable Housing Through Community Engagement.” Enterprise Community Partners (blog), May 10, 2017. /blog/new-york-landlord-ambassadors-program.

46 Jakabovics, Andrew, and Allison Charette. “Staying in Place to Get Ahead: Creating Renter Stability through Master Leases with Built-in Savings Accounts.” Washington, DC: Enterprise Community Partners, June 2016. <http://www.enterprisecommunity.com/resources/ResourceDetails?ID=0101107>.

- Consider targeted support for the preservation of a portion of units in larger properties (including high-rises) owned by profit-driven entities. Forgivable loans could be provided for rehabilitation in exchange for affordability commitments, secured by property tax receipts.
- Consider the viability of a light-to-moderate rehabilitation loan fund open to private property owners at attractive terms, in exchange for affordability requirements. For example, the

Expand Housing Choices for Tenant-Based Subsidy Recipients

While it is not clear if municipalities have the authority under state law to adopt “source of income discrimination” laws that would require voucher acceptance, jurisdictions can work to improve voluntary participation through assistance and incentives. Jurisdictions can institute housing locator programs that match prospective tenants with willing owners. Another possibility is to expand incentive programs that are currently designed for households with higher barriers to housing. For example, Arlington’s Landlord Partnership provides a range of incentives and services to owners that agree to lease to homeless individuals and families, including case management, conflict resolution communication, eviction prevention services, and risk reduction insurance against damages/lost rent. This level of assistance/incentive should not be necessary for all subsidy recipients, particularly those with strong credit and leasing histories. Philanthropy and/or municipalities can offer a shallower incentive and/or more limited services in exchange for accepting tenant-based subsidy more broadly. However, any potential expansion of these programs should be designed and funded in a way that does not divert resources from or reduce unit availability for the highest need, highest-barrier individuals and families.

Minnesota Housing Finance Agency offers a Rental Rehab Deferred Loan Pilot Program with the goal of stabilizing naturally-occurring affordable housing with a deferred payment, 0% interest loan of up to \$300,000 in 10- and 30-year terms. The program is aimed at less-professional owners, though interest has been modest.⁴⁷

- Explore providing property tax credits for tenant-based rent reductions. A similar model has been adopted by Montgomery County, though the success of the program has not been evaluated. This action may also require state legislative approval.
- Explore the use of alternative funding sources for rehabilitation. These can include resources targeted toward weatherization and/or energy-efficiency improvements, particularly in properties where the owner pays utilities and thus has an increased incentive to reduce energy costs.⁴⁹
- Encourage private property owners to accept tenant-based housing subsidies such as Section 8 Housing Choice Vouchers. Increased acceptance of tenant-based subsidies can keep market-rate units affordable to a portion of tenants even as rents rise and allow market affordable units to reach deeper levels of affordability. (See text box)

Incentives to encourage affordability through rehabilitation and/or redevelopment

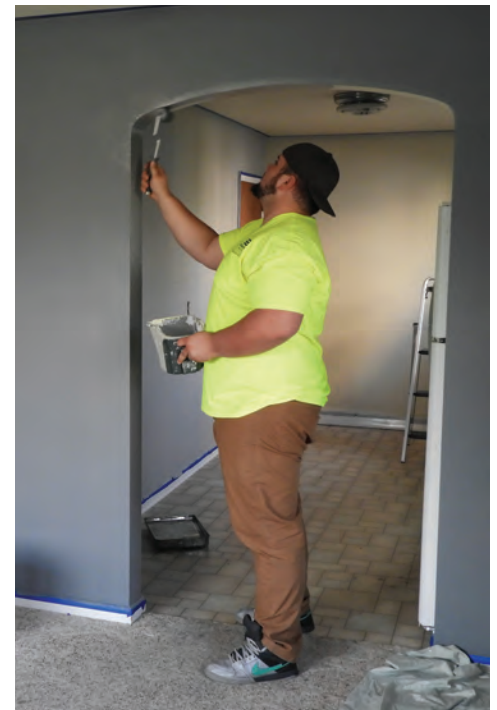
Redevelopment policies are important to an overall preservation strategy. Not all buildings can or should be preserved as-is, given current conditions and/or shifts in the market. Maintaining or expanding the number of affordable units available is the more important goal. As such, jurisdictions should consider a range of policies and incentives that make it financially feasible to include a significant number of affordable units in any redevelopment effort. Developing a comprehensive planning and redevelopment strategy is a lengthy process, during

which time preservation opportunities can be lost. Therefore, jurisdictions should be expeditious in acting, and consider interim measures that allow preservation efforts to move forward in the meantime.

Finally, though it is not the focus of this report, it is important for jurisdictions to have strong overall affordable housing production policies (such as housing trust funds and inclusionary housing policies) to ensure that there is a pipeline of affordable units that can compensate for affordable housing units that are lost.

Barrier removal

- Reduce the need to exhaust limited capital and municipal staff capacity by increasing the flexibility of owners to improve affordable properties on a by-right or quasi-by-right basis. Review existing “streamlining” policies to ensure that stated goals are achieved in practice.
- Create “safe harbors” for owners rehabilitating properties related to pre-existing non-conforming uses, parking levels setbacks, and other zoning and building code provisions.



47 Greater Minnesota Housing Fund, 2013.

48 Arlington County (VA). “Arlington Landlord Partnership.” Public Assistance, 2016. <https://publicassistance.arlingtonva.us/arlington-landlord-partnership/>.

49 Elevate Energy. “Preserving Affordable Multifamily Housing through Energy Efficiency: Non-Energy Benefits of Energy Efficiency Building Improvements,” January 2014. <http://energyefficiencyforall.org/resources/preserving-affordable-multifamily-housing-through-energy-efficiency-non-energy-benefits>.

Bartolomei, Dana. “State Strategies to Increase Energy and Water Efficiency in Low-Income Housing Tax Credit Properties.” National Housing Trust, 2017. <http://energyefficiencyforall.org/resources/state-strategies-increase-energy-and-water-efficiency-low-income-housing-tax-credit>.

Policy modification

- Adopt zoning and land use flexibility to allow for redevelopment at levels sufficient to replace lost affordable units (see text box).
- Review land use and zoning codes to ensure that property neglect and “equity stripping” is not the “highest and best use.” This likely would require adopting additional zoning flexibility.
- Robust code enforcement can also be used to encourage appropriate property stewardship of market-affordable properties. Compliance efforts can be used to link property owners to municipal programs that support rehabilitation and include affordability provisions. However, jurisdictions should be prepared to provide tenant relocation assistance in the extreme cases in which robust code enforcement leads to the removal of the property from the housing stock through condemnation or voluntary action by the owner.
- Complexity can inhibit preservation efforts. As such, consider whether incentives embedded in targeted small

area plans and other niche zoning tools (such as the various forms of conservation/preservation districts) would be more effective if consolidated and/or replaced by more generally available policies and tools.

- Review existing policies such as transfer of development rights to identify ways to streamline participation and increase utilization.

Conclusion

The Northern Virginia region, and the broader Washington, DC region, have long benefited from the blessing of economic prosperity and the curse of its unequal distribution. In addressing the needs that result from this dichotomy, a number of high-capacity stakeholders have emerged across the housing development field. As budgets remain constrained and competing priorities emerge, it is important now more than ever that the region's leaders work together to develop a range of creative solutions to create mixed-income communities that provide a range of housing choices. As property values and redevelopment pressures continue to rise, preservation will be critical to ensuring

Adopt zoning and land use flexibility

Affordability can be preserved through redevelopment with the adoption of appropriate incentives and flexibility. For example, partial redevelopment can be facilitated by allowing infill buildings on low density sites, bump outs, or other architectural practices for adding new units. In the context of full redevelopment, corridor-level density, height and affordability requirements (and offsetting incentives) should be calibrated to produce a substantial number of affordable units. Interviewees have estimated that density increases may need to range from 2-6 times current levels, depending on the level of affordability required, neighborhood and market conditions, and the motivations of the owner (full market or mission-driven).

that the low- and moderate-income families that help make the region's economic growth possible can remain and share in the prosperity that they help create.



