COVER STORY

WBJ ILLUSTRATION / GETTY IMAGES

Toppled

Greater Washington leaders had big plans for affordable housing funds. But the coronavirus crushed them.

BY ALEX KOMA, akoma@bizjournals.com, @WBJAlex

Nina Janopaul believed 2021 would be a big year for the Arlington Partnership for Affordable Housing.

The developer was closing in on one of its most ambitious projects ever, transforming an American Legion post in Arlington into new affordable homes targeted to veterans. The company had just expanded its work into Montgomery County and had three projects in the pipeline in Fairfax and Loudoun counties. And perhaps best of all, Janopaul saw local governments finally getting serious about backing more affordable housing in the years to come.

Amazon.com Inc.'s arrival in Arlington had forced the sort of urgency around the issue that developers like Janopaul had been waiting years to see. Local leaders were responding to that new political pressure with big plans for more housing spending and, for affordable-focused companies like APAH, that represented a huge opportunity. Those public loans are often key parts of a complex capital stack – the difference in helping developers reach the lowest-income renters in the market.

"We were shaking the trees like, 'Hey now, the funding is here. Let's make this happen,'" said Janopaul, APAH's president and CEO. "But we pretty much put all that on hold in March and April. We stopped talking about new developments."

And just like that, the coronavirus outbreak has made what was already one of the Washington region's weightiest problems, housing affordability, all the more arduous. The pandemic truly could not have come at a worse time for renters across Greater Washington – a recent Urban Institute study found that the vast majority of the region's lowest-income workers are overly burdened by housing costs, and many of those same workers are suddenly losing their jobs and struggling to pay rent.

CONTINUED ON PAGE 22

COVER STORY

CONTINUED FROM PAGE 21

Experts of all stripes believe the region needs to massively ramp up new housing production to push prices down. But the pandemic also just dealt a major blow to the state and local budgets that helped fuel the affordable development sector with government loans and tax credits. As jurisdictions take out the budget ax to compensate, they are having to put affordable housing funding on the chopping block, wiping out substantial gains in a long-suffering industry in the blink of an eye.

"Losing these additional investments in affordable housing gives me the most consternation of anything in the budget, because we know that the pandemic will only exacerbate the need in the county and the region for safe, stable housing," said Fairfax County Board of Supervisors Chairman Jeff McKay, D-At large. "But we're still much further ahead than we were when the [2008] recession hit."

Therein lies the hope in what's been an otherwise frustrating turn of events for housing advocates. The cuts are mostly tied to future spending, which they anticipate will rebound once local tax revenues clamber their way back from projected losses. If so, that would make this more of a delay than a permanent shift in priorities, said Michelle Winters, executive director of the Arlington-based Alliance for Housing Solutions.

"The overall impact this will have," Winters said, "is to set us back a year or more on progress we had been making."

A step back by the region's leader

In the salad days before Covid-19, D.C. Mayor Muriel Bowser won all manner of plaudits for forcing a greater focus on housing issues throughout the D.C. region.

She spent years advocating for the District to spend more money on its own affordable housing efforts and was the first local leader to set defined housing production targets, at 36,000 new homes by 2025, spurring others to follow suit. Naturally, Bowser figured that 2021 would bring a continuation of that work as part of a new budget.

After some wrangling with the D.C. Council last year, Bowser won a $16 million increase in funding for the city's Housing Production Trust Fund, a key loan program for affordable developers. She had envisioned even greater hikes for fiscal 2021 – until she suddenly found herself facing a $774 million drop in projected revenue for the year due to the pandemic.

That forced her to reverse course and slash spending to $100 million, the city's 2019 spending level.

"Not only do I wish we could've had the $116 million, I was hoping this year we'd make it even more," Bowser said

McKay

Knight

during a May 18 press conference, while introducing her significantly scaled-back fiscal 2021 budget proposal. "This is where we are. Everybody is sacrificing something."

While that $100 million, a campaign promise for Bowser, remains the largest such commitment to a loan program in the D.C. region, advocates say it's still insufficient given the housing crisis that persists in the city.

"With all the built-up demand in the city, even funding commensurate investments with last year's level would not keep up," said Jim Knight, president and CEO of Jubilee Housing, a D.C. nonprofit that builds affordable housing. "I'm concerned developers from Jubilee to market-rate folks will lose out on projects and people will continue to be pushed out of the District."

Yet Bowser urged such affordable developers to stay "creative" in tapping different sources of financing, noting that she has not turned her back on her housing targets pledge, even as she's lost resources to meet that goal.

"Our commitment to getting to our units remains," Bowser said. "And we will continue to look as the economy improves to how we can amp up this investment."

A recession restoration, ruined

Housing boosters are perhaps even more disappointed by the pandemic's effects on efforts in Fairfax County.

Supervisors in Greater Washington's largest jurisdiction were mulling a $26.5 million annual increase to its loan fund, which would have made Fairfax the top housing spender in Northern Virginia. And that increase was designed with longevity in mind, as officials planned to raise real estate taxes and permanently dedicate a portion of that new money to housing loans – a step the board last embraced when now-U.S. Rep. Gerry Connolly was chairman more than a decade ago.

But Covid-19 concerns convinced the board to strip all planned tax increases from its 2021 budget, and that meant the new housing money was toast.

Still, McKay points out that the county has no plans to undo other dedicated revenue sources for affordable housing, leaving about $19 million in the budget for its loan fund. He's optimistic the county can get more aggressive about acquiring distressed properties to build or preserve affordable housing as the real estate market shows signs of cooling down.

In addition, McKay wants to spend the next year focusing on "things that

Nina Janopaul heads up the Arlington Partnership for Affordable Housing.

JOANNE S. LAWTON / WBJ

Michelle Winters of the Alliance for Housing Solutions expects funding delays of at least a year.

EMAN MOHAMMED / WBJ

don't necessarily have a financial impact on the county," but can still help developers build more affordable housing. That includes strategies ranging from zoning changes to higher density in exchange for more affordability, all tactics recommended by experts to address the region's housing crunch.

"Under other circumstances, we would be spending the next year talking about projects to finance and build," McKay said. "While that's exciting, the work of deregulating affordable housing is even more controversial and time-consuming than that. It's probably a time to focus on the nuts and bolts of our regulations."

That sort of commitment is encouraging for advocates like Michelle Krocker, executive director of the Northern Virginia Affordable Housing Alliance. But she hopes it doesn't take another decade to convince supervisors to restore this funding, as it did after the last recession.

"When times are good, there's money to support housing, and when they're not, local governments feel as if it's not an essential service," Krocker said. "We can't wait until the coast is clear, so to speak, to be investing in housing."

As for Loudoun County, it finds itself in a bit of a different situation, as it draws funding for its loan programs from levies on existing single-family communities. So, its cash flow for affordable housing stands to be relatively unaffected by the pandemic.

Amazon's neighbors feel the squeeze

Arlington and Alexandria have both been frequently identified as ground zero for housing affordability challenges now that Amazon is moving in.

Although the funding totals are a bit smaller in Arlington, local leaders were no less ambitious in their new spending plans before the pandemic hit. Some Arlington County Board members were pushing for a $9 million increase in allocations to the county's affordable housing loan fund, a more than 50% jump to match the county's then-surging tax revenue.

But amid Covid, they've settled for a budget that matches last year's commitment to the fund: about $16 million.

"It's maybe a missed opportunity, rather than us stepping back from that commitment," said Board member Katie Cristol, a Democrat who'd hoped to see spending increases this year.

Perhaps the more disappointing change for advocates is a delay to a long-anticipated "missing middle housing study," a lengthy examination of how officials could allow for new housing types across Arlington. It was supposed to launch in April with a new roadmap for potential duplex and triplex development across the county. Now Cristol believes it can't get started "without the true ability for public engagement."

Cristol

That's why the board is exploring more creative solutions to help affordable developers, Cristol said, similar to McKay's efforts in Fairfax. For example, the county could extend repayment deadlines for housing loans to ensure projects stay on track.

Alexandria Mayor Justin Wilson said his city is also considering measures for affordable housing developers, while confronting one very scary question: "Is there going to be a tax credit market anymore?" The city, which generally dedicates a portion of its meals tax revenue to housing spending, lost about $1 million of the roughly $5.6 million it usually devotes to its loan fund.

But there's no telling what the development market will look like going forward in a pandemic-shaken economy, and Wilson wonders how much of a difference county and city dollars will make in influencing construction decisions.

"People with multifamily properties are all offering rent abatements and reductions right now," Wilson said. "Who knows where we're at this time next year?"

Mounting challenges in Maryland

Maryland's suburbs might not have a tech giant moving in, but its concerns about housing affordability prevailed all the same pre-Covid.

Montgomery County officials were on the cusp of advancing ambitious new efforts to create and preserve affordable housing this year following months of negotiations. In particular, they were thinking about the arrival of the Purple Line, a new light rail system connecting Bethesda and New Carrollton that could drive up home prices and push out low-income families as it's built.

One new initiative would be a "production fund," funneling money to the county-backed Housing Opportunities Commission to help build and manage deeply affordable properties. It would rely on some cash in the county's existing Housing Initiative Fund (commonly known as the HIF), allowing the commission to leverage that money to spend as much as $550 million across the next decade.

Another new fund would focus on acquiring and preserving affordable properties, especially along the Purple Line corridor, leveraging cash to generate up to $50 million per year in buying power. Again, the idea would be to rely on existing funding.

"All of that has been delayed, but we're not scrapping it," said County Councilman Hans Riemer, D-At large, who helped draft these new measures.

CONTINUED ON PAGE 24

COVER STORY

CONTINUED FROM PAGE 23

Riemer had hoped to pass these measures in the new 2021 budget, envisioning as much $100 million over 10 years to these funds. But with the county staring down 2021 revenue losses ranging from $150 million to $500 million, the council opted for a more cautious approach. Riemer said lawmakers "fenced off" $6.8 million in the existing fund for the two programs, and he hopes to split that amount between them next year – so long as the county's worst financial fears aren't realized. Lawmakers essentially put a pin in these plans to wait and see how the Covid-19 crisis develops.

"You can't rule out the possibility that anywhere we have cash, we're going to have to scrap it," Riemer said, adding that he hopes to finalize the new programs by June.

There's been more immediate pain too. The council agreed to shrink County Executive Marc Elrich's proposed spending on affordable housing programs, including the HIF, by about $6 million, and ditched all of his proposed property tax increases. Elrich's proposal for a new $10 million fund, which the county would pair with investments from local banks to help developers acquire properties for affordable housing, survived in this budget, but the council has not yet appropriated any of the money.

Prince George's County will see similar cuts for its housing trust fund, with County Executive Angela Alsobrooks ditching plans for a $4 million increase.

Alsobrooks was finally hoping to "begin adding significant resources" to the fund this year, following recommendations from a committee convened to craft a comprehensive housing strategy. That group suggested an annual contribution of $82.1 million for the fund, said Angie Rodgers, the county's deputy chief administrative officer for economic development. But with the new reductions, the county will manage $4.9 million instead.

"That's disappointing, but at the same time, these are new things we're trying to get going in the county," Rodgers said. "It's going to be at least another year before we can start to talk about these new resources we'd begun to discuss."

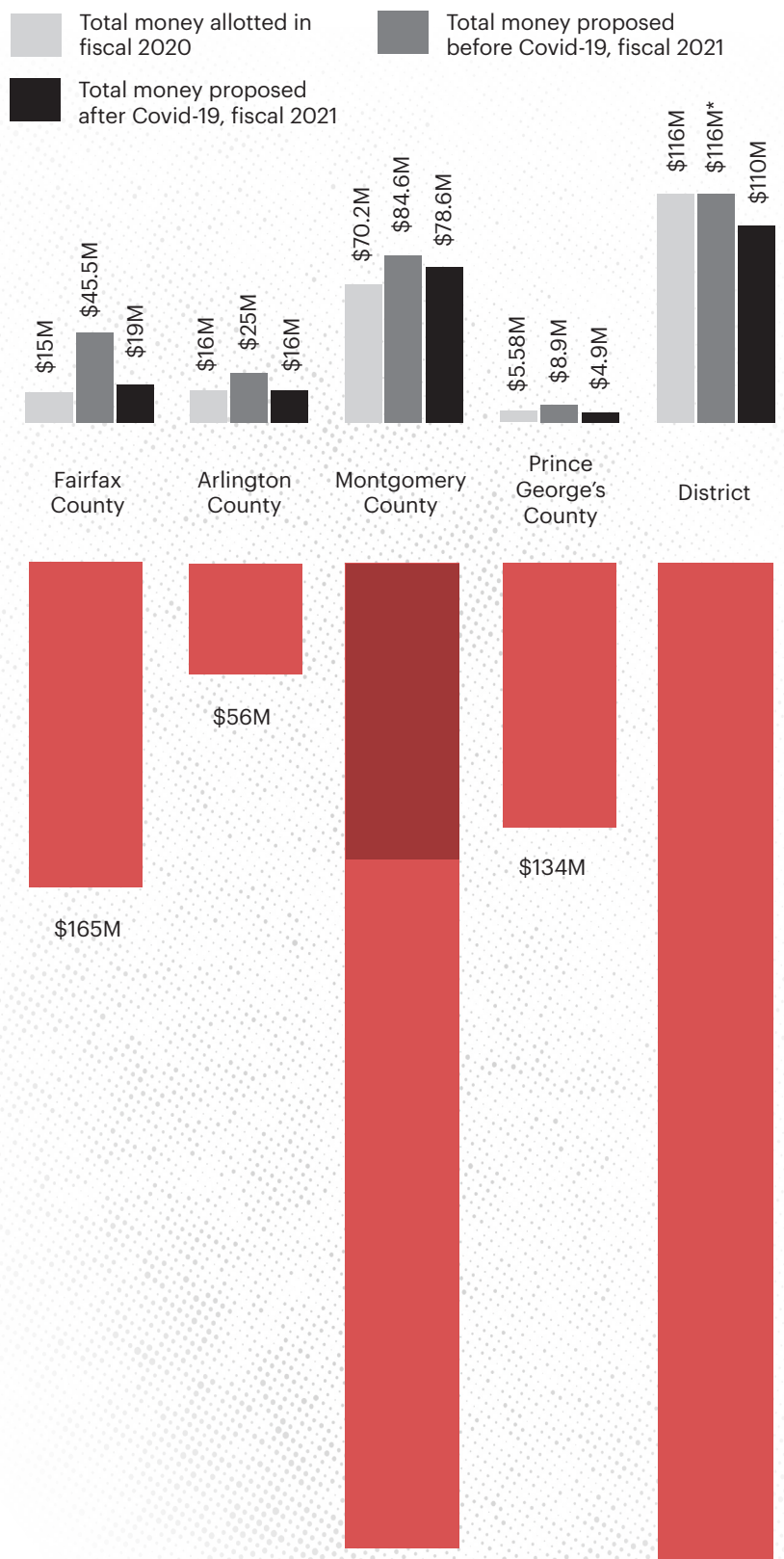
Much like in Northern Virginia, Rodgers hopes to explore other recommended changes that don't come with big price tags. For instance, she said the county has not abandoned its plans to revive inclusionary zoning as a mandate to build new affordable homes around county Metro stations.

"People often point out that we're the wealthiest majority African American county, but we also have these pockets inside the Beltway, closer to our borders, where we have a lot of need," Rodgers said. "Covid-19 has highlighted that."

BEFORE AND AFTER

THE PRICE OF AFFORDABILITY

As the pandemic obliterates municipal budgets across the region, some jurisdictions are seeing bigger hits than others to their planned fiscal 2021 allotments for affordable housing.



LOOKING AHEAD

TOTAL ESTIMATED REVENUE LOSSES

Each jurisdiction expects to see tens, and in some cases hundreds, of millions of dollars shaved off of its fiscal 2021 revenue as a result of the economic crisis stemming from the coronavirus pandemic. D.C. is slated to lose the most by far for the year.

FY 2021 estimated revenue losses

*D.C. did not release a pre-Covid figure. This was approved last year, but it was expected to rise.

Source: County, city budgets

IN A ROUGH STATE

LOCALITIES GET LITTLE HELP FROM MD., VA.

Localities still don't know how much money they can expect from state governments, let alone for housing.

Democrats in the Virginia General Assembly had finally landed big new investments in the Virginia Housing Trust Fund to power projects around the state, following years of frustration on the issue. In all, the commonwealth was set to devote $14 million to the fund this fiscal year, then spend $30 million over the next two years under a biennial budget passed in March.

But with a projected $1 billion revenue hit from Covid-19 on the way, all new spending has been put on hold. Del. Alfonso Lopez, D-Arlington, a key housing advocate in the legislature, noted the $14 million should survive this year, but the rest of the housing money will likely be on the chopping block when lawmakers reconvene over the summer for a special session to finalize the post-Covid budget.

"That leaves us still far behind the game on this compared to other states of our size," Lopez said. "I'm excited about where we're going, and I think we'll be fine over time. But over the short and medium term, there's going to be challenges."

There's even less certainty from the Maryland state government, which could see up to $1.1 billion in revenue losses through the end of June. Gov. Larry Hogan is expected to act in concert with the state treasurer and comptroller to unilaterally cut the budget with the General Assembly not in session, though lawmakers could choose to reconvene as well.

For now, the state has budgeted about $61.5 million to affordable housing loan programs. And while advocates say they certainly don't want to lose that money, they expect the bigger impact will come from the state's decisions on education — Hogan has already vetoed the legislature's ambitious new education funding plan, and more cuts could force localities to make more unpleasant choices in other budget areas.

"It's much more the domino effect on revenue we're worried about," said Diana Eisenstat, executive director of the Affordable Housing Conference of Montgomery County.

For many, the hope is that increased federal funds — most of the region's localities will see tens of millions in aid from the federal CARES Act — can help fill some gaps, providing emergency assistance to renters, for instance, or creating more permanent supportive housing for people experiencing homelessness. Those are ideas Fairfax and Arlington leaders are exploring to maintain stability for some families at least, though uncertainty remains on how all of that federal cash can be spent.

"Our first goal is trying to keep people in their housing, and then we go from there," McKay said.

The more difficult fights about restoring funds for affordable housing development will have to wait until the 2022 budget year. By then, perhaps, officials will be ready to start talking about new spending again.

"Politically, affordable housing has really come to the fore across the entire D.C. region," said John Welsh, vice president of the multifamily group at affordable developer AHC Inc., based in Arlington. "I don't think, as an issue, it's going to be lost."