NOT FAR ENOUGH

Affordable housing for the region's lowest income earners remains all too elusive

BY DAN BRENDEL | dbrendel@bizjournals.com, @DanBrendelWBJ

If there's one thing activists and lobbyists, developers and financiers, planners and politicians can all agree on regarding one of the most complex real estate paradoxes of our time, it's this: There's more to affordable housing than a roof and four walls.

Housing advocates cite social and moral benefits – stability for families and children, the righting of racial wrongs and, in a Covid world where overcrowding could worsen transmission, public health.

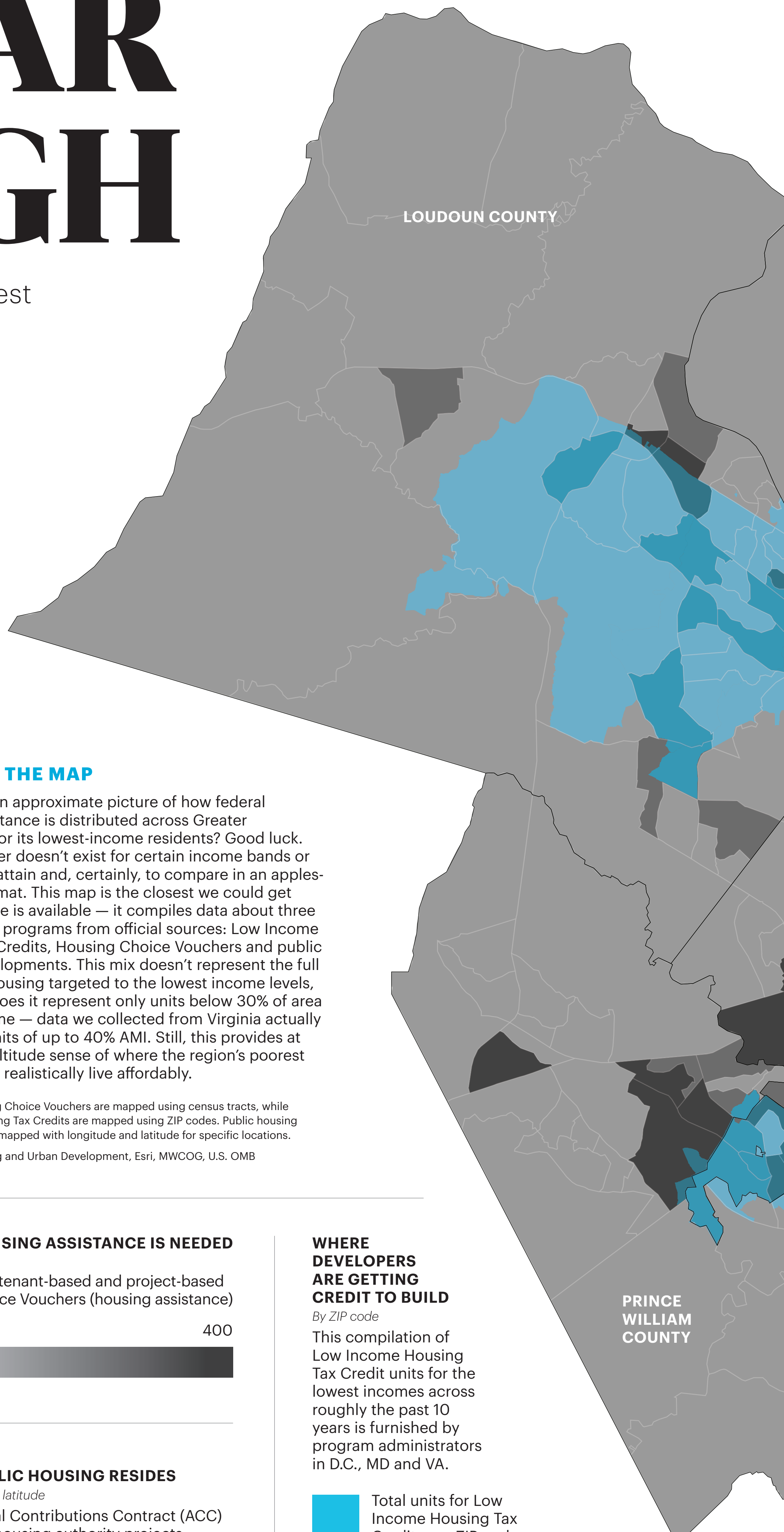
For the purely business-minded, there's also an acutely economic rationale. "Houses are where jobs sleep at night," said Virginia Economic Development Partnership CEO Jason El Koubi.

Part of the problem is that "affordable housing," as a term, can leave much for interpretation. It usually means most units are market-rate, and a minority have prices capped for some period at levels deemed affordable to some band of incomes, which in turn correlates with some subset of jobs. It normally does not translate to housing broadly affordable to anybody with any job.

Rarely does it mean housing that's affordable to the region's lowest-income households – those making less than 30% of the area median income, or AMI. In Greater Washington, that threshold is about $43,000 for a household of four, a common benchmark defined by the U.S. Department of Housing and Urban Development, or HUD. That drops to $34,000 for a household of two, such as one helmed by a single parent. That's a realistic enough scenario, given that 29% of regional households receiving HUD aid comprise one adult with children, per the agency.

And therein lies the inescapable rub – below 30% AMI represents the income tranche that carries the biggest need, but continues to see the biggest gaps in housing production and availability locally and nationally, creating a stubborn challenge for localities and builders alike. In 2021, the region generated all of 186 units targeted at this lowest income range, according to the Housing Association of Nonprofit Developers (HAND), a D.C. nonprofit. Of those new deeply affordable units last year, 151 were in D.C., 18 in Fairfax County and 17 in Alexandria, adding up to the equiv-

CONTINUED ON PAGE 22



ALL OVER THE MAP

Want to get an approximate picture of how federal housing assistance is distributed across Greater Washington for its lowest-income residents? Good luck. The data either doesn't exist for certain income bands or is difficult to attain and, certainly, to compare in an apples-to-apples format. This map is the closest we could get with what little is available — it compiles data about three major federal programs from official sources: Low Income Housing Tax Credits, Housing Choice Vouchers and public housing developments. This mix doesn't represent the full universe of housing targeted to the lowest income levels, and neither does it represent only units below 30% of area median income — data we collected from Virginia actually represents units of up to 40% AMI. Still, this provides at least a high-altitude sense of where the region's poorest can and can't realistically live affordably.

NOTE: The Housing Choice Vouchers are mapped using census tracts, while Low Income Housing Tax Credits are mapped using ZIP codes. Public housing developments are mapped with longitude and latitude for specific locations.

SOURCES: Housing and Urban Development, Esri, MWCOG, U.S. OMB

WHERE HOUSING ASSISTANCE IS NEEDED
By census tract
Shows no. of tenant-based and project-based Housing Choice Vouchers (housing assistance)

0 vouchers — 400

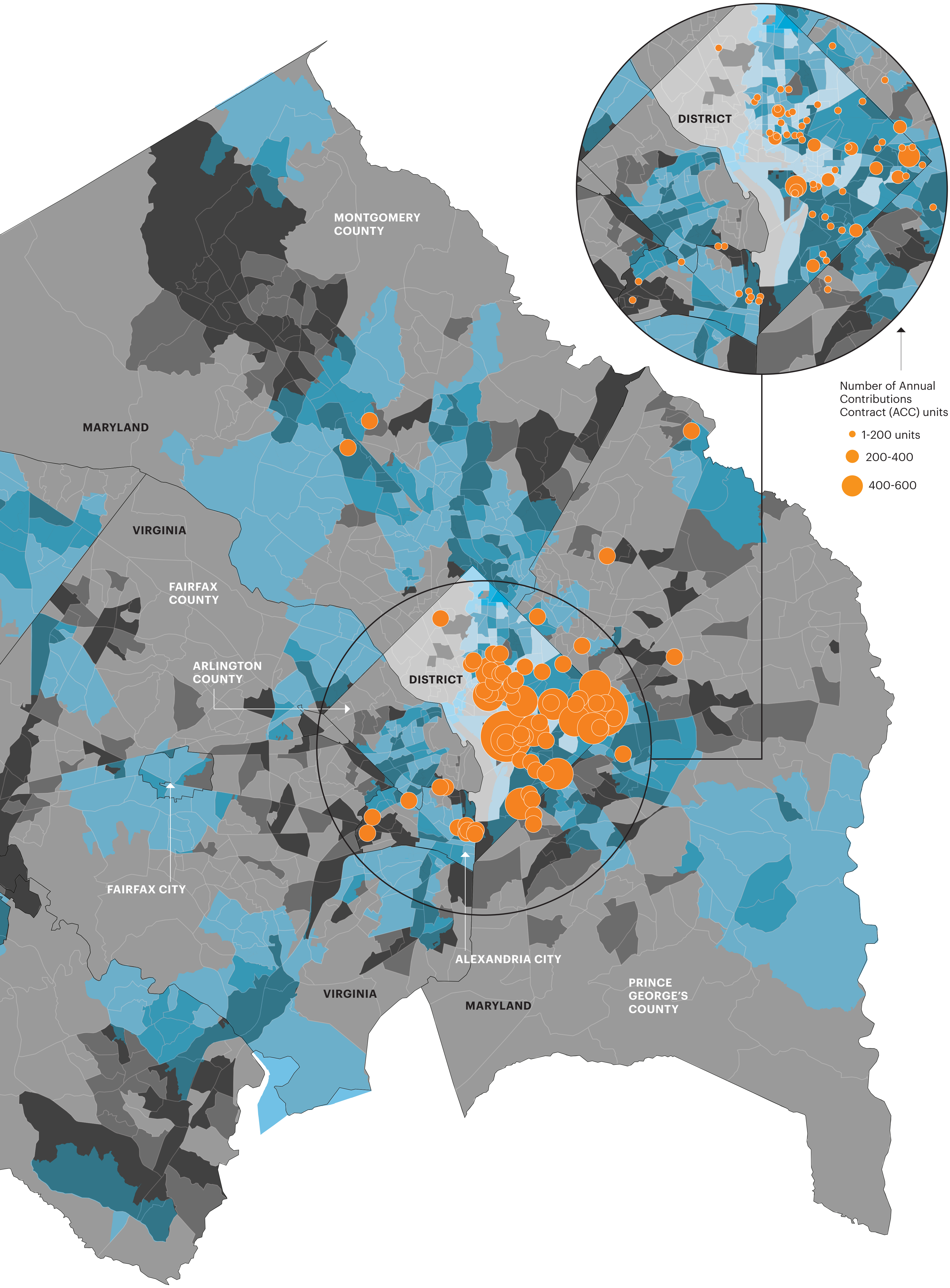
WHERE PUBLIC HOUSING RESIDES
By longitude and latitude
Shows Annual Contributions Contract (ACC) units tied to housing authority projects

1-200 units — 200-400 — 400-600

WHERE DEVELOPERS ARE GETTING CREDIT TO BUILD
By ZIP code
This compilation of Low Income Housing Tax Credit units for the lowest incomes across roughly the past 10 years is furnished by program administrators in D.C., MD and VA.

Total units for Low Income Housing Tax Credits per ZIP code

*NOTE: LIHTC data from the three jurisdictions differ slightly: D.C. and Maryland data show units at up to 30% AMI, while Virginia data show units at up to 40% AMI. They also recorded time spans differently — as of initial fiscal year close in Maryland to construction fiscal year end in the District.


DISTRICT
Number of Annual Contributions Contract (ACC) units
1-200 units
200-400
400-600
MONTGOMERY COUNTY
MARYLAND
VIRGINIA
FAIRFAX COUNTY
ARLINGTON COUNTY
DISTRICT
FAIRFAX CITY
ALEXANDRIA CITY
VIRGINIA
MARYLAND
PRINCE GEORGE'S COUNTY

CONTINUED FROM PAGE 20

alent of a single mid-rise building. Most jurisdictions added none at all.

That's as the region added 65,000 jobs in just the leisure and hospitality fields in February alone. That jobs category carries many of the nation's and region's lowest wages – but are also the very ones that enable the "place-making" amenities regularly touted in mixed-use orthodoxy, including cashiers, retail salespeople, restaurant and coffee shop hosts and hostesses, short order cooks, dishwashers, food preparation workers, hotel desk clerks, maids and housekeeping cleaners, manicurists and pedicurists, according to wage data from the Bureau of Labor Statistics.

"It's important to identify housing as an economic development problem, not just a social justice problem," Casey Anderson, chair of the Montgomery County Planning Board, said at an April 27 panel discussion hosted by Washington Business Journal Publisher Alex Orfinger. "If you want a secretary to work at your law firm, or consulting firm or accounting firm in downtown Bethesda, chances are, that person's not going to be able to live in Bethesda."

Dwindling federal resources

A popular rule of thumb has long been rather exact: Households shouldn't spend more than 30% of their income on housing. That equation can be exacerbated by other costs, from child care to transportation.

Of D.C.-area households making $35,000 or less, about 134,600 – or two-thirds – spend at least 50%, according to our analysis of American Community Survey data. HUD data indicate roughly 40,000 federal housing vouchers in the same regional geography, but not nearly enough to cover all those in need.

Where help exists, it largely comes from the federal government. But in general, local governments on their own simply lack the "power of the purse" necessary to subsidize the lowest-income housing, said Jonathan Knopf, vice president at HDAdvisors, a research and services firm.

"Extremely low-income households are more likely to not benefit from any form of housing assistance than actually receive any," Knopf said.

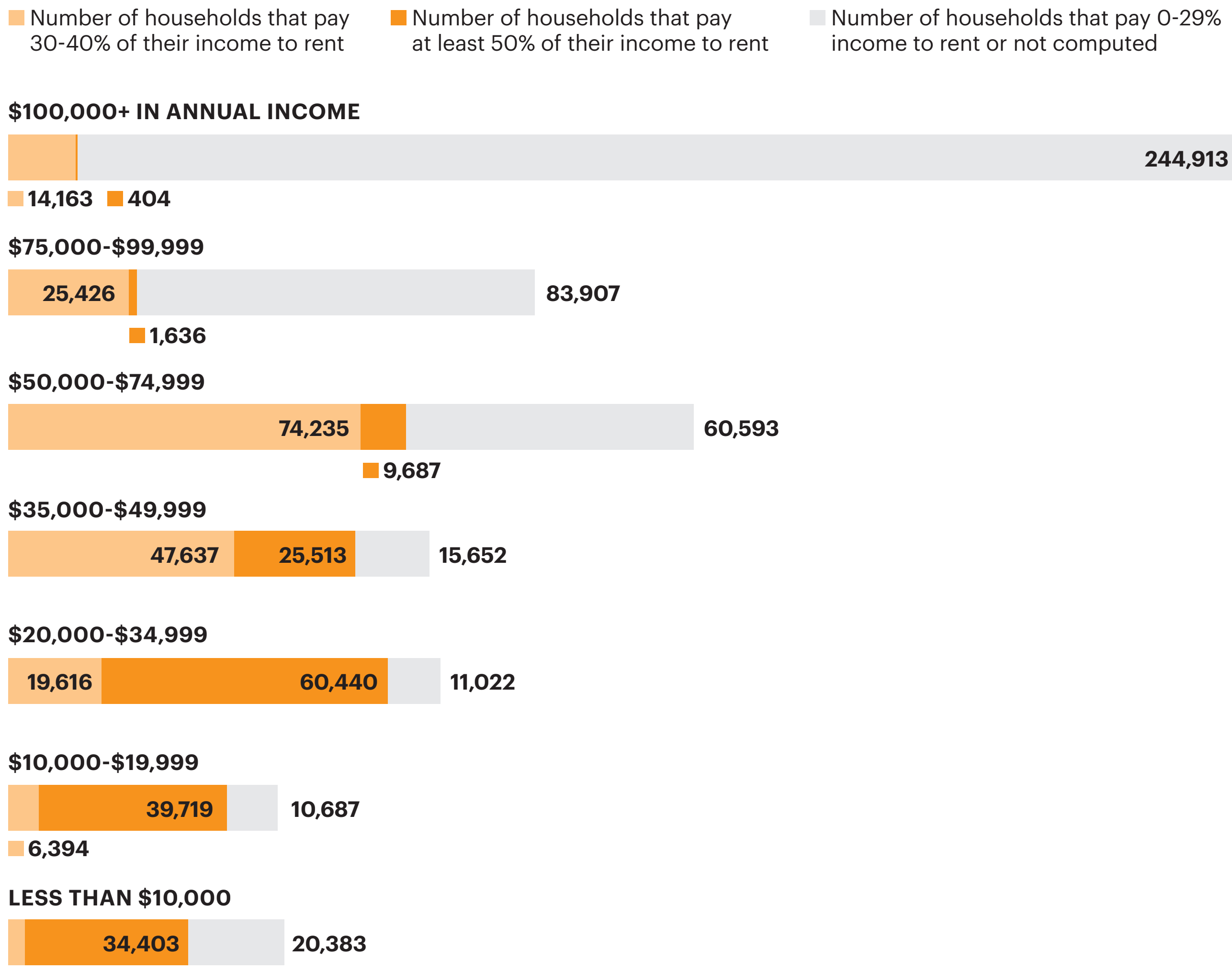
HUD points to what it says is "the most important resource" for creating affordable housing: Low Income Housing Tax Credits, or LIHTC, a subsidy to investors in the form of reduced tax liability. The program, administered by the IRS through the states, puts about $8 billion a year toward affordable housing nationwide. An LIHTC project would allocate a percentage of its units to a mix of lower-income households, often including some at 30% of the AMI.

Housing Choices Vouchers and public housing, both HUD programs, also serve households at 30% of AMI or below, though not exclusively. Both are federally funded but administered through a web of state and local governments, other agencies and nonprofits.

Vouchers, which can be either portable ("tenant-based") or tied to a unit ("project-based"), are the more effectual and better-resourced of the two. Where landlords agree to accept them, they top

HEAD UNDER WATER

It's no coincidence that the D.C.-area residents who allot the largest portion of their annual salaries toward their rent bills are also those with the lowest paychecks. This helps compound the lack of affordability for those who are most in need across the region, furthering the economic divides.



SOURCE: U.S. Census Bureau

"Extremely low-income households are more likely to not benefit from any form of housing assistance than actually receive any."

JONATHAN KNOPF, vice president, HDAdvisors

up what low-income tenants can pay in order to access market-rate units. Or they allow residents to access units already subsidized, but with rents fixed at higher-income levels, such as, say, LIHTC units aimed at 60% of the AMI.

Although no geographies are technically off limits to voucher holders, there's a limit to what vouchers will cover. That, along with other factors, curbs their use in certain high-cost neighborhoods. For instance, voucher rent ceilings, known as "payment standards," in Fairfax County are about $1,580 and $1,930 for studios and two-bedrooms, respectively. Units of the same size have median asking rents of about $1,630 and $2,100, according to CoStar data provided by Knopf.

With public housing, federally empowered agencies act as landlords. In Greater Washington, only housing authorities in D.C. and Alexandria still operate major public housing portfolios. Fairfax County used to have public housing, but converted those units to a voucher-based form of federal subsidy. Federal funding for public housing has been in a death spiral for decades, yielding a capital maintenance backlog now on the order of $70 billion.

All in all, HUD resources have shrunk considerably since the 1980s. Before then, its "budget authority was second only to the Defense Department," according to Alex Schwartz's book, "Housing Policy in the United States." "Overall, after accounting for inflation, budget authority decreased by 59% from 1977 to 2019," resulting in "diminished commitments to subsidize additional households."

Widening regional, local disparities

Those three federal programs for the lowest-income residents – LIHTC, vouchers and public housing – generally concentrate more in the eastern than in the western part of Greater Washington, often where communities of color are clustered. They're not diffused evenly within localities, either.

The reasons are not easy to nail down pithily. The regional distribution of federal vouchers, for instance, could owe to differences in housing costs, a disproportionate allocation of federal resources to localities in the first place, and voucher holders' own personal preferences. Some neighborhoods simply lack rental and multifamily stock, said Tom Fleetwood, Fairfax County's housing director. Any tenant, with or without a voucher, isn't going to find a lot of rental options in rural Loudoun, for instance.

In terms of building new affordable units, land value also matters a great deal. Experts are increasingly highlighting high-value land, such as public housing assets near Metro, to be tapped to subsidize affordable housing, whether by generating capital through its sale or ground leasing or by enabling more market-rate production to offset losses on rent-capped units.

In Prince George's County, even after subsidies, "often there is still a gap because land values don't permit these deals to pencil the way we need them to," Angie Rodgers, the county's deputy chief administrative officer, said in a statement to the

CONTINUED ON PAGE 24

CONTINUED FROM PAGE 22

Washington Business Journal.

As the feds have pulled back resources, they've left local governments holding the bag. And it's an expensive bag at that – units with rents fixed at 30% of the AMI might generate barely enough revenue to cover operating costs, let alone debt service, so they require a comparatively large amount of financial help to become financially sustainable. In addition to such tools as vouchers, subsidies or tax abatements on the back end, they need to be made cheaper on the front end to build, through capital grants or low-interest loans, use of public land, reduced underground parking requirements or other means.

The farther down the affordability ladder you go, the more help is necessary, and that relationship isn't linear. In Alexandria, without federal vouchers, halving the affordability target from 60% to 30% of the AMI would require nearly a tripling of local investment, said Helen McIlvaine, the city's housing director.

That tracks with a formula that developer Jair Lynch, CEO of Jair Lynch Real Estate Partners, shared at the April 27 panel: Building housing that's affordable for a $30,000 income requires nearly 100% public capital; for a $50,000 income, roughly 50/50 public and private; for $100,000, little to no public investment.

"In order to change that trajectory, we have to change the entire picture and the entire model," Lynch said. "It all starts with public will. Right now, there's not enough public will to hit all of the components of real estate development that would effectuate major change and get us to where our goal is."

JAIR LYNCH REAL ESTATE PARTNERS

If cash is still king …

That's not to say local governments can't or don't pony up cold hard dollars.

Most major jurisdictions in Greater Washington have some kind of housing fund, which provides low-interest "gap financing" to help affordable projects secure other capital. Those funds differ widely in magnitude and how they're replenished. Some local governments also provide rental assistance to subsidize affordable projects' operating revenues – essentially, local vouchers to complement the federal version.

"The most successful projects combine both support for building construction and supports for rent payments," said Yesim Sayin, executive director of the D.C. Policy Center, a research nonprofit.

In both respects, D.C. stands out. Mayor Muriel Bowser proposed allocating $409 million of city money to the city's Housing Production Trust Fund in fiscal 2023. That's in addition to allotting another $111 million to the city's local voucher program, which includes tenant- and project-based components, some administered alongside federal vouchers by the D.C. Housing Authority. Half of the former and all of the latter are aimed at units targeting the under-30% AMI bracket, said Drew Hubbard, director of D.C.'s Department of Housing and Community Development.

Montgomery County Executive Marc Elrich, who oversees one of the region's largest localities, proposed $140 million for housing programs in fiscal 2023. The Housing Opportunities Commission, an independent body, administers Housing Choice Vouchers in the county.

"Right now, there's not enough public will to hit all of the components of real estate development that would effectuate major change."

JAIR LYNCH, CEO, Jair Lynch Real Estate Partners (pictured)

Arlington County also takes that "two-pronged approach," providing both capital assistance to establish rent-capped units and locally funded vouchers, which serve nearly as many households as do the federal counterparts, a spokeswoman said. Very often, both go hand in hand or overlap geographically, with a voucher bridging the gap between a low-income unit's capped rent and what an even lower-income tenant can afford.

That approach shouldn't be the exception, some say. "Generally, LIHTC-assisted properties are only affordable to the lowest-income families if they also receive assistance from other programs that help make the cost of charging deeply affordable rents pencil out," said Kelly McElwain, a senior research analyst with the Public and Affordable Research Housing Corp. For instance, "HCVs are used in LIHTC-assisted properties and play a key role in making them affordable to extremely low-income families."

… then land is the emperor

Money isn't local governments' only, or even most proactive, tool.

Providing housing for the lowest-income households "requires the full federalism stack," Knopf said, not least because local governments have unique power to "grease the wheels," or not, in terms of land use regulation. Even if the feds rained down housing money tomorrow, its use wouldn't get a special exemption from costly, yearslong local approval processes or supply constraints.

"Eliminating zoning restrictions as much as possible makes all housing construction, including affordable housing construction, much cheaper," Sayin said.

Many housing advocates say the entitlement process is too byzantine. Indeed, when local governments want to encourage other things – like bioscience labs in Montgomery County or data centers in Prince George's County – not infrequently, they cut the red tape. Others call for local governments simply to allow more housing, period, so that rising demand doesn't so outpace an artificially constrained supply. At least in theory, even the addition of higher-end units would reduce rents on lower-end units, since renters who could afford the former would upgrade and stop bidding up the latter. It would also enable a developer to realize more of the land's own intrinsic value.

And then, there's the role of local industry itself, not the least of which is paying their people more.

"My major ask for employers would be to look at the wage gap between your lowest-paid workers and your highest-paid workers and start reducing that gap," Rodgers said at the HAND event.

A Loudoun County spokesman suggested employers could help build greater public awareness about housing affordability challenges. Other experts say businesses could also use their financial gains to establish philanthropic housing subsidies, albeit on significantly smaller scales than Amazon's $2 billion Housing Equity Fund or JBG Smith's Impact Pool that feeds the Washington Housing Conservancy. But that level of private sector investment remains far too rare still, said Michelle Krocker, CEO of the nonprofit Northern Virginia Affordable Housing Alliance.

"The public sector must lead," she said. "Corporations want to see initiative from the public sector, and if the policies are sound, they will invest in the health and well-being of the community where they are located."

THE HOUSE TRAP

Confluence of economic factors is raising local housing affordability barriers to new heights

BY TRISTAN NAVERA | tnavera@bizjournals.com, @TristanNavera

It's official: Washingtonians now need a six-figure annual salary to afford a 10% down payment on a home mortgage.

The National Association of Realtors reports the median sales price for a home in Greater Washington hit $537,400 in the fourth quarter of 2021. That's $53,600 more than the year before and $120,000 more than the fourth quarter of 2018. It means families need to bring in $100,374 a year to fulfill that 10% down payment.

That's if they can find an affordable house at all. And mind you, that's for the region's wealthier set.

Greater Washington is not unaccustomed to runaway price increases for its residences, but the local housing market has gone from hot to unsustainable, as inflation, rising interest rates and economic uncertainty force more and more workers across more and more income strata to deem it flat-out unattainable today. Add to that years of underbuilding that well precedes the pandemic.

"The housing production mechanism never recovered in the U.S. following the [2008] financial crisis, and now … there is a lack of product to accommodate the population in America," said Adam Ducker, CEO of RCLCO Real Estate Consulting, a real estate analytics and investment advisory firm with an office in Bethesda. "Now housing is getting more expensive in every way, from building it to buying, renovating."

That leaves not only the region's lowest-income behind, but also college-educated workers who are just as worried about their ability to afford a home – all at a time when plenty of less expensive cities around the country would love to welcome them in.

> *"Housing is getting more expensive in every way, from building it to buying, renovating."*
> **ADAM DUCKER,** CEO, RCLCO Real Estate Consulting

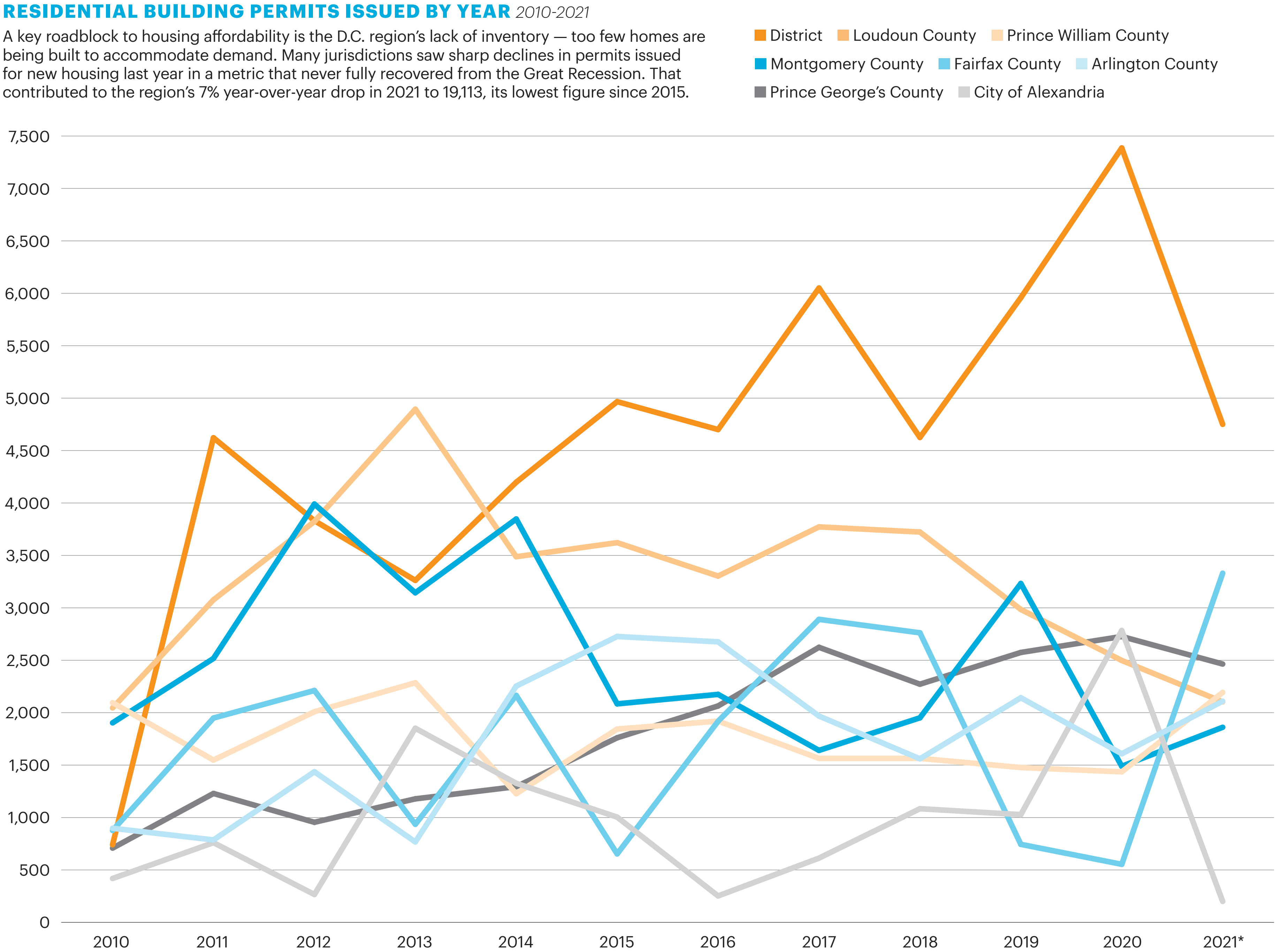
"We expect to see some affordability challenges this year," said Larry Foster, president of general brokerage at Long & Foster Real Estate, whose 2,282 local agents accounted for $11.61 billion in sales in 2021. "Home prices have appreciated dramatically, interest rates are rising, but wages are not keeping up. Likewise, there is not much inventory for sale. As a result, there will be fewer qualified buyers and fewer transactions."

Fannie Mae's annual Home Price Index, released in mid-April, portends the result: The index jumped 20% year-over-year in

CONTINUED ON PAGE 32

RESIDENTIAL BUILDING PERMITS ISSUED BY YEAR *2010-2021*

A key roadblock to housing affordability is the D.C. region's lack of inventory — too few homes are being built to accommodate demand. Many jurisdictions saw sharp declines in permits issued for new housing last year in a metric that never fully recovered from the Great Recession. That contributed to the region's 7% year-over-year drop in 2021 to 19,113, its lowest figure since 2015.



*NOTE: 2021 data is preliminary 12-month summary, subject to revision

SOURCE: COG tabulation of Census C-40 residential building permit data and local updates

CONTINUED FROM PAGE 26

the first quarter, the fastest pace in its 47-year history. Doug Duncan, Fannie Mae senior vice president and chief economist, said he expected the demand of the past few years was augmented by people rushing to buy homes before interest rates rise again, but that price growth could begin cooling.

The recently rising interest rates are also making those mortgages pricier, in some cases seemingly overnight. Freddie Mac said as of May 5, 30-year fixed mortgage rates soared to 5.27%, its highest level in 13 years, and a big leap from the 2.97% it logged this time last year. Going forward, after two years with an average annual rate of 3%, the agency expects that to grow to 4.6% this year and 5% next year.

The domino effect of the housing price spikes tends to topple lower-income communities the most, more often disproportionately affecting people of color. Adrian Washington, founder of Neighborhood Development Co., said that's reflected in the pressures on new development in certain communities. His company, which has built a slew of residential projects in wards 7 and 8, said he understands pushback as the housing market gets more strained.

"Neighborhoods want you to strike a balance between affordability and attainability," Washington said. "One neighborhood doesn't want to feel like it's absorbing all the affordable housing in the city. And they want to see development of housing they can buy some day, not just renting forever. So you have to strike a balance, but that requires a lot of early and frequent consultation."

D.C. specifically has taken a multi-pronged tack, including introducing new tax breaks and incentives for restrictive covenants, while considering zoning policy on an area-by-area basis.

The District is 57% of the way to its goal of 36,000 new housing units from 2019 to 2025, but only 33% of the way to its goal of 12,000 new units affordable to 80% of AMI in that time, it says. City leaders have noted, for example, that more financing tools could make another 2,000 units affordable west of Rock Creek alone.

In Prince George's County, County Executive Angela Alsobrooks cited state funding to spur affordable housing, including $10 million for its right of first refusal program and $10 million for its housing production trust fund. The county also landed $400 million for development along the Blue Line corridor, a priority to bring more jobs and housing.

Though, all of that still doesn't put quite enough of a dent in providing affordable housing for deeply low-income families, those under 30% of area median income.

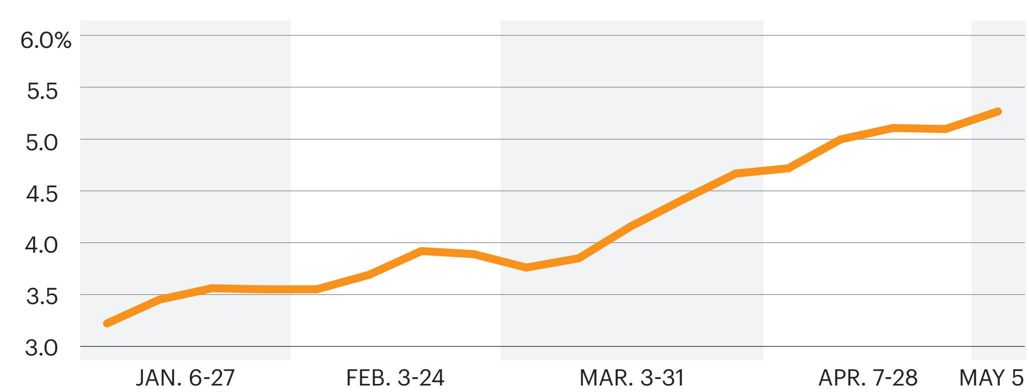
"At that income level, there needs to be a systemic solution to it that goes beyond what any one jurisdiction can do," said Angie Rodgers, deputy chief administrative officer for economic development for Prince George's County. "Public housing used to be our solution but not anymore. And we've tried to shift that responsibility onto local jurisdictions, and we can't do it ourselves."

EMAN MOHAMMED / WBJ

Affordable housing developer Adrian Washington said soaring housing prices leave behind a disproportionate number of communities of color.

WEEKLY U.S. MORTGAGE RATES *In 2022*

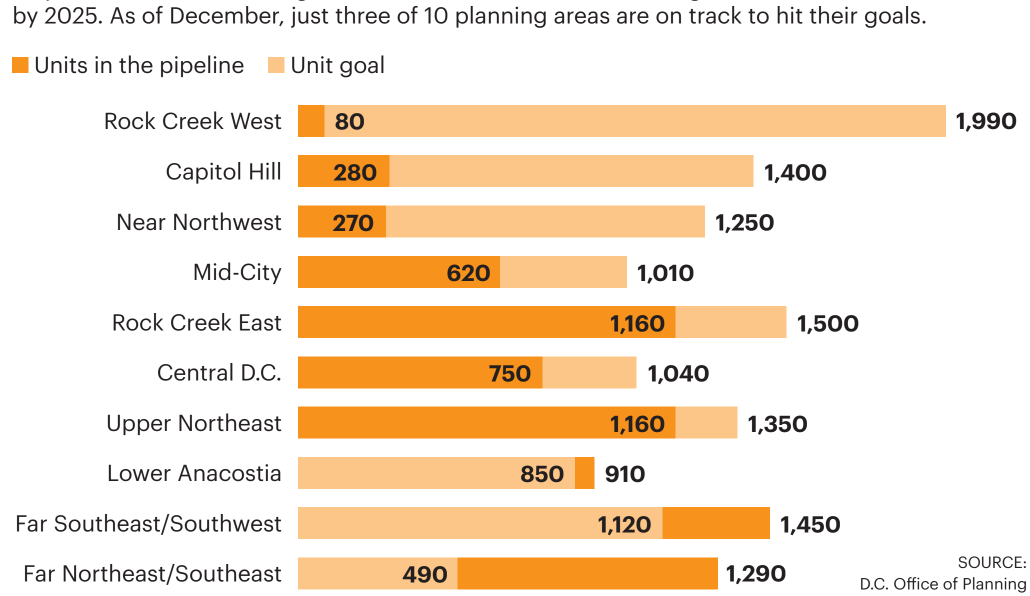
Interest rates are yet another economic ingredient heating up housing costs. They've climbed steadily this year to 5.27% in the first week of May, matching levels we haven't seen since 2009.



SOURCE: Freddie Mac

HOUSING PRODUCTION IN D.C.

Mayor Muriel Bowser set a goal of 12,000 new affordable housing units across the District by 2025. As of December, just three of 10 planning areas are on track to hit their goals.



SOURCE: D.C. Office of Planning