Development Cost Analysis
For Affordable Housing
Urban Northern Virginia

Prepared For:

Alliance for Housing Solutions

November, 2009

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In association with
Astoria, LLC

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November 16, 2009

Ms. Sara J. Bailey
Executive Director
Alliance for Housing Solutions
P.O. Box 7009
Arlington, VA 22207

Dear Ms. Bailey:

This will submit our final report on the findings, conclusions and recommendations regarding the High Cost Study for Northern Virginia Low Income Housing Tax Credit proposals. I trust that the data presented in this analysis will clarify many of the questions local developers posed regarding the scoring of Northern Virginia development proposals by officials at VHDA, with Northern Virginia defined as Arlington County and the City of Alexandria for this report.

Several problems identified by area developers are being addressed by staff of VHDA. Several salient recommendations are presented for further review by VHDA officials that could continue to provide more "tax credit" dollars for the Northern Virginia Region.

We remain available to continue to assist you with this issue and are open to questions from the AHS Board and membership. We appreciate the help and assistance from key Board members and from several area developers. Our participation in this effort was greatly appreciated.

Sincerely,

Stuart M. Patz
President

SMP/mes

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Introduction

This will submit our overview analysis of the costs of providing affordable housing units in Arlington County and the City of Alexandria, and the determination of whether the "scoring system" used by Virginia Housing Development Authority (VHDA) for project development costs, under the annual 9% competitive round, puts these two subject jurisdictions in a competitive disadvantage compared with other lower cost regions of the State. Thus, the study has often been referred to as "The High Cost Study".

The client for this assignment is the Alliance Housing Solutions (AHS). Officials at AHS defined the study area as Northern Virginia's two most urban communities. Developers in these communities often need to develop mid- or high-rise buildings for new construction projects or pay high acquisition costs for apartment buildings to be renovated. This is not the case (to date) for other submarkets within Northern Virginia, such as Falls Church and Fairfax County, in particular. Thus, these communities were not included in the study.

The Bailey's Crossroads area of Fairfax County and the City of Falls Church have realized successful development of affordable housing over the past years under the federal LIHTC program. The completed LIHTC properties have been primarily renovations of garden-style apartment communities, and in numerous instances, these successfully developed tax credit apartment properties compete with garden rehabs in Alexandria and Arlington.

However, the issue for The High Cost Study is more focused on sections of Northern Virginia where land and building acquisition costs are particularly high and where non-profit, affordable housing developers report the need to pay higher acquisition costs and higher development costs due to competition from the private sector for property and for site plan development requirements from County and City officials.

Data and analyses presented in the following subsections evaluate the question posed by AHS officials, and non-profit developers operating in the study area. That question is whether the factors that determine the per unit development costs for affordable housing proposals in Arlington and Alexandria are properly "scored" given the difficult market conditions in these two communities compared with other locations in the state.

Much of our analysis was prepared with data provided by the client group and from VHDA. However, some data on Northern Virginia proposals were not made available, but in most cases, this was determined not to be an issue for the subject analysis as Cost Parameters were changed by officials of VHDA for the 2009 9%competitive round. This change, if permanent, greatly improves the competitive position for developers within the study area. It also means that the evaluation of past proposals is not as relevant as previously determined.

A second point to note is that the study is not intended to be a critique of the VHDA scoring process or a critique of any particular issue related to the ability to develop affordable housing in Arlington and Alexandria. Rather, we have analyzed data on approved LIHTC projects in Northern Virginia and issues/costs related to affordable housing developments. We present these data as facts and provide statements on whether the high cost of development actually places Northern Virginia development proposals at a competitive disadvantage. Recommendations are presented on several issues that may make Northern Virginia affordable housing proposals more competitive for 9% tax credit financing.

Also of note is that VHDA changes the QAP annually and has proposed changes for 2010. Thus, we took great effort in evaluating current VHDA policy and not prior policy.

There was reported concern at the outset of the survey that VHDA officials relied heavily on cost data from the Marshall and Swift Index for the evaluation of development costs of LIHTC proposals to determine "Efficient Use of Resources". Our research determined that this is not an issue; there are data on other issues that can be analyzed with specific supporting data.

The intent of this study is to identify and clarify issues presented by AHS officials related to the high cost of development in Northern Virginia. Our findings suggest that there are negative issues within the Northern Virginia High Cost area for affordable housing development that will remain, due to the environment that exists. There are recommendations presented in this report that we believe will be helpful in the future regarding the competitive position of Northern Virginia proposals within the "At Large Pool" and Non Profit Pool. The report conclusions can also be used to alert public officials on the need to provide financial assistance, when needed, to make Northern Virginia development proposals more competitive under VHDA cost parameters or to be careful on increasing development costs.

Officials at VHDA note that Arlington and Alexandria tax credit proposals are competitive within the Northern Virginia Pool. The fact that there are limited funds available within any Pool places an undue hardship for all regions in need of affordable housing. Northern Virginia typically is awarded credits for no more than two proposals in any one year under this condition, due to the high cost for each project. This is presented as a fact and not evaluated as a comparative issue.

The difficulty for the High Cost area is within the Non-Profit and Tier I Pools, in particular, where high cost proposals are at a distinct disadvantage. Recommendations are provided to provide a "more level playing field" for highly rated proposals that are not awarded credits within the Northern Virginia Pool.

Cost Analysis for Affordable Housing

This report addresses whether or not Arlington County and the City of Alexandria are receiving their "fair share" of tax credits for affordable housing development in the annual competitive round for 9% tax credits. It also addresses the issue of the high development costs in these two communities and how these costs affect scoring for 9% credit awards.

Non-profit affordable housing developers in the two Northern Virginia communities report an unfulfilled need for affordable housing compared with some other regions in the state, due to the extremely high housing costs, the loss of affordable housing through demolitions and redevelopment; and the lack of mature housing with low rents, sometimes referred to as "market affordable" housing. In addition, area developers report that they often face higher development costs compared with other parts of the state due to the local real estate market which pushes up building acquisition prices and due to certain local government requirements related to development approvals.

It is noted that only four proposals from Arlington County and Alexandria did not receive 9% credits during the 2006 to 2009 period. This compares to nine proposals that did receive credits. Thus, while the urban portion of Northern Virginia is clearly a high cost area, and challenges do exist for project feasibility for affordable housing, the analysis of "fair share" is more complex and data are needed to evaluate perceptions.

The costs for affordable housing analyzed in this study are Total Development Costs minus the following:

- land acquisition costs
- tap fees
- operating reserves
- structured parking

These costs are not included in the scoring process under the Cost Per Unit (Efficient Use of Resources) scoring.

The following are examples of "extraordinary" development costs in Arlington County and Alexandria that have been incurred by affordable housing developers in the past;

- Requirement for a new driveway apron
- Requirement for a fire truck turn-around
- Historic preservation required brick on additions
- Historic preservation required slate roofs
- Requirement for underground utilities ($1 million+ additional cost)
- Requirement to increase size of underground utility vaults
- Requirement to widen sidewalks around the property
- Need to add additional on-site parking spaces despite proximity to Metro
- Requirement to increase storm water management
- Increase in cost of HVAC equipment when vents on exterior wall are not permitted

These types of costs are sometimes required in other jurisdictions, so not all public entitlement costs are unique to Northern Virginia. Cost data were not provided for most of these issues. However, these identified add-on cost factors were presented as issues to study.

<u>Distribution of Competitive 9% Tax Credits Awarded.</u>

The first step in our analysis was to determine the distribution of tax credits funded the VHDA by Pools over the last four years. These data are shown in Table 1. There is no Pool specifically for Arlington County and Alexandria. The two jurisdictions are located within that region of Virginia defined by VHDA as Northern Virginia Beltway in terms of Cost Parameters. A tax credit application for a proposal in Arlington County or Alexandria could, potentially, depending on the type of development, receive tax credits from any one of the following pools: Non-Profit, Local Housing Authority and Northern Virginia. The Tier I At-Large Pool awards were also analyzed, as proposals from the entire state are placed in this Pool if not fully awarded credits in the Regional Pools.

One trend is immediately apparent from these data. The total dollar amount of credits for projects funded in Arlington County and Alexandria has been declining each year. The total value of credits available to VHDA decreased in 2008 by $1.7 million compared to 2007, which would explain a drop in dollar amount to each region. This decrease was due to VHDA officials allocating 2008 funds for gap financing for 2008 awarded proposals. However, proposals in Arlington and Alexandria did very well those in years in terms of capturing a high percentage of total funding.

Table 1: Trends in 9% Tax Credit Funding by Pool 1/, State of Virginia, 2006 to 2009

Pool	2009	2008	2007	2006
Non-Profit	$2,026,000	$1,897,100	$1,897,300	$2,189,300
Local Housing Authority	$903,500	$794,100	$685,300	$1,073,100
Northern Virginia Beltway	**$1,260,000**	**$1,829,000**	**$1,200,000**	**$2,345,000**
Other Northern Virginia	$978,800	--	$465,900	--
Richmond	$1,723,500	$1,261,100	$1,369,000	$1,611,600
Tidewater	$2,237,000	$1,903,200	$2,626,300	$2,731,900
Small MSA	$2,169,300	$1,891,800	$1,787,400	$1,765,200
Rural	$1,168,400	$1,009,500	$1,048,500	$820,400
Tier I: At-Large	$644,600	$1,821,500	$3,502,700	$2,367,700
Total Funded in Pools & Tier I	$13,111,100	$12,407,400	$14,582,300	$14,903,900
Remaining for Tier II-At Large	$1,215,300	$906,400	$393,600	$71,400
Total Available LIHTC's	$14,326,400	$13,313,800	$14,976,000	$14,975,400

Note: 1/ All data are rounded
Source: VHDA

Data in Table 2 show which proposals from Arlington and Alexandria were awarded LIHTC for each of the past four years. The totals include two awards within the Local Housing Authority Pool and one TIER I Pool award. The percentages shown at the bottom of the table represent the percent of total annual tax credit awards "captured" within the Northern Virginia Pool. There is no trend in these percentages over the past four years.

Table 2 Arlington and Alexandria Funded LIHTC Proposals by Pool 1/, 2006-2009

	Pool	2009	2008	2007	2006
James Bland I	LHA	$402,300	--	--	--
The Jordan	NOVA	$1,260,000	--	--	--
West Glebe	NOVA	--	$707,400	--	--
Residences at Arlington Mill	NOVA	--	$1,121,600	--	--
Old Dominion	LHA	--	$355,100	--	--
Buckingham Village I	NOVA	--	--	$1,200,000	--
Station at Potomac Yard	TIER #1	--	--	$1,027,100	--
Courthouse Crossings	NOVA	--	--	--	$1,145,000
The Shelton	NOVA	--	--	--	$1,200,000
Total Arlington/Alexandria		**$1,662,300**	**$2,184,000**	**$2,227,100**	**$2,345,000**
State-wide Funded in Pools		$13,111,100	$12,407,400	$14,583,300	$14,903,900
Percent of Total		12.7%	17.6%	15.3%	15.7%

Notes: 1/ All data rounded
2/ Views of Clarendon originally approved in 2005
Source: VHDA

Demographics

This subsection of the report presents basic demographic trends within the study area. The demographic analysis is intended to show the current level of growth in the Northern Virginia area under study for moderate-income renters and rent overburdened households.

There has been a steady growth in these two sectors of the housing market. Currently, rent-overburdened households, (i.e., renters who pay over 35 percent of gross income for net rent), represent 8.4 percent of all market area renters and 30 percent of all moderate-income households (see note #1 in Table 3). **All income data are presented in constant 2009 dollar values.**

Three salient points are presented in these demographic data and trends. One is that approximately 30 percent of the renters in the market area have incomes within the $30,000 to $60,000± range. These are renters with incomes that typically qualify for LIHTC properties in Northern Virginia. Second, of these renters, 30 percent are rent overburdened. The third and most important point is the absolute net growth in moderate-income and rent-overburdened renters.

However, forecast data to 2020 must be an "opportunity" forecast, as these totals on low- and moderate-income renter households will only be reached with available affordable housing. The salient point here is the large and growing continuing need for affordable housing in Arlington and Alexandria.

Table 3 Household Trends and Projections, Arlington County and Alexandria City, Virginia, 1990-2020
(constant 2009 dollars)

	1990	2000	2010	2020
Population	282,120	317,740	354,800	392,110
Group Quarters	6,590	6,060	6,260	6,460
Population in Households	275,530	311,680	348,540	385,650
Average Household Size	2.10	2.10	2.00	1.90
Households	131,800	148,240	174,270	202,970
Percent Renter Households	57.1%	58.1%	58.5%	59.0%
Renter Households	75,230	86,130	101,950	119,750
Percent in LIHTC Range 1/	26.8%	29.7%	28.0%	28.0%
LIHTC Renter Households	20,150	25,620	28,550	33,500 2/
Rent Overburdened Target	15.6%	28.5%	30.0%	32.0%
Rent Overburdened HH's	3,150	7,290	8,570	10,700

Note: 1/ The LIHTC range is $30,000 to $60,000 in 2009 dollars. The maximum income is 60% of AMI based on a 4-person household; the minimum income has been estimated to be $30,000 in 2009 dollars based on tax credit rents.
2/ Depends on new affordable housing being built to replace market affordable units lost to demolition or renovation/repositioning.

Source: 1990, 2000 and 2008, U.S. Department of Commerce; Bureau of the Census; and S. Patz and Associates, Inc.

As note #2 states, the forecast of LIHTC eligible renters is based on the ability to continue to provide affordable housing in the market area. Otherwise, that total will not be reached.

Demographic trends show a continued growth in low- and moderate-income renters. For rent-overburdened households, net growth over the 2010 to 2020 period is forecast at 2,100± renter households.

Efficient Use of Resources Cost Per Unit Calculation and Scores

One of the issues being questioned by non-profit developers of Arlington County and Alexandria, who submit 9% tax credit proposals, is the low scores received for their proposals related to Cost Per Unit, which is defined as "Efficient Use of Resources". VHDA's QAP defines the scoring process for this part of the application as follows:

> *"Up to 75 points will be awarded based on the percentage by which the cost per low-income housing unit for a given property is less than the highest per unit type cost. The cost per unit type for the proposed property will be determined by dividing the total development costs, as adjusted, by the total heated residential square feet area.* ***The cost calculation will exclude land cost, tap fees, and operating reserves.*** *This cost per square foot will then be multiplied by the average unit square footage for each unit type. The average cost per unit type will then be used in the following equation:*
>
> $$\frac{\textit{Subject Cost per Unit Type}}{\textit{Highest Cost per Unit Type}} \ \textit{x \% of Unit Type x 75 points}$$
>
> *If the application seeks rehab credits only (i.e. no acquisition credits* ***and*** *there is no transfer of ownership), the value of the land and building will be included in the cost per unit calculation.*

The part of the formula, described as Highest Cost Per Unit Type is also described in the scoring process as "Cost Parameter". Officials at VHDA establish these "cost parameters" on an annual basis, using certified (8609) forms for completed tax credit apartment communities in different geographic regions of Virginia, as well as other factors, and then adjusting these costs to current dollar values. The Marshall & Swift Cost Index is one source for this but is reported to not be a direct source without some evaluation by VHDA, as needed.

The changes in VHDA's Cost Parameters for New Construction-Garden-Family proposals and Rehab-Garden-Family proposals between 2006 and 2009 are shown in Table 4. Officials at VHDA made a significant increase in its Cost Parameters for the Northern Virginia Beltway Region (study area) in 2009 compared to 2008. This change has been beneficial to proposals from Arlington and Alexandria, because the higher the Cost Parameter Per Unit is relative to the Project Cost Per Unit, the higher the Cost Per

Unit score for the project. The concept is that the developer that produces a unit of affordable housing for a cost significantly lower than the Cost Parameter is making "efficient use of resources".

Table 4: Trends in Efficient Use of Resources Parameters for New Construction and Rehab: Garden Family Proposals by Cost Per Unit, Northern Virginia Beltway Region, 2006 to 2009

	0BR	1BR	2BR	3BR
New Construction				
2009	$204,409	$264,469	$358,313	$400,969
2008	$141,514	$183,094	$248,063	$277,594
2007	$151,996	$196,656	$266,438	$298,156
2006	$146,493	$189,536	$256,791	$287,361
% Change 08-09	44.4%	44.4%	44.4%	44.4%
% Change 07-08	-6.9%	-6.9%	-6.9%	-6.9%
% Change 06-07	3.8%	3.9%	3.8%	3.8%
Rehab $25K +				
2009	$163,923	$212,118	$275,188	$321,598
2008	$120,531	$155,969	$211,313	$236,469
2007	$127,291	$164,715	$223,163	$249,730
2006	$126,548	$163,755	$221,861	$248,273
% Change 08-09	36.0%	36.0%	30.2%	36.0%
% Change 07-08	-5.3%	-5.3%	-5.3%	-5.3%
% Change 06-07	0.5%	0.6%	0.6%	0.6%

Note: VHDA also has the option of an upward cost parameter adjustment for mid-rise or high-rise properties.

Source: VHDA

The 44 percent increase allowed for Cost Per Unit for New Construction is likely to be higher than the "true" year-over-year inflation of costs, which suggests that VHDA officials adjusted the Cost Parameters for 2009 based on numerous factors. The increases to the Rehab Cost Parameter in 2009 were somewhat lower than those for New Construction, but still significant. The slightly lower increase for two bedrooms suggests that data for that unit type reflected a different trend. We do not have a clear "picture" of the basis for these adjustments, other than the possible realization that they were needed.

Project Cost Per Unit. The project cost per unit for a competitive tax credit proposal is calculated as follows:

1) **Determine Total Development Cost**
2) Deduct Land Cost
3) Deduct Cost of Operating Reserves
4) Deduct Cost of Tap Fees
5) Deduct Structured Parking Garage Cost
6) **Result is Net Total Development Cost**
7) Divide Net Total Development Cost of Project by the Total Gross Usable, Heated, Square Feet for the Entire Project.
8) **Result is Project Cost Per Square Foot**
9) Multiply Project Cost Per Square Foot by Average Unit Size to Determine Project Cost Per Unit for Each Unit Type
10) Divided Project Cost Per Unit Type by VHDA Cost Parameter for Unit Type to Determine Ratio.
11) Calculate 1 minus Ratio (e.g. 1-($168,300/$264,569)
12) Divide Number of 1BR by Total Number of Units in Project to Determine Unit Mix Ratio and Repeat for Each Unit Type
13) Multiply Ratio from Step 10 by Ratio from Step 11 for Each Unit Type and then Multiply by 75 Points; the Result is Score for Each Unit Type.
14) For example:
    Subject Cost/Unit Type A x % of Unit Type A in Project x 75 points = score
    Highest Cost/Unit Type A
15) Result is Cost Per Unit Score for Unit Type A

Awarded Proposals from Arlington and Alexandria

The awarded proposals in Arlington and Alexandria in the 9% competitive tax credit rounds between 2006 and 2009 are shown in tables 5 and 6. Nine proposals were awarded credits, as noted above. These proposals were analyzed to determine any trends in the type of projects that were awarded credits based on their Cost Per Unit scores.

As shown in Table 5, seven of the nine proposals were new construction. All were family proposals. One was a combination of new construction and rehab, and one was rehab. Five of the proposals were elevator buildings which would be atypical when compared on family proposals across the state.

Table 5: Characteristics of Proposals Awarded LIHTC, 1/ Arlington County or Alexandria, 2006 to 2009

	Applic. Year	Pool	Building Type	Type of Proposal
James Bland I	2009	LHA	Garden	New Constr.
The Jordan	2009	NOVA	elevator	New Constr.
West Glebe	2008	NOVA	Garden &TH	New Constr.
Residences at Arlington Mill	2008	NOVA	elevator	New Constr.
Old Dominion	2008	LHA	Garden &TH	New & Rehab
Buckingham Village I	2007	NOVA	elevator	New Constr.
Station at Potomac Yard	2007	TIER #1	elevator	New Constr.
Courthouse Crossings	2006	NOVA	Garden	Rehab
The Shelton	2006	NOVA	elevator	New Constr.

Note: 1/ All were family projects
Source: VHDA

In Table 6, data are presented on the project costs of the awarded proposals. The project costs per square foot show a relatively consistent pattern. Seven of the proposals had project cost per square foot above $190 per square foot and the highest cost was just under $230 per square foot. Proposals that were not awarded credits had unit costs higher than $230 per square foot. Courthouse Crossing was the only proposal with building acquisition included in the project cost. The Cost Per Unit score of the two awarded proposals in 2009 was at the higher range of these awarded projects, a reflection of scoring after VHDA's increased Cost Parameter for 2009.

For these years, the costs per unit or per square foot costs were competitive. Some proposals during other years were at higher rates. Most of those costs are comparable with market rate proposals. Clearly, the cost of development is high in the study area, and for recent submittals, in the $180 to $230 per square foot range.

For the Cost Per Unit Score, 75 points is the maximum allowable. The points awarded to those nine awarded proposals are relatively low, particularly for five of the proposals, as shown in Table 6.

Table 6: Comparison of Selected Project Costs of Winning Proposals from Arlington County or Alexandria City, 2006 to 2009

	Number of Units	Project Cost Per Sq. Ft. 1/	Constr. Cost Per Unit 2/	Bldg. Acquis. Cost Per Unit 3/	Cost Per Unit Score (points)
James Bland I	18	$228.97	$185,900	0	24.01
The Jordan	90	$228.72	$148,400	0	23.76
West Glebe	48	$177.12	$157,700	0	25.93
Residences at Arlington Mill	61	$230.69	$206,500	0	1.78
Old Dominion-New Constr.4/	12	$179.13	$174,100	0	8.95
Old Dominion-Rehab 4/	24	$64.07	$50,500	0	39.24
Buckingham Village I	100	$196.42	$136,300	0	5.99
Station at Potomac Yard	64	$203.40	$184,700	0	15.88 5/
Courthouse Crossings	112	$193.50	$38,800	$112,950	4.80
The Shelton	94	$227.48	$143,600	0	4.65

Notes: 1/ Total development costs less the cost of land acquisition, operating reserves, tap fees, and structured parking.
2/ Total contractor cost per unit less the cost of commercial spaces and cost of any structured parking.
3/ Building portion of acquisition cost only; zero for allocated land value.
4/ This proposal was scored separately on new construction and rehab portions, with scores pro-rated.
5/ This proposal had subsidy funds from the City of Alexandria.

Source: VHDA

An analysis of the ratio of Project Cost Per Unit to the Cost Parameter, a critical component of the Cost Per Unit score calculation, is presented in Table 7. Only four proposals had a ratio below 70 percent, and two of these were in 2009, after VHDA's cost adjustments. The 70 percent and lower ratios are very competitive. While the proposals shown were "winners", high Cost Per Unit scores definitely reduced the overall score of some proposals from Arlington and Alexandria that were not awarded credits from 2006 to 2009.

Table 7: Comparison of Selected Project Costs of Awarded Proposals from Arlington County or Alexandria, 2006 to 2009

	Project Cost Per Unit 1/	Cost Parameter Per Unit 2/	Ratio of Project Cost to Cost Parameter	Cost Per Unit Score
James Bland I: 2BR-G	$250,182	$358,313	69.8%	15.09
James Bland I: 3BR-G	$257,902	$400,969	64.3%	8.92
The Jordan: 1BR-G	$168,313	$264,469	63.6%	5.15
The Jordan: 2BR-G	$247,361	$358,313	69.0%	17.55
The Jordan: 3BR-G	$298,434	$400,969	74.4%	1.07
West Glebe: 1BR-G	$117,004	$183,904	63.6%	5.64
West Glebe: 2BR-G	$180,519	$248,063	72.8%	1.70
West Glebe: 3BR-G	$174,573	$277,594	62.8%	8.12
West Glebe: 4BR-G	$207,798	$305,944	67.9%	7.02
West Glebe: 3BR-TH	$219,835	$347,813	63.2%	3.45
Arlington Mill: 0BR-G	$100,649	$141,514	71.1%	1.78
Arlington Mill: 1BR-G	$200,839	$183,094	109.7%	0
Arlington Mill: 2BR-G	$323,353	$248,063	130.4%	0
Arlington Mill: 3BR-G	$372,400	$277,594	134.2%	0
Old Dominion: 2BR-G-NC	$158,948	$248,063	64.1%	4.45
Old Dominion: 3BR-G-NC	$178,612	$277,594	64.3%	4.45
Old Dominion: 1BR-G-REH	$33,561	$155,969	21.5%	39.24
Bucking. Village I: 1BR-G	$174,873	$196,656	88.9%	5.23
Bucking. Village I: 2BR-G	$258,559	$266,438	97.0%	0.75
Bucking. Village I: 3BR-G	$315,339	$298,156	105.8%	0
Potomac Yard: 1BR-G	$194,092	$240,540	80.7%	2.83
Potomac Yard: 2BR-G	$253,472	$325,893	77.8%	12.50
Potomac Yard: 3BR-G	$311,670	$364,869	85.4%	0.74
Courthouse: 0BR-G	$124,794	$126,548	98.6%	0.01
Courthouse Cr.: 1BR-G	$141,617	$163,755	86.5%	2.17
Courthouse Cr.: 2BR-G	$206,086	$221,861	92.9%	2.62
Courthouse Cr.: 3BR-G	$249,457	$248,273	100.5%	0
Courthouse Cr.: 4BR-G	$294,615	$273,537	107.7%	0
The Shelton: 0BR-G	$143,992	$146,493	98.3%	0.04
The Shelton: 1BR-G	$174,019	$189,536	91.8%	1.89
The Shelton: 2BR-G	$238,167	$256,791	92.7%	2.72
The Shelton: 3BR-G	$300,723	$287,361	104.6%	0

Note: 1/ Total development costs less the cost of land acquisition, operating reserves, tap fees, and structured parking, divided by square feet of gross heated area and multiplied by average unit size.
2/ Provided by VHDA each year as a parameter of "highest cost".

Source: VHDA

Analysis of Scoring in the Non-Profit Pool in 2009

In 2009, there were two proposals from Arlington and Alexandria in the Non-Profit Pool and both were not awarded credits. One was Arbelo Apartments, a 34-unit rehab proposal in Alexandria. The other was Colonial Village II, a 48-unit rehab proposal in Arlington County. The amount of tax credits needed by the two proposals was not particularly high, in the narrow range from $428,550 to $466,245. The four awarded properties, shown in the following chart, needed credits in amounts ranging from a low of $119,480 to a high of $750,000, with the three highest proposals ranging from $514,215 to $750,000. **The awarded proposals are located outside of the market area.**

Comparison of Project Costs for Awarded and Non-Awarded Proposals in the Non-Profit Pool in 2009

		Cost Per Sq. Ft.	Constr. Cost Per Unit	Number of Units	Acquis. Cost Per Unit 1/
Winners (Non. No. Va.)					
South Bay	New Const.	$167.91	$79,100	60	0
Riverside Place	Rehab	$95.14	$34,600	22	$39,800
Lincoln Mews	Rehab	$93.88	$59,100	130	$21,600
Old Farm Village	Rehab	$102.81	$51,900	84	$19,600
Non-Winners Arlington/Alex.					
Arbelo	Rehab	$295.19	$59,100	34	$127,900
Colonial Village	Rehab	$282.48	$78,700	48	$78,100

Note: 1/ Building portion of acquisition cost only; zero for land acquisition.

South Bay was a New Construction, Single Room Occupancy proposal for homeless individuals in Portsmouth, in the Tidewater Region. It was a unique proposal for a special needs population. It did have a high cost per square foot and cost per unit.

The other three awarded proposals are more comparable to the Northern Virginia proposals, as they are rehabs, **but with a much lower cost per unit.** Riverside

Place is a 22-unit property in a rural community in southwest Virginia. Lincoln Mews II is a 130-unit property in Richmond. Old Farm Village is a 84-unit, Section 8 rental assistance property in Christiansburg.

A comparison of the Cost Per Square Foot for the three rehab "winners" versus Arbelo and Colonial Village show that non-profit developers in Arlington and Alexandria required a high acquisition cost for their proposals. The acquisition costs were very low for the other properties. Construction costs per unit were also higher in Arlington County and Alexandria, but not as different as the acquisition costs. The following chart shows the points awarded to those non-profit proposals.

	Cost Per Unit Points in 2009 Application
Winners	
South Bay	29.13
Riverside Place	27.23
Lincoln Mews	38.32
Old Farm Village	31.23
Non-Winners	
Arbelo	3.74
Colonial Village	2.89

In 2008, there were no proposals from Arlington and Alexandria in the Non-Profit Pool. The Arbelo proposal of that year did not meet threshold.

Analysis of Tier I-At Large Pool

Any development that receives partial credits in each pool "drops" to compete in the Tier –I At Large Pool against other partially funded deals. Typically, at least one proposal will be funded in this pool. Occasionally, if there are sufficient funds, as many as five proposals can be funded in this pool. In 2007, Station at Potomac Yard in Alexandria was awarded credits from The Tier I Pool. In 2006, the rehab Sunset Park in

Fairfax County, but adjacent to Alexandria, won credits. The other awarded properties were in more low cost locations.

Table 8: Characteristics of Tier I Awarded Proposals by Location, 2006 to 2009

	Location	Applic Year 1/	Original Pool	Elderly or Family	Type of Proposal
Martinsville Lofts	Martinsville	2009	Small MSA	Family	Adaptive Reuse
Colonial Ridge	Chesterfield County	2008	Richmond	Family	Rehab
Danville Homes	Danville	2008	Small MSA	Family	New Constr.
Shawnee Ridge	Norton	2008	Rural	Elderly	Rehab.
Chippenham Place	Richmond	2007	Richmond	Family	Rehab.
Terrace South	Roanoke	2007	Small MSA	Family	Adaptive Reuse
Effingham Plaza	Portsmouth	2007	Tidewater	Elderly	Rehab.
Parc Crest at Poplar Forest	Prince Edward County	2007	Rural	Elderly	New Constr.
Station at Potomac Yard	**Alexandria**	**2007**	**NOVA**	**Family**	**New Constr.**
Sunset Park	Fairfax County	2006	NOVA	Family	Rehab.
Timberlake Square	Lynchburg	2006	Small MSA	Family	New Constr.
High Meadows	Wythe County	2006	Rural	Family	New Constr.

Note: Effingham Plaza and Shawnee Ridge are Elderly-RW/S proposals which are elderly proposals with Rural Development Funds and rental subsidy; they are scored as family proposals.

Source: VHDA

In 2009, there was a unique situation where one-time federal funds were available and a number of proposals were also funded in Tier II, but none were from Arlington County or Alexandria. Tier II has been excluded from our analysis since it was a one-time phenomenon.

Scoring characteristics of the 12 awarded proposals in the Tier I pool between 2006 and 2009 are shown in Table 8. Only one proposal from Arlington County or Alexandria was awarded credits during the four-year period of 2006 to 2009, primarily because the overall scoring appeared to favor lower cost rehabs. Station at Potomac Yard, which was awarded credits, had the second highest project cost per square foot and had the highest construction cost per square foot. However, the Cost Per Unit score could not fully explain all reasons for why other proposals from Arlington and Alexandria did not have high enough scores to reach Tier I, because six of the winning

Tier I proposals had higher Cost Per Unit scores than Station at Potomac Yard. Station at Potomac Yard was a unique proposal that generated points from other scoring sources.

Table 9: Comparison of Selected Project Costs at Awarded Tier I Proposals, 2006 to 2009

	Number of Units	Project Cost Per Sq. Ft. 1/	Constr. Cost Per Unit 2/	Bldg. Acquis. Cost Per Unit 3/	Cost Per Unit Score
Martinsville Lofts	60	$118.90	$107,510	$5,000	5.67
Colonial Ridge	192	$92.65	$25,680	$43,880	31.02
Danville Homes	50	$124.43	$138,700	0	13.80
Shawnee Ridge	20	$100.47	$30,830	$27,800	23.35
Chippenham Place	144	$83.37	$35,520	$22,880	18.12
Terrace South	109	$153.76	$93,963	$20,270	3.86
Effingham Plaza	178	$147.41	$23,300	$16,580	0
Parc Crest at Poplar Forest	44	$104.17	$61,170	0	26.94
Station at Potomac Yard	**64**	**$203.40**	**$184,700**	**0**	**15.88**
Sunset Park	90	$224.28	$37,800	$142,465	0
Timberlake Square	120	$77.45	$60,000	0	36.59
High Meadows	60	$125.56	$115,210	0	12.70

Note: 1/ Total development costs less the cost of land acquisition, operating reserves, tap fees, and structured parking.
2/ Total contractor cost per unit less the cost of commercial spaces and cost of any structured parking.
3/ Building portion of acquisition cost only; zero for allocated land value.
4/ This proposal was scored separately on new construction and rehab portions, with scores pro-rated.

Source: VHDA

In 2009 the only proposal from the Northern Virginia Pool that was allowed to compete in the Tier I At Large Pool was the City Center South Family proposal. It was the only partially funded deal in the Northern Virginia Pool. Each pool had only one partially funded proposal each year. Arlington and Alexandria proposals scored very low in the Northern Virginia Pool and a proposal from Fairfax was awarded credits. The proposal in the Tier I Pool with the highest score was Martinsville Lofts, a property located in a low growth, low cost community. The acquisition cost was $5,000 per unit. The construction cost per unit for Martinsville Lofts, due to the significant costs related to the adaptive reuse of a building, was $107,510 per unit, which was higher than the rehab construction cost per unit for either Arbelo or Colonial Village. However, the cost per square foot for Martinsville Lofts was $118.90, which was about 40 to 42 percent of the cost per square foot of Arbelo and Colonial Village.

In 2008, Macedonia was the only partially funded deal in the Northern Virginia Pool. Macedonia was placed in the Tier I pool, but was not awarded credits. The $813,532 in tax credits needed by Macedonia was not particularly high, because two of the three winning proposals needed credits ranging from $852,967 to $878,811. The third, Shawnee Ridge, needed only $89,756 in credits. Macedonia was a 36-unit new construction proposal in the southern part of Arlington County.

One of the three winning proposals in Tier I, Colonial Ridge, was a rehab proposal of a 192-unit property in Chesterfield County. Danville Family Homes was a new construction proposal for 50 single-family rental homes in Danville for former public housing residents. Shawnee Ridge was the rehab of a 20-unit elderly project in Norton, a very rural community in Wise County in southwest Virginia. As was the case in 2009, the VHDA scoring system in the category Cost Per Unit (Efficient Use of Resources) favored relatively low cost areas and in the case of rehabs, relatively moderate cost rehabs.

Acquisition costs were not an issue in 2008, because Macedonia was a new construction proposal and land is excluded from the Cost Per Square Foot. Macedonia did have a very high project cost per square foot and this resulted in the proposal receiving a Cost Per Unit score of zero. The developer reported that there was a $100,000 increase in cost ($2,800 per unit) to the garage as a result of Arlington County requiring entry to the garage on a different street than was originally planned **(parking garage costs are not included in the cost per unit scoring),** a $300,000 increase in HVAC equipment by virtue of the County not allowing vents on an exterior wall, and $100,000 increase in fees from atypical design and zoning requirements. However, while these requirements were clearly a problem for the Macedonia proposal, this issue is not constant for all affordable housing proposals.

Comparison of Project Costs in the Tier I-At Large Pool in 2008						
		Cost Per Sq. Ft.	Constr. Cost Per Unit	Number of Units	Acquis. Cost Per Unit 1/	Cost Per Unit Score
Winners						
Colonial Ridge	Rehab	$92.65	$25,677	192	$43,875	31.02
Danville Homes	New Const.	$124.43	$138,699	50	0	13.80
Shawnee Ridge	Rehab	$100.47	$30,830	20	$27,804	23.35
Non-Winners						
Arlington/Alex.						
Macedonia	New Const.	$329.84	$227,200	36	0	0

Note: 1/ Building portion of acquisition cost only; zero for land acquisition.

Credits Per Unit. Proposals in Arlington County and Alexandria tend to have higher credits per square foot figures due to higher overall development costs. In other words, credits equal to $1.0 million dollars only help fund the development of 50,000 square feet of heated residential space in Arlington and Alexandria, while that cost might fund 100,000 square feet of space in another part of the state. Thus, proposals in Arlington and Alexandria do not score high because there is a correlation between a higher credit per square foot figure and a lower credit per unit score.

For example, the Station at Potomac Yard proposal required $1,090,023 in credits to develop 53,350 square feet of space and had a Credits Per Unit Score of -55.49, while Colonial Ridge in Chesterfield County required $853,000 to rehab 175,490 square feet. That score was high with a Credits Per Unit Score of 85.86. Proposals in Arlington and Alexandria that did not receive credits between 2006 and 2009 either had relatively modest credits per unit scores in the range from 35.27 to 44.31, or had a negative score, such as Macedonia's -115.24.

Table 10: Comparison of Credit Requests and Credit Per Unit Scores of Awarded Tier I Proposals Versus Losing Proposals in Arlington/Alexandria, 2006 to 2009

	Number Of Units	Credits Requested	Square Feet	Credits Per Square Foot	Credits Per Unit Score
Martinsville Lofts	60	$640,750	77,290	8.29	60.61
Colonial Ridge	192	852,970	175,490	4.86	85.86
Danville Homes	50	676,010	71,820	9.41	-8.97
Shawnee Ridge	20	89,760	14,570	6.16	6.16
Chippenham Place	144	702,940	130,770	5.38	-11.49
Terrace South	109	729,730	97,210	7.51	54.54
Effingham Plaza	178	640,000	132,140	4.84	23.91
Parc Crest at Poplar Forest	44	402,910	35,600	11.32	-93.91
Station at Potomac Yard	**64**	**1,090,023**	**53,350**	**20.43**	**-55.49**
Sunset Park	90	900,000	96,100	9.37	55.63
Timberlake Square	120	771,850	126,540	6.11	60.37
High Meadows	60	695,880	69,790	9.97	-32.24
Non-Winners Arlington And Alexandria 1/					
Arbelo (Rehab-2009)	34	466,250	27,880	16.72	35.27
Colonial Village (Rehab-2009)	48	567,380	36,410	15.58	44.31
Macedonia (NC-2008)	36	813,530	37,250	21.84	-115.24
Beverly Park (2006)	41	374,250	28,315	13.22	48.26

Note: 1/ Not Tier I proposals except Macedonia.

Source: VHDA

Summary and Conclusions

The analysis presented above shows in dollar and scoring calculations what Arlington and Alexandria developers already know, that their affordable housing proposals have very high costs compared with other parts of the State, including nearby counties/cities in Northern Virginia. However, as their proposals compete against each other within the Northern Virginia Pool, they are n an "even footing."

Officials at VHDA have made adjustments to the Cost Parameters for the Northern Virginia Beltway "region" in 2009, and if that adjustment remains in place, it is a positive adjustment for scoring of Arlington and Alexandria affordable housing proposals relative to competition in the Non-Profit Pool and Tier I- At-Large Pool.

In the 2010 QAP, officials at VHDA propose to revise the Credit Pools to recognize the geographic areas that are anticipated to have an increase in rent over-burdened households. That too will be a significant benefit for developers in Northern Virginia, based, in part, on the demographic trends shown in Table 3, page 9 of this report.

With these adjustments, particularly with more credits being allocated to Northern Virginia, Northern Virginia developers will be in a more competitive position to "capture" a higher percentage of LIHTC's. The adjustment to provide a larger share of tax credit funds to the Northern Virginia Region is a major step in "solving" some of the identified problems. The one area that still requires review is the at-large Tier I Pool and also the Non-Profit Pool. As currently scored, Northern Virginia proposals are at a distinct disadvantage in these Pools due to the high cost of development. Under the current scoring system, the high costs of Northern Virginia development proposals make the scores of Northern Virginia proposals almost always low compared with scores in lower cost regions of the state.

We recommend a change to the scoring of proposals once proposals are shifted to the Tier I At-Large Pool. Our proposal is for VHDA to remove all regional "assets" from initial scoring and to rescore proposals in comparison with each individual project. Thus, for Northern Virginia, issues such as high development costs, access to Metro and public transportation, etc., would be removed from the project scoring. Likewise, issues such as the percentage of three-bedroom units or other issues that are more relevant for lower cost areas would be eliminated from the Tier I At-Large Pool and possibly the Non-Profit Pool. This would allow for a more equitable rating of Northern Virginia proposals that do receive good scores under the current system.

Our proposal, while general at this point, is to compare at-large proposals on a project- to –project basis, with project design, energy efficiency, <u>market</u> <u>support</u>, special needs populations served, percent of very low rents to be provided, etc. , as the basis for credit scoring. By the time a proposal is shifted to the at-large, Tier I Pool, it has received a high score under VHDA's current requirements. It would then be more equally compared with other proposals throughout the state.

Additionally, our analysis shows that within Arlington County and Alexandria, the VHDA scoring process favors new construction, because the cost of acquiring existing apartment buildings for rehab is too high. A second recommendation is that officials at VHDA look at its Cost Parameters and consider increasing them for rehab proposals, as this is also environmentally favorable or a "green" option. The elimination of extra points for 3+ bedrooms would also remove a "bias" against smaller rehab proposals.

We clearly note that officials at VHDA recognize the problems that exist. Some adjustments have been made. The two recommendation presented could also help.

In conclusion, the inherit problems of high cost of project development, and the competition for affordable housing projects by active non-profit development, will remain "a fact of life" within the study area. Also, remaining is the growing need for affordable housing.

The amount of credits for Northern Virginia is expected to be increased. If officials at VHDA can agree upon a more equitable scoring system within the Tier I, At-Large Pool, Northern Virginia affordable housing proposals could become more competitive when compared with proposals from other regions. In addition, VHDA may want to consider a way to score proposals in the Non-Profit Pool that would be more fair to proposals in high cost areas.

We believe that officials at VHDA recognize the issues that prompted this study and are making positive adjustments to rectify these issues. We believe that some past issues/problems have been addressed to some extent. We were not provided data that support the premise that City and County development requirements are a detriment to the success of affordable housing proposals. However, the data and analysis presented within this report should be beneficial for developers in their future negotiations with public officials for new project requirements.