



Expanding Options for Affordable Housing

The Sixth Annual Thomas P. Leckey Housing Forum
October 4, 2008 + George Mason University, Arlington, VA

Welcome: Susan Retz, Chair, [Alliance for Housing Solutions](#) (AHS)

This morning we have an exciting program beginning with our keynote speaker, Mr. Ted Toon, Deputy Assistant Secretary for Affordable Housing Preservation, U.S. Department of Housing and Urban Development (HUD), and three panels focused on pivotal questions concerned with the preservation and production of affordable housing.

Keynote Speaker: Ted Toon, Deputy Assistant Secretary for Affordable Housing Preservation, HUD



I want to talk about a couple of things. The Office of Affordable Housing Preservation was established about 10 years ago to deal with the loss of affordable units in high cost areas. This is being driven by the fact that a lot of the Section 8 contracts which were put in place in the late '70s and early '80s were coming up for their expiration and one of the options that the owners of these properties have is, in fact, to opt out of those affordable programs.

I also want to talk about a program my office started implementing about a year ago, the "Green Building Initiative". Up until a couple of years ago, there was a perception that to do a green building was to go farther with what you would traditionally do was a luxury, available only to the upper end of the market. It is very encouraging to see that Enterprise and so many others, including HUD, have come to recognize that green building is a benefit that can be made available to all residents regardless of income levels.

This slide summarizes the [Mark-to-Market Program](#):

- **Congress established Mark-to-Market in 1997 to:**
 - **Preserve existing Section 8 housing long-term**
 - **Save Section 8 money while avoiding defaults, and**
 - **Stabilize the assisted housing portfolio**
- **Preserves housing for long term by placing properties on firm financial and physical footing**
- **Using a thorough physical inspection, plans and funds rehab and future reserve account**
- **Reduces Section 8 rents to comparable market rent level on renewal contract**
- **Restructures mortgage debt to be supportable at the reduced rent**

What's in it for the owner?

- 1) The owner must reinvest in the property with a **capital recovery payment** which, for rehab projects, must be 20% of the costs. HUD will underwrite the repayment with interest.
- 2) A **performance fee** is allowed at the end of the fiscal year. If the owner meets all of his obligations (financial and property maintenance), he may underwrite as an operating expense this additional incentive performance fee.
- 3) If there is surplus cash from the operations of the property at the end of the year, there is a **cash flow split**, with a portion of the excess going to the owner, as a cash distribution.

What's in it for HUD? All of these properties are supported by FHA mortgages and the reason that Congress allowed us to do that is to prevent future default of these properties.

- 1) The owner is locking into a **long term agreement to keep this property affordable** (a minimum of 30 years). The affordability requirement acts as a deed restriction and will help stabilize communities and neighborhoods.
- 2) HUD has **saved billions of dollars in Section 8 subsidies** by taking properties through this and marking them to market.
- 3) Overall, about **225,000 units** in the last nine years around the country have been **preserved** through this program.

The Green Initiative: Introduced in late 2007, this actually combines efforts of two different offices, the Energy Task Force, which spends over \$4 billion per year on utilities through various subsidy programs, and the Office of Healthy Homes, which grew out of the lead paint crisis and has expanded to include many environmental issues, e.g. mold hazards. We presently have 60 properties that we are working on, but what we hope to learn from this pilot effort is where the opportunities are in the multi-family portfolio to introduce these concepts and bring some benefits to the properties. Already there is legislation on the Hill as to how the Energy Act can include a larger demonstration program of 50,000 units over a four-year period to try to implement various green building options in different areas to see what impact it has.



Other: Congress also added additional Section 8 money to supplement what we had last year to ensure that we are able to fund all of our projects. Last summer's Housing and Economic Recovery Act of 2008 allowed single-family owner-occupants, to refinance their mortgages into FHA products. Last week HUD allocated \$4 billion to the Neighborhood Stabilization Program specifically to buy and rehab foreclosed properties in order to stabilize neighborhoods. HUD is very involved in the discussions of the financial rescue package. We do not yet know what HUD's role will be, but expect that they will have a significant role.

Audience Question: Do property owners have to repay the second mortgages?

Answer: Short answer is yes, it is a recorded obligation, but it is a cash flow obligation. They are required to pay it if they have surplus cash from the operations of the property.

Panel 1: EASING THE APPROVAL PROCESS

Moderator: Susan Retz, Chair, AHS

Panelists: Carrie Johnson, former Chair, Arlington Planning Commission

Susan Ingraham Bell, Director, Arlington County Department of Community Planning, Housing and Development (DCPHD)
Shahriar Amiri, Chief Building Official, Inspection Services Division, DCPHD
Jon Kinney, Land Use Attorney, Bean, Kinney & Korman, P.C.

Susan Retz - Question for the panel: “What works in the current process and how do you think it can improve?”

Susan Bell: The process used today is a refined version of the process set in place when the County first created the concept of transit oriented development. The continuity in our public policy enables us to administer this process, engage the community, and create projects that fulfill the goals of our area plans. Arlington’s citizen participation process is an exceptionally important cornerstone as to how development happens in this County.



Jon Kinney: I want to compliment the County improving the inspection aspect of the approval after you go through the site plan process. You really need to understand timing in the site plan process, which is the process we go through before we get to the approval process, because the approval process is not a political process, it is an administrative process. We talk about why timing matters. Let me try to focus on the non-profit housing provider community. The non-profit providers who are trying to provide affordable housing are at a disadvantage in a process that takes a lot of time and a process that has uncertainty in approval attached to it. For-profit developers are geared to take risk, putting up deposits of up to \$300,000. They will make up the money on the next deal, if that goes bad. For the non-profits, somebody’s head is going to roll if you lose deposit amounts like these. The County is not going to be happy, and nobody else will be happy either. Later on we will go into some suggestions to deal with improving the process.

Carrie Johnson: The County process relies heavily upon the community establishment of goals and the community willingness to work toward objectives even if sometimes that road may be a little bumpy. It puts a real premium on a process that is open, that puts really good communications in all directions and a process that allows you to address issues involving affordable projects particularly, but also involving development generally, in a very logical way so that you resolve first what needs to be resolved in order to get to the next step. I think that we are getting better at that.

At Buckingham, a community coalition involving housing advocates, neighborhood advocates and historic preservation advocates came together, found the leverage, and actually found it in the Historic Preservation Act, an anomaly in Virginia which makes it easier to preserve because it is old than because it is affordable. We found the leverage and to their credit, both the County Board and the County staffers found it immediately when this avenue was shown to them, and everyone worked together for a very long time and came up with a very sophisticated compromise plan, committed to affordable units. I think that demonstrated as well the fact that, at least in Arlington, an open process with a lot of open discussion and a lot of process innovation sometimes has enormous benefits.

Shahriar Amiri: In Arlington, the site plan political process is a timely process and needs to consider the many aspects of the community and political bodies. When that process is done, it becomes an administrative process.

The number of days for processing permits for commercial buildings and interior alterations has been reduced from nearly 450 days in 2006 for a new commercial building permit issuance to about 90 days in 2008. For many smaller commercial buildings for limited amounts of work, the

result is only a one-week process. Our staffing model had not changed since 1986. We took the first six months I was here meeting with clients and the development community. We realized that if we could reduce a 24-month process, whether it is non-profit, affordable housing or a large commercial project and reduce that process by at least a year, there are major cost savings to the County and to the developer. We engaged the community and the development community. We decided to change from funding Building Inspections through the general fund to supporting it fully by an enterprise fund, funded entirely by the permitting fees we receive. We had not raised permit fees in 22 years and needed to raise those fees to fund the additional staff.

When we went before the County Board, we created benchmarks. Remember the 6-9 months for getting a tenant layout; I said I wanted to do it in one day. The 18-24 months for a big project, I want to have an initial review in 10 weeks and issue the permit in six months. We wanted to do new residential permits within four weeks and do inspection in 24 hours.

In the past six months, every project that has come in has not been perfect. We have averaged less than 10 days whether it has been 100,000 sq ft interior alteration or a 2,000 sq ft interior alteration, we are issuing those permits in about seven days and reviewing the entire thing in one day. Our inspection rates from the time we are scheduling during the past 6 months have been 100% delivery in 24 months.

Susan Retz - Questions for the panel:

- What needs to be done?
- On the site plan or approval process, how do we compare regionally and what's been the experience with corm base code in terms of approval?

Susan Bell: The site plan process here is different from other jurisdictions because we do much more detailed work up front. What I did not discuss in any detail is how long it takes for a project to really gel enough to become an application that is then accepted for public hearing.

We have seen the number of days drop for a project to go through that public and community review. But we've dropped our numbers down to under 200 days and part of the reason we have done that is by eliminating the static filing deadline. That meant that developers and non-profits who had projects they wanted to get into the queue, rushed to meet the filing deadline, whether the project was really ready to go or not. We changed that to a rolling deadline and have found that to be much more beneficial because of the quality of the submissions we get.

Audience Question: When you study how long it takes for a project to get through the site plan review process, do you differentiate between the affordable housing projects and the for-profit ones?

Answer - Susan Bell: We have not distinguished between the processes, but that is something that we will be doing. In terms of permitting, we have not established what in some communities is called the **green tape program** for strategic economic development projects. What we try to do though is, with our housing staff and the planners, to keep an eye on the affordable housing projects when they are coming through permitting so that they are not losing time in the permitting process. A new feature Shahriar added is Code Consultation. That is just getting off the ground and I think that will be a very helpful benefit for the non-profit developers as they bring new projects in – to prevent Code issues from being something that stumbles the process of permit review.

Audience Question: I wonder if there might be some flexibility for us non-profits working on group homes because we lost several weeks of construction time just because of single-family permit issues.

Answer - Shahriar Amiri: We actually do have a walk-through process for single-family alterations, albeit a group home is a little bit of a different animal than a standard single-family alteration. Certainly, I personally have been involved with several of the non-profit organizations because we do understand the deadlines of the tax credits.

Audience Question: I recently became aware of a minor credit that Montgomery County established for non-profits to get permits quickly. Could something like that be done here?

Answer - Ken Aughenbaugh: The County does have a couple of different things sort of like that. One of the things we have had for about 25 years is architectural and engineering services under contract to assist non-profits to evaluate a project and do a Phase I environmental check. We also have a credit facility, which we set up a SunTrust several years ago that can be used to do the initial acquisition bridge loan. .

Jon Kinney: Something that I think could be adapted to help the non-profit providers: In some cases now, because of the credit market situation, instead of people putting a deposit down, they are now agreeing to put a mortgage against the seller's property to assist them to maintain and continue the property. That is something that comes back. Using a deposit as money down to help the seller over from a bridge situation is something that can be adapted for the non-profits.

Question from Nina Janopaul: I wanted to thank Shahriar and Susan because we have had, over the last year, several deadline related permit issues and I think they really stepped up to the plate. I am very intrigued by the concept of green tape because that is the biggest challenge when looking at a parcel of land, and I will give an example, the poster-child for delayed projects, the First Baptist Church of Clarendon, that we are serving as consultant on. The church has put in more than \$1.5 million; there have been lawsuits and dozens of public hearings. Is there some way to make that process less onerous? So now it is a lot more expensive project per square foot than if it could have been a more straight forward project. So how can affordable housing deal with time and money issue?

Jon Kinney: I guess you have very competing goals in this situation. You have a community that values community input and understands the need to go through a process that involves people. You are not going to be able to back out of that. That is why a democracy works best. I can come up with a few suggestions that I think can speed things along but **size does matter** in the development process. If you have a project that is building 500,000 feet for 500 units of residential and you spend the 3/4 of a million dollars in the site plan process, if you equal that to a square foot cost, that is \$1.50 per foot, that is not a major economic disincentive to go forward.

One of the major problems in Arlington County is there is no distinction between a process that is for 500,000 sq ft and one for 50,000 sq ft because if you have 50,000 or 50 units and it costs them almost as much, then it is costing \$15.00 per foot extra in cost and that does make a competitive difference now matter if it is an office building or something else. In other jurisdictions have a different process for projects under 50, 60, 40 – pick a number, but we should not have a one-size-fits-all process. Central Place makes an impact. We are going to see it for hundreds of years. But a project 5% of that size will not have the impact that Central Place will have. I do think we should **have a different process for smaller projects**. Non-profits are not building in million dollar sites.

Susan Bell: The way we have handled it to date is, if your project is consistent with the general land use plan, the policy plan, then it can go forward in 120 days; if not, we add another 60 days. Part of the challenge we faced with the First Baptist Church project is the church site was shown as a church in our policy documents.

Rosslyn Ridge (now Parc Rosslyn) also had to deal with litigation after approval of the site plan. That too had too many delays after the Board had acted on it. One of the lessons to come out of that very controversial experience is the more you can have your really difficult discussions in public, the better off you are. To the extent you can engage your community leadership, which is often the commission leadership as part of managing the process so that they are committed not just to necessarily all of the details of the project, but commit to the general framework and policies of getting it through and can work collaboratively through the commissions' efforts, staff and community leaders in a meticulous way to address all the points of policy and law and community concerns and impact issues and all the rest that are part of the public process, there are ways to expedite this and ways to make it much less susceptible to a lot of road blocks.

Closing – Susan Retz: I want to challenge you to think beyond everything we are wrestling with today and think about the real implications of transit-oriented development in a time when things will be much more spotty. Arlington has the blessing of not being hit as hard by a recession as other communities. Where people don't have to get in the car to go to the grocery or medical care or education or work, we can meet the goals of environmental sustainability. Changes are going to make the challenge of diverse housing in Arlington only more complicated and only if we get more creative are we going to succeed.

Panel 2: KEEPING AFFORDABLE UNITS AFFORDABLE

Moderator: **Anne McCulloch**, Senior Vice President and Deputy General Counsel, Fannie Mae

Panelists: **Mark James**, Real Estate Development Officer, Community Preservation and Development Corporation

Kara Strong, Sustainable Design Consulting

Paul Weech, Innovative Housing Strategies, LLC

If it takes a village to raise a child, it really takes a village to develop, preserve and maintain affordable housing. It's a village that runs from public policy debate to the public subsidies to innovative green building design and maintenance to really intense cost management by our owners, managers and financing forces.

On this panel today, we have an array of that village to talk about policy to practical application to cutting edge design. Mark James is a Real Estate Development Officer with the Community Preservation and Development Corporation. Kara Strong is a registered LEED accredited architect and is a resident of a co-housing community, which may be another approach to affordable housing in our communities. Paul Weech was lead staff to the Housing and Finance Committees for years, served in the administration, headed Fannie Mae's affordable housing strategies and goals programs, and is now in private practice as a housing policy consultant.

Paul Weech: The macro environment is horrible. Here in Northern Virginia is not so bad. Around the country, housing starts are down 63% from the peak. Home sales were down 10.7% from August of last year. Foreclosures are mounting; 3.4 million foreclosures are likely to occur this year, though policy could change that. Foreclosures will put pressures on the rental inventory. Housing prices are down, approximately 22% in the DC Metropolitan region. I have

never seen housing on the radar screen as much as now. Congress created the National Housing Trust Fund. It allocated \$4 billion to the Neighborhood Stabilization Program that creates an opportunity for non-profits, state and local governments to acquire single-family units to add to the affordable housing inventory.

Out of the crisis some of the things that we as advocates and promoters of affordable housing opportunities should look at are through the reinvestment act, expand to more institutions, origination of anti-predatory laws to apply to anyone originating mortgages around the country and maybe even opportunities to think about the quid-pro-quo of the bailout of financial institutions should be some sort of contribution to the National Housing Trust Fund and resources for loans to affordable housing. The greening of the housing stock is clearly a huge agenda item as the energy problems are playing out already and this will become a bigger part of the work we do going forward.

People are going to be urging us to redouble our efforts and to take care of the people and their short term housing needs and broader social needs. I am not expecting Uncle Sam to do more or step up with more resources, but maybe in the crisis and in the restructuring of the financial industry, and the housing programs underneath that there may be some terrific opportunities to advance the cause and stall some of these very important housing problems.

Kara Strong: Certainly the way a developer defines affordable is whether it is affordable for him to build it. For the person living in affordable housing, affordable means how much it costs to rent there, what are my utility bills, does the building make me sick, what are my water bills, windows leaking For those of us in the green building industry, or other people who are affordable housing advocates, it is how do we make the people living in these buildings happy and comfortable so that affordable housing is a sustainable idea. For affordable housing, you want to be near public transportation, because perhaps you cannot afford a car, and certainly these days if you have a car, you cannot afford to put gas in it. Is there ready, accessible transportation nearby if you need to travel outside of your neighborhood? Are there safe sidewalks which allow you to reach your destinations? We must select plumbing fixtures and appliances which use the least amount of water to do the job. Selecting landscaping that does not require irrigation. Energy is the big thing because it is the easiest connection between green building and affordability. Of course, energy efficiency translates to more first costs.

Proper building orientation, with your major elevation facing south, can save you 85% of the energy erodes from your building envelope, that's about 1/3 of your total energy. In your typical project, another 1/3 is your mechanical system usage, and the final 1/3 is because of your lighting and appliances. Of course, good building materials are important, good for the environment and good for the people using the building. So, it's important to select materials which ideally do not emit volatile organic compounds (VOCs), the stuff you smell. Have adequate ventilation all throughout the spaces, so anything that is off-gassing or any kind of contaminates are being moved out as rapidly as possible. Mold is a big concern, so be sure your wall system is not doing anything to trap water inside the wall, so no wall paper on exterior walls. Good ventilation in all bathrooms and kitchens.



Cohousing is a concept that got started in Denmark in the 1960s. It is the concept of intentional communities where you actually know, and in most cases, like your neighbors, and you do a lot of things together. Typically parking is sequestered to one edge of the building. Where the affordable part comes in is that by doing things together and creating a community right outside your front door really drives down costs.

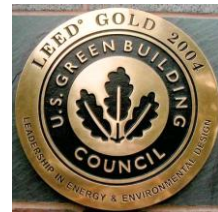
In cohousing communities you have larger common spaces. So I live in a one bedroom condominium because there are guest rooms available in the common spaces. We also do a lot of the maintaining of the building systems ourselves which helps to reduce costs for the building. My project is [Eastern Village Cohousing](#) in Silver Spring, Maryland. So we each have our own kitchens and bathrooms and bedrooms but socially our process is with cohousing.

Green features include a ground source heating and cooling system. This anticipated energy savings is about 44 % over conventional projects. But the mechanical system cost twice as much as a conventional system. We have a green roof. We have low flow plumbing and energy star appliances. While we have our building professionally cleaned, they use a lot of green products to keep down odors and smells. We have community work days and a lot of shared meals. Monday night is pot-luck. We have shared and donation closets, where you can share tools or take kids' outgrown clothes. My utilities are around \$50 to \$60 per month. My neighbor who does not have a washer dryer in her unit pays about \$25 per month.

Mark James: I want to share some concepts in promoting green affordable housing in your communities. How do we start to be innovative and how to take a leadership position and try to make something happen with green affordable housing. Rather than focusing from a developer's perspective, I will focus more of my remarks from representing local municipalities, county or state government to give you an idea how to interact with developers to help facilitate green affordable housing projects in your communities.

CPDC's [Wheeler Terrace](#) project is a 113-unit affordable housing deal in southeast DC. We were approached by the tenant association, who in DC has the first right of refusal when a property goes for sale, and this tenant association wasn't interested in green but was interested in preserving their affordable housing contract.

Wheeler is going to be a LEED certified gold level property, one of the first in the District to be LEED certified and green community certified. The savings we are getting from doing geothermal are already mixed and the initial investment of about \$1million will have a 7- to 8- year payback for us. Now, if you are an affordable housing provider, in it for the long term, that is outstanding. Who would be better served than those living in affordable housing for the benefits of lower utility bills?



One of the things you can do is to help your area create a vision. There is sort of a piecemeal approach. We developers need guidance because we are learning too. Just doing affordable housing is difficult in itself. They should know the reasons why. Green should be encouraged.

Land use planning – target an area which may have a special tax provision or special permitting fees where they may be offset by going green. Bring in your departments of energy, transportation and planning and be able to understand and time stamp where these opportunities for land development are, specifically land to be used for affordable housing. These things all help. We are losing affordable housing in our central markets. The workforce will travel greater distances to get there, with more cars on the road, more pollution, and more expense on gas. Creating affordable housing in close proximity to work centers creates an economic base. Please keep in mind that, for most low income families, it is very often that they do not have access to fresh fruits and vegetables.

Last, incentives to developers to encourage them to build green. In light of what has happened with low income housing tax credits, with more conservative underwriting and our lessened ability to leverage projects, means the gap on those projects is continuing to grow, without even being green. Whether it's building permit fees, reducing the amount of time to go through the approval process, or taking the time to create an assessment strategy, so that you are not penalized for adding green components to your projects.

Audience Question: About a week ago Brookings had a session on future housing policy and Bart Harvey made a very interesting last statement about the potential for reallocating the mortgage interest deduction. What do you think about the possibilities of that?

Answer: I was actually alluding to that regarding the \$160 billion we are spending on housing through the tax code. There are a lot of ideas about how to structure this, say as a tax credit available to all households up to a certain amount of money. Currently the greatest benefit of the deduction is for homes with big mortgages.

Audience Question: Could you discuss why you went with ground heat pump instead of solar heating?

Answer: The up front and production costs of the solar panels has not come down enough to support using it without tax credit support. But you can do green roofs, by and large, with more moderate tax credit support.

Audience Question: Resizing vs. scraping?

Answer – Kara Strong: Co-housing means you can keep your space smaller because of larger amounts of community space. Yet we were disappointed to learn that there were no real green property management companies. Also worth noting that Virginia Tech has a center that is focusing on retrofitting existing commercial and multi-family properties to create additional energy efficiency.

Audience Question: How would creation of a new Arlington Housing Authority help all of you do your work?

Answer: I've worked with housing authorities for 25 years. However, most of the work was created in a time when HUD had subsidies that now no longer exist.

Panel 3: CREATING NEW SPACES FOR AFFORDABLE HOUSING

Moderator: Ellen Bozman, Former Arlington County Board Chairman and a Founder of AHS

Panelists: Helen McIlvaine, Deputy Director, Office of Housing City of Alexandria
Ken Augenbaugh, Housing Director, Arlington County Department of Community Planning, Housing & Development
Reverend Dr. Leonard L. Hamlin, Sr., Macedonia Baptist Church of Arlington

Focus of the panel: Each of the following projects represents some better use of existing resources.

Ken Aughenbaugh: The **Arlington Mill Community Project** - The County is exploring using County land and the County retaining ownership of the land underlying the mixed use developments. We are looking at this for the Arlington Mill, Buckingham Villages III, and Wilson School projects. The final Arlington Mill project followed an extensive community process. The project involves a new community center. The County provided \$26 million from the bond authority. Because of the size of the property, a housing development project could be included.



The center building is a mixed use community building with three levels including ground floor retail. There will be 33 residential units above the Community Center. A separate residential building houses 61 affordable dwelling units out of a total of 192 units. The County will also be using the lease payments from the upfront one-time payment for the 75-year land lease of \$3.1 million. We will then lend that back to the developer as a loan to help subsidize the affordable units.

Helen McIlvaine: The **Station at Potomac Yard** is unique because it combines municipal use with the creation of affordable housing. We created affordable housing with the creation of the City's first new fire station in 39 years. The most remarkable thing about this project was the willingness of the developer for the Alexandria portion of the Potomac Yard site working with the City as a non-profit to fulfill its voluntary affordable housing contribution by providing land for the project and by providing \$7.5 million as the equity needed to get the project underway. Pulte and Centex joined into a joint venture with the City of Alexandria, including multiple departments, and the Alexandria Housing Development Corporation which is a non-profit housing development entity.



It has 64 units of affordable rental housing. It is transit and pedestrian friendly. A plan allows for a Metro station. The building will also include elements of green design like the Arlington project. The residential portion and the station will be LEED certified.

Dr. Hamlin: This project is the **Macedonia Baptist Church apartments**. This year, the Church is 100 years old in the same location. We found that Arlington was not a place where congregants could look to buy. AHC is developing 94 affordable units known as The Shelton.



There is a new 12 unit condominium project nearby. We looked to develop a partnership to develop a 100% affordable housing project of 36 units, 19 one-bedroom, 17 two-bedroom. Five units will be set aside for Arlington County supportive housing for persons with mental disabilities. This is a partnership between Macedonia, AHC, Arlington Government, and the Johnson Community Development Corporation. We are looking to have ground floor retail space and a business center.

Audience Question: What is the size of the apartments in each of the projects' one, two or three bedrooms?

Answer – Ken Aughenbaugh: In Arlington Mill, the one-bedroom apartments would be in the 750 sq ft range; two-bedroom, 850-920; and three-bedroom, up to 1200. That's approximately the same for many of the other projects. Also, approximately 5% of the units are fully handicap accessible.

Closing: Jack Cornman, President, AHS