

Meeting presentation slides are attached at the end of this report

M E M O R A N D U M

November 25, 2020

TO: Planning, Housing, and Economic Development Committee

FROM: Linda McMillan, Senior Legislative Analyst
Pamela Dunn, Senior Legislative Analyst

SUBJECT: **Montgomery County Preservation Study**

PURPOSE: Presentation and Discussion

Expected for this Worksession:

Casey Anderson, Chair, Montgomery County Planning Board
Gwen Wright, Director, Planning Department
Lisa Govoni, Housing Policy Coordinator, Planning Department
Mary Jiang, HR&A
Phillip Kash, HR&A
Arjun Gupta Sarma, HR&A
Ryan Price, LSA Planning
Michael Spotts, Neighborhood Fundamentals, LLC
Aseem Nigam, Director, Department of Housing and Community Affairs (DHCA)
Frank Demarais, Deputy Director, DHCA

At this session, the PHED Committee will have a briefing on the Montgomery County Preservation Study that was completed by consulting firms HR&A, LSA Planning, and Neighborhood Fundamentals, LLC for the Planning Department/Planning Board. The study looks at both unrestricted naturally occurring affordable housing (NOAH) and Deed-Restricted affordable housing. For this study “preservation” is considered either the extension of the affordability of Deed-Restricted units or conversion of NOAH to Deed-Restricted affordable units. The study is organized into three sections focused on six questions:

Housing Landscape:

- What are the characteristics of the County’s Deed-Restricted and unrestricted housing stock?
- How has the County housing stock changed over time?

Deed-Restricted and Naturally-Occurring Affordable Housing

- How will the County's Deed-Restricted housing stock change over time?
- What are the risk criteria for units losing affordability?

Preservation Framework

- Which existing and potential funding sources, policies, tools, and programs are Montgomery County using currently?
- How can the County support the preservation of affordable housing, to meet its housing goals?

The Executive Summary from the study is attached to this memo at ©1-16. The full study can be found at:

<https://montgomeryplanning.org/wp-content/uploads/2020/11/200914-Montgomery-County-Preservation-Study.pdf>

Some takeaways from the study are:

The study looked at data for about 113,500 multifamily units, Deed-Restricted and NOAH. About 44,000 units are affordable to households earning between 61% to 80% of area median income¹ (AMI). Another 44,600 are affordable to households earning 60% or less of AMI. About 16% of those units (7,100 units) are affordable to households earning 30% or less than AMI.

About 80% of the County's multifamily housing stock has no deed restriction regarding price and is subject to market forces. Of the 43,900 units looked at that were affordable to households earning 65% or less of AMI, 18,000 were Deed-Restricted and 25,900 were NOAH.

For **Deed-Restricted** units, the following Risk Criteria were used to assess which properties were at high risk of affordability loss:

- **Upcoming subsidy expirations** – expiration of affordability agreement set to occur in the 2020s and 2030s.
- **Ownership type** – properties owned by for-profit owners are more likely to be lost when agreements end than those owned by non-profit organizations.
- **Age of Building** – If a building is 30 years old or older it is more likely to require major investment that is more likely to trigger a rent increase that impacts affordability.
- **Proximity to transit** – Properties near transit are more likely to command higher rents when agreements expire.
- **Rent trends in neighborhoods** – Deed-Restricted properties located in neighborhoods with rising rents are more likely to lose affordability when agreements end.
- **Income trends in community** – Rising income levels in community around Deed-Restricted properties could have an impact on market rents and increase the chance for loss of affordability when compliance period expires.

¹ Area Median Income (AMI) for Montgomery County as of July 2020 is \$126,000 for a household of 4. 65% of AMI for a household of 4 is \$81,900; \$73,70 for a household of 3; \$65,520 for a household of 2; and \$57,330 for a household of 1. A household of 2 at 65% of AMI can afford monthly rent of \$1,638 without being rent burdened (more than 30% on rent).

Using these criteria, page 10 of the Executive Summary shows a list of higher risk Deed-Restricted properties. These properties have a total of about 1,400 units.

For **NOAH** units, the following Risk Criteria were used to assess which properties were at high risk of affordability loss:

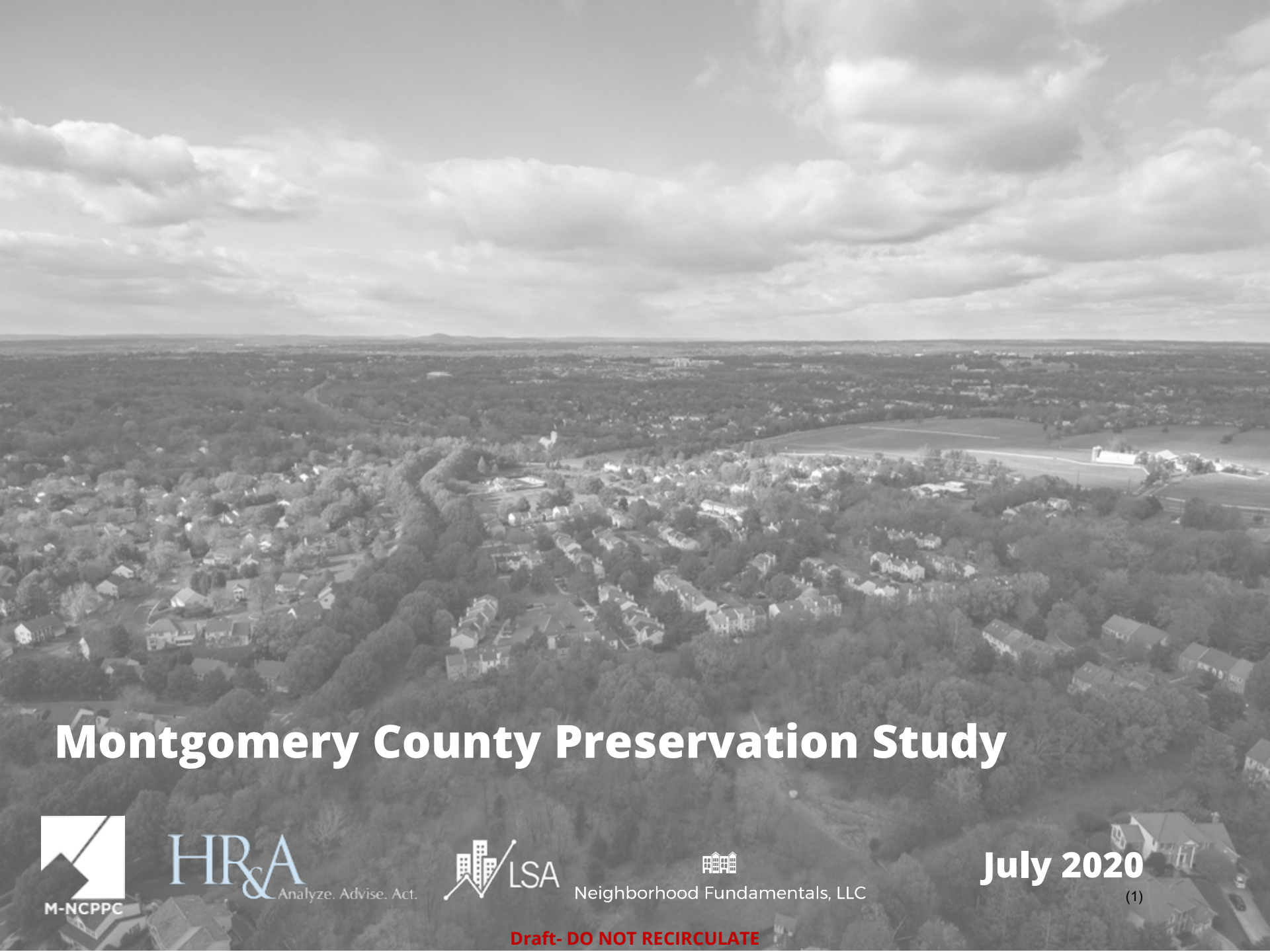
- **Building Age** – While the consultants did not find a linear relationship, they found that older units built between 1960s and 1970s have a greater risk of redevelopment or increases in prices.
- **Building Size** – Smaller buildings (5 to 9 units) are most likely to be affordable but are also losing affordability as they are sold.
- **Proximity to Transit** – Proximity to transit and new infrastructure is the strongest indicator for increased land assessment values and rent increases.
- **Renovation** – Data remains unclear about the quantitative impact on rents in Montgomery County.
- **Property Transfers** – Property transfers and sales are a lagging indicator of NOAH risk.
- **Owner Type** – Larger property owners (with 10+ units) tend to own properties at risk of loss.

Based on these criteria, the consultants estimate that 7,000 to 11,000 NOAH units will be lost by 2030. Because proximity to transit is identified as a strong risk factors, excerpts from the study on proximity to transit for Deed-Restricted units is included at ©17 and for NOAH at ©18-22.

Pages 14-16 of the Executive Summary provide a preservation framework and recommendations. The consultants note that two primary conditions to preserve a property must be present: (1) achieve a sustainable financial position; and (2) the property must be protected from exposure to market pressure. The framework has recommendations on:

- (1) **Strategy and outreach** – including triaging opportunities to preserve affordability and making sure preservation does not hinder opportunities for new development which is key tool for keeping market pressures from increasing rents in existing buildings.
- (2) **Land use and planning** – including allowing or incentivizing preserving NOAH as an alternative to MPDU compliance and exploring use of a transfer of development rights program to preserve affordability.
- (3) **Tenants' rights** – including studying the expansion of rent stabilization after the COVID-19 crisis with consideration to making sure the structure ensures development is still incentivized to increase the overall housing supply.
- (4) **Capital financing** – including expanding the Housing Initiative Fund and reviewing allocation decisions to promote preservation at lower income levels.
- (5) **Operating subsidy and cost reduction** – including expanding rental agreement through the PILOT provision, evaluating unused county tax credit program to reduce senior rents, and explore a preservation property tax credit.

The Policy Inventory and Evaluation section from the study is attached at ©23-60.



Montgomery County Preservation Study



Neighborhood Fundamentals, LLC

July 2020

(1)

Draft- DO NOT RECIRCULATE

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Executive Summary

Preserving the existing inventory of affordable housing is an essential part of a comprehensive approach to address the housing affordability crisis in Montgomery County and retain affordably priced housing options for all residents.

This report provides a guiding framework for policy makers, stakeholders, and residents to understand Montgomery County’s preservation challenges, current initiatives, and the strategies available to address them. Preservation is defined within this study as any action that extends the deed-restricted status of an affordable rental housing unit or converts an unrestricted naturally occurring affordable housing (NOAH) unit to deed-restricted to ensure affordability remains in place. **This definition of preservation focuses on property-level interventions, as opposed to broader market interventions,** and does not include preserving the affordability of housing by reducing market pressure the causes rent to rise faster than incomes. This study is organized around six questions:

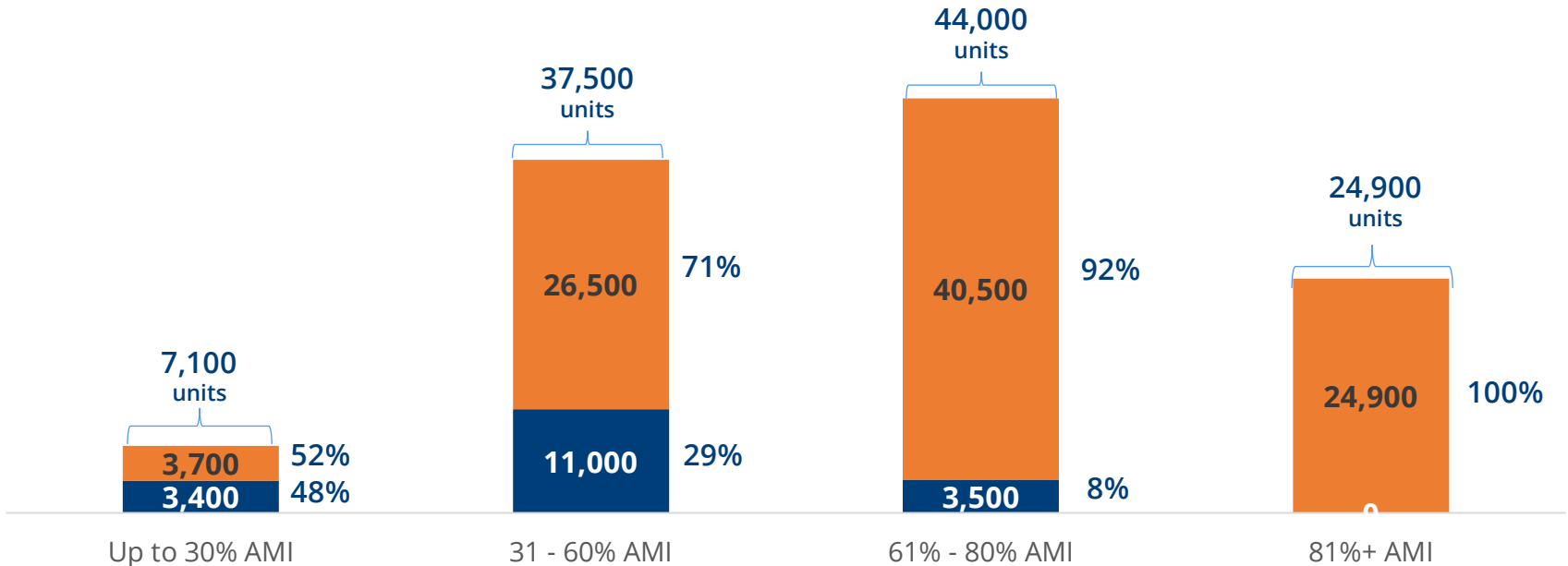
Housing Landscape	<ul style="list-style-type: none">• What are the characteristics of the County’s deed-restricted and unrestricted housing stock?• How has the County’s housing stock changed over time, and how will it look in the future?
Deed-restricted and Naturally-Occurring Affordable Housing	<ul style="list-style-type: none">• How will the County’s deed-restricted housing stock change over time?• What are the risk criteria for units losing affordability?
Preservation Framework	<ul style="list-style-type: none">• Which existing and potential funding sources, policies, tools and programs are Montgomery County using currently?• How can the County support the preservation of affordable housing, to meet its housing goals?

Executive Summary | Rental Housing Supply

The plurality of the County's rental multifamily housing stock is affordable to households earning between 60% - 80% of AMI currently. Deed-restricted units make up 32% of units below 60% of AMI.

Multifamily Units by Affordability Level

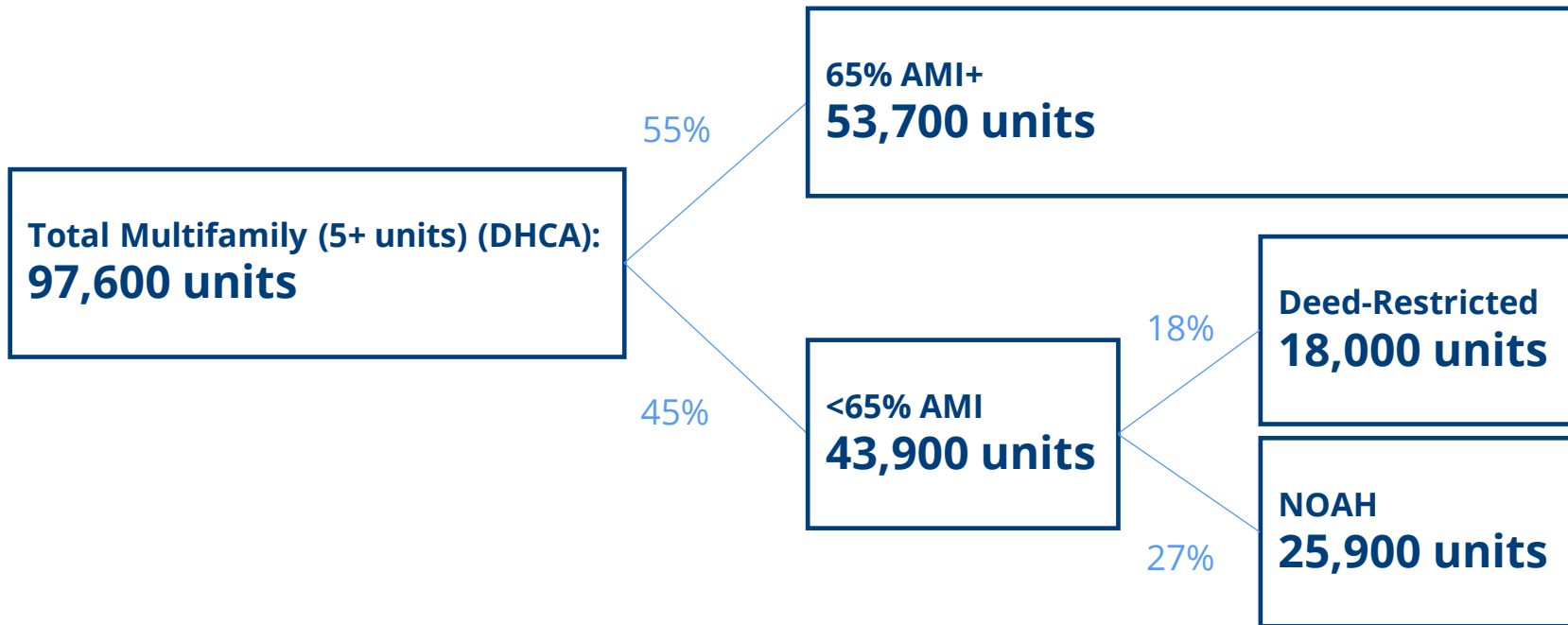
■ Deed-Restricted Units ■ Unrestricted Units



Source: ACS 2018 1-year

Executive Summary | Current Conditions

About 80% of the County's multifamily housing stock is unrestricted, or subject to market forces. 25,900 of these market-rate units rent for less than 65% of AMI and are classified as naturally occurring affordable housing (NOAH), comprising 27% of the total multifamily housing stock.

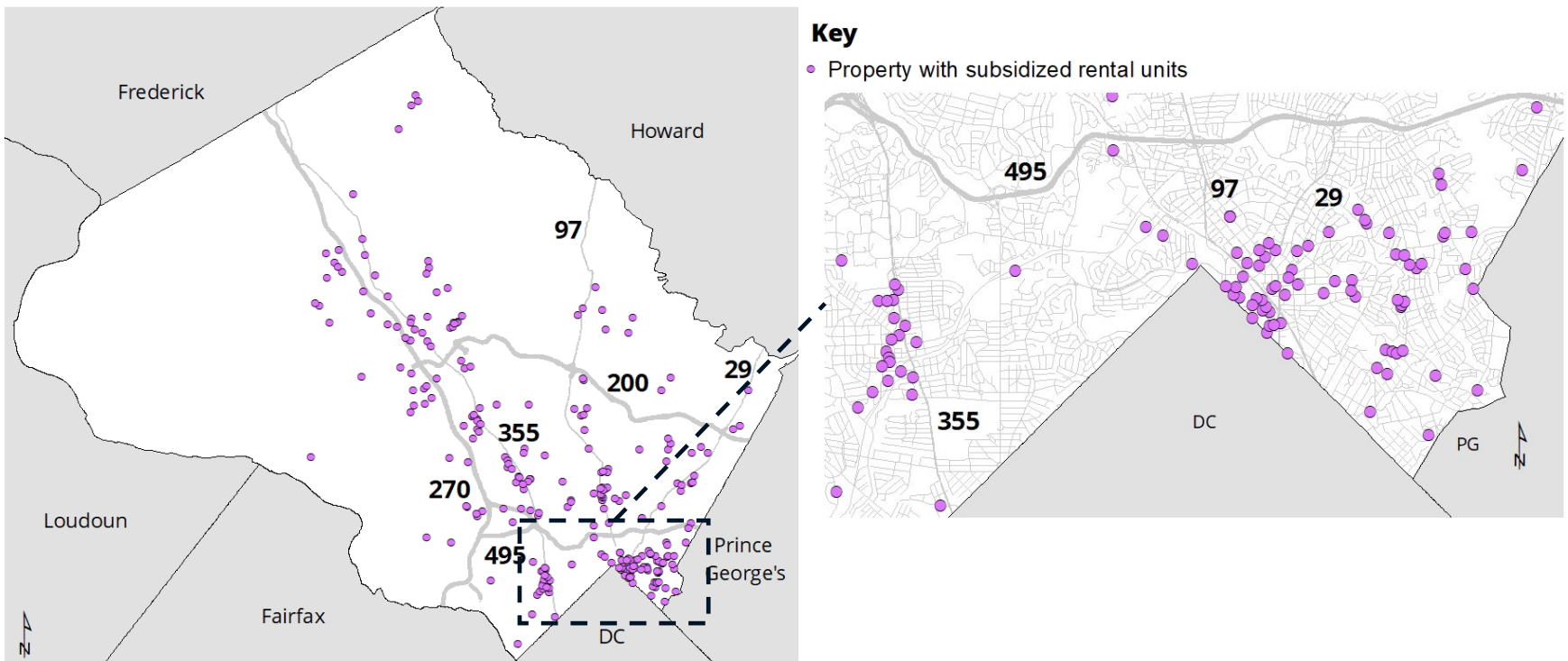


Sources: DHCA, ACS 2018 1-year

Executive Summary | Deed-Restricted Inventory

There are approximately 18,000 units in the County's deed-restricted rental housing inventory. While the units are spread out in many areas of the County, most of the units are in the more densely populated areas where multifamily housing is more prevalent.

Deed-Restricted Inventory (5+ units), 2020



Source: DHCA, NHPD, HUD

Executive Summary | Deed-Restricted Inventory Risk Criteria

A set of risk criteria was applied to the deed-restricted rental housing inventory in Montgomery County to assess the level of affordability-loss risk across deed-restricted properties, and to identify high-risk deed-restricted properties.

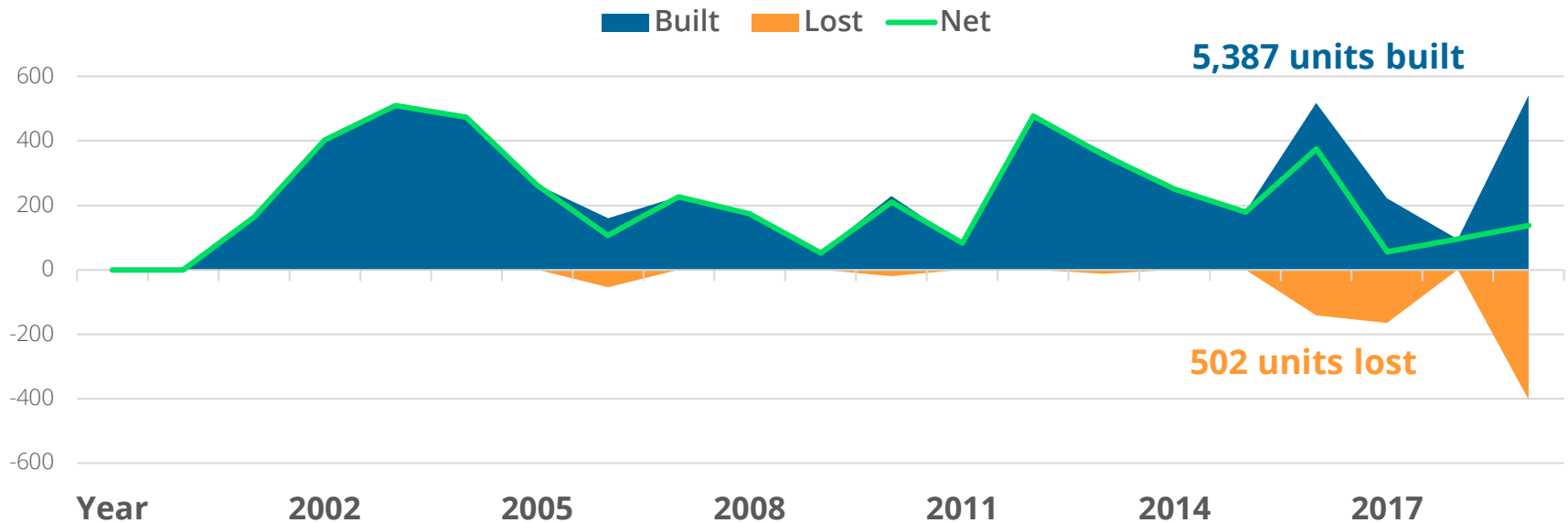
Risk Criteria	Description
Upcoming subsidy expirations	Subsidy expirations set to occur in the 2020s and 2030s. Property owners with near-term expirations are more likely to explore options ahead of the expiration date, which could include new ownership, rehabilitation, renovation, and redevelopment, all of which could impact affordability.
Ownership type	For-profit ownership or non-profit ownership. Properties owned by for-profit entities are more likely to be lost from the deed-restricted rental stock once the subsidy compliance period ends. Properties that are owned by non-profit and mission-based entities are more likely to work with the County to find solutions to extend the affordability period to align with the goals, mission, and vision of their organizations.
Age of buildings	The age of a building can play a significant role in the decision-making process of apartment owners. Many of the decisions can directly impact affordability. Typically, if a building is 30 years or older, renovations, rehabilitation, and redevelopment become more common scenarios. Major investments into a property are more likely to trigger a rent increase and could therefore impact the affordability.
Proximity to transit	Properties near transit infrastructure are more likely to command higher market rents when subsidy expirations expire, and in some cases are more likely to be facing redevelopment pressures.
Rent trends in neighborhood	Deed-restricted rental properties located in neighborhoods with rising rent trends are more likely to lose affordability when the subsidy compliance period expires.
Income trends in community	Rising income levels in communities around deed-restricted rental properties could have an impact on market-rents, and therefore increase the possibility of rent increases when the subsidy compliance period expires.

Executive Summary | Deed-Restricted Inventory Loss and Gain

Overall, the County has been gaining deed-restricted rental housing stock at a faster rate than it is being lost. Since 2000, approximately 502 deed-restricted rental housing units have been lost from the inventory.

In 2000, the County began to implement preservation strategies for the deed-restricted rental housing stock that was at risk of being lost. A series of tools and policies have been used (often in tandem) over the years to effectively preserve deed-restricted rental housing in the County.

Net Change in Deed-Restricted Rental Housing 2000 – 2019



Source: DHCA, NHPD, HUD, MD Dept. of Assessments and Taxation, Montgomery County Property Tax Records

Executive Summary | Properties Most At-Risk

Based on the risk assessment, there are about 1,400 deed-restricted units that are the most at risk of losing affordability when their respective subsidy compliance periods expire over the next 2 decades. Notably, all these higher-risk units are affordable below 60% AMI, many of which are at or below 30% AMI.

2020s/2030s Subsidy Expirations, Higher-Risk Properties

Property Name	Subsidy Expiration	Subsidized Units	AMI			Rail Transit < 1 mile	Ownership Type	Building Age (Years)	Census Tract Trends (2012 to 2017)	
			<30%	40% - 60%	60% - 80%				Median Rent	Median HH Income
Heritage House	2021	100	100	0	0	Yes	For-Profit	39	13%	7%
Silver Spring House	2022	46	0	46	0	Yes	For-Profit	57	9%	1%
Lenox Park	2022	82	0	82	0	Yes	For-Profit	29	7%	1%
Sligo House Apartments	2024	50	0	50	0	Yes	For-Profit	61	9%	1%
Croydon Manor	2027	96	0	96	0	Yes	For-Profit	71	7%	11%
Fields At Bethesda	2029	369	0	369	0	Yes	For-Profit	67	9%	-3%
Franklin Apartments	2030	185	185	0	0	Yes	For-Profit	65	16%	26%
Fields Of Gaithersburg	2031	168	0	168	0	No	For-Profit	46	20%	15%
Barrington Apartments	2037	310	125	185	0	Yes	For-Profit	68	24%	-4%

Source: DHCA, NHPD, HUD, MD Dept. of Assessments and Taxation, Montgomery County Property Tax Records, Census Bureau 5-Year ACS

Executive Summary | NOAH Risk Criteria

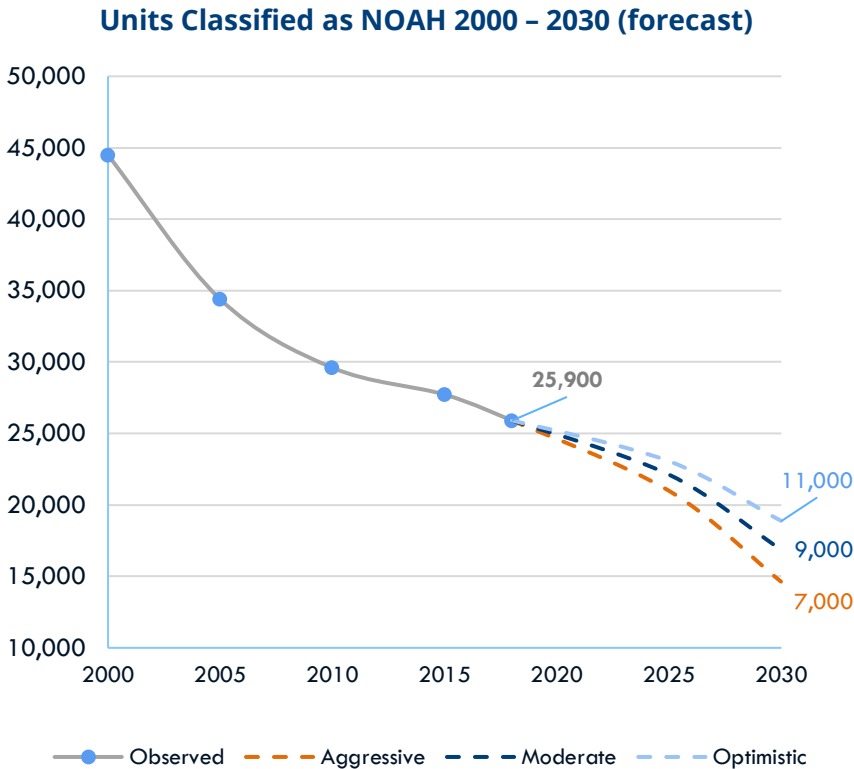
Based on our findings, proximity to transit, building size, and building age are the greatest risk indicators for NOAH units to lose affordability.

Risk Factor	
Building Age	While we did not find a linear relationship, we found that older units built between the 1960s and 1970s have the greatest risk for redevelopment or increase in prices as the neighborhood around them shifts.
Building Size	Smaller buildings are more likely to be affordable, but are losing affordability rapidly as 5 – 9 unit buildings are sold to larger investors. Larger properties that are affordable are most likely to be deed-restricted.
Proximity to Transit	Proximity to transit and new infrastructure is the strongest indicator for increase in assessment land values and rents, although jurisdictional zoning and transit access (not just proximity) remain key confounding variables.
Renovation	Although a large capital investment suggests an increase in future revenue, the data remains unclear on the quantitative effect on rents in Montgomery County. More longitudinal data may be required to assess long-term impacts.
Property Transfers	Property transfers and sales are a lagging indicator of NOAH risk—as investors see increasing rents, more transfer activity occurs.
Owner Type	Consistent with findings around building size, larger property owners (with 10+ units) tend to own properties at risk of loss.

Sources: DHCA, ACS 2018 1-year

Executive Summary | Projected Change

Based on these criteria, we forecast a loss of NOAH between 7,000 – 11,000 units by 2030.



Using the weighted averages of the independent analyses, we forecast a loss of 7,000 – 11,000 NOAH units by 2030. These losses are estimated to be in the following typologies, categorized by decade built and size of building.

Common NOAH Property Typologies by Category

Typology	Total Units <65% AMI	Median Rent 2018	Annual Rent Growth (2010 - 2018)
1960 – 1970 10 - 19 unit	5,080	\$1,583	0.78%
1960 – 1970 50+ unit	4,046	\$1,571	0.56%
1990 – 2000 10 - 19 unit	2,342	\$1,671	0.18%
1960 – 1980 5- 9 unit	3,817	\$1,698	0.66%
1950 – 1960 10 - 19 unit	2,493	\$1,513	1.14%
Post-2000 50+ unit	917	\$2,122	0.34%
1980 – 1990 50+ unit	1,662	\$1,800	0.17%
Total	20,357		

Sources: DHCA, ACS 2018 1-year

Preservation Framework | Unit Loss

There are four key ways in which a housing unit can be lost from the affordable stock. Each has different implications for how we approach preservation.

Physical Deterioration

As a NOAH or deed-restricted affordable property ages, there is insufficient investment in the property to maintain habitability, and the property is eventually removed from the building stock. This can result from insufficient cash flow from operations, poor management and/or intentional neglect.

Erosion of affordability via rent increase

If rents in NOAH properties increase faster than tenant incomes, eventually some rental units will no longer be considered “affordable,” despite no other changes to the property, building, or business model.

Value-add Investment

In response to market demand from middle- and high-income rental properties, NOAH or expiring deed-restricted properties may undergo light-to-moderate rehabilitation to improve the property to be repositioned in the rental market or convert to for-sale condominiums. This process may be initiated by a transfer in ownership.

Redevelopment

In areas where the market can support redevelopment, an owner may completely redevelop a NOAH or expiring deed-restricted property, which can include a full rehabilitation, demolition and new construction, or a combination of both approaches. Such properties are generally targeted at the top of the market to offset the major investment in the property.

Preservation Framework | Preservation Approaches

There are two primary conditions required to preserve a property:

1. Achieve a sustainable financial position.

The property must generate a net operating income (NOI) to sustain operations and repairs. If a property cannot sustain itself through NOI, it is at risk of being lost through lack of upkeep or be sold through a distressed sale.

2. Protected from exposure to market pressure.

There are a two key ways to ensure that properties are not exposed to existing market pressures:

- A legal restriction, policy or loan agreement that regulates the increase of rent on the property; or
- Transferring ownership to non-profit motivated owners (mission-oriented nonprofits, tenant ownership.)

There are three primary intervention points to preserve buildings: change in **ownership**, **recapitalization**, and **redevelopment**.

When a property is bought or sold, facilitating transfer to mission-driven ownership can restrict rent increases. The property must generate a net operating income (NOI) to sustain operations and repairs. If a property cannot sustain itself through NOI, it is at risk of being lost through lack of upkeep or be sold through a distressed sale.

Preservation Framework | Policy Categories

There are five key policy categories in which different permutations of preservation approaches can be combined to develop a sustainable preservation framework for Montgomery County.

Strategy and outreach	Analyzing preservation needs, opportunities, approaches, and interventions in the local context; and coordinating and executing efforts (often across agencies) to achieve identified goals and targets.
Land use and planning	Leveraging the rules governing or guiding development within a jurisdiction (including zoning codes and area plans) to incentivize or require preservation of affordability.
Tenants' rights	Leveraging the rules that govern how various stakeholders (owners, property managers, developers) participate in the market to preserve affordability and protect tenants.
Capital financing	Providing the financial resources necessary to undertake preservation interventions.
Operating subsidy and cost reduction	Operating subsidy/cost reduction: Offering incentives and resources that make it financially feasible for landlords/owners to offer reduced rents to lower-income tenants.

The most appropriate preservation approach and intervention is likely to depend on multiple factors, including but not limited to: the type of unit (NOAH, expiring deed-restricted); risk of loss; most likely loss type(s); property characteristics (scale, building typology, location, redevelopment potential); and priorities for resource allocation. **All these tools will be required for an effective preservation framework.**

Preservation Framework | Recommendations

There are five key policy categories in which different permutations of preservation approaches can be combined to develop a sustainable preservation framework for Montgomery County.

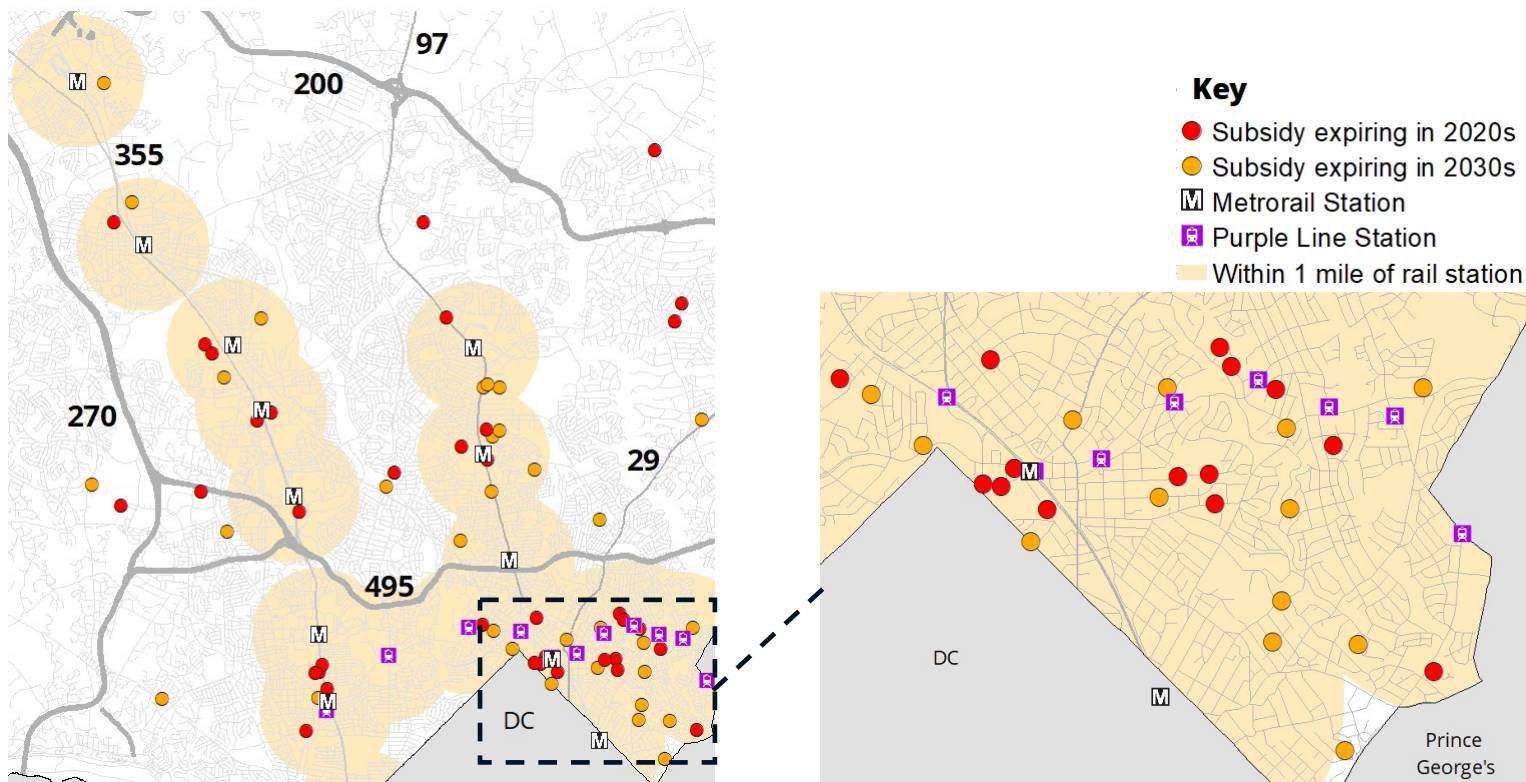
Category	Key Recommendations
Strategy and outreach	<ul style="list-style-type: none"> • Triage opportunities to preserve affordability, focusing on near-term opportunistic approaches such as COVID-19-related policies to bridge towards future comprehensive preservation efforts. • Ensure that preservation efforts promote and do not hinder opportunities for new development, one of the key tools to keep market pressures from increasing rents on existing buildings. Studies across the country¹ have found increases in new development restrictions exacerbate disparities and increase overall rents. Increasing overall supply while preserving existing affordable units will result in increased affordability across neighborhoods where demand pressure is the highest.
Land use and planning	<ul style="list-style-type: none"> • Allow or incentivize directly preserving existing NOAH as an alternative to MPDU compliance. • Consider a transfer of development rights program that builds off the County’s agricultural TDR program to preserve priority existing affordability and continue to designate affordable housing as a public benefit.
Tenants’ rights	<ul style="list-style-type: none"> • Consider studying an expansion rent stabilization after the Covid-19 crisis following the 90-day rent relief bill. Rent stabilization needs to be designed carefully to ensure a healthy pipeline of new development along with preservation of residents at risk (especially in areas along the Purple Line expansion). Such a policy will need to be studied to ensure that development is still incentivized to increase the overall housing supply.
Capital financing	<ul style="list-style-type: none"> • Explore opportunities to expand the Housing Initiative Fund to meet the needs of the preservation pipeline. • Adjust HIF administration guidelines to align with new LIHTC income averaging regulations. • Review allocation decisions to ensure that funding criteria promotes preservation, especially at lower income levels.
Operating subsidy/cost reduction	<ul style="list-style-type: none"> • Expand utilization of rental agreements through the County’s PILOT provision. • Evaluate the previous County reduced rent program for elderly tenants and explore development of a new preservation property tax credit.

1: The White House (Obama Administration) Housing Affordability Toolkit, September 2016

Risk Criteria | Proximity to Transit Infrastructure

Deed-restricted units that are near rail transit are a critical subset of the overall housing stock in the County. These units provide affordable housing options that are linked and accessible to the regional transportation system, providing residents access to more jobs, amenities, and resources. While these transit-proximate units play an important role, they also face increased risk of being lost when their respective subsidy control periods end. About 62% of the deed-restricted units that are set to expire in the 2020s and 2030s are located within 1 mile of a rail transit station (existing or planned). Most of these units are clustered around the Silver Spring, Bethesda, and Wheaton Metrorail stations, all of which have experienced increased development activity/pressure in recent years. There are 2,085 deed-restricted units that are expiring in the next 20 years that are located within 1 mile of a Purple Line station.

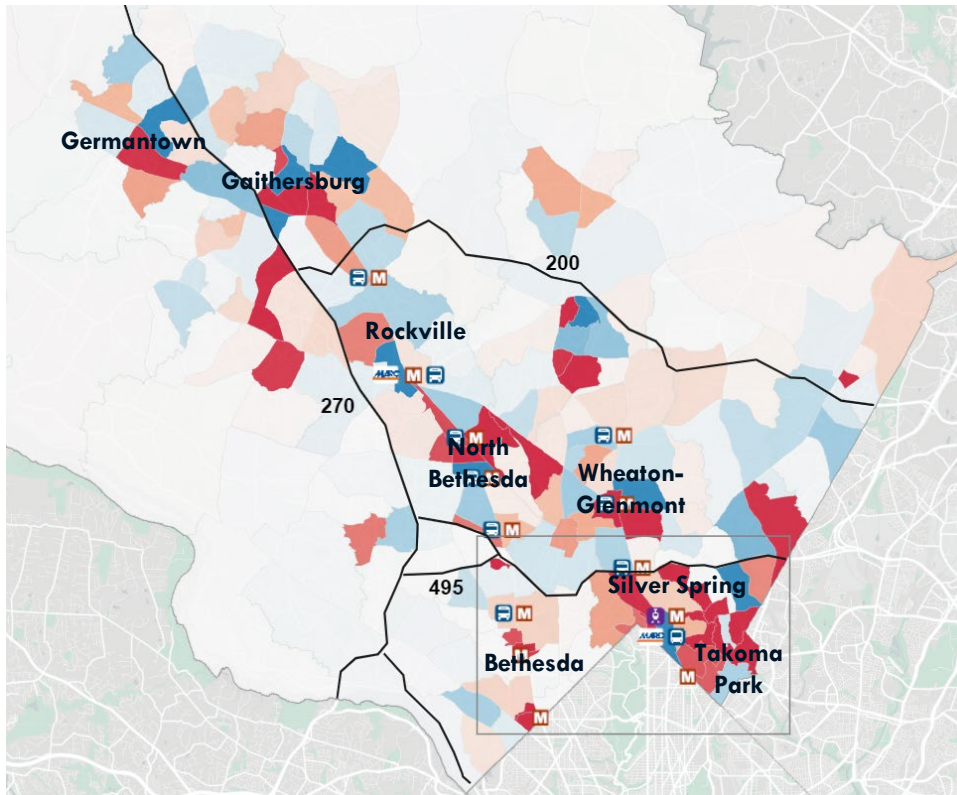
2020s/2030s Subsidy Expirations and Rail Transit



Source: DHCA, NHPD, HUD, WMATA, MDOT

Risk Criteria | Proximity to Transit

Shift in Rental Units Priced \$1250 and Below, 2010 - 2018 + Existing High-Capacity Transit Facilities



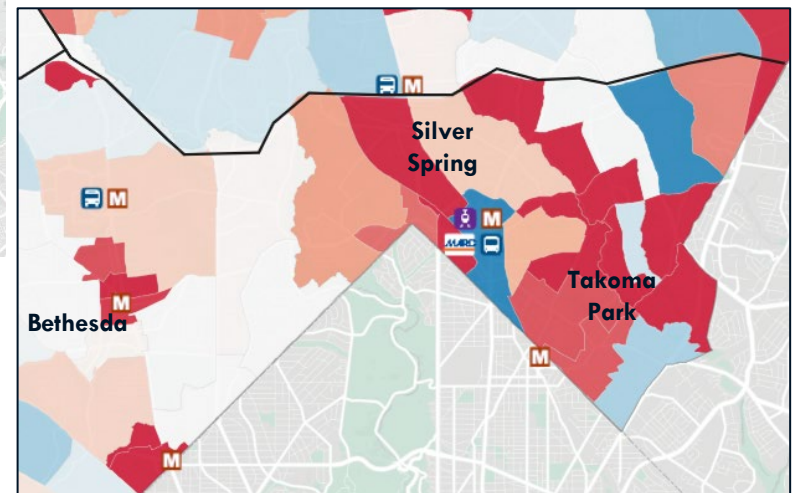
 Metro Station

Decrease in <\$1250 units  Increase in <\$1250 units

Per-acre change in units renting for <\$1250, 2010-2018
(per-acre calculation to adj. for submarket density)

Proximity to transit is a strong signal for loss in units under \$1250, especially for stations inside the beltway.

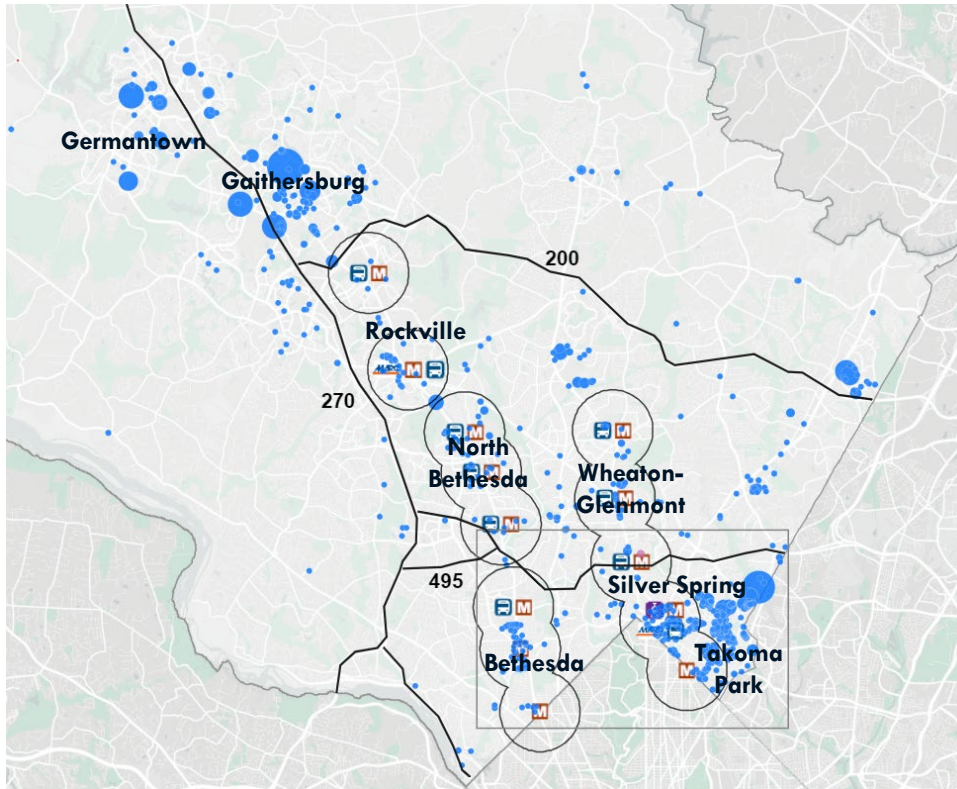
While proximity to transit results in lower personal vehicle usage, greater access to amenities and jobs, and other positive externalities, safeguards are often required to ensure that property surrounding transit investments remain affordable to existing families. According to the Center for Neighborhood Technology, residential property values perform more than 40% better when located within a half-mile of public transportation and retain this value when compared to other properties.



Sources: 2018 ACS 5-Year Estimates; MoCo Parcel Database; DHCA Data

Risk Criteria | Proximity to Transit

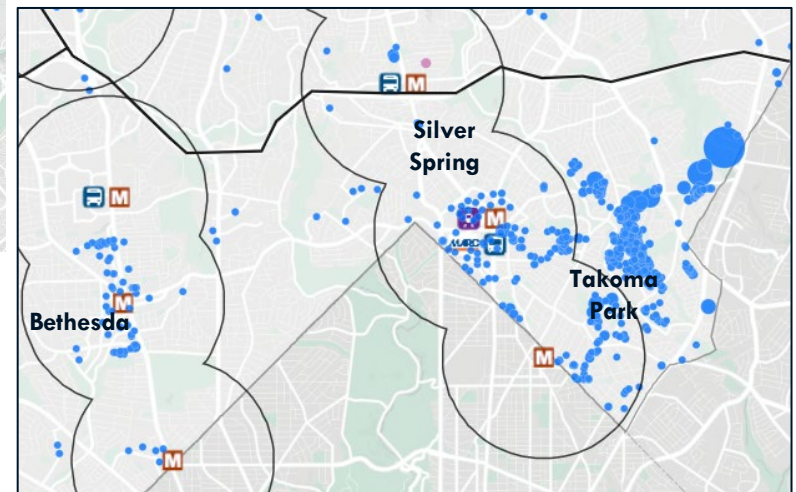
Inventory of NOAH Properties + 1-Mile Radii Around Existing High-Capacity Transit Facilities



 Metro Station  NOAH units (bubble size ~ # of units)

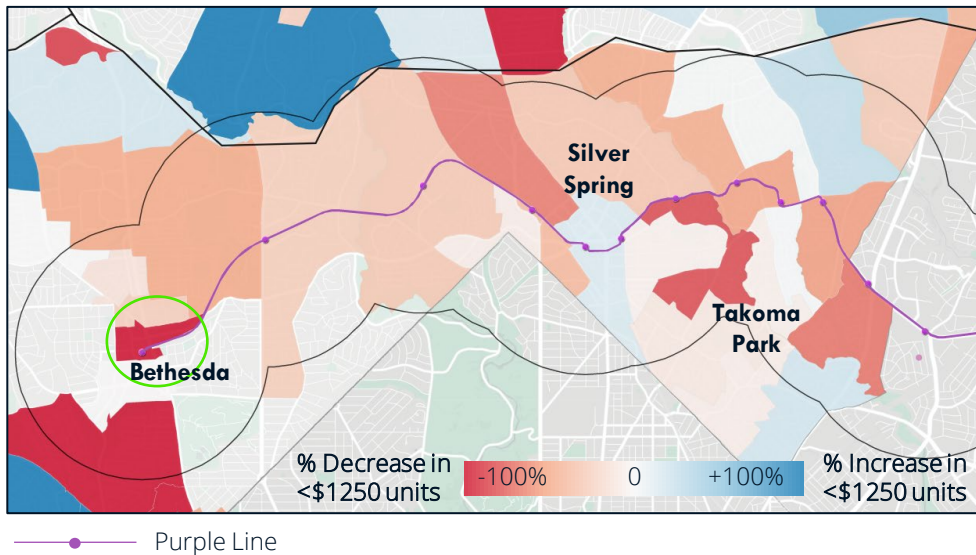
Roughly 2,300 (or 8% of all NOAH units and 2% of the total housing stock) are “at risk” due to proximity to transit.

Market-rate properties that contain NOAH and are located within a mile of transit tend to be larger in size, with an average of 72 units versus 55 units total in each property (including market-rate units renting for above and below rents affordable to 65% AMI households). These transit-proximate NOAH properties have a lower average number and share of actual NOAH units within the property—NOAH properties near transit have an average of 27 NOAH units (or 37% of all market-rate units) whereas NOAH properties outside of the one-mile radius have an average of 38 NOAH units (or 69% of all market-rate units).



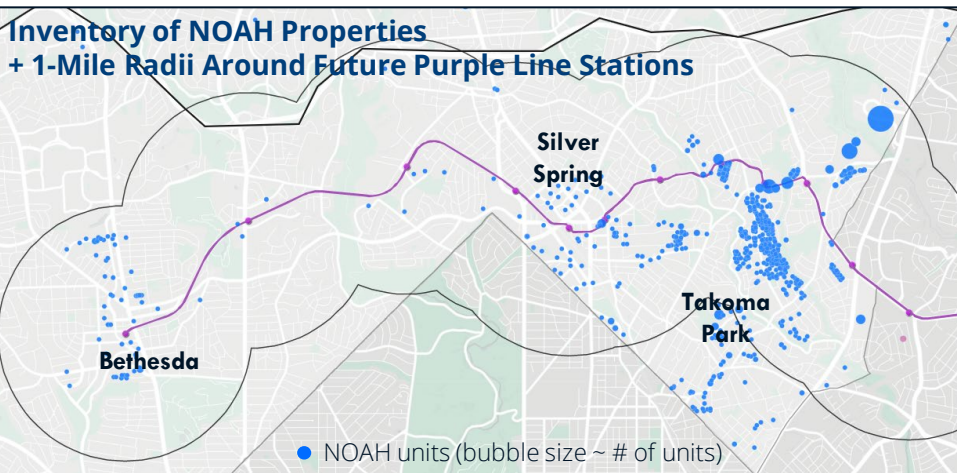
Risk Criteria | Proximity to Transit – Purple Line

Percent Shift in Rental Units Priced \$1250 and Below, 2010 – 2018 + Prospective Purple Line Stations



Areas along the planned Purple Line have already demonstrated a rapid decrease in low-rent units in the past decade. The loss of low-rent units has been most rapid around the Bethesda Metro station (see green circle).

The future Purple Line will add additional stress to the existing NOAH stock. Roughly 5,200 (or 19 percent of) NOAH units are located within a 1-mile radius of future Purple Line stations. About a quarter of these units (or 1,400 units) are already located within a mile of an existing high-capacity transit facility, but the Purple Line will affect an additional 3,800 NOAH units, largely in areas further to the east, where a loss of NOAH units has not been as pronounced as in the west.



With the knowledge that proximity to transit will incentivize and accelerate the loss of NOAH, policies such as rent stabilization—the efficacy of which has been evident in Takoma Park—will be important in preserving affordable units in desirable and accessible locations.

Sources: 2018 ACS 5-Year Estimates; MoCo Parcel Database; DHCA Data

NOAH | Risk Criteria

Based on our findings, proximity to transit, building size, income trends, and building age are the greatest risk indicators for NOAH units to lose affordability.

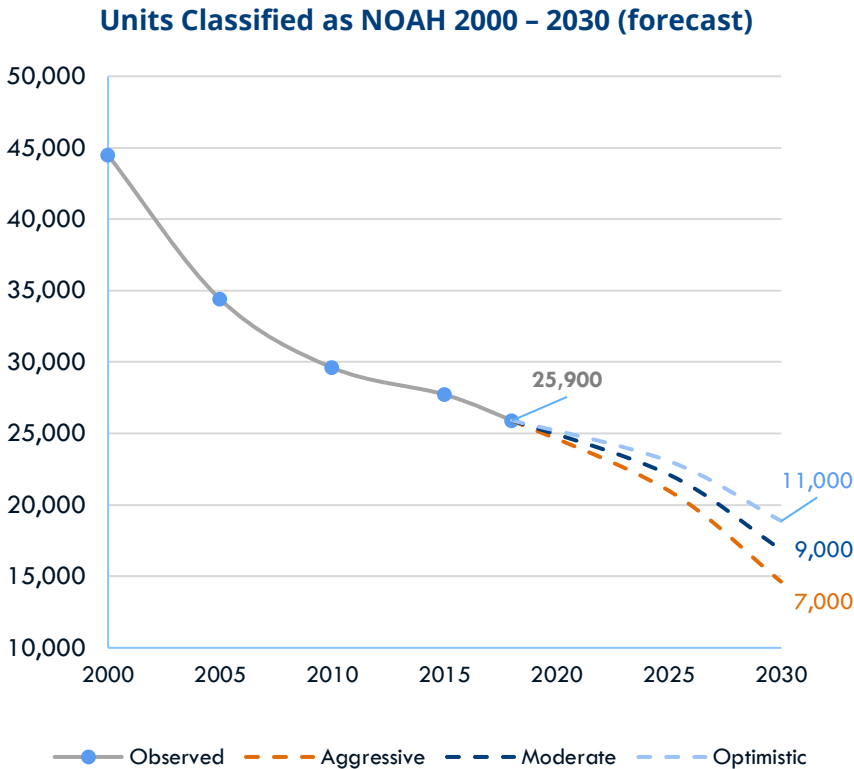
Indicator

Building Age	While we did not find a linear relationship, we found that older units built between the 1960s and 1970s have the greatest risk for redevelopment or increase in prices as the neighborhood around them shifts.
Building Size	Smaller buildings are more likely to be affordable, but are losing affordability rapidly as 5 – 9 unit buildings are sold to larger investors. Larger properties that are affordable are most likely to be deed-restricted.
Proximity to Transit	Proximity to transit and new infrastructure is the strongest indicator for increase in assessment land values and rents, although jurisdictional zoning and transit access (not just proximity) remain key confounding variables.
Renovation	Although a large capital investment suggests an increase in future revenue, the data remains unclear on the quantitative effect on rents in Montgomery County. More longitudinal data may be required to assess long-term impacts.
Property Transfers	Property transfers and sales are a lagging indicator of NOAH risk—as investors see increasing rents, more transfer activity occurs.
Owner Type	Consistent with findings around building size, larger property owners (with 10+) units tend to own properties at risk of loss.

Sources: DHCA, ACS 2018 1-year

Executive Summary | Projected Change

Based on these criteria, we forecast a loss of NOAH between 7,000 – 11,000 units by 2030.



Using the weighted averages of the independent analyses, we forecast a loss of 7,000 – 11,000 NOAH units by 2030. These losses are estimated to be in the following typologies, categorized by decade built and size of building.

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1980 – 1990 50+ unit	1,662	\$1,800	0.17%
Total	20,357		

Sources: DHCA, ACS 2018 1-year

Policy Inventory and Evaluation | Overview

This section provides an evaluation of County's substantial current interventions that support housing preservation.

This process includes four core tasks performed in an iterative manner: an inventory and review of existing County policies; a benchmarking exercise comparing the County's overall approach and specific interventions to national best practices; a benchmarking exercise comparing the County's overall approach and specific interventions to existing needs to identify potential gaps; and an overall evaluation to identify opportunities to fill gaps and increase opportunities to preserve affordable housing.



Data/information sources reviewed as part of this evaluation include but are not limited to:

- Publicly available websites and program documents;
- Enabling legislation and administrative procedures;
- Planning, budgeting, and outcome reporting documents;
- Interviews and written correspondences with practitioners involved in implementing County interventions;
- Proprietary database of approximately 3,750 records of policies, best practices, and research related to housing, urban planning, and community development.

Policy Inventory and Evaluation | Overview

The following table illustrates the County interventions and other potential policies that could be considered by the County to address preservation needs.

	Strategy and Outreach	Capital Financing	Land Use	Operating Subsidy	Policy and Regulatory
Current County policies	<ul style="list-style-type: none"> County-led research, assessment and strategy development Apartment Assistance Program & Owner/Landlord Supports 	<ul style="list-style-type: none"> Housing Initiative Fund HOC Multifamily Mortgage Financing Program 	<ul style="list-style-type: none"> MPDU program Area/sector plans Density averaging 	<ul style="list-style-type: none"> Rental Agreements Rental Assistance Payments Payments-in-lieu-of-taxes (PILOTs) 	<ul style="list-style-type: none"> Right-of-first refusal policy Voluntary Rent Guidelines Tenant protection policies Landlord-Tenant Mediation Housing Code Enforcement
Additional resources from 3rd party entities	N/A	<ul style="list-style-type: none"> Low-Income Housing Tax Credit and MD DHCD multifamily financing programs HUD Rental Assistance Demonstration National Capital Strategic Economic Development Fund Mission-driven capital/acquisition funds Minor rehabilitation capital 	N/A	<ul style="list-style-type: none"> Project-based rental assistance 	N/A
Potential new/enhanced interventions	N/A	<ul style="list-style-type: none"> Capital for light-to-moderate rehabilitation Targeted acquisition funding Value-capture opportunities Expanded dedicated capital for small-scale acquisition 	<ul style="list-style-type: none"> Site-specific redevelopment incentives Lifting some regulatory barriers for smaller projects 	<ul style="list-style-type: none"> Property tax credits for reduced rents Master leasing 	<ul style="list-style-type: none"> Rent regulation (control or stabilization) Demolition taxes

A comprehensive preservation strategy must involve the redevelopment and replacement of certain units.

Affordable housing funding sources are insufficient to bring all affordable properties under mission-driven ownership and/or to incent existing owners to maintain lower rents. Aside from the fiscal limitations, preservation of existing *buildings* is not always desirable in a growing community, as some buildings may be obsolete and/or specific neighborhoods may be ideal for growth (particularly those near transit and other critical infrastructure/services).

Local governments can leverage the rules governing or guiding development within a jurisdiction to incentivize or require preservation of affordability, primarily through zoning code provisions, area plans, and other elements of the regulatory framework that governs development within the jurisdiction.

A successful strategy:

1. Ensures that new growth is inclusive,
2. Proactively creates opportunities for owners and developers to maintain and/or create new affordable housing units;
3. Removes barriers and perverse incentives that can erode affordability.

The County's inclusionary zoning ordinance is among the most productive in the United States, and planning efforts often proactively account for affordable housing needs in a detailed manner. While this level of detail and planning control may restrict flexibility or add costs, it has generally expanded the number of units that are affordable.

Description

Montgomery County's Moderately Priced Dwelling Unit (MPDU) program is the County's inclusionary zoning policy, requiring a minimum of 12.5% affordability in developments of 20 units or more, and providing additional density incentives to reach higher levels of affordability. Affordable units are generally produced on-site, though the MPDU policy (as stipulated in Executive Regulation 11-18AM) allows for alternative compliance through land transfer, provision of units at an alternative location, or alternative payments.

Maximum rents for MPDU units are initially established based on 30% of the income limit (65-70% AMI), adjusted for household and unit size. Future rent increases must follow the County's Voluntary Rent Guidelines, which are based on the Consumer Price Index (CPI) for the Baltimore-Washington Metropolitan Area.

Current regulations require a 99-year affordability commitment for MPDU units. However, prior iterations of program regulations required shorter affordability commitments, creating the need for preservation of expiring MPDUs.

Assessment based on Best Practices

The MPDU program is highly productive relative to most inclusionary zoning policies and is critical to ensuring that a portion of new growth is affordable and replaces a portion of affordable units lost from the affordable rental stock.

Given the program's focus on economic integration, alternative compliance is relatively rare. Based on the amount of funding leveraged by HIF, allowing more properties to offer fees-in-lieu could potentially produce more units, but would cut against inclusion goals and rely on the availability of sites and additional funding sources.

The County has successfully utilized several tools to preserve expiring MPDUs. Preservation efforts include entering into Rental Agreements in exchange for DHCA rental assistance payments in the amount of the foregone rent.

Inflation in recent years increased faster than incomes at the lower-end of the income spectrum. As such, tying rent increases to CPI has contributed to some MPDUs becoming unaffordable to households at the targeted income levels. A 2018 evaluation of the MPDU program found that 50% of MPDU renters spent 35% or more of income on housing (though this is not exclusively attributable to indexing issues).

Source: Urban Ventures. "MPDU Program: Analysis of Current Program and Research On Other Localities' Inclusionary Zoning Programs." June 7, 2018.

Land Use and Planning | Area/sector plans

Description

Area/sector plans that provide aggressive affordable housing incentives/requirements can provide for the replacement/preservation of affordable units in a redevelopment context in conjunction with MPDU inclusionary policies. Montgomery County addresses smaller-area growth and development in a variety of ways, including through sector, neighborhood or area master plans.

Examples of how the plans have been used to advance affordable housing efforts include:

- Conducting affordable housing analysis as part of plan (Long Branch)
- Establish goals for planning areas, such as a no-net-loss of affordable housing (Takoma/Langley Crossroads)
- Rezoning of specific districts to encourage the types of development that generate MPDUs (White Flint)
- Establishing or increasing the relative weight for affordable housing provision as part of public benefit point evaluation (Bethesda, White Flint)
- Establishing the preservation of NOAHs and/or provision of MPDUs above 15% as the top priority for public benefit points (Bethesda)
- Rezoning and/or providing additional height, density, or other land use incentives for affordable housing provision, including higher levels of MPDUs (Bethesda, Takoma/Langley Crossroads, Long Branch)
- Maintaining existing zoning designations with the explicit purpose of discouraging redevelopment of specific NOAH properties (Long Branch)
- Providing provisions for the use of public land (or co-location of public facilities) for community purposes, including affordable housing (Takoma/Langley Crossroads)

Benchmarking Resources:

- Arlington County, VA. "Columbia Pike Neighborhoods Form Based Code." <https://building.arlingtonva.us/permits/form-based-code/neighborhoods/>.

Assessment Based on Best Practices

The County has incorporated a robust set of tools for affordable housing production within various area/sector plans, consistent with national best practices. However, data on the number of affordable units produced or preserved through area/sector planning provisions was unavailable, limiting the scope of the assessment.

Maintaining zoning designations to discourage redevelopment does not necessarily protect against erosion of affordability via rent increase or loss due to value-add investment. In certain market contexts, a lack of additional available density can lead to “downsizing,” in which modest apartments are demolished and replaced by luxury for-sale townhomes.

Recommendations

The County could track and analyze data by area/sector plan geography to better evaluate whether affordable housing production and preservation goals are being achieved. This data can be used to calibrate land use incentives (such as density bonuses, parking reductions, etc.) in future planning efforts.

DHCA could be brought into individual area/sector planning processes as a full partner to better coordinate funding and land use interventions.

Plans could allow greater opportunities for market-rate infill in exchange for preserving affordable units. For example, Arlington, VA’s Columbia Pike Form-Based Code allows for additional density/height in undeveloped spaces of existing properties (such as surface parking lots) in exchange for preserving a portion of the existing units as affordable, providing longer-term affordability and minimizing near-term displacement of current residents.

Benchmarking Resources:

- Arlington County, VA. “Columbia Pike Neighborhoods Form Based Code.” <https://building.arlingtonva.us/permits/form-based-code/neighborhoods/>.

Land Use and Planning | Density averaging

Description

Flexibility in the allocation of development rights can be utilized to preserve priority existing uses, such as open space, agricultural land, and affordable housing. This flexibility is often referred to as a “transfer of development rights (TDR),” though other forms exist.

Montgomery County has an established TDR policy for preserving farmland and farming in the Agricultural Reserve. **In addition, the Montgomery County zoning ordinance (Article 59-4.5.2) allows floor-area-ratio (FAR) to be averaged between two or more directly abutting or confronting properties in Commercial/Residential zones, two or more non-contiguous properties in CRT or CR zones within a quarter mile, or when located in a designated master-planned density transfer area.** In order to be eligible, development plans must meet or exceed specified “public benefits” point standards. Both sites must be part of the same site/sketch plans.

Assessment Based on Best Practices

TDR and density averaging policies are theoretically promising and have been successfully applied in the context of agricultural/open space preservation. However, successful examples of affordable housing production/preservation via TDR are less prevalent.

No examples of affordable housing preservation using FAR Averaging were identified in Montgomery County, though one example of a successful senior housing construction effort was reviewed. This land use flexibility was not designed for the express purpose of preserving affordable housing. Conversely, the County’s agricultural-focused TDR policy had preserved more than 52,000 acres as of 2016.

Based on reviews of national and local literature, provisions requiring both sending and receiving sites to be part of the same siteplan and geographically proximate likely contribute to the limited utility of FAR averaging for affordable housing.

Benchmarking Resources:

- King County, WA. “King County Transfer of Development Rights Bank.” <https://www.kingcounty.gov/services/environment/stewardship/sustainable-building/transfer-development-rights/bank.aspx>
- King County, WA. “South Lake Union, Denny Triangle, & Commercial Core.” <https://www.kingcounty.gov/services/environment/stewardship/sustainable-building/transfer-development-rights/receiving/Seattle-tdr.aspx>
- King County, WA. “TDR Bank Sales.” https://www.kingcounty.gov/services/environment/stewardship/sustainable-building/transfer-development-rights/bank/bank_sales.aspx
- HUD Office of Policy Development and Research. “Transfer of Development Rights and Affordable Housing.” September 2009. https://archives.huduser.gov/rbc/archives/newsletter/vol8iss5_2.html

Recommendations

To better enable affordable housing preservation, the County could adopt an affordable housing preservation TDR program. Program development can be informed by the lessons from the more successful County agricultural TDR program. Specifically, the County should consider a more flexible program that designates sending and receiving sites (or neighborhoods) but does not require that both elements be part of the same development effort or be conducted simultaneously.

Precedent: King County and the City of Seattle have created a joint TDR bank that combines the goals of agricultural preservation and new dense urban development. Development rights purchases are coupled with payments for affordable housing, and mixed income properties have been developed through the purchase of development rights. The City of Seattle also has a legacy TDR program focused on affordable housing preservation, using the non-contemporaneous sending/receiving site model. The program helped preserve nearly 1,000 affordable units.

Benchmarking Resources:

- King County, WA. "King County Transfer of Development Rights Bank." <https://www.kingcounty.gov/services/environment/stewardship/sustainable-building/transfer-development-rights/bank.aspx>
- King County, WA. "South Lake Union, Denny Triangle, & Commercial Core.." <https://www.kingcounty.gov/services/environment/stewardship/sustainable-building/transfer-development-rights/receiving/Seattle-tdr.aspx>
- King County, WA. "TDR Bank Sales." https://www.kingcounty.gov/services/environment/stewardship/sustainable-building/transfer-development-rights/bank/bank_sales.aspx
- HUD Office of Policy Development and Research. "Transfer of Development Rights and Affordable Housing." September 2009. https://archives.huduser.gov/rbc/archives/newsletter/vol8iss5_2.html

Land Use and Planning | Potential New Interventions

Policy Gap: Express-purpose preservation plans

Potential Intervention	Description	Examples and Precedents
Site- or type-specific redevelopment incentives	Jurisdictions can adopt plans and incentives focused on specific high-importance sites. These can either be conducted in advance of any redevelopment effort or as part of the negotiations with a developer/property owner for site-specific regulatory relief/additional entitlements. Efforts can focus on either an individual property (or neighborhood) or a specific property typology (for example, garden-style apartments near transit/mixed-use corridors). The same regulatory flexibilities described in area/sector planning apply to this intervention as well.	The City of Alexandria, VA adopted the South Patrick Street Housing Affordability Strategy and Residential Affordability Zone to preserve large-scale, deeply affordable properties in a neighborhood at risk of gentrification-related displacement.

Land Use and Planning | Potential New Interventions

Policy Gap: Removing land use, zoning, and building code barriers to efficient redevelopment

Potential Intervention	Description	Examples and Precedents
<p>Proactively address non-conforming properties</p>	<p>Older properties built before the adoption/update of modern zoning codes may have significant nonconformities. Such nonconformities (for example, units above maximum densities, lower parking ratios) may reduce the viability of efforts to preserve affordability in the context of rehabilitation or redevelopment. "Grandfathering in" non-conforming uses and/or creating safe-harbors" for pre-existing non-conforming conditions can make preservation a more viable option.</p> <p>While health and safety efforts are critical, in some contexts it is important to consider the counterfactual – is requiring full compliance preventing some rehabilitation/redevelopment efforts from moving forward, thus preventing incremental improvements in living conditions?</p> <p>Practitioners interviewed for this research identified non-compliance as a challenge in several contexts. Cited provisions included parking ratios, energy codes, and sprinkler requirements. Addressing these issues led to incremental costs and delays to obtain waivers and/or meet updated standards.</p>	<p>Boulder Ordinance 8715 allows for the reconstruction or restoration of non-conforming, permanently affordable properties without having to address compliance issues related to parking, units per acre, amount of open space, or lot area per unit, if the project did not increase non-conformity.</p>

Policy Inventory and Evaluation | Tenants' Rights

Local jurisdictions can leverage the rules that govern how various stakeholders (owners, property managers, developers) participate in the market to preserve affordability and protect tenants.

A successful strategy:

1. Expands opportunities for mission-driven entities to participate in the market.
2. Provides tenant protections and restricts predatory behavior, particularly in the context of property sale and/or redevelopment.
3. Promotes housing quality, balancing enforcement with assistance to lower-capacity landlords.

Montgomery County has incorporated several effective policy and regulatory tools to advance preservation goals, including rent stabilization and the Right-of-First Refusal to purchase certain multifamily properties. Other interventions support preservation in a less direct, though complementary, manner.

Tenants' Rights | Right-of-First Refusal

Description

Chapter 53A of the Montgomery County Code grants DHCA, HOC and certified tenant groups a Right of First Refusal (ROFR) to match residential contracts to preserve affordable housing when certain properties are offered for sale. The ROFR provides the County with the right to match a contract in all executed significant terms. The ROFR applies to rental properties built prior to 1981 and in the context of condominium conversions. The total timeline to fully exercise a ROFR is 180 days from the point at which notice of sale was provided to the County.

In lieu of the ROFR, a private owner can offer a plan to retain affordable housing for a minimum of 5 years utilizing the County's voluntary rent guidelines. Acceptance of such plans is at the sole discretion of the County.

Assessment based on Best Practices

In general, ROFR policies make mission-driven entities more competitive when an affordable property is offered for sale, especially in strong markets. Local practitioners spoke to the importance and effectiveness of the ROFR, in conjunction with the County's full suite of capital tools.

The number of ROFR offers submitted to the County dramatically outstrip County resources. There were 184 ROFR offers received from 2015-2019, totaling 37,088 units and \$7.8 billion in capital, with an average cost per unit ranging from \$180K to \$240K. During this time, the County facilitated 8 acquisitions, 2 agreements not to convert, 10 executed rental agreements, and 8 capital investments with regulatory agreement. Some properties offered for sale included MPDUs with ongoing deed restrictions, obviating the need to exercise the ROFR (see following page).

Recommendations

The ROFR is an effective tool that can be enhanced by providing additional HIF resources for acquisition and Rental Agreements.

The County could also consider changing the property eligibility date (properties built before 1981) to a later date or indexing the eligibility date to a given property age (i.e., ROFR could apply to all properties built more than 40 years ago). Though newer HIF-subsidized properties must offer the County a ROFR, there are 40,423 market rate units built in the 1980s and 1990s. Nearly 40% of these units are affordable today, but the analysis in section TBD demonstrates that these units are exiting the affordable stock at the fastest rate. If an adjustment to the eligibility date is considered, proactive measures may need to be taken to prevent a rush to sell formerly exempt properties before the change goes into effect.

Tenants' Rights | Right-of-First Refusal

Recent ROFR Interventions Facilitated by Montgomery County

Properties	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019
Acquisition	1	2	1	4	0
Agreement Not to Convert	1	0	1	0	0
Rental Agreement	2	3	4	0	4
MPDUs	1	3	3	1	0
Capital Investment & Regulatory Agreement	3	1	1	3	0
Total	8	9	10	8	4

Units	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019
Acquisition	4	18	864	295	0
Agreement Not to Convert	0	0	19	0	0
Rental Agreement	1,390	563	2,098	0	631
MPDUs	379	849	1,391	302	0
Capital Investment & Regulatory Agreement	223	686	40	606	0
Total	1,996	2,116	4,412	1,203	631

Source: DHCA data

Description

Rent regulations refers to a broad suite of policies (often colloquially referred to under the umbrella term "rent control") that limits the rents that private landlords may charge tenants. There is significant variation in program design related to the applicable properties, the level of oversight in rent setting, and the permitted level of rent increase. The effectiveness of rent regulation is the subject of significant debate among economists and housing practitioners, with proponents focusing on resident stability and skeptics asserting that adverse consequences offset any benefits. Unfortunately, existing empirical evidence focuses on "legacy" programs that bear little resemblance in policy detail or market conditions to rent regulations under consideration today – "circuit breaker" policies that cap annual rent increases at a percentage amount plus inflation.

An effective rent regulation is one that limits the ability of property owners to increase the rent on an existing property based on increasing demand beyond what is necessary to maintain the property and does not discourage new housing development or property maintenance. Balancing the level limits on increasing rents with the need for private investment in housing is the central tension of rent regulation policies.

Key Considerations

There are five key considerations that any rent regulation policy will need to contend with:

- 1. Market Strength:** The strength of the existing multifamily rental market will determine whether a rent stabilization may be viable. This can be determined through three indicators: *net absorption*—the number of new units that are being rented out annually; *new multifamily starts*—the number of new projects beginning annually; and *stabilized property resale volume*—the velocity of existing property sales.
- 2. Properties Covered:** Targeting is vital for a successful rent stabilization policy. If rent stabilization policies include new construction, they will often stymie new development. Instead, they should target properties with the highest rates of rent increase, often older and smaller properties.
- 3. Rent Increase Cap:** The rent increase cap must be set to an amount that targets potential rent gouging without reducing investment. In Oregon and California, these caps were set at 7 and 5 percent, respectively. This cap will need to be set based on Montgomery County's market strength.
- 4. Property Investment Exemptions:** A common drawback to rent stabilization is that it disincentivizes owners to properly upkeep their properties and make larger capital expenditures as required. Montgomery County needs to ensure that it allows for these investments to be recouped and *incentivizes* safe and habitable apartments as well as requires a minimum level of upkeep through building codes.
- 5. Market Expectations:** Real estate markets are sensitive to market expectations—if there is a perception that rents will be further regulated or that regulations are temporary, landlords will adjust their actions accordingly. Rent regulations will need to be passed swiftly and with the confidence that the rules will remain consistent in the short-term.

Tenants' Rights | Voluntary Rent Guidelines

Description

Montgomery County publishes and annually updates Voluntary Rent Guidelines that can inform landlords of what could constitute a “reasonable” rent increase based on the costs of operating and maintaining a property. The guidelines are established using the Consumer Price Index for the Baltimore-Washington Metropolitan Region.

For most properties, the Guidelines are advisory only. However, the County also uses these Guidelines to set a binding limit on rent increases for rental MPDUs and properties under Rental Agreements or receiving other forms of County subsidy.

Assessment Based on Best Practices

As an advisory tool, Voluntary Rent Guidelines are helpful but have limited impact.

The County’s use of the Guidelines to limit rent increases in MPDUs and other County-assisted properties limits administrative burden, but can contribute to cost burdens for lower income tenants if CPI increases faster than incomes.

Recommendations

The County could consider whether there are additional low-cost incentives that it can provide for landlords to adhere to the Voluntary Rent Guidelines, in addition to the existing programs of tying rent increases to increases in AMI,

Tenants' Rights | Additional County Policies

Intervention	Description	Local Applicability	Opportunities
<p>Tenant Protection Policies and Landlord Tenant Mediation</p>	<p>Policies that protect the rights of existing tenants can ensure that lower-income households have an opportunity to mitigate any harm associated with the property sale (and potentially rehabilitation/redevelopment). These policies may include just cause eviction and adequate notification standards. In establishing a minimum time standard for transfer of the property, such policies do not preserve housing per se, but can be complementary with opportunity to purchase or other acquisition-focused interventions.</p>	<p>Renter Protection Bill 19-15 (as described in Montgomery County Landlord Tenant Handbook) establishes protections and obligations for both landlords and tenants. Relevant topics addressed include fair housing laws, required and prohibited lease provisions, security deposits, notices, and lease termination, among others.</p> <p>Notably, Montgomery County prohibits source-of-income discrimination, prevents more than a single rent increase over a 12-month period, requires 90 days written notice of rent increases, and two-month notice-to-vacate requirements.</p> <p>The County also provides Landlord-Tenant Mediation services to resolve disputes, divert routine cases outside of the court system, and disseminate information on the rights and obligations of both tenants and landlords.</p>	<p>Given the up-to-180-day process for ROFR execution, tenant notice laws are unlikely to significantly enhance opportunities to preserve for-sale rental properties.</p> <p>The prohibition of source of income discrimination is a best practice that may be particularly beneficial in the context of COVID-19. To the extent that federal, state, and/or local resources are provided for rental assistance (on a temporary or ongoing basis), landlords would be required to accept these payments.</p> <p>It was outside the scope of this evaluation to compare Montgomery County policies from the perspective of tenant rights/protections.</p>
<p>Housing Code Enforcement</p>	<p>Code enforcement measures help preserve housing quality, prevent predatory practices (such as equity stripping preceding a sale) that can harm resident health, and can be used to introduce property owners to County resources that can improve a property (with or without the application of affordability restrictions).</p>	<p>Montgomery County's FY 2020 budget request included more than \$4.3 million for code enforcement activities. As discussed previously, the County's Apartment Assistance Program was established in part to support landlords in bringing properties up to code.</p>	<p>Coordination between the Apartment Assistance Program, code enforcement, and Landlord-Tenant Mediation could be enhanced to identify the most challenging properties for more intensive focus (and potential prioritization if the property is marketed for sale).</p>

Tenants' Rights | Potential New Interventions

Policy Gap	Potential Intervention	Description	Examples and Precedents
<p>Lack of binding tools to limit cost increases in unrestricted properties.</p>	<p>Rent regulation (control or stabilization)</p>	<p>Rent regulations refers to a broad suite of policies (often colloquially referred to under the umbrella term "rent control") that limits the rents that private landlords may charge tenants. There can be significant variation in program design related to the applicable properties, the level of oversight in rent setting, and the permitted level of rent increase.</p> <p>The effectiveness of rent regulation is the subject of significant debate among economists and housing practitioners, with proponents focusing on resident stability and skeptics asserting that adverse consequences offset any benefits. Unfortunately, existing empirical evidence focuses on "legacy" programs that bear little resemblance in policy detail to rent regulations most often under consideration today – "circuit breaker" policies that cap annual rent increases at a percentage amount plus inflation.</p>	<p>The City of Takoma Park has a legacy rent control program.</p> <p>Both Oregon and California have adopted statewide rent stabilization laws that cap annual rent increases at inflation plus 7% and 5% respectively.</p> <p>In April 2020, the Montgomery County Council adopted an emergency rent relief bill in response to the COVID-19 pandemic that limits rent increases during or within 90 days following the statewide public health emergency to 2.6% (according to Voluntary Rent Guidelines).</p>
<p>Disincentives to removing older properties from the housing stock</p>	<p>Demolition taxes</p>	<p>Demolition taxes apply when an eligible property type is being demolished and replaced by a less affordable asset class. Demolition taxes can make preservation a more economically viable alternative and proceeds can be used to fund affordable housing activities. Policy exceptions in the case of vacant and dilapidated housing could protect against negative externalities (such as preventing reinvestment in a blighted property) in weaker submarkets where teardowns of modest but viable priorities is less of a problem.</p>	<p>Highland Park, IL has instituted demolition taxes to maintain building stock diversity and disincentivize teardowns.</p>

Jurisdictions and mission-driven developers need a variety of capital tools to execute a comprehensive preservation strategy.

Facilitating transfer to mission-driven ownership and rehabilitating and recapitalizing the property are particularly capital intensive. Despite these costs, there are clear benefits to undertaking these approaches, which can include:

- Directly preserving existing units increases the likelihood that existing low-income and vulnerable tenants will not be displaced
- Some research indicates that preservation using these approaches may be less costly than relying primarily on the new construction of subsidized deed-restricted affordable housing to meet the needs of low-income renters.
- Providing capital for acquisition can have both near- and long-term benefits: preserving affordability today, while serving as a form of “land banking” for future equitable redevelopment efforts.

A somewhat unique element of Montgomery County’s capital landscape is the Housing Opportunities Commission’s (HOC) status as a housing finance agency. This gives the County an additional source of resources unavailable to many other similarly situated jurisdictions. In its role as developer/owner, HOC also is critical in directly preserving affordable housing.

The main challenge to the County is that preservation needs outstrip the amount of resources necessary to bring all or most at-risk ownership under mission-driven ownership or long-term use restriction. In the last decade, the County preserved 6,189 units. Though this number is impressive, simply maintaining current production would result in the further erosion of the affordable rental stock. As such, success likely relies on a combination of approaches, including increasing resources, identifying lower-cost preservation opportunities, creating incentives for profit-oriented owners to maintain lower rents, and utilizing land use and planning tools to leverage new growth in support of preservation.

A Successful Strategy:

1. Local practitioners have a robust set of resources to facilitate preservation efforts.
2. Stakeholder interviews and benchmarking indicate that the resources are substantial in amount, well-managed, and efficiently coordinated.

Sources: Jeffrey, Lubell, and Sarah Wolff. “Variation in Development Costs for LIHTC Projects.” Abt Associates, August 30, 2018. https://www.ncsha.org/wp-content/uploads/2018/09/Final-LIHTC-Costs-Analysis_2018_08_31.pdf.

Yellen, James. “Preserving Affordability, Preventing Displacement: Acquisition-Rehabilitation of Unsubsidized Affordable Housing in the Bay Area.” San Francisco, CA: Enterprise Community Partners, April 2020. <https://www.enterprisecommunity.org/resources/preserving-affordability-preventing-displacement-acquisition-rehabilitation-unsubsidized>.

Wilkins, Charles, Maya Brennan, Amy Deora, Anker Heegaard, Albert Lee, and Jeffrey Lubell. “Comparing the Life-Cycle Costs of New Construction and Acquisition-Rehab of Affordable Multifamily Rental Housing.” *Housing Policy Debate* 25, no. 4 (October 2, 2015): 684–714. <https://doi.org/10.1080/10511482.2014.1003141>.

Policy Inventory and Evaluation | Capital Financing (continued)

This matrix illustrates common sources and uses of capital for preservation.

	LIHTC	HFA Products	Local Trust Funds	TIF Funding	Federally backed resources (1)	CDFI / Mission Based Capital	Private Finance	Other Resources (2)
Predevelopment			B		B	B		B
Short-term acquisition/bridge			B	A		B	B	
Mid-term hold/operation (3)		B	B			B		
Permanent equity	B							
Permanent debt		B		A	B	B		
Permanent gap resources (4)		B	B	A	B			
Rehabilitation/recapitalization resources	B	B	B	A	B	B	B	B

A: Currently not utilized in Montgomery County

B: Used for preservation in Montgomery County

(1) These may include: HOME/CDBG funding, Rental Assistance Demonstration funds, National Housing Trust Funds, Choice Neighborhoods grants, FHA and GSE products, among others.

(2) These may include: smaller government programs, and developer self-financing, among others.

(3) For the purpose of this matrix, “mid-term” is defined as 3-10 years.

(4) These may include: soft seconds, mezzanine products, forgivable loans, equity equivalent capital, and grants for rent buy-downs, among others.

Capital Financing | Housing Initiative Fund

Description

The Housing Initiative Fund (HIF) is Montgomery County's local housing trust fund and the primary mechanism for providing affordable housing capital. Created in 1988, the HIF provides loans to nonprofit developers, rental property owners and for-profit developers for the construction and preservation of affordable and special needs rental housing. Other activities funded through the HIF include rental assistance, homeless funding, neighborhood development, and some homeownership activities (including down-payment assistance). HIF is funded through local revenue sources, primarily general revenues and proceeds from County taxable limited obligation bonds for affordable housing. Other sources include MPDU shared profits/alternative payments, condominium conversion taxes, a portion of proceeds from the sale of county land, and a portion of recordation taxes. The HIF was funded at \$63.3 million in FY 2019, with \$30.8 million dedicated to capital loan funds.

HIF loans are typically provided as “gap” resources, leveraging other sources of capital at ratio of \$4.6 for every \$1 over the last 10 years, according to DHCA. HIF borrowers generally are required to offer the County a right-of-first-refusal at point of property sale after the affordability term expires.

Over its entire history, no HIF loan has defaulted.

Assessment based on Best Practices

HIF resources are offered on a rolling basis, rather than offered at a specific point-in-time via a request for proposals/notice of funding availability process. This structure is consistent with national best practices, as it provides developers with access to capital at the point that its most needed in the development process and avoids unnecessary and costly delays in the project timeline.

For larger proposals, DHCA utilizes the state funding application. Given that many applicants are also applying for state resources, this reduces the burden of applying for multiple sources of financing. There is also a specialized, less-intensive application for smaller projects.

Practitioners interviewed consistently noted that the HIF is effectively and competently administered by knowledgeable County staff. Importantly, staff was committed to meeting various deadlines in the development process and able to adapt if circumstances shifted during the process.

Proposals are reviewed, underwritten and approved administratively. Oversight by elected official is provided at a “macro” level through the allocation of a total revenue amount at the beginning of the fiscal year and review of reporting on expenditures and outcomes. This is a “leading edge” best practice for local jurisdictions providing sizable capital investments in affordable housing, as it removes politicization from individual developments and focuses oversight on “big picture” goals and outcomes.

HIF is well coordinated with other elements of the County’s “toolbox.” There is a coordinated underwriting process for PILOTs and HIF loans, reducing the burden of seeking multiple funding sources. HIF funds are also often used to acquire properties/exercise ROFR. In addition, the county has offered HIF capital (in the form of subordinate/mezzanine debt) to incentivize for-profit and nonprofit developers to enter into rental agreements.

Practitioners did raise some concerns about transparency in the proposal review process, which can make it more difficult for developers to assess whether a proposal is adhering to County priorities and standards and potentially make it more difficult for newer (or smaller-scale) developers to compete for funding. For example, the most recent proposed update to HIF evaluation criteria contains fairly “high-level” standards/point allocations, without much granular detail of standards within a category (i.e., new construction or preservation).

Some practitioners expressed concerns that provisions requiring developers to provide a 10% equity contribution and defer a substantial portion of a developer fee may also put smaller developers at a disadvantage.

Moving forward, several elements of the proposed funding guidelines could make preservation somewhat less competitive compared to new construction. The proposed update to funding guidelines puts greater emphasis on new construction (up to 20 points) over preservation (15 points), other characteristics being equal. In addition, practitioners have raised concerns that state and local preferences for larger, family-sized units could make preservation less competitive.

Gaps between the cost of market rate capital and HIF resources is shrinking. Though the County provides flexibility in loan terms, interest rates are generally set at or around 3%. The lower spread between market and subsidized capital makes it more difficult for mission-driven developers to compete for properties against value-add investors.

Recommendations

- The County should maintain elements of HIF administration that are consistent with or set the standard for national best practices.
- The County should explore opportunities to expand HIF resources to better meet the needs of the preservation pipeline.
- The County can increase transparency by providing more detailed funding guidelines, as well as making public more historical information on the HIF portfolio, such as high-level information on past loan amounts, rates, and terms. This would allow developers to make informed judgments early in the process of what is feasible, while still maintaining flexibility for making context-specific underwriting decisions.
- The County should review allocation decisions moving forward to make sure that changes in HIF scoring criteria do not disadvantage preservation efforts.
- The County should consider providing additional points for preserving properties with future redevelopment potential (i.e., preserving affordability today, land banking for the future).
- The County should adjust income limit guidelines to allow for income averaging, consistent with updated regulations under the Low Income Housing Tax Credit.
- The County should consider whether lower interest rates are possible/warranted, given prevailing interest rates for market-rate capital.

Capital Financing | Multifamily Mortgage Financing Program

Description

In addition to its role as a public housing authority, the Montgomery County Housing Opportunities Commission (HOC) also serves as a housing finance agency. This enables it to provide low interest mortgage financing to private developers, both for-profit and non-profit, by issuing tax-exempt revenue bonds. A portion of units financed by HOC capital must be set aside for rent to low- and moderate-income households. HOC financing supports both rental and homeownership opportunities.

Over the past decade, HOC has focused its activities on recapitalizing and ensuring the long-term viability and quality of its public housing portfolio, in part through the HUD Rental Assistance Demonstration.

Assessment Based on Best Practices

The research team did not have access to sufficient data to conduct a detailed assessment of HOC's Multifamily Mortgage Financing activities.

At a high-level, there has been a nationwide deterioration of the public housing stock, in part due to inadequate federal funding. Public housing is critical to meeting the needs of some of the County's lowest-income and most vulnerable tenants. As such, recapitalizing public housing properties (whether under the Rental Assistance Demonstration or other sources) for long-term viability is critical to a comprehensive preservation effort.

Recommendations

Nationwide, several HFAs have used capital tools and/or the proceeds from lending activities to facilitate preservation. Examples include:

- Investments in targeted acquisition funds (Colorado Housing Finance Agency – Denver Regional TOD Fund)
- Low cost first mortgages for preservation (Minnesota Housing Finance Agency – Preservation Affordable Rental Investment Fund)
- Providing flexible capital/gap resources for high-priority projects (Virginia Housing Development Authority – REACH Virginia)

If there is additional capacity beyond public housing recapitalization and other existing priorities, HOC should explore whether these or similarly innovative HFA investment models are replicable in Montgomery County.

Benchmarking Resources:

- Enterprise Community Partners. "Denver Regional TOD Fund." <https://www.enterprisecommunity.org/financing-and-development/community-loan-fund/denver-regional-tod-fund>
- Minnesota Housing. "Preservation Affordable Rental Investment Fund Program Guide." http://www.mnhousing.gov/sites/Satellite?blobcol=urldata&blobheadname1=Content-Type&blobheadname2=Content-Disposition&blobheadname3=MDT-Type&blobheadvalue1=application%2Fpdf&blobheadvalue2=attachment%3B+filename%3DMHFA_006876.pdf&blobheadvalue3=abinary%3B+charset%3DUTF-8&blobkey=id&blobtable=MungoBlobs&blobwhere=1533150921680&ssbinary=true
- Virginia Housing Development Authority. "Community Outreach – REACH." <https://www.vhda.com/BusinessPartners/GovandNon-Profits/CommunityOutreach/Pages/Community-Outreach.aspx>

Capital Financing | Additional resources from third-party entities

Resource	Description	Local Applicability	Opportunities
<p>Low-Income Housing Tax Credit (LIHTC) and Maryland Department of Housing and Community Development multifamily financing programs</p>	<p>LIHTC (equity) and DHCD capital (debt) are essential funding sources for affordable rental housing production</p> <p>Both 9% and 4% credits can be used for interventions to support preservation, with 4% credits (associated with a less generous subsidy) often used as part of recapitalization/rehabilitation efforts.</p> <p>As part of its allocation procedures, the state establishes preservation as one among several priorities.</p>	<p>LIHTC and DHCD capital are critical, with HIF funding often used to provide gap resources.</p> <p>There is a sense among practitioners that the state’s priority for family-sized units puts preservation transactions at a disadvantage, given the number of older market-rate properties with higher proportions of one-bedroom apartments.</p>	<p>Though local funding is important, a lack of LIHTC equity is often the “binding constraint” that limits affordable rental production. Given the limited allocation of 9% LIHTC, the County could explore whether there are opportunities to increase local subsidies that would make more 4% LIHTC transactions feasible.</p>
<p>HUD Rental Assistance Demonstration</p>	<p>The Rental Assistance Demonstration provides resources, regulatory flexibility, and access to capital for the long-term redevelopment/recapitalization of federally assisted affordable rental properties. Though commonly associated with the recapitalization of public housing, certain other federally assisted properties are also eligible.</p>	<p>Montgomery County HOC is utilizing RAD to recapitalize its multifamily and clustered public housing sites. As of September 2019, it has invested \$254 million in total development costs in its existing housing stock, preserving over 1000 units in 14 communities and increasing the number of affordable units by more than 400.</p>	<p>The County should advocate for the continuation and potential expansion of Rental Assistance Demonstration resources at the federal level.</p>
<p>Maryland DHCD National Capital Strategic Economic Development Fund (NED)</p>	<p>NED provides grant resources to support commercial and residential predevelopment activities in areas targeted for revitalization, focusing on parts of Prince Georges and Montgomery Counties inside the Capital Beltway. Funding can be used for site acquisition, land assembly, site development, and construction-level architectural and engineering design.</p>	<p>DHCD awarded \$4 million in state fiscal year 2020. However, only one award fell within the boundaries of Montgomery County (\$100,000 for the New Hampshire Avenue Façade Program within the City of Takoma Park).</p>	<p>County practitioners (government and private) should explore whether these resources can be better utilized in Montgomery County. The County can play a convening role. If these resources are less effective for “standard” preservation efforts than more typical tools, the County can explore whether these funds can play a role in meeting more targeted preservation needs, such as preserving smaller properties that are inefficient to finance through LIHTC.</p>

Capital Financing | Additional resources from third-party entities

Resource	Description	Local Applicability	Opportunities
Mission-driven capital/acquisition funds	<p>Non-governmental entities (such as Community Development Financial Institutions and other mission-driven entities) may invest resources to acquire existing units and add/extend affordability restrictions. These funding sources may have shorter terms and/or return expectations than traditional subsidized capital and require additional intervention (redevelopment incentives, additional recapitalization funding) to preserve longer-term (or deeper) affordability.</p>	<p>There are several CDFIs active in the DC metropolitan region (including but not limited to Enterprise Community Partners and LISC) that offer financing resources of varying types. In addition, in the last decade equity funds (such as the Washington Housing Initiative and Housing Partnership Equity Trust) have been established that focus on the acquisition and continued affordability of naturally-occurring affordable housing.</p>	<p>Some mission-driven resources are intended to contribute as part of a typical LIHTC funding package. Developers tend to be well-aware of these resources.</p> <p>The specific time horizons (generally 10 years or less), terms, and return expectations of some acquisition capital may make longer-term preservation difficult. These products do provide short-term affordability and are effective at extending the window of opportunity for the County to assemble additional resources and/or adopt appropriate land use incentives for redevelopment that would constitute a more durable intervention.</p>
Minor rehabilitation capital	<p>Low-cost resources for minor rehabilitation or property improvement (including increased energy efficiency) can improve housing quality and potentially be used to incentivize property owners to maintain affordability. Examples that could serve this role locally if adapted include:</p> <p>The Weatherization Assistance Program provides no-cost assistance for energy efficiency improvements in both single-family and multifamily settings.</p> <p>The County also offers a Property Tax Credit for Energy and Environmental Design to offset property tax obligations if a building meets specific standards.</p>	<p>The County’s Weatherization Assistance Program has not been fully operational in recent years. This primary source of funding for this program is “pass through” funds from federal/state sources., and funding amounts are relatively small.</p> <p>The research team was unable to obtain data on utilization of the Property Tax Credit for Energy and Environmental Design in multifamily and/or affordable properties.</p>	<p>Based on a review of available information, neither resource has been proactively put forward as a tool for preservation. Though the funding amounts are relatively small, the County could explore whether the programs can be more effectively marketed or amended to better meet affordable housing needs. These could be additional sources of capital for properties that are inefficient to finance through LIHTC.</p>

Capital Financing | Potential New Interventions

Policy Gap: There are insufficient resources for capital intensive acquisition efforts.

Potential Intervention	Description	Examples and Precedents
Capital for light-to-moderate rehabilitation	Medium-to-long term capital can be used to recapitalize existing affordable properties currently under mission-driven control outside of the LIHTC pipeline, with the purpose of focusing deeper subsidies on properties with more significant capital needs and/or higher acquisition costs. Properties would need to be in relatively decent condition, and certain requirements that are triggered by state/local funding (such as more ambitious environmental requirements that do not generate utility savings) may need to be deferred.	The Massachusetts Housing Partnership offers an FHA Risk Share product that offers a low-interest 40-year amortizing loan with capitalized reserves at an amount sufficient to ensure the long-term physical and financial viability of the property.
Targeted acquisition funding	<p>Purpose-specific acquisition funds can provide capital to mission-driven entities to acquire and preserve affordability of at-risk properties. These funds often include a streamlined underwriting process to allow for rapid response when opportunities arise, though the County ROFR obviates some of that need. Acquisition funds often use a relatively small amount of public resources as “top-loss” funds to leverage larger amounts of public (including housing finance agency), philanthropic and private capital.</p> <p>The most recent County budget included a request to establish the Affordable Housing Opportunity Fund which would fulfill this purpose. The program has yet to be funded.</p>	Targeted acquisition funds have been adopted in a wide range of cities and regions. Locally the District of Columbia’s established a Housing Preservation Fund. Other notable example have been established in Denver, the San Francisco Bay Area, the Twin Cities, and Boston, among several others. These efforts are often in response to and/or coordinated with catalytic investments (such as new transit lines) that are anticipated to contribute to property value appreciation and potential displacement of lower-income residents.
Value Capture Methods, including Tax Increment Financing (TIF)/Special Assessment Districts (SA Districts)	<p>Value capture methods are generally utilized to “recapture” some of the private value created from catalytic public investment (or other market contexts where property values are rapidly appreciating).</p> <p>With TIF, a portion of rising property tax revenues can be used to provide funding for a public purpose such as affordable housing development/preservation through a TIF arrangement. Similarly, SA Districts capture value by levying an additional tax on top of the baseline rate within a given geographic boundary.</p> <p>These increment revenues can either be used to seed a specific housing budget item (such as a trust fund) in a “pay-as-you-go” manner or be bonded against to provide upfront revenue.</p>	Value capture can be a powerful tool when utilized effectively, though there can be risks to jurisdictional financial sustainability if the policy is poorly designed or if the tool is utilized too broadly. Examples of the use of value capture for the purpose of preservation and/or creation of affordable housing can be found in the cities of Chicago and Portland, and statewide authorization language has been developed in states as politically diverse as Utah, Texas, Minnesota, and Maine.

Capital Financing | Potential New Interventions

Policy Gap: Addressing challenges posed by small properties

Potential Intervention	Description	Examples and Precedents
Dedicated capital for small scale acquisition	<p>Small scale properties are often more difficult to preserve and manage, given the lack of economies of scale and (in some cases) significant amounts of deferred maintenance. However, small scale properties often add unique value, particularly a source of economic integration in lower-density neighborhoods. Some local practitioners interviewed as part of this research expressed concern that proposed changes to HIF guidelines may make smaller properties more difficult to finance moving forward.</p> <p>If the County determines that preserving smaller scale properties is a high-priority, one approach is to create or enhance dedicated resources (or set asides) for that purpose.</p>	<p>The City of San Francisco's Small Sites Program provides soft debt for 5-25 unit properties in which two-thirds of existing tenants have incomes at or below 80% AMI. The program also provides capacity grants to community sponsors, who take ownership of the properties and maintain them as permanently affordable housing.</p>

Jurisdictions can offer incentives and resources that make it financially feasible for landlords/owners to offer reduced rents to lower-income tenants.

Property owners, whether market-rate or mission-driven, may be better able to offer affordable rents (or deeper targeting) if they are able to reduce operating costs and maintain net operating income.

A successful strategy:

- Provides an opportunity to preserve affordability in properties that cannot be brought under mission-driven ownership or long-term affordability restrictions.
- Includes multiple types of support to reflect the varying interests of property owners and needs of different property types.

Montgomery County provides multiple tools that facilitate lower rents in both deed-restricted and market rate properties. These tools have significantly contributed to preservation, from larger-scale, permanent extensions of affordability to shorter-term extensions for a portion of units within a transitioning property. **There could be opportunities to expand these tools to provide an operating subsidy in exchange for extending lower rents.**

Operating Subsidy | Rental Agreements and Rental Assistance Payments

Description

Rental Agreements are voluntary agreement between the property owner or purchaser and DHCA that provide for the retention of affordable units with specific terms and conditions. A critical component of some Rental Agreements is a Rental Assistance Payment, a direct allocation of DHCA resources that bridges the gap between the agreed-upon affordable rents and what the market could otherwise command.

Other associated incentives included as part of the Rental Agreement can include Payments-in-Lieu-of-Taxes, and technical/staff support in extending HUD contracts.

Assessment Based on Best Practices

Rental Agreements and Rental Assistance Payments are effective tools for preserving affordability in a variety of contexts. Whereas in other jurisdictions preservation is often binary proposition, based on the ability to bring a property under mission-driven ownership, these agreements provide another path to maintaining affordability. Though the extended affordability period may be shorter in some cases, the overall costs is also generally lower.

While Rental Assistance Payments may be lower-cost, they do not “revolve” back into the HIF via loan repayments, unlike other forms of County assistance.

Recommendations

The County should continue to use Rental Agreements and Rental Assistance Payments to preserve and expand affordability in private- and nonprofit-owned properties.

As previously recommended, the County should continue to track and evaluate expenditures and outcomes by preservation approach to determine the appropriate balance for resource allocation.

Operating Subsidy | Payments-in-lieu-of taxes (PILOTs)

Description

Payments-in-Lieu-of-Taxes (PILOTs) provide for a negotiated payment that lowers the cost of real property and special area taxes in return for a property owners' commitment to provide affordable housing. Specific exemptions are negotiated by the DHCA and approved by the Department of Finance, subject to legal, budgetary and procedural restrictions. To be eligible, the property must receive other federal, state, or local financing.

The total amount of tax revenue foregone through pilots is capped (\$18M in FY 2020). HOC properties qualify for a 100% abatement but do not count against this cap. Based on recent data, the County has opportunities to increase utilization without reaching this cap. According to Tax Expenditure Report released in October 2019; there were 3,205 tax accounts (associated with parcels, not properties or units) receiving \$19M in exemptions. The HOC exemption constituted approximately \$9.6 million of this total.

There have been recent changes to the allocation of PILOTs. The amount abated in prior iterations of the program varied by property type and the amount of rent foregone, or the amount that was necessary to acquire a property. The most recent proposal establishes abatements for properties with Rental Agreements at the amount of loss due to keeping rents low. For all other non-HOC properties, taxes will be reduced by an amount equal to the percentage of income-restricted units (i.e., a property with 20% affordability receives a 20% abatement). HOC will continue to receive a 100% abatement.

Assessment based on Best Practices

The County's provision of PILOTs is consistent with national best practices, is regarded by practitioners as an important component of the local affordable housing financing stack, and along with HIF constitutes an important complementary tool for Right-of-First-Refusal acquisitions and/or Rental Agreements.

Recommendations

Given the County is not at the PILOT cap, the County could consider opportunities to expand utilization of Rental Agreements, if such expansion could be accomplished without overly restricting availability for high-priority acquisitions/Rental Agreements in future years.

Operating Subsidy | Additional resources from third-party entities

Resource	Description	Local Applicability	Opportunities
Project-Based Rental Assistance	Applying project-based rental assistance to redeveloped or rehabilitated units can achieve the same goal of maintaining net operating income for the property owner.	The Montgomery County HOC manages the HUD Section 8 Project-Based Rental Contract program. These contracts provide assistance directly to private- or nonprofit property owners to rent at reduced rates to income-eligible households, which pay 30 percent of their income on rent.	The availability and utilization of HUD Project-Based Rental contracts is limited by federal regulations appropriations; as such opportunities to expand or enhance this program are minimal at this juncture.

Operating Subsidy | Potential New Interventions

Policy Gap: Express-purpose preservation plans

Potential Intervention	Description	Examples and Precedents
Property tax credits	<p>The County could offer a property tax credit to owners or managers that voluntarily offer reduced rents to income-qualified tenants. Program specifics could vary, but potential structures could include:</p> <ul style="list-style-type: none">• Offering a fixed amount to owners of naturally-occurring affordable rental units that demonstrate adherence to voluntary rent guidelines and lease to income-qualified tenants.• Providing a tax credit equal to the amount rent is reduced (or a fraction thereof) compared to a market-based standard.	<p>Previously, Montgomery County offered a Property Tax Credit for Reduced Rent for Elderly or Disabled Tenants.</p> <p>The County created a tax incentive for landlords to discount rent for elderly (defined as 65 and older) and disabled tenants that meet income and asset eligibility criteria. Landlords who leased to tenants that met eligibility restrictions and reduced rents by at least 15 percent below the market rate are eligible to apply for a tax credit equal to 50 percent of the rent reduction. The program was set to sunset and lapsed on June 30, 2018, without any utilization.</p>

Operating Subsidy | Potential New Interventions

Policy Gap: Limited federal resources for Project Based Rental Contracts

Potential Intervention	Description	Examples and Precedents
Locally-funded master leasing	Mission-driven and/or public entities can lease a specified number of units in private, market-rate properties to preserve affordability while still providing the owner with a market-rate return. Such policies can be targeted toward gentrifying neighborhoods and/or larger-scale properties.	<p>Master leasing is commonly found in the social services context, in which local jurisdictions and/or nonprofits provide resources to lease a portion of units in larger rental properties for use by vulnerable households.</p> <p>While master leasing may be optimal in certain contexts (service-enriched housing opportunities, the leasing of full properties, etc.). The County’s current approach to Rental Assistance Payments has a similar impact at lower risk to the County.</p>

Many jurisdictions manage resources, policies, and tools that can be used to preserve affordable housing. The likelihood of success in stemming the loss of affordable units is contingent on a consolidated strategy that combines all these interventions.

A successful strategy:

1. Comprehensively analyzes preservation needs, risks, and opportunities, in the context of other housing priorities;
2. Intentionally develops, coordinates (often across agencies and sectors) and administers interventions to meet the specific needs and goals of the jurisdiction; and
3. Communicates and proactively engages with private and nonprofit sector stakeholders to implement and promote utilization of available tools and resources.

Montgomery County is actively involved in advancing each of these three steps. In particular, practitioners interviewed as part of this evaluation spoke positively of the availability, compatibility, and coordination of the various tools/resources directly administered by the county. There could be opportunities to enhance the County's overall strategy through a more intentional focus on preservation pipeline "triage" and better linking private owners to County tools.

Strategy and Outreach | Research Assessment and Strategy Development

Description

Research assessment and strategy development is a broad category that captures a jurisdiction's efforts to analyze preservation needs and opportunities and develop an overall strategy and suite of interventions tailored to the local context. Though each specific intervention will be assessed individually, it is also important to examine the effectiveness and complementarity of the overall "toolbox."

Montgomery County has undertaken several preservation-related analyses over the last twenty years, beginning with a 2001 Preservation Strategy report commissioned by DHCA that focused on federally subsidized properties at high risk of loss. More recently, in 2017 the Planning Department commissioned a broader rental housing study, which also addressed preservation needs and tools. This study builds on these and other research and analysis efforts, both internal and public-facing.

Though the County has not published an up-to-date, formal "preservation strategy," DHCA has been intentional in developing and deploying several "sets" of complementary tools that support different preservation approaches. County budget and appropriations documents establish Multifamily Program Performance Measures (see next slide) which disaggregate production figures by preservation and new construction.

Assessment based on Best Practices

- The County has strong overall pipeline monitoring/management practices, which is critical for prioritizing resources as preservation opportunities emerge.
- The County provides a substantial amount of resources to preservation, both in terms of capital financing and overall multifamily efforts (see following slides).
- The County has demonstrated success in coordinating various tools for different preservation approaches and deploying these tools in a systematic manner. Rental Agreements are a notable example, as is the coordination of Payments-in-Lieu-of-Taxes with Housing Initiative Fund capital.

Recommendations

- The County should maintain, update, and analyze a comprehensive inventory of at-risk properties by type, location, and risk profile.
- County investment information should be contextualized with the number of years the affordability period is extended to weigh the cost-effectiveness of intensive vs. light-touch approaches.
- The County should improve coordination between the suite of tools offered by DHCA and the various land use and planning tools to better facilitate preservation through redevelopment. This could enhance "triage" opportunities by allowing near-term, less costly approaches to serve as a bridge to later, more comprehensive preservation efforts.

Benchmarking Resources:

Inventories, analysis, and dashboards:

- Fairfax County Redevelopment and Housing Authority. "Fairfax County Affordable Housing Dashboard." <https://www.e-ffordable.org/affordable-housing-dashboard>.
- Arlington County Department of Housing and Community Development. "Annual Reports." <https://housing.arlingtonva.us/plans-reports/annual-reports/>

Strategy and Outreach | Capital Expenditure Prioritization

Rehabilitation takes up nearly half of all capital expenditures and more than half of all production over the last twelve fiscal years.

	Total Units	Affordable Units	% Affordable	% of Total	% of Affordable Units	County Funding	% of Total
Foreclosure Homeownership Assistance	33	33	100%	< 1%	0.45%	\$5,900,000	2%
Special Needs	515	486	94%	4%	6.55%	\$46,020,040	12%
Homeownership	110	103	94%	1%	1.39%	\$7,743,000	2%
New Construction	2,005	629	31%	17%	8.48%	\$46,648,597	13%
MPDUs Purchased by Non-Profits	56	53	95%	<1%	0.71%	\$3,186,590	1%
Senior Housing	2,273	1,863	82%	20%	25.12%	\$93,139,457	25%
Multifamily Acquisition and/or Rehab (nonprofit)	4,672	3,290	70%	40%	44.37%	\$127,798,548	35%
Multifamily Acquisition and/or Rehab (for-profit)	1,982	955	48%	17%	12.88%	\$39,748,274	11%
Single Family Rehab	3	3	100%	< 1%	0.04%	\$11,975	<1%
Total	11,649	7,415	64%	100%	100.00%	\$370,196,481	100%
<i>Total Rehabilitation Efforts</i>	<i>6,654</i>	<i>4,245</i>				<i>\$167,546,822</i>	

Source: DHCA data on Affordable Housing Loans provided through the HIF or Housing Capital Investment Plan for Fiscal Years 2008-2019. This data does not include resources utilized for rental assistance.

Strategy and Outreach | DHCA Multifamily Program Performance Measures

According to County performance data, the County consistently preserves substantially more rental housing than it produces, at a much lower cost-per-unit.

Category	Actual FY 2017	Actual FY 2018	Estimated FY 2019	Target FY 2020	Target FY 2021
Total affordable housing units preserved (includes rental assistance)	2,951	4,390	4,900	4,750	4,950
Total affordable housing units produced	1,724	1,525	1,616	1,538	1,277
Cost per unit of affordable housing produced	\$24K	\$34K	\$34K	\$28K	\$25K
Cost per unit of affordable housing preserved	\$4.2K	\$5K	\$14K	\$7K	\$7K

The relative cost-effectiveness of preservation is well-established in affordable housing cost study literature. In the Montgomery County context, the magnitude of this difference as illustrated in this table may be overstated, given the inclusion of rental assistance in the preservation metric. While rental assistance is a critical part of the preservation toolbox, the number of years of affordability that such assistance provides may be substantially shorter than an upfront capital investment in preservation (via acquisition by mission-driven ownership) or new construction of affordable units. Disaggregating data by intervention type and number of years affordability is extended could allow for more thorough analyses of cost-effectiveness.

Source: Montgomery County Department of Housing and Community Affairs, FY 2020 Appropriations Report

Description

Proactive outreach and assistance to landlords can inform them of resources that are available for improving properties (such as rehab loans) and/or reducing rents (rental assistance or property tax incentives). These outreach efforts can address the capacity gaps of smaller-scale private landlords that are interested in continuing to serve their existing tenant base or willing to sell to a mission-driven entity.

Montgomery County provides resources to the Montgomery Housing Partnership to administer the Apartment Assistance Program as part of its *Neighborhoods to Call Home* initiative. The program was originally established to support lower-capacity owners/landlords in conjunction with an increasing County focus on housing quality and code enforcement. Today, issues covered by program activities include code compliance, fire and life safety, rodent and trash issues, leasing legal requirements (including fair housing compliance), and reasonable accommodations/modifications for persons with disabilities. Forums for engagement include workshops, one-on-one assistance, and a building trade expo. Through these engagements, owners/landlords are also provided with information on county resources to improve/rehabilitate housing (including a small set-aside in the HIF for smaller apartments).

Outside of this program, the County has also worked with private owners to retain affordability. For example, the County has committed to providing technical assistance to owners engaging with HUD in the sometimes-complicated process of extending Housing Assistance Payment (HAP) contracts.

Assessment Based on Best Practices

In funding the Apartment Assistance Program, Montgomery County provides a proactive service to small owners/landlords that is sometimes absent in other comparable jurisdictions, at a relatively low cost.

The County's core focus is on housing quality and stewardship, as compared to similar programs in other jurisdictions (such as the New York City Landlord Ambassador Pilot) that prioritize linking owners with resources and building a preservation pipeline.

The County is aware of – and proactively guards against – the use of the capital promoted by the Apartment Assistance Program to drive up rents or “gentrify” a property.

Exogenous factors, especially the low interest rate environment for market-rate rehabilitation capital limits, limit the attractiveness of County resources to profit-driven small owners/landlords.

Recommendations

If the County decides that preservation of the smaller multifamily stock is a critical priority, the Apartment Assistance Program could be refocused (or a complementary program developed) with pipeline development as a core focus.

Coordination between the Apartment Assistance Program, code enforcement, and Landlord-Tenant Mediation could be enhanced to identify the most challenging properties for more intensive focus (and potential prioritization if the property is marketed for sale).

Providing additional services, such as centralized income certification and waitlist management, could decrease the bureaucratic burden and increase the attractiveness of County resources that carry income restrictions.

Montgomery County Preservation Study



Presentation – Nov 30th, 2020

(61)

Draft- DO NOT RECIRCULATE

Approach

Preserving the existing inventory of affordable housing is essential as part of a comprehensive approach to retain affordable options for all residents.

This study is organized around six questions:

Housing Landscape

- What are the characteristics of the County's deed-restricted and unrestricted housing stock?
- How has the County's housing stock changed over time, and how will it look in the future?

Deed-Restricted and Naturally Occurring Affordable Housing

- How will the County's deed-restricted housing stock change over time?
- What are the risk criteria for units losing affordability?

Preservation Framework

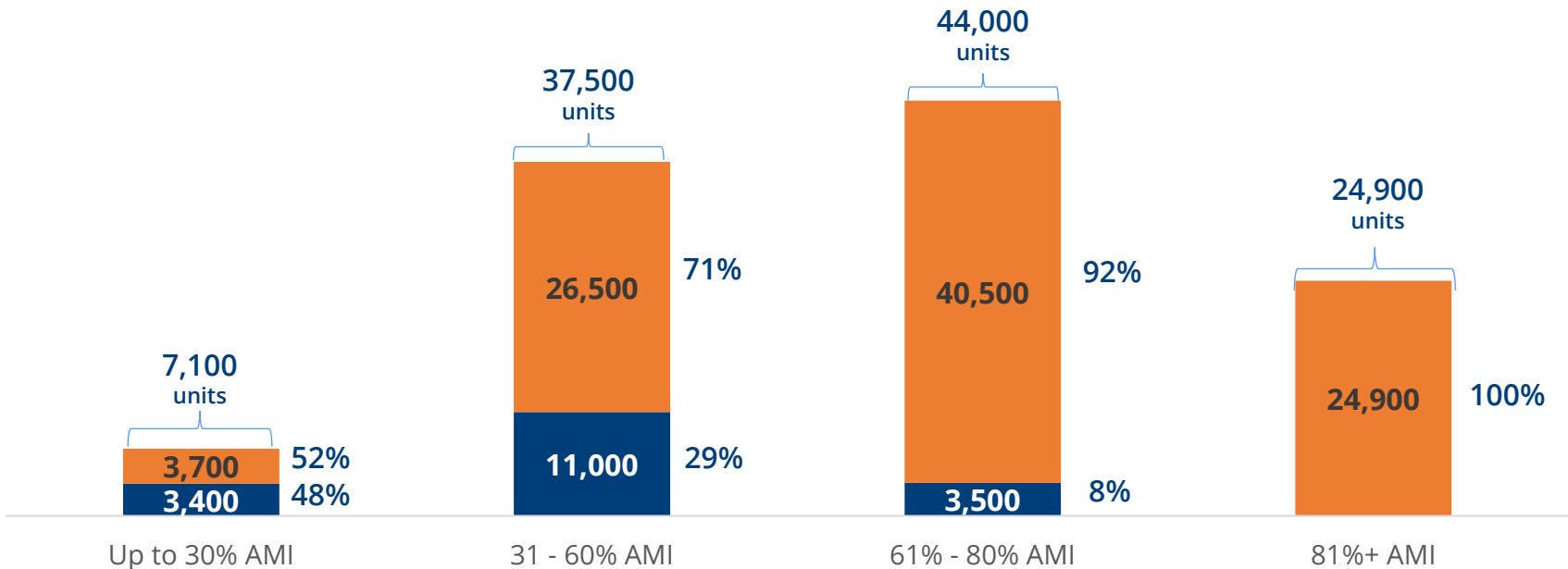
- Which existing and potential funding sources, policies, tools and programs are Montgomery County using currently?
- How can the County support the preservation of affordable housing, to meet its housing goals?

Rental Housing Supply

While most of the County's housing stock is affordable under 80% AMI, the vast majority is in unrestricted units—making preservation a vital component to an affordable housing strategy.

Multifamily Units by Affordability Level

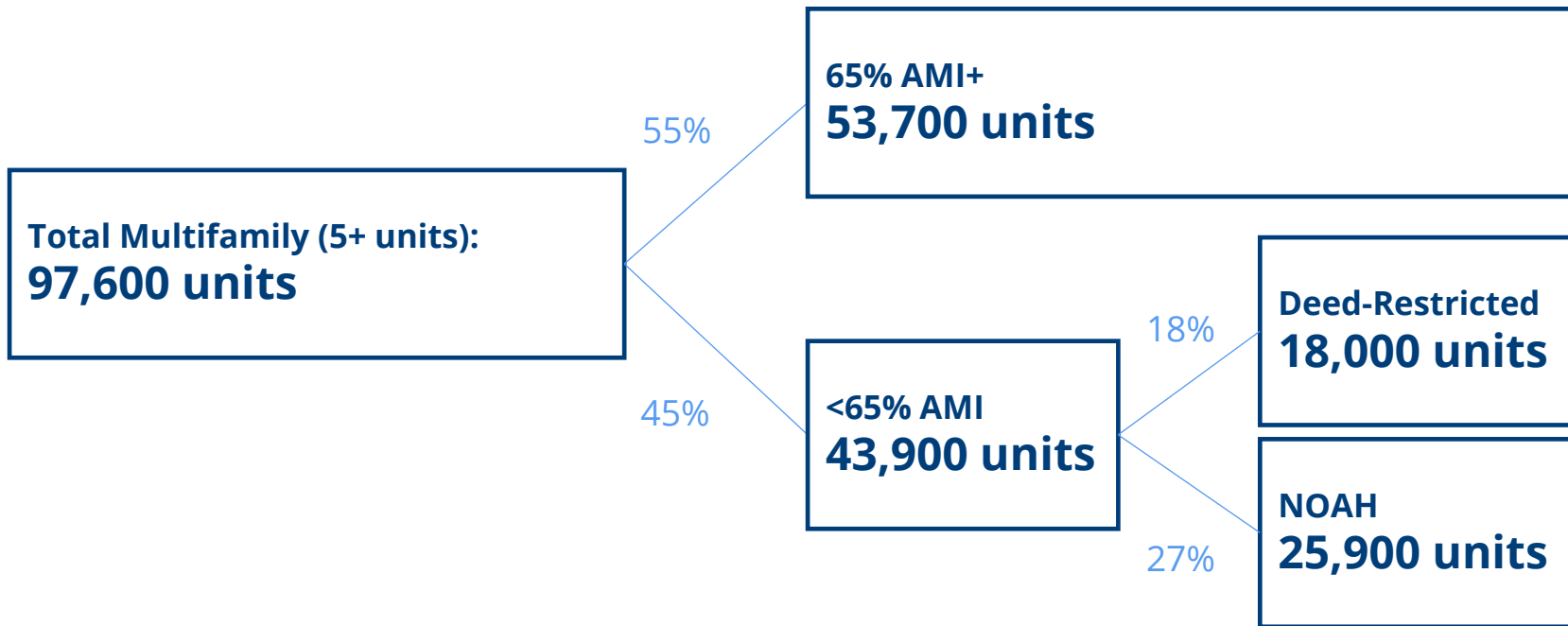
■ Deed-Restricted Units ■ Unrestricted Units



Source: ACS 2018 1-year

Current Conditions

About 80% of the County's multifamily housing stock is unrestricted, or subject to market forces. 25,900 of these market-rate units rent for less than 65% of AMI and are classified as naturally occurring affordable housing (NOAH), comprising 27% of the total multifamily housing stock.

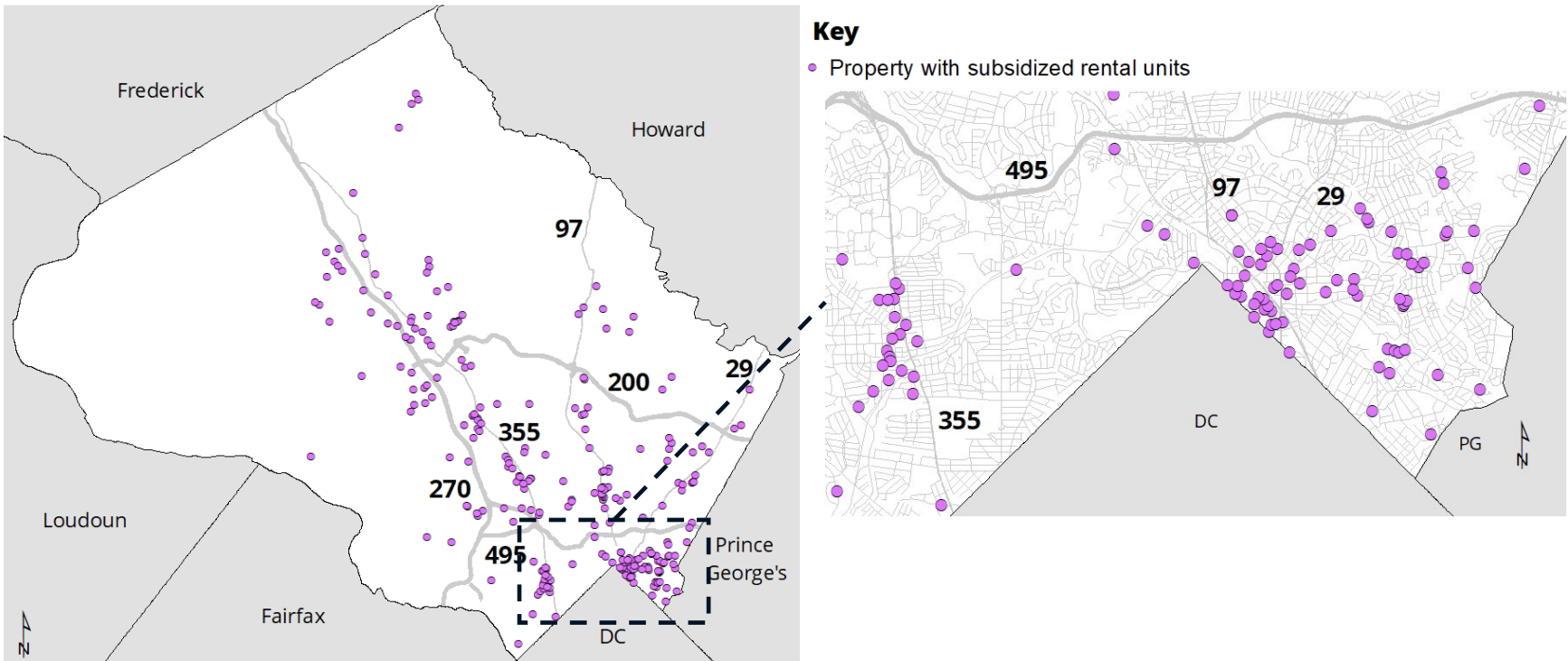


Sources: DHCA, ACS 2018 1-year

Deed-Restricted Inventory

There are approximately 18,000 units in the County's deed-restricted rental housing inventory. Most of the units are in the more densely populated areas where multifamily housing is more prevalent.

Deed-Restricted Inventory (5+ units), 2020



Source: DHCA, NHPD, HUD

Deed-Restricted Inventory Risk Criteria

A set of risk criteria was applied to the deed-restricted rental housing inventory in Montgomery County to assess the level of affordability-loss risk across deed-restricted properties, and to identify high-risk deed-restricted properties.

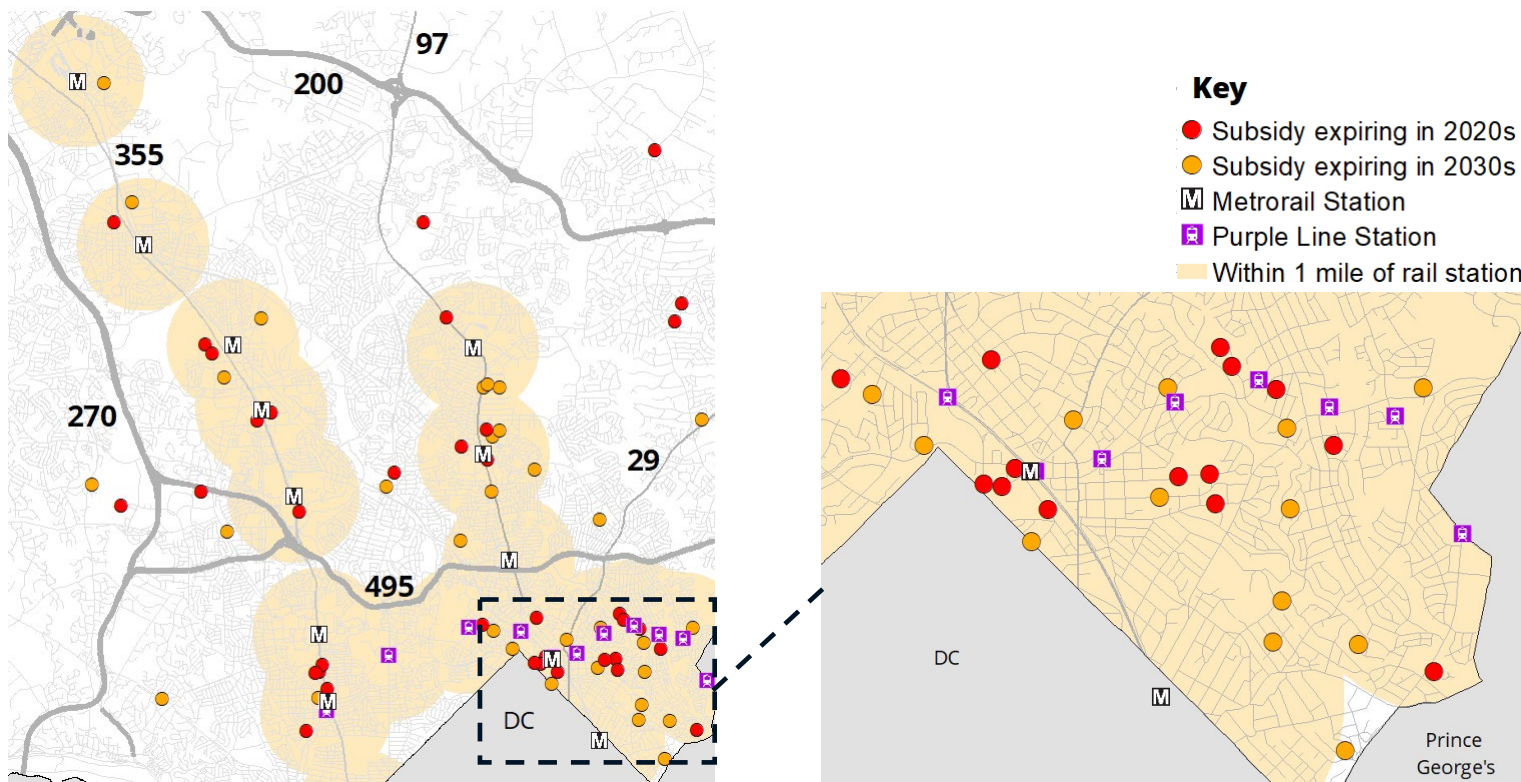
Risk Criteria	Description
Upcoming subsidy expirations	Subsidy expirations set to occur in the 2020s and 2030s. Property owners with near-term expirations are more likely to explore options ahead of the expiration date, which could include new ownership, rehabilitation, renovation, and redevelopment, all of which could impact affordability.
Ownership type	For-profit ownership or non-profit ownership. Properties owned by for-profit entities are more likely to be lost from the deed-restricted rental stock once the subsidy compliance period ends. Properties that are owned by non-profit and mission-based entities are more likely to work with the County to find solutions to extend the affordability period to align with the goals, mission, and vision of their organizations.
Age of buildings	The age of a building can play a significant role in the decision-making process of apartment owners. Many of the decisions can directly impact affordability. Typically, if a building is 30 years or older, renovations, rehabilitation, and redevelopment become more common scenarios. Major investments into a property are more likely to trigger a rent increase and could therefore impact the affordability.
Proximity to transit	Properties near transit infrastructure are more likely to command higher market rents when subsidy expirations expire, and in some cases are more likely to be facing redevelopment pressures.
Rent trends in neighborhood	Deed-restricted rental properties located in neighborhoods with rising rent trends are more likely to lose affordability when the subsidy compliance period expires.
Income trends in community	Rising income levels in communities around deed-restricted rental properties could have an impact on market-rents, and therefore increase the possibility of rent increases when the subsidy compliance period expires.

Proximity to Transit Infrastructure

About 62% of the deed-restricted units that are set to expire in the 2020s and 2030s are located within 1 mile of a rail transit station (existing or planned).

Most of these units are clustered around the Silver Spring, Bethesda, and Wheaton Metrorail stations, all of which have experienced increased development activity/pressure in recent years. There are 2,085 deed-restricted units that are expiring in the next 20 years that are located within 1 mile of a Purple Line station.

2020s/2030s Subsidy Expirations and Rail Transit



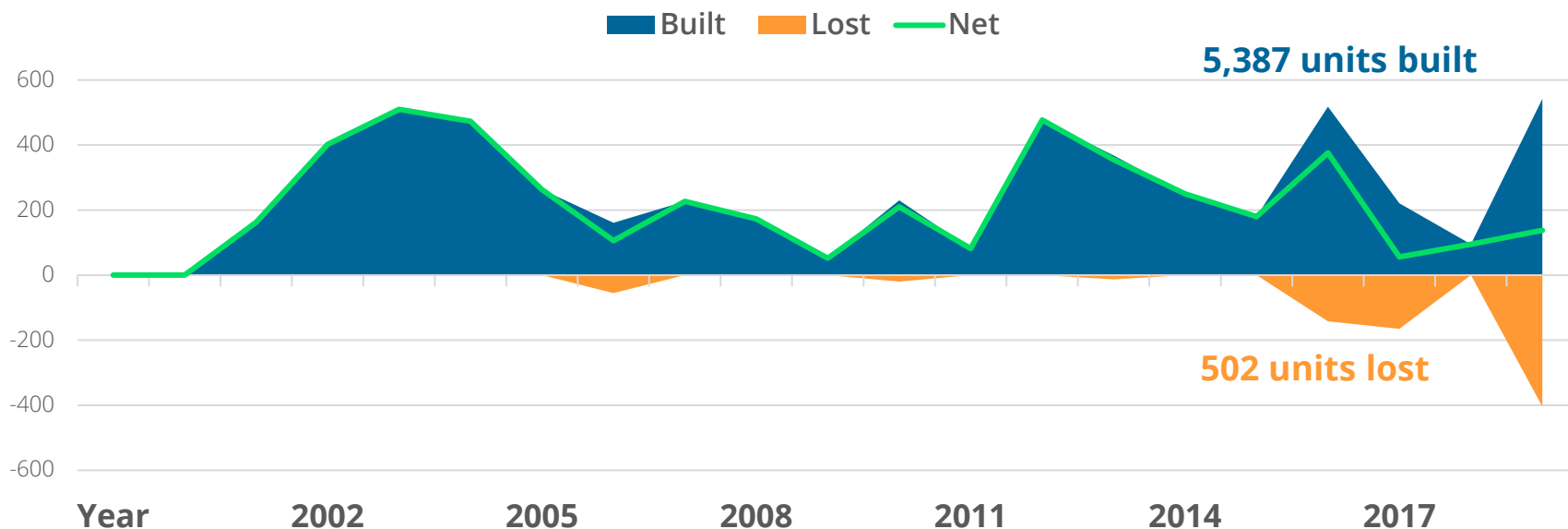
Source: DHCA, NHPD, HUD, WMATA, MDOT

Deed-Restricted Inventory Loss and Gain

Overall, the County has been gaining deed-restricted rental housing stock at a faster rate than it is being lost. Since 2000, approximately 502 deed-restricted rental housing units have been lost from the inventory.

In 2000, the County began to implement preservation strategies for the deed-restricted rental housing stock that was at risk of being lost. A series of tools and policies have been used (often in tandem) over the years to effectively preserve deed-restricted rental housing in the County.

Net Change in Deed-Restricted Rental Housing 2000 – 2019



Source: DHCA, NHPD, HUD, MD Dept. of Assessments and Taxation, Montgomery County Property Tax Records

Properties Most At-Risk

Based on the risk assessment, there are about 1,400 deed-restricted units that are the most at risk of losing affordability when their respective subsidy compliance periods expire over the next 2 decades. Notably, all these higher-risk units are affordable below 60% AMI, many of which are at or below 30% AMI.

2020s/2030s Subsidy Expirations, Higher-Risk Properties

Property Name	Subsidy Expiration	Subsidized Units	AMI			Rail Transit < 1 mile	Ownership Type	Building Age (Years)	Census Tract Trends (2012 to 2017)	
			<30%	40% - 60%	60% - 80%				Median Rent	Median HH Income
Heritage House	2021	100	100	0	0	Yes	For-Profit	39	13%	7%
Silver Spring House	2022	46	0	46	0	Yes	For-Profit	57	9%	1%
Lenox Park	2022	82	0	82	0	Yes	For-Profit	29	7%	1%
Sligo House Apartments	2024	50	0	50	0	Yes	For-Profit	61	9%	1%
Croydon Manor	2027	96	0	96	0	Yes	For-Profit	71	7%	11%
Fields At Bethesda	2029	369	0	369	0	Yes	For-Profit	67	9%	-3%
Franklin Apartments	2030	185	185	0	0	Yes	For-Profit	65	16%	26%
Fields Of Gaithersburg	2031	168	0	168	0	No	For-Profit	46	20%	15%
Barrington Apartments	2037	310	125	185	0	Yes	For-Profit	68	24%	-4%

Source: DHCA, NHPD, HUD, MD Dept. of Assessments and Taxation, Montgomery County Property Tax Records, Census Bureau 5-Year ACS

Naturally Occurring Affordable Housing | Key Takeaways

25,900 units are currently affordable to households earning at or below 65 percent of AMI. The unrestricted units at these rent levels are naturally occurring affordable housing.

Key Takeaways

- **78% percent of all NOAH housing was built before 1990, with a plurality built from 1960 to 1989.**
- **Between 7,500 to 11,000 units of NOAH are projected to be lost between 2020 and 2030.**
- **The largest stock of NOAH is in smaller buildings—with fewer than 20 units.**
- **NOAH largely lies on the east side of I-270 and outside the Beltway and is consistent with areas that have seen less growth in high-income demand.**
- **Property ownership transfers correlate closely with rent shifts and loss in NOAH.** Between 2010 and 2019, NOAH properties made up over half (57%) of property transfers of non-deed-restricted buildings.
- **Proximity to transit is a strong signal for loss in units under \$1250, especially for stations inside the beltway.**

Preservation Framework | Unit Loss

There are four key ways in which a housing unit can be lost from the affordable stock. Each has different implications for how we approach preservation.

Physical Deterioration

As a NOAH or deed-restricted affordable property ages, there is insufficient investment in the property to maintain habitability, and the property is eventually removed from the building stock. This can result from insufficient cash flow from operations, poor management and/or intentional neglect.

Erosion of affordability via rent increase

If rents in NOAH properties increase faster than tenant incomes, eventually some rental units will no longer be considered “affordable,” despite no other changes to the property, building, or business model.

Value-add Investment

In response to market demand from middle- and high-income rental properties, NOAH or expiring deed-restricted properties may undergo light-to-moderate rehabilitation to improve the property to be repositioned in the rental market or convert to for-sale condominiums. This process may be initiated by a transfer in ownership.

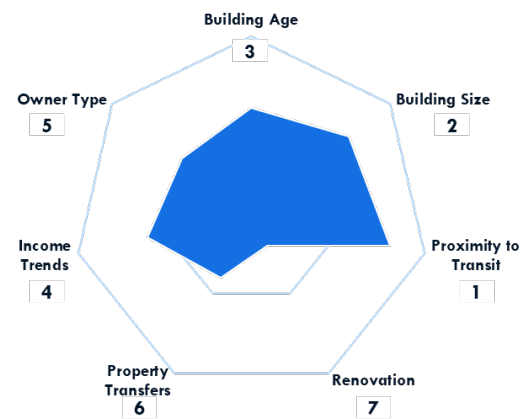
Redevelopment

In areas where the market can support redevelopment, an owner may completely redevelop a NOAH or expiring deed-restricted property, which can include a full rehabilitation, demolition and new construction, or a combination of both approaches. Such properties are generally targeted at the top of the market to offset the major investment in the property.

NOAH Risk Criteria

Based on our findings, proximity to transit, building size, income trends, and building age are the greatest risk indicators for NOAH units to lose affordability.

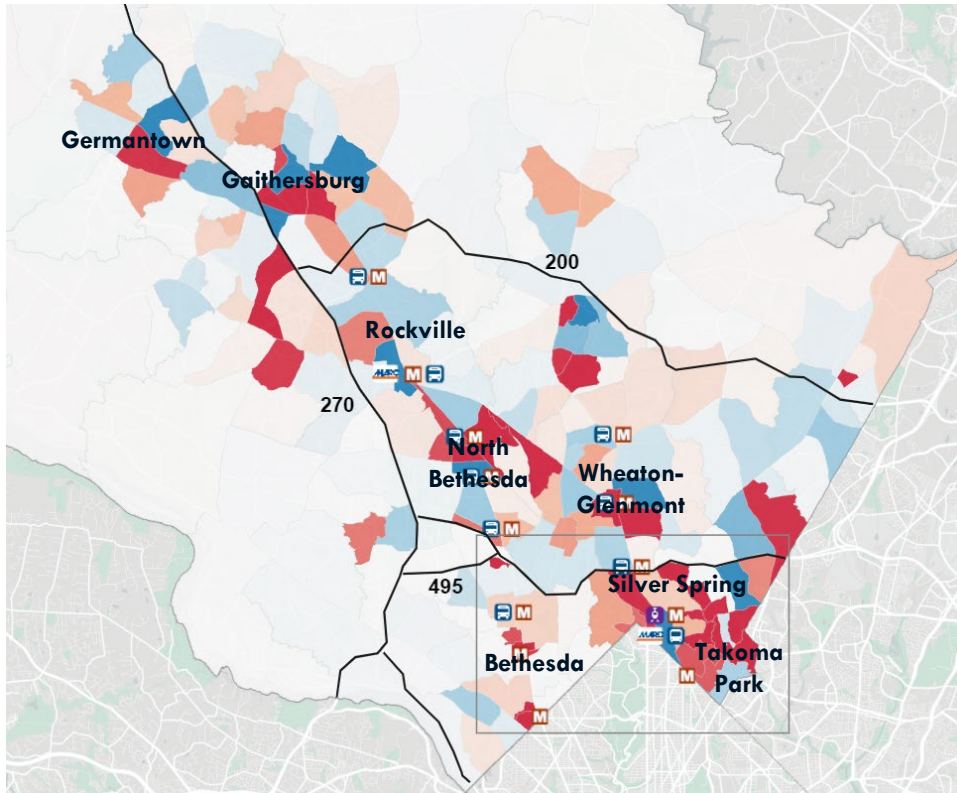
Risk Factor	
Building Age	While we did not find a linear relationship, we found that older units built between the 1960s and 1970s have the greatest risk for redevelopment or increase in prices as the neighborhood around them shifts.
Building Size	Smaller buildings are more likely to be affordable, but are losing affordability rapidly as 5 – 9 unit buildings are sold to larger investors. Larger properties that are affordable are most likely to be deed-restricted.
Proximity to Transit	Proximity to transit and new infrastructure is the strongest indicator for increase in assessment land values and rents, although jurisdictional zoning and transit access (not just proximity) remain key confounding variables.
Renovation	Although a large capital investment suggests an increase in future revenue, the data remains unclear on the quantitative effect on rents in Montgomery County. More longitudinal data may be required to assess long-term impacts.
Property Transfers	Property transfers and sales are a lagging indicator of NOAH risk—as investors see increasing rents, more transfer activity occurs.
Owner Type	Consistent with findings around building size, larger property owners (with 10+) units tend to own properties at risk of loss.



Sources: DHCA, ACS 2018 1-year

Proximity to Transit

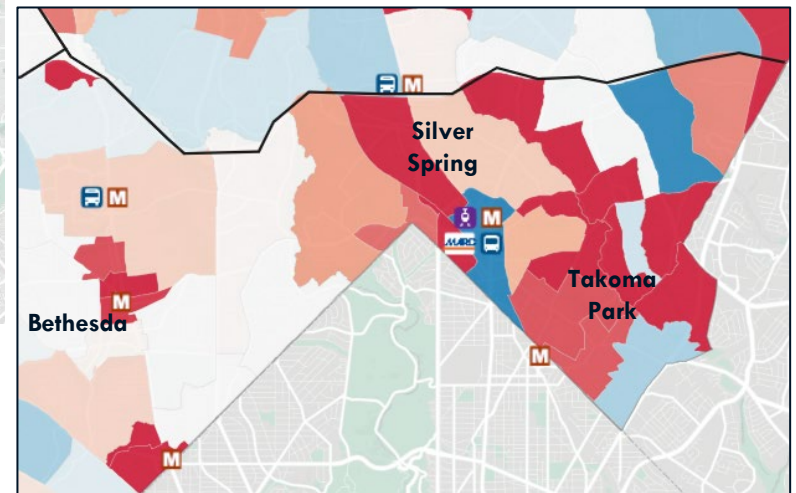
Proximity to transit is a strong signal for loss in units under \$1250, especially for stations inside the Beltway.



 Metro Station

Decrease in <\$1250 units  Increase in <\$1250 units

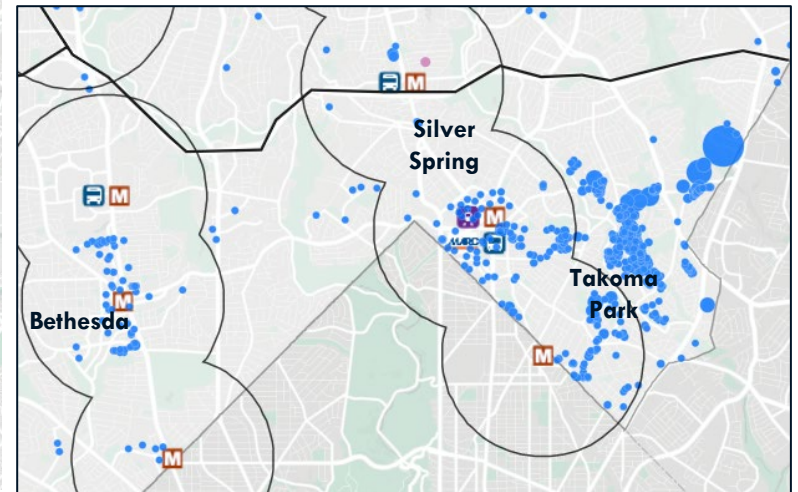
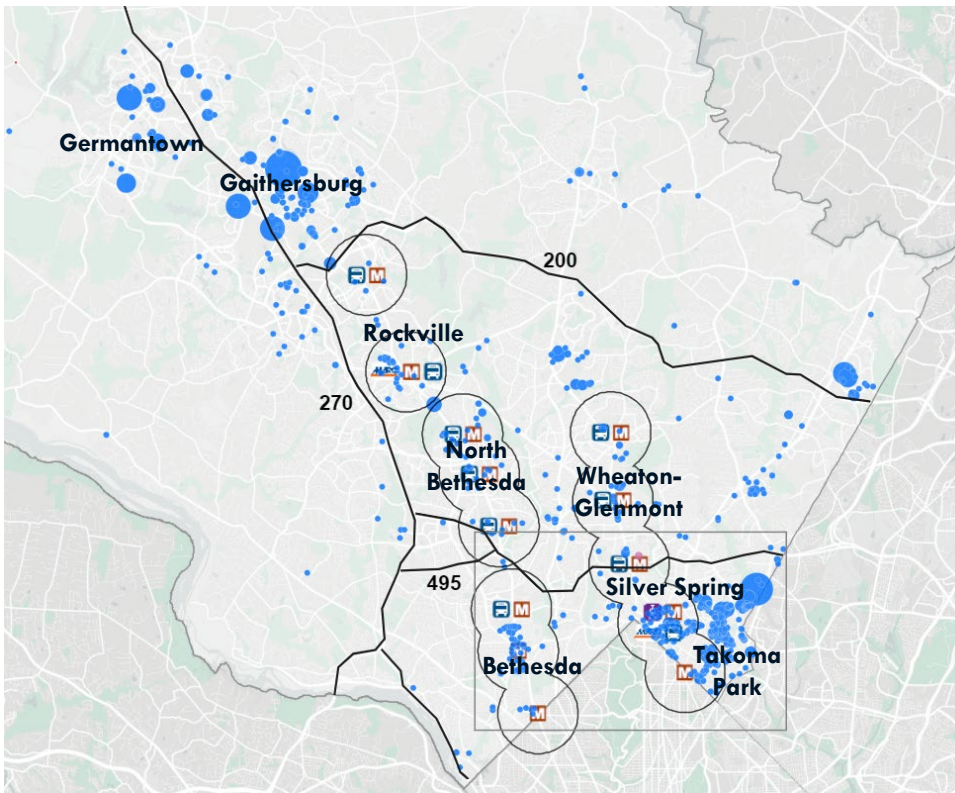
Per-acre change in units renting for <\$1250, 2010-2018
(per-acre calculation to adj. for submarket density)



Proximity to Transit

Roughly 2,300 (or 8% of all NOAH units and 2% of the total housing stock) are “at risk” and within one mile from transit.

Inventory of NOAH Properties + 1-Mile Radii Around Existing High-Capacity Transit Facilities

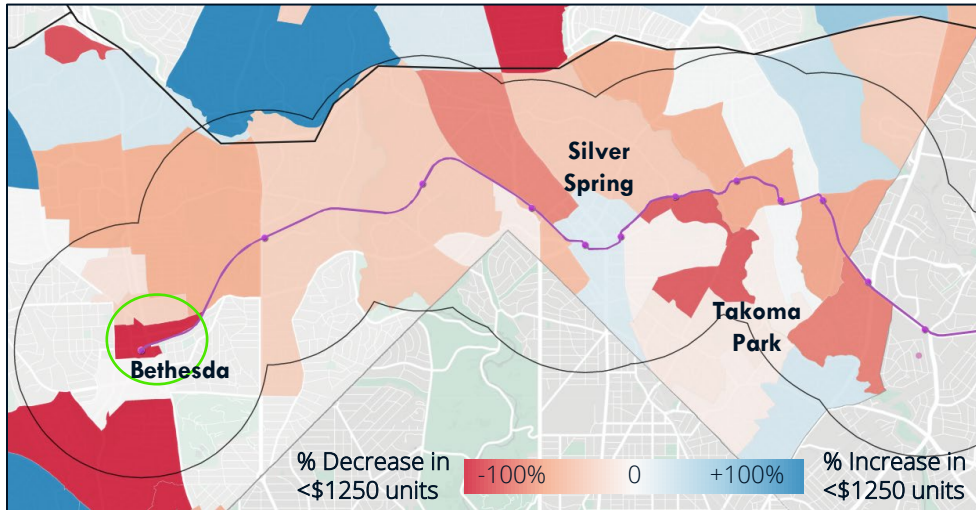


 Metro Station  NOAH units (bubble size ~ # of units)

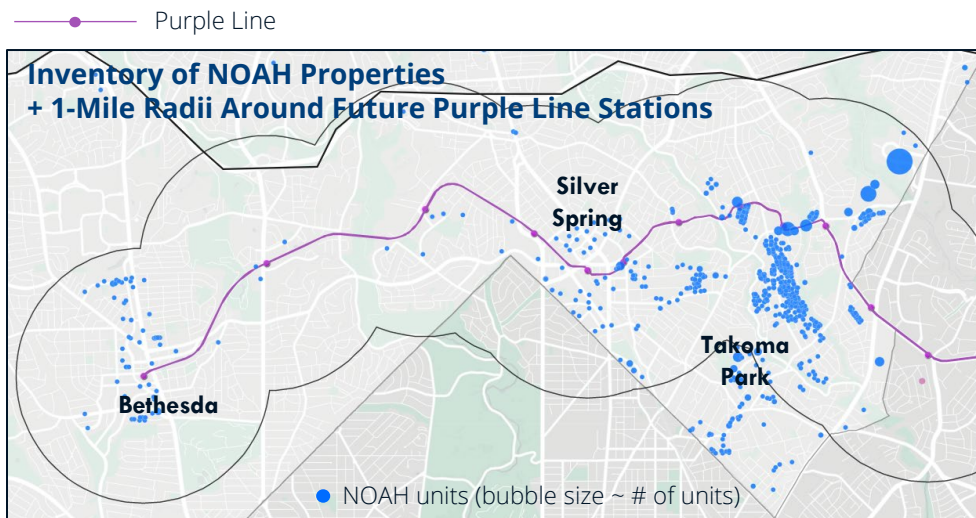
Sources: 2018 ACS 5-Year Estimates; MoCo Parcel Database; DHCA Data

Proximity to Transit – Purple Line

**Percent Shift in Rental Units Priced \$1250 and Below, 2010 – 2018
+ Prospective Purple Line Stations**



Areas along the planned Purple Line have already demonstrated a rapid decrease in low-rent units in the past decade. The loss of low-rent units has been most rapid around the Bethesda Metro station.

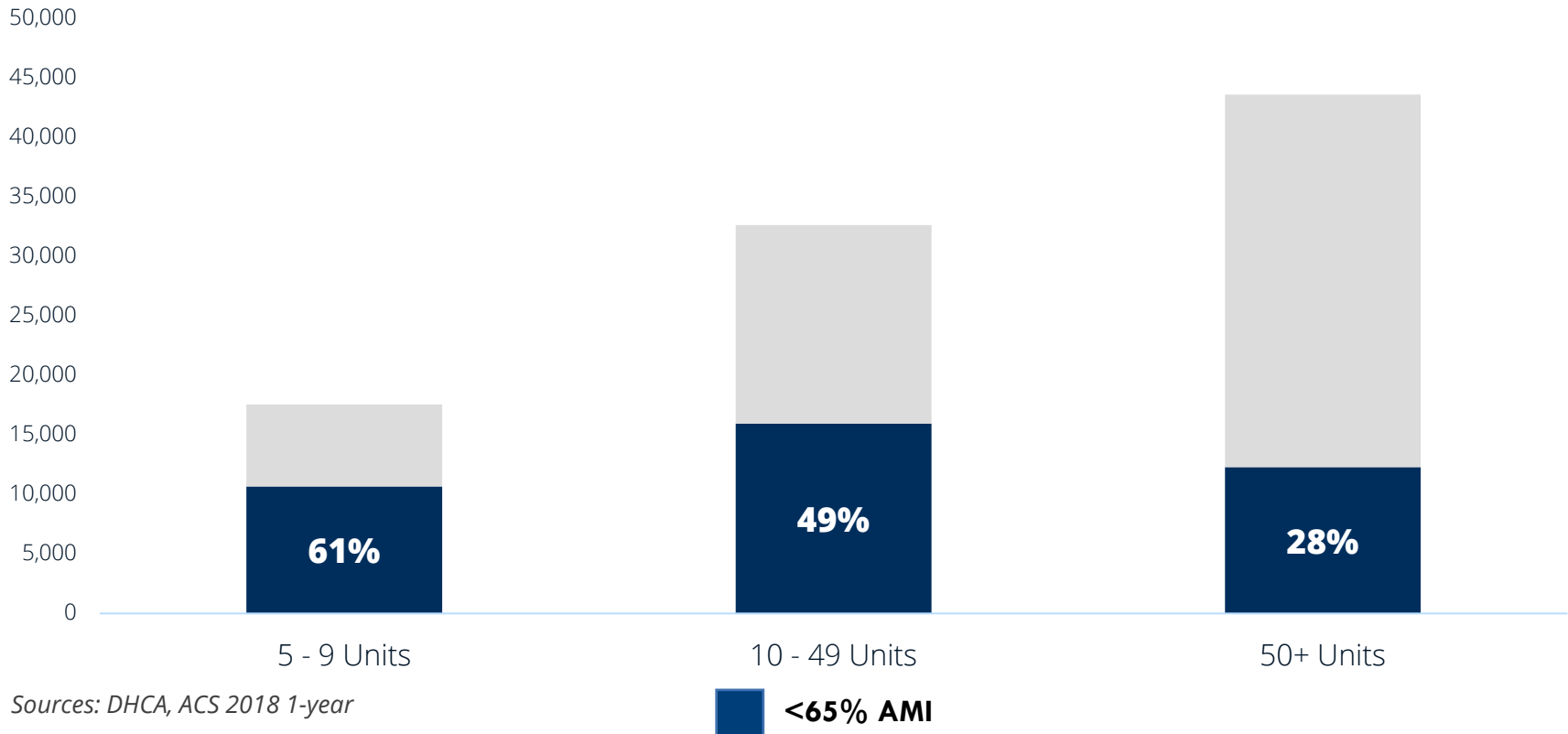


Sources: 2018 ACS 5-Year Estimates; MoCo Parcel Database; DHCA Data

Building Size

Over half of units in buildings with fewer than 50 units are affordable to households earning up to 65% of AMI.

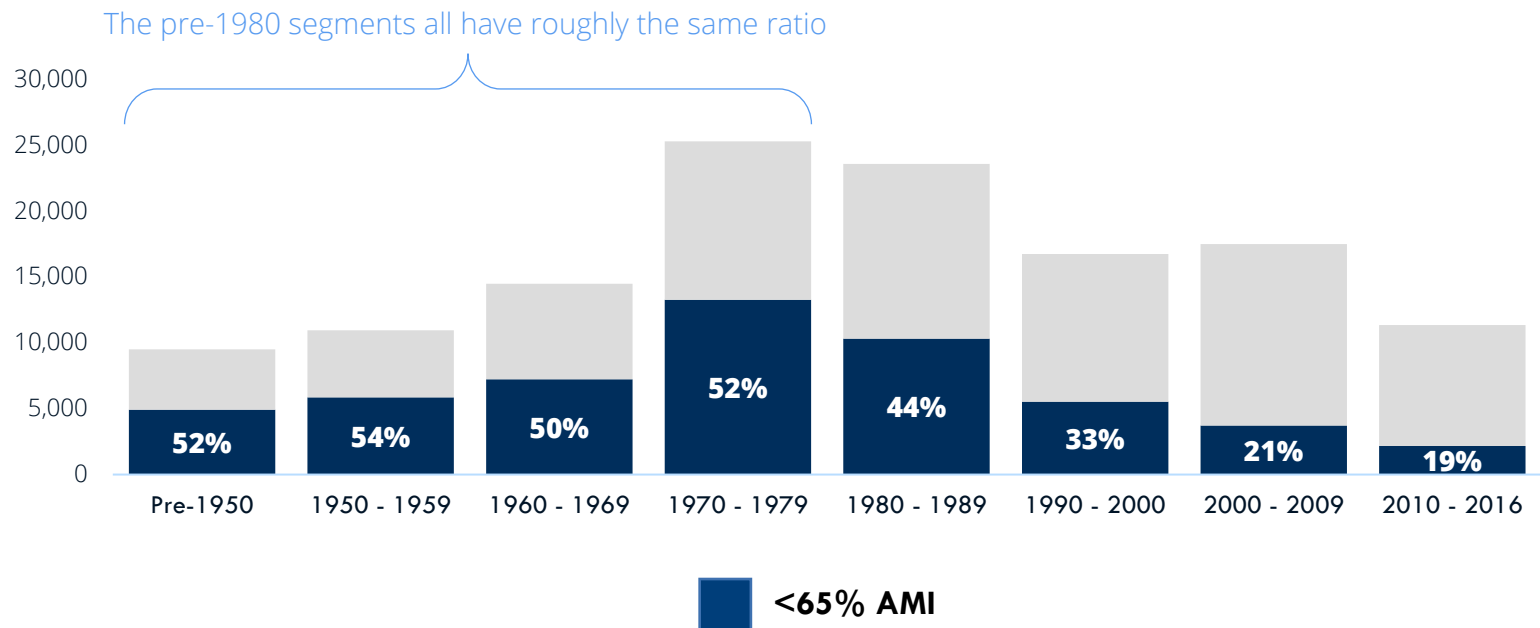
Units Built by Decade and Affordability Level (+/- 65% AMI households)



Building Age

78% of units affordable to households earning up to 65% AMI were built before 1990.

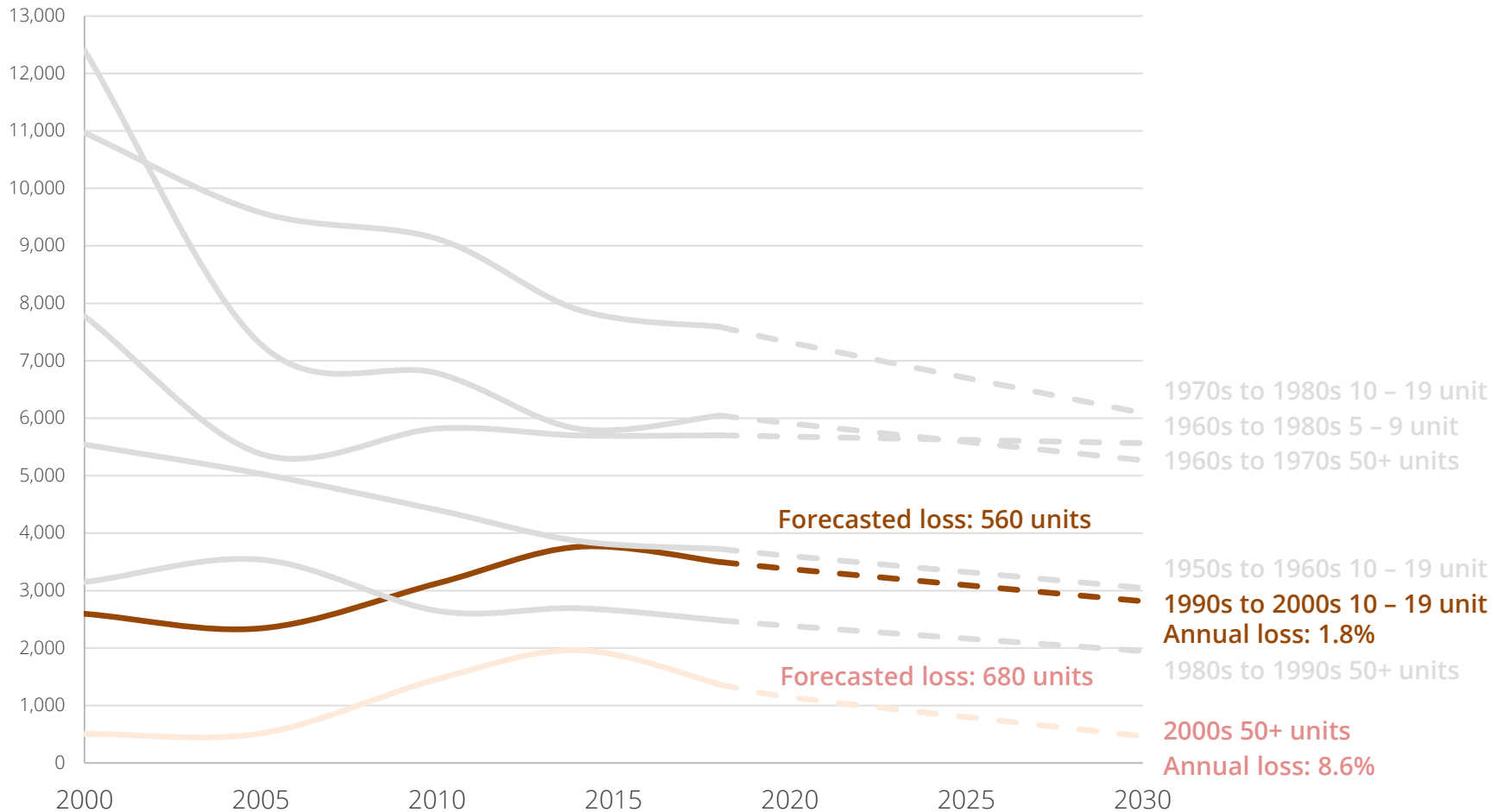
Units Built by Decade and Affordability Level (+/- 65% AMI households)



Sources: DHCA, ACS 2018 1-year, CoStar

Future Trends by Building Typology

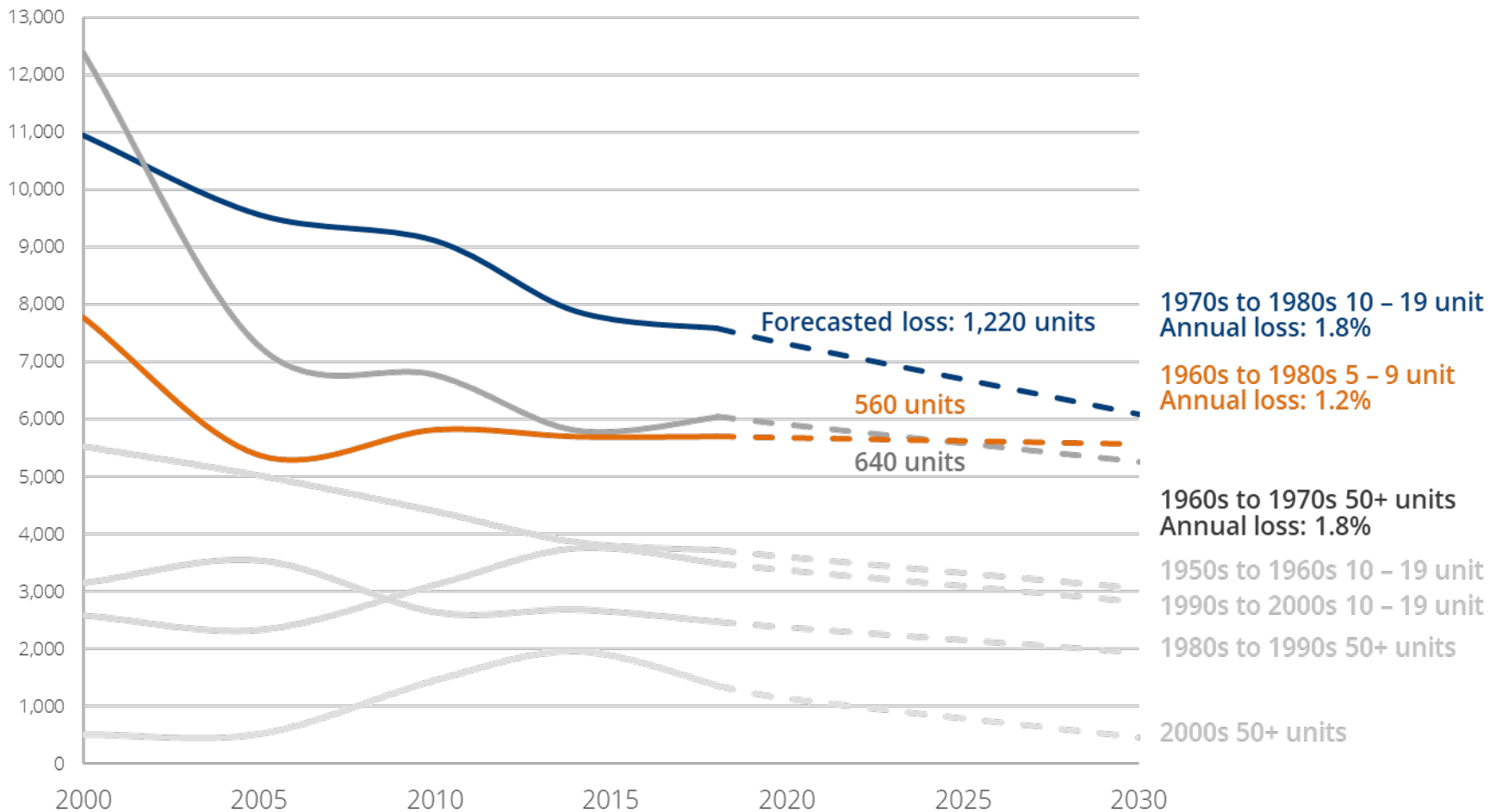
There are fewer newer NOAH units (built after 1990s), but they are losing units at a faster rate



Sources: DHCA, ACS 2018 1-year

Future Trends by Building Typology

Older units built between the 1960s and 1970s are projected to be lost slower rate, but account for a larger share of lost units.

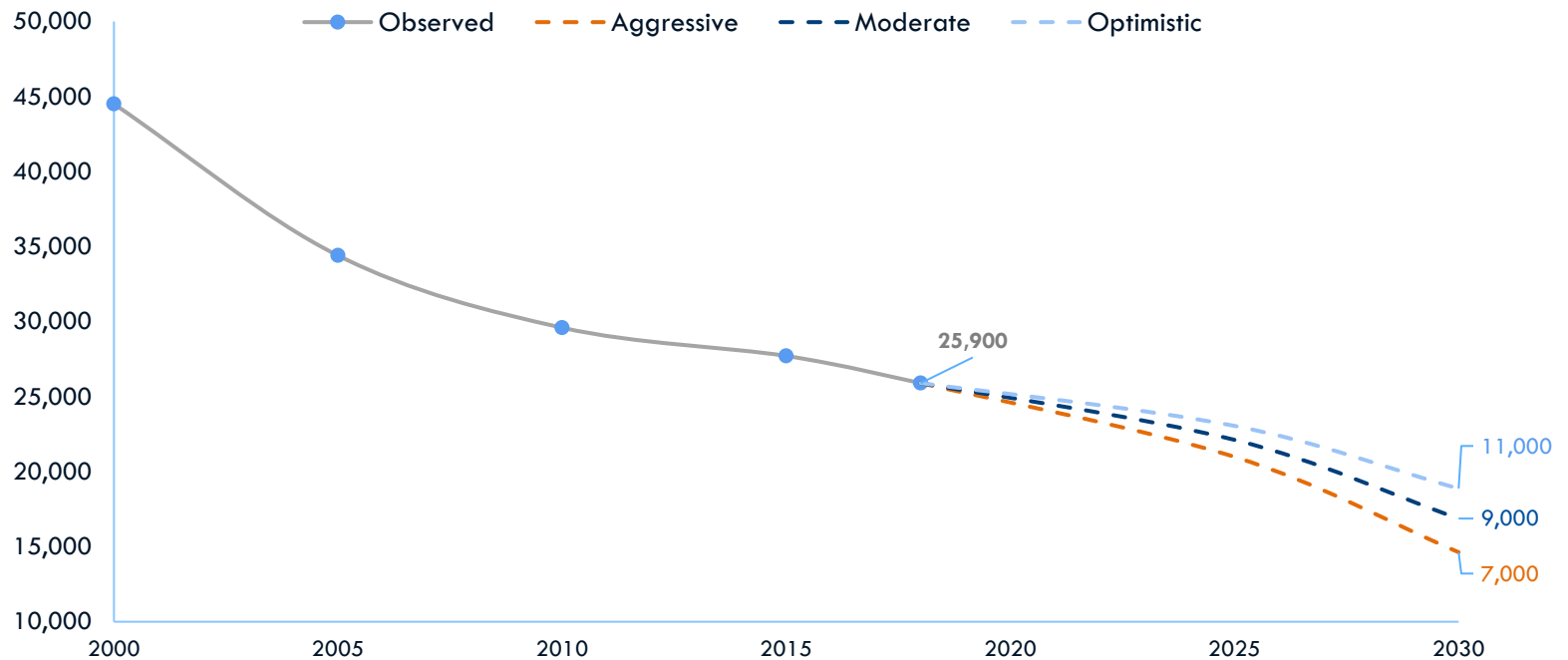


Sources: DHCA, ACS 2018 1-year

Projected Change

Based on these criteria, we forecast a loss of NOAH between 7,000 – 11,000 units by 2030.

Units Classified as NOAH 2000 – 2030 (forecast)



Sources: DHCA, ACS 2018 1-year

Projected Change

Based on these criteria, we forecast a loss of NOAH between 7,000 – 11,000 units by 2030.

Common NOAH Property Typologies by Category (sorted by projected loss of affordability)

Typology	Total Units <65% AMI	Estimated Loss (2020 – 2030)
1970s to 80s 10 - 19 unit	5,080	1,227 units
Post-2000 50+ unit	917	680 units
1960s to 1970s 50+ unit	4,046	650 units
1990s to 2000s 10 - 19 unit	2,342	560 units
1950s to 1960s 10 - 19 unit	2,493	550 units
1980s to 1990s 50+ unit	1,662	440 units
1960s to 1980s 5- 9 unit	3,817	120 units
Total	20,357	4,200 units (50% of total loss)

Sources: DHCA, ACS 2018 1-year

There are two primary conditions required to preserve a property:

1. Achieve a sustainable financial position.

The property must generate a net operating income (NOI) to sustain operations and repairs. If a property cannot sustain itself through NOI, it is at risk of being lost through lack of upkeep or be sold through a distressed sale.

2. Protected from exposure to market pressure.

There are a two key ways to ensure that properties are not exposed to existing market pressures:

- A legal restriction, policy or loan agreement that regulates the increase of rent on the property; or
- Transferring ownership to non-profit motivated owners (mission-oriented nonprofits, tenant ownership.)

There are three primary intervention points to preserve buildings: change in **ownership**, **recapitalization**, and **redevelopment**.

When a property is bought or sold, facilitating transfer to mission-driven ownership can restrict rent increases. The property must generate a net operating income (NOI) to sustain operations and repairs. If a property cannot sustain itself through NOI, it is at risk of being lost through lack of upkeep or be sold through a distressed sale.

Preservation Framework | Policy Categories

There are five key policy categories in which different permutations of preservation approaches can be combined to develop a sustainable preservation framework for Montgomery County.

Strategy and outreach	Analyzing preservation needs, opportunities, approaches, and interventions in the local context; and coordinating and executing efforts (often across agencies) to achieve identified goals and targets.
Land use and planning	Leveraging the rules governing or guiding development within a jurisdiction (including zoning codes and area plans) to incentivize or require preservation of affordability.
Tenants' rights	Leveraging the rules that govern how various stakeholders (owners, property managers, developers) participate in the market to preserve affordability and protect tenants.
Capital financing	Providing the financial resources necessary to undertake preservation interventions.
Operating subsidy and cost reduction	Operating subsidy/cost reduction: Offering incentives and resources that make it financially feasible for landlords/owners to offer reduced rents to lower-income tenants.

The most appropriate preservation approach and intervention is likely to depend on multiple factors, including but not limited to: the type of unit (NOAH, expiring deed-restricted); risk of loss; most likely loss type(s); property characteristics (scale, building typology, location, redevelopment potential); and priorities for resource allocation. **All these tools will be required for an effective preservation framework.**

Preservation Framework | Recommendations

There are five key policy categories in which different permutations of preservation approaches can be combined to develop a sustainable preservation framework for Montgomery County.

Category	Key Recommendations
<p>Strategy and outreach</p>	<ul style="list-style-type: none"> • Triage opportunities to preserve affordability, focusing on near-term opportunistic approaches such as COVID-19-related policies to bridge towards future comprehensive preservation efforts. • Ensure that preservation efforts promote and do not hinder opportunities for new development, one of the key tools to keep market pressures from increasing rents on existing buildings. Studies across the country¹ have found increases in new development restrictions exacerbate disparities and increase overall rents. Increasing overall supply while preserving existing affordable units will result in increased affordability across neighborhoods where demand pressure is the highest.
<p>Land use and planning</p>	<ul style="list-style-type: none"> • Allow or incentivize directly preserving existing NOAH as an alternative to MPDU compliance. • Consider a transfer of development rights program that builds off the County’s agricultural TDR program to preserve priority existing affordability and continue to designate affordable housing as a public benefit.
<p>Tenants’ rights</p>	<ul style="list-style-type: none"> • Consider studying an expansion rent stabilization after the Covid-19 crisis following the 90-day rent relief bill. Rent stabilization needs to be designed carefully to ensure a healthy pipeline of new development along with preservation of residents at risk (especially in areas along the Purple Line expansion). Such a policy will need to be studied to ensure that development is still incentivized to increase the overall housing supply.
<p>Capital financing</p>	<ul style="list-style-type: none"> • Explore opportunities to expand the Housing Initiative Fund to meet the needs of the preservation pipeline. • Adjust HIF administration guidelines to align with new LIHTC income averaging regulations. • Review allocation decisions to ensure that funding criteria promotes preservation, especially at lower income levels.
<p>Operating subsidy/cost reduction</p>	<ul style="list-style-type: none"> • Expand utilization of rental agreements through the County’s PILOT provision. • Evaluate the previous County reduced rent program for elderly tenants and explore development of a new preservation property tax credit.

1: The White House (Obama Administration) Housing Affordability Toolkit, September 2016