Pathway to 255 Deeply Affordable CAFs at Barcroft Apartments
An update to ACF's Fall 2022 Analysis

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For decades, the Barcroft Apartments have provided housing affordable to residents with a diverse array of incomes and backgrounds, including many of Arlington's lowest income households. The December 2021 purchase of the property by Jair Lynch (JL), with support from Amazon and Arlington County, was accompanied by a commitment to permanent affordability for 1,334 units at 60% AMI (Area Media Income) for 99 years and a promise that no legacy tenants (those in residence at time of sale) would be involuntarily displaced.

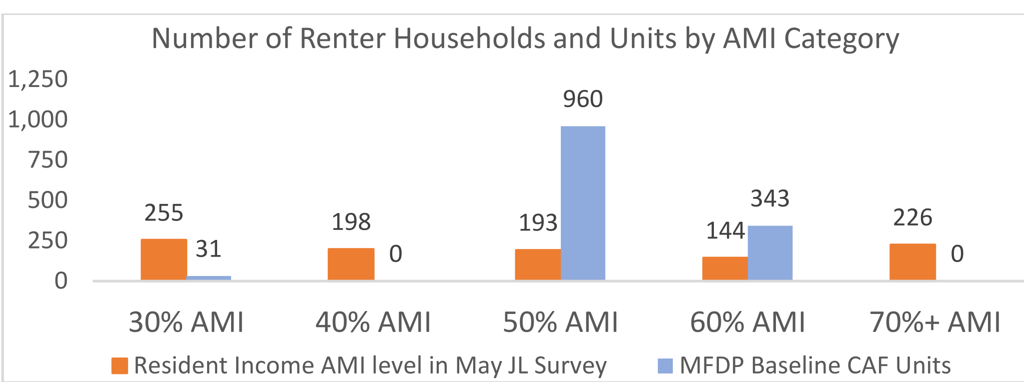
In September 2022, Arlington Community Foundation called for—and is still committed to achieving— deepened affordability across the 1,334 unit commitment to include 255 units committed at 30% AMI for at least 30 years. We must not lose sight of the fact that this is an unprecedented opportunity to invest in affordable unit conservation over the next decade and avoid pressure from residents of Barcroft on the Arlington Housing Grant program for the ensuing 30 years.

Most recently, we have examined the Master Financing and Development Plan (MFDP) submitted by Jair Lynch Real Estate Partners in October 2022. Our updated modeling using this information demonstrates that **achieving 255 30% AMI committed affordable unites (CAFs) at Barcroft Apartments is within reach.** There are many ways that the tools we previously identified—additional density, income averaging, targeted use of 9% LIHTC (Low Income Housing Tax Credit) funding, and buy-downs using cash from a variety of sources—can be combined to achieve this.

Crucially, the three partners—Jair Lynch, Amazon, and Arlington County— MUST agree on this 30% AMI CAF goal as soon as possible to drive the expected finalization of the MFDP in mid-2023. The MFDP as proposed is currently under consideration by County staff, and an updated plan will eventually be finalized through County Board action following a public process. Community engagement opportunities will be available soon.

Why ACF believes 255 Units at 30% AMI is the appropriate long-term commitment

In May 2022, Jair Lynch had its management company conduct a survey of current residents. Residents were asked to report their household income. 255 Barcroft households reported they earned at or below 30% AMI as of May 2022, as shown in the orange bars below. Unfortunately, the MFDP Baseline plan (shown in blue bars below) is closely aligned to the number of households who reported their actual rent (not their income) in October 2022. At that time, only 30 households were found to be paying a rent appropriate to a 30% AMI income.



Source: Jair Lynch Barcroft MFDP p. 40 and May 2022 Barcroft household survey. Household survey data for 70%+ includes those reporting up to 100% AMI.

ACF and the signatories on our Call to Action believe that 255 is the correct number of 30% AMI units to aim for long term. Achieving that number will mean Barcroft can continue to provide affordable options for future residents at this income level in the long run. At full development, with the planned addition of a significant number of market rate apartments, these 30% CAFs would likely represent less than 8% of the property's total inventory.

Jair Lynch MFDP Baseline funding proposal summary

The October MFDP laid out a proposed financing framework for how Jair Lynch will achieve the preservation and replacement of the 1,334 affordable apartments on the Barcroft site. The framework contains a "Baseline" and a discussion of ways that the plan could move "beyond the Baseline" through additional development, affordability, and amenities on the site.

The Baseline plan uses federal 4% Low-Income Housing Tax Credits (LIHTC) and tax-exempt bonds together with the gap financing already obtained from Arlington County and Amazon. This is a solid (and safe or conservative) solution for most of the project because the sources are generally available and not awarded through competition therefore providing the most certainty. Overall, these tools achieve an average of 48% AMI affordability within their baseline 1,334 units, which is significantly below the original expectation of 1,334 60% AMI CAFS. However, their baseline still does not reflect the full range of incomes present today in the Barcroft apartments.

The MFDP Baseline uses $298 million in gap financing out of the available $310 million from Arlington County and Amazon. **The Baseline leaves $11.6 million from the original financing available to go "beyond the Baseline" through deeper affordability, additional amenities, transportation, and open space.**

Moving beyond the Baseline to achieve 255 30% CAFs: An illustrative pathway using three key tools

We recognize that there are multiple pathways to achieving this 255 units at 30% AMI target with a site of 60 acres developing over a 10-year (or greater) horizon. We have analyzed the MFDP to update last fall's analysis to demonstrate one of these potential pathways. The data we use in our analysis is all publicly available, the bulk of which was released as part of the MFDP in October 2022. We have also been mindful of the full range of incomes reported by residents in May 2022 and have included in this illustrative pathway CAFs at 30-70% AMI.

1. **More New Construction, Fewer Renovations**

   The MFDP assumes that 1,004 units will be conserved per the Columbia Pike Neighborhoods Plan and renovated, with the balance of 330 units being replaced with new construction. Per the MFDP, there is a higher per-unit cost for renovation which requires more gap financing per unit. Our illustrative pathway shifts units from renovation to new construction, providing a more cost-efficient solution. This shift of 200 units at the 50% AMI level from the renovation to new construction would yield a savings of $12.4 million that can be reinvested in deepening affordability. ***We believe the County Board should strongly consider this change to the Columbia Pike Neighborhoods Plan.***

2. **Use Income Averaging**

   As we described in our 2022 work on approaches to deeper housing affordability, income averaging is a relatively new IRS tool available for LIHTC projects whose purpose is to allow a project to reach lower levels of affordability by shifting some units to incomes at 70-80% AMI levels in exchange. Using this approach at Barcroft allows Jair Lynch to create a smoother rent distribution that better reflects the income levels in the community, from the 30% AMI level up to 70% AMI. In our illustrative pathway, we were able to achieve 235 units toward our goal of 255 units at 30% AMI by shifting 154 units to the 70% AMI level. Use of income averaging also allows for a more even distribution of rent levels from 40-60% AMI reflecting today's household income reality (see the green bars in the graph on page 4). ***We believe the three partners should embrace use of this tool in the finalized MFDP to achieve low income CAFs.***

3. Include a 9% LIHTC Project

Among the financing solutions available for affordable units, the federally-funded 9% LIHTC program is the most efficient from a gap financing perspective, providing the largest amount of gap financing per 60% AMI unit of any program devoted to affordable housing. The MFDP provides an analysis of 9% LIHTC but concludes that the competitive annual allocation process is too uncertain to include this program as a financing source for the plan.

However, we believe that a project of the significance of the Barcroft Apartments should be able to receive at least one allocation of 9% LIHTC over the 10-year period of the plan. Strategies such as using a hybrid 4% - 9% deal structure and the County's potential commitment of project-based Section 8 and/or supportive housing allocations can help the project score favorably in a competitive environment.

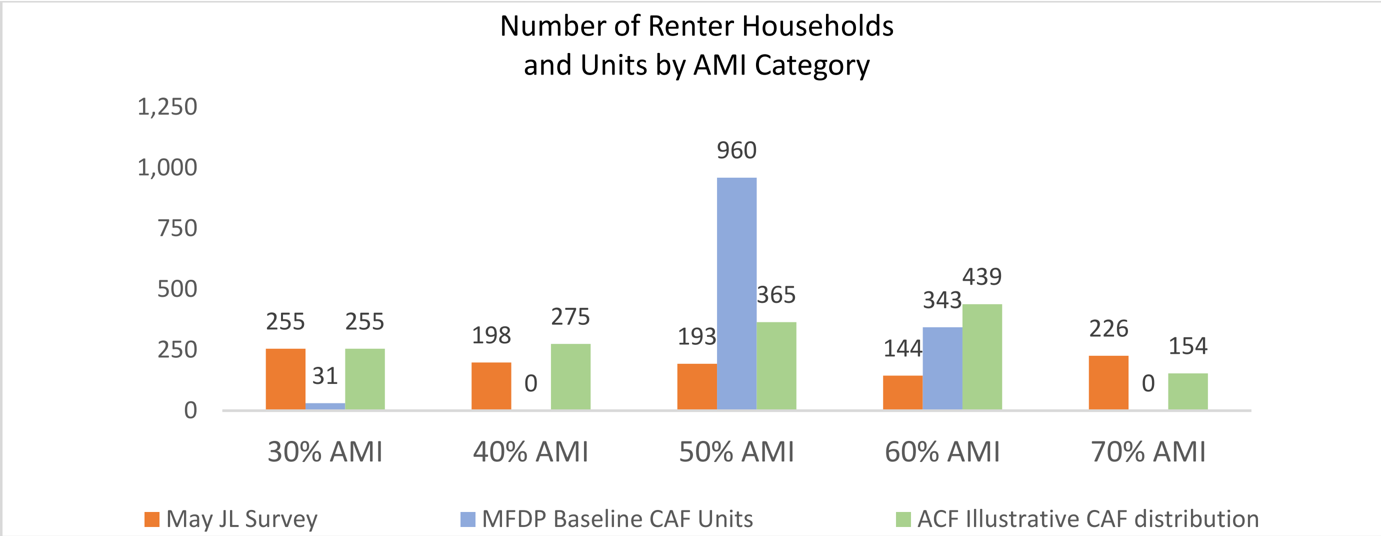
Our illustrative analysis incorporates 9% LIHTC funding for 154 units at 60% AMI or below (which could be used in a single project or split into two or more projects) to counterbalance the addition of the 70% AMI units that result from income averaging. ***We believe that at least one modest 9% LIHTC or hybrid 4%-9% project should be included in the finalized MFDP - and more should be sought if feasible over the decade buildout.***

Illustrative Pathway Summary

Project Type	Units	Gap Financing
4% LIHTC Rehab ***Reduce units & use income averaging***	804 (-200)	$198 M (-$42 M)
4% LIHTC New Construction ***Increase units & use income averaging***	530 (+200)	$109M (+$51 M)
Add 9% LIHTC Project	+154	+$0.5
Total CAFs	**1,488 (+154)**	**$308M (+$9M)**
Available Gap Financing		$310 M $2.3 M remaining

Numbers in parenthesis show change from original MFDP Baseline.

Using these 3 strategies, our illustrative pathway is able to achieve the goal of 255 units at 30% AMI, a more representative distribution of rent levels overall, and a larger number of total CAFs using gap financing of only $9 million more than the Baseline shown in the MFDP. This keeps the project within the total of $310 million in gap financing available. The following graph shows how these units are distributed in comparison to the Baseline and the May 2022 resident household survey.



Additional Tools that could be deployed to deepen affordability or offset costs

4. Leverage Increased Density within the Form-Based Code (FBC)

The baseline plan in the MFDP assumes a development plan closely in line with the existing Columbia Pike FBC. Because of the overall size of the project, changes in allowable density beyond current plans can have a major impact on the project's ability to achieve affordability goals (and other community benefits) by lowering per-unit land costs and generating internal subsidy through additional market-rate development. We believe that at least two high-priority updates to the FBC should be built into the plan moving forward.

1. Shift some units from renovation to new construction to more efficiently meet the affordable housing needs on the site. This is consistent with the "beyond the Baseline" discussion in the MFDP that would expand the East Development Area (see p. 54 MFDP). The larger redevelopment area would allow for more cost-effective new construction.
2. Adjust height limits to allow more density in targeted areas such as the West Development Area and along Four Mile Run. Currently, the Columbia Pike Commercial FBC sets a height limit of four stories, whereas the Neighborhoods FBC (under which most of the site falls) allows development up to 8 or more stories. Bringing the allowable heights, particularly in the West area, into alignment with the rest of the site could bring significant development opportunities from additional density.

Our analysis identified a number of variables that will impact the potential density that can be achieved and the resulting internal subsidy that could be generated. The details such as allowable heights, amount of land area shifted from conservation to redevelopment, parking and infrastructure requirements will all play a major role in the overall outcome.

We believe the County Board should increase height and density strategically and calibrate these increases to assure the creation of a great place that embraces Arlington's long-standing transportation, environmental, recreational, and housing goals.

5. Additional Funding Sources

The MFDP Baseline does not assume any additional gap financing and subsidy sources beyond those already in place. There are a number of sources that have potential to provide additional financial resources to increase opportunities on the site and/or to decrease the amount of gap financing from Arlington and Amazon.

In particular, the opportunity to use Historic Tax Credits (HTCs) within at least a portion of the conservation area should be seriously investigated by JL. The MFDP mentions the possibility and challenges of using federal Historic Tax Credits, but there are also state credits available. Local precedents for using HTCs include the relatively recent renovation of the Fisher House II project in Westover by APAH. In that case, the project received $38k in Federal HTC and $33k in State HTC per unit. If only the State HTCs were awarded for the 800 preserved units in our illustrative pathway, this could translate into $26M in additional funding. The scale of the renovations planned for Barcroft make the potential benefit of the HTCs worth the challenges involved in seeking this funding source.

JL should, in the next few years, evaluate the financing opportunities that could come from employing the National Housing Trust Fund, Virginia Housing and Community Development Tax Credits, New Markets Tax Credits, and/or Opportunity Zone investments. Our community should expect a long-term plan with the size and significance of the Barcroft Apartments to have some flexibility built in and allow for the project to adapt to conditions and opportunities that may arise.

We believe that--throughout the implementation of Barcroft's redevelopment and expansion--efforts to identify additional sources of funding should be continued. It is hard to predict where construction and funding costs will be in 2034 and this plan should not be allowed to fail for lack of funding.

Conclusion/Next Steps

Our analysis of development scenarios provided by Jair Lynch in the Barcroft MFDP shows that achieving 255 units at 30% AMI rent levels is possible using the tools and resources available. As the MFDP is finalized in spring/summer 2023, we urge that:

- *Jair Lynch, Amazon, and the County commit to achieving 255 30% AMI units as one component of the final MFDP.*
- *The County Board amend the Columbia Pike Neighborhoods Plan to 1) shift some percentage of conserved CAFs to ones newly constructed, and 2) adjust height limits to allow more density in targeted areas such as the West Development Area and along Four Mile Run.*
- *The three partners embrace the use of income averaging to strategically achieve a number of low-income CAFs.*
- At *least one modestly-sized 9% LIHTC or hybrid 4%-9% project be included - and additional 9% or hybrid LIHTC deals should be pursued, if feasible, over Barcroft's buildout.*
- *The County Board increase height and density strategically on portions of the site and calibrate these increases to assure the creation of a great place that embraces Arlington's long-standing transportation, environmental, recreational, and housing goals.*
- T*he partners work together, throughout the implementation of Barcroft's redevelopment and expansion, to identify and pursue additional sources of funding to efficiently and effectively achieve, within the 1,334 unit commitment, housing affordable to the full range of household incomes present when Barcroft was acquired.*