Arlington Community Foundation Shared Prosperity Initiative:
Summary of Findings on Rent Subsidy and Construction Buy Down Pilots for Affordability at 30% AMI

June 2023

Our Shared Prosperity Affordable Housing Goal

In 2019, the Arlington Community Foundation Shared Prosperity Roundtable—made up of government, business and nonprofit participants—established the following community goal that guides this pilot:

> By 2024, using government and private investments, create affordability for an additional 1500 Arlington households with incomes of 30% of AMI or less using a combination of 1) financing for "bricks and mortar" units affordable at 30% AMI; 2) new rent subsidy strategies; and 3) policy changes and land use tools.

Arlington currently has about 8,000 renter households plus 2,000 households who own their homes who earn 30% AMI or less. Households at 30% AMI will always be an integral part of our community - they include people of various ages who are reliant on SSI or social security income and have limited options for increasing their income and essential workers—childcare workers, office cleaners, health aides, food service workers and more.

Arlington's challenge was and increasingly is - 8,000 low income renter households looking for homes in a high rent market.

Income challenges

Recent poverty information for Arlington indicates that nearly 24,300 individuals–just over 10% of our population–are trying to make ends meet while earning at or below 30% of our Area Median Income, or $42,690 for a family of four. Current data shows that meeting the demands of daily living costs for these Arlington households averages three times that amount.

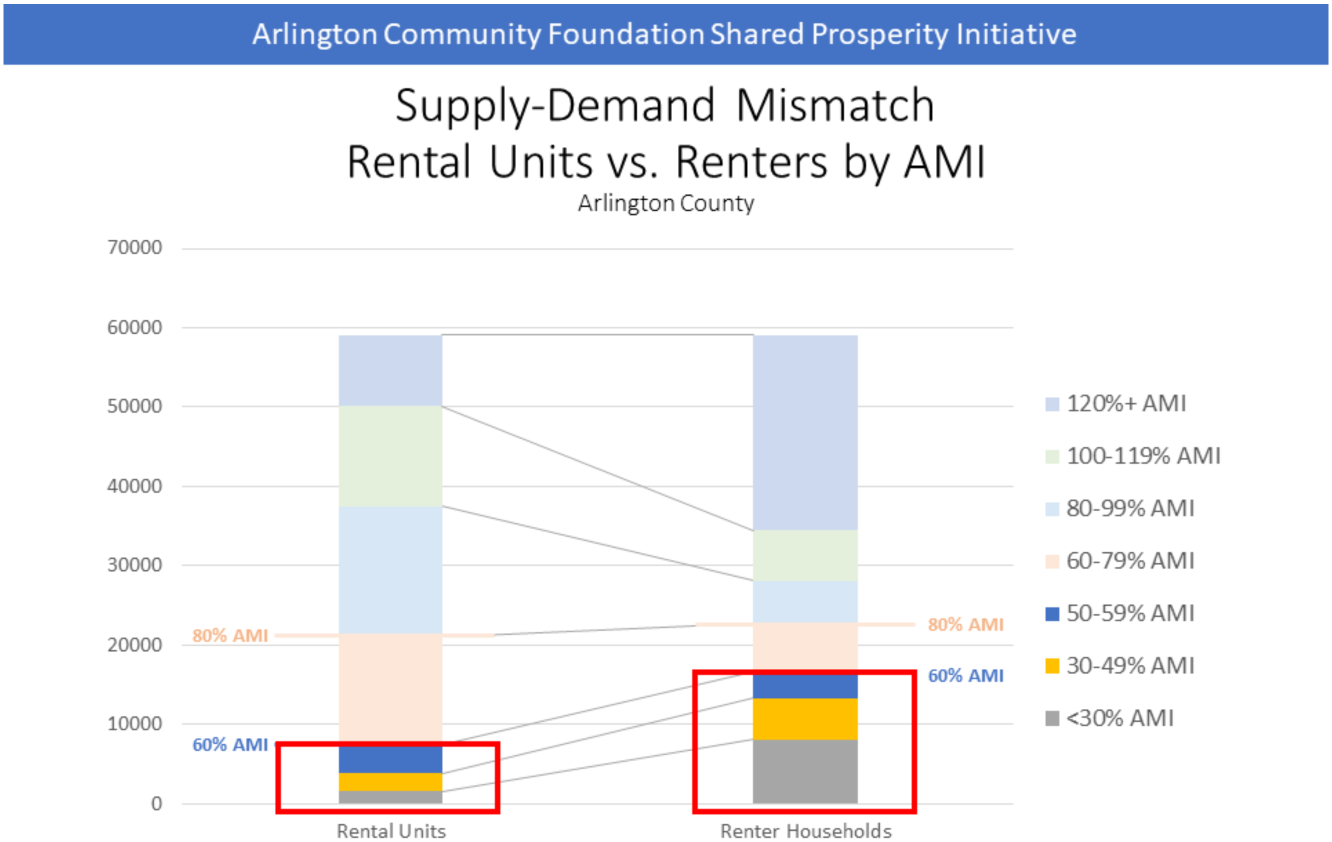
It is an unfortunate reality that the essential service jobs where many are employed pay far less than a living wage.

Arlington's Affordable Rental Market

Like many other high-cost communities in Virginia and across the country, Arlington's affordable housing strategy has relied heavily on the Federal Low Income Housing Tax Credit (LIHTC) program which has been predominately focused on providing units affordable at the 60% AMI level for decades.
As a result, Arlington has 9,800 committed affordable units at or below 60% AMI. Fewer than 1400 of these units are dedicated to 30% AMI households. Of these, only 282 units are

generally available to 30% AMI working households. The rest are set aside for special populations such as seniors or disabled persons.

This significant mismatch between committed units available to 30% AMI households and the actual number of households that earn at that level creates a significant livability gap.



There is a severe shortage of units affordable at 50% AMI and below relative to the number of households at that level. Extremely low-income households are particularly underserved, with fewer than 1600 units affordable to the 8000+ renter households in Arlington at 30% AMI or below.

Source: GMU Stephen Fuller Institute, Arlington County 2020 Updated Housing Needs Analysis

This paper summarizes our key insights and recommendations, based on lessons learned, from two small ACF pilot projects focused on reducing the cost of housing for 30% AMI renter households, more details of which can be found in the companion reports to this summary. Both pilots were initiated in early 2020:

- a rent subsidy program focused on households not eligible for an Arlington County Housing Grant or Housing Choice Voucher that lowered the cost of a unit's rent to the HUD 30% AMI rent appropriate to the number of persons in the household <u>and</u>
- investments in buildings designed to lock-in 30% AMI units for 20 or 30 years.

We are grateful to our nonprofit housing partners, AHC, APAH and Wesley Housing, for their assistance in designing and executing the pilots.

Key Insights

Rent Subsidy funding

- Is quickly deployable to the owner to use in supporting 30% AMI households (care should be taken not to jeopardize other government household supports)
- Requires administrative changes within the housing organization to ensure appropriate selection of tenants based on funding agreement criteria
- Needs regular, perhaps increasing, funding appropriations to ensure continued affordability for a 30% AMI household as market forces affect rent
- Number of 30% units in a property does not affect cash flow because the subsidy to owner fills the gap between 30% and 60% AMI rents

Bricks and Mortar Buy Down funding

- Takes a year or more of advance planning to produce 30% AMI units
- Is easily incorporated in the project's financing package at key moments in the production/refinancing cycle
- Guarantees, by contract, a 30% AMI unit for a term of years (20-30 in our pilots) and makes it more likely the commitment will be continued at the end of the term and through any re-financings
- Investment is sized to reduce mortgage by covering foregone rent when compared to 60% AMI rent over the affordability period; may not fully account for all operating costs

Key Finding

In today's dollars—to affordably house a 30% AMI household for 30 years—the cost of a 360 month rent subsidy ($255,000 or $8500 annually) exceeds by 50% the cost of a bricks and mortar investment ($170,000 - 1 time up-front investment).

Inflation and market forces will affect both of these costs over time. As an example, from 2012 to 2022, the average monthly Arlington Housing Grant increased by 32% (from $543 to $718). If this rate of increase were to continue, the average Housing Grant would likely exceed $11,000 in 2042. And—inevitably—construction buy down costs will increase as construction and materials costs rise.

Key Recommendation

Arlington needs to increase its support for both rent subsidy and construction funding to ensure affordable housing for its 30% AMI households now and IN THE FUTURE. ACF believes that, moving forward, the County should work to ensure that every committed affordable development —whether new construction or renovated/refinanced—dedicates 10% of its units to 30% AMI households, better aligning our rental market to our housing needs. The scale of resources needed to achieve this goal will require commitment AND investment from the government and corporate sectors.