

A PROPOSED
WORKFORCE HOUSING POLICY
FOR
MONTGOMERY COUNTY
MARYLAND

Prepared by the
Montgomery County Department of Park & Planning

For Transmittal to the
Montgomery County Council

November 2005

Contents

	<u>Page</u>
List of Figures.....	ii
Purpose and Scope.....	1
Proposed Policy for Workforce Housing.....	1
Background.....	7
Overview of the Analysis.....	8
Technical Supplement (under separate cover)	

Figures

Page

1.	2,900 Units Sold for Less Than \$200,000 in 2004.....	9
2.	Over 840 Units Sold for Less than \$150,000 in 2004.....	9
3.	Composition of Housing Assessed at Less than \$350,000 (2004 & 2005).....	10
4.	Turnover Rents by Unit Size.....	10
5.	Housing Affordability by Key Occupation	11
6.	Number of Units Renting for Less Than \$700 a Month.....	11
7.	Vacant Units Available for Less Than \$700 a Month.....	11

Purpose and Scope

The purpose of this policy recommendation is to articulate a new policy for workforce housing in Montgomery County, Maryland, in response to a request from the Montgomery County Council.

The Department of Park and Planning gathered and analyzed the information on the supply of and demand for housing, reviewed the workforce housing programs in place in other jurisdictions, synthesized that information, and then prepared a draft report, which was reviewed by HOC and DHCA.

This report examines the demand and supply issues surrounding for workforce housing in Montgomery County, recommends an appropriate workforce definition, recommends policy goals, and identifies options for changes or additions to regulatory programs or development standards to implement this policy, so that workforce housing does not become the crisis for our county that it has for other jurisdictions.

Proposed Policy for Workforce Housing

The Montgomery County Department of Park and Planning recommends that Montgomery County revise its adopted Housing Policy to include a definition of workforce housing, an objective for workforce housing, and supporting strategies and action plans to implement the workforce housing objective.

The Department recommends that Montgomery County's definition of "workforce housing" address both household income and key occupations. The Department recommends that the income limits for workforce housing range from the upper limit of the Moderately-Priced Dwelling Unit program to 100 percent of metropolitan area median income (\$85,400 in 2004). Although staff has explored a definition that would extend the income range all the way up to 120 percent of area median income, staff's analysis shows that many households earning between 100 percent and 120 percent of area median income can afford a variety of homes in Montgomery County.

Staff also recommends that certain key occupations, such as first responders (fire, rescue, and police), be specifically included within the definition of workforce housing. The purpose is to provide these workers with increased access to housing opportunities in Montgomery County, regardless of whether the household income is within the workforce housing income band and regardless of whether they have owned a home before. Although staff has specifically targeted first responders, other occupations such as teachers and medical personnel may also be appropriate.

This definition is embodied in the following new objective, which staff recommends be added to the County's adopted housing policy, together with the supporting strategies, action, and production goal.

(New) Objective # 8: Communities with Workforce Housing

Encourage a supply of workforce housing adequate to provide a range of housing opportunities to every member of the County's workforce earning between the MPDU income limits and the area median income (AMI), especially to those in key occupations, such as first responders (fire, rescue, and police), teachers, nurses, and others.

First Priority Strategies

A. Increase the Supply of Workforce Housing – Expand the component of workforce housing in approved development and redevelopment projects.

Action Plan

- **Require that 10 percent of the number of units in any development or redevelopment project be affordable to the workforce.** *If at least 10 percent of the forecasted new construction for the next decade is workforce housing, Montgomery County can add 400 workforce-housing units each year for the next decade. As proposed, this requirement would not add density, nor would it substitute workforce units for MPDUs. Instead, this action will require that a percentage of the housing units permitted by the base zone be workforce units in addition to any MPDUs required. Staff believes that no density bonus is needed, in part because many of the units that will be constructed in the next ten years will be of types more naturally affordable to the workforce, such as the townhouses and multifamily units planned for Shady Grove, and Twinbrook. Even today, workforce households earning the area median income can afford a substantial fraction of the new and used condominiums and townhouses sold each year in Montgomery County.*
- **In addition, require that 10 percent of the units or square footage of any project** approved within a transit or CBD zone, or under the Optional Method in the TOMX 2.0 zone, be workforce housing. *This requirement would ensure that 10 percent of the project would be workforce housing even if there is no other housing in the project.*
- **Increase the utility of the existing Productivity Housing floating zone,** by increasing the base density allowed in the zone. *The Productivity Zone limits density to 21.5 dwelling units per acre. This zone would allow housing, including workforce and affordable components, in up to 25 percent of land zoned commercial or industrial in each planning area. Only one productivity housing project has been built since the enabling legislation was enacted in 1996.*



- **Add opportunities for workforce housing** in zones that do not currently allow housing, and include recommendations for workforce housing in those zones in all master plans. *Several of the County’s housing and planning goals depend on mixed-use development, including housing. But many of the County’s best opportunities for mixed-use redevelopment are in zones that do not allow housing. Staff recommends reviewing the zoning ordinance to identify commercial and industrial zones that should be revised to allow housing.*
- **Assess publicly owned sites** for workforce housing opportunities. *As is being done in order to find affordable housing sites, staff recommends reviewing the list of surplus or underused publicly owned land to identify those sites most suitable for workforce housing.*

B. Strengthen the Connection Between Employers and Workforce Housing

Action Plan

- **Impose mitigation fees** on square footage of new commercial space, with the collected fees going toward affordable and workforce housing—on- or off-site. Instead of paying a fee, allow the developer to either:
 - i. Dedicate land for workforce housing,
 - ii. Pay into a Workforce Housing Fund, or
 - iii. Create an alternative such as providing an Employer Assisted Housing (EAH) program.

This approach is working for the City of Palo Alto. In addition, Montgomery County can apply all the lessons learned from the recent review of the MPDU alternative agreement process.

- **Identify employers** in industries where the workforce-housing shortfall is most acute and develop programs to encourage and support their participation in EAH programs.

If certain occupations are “key,” then those occupational employers should be identified as having acute needs for EAH programs.

C. Improve Regulatory Processes for Workforce Housing—Government actions to increase the supply of workforce housing.

Action Plan

- **Identify key County occupations to receive preferences** in all County rental and home-ownership programs. *The County must identify key occupations to ensure that working households in these occupations are first in line for all County housing programs. This action does not propose to change the income eligibility of other program, and it does not lower the income requirements for the workforce-housing program. It will ensure, however, that firefighters, police, or others, go to the front of the line in whatever housing program they may be enrolled. The County does have several programs aimed at persons earning up to area median income, and those will dovetail nicely with a workforce housing program*
- **Review and improve the Green Tape process** for use with development applications to ensure that projects that include affordable and workforce housing receive expedited reviews as promised under green tape initiatives. *While the Green Tape process holds much promise, there are few examples of its successful application. Staff recommends reviewing the process and implement any changes necessary to ensure that projects with either 20 percent workforce housing or 20 percent affordable housing will automatically be allowed to use it.*
- **Reduce development fees** for the inclusion of workforce housing. *Staff recommends exploring whether the reduction of development fees could play an effective role in either/both encouraging added increments of workforce housing and mitigating the effect on profits of including workforce housing in development projects.*
- As part of any agreement with a private developer **on publicly owned land, require that at least 20 percent of the units and/or square footage** consist of workforce housing units. *This complements the proposed requirement that 10 percent of the units in new development projects on private land be workforce housing. The increased component on publicly owned land is achievable since the public is a participant in the project, and desirable since workforce housing is in the public interest.*
- **Increase the use of leases** of excess or underused publicly owned lands for workforce housing. In order to provide the maximum lease length:¹

¹ Considering the long and irrevocable process associated with disposition, government might prefer the benefits of leasing, rather than disposing, of public lands. Leasing not only protecting the public's existing and future interests, leasing provides for a faster reuse of the land, and, typically, leases of 50 years or longer are viewed as secure as fee simple transfers and can obtain similar financing.

- i. Enable longer lease terms; and/or
- ii. Enable lease renewals.

Staff recommends reviewing the use of leases of public lands for the production of workforce housing. A benefit of land leasing is that it doesn't require disposition. Leasing can preserve the public original interest for future use, while keeping the land productive in the interim for the public good.

Second-Priority Strategies

D. Promote Workforce-Friendly Housing – Promote affordable and livable dwellings for the workforce.

Action Plan

- Identify and encourage features that would make multi-family housing more family-friendly, in general.
 - i. Encourage more large multi-family units accessible to mass transit.
 - ii. Identify community amenities desired by workforce households.

The ratio of multifamily to single-family homes has changed markedly: from 1:4 in 2003 to 1:2.5 in 2004, and this trend will continue.

Workforce households will be able to afford many of the new multi-family units, and so the units must be able to accommodate the needs of these households. A major factor that would improve the utility of multi-family units for families: a larger number of bedrooms, instead of the typical mix of efficiencies, and one- and two-bedroom units.

- Encourage smaller single-family (detached and attached) housing units. *Land is one of the major components of housing price, and the amount of land needed for a small house is less than that needed for a large one. Staff recommends reviewing County ordinances, programs, design guidelines, and master plans to determine how to encourage the building of smaller single-family homes.*

Workforce Housing Production Goal: 600 Units, Annually. *Montgomery County can achieve an annual goal of 600 units of workforce housing, if:*

- **10 percent of the forecasted new construction for the next decade is workforce housing, and that will achieve 400 workforce-housing units each year for the next decade.** *This will occur naturally, if we build the transit-oriented, multifamily units as*

planned in Shady Grove, Twinbrook, and so forth. The workforce household earning the area median income can afford many new and used condominiums and townhomes in today's market.

- **The County ups the rehabilitation goal from 30 units to at least 100 units each year for households up to median income, and that will put us at 100 units.** *The County may need to invest a bit more money into this effort, as well as expand the list of acceptable not-for-profit developers who can participate.*
- **The County adopts a “preference” for key occupations in all housing programs (rental and sale), then at least 100 units— maybe more – will be able to serve workers in key occupations.** *Whether rental or for sale, workers in key occupations can be moved to the front of the line—whether it is for a voucher, an MPDU, or for a closing cost assistance program. The goal is to prevent workers in key occupations from being left out in the cold, whether their income meets the workforce housing definition or is lower.*

Background

In 2001, the Montgomery County Council adopted a new housing policy for Montgomery County, entitled “Montgomery County: The Place to Call Home.” The County’s vision acknowledges the importance of safe, decent, and affordable housing for “a full, normal life,” that all County residents should have “decent housing in sound neighborhoods,” and that housing should be affordable for all who live or work in the county, regardless of age or position. Of the seven main objectives for accomplishing the County’s housing vision, objectives “4” and “5” are specifically applicable to the provision of workforce housing:²

4. Communities With Affordable Housing — An adequate supply of affordable housing in economically inclusive communities throughout the county for those living or working in Montgomery County, especially for households at the median income level and below.
5. Housing for All Stages of Life — A sufficient housing supply to serve the county’s existing and planned employment and the changing needs of its residents at various stages of life.

The County’s housing vision generally assumes that housing is needed for two income tiers: the Moderately-Priced Dwelling Unit (MPDU) tier and the \$40,000-or-less tier. To continue to serve households earning \$40,000 or less, the housing policy set an annual affordable production goal of 1,000 to 1,200 units per year, in addition to the preservation of existing affordable units.”³ The MPDU production is to be met through new construction, preservation of existing MPDUs, and through rehabilitation and renovation of other housing resources.

The County’s housing policy also has a production goal specifically targeting households earning up to the area median income. This production goal is for not-for-profit developers to acquire and renovate 30 U.S. Department of Housing and Urban Development (HUD) foreclosures a year, which will then be sold to households earning median incomes or less.⁴ Because this goal is so small and because the needs of households earning above the MPDU income band are not discussed in general, it may be assumed that the County’s housing policy expects households earning the area median income or greater to have sufficient choices among a variety of market rate home ownership and rental opportunities.

It is clear, upon review of the current housing policy, that workforce housing, per se, was not on the radar screen in 2001. Nevertheless, the housing policy was crafted in such a way as to envision a time when current programs might need to be changed to accommodate unforeseen or emerging trends. To that end, this County’s housing policy invites the review of

²Montgomery County Council, *Montgomery County: The Place to Call Home* (Housing Policy for Montgomery County, Maryland), Adopted July 17, 2001 (Resolution No. 14-959).

http://www.montgomerycountymd.gov/content/dhca/housing/housing_p/policy/execsumm.html#vision and http://www.montgomerycountymd.gov/content/dhca/housing/housing_p/policy/execsumm.html#purpose

³ Ibid, http://www.montgomerycountymd.gov/content/dhca/housing/housing_p/policy/execsumm.html#fine

⁴*Housing Policy*, http://www.montgomerycountymd.gov/content/dhca/housing/housing_p/policy/execsumm.html#annual

existing policies and programs, the forecasting of future demands, and the design of responsive new programs.⁵ It is in this spirit that the subject of workforce housing is addressed.

Workforce housing programs have been put in place in various jurisdictions across the nation; in most of those jurisdictions, the lack of workforce housing is already a crisis for them. In nearly all cases, the jurisdictions suffered more severely from one or more factors: lopsided jobs-to-housing ratios (San Francisco has 30 jobs for every house); lack of land available for development (85 percent of the land in California’s Marin County land is off-limits to development); and lower owner-to-renter ratios (none of the communities surveyed approached Montgomery County’s ratio of homeowners to renters, which is approximately 80 percent to 20 percent, respectively).

Many of those jurisdictions surveyed—as well as organizations and agencies such as the HUD and Fannie Mae—define workforce housing as that housing affordable to families earning between 80 percent and 120 percent of the HUD area median income (AMI) or as housing affordable to certain occupations, such as first responders, nurses, and teachers. Having defined the workforce by income and/or occupation, those jurisdictions have set into place various programs to ensure that renters and first-time homebuyers have a greater opportunity to find homes they can afford.

Aware of the recently escalating housing prices in our own county, the Montgomery County Council asked that the Department of Park and Planning, the Housing Opportunities Commission, and the Department of Housing and Community Affairs recommend options and goals to address the County’s workforce housing issues. This report describes the demand for and supply of workforce housing, recommends an appropriate workforce definition, recommends goals, and describes options for changes or additions to regulatory programs or development standards, so that workforce housing does not become the crises for our county that it has for other jurisdictions.

Overview of the Analysis

In 2004, the Montgomery County median sales price for the new and used single-family units (detached and attached) was \$384,900 and the median sales price for new and used condominium units was \$220,000. These are countywide figures, and sales prices varied widely, both by location and by structure type. While families earning the Washington DC-MD-VA-WV Primary Metropolitan Statistical Area (PMSA) area median income of \$85,400 and above had a robust array of choices and locations in 2004, families earning below area median income had a more difficult time.

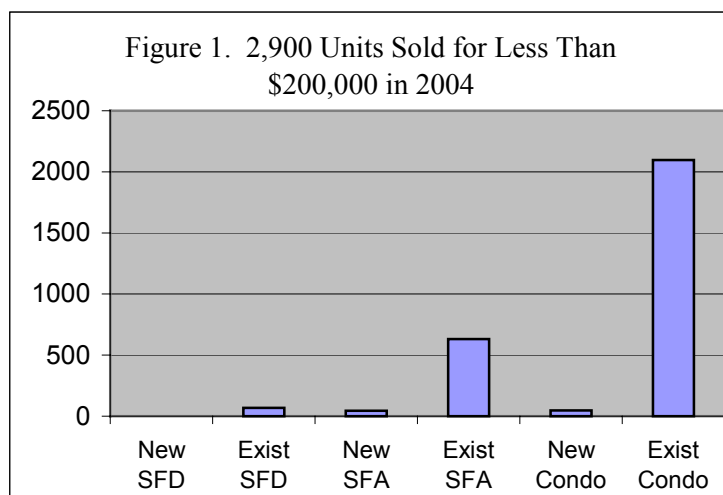
- Families earning 120 percent of the 2004 area median income, or about \$102,000, could afford the median sales price of \$384,900.⁶ This group had a fairly broad selection of types and locations of units, including many of the existing and new single-family

⁵Ibid, http://www.montgomerycountymd.gov/content/dhca/housing/housing_p/policy/execsumm.html#purpose. (“Chapter IV. Establishing Responsive New Programs.”)

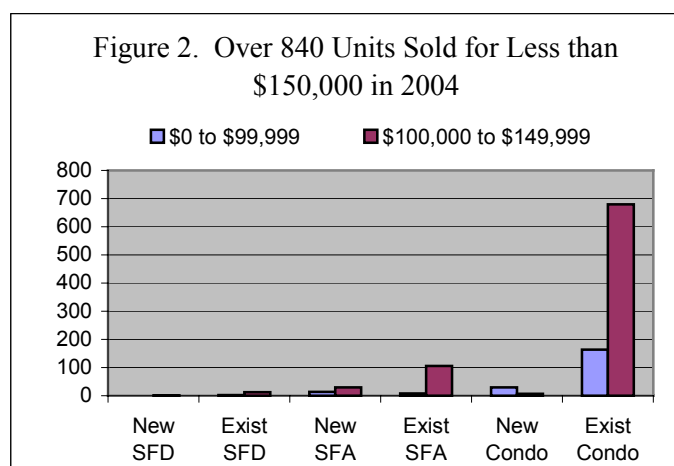
⁶ Assuming 10 percent down, good credit, good terms, and less than 30 percent of income spent on housing costs, the financed amount could be approximately \$315,000 with a monthly housing PITI of about \$2,300.

housing (detached and attached) and existing and new condominiums, depending on the location of the unit. Nearly half (48.8 percent) of all the housing sold in 2004 sold for less than \$350,000, and families earning 120 percent of area median income could afford any of them.

- Families earning 100 percent of the 2004 area median income (\$85,400) could not afford the median priced home, overall, but could afford a variety of units costing around \$325,000 or less.² Over 8,300 units – well over a third of all units sold – sold for less than \$300,000 in 2004. Existing detached and attached housing, as well as condominiums were available in this price range. New single-family attached units and condominium units were also available in this price range, depending on the location of the unit.
- Households earning 70 percent of area median income (about \$60,000) could afford housing priced at about \$200,000.⁷ About 2,900 units (about 13 percent of the sales) sold for prices less \$200,000 in 2004. While units from all types of housing were sold within this price range (including one new-single-family detached unit), nearly two-thirds of the sales were of existing condominiums and the majority of the remaining sales were of existing single family attached houses.



- Households earning less than 60 percent of the AMI (about \$50,000) could afford a home costing 174,500 or less. More than 840 units (about 3.5 percent of all housing sold) were purchased for less than \$150,000 in 2004. According to the 2003 Montgomery County Census Update Survey, more than 27 percent (nearly 94,000 households) earned less than \$50,000 in 2002.⁸ While some sales occurred among nearly all structure types, the primary homeownership opportunities for this



⁷ Assuming the same criteria as found in Note #1.

⁸ Using the standard factors involved in the calculation of the Montgomery County Affordability Index, a household earning \$33,000 in 2004 could afford to buy a home costing \$112,500 and one earning \$50,000 could afford a home in the mid-\$174,500.

group were existing condominiums and existing townhouses.² Households who move out of Montgomery County tend to have median incomes less than \$50,000, according to IRS data.⁹

- Nearly 23,000 units were sold in 2004, nearly 92 percent were sales of existing units, and nearly half sold for less than \$350,000.
- In 2004, well over half (57 percent – or 152,000 units) of the County’s housing stock was assessed at less than \$350,000. More than 90,000 of those units were assessed at less than \$200,000 in 2004, and nearly all of those units were reassessed in 2005. The 2004 assessments revealed a variety of units by structure type were assessed at less than \$350,000. Fortunately, after the reassessments for over 89,000 units were posted in the spring of 2005, an analysis revealed that there are approximately the same number, percentages, and types of units in the County assessed at less than \$350,000 in 2005 as there were in 2004.

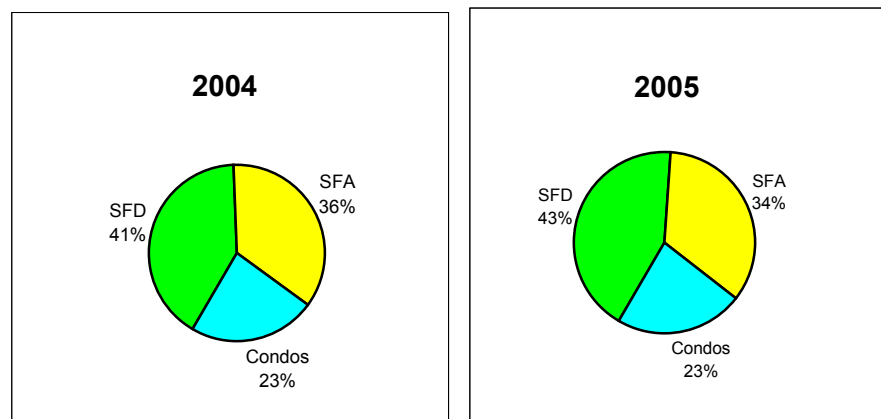


Figure 3. Composition of Housing Assessed at Less than \$350,000 (2003 & 2005)

- In 2004, the number of rental units (market and subsidized) is estimated at 76,800 units. The countywide average turnover rent was \$1,154 per month, which is affordable to a family earning at least \$46,000. The County’s overall apartment vacancy rate was a healthy 5.1 percent. Over 60,000 of those units are 1-bedroom and 2-bedroom units. The average turnover rents in 2004 were \$1,027 (market) for a 1-bedroom unit and \$1,211 (market) for a 2-bedroom unit, and these rents are affordable to families earning approximately \$40,000 and \$48,400, respectively.

Figure 4. Turnover Rents By Unit Size	Turnover Rent – Market Rate	Number of Units
Efficiency	\$887	2,609
1 BR	\$1,027	21,815
2 BR	\$1,211	28,072
3 BR	\$1,526	5,059
4 BR Plus	\$1,708	118
All Units	\$1,154	57,673

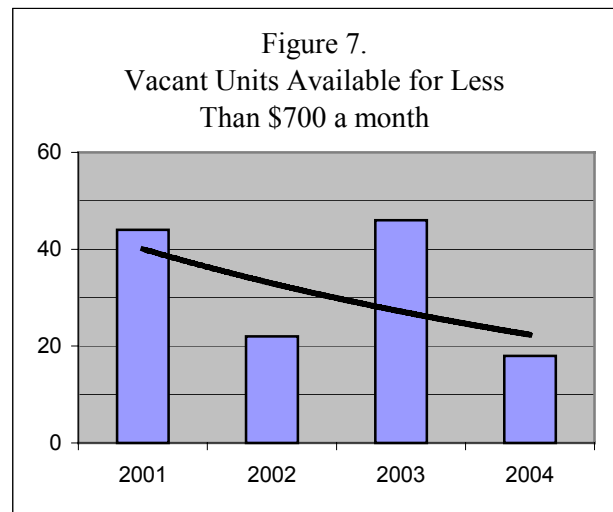
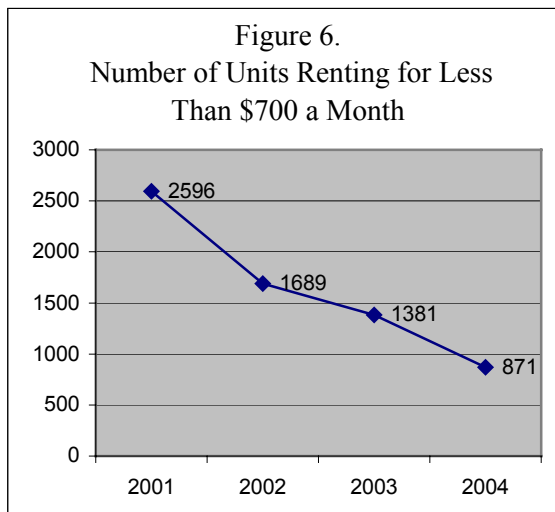
(Weighted average)

⁹ IRS, 2003. Data for 2001 and 2002. See Appendix A of this report for more a complete table of medians.

- Of the 205,000 jobs anticipated to be generated by six, key, high-demand occupations in our region over the next decade, over 75 percent (over 150,000 new regional jobs in key occupations) will generate incomes that will not be able to afford more than \$700 a month in total housing costs for a single-person household. That is not enough to afford the average monthly rent for an efficiency apartment in 2004 was \$877 in Montgomery County.

Figure 5. Housing Affordability By Key Occupation	Regional Anticipated Employment	Average Wage	Average Annual Salary	Affordable Monthly Rent or PITI	Affordable Purchase Price based on Annual Salary
Janitor	55,430	\$9.21	\$20,850	\$521	\$69,500.00
Retail Salesperson	80,000	\$11.24	\$23,390	\$585	\$77,966.67
Construction	20,600	\$13.45	\$27,790	\$695	\$92,633.33
Firefighter	3,770	\$20.11	\$41,830	\$1,046	\$139,433.33
Elementary School	30,590	N.A.	\$49,440	\$1,236	\$164,800.00
Police Officer	15,380	\$23.84	\$49,590	\$1,240	\$165,300.00

- There are not enough apartments available for rents less than \$700 a month. The number of apartments with rents less than \$700 a month has declined significantly in recent years, down from 2,596 in 2001 to 871 in 2004. In 2004, only 18 of the 871 apartments were vacant. In general, apartments with rents less than \$700 a month are hard to find, with fewer than 50 vacancies among them in any given year since 2001.



- Other jurisdictions used a variety of workforce housing definitions, which included a range of household incomes and/or a list of key occupations. Many jurisdictions went up to at least 80% of the AMI and several went to as high as 120%, 150% or even 200% of the AMI in areas with similar market housing prices.

- Programs used by other jurisdictions were varied, as well, with options such as inclusionary zoning, mitigation fees, preferences for key occupations, and density bonuses, to name a few.
- Montgomery County has a track record of being proactive, and many other jurisdictions are in a much worse crisis.
- Montgomery County has some significant successes to point to, especially when contrasted with the jurisdictions surveyed:
 - Balancing jobs and housing, maintaining some land for development, and of keeping a wide variety of housing choices on the market.
 - Montgomery County's jobs-housing ratio is about 1.6:1.0, as compared to San Francisco's 30:1 and Boulder's nearly 3:1.
 - In Montgomery County, only about 46.5 percent of the land is unavailable for development, as compared to Marin County, California, with 85 percent unavailable for development and communities like Denver, Boulder and San Francisco, which are already built out.
 - Montgomery County households earning the area median income for the Washington PMSA could nearly afford the median home price in 2004, and could certainly afford a variety of housing types, both ownership and rental. This is starkly contrasted with San Francisco, a community in which only 6 percent of the residents can afford the median priced home.
 - Montgomery County has developed a variety of home-ownership assistance programs for first-time homebuyers with low, moderate, and workforce incomes. While other jurisdictions such as are implementing inclusionary zoning to address affordable and workforce housing, Montgomery County's program has been in place for over 30 years.
 - Montgomery County has developed an awareness of the issue through educational programs, such as the *Housing Montgomery – "Housing the People Who Make Montgomery County Work"*; the Department's Workforce Housing Conference; and the Annual Montgomery County Affordable Housing Conference, which focused on workforce housing issues this spring (*Live Here; Work Where?*)