AGENDA ITEM #8
June 20, 2006
WORKSESSION

MEMORANDUM

TO: County Council

FROM: Michael Faden, Senior Legislative Attorney
Linda McMillan, Senior Legislative Analyst

SUBJECT: **Worksession: Bill 30-05, Housing - Workforce Housing Program**

Bill 30-05, Housing – Workforce Housing Program, sponsored by Councilmembers Silverman, Floreen, and Subin, was introduced on October 11, 2005. A public hearing was held on November 22, 2005. The Planning, Housing, and Economic Development Committee held worksessions on December 12, 2005, and January 23, March 27, April 18, April 28, and June 12, 2006. A copy of Bill 30-05 with Committee amendments is on ©1-14.

The purpose of Bill 30-05 is to promote the construction of housing affordable to households with incomes at or below 120% of the area-wide median income (adjusted for household size). The program will increase the availability of certain types of housing in Metro Station Policy Areas for public employees and other workers whose incomes cannot support of high cost of housing in these areas. Park and Planning estimates that about 2,500 units would be created over the next 20 to 30 years. By locating this housing near mass transit, the program will assist in reducing traffic congestion and shortening commutes for employees who work in the County but might otherwise live elsewhere. In the applicable zones (as established in the companion Zoning Text Amendment 05-16) projects with 35 or more market rate dwelling units will be required to build workforce housing units equal to 10% of the market rate units. The bill and ZTA, as recommended by the Committee, would allow flexibility regarding height and green space if needed to meet this requirement. The bill has no "buy-out" provision; however, under certain circumstances the builder may provide the workforce units off-site but in the same planning area. The control period for sale units is recommended to be 20 years and for rental units 99 years. There is a provision for equity sharing. Executive regulations are required and will detail the implementation.

The PHED Committee recommends (3-0) approval of Bill 30-05 as amended during its worksessions.

PHED Committee Chair Silverman said he thinks this program will be a useful additional tool for the County in working to increase the amount of affordable housing units. It is a forward looking program as it will be most like 1 to 2 years before projects will come forward that will fall under this requirement. It will add housing where the Council has said it wants housing, near metro and mass transit. In voting for the bill, Councilmember Praisner noted her overall concerns about how many new units will be created by this program and whether it will create the type of affordable housing many public employees and other workers are seeking. Councilmember Praisner also disagreed with the Committee recommendations that workforce housing units should be an addition to the number of units (market rate and MPDU) that would currently be allowed and that workforce housing units should be exempt from school and transportation impact taxes (she would apply 50% of the impact tax, as now required for productivity housing). Councilmember Floreen voted in the majority on all issues, except that she would exempt from the workforce housing requirement, housing projects developed using tax credits where at least 20% of all units are affordable to low to moderate income households.

The Committee discussed and made recommendation on the following issues at their worksessions.

Issues

1. Should workforce housing be only available to certain types of employees?

The bill as drafted lists the following purposes: promote the construction of housing affordable to households with incomes at or below 120% AMI, allow those households to have greater housing choices, increase housing availability for public employees and other workers with similar incomes, assist in reducing labor shortages for skilled and semi-skilled workers, and reduce traffic congestion by shortening commutes. DHCA Director Davison asked the Committee for more direction on who the workforce housing program is intended to serve, especially since the program is limited to Metro transit policy areas and the vast majority of workforce housing units are expected to be one- and 2-bedroom apartments.

The Committee discussed the importance of working to find affordable housing options for county and school system employees but also discussed the wide range of occupations that are critical to the county and where incomes may also limit housing choices, such as nurses, bus drivers, and workers in bio-tech industries. **The Committee recommends (3-0) not limiting eligibility to any particular type of employee, but instead the law should focus on income and other eligibility issues.**

2. What income eligibility limits should apply?

Bill 30-05 defines workforce housing as units that are sold or rented to households with incomes at or below 120% of the area-wide median income. The bill also requires the Executive to adopt Method 1 regulations that set income eligibility standards. Chapter 25A, which authorizes the MPDU program, does not set specific income limits but instead requires the Executive to adopt standards that "specify moderate income levels for varying sizes of households." Moderate income is defined as "levels of income, established in executive regulations, which prohibit or severely limit the financial ability of persons to buy or rent housing in Montgomery County." As shown in the chart below, the implementing regulation currently sets the maximum as 70% AMI for sale and 65% AMI for rental (with the possibility of 70% AMI for high-rise rental units).

MPDU (regulation)	**Bill 30-05 as introduced**	**Options considered by PHED Committee**
Sale – Maximum 70% AMI, adjusted for size of household Rental – Maximum 65% AMI, adjusted for size of household High-rise Rental – may be set at maximum 70% of AMI, adjusted for household size	At or below 120% of area-wide median income	Retain current language. Determine details in regulation. Reduce target to at or below 100% of AMI. Coordinate more closely with MPDU levels. Specify range as serving renters between 66% and 100% of AMI and sales as 71% to 120% of AMI. Set different ranges for garden apartments and high-rises. Income ranges for rental units could be 66%-100% for garden and 70%-120% for high-rise; for sales units, 71%-110% for garden and 71%-120% for high-rise.

The Committee recommends (3-0) defining workforce housing as housing affordable to households earning at or below 120% of area-wide median income (AMI). The implementing regulation should assure that workforce housing is available to a range of incomes, not just those at or near 120%. The Committee noted that the MPDU law does not specify the maximum income, which is set by regulation. However, there have been many comments to the public about what workforce housing is and the incomes it will serve. In recommending that the 120% maximum be specified in the law, the Committee recognized that there may be a need to make adjustments as the program develops.

3. Should any preference be given to County residents or people employed in the County?

Workforce housing is intended to be targeted to households where one or more members of the household live close to where they work. Bill 30-05 lists this as a purpose of the program but does not specify whether the program should give any preference to current County residents (to keep them from moving farther away), to persons currently employed in the County, or to persons accepting new employment in the County.

The lottery system used for sale MPDUs has a preference element that awards points for living and working in the County. Rental MPDUs are not awarded through a lottery system, but require an eligible person with a valid certificate to contact each landlord directly.

MPDU (regulation)	Bill 30-05 as introduced	Options considered by PHED Committee.
Lottery (sale units only): 1 point for each consecutive year the persons has a eligible MPDU certificate (up to 3 points) 1 point for living in the County 1 point for working in the County	No preference specified	No preference given for length of wait, residency, or working in County. Point system similar to MPDU. Preference only to County residents. Preference only to applicants who work in the County. Require that eligibility for rental certificate require residency or employment.

The Committee recommends (3-0) that the regulation include a point system similar to that used in the MPDU program. Preference should be given to applicants with a connection to the County, which could include already living or working in the County or having an offer of a job in the County. The Housing Opportunities Commission told the Committee that it has always used the criteria that someone lives, works, or has gotten notification of a job in Montgomery County. The rules regarding rental units should mirror those used in the MPDU program, including the re-certification process to determine if the household income still qualifies. (©5, lines 95-97) The Committee emphasized that this is a program for persons and families living or working in Montgomery County.

4. Should eligibility be limited to first-time homeowners?

MPDU	Bill 30-05 as introduced	Options considered by PHED Committee
§25A-4(d) - To be eligible to rent or buy a MPDU a person or members of that person's household must not have owned any residential property during the previous 5 years. Regulation specifies that the applicant must never have owned a MPDU. DHCA Director may waive this restriction for good cause.	Does not specify.	Do not restrict workforce housing. Amend bill to require regulations to address issues of previous ownership of residential property. Exempt applicants whose previous property was an MPDU. Allow someone who has previously owned property to be eligible for rental but not sale units.

Since workforce housing is targeted to a higher income group than the MPDU program, there may be reasons to be more flexible regarding previous home ownership. For example, someone who currently owns an efficiency condominium might relocate farther away if they cannot move into a one or 2 bedroom apartment (especially as families change). Someone who works in the County but lives out of County may want to come back to the County if they could afford one of these units. Allowing a one-bedroom MPDU owner to move up would free that MPDU for someone with a lower income.

The Committee recommends (3-0) that workforce housing should not be restricted to first-time homeowners because it should be open to persons who might want to move up from a MPDU or would stay in the County if a unit becomes available. The implementing regulation should address any need for an asset study (in addition to income requirements) to avoid a windfall.

5. In what size subdivision should workforce housing be required? Should projects developed under an affordable housing tax credit program be exempt?

The workforce housing program would focus on Metro Station Policy Areas to encourage the use of mass transit. It is not intended to apply in all zones. Bill 30-05 as introduced requires that "a developer of any subdivision with 35 or more dwelling units at one location must build the number of workforce housing units that area are expressly required in any zone under Chapter 59." The zones listed in ZTA 05-16 allow development of 40 or more dwelling units per acre. However, if larger units were built to meet a certain segment of the market, the workforce housing yield in a building could be very different.

MPDU	Bill 30-05 – as introduced	Options considered by PHED Committee
§25A-5 requires MPDUs in any project proposing the construction or development of 20 or more units at one location. Applicants must not avoid this requirement by submitting piecemeal applications.	Any subdivision of 35 or more dwelling units in zones designated in the ZTA (zones designated in ZTA 05-16 allow 40 units per acre or more.)	Retain current language. Require workforce units in the identified zones regardless of the number of units being developed. Require in any project with 20 or more units in the identified zones (consistent with the MPDU requirement).

The Committee recommends (3-0) requiring workforce housing in any subdivision of 35 or more market rate dwelling units in zones designated in the zoning law.

5a. To what extent should projects developed under an affordable housing tax credit program be exempt from the workforce housing requirement? Should any exemption apply to the entire project or only to the units controlled by the tax credit agreement? In other words, should the "tax credit" units be counted in calculating the number of workforce housing units required?

The Committee recommends (2-1) that any dwelling unit built under a government requirement that it be affordable to households earning less than 60% of the area median income ("tax-credit units") be excluded from the units used to determined the number of workforce housing units. If the total number of these units exceed the number of workforce housing units that the law requires, then no workforce housing units would be required. (©4-5, lines 76-84). Councilmember Floreen recommends exempting "tax credit unit" projects entirely because they must have 20% controlled units and in most cases the remaining market units are targeted toward more moderate incomes.

The Committee also discussed whether independent senior housing projects should be exempt from workforce housing. The Committee did not recommend an exemption because many persons continuing to work in their mid-50's and early 60's. Since regulations will provide for asset testing, the workforce units would be targeted to moderate income seniors without assets that might come from the sale of a previous home.

6. Should the law specify the proportion of bedroom sizes in workforce housing units?

Bill 30-05 leaves this issue to the implementing regulation. If the workforce housing program followed the requirements of the MPDU program, specific language would be included in the law.

MPDU	**Bill 30-05 as introduced**	**Options considered by PHED Committee**
§25A-5(b)(3) – "in multi-family dwelling unit subdivisions, the number of efficiency and one bedroom MPDUs each must not exceed the ratio that market-rate efficiency and one bedroom units respectively bear to the total number of market-rate units in the subdivision." "The Director must not approve a MPDU agreement that reduces the number of bedrooms required by the subsection in any MPDU."	§25B-24(e)(1) requires the regulations to include minimum unit type and bedroom requirements. §25B-25(a)(2) states the agreement must incorporate the mix of dwelling unit sizes and types.	Leave as originally drafted. Specify that the ratio of efficiency and one-bedroom apartment cannot be greater than it is for the market rate units (similar to MPDU requirement).

The Committee recommends (3-0) that the law specify that the ratio of efficiency and one-bedroom apartments cannot be greater than it is for the market rate units (same language as in MPDU law). (©6, lines 121-127) Workforce housing units can be smaller than market rate units.

7. Should workforce housing units add to current base density and MPDU requirements?

The Council received testimony during its November public hearing that the requirement for workforce housing could be accommodated within projects without any additional units, as well as testimony stating that unless the workforce housing requirement allows additional units or density, workforce housing will make projects financially infeasible.

The PHED Committee asked DHCA to contract with a firm (Bolan Smart Associates) to provide analysis of several project scenarios to determine what, if any, economic impact workforce housing requirement may have. In total, Bolan Smart Associates developed 20 different scenarios. These scenarios are summarized by Council staff on ©36 and 37. The detailed analysis is included at ©41-63. The analysis was developed to "solve for zero" or, in other words, to see if workforce housing could be a part of a project and have a neutral economic impact. If the analysis determined that there would be an economic impact, this amount was shown as a cost shifted to the market rate units. <u>The Committee discussed that, while the model shifts costs to the market rate units, costs might also be absorbed other ways such as through lowered land costs, reduced profits, or alternative financing.</u>

The PHED Committee reviewed the analysis in detail at its worksessions on January 23, March 27, and April 18.

In reviewing the scenarios, the Committee considered the following:

- The scenarios are based on current (February/March 2006) conditions. Because of this, they should be treated as guidance on the **<u>order of magnitude</u>** of any impact or cost shift. Any inputs could rise or fall by the time a project in a targeted area is proposed. Changes to the cost of land, concrete, steel, financing, or investor expected rate of return would all affect the specific dollar amounts.

- Under current conditions, the 4-floor rental scenarios are probably not viable with <u>or without</u> workforce housing. The market rent required with is no impact from the workforce units is $2,077, which is likely more than the current rental market would bear in most of the selected policy areas.

- That said, the four-floor <u>rental and condominium</u> scenarios indicate that these units can be provided in an economically neutral manner when a density increase is allowed. The average income required for a rental unit would be just over $68,000 (92% AMI) and for a condominium just over $64,000 (87% AMI). In addition, by increasing market rents just under 1% the average AMI for the workforce units can be reduced to about $61,000 (82.5%).

- With no density increase a neutral outcome cannot be achieved, but by increasing market rents about 2.5%, workforce units could be offered to renters with an average AMI of $61,000.

- The high-rise rental scenarios do not work when they cannot have an economic impact on the other units (or on overall return). They also do not work unless the implied value of the land is lowered to match the 4-floor units. Assuming a lower land cost and a density bonus, market unit rents must be raised about 2% ($51 per month) for the workforce units to serve households with an AMI of $61,000.

- The high-rise condominium scenario with a density increase can be achieved if all units are priced at the high end of the program. Households would need an income of about $85,000 (116% AMI). To target the workforce units to families earning $70,000, market units' cost would need to increase between 1% ($5,000) and 4% ($19,500), depending on whether a density bonus is allowed.

- The cost of providing workforce units is further reduced when a high-rise building uses the 22% MPDU density bonus when it includes 15% MPDUs. If the MPDU and workforce density bonuses are cumulative, the total density bonus would be 32%. This would occur in the zones that have been targeted for the highest density, since they are close to mass transit and/or located in urban areas of the county.

- All the scenarios assume that density increases can be used. If using a density increase on site is not possible (because of height or other zoning limits or because it changes the type of building construction), then the economics of these scenarios are not longer valid.

- All scenarios are based on cost for residential units only. In some targeted zones, high-rise building may be mixed use with commercial uses on the first floor. This may change the economics of any given scenario.

At the March session, in addition to hearing from Mr. Smart of Bolan Smart Associates, the Committee heard from Mr. Gamble who is serving as an advisor to Park and Planning. A memo from Mr. Gamble is attached at ©39-40. Mr. Gamble indicated that many of the assumptions, if only changed slightly, could change the conclusion about whether additional density is needed. Mr. Smart told the Committee that because the Bolan Smart model was asked to solve for economic neutrality it is very specific and that changes in the assumptions could change and outcome particularly when the difference is less that 1% to 2%. The Committee requested Mr. Smart and Mr. Gamble discuss the matter further and provide the Committee with a summary memo. The March 30 memo to the Committee is attached at ©38.

Just prior to the June 12 session, the Committee received correspondence from Robert Metz of Linowes and Blocher and Patricia Harris of Holland and Knight, LLP asking for further consideration given recent costs in interest rates and construction. At the June 12 session, the Committee asked that Mr. Smart review this information. A June 16 response is attached at ©74.

MPDU	Bill 30-05 as introduced	Options considered by PHED Committee
The initial 12.5% MPDU requirement does not provide a density bonus. §25A-5(c)(3) – In certain zones, as the percentage of MPDUs increases an additional density bonus can be applied. Increasing MPDUs from 12.5% to 12.6% achieves a density bonus of 1%; at 14% MPDUs a density bonus of up to 15% is allowed. The maximum density bonus is 22% for providing 15% MPDUs.	Does not include any provisions for units to offset the requirement that the project include workforce units equal to 10% of market rate units. ZTA 05-16 requires the Planning Board to permit residential density or residential FAR of the zone to be exceeded to the extent required for the number of workforce housing units being constructed. Any increase must not exceed the maximum allowed in the zone by more than 10%.	Leave bill and ZTA as currently drafted. Allow different density bonus for 4-floor and high-rise buildings, such as 5% for 4-floor and 10% for high-rise. Provide no additional units to offset workforce housing requirement. (This may encourage a high-rise development to seek the maximum MPDU density bonus to offset some costs.)

At the June 12 session, Committee Chair Silverman noted the in-depth discussions the Committee has had on the economic aspects of the proposal and summarized that the Committee has heard 3 points of view: 1) workforce housing can be economically feasible if additional units are allowed and construction methods do not have to change; 2) workforce housing can be feasible without allowing any additional units; and 3) even with additional units the current economics mean that workforce housing will not work without some sort of subsidy.

The Committee recommends (2-1; Councilmember Praisner dissenting) that workforce housing units be added to the market rate units and MPDUs that would already be allowed. (This is the effect of the language in the bill and ZTA as introduced.) This is not a density "bonus" because no additional market units are allowed. Councilmember Praisner agreed with the Planning Board that workforce housing units should be accommodated within each zone's current density.

8. Should the law allow alternatives to providing workforce housing units on site?

Bill 30-05 as introduced allows off-site alternatives only for high-rise projects. While these may have the greatest potential for economic problems, 4-floor projects could also face lower returns if they cannot add the workforce units and continue to use stick-built construction.

The Committee heard concerns from HOC that if the alternative to building new workforce housing units is buying other market units in the area and turning them into workforce housing, the result may be to reduce the number of affordable units in the existing housing stock. While the current law allows this option as an alternative in the MPDU program, it is far less likely that a market unit would be affordable to households in the MPDU income ranges than those in the 80%-120% AMI income range.

MPDU	Bill 30-05 as introduced	Options considered by PHED Committee
§25A-5A - If approved by the Alternative Review Committee, the Director may allow an applicant to make a payment to the Housing Initiative Fund in place of building MPDUs. The payment must equal or exceed 125% of the imputed cost of the land. The payment to the HIF may only be used to buy or build MPDUs in the same planning policy area. §25A-5B – The Director may allow an applicant of a high-rise residential building to provide some or all of the MPDUs at another location in the same planning policy area.	§25B-26 provides that an applicant for development of a high-rise residential building may provide some or all of the units at another site in the planning policy area if the Director finds the public benefit of providing the units off site is greater and the alternative location will further the objectives of the program. Three alternatives are provided: 1. Build or convert from non-residential use; 2. buy and rehabilitate other existing market rate units; 3. return (and rehabilitate) existing workforce units for which controls have expired. (These 3 alternatives mirror the alternatives in §25A-5B(2)(b) for MPDUs.)	Leave bill as currently drafted. Allow alternatives to both garden and high-rise projects. Delete alternative 2 which allows the purchase of other existing market residential units. This would leave the alternatives of converting units from non-residential space and returning workforce housing units that are no longer under price/rent controls.

The Committee recommends (3-0) allowing alternative site locations for garden/stick built apartments as well as high-rise units. The Committee recommends deleting the original option 2, which would have allowed buying and rehabilitating existing market rate units, in response to concerns that an already affordable unit could be converted into a workforce unit. The alternative unit must be the same type of unit that would have been provided on-site (rental or condo, number of bedrooms, etc.) If workforce housing would require a change in construction methods (stick-built to high-rise), this is a reason for providing the units off-site. (©7-8, lines 158-160 and 168-170)

9. Should rental projects be exempt from providing workforce housing?

The Council received testimony urging that rental projects be exempt from any workforce housing requirement because, in the current rental market, it would not be economically feasible to build them. The economic analysis by DHCA's consultant implied that rental garden apartments would be difficult to finance at market or workforce rates.

Recognizing that exempting rental units might lead some projects to be proposed as rentals and then later converted to condominiums, attorney Steve Elmendorf would exempt rental projects but then require any project that would have been required to include workforce housing to convert those units from existing units in the building if the building is later converted to condominiums. It is not clear at what point a proposed project is definitely marketed as rental or condominium, since this is not always known when the project is first proposed.

MPDU	Bill 30-05 as introduced	Options considered by PHED Committee
No exemption for rental units	No exemption for rental units	No exemption for rental units. Exempt rental projects but require them to provide 10% workforce units if the property converts to condos. Exempt rental projects.

The Committee recommends (3-0) not exempting rental projects from the workforce housing requirement.

10. What price/rent control periods should apply to workforce housing units?

As introduced, Bill 30-05 proposed control periods of 10 years for sale units and 99 years for rental units. The 10 year control period for sale units would decrease the need for any public subsidy related to equity recapture, but it would also mean that the workforce housing units would be lost after 10 years if the original owner retains the unit for that period.

The 2004 Council staff MPDU study contained data showing that the number of MPDU rental units peaked in 1989 at more than 2,400 units. During 1990's more than 2,000 MPDUs had their control period (10-years) expire. Because the production of new MPDUs did not fully offset this loss, there are many fewer MPDU rental units today than there were in 1989. The same holds true for sale MPDUs. The number of sale MPDUs peaked at 4,300 in 1990. At the end of 2002, 2,200 sale MPDUs were still under price controls. The Council in 2004 increased the control periods for sale and rental MPDUs to decrease the loss of units.

In its public hearing testimony, DHCA supported a 10 year control period for sale units and a 20-year control period for rental units. The Civic Federation testified that the sale control period should be 30 years to be consistent with the MPDU program.

MPDU	Bill 30-05 as introduced	Options considered by PHED Committee
Section 25A-3(g) – 30-year control period from date of original sale. Subsequent sales during the control period reset the control period for another 30 years. 99-year control period for rental units	10 year control period from point of original sale. During the control period the unit may only be sold to a household whose income does not exceed 120% AMI 99-year control period for rental units	Leave as drafted. Decrease period for rental units. Increase control period for sale units to 15, 20, or 25 years. Control period for sales units 30 years consistent with MPDUs.

The Committee recommends (2-1; Councilmember Praisner dissenting) increasing the control period for sale units to 20 years. (©8, line 182) Councilmember Praisner prefers a period longer than 20 years. The Committee recommends (3-0) a 99 year control period for rental units.

The Committee also recommends that, as with MPDUs, DHCA and the Housing Opportunities Commission (in that order) should have the right of first refusal to buy a workforce unit. (©8, 186-189).

11. Equity Recapture

MPDU owners receive the tax advantages of homeownership and build limited equity based on CPI adjustments. Participants in the workforce housing program have higher incomes and therefore more (though still limited) housing choices than households eligible for MPDU's. Some households in the 70%-120% AMI income range may not want to buy a workforce housing unit if the unit's equity is not captured at a level closer to the appreciation in the overall housing market. Bill 30-05 addresses this need by allowing an equity recapture of up to 50%. It assumes that the sale of the unit would cover this cost. This may also mean that the unit would no longer be affordable to households under 120% of AMI.

The Committee considered 3 issues regarding equity sharing:

(1) Is the equity formula included in Bill 30-05 fair, given the investment that has been made in creating these units?
(2) Is the equity share sufficient to attract buyers to the program?
(3) Would the use of public dollars to pay part of the equity be in the public interest if it allows the workforce housing unit to still be affordable to buyers in lower income ranges?

MPDU	**Bill 30-05 as introduced**	**Options considered by PHED Committee**
§25A-9 – During control period MPDU must not be sold for more than the original sales price + increase in the CPI + the fair market value of capital improvements + certain closing costs + a reasonable sales commission. Unit must be offered to DHCA and HOC. If not purchased by HOC or DHCA, must be offered to eligible persons. Unit may only be offered to the general public after the priority marketing period expires. After control period expires, seller must pay 50% of excess of resale price over price as calculated above. Seller retains at least $10,000.	During the control period the units may be sold for no more than the original sales price + the increase in the metropolitan CPI + the fair market value of capital improvements + certain closing costs + no more than 50% of the total price appreciation + a reasonable sales commission. After control period seller must pay into the HIF 50% of the excess of the resale price over the sum of original price + increase in metropolitan CPI + fair market value of capital improvements + a reasonable sales commission.	Retain as drafted. Let DHCA set the sales price for workforce housing units during the control period. A fair market appraisal would be used to determine equity. If equity payment to seller cannot be covered by the controlled sales price, public funds could be used to cover these payments.

The Committee reviewed examples of the potential for equity sharing if housing appreciation continues to be high (about 10% a year) and if the gap between housing appreciation and earnings were about 7% for a prolonged period of time. Under certain circumstances, any equity sharing would be covered by the sale of the unit; under others the equity share could require payment of public funds. Peter Engle of HOC told the Committee that some of the equity share issues and possible windfalls could be addressed if the initial basis for value was the unit's market value, rather than the controlled price. For example, a unit built in today's market might have a controlled price of $250,000 but a market value of $350,000.

The Committee recommends (3-0) that the basis for equity sharing should be the original appraised market value rather than the original sales price. The regulation would provide the specific requirements for estimating the original appraised value. Councilmember Praisner does not support an equity sharing formula that would require the use of public funds.

The Committee also recommends (3-0) that, as with MPDUs, the regulations should specify that the owner must not refinance for more than the DHCA-approved sale price.

12. Definition of "Built" - does it require the unit to be completed?

Proposed §25B-25(a)(2) provides: "the staging plan must require all workforce housing to be built before or at the same time as the other dwelling units." Because workforce projects will usually if not always be multi-family buildings, all units are likely to be built at the same time. If the legislative intent is that the workforce housing units be completed and available for occupation before or at the same time as the market rate units, the language should be revised to reflect this intent. DHCA staff noted that this language has not lead to problems for apartment buildings with MPDUs.

The Committee recommends (3-0) retaining the language as originally drafted.

13. Should workforce housing units pay County transportation and school impact taxes?

The Committee considered 3 options for impact tax treatment for workforce housing:

(1) Exempt workforce housing units from the impact taxes, as MPDU's and low-income ("tax credit") units are now exempt.
(2) Tax workforce housing at 50% of the normal rate, as productivity housing is now taxed.
(3) Treat workforce housing units the same as market-rate units for impact tax purposes.

The Committee recommends (2-1; Councilmember Praisner dissenting) exempting workforce housing from school and transportation impact taxes. This cannot be accomplished through Bill 30-05, but would be done through an amendment to the impact

tax law. Councilmember Praisner would tax workforce housing at 50% of the normal rate, as the current law does for productivity housing.

14. Does the calculation for MPDU's include the workforce housing units?

Current law requires that the number of MPDUs be based on the total number of units in a development. If Bill 30-05 is enacted as introduced, that number would include market-rate and below-market rate units. Committee Chair Silverman indicated that this was not his intent as lead sponsor of Bill 30-05. ZTA 05-16 attempts to make it clear that the workforce housing requirement is based on the number of market-rate units, not the total number of units.

The Committee recommends (3-0) inserting a conforming amendment in the MPDU law to clarify that the total number of units in a project that is the basis for the required number of MPDUs does not include any required workforce housing units. (©13-14, lines 318-329)

15. Annual Report

The Committee recommends (3-0) that DHCA submit an annual report be submitted to the Council and Executive by March 15 on the number of workforce housing units produced and alternative agreements approved in the previous calendar year. (©5, lines 98-103)

Fiscal Impact

DHCA Director Davison told the Committee that her Department will need more staff to implement this program. **The Committee indicated that it will consider any recommendations for additional staff and operating costs when it reviews the regulations implementing the program. As part of the effective date provision, which the Committee recommends be set at December 1, 2006, the Committee also recommends that the bill require the County Executive to submit all necessary implementing regulations by October 1 so that this Council can review them. (©14, lines 331-339)**

Attachments

This packet contains:	Circle #
Bill 30-05 with tentative Committee amendments	1
Fiscal Impact Statement Bill 30-05	15
1/19/06 memo from Park and Planning regarding subdivision of 35 or less in CBD zones and metro policy area maps	17
Summary charts of Bolan-Smart analysis of workforce housing scenarios – chart prepared by Council Staff	36

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Bill No.	30-05
Concerning:	Housing - Workforce Housing Program
Revised: 6-16-06	Draft No. 6
Introduced:	October 11, 2005
Expires:	April 11, 2007
Enacted:	
Executive:	
Effective:	
Sunset Date:	None
Ch. ____, Laws of Mont. Co.	

COUNTY COUNCIL
FOR MONTGOMERY COUNTY, MARYLAND

By: Councilmembers Silverman, Floreen, and Subin

AN ACT to:

(1) establish a workforce housing program, administered by the Department of Housing and Community Affairs;

(2) define the purposes of the program and the population who the program is intended to serve, and establish procedures to administer the program;

(3) authorize the County Executive to set certain program parameters, including income eligibility standards, sale and rent control periods, and maximum sale prices and rents, by regulation;

(4) define, by reference to certain mandatory and optional zoning provisions, where workforce housing must be located; and

(5) generally provide for the operation of a County workforce housing program.

By adding

Montgomery County Code
Chapter 25B, Housing Policy
Article V, Workforce Housing

By amending

Chapter 25A, Housing, Moderately Priced
Section 25A-5

Boldface	*Heading or defined term.*
Underlining	*Added to existing law by original bill.*
[Single boldface brackets]	*Deleted from existing law by original bill.*
Double underlining	*Added by amendment.*
[[Double boldface brackets]]	*Deleted from existing law or the bill by amendment.*
* * *	*Existing law unaffected by bill.*

The County Council for Montgomery County, Maryland approves the following Act:

Sec. 1. Chapter 25B is amended by adding Article V, Workforce Housing:

Article V. Workforce Housing.

25B-23. Definitions.

In this Article, the following words have the following meanings:

(a) *Area-wide median income* means the latest published income level determined to represent the median income for the Washington area by the U.S. Department of Housing and Urban Development, adjusted for household size.

(b) *Consumer Price Index* means the latest published version of the Consumer Price Index for all Urban Consumers (CPI-U) of the U.S. Department of Labor, or any similar index designated by regulation.

(c) *Date of original sale* means the date of settlement for purchase of a workforce housing unit.

(d) *Date of original rental* means the date that the first lease of a workforce housing unit takes effect.

(e) *Department* means the Department of Housing and Community Affairs.

(f) *Developer* means a person or other legal entity that seeks to develop a workforce housing project.

(g) *Director* means the Director of the Department or the Director's designee.

(h) *Dwelling unit* means a building or part of a building that provides complete living facilities for one family, including at a minimum facilities for cooking, sanitation, and sleeping.

(i) *Housing Initiative Fund* means the fund established under Section 25B-9.

(j) *Workforce housing project* means a project where at least 10 percent of the dwelling units, [[not counting any moderately priced dwelling units (MPDUs) and any resulting bonus density units,]] as computed under Section 25B-24(e), are sold or rented to households with incomes at or below 120% of the area-wide median income.

(k) *Workforce housing unit* means a dwelling unit in a workforce housing project that is subject to rent limits or sales controls under this Article.

(l) *Program* means the workforce housing program.

25B-24. Workforce housing program.

(a) *Establishment.* The Department must establish and administer a workforce housing program.

(b) *Purpose.* The purpose of the program is to promote the construction of housing affordable to households with incomes at or below 120% of the area-wide median income. The construction of that housing is intended to:

(1) allow households with incomes at or below 120% of the area-wide median income to have greater housing choices in the County;

(2) increase the availability of housing in the County for public employees and other workers whose income cannot support the high cost of housing that is located close to their workplace and who, as a result, are increasingly priced out of housing opportunities;

(3) assist County employers in reducing critical labor shortages of skilled and semi- skilled workers by providing housing that will be accessible to the workers' workplaces; and

(4) reduce traffic congestion by shortening commute distances for employees who work in the County but who otherwise would

live elsewhere and encouraging more employees to live in Metro Station Policy Areas.

(c) *Relationship to other affordable housing programs.* This program is intended to complement the moderately priced dwelling unit (MPDU) program under Chapter 25A and other County programs designed to promote affordable housing.

(d) *Requirement.* A developer of any subdivision with 35 or more market-rate dwelling units at one location must build the number of workforce housing units that are expressly required in any zone under Chapter 59.

(e) *Exclusions.* In calculating the number of dwelling units in any subdivision to determine the number of workforce housing units required under this Article, the Department must not count:

(1) any moderately priced dwelling units (MPDUs) and any resulting bonus density units;

(2) any Personal Living Quarters unit built under Sec. 59-A-6.15, which meets the price or rent eligibility standards for a moderately priced dwelling unit under Chapter 25A;

(3) any dwelling unit in an Opportunity Housing Project built under Sections 56-28 through 56-32, which meets the price or rent eligibility standards for a moderately priced dwelling unit under Chapter 25A; and

(4) any other dwelling unit built under a government regulation or binding agreement that limits for at least 15 years the price or rent charged for the unit in order to make the unit affordable to households earning less than 60% of the area median income, adjusted for family size.

If the total number of units in a subdivision that are not counted under paragraphs (1)-(4) of this subsection will exceed the number of workforce housing units required in the subdivision, then no workforce housing units are required.

[[(e)]] (f) *Regulations.* The County Executive must adopt regulations under method (1) to administer this program. These regulations:

(1) must set maximum sale prices and annual rent limits, sale price and rent ranges (which must promote a variety of different prices or rents at each workforce housing location), minimum unit type and bedroom requirements, and income eligibility standards;

(2) must govern notice to the Department of sales and rentals, foreclosures, and other relevant procedural matters; and

(3) should, wherever possible, be similar to or at least consistent with the regulations that govern the MPDU program.

The regulations regarding eligibility must include some preference for applicants who either reside in the County or work or have received a job offer in the County.

(g) *Annual report.* Each year by March 15 the Director must report to the Executive and Council, for the previous calendar year:

(1) the number of workforce housing units approved and built; and

(2) each alternative location agreement approved under Section 25B-26, and the location and number of workforce housing units that were involved in each agreement.

25B-25. Execution of agreement; building permit issuance.

(a) *Agreement.*

(1) After the developer of a workforce housing project has obtained approval from the Planning Board of a site plan that includes the number of workforce housing units required under any applicable

provision of Chapter 59 and all other necessary regulatory approvals, the Director and the developer must execute an agreement assuring compliance with this Article by the developer and any successor in interest. The Director must attach a copy of the approved site plan to the this agreement.

(2) The agreement must incorporate a staging plan for the construction of workforce housing units, the mix of dwelling unit sizes and types, and the selling price or annual rent for each unit. The staging plan must require all workforce housing units to be built before or at the same time as the other dwelling units. Where appropriate, the agreement must reflect conditions required as part of other regulatory approvals.

(3) The agreement must require that the number of efficiency and one- bedroom workforce housing units each must not exceed the ratio that market-rate efficiency and one-bedroom units respectively bear to the total number of market-rate units in the subdivision. The Director must not approve an agreement that reduces the number of bedrooms required by this subsection in any workforce housing unit.

(b) *Issuance of building permit.* The Director of Permitting Services must not issue a building permit for any development where workforce housing units are required under Chapter 59 until the agreement required by subsection (a) is executed. After an agreement is executed under subsection (a), the Director must certify to the Director of Permitting Services before a building permit is issued that all applicable requirements of this Article have been met. If all workforce housing units are not built before or at the same time as other dwelling units as

6

required in the staging plan, the Director of Permitting Services may:

(1) withhold any later building permit for any part of the same development until all workforce housing units designated in the staging plan are built;

(2) issue a stop work order, effective until all workforce housing units designated in the staging plan are built; or

(3) withhold any use and occupancy permit for other units in the development until all workforce housing units designated in the staging plan are built.

25B-26. Alternative location agreement.

(a) The Director may approve a workforce housing agreement, in addition to the agreement required by Section 25B-25, that allows an applicant [[for development of a high-rise residential building]], instead of building some or all of the required number of workforce housing units on-site, to provide at least the same number of units at another location in the same planning policy area (as defined in the County Growth Policy), only if the Director finds that:

(1) either:

(A) the public benefit of locating at the proposed alternative location [[outweighs]] is equivalent to the value of locating workforce housing units in each applicable development; or

(B) building a sufficient number of workforce housing units at the original site would require the applicant to change the type of building construction used; and

(2) building the workforce housing units at the proposed alternative location will further the objective of providing a broad range of

housing opportunities throughout the County.

(b) To satisfy the requirements of this Section, an applicant may:

(1) build, or convert from non-residential use, the required number of new workforce housing units at a site approved by the Director; or

(2) [[buy, encumber, or transfer, and rehabilitate as necessary, existing market rate housing units that meet all standards for use as workforce housing units; or]]

[[(3)]] return to workforce housing unit use, and rehabilitate as necessary, existing workforce housing units for which price controls have expired.

(c) Each agreement under this Section must include a schedule, binding on the applicant, for timely completion or acquisition of the required number of workforce housing units. Each agreement must also provide that each unit provided at an alternative location under this Section must be identical in type of unit and number of bedrooms to the units that the applicant would have built on site.

25B-27. Control of sale prices; rent limits; income eligibility; foreclosures.

(a) *Sales; control period.* The sale price of a workforce housing unit must be controlled under this subsection for [[10]] 20 years after the date of original sale. During the applicable control period, a workforce housing unit must only be sold to an individual with a household income that does not exceed 120% of the area-wide median income or a lower amount set by regulation. Any workforce housing unit offered for sale, or for resale during the control period, must first be offered exclusively for 60 days to the Department and the Housing Opportunities Commission, in that order. The Department and the Commission may buy a workforce housing unit at any time during the control period, and may resell the unit to an eligible person. A resale by the Department or Commission starts a new control period.

(b) *Resale price during control period.* Except in a foreclosure proceeding, a workforce housing unit constructed or offered for sale under this Article must not be resold during the applicable control period for a price greater than the unit's original [[selling price]] appraised market value (as defined by applicable regulations) plus:

(1) a percentage of the unit's original [[selling price]] appraised market value equal to the increase in the cost of living, as determined by the metropolitan area Consumer Price Index;

(2) the fair market value of capital improvements made to the unit between the date of original sale and the date of resale;

(3) an allowance for closing costs which were not paid by the initial seller, but which will be paid by the initial buyer for the benefit of the later buyer;

(4) a percentage, set by regulation, of the unit's price appreciation since its most recent sale, which must not exceed 50% of the total price appreciation; and

(5) a reasonable sales commission.

(c) *Resale price after control period ends.*

(1) For the first sale of a workforce housing unit after the applicable control period ends that exceeds the allowable price specified under subsection (a), the seller must pay to the Housing Initiative Fund one-half of the excess of the total resale price over the sum of:

(A) the original [[selling price]] appraised market value;

(B) a percentage of the unit's original [[selling price]] appraised market value equal to the increase in the cost of living as determined by the metropolitan area Consumer Price Index;

(C) the fair market value of capital improvements made to the unit between the date of original sale and the date of resale; and

(D) a reasonable sales commission.

The Director must adjust the amount paid into the Housing Initiative Fund in each case so that the seller retains at least $10,000 of the excess of the resale price over the sum of the items in subparagraphs (A)-(D).

(2) The Director must find that the price and terms of a sale covered by paragraph (1) are bona fide and accurately reflect the entire transaction between the parties so that the full amount required under paragraph (1) is paid to the Fund. When the Director finds that the amount due the Fund is accurate and the Director of Finance receives the amount due, the Director must terminate the controls imposed by this section and execute a release of all restrictive covenants.

(d) *Limits on rents.* Unless the unit was previously sold under subsection (c), any workforce housing unit built or offered for rent under this Chapter must not be rented for 99 years after the date of original rental at a rent greater than the rent allowed for workforce housing units under this Article and applicable regulations. Rent may include parking but does not include utilities when they are paid by the tenant. Different rents must be set when utility costs are paid by the owner and included in the rent. During the applicable control period, a workforce housing unit must only be rented to an individual with a household income that does not exceed the limits set under this Article.

(e) *Foreclosure.* If a workforce housing unit is sold in a foreclosure proceeding begun by a lending institution, the Director must terminate the workforce housing controls and execute a release of all restrictive covenants if all proceeds of the sale, if any, that must be paid to the Housing Initiative Fund have been paid. If a foreclosure sale of a workforce housing unit occurs during the applicable control period, any price paid at the foreclosure sale that exceeds the price established under subsection (b), plus any reasonable costs and fees of foreclosure, must be paid into the Housing Initiative Fund. If a workforce housing unit is foreclosed after the control period, subsection (c) applies. If the unit sold was a rental unit, the Department must calculate the sale price that would have been permitted at the date of original rental as if the unit had been originally offered for sale.

(f) *Bulk sales.* This section does not prohibit the bulk sale or transfer of all or some rental workforce housing units if the buyer is bound by all covenants and controls on the workforce housing units.

25B-28. Compliance.

(a) *Covenants.*

(1) This Article applies to the owner, any successor in interest, assignee, or other person with a legal or equitable interest in the workforce housing unit. Before recording the plat for a workforce housing project, the owner must execute and record covenants assuring that:

(A) the restrictions of this Article run with the land;

(B) the covenants are binding on the owner, any assignee, mortgagee, or later purchaser, and any other party that receives title to the property; and

(C) the County may create a lien to collect that portion of the sale price or foreclosure sale price of a workforce housing unit which exceeds the approved resale price.

(2) Any covenant executed to satisfy paragraph (1) must be senior to all instruments securing permanent financing.

(b) *Later deeds.* The grantor must clearly and conspicuously state, in any purchase and sale agreement and any deed or instrument conveying title to a workforce housing unit, and the grantee must clearly and conspicuously acknowledge, that the unit is subject to this Article and the restrictions in the covenants until all restrictions are released under Section 25B-27 or another provision of law. Any deed or other instrument conveying title to a workforce housing unit during the control period must be signed by both the grantor and grantee. When a deed or other instrument conveying title to a workforce housing unit is recorded in the land records, the grantor must cause to be filed in the land records a notice of sale for the benefit of the County in the form provided by state law.

(c) *Violations; enforcement.*

(1) Any violation of this Article or regulations adopted under it is a class A violation.

(2) An occupancy permit must not be issued for any building to any applicant, or a successor or assign of any applicant, for any construction which does not comply with this Chapter. The Director of Permitting Services may deny, suspend, or revoke

any applicable building or occupancy permit if the Director finds that the applicant or permittee has committed a violation of this Article. The Planning Board may revoke any previously approved preliminary plan of subdivision, site plan, or development plan, if the Board finds a violation of this Article.

(3) The Director may take legal action to stop or cancel any transfer of a workforce housing unit if any party to the transfer does not comply with all requirements of this Article. The Director may recover any funds improperly obtained from any sale or rental of a workforce housing unit in violation of this Article, plus costs and interest at the rate prescribed by law from the date a violation occurred.

(4) In addition to or instead of any other available remedy, the Director may take legal action to:

(A) enjoin a workforce housing unit owner who violates this Article, or any covenant signed or order issued under this Article, from continuing the violation; or

(B) require an owner to sell a workforce housing unit owned or occupied in violation of this Article to the County, the Housing Opportunities Commission, or an eligible person.

Sec. 2. Section 25A-5 is amended as follows:

25A-5. Requirement to build MPDU's; agreements.

* * *

(c) When the development at one location is in a zone where a density bonus is allowed; and

(1) is covered by a plan of subdivision,

(2) is covered by a plan of development or a site plan, or

(3) requires a building permit to be issued for construction,

the required number of moderately priced dwelling units is a variable percentage that is not less than 12.5 percent of the total number of dwelling units at that location, not counting any workforce housing units required under Chapter 25B.

* * *

Sec. [[2]] 3. Effective date; Applicability.

This Act takes effect on December 1, 2006. The County Executive must submit all regulations necessary to implement Article V of Chapter 25B, inserted by Section 1 of this Act, to the Council by October 1, 2006. Article V of Chapter 25B, as inserted by Section 1 of this Act, does not apply to any development for which an application for a local map amendment, development plan, project plan, site plan, or [[a]] preliminary plan of subdivision was [[approved]] filed before [[this Act took effect]] December 1, 2006, unless the applicant voluntarily includes workforce housing units in that development.

Approved:

George L. Leventhal, President, County Council — Date

Approved:

Douglas M. Duncan, County Executive — Date

This is a correct copy of Council action.

Linda M. Lauer, Clerk of the Council — Date

BILL 30-05

NAW

CC
SBF
LL
MF

OFFICE OF MANAGEMENT AND BUDGET

Douglas M. Duncan
County Executive

Beverley K. Swaim-Staley
Director

MEMORANDUM

November 22, 2005

TO: Thomas E. Perez, President
County Council

VIA: Bruce Romer
Chief Administrative Officer

018728

To
FROM: Beverley K. Swaim-Staley, Director
Office of Management and Budget

SUBJECT: Expedited Bill 30-05, Workforce Housing Program

The purpose of this memorandum is to transmit a fiscal impact statement to the Council on the subject legislation.

LEGISLATION SUMMARY

The proposed legislation amends existing legislation by adding the following:

- Establish a workforce housing program, administered by the Department of Housing and Community Affairs;
- Define the workforce housing program;
- Authorize the County Executive to set certain program parameters;
- References mandatory and optional zoning provisions where workforce housing must be located; and
- Provide for the operation of a County workforce housing program.

FISCAL SUMMARY

Implementing a new workforce housing program will involve staffing and operating expense increases. New office space will also be needed as the current location on Maryland Avenue cannot accommodate the increase in staff. At this point, expenditures for the additional space cannot reliably be estimated, nor the location determined. The costs associated with program enforcement, monitoring resale units, and administrative oversight will be commensurate with the administrative cost of the current Moderately Priced Dwelling Unit program (MPDU). Presently, there are four positions that total 3.7 work years allocated to the

Office of the Director
101 Monroe Street, 14th Floor • Rockville, Maryland 20850 • 240/777-2800
http://www.montgomerycountymd.gov

administration of the MPDU program. Since the income guidelines for the MPDU program and the income guidelines for workforce housing program will not overlap, there will be two separate pools of program applicants. In order to effectively administer the work force housing program, the Department of Housing and Community Affairs anticipates the need for four new positions or the equivalent of 3.7 work years.

Estimated Expenses to Implement a New Workforce Housing Program	
Personnel Costs (4 new Positions)	$310,000
Operating Costs	$ 20,600
Total FY06 Costs	$330,600

The personnel costs listed above are based on an annualized fiscal impact.

The cost estimates above are only for the administration of the new workforce housing program. There may be other costs associated with the resale of the workforce housing unit during the control period.

The following contributed to and concurred with this analysis: Fred Wilcox, Department of Housing and Community Affairs, Christopher Anderson, Department of Housing and Community Affairs, Joseph Giloley, Department of Housing and Community Affairs, and Rose Glavinic, Office of Management and Budget.

bss:rmg

cc: Elizabeth Davison, DHCA
Fred Wilcox, DHCA
Christopher Anderson, DHCA
Joseph Giloley, DHCA
Beryl Feinberg, OMB
Brady Goldsmith, OMB

M-NCPPC

MONTGOMERY COUNTY DEPARTMENT OF PARK AND PLANNING

THE MARYLAND-NATIONAL CAPITAL
PARK AND PLANNING COMMISSION

8787 Georgia Avenue
Silver Spring, Maryland 20910-3760
301-495-4500, www.mncppc.org

January 19, 2006

Memorandum

To: Linda McMillan, Montgomery County Council Staff

From: Karl Moritz, Chief, Research & Technology Center, 301-495-1312
Sharon K. Suarez, AICP, Housing Coordinator, 301-495-4720

Re: Questions from PHED Meeting of December 8, 2005

---

1. ***How many subdivisions of 35 or fewer units have there been in CBD zones in metro areas in the last 10 years or so?***

Site plans and preliminary plans approved since 1995 in CBD zones with 35 or fewer dwelling units were reviewed. During that period, three subdivision plans were approved in CBD zones, each yielding 35 or fewer units: two in Bethesda and one in Silver Spring. Of those, two were preliminary plans and one was a site plan. Because there were so few such plans, the search was widened to include TS zones. Six subdivision plans were found in the TS zones, and all were in Bethesda: four preliminary plans and two site plans.

PA	PA Name	Zone	Plan Name	Plan Number	DU Total	MPDUs	TDRs
35	Bethesda	CBD-1	4933 Fairmont Ave	820040090	2	0	0
35	Bethesda	CBD-1	West Virginia Ave	120040710	4	0	0
35	Bethesda	TS-R	Edgemoor	119980670	12	0	0
35	Bethesda	TS-R	Edgemoor at Arlington	120010180	12	0	0
35	Bethesda	TS-R	Montgomery Lane, Edgemoor	119960590	18	0	0
35	Bethesda	TS-R	Villages of Bethesda	119970380	22	0	0
35	Bethesda	TS-R	Edgemoor II	819980350	29	0	0
35	Bethesda	TS-R	Edgemoor IV	82000023A	12	12	0
36	Silver Spring	CBD-1	Silver Spring Park	120030600	24	0	0

2. ***Which Master Plans (MP) contain height restrictions that might affect the proposed workforce housing legislation?***

The Bethesda MP (p.39) has potential height restrictions, as well as does the related Friendship Heights Sector Plan, which has limits on the number of stories allowed and which affects the Geico & Hecht Co. parcels. The Silver Spring MP has some height restrictions, such as those in the Fenton Village Overlay Zone (p. 68), the Ripley District Overlay Zone (pp. 84-85), and the South Silver Spring (pp. 86-87).

3. ***Chart the steps in the Development Review Process. How many projects are in the various steps? How much time does it take for projects, on average, to get through the process?***

a. <u>Process Charts.</u> The Community-Based and Development Review divisions have been charting the development review process.. As can be seen in **Attachment A,** the Development Review Process is slightly different for applications with recorded lots versus unrecorded lots; for applications in Takoma Park; and for applications with historic properties.
b. <u>Number of the projects in various steps of the process</u>. In fiscal year 2005, the Department reviewed 77 Pre-Applications; seven Project Plans; 125 Preliminary Plans; 88 Site Plans; 182 Natural Resource Inventories/Forest Stand Delineation Recertifications: 215 Forest Conservation Plan Exemptions; 97 Forest Conservation Plans; and 235 Plats.
c. <u>Average time in the process.</u> According to M-NCPPC staff attorney, Michele Rosenfeld, the pre-Clarksburg duration of an application averaged between 45 to 60 days in process. Post-Clarksburg, the process has been somewhat lengthier – about 90 days, and it is hoped that staff reassignments and new-hires will in time bring the process timeframe back to pre-Clarksburg levels.

4. ***Provide Metro Area maps with zoning.***

As requested, ten letter-sized maps are included as **Attachment B**. The first is a key map, and the rest are metro area maps.

Attachment A
Development Review Process Charts

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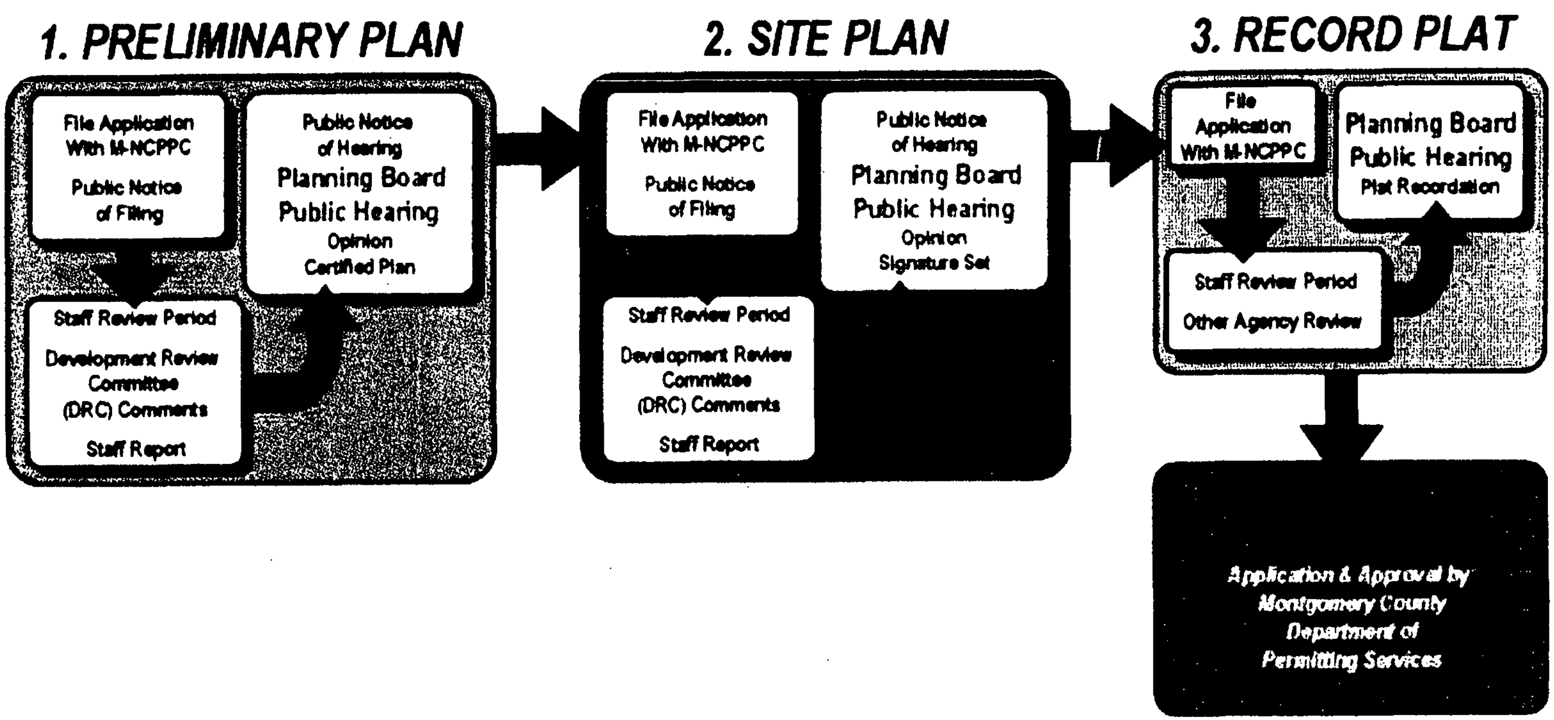


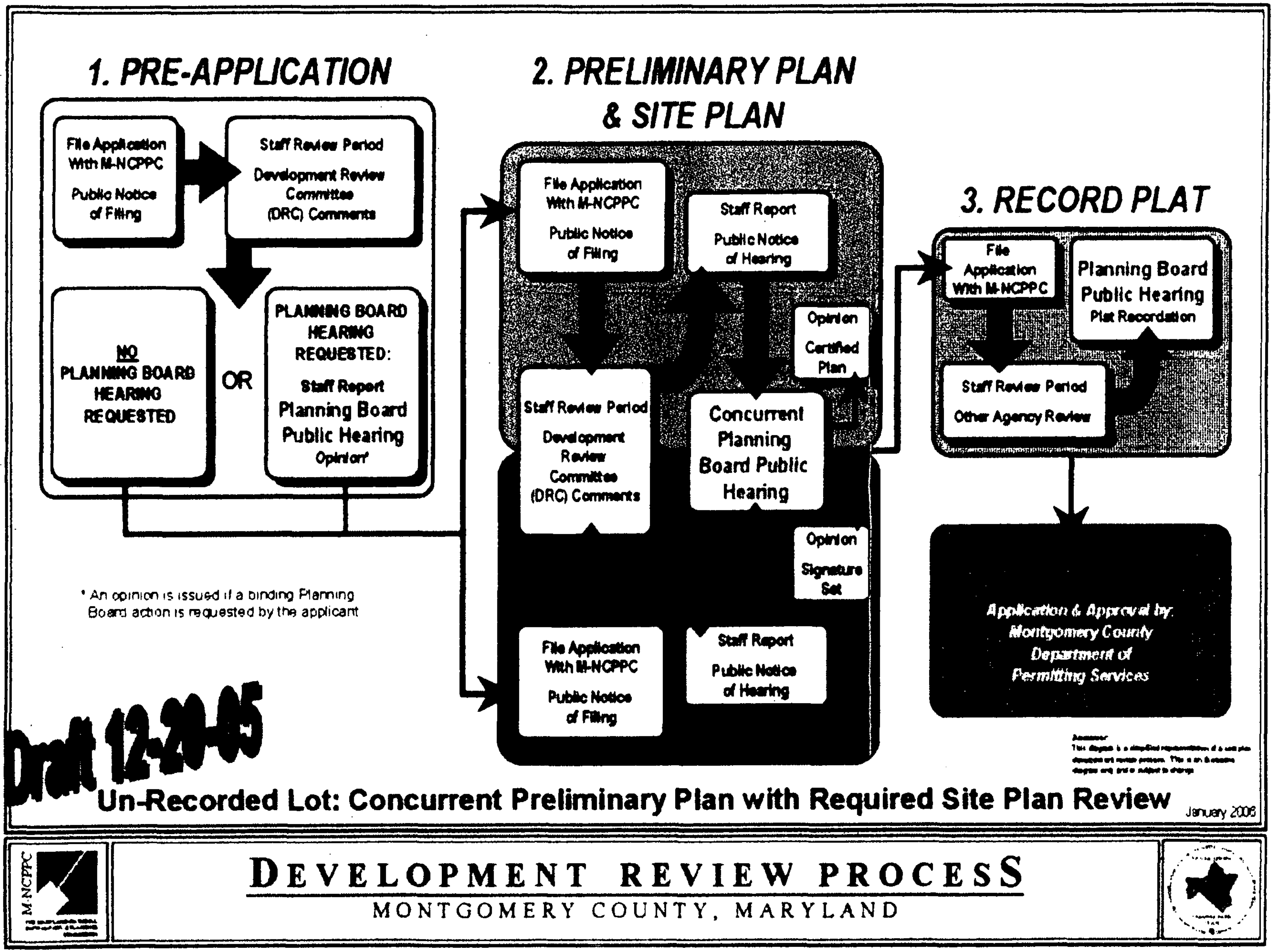
Draft 12-20-05

Un-Recorded Lot: Preliminary Plan with Required Site Plan Review

January 2006

DEVELOPMENT REVIEW PROCESS

MONTGOMERY COUNTY, MARYLAND


1. PRE-APPLICATION
File Application With M-NCPPC
Public Notice of Filing
Staff Review Period
Development Review Committee (DRC) Comments
NO PLANNING BOARD HEARING REQUESTED
OR
PLANNING BOARD HEARING REQUESTED:
Staff Report
Planning Board Public Hearing
Opinion*
* An opinion is issued if a binding Planning Board action is requested by the applicant
2. PRELIMINARY PLAN & SITE PLAN
File Application With M-NCPPC
Public Notice of Filing
Staff Report
Public Notice of Hearing
Opinion
Certified Plan
Staff Review Period
Development Review Committee (DRC) Comments
Concurrent Planning Board Public Hearing
Opinion
Signature Set
File Application With M-NCPPC
Public Notice of Filing
Staff Report
Public Notice of Hearing
3. RECORD PLAT
File Application With M-NCPPC
Planning Board Public Hearing
Plat Recordation
Staff Review Period
Other Agency Review
Application & Approval by: Montgomery County Department of Permitting Services
Draft 12-20-05
Un-Recorded Lot: Concurrent Preliminary Plan with Required Site Plan Review
January 2006
DEVELOPMENT REVIEW PROCESS
MONTGOMERY COUNTY, MARYLAND
M-NCPPC

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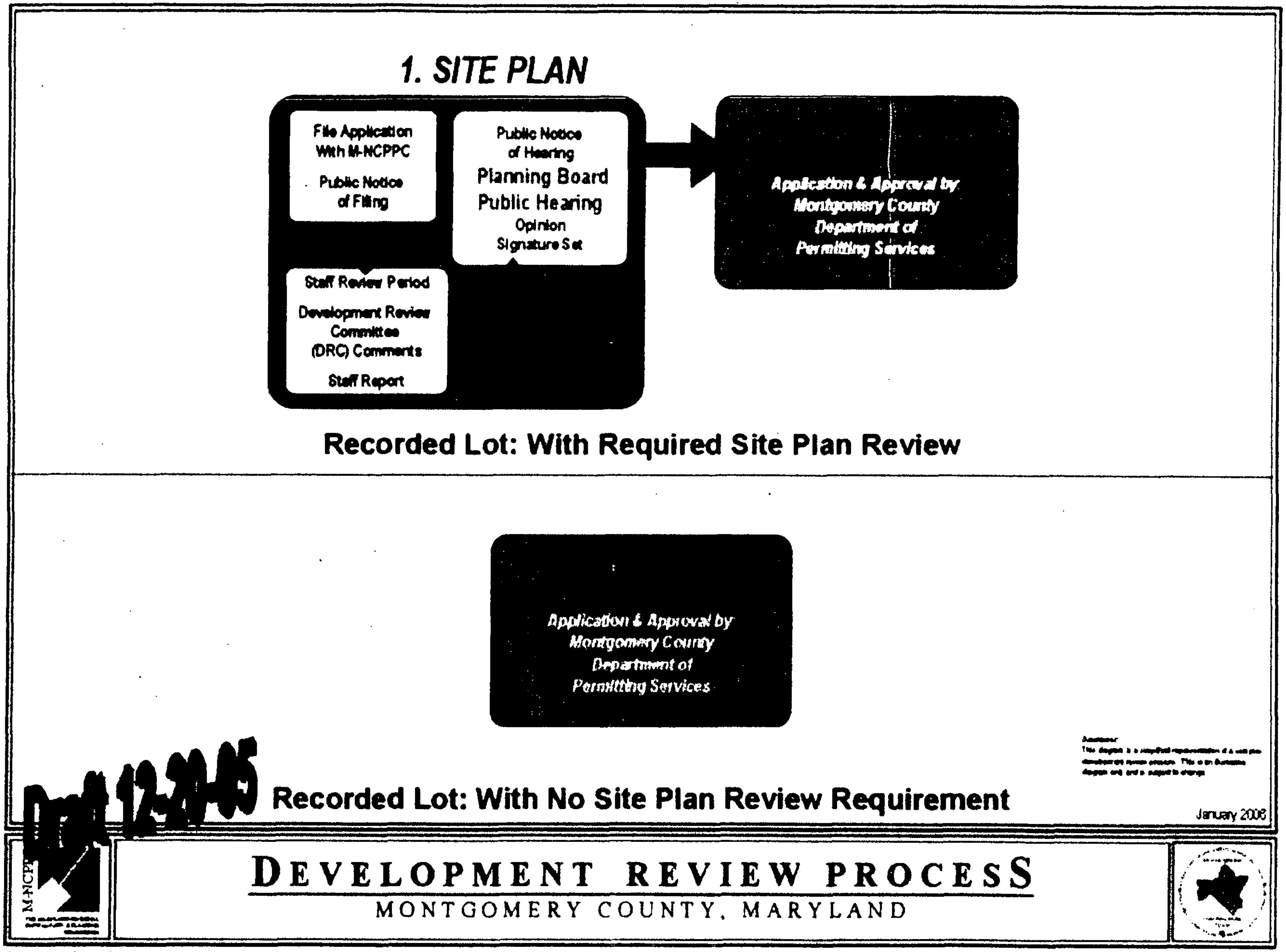
1. SITE PLAN
File Application With M-NCPPC
Public Notice of Filing
Public Notice of Hearing
Planning Board Public Hearing
Opinion
Signature Set
Staff Review Period
Development Review Committee (DRC) Comments
Staff Report
Application & Approval by Montgomery County Department of Permitting Services
Recorded Lot: With Required Site Plan Review
Application & Approval by Montgomery County Department of Permitting Services
Draft 12-20-05
Recorded Lot: With No Site Plan Review Requirement
January 2006
DEVELOPMENT REVIEW PROCESS
MONTGOMERY COUNTY, MARYLAND
M-NCPPC

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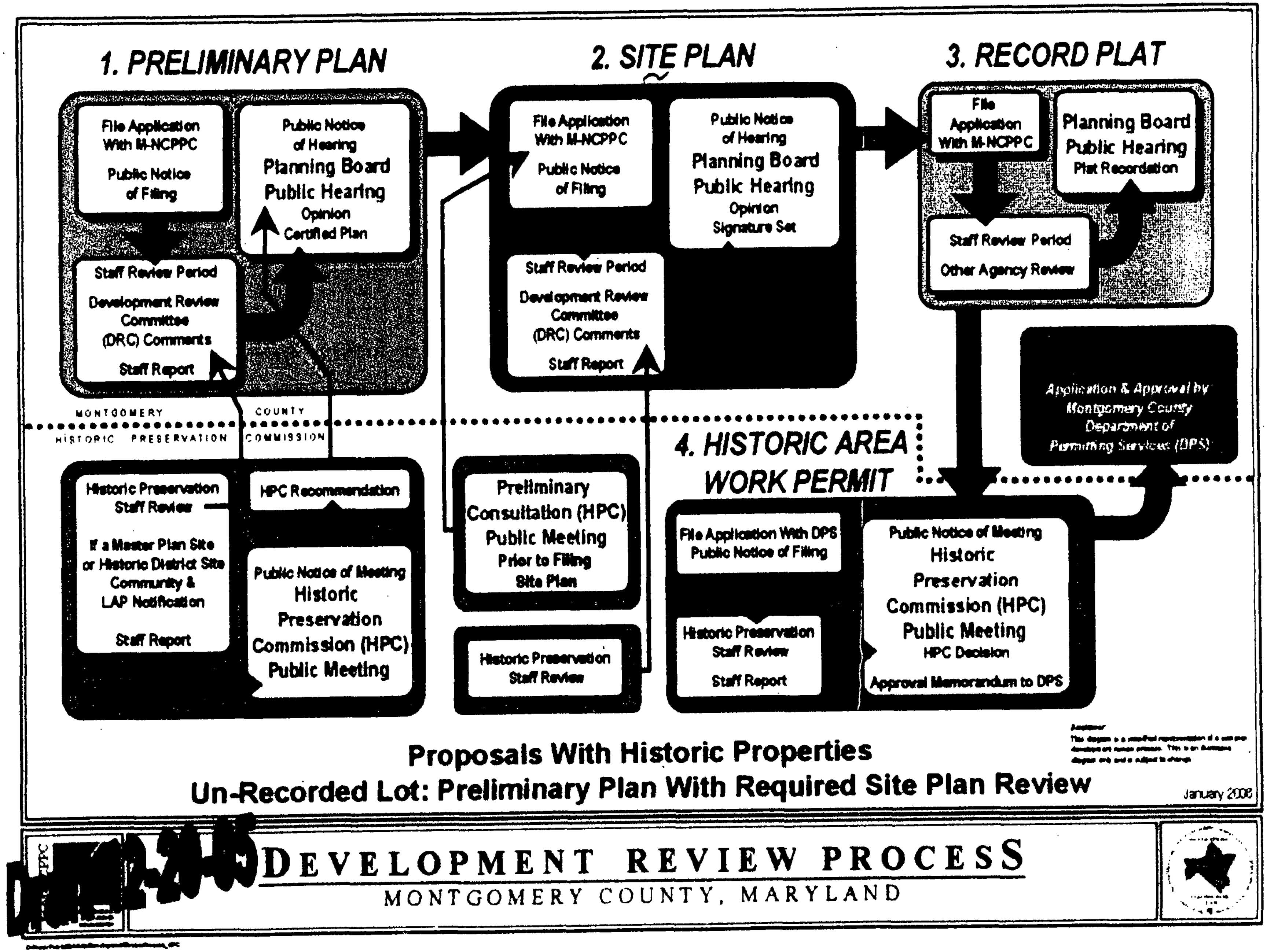
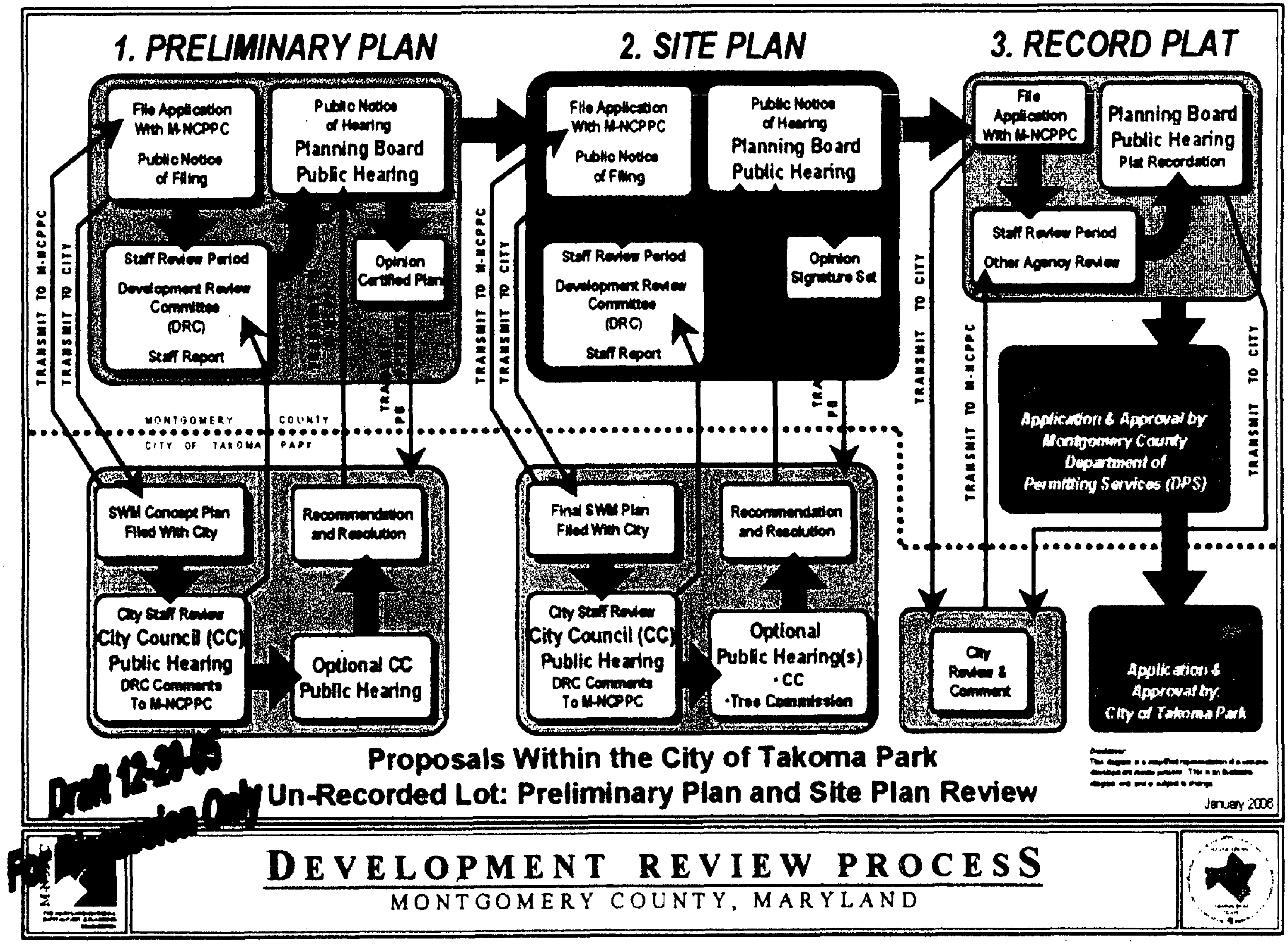

1. PRELIMINARY PLAN
File Application With M-NCPPC
Public Notice of Filing
Public Notice of Hearing
Planning Board Public Hearing
Opinion
Certified Plan
Staff Review Period
Development Review Committee (DRC) Comments
Staff Report
2. SITE PLAN
File Application With M-NCPPC
Public Notice of Filing
Public Notice of Hearing
Planning Board Public Hearing
Opinion
Signature Set
Staff Review Period
Development Review Committee (DRC) Comments
Staff Report
3. RECORD PLAT
File Application With M-NCPPC
Planning Board Public Hearing
Plat Recordation
Staff Review Period
Other Agency Review
Application & Approval by Montgomery County Department of Permitting Services (DPS)
MONTGOMERY COUNTY
HISTORIC PRESERVATION COMMISSION
Historic Preservation Staff Review
If a Master Plan Site or Historic District Site
Community & LAP Notification
Staff Report
HPC Recommendation
Public Notice of Meeting
Historic Preservation Commission (HPC) Public Meeting
Preliminary Consultation (HPC) Public Meeting Prior to Filing Site Plan
Historic Preservation Staff Review
4. HISTORIC AREA WORK PERMIT
File Application With DPS
Public Notice of Filing
Historic Preservation Staff Review
Staff Report
Public Notice of Meeting
Historic Preservation Commission (HPC) Public Meeting
HPC Decision
Approval Memorandum to DPS
Proposals With Historic Properties
Un-Recorded Lot: Preliminary Plan With Required Site Plan Review
January 2008
DEVELOPMENT REVIEW PROCESS
MONTGOMERY COUNTY, MARYLAND

23



1. PRELIMINARY PLAN
2. SITE PLAN
3. RECORD PLAT
File Application With M-NCPPC
Public Notice of Filing
Public Notice of Hearing
Planning Board Public Hearing
Staff Review Period
Development Review Committee (DRC)
Staff Report
Opinion Certified Plan
Opinion Signature Set
TRANSMIT TO M-NCPPC
TRANSMIT TO CITY
MONTGOMERY COUNTY
CITY OF TAKOMA PARK
SWM Concept Plan Filed With City
Final SWM Plan Filed With City
City Staff Review
City Council (CC) Public Hearing
DRC Comments To M-NCPPC
Recommendation and Resolution
Optional CC Public Hearing
Optional Public Hearing(s)
• CC
• Tree Commission
File Application With M-NCPPC
Planning Board Public Hearing
Plat Recordation
Staff Review Period
Other Agency Review
Application & Approval by Montgomery County Department of Permitting Services (DPS)
City Review & Comment
Application & Approval by: City of Takoma Park
Proposals Within the City of Takoma Park
Un-Recorded Lot: Preliminary Plan and Site Plan Review
January 2006
Draft 12-20-05
For Discussion Only
DEVELOPMENT REVIEW PROCESS
MONTGOMERY COUNTY, MARYLAND

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<u>Attachment B</u>
Metro Station Policy Area Maps

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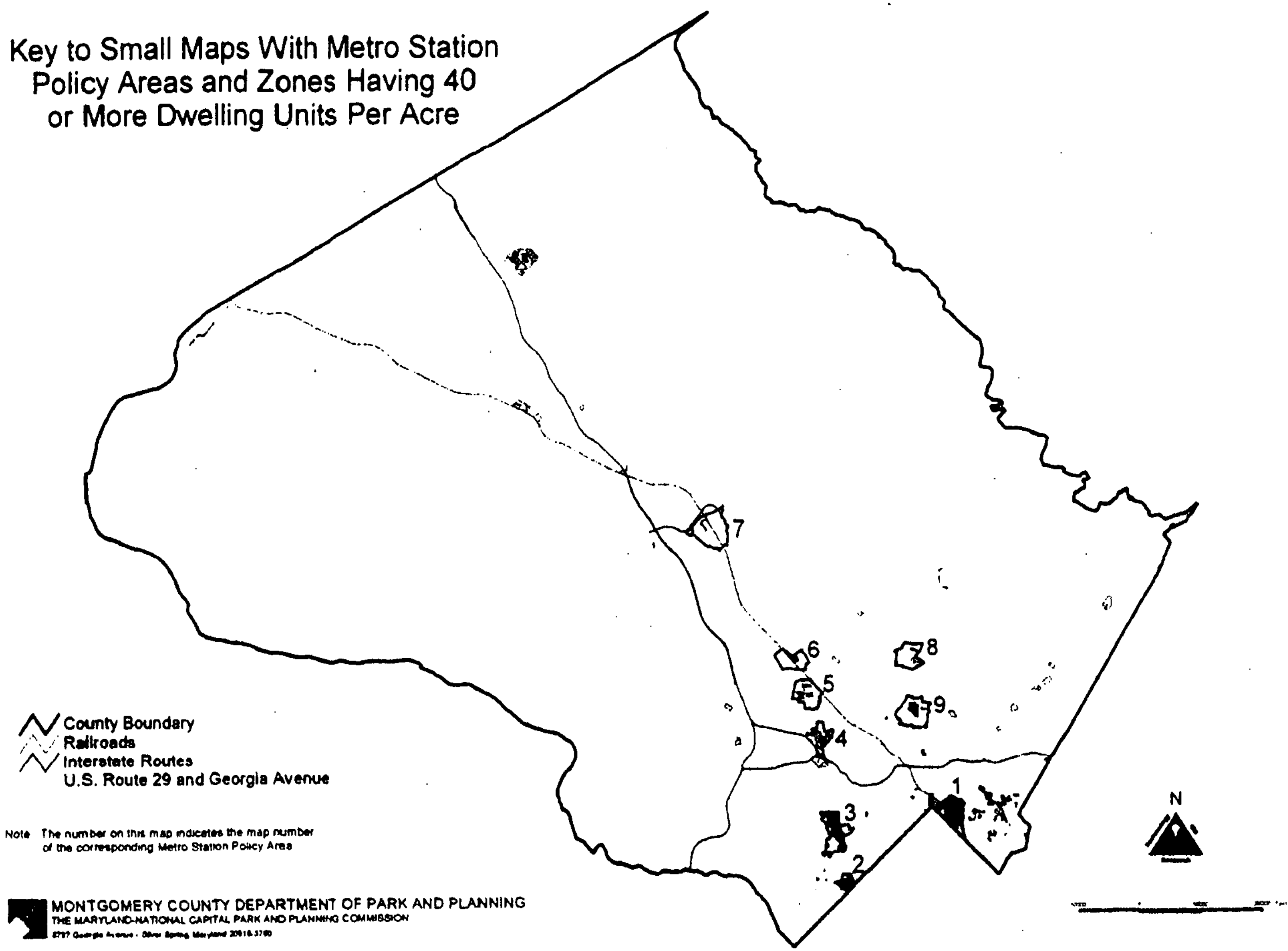
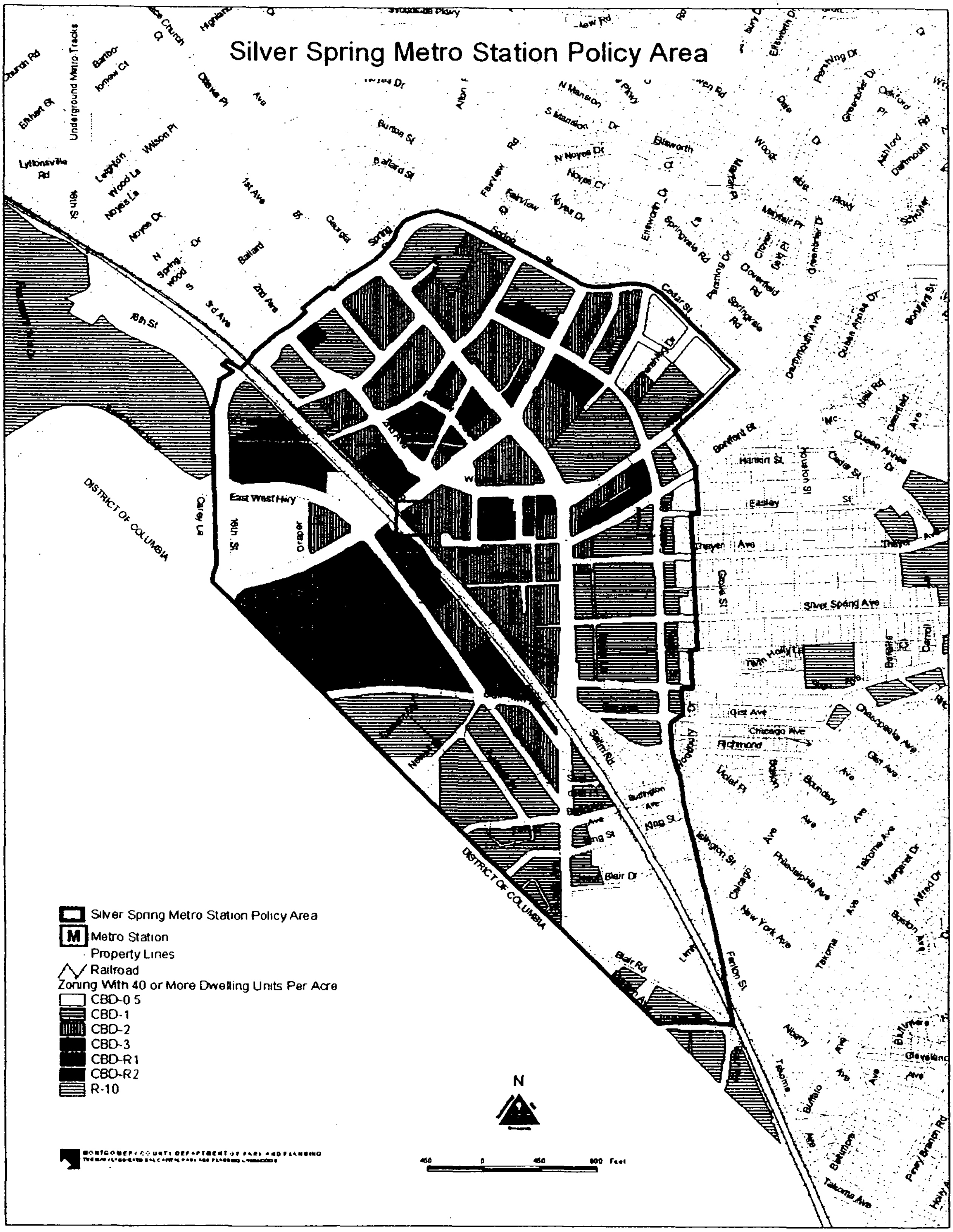
Key to Small Maps With Metro Station Policy Areas and Zones Having 40 or More Dwelling Units Per Acre





#1 – Silver Spring Metro Station Policy Area

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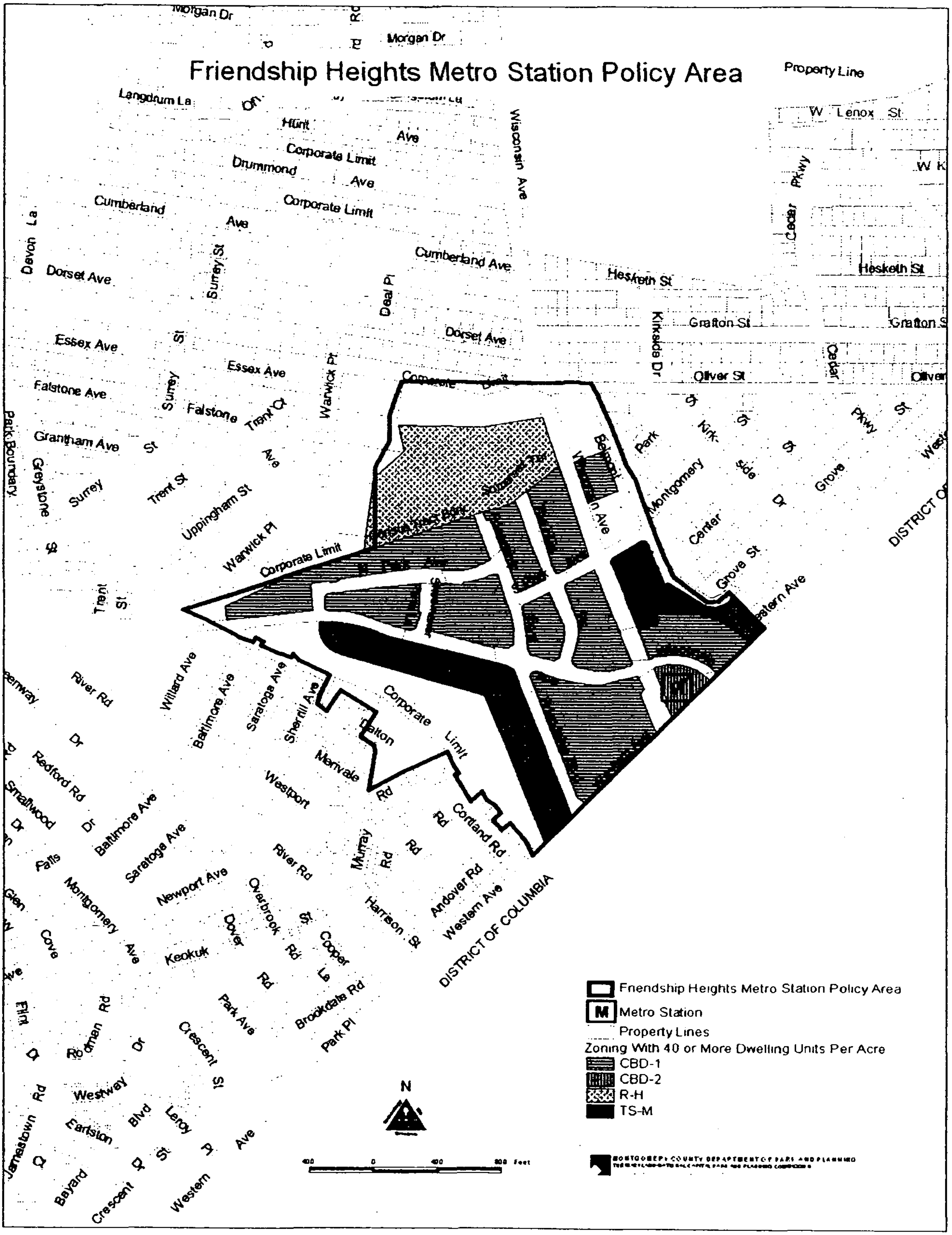

#2 – Friendship Heights Metro Station Policy Area

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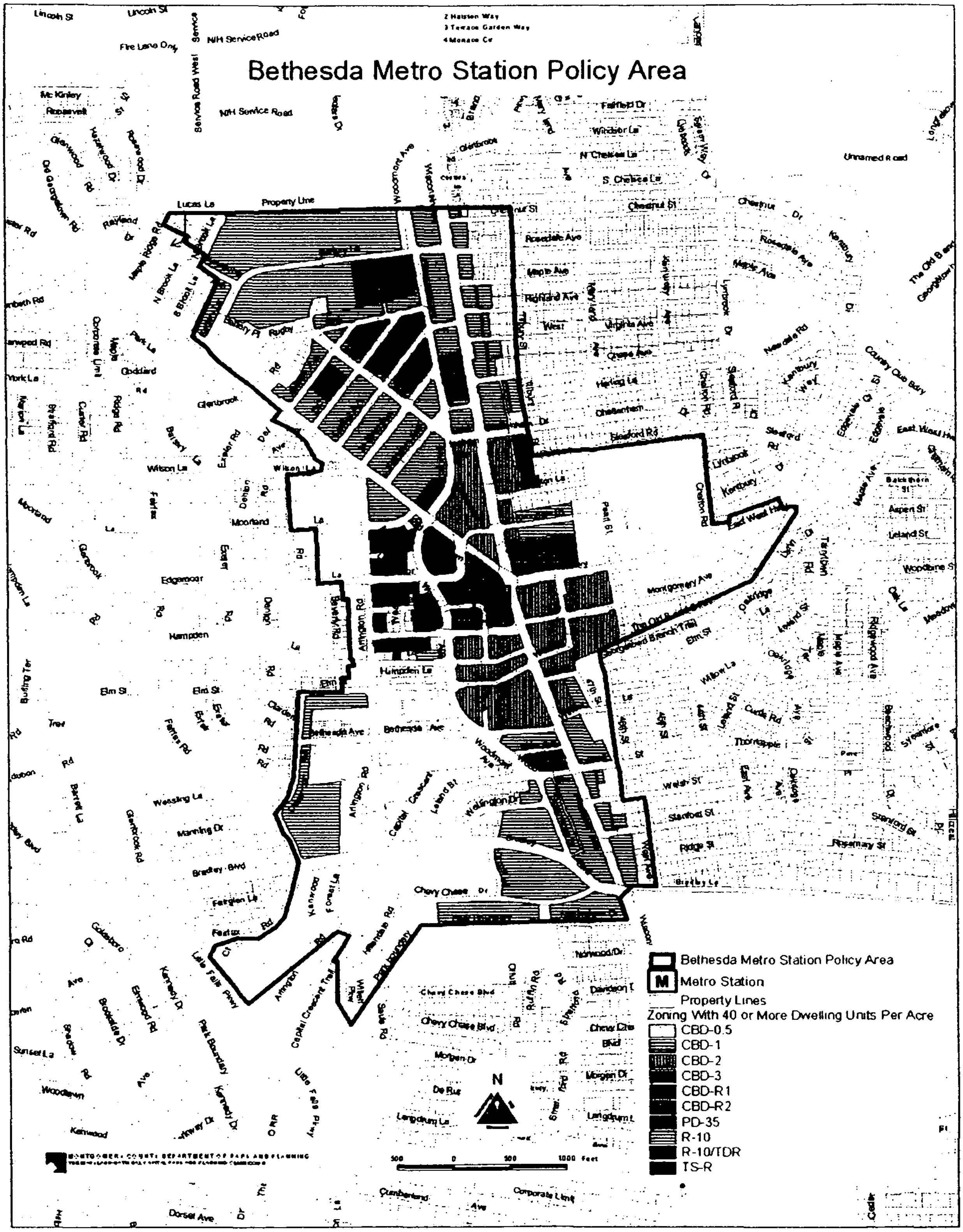
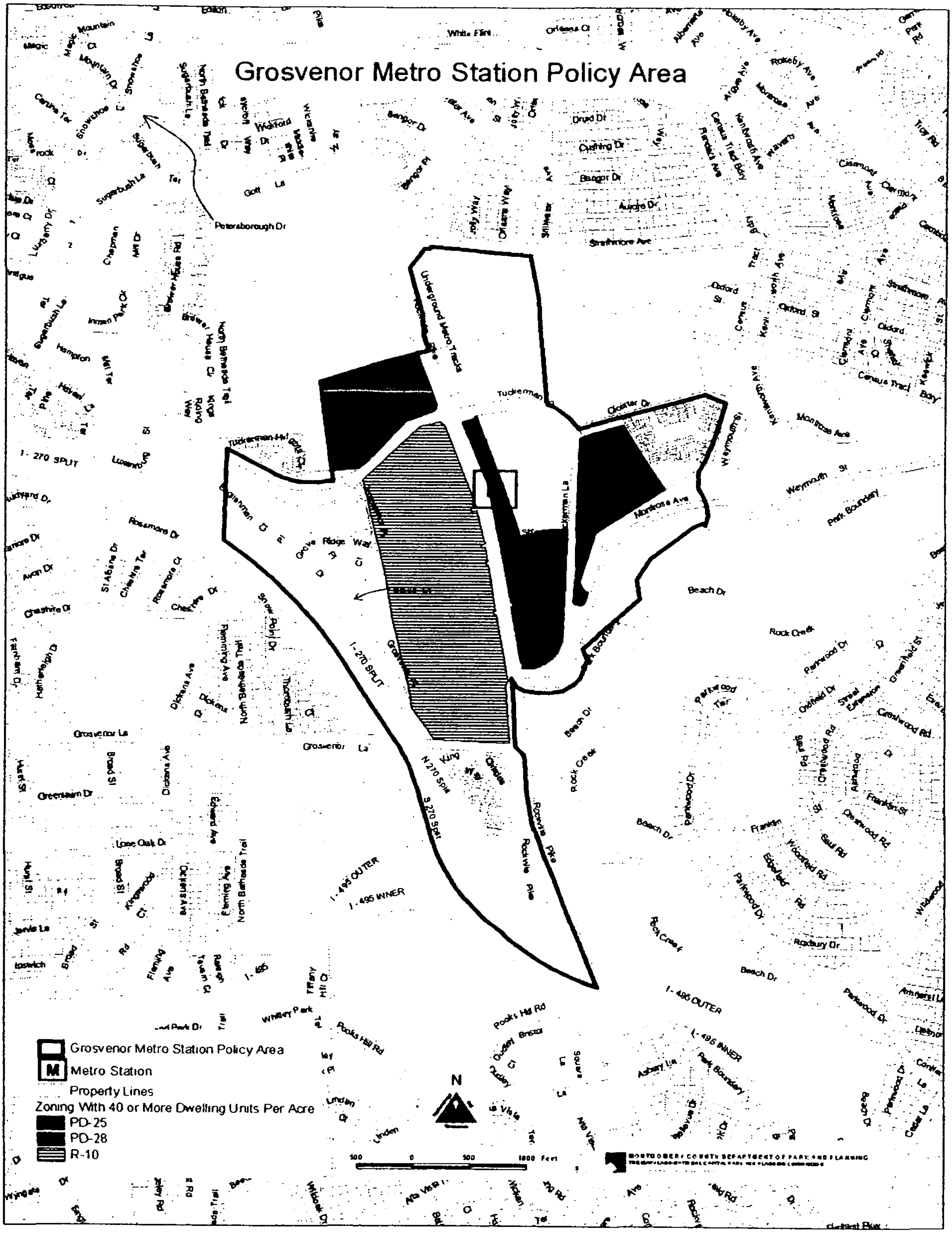
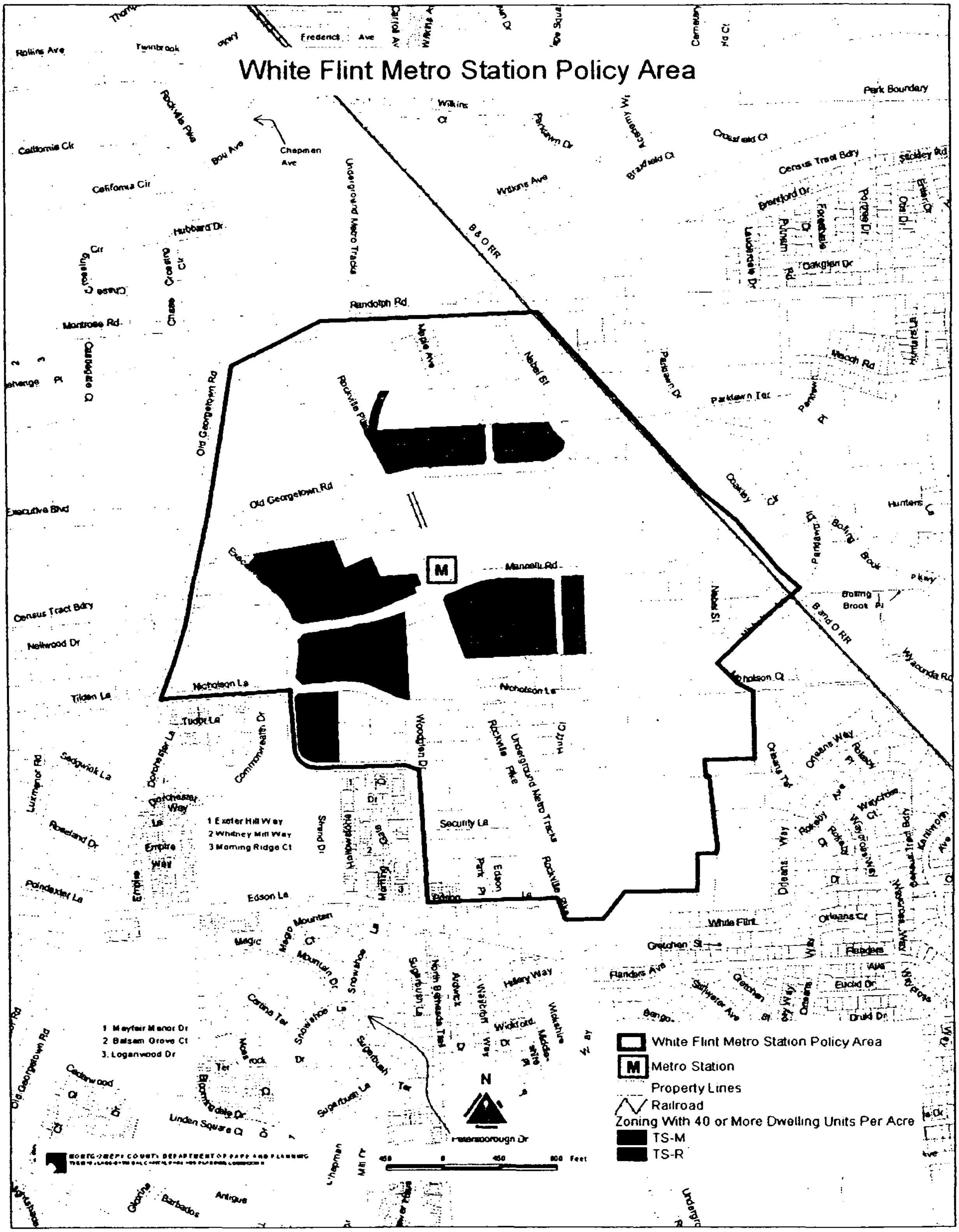


#3 – Bethesda Metro Station Policy Area

29



#4 – Grosvenor Metro Station Policy Area



#5 – White Flint Metro Station Policy Area

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#6 – Twinbrook Metro Station Policy Area

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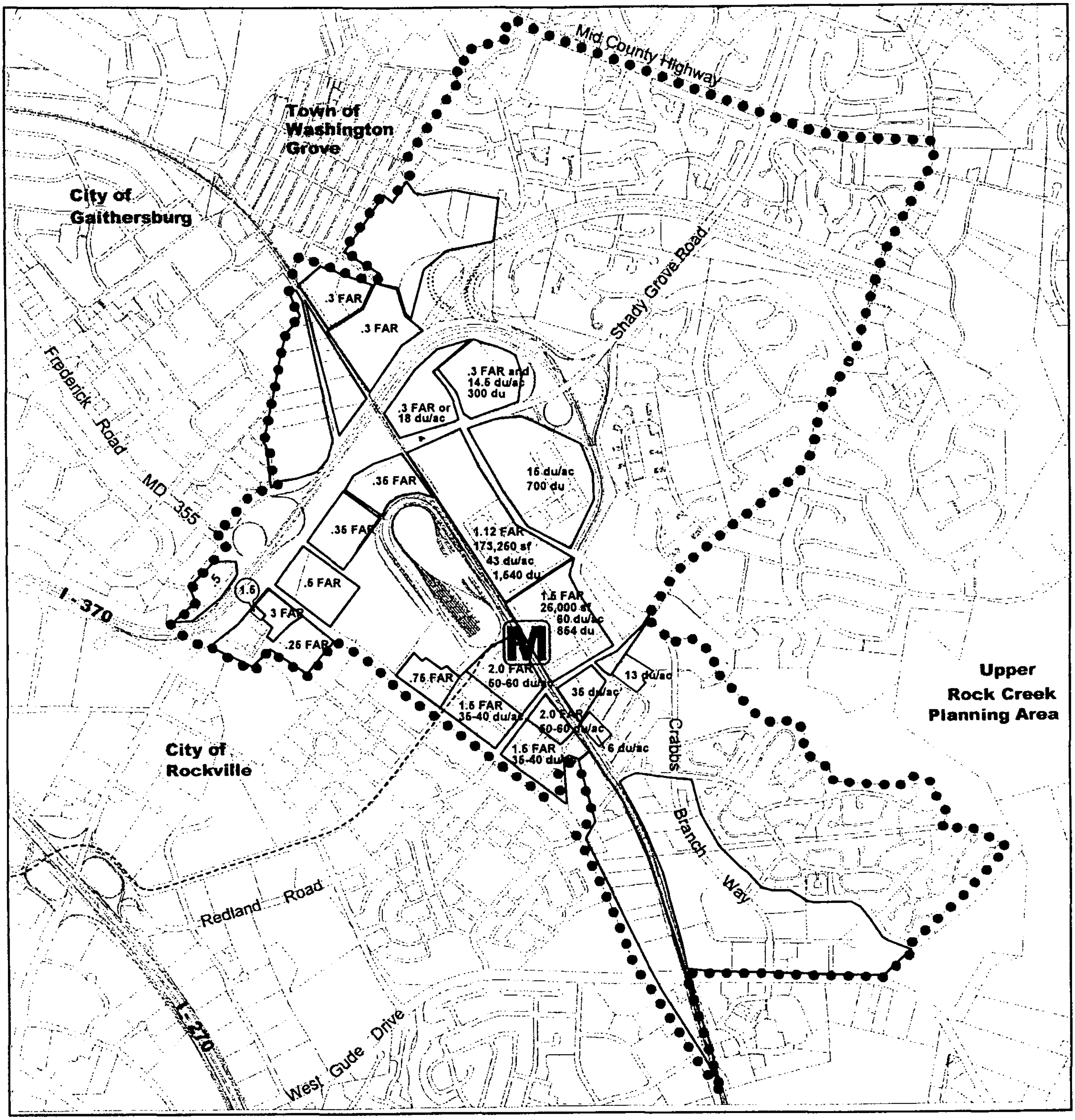
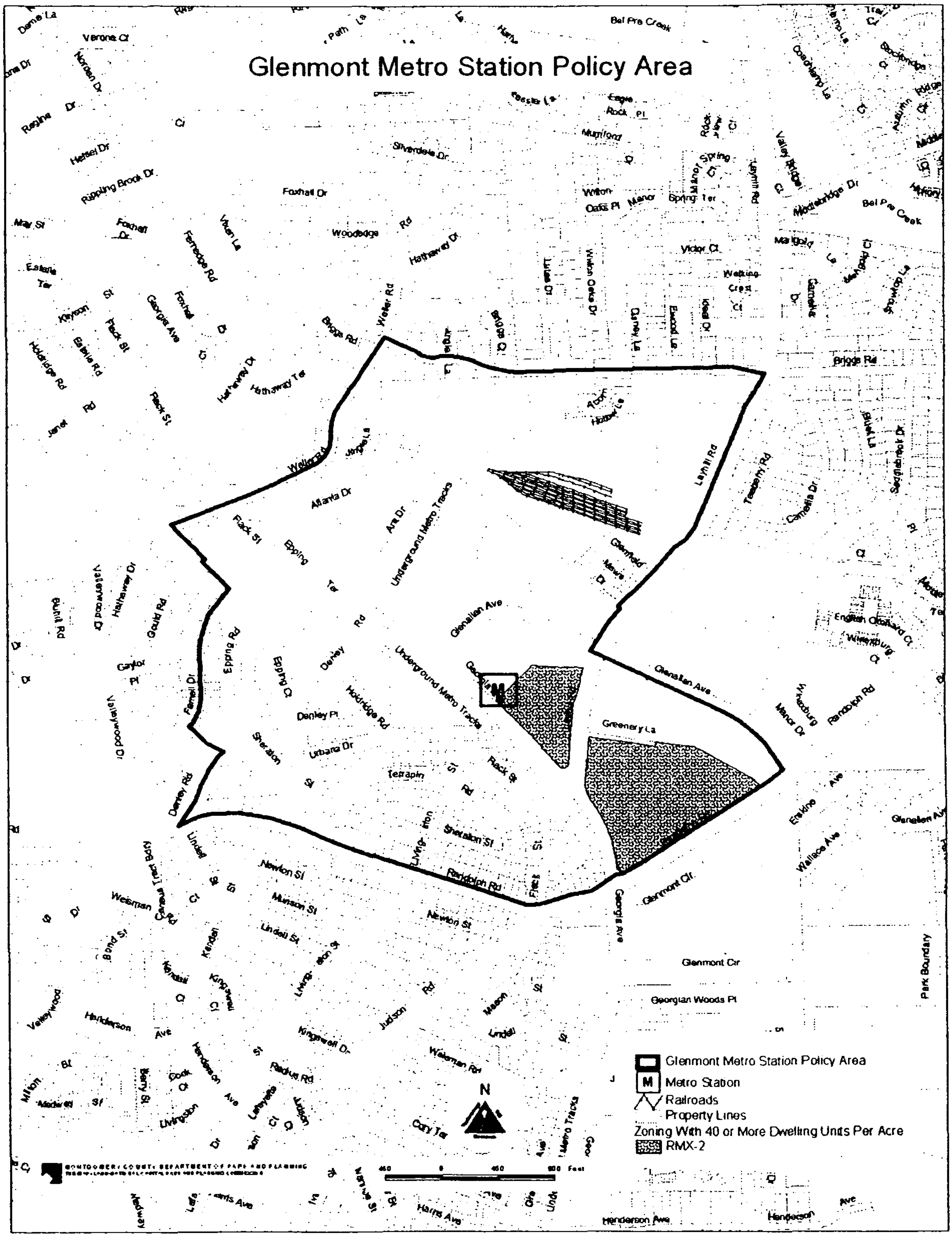
County Council Approved FAR and Housing Density*

1/17/2006



*includes MPDU bonus density, TDRs and workforce housing density



#8 – Glenmont Metro Station Policy Area

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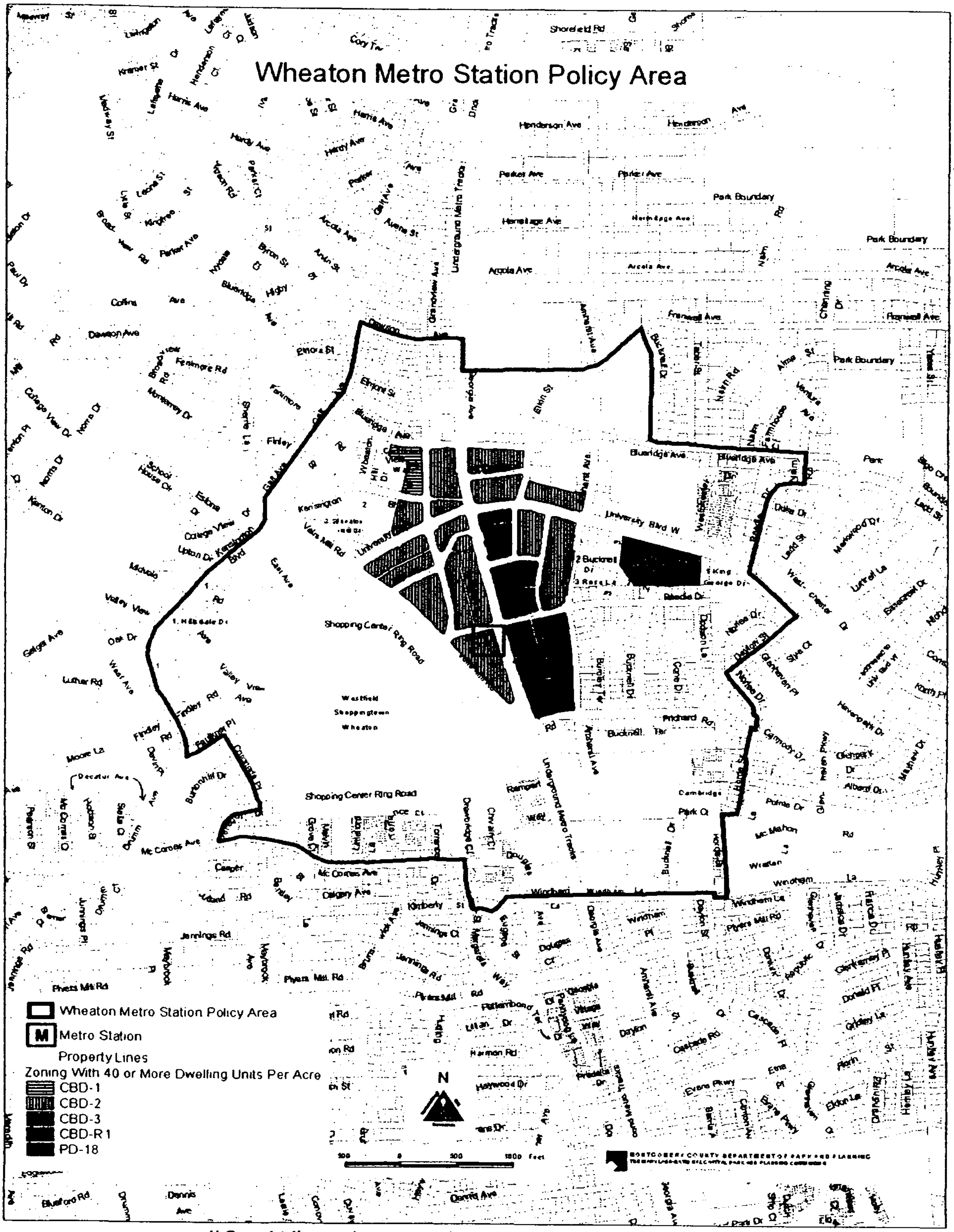

#9 – Wheaton Metro Station Policy Area

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Four Floor (stick-built) Rental Units

Table #	Description	Workforce Average AMI%	Workforce Average $ Income	Increase to Market Units	Market Rent	Increase as %of total market rent	Workforce Rent
1	Neutral Economic Impact Workforce Density Bonus	92.3%	$68,035	NA	$2,077	NA	$1,701
2	**Targeted** AMI Workforce Density Bonus	82.5%	$60,780	$18 per month	$2,094	0.8%	$1,519
3	**Targeted** AMI Workforce Density Bonus 22% MPDU Bonus	82.5%	$60,780	$15 per month	$2,091	0.7%	$1,519
4	Neutral Economic Impact* **NO** Workforce Density Bonus	Not Achievable*	$73,673 (assumed)	NA	$2,077	NA	$1,842
5	Targeted AMI **NO** Workforce Density Bonus	82.5%	$60,780	$54 per month	$2,130	2.5%	$1,519

*Analysis indicates that in this scenario market units are achievable but there is an overall loss per workforce unit of about $37,500 – neutral economic impact not achieved

Twelve Floor (high-rise) Rental Units

Table #	Description	Workforce Average AMI%	Workforce Average $ Income	Increase to Market Units	Market Unit Rent	Increase as %of total market rent	Workforce Rent
6	Neutral Economic Impact** Workforce Density Bonus	Not Achievable*	$73,673 (assumed)	NA	$2,432	NA	$1,842
7A	Neutral Economic Impact*** Workforce Density Bonus Lower Land Cost	Not Achievable*	$73,673 (assumed)	NA	$2,432	NA	$1,842
7B	Targeted AMI Workforce Density Bonus Lower Land Cost	82.5%	$60,780	$51 per month	$2,483	2.0%	$1,519
7C	Targeted AMI Workforce Density Bonus 22% MPDU Bonus Lower Land Cost	82.5%	$60,780	$43 per month	$2,475	1.7%	$1,519
7D	Targeted AMI 22% MPDU Bonus NO Workforce Density Bonus Lower Land Cost	82.5%	$60,780	$84 per month	$2,517	3.3%	$1,519
8	Targeted AMI NO Workforce Density Bonus Lower Land Cost	82.5%	$60,780	$91 per month	$2,524	3.6%	$1,519

**Analysis indicates that this scenario results in an overall loss per unit of about $46,000 for workforce unit and $83,000 for market unit – neutral economic impact not achieved
***Analysis indicates that in this scenario market units can be achieved but workforce unit has a loss of about $33,000
Targeted AMI = impact of targeting to certain income groups – pushes cost above affordable limit to market units
All scenarios assume 12.5% MPDUs in base cost
Lower Land Cost assumes same cost for stick built and high-rise projects = $32 per gsf

Four Floor (stick-built) Condominium Units

Table #	Description	Workforce Blended AMI%	Workforce Blended $ Income	Increase to Market Units	Market Unit Price	Increase as %of total market price	Workforce Unit Price
9	Neutral Economic Impact Workforce Density Bonus*	87.1%	$64,181	NA	$301,567	NA	$219,717
10	Neutral Economic Impact NO Workforce Density Bonus	110.0%	$81,050	NA	$301,567	NA	$284,691
11	Targeted AMI NO Workforce Density Bonus	95.0%	$69,989	$5,497	$307,065	1.7%	$242,087

*The targeted AMI was set at 95% average. In this scenario which includes density bonus, the units are affordable to incomes below the targeted AMI. Therefore, no separate scenario for targeted AMI with density bonus is included.

Twelve Floor (high-rise) Condominium Units

Table #	Description	Workforce Blended AMI%	Workforce Blended $ Income	Increase to Market Units	Market Unit Price	Increase as %of total market price	Workforce Unit Price
12	Neutral Economic Impact Workforce Density Bonus	115.9%	$85,385	NA	$450,095	NA	$295,507
13	Targeted AMI Workforce Density Bonus	95.0%	$69,989	$5,930	$456,025	1.3%	$236,208
14	Targeted AMI Workforce Density Bonus 22% MPDU Bonus,	95.0%	$69,989	$5,004	$455,099	1.0%	$236,208
14B	Targeted AMI NO Workforce Density Bonus 22% MPDU Bonus	95%	69,989	$17,964	$468,059	3.8%	$236,208
15	Neutral Economic Impact NO Workforce Density Bonus	Not Achievable	$88,407 (assumed)	NA	$450,095	NA	$431,120 cannot be purchased at 120% AMI
16	Targeted AMI NO Workforce Density Bonus	95.0%	$69,989	$19,491	$469,586	4.1%	$236,208

Targeted AMI = impact of targeting to certain income groups – pushes cost above affordable limit to market units
All scenarios assume 12.5% MPDUs in base cost

BOLAN SMART ASSOCIATES, INC.
900 19TH STREET, NW, SUITE 600, WASHINGTON, DC 20006 • (202) 371-1333 • FAX (202) 371-1334

To: Montgomery County Workforce Housing Task Group
From: Eric Smart, Bolan Smart Associates
Date: March 30, 2006

RE: Workforce Housing Economic Analysis

Per Council request of March 27, 2006, Bolan Smart Associates has discussed with MNCPPC's economic consultant (Bruce Gamble) our prior economic analysis of workforce housing impacts concerning proposed County legislation. I believe Mr. Gamble and Bolan Smart are in agreement with the following general statement:

> *"Depending on the assumptions employed, and up to moderate thresholds, the impacts of slight shifts in any number of economic variables are likely to be absorbed by the marketplace in accommodating the development of a limited number of workforce housing units. Achieving workforce units beyond moderate levels of economic burden, however, will require some form of cost offset if the overall development is still to proceed."*

More specifically, Bolan Smart's has identified the following principal findings based on the represented development scenarios:

1. Stick-built workforce housing units (rental or condo) provided **with** an achievable WF density bonus may be economically feasible if average WF incomes limits are not less than 85% to 90% of AMI.

2. Stick-built workforce housing units (rental or condo) provided **without** a WF density bonus may be economically feasible if average WF unit income limits are (a) permitted to exceed 100% of AMI or (b) if required rents for market units can be increased by 1.0% to 3.0% to absorb WF unit related deficits.

3. High-rise workforce units (rental or condo) **with** an achievable WF density bonus are generally not feasible without (a) allowing for WF unit income limits exceeding 100% of AMI or (b) combining relatively high WF income limits with lowered land or other development costs, and relying on increased market unit charges of up to 2.0%.

4. High-rise workforce units (rental or condo) **without** a WF density bonus are generally not feasible without substantially higher WF unit cost offsets.

Note: All of the requested Bolan Smart economic analyses assume that unit sizes are moderate, impact fees are waived for workforce units, real estate taxes reflect the lower value of the workforce unit, and most critically, the added project density does not trigger higher site development or construction costs. (For economic modeling assumptions please see pages 1 and 2 of Bolan Smart's twenty-two page March 2006 report.)

RBG Associates LLC

4643 North 35th Street
Arlington, Virginia 22207
703-627-8571; 404-840-4500
bgamble@rbgllc.com

To: Sharon K. Suarez

From: R. Bruce Gamble

Date: March 23, 2006

Re: Workforce Housing

In follow-up to our conversations over the past several weeks, this memo sets some preliminary conclusions concerning the analysis of the economics of Workforce Housing in Montgomery County, Maryland. In the course of my work, I have reviewed many materials produced by planning and county staff. I also studied the financial analysis performed by Eric Smart of Bolan Smart. I was asked to look at a number of issues, including the issue of whether or not workforce housing requires a density bonus to be economically feasible. I devoted most of my effort to that financial analysis as it was specifically formulated to test the economics of Workforce Housing under a number of sets of assumptions.

Conclusions

Based on my review of the materials, I am unconvinced that a density bonus must be offered to keep the economics of workforce housing neutral.

First, let me say that the Bolan Smart analysis appears to be thorough and seems to consider all the relevant factors. As the Bolan Smart analysis states, any financial analysis is based on a number of assumptions, and changing any one can change the conclusions from the analysis. In looking through the analysis there are a number of assumptions that had two characteristics. First, there are data elements where the range of reasonable inputs or assumptions is quite broad, and, second, one set of reasonable assumptions will produce a materially different conclusion than another set of reasonable assumptions.

The several areas that I would recommend exploring further include:

- Treatment of land cost. Typically, as the percentage of MPDUs to market units and hence the density bonus changes, the land cost per unit should change. This does not appear to be the case in two 12-story rental tables, for example. In Table 8, land costs would be absorbed by only 79 market units, while in Table 7D land costs would be absorbed by 92 market units. Assuming the total land cost remains the same, the per unit land costs in Table 7D should be materially lower.

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- Breakout MPDUs. The Market column should be broken into two columns, true market rate units and MPDUs. This may help demonstrate the financial effects of MPDUs in comparison to Workforce Units, as well as help make explicit changes in assumptions as the ratio changes between market units and MPDUs.

- Financing Cost on Rental Projects. The capital cost on the rental projects appears fairly conventional. Are there other financing programs available at different unit mixes that might reduce the cost of capital, either debt or equity or both?

- Developer Profit. I understand the difficulty in quantifying the profit, either in dollar or percentage terms that a developer needs to make on a project. The profit margins, however, need to be looked at very carefully, because when they are coupled with the developer fees included as a development cost they are a major cost item.

Noting these issues is not to say that the assumptions used are incorrect. What I would suggest is that a range of possible assumptions be run through the model to test the sensitivity of the conclusions, and, based on that, we can decide what, if any, changes might need to be made.

I would be happy to answer any questions you might have.

Base Assumptions:

a) no economic impact means economic cost should be neutral for both developer and market owners
b) no land value recognized for workforce units except where additional density is not feasible
c) candidate site can accommodate additional density (10% more units) without additional incremental cost
d) example projects are in developed urban areas served by public transit
e) market unit project is assumed economically feasible at supportable land values (lower for rental than condo)
f) any MPDU requirements that may apply are already factored into a project's economic feasibility

Principal Variables Impacting Workforce Housing Economics: (County policy related)

a) treatment of land cost
b) size and mix of units (against fixed income affordability criteria)
c) fixed vs. marginal costs impacting added workforce units
d) market vs. workforce unit finishes and amenities
e) treatment of public impact fees (assumed waived)
f) recognition of developer profit / opportunity cost of investor funds
g) calculation of qualified Area Median Income (AMI) components (assumed household size)
h) determination of AMI levels to be applied (prescribed examples are 82.5% of AMI for rental, 95% for ownership)
i) treatment of real estate taxes

Principal Caveat Regarding Economic Modeling:

Housing economic are impacted by numerous interrelated variables. The illustrations presented herein are based solely on the combination of indicated assumptions. Change in any one input will invariably result in change in multiple other factors.

Findings: (See summary on pages three and four and Tables 1 - 16)

a) stick built workforce rental units provided without land cost (i.e. with density bonus) and including land costs (i.e. without density bonus) may be economically feasible within a range of income limits, provided that unit sizes are moderate, impact fees are waived for workforce units, real estate taxes reflect the lower value of the workforce unit, and most critically, the added project density does not trigger higher site development or construction costs.

b) high-rise workforce rental units are generally not feasible without lowering land or other development costs and uneconomic market rents.

c) stick built workforce condominium units may be economically feasible without land costs (i.e. with density bonus) within a range of income limits but may only be feasible at the higher end of the contemplated AMI levels if no density bonus provisions are achievable.

d) high-rise workforce condominium units may be economically feasible without land costs (i.e. with density bonus) at the higher end of the contemplated AMI levels and are less economically feasible if land costs are included (i.e. without density bonus.

Source: Bolan Smart Associates, Inc. (03/06)

Notes on Methodology and Assumptions:

a) attached economic model solves for no (1) overall economic loss, and (2) passing cost onto market units.

b) construction costs (hard costs) for workforce units are marginally lower than for market units assuming a lower minimum standard for workforce unit fixtures and finishes and are also marginally reduced because the majority of the common area costs are already fully financed under the assumed feasibility of a market rate only project.

c) development soft costs and development fees are marginally lower when no land costs are assessed for workforce units (no financing costs) and when the workforce units are added to an already economically feasible market rate project, including basic land engineering, unit design, legal costs (not counting workforce related) and other administrative overhead.

d) condominium soft costs include sales commissions and seller contributions to closing costs.

e) developer returns / investor opportunity cost cannot be lowered without changing the development economics of the market units if the provision of workforce units reduces the number of anticipated market units. Investor thresholds are reduced when there is no net impact on market unit costs or anticipated returns, premised on the principal that while more development equity will be required no overall gain in profitability is intended.

f) capitalization rates used to value workforce rental housing are assumed to be marginally higher than for market rate units to reflect the combination of reduced landlord flexibility to raise rents and additional administration.

g) the proposed legislation suggests a market / workforce unit ratios of 10 market units per one workforce units. Where a maximum bonus density is tested, the assumed number of workforce units is assumed capped and the number of market units is increased to a maximum of 11.85 market units per on workforce units.

Source: Bolan Smart Associates, Inc. (03/06)

Rental:

Four-Floor Rental Apartment Bldg (2.25 persons per unit)					
	With Density Bonus			No Density Bonus	
	T1 - No Economic Impact (base case)	T2- Prescribed AMI, Market Absorbed Cost	T3- Prescribed AMI, Market Absorbed Cost	T4- No Economic Impact	T5- Prescribed AMI, Market Absorbed Cost
gross density	*108.75%*	*108.75%*	*130.08%*	*100.00%*	*100.00%*
workforce units	*8.75%*	*8.75%*	*8.75%*	*7.95%*	*7.95%*
market / WF units ratio	*10.00*	*10.00*	*11.85*	*10.00*	*10.00*
market renter income	*$83,061*	*$83,769*	*$83,658*	*$83,061*	*$85,201*
market rent / month	*$2,077*	*$2,094*	*$2,091*	*$2,077*	*$2,130*
difference with base case	*0.0%*	*0.8%*	*0.7%*	*0.0%*	*2.5%*
workforce AMI %	*92.3%*	*82.5%*	*82.5%*	*100.0%*	*82.5%*
workforce AMI	*$68,035*	*$60,780*	*$60,780*	*$73,673*	*$60,780*
workforce rent / month	*$1,701*	*$1,519*	*$1,519*	***FAILS***	*$1,519*

12-Floor Rental Apartment Bldg ***NOTE-Generally infeasible without lower land costs and uneconomic market rents***					
	With Density Bonus				No Density Bonus
	T6 - No Economic Impact (condo land value)	T7A - No Economic Impact (lower land value)	T7B- Prescribed AMI, Market Absorbed Cost	T7C- Prescribed AMI, Market Absorbed Cost	T8- Prescribed AMI, Market Absorbed Cost
gross density	*108.75%*	*108.75%*	*108.75%*	*130.08%*	*100.00%*
workforce units	*8.75%*	*8.75%*	*8.75%*	*8.75%*	*7.95%*
market / WF units ratio	*10.00*	*10.00*	*10.00*	*11.85*	*10.00*
market renter income	*$97,295*	*$97,295*	*$99,326*	*$99,009*	*$100,954*
market rent / month	***FAILS***	*$2,432*	*$2,483*	*$2,475*	*$2,524*
difference with base case	*NA*	*0.0%*	*2.0%*	*1.7%*	*3.6%*
workforce AMI %	*100.0%*	*100.0%*	*82.5%*	*82.5%*	*82.5%*
workforce AMI	*$73,673*	*$73,673*	*$60,780*	*$60,780*	*$60,780*
workforce rent / month	***FAILS***	***FAILS***	*$1,519*	*$1,519*	*$1,519*

Source: Bolan Smart Associates, Inc. (03/06)

For Sale:

Four-Floor Residential Condominium Bldg (2.25 persons per unit)					
	With Density Bonus			**No Density Bonus**	
	T9 - No Economic Impact (base case)	Prescribed AMI, Market Absorbed Cost	Prescribed AMI, Market Absorbed Cost	T10 - No Economic Impact	T11- Prescribed AMI, Market Absorbed Cost
gross density	*108.75%*	*108.75%*	*130.08%*	*100.00%*	*100.00%*
workforce units	*8.75%*	*8.75%*	*8.75%*	*7.95%*	*7.95%*
market / WF units ratio	*10.00*	*10.00*	*11.85*	*10.00*	*10.00*
market buyer income	*$85,432*	*$85,432*		*$85,432*	*$86,859*
market price	*$301,567*	*$301,567*		*$301,567*	*$307,065*
difference with base case	*0.0%*	*0.0%*		*0.0%*	*1.6%*
workforce AMI %	*87.1%*	*95.0%*	*not evaluated*	*110.0%*	*95.0%*
workforce AMI	*$64,181*	*$69,989*		*$81,050*	*$69,989*
workforce price	*$219,717*	*exceeds no econ impact*	*exceeds no econ impact*	*$284,691*	*$242,087*

12-Floor Residential Condominium Bldg (2.25 persons per unit)					
	With Density Bonus			**No Density Bonus**	
	T12 - No Economic Impact (base case)	T13 - Prescribed AMI, Market Absorbed Cost	T14 - Prescribed AMI, Market Absorbed Cost	T15 - No Economic Impact	T16 - Prescribed AMI, Market Absorbed Cost
gross density	*108.75%*	*108.75%*	*130.08%*	*100.00%*	*100.00%*
workforce units	*8.75%*	*8.75%*	*8.75%*	*7.95%*	*7.95%*
market / WF units ratio	*10.00*	*10.00*	*11.85*	*10.00*	*10.00*
market buyer income	*$125,520*	*$127,060*	*$126,819*	*$125,520*	*$130,580*
market price	*$450,095*	*$456,025*	*$455,099*	*$450,095*	*$469,586*
difference with base case	*0.0%*	*1.2%*	*1.0%*	*0.0%*	*3.9%*
workforce AMI %	*115.9%*	*95.0%*	*95.0%*	*120.0%*	*95.0%*
workforce AMI	*$85,385*	*$69,989*	*$69,989*	*$88,407*	*$69,989*
workforce price	*$295,507*	*$236,208*	*$236,208*	*FAILS*	*$236,208*

Source: Bolan Smart Associates, Inc. (03/06)

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Table 1 - Solve for No Economic Impact
Four-Floor Rental Apartment Bldg, Density Bonus 8.75% Workforce
Montgomery County Workforce Housing Analysis - ($2006)

					PER UNIT	
	policy related workforce housing variables				Market	Workforce
1)	Project Type			average size	1,018 gsf	1,018 gsf
2)	one bed	50.00%	760 rsf		85.00%	85.00%
3)	two bed	50.00%	970 rsf		865 rsf	865 rsf
4)	average	100.00%	865 rsf		1 unit	1 unit
5)	parking			above grade	1.0 spaces	1.0 spaces
6)	Development Costs					
7)	land				$32.00 / gsf	$0.00 / gsf
8)					$32,565 / unit	$0 / unit
9)	hard construction				$135 / gsf	97.50% of mkt
10)					$137,382 / unit	$133,948 / unit
11)	parking			above grade	$17,000 / space	$17,000 / space
12)				total	$17,000 / unit	$17,000 / unit
13)	soft costs (a&e, financing, legal, marketing, etc.)				15.00% of cost	85.00% of mkt
14)					$28,042 / unit	$23,836 / unit
15)	reserves / development fee				8.00% of cost	95.00% of mkt
16)					$17,199 / unit	$16,339 / unit
17)	impact fees				$8,000 / unit	$0 / unit
18)	other public benefit costs				$1,500 / unit	$1,500 / unit
19)	total delivery costs per unit				$279 / rsf	$223 / rsf
20)					$241,688 / unit	$192,623 / unit
21)	Permanent Funding Requirements					
22)	debt			75.00% of total cost	$181,266 total	$144,467 total
23)		30	years @	6.50% interest rate	$13,881 /year	$11,063 /year
24)	equity			25.00% of total cost	$60,422 total	$48,156 total
25)	pv of 30 yr., residual value (1% net appr) (mkt discount)				($9,799)	($7,809)
26)	net equity				$50,623	$40,346
27)			net equity return @	12.00% market	$6,075 /year	
28)				9.00% workforce		$3,631 /year
29)	annual financing costs				$19,956 /year	$14,694 /year
30)	Required Revenue					
31)	operating expenses				$4.70 /rsf	$4.70 /rsf
32)					$4,066 /year	$4,066 /year
33)	real estate taxes (2005)			80.00% of cost	$224 /rsf	$178 /rsf
34)			state tax rate	0.132%	$0.30 /rsf	$0.24 /rsf
35)			county tax rate	0.734%	$1.64 /rsf	$1.31 /rsf
36)			special area	0.275%	$0.61 /rsf	$0.49 /rsf
37)			total	1.141%	$2.55 /rsf	$2.03 rsf
38)					$2,206 /year	$1,758 /year
39)	total expenses				$7.25 /rsf	$6.73 /rsf
40)					$6,272 /year	$5,824 /year
41)	annual financing costs				$19,956 /year	$14,694 /year
42)	required revenue (financing and expenses)				$26,227 /year	$20,518 /year
43)	Projected Initial Revenue				$2.40 /rsf	
44)	effective rent (monthly after concessions)				$2,077 /month	
45)					$24,918 /year	
46)	required market renter income (@ 30.0% rent)				$83,061	
47)	workforce households					
48)	1.50 persons / 1bed					
49)	3.00 persons / 2bed					
50)	2.25 persons / unit			AMI		
51)			65.0%	$47,887		$1,197 /month
52)	30.0% rent		82.5%	$60,780		$1,519 /month
53)			100.0%	$73,673		$1,842 /month
54)	Unit split	0.0%	65.0% AMI			0.00 units
55)		43.7%	82.5% AMI			0.44 units
56)		56.3%	100.0% AMI			0.56 units
57)	blended workforce		92.3%	$68,035		$1,701 /month
58)						$20,410 /year
59)	extra parking / misc income (per month)				$150 /month	$75 /month
60)					$1,800 /year	$900 /year
61)	vacancy / collection loss		5.00%		($1,336) /year	($1,066) /year
62)	total revenue				$25,382 /year	$20,245 /year
63)	required revenue				($26,227) /year	($20,518) /year
64)	initial loss / profit (later stabilization)				($845) /year	($273) /year
65)	Implied Value					
66)	potential revenue				$25,382 /year	$20,245 /year
67)	expenses				($6,272) /year	($5,824) /year
68)	net income				$19,111 /year	$14,421 /year
69)	capitalization rate (for present valuation)				6.50%	6.66% (1.025% mkt)
70)	implied value		market	workforce	$294,012	$216,453
71)	transaction costs		3.00%	3.00%	($8,820)	($6,494)
72)	return on cost / opportunity cost		18.00%	9.00%	($43,504)	($17,336)
73)	total delivery costs				($241,688)	($192,623)
74)	break-even loss / surplus				($0)	$0

Source: Bolan Smart Associates, Inc. (03/06)

Table 2 - Prescribed AMI Limits, Market Rent Absorbed Cost
Four-Floor Rental Apartment Bldg, Density Bonus 8.75% Workforce
Montgomery County Workforce Housing Analysis - ($2006)

	policy related workforce housing variables		PER UNIT Market	PER UNIT Workforce	MARKET / WF RATIO 12.5% MPDU Density
1)	Project Type	average size	1,018 gsf	1,018 gsf	8 750 market units
2)	one bed 50.00%	760 rsf	85.00%	85 00%	1.250 MPDUs
3)	two bed 50 00%	970 rsf	865 rsf	865 rsf	0 875 WF units
4)	average 100.00%	865 rsf	1 unit	1 unit	10.875 total units
5)	parking	above grade	1.0 spaces	1.0 spaces	10 000 market / WF units
6)	Development Costs				
7)	land		$32 00 / gsf	$0.00 / gsf	
8)			$32,565 / unit	$0 / unit	
9)	hard construction		$135 / gsf	97.50% of mkt	
10)			$137,382 / unit	$133,948 / unit	
11)	parking	above grade	$17,000 / space	$17,000 / space	
12)		total	$17,000 / unit	$17,000 / unit	
13)	soft costs (a&e, financing, legal, marketing, etc.)		15 00% of cost	85.00% of mkt	
14)			$28,042 / unit	$23,836 / unit	
15)	reserves / development fee		8 00% of cost	95.00% of mkt	
16)			$17,199 / unit	$16,339 / unit	
17)	impact fees		$8,000 / unit	$0 / unit	
18)	other public benefit costs		$1,500 / unit	$1,500 / unit	
19)	total delivery costs per unit		$279 / rsf	$223 / rsf	
20)			$241,688 / unit	$192,623 / unit	
21)	Permanent Funding Requirements				
22)	debt	75.00% of total cost	$181,266 total	$144,467 total	
23)	30 years @	6.50% interest rate	$13,881 /year	$11,063 /year	
24)	equity	25.00% of total cost	$60,422 total	$48,156 total	
25)	pv of 30 yr., residual value (1% net appr) (mkt discount)		($9,799)	($7,809)	
26)	net equity		$50,623	$40,346	
27)	net equity return @	12.00% market	$6,075 /year		
28)		9.00% workforce		$3,631 /year	
29)	annual financing costs		$19,956 /year	$14,694 /year	
30)	Required Revenue				
31)	operating expenses		$4 70 /rsf	$4.70 /rsf	
32)			$4,066 /year	$4,066 /year	
33)	real estate taxes (2005)	80.00% of cost	$224 /rsf	$178 /rsf	
34)	state tax rate	0.132%	$0.30 /rsf	$0.24 /rsf	
35)	county tax rate	0.734%	$1 64 /rsf	$1 31 /rsf	
36)	special area	0.275%	$0.61 /rsf	$0.49 /rsf	
37)	total	1 141%	$2.55 /rsf	$2 03 rsf	
38)			$2,206 /year	$1,758 /year	
39)	total expenses		$7.25 /rsf	$6 73 /rsf	
40)			$6,272 /year	$5,824 /year	
41)	annual financing costs		$19,956 /year	$14,694 /year	
42)	required revenue (financing and expenses)		$26,227 /year	$20,518 /year	
43)	Projected Initial Revenue		$2.42 /rsf		$2,077 mkt unit rent net WF
44)	effective rent (monthly after concessions)		$2,094 /month		$2,094 mkt unit rent with WF
45)			$25,131 /year		$18 increase / month
46)	required market renter income (@ 30 0% rent)		$83,769		
47)	workforce households				$83,061 mkt renter income net WF
48)	1.50 persons / 1bed				$83,769 mkt renter income with WF
49)	3.00 persons / 2bed				$708 increase over net WF
50)	2.25 persons / unit	AMI			
51)		65.0% $47,887		$1,197 /month	
52)	30.0% rent	82.5% $60,780		$1,519 /month	
53)		100.0% $73,673		$1,842 /month	
54)	Unit split 0.0%	65.0% AMI		0.00 units	
55)	100.0%	82 5% AMI		1 00 units	
56)	0.0%	100.0% AMI		0 00 units	
57)	blended workforce	82.5% $60,780		$1,519 /month	
58)				$18,234 /year	
59)	extra parking / misc income (per month)		$150 /month	$75 /month	
60)			$1,800 /year	$900 /year	
61)	vacancy / collection loss	5 00%	($1,347) /year	($957) /year	
62)	total revenue		$25,584 /year	$18,177 /year	
63)	required revenue		($26,227) /year	($20,518) /year	
64)	initial loss / profit (later stabilization)		($643) /year	($2,341) /year	
65)	Implied Value				
66)	potential revenue		$25,584 /year	$18,177 /year	
67)	expenses		($6,272) /year	($5,824) /year	
68)	net income		$19,313 /year	$12,353 /year	
69)	capitalization rate (for present valuation)		6 50%	6 66% (1.025% mkt)	
70)	implied value	market / workforce	$297,116	$185,418	
71)	transaction costs	3.00% / 3.00%	($8,913)	($5,563)	
72)	return on cost / opportunity cost	18.00% / 9.00%	($43,504)	($17,336)	
73)	total delivery costs		($241,688)	($192,623)	
74)	break-even loss / surplus		$3,010	($30,103)	$30,103 for 10 0 market units

Source: Bolan Smart Associates, Inc. (03/06)

Table 3 - Prescribed AMI Limits, Market Rent Absorbed Cost
Four-Floor Rental Apartment Bldg, Density Bonus 22% MPDU + 8.75% Workforce
Montgomery County Workforce Housing Analysis - ($2006)

policy related workforce housing variables

#	Item			PER UNIT Market	PER UNIT Workforce	MARKET / WF RATIO 15.0% MPDU Density
1)	Project Type		average size	1,018 gsf	1,018 gsf	10.370 market units
2)	one bed	50.00%	760 rsf	85.00%	85.00%	1.830 MPDUs
3)	two bed	50.00%	970 rsf	865 rsf	865 rsf	0.875 WF units per base case
4)	average	100.00%	865 rsf	1 unit	1 unit	13.075 total units
5)	parking		above grade	1.0 spaces	1.0 spaces	11.850 market / WF units
6)	Development Costs					
7)	land			$32.00 / gsf	$0.00 / gsf	
8)				$32,565 / unit	$0 / unit	
9)	hard construction			$135 / gsf	97.50% of mkt	
10)				$137,382 / unit	$133,948 / unit	
11)	parking		above grade	$17,000 / space	$17,000 / space	
12)			total	$17,000 / unit	$17,000 / unit	
13)	soft costs (a&e, financing, legal, marketing, etc.)			15.00% of cost	85.00% of mkt	
14)				$28,042 / unit	$23,836 / unit	
15)	reserves / development fee			8.00% of cost	95.00% of mkt	
16)				$17,199 / unit	$16,339 / unit	
17)	impact fees			$8,000 / unit	$0 / unit	
18)	other public benefit costs			$1,500 / unit	$1,500 / unit	
19)	total delivery costs per unit			$279 / rsf	$223 / rsf	
20)				$241,688 / unit	$192,623 / unit	
21)	Permanent Funding Requirements					
22)	debt		75.00% of total cost	$181,266 total	$144,467 total	
23)	30 years @		6.50% interest rate	$13,881 /year	$11,063 /year	
24)	equity		25.00% of total cost	$60,422 total	$48,156 total	
25)	pv of 30 yr., residual value (1% net appr) (mkt discount)			($9,799)	($7,809)	
26)	net equity			$50,623	$40,346	
27)	net equity return @		12.00% market	$6,075 /year		
28)			9.00% workforce		$3,631 /year	
29)	annual financing costs			$19,956 /year	$14,694 /year	
30)	Required Revenue					
31)	operating expenses			$4.70 /rsf	$4.70 /rsf	
32)				$4,066 /year	$4,066 /year	
33)	real estate taxes (2005)		80.00% of cost	$224 /rsf	$178 /rsf	
34)		state tax rate	0.132%	$0.30 /rsf	$0.24 /rsf	
35)		county tax rate	0.734%	$1.64 /rsf	$1.31 /rsf	
36)		special area	0.275%	$0.61 /rsf	$0.49 /rsf	
37)		total	1.141%	$2.55 /rsf	$2.03 rsf	
38)				$2,206 /year	$1,758 /year	
39)	total expenses			$7.25 /rsf	$6.73 /rsf	
40)				$6,272 /year	$5,824 /year	
41)	annual financing costs			$19,956 /year	$14,694 /year	
42)	required revenue (financing and expenses)			$26,227 /year	$20,518 /year	
43)	Projected Initial Revenue			$2.42 /rsf		$2,077 mkt unit rent net WF
44)	effective rent (monthly after concessions)			$2,091 /month		$2,091 mkt unit rent with WF
45)				$25,098 /year		$15 increase / month
46)	required market renter income (@ 30.0% rent)			$83,658		
47)	workforce households					$83,061 mkt renter income net WF
48)	1.50 persons / 1bed					$83,658 mkt renter income with WF
49)	3.00 persons / 2bed					$597 increase over net WF
50)	2.25 persons / unit		AMI			
51)		65.0%	$47,887		$1,197 /month	
52)	30.0% rent	82.5%	$60,780		$1,519 /month	
53)		100.0%	$73,673		$1,842 /month	
54)	Unit split 0.0%	65.0% AMI			0.00 units	
55)	100.0%	82.5% AMI			1.00 units	
56)	0.0%	100.0% AMI			0.00 units	
57)	blended workforce	82.5%	$60,780		$1,519 /month	
58)					$18,234 /year	
59)	extra parking / misc income (per month)			$150 /month	$75 /month	
60)				$1,800 /year	$900 /year	
61)	vacancy / collection loss	5.00%		($1,345) /year	($957) /year	
62)	total revenue			$25,553 /year	$18,177 /year	
63)	required revenue			($26,227) /year	($20,518) /year	
64)	initial loss / profit (later stabilization)			($675) /year	($2,341) /year	
65)	Implied Value					
66)	potential revenue			$25,553 /year	$18,177 /year	
67)	expenses			($6,272) /year	($5,824) /year	
68)	net income			$19,281 /year	$12,353 /year	
69)	capitalization rate (for present valuation)			6.50%	6.66% (1.025% mkt)	
70)	implied value	market	workforce	$296,631	$185,418	
71)	transaction costs	3.00%	3.00%	($8,899)	($5,563)	
72)	return on cost / opportunity cost	18.00%	9.00%	($43,504)	($17,336)	
73)	total delivery costs			($241,688)	($192,623)	
74)	break-even loss / surplus			$2,540	($30,103)	$30,103 for 11.85 market units

Source: Bolan Smart Associates, Inc. (03/06)

Table 4 - Solve for No Economic Impact
Four-Floor Rental Apartment Bldg, No Density Bonus
Montgomery County Workforce Housing Analysis - ($2006)

policy related workforce housing variables

No.	Item	Assumptions	PER UNIT Market	PER UNIT Workforce
1)	Project Type	average size	1,018 gsf	1,018 gsf
2)	one bed	50.00% 760 rsf	85.00%	85.00%
3)	two bed	50.00% 970 rsf	865 rsf	865 rsf
4)	average	100.00% 865 rsf	1 unit	1 unit
5)	parking	above grade	1.0 spaces	1.0 spaces
6)	Development Costs			
7)	land		$32.00 / gsf	$32.00 / gsf
8)			$32,565 / unit	$32,565 / unit
9)	hard construction		$135 / gsf	97.50% of mkt
10)			$137,382 / unit	$133,948 / unit
11)	parking	above grade	$17,000 / space	$17,000 / space
12)		total	$17,000 / unit	$17,000 / unit
13)	soft costs (a&e, financing, legal, marketing, etc.)		15.00% of cost	97.50% of mkt
14)			$28,042 / unit	$27,341 / unit
15)	reserves / development fee		8.00% of cost	100.00% of mkt
16)			$17,199 / unit	$17,199 / unit
17)	impact fees		$8,000 / unit	$0 / unit
18)	other public benefit costs		$1,500 / unit	$1,500 / unit
19)	total delivery costs per unit		$279 / rsf	$265 / rsf
20)			$241,688 / unit	$229,553 / unit
21)	Permanent Funding Requirements			
22)	debt	75.00% of total cost	$181,266 total	$172,164 total
23)	30 years @	6.50% interest rate	$13,881 /year	$13,184 /year
24)	equity	25.00% of total cost	$60,422 total	$57,388 total
25)	pv of 30 yr., residual value (1% net appr) (mkt discount)		($9,799)	($9,307)
26)	net equity		$50,623	$48,082
27)	net equity return @	12.00% market	$6,075 /year	
28)		12.00% workforce		$5,770 /year
29)	annual financing costs		$19,956 /year	$18,954 /year
30)	Required Revenue			
31)	operating expenses		$4.70 /rsf	$4.70 /rsf
32)			$4,066 /year	$4,066 /year
33)	real estate taxes (2005)	80.00% of cost	$224 /rsf	$178 /rsf
34)	state tax rate	0.132%	$0.30 /rsf	$0.24 /rsf
35)	county tax rate	0.734%	$1.64 /rsf	$1.31 /rsf
36)	special area	0.275%	$0.61 /rsf	$0.49 /rsf
37)	total	1.141%	$2.55 /rsf	$2.03 rsf
38)			$2,206 /year	$1,758 /year
39)	total expenses		$7.25 /rsf	$6.73 /rsf
40)			$6,272 /year	$5,824 /year
41)	annual financing costs		$19,956 /year	$18,954 /year
42)	required revenue (financing and expenses)		$26,227 /year	$24,777 /year
43)	Projected Initial Revenue		$2.40 /rsf	
44)	effective rent (monthly after concessions)		$2,077 /month	
45)			$24,918 /year	
46)	required market renter income (@ 30.0% rent)		$83,061	
47)	workforce households			
48)	1.50 persons / 1bed			
49)	3.00 persons / 2bed			
50)	2.25 persons / unit	AMI		
51)		65.0% $47,887		$1,197 /month
52)	30.0% rent	82.5% $60,780		$1,519 /month
53)		100.0% $73,673		$1,842 /month
54)	Unit split	0.0% 65.0% AMI		0.00 units
55)		0.0% 82.5% AMI		0.00 units
56)		100.0% 100.0% AMI		1.00 units
57)	blended workforce	100.0% $73,673		$1,842 /month
58)				$22,102 /year
59)	extra parking / misc income (per month)		$150 /month	$75 /month
60)			$1,800 /year	$900 /year
61)	vacancy / collection loss	5.00%	($1,336) /year	($1,150) /year
62)	total revenue		$25,382 /year	$21,852 /year
63)	required revenue		($26,227) /year	($24,777) /year
64)	initial loss / profit (later stabilization)		($845) /year	($2,926) /year
65)	Implied Value			
66)	potential revenue		$25,382 /year	$21,852 /year
67)	expenses		($6,272) /year	($5,824) /year
68)	net income		$19,111 /year	$16,028 /year
69)	capitalization rate (for present valuation)		6.50%	6.66% (1.025% mkt)
70)	implied value	market workforce	$294,012	$240,569
71)	transaction costs	3.00% 3.00%	($8,820)	($7,217)
72)	return on cost / opportunity cost	18.00% 18.00%	($43,504)	($41,319)
73)	total delivery costs		($241,688)	($229,553)
74)	break-even loss / surplus		($0)	($37,520) FAILS

Source: Bolan Smart Associates, Inc (03/06)

Table 5 - Prescribed AMI Limits, Market Rent Absorbed Cost
Four-Floor Rental Apartment Bldg, No Density Bonus
Montgomery County Workforce Housing Analysis - ($2006)

policy related workforce housing variables

				PER UNIT		MARKET / WF RATIO
				Market	**Workforce**	**12.5% MPDU Density**
1)	Project Type		average size	1,018 gsf	1,018 gsf	7.955 market units
2)	one bed	50.00%	760 rsf	85.00%	85.00%	1.250 MPDUs
3)	two bed	50.00%	970 rsf	865 rsf	865 rsf	0.795 WF units
4)	average	100.00%	865 rsf	1 unit	1 unit	10.000 total units
5)	parking		above grade	1.0 spaces	1.0 spaces	10.000 market / WF units
6)	Development Costs					
7)	land			$32.00 / gsf	$32.00 / gsf	
8)				$32,565 / unit	$32,565 / unit	
9)	hard construction			$135 / gsf	97.50% of mkt	
10)				$137,382 / unit	$133,948 / unit	
11)	parking		above grade	$17,000 / space	$17,000 / space	
12)			total	$17,000 / unit	$17,000 / unit	
13)	soft costs (a&e, financing, legal, marketing, etc.)			15.00% of cost	97.50% of mkt	
14)				$28,042 / unit	$27,341 / unit	
15)	reserves / development fee			8.00% of cost	100.00% of mkt	
16)				$17,199 / unit	$17,199 / unit	
17)	impact fees			$8,000 / unit	$0 / unit	
18)	other public benefit costs			$1,500 / unit	$1,500 / unit	
19)	total delivery costs per unit			$279 / rsf	$265 / rsf	
20)				$241,688 / unit	$229,553 / unit	
21)	Permanent Funding Requirements					
22)	debt		75.00% of total cost	$181,266 total	$172,164 total	
23)	30 years @		6.50% interest rate	$13,881 /year	$13,184 /year	
24)	equity		25.00% of total cost	$60,422 total	$57,388 total	
25)	pv of 30 yr., residual value (1% net appr) (mkt discount)			($9,799)	($9,307)	
26)	net equity			$50,623	$48,082	
27)	net equity return @		12.00% market	$6,075 /year		
28)			12.00% workforce		$5,770 /year	
29)	annual financing costs			$19,956 /year	$18,954 /year	
30)	Required Revenue					
31)	operating expenses			$4.70 /rsf	$4.70 /rsf	
32)				$4,066 /year	$4,066 /year	
33)	real estate taxes (2005)		80.00% of cost	$224 /rsf	$178 /rsf	
34)		state tax rate	0.132%	$0.30 /rsf	$0.24 /rsf	
35)		county tax rate	0.734%	$1.64 /rsf	$1.31 /rsf	
36)		special area	0.275%	$0.61 /rsf	$0.49 /rsf	
37)		total	1.141%	$2.55 /rsf	$2.03 /rsf	
38)				$2,206 /year	$1,758 /year	
39)	total expenses			$7.25 /rsf	$6.73 /rsf	
40)				$6,272 /year	$5,824 /year	
41)	annual financing costs			$19,956 /year	$18,954 /year	
42)	required revenue (financing and expenses)			$26,227 /year	$24,777 /year	
43)	Projected Initial Revenue			$2.46 /rsf		$2,077 mkt unit rent net WF
44)	effective rent (monthly after concessions)			$2,130 /month		$2,130 mkt unit rent with WF
45)				$25,560 /year		$54 increase / month
46)	required market renter income (@ 30.0% rent)			$85,201		$83,769 mkt renter income net WF
47)	workforce households					$85,201 mkt renter income with WF
48)	1.50 persons / 1bed					$1,432 increase over net WF
49)	3.00 persons / 2bed					
50)	2.25 persons / unit		AMI			
51)		65.0%	$47,887		$1,197 /month	
52)	30.0% rent	82.5%	$60,780		$1,519 /month	
53)		100.0%	$73,673		$1,842 /month	
54)	Unit split	0.0%	65.0% AMI		0.00 units	
55)		100.0%	82.5% AMI		1.00 units	
56)		0.0%	100.0% AMI		0.00 units	
57)	blended workforce	82.5%	$60,780		$1,519 /month	
58)					$18,234 /year	
59)	extra parking / misc income (per month)			$150 /month	$75 /month	
60)				$1,800 /year	$900 /year	
61)	vacancy / collection loss		5.00%	($1,368) /year	($957) /year	
62)	total revenue			$25,992 /year	$18,177 /year	
63)	required revenue			($26,227) /year	($24,777) /year	
64)	initial loss / profit (later stabilization)			($235) /year	($6,600) /year	
65)	Implied Value					
66)	potential revenue			$25,992 /year	$18,177 /year	
67)	expenses			($6,272) /year	($5,824) /year	
68)	net income			$19,721 /year	$12,353 /year	
69)	capitalization rate (for present valuation)			6.50%	6.66% (1.025% mkt)	
70)	implied value	market	workforce	$303,396	$185,418	
71)	transaction costs	3.00%	3.00%	($9,102)	($5,563)	
72)	return on cost / opportunity cost	18.00%	18.00%	($43,504)	($41,319)	
73)	total delivery costs			($241,688)	($229,553)	
74)	break-even loss / surplus			$9,102	($91,016)	$91,016 for 10.0 market units

Source: Bolan Smart Associates, Inc. (03/06)

Table 6 - Solve for No Economic Impact
12-Floor Rental Apartment Bldg, Density Bonus 8.75% Workforce
Montgomery County Workforce Housing Analysis - ($2006)

policy related workforce housing variables

#	Item			PER UNIT Market	PER UNIT Workforce
1)	Project Type		average size	982 gsf	982 gsf
2)	one bed	50.00%	720 nsf	84.00%	84.00%
3)	two bed	50.00%	930 rsf	825 rsf	825 rsf
4)	average	100.00%	825 rsf	1 unit	1 unit
5)	parking		below grade	1.0 spaces	1.0 spaces
6)	Development Costs				
7)	land			$85.00 / gsf	$0.00 / gsf
8)				$83,482 / unit	$0 / unit
9)	hard construction			$170 / gsf	97.50% of mkt
10)				$166,964 / unit	$162,790 / unit
11)	parking		below grade	$30,000 / space	$30,000 / space
12)			total	$30,000 / unit	$30,000 / unit
13)	soft costs (a&e, financing, legal, marketing, etc.)			15.00% of cost	85.00% of mkt
14)				$42,067 / unit	$35,757 / unit
15)	reserves / development fee			8.00% of cost	95.00% of mkt
16)				$25,801 / unit	$24,511 / unit
17)	impact fees			$8,000 / unit	$0 / unit
18)	other public benefit costs			$1,500 / unit	$1,500 / unit
19)	total delivery costs per unit			$434 / rsf	$309 / rsf
20)				$357,814 / unit	$254,558 / unit
21)	Permanent Funding Requirements				
22)	debt		75.00% of total cost	$268,361 total	$190,919 total
23)	30 years @		6.50% interest rate	$20,550 /year	$14,620 /year
24)	equity		25.00% of total cost	$89,454 total	$63,640 total
25)	pv of 30 yr., residual value (1% net appr) (mkt discount)			($14,507)	($10,320)
26)	net equity			$74,947	$53,319
27)	net equity return @		12.00% market	$8,994 /year	
28)			9.00% workforce		$4,799 /year
29)	annual financing costs			$29,544 /year	$19,419 /year
30)	Required Revenue				
31)	operating expenses			$4.95 /rsf	$4.95 /rsf
32)				$4,084 /year	$4,084 /year
33)	real estate taxes (2005)		65.00% of cost	$282 /rsf	$201 /rsf
34)		state tax rate	0.132%	$0.37 /rsf	$0.26 /rsf
35)		county tax rate	0.734%	$2.07 /rsf	$1.47 /rsf
36)		special area	0.275%	$0.78 /rsf	$0.55 /rsf
37)		total	1.141%	$3.22 /rsf	$2.29 rsf
38)				$2,654 /year	$1,888 /year
39)	total expenses			$8.17 /rsf	$7.24 /rsf
40)				$6,737 /year	$5,972 /year
41)	annual financing costs			$29,544 /year	$19,419 /year
42)	required revenue (financing and expenses)			$36,282 /year	$25,390 /year
43)	Projected Initial Revenue			$2.95 /rsf	
44)	effective rent (monthly after concessions)			$2,432 /month	
45)				$29,189 /year	
46)	required market renter income (@ 30.0% rent)			$97,295	
47)	workforce households				
48)	1.50 persons / 1bed				
49)	3.00 persons / 2bed				
50)	2.25 persons / unit		AMI		
51)		65.0%	$47,887		$1,197 /month
52)	30.0% rent	82.5%	$60,780		$1,519 /month
53)		100.0%	$73,673		$1,842 /month
54)	Unit split	0.0%	65.0% AMI		0.00 units
55)		0.0%	82.5% AMI		0.00 units
56)		100.0%	100.0% AMI		1.00 units
57)	blended workforce	100.0%	$73,673		$1,842 /month
58)					$22,102 /year
59)	extra parking / misc income (per month)			$150 /month	$75 /month
60)				$1,800 /year	$900 /year
61)	vacancy / collection loss	5.00%		($1,549) /year	($1,150) /year
62)	total revenue			$29,439 /year	$21,852 /year
63)	required revenue			($36,282) /year	($25,390) /year
64)	initial loss / profit (later stabilization)			($6,842) /year	($3,539) /year
65)	Implied Value				
66)	potential revenue			$29,439 /year	$21,852 /year
67)	expenses			($6,737) /year	($5,972) /year
68)	net income			$22,702 /year	$15,880 /year
69)	capitalization rate (for present valuation)			6.50%	6.66% (1.025% mkt)
70)	implied value	market	workforce	$349,256	$238,349
71)	transaction costs	3.00%	3.00%	($10,478)	($7,150)
72)	return on cost / opportunity cost	18.00%	9.00%	($64,407)	($22,910)
73)	total delivery costs			($357,814)	($254,558)
74)	break-even loss / surplus			($83,443) FAILS	($46,270) FAILS

Source: Bolan Smart Associates, Inc. (03/06)

Table 7A - Solve for No Economic Impact - Lower Land Cost
12-Floor Rental Apartment Bldg, Density Bonus 8.75% Workforce
Montgomery County Workforce Housing Analysis - ($2006)

				PER UNIT	
	policy related workforce housing variables			Market	Workforce
1)	Project Type		average size	982 gsf	982 gsf
2)	one bed	50.00%	720 nsf	84.00%	84.00%
3)	two bed	50.00%	930 rsf	825 rsf	825 rsf
4)	average	100.00%	825 rsf	1 unit	1 unit
5)	parking		below grade	1.0 spaces	1.0 spaces
6)	Development Costs				
7)	land			$32.00 / gsf	$0.00 / gsf
8)				$31,429 / unit	$0 / unit
9)	hard construction			$170 / gsf	97.50% of mkt
10)				$166,964 / unit	$162,790 / unit
11)	parking		below grade	$30,000 / space	$30,000 / space
12)			total	$30,000 / unit	$30,000 / unit
13)	soft costs (a&e, financing, legal, marketing, etc.)			15.00% of cost	85.00% of mkt
14)				$34,259 / unit	$29,120 / unit
15)	reserves / development fee			8.00% of cost	95.00% of mkt
16)				$21,012 / unit	$19,962 / unit
17)	impact fees			$8,000 / unit	$0 / unit
18)	other public benefit costs			$1,500 / unit	$1,500 / unit
19)	total delivery costs per unit			$355 / rsf	$295 / rsf
20)				$293,164 / unit	$243,372 / unit
21)	Permanent Funding Requirements				
22)	debt		75.00% of total cost	$219,873 total	$182,529 total
23)	30	years @	6.50% interest rate	$16,837 /year	$13,978 /year
24)	equity		25.00% of total cost	$73,291 total	$60,843 total
25)	pv of 30 yr., residual value (1% net appr) (mkt discount)			($11,886)	($9,867)
26)	net equity			$61,405	$50,976
27)		net equity return @	12.00% market	$7,369 /year	
28)			9.00% workforce		$4,588 /year
29)	annual financing costs			$24,206 /year	$18,565 /year
30)	Required Revenue				
31)	operating expenses			$4.95 /rsf	$4.95 /rsf
32)				$4,084 /year	$4,084 /year
33)	real estate taxes (2005)		65.00% of cost	$231 /rsf	$192 /rsf
34)		state tax rate	0.132%	$0.30 /rsf	$0.25 /rsf
35)		county tax rate	0.734%	$1.70 /rsf	$1.41 /rsf
36)		special area	0.275%	$0.64 /rsf	$0.53 /rsf
37)		total	1.141%	$2.64 /rsf	$2.19 rsf
38)				$2,174 /year	$1,805 /year
39)	total expenses			$7.59 /rsf	$7.14 /rsf
40)				$6,258 /year	$5,889 /year
41)	annual financing costs			$24,206 /year	$18,565 /year
42)	required revenue (financing and expenses)			$30,464 /year	$24,454 /year
43)	Projected Initial Revenue			$2.95 /rsf	
44)	effective rent (monthly after concessions)			$2,432 /month	
45)				$29,189 /year	
46)	required market renter income (@ 30.0% rent)			$97,295	
47)	workforce households				
48)	1.50 persons / 1bed				
49)	3.00 persons / 2bed				
50)	2.25 persons / unit		AMI		
51)		65.0%	$47,887		$1,197 /month
52)	30.0% rent	82.5%	$60,780		$1,519 /month
53)		100.0%	$73,673		$1,842 /month
54)	Unit split	0.0%	65.0% AMI		0.00 units
55)		0.0%	82.5% AMI		0.00 units
56)		100.0%	100.0% AMI		1.00 units
57)	blended workforce	100.0%	$73,673		$1,842 /month
58)					$22,102 /year
59)	extra parking / misc income (per month)			$150 /month	$75 /month
60)				$1,800 /year	$900 /year
61)	vacancy / collection loss	5.00%		($1,549) /year	($1,150) /year
62)	total revenue			$29,439 /year	$21,852 /year
63)	required revenue			($30,464) /year	($24,454) /year
64)	initial loss / profit (later stabilization)			($1,025) /year	($2,602) /year
65)	Implied Value				
66)	potential revenue			$29,439 /year	$21,852 /year
67)	expenses			($6,258) /year	($5,889) /year
68)	net income			$23,181 /year	$15,963 /year
69)	capitalization rate (for present valuation)			6.50%	6.66% (1.025% mkt)
70)	implied value	market	workforce	$356,633	$239,594
71)	transaction costs	3.00%	3.00%	($10,699)	($7,188)
72)	return on cost / opportunity cost	18.00%	9.00%	($52,770)	($21,903)
73)	total delivery costs			($293,164)	($243,372)
74)	break-even loss / surplus			$0	($32,869) FAILS

Source: Bolan Smart Associates, Inc. (03/06)

Table 7B - Prescribed AMI Limits, Market Rent Absorbed Cost - Lower Land Cost
12-Floor Rental Apartment Bldg, Density Bonus 8.75% Workforce
Montgomery County Workforce Housing Analysis - ($2006)

#	policy related workforce housing variables			PER UNIT Market	PER UNIT Workforce	MARKET / WF RATIO 12.5% MPDU Density
1)	Project Type		average size	982 gsf	982 gsf	8.750 market units
2)	one bed	50.00%	720 nsf	84.00%	84.00%	1.250 MPDUs
3)	two bed	50.00%	930 rsf	825 rsf	825 rsf	0.875 WF units
4)	average	100.00%	825 rsf	1 unit	1 unit	10.875 total units
5)	parking		below grade	1.0 spaces	1.0 spaces	10.000 market / WF units
6)	Development Costs					
7)	land			$32.00 / gsf	$0.00 / gsf	
8)				$31,429 / unit	$0 / unit	
9)	hard construction			$170 / gsf	97.50% of mkt	
10)				$166,964 / unit	$162,790 / unit	
11)	parking		below grade	$30,000 / space	$30,000 / space	
12)			total	$30,000 / unit	$30,000 / unit	
13)	soft costs (a&e, financing, legal, marketing, etc.)			15.00% of cost	85.00% of mkt	
14)				$34,259 / unit	$29,120 / unit	
15)	reserves / development fee			8.00% of cost	95.00% of mkt	
16)				$21,012 / unit	$19,962 / unit	
17)	impact fees			$8,000 / unit	$0 / unit	
18)	other public benefit costs			$1,500 / unit	$1,500 / unit	
19)	total delivery costs per unit			$355 / rsf	$295 / rsf	
20)				$293,164 / unit	$243,372 / unit	
21)	Permanent Funding Requirements					
22)	debt	75.00%	of total cost	$219,873 total	$182,529 total	
23)	30 years @	6.50%	interest rate	$16,837 /year	$13,978 /year	
24)	equity	25.00%	of total cost	$73,291 total	$60,843 total	
25)	pv of 30 yr. residual value (1% net appr) (mkt discount)			($11,886)	($9,867)	
26)	net equity			$61,405	$50,976	
27)	net equity return @	12.00%	market	$7,369 /year		
28)		9.00%	workforce		$4,588 /year	
29)	annual financing costs			$24,206 /year	$18,565 /year	
30)	Required Revenue					
31)	operating expenses			$4.95 /rsf	$4.95 /rsf	
32)				$4,084 /year	$4,084 /year	
33)	real estate taxes (2005)	65.00%	of cost	$231 /rsf	$192 /rsf	
34)	state tax rate	0.132%		$0.30 /rsf	$0.25 /rsf	
35)	county tax rate	0.734%		$1.70 /rsf	$1.41 /rsf	
36)	special area	0.275%		$0.64 /rsf	$0.53 /rsf	
37)	total	1.141%		$2.64 /rsf	$2.19 rsf	
38)				$2,174 /year	$1,805 /year	
39)	total expenses			$7.59 /rsf	$7.14 /rsf	
40)				$6,258 /year	$5,889 /year	
41)	annual financing costs			$24,206 /year	$18,565 /year	
42)	required revenue (financing and expenses)			$30,464 /year	$24,454 /year	
43)	Projected Initial Revenue			$3.01 /rsf		$2,432 mkt unit rent net WF
44)	effective rent (monthly after concessions)			$2,483 /month		$2,483 mkt unit rent with WF
45)				$29,798 /year		$51 increase / month
46)	required market renter income (@ 30.0% rent)			$99,326		
47)	workforce households					$97,295 mkt renter income net WF
48)	1.50 persons / 1bed					$99,326 mkt renter income with WF
49)	3.00 persons / 2bed					$2,031 increase over net WF
50)	2.25 persons / unit		AMI			
51)		65.0%	$47,887		$1,197 /month	
52)	30.0% rent	82.5%	$60,780		$1,519 /month	
53)		100.0%	$73,673		$1,842 /month	
54)	Unit split 0.0%	65.0%	AMI		0.00 units	
55)	100.0%	82.5%	AMI		1.00 units	
56)	0.0%	100.0%	AMI		0.00 units	
57)	blended workforce	82.5%	$60,780		$1,519 /month	
58)					$18,234 /year	
59)	extra parking / misc income (per month)			$150 /month	$75 /month	
60)				$1,800 /year	$900 /year	
61)	vacancy / collection loss	5.00%		($1,580) /year	($957) /year	
62)	total revenue			$30,018 /year	$18,177 /year	
63)	required revenue			($30,464) /year	($24,454) /year	
64)	initial loss / profit (later stabilization)			($446) /year	($6,277) /year	
65)	Implied Value					
66)	potential revenue			$30,018 /year	$18,177 /year	
67)	expenses			($6,258) /year	($5,889) /year	
68)	net income			$23,760 /year	$12,289 /year	
69)	capitalization rate (for present valuation)			6.50%	6.66% (1.025% mkt)	
70)	implied value	market	workforce	$365,536	$184,443	
71)	transaction costs	3.00%	3.00%	($10,966)	($5,533)	
72)	return on cost / opportunity cost	18.00%	9.00%	($52,770)	($21,903)	
73)	total delivery costs			($293,164)	($243,372)	
74)	break-even loss / surplus			$8,637	($86,365)	$86,365 for 10.0 market units

Source: Bolan Smart Associates, Inc. (03/06)

Table 7C - Prescribed AMI Limits, Market Rent Absorbed Cost - Lower Land Cost
12-Floor Rental Apartment Bldg, Density Bonus 22% MPDU + 8.75% Workforce
Montgomery County Workforce Housing Analysis - ($2006)

policy related workforce housing variables

No.	Item	Variables	PER UNIT: Market	PER UNIT: Workforce	MARKET / WF RATIO: 15.0% MPDU Density
1)	Project Type	average size	982 gsf	982 gsf	10.370 market units
2)	one bed	50.00% 720 nsf	84.00%	84.00%	1.830 MPDUs
3)	two bed	50.00% 930 rsf	825 rsf	825 rsf	0.875 WF units per base case
4)	average	100.00% 825 rsf	1 unit	1 unit	13.075 total units
5)	parking	below grade	1.0 spaces	1.0 spaces	11.850 market / WF units
6)	Development Costs				
7)	land		$32.00 / gsf	$0.00 / gsf	
8)			$31,429 / unit	$0 / unit	
9)	hard construction		$170 / gsf	97.50% of mkt	
10)			$166,964 / unit	$162,790 / unit	
11)	parking	below grade	$30,000 / space	$30,000 / space	
12)		total	$30,000 / unit	$30,000 / unit	
13)	soft costs (a&e, financing, legal, marketing, etc.)		15.00% of cost	85.00% of mkt	
14)			$34,259 / unit	$29,120 / unit	
15)	reserves / development fee		8.00% of cost	95.00% of mkt	
16)			$21,012 / unit	$19,962 / unit	
17)	impact fees		$8,000 / unit	$0 / unit	
18)	other public benefit costs		$1,500 / unit	$1,500 / unit	
19)	total delivery costs per unit		$355 / rsf	$295 / rsf	
20)			$293,164 / unit	$243,372 / unit	
21)	Permanent Funding Requirements				
22)	debt	75.00% of total cost	$219,873 total	$182,529 total	
23)	30 years @	6.50% interest rate	$16,837 /year	$13,978 /year	
24)	equity	25.00% of total cost	$73,291 total	$60,843 total	
25)	pv of 30 yr., residual value (1% net appr) (mkt discount)		($11,886)	($9,867)	
26)	net equity		$61,405	$50,976	
27)	net equity return @	12.00% market	$7,369 /year		
28)		9.00% workforce		$4,588 /year	
29)	annual financing costs		$24,206 /year	$18,565 /year	
30)	Required Revenue				
31)	operating expenses		$4.95 /rsf	$4.95 /rsf	
32)			$4,084 /year	$4,084 /year	
33)	real estate taxes (2005)	65.00% of cost	$231 /rsf	$192 /rsf	
34)	state tax rate	0.132%	$0.30 /rsf	$0.25 /rsf	
35)	county tax rate	0.734%	$1.70 /rsf	$1.41 /rsf	
36)	special area	0.275%	$0.64 /rsf	$0.53 /rsf	
37)	total	1.141%	$2.64 /rsf	$2.19 rsf	
38)			$2,174 /year	$1,805 /year	
39)	total expenses		$7.59 /rsf	$7.14 /rsf	
40)			$6,258 /year	$5,889 /year	
41)	annual financing costs		$24,206 /year	$18,565 /year	
42)	required revenue (financing and expenses)		$30,464 /year	$24,454 /year	
43)	Projected Initial Revenue		$3.00 /rsf		$2,432 mkt unit rent net WF
44)	effective rent (monthly after concessions)		$2,475 /month		$2,475 mkt unit rent with WF
45)			$29,703 /year		$43 increase / month
46)	required market renter income (@ 30.0% rent)		$99,009		
47)	workforce households				$97,295 mkt renter income net WF
48)	1.50 persons / 1bed				$99,009 mkt renter income with WF
49)	3.00 persons / 2bed				$1,714 increase over net WF
50)	2.25 persons / unit	AMI			
51)		65.0% $47,887		$1,197 /month	
52)	30.0% rent	82.5% $60,780		$1,519 /month	
53)		100.0% $73,673		$1,842 /month	
54)	Unit split	0.0% 65.0% AMI		0.00 units	
55)		100.0% 82.5% AMI		1.00 units	
56)		0.0% 100.0% AMI		0.00 units	
57)	blended workforce	82.5% $60,780		$1,519 /month	
58)				$18,234 /year	
59)	extra parking / misc income (per month)		$150 /month	$75 /month	
60)			$1,800 /year	$900 /year	
61)	vacancy / collection loss	5.00%	($1,575) /year	($957) /year	
62)	total revenue		$29,927 /year	$18,177 /year	
63)	required revenue		($30,464) /year	($24,454) /year	
64)	initial loss / profit (later stabilization)		($536) /year	($6,277) /year	
65)	Implied Value				
66)	potential revenue		$29,927 /year	$18,177 /year	
67)	expenses		($6,258) /year	($5,889) /year	
68)	net income		$23,669 /year	$12,289 /year	
69)	capitalization rate (for present valuation)		6.50%	6.66% (1.025% mkt)	
70)	implied value	market / workforce	$364,146	$184,443	
71)	transaction costs	3.00% / 3.00%	($10,924)	($5,533)	
72)	return on cost / opportunity cost	18.00% / 9.00%	($52,770)	($21,903)	
73)	total delivery costs		($293,164)	($243,372)	
74)	break-even loss / surplus		$7,288	($86,365)	$86,365 for 11.85 market units

Source: Bolan Smart Associates, Inc. (03/06)

(REVISED MARCH 27) Table 7D - Prescribed AMI Limits, Market Rent Absorbed Cost - Lower Land Cost

12-Floor Rental Apartment Bldg, Density Bonus 22% MPDU, No Workforce Bonus

Montgomery County Workforce Housing Analysis - ($2006)

policy related workforce housing variables

#	Item	Parameters	PER UNIT Market	PER UNIT Workforce	MARKET / WF RATIO 15.0% MPDU Density
1)	Project Type	average size	982 gsf	982 gsf	9.495 market units
2)	one bed	50.00% 720 nsf	84.00%	84.00%	1.830 MPDUs
3)	two bed	50.00% 930 rsf	825 rsf	825 rsf	0.875 WF units per base case
4)	average	100.00% 825 rsf	1 unit	1 unit	12.200 total units
5)	parking	below grade	1.0 spaces	1.0 spaces	10.850 market / WF units
6)	Development Costs				
7)	land		$32.00 / gsf	$32.00 / gsf	
8)			$31,429 / unit	$31,429 / unit	
9)	hard construction		$170 / gsf	97.50% of mkt	
10)			$166,964 / unit	$162,790 / unit	
11)	parking	below grade	$30,000 / space	$30,000 / space	
12)		total	$30,000 / unit	$30,000 / unit	
13)	soft costs (a&e, financing, legal, marketing, etc.)		15.00% of cost	97.50% of mkt	
14)			$34,259 / unit	$33,402 / unit	
15)	reserves / development fee		8.00% of cost	100.00% of mkt	
16)			$21,012 / unit	$21,012 / unit	
17)	impact fees		$8,000 / unit	$0 / unit	
18)	other public benefit costs		$1,500 / unit	$1,500 / unit	
19)	total delivery costs per unit		$355 / rsf	$340 / rsf	
20)			$293,164 / unit	$280,133 / unit	
21)	Permanent Funding Requirements				
22)	debt	75.00% of total cost	$219,873 total	$210,100 total	
23)	30 years @	6.50% interest rate	$16,837 /year	$16,089 /year	
24)	equity	25.00% of total cost	$73,291 total	$70,033 total	
25)	pv of 30 yr., residual value (1% net appr) (mkt discount)		($11,886)	($11,357)	
26)	net equity		$61,405	$58,676	
27)	net equity return @	12.00% market	$7,369 /year		
28)		9.00% workforce		$5,281 /year	
29)	annual financing costs		$24,206 /year	$21,370 /year	
30)	Required Revenue				
31)	operating expenses		$4.95 /rsf	$4.95 /rsf	
32)			$4,084 /year	$4,084 /year	
33)	real estate taxes (2005)	65.00% of cost	$231 /rsf	$221 /rsf	
34)		state tax rate 0.132%	$0.30 /rsf	$0.29 /rsf	
35)		county tax rate 0.734%	$1.70 /rsf	$1.62 /rsf	
36)		special area 0.275%	$0.64 /rsf	$0.61 /rsf	
37)		total 1.141%	$2.64 /rsf	$2.52 rsf	
38)			$2,174 /year	$2,078 /year	
39)	total expenses		$7.59 /rsf	$7.47 /rsf	
40)			$6,258 /year	$6,161 /year	
41)	annual financing costs		$24,206 /year	$21,370 /year	
42)	required revenue (financing and expenses)		$30,464 /year	$27,531 /year	
43)	Projected Initial Revenue		$3.05 /rsf		$2,432 mkt unit rent net WF
44)	effective rent (monthly after concessions)		$2,517 /month		$2,517 mkt unit rent with WF
45)			$30,200 /year		$84 increase / month
46)	required market renter income (@ 30.0% rent)		$100,667		
47)	workforce households				$97,295 mkt renter income net WF
48)	1.50 persons / 1bed				$100,667 mkt renter income with WF
49)	3.00 persons / 2bed				$3,372 increase over net WF
50)	2.25 persons / unit	AMI			
51)		65.0% $47,887		$1,197 /month	
52)	30.0% rent	82.5% $60,780		$1,519 /month	
53)		100.0% $73,673		$1,842 /month	
54)	Unit split	0.0% 65.0% AMI		0.00 units	
55)		100.0% 82.5% AMI		1.00 units	
56)		0.0% 100.0% AMI		0.00 units	
57)	blended workforce	82.5% $60,780		$1,519 /month	
58)				$18,234 /year	
59)	extra parking / misc income (per month)		$150 /month	$75 /month	
60)			$1,800 /year	$900 /year	
61)	vacancy / collection loss	5.00%	($1,600) /year	($957) /year	
62)	total revenue		$30,400 /year	$18,177 /year	
63)	required revenue		($30,464) /year	($27,531) /year	
64)	initial loss / profit (later stabilization)		($64) /year	($9,354) /year	
65)	Implied Value				
66)	potential revenue		$30,400 /year	$18,177 /year	
67)	expenses		($6,258) /year	($6,161) /year	
68)	net income		$24,142 /year	$12,016 /year	
69)	capitalization rate (for present valuation)		6.50%	6.66% (1.025% mkt)	
70)	implied value	market / workforce	$371,419	$180,351	
71)	transaction costs	3.00% / 3.00%	($11,143)	($5,411)	
72)	return on cost / opportunity cost	18.00% / 18.00%	($52,770)	($50,424)	
73)	total delivery costs		($293,164)	($280,133)	
74)	break-even loss / surplus		$14,343	($155,617)	$155,617 for 10.85 market units

Source: Bolan Smart Associates, Inc. (03/06)

Table 8 - Prescribed AMI Limits, Market Rent Absorbed Cost - Lower Land Cost
12-Floor Rental Apartment Bldg, No Density Bonus
Montgomery County Workforce Housing Analysis - ($2006)

	policy related workforce housing variables		PER UNIT Market	PER UNIT Workforce	MARKET [illegible] 12.5% [illegible]
1)	Project Type	average size	982 gsf	982 gsf	7.955 mar[illegible]
2)	one bed 50 00%	720 nsf	84.00%	84.00%	1.250 MPD[illegible]
3)	two bed 50 00%	930 rsf	825 rsf	825 rsf	0.795 WF u[illegible]
4)	average 100 00%	825 rsf	1 unit	1 unit	10 000 total un[illegible]
5)	parking	below grade	1 0 spaces	1.0 spaces	10.000 market [illegible]
6)	Development Costs				
7)	land		$32.00 / gsf	$32.00 / gsf	
8)			$31,429 / unit	$31,429 / unit	
9)	hard construction		$170 / gsf	97.50% of mkt	
10)			$166,964 / unit	$162,790 / unit	
11)	parking	below grade	$30,000 / space	$30,000 / space	
12)		total	$30,000 / unit	$30,000 / unit	
13)	soft costs (a&e, financing, legal, marketing, etc.)		15.00% of cost	97.50% of mkt	
14)			$34,259 / unit	$33,402 / unit	
15)	reserves / development fee		8.00% of cost	100.00% of mkt	
16)			$21,012 / unit	$21,012 / unit	
17)	impact fees		$8,000 / unit	$0 / unit	
18)	other public benefit costs		$1,500 / unit	$1,500 / unit	
19)	total delivery costs per unit		$355 / rsf	$340 / rsf	
20)			$293,164 / unit	$280,133 / unit	
21)	Permanent Funding Requirements				
22)	debt	75.00% of total cost	$219,873 total	$210,100 total	
23)	30 years @	6 50% interest rate	$16,837 /year	$16,089 /year	
24)	equity	25 00% of total cost	$73,291 total	$70,033 total	
25)	pv of 30 yr. residual value (1% net appr) (mkt discount)		($11,886)	($11,357)	
26)	net equity		$61,405	$58,676	
27)	net equity return @	12 00% market	$7,369 /year		
28)		12.00% workforce		$7,041 /year	
29)	annual financing costs		$24,206 /year	$23,130 /year	
30)	Required Revenue				
31)	operating expenses		$4 95 /rsf	$4.95 /rsf	
32)			$4,084 /year	$4,084 /year	
33)	real estate taxes (2005)	65.00% of cost	$231 /rsf	$221 /rsf	
34)	state tax rate	0 132%	$0.30 /rsf	$0 29 /rsf	
35)	county tax rate	0.734%	$1.70 /rsf	$1 62 /rsf	
36)	special area	0 275%	$0 64 /rsf	$0 61 /rsf	
37)	total	1.141%	$2 64 /rsf	$2.52 rsf	
38)			$2,174 /year	$2,078 /year	
39)	total expenses		$7.59 /rsf	$7 47 /rsf	
40)			$6,258 /year	$6,161 /year	
41)	annual financing costs		$24,206 /year	$23,130 /year	
42)	required revenue (financing and expenses)		$30,464 /year	$29,291 /year	
43)	Projected Initial Revenue		$3.06 /rsf		$2,432 mkt unit rent net WF
44)	effective rent (monthly after concessions)		$2,524 /month		$2,524 mkt unit rent with WF
45)			$30,286 /year		$91 increase / month
46)	required market renter income (@ 30.0% rent)		$100,954		
47)	workforce households				$97,295 mkt renter income net WF
48)	1.50 persons / 1bed				$100,954 mkt renter income with WF
49)	3.00 persons / 2bed				$3,659 increase over net WF
50)	2.25 persons / unit	AMI			
51)		65.0% $47,887		$1,197 /month	
52)	30.0% rent	82.5% $60,780		$1,519 /month	
53)		100.0% $73,673		$1,842 /month	
54)	Unit split 0.0%	65.0% AMI		0.00 units	
55)	100.0%	82.5% AMI		1.00 units	
56)	0.0%	100.0% AMI		0.00 units	
57)	blended workforce	82.5% $60,780		$1,519 /month	
58)				$18,234 /year	
59)	extra parking / misc income (per month)		$150 /month	$75 /month	
60)			$1,800 /year	$900 /year	
61)	vacancy / collection loss	5.00%	($1,604) /year	($957) /year	
62)	total revenue		$30,482 /year	$18,177 /year	
63)	required revenue		($30,464) /year	($29,291) /year	
64)	initial loss / profit (later stabilization)		$18 /year	($11,114) /year	
65)	Implied Value				
66)	potential revenue		$30,482 /year	$18,177 /year	
67)	expenses		($6,258) /year	($6,161) /year	
68)	net income		$24,224 /year	$12,016 /year	
69)	capitalization rate (for present valuation)		6.50%	6.66% (1 025% mkt)	
70)	implied value	market / workforce	$372,675	$180,351	
71)	transaction costs	3 00% / 3.00%	($11,180)	($5,411)	
72)	return on cost / opportunity cost	18 00% / 18 00%	($52,770)	($50,424)	
73)	total delivery costs		($293,164)	($280,133)	
74)	break-even loss / surplus		$15,562	($155,617)	$155,617 for 10.0 market units

Source: Bolan Smart Associates, Inc. (03/06)

Table 9 - Solves for No Economic Impact at Less Than Prescribed
Four-Floor Residential Condominimum Bldg, Density Bonus 8.75% Workforce
Montgomery County Workforce Housing Analysis - ($2006)

					PER UNIT	
	policy related workforce housing variables				Market	Workforce
1)	Project Type			average size	1,018 gsf	1,018 gsf
2)	one bed	50.00%	760 rsf		85.00%	85.00%
3)	two bed	50.00%	970 nsf		865 nsf	865 nsf
4)	average	100.00%	865 nsf		1 unit	1 unit
5)	parking			above grade	1.0 spaces	1.0 spaces
6)	Development Costs					
7)	land				$32.00 / gsf	$0.00 / gsf
8)					$32,565 / unit	$0 / unit
9)	hard construction				$140 / gsf	96.25% of mkt
10)					$142,471 / unit	$137,128 / unit
11)	parking			above grade	$17,000 / space	$17,000 / space
12)				total	$17,000 / unit	$17,000 / unit
13)	soft costs (a&e, financing, legal, sales, etc)				20.00% of cost	80.00% of mkt
14)					$38,407 / unit	$30,726 / unit
15)	reserves / development fee				8.00% of cost	90.00% of mkt
16)					$18,435 / unit	$16,592 / unit
17)	impact fees				$8,000 / unit	$0 / unit
18)	other public benefit costs				$1,500 / unit	$1,500 / unit
19)	development profit / opportunity cost				18.00% of cost	9.00% of cost
20)					$43,190 / unit	$16,772 / unit
21)	total delivery costs per unit				$349 / nsf	$254 / nsf
22)					$301,567 / unit	$219,717 / unit
23)	Workforce Affordability					
24)	workforce households					
25)	1.50 persons / 1bed					
26)	3.00 persons / 2bed					
27)	2.25 persons / unit			AMI		
28)			70.0%	$51,571		$1,432 /month
29)	33.3% housing cost		95.0%	$69,989		$1,944 /month
30)			120.0%	$88,407		$2,456 /month
31)	Unit split	31.5%	70.0%	AMI		0.32 units
32)		68.5%	95.0%	AMI		0.68 units
33)		0.0%	120.0%	AMI		0.00 units
34)	blended workforce		87.1%	$64,181		$1,783 /month
35)						$21,391 /year
36)	Housing Expenses				$349 / nsf	$254 / nsf
37)	purchase price		$349	/ nsf	$301,567 / unit	$219,717 / unit
38)	mortgage		95.00%	of total cost	$286,489 total	$208,731 total
39)	30 years @		6.50%	interest rate	$21,939 /year	$15,984 /year
40)	condominium fees				$2.75 /nsf	$2.75 /nsf
41)					$2,379 /year	$2,379 /year
42)	mortgage insurance		0.250%		$716 /year	$522 /year
43)	real estate taxes (2005)		100.00%	of cost	$349 /nsf	$254 /nsf
44)		state tax rate	0.132%		$0.46 /nsf	$0.34 /nsf
45)		county tax rate	0.734%		$2.56 /nsf	$1.86 /nsf
46)		special area	0.275%		$0.96 /nsf	$0.70 /nsf
47)		total	1.141%		$3.98 /nsf	$2.90 /nsf
48)					$3,441 /year	$2,507 /year
49)	total expenses				$7.56 /nsf	$6.25 /nsf
50)					$6,536 /year	$5,408 /year
51)	annual financing costs				$21,939 /year	$15,984 /year
52)	annual housing cost (financing and expenses)				$28,474 /year	$21,392 /year
53)	required annual income		33.33%	housing cost	$85,432 /year	$64,181 /year
54)	Developer Net Cost					
55)	potential revenue				$301,567	$219,717
56)	total delivery costs				($301,567)	($219,717)
57)	break-even loss / surplus				$0	($0)

Source: Bolan Smart Associates, Inc. (03/06)

Table 10 - Solve for No Economic Impact
Four-Floor Residential Condominium Bldg, No Density Bonus
Montgomery County Workforce Housing Analysis - ($2006)

policy related workforce housing variables

No.	Item				PER UNIT Market	PER UNIT Workforce
1)	Project Type			average size	1,018 gsf	1,018 gsf
2)	one bed	50.00%	760 rsf		85.00%	85.00%
3)	two bed	50.00%	970 nsf		865 nsf	865 nsf
4)	average	100.00%	865 nsf		1 unit	1 unit
5)	parking			above grade	1.0 spaces	1.0 spaces
6)	Development Costs					
7)	land				$32.00 / gsf	$32.00 / gsf
8)					$32,565 / unit	$32,565 / unit
9)	hard construction				$140 / gsf	96.25% of mkt
10)					$142,471 / unit	$137,128 / unit
11)	parking			above grade	$17,000 / space	$17,000 / space
12)				total	$17,000 / unit	$17,000 / unit
13)	soft costs (a&e, financing, legal, sales, etc.)				20.00% of cost	97.50% of mkt
14)					$38,407 / unit	$37,447 / unit
15)	reserves / development fee				8.00% of cost	100.00% of mkt
16)					$18,435 / unit	$18,435 / unit
17)	impact fees				$8,000 / unit	$0 / unit
18)	other public benefit costs				$1,500 / unit	$1,500 / unit
19)	development profit / opportunity cost				18.00% of cost	18.00% of cost
20)					$43,190 / unit	$40,615 / unit
21)	total delivery costs per unit				$349 / nsf	$329 / nsf
22)					$301,567 / unit	$284,690 / unit
23)	Workforce Affordability					
24)	workforce households					
25)	1.50 persons / 1bed					
26)	3.00 persons / 2bed					
27)	2.25 persons / unit			AMI		
28)			70.0%	$51,571		$1,432 /month
29)	33.3% housing cost		95.0%	$69,989		$1,944 /month
30)			120.0%	$88,407		$2,456 /month
31)	Unit split	13.0%	70.0%	AMI		0.13 units
32)	13.5	13.9%	95.0%	AMI		0.14 units
33)		73.1%	120.0%	AMI		0.73 units
34)	blended workforce		110.0%	$81,050		$2,251 /month
35)						$27,014 /year
36)	Housing Expenses				$349 / nsf	$329 / nsf
37)	purchase price				$301,567 / unit	$284,691 / unit
38)	mortgage		95.00%	of total cost	$286,489 total	$270,456 total
39)	30	years @	6.50%	interest rate	$21,939 /year	$20,711 /year
40)	condominium fees				$2.75 /nsf	$2.75 /nsf
41)					$2,379 /year	$2,379 /year
42)	mortgage insurance		0.250%		$716 /year	$676 /year
43)	real estate taxes (2005)		100.00%	of cost	$349 /nsf	$329 /nsf
44)		state tax rate	0.132%		$0.46 /nsf	$0.43 /nsf
45)		county tax rate	0.734%		$2.56 /nsf	$2.42 /nsf
46)		special area	0.275%		$0.96 /nsf	$0.91 /nsf
47)		total	1.141%		$3.98 /nsf	$3.76 /nsf
48)					$3,441 /year	$3,248 /year
49)	total expenses				$7.56 /nsf	$7.29 /nsf
50)					$6,536 /year	$6,303 /year
51)	annual financing costs				$21,939 /year	$20,711 /year
52)	annual housing cost (financing and expenses)				$28,474 /year	$27,014 /year
53)	required annual income		33.33%	housing cost	$85,432 /year	$81,050 /year
54)	Developer Net Cost					
55)	potential revenue				$301,567	$284,691
56)	total delivery costs				($301,567)	($284,690)
57)	break-even loss / surplus				$0	$0

Source: Bolan Smart Associates, Inc. (03/06)

Table 11 - Prescribed AMI Limits, Market Rent Absorbed Cost
Four-Floor Residential Condominium Bldg, No Density Bonus
Montgomery County Workforce Housing Analysis - ($2006)

	policy related workforce housing variables			PER UNIT: Market	PER UNIT: Workforce	MARKET / WF RATIO: 12.5% MPDU Density
1)	Project Type		average size	1,018 gsf	1,018 gsf	7.75 market units
2)	one bed	50.00%	760 rsf	85.00%	85.00%	1.25 MPDUs
3)	two bed	50.00%	970 nsf	865 nsf	865 nsf	1.00 WF units
4)	average	100.00%	865 nsf	1 unit	1 unit	10.00 total units
5)	parking		above grade	1.0 spaces	1.0 spaces	7.75 market / WF units
6)	Development Costs					
7)	land			$32.00 / gsf	$32.00 / gsf	
8)				$32,565 / unit	$32,565 / unit	
9)	hard construction			$140 / gsf	96.25% of mkt	
10)				$142,471 / unit	$137,128 / unit	
11)	parking		above grade	$17,000 / space	$17,000 / space	
12)			total	$17,000 / unit	$17,000 / unit	
13)	soft costs (a&e, financing, legal, sales, etc.)			20.00% of cost	97.50% of mkt	
14)				$38,407 / unit	$37,447 / unit	
15)	reserves / development fee			8.00% of cost	100.00% of mkt	
16)				$18,435 / unit	$18,435 / unit	
17)	impact fees			$8,000 / unit	$0 / unit	
18)	other public benefit costs			$1,500 / unit	$1,500 / unit	
19)	development profit / opportunity cost			18.00% of cost	18.00% of cost	
20)				$43,190 / unit	$40,615 / unit	
21)	total delivery costs per unit			$349 / nsf	$329 / nsf	
22)				$301,567 / unit	$284,690 / unit	$301,567 mkt unit cost net WF
23)	Workforce Affordability					
24)	workforce households					
25)	1.50 persons / 1bed					
26)	3.00 persons / 2bed					
27)	2.25 persons / unit		AMI			
28)		70.0%	$51,571		$1,432 /month	
29)	33.3% housing cost	95.0%	$69,989		$1,944 /month	
30)		120.0%	$88,407		$2,456 /month	
31)	Unit split	0.0%	70.0% AMI		0.00 units	
32)		100.0%	95.0% AMI		1.00 units	
33)		0.0%	120.0% AMI		0.00 units	
34)	blended workforce	95.0%	$69,989		$1,944 /month	
35)					$23,327 /year	
36)	Housing Expenses			$355 / nsf	$280 / nsf	
37)	purchase price			$307,065 / unit	$242,087 / unit	$307,065 mkt unit cost with WF
38)	mortgage	95.00%	of total cost	$291,711 total	$229,983 total	$5,497 increase
39)	30 years @	6.50%	interest rate	$22,339 /year	$17,612 /year	
40)	condominium fees			$2.75 /nsf	$2.75 /nsf	
41)				$2,379 /year	$2,379 /year	
42)	mortgage insurance	0.250%		$729 /year	$575 /year	
43)	real estate taxes (2005)	100.00%	of cost	$355 /nsf	$280 /nsf	
44)	state tax rate	0.132%		$0.47 /nsf	$0.37 /nsf	
45)	county tax rate	0.734%		$2.61 /nsf	$2.05 /nsf	
46)	special area	0.275%		$0.98 /nsf	$0.77 /nsf	
47)	total	1.141%		$4.05 /nsf	$3.19 /nsf	
48)				$3,504 /year	$2,762 /year	
49)	total expenses			$7.64 /nsf	$6.61 /nsf	
50)				$6,612 /year	$5,716 /year	
51)	annual financing costs			$22,339 /year	$17,612 /year	$85,432 req mkt income net WF
52)	annual housing cost (financing and expenses)			$28,950 /year	$23,327 /year	$86,859 req mkt income with WF
53)	required annual income	33.33%	housing cost	$86,859 /year	$69,989 /year	$1,427 increase
54)	Developer Net Cost					
55)	potential revenue			$307,065	$242,087	$2,379,750 for 7.75 market units
56)	total delivery costs			($301,567)	($284,690)	($2,337,147) for 7.75 market units
57)	break-even loss / surplus			$5,497	($42,603)	$42,603 for 7.75 market units

Source: Bolan Smart Associates, Inc. (03/06)

Table 12 - Solve for No Economic Impact
12-Floor Residential Condominium Bldg, Density Bonus 8.75% Workforce
Montgomery County Workforce Housing Analysis - ($2006)

	policy related workforce housing variables				PER UNIT	
					Market	**Workforce**
1)	Project Type			average size	982 gsf	982 gsf
2)	one bed	50.00%	720 nsf		84.00%	84.00%
3)	two bed	50.00%	930 nsf		825 nsf	825 nsf
4)	average	100.00%	825 nsf		1 unit	1 unit
5)	parking			below grade	1.0 spaces	1.0 spaces
6)	Development Costs					
7)	land				$85.00 / gsf	$0.00 / gsf
8)					$83,482 / unit	$0 / unit
9)	hard construction				$180 / gsf	96.25% of mkt
10)					$176,786 / unit	$170,156 / unit
11)	parking			below grade	$30,000 / space	$30,000 / space
12)				total	$30,000 / unit	$30,000 / unit
13)	soft costs (a&e, financing, legal, sales, etc.)				20.00% of cost	80.00% of mkt
14)					$58,054 / unit	$46,443 / unit
15)	reserves / development fee				8.00% of cost	90.00% of mkt
16)					$27,866 / unit	$25,079 / unit
17)	impact fees				$8,000 / unit	$0 / unit
18)	other public benefit costs				$1,500 / unit	$1,500 / unit
19)	development profit / opportunity cost				18.00% of cost	9.00% of cost
20)					$64,408 / unit	$22,329 / unit
21)	total delivery costs per unit				$546 / nsf	$358 / nsf
22)					$450,095 / unit	$295,507 / unit
23)	Workforce Affordability					
24)	workforce households					
25)	1.50 persons / 1bed					
26)	3.00 persons / 2bed					
27)	2.25 persons / unit			AMI		
28)			70.0%	$51,571		$1,432 /month
29)	33.3% housing cost		95.0%	$69,989		$1,944 /month
30)			120.0%	$88,407		$2,456 /month
31)	Unit split	0.0%	70.0%	AMI		0.00 units
32)		16.4%	95.0%	AMI		0.16 units
33)		83.6%	120.0%	AMI		0.84 units
34)	blended workforce		115.9%	$85,385		$2,372 /month
35)						$28,459 /year
36)	Housing Expenses				$546 / nsf	$358 / nsf
37)	purchase price				$450,095 / unit	$295,507 / unit
38)	mortgage		95.00%	of total cost	$427,590 total	$280,732 total
39)	30 years @		6.50%	interest rate	$32,744 /year	$21,498 /year
40)	condominium fees				$3.50 /nsf	$3.50 /nsf
41)					$2,888 /year	$2,888 /year
42)	mortgage insurance		0.250%		$1,069 /year	$702 /year
43)	real estate taxes (2005)		100.00%	of cost	$546 /nsf	$358 /nsf
44)		state tax rate	0.132%		$0.72 /nsf	$0.47 /nsf
45)		county tax rate	0.734%		$4.00 /nsf	$2.63 /nsf
46)		special area	0.275%		$1.50 /nsf	$0.99 /nsf
47)		total	1.141%		$6.22 /nsf	$4.09 /nsf
48)					$5,136 /year	$3,372 /year
49)	total expenses				$11.02 /nsf	$8.44 /nsf
50)					$9,092 /year	$6,961 /year
51)	annual financing costs				$32,744 /year	$21,498 /year
52)	annual housing cost (financing and expenses)				$41,836 /year	$28,459 /year
53)	required annual income		33.33%	housing cost	$125,520 /year	$85,385 /year
54)	Developer Net Cost					
55)	potential revenue				$450,095	$295,507
56)	total delivery costs				($450,095)	($295,507)
57)	break-even loss / surplus				$0	$0

Source: Bolan Smart Associates, Inc. (03/06)

Table 13 - Prescribed AMI Limits, Market Rent Absorbed Cost
12-Floor Residential Condominium Bldg, Density Bonus 8.75% Workforce
Montgomery County Workforce Housing Analysis - ($2006)

policy related workforce housing variables

			PER UNIT		MARKET / WF RATIO
			Market	Workforce	12.5% MPDU Density
1)	Project Type	average size	982 gsf	982 gsf	8.750 market units
2)	one bed 50.00%	720 nsf	84.00%	84.00%	1.250 MPDUs
3)	two bed 50.00%	930 nsf	825 nsf	825 nsf	0.875 WF units
4)	average 100.00%	825 nsf	1 unit	1 unit	10.875 total units
5)	parking	below grade	1.0 spaces	1.0 spaces	10.000 market / WF units
6)	Development Costs				
7)	land		$85.00 / gsf	$0.00 / gsf	
8)			$83,482 / unit	$0 / unit	
9)	hard construction		$180 / gsf	96.25% of mkt	
10)			$176,786 / unit	$170,156 / unit	
11)	parking	below grade	$30,000 / space	$30,000 / space	
12)		total	$30,000 / unit	$30,000 / unit	
13)	soft costs (a&e, financing, legal, sales, etc.)		20.00% of cost	80.00% of mkt	
14)			$58,054 / unit	$46,443 / unit	
15)	reserves / development fee		8.00% of cost	90.00% of mkt	
16)			$27,866 / unit	$25,079 / unit	
17)	impact fees		$8,000 / unit	$0 / unit	
18)	other public benefit costs		$1,500 / unit	$1,500 / unit	
19)	development profit / opportunity cost		18.00% of cost	9.00% of cost	
20)			$64,408 / unit	$22,329 / unit	
21)	total delivery costs per unit		$546 / nsf	$358 / nsf	
22)			$450,095 / unit	$295,507 / unit	$450,095 mkt unit cost net WF
23)	Workforce Affordability				
24)	workforce households				
25)	1.50 persons / 1bed				
26)	3.00 persons / 2bed				
27)	2.25 persons / unit	AMI			
28)		70.0% $51,571		$1,432 /month	
29)	33.3% housing cost	95.0% $69,989		$1,944 /month	
30)		120.0% $88,407		$2,456 /month	
31)	Unit split 0.0%	70.0% AMI		0.00 units	
32)	100.0%	95.0% AMI		1.00 units	
33)	0.0%	120.0% AMI		0.00 units	
34)	blended workforce	95.0% $69,989		$1,944 /month	
35)				$23,327 /year	
36)	Housing Expenses		$553 / nsf	$286 / nsf	
37)	purchase price		$456,025 / unit	$236,208 / unit	$456,025 mkt unit cost with WF
38)	mortgage	95.00% of total cost	$433,224 total	$224,398 total	$5,930 increase
39)	30 years @	6.50% interest rate	$33,175 /year	$17,184 /year	
40)	condominium fees		$3.50 /nsf	$3.50 /nsf	
41)			$2,888 /year	$2,888 /year	
42)	mortgage insurance	0.250%	$1,083 /year	$561 /year	
43)	real estate taxes (2005)	100.00% of cost	$553 /nsf	$286 /nsf	
44)	state tax rate	0.132%	$0.73 /nsf	$0.38 /nsf	
45)	county tax rate	0.734%	$4.06 /nsf	$2.10 /nsf	
46)	special area	0.275%	$1.52 /nsf	$0.79 /nsf	
47)	total	1.141%	$6.31 /nsf	$3.27 /nsf	
48)			$5,203 /year	$2,695 /year	
49)	total expenses		$11.12 /nsf	$7.45 /nsf	
50)			$9,174 /year	$6,144 /year	
51)	annual financing costs		$33,175 /year	$17,184 /year	$125,520 req mkt income net WF
52)	annual housing cost (financing and expenses)		$42,349 /year	$23,327 /year	$127,060 req mkt income with WF
53)	required annual income	33.33% housing cost	$127,060 /year	$69,989 /year	$1,540 increase
54)	Developer Net Cost				
55)	potential revenue		$456,025	$236,208	$4,560,249 for 10.0 market units
56)	total delivery costs		($450,095)	($295,507)	($4,500,950) for 10.0 market units
57)	break-even loss / surplus		$5,930	($59,299)	$59,299 for 10.0 market units

Source: Bolan Smart Associates, Inc. (03/06)

Table 14 - Prescribed AMI Limits, Market Rent Absorbed Cost
12-Floor Residential Condominium Bldg, Density Bonus 22% MPDU + 8.75% Workforce
Montgomery County Workforce Housing Analysis - ($2006)

	policy related workforce housing variables				PER UNIT Market	PER UNIT Workforce	MARKET / WF RATIO 15.0% MPDU Density
1)	Project Type			average size	982 gsf	982 gsf	10.370 market units
2)	one bed	50.00%	720 nsf		84.00%	84.00%	1.830 MPDUs
3)	two bed	50.00%	930 nsf		825 nsf	825 nsf	0.875 WF units per base case
4)	average	100.00%	825 nsf		1 unit	1 unit	13.075 total units
5)	parking			below grade	1.0 spaces	1.0 spaces	11.850 market / WF units
6)	Development Costs						
7)	land				$85.00 / gsf	$0.00 / gsf	
8)					$83,482 / unit	$0 / unit	
9)	hard construction				$180 / gsf	96.25% of mkt	
10)					$176,786 / unit	$170,156 / unit	
11)	parking			below grade	$30,000 / space	$30,000 / space	
12)				total	$30,000 / unit	$30,000 / unit	
13)	soft costs (a&e, financing, legal, sales, etc.)				20.00% of cost	80.00% of mkt	
14)					$58,054 / unit	$46,443 / unit	
15)	reserves / development fee				8.00% of cost	90.00% of mkt	
16)					$27,866 / unit	$25,079 / unit	
17)	impact fees				$8,000 / unit	$0 / unit	
18)	other public benefit costs				$1,500 / unit	$1,500 / unit	
19)	development profit / opportunity cost				18.00% of cost	9.00% of cost	
20)					$64,408 / unit	$22,329 / unit	
21)	total delivery costs per unit				$546 / nsf	$358 / nsf	
22)					$450,095 / unit	$295,507 / unit	$450,095 mkt unit cost net WF
23)	Workforce Affordability						
24)	workforce households						
25)	1.50 persons / 1bed						
26)	3.00 persons / 2bed						
27)	2.25 persons / unit			AMI			
28)			70.0%	$51,571		$1,432 /month	
29)	33.3% housing cost		95.0%	$69,989		$1,944 /month	
30)			120.0%	$88,407		$2,456 /month	
31)	Unit split	0.0%	70.0% AMI			0.00 units	
32)		100.0%	95.0% AMI			1.00 units	
33)		0.0%	120.0% AMI			0.00 units	
34)	blended workforce		95.0%	$69,989		$1,944 /month	
35)						$23,327 /year	
36)	Housing Expenses				$552 / nsf	$286 / nsf	
37)	purchase price				$455,099 / unit	$236,208 / unit	$455,099 mkt unit cost with WF
38)	mortgage		95.00%	of total cost	$432,344 total	$224,398 total	$5,004 increase
39)	30	years @	6.50%	interest rate	$33,108 /year	$17,184 /year	
40)	condominium fees				$3.50 /nsf	$3.50 /nsf	
41)					$2,888 /year	$2,888 /year	
42)	mortgage insurance		0.250%		$1,081 /year	$561 /year	
43)	real estate taxes (2005)		100.00%	of cost	$552 /nsf	$286 /nsf	
44)		state tax rate	0.132%		$0.73 /nsf	$0.38 /nsf	
45)		county tax rate	0.734%		$4.05 /nsf	$2.10 /nsf	
46)		special area	0.275%		$1.52 /nsf	$0.79 /nsf	
47)		total	1.141%		$6.29 /nsf	$3.27 /nsf	
48)					$5,193 /year	$2,695 /year	
49)	total expenses				$11.10 /nsf	$7.45 /nsf	
50)					$9,161 /year	$6,144 /year	
51)	annual financing costs				$33,108 /year	$17,184 /year	$125,520 req mkt income net WF
52)	annual housing cost (financing and expenses)				$42,269 /year	$23,327 /year	$126,819 req mkt income with WF
53)	required annual income		33.33%	housing cost	$126,819 /year	$69,989 /year	$1,299 increase
54)	Developer Net Cost						
55)	potential revenue				$455,099	$236,208	$5,392,925 for 11.85 market units
56)	total delivery costs				($450,095)	($295,507)	($5,333,626) for 11.85 market units
57)	break-even loss / surplus				$5,004	($59,299)	$59,299 for 11.85 market units

Source: Bolan Smart Associates, Inc. (03/06)

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(REVISED MARCH 27) Table 14B - Prescribed AMI Limits, Market Rent Absorbed Cost
12-Floor Residential Condominium Bldg, Density Bonus 22% MPDU, No Workforce

Montgomery County Workforce Housing Analysis - ($2006)

	policy related workforce housing variables			PER UNIT		MARKET / WF RATIO
				Market	Workforce	15.0% MPDU Density
1)	Project Type		average size	982 gsf	982 gsf	9 495 market units
2)	one bed	50.00%	720 nsf	84 00%	84 00%	1.830 MPDUs
3)	two bed	50.00%	930 nsf	825 nsf	825 nsf	0.875 WF units per base case
4)	average	100 00%	825 nsf	1 unit	1 unit	12 200 total units
5)	parking		below grade	1.0 spaces	1.0 spaces	10 850 market / WF units
6)	Development Costs					
7)	land			$85.00 / gsf	$85.00 / gsf	
8)				$83,482 / unit	$83,482 / unit	
9)	hard construction			$180 / gsf	96.25% of mkt	
10)				$176,786 / unit	$170,156 / unit	
11)	parking		below grade	$30,000 / space	$30,000 / space	
12)			total	$30,000 / unit	$30,000 / unit	
13)	soft costs (a&e, financing, legal, sales, etc.)			20.00% of cost	97.50% of mkt	
14)				$58,054 / unit	$56,602 / unit	
15)	reserves / development fee			8.00% of cost	100.00% of mkt	
16)				$27,866 / unit	$27,866 / unit	
17)	impact fees			$8,000 / unit	$0 / unit	
18)	other public benefit costs			$1,500 / unit	$1,500 / unit	
19)	development profit / opportunity cost			18.00% of cost	18.00% of cost	
20)				$64,408 / unit	$61,513 / unit	
21)	total delivery costs per unit			$546 / nsf	$523 / nsf	
22)				$450,095 / unit	$431,120 / unit	$450,095 mkt unit cost net WF
23)	Workforce Affordability					
24)	workforce households					
25)	1.50 persons / 1bed					
26)	2.00 persons / 2bed					
27)	2 25 persons / unit		AMI			
28)		70.0%	$51,571		$1,432 /month	
29)	33.3% housing cost	95.0%	$69,989		$1,944 /month	
30)		120 0%	$88,407		$2,456 /month	
31)	Unit split 0.0%	70.0% AMI			0.00 units	
32)	100.0%	95.0% AMI			1.00 units	
33)	0.0%	120.0% AMI			0 00 units	
34)	blended workforce	95 0%	$69,989		$1,944 /month	
35)					$23,327 /year	
36)	Housing Expenses			$567 / nsf	$286 / nsf	
37)	purchase price			$468,059 / unit	$236,208 / unit	$468,059 mkt unit cost with WF
38)	mortgage	95.00% of total cost		$444,656 total	$224,398 total	$17,964 increase
39)	30 years @	6.50% interest rate		$34,051 /year	$17,184 /year	
40)	condominium fees			$3.50 /nsf	$3.50 /nsf	
41)				$2,888 /year	$2,888 /year	
42)	mortgage insurance	0.250%		$1,112 /year	$561 /year	
43)	real estate taxes (2005)	100.00% of cost		$567 /nsf	$286 /nsf	
44)	state tax rate	0 132%		$0.75 /nsf	$0 38 /nsf	
45)	county tax rate	0.734%		$4 16 /nsf	$2 10 /nsf	
46)	special area	0.275%		$1.56 /nsf	$0.79 /nsf	
47)	total	1.141%		$6 47 /nsf	$3.27 /nsf	
48)				$5,341 /year	$2,695 /year	
49)	total expenses			$11.32 /nsf	$7.45 /nsf	
50)				$9,340 /year	$6,144 /year	
51)	annual financing costs			$34,051 /year	$17,184 /year	$125,520 req mkt income net WF
52)	annual housing cost (financing and expenses)			$43,390 /year	$23,327 /year	$130,184 req mkt income with WF
53)	required annual income	33 33% housing cost		$130,184 /year	$69,989 /year	$4,664 increase
54)	Developer Net Cost					
55)	potential revenue			$468,059	$236,208	$5,078,442 for 10.85 market units
56)	total delivery costs			($450,095)	($431,120)	($4,883,531) for 10.85 market units
57)	break-even loss / surplus			$17,964	($194,911)	$194,911 for 10 85 market units

Source: Bolan Smart Associates, Inc. (03/06)

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Table 15 - Solve for No Economic Impact
12-Floor Residential Condominium Bldg, No Density Bonus
Montgomery County Workforce Housing Analysis - ($2006)

policy related workforce housing variables

#	Item			Market (PER UNIT)	Workforce (PER UNIT)
1)	Project Type		average size	982 gsf	982 gsf
2)	one bed	50.00%	720 nsf	84.00%	84.00%
3)	two bed	50.00%	930 nsf	825 nsf	825 nsf
4)	average	100.00%	825 nsf	1 unit	1 unit
5)	parking		below grade	1.0 spaces	1.0 spaces
6)	Development Costs				
7)	land			$85.00 / gsf	$85.00 / gsf
8)				$83,482 / unit	$83,482 / unit
9)	hard construction			$180 / gsf	96.25% of mkt
10)				$176,786 / unit	$170,156 / unit
11)	parking		below grade	$30,000 / space	$30,000 / space
12)			total	$30,000 / unit	$30,000 / unit
13)	soft costs (a&e, financing, legal, sales, etc.)			20.00% of cost	97.50% of mkt
14)				$58,054 / unit	$56,602 / unit
15)	reserves / development fee			8.00% of cost	100.00% of mkt
16)				$27,866 / unit	$27,866 / unit
17)	impact fees			$8,000 / unit	$0 / unit
18)	other public benefit costs			$1,500 / unit	$1,500 / unit
19)	development profit / opportunity cost			18.00% of cost	18.00% of cost
20)				$64,408 / unit	$61,513 / unit
21)	total delivery costs per unit			$546 / nsf	$523 / nsf
22)				$450,095 / unit	$431,120 / unit
23)	Workforce Affordability				
24)	workforce households				
25)	1.50 persons / 1bed				
26)	3.00 persons / 2bed				
27)	2.25 persons / unit		AMI		
28)		70.0%	$51,571		$1,432 /month
29)	33.3% housing cost	95.0%	$69,989		$1,944 /month
30)		120.0%	$88,407		$2,456 /month
31)	Unit split 0.0%	70.0%	AMI		0.00 units
32)	0.0%	95.0%	AMI		0.00 units
33)	100.0%	120.0%	AMI		1.00 units
34)	blended workforce	120.0%	$88,407		$2,456 /month
35)					$29,466 /year
36)	Housing Expenses			$546 / nsf	$366 / nsf
37)	purchase price	$546	/ nsf	$450,095 / unit	$302,176 / unit
38)	mortgage	95.00%	of total cost	$427,590 total	$287,067 total
39)	30 years @	6.50%	interest rate	$32,744 /year	$21,983 /year
40)	condominium fees			$3.50 /nsf	$3.50 /nsf
41)				$2,888 /year	$2,888 /year
42)	mortgage insurance	0.250%		$1,069 /year	$718 /year
43)	real estate taxes (2005)	100.00%	of cost	$546 /nsf	$366 /nsf
44)	state tax rate	0.132%		$0.72 /nsf	$0.48 /nsf
45)	county tax rate	0.734%		$4.00 /nsf	$2.69 /nsf
46)	special area	0.275%		$1.50 /nsf	$1.01 /nsf
47)	total	1.141%		$6.22 /nsf	$4.18 /nsf
48)				$5,136 /year	$3,448 /year
49)	total expenses			$11.02 /nsf	$8.55 /nsf
50)				$9,092 /year	$7,053 /year
51)	annual financing costs			$32,744 /year	$21,983 /year
52)	annual housing cost (financing and expenses)			$41,836 /year	$29,036 /year
53)	required annual income	33.33%	housing cost	$125,520 /year	$87,116 /year
54)	Developer Net Cost				
55)	potential revenue			$450,095	$302,176
56)	total delivery costs			($450,095)	($431,120)
57)	break-even loss / surplus			$0	($128,944) FAILS

Source: Bolan Smart Associates, Inc (03/06)

Table 16 - Prescribed AMI Limits, Market Rent Absorbed Cost
12-Floor Residential Condominium Bldg, No Density Bonus
Montgomery County Workforce Housing Analysis - ($2006)

	policy related workforce housing variables			PER UNIT		MARKET / WF RATIO
				Market	Workforce	12.5% MPDU Density
1)	Project Type		average size	982 gsf	982 gsf	7.955 market units
2)	one bed	50.00%	720 nsf	84.00%	84.00%	1.250 MPDUs
3)	two bed	50.00%	930 nsf	825 nsf	825 nsf	0.795 WF units
4)	average	100.00%	825 nsf	1 unit	1 unit	10.000 total units
5)	parking		below grade	1.0 spaces	1.0 spaces	10.000 market / WF units
6)	Development Costs					
7)	land			$85.00 / gsf	$85.00 / gsf	
8)				$83,482 / unit	$83,482 / unit	
9)	hard construction			$180 / gsf	96.25% of mkt	
10)				$176,786 / unit	$170,156 / unit	
11)	parking		below grade	$30,000 / space	$30,000 / space	
12)			total	$30,000 / unit	$30,000 / unit	
13)	soft costs (a&e, financing, legal, sales, etc.)			20.00% of cost	97.50% of mkt	
14)				$58,054 / unit	$56,602 / unit	
15)	reserves / development fee			8.00% of cost	100.00% of mkt	
16)				$27,866 / unit	$27,866 / unit	
17)	impact fees			$8,000 / unit	$0 / unit	
18)	other public benefit costs			$1,500 / unit	$1,500 / unit	
19)	development profit / opportunity cost			18.00% of cost	18.00% of cost	
20)				$64,408 / unit	$61,513 / unit	
21)	total delivery costs per unit			$546 / nsf	$523 / nsf	
22)				$450,095 / unit	$431,120 / unit	$450,095 mkt unit cost net WF
23)	Workforce Affordability					
24)	workforce households					
25)	1.50 persons / 1bed					
26)	3.00 persons / 2bed					
27)	2.25 persons / unit		AMI			
28)		70.0%	$51,571		$1,432 /month	
29)	33.3% housing cost	95.0%	$69,989		$1,944 /month	
30)		120.0%	$88,407		$2,456 /month	
31)	Unit split	0.0%	70.0% AMI		0.00 units	
32)		100.0%	95.0% AMI		1.00 units	
33)		0.0%	120.0% AMI		0.00 units	
34)	blended workforce	95.0%	$69,989		$1,944 /month	
35)					$23,327 /year	
36)	Housing Expenses			$569 / nsf	$286 / nsf	
37)	purchase price	$569 / nsf		$469,586 / unit	$236,208 / unit	$469,586 mkt unit cost with WF
38)	mortgage	95.00%	of total cost	$446,107 total	$224,398 total	$19,491 increase
39)	30 years @	6.50%	interest rate	$34,162 /year	$17,184 /year	
40)	condominium fees			$3.50 /nsf	$3.50 /nsf	
41)				$2,888 /year	$2,888 /year	
42)	mortgage insurance	0.250%		$1,115 /year	$561 /year	
43)	real estate taxes (2005)	100.00%	of cost	$569 /nsf	$286 /nsf	
44)	state tax rate	0.132%		$0.75 /nsf	$0.38 /nsf	
45)	county tax rate	0.734%		$4.18 /nsf	$2.10 /nsf	
46)	special area	0.275%		$1.57 /nsf	$0.79 /nsf	
47)	total	1.141%		$6.49 /nsf	$3.27 /nsf	
48)				$5,358 /year	$2,695 /year	
49)	total expenses			$11.35 /nsf	$7.45 /nsf	
50)				$9,361 /year	$6,144 /year	
51)	annual financing costs			$34,162 /year	$17,184 /year	$125,520 req mkt income net WF
52)	annual housing cost (financing and expenses)			$43,522 /year	$23,327 /year	$130,580 req mkt income with WF
53)	required annual income	33.33%	housing cost	$130,580 /year	$69,989 /year	$5,060 increase
54)	Developer Net Cost					
55)	potential revenue			$469,586	$236,208	$4,695,861 for 7.75 market units
56)	total delivery costs			($450,095)	($431,120)	($4,500,950) for 7.75 market units
57)	break-even loss / surplus			$19,491	($194,911)	$194,911 for 7.75 market units

Source: Bolan Smart Associates, Inc. (03/06)

LINOWES AND BLOCHER LLP
ATTORNEYS AT LAW

June 7, 2006

Robert H. Metz
301.961.5112
rmetz@linowes-law.com

Honorable Steven A. Silverman
Homorable Marilyn J. Praisner
Honorable Nancy M. Floreen
PHED Committee
100 Maryland Avenue
Rockville, Maryland 20850

Re: Workforce Housing

Dear Councilmembers:

The purpose of this letter is to share with you some of the market facts that were expressed in the Bethesda-Chevy Chase Chamber of Commerce Annual Real Estate Forum conducted last week. It only reinforces my opinion that without a subsidy of some sort, your proposal for workforce housing does not work, and it will most likely result in a reduction of new construction in this area so that there will be less market and MPDU units.

The nationwide condominium sales fell 43% in the first quarter of 2006, compared with the first quarter of 2005; 15-30% of all purchasers in the Washington Metro Area in the past year were made by investors; approximately 25,853 new condominiums are being marketed locally, but only about 1,996 new condominiums were sold from January through March 2006, down from 3,520 sold the same time last year; and there were approximately 5,500 condominiums and co-ops for resale in March in the Washington Metropolitan Area—up from just 1,400 which were listed in March 2005. I have also been advised that some mortgage lenders are dropping out of the condo market completely.

The Bolan Smart Report had used a 30-year mortgage rate at 6.5% which is a historically low mortgage rate. Virtually all competent economists are now projecting fair market mortgage rates to be in the 7.5%-8% range within the next year or so. I would suggest that additional models be rerun, if not already, using 7.5-8% mortgage rates which will reflect more realistic rates during the course of the workforce housing program.

We now have a buyer's market in that price reductions are on the rise, home inspections and home sale contingencies are back in buyer contracts, bidding wars are rare, sale prices are being negotiated, commissions are going up since sellers are trying to motivate buyers' agents to show and sell their homes. The listing for resale homes has dramatically increased. The number of homes for sale in Montgomery County in January, 2005 was 7,500, and in January, 2006, that number increased to 26,000. In addition, the average days those homes were on the market increased from 9 to 14 days in the 2004-2005 period to 60-180 days in 2006. Therefore, those who earn 80-120% of the area-wide median income now have more options of where to live—in a house with a yard rather than a high-rise building

The cost of construction is rising at an alarming rate, interest rates are rising and the market is slowing down. Those who will take the risk an apartment building or a condominium building cannot take on any further burdens in order to solve a County problem—not a building industry problem—without some additional incentives to do so.

I would caution you to make sure that whatever proposal you finally decide to approve, make sure that it works and it is fair to everyone concerned.

My best regards.

Very truly yours,

LINOWES AND BLOCHER LLP

Robert H. Metz

Holland+Knight

Tel 301 654 7800
Fax 301 656 3978

Holland & Knight LLP
3 Bethesda Metro Center. Suite 800
Bethesda. MD 20814-6337
www.hklaw.com

Patricia A. Harris
301 215 6613
patrica.harris@hklaw.com

June 8, 2006

Councilmember Steven Silverman
Montgomery County Council
100 Maryland Avenue
Rockville, Maryland 20850

Re Workforce Housing Legislation

Dear Mr. Silverman:

On behalf of a select number of developers and property owners (the "Working Group") who would be directly affected by the proposed Workforce Housing Legislation, we wanted to take this opportunity to share with the PHED Committee our comments and observations with respect to the Legislation. The Working Group shares the County Council's concern that there is a significant need for Workforce Housing in Montgomery County. It is our hope that through careful consideration the most appropriate and effective solution may be developed to meet this important need.

Having carefully evaluated both the fiscal and public policy implications of the Legislation, we have very significant concerns at this juncture with respect to both the financial assumptions on which much of the Legislation is based and the extent of the unresolved issues presented by the application of the Legislation. Given the significant need for Workforce Housing, we believe it is imperative that any Legislation that is ultimately adopted be carefully and thoroughly considered.

In this light, we have attached two relevant documents. The first enclosure is an outline identifying the potential unintended results of the Legislation which are inconsistent with recognized public policy. The outline also identifies those particular provisions of the Legislation which are of particular concern and provides recommended suggestions with respect to these provisions.

The second is a draft Workforce Housing pro forma formatted in a manner that allows a comparison of the impacts of the Legislation on a high rise metro area type of project, which clearly shows the significant burden that would be placed on a development as a result of the existing MPDU law and the pending Workforce Housing Legislation. Most importantly, the pro forma indicates that the Workforce Legislation, as now proposed would place such a burden on the profitability of this type of project that it is likely to render the project unfeasible. If the project is rendered unfeasible because of this program, then not only does the County not get the workforce housing, it also will not get the required MPDU housing units nor any market rate units. Since density and development in the metro station areas is one of the County's priorities, and the Workforce Housing legislation is limited to these areas, it would be counter productive to create a policy that discourages such development, instead of encouraging it.

In light of the serious concerns presented by the development community with respect to the Workforce Housing Legislation, we recommend the following for your consideration:

1. Provide the County's economic consultant Bolan Smart the opportunity to 1) review and comment on the enclosed draft pro forma and 2) revise the methodology of their analyses from a 'zero cost' format to something more representative of how a real development proforma is run and used to determine viability of a project for profit and financing purposes. This will provide an arms length analysis that appropriately reflects the way development is financed and managed, allowing the Council and other interested parties an opportunity to properly assess and evaluate the true impact of the legislation on a development project.

2. In conjunction with item 1, obtain direct input from the financial lending community regarding lending practices and how the Workforce Housing Legislation may directly impact their practice of lending to developers on projects subject to this Legislation.

3. Create a working group task force consisting of potential developers and impacted stakeholders, including property owners and developers, planning officials, and housing advocates, to: 1) carefully evaluate the issues and the potential impact of the Legislation, particularly as to the actual application of the Legislation to the various types of projects and the planning processes associated with it; 2) recommend potential modifications to the Legislation; and 3) identify potential alternatives and solutions to address the Workforce Housing shortage.

This issue is of very significant concern to the development community. We appreciate the opportunity to discuss these issues with you and consider viable alternatives.

Very truly yours,

HOLLAND & KNIGHT LLP

Patricia A. Harris

Enclosures

cc: Councilmember Nancy Floreen
Councilmember Marilyn Praisner
Mr. Ralph Wilson

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Workforce Housing
ZTA 05-16 and Bill No. 30-05
Policy Concerns

General Comments on Legislation

1. Recognize that lack of affordable housing is significant issue and agree with the goals of the legislation.

2. Concerned that burden for addressing affordable housing shortage falls disproportionally on one segment of the population.

3. Broad reaching issue which requires a comprehensive approach.

4. Concerned about imposing responsibility exclusively on residential developers.

   - Small segment of population – legislation would produce limited number of results
   - Issue is not developers' responsibility to remedy; more the responsibility of the general public – consider broader reaching solutions
   - At a minimum, tax all types of real estate, not just residential development.

5. If Burden Becomes Too Significant Renders Development Financially Infeasible.

   - Overall burden on properties – 22.5% of density devoted to below-market rate housing.
   - Risk that legislation will burden property to extent that development will not go forward; this would preclude opportunity for 12.5% MPDUs, which is currently required and also further restrict housing supply thus driving prices even higher
   - Only a year ago Council expanded MPDU law to alleviate fiscal burdens imposed – especially with respect to high-rise condominiums. Irrational that Council would now impose an even greater burden
   - Legislation is focused in highest density zones where land costs are highest, construction costs are highest, and entitlement risk is the highest. From a cost/benefit perspective, CBD zones are not the best place to physically locate workforce housing…subsidy dollars do not go as far.

6. Disconnect between housing needs and potential results of legislation.

- Most families qualifying for affordable housing do not want to live in a multi-family building in a CBD or metro station area.
- Townhouse and single family houses are desired/needed and with less expensive construction costs, the cost/benefit of locating workforce housing in these zones is a better solution.

7. Issues that have resulted from MPDU legislation will be replicated – not resolved

- Condominium fees
- Parking – many who can afford an MPDU cannot afford parking; yet developer required to construct at 50% rate

8. Precludes targeted population (80-120% of AMI) from benefiting from financial gains associated with housing purchased, given restrictions imposed on profits when units are sold.

<u>Specific Comments on Legislation</u>

1. Additional 10 percent density ("Additional Density") above what would otherwise be permitted to accommodate the workforce housing must be assured.

- If 10 percent Additional Density is not achievable for any reason, Workforce Housing requirement should be waived
- To many variables to rely on economic consultant's conclusions as to when Additional Density is needed to justify economics of a project
- Absent Additional Density, expectation is that property owners/developers are only entitled to 77.5% of potential profits, which has a significant impact on potential profits. This results in spreading significant fixed costs over a smaller number of profitable units, thus eliminating the opportunity for economies of scale. Absent guaranteed 10% additional density, the imposition of 10% workforce housing erases significant amount, if not all profit in any market rate deal
- Obtaining Additional Height necessary to make project viable is Problematic
  - Opponents will argue not compatible; counter to Sector Plan
  - Threatens needed land use approvals

2. Legislation should specifically provide that both the Zoning Ordinance and the Sector Plan recommendations with respect to height may be exceeded to accommodate the 10 percent Workforce Housing. Exceeding the Zoning

Ordinance Standards is necessary in those cases where the zoning envelope cannot accommodate additional ten percent of density.

3. Legislation and regulations must provide that Additional Density and additional height beyond any Sector Plan recommendation or Zoning Standard may not be used by the opposition in connection with a requisite land use approval as a basis for a claim of incompatibility.

4. Allowances should be provided for the required public use space to be located off-site to accommodate Workforce Housing. Off-site land area need not be owned or controlled by applicant.

5. Creation of an off-site public use space fund which would allow applicants to pay into a general public use space/amenity fund instead of providing on-site (or off-site per No. 4 above) public use space. These collective funds would be used to provide off-site amenities to benefit the entire community.

6. Regulations need to provide a mechanism for increasing sales price and rental rates commensurate with increases in the cost of construction.

7. Regulations should provide for adjustments or relief when provision of ten percent workforce units triggers a change in the construction method, thus resulting in an increase in construction costs.

8. Revise the grandfathering clause of the Legislation to include the <u>filing</u> of a Project Plan, Local Map Amendment, Site Plan, Development Plan or Preliminary Plan, since these approvals establish the development parameters for a property, and take many months to prepare. At the time the applications are filed, the scope, design and related economics of the project and its public facilities have been carefully balanced with the density to meet the requirements of the Zoning Ordinance.

9. Clarify that the Alternative Location Agreement or Payment into a Trust Fund is a viable option and the Planning Board need not require on-site Workforce Housing as a precondition to approving a plan.

10. Density provided to accommodate Workforce Housing should be exempt from APF review.

11. Workforce Housing, like MPDUs, should be exempt from Development Impact Tax and School Impact Tax.

Suggested Alternatives

1. Since land costs are a critical component in determining the viability of a work force program, consider imposing the requirement only on projects including County land.

2. Consider secondary financing programs or other types of alternative subsidy programs – (e.g., program to help underwrite closing costs, mortgage assistance programs).

3. To extent looking to development community to help resolve, allow for meaningful bonus density in order to provide real incentives, which will cover costs of providing affordable housing units and/or allow for significant contributions to potential off-site housing fund.

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WORKFORCE HOUSING PROFORMA - HIGH-RISE
COMPARISON OF MARKET VS MPDU & WFH COMPONENTS

6/8/2006

			No MPDU or WFH	MPDU 12.5%	MPDU 12.5% & 10% WFH	22% Bonus - MPDU 15.0%	22% Bonus - MPDU 15.0% & 10% WFH
Assumptions							
Market Units			200	175	175	207	207
MPDU			0	25	25	37	37
WFH Units			0	0	18	0	21
Units			200	200	218	244	265
Mix %	1BR		25%	25%	25%	25%	25%
	2BR		75%	75%	75%	75%	75%
Unit Size Net	1BR - Market		850	850	850	850	850
	2BR - Market		1,150	1,150	1,150	1,150	1,150
	1BR - MPDU		700	700	700	700	700
	2BR - MPDU		850	850	850	850	850
	1BR - WFH		700	700	700	700	700
	2BR - WFH		850	850	850	850	850
	Total SF Net		215,000	208,438	223,063	252,693	269,650
	Gross SF		255,952	248,140	265,551	300,824	321,012
Parking Space / Unit							
Market Spaces		1.20	240	210	210	249	248
MPDU Spaces		0.50	0	13	13	18	19
WF Spaces		0.50	0	0	9	0	11
Total # Parking Spaces			240	223	232	267	277
COSTS							
Land ($100K per base unit)		$100,000	20,000,000	20,000,000	20,000,000	20,000,000	20,000,000
Hard Costs							
Building (per gross sqft)		$230	58,869,048	57,072,173	61,076,637	69,189,613	73,832,738
Garage (per space)		$30,000	7,200,000	6,675,000	6,945,000	8,015,400	8,322,000
Soft Costs							
Market (16% of Hard Costs)		16.0%	10,571,048	9,205,589	9,178,823	10,899,093	10,847,533
WFH & MPDU (90% Mkt)		14.4%	0	894,563	1,534,175	1,308,338	2,067,503
Development Fee							
Market (4% of Hard Costs)		4.0%	2,642,762	2,301,397	2,294,706	2,724,773	2,711,883
WFH & MPDU (90% Mkt)		3.6%	0	223,641	383,544	327,085	516,876
Impact Fees & Public Benefit Costs							
Market		$9,500	1,900,000	1,662,500	1,662,500	1,970,300	1,966,500
MPDU		$0	0	0	0	0	0
WFH		$0	0	0	0	0	0
Construct Interest (Avg Loan Bal for 2.5 Yrs at 7.5%)			9,485,893	9,190,768	9,663,317	10,728,244	11,274,847
Total Cost Including Construction Financing			110,668,750	107,225,631	112,738,702	125,162,846	131,539,879
EVENUE							
ales per net sf							
Market			$650	$650	$650	$650	$650
MPDU @ 7% Interest			$0	$227	$227	$227	$227
WFH @ 100% AMI - 7% Interest			$0	$0	$239	$0	$239
Market			139,750,000	122,281,250	122,281,250	144,920,750	144,641,250
MPDU				4,610,938	4,610,938	6,750,413	6,824,188
WFH			0	0	3,495,375	0	4,077,938
			139,750,000	126,892,188	130,387,563	151,671,163	155,543,375
ess Selling Cost		7.5%	(10,481,250)	(9,516,914)	(9,779,067)	(11,375,337)	(11,665,753)
			129,268,750	117,375,273	120,608,495	140,295,825	143,877,622
otal Cost From Above			(110,668,750)	(107,225,631)	(112,738,702)	(125,162,846)	(131,539,879)
et Income			18,600,000	10,149,643	7,869,794	15,132,979	12,337,742
eld			**16.8%**	**9.5%**	**7.0%**	**12.1%**	**9.4%**

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BOLAN SMART ASSOCIATES, INC.
900 19TH STREET, NW, SUITE 600, WASHINGTON, DC 20006 • (202) 371-1333 • FAX (202) 371-1334

To: Montgomery County Department of Housing and Community Affairs
Planning, Housing and Economic Development Committee
From: Eric Smart, Bolan Smart Associates
Date: June 16, 2006

RE: Holland & Knight Submission
Workforce Housing Proforma
June 8, 2006

Bolan Smart Associates has been asked by DHCA in a request dated June 12, 2006 to review the subject proforma, and in light of this, advise if we would amend Bolan Smart's prior analyses of January and March 2006.

Submitted One Page Proforma WORKFORCE HOUSING PROFORMA – HIGH-RISE, COMPARISON OF MARKET VS MPDU 7 WFH COMPONENTS:

(a) With the exception of the treatment of land costs between the No MPDU or WFH scenario (column one) and MPDU 12.5% (column two, and thus all other scenarios) we understand the general identified methodology treatment of the inputs. Regarding land cost allocations, our question is why a base case land value should represent that 100% of the units would be developed at market if 12.5% MPDUs are a required minimum? Treating land costs in this manner, even if in an unachievable scenario of no MPDUs, has the effect of understating the market land costs if no MPDUs were actually mandated.

(b) Most critically, the submitted analysis suggests that the true base case, that including the already mandated 12.5% MPDUs (column two), may in fact not be feasible, realizing an indicated 9.5% yield, which is virtually the same as the indicated 9.4% yield computed for the 22% Bonus 15% MPDU & 10% WFH scenario (column 5). (see below for additional comment)

Bolan Smart's Methodology:

(a) As to revising our analyses from March 2006, we would consider that hard construction costs and financing costs have continued to increase at the same time as escalations in market rate condominium housing prices have slowed, suggesting that the relative economic cost of workforce housing may have increased to some extent since our earlier submission. We do not find, however, our methodology to be misrepresentative of conventional and required project economics. While somewhat different to a developer's standard development proforma, and as selected for purposes of presentation to the PHED, the Bolan Smart analyses remain consistent with the assumptions we were asked to consider, namely that the base case without workforce housing is already economically feasible (or neutral) including the minimum required 12.5% MPDUs.

(b) Moreover, as our own earlier analysis illustrated, we would concur with the submitted analysis, that without a maximum density bonus in high-rise construction, adding a required workforce housing component is not economically feasible, and even with a full density bonus, may still not be feasible.

SUMMARY OF WRITTEN TESTIMONY AT NOVEMBER 22 PUBLIC HEARING

Speaker/Organization	Support Concept?	Density Bonus?	Control Period	Other Comments
Elizabeth Davison, DHCA On behalf of the County Executive	Support	A economic/break even analysis should be completed. Avoid unintended consequence of diminished development at Metro stations. Stick built projects may not be able to take advantage of density bonus as it would require high-rise construction.	Need to define "control period". Agree with 10 year control for sale units. Reset Control period if the unit is sold during the original control period. Support equity recapture provision but requirement to sell during the control period to someone below 120% AMI could reduce equity to owner. Oppose 99 year control period for rental units – suggest 20 year period if rental properties are included in program. County may have to subsidize costs depending on resale provisions.	Over 80% of those calling after Lot 31 announcement ideally wanted single family units or townhouses. Guidelines on marketing, sales, and qualifications of buyers should be in law rather than regulation (like MPDU). Bill and ZTA are inconsistent as to whether all workforce units must be on site. Additional staff will be needed by DHCA to handle workload. Inconsistency in ZTA regarding PD Zone and dwelling units per acre. ZTA should clarify zones where workforce housing is not required (such as CBD 0.5 zone). ZTA is not clear where requirements are cumulative (35 units or more and in a zone with 40 units per acre and Metro policy area.)
Karl Moritz, Department of Park and Planning, representing Chair of the Planning Board	Support	Board is not convinced that added density is required. Concerned about exceeding density determined in master plans.	Noted that additional density remains even after control period expires in 10 years (sale units).	Majority of Board supports capping the income level at 100% of AMI (about $89,000)

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Speaker/Organization	Support Concept?	Density Bonus?	Control Period	Other Comments
Scott Minton, Executive Director, Housing Opportunities Commission	Support	Support a Density Bonus if necessary. Good planning emphasizes density at Metro.		Emphasized that middle class have problems finding housing but the average income of a voucher family is $14,000. Supports a program that does not require public funds and urges that if public funds are needed a new source of funding be found in order to not erode services to the most vulnerable. Allowing off-site units to be converted to workforce units to meet requirements could result in some units now affordable to those at 60% of AMI or below to be converted to affordable for those at 80%-120% of AMI.
Richard Pavlin, Executive Director, Treatment and Learning Centers (TLC).	Support		Control period should be longer than 10 years as MPDU period is 30 years. Suggested 15 year control period.	One-third of TLC employees live outside the County primarily due to the high cost of housing. Recently lost 3 therapists to Frederick County where they live and work as housing is more affordable. Workforce Housing must be in addition to MPDU's.
Patricia Harris, Holland and Knight		Density bonus may be false assumption as the building envelope may not accommodate additional density. Sector Plan may not allow additional height or density. Bill should allow height beyond Sector plan or Zoning limitation.		Sale and rental prices will need to be adjusted frequently to keep pace with rising construction costs. Grandfathering should be approved based on the time a project files for development parameters (could be local map amendment and development plan or project plan or preliminary plan depending on project) – do not use Preliminary Plan approval.

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Speaker/Organization	Support Concept?	Density Bonus?	Control Period	Other Comments
Bonnie Cullison, President, Montgomery County Education Association	Support			Council must do more to ensure affordable housing is available to county residents. This issue affects students, a growing number who are homeless or in substand housing and MCEA members who find it difficult to afford housing in the area. This is an education issue. Housing policies must not contribute to overcrowding in our schools. As of 2002, about 30% of Montgomery County teachers did not live in the county.
Jody Kline, Individual				Need to have flexibility in the PD zone. Provided specific amendments to the ZTA regarding Green area, reducing the percent from 30 to 20 and allowing Planning Board to permit some or all the green space to be satisfied off-site.
Jim Humphrey, Montgomery County Civic Federation	Opposed. MCCF believes there are other options for influencing the creation of housing for middle class families earning up to 120% of AMI Alternatives provided in testimony		Control Period for sale units should be 30 years (consistent with MPDU). Control period should be reset if sold within the original control period.	Most delegates viewed this proposal as a "master plan buster" as it grants density beyond the master plan and does not consider adequacy of infrastructure. If approved, should be applied to projects of 20 units or larger. Number of bedrooms should be same ratio as market rate units. Delete alternative site provision. No buy-outs should be considered. No exemptions. Units must be provided in a timely manner or building permits of developer should be suspended. Units should not be exempt from development impact taxes.

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Speaker/Organization	Support Concept?	Density Bonus?	Control Period	Other Comments
Edgar "Tap" Taplan, Action In Montgomery (AIM)	Support			AIM's vision is to add 1,000 affordable and workforce housing units per year. The lack of suitable public land for these units argues for support of these kinds of programs.
Stephen Elmendorf, Linowes and Blocher, representing AvalonBay Communities		Need flexibility if stick-built development is going to be able to benefit from a density bonus.	99 year control period is too long for rental units.	Rental property should be exempted from this requirement. Require that an exempted rental property participate in the program if it is converted into condominiums. Unintended consequence could be a reduction in the building of rental properties which provide much of the affordable housing. Wood frame construction should also be able to provide units off site. Council should not deliberate on this legislation without full fiscal impact and draft of the regulations.
John Clarke, Maryland National Capital Building Association	Oppose Consider other options such as an overlay zone (options provided in testimony).	Buildings cannot build to currently allowed density. Added density would be difficult to achieve.	99 year control period for rental property is a disincentive to building rental units.	Bill will set precedent and over time may be expanded to other residential zones where it will be more challenging to use density. Broad range for income will lead to implementation problems regarding rent and sale prices.
Susan Haskins, President, Greater Capital Area Association of Realtors	Support			Building workforce housing near Metro will relieve traffic congestion. Need to foster a wide range of housing choices at all price levels to suit a diverse population.

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Speaker/Organization	Support Concept?	Density Bonus?	Control Period	Other Comments
Nelson Leenhouts, Co-chairman for Home Properties – a REIT		Increases should be 10% for density, FAR, and height.		Program should cover incomes of above 65% AMI for family of 4 or above 70% for high-rise buildings. Establish 3 rental brackets based on income and then have maximum rent be 25% of the family's income. Parking in high-rise buildings should not be included in rent but offered as a separate fee. Smaller apartments (but same mix of bedrooms) should be allowed.
Melphi Jeffries, League of Women Voters	Support	Support increased density that is consistent with Smart Growth.	Agree with 99 year control period for rental housing. Question 10 year control for sale units as it seems to be too short	Strongly support that any alternative must provide at least the same number of units in the same planning area.
Gino Renne, President, MCGEO UFCW Local 1994	Support			Large number of MCGEO members live out of county , moving as far away as Pennsylvania and West Virginia. Legislation could ease the way to homeownership in Montgomery County. Must continue to focus on other programs as well: MPDUs, low rate loan and closing cost assistance, and wages that allow people to live where they work.

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OTHER WRITTEN TESTIMONY

Speaker/Organization	Support Concept?	Density Bonus?	Control Period	Other Comments
Courtenay Ellis				Reform existing MPDU program. If MPDU program were properly implemented, would there be a need for this program? How will you decide on a preferred class? Retired persons incomes are below some of the preferred classes being discussed. Why should they pay for this? It is better to build affordable housing near Metro than taking school property.
Alec Stone, Chair, MidCounty Citizen's Advisory Board	Support			Review effect on Wheaton as it is the only Urban District where optional method development is not allowed. Consider other options for providing affordable housing. Create a task force to address workforce housing in Montgomery County.
Steven Robins, Lerch, Early, and Brewer, representing White Flint Crossing				Revise grandfathering provision to include "or, in the case of a property for which a local map amendment is required, a development plan was approved by the Council before (bill/ZTA effective date)" to ensure that project that have been underway for years are not penalized, having to pay significant expenses, economic loss, and experience significant time delay.

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WRITTEN TESTIMONY

BILL NO. 30-05, WORKFORCE HOUSING PROGRAM AND ZONING TEXT AMENDMENT TXT 05-16

November 22, 2005

Good evening. For the record, my name is Elizabeth Davison, Director, Department of Housing and Community Affairs. I am speaking tonight on behalf of Montgomery County Executive Douglas Duncan. Thank you for the opportunity to comment on this bill and text amendment.

In general, the County Executive and DHCA support the policy concepts contained in the bill and text amendment. We do think that there are several issues that need more work, especially to clarify the policies and ensure implementation. When the announcement was made about the proposed Lot 31 redevelopment in downtown Bethesda, our telephones began ringing immediately with calls from people interested in the workforce housing, and we have continued to receive calls. Many of the inquiries are from employees of municipal governments, just as we anticipated. DHCA conducted a survey of over 100 of the individuals who inquired. While this survey was not statistically significant, it does provide an indication of who the target workforce housing program participants would be. Our results found that almost 75 percent of the respondents had commutes of over one hour to their jobs and over half expressed an interest in living at a location near a Metro station. Over eighty percent of respondents ideally wanted to live in workforce housing units that are single family homes or townhouses. This last finding is of concern in that there seems to be a mismatch between unit types likely generated by this bill and those of most interest to workforce housing buyers.

We are concerned about the inherent assumption in this legislation that builders will be able to provide workforce units with a "break even" financial outcome, on top of the MPDU requirement to which they are already subject. The cost of construction is increasing dramatically, as recently evidenced in estimates we received for the Wheaton Metro project being planned by the Housing Opportunities Commission and Bozzuto. New estimates of the cost to build the project increased approximately $8 million over the original estimates of one year ago. The dual requirement of MPDUs and workforce housing has not been tested. There needs to be a thorough analysis of the costs of the program. We need to be sure that we avoid unintended consequences that would diminish the amount of new development in the Metro station areas where our current policies indicate is the best location, given the existing infrastructure.

The Workforce Housing Bill does not include provisions related to the sales and marketing of the units. Under the MPDU law, which the Workforce Housing Bill is based on, there are requirements for how units are marketed and sold that provide guidelines for the process by having DHCA certify that prospective buyers are eligible for the program. Absent these guidelines, there is no definition of how buyers are identified or qualified. This may be the intent of Section 25B-24(c)(2) that states: "The regulations must govern notice to the Department of sales and rentals, foreclosures, and other relevant procedural matters" but this is not clear from the current draft of the Bill. There should be consideration of who the target buyers will be for workforce housing, such as those who hold specific types of jobs within the County, or who already hold jobs in Montgomery County. Also, there needs to be analysis of how pricing would be set for a band of incomes rather than a specific income, such as exists in the MPDU program.

We believe that the control period for for-sale workforce housing program outlined in the bill is appropriate at 10 years, and that an additional provision needs to be added that would reset the control period if the unit is sold within the original control period. In addition, we support the concept of an equity recapture provision during the control period. While buyers of workforce housing units experience difficulty in affording units in the County, they do have additional options available to them such as buying less expensive housing located outside of Montgomery County. The recapture provision will make the workforce housing option more equitable when measured against housing prices in the outer suburbs.

We are concerned, however, that the need to sell the unit during the control period to an individual with a household income that does not exceed 120 percent of the median income may cause the workforce housing unit to be sold for less than the maximum allowable resale price, and would not allow the equity recapture as envisioned. In this situation, to avoid a penalty to the seller, it may be necessary for the County to subsidize either the seller or the buyer. This policy decision needs to be made during the consideration of the legislation.

We do not support the 99 year control period for workforce rental housing units. We recommend a 20 year period instead. There is some question as to whether it is advisable to include rental units at all, and it may be worthwhile to study this issue in greater depth. We question whether rental buildings will survive for 99 years, and are also concerned that rental units in Metro station policy areas will be competing against units that do not have a workforce housing requirement. Rentals are different than for-sale products because the sales prices can be raised on the market units to offset the cost of providing the workforce housing units, but rents cannot be sustained at higher levels. Also, stick built rental projects are not able to take advantage of any density or height bonuses because higher density would change their construction to include steel and concrete. There is concern that developers of rental projects will not remain in the Montgomery County market, causing a lack of rental units.

With regard to the definitions section of the proposed bill, we are concerned that these definitions do not include all terms that need to be defined for the Workforce Housing Program. For example, the bill as drafted, does not define "control period," a term critical to the meaning and understanding of the Workforce Housing Program, nor does it define Planning Board.

There is inconsistency between the bill and the text amendment in that the text amendment specifies in the Requirements section that all workforce housing units must be on site. In the bill, however, there is a provision for an alternative location agreement that allows the units to be located on another site within the same policy area. This inconsistency needs to be resolved.

DHCA is especially mindful of the fiscal impacts of this bill and has submitted a separate fiscal impact analysis memo. The conclusion of this analysis is that the need to process the applications for interested buyers in the workforce housing program will likely double the workload of our already heavily worked MPDU staff. In addition, depending upon how the resale prices are set, there may be a substantial fiscal impact if the County is required to subsidize such sales.

The Executive Branch has several comments on the text amendment. First, it appears inconsistent to have the requirement for providing Workforce Housing units in the Planned Unit Development (PD) Zones be based on the **project** having a residential density at or above 40 dwelling units per acre, when the general requirements for workforce housing base the requirement on being located in a zone that has a maximum permitted density of 40 dwelling units or more. It is also inconsistent to state in the Requirements section of the text amendment that "the Planning Board **must** permit any residential density or residential FAR of the applicable zone to be exceeded" when in the PD zone standards language it says that the maximum density "may" be increased.

Second, it should be clarified whether workforce units are required in zones that may have residential density calculated in FAR rather than dwelling units per acre, including the TSR and TSM zones. Also, the CBD 0.5 zone requires permits a maximum density under the standard method of less than 40 dwelling units per acre, and it should be made clear that this zone would not require workforce housing as the text amendment is drafted. Generally, it may be clearer to simply specify the zones in which the workforce housing is required and not use the standard of any zone that allows a maximum permitted density over 40 dwelling units per acre.

Also, under the requirement section of the text amendment, there may need to be clarification that workforce units are not required for all developments with 35 units or more, but only for those that have 35 units or more, *and* are in zones that have a maximum permitted residential density at or above 40 dwelling units per acre *and* are located in a Metro Station Policy Area. In other words, it is not clear in the text amendment as drafted that the requirements are cumulative.

Thank you again for the opportunity to review and address this bill and text amendment. Executive branch staff will be available to participate in the work session.

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Testimony of the Montgomery County Planning Board on Zoning Ordinance Text Amendment No. 05-16 (Workforce Housing) and Council Bill 30-15 (Workforce Housing)

I am Karl Moritz, of the Montgomery County Department of Park and Planning, representing Derick Berlage, Chairman of the Montgomery County Planning Board. I'm pleased to be here tonight to present the Board's views on the proposed workforce housing legislation.

The Planning Board held a preliminary discussion of the proposed workforce housing program on November 17 and expresses its unanimous and strong support for County actions to increase the supply of housing affordable to Montgomery County's workforce. The Board congratulates Councilmember Silverman for his leadership on this issue and believes the proposed Workforce Housing Program will make a positive contribution to the lives of the Montgomery County workers who ensure our economic vitality and quality of life.

We are all aware that market forces have driven home prices well out of reach of many of our citizens. In the first half of 2005 alone, home prices increased 16 percent while real income growth has been averaging less than 3 percent. During the first half of 2005, the median price of a new detached home was over $750,000 and the median price of a new townhouse was over $475,000. Housing affordability has been steadily worsening since 1999 to the point that for many workforce households, there are very few single-family housing choices and an increasing number of condominiums are beyond their means.

The Planning Board reviewed the Workforce Housing program concept as proposed in ZTA 05-16 and Bill 30-15, particularly discussing at length two specific aspects of the proposed program: the income limit that would qualify as workforce housing, and the proposal that workforce housing be an added component of density. Because of the Board's great interest in this issue, the Board requested that staff prepare and circulate for Board comment a transmittal letter containing the Board's specific recommendations. That letter will be transmitted to the Council well before the PHED Committee's first worksession in December.

Although the exact language will be coming to you shortly, I am able to give you a general sense of the Board's concerns. The Planning Board is concerned about the proposal to define workforce housing as serving households earning 120 percent of the area median income, or about $107,000. A majority of the Board expressed support for capping workforce housing eligibility at 100 percent of the area median income, or about $89,000.

Although the Board is not questioning that households earning more than the area median have limited housing choices, the Board believes the supply problem is much more acute for the income range beginning where eligibility for the MPDU program ends up to the area median income.

A majority of the Planning Board also expressed serious reservations about an approach that relies on an added component of density. The Board notes that zoning in master plans is set at what is determined at the time to be the maximum that is appropriate for the area. Going above that maximum is a major issue, and the Board was not convinced that the added density is necessary to make the program work. The Board observed that, in the case of condominiums, the additional density will remain for the life of the building, while the price controls on the workforce units will expire in 10 years.

Let me conclude by emphasizing the Board's strong support for the workforce housing program proposed in ZTA 05-16 and Bill 30-15. The Planning Board will provide its detailed set of comments to you shortly. The Board's recommendations will be accompanied by the detailed staff analysis that we hope will be useful to you in your deliberations.

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TESTIMONY ON BILL 30-05 AND ZTA 05-16
November 22, 2005

Scott Minton, Executive Director
Housing Opportunities Commission

Good evening Mr. President and members of the County Council. My name is Scott Minton and I am the Executive Director of the Housing Opportunities Commission. I appreciate the opportunity to talk with you this evening about Bill 30-05 and Text Amendment 05-16, which together create a workforce housing program.

We have three comments, all supportive of the proposed program, and one concern.

First, it is a dramatic demonstration of the seriousness of the county's affordable housing crisis that the council is considering the creation of a workforce housing program. Think about it. This program is concerned with housing availability for families earning in excess of $100,000. Now we all know that $100,000 isn't what it used to be. But it's still a substantial family income. And it dwarfs the $14,000 that the average housing voucher family earns. We certainly acknowledge that middle income families in Montgomery have trouble finding affordable homes. Imagine then what faces the county's low income families.

The second point relates to the implementation of a workforce housing program without eroding resources devoted to our most vulnerable families. HOC is pleased that the proposed program doesn't rely on the use of public funds. Homes and services for low income families are expensive. If, in its deliberations, the council modifies the program so that public monies are committed to workforce housing, our plea would be that the council find new funding rather than stretching existing resources even further.

The potential loss of housing affordable to our lower income families is our area of concern. Section 25B-26 describes the options for alternative locations for the workforce housing units. Subsections b(2) and b(3) permit the rehabilitation and/or return of market rate or workforce housing units as the way to satisfy the 10% requirement. When you couple that provision with the definition of a workforce housing project that includes the full range of housing affordable to families earning up to 120% of Area Median Income (AMI), we think there could be a problem. Our concern is that some of those "market" or "workforce housing" units could be converted from being affordable to families at or below 60% of Area Median Income to being affordable to families in the 80-120% range.

Finally, we support the provision that permits a development to exceed a zone's density to the extent necessary to include the 10% workforce housing component. In this one element, the legislation supports two of the county's longstanding and fundamental policies.

One of those policies is that the county will locate its most concentrated development in Metro station areas. It is good planning. Dense development there maximizes the use of transit and the return on the considerable public investment in Metro. It also protects areas where we want low density, such as the Agricultural Reserve. The other significant policy is that we will make available housing for all incomes and all life stages throughout the county.

Development at Metro stations has proved to be highly attractive and, accordingly, very expensive. If we are committed to an economically integrated community, we must permit the density and also have the regulatory framework that accomplishes it. The market, left to its own devises, will not.

Thank you.

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Testimony to Montgomery County Council
Workforce Housing Program
Bill 30-05
November 22, 2005

Introduction

I am Richard Pavlin, Executive Director of **TLC-The Treatment & Learning Centers,** located at the Life Science Center Campus in Rockville. TLC is a 55 year-old non-profit service provider serving 2,000 children and adults annually with five distinct services. One of TLC's services supporting adults needing vocational rehabilitation receives funds from the County Department of Health and Human Services. Another one of TLC's services, The Katherine Thomas School, receives funds for students placed by Montgomery County Public Schools.

Discussion

TLC employs 188 individuals, one third of whom live outside Montgomery County, primarily due to the high cost of housing. Here are a few examples of where these TLC employees live:

The Director of Information Technology who earns nearly $70,000 lives in Westminster, Maryland.

The Payroll administrator who earns a little over $40,000 lives in Hagerstown, Maryland.

The Outpatient Coordinator who earns over $50,000 lives in Mt Airy, Maryland.

In the last year, TLC has lost 3 therapists to Frederick County – therapists who we in the non-profit sector refer to as the endangered species of therapists – occupational and speech therapists – who are in short supply throughout our region. All three moved to Frederick County to live and work there due to more affordable housing. They are a permanent loss to TLC – and Montgomery County.

Members of TLC's Board of Trustees who work for for-profit companies report the same problem. Two examples are -

Rockville Fuel & Feed, a major provider of concrete to the building industry in the County, says that 50% of its' concrete truck drivers live outside the County.

Magruder Companies, a well-respected residential developer in the County, may have as much as 75% of their construction crews residing outside the County.

Conclusion

With TLC and other employers at greater risk of losing their workforce, the Council's vote for affordable housing is critical to the welfare of County businesses. With the increased cost of gas, we are less able to attract and retain employees if they can't live in the County they work in. And that means we can't deliver the services we provide or the products we sell.

Two important considerations in mandating work force housing are -

1) The 10% workforce housing requirement should not be a substitute for the MPDU requirement already in place. The workforce housing requirement must be in addition to the MPDU requirement.
2) A longer period than 10 years for price controls on work force housing should be set. Given that MPDUS have 30 year price controls, fifteen years would appear to offer the County a longer term to maintain the housing as workforce units.

You understand the relationship between housing and jobs – I and other employers in the County urge you to vote in favor of this legislation for work force housing. We are depending on you to keep our employees here.

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#6

Montgomery County Council
Public Hearing on Workforce Housing Legislation

November 22, 2005

Testimony of
Bonnie Cullison, MCEA President

Good evening Council President Perez and members of the County Council. Thank you for this opportunity to speak before you tonight on the very critical issue of affordable housing in Montgomery County.

MCEA, and the more than 11,000 professional educators who belong to the union, have two primary interests in this issue.

First, we strongly believe that our county must do more to ensure that sufficient affordable housing is available to county residents.

- Every year our members see the growing number of students who come from families that are either homeless or are in substandard or overcrowded living conditions. These students face much more difficult obstacles to success in school when they lack such basics as a quiet room in which to do homework at night. Let there be no misunderstanding – affordable housing is an education issue.

- We also see the growing housing shortage affecting our own members. The Montgomery County Public Schools continue to hire close to 1,000 new teachers a year. The majority of those new hires come from outside the county, and they increasingly find it difficult to secure affordable housing in Montgomery County. As a result, an increasing number of teachers are forced to live outside the county. This means longer commutes, less time for our students, and less connection to our community.

Second, we believe that the County's housing policies must not contribute to the serious overcrowding problems in our schools.

- The Council is to be applauded for the massive investment it is making in school construction. You have stepped up to the plate at the very time that our state government's commitment to school construction is tenuous at best and under-funded. Yet even after completion of the six year, $1 billion dollar construction program, our school system will still need an estimated 200 portable classrooms.

- Clearly there are many factors which contribute to the overcrowding problem. New housing development is just one - and it may not be not the most significant. But there is no denying that it does have an impact on school overcrowding, and that it may be one of the few factors over which we have some control.

We urge you to keep these two goals in mind. The first is that you craft the bill that will provide for the greatest increase in affordable housing units. And second, that you craft public policies that do not contribute to further overcrowding of our schools.

Workforce Housing

We are pleased to see the attention being given by the Council to the issue of workforce housing. Although part of the broader issue of affordable housing, this is an area of particular concern to MCEA and its members. We can serve our students best when our time can be focused on developing solid instructional programs and in communication with students and parents. The time for these critical activities is drastically reduced when there are long commutes.

This is a problem not only for new hires, but for current employees as well. We know from our data that a larger and larger proportion of county teachers can no longer afford to live in Montgomery County. As of 2002, approximately 30% of Montgomery county teachers did not live in the county. We are expecting updated numbers soon. Based on everything we know, we anticipate the situation to have grown worse.

I know that this is also true of our principal and supporting services colleagues. I expect the same is true of county firefighters, police officers and county government employees.

Montgomery County is at serious risk if growing numbers of public employees who work here can no longer afford to live here. Therefore, we support the Council's efforts to ensure that new development includes units set aside for workforce housing.

We are not experts in this field, and therefore cannot testify to the merits of specific provisions in the proposal before you. We will leave the details to you and your staffs. But we wish to wholeheartedly endorse the effort to increase workforce housing.

However we also want to emphasize that no single bill will solve the problem. We are hopeful that the bill before you will make at least some initial small steps to increase the stock of affordable housing for county and school system employees. But we urge you not to believe that the problem is solved by taking this first step.

We strongly encourage you to continue to pursue strategies for increasing workforce housing. If we are truly to ensure that teachers and other county employees can work <u>and</u> live in Montgomery County, then we must continue to seek additional means of achieving that goal.

Thank you for all your efforts in support of the educators hard at work in our schools.

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Workforce Housing ZTA 05-16, Bill 30-05
Testimony of Patricia Harris, Holland & Knight
November 22, 2005

Good Evening. I am Patricia Harris with Holland & Knight here this evening on behalf of several property owners and developers of properties with an interest in the proposed workforce housing legislation.

While the goal is laudable, we have significant concerns with the legislation. My testimony this evening will focus on three areas: 1) utilization of the "extra" 10 percent of density to accommodate the workforce housing; 2) additional financial burdens imposed by the legislation; and 3) the grandfathering clause or effective date provision of the legislation.

A fundamental premise of the legislation is that a development will be able to accommodate the additional 10 percent density allowed by the legislation to provide for the workforce housing. However, this assumption is not necessarily true. It is often the case that the building envelope simply can not accommodate the density allowed by zoning, much less an extra 10 percent for workforce housing. There are a variety of reasons for this, including artificial height limits imposed by a Sector Plan, that restrict the project from achieving the maximum heights allowed by zoning. Another reason is the expectations of surrounding neighbors who do not want to see heights or densities any higher than what is provided in a relevant Sector Plan. Absent relief from the height limitations, in many cases the requirement for 10 percent workforce housing, translates into a corresponding 10 percent reduction in the amount of market housing.

In order to make the 10 percent additional density provision meaningful, there needs to also be a corresponding allowable increase in height. The Workforce Housing legislation needs to go beyond what the MPDU law allows and permit an increase in height beyond either a Sector Plan recommendation or a Zoning limitation, in order to accommodate the 10 percent workforce housing. The legislation also needs to provide somehow that the additional height should be deemed compatible and may not be used by surrounding neighbors as a basis for a claim of incompatibility in their opposition of the needed land use approval.

The second concern relates to the additional financial burdens placed on a project required to provide the workforce housing. Assuming that a project can physically accommodate the additional 10 percent of housing, allowances must be made if this extra 10 percent forces the developer to change construction methods which increases construction costs and makes it difficult to break even. Similarly, any regulations implementing the workforce legislation must ensure that the sale price or rents are adjusted frequently to keep pace with rapidly rising construction costs.

The third concern is the legislation's effective date. Property owners and developers are often working on a project for one or two years BEFORE it even gets filed. From the time of filing to the time of Preliminary Plan approval, depending on the requisite process, can involve another year or more. To require a project that has been three years in the making to go back and be redesigned if the legislation is adopted prior to Preliminary Plan approval is simply unjust. For this reason we would recommend that the grandfathering be at the time a project files for whatever land use approval is necessary to establish the development parameters -- in some cases a local map amendment and development plan, in others a project plan or a preliminary plan.

Two other provisions we recommend for your consideration are the use of the housing trust fund as an acceptable option in order to provide affordable housing in other locations where a dollar buys more and, quite frankly, where many would prefer to live. The second recommendation is to allow for the transfer of densities to or from other sites in order to recapture any lost density that can not be accommodated on a given site.

The proposed legislation is complex and we urge your thorough review of it. It is important to keep in mind that imposing too great a burden on a site -- and a total of 22.5 percent MPDUs and workforce housing is significant, will only result in projects becoming economically infeasible and not going forward at all – resulting in a loss of needed MPDUs as well.

Thank you for the opportunity to express our views and I would be happy to answer any questions.

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Zoning Text Amendment No.: 05-16
Concerning: Workforce Housing
Draft No. & Date: 7 – 10/4/05
Introduced: October 11, 2005
Public Hearing:
Adopted:
Effective:
Ordinance No.:

COUNTY COUNCIL FOR MONTGOMERY COUNTY, MARYLAND SITTING AS THE DISTRICT COUNCIL FOR THAT PORTION OF THE MARYLAND-WASHINGTON REGIONAL DISTRICT WITHIN MONTGOMERY COUNTY, MARYLAND

By: Councilmember Silverman

AN AMENDMENT to the Montgomery County Zoning Ordinance for the purpose of:

- defining the term "workforce housing unit";
- requiring any residential development at or above a certain density, located in a metro station policy area, to include a certain percentage of workforce housing units; and
- generally providing standards for the development of workforce housing units.

By amending the following section of the Montgomery County Zoning Ordinance, Chapter 59 of the Montgomery County Code:

Division 59-A02 "DEFINITIONS AND INTERPRETATION"

* * * *

DIVISION 59-C-7	"PLANNED UNIT DEVELOPMENT ZONES"
Section 59-C-7.14	"Density of residential development:
Section 59-C-7.16	**"Green Area"**
DIVISION 59-C-8	"TRANSIT DEVELOPMENT AREA ZONES"
Section 59-C-8.4	"Development standards"

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* * *

59-C-7.14 **Density of residential development.**

* * *

(c) The density of development is based on the area shown for residential use on the master plan and must not exceed the density permitted by the density category granted. However, the maximum density [prescribed by Subsection] allowed under subsection (a) may be increased to accommodate the construction of Moderately Priced Dwelling units and Workforce Housing Units as follows:

(1) For projects with a residential density of less that 28 dwelling units per acre, the number of Moderately Priced Dwelling Units must not be less than either the number of density bonus units or 12.5 percent of the total number of dwelling units, whichever, is greater.

(2) For projects with a residential density of more than 28 dwelling units per acre, the number of Moderately Priced Dwelling Units must be at least 12.5 percent of the total number of dwelling units in accordance with Chapter 25A. Any project with a residential density at or above 40 dwelling units per acre must provide workforce housing units as required by Section 59-A-6.17 and Chapter 25B.

59-C-7.16. **Green Area.**

Green area must be provided in amounts not less than indicated by the following schedule:

Density Category	**Green Area (Percent of Gross Area**
* * *	
Urban High	
PD-60	~~30~~ **20'[1]**
PD-68	~~30~~ **20'**
PD-75	~~30~~ **20'**
PD-88	~~30~~ **20'**
PD-100	~~30~~ **20'**

Footnote 1: **At the time of site plan review the Planning Board may reduce the maximum percentage of green space, or may permit some or all of the green space to be satisfied off-site.**

Sec. 7. DIVISION 59-C-8 is amended as follows:

DIVISION 59-C-8. TRANSIT STATION DEVELOPMENT AREA ZONES.

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THE LEAGUE OF WOMEN VOTERS
of Montgomery County, MD, Inc.

TESTIMONY BEFORE THE MONTGOMERY COUNTY COUNCIL: BILL# 30-05, WORFORCE HOUSING AND ZTA# 05-16, WORKFORCE HOUSING

November 22, 2005

Good evening. I am Melpi Jeffries, speaking for Nancy Soreng, President of the League of Women Voters of Montgomery County, MD (LWVMC). Housing issues have been a focus of LWVMC research, study, discussion, and consensus leading to position statements since the early sixties. In June, 2005, LWVMC studied, discussed and developed positions on several current housing issues, including that of workforce housing. LWVMC's comments on Bill # 30-05 and ZTA# 05-16 are based on following new positions:

LWVMC supports measures that will increase the supply of workforce housing, defined as serving individuals and families whose incomes exceed the Moderately Priced Dwelling Unit Law (MPDU) maximum but are up to 120% of the median income, including:

1) a combination of incentives, employer assisted housing and mandatory requirements
2) increased density consistent with smart growth.

Workforce housing affordable to people earning from the MPDU maximum to 120% of the median income is preferable to housing affordable to people earning between 80% to 120% of the median income, as those immediately above the maximum MPDU limit often are county employees or skilled and semi-skilled workers essential to the county.

We strongly support the provision which states that any alternative location must provide at least the same number of units in the same planning area. We applaud the 99 year control period for rental housing which will preserve affordable rental housing. In the light of recent revisions of the MPDU law, which increased the control period of for sale MPDUs to 30 years, we question the control period of 10 years of for sale workforce housing. Such a short control period will lead to the same loss of workforce housing that occurred to MPDUs.

Finally we support the provisions of ZTA# 05-16 which will provide workforce housing in metro station areas. We agree that it is critical that residents of all incomes be provided with the opportunity to reside in Smart Growth zones. Transportation will be facilitated by the provision of housing near employment.

Thank you for your consideration.

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League of Women Voters of Montgomery County, Maryland, Inc., 12216 Parklawn Dr., Suite 101, Rockville, MD 20852

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MONTGOMERY COUNTY CIVIC FEDERATION

November 22, 2005

TESTIMONY BEFORE COUNTY COUNCIL ON BILL 30-05 AND ZTA 05-16, TO CREATE A WORKFORCE HOUSING PROGRAM

My name is Jim Humphrey and I am testifying as a volunteer representative of the Montgomery County Civic Federation. At the outset, I must report that MCCF delegates voiced substantial opposition to this proposal and determined that there are other more appropriate methods by which county government could influence the creation of housing for middle income households earning up to 20% more than Area Median Income. (Those methods are listed in the "Other Options" section near the end of this written testimony.) Most delegates also see this legislation to be a "master plan buster," because it grants density beyond master plan recommendation *by right* and fails to consider the adequacy of the infrastructure in the affected areas to accommodate this added density. That having been said, a majority of the delegates at the November 14 MCCF assembly voted to endorse the following changes should a Workforce Housing Program be created.

Language on page 4 of the bill states that regulations should "be similar to or at least consistent with the regulations that govern the MPDU program." In that spirit, we suggest that any Workforce Housing Program be applied to residential projects of 20 units or larger in size (bill recommends 35 or larger), sale units should remain under Program control for 30 years (bill recommends 10 years) with such period restarting if units are sold within the control period, and the breakdown of WH units by number of bedrooms should be in the same ratio as market rate units--all provisions similar to MPDU Program ones. Also similar to the MPDU Program, we suggest that failure to provide in a timely fashion all required WH units in a project should result not only in suspension of building permits or withholding of occupancy permits for that project but similarly affect any permits issued to the parent development company for all other projects of theirs in the county.

Again, while questioning the appropriateness of creating such a program, the MCCF delegates voted overwhelmingly to urge the following changes be made, if Workforce Housing legislation is approved. We urge the Council to delete the alternative location provision and insist all required WH units be provided on site; and, we urge that no other form of alternative agreement, such as a buyout, be considered. We firmly believe that WH units should NOT be exempt from payment of development impact taxes, since we do not think it is fair that income and property taxes paid by those most in need--low-income households and seniors on fixed income--should go toward meeting infrastructure

(continued on other side)

costs associated with housing for those earning Area Median Income or higher. We also urge that any voluntary provision of WH units be specifically disallowed, either above the required 10% in affected projects or at all in projects of such a size as to not require their provision.

MCCF delegates are also concerned that the proposed Workforce Housing Program, if created, would be administered by the Department of Housing and Community Affairs. As we have repeatedly asserted, MCCF believes that current DHCA leadership and staff have shown themselves to be inadequate to the task of administering the MPDU Program laws they are charged with enforcing. We urge the Council, therefore, to require that DHCA provide the Council with monthly, or at least quarterly, status reports that include details of all WH Agreements entered into with developers, if such program is created.

Other Options

Finally, we offer the following three initiatives for Council consideration, which we think would be as effective as the proposed Program, or more so, in meeting the need for housing that is affordable to the middle and upper-middle income level households targeted for assistance in this legislation. We urge the reinstatement of the ceiling element in the growth policy so that the rate of new job approvals can be reduced in relation to housing approvals, thus increasing the supply of housing in relation to the demand. Next, although MCCF does not endorse the concept of using publicly owned land for housing, as we consider these properties to be part of the investment portfolio we should leave to future generations, we believe the county should insist on 100% affordable housing (perhaps a mix of 25% MPDUs and 75% WH units) if such deals are transacted. Finally, we urge the Council and the Executive to consider creating a county employer-assisted housing, similar to that in place in the City of Alexandria, Virginia. Existing rental housing could be purchased by the county, perhaps units targeted for condo conversion, then rented to our fire fighters, police and teachers at an affordable rate.

The MCCF Planning and Land Use Committee will submit to the PHED Committee a list of other minor suggested changes to the language of the bill and ZTA, for consideration during their worksessions on this legislation. Thank you.

#14

AIM Testimony at Nov. 22nd Council Hearing on Workforce Housing Bill

Good evening, my name is Tap Taplin; I am a resident of Potomac and a parishioner of Our Lady of Mercy Catholic Church. For the last two years I have been a member of Action in Montgomery and currently honored to serve as one of the Co- Chairs of AIM's Housing Team.

Action in Montgomery is a broad, non-partisan coalition of 32 religious congregations in Montgomery County. Our member congregations represent a variety of faiths, and the 40,000 members of these churches and synagogues come from diverse, economic, social and racial backgrounds, from every district in the County.

Over the past few years AIM has sponsored campaigns that have resulted in significant improvement in the lives of Montgomery County residents, particularly the less affluent and elderly. AIM successfully worked with you to win dedication of $16 million a year to the Housing Initiative Fund and for reform of the taxi system to promote an increase of cabs serving consumers. Currently AIM is campaigning to establish an immigration office in Montgomery County to more effectively service the needs of 45% of the state's immigrant population that reside here.

The identification of an agenda for AIM campaigns originates with small house meetings held in member congregations to identify the most pressing needs of our congregants and to build a consensus on action. No issue resonates more than the acute crisis in the shortage of affordable homes in this County. The projected increase in conversion of rental units in the County over the next few years will only exacerbate what is already an issue of monumental proportion. AIM leaders and AIM clergy view addressing this problem as a civic and moral obligation.

AIM's vision is to add 1,000 affordable and workforce housing units in the County over four years. Montgomery County, home of one of the nation's more innovative and copied Moderately Priced Dwelling Unit laws has provided less than a thousand units in the past 5 years. On October 13th, last year, the County Executive and some members of this Council pledged to 1,047 AIM leaders to support that vision, work with AIM and hold themselves accountable to meet that goal. At our recent Action on November 2nd of this year, over 400 AIM members heard the County Executive report on our progress and recommit to achieving this goal.

In the past year alone AIM has supported the Council in it's successful reform of the Moderately Price Dwelling Unit legislation, urged review and simplification of the Accessory Apartment approval process, and promoted the accelerated release of Request for Development Proposals on sites identified by the County Executive's Office as being desirable for development of affordable housing. With the considerable help of the Department of Housing and Community Affairs, and the staff of the County Executive's Office, AIM has focused its efforts on the identification of surplus public land for residential development. The Department initially provided us with a list of over 2,500

County owned sites. After subjecting the list to reasonable parameters, such as suitable acreage, absence of right of way restrictions, etc. we were able to narrow this list to 67. After eliminating sites with safety zone restrictions, storm water management requirements, and sites potentially not surplus to Montgomery County School Board, we were left with about 17. AIM members then personally surveyed the balance to determine each site's suitability for residential development, considering such factors as physical site characteristics, existing structures, neighboring and surrounding uses, access and available utilities. We finally concluded, along with the Department, that none of the sites initially provided were feasible candidates for affordable or workforce residential development. The lack of suitable public land in the County emphasizes the challenge of meeting AIM's vision from any single resource, and argues emphatically for support of legislation like that introduced by Councilmember Silverman. The Council must act to spur the creation of rental and sale workforce housing units, and amend zoning laws to address this critical shortage.

We hope the Council will adopt this bill.

Thank you

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LINOWES AND BLOCHER LLP
ATTORNEYS AT LAW

November 22, 2005

Stephen P. Elmendorf
301.961.5110
selmendorf@linowes-law.com

The Honorable Thomas Perez
President
Montgomery County Council
100 Maryland Avenue
Rockville, Maryland 20850

Re: Workforce Housing - ZTA 05-16 and Bill 30-05: Public Hearing

Dear Council President Perez:

This law firm represents AvalonBay Communities, Inc., the developer and owner of several multi-family rental communities in Montgomery County. On behalf of our client, we are requesting that the County Council amend the above-referenced legislation to exclude its applicability to rental housing. We make this request because we believe that, without such changes, the unintended effect of this legislation will be to discourage the development of rental multi-family communities, which provide the County with much of its most affordable housing stock.

Unlike new for-sale, multi-family developments, new rental developments cannot raise rents on the market units to absorb the lost rental income on the workforce housing units, particularly where those units' rental levels are set for incomes at or below 100% of the median income. This is because the market rents for these new rental developments are largely controlled by the rent levels of the existing rental communities, that would not be subject to this 10% workforce housing obligation. The same is not generally the case for new, for-sale developments whose chief competition is other new, for-sale developments, both of which would be subject to this legislation. The interesting unintended result of this legislation is that it could result in less affordable housing rather than more, since it could push multi-family development towards for-sale rather than rental product, where although the County gets the 10% workforce housing units, the for-sale price on the market rate units become increasingly unaffordable.

Further, with the addition of the workforce housing units to the current MPDU requirement, just under a quarter of the rental units for a typical apartment community would be subject to rent control for essentially the life of the project. For a Productivity Housing

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rental community, the percentage of rent control units would be even higher with 35% Productivity Housing Units and 10% of the market rate units as workforce housing. Rent control, at such significant percentages of the total number of units, also discourages the development of rental housing.

Finally, the recommended control period of 99 years is extremely onerous when compared to the recommended control period for for-sale workforce housing units. The control period actually outlasts the life of most apartment communities.

The proposed legislation is a particular concern with rental developments that are wood-frame. Although wood-frame developments provide the County with more affordable housing stock than high-rise, wood-frame developments are unlikely to be able to take advantage of the legislation's provisions for exceeding a zone's density limits to accommodate the workforce housing units, because to do so would require additional building height that cannot generally be realized with wood-frame construction. In addition, unlike the recent changes to the MPDU Program, this legislation does not currently recommend softening any of the other development standards (green space, building coverage, etc.) that might make it possible for wood-frame rental developments to be able to at least partially absorb some of the negative fiscal impact of the controlled rents on the workforce housing units. As currently drafted, the legislation also does not give wood-frame product the option of locating the workforce housing units elsewhere in the same policy area like it does for high-rise.

We understand that there may be a concern that exempting new rental developments from this legislation would encourage the approval of these developments as rental with the subsequent conversion of these units to for-sale units, as a means of avoiding a requirement for workforce housing for for-sale developments. That concern can be effectively addressed by providing in the legislation that, while rental developments are not subject to this workforce housing requirement, the conversion of those units to for-sale units would subject the development to the workforce housing requirement as a condition of the conversion. That solution would also serve to address another of the County's current concerns, the rapid loss of rental housing to condominium conversion.

With the regulations for this new program still to be written and with the wide range of income levels (and thus rent/sale levels) that will be part of this program, it is difficult to evaluate the full fiscal impact of this new legislation. It certainly would be helpful if this legislation were considered along with a draft of the regulations, or at least a draft of the proposed rent/sale levels. It would seem that if the Council wants an accurate picture of the fiscal impact of this legislation, the Council would want this information as part of its deliberations on this legislation.

This legislation also raises another question. Is the MPDU calculation, which is based on total units, now to include the workforce housing units? I do not think that is the intention, but the legislation needs to make it clear that a developer does not have to provide MPDUs based on the extra workforce housing units.

In summary, rental apartments are already a valuable part of this County's affordable housing stock. Existing apartment rents, even for Class A luxury apartments, are generally significantly more affordable that a monthly mortgage at today's for-sale housing prices. The County Council should think long and hard about any legislative initiatives that would have the unintended consequences of discouraging the development of more rental housing in this County. For the reasons stated above, we are concerned that the current workforce housing legislation will do just that. To avoid that consequence, we suggest the following:

1. Exempt rental developments from the workforce housing program; and

2. Require that exempted rental developments participate in the program if and when those developments are converted to condominiums.

In addition, the legislation should be amended to include the same types of development standard provisions that were included in the recent MPDU legislation. The Council should also only consider this legislation along with the proposed rent/for sale levels that will be part of its regulatory framework.

Thank you for your anticipated consideration of the matters raised in this testimony. Please include a copy of this letter in the public hearing record for both the proposed ZTA and the proposed legislation.

Very truly yours,

LINOWES AND BLOCHER LLP

Stephen P. Elmendorf

Stephen P. Elmendorf

SPE:rlb

L&B 535398v1/03317.0021

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Bill No 30-05
Workforce Housing
MNCBIA
November 22, 2005

President Perez and members of the Montgomery County Council, thank you for the opportunity to speak before you this evening. I am John Clarke, representing the Maryland National Capital Building Industry Association.

Workforce housing is an issue that our industry has been concerned with for some time. There indeed is a shortage of housing for our County's residents, not just for residents in the 80-120% of median income range. As a community we need to find ways to create housing to meet this housing shortage. However, we do not feel that this Bill is the best way to achieve this goal for the following reasons:

1.) <u>Inability to achieve allowable density</u>. Few properties currently achieve the density allowed by zoning, because of a series of requirements ranging from environmental preservation to storm water management to onsite forest conservation, just to name a few. Despite Montgomery County's commitment to Smart Growth in metro transit areas, there appears to be increasing opposition to higher density in-fill projects. Requesting even more housing in these areas will likely increase opposition, making approval of projects more challenging, regardless of how much demand exists. We have enough challenges building to the currently allowed density. Implementation of this Bill will make the approval process even harder.

2.) <u>Precedent.</u> It is not inconceivable, and it is in fact probable, that over time the applicable zones of this legislation will be expanded to other residential zones in the County. This would be a problem because it is typically even more challenging to achieve allowable density in the lower density single family zones due to reduced site planning flexibility.

3.) <u>Income Range</u>. There is a broad range between 80 and 120% of median income. The lack of a specific level on the income limits will lead to implementation problems with regard to sale prices and rent levels.

4.) <u>Control Period</u>. The control period for rental units of 99 years is a strong disincentive to providing rental housing, currently the most affordable housing product type. This proposal may have the unintended consequence of encouraging the building of condominiums instead of rental housing, typically a more affordable alternative.

For these reasons, we oppose Bill 30-05.

As our testimony stated, we are very concerned about the lack of housing that is affordable across many spectrums, including workforce housing.

We think that there are other alternatives. **Provide the private sector the incentives to create workforce housing, rather than imposing mandatory requirements.** One alternative, which Park and Planning has discussed, is to create an optional overlay zone that could be used in older commercial centers or in commercial/office zones to create viable mixed-use neighborhoods. For additional consideration, we are providing the attached list which suggests several broad ways in which housing opportunities could be increased, hopefully resulting in increased workforce housing.

Provide the private sector the reasons and the incentives to participate in workforce housing-it will result in the workforce housing you desire. Thank you.

Workforce Housing
Alternative Initiatives
MNCBIA
November 22, 2005

1.) Evaluate the Productivity Housing Program
   - Determine why it has not worked and make changes to the program
   - Eliminate the special exception requirement for productivity housing
   - Broaden the program to include more zones

2.) Emphasize the creation of mixed use communities by creating "Workforce Housing" optional method
   - encourage housing in office zones by trading office FAR for residential component (major employers could create housing on site)
   - encourage housing at government facilities (i.e. NIH, DOE) by allowing a residential component within these projects

3.) Create a workforce housing overlay zone that provides incentives to provide workforce housing
   - provide incentives to create workforce housing near Metro stations
   - provide incentives to redevelop aging commercial and retail properties
   - provide incentive to create mixed-use communities where only single used (retail, office) exist today.

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GCAAR

GREATER CAPITAL AREA ASSOCIATION OF REALTORS®

TESTIMONY OF *THE GREATER CAPITAL AREA ASSOCIATION OF REALTORS®* BEFORE THE MONTGOMERY COUNTY COUNCIL REGARDING *"BILL 30-05, HOUSING – WORKFORCE HOUSING PROGRAM AND ZONING TEXT AMENDMENT 05-16, WORKFORCE HOUSING"*

November 22, 2005

Council President Perez and members of the council, my name is Susann Haskins and I am the 2005 President of the Greater Capital Area Association of REALTORS® (GCAAR) – the voice of Montgomery County and the District of Columbia's nearly 11,000 REALTORS®, property managers, title attorneys and other real estate professionals. On behalf of GCAAR, I would like to express our support for Bill 30-05 and ZTA 05-16.

As we all know there is a growing crisis in housing affordability and ownership that is affecting Montgomery County. The number of working families unable to find decent and affordable housing has increased sharply over the past several years. And the stock of housing that is affordable and available has rapidly declined. Home sales prices in many market areas, particularly the DC Metropolitan area, have risen far faster than the U.S. average, resulting in an exacerbated affordability crisis.

GCAAR has always been on record supporting the MPDU program and we also supported many of the changes to the program in 2004. However, as REALTORS®, we clearly understand and see the need for a housing program that caters to families whose income is near the median but whose incomes are above the qualifications for the MPDU program. Workforce housing may be a relatively new concept but it is one that works. It helps to improve and enhance housing opportunity that will bring homeownership and decent rental housing within reach for many of these families.

Planning for the classification and use of land must adequately consider the needs of housing, agricultural, commercial and industrial growth, as well as quality of life and a healthy local economy. Land use planning should also take into account the impact of planning on housing affordability. Therefore, we agree that given our land constraints in Montgomery County, building workforce housing around Metro Station Policy Areas will help relieve traffic congestion. And by building in these Smart Growth areas you are giving families the opportunity to live closer to work and have the ability to travel to work without using their car.

As REALTORS®, one of our guiding principles is to provide housing opportunity and choice. Homeownership is the cornerstone of the American dream and deserves a preferred place in our system of values as it contributes to community responsibility; civic, economic, business and employment stability; family security and well being. These objectives can be met through market-driven housing approaches that foster a wide-range of urban, suburban and rural housing choices at all price levels to suit a diverse population. And this is why we strongly support a Workforce Housing Program for Montgomery County.

Thank you for your consideration of GCAAR's perspective.

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B 30-05

Hauer { MF / CC }

To: The Montgomery County Council (Fax 240 777 7989) PLEASE DISTRIBUTE TO ALL COUNCIL MEMBERS

From: Mr. Courtenay Ellis

November 11, 2005

COMMENTS ON BILL No. 30-05 Workforce Housing Program
Council Hearing 7.30 p.m. November 11, 2005

1. In the midst of the Clarksburg débâcle, the Council would be well advised to get its development house in order before it sets up a new development program.

2. You already have an affordable housing program (MPDUs) that in the public perception, like Clarksburg, has not been properly applied. Before adopting a new "workforce housing program" you should reform the existing MPDU program so that it works and then re-examine whether other programs are needed.

3. The broader-based MPDU program should avoid the problems of discrimination inherent in any workforce housing program that just benefits a select few.

4. You should examine whether, if the MPDU program is properly implemented, there is a need for workforce housing directed only to certain workers. Note, for example, that MCPS hired more than 800 new teachers beginning this fall. They all signed on with out being offered subsidized workforce housing. News articles on this topic have revealed that many workers in the preferred classes are not interested in the program.

5. If there is a need, query whether the answer is a discriminatory subsidy. They tried this in Harold Wilson's socialist Britain. Underpaid smart young people who were discriminated against left the country in the "brain drain" and paid millions in taxes elsewhere. Better to pay deserving workers a fair wage, and let the market economy work.

6. You already know the elements of discrimination inherent in this plan:

- The average retired person's income in Montgomery County is reportedly well below the income level qualifying the preferred classes for subsidized workforce housing. Why should retired people who paid their way for years be taxed to benefit people making more than they do, especially when many retired taxpayers are having difficulty meeting the burden of ever-increasing real estate taxes? Is this a Robin Hood plan, or an Oliver Twist plan?
- How do you decide fairly on the preferred classes? Why not trash collectors, private nurse making less than public nurses, dental hygienists, community college professors (if them, why not university professors), and so on ad infinitum?
- What do you say to those excluded who earn less than those included, and then claim discrimination?

7. On the plus side, it is certainly better to place affordable housing near Metro stops instead of taking school property for housing development - a course which engenders vehement political opposition from taxpayers who moved to Montgomery County for the schools.

Thank you.

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ZTA 05-16
D BILL 30-05

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MID-COUNTY CITIZENS ADVISORY BOARD

018724

November 22, 2005

Honorable Thomas Perez, President
Montgomery County Council
100 Maryland Avenue
6th Floor
Rockville, Maryland 20850

Re: ZTA 05-16 and Impact on Wheaton Urban District

Dear Mr. Perez:

On behalf of the Montgomery County Citizen's Advisory Board (MCCAB), we share this letter in response to the Workforce Housing Legislation Zoning Text Amendment No. 05-16. MCCAB strongly supports the concept of workforce housing. However, we advise that the Council review the current proposal's impact on downtown Wheaton, the only Urban District in which the optional method of development is not allowed in a significant part of the downtown. We are concerned that Wheaton would be at a disadvantage to the other Districts in Montgomery County. We hope that the Council will consider closing this loophole during the legislative process.

Thank you for your consideration of this very important matter.

Sincerely,

Alec Stone

Alec Stone, Chair
MidCounty Citizen's Advisory Board

2424 Reedie Drive
Wheaton, Maryland 20902-4669
240/777-8100
240/777-8112 TDD
240/777-8110 FAX
240/777-8111

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D BILL 30-05

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MID-COUNTY CITIZENS ADVISORY BOARD

018725

November 22, 2005

Honorable Thomas Perez, President
Montgomery County Council
100 Maryland Avenue, 6th Floor
Rockville, Maryland 20850

Re: ZTA 05-16

Dear Mr. Perez:

On behalf of the Montgomery County Citizen's Advisory Board (MCCAB), the Legislative Committee provided comments in response to the Workforce Housing Legislation Zoning Text Amendment No. 05-16. The MCCAB Legislative Committee strongly supports the concept of workforce housing. However, in its review of ZTA 05-16, the Legislative Committee advises that the Council review the following comments during the legislative process.

First, consider the legal Implications of a "workforce housing unit," a term defined as a unit that is subject to rent limits or sales controls under Chapter 25B; and of "special regulations for optional method development using transferable development rights."

Second, evaluate additional housing solutions for Montgomery County. The Legislative Committee recognizes that this legislation is designed for areas around Metro centers and thinks that the 10% minimum units designed for workforce may be a good start. However, the Committee suggests that the Council address the Metro center developments' impact on the total workforce housing needs of the County. It is further suggested that the Council discuss other options being considered to address workforce housing shortages, if any, in Montgomery County. As a historical and policy matter, determine the pros and cons of developments for the construction of workforce housing, in addition to a 10% set-aside around Metro centers.

Finally, the legislative committee advised the creation of a task force to address workforce housing in Montgomery County.

Thank you for your consideration of this very important matter.

Sincerely,

Alec Stone

Alec Stone, Chair
Mid-County Citizen's Advisory Board

2424 Reedie Drive
Wheaton, Maryland 20902-4669
240/777-8100
240/777-8112 TDD
240/777-8110 FAX
240/777-8111

LERCH EARLY & BREWER CHARTERED

SUITE 460 | 3 BETHESDA METRO CENTER | BETHESDA, MD 20814-5367 | TEL 301.986.1300 | FAX 301.986.0332 | WWW.LERCHEARLY.COM

ATTORNEYS

STEVEN A. ROBINS
DIRECT 301.657.0747
SAROBINS@LERCHEARLY.COM

December 2, 2005

BY TELECOPIER

The Honorable Thomas Perez, President
and Members of the Montgomery County Council
Stella B. Warner Council Office Building
100 Maryland Avenue
Rockville, Maryland 20850

Re: Workforce Housing Bill 30-05 and ZTA 05-16

Dear Mr. Perez and Members of the Council:

Our firm represents White Flint Crossing LLC (WFC), the owner, developer and Applicant of the White Flint Crossing development (and an affiliate of the JBG Companies). This development will be located on a 5.9 acre parcel along Rockville Pike that presently houses the Park Inn hotel along the Pike and the surface parking lot to the rear, off of Woodglen Drive. The purpose of this letter is to provide comments and to request a certain change to the proposed Workforce Housing Bill 30-05 (the Bill) and Zoning Text Amendment 05-16 (the ZTA). In particular, we would like to address one specific component of the legislation - <u>the grandfathering provision</u>. Both the Bill and ZTA state that the requirement to construct workforce housing does not apply to any preliminary subdivision plan approved by the Planning Board before the effective date of either the Bill or ZTA. This provision adversely impacts WFC for two principal reasons:

- Implementation of the legislation as proposed would require WFC to extensively re-structure the development proposal (project density, traffic counts, unit mix, parking, *etc.*) that is far along in the land use approval processes. As explained in detail below, this would force WFC to literally scrap plans in which hundreds of thousand of dollars have been invested over numerous years and even more costly, time-consuming development applications would have to be revised and resubmitted, unquestionably delaying the construction and opening of

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the project by many months or perhaps years. Such delays could force WFC to default on commitments contained in an executed, enforceable lease agreement (an agreement entered into long before the introduction of this legislation).

- The proposed legislation would add significant costs to the development. The economic foundation of the project is the 235,000 gross square foot retail center for which the developer has been offering space over the last year or so based upon cost estimates that could not possibly have included the cost of adding workforce housing to the development. Moreover, earlier this year, WFC executed a long term, fixed rate lease agreement with Whole Foods Market based upon thoroughly considered cost data that again did not include a workforce housing requirement.

The grandfather provision, if enacted as proposed, would severely prejudice WFC and create undesirable and unintended consequences that need to be corrected, particularly with a legislative effort that WFC generally supports (with certain qualifications) and believes has the potential to be so positive. We hope the Council shares our belief that in order for the public and private sectors to work cooperatively to solve critical problems like affordable housing, new programs to address those problems must be implemented in a manner that allows the program requirements to be included in business plans at their inception – not months or even years after acquisition, financing and lease commitments have been completed, as is the case at White Flint Crossing. Even the most well intentioned legislation like the Bill and ZTA, if enacted, must be implemented in a manner that is equitable and promotes fairness. To do otherwise would significantly detract from the positive aspects of this legislative effort.

To illustrate how deep our concern is regarding the prejudicial effect of the grandfathering provision, one only needs to look to the procedural history for this matter and how far the WFC project is in the development approval process. On October 24, 2004, WFC submitted an application to amend the zoning map from C-2 to the TS-M zoning classification. The Planning Board conducted its hearing and recommend approval on May 13, 2005. The Hearing Examiner heard the case on May 17, 2005 and recommended approval on July 21, 2005. On September 20, 2005, the Council approved Local Map Amendment G-830 by a vote of 9-0. The Council also approved the Development Plan for the WFC project that included approximately 235,000 gross square feet of retail, approximately 435 apartment units (including 66 MPDUs all to be located on-site), extensive public use and amenity space and other significant public benefits. The Development Plan, that already has been certified by the Hearing Examiner (as required by the Zoning Ordinance), also contains a detailed development standards table and certain binding elements. The Council recognized the many positive benefits that this rezoning would bring to the County and the White Flint area and specifically found that the application was in the public interest. The rezoning would serve to further the goal of providing transit oriented development in a location that is in close proximity to the White Flint Metro station and would serve to redevelop a site that is significantly underutilized at this most important location. The Council's approval was the culmination of over two years' worth of work, including but not limited to, WFC's assemblage of the entire track of land to accommodate the TS-M zoning and the WFC development. The assemblage also served to accommodate a very important master planned road connection – the extension of Executive Boulevard that WFC has agreed to both dedicate required right of way and fund 100% of the construction costs.

Immediately upon the approval of the rezoning application, WFC prepared and filed its Preliminary Plan of Subdivision application with the Maryland-National Capital Park & Planning Commission. This application is based on the approved Development Plan, including but not limited to, the development standards table and the binding elements. The Development Review Committee (DRC) met to discuss the Preliminary Plan and WFC thereafter spent significant time and resources addressing the various comments raised by agency representatives at the DRC meeting. During the time period in which the Preliminary Plan was making its way through the development review process, WFC and its consultants worked diligently on the preparation and filing of the Site Plan application. This

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effort included, but was not limited to, working with Staff on the application, designing the buildings, public use and amenity space, preparing extensive analyses regarding Executive Boulevard extended, continuing leasing efforts on certain portions of the commercial retail space and addressing matters with community leaders that live in close proximity to the property. As recently as November 21, 2005, our development team again participated in the DRC Committee meeting on the Site Plan application. At this meeting, Staff indicated that, once certain technical and design issues were addressed, both applications would be brought to the Planning Board for review and approval. We anticipate being heard by the Planning Board in the first quarter of 2006 and are planning to begin construction as early as the forth quarter of 2006. WFC cannot afford to have its schedule slip if it is able to comply with terms of the lease agreement with Whole Foods that specifies required milestones for approvals, construction start and delivery of the premises dates. Any requirement to include workforce housing at this stage of the process would completely shatter WFC's development schedule.

We are providing the Council with this information regarding the WFC development approval process to illustrate the overwhelming amount of work and effort that has been put into this development, pre and post zoning, and how WFC would be severely prejudiced if the grandfather provisions are not modified to address this situation. Without correcting the grandfathering provisions, WFC essentially would be required to start over by first amending its Development Plan and then revising both the Preliminary Plan and Site Plan applications that are already so far along in the development review process. Besides the unrecoverable loss of time due to a "redo" of all of the approvals, WFC also would incur significant financial and economic harm as a result of this legislative action. Again, WFC has made commitments to tenants, signed leases and arranged for financing based on a development schedule that does not include starting over – entirely reasonable assumptions (and actions) based on the process and requirements already in place. Fairness and equity dictates that the Bill and ZTA provide a grandfather provision that protects projects like White Flint Crossing (by recognizing the significant commitment and investment made by WFC in reliance on certain approvals already received or those that are well underway).

THE SOLUTION: REVISE THE GRANDFATHER CLAUSES

We would respectfully request that Section 9 of the ZTA and Section 2 of the Bill be modified to include language that appropriately protects a project like WFC. We would recommend that the Council include the following language in the ZTA and the Bill:

Section 9 of the ZTA. "This requirement to construct workforce housing . . . does not apply to any preliminary subdivision plan . . . <u>or, in the case of a property for which a local map amendment is required, a development plan was approved by the Council before (ZTA effective date).</u>"

Section 2 of the Bill. " . . . This requirement to construct workforce housing . . . does not apply to any preliminary subdivision plan . . . <u>or, in the case of a property for which a local map amendment was required, a development plan was approved by the Council before (ZTA effective date).</u>"[1]

The Council needs to recognize that a portion of the workforce housing is being targeted for sites that require a rezoning before a project can even apply for subdivision and site plan approvals. Properties located in central business districts do not need to be rezoned before seeking the various land use approvals. The grandfather provisions, as presently proposed, fails to recognize this very significant, time consuming and expensive step – one that certainly indicates a major commitment to the development. WFC's proposed modifications appropriately recognizes the rezoning effort and, at the same time, ensures that the grandfathering provisions will not result in any material proliferation of attempts to beat the deadline or result in any

1 We would note that the filing of a Development Plan application or, in the case of central business districts, the filing of a Project Plan application, also involves significant efforts and resources, all of which reflect major commitments made to a particular development. These situations merit consideration by the Council as part of the grandfathering discussion.

meaningful loss of workforce housing. It is the equitable course of action for the Council to take, particularly when an applicant like WFC has spent years working on this development, has received and relied on the rezoning approval to the TS-M zone from this Council and already has filed and is diligently pursuing both the Preliminary Plan and Site Plan approvals. Any other result would be unjust.

Thank you for your consideration on this matter. We will be available at the PHED Committee worksession to answer any questions regarding our position.

Sincerely,

Steven A. Robins

Steven A. Robins

Cc: The Honorable Douglas Duncan
The Honorable Derick Berlage
Scott Reilly
Elizabeth Davison
Karl Moritz
Michael Faden, Esq.
Ralph Wilson
Ben Jacobs
Rod Lawrence
Matthew Hurson

② ZTA 05-16

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LINOWES AND BLOCHER LLP

ATTORNEYS AT LAW

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December 5, 2005

Barbara A. Sears
301.961.5157
bsears@linowes-law.com
Erin E. Girard
301.961.5153
egirard@linowes-law.com

Thomas Perez, President
And Members of the Montgomery County Council
100 Maryland Avenue, 6th Floor
Rockville, Maryland 20850

Re: Proposed Workforce Housing Legislation; Bill No. 30-05, ZTA No. 05-16

Dear Council President Perez and Members of the Montgomery County Council:

On behalf of our client, Home Properties of New York L.P, and its Co-Chairman and Co-Founder Nelson Leenhouts, we would like to express our appreciation for Mr. Leenhouts' opportunity to address you at your November 22, 2005 public hearing regarding the proposed workforce housing legislation. As requested, attached please find fifteen (15) copies of an outline of Mr. Leenhouts testimony from that hearing for submission into the record.

We understand that the PHED Committee will hold its first worksession on the legislation on December 12th. Mr. Leenhouts plans to attend this worksession and will be available to further discuss the points he made during the public hearing, or to provide any other assistance the Committee may deem appropriate and desirable. In the meantime, if you have any questions or concerns regarding the attached, please feel free to contact us.

Very truly yours,

LINOWES AND BLOCHER LLP

Barbara A. Sears
eeg.

Barbara A. Sears

Erin E. Girard

Erin E. Girard

cc: Nelson Leenhouts

7200 Wisconsin Avenue | Suite 800 | Bethesda, MD 20814-4842 | 301.654.0504 | 301.654.2801 Fax | www.li

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11/22/05 Testimony of Nelson Leenhouts on Workforce Housing Legislation

Co-Chairman, Co-Founder and head of development for Home Properties- a REIT

We own 42,000 rental properties in 12 states .We have managed as many as 10,000 affordable rental units at one point. Our company has a proven track record of creating and preserving multi-family rental housing since 1967.

We have 36 rental communities with 13,247 apartments in the Baltimore/Washington area – 2,109 of which are in Montgomery County. We have another 1,392 units under contract to purchase in Montgomery County. A large number of our tenants in Montgomery County may qualify for Workforce Housing, as we understand it.

Communities we own in Montgomery County include Cider Mill in Gaithersburg, The Manor in Silver Spring and Tamarron in Olney.

It is normal for us to acquire older properties, improve them and hold them for a long period. For the first time we recently sold a property to a condo converter and no sales of a similar nature are planned.

We hope to continue to have a strong presence in Montgomery County including building new rental apartments and appreciate the opportunity to comment on workforce housing.

We have five points:

1. INCOME GAP – To complement the MPDU program, workforce housing must cover households with incomes above 65% of median income for households of 4 or above 70% for high rise buildings. (This does not suggest a change in proposed legislation.)
2. RENT LIMITS – (25B-27.(d) Limits on Rents) It is very difficult to set rent limits for such a broad range of household incomes from 65% to 120% of median income for a household of four. One approach used by HUD is simply to have the tenants ~~pay~~ 30% of their incomes for rent including utilities. However, under this program HUD pays the difference between the tenant's rent and the approved rent for the apartment community. If the owner were to make up the lost rent then the owner would be motivated to rent only to tenants near the top of the income limits.

   After some thought, our best suggestion, although imperfect, would be to have 3 household income brackets established as a percentage of household income for a family of four as follows: above 65% to 80%, above 80% to 100% and above 100% to 120%. These brackets would then be modified based on household size as with the MPDU program. The maximum rental rate excluding utilities could be 25% of adjusted household income for households at the top of each bracket. The problem with this is that household at the bottom of each bracket would end up paying about 30% of their income for rent plus utilities and we think those at the top of each bracket should pay more than 25%, say 27%, of their incomes for rent plus utilities. Also a minimum of unit types and bedroom requirements might be required for each bracket or most owners would only choose tenants in the highest income bracket. This plan might also be difficult to operate and monitor but it is the best suggestion we have for rental housing

3. PARKING FOR HIGH RISE BUILDINGS - (25B-27 (d) Limits on Rents) Parking should not be included in maximum rents for high rise buildings in high density areas near Metro stations as is the case with MPDUs. Parking should be optional at a fee that is in addition to base rent.
4. SMALLER APARTMENTS – (25B-27.(d) Limits on Rents) Smaller apartments with the same number of bedrooms as market rate housing should be permitted for workforce housing. This is permitted with MPDUs and seems appropriate especially for young families to start with smaller housing.
5. BONUS UNITS – (59-C-6.23 Development Standards) Bonus units are needed to help offset workforce housing's negative impact on the builder of new rental housing. It seems appropriate to allow a 10% increase in density, a 10% increase in FAR, and a 10% increase in height (above the maximum allowable height in the zone).

Comments on Proposed Workforce Housing Legislation

Submitted by KSI Services, Inc.
March 6, 2006

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Memorandum on Workforce Housing
March 6, 2006

Presented to the Public Housing and Economic Development Subcommittee of the Montgomery County Council, Council members Steven Silverman, Nancy Floreen and Marilyn Praisner

Presented by KSI Services, Inc.
Contact: Don Hague, Vice President, Multi-Family Development
dhague@ksi.com; 703.852.5719

Introduction

KSI appreciates the opportunity to comment on the workforce housing legislation introduced in November 2005. While we recognize the current concern about the perceived lack of supply of housing affordable to households earning between 80% and 120% of Area Median Income in Montgomery County, we would encourage the Council to be careful in its approach to a workforce housing requirement for new projects.

Workforce housing is a subject that many jurisdictions in areas around the country with high housing costs are wrestling with. We have been able to identify small, targeted workforce housing programs, but we are not aware of any jurisdictions that, as yet, have implemented a program with as broad a scope as the one proposed. That said, we believe that the deliberative approach evidenced by the PHED Subcommittee at its December hearing is the way to proceed. Such an approach ought to ensure a workable program that benefits the targeted group, as well as reducing the possibility of unintended consequences that work at cross purposes to the goals of the program.

Our comments are presented in the following sections:

KSI Services - Background

KSI Services, Inc. ("KSI"), is one of the area's largest privately-held real estate developers. KIS owns approximately 1,090 apartments in Montgomery County. These apartments are located in communities financed with Low Income Housing Tax Credits and tax-exempt bonds and provide housing for persons with low to moderate incomes (less than 60% of Area Median Income). KSI is currently developing a luxury high-rise condominium (Midtown Bethesda North) at Bou and Chapman Avenues proximate to the Montrose Crossing Shopping Center. In July 2004 we received project plan approval for a high-rise condominium project, to include approximately 315 units, on Ripley Street in downtown Silver Spring. This will be the first new project in the Ripley District and will initiate the redevelopment of this section of downtown Silver Spring as well as provide needed transportation improvements. To date we have invested approximately $9.3 million in this project. On November 8, 2004, we submitted an amended project plan and preliminary plan to the Department of Park & Planning. We submitted the site plan for this project to Park & Planning on December 15, 2004. We are scheduled for a meeting with the Development Review Committee on February 6, 2005. Our current goal is to begin construction of this project in 2006. KSI continues to seek out development opportunities in Montgomery County for both rental and for-sale projects.

Market Overview – Demand

It is well known that residential real estate prices in Montgomery County, as well as the greater Washington, D.C region, have increased substantially over the last several years. Numerous factors have contributed to this increase including: 1) historically low interest rates that reduce the required monthly payments as a ratio of incomes enabling purchasers to pay more for a given home than would be the case at higher rates; 2) strong job creation and regional population growth increasing net demand; and, 3) investor interest in residential property either as an investment or speculation.

To some extent items 1 and 3 represent artificial boosts to prices and, in the case of item 3, demand. The effect of these items may prove to be transitory. To illustrate the impact of interest rates on prices we have attached Exhibit A – Affordability/Purchasing Power Matrix. Exhibit A shows the monthly payment required to support different mortgage amounts. As can be seen, interest rates and mortgage amounts are inversely related –the higher the interest rate the lower the mortgage amount that can be obtained for the same monthly payment.

As shown on Exhibit A, at a 4.5% interest rate, which is a rate that can be available under certain loan programs, a household with an income of $100,000 could afford a mortgage of $493,421. At 6.5%, the maximum affordable mortgage is $395,517. At an interest rate of 8.5%, the maximum affordable mortgage is $325,133. As many market observers have commented, lower interest rates, by increasing housing affordability, enable households to pay more for homes thus contributing to the price increases that make homes less affordable. It is reasonable to assume that, had interest rates not dropped as low as they have, housing would not be as expensive as it is. It is also likely that, if

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interest rates increase, housing prices will either not go up by much or may actually decrease, as was the case in the early 1990's.

Housing Market Overview – Supply

While housing in Montgomery County has increased in price over the last few years, it should be recognized that there are still a fair number of houses for sale at prices affordable by households with incomes between 80% and 120% of Area Median Income. Exhibit B presents a table of houses for sale as listed in the Multiple Listing Service ("MLS") in Montgomery County on November 22, 2004, the day the Workforce Housing legislation was introduced. As can be seen from Exhibit B there were 2,667 residential units listed for sale in Montgomery County. (It should be emphasized that these are only houses listed in MLS. This number understates homes actually available for sale because it does not include new developments where the developer/builder is handling sales in-house, and not listing the projects on MLS, or listing only one unit out of tens or hundreds of units, nor does it include homes for sale by their owners without an agent.) Of the listed inventory 1,040 were selling for under $400,000, which would likely be affordable to households within the proposed workforce housing income parameters. As noted, several new and converted condominium projects with advertised prices of under $400,000 are being marketed and are not incorporated into this table, including: Ashmore at Germantown, The Morgan in North Bethesda, and the MICA condominium in Silver Spring.

Most economic forecasters do not anticipate continued increases in housing prices at the same percentage increases experienced in the last several years. Several factors are expected to influence future price trends including: 1) an anticipated increase in interest rates, reducing purchasers' ability to borrow and pay more for a given house; 2) a slowing in economic growth rates that may reduce job growth; 3) the withdrawal of investors/speculators from the market that may represent as much as 25-30% of demand in some projects; and, 4) a substantial increase in the supply of residential units available for sale with forecasts of as many as 51,000 condominium units planned for delivery in the next several years region-wide.

Problems with Metro Station Housing

The proposed legislation requires the set aside of ten percent of approved units in only one type of housing – housing in the Metro station zones which is high rise, concrete construction, with structured parking, either below ground or above ground.

There are several problems intrinsic to this housing type that make it difficult to be workable as workforce housing. These problems include:

1. This is the most complex and expensive housing type to produce;
2. Condominium association fees, which are not tax deductible, add an additional financial burden to the cost of ownership; and
3. This housing type is rarely sought out or purchased by households with children because it does not meet their needs.

Economics of High Rise Construction

As noted above, high-rise construction is the most complex and expensive housing to produce. Costs for the materials used, notably concrete and steel, continue to rise and are subject to worldwide demand levels, not solely local market conditions. Further exacerbating the cost pressures is the relatively small pool of qualified subcontractors. By way of example, there are only 3 or 4 qualified concrete subcontractors and a limited number of qualified subcontractors in the plumbing, electrical, masonry or HVAC trades. In addition to demand from residential developers, these tradespeople are in demand for office, hotel, government and institutional construction projects throughout the region. The tightness of the labor pool and the worldwide demand for construction materials make most of the development costs of a given project beyond the control of the local developer/builder.

Exhibit C outlines current pricing ranges for high-rise construction in the area. Various factors influence pricing although all projects are constructed from basically the same materials and components. These include:

1. Whether parking is constructed above grade, less expensive, or below grade, more expensive, particularly if significant rock excavation is required;
2. The "efficiency" of a building measured by the ratio of exterior building skin to inside area;
3. Specific site conditions that add costs. For example: buildings where, due to site limitations, a number of single loaded corridors, as opposed to the more efficient double-loaded corridor design, have to be built will result in higher construction costs. [A single-loaded corridor condition is one where the units can be built on only one side of a corridor whereas a double-loaded corridor condition is one that has apartment units on both sides of a corridor or hallway.]

Additional Density

Some individuals who have commented to date on the legislation have suggested that the legislation provided additional development density (bonus F.A.R.) to offset the workforce housing requirement. While this may work in some instances, in many it probably will not. Height limitations, required setbacks from streets and neighboring structures, and the requirement for open space in optional method projects all limit the volumetric size of a building and the total density to which a given site can be developed.

In addition, the marginal additional costs of developing an increase in density can make development of the added density uneconomical. For example, as height increases, the columns, foundations and other "superstructure" elements of a building must also increase in size and cost. This reduces efficiency ratios resulting also in a reduction in saleable floor area at the margin. Similarly, more units require more parking. The cost of more underground parking, when rock excavation is required as it usually is, may run to $30,000 per additional space, or more. Also, amenity spaces for club rooms, pools and fitness centers may have to be enlarged, resulting in higher project costs. As an aside, KSI analyzed whether it was worthwhile increasing the percentage of MPDUs at Ripley Street in exchange for the increased density and determined that a net loss in the economics of the project was more likely to result than a net gain, and did not pursue the option for Ripley Street. The same calculation would likely hold in many instances for workforce housing.

Consumer Acceptance of Workforce Housing as Proposed

It is possible that there would be little acceptance by consumers of this program as proposed for two reasons. First, as noted earlier consumers, particularly households with children, may not prefer or seek out high-rise condominiums. The level of condo fees is a deterrent to purchase and affordability. Also, most parents in this region do not care to raise children in a high-rise community once the children get past infancy. Second, people making between 80 and 120% of AMI may likely see housing as not only shelter, but an economic proposition with the possibility of future financial gain. These households will be less likely to enter into an arrangement where they have to share part of this gain with the County and will be more likely to purchase housing unfettered by a cap on its potential appreciation for their benefit. An interesting commentary on the social and equity considerations of restricting the benefits of homeownership for low-income households is attached as Exhibit D.

Possible Unintended Consequences of the Workforce Housing Legislation

We encourage the Council to watch for unintended consequences as it crafts a workforce housing program. Several that come to mind are as follows.

A program that unduly burdens new development will result in less development. Through the economic law of supply and demand, less development of new housing stock, coupled with any increase in demand, will result in higher prices for existing housing stock. Thus, the workforce housing program will add to the problem it is designed to mitigate or reduce. Because high rise condominiums tend to be a preferred housing type for only certain segments of the marketplace, namely households without children, the demand for workforce housing in high-rise condos may fall short of the supply, leaving builders and developers with unsold inventory. Carrying these units until sold, and paying condo fees, would be a burden builders/developers would not want to undertake. A significant number of unsold units in a given project could also raise questions about a project's viability among the rest of the buying public, thus threatening sales throughout the project.

If the pace of construction and delivery of new units is reduced, the creation of new moderately priced dwelling units (MPDUs) will also slow. Households at income levels that qualify for MPDUs, under 70% of AMI, are arguably the most affected by housing price inflation. Reducing the number of construction starts will reduce the supply of MPDUs unintentionally reducing the number of housing choices for the least well off citizens of the County.

Grandfathering of Current Development Plans

The legislation as currently introduced exempts projects with certain levels of approvals from the workforce housing requirement. At the December PHED Committee hearing there was some discussion of expanding this exemption. We would strongly urge the Council to expand this exemption to include, at a minimum, projects with project plan approval or that represent a third party investment of at least $5 million.

A Few Ideas about a Workforce Housing Program

If it is accepted that Montgomery County needs to enable households earning between 80% and 120% of AMI to purchase housing, the County should devise a program that:

1. Encourages the development of housing that appeals to households in this income range;
2. Does not make the developer/builder bear the cost of the program; and
3. Does not provide "negative incentives" for people to buy homes and may provide positive incentives.

There are various tools the County may have available to create programs that meet these tests. Three that come to mind are:

1. Use County land to promote workforce housing;
2. Create a second mortgage program that would bridge the affordability gap;
3. Create overlay zones increasing density for certain types of housing.

County Land

Land is one of the key cost elements of any development. The County government owns a substantial percentage of land in the County. The government would identify land that it owns either in excess of its needs or which, through the reprogramming of space requirements, could be devoted to workforce housing of a type and character that would appeal to the targeted income demographic. Then the County, through its Housing Opportunities Commission (HOC), could develop sites through joint ventures with builder/developer. Exhibit E includes two New York Times articles that describe such undertakings in California.

As an analog to this process the County could also identify surplus land held by institutions such as churches and synagogues. The County could undertake to buy this land and re-zone it for use in residential development. To further reduce the cost of new housing, the County could lease the land under a long-term arrangement at a below-market return.

Second Mortgage Program

Working with financial institutions that understand the mortgage process, which could include private sector banks and mortgage companies and quasi-public agencies such as Fannie Mae and Freddie Mac, the County could devise a second mortgage program to provide low interest financing for targeted purchasers of homes in Montgomery County.

Such a program could have a low initial rate that steps up over time as household income increases. A higher interest rate could accrue throughout the life of the loan. When the loan is paid off, the County receives the higher rate as its "share" in the economic return of the ownership of the specific home. By way of example, the County could make second trust loans ranging in amounts from $25,000 to $100,000 to County employees making between 80% and 120% of AMI for the purchase of a residence in the County. Note that these loans can be used for any residence, thereby allowing employees to choose their housing according to their needs. The loans could have a face rate of, say, 8%, but an initial pay rate of, say, 1%. Borrowers could pay some or all of the incremental interest at any time. After three years, the pay rate would adjust up to, say, 4%, after six years 6%, and at the ninth year the rate would go up to 8%. The loans would come due in 10, 12, or 15 years. At pay-off the borrowers would pay back the loan amount plus any accrued but unpaid interest. The balance of any appreciation would be theirs. Private lenders could administer this loan program. Other than start-up costs the County's only costs would be the negative spread between its costs of funds to start the program and the low pay rate of the borrower. As loans and accrued interest were paid off the program would become self-funding.

Overlay Zones Creating New Housing Stock

The most "bang for the buck" in new development accrues when land is re-zoned for higher densities within the least expensive type of housing to produce. Thus, land zoned for single-family housing at the rate of two per acre, produces larger returns when it is rezoned for single-family stick-built homes at the rate of 4 to 8 homes per acre. The same principle generally applies when single-family land is rezoned for townhomes and townhome land is rezoned for stacked townhomes. As outlined previously, the economics of a project shift substantially when the construction type shifts from wood frame to concrete and steel. Furthermore, small lot single-family houses, townhomes, and stacked townhomes are generally preferred by households with children or households aspiring to have children. As a way of encouraging this type of housing the County could identify areas and sectors where houses are on larger lots than would be typical with modern urban planning and housing demand. The County could establish overlay zones in the areas that would encourage developers to assemble parcels for rezoning. Part of the requirement for the rezoning would include a provision by the developer/builder for the construction of workforce housing.

Summary and Conclusion

Housing affordability is a significant concern in Montgomery County as it is in similarly situated jurisdictions around the country. In many ways it is a negative by-product of factors beyond the County's control including: positive economic conditions, population growth, low interest rates, and a view of real estate as a speculative investment opportunity. To the extent that any of these factors change, or trends supporting them reverse, residential price appreciation will slow or turn downward.

Just as there are many different types of housing the County should consider a multi-faceted approach to increasing the supply of housing affordable by households in the 80% to 120% of AMI income bracket. Relying on one type of housing may produce unintended consequences that exacerbate the very problems the legislation is seeking to address and rectify. We would also encourage the county to consider taking small steps with targeted demonstration programs, perhaps involving County land or below-market financing. In order to reduce the level of uncertainty surrounding projects in the pre-construction stages we would encourage the Council to expand the grandfathering provisions of the proposed legislation.

Because of the inherent strength of the Washington regional economy it is likely that housing demand will remain steady and grow in the years ahead, although we can expect short run fluctuations as in the past. Any program that attempts to promote housing affordability needs to be carefully designed to avoid the unintended consequences and pitfalls that might otherwise befall its implementation. KSI is ready to assist the County as it considers this proposed legislation and would welcome the opportunity to participate in its design.

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Exhibit A - Workforce Housing Memorandum

Affordability/Purchasing Power Matrix

Line						
1	Annual Household Income				$100,000	
2	Maximum Mortgage Payments as a percent of Household Income				30%	
3	Income Available for Debt Service				$30,000	
4	Annual Mortgage Payments per $100,000 of Principal Amount Borrowed at:					
5	4.50%	5.50%	6.50%	7.50%	8.50%	(Note 1)
6	$6,080.00	$6,814.00	$7,585.00	$8,391.00	$9,227.00	
7	4.93	4.40	3.96	3.58	3.25	Income for Debt Service Factor (Note 2)
8	$493,421	$440,270	$395,517	$357,526	$325,133	Maximum Mortgage (Note 3)

Note 1: Payments are calculated based on a 30 year self-amortizing loan.

Note 2: Income Available for Debt Service (Line 3) divided by Annual Mortgage Payments per $100,000 of Principal Amount Borrowed (Line 6)

Note 3: Income for Debt Service Factor per $100,000 times $100,000

Exhibit B

Table of Homes for Sale as shown in MLS
November 22, 2005

Sales Price Range	# of Listings	Cumulative Total
Less than $100K	7	7
$100K - $200K	51	58
$200K - $300K	376	434
$300K - $400K	606	1,040
$400K - $500K	490	1,530
$500K - $600K	337	1,867
$600K - $700K	234	2,101
$700K - $800K	176	2,277
$800K - $900K	105	2,382
$900K - $1MM	163	2,545
$1.5MM - $2MM	52	2,597
$2MM - $3MM	41	2,638
$3MM - $4MM	17	2,655
$4MM - $5MM	7	2,662
$5MM - $7.5MM	4	2,666
$7.5MM +	1	2,667

* Representative listings of homes selling for less than $500,000 are included in this Exhibit B on the pages that follow.

<u>Exhibit C</u>

Table of High Rise Construction Costs

KSI concurs with the economic analysis prepared by Bolan Smart Associates. We are willing to share cost data on specific projects with Council members and/or their staff on a confidential basis if requested.

LONG TERM AFFORDABILITY RESTRICTIONS AND THEIR NEGATIVE IMPACT ON EQUITY FOR THE LOW-INCOME HOMEOWNER

by
George Rothman, President
Manna, Inc.
and
Frank Demarais, VP & General Manager
Manna Mortgage Corp.

November 7, 2005

In America, homeownership has always provided certain financial and emotional benefits that rental housing has not and cannot provide. Those benefits include equity buildup, wealth creation, or wealth sharing which enables owners the use of home equity loans to finance children's education, business ventures and/or investments and many others which are readily accepted by the general public. We also are aware or the benefits like positive self-esteem, neighborhood improvement, crime reductions, etc. resulting from homeownership. That is one of the reasons homeownership is often referred to as the American Dream.

Many areas of the country have experienced rapidly rising housing prices during the past five years. With this condition has come an increasing need for affordable housing. In many areas there's an "affordable housing crisis."

Unfortunately, **some government agencies and some housing advocates have been devising tools and plans which severely restrict the benefits of homeownership for low-income homeowners who benefit from affordability subsidies or government loans in new developments.** While the motivations for these onerous restrictions are tied to trying to preserve and insure affordable housing for more than one generation, we feel they are extremely unfair and place the burden for achieving the goal, which we agree with, on the one group least able to afford it. (This is also happening in other areas of the country, but that should not be any justification for limiting the equity build up for low-income folks. Similar mistakes are simply multiplying because of lack of thorough analysis and evaluation of consequences, and reasonable alternatives that don't wind up penalizing and severely limiting lower-income folk who want the opportunity to move up the economic ladder and share in the wealth being generated.)

Agencies such as the DC Department of Housing and Community Development (DHCD) and the National Capital Revitalization Corporation (NCRC) are often imposing severe long term affordability restrictions, or covenants, which limit the future resale of homes that use government money to develop these properties. **These internal policies have an extremely adverse impact on the first-time owner in the future**, when compared with the advantages available for what are known as "market rate" buyers. For example, **a current limitation is to require the first-time low income buyer to sell to another buyer in the same income category, or %age AMI (Area Median Income), for a long or very long period of**

time, e.g. 10, 15 or 30 years. These types of restrictions are also being incorporated into one of the Inclusionary Zoning proposals.

The purpose of the restrictions is to maintain affordable housing units for the long term, but it appears that some of the agencies and proponents of these restrictions do not consider the inherent unfair and adverse nature of the severity of the restrictions and the adverse effects in the future to the low income buyers. As affordable homeownership housing producers, Manna deals with these issues on a regular basis, and there appears to be little thought given as to what happens when the low-income owner needs or wants to sell.

There are existing legal structures available to provide long term affordability, e.g. rentals, limited equity coops, and community land trusts. There are also recapture mechanisms which can be used to recycle subsidies back into affordable housing. These can and should be used by governments and housing producers to accomplish long term affordability goals.

One of the misconceptions related to the impact of restrictions is based on assumptions about where buyers fit into certain income categories, e.g. 50% AMI. (This means a 1-person household can earn up to $31,250 per year and a 4-person household can earn up to $44,650 per year.) Often, assumptions are made which show buyers making the highest income permitted in a category, but that is unrealistic because that the highest income in any particular category seldom is the actual for the purchaser. The process allows for a range of incomes below the highest amount of income. The assumption of using the highest income purchaser exaggerates what the original owner will receive in the future when restricted to selling to a new buyer in that income category. Categories are broad, and there's no guarantee that one could find a subsequent buyer at the same or higher income in a particular category at a particular time. And, if that is the case, the situation becomes even worse for the low-income homeowner. Even though it's unrealistic to assume new buyers will be at the maximum allowed for an income category, we use it in our examples below to portray the best possible outcomes. Therefore, **our examples are optimistic and still show very poor results for low-income buyers.**

In our opinion, the results of these restrictions make certain that low income homeowners will remain stuck in their low income status and do not offer them a vehicle to rise out of it. It is simply unfair and discriminatory, though legal, to impose such restrictions. **In effect, low-income homeowners become glorified renters.**

People often move because of job changes, because they want to marry and/or have a family, or because of illness or disability. In other words, there are good reasons for moving before affordability periods expire. Affordability restrictions can substantially limit equity build-up during the control/affordability period, even though general home values would have increased significantly, causing any seller to incur dramatic increases in housing costs with very little equity take-out to cushion the increase. Why should low-income homeowners be penalized in an unreasonable manner for needing to move?

Low-income people also buy because they want to be able to leave a valuable asset to their children or grandchildren. Severe affordability restrictions can also adversely affect this valid reason for homeownership and prevent wealth transfer among generations which is common among the middle and upper classes.

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For many years, the ability to accumulate equity in a home has been the major factor in helping people move up the economic ladder. That ability is now being severely taken away—especially in Washington, DC.

Here's how:
If all mortgage affordability decision criteria remained *constant*, then affordable housing resales would re-sell during affordability periods at below market prices equal to the original sales prices times the percentage income increases. FOR EXAMPLE: If 80% AMI for one person increased at 2% a year for 10 years, from $50,000 to $61,000 (22% increase), a $175,000 home affordable to an 80% AMI person in 2005 when interest rates are 6% would be affordable to another person in the 80% AMI category in 10 years at a price of $221,000 (22% increase) **if interest rates remained the same**. The seller at that time would realize about $58,000 due to amortization and after sales commission.

However, mortgage affordability criteria, such as (1)interest rates, (2)tax and insurance costs, (3) mortgage debt ratio tolerances *don't stay constant*. Income increases for very low and low income persons have historically tracked to 2-3% annually, while home prices have increased annually at approximately 5%. A lower income buyer of a restricted affordable home could face small or negative equity increases in the future based on the limitation of income of his/her future buyer. Therefore, the ***following example illustrates what really happens*** when the above variables are factored into the projections.

Example - Assumptions:
Income increases at 2% per year
Taxes and insurance/condo fee increase at 3% a year
Interest rates increase to 7 ½ %.
Original sales price in 2005 is $175,000 condominium to a buyer at 80%AMI
Resale is restricted to a subsequent buyer earning 80% of AMI

- **After 5 years** the seller could expect a sales price, net of real estate sales costs, of about **13% below original purchase price**, or $152,000. Amortization of 7% would reduce the loss to 6% above original price. This happens because resale is restricted to a buyer in the same income category, and even when the income has increased over the 5 years by more than 10%, a higher interest rate (7.5% vs original 6.0%) and higher taxes and insurance/condo fees reduce the amount of loan that such a person can afford to below original sales price. Sales commission and taxes eat up another 7.1%. Amortization of 7% leaves net equity still at a loss.
- **After 10 years** the seller could expect a sales price, net of real estate sales costs, of about **6% below original purchase price**, or $167,000. Amortization of 16% would create net proceeds of about 10%, or $17,500 on a $175,000 original price. With that amount, and the 2% increases in income over ten years, the owner could then afford only a property which costs about $189,000, if condo, or $220,000 if single family (affordable loan plus $10,000 proceeds after 3% closing costs). This is below most market rate DC properties today (2005). This happens because resale is restricted to a buyer in the same income category, and even when the income has increased over the 10 years by 22%, a higher interest rate (7.5% vs original 6.0%) and higher taxes and insurance/condo fees reduce the amount of loan that such a person can afford to about 1% above original sales price. Sales commission and taxes eat up 7.1% of the sales price. Equity from amortization of 16% then leaves only about 10% of original price to the seller.

- **After 15 years,** the seller could expect a sales price, net of real estate sales costs, of about 6% of original price. Amortization of 29% would create net proceeds of about $58,000 on a $175,000 original price. With that amount, the owner could then only afford a property which costs $230,000 if condo or $287,000 if single family (affordable loan plus $52,000 proceeds after 3% closing costs). This is below most market rate DC properties today (2005).

These proceeds also need to be considered relative to remaining a renter. If rents were $200 less than mortgage payment, the renter saving the $200 a month in a bank account earning 3% would have about $28,000 versus the $17,500 gain over 10 years in the example, and about $45,000 versus the $58,000 gain over 15 years.

NOTE ON THE CALCULATIONS BELOW: THE EQUITY BUILDUP SHOWN USES THE "AFFORDABLE SALES PRICE" AS THE BASE FROM WHICH PRICE INCREASES ARE CALCULATED—NOT THE MARKET PRICE—AND, THEREFORE, INTENTIONALLY UNDERSTATES THE ACTUAL DIFFERENCE, I.E. DISADVANTAGE SUFFERED BY LOW INCOME BUYERS. THIS WAS DONE BECAUSE THE ASSUMPTION OF ANY PARTICULAR MARKET PRICE WAS TOO SPECULATIVE AND COULD SUBJECT THE CALCULATIONS TO ACCUSATIONS OF MANIPULATION. THE AUTHORS ERRED ON THE SIDE OF CONSERVATISM.

THESE CALCULATIONS ARE EXCLUSIVE OF ANY RECAPTURE OF PUBLIC SUBSIDY, WHICH WE SUPPORT AND WHICH CAN BE ACCOMPLISED THROUGH A VARIETY OF STRUCTURES THAT ENCOURAGE LONG TERM OCCUPANCY AND COMMUNITY COMMITMENT.

WHAT CAN 50% AND 80% AMI HOUSEHOLDS AFFORD TO PAY IN THE FUTURE?

Examples of equity buildup limitations with restrictions limiting resales to the same income category (Base Year – 2005)

Assumptions for the charts which follow:

6% initial interest rate; 30-year, fixed rate loan
38% debt-to-income ratio
$150 month debt payment (conservative estimate)
2% AMI increase per year 3% tax & insurance/condo fee costs increase per year

- "With Restrictions" assumes amortization plus equity if sold to buyer limited by same AMI %
- "Without Restrictions" assumes amortization plus equity if sold at price increasing 5% per year - *true market based equity increase.* (This assumes original purchase price was either at market or had a subordinate lien for the amount between original purchase price and market value at that time. Therefore, no equity built in at the time of purchase.)

CHART #1 – Net Equity Buildup Upon Resale in 5 Years (rounded to nearest $100)

	Amount w/ Restrictions	Without Restrictions	Difference
1 person household, 50% AMI	Loss of $4,500	Gain of $19,300	$23,800
3 person household, 50% AMI	Loss of $6,800	Gain of $31,400	$38,200

1 person household, 80% AMI	Loss of $9,400	Gain of $44,700	$54,100
3 person household, 80% AMI	Loss of $13,200	Gain of $64,100	$77,300

CHART #2 – Net Equity Buildup Upon Resale in 10 Years

	Amount w/ Restrictions	Without Restrictions	Difference
1 person household, 50% AMI	Gain of $19,800	Gain of $50,800	$31,000
3 person household, 50% AMI	Gain of $33,800	Gain of $ 82,800	$49,000
1 person household, 80% AMI	Gain of $49,200	Gain of $118,000	$68,800
3 person household, 80% AMI	Gain of $71,600	Gain of $169,100	$97,500

CHART #3 – Net Equity Buildup Upon Resale in 15 Years

	Amount w/ Restrictions	Without Restrictions	Difference
1 person household, 50% AMI	Gain of $ 35,600	Gain of $ 91,800	$56,200
3 person household, 50% AMI	Gain of $ 61,400	Gain of $149,500	$88,100
1 person household, 80% AMI	Gain of $ 89,500	Gain of $212,900	$123,400
3 person household, 80% AMI	Gain of $130,400	Gain of $305,300	$174,900

Charts 4-6 below estimate opportunities for the first-time homebuyer to purchase a second home based on the loan amount available at their income and a 6% interest rate, plus the proceeds from the sale of the original Affordable Home, estimated With and Without Restrictions as defined above. Proceeds from sale assume additions for equity buildup/loan amortization and deductions for real estate sales commissions and transfer taxes and average DC closing costs.

CHART #4 – Maximum New Home Purchase Amount Affordable Upon Resale in 5 Years

	Amount w/ Restrictions	Without Restrictions	Difference
1 person household, 50% AMI	$ 66,500	$105,400	$ 38,900
3 person household, 50% AMI	$108,000	$189,200	$ 81,200
1 person household, 80% AMI	$155,500	$266,800	$113,000
3 person household, 80% AMI	$222,200	$372,500	$150,300

CHART #5 – Maximum New Home Purchase Amount Affordable Upon Resale in 10 Years

	Amount w/ Restrictions	Without Restrictions	Difference
1 person household, 50% AMI	$108,600	$173,000	$ 64,400
3 person household, 50% AMI	$180,000	$281,800	$101,800
1 person household, 80% AMI	$258,700	$401,400	$142,700
3 person household, 80% AMI	$373,000	$575,500	$202,500

CHART #6 – Maximum New Home Purchase Amount Affordable Upon Resale in 15 Years

	Amount w/ Restrictions	Without Restrictions	Difference
1 person household, 50% AMI	$131,600	$247,600	$116,000
3 person household, 50% AMI	$220,500	$403,500	$183,000
1 person household, 80% AMI	$318,500	$574,800	$256,300
3 person household, 80% AMI	$461,000	$824,000	$363,000

In summary, the above examples, using relatively conservative assumptions, show how and how much low-income buyers must forfeit if "same income AMI" re-sale rules are used and how little house they can afford during various control periods. First-time owners can easily become renters if they must move for legitimate reasons--because they will not be able to afford to buy in the future.

Long term affordability is a laudatory goal, and we agree with it, but its burden shouldn't be placed solely or disproportionately on the shoulders of low income folks. Individual homeownership must continue to be used to enhance community and individual stability, to catalyze neighborhood revitalization, and to promote wealth sharing and wealth creation. For the majority of Americans who are fortunate enough to be homeowners, their homes represent their most significant asset. Stripping the financial gains from the low-income homeowners is unfair and, in a sense, discriminatory. There are other existing legal structures available to provide long term affordability, e.g. rentals, limited equity coops, and community land trusts. There are recapture mechanisms which can be used to recycle subsidies back into affordable housing. These can and should be used by governments and housing producers to accomplish long term affordability goals. But don't saddle the low-income homeowners with this responsibility.