Filling the Federal Affordable Housing Doughnut Hole in the Greater DC Region

Practices for Expanding Housing Production at 30–50 Percent of AMI

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Housing affordability is a significant policy challenge facing the greater Washington, DC, region, where nearly half of renter households struggle with unaffordable rents. Few federal programs and resources are targeted to reach households with very low incomes of 30 to 50 percent of the area median income (AMI)—the federal affordable housing doughnut hole. But local jurisdictions can help increase production of more affordable units using policy levers to reduce project costs, increase project revenue, and adjust land use. By making more explicit public commitments to deepen affordability, jurisdictions can challenge the market to produce more affordable units. To fill the doughnut hole, local governments need to support these commitments by increasing investment, leveraging public assets for affordable housing, updating zoning to reflect current housing needs, and collaborating more frequently with state government and external partners.

Affordable rental units are rapidly disappearing in the greater Washington, DC, region (greater DC) between 2008–12 and 2016–20 the region lost 86,000 units that rented for less than $1,600.[1] Over the last several years, jurisdictions in the region have recognized the need to better align housing costs with all households' ability to pay. In 2019, the Metropolitan Washington Council of Governments convened to set housing targets for the region, incorporating projections of households by housing cost needs.[2] Targets included producing 75,000 units above projected need between 2020 and 2030 and ensuring that 75 percent of the new housing units are available to households with low and moderate incomes.[3] Setting these goals as a region was a critical first step. Now, each jurisdiction is determining how it will help the region better meet its residents' future housing needs, what level of affordability it should incentivize, and how to support that production.

Generally, housing practitioners break the income scale for households with low to moderate incomes into the bands displayed in table 1, which are based on the metropolitan area's AMI for a family of four. These ranges align with the income limits set by the US Department of Housing and Urban Development (HUD) to determine eligibility for many federal housing assistance programs. In 2022, the median family income was $142,300 for the Washington, DC, metropolitan area. As table 1 shows, about 284,000 renter households in the region have incomes of 50 percent of AMI or below. These households are most likely to have unaffordable rents.

TABLE 1

HUD Income Limits, Renter Households, and Rent Burden in the Greater DC Region

% AMI	2022 income	Affordable rent	Occupation examples	Renter households	% rent burdened
0–30	$0–$42,699	$0–$1,067	Janitors, child care workers, nursing assistants	171,000	87
30–50	$42,700–$71,149	$1,068–1,778	Bus drivers, paramedics, plumbers, firefighters, electricians	113,000	84
50–80	$71,150–$89,999	$1,779–2,249	Real estate agents, insurance sales agents, surgical assistants, teachers	77,000	63
80 and above	$90,000 and above	$2,250 and above	Web developers, pharmacists, lawyers	402,000	16

Sources: US Census Bureau, American Community Survey Public Use Microdata Sample, 2016–20; US Bureau of Labor Statistics, Occupational Employment and Wage Statistics, 2021; US Department of Housing and Urban Development, Income Limits, 2022. AMI = area median income; HUD = US Department of Housing and Urban Development.

Notes: Affordable rent is assumed to be 30 percent of monthly income. Renter households and the share of rent-burdened households, that is, those paying more than 30 percent of their monthly income in rent, are shown by AMI categories based on 2020 HUD income limits.

What affordable housing is the region producing?

The Housing Association of Nonprofit Developers (HAND) and the Urban Institute surveyed jurisdictions in the greater DC region in 2022 to learn how much housing production has been committed for each affordability level.[4] Greater DC has made some progress on its production targets but areas of critical shortage persist, especially housing for those with the lowest income levels. Four of the eight jurisdictions in table 2 exceeded their overall housing production targets 2019–22. As table 2 shows, except for the District of Columbia, local jurisdictions produced little housing in the last four years for households at 0–30 percent and 30–50 percent of AMI. But, as figure 1 shows, half of these jurisdictions were able to produce more than 66 percent of their 50–80 percent AMI targets.

TABLE 2

Greater DC Regional Housing Production, by Affordability Level, 2019–22

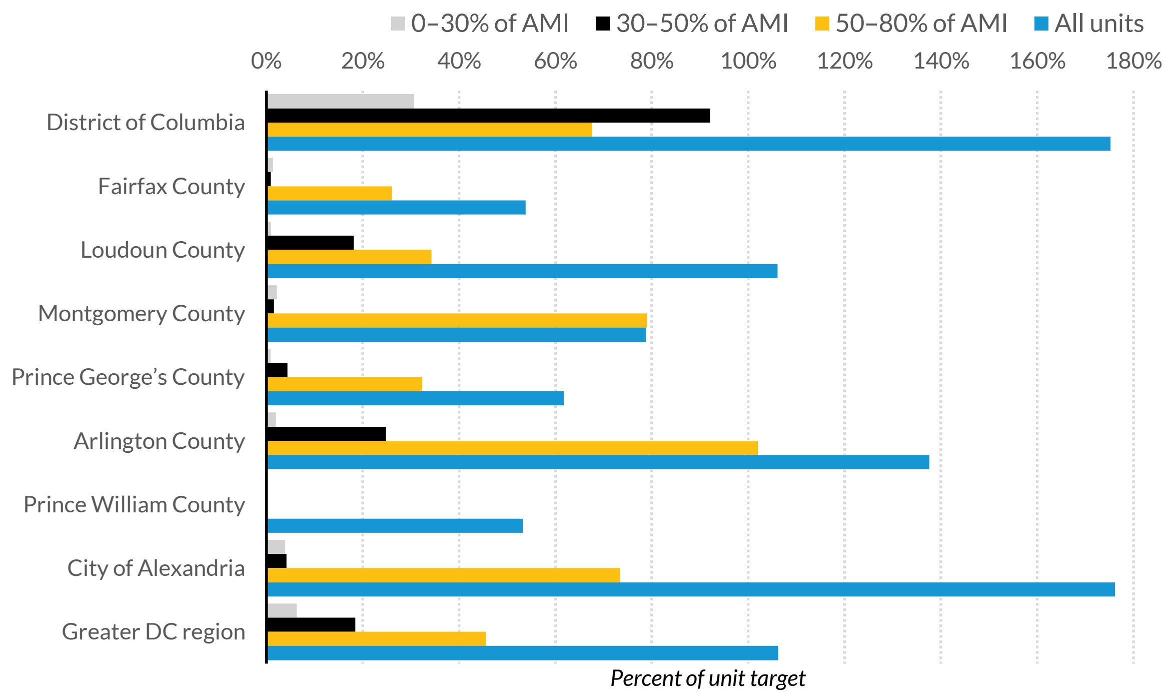
	0–30% of AMI		30–50% of AMI		50–80% of AMI		All Units	
Jurisdiction	New units	Target	New units	Target	New units	Target	New units	Target
District of Columbia	711	2,320	2,161	2,347	1,821	2,693	32,145	18,347
Fairfax County	36	2,631	24	2,729	773	2,975	8,754	16,279
Loudoun County	10	1,093	217	1,200	521	1,520	10,669	10,053
Montgomery County	49	2,295	38	2,396	1,523	1,929	7,793	9,890
Prince George's County	18	2,240	118	2,720	603	1,867	4,404	7,140
Arlington County	18	907	238	960	789	773	7,669	5,573
Prince William County	0	1,722	0	2,247	0	1,847	2,502	4,706
City of Alexandria	28	720	30	720	431	587	6,388	3,627
Greater DC region	**870**	**13,928**	**2,826**	**15,319**	**6,461**	**14,192**	**80,324**	**75,614**

Sources: HAND/Urban Institute Housing Indicator Tool (HIT) survey of local jurisdictions, 2022.

Notes: "Greater DC region" is the sum of the jurisdictions in this table. AMI = area median income. Production targets are based on annualized housing unit projections for the first three housing cost bands in Margery Austin Turner, Leah Hendey, Maya Brennan, Peter A. Tatian, Kathryn Reynolds, Aaron Shroyer, Sarah Strochak, Martha Fedorowicz, Steven Martin, and Yipeng Su, "Meeting the Washington Region's Future Housing Needs" (Washington, DC: Urban Institute, 2019). Prince George's County only participated in 2020–22, so only three-year targets are reported. Prince William County only participated in 2021–22 so only two-year targets are reported. Montgomery County's production and targets do not include the cities of Rockville or Gaithersburg.

FIGURE 1

Greater DC Regional Housing Production, by Affordability Level and Percent of Unit Target, 2019–22



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Sources: HAND/Urban Institute Housing Indicator Tool (HIT) survey of local jurisdictions, 2022.
Notes: "Greater DC region" is the sum of the jurisdictions in this table. AMI = area median income. Production targets are based on annualized housing unit projections for the first three housing cost bands in Turner et al. 2019, "Meeting the Washington Region's Future Housing Needs." Prince George's County only participated in 2020–22, so only three-year targets are reported. Prince William County only participated in 2021–22 so only two-year targets are reported. Montgomery County's production and targets do not include the cities of Rockville or Gaithersburg.

Why are so few units produced at 30–50 percent of AMI?

In the United States, housing is almost exclusively produced by the private sector. Developers set rent according to market demand and ensure that rents generate enough future income to cover development and financing costs and provide an acceptable return for investors. However, in the greater DC region, rents affordable to households with lower incomes typically do not generate enough future income to make new projects viable, creating a financing gap. This means public intervention and funding is necessary for the market to deliver more deeply affordable units.

Though additional upfront project financing can help make units affordable at certain levels, producing the most deeply affordable units for households below 30 percent of AMI also requires deep operating subsidies, such as public housing subsidies or Housing Choice Vouchers, which typically means financial investment from the federal government.[5] In other words, in most jurisdictions, production of these deeply affordable units will primarily depend on investments from federal sources.

Jurisdictions and stakeholders must continue to advocate for increased federal resources to help support housing assistance for households with the lowest incomes and those that need permanent supportive housing. It will be necessary to develop innovative means to use state and local resources to subsidize these units.

On the other side of the federal affordable housing doughnut hole, many housing production subsidies instead target units affordable to households with incomes of 50–80 percent of AMI. Such programs include the Low Income Housing Tax Credit (LIHTC, the largest program), the HOME Investment Partnerships Program (HOME), and the Community Development Block Grant. Though these programs can be used to support housing below 50–80 percent of AMI, production is often skewed toward higher income levels: higher incomes can support higher rents, thereby reducing the funding required for development. Given these higher-cost units still qualify for federal funding and also bring in higher potential rents, this band of affordable housing is comparatively easier to produce, which is reflected in table 2.

The end result is that households earning too much to qualify for a voucher but not enough to afford their rent are left out of current federal programs. Considering that production of units for the 30–50 percent of AMI band typically does not require operating subsidies, local jurisdictions have significant opportunities to address this gap and leverage their own resources and policies to do so. Policy levers and practices are available to local jurisdictions that can increase production and help jurisdictions make progress toward their targets for units at 30–50 percent of AMI.[6]

How can jurisdictions produce units at 30–50 percent of AMI?

Local jurisdictions can use several policy tools to incentivize the development of more affordable rental housing (figure 2):

1. **Reduce project costs**
    - ***Land contribution.*** Jurisdictions can contribute the value of their land to reduce or eliminate acquisition costs in exchange for affordability requirements on a portion of the developed housing.
    - ***Property tax abatements.*** Reducing or eliminating property taxes in exchange for providing affordable units reduces ongoing operating costs and increases a property's income. This additional income can allow for larger loans that can help reduce the financing gap.
    - ***Fee waivers and expedited processes.*** Permitting and construction fees add to the cost of projects, as do extended timelines for zoning approvals. A reduction of fees and timelines lowers development costs but may not be as well suited for the level of subsidy required for 30–50 percent of AMI units, given that fees are typically a small overall amount of the budget.

2. **Increase project revenue**

    » ***Gap financing.*** A government or mission-oriented entity can provide a grant or subordinate loan to help fill the financing gap. This is the most straightforward and common form of subsidy to provide units that target households with lower incomes.

    » ***Cross-subsidization.*** Mission-driven developers in areas with strong housing market demand could create mixed-income projects and use higher-income rents to cross-subsidize the operating costs of lower-income units.

3. **Adjust land use**

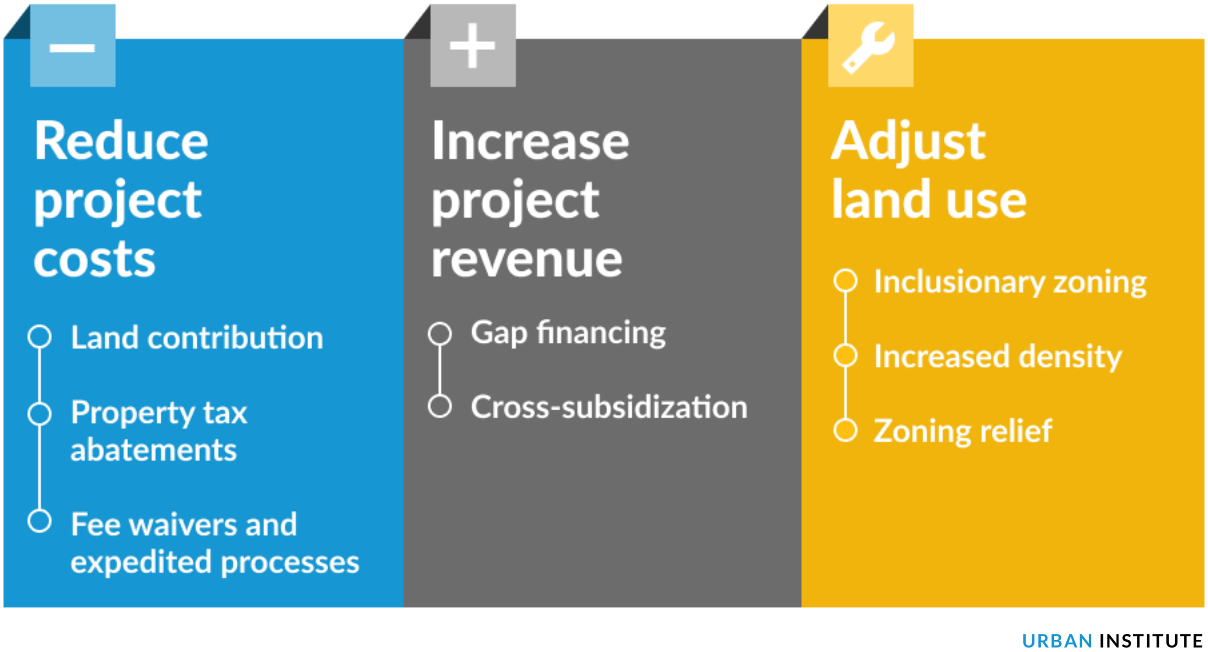
    » ***Inclusionary zoning***. Local governments may be able to establish inclusionary zoning regulations that require a certain percentage of new units to be affordable, allow developers to build above currently allowed zoning limits in exchange for providing affordable units, or both.

    » ***Increased density.*** Zoning that allows for greater density, either by project or more broadly for all affordable projects, helps increase the number of units built, which can reduce the per unit costs of development and distribute operational costs across more units, thereby lowering the financing gap.

    » ***Zoning relief.*** Zoning can impose requirements such as parking minimums that increase costs and reduce the area of a development available for revenue-producing uses such as housing. Zoning relief or adjustments for these requirements, either by project or more broadly for all affordable projects, may allow for lower development costs and increased revenue.

FIGURE 2

Policy Tools that Can Support the Development of Affordable Rental Housing



Source: Framework developed by the authors.

There is not clear consensus on what mix of policies, tools, and funding are needed to produce housing affordable to households at 30–50 percent of AMI. Further, given large affordable housing production goals, some policymakers may be inclined to support development of affordable units in higher income bands, as that would maximize limited subsidies to produce more units overall. However, as shown in table 1, many renters with lower incomes will continue to struggle with unaffordable rents.

While the above policy tools can make production of units affordable to households with incomes of 30–50 percent of AMI more financially feasible, they cannot ensure those units are produced. Even if housing at this level is financially viable to produce, developers and investors still obtain a greater return on investment from higher-rent developments. In the next section, we highlight the importance of attaching explicit requirements for 30–50 percent of AMI production to policies designed to close the financing gap.

Five Practices to Increase Production of Units at 30–50 Percent of AMI

To understand how greater DC jurisdictions explicitly support affordable rental housing production for households with incomes between 30 and 50 percent of AMI, we conducted a web scan to document program criteria and regulations for major local production programs in the District of Columbia; in Montgomery and Prince George's counties in Maryland; and in the City of Alexandria and Arlington, Fairfax, Loudoun, and Prince William Counties in Virginia.[7] To fill in gaps, we shared draft results of the scan and interviewed jurisdiction staff, primarily at housing departments, to gather their feedback and perspectives. We also interviewed several affordable housing developers on housing production in this affordability range.

One theme that arose from the scans and interviews was that predictability in financing and affordability requirements is important, as the development process takes considerable time. Predictable ongoing funding can help the public and private sectors justify the long-term investment in building capacity necessary to ensure a pipeline of projects that meet requirements and maximize subsidies.[8] Jurisdictions also need a variety of policy tools to best use their funding and public resources, regulatory authority, and leadership position in support of affordable housing.[9]

The specific tools and their best combination will vary according to local and state policy contexts. The District of Columbia is an example of how to produce more housing by making robust commitments to deepen affordability by reducing costs, increasing revenue, and adjusting land use. Expanding production of housing in the 30–50 percent AMI range is challenging, but efforts across the region could be used as models to scale up production. We share five practices that jurisdictions could use to better meet their residents' housing needs.[10]

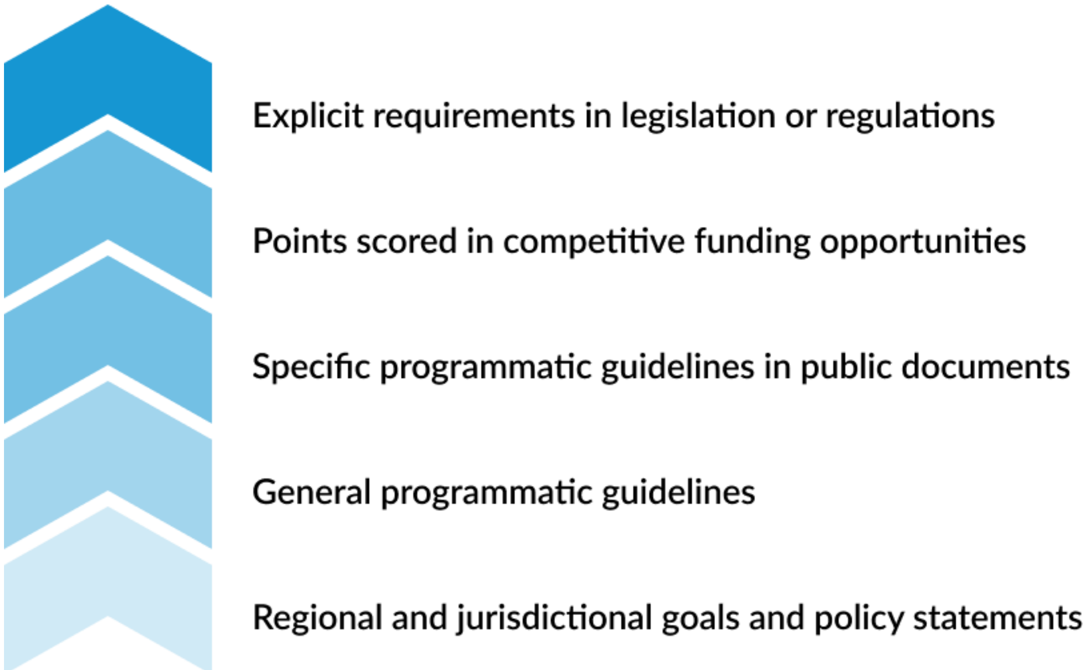
1. Make more explicit public commitments to deepening affordability.

Public commitments such as policy statements by elected officials and explicit requirements in regulations and legislation are signals to housing developers about what types of projects local jurisdictions will support. Housing production often requires coordination between government departments (e.g., economic development, planning, housing, transportation). Such public commitments can help with cross-department buy-in and with the local legislature, and perhaps most importantly, align and increase investments.

Most jurisdictions in the greater DC region express at least some explicit priorities across their programs for delivering rental units affordable to households with incomes of 30–50 percent of AMI. Moving up our Ladder of Explicitness for Housing Affordability Goals (figure 1) helps increase the predictability of a jurisdiction's response to developers even as administrations and council members change. Doing so also challenges jurisdictions and housing developers to innovate new ideas and collaborations.

FIGURE 3

Ladder of Explicitness for Housing Affordability Goals



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Source: Framework developed by the authors.

Public commitments cannot produce more affordability themselves and must be combined with the other four practices. Goals and commitments must be calibrated with the level of resources and market realities to avoid unintended consequences of dampening affordable housing production by creating unworkable requirements.

BOX 1

Using the Ladder of Explicitness for Housing Affordability Goals

The following examples illustrate how a jurisdiction's goals and commitments can align with each rung in the Ladder of Explicitness for Housing Affordability Goals.

- Regional and jurisdictional goals and policy statements
    - » The Metropolitan Washington Council of Governments' housing goals and the jurisdiction-level targets adopted by the District of Columbia, the City of Alexandria, and Prince George's County are important market signals but need to be paired with programs and policies aligned with these goals.
- General programmatic guidelines

- Arlington County's Affordable Housing Master Plan (2015) prioritizes colocation of housing with public facilities, requiring the county to "consider affordable housing needs and goals when planning for major capital investment in new or redeveloping existing major community facilities." This strategy, which does not specifically identify targeted income bands or include a formal policy mechanism, is common in the asset disposition and colocation policies in jurisdictions in the greater DC region. Most policies do not have explicit public goals for the affordability of housing produced on public land or colocated with public facilities.

- Specific programmatic guidelines in public documents
  - As mechanisms for communicating priorities, jurisdictions can leverage notices of funding availability or other requests for proposals seeking local gap financing or land disposition. For example, the Prince George's County FY 2022 notice included a new priority for HOME and housing investment trust fund (HITF) funding to "maximize the availability of units affordable to households with incomes at or below 50 percent of the AMI."11
- Points scored in competitive funding opportunities
  - To better align with the housing needs identified in the Arlington County implementation framework, Arlington County changed its FY 2022 notice of funding availability to include a scoring criterion for units below 60 percent of AMI, with the most points awarded to projects with 25 percent committed affordable units at 50 percent of AMI.[12] County interviewees reported seeing more proposals with more units at 50 percent and below.
- Explicit requirements in legislation or regulations
  - The District of Columbia's affordability requirements for the Housing Production Trust Fund were explicitly written into legislation and require that 50 percent of spending from the fund services households with incomes below 30 percent of AMI, with at least another 40 percent of funds serving households with incomes 30 to 50 percent of AMI.

2. Increase overall affordable housing investment.

Perhaps unsurprisingly, interviewees unanimously identified a lack of financing as the biggest barrier to producing units affordable to households with incomes of 30–50 percent of AMI. Consequently, jurisdictions can most directly support production by increasing public investment and catalyzing new private investments in affordable housing development.

Large one-time investments are not likely to be as effective at increasing production as sustained investment. Citing the long life cycle of housing development—namely, that several years can elapse between project origination and construction and that projects must be financially viable for decades—developers we interviewed stressed the importance of sustained investments in maintaining a consistent pipeline and capacity in both the public and private sectors. In the greater DC region, jurisdictions have committed to creating dedicated revenue sources for trust funds or expanding the level of investment.

Historically possessing large amounts of unsubsidized affordable housing, Prince George's County has substantially increased its local investments to respond to growing affordability pressures. In FY 2013, only 3 percent of housing-related public funding in the county was from local revenue (Hendey, Tatian, and MacDonald 2014). Citing this number, in 2021, the county dedicated a source of revenue to its HITF, which funds the county's Workforce Housing Gap Financing Program.[13] The HITF now receives the lesser of $10 million or 20 percent of the county's recordation tax.[14]

In the District of Columbia, the Housing Production Trust Fund has been the city's primary local tool to support affordable housing development. The long-standing fund is based on a dedicated revenue stream, mostly from the deed and recordation tax. But, the fund's resources have been augmented significantly with appropriated funds since Mayor Muriel Bowser took office in 2015, pledging to commit at least $100 million in combined funding each year.[15] These resources have helped produce more than 9,300 affordable units since 2015, 47 percent of which are affordable to households with incomes below 50 percent of AMI.[16]

In addition to a housing trust fund, Alexandria has piloted grant assistance to enable 10 percent of units in the LIHTC developments the city helps fund to rent at rates that are affordable to households with very low incomes.

For jurisdictions authorized to use them, payment-in-lieu-of-taxes (PILOT) programs or property tax abatements can be effective financial tools to support affordable housing development.[17] Unlike housing trust fund investments, which help close the affordable housing financing gap through an additional source of funds, PILOTs and tax abatements help developments "pencil out" by reducing project costs over time and therefore reducing the funding needed up front. That difference notwithstanding, developers stressed that PILOTs and tax abatements must be processed quickly and predictably to have their greatest impact. To that end, Montgomery County established an automatic PILOT in 2021 that exempts 100 percent of property tax of dwelling units affordable to households with incomes 60 percent of AMI or below.[18]

3. Leverage public assets.

Land costs are a significant driver of development costs, especially in higher-cost areas such as the greater DC area. In response, jurisdictions have increasingly leveraged public land and other public assets, such as by colocating public facilities, to support affordable housing development. According to the 2022 HAND/Urban Institute Housing Indicator Tool survey, six of eight jurisdictions indicated that they prioritize making publicly owned land available for affordable housing, though few have created requirements for the level of affordability public land should support. For example, Loudoun County's 2021 Unmet Housing Needs Strategic Plan identifies "using public land and facilities for housing" as a potential affordable housing strategy (Loudoun County 2021). In 2022, Loudoun used this strategy to approve disposition of the historic Arcola School site, which will result in a development with units at

30, 50, and 60 percent of AMI, and a park-and-ride lot that will be developed into affordable housing with units at 50 and 80 percent of AMI.[19]

In Virginia, jurisdictions commonly use the authority granted by the state's 2002 Public-Private Education Facilities and Infrastructure Act, which allows localities to enter public-private partnerships for capital projects, to develop affordable housing on public land. Fairfax County, for instance, has partnered with developers to build affordable housing on parcels owned by the county or the Fairfax County Redevelopment and Housing Authority. One such project is the Residences at Government Center II, which will include units between 30 and 70 percent of AMI, with roughly one-third of units affordable to households with incomes below 50 percent of AMI (Lincoln Avenue Capital 2021).

Some jurisdictions have operationalized the priority for affordable housing, requiring that housing developments created through the disposal of public land include affordable units. Since 2014, the Code of the District of Columbia has required, when the disposition of city-owned land would lead to the construction of residential developments with 10 or more units, that 30 percent of units be affordable in transit-oriented development areas and 20 percent in other areas.[20] For rental units, 25 percent of the affordable units must be set aside for households with incomes at 30 percent of AMI or below and the remaining 75 percent of affordable units for households with incomes at 50 percent of AMI or below.

Despite its promise, this approach is not without challenges. First, before jurisdictions can use public land for affordable housing development, they need an accurate inventory of their holdings. Further, because the government agencies that own land or other assets are not necessarily those responsible for promoting affordable housing development, to use public land effectively for affordable housing requires close intergovernmental coordination. To mitigate this challenge, Arlington County has recently tasked a Department of Community Planning, Housing, and Development staff person with "being an advocate on affordable housing" in discussions with other county departments.

In addition to directly contributing land for affordable housing, jurisdictions have sought to colocate affordable housing with capital improvement projects. In Alexandria, the city partnered with the Alexandria Housing Development Corporation (recently rebranded as Housing Alexandria) to integrate affordable housing into a planned fire station in Potomac Yard. The partnership culminated with the construction of the Station at Potomac Yard Apartments, including the fire station and 64 affordable units.[21] In Montgomery County, to integrate affordable housing directly into the capital construction process, the Office of Management and Budget is required to conduct an affordable housing development assessment for every applicable project in its Capital Improvements Program. Recent legislation shifted this assessment earlier in the development process, increasing the likelihood that affordable housing is included in capital projects, when viable.[22]

4. Update zoning to reflect current needs.

Zoning and land use policies can directly influence the production of affordable housing units in three ways.[23] First, some zoning regulations impose requirements, such as for parking, that can increase project costs and therefore the subsidy required for deeper affordability. Loudoun and Fairfax Counties are exploring reductions in parking requirements. In Fairfax, an effort called Parking Reimagined will review the county's parking-related zoning regulations to "modern[ize] parking and loading requirements, creating greater flexibility in the provision of parking for current and future land uses."[24] The proposed changes recommend a parking adjustment based on affordability criteria (Fairfax County 2022). In Loudoun, interviewees shared that parking requirements are under discussion in the zoning ordinance rewrite, with a particular focus on the county's "urban policy areas" near transit.[25]

Second, jurisdictions can use zoning relief, such as density bonuses, to incentivize the provision of affordable housing. Alexandria created a new residential multifamily zone that enables developers to build at significantly greater density following a special use permit process, which must include an affordable housing plan.[26] Projects are required to include committed affordable housing equivalent to one-third the increase in floor area. Average rents paid in the committed affordable units are capped at 40 percent of AMI. Four projects have received approvals to use the zone, totaling more than 600 units of affordable housing. In 2021, the city's Office of Housing and Department of Planning were awarded the Urban Land Institute's Robert C. Larson Housing Policy Leadership Award for the residential multifamily zone.[27]

Finally, even when zoning relief is not offered, rules can require developers to make a certain percentage of units affordable in each project. Often called inclusionary zoning, such rules can be written into a jurisdiction's zoning code. With its Moderately-Priced Dwelling Unit program, established in 1976, Montgomery County has long practiced inclusionary zoning. The rental program requires affordable units to be attainable for households earning 65–70 percent of AMI, make up 12.5 to 15 percent of units in any development with 20 or more units, and remain affordable for 99 years. Montgomery County reported creating 1,288 rental MPDUs in the past five years.[28]

Two other DC area jurisdictions may expand or create inclusionary zoning programs: In Loudoun, the board of supervisors recently directed staff rewriting its zoning ordinance to revise the Affordable Dwelling Units program to change the exemption for multifamily buildings with four or more stories, which has limited the production of ADUs, to eight or more stories. Prince William County included the adoption of an ADU ordinance in the housing strategy in its 2022 comprehensive plan update (Prince William County 2022b).

5. Increase state collaboration and external partnerships.

In the greater DC region, policies, practices, and funding at the state level in Maryland and Virginia and by external partners also shape the affordable housing local jurisdictions produce. We note four areas of collaboration that stakeholders, including local governments, employers, philanthropy, and housing advocates, could support to increase affordable rental production for families with incomes of 30–50 percent of AMI.

First, household income requirements for state funding sources can both inform downstream requirements from local jurisdictions and help deliver more units. Jurisdictions and developers can provide states with feedback on these mechanisms and encourage modifications that would help deepen affordability where needed. Several interviewees noted that the Maryland Qualified Allocation Plan and scoring guidelines for LIHTC give additional points to projects with lower average AMI levels. Further, to be competitive for state funding, projects need to deliver units with deeper affordability, below 50 percent of AMI (Maryland DHCD 2022). Virginia Housing also provides additional points for projects with deeper affordability, but the state's H.B. 854 Statewide Housing Study notes that a scoring preference for developments under 100 units reduces the likelihood that larger projects are awarded tax credits, which may make it more difficult to include a larger share of units below 50 percent of AMI (Virginia Housing 2023; Virginia Housing and DHCD 2022). The study also recommends monitoring and expanding the use of income averaging to increase the number of units below 50 percent of AMI.[29]

Second, coordinated advocacy efforts and collaboration could also help increase and better target state resources. Both Maryland and Virginia have increased resources for rental housing production, but additional advocacy will be needed to sustain and increase funding levels. Maryland increased capital resources for rental housing programs in the last several years, with $177.35 million allocated in FY 2023. Citing increased construction and financing costs, the Maryland Affordable Housing Coalition is calling for additional resources to ensure projects in the pipeline can move forward.[30] Virginia significantly increased the resources allocated to the Virginia Housing Trust Fund since FY 2021, with $75 million allocated in each of FY 2023 and FY 2024.[31]

In Virginia, projects funded by the trust fund through the Affordable and Special Needs Housing program must meet the income requirements of the project's other funding sources, such as the National Housing Trust Fund or HOME funding. Conversely, trust fund units are restricted only at 80 percent of AMI or below (Virginia DHCD 2022). The trust fund awards additional points for projects that include permanent supportive housing (but not for deeper affordability). The state also created the Virginia Housing Opportunity Credit in 2021, a housing tax credit that can defray state tax liability for projects with federal LIHTC.[32] This program issues $60 million in credits annually but will sunset in five years unless reenacted.

Third, both Maryland's and Virginia's housing assessments recommend expanding resources for affordable rental housing with the use of private-activity bonds through LIHTC 4 percent bonds (NCSG and Enterprise Community Partners 2022; Virginia Housing and DHCD 2022). As states hold public land, there may be opportunities for local jurisdictions to work with state agencies to increase support for using public land to colocate facilities for affordable housing. For example, interviewees noted that staging areas surrounding Maryland's proposed light rail line, the Purple Line, currently owned by the Maryland Department of Transportation, could be used for affordable housing development when the line is completed.

Currently, local jurisdictions in Northern Virginia have fewer affordable housing tools than the District of Columbia and counties in Maryland. Local jurisdictions in Virginia don't have the authority to do PILOT programs and have limits on their authority to do inclusionary zoning, both of which affect housing production. Only a handful of Virginia jurisdictions can require mandatory inclusionary zoning. All others can create affordable dwelling units only through rezoning, special use permit requests, or subdivision and site planning.[33] Nevertheless, there are opportunities to encourage the commonwealth legislature to expand these tools. For example, the H.B. 854 Statewide Housing Study property tax reduction workgroup recommended changes to the Virginia constitution and code to allow local jurisdictions greater flexibility to establish PILOT programs or other tax abatement options for affordable housing (Virginia Housing and DHCD 2022).

Finally, local governments and developers can partner with nongovernmental sectors in the region to help increase affordable rental production by leveraging private dollars or land to help fill the financing gap. In the greater DC region, partnerships with large employers, anchor institutions such as hospitals and universities, and large landowners have produced affordable housing through investments of capital or land (Gring-Pemble et al. 2023; Reynolds et al. 2019). The Amazon Housing Equity Fund has provided grants and low-cost loans to help produce about 2,800 new units across the region as of the end of 2022.[34] Kaiser Permanente invested $5 million in a revolving loan fund to increase affordable housing production and preservation around the Purple Line.[35] The Washington Area Metro Transit Authority 10-year strategic plan for joint development includes partnering with jurisdictions and private developers to build 40 Metro light rail stations, which supports regional housing goals and creates opportunities for affordable units near transit. Enterprise Community Partners helps support faith communities to build affordable housing on vacant or underutilized land.

Conclusion

Filling the federal affordable housing doughnut hole for households with incomes of 30–50 percent of AMI is a challenge that will require every jurisdiction to think about how they can best reduce project costs, increase project revenue, and adjust land use. We believe that local jurisdictions making more explicit public commitments to deepening affordability will help the private sector better tailor their response to households with low incomes and plan future developments. But we know these commitments need to be accompanied by efforts to increase investment levels, leverage public assets, update zoning to reflect current housing needs, and increase collaboration with states and external partners.

Notes

[1] Unless otherwise noted, statistics for the greater DC region include the following jurisdictions: the District of Columbia; in Maryland: Charles, Frederick, Montgomery, and Prince George's counties; and in Virginia: Arlington, Fairfax, Loudoun, and Prince William counties, and the cities of Alexandria, Falls Church, Fairfax, Manassas, and Manassas Park.

[2] "Regional Housing Targets," Metropolitan Washington Council of Governments, accessed March 28, 2023, https://www.mwcog.org/community/planning-areas/housing-and-homelessness/regional-housing-initiative/. The initiative's projections of households by housing cost needs were based on Turner and others (2019).

[3] The Metropolitan Washington Council of Governments' Regional Housing Initiative also included a third target of 75 percent of new units located near jobs (i.e., Activity Centers) or high-capacity transit.

[4] The results of surveys of DC-area jurisdictions are reported annually in HAND's Housing Indicator Tool (HIT), https://hit.handhousing.org/.

[5] Pamela Blumenthal, Reed Jordan, Amy Clark, Ethan Handelman, and Rebecca King, "The Cost of Affordable Housing: Does It Pencil Out?" Urban Institute, 2016, https://apps.urban.org/features/cost-of-affordable-housing/.

[6] Though not the subject of this brief, the preservation of both subsidized and unsubsidized but affordable rental units also is critical to addressing the greater DC, region's affordable housing challenge. Some of the policy levers discussed, including gap financing, tax exemptions, and density bonus, could also facilitate the redevelopment and rehabilitation of properties to preserve their affordability.

[7] The web scan of affordable housing program criteria and regulations focused on major local policies and financing mechanisms: inclusionary zoning and density bonuses, disposition of public land and assets, housing trust funds, tax abatements, and fee waivers.

[8] Though the time needed to develop a project depends on the jurisdiction where it is located, as well as its size and complexity, more than three years are usually needed from start to finish. Predevelopment and assembly of financing take at least one year and the construction of a multifamily building takes about two years. Additional subsidies and processes only lengthen the predevelopment and financing timelines, sometimes adding one year or more.

[9] See the discussion of policy tools and contributions in Turner and others (2019) that outlines how jurisdictions can use laws and regulations, public funding and resources, and voice and convening power to develop a policy portfolio that will preserve and produce affordable housing and protect vulnerable residents.

[10] Though we focus on production for of rental units affordable to households at 30 to 50 percent of AMI, the practices we outline would also facilitate the production of more units affordable for households with incomes at below 30 percent of AMI. These practices would likely also need to be paired with operating subsidies or project-based or tenant-based vouchers to deepen affordability to this level.

[11] "Notice of Funding Availability (NOFA) Multifamily Rental Housing," Prince George's County Department of Housing and Community Development, December 9, 2022, https://www.princegeorgescountymd.gov/2935/Notice-of-Funding-Availability.

[12] "Scoring Guidance for the Fiscal Year 2022 Arlington County Notice of Funding Availability (NOFA) for County Loan Funds," Arlington County, Virginia, Housing Division, June 2021, https://arlingtonva.s3.amazonaws.com/wp-content/uploads/sites/15/2021/04/Final-Guidelines_FY22.pdf.

[13] Prince George's County, Council Bill CB-4-2021, "Housing Investment Trust Fund—Sustainable Source of Funding, March 30, 2021, https://princegeorgescountymd.legistar.com/LegislationDetail.aspx?ID=4760564&GUID=37511272-9FC2-4966-86AE-93B8AA1393BD&Options=ID|Text|&Search=CB-004-2021.

[14] In FY 2023 the Prince George's County HITF received an additional $10 million in funding from the state to target projects located near transit.

[15] "Mayor Bowser Unveils Unprecedented $400M Investment in Housing Production Trust Fund," Government of the District of Columbia, news release, September 30, 2021, https://mayor.dc.gov/release/mayor-bowser-unveils-unprecedented-400m-investment-housing-production-trust-fund.

[16] Office of the Deputy Mayor for Planning and Development, "36,000 Housing Count—DMPED 36,000 by 2025 Dashboard," District of Columbia, accessed March 28, 2023, https://open.dc.gov/36000by2025/.

[17] Local jurisdictions in Virginia do not have the authorization to exempt affordable housing developments from property taxes, even partially, unless they meet specific guidelines and are in located in designated redevelopment, conservation, or rehabilitation districts. For more details, see "Property Tax Reduction" in H.B. 854 Statewide Housing Study, https://dmz1.dhcd.virginia.gov/HB854/part-5-propertytax.html.

[18] Montgomery County, Bill 26-21, December 27, 2021, https://apps.montgomerycountymd.gov/ccllims/DownloadFilePage?FileName=2717_1_18956_Bill_26-21_Signed_20211227.pdf

[19] HAND/Urban Institute 2022 survey of local jurisdictions. The results are available on the Housing Indicator Tool, available at https://hit.handhousing.org/. See also Nathaniel Cline, "Loudoun Supervisors Agree to Transfer Parcels of Old Arcola School Site for New Homes," *Loudoun Times-Mirror*, March 9, 2022, https://www.loudountimes.com/news/loudoun-supervisors-agree-to-transfer-parcels-of-old-arcola-school-site-for-new-homes/article_3afa0bf6-9eff-11ec-bdc2-6b981b5ca0d1.html.

[20] The disposition of public land for affordable housing is regulated by Section 10-801 of the District Code.

[21] "Building the Station at Potomac Yard: A Model for Public/Private Partnership," Housing Alexandria blog, November 9, 2018, https://www.housingalexandria.org/blog/station-history.

[22] Montgomery County, Bill 33-22, "Capital Improvements Program—Affordable Housing Feasibility Study—Required," January 31, 2023, https://www.montgomerycountymd.gov/council/Resources/Files/agenda/col/2023/20230131/20230131_5.pdf.

[23] For more details on how land use regulations can be used to advance affordability and equity, see Yonah Freemark, Lydia Lo, Eleanor Noble, and Ananya Hariharan, "Cracking the Zoning Code," Urban Institute, May 2022, https://apps.urban.org/features/advancing-equity-affordability-through-zoning.

[24] "Parking Reimagined," Fairfax County, accessed March 28, 2023, https://www.fairfaxcounty.gov/planning-development/zoning-ordinance/parking-reimagined.

[25] According to the Loudoun County 2019 Comprehensive Plan, the County's three urban policy areas "represent major growth opportunities for Loudoun with mixed-use and transit-oriented place types and development intensity not previously contemplated" (Loudoun County 2019, chapter 1-3).

[26] Property owners anywhere in Alexandria can apply for the residential multifamily zone. See "Residential Multifamily (RMF) Zone Text Amendment: Frequently Asked Questions," City of Alexandria, Virginia, January 30, 2019, https://media.alexandriava.gov/docs-archives/planning/info/rmfzonefaqs01302019final.pdf.

[27] "Robert C. Larson Awards 2021 Winner: Alexandria's RMF Zone," ULI Americas, news release, October 8, 2021, https://americas.uli.org/robert-c-larson-awards-2021-winner-alexandria-rmf/.

[28] HAND/Urban Institute 2022 survey of local jurisdictions. The results are available on the Housing Indicator Tool, available at https://hit.handhousing.org/.

[29] Changes to LIHTC regulations in the Affordable Housing Credit Improvement Act of 2016 allow "income averaging," which means that developments can have some units affordable to households with incomes at 80 percent of AMI, as long as the average of incomes across the whole development is at 60 percent of AMI. Income averaging could allow for more units below 50 percent of AMI balanced out with units at 80 percent of AMI.

[30] "2023 Legislative Committee Information," Maryland Affordable Housing Coalition, accessed March 28, 2023, https://www.mdahc.org/Legislative-Session.

[31] Jonathan Knopf, "Back to Basics: Virginia Housing Trust Fund," *HousingForward Virginia* (blog), February 23, 2022, https://housingforwardva.org/news/fwd-b05-virginia-housing-trust-fund/; "Housing Policy Matrix," Northern Virginia Affordable Housing Alliance, accessed March 28, 2023, https://nvaha.org/housing-policy/.

[32] "Virginia Housing Opportunity Credit," Virginia Department of Taxation, accessed March 31, 2023, https://www.tax.virginia.gov/housing-and-community-development-tax-credits#virginia-housing-opportunity-credit.

[33] The counties of Albemarle, Arlington, Fairfax, and Loudoun and the cities of Alexandria, Fairfax, and Charlottesville are subject to State Code § 15.2-2304 and have much greater discretion over inclusionary zoning policies than other jurisdictions in Virginia, which are subject to §15.2-2305 and §15.2-2305.1. See Prince William County (2022a) for a detailed review.

[34] "Community Development: Arlington, VA/Washington, DC, Region," Amazon Housing Equity Fund, accessed March 28, 2023, https://www.amazonhousingequity.com/community-impact/arlington-va-washington-dc-region.

[35] "Kaiser Permanente Invests $5 Million in Loan Fund to Catalyze Affordable Housing along the Purple Line Corridor," Kaiser Permanente Insider, news release, November 8, 2021, https://insider.kaiserpermanente.org/kaiser-permanente-invests-5-million-in-loan-fund-to-catalyze-affordable-housing-along-the-purple-line-corridor/.

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