



## ARLINGTON COUNTY, VIRGINIA

**County Board Agenda Item  
Meeting of April 24, 2004**

**DATE:** April 23, 2004

**SUBJECT:** Affordable Housing Guidelines for Site Plan Projects

### **C. M. RECOMMENDATIONS:**

1. Adopt the following “Affordable Housing Guidelines for Site Plan Projects in Metro Corridors:”
  - a. In residential or mixed-use development, a target of 10% of the gross floor area (GFA), exclusive of any bonus, shall be devoted to affordable housing units committed to remain at affordability levels no greater than 60% of the Washington area median family income for terms of no less than 30 years.
  - b. In commercial development, a monetary contribution, set by the County Board, is expected to be made to create or preserve committed affordable housing at the same affordability levels.
2. Set the monetary contribution for commercial development in Metro Corridors at \$4.00 per square foot of gross floor area, adjusted on July 1 of each year based on the change in average assessment of commercial property.
3. Adopt the following Affordable Housing Guidelines for Site Plan Projects Outside of the Metro Corridor:”
  - a. For residential projects, \$4.00 per square foot of gross floor area or \$4,500 per unit, whichever is greater, adjusted on July 1 of each year based on the change in average assessment of multi-family residential property.
  - b. For commercial projects, \$4.00 per square foot of gross floor area, adjusted on July 1 of each year based on the change in average assessment of commercial property.

County Manager: \_\_\_\_\_

County Attorney: \_\_\_\_\_

Staff: Betts Abel, DCPHD, Housing Division, Ken Aughenbaugh, DCPHD, Housing Division  
David Cristeal, DCPHD, Housing Division,

4. Direct the County Manager to develop implementation procedures for the Affordable Housing Guidelines for Site Plan Projects.
5. Direct the County Manager to include a performance review of the Affordable Housing Guidelines for Site Plan Projects as part of the annual report on Housing Targets.

**ISSUE:** What contribution formula should be used in the negotiation of site plan projects to increase the supply of affordable housing while sustaining smart-growth investment?

**SUMMARY:** Arlington is committed to ensuring its long-term economic sustainability as a world-class urban community by planning and encouraging high-quality, mixed-use, smart-growth development. A critical element of this smart-growth philosophy is the achievement of new, committed affordable housing units or, alternatively, the long-term preservation of existing affordable units in a manner which will further mixed-income projects and mixed-income neighborhoods. To provide incentives for private investment to support this overall philosophy, Arlington developed a General Land Use Plan (GLUP) and special exception Site Plan Process that substantially increase development above by-right options, thereby adding significant value to such projects. The County creates this value in multiple ways, including increasing the amount of density permitted, allowing uses that are otherwise prohibited, and modifying parking requirements and other development standards. The enhanced density and value of some recent site plan projects have exceeded by-right options fivefold.

The success of Arlington's site plan process has resulted in recognition of Arlington as a premier smart-growth community, has provided a balanced tax base, and has enabled the County to rebuild much of its infrastructure through development. At the same time, the unintended consequence of rising land values has contributed to putting Arlington's affordable housing at great risk. Market-rate affordable rental housing dropped from 53% of the rental housing stock in 2000 to only 38% in 2002 (based on 60 percent of median income). Rental vacancy rates are well below the industry expectation of 5%. Arlington's federal Section 8 program and the locally funded Housing Grants program are fully subscribed. Increases in single-family home prices have been even more dramatic, with average sales prices rising to \$589,000 in the first quarter of 2004.

Unless significant action is taken, the long-term success of Arlington's smart-growth development is in jeopardy of losing the diverse, mixed-income population that provides the workforce to fill the range of jobs created and live where it works. In order to provide an economically diverse community and workforce, especially in the Metro corridor, and to support Arlington's continued growth, some of the added value created by the General Land Use Plan and Site Plan Process must be devoted to offsetting the unintended impact of rapidly increasing housing costs. The proposed Guidelines are a step in seeking to address the affordability of housing in Arlington, while continuing to provide high-value development opportunities, especially in the Metro corridors.

The "Affordable Housing Guidelines for Site Plan Projects" (Guidelines) clarify County goals for the Site Plan Process and, in so doing, should facilitate the review process and address the

full range of impacts of development. The guidelines also support Arlington's vision and commitment to a diverse and inclusive population, in a caring community in which each person is important.

**BACKGROUND:** Arlington's affordable housing guidelines have evolved over the years. The most recent guidelines were adopted on December 6, 2003, on an interim basis. The interim guidelines replaced guidelines that had been in effect since 2001. The guidelines proposed herein evolved out of a proposal from the Ad Hoc Affordable Housing Group, a coalition of community affordable housing advocates. The Ad Hoc Group proposed establishing affordable housing contributions for site plan projects based on 10% of a project's gross floor area (GFA). On February 21, 2004, the County Board adopted a resolution directing the County Manager to draft site plan guidelines after studying the Ad Hoc proposal.

In the context of the Site Plan Process, the Guidelines set forth aspirational goals to be achieved as part of a specific site plan project. They are not an inclusionary zoning regulation nor do they establish an absolute requirement. The Guidelines direct the negotiation of mutually agreed conditions incorporated in a special exception sought by a site plan applicant and are intended to provide the standards for such negotiation in order to achieve high levels of certainty, consistency, and fairness. The conditions are designed to ameliorate the impacts of a site plan project on the surrounding neighborhoods and to further the County's land use objectives, including, among others, achieving an attractive, harmonious, and economically diverse and sustainable community. Arlington considers maintaining housing for a mixed-income population essential to achieving these goals. All aspects of a site plan are considered in evaluating a site plan project, including the totality of the conditions, viewed as a unified, interrelated whole, not a collection of disparate provisions. All elements of the project are considered in the context of sound land use planning, good zoning practice, and the general welfare of the community.

The failure of a site plan application to achieve the goals in the Guidelines - or any other site plan guideline - does not necessitate the denial of the site plan application. The overall set of conditions, however, must sufficiently address the impacts of a site plan project and warrant the request for modification of zoning regulations. The failure of a project to achieve the affordable housing goals - or any other applicable community goals - would necessitate careful scrutiny of the site plan application to ensure that, on balance, the County's objectives are met.

The adoption of these Guidelines is also not intended to suggest implications for other planning processes or affordable housing tools. This includes use of bonus density in appropriate circumstances as the County Board may determine, such as the replacement or expansion of affordable housing beyond the Guidelines.

These Guidelines are intended to be consistent with the Affordable Housing Goals and Targets approved by the County Board on 12/6/03.

**DISCUSSION:** The following addresses issues related to each of the recommendations.

**1. Adopt the following “Affordable Housing Guidelines for Site Plan Projects in Metro Corridors:”**

- a) In residential or mixed-use development, a target of 10% of the gross floor area (GFA), exclusive of any bonus, shall be devoted to affordable housing units committed to remain at affordability levels no greater than 60% of the Washington area median family income for terms of no less than 30 years.
- b) In commercial development, a monetary contribution, set by the County Board, is expected to be made to create or preserve committed affordable housing at the same affordability levels.

**2. Set the monetary contribution for commercial development at \$4.00 per square foot of gross floor area, adjusted on July 1 of each year based on the change in average assessment of commercial property.**

There are two issues integral to the basic policy: (a) on what basis should the affordable housing contribution be calculated, and (b) how much should the contribution be? The interim guidelines are based on a contribution of a fixed amount per square foot of gross floor area or per residential unit, whichever is higher. The contributions in the previous guidelines were based on a percentage of construction costs. The challenge in revising the guidelines is determining an appropriate level that will effectively achieve the County’s goals while maintaining sufficient incentive for developers to continue investing in Arlington through the site plan process. After conducting a series of financial analyses, staff’s conclusion is that the future economic impacts of the Guidelines cannot be fully known since too many other variables influence development decisions, especially market demand and land prices. Based on reviews of recent projects and models of projects that are otherwise viable in the current market, it is clear that site plans offer substantial values above by-right options that should be sufficient to achieve the Guidelines.

**3. Adopt Affordable Housing Guidelines for Site Plan Projects Outside of the Metro Corridor:**

- a) For residential projects, \$4.00 per square foot of gross floor area or \$4,500 per unit, whichever is greater, adjusted on July 1 of each year based on the change in average assessment of multi-family residential property.
- b) For commercial projects, \$4.00 per square foot of gross floor area, adjusted on July 1 of each year based on the change in average assessment of commercial property.

These Guidelines are intended to provide an appropriate level of support to affordable housing goals relative to the impact different site plan projects have on affordable

housing issues. Projects outside of the Metro Corridor are typically of a smaller scale and may not be as conducive to providing on-site or off-site units. To provide clear and consistent guidelines for these projects, monetary contributions are proposed in the amounts listed above. When feasible, however, developers are encouraged to use these resources to provide on-site housing or actual units off-site. The amounts are indexed to market changes in residential and commercial properties.

#### **4. Direct the County Manager to develop implementation procedures for the Affordable Housing Guidelines for Site Plan Projects.**

A number of implementation issues have been raised in the discussion of the Guidelines. Upon adoption of the Guidelines, staff will develop implementation procedures in consultation with the Housing Commission. Some of the major items to be developed with the Housing Commission are as follows:

- Off-Site Affordable Housing: The policy goal is to achieve newly committed affordable units. As an alternative to on-site units, preservation of newly committed off-site affordable units of equivalent value may be considered, especially if such units can be provided in perpetuity in partnership with non-profit housing providers. Factors that may be considered in evaluating off-site units include the following:
  - An ability to facilitate and expedite relocation of tenants from existing affordable housing on the development site and minimize disruption of their lives;
  - Excessive per-unit subsidy for committed affordable units, applied primarily to ownership products (such as subsidies greater than 100% of the affordable sales price);
  - Inefficiency of managing too few on-site units (such as fewer than 10 rental units);
  - An opportunity to advance other affordable housing goals, such as more units, permanent units, and a better unit mix.

It is preferred that off-site units be provided in the same Metro station area of the project; off-site units must be provided within the same Metro corridor in order to achieve the goal of mixed-income neighborhoods. The option of off-site units is intended to stimulate the development community to develop creative solutions for preserving limited, lower density affordable housing in the Metro corridors and to offer developers flexibility in meeting the Guidelines.

- Contribution In Lieu of New or Newly Committed Affordable Housing. In certain, exceptional circumstances, the County Board may determine that on-site or nearby off-site units are not appropriate and the County Board may consider accepting a

financial contribution at least equal to the value of on-site housing meeting the 10% GFA standard in the Metro Corridors .

A contribution received for affordable housing would be used for the creation of new or preserved units using the County's housing partners. When the County Board decides that it is in the best interest of the community to accept a contribution, preference for its use will first be in the same Metro station area as the project contributing the funds (or walking distance thereto) and secondly in the same transportation corridor as the development (or walking distance of that corridor). When there is a compelling opportunity to meet other affordable housing goals, the County Board may consider projects elsewhere in the County.

Determination of the contribution amount is subject to further review. Alternative methodologies will be reviewed with the Housing Commission and a report made to the County Board by July 1, 2004.

- GFA Calculation: The affordable housing GFA should have the same ratio of net leasable or net saleable area to total area as the market-rate component of the project, taking into account "normal" GFA exclusions in site plan projects. There has been a debate on whether to use gross or net GFA. The issue is moot as long as the same definition of gross floor area is used to calculate the overall building and affordable units.
- Transitional Projects: Guidelines adopted by the County Board should apply to site plan projects filed on or after April 22, 2004. An alternative affordable housing contribution will be negotiated for projects filed or considered prior to this date and Phased Development Site Plans (PDSPs).
- Alternative Community Benefits: While affordable housing is clearly established as the County's highest priority benefit, the County Board may conclude that other benefits are more compelling to the community for a limited number of projects that have been identified through the County's various planning processes. It is important to state explicitly that the County Board retains this discretion: For example, we are currently negotiating for a conference center in Pentagon City and expect to achieve a major park as part of Central Place in Rosslyn, a black box theatre as part of the Virginia Square sector plan, and a cultural center as part of the Court House sector plan. In adopting the Guidelines, the County Board is saying unambiguously that affordable housing is the County's top priority. At the same time, there may be a limited number of circumstances whereby the County Board, through its planning processes, determines that another community benefit may be more compelling for a specific project. Staff will develop a list of such circumstances as they are currently known (drawn primarily from Sector Plans) and submit a report to the County Board by July 1, 2004. This work will be done in consultation with the Planning Commission.

- Accessibility for Persons with Disabilities. Affordable units shall meet accessibility requirements no less than that required under the Fair Housing Act and Virginia law.

**5. Direct the County Manager to include a performance review of the Affordable Housing Guidelines for Site Plan Projects as part of the annual report on Housing Targets.**

All of the County's affordable housing targets are reviewed annually to assess performance. These Guidelines will be included in this annual review, beginning with the annual report for Fiscal Year 2005, due in late 2005.

**FINANCIAL ANALYSIS:** Based on an analysis of current market conditions by Bay Area Economics (BAE), the Guidelines should not affect the market viability of projects. Their models suggest that only condominium and townhouse projects are economically viable at this time, regardless of affordable housing guidelines. Likewise, residential rental projects and commercial projects are not viable in the current market, also regardless of affordable housing guidelines. How the market may respond in the future is, at best, speculative. How and if the Guidelines will impact the overall market is not clear since affordable housing will be only one of the economic variables in determining the overall economic viability of a project. Other major variables include the following:

- Cost of land. This is considered the most elastic variable, the value of which has risen dramatically in the past several months, to a level that is not likely to be sustained over time. It appears that land will be the variable most affected by higher site plan contributions. Current land values are estimated at \$65 per square foot of GFA. In 2002 prices were around \$28, rising to the \$36-40 range in 2003, and going off the chart in 2004. How this element in the market responds to the Guidelines is critical to their success. According to BAE, land prices can typically fluctuate 20 percent over a twelve month period.
- Income produced. This includes sale prices of condos and townhouses, rental rates of apartments, and lease rates of commercial property. Ownership products will be affected by supply and demand and by interest rates. Rental and leasing rates will be affected by supply and demand.
- Interest rates for the financing of development.
- Construction costs.
- Operating costs.
- Rate of return to developers and their investors.

Analyses testing the different variables do not provide a basis for predicting future market responses to the Guidelines or other variables. Over the years, Arlington's site plan processes

have changed based on evolving economic conditions in the County. The same will be necessary going forward.

**PROCESS:** The County Board directed that the County Manager convene roundtable meetings to discuss the Ad Hoc proposal, working with the Housing Commission and the Planning Commission. Representatives of these commissions worked with the Manager and staff as a planning group for the roundtable meetings. They made extensive contributions to the management of the process and the development of recommendations. Roundtable meetings included the Ad Hoc Affordable Housing Group, the Alliance for Housing Solutions, the Arlington Affordable and Workplace Housing Coalition, the Civic Federation, the Economic Development Commission, and non-profit housing providers. All meetings were open and attended by a number of people from the public, who were given opportunities to participate in the roundtable proceedings. The roundtable met three times during March and held a final meeting on April 3 to review and comment on a “straw man” set of guidelines incorporating the 10% of GFA proposal. A financial committee was also formed and met several times with BAE and staff on specific financial topics, and reported their results back to the full roundtable group for consideration of the related policy issues. The roundtable meetings provided a valuable forum for information sharing, but time was not adequate to forge a consensus recommendation.

The Housing Commission, Planning Commission and other interested parties reviewed a staff draft of this report. Substantial revisions were made to the staff draft and subsequent working drafts to address issues raised by the Commissions and others. This final report is an effort to frame the broadest possible consensus that achieves the objectives identified by the Board.

**FISCAL IMPACT:** The exact fiscal impacts of the Affordable Housing Guidelines for Site Plan Projects are not fully known at this time and will depend on market forces. If the 10% GFA proposal is successful, affordable housing will be significantly increased with no negative impact. In any event, the market will continue to fluctuate and evolve in the future, as it has in the past. Arlington’s core land use plan, however, continues to offer a sound road map to smart growth and a diverse, economically sustainable community.