

Semi-Annual At-Risk Housing Report:
2007 Summary of Sales and Market Trends; Status of At-Risk Affordable Apartment
Complexes and Loss of Affordability through Expiring Government Finance Agreements
and Subsidy Contracts, Escalating Rents and Condominium Conversions

I. 2007 Apartment Complex Sales

PROPERTY	UNITS	PRICE	OWNER'S PLANS	AMI**	DISTRICT
CORALAIN	106	\$14,850,000	Preservation	60%	Lee
RESTON GLEN	200	\$30,375,000	Preservation*	65%	Hunter Mill
HERNDON OAKS	184	\$23,580,000	Rent Reposition	60%	Dranesville
WEDGEWOOD	672	PENDING	Rent Reposition	65%	Braddock
ARCHSTONE REIT	4,450	PENDING	REIT Stock Sale	***	***

* Forty units of 200 total preserved at 50% AMI

** Rent as percent of AMI (Area Median Income): % AMI reflects existing rents on date of sale

*** Rents in Archstone's communities range from 65 to 100% AMI and are located in four Districts

Four of the County's apartment complexes, not including the pending Archstone-Smith REIT sale, were sold in the first half of 2007. Affordable housing was preserved in half of the sales through the efforts of the FCRHA, the County and the Department of Housing and Community Development. Herndon Oaks and the Wedgewood apartment complex were marketed as "Value-Add" investment opportunities. Value-Add is the concept that unrealized potential exists in a property for a new owner to raise rents through capital improvements and new marketing strategies. HCD pursued Wedgewood but could not compete with the extremely high bids.

The sale of the apartment REIT, Archstone-Smith Trust to Tishman/Lehman Brothers represents the second largest real estate buyout in history. The \$15.2 billion sale of the giant multifamily REIT involves 12 of Archstone's 15 Fairfax County apartment complexes including Woodland Park, Tysons Corner, Reston Landing, Charter Oak and Dulles Apartments (Hunter Mill District), the Ellipse, Bristol at Fairchase and Monument Park apartments (Springfield District), Worldgate (Dranesville District), and Gresham Commons, Sussex Commons and Springfield Station (Lee District). It is reported the REIT's scheduled August closing was postponed until October as a result of the tumultuous debt markets which have impacted interest rates as well as REIT investor confidence and share prices.

The current year, 2007, continues the trend of 2006 with the "for-sale" residential market (houses/ townhouses/condominiums) showing further weakness while the demand for multi-family complexes in the County remains unabated with properties commanding record prices. Sale prices in the multi-family market continue to be driven by large amounts of capital aggressively competing to acquire the few apartment properties that have come to market. These properties are trading at prices that are returning historically low yields (cap rates) to their new owners.

Currently on the market are the Prestwick apartment complex and The Reserve at Regency Park (formerly Brookridge). Prestwick, built in 1962, is a 310-unit mid-rise complex on Leesburg Pike in the Mason District. The Reserve at Regency Park, built in 1988, is a 252-unit garden apartment/townhouse complex off Braddock Road in the Sully District. HCD continues to search out and explore new preservation opportunities with its non-profit and preservation partners.

II. CONDOMINIUM REVERSIONS AND REDEVELOPMENT - 2007

PROJECT	DISTRICT	PROJECT NAME	STATUS
Ridgeleigh at Van Dorn	Lee	Ridgeleigh at Van Dorn	Failed condo conversion returned to rental
Huntington Gardens Apartments	Lee	Huntington Gardens	By-Right redevelopment by TWG Huntington LLC of 54 townhomes
Sunset Knolls Apartments	Sully	Newgate Crossing	By-Right redevelopment by Ryland Homes of 192 units

Prospective condominium conversions, such as The Reserve at Regency Park (formerly Brookridge) in Centreville and West Falls Station (off Leesburg Pike) in Falls Church cancelled condominium sales plans and opted instead to remain as rental apartments (“condominium reversions”). Another condominium reversion involved Ridgeleigh at Van Doren, a 360 unit rental community, which was converted into condominiums in 2006. The project failed and was foreclosed on in May. It has been acquired from the original lender and returned to rental by Waterton Residential.

Other projects, such as Penderbrook Square near Fair Oaks and The Mercer in Reston, that had been selling condominium units opted to rent the balance of unsold units in response to the absence of demand.

III. RENT ESCALATION (Non-Subsidized)

The same economic and rental market forces impacting the subsidized housing stock also affect the County’s non-subsidized housing that accommodate residents with modest incomes defined as at or below 70% of AMI. HCD’s prior evaluations of the non-subsidized housing with modest rents have indicated that this stock has also been steadily diminishing due to rising rents in the County.

The maximum affordable rents (see chart below) reflect the area median income for 2007. The chart lists the maximum income limits and rent limits for households with incomes up to 50%, 60%, and 70% of area median income.

Unit Type	Expected Occupancy	Maximum Income at 50% of AMI	Maximum Rent at 50% of AMI	Maximum Income at 60% of AMI	Maximum Rent at 60% of AMI	Maximum Income at 70% of AMI	Maximum Rent at 70% of AMI
Efficiency	1 person	\$33,100	\$827	\$39,720	\$992	\$46,340	\$1,158
1 BR	1.5 person	\$35,438	\$886	\$42,525	\$1,063	\$49,613	\$1,240
2 BR	3 persons	\$42,550	\$1,063	\$51,060	\$1,276	\$59,570	\$1,489
3 BR	4.5 person	\$49,140	\$1,228	\$58,968	\$1,474	\$68,796	\$1,720

In the past HCD has evaluated the affordability levels of all rental complexes previously identified as having modest rents. This evaluation is part of the preservation efforts identified in the Information Item presented to the FCRHA on May 25, 2000 entitled, "Proposed Strategy to Preserve Low and Moderate Income Housing". In that report HCD recommended that the non-subsidized housing in Fairfax County with modest rents affordable to those with incomes up to 70% of the Metropolitan Statistical Area (MSA) median be included in the FCRHA's preservation efforts and strategies. HCD's analysis will continue to focus on the rental complexes identified as meeting a lower affordability threshold (affordable to households with incomes up to 50% of the Metropolitan Statistical Area median).

HCD's past evaluation of rental complexes with modest rents has relied on rental data from the Rental Housing Complex Census Analysis report, which was based on an annual survey of rental complexes located in Fairfax County conducted by the Fairfax County Department of Systems Management for Human Services (DSMHS). This data is no longer available. However, HCD, working with new data, is developing a current rent affordability table that will show the number of apartments by type whose rent is affordable to house holds with modest incomes. This data should be available by the next report to the FCRHA, in early 2008.

IV. EXPIRATION OF GOVERNMENT FINANCING AGREEMENTS & SUBSIDY CONTRACTS

This section identifies subsidized projects that are considered at-risk, including project-based, bond-financed, and federally insured projects. Attachment 1 lists those projects using a variety of funding sources that have prepaid their mortgages and are lost to the County's affordable housing stock. There are 16 properties with this status, which include 1,580 units of rental housing.

There are 1,239 subsidized units that were or will be at-risk through 2007 as shown on the table below; 1,009 are project-based Section 8 units as shown on Attachment II of which 244 units are located in FCRHA-owned developments whose contracts will continue to be renewed subject to HUD funding. The remaining 765 units will remain affordable subject to continued HUD funding and owner contract renewal.

At the end of 2006 and the first quarter of 2007, three communities, Burke Shire Commons, Paul Spring Retirement Center and Shenandoah Crossing, that contain a total of 230 affordable units, financed through the Fairfax County Redevelopment and

Housing Authority Tax-Exempt Bond Financing Program became at-risk due to the expiration of prepayment restrictions. The continued affordability of these units is subject to the owners keeping the existing financing in place or making a continuing commitment to maintain affordable apartments.

Financing Type	Number of Units At-Risk 2007			
	Expired 2007	Renewed	Lost	Expires 2007 after 09/01/07
<i>Project-based Section 8</i>	634	634	0	375
<i>Privately-Owned FCRHA Bond-Financed</i>	230	102	128	0
<i>Section 236</i>	0	0	0	0
<i>Low Income Housing Tax Credit</i>	0	0	0	0
TOTALS	864	722	128	375

A. Project-Based Section 8 Housing Developments

This report includes all properties within Fairfax County that have project-based Section 8 assistance (see Attachment 2). Currently, there are 29 projects, which contain over 3,562 units. Of these units, 2,865 are Section 8-supported housing.

Attachment 2 highlights the number of units covered under the Section 8 contracts for each property and the expiration date of the contracts. Expiration dates range from July 2006 through 2021. If a project has two contracts, one of which has expired, it remains on the list until the second contract also expires. The projects with contracts expiring during 2007 are in BOLD type on the attachments. Owners can request HUD to provide contract renewals for periods up to five years, subject to yearly appropriations.

STRAWBRIDGE SQUARE Section 8/221(D)(4) Contract Expires 12/2007
Leasehold interest holder AIMCO and owner Wesley Housing indicate they will continue to maintain and provide affordable housing. Present rent restrictions under the ground lease with Wesley run through 2018.

BURKE LAKE GARDENS, EDSALL STATION, BUCKMAN ROAD, STONEGATE VILLAGE, OAKVIEW GARDENS I & II, FELLOWSHIP HOUSE (Lake Anne), CEDAR RIDGE AND WEXFORD MANOR

The Section 8 Contracts for these properties has or will expire in 2007, however, the owners of each have said they intend to continue to renew their HUD contracts on an annual basis into the foreseeable future.

B. Bond-Financed Housing Developments

BURKE SHIRE COMMONS Tax-exempt bond financing prepayment restrictions expired

11/2006.

In March Colorado-based owner AIMCO affected a purchase in lieu of redemption of the Bonds. This good news means that the rent restrictions will remain in effect as long as the Bonds are outstanding. The Bonds mature in October of 2036. In any event whether the Bonds remain outstanding or not the original agreement provides that the current rent restrictions remain in effect through the end of the Qualified Project Period which expires in 2013.

SHENANDOAH CROSSING Tax-exempt bond financing prepayment restrictions expired 4/2007.

The above mentioned AIMCO is also the owner of this 640-unit complex located in Chantilly. AIMCO elected earlier this year to refinance the property thereby prepaying the Bonds. The affordability restrictions that provided lower rents to 128 apartments in this complex have been lost.

PAUL SPRING RETIREMENT CENTER Tax-exempt bond financing prepayment restrictions expired 12/2006.

The Roanoke based owner said it has no plans to prepay the Bonds at this time therefore the affordability restrictions that provide assistance to 30 apartments will remain in place. In 1983 the FCRHA began a tax-exempt financing program for multifamily housing that requires developers to set-aside units for lower income households in accord with IRS requirements. Developments must maintain the low-income restrictions for a specific period of time, referred to as the Qualified Project Period. In general, the Qualified Project Period is the later of ten years or the date that no bonds or Section 8 assistance are outstanding. The majority of the FCRHA financed developments have fulfilled their ten-year requirement; therefore, the "prepayment date" (when the owner can pay off bonds and remove income restrictions) is what puts a project "at-risk". This report is tracking the above listed three projects, which contain 230 affordable units that are considered at-risk. See Attachment 3. This list does not include any FCRHA-financed developments with Section 8 project-based assistance as they are included with the Section 8 projects on Attachment 2.

C. 221(d)(3)/236 Below-Market Housing Developments

A 1996 federal statute allows owners of federally insured Section 221(d)(3) or 236 projects to extend their loans, sell to new owners, or to prepay the mortgage. Should the owners elect to prepay, the County would lose this low and moderate income housing resource. Current tenants affected by an increase to market rent levels as a result of the prepayment may directly receive assistance from HUD under the Section 8 certificate or voucher program. However, this tenant-based assistance is limited and does not preserve long-term affordability.

Projects that are still operating under the Section 236 or 221(d)(3) programs are listed on Attachment 4 (Projects Not At-Risk). They include property owned by the FCRHA, a cooperative and two developments for senior citizens that are owned by nonprofits. This list does not include developments that also have project-based Section 8 assistance, which are listed on Attachment 2.

Reflection Lake Townhouses, a cooperative, which is listed as "not at risk" in Attachment 4 has made a formal request to HUD to prepay its outstanding HUD subsidized mortgage. The HUD subsidized mortgage expires 1/1/2012. HUD said that it is considering the request but only in conjunction with a Use Agreement that would keep

in place the present use restrictions for affordability until January of 2012 as currently provided under the terms and conditions of the present financing. HUD said that refinancing of the property will provide cash for renovation and will require the lender's Scope of Work to stipulate a minimum requirement of \$15,000 per unit be spent for such renovation.

D. Low-Income Housing Tax Credit Properties

Projects financed under the Low-Income Housing Tax Credit (LIHTC) program must meet certain affordability requirements. A minimum of 20% of the units must be occupied by households with incomes that equal 50% or less of the area median gross income (AMI), as adjusted for family size, or a minimum of 40% of the units must be occupied by households whose incomes are 60% or less of the AMI adjusted for family size. The gross rent charged may not exceed 30% of the imputed income limit applicable to such unit size. The property must comply with the income and rent limits for a minimum period of 30 years unless the developer (project owner) is unable to find a buyer after year 15 who will keep the project low income for the remaining fifteen years and purchase it at a price determined by a formula provided by the Internal Revenue Service, and Virginia Housing Development Authority (VHDA), as the allocation agency, is unable to find a buyer at a price equal to or greater than the formula price. Thus, the minimum compliance period is fifteen years plus a three-year phase out period for existing tenants. The developer may also elect to continue the compliance for up to 50 years (to earn additional points under the competitive allocation process established by VHDA).

V. MANUFACTURED HOUSING (MOBILE HOME) PARKS

Eight parks containing a total of 1,784 homes on some 259 acres remain in Fairfax County. The cost to live in one of these parks is a combination of the monthly pad site rental upon which the home sits and the cost of the home itself. Pad rentals range from \$200 to \$740 per month. The price to purchase a new home, dependent on size and manufacturer, ranges from approximately \$40,000 to the low \$100,000's. Penn Daw, located on Richmond Highway (see attachment 6), was recently under contract as part of an assemblage that was cancelled. Penn Daw is once again being negotiated for as part of an assemblage of properties and slated for redevelopment. Another park also located along Richmond Highway, "Ray's", is currently for sale.

ENCLOSED DOCUMENTS:

- Attachment 1: Prepaid or Lost as Affordable Housing Developments
- Attachment 2: Status of Developments with Project-Based Section 8 Assistance
- Attachment 3: At-Risk Bond-Financed Housing Developments
- Attachment 4: Section 236 or 221(d)(3) Developments
- Attachment 5: Status of Developments Financed with Low-Income Housing Tax Credits
- Attachment 6: Mobile Home Park Status