FCRHA Agenda Item
July 21, 2005

INFORMATION – X.

AT-RISK HOUSING PROJECTS SEMIANNUAL REPORT: STATUS OF THE PROJECT-BASED SECTION 8, SECTION 221(d)(3)/236, AND BOND FINANCED DEVELOPMENTS AND NON-SUBSIDIZED HOUSING WITH MODEST RENTS IN FAIRFAX COUNTY

The July 13, 2005 Planning and Development Committee meeting was cancelled, however, the Chair of the Planning and Development Committee recommended placing this item on the FCRHA July 21, 2005 agenda.

This report updates information from the January 2005 report. The primary source of information is the Virginia Housing Development Authority's (VHDA) database that tracks affordable housing projects within the state, which is supplemented with owner responses to Department of Housing and Community Development (HCD) initiated discussions on maintaining projects as affordable housing.

In order to be more proactive in preserving the existing affordable housing stock, HCD is doing the following:

a) Establishing a team to proactively approach owners and educate them on incentives to maintain affordability;
b) Working with the financial community to encourage use of financing programs; and
c) Developing a package of materials for owners, nonprofits, purchasers and others.

This report is broken down into the following five sections:

- Section I provides an executive summary of those housing projects that are at risk of realigning and diminishing the affordable housing stock available in Fairfax County. It also provides a broad assessment of any trends in the rental housing stock and rents.

- Section II displays in tabular format a trend analysis of affordable housing complexes in the County as well as information on the types of units (number of bedrooms) in a sample of the County's affordable housing stock.

- Section III gives an overview of some of the preservation initiatives underway with a focus on private-public partnership.

- Sections IV and V convey the core of this report. These sections discuss specific types of housing developments by funding source and identify certain projects considered at risk. The related attachments provide a listing of the actual housing projects under each category. Section V contains a table that summarizes what rents by unit and household size are affordable at distinct income thresholds.

I. Executive Summary

a. Overview of At-Risk Properties

Fairfax County lost 1,211 subsidized units (including unsubsidized units with rent restrictions) between 1997 and 2005. During the same period of time, average rents have increased 43 percent.

The most recent losses of affordable housing were attributed to 83 tax-exempt bond financed "set-aside" units at **Mount Vernon Apartments** and 81 tax-exempt bond financed set-aside units at **Kingsley Commons**. The owners of Mount Vernon Apartments refinanced the project and prepaid the FCRHA issued tax-exempt bonds in June 2005, resulting in the termination of the income and rent restrictions on the 83 set-aside units pursuant to the FCRHA's tax-exempt bond financing program. HCD previously reported that the owners of Kingsley Commons refinanced the project and prepaid the FCRHA issued tax-exempt bonds in June 2003, however, the deed restrictions requiring income and rent controls on the 81 set-aside units did not expire until May 2005. While the rental market has shown signs of softening (vacancy rates increased two-tenths of a percentage point over 2003 to 5.8 percent), the additional loss of affordable housing units is projected to continue in 2005.

HCD previously reported losses of affordable housing attributed to 55 tax-exempt bond financed "set-aside" units at **Waterside Apartments** in Reston in 2002 and 51 project-based Section 8 units at the **Ashby at McLean** in 2002.

HCD also previously reported that the owner of **Beacon Hill Apartments**, another FCRHA tax-exempt bond financed project, was taking steps to refinance the project. This would have resulted in the loss of 288 set-aside units when the deed restrictions expire in January 2006. However, the owner has entered into an Extended Affordability Agreement that will extend the terms of affordability for five years (see details in Section III.b).

In addition, the owners of **Burke Centre Station Cooperative** elected to not renew the Section 8 contract for 22 units when it expired in October 2004. Vouchers have been issued to qualified households residing in the Section 8 units. A deed restriction will require the owner to maintain 22 of the units under certain affordability restrictions until November 2024 (see details in Section III.a).

Also, the owners of the **Woods of Fairfax** project have issued the one-year notice to the residents indicating that they will not renew their Section 8 contract that currently provides assistance to 35 households when it expires in August 2005 (see details in Section IIIa).

The following table includes subsidized projects considered at risk of realigning toward market rate rents. More detailed information on how they are at risk can be found in Section IV and the related tables.

Housing Tracked	Housing Projects At Risk	

		Units At Risk
a. At Risk or Already Lost since 1997 Section IVa & Attachment 1	12 Projects	1,292 units
b. Section 8 Project-based Section IVb & Attachment 2	4 Projects	578 units (includes 353 Section 8 units)
c. Bond-financed Section IVc & Attachment 3	3 Projects	452 units
d. Federally Insured (221/236) Section IVd & Attachments 1 and 4	Included in (a).	Included in (a).
Total At-Risk Projects & Units	**19 Projects**	**2,322 units**

b. Overview of Non-Subsidized Housing with Modest, Low and Very Low Rents

The same economic and rental market forces impacting the subsidized stock also affect the County's non-subsidized housing that accommodate residents with modest incomes. HCD's evaluation of non-subsidized housing with modest rents indicates that this stock is also steadily diminishing due to rising rents in the County.

i. Project Analysis

The following table summarizes the information provided in Section IV. It is worth noting that this Project Analysis is not intended to show the total loss of affordable units. It is, however, intended to indicate general trends in demand for rental housing, rents, and affordability at complexes in Fairfax County. A complex meets the criteria of Modest, Low, or Very Low rents if all units in the complex maintain rents at that level. If a complex adjusted several units to above these rents, that complex would be included in the "decline" of those types of complexes. For further information, see Section IV (b), (c), and (d).

Statistic Tracked	Number or %	Decline since Jan. 2000 or 2001
Number of Complexes in HCD Analysis	178	n/a
Complexes at 70% (Modest Rent) Criteria*	102 (57%)	22% decline since 01/00
Complexes at 60% (Low Rent) Criteria*	54 (30%)	21% decline since 01/01
Complexes at 50% (Very Low) Criteria*	18 (10%)	37% decline since 01/00

ii. Unit-Type Analysis (Non-Subsidized)

This Report tracks another characteristic of the unsubsidized housing stock—units-type (or size) and affordability. The following table identifies unit sizes in unsubsidized rental developments and indicates how many of these units are affordable to lower income households in the County. The table highlights diminished availability of affordable larger units as household income decreases.

Unit Type	Total Units in HCD's Evaluation	Total Units Meeting the 50%, 60%, and 70% of MSA Median Affordability Criteria			Percentage of Rental Units Meeting the 50%, 60%, & 70% of MSA Median Affordability Criteria		
		50%	60%	70%	50%	60%	70%
Efficiency	1,044	28	267	567	3%	26%	54%
1 BDR	19,529	693	3,335	8,088	4%	17%	41%
1 BDR w/Den	3,422	93	382	1,052	3%	11%	31%
2 BDR	24,121	1,035	4,900	10,784	4%	20%	45%
2 BDR w/Den	2,265	153	411	704	7%	18%	31%
3 BDR	4,266	94	643	2,003	2%	15%	47%
3 BDR w/Den	157	8	18	71	5%	11%	45%
4 BDR	75	0	6	65	0%	8%	87%

II. Partnerships and Preservation Initiatives Currently Underway

a. Preservation Loan Fund

On September 19, 2002 the FCRHA awarded the preservation of at-risk projects contract for the acquisition and preservation of low and moderate income rental housing to the Housing Partnership Network and joint respondents. On October 28, 2002, the Board of Supervisors approved this award. The FCRHA authorized this initiative as part of its preservation strategy to work with nationally-oriented and local nonprofits to preserve affordable housing in Fairfax County. Final approvals and initiation of the lending program occurred in November 2003.

b. Island Walk Cooperative

This privately owned and managed 102-unit limited equity cooperative is in significant need of substantial revitalization and had limited financial resources. HCD assisted the Board of Directors with the issuance of two Request For Proposals (RFP) for the revitalization of the cooperative. The cooperative selected the proposal submitted by Community Preservation Development Corporation (CPDC), a nonprofit developer based out of D.C. CPDC proposed to acquire and substantially rehabilitate the property. The cooperative executed a Purchase and Sale Agreement with CPDC and the property went to settlement in April 2004. The rehabilitation of the property is under way. CPDC has utilized $50,000 in Tier I Predevelopment Funds awarded by the FCRHA and the Board of Supervisors (Board) for predevelopment expenses. The FCRHA also issued $9,375,000 in tax-exempt revenue bonds for the purpose of providing financing for the acquisition and rehabilitation of the project and authorized the use of FHA mortgage insurance under HUD's Risk Sharing program. In addition, following the authorization of the FCRHA and the Board, $500,000 in Tier III Affordable Housing Partnership Funds and $1 million in HOME funds has been

disbursed as loans to the project. The developer had completed the rehabilitation on 53 of the units at the time this report was prepared.

III. At-Risk Housing Projects by Funding Source

This Section identifies subsidized projects that are considered at risk, including project-based, bond-financed, and federally insured projects. The related attachments identify properties under each category. Attachment 1 lists those projects using a variety of funding sources that have prepaid their mortgages and are either considered at risk or already lost to the County's affordable housing stock. There are 12 properties with this status, which include 1,292 units of rental housing.

One project that has prepaid and is not listed on this attachment, **Wexford Manor**, was refinanced with VHDA tax-exempt bonds with 4% tax credits. This project has a limited number of units under the Section 8 project-based program. Details on the status of this project are in Attachment 2.

a. Project-Based Section 8 Housing Developments

This Semiannual Status report includes all properties within Fairfax County that have project-based Section 8 assistance (see Attachment 2). Currently, there are 30 projects, which contain over 3,858 units. Of these units, 2,925 are Section 8-supported housing. Ten of these properties with 1,716 units, which include 1,070 Section 8-supported units, are considered at risk. It is worth noting, FCRHA ownership or affiliation with two of these projects diminishes the risk of losing these units as an affordable housing resource.

Attachment 2 highlights the number of units covered under the Section 8 contracts for each property and the expiration date of the contracts. Future expiration dates range from August 2005 through 2020. 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 the balance of this year are in BOLD type for ease of identification. It should be noted that owners can request HUD to provide contract renewals for periods up to five years, subject to yearly appropriations. This will reduce the administrative burden of yearly renewals and relieve some resident concerns.

As previously reported, the owners of **Bridle Creek**, a 132-unit project-based Section 8 development located in Virginia Beach, Virginia, elected to not renew the Section 8 contract upon expiration and prepaid the mortgage in February 2004. The FCRHA issued tax-exempt bonds for the financing of this project and served as the Section 8 contract administrator. The owners of this project are selling their entire multifamily portfolio and the purchaser has identified subsidized projects in the portfolio, like Bridle Creek, that they intend to convert to market rate housing. Although the County will not be impacted by the loss of these affordable units, the FCRHA will be impacted by the loss of mortgage servicing and contract administration fees.

In addition, the owners of **Burke Centre Station Cooperative** elected to not renew the Section 8 contract for 22 units when it expired in October 2004. Section 8 vouchers have

been issued to 19 qualifying households. A deed restriction will require the owners to restrict the occupancy on 22 of the units to households with incomes up to 80% of area median income. The deed restriction is in effect until November 2024.

Also, the owners of the **Woods of Fairfax** project have issued the one year notice to residents indicating that they will not renew the remaining Section 8 contract that currently provides assistance to 35 households when the contract expires in August 2005. The owners obtained an extension from HUD so that all stages of the contract that began to expire in February 2005 will expire at the expiration of the last stage in August 2005.This project had another contract for 41 units that was not renewed by the owners when it expired in January 1999.

As noted on Attachment 2, there are seven privately-owned projects with contracts expiring in 2005. HCD staff will continue to closely monitor these projects and keep the FCRHA informed on their renewal status.

b. Bond-Financed Housing Developments

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 four projects, which contain 518 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. The owners of **Mount Vernon Apartments**, one of the projects previously tracked in this report, refinanced the project with a Freddie Mac loan product and prepaid the FCRHA issued tax-exempt bonds on June 14, 2005, which resulted in the termination of income and rent restrictions on 83 set aside units. In addition, the owners of **Kingsley Commons**, another project previously tracked in this report, refinanced the project on June 20, 2003.The deed restrictions for this project required the income and rent controls on the 81 set-aside units to remain in effect until May 1, 2005. In addition, the owners of **Beacon Hill Apartments**, one of four projects tracked in this report, have taken steps to refinance the project with conventional financing. Beacon Hill Apartments is a privately-owned and managed 737-unit development that has 288 set-aside units that are income and rent restricted pursuant to the FCRHA’s tax-exempt bond financing program. The refinancing would have resulted in the loss of the set-aside units when the deed restrictions expire in January 2006. However, in consideration for the FCRHA’s consent to the owner’s request to further encumber the project as part of the refinancing plan, the owner has entered into an Extended Affordability Agreement with the FCRHA. This Agreement will require the owner to maintain at least 144 of the units as Affordable Units for an additional five years from the bond pay-off date, which is projected to be in December 2006. Further, the owner will endeavor (to the extent

the owner is economically able), but shall not be obligated, to maintain an additional 144 of the units as Affordable Units.

c. 221(d)(3)/236 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 receive assistance from HUD under the Section 8 certificate or voucher program. However, this tenant-based assistance is generally provided for only a small portion of the units that were previously assisted.

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 or by 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 cooperative is listed as “not at risk” because HUD approval is needed for the project to prepay its subsidized mortgage. However, the members of the cooperative have been considering conversion to a condominium structure and have previously expressed their intentions to seek HUD’s approval to prepay the subsidized mortgage. HCD has not been notified by HUD that a formal prepayment request for this project has been received. It should be noted that HUD has preliminarily reviewed the project’s regulatory documents and has determined that there is no requirement for HUD to grant prepayment approval. However, HUD has the option to grant prepayment approval based on an assessment of the impact to the project, the residents and the community. HCD staff will continue to monitor this project and keep the FCRHA informed on any changes in the status.

IV. Non-Subsidized Housing with Modest Rents

a. Overview

HCD has evaluated the affordability levels of all of the 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 evaluation of rental complexes with modest rents utilizes rental data from the Rental Housing Complex Census Analysis report, which is 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). Effective with the 2004 Rental Housing Complex Analysis, DSMHS has discontinued conducting the annual survey of rental complexes. To continue the evaluation of the affordability levels of the rental complexes previously identified as having modest rents, HCD has applied adjustment factors to the data from the 2003 Rental Housing Complex Census Analysis based on the decrease in average monthly rents in the County as determined by DSMHS. According to the 2004 Rental Housing Complex Analysis, the average rent in Fairfax County is $1,157. This represents less than one percent decrease from last year.

b. Rental Complexes with Modest Rents Affordable Up to 70% of MSA Median

Based on the 2001 MSA median and data from the 2000 rental housing census, HCD initially identified 130 rental complexes where all units had average rents, including utilities, affordable to households with incomes up to 70% of the MSA median adjusted by household size. HCD has determined that there was a reduction of 28 rental complexes meeting the same affordability criteria based on the 2005 MSA median and adjusted data from the 2003 rental housing census, leaving 102 rental complexes that meet this affordability test. These developments have rents that do not exceed $1,094 to $1,688 per month depending on unit size.

c. Rental Complexes with Modest Rents Affordable Up to 60% of MSA Median

The evaluation of this affordability level was introduced in 2003. Based on the 2002 MSA median and data from the 2001 rental housing census, HCD initially identified 68 rental complexes where all units had average rents, including utilities, affordable to households with incomes up to 60% of the MSA median adjusted by household size. HCD has determined that there was a reduction of 14 rental complexes meeting the same affordability level based on the 2005 MSA median and adjusted data from the 2003 rental census, leaving 54 rental complexes that meet this affordability test. These developments have rents that do not exceed $937 to $1,446 per month depending on unit size.

d. Rental Complexes with Modest Rents Affordable Up to 50% of MSA Median

Based on the 2001 MSA median and data from the 2000 census, HCD initially identified 29 rental complexes where all units have average rents, including utilities, affordable to households with incomes up to 50% of the MSA median adjusted by household size. HCD has determined that there was a net reduction of 11 rental complexes meeting the same affordability level based on the 2005 MSA median and adjusted data from the 2003 rental census. These complexes have rents that do not exceed $781 to $1,205 per month depending on unit size.

V. Maximum Affordable Rents

The maximum affordable rents (see chart below) reflect the MSA median income for 2005. The chart lists the income limits and the affordable rents for households with incomes up to 50%, 60%, and 70% of MSA median income.

Unit Size	Household Info	Income at 50% of MSA	Maximum Affordable Rent at 50% of MSA	Income at 60% of MSA	Maximum Affordable Rent at 60% of MSA	Income at 70% of MSA	Maximum Affordable Rent at 70% of MSA
Efficiency	1 person	$31,250	$781	$37,500	$937	$43,757	$1,094
1 BR, 1 BR w/ Den	2 persons	$35,700	$892	$42,840	$1,071	$50,008	$1,250
2 BR	3 persons	$40,200	$1,005	$48,240	$1,174	$56,259	$1,407
2 BR w/ Den, 3 BR, 3 BR w/ Den	4 persons	$44,650	$1,116	$53,580	$1,339	$62,510	$1,563
4 BR	5 persons	$48,200	$1,205	$57,840	$1,446	$67,510	$1,688

The rents listed above are affordable only to households with incomes at or above the 50%, 60%, and 70% of 2002 MSA median figures. Those with incomes significantly lower than this figure would be paying more than 30% of income to pay these rents.

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

STAFF:
Paula C. Sampson, Director, Department of Housing and Community Development (HCD)
Harry Swanson, Deputy Director, Revitalization and Real Estate, HCD
Aseem K. Nigam, Director, Real Estate Finance and Grants Management Division, HCD
Louise Milder, Associate Director, REFGM, HCD
Michael S. Pearman, Management Analyst III, REFGM, HCD