

Quarterly Housing News

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Priced Out The Region's Affordability Crisis

By: Rob Krupicka,
Councilman with the City of Alexandria

The housing frenzy appears to be over, but many in the Metropolitan Washington Region are still feeling priced out.

The lack of housing affordability impacts a broad swath of society, from the very poor striving to get a head to middle class families battling long commutes and a desire to live near where they work to seniors struggling to survive on a fixed income while their property values increase in a rapidly expanding market. Many years ago, Alexandria aggressively pursued the creation of low income housing. In recent years, Alexandria has demonstrated a strong desire to

maintain and encourage affordability; with funding and subsidies, we have promoted diversity of income in very tangible ways. It is useful to step-back and examine what areas we can improve and to review alternative approaches to some of our challenges. Below, I will outline some key areas for consideration as Alexandria and the region continue to grapple with the many challenges of affordability.

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Chairman's Corner



The last few months have been very exciting for the Washington Area Housing Partnership as we work to promote best practices used to preserve and produce affordable housing in the area. The Partnership is currently organizing workshops throughout the metropolitan Washington region to educate communities about affordable housing best practices. We will be reaching out to elected officials, housing and planning directors, and community housing groups to champion the strategies featured in the recently released *Toolkit for Affordable Housing Development*. Detailed information about the campaign can be found on the Partnership's website at www.wahpdc.org

Barbara Favola
Chair, Washington Area Housing Partnership

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Washington Area Housing Partnership Launches Affordable Housing Campaign

Affordable Housing Campaign convenes regional leaders to promote best practices used nationally and in the region.

Housing experts throughout the Metropolitan Washington Region have been working with the Washington Area Housing Partnership to promote affordable housing best practices used successfully by other jurisdictions. The first stop on the campaign, serving to educate and convene regional leaders, occurred in the City of Bowie, Maryland. Barbara Favola, the Partnership's Chair, opened by presenting to Mayor Frederick Robinson, the City Council, and community groups that a wide range of simple and implementable options are available to local governments trying to stay ahead of the housing market that is effectively pricing people from their communities. Mayor Robinson advised that the affordable housing consideration began in Bowie last fall when residents decided to create a police force. Bowie Council Members were concerned the police force would not be able to own or rent a home in the community they are sworn to protect.

Working with Bowie, the Partnership convened regional leaders with an expertise in affordable housing best practices to provide their insight to Council Members as they consider providing affordable housing options to new and existing residents. Elizabeth Davison, Montgomery County's Director of Housing and Community Affairs, presented the option of creating a housing trust fund. The Housing Initiative Fund is an award winning affordable housing program that provides loans for affordable housing developments in Montgomery County. Ms. Davison explained the importance of a consistent source of dedicated funding for negotiation purposes and described the uniqueness of the program which now is funded by 2.5 percent of county property taxes.

Bob Boulter, President of Faithworks Inc., presented the popularized land trust model. Mr. Boulter cited the similarities of the City of Bowie to other communities which have partnered with land trusts to provide residents with perpetual affordable housing options. The land trust model uses a ground lease normally held by a nonprofit dedicated to affordable housing. Communities across the country have used Community Development Block Grants (CDBG) funds or given land to nonprofits which separate the bundle of rights of the property allowing owners to just purchase the home or improvements on the land, resulting in an affordable homeownership option that also builds equity among owners.

Mildrilyn Davis, Alexandria's Housing Director, also presented how their housing department manages federal CDBG funds. Recently, the City of Bowie became an entitlement city and now qualifies for CDBG funds, which allows communities to use funds for a wide range of unique community development needs. Alexandria's program is somewhat unique in the respect that their Office of Housing receives and manages the funds primarily for affordable and transitional housing purposes, while the City of Bowie had largely been using funds for infrastructure purposes in Old Town Bowie.

The City of Bowie and the Partnership considered the event a success, and the Partnership is looking forward to working with other jurisdictions in the Metropolitan Washington region that are considering their options in terms of addressing workforce housing and affordable housing programs. The Partnership has also held similar briefings in Loudoun County and Frederick County and look forward to participating in work sessions in Takoma Park, Alexandria and College Park during the next couple of weeks.

Priced Out

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While local government should consider new approaches, we cannot ignore the role of the Commonwealth and its jurisdiction over tax policy and land-use. There are several tax reform ideas that have been raised recently: the homestead exemption to exempt part of a home's value from property taxes, and the implementation of a local income tax to remove property tax pressures on those least able to manage rising assessments and limits on property assessment increases. Each proposal can help to re-diversify local revenues and distribute the property tax burden more fairly to

help preserve current homeownership. But enactment of these ideas is also, by and large, out of local control. I do not consider these wasted efforts or pipe dreams, however. We must continue to hope for and pursue a model of local revenue generation that is aligned with our goals of a diverse community made up of a broad range of incomes.

Turning to local government, we need to examine the impact of our own zoning regulations on the marketability of mixed-income housing. We need to evaluate how the specifics and implementation of our land-use plans affect affordability in general. Some have noted that our own zoning regulations and land-use procedures may well stifle the creation of housing opportunities for all income groups (Levine, 2006). Studies suggest that minimizing zoning's impact on the cost of housing may be as effective in ensuring a diversity of housing choices as inclusionary zoning and other mandates (Mitchell, 2004). We need to be careful to ensure our land-use planning, does not preclude the development of moderate income housing by making only high-end housing economically viable.

This is beginning to happen in Alexandria. Recently adopted and ongoing planning efforts provide greater market incentives to create mixed-rate housing. But we still have to work to ensure our planning efforts, while well-intended, do not create a market that only supports high-end housing. A townhouse, by its nature, is going to target a higher



Density. Alleviating the Affordability Crisis

income customer than a condo building. As land values increase, lower density projects become high-income projects that cannot satisfy middle or low-income housing needs. This trade-off creates one of the most contentious debates in local government – density and a range of affordability versus less density. The requirement for cash contributions to affordable housing programs can help mitigate the impact high-end housing has on mixed-income communities. But if local zoning only allows high-end housing, where do you spend your affordable housing dollars? The dollars do not go very far and fewer households can be helped if funding has to be used for housing types, such as single-family homes and town homes that are less affordable.

In the past, Alexandria's primary local funding source for our affordable housing came from developer contributions obtained from new developments during the development plan approval process. Alexandria has created additional funding streams by ear-marking a tax of 1 cent on every \$100 of assessed property value toward our affordable housing efforts. While we can never garner enough money to finance all affordable housing needs, there are other funding strategies worthy of discussion.

Some have noticed that the market uncertainty involved in the financing of new housing can lead to overly conservative estimates of the profitability of new construction (Leinberger, 2001).

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Exacerbating this, required development contributions for the costs of potential development, making expensive housing the only viable product. By re-thinking the timing of housing contributions with new developments, we may be able to increase the revenues available for local government use for affordable housing projects. Stronger incomes may be available if we limit contribution requirements at the beginning of the development process where most of the uncertainty exists, and push payments to a point later in a project's life, when the market value of the housing can be fully determined (Leinberger, 2002). In essence, local government working in tandem with the developer can "latch" on to the rising value created by a project and use that value to support mixed-income housing. This approach has the added benefit of creating a strong community commitment to the success of a project as its success will directly impact affordable housing goals.

Alexandria's affordability problems stem not only from the rising cost of housing, but also from the failure of household income to rise commensurate to these costs. Ensuring the presence of housing options in our communities helps to mitigate the increasing cost burden on both employers and employees. But employers are going to have to find ways to play a role in alleviating the housing burden of their workers. Helping employees live near their place of employ-

ment is good public policy and has far reaching benefits. Our communities can ensure residents meet such goals with sound land-use planning and subsidies. We have a special obligation to assist our own employees, first responders, teachers and community support staff, those of whom all communities rely upon during a daily basis.

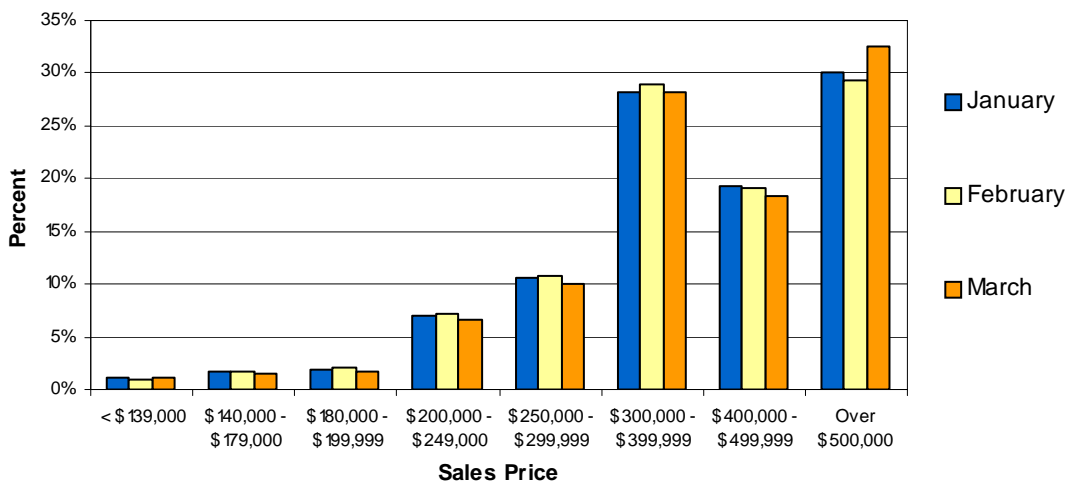
Local government can set a strong example for the private sector when spending its housing dollars. In Alexandria, we have begun to implement an Employee Homeownership Incentive Program and our employees have access to the same homeownership assistance offered to all qualifying residents. But these programs have not been able to reach enough of our employees and we need to do more in this regard. Local government is often the most influential when it sets an example for private industry. We should take the lead on employee homeownership assistance and significantly increase the funds available through these programs in order to preserve the fabric of our community and support those on whom we depend.

There is much more thought and discussion needed to turn these concepts into concrete, constructive and implementable proposals. And as I close, I would be remiss if I did not emphasize the need for our entire region to work together. We cannot ignore the fact that affordability challenges are driven in many ways by a regional housing supply that is not keeping up with the demands of our rapidly growing region. How our communities

cope with the recent and ongoing decreases in affordability will quite simply be expressions of how true we are to the ideals we have espoused and ultimately what type of region we become. Whether and to what extent we meet the challenge of affordability will show our commitment to creating and maintaining communities of diversity, opportunity and choice.

Regional Sales Price by Class for First Quarter 2006

(Source: Metropolitan Regional Information Systems)



Home Sales Price, First Quarter 2006 and 2005 (Adjusted)

Jurisdiction	Median Sales Price 1st Qtr 2006	Average Sales Price 1st Qtr 2006	Average Sales Price 1st Qtr 2005 (Adj)	Change in Avg, 2005 - 2006	
				Number	Percent
Alexandria	\$430,000	\$496,879	\$454,367	\$42,512	9.4%
Arlington County	\$515,000	\$561,850	\$523,757	\$38,093	7.3%
District of Columbia	\$399,900	\$502,088	\$494,390	\$7,697	1.6%
Fairfax City	\$497,500	\$516,507	\$437,386	\$79,121	18.1%
Fairfax County	\$469,900	\$523,342	\$490,722	\$32,620	6.6%
Falls Church	\$517,500	\$611,975	\$547,751	\$64,224	11.7%
Frederick County	\$315,000	\$355,635	\$318,848	\$36,787	11.5%
Loudoun County	\$475,000	\$542,575	\$480,588	\$61,987	12.9%
Manassas City	\$350,000	\$370,035	\$296,815	\$73,219	24.7%
Manassas Park City	\$361,000	\$381,810	\$311,372	\$70,438	22.6%
Montgomery County	\$425,000	\$505,592	\$454,744	\$50,848	11.2%
Prince George's County	\$319,000	\$327,742	\$271,326	\$56,416	20.8%
Prince William County	\$395,000	\$427,716	\$379,177	\$48,539	12.8%
COG Region	\$405,000	\$466,569	\$424,387	\$42,182	9.9%

Source: Metropolitan Regional Information Systems, Inc.

¹ Above figures include median and average prices of single-family detached/attached homes and condominium units sold.

Although the housing boom appears to be dwindling, the average sales prices in the region increased by approximately ten percent since the first quarter in 2005. Prince George's County contained the most affordable housing units sold in the first quarter, while the county as a whole experienced a considerable increase in the average values of housing units sold. The highest median sales price exists in both Arlington County (\$515,000) and Falls Church (\$517,500). The median sales price in the region for the first quarter of 2006 was \$405,000, and the average sales price was \$466,569.

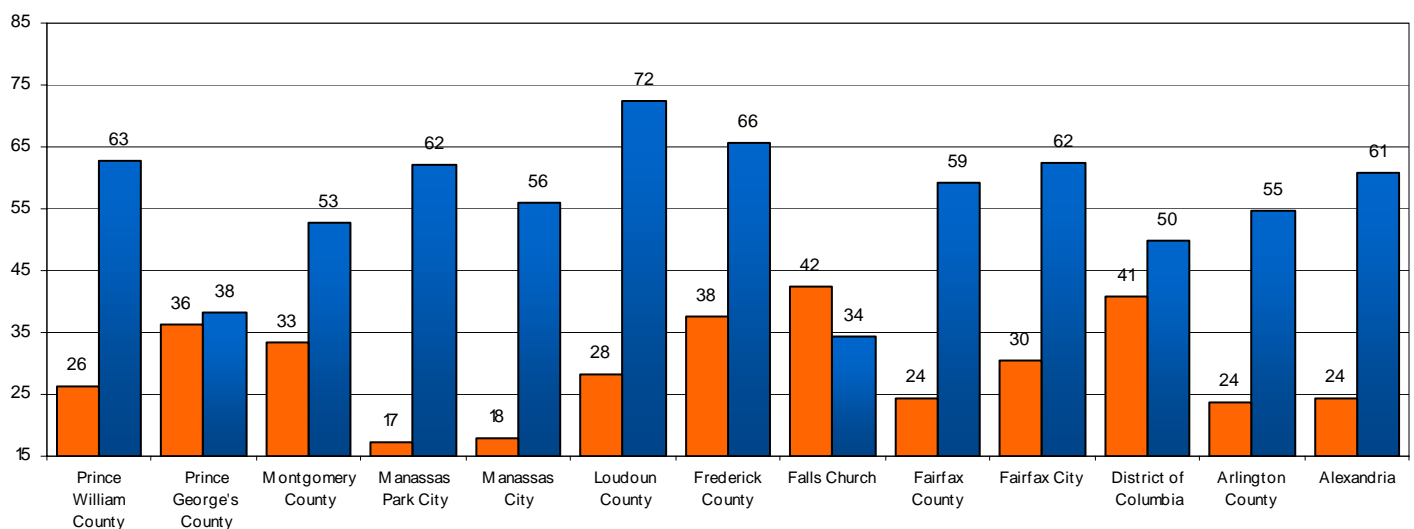
First Quarter Home Sales by Jurisdiction, 2006 and 2005 (Adjusted)

Jurisdiction	1st Qtr 2006	1st Qtr 2005 (Adj)	Change, 2005 - 2006	
			Number	Percent
Alexandria	506	692	-186	-26.9%
Arlington County	599	640	-41	-6.4%
District of Columbia	1,565	2,072	-507	-24.5%
Fairfax City	42	89	-47	-52.8%
Fairfax County	3,289	4,268	-979	-22.9%
Falls Church	24	29	-5	-17.2%
Frederick County	777	906	-129	-14.2%
Loudoun County	1,316	1,691	-375	-22.2%
Manassas City	190	253	-63	-24.9%
Manassas Park City	73	96	-23	-24.0%
Montgomery County	2,696	3,207	-511	-15.9%
Prince George's County	2,870	3,051	-181	-5.9%
Prince William County	1,700	2,298	-598	-26.0%
COG Region	15,647	19,292	-3,645	-18.9%

The region as a whole experienced a decrease from the first quarter of 2005 by 3,645 units or a drop of approximately 19 percent. The City of Fairfax, Alexandria, and Prince William County experienced the largest drop in the number of housing units being sold in the jurisdiction when compared to one year ago. Prince George's County had the second largest number of home sales during the first quarter of 2006 and also had the smallest change in terms of housing units sold in comparison to the housing boom one year ago. Fairfax County led the region in the number of home sales that occurred in their county during the first quarter of 2006.

Source: Metropolitan Regional Information Systems, Inc.

Number of Days on Market, First Quarter
2005 and 2006 (Adjusted)



Homes in the Metropolitan Washington region sold approximately 90 percent slower during the first quarter of 2006 than the same time period last year (currently averaging 56 days up from 29 days in 2005). In the City of Manassas and Manassas Park, homes experienced a 200 percent increase in the number of days on the market and are now on the market for approximately eight weeks, while homes were lasting between two to three weeks during the first quarter of 2005. Loudoun County also experienced a significant slowdown while Prince George's County was the only jurisdiction that experienced little change in terms of the time homes stay on the market from one year ago.

Residential Construction Permitting, First Quarter 2006

Jurisdiction	First Qtr. 2006		
	SF	MF	Total
Alexandria	72	154	226
Arlington County	58	834	892
District of Columbia	11	1,310	1,321
Fairfax City	5	0	5
Fairfax County	338	488	826
Falls Church ¹	NA	NA	NA
Frederick County	323	0	323
Loudoun County	917	99	1,016
Manassas City ²	NA	NA	NA
Manassas Park City ³	NA	NA	NA
Montgomery County	286	158	444
Prince George's County	891	0	891
Prince William County	909	56	965
COG Region	3,810	3,099	6,909

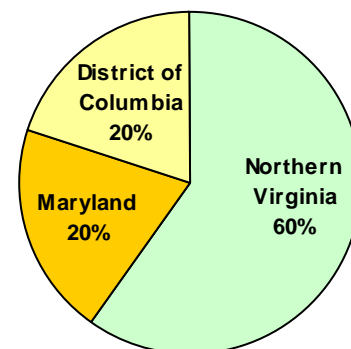
Source: U.S. Bureau of the Census

¹Permitting data not available for January, February, and March, 2006.

²Permitting data not available for January, February, and March, 2006..

³Permitting data not available for January, February, and March, 2006..

Metropolitan Washington Region First
Quarter 2006 Permitting Activity by Percent
(Source: US Census Bureau)



During the first three months of 2006, the District of Columbia issued the largest number of residential construction permits, 20 percent of the region's total. Loudoun County issued 14 percent of the region's total with 1,016 permits. Permitting activity was slowest in the City of Fairfax with only five single family permits issued. Maryland suburbs issued only a small number of permits with Prince George's County accounting for 53 percent of all permitting activity that occurred in the first quarter of 2006 for Maryland suburbs.



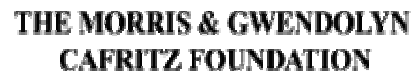
The Metropolitan Washington Council of Governments (COG) is the regional organization of the Washington area's local governments and officials, plus area members of the Maryland and Virginia legislatures and the U.S. Congress. COG provides a focus for action on issues of regional concern such as housing policy, comprehensive transportation planning, economic development, and population growth and its implications for the region. COG is supported by contributions from participating local governments, federal and state government grants and contracts and through donations from local foundations and the private sector. If you would like to learn more about COG's involvement in the region's housing issues, please visit our website at www.mwco.org or contact John Mataya, Housing Planner, at 202-962-3753.



The Washington Area Housing Partnership (WAHP) is a regional public-private partnership affiliated with, and located within, the Metropolitan Washington Council of Governments. The mission of WAHP is to expand affordable housing opportunities within the metropolitan Washington region. In its role as an information clearinghouse, the Partnership maintains and reports data on various aspects of the region's housing market. This includes the Annual Regional Housing Report, an assessment of the region's rental housing stock and analysis of the Decennial Census of the Population and Housing, the American Housing Survey and the Home Mortgage Disclosure Act. If you are interested in learning more about the Partnership, please visit our website at www.wahpdc.org or contact John Mataya, Housing Planner, at 202-962-3753.

The "Quarterly Housing News" is a companion to the "Regional Housing Report," released by COG on an annual basis. The "Quarterly Housing News" provides quarterly updates on housing trends throughout the COG member jurisdictions. To subscribe to this and other newsletters, please visit our website at www.mwco.org/publications/subscribe.

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