

**Residential Real Estate Developer Perspectives on
Impediments to Housing Production
January 17, 2020**

Panelist:

- Jamie Weinbaum, Chair, ULI Washington (Mid City)
- Yolanda Cole (Hickok Cole Architects)
- Feras Oumseya (Foulger-Pratt)
- Bob Youngentob (EYA)
- Brian Grant (AOBA/Equity Residential)

Some Key Takeaways (not ranked)

1. Local governments need to be willing to give up control via matter of right (Cole)
2. Need to shift planning dialog to general issues and away from project by project negotiations (Cole)
3. Low hanging fruit is special permitting, reduced parking requirements, and dedicated funding to affordable housing (Qumseya)
4. Due to regulations, it takes more staff today to be in land development than when started (Youngentob)
5. Create new entity [regional?] that has bonding capacity on backend with private entrepreneurial capacity on front end (Youngentob)
6. Impediments to preservation are similar to those for production - Permitting too lengthy for renovations and we should encourage other uses to be converted to residential (Grant)
7. Gwen Wright suggested a by-right housing overlay zone. Models for kinds of projects at each level that says if you meet this standard, you will get by-right. If a developer wants to customize, then need to go through the entitlement process

Full Meeting Transcript

Yolanda Cole – Hickok Cole Architects

- Part of ULI Impact Goals, report called [*Increasing Housing Supply and Attainability – Improving Rules & Engagement to Build More Housing*](#)
 - Report has 9 recommendations
 - Difficult to give specific recommendations with jurisdictions all over the map
- Supply is needed at all levels to stabilize housing costs
- Housing is being constrained
- ULI focus on
 - Entitlement processes
 - Special density processes

- Community engagement process
- Vision needed from top
 - Both politicians and staff
 - Communication issue
 - Case for more housing needs to continuously be communicated
 - Benefits of construction
 - Consequences of not adding housing
- Need to “Upzone and Down Process”
- More density, more places; Single family to high rise and everything in between
- Persuasion and courage
 - Staff needs to be willing to give up control via matter of right
 - Time, cost and risk needs to be reduced
 - 2 years and \$2.5 million in cost regardless of size of project
- Entitlement
 - If trying to reach target in 5 years, need to start building now
 - Projects get killed or delayed, miss market, miss investors, priced out, costs rise
- 85 million millennials in family stage
 - Generation Z is almost as big
- Need to shift planning dialog to general issues and away from project by project negotiations
 - Planning at higher level
 - Need to gather voices other than NIMBYs at meetings
 - Look out for greater good

Feras Qumseya – Foulger-Pratt

- Both private and public sector experience
 - Does both affordable and market rate housing
- There is not enough affordable housing production
 - People develop in a neighborhood that either supports market or doesn't
 - If it is in a market rate neighborhood, the costs are justified by rents
 - If it is not market rate, then incentive is needed
 - Incentives or financing is too complicated
 - Tax credits are competitive, but the application time is only once a year
 - window may be missed
 - The funding cycle may not match the entitlement cycle
 - Production cycle becomes constrained
 - This is not an issue with market
- Regulations
 - Affordable housing compliance
 - Project that can be either affordable or market

- the underwriting is harder for affordable
 - Takes more time and money, production cycle is restricted
 - Entitlement takes more time
 - by right zoning would help
 - Permitting process
 - Liked ambassador program, public-private project had expedited permitting
 - Solution: expedite affordable permitting
- First source
 - Increasing and hiring locals is good but...
 - Regulations of first source with 50% of labor being local can be a problem if there is no supply
 - Need to use subcontractors
 - restricted supply of labor increase cost
 - NOVA and MD are cheaper due to labor
 - Eliminating requirement would make it easier and faster to build affordable housing
- **Low hanging fruit is**
 - special permitting
 - reduced parking requirements
 - Ex. Fairfax affordable build on metro station requiring 1.3 spaces per unit
 - too much and increases costs
 - dedicated funding to affordable housing

Bob Youngentob - EYA

- Due to regulations, it takes more staff today to be in land development than when started
- Structure of industry
 - Industry is fragmented
 - Entrepreneurial developers are not low-cost providers
 - Low cost providers don't have capacity to do low income housing and entitlement
 - But Entrepreneurial folks have limited capital
 - Need 7 figures to get into deal
 - Entails risky (i.e. expensive) capital
 - Market rate capital require market rate returns
 - Therefore developers gravitate to market projects
 - Non-profit developers don't have front end capital either

- May not have talent to go through complicated process
 - Does know how to solve these structural issues
- Housing Opportunities Commission bonding capacity solves “backend” issues but not “front” end
- Proposes a new entity that has bonding capacity on backend with private entrepreneurial capacity on front end
 - Give this new entity right of first refusal to publicly owned land in region
 - There is underused publicly owned land inventory in region
- Labor cost and material costs have skyrocketed
- Approval process solutions
 - environmental regulations are burdensome
 - Loss of underground stormwater retention option adds cost (?)
 - Cost of green building requirements add up
- Proposal in a nutshell: combine finance of public authority with private sector skill set

Brian Grant – AOBA/Equity Residential

- Preservation of affordable housing
- Risk factors
 - Losing housing to obsolescence or reprogramming
 - 100k units a year are lost nationally
 - Thinning profit margins
 - Operating costs rising faster than income
 - Utility rates are rising
 - Labor market
 - Material cost
 - Less money for maintenance or to save for future costs
 - Lower revenues lead to lower values and lower assessments and lower tax revenues
- Rents are going up, but income is not going up
- Product Obsolescence
 - Replacing big ticket items in an aging residential building is expensive
 - Rent control in DC
 - 70 to 80 thousand units
 - A big chunk built before 1950
 - Antiquated HVAC systems and windows
 - Recent changes in rent control reduce ability to increase rent upon vacancy

- Additional limitations of rent control are being proposed
 - This is threat to viability to older units
 - Rent control doesn't work and has reduced inventory of housing stock
- Impediments to preservation are similar to those for production
 - Permitting too lengthy for renovations
 - We should encourage other uses to be converted to residential
 - preserve rather than demolish
- Provide tax abatement to owners that do renovation with set asides for moderate- and low-income residents
- Inclusionary zoning type solutions for recapitalization of existing housing stock
- TOPA and right of first refusal (Tenant Opportunity to Purchase Act)
 - Exempt transactions if there is a commitment to affordability or renovation
 - Make transactions smoother
 - Would get more developers to build or to rehab and would drive production
- Federal housing programs are needed
 - LIHTC (low-income housing tax credit program) is not a solution alone
 - Too much uncertainty
 - Process too lengthy
 - Can't compete if using LIHTC vs a market developer
 - More project-based Section 8 funding
 - State and local funding alone won't get us to goal

Questions

Gwen Wright – Montgomery County

- Question about how the entitlement process slows development
 - In Montgomery County there a lot of projects that are mostly through entitlements but aren't being built
 - Has been told that the market in these parts of the county aren't supporting production
 - Example: Viva White Oak
 - Approved in 2014, public-private partnership with country land
 - Gone through all but final site plan
 - White Flint area has had lots of housing built but now has absorption issue
 - What are the market forces?

Answer:

- Market appears robust but there is no pricing power

- Returns are below pro forma
- Bethesda rents dropped and are now getting competitive with further up I-270 corridor
- In White Oak, market rate rents don't beat other land uses
- If you can eliminate real estate taxes, it would make lower rents stretch farther and cover costs
- Disconnect between demand for rent and what developer can charge
- Land and construction costs are going up, so rents need to go up as well
 - In addition to costs from regulatory burden and time lost
 - What can have flexibility to bring down costs?
- Absorption is fine in marketplace
 - Challenge is where rents are going down
 - Now pro forma no longer pans out
 - Delta report says that 11,000 Class A units were absorbed with about 12,000 deliveries
 - is good
- There is a perception that owners are jacking up rents but that is not true

Feras Qumseya – Foulger-Pratt

- Rents are flat but costs going up
 - Labor market costs
 - developer costs
 - planning costs
 - entitlement requirements
- Good project is planned as a result, but costs go up 10-15 percent and the project no longer works
- Government needs to determine entitlement things are critical for location and which are less important
 - Façade, parking, etc.
- Page 22 of *Increasing Housing Supply and Attainability* report shows relationship between cost and rent
- Page 23 shows what the rent can be and what the additions are that cause increases
 - Add \$315 per month in all and then needs \$12,000 more annual income per year to afford
- Must bring down some aspect of cost if more attainable units are wanted

- If revenue is down, costs must come down to match
 - Capital costs
 - Time
 - Taxes
 - Bonds, etc.
- The renter ends up picking up these costs
- Impact taxes are direct taxes on new residents and not being spread on everybody
 - Example of a spread cost: public donation of land brings down costs

Question:

- Important of funding?
 - Affordable housing trust fund still not enough
 - Virginia A could provide more funding but still won't be enough
- For Bob Youngentaub,
 - Is there an example for a regional financing tool?

Answer:

Bob Youngentaub - EYA

- No, Regional financing tool was own idea with no example
- Housing Opportunity Commission in Montgomery county is a model as it is a Fannie Mae underwriter and can issue tax free bonds
 - unique tool that is currently underutilized
 - Fear of risk may reduce use
 - Need for skilled, entrepreneurial staff who can use this tool in the best way
 - Must be matched with entrepreneurial skill set
 - A broader (regional) entity can spread risk farther

Gwen Wright – Montgomery County

- Can COG queue this up?
 - Struggling with preservation, not enough tools to make difference
 - Different entity is needed
 - Relevant to Planning Directors work program

Jim Snyder – City of Falls Church

- Idea of regional group
 - Northern Virginia Economic Development Group has created NOVA Alliance
 - Could a group like that be a conduit to state funding?
- Are there revitalization areas where Main Street has potential due to changes in highway, retail
 - There is opportunity for new density on Main Street
 - Need more creative thinking
 - current zoning and roadway level of service requirements don't allow for development
 - Too much parking
 - should have shared vehicles as an alternative to extra parking spaces
 - Can we have ULI look at cost benefit for eliminating parking spaces

Shyam Kannan - WMATA

- Cost of occupying space was 49 percent of total costs
 - Which means that 50 percent of market is due to fees, government costs etc.

Audio unclear becomes hard to understand

- We are overvaluing parking lots
 - We can tax and make it a revenue source
- RFQ process
 - High risk, low return
 - Procurement laws need to allow unsolicited proposals
 - Developer may have good ideas for government parcel

Gwen Wright: this requires political leadership to want to maximize government land

Sakina Kahn – DC Office of Planning

Hard to understand

- Infrastructure costs can be cost prohibitive
- For new development, what are solutions?
 - Regional bonding entity?

Answer

Feras Qumseya – Foulger-Pratt

- Ex. DC Water asked for developer to upgrade all water infrastructure for block and put all on this project
 - Caused a big issue that held up project for some time
 - Ended up only upgrading a little bit rather than all

- Threat to value of assets:
 - Infrastructure
 - Affordable housing (?)
 - Resiliency

Question

- In places where market rents aren't high to support development, is tax increment financing a solution?

Gwen Wright

- What can be a by-right housing overlay zone?
 - Wardman town houses around DC as an example of a universal standard
 - Model for builders
- Can we come up with models for kinds of projects at each level that says if you meet this standard, you will get by-right?
 - If a developer wants to customize, then need to go through the entitlement process

Answer:

- Panel generally says this is a good idea
- Private sector could be innovative on reducing costs if other aspects are controlled

- Need to figure out what is important
 - Tradeoffs need to be considered on broad basis, not project by project

- Economy of scale with system and spread over larger range
 - Modular
 - Saves time, but if at volume can also save costs on manufacturing size

Hard to hear

- Tool kit
 - There may be products that developers are not able to create
 - Ex. Narrow town homes

Karl Moritz – City of Alexandria

1. How complicated it is to do the right thing
2. Government does not know what it values and asks for everything
3. By-right can be an important lever

Gwen Wright – Montgomery County

- We need to discuss next steps but that will have to wait for next meeting