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## Focus on: Washington, D.C.

**BRAD STANHOPE, SENIOR EDITOR, NOVOGRADAC**

Washington, D.C., has a robust local housing trust fund, a higher-than-average median income and a booming population. The result is a scramble to build multifamily affordable housing.

“In the 10 years since the Great Recession, the District’s population has exploded,” said Brett Meringoff, senior vice president in the Mid-Atlantic region for developer WinnCompanies. “It’s more than 700,000 residents now and the growth has been incredible. That led to a change in the real estate fundamentals.”

Rising property values brought increased rents and a tight affordable housing market. That spurred a major commitment to the city’s Housing Production Trust Fund (HPTF) in an effort to boost construction, as well as a separate commitment by the District of Columbia Housing Authority (DCHA) to address at least 2,400 public housing units over the next 24 months.

Washington, D.C., is reflective of the national affordable housing shortage.

### **A Short History of Washington, D.C.**

Founded in 1791, the District of Columbia is the nation’s capital, but not part of a state. The early

decades of its existence included an invasion by the British during the War of 1812 and struggles to build. By the end of the Civil War, there were more than 100,000 residents in Washington, D.C., growth that continued through the 1900s as Washington became a cultural and political center.

The city is led by an elected mayor and city council, but Congress has supreme authority and can overturn local laws.

The city’s population was nearly 800,000 in 1970, but movement to the suburbs saw that drop below 640,000 by the end of that decade, a plunge that continued to the end of the millennium, when there were barely 500,000 residents. A gradual increase began as residents returned to Washington, D.C. The population reached 600,000 by 2010 and went past 700,000 in recent years.

Rob Fossi, regional vice president of development, Mid-Atlantic for nonprofit real estate developer and owner The Community Builders, said the

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population growth resulted in rising housing prices in neighborhoods throughout the city at a pace that shows little signs of abating.

	WASHINGTON, D.C.	UNITED STATES
Population growth, 2010-2018	16.7 percent	6.0 percent
People under 18	17.9 percent	22.6 percent
People 65 and older	12.1 percent	15.6 percent
Foreign-born residents	14.0 percent	13.4 percent
Renter-occupied housing units	58.3 percent	36.2 percent
Median gross rent, 2013-2018	\$1,424	\$982
Median household income (2017 dollars)	\$77,649	\$57,652
Persons in poverty	16.6 percent	12.3 percent

Source: Esri Demographics 2018, Novogradac

“It has had a profound impact with pricing pressures adding to a range of tensions and challenges for longstanding residents of D.C. communities,” he said.

The challenges come with a unique economy, due to the large shadow cast by the federal government.

### Federal Government Drives Economy

Washington is significantly wealthier than the nation as a whole, with a median household income of \$73,891, compared to the national median of \$60,336. The federal government is the largest employer, accounting for about 10 percent of jobs in the larger metropolitan area.

“That definitely affects housing, in that the federal government is the main driver of the economy,” Meringoff said. “A decrease or increase in government spending will affect the economy in a direct manner.”

Renters are more prevalent in Washington than the nation as a whole, with rentals comprising about 58 percent of housing units in the city, compared to 36 percent nationwide. Ten percent of residents in the district live in poverty, according to the D.C. Fiscal

Policy Institute. According to the DCHA, 10,500 families are recipients of federal vouchers and there are 40,000 families on the waiting list.

### A Unique Situation

“The District has a few things that are unique, both pros and cons,” Meringoff said. “It’s certainly a challenge that it’s a major city on the East Coast and at the same time, it doesn’t benefit from any state help, since it’s under federal oversight. That means there’s not a robust 9 percent low-income housing tax credit [LIHTC] program, so most [LIHTC] developments have to be done with bonds and 4 percent credits.”

Fossi echoed those thoughts, but added that the city has responded to the challenges with an impressive array of resources and coordination.

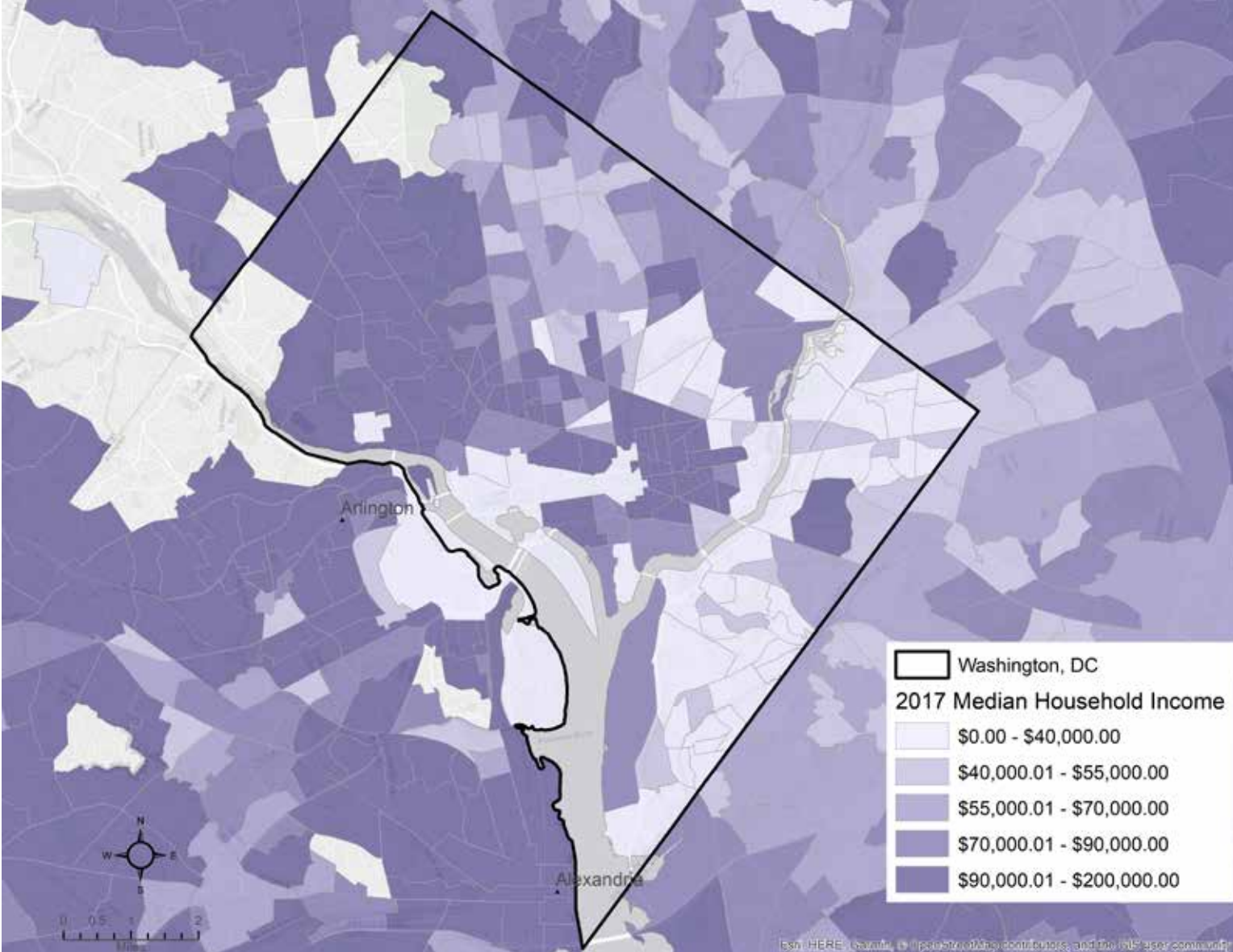
“While the disparities have become more pronounced, the breadth and depth of public-private partnerships has also been more robust than many other areas,” Fossi said.

Land is expensive, which is difficult for private developers, but has proved helpful for DCHA.

“It’s given us so much more value,” Tyrone Garrett, executive director of the D.C. Housing Authority, said. “We don’t want the bubble to burst. ... We have to take advantage of it at this time. Our idea is to create more affordable housing. People believe in one-for-one (unit replacement), but if we can create more than that, we should. We have to build more units.”

DCHA is developing a plan to address at least 2,400 units in 24 months. That will likely involve the U.S. Department of Housing and Urban Development’s Rental Assistance Demonstration program, as well as other innovations. One factor will likely be the HPTF.

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## Median Household Income in Washington, D.C.



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### Housing Production Trust Fund

The HPTF provides gap financing for developments that are affordable to low- and moderate-income households. The program is funded through 15 percent of revenue from deed recordation and transfer taxes as well as the District's general fund. Mayor Muriel Bowser committed \$100 million annually to the fund each year, the highest per-capita contribution to a civic housing fund in the nation.

“That has been a tremendous help to get projects off the ground and put together a financial structure,” said

Meringoff. “The number of deals in the District has gone up because of that.”

The HPTF is “extremely important,” Fossi said. “With such a limited allocation of 9 percent credits, new projects seeking to serve larger numbers of lower-income residents are almost always forced to do so without this particularly valuable tool. Using DCHFA’s mortgage revenue bond program with 4 percent credits is an essential starting point, but in a market with land and construction costs regularly reaching new heights, progressive programs and/or neighborhood-scale

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developments are often left solving for sizable financing gaps. The HPTF is absolutely vital.”

DCHA’s Garrett agrees.

“I don’t know anywhere that has as vibrant a housing trust fund as D.C.,” said Garrett.

### Specific Needs

The specific needs are similar needs to other metro areas.

“The district certainly has a significant need for lower-income units at 30 percent [of the area median income],” Meringoff said. “Also for families and seniors. There is a tremendous need for larger units for families at affordable levels. One impediment to families staying in the District is affordable large units.”

Fossi said the District’s resurgence can also create opportunities for mixed-income development.

“Particularly when coordinated under innovative public-private partnerships for neighborhood-scale redevelopment, such as [the Office of the Deputy Mayor for Planning and Economic Development’s] New Communities Initiative, market-rate units can help cross-subsidize tax credit units,” Fossi said. “In many other places where we work, the limited delta between market and tax-credit rents are among the many challenges to more robust mixed-income developments.”

### Hurdles in the District

While the HPTF and a large number of developers helps with affordable housing production, there are significant obstacles.

“The District passed [in 2015] a storm water management and rainwater regulations that pose significant cost to almost any project,” Meringoff said.

“It add substantially to what it costs. It’s a great thing, but it’s more stringent than many other cities.”

That’s not the only thing that increases cost.

“The district housing trust fund money is considered federal money, so it’s subject to Davis-Bacon [union] wage laws and there are local requirements that add to the cost of construction,” Meringoff said. “There’s a labor shortage in Washington like everywhere.”

A significant issue has been the Planned Unit Development process, which increases community involvement in any development. Both Meringoff and Fossi said permits are routinely protested.

That means developers must be prepared for some neighborhood challenges.

### Tips for Newcomers

Developers new to the city must understand the complexity of the process.

“You need to understand the local requirements and entitlement process,” Meringoff said. “You have to know how to receive D.C. funds, things like the local hiring, the [Small Business Enterprise] requirements, in addition to the zoning and entitlement process.”

He cited a recent experience, where a limited-equity co-op that operated a 199-unit, distressed Section 8 property worked with Winn. Many meetings with the co-op board, community members and city officials over three years resulted in an increase from 250,000 square feet to 1.3 million square feet and an increase to 1,200 mixed-income units, with 199 of them still low-income.

“Our expertise and understanding the entitlement and permitting process turned it into a lucrative project for

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the co-op,” Meringoff said. “It was good for them and it achieved our affordable housing preservation goals.”

Garrett said education is crucial.

“I think you need to take a step back and understand the value of land and use it to the best of your ability,” Garrett said. “You have strong advocates and a lot

of stakeholders, so you have to have patience. Not everyone understands the nuances of equity and how the public sector and private sector can work together. People believe it’s ‘privatization’ and that low-income people are being preyed upon. You need to be patient and learn how to explain that it’s not an attempt to privatize it.” ♦

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