ARLINGTON COUNTY, VIRGINIA

County Board Agenda Item
Meeting of July 21, 2012

SUPPLEMENTAL REPORT

DATE: July 19, 2012

SUBJECT: Adoption of the Columbia Pike Neighborhoods Area Plan.

DISCUSSION: The following information includes 1) discussion of and responses to both the Planning and Housing Commission's review of the Neighborhoods Area Plan; 2) discussion of and responses to input received at the Columbia Pike President's Meeting; 3) update on Arlington View civic association's feedback on the proposed recommendations; 4) discussion of the independent review of the affordable housing requirements in the Plan; and 5) additional revisions or corrections that are added to Attachment 2 (Proposed Changes/Corrections to Neighborhoods Area Plan).

Planning Commission:

The Planning Commission heard this item at its July 11 and July 12, 2012 Carryover meetings. Fourteen speakers provided feedback on the Plan with testimony focused on the Foxcroft Heights and Arlington View neighborhoods, the level of historic preservation, open space maps, the integration of and level of commitment towards affordable housing in the Plan, and the distribution of affordable housing and use of density on Columbia Pike and around the County. The Planning Commission voted 12-0 to adopt the Columbia Pike Neighborhoods Area Plan dated June 7, 2012, in Attachment 1 with revisions as noted in Attachment 2 (Proposed Changes/Corrections to Neighborhoods Area Plan). The Commission also voted to support three amendments to the Plan as part of their motion. The following provides staff responses to these adjustments:

1. Add language to the transportation section of the Plan to require the proposed 11th Street, between Thomas Street and George Mason Drive, to preserve, to the greatest extent possible, existing mature trees and open space.

   Staff Response: Staff agrees with this change and will incorporate a statement in the Plan and also will undertake further examination of this issue and the affected site area as the proposed Form Based Code (FBC) is developed to determine the best approach for the future segment of 11th Street South in the middle of the stretch between Thomas Street and George Mason Drive.

County Manager: BMD/GA

County Attorney:

Staff: Jennifer Smith, CPHD Planning

48.

Proposed Addition to Attachment 2:

17. On page 5.6, Implementation Action #4, Transportation & Parking Elements, add the following text to the end of paragraph 3:
"The ST 130-72….along the Pike can be achieved. When determining the alignment of 11th Street between Thomas Street and George Mason Drive, establish its width and placement, to the greatest extent possible, so as to preserve existing mature trees and open space".

2. The Planning Commission also voted to amend two sections of the Plan related to Neighborhood Manners and the Urban Form Vision Map:

A) Amend the language on page 4.28 of the June 7, 2012 Plan, second paragraph under "Neighborhood Manners," to read as follows:
To further protect the character of single-family neighborhoods and other low scale buildings, the Form Based Code will continue the tradition of "neighborhood manners" to ensure appropriate transitions ~~to single-family detached residential development~~. The code would stipulate a maximum height in feet within a set distance of any single-family residential lot or group of buildings 40 feet or lower, which would supersede the permitted height in the balance of the parcel.

Staff Response: Neighborhood Manners is a mechanism to be included in the proposed Form Based Code that would establish a maximum building height (in feet) for new development, or portion of new development, when it is located within a set distance from an existing single family lot when the dwelling is expected to remain. This provision is provided in the proposed FBC in order to provide an appropriate transition in height and scale. This type of provision is also included in the existing FBC for the commercial centers.

Staff believes that the proposed change could impact achievement of the affordable housing goals because potential building envelopes would be reduced when new development is located adjacent to existing garden apartment buildings. As voted on by the Planning Commission, the proposed language would apply to other areas beyond the Conservation Areas where any "low scale buildings" are expected to remain. Based on the discussion, the intent of the Planning Commission was to set a lower height limit when new development abuts low scale buildings expected to remain in Conservation Areas only. From staff's perspective the proposed Urban Form Vision Map, as currently drafted and indicated in Attachment 2, provides for an appropriate transition in building form and height and that "neighborhood manners" is not needed beyond its proposed intent to transition to single family development. As proposed, the building form adjacent to Conservation Areas would transition down from six or eight stories, depending on location, to a maximum building height of three or four stories. Staff also concludes that this step down provides an appropriate transition to the two and three story buildings expected to remain at the Conservation Areas, which could be further buffered by a new street segment in a few

locations. Staff believes that there is sufficient space from Columbia Pike to the proposed 11th Street for the building height and design to accommodate this transition. Therefore, staff does not recommend any changes to the Plan.

B) Change the Plan in the appropriate places to require the entrance of Barcroft at Thomas Street to be under "Neighborhood Manners" and the height of new buildings in this location to be limited to 4 stories instead of 6 stories.

<u>Staff Response</u>: Staff does not fully agree with this change. The Plan strikes a balance of redevelopment along the Pike frontage with preservation of a significant portion of the Barcroft complex. At the Barcroft complex, it was desired to retain a significant portion of the existing site, which is why the redevelopment spans from Columbia Pike to 11th Street only before turning to the south along a future segment of S. Wakefield, except for the George Mason Drive corner where new development would wrap around the corner. The heights were developed comprehensively considering the form along the entire Pike frontage, the achievement of affordable housing goals, achieving even forms across streets, and providing an incentive for development under the FBC rather than by-right development. If the heights in the Redevelopment Area are reduced from six stories to four, staff believes this would negatively impact the feasibility of redevelopment along the frontage of Barcroft and would create an uneven development form across Columbia Pike.

However, after further review, staff assesses that once the proposed street pattern is achieved and any new buildings at the entrance are set back such that a wider entry and open space is provided, that the buildable area on the east side of Thomas Street entrance will be limited. And, in this scenario, it is likely that new construction would be limited and would not provide any sufficient incentive to replace the existing building. Therefore, staff recommends that the Conservation Area be revised to include the area east of Thomas Street up to the proposed new north-south street. As part of the FBC, staff also recommends that building lines on the west side of Thomas Sreet be set back to retain an open and wider break, reflecting the main entrance to the complex, and achieve views into the remaining Conservation Area. Staff would also evaluate whether a step down in height from six stories to three or four stories on the west side would be needed to achieve the views. The Urban Form Vision Map and the Implementation Chapter should be revised as follows:

Proposed Addition to Attachment 2:

18. Adjust the Conservation Area to include the area on the east side of S. Thomas St. to a new section of S. Taylor St.; and, on page 5.6, under Implementation Action #4/Historic Preservation Elements, add the following at the end of the section: <u>When a garden apartment complex with an original entrance on Columbia Pike is designated as Redevelopment and Conservation areas, the FBC regulations for the Redevelopment Area should be developed in a manner that is reflective of the original entrance design and provides for views towards the buildings and open spaces to be retained within the Conservation Area, including setting Required</u>

Building Lines to maintain an open space at the entrance, and evaluating how step downs in height could provide additional designs reflective of the complex's original design.

3. Remove added density, height and redevelopment of properties along S. Orme Street for the purposes of retaining buildings compatible with those of its neighbors and surrounding development existing within the neighborhood.

   Staff Response: After further evaluation, staff does not recommend changing the Plan. The Plan for Foxcroft Heights' community represents a balanced approach of very different viewpoints expressed in the neighborhood. Several neighbors have indicated support for the level of preservation and level of changes contemplated by the Plan. They have indicated that the Plan would allow for property owners to make decisions individually and not be pressured into ownership or consolidation decisions with others. In reaching the Plan's recommendations, staff considered the existing and potential future land uses in this area, zoning, existing building forms, transportation issues, community concerns, and how other policies for Columbia Pike could be achieved here.

   South Orme Street has a mixed zoning, including RA8-18, R2-7 and C-O, allowing garden style apartments, rowhouses, and the hotel use respectively. The middle section of Orme Street is situated between the intense uses of the 16-story hotel and the Federal base, both of which are not expected to change or reduce intensity in the future. Orme Street is a heavily traveled street due to the hotel and base uses and the transition of existing building heights between the two anchor uses with the existing rowhouse development is not optimal. Based on several meetings with neighbors, separately and as part of the Charrette week, the Plan addresses these issues and contemplates that a slightly higher intensity of use and scale would be appropriate in this area in the future. The proposed heights are lower than some neighbors wanted in direct response to other community members who wanted to retain remain in place on other streets and therefore, a scale of four and five stories is proposed. Therefore, staff does not recommend any changes to the Plan.

Housing Commission:

The Housing Commission heard this item on July 12, 2012 and voted unanimously to approve the Plan. The Commission discussed several items but did not offer any specific amendments to the Plan. Discussion included the proposed affordable housing requirement in FBC and the reduced parking ratio incentive for affordable housing units when more affordable units beyond the minimum FBC requirement are provided.

Columbia Pike President's Meeting:

A meeting of the Columbia Pike civic association presidents occurred on July 10, 2012 to discuss specific areas of concerns for each neighborhood. Generally, however, the Pike Presidents are supportive of the Neighborhoods Area Plan. Two specific areas of concern were raised at the meeting: parking ratios and the proposal to reexamine the existing FBC.

Several neighborhoods indicated concerns with the proposed reduced parking ratio for affordable units (reduced from 1.125 space per unit to 0.825 space per unit) and suggested that this type of ratio, if needed, should be postponed until a later date when the County can ascertain more parking data about the existing apartment complexes and nearby streets, and once more transit options are provided thereby providing a more direct correlation between transit ridership and parking demands.

> *<u>Staff Response</u>: The Plan calls for the majority of housing units to be parked at 1.125 spaces per unit which is consistent with the current FBC parking ratio for residential uses and zoning used elsewhere in the County. This ratio would be applied to market rate housing and affordable units. The Plan also recommends an added incentive to developers who provide more affordable housing such that if more affordable housing units beyond the minimum are provided, the minimum parking ratio for all affordable units would be 0.825 space per unit. The proposed parking ratio is considered an important incentive in the Plan to achieve more affordable housing units beyond the minimum requirement and helpful to reduce overall projects costs. The ratio also reflects the County's interest in encouraging more use of transit or other modes of travel than relying on cars for all trips. The proposal is consistent with the County's Master Transportation Plan Parking Element that indicates a policy for setting lower parking ratios for affordable housing and, the County has applied this policy to several projects and approved projects with reduced parking for affordable housing, including Buchanan Gardens. Staff has obtained additional data from developers with affordable housing units, on and off the Pike, which indicates that affordable housing units are demanding fewer parking spaces, at a range of approximately 0.7 to 0.9 space per unit.*
>
> *After further discussion, staff continues to recommend the proposed reduced parking ratio. The reduced ratio is a limited tool and would not likely be used everywhere because staff does not anticipate that all developers will choose to provide additional affordable housing. Also, the ratio does not waive all parking spaces for the affordable units, only sets a reduced minimum amount.*
>
> *The problems stated by neighbors appear to be based on the existing conditions and perhaps additional discussions can occur with the communities to determine what, if any, additional measures could occur in the near term. Staff will explore obtaining additional data on the parking demand and usage at the existing apartment and condominium complexes and the surrounding streets to better understand the existing conditions depending upon available staff resources or available funding for consultant services. With this information, staff may be more informed to evaluate or offer some measures to improve conditions, should more data indicate actual issues. However, over time as properties redevelop and provide new parking at a rate of 1-1/8 space per unit, staff anticipates that more parking would be provided at the apartment complexes than exists today which could relieve congestion in nearby areas. This information could help staff determine, when developing the FBC regulations, whether the proposed parking ratio should be considered for administrative approval or if it should only be considered as*

part of a use permit approval when the County Board could evaluate impacts and address neighborhood concerns.

Most neighborhoods expressed serious reservations about reopening the existing FBC and potentially increasing heights in the commercial centers for either more on-site affordable housing or to accommodate transferred density from TDR sending sites. One President indicated the need for more housing over time on Columbia Pike and in the region and that it would be appropriate to provide for additional density in the existing centers where a mix of uses and activities are desired and more housing could be complimentary. The meeting attendees suggested other solutions that could be used without relying on density to achieve more affordable housing specifically mentioning use of financial tools. Concerns were expressed that additional density and affordable housing should be spread in other areas of the County and not just reside on Columbia Pike. One suggested that density, as proven on Columbia Pike, can be accommodated in smart, suitable ways that do not negatively affect communities.

Staff Response: Staff continues to recommend that the existing FBC be reexamined in the future once the Neighborhoods Area Plan FBC is completed to consider where, and how, additional affordable housing could be achieved in those areas. From staff's perspective, it would be beneficial to identify additional sites where additional density could be achieved to accommodate density transferred from Sending Sites as well examine criteria for how on-site affordable housing could occur. In light of this feedback, staff included proposed revisions to the Plan in Attachment 2 (see #10) to highlight that additional receiving sites elsewhere in the County would be identified.

Arlington View Neighborhood:

The Arlington view Civic Association reviewed staff's revised recommendations and has indicated their general support for them. Staff's recommendations included:

- Applying a townhouse form only for Carver Homes, and restrict the small apartment type; within the townhouse form, allowing a portion of the units, up to 1/3 of the total townhouse lots, to be provided as stacked units which would offer different sized units, different price points, and ideally could help retain current tenants on site after new development occurs; and setting a study marker for a maximum number of units on the Carver Homes site to 80 units based on achieving approximately 60 townhouse lots, and up to 1/3 of them as stacked units;

- Setting a building height of 3 and 4 stories for Arlington View Terrace apartments; and

- Designing and constructing a 12th Street connection to accommodate two-way travel. However, the County could evaluate the conditions once the street is built and operational if issues such as cut-through traffic arise and assess any necessary mitigation measures, possibly including one-way access or other restrictions.

Proposed Change to Attachment 2 (revise change #2 as follows):

2. Pages xiv-xv and 4.21-4.22, replace Urban Form Vision Map with updated version (see attached); map includes potential streetcar stop locations and ¼-mile radii; color correction for Urban Residential frontage type, with 8 Stories; and includes a special note for the Carver Homes area of Arlington View indicating a townhouse form of development only ***~~(pending)~~***. For final printing, the alternative heights as shown in the inset box would be applied as the maximum heights for those specific areas.

Independent review of the affordable housing requirements in the Plan:

The Neighborhoods Area Plan is a comprehensive plan to primarily guide the future vision for the Columbia Pike multi-family areas along Columbia Pike and address typical land use planning issues including urban form, density, transportation, open space, among others. However, this Plan intrinsically addresses housing and establishes a vision to maintain a diverse housing supply and diverse population as the Pike continues to evolve. In order to retain a mixed income population, the Plan outlines many incentives to achieve committed affordable housing units including the creation of incentive zoning through the Form Based Code. The Plan, and the structure of the proposed Form Based Code, is designed to link approval of redevelopment projects with adherence of the goals and policies set forth in the Plan including the provision of affordable housing. If the affordable housing is not provided, a proposal would not be in keeping with the County's goals for this area and may not be supported by staff.

With regards to the specific affordable housing requirement described in the Plan, the County hired HR&A Advisors, an economic consultant, to independently review the economic model and associated assumptions generated by the main economic consultant, Partners for Economic Solutions (PES). HR&A focused on the factors that underlie the Plan's affordable housing requirement of 20%/25% of the net new units. HR&A Advisors prepared a memorandum that summarizes their findings (see Attachment 5). HR&A found that the recommended 20%/25% requirement is reasonable, includes a valid set of assumptions, and is achievable. However, they also suggest that there is sufficient value created by the additional density and, if the County chooses to be more assertive, that a number of the sites could contribute a higher percentage of affordable housing. Per the HR&A memo, this higher percentage would apply for sites where the projected increase in units is at least 2.5 times the existing amount of units (e.g. if an existing site has 100 units and the proposed building form under the Neighborhoods Area Plan would allow those 100 units to be replaced by 250 or more new units). HR&A's analysis showed sensitivity to the lower and upper ends of the replacement unit amounts, and as a result, the memo indicates that the County should consider creating a tiered system. A tiered system would result in a housing requirement that is varied based on the level of additional density achieved. A higher level of affordable housing would be required on sites that achieve greater density and a lower requirement for sites that achieve lesser density.

Staff considered this analysis from two perspectives:

1. Implementation and transparency: A tiered approach could be more complicated than a uniform requirement across all sites which could dissuade property owners from entering the FBC development process. HR&A Advisors recommended using either site size or a

ratio of new units/existing units (i.e. net new). The ratio of net new units appears more equitable however, because the sites vary substantially—by size, topography, location (on or off the Pike), density, others—one could make the argument for creating a system based on a number of factors. The more factors involved and criteria and assumptions behind them, the more complicated the system would become.

From staff's perspective, a preferred outcome would be a methodology that is easily understood by all—County, developers, property owners, commissions, advocates—and a relatively straight forward requirement that could be readily implemented. If a tiered approach is applied, it could incentivize a property owner to opt into building at lower densities in order to contribute a lesser amount of affordable housing, particularly if an owner thinks the higher affordable housing requirement would challenge the development feasibility.

2. Affordable housing outcome: Staff compared the affordable housing units produced by both methodologies: the current proposal of 20% of net new units in new construction and 25% of net new units provided as preserved and renovated existing units; and a tiered approach that sets the affordable housing requirement at a starting level of 20%, increasing to 25% and 30% depending on the replacement ratio of existing to new units. A third option, similar to Option 1, was examined which establishes a rate at 30% of net new units in new construction and 35% of net new units provided as preserved and renovated existing units.

The following table compares the three options:

Bonus Density Level	Option 1: Draft Plan Model 20%/25% Aff Unit Req		Option 2: Tiered Model: 20%/25%/30% Aff Unit Req			Option 3: Increased Ratio: 30%/35% Aff Unit Req	
	20%	25%	20%	25%	30%	30%	35%
No. of sites	9	13	14	5	3	9	13
T1	1,150		1,150			1,650	
T2	1,900		2,050			2,400	

Notes:

- *T1 represents Tier 1 bonus density; T2 represents Tier 1 bonus density plus Tier 2 bonus density including Alternative Heights on the East End*
- *The Option 2 Tiered Model, despite including a higher requirement for affordable housing in some instances, does not generate additional CAFs compared to the Option 1 Draft Plan Model because it is based on the density replacement ratio for each site, which is fairly low in most instances. This changes however in the Option 2 Model with Tier 2 Bonus Heights (including alternative heights on the East End), when additional sites would fully redevelop and therefore fall into the 30% requirement category with a 3.0 or higher density replacement ratio.*
- *Option 2 applies a straight percentage requirement depending on replacement ratios and units would be provided in either new or existing structures. If the Option 2 approach is applied to Options 1 and 3, then the contribution in Option 1 (applying the 20% requirement across all sites),would be reduced to 1,000 and 1,750 units, for T1 and T2 respectively. Option 3 would be reduced in the same manner, resulting in 1,550 and 2,250 units, for T1 and T2 respectively.*

Assumptions for Options 1 and 3:

- *Full redevelopment sites provide 20% or 30% of net new units within new construction*
- *Partial redevelopment sites provide 25% or 35% of net new units within existing buildings to remain*

Assumptions for Option 2:

- *Sites with 2.0 or less density replacement ratio provide 20% of net new units as CAFs*
- *Sites between 2.1 and 2.9 density replacement ratio provide 25% of net new units as CAFs*
- *Sites with 3.0 or higher density replacement ratio provide 30% of net new units as CAFs*

Based on the comparisons above, the Option 2 Model would produce modestly more committed affordable housing units (CAFs) than the current staff recommendation. A higher amount of affordable housing units (approximately 8 %) is obtained in Option 2 when the Tier 2 bonus height is factored. While the 3rd option out performs the other two, staff is concerned that this increased ratio would cause a property owner to reconsider entering into the FBC.

The staff recommendation for 20% or 25% of the net new units as affordable units attains a significant part of Neighborhoods Area Plan goal and is firmer than any other County affordable housing requirement with the exception of Special Affordable Housing Protection District (SAHPD) the County has in place for high density development above a floor area ratio (FAR) of 3.24. Staff suggests the 20%/25% requirement provides appropriate incentive to pursue development with the FBC rather than develop by-right. Because capitalization & interest rates are at historically low levels, the recommended requirement leaves a reasonable cushion to accommodate market fluctuations (when capitalization and interest rates increase, there would be sufficient cushion to still absorb the affordable housing requirement).

Staff recommends Option 1 and that it be re-examined within 5 to 10 years after adoption of the FBC. At that time, the requirement could be adjusted, up or down, depending upon economic conditions and once the County has an opportunity to review the performance of affordable housing contributions, the pace of development, and also assess whether the economic conditions (i.e. capitalization and interest rates, rents, acquisition and construction costs, etc.) have changed such that a different requirement should be set. Defining further details of the affordable housing requirement would coincide with drafting the Form Based Code.

Additional Proposed Revisions or Corrections to the Draft Plan:

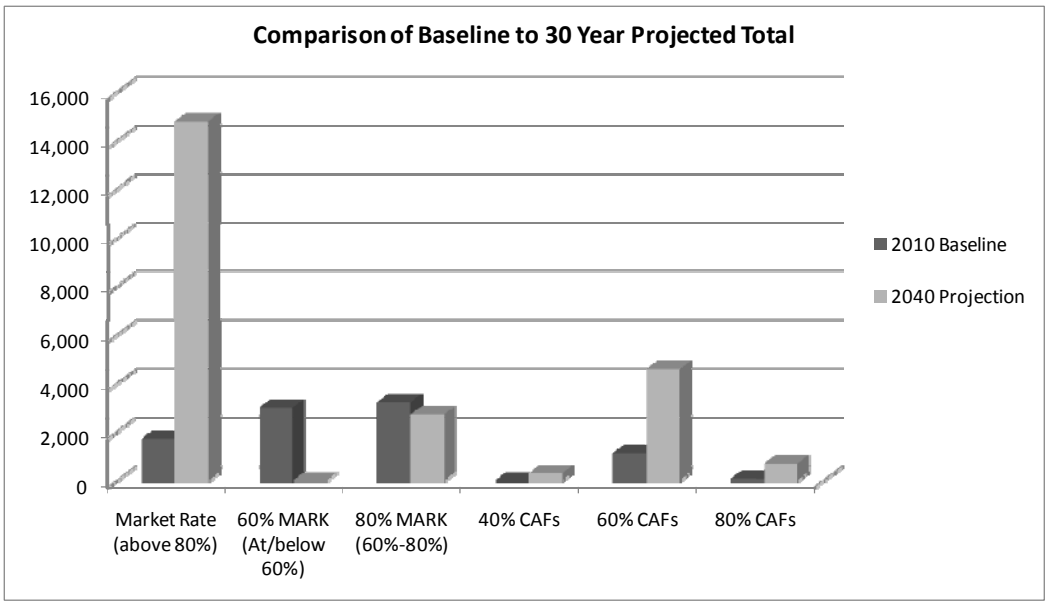
Based on additional feedback from commissions or other individuals/groups, several additional changes, beyond those noted earlier in this report, are proposed for the Neighborhoods Plan and should be included in Attachment 2. Where adjustments to Changes/Corrections to items included in Attachment 2 are needed, they are shown with underline. In addition, several new items are included:

Proposed Changes and additions to Attachment 2:

3. Pages 4.9, replace graph, table and list of Assumptions with update information as shown below, dated July 19, 2012

<u>Updated July 20, 2012:</u> Unit Projections, to replace info on page 4.9 of Neighborhoods Area Plan
[Now rounding to nearest 50 instead of 100] (New Notes 4, 5, 6 and 10)

		2010 Baseline	2040 Projection [1]	*% of Projection withn existing FBC Nodes [2]*
Columbia Pike				
	Market Rate (above 80%)	1,714	14,800	*28%*
	60% MARK (At/below 60%) [3]	2,982	0	*0%*
	80% MARK (60%-80%)	3,213	2,700	*0%*
	40% CAFs [4 9]	0	250	*0%*
	60% CAFs [5]	1,120	4,650	*8%*
	80% CAFs	84	700	*6%*
Total Units [6 7 8]		**9,113**	**23,100**	
Subarea 1: Western Pike				
	Market Rate (above 80%)	235	2,500	*37%*
	60% MARK (At/below 60%)	378	0	*0%*
	80% MARK (60%-80%)	1,028	950	*0%*
	40% CAFs [9]	0	150	*0%*
	60% CAFs	759	2,100	*9%*
	80% CAFs	84	400	*6%*
Total Units		**2,484**	**6,100**	
Subarea 2: Central Pike				
	Market Rate (above 80%)	0	3,850	*28%*
	60% MARK (At/below 60%)	1,578	0	*0%*
	80% MARK (60%-80%)	688	650	*0%*
	40% CAFs [9]	0	50	*0%*
	60% CAFs	284	1,350	*7%*
	80% CAFs	0	250	*4%*
Total Units		**2,550**	**6,150**	
Subarea 3: Eastern Pike [1]				
	Market Rate (above 80%)	1,479	8,200	*24%*
	60% MARK (At/below 60%)	961	0	*0%*
	80% MARK (60%-80%)	1,497	1,100	*0%*
	40% CAFs [9]	0	50	*0%*
	60% CAFs	77	1,150	*8%*
	80% CAFs	0	50	*0%*
Total Units		**4,014**	**10,550**	
Subarea 4: Foxcroft Heights				
	Market Rate (above 80%)	0	250	*0%*
	60% MARK (At/below 60%)	65	0	*0%*
	80% MARK (60%-80%)	0	0	*0%*
	40% CAFs [9]	0	0	*0%*
	60% CAFs	0	50	*0%*
	80% CAFs	0	0	*0%*
Total Units		**65**	**300**	



General Notes:

1. Alternative Heights in Subarea 3 (Eastern Pike) represent an increase of 2,700 net new units. This projection includes:
   - an increase of 3,300 Market Rate units, resulting in 700 new CAFs while replacing 900 MARKs
   - an assumption that half of those newly created CAFs would be done through TDR and therefore actually replace an additional 350 existing MARKs within Conservation Areas such as Barcroft. The other 350 CAFs would remain on site (within Subarea 3).
2. In addition to the Neighborhoods Plan area, 4,400 net new units are forecasted for the existing FBC Nodes. Detailed distribution of this figure can be found in Note 6.
3. 1,200 of the existing 60% AMI MARKs rent at the 50% AMI level
4. Current supply of CAFs at 40% AMI level is 0. Detailed projections for this category are included in note #10.
5. 230 of the existing 60% AMI CAFs are at the 50% AMI level. This number will increase by 230 through continued work with partner sites. Future CAF units will continue to be a subset of the 60% CAF category.

Assumptions Incorporated into 30 Year Projections Include:

PRAT Forecast

6. PRAT Forecast assumes **4,400 total net new units**, all as Multi-family, market rate rentals. 409 of those units were re-classified as CAFs and distributed among Subareas 1-3 (i.e. Arlington Mill, Shell Gas Station Site); to be provided by Partners of the County
7. For distribution purposes, 50% of PRAT Forecast was assumed in Subarea 3 (Towncenter), 27% in Subarea 2 (Neighborhood Center + 1/2 of Village Center) and 23% in Subarea 1 (other 1/2 of Village Center & Western Gateway).

Illustrative Plan and Urban Form Vision Map Concepts

8. Illustrative Plan projections of **9,600 total net new units** represent the following assumptions:
   - Sites with existing CAFs would only be allowed to redevelop as 100% CAFs in the future (at various levels of AMI)
   - Sites where full redevelopment is shown would provide 20% of net new units as CAFs (within new construction)
   - Sites where partial redevelopment is shown would provide 25% of net new units as CAFs (within preserved buildings)
   - West-end projects can provide 1/3 of required CAF units at 80% AMI if they provide twice as many affordable units
   - East-end projects can provide 1/3 of required CAF units at 40% AMI and would be allowed to provide half as many affordable units
   - Preserved, existing units that are not CAFs will remain as 80% MARKs
   - New construction units will be market rate (greater than 80% AMI)
   - Foxcroft Heights represents an additional 36 units (from the 9,077 unit total shown on housing inventory map)
   - 30 Year projections are approximate and have been rounded to the nearest fifty.
9. Due to rounding in the table, smaller numbers of CAFs at the 40% AMI level may not be displayed accurately. Projections for this category include: 119 in Subarea 1; 60 in Subarea 2; 55 in Subarea 3; and 6 in Subarea 4. 240 Total has been rounded to 250 in the table.

6. Pages 4.44-4.45, replace Open Space Vision Map with updated version dated June 15, 2012 (see attached); legend category "Long Term Potential Open Space" is removed; shading for private golf course to the south of Columbia Pike corridor is removed as area is not a public open space fitting one of the legend categories; proposed new open space at east end of Columbia Pike now displayed with an asterisk and labeled as "Area under discussion for Future Historical Center and Arlington National Cemetery"; additional street names and other labels will be added for reference

19. The Urban Form Vision Map, dated June 15, 2012, will be revised to properly apply the Urban Residential (6 stories) for the entire Quebec Apartment property, to the southern property line. The map erroneously truncates the area available for redevelopment.

20. Revisions regarding Historic Preservation:
    - Page 4.1; revise 3rd policy section from "Historic Preservation in this Affordable Housing Context" to "Historic Preservation"
    - Page 4.18, middle column, revise as follows: "Conservation is the primary objective….have a cohesive campus setting with low-scale buildings surrounded by open spaces with mature shade trees. These areas and their built environment of brick and mortar buildings are contributing to the overall character and identity of the Columbia Pike community and they are envisioned to be retained. Housing…"

HR&A Analyze. Advise. Act.
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MEMORANDUM

To: David Cristeal, Department of Community Planning, Housing, and Development

From: HR&A Advisors, Inc.

Date: July 3, 2012

Re: Columbia Pike Financial Model Review: Findings and Recommendations

Arlington County engaged HR&A Advisors (HR&A) to review the assumptions and methodology of a financial model created by the County's consultant, Partners for Economic Solutions (PES). PES has utilized the results of the financial model, coupled with other information and analyses, to support a recommendation that the County require 20 percent of new units created by the form-based code in the *Columbia Pike Neighborhoods Plan* to be reserved for committed affordable housing. This memo summarizes HR&A's findings related to assumptions and methodology used by PES, and recommendations for consideration by the County as it moves towards finalizing the affordable housing requirement and the *Neighborhoods Plan*.

HR&A reviewed an Excel model prepared by PES, named "Prototype 6-5-12 with Sources Uses", as well as the documentation provided by PES. HR&A's review focused on the new construction development scenario with three to one replacement of existing units on the prototype site. The development prototype analyzed is a five-story stick-built residential development on a 3-acre site, replacing 95 existing units with 285 new units, of which 249 are market-rate and 36 are committed affordable units at 60 percent of AMI. The prototype includes wrapped above-grade structured parking.

As part of this analysis, HR&A conducted additional due diligence, including consulting industry publications and data, contacting brokers for recent developments along the Pike and in other locations in the County, contacting local developers, and conducting a site visit to the neighborhoods in the Plan to assess the context, product type, and physical characteristics of the neighborhoods. HR&A also performed independent analysis of PES' model to analyze alternative scenarios and conduct sensitivity analysis.

There are several key terms utilized throughout the memo, which are defined below:

- *Incremental Units* – refers to the units that can be built on a given site in addition to the units that exist currently;
- *Surplus Development Value* – refers to the residual land value that is created by the total market rate units on a redeveloped property, in excess of the current estimated value of the land and existing units;
- *Replacement Ratio* – refers to the ratio of total (existing plus incremental) units that can be created on a redeveloped site for each existing unit. For example, a three to one replacement ratio indicates that a property owner could build three units on a redeveloped site for every unit that exists today – two incremental units plus a replacement for the existing unit. A site that currently

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has 90 units and achieves a replacement ratio of three to one with redevelopment would have 270 total units following redevelopment.

Executive Summary

HR&A's review and analysis suggest the following key findings.

- Based on PES' model, additional density provided by the proposed form based code generates significant surplus development value. HR&A agrees in principle that the County should not aim to capture 100 percent of the surplus value created by the form-based code for affordable housing. 18 percent of the surplus value created by the form-based code (as estimated in PES' model) would be captured for affordable housing, based on the current proposed 20 percent requirement. The prototypical development can support more units for committed affordable housing if a larger percentage of the surplus value were captured for affordable housing, compared to the proposed requirement.
- Because development feasibility and number of supportable affordable units are sensitive to a number of factors to varying degrees, including cap rates, market-rate rents, construction costs, and site size and configuration, HR&A agrees in principle that not all of the surplus value that is created by the form-based code should be captured through the affordable housing requirement.
- The County's objective is to incent the production of affordable housing, while ensuring that the *Neighborhoods Plan* provides sufficient additional density opportunities such that the surplus value created by the additional density subsidizes the production of those affordable units. However, we believe that County could explore committing more of the surplus value to create new affordable units than currently proposed.
- Based on the sensitivity of value to the number of units that can be created on a particular site, the County could consider whether to implement a policy that allows flexibility or a reduction in requirements for smaller sites and sites that have physical constraints that limit the ability to achieve appropriate levels of density to support the affordable housing requirement. A tiered system, based on the size of the site and related to the achievable density for redevelopment, could potentially result in higher production of affordable housing units without making redevelopment of sites that are smaller than the prototype infeasible under the form-based code.

Based on HR&A's findings, we recommend that the County consider the findings and recommended areas for consideration that are highlighted in this memo to determine the most appropriate course of action.

Recommendations

Based on HR&A's review and analysis, we recommend that the County consider tweaking the proposed affordable housing requirement. While HR&A believes that the proposed requirement of 20 percent of incremental units for committed affordable housing is reasonable, we believe that the County could achieve more affordable units without threatening the feasibility of development, by increasing the required level of affordable housing and introducing a tiered system of affordability based on the size of site.

Recommendation: Consider increasing level of required affordability. While HR&A agrees with PES that the County should not aim to capture 100 percent of the value created through additional density for affordable housing, we think that more than 18 percent of the value can be captured for affordable housing. Based on PES' current model, for sites that can achieve the three to one replacement ratio in the prototype analyzed in PES model, the County could aim to capture between 30 and 35 percent of the

surplus value created, through a requirement of 30 percent of incremental units for committed affordable housing. This recommendation is based solely on PES' current model and does not take into account potential changes that the County or PES may make to the model.

Recommendation: Consider a flexible policy that accounts for the density that can be achieved on site. The County could consider a policy that allows flexibility or a reduction in requirements for smaller sites and site that have physical constraints that limit the ability to achieve appropriate levels of density to support the affordable housing requirement. While the base analysis that is reviewed above suggests that a higher level of affordable housing can be achieved on the prototypical site, this requirement may be onerous if the maximum allowable density cannot be achieved on smaller sites, on which it may be difficult to achieve the levels of density allowed by the form based code and provide the necessary associated parking. In order to mitigate that risk, while still achieving the County's affordable housing goals, a tiered system could be set such that:

- Sites that are able to achieve three to one replacement (and are assumed to achieve the prototypical density of 95 dwelling units (du) per acre) – could be subject to the requirement proposed above of 30 percent of incremental units for committed affordable housing.
- Sites that are able to achieve a unit replacement ratio of at least two to one but less than three to one could be subject to a lower affordable housing requirement – closer to the currently proposed requirement of 20 percent of incremental units for affordable housing.

Note that this recommendation is based solely on PES' current model and does not take into account potential changes that the County or PES may make to the model.

If this is an avenue that the County chooses to pursue, the County and its planning consultants may choose to utilize the size of a site or other site characteristics as a proxy for achievable replacement ratio, in order to provide predictability in the affordable housing requirement to property owners and developers. If that is the case, the County could analyze the minimum size of site necessary to achieve these replacement thresholds, including necessary parking and other on-site improvements to accommodate those units, and could then set site size or other site characteristics as determinants for the affordable housing requirement.

Recommendation: Analyze scenarios and update proposed affordable housing requirements based on updated financial assumptions. HR&A's review and due diligence suggests that market rate rents and construction costs for residential and parking structures may both be overstated by as much as 15 to 20 percent. HR&A's sensitivity analysis suggests that changes in both of these variables can have a material impact on development feasibility and the amount of supportable affordable housing. The County should consult with PES on these assumptions and consider whether to analyze one or more alternative scenarios using refined assumptions.

Recommendation: Review the feasibility and efficiency of the prototype analyzed in the model. While not focused on the physical site planning of the prototype, HR&A's due diligence suggests that the development prototype that is analyzed in the model may not provide the most efficient use of a 3 acre site and may be better suited to a larger site. The County should consider working with its planners to ensure that the prototype and the corresponding site planning assumptions in the financial model represent the most efficient product that developers are likely to build on a similar site.

Discussion of Analysis

The following is a summary of the analysis conducted by HR&A and the key findings of that analysis that suggested the recommendations above. Much of the analysis conducted and summarized below explored the feasibility of development and the level of affordable housing that could be supported under a range of scenarios if the County were to aim to capture 100 percent of the surplus development value created by the form-based code for affordable housing. However, as discussed elsewhere in this memo, HR&A agrees in principle that the County should not aim to capture 100 percent of the surplus value for affordable housing, given other County priorities and requirements of the form-based code as well as the sensitivity of development feasibility to changes in market conditions and the ability to achieve sufficient densities. This analysis was conducted and is presented to provide the County with an understanding of the range of potential development feasibility outcomes and does not suggest that the County should create an affordable housing requirement that captures 100 percent of surplus value.

Based on PES' model, the surplus development value generated with a three to one replacement can support 48 percent of the incremental units for committed affordable housing if 100 percent of surplus value were captured for affordable housing, compared to the proposed 20 percent requirement.

The proposed requirement of 20 percent of additional units for committed affordable units is based on an analysis of the surplus value created for a developer by the increase in density supported by the form-based code. However, as PES has noted in their discussions with HR&A, 18 percent of the surplus value was utilized to subsidize the production of affordable in order to allow for potential fluctuations in financial and real estate conditions, including cap rates, rents, development costs, and other factors. By way of comparison, using PES' assumptions, HR&A's analysis of the PES model shows that utilizing 100 percent surplus created from additional density could subsidize approximately 92 affordable units, or 48 percent of the incremental density created by the form based code, rather than the 36 units that would be generated by the proposed 20 percent requirement.

HR&A has discussed with PES the risks inherent in the model and agree that 100 percent of the surplus value that is created by the form-based code should not be captured through the affordable housing requirement.

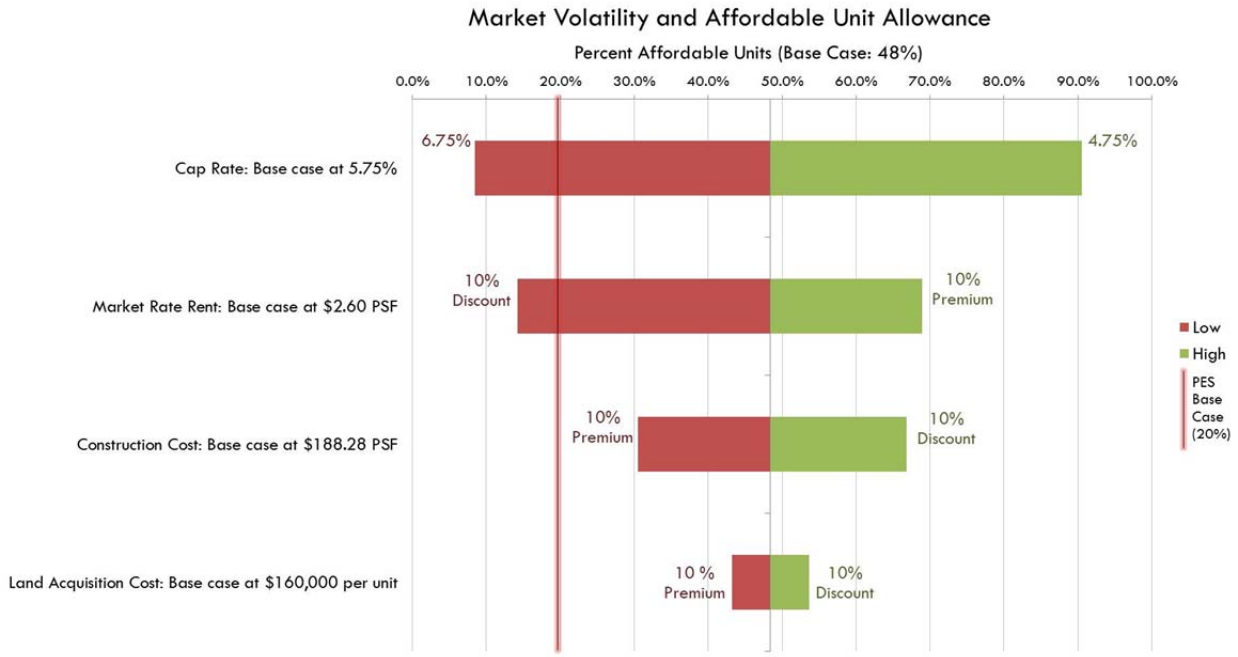
Development feasibility, especially for mixed-income projects, is extraordinarily sensitive to movements in financial and real estate market conditions. HR&A agrees in principle with PES that it is not prudent to utilize all of the surplus value to subsidize the production of affordable units. The County's objective is to incent the production of affordable housing, while ensuring that the *Neighborhoods Plan* provides sufficient additional density opportunities such that the surplus value created by the additional density subsidizes the production of those affordable units. Its policies should reflect that objective.

The feasibility of development and number of supportable affordable units are sensitive to a number of factors to varying degrees, including cap rates, market-rate rents, construction costs, land costs, and site size and configuration.

To understand the impacts of changes in critical variables on the proposed affordability requirements, HR&A conducted a sensitivity analysis to assess the appropriateness of the affordability level selected (20 percent of incremental units) compared to the potential units that could be required for a prototypical site if 100 percent of surplus value were captured for affordable housing, based on the financial analysis in PES' base model (48 percent of incremental units). HR&A analyzed scenarios in which 100 percent of the surplus value is captured for ease of comparison and to understand the full spectrum of potential outcomes. This sensitivity analysis informs HR&A's recommendations to the County, above, related to the level of the

affordable housing requirement. Key takeaways of that sensitivity analysis are as follows and are shown in Figure 1 below:

Figure 1: Sensitivity Analysis Findings,
Assuming Capture of 100% of Surplus Development Value for Affordable Housing



- The model is most sensitive to a change in **cap rate**, with a decrease of 100 basis points in the cap rate increasing the number of the incremental units that are supportable for affordable housing to more than 90 percent, or reducing it to less than 10 percent.

  HR&A believes that a cap rate of 5.75 percent is a reasonable assumption for multifamily residential development in this market. Cap rates reflect the view of developers and property purchasers regarding local, regional, and national market risks of particular product types, and are one of the variables over which the County and developers have limited control. For example, HR&A's analysis shows that an increase in cap rates of more than 125 basis points would impact feasibility of a purely market-rate development, as well as a mixed-income development. Therefore, although cap rate risk impacts the supportable affordable housing, its impact on overall development feasibility is of greater concern.

- The model is also fairly sensitive to changes in **market-rate rent**, with a 10 percent increase in rents increasing the supportable affordable housing to nearly 70 percent of the incremental units and a 10 percent discount on rents reducing the supportable affordable housing to approximately 15 percent of the incremental units.

  HR&A's research suggests that the assumed market-rate rent levels in the model – approximately $2.60 per rentable square foot – are up to 15 to 20 percent higher than current rents for one and two bedroom apartments in new developments within the study area

on Columbia Pike.[1] However, it is possible that these rent levels may be appropriate following several years of redevelopment in the context of a growing Columbia Pike corridor, in which rents in new developments may reach similar levels as other developed residential markets in the County, such as Clarendon, where rents average around $2.70 per rentable square foot, and portions of the corridor to the west of the study area and closer to Pentagon City, where rents in high-rise buildings average $2.50 or more.

- The model is less sensitive to changes in **construction costs**, with a 10 percent change in construction costs increasing the supportable affordable housing to more than 65 percent or decreasing the supportable affordable housing to slightly more than 30 percent of the incremental units.

  HR&A's research and experience with comparable development types in the region and throughout the northeast, as well as conversations with local developers, suggests that the assumptions for total development costs for residential and parking structures may be overestimated by 15 to 20 percent. We believe hard costs for both residential development and parking, as well as soft costs, could be reduced in a new development.

- The model is less sensitive to changes in **land costs**, with a 10 percent change in land cost increasing the supportable affordable housing to approximately 54 percent or decreasing the supportable affordable housing to approximately 43 percent of the incremental units.

  The County's experience with recent land acquisition in the Corridor suggest that land costs for sites with performing assets can vary, with recent acquisitions at a cost of up to $175,000 per existing unit, compared to the assumed land acquisition cost in the PES model of $160,000 per existing unit.

- HR&A also assessed the potential impact of **site and project size** on the number of supportable affordable units, recognizing that some of the sites in the study area may have site constraints that limit their ability to achieve the total allowable density of two additional units for each existing unit, or three to one replacement (assumed to achieve a density of 95 dwelling units (du) per acre in the prototype model). As shown in Figure 2, below, as the size of the site decreases and the achievable unit replacement ratio decreases, the amount of affordable housing that is supportable declines. For example, if the County were to aim to capture just 30 percent of the surplus development value created by the form-based code, sites that can achieve at least two to one replacement could support at least 16 percent of the incremental units as committed affordable housing – close to the current proposed affordable housing requirement – while site that can achieve three to one replacement could support nearly 30 percent of the incremental units as committed affordable housing. HR&A has not conducted a physical analysis or review of sites within the study area and, as a result, cannot evaluate how many sites would be able to achieve various levels of development.

[1] Based on one and two bedroom units available the weeks of June 4th and June 11th, 2012 at Siena Park, 55Hundred, and Archstone Columbia Crossing developments, and conversations with and review of documents provided by development professionals with experience on the corridor.

Figure 2: Supportable Affordable Housing by Unit Replacement Factor

Density (Replacement Factor)	Supportable % of Affordable (of new units) if Capture 100% of Surplus Value	Supportable % of Affordable (of new units) if Capture 30% of Surplus Value
3.0 to 1	48%	28%
2.5 to 1	42%	24%
2.0 to 1	29%	16%
1.8 to 1	20%	10%
1.5 to 1	0%	0%

Additional Considerations

In addition to the sensitivity of the analysis to the assumptions discussed above, there are two additional considerations that can have a significant effect on the amount of affordable housing that is supportable and, therefore, on the policy recommendation.

- **Potential Impact of Leverage.** The PES model is based on a stabilized-year analysis, which does not take into account the potential benefits of low-cost debt as revenues increase over time. As a result, given the current low interest rates, it is likely that use of a discounted cash flow model would increase the percentage of supportable affordable housing.
- **Potential Impact of Low Income Housing Tax Credit (LIHTC).** The PES model does not assume the receipt of Low Income Housing Tax Credits (LIHTC) or other affordable housing subsidies, since the County's allocation of tax credits is limited and there is a preference to grant tax credits to developments with a higher percentage of affordable units than in currently proposed. While HR&A agrees that the receipt of LIHTC should not be assumed in the base model, receipt of the credits could substantially increase the percentage of supportable housing in a development.

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