Economic Impact Statement

Office of Legislative Oversight

Bill 13-20

County Property – Disposition – Affordable Housing

SUMMARY

Given the acute need for affordable housing, especially among lower income households, the Office of Legislative Oversight (OLO) expects Bill 13-20 to have a positive, yet small, impact on the Montgomery County economy. However, it is possible that the bill could create minor costs for housing developers, as well as renters and buyers of housing units who are ineligible for affordable units.

BACKGROUND

Bill 13-20 is intended to address the lack of affordable housing in the County. To increase the availability of affordable housing, the bill would amend the law regarding the disposition of property owned or controlled by Montgomery County Government (MCG) that will be used primarily for housing developments.[1] Under current law, the process for the County Executive to dispose of County-owned land involves three requirements: (1) verifying to the Council that the sale will not fall below the full market value[2]; (2) attaining Council approval for a declaration of no further need for the property;[3] and (3) providing the Council with the material terms of the disposition.[4] Requirements (1) and (2), however, do not apply for any disposition of property in which the housing development will include 30% or more of moderately priced dwelling units (MPDUs).[5]

Bill 13-20 would make two changes to current law governing the disposition of County-owned property that will be used primarily for housing developments. First, it would "require that 30% of the housing units built on the property be income restricted under an agreement with the Department of Housing and Community Affairs."[6] The second change modifies the conditions in which dispositions are exempt from the full market value and declaration for no further need requirements, respectively (1) and (2) above. To waive these requirements, the recipient of County-land must commit to what is referred to here as the "15-15 split." Under this rule, the housing developer must ensure

[1] According to Montgomery County Code, "*Disposition* means a sale, a lease or license for a term of 2 years or longer, or a lease or other document which includes an option to buy." The disposition process does not apply to "surplus school facilities and property of nominal value identified in the regulation." Montgomery County Code § 11B-45(b)(2) [hereinafter "MCC"].

[2] Full market value is established "by at least one professional appraisal of the property obtained by the Director within 12 months before a declaration is submitted to the Council." MCC § 11B-45(c).

[3] MCC § 11B-45(e)(1)(C)(ii).

[4] MCC § 11B-45(d)(1).

[5] MCC § 11B-45(e)(5).

[6] County Council for Montgomery County, Maryland. Bill No. 13-20. County Property – Disposition – Affordable Housing. February 27, 2020. 2.

that "at least 15% of the housing units built on the property will be moderately priced dwelling units," and that "at least 15% of the housing units built on the property will be for residents with an income of 50% or less of area median income."[7]

Ultimately, the goal of Bill 13-20 would be to encourage the County Executive to include the 15-15 split in negotiations with housing developers, thereby increasing the stock of affordable housing in the County.

INFORMATION, ASSUMPTIONS and METHODOLOGIES

No methodologies were used in this statement. The assumptions underlying the claims made in the subsequent sections are based on the judgment of OLO staff. Data used in this statement come from publicly and non-publicly available sources. All publicly available data sources are cited.

VARIABLES

The variables that could affect economic impacts in the County are the following:

- Rate of inclusion of the 15-15 split in deals between County Executive and housing developers
- Stocks of MPDUs and other affordable housing units in the County
- Demand for MPDUs and affordable housing among County residents
- Percentage of households with annual incomes of $60,650 or less[8]
- Number of per year dispositions for housing developments
- Number of housing units built in these developments per year

IMPACTS

Businesses, Non-Profits, Other Private Organizations

Workforce, operating costs, property values, capital investment, taxation policy, economic development, competitiveness, etc.

OLO believes that Bill 13-20 could create costs for housing developers. Increasing income-restricted housing units in their developments could result in lower rents and per sale profit margins, thereby reducing the overall profits of housing development companies. However, OLO believes these costs would be minimal for three reasons.

First, affordable housing units on County-disposed land will likely make up a small portion of all new housing units constructed in the near future. This much is suggested by available data on the contribution of housing units on disposed land to the development of new units in the County. From 2014 to 2019, 866 housing units have been constructed on County-disposed land, only

[7] Ibid.
[8] The area median income (AMI) for Montgomery County is $121,300. U.S. Department of Housing and Urban Development. FY 2019 Median Family Income Documentation System. HUD.gov. https://www.huduser.gov/portal/datasets/il/il2019/select_Geography.odn (accessed on March 25, 2020).

220 of which were MPDUs. During this time, an estimated 5,909 new housing units have been constructed in the County.[9] Thus, while housing units on County-disposed land contributed to approximately 15 percent of all new units, MPDUs on disposed land made up only 4 percent of all new units. Based on these figures, OLO expects affordable housing units on disposed land to continue to be a small portion of housing developers' product portfolios, even if Bill 13-20 increases the number of affordable units built on disposed land.

Second, the potential costs to housing developers could be offset by benefits they would receive from other inclusionary zoning policies, such as fee waivers, tax reductions, density bonuses, and other devises that lower the cost of building affordable housing for developers.[10] Note that aggregating the financial incentives from all such policies that developers could be eligible for is beyond the scope of this statement.

Third, it is theoretically possible that housing developers would pass additional costs created by Bill 13-20 onto customers who are ineligible for affordable housing by increasing rents and/or asking prices for non-MPDU units. This claim assumes that the rental and for-sale housing markets are sufficiently non-competitive to give developers some degree of pricing power.[11]

In brief, Bill 13-20 could potentially create minimal costs for housing developers. OLO does not anticipate that these costs would be sufficiently high to reduce developers' capital investments, to drastically cut into their operating costs, or to negatively impact their workforce compensation. In addition, OLO does not anticipate that the bill would have a significant impact on the County's competitiveness in the residential housing sector or overall economic development.

Residents

Employment, property values, taxes paid, etc.

OLO believes that residents, particularly those in lower income households, would benefit from Bill 13-20.

The need for affordable housing in the county, especially for lower income households, is acute. There has long been a growing demand for accordable

[9] Housing unit data for 2019 from the U.S. Census Bureau is unavailable. To estimate the number of new housing units constructed from 2014 to 2019, OLO added the per year average of new units during the 2014 to 2018 period to the total number of new housing units constructed during this period. U.S. Census Bureau. 2014-2018 American Community Survey 5-Year Estimates. Census.gov. https://data.census.gov/cedsci/table?q=%202014-2018%20American%20Community%20Survey%20%28ACS%29%205-year%20estim&tid=ACSDP1Y2018.DP05&y=2018 (accessed March 25, 2020).
[10] Urban Ventures. Final Report on MPDU Program: Analysis of Current Program and Research on Other Localities' Inclusionary Zoning Programs. June 7, 2018. 24.
[11] Indeed, there has been considerable consolidation in the housing development sector since the Great Recession, leading some industry experts to express concern over the "creeping oligopolies." Andrew Van Dam. "Economists identify an unforeseen force holding back affordable housing." *Washington Post*. October 17, 2019. https://www.washingtonpost.com/business/2019/10/17/economists-identify-an-unseen-force-holding-back-affordable-housing/ (accessed March 26, 2020).

housing among County residents. The percentage of households spending 35 percent or more of their income on housing costs has steadily increased over the last thirty years, especially for renters.[12] While the demand for affordable housing has been increasing, the supply, especially for lower income households, has not kept up. As the 2019 Montgomery County Trends report states, "Reaching the low-(50 percent AMI) to very low-(30 percent AMI) income population remains a challenge in this county as these populations have grown faster than the supply of housing affordable to them." The report adds, "MPDUs – the most reliable source of affordable housing production – are often out of reach for them, and often Low Income Housing Tax Credit (LIHTC) projects do not include a large share of low – to very low-income units, due to their expense."[13]

The unmet demand for affordable housing carries economic costs. For the households directly affected, burdensome housing costs can create difficult trade-offs among important household expenses, such as healthcare and childcare. For other residents and businesses in the County, they lose out on the stimulating effects from consumer spending that burdensome household costs reduce. By increasing the supply of affordable housing, Bill 13-20 has the potential to reduce the burden of housing costs for lower income households in the County, assuming the affordable units would be occupied by current Montgomery County residents. Indeed, there is evidence to support this assumption. In 2017, a survey of all properties participating in the MPDU rental program found that seventy-three percent of residents in the program had previously lived in Montgomery County.[14] Moreover, reducing housing costs for lower income households would stimulate the economy due to increased consumer spending. However, as discussed above, OLO expects these potential benefits to be modest, given the small share of affordable housing units on County-disposed land to the total stock of affordable housing in the County.

Despite these beneficial economic impacts, Bill 13-20 could theoretically impose costs on County residents who do not need affordable housing. As mentioned in the previous section, the bill could lead to housing developers passing costs onto buyers of non-MPDUs. However, OLO does not expect that these costs would be substantial. For one, they would be small due to the low share of affordable units constructed on disposed land and the diffusion of these costs across many buyers of non-MPDUs. Secondly, they would be offset by the stimulating effects described above.

[12] Montgomery County Planning Department. 2019 Montgomery County Trends: A Look at People, Housing and Jobs Since 1990. January 2019. 64.
[13] Ibid. 65.
[14] Urban Ventures. Final Report on MPDU Program. 5.

WORKS CITED

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CAVEATS

Two caveats to the economic analysis performed here should be noted. First, predicting the economic impacts of legislation is a challenging analytical endeavor due to data limitations, the multitude of causes of economic outcomes, economic shocks, uncertainty, and other factors. Second, the analysis performed here is intended to *inform* the legislative process, not determine whether the Council should enact legislation. Thus, any conclusion made in this statement does not represent OLO's endorsement of, or objection to, the bill under consideration.

CONTRIBUTIONS

This economic impact statement was drafted by Stephen Roblin (OLO), with assistance from Stephanie Killing (DHCA), Greg Ossont (DGS), and Ronnie Warner (DGS).