PRINCE GEORGE'S COUNTY PURPLE LINE INCLUSIONARY ZONING STUDY

HR&A Analyze. Advise. Act.

Enterprise

FINAL REPORT

DECEMBER 2020

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Prince George's County undertook a study to examine the feasibility of an inclusionary zoning policy along the Purple Line Corridor.

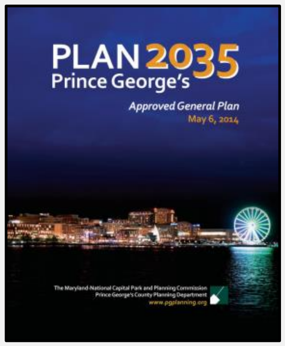
The goal of an inclusionary zoning (IZ) policy is to support the County's housing needs through the creation of affordable housing in new market rate development. While the new Purple Line light rail system will increase transit access and promote walkable communities, it is also expected to increase housing prices in the areas around planned stations. This increase in prices adds to existing housing affordability challenges but also presents an opportunity for the County to leverage real estate value to support affordable housing goals. Consideration of this policy occurred alongside local and regional planning for the Purple Line, like the PLCC's Housing Action Plan, which emphasizes stabilizing existing residents living in the Corridor and ensuring they can afford to live there over time.

Rendering of the New Carrollton Station following completion of the Purple Line and new surrounding walkable development.. Source: Urban Atlantic.

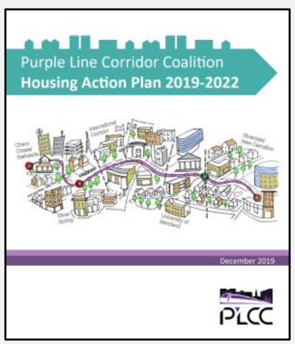
The creation of an IZ policy is one of the initial implementation actions from Housing Opportunity for All (Cross-cutting Action 1.5) and part of a broader effort by the County and its partners to further housing goals.

Housing Opportunity for All

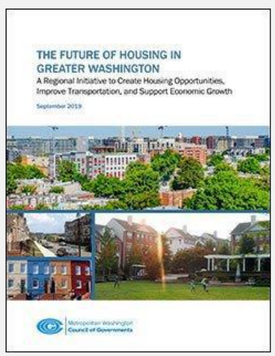
Plan 2035



Purple Line Corridor Housing Action Plan



MWCOG Regional Housing Needs



Zoning Re-Write

COUNTY HOUSING POLICY GOALS

Use housing policy as a tool to:

- Attract new residents
- Retain and stabilize existing residents
- Strengthen economic development
- Expand impact of other investments and assets

Preserve affordable housing along the Purple Line:

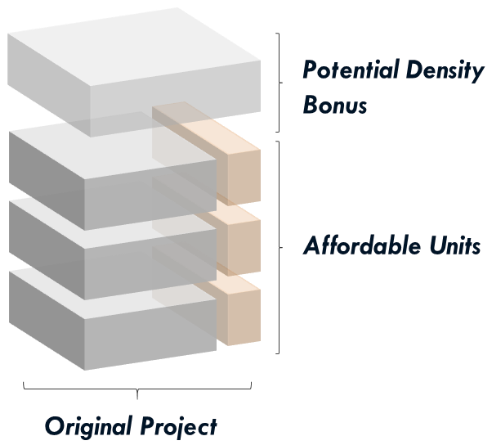
- Focus on households earning under $70,000, improved housing quality, and anti-displacement measures.

Near-term focus on four policy matters:

- Inclusionary zoning
- Expanded Housing Investment Trust Fund
- Creation of a landbank
- Strengthened right of first refusal policy and process

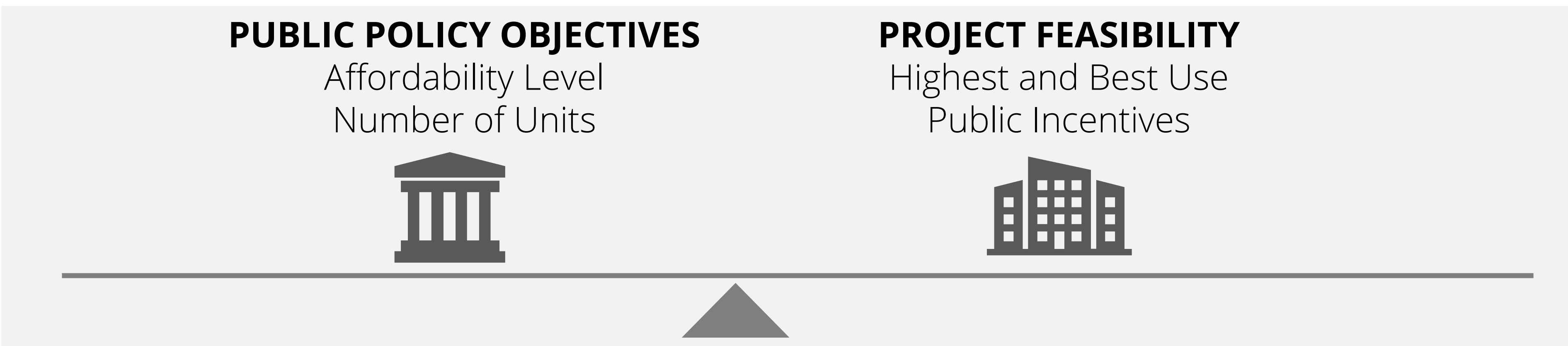
STUDY SUMMARY | DESCRIPTION OF INCLUSIONARY ZONING

An IZ policy creates affordable housing units within new market rate development.



- Inclusionary zoning policies **require** developers to include affordable units in market-rate developments, often in exchange for incentives such as bonus density or tax abatement.
- Rents for affordable units are set relative to the **Area Median Income (AMI),** the household income for the median household in a region.

The policy established in an inclusionary zoning housing policy must balance public policy objectives and development feasibility. When public policy goals and real estate economics are misaligned, both are ultimately harmed.



To evaluate the feasibility for an IZ policy along the Purple Line Corridor, HR&A's approach included three tasks that built on one another.

Market Conditions Assessment

Developed a **market analysis** based on research of current housing data as well as **stakeholder interviews** with housing advocates, developers, and public agencies and analyzed **inputs for development feasibility analysis.**

Development Feasibility Scenarios

Conducted a **financial feasibility assessment and incentive evaluation** for development scenarios across different submarkets along the Purple Line to consider the impact of an inclusionary requirement.

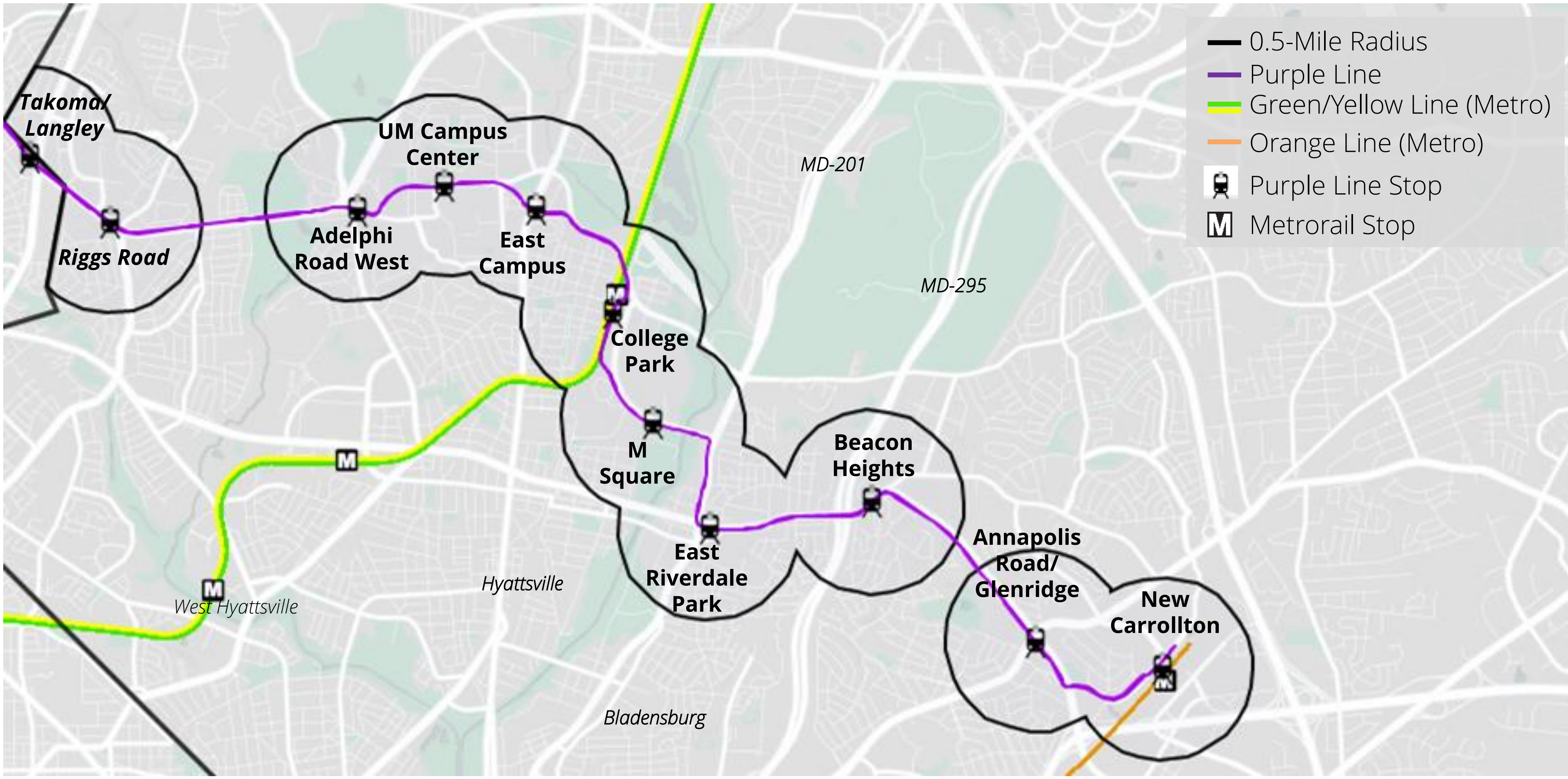
Refinement & Policy Recommendations

Evaluated **potential policy options** and worked with the County to develop a set of recommendations that will advance housing affordability.

Analysis focused on the area within a half mile radius of planned stations, a commonly accepted standard for station areas and expected real estate impact.

PURPLE LINE CORRIDOR STUDY AREA

Prince George's County, MD



Note: Within this study, references to the "Purple Line Corridor" are specific to the station areas within Prince George's County.

Based on analysis and evaluation of current conditions along the Purple Line Corridor, HR&A identified four key findings:

1. An IZ policy is **not feasible** at this time based on market conditions and current County policies

2. Going forward, the County should regularly monitor market activity to **consider future IZ feasibility** along the Corridor

3. The Purple Line will generate real estate value that could be leveraged to support housing affordability through **other policies** including: 1) PILOT affordability requirements, 2) public land disposition affordability requirements, or 3) a housing impact fee

4. There is a need for **stronger alignment of the County's incentive strategy** across economic, land use, and housing goals

STUDY SUMMARY

IZ FEASIBILITY

FUTURE IZ CONSIDERATIONS

POLICY ALTERNATIVES

INCENTIVE STRATEGY

In order to be an effective tool to create affordability and foster mixed-income communities, an IZ policy must:

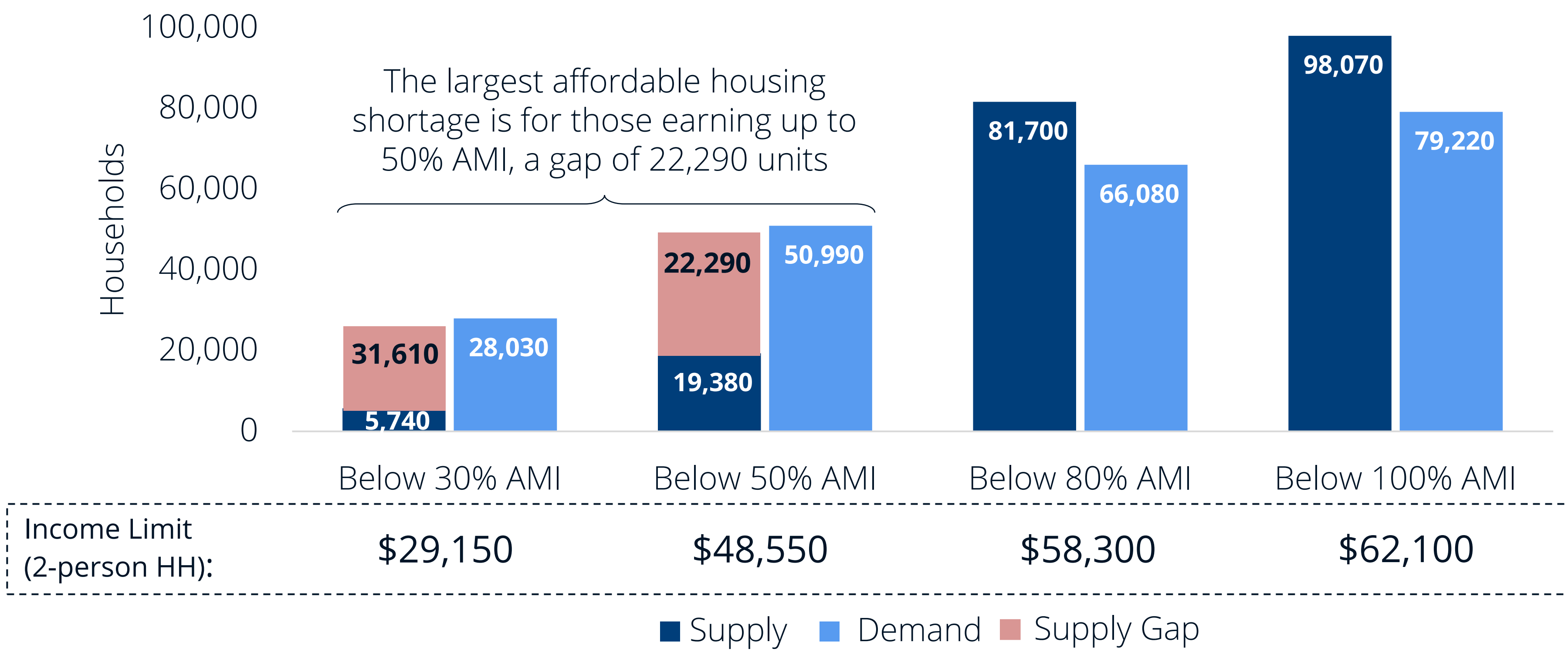
1. **Align with housing needs**
2. **Provide appropriate public incentives**
3. **Apply to locations with sufficient market strength**

There is a shortage of units affordable to households earning up to 50% of AMI. As such, housing affordability policies should focus on this group.

This identified need aligns with findings from Housing Opportunity for All; input provided by the Housing Opportunity for All workgroup to align IZ with the County's unmet need; and MWCOG regional housing targets.

CUMULATIVE RENTAL HOUSING DEMAND AND SUPPLY AT EACH AMI LIMIT

Prince George's County, MD, 2018

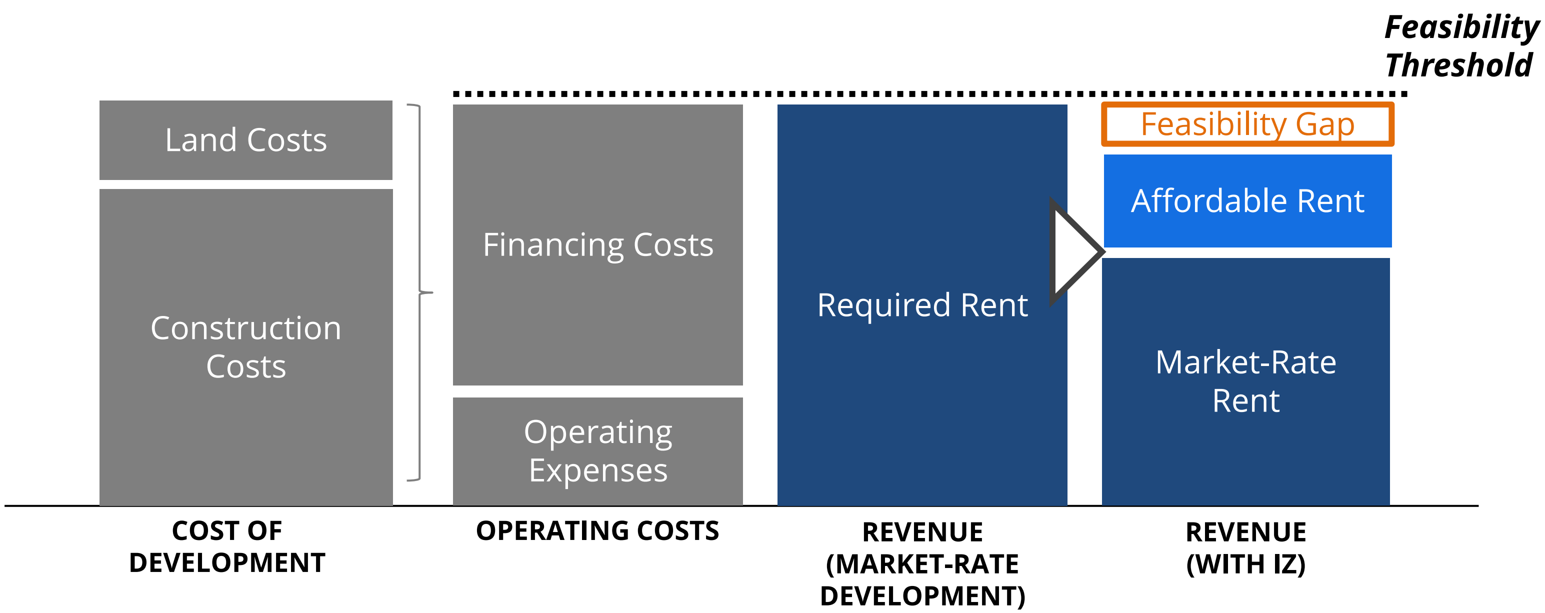


Note: Maximum housing costs by AMI assumes an affordability level of 30% of gross income allocated to housing, including utilities. Supply and demand totals are cumulative as AMI levels increase.

Source: 2018 ACS 5-Year Estimates, HR&A Advisors, Inc.

HR&A's financial analysis evaluated an IZ policy to ensure that reductions in revenue could be offset by incentives or other project value.

HYPOTHETICAL MULTIFAMILY DEVELOPMENT FEASIBILITY



A development project is feasible when required rent can pay for project financing and operating expenses. In the case of a feasibility gap, projects will not be feasible because they cannot meet financing obligations. An IZ policy reduces attainable rents for property owners by providing units at below-market pricing, thereby potentially reducing project revenues below the minimum threshold of financial feasibility. Incentives provided to projects must close the feasibility gap in order to allow development to move forward.

The primary incentive tools available to support an IZ policy are a density bonus and PILOT, though both present challenges in their use along the Purple Line and only PILOTs were included in HR&A's analysis.

INCENTIVES TO SUPPORT IZ IN PRINCE GEORGE'S COUNTY

	1	2
Incentive tool	**Density Bonus** Allows for developers to increase dwelling units per acre, floor area ratio, or height.	**PILOT (Tax Abatement)** Provides a reduction in taxes for a designated period following completion of development.
Challenge using incentive tool for IZ in Prince George's County	Sufficient density is already available for what the market will support.	PILOTs are already used to support market-rate development for catalytic projects, which limits their ability to be used to support IZ as well.
Used in analysis?	No	Yes

**Additional incentives, such as parking requirements reductions or fast track permitting were not included as part of this analysis. Parking requirements have already been reduced along the Purple Line and therefore reductions cannot be used as an incentive. Fast track permitting is not possible under the County's existing structure that allows for Council review of all proposed development projects. Additionally, although HR&A initially considered the use of density bonus as a tool, it was not included in our financial analysis since sufficient density is provided through existing zoning and the bonus would not create any value to support development feasibility.*

HR&A created development scenarios for financial analysis evaluation, emphasizing nuance in terms of both market strength and building typologies.

MARKET SEGMENTS AND BUILDING TYPOLOGIES

MARKET SEGMENTS

Top Market: Station areas where projected rents are highest, around $2.70 per square foot. Top-market station areas include East Campus, New Carrollton, College Park, and UM Campus Center

Mid-Market: Station areas with moderate projected rents, around $2.50 per square foot. Mid-market station areas include Adelphi Road West, M Square, East Riverdale Park, Takoma/Langley, and Riggs Road.

Emerging Market: Station areas with projected rents of approximately $2.30 per square foot. Transitional station areas include Beacon Heights and Annapolis Road/Glenridge.

RENTAL TYPOLOGIES

Mid-Rise

FOR-SALE TYPOLOGIES

Townhome

HR&A applied a transit premium to existing housing prices to estimate achievable pricing following completion of the Purple Line.

STATION AREAS WITHOUT EXISTING METRORAIL → **10%** Premium

Full light rail transit premium applied to baseline rents

Example

Existing Rent x Transit Premium = Projected Rent

$2.00/SF x 1.10 = $2.20/SF

STATION AREAS WITH EXISTING METRORAIL → **5%** Premium

Small transit premium applied assuming existing Metrorail premium

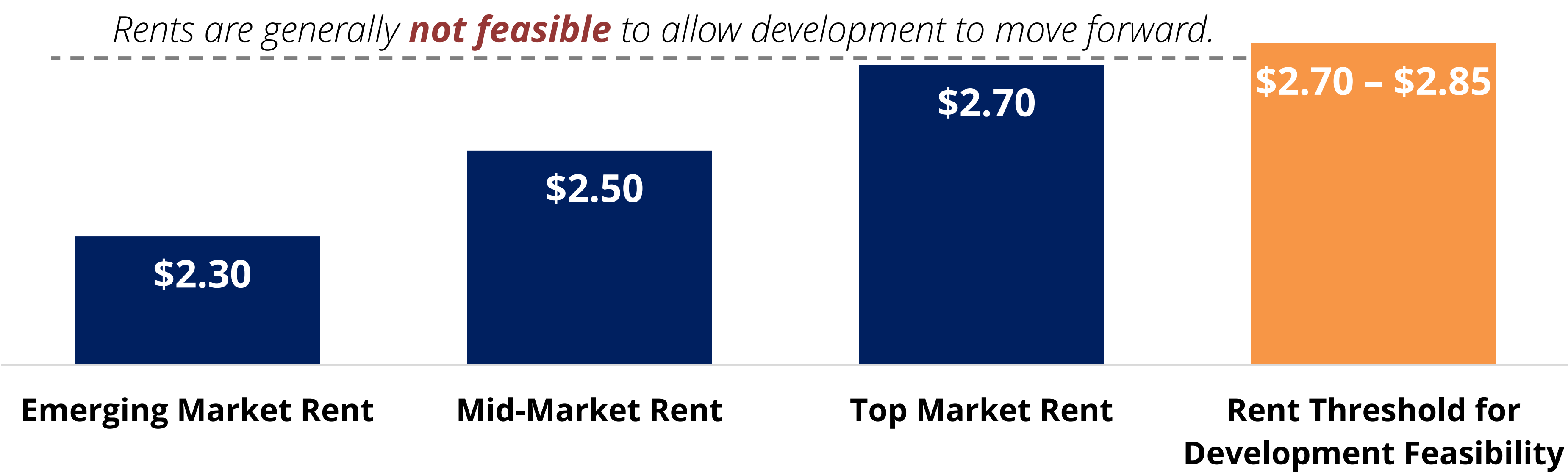
Example

Existing Rent x Transit Premium = Projected Rent

$2.30/SF x 1.05 = $2.43/SF

Even with an expected price premium from the Purple Line, market rate transit-oriented development is not feasible under current conditions.

PURPLE LINE CORRIDOR RENTS BY MARKET SEGMENT ($/SF OF MONTHLY RENT)



The Edition
~350 Units | 2018
Avg. $/SF | $2.22

The Alloy
~275 Units | 2019
Avg. $/SF | $2.48

The Remy
~278 Units | 2017
Avg. $/SF | $2.54

When incorporating an affordability requirement and corresponding PILOT incentive, development still cannot be supported uniformly across the entire Purple Line Corridor.

With a 60% PILOT, which is similar to existing County deals with developers, an IZ requirement to provide 5% of units at 50% AMI cannot be supported across the entire Purple Line Corridor. However, development is feasible in some top of market locations, signaling that the County could put in place affordability requirements on a project-by-project basis where feasible when providing PILOT.

DEVELOPMENT FEASIBILITY TESTING – 5% OF UNITS AFFORDABLE AT 50% AMI

New Midrise Rental Development

PILOT INCENTIVE – 15-YEAR TERM

	40% Abatement	*60% Abatement*	*80% Abatement*
Top Market *(East Campus / New Carrollton / College Park / UM Campus Center)*	Feasible	Feasible	Feasible
Mid-Market *(Adelphi Road West / M Square / East Riverdale Park / Takoma/Langley / Riggs Road)*	Infeasible	Feasible	Feasible
Emerging Market *(Beacon Heights, Annapolis Road/Glenridge)*	Infeasible	Infeasible	Infeasible

Based on current conditions, an IZ policy along the Purple Line Corridor is not feasible at this time.

IZ POLICY ALIGNMENT EVALUATION FOR PRINCE GEORGE'S COUNTY:

1 **Aligns with housing needs**

Serve households earning up to **50% AMI** based on identified need

2 **Provides appropriate public incentives**

Available incentive tools **don't provide sufficient new value**:

- *Ample by-right zoning limits ability to use bonus density as an incentive*
- *Tax incentives are already used to support catalytic market-rate development*

3 **Applies to locations with sufficient market strength**

Existing rents **do not support market rate development** and PILOTs cannot support feasibility with an affordability requirement for all locations across the Corridor. However, PILOTs can support an affordability requirement for individual projects in top- and mid-market locations.

STUDY SUMMARY

IZ FEASIBILITY

FUTURE IZ CONSIDERATIONS

POLICY ALTERNATIVES

INCENTIVE STRATEGY

As market conditions continue to strengthen and the incentive environment evolves, the County (DHCD and Planning) should monitor activity and data indicators for IZ.

Current Challenges to Support IZ	Benchmark Indicators for Future IZ Consideration	Reason for Benchmark Indicator
Market Rents Market rent below rents required for new construction	Rents at or above identified rent thresholds for feasibility (or future rent thresholds)	Value from rent increases can be used to support an IZ policy, if captured appropriately
PILOT / Tax Incentives Tax incentives primarily used to support catalytic market rate development	Most or all market-rate development occurs without the use of PILOTs	Signal of stronger market conditions; PILOTs can then be directed toward public benefits
Zoning Incentives Limited value to developers for zoning incentives beyond what is already available	Developers seek additional zoning density	Market signal that density bonuses hold value and can be leveraged to support public benefits

STUDY SUMMARY

IZ FEASIBILITY

FUTURE IZ CONSIDERATIONS

POLICY ALTERNATIVES

INCENTIVE STRATEGY

While an IZ policy is not feasible at this time, there are alternative policies that could leverage the expected increased in real estate value from the Purple Line to support housing affordability.

ALTERNATIVE POLICY OPTIONS TO SUPPORT AFFORDABLE HOUSING THROUGH PURPLE LINE INVESTMENT

1. **PILOT affordability requirement**
   Creates an affordability requirement on new development or existing buildings seeking County PILOT support

2. **Public land disposition affordability requirement**
   Uses land value to support an affordable housing set aside on County-owned land

3. **Synthetic TIF**
   Captures increased tax revenue generated by Purple Line investment and sets it aside in a fund to support housing initiatives

4. **Impact fee**
   Assesses a one-time fee at the development of new housing or other significant redevelopment and sets it aside in a fund to support housing initiatives.

Based on potential impact, costs, and alignment with Prince George's existing context, HR&A recommends exploring three policies further.

SUMMARY OF ALTERNATIVE POLICY OPTIONS TO SUPPORT AFFORDABLE HOUSING

	Potential Impact	Potential Scope	Difficulty of Implementation	Cost to County	Key Considerations	HR&A Recommendation
✔ **PILOT Affordability Requirement**	Medium	New development or existing buildings requesting PILOTs in Corridor	Low	Medium	• Ties County incentive to provision of public benefits • PILOTs are already used to support development • Requires individual project underwriting	**Pursue further study**
✔ **Public Land Disposition Affordability Requirement**	Medium	New residential development on public land in Corridor	Low	Medium	• Requires acceptance of decreased land value at disposition	**Pursue further study**. Coordinate with ongoing study of public land disposition strategy
Synthetic TIF	High	All taxable property in Corridor	High	High	• Redirects revenue from the Gen. Fund • Can be difficult to implement • Only in place for a set term	**Do not pursue further study** due to revenue redirection, limited term, and difficulty of implementation
✔ **Impact Fee for Affordable Housing**	Medium	New residential development in Corridor	High	Low	• Must be sized to mitigate impact on dev. feasibility • Existing impact fees are already high	**Pursue further study** of all impact fees, including potential affordable housing impact fee

These tools requires specific actions by the County to more fully evaluate feasibility and impact prior to moving forward with implementation.

RECOMMENDED ACTION ITEMS ON SPECIFIC POLICIES FOR CONSIDERATION

PILOT Affordability Requirement

- Review PILOT strategy across County agencies and depts.
- Develop underwriting process inclusive of affordability requirements
- Create a financial evaluation tool to evaluate affordability requirements on a project-by-project basis.
- Communicate expectations to developers and property owners seeking PILOTs

Public Land Affordability Requirement

- Review County's existing land disposition policy
- Coordinate with findings of ongoing public land disposition study and other efforts to identify inventory
- Conduct land value analysis to determine aff. expectations
- Update County's land disposition policy to reflect housing affordability priority
- Articulate requirements in RFPs

Housing Impact Fee

- Conduct a study to realign existing impact fees (e.g. infrastructure, school) based on current cost burden
- Evaluate the ability to support a housing impact fee in specific locations
- Based on findings of study and other housing initiatives, determine whether to pursue a housing impact fee

STUDY SUMMARY

IZ FEASIBILITY

FUTURE IZ CONSIDERATIONS

POLICY ALTERNATIVES

INCENTIVE STRATEGY

Consideration of policy alternatives also necessitates discussions across Prince George's department and agencies on the County's incentive strategy and the use of incentives to support policy goals.

INCENTIVE STRATEGY REVIEW

- Given a stronger housing market and increased value generated by new public investments, such as the Purple Line, what is the County's **long-term strategy for its public incentives**?

- Given the County's focus on transit-oriented development areas, such as the Purple Line and the Blue Line, how can the County **align and target incentives to encourage development across target areas**?

- What can the County do to structure **incentive policies that drive desired development outcomes** in terms of economic development, housing, and other public benefits such as infrastructure or open space?

Existing residents are vulnerable to housing affordability challenges and the completion of the Purple Line is expected to increase housing prices.

Households | Households within the Beltway, including along the Purple Line Corridor, have relatively lower incomes and experience housing cost challenges.

Population growth along the Purple Line Corridor has matched the County's growth rate of about 5% between 2010 and 2018, lagging regional growth of 10%. However, some new development is occurring along the corridor and is expected to occur alongside the Purple Line. Households along the Corridor, particularly households of color, are vulnerable to housing affordability due to relatively low incomes and higher poverty relative to the whole county.

Housing Supply and Demand | The largest shortage of affordable housing in the County is for households earning up to 50% AMI, which aligns with national trends.

While there has been limited new market rate housing built in the last few years along the Purple Line Corridor, there is a pipeline of 2,200 multifamily units and additional supply expected in coming years. There is an existing shortage of affordable rental housing in the County for households earning up to 50% AMI. Households along the Purple Line Corridor are particularly vulnerable to additional housing affordability challenges, as the share of cost-burdened households is 1.6x greater than those in the County as a whole and 1.7x greater than the DC region and nation.

Market Alignment | The Purple Line is likely to increase market-rate rents in station areas by up to 10%.

HR&A estimates achievable market rents of between $2.30 and $2.70 per square foot for new development after the Purple Line is open, including a transit premium. The estimated transit premium of up to 10% is based on existing precedents for the impact of light rail lines on housing prices in other locations across the United States.

The onset of the COVID-19 pandemic has added uncertainty to market dynamics in Prince George's County.

Our assessment of market conditions and financial feasibility analysis was conducted with pre-COVID assumptions. The inclusionary zoning study acknowledges these market changes and their potential implications for IZ policy options and implementation, and HR&A recommends moving forward with policy recommendations based on current considerations.

COVID-19 CONSIDERATIONS FOR INCLUSIONARY ZONING:

1. While inputs used in the pre-COVID-19 market analysis are likely to shift as market dynamics change, **the framework developed for an inclusionary zoning policy remains the same**—incentives will be required to encourage affordable housing production through a mandatory policy.

2. The relative differences in **market strength between neighborhoods will remain similar**.

3. **Cost minimization incentives** (e.g. subsidy incentives) could potentially become more effective, relative to revenue maximizing incentives (e.g. density bonuses) as demand for new development shifts.

The COVID-19 pandemic will shift every part of the multifamily real estate market as we approach a new equilibrium, though variables are likely to move in tandem with one another.

While the impacts remain unclear, we anticipate the following changes:

DEVELOPMENT COSTS

- **Construction costs** are likely to fall from historically unsustainable levels as demand for new construction falls.
- If short-term demand for new development decreases, **land costs** could potentially also decline in the short-term, though long-term effects remain unclear.

OPERATING COSTS

- **Financing costs** may *potentially increase,* but this is dependent on capital market volatility. While interest rates have decreased, shifting risk tolerance may result in more required equity, leading to an overall higher cost of capital.
- **Operating expenses** are likely to remain stable, with some potential decrease in maintenance costs with lower labor costs.

REVENUE

- **Market rents** are likely to stagnate or decline in the short-term, while the long-term effects on rents are unclear at this point.
- In the long-term, if potential homeowners are unable to afford homes due to less household liquidity and stringent loan terms, these households may remain in the rental market, keeping **rent growth** stable. This was observed in the Great Recession, where many cities had stable or increasing rents, while sale prices dropped.

STUDY SUMMARY

MARKET STUDY

Introduction

Households

Existing Housing Supply

Housing Affordability

Market Alignment for Inclusionary Zoning

FINANCIAL FEASIBILITY ANALYSIS AND FINDINGS

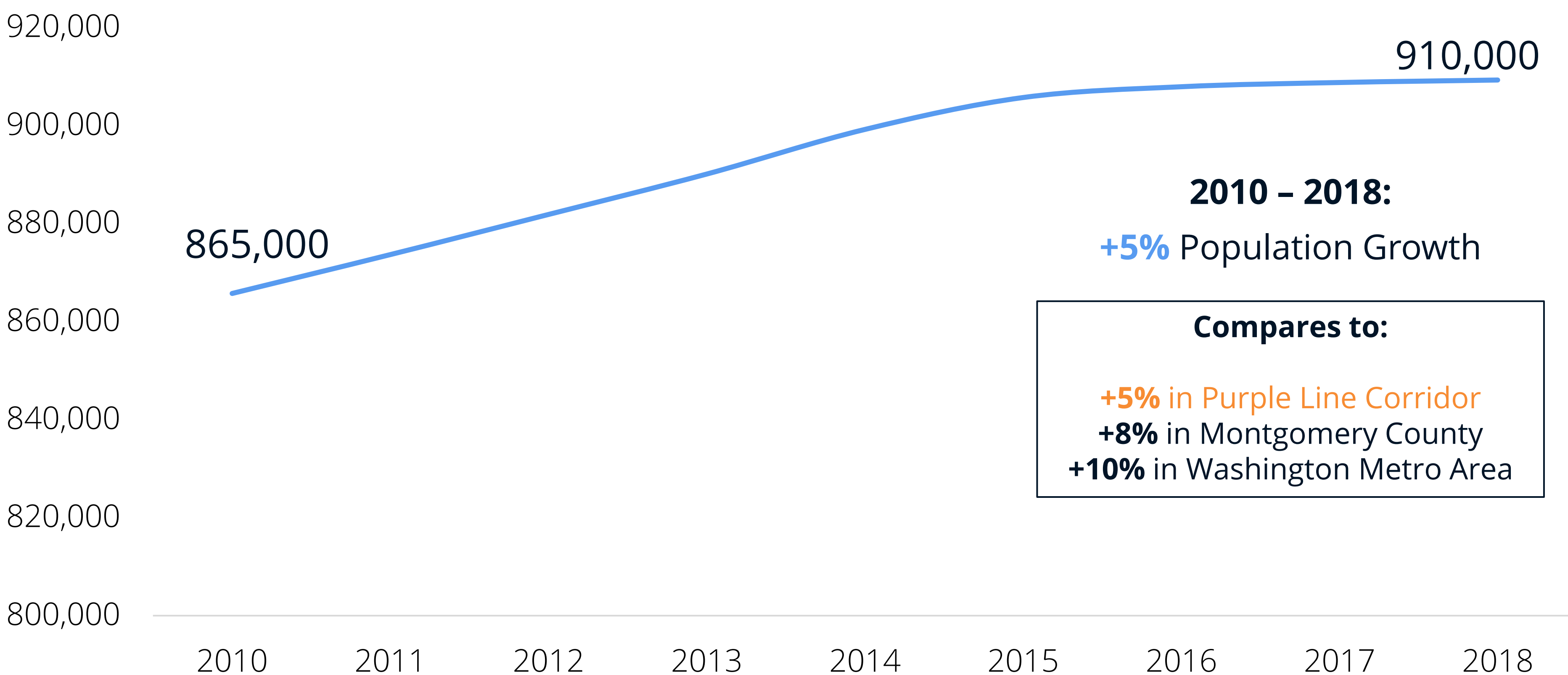
FINDINGS AND RECOMMENDATIONS

APPENDIX

Population growth in Prince George's County has been moderate, with total growth of five percent since 2010.

Population growth along the Purple Line Corridor has matched county growth (5%) between 2010 and 2018. However, growth in both the County and the Corridor has been slower than the region.

TOTAL POPULATION
Prince George's County, MD, 2010-2018



Source: 2010, 2018 ACS 1-Year Estimates, 2018 ACS Estimates via Esri, HR&A Advisors, Inc.

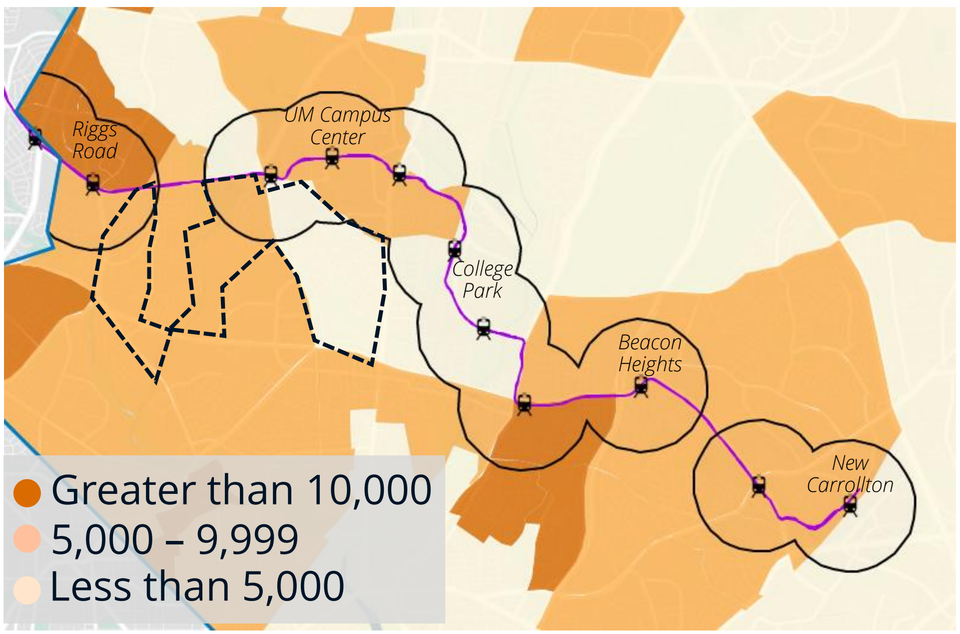
Density along the Purple Line Corridor in Prince George's County has been relatively stable, with an increase on the western side of the Corridor.

Population density along the Corridor and in areas adjacent to DC is generally higher than areas of the County outside the Beltway. Density is already increasing in some areas along the Corridor, and this trend will likely continue at a faster pace in the coming years with transit-oriented development as a result from the Purple Line.

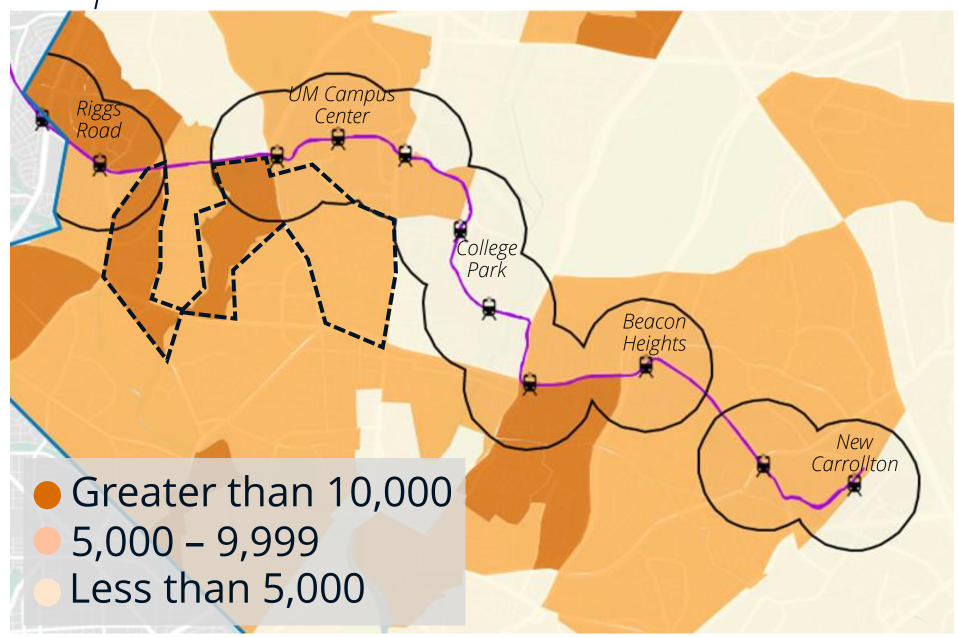
POPULATION DENSITY BY CENSUS TRACT, 2010-2018

(pop per sq. mile)

Prince George's County, MD, 2010
Purple Line Corridor



Prince George's County, MD, 2018
Purple Line Corridor

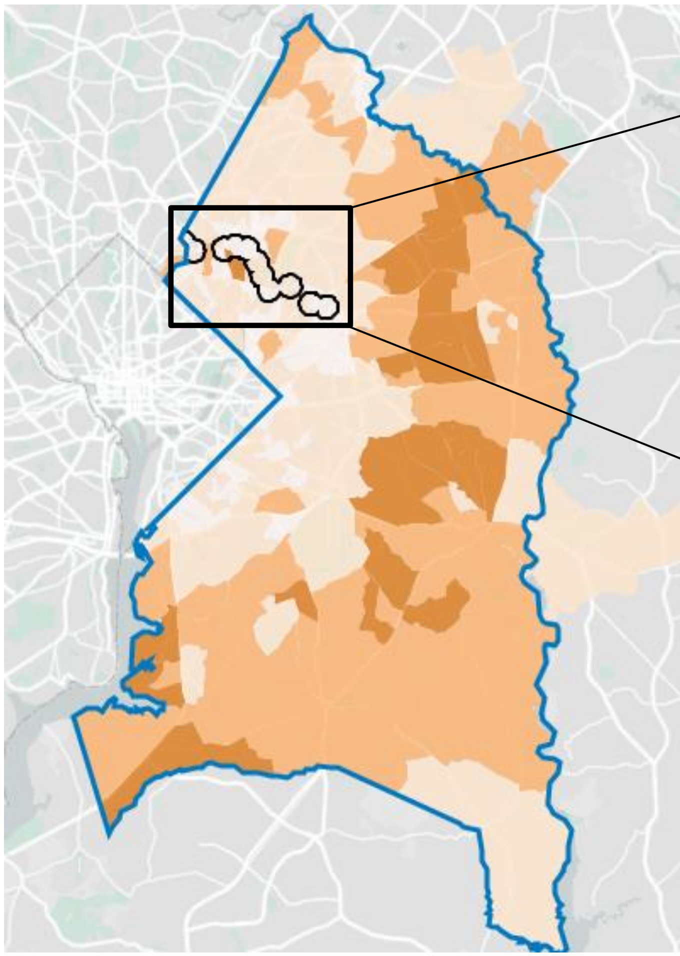


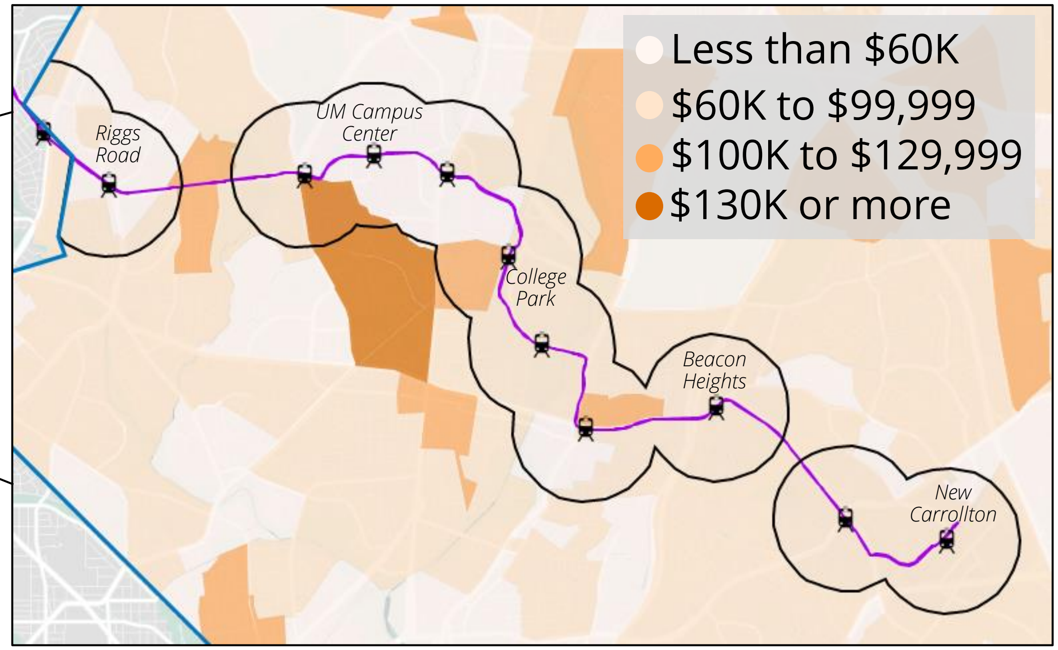
Source: 2018 ACS Estimates via Esri, HR&A Advisors, Inc.

Median household income along the Purple Line Corridor is relatively low, compared with the county and metro area.

MEDIAN HOUSEHOLD INCOME BY CENSUS TRACT

Prince George's County, MD, 2018





Median Household Income (All Household Sizes)

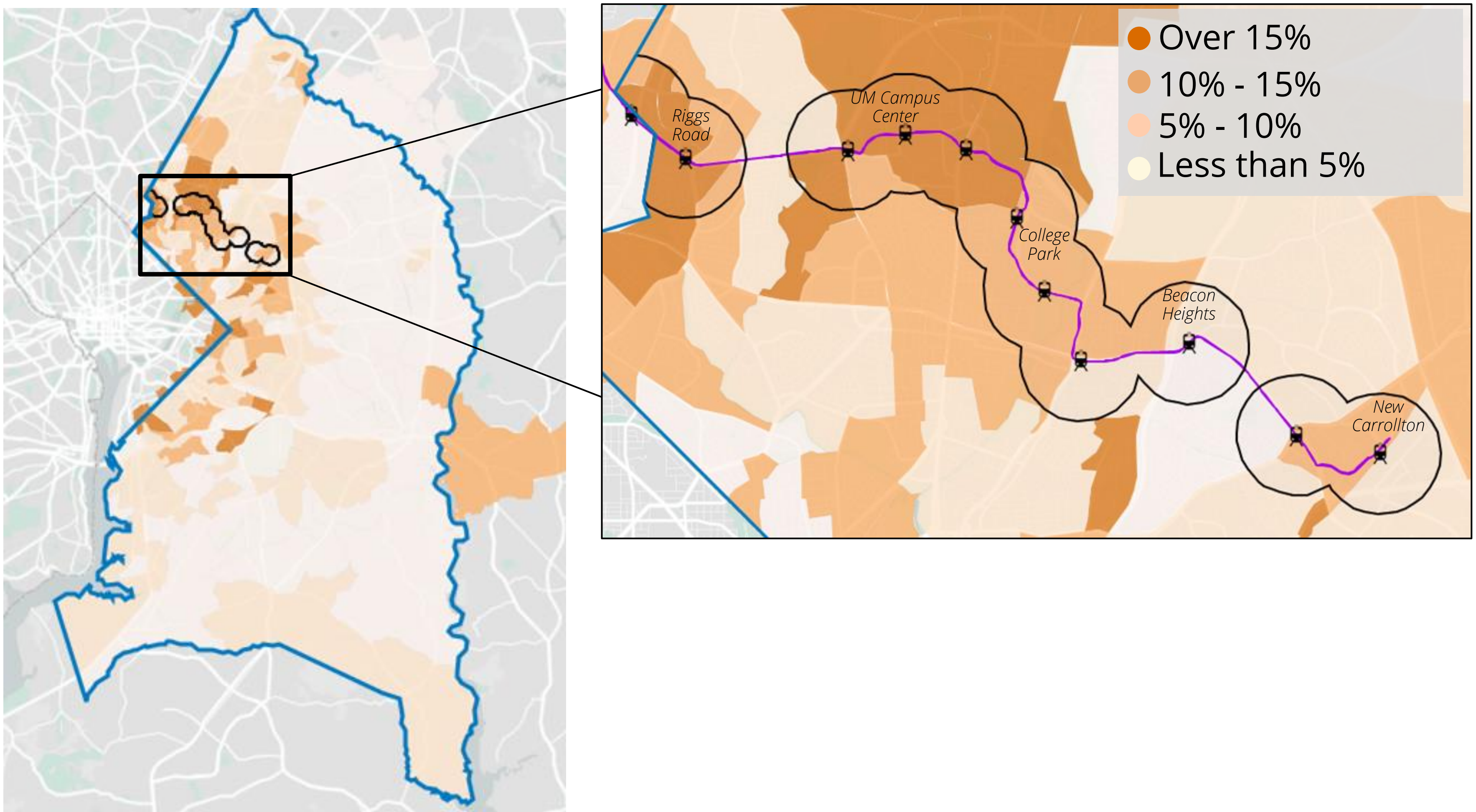
$59,100	$82,000	$100,700
Purple Line Corridor	Prince George's County	DC Metro Area

Source: 2018 ACS 5-Year Estimates via Esri, HR&A Advisors, Inc.
Note: DC Metro Area includes Washington DC, Alexandria, and Arlington, Fairfax, Loudoun, Prince William, Prince George's, Montgomery, Frederick, and Charles Counties.

Poverty rates are higher on the western side of the County within the Beltway, including along the Purple Line Corridor.

SHARE OF HOUSEHOLDS BELOW POVERTY LEVEL BY CENSUS BLOCK GROUP

Prince George's County, MD, 2018



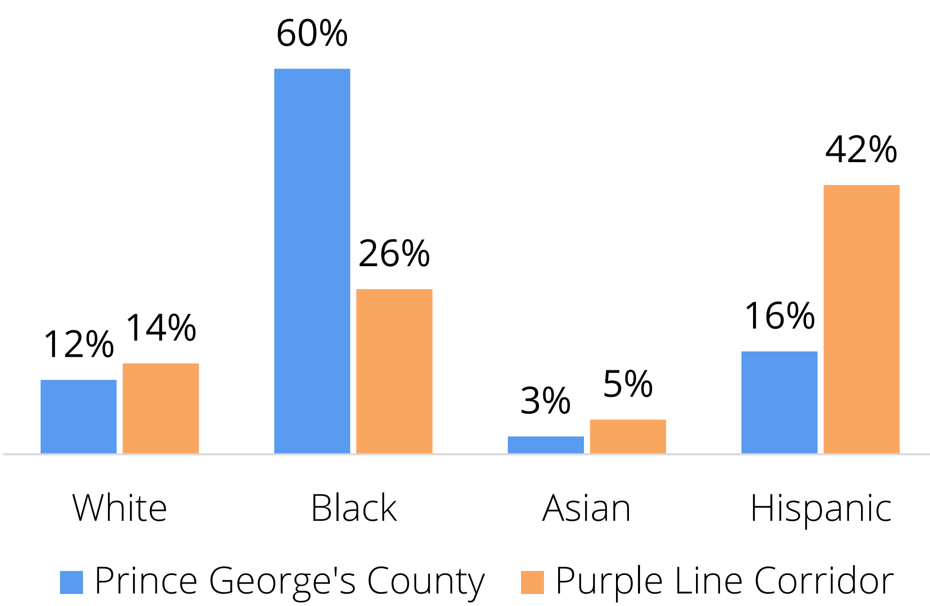
Source: 2018 ACS 5-Year Estimates via Esri, HR&A Advisors, Inc.

Households of color are particularly vulnerable to housing affordability along the Purple Line and would benefit most from new affordable units.

Hispanic households make up the largest share of renter households in the Purple Line Corridor. Over a third of these Hispanic households earn less than $50,000 annually, which equates to a maximum affordable rental payment of approximately $1,250 per month. As housing prices increase with completion of the Purple Line, these households will be most vulnerable to housing affordability challenges and benefit from the production of new affordable units produced through an IZ policy.

SHARE OF RENTER HOUSEHOLDS BY RACE

Prince George's County, MD, 2018



SHARE OF HOUSEHOLDS EARNING LESS THAN $50K ANNUALLY

Purple Line Corridor, 2018

White	26%
Black	27%
Asian	28%
Hispanic (any race)	34%

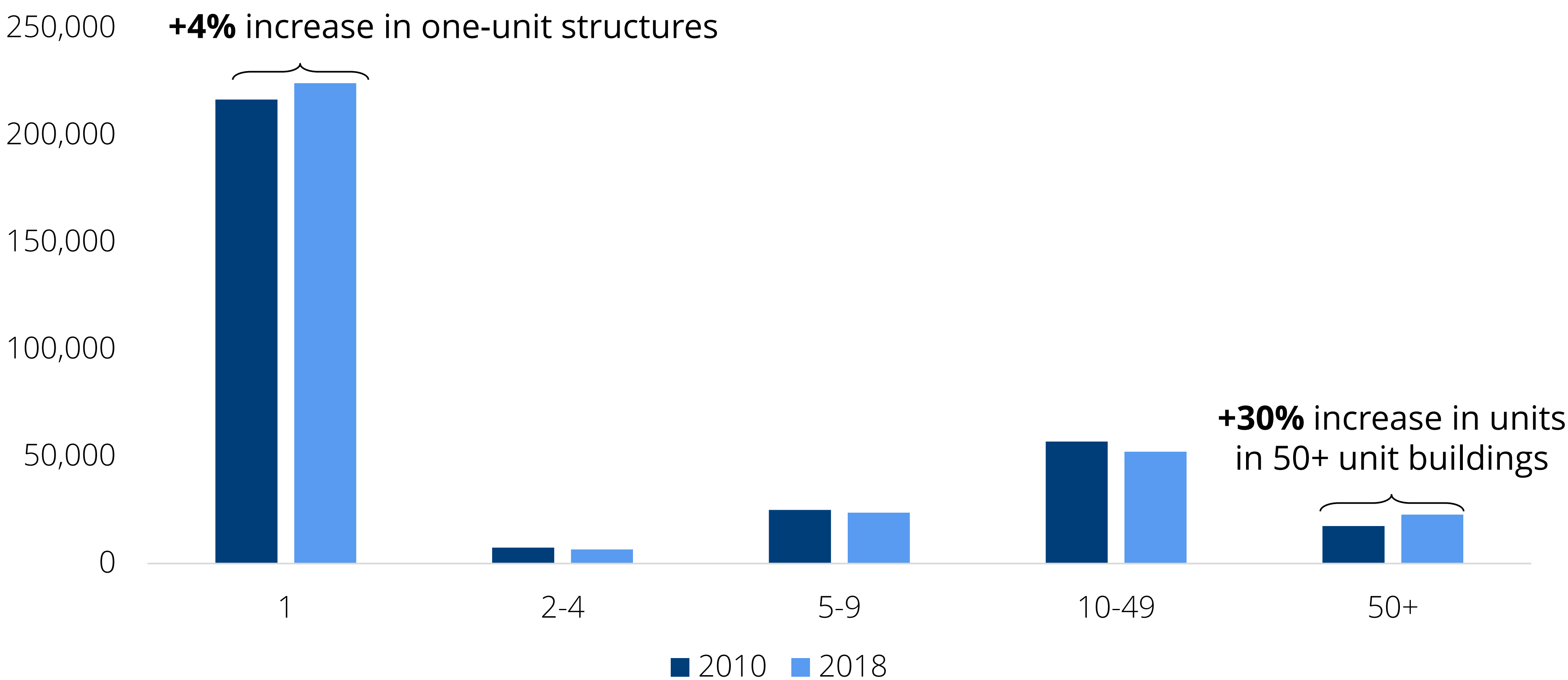
Source: 2018 ACS 5-Year Estimates, HR&A Advisors, Inc.

The county is primarily comprised of one-unit structures. However, in the last decade, the greatest growth occurred in 50+ unit buildings.

Multifamily development is increasing within the beltway and along transit, while continued single family growth is representative of trends in the County outside of the beltway.

RESIDENTIAL UNITS BY HOUSING TYPE (UNITS IN STRUCTURE)

Prince George's County, MD, 2010-2018

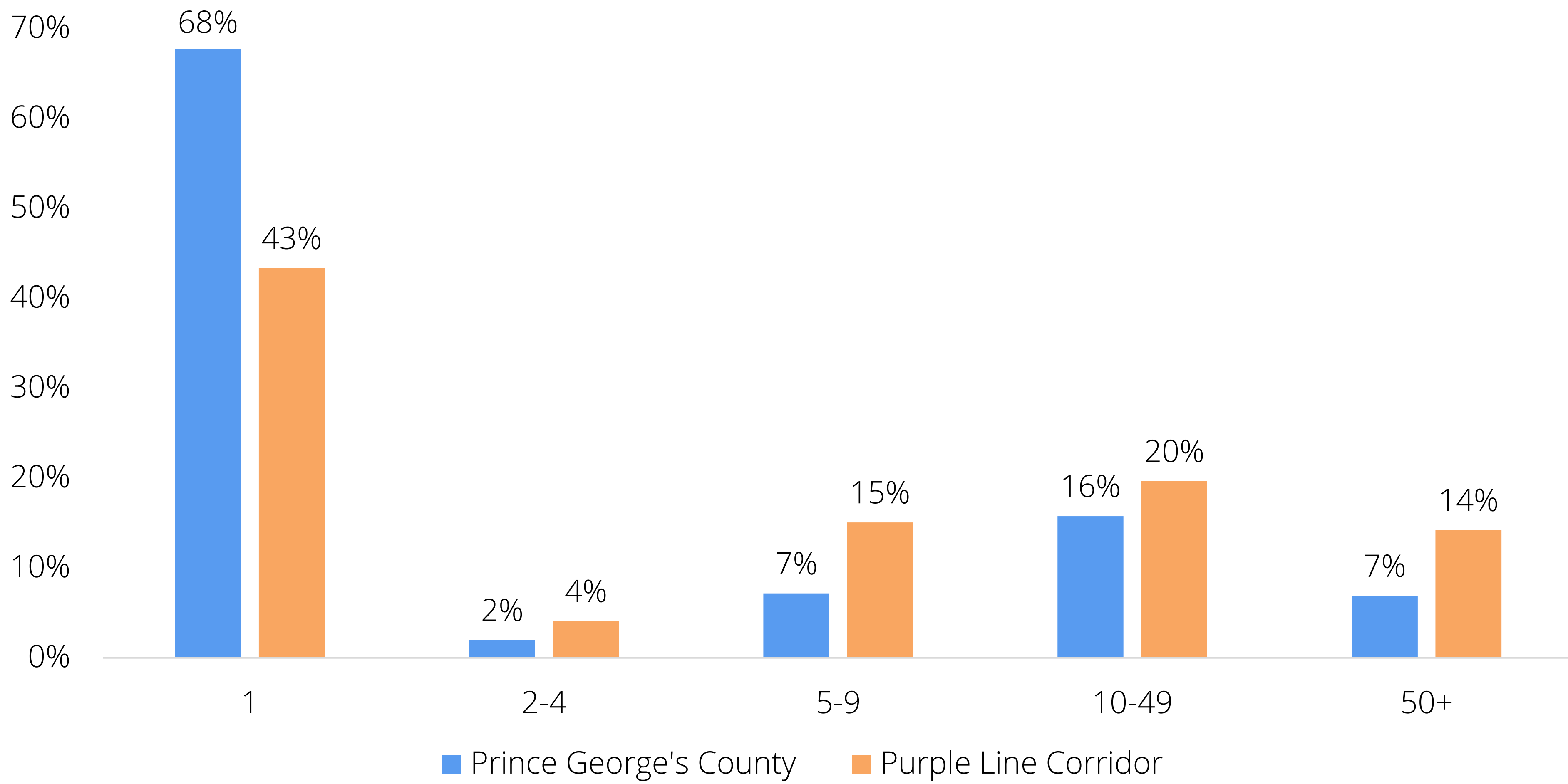


Source: 2010 and 2018 ACS 5-Year Estimates, 2018 ACS Estimates via Esri, HR&A Advisors, Inc.
Note: One-unit structures include attached and detached single-family homes.

The Purple Line Corridor has a higher share of units in larger residential buildings than the County.

RESIDENTIAL UNITS BY HOUSING TYPE (UNITS IN STRUCTURE)

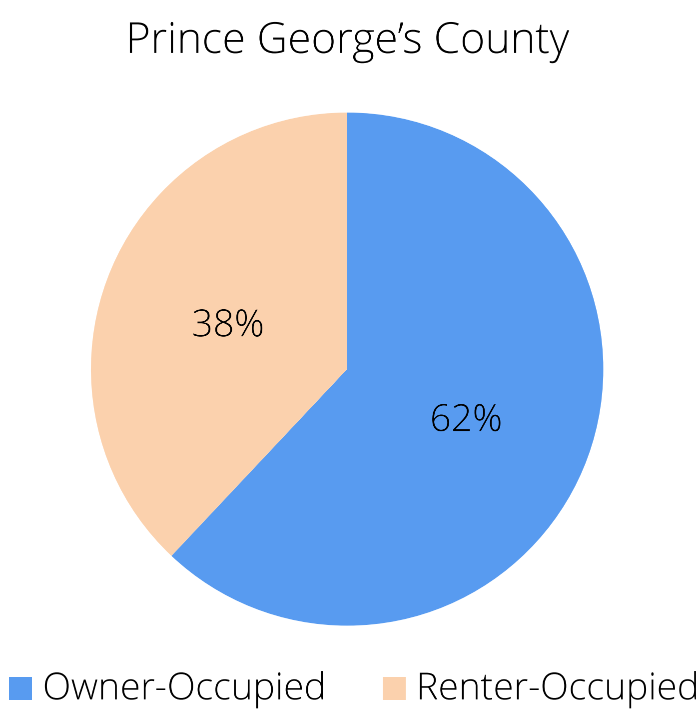
Prince George's County and Purple Line Corridor Block Groups, MD, 2018

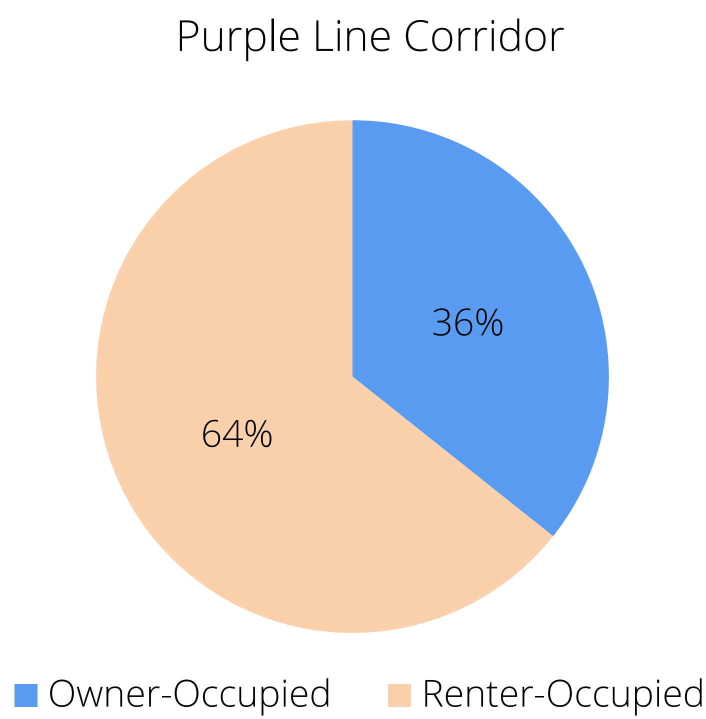


Source: 2018 ACS 5-Year Estimates,, HR&A Advisors, Inc.

Tenure along the Purple Line Corridor differs from the County, with almost two-thirds of households being renters.

HOUSING TENURE
Prince George's County and Purple Line Corridor, 2018

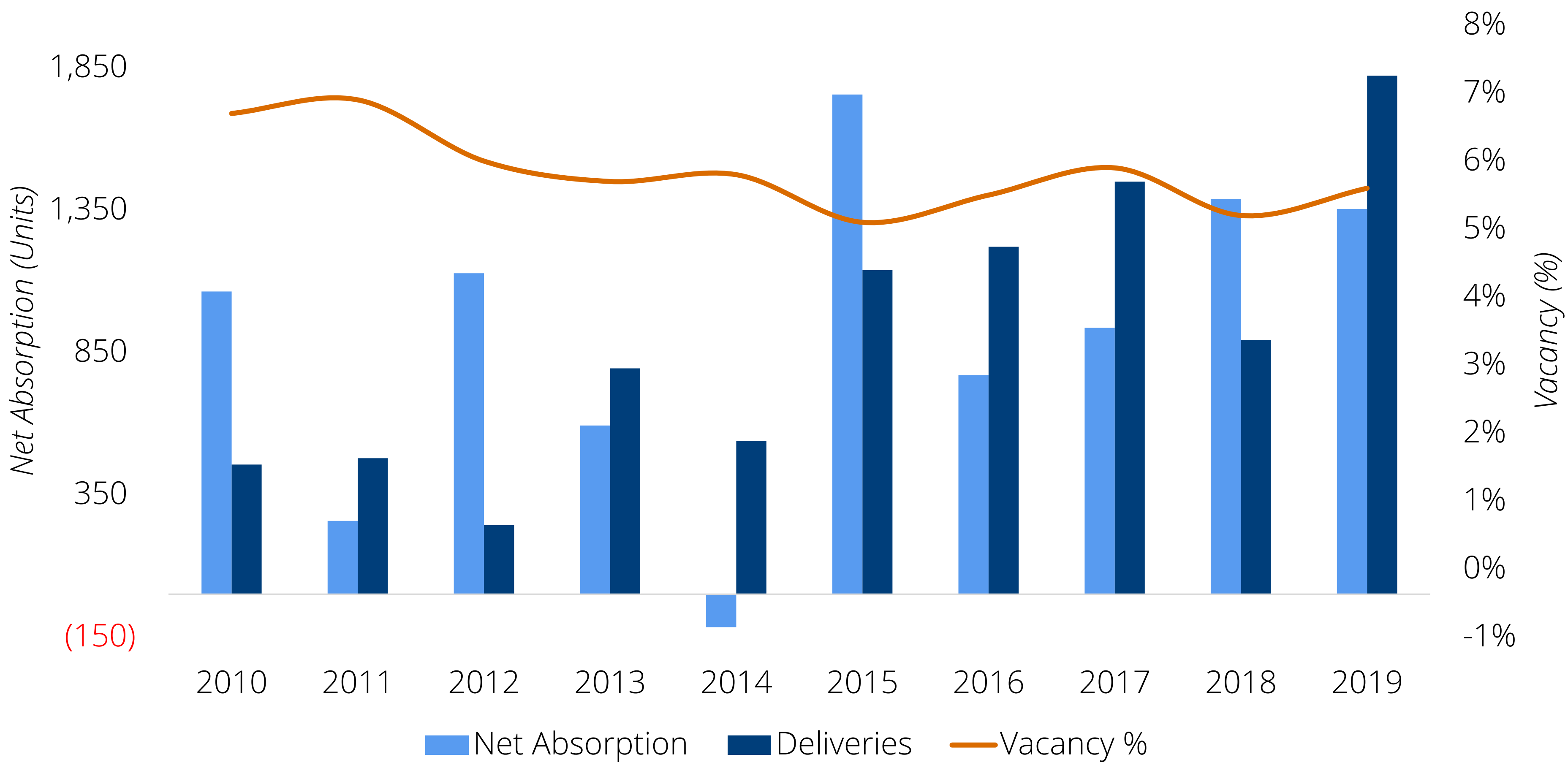




Source: 2018 ACS 5-Year Estimates, 2018 ACS Estimates via Esri HR&A Advisors, Inc.

The rental market in the County has stable vacancy, with total deliveries about equal to absorption in recent years.

MULTIFAMILY RENTAL ABSORPTION AND VACANCY
Prince George's County, MD, 2010-2019



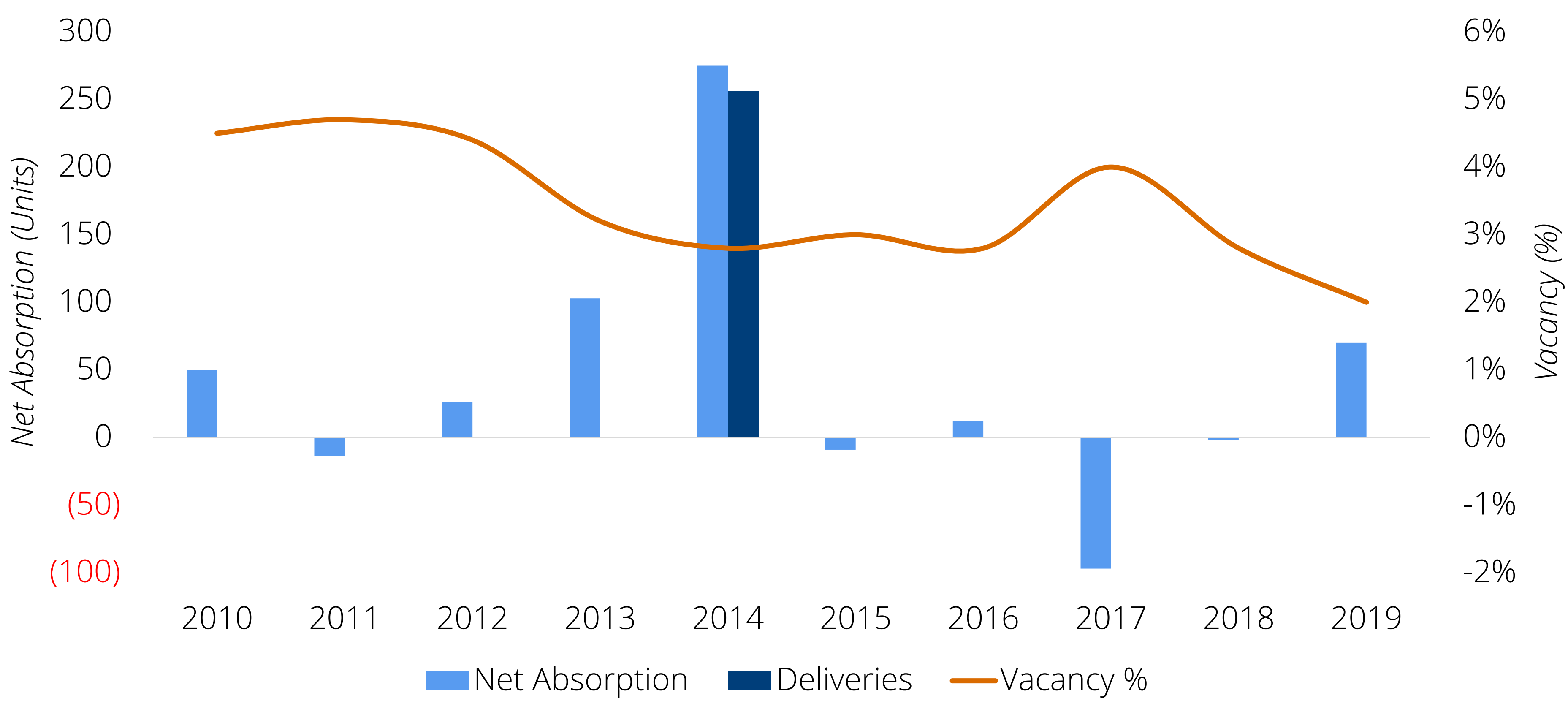
Source: CoStar (April 2020), HR&A Advisors, Inc.
Note: Absorption represents the net new total number of homes rented per year. Data excludes multifamily buildings with less than 10 units.

The Purple Line Corridor has seen limited new development. However, low vacancy indicates pent-up demand.

Declining vacancy indicates there is market demand for additional multifamily housing. This demand is likely to further increase with the opening of the Purple Line.

MULTIFAMILY RENTAL ABSORPTION AND VACANCY

Purple Line Corridor, MD, 2010-2019

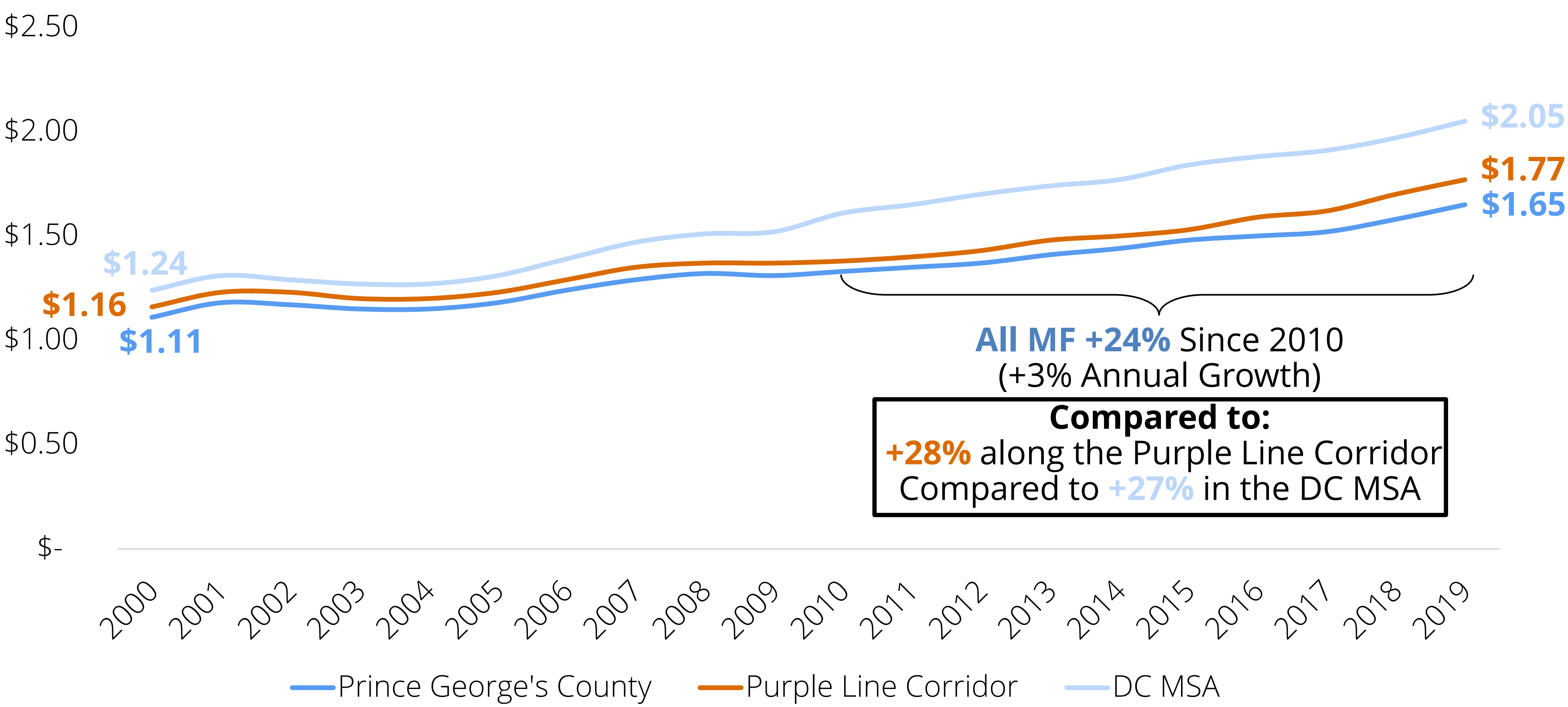


Source: CoStar (April 2020), HR&A Advisors, Inc.
Note: Excludes multifamily buildings with less than 10 units.

Rents in the region are slightly higher than the Corridor, but rent growth has occurred at a similar pace.

AVERAGE EFFECTIVE RENT PER SF, ALL CLASSES

Prince George's County, MD, 2010-2018

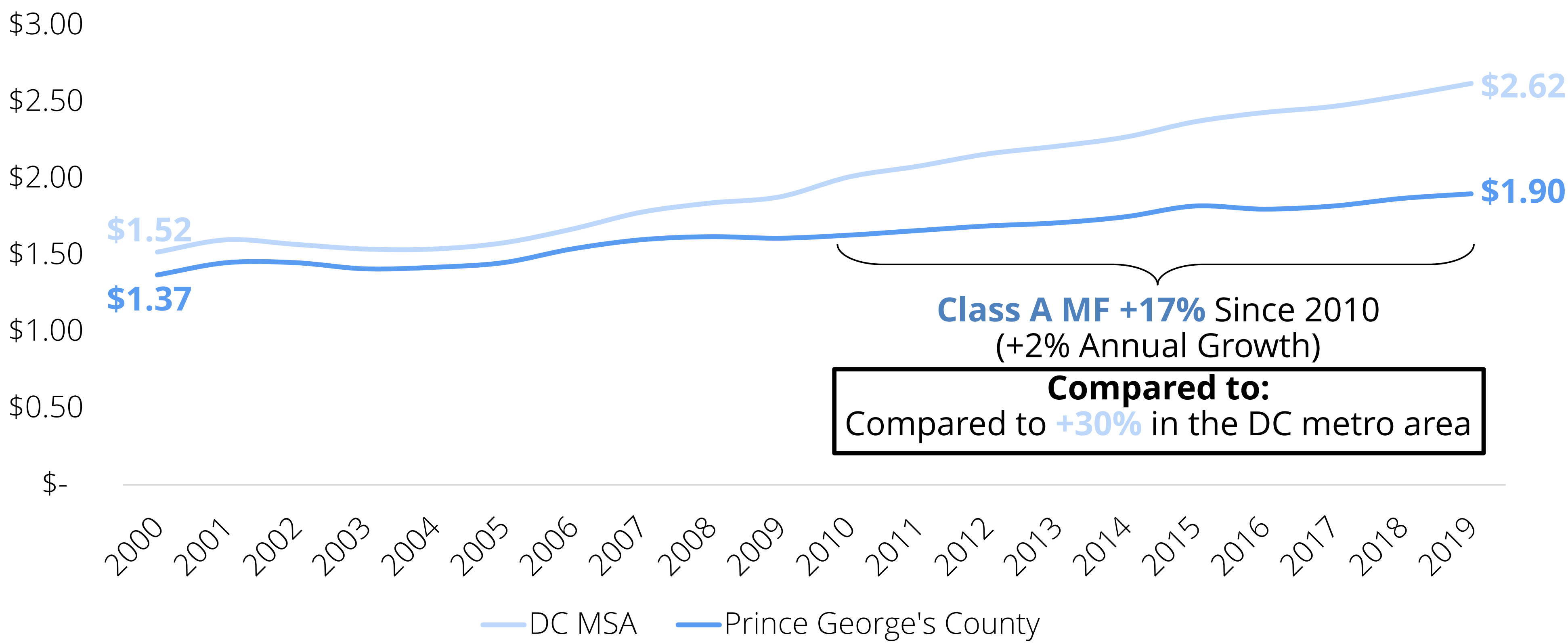


Source: CoStar (April 2020), HR&A Advisors, Inc.
Note: Excludes multifamily buildings with less than 10 units.

Class A rents in Prince George's County are rising, but lag rents in the DC metro area.

Across Prince George's County, Class A rents average $1.90 per square foot. Given higher average overall rents along the Corridor and an expected transit premium, HR&A expects new Class A development rents along the Purple Line Corridor to be above current countywide averages.

AVERAGE EFFECTIVE RENT PER SF, CLASS A
Prince George's County, MD, 2010-2018



Source: CoStar (April 2020), HR&A Advisors, Inc.
Note: Excludes multifamily buildings with less than 10 units.

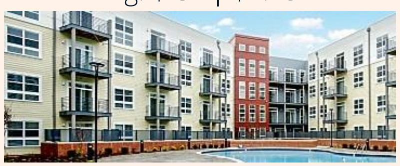
Class A multifamily buildings near Purple Line Corridor are garnering rents ranging from about $2.00-2.60 per square foot.

Due to the lack of Class A multifamily along the Corridor as of 2020, HR&A reviewed performance of comparable buildings nearby. Rents for nearby Class A buildings provide guidance on achievable rents for new buildings in the Corridor, before accounting for the potential benefit of a transit premium.

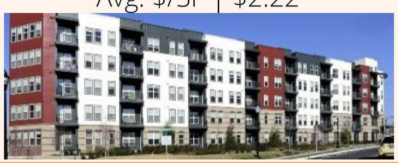
SELECTION OF CLASS A AND B MULTIFAMILY SUPPLY IN THE BELTWAY

Prince George's County, 2010-2018

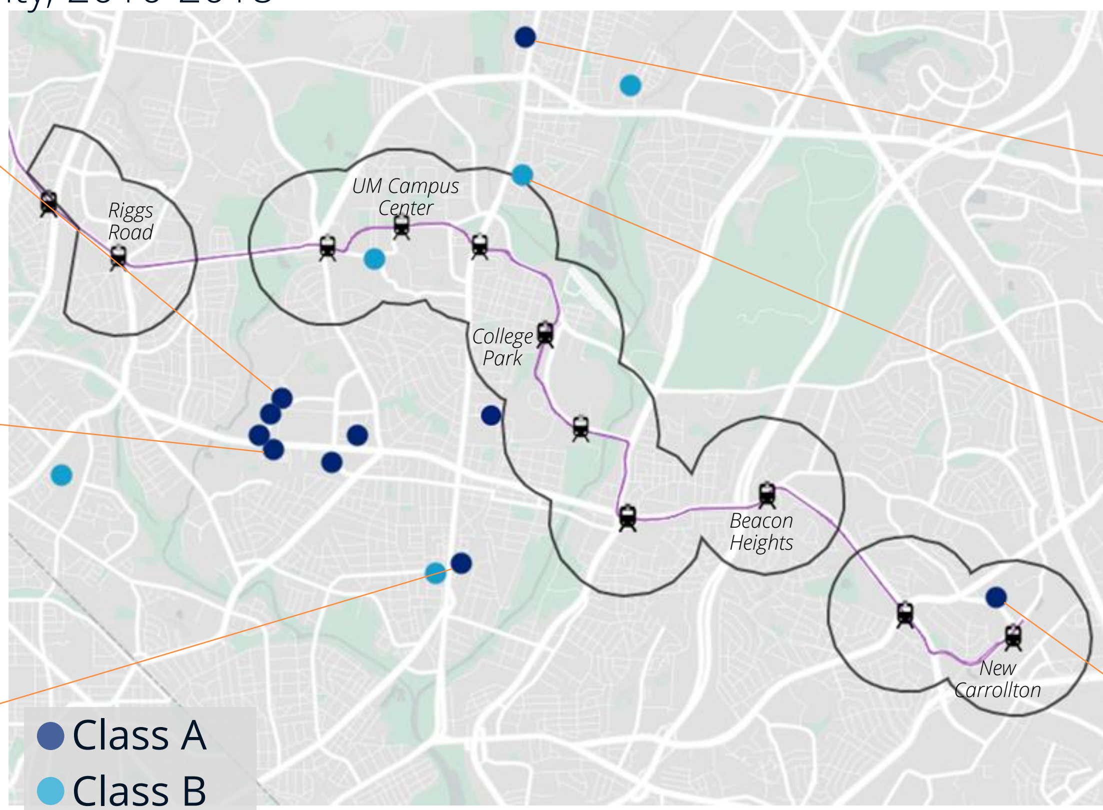
Lync at Altera
~330 Units | 2019
Avg. $/SF | $2.13



The Edition
~350 Units | 2018
Avg. $/SF | $2.22

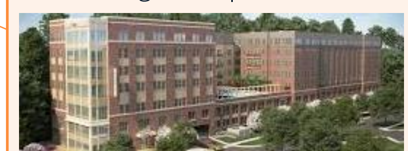


Palette at Arts District
~243 Units | 2012
Avg. $/SF | $2.16



Monument Village at College Park
~235 Units | 2016
Avg. $/SF | $2.14

The Alloy
~275 Units | 2019
Avg. $/SF | $2.48



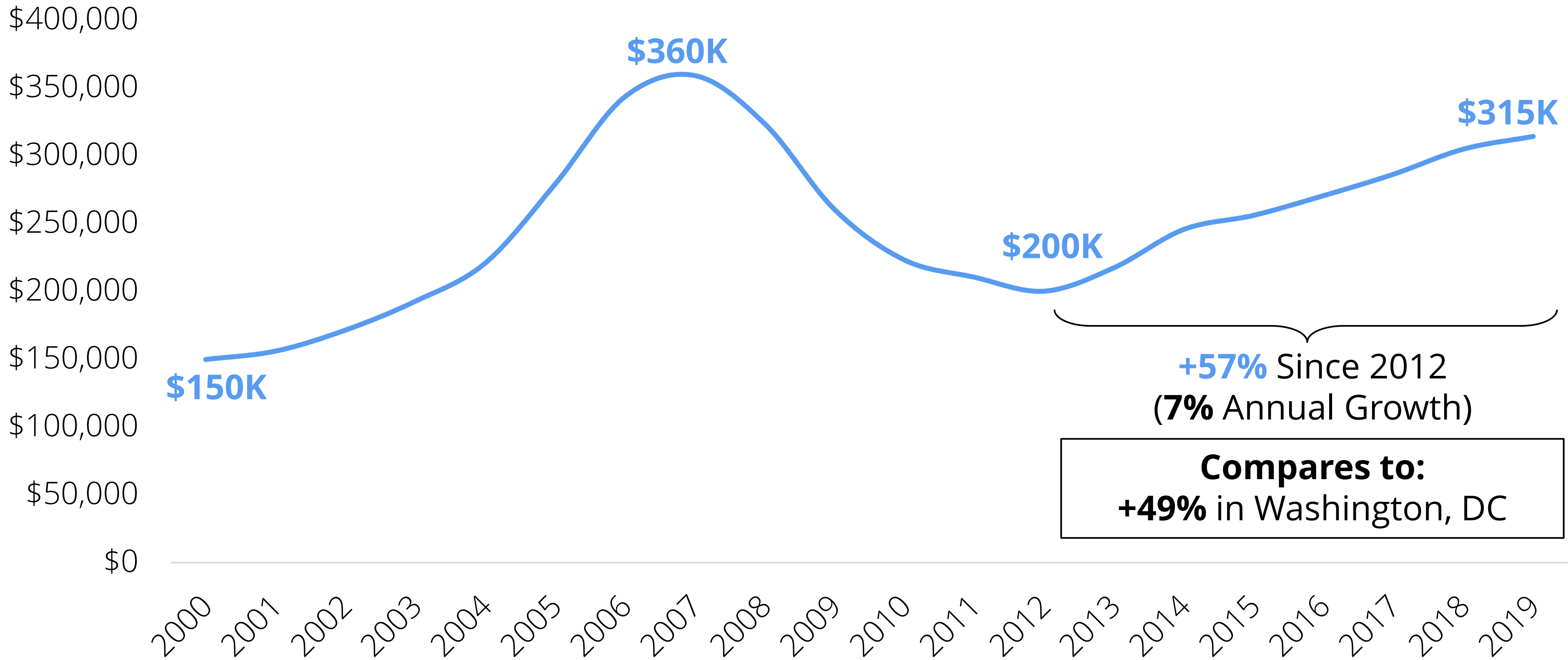
The Remy
~278 Units | 2017
Avg. $/SF | $2.54

Source: CoStar (April 2020), HR&A Advisors, Inc.
Note: Excludes multifamily buildings with less than 10 units and built prior to 2000.

Median home values have been rising rapidly since 2012, though they remain below their 2006 peak.

Home values decreased more steeply in Prince George's County than in the surrounding areas following the Great Recession. However, they have also rebounded more strongly in recent years. Home values in the county have increased 57% since 2012.

MEDIAN FOR-SALE HOME VALUE
Prince George's County, MD, 2000-2019

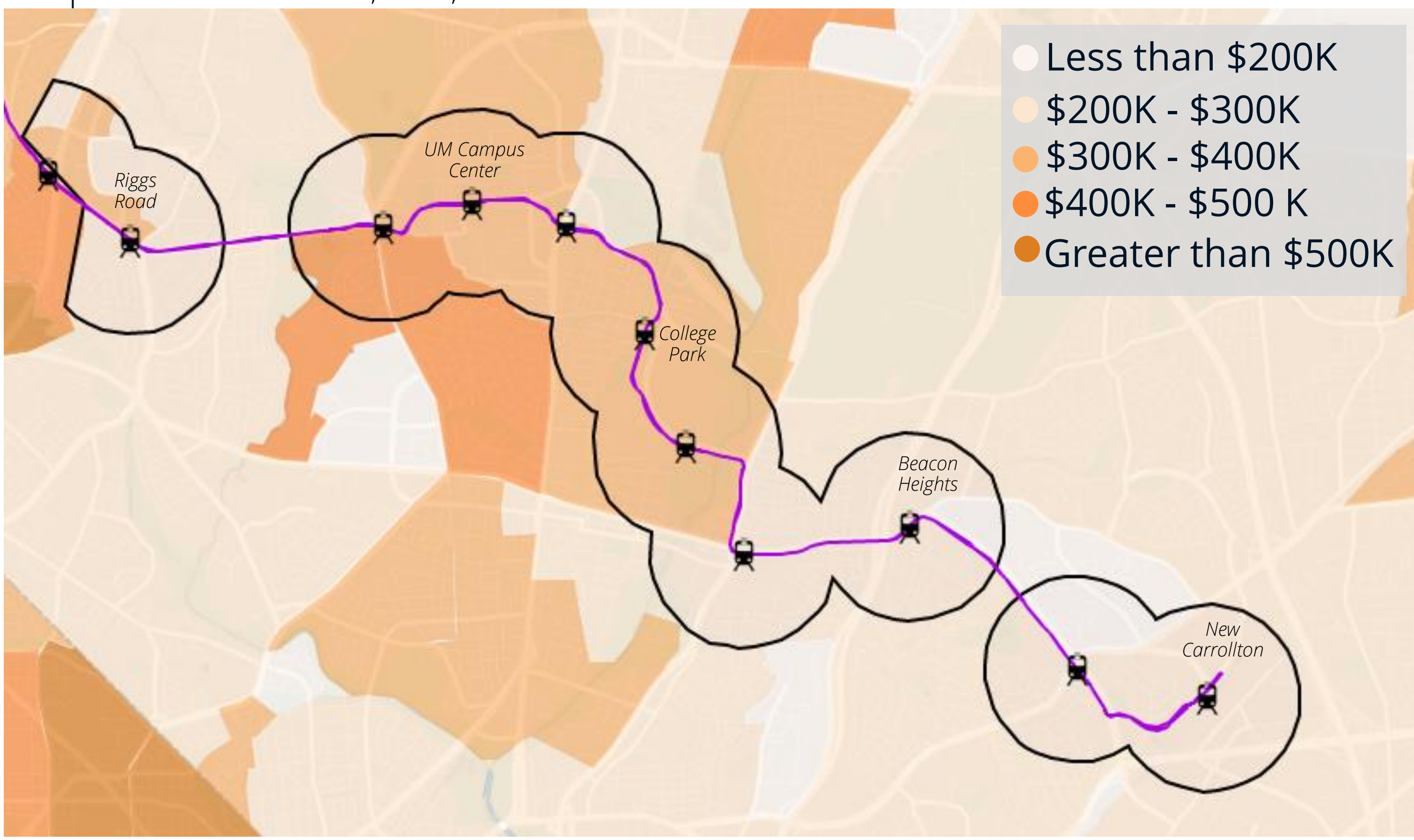


Source: Zillow (April 2020), HR&A Advisors, Inc.
Note: Not adjusted for inflation.

The median home value on the western end of the Purple Line Corridor is in the $300K - $400K range. On the eastern end, home values are lower in the $200K - $300K range.

MEDIAN FOR-SALE HOME VALUE BY CENSUS TRACT

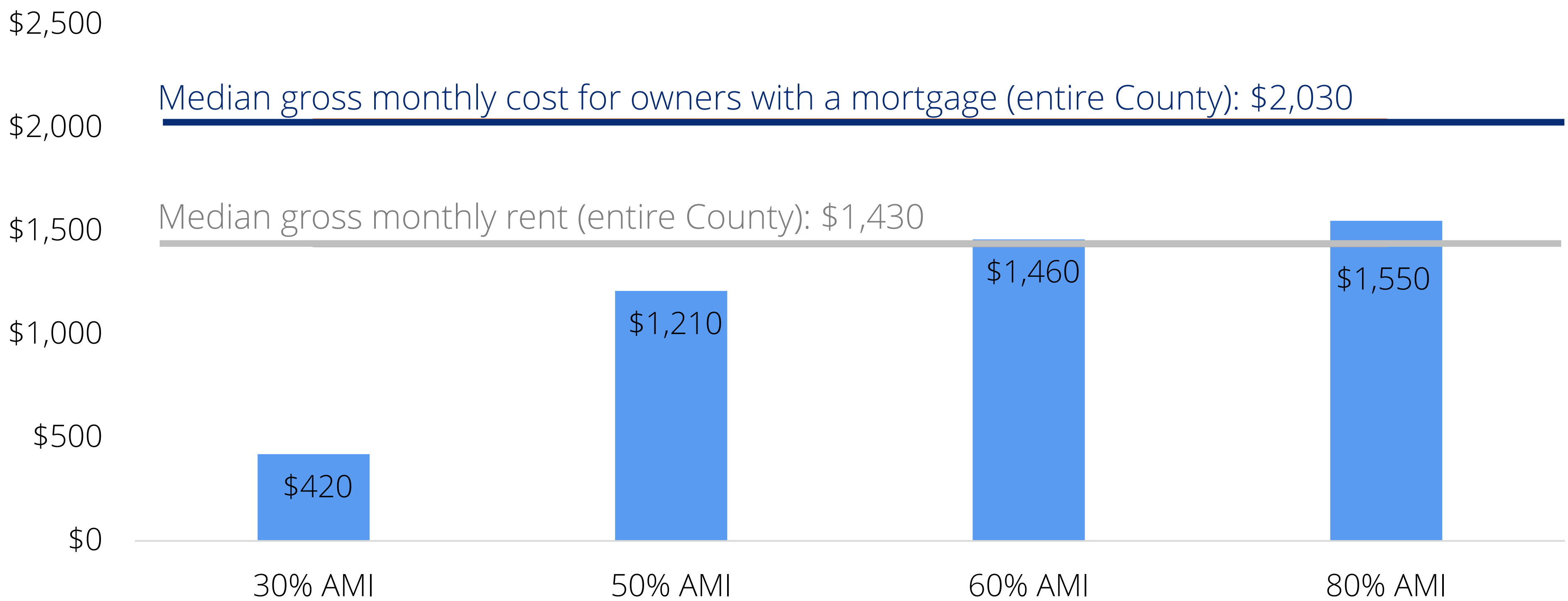
Purple Line Corridor, MD, 2019



Source: 2019 ACS Estimates via Esri, HR&A Advisors, Inc.

Based on federal guidelines, median rent and ownership costs in the County are unaffordable to households earning 50% AMI or below.

AFFORDABLE MONTHLY RENTS BY REGIONAL AMI LEVEL*
Prince George's County, MD, 2018

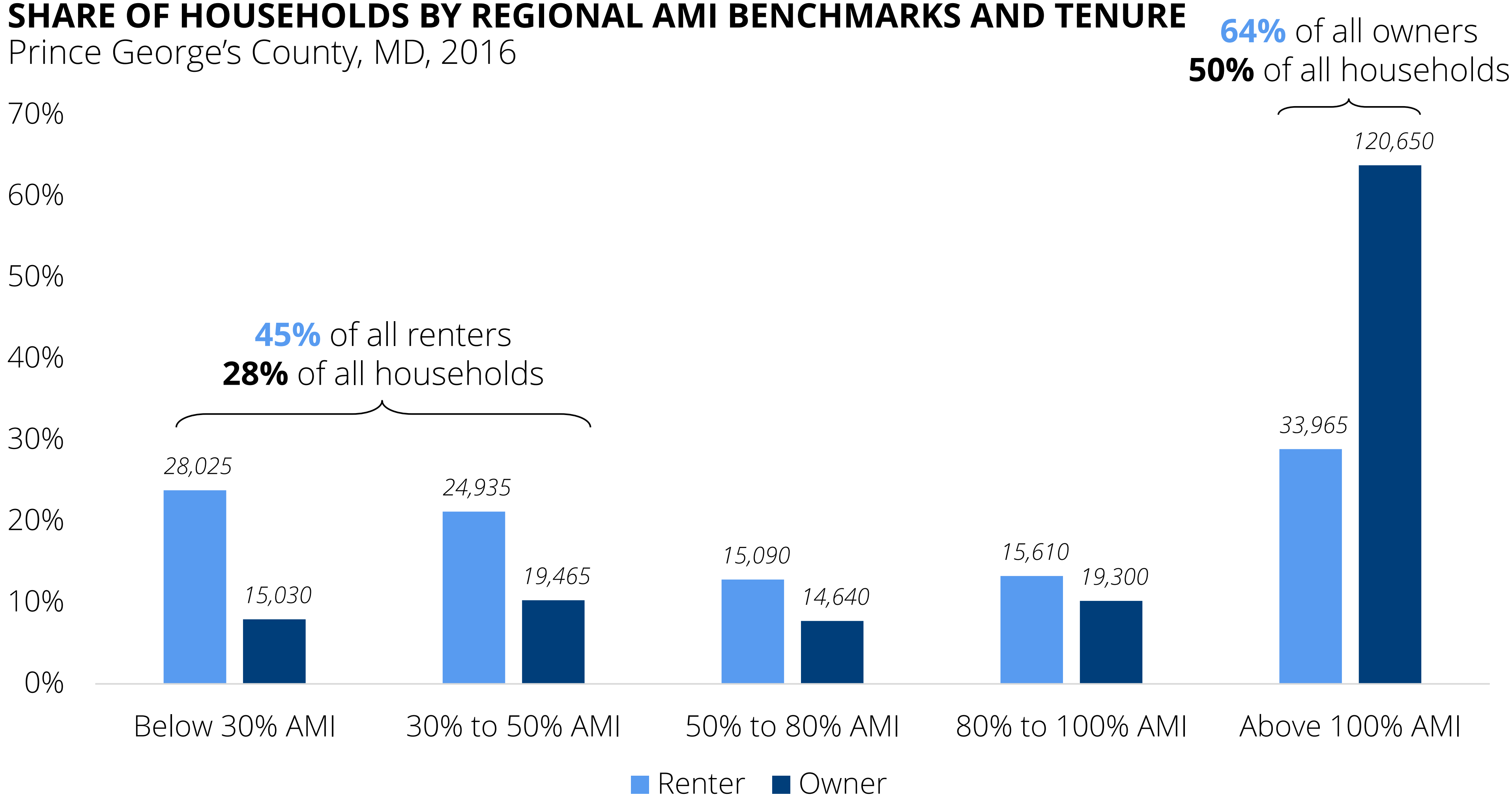


Income Limit (2- person HH):	$29,150	$48,550	$58,300	$62,100

Source: HUD, 2018 5-Year ACS Estimates, HR&A Advisors, Inc.
* Affordable rents by AMI are based on a household size of two and assume 30% of income is allocated to housing. AMI is based on the median income across the Washington region, which is above the median income in Prince George's County. As a result, the regional AMI overstates what is affordable to county households.

Nearly one-third of all households earn below 50% AMI, the majority of whom are renters.

SHARE OF HOUSEHOLDS BY REGIONAL AMI BENCHMARKS AND TENURE
Prince George's County, MD, 2016

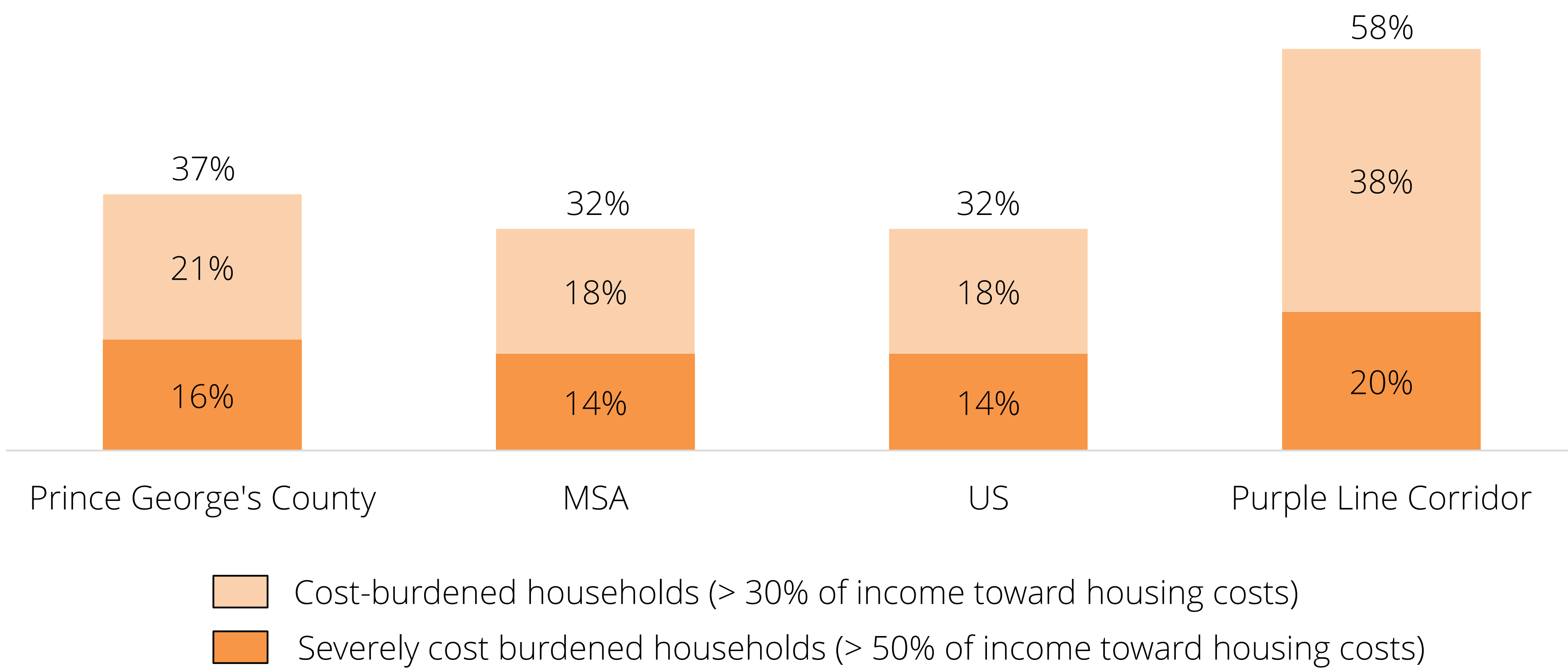


Source: HUD 2016 CHAS data, HR&A Advisors, Inc.
*2016 is the most current CHAS data available

There is a higher share of cost-burdened households along the Purple Line than in the County, MSA, and Nation.

Along the Purple Line Corridor, the high share of cost-burdened households, those paying more than 30% of their income toward housing costs, indicates a need for additional affordable housing stock in the area.

SHARE OF COST-BURDENED HOUSEHOLDS
2018



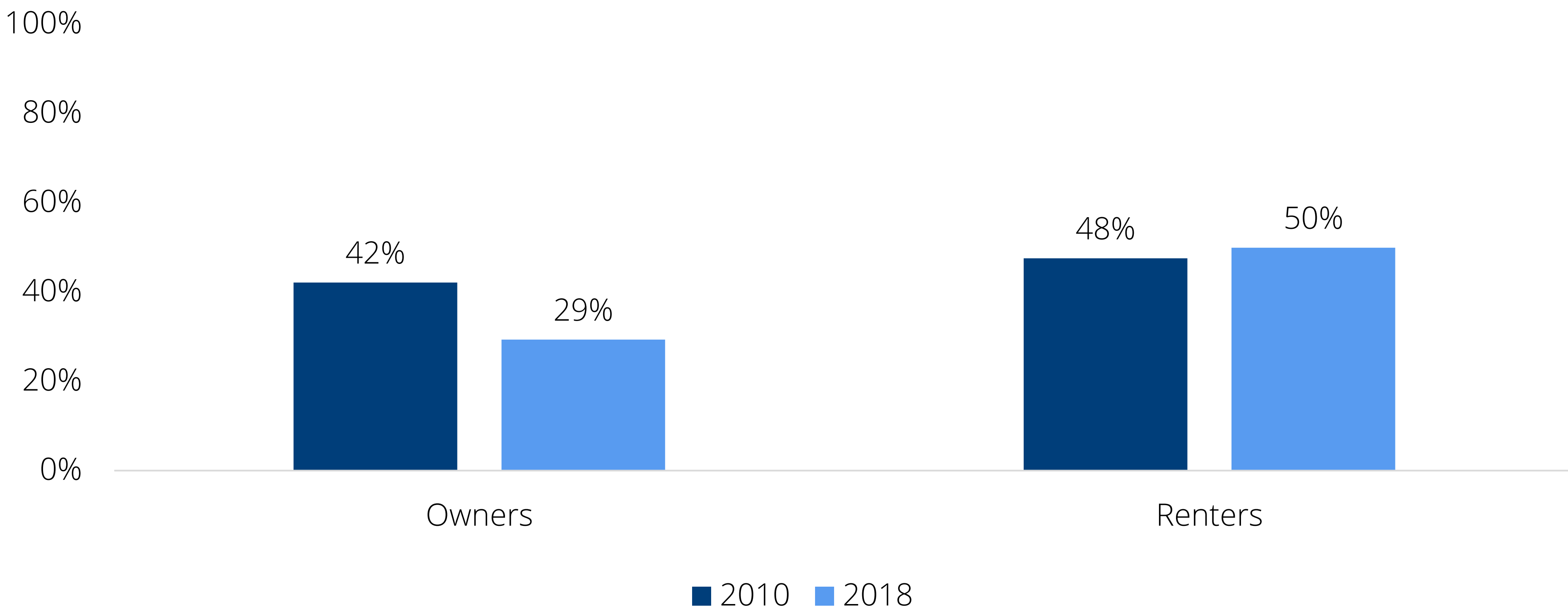
Source: 2018 ACS 5-Year Estimates, HR&A Advisors, Inc.
Note: Purple Line Corridor excludes census block groups in College Park due to the concentration of student population there.
Cost-burdened household data is inclusive of households that are severely cost-burdened.

Fifty (50) percent of renters are housing cost-burdened, an increase of two percent between 2010 and 2018.

Factors that could potentially influence the number of households that are housing cost-burdened include upward mobility, household migration, or displacement. The high share of cost-burdened owner households in 2010 was in part due to the subprime mortgage crisis.

COST-BURDENED HOUSEHOLDS

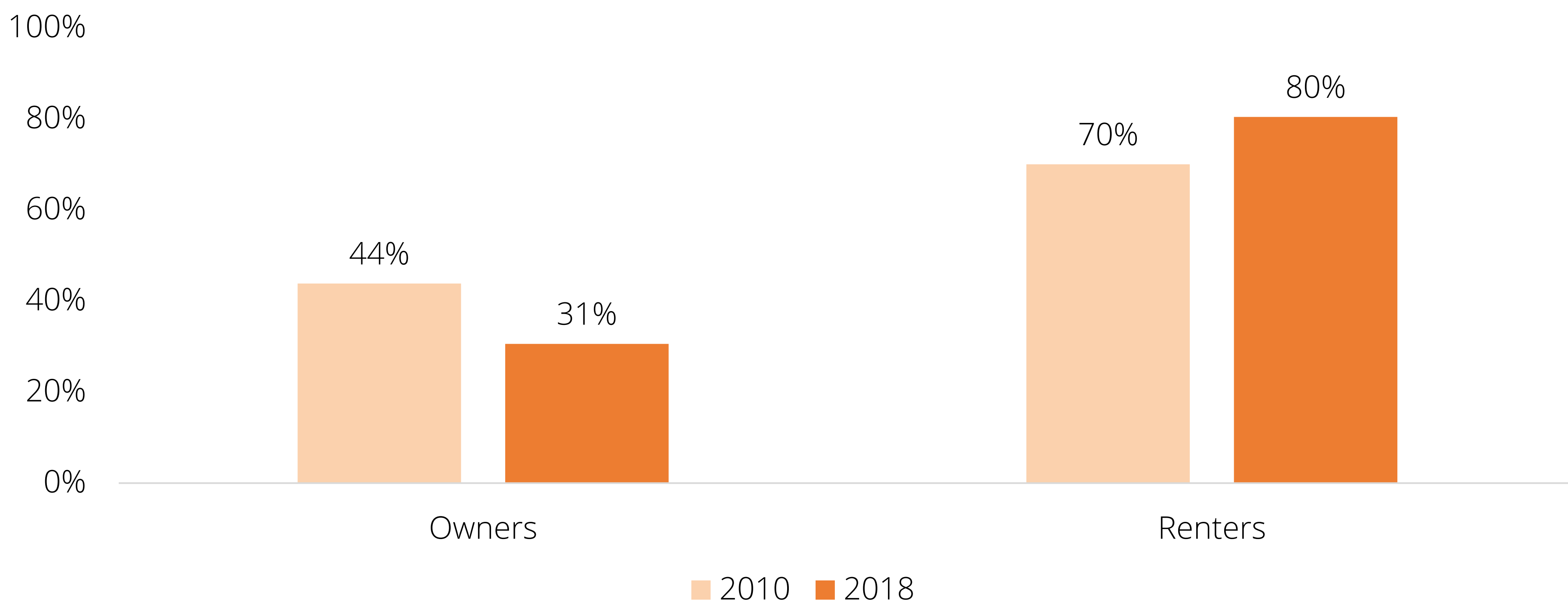
(> 30% of Income Toward Housing Costs)
Prince George's County, MD, 2010-2018



Source: 2010 and 2018 ACS 5-Year Estimates, HR&A Advisors, Inc.

The share of cost-burdened renters is even higher along the Purple Line Corridor, where 80% are cost-burdened.

COST-BURDENED HOUSEHOLDS
(> 30% of Income Toward Housing Costs)
Purple Line Corridor, MD, 2010-2018



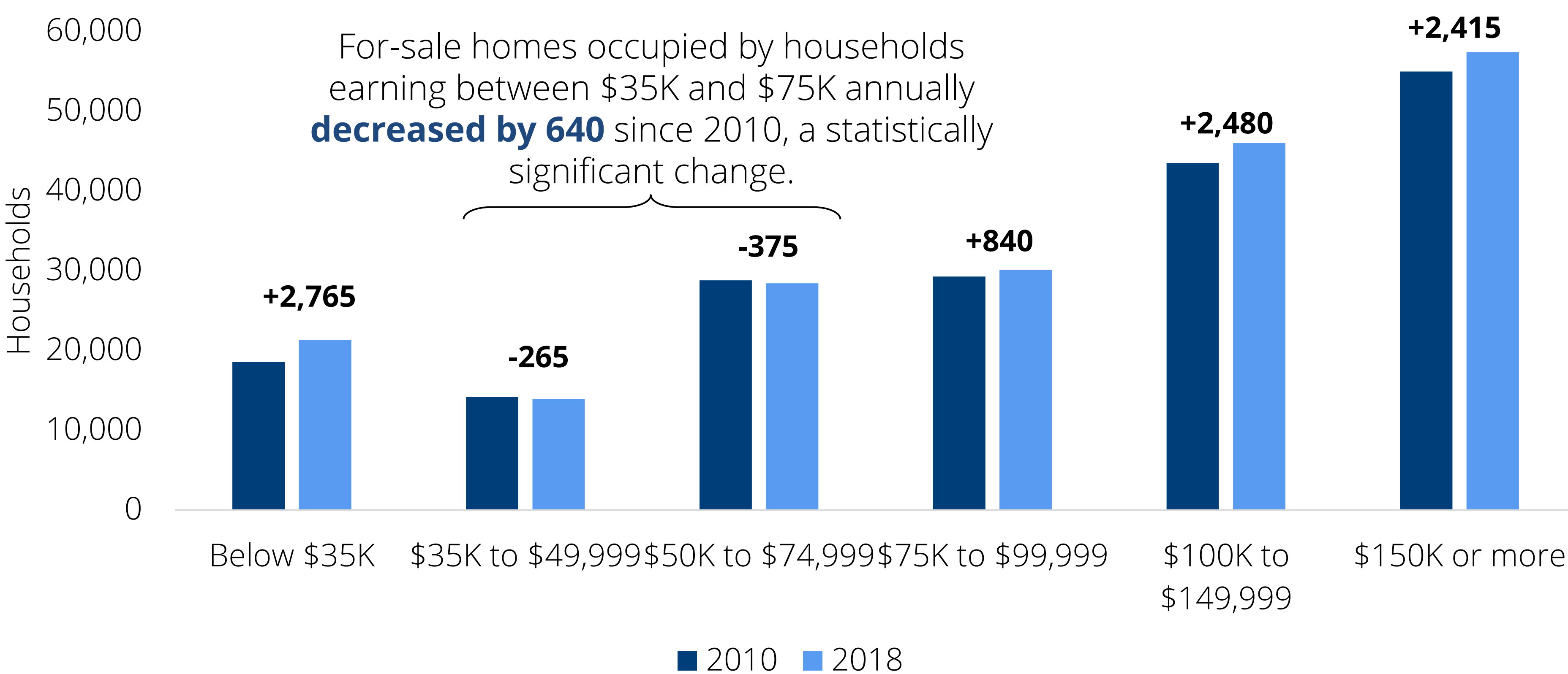
Source: 2010 and 2018 ACS 5-Year Estimates, HR&A Advisors, Inc.

Homeownership has decreased for middle income groups since 2010.

Although population is growing across all income groups, total homeownership has decreased since 2010 for households earning between $35,000 and $75,000.

HOMEOWNERSHIP BY HOUSEHOLD INCOME

Prince George's County, MD, 2010-2018



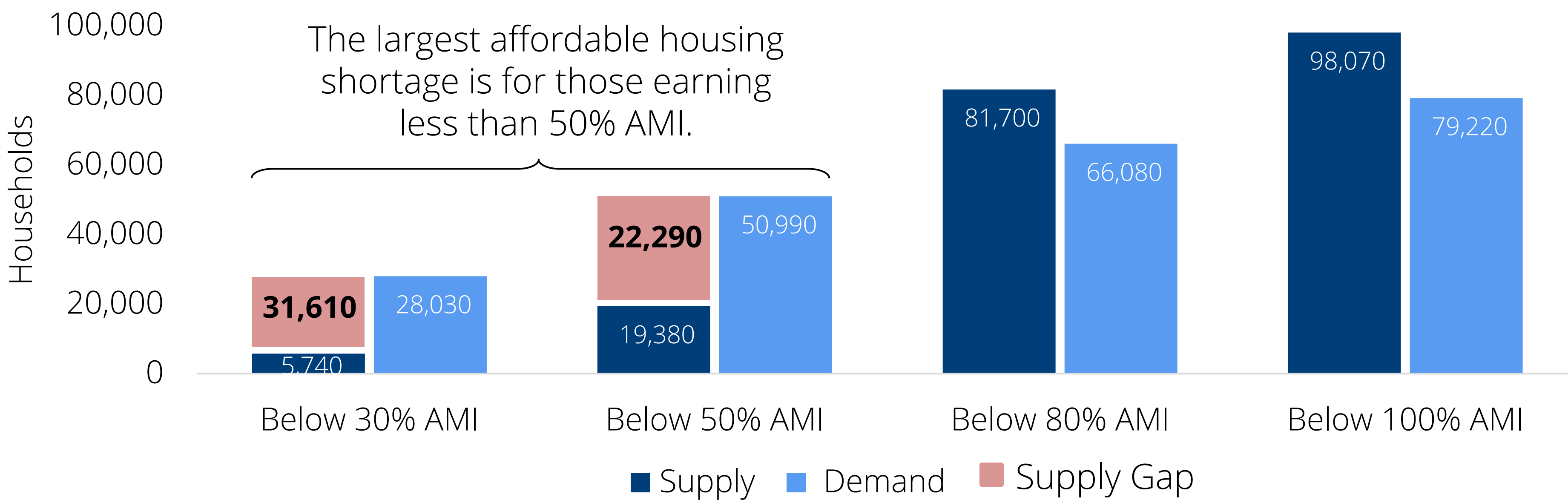
Source: 2010 and 2018 ACS 1-Year Estimates, HR&A Advisors, Inc.
Note: 2018 inflation-adjusted values.

The largest shortage of available rental housing units is for households earning up to 50% AMI.

The shortage of units affordable to households earning up to 50% AMI is forcing those households into more expensive housing. An inclusionary zoning policy should serve this group. The identified shortage aligns with national trends and is consistent with the findings from Housing Opportunity for All and feedback from the Housing Opportunity For All workgroup to focus on unmet needs for this income group.

RENTAL UNITS AFFORDABLE TO HOUSEHOLDS BY HOUSEHOLD INCOME

Prince George's County, MD, 2018



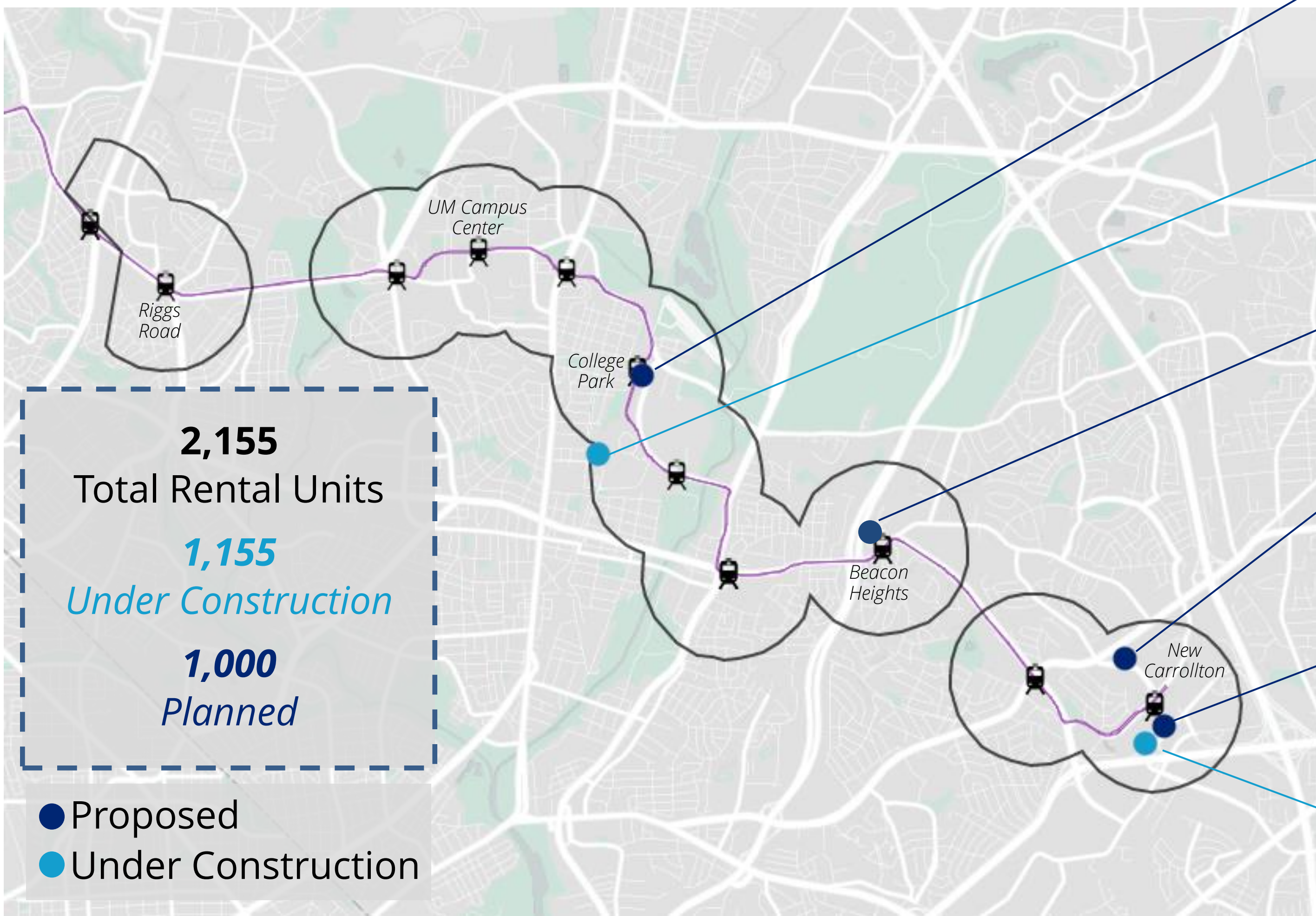
Income Limit (2- person HH):	$29,150	$48,550	$58,300	$62,100

Source: 2018 ACS 5-Year Estimates, HR&A Advisors, Inc.
Note: Maximum housing costs by AMI assumes an affordability level of 30% of gross income allocated to housing, including utilities.

The current pipeline for multifamily development is concentrated near New Carrollton and College Park.

PIPELINE MULTIFAMILY MARKET RATE DEVELOPMENT

Prince George's County, MD, April, 2020



Atworth
~450 Units
Typology | Mid-rise

The Station at Riverdale Park
~ 875 Units
Typology | Midrise

Former Maryland National Capital Park Police Headquarters
TBD Units

Harkins Rd. Phase II
~250 Units
Typology | Mid-rise

Garden City Dr.
~300 Units
Typology | High-rise

The Stella
~280 Units
Typology | High-rise

Source: CoStar, HR&A Advisors, Inc. (April 2020)

There is limited for-sale pipeline along the Corridor. Nearby, there is some rehabilitation of older buildings and new low-rise construction.

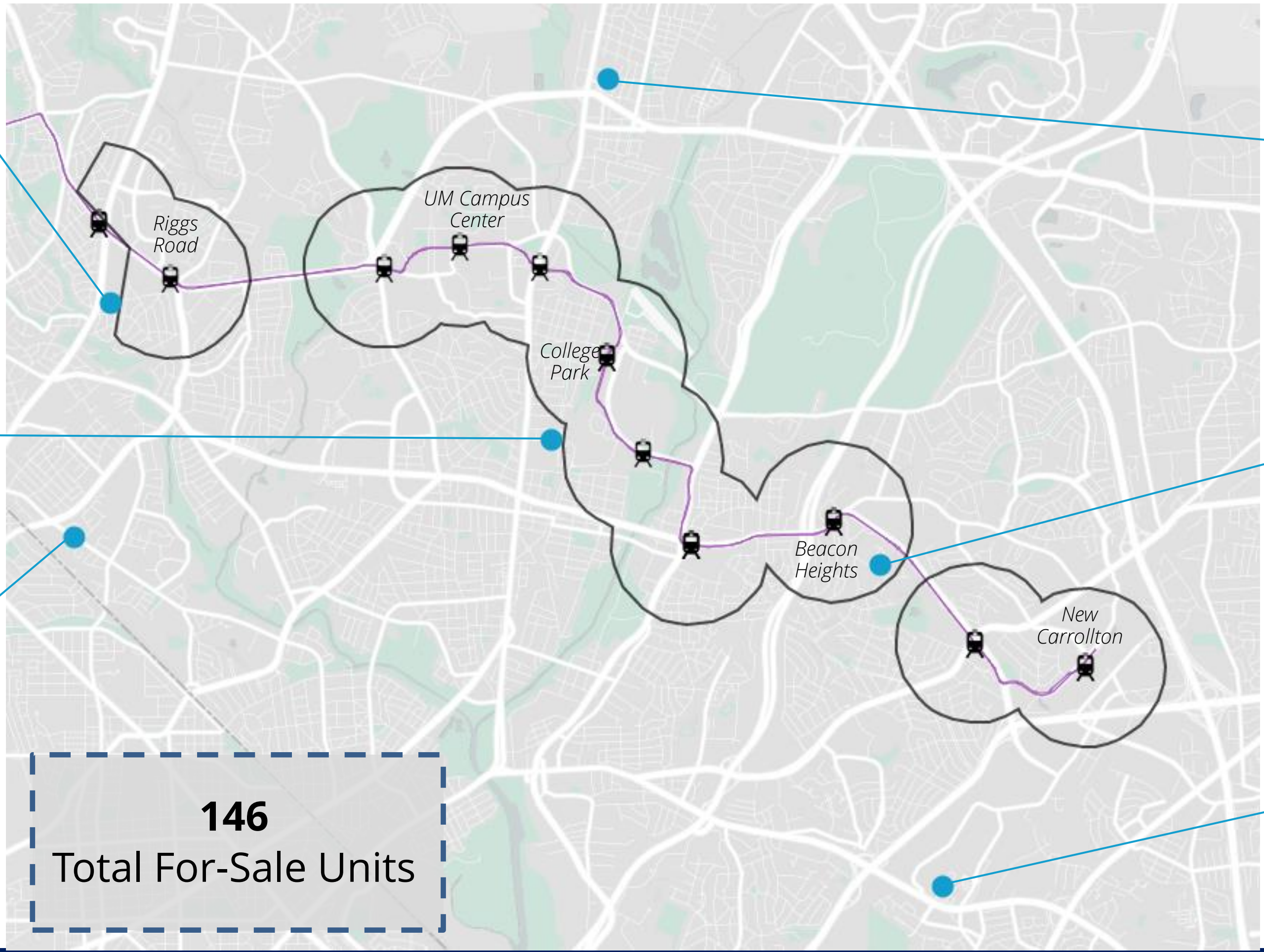
PIPELINE DEVELOPMENT MARKET RATE FOR-SALE

Prince George's County, MD, April 2020

Takoma Overlook
~5 Units
Typology | High-rise Condo, Rehab
Avg. $/SF | $216

Riverdale Station
~120 Units
Typology | Townhomes
Avg. $/SF | $235

The Fairmont
~7 Units
Typology | Mid-rise Condo, Rehab
Avg. $/SF | $197



146
Total For-Sale Units

The Metropolitan
~5 Units
Typology | Townhomes
Avg. $/SF | $209

Riverdale Overlook
~5 Units
Typology | Single family
Avg. $/SF | $166

Metro Pointe
~4 Units
Typology | Townhomes
Avg. $/SF | $176

Source: NewHomeSource, HR&A Advisors, Inc. (April 2020)

Transit is an important factor in real estate pricing, and HR&A estimates a 10% premium to real estate pricing for light rail access.

Transit accessibility is an important characteristic that drives housing demand and increases achievable rents and sale prices for housing. Estimates of this pricing premium vary based on specific market conditions. A literature review by HR&A of transit premiums associated with light rail across the U.S. indicates an average pricing premium of 10% for high-quality transit access. This premium is slightly less than the 12% pricing premium associated with Metrorail access in the DC region, per analysis by Fannie Mae.

New Carrolton and College Park already have access to various transit options, such as Metrorail and MARC. The addition of the Purple Line will reinforce these stations as transit hubs by providing connection to other transit options or significant destinations. However, given existing transit access, the real estate value premium generated in these locations will not be as high as other locations that do not currently have transit access.

PRECEDENT TRANSIT PREMIUMS

System	Mode	Product Type	Value Premium
Washington, DC Area	Heavy Rail (WMATA)	Single-family	12%
Minneapolis Blue Line	Light Rail	Multifamily	9%
Minneapolis Blue Line	Light Rail	Single Family	0-12%
San Diego Trolley Blue & Orange Line	Light Rail	Multifamily	4-17%
San Diego Trolley Blue & Orange Line	Light Rail	Condominium	2-6%
San Diego Trolley Blue & Orange Line	Light Rail	Single Family	-4-1%
St. Louis MetroLink Red Line	Light Rail	Single-family	31-33%
Average			**10%**

Sources: Fannie Mae; Economic Development Impacts of Transit, West Broadway; Fogarty et al., "Capturing the Value of Transit," 2008; HR&A

HR&A applied a transit premium to existing housing prices to estimate achievable rents along the Purple Line.

STATION AREAS WITHOUT EXISTING METRORAIL → **10%** Premium

Full light rail transit premium applied to baseline rents

<u>Example</u>

Existing Rent x Transit Premium = Projected Rent

$2.00/SF x 1.10 = $2.20/SF

STATION AREAS WITH EXISTING METRORAIL → **5%** Premium

Small transit premium applied assuming existing Metrorail premium

<u>Example</u>

Existing Rent x Transit Premium = Projected Rent

$2.30/SF x 1.05 = $2.43/SF

Informed by current top-of-market rents, HR&A evaluated feasibility of new market rate development in each station area.

PLANNED AND EXISTING TOP OF MARKET RATE ACTIVITY BY STATION AREA

Ordered from highest to lowest adjusted new construction rents

Station Area	Baseline New Construction Rents PSF†	Baseline New Construction Townhome Price PSF†	Transit Premium	Adjusted New Construction Rents PSF	Adjusted New Construction Townhome Price PSF
East Campus	$2.48*	$210	10%	$2.73	$230
New Carrollton	$2.54**	$235	5%	$2.67	$248
College Park	$2.50	$240	5%	$2.65	$252
UM Campus Center	$2.40	$210	10%	$2.64	$230
Adelphi Road West	$2.30	$210	10%	$2.53	$230
M Square	$2.30	$225	10%	$2.53	$248
East Riverdale Park	$2.30	$225	10%	$2.53	$248
Takoma/Langley	$2.20	$215	10%	$2.42	$237
Riggs Road	$2.20	$215	10%	$2.42	$237
Beacon Heights	$2.10	$175	10%	$2.31	$193
Annapolis Road/Glenridge	$2.10	$175	10%	$2.31	$193

†Based on estimated new construction pricing using on nearby comparable projects and current market conditions.
Note: PSF represents cost per square foot. Rental units are priced based on cost per square foot per month. For-sale units are priced based on total sale price per square foot.

Source: CoStar (April 2020), NewHomeSource (April 2020), HR&A Advisors, Inc.

An IZ policy along the Purple Line Corridor is not feasible at this time based on market conditions and current County policies.

Incentives | The traditional incentive tools used to support an IZ policy present challenges in potential use along the Purple Line Corridor.

The most common tools used to support an IZ policy are density bonuses or tax abatements. However, in Prince George's County, these tools are not likely to add enough additional value to a development project to support affordable housing creation through IZ. By-right zoning exists along the Purple Line for mid-rise apartment development that the market supports, so there is little value in offering a density bonus for taller buildings that require more expensive construction types. Additionally, tax incentives (in the form of PILOT) are already commonly used to support catalytic market-rate development, which leaves little additional PILOT capacity to support an affordability requirement or other public benefits.

Development Feasibility | Rents are generally not feasible to allow development to move forward without public support.

HR&A projects existing multifamily rents to be approximately $2.30 - $2.75 per square foot with the transit premium generated by the Purple Line. The required rent threshold for development feasibility without public support is $2.70 - $2.85 per square foot based on current market conditions. As a result, only development in the strongest market locations along the Purple Line (e.g. East Campus station area in College Park) are close to feasibility without public support or incentives to support development.

HR&A's financial analysis was centered on three guiding questions.

1. What is the feasibility of development under **current baseline market conditions**?

2. **Which incentives** fit within the context of existing policy in Prince George's County and unlock the most potential to support inclusionary housing?

3. Can available incentives **create affordable housing units** in Prince George's County?

Market conditions along the Purple Line Corridor limit the feasibility of new market rate, mid-rise, transit-oriented development.

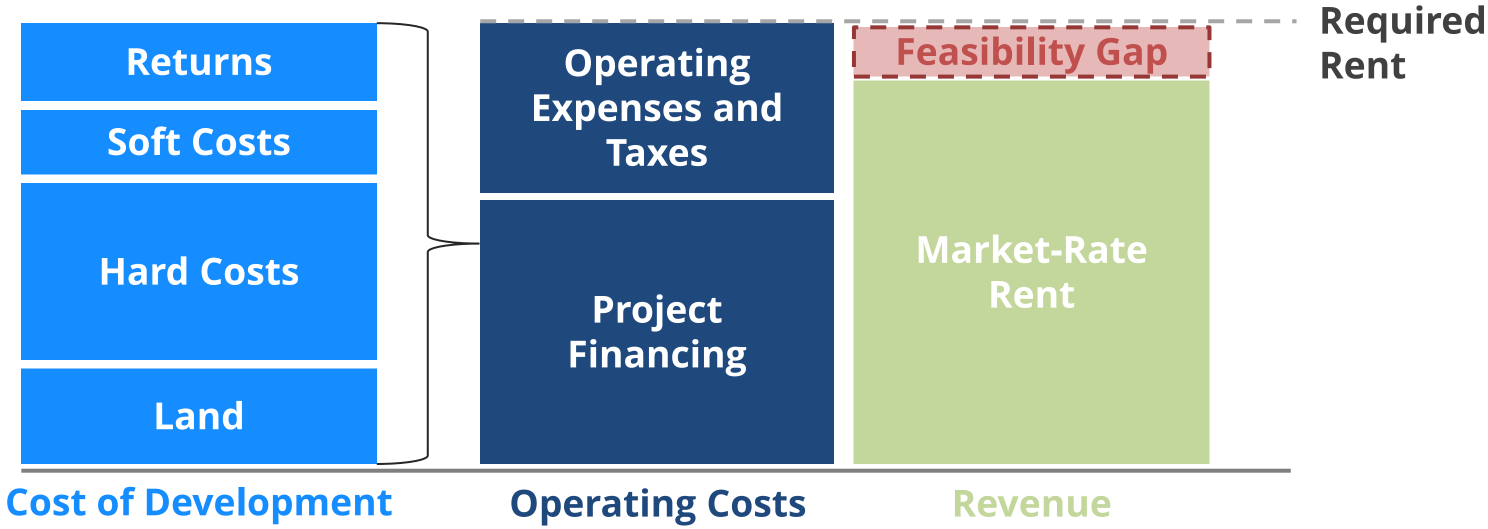
PURPLE LINE CORRIDOR FEASIBILITY FOR MID-RISE TRANSIT-ORIENTED DEVELOPMENT

Projected Market Rent with Transit Premium	Required Rent Threshold for Development Feasibility
$2.30 – 2.75 per square foot	**$2.70 – 2.85** per square foot

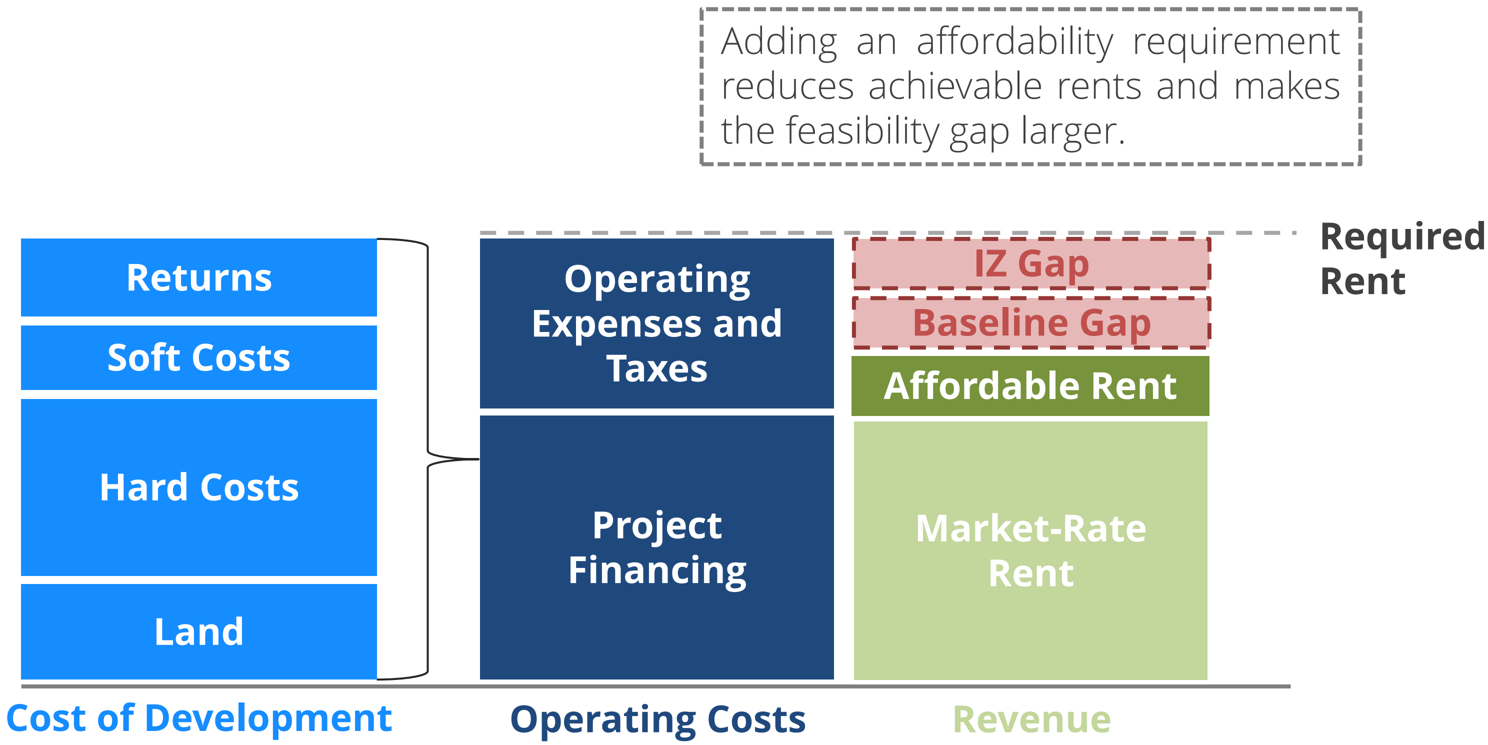
Currently, market rents along the Purple Line do not meet required rents for market-rate construction.

Subsidy is often provided to entirely market-rate projects in order to support baseline feasibility. With the delivery of the Purple Line, rents are expected to increase due to an added transit premium, giving the County to opportunity to leverage the value that will be generated by new market rate housing. However, the added value from the transit premium is not enough to fully solve the feasibility gap for high-quality urban-style development.

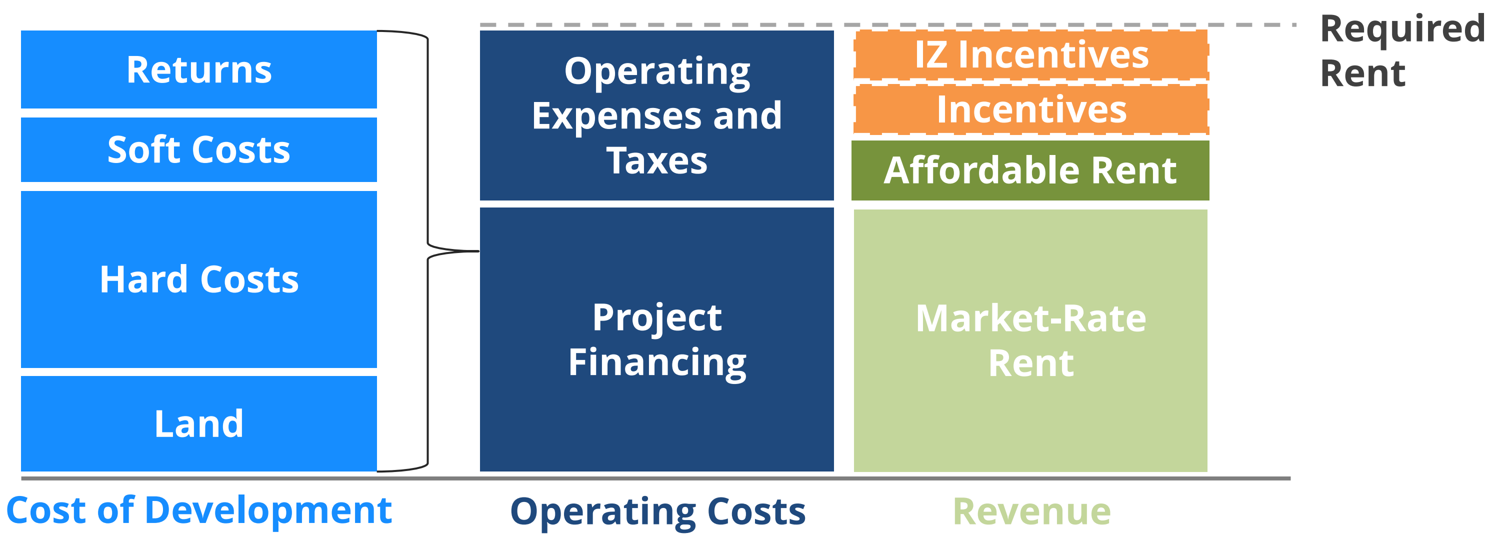
The **feasibility gap** for baseline market-rate development is often filled by PILOTs and revitalization tax credits.



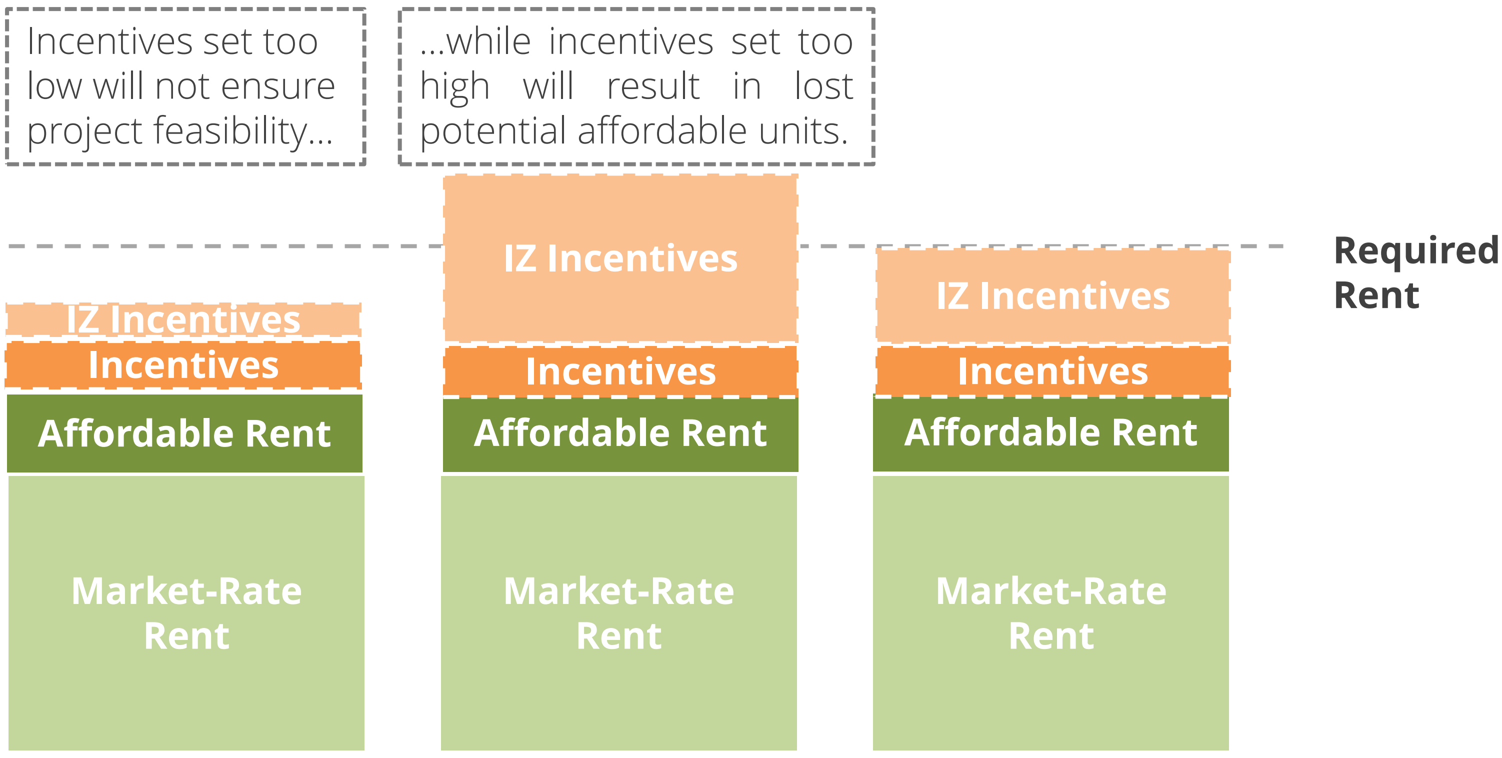
With inclusionary zoning, there is an additional feasibility gap created by the difference between the affordable rents required by a policy and the market-rate rents.



The feasibility gap created by IZ must be filled with incentives to ensure projects remain feasible, in addition to the incentives already used to support market-rate projects.



Incentives need to be properly calibrated to market conditions to ensure a balance between use of public resources and development feasibility.



STUDY SUMMARY

MARKET STUDY

FINANCIAL FEASIBILITY ANALYSIS AND FINDINGS

Financial Model Framework

Incentives

Financial Feasibility Scenarios

FINDINGS AND RECOMMENDATIONS

APPENDIX

There are several incentives used to support IZ that HR&A evaluated to determine their potential for use along the Purple Line.

REGULATORY RELIEF

Density Bonus	Density bonuses allow for developers to produce more dwelling units per acre, increase floor area ratio, or increase building height. Typically, IZ programs offer between 10% and 20% additional density above the baseline permitted density.
Minimum Parking Space Reduction	Minimum parking reductions allow for developers to build fewer parking spaces than otherwise required by a jurisdiction, which can result in construction cost savings and fewer empty parking spaces.
Fast Track Processing	Fast track processing allows projects to move forward more quickly in the zoning, planning, and building permit process.

FINANCIAL RELIEF

Payment in-Lieu-of Taxes (PILOT)	PILOTs provide a reduction in property taxes for a designated period following completion of development.
Impact Fee Reduction	Impact fee reductions provide financial benefits to developers by reducing the fees imposed by local governments to provide capital facilities. With reduced or waived fees, developers have greater capacity to produce affordable housing units.

A density bonus is the most common tool used to support IZ policies across the country, but is not applicable for the Purple Line.

The County's current zoning policy allows for the desired level of density that the market can support along the Purple Line Corridor. Additional bonus density will generate additional construction costs due to changes in building typology (e.g. higher cost materials such as concrete rather than wood). Until rents support higher density construction, a density bonus is not an effective incentive.

BASELINE PROJECT (CURRENT MARKET CONDITIONS)

Market Rent: $2.70/SF
Construction Costs: $195/SF
Units: 160
Feasibility: Borderline

Baseline Density

Cost: $195/GSF

DENSITY BONUS PROJECT

Bonus Density

Cost: $230/GSF

Baseline Density

Cost: $230/GSF

Market Rent: $2.70/SF
Construction Costs: $230/SF
Units: 200
Feasibility: Negative
Incentive Value: Limited

Note: GSF represents 'Gross Square Foot' which reflects total building area.

Of commonly used incentives, PILOTs are the only tool appropriate for use along the Purple Line under current County policy.

REGULATORY RELIEF

Density Bonus	• Stakeholders indicated that current zoning policy allows for the desired level of density that the market can support. • An increase to project size would result in increased construction costs. Paired with current market rents, this would reduce development feasibility.
Minimum Parking Space Reduction	• Current parking requirements (spaces per unit) along the Purple Line are already lower than market demand for spaces. Reducing requirements further, would not change the number of parking spaces the market demands.
Fast Track Processing	• Fast track processing is not aligned with the current approvals process in Prince George's County, which allows for Council review of all proposed development projects.

FINANCIAL RELIEF

Payment in-Lieu-of Taxes (PILOT)	• Tax abatements in the form of PILOTs are in use in the County today and could be used to support housing affordability as a public goal of the County.
Impact Fee Exemption	• The County uses impact fees to provide important capital facilities. • Impact fees within the Purple Line Corridor are already reduced from standard fees through the Jump Starting Transit Oriented Development policy.

Still, there are challenges in employing PILOTs given the common use of the tool to support market rate catalytic mixed-use development.

SELECTION OF EXISTING PILOTS PROVIDED TO DEVELOPMENT IN PRINCE GEORGE'S COUNTY

Project Location	Project Type	Incentive Type	PILOT %	PILOT Term	Other Incentives
University Town Center	Mixed-use Apartments and retail	County PILOT	60%	15 years	
Carrollton Station	Mixed-use office, retail, and apartments	County PILOT	75%	15 years	
New Carrollton Metro	Mixed-use office, retail, apartments, and infrastructure	County PILOT	75%	30 years	Parking surcharge amount, county-funded infrastructure, revitalization tax credits
Branch Avenue Metro	Office	County PILOT	65%	15 years	10-year Enterprise Tax Zone credit
College Park	Mixed-use apartments and retail	County PILOT	60%	15 years	City of College Park Revitalization Tax Credit (10 years)
College Park Metro	Apartments	College Park and County Revitalization Tax Credit	Changes over time		

Based on the applicability of incentives, HR&A modeled potential PILOTs (tax abatements) within the context of existing abatements.

HR&A's development feasibility analysis considered the use of PILOTS within the context of how they are currently applied in the County and specifically along the Purple Line Corridor. HR&A assessed the ability to accommodate a share of affordable units based on current PILOT allocations or potential adjustments. Tax abatements of for-sale housing types such as townhomes are not modeled in this analysis due to the ownership structure being less conductive for developers to realize value from the incentive.

PUBLIC SUPPORT PACKAGE MODELED BY PRODUCT TYPE

Multifamily Rental	For-Sale Townhomes
• PILOT (Tax Abatements)	• None

HR&A grouped the different station areas into three market types based on market strength using average projected market rents and sales prices.

STATION AREAS GROUPED BY MARKET STRENGTH

Market Type	Station Area	Estimated Market Rent	Estimated Sales Price
Top Market	East Campus / New Carrollton / College Park / UM Campus Center	$2.70 / NSF	$250 / NSF
Mid-Market	Adelphi Road West / M Square / East Riverdale Park / Takoma/Langley / Riggs Road	$2.50 / NSF	$230 / NSF
Emerging Market	Beacon Heights / Annapolis Road/Glenridge	$2.30 / NSF	$200 / NSF

Note: NSF represents 'Net Square Feet' which reflects in-unit building area

Across each market type. HR&A evaluated building typologies representative of existing, planned, and potential future development.

RENTAL TYPOLOGIES

Mid-Rise

Mid-rise are typically 5-7 stories and are representative of the target walkable building typology desired near Purple Line Stations.

FOR-SALE TYPOLOGIES

Townhome

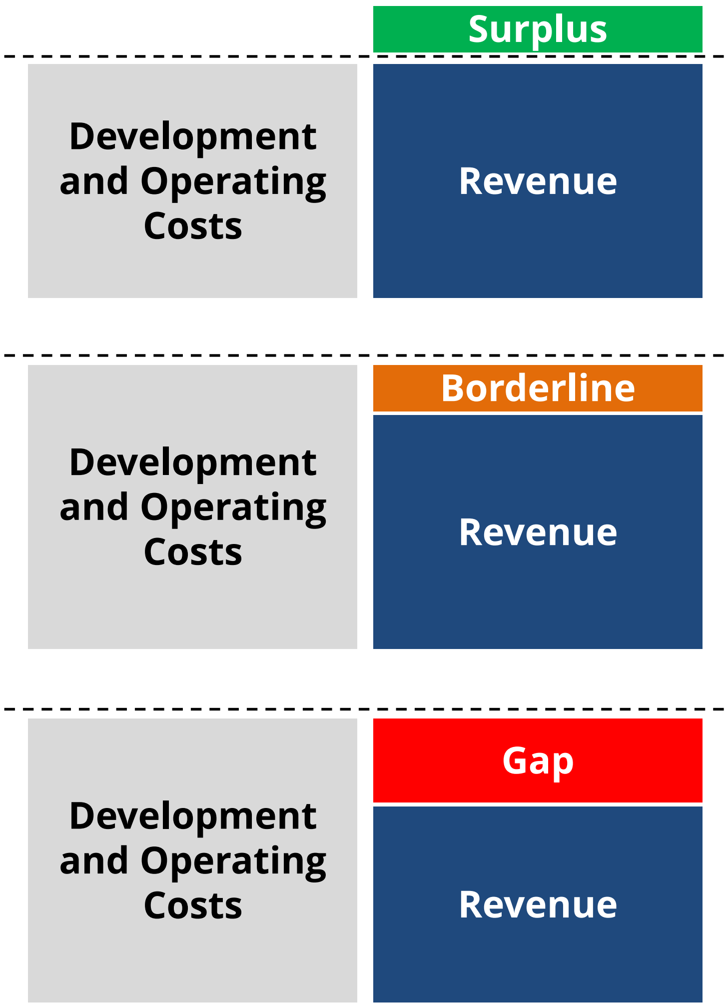
Typically below 4 stories and are considered low-density development.

HR&A tested six representative development scenarios to model the feasibility of IZ along the Purple Line. The assumptions for each scenario are listed in the table below.

	Top Market		Mid-Market		Emerging Market	
Building Typology	**Midrise Rental**	**For-Sale Townhome**	**Midrise Rental**	**For-Sale Townhome**	**Midrise Rental**	**For-Sale Townhome**
Density						
Baseline FAR	2.5 FAR	1.1 FAR	2.5 FAR	1.1 FAR	5.0 FAR	2.5 FAR
Program						
Total Units	207 Units	21 Units	207 Units	21 Units	207 Units	21 Units
Total SF	169,844 NSF	50,400 NSF	169,844 NSF	50,400 NSF	169,844 NSF	50,400 NSF
Parking Spaces	207 spaces	42 spaces	207 spaces	42 spaces	207 spaces	42 spaces

HR&A developed a prototype development size and unit mix for each station area that is representative of the type of development likely to occur. Assumptions for each prototype development, including the project size, were based on the construction type, zoning, existing development patterns, and location along the Purple Line Corridor. The use of prototype projects allowed HR&A to determine the total feasibility gap/surplus for development in these station areas.

HR&A assessed development feasibility based on the framework below, and summary tables on the following pages reflect analysis results.



When revenue generated exceeds the costs required to develop and operate the property, there is a feasibility surplus (greater than $0) and a project is **feasible**.

Feasibility threshold:
>7.00% Return on Cost or 2.0 Equity Multiple

When revenue generated falls slightly short of the costs required to develop and operate the property, the feasibility is **borderline**.

Borderline threshold:
6.85%-7% Return on Cost or 1.9-2.0 Equity Multiple

When revenue generated falls substantially short of the costs required to develop and operate the property, there is a feasibility gap and a project is **infeasible**.

Infeasible threshold:
<6.85% Return on Cost or <1.9 Equity Multiple

Note: Feasibility thresholds are based on market research for return expectations in the market, with return on cost used as the feasibility metric for rental development (derived as a 1.25% premium to current cap rates) and equity multiple used as the feasibility metric for for-sale development.

Development of midrise market rate development along the Purple Line is currently infeasible without the use of incentives.

Supporting market rate development requires a 20% PILOT in Top-Market locations and a 40% PILOT in Mid-Market locations (15-year term). Existing economic development PILOTS average 60-75% of taxable value, which means the County could offer lower PILOTs in top-market or mid-market locations or require additional public benefit for the PILOT level it is providing.

Feasibility – Market Rate Development (0% Affordable Units)

New Midrise Rental Development

PILOT INCENTIVE – 15-YEAR TERM

	0% PILOT	*20% PILOT*	*30% PILOT*	*40% PILOT*
Top Market	Borderline	Feasible	Feasible	Feasible
Mid-Market	Infeasible	Infeasible	Borderline	Feasible
Emerging Market	Infeasible	Infeasible	Infeasible	Infeasible

Market rate development is not feasible without incentives (0% PILOT).

Development is feasible across Top- and Mid-Market locations with a 40% PILOT.

Note: Refer to appendix for full documentation of development costs and rent information.

A 60% PILOT, which is similar to existing County PILOTs, could support 5% of units at 50% AMI across the Top- and Mid-Market areas of the Purple Line.

HR&A modeled up to 100% PILOT to determine its impact on emerging markets and found that it would support affordability there. However, that level of abatement is not recommended for County Policy since the ability of the County to support vital services through tax revenue decreases as the tax abatement percentage increases.

Feasibility – 5% of Units Affordable at 50% AMI
New Midrise Rental Development

PILOT INCENTIVE – 15-YEAR TERM

	40% PILOT	*60% PILOT*	*80% PILOT*
Top Market	Feasible	Feasible	Feasible
Mid-Market	Infeasible	Feasible	Feasible
Emerging Market	Infeasible	Infeasible	Infeasible

Opportunity: In exchange for PILOTs provided to developers at 60%, the County could require some affordable units in exchange for providing PILOT in Top- and Mid-Market locations such as East Campus, New Carrollton, College Park, and UM Campus Center. These negotiations would need to occur on a project-by-project basis as developers apply for a PILOT.

Note: Refer to appendix for full documentation of development costs and information.

A 60% PILOT could support an even greater share of affordability, 10% of units at 50% AMI, in Top Market locations.

Feasibility – 10% of Units Affordable at 50% AMI

New Midrise Rental Development

PILOT INCENTIVE – 15-YEAR TERM

Tax Abatement	*40% PILOT*	*60% PILOT*	*80% PILOT*
Top Market	Borderline	Feasible	Feasible
Mid-Market	Infeasible	Borderline	Feasible
Emerging Market	Infeasible	Infeasible	Infeasible

Opportunity: In exchange for PILOTs provided to developers at 60%, the County could require a greater share of affordable units in Top Market locations.

Note: Refer to appendix for full documentation of development costs and rent information.

For-sale development typologies are currently infeasible along the Purple Line Corridor.

Under a 5% affordable unit set-aside requirement, for-sale townhome units become more infeasible since there are not incentives available to offset costs. Tax abatements were not considered as a for-sale incentive due to the ownership structure being less conductive for developers to realize value from the incentive.

Feasibility – Market Rate Development (0% Affordable Units)
New For-Sale Townhome Development

Market	*0% Affordable Units*
Top Market	Infeasible
Mid-Market	Borderline
Emerging Market	Infeasible

Feasibility – 5% of Units Affordable at 50% AMI
New For-Sale Townhome Development

Market	*5% Affordable Units*
Top Market	Infeasible
Mid-Market	Infeasible
Emerging Market	Infeasible

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While not feasible today, an IZ policy may be feasible in the future as market conditions strengthen and the incentive environment in the County evolves.

Future Considerations | An IZ policy will become feasible when the value from rent growth can support market-rate development without the addition of public support.

The County must monitor market dynamics and understand benchmark indicators to consider a future IZ policy. Even as rent increases, there will be other market conditions, such as land costs and construction costs, that influence the rent that meets development feasibility thresholds. In addition to strengthened market conditions, the incentive environment in the County will also need to adjust to accommodate market rate feasibility without any public support.

Alternative Policies | The Purple Line will generate real estate value that can be leveraged to support housing affordability through alternative policies.

Alternative policy options include (1) a PILOT affordability requirement, (2) a public land disposition affordability requirement, (3) a synthetic TIF, or (4) an impact fee. While a synthetic TIF will likely result in revenue reduction and be difficult to implement, it would be beneficial for the County to study the other options further, as the County will need to assess their feasibility and impact before moving forward.

Next Steps | Prince George's County would benefit from stronger alignment of County resources across economic, land use, and housing goals.

As the County considers new tools to incentivize affordable housing, County agencies will need to discuss a long-term strategy for public incentives to complement the strengthening housing market and additional value generated by new public investments. These discussions will equip the County to structure policies that drive desired development outcomes across multiple goals.

There are unique challenges in the implementation of an IZ policy along the Purple Line Corridor. However, future changes in conditions could allow for reconsideration.

Current Challenges to Support IZ		Benchmark Indicators for Future IZ Consideration		Reason for Benchmark Indicator
Market Rents Market rent below rents required for new construction	→	Rents at or above identified rent thresholds for feasibility (or future rent thresholds)	→	Value from rent increases can be used to support an IZ policy, if captured appropriately
PILOT / Tax Incentives Tax incentives primarily used to support catalytic market rate development	→	Most or all market-rate development occurs without the use of PILOTs	→	Signal of stronger market conditions; PILOTs can then be directed toward public benefits
Zoning Incentives Limited value to developers for zoning incentives beyond what is already available	→	Developers seek additional zoning density	→	Market signal that density bonuses hold value and can be leveraged to support public benefits

For an IZ policy to be feasible in Prince George's County, market rents need to strengthen for market-rate projects to be feasible without public incentives.

2020
IZ is **infeasible**

Current Market Conditions

Rent
$2.30-$2.70/NSF

Land prices
$40-$100/SF

Construction costs
$135-$195/GSF

Incentives required
40%-65% PILOT

Current IZ rent threshold
$2.70-$2.85/SF

Under current market conditions, rents need to increase from $2.30-$2.70/NSF to $2.70-$2.85/NSF across the corridor for consideration of a feasible inclusionary zoning policy.

However, over time, market conditions will change such that the required rent benchmark for IZ implementation changes as well.

Development feasibility is driven by achievable market rents, but markets are dynamic and other market conditions such as land costs and construction costs, among many other factors, influence the rent pricing that meets development feasibility thresholds. Each of these variables is interconnected, so as one variable changes, it impacts other variables. For example, an increase in rents resulting from a strengthening market means developers will be able to pay more for land, increasing land costs. As a result, an increase in rents does not necessarily mean that development has become feasible or an IZ policy can be supported.

RELATIONSHIP BETWEEN REAL ESTATE VARIABLES

Construction Costs	Rent		Land Costs
Increase in construction costs →	**Increase in required rent threshold**	**Increase in market rate rents** →	**Increase in residual land value**

IZ will only become feasible when the value from rent growth can be captured to support affordable housing or other public benefits.

2020

IZ is **infeasible**

Current Market Conditions

Rent
$2.30-$2.70/NSF

Land prices
$40-$100/SF

Construction costs
$135-$195/GSF

Incentives required
40%-65% PILOT

Current IZ rent threshold
$2.70-$2.85/SF

Future Year:

Natural market evolution

Although rents hit previous threshold, IZ **remains infeasible** due to increased land costs

Future Market Conditions

Rent	**Constr. costs**
$2.85-$3.00/SF	$145-$205/SF
Land prices	**Incentives needed**
$70-$125/SF	20% PILOT

Expected IZ rent threshold
$3.00-$3.15/SF

Future Year:

Expectations set to adapt market

IZ **becomes feasible** when the value associated with increased rent can be directed to support aff. housing

Future Market Conditions

Rent	**Constr. costs**
$2.85-$3.00/SF	$145-$205/SF
Land prices	**Incentives needed**
$50-$110/SF	0% PILOT

Expected IZ rent threshold
$2.85-$3.00/SF

Note: Future year data is for illustrative purposes only. The County will be undertaking a rental survey that can assist with monitoring the market conditions for a future IZ policy. DHCD could serve in the monitoring role in addition to Planning.

As market conditions increase (higher rents and associated land costs), PILOTs will still be needed to offset these higher costs and achieve feasibility of market-rate development without IZ requirements. However, as PILOTS for market-rate development are phased out, the market will adjust, freeing up PILOTs to be used for IZ. Then, affordability requirements can be phased into the PILOT. This phasing will let the market adapt so that developers are not relying on incentives to offset costs for general development feasibility.

In addition to changing market conditions, conditions for incentives must adjust to accommodate market rate feasibility without County support.

As market conditions strengthen over time and with the value added from the Purple Line, the County should seek to shift the market away from reliance on incentives to reach market rate development feasibility.

INCENTIVE DYNAMICS

PILOT/Tax Abatements

Benchmark Indicator: When developers can consistently produce most market rate housing without any PILOT or economic development incentives.

Additional Context: Under current conditions today, where PILOTs are primarily used to support fully market rate development as part of the County's economic development goals, there may be opportunities to incorporate small numbers of affordable units in projects on a case-by-case basis and to incentivize development around transit-oriented areas.

In the future, when development can occur without the provision of tax incentives, PILOT incentives can be used more broadly to support affordable housing or provision of other public benefits.

Zoning Policy

Benchmark Indicator: When developers seek additional density as part of project development.

Additional Context: The County would benefit most from an IZ policy that offers bonus density as an incentive because there would be no incurred fiscal cost. However, existing zoning along the Purple Line Corridor provides sufficient density for what the market demands. As a result, developers do not seek bonus density since it does not represent additional value to a development project.

As the market strengthens such that there is market demand for housing at higher densities than currently allowed by zoning, there will be value in providing bonus density. The County can then leverage that value to require affordable units in exchange for granting bonus density.

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Though an IZ policy is not currently feasible, other tools can support housing using the real estate value created by transit investment.

ALTERNATIVE POLICY OPTIONS

PILOT Affordability Requirements| PILOT affordability requirements require that any residential development project receiving a PILOT provide a set-aside portion of affordable units. Creating affordability requirements for publicly supported projects increases affordability in new developments, however it requires a higher PILOT amount than would otherwise be required for these developments.

Public Land Disposition Affordability Requirements| This policy requires all or a share of units to be made affordable on public land dispositions in the County planned for residential development. This tool relies on the land value of existing owned properties to support affordability in development, meaning the land value is reduced to enable affordable units on each site rather than funding other County priorities.

Synthetic Tax Increment Financing (TIF)| A Synthetic TIF redirects revenue from incremental tax growth to a fund which supports affordable housing. The tool would redirect additional taxes over a defined period from all property (not just new development) in a defined district such as the Purple Line Corridor. Revenue generated can be used to fund the County's Housing Investment Trust Fund, which supports the development of new affordable housing units.

Housing Impact Fee| An impact fee, similar to existing school or infrastructure impact fees, generates a one-time up-front payment during a real estate development to support affordable housing. This housing impact fee can be sized to be equal to the real estate value generated by the Purple Line transit premium. This can then be used to fund the County's Housing Investment Trust Fund which supports the development of new affordable housing units.

PILOT Affordability Requirements

Considerations

Target: New development or preservation of housing that receives a County PILOT

Benefits:
- Ties public benefits to County incentives
- Supports both preservation and production of affordable housing
- Sets clear expectations for developers

Drawbacks:
- Requires individual project underwriting to determine affordable set aside

Anticipated Impact
- A 5% affordability requirement, which HR&A's analysis showed as feasible in some Purple Line Corridor locations with current PILOT levels, would generate 113 units of affordable housing if applied fully to the current pipeline of under construction or planned units (2,115 units).

Next Steps

HR&A Recommendation: Pursue policy development and set structure for implementation

Next Steps for Further Study
- Review existing PILOT incentive strategy across County departments and agencies
- Develop an underwriting process that includes pricing of affordable housing units
- Create a financial evaluation tool to evaluate affordability on a project-by-project basis.
- Communicate housing affordability expectation for developers or property owners seeking a PILOT

Future Market Considerations
- As market conditions improve, PILOTs required to support new market rate development will decrease and provide opportunity to redirect PILOT to support housing affordability

Public Land Disposition Affordability Requirements

Considerations

Target: Development on County-owned land

Benefits:
- Uses land value to support housing
- Flexibility in structuring requirements
- Sets clear expectations for land disposition respondents

Drawbacks:
- Potential production is limited since policy would apply only to to County land holdings, which make up a small share of total development sites
- Limited to new rental and ownership housing unit production
- Affordable housing is one of many public benefits, which can be accomplished through disposition of public land

Anticipated Impact
- A share of affordable housing units in market rate development. Precedents for total share of units range by jurisdiction. As an example, Washington, DC targets a 30% affordable unit set-aside on publicly disposed land.

Next Steps

HR&A Recommendation: Pursue policy development and set structure for implementation

Next Steps for Further Study:
- Review County's existing land disposition policy and discuss updates for affordability requirements across County depts. and agencies (aligned with HOFA Cross Cutting Action 1.1).
- Coordinate with ongoing public land study and other recent efforts to determine inventory and identify target disposition sites
- Conduct land value analysis to determine affordability requirements
- Update existing County land disposition policy to reflect affordable housing priority and the process by which requirements will be set
- Clearly articulate affordability set aside targets in RFPs for public land disposition that include future housing development

Future Market Considerations:
- Higher land values will support higher levels of affordability set asides

Synthetic Tax Increment Financing (TIF) District

Considerations

Target: All property along Purple Line Corridor

Benefits:

- Captures value from all properties
- Creates fund that can be deployed flexibly
- Supports both preservation and production of affordable housing
- Proceeds can be used to support deeply affordable units at the 30% AMI level

Drawbacks:

- Redirects revenue from County's General Fund, which reduces ability to fund other County expenditures
- TIFs are typically set for a defined term, and fund generation would stop after the term ends
- TIFs can be politically contentious to structure and put into place

Anticipated Impact

- Varies, dependent on percentage of increment directed to affordable housing

Next Steps

HR&A Recommendation: Do not pursue policy based on identified drawbacks, which include redirecting general fund revenue and the limited term period TIFs are in place. Additionally. due to the contentious nature of TIFs, the County’s current policy stance has been to not establish new TIF districts.

Next Steps for Further Study

- Not recommended.

Housing Impact Fee

Considerations

Target: New development along Purple Line Corridor

Benefits:
- Creates fund that can be deployed flexibly
- Supports both preservation and production of affordable housing
- Proceeds can be used to support deep affordability at the 30% AMI level

Drawbacks:
- Requires detailed technical analysis to right-size to development conditions and avoid inhibiting growth
- Existing impact fees in the County are significant

Anticipated Impact
- Total impact will vary dependent on impact fee size; as an example, an impact fee of $2,500 per unit on current under construction and planned pipeline (2,115 units) would generate $5.3M for affordable housing

Next Steps

HR&A Recommendation: Explore potential for policy based on assessment of existing impact fees and other affordable housing policies

Next Steps for Further Study:
- Conduct a study of existing County impact fees (school, sewer, infrastructure, etc.) to realign fee pricing based on impact costs by housing type and location
- Evaluate the potential to support an additional housing impact fee in the Purple Line Corridor to support housing
- Determine whether to pursue policy based on findings of impact fee study and outcomes of other County housing initiatives

Future Market Considerations:
- Impact fees are most successful when market rate development is feasible without incentives

The matrix below provides HR&A's assessment of each alternative policy option.

SUMMARY OF ALTERNATIVE POLICY OPTIONS TO SUPPORT AFFORDABLE HOUSING

	Potential Impact	Potential Scope	Difficulty of Implementation	Cost to County	Key Considerations	HR&A Recommendation
PILOT Affordability Requirement	Medium	New development or existing buildings requesting PILOTs in Corridor	Low	Medium	• Ties County incentive to provision of public benefits • PILOTs are already used to support development • Requires individual project underwriting	**Pursue further study**
Public Land Disposition Affordability Requirement	Medium	New residential development on public land in Corridor	Low	Medium	• Requires acceptance of decreased land value at disposition	**Pursue further study**. Coordinate with ongoing study of public land disposition strategy
Synthetic TIF	High	All taxable property in Corridor	High	High	• Redirects revenue from the Gen. Fund • Can be difficult to implement • Only in place for a set term	Do not pursue further study due to revenue redirection, limited term, and difficulty of implementation
Impact Fee for Affordable Housing	Medium	New residential development in Corridor	High	Low	• Must be sized to mitigate impact on dev. feasibility • Existing impact fees are already high	**Pursue further study** of all impact fees, including potential affordable housing impact fee

Consideration of these tools necessitates discussions across Prince George's agencies on the County's long-term policy goals and evaluation of specific policies.

Stronger alignment of County resources – including its incentives – advances Housing Opportunity for All cross-cutting strategy 1 as well as specific actions, such as cross-cutting action 3.4.

INCENTIVE STRATEGY REVIEW

- Given a stronger housing market and increased value generated by new public investments, such as the Purple Line, what is the County's **long-term strategy for its public incentives**?
- Given the County's focus on transit-oriented development areas, such as the Purple Line and the Blue Line, how can the County **align and target incentives to encourage development across these target areas**?
- What can the County do to structure **policies that drive desired development outcomes** in terms of economic development, housing, and public benefits such as infrastructure or open space?

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EXPECTED MARKET RATE RENTS BY BEDROOM SIZE

Prince George's County Purple Line Station Areas, 2020

Station Area	Adjusted Top-of-Market Rents PSF	Average 1-BR	Average 2-BR	Average 3-BR
East Campus	$2.73	$1,938	$2,921	$3,467
New Carrollton	$2.67	$1,895	$2,856	$3,390
College Park	$2.65	$1,881	$2,835	$3,365
UM Campus Center	$2.64	$1,874	$2,825	$3,353
Adelphi Road West	$2.53	$1,796	$2,707	$3,213
M Square	$2.53	$1,796	$2,707	$3,213
East Riverdale Park	$2.53	$1,796	$2,707	$3,213
Takoma/Langley	$2.42	$1,718	$2,589	$3,073
Riggs Road	$2.42	$1,718	$2,589	$3,073
Beacon Heights	$2.31	$1,640	$2,472	$2,934
Annapolis Road/Glenridge	$2.31	$1,640	$2,472	$2,934

Source: CoStar 2020, HR&A Advisors, Inc.
Note: Rents are based on the average unit size in a new, mid-rise building, and include the expected transit premium generated by the Purple Line.

APPENDIX | DEVELOPMENT COST INPUTS

Financial assumptions for development costs, revenues and disposition were developed through the HR&A Team's own market research and interviews with developers active in Prince George's County.

Development Cost Inputs

	Top Market	Mid-Market	Emerging Market
Construction Cost ($/GSF of development)			
Mid-rise, New Construction	$195	$195	$195
Townhome, New Construction	$134	$134	$134
Land Cost ($/GSF of land)			
Mid-rise, New Construction	$85	$60	$40
Townhome, New Construction	$100	$80	$40
Parking Cost ($/space)			
Mid-rise, New Construction	$18,000		
Townhome, New Construction	$5,000		
Gross-to-Net Ratio New Construction	0.85 (.95 for townhomes)		
Cap Rate	5.75%		

**Note: Construction costs include hard costs and soft costs.*

APPENDIX | DEVELOPMENT REVENUE AND OPERATIONS INPUTS

Rental pricing, for-sale pricing, and operating expenses are based on information gathered during interviews with developers on current rental rates for a range of submarkets as well as market data from CoStar and other data sources on comparable projects. For neighborhoods without recently built comparable projects, HR&A relied on developer interviews to determine premiums on existing rents.

Development Revenue and Operation Inputs

		Top Market	Mid-Market	Emerging Market
Rental	Rent ($/NSF/month)			
	Mid-rise, New Construction	$2.70	$2.50	$2.30
	Operating Expense	$4,500/unit	$4,500/unit	$4,500/unit
	Tax Rate	$1.48 per $100	$1.48 per $100	$1.48 per $100
	Vacancy	5%	5%	5%
For-Sale	Price ($/NSF)			
	Townhome, New Construction	$250	$230	$200

APPENDIX | AFFORDABLE RENTS AND FOR SALE PRICE BY AMI

Maximum Monthly Rent

Category	Studio	1-BR	2-BR	3-BR	4-BR	5-BR
30% AMI	$663	$709	$851	$983	$1,096	$1,129
50% AMI	$1,103	$1,181	$1,418	$1,638	$1,828	$1,881
60% AMI	$1,323	$1,418	$1,701	$1,966	$2,193	$2,258
80% AMI	$1,764	$1,890	$2,268	$2,621	$2,924	$3,009
100% AMI	$2,205	$2,363	$2,835	$3,276	$3,655	$3,760

Maximum Sale Price*

Category	Studio	1-BR	2-BR	3-BR	4-BR
30% AMI	$49,600	$46,200	$35,900	$43,500	$58,700
50% AMI	$112,900	$114,000	$117,300	$138,400	$167,200
60% AMI	$144,500	$147,900	$158,000	$185,900	$221,500
80% AMI	$207,800	$215,700	$239,300	$280,800	$330,000
100% AMI	$271,100	$283,500	$320,700	$375,800	$438,500

Weighted Average Monthly Rent and Sales Price by Typology (NSF)*

Typology	30% AMI	50% AMI	60% AMI	80% AMI	100% AMI
Midrise Rental	$0.96	$1.60	$1.92	$2.56	$3.30
TH For-Sale	$18.13	$57.67	$77.46	$117.00	$156.58

**Note: For-sale maximum sale prices are based on Washington, DC metro maximum sale prices by regional AMI level to account for variation in unit cost by affordability level. Weighted average monthly rents and sale prices are based on typical unit mixes by typology. Note that regional AMI overestimates what is affordable to county households.*