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Report to the Governor and the General Assembly of Virginia

Affordable Housing in Virginia

2021

JLARC
JOINT LEGISLATIVE AUDIT
AND REVIEW COMMISSION

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WHAT WE FOUND

Virginians most affected by the lack of affordable housing are renters, have low incomes, are more likely to live in the state's populated areas, and often work in common, essential occupations

Households are considered housing cost burdened when they spend more than 30 percent of their income on housing expenses. Housing cost burden constrains households' budgets, making it difficult for households to afford other necessities and making eviction more likely. Approximately 29 percent of Virginia households (905,000) were housing cost burdened in 2019, and nearly half of these households spent more than 50 percent of their income on housing. Virginia ranks near the middle of states in terms of the percentage of households that are cost burdened.

Households that rent their homes are more likely to be cost burdened than households that own their homes. Approximately 44 percent of renting households are cost burdened compared with 21 percent of owning households.

The prevalence of housing cost burden among low-income Virginians has increased slightly over the last decade to 63 percent. This affects Virginians who work in common occupations and who are paid relatively low salaries, such as home health aides ($22,000 salary), teaching assistants ($29,000 salary), bus drivers ($45,000 salary), and social workers ($51,000 salary). These workers are needed in all parts of the state, and a lack of affordable housing in some regions constrains the supply.

WHY WE DID THIS STUDY

In 2020, the Joint Legislative Audit and Review Commission directed staff to conduct a review of affordable housing in Virginia. JLARC staff were asked to report on the number of Virginia households that are housing cost burdened; the supply of affordable quality housing statewide and by region; the state's efforts to increase the supply of affordable housing and make existing housing more affordable through direct financial assistance; and the effectiveness of the management of the state's housing assistance programs.

ABOUT VIRGINIA'S AFFORDABLE HOUSING PROGRAMS

Most programs to improve housing affordability subsidize either the construction or rehabilitation of housing units to increase the inventory of affordable housing or provide financing or direct cash assistance to households to help them afford housing costs. Virginia's housing programs are funded with federal, state, and local funds. The Virginia Department of Housing and Community Development is the lead state agency for housing programs, and Virginia Housing is the state's housing finance agency.

The majority (67 percent) of cost-burdened households live in the state's most populated regions: Hampton Roads, Northern Virginia, and Central Virginia. Households in Hampton Roads are more likely to be cost burdened than in any other region in the state. Black and Hispanic households are more likely to be cost burdened than white households.

Declining number of Virginians can afford to buy a home, and state has a shortage of at least 200,000 affordable rental units

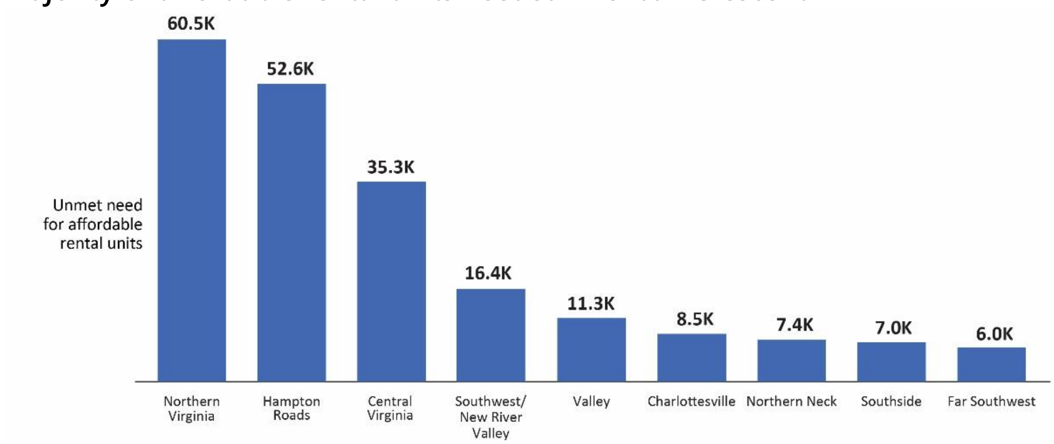
Rising home prices have made it more difficult for Virginians to own their homes. The median home sales price in Virginia has risen 28 percent over the past four years to

$270,000 in 2021. Virginia's stock of homes that would be affordable to low- and middle-income households has declined substantially in the past few years. According to the Virginia Realtors Association, the percentage of all Virginia homes sold for $200,000 or less has decreased 40 percent since 2019.

Low- and middle-income households may have incomes that could support mortgage payments but lack the savings to cover the upfront costs of purchasing a home. Rising home prices mean that down payments and closing costs can be over $10,000 on even moderately priced homes.

Renting a home can help households avoid the upfront costs of purchasing a home, but Virginia has a statewide shortage of at least 200,000 affordable rental units for extremely and very low-income households. Every region in the state has a shortage of affordable rental units, but Northern Virginia and its bordering regions need the largest number of affordable rental units—almost 80,000.

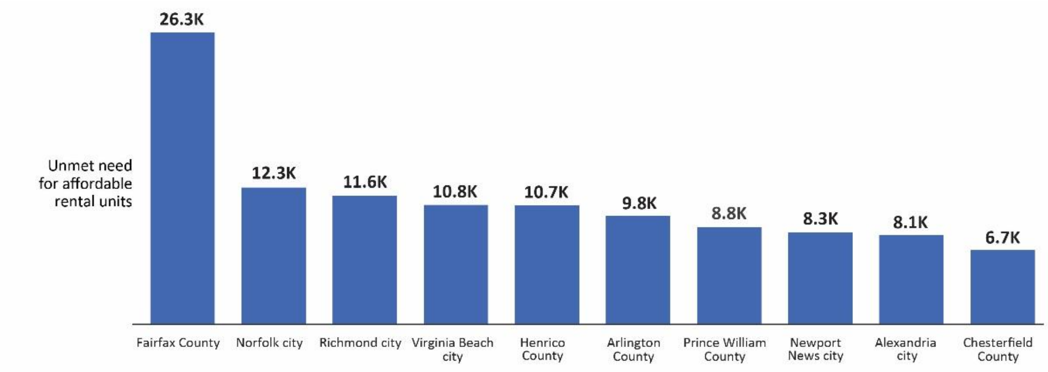
Majority of affordable rental units needed in Urban Crescent



SOURCE: JLARC analysis of American Community Survey, 5 year data, 2015–2019.
NOTE: Vacant rental units included in number of available units, but vacant units that do not have complete kitchen or plumbing facilities are excluded. All figures rounded to the nearest 100. Figures may not add because of rounding.

Ten localities with the largest need for affordable rental units account for over 50 percent of the state's need for affordable rental units and have experienced relatively high population growth. Four of these localities are in Northern Virginia, three are in Hampton Roads, and three are in Central Virginia.

Most unmet need for affordable rental units is in 10 localities



SOURCE: JLARC analysis of American Community Survey, 5 year data, 2015–2019.
NOTE: Vacant rental units included in number of available units, but vacant units that do not have complete kitchen or plumbing facilities are excluded. All figures are rounded to the nearest 100.

Addressing statewide needs for affordable housing through direct cash assistance and construction of new housing would be very costly

Addressing the state's housing needs will require a substantial investment of time and money guided by a strategic and prioritized action plan. Providing direct assistance to all cost-burdened households who have extremely or very low incomes could cost as much as $5 billion annually. Providing housing assistance payments to extremely and very low-income cost-burdened *renters* and households experiencing homelessness could cost as much as $3.7 billion annually. Providing housing assistance payments to extremely and very low-income cost-burdened *homeowners* could cost up to $1.3 billion annually. In addition to providing direct cash assistance to households, state assistance is needed to create additional affordable rental units, but meeting the existing need through new construction would likely require a number of years. The annual cost to develop 20,000 units per year, which could meet the statewide need after 10 years, could be approximately $1.6 billion.

Virginia Housing could contribute more to the state's largest source of discretionary funds to expand affordable housing access

Virginia Housing reinvests a portion of its net income into a program to expand access to affordable housing, Resources to Enable Affordable Community Housing (REACH). Since 2014, Virginia Housing has contributed over $550 million to REACH and currently commits 60 percent of its net income to the program annually. Because funding for REACH is generated from Virginia Housing's net income, the program is not subject to federal allocations, requirements, or rules, and the funds can be used flexibly to best address the state's most pressing housing needs.

Virginia Housing spends REACH funds for homeownership, rental housing, and community outreach. However, Virginia Housing tracks limited outcome and output measures for the program.

Virginia Housing has one of the highest net asset balances of any housing finance agency in the country at approximately $3.7 billion at the end of FY21 and could set aside more of its revenues for REACH. Currently, the formula the authority uses to determine the percentage of its net revenues to contribute to REACH unnecessarily diminishes its REACH contributions. By modifying how it factors REACH grant expenditures into the formula, Virginia Housing could potentially contribute $230 million more to REACH by FY31 than it would using the current formula. Additionally, Virginia Housing could afford to increase the percentage of net income allocated to REACH to 75 percent. By modifying the REACH formula and increasing the contribution percentage, Virginia Housing could potentially contribute $332 million more to REACH by FY31 than it otherwise would.

Virginia Housing has invested substantially in new affordable multifamily housing but could do more to address the need for affordable rental housing

Since 2013, Virginia Housing has administered the majority of financing for new affordable housing developments—over $4 billion to 348 housing developments. (By comparison, the Department of Housing and Community Development [DHCD] has administered over $60 million to 87 housing developments.) Virginia Housing is also the largest financer of the projects that it funds, averaging around 60 percent of the typical project's financing. (By comparison, DHCD financing typically averages around 9 percent.)

Virginia Housing has significantly increased its investments in "workforce housing" development through taxable bond-financed loans and loan subsidies from its REACH program. However, workforce housing developments do not reduce housing costs for low-income residents, because these developments are not required to set rents below market rates. About 30 percent of workforce housing units are rented to low-income households, but rents for these units are similar to market rate rents in units in the same development. As a result, the median cost burden for renters in these income-restricted units is greater than the statewide median cost burden for low-income renters. As many as half of these households are housing cost burdened even though these projects are supposed to be providing affordable housing for low income households.

Virginia Housing does not maximize two significant sources of funding that could be used to help finance more affordable multifamily rental developments—its multifamily rental REACH allocation and federal tax-exempt private activity bonds. These two resources could be used together to increase interest among developers to build multifamily rental developments by offering gap funding that could potentially make additional affordable rental developments financially feasible. Using REACH and tax-exempt private activity bonds for affordable rental developments would draw down additional federal funding in the form of 4 percent low income housing tax credits.

Virginia Housing's loan programs have helped finance home purchases for many households who would have had difficulty qualifying for a commercial mortgage

Virginia Housing's homebuyers tend to have much lower incomes and are considered "higher risk" than borrowers acquiring loans on the commercial mortgage market. For example, the median gross income of a Virginia Housing borrower is $62,000, compared with the median gross income of about $88,000 for a Virginia borrower in the commercial market. Virginia Housing borrowers also have more debt than commercial borrowers and are more likely to be first-time buyers than borrowers in the commercial mortgage market. Despite these riskier characteristics, Virginia Housing borrowers have lower foreclosure rates than commercial borrowers.

Virginia Housing could provide better assistance with upfront mortgage costs, and its mortgage interest rates are slightly higher than the commercial market

Virginia Housing also offers several types of assistance for the upfront costs of purchasing a home, and most of its borrowers receive such assistance. (DHCD also offers such assistance, but its programs are much smaller.) Virginia Housing's most popular program is the "Plus Mortgage" (second mortgage) program, which allows homebuyers to finance down payment and closing costs. While this program is beneficial to homebuyers in the short term, it substantially increases the borrowers' debt and raises their mortgage interest rate.

State law requires Virginia Housing to establish mortgage interest rates that are as low as possible. Virginia Housing's financing structure and costs to raise capital are similar to most other lenders, so Virginia Housing should generally have interest rates at least as low as commercial lenders. However, some Virginia Housing mortgage interest rates are slightly higher than commercial mortgage interest rates. Virginia Housing's practice of adding basis points to Plus mortgages is a key factor driving increased interest rates. While the resulting difference in monthly payments is small and does not result in borrowers paying significantly more interest on their loans, Virginia Housing should take steps to keep its single-family loan interest rates as low as possible.

Local zoning affects affordable housing supply, particularly in fast-growing localities

Addressing Virginia's affordable housing shortage will require construction of new affordable housing, but local zoning ordinances can be a substantial barrier to such new construction. Localities design their own zoning ordinances, and overly restrictive ordinances can limit housing supply—especially affordable housing supply. Very few localities zone more than 50 percent of their land for multifamily housing, which is the housing that is most needed in Virginia. Efforts to have a parcel rezoned for multifamily development can cost as much as $1 million. This can make financing a development with affordable rents cost prohibitive.

Zoning ordinances that allow multifamily housing projects help ensure that those projects are built at a lower cost, which may help keep rents lower. However, state policies on housing development proffers currently discourage localities from allowing housing to be developed without rezoning, because localities are eligible for proffer payments only when a parcel needs to be rezoned to meet the developers' specifications.

Virginia does not effectively identify or plan for statewide affordable housing needs

Until recently, Virginia has not undertaken a comprehensive, state-led effort to identify and plan for housing needs statewide. State officials need statewide, regional, and locality-specific information on housing needs to make informed decisions about how and where to deploy available resources. Depending exclusively on local governments' own assessments is inefficient and makes it difficult to reliably compare needs across the state, pinpoint the state's most acute housing needs, and prioritize state resources accordingly. Moreover, state funding investments in affordable housing should be informed by statewide needs and plans—similar to funding for transportation infrastructure, for example—rather than a collection of locality-specific assessments and plans. Many other states conduct regular evaluations of affordable housing needs and maintain a statewide plan for addressing them.

WHAT WE RECOMMEND

Legislative action

- Amend the Code of Virginia to require that Virginia Housing-financed rental units set aside for low-income households charge rents that are affordable to households earning 80 percent and below area median income.
- Direct DHCD to evaluate how a grant program could be structured, funded, and administered to incentivize localities to adopt zoning policies that facilitate the development of affordable housing.
- Direct DHCD to conduct a statewide housing needs assessment every five years, develop a statewide housing plan every five years with measurable goals, and provide annual updates to the General Assembly on progress toward those goals.

Executive action

- Virginia Housing to adopt performance measures for its REACH program, revise the formula it uses to determine annual REACH contribution amounts to maximize contributions, increase the percentage of net income allocated to REACH, and report on use and impact of REACH to the General Assembly.

- Virginia Housing to use REACH to provide gap funding for multifamily rental projects that use tax-exempt private activity bonds and 4 percent low-income housing tax credits.
- Virginia Housing to review necessity of adding basis points to Plus Mortgages to minimize interest rates charged to low-income borrowers and present options to its Board of Commissioners for lowering its interest rates.
- Virginia Housing to replace its current down payment assistance programs for low-income borrowers with a larger down payment assistance grant or a 0 percent interest deferred second mortgage.

POLICY OPTIONS FOR CONSIDERATION

- General Assembly could give additional localities the authority to require developers to set aside a portion of units to rent or sell below-market *or* pay a fee to the locality.

The complete list of recommendations and policy options is available on page ix.

Staff typically **propose policy options rather than make recommendations** when (i) the action is a policy judgment best made by elected officials—especially the General Assembly, (ii) evidence suggests action could potentially be beneficial, or (iii) a report finding could be addressed in multiple ways.

Recommendations and Options: Affordable Housing in Virginia

JLARC staff typically make recommendations to address findings during reviews. Staff also sometimes propose policy options rather than recommendations. The three most common reasons staff propose policy options rather than recommendations are: (1) the action proposed is a policy judgment best made by the General Assembly or other elected officials, (2) the evidence indicates that addressing a report finding is not necessarily required, but doing so could be beneficial, or (3) there are multiple ways in which a report finding could be addressed and there is insufficient evidence of a single best way to address the finding.

Recommendations

RECOMMENDATION 1

The General Assembly may wish to consider amending §36-139 of the Code of Virginia to direct the Virginia Department of Housing and Community Development to conduct a comprehensive statewide housing needs assessment at least every five years using either its own staff or a third-party expert. The statewide housing needs assessment should contain a review of housing cost burden and instability, supply and demand for affordable rental housing, and supply and demand for affordable for-sale housing. The needs assessment should contain regional or local profiles that focus on the specific housing needs of particular regions or localities. (Chapter 3)

RECOMMENDATION 2

The General Assembly may wish to consider amending §36-139 of the Code of Virginia to direct the Virginia Department of Housing and Community Development to i) develop a statewide housing plan with measurable goals to address the state's housing needs, ii) provide annual updates to the General Assembly on progress toward meeting the goals identified in the plan, and iii) update the plan at least every five years based on changes in the state's affordable housing needs. (Chapter 3)

RECOMMENDATION 3

The General Assembly may wish to consider including language in the Appropriation Act directing the Virginia Department of Housing and Community Development (DHCD) to identify and report on the resources it may need to develop a statewide housing needs assessment, housing plan, and annual progress updates. DHCD should include a description of any new or amended third-party contracts, additional funding, and new positions that would be needed to undertake these new tasks. The report should be submitted to the chairs of the House Appropriations and Senate Finance and Appropriations committees no later than November 1, 2022. (Chapter 3)

RECOMMENDATION 4
The Board of Commissioners of Virginia Housing should adopt a set of outcome and output measures for Virginia Housing's Resources Enabling Affordable Community Housing program that will allow it to evaluate, at a minimum: i) the number of rental units affordable to households with incomes at or below 30 percent of median income created that would not have otherwise been created per grant or loan; ii) the number of rental units affordable to households with incomes at or below 50 percent of median income created that would not have otherwise been created per grant or loan; iii) the number of households with incomes below 80 percent of median income receiving down payment assistance grants enabling them to purchase their first home per grant or loan; iv) the number of individuals with disabilities receiving funds to make accessibility improvements to their home per grant or loan; and v) the number of permanent supportive housing units for vulnerable populations built or rehabilitated that would not have otherwise been created per grant or loan. Virginia Housing staff should report information on those measures to the Board of Commissioners annually. (Chapter 3)

RECOMMENDATION 5
The General Assembly may wish to consider amending §36-55.51 of the Code of Virginia to require the Virginia Housing Development Authority to submit an annual report to the chairs of the Senate Finance and Appropriations Committee, House Appropriations Committee, and Virginia Housing Commission describing: i) Virginia Housing's annual contributions to the Resources Enabling Affordable Community Housing (REACH) program and the annual fund balance (or any future program that reinvests Virginia Housing's net earnings into affordable housing initiatives); ii) amount of REACH funds spent in the fiscal year by broad purpose; and iii) the outputs and outcomes associated with those and prior REACH expenditures, as measured through its REACH performance measures. This report should be submitted at the end of each fiscal year. (Chapter 3)

RECOMMENDATION 6
Virginia Housing should adjust its methodology for calculating financial commitments to the Resources Enabling Affordable Community Housing (REACH) program to base REACH commitments on Virginia Housing's average net income without regard to grant amounts paid from prior year allocations to REACH. (Chapter 3)

RECOMMENDATION 7
Virginia Housing should increase the Resources Enabling Affordable Community Housing (REACH) contribution level to 75 percent of its net income without regard to grant amounts paid from prior year allocations to REACH in FY25. (Chapter 3)

RECOMMENDATION 8

Virginia Housing should produce projections of its net assets, net asset parity ratio, and risk-adjusted net asset parity ratio. Projections should be based on Virginia Housing's historic revenues, historic and planned loan production, program and financial decisions, credit rating agency risk adjustments, and Resources Enabling Affordable Community Housing allocation formula. These projections should be presented to the Board of Commissioners at least annually and include a forecast for at least three future years. (Chapter 3)

RECOMMENDATION 9

The General Assembly may wish to consider modifying §36-55.30:2 of the Code of Virginia to specify that, in economically mixed projects financed by the Virginia Housing Development Authority, at least 20 percent of units shall be reserved for low-income households and reserved units must be affordable to households earning 80 percent and below area median income. (Chapter 4)

RECOMMENDATION 10

Virginia Housing should increase its limit on the amount of Rental Housing Resources Enabling Affordable Community Housing subsidy it will provide to workforce developments to ensure that workforce developments remain financially feasible with affordable rent restrictions. (Chapter 4)

RECOMMENDATION 11

Virginia Housing should establish a program to use Virginia Housing's Resources Enabling Affordable Community Housing (REACH) funds to offer gap funding to projects using tax-exempt private activity bonds and 4 percent low income housing tax credits, and report to the Board of Commissioners on how much REACH funds are being allocated to gap funding and how many units it expects to create that would not be otherwise financially feasible. (Chapter 4)

RECOMMENDATION 12

The General Assembly may wish to consider including language in the Appropriation Act directing the Virginia Department of Housing and Community Development to study options for providing additional support to community land trusts to establish additional affordable housing and develop a plan that does so. The plan should be submitted to the chairs of House Committee on General Laws, Senate Committee on General Laws and Technology, and Virginia Housing Commission. (Chapter 5)

RECOMMENDATION 13

Virginia Housing should determine through a financial analysis whether upwardly adjusting interest rates for borrowers with Plus mortgages is necessary, and if so, what the minimum basis point adjustment should be, and report its findings to the Board of Commissioners. This review and report should be conducted every two years as long as the authority continues to upwardly adjust the interest rates of borrowers receiving Plus mortgages. (Chapter 5)

RECOMMENDATION 14
Virginia Housing should provide annual reports to the Board of Commissioners comparing the interest rates it offers on single-family loans to interest rates offered on the commercial market, and present options for offering lower rates where the Virginia Housing interest rate is higher than the comparable commercial market rate. (Chapter 5)

RECOMMENDATION 15
The General Assembly may wish to consider including language in an Uncodified Act of the General Assembly (Section I Bill) directing the Virginia Housing Development Authority to conduct a financial analysis to determine whether it could offer lower interest rates than the commercial market to its single-family home loan borrowers, and report the results of the analysis to the Virginia Housing Commission, the Virginia Housing Board of Commissioners, and the Joint Legislative Audit and Review Commission by November 1, 2022. The analysis should, at a minimum, include an analysis of how much interest rates could be lowered, the monthly and annual cost savings lower interest rates could provide to Virginia Housing's borrowers, and a projection of how lower interest rates would affect the authority's future net income, net assets, and net asset parity ratio. (Chapter 5)

RECOMMENDATION 16
Virginia Housing should modify its existing down payment and closing cost assistance programs to provide at least as much as assistance as the current Plus mortgage program at a lower cost for borrowers with incomes at 80 percent of Virginia Housing's income limits or lower. Virginia Housing should study the advantages and disadvantages to borrowers and to Virginia Housing of providing larger grants or 0 percent interest deferred payment mortgages to replace the Plus mortgage for these borrowers, and issue a report to the Board of Commissioners that recommends the preferred approach, an implementation strategy, and a timeline for modifying the existing program. (Chapter 5)

RECOMMENDATION 17
The General Assembly may wish to consider including language in the Appropriation Act directing the Virginia Department of Housing and Community Development to contract for a study on how to collect zoning information and data from Virginia localities with population growth rates, median home sales prices, and median gross rents in the top quartile of the state. The study should include a description of the type of zoning and data information that could be collected, how such information would be used, and the resources that would be necessary to collect this data. DHCD should submit this study to the House Committee on Counties, Cities, and Towns; the Senate Local Government Committee; and the Virginia Housing Commission no later than November 1, 2022. (Chapter 6)

RECOMMENDATION 18
The General Assembly may wish to consider including language in the Appropriation Act directing the Virginia Department of Housing and Community Development to evaluate different approaches to structuring, administering, and funding an incentive program to provide additional state funding for infrastructure improvements to localities that adopt zoning policies designed to facilitate the development of affordable housing. The report should include recommendations for implementing an incentive program and should be submitted to the House Committee on Counties, Cities, and Towns; the Senate Local Government Committee; and the Virginia Housing Commission no later than November 1, 2024. (Chapter 6)

Policy Options to Consider

POLICY OPTION 1
The General Assembly could amend the Code of Virginia to prevent localities from 1) restricting 3-D printed or modular constructed homes from being built on residential land or 2) restricting the construction of 3-D printed or modular constructed homes in certain residential zones. (Chapter 5)

POLICY OPTION 2
The General Assembly could amend §15.2 2304 of the Code of Virginia to expand the localities that have the authority to adopt mandatory affordable dwelling unit ordinances to include all localities that have population growth rates, median home sales prices, and median gross rents in the top quartile of the state, and require that the Department of Housing and Community Development update the list of qualifying localities after each decennial census. The amended statute could also provide that any locality that receives this authority would not have it revoked if the locality is no longer in the top quartile of the state for these characteristics. (Chapter 6)

1 Virginia's Affordable Housing Programs

In 2020, the Joint Legislative Audit and Review Commission (JLARC) approved a staff study of the Commonwealth's housing needs. (See Appendix A for the study resolution.) Housing costs have been rising in Virginia, leading to increased housing instability for Virginians. Virginia received national attention in 2019 when studies determined that five cities in Virginia had the highest eviction rates in the country. The study resolution required this review to:

- analyze rent and cost burden across the state;
- identify factors that may be reducing the housing supply;
- evaluate the effectiveness of existing federal, state, and local affordable housing programs; and
- review the extent to which state and local entities coordinate on housing policy.

To complete this study, JLARC conducted structured interviews with state and local agencies responsible for administering housing programs, reviewed existing literature across different aspects of housing policy, surveyed local planning and zoning administrators, analyzed survey and Census data, and analyzed data on the Commonwealth's multi- and single-family affordable housing programs. (See Appendix B for more information on methods used for this study.)

Housing access and stability can affect health, education, and economic outcomes

A household is considered to have achieved "housing stability" when members of the household continuously live in housing that meets their needs for affordability, safety, quality, and location. Housing instability can cause families to live in overcrowded conditions, move frequently, spend the bulk of their household income on housing, or become homeless. Housing affordability affects housing instability. Housing is considered affordable when a household is spending 30 percent or less of its income on housing costs. Households are considered "cost burdened" when they spend more than 30 percent of income on housing and are considered "severely cost burdened" when they spend more than 50 percent of income on housing. Some researchers have used other definitions and methodologies for determining when a household is housing cost burdened, but the "30 percent" definition is the most commonly used, including by federal agencies, such as the Department of Housing and Urban Development (HUD) (sidebar).

Residual income is an alternative measure of housing cost burden that measures the amount of money households have after housing and other necessary expenses—health care, transportation, food—have been paid. If a household has an income deficit after necessary expenses, they are residual income burdened and must reduce non-housing expenditures to survive.

Price-to-income ratio is another alternative measure of housing cost burden that measures the ratio of an area median income to the median single-family home price.

Cost-burdened households face difficult choices when high housing costs squeeze their incomes, forcing them to cut back on necessary expenditures. This problem is particularly severe for lower-income households, who may be left with only a few hundred dollars to pay for non-housing necessities after rent. According to academic research, cost-burdened and severely cost-burdened households, including households with children, spend less on food, transportation, and health care than comparable households that are not cost burdened.

Housing instability generally is associated with reduced academic performance. Children experiencing housing instability or homelessness typically perform worse on standardized assessments for basic skills like reading and math compared with housing stable children, and homeless children are much more likely to miss school. Children experiencing housing instability or homelessness are also more likely to change schools frequently, which is associated with decreased school performance. Additionally, research indicates that for households with children, housing cost burden is associated with adverse experiences like food insecurity, material hardship, and poor emotional health in adolescence.

Cost-burdened households are also at risk for more severe forms of housing instability like eviction and homelessness, as any major expense or loss of income can result in missed payments and subsequent eviction and/or homelessness. Research indicates that neighborhoods with higher shares of cost-burdened renters tend to have higher rates of evictions and that homelessness rates are significantly higher in communities where the median rent is more than 30 percent of the median income. Researchers have found that a rent increase of 10 percent within a housing market is associated with a 6.5 percent increase in the incidence of homelessness.

Research indicates that households experiencing housing instability are more likely to be uninsured, delay needed medical care and medications, and have a higher rate of hospitalizations. Households experiencing housing instability are also are more likely to experience anxiety and depression. For low-income children, housing instability and frequent moving from ages one to five are associated with a higher likelihood of developing attention problems later in childhood. Housing instability is also associated with worse child health generally, a higher lifetime risk of child hospitalization, and lower birth weight for newborns. Comparably, households living in affordable housing spend twice as much of their income on health care and are much less likely to skip medical visits because of lack of income.

Virginia has implemented several initiatives in response to the state's high eviction rate

Virginia's eviction rate has historically been significantly higher than the national average. According to the Princeton University's Eviction Lab, in 2016, five Virginia cities ranked in the 10 cities with the highest eviction rates in the U.S. Richmond had the second-highest eviction rate in the country, with 11 out of every 100 renter households facing eviction annually. Hampton and Newport News had the third- and fourth-highest eviction rates in the country, respectively. Norfolk and Chesapeake also made the list of top 10 cities with the highest eviction rates in the U.S. It is unclear why Virginia's eviction rates have been so high, but research suggests that the eviction rate is related to the rate of cost burden among renter households. Eviction rates have dropped significantly in 2020 and 2021, although this is largely due to the various state and federal eviction moratoriums implemented between March 2020 and August 2021 in response to the COVID-19 pandemic.

The 2019 General Assembly passed several reforms designed to curb evictions. These included:

- requiring landlords to offer a written lease;
- extending the period for right of redemption for tenants to pay back rent and avoid eviction; and
- creating an Eviction Reduction Pilot Program administered by the Virginia Department of Housing and Community Development (DHCD).

In response to the COVID-19 pandemic, the General Assembly and Governor Northam authorized the creation of the Virginia Rent Relief Program (RRP), which provides rental subsidies for households struggling to pay rent as a result of the pandemic. The RRP was initially funded through state contributions and federal CARES Act dollars and has received two additional rounds of federal funding for a total amount of $1.1 billion between June 2020 and July 2021 (sidebar). As of early September 2021 the RRP has disbursed a total of $390.8 million through 72,198 payments.

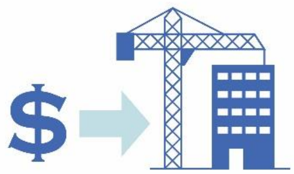
Virginia has been a nationwide leader in deploying its rental funds and has deployed the second highest percentage of its ERA 1 funds of any state. DHCD administers the tenant application for the program, and the state's housing finance agency, Virginia Housing, maintains the landlord application. The RRP originally included mortgage relief for distressed homeowners, but mortgage relief was separated out because of a lack of funding in ERA 1. Virginia Housing is responsible for launching the mortgage relief program and began a pilot program in July 2021. Virginia Housing expects the full program will serve between 13,000 and 15,000 households. Virginia Housing plans to launch the full program in early 2022.

The federal **Coronavirus Aid, Relief, and Economic Security (CARES) Act,** passed in March 2020, established the Coronavirus Relief Fund (CRF), which provided relief funds for states to use for needs like rental assistance. The CRF was augmented through two Emergency Rental Assistance (ERA) programs, ERA 1 and ERA 2. ERA 1, a $25 billion package, was included in the 2021 Consolidated Appropriations Act passed in December 2020. ERA 1 funds were made available in February 2021. ERA 2, a $21.6 billion package, was included in the American Rescue Plan Act passed in March 2021. ERA 2 funds were made available in October 2021.

Housing programs expand housing affordability by increasing inventory or through financial assistance

Most housing programs aimed at improving housing affordability either provide direct aid to lower housing costs or facilitate the construction of new affordable units (Figure 1-1).

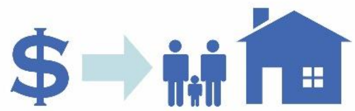
FIGURE 1-1
Affordable housing programs typically support the construction of new affordable housing or provide financial aid for housing costs



Programs that increase inventory

Provide flexible and low-cost financing or equity to subsidize the construction or rehabilitation of housing units, includes:

- Low Income Housing Tax Credits,
- Affordable and Special Needs Housing (DHCD),
- Acquire, Renovate, Sell (DHCD),
- Tax-exempt bond financing (Virginia Housing),
- REACH (Virginia Housing)



Programs that provide financial assistance

Provide low cost financing or cash assistance directly to households or service providers to make housing cost affordable, includes:

- Housing Choice Vouchers,
- Virginia Rent Relief Program (DHCD),
- Homeless Reduction Grants (DHCD),
- Virginia Homeless Solutions (DHCD),
- Down Payment Assistance grants (Virginia Housing),
- Closing Cost Assistance grants (Virginia Housing),
- Single family home loans (Virginia Housing),
- Plus second mortgages (Virginia Housing),
- HOMEOwnership Down Payment and Closing Cost Assistance (DHCD)

SOURCE: JLARC review of housing programs operating in Virginia.
NOTE: Not an exhaustive list of all housing programs operating in Virginia.

Flexible financing is an umbrella term that includes debt-based financing offered to affordable housing developers. This can include low-interest loans or "soft" financing that may not need to be repaid at all.

Equity refers to non-debt financing where an investor or developer invests in an affordable project with the expectation of some return. LIHTC is a large source of equity for affordable development.

Programs that subsidize the creation of affordable housing offer developers some financial incentives to create affordable units. These programs typically provide housing developers with flexible debt financing options or equity in exchange for offering housing units at a lower-than-market cost to qualified households (sidebar). Typically, these programs require that affordable units are rented or sold to low income households. For example, the federal Low Income Housing Tax Credit (LIHTC) is the largest of these programs and offers tax credits to developers in exchange for providing a certain number of affordable rental units for a set period of time. These tax credits are sold to investors (who use them against their federal tax liability) to raise equity for the project. Other similar programs include tax-exempt bond financing and Virginia's Affordable and Special Needs Housing program administered by the DHCD.

Legislation passed in 2020 amended the Virginia Fair Housing Law to prevent localities from discriminating against affordable housing developments in the "application of local land use ordinances or guidelines, or in the permitting of housing developments…"

Inclusionary zoning is a broad term that refers to zoning measures implemented by localities that require developers to include a certain number of affordable units in a development. Certain localities in Virginia are permitted to create mandatory **Affordable Dwelling Unit Ordinances (ADUs)**, a type of inclusionary zoning mandate. For a more detailed discussion of ADUs, see Chapter 6.

Some states and localities also implement policies designed to either mitigate regulatory barriers to developing affordable housing or incentivize the development of affordable housing. For example, a recent Virginia law prohibits localities from making decisions on rezoning applications based on whether the housing is considered affordable to lower income households (sidebar). Inclusionary zoning policies and affordable dwelling unit ordinances can also provide incentives to developers to include affordable housing units in their developments (sidebar).

Other housing programs lower housing costs for lower income households by directly providing cash or financing assistance. Programs can lower housing costs by providing direct cash subsidies to households to cover their housing costs, payments to landlords to cover some portion of housing costs, loans or grants to cover down payments for the purchase of a home, or low-cost financing for a home purchase. The federal Housing Choice Voucher (HCV) program is the largest direct housing subsidy program in the state and provides rental subsidies to approximately 48,000 low-income Virginia renter households. Other direct assistance programs include down payment assistance for prospective homebuyers. For example, DHCD's HOMEownership program offers down payment assistance grants to low- and middle-income households. Virginia Housing also has a down payment assistance program that offers grants and loans to prospective homebuyers.

Housing programs are funded with federal, state, and local funds and Virginia Housing's revenues

The federal government is the largest source of funds for affordable housing programs in the Commonwealth. In FY21, HUD provided $475 million in funding for the HCV program, $289 million for project-based rental assistance, and $122 million for public housing. The United States Department of Agriculture (USDA) also administers several rural-focused housing assistance and development programs. In FY21, USDA provided $103 million for housing development and assistance in Virginia. Federal programs like HOME, the National Housing Trust Fund, Housing Opportunities for Persons with AIDS, and Emergency Solutions Grants also provide significant funding for affordable housing. State and local entities in Virginia received at least $50 million in federal funds from these programs in FY21. DHCD uses many of these sources to fund its affordable development programs. Including the value of federal Low Income Housing Tax Credits (LIHTC) provided to affordable housing developers in the Commonwealth, federal funds devoted specifically for affordable housing programs amounted to at least $1.5 billion in FY21.

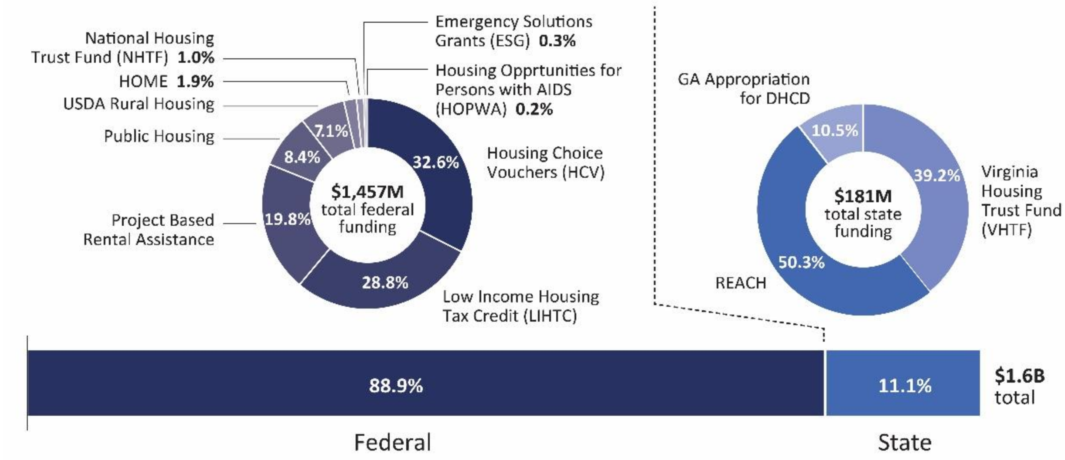
State government entities contribute significant funding for affordable housing development in the Commonwealth. In FY21, the General Assembly made the largest ever investment in the Virginia Housing Trust Fund (VHTF), approximately $71 million. Virginia Housing made a larger investment in its REACH initiatives, almost $91 million, than it had in previous years (sidebar). Adding the General Assembly's $19 million general fund appropriation for DHCD, state funds designated for affordable housing programs in Virginia amounted to at least $181 million in FY21 (Figure 1-2).

Virginia Housing dedicates a portion of its net revenues toward funding affordable housing projects through its **REACH** program. For a more detailed discussion of REACH, see Chapter 3.

Some local fund sources are also dedicated to affordable housing development. In addition to the federal resources that larger Virginia localities receive, some localities provide additional funds for affordable housing development, rental relief/subsidy, and homelessness reduction.

Many private and public entities are involved in the administration or funding of affordable housing programs in Virginia. Currently, at least six federal agencies, nine state agencies, 392 local entities, and 57 regional entities provide housing funding and/or services in both the public and private sectors (Figure 1-3). Housing efforts are highly decentralized and spread across many public and private entities.

FIGURE 1-2
A variety of state and federal programs provide funding for affordable housing



SOURCE: JLARC analysis of Code of Virginia, Appropriation Acts, state agency and federal agency documents.
NOTE: Estimate of funds allocated for housing programs does not include funds distributed through Virginia Housing lending programs, local funding for housing programs, operational funding for public housing developments, funding for housing programs targeted to special populations, or federal funds dedicated to pandemic-related rent or mortgage relief. Project-Based Rental Assistance and USDA funds are from federal fiscal year 2021. LIHTC value is from calendar year 2020.

Department of Housing and Community Development is Virginia's lead state agency for housing programs

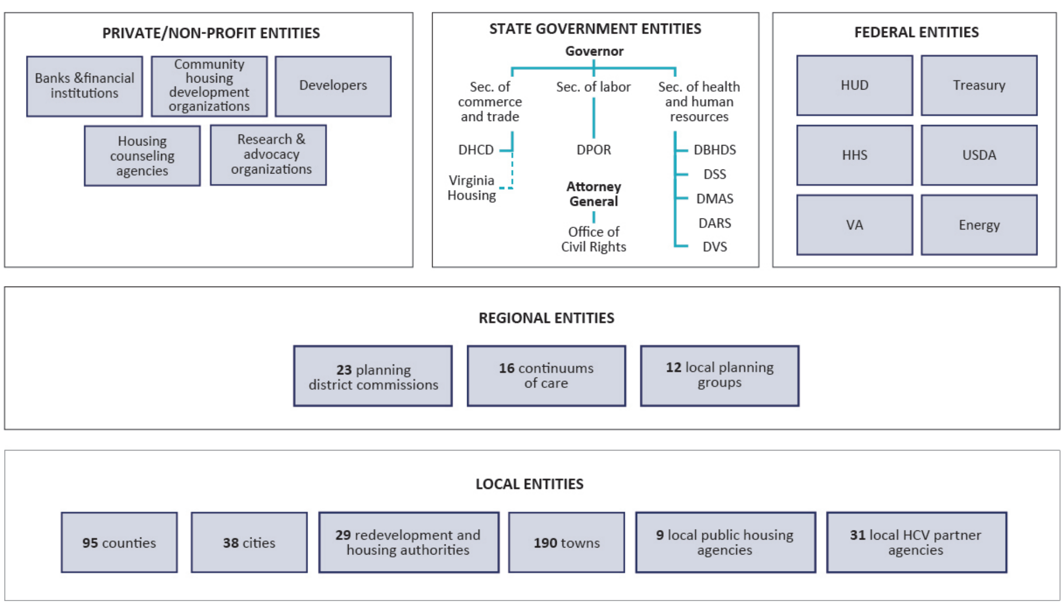
DHCD, which reports to the secretary of commerce and trade, is the state's lead agency for housing programs. DHCD administers several state and federal funding sources intended to address the state's affordable housing needs (sidebar). Using these funds, DHCD administers programs that provide income subsidies to households or foster the development of new affordable housing. These programs include:

Some of the larger sources of **federal funding DHCD administers** are Community Development Block Grants (CDBG), HOME Investment Partnership (HOME), the National Housing Trust Fund (NHTF), Housing Opportunities for Persons with Aids (HOPWA), and Emergency Solutions Grants (ESG).

- Affordable and Special Needs Housing (ASNH) combines state and federal fund sources to provide grants and financing to develop affordable housing for low-income Virginians and populations with special needs, such as individuals experiencing homelessness or individuals with development disabilities. In FY20, ASNH provided $20.7 million to 26 affordable housing projects.

- Vibrant Community Initiative (VCI) combines federal, state, and other funds to support community-oriented development projects, including affordable housing. In FY19, VCI awarded $3 million that was used to create and save 151 affordable housing units. VCI does not make awards every year.
- Virginia Homeless Solutions uses a combination of state and federal funds to provide grants to nonprofit or governmental entities to support the state's emergency crisis response system that assists households experiencing homelessness with rehousing and homelessness prevention services. The program received $15.4 million in state and federal funds in FY20 and provided assistance to 19,595 individuals.
- Acquire, Renovate, and Sell (ARS) uses Virginia Housing funding to finance the redevelopment of substandard housing for sale to low- and middle-income households. Virginia Housing has committed over $7 million to the program since 2019, and in FY21, the program awarded funds that resulted in renovations of 22 homes.
- HOMEownership Down Payment and Closing Cost Assistance uses federal funds to provide financial assistance for low- and moderate-income homebuyers. The HOMEownership program can serve up to 200 recipients over a four-year cycle with a total budget of $1 million.

FIGURE 1-3
Housing policy and programs are highly decentralized in Virginia



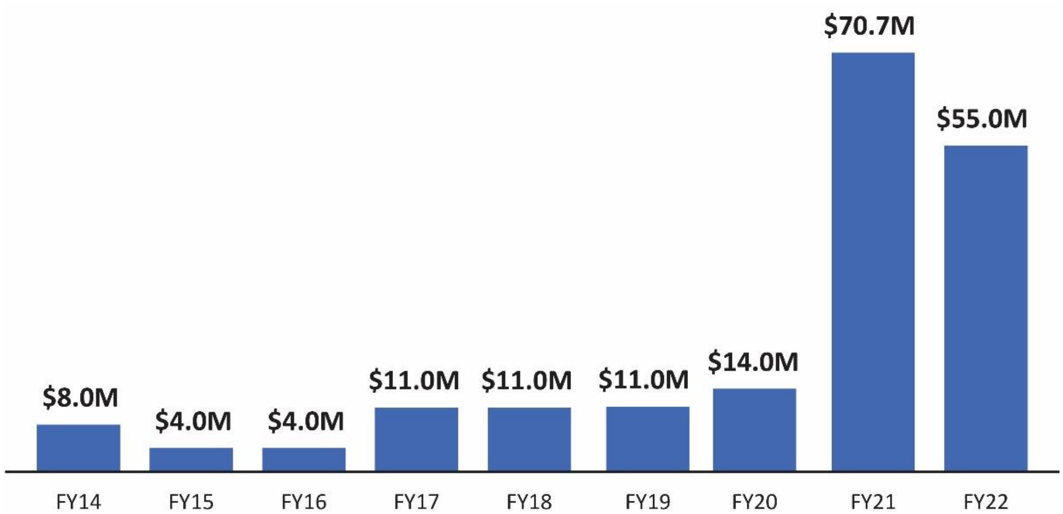
SOURCE: Code of Virginia, Appropriations Acts, and state agency documents; interviews with state agency staff and subject-matter experts.
NOTE: Not an exhaustive list of all entities involved in housing policy in Virginia.

While administering housing programs is its primary role, DHCD also plays a role in housing policy research and analysis. DHCD administers boards such as the Commission on Local Government and Governor's Coordinating Council on Homelessness, and submits policy reports to the General Assembly. Additionally, DHCD has a small policy office within its housing and community development division that does some research.

DHCD administers the Virginia Housing Trust Fund

The General Assembly created the VHTF in 2012 to facilitate affordable housing development in the Commonwealth. Between FY14 and FY20, the General Assembly appropriated a total of $63 million to the VHTF. In recognition of the state's growing housing needs and the COVID-19 pandemic's potential to cause increasing numbers of households to experience eviction or homelessness, the General Assembly appropriated $71 million to the VHTF in FY21, its largest ever appropriation (Figure 1-4).

FIGURE 1-4
About $71 million was appropriated to the Virginia Housing Trust Fund in FY21



SOURCE: Virginia General Assembly Appropriation Acts.

Statute requires that 80 percent of VHTF funds be used to provide flexible financing to develop affordable housing and that up to 20 percent of funds can be used to provide grants to reduce homelessness. The 2020–2022 Appropriation Act suspended this requirement because of the COVID-19 pandemic, required DHCD to use at least a certain amount of funds for rent and mortgage relief, and allowed DHCD to use remaining funds for housing issues resulting from the pandemic.

The VHTF is used for two purposes: providing flexible financing to develop affordable housing for low-income households (80 percent) and providing services and supports to individuals experiencing homelessness (up to 20 percent) (sidebar). DHCD primarily disburses funds through the ASNH Competitive Pool to develop affordable housing. Projects that include permanent supportive housing for persons with disabilities or persons experiencing homelessness are prioritized for these awards. These funds are awarded to developers, typically in the form of low interest loans. In FY21, over $24 million was awarded to 40 projects that created or preserved over 2,800 affordable housing units (sidebar). VHTF also provides funding through the Homeless Reduction Grant program, which may be used to provide short-term rental assistance or housing services for permanent supportive housing. In recent years, DHCD has prioritized making awards to projects that reduce the number of youth and families experiencing homelessness. VHTF funds are dispersed through the ASNH and VCI programs, typically as low interest loans. The remaining 20 percent is earmarked for the Homeless Reduction Grant pool. In FY21, VHTF provided $6.4 million for the Homeless Reduction Grants.

Projects receiving funding through the **VHTF** typically receive financing through other programs, including bond-backed financing through Virginia Housing and LIHTC. VHTF'S maximum award amounts ($700,000 for affordable housing projects and $900,000 for projects providing permanent supportive housing units) are not sufficient to finance an entire project and must be combined with other funding sources. Financing for affordable housing developments is described in more detail in Chapter 4.

Virginia Housing is the state's housing finance agency

Virginia Housing (formerly the Virginia Housing Development Authority) is the state's housing finance agency and provides financing for affordable multifamily development and single-family home ownership (sidebar). Virginia Housing is an independent state authority within the Commonwealth and was created by the General Assembly in 1972. Virginia Housing does not receive any state general funds and is not included in the Appropriation Act. Virginia Housing's Board of Commissioners oversees the authority, and the governor appoints its members.

Virginia Housing operates similarly to how banks or mortgage lenders do, raising funds through debt-based financing or the sale of securities and using those funds to originate single-family mortgages and provide financing for multifamily developers.

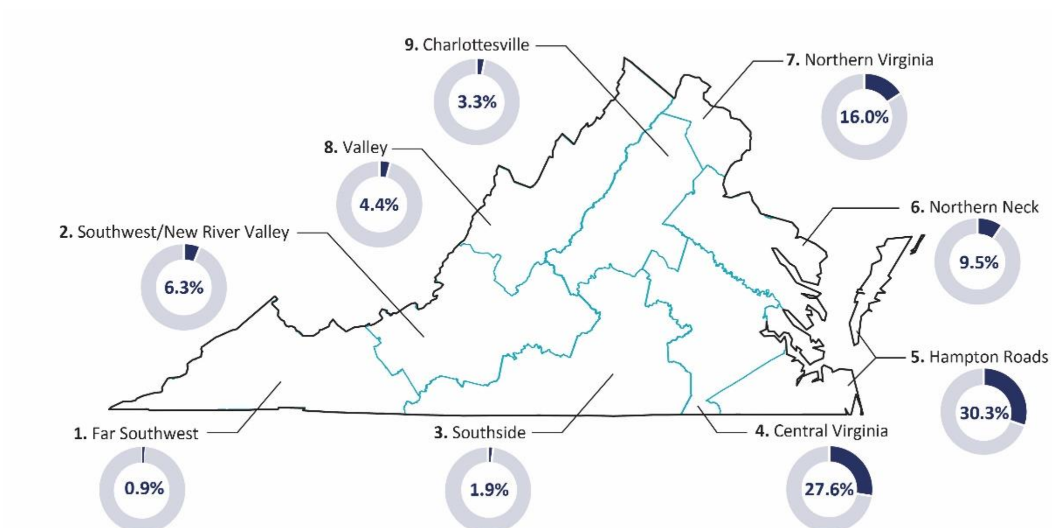
Virginia Housing offers several financing programs for affordable multifamily development. Virginia Housing administers LIHTC within Virginia, which offers equity for affordable multifamily development. Virginia Housing also provides financing to some developers with LIHTC equity in Virginia. Virginia Housing also offers several different loan programs, such as its Mixed-Use Mixed-Income program (MUMI), which are funded through Virginia Housing's sale of bonds. In 2020 Virginia Housing provided $613 million in financing through LIHTC and lending for affordable multifamily development.

Virginia Housing also operates a large loan program to help individuals buy single-family homes. Virginia Housing loans are primarily intended for first time low- or middle-income homebuyers who would have trouble obtaining commercial mortgages. Virginia Housing offers a wide variety of loan products and several forms of additional financial assistance for borrowers with low or no savings. In FY21, Virginia Housing originated over 8,500 single-family mortgages worth over $1.9 billion. Virginia Housing does not typically directly offer, or "originate" mortgages to borrowers. Instead, Virginia Housing has a network of private partner lenders throughout the state who are authorized to offer Virginia Housing mortgage products to qualifying borrowers. In areas of the state where there are not enough lenders of sufficient size to offer mortgages, Virginia Housing will directly originate mortgages through Mobile Mortgage Vans. Most Virginia Housing borrowers reside in the state's urban crescent of Northern Virginia, Central Virginia, and Hampton Roads (Figure 1-5).

Virginia Housing offers four types of single-family mortgages:

- Conventional mortgages, which may be insured by a private mortgage insurer or, if the borrower and loan meet certain qualifications, may not be insured at all.
- Federal Housing Administration (FHA) mortgages, which are offered by private lenders and insured by the FHA and targeted to low- or middle-income borrowers. Most Virginia Housing mortgages are FHA insured.
- Veterans Affairs (VA) mortgages, which are offered by private lenders and insured by the VA, and offered only to military veterans.
- United States Department of Agriculture (USDA) rural development mortgages, which can either be offered directly through USDA or offered by private lenders and insured by USDA. These loans are offered only to low- or middle-income residents of rural areas.

FIGURE 1-5
Most Virginia Housing borrowers reside in Northern Virginia, Central Virginia, and Hampton Roads



SOURCE: JLARC analysis of Virginia Housing single-family home loan origination data.
NOTE: Region names refer to Go Virginia regions.

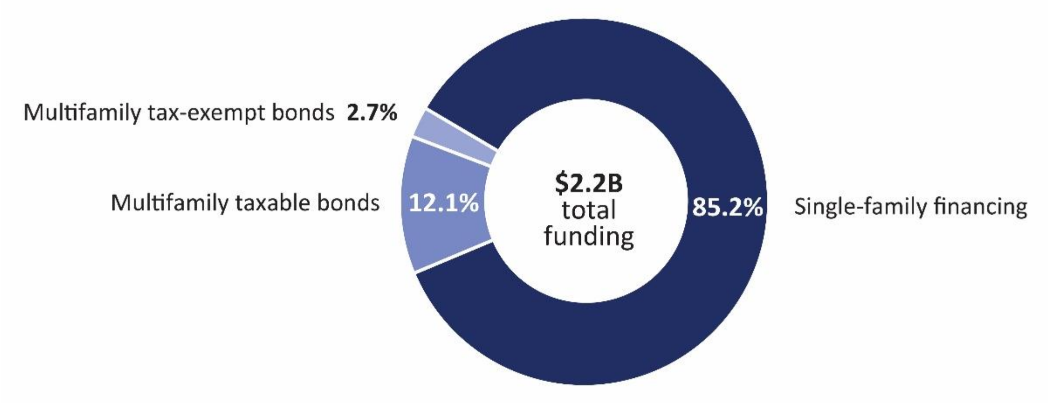
Tax-exempt private activity bonds are federally regulated bonds issued by state and local government agencies. The federal government allocates a tax-exempt bond volume cap for each state. Virginia Housing administers a portion of the cap to make loans to multifamily developers.

Taxable bonds are bonds issued by Virginia Housing to make loans to multifamily developers. They are similar to bonds that private banks and financial entities make.

Virginia Housing is also designated as a state public housing agency by HUD and administers a large Housing Choice Voucher program through a network of local partners throughout the state.

Virginia Housing raises funds for its programs through bond financing and the sale of mortgage-backed securities. The authority has two sources of bond funding: tax-exempt private activity bonds and taxable bonds (sidebar). Virginia Housing uses proceeds from these bond sales to generate capital to lend to affordable housing developers. In 2020, Virginia Housing committed $321 million in bond-based financing for affordable multifamily housing development. Virginia Housing funds its single-family loan program through a mix of taxable bond sales and the sale of its mortgages through mortgage-backed securities. In 2020, Virginia Housing provided $1.9 billion in financing for single-family mortgages, which accounted for approximately 85 percent of the financing that Virginia Housing did in that year. (Figure 1-6).

FIGURE 1-6
Virginia Housing provides large amounts of financing for affordable single-family housing and multifamily development



SOURCE: JLARC analysis of VA Housing multifamily and single-family data.
NOTE: Figure refers to funding, not the number of units created.

Other state agencies also have roles in operating housing programs and developing housing policy

Several state Health and Human Resources agencies operate permanent supportive housing programs (sidebar). These programs include the Department of Behavioral Health and Developmental Disabilities' State Rental Assistance Program and Permanent Supportive Housing programs, the Department for Aging and Rehabilitative Services' Auxiliary Grant program, and the Department of Medical Assistance Services' Medicaid Housing Supports waiver (to begin offering services on July 1, 2022). The Department of Social Services provides eligibility determination for the Auxiliary Grant program, as well as the Medicaid program generally.

Permanent Supportive Housing provides long-term access to affordable housing with intensive support services for individuals experiencing chronic homelessness as well as other individuals who might have difficulty maintaining housing, such as individuals with developmental disabilities or serious mental illness.

In addition, two state agencies are involved in investigating and prosecuting housing discrimination cases. The Virginia Fair Housing Office at the Department of Professional and Occupational Regulation investigates housing discrimination complaints. The Office of Civil Rights at the Office of the Attorney General prosecutes housing discrimination cases.

Local, regional, and private entities play a significant role in implementing housing policies and programs

Several local, regional and private entities have roles in implementing Virginia's housing policies and programs. These roles range from local governing boards that are responsible for making land use decisions and effectively determining the location, quantity, and type of housing available in each locality, to local nonprofits that deliver homelessness services. Some of the local, regional, and private entities involved in housing are:

- Local governments (including many towns), which are responsible for land use and zoning use decisions. Local governments determine the quantity, location, and type of housing built within the locality. Some local governments also operate housing agencies or social services departments that administer housing assistance programs, such as the HCV program.
- Redevelopment and housing authorities (RHAs), which are entities with a state designation allowing them to directly finance and develop affordable housing. RHAs are political subdivisions of the Commonwealth, and may also be designated as public housing agencies (PHAs), which allows them to operate the HCV program and public housing developments.
- Planning District Commissions (PDCs), which play several roles in housing development and policy. Most PDCs provide member localities with housing data, which may include planning and conducting housing needs assessments for their regions. Some PDCs may directly administer housing programs for rehabilitation, homelessness assistance, or rental assistance.
- Continuums of Care (CoC), which are regional or local planning bodies that coordinate housing and services funding for households and individuals experiencing homelessness within their service area. HUD requires that regional or local CoCs develop a plan to permanently house and stabilize individuals and households experiencing homelessness to receive federal funds intended to address homelessness (sidebar).

Virginia has 15 regional and local CoCs. DHCD serves as the lead for Virginia's 16th CoC, and it works with 12 local planning groups to develop a plan, deliver services, and measure outcomes for its homelessness response system.

- Private companies and institutions, which play a significant role in the housing market. Private or nonprofit developers are responsible for the planning, design, construction, and rent setting for almost all housing developed in the Commonwealth. Private financial institutions and banks originate mortgages and act as partner lenders for Virginia Housing's single-family loan program by originating and underwriting mortgages for purchase by Virginia Housing. Nonprofit housing counseling agencies are certified by HUD to provide tools and guidance to homeowners, prospective homebuyers, renters, and households experiencing homelessness. Community Housing Development Organizations (CHDOs) are nonprofit community-based organizations that provide and develop housing for the communities they serve. Individual citizens and larger citizen groups like homeowner's associations play an active role in influencing local land use and zoning decisions.

2 Virginia's Affordable Housing Needs

Households are considered housing cost burdened when they spend more than 30 percent of their income on housing expenses (sidebar). Housing cost burden constrains households' budgets, making it difficult for households to afford other necessities and making eviction more likely. Research has found that households that are cost burdened spend less money on food, transportation, and health care than other households. As a result, cost burdened households are more likely to put off receiving needed medical care, experience food insecurity, and have difficulty paying other bills.

Low-income households naturally have less money to spend on housing, so the prevalence of cost burdened households is affected by the availability of relatively low-cost housing (sidebar). Incomes and housing costs vary by region, and, therefore, so do housing needs.

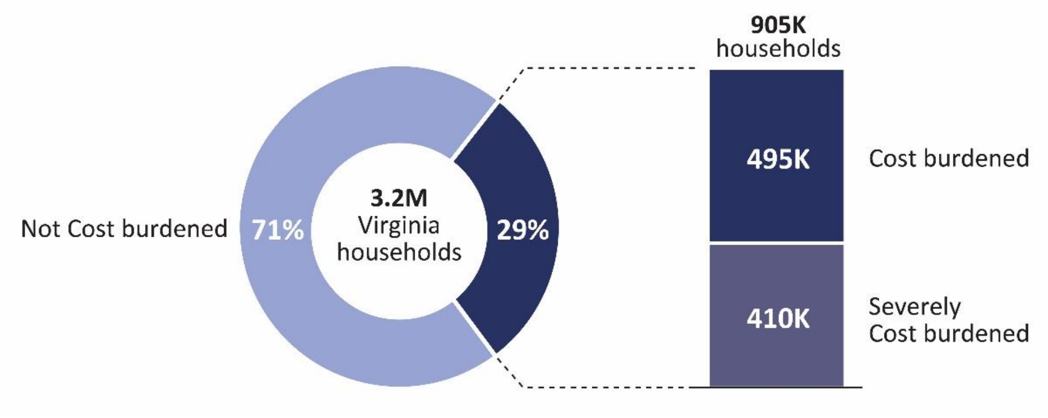
The term "**household**" in this report consists of all the people who occupy a housing unit. A household may be a person living alone in a housing unit, a group of unrelated people sharing a housing unit (such as roommates), or a group of related people living together in a housing unit. This is the same definition used by the U.S. Census Bureau.

For renters, **housing expenses** include the rent plus the estimated cost of utilities (electricity, gas, water, sewer, and fuels). For homeowners, housing expenses include mortgage payments (including first and second mortgages, and home equity loans), real estate taxes, insurance, utilities, and homeowner association fees (if applicable).

Over 900,000 Virginia households are housing cost burdened

Approximately 29 percent of Virginia households are housing cost burdened (Figure 2-1). Of the approximately 905,000 cost-burdened households in Virginia, 45 percent of them are severely cost burdened and spend more than 50 percent of their income on housing. In addition to the approximately 905,000 cost-burdened households, over 20,000 Virginia households are experiencing homelessness, which affects almost 27,000 individuals.

FIGURE 2-1
Approximately 29 percent of Virginia households are cost burdened



SOURCE: JLARC analysis of American Community Survey, 5 year data, 2015–2019.
NOTE: All figures are rounded to the nearest 1,000. Figures may not add because of rounding.

Housing is considered "**affordable**" if the costs for the unit are equal to 30 percent or less of the household's income. The term "**affordable housing**" is used throughout this chapter to refer to housing that is affordable to households with low incomes, specifically those with incomes at or below 50 percent of the area median income.

Virginia, at 29 percent, ranks near the middle of states in terms of the percentage of households that are cost burdened—Virginia has a larger proportion of cost-burdened households than 27 other states. The proportion of cost-burdened households in Virginia's neighboring states ranged from 36 percent in Maryland to 22 percent in West Virginia, with North Carolina, Tennessee, and Kentucky in between.

Cost-burdened Virginians are more likely to rent their home and have lower income

Cost-burdened Virginia households share some characteristics with households that are not cost burdened, but cost-burdened households tend to have lower incomes, be more likely to be Black or Hispanic, and rent versus own their homes (Table 2-1).

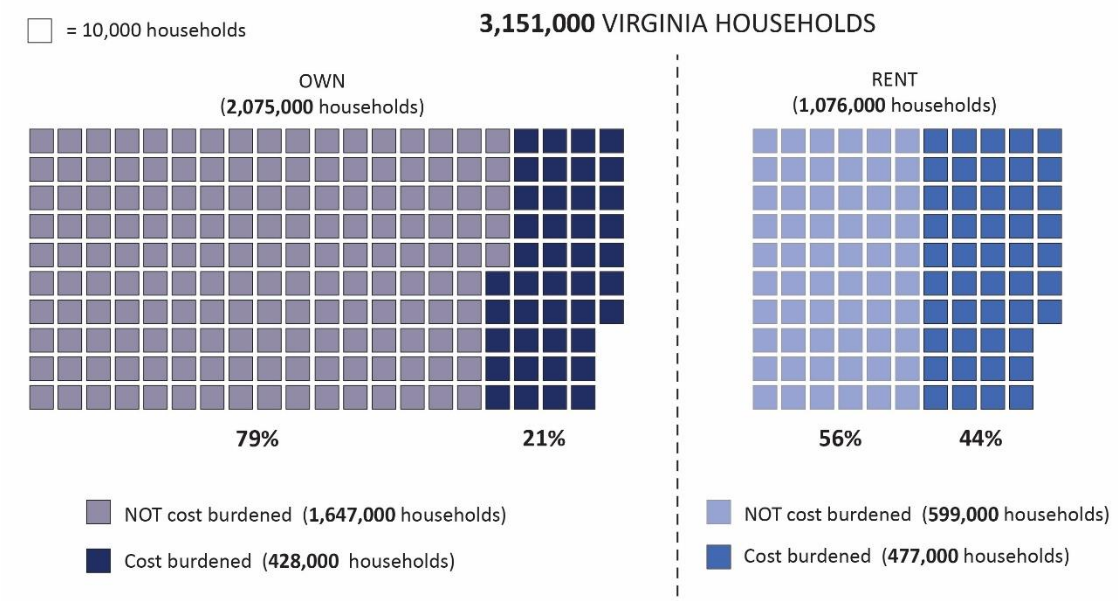
TABLE 2-1
Cost burdened households have lower incomes and are more likely to rent

		Cost-burdened households	Not cost-burdened households
Median income		$32,000	$101,000
Median percentage of income spent on housing		46%	16%
Housing type			
	renter	53%	27%
	owner	47%	73%
Median age of householder		50	52
Race of householder			
	white	62%	75%
	Black	26%	16%
	Asian	6%	5%
	other races	6%	4%
Ethnicity			
	Non-Hispanic	90%	95%
	Hispanic	10%	5%
Gender of householder			
	male	42%	54%
	female	58%	46%
Median number of people in household		2	2

SOURCE: JLARC analysis of American Community Survey, 5 year data, 2015–2019.

A majority of cost-burdened households rent their homes. Additionally, a larger proportion of Virginia renters are cost burdened than homeowners (Figure 2-2). Renters at all income levels were more likely to be cost burdened than homeowners. For example, extremely low-income renters were approximately 10 percentage points more likely to be cost burdened than extremely low-income homeowners.

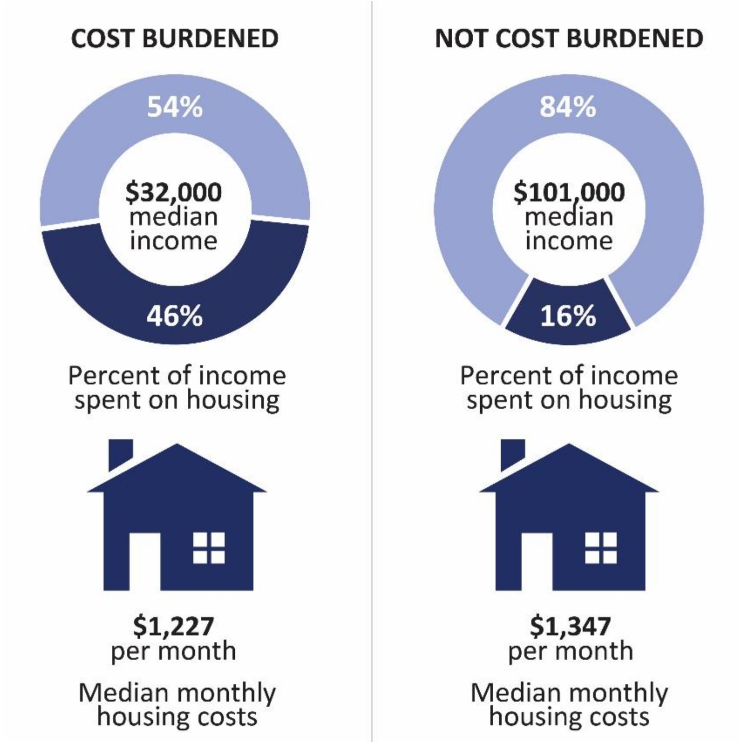
FIGURE 2-2
Higher proportion of renter households are cost burdened than owner households



SOURCE: JLARC analysis of American Community Survey, 5 year data, 2015-2019.
NOTE: All figures are rounded to the nearest 1,000. Figures may not add because of rounding.

A cost-burdened household in Virginia has a lower median income than other households ($32,000 compared with $101,000), but similar total housing costs (Figure 2-3). However, these housing costs make up a much larger share of the cost-burdened household's income than the not cost-burdened household (46 percent compared with 16 percent).

FIGURE 2-3
Cost-burdened households have lower incomes and similar housing costs to households that are not cost burdened



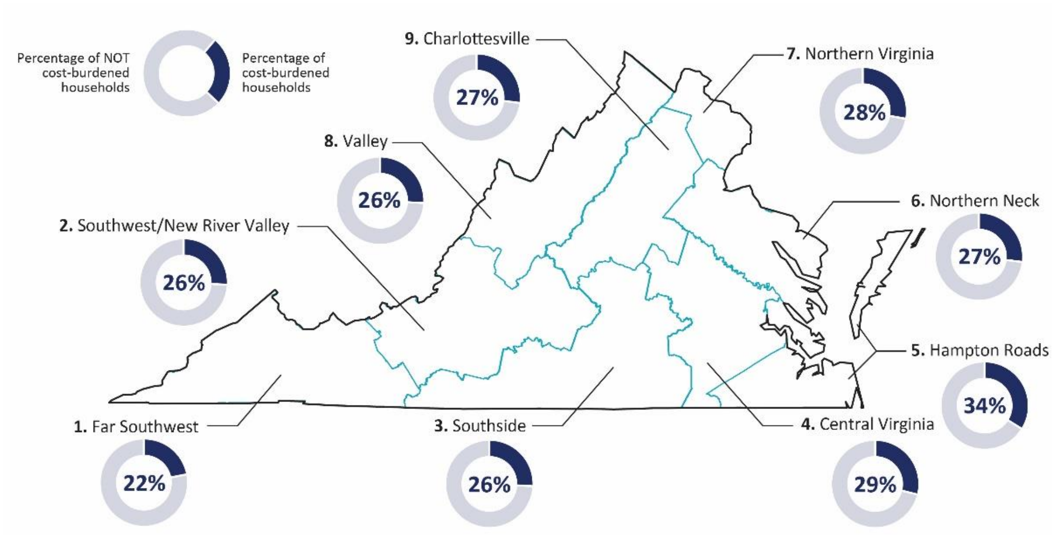
SOURCE: JLARC analysis of American Community Survey, 5 year data, 2015–2019.

Throughout this report, housing cost burden and housing supply data will be discussed at the state and regional level. **GO Virginia regions** are used as the regional designations throughout this report because the localities that make up each of the GO Virginia regions share similar economic development and workforce need, and are geographically similar. Appendix C lists the localities in each region.

The fact that Black and Hispanic households are more likely to be cost burdened than white households is likely related to income differences. In 2019, Black Virginia households had a median income of just over $51,000, and white Virginia households had a median income of almost $80,000. Similarly, median household income for Hispanic Virginia households ($66,000) was lower than non-Hispanic Virginia households.

The majority (67 percent) of cost-burdened households live in the state's most populated regions, specifically in the Urban Crescent composed of Hampton Roads, Northern Virginia, and Central Virginia. Northern and Central Virginia have a slightly higher percentage of households that are cost burdened than other regions (sidebar). Households in Hampton Roads are more likely to be cost burdened than in any other region in the state (Figure 2-4).

FIGURE 2-4
Households in Hampton Roads are more likely to be cost burdened than in other regions



SOURCE: JLARC analysis of American Community Survey, 5 year data, 2015–2019.

Percentage of cost-burdened Virginia households declined overall but increased among lower-income households

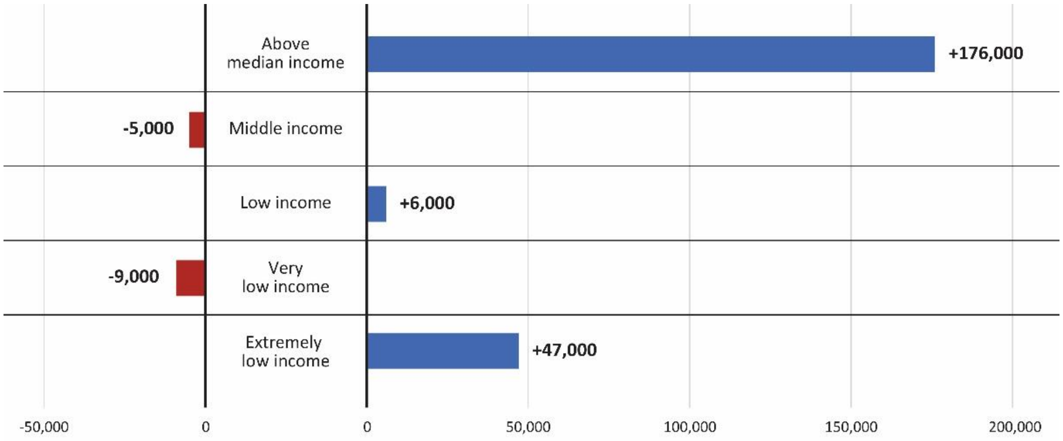
The proportion of total households that are cost burdened declined slightly from approximately 32 percent of households in 2009 to 29 percent of households in 2019 (a decline of about 31,000 households). Over this period, the number of Virginia households grew by 214,000, and growth was concentrated among households with higher incomes (Figure 2-5). This would account for the slight decrease in the proportion of cost-burdened households. During this period, the number of extremely low-income households also grew substantially (sidebar).

While the proportion and number of Virginia households that are cost burdened declined between 2009 and 2019, the prevalence of housing cost burden among low-income Virginians increased slightly from 60 percent to 63 percent over this period (Figure 2-6). This affects Virginians who work in common occupations that are essential to the state's economy and are paid low wages. For example, the median income for a home health aide in Virginia is approximately $22,000, which is considered very low income for a single person household (income between 31 and 50 percent AMI) (Figure 2-7). In another example, the median income for a bus driver is $45,000, which is considered low income for a single person household (income between 51 and 80 percent AMI).

HUD broadly classifies households into **income categories**, with area median income (AMI) as the baseline:

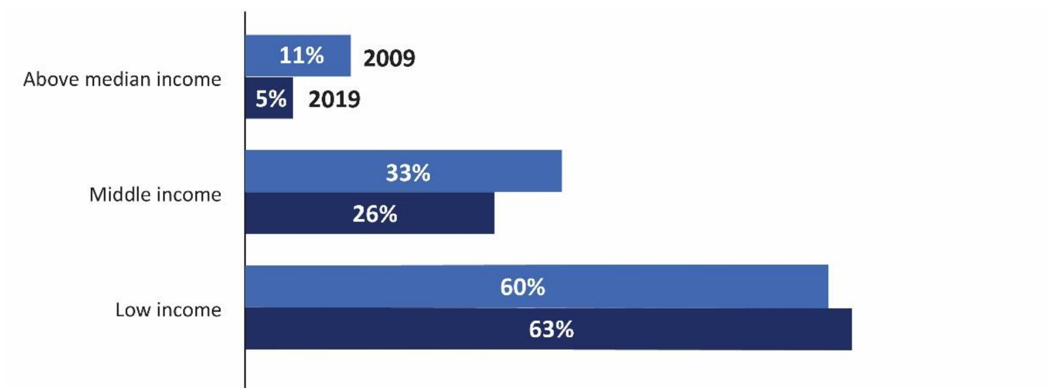
- extremely low income (ELI): income at or below 30 percent of AMI;
- very low income (VLI): income between 31 and 50 percent of AMI;
- low income (LI): income between 51 and 80 percent of AMI; and
- middle income (MI): income between 81 and 100 percent of AMI.

FIGURE 2-5
Number of Virginia households with above median incomes and extremely low incomes grew, 2009–2019



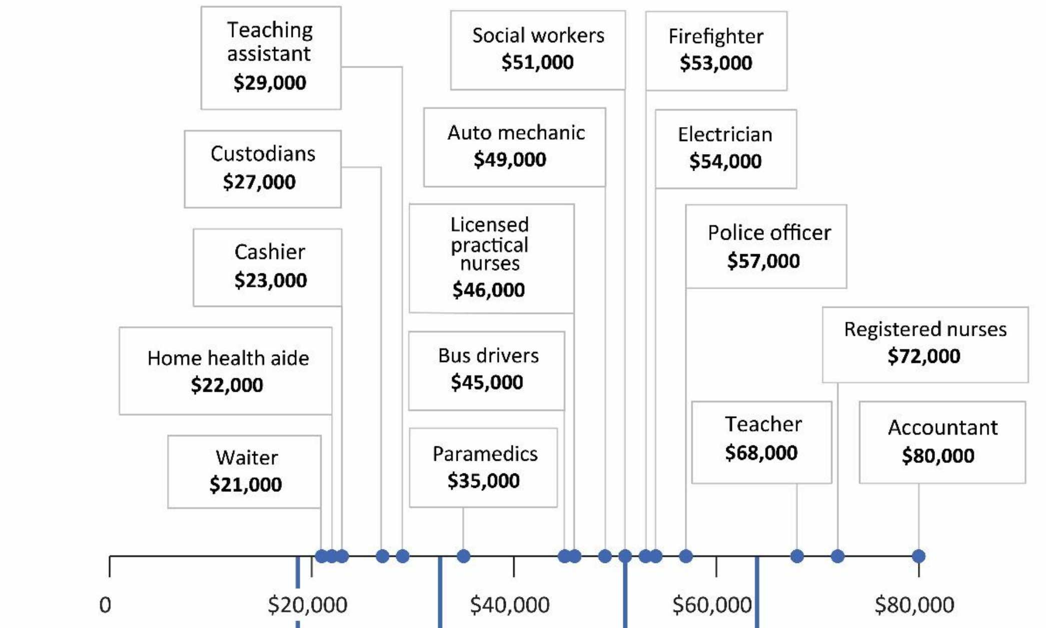
SOURCE: JLARC analysis of American Community Survey, 5 year data, 2005–2009 and 2015–2019.
NOTE: All figures are rounded to the nearest 1,000. Figures may not add because of rounding.

FIGURE 2-6
Percentage of cost burdened households grew among lower income households, 2009–2019



SOURCE: JLARC analysis of American Community Survey, 5 year data, 2005–2009 and 2015–2019.
NOTE: All figures are rounded to the nearest 1,000. Figures may not add because of rounding. Low income includes households classified as extremely low income, very low income, and low income.

FIGURE 2-7
Individuals in many common occupations earn low-income salaries or wages



	EXTREMELY LOW INCOME **30% AMI**	VERY LOW INCOME **50% AMI**	LOW INCOME **80% AMI**	MIDDLE INCOME **100% AMI**	ABOVE MEDIAN INCOME
1 person	**$19,000**	**$32,000**	**$51,000**	**$64,000**	
2 people	**$22,000**	**$37,000**	**$59,000**	**$73,000**	
3 people	**$25,000**	**$41,000**	**$66,000**	**$82,000**	
4 people	**$28,000**	**$46,000**	**$73,000**	**$92,000**	

MEDIAN INCOME

SOURCE: JLARC analysis of Bureau of Labor Statistics Wage Data by Area and Occupation for Virginia in 2020 and HUD FY20 Income Limits Summary.
NOTE: All figures are rounded to the nearest 1,000. Incomes are the Virginia median. Area median income limits are statewide income limits for Virginia.

Virginia has a shortage of at least 200,000 affordable rental units

Studies have found that rental housing supply shortages exist nationally, especially for rental units that are affordable and available to households with lower incomes (sidebar). The National Low Income Housing Coalition found that the U.S. had a shortage of approximately 8 million rental homes for extremely and very low income households (incomes at or below 50 percent of AMI), and that the nation had enough affordable rental homes for only 58 out of every 100 extremely and very low income

Housing is considered "**affordable and available**" if (1) the rent is affordable to a household with an income at or below a certain percentage of AMI ("affordable"), and (2) if the unit is either occupied by a household with an income at or below that certain percentage of AMI, or the unit is vacant.

Units with rents that are affordable but occupied by households with incomes above the certain percentage of AMI are not considered available because landlords will be inclined to rent to higher income households over lower income households.

Similar definitions of affordable and available units have been used for housing gap analyses conducted by the Harvard Joint Center for Housing Studies, the National Low Income Housing Coalition, and other states.

Other states have conducted housing needs analyses and found similar results to national studies. **Maryland** in 2020 found that the state had a shortage of approximately 118,000 affordable rental units (enough units for 76 out of every 100 extremely or very low income households). **Oregon** found it had a shortage of over 148,000 affordable rental units (enough units for 36 out of every 100 extremely or very low income households).

Most analyses in this report use the American Community Survey 5-year data from 2015 to 2019. This was the most recent data at the time this study was conducted.

This analysis assumes that any household with an income at or below 50 percent of AMI is affordably housed if they live in a unit with a rent that would be affordable to a household with an income at 50 percent of AMI. However, this housing may not be affordable for households with income lower than 50 percent of AMI. This assumption was made because the deepest affordability that LIHTC and most other supply-side programs subsidize are rents affordable at 50 percent AMI.

Additional discussion of the methodology used in this study is available in Appendix B.

households. The Joint Center for Housing Studies at Harvard University found a similar nationwide shortage of affordable rental units for extremely and very low income families. Other states that have conducted housing needs assessments have found similar results (sidebar).

Households with lower incomes are less likely to be able to purchase a home and may be less likely to qualify for a mortgage, so the availability of affordable rental housing for households with lower incomes is especially important. Renting households have a lower median income, approximately $50,000, compared with owning households, $93,000.

Virginia has a shortage of affordable rental units in all regions of the state, but need is greatest in growing localities

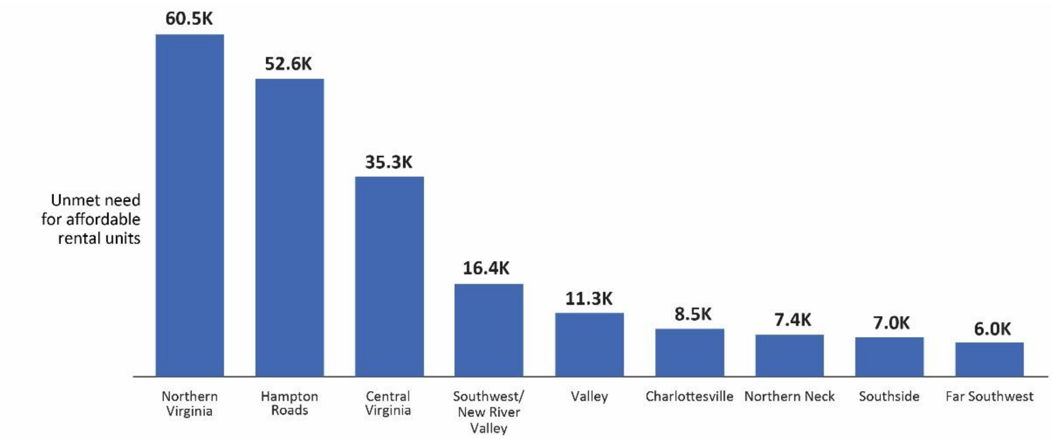
Virginia has a statewide shortage of at least 200,000 affordable rental units for extremely and very low income households. Only 42 out of every 100 extremely and very low income households can find affordable housing. The actual number of needed affordable rental units likely exceeds 200,000 because this figure is based on data from several years ago and assumptions about the most affordable units that can be created through programs like the federal Low Income Housing Tax Credit program (LIHTC) (sidebar).

Every region in the state has a shortage of available rental units, but regions in the Urban Crescent account for over 70 percent of the needed units (Figure 2-8). The Northern Virginia region needs the largest number of affordable units, over 60,000. The Hampton Roads region needs over 52,000 affordable rental units.

Ten localities with the largest need for affordable rental units account for over 50 percent of the state's need for affordable rental units and have also experienced relatively high population growth. Four of these localities are in Northern Virginia, three localities are in Hampton Roads, and three localities are in Central Virginia (Figure 2-9). These 10 localities had more population growth (10 percent) than other localities in the state (0.1 percent) between 2009 and 2019.

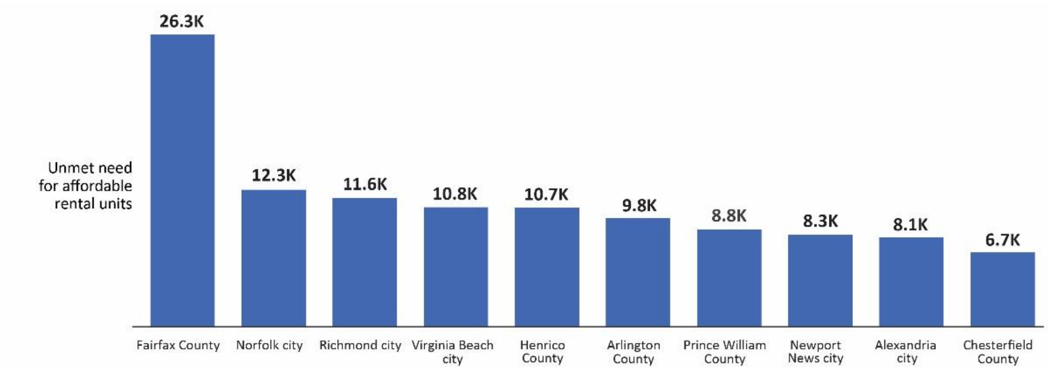
The unmet need for at least 200,000 affordable rental units should be interpreted as a floor for how many affordable rental units are needed. Housing quality was accounted for in this analysis by excluding units without plumbing or kitchen facilities. However, other characteristics that can affect housing quality were unable to be accounted for. These include overcrowding and the overall condition of the housing, such as whether there are electrical hazards, roofing issues, mold or pest infestations, and whether there is a functioning heating and cooling system. According to Virginia Housing staff, these quality issues may particularly affect housing in rural areas. Therefore, the estimated need for additional affordable rental units may be understated, particularly for rural Virginia.

FIGURE 2-8
Majority of affordable rental units are needed in Urban Crescent



SOURCE: JLARC analysis of American Community Survey, 5 year data, 2015–2019.
NOTE: All figures are rounded to the nearest 100. Figures may not add because of rounding.

FIGURE 2-9
Most unmet need for affordable rental units is in 10 localities



SOURCE: JLARC analysis of American Community Survey, 5 year data, 2015–2019.
NOTE: All figures are rounded to the nearest 100. Figures may not add because of rounding.

Some households rent less expensive units than what they can afford, further constraining the supply of units affordable to lower income households

Some households with incomes above 50 percent of area median income rent units that are less expensive than what they can afford. This constrains the supply of affordable rental units for lower income households because renters with relatively higher incomes are more likely to qualify to rent the unit or are preferred tenants. Almost 80,000 Virginia households with incomes higher than 50 percent of AMI are renting units with lower rent than they can afford, which takes away rental units for lower income households that cannot afford higher rent. Households may rent a less expensive unit than they can afford for several reasons, including because

Spending 30 percent of one's income on housing is considered a maximum amount for affordability rather than an ideal percentage of income.

they prefer to spend less on rent or because they cannot find a more expensive unit.

Statewide, approximately 12 percent of households with incomes higher than 50 percent of AMI rent units that are much less expensive than what they can afford, and this occurs at higher proportions in rural areas (Table 2-2). Particularly in regions outside of the Urban Crescent, improving the availability of affordable housing could be partially achieved by constructing rental units with rents that match what households with incomes *higher* than 50 percent AMI can afford. This would give higher income households more housing choices, thereby potentially increasing the inventory of rental units available to lower income households.

The federal **Housing Choice Voucher (HCV)** program, formerly known as the Section 8 Voucher program, provides recipients with a voucher that pays for any rent that exceeds 30 percent of the household's income.

HUD establishes Fair Market Rents (FMRs) that determine the maximum amount of rent the voucher will subsidize. HUD sets FMRs annually based on local rent rates and housing unit size.

HCVs are administered by 39 public housing agencies (PHAs) in Virginia through direct contracts with HUD. Virginia Housing is designated as one of the state's PHAs. Virginia Housing subcontracts with 31 local partner agencies across the state to conduct most of the administrative tasks associated with vouchers. The other 38 Virginia PHAs operate their HCV programs independently with no relationship or oversight from the state.

TABLE 2-2
Larger share of households in rural regions rent units that cost much less than what they can afford

	% of households with relatively higher income renting much less expensive units
Far Southwest	31%
Southside	25
Southwest/New River Valley	24
Northern Neck	23
Charlottesville	19
Valley	17
Central Virginia	15
Hampton Roads	7
Northern Virginia	6
Statewide	12%

SOURCE: JLARC analysis of American Community Survey, 5 year data, 2015-2019.

Housing Choice Vouchers reduce rents for lowest income Virginians, but demand far exceeds supply

Very low and extremely low income households often need assistance to afford rent, even in a subsidized housing unit. Financing programs that subsidize the construction or rehabilitation of affordable housing units (particularly the federal Low Income Housing Tax Credit program, or LIHTC) typically require rents to be equal to or less than what is considered affordable at either 50 or 60 percent of the median income. This means that for households that are extremely low income (income at or below 30 percent of median income) or very low income (income between 31 and 50 percent of median income), the rent on a unit financed through a program like LIHTC may be higher than what is affordable for that household. This is the situation for about 67 percent of very low income or extremely low income households who are renting a unit constructed through one of these financing programs.

The federal Housing Choice Voucher (HCV) program provides rental subsidies to households to help them afford their rent. The program provides rental assistance to 48,000 low-income Virginia households (sidebar). The budget of the federal HCV program is capped, and Virginia is fully utilizing its HCV allocation for the households currently receiving assistance. Other federally funded rental assistance is available through public housing and the U.S. Department of Agriculture's Rural Development Multifamily Housing Rental Assistance program.

The need for rental assistance described in this section is in addition to the need for at least 200,000 additional affordable rental units described earlier. Even if Virginia added 200,000 affordable rental units, those units would likely be created using programs that create rental housing that is affordable to households making 50 or 60 percent of AMI. Many households with incomes at or below 50 percent of AMI would still need financial assistance—through the HCV program—for those units to be affordable.

The need for rental assistance subsidies in Virginia exceeds the availability of existing rental assistance through either the HCV program or other federal programs. An additional 347,000 Virginia households potentially need assistance but are not currently receiving it. These households are made up of extremely low and very low income households who are cost burdened and renting their homes, as well as households experiencing homelessness (Table 2-3).

TABLE 2-3
Need for rental assistance exceeds the availability of HCVs

Households not receiving HCVs but potentially eligible	Number of Virginia households
Cost burdened renting households with incomes at or below 30% AMI	202,000
Cost burdened renting households with incomes between 31% and 50% AMI	125,000
Households experiencing homelessness	20,000
Total households in potential need of rental assistance	347,000

SOURCE: JLARC analysis of American Community Survey, 5 year data, 2015–2019, and the January 2020 Point-In-Time count.
NOTE: All figures are rounded to the nearest 1,000. Figures may not add because of rounding.

Wait times for HCVs in Virginia are long. Statewide, the average wait was close to three years (35 months) in 2020, which was an increase of seven months compared with wait times in 2011. Virginia's statewide average HCV wait time is eight months longer than the national average wait time of 27 months. Wait times for HCVs can be inconsistent across the state. Public housing agencies (PHAs) serving larger localities, especially those in Northern Virginia, told JLARC staff that waitlists for their vouchers were so long that they had not allowed additional households to be placed on their waitlists in almost 10 years (sidebar). This happens because households typically stay on the voucher for a long period of time; there is very little attrition in the program; and budgets for vouchers are not increasing. For example, staff at one large Virginia PHA indicated that they last opened their waitlist to applications for two weeks in 2010, and they received 8,000 applications during that time. However, some PHAs serving smaller and rural localities indicated that they had no waitlist or a very short waitlist for vouchers.

PHAs are required to maintain **waitlists** of households that have applied for an HCV. Most PHAs open their waitlist to applications for a limited time period whenever the number of applicants on their waitlist hits a certain threshold. Some PHAs with shorter waitlists may leave their waitlist open.

Individuals can apply to any HCV waitlist, but PHAs can apply preferences to their waitlist (e.g., households living in the locality, individuals with disabilities, etc.). A household can be on many HCV waitlists.

In addition to difficulty obtaining a voucher, once households receive one they may have difficulty finding a rental unit that meets the HCV program's quality standards.

According to Virginia Housing staff, some older urban areas and rural areas may have shortages of rental units that can meet these quality standards.

The General Assembly could consider creating a statewide voucher program that would operate parallel to the HCV program and provide assistance to some or all of the households currently in need of assistance but not receiving a federal voucher. However, there would be two substantial challenges to develop a state program. First, it could be very costly. If the state program used the same eligibility criteria as the HCV program, it would cost the state over $3 billion annually to meet the needs of households who would potentially qualify. The HCV program allows households earning 50 percent of AMI or less to receive a voucher, and the state could use a lower income threshold to reduce the cost. Limiting a voucher program, for example, to households making 30 percent of AMI or less would address those households most in need and reduce the program's projected cost by about half.

For more discussion of the HCV program and a statewide voucher program, see **Appendix E.**

The other major challenge associated with establishing a state program would be determining how to administer it. While the PHA structure is already in place, JLARC staff observed many challenges with the local administration of the HCV program.

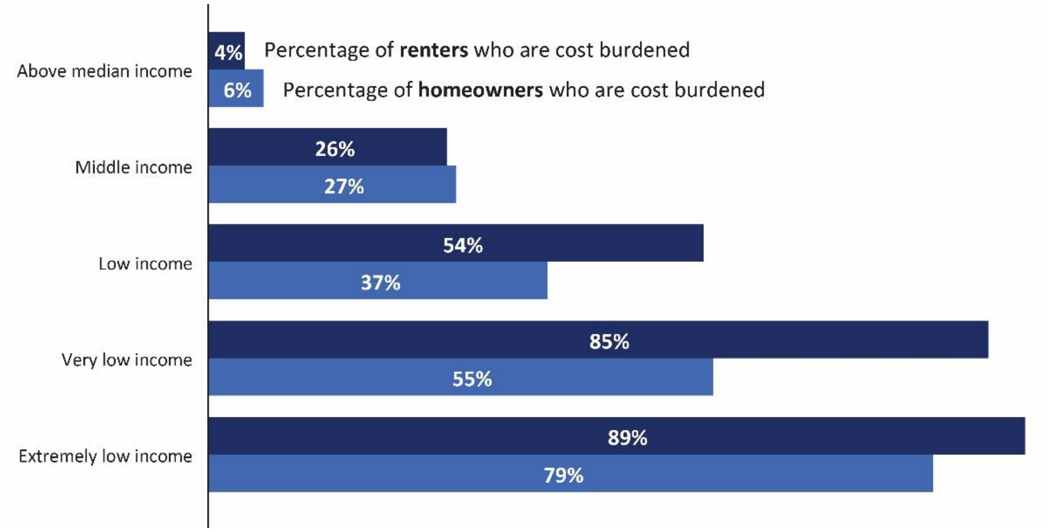
Declining number of Virginians can afford to buy a home because of increasing home prices and stagnant wages

Homeowners tend to spend less of their income on housing than renters. Virginia homeowners spent approximately 18 percent of their income on housing compared with 29 percent for renters. Higher incomes among homeowners may partially explain this difference—homeowners had a median annual income of $93,000 compared with $50,000 for renters. However, at lower incomes, homeowners are still less likely to be cost burdened than renters (Figure 2-10). Comparing extremely low-income renters to extremely low-income homeowners, the renters were approximately 10 percentage points more likely to be cost burdened than the homeowners. Owners tend to have lower monthly housing costs than renters—median monthly housing cost for extremely low income homeowners in 2019 was $657 compared to $895 for extremely low income renters.

However, increases in home prices have likely put homeownership out of reach for some Virginians. Home prices have increased significantly since 2016 but especially in the past year. The median home sales price in Virginia increased by approximately 32 percent from $204,000 in 2016 to $270,000 in 2021 (prices are adjusted to 2021 dollars). Much of the increase in home prices has occurred in the past year. Between 2020 and 2021, the median home sales price in Virginia rose by approximately 15 percent from $234,000 in 2020 to $270,000 in 2021. (Prices are adjusted to 2021 dollars.)

Home prices have increased in every region of the state. Home prices rose significantly in Northern Virginia from a $508,000 median sales price in 2016 to a median sales price of $650,000 in 2021 (Table 2-4). Other regions of the state, including many outside the Urban Crescent, experienced more significant percentage increases in home prices than Northern Virginia.

FIGURE 2-10
Homeowners are less likely to be cost burdened than renters at lower incomes



SOURCE: JLARC analysis of American Community Survey, 5 year data, 2015–2019.

Household income needed to purchase the median home in Virginia increased from approximately $58,000 in 2016 to approximately $77,000 in 2021 (adjusted to 2021 dollars). In 2016, a household could make around 70 percent of the state's median income and afford to purchase a median-priced home. By 2021, a household would need to make almost 100 percent of the state's median income to purchase a home at the median sales price.

While home prices have increased, median incomes for many Virginians have stagnated since the Great Recession, increasing only 3 percent across the state since 2009 (adjusting for inflation). For low-income households, incomes declined by 2 percent since 2009. For middle-income Virginians, incomes have not grown at all since 2009. Incomes for the highest earning Virginians, those with incomes above 130 percent of the median, grew by 3 percent since the Great Recession.

TABLE 2-4
Median home sales prices increased substantially, and especially rapidly in the past year

	Median home sales prices			Percentage change	
	2016	**2020**	**2021**	**2016 to 2021**	**2020 to 2021**
Northern Virginia	$508,000	$582,000	$650,000	28%	12%
Charlottesville	290,000	319,000	350,000	21	10
Hampton Roads	254,000	234,000	330,000	30	41
Northern Neck	267,000	270,000	325,000	22	20
Central Virginia	210,000	257,000	299,000	42	16
Valley	233,000	241,000	285,000	22	18
Southwest/New River Valley	192,000	196,000	217,000	13	11
Southside	125,000	134,000	177,000	42	32
Far Southwest	98,000	117,000	160,000	63	37
Statewide	$204,000	$234,000	$270,000	32%	15%

SOURCE: JLARC analysis of Monthly Median Sales Prices by County/Independent City, 2016 – present. Virginia REALTORS, updated July 15, 2021.
NOTE: Median cost home sales prices reflect the median prices in July of each year. Adjusted to 2021 dollars.

Home price increases over the past several years have reduced the percentage of Virginia renters who could afford to purchase a home at the state's median sales price. The percentage of Virginia renters who could afford to purchase a median priced home in 2016 was approximately 28 percent, but by 2021, that percentage had declined to 19 percent. This occurred in every region in the state (Table 2-5). Northern Virginia has the smallest percentage of renters who can afford to purchase a median priced home in Northern Virginia and its surrounding regions.

TABLE 2-5
Fewer renters are able to afford a median priced home

	Percentage of renters who could afford a median priced house at:	
	2016 prices	**2021 prices**
Northern Virginia	18%	12%
Charlottesville	22	15
Northern Neck	27	17
Valley	29	17
Central Virginia	30	19
Hampton Roads	30	22
Southwest/New River Valley	33	24
Far Southwest	49	31
Southside	45	32
Statewide	28%	19%

SOURCE: JLARC analysis of American Community Survey, 5 year data, 2015–2019, and Monthly Median Sales Prices by County/Independent City, 2016–present, Virginia REALTORS, updated July 15, 2021.

Addressing the state's affordable housing needs will require financial resources and several policy approaches

Virginia has substantial affordable housing needs. Lower income Virginians in particular have limited options for affordable housing, for both rental and for-sale housing. This affects Virginians who are employed in common or essential occupations, and localities or regions without suitable affordable housing are at risk of experiencing a shortage of workers for those occupations. Addressing these issues will require state, regional, and local housing entities to (1) invest resources in the creation of new affordable housing units and (2) develop and expand programs that provide direct financial assistance to households.

This report evaluates how effectively the state is identifying housing needs and planning to address them, as well as how effectively financial resources are being used to improve housing affordability (Chapter 3). The state already administers several programs intended to address housing needs, and the report identifies some ways in which these existing programs can be expanded and adjusted to be more effective (Chapters 4 and 5). Finally, local governments play an important role in setting local land use and zoning policies that affect how much and what types of housing are built. The report identifies options the state could use to encourage and facilitate localities' use of more flexible zoning ordinances to mitigate some barriers to developing new affordable housing (Chapter 6).

3 Financial Resources for Creating New Affordable Housing

Virginia has significant statewide unmet housing needs. As described in Chapter 2, 29 percent of Virginia households are experiencing housing cost burden, at least 200,000 additional affordable rental units are needed, and rapidly rising home prices have put homeownership out of reach for many Virginians. These housing needs can be addressed by the state, but doing so will require a substantial investment of time and money guided by a strategic and prioritized plan of action. Given the magnitude of statewide housing needs and limited state financial resources, the most prudent and strategic use of state financial resources are investments in projects that will directly improve housing affordability for Virginians. State funds should not be used on projects that cannot directly demonstrate how they will either create more affordable housing units or provide direct assistance to households experiencing or at risk of cost burden, homelessness, or eviction.

Providing direct assistance to all cost burdened households who have extremely or very low incomes (i.e., households earning less than 30 percent of the area median income or less, and households earning between 31 and 50 percent of the area median income) could cost as much as $5 billion annually. Of the $5 billion, providing housing assistance payments (such as vouchers)

- to all extremely and very low income cost-burdened *renters* could cost almost $3.5 billion annually;
- to all extremely and very low income cost-burdened *homeowners* could cost up to $1.3 billion annually; and
- to households experiencing homelessness could cost as much as $254 million annually (Table 3-1).

Given the high cost of providing assistance to all who need it, the state could prioritize assistance to at least some portion of those who most need it, such as those experiencing homelessness and households with extremely low incomes. Providing assistance to all households in these two categories would cost approximately $3.3 billion annually.

In addition to providing direct cash assistance to households, state assistance is needed to help create additional affordable rental units. Meeting the existing need through new construction would likely require a number of years. The cost to develop 20,000 units per year, which could meet the statewide need after 10 years, could be up to $4.7 billion annually, but around 65 percent of that amount would be financed through debt that

As discussed in Chapter 2, 200,000 is a floor for how many affordable rental units may be needed in Virginia. In addition to the number of units needed likely being higher than 200,000, the number of affordable rental units needed will likely grow as the state's population grows. However, any effort to increase the number of affordable rental units in Virginia would help mitigate the state's housing needs.

would be repaid. This lowers the amount the state would need to invest to approximately $1.6 billion annually over 10 years to meet the statewide need for additional affordable housing units (Table 3-1).

TABLE 3-1
Addressing all of Virginia's unmet housing needs could be very costly

	Estimated number of households	Estimated annual program cost ($ millions)	Estimated annual program cost for each of 10 years ($ millions)
Unmet need for rental assistance			
Cost burdened renting households with incomes at or below 30 percent AMI	202,000	$2,223	
Cost burdened renting households with incomes between 31 and 50 percent AMI	125,000	1,241	
Households experiencing homelessness	20,000	254	
Unmet need for homeowner assistance			
Cost burdened owner households with incomes at or below 30 percent AMI	113,000	785	
Cost burdened owner households with incomes between 31 and 50 percent AMI	80,000	526	
Unmet need for affordable rental units	200,000		$1,631
Total		**$5,000**	**$1,631**

SOURCE: JLARC analysis of American Community Survey, 5-year data, 2015–2019.
NOTE: All figures are in millions of dollars. Figures may not add because of rounding.

In addition to this JLARC study, the General Assembly directed the Department of Housing and Community Development (DHCD) and Virginia Housing to conduct a comprehensive assessment of the state's housing needs (HB 854, 2020). These two studies should inform state officials' understanding of Virginia's housing needs and be used to develop a statewide affordable housing plan.

The state currently has two flexible sources of funding dedicated to affordable housing initiatives that could be used to address the needs identified through the JLARC and HB 854 studies. Virginia Housing has dedicated a portion of its net income to its affordable housing program since 1989, and at the end of FY21 this program had a balance of $54 million. In 2012 the General Assembly created the Virginia Housing Trust Fund to be used for increasing construction of affordable housing and reducing homelessness, and at the end of FY21 had a balance of $18 million. Additional financial resources include federal tax credits that can be used to help with the construction of affordable housing and bond financing.

Lack of statewide housing needs assessment and plan inhibits strategic investment of state resources

Virginia's approach to identifying and planning for housing needs across the Commonwealth is decentralized and reliant on local governments. Virginia localities are required to create comprehensive plans that must include a section on affordable housing (sidebar). Some localities and regional organizations have conducted housing needs assessments that go beyond the comprehensive plan, including the Roanoke Valley-Alleghany Regional Commission, the George Washington Regional Commission, Loudoun County, and a group of localities in the New River Valley. However, these assessments are dependent on funding and not conducted in every locality.

Comprehensive plans are long-range plans intended to guide the growth and development of a community. State law requires localities to update their comprehensive plans every five years and to include a section on affordable housing.

In contrast to other states, Virginia has not regularly undertaken a comprehensive state-led effort to identify and plan for housing needs statewide. Other states' assessments typically assess demographic and economic changes; changes in the number of households; household incomes; prevalence of housing cost burden and instability; affordable rental unit supply compared to demand; home sales, prices, and building permits; and homeownership rates. Some states, such as Maryland, also include regional profiles in their statewide housing needs assessments. These regional profiles pinpoint specific trends and needs in each of the state's regions, which can often be different from statewide trends. Oregon's statewide housing needs assessment profiles housing needs for each of the state's counties.

Statewide, regional, and locality-specific data and information on Virginia's housing needs are necessary for the General Assembly and state officials to make informed decisions about how and where to deploy available resources to address the state's housing needs. Depending exclusively on local governments' own assessments is inefficient and makes it difficult to reliably compare needs across the state; pinpoint the state's most acute housing needs and prioritize state resources accordingly; and develop strategic goals, policies, and initiatives. Investments of state funding for affordable housing should be informed by a statewide assessment of housing needs and one overall plan—similar to funding for transportation infrastructure—rather than a collection of locality-specific assessments and plans.

HB 854's statewide housing needs assessment and this JLARC study should help state officials better understand the types and scope of housing needs in Virginia, and how resources for making housing more affordable can be invested. However, these are one-time efforts, and housing needs assessments should be conducted regularly to ensure that the state's current housing needs are understood and to inform policy and funding decisions.

The General Assembly should require DHCD to conduct a comprehensive statewide housing needs assessment every five years. Coordinating such an assessment complements other responsibilities that state law assigns to DHCD such as "determining present and future housing requirements of the Commonwealth on an annual basis and

HUD requires housing formula block grant recipients to submit a **consolidated plan** every five years. The consolidated plan contains a housing and community development needs assessment, and plans for how the federal formula block grants will be used to address the identified needs. DHCD develops and submits a consolidated plan for the grant funds received on behalf of the "balance of state," which includes the state's smaller cities and counties. Larger cities and counties are considered "entitlement communities," which submit their own consolidated plans and receive their own federal formula block grants.

revising the Consolidated Plan…" and assuming "…administrative coordination of the various state housing programs…" (sidebar). DHCD should ensure that the assessment is timed to use the most up-to-date data from the U.S. Census Bureau. The HB 854 report, which should be released in late 2021, could serve as the first statewide housing needs assessment, which would mean that a new assessment would not need to be completed until at least 2026.

RECOMMENDATION 1

The General Assembly may wish to consider amending §36-139 of the Code of Virginia to direct the Virginia Department of Housing and Community Development to conduct a comprehensive statewide housing needs assessment at least every five years using either its own staff or a third-party expert. The statewide housing needs assessment should contain a review of housing cost burden and instability, supply and demand for affordable rental housing, and supply and demand for affordable for-sale housing. The needs assessment should contain regional or local profiles that focus on the specific housing needs of particular regions or localities.

Oregon developed a statewide housing plan in 2019 that identifies the state's housing needs and includes **specific and measurable goals**. For example, Oregon's plan sets a goal to increase the amount of affordable rental housing, stating that the agency will "triple the existing pipeline of affordable rental housing—up to 25,000 homes in the development pipeline by 2023."

Some states have also begun to develop and publish statewide housing plans that outline specific strategies for addressing the state's housing needs, and, in some cases, set measurable goals for assessing progress. Oregon and California have both recently developed statewide housing plans, and Michigan is in the process of developing a statewide housing plan based on a recent statewide housing needs assessment. Oregon's statewide housing plan contains specific and measurable goals, and the state reports annual progress toward meeting those goals (sidebar).

The General Assembly should require DHCD to develop a statewide housing plan that addresses the unmet housing needs identified in the statewide housing needs assessment (Recommendation 1). The plan should contain measurable goals for addressing these needs. These plans should be updated every five years to reflect changes in the state's housing needs. The first plan could be developed in 2022 after the HB 854 housing needs assessment and report have been issued.

DHCD has limited staff resources to conduct a statewide housing needs assessment or develop a statewide housing plan and should consider contracting with one or more third-party housing experts for both. For example, DHCD could consider contracting the plan to the Virginia Center for Housing Research at Virginia Tech, which was established by the General Assembly to "serve as an interdisciplinary study, research, and information resource on housing for the Commonwealth" and to "perform research that deals with hosing policy issues facing the General Assembly and aids the Commonwealth's housing and housing finance agencies."

RECOMMENDATION 2

The General Assembly may wish to consider amending §36-139 of the Code of Virginia to direct the Virginia Department of Housing and Community Development to i) develop a statewide housing plan with measurable goals to address the state's housing needs, ii) provide annual updates to the General Assembly on progress toward meeting the goals identified in the plan, and iii) update the plan at least every five years based on changes in the state's affordable housing needs.

DHCD may also need additional staff to measure annual progress on meeting the goals of the affordable housing plan and to carry out other recommendations in this report. Currently, the agency does limited assessment and planning to draw down federal housing and community development grants (consolidated plan), and the agency has a small policy office (approximately five staff) that performs compliance, outreach, and research activities for the agency's housing programs. However, according to DHCD, the current policy staff do not have capacity to take on additional and ongoing research activities. In addition to a statewide needs assessment and plan, this report recommends that DHCD conduct research and develop options for the General Assembly to increase affordable housing. Given the importance of these new responsibilities, the General Assembly could direct DHCD to provide it with a detailed plan for how it will effectively carry them out and what additional staff resources they will need.

Virginia Housing, on behalf of itself and DHCD, contracted with Housing Forward Virginia to complete the work required for the HB 854 study. Virginia Housing used its own internally generated funds to pay for the contractor's work.

RECOMMENDATION 3

The General Assembly may wish to consider including language in the Appropriation Act directing the Virginia Department of Housing and Community Development (DHCD) to identify and report on the resources it may need to develop a statewide housing needs assessment, housing plan, and annual progress updates. DHCD should include a description of any new or amended third-party contracts, additional funding, and new positions that would be needed to undertake these new tasks. The report should be submitted to the chairs of the House Appropriations and Senate Finance and Appropriations committees no later than November 1, 2022.

Although the state should play a more active role in identifying and planning for the state's housing needs, local governments and regional organizations (such as Planning District Commissions) already play significant roles in housing policy. As mentioned earlier, local governments are required to have an affordable housing section of their comprehensive plans, and many local governments (and regional partners) conduct assessments of the housing needs within their locality or region. Any state efforts to assess and plan for the state's housing needs should use the efforts and expertise of local governments.

Two state discretionary funds support increasing the inventory of affordable housing

The Virginia Housing Trust Fund (VHTF) and Virginia Housing's Resources Enabling Affordable Community Housing (REACH) program both provide significant discretionary funds for improving access to affordable housing. Among other uses, both funds are used to offer subsidies and grants for the construction of affordable rental housing. Virginia uses many other sources to fund affordable housing efforts, such as the Low Income Housing Tax Credit, tax-exempt bonds, and others (described in Chapter 1), but VHTF and REACH are two sources of funds not dependent on federal allocations or subject to federal restrictions or requirements.

Virginia Housing Trust Fund provides gap funding for affordable housing developments

In 2012, the General Assembly created the VHTF to address housing affordability. DHCD administers the VHTF. Since its creation, the size of the trust fund has increased steadily. For FY21, the General Assembly appropriated $71 million to the trust fund, the largest appropriation to date.

State law restricts how the VHTF can be used, requiring that 80 percent be reserved for low-interest loans that expand affordable housing access, and up to 20 percent be used for homelessness services. State law also limits the VHTF's efforts to expand affordable housing access to the following: (i) loans to fund the new construction or rehabilitation of affordable rental housing for low- or middle-income Virginians; (ii) down payment and closing cost assistance; and (iii) loans to reduce the cost of homeownership or rental housing. Funds used for homelessness services are required to be used for direct services or the development of long-term housing options for people experiencing homelessness. These restrictions are largely in line with how other states use their affordable housing trust funds.

DHCD administers trust fund dollars through three programs: the Affordable and Special Needs Housing Program (ASNH), the Vibrant Communities Initiative (VCI), and Homeless Reduction Grants. ASNH and VCI provide loans for the production and preservation of affordable rental and homebuyer housing. Homeless Reduction Grants provide funding for projects with the goal of reducing homelessness in Virginia. Funding from each of these programs is awarded through a competitive application process.

VHTF's largest expenditures are through the ASNH Competitive Pool to develop affordable housing, which prioritizes projects that include permanent supportive housing for persons with disabilities—including serious mental illness and intellectual and developmental disabilities—the elderly, or persons experiencing homelessness. These funds are awarded to developers, typically in the form of low-interest loans. In FY21, over $24 million was awarded to 40 projects that created or preserved over 2,800 affordable housing units. VHTF did not provide funding through the VCI program in FY21.VHTF also provides funding through the Homeless Reduction Grant program, which may be used to provide short-term rental assistance or housing services for permanent supportive housing. In FY21, VHTF provided $6.4 million for the Homeless Reduction Grants to 35 organizations across the state that provided services to 859 households experiencing homelessness.

Unlike housing trust funds in other nearby states, the VHTF does not have a dedicated source of revenue—all of its funds come from General Assembly general fund appropriations. Comparatively, other states, such as Maryland and West Virginia, do not appropriate any state general funds into their affordable housing trust funds but rely on dedicated sources of revenue like fees or taxes from certain real estate transactions to support their affordable housing trust funds. Other states like North Carolina and Kentucky take both approaches—they reserve a specific revenue source, such as a real estate tax, for the trust fund and their legislatures also appropriate state general funds to support their affordable housing trust funds.

DHCD provides the General Assembly with at least two annual reports on the VHTF's plans, expenditures, and impacts. State law requires DHCD to submit an annual report that describes how it plans to spend future year VHTF funds. To inform General Assembly members of VHTF's impacts, the report must document (i) the number of affordable rental housing units repaired or newly constructed, (ii) the number of individuals receiving down payments and/or closing assistance, and (iii) progress on reducing homelessness. DHCD submits a second report to the General Assembly annually that provides an overview of the VHTF's financial activity and status from the prior year.

Virginia Housing's REACH program represents a significant resource for addressing the state's affordable housing needs

Since 1989, Virginia Housing has reinvested a percentage of its net income into efforts to meet the state's affordable housing needs, making it among the first housing finance agencies in the country to establish a dedicated funding source for housing affordability initiatives (sidebar). Virginia Housing's current reinvestment program is called Resources Enabling Affordable Community Housing (REACH). REACH provides two types of assistance. First, REACH can be used to subsidize the interest rates Virginia Housing would otherwise charge on loans for selected multifamily rental developments. Second, REACH can provide grant assistance for specific projects.

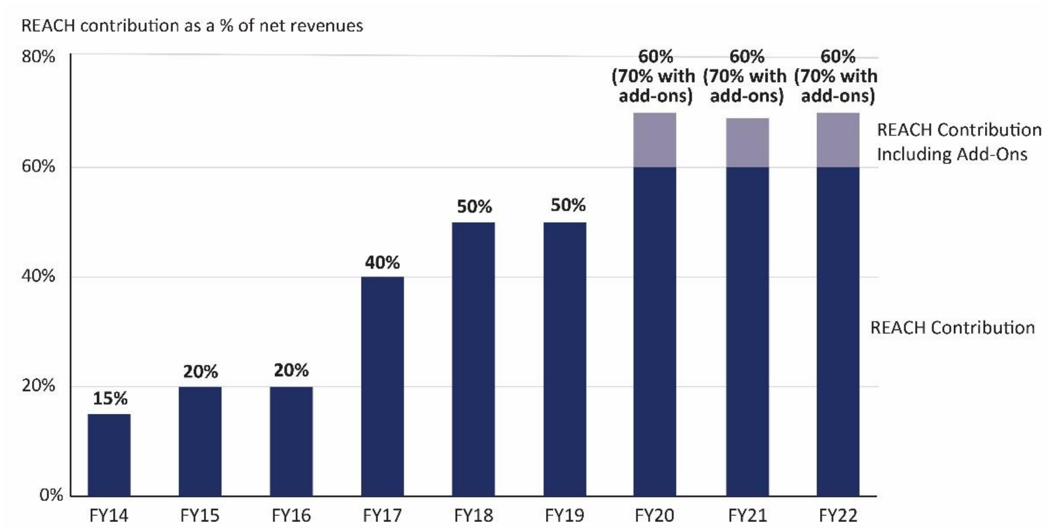
REACH is not a separate fund within Virginia Housing.

Virginia Housing funds REACH with a portion of its annual net income—currently about 70 percent. Virginia Housing generates annual net income through its single-family home loans, multifamily rental property loans, and its investments. Virginia Housing earned $456 million in total revenue in FY21 (includes operating and non-operating revenue) and spent $324 million, leaving $132 million in net income.

Virginia Housing has increased the percentage of net income it commits to REACH several times since the program began. REACH replaced Virginia Housing's previous affordable housing investment program, the Virginia Housing Fund, in 2005. At that time, Virginia Housing dedicated 15 percent of net income to REACH. The authority increased the percentage of net income contributed to REACH to 20 percent in 2015, 40 percent in 2017, 50 percent in 2018, and 60 percent in 2020 (Figure 3-1). Beginning in FY20, Virginia Housing committed $75 million in additional REACH funds for housing initiatives associated with the second Amazon headquarters in Northern Virginia. When these additional contributions are included, the contribution level is approximately 70 percent of net income in FY20, FY21, and FY22.

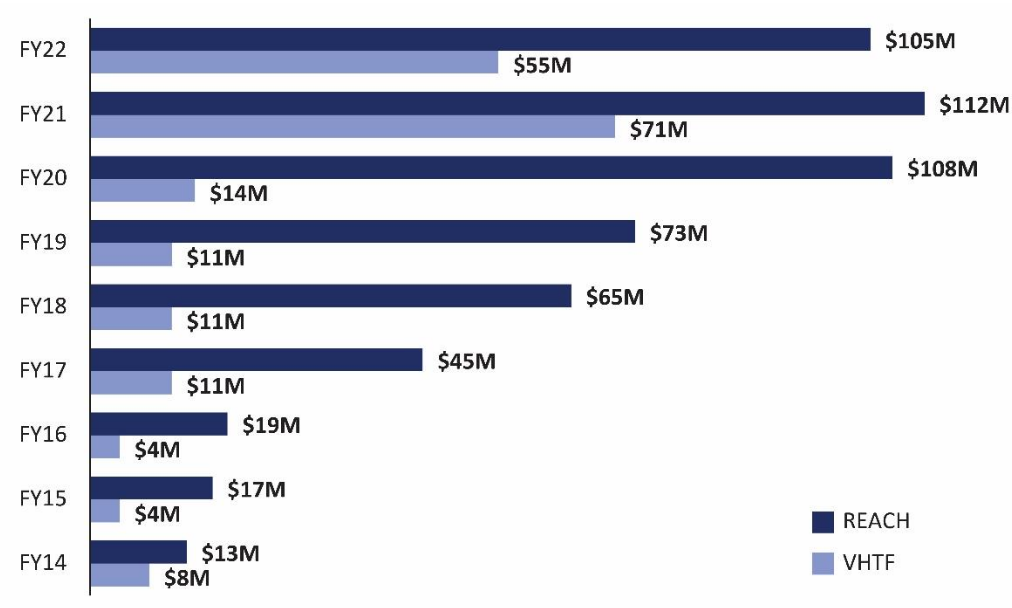
REACH is a more substantial resource for affordable housing needs than the VHTF. Since 2014, annual REACH commitments have exceeded annual appropriations to the VHTF, including when the General Assembly appropriated $71 million to the VHTF in FY21 (Figure 3-2). Total REACH contributions are also substantially larger than total contributions to VHTF. Since 2014, Virginia Housing has committed a total of $557 million to REACH, while the General Assembly has appropriated $171 million to the VHTF.

FIGURE 3-1
Virginia Housing has increased the percentage of net income allocated to REACH from 15 to 70 percent



SOURCE: Documents provided by Virginia Housing.
NOTE: Add-on amounts in FY20–FY22 were additional amounts that Virginia Housing dedicated to affordable hous-ing projects associated with the Amazon HQ2 project.

FIGURE 3-2
Allocations to REACH exceed appropriations to the Virginia Housing Trust Fund



SOURCE: Appropriations Act, documents provided by Virginia Housing.
NOTE: FY14 was the first year that state general funds were appropriated to the Virginia Housing Trust Fund. REACH amounts include additional amounts associated with the Amazon project in FY20–FY22.

Virginia Housing does not track or evaluate the impact of REACH spending on housing affordability

Virginia Housing reports limited metrics to its Board of Commissioners on the REACH program. The agency focuses on updating its board on the amount of funding Virginia Housing commits to the program rather than program outcomes. For example, staff provide board members with historic and projected REACH allocations and include descriptions of existing or new REACH programs but rarely discuss the outcomes of these programs. Virginia Housing's 2021 board materials included one mention of the program's outputs: the new commissioner handbook states that through June 2020, the authority has "allocated or committed approximately $2.5 billion in REACH assisted funds, which have financed or are committed to finance approximately 62,543 units."

Virginia Housing allocates REACH funds for three primary purposes: 1) home ownership, 2) rental housing, and 3) community outreach initiatives. For each of these categories, Virginia Housing invests funds in several different projects.

Chapter 5 discusses Virginia's programs to expand affordable home ownership, including Virginia Housing's down payment assistance grant program.

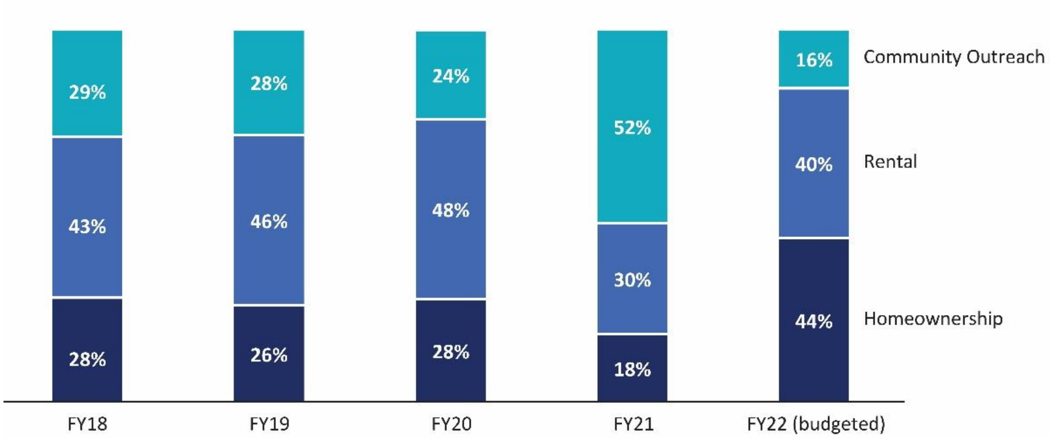
- The REACH homeownership category primarily funds the down payment assistance grants program Virginia Housing offers to its borrowers who have incomes at or below 80 percent of the area median income (AMI) (sidebar). Other projects include closing cost assistance grants to Virginia Housing borrowers with incomes below 80 percent AMI and interest rate reduction subsidies for certain homebuyers purchasing a Habitat for Humanity home.
- The REACH rental housing category primarily funds a rental housing loan subsidy program that reduces interest rates for multifamily rental developments being financed through Virginia Housing. Other projects funded in the rental category include: grants and loans for permanent supportive housing developments; grants and loans to redevelop deteriorated public housing units; and grants or loans to support developments targeting extremely low-income households, people with disabilities, or other difficult-to-serve populations.
- The REACH community outreach category funds several projects including: grants to make accessibility modifications for low-income tenants and disabled veterans; loans to conduct predevelopment work for proposed developments to serve low-income or other difficult-to-serve populations; grants to support planning community housing and development; grants to affordable housing non-profit organizations and local governments to support succession planning, strategic planning, and training; and grants to support housing counseling.

In the past few years, the largest proportion of REACH funds has been allocated to rental housing initiatives (over 40 percent of funds in FY18 through FY20). More recently, a larger proportion of REACH dollars, over 50 percent in FY21, was allocated to community outreach initiatives (Figure 3-3). In FY22, Virginia Housing plans to spend 40 percent of REACH funds on rental housing initiatives and 44 percent on expanding homeownership.

Virginia Housing currently reports some metrics annually in the authority's annual report, but these metrics are not specific to REACH. Additionally, the report provides information on the number of rental units developed or number of down payment assistance grants, but it does not provide information on the level of affordability associated with these numbers.

The purpose of the REACH program is to expand access to affordable housing for lower income Virginians. While some REACH activities, such as loan interest rate subsidies for affordable housing development and down payment assistance grants, have a clear and direct connection to that purpose, other activities' connections are less obvious and may not be the most impactful use of REACH. For example, some REACH funds are used for grants to help housing non-profits hire a consultant to develop a strategic plan or to offer organization development trainings on topics such as board development, marketing, fiscal management, or fund development. Those grants may indirectly help expand access to affordable housing, but more information on the outcomes of those grant awards could help the Virginia Housing Board ensure the authority is maximizing the use of REACH funds (sidebar).

FIGURE 3-3
REACH funds are invested in homeownership, rental, and community outreach initiatives



SOURCE: Documents provided by Virginia Housing.

To better track REACH's impact, Virginia Housing should adopt REACH output and outcome measures to report on annually. Measures should describe how each REACH-funded project contributes to addressing the state's affordable housing needs. Examples of potential measures include:

- number of rental units developed that are affordable to households with incomes at or below 30 percent of median income that would not have otherwise been developed;
- number of rental units developed that are affordable to households with incomes at or below 50 percent of median income that would not have otherwise been developed;
- number of households with incomes below 80 percent of median income receiving down payment assistance grants enabling them to purchase their first home;
- number of individuals with disabilities receiving funds to make accessibility improvements to their home; and
- number of permanent supportive housing units for vulnerable populations built or rehabilitated that would not have otherwise been developed.

Virginia Housing could base the measures on goals established in the statewide housing plan recommended in this report (Recommendation 2). The measures could, for example, be used to assess and clearly show how each of the authority's REACH activities addresses at least one of the goals in the housing plan.

RECOMMENDATION 4

The Board of Commissioners of Virginia Housing should adopt a set of outcome and output measures for Virginia Housing's Resources Enabling Affordable Community Housing program that will allow it to evaluate, at a minimum: i) the number of rental units affordable to households with incomes at or below 30 percent of median income created that would not have otherwise been created per grant or loan; ii) the number of rental units affordable to households with incomes at or below 50 percent of median income created that would not have otherwise been created per grant or loan; iii) the number of households with incomes below 80 percent of median income receiving down payment assistance grants enabling them to purchase their first home per grant or loan; iv) the number of individuals with disabilities receiving funds to make accessibility improvements to their home per grant or loan; and v) the number of permanent supportive housing units for vulnerable populations built or rehabilitated that would not have otherwise been created per grant or loan. Virginia Housing staff should report information on those measures to the Board of Commissioners annually.

In addition to Virginia Housing board members, the General Assembly would benefit from additional and transparent information about REACH fund contributions, their use, and their impact on addressing the state's unmet housing needs. REACH funds—like all of Virginia Housing's revenues—are entirely generated by the authority, and Virginia Housing has full discretion to administer those funds as long as they further the goal of increasing access to affordable housing. Greater transparency on REACH activities would not reduce Virginia Housing's discretion in administering REACH but instead help the General Assembly better understand how the state's largest discretionary fund for affordable housing is being used. As legislative attention to affordable housing and the Virginia Housing Trust Fund grows, more information on REACH would allow legislators and other stakeholders to focus on efforts that would complement REACH's programming.

Additionally, in some years, Virginia Housing does not spend all the funds that have been allocated to REACH, resulting in carry-forward amounts. For example, in FY20, Virginia Housing carried forward almost $50 million from previous years' REACH allocations that had not been spent. In FY21, Virginia Housing carried forward $54 million from previous years. Virginia Housing tracks and accounts for these carry-forward amounts and uses them for REACH initiatives in future years. However, given the state's extensive housing needs, REACH funds should be deployed quickly to address the need for affordable housing. Requiring Virginia Housing to report to the General Assembly the amounts allocated and spent through REACH will increase program transparency and allow General Assembly members to understand how and when REACH funds are spent.

RECOMMENDATION 5

The General Assembly may wish to consider amending §36-55.51 of the Code of Virginia to require the Virginia Housing Development Authority to submit an annual report to the chairs of the Senate Finance and Appropriations Committee, House Appropriations Committee, and Virginia Housing Commission describing: i) Virginia Housing's annual contributions to the Resources Enabling Affordable Community Housing (REACH) program and the annual fund balance (or any future program that reinvests Virginia Housing's net earnings into affordable housing initiatives); ii) amount of REACH funds spent in the fiscal year by broad purpose; and iii) the outputs and outcomes associated with those and prior REACH expenditures, as measured through its REACH performance measures. This report should be submitted at the end of each fiscal year.

Statute refers to Virginia Housing by its full name, the **Virginia Housing Development Authority**.

Virginia Housing has contributed less to REACH than it could have, given its annual net income

Improved statewide assessment and planning for the state's affordable housing needs will likely identify challenges and solutions that are not currently being addressed through the REACH program. Additionally, Virginia Housing should use performance measures developed through Recommendation 4 to assess the effectiveness of its REACH investments, and this will likely reveal additional affordable housing needs that can best be addressed with REACH funds. Implementing recommendations in Chapters 4 and 5 of this report may also require additional REACH funds.

Furthermore, Virginia Housing was established by the General Assembly to use its financial resources to improve access to affordable housing. To meet potential future needs and to best fulfill its statutorily directed purpose, Virginia Housing should maximize the proportion of its annual net income that it contributes to REACH. This could be done by modifying the REACH funding formula.

JLARC hired a national **consultant** specializing in housing finance, CSG Advisors, to perform primary analysis related to Virginia Housing's financial strength and its ability to allocate funds to REACH. Additional information about CSG Advisors and the analyses its staff conducted is available in Appendix B.

Given Virginia Housing's financial strength and its growing net assets, Virginia Housing can contribute additional funds to REACH and the program's affordable housing initiatives. According to JLARC's consultant (sidebar), Virginia Housing is considered one of the highest-performing housing finance agencies (HFA) in the country. Virginia Housing is among the highest-producing HFAs in the country for multifamily rental units—according to the National Council of State Housing Authorities (NCSHA); in 2020, only New York City's HFA produced more multifamily rental units than the over 7,600 units produced by Virginia Housing. Virginia Housing is also among the top producing HFAs for single-family home loans—Virginia Housing was the sixth-highest producing HFA in the country for single-family home loans in 2020. Virginia Housing's high production of multifamily and single-family units has resulted in significant financial strength. Virginia Housing has one of the highest net asset balances of any HFA in the country (sidebar) at approximately $3.7 billion at the end of FY21.

Net assets is the value of an HFA's total assets minus its total liabilities, and it is a key measure of an HFA's wealth and financial strength.

Current methodology for allocating funds to REACH could lead to a significant drop in funding in next several years

Virginia Housing could have committed more to REACH in past years if it had removed one unnecessary element of the formula it uses to calculate the annual REACH commitment. To determine what it can afford to commit to REACH activities each year, Virginia Housing uses a percentage of net income the authority has earned, on average, over the past five years (sidebar). This formula counts REACH *grants* made in a particular year as an *expense* against net income. By counting grants as an expense in the formula, Virginia Housing is basing its annual REACH commitment on a lower total amount than if REACH grants were *not* counted as an expense in the formula, which lowers the amount it contributes to REACH (Figure 3-4). Accounting rules require Virginia Housing to account for grants as an expense in its financial documents (such as the statement of net position or statement of cash flows), but the REACH contribution formula is developed by Virginia Housing and not subject to accounting rules. In fact, Virginia Housing's REACH contribution formula already excludes some typically required accounting adjustments from the calculation of annual net income used to determine the annual REACH contribution. Since the REACH formula is developed by Virginia Housing and not subject to accounting rules, there is no accounting or other financial basis for Virginia Housing to continue counting REACH grants as an expense in the REACH formula.

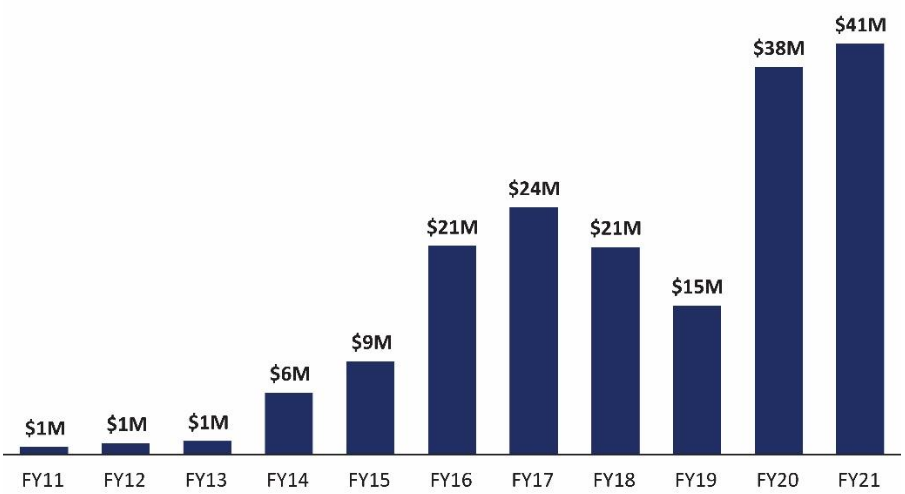
Currently, Virginia Housing commits 60 percent of the average of the past five years of its net income to REACH.

FIGURE 3-4
Example: Counting grant awards as an expense unnecessarily reduces REACH contributions (assuming $20 million in grants)

SOURCE: JLARC example using VH REACH formula.
NOTE: Hypothetical example for illustrative purposes. Assumes total revenue was $100 million, programmatic and administrative expenses were $8 million, and REACH grants were $20 million.

Increased grant awards made in recent years have significantly lowered REACH contributions, and grants made in future years will continue to reduce REACH commitments from what could be contributed if grants were not counted as an expense in the formula. In the past, Virginia Housing has not awarded many grants, and so this element of the formula has not had a significant impact on past REACH contributions. However, since 2015 REACH grant spending has more than quadrupled from $9 million in FY15 to over $40 million in FY21 (Figure 3-5).

FIGURE 3-5
REACH grant awards have increased



SOURCE: Documents provided by Virginia Housing.

Under Virginia Housing's current REACH formula, CSG Advisors projects that Virginia Housing's annual REACH contribution will steadily decrease from $98 million in FY23 to $25 million by FY31 because of its increase in grant awards. Over the past five years, Virginia Housing could have contributed an additional $44.6 million to REACH if it had not calculated REACH commitments using net income *after grants* (Table 3-2). This represents almost 10 percent of what was actually allocated to REACH over that time. Between FY23 and FY31, Virginia Housing could potentially contribute a projected additional $230 million to REACH if it does not count REACH grants as an expense (Table 3-3).

TABLE 3-2
Virginia Housing could have allocated an additional $45 million to REACH since 2018

	Actual funds allocated to REACH	Funds allocated to REACH using net income before grants	Additional funds available to REACH using net income before grants
FY18	$64.8M	$68.6M	$3.8M
FY19	73.4	79.5	6.1
FY20	108.1	117.8	9.7
FY21	112.4	123.2	10.8
FY22	105.1	119.3	14.2
Additional funds that could have been contributed to REACH			**$44.6M**

SOURCE: CSG Advisors.
NOTE: All figures are in millions of dollars. Figures may not add because of rounding. Includes one-time allocations associated with the Amazon project in FY20–FY22 and assumes those one-time allocations would have been made under the proposed methodology.

TABLE 3-3
Virginia Housing could commit an additional $230 million to REACH by FY31 if it changes commitment formula

To construct estimates of how much funding would be available for REACH in future years, **CSG Advisors forecasted Virginia Housing's financials for 10 years into the future under three scenarios: moderate growth, low growth, and no growth.** Estimates in this report are based on the no growth scenario because it provides the lowest estimate of funds available to REACH.

	Projected funds allocated to REACH under current methodology	Funds allocated to REACH using net income before grants	Additional funds available to REACH using net income before grants
FY23	$98.4M	$115.0M	$16.6M
FY24	81.6	102.9	21.3
FY25	51.4	80.1	28.7
FY26	37.5	71.3	33.8
FY27	31.0	65.2	34.2
FY28	22.5	55.4	32.9
FY29	24.7	52.7	28.0
FY30	26.8	46.9	20.1
FY31	25.1	39.6	14.5
Total additional projected funds available to REACH, FY22–FY31			**$230.1M**

SOURCE: CSG Advisors.
NOTE: All figures are in millions of dollars. Funds projected to be contributed to REACH assume no growth in Virginia Housing's existing business portfolio. Figures may not add because of rounding. Includes add-on amounts associated with the Amazon project in FY23–FY25 and assumes that those amounts would still be allocated as add-on amounts under the proposed methodology.

The REACH projections assume that Virginia Housing will not make any major changes to its business model that would impact future net income.

Virginia Housing should change its REACH funding formula to not count grants against future REACH allocations. Virginia Housing staff have recently considered establishing a minimum annual dollar amount for REACH allocations to reduce the effect of increased grants on REACH contributions. This option has two key problems. First, it does not address the fact that the amount of money Virginia Housing contributes over the minimum contribution will continue to decline under the current formula. Second, establishing a minimum contribution is contrary to one of the key purposes of the current formula—to link REACH allocations to the authority's financial performance. Instead of setting a minimum contribution, Virginia Housing should stop counting grants as expenses for the purposes of its REACH commitment calculation. This would mean using annual net income *before grants* to calculate REACH commitments.

RECOMMENDATION 6
Virginia Housing should adjust its methodology for calculating financial commitments to the Resources Enabling Affordable Community Housing (REACH) program to base REACH commitments on Virginia Housing's average net income without regard to grant amounts paid from prior year allocations to REACH.

Virginia Housing has enough financial strength and resources to support contributing a larger percentage of its net income to REACH. CSG Advisors conducted an analysis of how adjustments to Virginia Housing's REACH commitment would affect the authority's financial position. CSG's analysis shows that Virginia Housing can afford to contribute 75 percent of net income before grants while still growing the authority's net assets (sidebar) (Figure 3-6). Virginia Housing could conceivably contribute up to 100 percent of its annual net income to REACH, as is done in Minnesota. However, CSG Advisors' projections found that increasing Virginia Housing's REACH commitment to 100 percent of net income could threaten its Moody's bond rating in the future.

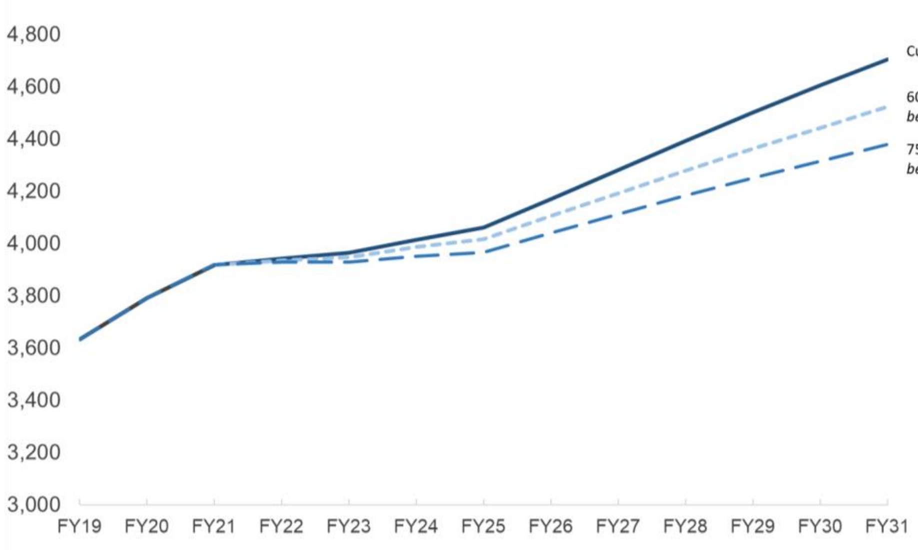
The **effective contribution rate for REACH has been approximately 70 percent in FY20–FY24** because of the one-time add-on commitment Virginia Housing made to affordable housing projects associated with the Amazon project. Implementing a 75 percent contribution rate in FY25 would be a small increase over the effective contribution rate that was used between FY20 and FY24.

RECOMMENDATION 7

Virginia Housing should increase the Resources Enabling Affordable Community Housing (REACH) contribution level to 75 percent of its net income without regard to grant amounts paid from prior year allocations to REACH in FY25.

CSG Advisors recommends Virginia Housing first change the REACH methodology to use net income before grants in FY23 and then increase the contribution percentage to 75 percent in FY25. As previously stated, CSG Advisors projects that the first step, changing the methodology to use net income before grants, would generate approximately $230 million in additional funds for REACH between FY23 and FY31. CSG Advisors projects that the second step, increasing the contribution level to 75 percent in FY25, would generate an estimated $102 million for REACH between FY23 and FY31 (Table 3-4). Taken together, these two actions could generate $332 million additional for REACH by FY31.Some recommendations in this report (Recommendations 13, 14, and 16 in Chapter 5) could reduce Virginia Housing's net income, resulting in less funds for REACH. Nevertheless, implementing these recommendations would directly enhance homeownership opportunities for low-income Virginians, and any resulting reductions in net income that would affect REACH contributions would be at least partially offset by modifying the REACH formula in accordance with Recommendations 6 and 7.

FIGURE 3-6
Net assets will continue to grow under proposed REACH formula



SOURCE: CSG Advisors analysis using Virginia Housing data.
NOTE: Dollars in millions; assumes no growth in Virginia Housing's existing business portfolio.

TABLE 3-4
Committing 75 percent of net income to REACH could increase amount available between FY23 and FY31 by over $300 million

	Additional funds available to REACH using net income before grants	Additional funds available to REACH using 75 percent contribution	Additional funds available to REACH using 75 percent contribution
FY23	$16.6M		$16.6M
FY24	21.3		21.3
FY25	28.7	$20.0M	48.7
FY26	33.8	17.9	51.7
FY27	34.2	16.3	50.5
FY28	32.9	13.8	46.7
FY29	28.0	13.0	41.0
FY30	20.1	11.3	31.4
FY31	14.5	10.3	24.8
Total additional projected funds available to REACH, FY22-FY31			**$332.7M**

SOURCE: CSG Advisors.
NOTE: All figures are in millions of dollars. Funds projected to be contributed to REACH assume no growth in Virginia Housing's existing business portfolio. Figures may not add because of rounding. Includes add-on amounts associated with the Amazon project in FY23–FY25.

Virginia Housing should regularly conduct analyses to determine how its business decisions affect funds available for REACH

Going forward, Virginia Housing should continue to regularly review how its business decisions affect the authority's financial strength and the amount of funds available to REACH. Changes to the authority's total outstanding debt, net income, and REACH contributions can affect Virginia Housing's net asset parity ratio and its risk-adjusted net asset parity ratio (sidebar). These two calculations are key factors used by the credit rating agencies to assign credit ratings to HFAs. Virginia Housing currently has a healthy net asset parity ratio, but it should continue to monitor how its business decisions (such as increasing production of multifamily rental loans) may affect the authority's net asset parity ratio in the future. Such monitoring would regularly inform the board how the authority's business decisions affect its financial strength and the amount of funds available to REACH.

Using existing data and data from the rating agencies, Virginia Housing staff should annually provide the Board of Commissioners with projections of the authority's net assets, net asset parity ratio, risk-adjusted net asset parity ratio and contributions to REACH, and how those may be affected by programmatic and financial decisions and changes in the market environment. Such financial modeling, including for the biennial budget cycle plus one year, as done for other state agency projections, can put the board in a position to conduct a more informed assessment of the impact of decisions on the agency's sustainability and contributions projected for REACH.

Net asset parity ratio is the ratio of an agency's net assets to its outstanding debt.

Credit rating agencies rate HFAs according to their **risk-adjusted net asset parity ratio** and determine HFA risk-adjusted net assets by applying risk-adjustments to the assets HFAs earn from different programs.

Rating agencies make risk adjustments based on perceived, not actual risk. Regardless of whether they perceive programs to be higher risk than they actually are, rating agencies' assessment of risk can affect Virginia Housing's borrowing costs.

RECOMMENDATION 8

Virginia Housing should produce projections of its net assets, net asset parity ratio, and risk-adjusted net asset parity ratio. Projections should be based on Virginia Housing's historic revenues, historic and planned loan production, program and financial decisions, credit rating agency risk adjustments, and Resources Enabling Affordable Community Housing allocation formula. These projections should be presented to the Board of Commissioners at least annually and include a forecast for at least three future years.

4 Resources to Increase the Inventory of Affordable Rental Housing

Increasing the inventory of rental housing that is affordable to low- and very low-income households will require new housing construction. Virginia does not have a surplus of units at any affordability level that could be converted into enough affordable units to meet demand, according to JLARC's analysis of the state's housing supply. The state should prioritize constructing rental housing stock that is affordable to low- and very-low income households because Virginia's rental housing shortage is most acute for housing that is affordable to families earning 80 percent or less than the area median income (AMI).

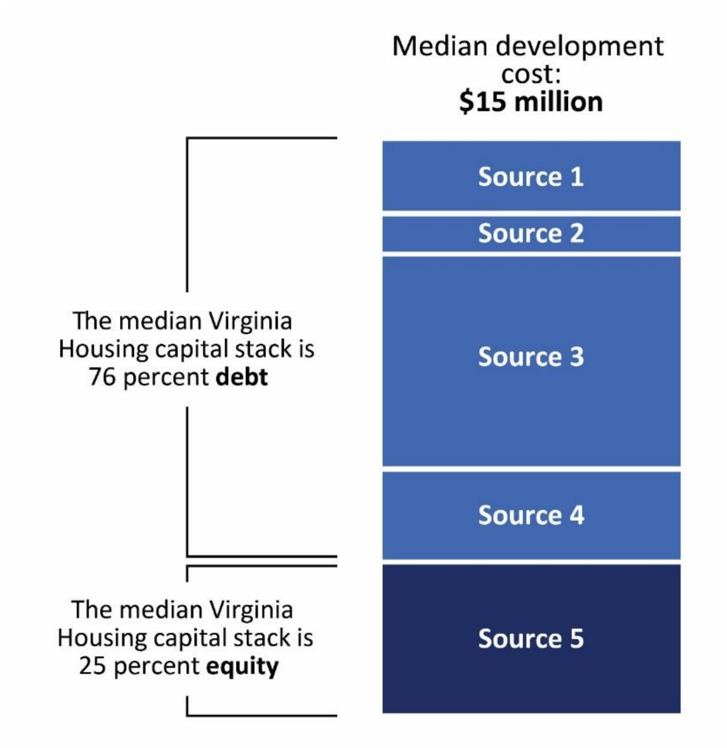
This chapter addresses financial resources to construct **multifamily rental housing**. Opportunities to expand homeownership are discussed in Chapter 5.

Developers require financial assistance to build affordable rental housing, because lower rents reduce their revenues. All multifamily rental housing development is financed with a combination of debt and equity. Developers must eventually pay back debt financing to a lender. Developers do not have to pay back equity financing, which is typically either cash investments from the developer, government or non-profit grants, or revenue generated from the sale of low-income housing tax credits, among other sources.

Affordable housing does not qualify for as much debt financing as market-rate developments. Developers use loans to pay for the upfront costs of housing development projects and then use income from tenant rents to make loan payments. Since rents determine housing development incomes, developments with higher rents can afford larger loan payments and qualify for more debt than other projects. Without the ability to take on as much debt, affordable housing developments must either cut costs, raise more equity, or borrow at lower interest rates to build the same number of units as market-rate developments.

Affordable housing developers must combine multiple sources of financing to cover development costs. In 2020, multifamily rental housing projects that received financing from Virginia Housing had a median of five different funding sources (Figure 4-1).

FIGURE 4-1
Median Virginia Housing-financed development costs $15 million and has five sources of financing (2020)



SOURCE: JLARC analysis of Virginia Housing data.
NOTE: LIHTC deals include larger proportions of equity than the median. The median LIHTC capital stack is about 40 percent equity.

Virginia Housing and DHCD helped finance the construction of over 30,000 rental units since 2013

A **capital stack** refers to the group of funding sources developments use to finance construction.

Virginia Housing and the Department of Housing and Community Development (DHCD) operate several programs to provide financing for affordable multifamily housing development and to help developers assemble a sufficient "capital stack" (sidebar). Since 2013, Virginia Housing has administered over $5 billion in financing to 348 housing developments, and DHCD has administered over $60 million to 87 housing developments. Virginia Housing provides the primary financing for most projects, averaging around 60 percent of the typical project's capital stack, while DCHD financing typically acts as gap financing, averaging around 9 percent of the capital stack for its projects.

Virginia Housing effectively operates the state's largest programs to subsidize affordable multifamily housing developments

Virginia Housing administers four types of funding to finance multifamily rental development. These four types of funding are often used in combination to help build the capital stack needed to finance a multifamily rental project.

- **Low Income Housing Tax Credit (LIHTC) program:** Virginia Housing administers the federal LIHTC program, which is the largest source of affordable housing funding in the country. Developers apply to Virginia Housing for either 9 percent (intended to generate 70 percent of a project's equity) or 4 percent tax credits (intended to generate 30 percent of the project's equity), which they then sell to investors to generate equity for their projects. The federal government allocates a limited number of 9 percent tax credits to each state. Demand for those credits exceeds supply, so qualifying projects must compete to receive 9 percent credits. Developers are automatically awarded 4 percent tax credits if 50 percent of the development is financed with tax-exempt bond financing.
- **Tax-exempt bond financing:** Tax-exempt private activity bonds are federally regulated bonds issued by state and local government agencies. The federal government allocates a tax-exempt bond volume cap for each state. Virginia Housing administers a portion of Virginia's cap to make loans to multifamily developers. Tax-exempt bonds are used with 4 percent tax credits.
- **Taxable bond financing:** Virginia Housing also makes loans to multifamily housing developers through taxable bond financing. These loans can be used with 9 percent tax credits, alone, or with other Virginia Housing programs.
- **Rental Housing Resources Enabling Affordable Community Housing (REACH) program (discussed in Chapter 3)**: Virginia Housing sets aside a portion of its REACH allocation for multifamily rental developments. Multifamily REACH funds are typically delivered through low-interest rate loans that, blended with other loans, reduce the overall interest rate for Virginia Housing loans.

Nine percent and 4 percent credits refer to the proportion of a project's cost of construction the credit holder can claim. For example, a 9 percent development with $1 million in construction costs would generate a stream of tax credits equal to $90,000 (.09 x $1 million) per year for 10 years.

Income earned from **tax-exempt bond** interest is exempt from state and federal income taxes.

Since loan recipients pay interest rates on their debt, Virginia Housing generates revenue from tax-exempt bond, taxable bond, and REACH financing.

Virginia Housing administers financing to three broad categories of multifamily rental development projects: (1) low-income housing tax credit projects (LIHTC), which create housing for households with incomes at or below 50 or 60 percent of AMI; (2) workforce housing, which sets aside a portion of units for households with incomes at or below 80 percent of AMI; and (3) general residential development, which does not aim to increase the supply of affordable housing. LIHTC, workforce housing, and general residential projects are eligible for different funding sources and subject to different affordability requirements (Figure 4-2).

FIGURE 4-2
Development project types dictate available financing sources and income requirements

	LIHTC credits	Tax-exempt bond financing	Taxable bond financing	REACH subsidy	Affordability requirements
9% LIHTC projects	✓		✓	✓	**20%** of units — Households at or below **50%** of AMI or **40%** of units — Households at or below **60%** of AMI
4% LIHTC projects	✓	✓		✓	
Workforce housing projects			✓	✓	**20%** of units — Households at or below **80%** of AMI
General residential projects			✓		**100%** of units — Households at or below **150%** of AMI

SOURCE: JLARC summary of information provided by Virginia Housing.
NOTE: Depending on a project's other financing sources, individual projects may have more affordability requirements than those listed here. As of 2018, LIHTC developments can also meet affordability requirements through an income averaging option. They meet requirements if at least 40 percent of units are occupied by tenants with an average income of no greater than 60 percent of AMI, and no individual tenant has an income exceeding 80 percent of AMI.

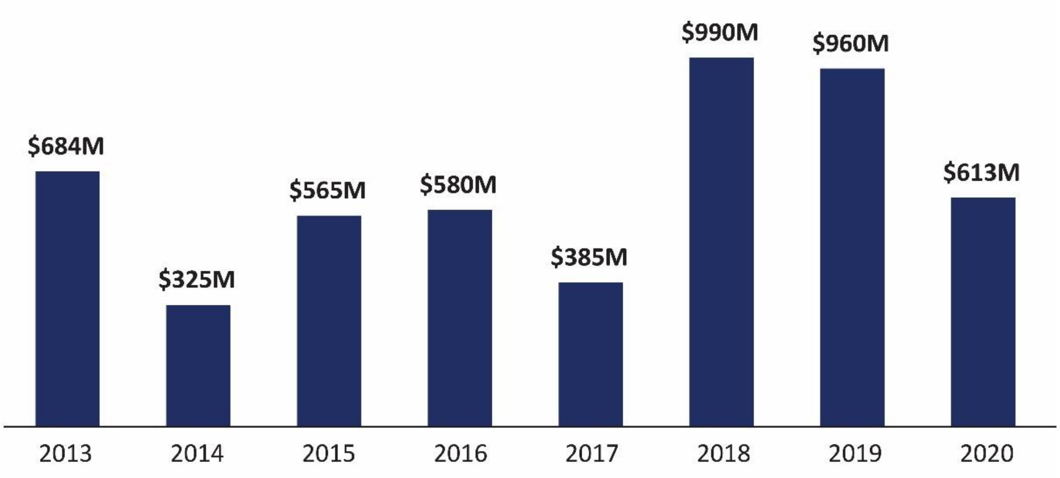
Virginia Housing has administered $5.1 billion in financing to 348 multifamily rental projects between 2013 and 2020, resulting in a total of 32,671 units constructed statewide (Tables 4-1 and 4-2, Figures 4-3 and 4-4). Over that period, Virginia Housing administered LIHTC credits to an additional 200 developments that did not receive other financing from Virginia Housing, resulting in 19,095 units.

TABLE 4-1
Virginia Housing has administered $5.1 billion in multifamily financing since 2013

	LIHTC equity	VH tax exempt	VH taxable	REACH	Other VH [a]	Total
2013	$75M	$111M	$285M	$70M	$142M	$684M
2014	112	30	112	46	25	325
2015	133	126	162	63	82	565
2016	226	80	143	80	50	580
2017	145	35	68	95	43	385
2018	268	100	329	218	75	990
2019	288	64	360	180	69	960
2020	149	59	262	125	17	613
Total	**$1,395**	**$605**	**$1,722**	**$877**	**$503**	**$5,103**

SOURCE: JLARC analysis of Virginia Housing data
NOTE: [a] Other VH includes existing VH funds, gap funding, loan increase funds, and retainage reserves. Calendar years. Financing included in year of commitment from Virginia Housing. 2020 dollars, adjusted using the Index of Multifamily Residential Units Construction from the U.S. Census Bureau. Some projects received additional financing from other sources, including local governments and DHCD, so this does not represent total government investment in multifamily development. Excludes LIHTC projects that did not receive additional Virginia Housing financing.

FIGURE 4-3
Virginia Housing has administered $5.1 billion in multifamily financing since 2013



SOURCE: JLARC analysis of Virginia Housing data.
NOTE: 2020 dollars, adjusted using the Index of Multifamily Residential Units Construction from the U.S. Census Bureau. Fluctuations largely driven by taxable bond financing activity. 2017 fluctuation due to transition in taxable bond program policies, including interest rates. 2018 fluctuation due to response to changes to taxable bond program policies, including interest rates. 2020 fluctuation due to COVID-19 pandemic.

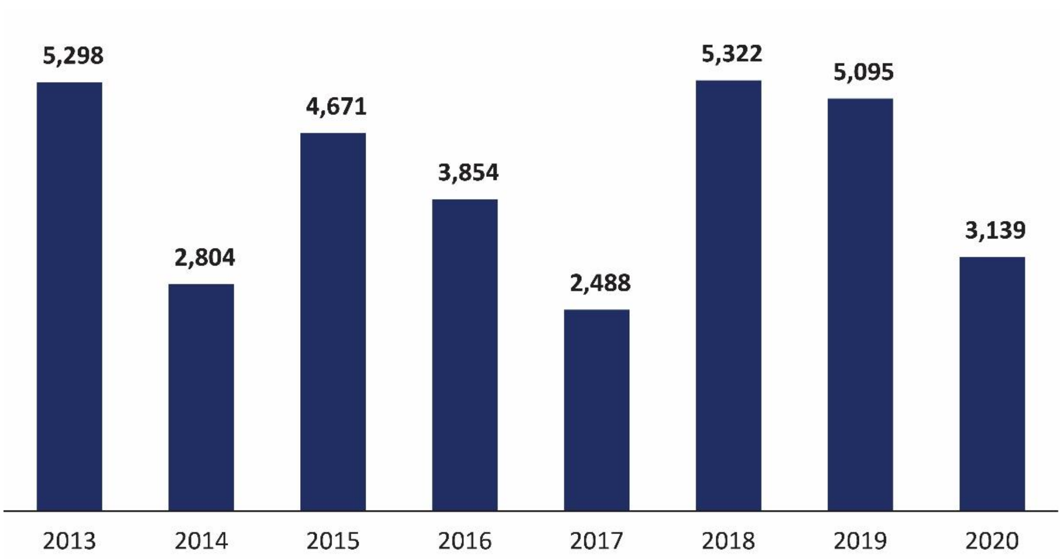
Since 2013, Virginia Housing has spent an average of approximately $140,000 per rental unit it finances. This is not the entire cost of developing and building a rental unit. Virginia Housing typically finances around 60 percent of the cost of development and construction, so the average cost of a unit Virginia Housing finances is around $233,000. Assuming each unit is approximately 950 square feet, the average cost per square foot is $245. According to the Brookings Institution, the cost per square foot to build rental housing can range from $150 to $400 depending on the location, number of units per building, and construction type (wood, steel, or concrete). The cost of rental units that Virginia Housing is financing appears to fall within this range.

TABLE 4-2
Virginia Housing has helped finance over 32,000 rental units since 2013

	Developments	Units
2013	54	5,298
2014	44	2,804
2015	45	4,671
2016	43	3,854
2017	27	2,488
2018	49	5,322
2019	58	5,095
2020	28	3,139
Total	**348**	**32,671**

SOURCE: JLARC analysis of Virginia Housing data
NOTE: To avoid double counting, unit and development count excludes any refinancing or loan increase deals when the original deal also appeared in the dataset. Includes only development that received Virginia Housing financing, excludes developments that received LIHTC and no Virginia Housing financing. Units represent all units in developments.

FIGURE 4-4
Virginia Housing has helped finance over 32,000 rental units since 2013



SOURCE: JLARC analysis of Virginia Housing data
NOTE: To avoid double counting, unit and development count excludes any refinancing or loan increase deals when the original deal also appeared in the dataset. Includes only development that received Virginia Housing financing, excludes developments that received LIHTC and no Virginia Housing financing.

Virginia Housing appears to effectively administer its multifamily financing programs. In interviews, developers who had received financing from Virginia Housing uniformly complimented Virginia Housing's professionalism and expertise in administrating its multifamily programs. In particular, developers noted that Virginia

Housing administers its LIHTC program transparently, stating that timelines, project requirements, and scoring were clear and consistent, allowing developers to submit applications that meet Virginia Housing's criteria and predict how well their projects will score (sidebar).

Applying for LIHTC is a significant time and financial investment. A transparent and competitive award process ensures that applicants can predict how well their applications will score. This helps developers make sure that their application will be competitive and increases the chance they will receive credits. Developers reported that it can cost up to $150,000 to apply for LIHTC credits.

DHCD programs provide "last dollar" financing to affordable housing developments

DHCD also administers financing for multifamily rental housing development, though its programs are smaller than Virginia Housing's and are never a project's primary source of financing. DHCD primarily administers financing for multifamily rental housing through its Affordable and Special Needs Housing Program (ASNH) (sidebar). Projects apply to the ASNH program to access funding from the Virginia Housing Trust Fund, the National Housing Trust Fund, HUD's HOME Investments Partnership Program, and, as of 2020, Housing Innovations in Energy Efficiency. The ASNH program provides projects with "last dollar" financing, meaning projects receive ASNH funds only after they have received all other financial commitments. Under the ASNH program, affordable housing projects receive the minimum amount necessary to close a financing gap.

Since the program began, DHCD has administered $63 million in financing (Table 4-3). Affordability requirements vary by project, but the majority of units supported by ASNH funds are affordable to households earning 60 percent or less of AMI.

Developments creating **affordable homeownership** opportunities are also eligible for ASNH funds.

DHCD also operates a program called the **Vibrant Communities Initiative** (VCI) that helps developers access state and federal funds. VCI has provided funding to six projects since 2016. Those projects must address both housing and economic development needs.

TABLE 4-3
DHCD has administered $63M in ASNH funds to 87 developments since 2016

	Developments	Average funding amount	Total funds disbursed
2017	21	$0.6M	$13.5M
2018	12	0.7M	8.2M
2019	28	0.7M	20.5M
2020	26	0.8M	20.7M
Total	**87**	**$0.7M**	**$62.8M**

SOURCE: JLARC analysis of DHCD data
NOTE: 2020 dollars, adjusted using the Index of Multifamily Residential Units Construction from the U.S. Census Bureau. ASNH funds for this analysis period include Virginia Housing Trust Fund, the National Housing Trust Fund, and HUD's HOME Investments Partnership Program. The Housing Innovations in Energy Efficiency Program began in 2020. DHCD only collected data on the number of affordable units, not the total number of units. Years represent state fiscal years.

Affordable and special needs housing funds are delivered as 3 percent interest-only deferred payment loans, which are repaid over the required affordability period for the project.

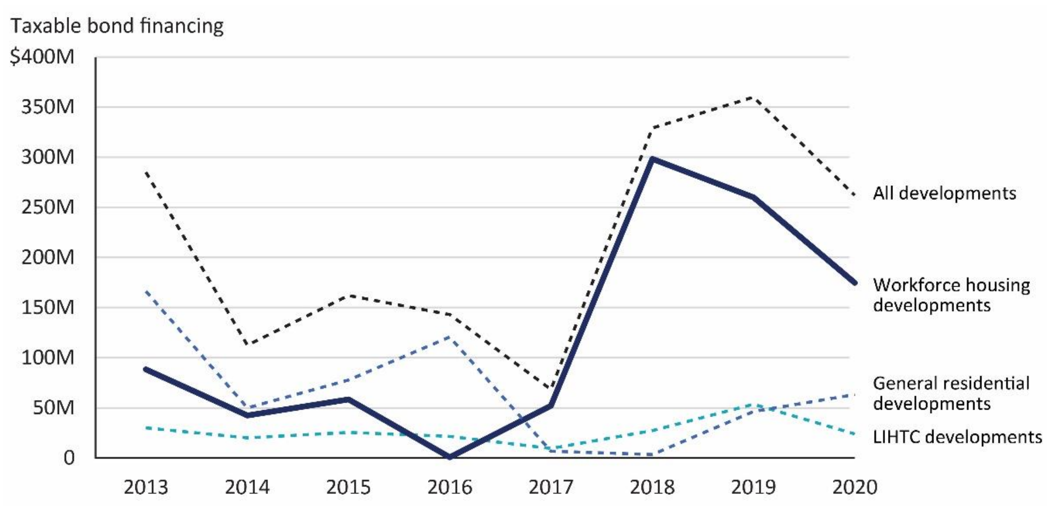
Projects that receive ASNH funds often also participate in Virginia Housing's multifamily development programs.

Virginia Housing has grown its "workforce housing" program, but affordability could be improved

Virginia Housing has significantly increased its investments in workforce housing development in recent years. Virginia Housing's workforce housing programs provide financing for multifamily rental housing developments through taxable bond-financed loans and REACH loan subsidies. Two Virginia Housing financing programs fall under the workforce housing umbrella: the mixed-income development program and the mixed-use, mixed-income development program. Mixed-use development includes a mix of housing and commercial space. Mixed-income housing includes a mix of units for households at different income levels. This report refers to the mixed-income and mixed-use, mixed-income programs collectively as Virginia Housing's workforce housing programs. Virginia Housing's program requirements specify that developments must reserve 20 percent of rental units for households earning 80 percent or less than the area median income.

Increased financing for workforce housing development drove recent increases in Virginia Housing's taxable bond lending. Between 2013 and 2017, Virginia Housing administered a yearly average of about $150 million in taxable bond lending. More recently, that yearly average more than doubled to over $300 million. Taxable bond financing is available to both LIHTC housing and workforce housing, but workforce housing projects drove the large increase in Virginia Housing's taxable bond lending (Figure 4-5).

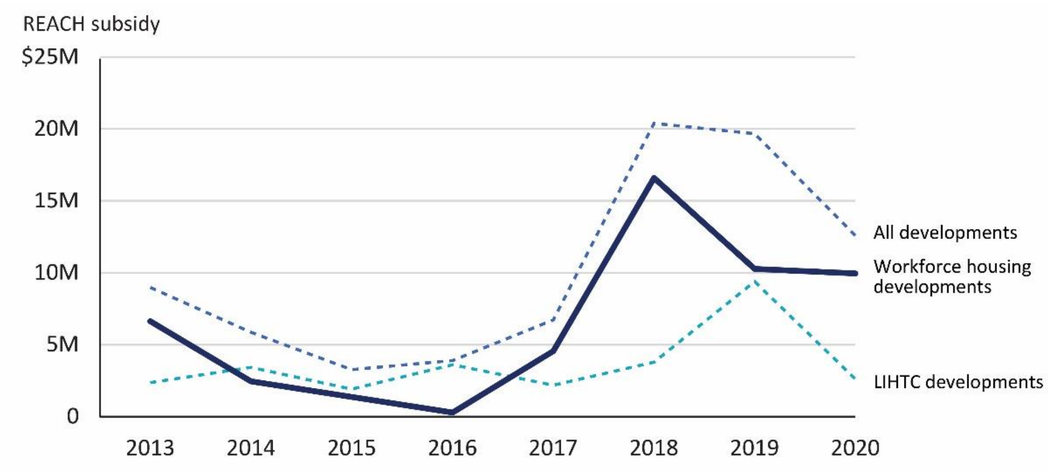
FIGURE 4-5
Workforce housing development drove taxable bond lending increases



SOURCE: JLARC analysis of Virginia Housing data.
NOTE: 2020 dollars, adjusted using the Index of Multifamily Residential Units Construction from the U.S. Census Bureau. Because of changes in how financial data was recorded over the analysis period, JLARC used the following rules to categorize lending by program: workforce housing development refers to non-LIHTC projects that received REACH subsidy; general residential development refers to non-LIHTC projects that did *not* receive REACH subsidy; and LIHTC developments refer to LIHTC projects.

Workforce housing development also drove increases in the REACH program's subsidies for developments receiving taxable bond lending (Figure 4-6). Between 2017 and 2018, the amount of REACH loan subsidies helping to reduce interest rates for taxable bond projects increased from about $7 million to $20 million. The majority of that increase was attributable to increases in REACH subsidies to workforce housing developments.

FIGURE 4-6
Workforce housing development drove REACH subsidy increases



SOURCE: JLARC analysis of Virginia Housing data.
NOTE: 2020 dollars, adjusted using the Index of Multifamily Residential Units Construction from the U.S. Census Bureau. Because of changes in how financial data was recorded over the analysis period, JLARC used the following rules to categorize lending by program: workforce housing development refers to non-LIHTC projects that received REACH subsidy; LIHTC developments refer to LIHTC projects. REACH subsidy is calculated as either 1) the total amount of a REACH grant or 2) the net present value of lost revenue due to interest rate reduction.

Workforce housing units are not affordable to all of the households they are reserved for

Virginia Housing's workforce housing programs have two key programmatic requirements for developments. First, developments must be constructed in locally designated revitalization areas. Revitalization areas include areas that are blighted, in need of economic development, or areas where community investment cannot be reasonably expected without assistance (sidebar). The goal of this requirement is to provide quality housing and, in some cases, commercial space in areas in need of community investment. Second, developments must set aside 20 percent of their units to rent to households earning low and moderate incomes. Per Virginia Housing's program rules, "low and moderate incomes" are typically defined as incomes at or below 80 percent of AMI.

Virginia Housing uses REACH to subsidize the workforce housing program, which is consistent with the board's regulatory guidelines for use of REACH funds. The guidelines state that "the principal purpose of REACH Virginia is to create new housing opportunities for lower income Virginians," and that "REACH will also seek to provide support for comprehensive programs of neighborhood revitalization."

Mixed income developments may be constructed outside of revitalization areas if 1) the development will improve the availability of affordable housing to households with low or moderate incomes, OR 2) low- and moderate-income households predominantly comprise the development's surrounding area, and private investment cannot reasonably be expected. These exceptions do not apply to mixed use developments.

However, rents for residents of income-restricted units are only slightly less than rents for other residents, and residents of income-restricted units experience the same degree of cost burden as the statewide median. The workforce housing program requires that 20 percent of units in a development be occupied by households making 80 percent or less of area median income, which is an *income restriction* instead of a *rent restriction*. While this does not guarantee that the rent for these units is lower than market rents, rents were 6 percent less in income-restricted units than rents in unrestricted units in the same developments. The average rent difference was $15 per month in one-bedroom apartments and $40 in two-bedroom apartments. According to Virginia Housing staff, the workforce housing program's income restrictions should require developers to lower rents for income restricted units to attract residents earning 80 percent or less of area median income.

As described in Chapter 1, **cost burden** is the percentage of income that a household spends on housing costs. When a household spends more than 30 percent or more of its income on housing, the household is considered "cost burdened." When a household spends more than 50 percent of more of its income on housing, the household is considered "severely cost burdened."

Reserving rental units for lower-income households may make it easier for those households to secure housing because they do not have to compete with higher income rental applicants. However, making units *income restricted* as opposed to *rent restricted* does not guarantee that the rents are affordable to these households. Income-restricted workforce housing rental units in these developments are slightly less expensive than market-rate units, but the occupants are still likely to experience cost burden (sidebar). According to American Community Survey data, the median cost burden for Virginia renting households earning incomes consistent with households in these units is 32 percent. The median cost burden for households living in workforce units that are income restricted is 33 percent.

The Code of Virginia specifies that 20 percent of units in Virginia Housing's workforce housing developments must be reserved for low- and moderate-income households but does not require rent limits for these units. To ensure that the workforce housing program lowers renters' cost burdens and that REACH funds are being used to provide rental units that are affordable for low-income households, the General Assembly should require Virginia Housing to reserve units for low-income households and restrict the rents on reserved units to be affordable to low-income households.

The state could consider a rent limitation program similar to the one used in Fairfax County's workforce dwelling unit program. In this program, the rent limits are set on a sliding scale so they are affordable (30 percent or less of monthly income) to households earning as much as 80 percent of area median income and as little as 60 percent of area median income. Households earning less than 60 percent of area median income are still eligible to live in restricted units, but rents are not adjusted below 60 percent area median income affordability. Another option could be to set a threshold for how much lower rents in restricted units should be compared to unrestricted units. For example, Virginia Housing could require restricted units to be affordable to households earning 80 percent or less of AMI *and* be at least 10 percent below the rents for unrestricted units. However, several options exist, and Virginia Housing should determine how to best operationalize rent limitations so rents are affordable to low-income households living in these units.

RECOMMENDATION 9

The General Assembly may wish to consider modifying §36-55.30:2 of the Code of Virginia to specify that, in economically mixed projects financed by the Virginia Housing Development Authority, at least 20 percent of units shall be reserved for low-income households and reserved units must be affordable to households earning 80 percent and below area median income.

Statute refers to Virginia Housing's mixed-income developments and its mixed-use, mixed-income developments as **"economically mixed projects."**

Statute refers to Virginia Housing by its full name, the **Virginia Housing Development Authority**.

This change would lead to decreased rental revenue for developers that participate in the workforce housing program. According to JLARC staff's analysis of Virginia Housing's data on workforce housing units, rents on income-restricted units would need to be set approximately 19 percent lower than the rents on market-rate units to be affordable for the households that currently reside in income-restricted units. To account for this, Virginia Housing could raise the limit on the amount of REACH subsidy workforce developments can receive—currently 20 percent of the loan amount—to ensure that the authority can provide enough subsidy to make deals financially feasible.

RECOMMENDATION 10

Virginia Housing should increase its limit on the amount of Rental Housing Resources Enabling Affordable Community Housing subsidy it will provide to workforce developments to ensure that workforce developments remain financially feasible with affordable rent restrictions.

It is more difficult to measure how well the program meets its other goal of revitalizing areas in need of development because assessing revitalization requires analysis of a holistic set of population and housing market indicators, such as resident incomes and education levels and home values. Further, many initiatives may contribute to revitalization, and it is difficult to isolate the impact of each one. Regardless, even in areas of revitalization, Virginia Housing should ensure the program continues to prioritize affordability. First, almost all workforce housing developments receive REACH financing, and regulations describe creating new housing opportunities for lower income Virginians as "the principal purpose" of REACH. Second, one way to mitigate any displacement associated with successful revitalization is to ensure that at least a portion of new housing is affordable to long-term residents of the revitalization area.

Credit ratings predict an entity's ability to pay back its debt. Entities with lower ratings may have difficulty accessing loans or pay higher interest rates. The three main bond rating agencies in the U.S. are Moody's, Standard and Poor's, and Fitch.

Rating agencies make risk adjustments based on perceived, not actual risk. Regardless of whether they perceive programs to be higher risk than they actually are, rating agencies' risk assessments can affect Virginia Housing's borrowing costs.

Virginia Housing should consider the risks and benefits of the workforce housing program

Credit rating agencies rate housing finance agencies (HFAs) according to their risk-adjusted net asset parity ratio. A risk-adjusted net asset parity ratio is equal to an agency's risk-adjusted net assets divided by its outstanding debts. Rating agencies determine HFAs' risk-adjusted net assets by applying risk-adjustments to the net assets HFAs generate from different programs (sidebar). Each rating agency has a different methodology for applying risk adjustments and calculating an HFA's parity ratio. For

JLARC contracted with CSG Advisors, a national consultant specializing in housing finance, to conduct a structured review of Virginia Housing's financial strength and the sustainability of its current activities.

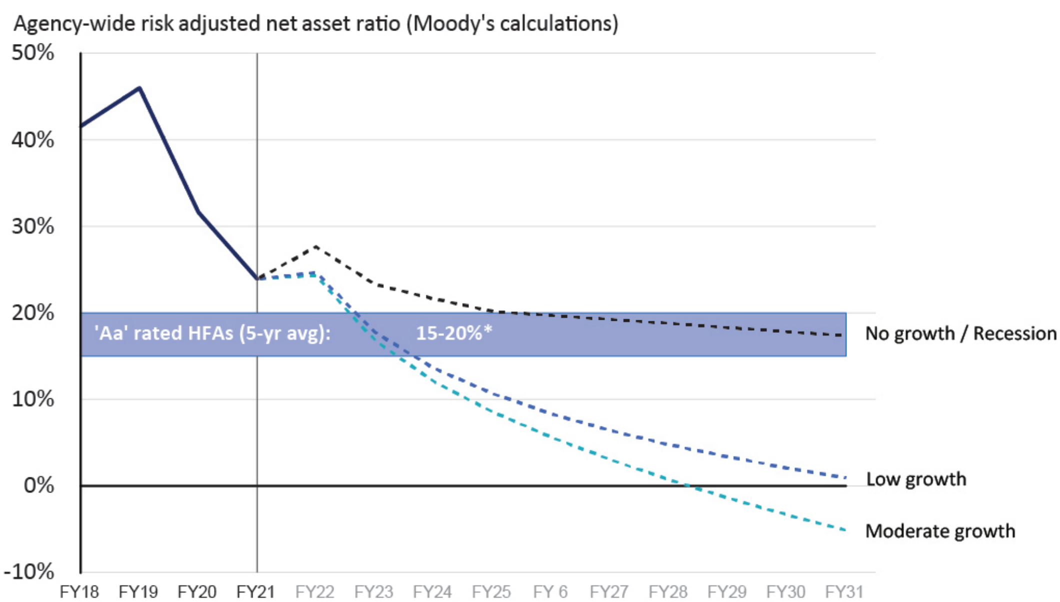
Taxable bond lending is used to finance both workforce housing and 9 percent low income housing tax credit (LIHTC) developments. The amount of lending Virginia Housing can do for 9 percent LIHTC developments is restricted based on Virginia's federal tax credit allocation. There is no restriction on the amount of workforce housing lending Virginia Housing can do.

Moody's sets a net asset parity range that it expects from HFAs based on their credit rating. The range for Virginia Housing's Aa credit rating is 15 to 20 percent. Virginia Housing's FY21 risk adjusted net asset parity ratio was 24 percent.

example, if a credit rating agency applies small risk adjustments to an HFA's net assets, its risk-adjusted net asset parity ratio may be relatively high, which will positively affect its credit rating. If a rating agency applies large risk adjustments, the HFA's parity ratio will not be as high, and it may receive a lower credit rating.

Taxable bond lending is used to finance Virginia Housing's workforce housing program, which could negatively affect Virginia Housing's Moody's bond rating (sidebar). Moody's, one of the primary bond rating agencies in the United States, assigns a large, 43 percent risk adjustment to assets generated through Virginia Housing's taxable bond program. This means that as the taxable bond program grows, Virginia Housing's risk-adjusted net assets increase at a slower rate than its outstanding debts. When growth in risk-adjusted net assets does not keep pace with growth in outstanding debts, an HFA's risk-adjusted net asset parity ratio decreases. If Virginia Housing continues to grow its taxable bond lending program at the current rate, its Moody's risk-adjusted net asset parity ratio could drop below the range for its current Aa credit rating as soon as FY23 (Figure 4-7). A credit downgrade would increase Virginia Housing's cost of borrowing.

FIGURE 4-7
Continuing to grow Virginia Housing's taxable bond lending program could result in a Moody's credit rating downgrade as soon as FY23



SOURCE: CSG Advisors analysis of Virginia Housing and Moody's data.
NOTE: Assumes all repurchase investments are migrated to an investment grade counterparty, therefore receiving 100 percent credit from Moody's starting in FY22. Net asset projects based on current REACH formula.

Importantly, rating agencies make risk adjustments based on *perceived risk*, not actual risk, and Virginia Housing has not experienced financial losses through taxable bond lending. According to CSG Advisors, Moody's risk adjustments are particularly severe, especially when compared with risk adjustments made by the other rating agency used by Virginia Housing, Standard and Poor's Global Ratings (S&P). S&P's risk adjustments to Virginia Housing's financials are less than half of the risk adjustments that Moody's makes.

Since the workforce housing program has driven recent increases in Virginia Housing's taxable bond financing, Virginia Housing will need to consider the risks and benefits of growing, maintaining, or reducing its workforce housing program. The primary risk associated with the workforce housing program is a Moody's credit downgrade, and the primary benefits are increased affordable housing availability and neighborhood revitalization. Currently, workforce housing developments do not generate meaningful affordability benefits for lower income residents, but they have the potential to do so if Virginia Housing implements Recommendations 9 and 10 of this report. With those changes, households earning between 51 and 80 percent of area median income (43 percent of households) would benefit from the program. Those households include many essential workers such as firefighters, teachers, and social workers who may not have incomes low enough to qualify for other subsidized housing.

CSG Advisors recommended several other actions Virginia Housing could take to reduce the risk of a Moody's rating downgrade. These recommendations include actions such as purchasing risk-share insurance for its LIHTC developments, using federal government-sponsored enterprise guarantees on more single-family loans, and shifting investments to Moody's-rated financial institutions. These additional options are discussed in Appendix H of this report. CSG Advisors indicates Virginia Housing may have other options in addition to the consultant's recommendations, but the agency should act quickly.

Virginia Housing could combine REACH and private activity bonds to increase affordable multifamily rental housing

Virginia Housing does not maximize two of its funding sources for multifamily affordable housing development—its multifamily rental REACH allocation and its federally allocated tax-exempt private activity bond volume cap. Each year, Virginia Housing allocates a portion of its total REACH commitment to multifamily rental housing but does not always use the full amount. Between 2016 and 2021, Virginia Housing allocated between $17 million to $60 million dollars for REACH's contributions to multifamily rental housing. Virginia Housing had funds leftover in four of those six years, ranging from $4 million in 2016 to $26 million in 2020, when there was lower production due to the COVID-19 pandemic (sidebar).

Year-end REACH rental allocation balances varied over the past six years. In 2017 and 2018, Virginia Housing's REACH rental spending exceeded its allocation for multifamily rental housing. In 2016, 2019, 2020, and 2021, Virginia Housing had REACH rental allocation left over:

- 2016: $4 million
- 2017: -$10 thousand
- 2018: -$4 million
- 2019: $5 million
- 2020: $26 million
- 2021: $18 million

Virginia also does not use the full amount of the tax-exempt private activity bonds the federal government allows the state to use for housing and industrial development each year. DHCD administers the private activity bond program in Virginia and allocates bonds for rental housing development to local housing authorities, the

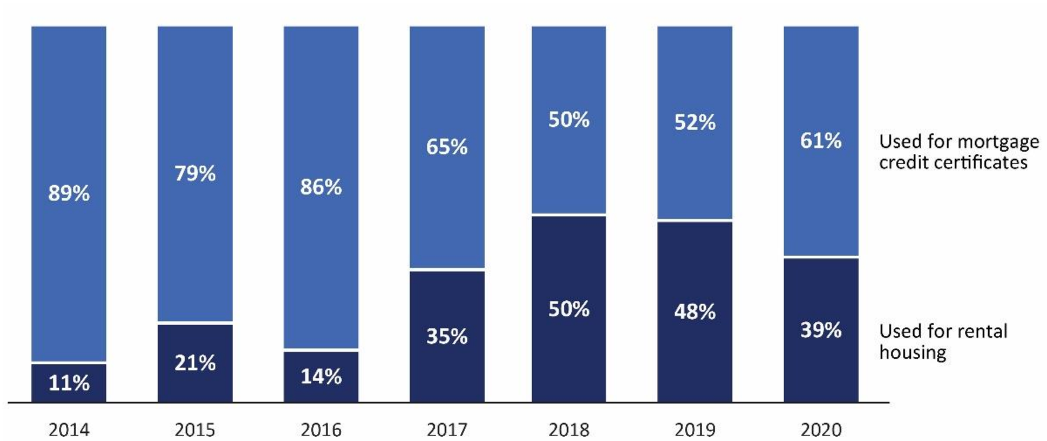
Virginia Housing originally allowed mortgage credit certificate (MCC) holders to credit 20 percent of their yearly mortgage interest against their federal income tax liability. Virginia Housing reduced the value of the credit to 10 percent in April 2020 to stay within the program cap, while continuing to offer the credit to all borrowers.

governor, and Virginia Housing. Virginia Housing uses private activity bonds to finance affordable multifamily rental development. The amount used for rental development depends on developer demand. Virginia Housing uses the leftover bond allocation to issue homebuyer mortgage credit certificates (MCC). In fact, Virginia has used the majority of its private activity bond cap for mortgage credit certificates each year since 2014 (Figure 4-8).

Virginia Housing offers MCCs to its first time homebuyers as a way to reduce mortgage costs. The MCC is a non-refundable tax credit that allows credit holders to credit 10 percent of their yearly mortgage interest against their federal tax liability (sidebar). Virginia Housing has issued about 24,000 MCCs since starting the program in 2015, representing about 80 percent of Virginia Housing borrowers. Based on data Virginia Housing collects on homebuyers, the median expected total MCC benefit for a Virginia Housing borrower is about $4,500. Virginia Housing borrowers stay in their home for an average of seven years, but if they stayed in their home for the lifetime of their loan, the value of the MCC benefit would increase to about $9,000.

Using leftover bond allocation for MCCs ensures Virginia uses its entire bond volume cap each year, however using more bonds to fund multifamily developments would better address Virginia's most critical housing needs. Developments financed using tax-exempt bonds automatically receive 4 percent low-income housing tax credits, while MCCs do not leverage additional federal funding. In addition, renters are more likely to experience cost burden than homeowners at every income level (Chapter 2), so this approach would prioritize increased affordability of rental housing. Further, though MCCs reduce the overall cost of a mortgage, they do not reduce the upfront costs of homeownership (closing costs and down payments), which according to Virginia Housing staff, are the most significant barriers to affording homeownership.

FIGURE 4-8
Virginia uses the majority of its private activity bond allocation for mortgage credit certificates



SOURCE: JLARC analysis of Virginia Housing data.

To use more or all of the state's private activity bonds for rental housing, Virginia Housing would need to increase interest among developers to build multifamily rental developments. Virginia Housing could do this by using REACH to offer gap funding to 4 percent LIHTC developments. This gap funding would make these projects more financially feasible, attract more developers, and make greater use of the REACH multifamily allocation. In interviews, housing developers and Virginia Housing staff reported that additional gap funding could help make more developments financed with private activity bonds and 4 percent tax credits feasible.

Four percent credits do not generate as much equity as 9 percent credits, and LIHTC projects cannot take on much debt because of the low rents generated by these projects. As a result, projects funded with 4 percent credits are often not feasible, even when private activity bonds are used, because there is not enough debt or equity available to cover the cost of construction. Using REACH funds to close this funding gap could make these developments more attractive to developers, use more of the state's private activity bond allocation, and better address the state's housing needs than mortgage credit certificates do. Virginia Housing should expand use of REACH for gap financing to better leverage Virginia's tax-exempt bond allocation for multifamily development and make more of these projects feasible for developers. This would be consistent with REACH regulations, which encourage REACH funding to be used to attract "external subsidy and capital." If this type of gap financing program were combined with 4 percent tax credits, each $1 million invested in the program could produce an estimated 87 additional rentals, of which at least 17 of them would be affordable to lower income households.

The Federal Home Loan Bank operates a similar program that provides gap financing for affordable rental housing developments. The program awarded developments with **an average of $11,510 in gap financing per rental unit produced** in 2020.

A gap funding program would be a low-risk investment for Virginia Housing. Virginia Housing staff expressed concern that pending federal Build Back Better legislation could lead to increases in demand for 4 percent LIHTC credits. Increased demand and development could mean that the housing development market would not be able to support additional developments that receive gap funding. Changes could also mean developers will not be interested in a gap funding program because many more developments would be feasible without it. Fortunately, if developers do not apply for the full amount of REACH funding Virginia Housing sets aside for this program, Virginia Housing can reuse that money in future years for gap funding or a different purpose.

To implement a gap funding program, Virginia Housing will need to make several programmatic decisions. Staff will need to determine how the funding should be administered. For example, gap funding may be administered as an interest-only loan or as a grant. Since this funding would be used for developments that are not feasible in the current financing environment, staff will need to set up a process for notifying housing developers about the existence of new gap funding, soliciting development proposals, and making funding awards. Staff will also need to determine how much funding should be made available each year, how projects will be selected for funding awards, and how much funding individual projects may receive. Consistent with Recommendations 4 and 5 in this report, Virginia Housing should annually report the number of projects and units supported with REACH gap funding, as well as the affordability targets for those units.

RECOMMENDATION 11

Virginia Housing should establish a program to use Virginia Housing's Resources Enabling Affordable Community Housing (REACH) funds to offer gap funding to projects using tax-exempt private activity bonds and 4 percent low income housing tax credits, and report to the Board of Commissioners on how much REACH funds are being allocated to gap funding and how many units it expects to create that would not be otherwise financially feasible.

Though Virginia Housing should prioritize increasing its use of tax-exempt private activity bonds for multifamily development to leverage more federal resources and meet Virginia's most critical housing needs, the authority should continue to use any leftover bond cap for MCCs.

5 Enhancing the Affordability of Home Ownership

Homeownership is one of the primary ways that households build wealth, and homeowners are less likely to be cost burdened than renters. However, home prices in Virginia have increased over the past several years, making it more difficult for some Virginians to own homes, particularly low- and middle-income households. The median home sale price in Virginia rose 28 percent between July 2017 and July 2021, from approximately $210,000 in 2017 to $270,000 in 2021 (adjusted to 2021 dollars). Rising prices make it more difficult for low- and middle-income households to afford to purchase homes because of the increased monthly mortgage costs, as well as the increased upfront costs associated with purchasing a home. Rising home prices mean that down payments and closing costs can be over $10,000 on even moderately priced homes.

Low- and middle-income households may have incomes that could support mortgage payments but lack the savings to cover the upfront costs of purchasing a home. Home ownership assistance programs can provide additional low-cost financing or grants to cover down payments for low- and middle-income households. The primary state resource available to assist Virginians with homeownership is Virginia Housing's single-family loan program, which provides assistance with upfront costs for low- and middle-income households who may not be able to qualify for a traditional mortgage.

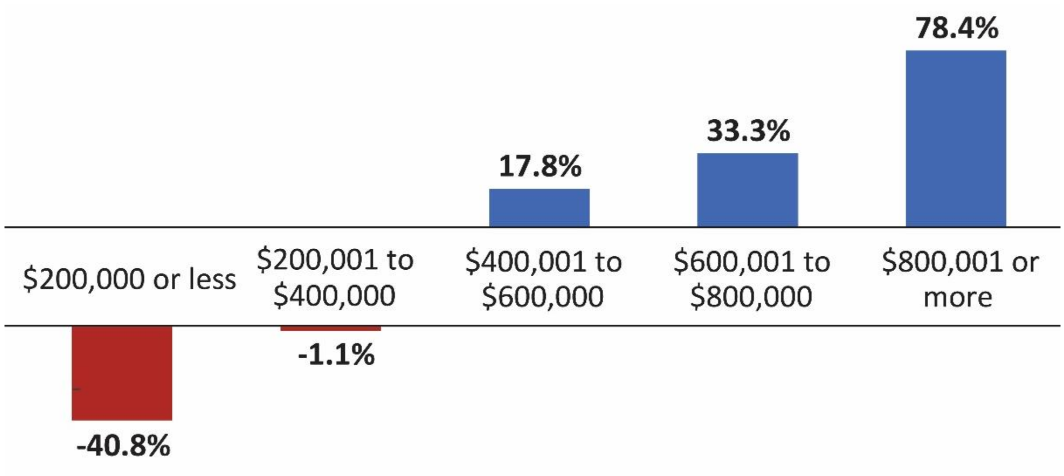
Amount of moderately priced housing available for purchase in Virginia has declined

Virginia's stock of single-family housing that is for sale has declined significantly over the past several years. Active listings for single-family homes in the state declined by 54 percent, from 46,202 to 20,910, between July 2017 and July 2021. Virginia's housing market had only 1.6 months of supply in July 2021 (sidebar), compared with 4.7 months of supply in July 2017.

Months of supply is a measure of how many months of demand current housing supply could meet. Real estate professionals generally view approximately five to six months of supply as a sign of a balanced housing market.

Virginia's stock of moderately priced homes, those that would be affordable to low- and middle-income households, has been substantially reduced in the past few years. According to the Virginia Realtors Association, the percentage of Virginia homes sold for $200,000 or less declined from 24 percent of all homes sold in July 2019 to 14 percent of all homes sold in July 2021, a 40 percent decrease (Figure 5-1). However, the percentage of higher priced homes has increased—between July 2019 and July 2021 the percentage of homes sold for more than $400,000 rose from 32 percent of sales to 43 percent of sales.

FIGURE 5-1
Number of lower-priced homes for sale declined substantially between 2019 and 2021



SOURCE: JLARC analysis of Virginia Realtors Association data from annual and monthly home sales reports.
NOTE: Figure shows percent change of each category as a percentage of all home sales July 2019 to July 2021.

The Internal Revenue Service (IRS), which sets requirements for part of Virginia Housing's lending program, requires **maximum sales prices** be set for Virginia Housing's single-family loans. Virginia Housing sets their limits at 90% of the IRS maximum.

Rising home prices also limit homeownership opportunities for low- and middle-income Virginians because public entities, including Virginia Housing, set sales price maximums for their loans (sidebar). If the sales price exceeds the program's sales price maximum, the program will not finance the home purchase. In 2020, median home prices in 18 Virginia localities were higher than the Virginia Housing sales price maximum for their localities. By July 2021, that number had risen to 27 localities with the median housing price in three—Falls Church, Arlington County, and Fairfax City—exceeding the Virginia Housing limit by more than $100,000. While there still are homes in these localities with prices under Virginia Housing's limits, it's more difficult for low-income homebuyers to find a home they can purchase. These households also may not qualify for conventional loans.

Housing assistance programs can only function effectively if a reasonably sized stock of low- and moderate-priced homes exist for low- and middle-income borrowers to purchase. Increasing the state's stock of affordable single-family homes is one strategy to preserve low- and middle-income households' access to homeownership. Community land trusts and the adoption of innovative construction methods are two new methods to increase the inventory of low- and moderate-priced homes. These strategies can be beneficial when used with additional reforms (see Chapter 6 for more discussion on zoning changes) and as a way to reduce costs in particularly high-cost localities. Partly because they are new, these strategies will not likely have a substantial impact on the overall statewide trend of rising housing prices or create a significant number of new affordable units. However, these strategies could have meaningful localized impacts and are worth further study and additional state support.

Community land trusts could help build affordable homes for low- and middle-income buyers

Community land trusts (CLTs) are nonprofit organizations that seek to retain and control land to foster affordable and/or community-focused development. For affordable housing, CLTs will typically operate through a "ground lease" model, where a CLT will retain ownership of the underlying land but sell the housing unit on that land to a low- or middle-income household. CLTs will then lease the right to use the land to the household for an extended period, typically 99 years. Since households are only purchasing the improvement, and the CLTs are able to set prices below market levels, homes sold by CLTs can be much more affordable. Additionally, CLTs may set limits on the ability of households to resell their properties, requiring that they sell only to low- and middle-income buyers and/or set a cap on the sales price to maintain affordability.

At least three community land trusts operate in Virginia:

- The Maggie Walker Community Land Trust (MWCLT) has operated in the Richmond area since 2016. The MWCLT has developed approximately 50 affordable homes.
- The Thomas Jefferson Community Land Trust (TJCLT) has operated in the Charlottesville region since 2008. The TJCLT has developed at least 16 affordable homes.
- The Virginia Statewide Community Land Trust was formed by a partnership of Virginia Habitat for Humanity affiliates in June 2021.

The state could support the development of CLTs in communities with especially high home prices. CLTs must acquire land and develop housing, both of which can be costly. The state could offer grant funding for land acquisition, affordable housing development, or both. Alternatively, the state could allow CLTs to apply for grants or low interest-loan funding directly from the Virginia Housing Trust Fund.

In addition to financial assistance, administrative or technical assistance could be made available to localities or nonprofit groups establishing CLTs. Assistance could include dedicated staff within the Department of Housing and Community Development (DHCD) to facilitate communication and coordination between new and existing CLTs, and materials on the basics of CLTs and their administration. This assistance could also include educating local government officials and nongovernment organizations (NGOs) about the CLT model and its potential application to affordable housing.

The state could also expand the legal methods through which CLTs acquire property. For example, other states, such as Ohio and West Virginia, have given land banks the right of first refusal on tax foreclosed properties, the right to purchase tax foreclosed property cheaply, or the right to automatically acquire parcels that are not purchased in a tax foreclosure auction (sidebar). While the Code of Virginia sets a legal framework for land banks to operate within the state, Virginia land banks do not have the same privileged access to tax foreclosed property that land banks in other states have. Therefore, land banks must purchase a property like any other interested party. Recent legislation proposed giving land banks such access (sidebar). The General Assembly could consider granting similar property acquisition powers to Virginia CLTs.

Community land trusts could establish more affordable housing that low- and middle-income households could purchase and could ensure this housing remains affordable in the long term. The General Assembly and the state's housing officials should explore options to provide state support for CLTs to expand access to affordable housing. However, careful consideration should be given to ensure that these options would not create competition between CLTs and existing land banks over properties. DHCD could study options to support CLTs and develop options for the General Assembly to consider for the 2023 Session.

Land banks are redevelopment entities, similar to Community Land Trusts, which acquire tax foreclosed or vacant property from local governments to develop in ways that advance the community's interests. Land banks most frequently use the land they acquire to build or establish affordable housing, although some use the land for other purposes, such as historic building or green space preservation. There are at least five active land banks in Virginia.

HB 2052, which was introduced in the 2021 General Assembly session, would have given Virginia land banks the right of first refusal on tax foreclosed properties for $1.

RECOMMENDATION 12

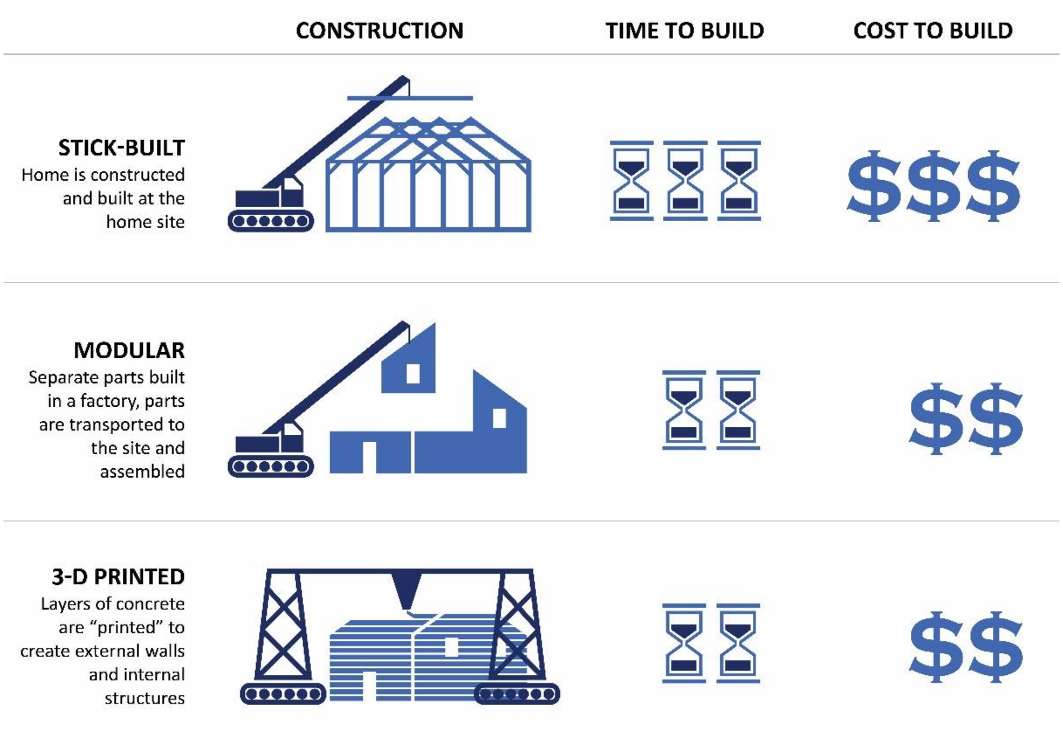
The General Assembly may wish to consider including language in the Appropriation Act directing the Virginia Department of Housing and Community Development to study options for providing additional support to community land trusts to establish additional affordable housing and develop a plan that does so. The plan should be submitted to the chairs of House Committee on General Laws, Senate Committee on General Laws and Technology, and Virginia Housing Commission.

Alternative construction methods could help build affordable homes for low- and middle-income buyers

Another option for reducing the cost of homes is the emerging use of alternative construction methods, such as modular construction and 3-D printing. Construction costs make up roughly two-thirds of the purchase price of the average single-family home. More efficient and economical construction methods could help reduce the state's housing inventory shortage.

Modular construction and 3-D printing can reduce both construction costs and time to build a home (Figure 5-2). Modular construction, however, is constrained by limits on home sizes and limited flexibility to adapt to changing circumstances. Like modular construction, savings from 3-D printing come from its theoretical ability to reduce construction time and material and labor costs. The first 3-D printed home for residential use in the United States was built (and sold) in Texas in spring 2021. Printing technology is still limited and expensive, with most printers capable of printing only relatively small houses.

FIGURE 5-2
Alternative construction methods can reduce time and cost to build a home



SOURCE: JLARC summary of research literature.

The state could support the increased use of alternative construction methods to create affordable housing. Virginia Housing has already provided some financial support to builders using alternative construction methods (sidebar). The General Assembly could provide additional grant or financing opportunities for researchers and developers. The legislature could also earmark some of Virginia Housing Trust Fund's appropriations to create an innovation program to support new and emerging technologies for building affordable housing. Another option is to provide tax incentives to developers to use innovative construction techniques.

Virginia Housing has used its REACH funds to invest in the development and deployment of alternative construction methods for building affordable single-family homes in Virginia. Virginia Housing has invested $500,000 in a modular construction company, IndieDwell, to open its first East Coast factory in Newport News. Additionally, Virginia Housing invested $500,000 to develop the first 3-D printed home in Richmond.

In addition to financial incentives, the state could encourage localities to adopt zoning ordinances that allow development of new homes using alternative construction methods. Currently, localities can adopt zoning ordinances that limit the types of housing that can be built. A locality's existing zoning ordinances may not allow for alternative home construction methods, or some localities may amend their zoning ordinances to restrict the development of homes built using alternative construction methods (as some localities have done to restrict manufactured homes). The General Assembly could amend state statute to prohibit localities from enacting zoning codes that prevent alternative building methods for new homes or offer incentives to localities to amend their zoning ordinances to allow alternative homebuilding methods. However, these technologies are still relatively new and have not been widely adopted, so it's unclear how much impact these changes will have. In addition, the state has historically not been involved in local residential zoning decisions.

POLICY OPTION 1
The General Assembly could amend the Code of Virginia to prevent localities from 1) restricting 3-D printed or modular constructed homes from being built on residential land or 2) restricting the construction of 3-D printed or modular constructed homes in certain residential zones.

Virginia's existing homeownership programs help households that may have difficulty qualifying for a home loan

Low- and middle-income households can have difficulty qualifying for commercial home loans. Mortgage lenders take into account several factors when deciding whether to offer a mortgage to borrowers. Lenders rely on a borrower's credit score as an indicator of a borrower's future likelihood of making loan payments. Additionally, lenders consider borrowers' capacity to make payments by examining their income, the size of the prospective loan compared to the value of the purchased home, and the ratio of their debts (including prospective mortgage debt) to their monthly income.

Lenders also use these factors to determine the interest rate they will offer a borrower. Less risky borrowers (those with higher incomes and better credit histories) are a safer bet for lenders and will likely be offered lower interest rates. Low- and middle-income borrowers, who may have other existing debts, less savings for a down payment, and mixed, if any, credit history, are riskier bets for lenders. As a result, lenders are much less likely to offer them a loan. If lenders do offer low- and middle-income borrowers a loan, they are likely to offer a higher and less affordable interest rate.

Virginia, through a variety of programs offered by DHCD and Virginia Housing, provides assistance to low- and middle-income Virginians who want to purchase a home. These programs aim to lower the financial barriers that low- and middle-income households face when applying for a mortgage. These barriers include:

- too much non-housing debt, such as student loans or credit card debt,
- insufficient savings for a down payment,
- poor or no credit history, and
- incomes that are too low to support mortgage debt.

Both Virginia Housing and DHCD offer programs designed to overcome these barriers.

Virginia Housing's loan programs serve riskier households with lower incomes than the commercial market

Virginia Housing is required by the Code of Virginia to lend to low- and middle-income Virginia residents. Virginia Housing's enabling statute directs Virginia Housing to offer mortgages to, "persons and families of low- and middle-income to finance the purchase or refinancing of single-family residential housing…" Based on JLARC staff's analysis of single-family home loan data, Virginia Housing appears to be complying with statutory intent.

Virginia Housing lends to households with higher risk profiles than the commercial market

Virginia Housing's homebuyers tend to have much lower incomes than borrowers acquiring loans on the commercial mortgage market, and Virginia Housing restricts its mortgages to households with incomes at or below 100 percent of the area median income (AMI) (115 percent for households of three or more). The median gross income of a Virginia Housing borrower is $62,000, compared with the median gross income of $88,100 for a Virginia borrower in the commercial market.

Virginia Housing lends to riskier homebuyers compared with the commercial mortgage market. The median combined loan-to-value ratio (LTV) of a Virginia Housing loan, 100 percent, is 5 percentage points higher than the median combined LTV of a Virginia commercial loan, 95 percent (sidebar). Lenders tend to view higher LTV loans as riskier, since the borrower is taking out a larger debt burden, and the reliance on debt indicates that they do not have substantial savings. Comparing debt-to-income ratios (DTI) of borrowers shows that Virginia Housing's borrowers tend to carry significantly more debt (sidebar). Approximately 71 percent of Virginia Housing's borrowers have DTIs above 36 percent, compared with 59 percent of Virginia commercial borrowers. Virginia Housing's borrowers also have significantly lower credit scores compared with the general population. The median credit score of a Virginia Housing borrower in 2020 was 688, 40 points lower than the median American homebuyer's score of 729.

Virginia Housing lends to far more first-time buyers than the commercial mortgage market. Between 2012 and 2020, over 90 percent of Virginia Housing's borrowers were first-time homebuyers—comparatively, first-time homebuyers comprised between 50 and 55 percent of the national commercial market during the same time period (Table 5-1).

The **loan-to-value ratio (LTV)** is the ratio of the size of the loan to the lesser of the appraised value or sales price of the home.

The **combined LTV** is the ratio of the combined value of all secured loans to the lesser of the appraised value or sales price of the home.

Debt-to-income (DTI) ratio is the ratio of a borrowers monthly debt payments (including housing and non-housing debt) to their monthly income. Commercial lenders are less likely to lend to borrowers with a DTI higher than 36 percent.

TABLE 5-1
Virginia Housing's borrowers are much more likely to need assistance than commercial borrowers

	Virginia Housing	Virginia/National commercial market
Income	$62,000	$88,100
Combined loan-to-value ratio	100%	95%
Percentage of borrowers with high DTI	71%	59%
Percentage of first time homebuyers	90%	50–55%
Median credit score	688	729

SOURCE: JLARC analysis of Virginia Housing single-family home loan origination data and the U.S. Consumer Financial Protection Bureau's (CFPB) Home Mortgage Disclosure Act (HMDA) data, the National Mortgage Database, and the Report on Household Debt and Credit.

Virginia Housing serves a higher percentage of Black households and a slightly higher percentage of Hispanic households than the commercial market

Virginia Housing serves a larger proportion of Black and Hispanic borrowers relative to the Virginia commercial market. Roughly a quarter of Virginia Housing's borrowers are Black, compared with 12 percent of commercial borrowers. Roughly 9 percent of Virginia Housing's borrowers identify as Hispanic or Latino, compared with 7 percent of Virginia commercial borrowers.

Black and Hispanic households are more likely to be cost burdened than other households and tend to have lower rates of homeownership. Further, Black and Hispanic homeowners are less likely to be cost burdened than Black and Hispanic renters. Increasing the homeownership rate among Black and Hispanic households allows Black and Hispanic households to build wealth and may reduce the rate of housing cost burden.

Virginia Housing's borrowers have higher rates of loan delinquency but are less likely to experience foreclosure than commercial borrowers

Virginia Housing's delinquency rate is higher than the national average. Between 2015 and 2020, the delinquency rate of Virginia Housing's borrowers averaged 9.6 percent, which was 6 percentage points higher than the national delinquency rate. However, this is not unexpected as Virginia Housing's borrowers have lower incomes, higher debt-to-income ratios, and worse credit scores compared with commercial borrowers.

In contrast, Virginia Housing's foreclosure rate is low and has been lower than the Virginia and national foreclosure rates for the past several years. Since 2015, Virginia Housing's average annual foreclosure rate has been 0.14 percent. During the same period, Virginia Housing's foreclosure rate has been an average of 1.1 percentage points lower than the national foreclosure rate and 0.42 percentage points below Virginia's foreclosure rate.

Virginia Housing and DHCD programs help households who cannot afford a down payment purchase their first home

Virginia Housing and DHCD offer programs to assist low- and middle-income households afford the upfront costs of homeownership, specifically down payments and closing costs. Down payments and closing costs can be a significant barrier to purchasing a home for low- and middle-income households. A 3 percent down payment is the smallest commercial lenders will usually allow. For a median priced home in Virginia in 2020, a 3 percent down payment would be $6,540. In higher cost localities, like Loudoun County or Falls Church, a 3 percent down payment could be more than $15,000.

Home purchases also require closing costs, which could range from $4,360 to $8,720 for a median priced home (sidebar). When taken together, a down payment and the closing costs for a median priced home in 2020 would cost at least $10,900. Few low- and middle-income households have access to that much cash savings (sidebar). For households with lower incomes and limited savings, even low percentage down payments can present an insurmountable barrier to homeownership without outside assistance.

Closing costs are paid when a house is sold. They include lender and title fees, taxes, insurance, and escrow fees. Closing costs average around 2 to 4 percent of the total purchase price of the home.

Most Americans have **limited savings**—in 2019, the median American household had $5,300 in savings. Lower income Americans have even less in savings—households earning between 40 and 80 percent of the national median income had median savings of $2,050, and households below 40 percent of the national median income had median savings of only $810.

Virginia Housing offers three forms of financial assistance to help households afford these upfront costs. These programs are funded entirely with internally generated funds, not through federal or state assistance. Since 2016, roughly 88 percent of Virginia Housing's borrowers have received some form of assistance with upfront housing costs. A majority of Virginia Housing's borrowers in each region of the state have received some form of assistance from Virginia Housing (Table 5-2).

- Plus Second Mortgages are small second mortgages capped at 3.5 to 5 percent of either the sales price or appraised value (whichever is lower), and they are designed to assist with down payments and closing costs. Any borrower with incomes that qualify them for a Virginia Housing mortgage can apply for a Plus mortgage. Plus mortgages cannot be used in combination with other Virginia Housing down payment assistance. Virginia Housing has had two Plus mortgage products: an FHA Plus and the Virginia Housing Plus, which was introduced in 2018. Since 2012, Virginia Housing has authorized 25,959 Plus mortgages with a median size of $6,825.

- Down Payment Assistance (DPA) grants are cash grants capped at 2 percent of the home cost for conventional borrowers and 2.5 percent for FHA borrowers, and are used to cover a portion of the down payment. Only borrowers earning 80 percent or less of Virginia Housing's income limits are eligible for DPA grants. The DPA grant does not require repayment, but it requires borrowers to provide at least a 1 percent down payment and cannot be used for closing costs. Virginia Housing introduced the DPA grant in 2015 and has disbursed 13,846 DPA grants since then, with a median grant of $4,793.

Virginia Housing does not offer Plus Mortgages or DPA grants to VA or USDA borrowers, as both of those loan programs allow borrowers to take out loans for 100 percent of the purchased home value.

- Closing Costs Assistance (CCA) grants are cash grants capped at 2 percent of the sales price or appraised value (whichever is lower) and are designed exclusively for assistance with closing costs. CCA grants are available only to Veterans Administration and U.S. Department of Agriculture (USDA) borrowers and do not require repayment (sidebar). Virginia Housing introduced the CCA grant in 2018 and has disbursed 617 CCA grants since then, with a median grant of $3,999.

DHCD also offers similar grants through two programs: the HOMEownerhip Down Payment Assistance and Closing Cost Assistance program and the Virginia Individual Development Account (VIDA) program. Both programs offer assistance to prospective low-income homebuyers. The HOMEownership program offers large financial awards designed to cover down payments and closing costs for low-income homebuyers. VIDA offers housing counseling and creates a dedicated homeownership savings account with matching funds for prospective low-income homebuyers. Both programs are relatively small: HOMEownership has the capacity to serve up to 200 households, and VIDA has assisted 111 households in their current funding cycles.

TABLE 5-2
Most Virginia Housing borrowers in every region received financial assistance

	Number of borrowers receiving assistance	Percentage of VH borrowers receiving assistance in region, FY16–FY21
Hampton Roads	10,041	89.4%
Central Virginia	9,088	89.5
Northern Virginia	5,758	92.8
Northern Neck	3,555	90.8
Southwest/New River Valley	2,278	86.9
Valley	1,452	80.9
Charlottesville	1,146	83.8
Southside	586	78.5
Far Southwest	178	61.6

SOURCE: JLARC analysis of Virginia Housing single-family home loan origination data.

JLARC staff compared interest rates on single-family loans offered by Virginia Housing to those offered through other Virginia commercial lenders in 2018, 2019, and 2020. JLARC staff used data from Virginia Housing on its single-family loans and data obtained through the federal Consumer Financial and Protection Bureau's (CFPB) Home Mortgage Disclosure Act (HMDA) database.

Virginia Housing may be able to offer slightly lower interest rates for some borrowers

State law requires Virginia Housing to establish interest rates that are as low as possible, but some Virginia Housing loans have slightly higher interest rates compared with commercial mortgages. Virginia Housing's interest rates for single-family home loans were, on average, eight basis points higher than interest rates of single-family home loans in Virginia's commercial market (sidebar). This comparison accounted for risk factors that affect interest rates like income, high DTI, high LTV, as well as several demographic factors. Splitting Virginia Housing's borrower pool into four groups based on loan type and whether they have a Plus mortgage, about 75 percent of borrowers from 2018 to 2020 had higher interest rates on their Virginia Housing loans than what would have been available through the commercial market (Table 5-3). While the resulting difference in monthly payments may be small and may not result in borrowers paying significantly more interest on their loans, state law requires that Virginia Housing set interest rates "…at the lowest level consistent with [its] cost of operation and its responsibilities to the holders of its bonds…" The remaining 25 percent, borrowers with FHA loans and no Plus mortgage, actually have lower than market interest rates.

TABLE 5-3
Virginia Housing's interest rates are higher than commercial rates for most borrowers

	Estimated difference in interest rates (basis points)	Virginia Housing borrowers	Difference in monthly payment [a]	Difference in interest paid, 7 years [b]	Difference in interest paid, 30 years
FHA, no Plus mortgage	-9.4	12,220	-$10	-$1,285	-$3,732
FHA, Plus mortgage	+19.0	19,101	+20	+2,423	+7,119
Conventional, no Plus mortgage	+17.5	14,799	+20	+2,411	+7,132
Conventional, Plus mortgage	+25.6	2,180	+31	+3,702	+11,128

SOURCE: JLARC analysis of Virginia Housing single-family home loan origination data (2018–2019) and the U.S. Consumer Financial Protection Bureau's (CFPB) Home Mortgage Disclosure Act (HMDA) data (2018–2019).
NOTE: Estimate accounts for differences in income, time, LTV, and DTI. Data is on a calendar year basis for 2018, 2019, and 2020. [a] Monthly payment and interest calculations are based on the median loan amount and median interest rate for Virginia housing borrowers in each category. [b] 7 years is the average period a Virginia Housing borrower uses their loan.

Virginia Housing's policy of upwardly adjusting the interest rates of borrowers who receive a Plus mortgage is likely driving most of the differences in interest rates. For example, if a borrower plans to take out an FHA mortgage with a 3 percent interest rate and also plans to take out a Plus mortgage, the borrower's interest rate will be set at 3.25 percent for both the primary and Plus mortgage (sidebar). Virginia Housing upwardly adjusts interest rates to cover the risk associated with the Plus mortgages and the costs of originating and servicing them.

As a matter of policy, Virginia Housing **adds 25 basis points onto interest rates for FHA-insured loans** paired with a Plus mortgage and **12.5 basis points on interest rates for conventional loans** paired with a Plus mortgage.

A **Basis Point** is a hundredth of a percentage point. An increase of 25 basis points is equivalent to an increase of 0.25 percentage points on an interest rate.

Virginia Housing's financing structure and costs to raise capital are similar to most other lenders, so Virginia Housing could be expected to have similar interest rates to commercial lenders. Virginia Housing has two methods of raising funds: debt financing through taxable bond sales from the Commonwealth Mortgage Bond program and through proceeds generated by the sale of its mortgages through mortgage-backed securities. Other mortgage lenders have access to similar forms of debt financing and can securitize and sell their mortgages, so it does not appear that Virginia Housing's financing operation is significantly different or more costly than commercial lenders. Virginia Housing's servicing operation is largely in line with industry standards. Based on its servicing and financial structure, Virginia Housing should have similar operation and obligation costs as other lenders and servicers in the mortgage industry.

Virginia Housing should review the necessity of upwardly adjusting interest rates for borrowers with Plus mortgages. According to Virginia Housing staff, the financial necessity of this policy was last reviewed several years ago, and the pricing policy for Plus mortgages was reduced at that time. Virginia Housing should complete a new financial analysis to determine if the current policy is necessary, and, if it is, to determine the minimum pricing adjustment necessary to cover the authority's costs and risk. In addition, if the policy is necessary, this financial analysis should be repeated at least every two years. This review should be reported to the Board of Commissioners to ensure its members are aware of the authority's policies and how they affect low- and middle-income Virginians who use Virginia Housing's programs.

RECOMMENDATION 13
Virginia Housing should determine through a financial analysis whether upwardly adjusting interest rates for borrowers with Plus mortgages is necessary, and if so, what the minimum basis point adjustment should be, and report its findings to the Board of Commissioners. This review and report should be conducted every two years as long as the authority continues to upwardly adjust the interest rates of borrowers receiving Plus mortgages.

In addition, Virginia Housing should review single-family mortgage rates and compare them to rates offered on the commercial market at least annually. This review would add transparency to Virginia Housing's single-family home loan program, as well as provide the board with greater insight into the authority's operations. Based on this review, the board could direct staff to analyze how lower interest rates would affect the authority's bottom-line and develop options for how the authority could offer lower interest rates in cases where their rates are higher than the commercial market.

RECOMMENDATION 14
Virginia Housing should provide annual reports to the Board of Commissioners comparing the interest rates it offers on single-family loans to interest rates offered on the commercial market, and present options for offering lower rates where the Virginia Housing interest rate is higher than the comparable commercial market rate.

Lower- and middle-income home buyers benefit from Virginia Housing's home loan programs in several ways. Virginia Housing offers loans to households who would likely be unable to qualify for a commercial mortgage and offers down payment assistance programs to borrowers who may not have enough cash savings. However, for the low- and middle-income households that Virginia Housing serves, reducing monthly housing payments, even by modest amounts, can be helpful in reducing those households' housing cost burden.

Currently, state law requires Virginia Housing to set interest rates as low as possible consistent with the cost of the authority's operations and obligations to bondholders, which are likely similar to the costs of commercial financial institutions. Virginia Housing's operating costs should be similar to commercial financial institutions because it raises capital for home loans in the same ways as commercial financial institutions. However, Virginia Housing does not have an obligation to raise profits for its shareholders in the same ways that commercial financial institutions might. As a result, Virginia Housing may be capable of offering interest rates that are *lower* than those offered on the commercial market.

Offering lower interest rates than the commercial market would provide an additional benefit to Virginia Housing's borrowers, but it would come at the cost of reduced funds for the REACH program. Virginia Housing should conduct an analysis to determine whether it could offer interest rates that are lower than rates offered through the commercial market. This analysis should determine the average monthly and annual savings to borrowers if Virginia Housing offered lower interest rates, as well as forecast how the lower interest rates would affect Virginia Housing's future annual net income, net assets, and net asset parity ratio, and therefore its REACH contributions. Virginia Housing should report the results of these analyses to the General Assembly and the Board of Commissioners so that they may consider whether statutory or board direction is warranted to reduce interest rates for single-family home loans below commercial lenders' rates.

RECOMMENDATION 15

The General Assembly may wish to consider including language in an Uncodified Act of the General Assembly (Section I Bill) directing the Virginia Housing Development Authority to conduct a financial analysis to determine whether it could offer lower interest rates than the commercial market to its single-family home loan borrowers, and report the results of the analysis to the Virginia Housing Commission, the Virginia Housing Board of Commissioners, and the Joint Legislative Audit and Review Commission by November 1, 2022. The analysis should, at a minimum, include an analysis of how much interest rates could be lowered, the monthly and annual cost savings lower interest rates could provide to Virginia Housing's borrowers, and a projection of how lower interest rates would affect the authority's future net income, net assets, and net asset parity ratio.

Plus mortgages cover more upfront home buying expenses than grants but increase borrowers' loan costs

Virginia Housing's down payment assistance grants cover a portion of lower income homebuyers' upfront costs, but some buyers are unable to pay for the remaining upfront costs. The grant's value is capped at 2 or 2.5 percent of a home's sales price or appraised value, depending on the loan type (Table 5-4). Since the minimum required down payment for either an FHA or a conventional loan is 3.5 or 3 percent, households must have enough cash to cover the remainder of the down payment and all of the closing costs. Alternatively, the Plus mortgage can potentially cover almost all of a borrower's total down payment and closing costs because it can be used to fund both down payment and closing costs up to 5 percent of the home's sales price or appraised value. However, a Plus mortgage is more costly to the buyer over the life of the mortgage.

The higher costs associated with the **Plus mortgage** compared with the grant result from two factors. First, households taking the Plus mortgage are taking out a larger loan than the household that receives the grant. Second, Virginia Housing upwardly adjusts the interest rates of the primary and Plus mortgage for households taking the Plus mortgage (as discussed in the previous section), so they are paying a higher interest rate than the household that received a grant.

TABLE 5-4
Plus mortgages provide more assistance for FHA and conventional borrowers compared with down payment assistance grants

	Required down payment	Maximum DPA Grant	Maximum Plus Mortgage
FHA, 620–679 credit score	3.5%	2.5%	3.5%
FHA, 680+ credit score	3.5	2.5	5.0
Conventional, 640–679 credit score	3.0	2.0	3.0
Conventional, 680+ credit score	3.0	2.0	4.5

SOURCE: Virginia Housing loan guidelines.
NOTE: Percentages are out of the lower of the sales price or appraised value of the purchased home.

Using a Plus mortgage adds to the total cost of a buyer's mortgage, but it allows the buyer to avoid having to pay for most upfront mortgage costs with cash. A household purchasing a $170,000 home through Virginia Housing would spend almost $18,000 more over the life of the loan if the household took out a 5 percent Plus mortgage to cover the upfront costs of their purchase. Even if buyers stay in the home for seven years (the average time that Virginia Housing mortgage holders stay in their homes before selling), they would still pay approximately $9,000 more over this period than if they had not used the Plus mortgage (sidebar).

The household that receives a grant must pay $5,100 in upfront cash. The household that receives a **Plus mortgage** still must pay $850 in upfront cash to cover the portion of closing costs not covered by the Plus mortgage but pays $4,250 less in upfront cash than the household with a grant (Table 5-5).

If Virginia Housing's down payment assistance grant covered more of the upfront costs of a mortgage, the home buyers would not be incentivized to take on more debt through the Plus mortgage program. Currently, however, taking on this additional debt allows the buyer to avoid paying $4,250 (sidebar) in upfront cash that the down payment assistance grant does not cover (Table 5-5).

Since Virginia Housing introduced the grant in 2015, 41 percent of borrowers with incomes that would qualify them for a down payment assistance grant took out a Plus mortgage instead (13,462 households). Black households are disproportionately represented in this group of borrowers. Out of the Black households who qualified for down payment assistance grants, 50 percent took out a Plus mortgage instead (compared with 41 percent of all households who qualified for grants but took Plus mortgages instead).

TABLE 5-5
Plus mortgages result in higher costs for households over the life of the loan compared with down payment assistance grants

		Household receiving grant	Household receiving Plus mortgage
Purchase price of home		$170,000	$170,000
Closing costs		3,400	3,400
Total cost		173,400	173,400
Financing down payment and closing costs	**Up-front cash from borrowers**	5,100	850
	Down payment grant	4,250	0
	Proceeds of Plus mortgage	0	8,500
Mortgage Principle (1^{st} + 2^{nd})		164,050	172,550
Interest paid over seven years		31,821	36,368
Total cost of home over seven years		200,971	209,768
Interest paid over 30 year life of loan		84,941	97,791
Total cost of home over life of the loan		**$254,091**	**$271,191**

SOURCE: Virginia Housing loan guidelines.
NOTE: Closing costs are estimated to be 2 percent of the purchase price. Total cost includes upfront cash and loan costs. In accordance with Virginia Housing's policy, an interest rate of 3 percent was applied to the primary loan of the grant household and an interest rate of 3.25 percent to the Plus mortgage and primary loan of the Plus mortgage household.

Using REACH funds, Virginia Housing could offer larger down payment assistance grants that would cover the same amount that could be financed through Plus mortgages. A larger grant program could result in the hypothetical borrower from Table 5-5 paying $4,250 less than what would be required under the current grant. Comparing the larger grant program to the Plus mortgage, hypothetical borrowers could save roughly $13,000 over seven years and approximately $21,000 over the life of their loan (Table 5-6). This change would use a relatively large portion of REACH funds. Virginia Housing disbursed $16.4 million in grants using REACH funds in 2020—providing larger grants to all qualified borrowers could have cost as much as $56.7 million in REACH funds.

A different approach could minimize the dollar impact on the REACH program and still provide greater financial benefits to borrowers than the Plus mortgage program. Virginia Housing could follow other state housing finance authorities, such as in North Carolina and Maryland, and replace the down payment grant with a 0 percent interest deferred second mortgage to cover upfront mortgage costs. These mortgages require no monthly payment, do not accrue any interest, and are only due upon sale of the home. Repayments for these mortgages could be recycled through REACH and provide funding for new second mortgages, reducing the overall use of REACH. This would require a lower investment of REACH funds but would increase buyers' debt. Still, borrowers would face no additional interest costs and could repay the mortgage out of the proceeds from selling their home. Borrowers with a 0 percent interest deferred mortgage would pay roughly $4,500 less in the short term and close to $13,000 less over the life time of the loan compared with the current Plus mortgage (Table 5-6). Virginia Housing would lose the Plus mortgage interest revenue from borrowers below 80 percent AMI. Between 2016 and 2020, Virginia Housing earned an average of just over $300,000 in interest on Plus mortgages originated per year for borrowers at 80 percent of their income limits or lower. This revenue would be lost if Virginia Housing replaces the Plus mortgage with grants or 0 percent interest deferred mortgages.

TABLE 5-6
Higher value grants or deferred mortgages could reduce costs for low- and middle-income borrowers

		Household receiving larger grant	Household receiving deferred mortgage [a]
Purchase price of home		$170,000	$170,000
Closing costs		3,400	3,400
Total cost		173,400	173,400
Financing down payment and closing costs	**Up-front cash from borrowers**	850	850
	Down payment grant	8,500	0
	Proceeds of Plus mortgage	0	8,500
Mortgage Principle (1st + 2nd)		164,050	172,550
Interest paid over seven years		31,821	31,821
Total cost of home over seven years		196,721	205,221
Interest paid over 30 year life of loan		84,941	84,941
Total cost of home over life of the loan		249,841	258,341
Savings over Plus mortgage – first 7 years		13,047	4,547
Savings over Plus mortgage – 30 years		21,350	12,850

SOURCE: JLARC analysis of Virginia Housing single-family home loan origination data.
NOTE: Closing costs are estimated to be 2 percent of the purchase price. Total cost includes upfront cash and loan costs. An interest rate of 3 percent was used for both loans. [a] This analysis assumes that Virginia Housing has not applied the Plus basis point adjustment to the primary loan interest rate for the household receiving a deferred mortgage. If Virginia Housing upwardly adjusted the interest rate, the benefit of the deferred mortgage would be reduced significantly.

Replacing the down payment assistance grant program would still allow the Plus mortgage to be used by Virginia Housing borrowers with incomes between 81 and 100 percent of Virginia Housing's income limits. While these borrowers are better off financially, many are close to being considered housing cost burdened. The median housing cost burden for households earning between 81 and 100 percent of AMI with a mortgage is 28 percent, two percentage points away from being cost burdened. These borrowers, however, will benefit if Virginia Housing changes or removes their policy of upwardly adjusting the interest rates of borrowers who receive Plus mortgages (Recommendation 13).

RECOMMENDATION 16

Virginia Housing should modify its existing down payment and closing cost assistance programs to provide at least as much as assistance as the current Plus mortgage program at a lower cost for borrowers with incomes at 80 percent of Virginia Housing's income limits or lower. Virginia Housing should study the advantages and disadvantages to borrowers and to Virginia Housing of providing larger grants or 0 percent interest deferred payment mortgages to replace the Plus mortgage for these borrowers, and issue a report to the Board of Commissioners that recommends the preferred approach, an implementation strategy, and a timeline for modifying the existing program.

6 Impact of Local Zoning Policies on Affordable Housing

Addressing Virginia's affordable housing shortage will require several interventions, including interventions that increase Virginia's housing supply through new construction. However, local zoning ordinances, which govern land use within localities, strongly influence local housing markets by determining what types of housing are easiest to build from a regulatory standpoint. Localities design their own zoning ordinances, but overly restrictive ordinances can limit housing supply—especially affordable housing supply. Changing those regulations could make local housing markets more conducive to housing construction in general and to affordable housing construction specifically.

Local zoning and land use decisions determine housing location, density, and type

To meet housing demands, communities should offer housing that is high quality, close to necessary goods and services, of sufficient quantity, and affordable to households that desire to live in the community. Local zoning ordinances directly impact the extent to which available housing meets those criteria, because these ordinances determine where, how much, and what type of housing can be built in a community. Nationally and in Virginia, most localities have zoning ordinances that 1) divide land into geographic areas (zones); 2) designate what can and cannot be built in each zone; 3) set standards and limits for construction by structure type and zone; and 4) define the process by which local governments approve new development (Figure 6-1). Importantly, zoning ordinances determine what is allowed to be built, but just because a certain type of development is allowed does not mean it will be constructed.

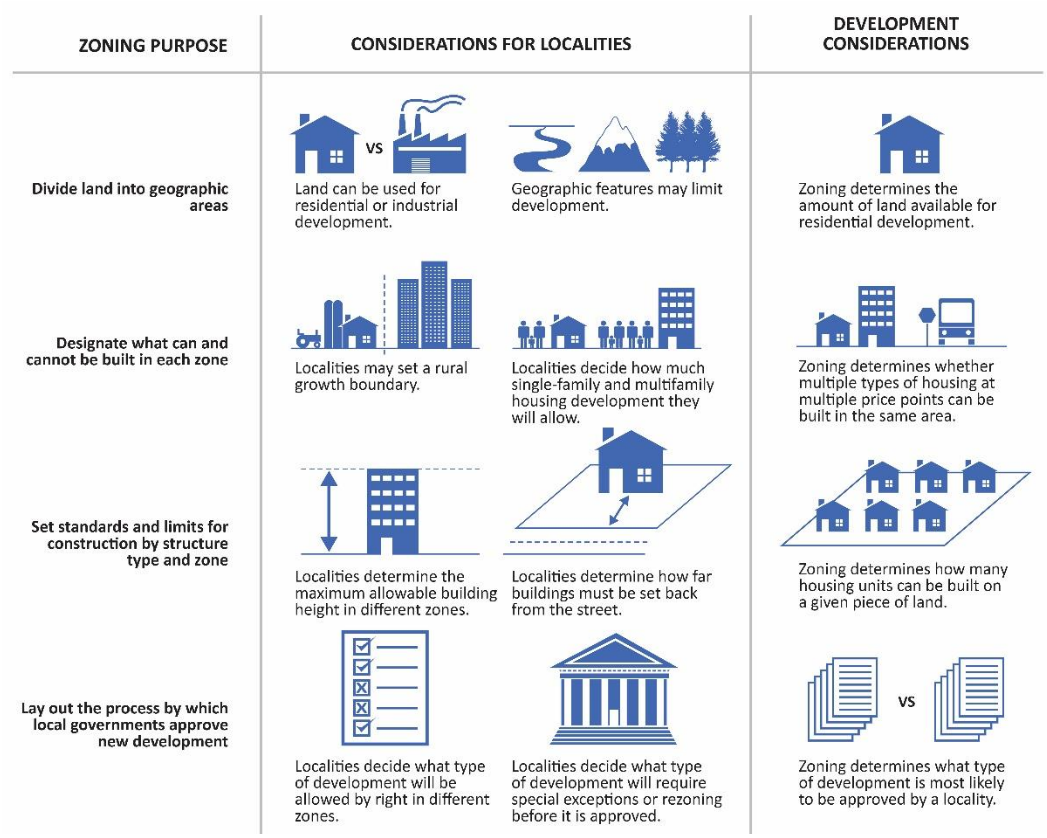
Building and fire prevention codes, along with other documents, also set standards for housing construction.

In Virginia, state law gives localities the authority to create and enforce their own zoning ordinances, within some parameters. For example, state law requires localities to consider certain factors in their ordinances, including, but not limited to, the locality's comprehensive plan, building safety, the protection of historic areas, and the creation and preservation of affordable housing (sidebar). The Code of Virginia also dictates when localities can impose additional conditions on developments and sets guidelines for when localities must hold public hearings related to zoning changes.

Comprehensive plans are long-range plans intended to guide the growth and development of a community. State law requires localities to update their comprehensive plans every five years.

Within the broad framework set by state law, localities govern their own zoning decisions. Local adoption of zoning ordinances is optional—though nearly all localities have them—and there are not standardized zoning rules or classifications across localities. Local governing bodies, planning commissions, and zoning administrators develop and enforce zoning ordinances, and zoning appeals and additional enforcement are handled by local district and circuit courts, respectively. Practically, local zoning control means localities can create ordinances that are specific to their housing needs and that zoning standards and development approval processes vary across the state.

FIGURE 6-1
Zoning ordinances determine where, how much, and what type of housing can be built



SOURCE: JLARC summary of research literature.

Appendix G provides additional information about how Virginia localities have historically used zoning to advance certain objectives.

Zoning ordinances directly affect citizens. Historically, local zoning has been used to both help and harm residents. When used well, zoning can protect public health, promote a diversity of housing options, and help ensure residents have access to essential goods and services. Zoning has also been used to segregate communities by class and race, has contributed to disparities in citizens' health and educational outcomes, and has prevented citizens from accessing needed goods and services (sidebar).

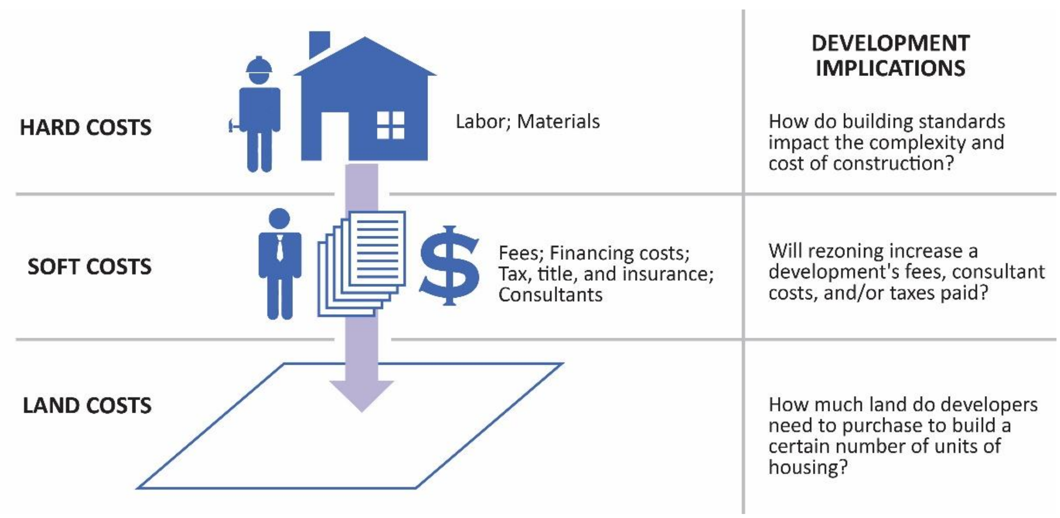
Restrictive zoning ordinances can constrain local housing supply

Projects that comply with a locality's existing ordinance can be built "by right," but projects that do not adhere to these ordinances require a rezoning. By-right development will be approved without being subject to additional requirements. Developers seeking to build housing that does not comply with a locality's existing zoning ordinance usually must seek to have the land where they will build "rezoned." Rezoning adds time and costs to the project and may subject projects to more conditions than by-right development. Zoning changes require public hearings and approval by local governing bodies, which adds time and risk to these projects because they may not be approved.

Zoning ordinances affect the costs of all developments (Figure 6-2), but costs and risks increase for developments that require rezoning. To rezone, developers must take on additional procedural costs, such as legal and consultant fees to navigate a locality's development approval process and the staff time needed to develop plans to present to the approving locality. Developers also may incur costs while awaiting approval, such as paying property taxes on the land they plan to use for the development. Developers interviewed for this study reported that rezoning typically costs between $250,000 and $1 million per project. Developers risk losing those investments if rezoning for their projects is not approved (sidebar).

Local characteristics can increase the likelihood that a rezoning will be approved but do not guarantee it. For example, characteristics such as the makeup of the local governing body, the governing body's priorities, and the content of a locality's comprehensive plan can impact the likelihood of rezoning. Local planners reported that governing bodies that understand local housing needs may be more likely to approve rezonings that address those needs, and that rezoning for development that meets goals in the comprehensive plan is more likely to be approved.

FIGURE 6-2
Zoning affects the hard, soft, and land costs of development



SOURCE: JLARC summary of research literature.

Restrictive zoning ordinances can prevent needed housing types and quantities from being built. These deterrents to developers constrain local housing supply. According to Virginia developers, local planners, and national housing experts, when localities need more housing, more varieties of housing, or housing in different locations than the zoning ordinance allows, it becomes difficult for developers to respond to demand.

- JLARC staff interviewed six Virginia nonprofit and for-profit housing developers, each of whom reported that zoning creates significant barriers to developing multifamily housing even when there is local demand for such housing. Those developers reported that restrictive zoning prevented them from initiating projects, led them to abandon initiated projects, and can make projects they want to build financially infeasible.
- JLARC staff interviewed 11 local planning departments across Virginia, eight of whom said that zoning in their localities restricted housing development and made it more difficult to meet housing needs.
- National experts, including those at the U.S. Department of Housing and Urban Development, agree that zoning and regulation increase housing development costs. While some zoning and regulation are necessary, restrictive requirements can make housing development financially infeasible for developers or unaffordable to potential residents.

Zoning's impacts on housing development costs are especially relevant for meeting affordable housing demands because projects that provide affordable housing are less able to afford extra costs than market-rate developments. Zoning ordinances that allow affordable housing to be built "by right" allow those projects to be built at a lower cost, because they avoid rezoning costs. Rezoning land to allow more types of development by right would require a public hearing in most localities, and public opposition at the hearing could impede the change. However, having more land zoned to allow a greater diversity of housing by right means that a public hearing would not be required for each individual development, just the initial rezoning.

Many factors affect housing supply, and zoning changes can help mitigate these constraints

Several factors—not just local zoning—affect housing supply. Throughout the research for this study, local planners and developers cited several other development constraints. When asked which factors most constrained housing development in their localities, local planners' most frequent responses were construction costs, supply of developable land, land costs, existing infrastructure capacity, and public opposition to development. In interviews, local planning departments listed many of the same factors including high construction costs, infrastructure improvements, and public opposition as impediments to development. Changing zoning cannot solve all of these constraints, but certain zoning policies can mitigate each of them.

Zoning changes alone cannot solve Virginia's housing shortage, but they can help give developers and localities the flexibility to reduce constraints that limit supply:

- **Construction costs:** Zoning ordinances include requirements for how buildings must be constructed, and decreasing such requirements could reduce construction costs. These construction requirements can include materials requirements, building height maximums, and parking requirements, among others. Meeting construction requirements can increase development costs. For example, a zoning ordinance may require a multifamily development to include on-site parking, and a study from the Government Accountability Office found that a single unit of structured parking in multifamily developments is associated with an additional $50,000 in per-unit costs.
- **Supply of developable land and land costs:** In markets with small amounts of developable land and high demand for housing, allowing higher density development could help meet more housing needs on available land. Increasing allowable lot coverage and reducing setbacks could also help maximize use of available land. These strategies could also reduce the amount of land developers need to purchase to build a given number of homes.
- **Existing infrastructure capacity:** Research shows that denser and more mixed-use development is associated with lower infrastructure costs per capita. According to HUD, greenfield development (on previously undeveloped land) "imposes greater needs [for] roads, sidewalks, water, and sewer systems than infill development that can use existing structure."
- **Public opposition to development:** Increasing the variety of development allowed by-right can reduce the influence of public opposition to a given project.

Local zoning restricts affordable housing supply most in the state's fastest-growing localities

Measuring the impact of local zoning policies on housing development in Virginia is difficult because there is no comprehensive source of information on local ordinances and because the effects of zoning standards vary substantially across housing markets. Since localities are responsible for drafting and enforcing their own zoning ordinances, the state does not collect information on zoning ordinances across Virginia (sidebar). Even if comprehensive, statewide information on zoning ordinances were available, using the data to draw conclusions about the impact of local zoning on housing supply would be challenging. For example, a one-acre lot size minimum in a low-growth, rural locality with plenty of available land may be appropriate and allow the construction of needed housing. The same lot size minimum in a growing urban or suburban locality with limited land supply may be too restrictive and limit construction to the point that housing needs are not met.

The Virginia Department of Emergency Management's **VGIN Geospatial data** includes some data on local zoning, but information is often incomplete or nonexistent because localities are not required to submit zoning data to VGIN in a uniform way. JLARC requested VGIN parcel data for 77 localities throughout Virginia. However, data was sufficient to garner meaningful information about zoning in only 23 of those localities.

Virginia's lack of comprehensive statewide zoning information is not unusual. Few states have statewide or regional zoning databases. Maryland has a statewide land use map, and Massachusetts has a zoning atlas for the Boston area. In both states, creating and maintaining the databases appears to be a large undertaking. Maryland first created its land use map in 1973 and has only updated it twice since: once in 2002 and once in 2020. The updates ensured that the information in the map reflected localities' current zoning practices. Developing the zoning atlas for the Boston area took nine years because of the complexity of standardizing zoning ordinances across many localities. However, the difficulty of creating and maintaining a zoning database depends on what information it includes. Both states use their databases in conjunction with other resources for research on state and local housing markets. For example, Massachusetts researchers used the zoning atlas to calculate the number of units that can be constructed under existing zoning ordinances. In Maryland, the state has used the map to measure how development patterns have changed with population growth. A statewide housing needs assessment would help Virginia use any comprehensive zoning information effectively.

Access to data and information about local zoning practices could be useful to state policymakers attempting to identify options for improving the availability of affordable housing, including General Assembly members, housing agency staff, executive branch staff, and local governments. Those policymakers could use such information to determine what types of policy interventions and adjustments to local zoning policies could potentially facilitate affordable housing development. This type of information and data may be most useful in growing localities and in areas with rapidly increasing housing costs, such as the 20 localities with the highest population growth rates, median home sales prices, and median gross rents. While housing stakeholders and developers commonly cite zoning as one of the primary impediments to affordable housing development, state-level housing entities have little expertise or information on zoning.

The Department of Housing and Community Development (DHCD) should contract for a study of how the state could collect information and data on local zoning practices. Potential contractors could include one of the Virginia non-profits that conducts housing research or researchers at state universities, such as the Virginia Center for Housing Research at Virginia Tech. As part of this effort, the contractor should determine: what data and information would be most useful to collect from localities; how the data would be collected from localities; how the data would be used at the state level; how frequently data should be collected and updated; and the resources necessary to collect zoning data. The contractor should collaborate with staff at the Virginia Geographical Information Network (VGIN) within the Virginia Department of Emergency Management (VDEM) to conduct this study, because VGIN staff already have experience with collecting parcel data from the localities.

RECOMMENDATION 17

The General Assembly may wish to consider including language in the Appropriation Act directing the Virginia Department of Housing and Community Development to contract for a study on how to collect zoning information and data from Virginia localities with population growth rates, median home sales prices, and median gross rents in the top quartile of the state. The study should include a description of the type of zoning and data information that could be collected, how such information would be used, and the resources that would be necessary to collect this data. DHCD should submit this study to the House Committee on Counties, Cities, and Towns; the Senate Local Government Committee; and the Virginia Housing Commission no later than November 1, 2022.

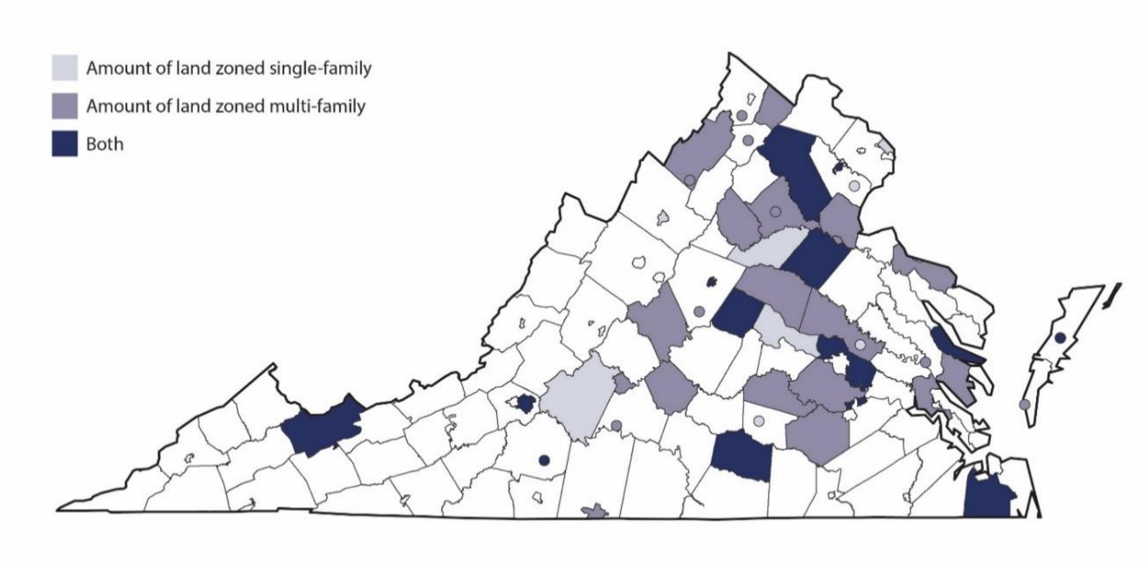
Given the current limited data and information available on local zoning policies, local governments familiar with their housing markets and geography are the best source of information on the impacts of zoning on housing supply. JLARC staff conducted a survey of planning departments in all Virginia localities about their housing markets, zoning ordinances, and development approval processes (sidebar).

Thirty percent of localities responding to JLARC's survey reported that zoning was a top factor that constrained local housing supply. Localities with high population growth and high housing costs were most likely to report that zoning constrains local housing supply. However, overall, only a minority of local planning departments responding to the survey reported that zoning was a top constraint on housing development in their localities. When asked to select the top five factors that most constrained housing development in their localities, 30 percent of localities reported that the amount of land zoned for *either single- or multifamily housing* limits housing supply (Figure 6-3) (sidebar). Most of these reported that the amount of land zoned for *multifamily housing* (as opposed to single-family developments) limits housing supply. These localities were largely college cities or towns or localities located along the I-95 corridor. Appendix F of this report contains more detail on local responses to JLARC's zoning and land use survey.

JLARC surveyed all Virginia counties, cities, and towns about their housing markets, zoning ordinances, and development approval processes. A total of 160 localities responded to the survey, representing 80 percent of the state population.

Localities that responded to JLARC's survey reported that **the top five constraints to housing development** were 1) construction costs, 2) supply of developable land, 3) land costs, 4) existing infrastructure capacity, and 5) location of available land parcels. See Appendix F of this report for more detailed information on survey responses.

FIGURE 6-3
Thirty percent of localities responding to JLARC's survey reported that zoning was a top factor that constrained local housing supply



SOURCE: JLARC analysis of JLARC's local land use survey
NOTE: Not all localities responded to JLARC's survey. Localities without shading either responded and did not report zoning constraints or did not respond to the survey.

Localities that reported that the amount of land zoned for multifamily and/or single-family development constrained housing supply have higher housing costs and have had more population growth than other localities (Table 6-1). Localities with growing populations are more likely to need new and denser development than other localities.

TABLE 6-1
Localities with more population growth, higher housing costs reported zoning constraints

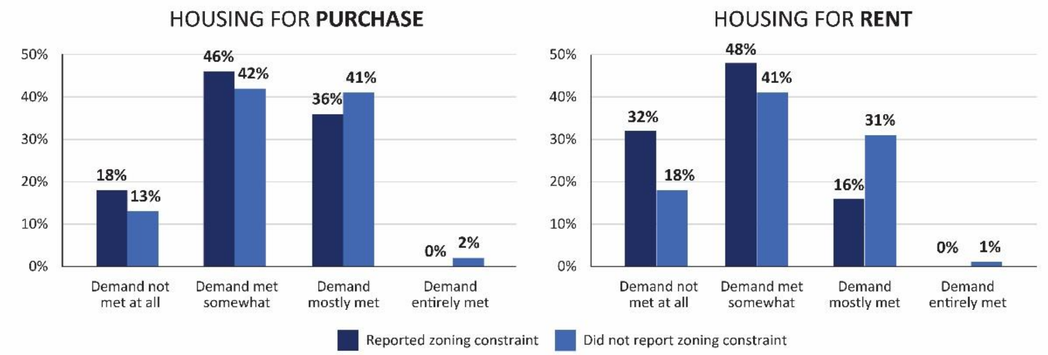
	Average population growth rate [a]	Average median home sales price [b]	Average median rent payment [c]
Reported zoning constraint	7.0%	$313,850	$1,083
Did not report zoning constraint	0.8	237,100	921
Statewide	3.0	261,727	984

SOURCE: JLARC analysis of Weldon Cooper Center for Public Service, Virginia Realtors Association, and American Community Survey, 5-year, 2015–2019 data.
NOTE: All values in 2019 dollars. Includes only responses and values from Virginia cities and counties; towns excluded. Statewide rates and values include localities that did not respond to JLARC's land use survey. [a] Growth from 2010–2019. [b] 2021, adjusted to 2019 dollars. [c] 2019.

The localities that reported that zoning constrained housing supply were less likely to report their housing needs were met than other localities, especially for rental housing

(Figure 6-4). Localities that reported zoning constraints were slightly more likely to say that local demand for *for-sale housing* was *not met at all* compared with localities that did not report zoning constraints. Localities that reported zoning constraints were nearly twice as likely as other localities to report that local demand for *rental* housing was not met.

FIGURE 6-4
Localities that cite zoning constraints are more likely to report that their housing needs are not met than other localities



SOURCE: JLARC analysis of local land use survey responses.
NOTE: Does not sum to 100 percent because excludes "Don't know" responses.

Very few localities zone more than 50 percent of their land for multifamily housing, especially among localities that reported that zoning constrained the local housing supply. All localities that reported zoning constraints had half or less of their developable land zoned for multifamily housing.

Virginia could encourage local zoning and land use policies that facilitate affordable housing development

Since zoning changes can be an effective tool to address local housing supply constraints, the state could encourage localities to adopt local zoning and land use policies that facilitate affordable housing development. The state and localities have several options to make zoning ordinances more flexible, but upzoning and inclusionary zoning are options that states and localities have used more frequently in recent years.

Some inclusionary zoning policies appear to increase affordable housing supply

Other states and some Virginia localities have used two types of policies to increase housing supply through zoning changes: upzoning and inclusionary zoning. Upzoning refers to policies that increase a land parcel's allowable density. Over the past few years, some cities and states have passed laws effectively upzoning entire municipalities:

Another way to increase density is through allowing **accessory dwelling units**. According to HUD, accessory dwelling units are "additional living quarters on single-family lots that are independent of the primary dwelling unit." Some Virginia localities already allow for accessory dwelling units in some form, including Fairfax County, Alexandria, Arlington, and Charlottesville.

Density bonuses allow developers to build at a higher density than would otherwise be allowed in exchange for some public benefit, in this case, units of affordable housing. For example, a density bonus could allow a developer to build 10 units instead of eight if the developer designates some portion of those units as affordable housing.

Localities in three of Virginia's neighboring states—North Carolina, Tennessee, and Maryland—have adopted inclusionary zoning policies, according to a national survey of inclusionary zoning policies.

- In 2018, Minneapolis approved a new comprehensive plan to allow three-to-six story buildings over transit corridors and eliminate single-family zoning throughout the rest of the city, allowing housing of up to three units on lots where only single-family housing was previously allowed. The city is updating its zoning ordinance to reflect the new comprehensive plan.
- In 2019, Oregon passed a law that allows duplexes, triplexes, and quadplexes on parcels reserved for single-family zones in cities with more than 25,000 residents. The law allows duplexes on single-family parcels in cities of at least 10,000.
- In 2020, Portland, Oregon, passed a broad rezoning ordinance that allows up to four homes on almost all residential lots and allows up to six units if three of them are affordable to low-income families.
- In 2021, California passed a law effectively legalizing quadplexes in most areas of the state by allowing homeowners to divide their property into two lots and build up to two homes on each of those lots.

All of these state and local laws are relatively new, so the exact impact of them is unknown, but research suggests that this type of upzoning has the potential to reduce land costs per unit and soft costs to developers. Land cost reductions come from being able to build more housing on a single lot, and soft cost reductions result from allowing developers to build more densely by right (sidebar).

Many other localities have adopted inclusionary zoning policies, which require or encourage market-rate housing developers to set aside a portion of the units they construct to rent or sell at below market prices in exchange for some incentive, typically a density bonus (sidebar). These policies serve the dual purpose of increasing the stock of housing affordable to low- and moderate- income households and integrating that stock into areas with market-rate housing, aiming to reduce socioeconomic segregation and concentrated poverty. A recent national survey estimates that at least 700 localities throughout the United States have inclusionary zoning policies, including Fairfax County (sidebar). Between 1992 and 2011, Fairfax's inclusionary zoning program resulted in the construction of over 2,000 units of affordable housing. Other localities have also seen success. Between 1976 and 2020, the inclusionary zoning program in Montgomery County, Maryland, has resulted in the construction of over 16,000 units of affordable housing. Atlanta also adopted inclusionary zoning policies in 2018, which the city reports has led to the construction of 384 units so far.

State could use economic incentives to encourage localities to adopt more flexible zoning

Existing by-right development is not sufficient to meet localities' housing needs, especially needs for multifamily and affordable housing. Sixty-two percent of localities that responded to JLARC's local land use survey reported that existing by-right development would meet a portion, but not all, of unmet housing needs in their locality. Nineteen percent said that it would meet none of their housing needs. These responses suggest that allowing by-right development for more varied housing types would lead to easier approval of multifamily and affordable housing.

Because zoning does not appear to be a major housing supply constraint in all of Virginia, and Virginia's state housing agencies have not historically been involved with local zoning, a statewide mandate regarding zoning practices is not an appropriate or feasible option for increasing Virginia's housing supply. A better approach would be to provide additional state funding to localities that adopt more flexible zoning policies for transportation facilities, public safety facilities, public school facilities, public parks, and other similar public services or amenities. An example of a more flexible zoning policy would be allowing more by-right development of housing that meets affordability needs. Providing funds for other infrastructure and services could help localities meet their existing needs and help offset any costs created by additional development. For example, increased school enrollment associated with new families moving into a school district is costly to localities. In addition, development can require extensions of public utilities and increased traffic and road maintenance needs.

Localities currently face a financial disincentive to increase the amount of development they allow by right. Virginia law makes it easier to pass costs associated with housing development on to developers when a development requires a rezoning. Proffers are voluntary fees developers offer when applying for a rezoning to help offset localities' costs from development. Examples of proffers include cash for localities to pay for transportation facilities, public safety facilities, public school facilities, and public parks. In FY19 and FY20, localities collected a total of $98 million in cash proffers. Localities cannot collect proffers for by-right development, so allowing more development by right requires localities to potentially forgo that revenue. Providing state funding to localities that increase by-right development could reduce concerns associated with forgone proffer revenue.

Implementing a financial incentive program to encourage more affordable housing through flexible zoning policies will require several decisions. These decisions include, but are not limited to, the state government entity that should administer the program; the amount of funding localities could receive and how localities could use the funding; the funding source, including whether the program is a direct grant or other incentive; the zoning changes that should merit funding; the application process; and evaluation of the program. For example, the program administrator should assess a locality's need for different housing types, monitor whether those needs change after new zoning policies, and determine the role that zoning policy changes played in those changing housing needs. DHCD could evaluate different approaches to structuring and administering such an incentive program and submit a proposal to the General Assembly. Some state officials have expressed concern that the state could not provide enough funding to successfully influence localities' zonings and that a successful program could require a change in taxation policies or education funding. As part of their research on an incentive program, DHCD could work with local governments to determine what would be needed to encourage more flexible zoning and determine whether the state could provide that funding. DHCD's report could also potentially recommend a pilot program, which would allow the state to assess the potential effectiveness of implementing such a grant program.

RECOMMENDATION 18

The General Assembly may wish to consider including language in the Appropriation Act directing the Virginia Department of Housing and Community Development to evaluate different approaches to structuring, administering, and funding an incentive program to provide additional state funding for infrastructure improvements to localities that adopt zoning policies designed to facilitate the development of affordable housing. The report should include recommendations for implementing an incentive program and should be submitted to the House Committee on Counties, Cities, and Towns; the Senate Local Government Committee; and the Virginia Housing Commission no later than November 1, 2024.

State could give more localities the authority needed to implement effective inclusionary zoning policies

While more flexible zoning ordinances can encourage the development of affordable housing, they also may encourage the development of more market-rate housing. Inclusionary zoning policies allow localities to ensure that any new development leads to the construction of affordable housing in addition to market-rate housing. Though inclusionary zoning policies vary widely, they generally include the following components:

- **Set aside:** Inclusionary zoning policies determine the proportion of units developers must set aside to rent or sell below market value. A 2019 survey of inclusionary zoning programs across the United States found that most programs require set asides of between 10 and 20 percent of units.
- **Affordability level:** Programs must also determine the affordability level of set aside units. The same survey found that most programs set affordability levels somewhere between 50 and 80 percent of area median income (AMI). Some programs have deeper affordability, and some programs require multiple levels of affordability (e.g., 5 percent of units at 50 percent AMI and 5 percent of units at 70 percent AMI).

- **Incentive:** Inclusionary zoning policies include incentives to offset the costs developers incur to meet affordability requirements. The most common incentives are density bonuses, which allow the developer to build at a higher density than otherwise permitted. Other incentives include fee waivers, reductions in design standards, and parking requirement deductions. Regardless of the incentive, it should be designed to minimize developers' financial loss so that the inclusionary zoning policy does not create a disincentive for overall development.
- **Compliance options**: The most common way developers comply with inclusionary zoning policies is by building the required number of affordable units. However, many policies offer developers alternative options such as paying a fee into a locality's affordable housing fund or building affordable units offsite. Local governments should ensure that whatever alternative options they provide are not cheaper than building affordable units. If that is the case, developers have an incentive to choose the alternative options.
- **Included developments:** Policymakers may choose to limit included developments to projects of a certain size or to just rental or for-sale units. Most policies set the minimum project size between two and 10 units. Ninety percent of policies include both rental and for-sale projects.
- **Affordability term:** Inclusionary zoning policies set standards for how long units must remain affordable. The most common affordability term is between 30 and 39 years.
- **Program enforcement:** Inclusionary zoning policies can be mandatory or voluntary. About 70 percent of inclusionary zoning programs nationwide are mandatory, meaning that all qualifying developers must participate. Others are voluntary and rely on the policy's incentives to encourage developers to participate in the program.

In Virginia, state law authorizes Virginia localities to implement inclusionary zoning policies—called affordable dwelling unit ordinances or "ADUs"—according to three sets of standards. Each set of standards has its own statutory language, applies to different localities, and has different requirements related to the standards (Table 6-2). A limited number of localities have broad discretion to design and implement inclusionary zoning policies, while other localities must follow more specific state guidelines.

Mandatory inclusionary zoning ordinances yield more affordable units than voluntary programs. Mandatory inclusionary zoning ordinances *require* developers to set aside a portion of units to rent or sell below-market or pay a fee to the locality. Voluntary ordinances allow developers who want to participate in the program to set aside units in exchange for an incentive. Fifteen localities in Virginia report they have adopted an affordable dwelling unit ordinance. Seven of these localities responded to

JLARC's local land use survey. Three operate mandatory inclusionary zoning and reported that about 20 projects had participated in their ADU programs in the past three years. The four localities that operate voluntary ADU programs reported that a combined three projects had participated in the past three years. Research literature on inclusionary zoning also finds that mandatory programs tend to yield more affordable housing units than voluntary programs.

TABLE 6-2
Affordable dwelling unit authorization varies by locality

	§15.2 2304	§15.2 2305	§15.2 2305.1
Covered localities	Counties of Albemarle, Arlington, Fairfax, and Loudoun; Cities of Alexandria, Fairfax, and Charlottesville	All localities not covered under §15.2 2304	All localities not covered under §15.2 2304
Set aside	Local discretion	Set-aside capped at 17%; density bonus capped at 30%; any reductions must maintain that ratio	10 percent of units affordable (as defined by locality) for low-income households or 5 percent of units affordable (as defined by locality) for very low-income households
Affordability level	Local discretion	Local discretion as long as owner does not suffer economic loss	Local discretion as long as owner does not suffer economic loss
Incentive	Local discretion	Local discretion as long as any density bonus complies with set aside ratio	Local discretion, but density bonuses must be calculated according to formula set in statute
Compliance options	Local discretion	May establish local housing fund	May establish local housing fund
Included developments	Local discretion	Local discretion	Local discretion
Affordability term	Local discretion	Between 15 and 50 years	Between 15 and 50 years
Program enforcement	Local discretion, including mandatory for any new development	May only apply when developer seeks rezoning or special exemption	Voluntary

SOURCE: JLARC summary of Code of Virginia §15.2 2304, §15.2 2305, and §15.2 2305.1; Housing Forward Virginia
NOTE: Summary, does not include all requirements for localities with affordable dwelling unit ordinances

Additional Virginia localities could benefit from the authority to implement mandatory inclusionary zoning policies for all qualifying developments. While mandatory inclusionary zoning policies are generally more effective at producing affordable units than voluntary policies, they are not a good fit for all localities. A primary concern with inclusionary zoning policies is that poorly designed policies may create a disincentive for development and worsen housing shortages. Because of this concern, research shows that mandatory inclusionary zoning works best in localities with high housing costs and high population growth. The seven Virginia localities authorized to have mandatory inclusionary zoning policies for all qualifying developments have high costs and high growth rates, but other localities have similar high costs and growth rates. The state could identify localities that have population growth rates, median home sales prices, and median gross rents in the top quartile of the state to determine which localities could support inclusionary zoning policies (sidebar). Using data from the American Community Survey and Virginia Realtors Association, this approach would increase the number of localities with authority to enact mandatory inclusionary zoning policies for all qualifying developments from seven to 20.

With the exception of **Fairfax County and Fairfax City**, all localities that currently have authority to enact mandatory inclusionary zoning policies have growth rates, median home sales prices, and median gross rents in the top quartile of the state. Fairfax County and City have top quartile home prices and rents but have growth rates in the second quartile (still above the median). Fairfax County operates a successful mandatory inclusionary zoning policy.

Giving localities the *authority* to enact mandatory inclusionary zoning policies would not require them to do so. Best practices show that localities that choose to enact any inclusionary zoning policies should conduct housing market analyses and carefully consider the components of their policies (listed previously in this chapter) to ensure their policy is effective and does not slow overall development. To help ensure localities have the information they need to implement effective inclusionary zoning policies, DHCD could offer technical assistance to localities that wish to implement mandatory inclusionary zoning.

POLICY OPTION 2

The General Assembly could amend §15.2 2304 of the Code of Virginia to expand the localities that have the authority to adopt mandatory affordable dwelling unit ordinances to include all localities that have population growth rates, median home sales prices, and median gross rents in the top quartile of the state, and require that the Department of Housing and Community Development update the list of qualifying localities after each decennial census. The amended statute could also provide that any locality that receives this authority would not have it revoked if the locality is no longer in the top quartile of the state for these characteristics.

Appendix A: Study resolution

Review of the Commonwealth's Housing Needs
Authorized by the Commission on November 16, 2020

WHEREAS, access to affordable housing is a critical factor in Virginians' physical and behavioral health and their ability to achieve and maintain economic stability; and

WHEREAS, affordable housing is becoming more difficult for many individuals and families to acquire throughout all regions (suburban, urban, and rural) of the Commonwealth; and

WHEREAS, the high cost burden of housing, especially for lower-wage earners or those with special needs, is contributing to housing instability and homelessness; and

WHEREAS, between January and June of 2020 approximately 54,000 evictions were filed, more than 19,000 of those resulted in an eviction, and analysis by Virginia Commonwealth University estimated that up to 262,000 additional households are at risk of eviction;

WHEREAS, multiple state and local agencies are involved in the provision of housing services and monitoring housing affordability and availability in Virginia; now, therefore be it

RESOLVED by the Joint Legislative Audit and Review Commission (JLARC) that staff be directed to review the Commonwealth's housing needs and the role of state and local governments in addressing them.

In conducting the study, staff shall (i) analyze rent burden across the Commonwealth and compare the demand for affordable housing statewide to its supply; (ii) identify the impacts of a lack of housing options and high rent burden on Virginians, especially those discriminated against based on their race and ethnicity or disadvantaged by their education, income, age, and physical and behavioral health needs; (iii) identify factors that limit the supply of housing, including zoning requirements; (iv) evaluate the importance of housing availability to state and local revenues and economic growth; (v) evaluate the effectiveness of state and local programs to address housing needs, especially for low- and moderate-income Virginians, Virginians who struggle with mental health conditions and substance abuse, Virginians who live in multi-family households, and elderly Virginians; and (vi) evaluate the adequacy of coordination between the various state and local agencies that have a role in housing policies and services.

JLARC shall make recommendations as necessary and review other issues as warranted.

All agencies of the Commonwealth, including the Department of Housing and Community Development, the Virginia Housing Development Authority, the Department of Behavioral Health and Developmental Services, the Department of Aging and Rehabilitative Services, and the Department of

Social Services, shall provide assistance, information, and data to JLARC for this study, upon request. JLARC staff shall have access to all information in the possession of agencies pursuant to § 30-59 and § 30-69 of the Code of Virginia. No provision of the Code of Virginia shall be interpreted as limiting or restricting the access of JLARC staff to information pursuant to its statutory authority.

Appendix B: Research activities and methods

Key research activities performed by JLARC staff for this study included

- contracts with consultants to produce perform a structured financial review of Virginia Housing and its ability to contribute funds to affordable housing initiatives;
- structured interviews with leadership and staff of state agencies, local planning and housing program staff, academic experts, and other stakeholders;
- attendance at relevant board and stakeholder meetings;
- review of research literature and other documents;
- review of state laws, regulations, and policies relevant to housing policy, as well as local policies, and other relevant documents;
- surveys of local planning staff and Housing Choice Voucher partner agencies; and,
- data collection and analysis from the Census Bureau (American Community Survey), Virginia Realtors Association, the U.S. Department of Housing and Urban Development, Virginia Housing, and the Department of Housing and Community Development;

Contracts with consultants

JLARC contracted with CSG Advisors, a national consultant with specialized expertise in housing finance, to produce reports supplementing the research activities of JLARC staff. CSG Advisors has over 40 years of national experience in housing finance, has worked for 26 state housing finance agencies, and has conducted work similar to the work conducted for JLARC in seven states, including in Virginia in 2002. CSG Advisors performed primary analysis related to Virginia Housing's financial strength and financial sustainability; the effect of Virginia Housing's financial resources on its ability to allocate funds to REACH; funds projected to be allocated to REACH under the current formula; impacts of alternative formulas on REACH allocations and Virginia Housing's financial position; and, other options for Virginia Housing to strengthen its future financial position. CSG Advisors obtained detailed financial data and information from Virginia Housing, as well as reports from the two rating agencies, Moody's and S&P. CSG used this data and information to build a financial model forecasting Virginia Housing's future financial position and the impact of implementing various policy options related to REACH contributions. JLARC staff met with CSG on a weekly basis during the primary research period.

Structured interviews

Structured interviews were a key research method for this report. JLARC staff conducted over 90 structured interviews for this study. Key interviews included:

- Virginia Housing staff,
- Department of Housing and Community Development staff,
- other Virginia state agency staff,
- local planning staff,
- housing developers,

- local housing agency staff,
- national housing experts, and
- other stakeholders.

Virginia Housing staff

JLARC staff conducted 17 structured interviews with Virginia Housing staff. Topics varied across interviews but were primarily designed to understand Virginia Housing's multifamily rental program, single-family lending program, Housing Choice Voucher program, community outreach initiatives, and REACH. Virginia Housing staff were also asked for their perspectives on the state's most pressing housing needs and statewide housing policy coordination. In addition to structured interviews, JLARC staff had several follow-up conversations with Virginia Housing staff to clarify issues, better understand data sources, and ask follow-up questions.

Department of Housing and Community Development staff

JLARC staff conducted eight structured interviews with Department of Housing and Community Development (DHCD) staff. Topics varied across interviews, but were primarily focused on the Virginia Housing Trust Fund, federal housing and community development block grant programs, housing policy planning efforts, and rent and eviction relief programs.

Other state agency staff

JLARC staff conducted virtual structured interviews with other state agency staff that have a role in housing policy or operate housing programs. JLARC staff interviewed staff at the following agencies:

- Department for Aging and Rehabilitative Services,
- Department of Behavioral Health and Developmental Disabilities,
- Department of Medical Assistance Services, and
- Office of the Secretary of Commerce and Trade.

The topics of these interviews included opinions on the state's most pressing housing needs, coordination among state agencies on housing policy, and housing programs operated by the agency.

Local planning staff

JLARC staff conducted virtual interviews with planning and land use staff in 11 localities across the state. Localities were selected to ensure localities in different regions and with different population sizes were represented. JLARC staff interviewed staff in the following localities:

- Botetourt County,
- Chesterfield County,
- Cumberland County,
- Danville,
- Fairfax County,
- Fauquier County,
- King George County,

- Loudoun County,
- Prince William County,
- Shenandoah County (included county staff, as well as staff from the towns of New Market, Strasburg, and Tom's Brook), and
- Virginia Beach.

Interview topics included comprehensive plans, local zoning ordinances, the state's role in local zoning and land use, zoning ordinance update initiatives, impact of zoning on the availability of affordable housing, and zoning modification processes.

Housing developers

JLARC staff conducted structured interviews with six affordable housing developers who have developed affordable housing in Virginia. All of the developers interviewed had experience receiving financing through Virginia Housing and most also had experience with applying for funding through DHCD. JLARC staff also attempted to interview a mix of privately held and non-profit affordable housing developers. JLARC staff interviewed the following housing developers:

- Arlington Partnership for Affordable Housing,
- Better Housing Coalition,
- Community Housing Partners Corporation,
- The Lawson Companies,
- Lynx Ventures, and
- Wesley Housing Development Corporation.

Interview topics included properties developed in Virginia, the affordable housing development process, financing affordable housing properties, impact of zoning on development, experience using Virginia Housing and DHCD affordable housing financing programs, and challenges developing and operating affordable housing.

In addition to affordable housing developers, JLARC staff also interviewed staff with the Harrisonburg Redevelopment and Housing Authority (RHA) because it provides financing to affordable housing developments across the state. Harrisonburg RHA is one of two or three RHAs in Virginia that provide financing options to affordable housing projects across the state.

Local housing agency staff

JLARC staff conducted 15 structured interviews with local housing agency staff. These agencies included public housing agencies, redevelopment and housing agencies (RHAs), and partner agencies that administer Housing Choice Vouchers (HCVs) on behalf of Virginia Housing. JLARC staff interviewed staff at the following local housing agencies:

- Accomack-Northampton Redevelopment and Housing Agency,
- Arlington Department of Human Services,
- Big Stone Gap Redevelopment and Housing Agency,
- Campbell County Department of Social Services,

- Charlottesville Redevelopment and Housing Authority,
- Chesterfield-Colonial Heights Department of Social Services,
- Franklin Redevelopment and Housing Authority,
- Loudoun County Office of Housing,
- Manassas City-Manassas Park City Housing Office,
- Newport News Redevelopment and Housing Authority,
- Prince William County Office of Housing and Community Development,
- Richmond Redevelopment and Housing Authority,
- Staunton Redevelopment and Housing Authority,
- Wise County Redevelopment and Housing Authority, and
- Wytheville Redevelopment and Housing Authority.

Topics varied across interviews but were primarily focused on Housing Choice Voucher (HCV) administration, prevalence of housing need and housing cost burden, and supply of available affordable housing. Local housing agency staff were also asked about their perceptions of the state's most pressing housing needs and statewide housing policy and program coordination.

In addition to structured individual interviews with local housing agency staff, JLARC staff also conducted two structured interviews with members of the Little Ten public housing agencies. The Little Ten is a collaborative group of 10 public housing agencies in Southwest Virginia. JLARC staff conducted one structured interview with a long-time participant in the group and another structured interview with leaders from each of the public housing agencies participating in the Little Ten. Participants in the Little Ten include:

- Abingdon Redevelopment and Housing Authority,
- Bristol Redevelopment and Housing Authority,
- Big Stone Gap Redevelopment and Housing Authority,
- Cumberland Plateau Redevelopment and Housing Authority,
- Lee County Redevelopment and Housing Authority,
- Marion Redevelopment and Housing Authority,
- Norton Redevelopment and Housing Authority,
- Scott County Redevelopment and Housing Authority,
- Wise County Redevelopment and Housing Authority, and
- Wytheville Redevelopment and Housing Authority.

Interview topics with members of the Little Ten included prevalence of housing need and housing cost burden, supply of affordable housing, challenges with administering Housing Choice Vouchers, statewide housing policy coordination, and opinions about how the state could address housing needs.

National housing experts

JLARC staff conducted interviews with national subject-matter experts. Interview topics included zoning and land use best practices, strategies for administering a survey of local zoning practices, barriers to meeting housing supply needs, and best practices for administering housing choice vouchers. Interviews with national housing experts included:

- Brookings Institution;
- Center for Regional Analysis at George Mason University;
- Georgetown University, McCourt School of Public Policy;
- Massachusetts Department of Housing and Community Development;
- Poverty and Inequality Research Lab at Johns Hopkins University;
- Terner Center for Housing Innovation at the University of California, Berkeley;
- University of Cincinnati, Department of Planning;
- University of Kansas, School of Public Affairs and Administration;
- U.S. Department of Housing and Urban Development (HUD), Office of Policy Development and Research; and
- Virginia Center for Housing Research at Virginia Tech.

Other stakeholders

JLARC staff conducted interviews with a variety of other stakeholders with interests in housing policy in Virginia. These stakeholders included:

- American Planning Association—Virginia Chapter,
- Housing Forward Virginia,
- Federal Reserve Bank of Richmond,
- Virginia Association of Counties,
- Virginia Municipal League, and
- Virginia Housing Alliance.

The primary topics covered in these interviews were opinions on the state's most pressing housing needs, impact on local planning and zoning on the availability of affordable housing, and opinions on statewide coordination of housing policy.

Attendance at relevant board and stakeholder meetings

JLARC staff attended various relevant board and stakeholder meetings throughout this study. All meetings were held virtually and included:

- December 2020 Virginia Housing Alliance Housing Credit Conference,
- December 2020 and February, April, June, August, and October 2021 meetings of the Virginia Housing Board of Commissioners, and
- 14 subgroup meetings related to Virginia Housing and DHCD's 2021 HB 854 housing study.

Meeting topics included housing market conditions in Virginia and the U.S., stakeholder views on Virginia Housing operations and performance, and stakeholder perspectives on HB 854 report topics including utility and property taxes, existing housing programs in Virginia, rent subsidy, and bond financing.

Review of national research and experience of other states

JLARC staff reviewed peer-reviewed academic research on housing, as well as research published by government agencies and advocacy groups. JLARC staff reviewed articles from the *Journal of Planning Education and Research,* the *American Political Science Review,* the *Journal of Urban Affairs,* and *Urban Studies*, among others.

JLARC staff also reviewed research from other sources, such as government agencies and advocacy groups. JLARC staff reviewed documents that describe housing best practices, summarize federal policy, and synthesize other states' policies from the Office of Policy Development and Research at the U.S. Department of Housing and Urban Development, the Government Accountability Office, the National Association of Home Builders, Grounded Solutions Network, and Fannie Mae, among others.

JLARC staff also reviewed best practices and syntheses of other states' policies published by Grounded Solutions Network, the Massachusetts Metropolitan Area Planning Council, the Montgomery County, Maryland Planning Department, Minneapolis 2040, and the Oregon Department of Land Conservation and Development, among others.

Document and policy review

JLARC staff reviewed numerous other documents and literature pertaining to housing in Virginia and nationwide, such as:

- federal laws and regulations affecting housing grants and rental assistance programs;
- Virginia laws, regulations, and policies related to the responsibilities of Virginia Housing, the Department of Housing and Community Development, regional planning district commissions, public housing authorities, and local planning departments and commissions;
- prior studies and reports on housing needs in Virginia, such as those by the Housing Policy Advisory Council, the McGuireWoods Zoning and Segregation Workgroup, the Virginia Poverty Law Center, Housing Forward Virginia, local governments, planning district commissions, and prior JLARC studies; and
- other states' laws, regulations, and policies.

Surveys

For this study, JLARC conducted a survey of planning departments in all Virginia counties, cities, and towns regarding land use, zoning, and housing development.

Survey of local planning staff

The survey of local planning staff was administered electronically to local planning department directors in all 323 Virginia counties (95), cities (38), and towns (190). The survey was sent to town managers, county administrators, and mayors when localities did not have a planning department. Topics included local housing market conditions; local zoning ordinances and land use policies; the frequency with which developers request zoning exceptions and amendments; the time it takes to approve developments; who must approve development requests; the number of development applications localities receive; and local planning department staffing. A total of 158 localities submitted responses to the survey including 65 counties, 30 cities, and 63 towns. The response rate for counties and cities was 71 percent, and the population of respondent localities represents 80 percent of the total population of cities and counties. The response rate for towns was 34 percent, and the population of respondent towns represents 52 percent of the total population of towns.

Data collection and analysis

JLARC staff collected and analyzed four main types of data for this report: housing cost and demographic data from sources such as the U.S. Census Bureau, Bureau of Labor Statistics, HUD, and Virginia Realtors Association; financing and funding data on multifamily rental developments from Virginia Housing and DHCD; single-family mortgage data from Virginia Housing and the U.S. Con-sumer Finance and Protection Bureau (CFPB); and Housing Choice Voucher data from HUD.

Analysis of prevalence of cost burden and housing needs

JLARC staff relied primarily on data from the U.S. Census Bureau American Community Survey (ACS) 5-year files available through IPUMS USA (University of Minnesota, www.ipums.org) to con-duct analysis around housing cost burden and housing needs. Steps JLARC staff took to extract, transform, and analyze the data are described below.

American Community Survey (ACS) data extraction - The cost burden and housing need analysis dataset(s) was created from non-overlapping American Community Survey (ACS) 5-year files 2009, 2014, and 2019 house and person files. Virginia records were extracted from each of the ACS files. The house and person files for each year were merged, retaining all house file records, including records about vacant housing.

Data was matched at the household rather than individual level to simplify analysis and mitigate possibility of data duplication in later stages of data manipulation. Data extracted from the person files is based on the survey respondent.

Changes in the ACS questionnaire over time necessitated transformation of some variables (i.e., num-ber of rooms, value of property, number of bedrooms, certain information pertaining to military service, etc.) and the 2019 file structure was used as the base template.

Inflation adjustments to ACS data - The ACS files include adjustment factors for income and wages in both the person files and the house files and a factor for housing and associated costs in the house files.

Locality record creation in ACS data - The ACS data contains geographic information at a high level but the analysis required the ability to match at least to the city/county level. City/county files based on ACS PUMA were obtained from the University of Missouri's Missouri Census Data Center Geo-Corr application. This data included the proportion of locality population contained in each PUMA and the factors that should be applied to the ACS person weight. The ACS dataset was merged with GeoCorr files and apportioning factors were applied to create a new weight factor (FIPSWGT). This was done in two stages because the ACS-based dataset contained information on both 2000 and the

2010 Census geographies. Data from the 2009 ACS files were matched against 2000 PUMAs, and data from the 2019 ACS files were matched against the 2010 PUMAs. The 2014 file contained both 2000 and 2010 data and was matched against both files to obtain the correct weighting factors.

Creation of state/locality income bins in ACS data - The dataset was divided into income groups by year, by household size, and by locality. Information for income bin definitions was based on HUD income limits for 2009, 2014 and 2019 for the 30 percent, 50 percent and 80 percent income groups. At the 100 percent level, the area median income (AMI) was used as the four-person family base and subsequent family sizes were calculated using HUD methodology for family size adjustments. All calculations at and above the 100 percent level are based on the actual AMI of the locality. The HUD income limits only include up to an eight-person household. However, the ACS data included up to 20-person households. JLARC staff calculated the income bin for households over eight persons based on HUD guidelines.

Calculating AMI rent bins in ACS data- To determine the supply of rental housing available to various income groups and understand the cause of housing cost burden, it was necessary to establish affordability. Using the HUD annual income limits, a calculation of annual income divided by 12 times .30 was used to obtain the maximum monthly amount a household could afford within each income group (i.e., 30 percent AMI, 40 percent AMI, etc.) regardless of the actual household income.

In the case of occupied rentals, the monthly gross rent variable included in the ACS dataset was compared against affordable prices based on the number of bedrooms as a proxy for household size. HUD methodology was used, which assumes two persons per bedroom. For vacant rental units, the ACS data set provided contract rental price. Gross rent was determined by adding the contract rent to the estimated utility costs, which were derived from the utility cost of similar occupied rental units.

Estimating rental housing needs - JLARC staff estimated the unmet need for rental units using the transformed ACS 5-year data set for 2015 to 2019. Households were queried and summed by their household income category (locality income bin) and the affordability of the unit they were renting (using the AMI rent bin). This was completed at the locality level, and then summed to the regional and statewide level.

Because most affordable housing production programs, such as LIHTC, set their affordability thresholds at 50 or 60 percent of area median income (AMI) (meaning that the rental units produced by these programs have rents that are affordable to households with incomes at 50 or 60 percent of the AMI), JLARC staff considered households with incomes at or below 50 percent of AMI that were living in any unit with a rent that was affordable to a household with an income at or below 50 percent of AMI to be affordably housed. This assumption potentially underestimates the number of affordable rental units needed, which means the estimate of needed affordable units should be considered a floor.

For each income group and locality, the number of vacant units was summed by affordability level. Vacant units that were identified as having incomplete plumbing facilities, incomplete kitchen facilities, or incomplete bathing facilities were excluded. The unmet need for rental units in each affordability category was then offset by the number of vacant units without major quality issues.

Analysis on for-sale home prices and purchasing power – JLARC staff used data from the Virginia Realtors Association to analyze the change in for-sale home prices over since 2016. Median sales price data available from the Virginia Realtors Association was adjusted to account for inflation, and then the percentage change in median sale price by locality was determined. Median locality sales prices were aggregated to the regional level. JLARC staff then used data from the ACS data set to determine the maximum monthly mortgage payment that renting households could afford. This maximum monthly mortgage payment was used to determine the percentage of renters who could afford to purchase the median priced home in each year.

Analysis of multifamily rental programs

Developments receiving Virginia Housing financing

JLARC staff used data collected from Virginia Housing to conduct analysis on the authority's multi-family rental development programs. JLARC staff requested data from 2013–2020. Staff selected 2013 as a start year because Virginia Housing completed implementation of a new data system that year.

JLARC used the development data module to calculate the number, type, and location of developments financed by Virginia Housing. When calculating the number of developments and units constructed with Virginia Housing financing, staff excluded any refinancing or loan increase deals when the original deal also appeared in the dataset to avoid double counting. When looking at data by year, JLARC staff counted developments in the year Virginia Housing made financing commitments to them.

To analyze the amount of funding developments received from different sources, JLARC staff bucketed funding sources into a number of larger categories including REACH funding, tax exempt bond financing, taxable bond financing, LIHTC credits, and local funds, among others. Staff used those fund categories to categorize developments into different Virginia Housing programs. Throughout the report, workforce housing development refers to non-LIHTC projects that received taxable bond financing and REACH subsidy; general residential development refers to non-LIHTC projects that received taxable bond financing and did not receive REACH subsidy; and LIHTC developments refer to LIHTC projects.

Staff adjusted all funding amounts into 2020 dollars using the using the Index of Multifamily Residential Units Construction from the U.S. Census Bureau.

LIHTC developments

Though Virginia Housing administers the LIHTC program for Virginia, not all LIHTC projects receive Virginia Housing financing. As such, the data used for the analysis described above did not include developments that received LIHTC but no other Virginia Housing financing. JLARC staff combined the development data module with data on tax credit projects also provided by Virginia Housing. Staff used the combined data to calculate the number of units and developments con-structed using tax credits between 2013 and 2020. As above, when calculating the number of devel-opments and units constructed, staff excluded any refinancing or loan increase deals when the original deal also appeared in the dataset to avoid double counting. When looking at data by year, JLARC staff counted developments in the LIHTC cycle year of their credits. In some cases, this differed from the year Virginia Housing made financing commitments to projects.

Analysis of home buyer assistance programs

JLARC staff relied primarily on mortgage data made available through the Home Mortgage Disclosure Act (HMDA) published by the Consumer Financial Protection Bureau (CFPB) and data collected from Virginia Housing to conduct analysis about home buyer assistance programs in the Commonwealth. Steps JLARC staff took to extract, transform, and analyze the data are described below.

Home Mortgage Disclosure Act (HMDA) data extraction – The HMDA dataset collects information on almost all commercial mortgages originated in Virginia. JLARC staff used the HMDA data to create a pool of commercial mortgages to compare Virginia Housing's mortgages to. Virginia Housing's mortgages were included within the HMDA data and, because the HMDA data was anonymized, those mortgages could not be excluded by JLARC staff. However, Virginia Housing mortgages never comprised more than 6 percent of the HMDA mortgages used in any analysis, meaning their impact on the results was likely insignificant.

HMDA data is available for download by state, year, and type of mortgage from the HMDA data portal. For calendar years 2012-2017, JLARC staff downloaded Virginia mortgages for first lien, owner-occupied, 1-4 family homes and kept only originated and for-purchase mortgages. For calendar years 2018 to 2020, JLARC staff downloaded all Virginia mortgages and kept only originated, single-family, first lien, owner-occupied, and for-purchase mortgages. JLARC staff combined all years into a single dataset and recoded race, gender, and ethnicity variables to match the Virginia Housing data.

Virginia Housing data extraction – JLARC staff requested information on all single-family mortgages originated by Virginia Housing from FY12 to FY20. JLARC staff created a "rounded" version of the loan amount and income for each mortgage to match HMDA data. JLARC staff also cleaned the Virginia Housing data to match the HMDA data and to create consistent codes for variables like race, gender, and ethnicity.

Inflation adjustment – JLARC staff used a personal consumption expenditures (PCE) inflation index published by the St. Louis Federal Reserve with a base year of 2019 to adjust income, loan amount, sales price, and appraised values for inflation.

Creation of unified loan datasets – JLARC staff combined the cleaned HMDA and Virginia Housing loan datasets into a single unified dataset. From years 2012–2017, the only variables of interest included in the HMDA data were the loan amount, income, race, ethnicity, and gender variables. HMDA data from years 2018–2020 contained additional variables such as debt-to-income ratio and interest rate. JLARC staff created two separate datasets from this unified dataset: one for all loans from 2012–2020, and one for all loans from 2018–2020. For each dataset, JLARC staff excluded observations that were missing one or more of the following variables: race, ethnicity, gender, loan amount, debt-to-income ratio, loan to value ratio, and income.

Comparisons – For the 2012–2020 dataset, JLARC staff compared the median income, median loan amount, as well as the racial, ethnic, and gender composition of the Virginia Housing and HMDA datasets. For the 2018–2020 dataset, JLARC staff compared the loan-to-value ratios and debt to income ratios of the Virginia Housing dataset. JLARC staff created indicator variables for if a loan had a high loan-to-value ratios or high debt-to-income ratios. JLARC staff also used an OLS regression to compare the interest rates of Virginia Housing and HMDA loans, accounting for variables like income, race, ethnicity, high debt to income ratio, or high loan to value ratio. JLARC staff only included loans from 2018 to 2020 for this analysis. JLARC staff split Virginia Housing borrowers into four categories based on whether they had a government or conventional loan and whether they had received a Plus mortgage or not. JLARC staff reran the same OLS regression, comparing each of the four categories to HMDA loans of the same type. JLARC staff also calculated the number of Virginia Housing borrowers in these categories and the median household income for each.

Virginia Housing price limits analysis – JLARC staff used median monthly sale prices estimates made available by the Virginia Realtors Association. JLARC staff calculated a median 2020 value for every locality and then compared that to the Virginia Housing sale limits implemented in May of 2020. JLARC staff also collected median sales prices in July 2021 from the same dataset and compared them to the same Virginia Housing sale limits.

Down payment assistance analysis – JLARC staff used the cleaned Virginia Housing data to analyze the usage of their down payment assistance programs. JLARC staff calculated the median award amount for each type of Virginia Housing's down payment assistance: the Closing Cost Assistance (CCA) grant, the Down Payment Assistance (DPA) grant, and the Plus mortgage. JLARC staff collected the Virginia Housing income limits for reach year since the introduction of the DPA grant and Plus mort-gage from its website and entered them into the Virginia Housing loan data. JLARC staff calculated the proportion of borrowers who would have qualified for a DPA grant from Virginia Housing who instead took out a Plus mortgage. JLARC staff also calculated the relative proportion of Black bor-rowers who met this criteria. JLARC staff compared the relative costs of Virginia Housing's down payment assistance options by selecting a loan amount and creating full amortization schedules for that loan for each type of down payment assistance. An amortization schedule shows how much of each monthly payment is going towards interest, how much is going to the loan principal, and the remaining loan principal in each month. To do so, JLARC staff calculated the expected monthly pay-ment for the comparison loan using the following formula: $\text{Monthly payment}=\frac{\text{principal [monthly interest rate (1+monthly interest rate)}^{360}\text{]}}{\text{[(1+monthly interest rate)}^{360}\text{-1]}}$

JLARC staff then used the monthly payment and monthly interest rate to calculate the monthly inter-est and remaining principal amount for each month of the full loan lifetime.

Analysis of Housing Choice Voucher program

JLARC staff relied primarily on two sources of data published by HUD: the Picture of Subsidized Households dataset and data published through HUD's HCV Dashboard.

Time spent on a waitlist – JLARC staff collected Picture of Subsidized Households data from 2011 to 2020 for all Virginia public housing agencies (PHAs). JLARC staff cleaned the data, and calculated the average time spent on a waitlist for all Virginia PHAs in 2020 and 2011. JLARC staff also pulled the average national time spent on a waitlist from the Pictures of Subsidized Housing data portal for 2020.

Inflation adjustment – JLARC staff used a personal consumption expenditures (PCE) inflation index published by the St. Louis Federal Reserve with a base year of 2019 to adjust all costs for the HCV analysis.

Need for rental assistance – JLARC staff took the estimates of housing need calculated using ACS data for Chapter 2 and extracted the number of cost burdened renter households with qualifying incomes for the HCV program. JLARC staff added the most recent 2020 Point in Time Count to include households experiencing homelessness to find an estimate for all HCV qualifying households in need of rental assistance.

Number and distribution of vouchers – JLARC staff collected information on vouchers and voucher costs from each Virginia PHA from the HCV dashboard. HCV data from the dashboard is presented in monthly format, so JLARC staff took yearly averages of the number of allowed and available vouchers for each PHA from 2015 to 2020. JLARC staff then calculated the median total number of vouchers available and the total number of allowed vouchers in 2020 on a state level and region level using the GO Virginia regions.

Housing Assistance Payment (HAP) Costs – The HCV Dashboard publishes information on yearly average HAP payments at the PHA level. JLARC staff collected this information and calculated the median average real HAP payment statewide and for each GO Region for each year.

Budget utilization: The HCV dashboard publishes information on yearly budget utilization rates at the PHA level. JLARC staff collected this information and calculated a statewide median budget utilization rate and analyzed PHA level budget utilization rates to determine what percentage were at or over 100 percent utilization per year.

Additional vouchers – HUD calculates a projected "leasing potential" for each PHA based on the expected spending of the PHA. The formula involves estimating the total end-of-year reserves by subtracting the estimated total HAP costs and a reasonable level of program reserves from the PHAs' budgets. HUD provides an estimate of a reasonable level of program reserves as a percentage of total budget for different sized PHAs:

- 4 percent for large PHAs (500+ vouchers),
- 6 percent for medium PHAs (250-499 vouchers), and
- 12 percent for small PHAs (1-249 vouchers).

Any difference between the reasonable reserve estimate and the total reserve estimate is referred to as excess reserve. HUD divides the excess reserve estimate by 12 months and then by the PHAs' current HAP cost to find the number of potential vouchers the PHA could support. This calculation is performed for the most recent month of available data and is not available for previous years. JLARC staff adjusted the formula to determine the number of additional vouchers PHAs could have issued in a given year to the following:

$$\text{Potential vouchers} = \frac{\frac{[(\text{Budget-Total HAP expenditure})\text{-Reasonable reserve estimate}]}{12}}{\text{Average HAP payment}}$$

JLARC staff collected information on total HAP expenditures, total budget, and average HAP payments from the HCV dashboard to calculate this estimate for each PHA per year, and calculated a statewide median estimate for each year.

Statewide voucher program cost estimate – JLARC staff estimated the cost of two different statewide voucher programs: one where participants paid 30 percent of their income toward rent (like the HCV program) and one where participants paid 40 percent of their income toward rent. To calculate the cost of the 30 percent voucher program, JLARC staff multiplied the number of qualifying households by the statewide median average 2020 HAP. JLARC staff also included an estimate of administrative cost. HUD publishes annual administrative funding levels per voucher. JLARC staff collected these for each year from 2015–2020 and found 2020 median statewide per-voucher administrative costs. JLARC staff then multiplied this estimate by the number of qualifying households to estimate the administrative costs of a voucher program. JLARC staff added these figures together to determine a total cost of a 30 percent voucher program serving all qualifying households statewide.

To calculate the cost of a 40 percent voucher program, JLARC staff used data from the Picture of Subsidized Households dataset on the average household rent payment, average HAP, and average voucher household income at a PHA level. JLARC staff added the average tenant payment and average HAP together to find an average total rent. JLARC staff then subtracted 40 percent of the average voucher household income from the average total rent to estimate what the average HAP would be if voucher holders paid 40 percent of their income. JLARC staff then calculated the median ratio of the 40 percent voucher HAP to the 30 percent voucher HAP at the state level and multiplied that ratio by the statewide median average 2020 HAP to estimate a 2020 "40 percent" HAP. JLARC staff then replicated the analysis performed for the 30 percent voucher program using the new 40 percent HAP estimate.

JLARC staff also estimated the costs of serving 1 percent of the households experiencing homelessness and 1 percent of cost burdened renter households. JLARC staff multiplied the estimates for the total population of these two groups by .01 and replicated the 40 percent and 30 percent voucher cost estimate analyses.

Appendix C: GO Virginia regions

GO Virginia regions are used as the regional designations throughout the report because the localities that make up each of the GO regions share similar economic development and workforce needs and are geographically similar.

TABLE C-1
Localities in each GO Virginia region

Region 1 – Far Southwest	**Region 2 – Southwest/ New River Valley**
Bland County	Alleghany County
Buchanan County	Amherst County
Carroll County	Appomattox County
Dickenson County	Bedford County
Grayson County	Botetourt County
Lee County	Campbell County
Russell County	Craig County
Scott County	Floyd County
Smyth County	Franklin County
Tazewell County	Giles County
Washington County	Montgomery County
Wise County	Pulaski County
Wythe County	Roanoke County
Bristol	Covington
Galax	Lynchburg
Norton	Radford
	Roanoke
	Salem
Region 3 - Southside	**Region 4 – Central Virginia**
Amelia County	Charles City County
Brunswick County	Chesterfield County
Buckingham County	Dinwiddie County
Charlotte County	Goochland County
Cumberland County	Greensville County
Halifax County	Hanover County
Henry County	Henrico County
Lunenburg County	New Kent County
Mecklenburg County	Powhatan County
Nottoway County	Prince George County
Patrick County	Surry County
Pittsylvania County	Sussex County
Prince Edward County	Colonial Heights
Danville	Emporia
Martinsville	Hopewell
	Petersburg
	Richmond

Region 5 – Hampton Roads		**Region 6 – Northern Neck**	
	Accomack County		Caroline County
	Isle of Wight County		Essex County
	James City County		Gloucester County
	Northampton County		King and Queen County
	Southampton County		King George County
	York County		King William County
	Chesapeake		Lancaster County
	Franklin		Matthews County
	Hampton		Middlesex County
	Newport News		Northumberland County
	Norfolk		Richmond County
	Poquoson		Spotsylvania County
	Portsmouth		Stafford County
	Suffolk		Westmoreland County
	Virginia Beach		Fredericksburg
	Williamsburg		
Region 7 – Northern Virginia		**Region 8 - Valley**	
	Arlington County		Augusta County
	Fairfax County		Bath County
	Loudoun County		Clarke County
	Prince William County		Frederick County
	Alexandria		Highland County
	Fairfax		Page County
	Falls Church		Rockbridge County
	Manassas		Rockingham County
	Manassas Park		Shenandoah County
			Warren County
			Buena Vista
			Harrisonburg
			Lexington
			Staunton
			Waynesboro
			Winchester
Region 9 – Charlottesville			
	Albemarle County		
	Culpeper County		
	Fauquier County		
	Fluvanna County		
	Greene County		
	Louisa County		
	Madison County		
	Nelson County		
	Orange County		
	Rappahannock County		
	Charlottesville		

SOURCE: Virginia Growth and Opportunity Board.

Appendix D: Virginia Rent Relief Program

The Virginia Rent Relief Program (RRP) was created to support housing stability during the COVID-19 pandemic and is administered by the Department of Housing and Community Development (DHCD). RRP provides grants to pay overdue rent for eligible renters. RRP began operating in June 2020 to coincide with the July 2020 termination of the eviction moratorium established by the CARES Act. The program initially encompassed mortgage payments as well, but became limited to rent relief to comply with federal funding limitations. Virginia Housing has designed and implemented a pilot Virginia Mortgage Relief Program as a replacement and is working to launch the full program in fall 2021.

Virginia Rent Relief Program can forgive large amounts of overdue rent

RRP can forgive a substantial amount of rent for eligible households. Program funds can be applied to past due rent payments starting April 2020 and up to three months going forward from the date of application. Households cannot receive more than 15 or 18 total months of rental assistance (depending on the funding source used). Households must meet the following eligibility criteria:

- possess a valid lease;
- have rent that does not exceed 150 percent of fair market rent (definitions vary by locality and residence size);
- have gross incomes that do not exceed 80 percent of the locality's median income; and
- have experienced a financial hardship due to the COVID-19 pandemic (e.g., employer closed, child's school closed, COVID-19 medical bills).

The program has been modified over time to adapt to implementation experiences. DHCD first channeled funding through selected entities that were already grantees of the agency, then consolidated funding through a vendor to reduce administrative complexity. Only tenants were eligible to apply for funding initially, but DHCD later created a landlord route administered by Virginia Housing. DHCD identified populations to prioritize for outreach, such as individuals in economically disadvantaged neighborhoods or who lacked internet access. DHCD provided a $3.5 million grant to a non-profit to expand community outreach.

Virginia Rent Relief Program has received a significant amount of state and local funding

RRP has received a total of $1.1 billion in funding through state and federal sources. RRP received $62 million of federal Coronavirus Relief Funds (CRF) at the governor's discretion in summer 2020. Later in 2020, RRP received $28.2 million in state general funds (through the Virginia Housing Trust Fund) in the 2020 special session to bridge the gap between CRF and the availability of the subsequent federal funds. Congress established and funded the first round of the Emergency Rental Assistance (ERA 1) fund in the federal 2021 consolidated appropriations act, which provided an additional $524.6 million in funds for RRP, which were made available in February 2021. As a part of the American Rescue Plan Act (ARPA) of 2021, Congress funded a second ERA round (ERA 2) that provided an additional $465.5 million in funds for RRP, made available in October 2021. As of early September 2021 DHCD has disbursed $390.1 million in rental and mortgage funds.

Virginia Rent Relief Program predominantly serves extremely low income and minority households

DHCD has received roughly 140,000 applications for rental relief. DHCD has approved 63 percent of those applications (72,000) and denied 10 percent (11,500), with the remaining 27 percent still in process or awaiting documentation from applicants. Of the applications DHCD has approved, a majority have been for minority households (Table D-1). Households identifying as Hispanic or Latino have comprised 11 percent of approved applications (Table D-2). Most of the approved applications (77 percent) for relief have been for households earning at or below 30 percent area median income (Table D-3).

TABLE D-1
Majority of approved RRP applications have been for minority households

	Percentage of approved applications
Black	58.0%
Native American or Alaska Native	0.7
Asian	1.8
Native Hawaiian or Pacific Islander	0.3
White	20.1
Multiracial	8.9
Don't know/refused to report	10.2

SOURCE: Department of Housing and Community RRP applicant data
NOTE: The Weldon Cooper Center for Public Service estimates that 19.9 percent of the state population identifies as Black

TABLE D-2
Percentage of approved applications for Hispanic or Latino households closely mirrors the statewide population

	Hispanic or Latino	Not Hispanic or Latino	Don't know/refused
Percentage of approved applications	11.0%	72.0%	17.0%

SOURCE: Department of Housing and Community RRP applicant data
NOTE: The Weldon Cooper Center for Public Service estimates that 9.8 percent of the state population identifies as Hispanic or Latino.

TABLE D-3
Majority of approved RRP applications have been for extremely low-income renter households

	At or below 30% AMI	31%-50% AMI	51%-80% AMI	Not reported
Percentage of approved applications	76.9%	13.2%	9.0%	0.1%

SOURCE: Department of Housing and Community RRP applicant data
NOTE: Numbers add to 99.2%, remaining approved applications were for mortgage relief before it was removed from program.

Appendix E: Housing Choice Voucher Program

The Housing Choice Voucher (HCV) program is the largest rental subsidy program in Virginia and serves roughly 48,000 Virginians. Households may earn up to 50 percent area median income (AMI) (80 percent in special cases) and must pass a criminal background check to qualify for a voucher. Once they receive a voucher and find a rental unit that meets quality standards, households pay 30 percent of their income on rent—the remaining portion of the rent is covered by the voucher. Households are entitled to keep a voucher as long as they continue to meet program qualifications.

Housing Choice Vouchers are administered by public housing agencies

The HCV program is overseen at the federal level by the United States Department of Housing and Urban Development (HUD). HUD is responsible for collecting and publishing aggregate data on the program, setting rules and regulations for the voucher program, and setting voucher and funding contracts with voucher administrators. The HCV program is administered directly by public housing agencies (PHAs); there are 39 public housing agencies within Virginia. Each of these PHAs is responsible for accepting applications, determining an applicant's eligibility for the program, inspecting rental units, remitting rental payments to landlords, and submitting data and documentation to HUD. All PHAs have a contract with HUD, referred to as an Annual Contributions Contract (ACC) which provides a certain level of funding and sets a limit for the number of vouchers a PHA can issue. PHAs can issue vouchers up to this limit, although rarely do they have enough funding to do so. PHAs are required to create waitlists, where households that meet some nominal qualifications can wait until a voucher becomes available.

Virginia Housing, the state's housing finance agency, is one of the 39 PHAs. Virginia Housing does not administer any vouchers but instead uses a network of 31 local partners who administer a voucher program. Virginia Housing remits payments to landlords, provides technical and administrative assistance, and handles all interactions with HUD. Virginia Housing keeps a portion of the administrative fees from its vouchers to fund its voucher program and passes the remainder on to its partners. Overall, there are 70 different local entities responsible for administering the HCV program in Virginia—there is no state or regional level administration or state government involvement in the HCV program.

HCV funds are split into two categories: administrative funds and housing assistance payments (HAPs). HAPs are the actual rental payments to landlords. HAPs have an upper limit set by HUD referred to as a payment standard, which is set at 40 percent of the fair market rent (FMR) for an apartment in a metropolitan statistical area (MSA) based on the number of bedrooms. HAPs cover a portion of rent up to the payment standard—if a household rents a unit with rent above the payment standard, they are responsible for paying the excess rent. In 2016, HUD required that PHAs operating in certain MSAs calculate payment standards based on zip code fair market rents (Small Area FMRs, or SAFMR). Within Virginia, PHAs operating within the following jurisdictions must use SAFMR: Arlington, Clarke, Fairfax, Fauquier, Loudoun, Prince William, Spotsylvania, Stafford, Alexandria city, Fairfax city, Falls Church city, Fredericksburg city, Manassas city, and Manassas Park city. Virginia Housing requires that its local partner agencies use SAFMR.

Administrative funds are provided to HCVs on a per voucher month basis, and are based on a calculation of the higher of the FY1993 or FY1994 payment standard for a two bedroom apartment with an inflation factor. For Virginia PHAs, administrative fees can range from around $60 to around $110 per voucher (i.e. a PHA receives $60 for every month a specific voucher is administered). HUD proposed changing the formula for calculating administrative fees after a comprehensive study in 2015 but has not implemented a new formula.

Demand for vouchers is high in Virginia, but PHAs do not have enough funding to issue vouchers to authorized levels

Virginia PHAs provided vouchers to roughly 48,000 households in 2020, but there are far more households that potentially need a voucher. Wait times for vouchers in Virginia are exceedingly long. Statewide, the average wait was close to three years (35 months) in 2020, up seven months from the statewide average in 2011. Virginia's statewide average wait time was eight months higher than the national average wait time of 27 months. The number of allowed vouchers is significantly smaller than the number of Virginians who could qualify for a voucher. JLARC staff estimated that approximately 347,000 additional renter households with qualifying incomes were potentially eligible for a voucher (Table E-1)

TABLE E-1
Need for rental assistance outstrips the availability of HCVs

Households not receiving HCVs but potentially eligible	Number of Virginia households
Cost burdened renting households with incomes at or below 30% AMI	202,000
Cost burdened renting households with incomes between 31% and 50% AMI	125,000
Households experiencing homelessness	20,000
Total households in potential need of rental assistance	347,000

SOURCE: JLARC analysis of American Community Survey, 5 year data, 2015–2019, and the January 2020 Point-In-Time count.
NOTE: All figures are rounded to the nearest 1,000. Figures may not add because of rounding.

Despite the demand, PHAs do not have the ability to provide the number of vouchers they are authorized to—Virginia PHAs were authorized to issue close to 7,000 additional vouchers in 2020 that were not issued because of funding or housing supply constraints. The costs of rental assistance within the HCV program vary widely across the state. More than half of the vouchers in the state are concentrated in the higher cost urban crescent of Hampton Roads, Northern Virginia, and Central Virginia. HAP payments are highest in Northern Virginia, where for the past five years the median real HAP has been roughly $1,100, followed by Hampton Roads, the Charlottesville region, and Central Virginia. Costs are lowest in the Far Southwest region, where the median HAP payment in 2020 was $343. Virginia PHAs use most of their available rental funds—since 2015, the median budget utilization rate has not dropped below 95 percent. Many Virginia PHAs, almost two-thirds in some years, have exceeded 100 percent budget utilization, meaning they have relied on program reserves or other funding sources to issue vouchers. This high rate of budget utilization means that, between 2015 and 2020, the median Virginia PHA could not issue any additional vouchers without reducing program reserves to below HUD recommended levels.

Virginia could establish its own supplementary voucher program but doing so would require careful consideration and significant funding

Virginia could establish its own supplemental voucher program to meet some or all of need not met by the HCV program. Two localities in the state, Charlottesville and Arlington County, have both established their own supplemental voucher programs. At least one other state, Massachusetts, has established a statewide voucher program for residents. Creating a statewide voucher program would require lawmakers to consider several programmatic choices:

- whether the program would be structured as an entitlement or whether the state would issue a specific number of vouchers;
- what portion of income households would be expected to pay for rent (30 percent of income and 40 percent of income are used in existing programs);
- how the state would award vouchers to households and whether certain households (experiencing homelessness, with children) would be prioritized over others;
- whether vouchers would expire after a set period or if households could hold their vouchers indefinitely; and
- what the income eligibility requirements would be.

Based on these requirements, a state-funded voucher program likely would require a significant investment (Table E-2).

TABLE E-2
Rental assistance for every potential Virginia household in need could cost up to $3.7 billion annually

		Total estimated program cost ($ millions)	
	Number of households	Recipients pay 30% income toward rent	Recipients pay 40% income toward rent
Serve all households in need (entitlement)			
Households experiencing homelessness	20,000	$254.0	$215.9
Cost burdened renting households with incomes at or below 30 percent AMI	202,000	2,222.8	1,601.2
Cost burdened renting households with incomes between 31 and 50 percent AMI	125,000	1,240.9	1,057.7
Total	347,000	3,717.8	2,874.9
Serve some portion of households in need			
1% of households experiencing homelessness	200	2.5	2.1
1% of cost burdened renting households	3,270	34.6	26.5

SOURCE: JLARC analysis of HCV Dashboard and Picture of Subsidized Housing data published by HUD.
NOTE: Estimates are based on average monthly housing assistance payment for HCV program in Virginia. Estimates include funding for housing assistance payments and cost of administering the program. Estimate excludes households already receiving rental subsidy through the HCV program.

A state voucher program would likely need to be administered and run at the state level. While Virginia PHAs do have experience administering rental subsidy programs, many PHAs reported being understaffed and underfunded for the HCV program. Any state run voucher program administered at the PHA level would only exacerbate this problem. In addition, state government has little to no oversight over PHAs, and creating a new oversight structure to administer a state voucher program would be burdensome and costly. Many localities in the state do not have PHAs or an HCV program—if the state were to run a voucher program at the PHA level, new PHAs/administering entities would need to be created in localities without them. Running a state voucher program would be more efficient and would not place additional administrative work on already overworked PHAs.

Appendix F: Local zoning and land use survey

JLARC staff surveyed planning departments in every Virginia locality to collect information on local housing market conditions, including whether housing demands were met, perspectives on barriers to meeting housing demands, information on local zoning ordinances, information on housing development approval, and data on housing production. JLARC staff sent the survey to directors of all local planning departments in Virginia. When localities did not have planning departments, JLARC sent the survey to county administrators, mayors, and town administrators. Survey questions were adapted with permission from a 2018 survey conducted by the Terner Center for Housing Innovation at the University of California, Berkeley.

Participation in local zoning and land use survey

Five localities completed a pilot version of the survey and provided feedback, which resulted in changes to the survey. The five localities that completed the pilot version of the survey were 1) Fauquier, 2) Shenandoah, 3) Danville, 4) Chesterfield, and 5) King George.

A total of 158 localities submitted survey responses including 65 counties, 30 cities, and 63 towns (Table F-1). The response rate for counties and cities was 71 percent, and the population of respondent localities represents 80 percent of the total population of cities and counties. The response rate for towns was 34 percent, and the population of respondent towns represents 52 percent of the total population of towns.

TABLE F-1
Counties, cities, and towns that submitted responses to the JLARC survey

	Counties		Cities		Towns
1	Albemarle County	66	Alexandria City	96	Town of Altavista
2	Alleghany County	67	Bristol City	97	Town of Amherst
3	Amelia County	68	Buena Vista City	98	Town of Ashland
4	Amherst County	69	Charlottesville City	99	Town of Bedford
5	Appomattox County	70	Chesapeake City	100	Town of Berryville
6	Arlington County	71	Colonial Heights City	101	Town of Big Stone Gap
7	Augusta County	72	Danville City	102	Town of Blacksburg
8	Bath County	73	Emporia City	103	Town of Blackstone
9	Bedford County	74	Franklin City	104	Town of Bloxom
10	Bland County	75	Fredericksburg City	105	Town of Bluefield
11	Buckingham County	76	Hampton City	106	Town of Boones Mill
12	Campbell County	77	Harrisonburg City	107	Town of Boyce
13	Charlotte County	78	Lexington City	108	Town of Boykins
14	Chesterfield County	79	Lynchburg City	109	Town of Bridgewater
15	Clarke County	80	Manassas City	110	Town of Brodnax
16	Culpeper County	81	Martinsville City	111	Town of Cape Charles
17	Dickenson County	82	Newport News City	112	Town of Charlotte Court House
18	Dinwiddie County	83	Norfolk City	113	Town of Chatham
19	Fairfax County	84	Norton City	114	Town of Cheriton

20	Fauquier County	85	Petersburg City	115	Town of Christiansburg
21	Floyd County	86	Poquoson City	116	Town of Clifton Forge
22	Fluvanna County	87	Portsmouth City	117	Town of Clincho
23	Franklin County	88	Radford City	118	Town of Colonial Beach
24	Gloucester County	89	Richmond City	119	Town of Crewe
25	Goochland County	90	Roanoke City	120	Town of Culpeper
26	Grayson County	91	Salem City	121	Town of Dumfries
27	Hanover County	92	Staunton City	122	Town of Eastville
28	Henrico County	93	Suffolk City	123	Town of Floyd
29	Henry County	94	Williamsburg City	124	Town of Front Royal
30	Highland County	95	Winchester City	125	Town of Glen Lyn
31	Isle of Wight County			126	Town of Goshen
32	James City County			127	Town of Hillsboro
33	King and Queen County			128	Town of Jarratt
34	King George County			129	Town of Kilmarnock
35	Lee County			130	Town of Lovettsville
36	Louisa County			131	Town of Luray
37	Lunenburg County			132	Town of Marion
38	Madison County			133	Town of McKenney
39	Mathews County			134	Town of Middleburg
40	Mecklenburg County			135	Town of Middletown
41	Middlesex County			136	Town of Montross
42	Montgomery County			137	Town of Mount Crawford
43	Nelson County			138	Town of Mount Jackson
44	Northampton County			139	Town of New Market
45	Northumberland County			140	Town of Onancock
46	Orange County			141	Town of Parksley
47	Page County			142	Town of Pocahontas
48	Prince Edward County			143	Town of Pulaski
49	Prince George County			144	Town of Purcellville
50	Prince William County			145	Town of Richlands
51	Pulaski County			146	Town of Rocky Mount
52	Rappahannock County			147	Town of Scottsville
53	Richmond County			148	Town of Smithfield
54	Roanoke County			149	Town of South Boston
55	Rockbridge County			150	Town of South Hill
56	Rockingham County			151	Town of St. Paul
57	Russell County			152	Town of Vinton
58	Shenandoah County			153	Town of Warrenton
59	Smyth County			154	Town of Washington
60	Southampton County			155	Town of Waverly
61	Spotsylvania County			156	Town of West Point
62	Stafford County			157	Town of Windsor
63	Washington County			158	Town of Woodstock
64	Westmoreland County				
65	Wise County				

This appendix reports results for all localities, all counties and cities, and high-cost and high-growth counties and cities. High-cost and high-growth counties and cities include localities in the highest quartile of the state for population growth, median home sales price, and median gross rent. High-cost and high-growth counties and cities were more likely than other counties and cities to report that zoning was a constraint to housing development. Fourteen such localities responded to the survey: 1) Albemarle, 2) Alexandria, 3) Arlington, 4) Charlottesville, 5) Fredericksburg, 6) Goochland, 7) Hanover, 8) James City, 9) King George, 10) Manassas, 11) Prince William, 12) Spotsylvania, 13) Stafford, and 14) Williamsburg.

Constraints to housing development

Survey respondents from high-cost and high-growth counties and cities reported different constraints to housing development than other localities (Table F-2). Compared with other localities, high-cost and high-growth localities were more likely to cite public opposition to development and the amount of land zoned for multifamily development as barriers to housing development. They were less likely to report existing infrastructure capacity as a barrier.

TABLE F-2
Most frequently cited constraints to housing development

We are interested in your perspective about the various factors that affect the rate of housing development in your locality. Please select up to 5 factors that most constrain housing development.

All localities	Counties and cities	High-cost and high-growth counties and cities
Construction costs	Construction costs	Land costs
Supply of developable land	Land costs	Public opposition to development
Land costs	Existing infrastructure capacity	Supply of developable land
Existing infrastructure capacity	Public opposition to development	Prevailing housing values
Configuration/size/location of available parcels	Prevailing housing values	Amount of land zoned for multifamily development

Zoning ordinances and updates

Many localities' zoning ordinances were written several years ago. The majority of localities responding to the survey reported that their zoning ordinance were written more than 10 years ago. About 40 percent said that their zoning ordinance was last updated more than 20 years ago (Table F-3).

Roughly 30 percent of localities reported that portions of their zoning ordinances pertaining to residential development had undergone substantial changes in the past five years.

Most localities reported that the majority of their developable land is zoned for single-family residen-tial use. In most localities, less than 25 percent of developable land is zoned for multifamily residential use (Table F-4). Counties and cities that responded to the survey reported that they had less land zoned for multifamily development than towns, and high-cost and high-growth counties and cities reported having slightly less land zoned for multifamily development than other counties and cities.

TABLE F-3
Most zoning ordinances were written more than 10 years ago

Zoning ordinance written	Percentage of respondents
Within the past 5 years	4%
Between 6 and 10 years ago	11
Between 11 and 20 years ago	36
More than 20 years ago	47
Don't know	5

SOURCE: JLARC local land use survey.

TABLE F-4
Majority of developable land is zoned for single-family residential use

Roughly how much land is zoned to allow single-family housing, multifamily housing, or non-residential development?

All localities

Proportion of developable land zoned for…	25% or less	25 to 50%	51-75%	More than 75%
Single-family use	4%	11%	36%	47%
Multifamily use	68	22	4	3
Non-residential use	32	36	10	20

Counties and cities

Proportion of developable land zoned for…	25% or less	25 to 50%	51-75%	More than 75%
Single-family use	4%	11%	29%	53%
Multifamily use	77	15	5	3
Non-residential use	3	25	11	28

High cost and high growth counties and cities

Proportion of developable land zoned for…	25% or less	25 to 50%	51-75%	More than 75%
Single-family use	0%	21%	21%	50%
Multifamily use	79	7	7	0
Non-residential use	43	21	7	21

SOURCE: JLARC local land use survey.
NOTE: Survey asked respondents to consider all developed and developable land in their locality when answering this question. Percentages do not sum to 100 because "don't know" responses are excluded.

Development approval

Localities report that larger developments typically require higher approval levels than smaller developments. When asked who is typically authorized to grant preliminary development approval, localities responded that larger developments are more likely to require approval from planning commissions and local governing bodies than smaller developments, which often only require approval from locality staff (Table F-5). In general, high-cost and high-growth localities were *less likely* than other localities to require only preliminary approval from local staff or zoning administrators.

TABLE F-5

Developments with more units are more likely to require preliminary approval from planning commissions and local governing bodies

Who is typically authorized to grant preliminary plat/plan approval for the following types of development applications?

All localities

	Single-family developments			Multifamily developments		
Subdivisions/developments with	Local staff or zoning administrator	Planning board or commission	Elected local legislative body	Local staff or zoning administrator	Planning board or commission	Elected local legislative body
One house	98%	3%	3%	-	-	-
2-4 houses/units	70	30	17	71	29	23
5-19 houses/units	49	47	31	55	40	34
20-49 houses/units	47	47	32	53	41	35
50+ houses/units	39	55	33	49	46	36

Counties and cities

	Single-family developments			Multifamily developments		
Subdivisions/developments with	Local staff or zoning administrator	Planning board or commission	Elected local legislative body	Local staff or zoning administrator	Planning board or commission	Elected local legislative body
One house	97%	2%	2%	-	-	-
2-4 houses/units	70	28	16	69	24	24
5-19 houses/units	49	43	31	54	35	36
20-49 houses/units	46	44	33	51	36	40
50+ houses/units	41	50	33	49	40	40

High cost and high growth counties and cities

	Single-family developments			Multifamily developments		
Subdivisions/developments with	Local staff or zoning administrator	Planning board or commission	Elected local legislative body	Local staff or zoning administrator	Planning board or commission	Elected local legislative body
One house	93%	0%	0%	-	-	-
2-4 houses/units	57	29	21	64	29	21
5-19 houses/units	36	50	29	36	43	43
20-49 houses/units	29	50	43	36	43	50
50+ houses/units	14	64	43	29	50	50

SOURCE: JLARC local land use survey.
NOTE: Percentages do not sum to 100 because respondents could select no or more than one approval body for each project size. "All localities" includes all counties, cities, and towns that responded to the survey; "Counties and cities" excludes town responses.

Localities also reported that developments that require special exceptions, variances, and zoning or comprehensive plan amendments take longer to approve than developments that do not. According to survey respondents, under 10 percent of developments consistent with existing zoning take more than six months to improve. About 20 percent of developments that require zoning or comprehensive plan amendments take longer than six months to approve (Table F-6). In general, approvals for all types of development took longest in high-cost and high-growth localities.

TABLE F-6
Developments that require zoning exceptions or amendments generally take longer to approve

What is the typical time to secure preliminary plat/plan approval for the most common applications for the following types of development, starting from the time the application is deemed complete?

All localities

	Single-family developments			Multifamily developments		
5+ unit-developments...	6 months or less	7 months to a year	More than a year	6 months or less	7 months to a year	More than a year
Consistent with zoning ordinance	84%	3%	1%	73%	6%	1%
Require a conditional use permit or variance	61	12	1	58	10	3
Require a zoning amendment	53	21	3	50	18	5

Counties and cities

	Single-family developments			Multifamily developments		
5+ unit-developments...	6 months or less	7 months to a year	More than a year	6 months or less	7 months to a year	More than a year
Consistent with zoning ordinance	82%	5%	1%	73%	7%	1%
Require a conditional use permit or variance	57	16	2	55	13	4
Require a zoning amendment	51	24	5	49	20	8

High cost and high growth counties and cities

	Single-family developments			Multifamily developments		
5+ unit-developments...	6 months or less	7 months to a year	More than a year	6 months or less	7 months to a year	More than a year
Consistent with zoning ordinance	64%	21%	0%	64%	14%	7%
Require a conditional use permit or variance	14	50	0	21	29	14
Require a zoning amendment	14	57	14	14	36	36

SOURCE: JLARC local land use survey.
NOTE: Percentages do not sum to 100 because chart excludes localities that answered "The times vary so much it is impossible to tell" or "No recent developments of this type."

Across all subsets of localities, respondents reported that single-family developments were most likely to request zoning exceptions for setbacks or lot coverage. They reported multifamily developments were most likely to request zoning exceptions for parking requirements.

Planning department staffing

The number of local employees who work on planning for residential development varies significantly across localities. Localities reported that between zero and 45 staff work on planning for residential development full time and that between zero and 35 staff work on planning for residential development part time. Some localities mentioned that residential planning was one of the responsibilities of the local executive, such as the town manager.

Appendix G: Historical uses of zoning in Virginia

The way a locality chooses to design and implement its zoning ordinance affects local citizens and building in their communities. Since its inception, local zoning has been used to both help and harm residents. When used well, zoning can protect public health, promote a diversity of housing options, and help ensure residents have access to essential goods and services. Used poorly, zoning can segregate localities by class and race, contribute to disparities in resident health and educational outcomes, and prevent residents from accessing the goods and services that they need.

Zoning can encourage the creation of healthy, accessible communities

Effective zoning can benefit communities. Some potential zoning benefits are self-evident. For example, construction standards ensure buildings are safe for residents and separating industrial and residential zones ensures that homes are not built next to a factory emitting harmful fumes. Many experts agree, however, that zoning can confer less obvious benefits. For example, localities can use zoning to encourage the construction of multifamily housing, which is generally more affordable than single-family housing, near public transportation access. Localities can also allow for a variety of housing sizes and types in a single zone to help ensure that households across the income spectrum have access to that area. Some Virginia localities have, or are in the process of implementing, these practices:

- In 2016, Fairfax County changed its zoning to allow denser development near metro stations.
- Loudoun County is currently updating its zoning ordinance to, among other things, allow more duplexes, triplexes, quadplexes, and larger multifamily developments in suburban areas. While these changes are still under review, they represent an attempt to increase access to areas traditionally dominated by single-family development.

Zoning has been used to segregate the population by socioeconomic status and race

Zoning can also harm communities. According to the Joint Center for Housing Studies at Harvard University, "land-use planning has been used as a main tool for both creating and maintaining segregation and housing discrimination." Localities initially explicitly used zoning to segregate their residents by race. For example, Richmond's first zoning ordinance, which the city adopted in 1911, divided the city into separate blocks for white and Black households. Though these policies ended decades ago, zoning choices made in the past and today have lasting impacts. Nearly half of Virginia homes were built before 1980, meaning that communities are living with zoning decisions made at least 40 years ago. Forty percent of localities that responded to JLARC's land use survey reported that their zoning ordinances were written more than 20 years ago. (See Appendix F for more information on JLARC's zoning survey.)

After the U.S. Supreme Court ruled that explicit racial segregation in zoning was unconstitutional, localities continued to use zoning in a racially discriminatory way. For example, Alexandria applied industrial zoning designations to areas where Black residents lived, excluding those households from protections associated with residential zoning. Further, zoning entire areas for large homes led to both de facto and outright discrimination against minority households. First, many minority households could not afford to purchase expensive single-family homes and therefore could not access some areas. Second, even when minority households could afford to purchase homes in single-family neighborhoods and suburbs, the Federal Housing Administration encouraged outright racial discrimination by enacting a policy denying federal insurance to developments open to minorities.

Zoning continues to geographically separate households by wealth and income. In 1968, the Fair Housing Act banned housing discrimination according to several protected classes, including race. However, a household's income still determines where they can and cannot live. Zoning does not explicitly set housing prices, but it establishes design and construction standards such as lot-size minimums and height and density maximums. The cost of meeting those standards determines the price of housing. As a result, when a locality sets zoning standards that increase housing prices (i.e., only allowing single-family homes), it effectively excludes households that cannot afford those prices.

Limiting lower-income households' geographic mobility through zoning can have serious impacts on their well-being, and research shows that where an individual lives impacts access to education, employment, healthcare, and other key services. Further, given the wealth and income gap between white and minority—particularly Black—families, separating households by wealth and income often also separates households by race.

Just as some Virginia localities are using zoning to benefit their citizens, some localities still have policies that increase the likelihood of socioeconomic segregation. For example, more than 80 percent of localities that responded to JLARC's survey of local planning departments reported that *over half* of developable land in their locality is zoned for single-family development. By comparison, 90 percent of localities reported that *less than half* of developable land in their locality is zoned for multifamily development. This means many areas are only accessible to families with incomes high enough to afford single-family homes.

Recent actions by the General Assembly and other groups show increasing awareness of the ways in which zoning and land use contribute to socioeconomic and racial inequality. During the 2021 Special General Assembly Session, lawmakers passed HB2046, which updated the Virginia Fair Housing Law to make it illegal for "any political jurisdiction…to discriminate in the application of local land use ordinances or guidelines…because the housing development contains or is expected to contain affordable housing units occupied or intended for occupancy by families or individuals with incomes at or below 80 percent of the median income of the area" (§ 36-96.3). Also this year, McGuireWoods' Zoning and Segregation Work Group released part one of a two-part report on zoning and segregation that describes the history and legacy of zoning-based racial and socioeconomic discrimination in Virginia.

Appendix H: Additional options to enhance Virginia Housing's financial strength

The analysis prepared by CSG Advisors confirmed that Virginia Housing is one of the financially strongest housing finance agencies (HFA) in the country. Its net assets (net worth or net position) are approximately twice as high as any other state housing finance agency. It has AA ratings from both Moody's and Standard & Poor's.

An important factor in credit ratings is how the rating agency assesses the risk of the HFA's loan portfolio, which rating agencies measure with a risk-adjusted net asset parity ratio. A risk-adjusted net asset parity ratio is equal to an HFA's risk-adjusted net assets divided by the authority's total outstanding debt. The ratio for most HFAs rated AA by Moody's is in the range of 15 to 20 percent. Virginia Housing typically has risk-adjusted net asset parity ratios far above this level, and in Moody's most recent analysis (FY19) Virginia Housing's ratio was approximately 45 percent—substantially higher than the expected standard.

Rating agencies determine HFA risk-adjusted net assets by applying risk adjustments to the assets HFAs earn from different programs. Each rating agency has a different methodology for applying risk adjustments, while debts outstanding are constant. As a result, the way a rating agency calculates its risk adjustments determines an HFA's parity ratio. For example, if a credit rating agency applies smaller risk adjustments to an HFA's net assets, its risk-adjusted net asset parity ratio will increase and the HFA may receive a higher credit rating. If a rating agency applies larger risk adjustments, the HFA's parity ratio will *decrease*, and it may receive a lower credit rating.

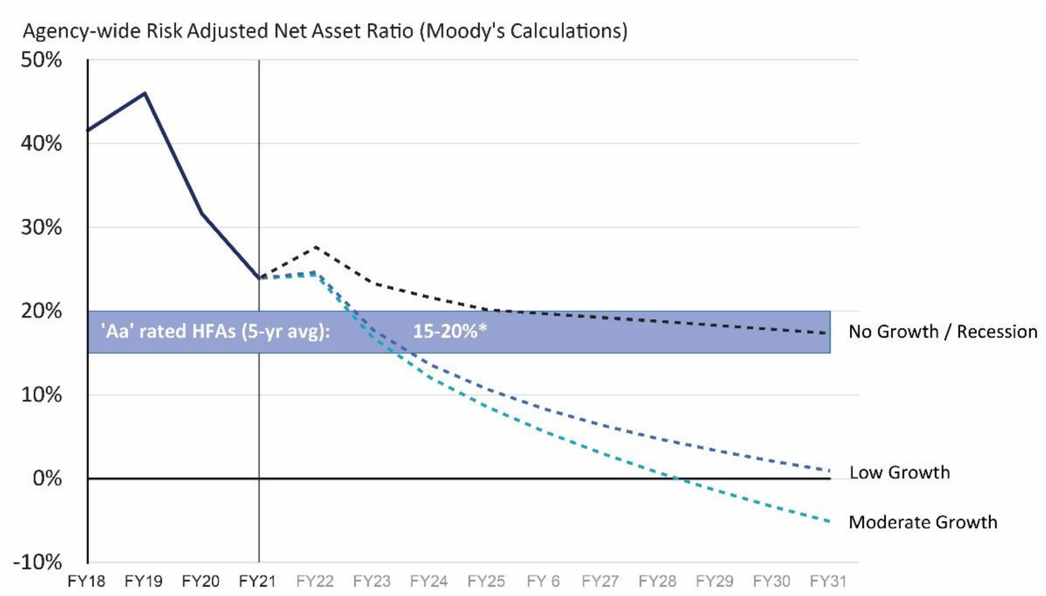
Recent growth in Virginia Housing's overall assets—driven by increased workforce housing lending—has begun to decrease Virginia Housing's risk-adjusted net asset parity ratio. Although Moody's has not yet calculated the ratio for FY20, the CSG Advisors analysis suggests that the ratio is likely to drop from 45 percent to 32 percent in FY20 and 24 percent in FY21.The key factor driving this reduction is the total amount of uninsured multifamily loans Virginia Housing makes. For example, in FY20, risk adjustments to multifamily loans reduced Virginia Housing's Moody's risk-adjusted net assets by $1.5 billion. (Virginia Housing's overall assets that year were approximately $4 billion.)

The reason for this larger risk adjustment is that Moody's assigns a large, 43 percent risk adjustment to unenhanced rental housing loans made by Virginia Housing (both for tax credit developments and workforce housing). While the amount of lending for tax credit developments is constrained by federal limits, the amount of lending for workforce housing has grown dramatically in recent years.

Rating agencies make risk adjustments based on their assessment of risk of loss in a Depression-era economic scenario. According to CSG Advisors, Moody's risk adjustments are particularly severe, especially when compared to risk adjustments made by the other rating agency used by Virginia Housing, Standard and Poor's Global Ratings (S&P). S&P's risk adjustments to Virginia Housing's financials for the same rental housing loans are $340 million compared with $1.5 billion for Moody's. In reality, Virginia Housing's multifamily housing loan performance has been excellent, but Moody's risk assessment still affects how it rates Virginia Housing.

As Virginia Housing continues to increase its workforce housing lending (with an expected $500 million in production during FY22), the amount of these risk adjustments will also grow (Figure H-1).

FIGURE H-1
Continuing to grow the workforce housing bond program could result in a Moody's rating downgrade



SOURCE: CSG Advisors analysis of Virginia Housing and Moody's data.
NOTE: Assumes all repurchase investments are migrated to an investment grade counterparty, therefore receiving 100 percent credit from Moody's starting in FY22. Net asset projects based on current REACH formula. Moderate growth scenario assumes workforce housing lending will continue at the current level.

Virginia Housing should consider taking certain actions to reduce Moody's assessment of its portfolio risk

According to CSG Advisors, there are several ways Virginia Housing can address the potential challenge of a drop in its net asset parity ratio to levels below that for Moody's AA rated agencies. One approach is, along with other HFAs, to try to convince Moody's that its risk adjustments are too high. If this is not successful, several other actions are needed. As described in Chapter 4, Virginia Housing could consider, in the short term, slowing the growth rate of its workforce housing program. In addition, CSG Advisors recommends that Virginia Housing consider taking other actions to reduce its risks. These actions include:

- **Shifting its repurchase agreements to a counterparty rated by Moody's as well as S&P –** Repurchase agreements are a form of short-term investment used by Virginia Housing, but the party that Virginia Housing currently uses for repurchase agreements is not rated by Moody's. As a result, Moody's considers these investments risky and applies a significant risk adjustment to these investments. Moving these repurchase agreements to a party rated by both rating agencies would reduce this risk adjustment by $825 million. Virginia Housing staff is already in the process of making this change and Figure H-1 already takes this change into account.

- **Using Federal Housing Authority (FHA) risk share insurance on multi-family loans for 9 percent and 4 percent tax credit projects –** The FHA offers risk share insurance for multifamily loans for 4% and 9% tax credit developments. Virginia Housing has used this approach in very limited ways in the past. Utilizing this insurance for new loans on 4% and 9% tax credit developments would slightly reduce Virginia Housing's revenues but would significantly reduce the level of risk of its multifamily loans and accordingly the risk adjustments made by Moody's. Utilizing this insurance could reduce risk adjustments on new multifamily loans by $150 million per year.
- **Use Fannie Mae or Freddie Mac guarantees on a larger proportion of new single-family loans –** Virginia Housing could exchange a larger proportion of its new single family loans for Fannie Mae or Freddie Mac-guaranteed mortgage-backed securities (MBS) to reduce Virginia Housing's risks, but doing so requires paying a guarantee fee to Fannie Mae or Freddie Mac. Paying the guarantee fee would reduce Virginia Housing's revenues. However, using these guarantees more frequently could reduce Virginia Housing's risk adjustments by $260 million to $390 million by FY31.
- **Provide detailed historical information on outstanding single-family down payment assistance second mortgages –** Moody's currently risk adjusts Virginia Housing's assets by the entire value of its outstanding single family down payment assistance second mortgages (Plus mortgages), meaning that Moody's assumes that all second mortgage loans will default and incur losses on the entire value of those loans. Virginia Housing could share historical repayment data with Moody's on these second mortgage loans, and Moody's would likely reduce the size of its risk adjustments for these loans.

The accompanying CSG report, available online, provides additional details about these options and their potential to reduce the risk adjustments that Moody's applies to Virginia Housing's financials, thereby reducing the risk of a Moody's credit downgrade.

In addition to these options developed by CSG Advisors, Virginia Housing staff may develop other options to address the risk of a rating downgrade.

Appendix I: Agency responses

As part of an extensive validation process, the state agencies and other entities that are subject to a JLARC assessment are given the opportunity to comment on an exposure draft of the report. JLARC staff sent a full exposure draft of this report to the Department of Housing and Community Development (DHCD), Virginia Housing, and the secretary of commerce and trade.

Appropriate corrections resulting from technical and substantive comments are incorporated in this version of the report. This appendix includes response letters from DHCD, Virginia Housing, and the secretary of commerce and trade.

Ralph S. Northam
Governor

R. Brian Ball
Secretary of
Commerce and Trade

COMMONWEALTH of VIRGINIA

DEPARTMENT OF
HOUSING AND COMMUNITY DEVELOPMENT

Erik C. Johnston
Director

December 3, 2021

Mr. Hal E. Greer, Director
Joint Legislative Audit and Review Commission
919 East Main Street, Suite 2101
Richmond, VA 23219

Dear Mr. Greer:

I commend JLARC for their work to further review Virginia's affordable housing needs. Lowering the cost of housing and increasing the supply of housing for all Virginians, especially vulnerable populations are critical objectives that impact our commonwealth's outcomes for the economy, quality of life, health, education and more.

The Virginia Department of Housing and Community Development (DHCD) is committed to these objectives through stewardship of state and federal investments such as the Virginia Housing Trust Fund that incentivize increased supply through loans and reduce homelessness through targeted grants. DHCD also works to reduce the cost of housing through a building code process that aims to increase safety while at the same time reducing regulatory burdens and encourages building technology innovations that reduce costs for renters and homeowners.

The commonwealth is recognized nationally for being a leader during the pandemic in reducing evictions through a rent relief program focused on collaboration between housing providers and tenants. DHCD and our partner Virginia Housing have led this effort but are staying focused on increasing the supply of affordable housing and serving vulnerable populations. The upcoming HB 854 study provides options from housing experts about investment options the General Assembly can consider to further address housing needs.

DHCD's current housing planning efforts are focused on receiving input from local and regional partners that regularly identify housing needs and priorities. This input includes local and regional priority needs and land use planning that inform the guidelines and investment decisions of state and federal housing programs administered by DHCD. DHCD is open to all JLARC and General Assembly ideas to fund and build a research division at DHCD focused on housing data and best practices. We are available to work with JLARC and any members interested in cost estimates to implement these recommendations.

Sincerely,

Erik C. Johnston
DHCD Director

Virginia Housing

December 3, 2021

Mr. Hal E. Greer, Director
Joint Legislative Audit and Review Commission
919 East Main Street, Suite 2101
Richmond, VA 23219

Dear Mr. Greer:

I commend the choice of the Joint Legislative Audit and Review Commission (JLARC) to review the vitally important issue of Virginia's affordable housing needs. Virginia Housing (VH) also appreciates the professional manner in which the review was conducted. I am writing in response to that portion of the *Review of Virginia's Affordable Housing Needs* (Report) that discusses VH's programmatic activities. VH intends to use the Report in its ongoing efforts to continuously improve its service to the citizens of the Commonwealth.

VH is pleased the Report contained the following comments with respect to VH:

- According to JLARC's housing and financial consultant, VH is considered one of the highest-performing housing finance agencies (HFA) in the country.
- VH is among the highest-producing HFAs in the country for multifamily rental units—according to the National Council of State Housing Agencies.
- VH effectively administers its multifamilyfinancing programs. For example, developers noted that VH administers the federal Low Income Housing Tax Credit (LIHTC) program transparently and that timelines, project requirements, and scoring were clear and consistent.
- VH is also among the top producing HFAs for single-family home loans—VH was the sixth-highest producing HFA in the country for single-family home loans in 2020.
- VH is fully utilizing its HCV (housing choice voucher) allocation for households currently receiving assistance.

The following is our response to JLARC's recommendations, which can be broadly grouped as follows:

<u>REACH *Virginia* (Recommendations 4-8)</u>

As noted in the Report, VH is self-supporting and receives no state budget appropriation. The Report also notes that through its sound management of operations and programs, VH contributed over $550 million of its net revenues to REACH *Virginia* (Resources Enabling Affordable Community Housing in Virginia) over the five-year period ending in FY20. Comparing REACH *Virginia* to similar annual affordability funds by other state HFAs, JLARC's financial consultant noted VH's net assets, net income and REACH allocations are all larger than other state HFAs. VH is extremely proud of the fact that it has increased the percentage of its net revenues allocated to REACH *Virginia* numerous times, from 15% at inception in 2005 to its current effective rate of 70% of net revenues. These funds have been used as grants or to buy down interest rates to make developments feasible. VH's position is that setting the allocation methodology and percentage for REACH *Virginia* is a Board policy decision that is re-examined on an

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annual basis. In setting the REACH *Virginia* allocating percentage, VH's Board strives to strike a reasonable balance between (i) VH's need to have sufficient capital over the long-term to support and grow its core mission lending programs and (ii) addressing critical current housing needs. With respect to reporting and metrics, REACH *Virginia* is not a stand-alone program, but rather an internally generated subsidy source that is used to support a wide array of VH programs and services. VH is developing metrics, including metrics for REACH *Virginia* impact, for its current strategic plan "Opportunity 2025." VH believes that overall reporting of its strategic goals and related objectives and metrics (including REACH *Virginia* metrics where appropriate to be singled out) should be made part of the annual Summary of Programs that, in accordance with current provisions of the Code, is delivered to the Board, the Secretary of Commerce & Trade, and the Governor. We also believe it is appropriate to expand the distribution of that report to include the General Assembly through its Virginia Housing Commission.

Regarding VH's review of its business decisions and their effect on financial strength and REACH *Virginia* contributions, VH continuously and actively manages its programs to adjust to market conditions, requirements of rating agencies, and desired programmatic outcomes. Such active management includes (i) adjustments to mortgage loan products and mix in both homeownership and rental housing, (ii) negotiations with rating agencies regarding their requirements, and (iii) adjustments to its investment portfolio mix. VH believes it is reasonable to conduct annual assessments of its financial condition and will carefully consider the approach suggested by JLARC's financial consultant.

Rental Housing (Recommendations 9-11)

VH's Mixed Use Mixed Income (MUMI) program is intended to serve several policy purposes including the revitalization of underserved areas, spurring economic development, providing "workforce" housing for moderate income Virginians, and generating income for VH that can be reinvested back into REACH *Virginia* for targeted mission programs. While VH believes that the current structure of the MUMI program functions well, VH acknowledges that imposing rent limits in addition to income limits could ease the housing cost burden for renters making 80% or less of area median income. It will be critical that VH be afforded sufficient programmatic flexibility to implement the proposed limit, and that stakeholder input be obtained. VH does believe that some developers may not wish to utilize a program that includes rent limits, which is an important consideration as the MUMI program is intended to draw investment into revitalization areas and higher income areas of opportunity where market conditions make developers unwilling to do deeper targeting. Rent limits may also be difficult to implement and manage for smaller, more rural MUMI developments with a small number of units. Thus, VH believes there is still a place in the market for its existing MUMI loan product without rent restrictions (when REACH *Virginia* funds are not utilized), and would like the flexibility to continue offering this alternative in addition to a MUMI program with rent restrictions. Accordingly, VH does not think that statutory revisions mandating rent limits are the best approach.

VH agrees that rental housing developments financed with tax-exempt bonds and the accompanying 4% LIHTCs are an incredibly important source of affordable housing. Additional 4% LIHTC projects will increase the inventory of affordable rental housing and help place downward pressure on overall rent levels in a given market. VH is amenable to studying whether a gap financing loan product would make additional 4% projects feasible. However, VH would note that several factors increasing 4% LIHTC production are already in motion. The use of tax-exempt bonds has seen a significant increase in just the last year due to technical changes enacted by Congress and additional changes that will drive demand are included in the pending federal "Build Back Better" legislation. VH already provides gap financing through its REACH *Virginia* initiative for highly mission-oriented bond transactions such as those related to public housing revitalization.

Homeownership (Recommendations 13-16)

VH is a leader in lending to first-time homebuyers, making 20% of first-time homebuyer loans and 27% of FHA loans in Virginia through an extensive network of 91 private financial institutions. As noted in the Report, VH made or purchased approximately $2 billion of homeownership loans in FY20. VH routinely examines the pricing of its mortgage loan products. Such pricing is set to account for both good and difficult economic environments.

VH believes that the pricing of its mortgage loan products are appropriate given the risk profile of its loan portfolio and VH's cost of funds. This includes VH's conclusion that its Plus rate is at or below other FHA second mortgage down payment assistance products with comparable risk profiles. Since VH is raising capital for its homeownership operations (via securitization in the mortgage backed securities market), its cost of capital is the same as the rest of the mortgage loan market. VH's core mission lending programs need to be profitable in order to provide more REACH *Virginia* funding over the long-term to meet targeted mission needs. Further, VH adds value to its homeownership program by offering free homeownership education programs, down payment and closing cost assistance grants, a long-term second mortgage loan program, mortgage credit certificates, and by performing the loan servicing function on all of its homeownership mortgage loans (which VH believes has contributed to its low foreclosure rate).

VH believes that lenders' choosing to sell home purchase loans to VH in high volumes despite earning lower fees is a good indicator of the appropriateness of its interest rates. In addition, while VH does acknowledge that JLARC's methodology in trying to compare VH's interest rates against the market was rigorous, there is regularly reported data from reputable national housing analysts that provides a more accurate comparison. VH is committed to conducting an external review of its interest rates and reporting to the parties suggested by JLARC by November 1, 2022. As such, VH does not think it is necessary to add language to the Appropriation Act directing such a study, since it receives no state budget appropriation and is not in the Appropriation Act due to VH's self-supporting status.

While pricing is an important consideration, there are multiple impediments to first time homeownership, the most significant in VH's current opinion, being down payment and closing costs. VH staff consulted with stakeholders in the development of VH's current programs and continues to regularly review the effectiveness of those products with lending partners and stakeholders. Nonetheless, now that the current programs have been in operation for some time, another complete review/ reconsideration may be warranted.

In summary, VH and JLARC are in general agreement on the future direction VH should take in continuing to fulfill its mission. Thank you for the opportunity to respond to the Report.

Sincerely,

Susan Dewey

Susan F. Dewey
Chief Executive Officer

R. Brian Ball
Secretary of Commerce and Trade

December 3, 2021

VIA EMAIL

The Honorable Kenneth Plum
Chair
Joint Legislative Audit and Review Commission
919 East Main Street, Suite 2101
Richmond, VA 23219

Dear Chairman Plum:

I am writing in response to JLARC's report on the *Review of Virginia's Affordable Housing Needs*. I commend JLARC and the General Assembly for their focus on partnering with the executive branch on this critical policy issue that impacts the outcomes for our economy, education, workforce, health and so much more. Governor Northam and the General Assembly have increased investment in the state's housing trust fund, aligned efforts between housing and other policy areas, and guided our state's highly effective pandemic response to keep households in their homes and housing providers whole through rent relief, and increased support for people experiencing homelessness.

I appreciate that the report recognizes Virginia Housing (VH) and the Virginia Department of Housing and Community Development (DHCD) as high performing organizations as viewed by their peers across the nation in addressing housing needs. Virginia is fortunate to have two strong housing entities with distinct roles. DHCD has done an excellent job in administering federal and state housing programs as the state's housing agency, and is responsible for deploying substantial funding to Virginia's communities and their residents. VH operates as a strong, independent housing development finance agency without any appropriation support; in short—VH operates as a very successful business. While they each have their unique area of focus, they are extremely collaborative in delivering results for the Commonwealth.

The study focuses on Virginia Housing's REACH resources and lending rates as key solutions to addressing housing needs but fails to recognize that the current policies are carefully balanced currently and that suggested reductions in interest rates would actually reduce REACH resources. Moreover, the suggested changes to Virginia Housing policies will not increase the overall amount of resources available in the Commonwealth to advance affordable housing, which is critically necessary to meet the needs of Virginia's residents. The Commonwealth can and should do more to support affordable housing, including additional contributions to the Housing Trust Fund. I urge the General Assembly to consider the range of policy decisions facing the Commonwealth as we move from a focus on deploying emergency response resources to a future focused on increasing the inventory of affordable housing for all Virginians, especially our most vulnerable populations. These considerations will also benefit from the investment options presented through the housing needs study produced in response to HB 854 that will be published before the 2022 Session and further review of the land use decisions presented in this study.

Having worked with both DHCD and VH over the past four years, I know firsthand the great work their respective staffs are doing and the feedback from stakeholders is consistently positive. Thank you for a report that demonstrates how fortunate the Commonwealth is to have these two strong housing-focused entities.

Sincerely yours,

R. Brian Ball

RBB/cls

cc: Hal E. Greer, Director, JLARC
Susan Dewey, Chief Executive Officer, Virginia Housing
Erik C. Johnston, Director, Department of Housing and Community Development
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