

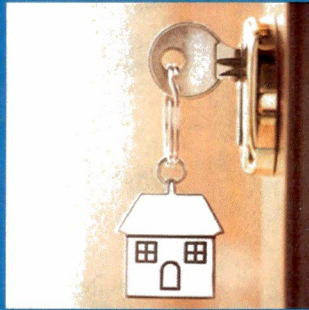
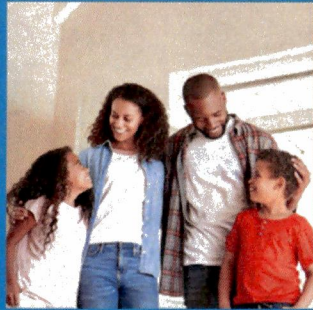
**CITY COUNCIL'S BRIEFINGS  
HOUSING AFFORDABILITY STRATEGY UPDATE  
ITEM #76706**

**3:30 P.M.**

*Mayor Dyer welcomed Ruth Hill, Director – Housing & Neighborhood Preservation. Ms. Hill expressed her appreciation to City Council for their continued support and distributed copies of today's presentation, attached hereto and made a part of the record.*

*Mayor Dyer expressed his appreciation to Ms. Hill for the presentation.*

*February 25, 2025*



# Proposed Affordable Housing Performance Grant

Focused Action Plan Initiative: 2.9 Complete the 2023 Virginia Beach Housing Study and provide City Council strategic priorities and implementation recommendations

Housing & Neighborhood Preservation | Feb. 25, 2025



CITY OF  
**VIRGINIA  
BEACH**

# Why Are We Here?

- Why Housing & Neighborhood Preservation is proposing the AHP Grant
  - Housing Study Findings and Recommendations
- What is the AHP Grant?
  - Purpose
  - Benefits
  - Eligible/Ineligible Projects
  - Grant Amounts and Payment parameters
  - Example
  - Model of only other AHP Grant in Virginia
  - Staff Recommendation
- City Council Feedback and Guidance

# How Did We Get Here?

- January 2024: Housing Study report (market analysis and proposed strategies) completed and presented to Council
- May 2024: Council approves resolution directing City Manager to pursue three strategies.
  1. **Advance discussions with Virginia Beach Development Authority (VBDA) to fund new, large-scale mixed-use development projects – *Today's briefing***
  2. Design a housing education campaign to incorporate into successful community engagement -- *In progress*
  3. Research opportunities to simplify and streamline the permitting & review process -- *In progress with Planning*

# Defining “Affordable Housing”

- Can be all types of housing.
- **It is not defined by** the type of housing, quality, size, or location.
- Housing is considered affordable if households **do not pay more than 30%** of their income on total housing costs.
  - Paying more than 30% = Housing Cost-Burdened
  - Paying more than 50% = Severely Housing Cost-Burdened

# 2024 Housing Study Findings

## Virginia Beach faces significant affordability challenges:

- Rental and homeownership markets
- One in three households (about 59,000 households) are housing cost-burdened
- **Critical concern:** Lack of rental units affordable to very-low-income households, many of whom are employed in the city's top 10 most common occupations.
  - Often bear the burden of high housing costs to remain in the city.

# Current Tools for Expanding Affordable Housing

- Federal Low Income Housing Tax Credits
  - Competitive (9%)
  - Non-Competitive (4%)
- Tax-Exempt Bond Financing
- Virginia Housing Long-Term Taxable Bond Financing and Resources Enabling Affordable Community Housing (REACH) program
- Federal HOME funds (City of Virginia Beach allocation)
- Contribution or Sale of City-Owned Land
- Virginia Beach Workforce Housing Bonus Density

# Affordable Housing in VB

Currently about 4,755 affordable multi-family rental units:

- About 3,183 are rented to households with incomes at or below 60% Area Median Income (AMI).
- Units are rented at or below market rents and do not have any project-based rental subsidy.
- Remaining 1,572 units are assisted with project-based rental subsidy (the assistance is tied to the unit).

# New Opportunity: Affordable Housing Performance (AHP) Grant

- Authorized by the Virginia General Assembly with an amendment to the Industrial Development and Revenue Bond Act
  - Passed during 2022 session under HB 1194
  - Effective July 1, 2022
- Allows Development Authorities, in conjunction with their local City Council, the power to make grants associated with the construction of affordable housing

# What is an Affordable Housing Performance (AHP) Grant?

- Grant funds provided to a developer based on a Percentage of the Incremental Real Estate Tax Revenue generated by the development
- Incremental Real Estate Tax Revenue =
  - The amount of real estate taxes levied by the City on the land and the completed affordable housing development MINUS
  - The amount of real estate taxes levied on the site prior to developing the affordable housing project
- Incremental real estate tax revenue granted to developer if:
  - Development meets eligibility criteria
  - Developer complies with terms of the grant agreement

# Purpose of Proposed VB AHP Grant

- To address shortage of affordable housing and further economic development
- To incentivize the construction of new affordable rental housing units in Virginia Beach
  - Units that are rented and affordable to households at or below 80% of Area Median Income (AMI) (\$80,550 annual income for a household of 4)
  - Program includes an incentive to provide units that are rented and affordable to households with incomes at or below 50% of AMI (\$50,350 annual income for a household of 4)

# Benefits of the AHP Grant

- AHP Grant funds provided to a developer would be based on a Percentage of the Incremental Real Estate Tax Revenue generated by their development.
- Therefore, the AHP Grant does not rely on an appropriation of existing general fund revenues.
- Makes affordable housing projects feasible that would not happen without this incentive
  - Allows for an increase in debt proceeds for an affordable housing development
  - Eliminates barriers that hinder 4% LIHTC (non-competitive) feasibility

# Proposed AHP Grant: Eligible Projects

- Projects must be new construction.
- Projects must be developed by a for-profit entity.
- Only new multi-family affordable rental housing units that have not started construction as of a to-be-determined date.
- Applicants must have a demonstrable gap in project financing, as evidenced by their development and operating pro forma.
- Projects may be fully affordable or mixed-income.
- May also be mixed-use (i.e. with commercial and residential components).
- Projects that involve the demolition of existing rental housing units only when they build a minimum 20% additional affordable housing units.

# Proposed AHP Grant: Ineligible Projects

- Involve only the purchase and/or rehabilitation of existing housing units.
- Have already started construction as of a to-be-determined date.
- Do not have a demonstrable gap in project financing as evidenced by their development and operating pro forma.
- Developments that are produced by a non-profit entity that is already exempt from paying real estate taxes.

# Proposed Grant Award Duration and Timing

- 15-year grant period that may be extended another 15 years (total of 30 years) if recipient complies with capital re-investment terms before the 15<sup>th</sup> year.
- Commences July 1 of the first real estate tax year following completion of construction.
- Ends on the last day of the 15<sup>th</sup> or 30<sup>th</sup> real estate tax year following the grant commencement date.

# Proposed Grant Amount & Payment

- Capped at amount of incremental new real estate taxes to be levied and collected for improvements on the Project Site.
- Adjusted to reflect the percentage of residential square footage to the total gross square footage of the structure(s).
- Adjusted to reflect the percentage of the number of affordable rental housing units to the number of total residential rental units.
- Grant payable upon proof of full and timely payment of the property's real estate taxes and compliance with all requirements of the grant agreement, subject to a corresponding appropriation by the City Council.

# Proposed Grant Award Terms and Conditions

- Adhere to project construction timeline based on the effective date of the grant agreement
- Strive for goal of 50% small, woman, and minority (SWaM) business participation during construction, and submit appropriate reports to City's SWaM office.
- Provide detailed updates/verifications to the City of construction progress and continued control, maintenance, and operation of the project throughout the 15-30-year grant period.
- Restrict occupancy and rents throughout the 15-30-year grant period as outlined in the grant agreement and provide compliance monitoring reports to the City as evidence.
- Notify VBDA and the City of any material changes in the project's financing structure after an award is made.
- For projects with 30-year performance period, make agree-upon re-investment in capital improvements prior to the 15<sup>th</sup> year of service.

# Potential Incentive Grant Example: 100% of Incremental Taxes, 400 units

## Base Taxes

|                               |             |
|-------------------------------|-------------|
| Land Value:                   | \$4,000,000 |
| Existing Improvements:        | \$0         |
| Base Tax on Land (.97/\$100): | \$38,800    |

## Incentive Grant = 100% of Incremental Taxes

|                                                     |              |
|-----------------------------------------------------|--------------|
| Value of New Improvements:                          | \$84,200,000 |
| Land Value, Year 1                                  | \$4,120,000  |
| Total Value of Land and Improvements:               | \$88,320,000 |
| Total Taxes on Land & Improvements (.97/\$100):     | \$856,704    |
| Base Tax on Land (.97/\$100):                       | (\$38,800)   |
| Incremental Tax = Total Taxes – Base Tax:           | \$817,904    |
| Incentive Grant over 15 years (3% annual increase): | \$15,351,764 |

# Potential Incentive Grant Example: Owner's Reduction in Rental Income

- 100% Market Rate Units: 400 units at Market Rents of \$2,000/month
  - Annual Year 1 rent collection = \$9,600,000
  - Sum of all rents over 15 years  
(3% annual increase) = \$193,506,061
- 100% Affordable Units : 400 units at Affordable Rents of \$1,500/month
  - Annual Year 1 rent collection = \$7,200,000
  - Sum of all rents over 15 years  
(3% annual increase) = \$145,129,545
- Owner's Reduced Potential Rent over 15 years: (\$48,376,515)

## Potential Incentive Grant Example: Owner's Net Reduction of Rental Income Over 15 Years

- Total Reduction of Rental Income: (\$48,376,515)
- Incentive Grant: \$15,351,764
- Net Reduction in Rental Income: (\$33,024,751)

# Model AHP Grant: City of Richmond, Virginia

- First and currently the only program in Virginia
- Began in 2023
- Richmond Grant uses 100% as maximum percentage of incremental real estate tax revenue
- Charges a Grant Administration fee = 1% of annual grant value
- To date:
  - 26 projects approved
  - 3,440 affordable rental housing units under construction or in the pipeline

# Staff Recommendation

- Recommend 100% incremental new real estate taxes as maximum
- Application must be submitted for each project
- Must meet all program criteria for staff to recommend approval
- City Council and VBDA approve each project individually
- Maintain separate required Public Process for permitting of developments

# City Council Guidance

## Should staff proceed with pursuing an AHP Grant for Virginia Beach?

- If Yes:
  - Staff provides program documents to Council for review
  - Request ordinance in April 2025 to create AHP Grant program
  - Provide Annual Report of all AHP Grant Activity
  - Evaluate program in 2-3 years based on completed projects
- If No: What alternatives does Council recommend?

Other questions?