

1. Brief Description of VHDA's Mixed Use/Mixed Income Initiative

Increasingly, communities are seeking new models for meeting affordable housing needs – especially the needs of renters. Over the past decade, localities have addressed the need for affordable rental housing by accommodating the preservation of existing affordable developments. However, they have been far less supportive of new rental housing production. In fact, outright opposition to new rental production has steadily increased as community resistance to traditional large garden apartment style developments has caused NIMBYism to flourish. In addition, the housing preferences of young renters are changing. Increasingly, they are looking for alternative housing choices, especially diverse mixed use, urban neighborhoods that are close to transportation, jobs, and entertainment. This shift in community and renter attitudes led the Virginia Housing Development Authority (VHDA) to create a multi-faceted Smart Growth Initiative through which the Authority's REACH Team works with localities to promote new development models and develop mixed-use, mixed income projects that address emerging housing needs as well as local community development goals.

VHDA's Smart Growth Initiative entails three components: 1) outreach and education to affordable housing stakeholders and local communities on emerging housing needs and new models for addressing them; 2) support for localities in planning and implementing mixed use/mixed income developments; and 3) favorable financing through VHDA's mixed use/mixed income (MUMI) loan program to enhance the feasibility of MUMI projects. The initiative is carried out by VHDA's REACH Team, which provides community outreach and development support for VHDA's community housing initiatives, builds local partnerships, and manages VHDA's REACH subsidies which are funded through an annual commitment of 15% of VHDA's net income.

Outreach & Education. The REACH Team promotes smart growth development opportunities in several ways. It has developed an education and training program that is carried out across the state, and has partnered with the Urban Land Institute (ULI) to host a statewide Urban Marketplace Conference. The REACH Team also meets one-on-one with local government staff and other housing stakeholders to discuss local housing needs and ways they can be addressed. VHDA's marketing and research staff has developed research briefs and case study materials to support the REACH Team's outreach and education efforts (see supporting materials).

Support for Local Planning. The REACH Team works directly with local government staff to help plan MUMI developments. The REACH Team has supported local planning efforts by sharing information and ideas with local staff, hosting local planning charrettes, and providing planning grants for projects that will result in new MUMI developments. The planning grants have been funded with VHDA's REACH subsidies.

Mixed Use/Mixed Income Financing. The REACH Teams outreach, education, and planning assistance is coupled with VHDA's MUMI loan program, which provides attractive lower interest rate financing to create project feasibility. The MUMI loan program requires that 30 percent of apartments remain affordable to residents making 80 percent or less of the area median income, while the remaining units are rented at market rate. Projects eligible for financing include newly constructed developments and existing structures in need of revitalization – often adaptive reuse projects that provide a net increase in affordable rental units to the local community. The loan interest rate discount is provided through VHDA's REACH subsidies.

2. Why/When it was undertaken

Acquisition and rehab of existing affordable rental developments, which predominated during the past decade when rental demand was relatively weak, will not be sufficient to meet the anticipated sharp increase in demand for affordable rental housing over the coming decade as Generation Y enters the housing market. However, NIMBYism and resistance to traditional large garden style apartment developments remain substantial barriers to new affordable rental housing production. Therefore, provision of financing alone will be insufficient to address emerging rental needs.

VHDA's Smart Growth Initiative was initiated to promote new mixed use/mixed income models for affordable rental housing development that can garner greater community support and meet the changing preferences of Generation Y. In 2004, VHDA sought and received changes to our state enabling legislation to permit the financing of mixed use and mixed income developments. After receiving legislative authority, VHDA's newly formed REACH

Team developed the Smart Growth Initiative as a multi-faceted approach to promoting MUMI development. The initiative's outreach and education component builds understanding and support of MUMI development models across a wide spectrum of stakeholder groups. The initiative's planning support component assists interested local governments and housing authorities in designing feasible MUMI development plans. Finally, the initiative's MUMI loan program provides financing to bring mixed use/mixed income projects to fruition. In partnership with groups such as the Urban Land Institute, VHDA is proactively promoting innovative best practices in multifamily development that are resulting in new affordable rental housing production.

3. What VHDA has accomplished

Since 2005, VHDA's program has financed a total of 40 mixed use/mixed income rental developments in cities across Virginia, representing a total of 1,689 affordable rental units. Two good examples of VHDA's MUMI developments are The Hancock Building in Roanoke and The Station at Potomac Yard in Alexandria.

The Hancock Building. Early this decade, VHDA encountered stiff resistance to traditional garden apartment style LIHTC developments in the city of Roanoke. However, local government was aggressively revitalizing its downtown and was looking for new residential development to support those efforts. This made Roanoke an ideal location to employ VHDA's Smart Growth Initiative. The adaptive re-use of the historic Hancock Building could not have been possible without the partnership between the developers, the City of Roanoke, Roanoke Redevelopment and Housing Authority and VHDA. Formerly known as the Grand Piano and Furniture Company, the large building now offers 58 rental apartments with office space on the bottom floor. The project proved to be very popular in downtown Roanoke – all 58 units were leased by the grand opening event in May 2008.

The Station at Potomac Yard. The 64-unit Station at Potomac Yard development, located in the high-cost region of Northern Virginia, consists of 44 affordable rental units designed for households with incomes at or below 60 percent of the area median income and another 20 rental units designated as workforce housing, with rents affordable to public service employees, teachers and others working for the City of Alexandria. Additionally, the development includes 1,500 square feet of street level retail space, and underground parking. The development is unique in that it also houses Alexandria's first fire station in 30 years on the first floor, and can serve as a "home away from home" for firefighters during their 24-hour shifts.

4. Why it is Meritorious and Meets NCSHA Award Judging Criteria

Innovative. VHDA's Smart Growth Initiative is innovative because it provides a comprehensive, proactive approach to increasing production of new affordable rental housing as opposed to the traditional sole reliance on loan programs. A multifaceted approach is now necessary in light of strong community opposition to traditional large-scale affordable apartment developments. VHDA's approach has three elements: 1) education of stakeholders and communities on emerging rental housing needs and new approaches to addressing them through MUMI development; 2) planning support to local communities on new MUMI models to create development opportunities for new projects; and 3) providing financing resources to allow MUMI development. The program allows VHDA to creatively achieve its mission of financing affordable housing in a quality environment enriched by economic diversity. And, it allows renters to live where they work – and for neighborhoods to come back to life as sustainable communities.

Replicable. VHDA's Smart Growth Initiative can be replicated by other HFAs. While VHDA uses a portion of its net income to provide necessary loan subsidies, HFAs lacking the ability to provide internally generated subsidy funds can use agency-administered HOME funds for this purpose. Likewise, other HFAs that lack statutory authority to finance MUMI developments can pursue, as did VHDA, changes in their enabling legislation. VHDA found Virginia's General Assembly to be very supportive of this expansion of VHDA's mission provided that it was structured to complement rather than compete with private lending in the state.

Responds to an important state housing need. Communities are seeking new models for rental housing development that will garner broader community support. At the same time, state and local communities are seeking

to control sprawl and promote housing close to economic opportunities and transportation. The development models promoted by VHDA's Smart Growth Initiative support these needs and help to create the local conditions under which new affordable rental housing production can occur. This will be essential in meeting the increase in affordable rental housing needs resulting from Generation Y's entry into the housing market over the coming decade.

Demonstrates measurable benefits to HFA targeted customers. VHDA's Smart Growth Initiative benefits three sets of targeted customers:

1. It benefits renter households by enabling the production of new affordable rental units located in desirable locations close to work and entertainment centers;
2. It benefits localities by assisting them in planning and carrying out MUMI community development strategies and providing resources to support locally sponsored development projects; and
3. It benefits developers by providing attractive loan terms that make developments financially feasible.

Proven track record of success in the marketplace. VHDA's Smart Growth Initiative has successfully financed 1,689 affordable rental units in 40 developments across Virginia since 2005. In addition, the high level of interest that the initiative generates from real estate professionals and local jurisdictions – from high-cost Northern Virginia to the state's rural Southwest region – has resulted in a growing number of deals under development. One of the best measures of the initiative's success is its achievement of objectives ahead of schedule. For example, VHDA had a strategic objective of leveraging more than \$100 million through the MUMI loan program by the end of FY 2010; however, the program proved so popular that this objective was already accomplished by the end of FY 2009.

Benefits that outweigh the costs. Over the past decade, VHDA's LIHTC and multifamily financing programs have encountered growing local resistance to traditional forms of affordable rental development. Broadly accepted new development models are now required in order to sustain needed levels of new affordable rental housing production. In this context, VHDA views the costs of its Smart Growth Initiative as an investment in building the level of community support needed to sustain desired levels of new affordable rental housing production.

Demonstrates effective use of resources. Currently, many localities and housing authorities in Virginia lack sufficient capacity to envision and implement MUMI strategies. VHDA's Smart Growth Initiative uses the Authority's existing outreach staff (i.e., the REACH Team), and internal marketing and research capacity to assist these localities in creating local plans and strategies that will enable MUMI development to occur. This initiative has laid the groundwork that is resulting in ongoing production opportunities for VHDA's LIHTC and multifamily lending programs.

Effectively employs partnerships. In the past, VHDA's affordable developments were often resisted by local governments. In contrast, the Smart Growth Initiative is built around partnerships with local governments to achieve mutual objectives. It also creates an opportunity for developers and stakeholders to find common ground with local governments and build partnerships leading to stronger developments. VHDA has also built partnerships with "best practices" groups, such as the Urban Land Institute, in carrying out education and outreach on MUMI opportunities.

Achieves strategic objectives. The Mixed Use/Mixed Income Initiative supports VHDA strategic goals of increasing affordable housing opportunities and ensuring an ongoing inventory of affordable housing that supports strong, viable communities. It builds local support for affordable rental housing production and provides developers with a financing product that enables them to create quality affordable housing in desirable MUMI developments.

Conclusion

As Generation Y comes of age and seeks affordable rental housing, substantial new affordable rental housing production will be required. This will necessitate overcoming the NIMBYism that remains a considerable obstacle to the development of traditional large garden apartment complexes. VHDA's Smart Growth Initiative builds community support for and capacity to carry out MUMI development strategies that can accommodate the affordable rental housing needs of Generation Y while also addressing broader local community development goals.