

**TOWN OF BLACKSBURG STAFF REPORT  
A REVIEW OF GLADE SPRING CROSSING'S AFFORDABLE HOUSING PLAN**

**To:** Blacksburg Planning Commission and Town Council  
**From:** Office of Housing and Community Connections  
**Report Date:** January 13, 2023  
**Subject:** Affordable Housing Plan for the Glade Spring Crossing Development

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The purpose of this staff report is to give background, context, and analysis to help inform the Planning Commission and Town Council's evaluation of the affordable housing commitments proposed in the Glade Springs Crossing rezoning project application. The proposed commitments made by the applicant would support Town Council's affordable housing goals and the staff recommended level of Town affordable housing investment, should it receive rezoning approval, would be comparable to the investments made previously by the Town in other affordable development projects.

**BACKGROUND INFORMATION:**

**Affordable Housing Development Fund Establishment**

The Town of Blacksburg recognizes that developing housing affordable to low and middle-income households is rarely profitable and often requires some form of public investment to close the gap in development costs. In 2021, the Federal government provided \$13.3 million in Coronavirus and Local Fiscal Recovery Funds, as part of the American Rescue Plan Act (ARPA) to the Town of Blacksburg. After several months of community engagement and brainstorming, Town staff identified and proposed a list of priority projects to the Blacksburg Town Council for funding consideration. Since the need for affordable housing was identified as a high priority concern for citizens and expanding opportunities for affordable housing is a Town Council goal, Town staff proposed allocating \$4 million in ARPA funds to establish a local Affordable Housing Development fund (AHDF); this allocation was approved by Town Council in June of 2022. The purpose of the AHDF is to incentivize housing developers and builders interested in helping the Town increase the supply of affordable housing for permanent residents near jobs, services, schools, and public transit.

**ARPA Guidance on Affordable Housing Projects**

During the summer of 2022, the U.S. Treasury released updated ARPA Recovery Fund Guidance on how local governments could use ARPA funds to support affordable housing projects. Based on this guidance the Town's housing staff determined that the Town must follow federal HOME program guidelines for any ARPA funds invested in local affordable housing development projects. In addition to complying with HOME guidelines, ARPA funds must be allocated by December 2024 and spent by December 2026.

**The Town's Ongoing Role in Affordable Housing Development**

The Town's Housing and Community Connections (HCC) office routinely administers two U.S. Department of Housing and Urban Development (HUD) programs, the Community Development Block

Grant (CDBG) program and the HOME Investments Partnerships program. The HOME program provides annual funding to The New River Valley HOME Consortium to support the construction and rehabilitation of homeownership or rental housing for households earning at 80% or below Area Median Income (AMI) as defined annually by HUD. The Town of Blacksburg provides staff support to the HOME Consortium to help work with all member localities in administering HOME funds. NRV localities receive funds on a rotating basis and the amounts provided are based on the size of their total population. As the lead entity for the NRV HOME Consortium, Town HCC staff are responsible for ensuring all projects funded through these programs comply with federal, program-specific, and local standards. The office undertakes a subsidy layering and cost-reasonable analysis for any HOME or CDBG project. Subsidy layering is a statutory requirement to assure that Federal resources are neither duplicative nor wasteful when applied to affordable housing. It also monitors these projects over time.

**Affordable Housing Development Fund Project Selection**

In the fall of 2022, the Town of Blacksburg released a Request for Proposals (RFP) for affordable housing projects in the Town of Blacksburg. This RFP included all the terms and conditions associated with ARPA and HOME funds. Private or non-profit entities could request financial support for affordable rental or homeownership projects, and this support could be used for acquisition, predevelopment, site development, rehabilitation, or construction costs. All proposed projects needed to include a minimum number of HOME units (homes serving those earning 80% or below the area median income). The minimum number is determined by the number of HOME units, the number of bedrooms, and the total funds requested. The Town cannot make investments over a per-unit HUD defined maximum subsidy limit. The Town also required applicants to have some form of site control, to demonstrate the likelihood of project completion by December 2026.

The Town received three proposals, one from Habitat for Humanity, one from Community Housing Partners, and one from Glade Spring Crossing. In December 2022, Town HCC staff worked with the Town’s Housing and Community Development Advisory board to review the three project submissions and made initial funding recommendations to Town Council. The details of the Glade Spring Crossing proposal, funding request, and suggested Town commitment are detailed later in this report.

**The Town’s Need for Affordable Housing**

The housing stock is limited throughout the New River Valley and the demand for housing is highest in the Town of Blacksburg and bordering areas in Montgomery County. A high and growing demand exists for for-sale and rental homes at all price points. This trend is best demonstrated by looking at the downward 10-year trend for median days on market; the median days on market has been less than a week since 2018. Because of our housing supply shortage, price

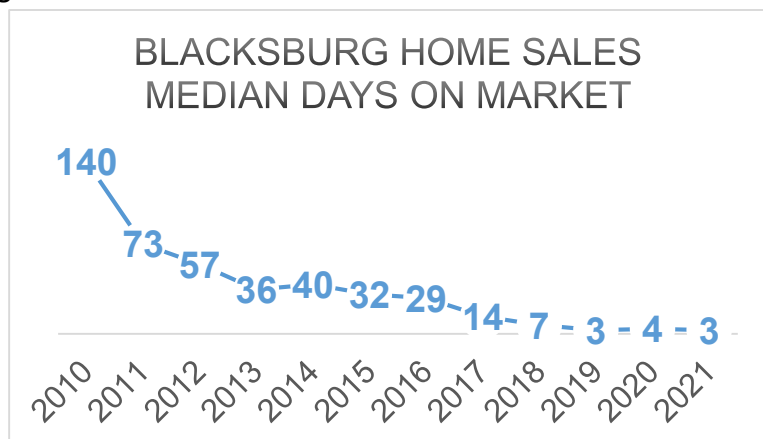


Figure 1. NRV Regional + Local Housing Study, VCHR tabulation of NRV REALTORS Association MLS data

increases have been dramatic. The median sales price of all homes in the Town of Blacksburg has been steadily been rising. Based on a VCHR tabulation of New River Valley Association of REALTORS® 2019-2021 MLS data in 2019, the median sales price for all single-family detached and townhome properties in Blacksburg was \$306,500, in 2020, it was \$355,000, and in 2021, it was \$375,500. These numbers are even higher if you consider the median sales price of a newly constructed home or just single-family detached homes.

**Achieving Homeownership: Blacksburg’s Affordability Gap**

These for-sale and rental housing trends are creating an increasing affordability gap between the market price of housing and what most people can afford to buy. Blacksburg has the tightest and most expensive housing market within the New River Valley region, where even four-person households earning, the average income in our area, \$86,200 per year would need some form of support to purchase a single-family home.

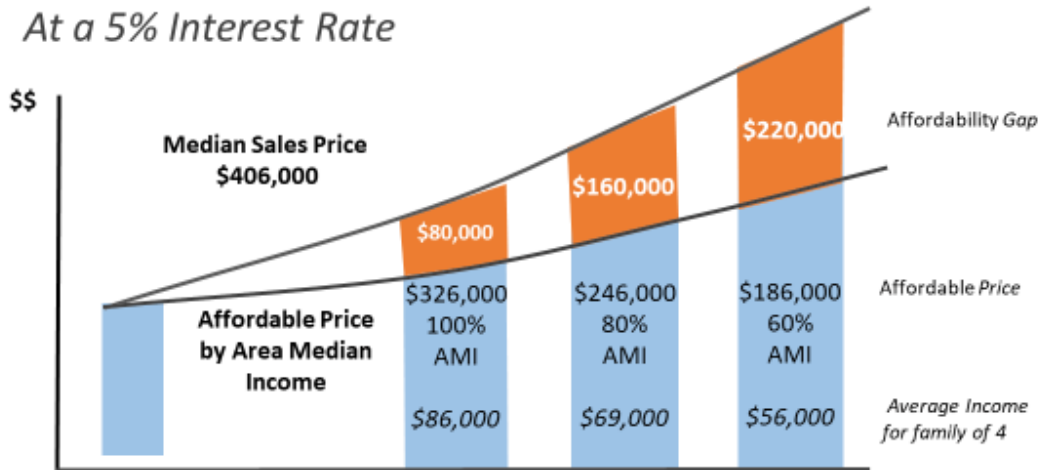
Here is a full breakdown of Area Median Income (AMI) by household size as defined by HUD for 2022.

Area Median Income Limits	Persons in Family					
	1	2	3	4	5	6
40% Limits	\$24,150	\$27,600	\$31,050	\$34,500	\$37,300	\$40,050
50% Limits	\$30,200	\$34,500	\$38,800	\$43,100	\$46,550	\$50,000
60% Limits	\$39,250	\$44,850	\$46,550	\$56,050	\$60,550	\$ 65,050
80% Limits	\$48,300	\$55,200	\$ 62,100	\$68,950	\$74,500	\$80,000
100% Limits	\$60,350	\$69,000	\$77,600	\$86,200	\$93,100	\$100,000
120% Limits	\$72,450	\$82,800	\$93,150	\$103,450	\$111,750	\$120,050

In the graphs below, we estimate the affordability gap for four-person households earning 60%, 80%, and 100% of the area median income. To be considered affordable, a household should spend no more than 30% of its income on housing costs (PITI). For example, if a household earns \$56,000 per year or \$4,666 each month as illustrated in the graph below, the mortgage payment should be a maximum of \$1,400 (30% of \$4,666) minus applicable property taxes, insurance, and fees. Mortgage lenders typically look for borrowers whose combined monthly housing and debt payments do not exceed 43% of their income. When using an interest rate of 5% on a mortgage, this household could afford a home that is \$186,000. Anything higher and they are making tradeoffs on other expenses, such as food, education, healthcare, and entertainment. If the current median sales price in Blacksburg is \$406,000, it means that this household’s affordability gap is \$220,000. As you can also see in the graph below, at a 5% interest rate even households earning at 100% of the area median income are still \$80,000 away from being able to afford a home in Blacksburg.

# Growing Affordability Gaps

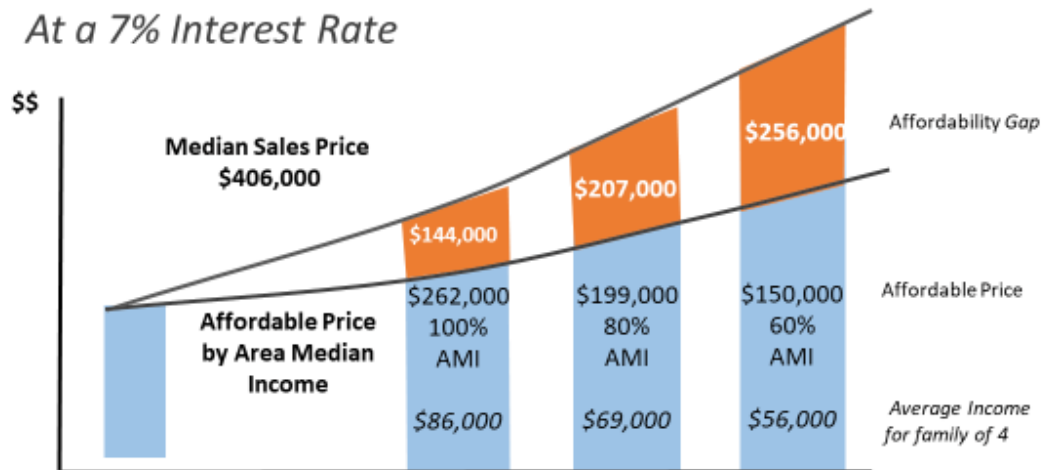
At a 5% Interest Rate



The situation becomes worse, given our current inflationary environment with 7% interest rates.

# Growing Affordability Gaps

At a 7% Interest Rate



These graphs illustrate an affordability gap of between \$80,000-256, 000 for lower and middle-income households. This gap is a product of 1) low housing supply at all price points, but especially affordable price points, 2) market competition for available housing from investors with cash offers 3) increased construction and development costs, including materials, supplies, labor, and land costs and 4) the volatility of interest rates.

Demand from students plays an important part in the demand for housing in the Town of Blacksburg. Demand for rental units to meet student needs has dominated Blacksburg’s new construction and affects the sale of existing units since sellers receive competitive cash bids from investors who can expect high returns on rents. Focus group participants explained that investor-held rental units in Blacksburg are rarely listed on the MLS and therefore rarely transfer back into owner occupancy. This

trend also reduces stock that may have been affordable to moderate-income and first-time homebuyers in Blacksburg.

During interviews conducted for the [New River Regional Housing Study](#), realtors and lenders both told stories of bidding wars for Blacksburg homes. Lenders described pre-approving multiple loans for the same address in a single day, and realtors explained the disadvantage that those buyers who need financing face in a market with regular bidding wars: banks will not finance offers higher than appraised value. One realtor summed up the result of high prices and intense competition for homes saying that moderate-income households and most first-time homebuyers are effectively shut out of Blacksburg. Moderate-income buyers must be prepared for a long search, losing out on many homes on which they make an offer.

As a result, many working families are choosing between paying exorbitant housing costs to live in Blacksburg close to their jobs or enduring lengthy commutes from areas outside of Blacksburg with more affordable housing. Of the 21,000 people who work in Blacksburg, 3 out of 5 (15,900) currently live outside of Blacksburg.

### **New River Home Trust: Closing the Homeownership Affordability Gap**

More affordable homes within Blacksburg would provide more opportunities for households from all sectors of our local workforce to live close to where they work. This would improve the quality of life for all those who contribute to our community- more time spent with family, and greater investment in health, food, and activities. More affordable homes in Blacksburg would also provide employers with a greater ability to attract and retain employees. However, as demonstrated above, using public resources to close the affordability gap can be an expensive per-unit investment.

To address this, in 2020-21, a Steering Team worked with a consultant to explore the feasibility of establishing a Community Land Trust (CLT) in Montgomery County. A CLT is a community-based organization that uses public and private investment to acquire land and provide affordable owner-occupied housing on behalf of a specific community. Residents can purchase a CLT home, but not the land on which the house sits. Instead, residents enter into low-cost, long-term property leases with the CLT, known as ground leases, typically for 99 years. Although CLT residents can never sell the land their home is on, they otherwise have the same rights and responsibilities as other homeowners (maintenance, property taxes, etc.). The initial investment to write down the price of the home plus the removal of the land value is what makes the home more affordable for the homebuyer. In exchange for the assistance provided to enable the purchase of a home, they would not otherwise be able to afford, CLT homeowners agree to limit the price at which they can sell their homes. This is governed by a resale formula, based on the percent change in area median income over time, in the ground lease. For example, in the last decade incomes have risen by 26-35%. This model enables CLT homebuyers to build equity and eventually purchase a home in the traditional marketplace, which then frees up the opportunity for a new income-qualified homebuyer. It also keeps the home affordable to future limited-income households – without requiring the investment of additional public or private subsidies to make the home affordable again. The Town sees this as an important affordable housing strategy for maximizing its investment and providing a housing stock affordable to first-time homebuyers. This summer both the Town of Blacksburg and Montgomery County approved the establishment of a CLT, now known as the New River Home Trust, and managed by Community Housing Partners, an affordable housing nonprofit based in Christiansburg, on behalf of the community.

### **Determining Eligibility for a New River Home Trust Home**

The eligibility for these New River Home Trust homes will vary by household size and area median income limits, as determined annually by HUD.

The initial sale price of these homes are determined at the time of market readiness and based on the following formula using updated income limits as published by HUD annually, interest rates and fees.

*Step One- Determine Maximum Monthly Mortgage Payment limit*

$$\text{PMT} = (\text{GAI} / 12)(\text{HR}) - (\text{PT} / 12) - (\text{HI} / 12) - (\text{CLTGL} / 12) - (\text{HOA} / 12)$$

PMT= Maximum Monthly Mortgage Payment Limit

GAI = gross annual income (use HUD defined 60%, 80%, or 100% AMI for 4 person household for current year)

HR = Housing Ratio as a decimal (30% of your gross monthly income devoted to housing expenses excluding utilities)

PT = Annual property tax

HI = Annual homeowners insurance

CLTGL = Annual community Land Trust Ground Lease Fee

HOA = Annual Homeowner's Association Fee

*Step Two- Determine Maximum Sales Price*

$$P_0 = \frac{\text{PMT} (1 - (1 + r/n)^{-nt})}{(r/n)}$$

P<sub>0</sub> = Maximum Sales Price

PMT = Maximum Monthly Mortgage Payment Limit

r = Interest Rate as a Decimal

n = Number of Compounds Per Year (12 months)

t = Length of Loan in Years (30 years)

### **Glade Spring Crossing Affordable Housing Proposal**

This project would provide twenty-four (24) new energy-efficient affordable homeownership opportunities in the Town of Blacksburg. Ten (10) of the homes would be HOME units, affordable to households earning 80% or less than the area median income, and one of these ten (10) units will be ADA compliant. Ten (10) would be affordable to households earning less than 100% area median income, and four (4) would be affordable to households earning less than 120% of the area median income.

These 24 homes would become part of the New River Home Trust. Glade Spring Crossing would donate the 24 lots to the New River Home Trust at the time of the sale of each home. Eagle Construction, the proposed builder, and the New River Home Trust would be responsible for marketing these homes. The New River Home Trust would be responsible for determining eligibility of income-qualifying homebuyers and entering into a ground lease (which governs the use and resale provisions) with each homebuyer.

These homes would all be three-bedroom and range in size between 1080-1400 square feet. Eagle Construction, the New River Home Trust, and the buyer (if possible) would determine the preferred interior layout. The homes would be distributed throughout the mixed-income section of the proposed

development, unless this approach risks the completion of the 10 HOME units by the ARPA deadline. The final sale price of these homes would be determined at the time of market readiness and based on the formula above and as specified in an affordable housing agreement using updated income limits as published by HUD annually, interest rates, and fees as agreed upon by all parties 60 days before the certificate of occupancy. Eagle Construction has previous experience building affordable homes for the Maggie Walker Land Trust and Better Housing Coalition in Richmond.

This project also plans to provide an additional 110 similarly modest-sized homes at a price point more affordable to Blacksburg's workforce, although this is not a rezoning commitment. Workforce housing targets middle-income workers, which includes essential professions for any community such as police officers, firefighters, teachers, health care workers, retail clerks, and the like. The target sales prices of these homes remains undefined by the developer and builder. These homes would not become a part of the New River Home Trust and the price of these homes at resale will be subject to the market.

### **Glade Spring Crossing Request of the Town of Blacksburg**

The following outlines the specific request by Glade Spring Crossing of the Town of Blacksburg to support the affordable housing commitments proposed for the Glade Spring Crossing development. All of the items listed below help achieve the development of the 24 affordable homes. Following a description of the request is a staff assessment of how this request compares to commitments provided to previous affordable housing projects in the Town of Blacksburg.

- 1. Affordable Housing Development Funds:** Glade Spring Crossing is requesting \$ 2,779,000 in Affordable Housing Development funds. These funds would support the costs associated with pre-development, site work, and construction of the 10 HOME units. This funding would be provided in advance and with a lien on other properties owned by the developer in the Town of Blacksburg. The developer would be responsible for HOME and ARPA compliance and reporting.

**ANALYSIS:** The Town receives an annual allocation of federal Community Development Block Grant (CDBG) funds from the U.S. Department of Housing and Urban Development (HUD) to support community development activities such as infrastructure, economic development projects, public facilities installation, affordable housing development, housing rehabilitation, public services, clearance/acquisition, homeowner assistance, etc. The Town's Affordable Housing program typically invests either CDBG funds and/or HOME funds in local affordable housing projects. Here is a summary of recent past investments:

- Eight Senior Apartments on Grissom Lane, managed by Community Housing Partners. The Town provided \$85,000 of CDBG funds to support sidewalk improvements as well as \$670,000 of CDBG funds and \$400,000 of HOME funds to support construction costs.
- Seven Owner Occupied Townhomes on Church Street were developed by Habitat for Humanity. The Town provided \$825,000 in HOME funds to support construction costs.
- Seven Owner Occupied homes in the Bennett Hill / Progress Street neighborhood were rehabilitated by Community Housing partners. The amount of Town CDBG investment varied by home, but is estimated at \$100,000-\$130,000 per home.

Town HCC staff analyzed the development and construction budget for these homes to determine cost reasonableness. Staff assessed the costs of the 10 proposed HOME units, to ensure the costs would meet HOME requirements and NRV HOME policies and procedures. It was determined that a couple of cost categories were slightly above our allowable cost limits. The overall cost per square foot for these proposed units is slightly higher than previous projects. Staff also assessed the value of our investment with respect to all 24 affordable homes and the household area median incomes to be served. Staff then compared the request against the recent investments made with CDBG and HOME dollars.

The development gap per unit (construction and development cost minus sales price) in a 5% interest rate environment is approximately:

- \$60,000 for the 4 homes serving 100-120% AMI households
- \$136,000 for the 10 homes serving 80-100% AMI households
- \$156,000 for the 10 homes serving 60-80% AMI homes

The development gap per unit in our current 7% interest rate environment is approximately:

- \$114,000 for the 4 homes serving 100-120% AMI households,
- \$179,000 for the 10 homes serving 80-100% AMI households
- \$190,000 for the 10 homes serving 60-80% AMI households

**Based on our assessment it was determined that \$2,000,000 would be a more reasonable investment by the Town for these 24 units.** This would equate to \$83,000 per unit when compared against the 24 units or \$200,000 per HOME unit, which meets our cost reasonableness and maximum subsidy limit test required by the HOME program. This would also be more in line with past investments made with HOME and CDBG funds, because in these cases all units served households earning 80% and below the area median income and therefore their overall development gap per unit was larger. It would also mirror our past affordable housing projects, where developers tend to provide/secure 50% of the development gap funding for the affordable housing project.

With a \$2 million dollar town investment and the 5% scenario, the developer and builder would be contributing approximately \$1.2 million of their own funds and in a 7% scenario, the developer and builder would be contributing approximately \$2.2 million of their funds to produce the 24 units. It is hard to predict what interest rates will be in 2026, but the developer and builder in this scenario are assuming the risk and impact of rising interest rates up to 7%. In addition, the developer is donating the 24 unimproved lots to the project.

This project also provides the opportunity for the Town to work with a private developer and builder on the development of affordable housing. This opens up new opportunities for partnership in pursuit of affordable housing and additional sources of financial investment outside of federal, state and local funding. Because this project would not solely relying on investment from public sources, it provides an opportunity to bring homes that can serve households earning 80-120% of area median



income into the New River Home Trust. This will benefit many families that would otherwise fail to qualify but still need support to live in the Town of Blacksburg (e.g. a two-teacher household).

If this project does not receive rezoning approval, ARPA funds would be redistributed to the other Affordable Housing Development fund projects or other ARPA projects. The funds would just need to be redistributed by the end of 2024.

2. **Application Review Times:** Glade Spring Crossing is requesting expedited development review times for preliminary plat major subdivision, engineering plans, and final plat(s).

**ANALYSIS:** The Midtown Development was granted expedited development review times through a development agreement, similar to the approach that is proposed for Glade Spring Crossings. However, the review schedule outlined in the draft Glade Spring Crossing Affordable Housing Plan agreement was developed by the Town's planning and engineering staff to ensure that the agreement was achievable given their workload. Although this request is not typical, it would help ensure implementation of the affordable housing plan within the American Rescue Plan Act timeline.