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HEADWAY

This Is Public Housing. Just Don’t Call It That.

Montgomery County, Md., like many places, has an affordable housing crisis. So it started acting like a benevolent real estate investor.

By Conor Dougherty
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The Laureate is one of those apartment buildings that developers love to build and anti-gentrification types love to hate. Marketed as “inspired living,” it sits outside Washington, D.C., across the street from a Starbucks and a short walk from the Metro’s red line. The boxy frame and clean lines mark it as a haven for young professionals, and it is part of an effort by Montgomery County, Md., to turn a former industrial area with a bus yard into a high-cost insta-neighborhood.

Technically speaking, the Laureate is also public housing.

When it opened in April, Kadiatou Sylla was the first resident. She wanted to live there because it was new and had a brochure that listed amenities like a courtyard pool, a room for washing pets and a gym where she speed-walks on a treadmill. Ms. Sylla was similarly excited to shave her 45-minute commute to 10.

For decades, Montgomery County has led the country in affordable housing innovations, including a landmark law that requires developers to set aside about 15 percent of the units in new projects for households making less than two-thirds of the area’s median income, which is now $152,100 for a family of four. The Laureate goes further.

While for-profit developers built it, the controlling owner is a government agency, the Housing Opportunities Commission of Montgomery County. Because H.O.C. has a 70 percent stake, the Laureate sets aside 30 percent of its 268 units for affordable housing. Ms. Sylla, who makes $48,000 a year as an administrator at a biotech company, pays $1,700 for a one-bedroom apartment, compared with a market rent around $2,200. Depending on their income, other residents pay as little as half the advertised rate.

Kadiatou Sylla, an administrator for a biotech company, was the first resident of the Laureate. The discounted rent made it possible for her to move out of her sister's house. Justin J Wee for The New York Times

America's affordable housing problem is so bad and so broad it can be hard to figure out where the fix should start. Since a shortage of available units is the root cause, many policymakers have focused on relaxing zoning and building rules to speed up construction. The idea is that if supply catches up with demand, prices will eventually fall or at least moderate.

But since so much new development is aimed at high-end buyers and renters, another group has countered that only interventions like rent control, subsidies and a revival of public housing can truly reduce housing costs. Families that need relief can't wait decades for supply to meet demand, they argue.

The Laureate is an attempt to marry these ideas — supply and subsidies; public and private — in a single project. It's the first building financed with a new $100 million fund that Montgomery County created to speed development by having H.O.C. invest directly in new projects, then using its ownership position to become a kind of benevolent investor that trades profits for lower rents.

Public housing, in other words — just not the way most people think of it.

"The private sector is focused on return on investment," said Chelsea Andrews, H.O.C.'s executive director. "Our return is public good."

Over the past half-century, the phrase "public housing" has become so stained by failure that the overwhelming impulse from lawmakers has been to run from it by creating programs that either demolish government-owned apartments or offload them to the private sector. Traditional public housing, financed by the Department of Housing and Urban Development and operated by one of the nation's roughly 3,300 public housing agencies, is locked in steady decline.

Today, instead of building taxpayer-owned buildings, much of the federal housing money flows through the private sector. Section 8 vouchers pay private landlords market rent for tenants who can't afford it. The Low-Income Housing Tax Credit gives corporations a break on taxes when they invest in subsidized buildings operated by nonprofit and for-profit developers. The underlying message of those programs is that the era of government-owned housing is over.

In Montgomery County, however, the stock of government-owned housing has steadily grown for decades while the definition of what it can be has expanded. The reason: In the Washington region, as in every other high-growth metropolitan area, the demand for affordable housing is way beyond what federal housing programs can provide. So the county tries to make up the gap.

It has gone only so far. Montgomery County still has a housing shortage and suffers from the same not-in-my-backyard politics that have exacerbated it. And some of the housing, like the Laureate, serves middle-class tenants, not someone earning, say, the minimum wage.

But H.O.C.'s ability to take a direct role in expanding the supply of housing is exactly the sort of approach that experts say is needed to slow the rise of rents — a key driver of inflation and the biggest bill in almost every tenant's budget.

When I met Ms. Sylla, she was sitting at a marble table in the clubhouse, near a pool table, a fireplace and the hot chocolate machine she visits on nights when she has trouble sleeping. Before moving into the Laureate, she had a basement apartment in a house where she lived with her sister, her sister's husband and their three children. She is 28 years old, and the new one-bedroom is her first official apartment, her first time living away from family, the first taste of the privacy and the independence of being able to shut her own door.

A common room in the Laureate, which has 268 apartments. Justin J Wee for The New York Times

"It was time for me to be my own person," she said.

Nobody in Montgomery County calls the Laureate public housing, and few of the tenants seem to know who their real landlord is. This seems like a feature, not a bug, and is being watched by other places. Over the past few years, as the nation's housing shortage has spread to more places and deepened the outright crisis on the coasts, a number of states including California, Massachusetts, Colorado, Hawaii and Rhode Island, along with cities like Seattle and Atlanta, have either passed or considered new public housing programs that avoid those words or rebrand themselves as "social housing."

One way or the other, they all borrow ideas from the Montgomery County model.

"We have to get out of the view that certain things are dirty words: 'Public housing' is not a dirty word. 'Developer' is not a dirty word," said Andrew Friedson, a member of the Montgomery County Council who championed the new housing fund. "The market on its own is not functioning the way we need it to, and that's when we want the government to step up."

A Wild Idea

Fifty years ago, Joyce Siegel and other residents pressed hard for Montgomery County to pass an innovative ordinance to increase affordable housing. Justin J Wee for The New York Times

On a drive north out of Washington, Montgomery County begins on the far side of a busy traffic circle and continues through miles of suburban affluence before the landscape thins into an urban-edge jumble of farms and fresh subdivisions. Like every suburb, it lives in relation to the economic engine next door, in this case the nation's kitty.

Seemingly every federal agency has an office somewhere in the county, and most of its one million residents live in households that either work for the government, make a living trying to influence it or have moved there to sell goods and services to people engaged in one of the first two. The story of how the county became America's housing innovator is tied up in its connection to the federal government's growth, beginning in the 1960s, when adjacent counties exploded with new homes and families.

In Montgomery County, many of these families consisted of a husband who worked for an agency like NASA or the Federal Communications Commission and a wife who raised the children. Educated and progressive, energized by the civil rights movement, a handful of these women became activists who took up fair and affordable housing as their cause.

Joyce Siegel was one of them. Raising three children while reading books like "The Feminine Mystique," Ms. Siegel started working with the League of Women Voters and others to push for a law to improve housing affordability.

"Anytime my name was in the paper, it was like 'young Bethesda housewife' was my last name: Joyce Siegel, young Bethesda housewife," she said.

Much as they are today, professionals were being priced out of the housing market, and low-income families had to double up.

"People's social consciousness was rising," Ms. Siegel said. "And housing is just so fundamental."

The ordinance they championed was called the Moderately Priced Dwelling Unit program. Its wonky title concealed an innovative idea: Developers of large projects would have to set aside a portion of the units for families making below the area's median income. The law also allowed the county to buy a portion of those units to operate as low-income rentals.

Many of those who pushed for what was described as fair housing (as opposed to affordable housing) explicitly framed it as a way to undo racial segregation. At times they even argued that the county's proximity to the nation's capital gave it a duty to be an example.

"They felt like everyone was watching," said Bianca Serbin, whose honors thesis at the University of Pennsylvania, which focused on the M.P.D.U. program, is the most comprehensive document I could find on its origin and the activists behind it. "They knew that if they passed the law, it could become a national model."

Developers argued that the idea amounted to the government's taking their property, and the measure sat on the County Council's agenda for over a year. But in the early '70s, Democrats took control of the Council, and volunteers packed the meetings. They were so fervent about its passage, and so disproportionately female, that their husbands started referring to Montgomery County as "a gynecocracy."

"They used to call the League of Women Voters 'the plague of women voters,'" Ms. Siegel said.

The law passed in 1974, and H.O.C. was created by state charter out of what was the public housing agency. It continues to administer programs like Section 8 vouchers and has a portfolio of some 9,300 units, most of them federally assisted apartments for extremely low-income households.

For decades, the Housing Opportunities Commission has bought up housing units, like this single-family townhouse in Rockville, Md. It now owns some 2,000 moderate-income units around the county. Justin J Wee for The New York Times

What makes H.O.C. unusually powerful is that, unlike most local housing organizations, it operates as both a public developer and a housing finance agency. The dual role allows the organization to sell bonds to finance its own projects. In essence, it can lend itself money to build buildings, while paying itself the interest.

Steadily, for four decades, H.O.C. has used that power and others to build and acquire some 2,000 moderate-income units that exist outside federal housing programs. The stock consists of basically every kind of housing, from single-family homes with colonial-style shutters to glass towers near the train.

And it blankets the entire county: You can find H.O.C. housing in wealthy enclaves like Chevy Chase, in downtown Silver Spring, in exurban subdivisions where publicly owned rowhouses sit across the street from homeowner neighbors with two-car garages.

When I met Ms. Siegel at her condominium in Bethesda on a recent morning, she told me that I had picked an auspicious day. It was her 90th birthday. She was nevertheless eager to talk housing. Ms Siegel, who served as an H.O.C. commissioner and later joined the staff, offered to take me on a tour of early projects whose addresses remain fresh in her memory.

Driving past garden apartment complexes and rows of townhomes, she pointed to hidden pockets of density. A three-story brick structure that looked nearly identical to nearby single-family residences contained two separate units. Other developments have quadplexes that are hard to distinguish from their single-family neighbors, until you notice the four mailboxes out front.

At one point, the developer of Avenel, an exclusive subdivision in the rolling hills of Potomac, tried to cut a deal to build lower-income units in a different city. The idea was voted down, and today a cluster of small brick homes sit in Avenel on Pleasant Gate Lane, across the road from columned estates, as the law intended.

"Potomac had to have its fair share," Ms. Siegel said. "That was a big, big deal."

In the decades since Montgomery County passed the housing ordinance, the idea that developers should provide affordable housing in every kind of building and neighborhood, once regarded as a wild notion pushed by volunteer activists, has spread around the country. It is known as "inclusionary zoning" and has become a staple of many cities' housing policy.

A Cake-and-Eat-It Story?

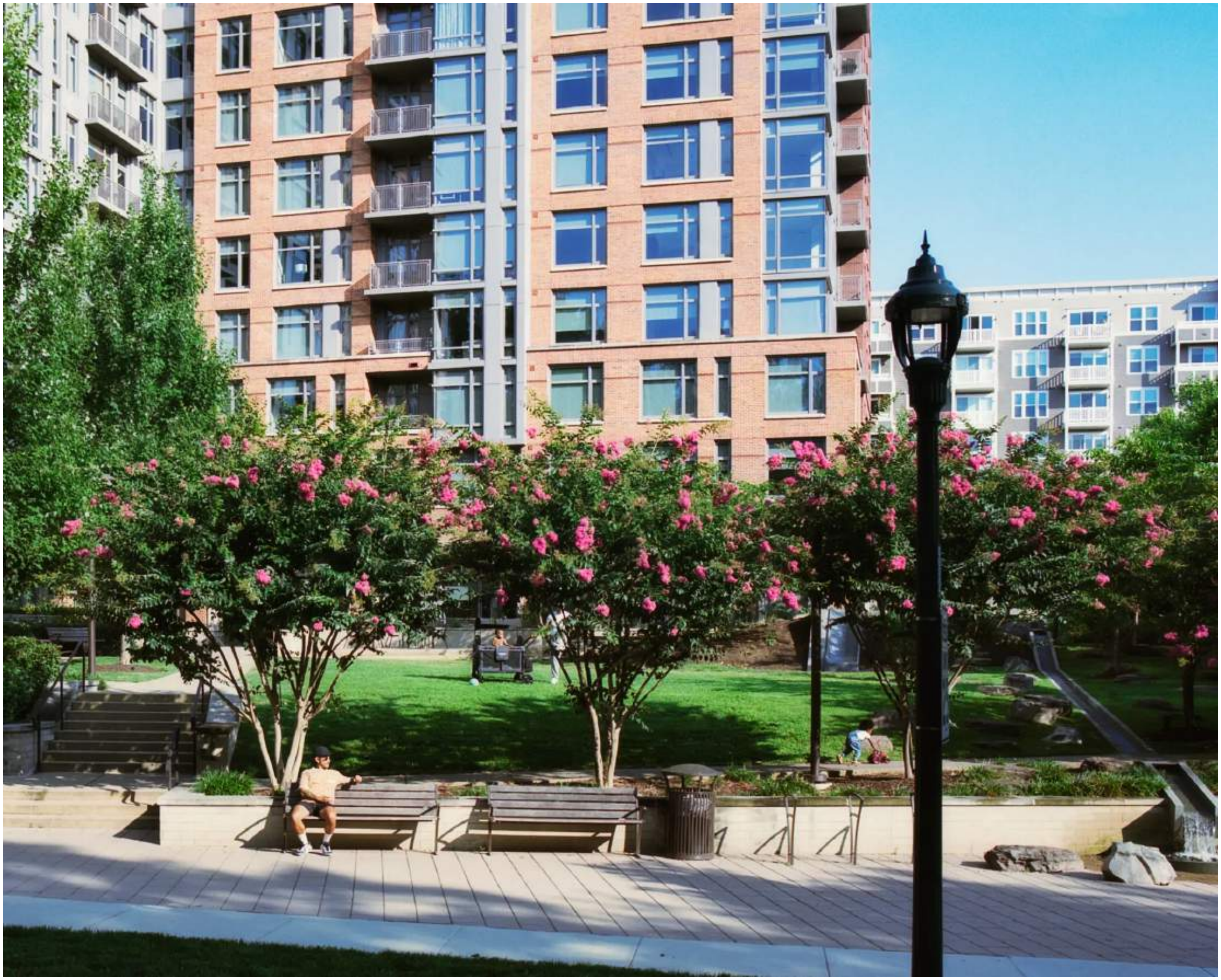
One unseasonably warm day in February, a couple of months before tenants moved into the Laureate, I put on a hard hat and toured the building with McLean Quinn while construction workers painted and did detail work. Mr. Quinn is the chief executive of EYA, a Maryland-based builder that developed the Laureate and several other properties in the Shady Grove area with H.O.C. and Bozzuto, another builder based in Maryland.

Mr. Quinn was patient, willing to suffer a high volume of questions on the micro-details of finance and affordability. This is a useful skill if you are going to work closely with government agencies and build transit-centric projects with a lot of affordable units, as his company does.

Developers elsewhere have been pilloried for building affordable housing with lower-end finishings and separate entrances that are derisively called "the poor door." The Laureate has neither, but there are some tweaks that indicate its dual mission. For instance, because affordable units attract families, the building has a higher share of three-bedroom apartments and a heavily padded playroom across the courtyard from the clubroom, where 20-somethings in headphones type on their laptops.

One side of the courtyard "is designed to be a little bit louder and kid friendly," Mr. Quinn said. "One is a little more showy and reserved."

Putting affordable and family-friendly housing inside luxury projects is the sort of cake-and-eat-it story that developers and politicians love to tell, and a big reason that inclusionary zoning programs are politically popular. By offloading the cost and responsibility for building affordable housing onto developers, politicians can say they are meeting an important need while not having to raise taxes or borrow money from infrastructure or schools.



Like the Laureate, the Lindley in Chevy Chase, Md., was built by private developers with H.O.C. funds and offers affordable apartments. Justin J Wee for The New York Times

Hina Khan had to close her shuttle bus business when it didn't bounce back after the pandemic. She now qualifies for reduced rent at the Laureate. Justin J Wee for The New York Times

But inclusionary zoning has plenty of detractors who argue the policy is well meaning but counterproductive. The problem, they say, is that it can discourage building by making apartments less lucrative, and encourages developers to focus on higher-end properties whose high market rents make up for the mandated subsidized units.

Montgomery County is trying to address this with a bit of creative finance that, in effect, lowers the cost of development. Here's how it works: When a developer builds a project, it typically teams up with a private equity firm that puts up about a third of the cost. (The rest comes from a bank loan.) They want a return, however, and the money isn't cheap. The going annual rate in private equity is in the mid- to high teens, Mr. Quinn said. A $50 million investment, for example, is expected to return about $90 million after four years — money that is made up for with rent.

So in 2021, the Montgomery County Council voted to create the $100 million Housing Production Fund. The fund allows H.O.C. to replace private equity as developers' main source of investment, and charge a 5 percent return. The discount saves the developer tens of millions of dollars off the project's effective cost.

There are, of course, conditions. H.O.C. demands that projects built with the Housing Production Fund have a higher share of below-market-rate units and deeper affordability than what is currently being built. Most of the time, developers in Montgomery County set aside units for people earning 65 to 70 percent of the area's median income. Some of the units at the

Laureate, however, are available to families that earn less than 50 percent.

EYA still makes money. It gets a fee for overseeing the project, and because H.O.C. projects are exempt from property taxes, and because it is willing to take a low rate of return, the building can profitably operate with double the normal number of affordable units.

This isn't going wipe away the region's entire affordability problem: Creative financing can lower rents only so far, and in high-income areas like Montgomery County even "affordable" is expensive. Ms. Sylla has a steady professional job but is still paying half her income in rent, which housing researchers consider "severely rent burdened." But the fund is adding housing to a region that badly needs it, without federal subsidy, and doing it with better affordability than private actors can provide.

"There is this common conception that the public sector just regulates the market," said Paul Williams, executive director of the Center for Public Enterprise, a nonprofit in New York that encourages greater public investment in the economy. "But in Montgomery County they've realized they can play in the market, too, and bring more public benefit than the private sector is structurally capable of."

Building During a Bust

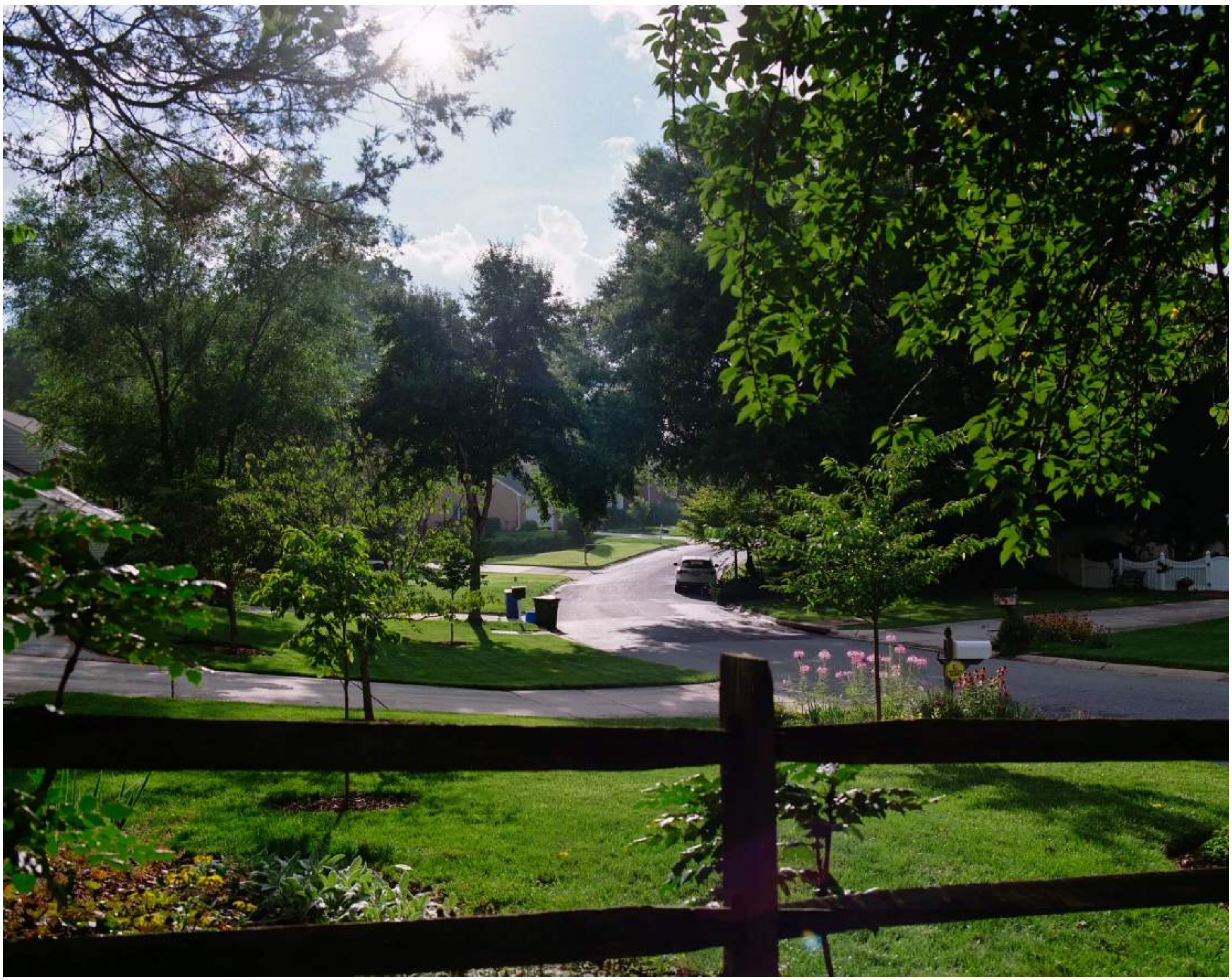
Her less expensive apartment at the Laureate allows Iryna Skidan to invest in her education and her daughters'. Justin J Wee for The New York Times

When the owner of the townhouse where Iryna Skidan lived with her two daughters told her that her lease was ending, Ms. Skidan started a spreadsheet of Montgomery County apartment buildings with affordable units. Several dozen properties ran down the columns, and notes included whether the building allowed her on the wait list, or told her to call back, or said it would call her back, then didn't.

"Pretty much all of them were occupied," she said.

This is what a housing shortage looks like, and inclusionary zoning on its own can't solve it. Requiring developers to include affordable units in their projects creates affordable housing only if developers are building in the first place. In the meantime, demand for low-cost units is so high that local governments, Montgomery County included, often have yearslong lists for both vouchers and affordable housing.

In 2021, the United States had a housing deficit of about four million units, according to Freddie Mac. It would take decades of above-average building to fill it, and there is no sign that it's coming. More than almost any other sector of the economy, housing is a boom-and-bust businesses that rises and falls with interest rates.



A street in Rockville. Housing owned by H.O.C. can be found in wealthy enclaves, downtown urban centers and exurban subdivisions where publicly owned rowhouses sit across the street from homes with two-car garages. Justin J Wee for The New York Times

Zachary Marks, H.O.C.'s chief real estate officer, drove home this point to me just before I toured the Laureate. Mr. Marks began his career in the private sector, so he is sympathetic with developers for wanting to turn a profit. And changing zoning and land use laws to make it possible to build faster and denser will be a crucial way to encourage the private sector to build more.

But clearing away bureaucracy and allowing more units on a parcel won't address the boom-and-bust pattern that prevents developers from ever catching up with the amount of housing needed.

"The whole private model is built on a shortage," Mr. Marks said.

The only way to really dent it is for public agencies to keep building when the private sector stops.

The Housing Production Fund was designed to address this. Today, despite an increasingly desperate housing shortage whose cost pressures are moving up the income ladder and pushing the lowest-income families nearer to homelessness, development has started to slow. Analysts predict more slowing. The reason? Interest rates are rising and rent and home prices are starting to decline, after surging during the pandemic.

"No one can start a building," said Mr. Quinn, the developer from EYA. "Multifamily development is screeching to a halt."

Just behind the Laureate sits a dirt mound covered in wood chips. EYA's plan is to replace it with a five-story complex containing 413 apartments. Mr. Quinn's original plan was to bring in a private equity investor, but rising rates and higher costs have prompted such investors to back out of deals or demand even higher returns. Mr. Quinn can't build what he can't finance.

So instead EYA is working with H.O.C., which means the project (for now just called Building B) will reserve 124 apartments for below-market-rate tenants.

The project is scheduled to break ground late next year. "If we had to wait for financing markets to return, it could be several years before we even started the design," Mr. Quinn said.

Building now means apartments will be available more quickly, and more people like Ms. Skidan, who need immediate help, can get it.

Through dogged research and a lot of following up, Ms. Skidan, a 37-year-old single mother, eventually landed a three-bedroom apartment in the Laureate for $1,900 a month. (The market rate is over $3,000.) It's about 15 minutes from her old place — a proximity that allowed her two daughters, 10 and 6, to stay in their school district.

Unlike the building's market-rate residents, Ms. Skidan has to produce a haul of pay stubs and tax statements every year to prove that her income is still below the $64,050 cutoff for her unit. Aside from that private exchange, there is no way to tell her apartment from any other.

Before the pandemic, Ms. Skidan worked as a permanent makeup artist — tattoos, basically, which she applied to people who wanted to mask conditions like alopecia or chemotherapy hair loss. The pandemic crushed her business, and her income plunged by more than half, to about $30,000 a year. The rent is about $1,000 less than her old place, which means she can afford to enroll in trade courses in hopes of finding a higher-paying career as a user experience designer for apps and websites.

H.O.C.'s investment in the Laureate allows Ms. Skidan to invest in her financial future and offer her children stability. It allows Ms. Sylla to live independently and much closer to work. Hina Khan, another Laureate tenant, lost her business during the pandemic and was able to pay an affordable rent while she found a new career. Other H.O.C. tenants I talked with described getting their children their first bedrooms and moving to school districts with expanded programs for students with special needs.