

Affordable Rental Housing in Chapel Hill

Challenges and Opportunities

Presented to Mayor's Affordable Housing Task Force
June 6, 2013

- High Barriers to Entry
 - Land costs
 - Entitlement costs
 - Development costs
- Unit based, rather than form based zoning
 - Leads to larger unit size, higher monthly rents
- Lack of Density—15 units / acre or less
 - No Zone greater than garden style (3-story walk-up)
- Disconnect between 2020 Plan and Zoning Atlas
 - i.e. Timber Hollow 15 units/acre on Zoning Atlas yet R-4

- High cost and risk to go through rezoning
- Protracted and open ended time for entitlement process
- Micromanagement at Council (20k/40k)
- Highest market rents in Triangle
- Limited supply
- Community backlash—is CH really welcoming?
- Millennial's flight to Carrboro/Durham
- Work force flight out of town

- Greater density in targeted areas
 - Follow 2020 Plan - mass transit, multi-modal
 - Activity and employment centers
 - Mixed use
 - Overlay zones
- Carrot and Stick Approach - incentives
 - Bells and whistles to entice affordability
 - Density bonus
 - Reduction in taxes or lower developer and impact fees
 - Eliminate barriers and facilitate process to induce affordable development

- Town to take lead - show political will
 - Targeted areas for population it seeks to serve - AMI population, workforce housing
 - Control site(s) via zoning, title, option, or conditional contract—Issue RFP's for targeted population
- Recycle existing housing stock v. tear down
 - \$65,000 per unit to acquire existing 30 year old inventory
 - \$125,000 per unit to build new
 - How can existing stock be acquired and preserved?
- Encourage smaller unit sizes
 - Use of form rather than unit based zoning

- Used pro formas of 2 new rental developments in Raleigh
- Class AA suburban property and tax credit property
 - Class AA rent: \$1,200
 - Tax credit property rent: \$875
- \$325 rent reduction >>>> \$55,000 loss of first mortgage capacity
- Each \$100 rent reduction >>>>\$17,500 of savings is needed.

- Looks at the reduction in NOI to determine reduced sales price

Raleigh Subsidy Cost - New 2 Bedroom Apartment

Market Rent	Tax Credit Property	Per Annum Subsidy at 60% of AMI	Cap Rate	Capitalized Loss of Value Per Apartment Due to Subsidy (D divided by E)
\$ 1,200	\$ 875	\$ 3,900	7.50%	\$ 52,000
\$ 1,200	\$ 875	\$ 3,900	7%	\$ 55,714
\$ 1,200	\$ 875	\$ 3,900	6.50%	\$ 60,000
\$ 1,200	\$ 875	\$ 3,900	6%	\$ 65,000
\$ 1,200	\$ 875	\$ 3,900	5.75%	\$ 67,826

Affordable Housing Analysis in Chapel Hill – At 60% AMI



Chapel Hill Subsidy Cost - Renovated vs. New Construction

Market Rent of New 2 Bedroom Units	Housing Allowance at 60% of AMI	Less Housing Allowance Utilities	Per Annum Subsidy at 60% of AMI	Cap Rate	Capitalized Loss of Value Per Apartment Due to Subsidy (D divided by E)
\$ 1,380	\$ 915	\$ 100	\$ 6,780	7.50%	\$ 90,400
\$ 1,380	\$ 915	\$ 100	\$ 6,780	7%	\$ 96,857
\$ 1,380	\$ 915	\$ 100	\$ 6,780	6.50%	\$ 104,308
\$ 1,380	\$ 915	\$ 100	\$ 6,780	6%	\$ 113,000
\$ 1,380	\$ 915	\$ 100	\$ 6,780	5.75%	\$ 117,913
Market Rent of Renovated 2 Bedroom Units	Housing Allowance at 60% of AMI	Less Housing Allowance Utilities	Per Annum Subsidy at 60% of AMI	Cap Rate	Capitalized Loss of Value Per Apartment Due to Subsidy (D divided by E)
\$ 1,090	\$ 915	\$ 100	\$ 3,300	7.50%	\$ 44,000
\$ 1,090	\$ 915	\$ 100	\$ 3,300	7%	\$ 47,143
\$ 1,090	\$ 915	\$ 100	\$ 3,300	6.50%	\$ 50,769
\$ 1,090	\$ 915	\$ 100	\$ 3,300	6%	\$ 55,000
\$ 1,090	\$ 915	\$ 100	\$ 3,300	5.75%	\$ 57,391

Affordable Housing Analysis in Chapel Hill – At 80% AMI



Chapel Hill Subsidy Cost - Renovated vs. New Construction

Market Rent of New 2 Bedroom Units	Housing Allowance at 80% of AMI	Less Housing Allowance Utilities	Per Annum Subsidy at 80% of AMI	Cap Rate	Capitalized Loss of Value Per Apartment Due to Subsidy (D divided by E)
\$ 1,380	\$ 1,220	\$ 100	\$ 3,120	7.50%	\$ 41,600
\$ 1,380	\$ 1,220	\$ 100	\$ 3,120	7%	\$ 44,571
\$ 1,380	\$ 1,220	\$ 100	\$ 3,120	6.50%	\$ 48,000
\$ 1,380	\$ 1,220	\$ 100	\$ 3,120	6%	\$ 52,000
\$ 1,380	\$ 1,220	\$ 100	\$ 3,120	5.75%	\$ 54,261
Market Rent of Renovated 2 Bedroom Units	Housing Allowance at 80% of AMI	Less Housing Allowance Utilities	Per Annum Subsidy at 80% of AMI	Cap Rate	Capitalized Loss of Value Per Apartment Due to Subsidy (D divided by E)
\$ 1,090	\$ 1,220	\$ 100	\$ (360)	7.50%	\$ (4,800)
\$ 1,090	\$ 1,220	\$ 100	\$ (360)	7%	\$ (5,143)
\$ 1,090	\$ 1,220	\$ 100	\$ (360)	6.50%	\$ (5,538)
\$ 1,090	\$ 1,220	\$ 100	\$ (360)	6%	\$ (6,000)
\$ 1,090	\$ 1,220	\$ 100	\$ (360)	5.75%	\$ (6,261)

- Assume each additional entitled unit in Chapel Hill is worth \$15,000 (approx.)
- To offset the cost of subsidizing a unit a developer would need a density bonus of between 3 and 4 units, depending on the AMI Level and CAP rate
- This would offset a sales price reduction, but the cash flow loss each year would still be between \$4,000 and \$6,700 at 60-80% AMI levels

- Code requirements for development may need flexibility to help make affordable housing work
 - Reduced parking requirements, particularly in TOD areas
 - Reduced traffic improvement requirements
 - Reduced green/recreation requirements

APPENDIX – Chapel Hill Comps



Chapel Hill North		Meadowmont		Cosgrove Hill	
# of units	Market Rent	# of units	Market Rent	# of units	Market Rent
5	1439	120	1362	8	1384
2	1439		1362	8	1330
15	1439			12	1352
avg	1439			8	1447
				6	1386
				6	1390
				8	1460
				avg	1390
<u>Overall Average</u>					
1397					

- In lieu of building affordable units within new development, developer may be rewarded with bonuses for building/rehabbing equal number of units at offsite location
- Concord, Canada

Off-Site alternatives

- (1) As a complete or partial alternative to the provision of on-site inclusionary units
 - pursuant to this Division, an applicant for a residential project may propose a plan for providing affordable housing units at an off-site location within the City of Concord, as follows:
 - a. Acquire existing unrestricted multifamily units located elsewhere within the City and rehabilitate those dwelling units. At least two rehabilitated dwelling units shall be provided for each inclusionary unit required pursuant to this Division.
 - b. Construct new affordable residential dwelling units. At least two new dwelling units shall be provided for each inclusionary unit required pursuant to this Division.
- (2) Any new or rehabilitated dwelling units shall be regulated pursuant to an Affordable Housing Agreement, as applicable, between the developer and the City pursuant to Section 122-582 (Affordable Housing Agreements).

- Rather than provide entire density bonus, give developer density/flexibility benefits in other projects
- Transfer of Development Rights – density bonus used on different site or traded to different developer (Arlington, VA)

- Community Investment Corp. of the Carolinas
- Community Affordable Housing Equity Corp.
- North Carolina Housing Finance Agency
- HUD LIHTC
 - Project must include one of the thresholds below:
 - 20% of units at 50% AMI
 - 40% of units at 60% AMI

- Based on fraction of affordable units/total units OR affordable SF/total SF; whichever is lower
- Affordable designation: 60% AMI or lower
- States have allocations of available credits
- NC: \$22M
- Additional credits available for development in “High Cost Areas”(HCA)

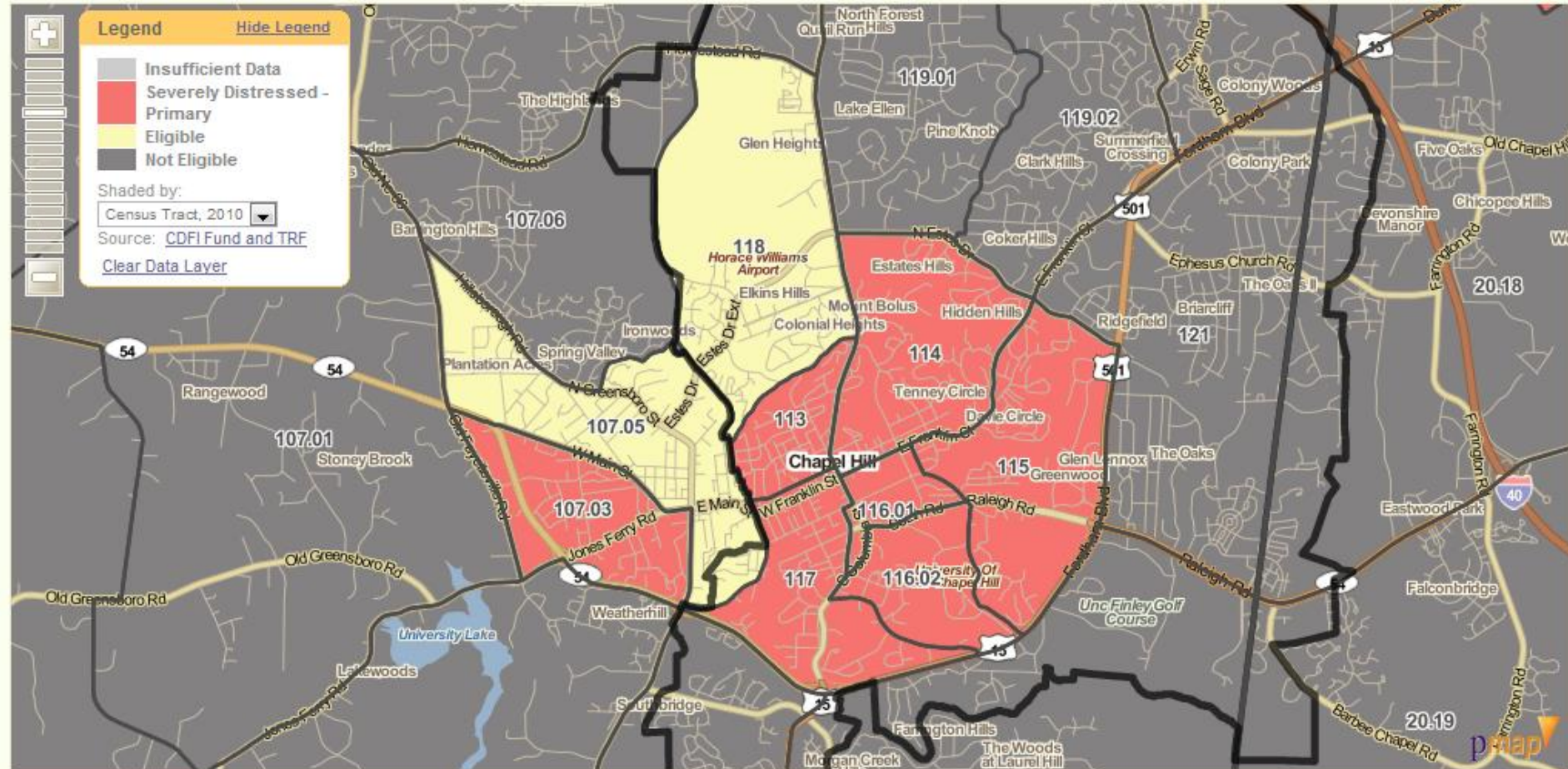
- Disbursed during construction and used to pay down loans and reduce interest costs
- Bond financing available by state and municipalities to provide below-market rate financing for new or rehab affordable housing projects
- Typically designated as 60% AMI and below

APPENDIX – New Markets Tax Credit Eligibility



New Market Tax Credit (NMTCT) Program Eligibility and Severely Distressed Status, as of 2012. [details](#)

North Carolina > Orange County > 27516



“4. increase the ratio of workforce housing by 2020 and develop a plan for student housing in the community. Residents, the Town, and the University all have an interest in working together to provide a variety of housing types to accommodate the variety of people who work in town. Housing more workers will benefit the town by increasing diversity, reducing traffic congestion, and providing more opportunities to those who wish to live in Chapel Hill. Because Chapel Hill is a university town, the community benefits from the lively presence of a large student population. Off-campus housing is a good option for many, but can put pressures for change on established neighborhoods, increase car traffic and the need for parking space, and pose challenges in terms of noise and safety. Coordinated discussions between the Town, the University, and residents can help accommodate a reasonable number of off-campus students while ensuring the integrity and livability of the neighborhoods.”

(Chapel Hill 2020 Plan - Community Vision - Page 3)

“While each neighborhood should maintain its own character, all Chapel Hill neighborhoods should share a number of connecting qualities in order to bring together Chapel Hill’s vision for the future, including the following:

- Being served by transit in order to discourage automobile use, reduce congestion, and become more sustainable;
- Being bicycle and pedestrian friendly with safe and accessible greenway and bicycle connections;
- Welcoming to diverse populations, including those in need of affordable, workforce, and senior housing;
- Having protection from the loss of privacy and “shadow effects” that may come with adjacent vertical growth;
- Protecting the town’s natural resources, including stream corridors, steep slopes, tree canopies, habitat areas, and air and water quality.”

(Chapel Hill 2020 Plan - Community Choices and Connections - Page 15)

APPENDIX – Blue Heron’s Multi-family Background



- UNC’s 398 Unit Student Family Housing Community on Mason Farm Road
- 265 Apartments in Fuquay-Varina (Marquee Station) in lease up
- HUD 221-d-4 Financing Experience
- Timber Hollow—198 Existing-109 Requested



Baity Hill (student family housing)



Timber Hollow Apartments

APPENDIX – Timber Hollow Affordability Plan



The increased density will allow Timber Hollow to continue to provide moderately priced rental housing in the following ways:

1. Students: 72% of our current population consists of this demographic component; only 6% are undergraduates. We will not raise the rental rate on current residents enrolled in a graduate program by more than 3% while they remain enrolled in their graduate studies.

2. Long Term Residents: For those existing Timber Hollow residents who have been tenants at our community for five years or longer, we will not raise their rents by more than 3-5% per annum, regardless of the level of improvements to their units.

Other Residents In Renovated Units: We anticipate that, even if a resident does not qualify for a special rental rate under paragraphs 1 or 2 above, most of our inventory that is being renovated will be affordable to households earning at or below 80% of Area Median Income.

New Market Rate Units: The new units we intend to construct will range in size from 560 square feet to 890 square feet in the four story building and less than 1,100 square feet in the row houses. Our new units will provide a diverse and moderately priced offering in the Chapel Hill community with monthly rental rates affordable to work force residents.

APPENDIX – Timber Hollow Affordability Plan



Fourteen Affordable Housing Units

Section 3.10 of the Land Use Management Ordinance (Inclusionary Zoning) does not require a rental housing development to offer fifteen percent of the dwelling units at rental rates that meet the ordinance's affordability criteria, but it provides that a developer of a multi-family project may voluntarily do so pursuant to an approved affordable housing performance agreement. And as indicated above, pursuant to such an agreement, the density bonus provisions of Section 3.10 become applicable.

Consistent with this authorization, we are proposing that fourteen Timber Hollow apartments (15% of the new units) will meet the following criteria:

Seven of the units at Timber Hollow shall be made available at a rental rate that is affordable to a household with an annual income that is at or below 65% of area median income, based on household size for the Durham-Chapel Hill MSA as determined by HUD.

Seven of the units at Timber Hollow shall be made available at a rental rate that is affordable to a household with an annual income that is at or below 80% of area median income, based on household size for the Durham-Chapel Hill MSA as determined by HUD.

The units shall be made available per #1 and #2 above for a period no less than 30 years after a certificate of occupancy is issued for the last of the newly constructed apartments.

All new units, regardless of whether they are at or below market, shall consist of the same standards and specifications and contain identical exterior and interior finishes.

So long as the dwelling units within Timber Hollow remain in single ownership and are offered for rent, particular units need not be designated as "affordable units," provided that the requisite number of units within the development must be offered for rent in accordance with the stipulations set forth herein.

Subject to the provisions of paragraph 7 below, the applicant shall establish arrangements to ensure that (i) the units described in paragraph 1 above are offered only to households with an annual income that is at or below 65% of area median income, and (ii) the units described in paragraph 2 above are offered only to households with an annual income that is at or below 80% of area median income, based on household size for the Durham-Chapel Hill MSA as determined by HUD. Such households are referred to herein as "income qualified." The entity responsible for leasing the units within Timber Hollow shall maintain an updated waiting list of income qualified households.

So long as the dwelling units within Timber Hollow remain in single ownership and are offered for rent, then whenever a vacancy occurs in a unit that must be rented as an affordable unit in order for the development to remain in compliance with the provisions of paragraphs 1-6, the entity responsible for leasing the unit shall offer to lease it only to an income qualified household if the opportunity to do so is reasonably available. The entity responsible for leasing the units may conclude that no such opportunity is reasonably available if, despite good faith efforts, (including checking the above referenced waiting list and contacting local agencies engaged in providing or promoting affordable house), such entity is unable to enter into a lease with an income qualified household within thirty days after the unit has become vacant.

The owner of this development shall submit an annual report to the Town that explains how the development has complied with the commitments set forth herein.

We will enter into an Affordable Housing Performance Agreement consistent with the above terms and conditions prior to obtaining our Zoning Compliance Permit, and this agreement may be referenced as a condition on the SUP (but shall not be included as a restrictive covenant or deed condition).

It should also be noted that adding density along a major transportation corridor and at a mass transit stop will both directly help our less affluent population through lower housing expenses but also lessen the need to rely on the automobile and its associated expenses.

Approval of this proposal will result in the podium building being slightly expanded and morphing from an "L" shaped building to a "U" shaped building. Commensurate parking would be provided