

Comprehensive Affordable Housing Analysis Summary and Recommendations



Town of Chapel Hill
April 4, 2017



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DEVELOPMENT, FINANCE AND POLICY ADVISORS



Town of Chapel Hill

PREPARED FOR:

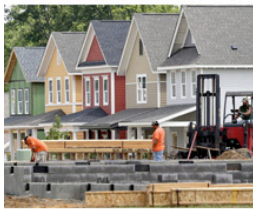
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Executive Summary

This report summarizes a Comprehensive Affordable Housing Analysis prepared by DRA for the Town of Chapel Hill. Based on our research, analysis and input from Town staff and stakeholders, DRA's recommendations for the Town are summarized as follows:

1. Target New Sites

The Town should make a proactive effort to identify additional sites owned by the Town or other public agencies that may be available and appropriate for affordable housing. Sites with proximity to transit are desired.

2. Target Population

Chapel Hill should focus its affordable housing efforts on renter households earning 60% of Area Median Income (AMI) or below (\$42,500 for a family of four in 2016) and homeownership should be targeted at 80% of AMI (\$56,550 for a family of four in 2016).

3. Direct Funding to Priorities

DRA recommends that the Town's available funding for affordable housing, both existing and potential new resources and incentives, be directed to the Town's highest priority projects and effectively leveraged to the maximum extent with outside resources.

4. Develop New Funding Tools and Resources

Given limited existing resources for development of affordable housing in Chapel Hill, the Town will need to develop new revenue sources and land use tools in order to successfully replace its aging public housing stock and produce new affordable housing units. This includes targeted use of capital dollars.

5. Priority Sites

Existing sites with potential for affordable housing development in order of priority include:

Public Housing Redevelopment (Craig-Gomains Site Analysis)
Sunrise Road
Greene Tract
Ephesus-Fordham District
Homestead Road
Legion Road
Plant Road

Introduction

The Town of Chapel Hill (Town) retained David Paul Rosen & Associates (DRA) to prepare a Comprehensive Affordable Housing Analysis for the Town. The goal of the analysis is to assist local decision-makers in making informed policy decisions that best provide for the affordable housing needs of the community and make the most effective use of the Town's scarce affordable housing resources.

This report summarizes DRA's research findings and recommendations to the Town, based on our analyses of the local housing market and affordable housing needs, current and prospective future revenue sources for housing, and an affordability gap and economic analysis of the local subsidy requirements to develop affordable housing in Chapel Hill.

The reports detailing DRA's research are found in the following Appendices to this Summary Report, presented under separate cover:

Housing Needs and Market Assessment	Provides an overview of demographic, housing and residential real estate market trends and conditions in Chapel Hill.
Current Resources for Affordable Housing	Summarizes existing financial and non-financial resources for affordable housing in Chapel Hill, including recent trends in funding amounts.
New Revenue Sources for Affordable Housing	Examines a range of funding sources and tools that could prospectively be used to provide ongoing capital support to the Town's affordable housing development and preservation efforts.
Affordability Housing Gap and Economic Analysis	Compares the amount households at alternative income levels can afford to pay toward housing and the development costs and market prices of those homes in Chapel Hill today. Also estimates potential subsidy requirements for actual affordable housing sites in the Town.

Based on the findings of DRA's research and discussions with staff, policy makers and stakeholders in the Town, DRA has prepared recommendations for establishing affordable housing policy and goals and designing and implementing housing programs consistent with those policy objectives.

Recommendations

DRA's policy recommendations for the Town's affordable housing program are summarized below. These recommendations are based on DRA's research findings, DRA's expertise in the field, and on input from Town staff and stakeholders.

1. Opportunity-Driven Program

As a largely built-out community, one of the biggest constraints on the production of new affordable housing in Chapel Hill is the limited availability of development sites. Like all real estate development, affordable housing development is opportunity-driven. It is dependent upon existing land owned by the Town, the opportunities to purchase new sites from willing sellers, and/or the Town's ability to provide incentives for private-sector developers to include affordable housing in their projects. DRA recommends that the Town's affordable housing programs remain flexible and able to respond to changing market conditions and/or new opportunities as they arise. Establishing affordable housing policies, priorities and underwriting standards up front will assist the Town in being able to respond quickly to opportunities that fit within the Town's affordable housing plan and priorities.

The Town should also continue to make a proactive effort to identify additional sites owned by the Town or other public agencies that may be available and appropriate for affordable housing.

As an example, the University of North Carolina (UNC), Chapel Hill has expressed interest in joint venturing with the Town to increase housing opportunities affordable to clients of UNC Healthcare. The Town should remain open and flexible to explore such opportunities as they arise.

2. Income Targeting and Tenure

Affordable housing resources and efforts in Chapel Hill should be focused on renter households earning 60% of AMI and below (\$42,400 for a family of four in 2016). This is where the greatest housing needs in the Town lie, and also where the Town can achieve the greatest leverage of non-local resources, such as through Low Income Housing Tax Credits.

Where affordable home ownership opportunities arise, such as on Habitat for Humanity's Sunrise Road site, affordable home ownership should be targeted at 80% of AMI (\$56,550 for a family of four in 2016), a segment of the market that is not being met by the private market.

3. Current Resources for Affordable Housing

The Town has made significant investment in affordable housing to date, but has limited current resources for affordable housing. DRA recommends that these funds be directed to the Town's highest priority projects and effectively leveraged to the maximum extent with outside resources.

4. New Revenue Sources and Land Use Tools for Affordable Housing

Given limited existing housing resources for affordable housing in Chapel Hill, the Town will need to develop new revenue sources and land use tools in order to successfully replace its aging public housing stock and produce new affordable housing units. DRA recommends that the Town continue to further evaluate the feasibility of the revenue sources and land use tools listed below that show promise for Chapel Hill. More information about these sources is included later in this report and in the separate New Revenue Sources report.

1. Tax Increment Financing
2. Special Assessment Districts
3. General Obligation Bonds
4. Rental Assistance Demonstration (RAD) Program for Public Housing
5. Density Bonus and Development Agreements

5. Strategic and Capital Plan

The Town faces serious constraints on development sites and revenue sources for affordable housing. DRA recommends that the Town prepare a site-oriented strategic and capital plan that outlines the Town's affordable housing development and funding priorities over the next five to ten years. This plan will determine the amount of local housing funds required to accomplish the Town's goals for identified sites in Chapel Hill under alternative assumptions regarding new local revenue sources and outside leverage. It will assist policymakers in determining

the amount of affordable housing the Town can realistically expect to produce with existing and new revenue sources and land use tools. Since the Town is exploring options for its public housing sites, and these properties are such an important asset to the Town, an important subcomponent of the strategic and capital plan is a public housing master plan. The Town is in the early phases of developing a public housing master plan and the goals of that plan are consistent with the recommendations in this report.

The public housing redevelopment plan and overall strategic and capital plan for the Town should include:

1. A preliminary statement of development goals and policies for the Town as a whole, for the Town's public housing portfolio, and for each identified site;
2. Analysis of the market and development potential of each site;
3. The formulation of a capital plan. The capital plan is an aggregation of development financing plans for each site, under alternative leverage scenarios and assumptions on the use of new revenue sources and land use tools.

6. Site-Specific Recommendations and Next Steps

As noted above, one of the biggest constraints on the development of new affordable housing in the Town of Chapel Hill is the limited availability of appropriate development sites. Based on discussions with Town staff, tours of the sites, and analysis of available information, DRA conducted an economic analysis of five development sites in the Town that potentially could be developed with affordable or mixed-income housing using financing and land use tools prospectively available to the Town. Recommendations for future implementation activities for these sites are discussed below. The five sites analyzed by DRA include.

1. Public Housing Redevelopment in Northside (Craig-Gomains Site Analysis)
2. Areas 1-4 in the Ephesus-Fordham District
3. Sunrise Road (currently owned by Habitat for Humanity)
4. Legion Road (American Legion site)
5. Greene Tract in the Rogers Road neighborhood

In addition to the above five sites, two additional sites owned by the Town are considered to have potential for affordable housing. These include the Homestead Road site, described briefly at the end of the following section, and the Plant Road site.

a. Public Housing Redevelopment (Craig-Gomains Site Analysis)

The Town of Chapel Hill's thirteen public housing sites are its greatest affordable housing asset, not only for the 336 affordable units they currently provide to the Town's residents, but in terms of future development potential for new affordable housing development.

All but one of the Town's public housing sites were developed in 1986 or earlier, and are therefore at least 30 years old. The oldest was developed nearly 50 years ago. The buildings are aging and many are in need of repair or replacement. The sites were all developed at very low densities, popular at the time they were built when the Town had much more vacant land available for development. The low intensity of development on these sites offers the potential for the development of replacement of the existing housing units and, in many cases, additional affordable or mixed income housing.

The land comprising the Town's public housing sites is very valuable, both in financial terms and in the opportunities they offer for new development. It may prove advisable to sell or ground lease one or more of the sites to raise revenues with which to subsidize replacement and new affordable housing on other sites. Many of the sites may also offer the potential for mixed-income development, wherein a portion of the site is reserved for affordable housing development while the remainder is sold or ground leased for market-rate housing development in order to raise revenues with which to subsidize replacement and/or new affordable housing.

As described above, DRA used the Craig-Gomains site in the Northside neighborhood (located on Craig, Gomains, Edwards, Sykes and Bynum Streets) to model a prototypical mixed-use development that would provide for replacement of the existing 40 public housing units, plus 20 additional affordable units, and with land remaining for sale for new market-rate owner housing (also estimated at 40 units). This prototype is intended to represent a strategy for the Town's public housing portfolio that could be replicated on additional sites.

Recommended Next steps

The Town of Chapel Hill has already taken initial steps toward preparing a plan for evaluating the conditions and value the Town's public housing sites, including ordering inspections and appraisals on each of the sites to determine their market value. The market value of the sites will be key to determining the potential value that can be extracted from the sites through mixed-income development, with market-rate development on a portion of the site, or sale of selected sites to raise revenues to be used in the redevelopment and intensification of other sites.

Other recommended next steps include:

1. Preparation of a Rental Assistance Demonstration (RAD) Program application for submission to the Department of Housing and Urban Development (HUD) on at least one public housing site. Completion of a RAD application will require the following steps:
 - Selection of a public housing site for initial submission and assessment of its competitiveness for 9% tax credits under the current QAP for North Carolina;
 - Preparation of a financing pro forma for the redevelopment (building on the analysis of the Craig-Gomains site in the gap analysis);
 - Selection of a developer partner to provide the experience needed for a successful RAD application;
 - Securing a letter of interest from a lender or investor; and
 - Completion of the RAD application form.
2. Evaluation of the appraisals for the Town's public housing sites to identify opportunities for mixed-income and/or market-rate development on the sites.

b. Sunrise Road

The Sunrise Road site consists of approximately 39 acres. Approximately 20 acres of the site is owned by Habitat by Humanity, with no debt on the property. The remainder of the site is in multiple private ownerships. The Town approved a subdivision map for the site that provides for approximately 30 market rate units and 30 affordable units, the latter to be developed by Habitat. The original developer did not proceed with the project, which was originally envisioned to include homes in the \$600,000 price range. Subsequent review of the plan by other developers suggests that the site is more suitable for the lower end of the market in the \$300,000 price range, of which there is a serious shortage in Chapel Hill. At lower end prices, it appears the permitted density is not sufficient to

develop the market rate units profitably given the price the existing private owners have proposed for the property.

Town staff continues to meet with Habitat and others to create a feasible development program and plan for the property. The concept being considered is that the developer of the market-rate units would provide 30 ready-to-build lots to Habitat for Humanity, graded and with site improvements installed. Habitat would take responsibility for fund-raising and construction of the affordable units.

Recommended Next Steps

1. Continue to work with Habitat for Humanity, other existing property owners, and potential developers to create a feasible development program for the site.
2. Facilitate the preparation and/or review of the financial feasibility assessment of alternative development programs for the site.

c. Greene Tract

The Greene Tract is a 160-acre property, of which 100 acres is owned jointly by Chapel Hill, Carrboro and Orange County and the remaining 60 acres is owned by the County. Approximately 18 acres of the jointly-owned site was designated for affordable housing development by the three jurisdictions in the early 2000s. At this size, the site could potentially accommodate renter and ownership housing, as modeled in the prototype gap analysis. A variety of housing types including attached, courtyard, fourplex and multi-family are being contemplated for the site.

The site requires new infrastructure prior to development. Plans to bring sewer service to the area are nearing completion and should go to bid in the fall of 2016, with construction scheduled to start in the spring of 2017 and finish by year-end 2018. Road access is another challenge, since the existing road is too small to accommodate proposed new development.

There is currently no by-right process for attached units in the Town. They can be permitted through special permit but this process injects risk into the entitlement process. As attached units are contemplated for the site, the Town should address this issue.

Recommended Next Steps

1. Continue to monitor the process and pace of infrastructure construction.

2. Participate in planning efforts with Carrboro and Orange County to ensure maximum production of affordable renter and owner housing meeting identified needs in Chapel Hill.
3. Evaluate and address, as needed, the entitlement process for attached units in the Town so that attached units do not require a separate approval process.

d. Ephesus-Fordham

The Ephesus-Fordham district is a form-based code district. By-right uses in this district provide incentives to increase the density of development in the area. The district contains a number of older buildings that offer potential for private redevelopment with housing and a mix of uses. The existing low density zoning in the area offers the Town an opportunity to provide incentives to develop affordable housing by increasing density and the permitted number of market rate units. The area offers proximity to shopping, service and transportation, and is well suited to affordable housing and mixed-income residential development.

Recommended Next Steps

1. Continue working to identify interest on the part of existing property owners in redevelopment of their sites with affordable or mixed-income housing;
2. Assisting interested property owners in evaluating potential land use planning and financial feasibility assessment of affordable or mixed-income housing in the district. This analysis should include the identification and evaluation of potential leveraged financing sources such as tax credits and Orange County GO bond proceeds;
3. Assessment of the competitiveness of various sites for 9 percent tax credits;
4. Negotiating land use agreements with interested property owners and/or developers that provide incentives, such as a density bonus, to help stimulate the development of affordable units in the area.

e. Legion Road

The Legion Road site is a privately-owned 36-acre property that is the current site of the Legion Hall. The Town owns a 15-acre site that connects to the Legion Road site and will require access across the property. A prior concept plan envisioned 600 housing units. The site is under contract for sale to a private developer, which recently submitted a new concept plan for the site calling for 400 housing units and 150,000 to 200,000 square feet of office/civic/flex development.

Recommended Next Steps

1. Continue to meet with the developer to determine if there are tools that the Town can provide to incentivize restricting a portion of the units as affordable housing.

f. Homestead Road

Homestead Road is a 14-acre site owned by the Town of Chapel Hill, of which approximately 5 acres is developable. The site is located adjacent to the railroad tracks serving the University of North Carolina, which carries approximately one train per day. The site includes a pond and a portion of the property is currently used as a community garden. In addition to the 5-acre buildable plot at the corner of Homestead Road and the tracks, a narrow strip on the other side of the ponds along the tracts is potentially usable, comprising another 1.83 acres of the site.

The site is located approximately three to four blocks from a Bus Rapid Transit stop and close to the senior center and parks. The Town has been in preliminary discussions with UNC Chapel Hill as to their possible participation in development of the site to include affordable housing for clients of UNC Healthcare. Other opportunities may include foundation financing of affordable units.

Recommended Next Steps

1. Continue discussions with UNC and foundations/nonprofit providers regarding potential joint venture participation in development of the site for affordable housing.
2. Conduct preliminary financial/economic analysis of potential development programs and financing structures for development of the site as affordable housing.

Definition of Affordable Housing

Affordable housing programs in the Town of Chapel Hill require the definition of affordable housing. For this study, DRA used income limits commonly defined by the Department of Housing and Urban Development (HUD), the Low Income Housing Tax Credit (LIHTC or tax credit) Program, and most affordable housing assistance programs. Very low income households are defined as households with incomes less than 50 percent of area median income (AMI). Low income households are defined as households with incomes between 51 and 80 percent

of AMI. Moderate income households are defined as households with incomes between 81 and 120 percent of AMI. All of these income limits are adjusted by household size using HUD family size adjustment factors.

Table 1 shows HUD 2016 income limits for the Town of Chapel Hill by income level and household size. HUD publishes income limits for the 30% of AMI, 50% of AMI and 80% of AMI categories. This analysis also looks at a median income category for households at 100 percent of AMI; a moderate income category at 120% of AMI; and a 60 percent of AMI category, which is widely used in the LIHTC program.

The 2016 HUD median household income for the Durham-Chapel Hill HUD Metro FMR Area (HMFA)¹ is \$74,900 for a four-person household. However, the extremely low (30% AMI), very low (50% AMI) and low income (80% AMI) limits are effectively based on a median income of \$70,700, so this is the figure used to calculate the 60% AMI, 100% AMI and 120% AMI income limits.

Table 1 Affordable Housing Income Limits by Percent of Area Median Income (AMI) and Household Size¹ Town of Chapel Hill 2016						
Household Size	30% AMI	50% AMI	60% AMI	80% AMI	100% AMI	120% AMI
1 Person	\$14,850	\$24,750	\$29,700	\$39,600	\$49,500	\$59,400
2 Persons	\$17,000	\$28,300	\$34,000	\$45,250	\$56,600	\$67,900
3 Persons	\$20,160	\$31,850	\$38,200	\$50,900	\$63,650	\$76,350
4 Persons	\$24,300	\$35,350	\$42,400	\$56,550	\$70,700	\$84,850
5 Persons	\$28,440	\$38,200	\$45,800	\$61,100	\$76,350	\$91,600
6 Persons	\$32,580	\$41,050	\$49,200	\$65,600	\$82,000	\$98,400

Source: HUD extremely low income (30% AMI), very low income (50% AMI) and low income (80% AMI) limits for Chapel Hill. Other income limits calculated based on 2016 HUD median income of \$70,700, percent AMI and HUD household size adjustment factors, rounded to the nearest \$50.

Calculation of affordable rents and home prices requires defining affordable housing expense for renters and owners. Affordable housing expense for renters is defined to include rent plus utilities, which is standard for affordable housing

¹FMR stands for Fair Market Rent. The Durham-Chapel Hill HMFA is a HUD-defined metropolitan area.

programs and practice. For owners, affordable housing expense is defined to include mortgage principal and interest, property taxes and homeowner's insurance. For renters, affordable housing expense is calculated at 30 percent of household income, the standard of virtually all rental housing programs. For owners, affordable housing expense is also calculated at 30 percent of household income.

Table 2 shows affordable housing cost at the 30 percent of gross income standard, for a range of household sizes and percent of AMI categories.

Table 2 Affordable Housing Cost¹ by Percent of AMI and Household Size Town of Chapel Hill Housing Affordability Gap Analysis 2016						
Household Size	30% AMI	50% AMI	60% AMI	80% AMI	100% AMI	120% AMI
1 Person	\$371	\$619	\$742	\$990	\$1,237	\$1,485
2 Persons	\$424	\$707	\$848	\$1,131	\$1,414	\$1,697
3 Persons	\$477	\$795	\$954	\$1,273	\$1,591	\$1,909
4 Persons	\$530	\$884	\$1,061	\$1,414	\$1,768	\$2,121
5 Persons	\$573	\$954	\$1,145	\$1,527	\$1,909	\$2,291
6 Persons	\$615	\$1,025	\$1,230	\$1,640	\$2,050	\$2,460

¹Affordable housing cost defined as 30% of gross income spent on housing.
Sources: HUD 2016 income limits by household size and percent of AMI (AMI); DRA.

Table 3 summarizes 2016 affordable monthly net rents by income level and unit bedroom count based on the occupancy standards (persons per bedroom) used in the study, after deducting estimated current utility allowances.

Table 3 Affordable Net Rents by Percent of AMI and Unit Bedroom Count¹ Town of Chapel Hill Housing Affordability Gap Analysis 2016						
Household Size	30% AMI	50% AMI	60% AMI	80% AMI	100% AMI	120% AMI
Studio	\$305	\$553	\$676	\$924	\$1,171	\$1,419
1 Bedroom	\$322	\$587	\$719	\$985	\$1,250	\$1,515
2 Bedroom	\$384	\$702	\$861	\$1,180	\$1,498	\$1,816
3 Bedroom	\$439	\$807	\$991	\$1,359	\$1,726	\$2,094

HUD published limits, adjusted proportionally for percentage of AMI category. Gross rents are calculated assuming an occupancy standard of 1.5 persons per bedroom (1 person for studio units). Net rents are

calculated assuming 30% of gross income spent on rent and then deducting utility allowances of \$66 for a studio, \$76 for a one-bedroom unit, \$93 for a two-bedroom unit and \$112 for a three-bedroom unit.
Source: DRA.

Table 4 shows estimated 2016 affordable home prices by income level and unit bedroom count.

Table 4				
Affordable Home Prices by Percent of AMI and Unit Bedroom Count¹				
Town of Chapel Hill Housing Affordability Gap Analysis				
2016				
Unit Size	Very Low Income 50% AMI	Low Income 80% AMI	Moderate Income 100% AMI	Moderate Income 120% AMI
1 Bedroom	\$66,800	\$185,800	\$226,700	\$267,600
2 Bedrooms	\$79,500	\$206,300	\$252,300	\$298,200
3 Bedrooms	\$92,300	\$226,700	\$277,800	\$328,900
4 Bedrooms	\$133,200	\$234,200	\$330,600	\$369,200

¹Affordable mortgage principal and interest calculated by deducting the following from affordable owner monthly housing cost: annual property taxes and assessments at 1.61 of affordable home price; HOA and Stewardship dues of \$200 per month, and property insurance of \$45 per month. Affordable mortgage calculated assuming 5% owner downpayment, 5.0% mortgage interest rate and 30-year mortgage term and amortization.
Source: DRA.

Summary of Research Findings

This section analyzed demographic and housing market conditions, affordable housing needs, and existing local revenues for housing in the Town of Chapel Hill. It also reviewed potential future revenue sources and tools for affordable housing, and analyzed the economics of affordable housing development in Chapel Hill using actual potential housing sites.

Housing Needs and Market Assessment

Chapel Hill's greatest housing challenge is affordability for its lower income households. Overcrowding and substandard conditions are not widespread issues.

Key findings from the affordable housing needs assessment and market analysis include the following:

Demographic Summary

As of 2014, Chapel Hill had a population of approximately 58,400, of which 48,700 persons live in households that may include students. About 9,700 persons live in dorms or other institutional settings.

Chapel Hill had about 20,300 households living in the Town's 22,300 housing units. Nearly one-half of the Town's households (9,700 or 48%) are non-family households. This figure includes 6,800 one-person households, which make up the largest percentage of renter households at 42%. These demographic characteristics reflect the large student population living in both on-campus and off-campus settings in the Town.

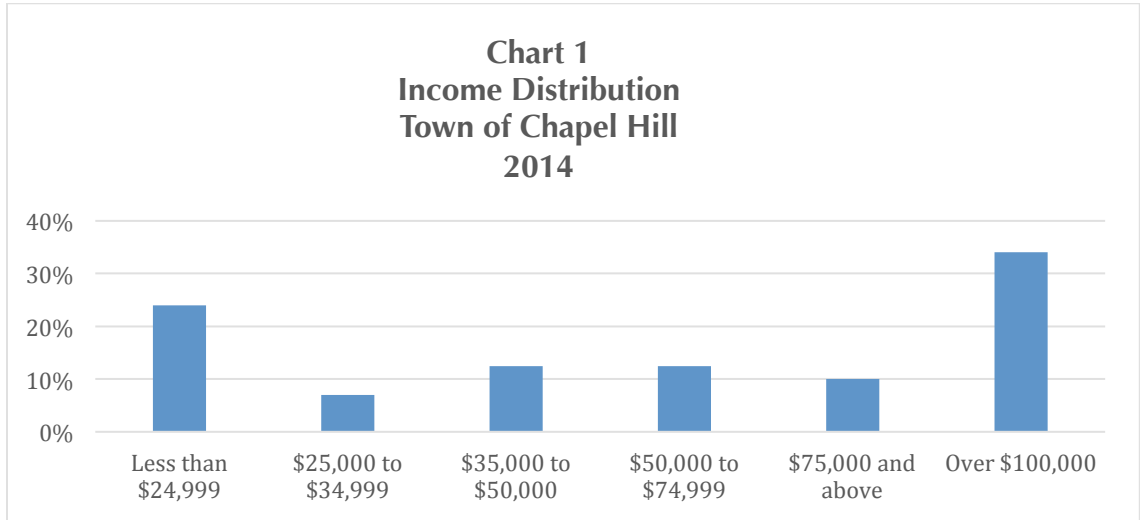
The average household size for owner households is larger than for renters, at 2.58 and 2.24 persons respectively. The average household size for family households is 3.0 persons.

Household Income Distribution

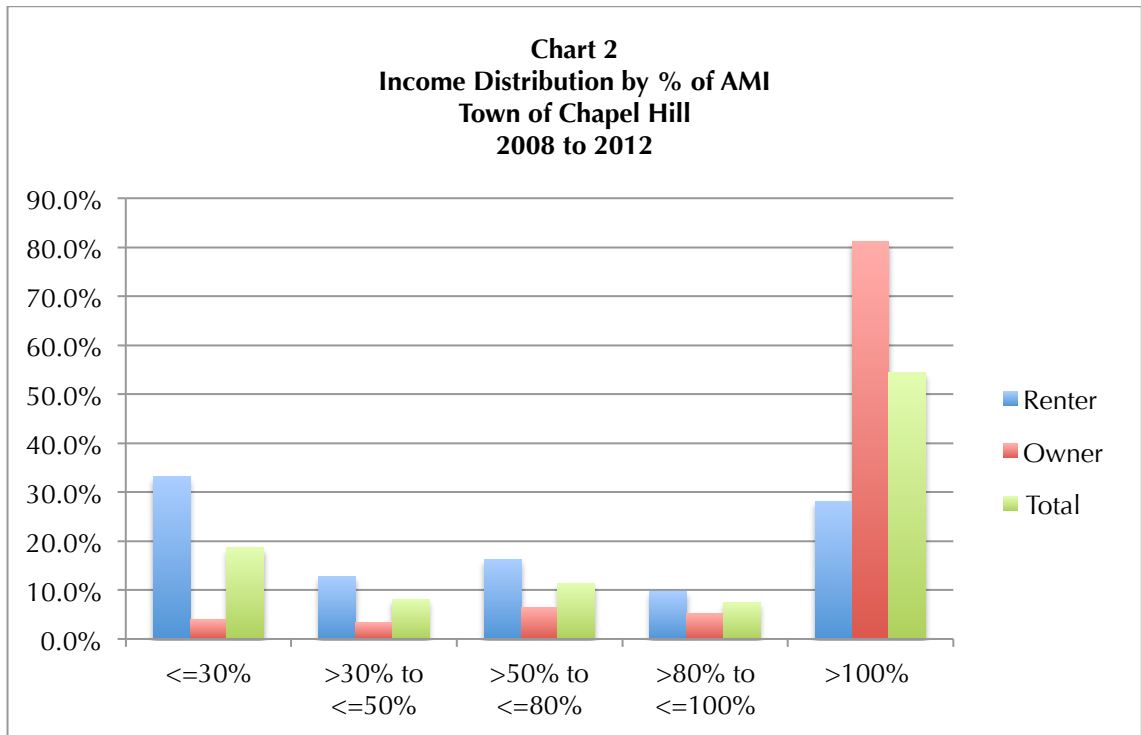
Almost one quarter (about 4,900 households, or 24%) of the Town's households had incomes less than \$24,999 per year in 2014, which equaled only 37% of the 2014 AMI for the Town of Chapel Hill (\$67,400) and supports an affordable rent of only \$625 per month. Another third of households (32%) have incomes between \$25,000 and \$75,000. The remaining 44% of households have incomes of \$75,000 or more. (See **Chart 1**).

Approximately 3,370 renter households (or one-third of the Town's 10,419, renter households) have incomes less than or equal to 30% of the Median Family Income (MFI). (See **Chart 2**).

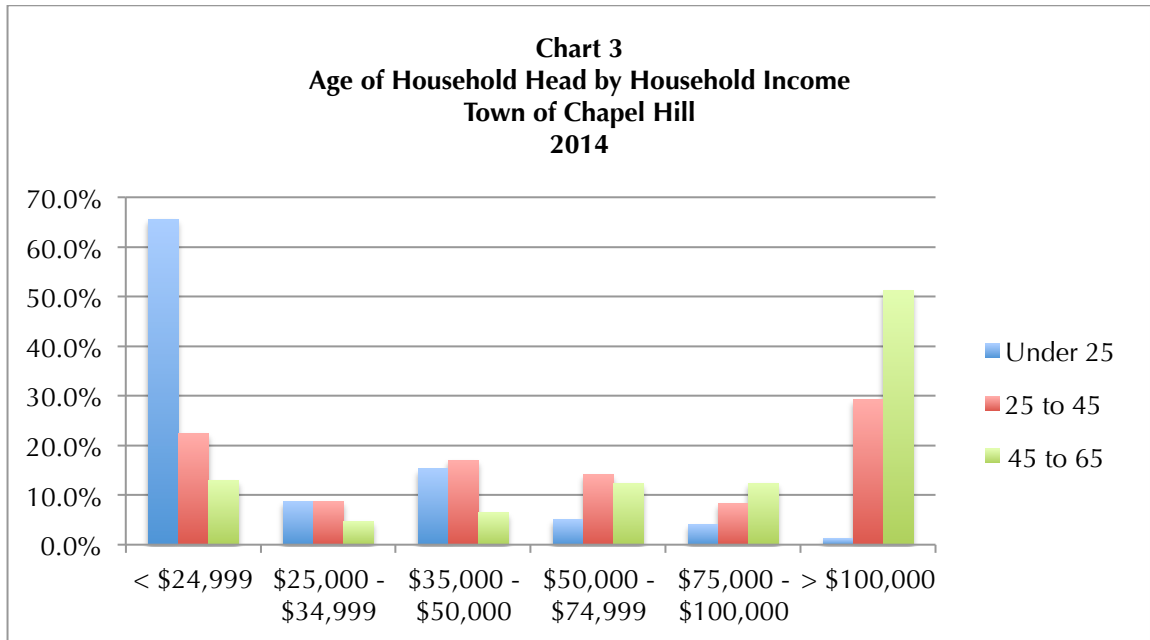
Almost 2,000 renter households with incomes under \$24,999 annually have a head of household who is 25 years of age or younger. These are largely student households. (See **Chart 3**).



Sources: ACS 5-year estimates, DRA.



Sources: HUD Comprehensive Housing Affordability Strategy (CHAS) data for 2008-2012; DRA.

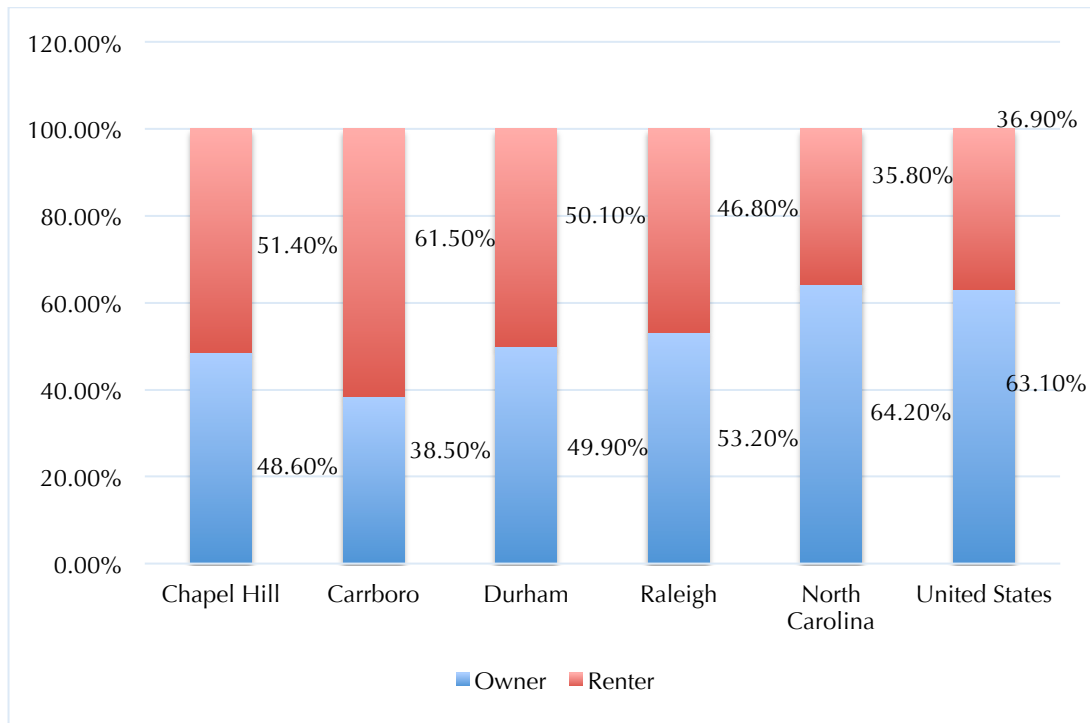


Sources: 2014 ACS 5-Year estimates; DRA

Tenure

Chapel Hill has a higher percentage of renter households (51.4%) than the State of North Carolina or the U.S, again reflecting the high student population in the Town. Carrboro and Durham, which also have large student populations, also have more than 50% renter households. Raleigh has the lowest proportion of renter households in the region at 46.8. (See **Chart 4**).

Chart 4
Percent of Households by Tenure
2014



Sources: 2014 ACS 5-Year estimates; DRA

Overpayment

An estimated 2,810 renter households in Chapel Hill with incomes at or below 30% of AMI (83% of renters in this income category), pay more than 30% of their income and rent. Of these households, 2,640 of those households pay more than 50% of their income on rent. Many of these households are student households. There are another 3,135 households earning between 30% and 80% of AMI that are overpaying for housing. These low income households represent the most severe housing need for the Town. (See **Table 5**).

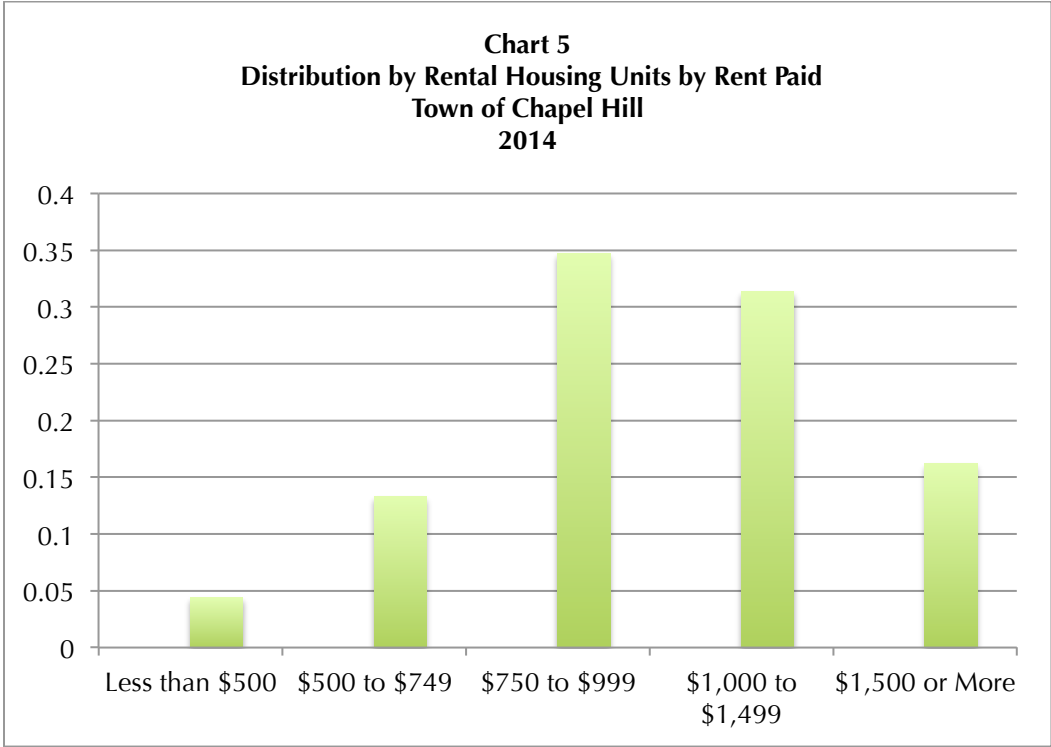
Tenure/% AMI	HH Paying Greater Than 30% of Income on Housing		HH Paying Greater Than 50% of Income on Housing	
	Households	Percent ¹	Households	Percent ¹
Renters				
≤30%	2,810	83.4%	2,640	78.3%
30% to 50%	1,985	10.8%	590	6.7%
50% to 80%	910	8.9%	185	2.1%
80% to 100%	240	2.4%	60	0.7%
>100%	240	2.4%	50	0.6%
Total	5,295	52.0%	3,525	40.0%
Owners				
≤30%	290	73.4%	225	57.0%
30% to 50%	315	3.1%	220	2.5%
50% to 80%	415	4.1%	240	2.7%
80% to 100%	285	2.8%	110	1.2%
>100%	895	8.8%	230	2.6%
Total	2,200	21.6%	1,025	11.6%

¹Percentage of total households in respective income category.

Sources: HUD Comprehensive Housing Affordability Strategy (CHAS) data for 2008-2012; DRA.

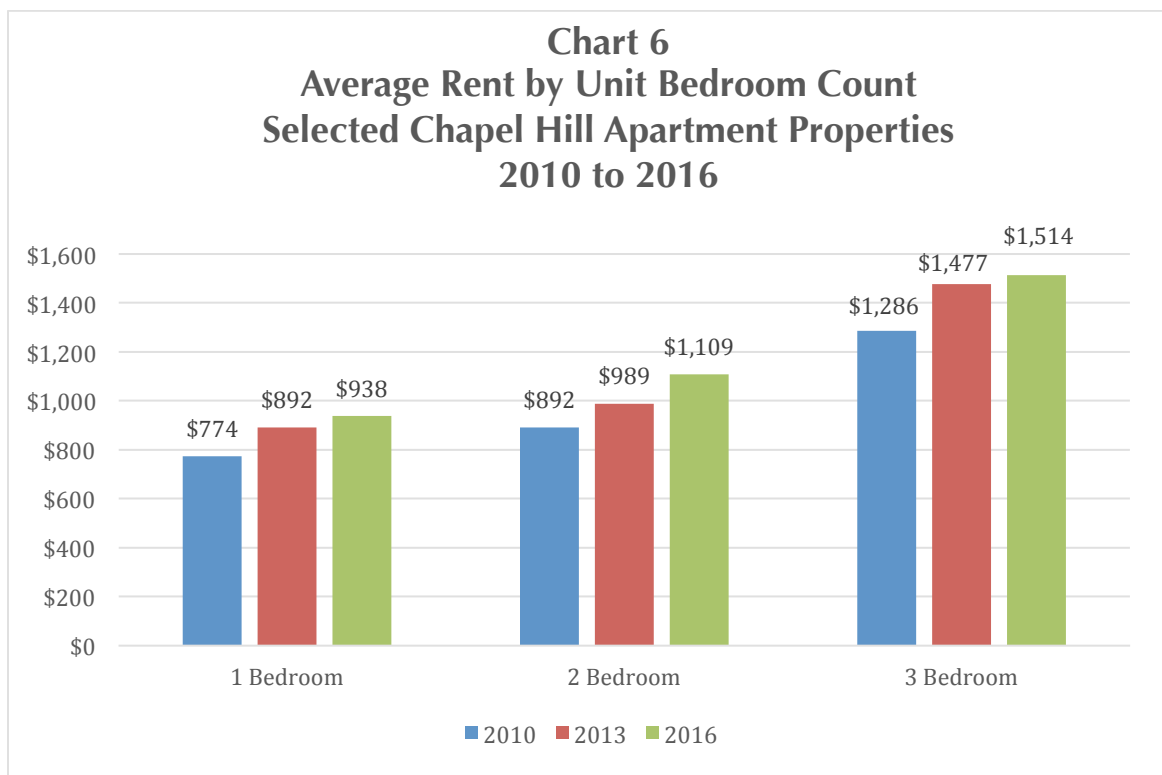
Market Rents and Sales Prices

In 2014, about third of Chapel Hill rental units had rents between \$750 and \$999, and another third had rents between \$1,000 and \$1,499. About 18% of units rented for less than \$750 and 16% of units rented for \$1,500 or more. (See **Chart 5**).



Sources: 2014 ACS 5-Year estimates; DRA

Based on a survey of selected Chapel Hill rental properties, the average rent in February 2016 was \$938 for a one-bedroom unit, \$1,109 for a two-bedroom unit and \$1,514 for a three-bedroom unit. (See **Chart 6**).



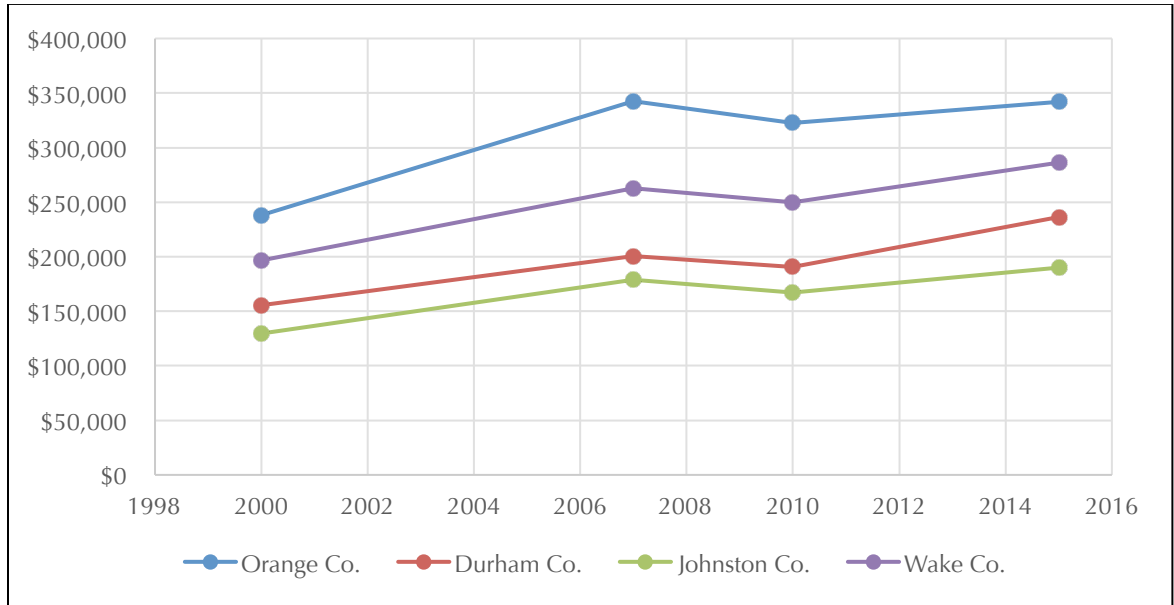
Sources: 2014 ACS 5-Year estimates; DRA

Orange County has consistently had the highest average home prices of the four Research Triangle counties (Orange, Durham, Johnston and Wake). (See **Table 6**, and **Chart 7**).

Table 6 Trends in Average Home Sales Prices Research Triangle Counties 2000 to 2015				
	Orange Co.	Durham Co.	Johnston Co.	Wake Co.
Average Price				
2000	\$238,101	\$155,571	\$129,626	\$196,672
2007	\$342,482	\$200,739	\$179,159	\$262,959
2010	\$322,827	\$190,551	\$167,075	\$250,037
2015	\$341,799	\$236,486	\$190,115	\$286,495
% Change				
2000-2007	44%	29%	38%	34%
2007-2010	-6%	-5%	-7%	-5%
2010-2015	6%	24%	14%	15%
2000 to 2015	43%	52%	47%	46%

Sources: TriangleMLS; DRA.

Chart 7
Trends in Average Home Prices
Research Triangle Counties
2000 to 2015



Sources: TriangleMLS; DRA.

Housing Affordability

Affordability of Rental Housing

Average apartment rents for one- and two- and three-bedroom units are affordable to households in Chapel Hill earning 80% of AMI or above, but are unaffordable to households at lower income levels. Three-bedroom market rents require a household income of about 90% of AMI to be affordable. (See **Table 7**, **Chart 8**).

	Average Affordable Rent				HUD 2016 FMR Durham- Chapel Hill	Average Market Apartment Rent ¹
	Very Low Income 50% AMI	Low Income 60%AMI	Low Income 80% AMI	Moderate Income 100% AMI		
1 Bedroom	\$587	\$719	\$985	\$1,250	\$796	\$938
2 Bedroom	\$702	\$861	\$1,180	\$1,498	\$937	\$1,109
3 Bedroom	\$807	\$991	\$1,359	\$1,726	\$1,262	\$1,514

¹Based on DRA survey of Chapel Hill apartment properties, 2016. Sources: Dataquick, DRA.

**Chart 8
Comparison of Average Affordable & Market Rents
Town of Chapel Hill
2016**



¹Based on DRA survey of Chapel Hill apartment properties, 2016. Sources: DRA

Affordability of Owner Housing

Only 20% of three-bedroom housing units sold in Chapel Hill in the last quarter of 2015 were sold at prices affordable to households at 80% of AMI, and only 42% were affordable to households earning 100% of AMI.

Only 4% of four-bedroom units were sold at prices affordable to households earning the median income, and none were affordable to households at lower income levels.

Two-bedroom units are more affordable for low income households, but represented only 10% of sales. (See Table 8).

Table 8 Affordability of Existing Home Sales¹ Town of Chapel Hill Fourth Quarter 2015						
Unit Bedroom Count	Very Low Income 50% AMI		Low Income 80% AMI		Median Income 100% AMI	
	2015 Affordable Sales Price	% of Sales Below Affordable Price²	2015 Affordable Sales Price	% of Sales Below Affordable Price²	2015 Affordable Sales Price	% of Sales Below Affordable Price²
2 BR	\$74,100	0%	\$197,700	61%	\$241,600	84%
3 BR	\$86,400	0%	\$217,200	20%	\$265,900	42%
4 BR	\$125,300	0%	\$250,500	0%	\$285,900	4%

¹Based on single-family home sales in Chapel Hill during the fourth quarter of 2015. Includes sales of 14 two-bedroom homes, 65 three-bedroom homes and 55 four-bedroom homes.

²Equals estimated percent of total home sales (including new and existing homes) by unit bedroom count sold at or below affordable price. Percentages by income level are cumulative.

Sources: CoreLogic; DRA.

Trends in Housing Affordability

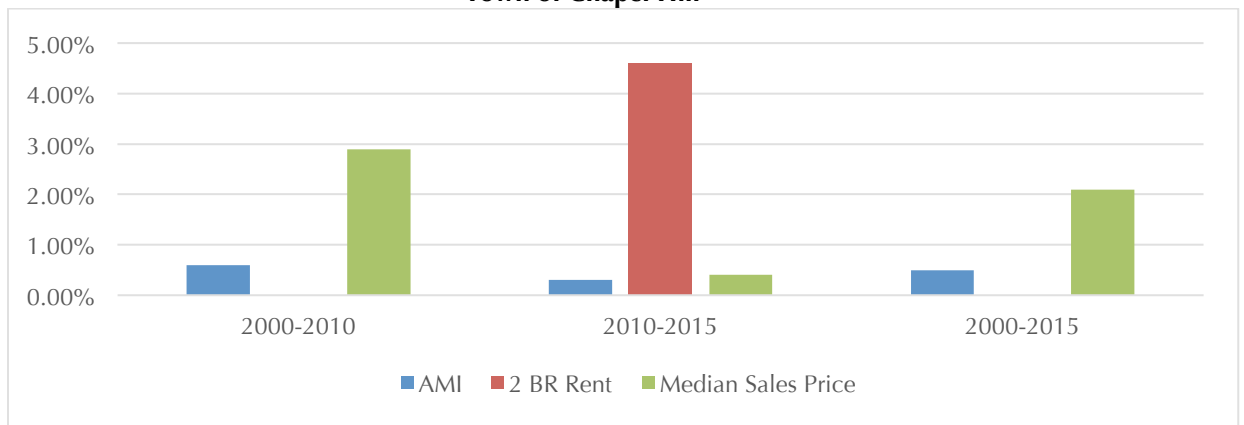
The gap between affordable and market rate rents and home prices is widening as indicated by trends in area median income, rents and prices. The AMI for the Durham-Chapel Hill HMFA has increased at an annual compound growth rate of only 0.5% per year since 2000. Since affordable rents and home prices are based on AMI, they have generally increased at comparable rates¹. In contrast, market rents have increased nine times faster than AMI at 4.6% annually for the past 5 years, and the median home sales price has increased four times faster than AMI, at an annual rate of 2.1% since 2000. (See **Table 9** and **Chart 9**).

Table 9 Growth in Income, Rents and Prices Town of Chapel Hill							
	2000	2010	2013	2015	Compound Annual Growth Rate		
					2000-2010	2010-2015	2000-2015
AMI	\$62,800	\$66,500	\$67,700	\$67,400	0.6%	0.3%	0.5%
2 BR Rent	N/A	\$887	\$989	\$1,109	N/A	4.6%	N/A
Median Sales Price	\$242,500	\$322,800	\$320,000	\$330,000	2.9%	0.4%	2.1%

Sources: HUD Area Median Income; Survey of selected apartment properties; Triangle MLS

¹ Trends in utility costs for renters and mortgage rates and the other costs of homeownership also affect affordable rents and prices.

Chart 9
Growth in Income, Rents & Prices
Town of Chapel Hill



Current Resources for Affordable Housing

Table 10 summarizes current financial resources for affordable housing in the Town of Chapel Hill in 2016. The Community Development Block Grant (CDBG) and HOME programs are formula-based grant programs from the Department of Housing and Urban Development (HUD). CDBG is administered exclusively by the Town and must be used within extended Town boundaries. The Town often uses CDBG funds to pay for renovations at its public housing properties. DRA does not view such expenditures as an ideal use of the Town’s CDBG allocation, particularly if these funds are not used to leverage other funding sources as part of a mixed-financing strategy. These expenditures highlight the need for a

comprehensive public housing redevelopment strategy to stabilize the condition of these properties and leverage outside resources.

The size of the Town’s annual CDBG allocation is probably insufficient to leverage a major investment in affordable housing, especially given the Town’s ongoing CDBG commitments. However, using the Section 108 program, the Town could borrow against future CDBG allocations, amassing sufficient funds to make strategically important affordable housing investments in amounts that exceed what is possible based on the Town’s current annual allocation. The maximum Section 108 loan amount is up to five times the jurisdiction’s latest approved entitlement amount, or approximately \$2 million, based on the Town’s 2015 allocation of \$404,761.

The Town is not eligible for a direct allocation of HOME funds, but is a member of the Orange County HOME Consortium, which is administered by The Orange County Housing, Human Rights, and Community Development Department (OCHHRCD). The Consortium appears to place a strong emphasis on homeownership initiatives, but it has recently provided funding to an 80-unit LIHTC development in Chapel Hill.

Penny for Housing was established in 2015 and is funded from the Town’s general fund in an amount that is equivalent to approximately one penny on the tax rate. The Town Council has allocated \$688,395 to this program for each of the past two years.

The town maintains various property holdings that may be suitable for affordable and mixed-income residential development. In addition, many of the Town’s public housing sites can support higher residential densities, presenting potential mixed-income redevelopment opportunities. Some of these properties are analyzed in the economic assessment. DRA encourages the Town to continue to review available public holdings for potential use for affordable housing development, as a shortage of developable land is a key restraint in the Town.

Table 10 Current Resources for Affordable Housing Town of Chapel Hill		
Source/Program	Annual Amount	Administered by
CDBG	\$387,702 (FY 2016)	Chapel Hill
HOME	\$311,411 (FY 2016)	Orange Co.



Penny for Housing (AHDR)	\$688,395 (FY 2016)	Chapel Hill
Inclusionary Housing In Lieu Fees (AHF)	Varies	Chapel Hill

Source: Town of Chapel Hill; DRA

New Resources for Affordable Housing

DRA evaluated four new revenue and financing opportunities for affordable housing (see Appendix: *New Resources for Affordable Housing*). Our findings are summarized below.

Tax Increment Financing (TIF)

Tax increment financing (TIF) is a promising financing tool for affordable housing development in Chapel Hill. Under this approach, all or a portion of the increase in taxes generated by new market-rate development is pledged back as a financing source for the project being developed. TIF is most valuable in situations where development occurs on vacant parcels with low base-year taxes or on tax-exempt, publicly-owned, properties that will be entering the property tax rolls by virtue of new private development. In addition, since State law authorizes full or partial property tax abatements for affordable rental developments, TIFs will also have greater value if the affordable housing development is part of a larger mixed-income or mixed-use development. Market-rate components of such a project generate incremental tax revenues that potentially can be used to subsidize affordable developments.¹

The Project Development Financing Act of 2003 (GS 159-101 to 159-113) serves as the State’s official TIF law. Because certain provision of the law inject uncertainty and may discourage its use, jurisdictions frequently eschew the State’s official TIF program in favor of synthetic TIF options.

State law also contains options for “synthetic” forms of TIF that have many of the economic and financial characteristics of the official TIF program, but instead of pledging tax increment as security for the TIF loan, the local government either

¹ Affordable housing projects with nonprofit general partners qualify for a full property tax abatement. When the general partner is a for profit entity, G.S. 105-277.16. requires assessors to use the income approach, rather than the cost or sales approach, as the method of valuation for LIHTC properties.

pledges a security interest in the underlying asset that is being financed or, less frequently, it pledges its full faith and credit. When establishing a synthetic TIF, the local government still expects to repay the loan from tax increment, but it secures that loan with different collateral.

The Town of Chapel Hill has used an Incentive Grant Agreement as a synthetic tax increment approach to finance infrastructure for development projects in the Ephesus-Fordham District. It may be possible to use a similar approach for affordable housing development.

Special Assessment Districts (SAD)

It does not appear that any North Carolina municipality or county has formed an SAD to finance affordable housing, and nationally we think the practice is rare. Yet, for reasons discussed in the New Resources Report, there may be circumstances in which an affordable housing SAD may make sense for Chapel Hill. The practicality of SAD financing as an affordable housing funding option is subject to the interplay of a variety political and real estate market factors that exist in would-be SAD locations. Also, assuming there have been no previous efforts to establish an affordable housing SAD in North Carolina, several legal questions need resolution.

General Obligation Bonds (G.O. Bonds)

In November, Orange County voters will consider a referendum that proposes a \$5 million G.O. investment in affordable housing projects. DRA recommends that the Town of Chapel Hill evaluate the affordable housing initiatives that will be eligible for funding and seek to structure potential affordable housing developments in the fall to take maximum use of available funding.

At some point in the future, the Town may view the issuance of its own G.O. Bonds as an appropriate funding source for supporting a targeted affordable housing development initiative, in which the Town invests bond proceeds on pre-identified projects and initiatives and over a specified timeframe. A prime example is a redevelopment plan to comprehensively revitalize the Town's public housing portfolio, validated by a capital plan that identifies sources of public and private financing providing maximum available leverage of local funds raised through a G.O. bond.

Public Housing Investment

The Town's public housing portfolio of 336 public housing units distributed among 13 properties is a critical affordable housing preservation investment priority. Additionally, situated on low-density, underdeveloped properties in strong housing market locations, the Town's public housing sites also present significant opportunities for the development of mixed income communities. Mixed-income development can provide the Town with value-capture opportunities that it can draw upon to invest in public housing and other affordable housing efforts. Potential value capture opportunities include TIF, SADs, increased inclusionary requirements, land sales and ground leases.

Addressing the redevelopment needs of the existing public housing communities while also tapping the value and development potential of the public housing sites requires the development of a strategic plan. The affordability gap and economic analysis of a potential public housing RAD prototype provides initial per unit subsidy cost estimates to consider in development of this plan. The RAD program for public housing is described further in the next section.

Affordability Gap Analysis, Potential Financing Sources and Incentives

The affordability gap and economic analysis prepared by DRA calculates the difference between the amount households at alternative income levels can afford to pay for housing and the actual development costs of new housing in the Town. DRA applied this approach to five actual sites in Chapel Hill that offer potential for new affordable housing or mixed-use development. Prototypical developments were modeled on each of the sites, and a range of potential funding sources were analyzed, including 9% tax credits and 4% tax credits with tax-exempt bonds. These prototypes are representative of potential development options for the sites, as opposed to proposed plans for actual projects. They are modeled under general economic assumptions for the Town, as the specific site improvement and building costs for the individual sites have not been evaluated and no market studies were conducted.

DRA used the prototype projects to analyze the value of leverage financing tools and economic incentives that potentially could be used to close gap on the development of new affordable rental housing in Chapel Hill. These tools can help reduce, or in some cases eliminate, the amount of local subsidy required to produce new affordable housing units. The financing sources and incentives examined in the economic analysis are shown by site in **Table 11**.

Site	Economic/Financial Incentives and Leverage Sources Analyzed
Public Housing Redevelopment (Craig-Gomains Site Analysis)	<ul style="list-style-type: none"> • RAD Program • Tax Credits (9%; 4% with Tax-Exempt Bonds) Sale/Lease of PHA Land • Tax Increment Financing
Ephesus-Fordham	<ul style="list-style-type: none"> • Density Bonus • Tax Credits (9%; 4% with Tax-Exempt Bonds)
Sunrise	<ul style="list-style-type: none"> • None
Legion Road (former Legion Hall)	<ul style="list-style-type: none"> • Tax Credits Tax Credits (9%; 4% with Tax-Exempt Bonds)
Greene Tract	<ul style="list-style-type: none"> • Tax Credits Tax Credits (9%; 4% with Tax-Exempt Bonds)

Financing Sources and Incentives to Explore

Low Income Housing Tax Credits (LIHTCs) and Tax-Exempt Bonds

The Low Income Housing Tax Credit (LIHTC) program is the most valuable source of leveraged financing for affordable housing available today in the U.S. The LIHTC program offers both 9% and 4% tax credits. The 9% tax credit program is the most valuable, but allocations in North Carolina and across the country are highly competitive. An allocation of 4% tax credits generates less than half the amount of tax credits and equity as the 9% program, but is automatically provided with an allocation of multifamily tax-exempt bonds, which are generally plentiful as long as program requirements are met.

Table 12 compares the estimated affordability gaps for the renter prototypes without tax credits and with leveraged financing from 9 percent Low Income Housing Tax Credits (tax credits) or the use of 4 percent tax credits and tax-exempt

bonds, to demonstrate the economic value of these leveraged financing sources. The project sites were not scored for competitiveness for 9% tax credits according to the site scoring criteria in the current Qualified Allocation Plan (QAP) used by the North Carolina Finance Agency to allocate tax credits. The Craig-Gomains and Ephesus-Fordham sites are considered generally well-located, but given the more rural location of the Greene Tract it is highly unlikely that site would be competitive.

Prototype	No Tax Credits (Unleveraged)	4% Tax Credits with Tax- Exempt Bonds	9% Tax Credits
1. Ephesus-Fordham ²	\$147,600	\$78,800	\$5,200 ^{5,6}
2a. Craig-Gomains Rental ^{3,4}	\$75,000	\$33,700	\$0
3. Legion Road ²	\$105,900	50,900 ⁵	\$6,000 ⁵
4a. Greene Tract Rental ³	\$76,000	\$28,600	\$0

¹Represents weighted average per unit gap across all unit sizes.

²Development cost includes market land cost/value estimated at \$25,000 per unit.

³Development cost includes no land cost for these publicly-owned parcels.

⁴Gap is after tax increment loan and proceeds from potential sale of owner parcel for no tax credit and 4% tax credit scenarios. Sale proceeds from the owner parcel are not needed to eliminate the gap for 9% tax credit scenario.

⁵Projects exceed project size limits for the Central Region of 80 units for 9% tax credits and 200 units for tax-exempt bond projects and would have to be phased, reduced in size, or split between market-rate and affordable developments meeting size limits for financing purposes.

⁶Hard construction costs may exceed development cost limits, earning negative points for 9% credits.

Source: DRA.

HUD Rental Assistance Demonstration (RAD) Program for Public Housing

RAD is a public housing conversion program offered by HUD to help public housing agencies finance replacement and redevelopment of public housing sites. HUD currently has the statutory authority to approve 185,000 units for RAD conversion and has received applications for approximately 200,000 units.

Although HUD continues to accept RAD applications, it intends to place submissions on a waiting list until Congress increases the statutory cap. While there is uncertainty regarding the timing for raising or removing the cap, we believe there is high confidence that the program will continue to expand and that the Town should consider committing resources to undertake the analysis and planning necessary to complete a RAD application. The information the Town receives from the preliminary work underway by staff is necessary if the Town decides to pursue this option.

Tax increment Financing

Tax increment financing is described above under New Revenue Sources. DRA estimated the financial benefit of using synthetic tax increment financing approach on mixed income projects (that include both market and affordable units) to generate funds to help close the gap on the affordable units. Under this approach, all or a portion of the increase in taxes generated by new market-rate development is pledged back to the developer of the affordable units to help close the financing gap.

Table 13 below provides an example of the debt that could be supported by a site-specific synthetic tax increment financing approach for development of new market-rate housing on land that was previously not on the tax rolls, such as an existing public housing site, a portion of which is sold or ground-leased for market rate development. In this example, the property taxes generated by the increase in assessed value on the market-rate portion of site could be used to provide subsidy capital to assist with affordable housing development on the remainder of the site. This may be appropriate for the redevelopment of one or more the Town's public housing sites, many of which are currently developed at very low densities and which may offer opportunities for higher density development that can accommodate replacement of existing public housing units as well as an increment of new market-rate housing development.

The illustration below shows that 40 market-rate ownership units could generate a conservative estimate of at least \$500,000 in supportable debt.

Table 13
Site-Specific Tax Increment Financing Example
Market-Rate Townhomes
Town of Chapel Hill

Market-Rate Units	40
Estimated Market Value Per Unit	\$230,000
Total Market Value	\$9,200,000
Property Tax Rate, Town of Chapel Hill	0.524%
Projected Annual Tax Increment to Town	\$48,200
Tax Increment Available for Debt Service (1.2 DCR)	\$40,200
Supportable Debt (5% Interest, 20 Years Amortization)	\$507,600

Source: Town of Chapel Hill; DRA.

Density Bonus

A density bonus, meaning an increase in density above the otherwise maximum permitted density under current zoning on a site, is a common tool used across the U.S. to incentivize the production of affordable housing. Under density bonus programs for affordable housing, an increase in the permitted FAR or number of housing units on a site is provided to a private developer in exchange for income and rent (or sales price) restrictions on a portion of the total units. By providing more units on the site, the per unit land cost to the developer is effectively reduced. Provision of a density bonus through a development agreement and/or zone change could assist the production of new affordable housing units without a direct cash subsidy outlay.

DRA evaluated the potential economic value of a density bonus on the Ephesus-Fordham and Legion Road sites. The financial feasibility of the higher density Ephesus-Fordham prototype was problematic as modeled, therefore it was difficult

to assess the value of the density bonus. However, DRA estimated that a 25% density bonus on the Legion Road site can support the provision of up to 5% of units affordable at 60% of AMI.

