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ULI Triangle
Technical Assistance Panel on Inclusionary Zoning for the City of Raleigh

January 28, 2013

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ULI Triangle Panelists

Gregg Warren, DHIC, Panel Chair
Jason Barron, Morningstar Law Group
David Cristeal, County of Arlington, VA
Kellie Falk-Tillett, Drucker and Falk
Jeff Furman, Northwood Ravin
Roland Gammon, White Oak Properties
Danny Kadis, Centrex Properties

Julie Paul, ULI Triangle Executive

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Resource Persons

David Cristeal, Arlington, Virginia

Robert Dowling, Orange Community Home Trust

Bill Rowe, NC Justice Center

Cliff Zinner, RD Construction

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The ULI Triangle TAP Panel wishes to thank the City of Raleigh for their interest and leadership in addressing the development of affordable and workforce housing.

Increasing affordable housing is a laudable goal that makes our city more livable for all its citizens.

We appreciate the opportunity to debate, discuss and provide guidance to the City as it advances its affordable housing policy.

Process

- City request for assistance conveyed to Triangle Chapter of ULI.
- Technical Assistance Panel (TAP) of Triangle ULI chaired by Jeff Davis of JDavis Architects and Sal Musarra of Kimley-Horn and Associates. accepts assignment and recruits members of ULI to serve on the panel.
- City staff prepared briefing book for the panel that described issue to be addressed and background information.
- Panel members volunteered their time to tackle the assignment met the afternoon of November 28 and all day on the 29th.

City of Raleigh Goal

Creation of mixed-income neighborhoods and more affordable and/or workforce housing

Resource Interviews

- If transit tax is approved by voters in Wake County, local government will be required to plan to provide workforce housing within ½ mile of stations.
- Durham and Orange County are beginning this work and are interested in learning of the findings of this ULI Panel.
- Market rate developers are skeptical that incentives will yield results.
- Chapel Hill and Arlington VA both have mandatory inclusionary zoning

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Chapel Hill

- 15% of homes in homeownership developments Chapel Hill must be sold to those with moderate incomes.
- Developers often sell homes at discount to a non-profit, Community Home Trust.
- Option to opt out, developer pays $85K per home.
- Buyers have limited appreciation and must sell home to low income buyer.
- Mismatch between household size and types of homes offered.
- 200 homes over 13 years.

Arlington Virginia

- High cost area. Average income $100,000 vs. Raleigh $75,000.
- Average rent $2,300 compared to Raleigh's $900.
- County focuses on rental housing. Ownership out of reach for workforce housing.
- Developers seeking more than 1.0 FAR must deliver 5-15% affordable.
- Most developers build at above this density.
- Fee in lieu of payment allowed, approximately $200,000 per unit.
- Annual production level of 35 homes per year.

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Challenges

- Integration of market-rate with affordable units can be difficult– need thoughtful mix of affordable and market.
- More neighborhood resistance/potential market stigma.
- Works best in high cost/high demand markets.
- Complexity of the economic model presents financing risk.
- More expensive to build mixed-income with the tax credit program .
- High costs of land and site development make for more difficult financial model.

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Guiding Principles

- Differences in downtown and TOD sites vs. suburban sites.
- Disperse affordable housing throughout the City with priority to underserved areas close to employment.
- Affordable housing is a community issue not entirely a new development issue and it's going to come at a cost.
- Panel focused on:
  - new development not rehabilitating older product
  - mixed-income projects instead of neighborhoods
  - more rental rather than home ownership
  - 60-80% AMI

Definitions

- An affordable rental housing unit has a rent that is affordable to those with incomes at 60% AMI or less, and occupied by same.
- An affordable rental housing development has a minimum of 10% affordable rental housing units.
- An affordable rental housing unit has a compliance period of a 30 years.

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Question 1: What subsidy level is necessary to provide affordability for different unit types?

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

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Question 2: Is it possible to incentivize affordable units in a purely private housing development through density or height bonuses, and if so, how large would the bonuses need to be given a target set-aside of 5-15%?

NO……….

Even if the density was doubled, it wouldn't be enough.

- 100 units doubled to 200 will not likely cover the 20 units at 60% AMI.
- Land cost and site development reduced by half.
- Market cannot sustain more than 4 stories-- non-combustible construction not an option.

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Question 3: What other barriers might prevent a developer from taking advantage of a voluntary incentive program, even if the financial analysis indicates the inclusionary development would be as much or more profitable than conventional development?

- Mixed-income complicated to underwrite.
- Developers follow a proven model. Not the time to innovate.
- Not the easy option – cost of doing business is higher for enforcement, managing, etc.
- Difficult to sell the property with complications.

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Recommendations

Developers, who meet a certain threshold (10-15%) of affordable housing units, must be given a number of tools to offset the costs for building affordable housing.

1. **Subsidy**: This can be in the form of a City grant or a TIF. Based upon the analysis performed by the panel, TIFs are optimal.
2. **Code Options**: Density bonus and parking reduction.
3. **Development Fee rebate**.
4. **Change time horizon of compliance** (i.e. earlier return to market).

In areas where there are greater development pressures, such as downtown and TOD areas, the City should consider vigorous use of these options.

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Recommendation 1: Cash is needed

TIF may be the best funding source to cover the financial gap calculated on the cost of the entire project. Raleigh should adopt a policy in favor of TIFs for projects that include affordable housing.

Consistent with the city's comprehensive plan, affordable housing is an example of a public good that merits the use of TIF financing.

- **Examples –** 200 unit project with 20 affordable units (10%)
- **Benefits –** Raleigh already has the ability to do TIFs

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Cost of rent reduction to market rate development

Rent Reduction Amount	$100		
Interest rate on perm loan	4.00%		
Amortization term (years)	30		
DCR	1.20		
Reduction in loan amount per $100 monthly rent	$17,455		
	Rent	Difference	Subsidy Needed
Market rent in project	$1200		
Maximum rent for 2 BR Apartment @ 60% AMI	$875	$325	$56,729

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Overall Public Subsidy		
<u>Sources</u>		<u>Per Unit</u>
TIF		$ 52,000.00
Fee Rebate	~	$ 5,000.00
Total:		$ 57,000.00
200 unit project		
20 affordable units = total upfront required TIF subsidy of $1.04 M		
To close the $57K subsidy per unit (from income analysis)		
$60,000 annual payment of to retire $1.04 M 30-year 4% bond		
Estimated COR project taxes annually = $100K		
Net COR taxes = $40K		

Recommendation 2: Code options

- Parking reductions now offered.
- In R-6 zone, offer density bonus up to 10 units/acre for townhomes as a matter of right to developments that include a minimum of 10% affordable housing. This applies to both ownership and rental.
- Not sure what code incentives can be offered in MX zones.

Recommendation 3: Fee rebates

Fee "rebate": Approximate composite fees of $5,000 per affordable unit could be collected and returned.

As part of a mixed-income development, the city could consider reductions in the development fees in the market rate units as well.

Recommendation 4: Relax compliance period

- Assumption in the subsidy model is 30 years compliance period.
- Subsidies could be lowered if the units were returned to market earlier, i.e. affordability requirement for 10 years then reverts to market rate.

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Recommendation 5: Opportunity sites

- City acquires sites for affordable development especially in the downtown and/or TOD areas. (needs a champion).
- City includes affordable housing goals/priorities in RFPs for City projects and land sales.

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Looking Back…….

“The City’s Comprehensive Plan should 1) provide incentives to all developments to construct affordable housing for moderate income households and 2) require developers of sites that will have a significant impact on the community to reserve land for development of low income housing.”

Raleigh Housing Task Force 1986
Frank R. Gailor, Chairman

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