



Town Council Meeting:

Rewriting Our Rules – A Land Use Management Ordinance (LUMO) Update

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Town Council Meeting Date: April 24, 2024

Overview

During the April 24, 2024, meeting, staff will provide updates and seek Council's input on the following:

1. Design and Dimensional Standards
2. Racial Equity Analysis
3. Affordable Housing Analysis

1. Design and Dimensional Standards

Staff are postponing additional discussion on design and dimensional standards. The LUMO team is continuing to develop design and dimensional standards based on feedback received from the Community Design Commission and Council. Staff believe that the most productive next phase of discussion should be focused on draft standards so that CDC, Planning Commission, and Council have tangible materials to react to. As the draft standards are not yet ready, staff are postponing further detailed discussion on this topic.

As Councilmembers continue to review the Typology Resource Guide, please note that the CDC has provided comments on the document. The CDC's comments are attached. Staff and the consultant team will incorporate CDC's feedback where possible.

2. Equity Analysis

Zoning and land use policies have historically contributed to systemic economic and racial inequity. Staff have prepared a Racial Equity Analysis to better understand how these dynamics have impacted Chapel Hill and how our current LUMO is – or is not – aligned with best practices. Modernizing the LUMO is one important step of many to address racial disparities institutionalized by our land use plans, rules, and decisions.

The attached Racial Equity Analysis includes three parts:

1. A Land Acknowledgement
2. An analysis of the racial impacts and the root causes of inequity related to land use in Chapel Hill
3. An assessment of our current ordinance based on the American Planning Association (APA) [Equity in Zoning Policy Guide](https://www.planning.org/publications/document/9264386/)¹, which contains recommended policies for equity in land use rules, procedures, and zoning.

For future Council discussions, staff will evaluate zoning procedures and zoning maps for alignment with the recommended Equity in Zoning policy guide. When a draft ordinance is

¹ <https://www.planning.org/publications/document/9264386/>

available, staff will assess whether the proposed language is aligned with the Equity in Zoning policy guide.

3. Affordable Housing Analysis

A. Overview

A wide variety of tools are required to meet the Town's affordable housing goals. This section explores the important, albeit limited, role that zoning can play in meeting these goals. Ongoing economic analysis conducted by the LUMO team supports the following conclusions which are discussed in this section:

- It is unlikely that code-based incentives will motivate market-rate developers to provide affordable housing.
- Some level of relief from Town standards can provide meaningful support to mission-oriented affordable housing developers.
- Smaller scale development likely cannot bear the cost of providing affordable housing.

Because these conclusions are based on a range of market conditions, they may change over time. The Town should periodically revisit this analysis to determine whether additional updates to the LUMO are warranted.

B. Code-Based Incentives

Under current conditions, a voluntary incentive-based program for affordable housing cannot replace the Town's ability to negotiate for affordable housing through conditional zonings.

Effective code-based incentives must generate enough additional value for a market-rate housing development that they create a convincing business case for a developer to provide affordable units. Our analysis indicates that code-based incentives cannot generate enough additional value for developers to meet the Town's affordable housing goals.

Critically, our analysis demonstrates that code-based incentives do provide *some* additional value. While that additional value may not be sufficient to motivate market-rate developers, it could be very meaningful for mission-oriented affordable housing developers. These developers do not need incentives to build affordable housing, but they do need support.

i. Density Bonuses

Impractically high density bonuses (> 50%) would be required to support the Town's current affordable housing goals. More modest density bonuses (~20%) will support a lesser level of affordable housing.

Density Bonus	Affordability Set Aside
50%	7.5% of units at 65% AMI & 7.5% of units at 80% AMI
50%	7.5% of units at 60% AMI
25%	5% of units at 65% AMI &

	5% of units at 80% AMI
20%	15% of units at 80% AMI
20%	3.5% of units at 60% AMI

Table 1: Impacts of Density Bonus.
Analysis conducted by SB Friedman.

A density bonus of 50 percent would be required for a project with a 15 percent affordable housing set aside to achieve similar financial returns as a project with no set aside.

In practice, an even larger density bonus would be required to create a convincing business case for a developer to meet the 15 percent set aside. However, such a large increase in density can likely only be achieved by shifting from wood-frame construction to steel and concrete construction.

This shift in construction type can represent a major increase in construction costs that likely cannot be supported by market-rate rents in Chapel Hill. Under these circumstances a developer would be more likely to maximize their returns by building less densely and not offering any affordable housing.

A smaller density bonus could avoid pushing developers into expensive steel and concrete construction methods but could result in other cost increases (e.g., shifting from surface parking to structured parking) that could make them unattractive to developers. These smaller density bonuses are only able to support lesser levels of affordable housing.

ii. Setbacks and RCD Buffers

Like density bonuses, other code-based incentives are unlikely to generate significant additional value for a market-rate development.

Hypothetical Incentive	Impact on Returns
Reducing street setbacks from 20 feet to 10 feet	Improves Yield on Cost from 6.19% to 6.21%
Reducing RCD buffers from 150 feet to 100 feet...	Improves Yield on Cost from 6.26% to 6.34%

Table 2: Impacts of Modified Setbacks and RCD Buffers.
Analysis conducted by SB Friedman.

Our analysis focused on incentives tied to setbacks and RCD buffers because they were the most likely to have major impacts on projects and could offer the most insight into how dimensional standards impact project returns. Testing such major changes in setbacks and RCD buffers underscores the notion that it can take a lot to move the needle even slightly. Under “optimal” scenarios, incentives tied to these regulations increased the total number of units in a project but did not significantly improve overall project returns.

Given the tradeoffs associated with such significant changes (e.g., less consistent streetscapes and weaker environmental protections), staff do not recommend using them as incentives for market-rate developments. However, more limited relief from various Town standards could provide meaningful support for smaller scale affordable housing developments.

C. Affordable Housing Requirements for Small-Scale Development

A typical townhome or missing middle development likely needs to include anywhere from 10 to 16 units before it can bear the costs associated with providing affordable housing.

It is important for standards in the new LUMO to reflect evolving market conditions. Understanding the scale of development that can bear the cost of providing affordable housing can help the Town ensure that we are not discouraging smaller-scale development.

i. Overview of Analysis

The LUMO consultants assessed how providing affordable units can impact estimated financial returns for both rental and for-sale developments.

Affordable Housing Set Aside	Estimated Land Costs	Total Units Required to Reach Acceptable Project Returns
Rental Missing Middle		
1 unit at 65% AMI & 1 unit at 80% AMI OR 1 unit at 60% AMI	\$5/SF	12 units
	\$10/SF	16 units
Rental Townhomes		
1 unit at 65% AMI & 1 unit at 80% AMI OR 1 unit at 60% AMI	\$5/SF	12 units
	\$10/SF	14 units
For-Sale Townhomes		
1 unit at 65% AMI & 1 unit at 80% AMI	\$5/SF	13 units
	\$10/SF	15 units
1 unit at either 65% AMI OR 80% AMI	\$5/SF	10 units
	\$10/SF	12 units

Table 3: Minimum Development Size for Affordable Housing.
Analysis conducted by SB Friedman.

ii. Using the Analysis

Since at least March 2000, the Town's expectations for affordable housing have applied to all residential development with five or more units. Our recent analysis suggests that this threshold may be too low and may be a barrier to smaller-scale development. Through further work with staff and community partners, we will evaluate whether this threshold should be revised.

This analysis will also help to inform the scale of residential development that should be allowed by-right in the new LUMO. For example, in residential and Town Center zoning districts, proposed multifamily developments with over 10 units are only

allowed with a conditional zoning. The ability to negotiate over affordable housing commitments is one of the most important features of the conditional zoning process. If we have reason to believe that smaller scale development cannot bear the cost of including affordable units, it is worth revisiting whether such development should be subject to the conditional zoning process.

Attachments

1. Appendix A: Prior Council Meetings and Materials
2. Racial Equity Analysis
3. Policy Discussions and Outreach Schedule
4. Engagement and Communications Report
5. SB Friedman Analysis: Feasibility of Code-Based Incentives to Support Community Benefits
6. CDC Comments on Typology Resource Guide

Appendix A: Prior Council Meetings and Materials

March 13, 2024 – [Work Session](#)ⁱ

- [Meeting Recording](#)ⁱⁱ (Discussion begins at 01:17:30)
- Recommended documents to review:
 - [Staff Memo](#)ⁱⁱⁱ
 - [Typology Resource Guide](#)^{iv}

February 21, 2024 – [Work Session](#)^v

- [Meeting Recording](#)^{vi} (Discussion begins at 03:25)
- Recommended documents to review:
 - [Staff Memo](#)^{vii}

January 17, 2024 – [Work Session](#)^{viii}

- [Meeting Recording](#)^{ix} (Discussion begins at 49:05)
- Recommended documents to review:
 - [Staff Memo](#)^x

November 13, 2023 – [Work Session](#)^{xi}

- [Meeting Recording](#)^{xii} (Discussion begins at 05:45)
- Recommended documents to review:
 - [Staff Memo](#)^{xiii}
 - [Draft Zoning District Proposal](#)^{xiv}
 - [Briefing Book: Feasibility of Density Bonuses to Support Community Benefits](#)^{xv}

October 18, 2023 – [Work Session](#)^{xvi}

- [Meeting Recording](#)^{xvii} (Discussion begins at 04:36)
- Recommended documents to review:
 - [Staff Memo](#)^{xviii}

June 21, 2023 – [Information Item](#)^{xix}

- Recommended documents to review:
 - [Summary Report](#)^{xx}
 - [Plan Alignment Memo](#)^{xxi}
 - [LUMO Audit Report](#)^{xxii}

ⁱ <https://chapelhill.legistar.com/LegislationDetail.aspx?ID=6563526&GUID=A3C4266B-6390-47E0-8BF8-C7E07565CEB9&Options=&Search=>

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iii <https://chapelhill.legistar.com/View.ashx?M=F&ID=12727883&GUID=E10DFDFB-8C22-4936-9EC0-760B12A5D094>

iv <https://chapelhill.legistar.com/View.ashx?M=F&ID=12727881&GUID=4791CF5E-C6B5-4C24-9593-04942642CB44>

v <https://chapelhill.legistar.com/LegislationDetail.aspx?ID=6512691&GUID=1188AC33-7397-409C-8634-6A143164EB71&Options=&Search=>

vi <https://chapelhill.legistar.com/MeetingDetail.aspx?ID=1147095&GUID=0DCD012E-BA00-42AF-8B02-19D3F50995B4&Options=info|&Search=>

vii <https://chapelhill.legistar.com/View.ashx?M=F&ID=12657337&GUID=51E55C7D-E990-40C7-B0A0-4F09A9D30061>

viii <https://chapelhill.legistar.com/MeetingDetail.aspx?ID=1146970&GUID=B3AA190A-6D3E-48FB-8059-6414EFF0C820&Options=info|&Search=>

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xi <https://chapelhill.legistar.com/LegislationDetail.aspx?ID=6411208&GUID=7E0011D5-461C-405E-9B6E-85812D1146CC&Options=&Search=>

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xiv <https://chapelhill.legistar.com/View.ashx?M=F&ID=12442794&GUID=B22F73AE-3AB1-494F-937C-51AD0A1EC102>

xv <https://chapelhill.legistar.com/View.ashx?M=F&ID=12442796&GUID=E19A3CA3-E57E-4C78-A8E2-67AA9E5AD0CF>

xvi <https://chapelhill.legistar.com/LegislationDetail.aspx?ID=6383925&GUID=838AD17B-7E46-4F69-AFA2-44D1BE4627EC&Options=&Search=>

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xix <https://chapelhill.legistar.com/LegislationDetail.aspx?ID=6264298&GUID=C30FEDCA-74F6-4258-B3B8-7F5E0F6B89EC&Options=&Search=>

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