

## Town of Chapel Hill Housing Advisory Board Recommended Payment in Lieu Formula

The Rental Payment in Lieu formula recommended by the Housing Advisory Board was chosen for the following reasons:

- It is based on the difference in value between market rate and affordable units
- Uses the current 15% affordable unit requirement required in “sale” (non-rental) new housing development
- Uses a standard valuation tool (capitalization or “cap” rate)
- Uses standard rent rates for both market and affordable rentals that are updated at least annually (US HUD for affordable, [rentcafe.com](http://rentcafe.com) for market)

Our sample project is a 100 unit development. Each apartment has 2 bedrooms. The market rent rate is \$1,170/month (based on [www.rentcafe.com](http://www.rentcafe.com)). The affordable rent rate is \$825/month (based on 50% AMI, family of three with \$39,582 in annual income according to US HUD). The Cap rate (which is a number used to determine the value of a property in terms of the income it produces) is .05. In this scenario, 15 units would satisfy the 15% affordability requirement.

To determine the rental Payment in Lieu amount for this development, we first need to calculate what the **annual rental incomes** would be if the development were all market rental rate or all affordable rental rate. We take both the monthly market rent (\$1,170) and affordable rent (\$825) multiply each by 12 to get an annual rental incomes, in this case market rent annual income is \$14,040, and affordable rent annual income is \$9,900.

We now need to assign a value to each of the annual income streams. We divide each of the annual income amounts by the **cap rate** of .05, which gives a value of \$280,800 for the market rate units and \$198,000 for the affordable units.

We then take the difference in value between the market rate units and the affordable units:

$$\$280,800 - \$198,000 = \$82,800$$

We multiple the difference in value by the number of affordable units required (15%), which gives us our

**Payment in Lieu** amount:

$$\$82,800 \times 15 = \mathbf{\$1,242,000}$$