

Town of Chapel Hill



Affordable Housing &
Community Connections



Affordable Housing Plan & Investment Strategy

June 2023
DRAFT

HR&A

ACKNOWLEDGEMENTS

The Chapel Hill Affordable Housing Plan and Investment Strategy is the result of a joint effort between the Town of Chapel Hill and various local stakeholders.

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Executive Summary

EXECUTIVE SUMMARY INTRODUCTION

The Affordable Housing Plan and Investment Strategy will guide the Town's actions to create a sustainable, affordable, and equitable housing market in Chapel Hill.

Like many communities across the country, **Chapel Hill is facing an affordable housing crisis**. A constrained housing supply, increasing wealth and income disparities, and racial inequities have led to rising housing challenges. Fewer households in Chapel Hill can access homeownership and rents are rising far faster than incomes for many households. Furthermore, historically marginalized communities in Chapel Hill continue to face displacement pressures as housing costs increase.

In response, Chapel Hill has committed substantial financial and programmatic resources for affordable housing. In the past decade, the Town has allocated over \$24 million towards affordable housing. In addition to delivering and preserving over 500 affordable homes in Chapel Hill since 2013, the Town has also pursued policy changes to increase the efficacy of affordable housing development, including expedited permitting review for affordable housing projects and zoning changes to allow for by-right development of 'missing-middle' housing typologies such as townhomes and duplexes.

Chapel Hill is at a pivotal moment to address its affordable housing challenges and the disproportionate impact they have on the Town's communities of color. The need for affordable housing has increased significantly in recent years, driven in part by the COVID-19 pandemic and resulting market challenges. At the same time, **the Town has exhausted available financial resources to maintain its affordable housing programs**, including the Affordable Housing Bond approved by voters in 2018. The Town needs a strategic approach to build on past successes and increase the impacts of its affordable housing policies and investments, and an approach to provide consistent streams of funding to meet housing affordability goals.

The Affordable Housing Plan and Investment Strategy is intended to be a living document to be used by Town staff, elected officials, and the community **to guide affordable housing policies and investments over the next five years**. The recommendations outlined in the Plan will enhance and expand the Town's existing affordable housing toolkit while **centering racial equity in housing within Chapel Hill**.

Housing Affordability Impacts

Since FY 2014, Chapel Hill has made significant investments in affordable housing.

\$24.6M

Local and federal funds invested in housing programs

545

Affordable homes created and preserved

953

Lower-income households served

EXECUTIVE SUMMARY HOUSING CHALLENGES

The Town leverages a robust set of housing programs, policies, and funding sources for a community of its size. Still, unmet housing needs and lingering affordability gaps continue to pose challenges in Chapel Hill's housing market.

LIMITED HOUSING SUPPLY

Limited housing supply, resulting from a prevalence of low-density development patterns, barriers to new housing development, and the lack of diversity in types of homes. This also contributes to a highly competitive housing market.

1%
Net increase in homes since 2010

DECREASING ACCESS TO HOMEOWNERSHIP

Home sale prices have seen a dramatic uptick since the start of COVID-19 pandemic. As a result, it is increasingly difficult for households earning less than \$150,000 annually to access homeownership in the market.

36%
Increase in median home sales prices since 2020

DECLINING RENTAL AFFORDABILITY

Rents have risen faster compared to incomes, resulting in growing housing cost burdens among renter households earning less than \$75,000 annually.

440
Additional cost-burdened renters households earning \$35k-\$75k

DISPLACEMENT PRESSURES

Increased housing prices Townwide have created displacement pressure for lower-income and Black residents.

32%
Decrease in Black homeownership since 2010

EXECUTIVE SUMMARY RECOMMENDATIONS

The Affordable Housing Plan includes recommendations for the Town to deploy funds and policies to address local housing challenges and increase racial equity over the next five years, guided by four goals.

EXPAND THE IMPACTS OF AFFORDABLE HOUSING FUNDING AND PROGRAMS

The Town should **dedicate consistent streams of funding** to support its affordable housing programs, establish tools that **increase the impacts of local funding**, and **align staff capacity** and other resources to maintain a high level of affordable housing services and development.

HELP LOW-INCOME RENTERS REMAIN IN STABLE AND AFFORDABLE HOUSING

Chapel Hill should **ensure low-income renters have access to affordable and secure housing** by enhancing its rental assistance programs and bolstering tenants' rights while continuing to increase the supply of affordable rental homes

INCREASE ACCESS TO HOME-OWNERSHIP

The Town should **expand its down payment assistance program, refine its inclusionary zoning policy and evaluate asset building initiatives** to increase homeownership opportunities in Chapel Hill.

DECREASE HOUSING SUPPLY BARRIERS

Chapel Hill should continue to **pursue regulatory changes** to remove barriers to housing supply and **encourage new development** of housing to meet the needs of a range of residents.

EXECUTIVE SUMMARY EXPAND THE IMPACTS OF AFFORDABLE HOUSING FUNDING AND PROGRAMS

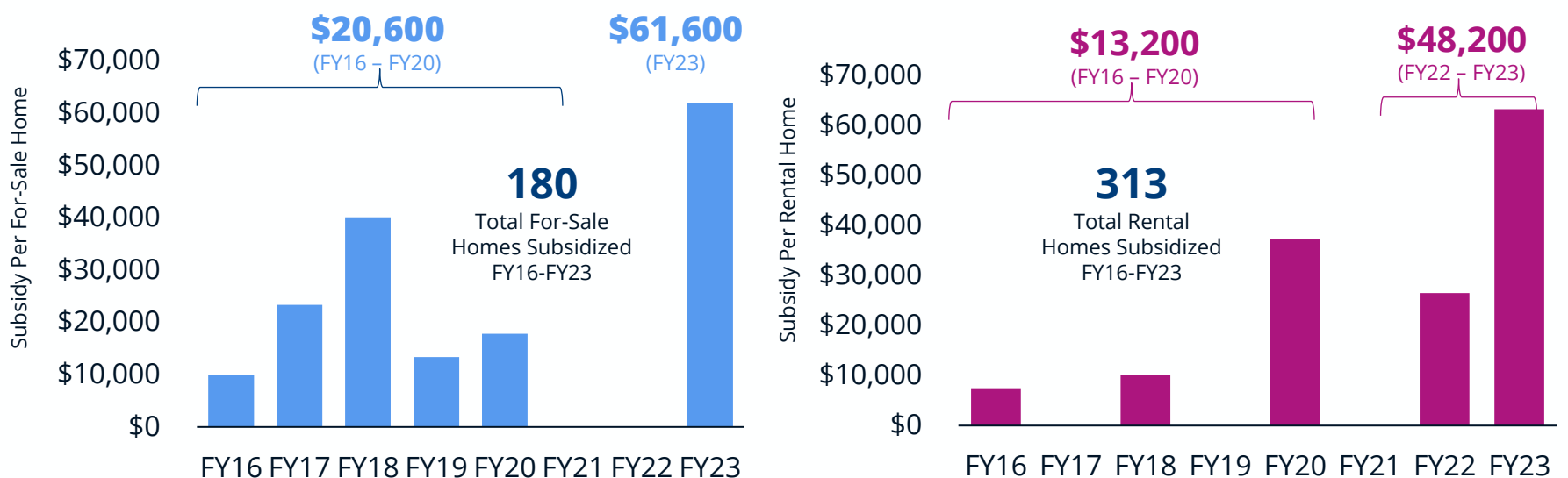
The Town has expended resources to meet previous housing goals but needs to ensure that future funding and programming is efficient and impactful.

Since 2013, the Town has dedicated over \$24M to advance affordable housing. In recent years. The Town committed local funding from the its Affordable Housing Bond Referendum (2018) and federal funding allocations such as the American Rescue Plan Act (ARPA) funding, **both of which was used to fund nearly 300 affordable homes for development and preservation.** In the past decade, the Town has made a concerted effort to dedicate public funding towards housing development; in the past decade, nearly 80% of the Town's grants were allocated to support the development of affordable homes.

Recommendations

1. Dedicate new, consistent sources of funding.
2. Realign the Town's governance & funding processes for its local funding sources.
3. Establish a revolving loan fund.
4. Enhance partnerships with regional collaborators.
5. Align staffing capacity with existing and projected programming.

Town Subsidies per Home Allocated for Affordable Homes (For-Sale and Rental) (FY 2016 – FY 2023)



While the Town has successfully utilized public funding and Town-owned property to initiate development, rising construction costs and inflated interest rates due in part to the COVID-19 pandemic have required over three times the amount of public subsidy in order to deliver affordable housing. In addition, the Town has exhausted existing funds for affordable housing. **The Town needs to sustain its higher level of affordable housing funding and programming and identify new funding sources to continue to support affordable housing.**

To ensure local funding is deployed to advance racial equity, **the Town should also develop inclusive approaches to governance and distribution of local funding** that incorporate racially and economically diverse voices in decision-making and prioritizes uses of funds that serve the most vulnerable residents within Chapel Hill and communities which have been the most disadvantaged by historically discriminatory local and regional policies.

Source(s): Town of Chapel Hill

EXECUTIVE SUMMARY HELP LOW-INCOME RENTERS REMAIN IN STABLE AND AFFORDABLE HOUSING

The Town has increased its supply of affordable rental housing but should help low-income renters cover housing costs and remain in their homes.

Over the past five years, Chapel Hill has invested heavily in producing rental homes for lower-income households; during this time period, the Town has dedicated over \$7 million in grant funding and below-market interest loans to deliver and preserve 161 affordable rental homes.

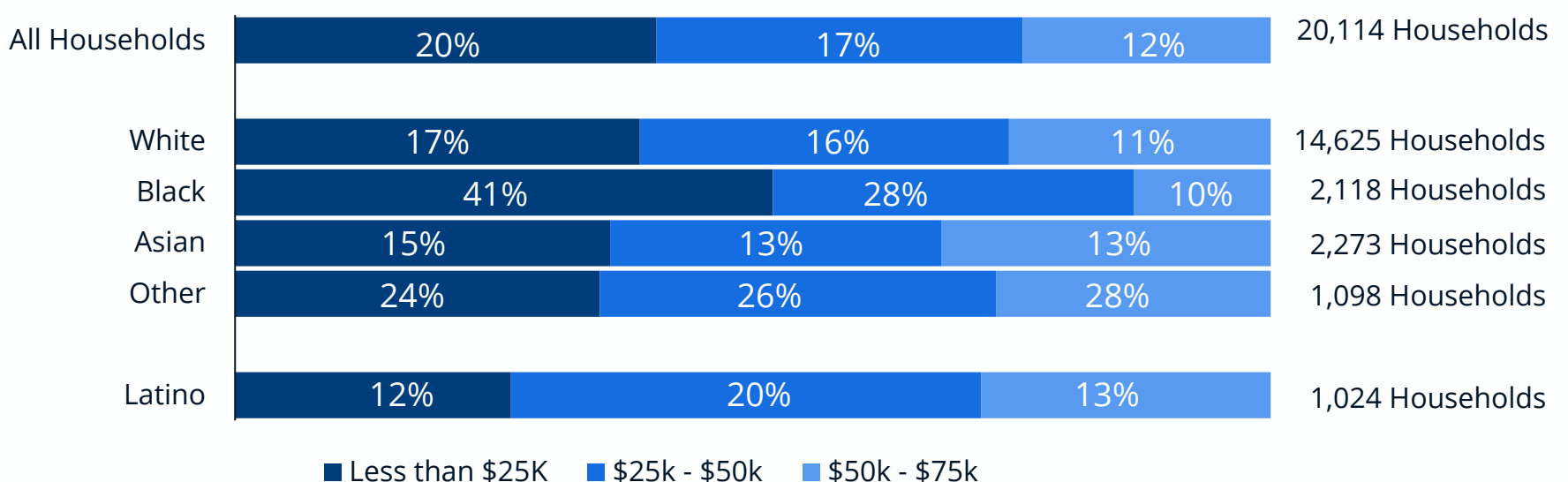
Additionally, the Town expanded its rental assistance programs with initiatives such as the Glen Lennox Master Leasing Program (administered by Community Home Trust) and its Town Employee Housing Assistance Program, which has helped 10 employees and counting secure rental housing in Chapel Hill.

Chapel Hill’s growing rental housing market has increased cost-burdens on renters. Low-income renters are particularly at risk for displacement as fewer and fewer affordable rental options exist within Chapel Hill. Furthermore, the COVID-19 pandemic and subsequent economic impacts also illuminated the housing insecurity many lower-income renter households experience.

Recommendations

6. Continue to provide gap financing to preserve and create homes for low-income renters.
7. Expand local rental assistance programs to increase services to low-income Town renters.
8. Engage and educate low-income renters on tenants' rights to complement regional legal services.

Household Income by Race (2021)



Over the next five years, it will be critical for the Town to continue to provide local gap funding to support the development and preservation of affordable rental housing, through its new loan fund. In addition, the Town should **enhance its programming and funding to ensure that low-income renters are able to access stable and affordable housing in Chapel Hill.** North Carolina’s limited protections for tenants’ rights are the product of policies which disenfranchised Black residents from accessing housing.

Source(s): ACS 2021 5-Year Estimates

EXECUTIVE SUMMARY INCREASE ACCESS TO HOMEOWNERSHIP

The Town should expand and refine existing programs and policies to increase homeownership access, while exploring asset building programs.

Like many communities in the Research Triangle, housing costs in Chapel Hill have risen over the past decade, with particularly sharp increases since 2020. This has meant that **homeownership has become increasingly unattainable for all but the highest-income residents.**

In addition, a legacy of federal and local policies and practices, such as redlining and restrictive covenants, have restricted access to homeownership for Black residents. Black homeownership in Chapel Hill has also declined in the past decade, likely due to displacement pressures for existing homeowners and limited access to affordable homeownership.

The Town has an Employee Housing Program which provides up to \$12,500 in Down Payment Assistance to help Town employees purchase homes in Chapel Hill. In addition, the Town has consistently funded homebuyer subsidies and other Down Payment Assistance programs led by partner organizations.

In 2010, the Town enacted its inclusionary zoning policy for for-sale housing in order to increase affordable housing development. While it had limited success in its early years, the Town entitled 64 affordable homes to be sold at price points affordable to 65%-80% AMI households since 2020. The Town has also partnered with non-profit developers to provide subsidies and land donations to deliver for-sale housing.

As housing prices continue to increase, the Town needs to continue its momentum in

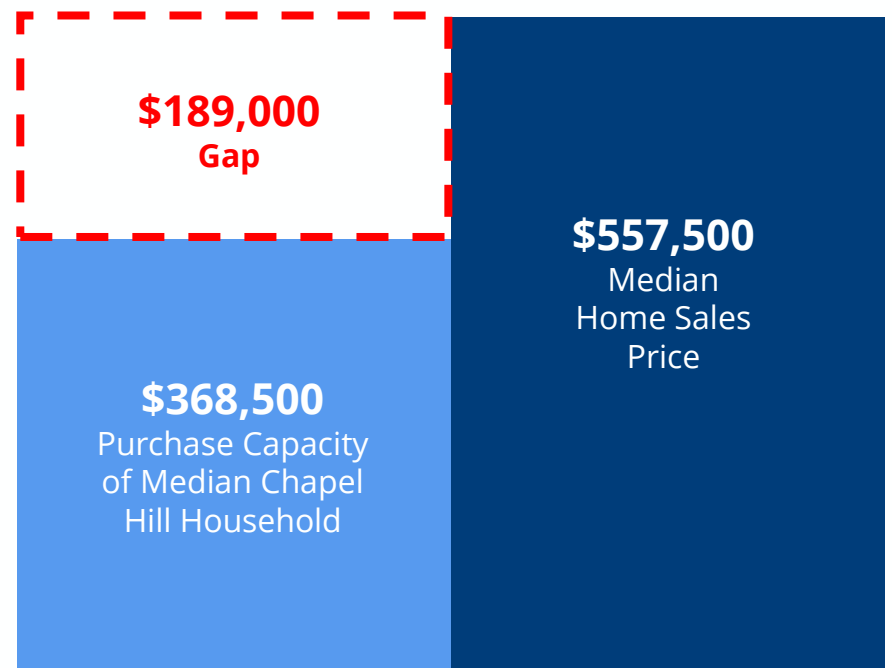
increasing homeownership access for moderate-income households, as well as combating historic discrimination and inequities in homeownership for Black households. In order to address these issues, the Town should expand and refine its existing programs and policies. This will include expanding the availability of Down Payment Assistance and encouraging the production of more homes affordable to moderate-income homebuyers. In addition, the Town can explore programs help lower-income households by building assets toward future homeownership.

Source(s): ACS 2021 5-Year Estimates, FHA, Freddie Mac, HUD, Town of Chapel Hill, Zillow

Recommendations

9. Establish a townwide down payment assistance program to help moderate-income households purchase homes in Chapel Hill.
10. Refine the Town's inclusionary zoning policy to better incentivize the development of affordable for-sale homes.
11. Explore programs to help lower-income households build assets for homeownership.

Home Purchase Capacity 2022



Purchase Capacity

Median Home Price

EXECUTIVE SUMMARY DECREASE HOUSING SUPPLY BARRIERS

The Town is undertaking zoning and regulatory initiatives to increase housing supply in Chapel Hill.

Low-density development patterns, project-specific development requirements, limited land availability, and public opposition to housing development have challenged housing development and resulted in a limited housing supply in Chapel Hill.

While regulatory changes alone will not solve the Town's affordable housing challenges, increasing the housing supply by reducing barriers to new development could help to ease market pressures and stabilize housing prices.

The Town is advancing several important regulatory and zoning changes to increase housing supply, which include:

- **Expedited permit review for affordable housing development projects.** For development projects which include affordable units, the Town has incorporated a streamlined permit review process. The expedited process decreases expected approval times by 4-7 months by eliminating the concept plan review and advisory board review steps. This increases Town staff's authority to recommend projects to the Planning Commission and Town Council. By streamlining the entitlements process, **housing development projects can minimize project timeline delays, which decreases the costs to develop new housing.** The Town approved of the expedited permit review process in early 2023.
- **A text amendment to the Town's Land Use Management Ordinance (LUMO) to allow 'by-right' development of missing-middle housing.** In residential districts which only allowed single-family detached housing, developers would be allowed to deliver smaller developments (2 units per lot) with administrative approval. Larger-scale missing-middle housing typologies such as cottage courts, triplexes, and fourplexes, would be allowed by-right in any district where multifamily is allowed. By implementing this zoning change, the Town can increase its housing supply, which in turn will expand access to housing and lower the barriers to entry for residents to move into historically exclusive single-family neighborhoods. The Town is anticipated to adopt the zoning changes in summer 2023.

The Town has already enacted a number of zoning and regulatory amendments to increase housing supply, such as permitting accessory dwelling units (ADUs), density bonuses for public benefits, and encouraging 'missing-middle' housing. In order to continue this momentum, the Town should continue to pursue additional zoning and regulatory changes and obtain community buy-in to support housing development.

Additional Considerations

- Continue pursuing zoning and regulatory changes to streamline entitlements processes and reduce upfront development costs for housing.
- Launch a formal education and outreach campaign in order to bolster community buy-in for housing development.

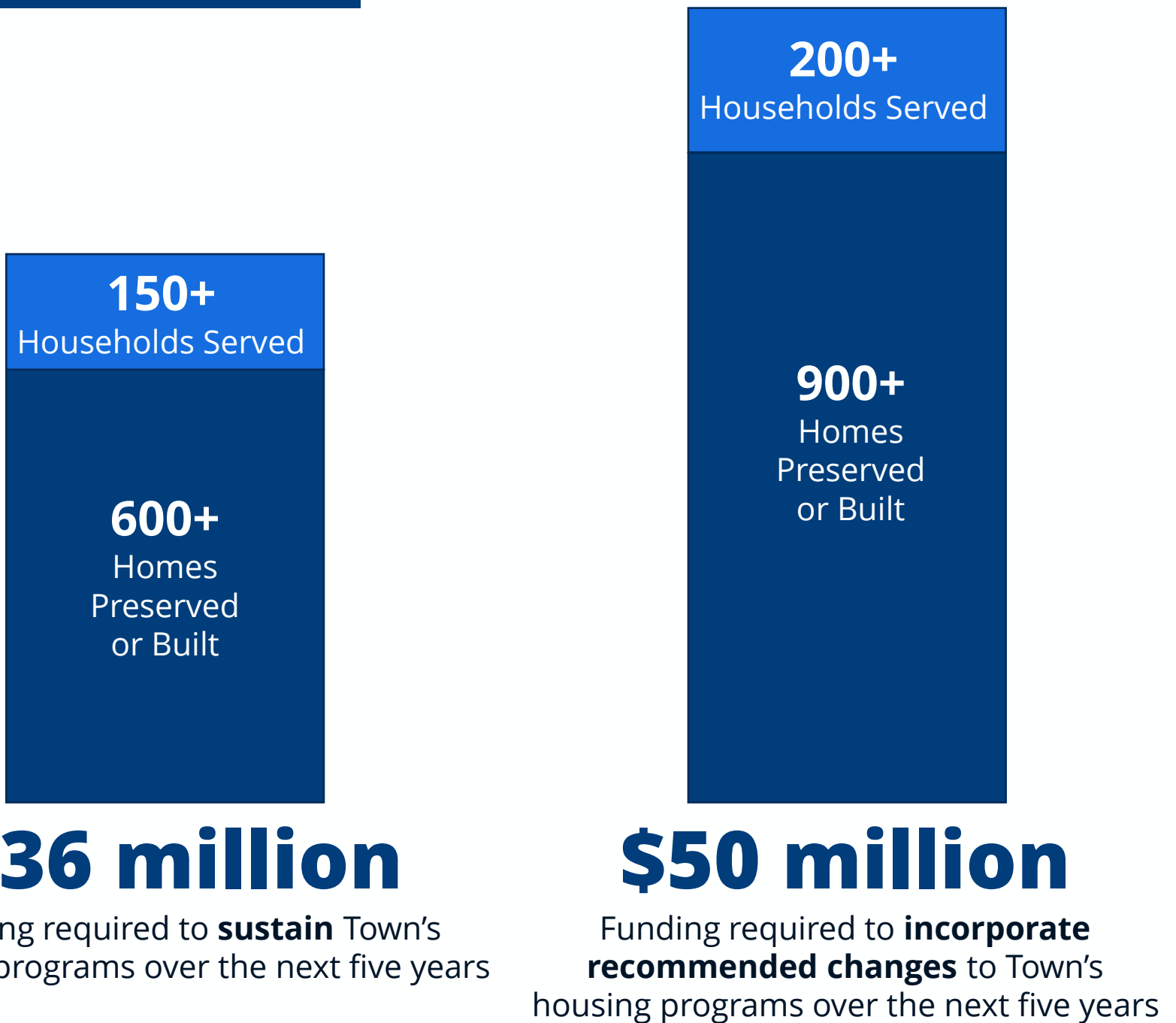
EXECUTIVE SUMMARY FUNDING COMMITMENT

The Town of Chapel Hill should dedicate \$10 million per year in local funding to invest in housing affordability over the next five years.

To implement the recommendations outlined in the Plan, **the Town should dedicate \$10 million annually towards affordable housing over the next five years, which can develop and preserve over 900 affordable homes and serve over 200 households.**

The projected impacts of additional local spending present a potential distribution of funding—the actual impact will depend on Town Council’s final funding allocations overall and by program.

Potential Five-Year Impacts of Local Spending on Affordable Housing



[1] Projected funding impacts assumes up to \$25,000 per home for LIHTC Gap financing, \$55,000 per home for additional development gap financing, up to \$60,000 per household for downpayment assistance and homebuyers counseling, up to \$1,400 per month per household for up to six months of rental assistance and up to \$10,000 per household for repairs.

EXECUTIVE SUMMARY FUNDING SOURCES

The Town should pursue a combination of a new, larger affordable housing bond and a two-cent tax to fund its affordable housing programs for the next five years.

To meet a funding commitment of \$10 million in annual funding for affordable housing, the Town will need to explore multiple potential funding sources. The Town can continue to use available CDBG funds for affordable housing and may allocate additional general funds for affordable housing. In addition, the Town should issue another, larger housing bond and incorporate a penny tax for affordable housing.

- **An affordable housing bond provides funding for large multi-year housing initiatives such as investment in new development.** The Town has historically relied on small, occasional housing bonds, the most recent of which totaled \$10 million in 2018. However, it should instead pursue larger bonds that can fund affordable housing over a five-year period. Issuing an affordable housing bond will require a voter referendum for the public to approve of the proposed bond. To align the use of bond funds with intended impacts, the Town should pace the deployment of funds over five-years.
- **A penny tax for affordable housing provides a reliable, annual stream of funding dedicated to affordable housing programs.** A one-cent penny tax could generate approximately \$970,000 annually for affordable housing. Doubling this to a two-cent tax could contribute nearly \$2 million annually to fund affordable housing in Chapel Hill.
- **The Town could also increase its allocation from its General Fund to grow the capacity of its affordable housing staff and administration.** The Town allocates an average of approximately \$1.7 million annually from its General Fund for affordable housing. While an increase in General Fund allocation could reduce the required bond needed to support affordable housing goals, General Fund revenues are likely the first funding source to be reduced if unexpected funding emergencies occur. Additionally, increasing affordable housing funding from the General Fund will likely result in decreasing funding to accomplish other Town objectives.

Potential Funding Sources for a Five-Year Commitment of \$50 Million

\$29M Bond, Two-Cent Tax, Increase General Fund commitment to \$2M annually



\$41M Bond, No General Fund increase



■ Bond ■ Penny Tax ■ General Fund Allocation ■ CDBG