



TOWN OF CHAPEL HILL

Town Council Meeting Agenda

Town Hall
405 Martin Luther King Jr.
Boulevard
Chapel Hill, NC 27514

Mayor Pam Hemminger
Mayor pro tem Karen Stegman
Council Member Jessica Anderson
Council Member Camille Berry
Council Member Tai Huynh

Council Member Paris Miller-Foushee
Council Member Michael Parker
Council Member Amy Ryan
Council Member Adam Searing

Monday, November 13, 2023 6:30 PM

Library Meeting Room B

Language Access Statement

For interpretation or translation services, call 919-969-5105.

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Para servicios de interpretación o traducción, llame al 919-969-5105.

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书面翻译服
务，请拨打
919-969-5105.

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In-Person Meeting Notification

Changes in Meeting Material content

- *We are trying something new this fall to make our Agenda packets clearer and easier to navigate. You'll notice streamlined reports and more hyperlinks to supporting documents.*
- *Staff presentations will be posted after the meeting, not as drafts in the packet, to allow more time to prepare high-quality presentations.*
- *We will also produce an "information items" packet periodically, to share items that don't require Council action, but are important to the Council and community. Those packets will be published on our website.*

View the Meeting

- *Public attendance is welcome, and limited to room capacity*
- *We will not live stream the event, but will provide the Post-Meeting Video <https://www.townofchapelhill.org/councilvideo/>*
- *The Town of Chapel Hill wants to know more about who participates in its programs and processes, including Town Council meetings.*
- *Participate in a voluntary demographic survey before viewing online or in*

person - <https://www.townofchapelhill.org/demosurvey>

Parking and Entry

- *Parking is available at the Library lots. The Library is served by CL Route, D Route, and GoTriangle Routes of Chapel Hill Transit*
- *Meeting Room B is to the right from the main entrance.*
- *Please do not bring signs.*

ROLL CALL

OPENING

ANNOUNCEMENTS BY COUNCIL MEMBERS

AGENDA ITEMS

1. Rewriting Our Rules: A LUMO Update

[\[23-0783\]](#)

PRESENTERS: Tas Lagoo, Principal Planner Allison Mouch, Consultant Christopher Hall, Consultant Lance Dorn, Consultant

Planning Department staff and project consultants will share updates and request feedback on the Rewriting Our Rules project.

2. Boards & Commissions Assessment/Staff Response to Council Petition. (no attachment)

[\[23-0784\]](#)

PRESENTER: Susan Brown, Executive Director for Strategic Communications

The purpose of this item is to share staff findings and recommendations in response to Council petition requesting an assessment of Town Boards & Commissions.

REQUEST FOR CLOSED SESSION TO DISCUSS ECONOMIC DEVELOPMENT, PROPERTY ACQUISITION, PERSONNEL, AND/OR LITIGATION MATTERS



TOWN OF CHAPEL HILL

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405 Martin Luther King Jr.
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Chapel Hill, NC 27514

Item Overview

Item #: 1., **File #:** [23-0783], **Version:** 1

Meeting Date: 11/13/2023

Rewriting Our Rules: A LUMO Update

Staff:

Britany Waddell, Director
Judy Johnson, Assistant Director
Tas Lagoo, Principal Planner

Department:

Planning

Please see Staff Report on following page.

The Agenda will reflect the text below and/or the motion text will be used during the meeting.

PRESENTERS: Tas Lagoo, Principal Planner Allison Mouch, Consultant Christopher Hall, Consultant Lance Dorn, Consultant

Planning Department staff and project consultants will share updates and request feedback on the Rewriting Our Rules project.



Council Work Session: Rewriting Our Rules

Planning Dept. Staff: Britany Waddell, Judy Johnson, Tas Lagoo

Town Council Meeting Date: November 13, 2023

Overview

For the November 13, 2023, Work Session the Rewriting Our Rules team will provide project updates on three major topics: zoning districts, building and site design, and affordable housing. This memo previews those topics, provides a summary of public engagement efforts, and follows up on certain issues raised during the October 18, 2023, Work Session.

A "Planning Glossary" is included as an appendix to this document to make it more accessible to all readers.

Project Updates

Draft Zoning Districts:

During the Work Session, the project team will present a proposal to modernize the Town's menu of available zoning districts. The proposal is detailed in the attached memo prepared by Orion Planning + Design and Rundell Ernstberger Associates. The proposal:

- consolidates similar districts (e.g., Residential-1 (R-1) and Residential-1A (R-1A), Town Center-2 (TC-2) and Town Center-3 (TC-3), etc.) where there are minimal distinctions between the existing districts;
- creates new districts (e.g., Mixed Residential) to further community interests such as promoting small-scale commercial uses in residential neighborhoods; and
- forecasts how each district will utilize a combination of use regulations, design standards, building types, and street types to achieve various Town goals.

Building and Site Design:

During the Work Session, the project team will present an update on new building and site design standards. These standards focus on community priorities such as inviting, human-scale street frontages. The standards also help to ensure that new buildings contribute to excellence in the public realm regardless of whether they are approved administratively or by the Town Council.

Affordable Housing:

During the Work Session, the project team will present an update on the feasibility of code-based affordable housing incentives. In general, the team has confirmed that even significant density bonuses will not be fruitful in the Chapel Hill market. These findings support the need to use other code-based opportunities (e.g., reducing steep slope restrictions, stream buffers, landscape buffers, etc.) to incentivize affordable housing development.

Public Engagement:

Staff launched the project's public engagement and outreach efforts in July 2023. A timeline of engagement for this project is available at the [project webpage](#).¹ Phase 1 and the first part of Phase 2 concluded in November 2023 and included:

- Holding learning Sessions with 11 compensated Planning Ambassadors.
- Convening focus group meetings for 36 key stakeholders knowledgeable in affordable housing and building design.
- Establishing an email listserv for quarterly newsletters.
- Using social media posts to bring attention to the project.
- Developing one-pagers and other educational materials to explain zoning and planning in plain language, translated for speakers of languages other than English.

Upcoming engagement will follow equitable engagement principles to meet people where they are, provide materials in plain language, and offer opportunities for under-engaged groups to connect with planning staff.

Follow-Up From October 18, 2023, Work Session

Nodes Assessment:

During the October 18, 2023, [Work Session](#)², councilmembers expressed an interest in better understanding the assets, needs, and opportunities of various development nodes around Chapel Hill.

As a preview of what this sort of assessment could look like, staff have mapped areas of Chapel Hill that are within a 15-minute walk of publicly accessible parks, open space, or recreation areas. An excerpt of the map is shown below.

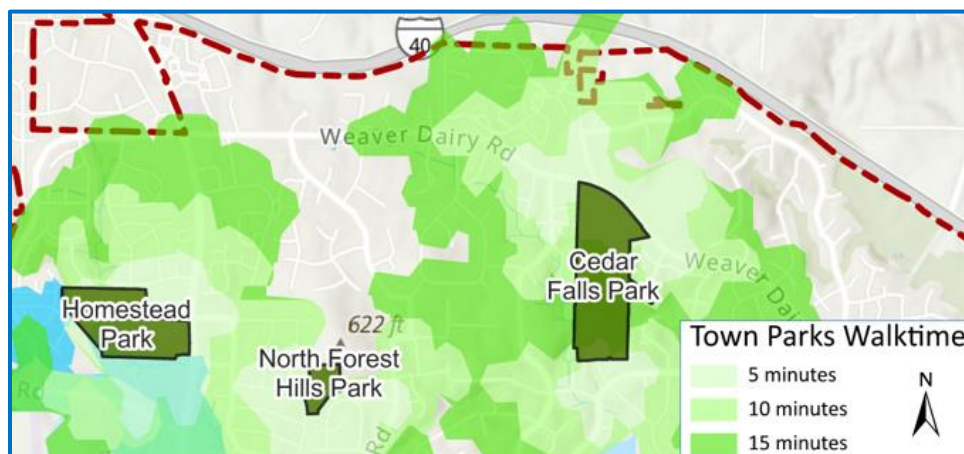


Figure 1: Map showing estimated walking times from Town parks.

This type of map could be used in two ways:

- (1) To inform revisions to recreation space requirements in the updated LUMO and

¹ <https://www.townofchapelhill.org/government/departments-services/planning/plans-and-ordinances/lumo-land-use-management-ordinance>

² <https://chapelhill.legistar.com/LegislationDetail.aspx?ID=6383925&GUID=838AD17B-7E46-4F69-AFA2-44D1BE4627EC&Options=&Search=>

(2) To assist staff and Council when reviewing individual development projects.

Going forward, staff will continue to identify community assets that lend themselves to this sort of analysis and will incorporate our findings into the updated LUMO and individual project reviews, as appropriate.

Community Benefits, Administrative Approvals, and Conditional Zoning:

Staff are continuing to develop the “Mandate, Incentivize, Negotiate” Matrix we previewed during the October 18, 2023, Work Session. The matrix will be used to inform ongoing discussions around the most appropriate ways to secure community benefits in new development, whether through administrative approvals or Conditional Zonings. Changes to the Town’s existing Conditional Zoning process may also be considered in parallel to Rewriting Our Rules.

Complete Community Strategy and the Future Land Use Map:

The [Complete Community Strategy](#)³, “defines how growth and change should be accommodated and managed as Chapel Hill works to implement the overall vision found in *Chapel Hill 2020* and the land use principles embodied in the Future Land Use Map.” A core purpose of the of the Future Land Use Map (FLUM) is to ensure that the Town’s land use tools are “predictable, functional, and intentional”⁴ by forecasting where development should be concentrated in the future. The FLUM provides stability, but not outright certainty.

In general, staff are confident that there is substantial alignment between the Complete Community Strategy and the FLUM. Staff will be mindful of any potential misalignment between the two and propose amendments as necessary.



Figure 2: Consolidated graphics from pages 5-6 of the Complete Community Strategy demonstrating connections to other elements of the Comprehensive Plan.

The **land use principles** embodied in the FLUM are consistent with the Complete Community Strategy. Like the Complete Community Strategy, the FLUM emphasizes placemaking, sustainability, connectivity, and the strategic use of higher density development.

³ Complete Community Strategy at page 6 (<https://chapelhill.legistar.com/View.ashx?M=F&ID=11946770&GUID=BAFD6A66-0C6F-4E92-987A-0CD7569BA440>)

⁴ Future Land Use Map – Executive Summary at page iii (<https://online.flippingbook.com/view/26191/4-5/>)

The **land use patterns** identified in the FLUM are also largely consistent with the Complete Community Strategy. In keeping with the Complete Community Strategy's emphasis on delivering more housing while protecting environmental assets and reducing auto-dependency, the FLUM calls for dense residential and mixed-use development along the Town's established transportation corridors. These uses are listed as "Primary Uses" in 18 of the 21 Focus Area Sub-Areas identified in the FLUM.

The **building heights** listed in the FLUM offer important guidance for Rewriting Our Rules but are not mandatory. The FLUM specifically notes that its "Typical, Activated Street Frontage, and Transitional Area Heights are contextual" and that "the surrounding building and natural environment as well as the Town's vision for the future must be taken into consideration."⁵ Going forward, staff will continue developing policy recommendations that respond to the high-level guidance provided by the FLUM, the context of various parts of Town, and the vision of the Complete Community Strategy.

As the Town's vision for the future continues to evolve, the FLUM should be amended periodically. Staff recommend that any amendments to the FLUM proceed in parallel to Rewriting Our Rules and not impact the project's timeline.

Next Steps

The tentative schedule is to continue discussions around the LUMO and to introduce new Councilmembers to the project at the January Council Work Session.

Attachments

1. Planning Glossary
2. Memo: LUMO Re-Envisioned Draft Zoning District Proposal. November 2023. Prepared by Orion Planning + Design and Rundell Ernstberger Associates.
3. Briefing Book: Feasibility of Density Bonuses to Support Community Benefits. October 2023. Prepared by SB Friedman.

⁵ Future Land Use Map at page 4 (<https://online.flippingbook.com/view/26191/10-11/>)

Attachment 1: Planning Glossary

Plans and Regulations

Comprehensive Plan:

A comprehensive plan (often referred to as a "Comp Plan") is a document that provides a holistic vision for a community. Comprehensive plans typically cover large geographical areas, a broad range of topics, and have a long-term timeline. Common topics addressed by comprehensive plans include land use, transportation, public facilities, parks, environmental protection, and economic development.

Comprehensive plans are not laws, but they set the stage for other more detailed plans and regulations. In North Carolina, local governments must have a comprehensive plan or land use plan to adopt and enforce land use regulations (e.g., a zoning map and Land Use Management Ordinance).

Chapel Hill's comprehensive plan is made up of multiple documents that have been adopted over the last ten years. You can learn more about each element of our comprehensive plan [here](#).⁶

Complete Community Strategy:

Town Council adopted the [Complete Community Strategy](#)⁷ as an element of Chapel Hill's Comprehensive Plan on May 10, 2023. The Complete Community Strategy serves as a framework for the other elements of the Comprehensive Plan and outlines how Chapel Hill should meet its housing needs while protecting the environment, promoting greenways and other multimodal transportation, and

Future Land Use Map (FLUM):

The FLUM is an element of Chapel Hill's comprehensive plan that defines a more detailed vision for how we want specific parts of town to look in the future. This is a plan that directs the most substantial change in development and infrastructure to parts of town known as "Focus Areas." There are six Focus Areas located around major roads like Franklin Street, US 15-501, and Martin Luther King Jr. Blvd

The FLUM acts as a bridge between the comp plan and the Land Use Management Ordinance (LUMO).

Land Use Management Ordinance (LUMO):

Most communities have regulations that govern development, including where a building can be located on a property, how tall it can be, or what it can be used for. This same set of rules can also determine the design of streets and parking lots, lighting and signs, stormwater infrastructure, and landscaping. In Chapel Hill, the current set of development regulations is called a Land Use Management Ordinance, or "LUMO." You

⁶ <https://www.townofchapelhill.org/government/departments-services/chapel-hill-2020>

⁷ <https://chapelhill.legistar.com/LegislationDetail.aspx?ID=6195013&GUID=4B7B1135-863B-44B6-B8F0-2F7E0936C6A0&Options=&Search=>

can find the Town's Land Use Management Ordinance (LUMO) online in the [Municode Library](#).⁸

Development Types

Land Use:

This is the way land is used, like whether it contains buildings or park space. The term also describes how buildings are used, like for homes, businesses, or services. Land use can refer to what is happening with the land now or how it should be used in the future (i.e., future land use).

Mixed use:

Mixed use is a way to regulate that allows multiple uses on the same property through the LUMO and the Zoning Map. Usually, only a single use is allowed on one property. Mixed use development can include a combination of residential, commercial, office, and institutional. Mixed use can be in a single building or in multiple buildings.

Affordable Housing:

Housing that has a sale price or rental amount that is within the means of a household that may occupy middle-, moderate-, or low-income housing. In general, affordable housing is measured by comparing housing costs to household income. Housing that is affordable means housing costs (including mortgage, amortization, taxes, insurance, and condominium or association fees for homeowners, or the cost of rent and utilities for renters) is no more than 30 percent of annual household income.

Land Use Tools

Zoning Districts:

Zoning plays a key role in shaping the places we live, work, learn, play, and visit. Each local government, including Chapel Hill, has zoning districts to regulate what government can happen and where. Each district has written and numeric regulations on what type of development can happen in that district.

Zoning districts are the fundamental building blocks of a zoning code and usually have abbreviated letters to differentiate them. For example, residential zoning districts are often labeled, "R" or "RES"; commercial districts are often labeled "B" for business or "COM" for commercial.

Many zoning districts have detailed requirements that define how buildings look and relate to their setting and neighbors.

Zoning Map:

Zoning map is the geographic application of zoning districts. The zoning map impacts how Chapel Hill looks and feels as a place. The zoning map takes the districts described

⁸ https://library.municode.com/nc/chapel_hill/codes/code_of_ordinances?nodeId=PTIICO_APXALAUSMA

in the code and applies them to different areas of town. This means each property and the surrounding infrastructure has a zoning district applied to it.

By-Right Zoning:

If a proposed development fits within the rules of Land Use Management Ordinance, a property owner can build it "by-right". Town staff would review plans for the project and then sign-off on the project without needing approval from the Town Council.

Conditional Zoning District and Special Use Permits:

In Chapel Hill, any development that disturbs more than 40,000 square feet of land or includes more than 20,000 square feet of floor area must receive a Conditional Zoning District or Special Use Permit. Either option involves extensive review from Town Staff, Planning Commission, and Town Council. These types of development are not allowed "by-right".

Floor area ratio (FAR):

Floor area ratio (FAR) is the ratio of the floor area of a building to the lot area it sits on. It measures the density of development. For example, a FAR of 5.0 means that a builder can develop five times as much square footage as exists on the lot. This would typically be a mid-rise office building or a mid-rise multi-family building. Single family homes often have an FAR of less than 1. This means the floor area in the home is less than the area of the lot it sits on. An FAR of 0.5 would likely be a retail strip mall with surface parking. Skyscrapers will have an FAR of 15-20 or more.

Setback:

Setbacks are the minimum distance a structure must be from the edges of the property line. This mostly addresses setbacks at the ground level. Some codes also require additional setbacks from the property line for upper floors on taller buildings.

Infrastructure and Transportation

Infrastructure:

The physical resources and services needed to maintain a livable city/town and county. Traditional types of infrastructure include drinking water, wastewater, emergency services, solid waste, transit, roads and streets, sidewalks, bike lanes, trails, parks, and street trees. Additional types of infrastructure include schools, libraries, public health facilities, broadband (Internet), arts and culture spaces, childcare facilities, and public housing.

Bus Rapid Transit (BRT):

A high-quality bus-based transit system that delivers fast and efficient service that may include dedicated lanes, busways, traffic signal priority, off-board fare collection, elevated platforms and enhanced stations.

MEMORANDUM

Date: November 6, 2023
 To: Chapel Hill Town Council
 Tas Lagoo, Town of Chapel Hill
 From: Allison Mouch, AICP, Orion Planning + Design
 Cynthia Bowen, FAICP, Rundell Ernstberger Associates

SUBJECT: LAND USE MANAGEMENT ORDINANCE (LUMO) RE-ENVISIONED DRAFT ZONING DISTRICT PROPOSAL

OVERVIEW

This memorandum provides a summary of:

- The project background and purpose;
- The role of zoning in implementing our comprehensive plan and **Complete Community Strategy**;
- The process used to compose the revised draft LUMO district palette;
- How the proposed districts and align with community priorities established through recent planning efforts, including **Complete Community, Charting Our Future, and Shaping Our Future**;
- The proposed purpose of each district and how the proposed districts relate to the existing zoning designations in Chapel Hill;
- How lot, building, and street design elements can be used to reinforce a sense of place; and,
- An overview of next steps in the LUMO drafting process.

PROJECT BACKGROUND AND PURPOSE

The comprehensive audit of the Town's **Land Use Management Ordinance (LUMO)**, completed in the spring of 2023 as part of the **Shaping Our Future Plan**, highlighted how the intent, composition, and characteristics of current zoning districts in Chapel Hill are out of alignment with past community planning efforts; most notably, the **Complete Community Strategy and Future Land Use Map (FLUM)**. The **Complete Community** effort served to highlight and reinforce core themes and community-driven priorities previously established by the comprehensive plan; namely, that land use decisions in Chapel Hill should:

- **Maintain the distinctive features and attributes that make the Town a desirable place to live and work;**
- **Create connected, attractive, and inclusive places that are more responsive to the effects of climate change;**
- **Attract, grow, and deliver programs and amenities to support Chapel Hill residents' quality of life; and,**
- **Reinforce social equity by expanding all residents' access to a healthy, safe, and fulfilling community.**

The LUMO plays an integral role in ensuring land use and development decisions reflect these core tenets moving forward. Town Council endorsed a comprehensive update of LUMO in Spring 2023. This update will align the regulatory framework of LUMO with the vision originally set by the FLUM and reinforced through **Complete Community**. An updated LUMO will better serve the Town by establishing clear parameters for development:

- **Where and how it can occur**
- **The process by which it will be evaluated**
- **The outcomes that can be expected by both developer and the community at large**

The composition of zoning districts serves as the foundation for the LUMO rewrite and the launch point from which the update process began.

ZONING DISTRICTS AS A TOOL IN SUPPORT OF THE COMPLETE COMMUNITY STRATEGY

It is important to ensure district purpose is aligned with plan goals. There are many other components that can be layered into a zoning district that reflect the qualities of a place or neighborhood and support a district's effectiveness in implementing **Complete Community** objectives.

Currently, zoning districts in Chapel Hill employ a standard suite of bulk and dimensional requirements to guide where and how development occurs by lot or site. These standards are typical of most zoning codes throughout the state and country; however, they fail to reflect, preserve, or enhance the aesthetic qualities and context that exists between neighborhoods and places within and between zoning districts. With few exceptions, each district prescribes a minimum lot size, lot width, and length of street frontage; requires a minimum setback from the street and interior lot lines; includes a solar setback; sets maximum building height; and establishes a maximum amount of impervious surface as well as floor area ratio for development by lot within a district.

The evaluation and recomposition of a draft set of zoning districts for Chapel Hill involves reframing the development context by district, lot, building, and street type. Instead of continuing the "one size fits all approach" to bulk and dimensional requirements as presently exists today, the revisions to LUMO districts look to an expanded framework of design requirements that apply based on the contextual environment a lot or development site is within.

The placement, massing, scale, and orientation of a building or development on a lot will still be regulated by district, but with additional parameters, such as:

- **Establishing building types that reflect the distinctive features and qualities of a district or neighborhood;**
- **Regulating design elements like roof pitch, floor height, transparency, and blank wall space;**
- **Permitting select uses by building type;**
- **Requiring certain types of buildings or specific building frontages based on the type of street they face.**

Expanding standards beyond district type to consider a lot's surroundings allows by-right development to be more responsive to context and ensure design outcomes reflect what the community desires as expressed through **Complete Community** and the FLUM.

The table below highlights how new or revised district elements can reinforce Complete Community objectives and the overall goals of the FLUM.

PLAN OBJECTIVE	CHANGES TO USE	DISTRICT ELEMENT		
		DISTRICT/ LOT DESIGN STANDARDS	BUILDING TYPES	STREET TYPES
HOUSING DIVERSITY	Separate use from built form by establishing building types. For example, the use of a building is for a “residence”, but that residence could take multiple forms – duplex, triplex, quad court, apartment.	Permit select building types by district.	Incorporate building types that express a wide range of residential development, assigned appropriately based on district purpose.	Permit certain building types based on the street type upon which they front.
TRANSIT OPPORTUNITIES	Allow transit stations and associated infrastructure as permitted by-right in TOD and other districts, as appropriate.	Require transit stops and infrastructure in TOD districts, and others, at a level to serve the communities’ needs	--	Require transit stops and infrastructure based on street type, linked to district.
LIVE/WORK/PLAY OPPORTUNITIES	Expand permitted uses by district to allow more opportunities for residential development to occur alongside employment opportunities, supported by recreation. Activities should be integrated by district, by lot, and in some cases by building type.	Include standards for multiple principal uses, accessory uses, and temporary uses, based on the district, to enable mixed use buildings and development by-right in certain districts.	Establish mixed-use building types, to incorporate by district.	Establish what street types are most appropriate to allow mixed-use buildings, or a mix of uses (in separate buildings) on one lot or development site.

DISTRICT ELEMENT

PLAN OBJECTIVE	CHANGES TO USE	DISTRICT/ LOT DESIGN STANDARDS	BUILDING TYPES	STREET TYPES
MIXED USE BUILDINGS	Create a clear avenue for mixed uses to occur on a site (in multiple, separate buildings) and mixed uses within a single building, as appropriate by district.	Include standards for multiple principal uses, accessory uses, and temporary uses, based on the district, to enable mixed use buildings and development by-right in certain districts.	Establish mixed-use building types, to incorporate by district.	Establish what street types are most appropriate to allow mixed-use buildings, or a mix of uses (in separate buildings) on one lot or development site.
PEDESTRIAN-ORIENTED ¹	--	Incorporate build-to zones to activate street frontages and encourage proactive use of a setback.	Establish orientation requirements for building entrances to ensure safe and accessible entry for pedestrians from streets and parking lots. This can be accomplished by district, by building type, by street typology, or using a combination of all three.	Establish orientation requirements for building entrances to ensure safe and accessible entry for pedestrians from streets and parking lots. This can be accomplished by district, by building type, by street typology, or using a combination of all three.
ACTIVE TRANSPORTATION	Incorporate active transportation uses and activities under the refined uses and use groups to better reflect the array of possibilities in Chapel Hill.	Consider how active transportation elements can be incorporated into a required amenity space.	--	Require multi-modal infrastructure (sidewalks, sharrows, bike lanes) for all street types, with varied standards based on context, and level of service.
PUBLIC REALM	--	Establish landscape buffers and open space requirements based on adjacent land use or activity.	--	Establish frontage requirements for landscaping, building orientation, and access based on street type.

¹ Pedestrian-oriented development facilitates easy access for pedestrian movement over vehicular movement through an emphasis on sidewalks, building orientation, scale, and access. Pedestrian-oriented buildings are generally placed close to the street with the main entrance opening toward a street sidewalk.

DISTRICT ELEMENT

PLAN OBJECTIVE	CHANGES TO USE	DISTRICT/ LOT DESIGN STANDARDS	BUILDING TYPES	STREET TYPES
QUALITY DESIGN	Develop landscape requirements specific to uses, and require between dissimilar or conflicting uses.	Expand site design standards to include amenity space, additional setbacks, block length, build-to zones, etc.	Incorporate design standards that address façade improvements, story height, roof pitch, transparency, floor area, frontage and building length by building type, to correlate with site design standards.	Incorporate design standards based on street type to reinforce consistency along key road frontages and corridors.

Site, building, and street type design standards are just one component of the context-sensitive approach being considered as the LUMO update moves forward. Additional considerations based on proximity to assets, programs, and amenities in Chapel Hill – such as open space – can be required of development on a district-wide basis. Similar proximal considerations when it comes to transit, utilities, employment, education, and recreation hubs will be explored to ensure the existing and future residents of Chapel Hill are served equitably and efficiently.

LUMO ZONING DISTRICT EVALUATION AND REORGANIZATION

Over the past three months the consultant team has conducted a deeper dive into the existing zoning districts, evaluating their purpose alongside the intent of future land use designations defined by the FLUM, and identifying where alignment, overlap, or disconnect were present. This evaluation also considered how existing zoning districts reflect the established **Complete Community** goals, particularly those prioritizing housing diversity; an attainable mix of housing, retail, and employment opportunities; enhanced access to transit; greater multi-modal connectivity; and lot design standards oriented toward the pedestrian. Many existing districts accomplish select aspects of these desired outcomes. However, deeper assessment confirmed the initial audit findings.

Chapel Hill has too many districts that:

- **Overlap in purpose and intent**
- **Have limited differentiation in scale, massing, use, and design aesthetic**
- **Fail to produce the development results desired and established by past planning efforts**

The evaluation also identified gaps in the ability of existing districts to support a mix of residential housing options. While this gap was partially addressed through the passage of the Housing Choices amendments in June 2023, in-depth analysis of development scenarios by district and housing type were conducted and verified onsite in Chapel Hill in late August. The scenarios studied reinforced the need to refine residential and mixed-use district purpose statements, reassess uses in relation to building types, and reconsider design standards and requirements for residential development in order to better position development and redevelopment to accomplish specific housing diversity and attainability goals. Gaps in by-right mixed-use districts, beyond what is currently offered through conditional zoning, were also identified as a misalignment between the stated land use goals of the FLUM and current district composition.

Through July and August, the project team workshopped the recommended reorganization of LUMO zoning districts with Town Planning staff during bi-weekly (and occasionally weekly) meetings. Staff input on district intent and purpose was critical to shaping the draft as a reflection of established community goals. Alongside this effort, specific emphasis was placed on the transit-oriented development (TOD) districts, as an implementation of the recently completed **Shaping Our Future** planning effort. Additional weekly meetings focused on the evolution of this district and its role in moving the needle on community goals related to housing, transit, and mobility throughout Chapel Hill.

The resulting draft district proposal unifies the intent behind the future land use designations established by the FLUM and reinforced through **Complete Community**. Proposed districts are organized under four main categories: residential, non-residential, overlay, and legacy districts. Legacy districts are those districts that will continue to exist as they do today but will not be expanded to other areas of Chapel Hill in the future. The fifth category identifies districts to be sunsetted. The sunseting of a district is commonly suggested when that district is no longer being used or the intent is better accomplished through a non-district specific process.

PROPOSED LUMO ZONING DISTRICTS

Residential Districts

- Rural Residential
- Ex-urban Residential
- Suburban Residential
- Compact Residential
- Urban Residential
- Mixed Residential

Non-Residential Districts

- Neighborhood Mixed Use
- Town Center Small Scale Mixed Use
- Town Center Large Scale Mixed Use
- Corridor Mixed Use
- Office / Institution
- University
- Light Industrial
- Transit Oriented Development

Overlay Districts

- Watershed Protection Overlay
- Resource Conservation Overlay
- Historic Districts (Franklin-Rosemary, Cameron-McCauley, Gimghoul)
- Neighborhood Conservation Districts

Legacy Districts

- All existing CZDs
- Blue Hill Districts
- Historic Rogers Road
- Industrial

Districts to Sunset or Move Under Processes and Procedures

- Airport Hazard
- Materials Handling District
- Development Agreement-1 District
- Traditional Neighborhood Development

The following table explains how each newly proposed district relates to the existing zoning districts in place today. It also sets forth the proposed purpose of each new district and how that purpose aligns with future land use map designations and intent established in the FLUM. Legacy districts have not been included in the table below, as changes in district name, purpose, composition, or application are not being proposed as part of this update. Districts identified to be sunsetted or moved under process have also been left off of the table.

EXISTING ZONING DISTRICT	PROPOSED DISTRICT NAME	PROPOSED DISTRICT PURPOSE	ALIGNMENT
R-LD5	Rural Residential (RUR-RES)	<p>The RUR-RES district is intended to accommodate very large-lot, rural single-unit and two-unit residential dwellings and accessory development. The purpose of this district is to preserve agriculture, open space, and environmental features that are at the very edge of the Town and are rural in nature. Residential development in this district is not connected to Town utilities and therefore character of development should remain compatible with rural development patterns.</p>	<p>The RUR-RES district is used to implement the Comprehensive Plan within those areas shown as Rural Residential.</p>
RT R-LD1	Ex-Urban Residential (EXU-RES)	<p>The EXU-RES district is intended to accommodate large-lot, single-unit and two-unit residential dwellings, clustered subdivisions, and accessory development. While this district generally supports open space and the protection of distinct environmental features, the developable land in this district is intended to be converted to residential uses. These areas are often found at the edge of Town and serve as a transition between Rural Residential and Suburban Residential Districts. Any use that would substantially interfere with the development of single-unit and two-unit attached and detached residential dwellings, or the quiet residential nature of the district, is prohibited.</p>	<p>The EXU-RES district is used to implement the Comprehensive Plan within those areas shown as Very Low Residential.</p>

EXISTING ZONING DISTRICT	PROPOSED DISTRICT NAME	PROPOSED DISTRICT PURPOSE	ALIGNMENT
R-1A	Suburban Residential (SUB-RES)	The SUB-RES district is intended for single-unit and two-unit residential uses and accessory development on medium-sized suburban lots. Some lots may be located outside of subdivisions, while those located within subdivisions have suburban characteristics including curvilinear streets, cul-de-sacs, limited pedestrian connectivity, limited external connectivity, and most all have town-connected services. Many of these subdivisions may contain open space, parks, or are other environmentally-conscious features. Infill and redevelopment is encouraged to continue the existing visual pattern, rhythm, style, and orientation of the surrounding dwelling units.	The SUB-RES district is used to implement the Comprehensive Plan within those areas shown as Low Residential.
R-1			
R-2A			
R-2			
R-3	Urban Residential (URB-RES)	The URB-RES district is intended to accommodate small-lot or compact single-unit, two-unit, three-unit, and four-unit residential uses and accessory developments that are new, infill, or redevelopment designed to be walkable, well-connected, designed around natural or environmental features as accessible community amenities, and proximate to schools, parks, services, and transit. URB-RES reflects development intensities typical of an eclectic neighborhood environment where a mix of low-intensity to medium-intensity housing types are supported. Infill and redevelopment are encouraged to continue the existing visual pattern, rhythm, style, and orientation of the surrounding dwelling units.	The URB-RES district is used to implement the Comprehensive Plan within those areas shown as Medium and occasionally High Residential.
R-4			

EXISTING ZONING DISTRICT	PROPOSED DISTRICT NAME	PROPOSED DISTRICT PURPOSE	ALIGNMENT
R-5 R-6	Mixed Residential (MX-RES)	The MX-RES district is intended to provide opportunities for a variety of multiple unit residential buildings at a range of intensities, designed to be compatible with their sites and surroundings. This district supports both small-scale and large-scale multi-unit developments including attached and stacked units, live/work units, residential units over ground floor non-residential units, and apartments. Single, detached residential units will be limited based on the intended density of this district. This district is intended to serve as a transition between higher intensity commercial and mixed-uses and lower-intensity residential development. Some supportive ground floor commercial and service uses are permitted in multi-unit buildings.	The MX-RES district is used to implement the Comprehensive Plan within those areas shown as High Residential.
TOD-C	Transit Oriented Development (TOD) – Core	The Transit-Oriented Development district encourages a mixture of residential, commercial, and employment opportunities within identified light rail, bus rapid transit, or other high-capacity transit areas and corridors. The district allows for a more intense and efficient use of land at increased densities for the mutual reinforcement of public investments and private development. Uses and development are regulated to create a more intense built environment oriented to pedestrians and bicycles, and to provide a density and intensity that is supportive of transit. The development standards of the zone are designed to encourage a safe and pleasant pedestrian and bicycle environment near transit stations and to limit conflicts between vehicles and these user groups.	The TOD districts are intended to apply to those focus areas and corridors identified in the FLUM and furthered through the TOD plan Shaping Our Future .
	Transit Oriented Development (TOD) – Mid		
TOD-P	Transit Oriented Development (TOD) – Perimeter		

EXISTING ZONING DISTRICT	PROPOSED DISTRICT NAME	PROPOSED DISTRICT PURPOSE	ALIGNMENT
NC	Neighborhood Mixed Use (N-MU)	The N-MU district is intended to provide for a mix of uses intended for small-scale, low-impact neighborhood-serving commercial, office, service, and residential uses. This district may facilitate mixed-use infill within existing, established neighborhoods. The N-MU environment is one that is pedestrian-friendly, walkable, and well connected with public spaces and gathering areas.	The N-MU district is used to implement the Comprehensive Plan within those areas shown as Mixed Use, and in neighborhoods identified as appropriate for small-scale (i.e. corner market, café, bike shops, live work space) mixed infill.
TC-1	Town Center Small Scale Mixed Use (TCSC-MU)	The TC-MU districts are intended to provide for a mix of uses to accommodate a vibrant downtown environment incorporating a wider range and size of commercial, office, service, hospitality, and residential uses in the traditional community core of Chapel Hill. This environment balances heavy pedestrian and vehicular use but should retain a well-connected street system with strong bicycle and pedestrian connections. The public and private realm should be activated through sidewalks, street cafes, plazas, etc., and these elements incorporated as places to gather or otherwise spend time. Creation of walkable activity nodes through land-use diversity and proximity of destinations supports non-motorized modes of transportation as well as transit ridership.	The TCSC-MU district is used to implement the Comprehensive Plan within those areas shown as Mixed Use and Village Center, and specifically identified as the Downtown Focus Area within the FLUM. The only difference between TCSC and TCLC is height.
TC-2	Town Center Large Scale Mixed Use (TCLC-MU)		
TC-3			

EXISTING ZONING DISTRICT	PROPOSED DISTRICT NAME	PROPOSED DISTRICT PURPOSE	ALIGNMENT
CC	Corridor Mixed Use (C-MU)	The C-MU district is intended to provide for a mix of uses to accommodate a wider range and size of commercial, office, service, hospitality, and residential uses along Chapel Hill's primary corridors and commercial nodes. This environment is more auto-dominated, but should have a well-connected street system, and strong bicycle and pedestrian connections. Where possible, sidewalks and other pedestrian spaces should be activated as places to gather or otherwise spend time. Creation of walkable activity nodes through land-use diversity and proximity of destinations supports non-motorized modes of transportation as well as transit ridership.	The C-MU district is used to implement the Comprehensive Plan within those areas shown as Mixed Use and Village Center, as well as corridor-oriented focus areas specifically called out in the FLUM (MLK N/S, 15-501, NC-54, South Columbia).
OI-1			
OI-2			
OI-3			
OI-4			
OI-4	University District (UD)**	The UD is intended to provide for public or private development on-campus for college/university with integrated or support functions of research, civic, hospital, clinics, cultural, housing, general business, convenience business, office-type business, recreation, utility, and/or open space uses. The UD would require development plan approval.	The UD district is used to implement the Comprehensive Plan within those areas shown as University and Traditional University Supportive Uses.
U-1	Institutional District (ID)*	The Institutional District is intended to accommodate mid-to large size public, semipublic and institutional uses which have a substantial land use impact or traffic generation potential. It is not intended for the small institutional uses customarily found within residential areas. Institutional uses could include state-owned lands, recreational lands owned by a university, facilities owned by the Town, etc.	The ID district is used to implement the Comprehensive Plan within those areas shown as Commercial/Office, Institutional, and occasionally University.

EXISTING ZONING DISTRICT	PROPOSED DISTRICT NAME	PROPOSED DISTRICT PURPOSE	ALIGNMENT
I LI-CZD	Light Industrial (LI)	The LI district is intended to provide for the development of job-creating uses that fit Chapel Hill's needs, promoting values of creativity, inclusivity, and entrepreneurialism. Permitted uses include research and development activities, light manufacturing, food processing, flex space, and associated support functions serving both the needs of the community and region. This district is intended to be located away from low- and medium-density residential development.	The LI districts are used to implement the Comprehensive Plan within those areas shown with character type light industrial, and commercial/ office.
RCD	Resource Conservation District (RCD) Overlay	The Resource Conservation District (RCD) Overlay is intended to be applied to land adjacent to waterbodies to prevent erosion and sedimentation, to protect water quality and stream health, and to maintain wildlife and plant life habitat.	The RCD Overlay is used to implement the Comprehensive plan by protecting sensitive waterbodies
WPD	Watershed Protection District (WPD) Overlay	The Watershed Protection District is intended to be applied to a portion of the New Hope Watershed draining to Jordan Lake in order to ensure long-term water quality of the Jordan Lake Reservoir, to protect possible future sources of drinking water for the town and surrounding localities, and to control pollution sources affecting water quality.	The WPD Overlay is used to implement the Comprehensive Plan within those areas shown as waterbodies, and specifically the New Hope Watershed. It is anticipated this district may overlay a variety of character types in order to accomplish its intended goal.

EXISTING ZONING DISTRICT	PROPOSED DISTRICT NAME	PROPOSED DISTRICT PURPOSE	ALIGNMENT
FRANKLIN-ROSEMARY	Historic District 1 Overlay – Franklin-Rosemary (HD-1-FR)	The Historic District is intended to protect and conserve the heritage and character of the Chapel Hill community by providing for the preservation of designated areas within the planning jurisdiction, including individual properties therein that embody important elements of social, economic, political, or architectural history.	The Historic districts overlay a variety of character types designated by the Comprehensive Plan, in alignment with the geographic boundaries of respective neighborhoods.
CAMERON-MCCAULEY	Historic District 2 Overlay – Cameron-McCauley (HD-2-CM)		
GIMGHOUL	Historic District 3 Overlay – Gimhoul (HD-3-G)		
NEIGHBORHOOD CONSERVATION DISTRICTS	Varied	No changes are proposed to the unique purpose statements associated with each Neighborhood Conservation District established.	The Neighborhood Conservation Districts overlay a variety of character types designated by the Comprehensive Plan, in alignment with the geographic boundaries of respective neighborhoods and areas designated as important to retain.

* Includes select OI-2 zones geographically

** Includes select U-I zones geographically

NEXT STEPS ON THE ROAD TO A RE-ENVISIONED LUMO

The draft zoning districts presented in this memo and the corresponding slide deck is an evolving component of the LUMO update. Over the coming months, district design components described above will continue to be workshopped with Town Planning staff and introduced for discussion with Council. The consultant team will also begin drafting other LUMO components following the revised Table of Contents framework introduced in the June 2023 memo. Future engagement opportunities with key stakeholders, Planning Ambassadors, Committee members, Council, and the broader public are planned for winter/spring of 2024.



CHAPEL HILL LUMO UPDATE

Feasibility of Density Bonuses to Support Community Benefits

October 27, 2023



VISION
ECONOMICS
STRATEGY
FINANCE
IMPLEMENTATION

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LUMO UPDATE

Assessing the feasibility of density bonuses to support community benefits

The Town of Chapel Hill (the “Town”) is undertaking a multiyear process to update its Land Use Management Ordinance (LUMO). The LUMO update is intended to advance Chapel Hill’s collective vision for future development, while streamlining the entitlement process, which is perceived to be difficult to navigate for homebuilders and developers.

The Town has engaged Skidmore, Owings and Merrill, Orion Planning + Design, Rundell Ernstberger Associates, and SB Friedman Development Advisors (SB Friedman) to assist with the LUMO update. SB Friedman’s work is focused on evaluating the feasibility of incorporating a density bonus system into the LUMO update to support community benefits. Our work to-date has focused on the feasibility of a density bonus system to facilitate additional affordable housing development.

LUMO Update Process:



HOUSING AFFORDABILITY IN CHAPEL HILL

Housing market pressures and limited protected affordable units are driving affordability challenges

Between 2015 and 2022, single family home prices in Chapel Hill increased by 33%, while average effective rents increased by 27%. Housing market pressures and a limited number of protected affordable units are driving affordability challenges. Nearly 6 out of 10 renter households are currently cost burdened, meaning that those households spend over 30% of their income on housing costs. In Chapel Hill, cost burdened households work in a variety of employment sectors, including education, and low-income and Black households have a higher likelihood of being cost burdened.

Per the Town's *Shaping Our Future: A Transportation and Land Use Initiative*, adopted in 2023, there is an unmet need for at least 1,970-2,300 housing units affordable to non-student households earning 60% AMI or less. The true housing need for lower- and moderate-income households is likely even higher, as many people who work in Chapel Hill cannot currently afford to live in the community.

The Town continues to take deliberate steps to deliver a diversity of homes at different price points to combat affordability challenges facing lower- to moderate-income households. The Town's many programs and policies are outlined on the following page.

HOUSING COST BURDEN IN CHAPEL HILL [1]

OWNER HOUSEHOLDS



19%

Households
Cost Burdened

RENTER HOUSEHOLDS



58%

Households
Cost Burdened

HOUSEHOLDS EARNING <\$35K



89%

Households
Cost Burdened

[1] This analysis includes student households.
Source: ACS 2020 5-Year Estimates, Esri, SB Friedman

EXISTING AFFORDABLE HOUSING STRATEGIES

Chapel Hill takes deliberate steps to combat housing affordability challenges

HOUSING DEVELOPMENT

- Town manages 336 public housing apartments across Chapel Hill and Carrboro
- Town leverages publicly-owned land for new, affordable housing developments

HOUSING PROGRAMS

- Home Buyer Assistance and Rental Assistance Programs assist Town employees secure housing in and around Chapel Hill
- Transitional Housing Program assists low-income families transition from the Town's public housing to the private market

ZONING POLICIES

- Inclusionary Zoning Ordinance mandates larger for-sale developments in most districts to set aside 15% of units as affordable (10% in downtown)
- Town negotiates affordable units or in-lieu payment as part of conditional rezoning applications for rental housing developments
- Single-family units with accessory apartments allowed by right in most districts

PLANNING AND REGULATION

- Affordable Housing Development Fund uses in-lieu payments from developers towards affordable housing
- Manufactured Homes Action Plan addresses redevelopment threat facing manufactured home communities in Orange County
- Affordable Housing Preservation Strategy Framework sets forth approach for maintaining NOAH units

FUNDING MECHANISMS

- Chapel Hill voters approved a \$10M affordable housing bond in 2018
- Affordable Housing Development Reserve provides annual funding from the Town's general fund
- Chapel Hill receives CDBG and HOME funds from the federal government

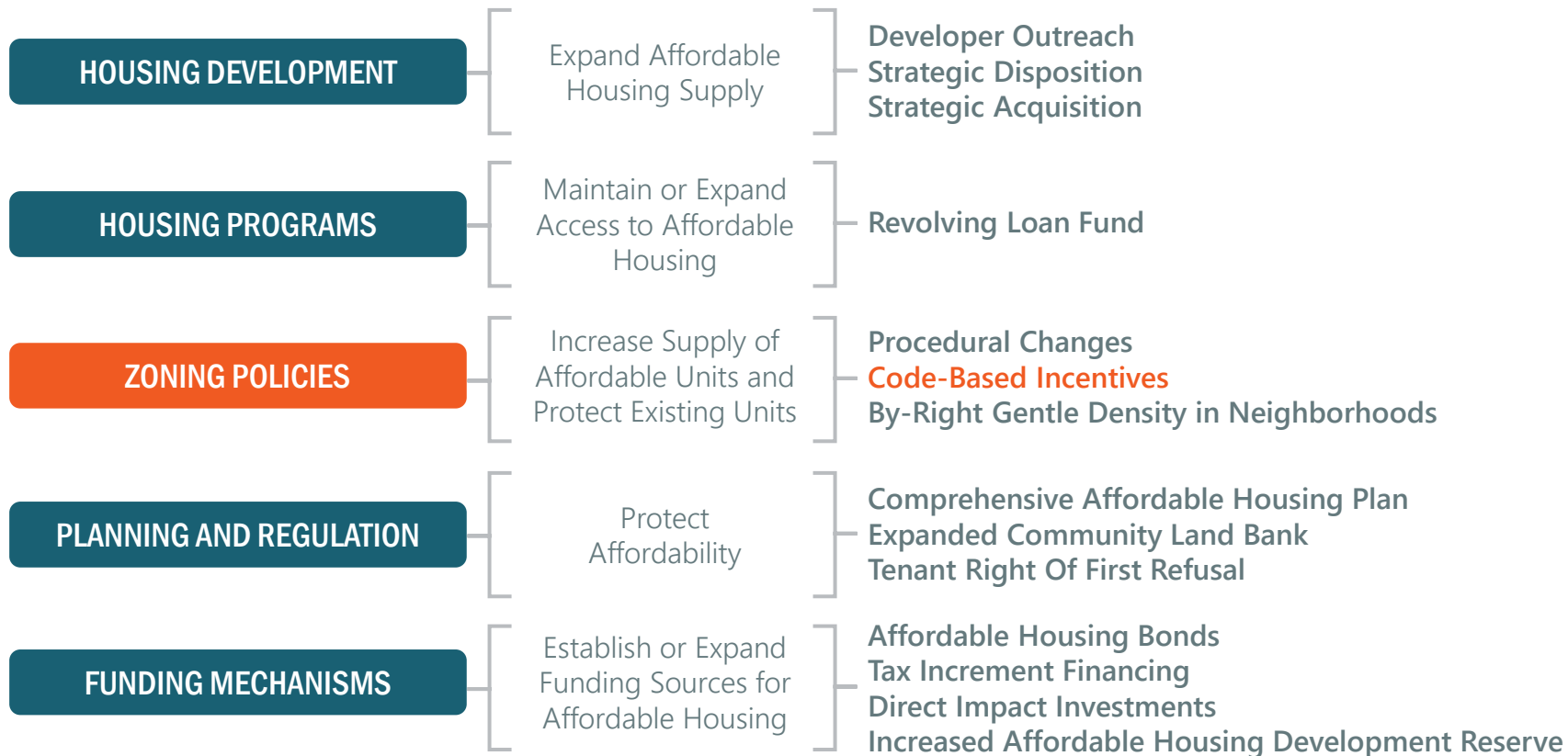
PARTNERSHIPS AND COALITIONS

- Orange County Affordable Housing Coalition strives to foster collaboration among providers, local governments and advocates
- Northside Neighborhood Initiative acquires and sells properties for affordable housing as part of community land bank strategy
- Town provides operational support to Community Home Trust which has developed an inventory of permanently affordable for-sale homes

POTENTIAL ADDITIONAL AFFORDABLE HOUSING STRATEGIES

Recent planning processes outlined additional strategies

Shaping Our Future: A Transportation and Land Use Initiative recommended several policies to build on the Town's ongoing efforts to protect and expand the supply of affordable housing, including zoning code-based approaches, such as a density bonus system.



POTENTIAL ADDITIONAL AFFORDABLE HOUSING STRATEGIES

Recent planning processes outlined additional strategies

The Town of Chapel Hill *Affordable Housing Plan & Investment Strategy* recommended that the Town deploy funds and create policies to continue addressing local housing challenges and increase racial equity over the next five years. Recommendations were guided by four goals:

REDUCE BARRIERS TO BUILDING HOMES

- Continue to pursue zoning and regulatory changes to streamline entitlements processes and evaluate the impact of development requirements on affordability.
- Launch a formal education and outreach campaign in order to bolster community support for the Town's affordable housing priorities, including housing development.
- Refine the Town's inclusionary housing policy to better incentivize the development of affordable rental homes.

EXPAND AND PRESERVE AFFORDABLE HOMEOWNERSHIP

- Modify the Town's Employee Housing Program to provide down payment assistance for moderate-income homebuyers.
- Expand the Town's Transitional Housing Program and explore additional asset-building programs to serve more households interested in working towards homeownership.
- Dedicate consistent funding to provide low-income households with property tax assistance.

EXPAND AND PRESERVE AFFORDABLE RENTAL HOUSING

- Expand the Master Leasing program.
- Create relocation assistance packages for renters at risk of displacement or eviction.
- Continue to provide gap financing to preserve and create homes for low-income renters.

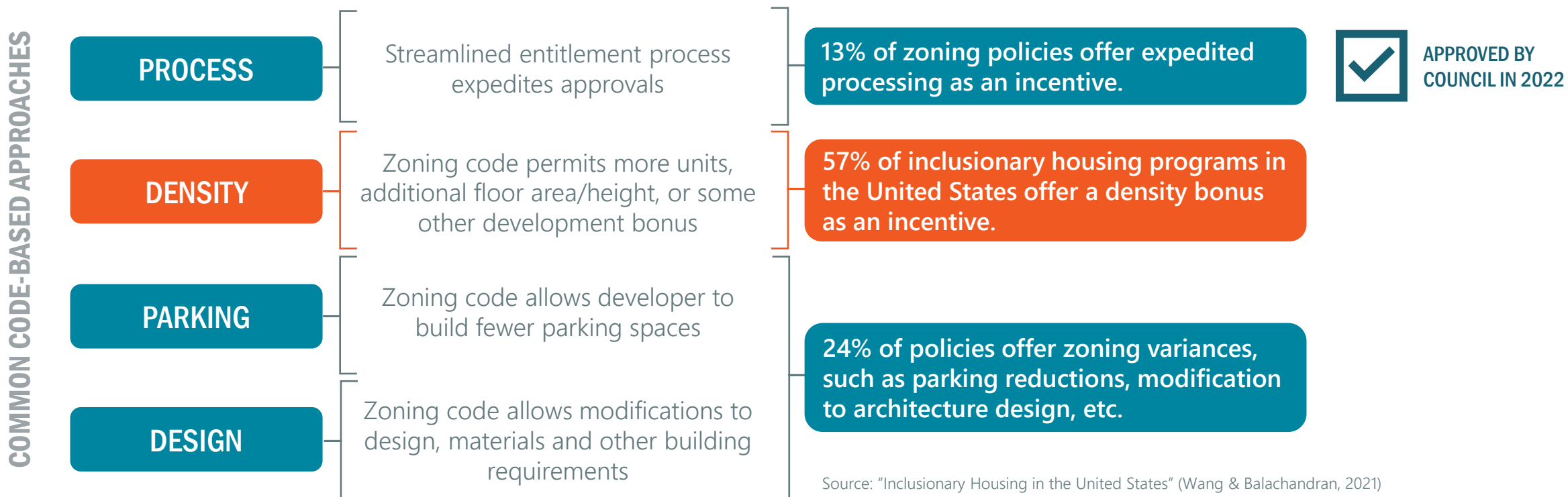
INCREASE STAFF AND FUNDING CAPACITY

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

ZONING CODE-BASED APPROACHES

Code-based approaches offer regulatory relief to developers in exchange for community benefits

Zoning code-based approaches include modifications to requirements related to design, height and density, and process which are granted to developers usually in exchange for onsite affordable housing units or other community benefits. Incentives which are clearly articulated in the LUMO, rather than negotiated individually for each development, would provide certainty for the developers on tradeoffs, while also streamlining the entitlement process. Key characteristics of code-based approaches are outlined below.



ZONING CODE-BASED APPROACHES

Density bonuses are the most common code-based approach to incentivize affordable housing

Some communities and states have facilitated affordable housing production through **mandatory inclusionary housing** programs, while other communities have implemented **voluntary zoning code-based incentives**.

While mandatory inclusionary zoning programs are not specifically prohibited in the State of North Carolina, nor are they explicitly allowed. North Carolina municipalities do not have home rule, which means they are only entitled to the powers granted to them by the State. Municipalities are therefore weary of adopting mandatory inclusionary zoning policies due to the threat of legal recourse.

Municipalities in North Carolina and elsewhere in the United States have enacted voluntary code-based incentives and inclusionary zoning policies. Key characteristics of voluntary programs in Durham, Raleigh, Wilmington and Charlotte are outlined on the following page.

The most common voluntary code-based approach, both nationally and in North Carolina, is to offer a density bonus in exchange for affordable housing unit production. However, these voluntary programs have had varying levels of success.

SB Friedman was tasked with evaluating the feasibility of incorporating a density bonus into the LUMO update to facilitate additional affordable housing development in Chapel Hill.

Voluntary code-based incentives need to be carefully calibrated to be effective. Successful programs should:

- **Produce investor financial returns in excess of those achieved under baseline conditions;** and
- **Be paired with a menu of other incentives to enhance feasibility.**

Our evaluation included a detailed prototypical financial analysis, as well as outreach to development community through interviews and a small group discussion.

VOLUNTARY CODE-BASED INCENTIVES IN NORTH CAROLINA

Code-based incentives in North Carolina tend to focus on density bonuses

<p>RALEIGH ADOPTED IN 2021</p>	<p>In order for developers to qualify for a density bonus, a Project must set aside 20% of the bonus units for households earning 60% AMI or less for 30 years</p> <p>Raleigh's affordable housing density bonuses are calculated depending on the zoning district, as follows:</p> <ul style="list-style-type: none"> ▪ In mixed-use districts, where apartments are already allowed, developers are allowed a 50% increase in the number of stories (rounded up). Projects need to be within a transit-oriented development (TOD) designated area or within ¼ mile of a bus rapid transit (BRT) route. ▪ In built-out residential districts, where housing development is limited by available land area, density bonuses are calculated on a large dwelling unit per acre (DUA) bonus. Projects must be within ½ mile of a high frequency bus route, and buildings are restricted to 3 stories maximum even with a DUA bonus applied.
<p>DURHAM ADOPTED IN 2019</p>	<p>For developers to qualify for a density bonus, a Project must set aside 15% of total units as affordable. Bonuses remove any DUA limits and allow for a height increase from 45 to 145 feet in certain zones, and an increase from 35 to 60 feet in other zones with the inclusion of affordable units. These bonuses result in potential height increases between 71% and over 200%, depending on the zoning district.</p>
<p>WILMINGTON ADOPTED IN 2002</p>	<p>Projects in certain Mixed-Use districts that ensure 15% to 30% of rental units remain affordable (at 80% AMI) for at least 10 years are eligible for a density bonus of 0.125 floor-area ratio (FAR) or 4 DUA.</p>
<p>CHARLOTTE ADOPTED IN 2013</p>	<p>Charlotte's code-based incentive program includes a bonus menu which exchanges development incentives, such as height or open space, in exchange for the provision of affordable housing units. The density bonus allowed depends upon the zoning district as well as the level and number of affordable units provided by the developer.</p> <p>Developers have the ability to pay an in-lieu fee, which has been the common practice since the program's inception. To date, Charlotte's code-based incentive program has produced only eight units of affordable on-site housing through the density bonus.</p>

Prototypical Financial Analysis

- Regional Development Typology Analysis
- Financial Sensitivity Analysis

VOLUNTARY DENSITY BONUS FINANCIAL ANALYSIS

SB Friedman tested the effectiveness of a density bonus on typologies common in Chapel Hill

SB Friedman conducted a prototypical financial feasibility analysis to evaluate the effectiveness of a potential density bonus in exchange for affordable housing production. This evaluation included:

- **Regional Development Typology Analysis:** SB Friedman reviewed development characteristics of recently delivered projects in Chapel Hill and the broader Triangle region. This review informed the characteristics of the prototypical development types used in the feasibility analysis, including density, construction type, height and unit mix.
- **Existing Projects Benchmarking and Industry Insights:** SB Friedman reviewed development pro formas of recently delivered projects in Chapel Hill, analyzed industry market data, and conducted interviews with developers to determine various inputs for the financial feasibility analysis, including construction costs, rents, and financial return metrics.
- **Baseline Prototypical Returns:** SB Friedman created a financial returns model for different prototypical development types and evaluated financial returns at different densities. These analyses were used to determine baseline financial returns for each development type.
- **Density Bonus Sensitivity Testing:** To test the feasibility of a density bonus, SB Friedman incorporated the Town of Chapel Hill's target affordability set-aside (7.5% of units at 65% AMI and 7.5% of units at 80% AMI) into each prototypical development model. The density of the prototypical projects were then increased until the financial returns met the baseline returns set without affordability, or until the density increased above the range observed within the typology.

These analyses and findings are further detailed in the following sections.

Regional Development Typology Analysis

REGIONAL MULTIFAMILY CONSTRUCTION

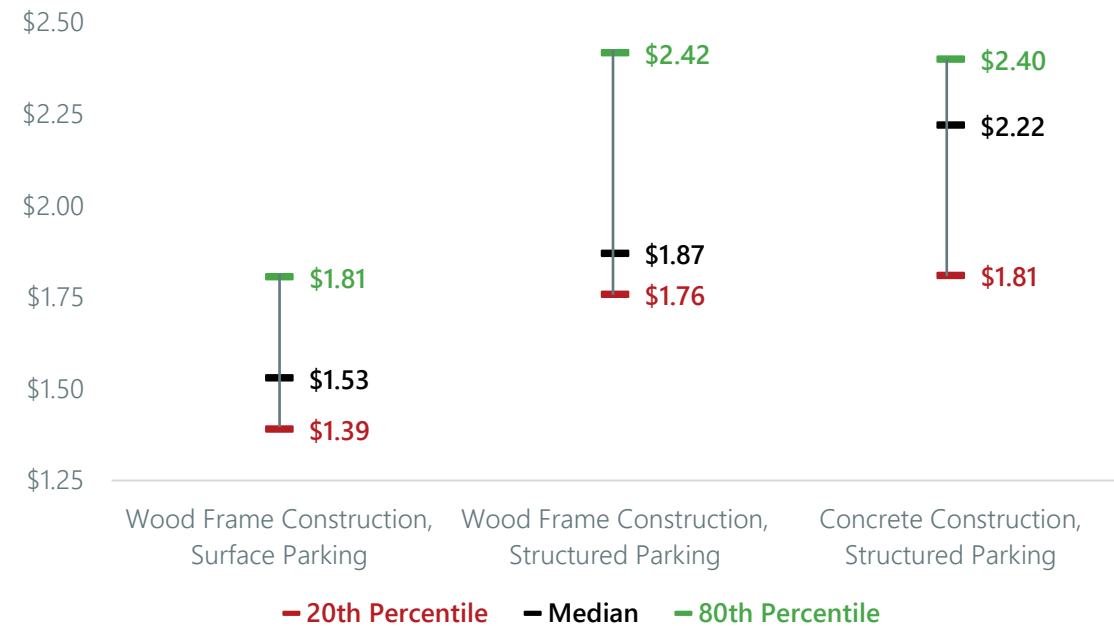
Various multifamily product types have been delivered throughout the region

SB Friedman reviewed the development characteristics of recently delivered multifamily projects in the broader Triangle region. New construction multifamily projects exhibit a range of densities. Generally, as height and density increase, so too do achievable market rents. Market-rate multifamily projects in downtown Raleigh and Durham, which have the greatest density in the region, also command the highest market rents (excluding specialized product like student or senior housing).

NEW, REGIONAL MULTIFAMILY PROJECTS – TYPICAL CHARACTERISTICS

	Stories	DUA	FAR	Example Regional Submarkets
Wood Frame Surface Parking	3-4	10-30	0.2-0.6	Durham RTP, Farrington, North Cary, North Raleigh
Wood Frame Structured Parking	4-5	40-100	1.2-2.2	Durham City Center, North Cary, Raleigh Glenwood
Concrete Frame Structured Parking	6-7	85-185	2.0-4.0	Raleigh Cameron Village, Raleigh Capital District

REGIONAL MARKET PER SQUARE FOOT RENTS



REGIONAL DEVELOPMENT TYPOLOGIES

Multifamily rental housing in the region typically falls within one of four typologies

SB Friedman conducted financial feasibility sensitivities for prototypical developments which closely align with the existing building typologies found in Chapel Hill and the broader Triangle market area. The following typologies are common in the broader market area and represent the prototypical typologies in SB Friedman's analysis.

4-STORY | SURFACE PARKING



~25 Average DUA
~0.5 Average FAR

Apartments with
Surface Parking

Wood Frame Construction

5-STORY | WRAP PARKING



~75 Average DUA
~2.0 Average FAR

Apartment Units Wrapping
Structured Garage

Wood Frame Construction

5-STORY | PODIUM PARKING

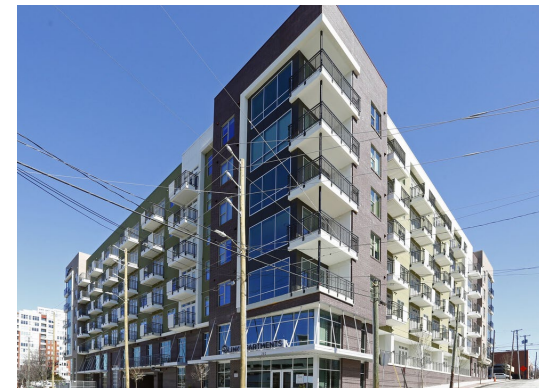


~100 Average DUA
~2.25 Average FAR

Apartment Units Over
Structured Base Parking

Wood Frame Construction

7-STORY | PODIUM PARKING



~135 Average DUA
~3.0 Average FAR

Apartment Units Over
Structured Base Parking

Concrete Construction

TYPICAL TYPOLOGY DENSITIES

There are a range of densities within each typology due to specific project and site characteristics

Recent projects in the Chapel Hill and Triangle market have been delivered at a range of densities within each typology. These ranges are driven by site characteristics, development program, as well as developer preference for certain unit counts and mixes.

4-STORY | SURFACE PARKING



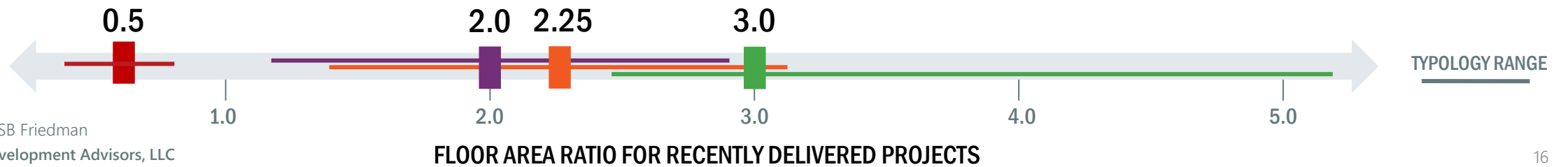
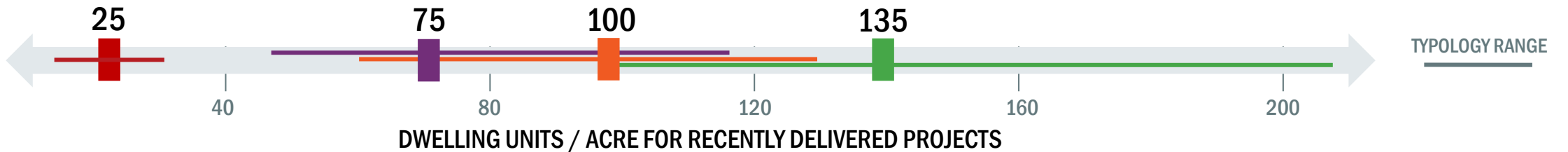
5-STORY | WRAP PARKING



5-STORY | PODIUM PARKING



7-STORY | PODIUM PARKING



Source: CoStar, SB Friedman
SB Friedman Development Advisors, LLC

RECENT CHAPEL HILL PROJECTS

Recent projects have been wood frame construction, rather than concrete, which is more expensive



	Carraway Village	Link Apartments Linden	Bell Chapel Hill	Berkshire Chapel Hill	Carolina Square
Dwelling Units per Acre	47	50	84	90	-- [1]
Floor-Area Ratio	0.88	1.28	2.19	2.45	-- [1]
Stories	4	4	6	6	5
Total Units	610	215	272	265	246
Studios	342 (56%)	--	71 (26%)	--	48 (20%)
One Bedrooms	109 (18%)	135 (37%)	118 (43%)	177 (67%)	29 (12%)
Two Bedrooms	136 (22%)	80 (63%)	83 (31%)	88 (33%)	59 (24%)
Three Bedrooms +	23 (4%)	--	--	--	110 (44%)
Average Unit SF	952	778	817	907	1,099
Average Rent Per SF [2]	\$1.99	\$2.41	\$2.43	\$2.31	\$3.02

[1] Carolina Square parcel contains several office and retail condos and Granville Towers project – density measures not comparable to other projects

[2] Average rent per SF is impacted by typology, unit mix and unit size

Source: CoStar, Orange County Assessor, SB Friedman

SB Friedman Development Advisors, LLC

Financial Sensitivity Testing

PROTOTYPICAL DEVELOPMENT PRO FORMAS

SB Friedman's analysis is intended to test the feasibility of a density bonus in Chapel Hill

The prototypical pro formas developed by SB Friedman are intended to reflect the calculations, assumptions and decisions facing private developers in the Chapel Hill market.

Development cost inputs for the prototypical model were informed by pro forma development costs of recent projects in Chapel Hill, interviews with local developers, recent land sale transactions and market data related to soft and financing costs.

Actual performance of recently delivered projects in Chapel Hill were benchmarked to inform rent assumptions of the prototypical pro formas for each typology. Industry market data informed operating cost assumptions of the prototypical model and local property tax research informed property tax assumptions.

Sources for our prototypical pro forma assumptions are outlined on page 21.

While prototypical analyses can be used to demonstrate the feasibility of a development typology, actual feasibility of a proposed development can vary. Development program, site-specific regulations, site conditions, and current market dynamics impact feasibility. While specific projects must be considered on a project-by-project basis, the point-in-time prototypical feasibility analysis can be used to inform policy and general feasibility of a development typology.

DEVELOPMENT PRO FORMA CONSIDERATIONS

TOTAL DEVELOPMENT COSTS

Land Costs

- + Site Prep & Hard Costs
- + Soft & Financing Costs
- + Developer Fees
- Grants, Tax Credits, and/or Public Subsidy

= Total Development Costs (TDC)

NET OPERATING INCOME

Rents/Revenues

- Operating Costs
- Property Taxes
- Vacancy Loss

= Net Operating Income (NOI)

PROTOTYPICAL DEVELOPMENT PRO FORMAS

Prototypical project models replicate the decisions facing private developers in Chapel Hill

To test the financial feasibility of the prototypical projects, SB Friedman used unleveraged internal rate of return (IRR). Unleveraged returns generally evaluate overall project feasibility and ability to secure financing rather than returns to specific investors. SB Friedman reviewed financial pro formas of projects in Chapel Hill and elsewhere, as well as industry survey data from RERC and PricewaterhouseCoopers, to determine typical target rates of return. These return hurdles vary depending on the market area and land use.

For these analyses, developers are assumed to maximize profit when contemplating whether to build a certain project. Based on industry sources, a minimum unleveraged IRR of 7.0% is needed for a multifamily project to be considered “financially feasible” in Chapel Hill. If unleveraged IRR is below this benchmark, it is likely that a developer would not pursue the Project unless certain incentives or policy levers were in place to improve the financial feasibility of the project.

Return metrics used in the prototypical analysis reflect a point-in-time and are based on current market condition. However, these metrics may not be appropriate to apply to specific projects in the future.

YIELD ON COST

Net Operating Income

÷ Total Development Costs

= Yield on Cost

UNLEVERAGED INTERNAL RATE OF RETURN (IRR) The rate of return for a project, accounting for initial expenditures to construct the project (total development costs) and ongoing cash inflows (annual net operating income [NOI] before debt service), as well as a hypothetical sale of the project at the end of the analysis period.

	Year					
	0	1	2	3	4	5
Total Development Costs	-\$\$\$					
Net Operating Income		+\$	+\$	+\$	+\$	+\$
Sale of Property						+\$\$\$

CHAPEL HILL THRESHOLD RETURN BENCHMARKS

Metric	Benchmark
Yield on Cost	5.9%
Unleveraged IRR	7.0%

PROTOTYPICAL DEVELOPMENT PRO FORMA ASSUMPTIONS

Financial feasibility model inputs were informed by several data sources

Metric	Sources
Acquisition Costs	CoStar, Comparable land sale transactions in Chapel Hill. Appraisal Data, provided by the Town of Chapel Hill.
Site Prep Costs	Comparable Projects Reviewed by SB Friedman, Developer Interviews, Development budgets from the Town of Chapel Hill.
Hard Construction Costs	Developer Interviews, CoreLogic Marshall and Swift Cost Estimator, RS Means, Regional Building Permit Data (Durham County), Turner Construction Cost Index, Comparable project development budgets provided by the Town of Chapel Hill.
Hard Costs per Parking Space	Comparable Projects Reviewed by SB Friedman, Developer Interviews, Development budgets from the Town of Chapel Hill.
Soft Costs	Comparable Projects Reviewed by SB Friedman, Developer Interviews, Development budgets from the Town of Chapel Hill.
Financing Costs	Comparable Projects Reviewed by SB Friedman, Developer Interviews, Development budgets from the Town of Chapel Hill.
Developer Fees	Developer Interviews, SB Friedman.
Market Rents	CoStar, Comparable Market-Rate Projects Delivered in Chapel Hill.
Affordable Rents	U.S. Department of Housing and Urban Development, Town of Chapel Hill.
Parking Revenues	Apartments.com, Town of Chapel Hill, Zillow.
Operating Expenses [1]	Institute of Real Estate Management (IREM), National Apartment Association (NAA).
Property Taxes	Orange County Assessor, Property Taxes for Comparable Projects in Chapel Hill.
IRR Benchmark	Real Estate Research Corporation, PricewaterhouseCoopers.

[1] Operating expenses do not include property taxes. Chapel Hill specific property tax rates were used for accuracy.

PROTOTYPICAL DEVELOPMENT PRO FORMAS

Sample project pro forma and key assumptions by development typology are outlined below

	4 STORY SURFACE PARKING	5 STORY WRAP PARKING	5 STORY PODIUM PARKING	7 STORY PODIUM PARKING
Dwelling Units per Acre	25	75	100	150
Floor Area Ratio	0.6	1.85	2.45	3.45
TOTAL DEVELOPMENT COSTS				
Land Costs	\$1.74 M (\$20/Land SF)	\$1.74 M (\$20/Land SF)	\$1.74 M (\$20/Land SF)	\$1.74 M (\$20/Land SF)
+ Site Prep & Hard Costs	\$9.1 M (\$171/SF)	\$30 M (\$187/SF)	\$39.6 M (\$185/SF)	\$64.1 M (\$213/SF)
+ Parking Costs	\$0.25 (\$5,000/Stall)	\$3.7 M (\$24,800/Stall)	\$5.0 M (\$24,800/Stall)	\$7.4 M (\$24,800/Stall)
+ Soft & Financing Costs	\$1.59 M	\$5.73 M	\$7.59 M	\$12.16 M
+ Developer Fees	\$0.55 M	\$1.97 M	\$2.61 M	\$4.18 M
= Total Development Costs	\$13.23 M	\$43.12 M	\$56.56 M	\$89.60 M
NET OPERATING INCOME				
Rents/Revenues [1]	\$1.08 M (\$1.94/SF)	\$3.55 M (\$2.15/SF)	\$4.74 M (\$2.15/SF)	\$7.15 M (\$2.32/SF)
- Operating Costs	\$0.20 M	\$0.69 M	\$0.92 M	\$1.38 M
- Property Taxes	\$0.13 M	\$0.38 M	\$0.51 M	\$0.72 M
- Vacancy Loss	\$0.05 M	\$0.19 M	\$0.25 M	\$0.38 M
= Net Operating Income	\$0.70 M	\$2.48 M	\$3.31 M	\$5.05 M
YIELD ON COST				
Net Operating Income	\$0.70 M	\$2.48 M	\$3.31 M	\$5.05 M
÷ Total Development Costs	\$13.23 M	\$43.12 M	\$56.56 M	\$89.60 M
= Yield on Cost	5.73%	6.19%	6.30%	6.08%
Unleveraged IRR	6.88%	7.85%	8.08%	7.62%

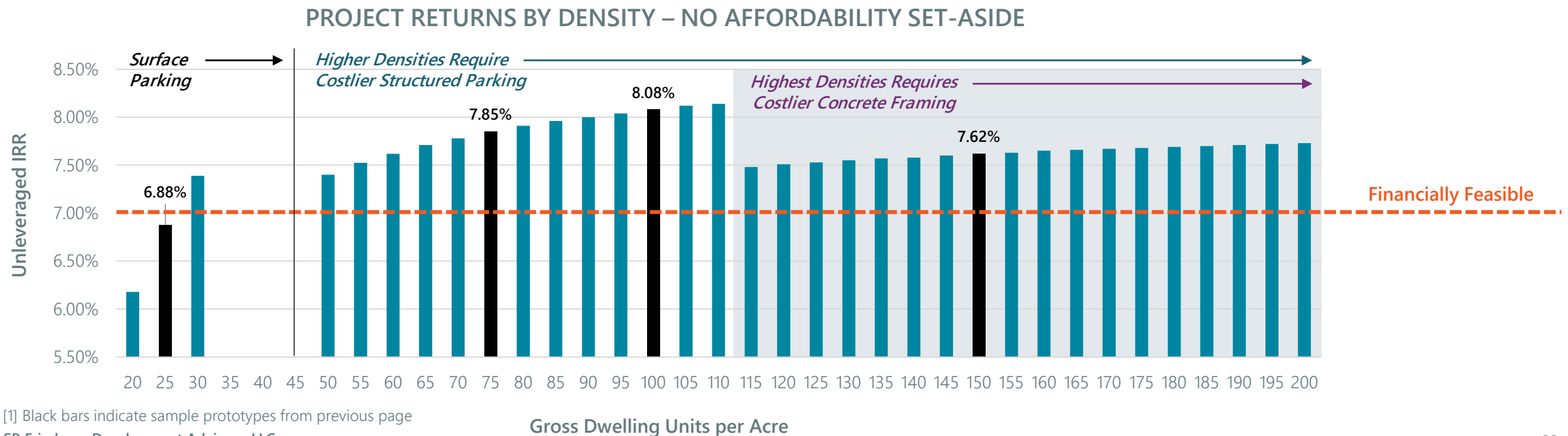
[1] Based on SB Friedman's analysis of typical rent premiums in the region after controlling for location, it is assumed that projects with structured parking have an 11% rent premium over surface parked projects, while concrete frame projects have an 8% rent premium over wood frame projects built in the same area.

DENSITY ANALYSIS

Costlier construction methods are required to achieve greater density

SB Friedman tested the impact of increased density on returns for prototypical multifamily developments without any affordability set aside. For these analyses, SB Friedman assumed a two-acre site with land costs reflective of more outlying areas of Chapel Hill (\$20/SF). Returns generally improve as density increases.

However, construction cost increases associated with structured parking and concrete framing appear to outpace the rent premium that appears achievable by higher density projects in Chapel Hill, thereby reducing returns when higher density construction modalities are required. In Chapel Hill, many of the higher-density projects have been catered to students and are not included in our analysis of market-rate multifamily housing.

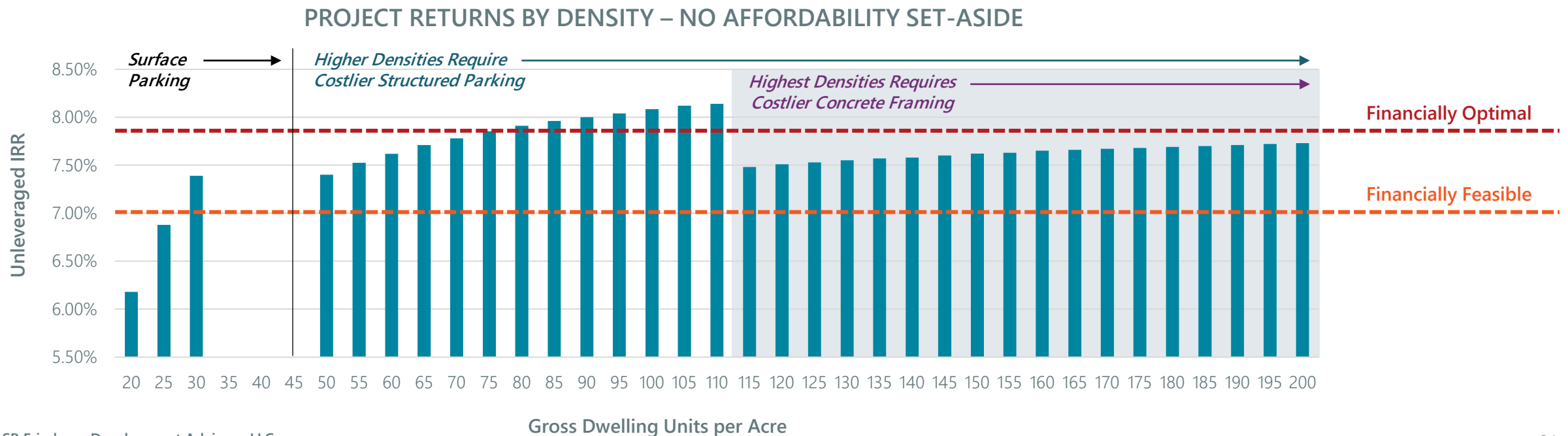


DENSITY ANALYSIS

Developers will calibrate their projects to optimize the project and/or maximize return on investment

Developers are assumed to maximize profit when considering whether to advance a project. In the Triangle region, wood frame construction at a density of ± 75 DUA is a common typology. The development of this typology across the region indicates that this density is producing attractive financial returns to developers and is likely within the range of being “financially optimal.” Assuming a base density of 75 DUA, the estimated “financially optimal” return on investment is an IRR of 7.85%.

A developer would only choose to build at a higher density and/or voluntarily include affordable units in a scenario where they would be no worse off financially than in the base scenario.

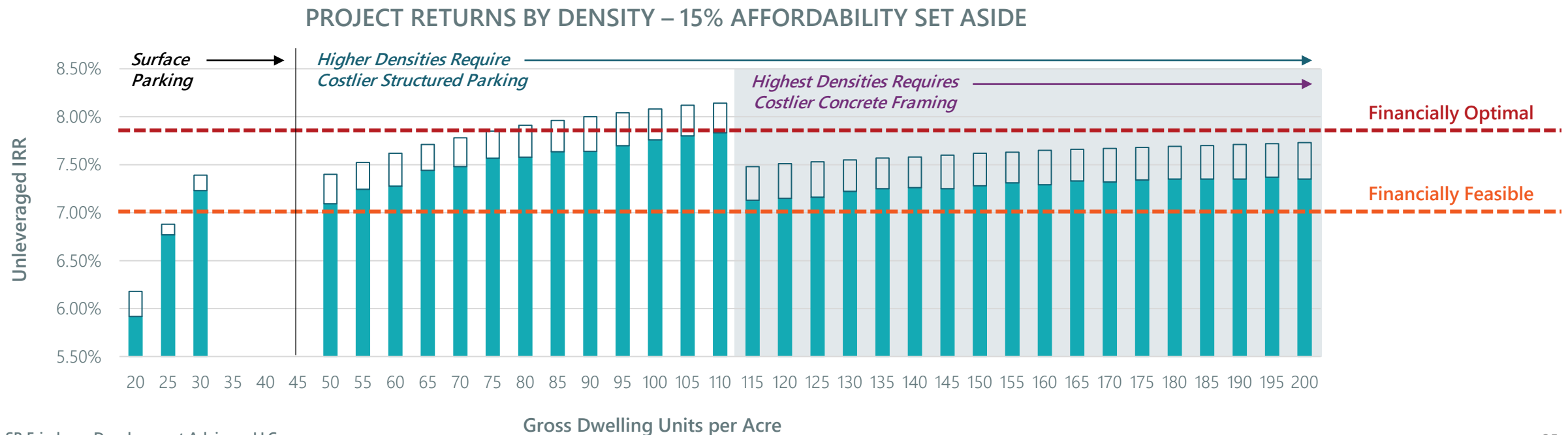


DENSITY ANALYSIS

A minimum 50% density bonus is needed to return to financially optimal returns

SB Friedman tested the impact of increased density on returns for a prototypical multifamily development with a 15% affordability set aside (7.5% of units at 65% AMI and 7.5% of units at 80% AMI). For these analyses, SB Friedman assumed the same site area and land costs as in prior analyses.

A minimum 50% density bonus is needed to achieve returns comparable to the base scenario. However, to be truly attractive to developers, a voluntary density bonus would need to provide significantly higher returns than the base scenario. Therefore, a density bonus with this 15% set aside is unlikely to produce many affordable units, as developers would prefer to build at a lower density without any set aside. Additionally, a density bonus beyond 50% would likely require more expensive construction modalities, which diminish financial returns.



PROTOTYPICAL PROJECT ILLUSTRATION

The density analysis applied to a single illustrative project is outlined below

ILLUSTRATIVE PROJECT 5-STORY | WRAP PARKING



75 DUA
~2.0 FAR

Apartment Units Wrapping
Structured Garage

Wood Frame Construction

Target Affordability Set Aside: 15% of units
7.5% of units at 65% AMI
7.5% of units at 80% AMI

With an illustrative 75 DUA project,
**market value decreases by 2.2% and
baseline financial returns decrease by 3.7%**
with the target affordability set aside

To return to baseline returns, a
50% density bonus is required (110 DUA)

To be attractive to developers, a voluntary
**density bonus would need to provide
significantly higher returns than the baseline**

Regionally, multifamily projects at 115 DUA or
above typically require concrete construction

Concrete construction costs are approximately
15% higher than wood frame costs on a
per-square-foot basis

Achievable rent premiums
(on a per-square-foot basis) associated with
higher density projects appear to be below 10%

**In Chapel Hill, the relationship between
concrete construction costs and achievable
rents will likely limit the appeal of a voluntary
density bonus without additional incentives**

Developer Outreach

DEVELOPER OUTREACH

Developers provided feedback regarding the entitlement process in Chapel Hill

SB Friedman engaged the development community through interviews and a small group discussion to discuss development economics in Chapel Hill and the feasibility of a density bonus system. Outlined below is a summary of anonymized developer feedback.

Entitlements

Comments collected from developers regarding the entitlement process are summarized below:

- Uncertainty in the entitlement process and the high cost of development in Chapel Hill are driving higher rents/price points.
- Only large developers/projects can carry the additional costs or are willing to be at-risk of not recovering predevelopment costs.
- Architects, landscape architects, and civil engineers all charge higher fees to account for the longer design/development period and multiple iterations of work products.
- Stormwater and sustainability requirements increase the hard construction costs, while traffic impact, tree survey, and geotechnical studies increase soft costs.
- Impact fees, tap fees, and Town submittal fees are perceived to be higher than in peer communities.
- Some building code requirements are perceived to exceed requirements in peer communities, thereby increasing development costs.
- Resource Conversation District buffers and setback requirements are perceived as challenging and higher than in peer communities. Relaxing these requirements would make sites more efficient and could result in more units being developed.
- Façade articulation and step-back requirements result in the production of fewer housing units.

DEVELOPER OUTREACH

Developers provided feedback regarding the inclusion of affordable units in market-rate projects

Affordable Housing Set-Aside

Comments collected from developers regarding the inclusion of affordable units in market-rate projects are summarized below:

- Due to the economics of projects in Chapel Hill, it is difficult to overcome the difference in development costs and the income-based valuation of the project when 15% of units are set aside as affordable at the Town's target affordability levels (7.5% of units at 65% AMI and 7.5% of units at 80% AMI). This makes it difficult to attract debt and equity investors.
- Affordable housing set-aside requirements become increasingly difficult when additional community benefits are also requested.
- Consistency is sought in negotiated community benefits to ensure that competing developers are providing similar benefits.
- Flexibility in the percentage of units set aside as affordable and/or target affordability levels (e.g., workforce housing at 100% AMI) could produce more affordable units. Higher affordable rents would reduce the gap between development costs and the income-based valuation of the project.
- Density bonus system may not produce many units given that residential development in Chapel Hill rarely exceeds six stories given the achievable market rents.
- Density bonuses could potentially be appealing in the downtown area where land costs and rents are generally higher.
- Developers indicated that direct subsidies would be more effective than a density bonus in facilitating affordable housing production.
 - Upfront assistance, or a reduction in fees, would improve developer returns by reducing their development costs
 - Incentives that would improve annual cash flow—such as economic incentive agreements—would increase the income-based valuation of the project.

Conclusions

CONCLUSIONS

Feasibility of density bonuses to support community benefits

- At minimum, a 50% density bonus is needed for a project with a 15% affordability set aside (7.5% of units at 65% AMI and 7.5% of units at 80% AMI) to achieve financial returns comparable to a lower density project without any set aside.
- However, to be attractive to developers, a voluntary density bonus would need to provide significantly higher returns than the base scenario.
- Based on common development typologies in Chapel Hill, a 50%+ density bonus would likely require that developers employ more expensive construction techniques (concrete framing).
- In the Chapel Hill market, the hard construction cost premium associated with concrete framing exceeds the rent premium for market rate units associated with taller, denser construction. Therefore, taller concrete frame projects are generally not financially optimal for developers.
- This appears to be a contributing factor as to why market-rate, non-student residential development in Chapel Hill rarely exceeds six stories.
- A density bonus with a 15% set aside is unlikely to produce many affordable units without additional development incentives, as developers would likely achieve similar financial returns by building at a lower density without any set aside.

CONCLUSIONS

Calibrating code-based and development incentives in exchange for community benefits

- Given that the current relationship between concrete framing construction costs and achievable rents limits the utility of a density bonus system, the Town could explore offering other code-based incentives in exchange for community benefits.
- Developers perceive setback and buffer requirements to be challenging and higher than in peer communities and indicated that façade articulation and step-back requirements result in the production of fewer housing units.
- Code-based incentives that improve site and building efficiency, specifically setback, buffer, and step back modifications, would likely be attractive to developers in Chapel Hill since additional units could be built within heights allowed with wood-frame construction.
- The Town could also explore offering modifications to building design requirements (e.g., materials) in exchange for community benefits.
- Developers indicated that uncertainty in the entitlement process and the high cost of development in Chapel Hill are driving higher rents/price points. The Town could also consider providing fee rebates or discounts on other municipal costs associated with new development in exchange for community benefits.

These considerations could be explored further as the LUMO update process continues.

CONCLUSIONS

Calibrating development incentives to facilitate affordable housing production

- Developers indicated that, due to the economics of projects in Chapel Hill, it is difficult to overcome the difference in development costs and the income-based valuation of the project, when 15% of units are set aside as affordable at the Town's target affordability levels (7.5% of units at 65% AMI and 7.5% of units at 80% AMI). This makes it difficult to attract debt and equity investors.
 - In addition to the code-based and development incentives outlined on the prior page, the Town could consider the following approaches to incentivize affordable housing development:
 1. Continuing to provide upfront financial assistance for affordable units and explore additional funding sources such as TIF or synthetic TIF.
 2. Reducing the threshold for expedited review to 15% of total units to align with the voluntary inclusionary zoning minimum, reducing predevelopment costs for developers that include 15% affordable units in their projects.
 3. Providing flexibility in the percentage of units set aside as affordable and/or target affordability levels (e.g., workforce housing at 100% AMI) to reduce the gap between development costs and the income-based valuation of the project.
 4. Exploring the feasibility of a property tax abatement to partially offset the cash flow impacts associated with including affordable units.
- The Town could also explore combining multiple incentives to facilitate affordable housing development. A case study of a municipality that has paired a density bonus with other voluntary incentives is presented on the following page.

These considerations could be explored further as the LUMO update process continues.

CASE STUDY | BELLEVUE, WA

Combining multiple incentives to facilitate affordable housing development

The City of Bellevue, Washington offers a menu of development incentives to facilitate affordable housing development. Citywide, developers may receive a density bonus equivalent to 15% of FAR or DUA by setting aside 15% of units or project square feet as affordable. In addition to the citywide policy, specific areas of Bellevue—including its Downtown and TOD districts—are eligible for increased density bonuses in exchange for a higher affordability set aside.

Developers who use the density bonus may also be eligible to modify certain dimensional standards such as lot minimums, setbacks and open space requirements to improve the project feasibility. Additionally, the City has reduced parking minimums for affordable housing, which may be paired with the density bonus.

In addition to allowing for additional density and flexible building design, Bellevue provides financial incentives to developers building affordable units. The City's Multifamily Tax Exemption (MFTE) is a 12-year property tax exemption on the residential portion of a development, which is earned if 20% of total units are kept affordable for households earning 80% of AMI for 12 years. The MFTE can be paired with the density bonus incentive, though projects using both must set aside units at a deeper affordability level than projects only taking one of the incentives.

While some communities have leveraged pay-in-lieu fees which allows developers to navigate around affordability requirements, Bellevue has removed these fees in priority areas.



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