

## Town Council Work Session



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**Date:** April 10, 2023

**Subject:** Housing Choices for a Complete Community Text Amendments

### OVERVIEW

Chapel Hill's available housing supply does not meet the needs of current and future residents. As written, the Land Use Management Ordinance (LUMO) has encouraged suburban development trends, fostering the construction of owner-occupied, detached single-family houses and renter-occupied multi-family housing complexes. This has led to a segregation of housing types with about 70% of Chapel Hill's land devoted to single-family neighborhoods. Staff has been working on the Housing Choices for a Complete Community text amendment project that seeks to encourage Missing Middle Housing forms, such as duplexes, triplexes, and fourplexes, as a bridge between single-family and large multi-family developments.

### PURPOSE OF THE TEXT AMENDMENTS

- **Clean up the Land Use Management Ordinance (LUMO).** Staff proposes updating the setback and height exceptions permitted by the LUMO as well as introducing definitions and development standards for townhouses.
- **Diversify housing types.** Currently, the LUMO encourages single family and large multi-family apartment complexes. By permitting a range of housing types as allowed uses in the LUMO, there are more opportunities to construct housing that addresses different price points, life stages, and preferences. Staff recommends allowing duplexes in all residential (R-) zoning districts as well as allowing triplexes, fourplexes, and cottage courts in those zoning districts that currently allow multi-family development. Staff also proposes allowing accessory apartments as an accessory use to institutional and cultural facilities as well as places of worship.
- **Increase housing production.** LUMO text amendments can incentivize housing production by streamlining zoning approval processes, such as allowing staff to administratively approve triplexes and fourplexes as envisioned by the Future Land Use Map (FLUM).
- **Encourage Compatible Infill.** Staff proposes that triplexes and fourplexes constructed in primarily single-family neighborhoods be compatible with existing development. Staff recommends creating development standards for these uses that take into consideration the mass, scale, form, building height, setbacks, and details of neighboring houses.
- **Promote gentle density.** The intention of these text amendments is to increase the density of existing neighborhoods sensitively and slowly. In turn, the additional density will support community commercial centers, transit routes, and greenways. It will also foster environmental suitability by increasing the density of existing neighborhoods to promote walkable and transit-supportive areas throughout Town.

### MOVING FORWARD

Staff recommends breaking the remaining work for this project into two parts:

#### 1. LUMO CLEAN-UP & REFINING MISSING MIDDLE

Based on the petition submitted by several Council members, community feedback, and further staff analysis, staff believes we could move forward this spring with text amendments that enable the following options for housing:

- Cottages on a compact lot, permitted in most residential zoning districts
- Duplexes permitted in all residential zoning districts so long as they are connected to public sewer
- Townhouses permitted only in zoning districts that already allow multifamily dwellings Triplexes and fourplexes permitted only in zoning districts that already allow multifamily dwellings, 3-7 units. The

change would be to break out triplexes and fourplexes as housing types that can be approved administratively in places where they are already allowed

- Cottage courts permitted only in zoning districts that already allow multifamily dwellings, with approval by Planning Commission through a site plan process
- Revise the multifamily use classifications from 3-7 units and over 7 units to 5 to 10 units and over 10 units
- Accessory apartments permitted for cultural and institutional facilities such as museums and churches
- Updated height and setback exceptions and accessory apartment provisions

The following shows the proposed Use Matrix under this scenario:

	R-LD5	RT	R-LD1	R-1A	R-1	R-2	R-2A	R-3	R-4	R-5	R-6	HR-L	HR-M	HR-X
Single Family	P	P	P	P	P	P	P	P	P	P	P	P	P	P
Single Family + Accessory Apartment	P	P	P	P	P	P	P	P	P	P	P	P	P	P
<u>Cottage on a Compact Lot</u>	-	-	-	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Duplex	✓	✓	✓	✓	✓	P	✓	P	P	P	P	P	P	P
Triplex	-	-	-	-	-	-	-	✓	✓	✓	✓	P	P	P
<u>Fourplex</u>	-	-	-	-	-	-	-	✓	✓	✓	✓	-	-	✓
<u>Cottage Courts</u>	-	-	-	-	-	-	-	✓	✓	✓	✓	-	-	✓
<u>Accessory Apartments for Cultural and Institutional Facilities as well as Places of Worship</u>	A	A	A	A	A	A	A	A	A	A	A	A	A	A
<u>Townhouses</u>	-	-	-	-	-	-	-	✓	✓	✓	✓	-	-	✓
Multi-Family (3-7 units 5-10 units)	-	-	-	-	-	-	-	P	P	P	P	-	-	P
Multi-Family (7+ units 10+ units)	-	-	-	-	-	-	-	-	-	-	CZ	-	-	-

Underlined Text - Changes to the table      A - Accessory Use      P - Permitted uses

✓ New Permitted Use

***Does the Council support this strategy for the LUMO clean up and refining missing middle?***

***Is Council supportive of moving forward with the uses and changes proposed?***

***What advisory boards should staff engage with for policy guidance?***

2. EXPANDING MISSING MIDDLE HOUSING OPPORTUNITIES

Staff finds that additional opportunities for expanding Missing Middle Housing opportunities beyond those listed above could be incorporated into the LUMO rewrite process. Future options may include:

- Identifying criteria for strategic placement of triplexes, fourplexes, and cottage courts, such as:
  - Creating opportunities through overlay zones
  - Identifying appropriate vacant and underdeveloped sites
  - Requirements for proximity to sidewalks, major streets, streets of adequate width, and/or transit service
- Limiting the pace of triplex and fourplex construction in lower-density zoning districts through guardrails such as:

- A cap on the number of permits issued each year
- A minimum separation distance

***What are Council’s reactions to this initial list of potential strategies?***

3. ALTERNATIVES TO CONSIDER

- A. Taking no action on this would maintain the existing regulations.
- B. Moving forward with the initial proposal of allowing duplexes, triplexes, and fourplexes in all residential zones could be considered; however, staff finds that there are challenges in R-1 and R-2 zones that would limit the construction of smaller multi-family buildings in these zones, such as access to sidewalks and transit.

Based on the feedback staff received from the community, there is limited support for this strategy.

**OTHER CONSIDERATIONS**

The Planning Department is currently working on rewriting the Land Use Management Ordinance (LUMO). The LUMO Clean-up and Refining Missing Middle approach gives Council the ability to promote housing diversity and increase production in advance of the new LUMO being adopted. The considerations for Expanding Missing Middle Housing Opportunities could be folded into the LUMO rewrite process. The LUMO rewrite process is an ongoing project, and the rewritten LUMO is anticipated to be adopted in November 2024.

As part of exploring additional opportunities for Missing Middle Housing, staff is considering:

- Expedited review options and other incentives for affordable housing development
- Funding and zoning incentives that encourage opportunities for residents to age in place
- Affordable Housing’s five-year strategic plan
- Missing Middle Housing opportunities that are included in the Transit Oriented Development (TOD) plan
- Incentivizing housing diversity and production without teardowns
- Targeted outreach to historically under-engaged and more impacted communities

**UPDATES FROM JANUARY 25, 2023, PUBLIC HEARING (PUBLIC HEARING CLOSED FEBRUARY 22, 2023):**

During the initial public hearing for this topic, the Council asked staff to address the following:

A. RACIAL EQUITY AND JUSTICE ANALYSIS FOLLOW UP

Staff is currently working on a racial equity analysis lens (REAL) for this project with our Diversity, Equity, and Inclusion (DEI) staff. The following address the preliminary results of this assessment based on the [Projected Housing Needs, 2020-2040](#)<sup>1</sup> and [SB Friedman Market Analysis](#)<sup>2</sup>:

1. *What are the racial impacts?*

- Chapel Hill is experiencing a constrained housing market. The median home value and monthly rent exceeds median household incomes, leading to a significant number of cost burdened renter (58%) and owner (19%) households. Low income and Black households are the most likely to be cost burdened.
- The Land Use Management Ordinance (LUMO) and its predecessors have perpetuated suburban development trends that have limited construction to detached single family homes and large apartment complexes. Nearly 70% of the community is zoned for single-family development. There is a positive correlation with lot size, house size, and housing cost. As a result, some neighborhoods with restrictive covenants that also dictate larger homes contribute to economic and racial segregation.
- Chapel Hill home prices exceed those of neighboring communities. Construction has continued to generate detached, single-family houses as well as luxury apartment complexes at higher price points.

<sup>1</sup> <https://www.townofchapelhill.org/home/showpublisheddocument/50141/637715343396500000>

<sup>2</sup> <https://www.townofchapelhill.org/home/showpublisheddocument/53443>

- Black and Hispanic/Latino homeownership rates lag behind those of white and Asian households.
- Only 30% of Chapel Hill residents work in Chapel Hill. Many low-income households have fewer resources and are forced to live in housing that exceeds their income levels. At the same time, more affluent households occupy housing that would be affordable to lower income levels.
- More affluent households also experience greater opportunities for choosing where they live, and many have sought housing outside of Chapel Hill at lower price points. This has led some 46,330 workers commuting into the community for work.

## 2. *Who is or will experience burden?*

- While the household incomes of white, Asian, and Hispanic/Latino households appear comparable, 75% of Black households and 44% of mixed race, American Indian, and/or Alaskan native households earn 60% or less Area Median Income (AMI). Overall, 38% of all Chapel Hill households earn 60% AMI or less.
- Cost burdened households work in a variety of employment sectors, including entertainment and accommodation, healthcare, and education.
- Median household incomes have not kept pace with median home values, leaving many behind, including low-income earners that cannot afford to live in the community.
  - In 2020, the median home value of \$435,500 required a household income of \$96,200, yet the median household income that year was \$75,249.
  - Further, 40% of homes in the community were valued above \$500,000. Single family home values in Chapel Hill increased by 14% between 2020 and 2021 alone and the annual income required to afford the typical home value requires a household income of \$110,000.
  - In 2020, the median rent was \$1,220, requiring an annual income of \$50,000 to be affordable (where not more than 30 percent of household income is spent on housing costs). Almost one-third of renters paid more than \$1,500 per month in rent, and those apartments built after 2011 typically required an annual income above \$69,000 to be affordable.
- Currently, an estimated 3,280 housing units are needed for households earning less than 60% AMI. Non-student households make up 60% to 70% of this need.
- Homeownership is becoming less of an opportunity to many due to lower housing inventories and higher debt levels. The growth of renters and demand for rental housing has led to escalating rental rates and rental units are absorbed quickly. With 6 out of 10 rental households cost burdened, additional rental units are needed to reduce demand as well as decrease monthly rental rates.
- Choosing to maintain the status quo by continuing to regulate growth on a project-by-project basis is not recommended as it will lead to:
  - capturing a decreased share of the region's job and population growth.
  - Pricing out low- and moderate-income households, many of which may choose to live outside of the community and commute into Chapel Hill for work.
  - Increasing the competition between students and long-term residents for lower costs housing units.
- While the household incomes of white, Asian, and Hispanic/Latino households appear comparable, 75% of Black households and 44% of mixed race, American Indian, and/or Alaskan native households earn 60% or less Area Median Income (AMI). Overall, 38% of all Chapel Hill households earn 60% AMI or less. Given the evident racial income inequalities, this will lead to a less racially diverse community.

## 3. *Who is or will experience benefit?*

- Current trends have led to the production of housing at higher price points. Single-family home values in Chapel Hill have increased by 33% between 2015 and 2021.

- While older single-family homes are typically more affordable, the most expensive developments were built between 2000 and 2009. Areas such as Meadowmont and Southern Village provide greater access to amenities such as commercial areas and access to multi-modal transportation.
- While increasing the supply of housing for higher income households relieves pressure on more modestly priced houses, a diversity of housing types at different price points is needed to increase affordability overall. New housing units need to reflect the changing household composition and preferences of both buyers and renters.
- Providing a greater diversity of housing – not just single family and large apartment complexes – will provide greater opportunities for both homeownership as well as rentals. This creates greater opportunity for naturally occurring affordable and moderate-income housing. It is also predicted to reduce the upward price pressures in the market that has led to cost burdened households, displacement of lifelong residents, and pricing out Chapel Hill’s workforce.
- There is a demand for approximately 6,000 missing middle housing units through 2040 that will provide greater opportunities for:
  - New buyers – younger generations are purchasing townhouses, condos, and other forms of attached housing at higher rates than previous generations. With younger and middle-aged households projected to postpone purchasing homes, rental demands increase.
  - Baby boomers –these buyers are looking at opportunities to downsize their family homes and age in place.
  - Multi-generational households – post-COVID, many young adults continue to live with family members.
  - Employment sectors that can afford and choose to live in Chapel Hill.

4. *What are the root causes of inequity?*

A number of factors have contributed to the inequality of housing access in the community over time. These include, but are not limited to:

- Access to education and jobs
- Household income levels
- Access to housing – both affordable and market rate housing as well as opportunity to rent or own
- Ability to purchase and maintain property ownership, build equity, and create generational wealth
- Real estate market trends that contribute to property values (both appreciation and depreciation)
- Property ownership contributes to political influence
- Zoning regulations that restricted housing types, required minimum lot sizes, and set maximum house sizes thereby segregating residents by income and class
- Restrictive covenants that have further perpetuated these trends and, before the Fair Housing Act of 1968, included racial restrictions
- Development patterns that led to larger homes for university professors and professionals around the UNC campus and limited workforce housing to Pine Knolls and Northside
- Lack of diversity in housing types that have created a gap between detached, single-family houses and large apartment complexes that has led to a constrained housing market, cost-burdened households, as well as increased traffic from commuters
- Sunset laws and policies that restricted Blacks and other people of color from being in certain neighborhoods or towns after sunset. Often enforced by police and residents, these laws often restricted people of color from residing within certain neighborhoods or even town borders.
- Access to public transportation and other community amenities

5. *What might be the unintended consequences of this action or strategy?*

- Housing production needs to be focused on both student and individual households. Staff recognizes that new housing, especially rental housing, is typically consumed by students in those neighborhoods closest to campus.
- Strategic placement and design of new missing middle housing units is needed to ensure that the new regulations are not incentivizing the demolition of naturally occurring affordable housing units.
- Missing Middle Housing requires access to multi-modal transportation to reduce the impacts of parking and traffic on existing neighborhoods.
- Special consideration is needed to guarantee the continued preservation of local and National Register-designated historic districts.

**B. DEMOGRAPHIC ANALYSIS OF PUBLIC PARTICIPATION**

Between January and March 25th, staff engaged with the public using both in-person and virtual methods as detailed in the table below.

9 In-person and Virtual PIMs and Community Open Houses. We have reached 146 folks through these events.	13 Neighborhood Meetings, as requested by residents, with total estimated attendance of 350 people	5,550 Visits to PublicInput 868 Survey Participants 342 Comments	471 email subscribers for project updates  <i>*Emails were collected through PublicInput, community events, and neighborhood meetings</i>
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This has been a multi-department effort. Five staff members from the Planning Department have led these public engagement sessions, spending an estimated total of 135 staff hours on public meetings alone.

As evidenced by the PublicInput demographic results in Exhibit B, the survey respondents were not representative of all Chapel Hill residents. These results are consistent with the Town’s Engagement Study released in March 2023 that some residents are persistently under-engaged in our current practices.

- High participation: Adults, aged 36-75, with high educational attainment that identify as white, non-Latino
- Low participation: Black or African American residents; Immigrant and refugee residents, especially speakers of languages other than English; Low-income residents, including seniors on a fixed income, public housing residents, and manufactured home park residents; and Students.
- Additional efforts to reach under-engaged communities: Staff conducted targeted outreach, in coordination with the Community Connections department, to under-engaged populations in Chapel Hill. Exhibit B includes a full list of contacted groups.

**C. SURVEY**

Staff created a survey through PublicInput and the results of the survey, as well as community feedback, are attached as Exhibit B.

**D. RESEARCH ON FEDERAL POLICY PROPOSALS**

The Biden Administration's [Housing Supply Action Plan](https://www.whitehouse.gov/briefing-room/statements-releases/2022/05/16/president-biden-announces-new-actions-to-ease-the-burden-of-housing-costs/)<sup>3</sup> seeks to improve housing access by, among other things, incentivizing communities to reform their zoning and land-use practices. Staff continue to monitor implementation of the plan.

**E. RESTRICTIVE COVENANTS**

Restrictive covenants are private property rights that run with the land. Generally speaking, covenants with single-family restrictions are common for neighborhoods platted in the last fifty years. The Town has no role in enforcing provisions of restrictive covenants between other landowners. The onus for enforcement is on the

<sup>3</sup> <https://www.whitehouse.gov/briefing-room/statements-releases/2022/05/16/president-biden-announces-new-actions-to-ease-the-burden-of-housing-costs/>

property owners or their Homeowners Association (HOA). While restrictive covenants are typically recorded with the county’s Register of Deeds, staff does not have the ability to certify with confidence a full listing of neighborhoods with covenants, the exact boundaries of such covenants, or whether covenants are accurate and active. In addition, multiple factors, including new and developing case law, may dictate whether any given set of covenants is enforceable as written. This work requires certification and should be left to legal professionals representing the landowners subject to these covenants

**F. ECONOMIC MODELING**

Staff has been working with developers through the Homebuilders Association to gain a better understanding of the costs of developing Missing Middle Housing in Chapel Hill.

**G. NORTHSIDE HISTORY OF DEVELOPMENT PRESSURES, NCD CHANGES, AND OUTCOMES**

Staff has researched the history of Northside and is meeting regularly with the Jackson Center to learn more about the challenges created by their Neighborhood Conservation District (NCD) designation.

**H. COMPARISON TO OTHER CITIES**

Staff has been researching and meeting with different resources to learn more about Missing Middle Housing and zoning reforms:

<b>Cities Researched/ Met With:</b>	<b>Land Use Codes Reviewed:</b>	<b>Additional Resources:</b>
<ul style="list-style-type: none"> <li>• Durham, NC</li> <li>• Iowa City, IA</li> <li>• Oxford, MS</li> <li>• Raleigh, NC</li> <li>• Tuscaloosa, AL</li> </ul>	<ul style="list-style-type: none"> <li>• Aberdeen, TX</li> <li>• Bloomington, IN</li> <li>• Bryant, TX</li> <li>• Charlotte, NC</li> <li>• Charlottesville, VA</li> <li>• Davidson, NC</li> <li>• Des Moines, IA</li> <li>• Fayetteville, AR</li> <li>• Kill Devil Hills, NC</li> <li>• Lake Stevens, WA</li> <li>• Langlely, WA</li> <li>• Madison, WI</li> <li>• Missoula, MT</li> <li>• Montgomery County, MD</li> <li>• Montgomery County, PA</li> <li>• Morrisville, NC</li> <li>• Nags Head, NC</li> <li>• Sea Tac, WA</li> <li>• Seattle, WA</li> <li>• Wenatchee, WA</li> <li>• West Yellowstone, MT</li> <li>• Winston-Salem, NC</li> </ul>	<ul style="list-style-type: none"> <li>• AARP Livable Communities</li> <li>• American Planning Association</li> <li>• Chamber for Greater Chapel Hill-Carrboro</li> <li>• Congress for New Urbanism</li> <li>• Home Builders Association of Durham, Orange, &amp; Chatham Counties</li> <li>• National Trust for Historic Preservation</li> <li>• North Carolina Historic Preservation Office</li> <li>• Orange County Tax Assessor</li> <li>• Orion Planning + Development</li> <li>• OWASA</li> <li>• Preservation North Carolina</li> <li>• SOM</li> <li>• Student Development &amp; Campus Partnerships, UNC</li> <li>• Town of Chapel Hill Affordable Housing, Inspections, Fire, Stormwater, Parking Services, and Parks &amp; Recreation</li> </ul>

**Key takeaways:**

- Most cities saw the most significant increases in Missing Middle Housing through larger development projects, not as infill development on individual lots.
- Traditional residential design is necessary for Missing Middle Housing forms to fit into existing residential neighborhoods. Most of the cities we spoke to already had historic examples of smaller multi-family apartment buildings.
- Creating intentional student housing near commercial areas allows students to benefit from amenities. Both Oxford and Tuscaloosa identified student-oriented development as a specific use allowed in certain zones, and these uses measure density in terms of beds per lot. In Oxford, student-oriented development led to student housing return to single family houses in some cases.
- Durham saw that there was still a significant demand for single family homes and their “small house on a small lot” option has been the most popular.

- To discourage out-of-town developers, there is a significant need for connecting small scale home builders to lending and financing options that facilitate missing middle housing. Tuscaloosa worked with their local homebuilders' and realtors' associations to host a Missing Middle Housing Symposium that facilitated conversations on how the housing could be created.
- Communities are exploring other ways to incentivize Missing Middle Housing such as expedited review using pattern books, focusing on development of Missing Middle Housing on vacant or underdeveloped town-owned properties, or creating specific zones in which Missing Middle Housing is permitted.

*I. INFILL LOT/COMPACT LOT SCENARIOS*

Staff has been working with the Town's urban designer to consider what Missing Middle Housing infill would look like and how cottages on compact lots can be incorporated into existing neighborhoods.

**ATTACHMENTS**

- A. Draft Staff Presentation
- B. Public Engagement Summary