

HR&A +



Town of Chapel Hill Affordable Housing Plan

Town Council Update

April 2023

Agenda

Introduction & Objectives

Housing Challenges

Existing and Potential Affordable Housing Programs

Discussion and Next Steps



01

Introduction & Objectives

INTRODUCTION

HR&A is an economic development, real estate and public policy consulting firm working at the intersection of the public and private sectors.



SCOPE OF WORK

HR&A has been engaged by the Town of Chapel Hill to create an affordable housing plan and investment strategy.

TASK 1 | Project Initiation & Management

TASK 2 | Existing Conditions Review

TASK 3 | Strategy Development

TASK 4 | Plan Drafting & Approval

Scope Objectives

- **Create a comprehensive affordable housing plan** to synthesize existing data, programs, and strategies.
- **Identify a range of new implementation tools and strategies** to support the Town's near-term affordable housing goals and complement ongoing Town initiatives.
- **Establish an investment strategy** to implement the affordable housing plan and address critical shortage of affordable housing in Chapel Hill.

PRESENTATION OBJECTIVES

Today, we will confirm the Town's alignment with existing affordable housing conditions and preview strategies to sustain and enhance the Town's affordable housing programs.

Guiding Questions

- Does the Town plan to sustain its current level of funding for affordable housing?
- If so, what funding mechanisms should be considered?
- What existing housing tools might be expanded, and what tools might be added?



02

Housing Challenges

HOUSING CHALLENGES

Unmet housing needs and lingering affordability gaps continue to pose challenges in Chapel Hill's housing market.

LIMITED HOUSING SUPPLY

The **prevalence of low-density development patterns**, barriers to new housing development, and the lack of diversity in types of homes contribute to a highly competitive housing market.

1%

Net increase in homes since 2010

DECREASING HOMEOWNERSHIP OPPORTUNITIES

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

36%

Increase in median home sales prices since 2019

INCREASING RENTAL COST BURDENS

Limited housing options has **exacerbated housing cost burdens among renter households**, especially those earning less than \$75,000 annually.

78%

Renter households earning under \$75k are cost-burdened

ONGOING DISPLACEMENT PRESSURE

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

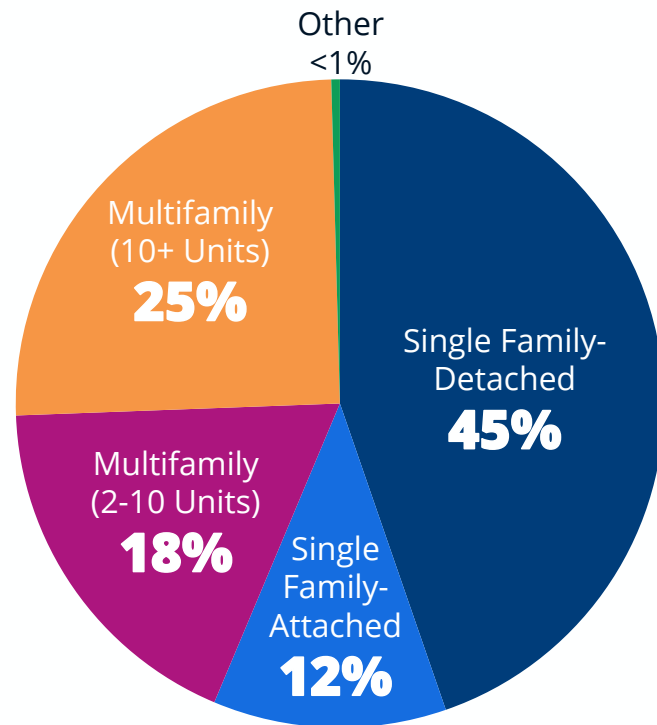
32%

Decrease in Black homeownership since 2010

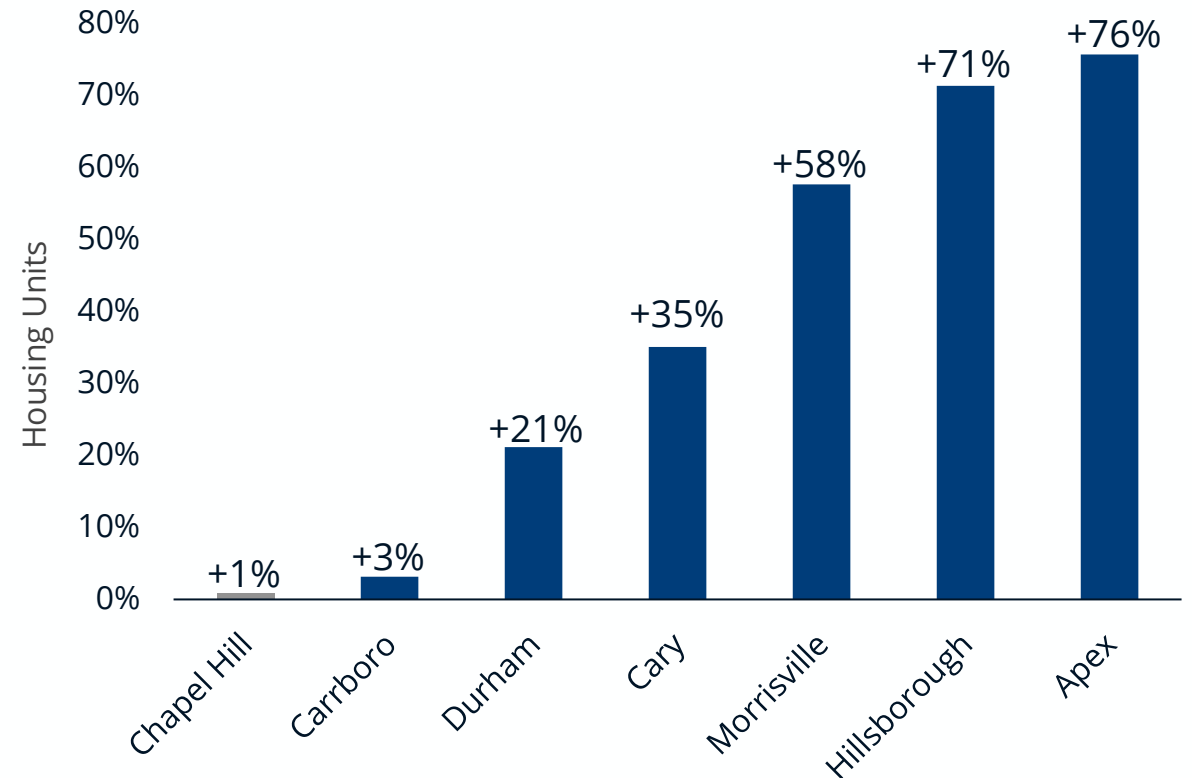
HOUSING CHALLENGES | LIMITED HOUSING SUPPLY

Low-density development patterns, constrained land availability, and public opposition to new development have resulted in limited housing production in Chapel Hill since 2010.

EXISTING HOUSING STOCK BY TYPE IN CHAPEL HILL 2021



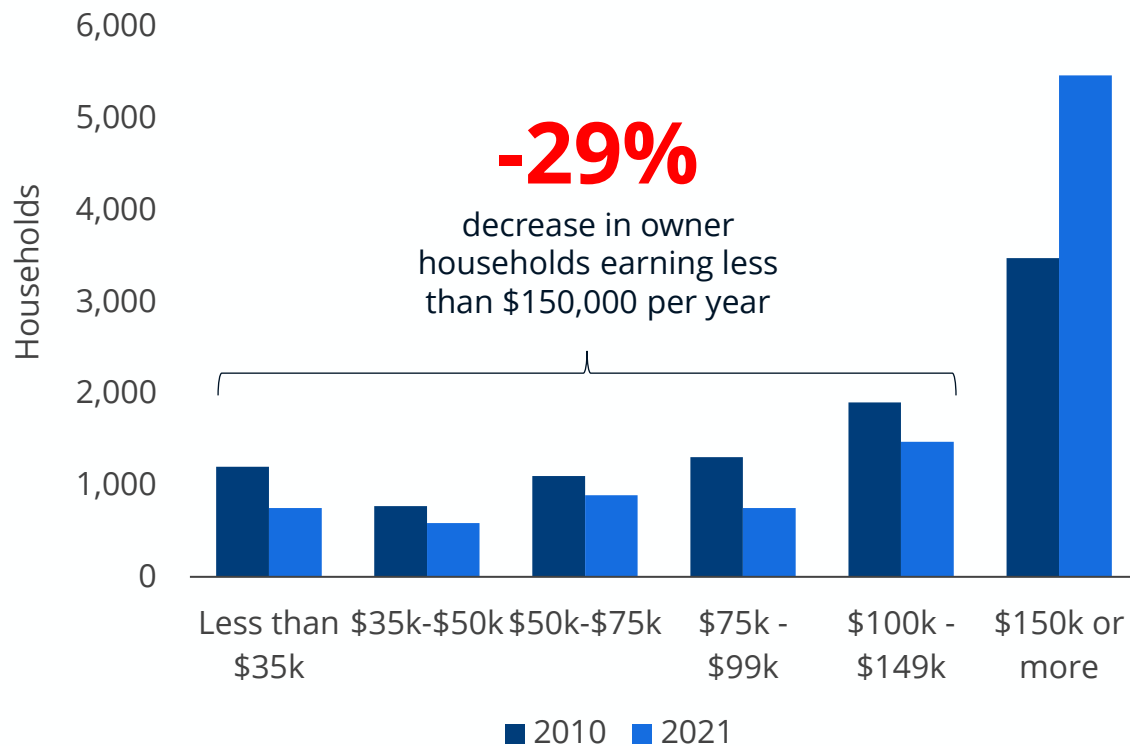
CHANGE IN HOUSING UNITS BY MUNICIPALITY 2010 – 2021



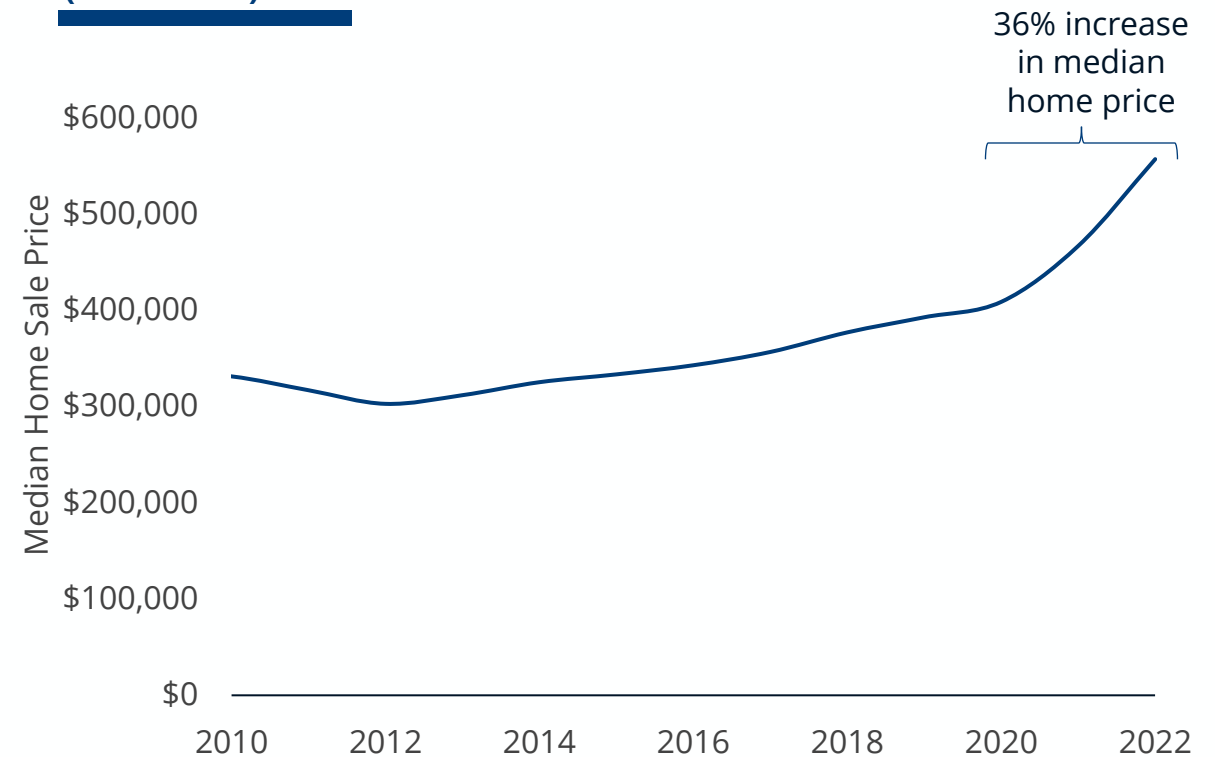
HOUSING CHALLENGES | DECREASING HOMEOWNERSHIP OPPORTUNITIES

Limited housing supply has created a competitive housing market in Chapel Hill and put homeownership out of reach for most households.

HOMEOWNERSHIP BY INCOME LEVEL
(2010 & 2021)



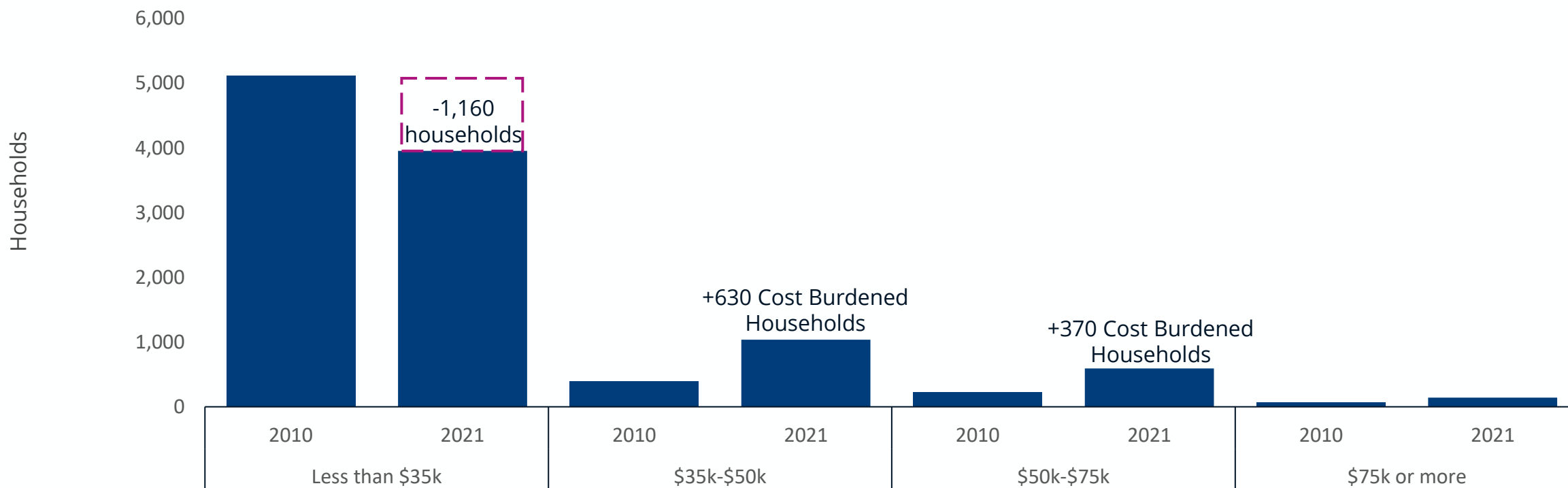
MEDIAN HOME PRICE
(2010 - 2022)



HOUSING CHALLENGES | INCREASING RENTER COST BURDENS

Housing cost burdens have increased among Chapel Hill renters, especially for households earning under \$75,000 who have limited housing options within the town.

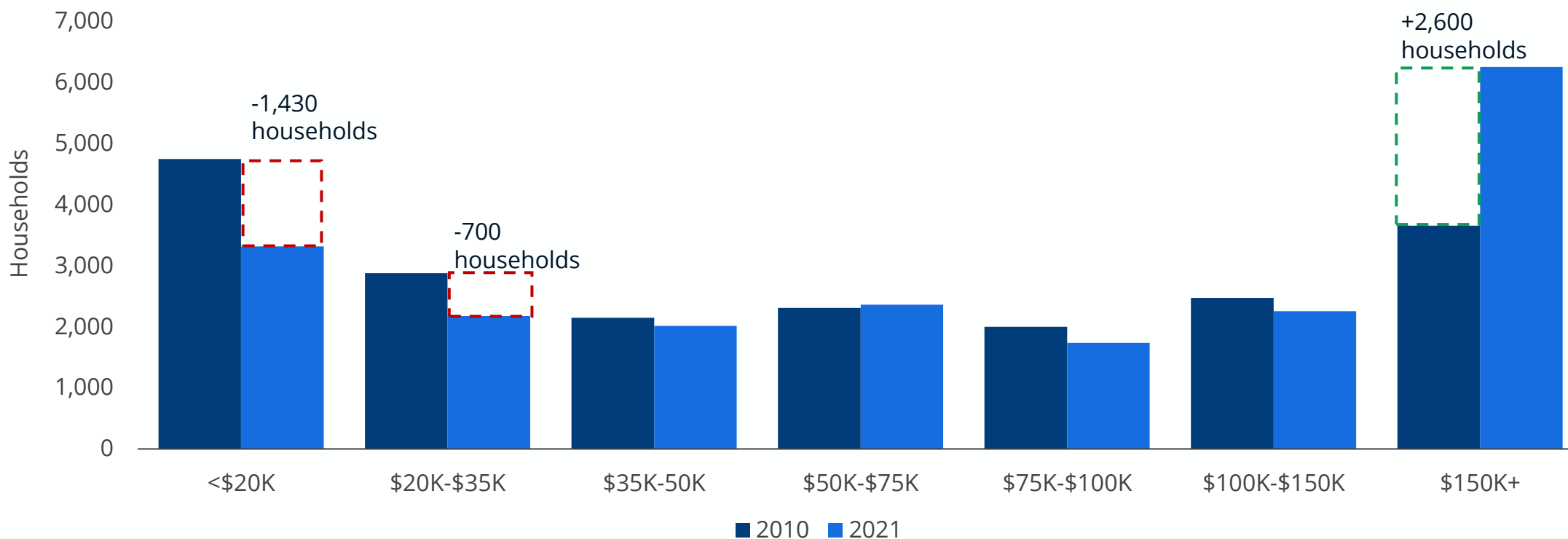
COST BURDENED RENTER HOUSEHOLDS BY INCOME (2010 & 2021)



HOUSING CHALLENGES | DISPLACEMENT PRESSURE

While the population has remained relatively stable, there has been a shift toward higher-income households.

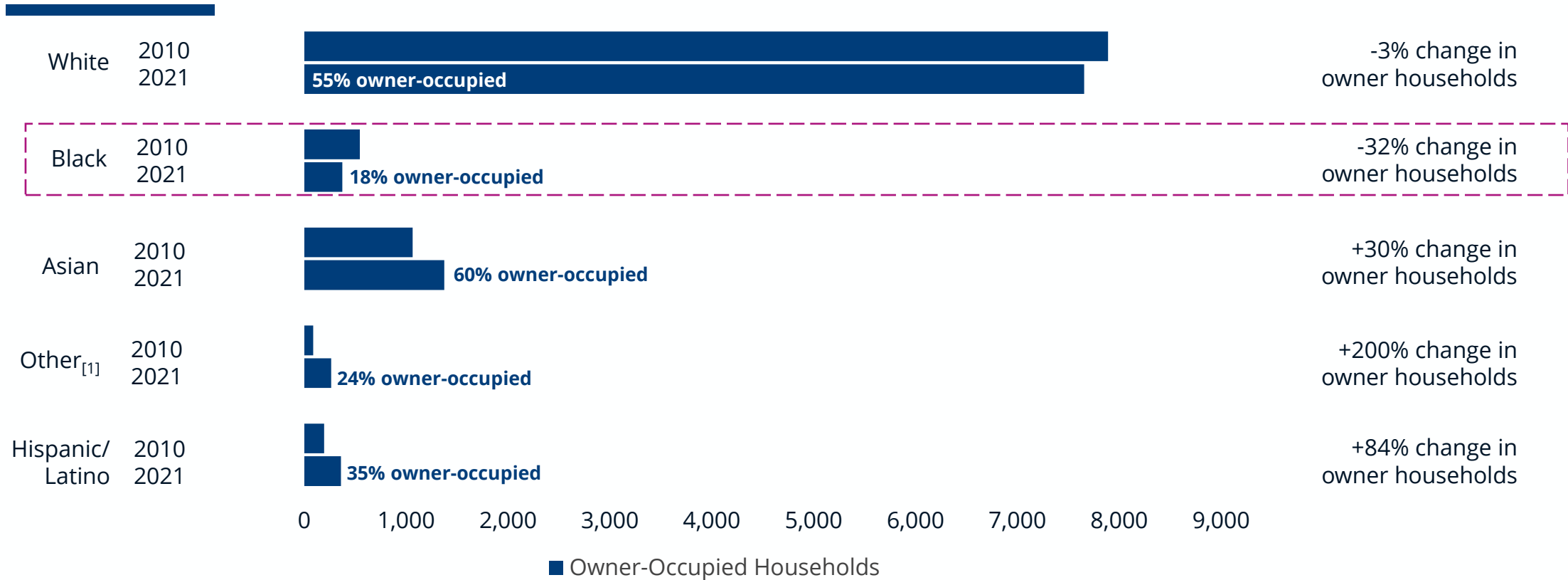
CHANGE IN TOTAL HOUSEHOLDS BY INCOMES
(2010 - 2021)



HOUSING CHALLENGES | DISPLACEMENT PRESSURE

Rising housing costs and displacement pressures have disproportionately impacted Chapel Hill's Black population, particularly in historic neighborhoods like Northside and Pine Knolls.

CHANGE IN OWNER-OCCUPIED HOUSEHOLDS BY RACE (2010 - 2021)



[1] Includes American Indian & Alaskan, other, and two or more races census categories

Source(s): ACS 5-Year Survey 2010 – 2021



03

Existing and Potential Affordable Housing Programs

APPROACHES TO DEVELOPING AFFORDABLE HOUSING

An effective affordable housing strategy must address housing affordability through three approaches.



PUBLIC SUBSIDIES

Subsidies dedicate funds to preserve and build high quality affordable housing. The market will not provide units at the lowest income levels, so subsidies are required to help fill the gap. Additional public funding will be required to continue providing subsidy, especially for deeper levels of affordability.



LAND USE AND REGULATIONS

Land use and regulations are crucial to accommodate growth and reduce displacement, increase housing supply, and redress racial segregation created and reinforced through land use. They typically will not serve the lowest-income households.



TENANTS' RIGHTS

Tenants' rights help to avoid displacement. North Carolina state law restricts what can be done to protect tenants' rights, but municipalities can focus on minimizing displacement with preservation initiatives and strategies.

EXISTING TOWN PROGRAMS, POLICIES AND FUNDING SOURCES

The Town deploys a robust set of partnerships, programs and policies, and funding sources for a community of its size.

LOCAL COLLABORATIONS

- Northside Neighborhood Initiative
- IFC Social Services
- Master Leasing Pilot Program

POLICY INITIATIVES

- Inclusionary zoning
- Zoning code update allowing 'missing-middle' homes
- Expedited permit review
- Manufactured Homes Action Plan

LOCAL FUNDING SOURCES

- Affordable Housing Fund
- Affordable Housing Development Reserve
- Affordable Housing Bond (one-time)

REGIONAL PARTNERSHIPS

- Community Home Trust
- HOME Consortium
- Orange County Partnership to End Homelessness
- Affordable Housing Local Government Collaborative
- Orange County Home Preservation Coalition

TOWN-LED PROGRAMS

- Employee Housing Program
- Transitional Housing Program
- Town-Initiated Development

FEDERAL FUNDING SOURCES

- CDBG
- HOME (County Administered)
- HOME ARP
- ARPA (one-time)
- HUD (Public Housing only)

PILLARS OF AFFORDABLE HOUSING

The Town's housing programs and policies fall into four key pillars. Three of those pillars rely on public funding.



**Fund Affordable
Housing Projects**



**Initiate Development
& Preservation**



**Own & Manage
Housing**

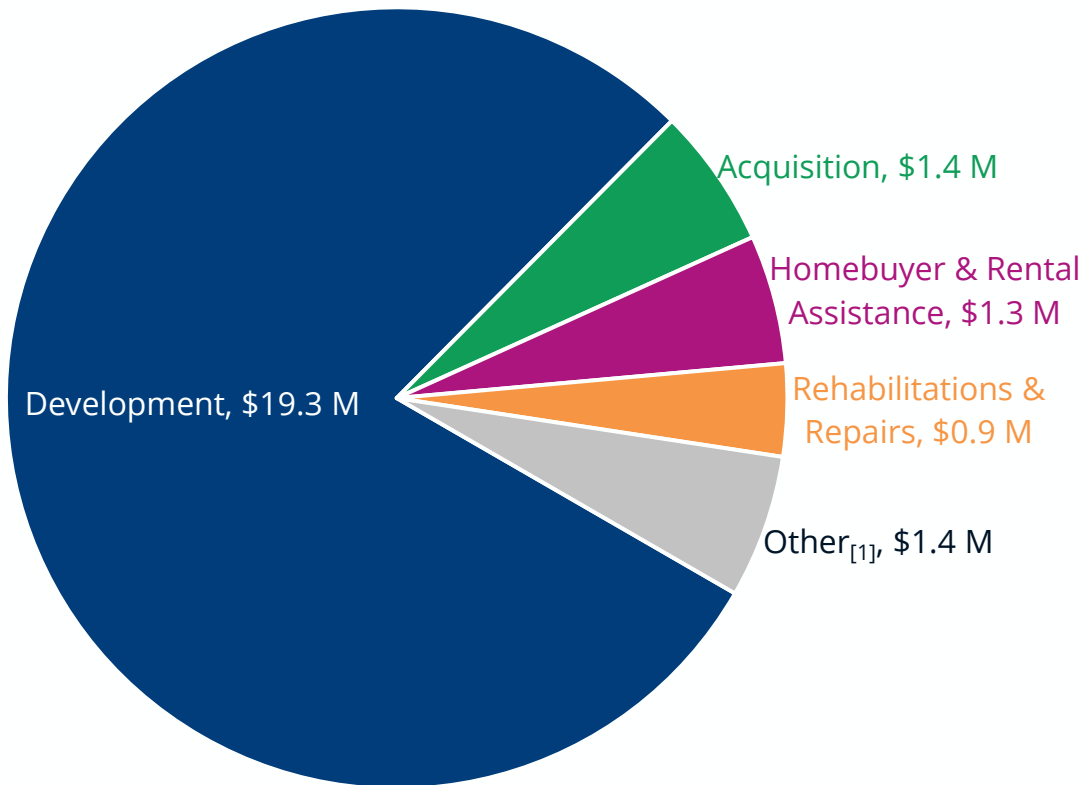


**Create & Implement
Housing Policies**

FUNDING AFFORDABLE HOUSING PROJECTS | FUNDING ALLOCATIONS

The Town has allocated over \$24M to support affordable homes over the past decade, with over three quarters going to development.

FUNDING AWARDS FOR AFFORDABLE HOUSING FY 2014 – FY 2023



\$24.4M

Funding awarded since 2014^[2]

79%

Funding awarded towards gap financing grants for development projects

[1] Includes Northside Neighborhood Initiative and planning studies

[2] Funding awards from CDBG, Affordable Housing Fund, Affordable Housing Development Reserve, Bond, and ARPA

Source(s): Town of Chapel Hill

INITIATE DEVELOPMENT & PRESERVATION | LOW-INCOME HOUSING TAX CREDIT PROJECTS

The Town relies on a combination of public land and local gap subsidy to leverage outside funding and create affordable homes.

LIHTC PROJECTS DELIVERED AND ENTITLED IN CHAPEL HILL SINCE 2017

Greenfield Place



- **Lead Developer:** DHIC
- **Year Built:** 2017
- **Units:** 80
- **AMI:** 0-60%
- **Subsidy/Home:** \$7,440
- **Town Resources:** Land; AHF (\$145,000); AHDR (\$450,000)

Greenfield Commons



- **Lead Developer:** DHIC
- **Year Built:** 2019
- **Units:** 69
- **AMI:** 30-60%
- **Subsidy/Home:** \$16,667
- **Town Resources:** Land; AHDR (\$1.15M)

Perry Place

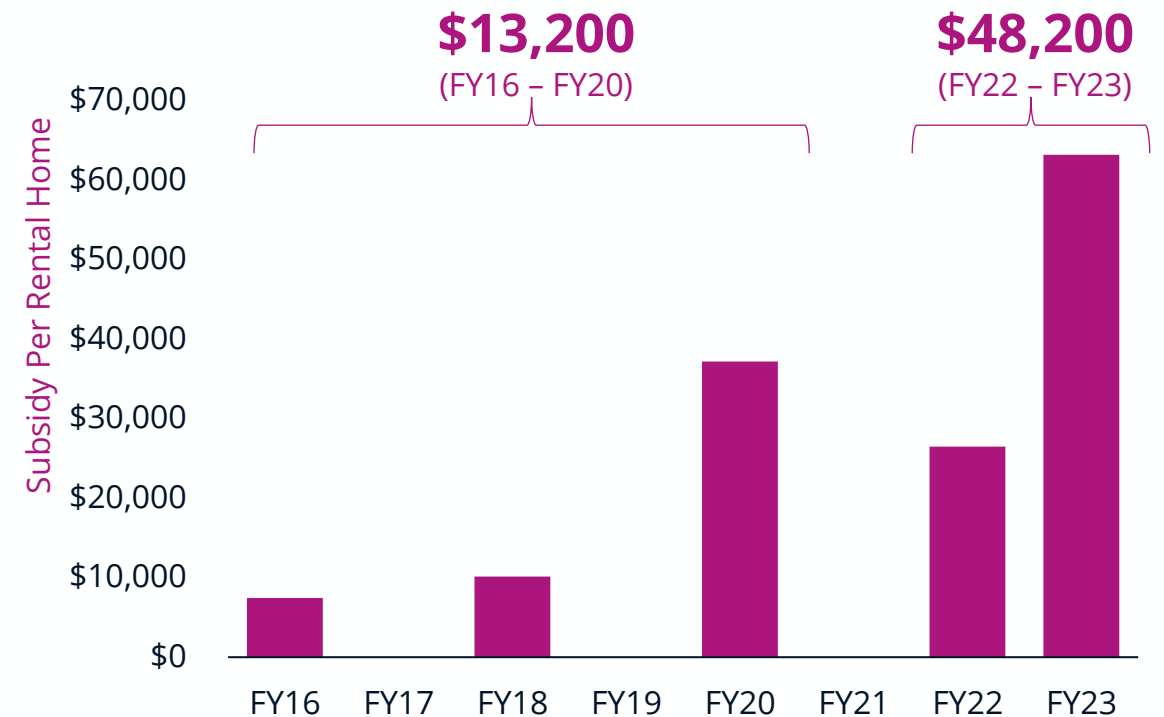
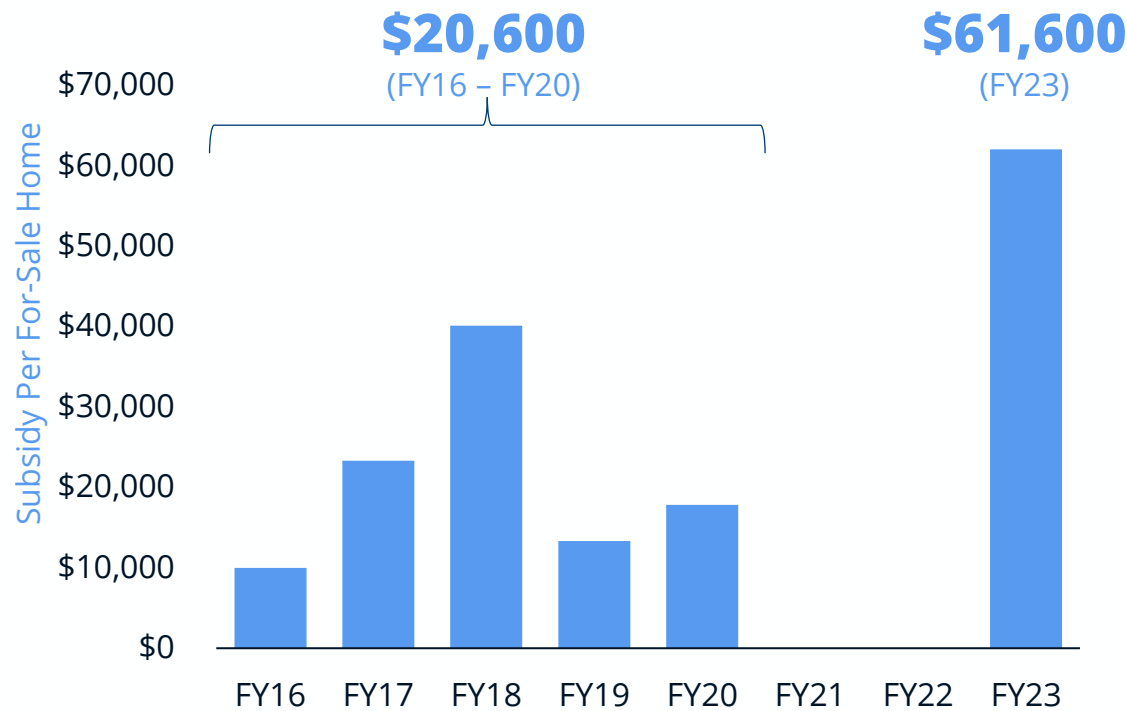


- **Lead Developer:** CASA
- **Year Built:** 2023
- **Units:** 48
- **AMI:** 0-60%
- **Local Subsidy/Home:** \$41,325
- **Town Resources:** AHDR (\$222,000); AHDR (\$522,800), Bond (\$247,000)

TOWN FUNDING | DEVELOPMENT SUBSIDIES

Higher amounts of gap subsidy will be needed going forward as development costs rise.

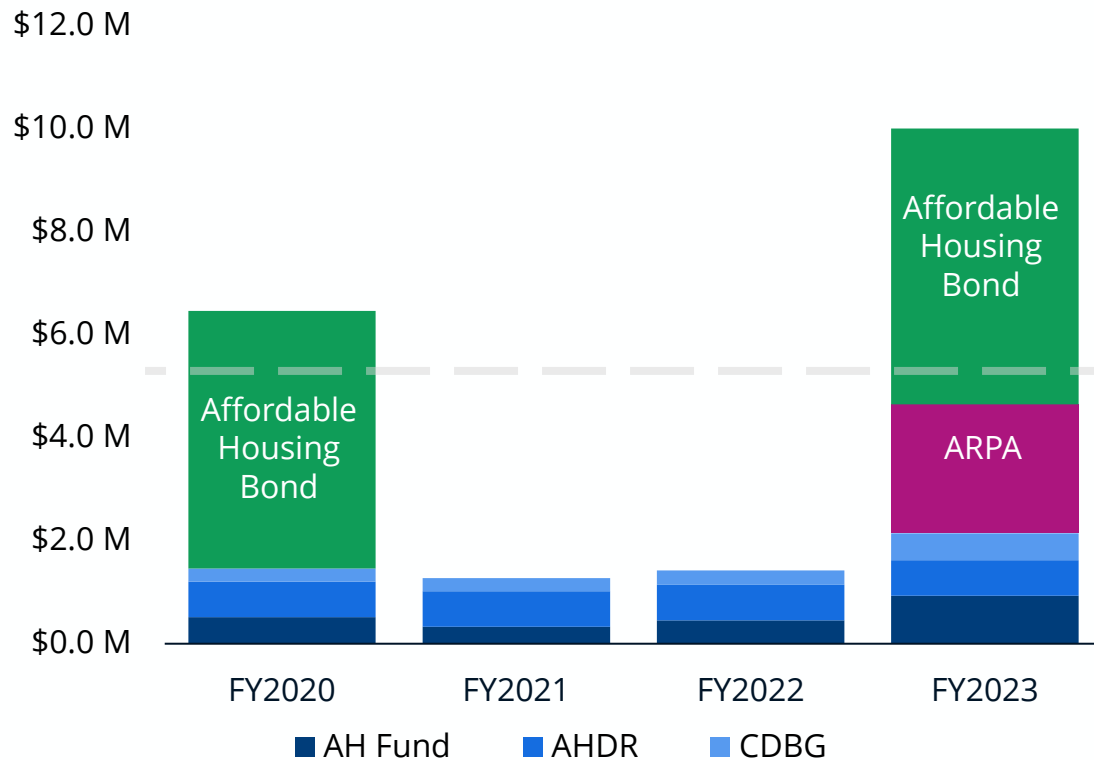
TOWN SUBSIDIES PER HOME ALLOCATED FOR AFFORDABLE FOR-SALE AND RENTAL UNITS FY 2016 – FY 2023



TOWN FUNDING | RECENT FUNDING TRENDS

The Town has heavily invested local money to support its affordable housing goals since 2019, allocating a record \$10 million for funding during this fiscal year.

FUNDING SOURCES FOR TOWN AFFORDABLE HOUSING PROGRAMS AND POLICIES FY 2020 – FY 2023



400

Affordable homes approved for development and preservation

620

Households served (emergency rental assistance, repairs, etc.)

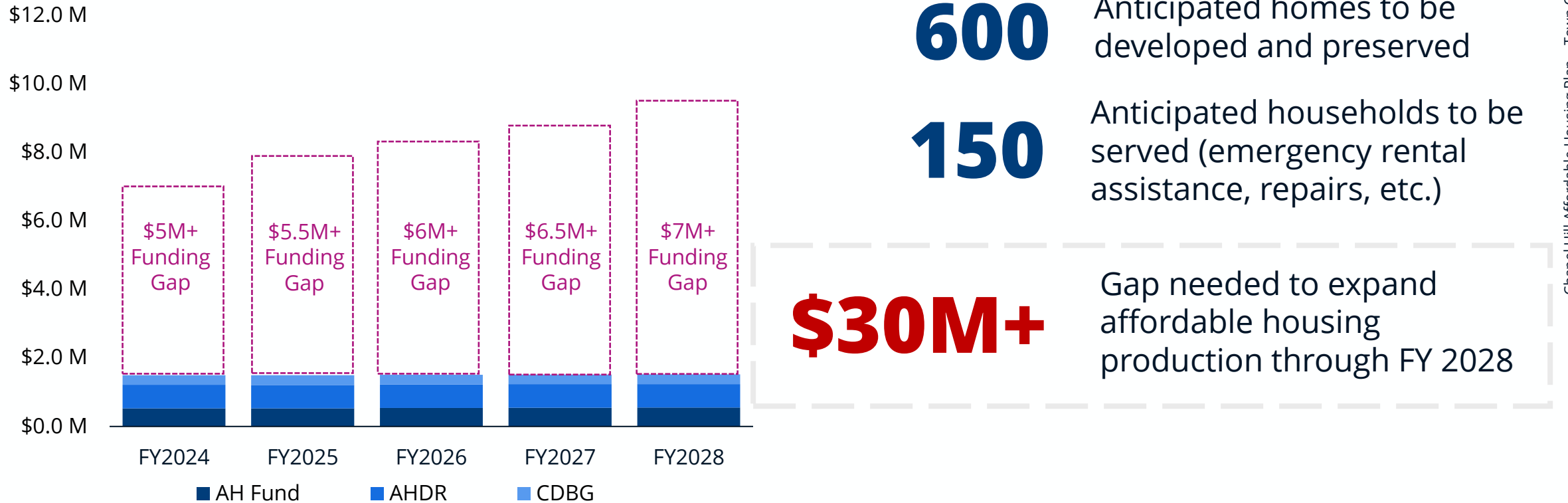
\$19.1M

Affordable housing budget allocated since FY 2020

TOWN FUNDING | FUTURE FUNDING NEEDS

The Town will need to allocate an additional \$30 million over the next five years in order to match its affordable housing production.

FUNDING SOURCES FOR TOWN AFFORDABLE HOUSING PROGRAMS AND POLICIES FY 2024 – FY 2028



POTENTIAL TOOLS AND SOLUTIONS | PUBLIC SUBSIDY FUNDING SOURCES & FINANCING TOOLS

To sustain and expand Chapel Hill's affordable housing programs and goals, the Town will need to incorporate additional local funding sources and financing tools.

PENNY TAX

Increase property taxes incrementally to provide an annual allocation of funds for affordable housing

GENERAL FUND

Increase allocation of General Fund dollars towards affordable housing.

HOUSING BOND

Issue another (larger) Housing Bond to support capital projects and other gap financing needs.

LOAN FUND

Create self-replenishing funding pool to support land acquisition, construction, and preservation.

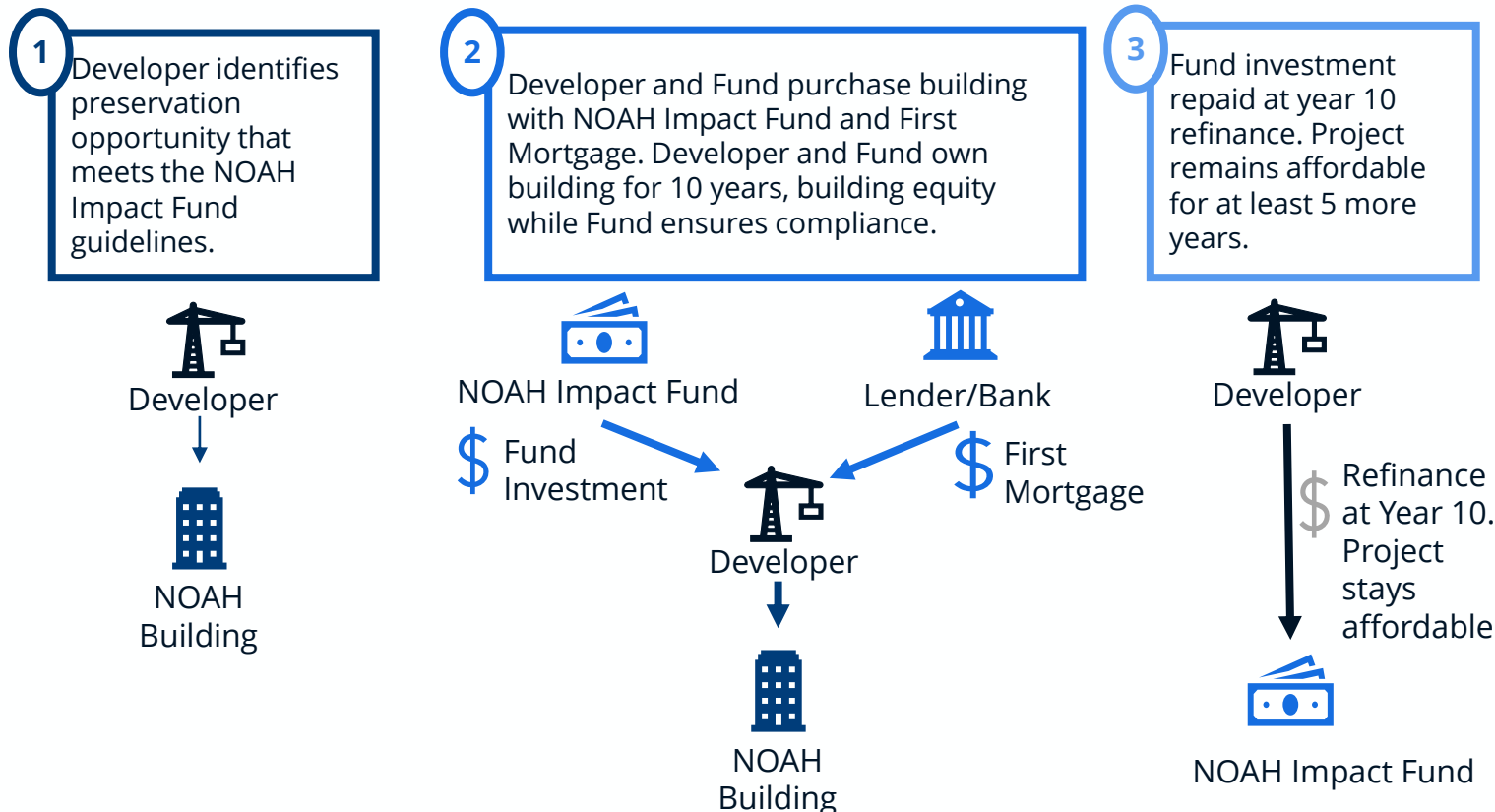
FUNDING SOURCES

FINANCING TOOLS

POTENTIAL TOOLS AND SOLUTIONS | LOAN FUNDS

Loan funds can ensure continued housing affordability through gap financing loans.

In 2017, the Greater Minnesota Housing Fund created the NOAH Impact Fund to preserve naturally occurring affordable housing and expiring subsidized buildings.



Note: Naturally occurring affordable housing (NOAH) is market rate housing affordable to low-income households, typically between 50%-80% AMI, and is not income restricted or subsidized by any government programs. Subsidized housing includes the units supported by the Low Income Housing Tax Credit, Project Based Vouchers, Section 202 supportive housing, and other government programs.

Need: Dramatic regional loss of naturally occurring affordable housing (NOAH) buildings

Goal: Preserve NOAH with a portfolio goal of at least 75% of units affordable to 80% AMI and below

Fund Size: \$25M with \$7.5M additional credit enhancement (\$5.5M public)

Fund Product: Long-term equity as a 90% general partner

Public Funds Leverage: \$3.5 private : \$1 public in fund, \$20.6 private : \$1 public in project investment

Administrator: Managed by Greater Minnesota Housing Fund (GMHF), a community development financial institution (CDFI) and nonprofit that operates three funds and develops programs for key housing issues.

Users: Nonprofit and for-profit developers

POTENTIAL TOOLS AND SOLUTIONS | LAND USE & REGULATIONS

Land use tools **set the regulatory environment** for developers to make investment decisions and influence affordability by impacting the amount, type, location, and cost of new housing.

There are two ways that land use and regulatory tools can support affordability:

- **Indirect Tools** increase the overall supply of housing and lower the cost of new housing
e.g. by-right zoning, building code reform, Accessory Dwelling Units (ADUs)
- **Direct Tools** support the creation of affordable housing through incentives or requirements for the production of affordable units
e.g. expedited review for affordable housing projects, inclusionary zoning

- 
- No public funding required to induce private development
 - Increases the overall supply of housing
 - Encourages private developers to create mixed-income housing
 - Reduces the ability of a limited constituency to prevent the creation of housing
 - Helps address legacies of racial segregation by driving new housing supply more evenly across the city

- Decreased neighborhood control over density and form of new development
- Typically does not create housing for extremely low-income households
- Existing naturally affordable housing may be lost to redevelopment

POTENTIAL TOOLS AND SOLUTIONS | TENANTS' RIGHTS

Tenants' rights tools seek to **preserve existing affordable housing** by protecting the occupants of affordable housing.

- Tools to **enforce existing rights** typically relate to the availability and affordability of legal services.
e.g. right to counsel, mandatory mediation
- Tools to **expand tenants' rights** help tenants stay in their homes by limiting the actions that landlords can take.
e.g. rent control, just cause eviction

- 
- Particularly important for housing stability and preventing displacement
 - May increase affordability for current tenants
 - Pressures exploitative landlords to act in current and future tenants' interests

- Restrictive North Carolina laws limit potential for rent control and tenants' rights laws
- None of the tools create new affordable units or directly increase unit affordability
- Rent control can increase overall rents for new renters, as seen in other markets



04

Discussion and Next Steps

DISCUSSION

Town Council's input tonight will inform our approach in evaluating and finalizing implementation strategies.

Guiding Questions

- Does the Town plan to sustain its current level of funding for affordable housing?
- If so, what funding mechanisms should be considered?
- What existing housing tools might be expanded, and what tools might be added?

NEXT STEPS

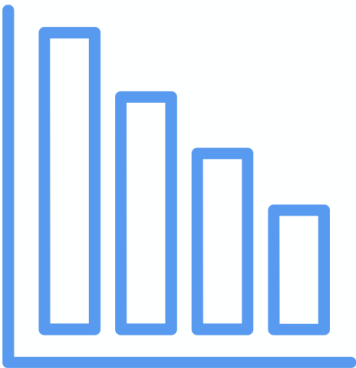
The next phase of our work will involve drafting the affordable housing plan and collecting feedback from key stakeholders, including the Housing Advisory Board (5/9) and the public.

TASK 1 | Project Initiation & Management

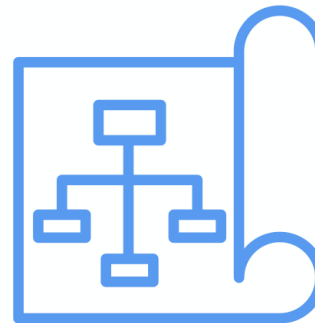
TASK 2 | Existing Conditions Review

TASK 3 | Strategy Development

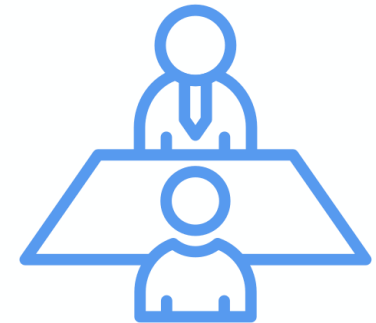
TASK 4 | Plan Drafting & Approval



Analyze Additional
Financing Tools



Draft Affordable Housing
Plan + Investment
Strategy



Collect Feedback from the
Public and Key
Stakeholders

