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

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

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

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

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

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

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

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

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

Payment in Lieu amount:

$82,800 x 15 = **$1,242,000**

Housing Advisory Board Recommendation
February, 2018