

# Blue Hill District Affordable Housing Strategy Report

## March 2019

### Overview

The Town Council established the [Blue Hill District](#)<sup>1</sup> in 2014. The District grew out of a small area planning economic development initiative with the goal of revitalizing and reconnecting the area by encouraging reinvestment in the area's aging commercial properties. The District follows a form-based zoning code to facilitate redevelopment with a prescribed physical form that promotes a mixture of uses to support a high-quality public realm in a pedestrian-friendly area.<sup>2</sup>

When the District was created, the Council also set a goal of creating 300 new affordable housing units or 20% of total new units within the District. To date:

- 80 units have been completed in the Greenfield Place site and 69 are currently under construction at the Greenfield Commons site, for a total of 149 affordable units to be completed by spring 2019.
- The District is set to lose 190 Naturally Occurring Affordable Housing (NOAH)<sup>3</sup> units due to the anticipated redevelopment of the Park Apartments. The developer will provide a \$1.5M payment-in-lieu to support the Town's affordable housing initiatives, and agreed to reserve 155 units for households earning between 80%-120% of the Area Median Income.
- Town Planning staff expects a development application soon for Tarheel Lodging Redevelopment, which has a multifamily residential component but no anticipated affordable housing plan.
- While Planning staff identified additional properties with redevelopment potential, no other development applications are under review or in pre-application discussions that could contribute to the affordable housing goal.

Over the past several years, staff has continued to explore options to incentivize affordable housing in the Blue Hill District and Town-wide. This document contains strategy options for achieving the affordable housing goal for the District by creating, supporting, and incentivizing affordable housing in and around the area.

### Research Process

Town staff used a variety of methods to better understand the dynamics impacting development in the Blue Hill District and to explore options to increase affordable housing opportunities throughout the District, including:

- Best practices research among communities pursuing affordable housing strategies in coordination with their Form-Based Code.
- Interdepartmental meetings with Town staff, including Planning, Business Management, Geographic Information Systems (GIS), and the Town Manager's Office.
- Evaluation of cost data from affordable housing consultant David Paul Rosen and Associates, and analyses conducted for development projects in Town.

<sup>1</sup> <https://www.townofchapelhill.org/town-hall/departments-services/chapel-hill-2020/future-focus-areas/the-ephesus-fordham-district>

<sup>2</sup> Blue Hill District Design Guidelines. Town of Chapel Hill, NC. May 2018.

<sup>3</sup> NOAH is considered housing that is affordable without being supported by public subsidies.



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- Feedback from the Housing Advisory Board received at their meeting on February 12, 2019.

### Key Findings

Form-based code generally has inherent characteristics that can **promote affordability**, including:

- A streamlined and more predictable development review process which can reduce development costs.
- Walkability and access to transit, which can reduce transportation costs.
- A focus on energy efficiency and building performance which can reduce utility costs.

Form-based code can also be viewed as a **deterrent to affordable housing** for a variety of reasons:

- A focus on form rather than land use, which provides more flexibility for developers seeking to maximize density, height, etc. but limits the effectiveness of incentives that may be used to encourage affordable housing, such as a density or Floor Area Ratio (FAR) bonus.
- “By right” status for eligible projects limits the ability to negotiate affordable housing plans with developers as part of project approval.

To achieve its goal of encouraging reinvestment in the area, the Blue Hill District Code offers an abbreviated review process for projects that meet its design guidelines. In doing so, the Code removes the opportunities the Town typically has to negotiate or incentivize affordable housing during the development review process, as shown below.

| Traditional Development Review Process  | Blue Hill Approval Process  |
|---|---|
| Opportunity for Council and Advisory Board Review   | <ul style="list-style-type: none"> <li>- Projects meeting form-based standards receive 100-day approval from staff and CDC</li> <li>- Housing Advisory Board other development review boards do not review</li> <li>- Council approval is not required</li> </ul> |
| Utilize incentives (density bonus/FAR bonus) or grant rezoning for rental developments in exchange for affordable housing | <ul style="list-style-type: none"> <li>- Form-based code does not dictate density; developers can maximize density/size by right</li> <li>- Value of height bonuses limited by increase in construction costs for greater than ~6 story buildings</li> </ul>      |

### Potential Strategies

#### **Strategy 1: Revise Blue Hill District Code to reflect the Town’s commitment to affordable housing within the District**

Some jurisdictions elect to write affordable housing standards into their form-based code – either as a guiding principle, or as a requirement. The Blue Hill District code does not currently mention affordable housing or state the Council’s affordable housing goals. The Town could include affordable housing as a key component of the vision for the Blue Hill District. Doing so would demonstrate to the community and developers the Town’s interest in creating affordable housing opportunities.



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In addition, the Town could modify the District regulations to require that developers participate in a pre-application meeting with Town Affordable Housing staff to discuss ways that the developer could contribute to the Town's commitment to affordable housing in the District.

### **Strategy 2: Offer development review process options to support affordable housing**

The Town could incentivize affordable housing by allowing developers to select between various development review process options. Two potential scenarios have been identified:

- *Commercial Exemption:* Allow developers to include affordable housing in lieu of satisfying a 2018 code amendment that requires a minimum percentage of non-residential uses (i.e., commercial) in mixed use buildings (10% of building floor area) and mixed use sites (15% of total site floor area).<sup>4</sup>
- *Stormwater Management Options:* Due to changes in State statute, the Town is currently considering development review options in the Blue Hill District based on the level of stormwater management being offered in a project. The Town could establish conditions for affordable housing as well as enhanced stormwater treatment for projects opting into the existing Blue Hill development review process and/or negotiating affordable housing as well as stormwater plans during a traditional development review process.

If the Council supports the Commercial Exemption strategy, staff would work with a consultant to determine an appropriate percentage of units that would offer a comparable or better choice between the inclusion of commercial space and affordable housing to be considered by the Council.

If the Council supports the Stormwater Management Options, Housing and Community and Planning staff would work together in the design of the code modification for Council consideration.

### **Strategy 3: Partner with Developers to explore the inclusion of affordable housing in planned development within the District**

Partnerships with market rate developers to create affordable housing in the Blue Hill District could take a variety of forms, including:

- Subsidizing construction of affordable units within market rate residential development projects in exchange for affordability restrictions;
- Designating a portion of units for public employees such as local/County government or Chapel Hill Carrboro City Schools employees; and/or
- Executing a master lease between a developer and the Town or other housing partner that subsidizes rent to provide affordable units for a specified target population.

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<sup>4</sup> LUMO section 3.11.3.5.A.4:

[https://library.municode.com/nc/chapel\\_hill/codes/code\\_of\\_ordinances?nodeId=CO\\_APXALOUSMA\\_ART3ZODIUSDIST\\_3.11BLHIFODI&showChanges=true](https://library.municode.com/nc/chapel_hill/codes/code_of_ordinances?nodeId=CO_APXALOUSMA_ART3ZODIUSDIST_3.11BLHIFODI&showChanges=true)



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A required meeting with Town Affordable Housing staff, as noted in Strategy 1, could help facilitate an exploration of these partnership options. Town financial support for these types of partnerships could come from existing affordable housing funds or from revenue generated through Strategy 5.

### **Strategy 4: Offer similar review process for affordable housing development in areas surrounding Blue Hill District**

Qualifying projects in the Blue Hill District are subject to a streamlined review process that offers administrative approval, meaning staff and the Community Design Commission review the project within 100 days and no Council action is needed. Allowing qualifying projects a “by right” approval decreases the development timeline, increases predictability, and lowers project risk, which for developers can translate to cost savings, improved access to financing, and improved project performance.

Extending these development benefits to the areas surrounding the Blue Hill District for projects with a significant affordable housing component could significantly incentivize development of new affordable housing development opportunities, including on nearby Town properties and on parcels south of Elliott Road that are not currently zoned to Blue Hill District code (see Parcel Legend map on next page). Development in these areas would likely score well on a 9% Low Income Housing Tax Credit (LIHTC) application due to the area’s access to grocery stores, transit, and other amenities, which could cover much of the subsidy required to achieve affordability levels at 60% of AMI. For example, the Greenfield Place and Greenfield Commons developments within the Blue Hill District were awarded a 9% credit in 2016 and the developer believes that the shortened and more predictable timeline allowed them to meet the strict LIHTC required deadlines.

### **Strategy 5: Allocate a portion of increased tax revenue to fund affordable housing**

In 2014, the Town created a synthetic Tax Increment Financing (TIF) district to finance road improvements in the Blue Hill District with anticipated property tax revenue from increased property values attributed to new development there. In the first few years property tax revenue has risen, and is scheduled to hold pace with the scheduled debt service payments beginning in FY 2021. The Town’s Business Management Department anticipates that the incremental property tax revenue received over the 12 years from FY 2018 – 2029, will be adequate to repay the debt for the road improvements from Phase I and Phase II of the project, assuming the project projections and timelines remain accurate. Depending on whether the Town proceeds with future phases of the project or not, Council could choose to dedicate a portion of the incremental property tax revenue to subsidize affordable housing in the District.



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### Next Steps

Town staff seeks the Council’s feedback on the strategies proposed in this report. If the Council supports moving forward with any of the strategies, we offer the following initial next steps. In each case, we would return to the Council with additional information and options for consideration.

| Strategy   | Proposed Next Steps   |
|------------|---|
| Strategy 1 | - Initiate process required to revise Blue Hill Code to incorporate affordable housing into the vision statements of the District.  |
| Strategy 2 | - Work with a consultant to conduct analysis to determine affordability level that offers comparable alternative to commercial requirement for new development in Blue Hill.<br>- Coordinate with Planning staff on design of code modification for stormwater treatment. |
| Strategy 3 | - Assess interest among developers to accept subsidy to include affordable units in proposed market rate development.<br>- Refine financial analysis to estimate subsidy costs needed under various scenarios with assistance from a consultant.                          |
| Strategy 4 | - Clarify zoning structure to extend development benefits to surrounding area.<br>- Further explore nearby affordable housing development opportunities.  |
| Strategy 5 | - Monitor debt repayment schedule for Phases I and II<br>- Consider allocation of additional property tax revenue to be used for affordable housing development after the current debt is paid off.   |

### PARCEL LEGEND

-  HIGHER REDEVELOPMENT POTENTIAL-  
Older Buildings, Good Access
-  MODERATE REDEVELOPMENT POTENTIAL-  
Newer/Recently Improved Buildings, Limited Access and/or  
Significant Floodplain Present
-  BLUE HILL DISTRICT BOUNDARY
-  REZONING REQUIRED-  
Within Blue Hill District but not subject to  
Form Based Zoning

