

To: Town of Chapel Hill Housing Advisory Board; Town of Chapel Hill Planning Department; Loryn Clark, Executive Director, Housing and Community; Emily Holt, Affordable Housing Development Officer, Housing and Community; Nate Broman-Fulks, Affordable Housing Manager, Housing and Community

From: Applicant - Aspen Chapel Hill (Project #21-012)

Date: March 30th, 2021

Re: Affordable Housing Proposal – For Review in Conjunction with Concept Plan

Objective

The purpose of this memorandum is to provide an overview of the Applicant's initial proposal for the Affordable Housing component of a proposed student housing project located in the northwest quadrant of the MLK Jr. Boulevard and Longview Street intersection (Aspen Chapel Hill – Project #21-012) in the Town of Chapel Hill.

The Applicant is currently in the Concept Plan stage of the proposed project, so the enclosed Affordable Housing proposal is conceptual and presented for the purposes of discussion. Details of the Applicant's approach, proposed Affordable Housing program, and associated Town benefits are intended to encourage feedback from the appropriate Town stakeholders to inform the refinement of the proposed project's Affordable Housing component to align with Town objectives (per the Comprehensive Plan).

Additional details of the proposed project outside the scope of this initial Affordable Housing proposal are included in the corresponding Concept Plan Application and supporting Concept Plan Package submitted by the Applicant in February 2021.

Background & Approach

The Applicant has reviewed the Inclusionary Zoning Ordinance (Section 3.10) in detail and allowed the intention of this Ordinance, in conjunction with the Comprehensive Plan, to be the focal guide for the enclosed initial Affordable Housing proposal that seeks to maximize the capability of the proposed project to contribute to the Town's Affordable Housing objectives.

Based upon this Inclusionary Zoning Ordinance (Section 3.10), the Applicant understands the Town's objective to "...provide affordable housing to households of a broad range of income levels in order to maintain a diverse population and to provide housing for those who live or work in the Town." In addition, given the proposed project's size (i.e., more than five multifamily rental units proposed), the Applicant is aware that the Ordinance mandates 15% of all proposed units shall be set aside as Affordable for low-to-moderate income households.

As the Applicant is committed to being a quality steward of the Town's Affordable Housing goals, the Applicant has recently conducted initial discussions with the Housing and Community Department to

further inform its initial Affordable Housing proposal. Per these discussions and the Ordinance, the Applicant understands that there is a bit of flexibility in the approach taken for each project, and it is not the Town's desire to prescribe a "one size fits all" housing model.

As such, in developing the initial Affordable Housing proposal, the Applicant considered the use of the proposed project – a student housing community marketed to and programmed for UNC-Chapel Hill students.

Applicant's Proposed Affordable Housing Component

Provided the Applicant's understanding of the Town's preference for proposed rental housing projects (such as the Applicant's) to add Affordable units to the existing inventory, coupled with the unique set of circumstances created by the proposed student housing use, the Applicant is proposing an Affordable Housing component informed by and aligned with the most recent purpose-built student housing project constructed in the Town, Union Chapel Hill (formerly known as Grove Park; Project #14-091). Aligning the proposed project's Affordable Housing component to the program that exists at the most relevant comparable project provides the best opportunity for the Applicant's project to maximize Affordable Housing benefits for the Town.

The Applicant's initial Affordable Housing proposal intends to contribute additional Affordable units to the established program at Union Chapel Hill. Completed in August 2020, and located within 1,000' southeast of the Applicant's proposed project across MLK Jr. Boulevard, Union Chapel Hill represents the most comparable project to the Applicant's given its location, age, and student housing use. Aligning the Affordable Housing component of the Applicant's proposed project to the Affordable Housing component of Union Chapel Hill will offer the opportunity for additional scale of an organized, and approved, program for Affordable Housing within student housing projects in the market.

In alignment with the in-place Union Chapel Hill Affordable Housing program, which is providing 1.73% of the total units as "Affordable", the Applicant is proposing to provide a similar ratio of Affordable units resulting in two (2) of a total 109 multifamily student housing units currently assumed at the proposed project. The two units will be leased to the Town at a rental rate of \$1.00 per month for a 25-year period. The Applicant's Affordable Housing proposal currently assumes that the two Affordable Housing units leased to the Town are 2-bedroom/2-bathroom unit types.

As shown in the enclosed "Exhibit A", the Applicant's initial proposal for two Affordable units to be leased to the Town (at \$1.00 per month rate for 25-year period) exceeds the like-kind Affordable Housing component of Union Chapel Hill when compared on an Affordable Unit percentage basis. In addition, the framework for the Applicant's Affordable Housing component can initially mirror the existing Union Chapel Hill Affordable program, with adjustments as the Town deems appropriate. With these items under consideration, the Applicant's initial Affordable Housing proposal includes the following high-level guidelines for discussion:

1. Applicant will provide to the Town two 2-bedroom/2-bath units for a guaranteed rental rate of \$1.00 per month for a period of 25 years. This will be the only rent paid to the Applicant for these two identified units.

2. The Town will have the right to sublease these two units provided by the Applicant to any qualifying household at whatever sub-lease rental rate the Town deems appropriate (under renewable, one-year lease terms and in accordance with the lawful rules and regulations of the community).
3. If deemed appropriate by the Town, the two Affordable units at the proposed project can be leveraged for the Employee Housing Program, Transitional Housing Program, or any other Program that contributes to the Town's Affordable Housing objectives.
4. Lease documents for the Applicant's Affordable Housing component will be finalized in collaboration between the Applicant and the Town.
5. The Applicant's Affordable Housing component will be administered in the same manner as the in-place Union Chapel Hill program with appropriate involvement from relevant Town stakeholders and/or nonprofit organizations such as the Community Home Trust.

Town Benefits from Applicant's Proposed Affordable Program

As previously noted within this memorandum, the Applicant's initial Affordable Housing proposal was generated with the objective of maximizing the Town's Affordable Housing benefit within a creative program that currently exists. To this end, the Applicant's proposal for the project's Affordable Housing component will provide the following benefits to the Town:

1. As opposed to a fee in lieu, the Applicant's proposal would add two Affordable Housing units on a site that currently does not include a for-rent residential use, and therefore, no rental Affordable Housing.
2. Within the proposed structure for the subject's Affordable Housing program, the annual subsidy provided by the Applicant to the Town will be \$54,480, or \$1,362,000 over the life of the 25-year duration of the program. See the enclosed "Exhibit B" for details of this subsidy.
3. The Town will be afforded maximum flexibility to sublease the two units provided by the Applicant at whatever rental rate deemed appropriate with essentially no financial risk given the Town payment of only \$1.00 per month for these units to the Applicant. As noted previously within this memorandum, the Town will also have the flexibility to allocate the proposed project's Affordable units to appropriate Town Programs (e.g., Employee Housing, Transitional Housing, etc.)
4. The Applicant's proposed Affordable Housing component will create a steady stream of income for the Town through subleasing the Affordable units to identified households. This generated income from collected Affordable rents can be used to subsidize housing for other families at Affordable rental locations or leveraged for other Town Affordable Housing priorities.
5. The Applicant's proposed Affordable Housing component leverages the existing Affordable framework of Union Chapel Hill to contribute two additional units to this program, allowing the opportunity for program administration synergies and scale.

Exhibit A

Affordable Housing Program Comparison: Union Chapel Hill vs. Applicant's Proposed Program

	Union Chapel Hill	Subject (Aspen Chapel Hill)*
Project Reference Number	14-091	21-012
Project Total Units	346	109
Project Affordable Units (Leased to Town)	6	2
Affordable Unit %	1.73%	1.83%

**Applicant's proposed project is currently undergoing Concept Plan review, so total unit count and associated unit mix, sizes, and location of Affordable units are not yet finalized at this stage of design. The Applicant's Concept Plan Application submitted in February 2021 includes an initial proposal for 109 total multifamily units as reflected above.*

Exhibit B

Aspen Chapel Hill: Applicant's Affordable Housing Proposal & Quantified Town Benefit

Unit Type	Comparable Student Housing Communities: Monthly Rent Per Unit ²			Orange County FMR ³	Subject - Aspen Chapel Hill (Applicant's Proposal)			
	Shortbread Lofts	Lark Chapel Hill	Union Chapel Hill		Estimated Rent Per Unit ⁴	# Affordable Units Leased to Town (\$1.00 Per Month)	Projected Monthly Subsidy	Projected Annual Subsidy
2 Bedroom / 2 Bathroom (Flat) ¹	\$2,204	\$2,150	\$2,281	\$1,134	\$2,270	2	\$4,540	\$54,480

Footnotes:

- Applicant's initial Affordable Housing proposal includes two (2) 2-bedroom/2-bathroom units. As a result, comparison above includes 2-bedroom/2-bathroom unit type.
- Comparable community rents sourced per market survey calls performed by Applicant and Axiometrics, a RealPage multifamily research platform, as of February 2021. Average rents shown include water, sewer, and internet service.
- Orange County FMR ("Fair Market Rent") per Orange County Housing & Community Development (OCHCD). FMR reflects 2021 Payment Standards for 2-bedroom units.
- Represents estimated rental charges as informed by the existing student housing market in 2021 dollars, including water, sewer, and internet service.

Total Value of 25-Year Subsidy to Town = \$54,480 Per Year x 25 Years = \$1,362,000