

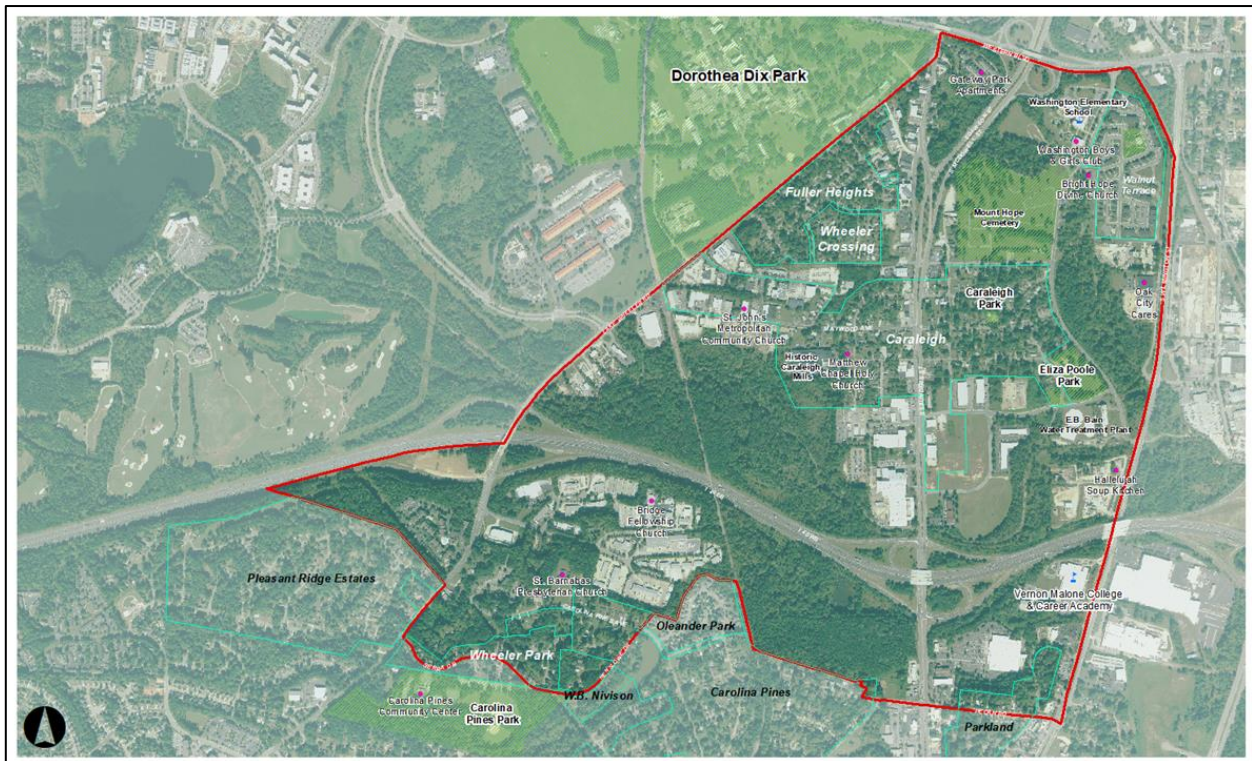
Dix Edge Affordable Housing Summit White Paper Summary of Findings March 18, 2021

A. INTRODUCTION

The City of Raleigh's Dix Edge Affordable Housing Summit was conducted on March 18, 2021 and was an opportunity to convene housing professionals, Dix Edge residents, and residents at-large for two virtual sessions to discuss affordable housing concerns. The purpose of the summit was to formulate the next steps focused on addressing the study area's growing affordability problem. A small area plan for the Dix Edge study area is currently being prepared by the Rhodeside & Harwell Team (the RHI Team) for the area shown in Map 1 below.

The Summit comprised a morning and evening session. The morning session of the Summit was geared to engaging both affordable housing and real estate development professionals in discussions focused on practitioner issues relative to increasing the supply of subsidized affordable housing in the Dix Edge area. The evening session was devoted to housing issues relevant to Dix Edge homeowners and renters and dealt with common misconceptions related to the topic affordable housing and a broader discussion about supply and demand in the housing market.

Map 1 – Dix Edge Study Area



1. Purpose and Scope of the Dix Edge Affordable Housing Summit White Paper

The following white paper summarizes the key events of the Dix Edge Affordable Housing Summit and provides several take-away findings and next steps toward the protection, preservation, and creation of a broader affordable housing strategy in the Dix Edge area and the City of Raleigh. While it may not be possible for the City of Raleigh to completely offset all displacement and other socio-economic impacts, a well-crafted and intentional housing strategy should seek a balance between allowing market-driven redevelopment, while also encouraging the preservation of existing affordable units and promoting the development of new affordable housing units. This proposed strategy is necessary as projected growth in the Dix Edge Study Area is likely to result in the displacement of current residents whose income is not high enough to compete in the housing market.

2. Summary of Dix Edge Research Tasks Undertaken

The Dix Edge study is an 18-month planning effort that the City of Raleigh has undertaken to address an area south of Downtown Raleigh that is likely to experience growth and further price appreciation in the coming years. The study has been engaged with the neighborhoods of Caraleigh, Fuller Heights, Wheeler Crossing, Carolina Pines, Wheeler Park, Walnut Terrace, and Gateway Park. The goal is to understand the community's needs and concerns, and then develop both a strategy and implementation plan to guide the development policy and funding toward the preservation and creation of new affordable housing units. Through this planning process, the City hopes to mitigate the impacts on residents by encouraging a development pattern that preserves critical aspects of the existing built environment while allowing for the area to retain its status as a walkable mixed-use community. The Dix Edge study team has looked at previous plans, transit issues, demographic data, urban design issues, and economic data to arrive at the strategies necessary to support the plan.

3. Recent Public Engagement Efforts

Community engagement is critical to the Dix Edge planning process. The people who are at the highest risk of being impacted by anticipated growth and price pressure on housing need to have a voice in the process to be able to help guide the precedents for what may occur. To that end, a Community Leader Group (CLG) was formed to identify and equip local leaders to facilitate the transmission and receipt of information to the community at large and provide feedback to staff to ensure the community voice is being represented. The CLG has been critical in spreading the word and promoting attendance for the multiple listening sessions, visioning sessions, and the public workshops. There have been several public meetings held to address resident concerns and issues. In addition to these public sessions, a series of interviews were conducted with real estate and affordable housing professionals to obtain their perspective on the study area and the challenges associated with meeting future affordable housing needs in this part of the City.

4. Dix Edge Study Area – Statement of Problem

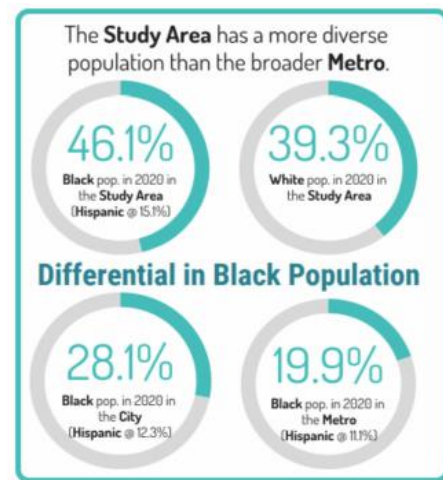
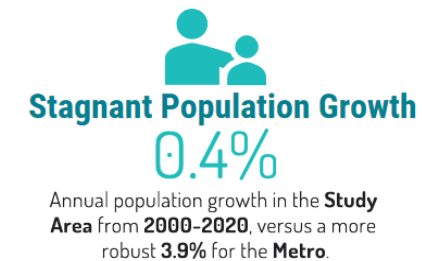
- Population Characteristics of Dix Edge
According to census data compiled by ESRI, a supplier of geographic information, the Dix Edge study area has a diverse population that has experienced a slower population growth rate than in the broader metropolitan area since 2000, growing from 5,978 to 6,454 in 2020 or 0.4% per year. IN contrast, the Raleigh-Cary, NC Metropolitan Statistical Area (MSA) grew by an annual rate of 3.9% during that same period (Figure 1).

Dix Edge has a stable African American population making up 46.4% of total residents in 2010 and 46.1% in 2020. There is also a sizeable White population, which has declined slightly since 2010, declining from 41% to 39.3% in 2020 (Figure 1). The distribution of African American residents is projected to remain relatively flat through 2025 with only a slight decline of 1.1% from 2010 (45.3%). It must be noted that these are projections based on census data, and the impact of pending projects is not reflected yet in this data.

The racial distribution within the study area stands in contrast to the broader City of Raleigh demographic in that the percentage of African American population in the City and MSA is approximately 28.1% and 19.9% respectively - substantially lower than the 2020 percentage within the study area. At the same time, the percentage of people of Hispanic origins was 15.1% in the Dix Edge study area compared with 12.3% in the City and 11.1% in the MSA. People of Hispanic heritage are not classified by their race but rather their ethnicity. Hispanic populations have many different places of origin and can represent more than one racial group.

- Rent Levels, Housing Prices and Growth Pressures
As a metropolitan region, the Raleigh-Durham MSA is still considered an affordable housing market by national standards. East Coast metropolitan markets such as Washington, DC, Boston, MA and Atlanta, GA have much higher residential price points for urban housing markets close to downtowns. One of the study area's attractive qualities is its general housing affordability, but this is starting to erode over time. The same is true for rental housing, with 55% of all rental units in the study area priced below \$1,000/month, whereas only 41% of the City's rentals are similarly priced (Figure 2). This is information obtained from American Community Survey (ACS) for the 2014-2019 period. As such, there is a time lag in the data. According to census estimates, lower tier rents have been rising faster in Dix Edge than the City. Rents below \$500/month grew at 11.4% in Dix Edge from 2014-2019, as compared to only 3.9% across the City. Rents between \$500 and \$750/month grew at 12.5% in Dix Edge

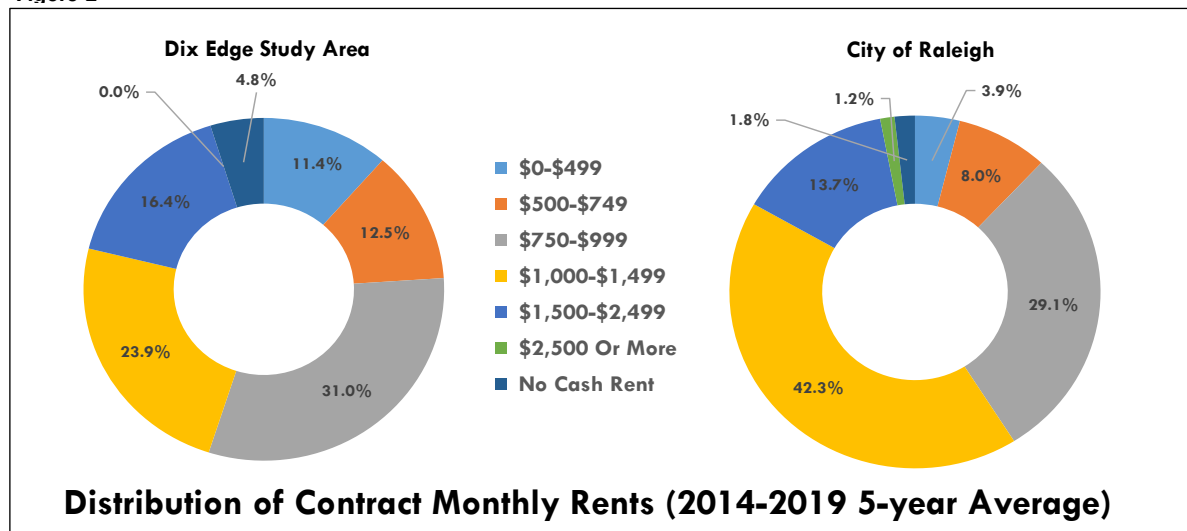
Figure 1



Source: RKG Associates, Inc. 2020

while the City grew at only 8.0%. While the increase in lower priced rental units makes the study area more affordable, as compared to the City, it does not mean that Dix Edge housing

Figure 2



Source: Source: ESRI and RKG Associates, Inc., 2020

is affordable to residents who live in the study area.

Based on RKG's field research, older apartments or rental homes with condition problems are likely keeping the area affordable, because these units are not competitive against the newer apartment communities being built in the City. A recent sampling of Dix Edge rents in established apartment communities shows a higher rental price point than the ACS data. While not representative of all rental units, the rents in these properties have been listing consistently between \$1,000 and \$1,700/ mo. for contract rent, not including utilities (Table 3).

The City's Planning staff surveyed a sampling of rents in the Dix Edge area (Table 3). This is not an exhaustive list and is limited to what is currently on the market and advertised using the following online platforms: Craigslist, Zillow and Apartments.com. This data set has limitations and should be considered in the larger context of the Census and ESRI data referred to in Figure 2 that shows the average rent distribution of the entire study area.

The data show that on average, available rentals in the study area range from \$1,100 - \$1,700 which includes two communities that have income restricted housing. These rents differ significantly from the lower rents seen from the census projections in that these newer rents are capturing the more recent price appreciation. The more bedrooms per unit, the higher the rent. This is because larger units (3- and 4-bedroom) are often in limited supply. The Village Green Apartments is a student housing community and units are rented by the bed, which drives up the monthly rent accordingly.

The median income for people living in the Dix Edge Study area is \$39,863, which for those households to not be cost burdened, would mean a maximum rent of \$996 per month. Figure 2 does show most rental properties in the study area go for \$750 - \$999, but with the large amount of investment coming to the area and large amount of older housing stock these

naturally occurring affordable units may be at risk. This price appreciation is already evident from the higher rents seen from the rental survey done by City staff.

Table 3 - Sampling of Dix Edge Study Area Apartment Rents by Unit Size

February Search Results	March Search Results	April Search Results
Fuller Heights Homes		
None Listed	3-Bedroom - \$750	None listed
Caraleigh Homes		
3-Bedroom - \$1,500	3 Bedroom - \$1,950 *	3-Bedroom - \$2235*
3-Bedroom - \$1,750	3 Bedroom - \$3,200	--
Village Green Apartments*		
2-Bedroom - \$1,498	2-Bedroom - \$1,498	None Listed (Recent fire impacted supply)
3-Bedroom - \$1,977	3-Bedroom - \$1,977	--
4-Bedroom - \$2,516	4-Bedroom - \$2,516	--
Gateway Park**		
1-Bedroom - None available	1-Bedroom - None available	1-Bedroom - \$984
2-Bedroom - \$1,173	2-Bedroom - \$1,173	2-Bedroom - \$1,173
3-Bedroom - \$1,173	3-Bedroom - \$1,173	3-Bedroom - \$1,173
Carolina Pines		
1-Bedroom - \$800	2-Bedroom - \$1,149	2-Bedroom - \$1,150
--	--	2-Bedroom - \$1,249
--	--	2-Bedroom - \$995
Walnut Terrace**		
1-Bedroom - \$805	None Listed	1 Bedroom - \$805
2-Bedroom - \$995	--	--
Average including subsidized: \$1,153	Average including subsidized: \$1,709	Average rent price: \$1,220
Average w/o subsidized: \$1,613	Average w/o subsidized: \$1,826	Average w/o subsidized: \$1,407

Source: Various sources including apartment website, Craig's List, etc.

*Rented by the room

** Income restricted based on HUD Income Limits

As mentioned previously, the issue of housing affordability can be judged differently by people who live in the study area, as compared to those who live outside of the study area. Due to the lower household income levels of Dix Edge residents, there is a growing concern about displacement, resulting in:

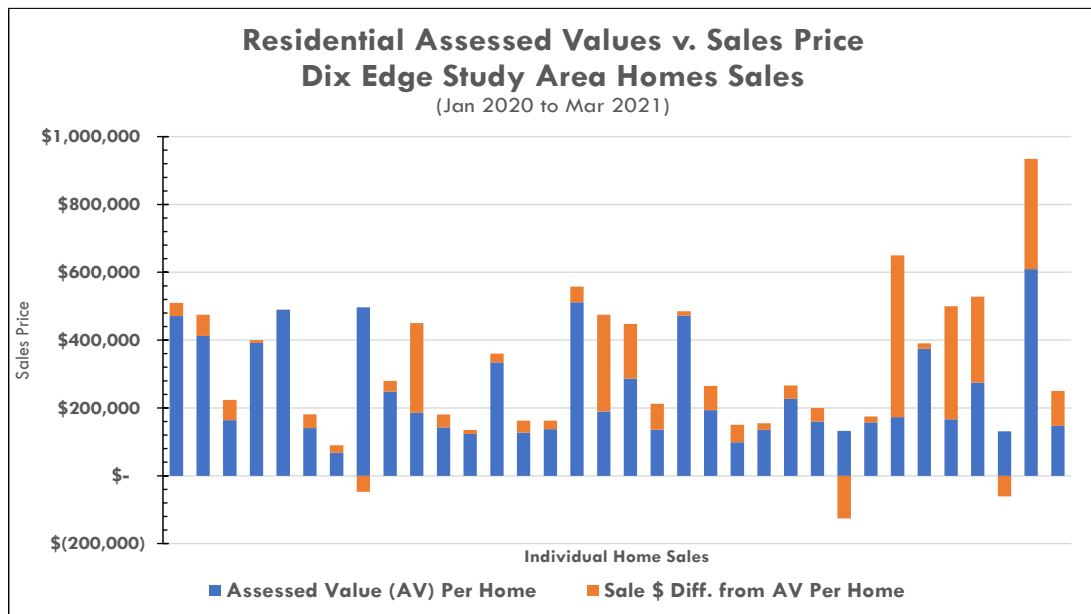
- A lack of housing affordability due to rising rents and values,
- The loss of social networks and ties,
- Being forced out to areas further away from work and transit access, and
- Managing moving expenses.

There is also concern that different values and expectations from newcomers may lead to periods of adjustments when interacting with legacy residents. The goal is to welcome newcomers and integrate them into the existing culture, and not vice-versa.

Relative to housing sales values, the City's planning department identified 34 Dix Edge homes sales over a 15-month period. The data reflect residential sales from January 2020 to March of 2021. The differential between the homes' tax assessed value and the sales value was \$81,141. In real terms, the average tax assessed value of all home sales during this period was \$250,272, but the average sales price was 32.4% higher, or \$331,412. Figure 3 shows the difference on each home sale between the assessed value and the actual sales price. The orange bar reflects the price premium paid above the assessed value. While there is always a

lag between current assessed values and sales value, the 32.4% value premium speaks to buyers' willingness to pay above the assessed value.

Figure 3



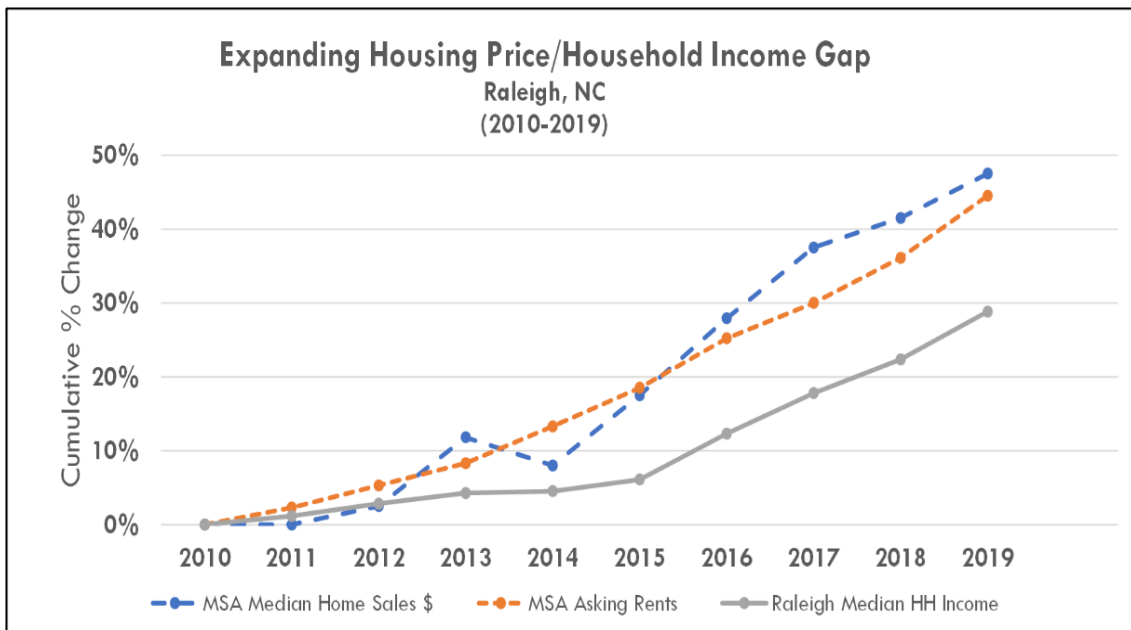
While no definitive conclusions can be drawn from such a small data set, it does reinforce resident concerns that the price of housing is increasing. As such, existing homeowners may be approached or enticed to sell to either investor owners or homebuyers who want to live close to downtown and are willing to pay more to do so.

Given the growing pipeline of new apartments, condominiums and townhomes proposed for Dix Edge (e.g., Downtown South, Park City South), there is an emerging market for higher value rental and ownership housing entering the study area in years to come. The higher price points being paid today, will likely increase over the next several years.

In addition to these natural market pressures, there are substantial public investments planned for the Dix Edge study area that are expected to accelerate growth pressures including:

- Bus Rapid Transit (BRT) which carries with it the assumption of higher densities to support ridership. These calculations have already begun to attract new development to the South Wilmington Street route that is proposed to pass by the eastern border of the study area.
- The re-imagining of the 308-acre Dix Park which will increasingly make this a preferred residential location.
- The area's designation as an opportunity-zone is another factor that could drive investment interest.

Figure 5 – The Growing Affordability Gap



Source: City of Raleigh, 2021

As a result of current market conditions and projected development, Dix Edge is undergoing changes that is exerting pressure on existing residents.

- Property owners are frequently being approached by real estate professionals and investors to sell,
- The City of Raleigh's home sales values are increasing at a faster rate than household incomes, resulting in a growing disparity between real estate values and people's ability-to-pay for housing (Figure 5),
- Future residents of Dix Edge are likely to be of higher income than current residents based on the new mixed-use developments being proposed, which are envisioned as higher density and higher value developments.

It would be difficult to determine exactly when the tipping point has been, or will be, reached where existing Dix Edge homeowners readily sell into a robust market of rapidly appreciating values. Homeowner interest in selling is typically a function of how much they owe on their mortgage and whether they believe the sales offer meets their market expectations. Also, in a rising "seller's market" like Dix Edge, owners will often hold out for what they believe will be a better offer in the future as demand for housing increases and the supply dwindles. Evidence from public meetings indicates that offers are currently being received from would-be buyers. Further, Redfin transaction data documented more than 160 homes that have changed hands over the last five years. And the City staff's analysis of recent sales, while only a small sample of only 34 houses, revealed an average appreciation of 32.4% over a 15-month period. All this information confirms that robust sales activity is already underway, with significant impacts on the market.

B. AFFORDABLE HOUSING SUMMIT OVERVIEW

Having completed the existing conditions analysis of the Dix Edge study, the Affordable Housing Summit was intended to capture ideas and potential strategies that could be employed to address affordable housing in the study area and perhaps citywide. The next steps in the planning process will involve several workshops during the Phase SOON and Phase LATER timelines. These will address the strategy elements and community actions required to equitably accommodate the needs of those in the Dix Edge neighborhoods.

The format of the Affordable Housing Summit included an overview of housing dynamics both within the City and the Dix Edge study area. This was followed by a panel group discussion that included three experts with relevant, but varied, experience related to housing issues in the region. The final activity comprised multiple public breakout sessions where participants were able to share their individual ideas and concerns regarding housing issues. These activities are described below:

1. Panel Group Discussion

Three local affordable housing experts were invited to serve as panelists to facilitate discussion about affordable housing issues affecting the Dix Edge study and the City as a whole. The panelists included:

- Nathan Spencer, Acting Director - WakeUP Wake County
- Mark Shelburne, Housing Policy Consultant – Novogradac
- Gregg Warren, Retired former president – Wake County DHIC

Discussion Topic #1 - “Setting Priorities for Affordable Housing for Dix Edge and Beyond - Balancing Priorities and Engaging with the Community”.

Lead Panelist: Mr. Nathan Spencer

- Public Investments are Driving Changes in Dix Edge
The Dix Edge study area will encompass future actions involving both a major redevelopment of the Dorothea Dix Park and the construction and operation of two future bus rapid transit (BRT) routes along South Wilmington Street and Western Boulevard. These two actions serve as strong drivers that are expected to elevate the Dix Edge residential neighborhoods as significant draws for population growth, real estate investment, and change.
- Public Engagement with Residents is Essential and Necessary
Dix Edge study area is a small part of the City of Raleigh, but it presents a significant opportunity to engage residents at a high level. This project will include the meaningful engagement of stakeholders regarding the vision of their community. WakeUP Wake County seeks to promote this type of advocacy but does not speak for people. Instead, they lift the voices of those most impacted by large projects so that they are heard by decision-makers.
- Public Transparency is Important to Redevelopment Success
When it comes to the potential impacts of proposed transit projects and large real estate developments, the people who live nearby need to be heard. They need to be a part of the process early on. They need to set the precedent for the future. Any project that does not adequately engage stakeholders will face stumbling blocks later.
- Will Public Transit Investments Benefit the People Most in Need of These Services?
There is potential irony in the fact that local government is proposing to spend \$1 billion on transit projects, but the people most likely to use transit have the potential to be pushed beyond the service area due to displacement. This dynamic creates a strong argument that transportation costs should be one of the base metrics considered when calculating how affordability is measured.

Note: The City is proposing an Equity Fund that “would support tools and programs identified in the Equitable Development Around Transit TOD Guidebook, such as tax rebates, homeowner rehabilitation assistance, and small business assistance programs.” [EDAT, April 2020] These are the types of tools and policy measures that a housing strategy should employ when considering holistic solutions].

Discussion Topic #2 - “Voluntary Inclusionary Affordable Housing and the Opportunities and Challenges Facing the Market Rate Development Community”.

Lead Panelist: Mr. Mark Shelburne

- Reluctance of Market Rate Developers to Engage in Affordable Housing Development
Regarding developer sentiment toward voluntary inclusionary zoning, Mark's experience has been that market rate developers simply do not want to invite government regulations into their business processes. They are concerned that the financing requirements, monitoring provisions and maintenance of the affordable units through the compliance period will negatively impact their standard operating business model. This reluctance often outweighs the apparent benefits that additional units, which are offered in exchange for a greater percentage of affordable units, offers to their potential project cash flows.

Right now, there is insufficient "deal structure" in place to encourage market rate developers to come to the city to voluntarily provide some level of affordable housing. The City needs to provide more details on its voluntary reporting requirements, while understanding that State law does not allow long-term affordability commitments. Also, there needs to be additional clarity regarding the percentage of affordable units desired by the City and the amount of density that will be offered in return.

- Recent Changes to Federal Low Income Housing Tax Credit (LIHTC) Provisions
Mark noted that recent (December 2020) changes to the federal regulations governing the LIHTC program, a federal tax credit program to support affordable housing production, have made the 4% bond option more viable. Specifically, up to 25% to 30% additional funding is potentially available. He stated that combination ("twined") 80% market rate and 20% affordable LIHTC deals (80/20 deals) make financial sense by adding the equity raised via market rate deals, thus further offsetting the development gap with additional tax credit equity.
- 9% LIHTC Deals are Highly Sought-after, and Competition is Intense at the State Housing Finance Level
Typical tax credit dynamics have seen the 9% credits as being more competitively sought after than the 4% bond deals. Nevertheless, the 4% bonds are expected to become more popular soon. It was noted how the State of Tennessee had recently received \$300M of bond requests, an unusually large number compared to previous years. He noted that North Carolina may follow suit. Similarly, the City of Charlotte has already done some 80/20 deals. And larger municipalities, such as Boston and New York City, have had more extensive usage of the 80/20 structures, so they could be looked to for further insight.
- No One Solution to the Affordable Housing Problem
Using a condominium structure is an efficient way to distribute the affordable units throughout the project, thus avoiding the concentration of subsidized units within any one area. Regarding the current failure of the private market to provide sufficient affordable housing, Mark pointed out that there is no one solution. However, it is his belief that government must play a role. This might require the state legislature to update the LIHTC programs governing Qualified Action Plan (QAP) to ensure that this condominium structure can be readily employed.

It was speculated that the governing agency would be open to reasonable modifications. For example, the deal structuring must ensure that the overall project has enough units that the affordable portion of the deal (only 20% of the total units) has sufficient equity to

be financially viable. All these factors illustrate some of the complexity that mixed financing entails. This complexity is a reason that most developers choose to only specialize in either market rate or affordable residential development. Anecdotally, Mr. Shelburne offered an example of an unnamed developer who attempted to craft a deal in Chapel Hill, NC only to abandon the effort when financing could not be secured.

Discussion Topic #3 - “The Need for Expanded Development Partnerships and Housing Options to Bring Greater Housing Affordability to the Dix Edge Community”

Lead Panelist: Gregg Warren

- Support for a Mixed-Income Approach to Creating Quality Affordable Housing Communities

Gregg Warren agreed with the strategy of using mixed-income projects as a method to increase affordable housing and to create new and sustainable communities, without concentrating poverty. One of the projects that DHIC had executed with that method was the Highland Village community. This project consists of affordable family units, affordable senior units, and townhomes for sale. He cautioned that it was harder to finance mixed income development since, in this case, both the developer and the banker must be willing to learn how to underwrite the risk analysis for such deals.

- Affordable Housing Through Expanded Partnerships

It was advised that engaging with institutional partners is another means to boost affordable housing. He noted that this is something that DHIC had executed in the past. In addition, he pointed to the City of Durham’s redevelopment of its former police headquarters into a mixed-use development with some affordable housing as an example. He stated that it all comes down to land costs – the opportunity to both acquire and finance. In the end, he strongly endorsed the provision of permanently affordable housing as a key tool in addressing the housing crisis. Recognizing the limits that State laws places in terms of mandating affordable housing, the partnership and incentive model is one way that certainty can be provided in terms of the number of units produced.

- Homeownership v. Rental Housing Needs

A Zoom Chat question was posed asking what methods were available to support existing homeowners who would want to stay in the Dix Edge community. Would the solution involve higher taxes? Should the homeowners organize? One idea includes the formation of an Anti-Displacement Fund to offset the attrition of existing homeowners due to rising property taxes. However, since the City is legally restricted to only assisting seniors and veterans with Homestead property tax exemptions, an expansion of the tax benefits would require an alternate funding method, which may include the City’s Tax Increment Grant (TIG) program. The Community Land Trust model is another method commonly used to achieve long-term affordability by reducing property taxes by holding property in a land trust. Eventually, when those land resources are used for an affordable housing development, the value basis in the land is effectively zero (or below market value) and the land can be donated to the project to keep units affordable. The current market pressures in the Raleigh-Cary MSA, put a premium on the acquisition, demolition, and repositioning of real estate for redevelopment, which unfortunately makes higher value projects a necessity without financial subsidies being brought to the project.

2. Affordable Housing Case Study Overview

During the morning session, there were two affordable housing case studies presented to provide examples of how redevelopment could be executed in the Dix Edge study area. Both Brightwalk (Charlotte, NC) and Washington Terrace (Raleigh, NC) are examples of 1950's communities with deep African American roots. Both were larger multi-phase redevelopment projects with real displacement concerns. And both pursued mixed-income housing goals that employed various financing tools and partnerships.

Brightwalk

Developer: Dream Key Partners
Charlotte, NC

The Brightwalk community is an 80-acre redevelopment in Charlotte, NC that consisted of barracks style housing at the former Double Oaks Apartments. The master developer was DreamKey Partners (formerly the Charlotte Mecklenburg Housing Partnership). This development was part of their larger effort to revitalize the Statesville Avenue Corridor Area in Charlotte. The total project funding was \$142 million. Sources included HUD 108 Loan (Acquisition), LIHTC (4% and 9%), CDBG / HOME (10 yrs./\$1.5 mil/yr.), traditional bank loans (Wachovia/Wells Fargo), Housing Partnership Capital, City of Charlotte Housing Trust Funds, City of Charlotte Infrastructure Funds, City Tax Increment Financing (TIF), and Brownfield Property Tax Incentives (State).

The execution of the project involved the demolition of 573 units which were ultimately replaced with 778 total new units (369 single-family and 409 multifamily). Relocation benefits were provided to 350 of the former residents who chose to return. From the beginning, legacy residents were offered first right of refusal, but only 10%-15% chose to come back when the project was completed.

When it came to the phasing of the project, the slumping residential market

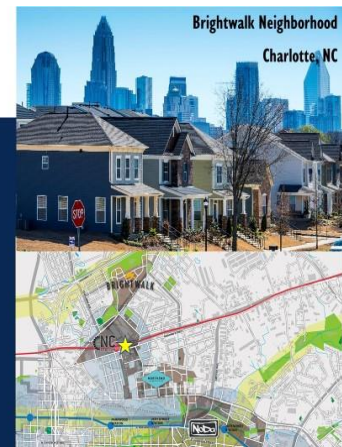
Brightwalk Project Funding (\$142 million)

- HUD 108 Loan (Acquisition)
- LIHTC (4% and 9%)
- CDBG / HOME (10 yrs./\$1.5 mil/yr.)
- Traditional Bank Loans (Wachovia/Wells Fargo)
- Housing Partnership Capital
- City of Charlotte Housing Trust Funds
- City of Charlotte Infrastructure Funds
- City Tax Increment Financing (TIF)
- Brownfield Property Tax Incentives (State)



DREAMKEY
PARTNERS

- Dream Key Partners (DKP) was Established in Late 1980s in Response to the loss of the Greenville Neighborhood to Interstate 77 Construction
- DKP Focused on Neighborhoods Impacted by Urban Renewal, Crime & Disinvestment
- DKP was Hired by the Housing Authority as Master Developer of the Park at Oaklawn in Early 2000s
- Initiated the Brightwalk Redevelopment in 2007 as the Horizontal Developer



Historic Double Oaks Apartments (1950s Barrack-style Housing)

resulting from the Great Recession forced DreamKey Partners (DKP) to start by building only the affordable multi-family units. The four multifamily projects that were ultimately delivered serve residents from 25% to 60% AMI. Once the real estate market rebounded, DKP was able to partner with a private sector builder to deliver market rate single-family and townhomes with list prices from \$315,000 to \$450,000. To promote an aesthetically cohesive community, DKP provided high quality mixed-income housing which all blends together seamlessly from an aesthetic viewpoint, with the market rate and affordable housing units not readily indistinguishable from each other.

For a project with the size and complexity of Brightwalk, multiple partners and funding sources were required to execute the vision. Among others, the partners included Mecklenburg County Parks and Recreation, Novant/Michael Jordan Health Clinic, Heist Brewery/Druid Hill, Double Oaks Aquatic Center, City of Charlotte, Bank of America, and Wells Fargo. Each of these partners was necessary to the whole to achieve a stronger economic development product.

Affordable Multi-family Housing at Brightwalk (4% and 9% LIHTC)

The Alexander at Brightwalk	The Gables Apartments I & II	The Stevenson at Brightwalk	The McNeel Apartments at Brightwalk
96 units	135 units	130 Units	48 units
24 < 30% AMI 72 < 60% AMI	18 < 30% AMI 25 < 35% AMI 92 < 50% AMI	13 < 50% AMI 117 < 60% AMI	12 < 25% AMI 36 < 50% AMI

Market Rate Home Ownership at Brightwalk (369 For-Sale Homes & Townhomes)

Townhomes	Single Family Homes
Size (SF): 1,500 to 2,000 SF List Price: \$315,000 to \$415,000	Size (SF): 1,200 to 2,200 SF List Price: \$450,000 range

Washington Terrace Developer: DHIC Raleigh, NC

The Washington Terrace redevelopment in Raleigh, NC is located just to the east of the downtown. This 23-acre master planned redevelopment began with an extensive public engagement process, which was led by DHIC. As previously stated, the project area was established as an African American community back in the 1950s.

The final product is a multi-phased success story that will ultimately provide mixed-income housing, daycare, gardening, and other services that promote a holistic community. The strength of the project can be attributed to the greater effort expended in the front end for engagement and design.

The project's \$44 million master plan development delivered 162 affordable rental units in Phase I and 72 affordable rental units in Phase II by 2019. Phase III, with financing approved in 2020, is slated to provide 68 affordable senior units. Phase IV is still being finalized, but it is projected to provide 58 townhomes (17 being affordable), with construction set to begin in late 2021. The multiple phases are not all the same, thus requiring adjustments to the capital stack strategy. Overall, the project has been able to serve residents making 30%-60% of AMI.

From the very beginning, there was a commitment from DHIC to not displace existing residents. At the time of purchase in 2014, 200 of the 246 units were occupied. After four years of predevelopment activity, 100 units remained occupied. Throughout the

Washington Terrace

Master Plan for Redevelopment

Master Plan

- 23-acre site with 246 Rental Units
- Year long civic engagement process
- 350 residents and stakeholders participated

Key Features of Plan:

- Mixed income community
- Rental and homeownership
- Increased density from 245 to 400+ homes
- 1st priority: 1:1 replacement of affordable rental homes
- No involuntary displacement of residents
- Rents remain essentially same for legacy residents
- Community partnerships: On-site childcare, gardening programs, emphasis of healthy living



Washington Terrace

Village at Washington Terrace

Nine building types, 16 buildings
162 residential units in 14 buildings

- Garden Apartments: 1, 2, and 3 BR
- Townhouses: 2 BR

Pricing:

1BR: \$602 or \$702
2BR: \$695 or \$810
2BR Towns: \$894
3BR: \$788 or \$918

Community center with gathering room, kitchen, conference room, and laundry facilities
Child Care Center



Washington Terrace

Booker Park North Apartment Homes

- 72 apartment homes,
- Target Income:
 - 57 units at 60% AMI (79%)
 - 15 at 50% AMI (21%)
- Monthly Rents:
 - (58) 1 BRM - \$420-\$705
 - (14) 2 BRM - \$500-\$840
- 36 legacy households benefit from internal subsidy



project duration there was extensive assistance provided to residents for both moving out and to those who chose to move back.

The financing of Washington Terrace was multi-faceted, similar to Brightwalk. The single largest funding source was LIHTC equity, which accounted for \$16.6 million or nearly 38% of the total project funding (\$44 million) for development phases 1 and 2. The City of Raleigh committed over \$10 million or 22% of total project costs.

Case Study Conclusions

For both Brightwalk and Washington Terrace, one lesson that can be applied to Dix Edge or other affordable housing developments in Raleigh is that a master planned community with robust engagement leads to better results. It is also necessary to be intentional regarding the mitigation of displacement – both in the project design and in the execution of relocation planning. The ability to have affordable units that do not look to be lower quality promotes greater community cohesion while also mitigating any potential stigma. Both projects were successful in providing hundreds of units of permanently affordable housing, and they were able to do this without reducing the level of density onsite after redevelopment.

A final takeaway addresses the question of when to bring a partner into the deal. DreamKey Partners served as the master developer for Brightwalk, or the entity responsible for the horizontal development program (e.g., streets, infrastructure, site preparation activities, etc.). They contracted with the former Standard Pacific Homes (now a part of the Lennar Corporation) to be the contractor for the single-family and townhouse construction. This partner was able to bring the capital and resources needed to efficiently complete the market rate portion of the deal once the economic conditions made this phase of the work viable.

Washington Terrace

Booker Park South Senior Apartments



- Number of Units: 68 senior apartments for individuals ages 62 and older
- Target Household Incomes:
 - 17 units at 30%, (25%)
 - 11 units at 50%, (16%)
 - 40 units at 60% AMI (59%)
- Construction Start: 2021

Washington Terrace

Washington Terrace Townhomes

- 58 townhomes to be built
- 17 units (29%) will be affordable units to be sold to those making 80% of AMI or less, with a sales price linked to City of Raleigh maximums.
- Construction to begin in late 2021



Washington Terrace "By the Numbers"

Village at Washington Terrace

Source	Amount
Freddie Mac Tax Exempt Loan	\$10,721,000
City of Raleigh	\$8,600,000
NCHFA	\$1,700,000
Neighborworks Project Reinvest	\$246,357
Kresge Foundation	\$50,000
Federal LIHTC Equity	\$10,494,541
Deferred Developer Fee	\$570,836
Total Sources	\$32,382,734

Booker Park North

Source	Amount
SECU Foundation Loan	\$2,400,000
City of Raleigh	\$2,200,000
Wake County	\$850,000
Neighborworks Project Reinvest	\$203,643
Federal LIHTC Equity	\$6,176,982
Deferred Developer Fee	\$426,870
Total Sources	\$12,257,495

C. MORNING BREAKOUT DISCUSSION (HOUSING PRACTITIONERS)

With the completion of the panel discussions, the attendees were invited to participate in a breakout group exercise that included three breakout groups of about 10-15 participants each. The intent was to keep each group small enough so that participants would be comfortable in sharing their thoughts and opinions. Each breakout group had both a facilitator and a scribe, with the latter recording the discussion. The three questions that were presented to each group, along with a summary of the responses, are listed below:

#1: “What Role Should Market Rate Developers Play in Increasing Affordable Housing Supply in Dix Edge? Is Voluntary Inclusionary Affordable Housing a Worthwhile Pursuit?”

- Evolution of Raleigh’s Development Community

There were many valuable ideas that came from the breakout sessions. One thought was that developers must educate themselves and encourage their lenders to become more knowledgeable about the benefit and risk options for underwriting mixed-income deals – i.e.: market rate deals analyze risks to cash flow, while risk in affordable deals involves the estimation of potential equity pricing from investors to support the deal. This could allow for greater production of affordable units by pairing them with market rate units, thus bringing more private equity into a deal, with the development gap being satisfied by public subsidy (tax credit equity). Engaging with development partners are already familiar with affordable housing deals is another way to make these deals viable. The City of Raleigh could encourage the provision of a percentage of units for affordable income levels by allowing greater density in return (i.e., voluntary inclusionary zoning).

#2: “What is the Most Effective Role for the City to Play in Increasing or Preserving Affordable Housing in Dix Edge?”

- Growing Need for Affordable Housing Gap Financing

Funding strategies the City could support or undertake include the provision of greater subsidies to offset the gap between the lower rents that affordable units provide and the high construction costs that are required to deliver a project. Policy steps that could be used include the provision of density bonuses, thus allowing developers to build additional units (increasing gross potential income) in exchange for providing a set number of affordable units. This approach is often referred to as “voluntary inclusionary zoning.”

- Local Capacity Building

There were also several recommendations that related to capacity-building. They ranged from the provision of development assistance to smaller developers (i.e.: funding and technical assistance) to the creation of a team of experts who could assist with strategically situated pilot projects.

- Preservation of Existing Supply of Affordable Housing

There was an expressed desire to see an increased emphasis on preserving existing affordable units. Lengthening the affordability periods of units could provide some of this much-needed relief. There was also the recommendation that the offering of publicly

owned land for development presents the opportunity to negotiate for units that would not only would serve lower income groups (30% AMI and below) but could also mitigate for longer affordability periods.

#3: “What Development Partnerships/Approaches do you Believe Would be Most Effective in Increasing or Preserving Affordable Housing in Dix Edge?”

- Support for Increased Institutional Partnership for Affordable Housing

The idea of working with institutional partners on development projects was well received, as was the potential inclusion of affordable housing in municipal projects. The redevelopment of the City of Durham’s former police headquarters and the redevelopment of the Raleigh Union Station Bus Station were offered as examples of using publicly owned land for development projects. There was a recommendation to consider the community land trust (CLT) model to mitigate the expected escalation in property taxes. This method has yet to be implemented in Raleigh, but it is thought that the transference of property into a CLT could serve to lower taxes by transferring them to the non-profit for payment.

D. EVENING BREAKOUT DISCUSSION (RENTERS AND HOMEOWNERS)

During the evening session, the Renters and Homeowners Forum was focused on hearing from residents and other members of the public. After the consultant team provided a brief overview of housing conditions in the City and the study area, participants were invited into five breakout groups that would allow for more individual discussion on housing concerns. The four questions and a summary of the discussions are listed below:

Topic #1: How Do Markets Influence Affordable Housing?

Question #1: “Everyone defines affordable housing a little differently, what does affordable mean to you?”

- Local Desire for Inclusionary Affordable Housing

There were several residents who stated that new projects should have either a voluntary goal or a mandate to provide a certain number of affordable units, and at set incomes levels. Unfortunately, the State of North Carolina does not allow “inclusionary zoning,” which is the enabling legislation that would allow local governments to require affordable housing units as part of market rate developments.

- Greatest Need is at 30% AMI Level

Several participants voiced concern that units at the lowest end (30% Area Median Income and below) are most needed, therefore units at the higher end should have less emphasis. It was noted that a lack of subsidies really restricts the provision of units at 50% AMI and below. Much discussion was had regarding the definition of affordability. Is it simply calculated as being within certain AMI bands? Should it also include the definition of limiting 30% of gross income to housing expenses? Should transportation costs be included? There was broad consensus that affordable housing should not be concentrated

in any one area or neighborhood. Specific emphasis was placed on the desire not to isolate new affordable units from services or activity centers. Multiple attendees asked that the study not overlook the ownership side of affordable housing.

Question #2: “Who do you think should pay for affordable housing?”

- City of Raleigh Affordable Housing Bond Fund

The City of Raleigh’s recently passed \$80M housing bond was mentioned as a source of funding to achieve the stated goal of delivering 5,700 units between the years 2016-2026 (Figures 6 and 7). However, there were many comments stating that the umbrella of entities engaged in providing affordable housing should expand to include developers, bankers, and taxpayers, along with non-profits. Comments generally stressed either a public or private response to funding. Public funding included direct subsidies to offset construction costs or legislative changes to enact incentives for more affordable housing (i.e.: inclusionary zoning). There were also several comments related to the need to extend the duration of affordability periods (including the servicing of lower AMIs) and to consider increased affordability quotas. Other responses centered on the need for private developers to provide additional affordable units.

Figure 6 –City of Raleigh’s Affordable Housing Bond Distribution

Bond Elements	Percent Allocation	Amount
Transit-Oriented Site Acquisition	20%	\$16,000,000
Public-Private Partnerships	35%	\$28,000,000
LIHTC Gap Financing	30%	\$24,000,000
Owner-Occupied Home Rehabilitation	7.5%	\$6,000,000
Down Payment Assistance	7.5%	\$6,000,000
Total Bond Package - \$80 million		

Source: City of Raleigh, 2021

Figure 7 – City of Raleigh’s Affordable Housing Bond Targets



Source: City of Raleigh, 2021

Topic #2: Zoning for Housing

Question #1: “If zoning changed in your neighborhood to allow for more mixed-income housing, would you support it? Why or why not?”

- Zoning Changes to Encourage or Allow Affordable Housing

No opposition was expressed by breakout group participants regarding the enactment of zoning changes that would allow for additional development of affordable housing within the Dix Edge area. Many attendees stated that such zoning already existed in their neighborhoods. For new zoning changes, participants stressed that household incomes served should be broadly and equitably distributed throughout the study area.

- Housing Design and Energy Efficiency - There were comments regarding the types of design that should be promoted. Energy efficient design was noted to reduce overall household expenses, thus increasing affordability. The encouragement of accessory dwelling units (ADUs) or tiny homes were other housing solutions offered. No matter the style proposed, it was recommended that affordable housing use quality design that would complement its surroundings.

Question #2: “We’ve heard the comment that increased density doesn’t necessarily increase housing affordability. What approaches/solutions do you think would be a better fit for the Dix Edge Community?”

There were several responses that noted the ability of higher density projects to house more people, while lessening the impact on land and stormwater (due to the smaller footprint). The use of density around the proposed BRT route would be one way to drive demand and density, thus promoting the potential for more affordability. The offering of additional density as a tool to incentivize more affordable units was consistent. And the provision of tiny home communities was noted as an alternate means of promoting affordability with density.

E. POLICY PRIORITIES TOWARD A WELL-CRAFTED HOUSING STRATEGY

At a time when significant changes in development and demographic patterns is forecast for the Dix Edge area, the City is actively working to define a well-crafted housing approach that can mitigate some of the negative effects typically associated with intense growth. To that end, and as a result of the discussions that occurred during the Affordable Housing Summit, the following policy priorities are proposed:

- **Priority 1: Keep homeowners who want to stay in their homes, in their homes.**
 - Build on, and expand, existing programs.
- **Priority 2: Fight predatory purchasing.**
 - Emphasize education so those who want to sell know the value of the property in a fast-moving market.
- **Priority 3: Preserve existing naturally occurring affordable housing (NOAH) where feasible.**
 - Direct acquisition of multi-unit buildings (e.g., duplex, triplex, quadraplex, or small apartment structures), and
 - Explore the options available to apply land trust models.
- **Priority 4: Offset the inevitable loss of NOAH with an aggressive approach to new construction.**
 - Pursue partnerships to acquire land for LIHTC development, and
 - Hold Downtown South developers to their commitments.

- **Priority 5: Integrate newcomers into the existing culture, and not vice-versa.**
 - Sponsor/support events which bring newcomers and long-time residents together,
 - Take a gentle approach to code enforcement and policing of nuisances
 - Explore changes to code that recognize the nuance between an individual and large land holder who have different abilities to correct the nuisances.
 - Document and celebrate the history of the area (one of the few mill villages in Raleigh, source of the original water supply, etc....).
 - Take a proactive approach to education for the Hispanic/Latino Community to ensure they know where to find information from the above programs in Spanish.

F. POTENTIAL POLICY & REGULATORY RECOMMENDATIONS

- **Zoning and Rezoning**
 - Voluntary inclusionary affordable housing through density bonuses
 - Modification of development code to allow triplex, and quadraplex structures
 - Accessory dwelling units (ADU)
- **Preservation Tools**
 - Land trusts
 - Dedication of publicly owned land
 - Land acquisition
- **Anti-displacement Tools**
 - Rehab assistance
 - Foreclosure prevention
 - Owner-occupant housing rehabilitation
 - Down-payment assistance
 - Homebuyer education programs - Need more education for homeowners and small property owners to advise on how to negotiate true market value if they are selling
 - Encouragement of a property tax mitigation fund to protect legacy homeowners from rapid property tax increases
 - Translation of materials to Spanish
 - Policies to help house people with criminal records
- **Public-Private Partnerships**
 - Development agreements
 - Equity Fund (BRT)
 - Tax Increment Grants
 - Gap project financing (LIHTC)
 - Infrastructure funding
 - Provide more details on the voluntary reporting requirements and long-term affordability commitments.
 - Empowerment and the establishment of partnerships with smaller local developers who have a vested interest in the community, including M/WBEs

- Provision of more predevelopment services; perhaps even the creation of a team with expertise to execute pilot projects
- Coordinate with Wake County Public Schools on acquisition of their excess property, or partner with them on shared facilities
- **Site Acquisition**
 - Consider the sale or lease of publicly owned land for development projects,
 - Examples of previous projects include The Summit at Sawyer, Gateway Park, Carlton Place, and Idlewild and Lane Street.
- **Next steps – drafting of Policy and Regulatory Recommendations:**
 - Use the remaining workshops to gather specific data to address resident concerns
 - Establish consensus and buy in on terms, targets, and goals
 - Verify which of the recommendations are palatable to City leaders – i.e.:
 - More robust disposition of publicly owned land for housing deals; speculative land acquisition
 - Advocating for more robust inclusionary zoning policies
 - Capacity building for developers; education for property owners
 - More predevelopment assistance – both funding and predesign assistance; perhaps the City could create a team of experts that could execute pilot projects.
 - Identify the funding sources to fill specific needs
 - How to leverage the \$143M the city has allocated?
 - Identify the personnel that will execute critical roles.
 - “So what?” – How will this information inform the funding, scale, scope, and timing of development in the Dix Edge study area?
 - Determine which activities are NOW, SOON, or LATER
 - Create a schedule and budget
 - Draft memo for Council to enact early actions