Affordable Housing on the New Bern Corridor

HR&A Analyze. Advise. Act.

September 15, 2021

Rapid **population and economic growth** are leading to unprecedented **affordability pressures** in Raleigh.

Raleigh's population growth and housing price increases have **substantially outpaced the national average** since 2010. This trend may be further accelerated by planned **corporate expansions**, including the new Apple campus.

2010-2019	Raleigh	US Average
Population	**+15%**	+6%
Median Home Value	**+22%**	+15%
Median Gross Rent	**+35%**	+26%

Source: US Census, Carolina Demography

Introduction

In response, the City of Raleigh and Wake County have made addressing housing affordability a top priority.

Recent housing affordability actions

City of Raleigh

- Added a "penny for housing" tax (Fiscal Year 2017)
- Passed **$80 million Affordable Housing Bond** (2020)

Wake County

- Released **Affordable Housing Plan** (2017)
- Increased affordable housing budget by **$15M** (2018)
- Added additional housing programming and funds

ELECTIONS

'We are thrilled.' Raleigh voters back affordable housing bond by a landslide

BY ANNA JOHNSON

NOVEMBER 03, 2020 08:29 PM, UPDATED NOVEMBER 04, 2020 12:26 AM

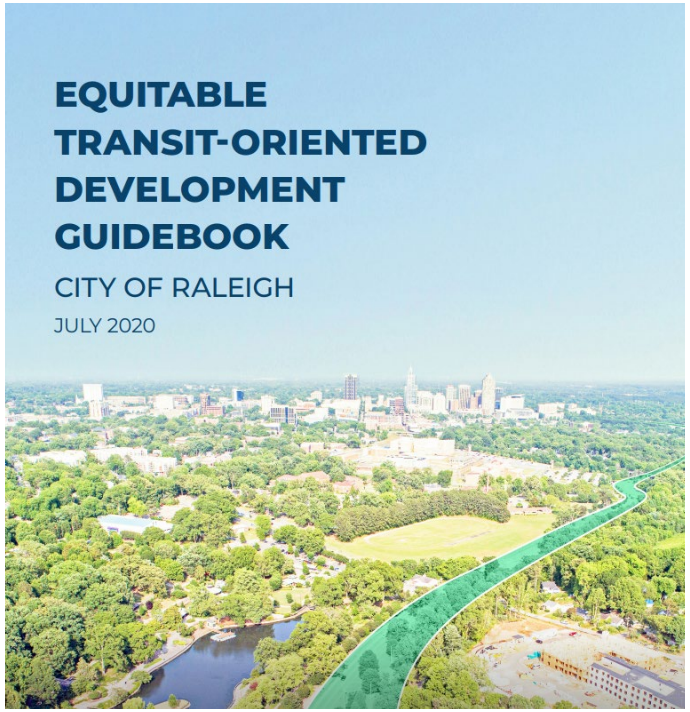
Raleigh, NC has an $80 million affordable housing bond on the ballot this fall, the first housing bond in the city in nearly a decade. If approved by voters the money would help those who can't afford to rent, buy or stay in their homes. BY KEVIN KEISTER | ANNA JOHNSON

Source: News & Observer

Station area planning for the New Bern Avenue BRT Corridor builds on the City's commitment to **equitable TOD**.

The City's **Equitable Transit-Oriented Development (ETOD) Guidebook** provides policy recommendations to ensure development along transit corridors:

- Supports housing **affordability**
- Enhances racial **equity**
- **Limits displacement**



Building on this work, the consultant team developed an **Affordable Housing Inventory for the New Bern Avenue BRT corridor** in order to:

- Quantify current conditions
- Identify potential areas of need
- Inform discussions among residents, the development community, and the City about potential policies

What is Naturally Occurring Affordable Housing (NOAH)?

*NOAH is **affordable to low-income renters**, but is **not subsidized** by any government programs.*

- NOAH housing tends to be **older housing in less-expensive neighborhoods**.
- We have defined NOAH units as those available to households earnings **80% or less of area median income**.
- **NOAH is not actually "naturally occurring."** It is the result of filtering in the market as properties age.
- When housing supply becomes tight, the filtering process slows or stops. As a result, **NOAH units may be "lost"** to rent growth.

NOAH Multifamily Housing

NOAH rents are typically defined at the regional level, where incomes are higher on average than those along the corridor.

	NOAH Rent	80% AMI
Household of 1	$1,340	$53,600
Household of 2	$1,531	$61,250
Household of 3	$1,723	$68,900
Household of 4	$1,914	$76,550
Household of 5	$2,068	$82,700
Household of 6	$2,220	$88,800

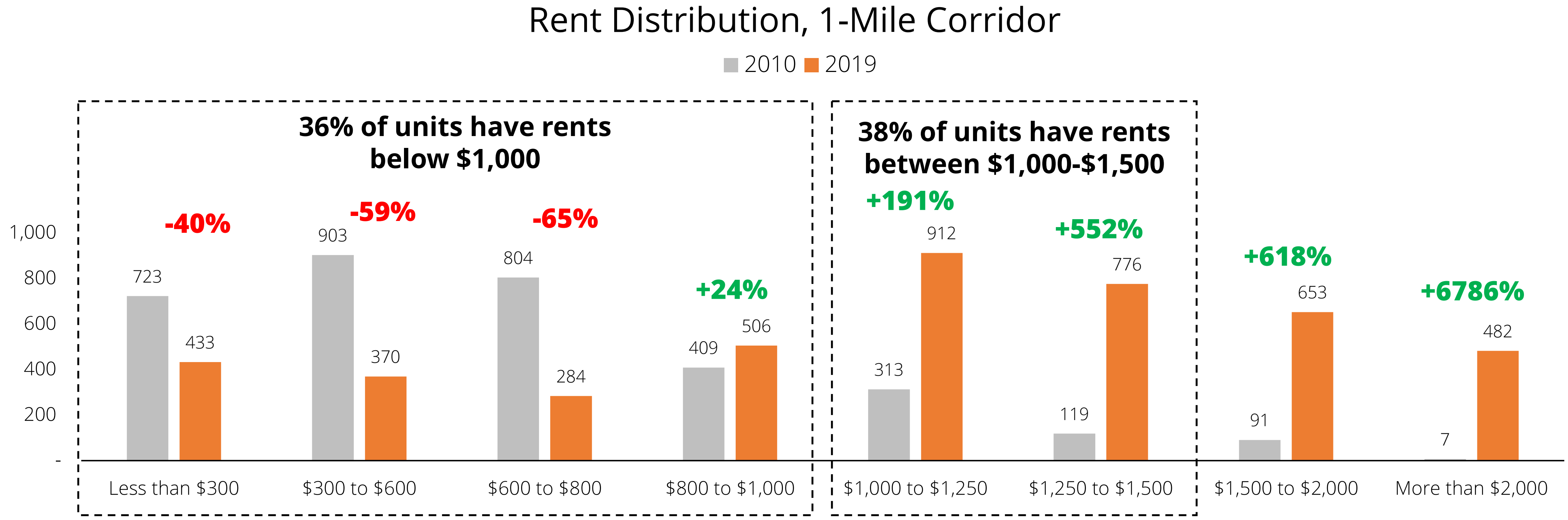
- Given the **high median incomes in Wake County**, NOAH for households earning 80% of the Area Median Income falls between $1,340 and $2,220, depending on household size.
- For an average-sized household in the region, NOAH rents would be any rents that fall **below $1,500**.

Source: HUD Area Median Income Limits

NOAH Multifamily Housing

The share of rental units along the corridor defined as NOAH has **declined rapidly** since 2010, and rents continue to rise.

In 2019, **74%** of the rental units (3,281 units) in the corridor were defined as naturally-occurring affordable housing – down from **94%** in 2010. This indicates **rents have risen faster than incomes** over the past decade.



Source: American Community Survey Estimates, 2010 & 2019

Dedicated Affordable Housing

What is dedicated affordable housing?

Dedicated affordable units have ***strict affordability requirements*** *based on subsidized funding.*

- Dedicated affordable housing is created by developers utilizing federal, state, and/or local **government subsidy**.
- As many as **37% of the units** in the corridor utilize some form of subsidy.
- **Expanding the stock of dedicated affordable housing** and **preserving existing dedicated units** as they expire are core strategies.

Example Programs for Dedicated Affordable Housing

- *Low Income Housing Tax Credit*
- *Public Housing*
- *Section 8 Rental Assistance*
- *USDA-Rural Developments*
- *Deed-restricted affordable*

Dedicated Affordable Housing

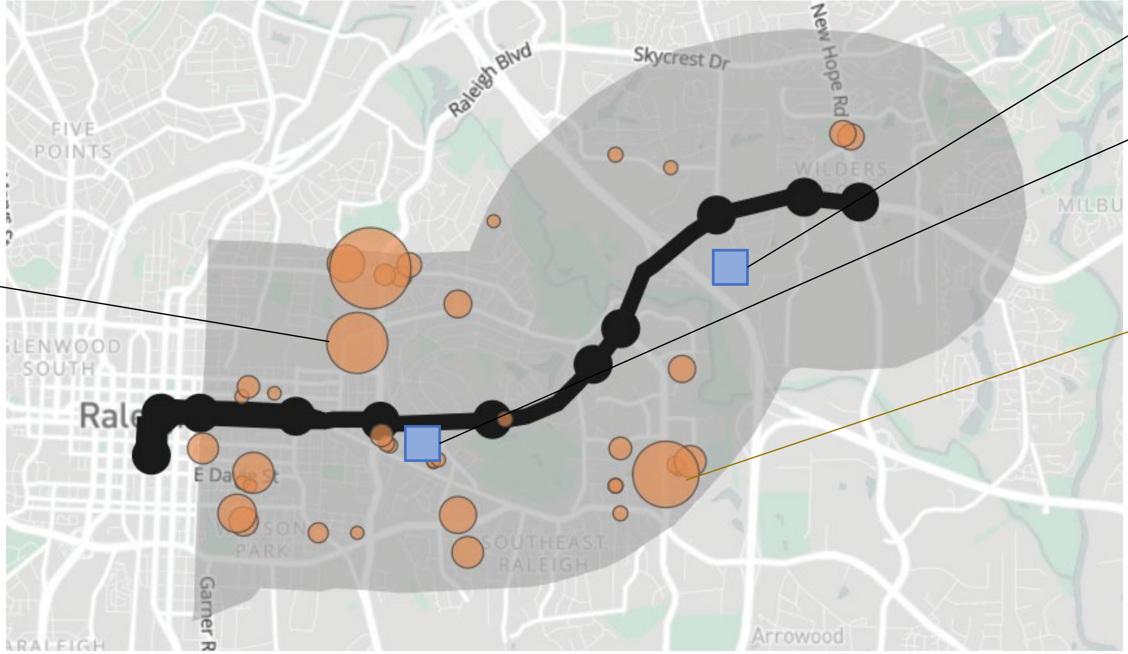
The corridor has over **1,600 active subsidized units** spanning Low-Income Housing Tax Credit (LIHTC) developments, scattered-site projects with voucher assistance, and public housing redevelopments.

Key Pipeline Projects

New Bern Crossing
192 Units

DHIC Milner
150 Units

Subsidized Properties by Total Units



Washington Terrace Apartments
Renovated in 4 phases
360 units | LIHTC subsidy

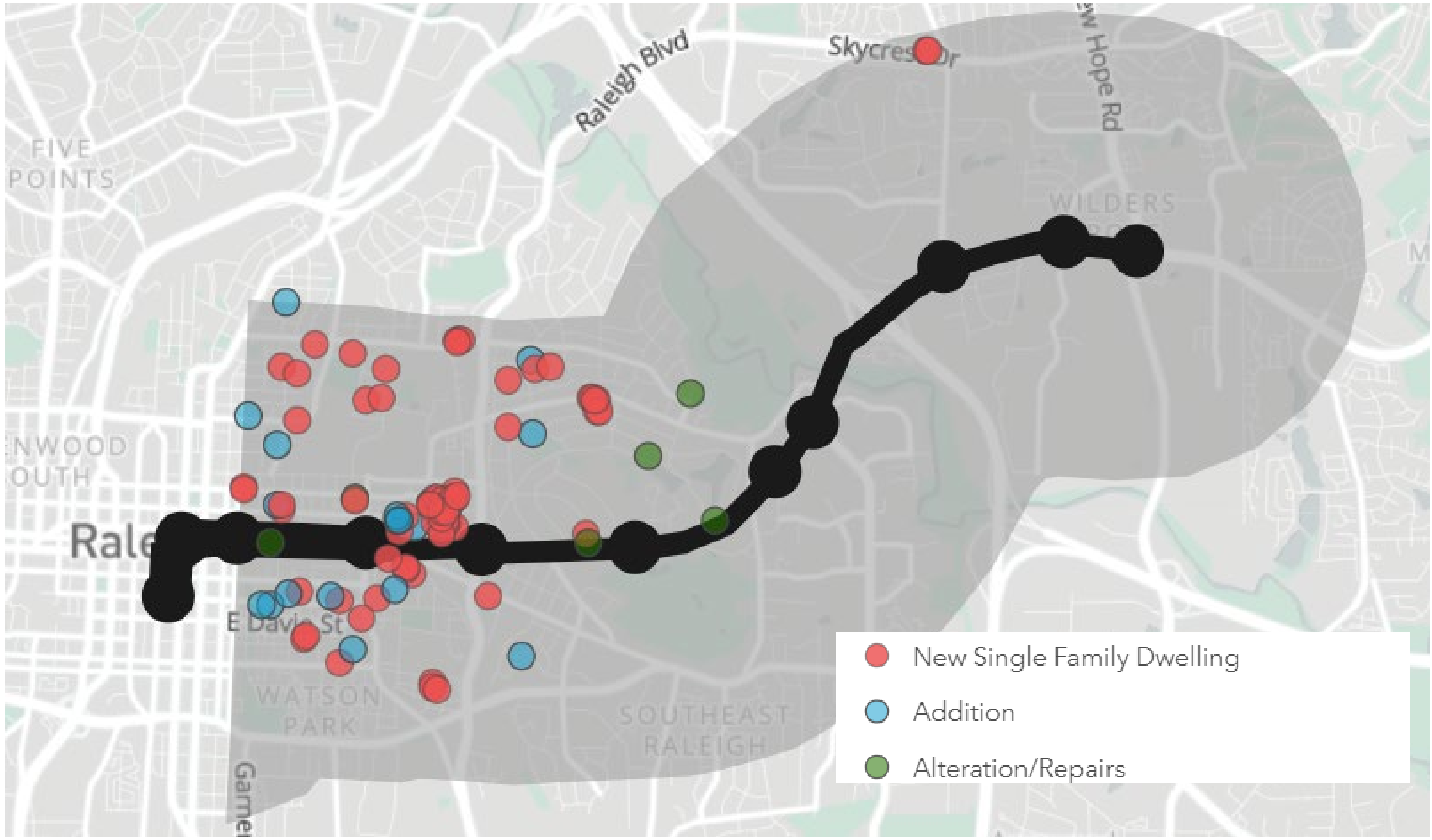
Sunnybrook Pointe Apartments
Built in 2020 | 180 units
LIHTC subsidy

Source: National Housing Preservation Database

High development activity reflects the significant and growing demand for housing along New Bern Avenue.

Since the beginning of 2020 the City has issued approximately **100 building permits** in the corridor for new single family homes and large additions or alterations – mostly on privately-owned land.

Residential Building Permits over $100,000, 2020 - Present

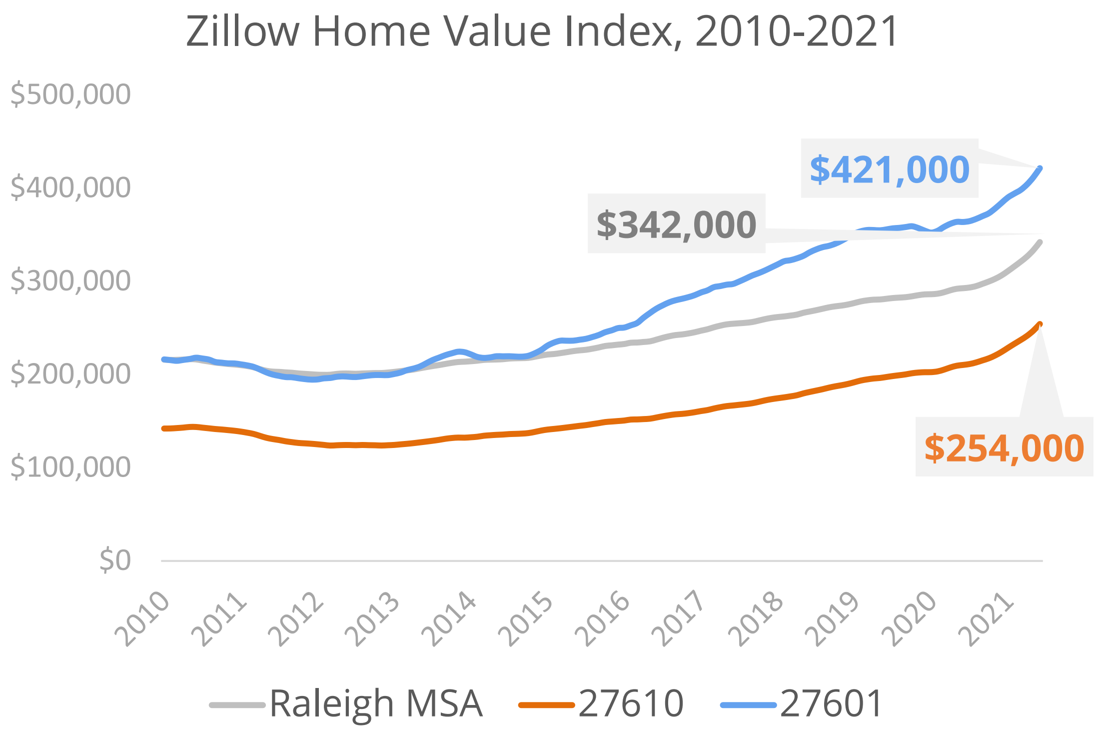


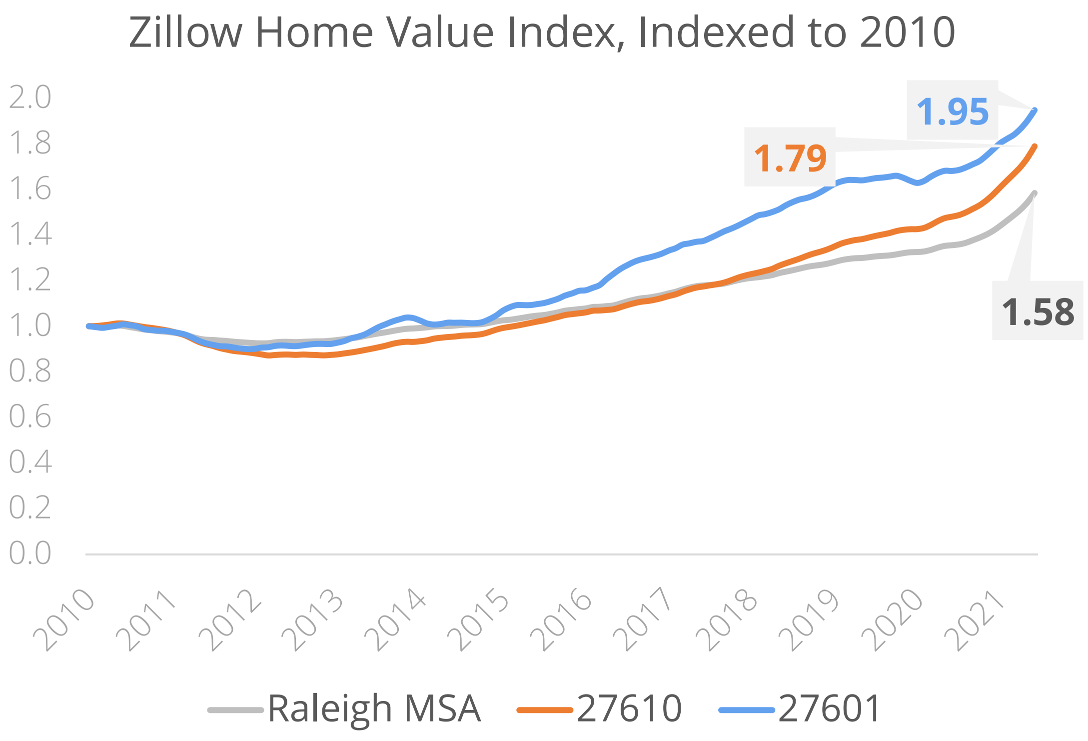
Source: City of Raleigh

Single-Family Housing

After bottoming out after the Great Recession in 2013, single family home values have **risen rapidly** along the corridor.

ZIP code 27610 covering most of the corridor has seen appreciation of **nearly 80%** since 2010, with prices in the 27601 ZIP code covering the western part of the corridor and downtown **nearly doubling** in that time.

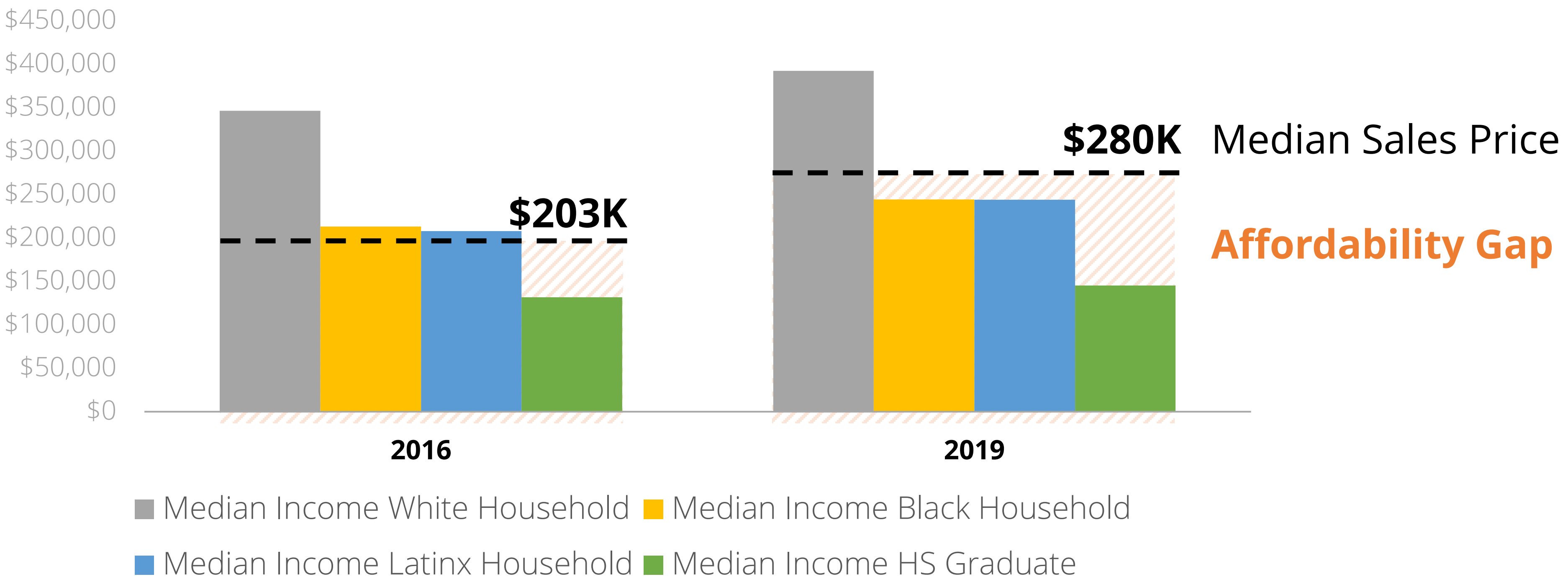




Source: Zillow

Rising prices have created a growing **affordability gap**, placing much of the corridor's single-family housing out of reach for households that comprise a large share of the area's population .

Median Sales Price in East Raleigh vs. Median Home Value Affordable* to Raleigh Population Segments, 2016-2019



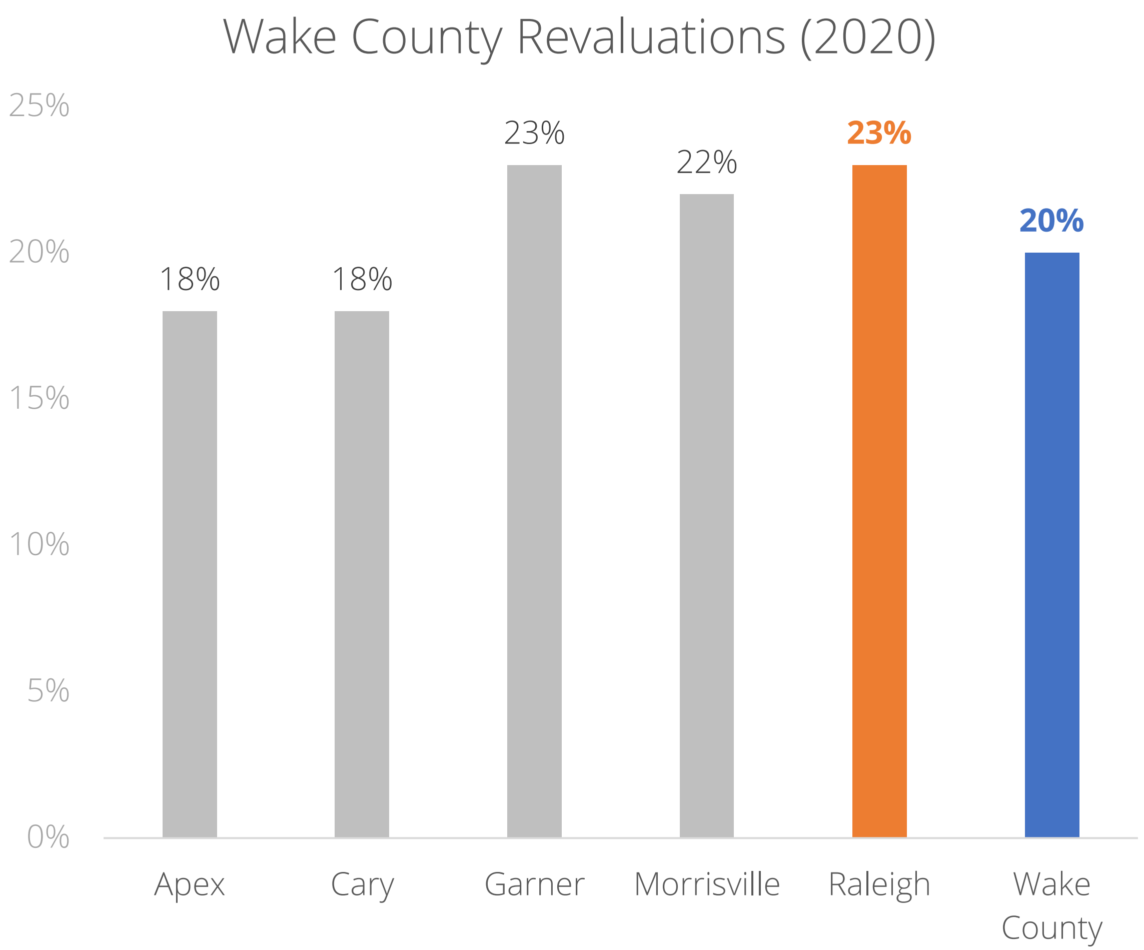
** Affordability based on 30% of monthly income being spent on housing costs, based on the median household income or wages of each population segment.*

Source: Redfin, American Community Survey Estimates, 2019

Single-Family Housing

Rising home values can also pose a threat to existing low-income homeowners when **higher property taxes** create a cost burden.

- In 2020, property revaluations **raised taxes by 23% in Raleigh**.
- Revaluations most significantly impact homes valued at less than $250,000 in areas within and close to the Beltline -- like the New Bern corridor.



Source: City of Raleigh, Wake County Department of Tax Administration

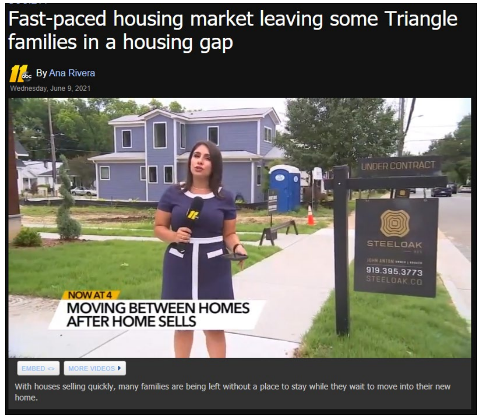
Increasing development pressures have affected longtime homeowners, new buyers, and renters of single-family homes.

Development pressure impacts to single family home residents

Existing homeowners
- Predatory purchase offers
- Increased code enforcement, including of elderly and/or low-income homeowners
- Flipping of older, affordable homes into expensive, up-scale homes

New buyers
- Rapidly rising prices
- Bidding wars
- All-cash offers from investors or out-of-town buyers

Single family renters
- Rapidly rising rents
- Evictions and displacement
- Coping strategies (e.g. moving to less safe / temporary / crowded housing)


Fast-paced housing market leaving some Triangle families in a housing gap

By Ana Rivera

Wednesday, June 9, 2021

With houses selling quickly, many families are being left without a place to stay while they wait to move into their new home.


Triangle population surge is pricing some first-time homeowners out of the market

Tags: affordable housing, income, real estate, gentrification, population

Posted January 28, 2020 6:15 p.m. EST

Updated January 29, 2020 6:29 p.m. EST

Triangle's popularity putting pressure on home prices

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TOD ZONING OVERLAY ANALYSIS

CITY OF RALEIGH

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SEPTEMBER 2021

Density bonus policies must be calibrated to market conditions to ensure developers will choose to participate in the program.

A successful policy will be calibrated to local market conditions, responsive to housing needs, and simple to administer to ensure clear and effective oversight.

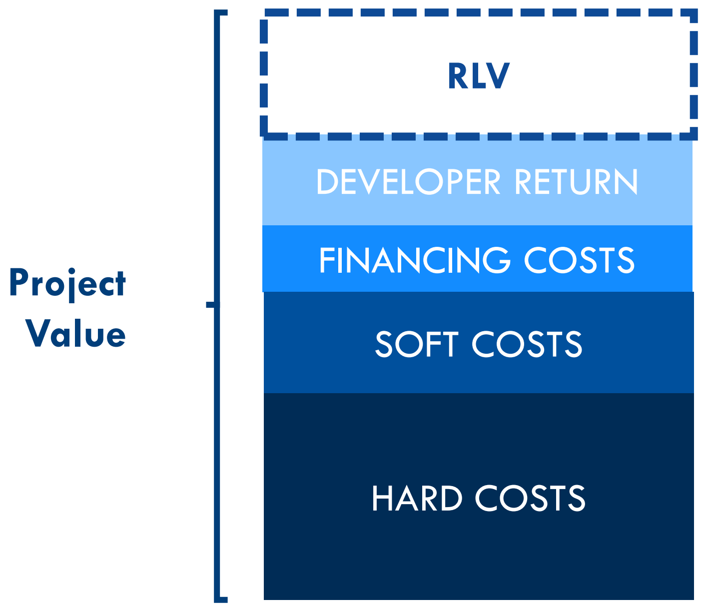
HR&A analyzed the feasibility of different alternatives for layering a density bonus program into the City's TOD Zoning Overlay.

HR&A devised the following methodology to test the feasibility of the density bonus program:

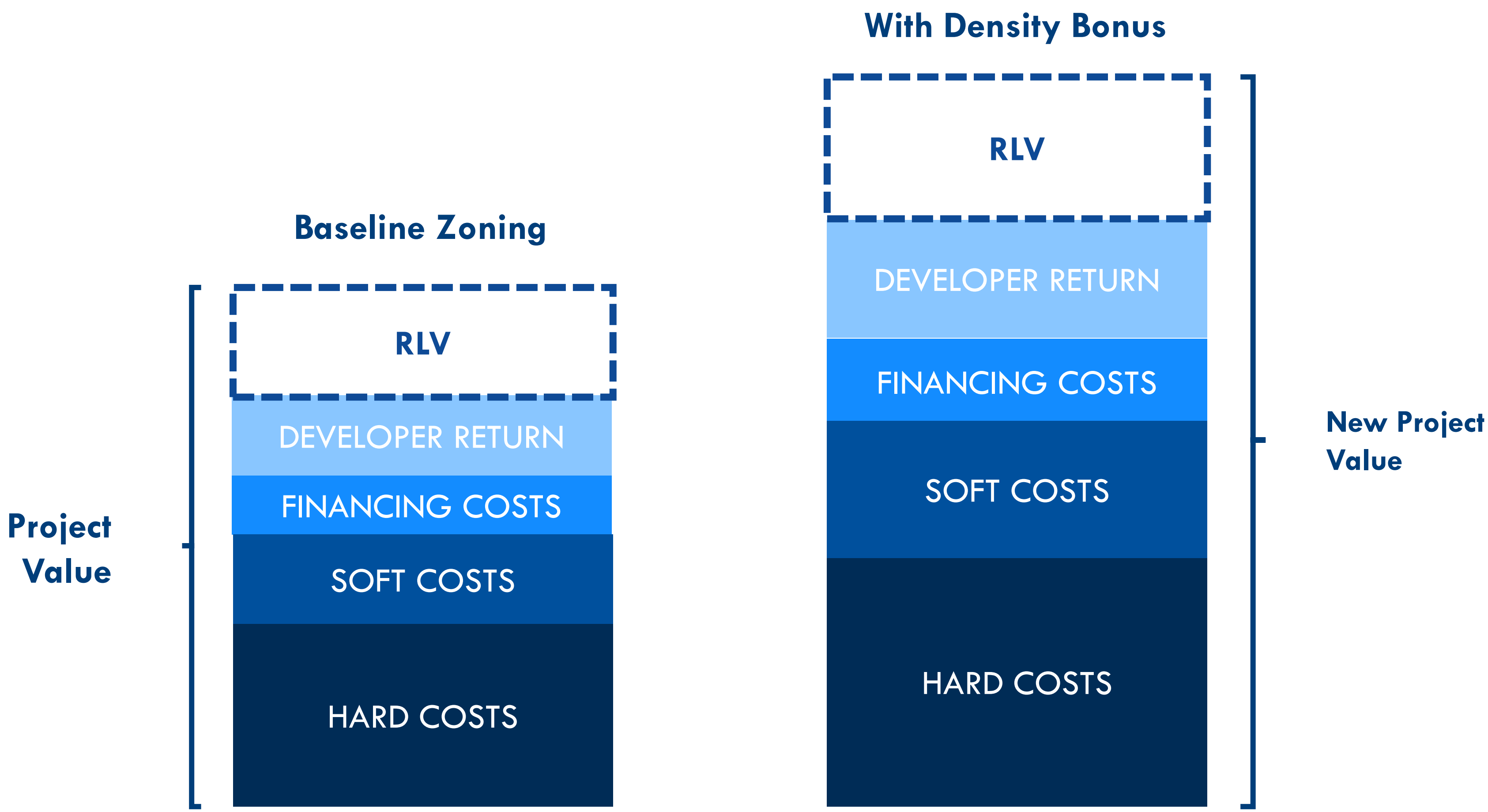
- **Determined a baseline residual land value** for prevalent construction typologies in each of the BRT corridors and in Downtown Raleigh. This residual land value represents the land value of a development with market rents and construction costs and was verified using recent transactions.

- **Analyzed the impact of pairing the density bonus with the production of affordable housing** in each of the corridors and in Downtown Raleigh. The affordable units were assumed to be at 50% AMI for 30 years. To design a policy that developers are more likely to choose to opt-in to, the target developer return was increased above the return underpinning the baseline residual land value.

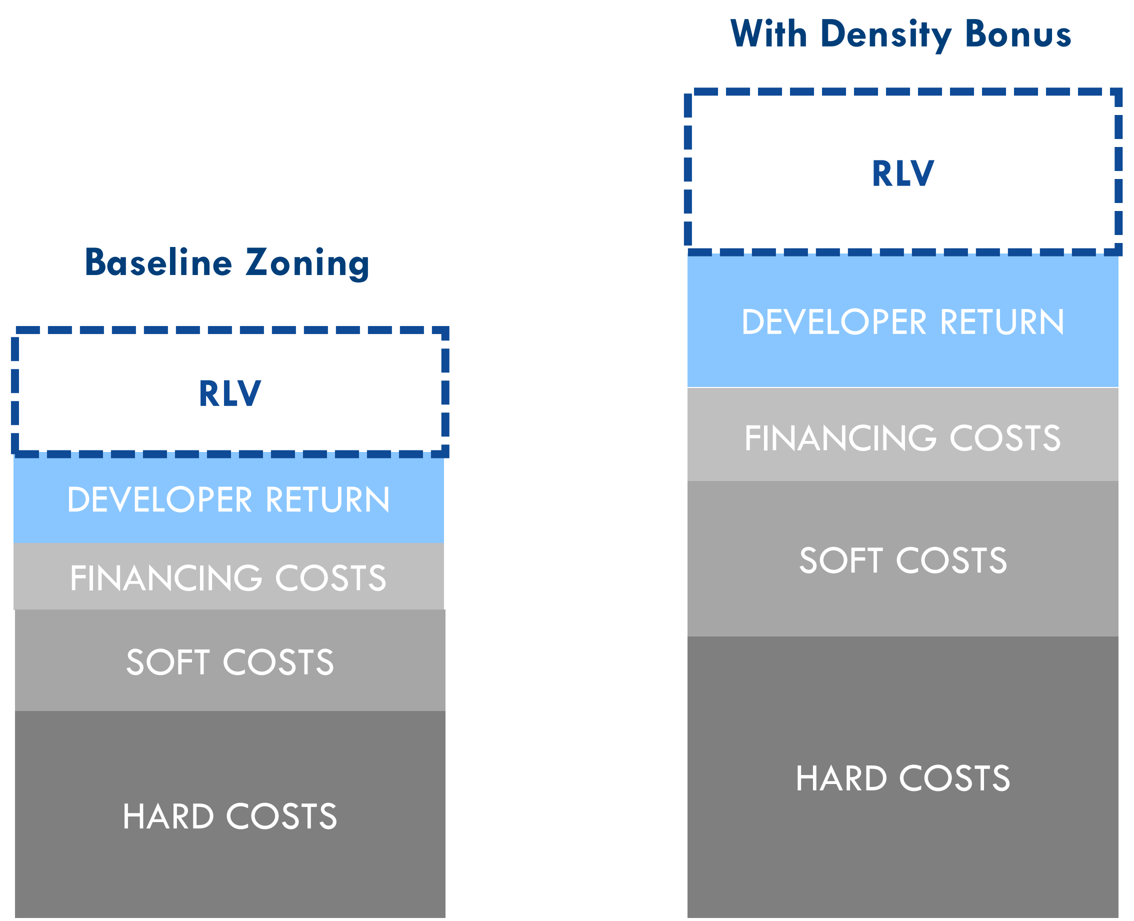
The residual land value (RLV) is the price a developer is willing to pay for land, on top of the other costs of development, in order to access the return associated with a project of a given size.



If a density bonus is available and a market exists for a larger project, a developer is willing to pay more for land in order to realize higher returns associated with a larger program.



To the extent a developer can realize a greater return for the larger project than for the program delivered under baseline zoning, there is scope for affordable housing to be voluntarily provided as part of the project.

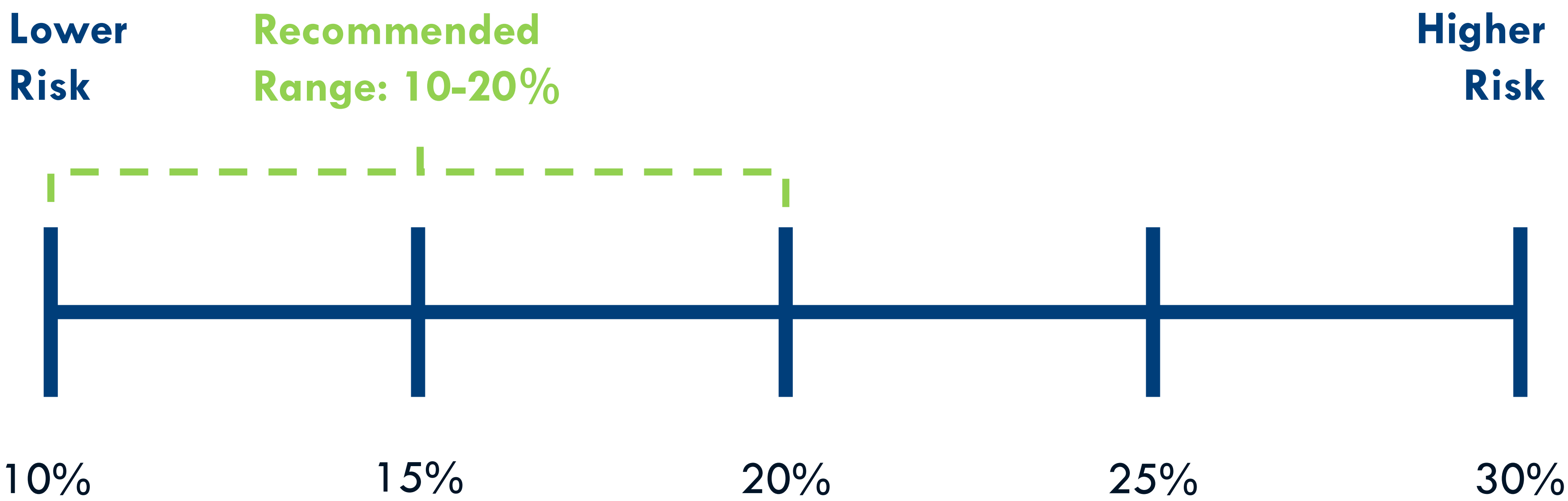


HR&A's analysis finds that within the BRT corridors, a policy encouraging up to 28% of bonus units to be affordable at 60% AMI is at the level where a developer will be incentivized to consider using the bonus.

	Feasible Affordability Set-Aside of Bonus Units within Different Development Contexts	
Affordability Level	Downtown – Highrise	BRT Corridors – Midrise
60% AMI	6%	28%

To establish a program that experiences successful uptake upon implementation, requiring a smaller percentage of affordable units minimizes risk.

Required Percentage of Bonus Units Affordable at 60% AMI

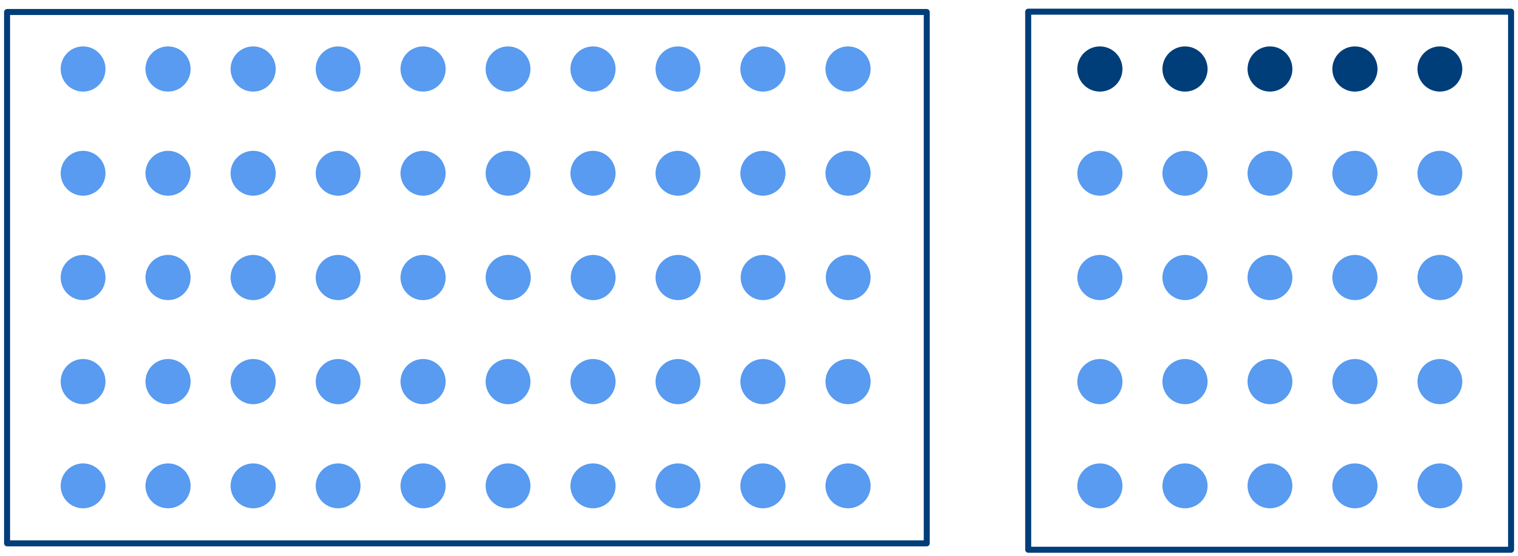


With a requirement that 20% of bonus units be affordable at 60% AMI, a site that would yield 50 market rate units under baseline zoning can be expected to produce 75 total units including 5 affordable units.

EXAMPLE PROJECT WITH 50% DENSITY BONUS

50 Baseline Market Rate Units

20 Bonus Market Rate Units
5 Affordable Units at 60% AMI



20% of bonus units are affordable

5 out of 75 total units are affordable

Several cities and counties have implemented inclusionary housing programs with density bonus incentives.

	Cambridge, MA	Montgomery County, MD	Crystal City, Arlington, VA	Winston-Salem, NC	Atlanta, GA
Density Bonus	30% density bonus	22% density bonus	Up to 10.0 FAR	25% density bonus	15% FAR increase (not height)
Affordability Requirements	20% units affordable at 65% AMI (99-year term)	15% units affordable at ~60-70% AMI (99-year term)	20% of gross floor area above base density affordable at 60% AMI (30-year term)	40% of units affordable at 60% AMI or 20% of units at 50% AMI	10% of units affordable at 60% AMI or 15% of units at 80% AMI (20-year term)
Applicability	10+ rental units	20+ rental units	Multifamily developments	Multifamily developments	10+ rental units in specific district
Total IZ Units Produced	1100+ units since 1998	12,000 + units since 1974	Not available	0 units since 1994	384 units since January 2018

Sources: City of Cambridge, Montgomery County, Montgomery Planning, Arlington County, Winston-Salem, City of Atlanta

TOD ZONING OVERLAY ANALYSIS

CITY OF RALEIGH

SEPTEMBER 2021

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City of Raleigh

Housing and Neighborhoods

New Bern BRT Housing Tools

September 15, 2021

Presentation Agenda

- City Goals and Priorities
- Funding Sources
- Current Tools
- Future Tools

Community Development Priorities

Increase the supply of affordable housing

Increase Services to Build Self-Sufficiency & Sustainability

Enhance the homeless to housing continuum

Funding Sources

Current Tools & Programs – Funding Sources

HUD Funding – $5 million annually

CDBG (Community Development Block Grant): $3.2 million

- Rehabilitation Programs
- Neighborhood/ Site Improvements
- Non-profit support

HOME (HOME Investment Partnership): $1.5 million

- Rehabilitation Programs
- Down payment Assistance
- Gap Financing for developments

ESG (Emergency Solutions Grant): $275K

- Rapid Re-Housing
- Shelter Care

Current Tools & Programs – Funding Sources

Local Funding

- City of Raleigh General Housing Fund (penny) - ~$6 million/year
- City of Raleigh Housing Bond - $80 million/5 years – approved by 72% of voters
- Revenue from programs and past bonds

Current Tools

Current Tools & Programs – Zoning Tools

- Missing Middle Text Change to Unified Development Ordinance (UDO)
    - Duplexes, Triplexes, Quadplexes by right
- Parking Reductions for Affordable Housing (Citywide)
    - 1 space per unit required
- Cottage Courts Text Change
    - New development typology
    - Lane-Idlewild

Current Tools & Programs – Equity Programs

- Preservation of Naturally Occurring Affordable Housing (NOAH)
    - Rehab Programs (Substantial & Limited Repair)
    - Homebuyer Assistance Program (<80% AMI, $20K)
    - Pandemic Rental Assistance
- Homebuyer Counseling (DHIC)
- Legal Assistance (tenants & homeowners – Legal Aid)
- Anti-Predatory Purchase Outreach – flyers in targeted areas
- Workforce Development – job training w/ NCHBA, Fathers Forever, Passage Home

Current Tools & Programs – Other Tools

- Rental Portfolio - 220 units, (<50% AMI)
- East College Park – 90+ single-family mixed-income, 50+ townhomes
- Other Areas – Martin Haywood (10 lots left), South Park (rental development)
- NOFA - $10 million and building sites via long-term land leases to support creation of non-congregate (family) emergency shelter, transitional housing and other affordable rental projects in which at least 1/3 of units are targeted to <30% AMI rent and income level. Will be posted for 90 days

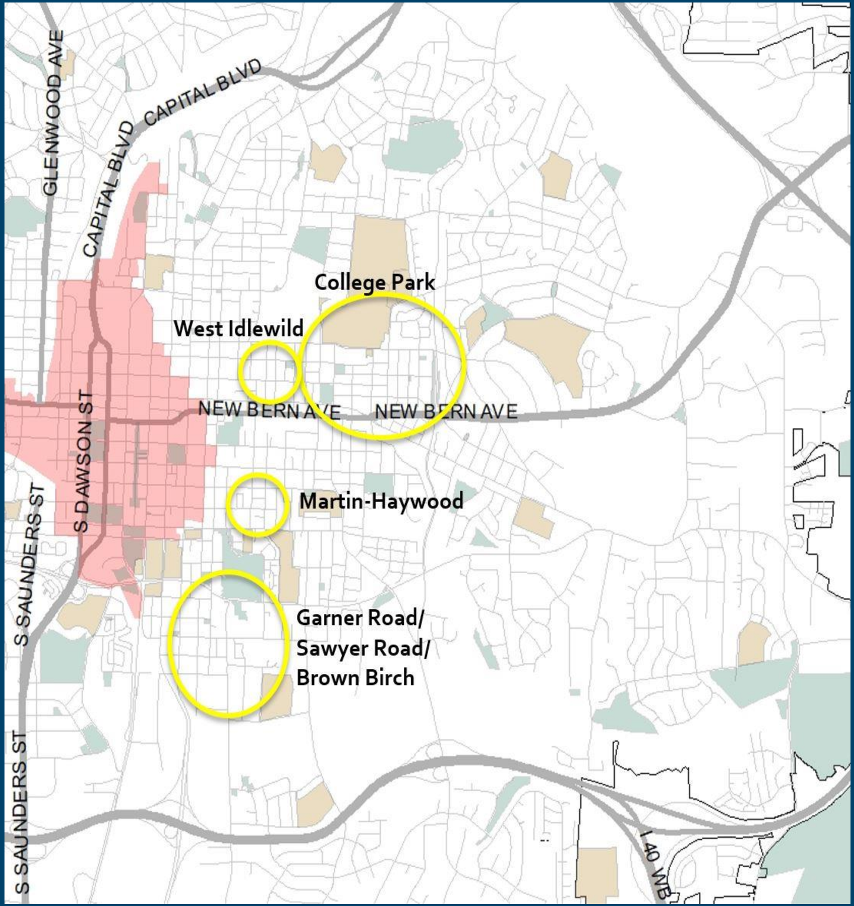
Focus Areas

Rental:

- Summit at Sawyer (Garner Road)
- Toulon Place (Garner Road)
- Booker Park South

Homeownership:

- Martin Haywood
- Lane Idlewild
- East College Park



1406 Pender Street

Before

After

Raleigh

317 Maple Street (Rehab)

Before

After

Current Tools & Programs – LIHTC

- LIHTC - 4% & 9% deals
  - 9% projects are extremely competitive
- Local and HOME funds help leverage
- Loans are available for preserving existing rentals or building new
- Contact
  - Aimee.holtsclaw@raleighnc.gov
  - (919) 996-6948

Future Tools

Future Tools & Programs – TOD Overlay

- Pending text change to UDO (TC-17A-20)
  - Allows additional density in return for Affordable Housing
  - Parking Reductions
  - Prohibits auto-oriented uses
- 50% height bonus in exchange for providing 20% of bonus residential units as affordable at 60% AMI for 30 years
  - 3 stories → 5 stories   4 stories → 6 stories
- Prohibited from using rezonings to circumvent

Future Tools & Programs – Bond

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

Transit-Oriented Site Acquisition
$16 Million

Front-load first 2 years as follows:

- $6 million annually for direct city acquisition of sites.
- $2 million annually for acquisition/preservation of existing affordable units via RFP process.
- RFP parameters and evaluation factors to be approved by Council prior to issuance. Two cycles annually anticipated.
- Award recommendations presented to Council

Public-Private Partnerships
$28 Million

Phased over 5 years as follows:

- FY 22: $3 million for Healing Transitions.
- FY 22: $7 million for permanent supportive via RFP process.
- Beginning in FY 22: $2 million annually for small scale non-profit projects via RFP process (one-third 30% AMI targeting). RFP subject to Council approval. Two cycles annually anticipated.
- Beginning in FY 23: $ 2 million annually for voluntary inclusionary rental projects near transit (20% of units affordable at 60% AMI) or missing middle homeownership opportunities near transit. Guidelines subject to future Council approval.

LIHTC Gap Financing
$24 Million

$4.8 million annually for each of the 5 years.

Minimum income targeting:

25% of the units in 9% tax credit projects and 10% of the units in 4% tax credit projects must be at 30% AMI.

Owner-Occupied Home Rehabilitation
$6 Million

Expansion of existing program to LMI owners near future transit investments

- Beginning in FY 23: $1.5 million annually.
- Requires geographic boundary delineation which will be determined through station area and other equitable development around transit planning efforts.

Down payment Assistance
$6 Million

Expansion of existing program to LMI buyers near future transit investments

- Beginning in FY 23: $1.5 million annually.
- Requires geographic boundary delineation which will be determined through station area and other equitable development around transit planning efforts.
- Future policy decisions for Council: Purchase price limit (current new construction limit for HUD funds is $265,000) and amount of assistance (currently $20,000).

Total Bond Amount Budgeted for FY 22

$24.8 Million

Future Tools & Programs

- Update to the AHIP will examine UDO obstacles to AH (supportive housing, micro units, single-room occupancy)
- Tiny Homes – text amendment pending
- Anti-Predatory Purchase Programs – increase targeting
- Use of Federal Recovery funds to build long-term capital assets

Future Tools & Programs – Equity Fund

- Devotes % of new tax revenue within the corridor to AH and other equity programs
    - Synthetic Tax Increment Financing (TIF) or General Fund
    - Affordable Housing – prioritize for existing residents
    - Other potential programs – community orgs, homelessness, pedestrian safety
- Extensive community input on decisions

Roundtable Discussion