Local Inclusionary Housing Programs and the Prospects for North Carolina

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Many of the nation’s rapidly growing communities are confronting an ironic paradox—the stronger the local economy, the more acute the shortage of affordable housing. This is certainly true of North Carolina’s metropolitan areas. Generations of public investments in highways, schools, community facilities and services, universities, research, industrial recruitment, and hospitals have created a great deal of the value of urban/suburban land and generated tremendous wealth and rapid growth in this state’s metropolitan areas. But every year, more of the people who keep these services and institutions operating cannot afford to live near their jobs. Moreover, in rapidly growing communities like the Triangle, powerful market incentives encourage builders to produce high-cost homes. The combination of regulatory, public investment, and market factors has resulted in a dramatically expanding affordability gap for households with low- and moderate-incomes. What can local governments do to encourage the development of lower cost homes throughout these growing communities in North Carolina?

The Housing Affordability Gap in North Carolina’s Rapidly Growing Communities

The 1990 Census indicated that 38 percent of the renters in North Carolina and 20 percent of homeowners were inadequately housed for the following reasons: they could not afford a safe and suitable house; they lived in overcrowded homes; or their homes lacked minimum plumbing facilities. If the same proportions of households are inadequately housed today, we can conservatively estimate that 334,800 renters and 186,000 home owners—a total of 520,800 households—cannot afford a safe, suitable home.

Unfortunately this estimate of families in need is very likely low because the affordability gap widened during this decade. Inflation-adjusted incomes of North Carolina households in the bottom two fifths of the income range have not increased since 1990, and incomes in the middle fifth grew by only one half of one percent annually. Even in an affluent and rapidly growing area like the Triangle, the number of jobs that pay low wages grew faster than jobs paying high wages. At the same time, in the metropolitan markets where 78 percent of North Carolinians live, existing housing cost data indicate that rents and home prices have risen dramatically, often by over 80 percent.

This widening housing affordability gap necessitates a change in North Carolina legislation to enable local inclusionary housing programs that accommodate the growing need for affordable housing in North Carolina.

Local Inclusionary Housing Programs

Local inclusionary programs are based on a requirement in a community’s development ordinance that new residential developments...
(usually of more than a specified size) include some homes with moderate sales prices or rents. To compensate builders and apartment owners for the lower price of these homes, these developments are allowed higher housing densities.

Some communities also offer priority for processing and/or preference in granting building permits, fee reimbursement for permit processing or community facilities, or lower-cost site improvement standards. For example, in transit service areas, reduced parking requirements are granted. To make homes more affordable and create longer-term rental affordability, local and state governments often subsidize or purchase some of the affordable homes. Otherwise, deed restrictions usually record the terms of affordability. More specifically, local development ordinances typically incorporate provisions that describe:

- **How and when the requirement for affordable homes applies.** At least 10 to 25 percent of new homes must typically be affordable. Usually, residential developments that are larger than between 10 and 50 homes must include some that are affordable. Small projects are often excluded to encourage infill development.

- **The extent of the density bonus.** In most North Carolina communities, the bonus can be designed to fully compensate or even reward the developer. In areas with extremely high land costs (higher than in this region), or where additional density is not feasible (because of environmental or political factors), this may not be possible. As a result, the community may have to add subsidies to compensate builders.

- **The target income of inclusionary home renters or buyers.** Sales are usually required to be affordable to households with a maximum 80 percent of the area median income and rents affordable to households with up to 50 percent. Some programs require fewer affordable units to be sold or rented at costs well below market.

- **Design, site and construction standards.** Inclusionary programs work best and homes sell most readily when the affordable homes look similar to the higher price homes.

- **A system for marketing the homes and selecting, qualifying and preparing buyers or renters.**

- **Local government or housing authority rights to purchase some lower priced homes.**

### The Benefits of Local Inclusionary Housing Programs

Inclusionary programs are designed to generate two main benefits. First, inclusionary programs can significantly increase the supply of homes affordable to families with incomes of 40 to 80 percent of the household median. The potential impact of these programs can be particularly significant in rapidly growing communities. For example, if Raleigh’s development ordinance had required developers to allocate 10 percent of the units in new developments of over 50 homes, in 1999 alone, builders would have constructed more than 550 affordable homes with a value of over $40 million. If 10 percent of North Carolina homes built in the 1990s were moderately priced, nearly 24,000 of the 28,000 households that are now paying more than 50 percent of their income for housing could have found homes near their jobs that fit their budgets.

The second benefit of inclusionary programs is that they disperse affordable housing throughout new developments in an area. Dispersing affordable housing means that poverty is not so concentrated in schools and neighborhoods. Often this can also translate to shorter commutes for low-income workers. Furthermore, if compatibly designed, moderately priced homes are a ubiquitous component of every new neighborhood, and resistance to affordable housing may diminish.
The Nation’s Model for Success

During the past two decades, Montgomery County, Maryland, developed one of the highest-producing inclusionary housing programs in the United States. It has been described as “the nation’s most innovative housing program,” in Governing Magazine, and by David Rusk as “the nation’s model for success in replacing exclusionary zoning with inclusionary zoning.” Montgomery County’s zoning ordinance requires that 12 to 15 percent of nearly every new development of over 50 homes be moderately priced homes.7

Since 1975, builders in Montgomery County have produced over 10,300 moderately priced homes, an average of over 400 homes yearly. Instead of building “projects,” Montgomery County’s public housing authority purchased 1,600 of these homes throughout the community. These homes are rented to very low-income households and are nearly indistinguishable from their expensive neighbors.

Montgomery County’s program has served as a model for neighboring communities. A coalition led by homebuilders in Fairfax County, Virginia, advocated that the state authorize an inclusionary zoning ordinance adopted in 1990. Affordable housing production was slow until 1995, when the County modified its ordinance to more closely mimic Montgomery County’s.

Today, with a total population of about one million, Fairfax County has 1,100 moderately priced homes in 100 developments and about 600 more approved for construction. Town homes and condominiums have been sold to owners with incomes below 70 percent of the median income. Two thirds of the apartments are rented to tenants with incomes below 70 percent of median and one third rented to tenants with incomes less that 50 percent of the median income. The Fairfax County housing authority has the right to purchase or lease one third of the moderately priced homes. By 2000, it had purchased 40 homes to rent to very low-income tenants and as group homes for tenants who also receive residence-based support services.

Designing A Local Inclusionary Housing Program

Hundreds of communities across the nation have implemented inclusionary programs, and many more are developing new ones today, providing a wealth of information about how to tailor them to local markets and goals. Many stable and tested inclusionary housing programs work powerfully and enjoy strong support, but others have little or no impact. Local inclusionary housing programs work best in cities or counties where:

- Job growth or community features generate strong housing demand, but market prices are not affordable to low and moderate income households.
- Land costs are high, but land is available and suitable for developing large subdivisions.
- Community facilities (especially wastewater treatment) are available to support urban development density (four units/acre or more).
- The amount and density of residential zoning is consistent with local plans for expansion of community facilities, and new large subdivisions are located in areas that have access to public transportation and jobs.
- Residential density permitted under existing zoning is not already higher than the market will support, and all rezoning will require including affordable housing.
- A local or regional housing department, partner agency or land trust:
  (a) recruits and helps prepare buyers and tenants; and
  (b) purchases or leases moderately-priced homes, then sells or rents them to lower income households and/or extends the term of affordability beyond the required minimum.
- Political leaders strongly support the expansion and dispersion of housing that is affordable to low-wage-earning members of the community.
Inclusionary housing programs have the potential to significantly increase and disperse moderately priced homes throughout new neighborhoods in rapidly growing communities. Because they can be designed to fully compensate developers in most projects, they can help add housing that households with 40 to 80 percent of the median income level can afford without additional assistance. Adding subsidies can expand this program’s capacity to work in very expensive places, to reach lower income families, and to keep the housing affordable longer or permanently.

From voices of experience, like Eric Larson, Director of Montgomery County’s Moderately-Priced Housing Program, we have learned that the details of program design are critical to the effectiveness of the program. “The success of the Montgomery County program relies on the fact that every development is included. Our design standards have been effective at blending the moderately priced homes in with their neighbors and enhancing marketability. Moderately-priced homes house disproportionately more non-white families, helping to meet the community’s goals for desegregation and housing more of the employees of Montgomery County firms.”

Dave Flannagan, homebuilder and President of the National Capital Area Builders’ Council, advocates. “The Moderately Priced Housing Program is not to be feared. It is a win-win program that should be replicated in other rapidly growing communities.”

“The strength of the program impacts in the Capital area demonstrate why more and more North Carolina localities are asking for explicit state enabling authority to deliver the program here.

The Prospect for Local Inclusionary Housing Programs in North Carolina

Some North Carolina local governments already negotiate for affordable housing as a condition of rezoning. Others have developed creative mechanisms that aim for the same goal through less direct means, such as limiting the size of some homes in each development, and making affordable housing one of the community assets covered in adequate public facility ordinances. Some attorneys advise that North Carolina local governments already have the authority they need, broadly construed, to implement inclusionary programs. However, most attorneys agree that local governments need enabling authority to develop comprehensive and uniformly applicable ordinances. This legislation would also clarify that zoning ordinances and processes, tools that have long been used to exclude affordable housing, can be transformed. With these changes, zoning can be used to include more housing for people with a greater range of incomes to live in the same neighborhoods.

Notes
2 1990 Census, updated by Office of State Planning population estimates, with 1990 Census percent of households that rent, own, and have housing needs.
4 Caryn Erns, Institute of Government web site, unpublished paper.
5 2001-2005 NC Consolidated Plan.
7 The only exceptions are several multi-story condominiums, where the density bonus could fully compensate the builder, and where the builder was instead allowed to contribute to a local housing trust fund.
8 Eric Larsen gave this advice in a speech on May 27, 1999 in Research Triangle Park, NC, sponsored by the Triangle J Council of Governments Smart Growth Committee.
9 Videotape filmed in 2000 by the National Capital Area Builders’ Council.