Affordable Housing Development Toolkit for Local Governments

MATTHEW NORCHI

Successful approaches from North Carolina and beyond

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Introduction

A. The Need for Local Government Action

The need for affordable housing in the United States is becoming ever more apparent. Moderate- and low-income households are struggling to find and maintain affordable housing. In 2016, 38.1 million households spent more than 30% of their incomes on housing (referred to as cost-burdened),[1] equating to roughly 32% of all households.[2] Renters face the bulk of the burden: 47% of the nation's renters, or 20.8 million households were cost-burdened in 2016. Of those cost-burdened households, 26%, or 11 million households, spent 50% or more of their income on housing (referred to as severely cost-burdened) in 2016. Finally, low-income households are particularly vulnerable: 80% of renters earning less than $30,000 were cost-burdened and 55% earning less than $30,000 were severely cost-burdened in 2016.[3]

The affordable housing landscape in North Carolina reflects the national trend: 43% of renter households cannot afford a typical two-bedroom apartment,[4] 44.5% of renter households are cost-burdened,[5] and 21.8% of renters are severely cost-burdened.[6] Over 21% of homeowners in the state spend more than 30% of their income on housing and over 8% of homeowners spend more than 50% of their income on housing.[7]

While housing affordability is becoming a more pronounced issue, support for affordable housing has shifted from the federal to the state and local level. Through block grants and other programs, federal policy has delegated the task off addressing affordable housing to local governments. Further, in recent years, even federal financial support has stagnated. While the federal government still provides the largest share of funding for affordable housing programs, state and local governments have been playing larger roles in affordable housing development. As local governments have become the chief innovators in affordable housing development, this guide attempts to highlight examples of successful affordable housing development programs from both North Carolina and the rest of the United States.

B. Methods and Use of the Guide

Affordable housing is a broad topic. Local government approaches to affordable housing can include affordable housing development subsidies, developer incentives, programs to curb homelessness, anti-eviction measures, housing rehabilitation programs, and a host of other programs. In order to the narrow the scope, this guide focuses on programs that aim to increase the production and supply of affordable housing for both renters and homeowners. Additionally, the guide does not cover the entire range of affordable housing production strategies that have been adopted. Rather, the guide focuses on noteworthy or innovative programs to shed light on their potential application to local governments in North Carolina.

A survey, administered by the North Carolina chapter of the American Planning Association, was used to gather information on various programs that North Carolina local governments have adopted for affordable housing. Ordinances, plans, reports, and websites from various local governments were consulted to inform policy descriptions. Additionally, academic articles and newspaper articles were consulted. Interviews were also conducted as needed to gain more insight into specific policies.

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The toolkit is divided into sections: Section 1 addresses local government mechanisms that directly create affordable housing, Section 2 addresses local government policies that encourage private development of affordable housing, and Section 3 addresses approaches that local governments can undertake to eliminate barriers to naturally occurring affordable housing. The last section explores common themes among successful programs and offers concluding advice on successful affordable housing policies. Each policy approach includes an overview, examples of policy applications from around the United States, examples of policies from within North Carolina, and final "takeaway" section highlighting successful aspects of the policies outlined. Certain noteworthy North Carolina programs were explored in more depth as case studies, and are highlighted as "Spotlight" programs. Additionally, links to each program and to relevant useful resources are provided. Unit production accounts are included as often as possible, though it was not possible to obtain unit production counts for all policies. Importantly, estimates on unit production from local government staff are not absolute, as affordable housing projects often change during the development process.

Toolkit Guide

The table below provides at-a-glance references for how various programs discussed in the guide could be used to meet community affordable housing needs.

Community Need	Approaches	Example Program
Affordable Rental Housing	Incentive-Based Policies (page 16) Housing Trust Funds (page 4)	**Asheville Land Use Incentive Grant** - Incentive based policy that awards grants equivalent to portions of property tax to developers who build affordable rental units. 191 Rental units in development pipeline that have received grant funds. See page **19.**
Affordable Homeownership Opportunities	Community Land Trusts (page 10) Inclusionary Zoning (page 13)	**Chapel Hill Inclusionary Zoning** – Program that requires private developments of five or more units include affordable units or make payments in-lieu of affordable units. 169 units created with another 91 committed & $1,802,350 in-lieu fees with another $1,058,000 committed. See page **14.**
Permanent Affordable Housing	Community Land Trusts (page 10)	**Community Home Trust** - Community land trust operating in Orange County, NC. Coordinates with local governments in area to administer affordable housing homeownership program. Land trust model ensures permanent affordability and homes sell at much lower prices than market rate homes in area. Administers 266 affordable housing homeownership units. See page **11.**
Increased Supply of Unsubsidized Housing	Reducing Regulatory Barriers (page 22)	**Durham Expanding Housing Choices** – initiative aimed at reducing regulatory barriers on affordable housing production. Changes include increasing allowable density, easing set-back and lot size requirements, encouraging duplexes and triplexes, and creating new standards for lot sizes. Durham aims to create more housing choice at affordable levels. See page **24**.
Affordable Housing Funding	Dedicated Revenue Streams (page 8)	**Raleigh Penny for Housing** – Change in property tax allocation that added $0.01 per every $100 in property taxes to be used for affordable housing. Raleigh will collect $5.7 million per year for affordable housing programs. See page **8**.

1 - Policies Aimed at Affordable Housing Development

This section details tools that are directly created or extensively financed by local governments. These tools largely involve methods of raising, spending, and allocating money for affordable housing programs. While there are a number of ways for local governments to spend money on housing, this section highlights particularly successful tools that have been developed to further affordable housing. Section 1.1 explores Housing Trust Funds, Section 1.2 explores Dedicated Revenue sources for affordable housing programs, and Section 1.3 explores Community Land Trusts.

1.1 Housing Trust Funds

A. Overview

Housing Trust Funds (HTFs) are a flexible form of spending for affordable housing production. Housing Trust Funds can provide: support for transitional housing programs for the homeless, down-payment subsidies and assistance for low- and moderate-income homebuyers, weatherization and emergency repairs, loans to cover predevelopment costs incurred by nonprofit housing developers, housing education and counseling, and tenant-based rental assistance, grants to developers creating affordable housing, and more. Perhaps most importantly, HTFs can be used as revolving loan funds to provide financing for developers creating affordable housing. Low interest rates are given out to developers, often as a form of gap financing and are then paid back into the trust fund over time, providing for a revolving pool of funding for local government affordable housing needs.[8]

B. Housing Trust Funds in the United States

As of 2015, there are 389 HTFs operating at the municipal level and 82 at the county level.[9] Typically, HTFs operate under guidelines established by the local government. The guidelines include breakdowns of funding priorities, eligible project types, and projections of how the money from the fund is allocated.

City of Denver - Affordable Housing Dedicated Fund

In the fall of 2016, the City of Denver created its first Dedicated Affordable Housing Fund. The fund is capitalized through two sources: 1) an already existing portion of a property tax mill approved by Denver voters; and 2) a one-time fee on commercial and residential development created explicitly for the Affordable Housing Dedication Fund. The housing fund is primarily used to for the production and preservation of permanent supportive housing, workforce rental housing, and for-sale housing. Rental housing projects will serve households up to 80% AMI, with for-sale housing serving up to 100% AMI. Additionally, homeownership assistance programs, such as down payment assistance, serve households up to 120% AMI, while the fund also provides for housing and support services for people experiencing homelessness and those living below 30% AMI. The fund is expected to receive $150 million over 10 years to support affordable housing development and preservation.[10]

City of Santa Cruz, California – Affordable Housing Trust Fund

The City of Santa Cruz created an affordable housing trust fund in 2003 to accomplish a number of different goals, including creating new affordable units, preserving existing affordable housing, assistance with multifamily rehabilitation programs, conversion of market rate units to affordable housing, construction of accessory dwelling units, acquisition and rehabilitation of potential limited equity cooperatives, first time homebuyer loans, and predevelopment loans and grants to assist nonprofit and for profit developers with studies for potential affordable housing projects. The city prioritizes projects aimed towards extremely low-income (less than 30% AMI) and very low-income (30-50% of AMI) for funds, though funds are also distributed to projects aimed at low-income (50-80% of AMI) and moderate-income (80-120% of AMI) residents. The fund is capitalized through payments made in-lieu of creating affordable units under Santa Cruz's inclusionary zoning ordinance.[11]

C. Housing Trust Funds in North Carolina

A number of jurisdictions in North Carolina have created housing trust funds or similar tools to further affordable housing:

Asheville Housing Trust Fund

The city of Asheville established a housing trust fund in 2000 and has used it to provide long-term, low interest loans for affordable housing development. See the program spotlight below for more information.

Charlotte Housing Trust Fund

The city of Charlotte founded its Housing Trust Fund in 2001 in order to provide financing for affordable housing. Charlotte's HTF is capitalized through voter-approved housing bonds; more than $136 million in housing bonds has been committed to the HTF since inception. The program is administered through Charlotte's Housing and Neighborhood Services Division. Charlotte HTF has financed 7,278 new and rehabilitated affordable housing units since its creation. Impressively, of that total, 3,227 were for households earning less than 30% of the AMI. Both non-profit and for profit developers are eligible to apply for funds, and the target income is 60% of A MI or below. The HTF targets multi-family rentals for funds and typically releases funds as soft loans for Tax Credit developments and grants and deferred loans for other developments.[12]

Program Links

Denver Affordable Housing Dedicated Fund
https://www.denvergov.org

Santa Cruz Affordable Housing Trust Fund
http://www.cityofsantacruz.com

Asheville Housing Trust Fund
https://www.ashevillenc.gov

Charlotte Housing Trust Fund
https://charlottenc.gov

Chatham County Housing Trust Fund
https://www.chathamnc.org

Chatham County Housing Trust Fund

Chatham County established a housing trust fund in 2018 with an initial budget of $200,000. The HTF was is a line item under the General Fund in Chatham County's 2019 Fiscal Year Budget. HTF aims to provide low-interest loans to encourage development projects that preserve or create additional workforce or affordable housing projects. In addition to providing low-interest loans, Chatham County's HTF will provide small grants for projects and fund studies in areas the county (or towns within the county) see as priorities.[13]

Program Spotlight: Asheville Housing Trust Fund

The City of Asheville created a Housing Trust Fund in 2000 to provide support in the form of long term, low-interest loans, for affordable housing development. The Housing Trust Fund is capitalized using revenue from General Obligation (GO) Bonds as well as from property taxes ($0.01 per every $100).

Asheville does not provide grants through its HTF; only loans are given. The city prioritizes rental housing over homeownership projects for the receipt of trust fund loans. Asheville has a goal of a minimum of 75% of the annual appropriations to rental projects. In general, multi-family properties and larger-scale developments with higher density are preferred. The city notes that one-bedroom and studio units are the most needed. Further, the city encourages developers applying for trust-fund loans to include green technology and sustainable practices in their development proposals. Eligible project types include:

- Construction of new housing for sale or rental (including land acquisition and hard costs)
- Conversion or adaptive reuse of existing non-residential structures for housing
- Purchase and rehabilitation of existing substandard multi-family housing units that do not meet the city's minimum housing code
- Manufactured housing and modular construction (manufactured units must be title as real property, comply with all city codes, and be attached to a permanent foundation)
- Construction of container homes, tiny homes, and other innovative housing structures
- Down payment assistance loans

Housing Trust Fund loans are not available to individuals looking to build or renovate their own home, and projects must have a minimum of 20% of the total project units dedicated as affordable.

In terms of affordability limits, rental units must be at or below maximum program rents and the first tenants must have households below 80% of the AMI (adjusted for family size). Permanent loans for rental projects are given at a two percent (2%) interest rate for a term of up to 30 years. However, special loan terms exist for rental projects for those making 60% or less of AMI: such projects are eligible for either no interest loans or two percent (2%) principal-deferred loans, each for up to 30 years. For homeownership developments, units must be sold to buyers whose total housing obligations (principal and interested repayments, taxes, hazard insurance, and mortgage insurance) does not exceed 30% of the buyer's household income. Additionally, buyers' total household income cannot exceed the area median income as established by HUD.

Asheville's Housing Trust Fund has been successful in providing financial resources for affordable housing and is also used in conjunction with the city's other development tools. As of November 2018, there are 660 affordable housing units either completed or in various stages of development that have utilized funding from Asheville's HTF.[14]

D. Takeaway

Housing Trust Funds are an effective way for local governments in North Carolina to address affordable housing concerns. The biggest asset of HTFs is their flexibility. Unlike many federal programs (Community Development Block Grants, HOME Program, etc.), HTFs have fewer legal restrictions, which allows local governments to tailor their resources to particular housing needs within the community. Additionally, HTFs can be funded via a variety of mechanisms. General obligation bonds, and direct funding streams (such as property or real estate taxes, discussed below), have been used to fund Housing Trust Funds in North Carolina. HTFs can be created at the municipal and county level. Due to the flexibility in both funding and expenditure, HTFs are useful tools in both urban and rural contexts.

Housing Trust Funds also possess important limitations. Most trust funds, including Asheville's HTF, do not provide the deep subsidies needed to reach very-low-income households. Charlotte's HTF, however, has had success in funding affordable housing for households in very-low-income categories. Additionally, one report has detailed best practices for developing HTF polices that address housing for extremely-low-income household. The practices include cross subsidizing lower-income housing from rental income generated by higher-income housing within the same development; providing ongoing operating and maintenance costs subsidies; and providing project or tenant-based assistance to cover the subsidy gap.[15] In addition to subsidy concerns, HTFs that are dependent on revenue streams, such as real estate taxes, are often at the mercy of changing economic conditions and local real estate markets. Though HTFs possess limitations, they are a vital tool in a local government's toolbox for addressing affordable housing issues. The flexibility of HTFs allow them to be used in conjunction with other affordable housing policies.

Useful Resources

Datsur, Anderson, and Brooks. 2011. "Model Approaches to Providing Homes for Extremely Low Income Households," Center for Community Change. Link.

"State and Local Housing Trust Funds." Housing Trust Fund Project. Link.

1.2 Dedicated Revenue Sources

A. Overview

Dedicated revenue streams provide continuous funding for various affordable housing programs. Typically, dedicated revenue streams provide for Housing Trust Funds (explored in Section 1.1), though they can also fund other affordable housing programs. They provide a continuous stream of revenue and can be allocated in a myriad of ways. The ability of local governments to raise revenue and spend money on housing is regulated differently in each state, so there are a wide variety of revenue streams that have been used to fund affordable housing programs. Common examples include general obligation (GO) bonds, property taxes, sales taxes, real estate transfer taxes, and dedicated housing fees (such as commercial linkage fees or housing impact fees).

B. Dedicated Revenue Sources in the US

Miami-Dade County

Miami-Dade County's Homeless Trust earns $20 million per year from a 1% tax on food and beverages at liquor licensed restaurants grossing more than $400,000 a year.[16]

Fairfax County, Virginia - Penny for Affordable Housing

Fairfax County created the Housing Flexibility Fund (now known as Penny for Affordable Housing) which sets aside one penny from the real estate tax rate for affordable housing. From 2006 to 2017, the fund provided $216.8 million for affordable housing in the County. The fund is designed as a flexible tool that can be used to finance and preserve affordable housing.[17]

C. Dedicated Revenue Source in NC

A number of local governments in North Carolina have developed "Penny for Housing" mechanisms, where certain revenue from property taxes is earmarked for affordable housing. Additionally, GO Bonds have been widely used by local governments in North Carolina to fund affordable housing.

Chapel Hill – Penny for Housing

The town of Chapel Hill dedicates $0.01 per $100 for affordable housing. The program earns approximately $700,000 per year to fund affordable housing programs.[18]

Charlotte – 2018 Housing Bonds

Charlotte has dedicated $50 million from voter-approved 2018 GO Bonds for affordable housing. The bonds will fund a city initiative to increase and preserve affordable housing for residents at all income levels.[19]

Durham – Dedicated Housing Fund

The city of Durham established the Dedicated Housing Fund in 2011 with $0.01 per $100 in property taxes. From Fiscal Year 2013-2017, the city collected $13,628,450 for affordable housing programs.[20] In 2017, the allocation was changed to $0.02 per $100.

Raleigh – Penny for Housing

The city of Raleigh passed a budget in 2017 that dedicated $0.01 of property tax revenues to affordable housing. The city will collect $5.7 million per year for affordable housing.

D. Takeaway

Dedicated revenue sources are extremely useful ways to fund affordable housing programs. GO Bonds are widely used in North Carolina to fund affordable housing projects. However, GO Bonds are subject to voter approval, and new bonds have to be issued to generate new funding. On the other hand, tax-based revenue streams, can provide continuous funding for affordable housing programs. Due to legal constraints, dedicated tax-revenue streams in North Carolina have largely been limited to Penny for Housing tax programs. Local governments in North Carolina do not have enabling authority to adopt real estate transfer taxes. However, even when local governments did possess statutory authority, real estate transfer taxes were not politically feasible. From 2007-2011, counties in North Carolina had the authority to adopt real estate transfer taxes, subject to a referendum. However, all 24 counties that proposed real estate transfer taxes were denied by voters.[21] Local governments in North Carolina weighing options for affordable housing finance should look at the various existing revenue sources that have been adopted for guidance.

Program Links

Miami-Dade County Homeless Trust
http://www.homelesstrust.org

Fairfax County Penny for Housing
https://www.fairfaxcounty.gov

Chapel Hill Penny for Housing
https://www.chapelhillaffordablehousing.org

Charlotte 2018 Housing Bonds
https://charlottenc.gov

Durham Dedicated Housing Fund
https://durhamnc.gov

Raleigh Penny for Housing
https://www.raleighnc.gov

1.3. Community Land Trusts

A. Overview

Community Land Trusts (CLTs) are a unique model of shared equity homeownership. CLTs are typically characterized by a dual ownership structure. In the classic model, CLTs own and hold individual parcels of land, separate from any improvement on the land (i.e. house). The CLTs will then provide a ground lease giving exclusive use of the property to individual homeowners. The homeowners in turn own the improvements on the land. Typically, the ground lease runs 99 years and is renewable and inheritable.

Most CLTs operate in a manner that ensure permanent affordability. CLTs often retain the right to repurchase improvements on land when they are sold. Additionally, resale prices are often structured through a formula that ensures the unit is affordable to new buyers. While resale prices are capped, sellers are typically able to share in the appreciation. In addition to the mechanisms ensuring affordability, CLTs are often organized around significant community involvement. The most common governance structure of CLTs involves a tripartite governing structure: one-third of the board is derived from individuals who lease land from the CLT (i.e. residents); one-third of the governing board is derived from residents in the geographic area of the CLT who do not lease land from the CLT; and one-third of the governing board is derived from community leaders or those who provide funding or technical support to the CLT.[22]

CLTs do not necessarily have to be partnered with local governments. The first CLTs originated in the 1970s and were independent non-profit organizations. However, local governments have increasingly played roles in the financing of CLTs in the 1990s and 2000s. Partnering with or creating a CLT can be an effective method for local governments to administer affordable housing in their communities. Local governments can support existing CLTs with funding, or can instigate the creation of CLTs designed to work in tandem with local housing policy.

B. Local Government CLTs in the United States

Chicago Community Land Trust

The city of Chicago, Illinois created the Chicago Community Land Trust in 2006. Chicago created the land trust because much of the city's affordable for-sale housing units were not remaining affordable past the initial homeowner. The primary funding mechanism for new units in the Chicago CLT is through private developers complying with the city's inclusionary zoning policy. The income limit for land trust units is 100% or less of the AMI. The Chicago CLT is a nonprofit organization housed within Chicago's Department of Housing and Economic Development. The Board of Directors is appointed by the Mayor, with the consent of Chicago City Counsel, and includes community-based organizations, developers, banks, and members of the legal community. Chicago's CLT currently manages 100 units, with an additional 30 under development.[23] Once the CLT administers 200 units, the one-third of the Board will include Chicago CLT homeowners.[24]

C. Local Government CLTs in North Carolina

There are several CLTs operating in North Carolina with varying levels of scale. This section only focuses on the larger CLTs in operation in North Carolina.

Program Links

Chicago Community Land Trust
https://www.chicago.gov

Community Home Trust
https://communityhometrust.org

Durham Community Land Trust
https://www.dclt.org

Community Home Trust

The Community Home Trust operates in Orange County and sold its first home in 2000. For information, see the detailed spotlight below.

Durham Community Land Trust

The Durham CLT was established in 1987 by a group of neighborhood residents in the West End neighborhood of Durham. The CLT was founded as a response to rising housing prices, and absentee landlords in the community. Over time, the DCLT has grown to operate 282 total units. Of the 282 units, 230 are rental units, while 52 units are single-family owned homes. The DCLT operates similar to the classic model, though its operation of rental units distinguishes it from the majority of CLTs which operate exclusively as an ownership model. The governance structure of the DCLT operates in accordance with the traditional model described above. Rental units are rented to those making 60% of the AMI or below, and Housing Choice vouchers are accepted. Prospective owners must have a total household income of 80% or less of the AMI and must qualify for a home mortgage through lenders partnered with the DCLT. DCLT's function as a "hybrid" CLT, operating both land trust homeownership units and rental housing units, serves as an example of the flexibility of CLTs. While the DCLT was founded independently of the city of Durham, the city does provide support for the DCLT.[25]

Program Spotlight: Community Home Trust

The Community Home Trust was established in 2000 and operates in Orange County. The CHT operates in accordance with the traditional model of community land trusts: CHT homes are required to be the primary residence of homeowners and yearly appreciation is tied to HUD's standard of AMI for a family of four published annually, keeping homes permanently affordable. Ownership is conveyed through the typical 99-year ground lease and applicants must earn 80% or below of the AMI. The governance structure also follows the tripartite structure outlined in the overview above. Applicants making above 80% but below 115% of the AMI are limited to purchasing unsubsidized properties in CHT's inventory. CHT homes typically sell for between $90,000 and $155,000, which equates to roughly 30-50% below median value for the area.

While the structure of the CHT is similar to the classic model, its coordination with local governments in Orange County is unique. The CHT was developed to counter problems with subsidized affordable housing remaining affordable to low-income residents in Orange County. Due to local government policy, the CHT serves as one of the main providers of affordable homeownership in Orange County. Similar to the Chicago Community Land Trust, the CHT receives units through Chapel Hill's inclusionary zoning policy. Chapel Hill, Carrboro, and Orange County also provide operational funding to the CHT. Essentially, the CHT is contracted to administer the inclusionary zoning policies in Chapel Hill: the CHT does all the marketing for properties, finds buyers, contracts with the buyers and contracts with developers (subject to the buyer's ability to close).

The Home Trust operates 266 permanently affordable homes and 52 rental units in Orange County and serves as a model for how local governments can partner with or create CLTs to develop permanently affordable housing.[26]

D. Takeaway

CLTs are an excellent method of creating and maintaining permanently affordable housing. Unlike other forms of subsidized housing, the appreciation caps inherent to most CLT models ensure that local government investment in affordable housing ownership is not limited to the first homeowner. Additionally, studies have found that CLT homeowners have a much lower foreclosure rate than traditional methods of homeownership.[27] A local government looking at ways to invest in affordable housing opportunities should strongly consider supporting a CLT. While not every local government in North Carolina may wish to utilize an inclusionary zoning policy, they can still utilize the CLT model to administer affordable housing. The key aspect of the success of the Home Trust is its coordination with local governments in Orange County. Even if a local government does not wish to adopt an inclusionary zoning policy, it can still provide substantial support to a CLT through startup funding and ongoing operational support.

Useful Resources

Davis & Jacobus. 2008. "The City-CLT Partnership: Municipal Support for Community Land Trusts." Lincoln Institute of Land Policy. Link.

Miller. 2013. "Community Land Trusts: Why Now Is the Time to Integrate This Housing Activists' Tool Into Local Government Affordable Housing Policies." ***Zoning and Planning Law Report***. Link.

The Lincoln Institute of Land Policy has published an excellent resource on effective methods for municipal support for Community Land Trusts. Local governments aiming to create a CLT must develop a comprehensive strategy to ensure that the CLT remains successful. The Lincoln Institute's report has detailed information regarding how to: start and implement a local government-CLT model, support ongoing CLT activities, create effective CLT regulations, develop fair taxation for assessment of CLT homes, develop contingency plans for possible hurdles, and analyze challenges in the local government-CLT model.[28]

2 - Policies that Promote Private Development of Affordable Housing

In addition to funding affordable housing directly, local governments can develop regulations that encourage, or sometimes mandate, that private developers build affordable housing. Section 2.1 explores mandatory inclusionary zoning, while section 2.2 explores voluntary incentive-based policies.

2.1 - Inclusionary Zoning

A. Overview

Inclusionary zoning (sometimes referred to as inclusionary housing) is one of the most hotly debated tools in local government affordable housing policy. Though all inclusionary zoning policies share a common nucleus, inclusionary zoning is actually a broad term that describes a wide array of policies. At its core, inclusionary zoning is a tool by which local governments require a certain percentage of newly built privately developed housing units to be set aside at a pre-determined affordable price (often 80% of the Area Median Income or AMI, though this can vary). Typically, inclusionary zoning policies require that affordable units remain affordable for a specified period of time (often 15-20 years, though again this varies). For purposes of this guide, inclusionary zoning only refers to policies that require developers to build affordable housing, rather than incentive based policies (sometimes termed voluntary inclusionary zoning).

B. Inclusionary Zoning in the US

Researchers have estimated that around 200 cities, counties, and towns in the United States have adopted some form of local inclusionary zoning policy.[29] Inclusionary zoning policies are typically included in municipal or county zoning codes, though they can also be found in comprehensive plans.[30] Inclusionary zoning policies are difficult to isolate, especially in larger metropolitan areas, as there are often multiple local governments in one metropolitan area. For instance, a large metropolitan area could have inclusionary zoning policies from the principal city, various suburbs, and the county, each with varying requirements. That said, there are several metropolitan areas with robust inclusionary zoning policies. Washington, DC, the San Francisco Bay Area, and the greater suburban Boston all have inclusionary zoning policies.

Washington, D.C.

The Washington, D.C. metro area encompasses Virginia, Maryland, and the District of Columbia, each with their own distinct land use policies. Montgomery County, Maryland adopted an inclusionary zoning policy in 1974, making it one the first inclusionary zoning policies implemented in the US. There are 11 different localities that have adopted inclusionary zoning policies in the DC area, with varying requirements. Affordability requirements among the policies range from 1-20%, and income eligibility limits are very broad. Most of the income eligibility levels are from 65-70% of AMI, with several local governments within the metro area making provisions for income eligibility at 30% AMI or below. As of 2003, 15,252 units had been created under inclusionary zoning policies in the DC metro area.[31]

C. Inclusionary Zoning in NC

Chapel Hill

The town of Chapel Hill has adopted an inclusionary zoning policy that only applies to homeownership units, and requires 15% of developments of five or more to be set-aside to persons making 65-80% of the AMI. In exchange for complying with the ordinance, developers receive a 15% density bonus and a floor area bonus based on number of bedrooms. Developments in the Town Center are subject to a reduced set-aside requirements of 10%, though these developments do not receive density bonuses for complying with the requirement. The zoning policy also allows for in-lieu payments instead of actual unit construction at the discretion of the Town Council, with the proceeds going towards affordable housing production. Finally, developers are encouraged, but not required, to apply the inclusionary zoning ordinance to rental units.[32] Since implementation, staff from Chapel Hill estimate that 169 units have been constructed under the ordinance, with another 91 units committed.[i] Additionally, staff estimate total in-lieu fees of $1,802,350, with another $1,058,000 committed under the ordinance. Chapel Hill's voluntary rental unit policy has resulted in 62 completed units, with another 35 units committed, and payment in-lieu fees received of $1,148,960, with another $150,000 committed.[33]

Program Links

Maryland Moderately Priced Dwelling Unit Program
https://www.montgomerycountymd.gov

Chapel Hill Inclusionary Zoning Program
https://www.townofchapelhill.org

Davidson Inclusionary Housing Program
https://www.ci.davidson.nc.us

Manteo Affordable Housing Program
https://www.townofmanteo.com

Davidson

The town of Davidson implemented an inclusionary zoning policy that applies only to homeownership developments of more than two units. The town requires 12.5% of any development to be affordable, with certain exceptions. Developments of seven or fewer units must provide one affordable housing unit or make a payment in-lieu. Developed properties must be sold at varying intervals below 120% of AMI, with at least 30% of the required affordable units being set aside for incomes at 50% or below.[34] Additionally, no more than 20% of the affordable units can be set aside for households making 80-120% of the AMI. Davidson's policy has been changed since its adoption: in 2015, two developers sued the town, arguing that the policy exceeded the authority granted to local governments. The lawsuit was settled

[i] Units and in-lieu fees that are committed have been pledged by develovers to the town in accordance with the inclusionary zoning ordinance. These unit totals and fee amounts are subject to changed based on final development totals.

out of court, with the town relaxing its requirements. Prior to the changes, developers could only substitute payment in-lieu for 30% of the town's affordable unit requirement. Additionally, the payment in lieu was changed to $26,550, down from $53,100 before the policy change. As of 2016, 64 homeownership units were created under Davidson's inclusionary zoning policy.[35]

Manteo

The town of Manteo has developed an inclusionary housing policy that applies to all new developments with five or more for-sale (rental projects are concluded) residential units or land subdivisions that result in five or more residential lots. The policy requires that 20% of all units constructed on covered developments be affordable and located on the development site (along with market rates units). Affordable units are priced according to a formula: 72.5% of the AMI multiplied by 3.5. For subdivisions, lots are priced at 72.5% of AMI divided by four. The inclusionary zoning policy includes restrictions on where affordable units can be located and physical characteristics of the units or lots. For complying with the inclusionary policy, developers are granted certain incentives, including density bonuses equivalent to one market rate unit or lot per every affordable unit or lot produced. Additionally, if developments are in compliance with the policy (and upon written request by the developer), all applicable development fees, including building permit fees, plan review fees, inspection fees, and application fees, are waived (water and wastewater fees are charged to the developer at market rates).[36]

D. Takeaway

Evidence suggests that inclusionary zoning can be an effective tool to further affordable housing. However, even advocates of inclusionary zoning recognize that it is not a silver bullet solution to affordable housing shortages. Even locations where inclusionary zoning has been effective, such as in Washington DC, still suffer from affordable housing shortages. In North Carolina, the limits of inclusionary zoning are confounded further by uncertainties around its legality and its limitation to ownership projects. Thus, while a potentially effective tool, it is important for local governments to consider the limitations of adopting an inclusionary zoning program.

Inclusionary zoning is a complex topic in North Carolina and is discussed extensively in other resources. The School of Government at the University of North Carolina has a number of useful resources that delve into inclusionary zoning in North Carolina.[37]

Useful Resources

Graham. 2004. "Locally Initiated Inclusionary Zoning Programs: A Guide for Governments in North Carolina." (Book) Link.

Mulligan. 2010. "A Primer on Inclusionary Zoning." Coates' Cannons: NC Local Government Law, UNC School of Government. Link.

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2.2 - Incentive Based Policies

While inclusionary zoning policies mandate that private developers contribute to affordable housing production, there are also policies that incentivize developers to contribute affordable housing units to communities, which can be less controversial than inclusionary zoning programs.

A. Incentive Policies Overview

Density Bonuses

Density bonuses can be granted for projects where developers agree to include a certain number of affordable housing units. Density bonuses provide developer with the ability to build more units than would otherwise be allowed, thus offsetting the costs of providing the affordable units and potentially increasing profits.[38]

Expedited Permitting

Reducing cost to developers can make affordable housing projects more enticing and encourage developers to participate in affordable housing programs. One simple way reduce costs for developers is to streamline permitting processes by fast-tracking review and permitting of affordable housing projects. These practices can make affordable housing projects more palatable to developers and do not require local governments to directly spend money for affordable housing.[39]

Impact Fee Waiver

Impact fees are often levied on new developments to pay new or existing infrastructure, such as schools. Impact fees can add significant cost to development. By reducing or waiving impact fees, local governments can make the development of affordable housing more enticing for developers.[40]

Inclusionary Upzoning

Inclusionary upzoning is the practice of tying affordable housing requirements to a developer request for a zoning change that would allow greater density or taller height limits. Inclusionary upzoning policies are typically voluntary and can provide a work-around for local governments in states where inclusionary housing is banned or in a legal grey area. Inclusionary upzoning policies can be built into local land use plans and applied to designated areas or neighborhoods, with incentives tied to the provision of affordable housing. Alternatively, inclusionary upzoning policies can be applied whenever a developer seeks a site-specific zoning change, without any limitation to a particular geographic area.[41]

Tax/Fee Incentives

Many local governments have developed tax or fee incentives for developers who include affordable housing units within development projects.[42] A number of local governments waive development fees, such as permit fees or sewer fees, to developments that include affordable housing units. Additionally, local governments have developed policies that reduce property tax burdens on developments that include affordable housing.

Use of City-Owned Land

Local governments often own parcels of land that are vacant, underutilized, or no longer useful for their original purpose. A number of local governments have dedicated such land to be used for affordable housing. Land can be made available to developers at a free or reduced cost to developers. Pledging city-owned land for affordable housing is particularly effective in communities where land suitable for development is scarce.[43]

B. Incentive Based Policies in the US

Arlington County, Virginia – Inclusionary Upzoning

Arlington County allows property owners the right to develop under the existing zoning code. However, the county also created a new form-based code that allows developments with greater heights and densities in the Columbia Pike corridor, a major transportation thoroughfare, if certain affordability requirements are met. While the original code generally allowed buildings to be three or four stores, the new code allows six to eight stories (higher in some areas) if developers set aside 20 and 35 percent of net new units as affordable housing. The units must be made available to households with incomes between 40 and 80% of AMI for 30 years.[44]

Fairfax County, Virginia – Plan For Tyson's Corner (Inclusionary Upzoning)

Fairfax County's plan for Tyson's Corner includes provisions for tying affordable housing to rezoning requests. Tyson's Corner is a sprawling commercial center with several Metrorail stations. Developers applying for a rezoning in the district are required to include 20 percent low- and moderate- income housing and in return receive substantial increases in allowable floor area ratio (FAR), thus allowing for increased density and intensity of land use. Office, retail, and hotel developments can also take advantage of the incentives, provided they make contributions to the county's affordable housing trust fund. Developers can make one-time contributions of $3.00 per square foot or annual payments of $0.25 per square foot for 16 years. As of late 2013, over 1,000 housing units were under construction, with an additional 13,640 units approved from development. Staff from the county estimated that 2,500 affordable units would be created for households earning less than 120 percent of AMI, and a further 1,680 units would be created to serve households at

Program Links (US)

Arlington County Columbia Pike Plan
https://projects.arlingtonva.us

Fairfax County Tyson's Corner Plan
https://www.fairfaxcounty.gov

New York City 421a Tax Abatement
https://www1.nyc.gov

Santa Fe Fee Waivers
https://www.santafenm.gov

less than 70 percent AMI. Rental units must remain affordable for 50 years and owner-occupied units must remain affordable for 30 years. Staff from Fairfax County estimated that at least $64.5 million would be created in impact fees from the upzoning policy, which would all be spent in the Tyson's Corner development area.[45]

New York City – 421a Tax Abatement

New York's 421a program offers property tax abatements to developers for newly constructed multi-family buildings in specified areas of the city if they agree to keep 20% of units available to low-income households. The program is intended to increase the production of affordable housing rental units in lower housing cost areas (outside of the Manhattan and other higher-priced areas, such as Brooklyn Heights and Park Slope). Property tax exemptions last for 15 years, but developers can qualify for longer exceptions with increased provisions for affordability.[46]

Santa Fe, California – Waiving Fees

The city of Santa Fe developed a policy that accelerated the process of housing developments that included at least 25% affordably priced homes. The city also waived or reduced various impact, processing, and permitting fees for affordable housing. The policy has led to an uptick in affordable housing development in the city.[47]

C. Incentive Based Policies in North Carolina

Asheville – Land Use Incentive Grant

The city of Asheville's Land Use Incentive Grant uses property tax relief to incentivize developers to create affordable housing. The policy is examined in more depth in the Program Spotlight below.

Asheville – Use of City Land for Affordable Housing

The city of Asheville had identified three city-owned parcels that could be suitable for affordable housing. In 2016, Asheville passed a $25 million housing bond, with $15 million earmarked for repurposing city-owned land into affordable housing. The city is reviewing proposals for development at the three sites, and anticipates that the sites could hold as many as 550 new affordable rental units.[48]

Charlotte – Voluntary Mixed-Income Housing Development Program

In 2013, Charlotte passed the Voluntary Mixed-Income Housing Development Program. The program seeks to incentive private developers to include affordable units in certain mixed-use zoning districts. Developers are granted a density bonus for complying with the program standards.[49] However, no developer has yet utilized the density bonus.[50]

Chatham County – Impact Fee Reimbursement

Chatham County offers reimbursement for school impact fees for developers that create affordable housing units. The program was established in 1999, but initially only applied to non-profits building owner-occupied units. Recently, the policy was expanded to cover for-profit developers as well as renter occupied housing developments.[51]

Watauga County – Voluntary Development Option

Watauga County includes a voluntary development option in the subdivision code. The option encourages developers to build affordable units that are for sale or rent at 30% of the AMI, adjusted for household size. There are certain requirements that accompany the development option, including minimum parking standards, exterior and design standards, and interspersion with market rate units. Developers creating affordable units sign an agreement with the county, providing that the units remain affordable for the life of the project. Applications for development that include affordable units receive higher priority than market rate developments, and highest priority is granted to developments that include collaboration with non-profit developers devoted to affordable housing or community land trusts. Further, review fees are waived for affordable units that comply with the voluntary development option.[52]

Program Links (NC)

Asheville Land Use Incentive Grant
https://www.ashevillenc.gov

Asheville Use of City Land for Affordable Housing
https://www.ashevillenc.gov

Charlotte Voluntary Mixed-Income Housing Development Program
https://www.cmhp.org

Chatham County Impact Fee Reimbursement
https://chathamnc.legistar.com

Watauga County Voluntary Development Option
http://www.wataugacounty.org

Wilmington Mixed Use District Density Bonus
https://library.municode.com/nc/wilmington

Wilmington – Mixed Use District Density Bonus

In its city code, the city of Wilmington provides a density bonus of 0.125 floor area ratio, or four dwelling units per acre, for the provision of affordable housing. To qualify for the bonus, developers must ensure that 15-30% of the residential units in a development remain affordable. The units must be priced at 80% or less of the county AMI; units must also be able to be rented or purchased without households spending more than 30% of their income. Additionally, affordable units must have a comparable unit distribution to the market rate units in the project, and must remain affordable at a minimum of 5 years for home ownership units and 10 years for rental units.[53]

Program Spotlight – Asheville Land Use Incentive Grant

In 2010, the city of Asheville adopted the Land Use Incentive Grant policy (LUIG), and implemented it in 2014. The LUIG is designed to encourage the development of affordable, workforce, and low-income rental housing by awarding cash incentives to developers who address the city's affordable housing goals. To qualify for a grant, projects must have at least three or more dwelling units. Further, at least 10% of the units must be affordable for households earning 80% or less of the AMI for a minimum of 20 years.

The size of the grants are based on a point system that is constructed similarly to North Carolina's Qualified Allocation Plans for Low Income Housing Tax Credits. Various criteria are given point values and the higher the point score, the larger the potential subsidy. Every 10 points qualifies a project for a grant equivalent to one year of the increased property taxes for the new development (in other words, the difference between the previous property value and the higher property value after development) as well as a grant equivalent to a 10% reduction in related fees and charges, such as zoning permits, building permits, driveway permits, plan review fees, and water service connection fees. Grants can be earned for a maximum of 10 years.

The main way for projects to earn points is through affordability. 20 points are automatically assigned for projects setting aside 10-20% units at 80% or less of the AMI. It is possible to earn up to 100 points for developments that include 90% or more affordable units. Projects that provide low-income rental housing, equating to 60% or less of the AMI, and accept Housing Choice Vouchers are eligible for additional points. Workforce housing units (100% of AMI or less) earn points as well, though they are less than the points awarded for low-income units. Projects that provide for affordability longer than the 20-year term earn more points. Finally, in addition to earn points through affordability, projects can earn points by being located to public transit, schools, full-service grocery stores, and designated job or city centers.

While the LUIG is still relatively new, it has been successful in brining private developers to the table to create affordable housing. As of November 2018, there are 191 affordable units in various stages of development in Asheville's affordable housing development pipeline. The program is particularly well suited to develop units near the 80% AMI mark. However, the program is not capable of solving affordable housing issues in Asheville on its own. It is used in conjunction with a range of other policies and programs, including the Asheville Housing Trust Fund, CDBG funds, and HOME Funds. Further, the LUIG has trouble reaching deeper subsidy levels of 60% AMI or lower. Despite the LUIG's promise, it is still considered a work in progress and has been rewritten to be more accessible to private developers.[54]

D. Takeaway

Incentive-based policies can be effective tools for affordable housing development and are less controversial than inclusionary zoning. However, a large number of incentive-based policies are used extremely infrequently, if at all. One of the major hurdles to crafting an incentive-based policy is creating incentives for developers that adequately offset the costs of including units below market-rate.[55] Asheville has recognized that bringing private developers to the table requires equating incentives to dollar amounts and developing policies that relay to developers the precise financial benefit they will receive.[56] Compared to many incentive-based programs, such as density bonuses, Asheville's LUIG has been successful in brining developers to the table. Many developer incentive programs are written from a city's perspective, and leave developers uncertain how much they will financially gain from utilizing the incentive. On the other hand, the LUIG, with its detailed point system, relays to developers in dollar amounts what they will gain by including affordable housing in their projects.

Incentive-based policies can serve as a way for local governments to bring private developers to the table to increase affordable housing and can be used in conjunction with existing local funding tools as well as federal or state funds. However, one of the challenges of incentive tools is subsidy depth. In many markets, it is very difficult for developers to create financially viable projects with subsidy levels deeper than 80% of AMI. Thus, incentive programs should be used in conjunction with other programs in order to address housing issues for low- and very low-income households.

Useful Resources

Hickey. 2014. "Inclusionary Upzoning: Tying Growth to Affordability." Center for Housing Policy. Link.

Freeman & Schuetz. 2016. "Producing Affordable Housing in Rising Markets: What Works?" Penn Institute for Urban Research. Link.

3 - Policies that Encourage Naturally Occurring Affordable Housing

A. Overview

In addition to implementing policies for subsidized housing, local governments can help in the production affordable housing by crafting policies that encourage the development of naturally occurring affordable housing. Naturally occurring affordable housing refers to housing that is affordable without any public or private subsidy. Many zoning codes and regulatory ordinances impede the development of naturally occurring affordable housing. Below are ways to re-think land use and zoning codes and reduce barriers to affordable housing.

Accessory Dwelling Units

Accessory dwelling units (ADUs), also known as “granny flats” or “in-law units” are secondary housing units located on a lot with a larger primary housing unit. ADUs can provide a lower-cost unit that are often far more affordable than traditional homes. Many zoning codes, however, ban ADUs or greatly restrict their application.[57]

Increasing Allowable Density

Increasing allowable density in zones allows developers to create more units in a given space by making development more cost-effective. Density increases can increase the overall supply of housing, leading to more housing choice for residents. Lland use and zoning codes limit density, thereby restricting the supply of housing. One way that local governments can increase density is to upzone a neighborhood or geographic area. Typically, upzoning involves density increases, height or building footprint increases, parking reductions, and/or permission to build multi-family housing where it was previously prohibited. Upzoning offers a way to create more mixed-use districts and increase the supply and availability of housing.[58]

Minimum Lot Sizes and Setbacks

Another way that local governments can incentive naturally occurring affordable housing is through the reduction of minimum lot sizes and setbacks required for new residential development. Reducing lot sizes and setbacks increases density and makes it cheaper for developers to build housing.[59]

Missing-Middle Housing

Coined by architect and urban planner Daniel Parolek, missing-middle housing refers to multi-unit housing types larger than a detached single-family home, but smaller than high-rise apartment developments. Housing types in the missing-middle include duplexes, multiplexes, townhomes, and small-scale apartment complexes. These housing types are referred to as “missing” due to traditional Euclidean zoning’s focus on either single-family residential zones or higher density multi-family zones. In addition to zoning hurdles, parking and building codes often impede development of missing-middle housing. Missing-middles housing types were far more prevalent in the early parts of the 20th century, before zoning codes began focusing on single family districts. Missing-middle housing types can benefit a wide range of residents, including single-parent families, aging-in-community seniors, recent college graduates, couples entering the housing market and adults with disabilities.[60]

A number of local governments have adopted missing-middle policies that include many of the regulatory changes described above. While specific policies vary by location, missing-middle changes have often included:

- Adding duplexes as an allowable use in more residential zones
- Adding triplexes as an allowable use in increased areas
- Reducing minimum lot sizes and setback requirements to all small-lot clusters of single-family homes or courtyard-style apartments
- Allowing ADUs as by-right land uses in single-family zones
- Reducing or eliminating off-street parking requirements for certain building types
- Allowing single sewer lines for building rather than each unit

B. Regulatory Easing Around the US

Olympia, Washington – Missing Middle Housing Project

The city of Olympia implemented a number of changes in their zoning code in order to foster development of missing-middle housing types. Many of the changes involved allowing missing-middle housing types in single-family zones. The changes involved permitting multiplexes in areas near transit corridors, allowing cottage homes with reduced parking, density, and design requirements, and permitting courtyard housing types (up to 12 units) in areas close to transit corridors. Additionally, ADU regulations were amended to be allowed by right in every single-family zone.[61] Finally, the changes implemented by Olympia do not require owners to live in the missing-middle housing types or ADUs, which could allow for more affordable or workforce rental units.

Portland, Oregon

Portland has eased many restrictions on ADUs, including waiving impact fees for developers building ADUs. Further, the city allows two ADUs per lot: one detached from the principle building unit and one within the principal building unit. ADUs are allowed to be up to 75% of the principal building in size. [62] As of March 2018, there were around 2,000 ADUs in Portland, representing less than 2 percent of home lots. There are approximately 116,000 properties that would be considered ADU friendly (around half of the taxable lots), and the city envisions that 10,000-20,000 ADUs would be an appropriate number for Portland to possess.[63]

In addition to easing restrictions on ADUs, Portland has also implemented form-based codes that regulate by building form, rather than building use. Some of Portland's single-family zones were rezoned to accommodate missing-middle housing types, and zoning along transit corridors was changed to allow for scaled transitioning between single-family and multi-family housing. Additionally, prototype standards were developed for each missing-middle housing type to meet parking, density, and design needs for each type of missing-middle housing.[64]

Minneapolis, Minnesota – 2040 Plan

Minneapolis adopted a comprehensive plan that provides extensive focus on affordable housing. One of the major steps in the plan was to eliminate single-family zoning. With over 75% of the city zone for single family, the plan will have a sharp impact on the characteristics of the city. The Minneapolis 2040 plan explicitly addresses longstanding racial equity issues stemming from earlier practices of redlining. The city envisions addressing affordable housing through a two-pronged approach: subsidy and supply. The zoning changes instigated by Minneapolis are aimed at increasing supply and expanding housing options.[65]

C. Regulatory Easing in North Carolina

Asheville – Small Scale Residential Infill

In 2017, the city of Asheville adopted new regulations designed to remove barriers to small scale residential infill projects. The regulations were aimed at meeting the city's housing needs and increase the variety of housing stock. Changes included: reducing minimum lot width standards for all residential zoning districts by 20%, incentivizing multi-family units by allowing additional multifamily units for every 1,000 square feet in excess of the minimum lot standard, and creating new neighborhood scale multifamily design standards.[66]

Program Links

Portland Missing Middle Housing
https://www.portlandoregon.gov

Olympia Missing Middle Housing
http://olympiawa.gov

Minneapolis 2040 Plan
https://minneapolis2040.com

Asheville Small Scale Residential Infill
https://www.ashevillenc.gov

Durham Expanding Housing Choices
https://durhamnc.gov

Durham – Expanding Housing Choices

The city of Durham has initiated a process, Expanding Housing Choices, aimed at reducing regulatory barriers to housing options. For more information, see the spotlight feature on Durham's Expanding Housing Choices.

Program Spotlight – Durham "Expanding Housing Choices" Initiative

Durham started the Expanding Housing Choices initiative in the Spring of 2018. The City-County Planning Department in Durham developed the initiative to address housing affordability concerns in the community as well as to keep up with the rapid growth of Durham. The Expanding Housing Choices initiative is similar to other missing-middle projects in other communities and aims to eliminate barriers to small-scale and naturally affordable multi-family housing types.[67]

There are three primary objectives of the initiative: 1) to allow more housing opportunities to vary the types of housing that are available in areas with the highest demand; 2) to stabilize housing prices by increasing supply to meet demand; and 3) to protect character and quality of neighborhoods where the changes occur.

A number of regulatory changes have been proposed to accomplish the objectives of the initiative. New regulations have developed that greatly expand the areas where ADUs are allowed. Duplexes have also been added as an accepted use in more zoning districts, especially within the urban tier (in or around downtown). Lot dimensions and standards have been altered to allow more opportunities for small-scale infill. Finally, a new housing type and lot dimension standard has been developed to allow “small houses.” Small houses are capped at 1,200 square feet, with a maximum height of 25 feet and a maximum building footprint of 800 square feet.

The Expanding Housing Choices project has not yet been fully adopted, though it is near completion. Substantial community engagement has been put into the initiative. A practitioner’s panel was put in place to flesh out feasible approaches to adopting regulatory changes, and public comment was sought in the form of surveys.[68]

City officials acknowledge that the Expanding Housing Choices project does not necessarily guarantee that new homes created via the regulations will be affordable. The city recognizes that it must be used in conjunction with a wide ranging approach to addressing housing concerns. However, the project is anticipated to help affordability concerns by increasing the overall supply of housing. Durham has experienced record growth in recent years, with housing prices rising 44% overall (and much more in more urban areas) since 2014. Durham hopes that encouraging smaller houses within in-demand areas should result in more affordable options within higher priced areas. Further, even if the newly created units are only marginally more affordable than other housing options in the area, the project could still improve overall housing affordability. For instance, the city has noted that the Expanding Housing Choices initiative could help with the process of gentrification: by increasing availability in high demand locations, fewer households will search in other middle income housing communities, which are often communities of color and/or economically vulnerable.[69]

D. Takeaway

Eliminating regulatory barriers to affordable housing will not by itself solve affordable ills. Further, because there is no subsidy involved, there is no guarantee that housing types created by missing-middle-type policies will result in truly affordable housing. Missing-middle-type policies, without a subsidy or affordability guarantee, could simply lead to the creation of luxury or high-priced housing options, rather than affordable options. Like the city of Durham recognizes, however, expanding housing choices and increasing density in targeted infill areas could greatly increase the housing supply. Similar to the housing policy concept of filtering, missing-middle policies can aid communities by increasing overall supply and easing demand on existing naturally occurring affordable housing options. Thus, even if the majority of housing units created via missing-middle policies are not affordable to low-income households (or moderate-income households), expanding housing options and increasing the overall supply of housing can still aid in affordability concerns by opening up other options for naturally occurring affordable housing.

In addition to meeting housing demand, missing-middle policies can aid in housing for the elderly. Officials from jurisdictions adopting missing-middle policies have noted that ADUs and duplexes (or multiplexes) are excellent ways for older households to remain in their neighborhoods. These residents have expressed interests in converting homes to duplexes and renting out the other unit, or building an ADU to live in and renting out the principal dwelling unit.

Most missing-middle or expanding housing options initiatives are fairly new and there is limited information available regarding their impact. However, the general topic of regulatory barriers to affordable housing has been a topic of discussion for decades. In the early 1990's, HUD released a policy report detailing the ways in which regulations stifled private development of affordable housing.[70] Later studies have found that zoning and land use controls are often responsible for high housing prices.[71] Most proponents of missing-middle policies argue that increasing the availability of housing through relaxed regulations should have a positive impact on affordable housing options within communities. Most missing-middle policies focus on maximizing the use of land and increasing density. As land is one of the major costs to development, maximizing its use could lead to increased affordability. Despite the promise, it will important to monitor missing-middle-type policies to ensure that they are not simply creating more luxury or higher priced housing options. Further, missing-middle policies and regulatory easing should be situated within a robust affordable housing plan, such as the Minneapolis 2040 plan to substantially increase both housing supply and subsidy.

Useful Resources

"The Missing Middle Housing Study." 2018. Montgomery County Planning Department, Montgomery, Maryland. Link.

"Missing Middle Housing Types." Missing Middle. Link.

Concluding Themes

This section addresses major themes in successful affordable housing approaches from both North Carolina and the rest of the United States.

Develop a Comprehensive Approach – There is No 'Silver Bullet' Solution

One of major themes gleaned from the research informing this guide is that there no one size fits all solution to affordable housing. Affordable housing is a complex and nuanced issue that requires an equally varied approach to address. For instance, Asheville's Land Use Incentive Grant is a great example of a policy that brings private developers to the table to create affordable housing. Though successful, however, it only addresses rental housing shortages at the 80% AMI level. The program does not address homeownership opportunities nor is it effective at reaching deeper subsidy levels. However, the city recognizes that the LUIG is not a silver bullet and that there are other resources, such as a local Habitat For Humanity affiliate, that addresses ownership opportunities for lower-income households.

Similarly, implementing policies aimed at addressing missing-middle housing types will not suddenly cure the affordable housing shortages in a community. However, they can address housing choice and supply, easing pressure on other affordable housing assets. The zoning changes in Minneapolis's 2040 plan is only one aspect of a multi-faceted approach to affordable housing.

To effectively further affordable housing goals, a comprehensive approach must be taken that involves the utilization of several policy approaches; creating or implementing one innovative policy or tool is not enough. Ideally, a local government would create a comprehensive strategy that includes a number of the policies outlined in this guide. For instance, a local government could create a Housing Trust Fund capitalized via funds from revenue bonds and a dedicated funding stream, invest in a Community Land Trust, develop an incentive based policy, such as Asheville's LUIG, and ease regulations in order to bolster housing supply. If a comprehensive strategy was adopted towards the creation of these tools, priorities could be established for each tool, each utilizing its strengths to address different areas of need. As incentive tools often are effective at creating rental housing at the low- to moderate-income level, other tools adopted (such as an HTF) could focus spending more on projects aimed at lower-income levels. In other words, though each tool significant strengths and weaknesses, several working under a unified set of priorities could create a strong approach that addresses multiple housing needs.

Affordable Housing Programs Require Significant Investment

Another reality of addressing affordable housing is that it requires significant money and resources from local governments. A common theme among local government housing officials is that local governments must be willing to spend money in order to have housing that is affordable in the long term.[72] As useful as some programs, such as Community Land Trusts, can be, there will still be unmet need for affordable housing. In adopting the Minneapolis 2040 plan, Minneapolis Mayor Jacob Frey noted that zoning and regulatory reform was adopted in conjunction with a $40 million investment in affordable housing programs. Even locations with dedicated revenue streams may suffer when economic conditions change or local markets go through contractions. Consequently, a successful approach to addressing affordable housing requires a long-term commitment: housing issues will not disappear in the short-term, thus local governments must maintain their support in the long-term.

Consult with Developers & Expand Partnerships

One of the challenges of creating effective incentive-based affordable housing strategies is finding incentives that work with developers. Research has indicated that developer incentives for affordable housing development must be substantial in order for developers to include affordable housing in their developments. While upzoning is not universally recognized as an effective housing solution,[73] it has had success in areas of Virginia and New York City. In both locations, developers were given substantial benefits for including affordable housing in their developments. Similarly, Asheville's Land Use Incentive Grant has been effective at promoting private development of affordable housing, due to the clear benefits that it provides developers. Developing incentives that can attract developers requires city officials to think and communicate in development terms. Thus, consulting with developers prior to crafting policy can help identify effective incentive strategies that would appeal to developers. Including important stakeholders early helps create more effective policies, and greatly contributes to the overall success of affordable housing policy.

Expanding program eligibility can also be beneficial. For instance, many local government sponsored grants, subsidies, and policies for affordable housing apply specifically to non-profit developers. However, there are a fair number of socially conscious for-profit developers willing to build affordable housing. Expanding eligibility could lead to increased production of affordable housing. Chatham County's expansion of impact fee reimbursement to cover for-profit developers is an excellent example of expanding developer eligibility.

In addition to the above examples, input from private developers has been sought on many of the missing-middle housing projects, including Durham's Expanding Housing Choices initiative. For local governments looking to eliminate regulatory barriers, consulting with private developers can help identify specific regulatory provisions that hinder housing development.

Conclusion

Affordable housing is one the great challenges facing our society, and there is an increasing need for local governments to develop plans that address it. Though there is no one solution, there are a number of promising policies that have been adopted by local governments that address affordable housing production. Local governments must identify the specific needs of their respective communities and tailor strategies that meet those unique needs.

Endnotes

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