A HOME FOR OPPORTUNITY

RECOMMENDATIONS TO NORTH CAROLINA COMMUNITIES TO INCREASE AFFORDABLE HOUSING

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A REPORT FOR THE NORTH CAROLINA METROPOLITAN MAYORS COALITION

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Executive Summary

Rapidly increasing populations in metropolitan areas across North Carolina have compounded the pressures on the housing market, making affordability a growing challenge. The COVID-19 pandemic has created economic distress, leading to increased evictions in North Carolina. In total, the state has 2.7 million people, 28% of the state's population, who are housing cost burdened, paying greater than 30% of their income in housing costs (Brennan, et al., Housing for North Carolina's Future: Policy Tools that Support Rural, Suburban, and Urban Success, 2020).

To increase affordable housing in North Carolina, the North Carolina Metropolitan Mayors Coalition (NCMMC) is hoping to understand:

> *What is the policy landscape of municipal-level tools used to address affordable housing across the United States and what is the availability and applicability of these tools for cities in North Carolina?*

To answer this policy question, our team analyzed federal and municipal-level policy tools to increase affordable housing and their availability in North Carolina. We evaluated the housing policies of five case study cities: Austin, Texas; Coon Rapids, Minnesota; Grand Rapids, Michigan; Lexington, Kentucky; and Washington, D.C. These cities were selected for their innovative policies and demographic and economic diversity. We utilized this information alongside qualitative feedback from local officials of NCMMC member cities and national housing policy experts to develop five recommendations to help local leaders evaluate policies to increase affordable housing in their communities. The first four recommendations are focused on tangible, municipal level actions and the last recommendation is focused on a collective action for NCMMC as a whole.

Recommendations:

1. **Promote rehabilitation and preservation** of the current housing stock through rehabilitation programs supported by financing such as tax reimbursements.

2. **Strategically acquire vacant or underutilized land and develop land banks** to increase the supply of land available for affordable housing development.

3. **Explore targeted funding mechanisms** including tax reimbursements, gap financing for 4% Low-Income Housing Tax Credit projects, and affordable housing bonds.

4. **Create neighborhood-level flexible zoning and permitting codes** to promote affordability within private development.

5. **Organize a policy summit** led by the NCMMC, that creates a platform for academics, practitioners, and elected officials to share resources, perspectives, and lessons learned.

Background

The growth in metropolitan areas across North Carolina have tightened the housing market, making affordability a growing challenge. The economic downturn induced by the COVID-19 pandemic has created economic distress leading to increased evictions in the state, reinforcing the need for affordable housing solutions. Historically, local governments in North Carolina have not taken a large role in affordable housing development due to the active stance taken by the federal government (National Low Income Housing Coalition, 2015) as well as statutory limits on municipal authorities (NCLM, s.f.) (NLC, 2016) (NLC, 2016). This report focuses on municipalities' authority to use rehabilitation and preservation of existing housing, new multi-family housing, and land use and zoning changes to increase affordable housing in North Carolina.

North Carolina's Housing Affordability Gap

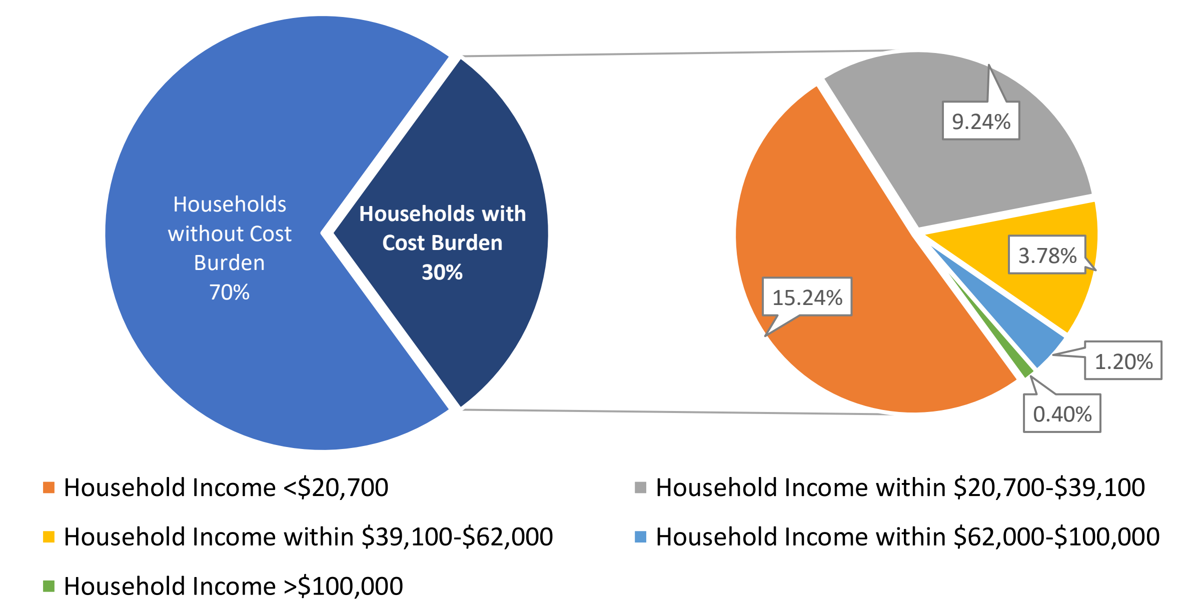
Many families in North Carolina suffer high housing costs and lack the money to afford living necessities (Rohe, Owen, & Kerns, 2017). Approximately 75% of households below the 20th percentile of the income distribution (less than $20,700) are cost-burdened and spend over 30% of their monthly income on housing. The middle class faces severe housing costs as well – one in every five median-income households are cost-burdened (see Figure 1) (Brennan, et al., 2020). In total, NC has 2.7 million people, 28% of the state's population, who are housing cost burdened (Brennan, et al., 2020).

Box 1. What is affordable housing?

Affordable housing is housing that costs equal to or less than 30% of a household's income (HUD, s.f.). This level ensures that a family can cover other costs like health, transportation or food expenses.

Affordability is typically determined by comparing 30% of a locality's Area Median Income (AMI) to a locality's Fair Market Rate (FMR) for different-sized housing units. AMI and FMR are both determined by the U.S. Department of Housing and Urban Development. AMI is also used to determine who qualifies for subsidized housing (Partnership for Working Families, s.f.) (Quednau, 2018).

Figure 1. Income Distribution of North Carolina Cost-Burdened Households
Data Source: Brennan et al., 2020



In North Carolina, the price of the average house has risen from an average of $149k in 2012 to $225k in 2021, a 66.2% increase (Zillow, 2021). Rent prices in the state have grown too. In Charlotte, the median rent for a 2-bedroom apartment is $1,534, which is an 18% increase compared to previous year (Zumper, 2021). In contrast, over the past 40 years, the median U.S. wage has only grown by 15.1% (Gould, 2020).

Communities of color are disproportionately housing cost burdened. The *de jure* (by law) and *de facto* (existing in reality, regardless of the law) policies that prevented or discouraged property ownership for Black people created a gap in property ownership and wealth between Black and white communities. In 2019, the average Black family in the United States possessed $23,000 in wealth (income plus assets minus debts), while the average white family's wealth was $184,000. The impacts of COVID-19 have yet to be fully realized, but it is widely anticipated that it will only expand this gap (Hernández Kent & Ricketts, 2020). In regard to homeownership, in 2019, 73.3% of white households owned a home, compared to only 42.1% of Black households (USA Facts, 2021).

Federal Housing Programs and Policies

The U.S. Department of Housing and Urban Development (HUD) promotes the creation of affordable housing by both public and private developers. One of the ways that HUD supports the development of affordable housing is through tax credits for private developers. The Low-Income Housing Tax Credit (LIHTC) requires that funded projects must remain affordable for 15 to 30 years, in exchange for a tax credit to investors for 10 years (Local Housing Solutions, s.f.). The 9% credit is typically used for new construction and to provide a 70% subsidy. The allocation of the 9% credits is delegated to states and determined by each state's population size. In contrast, the 4% credit is usually used to support less costly rehabilitation projects and intended to provide a 30% subsidy. State allocation limits do not apply to the 4% credits, which makes their funding more flexible (Keightley, 2021).

The federal government also funds a number of community-level development grants and resources. These grants include the Choice Neighborhoods Grant, Community Development Block Grant, and National Housing Trust Fund that support efforts ranging from housing counseling to the creation, rehabilitation or preservation of rental units for the lowest income households (Local Housing Solutions, s.f.) (HUD, s.f.).

Rehabilitation and Preservation of Existing Housing

There are currently 405,000 affordable rental units in North Carolina that need some kind of rehabilitation or renovation to remain affordable in 2030 (Brennan, et al., 2020). Furthermore, 5% of publicly subsidized rental housing in North Carolina will have their affordability restrictions lifted over the next five years. This will worsen the deficiency in affordable housing across the state (National Low Income Housing Coalition, 2020).

Box 2. Rehabilitation and Preservation

Rehabilitation is the non-minor improvement to a structure that costs no more than 75% of its asset value (HUD, n.d.). Preservation activities are actions such as policy changes or financial investments that ensure continued legally binding affordability for housing units (Triangle J Council of Governments, 2017).

There are several state and local-level programs administered by the state's North Carolina Housing Finance Agency (NCHFA) to support the rehabilitation of existing housing. These include a loan pool to finance moderate home rehabilitation for low- and moderate- homeowners who are elderly or have special needs and support emergency home repairs for households who earn less than 50% of Average Median Income (AMI) (NCHFA, s.f.) (NCHFA, 2019) (NCHFA, 2020). The loans are dispersed through qualifying organizations that apply through the NCHFA (NCHFA, s.f.). At the local level, both Greenville and Charlotte have programs that specifically offer low-income families grants or loans for homeowner housing rehabilitation (The Greenville Government, n.d.) (The City of Charlotte, n.d.). Durham also passed an affordable housing bond for preservation activities (Brennan, et al., 2020).

Zoning and Land Use Policies

Zoning regulations impact the construction of affordable housing through their effect on the availability of land for development and the permits and regulations that guide home construction. Exclusionary zoning, a zoning ordinance that has strict land-use controls, restricts the use of private and public land (Brennan, Peiffer, & Burrowes, 2019). This type of regulatory philosophy is correlated with an increase in housing prices, as well as socio-economic and racial segregation (Glaeser & Gyourko, 2002) (Brennan, Peiffer, & Burrowes, 2019). These measures reduce housing supply, prohibit "undesirable" land developments, and raise property values designated for particular uses (Harney, 2009). The increase in prices contributes towards housing affordability challenges (Glaeser & Gyourko, 2002).

Beyond increases in housing prices, some zoning regulations explicitly limit the construction of low-cost homes by prohibiting multi-family developments (Schuetz, To improve housing affordability, we need better alignment of zoning, taxes, and subsidies, 2020). Additional regulations drive up the cost of construction by requiring minimum lot sizes and building height caps. These regulations decrease the financial feasibility of building affordable housing (Schuetz, To improve housing affordability, we need better alignment of zoning, taxes, and subsidies, 2020).

One strategy to increase the supply of land is through land banks. These are usually created by public authorities or non-profit organizations to acquire, hold, manage, dispose and redevelop properties according to local community goals and development strategies (LHS, s.f.). Land may be acquired by tax foreclosure auction, municipal governmental transfer, and private voluntary donations. After acquisition, land banks are entitled to manage those properties, and may either convert the acquired property to a productive use or hold the property strategically for future development (LHS, s.f.).

Per a 2019 meeting of the NCMMC's affordable housing steering committee, one of the largest challenges pertaining to zoning and land use is that communities still prefer single-family developments. Local officials are also concerned with the lack of land available for affordable housing, prompting a need to identify creative land acquisition strategies (North Carolina Metro Mayors Coalition, 2019).

New Multi-Family Housing Initiatives

North Carolina has a shortage of single-family and multi-family houses, especially in the middle- and low-income range (Brennan, et al., 2020). Only 9% of the state's total housing stock is multi-family buildings, and it is concentrated in the most populated metro regions (Brennan, et al., 2020). An increase in multi-family housing would be cost-efficient for counties since multi-family housing development costs are cheaper compared to single housing prices. It also increases housing supply significantly, since developers are able to build more units on a single parcel of a land. It could be seen as an economic development policy since multi-family developments more efficiently use the public infrastructure and increase the tax-base (National Multifamily Housing Council, 2019).

Strategies to create more affordable multi-family units include inclusionary zoning and density bonuses. In 2011, Chapel Hill created an inclusionary zoning ordinance that required all new residential developments to set-aside a portion of units for affordable housing (Town of Chapel HIll, s.f.). In Charlotte, the city enacted a Voluntary Mixed Income Housing Development Program to incentivize the development of diverse, mixed-income housing. The program targets single and multi-family zoning districts and incentivizes developers to build above base density in these areas (City of Charlotte, s.f.).

Methodology

Our methodology had two analytical components. The first component consisted of interviews with housing experts and local officials in order to understand the on-the-ground perspectives surrounding North Carolina housing policies. The second component comprised of an analysis of the housing policies in use across the United States and identification of the policies that are most relevant for NCMMC members. Our analysis led to the identification of five case study cities (Figure 2).

The case study cities were selected based on demographic and economic similarity to members of the NCMMC and their active implementation of policies to address the affordable housing crisis in their communities. These policies utilized a mixture of rehabilitation and preservation, new multi-family housing, and zoning and land use policies. We stratified NCMMC cities into four categories based on population size and Metropolitan Statistical Area (MSA) membership (Appendix III) to ensure a variety of cities were represented in our analysis.

A more in-depth description of our methodology can be found in Appendix V.

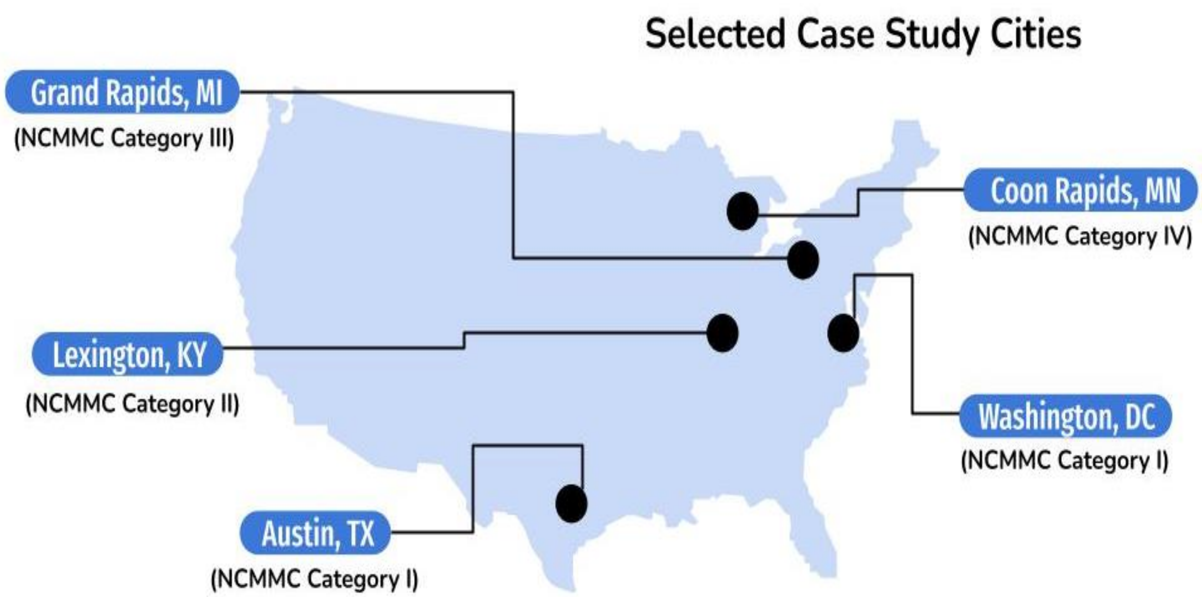


Figure 2. Selected Case Study Cities and Corresponding NCMMC City Categories.

Case Study Findings

Summary and Key Themes

Rehabilitation and Preservation

- Austin, TX created **homestead preservation districts** with tax reimbursements to incentivize investments.
- Coon Rapids, MN has a **homeowner assistance program** for rehabilitation projects.

Land Acquisition and Disposition

- The "Disposition Act" in Washington, D.C. **allows private development on public land** so long as the development meets affordability requirements.
- Coon Rapids, MN **purchased vacant, bank-owned properties** for rehabilitation projects.

Funding

- An **affordable housing fund** in Grand Rapids, MI is supported by annual city appropriations, grants, donations, and all "payment in lieu of taxes".
- An **affordable housing bond and fund** in Lexington, KY provides $2 million annually in loans and grants for affordable housing.
- A Property Partnership Policy in Grand Rapids, MI **allows local government to invest in private development** so long as the developer abides by affordability requirements.

Land Use and Zoning

- **Neighborhood Enterprise Zones (NEZ**) in Grand Rapids, MI and their associated tax incentives were extended to include affordable housing development.

Austin, Texas

Austin, TX	
Most Similar Cities in NC	Category 1 (Charlotte, Raleigh) (Appendix VI)
Total Population	979,263
% Families below the Poverty Line	8.8%
Rental Vacancy Rate	6.6%
Percentage of	42.0%

In the early 2000's, central Austin was losing affordable units due to the redevelopment of older apartments. In response, the City Council adopted the Austin Comprehensive Plan (ACP) in 2012 that called for the inclusion of a range of housing types across the city, with easy access to transportation and jobs (City Council of Austin, 2012). Preservation of the existing affordable housing stock, as opposed to new construction, was identified as a crucial part of the city's strategic vision. Preservation is cheaper, can more quickly become ready for move-in, has a smaller environmental impact, and aligns with the city's Comprehensive Plan (HousingWorks Austin, 2014).

Austin's first step in implementing the ACP was to identify and prioritize sections of the city that were vulnerable to gentrification and in areas with access to urban services for low-income renters (NLC, 2019). These areas were turned into Homestead Preservation Districts (HPD). The city then identified multi-family rental buildings in these zones that were eligible for rehabilitation (City of Austin, TX, 2016) and implemented tax incremental financing (TIF) to offer a financial incentive for rehabilitating activities in HPDs (NLC, 2019) (HousingWorks Austin, 2014). To support preservation, the city offered tax-exemptions for preservation and developed a preservation fund to provide short-term loans for affordable housing acquisition and preservation (HousingWorks Austin, 2014) (NLC, 2019). Austin accompanied these strategies with community engagement by convening stakeholder groups to review the city's Comprehensive Plan and monitor progress towards the plan's goals.

The case study in Austin shows the importance of contacting stakeholders and making them part of the rehabilitation process. To be successful, stakeholder engagement has to be a goal shared by all the actors around housing issues and paired with a comprehensive package of housing-focused policies.

Coon Rapids, Minnesota

Coon Rapids, MN	
Most Similar Cities in NC	Category 4 (e.g., Wilson, Goldsboro) (Appendix VI)
Total Population	62,517
% Families below the Poverty Line	4.5%
Rental Vacancy Rate	4.5%
Percentage of Renters	20.0%

In 2007, Coon Rapids developed its City Comprehensive Plan (CCP) with a chapter dedicated to housing. The plan focused on four goals to improve housing quality, variety, affordability, and nondiscrimination. (City of Coon Rapids, 2007). Two years later, in the middle of the Great Recession, the city established the Home for Generations program to help homeowners fund rehabilitation projects to increase the quality of existing housing stock (NLC, 2019). Taking advantage of the increased vacancy rate created by the downturn in the economy, Coon Rapids bought vacant, bank-owned properties and worked with contractors to rehabilitate these properties (City of Coon Rapids, s.f.). The properties were then resold, and the revenues were used to purchase future properties (NLC, 2019). The program operated from 2009 – 2012 and was financed by the Coon Rapids Mortgage Assistance Foundation and the City's Housing and Redevelopment Authority.

In 2015, the city decided to implement Phase II of the program, called Home for Generations II. The goal of the second phase was to provide financial incentives to homeowners that wanted to take part in home remodeling projects greater than $35,000 (City of Coon Rapids, s.f.). The programs provide grants of up to $5,000 and a rebate of 50% of building permit fees (City of Coon Rapids, s.f.).

The COVID-19 pandemic and corresponding federal response could create an opportunity for North Carolina to follow the path of Coon Rapids and take advantage of the vacancy rates to purchase and rehabilitate existing structures. Coon Rapids also demonstrates the importance of targeting homeowners within rehabilitation programs. This case study is particularly applicable for smaller, slower growing communities.

Grand Rapids, Michigan

Grand Rapids, MI	
Most Similar Cities in NC	Category 3 (e.g., Asheville, Chapel Hill) (Appendix VI)
Total Population	198,401
% Families below the Poverty Line	14.2%
Rental Vacancy Rate	4.3%
Percentage of Renters	31.0%

Over the past decade, the housing market has grown quickly and created a "missing middle" housing gap. New units built in expensive areas of the city cater towards higher earners whereas the lowest-income residents are able to utilize federal subsidies and assistance to acquire housing (Sundstrom, 2019).To fill in the gap, the city is exploring public-private partnerships. The city's Property Partnership Policy allows the city to invest in private housing development projects in exchange for an agreement that a developer maintains particular affordability provisions or rental rates (NLC, 2019). This investment includes both land acquisition as well as financial support for development (City of Grand Rapids, s.f.).

To finance such initiatives, Grand Rapids has adopted a resolution to create an Affordable Housing Fund that will be supported by donations, grants, annual city appropriations, all "payment in lieu of taxes" revenue, and 20% of all city revenues that exceed expenditures in the general operating fund (Sundstrom, 2019). Furthermore, the city has created a low-income housing tax policy for projects that are financed with federal or state assistance funds, serve low-income, elderly, or disabled populations, or are owned by certain cooperative or non-profit entities (Housing Advisory Committee Recommendation, s.f.). Currently, these property owners must pay a 4% annual service charge for the duration of their mortgage. The new policy allows owners to pay a reduced 1% annual service charge if they also agree to pay a 2% service charge specifically for the City's Affordable Housing Fund (City of Grand Rapids, s.f.).

To incentivize the rehabilitation and development of multi-family housing, Grand Rapids implemented a density bonus to supplement existing LIHTC funds. The city also updated the criteria for Neighborhood Enterprise Zone (NEZ) tax incentives to include projects that focus on affordable housing. These funds may be used for major repairs to rental apartments or new home construction (City of Grand Rapids, s.f.).

North Carolina has many rising markets similar to Grand Rapids, like Charlotte or Durham. The policies targeting the "missing middle" in Grand Rapids are a practical example of actions that quickly growing areas in North Carolina can follow. In particular, Grand Rapids supplemented federal funds with local level tax incentives and dedicated housing funds, which would be appropriate for larger cities in North Carolina with larger financial bases.

Lexington-Fayette Urban County, Kentucky

Lexington, KY	
Most Similar Cities in NC	Category 2 (e.g., Wilmington, Durham) (Appendix VI)
Total Population	320,601
% Families below the Poverty Line	10.8%
Rental Vacancy Rate	4.8%
Percentage of Renters	41.0%

In 2010, Lexington created the Affordable Housing Fund (AHF) and Affordable Housing Governing Board (AHGB) (Lexington Fayette Urban County Government, 2018) to leverage "public and private investment to provide, produce and preserve safe, quality affordable housing." (Lexington Fayette Urban County Government, 2018). The AHGB required qualifying proposals to be focused on safe, quality housing that was no more than 30% of a household's gross income (Lexington Fayette Urban County Government, 2018). This program is also targeted to individuals or families at or below 80% of AMI (Lexington Fayette Urban County Government, 2018).

In the first year of the program, the city allocated $3 million for the AHF with $2 million annually that would be added in each subsequent year (Lexington Fayette Urban County Government, 2018). AHF funds were eligible to provide forgivable and due-at-maturity loans, short-term construction, acquisition, and pre-development loans, and grants to projects approved by AHGB that further its mission.

The city created a dedicated fund that required projects eligible for funding to provide long-term affordable housing. It also stipulated that funds from the AHF were not meant to be the sole financial support of a project. This stipulation encouraged the involvement of multiple actors to leverage both public and private funding. By 2018, the AHF invested $12.2 million in fund dollars that was combined with $112 million dollars of private investment to create 1,400 units of affordable housing (The Lane Report, 2018).

Lexington shows the importance of creating comprehensive policy packages to fulfill a city's affordable housing goal. This demonstrates that adequate funding, while important, is not the only strategy to create a successful affordable housing strategy.

Washington, D.C.

Washington, D.C.	
Most Similar Cities in NC	Category 1 (Charlotte, Raleigh) (Appendix VI)
Total Population	692,683
% Families below the Poverty Line	12.2%
Rental Vacancy Rate	6.3%
Percentage of Renters	58.0%

Washington D.C. has implemented a robust set of affordable housing-related tools. These tools include a trust fund to provide low-cost loans and grants for affordable housing, inclusionary zoning, a land disposition policy that requires public land sold for housing development to designate one-third of its units as affordable, and an agreement that gives tenant associations the right of first refusal when their building goes on the market (Crawford & Das, 2019).

The Housing Production Trust Fund Act (HPTF) is used in D.C. to support the production and preservation of affordable housing through low-interest rate loans and grants to both non- and for-profit developers. The HPTF is funded by a 15% deed recordation and transfer tax and Washington D.C.'s general fund (DHCD, s.f.) These funding sources have suffered from instability due to economic fluctuation in the property market, which can reduce the reliability of available funds (McCabe, 2016). However, the program overall has been successful in increasing the supply of affordable housing in the D.C. area.

The lack of land supply in the Washington D.C. region is a significant factor in the shortage of housing supply in the area, which makes it crucial to consider public land as an option for affordable housing development. The Disposition of District Land for Affordable Housing Amendment Act (the "Disposition Act") makes publicly owned land in the District available to developers as long as they ensure that 20 - 30% of units are set aside for long-term affordable housing (LHS, s.f.). High land costs can comprise up to 63% of a project's total development cost and impede the feasibility of increasing the supply of affordable units (Raetz, Forscher, Kneebone, & Reid, 2020). Publicly owned land that is available through long-term leases with developers provides a cost-effective mechanism for developers to access land for housing development.

Municipalities in North Carolina that lack the supply of land to produce affordable housing can learn from the D.C. case study. Inclusionary zoning and disposition policies paired with housing affordability requirements for developers on public land are two strategies that have been effective in the District.

Recommendations

This report proposes five recommendations based on case study findings and interviews with local leaders and housing advocates. The first four recommendations are focused on tangible, municipal level actions and the last recommendation is focused on a collective action for the NCMMC.

Recommendation #1: *Promote rehabilitation and preservation of the current housing stock through rehabilitation programs supported by financing such as tax reimbursements.*

Using financing tools and land-use policies to incentivize rehabilitation programs is a cost efficient and community-friendly approach to increasing the supply of affordable housing.

1. **Encourage the use of rehabilitation areas** to prioritize older properties and public housing that could become vacant because of disrepair, as well as neighborhoods that are projected to grow in housing costs. To incentivize investment, these areas could be designated as special districts that are allowed tax reimbursements, similar to TIF (see Box 3 below for details about TIF in North Carolina). This strategy has seen success in Austin, Texas where TIFs were used to support Homestead Preservation Districts (NLC, 2019).

2. **Partner with third-party institutions to buy low-cost houses** and replicate the rehabilitation program in Coon Rapids, particularly since vacancy rates are high due to the COVID-19 pandemic. In big cities like Charlotte, Raleigh, or Durham, third parties can purchase vacant homes and rent them at affordable prices. In smaller municipalities, the government can repair and sell vacant homes at accessible prices in alliance with other stakeholders.

3. **Maintain communication with the broader community** and invite their perspectives to create more stable and productive programs, similar to Austin's stakeholder review of comprehensive planning goals and progress (NLC, 2019). This is important in order to limit current occupant displacement and generate buy-in from the local community.

Box 3. Project Development Financing and TIF

Project development financing, or Tax Increment Financing (TIF), is a public finance mechanism used by local governments to acquire funds to invest in public infrastructure improvements in order to spur private investment in a specific area (Blocher & Morgan, 2008). TIF's are most successful when developed with thoughtful consideration for local economic conditions and the purpose of the TIF. For example, Austin's Homestead Preservation District program successfully utilized a TIF to draw investment for housing rehabilitation (HousingWorks Austin, 2014). Other cities like Chicago, Illinois and Arlington, Texas have similarly used TIFs as an effective strategy for financing affordable housing projects (Eversberg & Goebel, 2005) (Dworkin, 2009).

Amendment One in 2004 made it possible for NC counties to use TIFs (Blocher & Morgan, 2008). A project development bond can be used to finance the capital costs of housing projects for low- or moderate-income communities (UNC, s.f.). It is not required to have voter approval since the State Constitution No. Section 14 of Article 14 allows counties and municipalities to issue debt instruments (UNC, s.f.).

A variation of a TIF is the synthetic TIF. A TIF is distinct from a synthetic TIF "in the nature of security pledged for the loan" (Millonzi, 2013). In a synthetic TIF, the asset that is being financed is used as security for the loan. Some municipalities prefer the use of a synthetic TIF because it has fewer procedural steps, no size restrictions on the area considered for development, less restrictions on commercial space, and a more flexible repayment structure.

Recommendation #2: *Strategically acquire vacant or underutilized land and develop land banks to increase the supply of land available for affordable housing development.*

Municipalities have the greatest jurisdiction over land use when they own the land, underlining the value of strategic land acquisition and land banking.

1. **Within slowing growing housing markets, focus on acquiring tax delinquent and abandoned properties** to designate for affordable housing development. Coon Rapids took advantage of an economic downturn to acquire vacant, bank-owned properties. The city then rehabilitated and sold these properties (City of Coon Rapids, s.f.).

2. **For quickly growing housing markets, strategically acquire and retain land for future development** when adequate funding or partnerships are obtained. Expert interviews indicated that the timing gap between simultaneously having available land and financing is a challenge.

3. **Develop public land disposition policies with affordability requirements** for housing-related development. As demonstrated in Washington, D.C., cities can benefit from assessing surplus public land that they own and partnering with private developers through discounted long-term leases to re-purpose the properties for affordable housing (LHS, s.f.). These long-term leases are created in exchange for affordable housing requirements for the developer. For developers, discounted land leases offer more certainty than tax revenue and also may require less immediate payment than short-term loans.

Recommendation #3: *Explore targeted funding mechanisms including tax reimbursements, gap financing for 4% Low-Income Housing Tax Credit projects, and affordable housing bonds.*

There are a number of strategies for financing affordable housing at the municipal level.

1. **Offer tax reimbursements tied to the creation of affordable housing**. Cities should leverage tax reimbursements that are tied to stipulations to create affordable units or maintain certain levels of affordability in rehabilitation and development projects. Asheville's Land Use Incentive Grant is a prime example of this program in action (Asheville, 2020).

2. **Identify opportunities to support developers to pursue 4% LIHTC projects.** This tax credit does not have a cap in North Carolina and according to stakeholder interviews, is significantly underutilized in the state. This is a prime opportunity for larger or quickly growing municipalities, since projects eligible for the 4% tax credit often require a greater municipal or private investment. Utilization of the credit is more challenging for smaller municipalities but may be accomplished through partnerships between multiple developers working on joint projects that are larger in scale.

   One method of providing additional funding for 4% LIHTC projects could be through philanthropic contributions. A number of partnerships already exist across the state (e.g., between the City of Durham and the Duke University Health System and the City of Charlotte and Foundation for the Carolinas) (Foundation For The Carolinas, s.f.) (Self-Help Credit Union, s.f.). These philanthropic contributions are often a one-time infusion of capital and would create a prime opportunity for gap financing of 4% LIHTC projects.

3. **Establish specific funds or bonds for affordable housing initiatives.** Bond issuance requires the political will from local elected officials but is within the jurisdiction of municipal powers. Durham,

Raleigh, and Asheville have passed affordable housing bonds. Specific funds for affordable housing would demonstrate a city's commitment to addressing the affordable housing crisis and provide a clearly defined source of funding for affordable housing projects.

Recommendation #4: *Utilize neighborhood-level, flexible zoning and permitting codes to promote affordability within private development.*

The regulations and zoning practices that are in place in a jurisdiction have a significant impact on construction costs, raising the price of construction for new developments (Gyourko & Molloy, 2014). Some cities have responded by reducing building requirements and regulations to make building housing cheaper, trusting that reduced developer costs will be passed on to buyers and renters (O'Toole, 2016). This tactic, however, has had uneven results and does not reliably increase the supply of affordable housing (Schuetz, 2019). Instead zoning, permitting and incentive programs are some of the most powerful tools that a municipality has in negotiations with developers and should be used to promote affordable housing goals.

1. **Maintain stringent zoning, permitting regulations, and incentive programs** in order to utilize relaxed regulations as incentives to exchange for commitments when negotiating with developers (Schuetz, 2019).
2. **Create a clear "menu" of the available incentives for developers** in exchange for their commitment to building multi-family units or including a percentage of units that will be available to families at different levels of AMI.
3. **Create a process for expedited approval** for projects that qualify for the incentive structure to reduce the costs that are associated with delays in project construction.
4. **Consider neighborhood-level needs** to reduce the risk of the displacement of current residents.

Recommendation #5: *Create a policy summit, led by the NCMMC, that creates a platform for academic, practitioners, and elected officials to share resources, perspectives, and lessons learned.*

A lack of resource and knowledge sharing was expressed as a concern during expert interviews. For elected officials, housing was a high priority concern for their administration, but they lacked the knowledge to understand the policy options available to their municipalities to address the issue. At the same time, policy practitioners felt that they did not have time to stay up to date on what communities around the state and nation were doing to address the issues of affordable housing and what was politically feasible. To connect these two groups, NCMMC should:

1. **Gather academic institutions, developers, and practitioners to create an institutional knowledge base.** Institutions like the UNC's School of Government, UNC Charlotte's School of Architecture and Urban Design, NCSU's School of Public and International Affairs, and Duke University's Sanford School of Public Policy are a few examples of the institutions which could be a valuable resource to communities throughout North Carolina. It would also be important to gather the perspectives of developers to explore how cities and firms can work together on projects of mutual benefit, as well as affordable housing policy practitioners and advocates that have an intimate knowledge of the challenges and opportunities that municipalities and communities face.

2. **Explore different forms of the platform that would reach those across the state, both in-person and virtually.** One possibility is to collect policy questions from NCMMC members and developers. These questions could be presented to policy practitioners, academics, and community groups and advocates who could then give presentations and share policy experiences pertaining to the questions submitted. An event of this nature could provide critical statewide coordination as municipalities in North Carolina are projected to receive $8.9 billion from the passage of the 2021 American Rescue Plan (House Committee On Oversight and Reform, s.f.).

3. **Collaborate with professional organizations and academic institutions to assist with event planning and coordination.** Policy advocates, professional organizations (like the National Association of Community Development Extension Professionals), and academic institutions, including graduate degree candidates, are stakeholders in the development of affordable housing and may be willing to contribute their time.

Appendix

Appendix I. Guiding Interview Questions for Local Officials.

- What are the affordable housing issues facing your community?
- What are the biggest barriers you see for your city to implement an affordable housing policy?
- What are the biggest opportunities or successes that your city / office recognizes as it relates to affordable housing?
- Are there any municipal level programs that you have implemented to increase affordable housing in your city? If yes:
    - How would you describe the funding process for this project?
    - How would you describe the design and construction process for this project?
    - How would you describe the maintenance and monitoring plans for this project?
    - How would you describe the division of accountability in this project?
- Are there any programs at the state or federal level that your city is utilizing to address the affordable housing crisis? If yes:
    - How do you liaise with the state or federal government?
    - Is there a position responsible for finding and applying for these funds?
- What resources / capabilities do you wish you had at your disposal to address affordable housing?
- What outcomes would you like to see result from policies going forward? (e.g., lower housing prices on new homes, increased public housing, eased zoning regulations)
- Are there any organizations or institutions that you would like to see your city / office partner with to address issues going forward?
- Do you have any unpromised funding that is available to your city / office to address these issues? If so, how are you evaluating where to spend this money?
- What are the top five issues that keep you and other city leaders up at night?
    - Where does affordable housing rank if not in the top five issues?
- As we continue to explore this issue, is there anything else that we should keep in mind about your community and city?

Appendix II. Guiding Interview Questions for Leaders of Housing Advocacy Organizations.

- What do you see as the most pressing policy concerns that apply to affordable housing and how has that changed with the COVID-19 pandemic?
- What policies do you think would have the greatest impact on increasing affordable housing and its accessibility in North Carolina?
    - What do you think prevents these policies from being adopted?
    - What do you think would help these policies become adopted?
- What policies in North Carolina currently are or are not working?
- How do you see the needs of NC cities differing? For example, how do Raleigh's affordable housing issues differ from that of Cary, Salisbury, or Boone?
- From your perspective, are there constants that remain universal in nearly all cities as they try to improve their supply and access to affordable housing?
- What cities around the country would you point to as examples of good affordable housing policy? Can you draw any action items relatable to NC's cities?
- NCMMC has prioritized the below areas for the scope of this project. How do you see these fitting into affordable housing policies and, in your view, are some more important than others?
    - Priority areas: rehabilitation and preservation of existing housing, new multi-family housing, land use and zoning
- Are there steps that can be taken for cities to better access state and federal funding?
- Is there anyone else that we should speak to or read about in order to inform our understanding of the affordable housing problem?

Appendix III. NCMMC City Tiers and MSA Designations.

Each color represents a unique MSA, with cities that are uncolored cells each residing in a unique MSA.

Category 1	**Category 2**	**Category 3**	**Category 4**
(Pop. > 400,000)	**(Pop. 100,000–400,000)**	**(Pop. 50,000–100,000)**	**(Pop. < 50,000)**
Charlotte	Greensboro	Concord	Wilson
Raleigh	Durham	Asheville	Kannapolis
	Cary	Greenville	Mooresville
	Fayetteville	Gastonia	Hickory
	Wilmington	Chapel Hill	Holly Springs
	Winston-Salem	Apex	Salisbury
		Rocky Mount	Goldsboro
		Burlington	Cornelius
			Matthews
			New Bern
			Fuquay-Varina
			Statesville
			Carrboro
			Boone

Data source: (North Carolina, 2019).

Appendix IV. List of Interviewees.

Table 1. Housing advocacy leaders.

Name	Organization	Title/Role
Terry Allebaugh	Sanford School of Public Policy (formerly Housing for New Hope)	Adjunct Instructor (formerly Founder and Executive Director)
Kyle Arbuckle	National Low-Income Housing Coalition	Housing Advocacy Organizer
Emma Foley	Sanford School of Public Policy (formerly National Low-Income Housing Coalition)	Master of Public Policy Student (former intern)
Samuel Gunter	NC Housing Coalition	Executive Director
Nick MacLeod	NC Housing Coalition	Director of Local Organizing

Table 2. Local officials.

Name	City Category	Organization	Title/Role
Pamela Wideman	1	City of Charlotte	Director, Housing and Neighborhood Services Department
Karen Lado	2	City of Durham	Assistant Director, Department of Community Development
Marla Newman	2	City of Winston-Salem National Low Income Housing Coalition	Director, Community Development Board Chair, National Low Income Housing Coalition
Suzanne Rogers	2	City of Wilmington	Community Development and Housing Planner
Paul D'Angelo	3	City of Asheville	Director, Community Development Program
Rochelle Small-Toney	3	City of Rocky Mount	City Manager
Karen Alexander	4	City of Salisbury	Mayor

Appendix V. Detailed Interview and Case Study Methodology.

Expert Interviews

In March and April 2021, we led interviews with two categories of stakeholders: local officials and leaders within housing advocacy organizations (Table 1 and Table 2 in Appendix IV). The local officials included mayors and staff in community and economic development divisions within NCMMC member cities that have on-the-ground experience implementing affordable housing initiatives. We stratified NCMMC cities into four categories based on population size (Appendix III). We aimed to interview one individual from Category I, and two individuals from each of the remaining categories in order to ensure that interviewees reflected a geographic, demographic, and economic diversity of cities. Due to scheduling availability and time constraints, the actual list of interviewees was more heavily represented by Category II cities (Appendix IV).

Housing advocacy leaders included current and former staff from the North Carolina Housing Coalition, National Low-Income Housing Coalition, and Housing for New Hope that have a strong understanding of the landscape of housing-related public policies. Their feedback informed our system-level understanding of affordable housing challenges across the country.

The interviews were guided by a set of initial questions that centered around stakeholder perspectives on the challenges, opportunities, existing policies, and geographic considerations pertaining to the development of affordable housing both nationally and in North Carolina (Appendix I & II). After the interviews were completed, we reviewed notes and recordings to identify key themes from the interviews. We compared these takeaways with case study observations to draft a set of recommendations for NCMMC. We led a small roundtable with local officials from Wilmington and Charlotte to gather feedback on our initial themes and policy recommendations.

Case Studies

An in-depth review of housing policies across the U.S. revealed five case study cities that were actively implementing policies to address the affordable housing crisis in their community and utilized a mixture of rehabilitation and preservation, new multi-family housing, and zoning and land use policies.

In order to understand the demographic, economic, and housing stock characteristics of the case study cities, our team utilized data from the U.S. Census Bureau's 2019 American Community Survey's 5-year data estimates. This assessment included data such as population demographics, area median income (AMI), occupancy rates, and fair market rent (FMR) levels. For our analysis, each NCMMC member city was categorized with one of the case study cities using the tiers-system based on population and Metropolitan Statistical Area (MSA) of NCMMC members (Appendix III & VI).

A matrix of policies was developed to categorize case study housing initiatives by different themes (market-based approaches, funding, zoning, homeownership, and third-party involvement). The case studies were selected based on their aggressive action to make affordable housing a priority within their city and demographic, economic, and housing factors that were representative of NCMMC members (Appendix VII & VIII).

Appendix VI. Case Study Cities and The Most Similar Cities in North Carolina.

Austin, TX & Washington, DC
- **Category 1**
  - Charlotte
  - Raleigh

Lexington, KY
- **Category 2**
  - Greensboro
  - Durham
  - Cary
  - Fayetteville
  - Wilmington
  - Winston-Salem

Grand Rapids, MI
- **Category 3**
  - Concord
  - Asheville
  - Gastonia
  - Chapel Hill
  - Apex
  - Rocky Mount
  - Burlington

Coon Rapids, MN
- **Category 4**
  - Wilson
  - Kannapolis
  - Mooresville
  - Hickory
  - Salisbury
  - Goldsboro
  - Cornelius
  - Matthews
  - New Bern
  - Fuquay-Varina
  - Statesville
  - Carrboro
  - Boone

Appendix VII. Population Composition of Case Study Cities.

Population Composition	Austin, TX	Washington, D.C.	Lexington, KY	Grand Rapids, MI	Coon Rapids, MN
Total Population	**979,263**	**692,683**	**320,601**	**198,401**	**62,517**
White	76.4%	43.6%	78.3%	72.2%	87.7%
Black or African American	9.4%	47.9%	16.8%	22.3%	10.3%
American Indian and Alaska Native	2.1%	0.9%	0.9%	1.9%	0.8%
Asian	9.9%	5.3%	4.7%	3.3%	4.2%
Native Hawaiian and Pacific Islander	0.2%	0.2%	0.1%	0.2%	0.2%
Some other race	6.6%	5.5%	3.4%	6.3%	0.7%

Data Source: 2019: ACS 5-Year Estimates Comparison Profile from United States Census Bureau

Appendix VIII. Demographic, Economic and Housing Data for Case Study Cities.

	Austin, TX	**Washington, D.C.**	**Lexington, KY**	**Grand Rapids, MI**	**Coon Rapids, MN**
Demographic					
Total Population	979,263	692,683	320,601	198,401	62,517
Population Growth in Last Decade	22.1%	17.3%	9.2%	6.9%	2.5%
Income Level					
Median Household Income ($)	$71,576	$86,420	$57,291	$50,103	$71,267
Mean Household Income ($)	$102,876	$127,890	$83,111	$65,615	$82,571
% Families whose Income in the Past 12 months is Below the Poverty Line	8.8%	12.2%	10.8%	14.2%	4.5%
Housing Affordability					
2-BR Rent Affordable at Minimum Wage	$377	$780	$337	$502	$520
2-BR Fair Market Rent	$1,356	$1,707	$858	$962	$1,214
Affordability Gap	$979	$927	$521	$460	$694
Housing Composition					
Total Housing Units	415,006	315,176	141,653	81,648	24,838
Occupied Units	380,392	284,386	129,784	75,422	24,328
Percent Renters	42.0%	58.0%	41.0%	31.0%	20.0%
Homeowner Vacancy Rate	1.3%	1.6%	1.3%	1.5%	0.2%
Rental Vacancy Rate	6.6%	6.3%	4.8%	4.3%	4.5%

Data Source: 2019: ACS 5-Year Estimates Comparison Profile from United States Census Bureau & National Low-Income Housing Coalition (2020)

Appendix IX. Glossary of Terms

- **Affordable Housing:** Housing for which, including utilities that are not telephone and cable, the occupant pays less than 30% of their income (HUD, 2011).
- **Area Median Income (AMI**): The median income of all households in a particular location, as determined annually by the Secretary of HUD. It is used to determine who qualifies for subsidized affordable housing (Quednau, 2018).
- **Fair Market Rent (FMR):** The value of rent plus utilities that landlords can charge using federal subsidies. The HUD calculates them for different size units, and they're based on market prices (Partnership for Working Families, s.f.).
- **Gentrification:** a process of neighborhood change that includes economic change in a historically disinvested neighborhood —by means of real estate investment and new higher-income residents moving in - as well as demographic change - not only in terms of income level, but also in terms of changes in the education level or racial make-up of residents (Urban Displacement Project, s.f.)
- **Low-Income Households:** Households that are below the poverty threshold, as determined by the U.S. Census Bureau (United States Census Bureau, 2020). In 2020, the federal poverty threshold for a household of four was $26,695 (Reeves, Guyot, & Krause, 2018).
- **Missing Middle:** Prospective renters who cannot afford a standard two-bedroom apartment without being cost-burdened, but do not qualify for low-income rent subsidies.
- **NIMBY:** Acronym for the expression *Not In My Back Yard*, often attributed to homeowners in the United States against developments of certain land uses near their property (Fischel, 2001).
- **Public Housing:** Affordable housing owned by HUD and operated by local public housing agencies (National Low Income Housing Coalition, 2019).
- **Rent Burdened, Cost Burdened:** HUD defines cost-burdened families as those "who pay more than 30 percent of their income for housing" and "may have difficulty affording necessities such as food, clothing, transportation, and medical care." Severe rent burden is defined as paying more than 50 percent of one's income on rent (HUD, s.f.)
- **Subsidized Housing:** Housing that is subsidized by federal, state, or local government programs to reduce housing costs for low and moderate-income residents (HUD, 2011).The funding can address supply challenges by increasing the stock of affordable housing or demand challenges by creating subsidies (Partnership for Working Families, s.f.).
- **Zoning**: A regulatory tool to determine land use and allowable development.
    - **Exclusionary Zoning (EZ)**: Zoning regulations that prevent affordable housing from entering certain developments and neighborhoods (Elliot Anne Rigsby, 2016).
    - **Inclusionary Zoning (IZ):** Zoning regulations designed to provide housing to all income levels and may incentivize or require developers to build affordable units (HUD, 2011).

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