

AN IDEA FOR ENCOURAGING THE DEVELOPMENT OF AFFORDABLE HOUSING IN CHAPEL HILL

The high cost of housing in Chapel Hill results primarily from the high cost of approved developable land. An approved housing site consists of several components, including the raw land cost and the developed land costs incurred during and as a result of the project approval process.

The current suggestion that a developer include 15% affordable units in a project tends to contribute to the high cost of housing. In order to achieve a normal financial return, the developer must add to the cost of the non-affordable units in order to subsidize the affordable units. There is also a tendency to build smaller and less desirable units in order to minimize the financial impact on the non-affordable units. Thus, the non-affordable units keep getting more expensive, and the affordable units are not as desirable as they could be.

In order to encourage the development of affordable housing units the cost of the developed site could largely be removed as a component of affordable housing units. This absence of developed site costs for the affordable units would impose a requirement that the developer to discount those units without adding to the cost of the remaining units. For projects requiring a special use permits, the developer could be allowed to include an additional percentage of housing units (say, 15%) beyond that allowed in the FAR calculations for the site, **if the sales or rental costs for those units is only based upon the construction costs for the units, and does not include the land or approval costs.** The site costs could be based upon the appraised value of a typical site based upon the number of units allowed by the standard FAR calculations. This removal of the land value could remain a permanent feature of the subsequent resales, with the property first offered to qualified lower income buyers, if available.

The potential slight increase in density for these projects could be allowed only for sites where the context would not be adversely affected. Since these projects could only occur within the Special Use process, the Town would have adequate opportunity to consider the suitability of each site for this benefit.

An example of 1250 SF townhouse units illustrates the effects:

<u>sample townhouse project-bonus units</u>	<u>non affordable units</u>	<u>affordable units</u>
land per unit	\$35,000	
development cost	\$ 5,000	
added site costs	\$10,000	
construction cost	<u>\$125,000</u>	<u>\$125,000</u>
total cost	\$175,000	\$125,000
margin @ 15%	\$26,250	\$18,750
realtor @ 6%	<u>\$13,000</u>	<u>\$ 9,900</u>
sales price	\$214,250	\$153,650
	85% of units	developer subsidized
<u>current townhouse project</u>	<u>non affordable units</u>	<u>affordable units-15%</u>
land per unit	\$40,250	
development cost	\$5,750	
added site costs	\$11,500	
construction cost	<u>\$143,750</u>	<u>\$125,000</u>
total cost	\$201,250	\$125,000
margin @ 15%	\$30,187	\$18,750
realtor @ 6%	<u>\$13,000</u>	<u>\$9,900</u>
sales price	\$244,437	\$153,650