

## 7.0 HOUSING

### 7.1 OVERVIEW



A variety of housing opportunities is available in Chapel Hill to accommodate the needs of its diverse population, including a wide range of housing types and styles that reflect the Town's history and unique character. There is concern that this diversity is being eroded as the Town becomes more affluent and the price of housing escalates. While the growth of Chapel Hill's housing stock has remained constant and stable for the last ten years (at approximately 2% annual growth), the majority of all new residential construction consists of higher end housing and the value of existing homes has greatly increased. There is a strong consensus among Chapel Hill citizens that the need to provide quality housing affordable to all segments of the community is a major priority for the future, and that an aggressive affordable housing program can contribute to enhancing the Town's socio-economic diversity.

The issue of affordability affects persons and families who fall within a range of income levels. Low and very low-income residents (the latter being those who earn considerably less than 80 percent of the median household income) are most severely impacted by the lack of affordable housing and need to be a special focus of housing strategies.<sup>7</sup> Middle income households are also finding themselves priced out of Chapel Hill's housing market. As a general rule of thumb, housing is considered affordable if a household pays no more than 30% of its income for housing costs. Based on this figure, a family would need to earn a minimum income of \$82,933 to afford the 1998 average sale price of \$276,443 for new and existing homes in Chapel Hill. This figure is well above the Town's 1998 median family income of \$69,149.<sup>8</sup>

<sup>7</sup> Current housing programs in Chapel Hill are directed towards low-income residents, defined as those who earn less than 80 percent of the median household income. This figure is based upon the definition used by the U.S. Department of Housing and Urban Development. A household is defined as an individual or group of people, whether related or not, who share a housing unit.

<sup>8</sup> As opposed to households, families are limited to two or more people related by birth, marriage, or adoption.

Rental housing is only relatively more affordable than for-sale housing. Based on a 1998 survey of the Triangle Apartment Association, the average monthly rent for a 2-bedroom apartment was \$762. This figure is considered affordable for households with annual incomes of \$30,000.<sup>9</sup> However, a number of low-income households in Chapel Hill earn less than this figure annually. In addition, the rental housing market in Chapel Hill is complicated by the number of University of North Carolina at Chapel Hill (UNC) students that live off-campus. Thus low-income households often find it difficult to locate affordable housing in the community.

The supply of subsidized housing for low-income households and persons with special needs is very limited. The Chapel Hill Housing Department manages 336 units of public housing located in 13 different sites (including one in Carrboro). In addition, Orange County issues approximately 355 Section 8 housing vouchers to families in the Chapel Hill/Carrboro area.

Another housing-related issue is maintaining housing diversity. On one hand, there is concern that the style, type, and scale of new housing may be affecting the character of the Town's traditional neighborhoods and threatening their "small town" atmosphere. On the other hand, the current market trend in Chapel Hill is toward high-end housing, decreasing the likelihood that the diverse housing needs of moderate- and low-income households, and of special populations including the homeless, the elderly and the handicapped, will be met by private housing providers.



## 7.2 GOALS, OBJECTIVES, AND STRATEGIES

### GOALS AND OBJECTIVES

#### Goal

Increase the availability of well-designed, affordable, safe, and sanitary housing for all citizens of Chapel Hill.

<sup>9</sup> Current median household income figures are not available for Chapel Hill. However, assuming the same rate of escalation between 1990 and 1998 as for family incomes, the 1998 median household income would be \$41,983.

**Objectives**

*Housing Availability:* Increase the availability of quality housing affordable to all citizens who live and work in Chapel Hill.

*Housing Quality:* Require all housing development to meet applicable local, state, and federal standards and guidelines, including design quality, safety, health, and energy efficiency.

*Housing Variety:* Establish policies, regulations, incentives and programs to promote the availability of a full range of housing types, densities, costs, and tenancy options in Chapel Hill, both within new developments and existing neighborhoods.

**STRATEGIES AND ACTIONS**

**7A. Affordable Housing**

The provision of housing at a cost affordable to all of Chapel Hill's residents is a major priority for the Town. Because a significant percentage of the population is being priced out of the private housing market, government at every level should work to increase affordable housing opportunities.

**7A-1. Work with housing providers to aggressively develop affordable housing in Chapel Hill.**

To achieve its housing goal and objectives, the Town will need to work with public agencies, private enterprises, and non-profit organizations to create housing opportunities for households of all income levels. Private developers, non-profits, and financial institutions all have key roles to play in expanding housing choice. The magnitude of the housing production and rehabilitation challenge facing the community calls for collaboration with other agencies and related organizations that may bring needed development services and/or other resources for this effort. Thus Chapel Hill should continue to encourage the full cooperation and active involvement of these groups to generate and maintain significant volumes of affordable housing.

In the past, Chapel Hill has entered into several such partnerships with success, although the extent of the initiatives has typically been modest. Between 1997 and 1999, for instance, HOME and Community Development Program funds were allocated to Habitat for Humanity for projects such as the construction of six new houses on scattered sites throughout Orange County, and the development of a 4.86-acre, 11-home

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"Millennium Celebration" project. The Town assisted Habitat on this project with the purchase of a site on Rogers Road, as well as with predevelopment expenses.

The Town has also worked with neighborhood-based non-profits (e.g., Empowerment, Inc.), providing Community Development Program funds for scattered property acquisition, structure rehabilitation, and homebuyer assistance activities through the Neighborhood Revitalization Program.

Similar efforts have been undertaken in conjunction with the Orange Community Housing Corporation to develop and improve affordable housing in Chapel Hill. The Scarlette Drive townhomes will provide 14 units for first-time low-income homebuyers (i.e., earning less than 80% of median income) on a Town-owned parcel.

The recent creation of other organizations, including the Community Land Trust in Orange County and ABODE: Coalition for Housing Diversity in Orange County, is evidence of a commitment by the various jurisdictions, housing developers, and housing service providers to coordinate their resources to provide the best possible housing assistance to all residents.

In addition to working with housing providers, the Town should consider committing additional funds if the production of affordable housing is to be significantly increased. Town funding sources could include traditional revenue generators such as property taxes and General Obligation Bonds, or new techniques such as tax-exempt Private Activity Bonds or Mortgage Revenue Bonds. Private Activity Bonds are typically issued to support development of multi-family housing while Mortgage Revenue Bonds are used to finance affordable homeownership housing. A list of criteria, to be locally established, would need to be met by housing developers to qualify for use of these bonds. The criteria would include requirements for a certain percentage of the units to be reserved for moderate income individuals or households.

**Actions: Affordable Housing Development**

- Continue to make maximum use of state and federal funding programs (Town staff)
- Pursue public/private partnerships to develop affordable housing (Town Council, Town staff, private non-profits)
- Identify and enact a funding sources to generate revenues for affordable housing production and/or first-time homebuyers assistance (Town staff, Town Council)

**Measures of Progress: Affordable Housing Development**

- Enact an affordable housing funding source no later than 12/31/2001
- Generate 250 affordable housing units by 12/31/2004 through public-private partnerships
- Initiate at least one assisted housing development project per year, with a target of a minimum of 20 units per initiative

Affordable housing initiatives should address the need to assist residents of publicly assisted housing in making the transition to permanent housing and self-sufficiency. Efforts should also be made to promote the development of single room occupancy (SRO) units. Because of their small size compared to apartments, SRO units often serve as the only affordable housing option for low-income individuals. In addition to meeting the needs of low and moderate income residents, the Town should seek to increase the supply of housing for middle income residents who currently cannot afford to live in the community. This should include initiatives such as the proposal to develop joint UNC/Town employee housing described in Chapter 4.0 (University Relations).

**7A-2. Provide incentives for housing providers to develop affordable housing.**

Funding limitations hinder the Town's ability to fully meet local affordable housing needs on its own, particularly in the field of new housing production. As a result, private housing developers are looked at as key partners in addressing this problem. Effective incentives are needed to encourage developers to assist in achieving the Town's affordable housing goals and objectives, including full integration of affordable housing units into the community. Such incentives should compensate developers who produce, maintain, or rehabilitate lower-cost, affordable housing units that meet the Town's standards.

As a general policy, the Town should encourage developers of residential developments of five or more units to 1) provide 15 percent of their units at prices affordable to low and moderate income households, 2) contribute in-lieu fees, or 3) propose alternative methods so that the equivalent of 15 percent of the units will be available and affordable to low and moderate income households. At the same time, the Town should continue to seek state enabling legislation for inclusionary zoning (see Strategy 7A-3).

Currently, the Chapel Hill Development Ordinance provides a density bonus for rental projects that include units affordable to low-income families. However, this bonus appears to be insufficient and more positive inducements are required. Recently, Town Council adopted a Residential-Special Standards-Conditional (R-SS-C) Zoning District, whereby density of up to 12 units per acre with reduced development standards can be permitted in the context of an affordable

housing proposal. More incentives of this kind should be considered as appropriate to reduce the cost of development.

Additional steps to consider include providing supporting capital improvements or creating rehabilitation incentives (see Strategy 7B-1). The latter is an important consideration because, although new housing is a significant factor in achieving adequate availability of housing, the Town's needs will not be completely met unless the existing housing stock is maintained in good condition.

Other ideas that the Town may consider to facilitate the development of affordable housing in new and existing projects include the following:

- *Development Fee Rebate Program:* This program would make use of general revenues to rebate development impact fees for developers of affordable housing, provided projects meet specific program requirements. This partial cost offset helps to stimulate private sector development of affordable housing. Orange County has this type of program in place.
- *Development review process:* Chapter 8.0 (Land Use), Strategy 8D-1 recommends that the development review process be improved, including expedited procedures for desired types of development. This could include streamlining procedures for developments that meet the Town's affordable housing objectives.
- *Setbacks, frontage, and yard requirements:* Reductions are especially cost-effective when used in conjunction with allowances for zero lot line and similar techniques.
- *Street and sidewalk requirements:* Relaxation of curb and gutter, right-of-way, and pavement standards can help make housing construction more affordable. However, infrastructure improvements should be designed to be compatible with street and sidewalk conditions in the surrounding neighborhood. In such situations Town funds or alternative funding sources could be considered to help subsidize infrastructure costs.
- *Parking requirements:* Reductions in the number of required parking spaces and in the size of the spaces provide substantial savings in development costs.

- *Flexible standards and use of innovative techniques:* Some traditional development standards, such as minimum lot size, may be reduced or eliminated entirely when dealing with single-family home development under the R-SS-C Zoning District. In addition, the use of innovative techniques should be explored and encouraged, not only because such techniques can generate significantly lower-cost housing that is affordable to moderate and low income families, but also because of the environmental benefits resulting from smaller development “footprints” and overall reductions in impervious surface. Techniques such as clustering, zero lot line development, small single-family or “cottage” housing, and modular construction could be permitted in an as-of-right process when involving affordable housing development, thus expediting processing and curb time/cost and making these options more attractive to developers.
- *Availability of financing for affordable housing:* While not directly a governmental responsibility unless public subsidies are being provided, the availability of low-cost financing is important to the success of privately-developed affordable housing. The Town should work with the local banking community and housing developers to explore the types and availability of financing and ways that banks can be more flexible in financing private sector affordable housing.

**Actions: Affordable Housing Incentives**

- Develop a program to stimulate the private production of affordable housing, such as code provisions and construction innovations that reduce the costs of housing development and maintenance (Town staff, Town Council)
- As part of the affordable housing incentive program, explore methods for insuring lasting affordability of housing units (Town staff)

**Measures of Progress: Affordable Housing Incentives**

- Develop and adopt an affordable housing incentive program no later than 12/31/2001
- Address regulatory aspects of the affordable housing incentive program in the comprehensive development ordinance revision (no later than 12/31/2001)

Incentives such as those described above should be combined with reasonable and enforceable restrictions on terms of affordability. Currently, there is no mechanism in place to insure that a housing unit intended for a moderate- or low-income household will remain affordable in the long term. This is important because, although new affordable units are a significant factor in achieving an adequate availability of housing, the Town’s needs cannot be met unless the existing affordable housing stock is maintained. A potential method is to require housing developers/providers to enter into a contract or covenant with the Town to maintain the units as affordable for a specified time period. This period can range anywhere between 15 and 30 years. However, the longer time periods are least attractive to developers, and in most communities that use them they are part of state-enabled inclusionary zoning regulations. Potential occupants of the housing units qualify (first-time



occupancy and periodically thereon) on an income basis, according to criteria and limitations set by the Town.

Specifically established to hold land in order to provide and preserve affordable housing, community land trusts are perhaps the most effective way to achieve long-term affordability. The Town will continue to work with the Community Land Trust in Orange County to achieve its affordable housing objectives. These efforts should include use of the community land trust mechanism to meet the housing needs of very low-income families.

### **7A-3. Continue to pursue the adoption of inclusionary zoning legislation at the State level.**

The term "inclusionary zoning" refers to either a mandatory requirement or a voluntary objective to set aside a percentage of all housing units in new residential developments as affordable housing for rent or purchase by moderate- and low-income households.<sup>10</sup>

Inclusionary zoning would provide an effective means for preserving housing choice and opportunity in Chapel Hill, particularly in the current housing market. For this reason, efforts to enable such a program should continue, although there has been no success in advancing the cause of inclusionary housing legislation at the local government and state levels in the last ten years.

If successful in obtaining enabling state legislation, there are several types of inclusionary zoning that the Town may consider. The first option requires developers of residential projects of a certain size to set aside a percentage of the proposed housing units for affordable housing. In a variation of this program, developers may receive density bonuses in exchange for the affordable housing set-aside. A model for this type of program can be found in New Jersey, where inclusionary housing is state-mandated. Another example is Fairfax County, VA, which has a working inclusionary zoning ordinance.

Another option would be to require developers to create affordable housing units in conjunction with large-scale, non-residential development projects that generate new jobs in the

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<sup>10</sup> Following a definition by Nico Calavita and Kenneth Grimes in their article on "Inclusionary Housing in California: The Experience of Two Decades", *Journal of the American Planning Association*, Vol. 64, No. 2, Spring 1998

**Action: Inclusionary Zoning**

- Continue to pursue state legislation that would enable affordable housing set-aside regulations (Town Council)

community. The number of units required is proportional to the number of projected new jobs that would translate into new households requiring adequate housing within Chapel Hill.

Some communities that manage such programs choose to reduce the economic impact on developers by allowing in-lieu payments or off-site housing construction. However, these allowances tend to run counter to the integration of affordable housing into market rate development projects.

**7B. Housing Diversity**

Maintaining housing diversity in the face of a predominantly high-end, high-cost housing market is a major challenge to the Town of Chapel Hill. Implementation of the affordable housing strategies described under 7A. will help to create more diversity in new development. Because Chapel Hill is predominantly built out, maintaining the diversity of the existing housing stock is of equal or greater importance.

**7B-1. Support preservation of existing housing stock.**

Although new construction is necessary to meet the Town's affordable housing demand, the conservation and rehabilitation of existing housing stock is just as important in maintaining housing diversity and can be an effective alternative to new housing construction. In addition, preservation and rehabilitation are often more cost-effective than redevelopment.

Neighborhood conservation practices, as described in Chapter 3.0 (Community Character), should include incentives for the preservation of existing housing units for future use. Stable neighborhoods encourage residents to upgrade, build, and buy housing, resulting in a sound, diverse housing stock. In turn, a sound, diverse housing stock contributes to the stability of neighborhoods.

In Chapel Hill's neighborhoods, the traditional diversity of housing types and sizes may be preserved and promoted by defining special incentives for owners of modest units, in particular, to maintain and improve housing conditions. For example, a density bonus could be offered in exchange for an affordable housing commitment.



Financial incentives are often most effective in accomplishing housing conservation objectives. Chapel Hill already uses Community Development Block Grant Funds to promote diversity through housing rehabilitation and provision of homeownership opportunities for moderate- and low-income households, helping neighborhoods to maintain, stabilize, and improve neighborhood character. In addition to the Housing Loan Trust Fund, which provides zero-interest loan assistance, the Town should consider increased financing (through public bonds, CDBG funds, or taxing mechanisms) for property improvement programs, targeting individual homeowners, multi-family/rental property owners, and other affordable housing providers alike.

**7C. Rental Housing**

A number of residents have expressed concern that some rental housing in Chapel Hill may not meet current standards and guidelines. This is a particular issue in neighborhoods near the UNC campus, where the conversion of single-family homes to rental housing is a common occurrence. Chapter 3.0 (Community Character), outlines a series of strategies to address this problem, including enhanced enforcement of occupancy and front yard parking restrictions; improvements to the Town's noise ordinance; and new guidelines to address the aesthetic effects of rental conversion. Another proposed initiative is the development of a rental licensing and inspection ordinance.

**7C-1. Establish a rental licensing and inspection program.**

Rental licensing is a tool used to ensure that all rental units are built to and maintained in compliance with zoning, design, construction, health, and safety code requirements. Communities such as Cumberland, MD, Elgin, IL, Ocean City, MD, and Mankato, MN have successfully used such programs to prevent deterioration of rental housing units, encourage responsible management, and insure maintenance and proper use of the units.

In Chapel Hill, a rental licensing program could help to protect the character and the stability of the Town's residential neighborhoods, while assuring renters that licensed rental units meet minimum housing standards. Town Council is actively considering options for such a program.

In communities that license rental properties, periodic inspections of licensed units are the main vehicle for insuring

**Actions: Preservation of Existing Housing Stock**

- Reinforce the Housing Loan Trust Fund program to increase renovation, rehabilitation, improvement, and/or maintenance activities for existing affordable housing units (Town staff, Town Council)
- Continue to target areas for conservation/rehabilitation programs in older neighborhoods (Town staff, private housing providers)
- Address the preservation of existing housing stock in the affordable housing incentive program prepared per Strategy 7A-2 (Town staff, Town Council)

***Action: Rental Licensing and Inspection***

- Develop and adopt a rental licensing and inspection ordinance (Town Council)

***Measure of Progress: Rental Licensing and Inspection***

- Adopt a rental licensing and inspection ordinance no later than 12/31/2001

compliance with code requirements. Required inspections, set at regular intervals (six-month or yearly periods, for instance) or when units change owner or tenants, can be performed by Code Enforcement Inspectors. Effective enforcement will be dependent upon the Town's ability to deploy these resources. The inspections could help to enforce code requirements, such as occupancy limits and front yard parking, which are important for neighborhood preservation (see Chapter 3.0).

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**PLANNING FOR CHAPEL HILL'S FUTURE: THE COMPREHENSIVE PLAN**

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