Urban Land Institute
Terwilliger Center for Housing

Increasing Workforce and Affordable Housing in Charlotte
Recommendations for Public and Private Sector Action

Executive Summary

This report provides recommendations for increasing the supply of workforce and affordable housing in Charlotte, North Carolina. The recommendations were developed by the staff of the Urban Land Institute Terwilliger Center for Housing and a panel consisting of a group the Center's national advisory board members.[1] The panel's recommendations are the following:

- Bring new public and private resources to bear on creating supply.
- Create new and consistent incentives for mixed-income development.
- Maximize mixed-income development through public real estate.
- Ensure preservation of existing workforce and affordable units.
- Use zoning and land use regulations to incentivize mixed-income housing.
- Communicate the importance and benefits of workforce and affordable housing.

Background

Charlotte is one of the fastest-growing cities in the United States, which exacerbates the need for an adequate supply of housing affordable to low- and moderate-income residents. Press accounts have cited data from the U.S. Department of Housing and Urban Development that suggest the city has a current deficit of approximately 34,000 affordable units based on demand.[2] On October 3, 2016, the Charlotte City Council committed to "seek to accelerate funding for housing, with the goal of creating 5,000 units of workforce and affordable housing in three years so those who work in our city can live in our city."[3]

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[1]The panel members were Adam Ducker, managing director and director of urban real estate, RCLCO; Dionne Nelson, principal and chief executive officer, Laurel Street Residential; Douglas Tymins, president and chief executive officer, AIG Global Real Estate; Ali Solis, senior vice president, advocacy and corporate affairs, Enterprise Community Partners; Lisa Sturtevant, senior visiting fellow, ULI Terwilliger Center for Housing; Stockton Williams, executive director, ULI Terwilliger Center for Housing; and Bob Youngentob, cofounder, president, and chief creative officer, EYA. The panel was advised by Terwilliger Center national advisory board members Peter Pappas, founder and chief executive officer of Pappas Properties, and Dionne Nelson, principal and chief executive officer of of Laurel Street Residential.

[2] Pam Kelley, "How Do We Solve Charlotte's Affordable Housing Shortage?," *Charlotte Observer*, 3/8/16.

[3] Charlotte City Council, "A Letter to the Community," October 3, 2016.

The city of Charlotte has in fact successfully developed a number of policies and programs to create and preserve workforce and affordable housing.[4] Examples include the Charlotte Housing Trust Fund, the HouseCharlotte Program, A Way Home Housing Endowment, and the Voluntary Mixed Income Housing Development Program. The city also uses various federal housing resources, such as block grants, low-income housing tax credits (LIHTCs), and housing choice vouchers.

Although these programs have enabled the development of a significant number of units, stakeholders (residents, public officials, and business leaders) widely agree that a more strategic and comprehensive approach to housing is necessary. In addition, achieving the goal of creating 5,000 units of workforce and affordable housing in three years would represent a substantial increase in the current levels of residential development and rehabilitation in the community.

Process

The city of Charlotte, through the Department of Neighborhood and Business Services, engaged the Center to provide recommendations on achieving that goal through new and revised policies and partnerships. To execute this assignment, the Center convened a volunteer panel of its national advisory board members with extensive experience and expertise in workforce and affordable housing development, financing, and policy.

The Center staff prepared the panel by conducting a review and analysis of key documents containing information on Charlotte's housing characteristics, needs, and current policies, including both reports from city agency staff and information from local advocacy groups, university research centers, and business groups.

On November 3 and 4, 2016, the panel and Center staff visited Charlotte for a briefing by local officials; toured several neighborhoods; and held three focus group discussions with city staff, City Council members, housing developers, and other local leaders. (See the appendix for the list of focus group participants.)

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[4] For the purposes of this paper, *affordable housing* means new and rehabilitated for-sale and rental units that are generally affordable to households earning 60 percent or less of AMI; 60 percent of AMI is $40,320 in Charlotte). *Workforce housing* means new and rehabilitated for-sale and rental units that are generally affordable to households earning between 60 percent ($40,320) and 120 percent ($80,640) of AMI and "housing for households with insufficient incomes to secure quality housing in close proximity to their place of employment." These definitions are based on the presentation developed by the city of Charlotte and provided to the panel titled "Charlotte's Affordable Housing Context and Need."

Top Takeaways from the Panel

The Charlotte City Council's goal of accelerating funding to create 5,000 workforce and affordable housing units over the next three years reflects a deep commitment and ambitious goal that can be the basis for a comprehensive community response to its housing challenges.

Achieving that goal—however it may be more precisely defined over time—will represent a huge increase in the current levels of residential development and rehabilitation in the community, which will only be possible with a major mobilization of political and community will, a substantial investment in new resources, and expanded opportunities for both market-rate and mission-oriented developers. Developing a strategy to meet the city's housing goals must be undertaken as part of broader planning activities, including the update of the Unified Development Ordinance (zoning code), investments in transportation, such as the blue line and street car extensions, and a continued strategy for economic development.

Charlotte's housing issues are substantially similar to those of many cities experiencing growth and prosperity while wrestling with long-running challenges associated with segregation and disinvestment. Yet Charlotte does not have or use as many tools as it could to make more progress. Some of the limitations stem from the narrow policy-making authority granted by the state to the city. However, that constraint does not have to be an obstacle to the city's developing a comprehensive strategy to meet its current and future housing needs.

Part of the challenge with building sufficient housing in the city of Charlotte is the ad hoc nature of the rezoning and development approvals process that creates ambiguity in the development community. A comprehensive strategy should bring as much certainty to the process, even as the city remains flexible to be able to respond to changing needs.

Finally, solving Charlotte's housing challenges will require more than simply housing policies and programs: it will require an honest reckoning with the barriers to opportunity and communities of choice facing too many residents, which includes enduring patterns of racial and economic segregation. The community can and must make initial progress over the next several months, while moving as quickly as possible to develop higher-impact solutions.

The panel recommends the following:

- Bring new public and private resources to bear on creating supply.
- Create new and consistent incentives for mixed-income development.
- Maximize mixed-income development through public real estate.
- Ensure preservation of existing workforce and affordable units.
- Use zoning and land use regulations to incentivize mixed-income housing.
- Communicate the importance and benefits of workforce and affordable housing.

Bring New Public and Private Resources to Bear on Creating Supply

Charlotte, like the many other American cities facing worsening housing affordability needs, will not make meaningful progress toward addressing these needs without substantial increases in funding. The panel sees opportunities for Charlotte to generate new investment over time from both public and private sources. In both cases, the commitment required will be long term in nature; sustaining strong support for these opportunities among a broad cross section of Charlotte's residents will be a critical, as discussed more below.

The good news is that Charlotte has established funding programs that have a proven track record of success (and local support) that can be readily expanded, most notably the Charlotte Housing Trust Fund. In addition, cities similar to Charlotte have shown the viability of engaging their business community to invest private sources to support workforce and affordable housing and broader community reinvestment; Charlotte can do the same.

Policy Opportunities

In the near term, the panel recommends that Charlotte prioritize the following: (a) expanding the funding and enhancing the flexibility of the Trust Fund; (b) unlocking the development potential of the 4 percent Low Income Housing Tax Credit (LIHTC); and (c) capitalizing a new Charlotte Housing Opportunity Investment Fund.

Expand and Enhance the Trust Fund

The Trust Fund is justifiably cited as a national model, both for its success in supporting affordable housing development and for its strong support from the local business community and residents in consistently approving the necessary bond referenda to capitalize it. The voters' overwhelming approval in November of another $15 million for the fund speaks to its impact. That said, the panel believes that Charlotte needs to increase investment into the Trust Fund through new public revenue sources. This funding is especially important to meeting the housing needs of residents earning less than 60 percent of AMI, which by definition requires significant capital and often operating subsidies. A new report on local and state housing trust funds across the United States suggests a number of potential supplementary revenue sources.[5]

At the same time, the panel heard from focus group participants that the current trust fund rules regarding eligible and priority uses of funds and resident income levels served are not adequate for more efficiently deploying trust fund dollars.

[5] Housing Trust Fund Project, Center for Community Change, *Opening Doors to Homes for All: The 2016 Housing Trust Fund Survey Report* (Washington, DC: Center for Community Change, 2016).

The panel recommends exploring more flexible uses of the Trust Fund, specifically including 4 percent LIHTC opportunities, property tax relief, and land acquisition, as discussed below. The panel also recommends exploring the benefits—and tradeoffs—involved in serving residents with incomes up to 80 percent of AMI, as current policies allow but practice generally has not reflected.

Unlock the Development Potential of the 4 Percent LIHTC

As noted in the report by the UNC Charlotte Urban Institute, and affirmed in the panel's focus group discussions, the 4 percent LIHTC is an underused resource in Charlotte. This represents a significant missed opportunity because, unlike almost any other subsidy or incentive, the 4 percent LIHTC is an uncapped or "by right" resource, generally so long as projects also use tax-exempt bond financing.

The 4 percent LIHTC can be effective in two market or development scenarios, both of which apply in parts of Charlotte. The first is in neighborhoods that can support higher-end market-rate development, where the more limited subsidy provided by the 4 percent LIHTC can be bridged by the higher rents achievable from the market-rate units in a mixed-income project. The second scenario is where existing workforce and affordable units can be improved and maintained at affordable rents with a relatively modest amount of rehabilitation investment. As noted above, Trust Fund dollars could further enhance the effectiveness of the 4 percent LIHTC for a range of development and rehabilitation projects.

The panel recommends that the city convene a group of developers and public agency officials to better understand barriers to wider utilization of the 4 percent LIHTC and how to improve it.

Capitalize a Charlotte Housing Opportunity Investment Fund

As illustrated in a recent report from the ULI Terwilliger Center for Housing, a growing number of communities and real estate firms are partnering to create local investment funds to support the development and preservation of workforce and affordable housing.[6] Additional efforts are underway in Austin, Dallas,[7] and Washington, DC.[8] These funds generally provide equity and debt capital from a range of sources to support housing development and rehabilitation that meets social needs and generates an economic return. High-net-worth individuals, local foundations, major corporations, and financial institutions are all among investors in these vehicles.

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[6] Stockton Williams, *Preserving Multifamily Workforce and Affordable Housing: New Approaches for Investing in a Vital National Asset* (Washington, DC: Urban Land Institute, 2015).

[7] Impact Dallas Capital, https://impactdallascapital.com/.

[8] *DC Housing Preservation Strike Force Final Report*, http://dhcd.dc.gov/node/1200052.

The panel believes that Charlotte has the key ingredients that, based on ULI's analysis, can make such an investment fund work: (a) a high-growth market that creates the opportunity to earn economic returns serving parts of the workforce housing needs (generally residents in the 80 to 100 percent of AMI range); (b) well-capitalized corporate and community institutions, as well as high-net-worth individuals, that have shown a willingness in the past to step up on critical local challenges; (c) highly regarded civic and philanthropic institutions, such as the Knight Foundation, that can play convening as well as investment roles.

Case Study: Denver Transit-Oriented Development Fund

The Denver Transit-Oriented Development Fund[9] was established in 2010 with $13.5 million in debt capital to create and preserve affordable housing along current and future transit corridors in the city and county of Denver. In 2014, the fund was expanded to serve the surrounding seven-county region and is now capitalized at $24 million. Borrowers may use funds to purchase, hold (for up to five years), and develop sites within a half mile of fixed-rail transit stations or a quarter mile of high-frequency bus stops. The fund has closed 11 transactions totaling nearly $16 million, with a pipeline of over 900 permanently affordable units and more than 150,000 square feet of commercial and community space. Returns to capital providers (public agencies, foundations, financial institutions, and community development financial institutions) are generally 2 to 6 percent.

Create New and Consistent Incentives for Mixed-Income Development

Charlotte is fortunate to have a number of high-caliber market-rate residential developers based in and active in the city and region. The panel understands that, for the most part, market-rate developers have not been active in producing workforce and affordable housing. The panel believes this can and must change for Charlotte to achieve its housing goals.

In Charlotte as in any vibrant community, market rate developers are focused on delivering projects that will meet the economic requirements of their lenders and investors. In most cases, these sources of capital are highly "mobile," i.e. they can and do determine where to allocate resources based on the available returns. It is these sources, not the developers, that ultimately decide the necessary returns – and ultimately whether a proposed project gets funded. By definition, developing housing for lower-income households generates lower economic returns than projects for higher-income households. It is mainly for this reason that market rate developers – who in any cases may wish to develop affordable and workforce housing – are often unable to secure the necessary debt and equity to execute those projects, without either a direct public subsidy, a public incentive, or both.

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[9] https://www.urbanlandc.org/denver-transit-oriented-development-fund/.

The panel heard from several market-rate residential developers active in Charlotte that they would be interested in including workforce and affordable units as part of their projects, provided that any city requirements regarding the share of units and income levels served are transparent and consistently applied. A menu of incentives must also be available on a generally uniform basis, to offset the economic impact of providing below-market units in the project in order to engage market rate developers.

Policy Opportunities

The panel recommends that Charlotte explore the following options to achieve these objectives: (a) tax increment financing (TIF); (b) property tax offset; and (c) revised voluntary inclusionary zoning policy.

Tax Increment Financing

Although TIF has not been widely used to support workforce and affordable housing development in Charlotte to date, the panel believes it may have untapped potential that could be realized through two parallel approaches. The first is to identify other public funding sources that could support some or all of the costs of infrastructure that TIF more commonly funds to enable more of the TIF benefit to support production of workforce and affordable housing units.

The second is to assess the opportunities within existing law, and the potential of making modest adjustments to current law, to establish TIF districts and directly fund specific projects (through "synthetic" TIF) that are better designed to stimulate the development of workforce and affordable housing. Potentially adaptable approaches have been successful in Atlanta ("Tax Allocation Districts"[10]), Austin ("Homestead Preservation Districts"[11]), Portland ("Affordable Housing Set-Aside Policy"[12]), and San Antonio ("Petition-Initiated Tax Increment Investment Zone"[13]).

Property Tax Offset

The panel understands, based on focus group comments and additional research, that statutory constraints at the county and state levels prevent providing a direct property tax abatement to developers/owners as an incentive to produce workforce and affordable housing.[14]

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[10] Invest Atlanta, Tax Allocation Districts, www.investatlanta.com/development/tax-allocation-districts/.

[11] AustinTexas.gov, Neighborhood Housing and Community Development, Homestead Preservation Districts, https://austintexas.gov/page/homestead-preservation-districts.

[12] City of Portland, Oregon, Housing Bureau, Affordable Housing Set-Aside Policy, https://www.portlandoregon.gov/phb/60811.

[13] City of San Antonio, Department of Planning & Community Development, Petition Initiated Tax Increment Reinvestment Zone (TIRZ), www.sanantonio.gov/Planning/TIF/petitioninitiated.

[14] Should the opportunity arise to seek the necessary authority to provide direct property tax abatements, potentially instructive examples for implementing such authority can be found in Cincinnati, Des Moines, and St. Louis.

Nevertheless, several options appear to be available for providing property tax relief that Charlotte could test and, if successful, implement widely. First, state law[15] provides that property owned by a nonprofit organization, or by nonprofits sharing ownership with for-profit entities, and used for "low or moderate-income" housing are exempt from local property taxes. This exemption also applies to property that is held for future use as low- or moderate-income housing. This provision suggests that partnerships between market-rate and community-based developers could unlock potentially significant tax relief for some projects.

Second, use of resources from an expanded trust fund (as discussed earlier) may be possible to provide direct grant payments to developers/owners in an upfront or annual payment that is equivalent, or nearly equivalent, to the net present value of a future stream of tax relief.

Case Study: Seattle Multifamily Tax Exemption

The Seattle Multifamily Tax Exemption[16] provides property owners a tax exemption on residential portions of buildings in return for designating 20-25 percent of the apartments at the property as affordable for moderate-wage households. As of February 2016, approximately 130 properties in Seattle are participating in the program and another 90-plus properties are in development and expected to begin leasing tax-exempt units between 2016-2018. Properties receive a tax exemption for a period of 10 to 12 years, during which a percentage of the units must be restricted to affordable rents. Rents are not restricted when the tax exemption period expires and may revert to market rate upon lease renewal.

Revised Voluntary Inclusionary Housing Policy

The panel understands both the legal challenges and the practical limitations of inclusionary zoning in North Carolina. Nevertheless, the panel believes that within the parameters of state law and the local development environment, zoning authority, accompanied by the appropriate development incentives and programmatic flexibility, can be a viable means to encourage production of workforce housing development in Charlotte.

Based on a recent report by the ULI Terwilliger Center for Housing,[17] the panel recommends that Charlotte expand the types of incentives available to accompany the city's current "Voluntary Mixed-Income Housing Development Program" to include TIF improvements and property tax relief as described previously, reduction of parking requirements, direct subsidies, and other incentives. While the main incentive currently in place – additional or "bonus"

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[15] North Carolina General Statutes, Section 105-278.6, http://www.ncga.state.nc.us/gascripts/statutes/statutelookup.pl?statute=105-278.6.

[16] Seattle Multifamily Tax Exemption, https://www.seattle.gov/housing/housing-developers/multifamily-tax-exemption.

[17] Stockton Williams et al., *The Economics of Inclusionary Development* (Washington, DC: Urban Land Institute, 2016).

density – may on the surface appear to provide a significant inducement to developers, the practical realities of higher development costs and neighborhood opposition that commonly accompany additional density can reduce if not eliminate its intended benefit.

Development offsets such as these can be effective in engaging market rate developers to help address workforce and affordable housing needs. They can also provide a better economic opportunity for community-based housing organizations to achieve their mission on a financially sustainable basis.

Case Study: Palm Beach County Workforce Housing Program

Palm Beach County's Workforce Housing Program[18] requires all new developments of more than ten units to provide units serving households earning 60 to 120 percent of AMI in exchange for additional density allowances on a sliding scale. Developers have flexibility to meet the affordable housing requirements by paying an in lieu fee, building units off site, or purchasing and deed-restricting market-rate units. To date, more than 1,400 affordable or workforce units have been approved as part of 36 developments. In addition, nearly $900,000 of in lieu fees have been collected from three developments.

The program was established in 2004 but only gained traction in the market after 2009, when the county made substantial revisions as a result of recommendations by the real estate industry, including homebuilders and realtors. An evaluation of the program found that the county's incentives fully offset the cost or lost profit incurred by developers in providing the affordable and workforce units.

Maximize Mixed-Income Development through Public Real Estate

Public land policies make government-owned land available at reduced or no cost for affordable or mixed-income housing. They can be a valuable way to help address local affordability needs, particularly in areas with high land costs. In Charlotte, the cost of land can account for between 10 and 25 percent of the total cost of development.

A subsidy in the form of free or reduced-cost land can help close the gap between the cost of construction and the provision of housing affordable to individuals and families at lower incomes. Furthermore, because public agencies in Charlotte own land in myriad locations throughout the city, public land redevelopment can be a helpful strategy for siting affordable housing in dispersed, opportunity-connected settings.

In the city of Charlotte, the city itself, the Charlotte Housing Authority, Mecklenburg County, Charlotte-Mecklenburg Schools, and the Charlotte Area Transit System own and control land

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[18] Palm Beach County, Florida, Workforce Housing, http://discover.pbcgov.org/pzb/PDF/AboutUs/WorkforceHousingBrochure.pdf.

that might be suitable for development or redevelopment of housing. Public land that could be used for affordable and workforce housing includes not only vacant parcels but also underused sites and sites where colocation of housing with public facilities is possible.

Policy Opportunities

A successful public land policy involves a transparent process that balances competing interests in the publicly held properties and involves collaboration and cooperation across public agencies. The provision of free or reduced-price land can have a major impact on the costs of development—and therefore on the ability to produce below-market-rate homes—in some types of neighborhoods and can have less impact in others.

Therefore, the use of public land for housing should be strategic to maximize the potential benefits in terms of the quantity or location of new housing produced, or both. Following are some key recommendations for promoting the use of public land for affordable housing:

- *Identify publicly owned sites in accessible, high-value areas.* Develop a comprehensive inventory of parcels owned by public agencies, and identify those sites that are in areas of the city where housing is most needed.
- *Empower a local agency to lead a cross-agency assessment of public land opportunities.* Potentially with support from an outside consultant, identify a lead agency or department that will be responsible for the development of the public land inventory and the process for determining a policy for using public land for affordable and workforce housing.
- *Analyze the economic benefits of using public land for housing in different parts of the city.* With input from an outside consultant, analyze the cost of development relevant to the expected rents in several representative neighborhoods across the city. Base affordability expectations on the relationship between the land value and the affordability gap in particular submarkets, realizing that using publicly owned land for housing will not be appropriate in every neighborhood.
- *Focus on citizen education and engagement through the assessment process.* Establish a process for identifying potential sites for affordable and workforce housing through a transparent and highly publicized public process. Allow for dialogue with the community about the benefits and potential tradeoffs (e.g., loss of open space, relocated public facility) of using public land for housing.
- *Invest public resources in preparing the publicly owned site for development.* Commit to assisting with the development of infrastructure and other site preparation activities to help facilitate the development of below-market-rate housing on the site.
- *Adopt a policy that protects appropriate public land for affordable housing.* If possible, identify specific sites that will be set aside to support the development of affordable and workforce housing, even if development will happen in the longer term. Commit local resources and ask for political buy-in to protect identified appropriate sites.

- *Colocate affordable housing with new public facilities when possible.* As the city builds new public facilities (e.g., fire stations, libraries, police stations), assess opportunities for colocating housing on those sites. As the Charlotte-Mecklenburg Schools plans for new school construction, evaluate opportunities for colocating housing on new school sites.
- *Consider using trust fund resources to purchase land for affordable and workforce housing.* In addition to assessing the potential of currently owned public land for housing, the city could use trust fund resources to strategically purchase land, particularly in areas where the purchase of the land could advance revitalization efforts.
- *Develop a request for proposals (RFP) process to encourage innovative proposals from the development community.* Once appropriate sites are identified, the city should issue an RFP for development of mixed-income housing that would involve the provision of the public land free or at reduced cost in exchange for providing housing with long-term affordability. Specify broad criteria in the RFP, but leave room for innovation from the proposals.

Case Study: Montgomery County, Maryland

Since the late 1980s, Montgomery County, Maryland has developed a comprehensive county land inventory and facilitated mixed-income housing on multiple county landholdings. Surplus and underused public properties suitable for affordable housing have been made available to for-profit and nonprofit developers for affordable housing. In addition, new county facilities, such as police and fire stations, often include an on-site affordable housing component. Several projects have been completed in the past years that include rental housing.

To maximize opportunities for using public land to help address local affordable housing needs, the County Executive and the County Council have endorsed a strategy in which, whenever possible, affordable housing is included in the development of county land. All capital improvement projects or county agency plans to redevelop or dispose of county-owned land are required to assess the potential for affordable housing as part of the site's redevelopment and to present this analysis to the County Council. (A similar assessment is required of the potential for child care facilities.)

Moreover, the County Council has passed legislation that expresses a preference for at least 30 percent affordable housing on public land. Proposals from county agencies for the redevelopment of county land that would involve less than 30 percent affordable housing are subject to greater scrutiny from the County Council.

Use Zoning and Land Use Regulations to Incentivize Mixed-Income Housing

The city's Unified Development Ordinance (UDO) can be the critical tool not only for implementing Charlotte's long-term land use vision, but also for allowing and incentivizing a range of housing types, including workforce and affordable housing, and mixed-income communities.

The UDO's list of "permitted residential uses" directly affects the diversity of housing in a community by specifying density limits, maximum floor/area ratios (FARs), height limits, minimum unit sizes, and parking requirements.

The zoning code can be used as a baseline for by-right development (i.e., development that does not require a special exception or public review process), but a neighborhood or citywide land use plan can be used to guide development in a way that promotes the city's land use goals while at the same time incentivizing mixed-income housing. Whereas zoning sets a floor on the level of development, a land use plan sets a ceiling that a developer can achieve by providing community benefits (such as affordable and workforce housing) in exchange for the density bonus, along with other incentives and offsets.

The city is currently in the process of overhauling its entire UDO, a process expected to be complete in 2019. This zoning code rewrite represents an important opportunity for incentivizing the production of housing affordable to low- and moderate-income individuals and families. It could turn into a missed opportunity if the city does not use the zoning update strategically. In addition, the panel urges that the rewrite process be substantially accelerated. Without knowing all the details and requirements involved in Charlotte, the panel notes that other communities have achieved similar zoning code overhauls more quickly.

Policy Opportunities

The panel believes that Charlotte's zoning and land use authority can substantially help incentivize the production and preservation of workforce and affordable housing through three broad approaches: (a) implementation of a revised density bonus program; (b) creation of housing overlay zoning districts; and (c) creation of an affordable transit-oriented development (TOD) district.

Revised Density Bonus Program

A successful incentive-based voluntary inclusionary zoning policy offers density bonuses, along with other incentives and cost offsets, in exchange for the provision of affordable or workforce housing. Density bonus policies are common in places where state regulation prohibits or strongly discourages local mandatory inclusionary zoning policies. But they are also used in fast-growing communities—even those that have a mandatory inclusionary zoning program—as demand for higher-density living and amenities is on the rise.

Increasing development potential through a community land use plan, particularly in transit-served neighborhoods, along old commercial corridors, and in former industrial areas, creates value beyond what developers could achieve under existing zoning by right. As a result, the public can exchange some of that additional value for the provision of below-market-rate housing, in the form of on-site or off-site units or through a payment in lieu to a local housing trust fund.

Because Charlotte is experiencing fast population and employment growth and, perhaps most important, because it is in the midst of a comprehensive rewrite of its zoning ordinance, a well-crafted policy that links increased density to affordability is a key tool for expanding the supply of affordable and workforce housing.

Charlotte currently has an incentive-based inclusionary housing program that provides a density bonus in exchange for affordable housing.[19] However, no developer has taken advantage of the option, thus suggesting the policy has not been designed to sufficiently take into account local economic conditions. Therefore, the panel recommends that the city review and revise its current density bonus policy.

Policy Considerations

The panel recommends that the city revise its current density bonus programs to better reflect development costs and economic conditions in local submarkets of the city. In addition, Charlotte should consider other cost offsets that could be provided in exchange for the voluntary provision of affordable or workforce housing as part of a new market-rate development.

- *Create neighborhood-specific density bonus policies based on a systematic evaluation of the local submarket.* The ability of a density bonus to incentivize the production of below-market-rate housing depends on the economics of the particular project. The density bonus provision should not be negotiated on a project-by-project basis; however, terms of the program (e.g., amount of additional density; set-aside percentages, income targets and affordability terms) should be based on a thorough economic analysis of development potential in each local submarket.
- *During the zoning ordinance rewrite, ensure that base zoning is set at a reasonable level.* For a density bonus program to work, developers must perceive a value to achieving density above what is allowed by right under the existing zoning. The potential increased density should be consistent with a citywide or neighborhood land use plan but not written into the underlying zoning code. If base zoning is too high, developers

[19] In 2011, as part of a larger action plan on affordable housing, the Charlotte City Council adopted a density bonus program, and the final policy was approved in late 2012/early 2013. Under the current Single-Family Density Bonus Program, developers are allowed up to three dwelling units per acre (DUA) above base density in R-3, R-4, R-5, and R-6 zoning districts in exchange for providing 25 percent of the units affordable to households at or below 80 percent of AMI. Under the Multi-Family Density Bonus Program, developers are allowed up to two additional DUA above the base density for R-8MF District (10DUA) and up to three additional DUA above the base density for R-12MF District (15DUA). In exchange, the developer must provide 50 percent of additional units affordable at or below 80 percent AMI. Half the affordable units must be affordable at or below 60 percent AMI, and the number of affordable units cannot exceed 20 percent of total housing units in the development.

will not participate in the density bonus program and instead will build by right, without the provision of affordable or workforce housing.

- *During neighborhood planning, be sure to set density guidelines that are consistent with and provide the basis for the up-zoning potential.* Zoning reflects what densities would be allowed by right, but neighborhood planning should set the parameters for potential additional density that would be allowed in a density bonus program. The underlying neighborhood land use plan would ensure that the zoning approval process is not done in a case-by-case, ad hoc way with each project proposal.
- *Set long-term affordability periods.* Affordable or workforce housing that is provided in exchange for increased density should come with long affordability periods to ensure that units remain affordable over the long term.
- *Combine density bonus with other cost offsets as part of a broad incentive-based inclusionary housing program.* Increased density could be a sufficient incentive to provide affordable or workforce housing in some submarkets in the city. However, in other markets, combining density provisions with other incentives and cost offsets, such as tax abatements (see section below), may be necessary.

Case Study: Fairfax County, Virginia

In 2010, Fairfax County adopted a 20-year comprehensive plan to guide major changes to the county's sprawling commercial center known as Tysons Corner. The plan envisions significantly greater development intensity within walking distance of four new Metrorail stations, which opened in 2014, along with mixed-use development, a walkable street grid, and other physical changes that support transit use.

The plan provides accretive up-zoning and other redevelopment options within a half mile of the new Metro stations in exchange for making 20 percent of new residential units affordable to low- and moderate-income households. Within a quarter mile of each Metro station, developers can build to an unlimited FAR with the provision of affordable housing. Elsewhere in each TOD district (within a half mile of the Metro stations), developments can access an FAR of up to 2.4 or 3.0, depending on whether office space is included, by providing affordable housing.

Housing Overlay District

An overlay zoning district is a second, mapped zone that is superimposed over the conventional, base zoning districts. A Housing Overlay Zone (HOZ) supplements a local jurisdiction's zoning ordinance to help produce or preserve affordable housing, often in places where market forces are driving rent increases or redevelopment. Rather than imposing requirements or restrictions, HOZs offer guidelines and incentives to developers to increase the potential for developing or preserving below-market-rate housing.

HOZs can be crafted in any number of ways, with various incentives, including increased density, relaxed height limits or setback requirements, reduced parking requirements, and fast-tracked permitting. Well-crafted incentives in an HOZ can motivate developers to take advantage of the overlay zone by reducing development costs.

Policy Considerations

Determining the most effective HOZ will depend on an analysis of the on-going zoning rewrite in Charlotte, as well as on feedback from residents and the development community. In general, however, the most effective HOZs are implemented in broad zoning districts and include lower-density or commercial zones, meaningful affordability qualifications, valuable incentives, and reliable exemptions from costly discretionary approvals. An affordable housing preservation district is another type of overlay district that is designed specifically to preserve existing, naturally occurring affordable housing (see discussion below).

If Charlotte opts to create an HOZ as part of its zoning code rewrite, creating a policy that incentivizes the production of affordable and workforce housing without stymieing overall development is important.

- *Provide carrots not sticks.* HOZs offer incentives for those who opt to provide affordable housing but do not penalize those who do not.
- *Determine the appropriate geographic scope for an overall zone.* HOZs can be site-specific or encompass a larger area (and can cross a variety of underlying zones). An overlay zone in Charlotte could be most appropriate in places where market pressures are leading to a loss of affordable and workforce housing, particularly in areas well served by transit, but should not target very specific sites.
- *Carefully evaluate incentives to include as part of an overlay district.* Work with the development community to gauge the incentives that would be most effective at encouraging the production or preservation of affordable and workforce housing in certain neighborhoods.

Case Study: Menlo Park, California

Menlo Park adopted its HOZ in 2013 to encourage the development of affordable housing for low, very low, and extremely low-income households.[20] Menlo Park's overlay district varies the percentage of affordable units required with depth of affordability and offers density bonuses and other incentives (fee waivers, diminished parking requirements) for developers seeking to build new housing within the district.

Affordable TOD District

The city of Charlotte has tremendous opportunities to create vibrant, inclusive communities near new transit investments. Coordinating transportation, land use, and housing planning will help ensure that transit-accessible neighborhoods are successful. Enterprise Community Partners has estimated that transit-oriented neighborhoods have property values that are 150 percent higher than neighborhoods not adjacent to transit.[21] A piece of that planning should

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[20] City of Menlo Park, California, Affordable Housing Overlay code, www.codepublishing.com/CA/MenloPark/?MenloPark16/MenloPark1698.html.

[21] Enterprise, Equitable Transit-Oriented Development, http://enterprisecommunity.org/solutions-and-innovation/equitable-transit-oriented-development.

include planning for the inclusion of affordable and workforce housing as part of transit-accessible communities.

Investment in public transit infrastructure can often lead to land speculation, new development, gentrification, and displacement of low-income households from station areas. As a result, inclusion of planning for mixed-income housing in TOD planning is important. Creating mixed-income housing options near transit helps connect lower-income individuals and families to jobs, health care, child care, and other services. It can also boost transit ridership, facilitate diverse economic development, encourage healthy living, and reduce the impact of traffic congestion.

Policy Considerations

The transit investments in Charlotte are an opportunity to expand commuting and travel options for residents, workers, and visitors. But these investments also offer unrivaled opportunities for high-quality development and resources to expand affordable and workforce housing options.

- *Planning for transit investments should include comprehensive land use and housing planning.* As early in the planning process as possible, stakeholders involved in land use and housing planning should work with transportation planners to set policies that will guide development near new transit lines.
- *Increased property values around transit investments means that land acquisition and other affordable housing preservation strategies need to begin early.*
- *Partnerships are critical for leveraging all possible opportunities for developing mixed-income housing around transit.* In addition to the city and the transit agency, successful TOD planning comprising affordable and workforce housing should include a broad set of stakeholders, including investors, nonprofit organizations, foundations, and others.

Case Study: Los Angeles, California

Transit-oriented districts are areas where Los Angeles County encourages infill development, pedestrian-friendly and community-serving uses near transit stops. The goal is to encourage a mix of uses and housing types in areas within approximately a quarter-mile to half-mile radius from transit stations. Many of the major commercial corridors within the transit-oriented districts are designated MU and zoned MXD. At a recent public meeting, planners in Los Angeles discussed the importance of including affordable housing in transit-oriented districts, particularly when density is increased.[22]

[22] Kevin Brass, "Integrating Affordable Housing into Plans for Transit-Oriented Development," *Urban Land*, October 12, 2016, http://urbanland.uli.org/development-business/integrating-affordable-housing-plans-transit-oriented-development/.

Ensure Preservation of Existing Workforce and Affordable Units

In Charlotte, as in many cities, a principal barrier to addressing housing affordability needs is that the cost of building new units typically requires rents that are beyond the ability of low-income residents to pay, unless substantial subsidies are provided. This factor puts a premium on "preserving" existing owner-occupied and rental units. By *preserving*, the panel means making the necessary capital improvements to ensure units are in decent condition while keeping the rents at levels current residents can reasonably afford. Preservation costs 30 to 50 percent less than building new, based on market factors.

Focusing preservation efforts on "naturally affordable" properties, that is, those without rent restrictions imposed by a subsidy program, is especially important. These properties may be especially vulnerable to either significant rent increases or long-term deferred maintenance, depending on their location and owner capacities and motivations. Both scenarios involve the loss of existing workforce and affordable units at a time the area cannot afford it.

Based on the Center's analysis of CoStar data, the Charlotte metro area has nearly 23,000 older rental units that CoStar categorizes as "1 and 2-Star" (roughly equivalent to Class C), which as a group have an average monthly rent of $739. The Charlotte metro area has more than 57,000 additional units that CoStar categorizes as "3 Star" (roughly equivalent to Class B), which as a group have an average monthly rent of $938. These 1, 2, and 3-Star properties account for roughly half the current inventory of apartment rental units (not including one- to four-unit properties) in the Charlotte metro area.

The panel recommends that Charlotte take the following steps to be in a better positon to preserve its existing workforce and affordable housing: (a) prioritize preservation as an activity of an expanded and enhanced Trust Fund, more widely used 4 percent LIHTC, and new Housing Opportunity Fund, as previously proposed; (b) explore creation of housing preservation overlay zones; and (c) ensure the housing locational policy does not impede appropriate preservation efforts – or new development.

Prioritize Preservation as an Investment Activity

The panel recommends that the expanded and enhanced Trust Fund, better used 4 percent LIHTC, and proposed Housing Opportunity Investment Fund all prioritize preservation of both for-sale and rental units, especially in areas where prices or rents are increasing or where significant neighborhood improvement efforts are underway.

Create Affordable Housing Preservation Districts

A Housing Preservation Overlay Zone can be an effective way to stem the loss of naturally occurring affordable housing by incentivizing the preservation or one-for-one replacement of affordable units as part of a redevelopment proposal.

Case Study: Arlington County, Virginia

Arlington County's Special Affordable Housing Protection District (SAHPD) identifies neighborhoods with existing affordable housing within the county's two Metro corridors. The goal of the SAHPD is to retain affordable housing opportunities (through preservation or replacement) in the county's high-cost transit corridors. In instances where redevelopment is proposed within these districts, developers can achieve higher densities if they include one-for-one replacement of existing affordable housing as part of their project. (One-for-one replacement has been interpreted as replacing the number of bedrooms or the gross floor area on a one-for-one basis.) Replacement can occur either on site or at a similar location off site.

Ensure the Housing Locational Policy Does Not Impede Appropriate Preservation – Or New Development

The panel understands and supports the rationale for the Housing Locational Policy. The panel recommends that the city and City Council apply reasonable flexibility under the policy to ensure that it does not impede the rehabilitation of existing workforce or affordable units that would be available at or above the local market rent, regardless of their location or whether the rehabilitation relied on public subsidy. In addition, the panel notes that Charlotte was not experiencing the level of rent/price increases and gentrification pressures in as many neighborhoods when the locational policy was adopted as it is today. Given these changing market conditions, the panel encourages a review of whether the policy should be revised with respect to new development, specifically in areas that may on the surface appear to have indicators of distress or disinvestment, but where new development of affordable units would help mitigate anticipated displacement pressures or stimulate broader revitalization.

Communicate the Importance and Benefits of Workforce and Affordable Housing

The success of the Trust Fund in generating strong voter support for the bonds that capitalize the fund is in large part owed to the education and outreach efforts of the Chamber of Commerce[23] and leading local companies.[24] Local affordable housing leaders such as the Charlotte-Mecklenberg Housing Partnership have compellingly framed their work in terms of

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[23] www.voteyesforbonds.com/housing/

[24] Ed Weisiger Jr., "Guest Column: How the City's $218 Million Bond Package Will Help Business," *Charlotte Business Journal,* October 28, 2016, www.bizjournals.com/charlotte/news/2016/10/28/how-the-citys-218-million-bond-package-will-help.html.

expanding access and opportunity.[25] Neighborhood residents have mobilized in support of mixed-income development with a YIMBY ("yes in my backyard") message.[26]

Efforts like these put a human face on housing needs and debunk myths and stereotypes regarding the families, essential workers, and senior citizens who reside in workforce and affordable housing. As Charlotte takes the necessary steps to a more comprehensive policy and more catalytic partnerships, the panel encourages stakeholders to invest in a robust communication capacity and strategy. Local philanthropy and national organizations such as Make Room[27] could be resources to such an effort. A sustained, multiyear effort engaging local leadership will ultimately be needed. It is critical that communications and education efforts be continuous, not limited to specific funding or advocacy efforts.

The panel also recommends that local elected officials and public agency staff be given more opportunities to learn about real estate development market dynamics and financial feasibility considerations. In Charlotte as in most cities, the interactions between the development community and public sector almost always occur in the context of a proposed project; at times the necessary negotiations can create tension.

More opportunities should be created for broader dialogue between the development community and public officials to enable each group to better understand the other's priorities and realities. Educational programming for public officials, potentially through ULI and other organizations, should be explored as well. The panel came away from its visit to Charlotte convinced that all parties share the same goals for a more prosperous and equitable community. Building relationships and mutual understanding is a necessary next step in making progress.

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[25] The Housing Partnership, *2015 Annual Report* (Charlotte, NC: Charlotte-Mecklenburg Housing Partnership, 2016), www.cmhp.org/wp-content/uploads/2016/09/Annual-Report-2016.pdf.

[26] Susan Stabley, "Charlotte City Council Approves Mecklenburg Mill Project Funding," *Charlotte Business Journal,* October 8, 2012, www.bizjournals.com/charlotte/blog/queen_city_agenda/2012/10/charlotte-city-council-noda-meck-mill.html.

[27] Make Room, www.makeroomusa.org/.

Appendix: Focus Group Participants

Focus Group I

J'Tanya Adams	Historic West End Partners
Mildred McCullough	Historic West End Partners
Melanie Sizemore	Charlotte-Mecklenburg Housing Advisory Board
Kathy Stilwell	Executive Director Mosaic Development Group
Brian Middleton	Charlotte-Mecklenburg Housing Advisory Board
Collin Brown	K&L Gates Legal Services
Greg Phipps	Charlotte City Council Member
Vi Lyles	Charlotte City Council, Mayor Pro Tem
Carol Stamper	Charlotte-Mecklenburg Schools, Chief Operations Officer
John Autry	Charlotte City Council Member
Jeff Brown	Moore & VanAllen law firm
Patsy Kinsey	Charlotte City Council Member
Ed Driggs	Charlotte City Council Member

Focus Group II

Julie Porter	Charlotte-Mecklenburg Housing Partnership
Ben Collins	Crescent Communities Developer
Stacy Lowry	Charlotte-Mecklenburg Housing Advisory Board
Laura Belcher	Habitat Charlotte (nonprofit housing provider)
Ed McKinney	City of Charlotte Planning Department, Interim Director
Amy Hawn Nelson	Institute for Social Capital, Director
Natalie English	Charlotte Chamber
Alysia Osborne	Center City Partners, Director of Historic West End Initiative
Craig Miller	Pappas Properties
Fulton Meachum	Charlotte Housing Authority, President/CEO
James Mitchell	Charlotte City Council Member

Focus Group III

Greg Jarrell	Thomasboro Neighborhood
Edwina Lytes	Neighborhood representative
Julie Eiselt	Charlotte City Council Member
Keith McVean	Moore & VanAllen law firm
Tony Korolos	City of Charlotte, Real Estate Division Manager
John Lewis	City of Charlotte, Transit Director
LaWana Mayfield	Charlotte City Council Member
Michael Smith	Charlotte Center City Partners

Bryan Holliday	Greater Charlotte Apartment Association
Warren Wooten	City of Charlotte Neighborhood & Business Services Department
Justin Markel	Charlotte Mecklenburg Housing Advisory Board
Mary Gaertner	City of Charlotte Neighborhood & Business Services Department
Zelleka Biermann	City of Charlotte Neighborhood & Business Services Department