
Inclusionary Housing Initiatives in North Carolina

A Case Studies Approach

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While no statewide policies mandate that municipalities must develop housing at every income level, some cities and towns in North Carolina are determined to do so. They employ a number of different strategies and planning tools to see that a fair proportion of new housing stock is affordable to low and middle income households. A group of planners collaborate here to showcase successful outcomes in four places: Chapel Hill, Davidson, Manteo and Greensboro.

Where we live has a significant effect on the quality of our lives. The community we live in affects our access to job opportunities, the quality of the schools our children attend, our use of public transportation, and the amount of involvement we have with our surrounding neighborhood. Many cities and towns around the United States and North Carolina have started to recognize how rapidly rising real estate values can push out or keep out the working families and individuals that make their community diverse and robust: school teachers, police officers, and fire fighters, to name a few.

In an era of ever-constricting state and federal resources, municipalities have had to be creative in addressing the demand for affordable housing. Turning to their own local government policy tools, places have used their zoning powers to create requirements and incentives to promote the development of affordable housing within the private market. The resulting inclusionary housing programs have become models for other communities across the country and state.

Inclusionary zoning is an innovative tool that can be used by municipalities to ensure adequate affordable housing is included in the normal course of land development. However, a distinction exists between this type of zoning and incentive zoning. Inclusionary zoning is a mandatory approach that requires developers to make a portion of the housing units in

their project affordable to low- and moderate-income households. Incentive zoning is a voluntary approach that either waives certain regulatory requirements or provides additional density allowances (the incentive) to developers in exchange for incorporating affordable housing into their proposed developments. Generally, this mandatory zoning approach to affordable housing (often in concert with density bonus, as is recommended) has been found to be the most effective

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means of increasing the number of affordable units and creates a wider variety of affordability levels within a development.

Four examples from across the state have been selected to demonstrate how inclusionary zoning and affordable housing ordinances can effectively provide housing to individuals who might not otherwise be able to afford to own a home. Two of the case studies – Davidson and Manteo – are examples of jurisdictions that have both incentive and mandatory zoning approaches to the need to provide housing for all. Chapel Hill, on the other hand, has not yet enacted an ordinance, but the town has outlined its expectations for affordable housing in its comprehensive plan and holds developers to clear goals throughout the approval process. Greensboro provides yet another approach to affordable housing, turning instead to the HOPE VI federal housing program to achieve neighborhood revitalization with a strong mixed-income component.

Town of Chapel Hill

Chapel Hill's Comprehensive Plan includes a strategy that states: "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."

This is a Comprehensive Plan policy and Town Council expectation, not an ordinance requirement. The Chapel Hill Town Council passed a resolution on March 6, 2000, with the objective of increasing the availability of affordable housing for low and moderate income households in Town. The policy states the Council's expectation that any rezoning requests with a residential component incorporate a 15% affordable housing feature into their plans with mechanisms to assure ongoing affordability. In Chapel Hill, "affordable housing" is defined as housing that is affordable to individuals and families with income levels at 80 percent of the areawide median or lower.

One key feature that the Town looks for in these affordable housing components is ongoing affordability (as opposed to assistance just to the first occupant). Mechanisms to assure ongoing affordability for owner-occupied housing include working with a local nonprofit land trust (more on



Greenway Condominiums

*Developed by White Oak Properties
16 one- and two-bedroom condo units*

that below), and/or including deed restrictions that allow the Town the right of first refusal to purchase the unit at a pre-determined price if the unit becomes available for purchase. The main mechanism to assure ongoing affordability for rental units is an enforceable condition of approval.

Chapel Hill's subdivision regulations require that a certain percentage of the lots that are created carry deed restrictions limiting size, which results in affordable prices. An applicant can choose to place deed restrictions on 25 percent of the lots in a new subdivision, or alternatively make provisions to assure that 15 percent of the units will be affordable.

Regarding the Land Trust: the organization is Orange Community Housing and Land Trust. This is a local nonprofit organization, supported in part by annual contributions from the Town. Information about the Land Trust can be found on the organization's website: <http://www.ochlt.org/>.



Rosemary Place at Meadowmont

*Developed by the Land Trust
32 two- and three-bedroom townhomes*

The Town is adding approximately 35 units per year to its supply of affordable housing through these approaches. The following page shows illustrative examples of affordable housing, payments-in-lieu of affordable housing, and requirements for size-limited dwellings, provided as components of new development proposals in Chapel Hill.

Town of Davidson

Historically, the small college town of Davidson has been home to a variety of moderate-income professions, such as college professors, store clerks, school teachers, artists, ministers, and police officers. As the region's population has grown rapidly and construction costs have increased, the Town of Davidson has experienced a significant rise in property values. The market value of land and houses is beyond the reach of many people of moderate means who live, work and have grown up in Davidson. Newly constructed single-family homes of approximately 2400 sq. ft. regularly sell at or around \$350,000 while existing homes have climbed to an average sales price of \$460,000 as compared to \$227,000 average sales price in the Charlotte/ Mecklenburg region of which Davidson is a part.

Maintaining an economically diverse citizenry and



Chapel Hill Projects with Inclusionary Elements

Wilson Assemblage (approved March 7, 2005)

- Council-approved Special Use Permit authorized 149 dwelling units and 50,000 sq. ft. of non-residential space
- A condition of approval required verification that the North Carolina Housing Finance Agency had approved a proposal for 32 tax credit affordable units in the adjacent Dobbins Hill Development

Chancellor's View Cluster Subdivision (approved October 11, 2004)

- Council-approved Preliminary Plat authorized 25 lots on 32.4 acres for single-family development
- Three of the lots (12.5 percent of total lots) are restricted to single-family dwelling units affordable to families earning 80 percent or less of Chapel Hill median-family income

Creekside Subdivision (approved April 14, 2003)

- Council approved Preliminary Plat authorized 9 lots on 11 acres
- Two (2) dwelling units (25 percent) were restricted to 1,350 sq. ft. in floor area for 30 months

Avalon Park Subdivision (approved January 13, 2003)

- Council-approved Preliminary Plat authorized 10 lots on 5 acres
- Donation of \$52,000 to the Town's Revolving Acquisition Fund to subsidize affordable housing initiatives

Rosemary Mixed-use Development (approved August 26, 2002)

- Council-approved Zoning Atlas Amendment and Special Use Permit
- Development comprised of 42 multi-family dwelling units (53,856 sq. ft.) and 6,204 sq. ft. of non-residential floor area
- 6 units (15 percent) to be rental units available to families earning 80 percent or less of the median 3-person family income

Meadowmont Hilltop/Greenway Condominiums (approved April 22, 2002)

- Council-approved Special Use Permit
- Development comprised of 64 multi-family dwelling units
- 16 units (25 percent) to be either in the Land Trust or with deed restrictions ensuring affordability for buyers earning 76-100 percent of the median-family income depending on the specific option and unit

Cross Creek Subdivision (approved April 22, 2002)

- Council-approved Preliminary Plat authorized 17 lots
- Restrictions on dwelling unit sizes were included for two lots: One house limited to 1,100 sq. ft., two limited to 1,350 sq. ft.
- 100 percent sponsorship of a Habitat for Humanity house in the Chapel Hill planning jurisdiction

The Homestead Townhomes (approved June 25, 2001)

- Council-approved Special Use Permit & Zoning Atlas Amendment
- Development includes 191 multi-family dwelling units and 385,000 sq. ft. of floor area
- 30 dwelling units (15.7 percent) reserved as permanently affordable units for qualified buyers

Wilshire Place Condominiums (approved June 11, 2001)

- Council-approved Special Use Permit Modification
- Development consists of 12 multi-family dwelling units and 14,500 sq. ft. of floor area
- \$36,000 payment-in-lieu (\$3000/unit) for affordable housing to the OCHC

Chapel Ridge Apartments (approved November 13, 2000)

- Council-approved Special Use Permit and Zoning Atlas Amendment
- Development consists of 180 multi-family dwelling units and 220,844 sq. ft. of floor area
- 24 one-bedroom/one bath multi-family dwelling units permanently available for rent to eligible households (Section 8 vouchers, and/or households earning less than 80 percent of the area median income)

Parkside II Cluster Subdivision (approved July 5, 2000)

- Council-approved Preliminary Plat authorized 67 lots
- Restrictions on dwelling unit size were included for 17 lots: ten houses were limited to 1,100 sq. ft., seven houses were limited to 1,350 sq. ft.

encouraging the production of affordable housing are priorities of the Davidson Town Board. In 2001, the Board adopted an affordable housing ordinance requiring every new development (with a few exceptions) to set aside 12.5 percent of all planned units for affordable housing. In 2005 and 2007, the ordinance was amended to include affordable housing guidelines and standards.

Developments with seven or fewer units must either provide one affordable unit or make a payment-in-lieu to the Town of Davidson's affordable housing fund. Developments with eight or more are required to set aside 12.5 percent of the units as affordable. For example, in a 40-unit development, the builder would build five affordable units. With this many units, developers are then required to distribute the affordable units among different income categories. Hence, out of five affordable units, two must be made available to households with incomes less than 50 percent of the area median income. The other three units must each be priced appropriately for households with incomes between 50-80 percent of AMI, 80-120 percent of AMI, and 120-150 percent of AMI, respectively. For smaller developments whose share of affordable units is less than five, the developer chooses which income levels to target, bearing in mind that the Town Board favors building units for the lowest two income brackets. But this plan does give some leeway for the developer to make a case for the higher affordable brackets, depending on the available stock. While the Town prefers that affordable units be constructed on-site, especially in locations close to transit, the developer may opt out of the minimum required percentage by making a payment-

in-lieu of \$74,000 per affordable unit to the affordable housing fund. The payment represents the cost difference to the developer of providing one market-rate unit as compared to an



affordable unit. This figure was derived using a formula included in the ordinance.

The ordinance states that affordable housing will be designed to complement the neighborhood. This requires that the exteriors of the affordable units be similar to those of market-rate units in the same development. The ordinance also requires that permanently affordable units be "functionally equivalent" to market-rate units. This means that when features are included in market-rate units, such as kitchen cabinets, countertops, dishwasher, etc., then equivalent features must be included in the affordable units. The features do not need to be identical. The Town allows variations, such as laminate rather than Corian countertops, which result in an equivalent

livability outcome. Affordable units are also required to meet minimum size requirements based on the number of bedrooms and unit type (attached or detached).

Developers are required to submit an affordable housing plan for approval by the Town Board prior to the release of the development's preliminary plat. The plan must illustrate how the project will meet the affordable housing program requirements. In addition, the Town requires deed restrictions which impose resale and rental price limitations. These covenants are



designed to preserve affordability for future qualified home-buyers or renters. Affordability must be maintained for 99 years.

The ordinance is intended to assist income-qualified households in purchasing or renting affordable homes. Income-eligible households have been traditionally defined as those whose income is 80 percent or less of the area median income. However, the Town of Davidson's ordinance includes households with incomes up to 150 percent of the area median income. The median income for a family of four in Mecklenburg County is \$60,200. A household with this income would have only \$1150 per month available for a house payment, leaving them unable to afford the median home in Davidson. With these rates, Davidson has a demonstrated need for an expanded affordable housing stock, but the development process from the master plan to the issuance of building permits may take several years. Consequently, the Town of Davidson is working to address this need for affordable housing.

Currently, there are 68 affordable housing units in Davidson. Six of the units exist per the requirements of the mandatory affordable housing ordinance while the other affordable housing units are held in a land trust by the Davidson Housing Coalition, a non-profit 501(c)(3) organization that works in conjunction with the Town to provide affordable housing. Additionally, the Town has collected or is owed approximately \$600,000 in payment-in-lieu fees. Under the 2001 ordinance provisions, developers were allowed to dedicate land in lieu of building affordable units. As a result, the Town has several valuable parcels of land, donated by developers upon which to construct units for income-qualified households. The Town of Davidson expects to offer 20+ additional affordable units available for sale or rent by the summer of 2008 and to have approximately 200 affordable housing units on-line in the next five years.

Town of Manteo

The Town of Manteo, county seat of Dare County with a population of approximately 1,300, is located on Roanoke Island, part of the Outer Banks of North Carolina. Over the past century, Manteo's economy has shifted from maritime-based industries (fishing, crabbing, boat-building, etc.) to a more tourist-based economy featuring the NC Aquarium, Lost Colony outdoor drama, Elizabethan Gardens, and attractive downtown waterfront district. Although bolstered by the mostly seasonal tourism industry, Manteo is a fully functioning small town with a majority of property owners maintaining year-round residency.

As property values increased sharply on the Outer Banks over the past decade, Manteo struggled with the availability of affordable housing for its low and middle class working citizens. In response to these concerns, the Town of Manteo adopted an inclusionary affordable housing ordinance (IAHO) in May 2004. The objectives of the program are clearly outlined in the initial paragraph of the IAHO:

The purpose of this chapter is to promote the public health, safety, and welfare by promoting housing of high quality located in neighborhoods throughout the community for households of all income levels, ages and sizes in order to meet the town's goal of preserving and promoting a culturally and economically diverse population in our community. The diversity of the town's housing stock has declined because of increasing property values and construction costs. The town recognizes the need to provide affordable housing to low and moderate-income households in order to maintain a diverse population and to provide housing for those who live or work in the town. Without intervention, the trend toward increasing housing prices will result in an inadequate supply of affordable housing for town residents and local employees, which will have a negative impact upon the ability of local employers to maintain an adequate local work force and will otherwise be detrimental to the public health, safety, and welfare of the town and its residents. Since the remaining land appropriate for new residential development within the town is limited, it is essential that a reasonable proportion of such land be developed into housing units affordable to low and moderate income households and working families.

A number of specific requirements inform Manteo's affordable housing policy:

- Manteo's IAHO applies to all new construction or renovation projects resulting in the creation of five or more residential units. In addition, the IAHO applies to all subdivisions containing five or more new lots.
- The IAHO requires that 20 percent of all new housing units and lots are provided at affordable prices.
- To offset the cost of this requirement to developers, Manteo created a density bonus system in which a developer is granted one additional market-rate unit or lot for each affordable dwelling unit or lot developed.
- In order to prevent excessive density, the density bonus has a cap. The bonus units cannot exceed 25 percent of the number of market-rate units or lots, and in no case shall exceed six units beyond the number of required affordable units. Lots can be no smaller than 6,000 square feet.
- The affordable housing units or lots are required to be dispersed among the market-rate units throughout the property. The exterior appearance of the affordable units must be compatible with the surrounding residential units.
- A phasing plan ensures that the affordable units are implemented in a timely manner during the development process.
- At least 50 percent of the affordable units must be provided at 65 percent of the area median household income, which is considered to be a low income household. The remaining affordable units can be provided at 80 percent of the area median household income, which is classified as a medium income household.
- Affordable units or properties must first be offered to residents and employees of Manteo.
- Resale of affordable housing units and properties requires review by the Town. Sales prices are limited to the original sales price plus a multiplier determined by the Consumer Price Index (CPI) and the fair market value of any improvements. This stipulation is meant to keep the units affordable in perpetuity.

Since the adoption of the IAHO, the Town of Manteo



has granted approval of five eligible projects totaling 28 affordable housing units or lots. One such project is The Flats Subdivision, which includes 20 market-rate units and four affordable units. The developer has subdivided the property and is constructing single-family residences. Two residences will be made available at a price of \$118,300 (65 percent of median income). The other two affordable residences will be made available at a price of \$145,600 (80 percent of median income). At this time, several market-rate units and the first two affordable homes are under construction and planned for completion by the end of 2008.

The Willow Oaks Community in Greensboro

In 1992, Congress created the Urban Revitalization Demonstration Program, also known as HOPE VI, to revitalize distressed public housing by providing flexible block grants to local Public Housing Authorities. The primary physical objective of the program was to reconnect “the projects” with surrounding neighborhoods using a locally-determined mix of renovation, demolition, and new construction, which would integrate publicly subsidized units with market-rate housing. In communities where significant numbers of public housing and substandard market-rate units are demolished, HOPE VI grants can provide opportunities for complete neighborhood revitalization with a strong mixed-income residential component.

One such neighborhood benefiting from the HOPE VI initiative is in the southeast quadrant of Greensboro and contains the Morningside Homes project, which provided 380 units of public housing covering 30 acres. When Morningside was constructed in the 1950s, the surrounding community was solidly working class. Over time, as the economy changed and residential segregation increased, Morningside Homes experienced a concentration of very low-income households, and the look and feel of the neighborhood as a whole subsequently changed. A building survey conducted by the city in 1998 concluded that 75 percent of the buildings in the Morningside/Lincoln Grove redevelopment area met the definition of blighted, and a substantial number of housing units were vacant and boarded up.

In the fall of 1998, the Greensboro Housing Authority (GHA) was awarded a \$23 million HOPE VI grant to improve Morningside Homes. Greensboro’s HOPE VI project, renamed Willow Oaks by the residents of Morningside and the surrounding area, is a partnership between community residents, private builders, lead developer Mid-City Urban, GHA, and the City of Greensboro. The City committed \$12.4 million to assemble additional land for development around the old public housing site and to provide improvements and upgrades to the surrounding infrastructure. Ultimately the plan will encompass 250 acres and some 1000 units, counting both the new construction and the existing units,

which will benefit from the extensive improvements.

Prior to redevelopment, the Morningside/Lincoln Grove neighborhood was characterized by high density, substandard rental housing, the City’s highest crime rate, a median income 74 percent lower than the citywide median, and an unemployment rate over 15 percent. Over 40 percent of the population lived below the poverty level. While demolition of Morningside Homes was significant in lowering crime in the area, dramatic changes would be required to create a community where people would choose to live.

Through a series of public design workshops, Duany Plater-Zyberk & Company Town Planners (DPZ), internationally known proponents of New Urbanism, prepared a conceptual master plan and design standards for development of the mixed-use, mixed-income community that would be known as Willow Oaks. Project components include over 250 homes for sale, over 200 townhomes for lease, a Village Center with a community/childcare building and space designated for neighborhood businesses, and scattered pocket parks. In coordination with the master planning process, the City and the Redevelopment Commission of Greensboro prepared a comprehensive Redevelopment Plan, which was adopted in July 2000. In February 2001, a Traditional Neighborhood Development Plan was finalized and the central redevelopment area was rezoned to TN-1.

A mixed-income resident base is the foundation of the new community. Greensboro’s TN-1 zoning designation encourages a wide income spread by allowing for a fine-grained mix of unit types, sizes, and designs. Rental and owner-occupied units in Willow Oaks are designed to appeal to and house a broader-than-usual range of income levels, including those who meet public housing eligibility requirements. By design, block faces have a seamless look regardless of whether units are rented or owner-occupied, subsidized or market-rate.

All residential units in Willow Oaks are privately developed and will be privately owned and managed. Three Low Income Housing Tax Credit projects—The Villas at Willow Oaks, a 40-unit senior village, and The Townhomes and The Havens at Willow Oaks which offer 170 family units—are fully occupied with lengthy waiting lists even though the overall vacancy rate for rental units in the City is above 7 percent. Construction of single-family homes is ongoing, with 60+ homes sold or under construction. The Community/Child Development Center is complete, and predevelopment on the commercial component of the Village Center is in progress.

On paper, Willow Oaks seemed to have a high probability of success. The master plan was developed by well-known town planners; \$37 million in public investment was available; existing infrastructure could be upgraded at a reasonable cost; and the location was close to a downtown district experiencing revitalization

of its own. But successful redevelopment projects are more than the sum of their parts. In 1998, only 24 percent of dwellings in the project area were owner-occupied compared with 54 percent citywide. The median income for the neighborhood was \$11,700, which is 26 percent of the City median income and well below the HUD definition of “low-



income.” It was clear that success at Willow Oaks would only be achieved through consistent adherence to the principles and commitments set out in the HOPE VI application and the City’s redevelopment plan.

The master plan subdivided the land into lots for approximately 500 dwelling units, divided almost equally between attached and detached units. With 210 Low Income Housing Tax Credit rentals already planned for households earning less than 60 percent of area median income, it was obvious that in order to create a truly mixed-income community, the majority of for-sale homes would be marketed to buyers who could choose to live elsewhere in Greensboro. The challenge was to upgrade the neighborhood to a community of choice rather than a community of last resort while still providing opportunities for former residents and other low-income households to participate. As the lead developer explained early on, Willow Oaks had to offer market-rate buyers “screaming value,” or in other words, products of high quality and design at price points lower than they would find in other developments.

Houses in Willow Oaks represent the Craftsman, Colonial, and Victorian architecture that is predominantly found in desirable urban neighborhoods in Greensboro. A town architect hired by the City provides plan review for compliance with the Willow Oaks Architectural Standards and construction oversight to assure compliance with the approved set of plans. Builders initially expressed concern that the standards required a level of architectural detail and material upgrades that would price the houses out of the market, but they found the design standards flexible enough to provide for creative alternatives that proved cost-effective.

One obvious measure of success is the current and predicted private investment in a neighborhood that had all but given up hope. Beautiful new buildings and residents determined to live in a vibrant and viable community are an inviting environment for private investors. Building permit applications for existing single properties around Willow Oaks have increased, and private developers have spent millions of dollars for land to develop student housing units within and contiguous to the boundaries of the redevelopment area.

Construction of residential units began in 2003.

The effects of the redevelopment on the surrounding neighborhoods will not be fully understood until 2010 census data is compiled and released, but income data



from current residents suggests that Willow Oaks is well on its way to becoming the mixed-income community it was intended to be. With its emphasis on a variety of unit types, ownership and rental opportunities

are available to a wide segment of Greensboro’s population. For-sale homes are marketed to prospective buyers at all income levels, including those in the low to moderate range.

Summary

Inclusionary housing has become a popular tool both in our state and across the nation for addressing the shortage of affordable housing. Inclusionary zoning requires developers to reserve a certain percentage of new residential development as affordable to low- and moderate-income households. Four examples of jurisdictions in North Carolina that have successfully used both mandatory and incentive housing ordinances and a federal housing program have been discussed. These case studies present viable solutions to the affordable housing crisis and are models of how local governments in the state can respond to this widespread shortage.

Editor’s Note: *One of the reasons inclusionary zoning is not employed more often in North Carolina may be its ambiguous status before the law. In the absence of specific enabling legislation, local governments are left wondering whether an inclusionary zoning ordinance will be upheld on the basis of general land use and zoning powers clearly granted to municipalities, or whether it may be viewed as a form of tax or as an act that oversteps the bounds of expressly authorized authority. Attempts to introduce legislation authorizing Triangle communities to enact inclusionary zoning ordinances failed in 2002 and 2004. On the other hand, the only places that have adopted mandatory ordinances, Davidson, Manteo, and Kill Devil Hills, have not been challenged in court. Wilmington, Durham and Durham County, Winston-Salem and Forsyth County, and Orange County have gone the route of seeking specific authorization to enact voluntary programs that are similar in style to inclusionary zoning ordinances. Candace Stowell’s article on the following page details the assistance that a reformed legislative policy could give to communities across the state.*