



# Memorandum

**TO:** Mayor Allen Joines and Members of the City Council  
**FROM:** A. Paul Norby, Director of Planning and Development Services  
**DATE:** June 9, 2015  
**SUBJECT:** Affordable Housing

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As part of its 2014-2015 work program, City Council requested that Planning staff review and prepare a report on potential revisions of Section 3-9 of the *Unified Development Ordinances (UDO)*, *Bonus Density for Affordable Housing*, which is based on a concept known as voluntary inclusionary zoning. Its purpose is to incentivize the creation of affordable housing for low- and moderate-income households in locations favored by the market. This provision offers housing developers greater density in return for reserving a percentage of housing units for lower-income households. Since its adoption with the UDO, this provision has never been used.

## Affordable Housing and Location

Economics and urban policy research demonstrates the importance of economically integrated housing opportunities. A study published this year of the best and worst counties for poor people ranked Forsyth County as among the worst in the country in helping poor children move up the income ladder. A child growing up in a poor family in Forsyth County is expected to earn \$6,200, or 24 percent, less per year as an adult than a child growing up poor in an average county. A companion study found that children who moved at an early age to lower-poverty areas earned approximately 31 percent more than those who remained in high-poverty neighborhoods. And, while adults moving to lower-poverty areas did not see the same income gains, they greatly improved their mental and physical health. In fact, where you live can even affect how long you live, as life expectancy is shown to vary by 16 years or more between ZIP codes in the same city. These studies do not conclude what makes living in high-poverty areas so detrimental, but it is likely a combination of lower performing schools, fewer job opportunities, less access to primary care doctors, lower availability of fresh foods, the presence of lead and other environmental toxins, and the stress of living in high-crime areas.

Many of Forsyth County's apartments are affordable. Using standard guidelines, the median rent for a two-bedroom apartment in Forsyth County, which is \$693/month, is affordable to a family of four making 60% of the area median income (AMI)<sup>1</sup>, or \$33,660. Forsyth County also has a great deal of affordable single-family houses for sale, although tougher lending standards enacted since the recent recession have put these houses out of reach for many buyers. Nevertheless, these numbers say little about affordable housing located outside of high-poverty neighborhoods since they are averages for the entire county.

A search of Forsyth County apartment complexes using various websites and speaking with property managers showed numerous available apartments at affordable price points. However, many of Forsyth County's newest multifamily developments are priced well above average (**Table 1**). Many of these developments appear to be aimed at student renters, medical school residents, young professionals, and a demographic looking for a luxury experience with amenities like fitness centers, tennis courts, structured

<sup>1</sup> With no more than 30 percent of gross household income being spent on rent and utilities, a family of four making 60 percent of Area Median Income (AMI) in Forsyth County (\$56,100, according to HUD) can afford to spend \$841/month on a two-bedroom apartment. Assuming \$100/month for utilities and insurance, this leaves \$741/month for rent.

**City Council:** Mayor Allen Joines; Vivian H. Burke, Mayor Pro Tempore, Northeast Ward; Denise D. Adams, North Ward; Dan Besse, Southwest Ward; Robert C. Clark, West Ward; Molly Leight, South Ward; Jeff MacIntosh, Northwest Ward; Derwin L. Montgomery, East Ward; James Taylor, Jr., Southeast Ward; City Manager: Lee D. Garrity

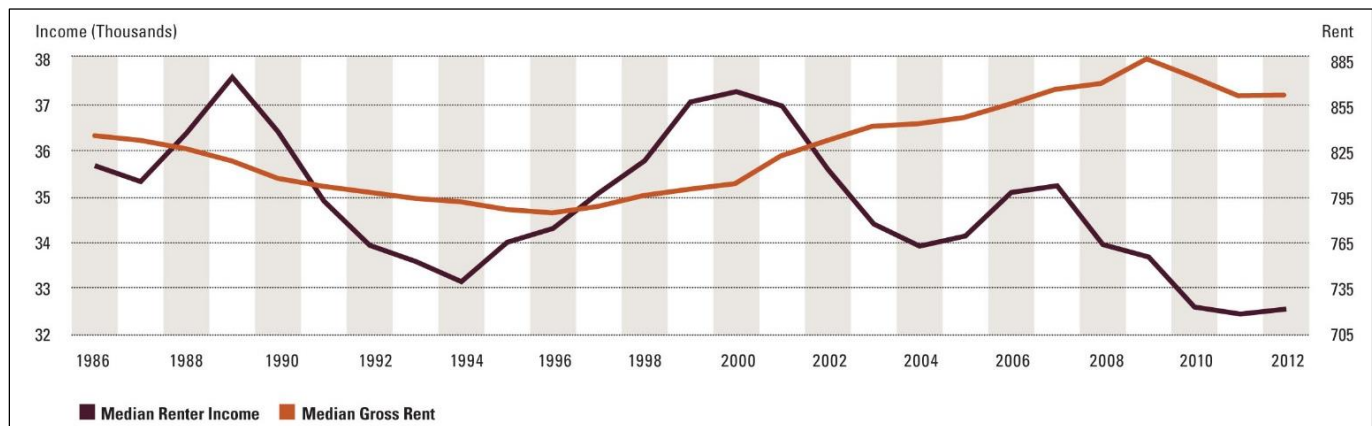
**Forsyth County Commissioners:** David R. Plyler, Chairman; Don Martin, Vice Chair; Ted Kaplan; Richard V. Linville; Walter Marshall; Gloria D. Whisenhunt; Everette Witherspoon; County Manager: Dudley Watts, Jr.

**City-County Planning Board:** Arnold G. King, Chair; Allan Younger, Vice-Chair; George M. Bryan, Jr.; Melynda Dunigan; Tommy Hicks; Clarence R. Lambe, Jr.; Darryl Little; Paul W. Mullican; Brenda J. Smith

parking, and saltwater pools; however, it is possible that the creation of a new wave of high end luxury apartments will make slightly older apartments more affordable as the relative place of these units in the market changes. However, it may also be a signal of a structural price change that housing will be proportionally more expensive to renters in the future (**Figure 1**).

**Table 1. Forsyth County Market-Rate Multifamily Developments, 2-Bedroom Units, 2008-Present**

Development Name	Street	Starting Price
The Edge	West First St	\$1,700
Link Apartments Brookstown	Peters Creek Pkwy	\$1,445
Gallery Lofts	East Sixth St	\$1,335
Plant 64	Research Pkwy	\$1,280
Winston Factory Lofts	North Main St	\$1,245
Lofts at Little Creek	Hanes Mall Blvd	\$1,125
Robinhood Court Apartments	Robinhood Rd	\$980
The Pointe at Robinhood Village	Robinhood Rd	\$899
Burke Ridge Crossing	Burke Mill Rd	\$896
Hilltop House Downtown	South Cherry St	\$850
Stafford Place	Peters Creek Pkwy	\$835
Wallburg Landing	Thomasville Rd	\$815
The Pointe at Peters Creek	Peters Creek Pkwy	\$789



**Figure 1. Rent Prices versus Median Renter Income in 2012 Dollars, 1986 -2012**

**Source: Joint Center for Housing Studies of Harvard University**

### Voluntary Inclusionary Zoning Provisions in NC

Inclusionary zoning provisions can be attractive tools to municipalities looking to increase the number of affordable housing units in their communities. There is little cost associated with their implementation and the results have great upside potential. When they work, such provisions are a win-win for developers as well as proponents of low-cost housing. However, if developers do not find them attractive, they will not be implemented.

Asheville, Charlotte, and Durham all have voluntary inclusionary zoning provisions, but none have produced affordable housing units to date. Durham's provision was adopted more than fifteen years ago and their City-County Planning Department is currently working on a revision that proposes to increase the density bonus twofold in areas that are within walking distance of stations on the proposed Durham-Orange County light rail line. Asheville originally adopted its provision in 2010 and updated it in December 2014 to allow bonus density for affordable housing in commercial zoning districts. Charlotte adopted its affordable housing provision in 2013.

Voluntary inclusionary zoning provisions typically have five main components:

- Percentage of units set aside as affordable;
- The percentage or number of bonus housing units allowed to the developer;
- The targeted income level of households in affordable units (usually a percentage of Area Median Income);
- Whether the provision is geographically restricted to certain areas of the municipality, and
- Whether lot and/or setback reductions are given as part of the developer's incentive.

Winston-Salem/Forsyth County's existing voluntary inclusionary zoning provision, adopted in 1994, offers a 25 percent bonus density for duplex or multifamily units if 40 percent of the units are rented to families earning less than 60 percent AMI or if 20 percent of the units are rented to families earning less than 50 percent AMI. For single family detached units, a 25 percent bonus density is offered if 25 percent of all units are sold to families earning less than 80 percent AMI. The Winston-Salem/Forsyth County provision has some features that make it more flexible than other cities', including trading of bonus density for donation of land to Forsyth County or the Housing Authority of Winston-Salem.

**Table 2. Selected North Carolina Affordable Housing Provisions**

	Asheville		Charlotte		Durham		Winston-Salem	
	SF	MF	SF	MF	SF	MF	SF	MF
<b>Set Aside</b>	20% min.		Up to 25%	Up to 20%	15% min.		25% of all units	20-40% of bonus units
<b>Density Bonus</b>	20-100%		+3 DU/acre	+2-5 DU/acre	15-20%		25%	
<b>Targeted Income</b>	50-120% AMI		80% AMI		50-60% AMI		80% AMI	50-60% AMI
<b>Geographic Restricted</b>	Yes		Yes		No		No	
<b>Lot/Setback Reduction</b>	Yes		Yes	No	Yes	No	No	

### **Mandatory Programs in NC**

Some municipalities in North Carolina have attempted to avoid the hurdles of voluntary inclusionary zoning provisions by making affordable housing production a mandatory component of new residential development. The towns of Chapel Hill, Davidson, and Manteo, known for their higher than average housing costs, all require a percentage of *owner-occupied* housing units to be priced as affordable. These provisions push the limits of the law as there is no enabling legislation for this type of provision in the NC General Statutes and rent controls are expressly prohibited. Davidson's provision is currently facing a legal challenge.

### **Obstacles to Voluntary Inclusionary Zoning and Bonus Density**

The chief reason voluntary inclusionary zoning has not been used in Winston-Salem/Forsyth County is one of building codes and construction materials. Increased density actually increases the cost of construction. In the case of multifamily housing, the required zoning is often easy to get and developers can already get all the density they desire from conventional stick-built construction. If bonus density were taken advantage of, developers would be required to build taller than 4-5 stories in many cases and use steel and concrete construction, making the cost per housing unit more expensive. The relatively low rents and housing prices in Winston-Salem/Forsyth County (compared nationally, and especially when compared to places where voluntary inclusionary zoning has been successful), prevent developers from

recouping any losses incurred by reserving affordable units.

Voluntary inclusionary zoning provisions that offer bonus density essentially create a discount on land. And, with land being one of the less expensive components of multifamily housing here, such an affordable housing provision is not attractive to developers. Other factors that make voluntary inclusionary zoning unattractive for multifamily development include:

- Structured parking is usually needed to accommodate cars in infill areas;
- Inclusionary units are more likely to be built in the same building as market-rate units, which makes it more difficult to build inclusionary units at a lower cost; and
- Developers often take on more risk with high-rise developments because they cannot be built incrementally in response to market demand, unlike “horizontal” developments in lower-density settings.

In the case of single-family housing development, the preponderance of fairly dense RS-9 and RS-7 zoning (which allow 9,000 and 7,000 square foot minimum lot sizes, respectively) would make bonus density redundant for most developments. Other factors that make taking advantage of bonus density for single-family and for-sale units unattractive include:

- Given tightened lending standards by banks, it can be difficult to find lower-income buyers who can qualify for a mortgage;
- HOA (home owner association) fees can rise higher than what inclusionary unit residents can afford;
- Adding designated affordable units to a subdivision can lower the valuation of market-rate housing units, making developers wary of the provision; and
- There is a preference for larger yards and lot sizes by many buyers that would make denser single-family subdivisions less marketable.

### **Other Inclusionary Zoning Incentives**

Besides bonus density provisions, there are other development incentives that could make affordable housing production more attractive to for-profit developers. Relaxing lot coverage and/or public space requirements is one way to actually increase housing density without creating the requirement for builders to switch to higher-cost construction methods. Relaxed parking requirements for affordable units, especially where parking structures are needed, would also lower development costs and make higher density more affordable to build. The national median parking structure construction cost in 2014 was \$18,038 per space (Source: Carl Walker, Inc.). Direct financial incentives or other financial assistance could also prove attractive, although property tax abatement specifically is not legal in North Carolina. The City or County could also provide public land at discounted cost with the condition of providing affordable housing.

### **Improving Winston-Salem/Forsyth County’s Inclusionary Zoning Provision**

Affordable housing and economic integration are important goals, especially in Winston-Salem and Forsyth County, where income mobility for poor people is nearly the lowest in the country. While fixing underlying neighborhood problems is preferable to moving people from one neighborhood to another, the inclusionary zoning provision is a low-risk way for Winston-Salem and Forsyth County to make affordable housing production more attractive to developers.

There are a number of possible tweaks that could improve the existing ordinance, such as the incentives described above, especially:

- Relaxed lot coverage requirements;
- Relaxed parking requirements for development containing affordable units; and
- Financial incentives or assistance for affordable units.

Winston-Salem/Forsyth County may also want to investigate making the inclusionary zoning provision geographically restricted. Given the research on negative outcomes, especially for children, for those living in high-poverty neighborhoods, it is not in the public's interest to give bonus density for housing units in such areas. Restrictions of bonus density to low-poverty areas should be considered. Additionally, it may also be beneficial to give a larger bonus density in areas within walking distance of a grocery store, within a high-performing school district, and/or near an employment center.

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