

# Affordable Housing Best Practice

**RTI International**

Zachary Oliver, Dana Schoewe, Sara Lawrence

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## Introduction

In order to develop a more sustainable economy for all workers, Dare County seeks to understand the various policies and best practice solutions that other communities have used to help broaden the housing options accessible to the local workforce. A supply of housing that accommodates employees at all levels of the income spectrum, including those employed in the tourism and service industries, can contribute to a more sustainable tourism sector. In addition, increasing housing options for local public servants and teachers is important because a well-functioning local government is important for community and economic development.

To help inform Dare County about the various policy tools that can be used to address the lack of affordable housing options in the region, RTI reviewed academic and policy literature on affordable housing tools and interviewed experts and practitioners throughout North Carolina about best practices for expanding affordable housing options at the local level. We interviewed individuals in Wilmington, NC; the City of Asheville, NC and Buncombe County, NC; a multi-county region in western North Carolina; and several other North Carolina affordable housing experts within the university, non-profit, and commercial sectors.<sup>1</sup> We chose these particular communities because they each have a tourism dimension and Asheville and Wilmington have sizeable second home markets. We focused on communities within North Carolina because of state-to-state differences in affordable housing practices and laws.

We found that local governments and partners can help lighten the burden of high housing costs by proactively putting policies and practices in place to expand affordable housing options. Fortunately, there is a rich body of literature and many examples to draw upon within North Carolina.

### 1. Affordable Housing in Dare County

Dare County is a very desirable place for tourists and locals alike given the abundant Outer Banks beaches, waterways, and historical landmarks in the region such as the Wright Brothers National Memorial and Fort Raleigh National Historic Site. As tourism in the county has grown over time, so has the scale of short-term rental properties and the second home market. This feature of the local housing market drives up housing costs (both to rent and buy) making it difficult for local low-to-moderate income households to find affordable housing in the county. In one sense, a large number of the housing units are inaccessible for year-round renters and are thus underutilized. In fact, it is estimated that 50% of units in Dare County are for seasonal use (Tippet 2015).<sup>2</sup>

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<sup>2</sup> There are approximately 33,783 total housing units in Dare County, which means that there are almost as many housing units as full-time residents. This ratio of housing units to full-time residents is highly uncommon and is another indicator of the large second home market in the county.

Due to these factors, housing in Dare County is more expensive on average than in surrounding counties and the state. It is estimated that 38.5% of renters in the county are overburdened, meaning they spend more than 30% of their income on rent (ACS 2013). There are Currently, Dare County has very few formal affordable housing options – only 0.5%<sup>3</sup> of the total units in the housing stock are “affordable” based on a preliminary scan conducted by RTI.

Affordable housing was mentioned as an important issue in interviews that NC State University conducted with stakeholders in the region. This is not surprising given that a relatively large population employed in low-wage service sector jobs that support the tourism industry. Of 19,400 workers in the county, 4,700 people are employed in accommodation and food services – this is the largest sector by aggregate employment in the county – and another 3,700 are employed in retail (NC Commerce, 2015a). Overall, these two sectors make up 43% of total employment in the region. In North Carolina, these sectors only make up 21% of total employment. (NC Commerce, 2015b).

Dare County also has a relatively large elderly population, with 25% of residents over 60 years of age, while neighboring counties have an elderly population of around 15% (NC Commerce, 2015a). Many elderly individuals are no longer actively involved in the labor force and rely on modest fixed income payments to subsist. Service-sector workers, the elderly population, and aforementioned public servants would all benefit from expanded affordable housing options.

### Affordable Housing Initiatives

In order to make recommendations practical rather than redundant, RTI gathered information about current and former affordable housing initiatives in the county. Between 2000 and 2012, the Outer Banks Community Development Corporation (CDC) was active in providing housing services and facilitating the development of affordable housing projects. In 2012, CDC went bankrupt due to a lack of sustainable funding. Although CDC operations ultimately came to an end, it was involved in several affordable housing projects.

The CDC was also involved in an affordable housing development in Coinjock in Currituck county, and was working with the county on the “Bowsertown” project in which the county would own the property which is located adjacent to what was at one time a state-owned boat ramp, but the CDC was unable to secure private financing and in June 2016 the county closed the books on this joint-venture. Since the CDC closed in 2012, there has not been a new entity set up to do similar work.

Currently, Dare County has a zoning ordinance called the Family Housing Incentive Standards (FHIS). FHIS offers developers a 20% to 50% increase in density in exchange for 25 years of affordable rental or ownership. Only one project has been developed under this ordinance since the FHIS was created in 2004. There are several reasons why FHIS has had limited uptake. First, due to a lack of central water and sewer in much of the county, it can be hard for developers to take advantage of the density bonus offered by FHIS. This minimizes the incentive effect. There are also cultural issues at play. Most of unincorporated Dare is single family homes and people may not be accustomed to more dense multi-family housing options. Finally, it was noted by one individual in the county that local developers do not have much experience with affordable housing projects and don’t know how to “chase the money” to make the numbers work.

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<sup>3</sup> Calculated as 170 units divided by 33,783 total units in the county.

At the city level in the county, Manteo is the only incorporated part of the county that has specifically tried to expand affordable housing. Manteo is one of only three municipalities in North Carolina that has a mandatory inclusionary zoning policy. Manteo ordinances requires new developments to offer 20% of total residential units at affordable rates (Town of Manteo, 2010).

### Current Stock of Affordable Housing

Based on our research to date, the county has 9 designated affordable housing properties – 6 rental properties and 3 home ownership properties. The vast majority of the total affordable units are rental units. Table 1 summarizes the affordable housing properties that RTI identified. This list should not be interpreted as a thorough market assessment, but rather it should be considered a preliminary scan based on conversations with experts in Dare County.

### Rental Units

The largest affordable housing properties in the county are 44 rental units at Pirates Moor Townhomes in Kill Devil Hills and 46 rental units at Harbourtowne Apartments in Manteo. Pirates Moor Townhomes used the Low Income Housing Tax Credits (LIHTC) to finance the project while and the Harbourtowne Apartments used the USDA Rural Development Section 515 program which provides low-interest financing for developers and rental assistance for qualifying tenants. Until recently, Harbourtowne Apartments accepted section 8 vouchers.

There also two sizeable teacher housing projects – Run Hill Ridge in Kill Devil Hills and Hatteras Teacher Housing – that were financed with no-interest loans from the North Carolina State Employees Credit Union. Furthermore, Dare County Public Schools provided the land for these projects. Run Hill Ridge was available for occupancy in 2008, and Hatteras Teacher Housing was available for occupancy in 2012. It appears that it is primarily teachers who rent these units as well as other individuals working in public service, particularly at the Hatteras Island location. These teacher housing projects have been well-received by the community and may have been a useful recruiting tool. Both projects define affordable rent as below market rates, or around \$750 per month. You must be an employee of Dare County Schools, Dare County, the State of NC, or the Federal Government to qualify for housing. Priority is given to school employees because the purpose of the housing is to benefit the local schools. There are no income requirements (Piff 2016).

Bay Tree Apartments is a smaller rental community owned and operated by the John H. Wellons Foundation which is based in Dunn, NC but operates more than 30 locations throughout North Carolina, South Carolina, and Virginia. The 7 units at Bay Tree Apartments are assisted living units available to senior citizens aged 62 and older. The property does not provide any rent subsidies to tenants, but does accept Section 8 vouchers. It is unclear whether there are restrictions on how these units are allocated and how rent compares to market.

Finally, Lances Landing triplexes in Waves is a formerly affordable ownership property that was converted to affordable rentals after a series of transactions when the CDC went bankrupt. Real Watersports currently uses the property for its employees.

### Ownership Units

Natures Walk in Kill Devil Hills was facilitated through affordable deeds. Owners can only sell for a 3% increase per year for 20 years. Working with the town of Kill Devil Hills, the developer was able to do a 20% to 30% increase in density above what they could have done without the affordable units.

There are also two other ownership properties: (1) A mixed-use building in Nags Head formerly owned by the CDC and (2) two properties on Hatteras Island.

**Table 1. Affordable Housing Properties in Dare County**

Property	Description	No. of Affordable Units	Max Occupancy (persons)
<b>Rental Properties</b>			
Harbourtowne Apartments, Manteo	Rehabilitation project financed by the USDA Rural Development and participating in the USDA Rural Development Rental Assistance Program which pays 70% of the adjusted income of renters earning less than 50% of AMI.	46	170
Pirates Moor Townhomes, Kill Devil Hills	New construction financed by the Low Income Housing Tax Credit.	44	224
Run Hill Ridge, Dare County Teacher Housing, Kill Devil Hills	The North Carolina State Employees Credit Union (SECU) Foundation partnered with Dare County Public Schools and Dare Education Foundation to build this project in 2008. Interest-free loans were provided by SECU Foundation while Dare County Public Schools provided the land. Rented at below market rate of \$750 per month for 2-bedroom, 2 bathroom units.	24	72*
Hatteras Teacher Housing, Hatteras	SECU Foundation partnered with Dare County Public Schools and Dare Education Foundation to build this project in 2011. Interest-free loans were provided by SECU Foundation. Rented at below market rate of \$750 per month for 2-bedroom, 2 bathroom units.	12	36*
Bay Tree Apartments, Manteo	Geared toward senior citizen renters aged 62 or older. Managed by the John H. Wellons Foundation.	7	21*
Lances Landing, Waves	Triplexes built under Dare County's Family Housing Incentive Standards (FHIS) ordinance. Originally about half of units offered at affordable prices. Eventually this property was converted from ownership to affordable rental.	21	112
<b>Ownership Properties</b>			
Natures Walk, Kill Devil Hills	This project was facilitated through affordable deeds. Owners can only sell for a 3% increase per year for 20 years. Developer was able to do a 20-30% increase in density above what they could have done without the affordable units	8	24*
Nags Head	Formerly owned by the Outer Banks CDC to house nonprofit organizations and provide transitional housing.	6	18*
Hatteras Island	Units purchased by CDC from developer of affordable condominium project.	2	6*
<b>Totals</b>		<b>170</b>	<b>683</b>
<i>Rentals</i>		<i>154</i>	<i>635</i>
<i>Ownership</i>		<i>16</i>	<i>48</i>

Sources: North Carolina Housing Finance Agency, Robert Muller, John H. Wellons Foundation, SECU Foundation, Affordable Housing Online, Dare Education Foundation

\* In the absence of detailed information on occupancy, RTI assumed 3 occupants per unit as a conservative estimate.

## Summary

Totaling up the ownership and rental units results in approximately 170 affordable units throughout the county, although these developments have different definitions of who qualifies and what the unit cost is. Compared to total housing units in the county, these units make up just 0.5% of the total housing stock. The maximum occupancy estimate of 683 is 1.9%<sup>4</sup> of the year round county population.

While our research demonstrates that a handful of affordable housing options are present in Dare County, the tourism-based economy substantially drives up housing costs for local workers. Based on interviews conducted by NC State University, the current pool of affordable housing options is likely to be less than the potential need. One quick-and-dirty way the county can assess demand for affordable housing is to talk with property managers about the extent to which they have waiting lists for affordable units.

## 2. Review of the Research

Affordability of housing and the general cost of living is an important quality of life indicator that companies and individuals consider when they choose to move to or stay in an area. Affordable housing is important to economic diversification and optimization because housing availability for various income levels increases the ability of businesses to recruit employees and retain them in the local region. In fact, high housing costs are associated with out-migration (Wardrip et al., 2011). For these reasons, affordable housing can enhance economic sustainability.

There are also other potential benefits of expanded affordable housing such as improved family health outcomes and correlation with positive academic outcomes (NPC Consulting, 2016). There is also evidence that affordable housing may directly benefit municipalities. For example, homebuyers who participate in affordable housing programs are less likely to foreclose which can reduce foreclosure-related costs for municipalities (Wardrip et al., 2011). Finally, as illustrated by the experience of Dare County, affordable housing can directly benefit teachers and local government employees who provide essential local services.

Given the importance of affordable housing, there are a variety of policy tools and practices that are enacted and administered at the federal and state level as well as at the regional and local level. Different policies target individuals with different levels of income. In North Carolina, low-income households are defined as earning less than 60% of area median income (AMI) annually, while very low-income is defined as under 50%. Some programs, such as HOME, have eligibility requirements that limit assistance to low- and very low-income households. Moderate income households are generally those in the 70-90% range of AMI (Mulligan, 2016). Oftentimes, public service workers fall into the moderate income group (Blair, 2016). Housing units are generally deemed “affordable” when the cost of a unit is no more than 30% of a household’s annual income, although there are varying definitions of affordability across programs. Although there are separate affordable housing programs on the federal, state, and local level, federal programs are often administered via local agencies or non-profits (Blair, 2016).

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<sup>4</sup> Calculated as 683 divided by the 2014 population of 35,104.

## Federal and State

Overall, the Low Income Housing Tax Credit (LIHTC or “Li-Tech”), Section 8 vouchers, HOME Investment Partnerships program, and Public Housing programs make up 92% of federal obligations and estimated tax revenue losses associated with affordable housing policies (GAO, 2015).

The LIHTC is the federal government’s primary means of encouraging private investment in the development of affordable rental housing (OCC, 2014). The LIHTC provides funding for the development costs of low-income rental housing by allowing the developer to take a federal tax credit equal to a percentage of the cost incurred for development of the low-income units in a rental housing project. To be eligible for LIHTC tax credits, owners must keep rents affordable for a period of between 15 and 30 years for individuals with incomes less than 60% of AMI. The North Carolina Housing Finance Agency administers this federal program.

Section 8 vouchers represent the largest rental assistance program of the Office of Housing and Urban Development (HUD). Very low-income families receive rent subsidies that are then used in the private rental housing market.

HOME Investment Partnerships Program is run by HUD. HUD provides federal block grants to state and local governments to finance affordable housing for low-income residents that generally fall below 60% of the AMI (Blair, 2016). The grants can be used for home purchase assistance/rehabilitation, rental building/rehabilitation, site acquisition and improvement, or delegated to housing non-profit organizations. Although useful for very low-income residents, most people in public service workers or seasonal workers are 70 to 90% of AMI, and need alternate housing programs to finance their housing needs (HUD, 2016).

Public Housing was created to provide subsidized decent and safe rental housing for low-income families, the elderly, and persons with disabilities. There are approximately 1.2 million households living in public housing units around the US. These units come in a variety of forms, and families living in public housing pay 30% of their income toward rent.

Other federal programs that have been used to improve affordable housing include the USDA section 515 program and the Community Development Block Grant (CDBG) program. Section 515 Housing Loans are 30-year mortgage loans for rural areas that are administered through the USDA. The goal of these loans is to finance the expansion of affordable multifamily rental housing stock to very low- and low-income households in rural areas. Individuals, developers, government organizations and NGOs are eligible to apply. The loans are dispersed with one percent interest payments that are amortized over a 50-year period (HUD 2002). CDBG funds, overseen by HUD, are allocated to local governments based on a formula and are used primarily to serve low- and moderate-income individuals in the areas of local community development, anti-poverty programs, and affordable housing.

State level programs include programs administered by the North Carolina Housing Finance Agency and the North Carolina Housing Coalition. In addition to administering the LIHTC program in the state, the North Carolina Housing Finance Agency offers tax exempt bonds for developers that partner with local government entities, zero-interest workforce housing loans, and rental production loans.

Finally, historic rehabilitation tax credits are available through both federal and state programs in North Carolina for income-producing properties. The amount of the federal tax credit is either 10% or 20% of



qualified expenses<sup>5</sup>, depending on a building's age and whether it is located in a historic district or on the National Register of Historic Places. The state tax credit adopted and revised starting in 2016 can also cover between 10 and 25% of eligible costs depending on the size of the project, whether it is in a Tier 1 or 2 county, and if it is targeted at former manufacturing or agricultural related property. North Carolina also offers a non-income producing (homeowner) credit for worth 15% of qualified rehabilitation expenses (North Carolina Historic Preservation Office, 2015). It is not clear the extent to which these credits enhance housing affordability, but they were noted in one of our interviews as useful tool.

## Regional and Local

Several individuals we spoke with echoed the trend that the federal government has been reducing support for affordable housing, putting more pressure on local governments to step in. Usually, local affordable housing initiatives are led by regional and local government or quasi-government entities and through public-private partnerships. Often, local government authorities partner with non-profit organizations and contract with various for-profit developers and property managers to increase affordable housing stock. Local governments have a range of tools for effecting real and durable responses to housing challenges. Tools that local governments can use include starting housing support programs, regulating (or relaxing) land use and development, providing financial incentives through tax policies, and subsidizing development with the use of public lands (Orton Family Foundation 2015). Specific policy tools include:

- **Housing Land Trust:** Land trusts tend to use a 99-year or long-term lease structure on the underlying land, which allows for the buyers to pay only for purchase of building structures and improvements, without the price of the land itself. This way, costs are kept down below market prices and the land trust has rights to repurchase any structures built on the property at any time. Typically, this tool has been used to encourage home ownership.
- **Housing coalition:** Communities can also establish a housing coalition which borders on the area of practice rather than policy. Nevertheless, a housing coalition is a way of bringing together different stakeholders in the community to educate people on affordable housing needs in the area, and advocate for policies to ensure the lowest income residents have affordable and decent housing options. Members can include banks, city government officials, county government officials, non-profits, developers, and local residents.
- **Zoning ordinances:** Local zoning ordinances can encourage affordable housing development in a wide range of ways. Examples include the mandatory inclusionary zoning ordinance Manteo and the FHIS in Dare County.
- **Accessory dwelling units (ADUs):** Making local zoning laws more flexible and/or less restrictive regarding ADUs – subordinate units on the same lot as a primary property or residence – can lead to more ADU rental options.
- **Land Use Incentive Grant:** a policy where developers are awarded a cash grant based on "points" earned for meeting selected criteria, For example, in Asheville, every 10 points qualifies a developer for a grant equal to one year of the City's property taxes for the new development.

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<sup>5</sup> Qualified expenses include equipment, material costs, and professional fees necessary to complete the rehabilitation

- **Housing Trust Fund:** an established source of funding for affordable housing construction or rehabilitation. The trust is usually funded through dedicated real estate transfer taxes, sales taxes, government bonds, or other fees to maintain a continuous funding stream. Typically, an ordinance is passed that ties the revenue source to the fund, such as developer fees, rooms and meals taxes, or real estate transfer fees.
- **Community Development Corporations (CDCs):** CDCs have existed since the 1960s. Since 1990, the primary source of funding for CDCs has been the CBDG program. They also receive some local funds. CDCs are nonprofit, community-controlled real estate development organizations dedicated to the revitalization of poor neighborhoods. They serve as local intermediaries that provide housing services to those that need them most and who private developers do not serve adequately (Krigman, 2010). CDCs serve two primary roles: 1) producing housing units and other community spaces, and 2) bringing together disparate external resources, leaders, and residents, for neighborhood and community improvement (Walker, 2002).

### Summary

As described in the previous subsections, there are various federal, state, regional and local policy tools. In addition, Bach et al. (2012) outline 10 principles or practices for affordable housing development ranging from building community support to understanding the market to selecting sites and orchestrating projects with longevity. We recommend this as a useful reference.

## 3. Review of the Interviews

To learn lessons about the policy tools and practices that communities in North Carolina have implemented with success, we interviewed individuals in Wilmington, NC; Asheville and Buncombe County, NC; and a multi-county region in western North Carolina. These communities are described in the community spotlights. We chose these particular communities because they each have a tourism dimension and Asheville and Wilmington in particular have sizeable second home markets. We also spoke with several other North Carolina affordable housing experts within the university, non-profit, and commercial sectors. We focused on communities and experts within North Carolina because of state-to-state differences in affordable housing practices and laws. A complete listing of our interviews can be found in Appendix A.

### Community Spotlight #1 – Wilmington, NC

#### Community Profile

Wilmington, North Carolina is similar to Dare County in terms of its proximity to the ocean and picturesque beaches, which drives tourism in the region. However, it has a much larger year-round population of around 112,000 and is considered a metropolitan area. In terms of the labor force, Wilmington, like in Dare County, has a large share of its workforce in retail, food services, and accommodation. The top four largest occupations in Wilmington by aggregate employment are: retail salespersons, food preparation workers, cashiers and servers (BLS 2015). Although jobs in these industries make up only 13% of the workforce, this is a larger share than the state of North Carolina (9%) and the U.S. (10%), respectively (ACS 2013). Additionally, wages for these jobs in Wilmington are similar to those in Dare County, with the mean annual wage around \$20,000 (BLS 2015). Although the median monthly rent in Wilmington is \$849, slightly less than Dare County, over 50% of renters are overburdened, meaning they spend over 30% of their income on rent (ACS 2013). This is an even larger

share of the population than in Dare County, so there is a large and growing need for affordable housing in the city.

### Affordable Housing Initiatives

Wilmington has several different bodies that attempt to address the shortage of affordable housing such as the City Government, Cape Fear Community Land Trust, and Housing Coalition. The city focuses on providing loans to low-income residents for rehabilitation or home purchase, while the Cape Fear Community Land Trust looks for new opportunities to increase the affordable housing stock, and the Housing Coalition does advocacy and education in the local community. In total, the city produces an average of 47 rental units and 9 ownership units of affordable housing per year (Nguyen, 2014). Most of the affordable housing initiatives are developed from within or in partnership with the City Government, specifically the Community Services department. The City of Wilmington has been successful in acquiring LIHTCs and funding from the North Carolina Housing Finance Agency for its initiatives.

From within the Community Service department at the City of Wilmington, there are three main programs to address housing needs:

1. Homeowners Opportunity Program: This is a mortgage program with local banks, where the bank holds the first mortgage and the city holds the second, and the second mortgage is interest-free. This makes the full mortgage loan more affordable for low-income homebuyers who have a targeted income below 80% area median income (AMI). The program has a maximum loan size of \$225,000.
2. Homeowners Rehabilitation Program: This program provides low-interest loans for housing repairs at favorable interest rates; the max loan amount is around \$75,000, depending on the extent of the repair that is needed. The resources for these programs are garnered via federal funds (CDBGs and Home Fund).
3. Housing Task Force: This is a newly-formed task force that includes 14 members, who are representatives of the city and county. The goal of the task force is to conduct a six-month research project assessing housing needs in Wilmington, studying best practices across the U.S., and then make policy-based recommendations to the city. The budget for this will be drawn from a general fund, with \$20,000 from the city and \$20,000 from the county. This initiative was formed out of a panel discussion from the Mayor's Office, which brought together many stakeholders, including leaders of local colleges, non-profits, major employers, and the public school system.

There are also several independent initiatives that work as partners with the City:

1. Cape Fear Community Land Trust (CFCLT): The CFCLT was founded in 2009 with the goal of keep lower-income local residents living in the community. The CFCLT helps keep the cost of home buying low by maintaining ownership of the land for a 99-year lease term so that the cost of the land is not factored into purchases by homeowners. The land trust relies on a mix of funding including: city funding, receiving about \$22,000 per year and federal funding in the form of a Community Development Block Grant (CDBG) which provided about \$8,000 for administration and operations costs; and donated property. Currently, the CFCLT has 11 single-family home properties with residents in the 80-120% AMI range. Ideally, they would like to support families as low as 20% AMI and expand to commercial, mixed use, and other types of land uses.

2. **Housing Coalition:** This non-profit, membership-based organization was formed and incorporated in 2005, with the objective of bringing stakeholders together in the Wilmington area to develop innovative solutions to housing demands and needs of the future, including those of low-income and single-income households (CFHC 2015). Paul D'Angelo is the current director, and he plans monthly meetings and quarterly events to talk about future of housing in the city.

Together these programs focus on ways to reduce costs of buying and renting homes, in addition to raising awareness across the city about this important issue. Housing costs continue to draw concerns across Wilmington and New Hanover County, hence the formation of the task force to explore successful affordable housing strategies in other communities. In order to increase the supply of affordable housing in the city, the first step is educating community members about the need for it, which is the role of the coalition. The Land Trust and the City play the role of financial support for housing. However, financial gaps are a major challenge, as Wilmington does not have a source of revenue dedicated to housing outside of funding from federal programs.

### What Works

The city-led Home Owners Opportunity Program for first-time home buyers, and the Homeowners Rehabilitation Program are successful ways to increase loan accessibility to low-income residents. The funding from these city-led initiatives are garnered via federal funds in the form of community development block grants and the federal HOME fund. The city provides loan guarantees that enable local banks to make loans to low-income residents who would not be able to get a mortgage loan or rehabilitation loan otherwise. This is an effective way to increase low-income residents' access to the housing market in Wilmington, many which struggle to find the financial resources to purchase or upgrade their homes.

In terms of education and affordable housing advocacy, the Cape Fear Housing Coalition has been an effective model. Because the organization has been around for over 10 years, it is a well-known in the community and has had executive directors from all kinds of groups, including religious organizations, real estate firms, financial firms, and public agencies. It also has 5 local non-profit developers as members (City of Wilmington Community Development, Wilmington Housing Finance & Development, Cape Fear Habitat for Humanity, Cape Fear CDC and AME Zion Housing Development). Its longevity, diverse leaders, and depth of housing expertise recently enabled the coalition to expand its reach to include members outside of the city in more rural areas. The monthly Thursday morning meetings keep members informed on local development codes, regulations, and future developments, which works well because it allows the coalition to present organized plans to policymakers. This broad membership organization keeps housing issues on the radar of the Wilmington community.

### Challenges

Increasing the supply of affordable housing in Wilmington is an ongoing issue. According to the Community Development Housing department at the city, although there are an array of actions the city has taken, many of them are still a work in progress. The city continues to tackle the challenge by building awareness and learning from other communities. In Wilmington, there is a perception that affordable housing means public housing, which has a negative stigma attached to it. A primary focus for the city and affordable housing-focused partners is to build awareness and change the conversation about what affordable housing means, and how a lack of housing options hinders their community's

economic health. The biggest question the city continues to struggle with is how to find a source of revenue dedicated to affordable housing (Rogers 2016). This is a major issue for the Community Services department within the city, and also independent organizations like the CFCLT and the Housing Coalition. Building political will for affordable housing policies may help accelerate progress on this issue.

The problem also stems from larger demographic shifts, according to people involved in city-led and independently-led initiatives in Wilmington. Residents' primary challenge related to housing affordability is the mismatch between low local wages and high housing costs. Suzanne Rogers noted how few people who work in Wilmington can actually afford to live there; over 1,500 new rentals were built in the last year and only 168 of those units were affordable. This is partly due to the influx of senior retirees who are buying rentals and homes in the area. Part of this can be attributed to the fact that many young professionals with high wages are in-migrating to Wilmington. Also, students at the local colleges are hard to keep around given the high housing costs and decreasing number of quality job opportunities.

### Takeaways for Dare County

**Building a broad base of support is important:** It is hard to get initiatives moving without broad based support in the community and a common understanding of the housing issues, including from elected officials and residents. Currently, Wilmington has had the most success from citizen-led advocacy within neighborhoods and communities as well as the Housing Coalition, which helps build broad-based support.

**Zoning matters:** Developers need a reason to include affordable housing in new developments, which generate much less operating income. Inclusionary zoning is one approach that requires a given share of affordable housing to be incorporated into new development projects.

**Developers need incentives:** In places like Wilmington, where inclusionary zoning for affordable housing does not appeal to political leadership and many residents, developers need added incentives to provide affordable housing in proposed developments. One example is higher density development exceptions if affordable housing is included in the project.

**Dedicated resources are required:** Without dedicated funding and staffing, progress on affordable housing is much slower. Donated land can also be a helpful resource.

**Land Trust model has proved successful:** With dedicated resources, community land trusts have proved effective in over 260 communities across the U.S. in keeping costs down (Davis, 2014). This is enabled by the 99-year lease term on the land, which allows for buyers to pay for purchase of building structures and improvements, without the price of the land itself. This way, costs are kept down below market price and the land trust has rights to repurchase any structures built on the property at any time.

### Contacts in the Community

**Suzanne Rogers**  
City of Wilmington  
Community Development Housing Supervisor  
[Suzanne.Rogers@wilmingtonnc.gov](mailto:Suzanne.Rogers@wilmingtonnc.gov)  
910-341-5809

**Paul Stavovy**  
Cape Fear Housing Land Trust  
Executive Director  
[paul@foreverplaces.org](mailto:paul@foreverplaces.org)  
910-218-0022

## Community Spotlight #2 – Watauga County, NC and Western NC

### Community Profile

Watauga County has a similar population to Dare County, with around 50,000 residents. The elderly population is lower than Dare, closer to the state average of 14%. However, according to the Executive Director of the Northwestern Regional Housing Authority, the population of elderly residents is growing fast, as the region is emerging as a popular destination for retirees. In 2012, Boone, which is located in Watauga County, was named a top-10 place to retire in the U.S. (U.S. News & World Report 2012), given the wealth of outdoor recreation activities offered by the Blue Ridge Mountains. Unlike Dare County, the economy in Watauga is bolstered by the presence of Appalachian State University. According to a report from Appalachian's Center for Economic Research and Policy Analysis (CERPA), university-related activities in 2011 led to the creation of approximately 6,100 jobs in the region<sup>6</sup>, \$140 million in additional wages and salaries, and a total dollar impact on the regional economy of \$560 million (ASU News 2013). Dare County is not endowed with the asset of a strong research university; however, the counties are alike in their large number of second homeowners and a need for increased housing for workforce families and the elderly population.

### Affordable Housing Initiatives

The Northwestern Regional Housing Authority works in seven different counties and 19 municipalities in western North Carolina. Its mission is to promote adequate and affordable housing for those less fortunate in the communities it serves, providing economic opportunity and a suitable living environment free from discrimination (NWRHA, 2016). The NWRHA is based in Watauga County and has completed the majority of its affordable housing projects there. Since its inception in the 1990s, the NWRHA has directly given 2,900 low-income households rental or homeownership assistance, and served over 1,800 households with Section 8 Vouchers (NWRHA, 2016). This is a necessary initiative because, according to Executive Director Ned Fowler, there is an ever-increasing demand for cheaper housing. Over 75% of families in North Carolina are under-housed, meaning there is not an adequate amount of living space per individual, or the housing is in need of serious rehabilitation (Fowler, 2016). Because Boone is becoming a retirement mecca, developers in the region are transitioning to building more and more homes over \$1 million for the growing market of second home buyers. For example, Avery County, about an hour west of Boone and adjacent to Watauga County, has seen a rise in gated communities with golf courses, such as Elk River Club and Linville Ridge. Despite the growing housing supply of large, single family homes in the region, there is a shortage in low-cost rental housing stock.

In 1996, in order to expand affordable housing options in the region, Ned incorporated Northwestern Housing Enterprises, Inc. as a non-profit organization. Legally, this organization is a separate entity from the NWRHA. However, the organizations are affiliated and work together closely. Ned is able to contract between them, and he asserts that a large part of NWRHA's ability to continuously expand affordable housing is due to the two organizations working in tandem. The main purpose of Northwestern Housing Enterprises, Inc. is to work on the development side of affordable housing. Over the past 15 years, it has developed \$65 million worth of affordable housing. Northwestern Housing Enterprises, Inc. relies heavily on tax credits as part of its business model. According to Ned, 90% of affordable housing development in the region is done with private developers with the use of LIHTC or historic tax credits. Tax credits allow the developer to take a federal tax credit equal to a percentage of the cost incurred for

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<sup>6</sup>The region is defined as five counties, comprised of Watauga, Ashe, Avery, Caldwell and Wilkes counties.

development of the low-income units. For workforce family housing, where workforce families are defined as families with school-aged children and working parents, the units have to be rented out to families making 60% or less of the AMI. The tax credits allow housing unit rental prices to be skewed down, and families can afford to pay for the housing at the discounted rate, without additional subsidies.

Elderly housing, however, often requires additional subsidies even with tax credits. Generally, elderly affordable housing initiatives are more appealing to a community than family workforce housing, but they can often be more expensive. Usually, low-income elderly rely on fixed income or social security payments and cannot pay rent subsidized by tax credits; additional federal subsidies are needed to cover the costs of renting out the units. One way to make elderly housing more feasible financially is to increase the density of the development. Ned believes that the most feasible way to develop elderly housing is to develop old historic buildings. These buildings are generally more suitable for high density living. Types of historic buildings that have used historic tax credits for redevelopment by the NWRHA are 1930s-era hospitals and schools. For example, the Wilkesboro School is listed on the National Register of Historic Places, which enables the use of historic tax credits. In 2012, the historic elementary school was completely renewed to include 9 senior apartments, a community meeting room with kitchen, craft room, computer room, library and office space. Another construction building behind the school echoing historic features contains 32 additional units (NWRHA, 2016).

Outside of partnering with developers (including the Northwester Housing Enterprises, Inc.), the NWRHA does mostly property management and interacts with families or low-income individuals to help them find housing. According to Ned, most housing authorities see themselves as arms of HUD, but Ned did his research and realized that housing authorities can contract with anyone. Therefore, they engage several different contractors from the private sector for purposes outside of development, such as property management. These firms include:

- Northwestern Housing Enterprises, Inc.
- Integral Group, LLC in Atlanta, GA
- Tise-Kiester Architects in Chapel Hill, NC
- Excel Homes in Raleigh, NC
- Community Management Corporation in Winston Salem, NC

However, the NWRHA also maintains a full-time staff of 12 to do property management, counseling and administration. In total, the NWRHA owns and manages two public housing developments - Woodland Apartments in Yancey County and Cub Creek Apartments in Wilkes County. Federal funding through this program enables the housing authority to provide decent and safe assisted rental housing to eligible low-income, elderly, and disabled families and individuals. The NWRHA also manages 12 rental properties; in total property management income is about \$400,000-\$500,000 per year.

### What Works

The innovative affiliation between the Northwest Regional Housing Authority, which is a public entity, and the private non-profit Northwestern Housing Enterprises, Inc. has proved to be a very effective way to increase affordable housing stock in a timely manner. Because both organizations are headed by the same executive, communication between them is relatively seamless. The NWRHA is able to contract with Northwestern Housing Enterprises, Inc. to develop housing, while the NWRHA handles sourcing

appropriate tenants and continues to manage properties once they are in operation. The key to this is the strong executive leadership of Ned Fowler, who is passionate about affordable housing and very knowledgeable about the ability of a housing authority to contract organizations outside of HUD.

In terms of financing affordable housing developments, the NWHRA has relied heavily on LIHTC tax credits allocated by the state of North Carolina. Out of the 40 tax credits available for affordable housing projects in the state each year, the region that falls under the domain of the NWHRA generally receives at least two projects (Fowler, 2016). Whenever possible, the NWHRA also looks to redevelop historic sites for affordable housing that are eligible for historic rehabilitation tax credits, which in the past have been up to 20% of eligible costs. Historic rehabilitation projects work well for several reasons. Often, they are less expensive than greenfield development. Also, there is an economic development aspect of it because renovating blighted buildings can spur future growth and attract more development to a region.

### Challenges

Since the recession in 2009, it has been hard to help single-family, first-time homebuyers. The NWRHA used to do 4 to 5 of these projects each year, but today, it is impossible to find commercial bank support for development of these projects (due to strict lending regulations), even though it is easy to find end-buyer financing for them. Therefore, the only solution is to have a separate private investor.

Another challenge has been limited tax credit resources. The state of North Carolina is only authorized to do 40 LIHTC affordable housing projects per year, so there is an element of competition with other regions in the state. Additionally, there is a law that firms looking to do this kind of development have to partner with experienced professionals, because these projects are financially complex and there are only about 20 experienced teams in the state

As with any real-estate development, it is also important to understand the end tenants' needs. Workforce families can generally afford to pay more and value density less than elderly or disabled tenants. For example, around 1990 a developer did a tax credit development in Watauga County that included 72 duplex-style units targeted at workforce families. Even with an intensive market analysis beforehand, the developer was only about to lease out half the units, because they were too dense to appeal to families. In order to avoid losing the tax credits and needing an additional subsidy, the developer approached the NWRHA to facilitate leases to fixed income and disability voucher tenants.

### Takeaways for Dare County

**Assessing and understanding housing needs mitigates risk:** The local workforce and the non-working elderly population require different types of housing and financing. It is important to understand the target population and their needs at the front end of any development project.

**Tax credits can be an effective way to incentivize development:** Without inclusionary zoning, LIHTC tax credits are a good way to involve the private sector in affordable housing development. Historic tax credits have additional benefits such as historic and cultural preservation.

**Housing authorities benefit from contracting with outside groups:** Housing authorities have the flexibility to contract with other groups. It is not necessary to rely solely on HUD because there are other resources and partners to work with. In particular, the affiliation of the Northwestern Regional Housing Authority with Northwestern Housing Enterprises appears is a unique structure. Being able to contract



with a development organization whose mission is directly in line with the housing authority and operates under the same executive is a unique structure that speeds up the affordable housing process on the supply side.

#### Contacts in the Community

**Ned Fowler**

Executive Director of Northwestern Regional  
Housing Authority  
CEO of Northwestern Housing Enterprises, Inc.  
[efowler@nwhra.com](mailto:efowler@nwhra.com)  
828-264-6683

**Billie Jo Woodie**

Northwestern Regional Housing Authority  
Wilkes County Contract Manager  
[billiejo@nwrha.com](mailto:billiejo@nwrha.com)  
336-667-8979

## Community Spotlight #3 – The Asheville, NC Region

### Community Profile

Although different from Dare County in terms of physical geography and population, the city of Asheville, located in Buncombe County, NC, is similar to Dare County in terms of its large tourism sector and limited land availability. In 2015, 16,555 people were employed in accommodation and food services in Buncombe County, making it the second largest sector behind healthcare. Also similar to Dare County are the issues of low-wages surrounding tourism jobs, which makes it hard for a large number of workers to afford housing in the Asheville area. Some individuals called the current housing situation a crisis.

Buncombe County wages rank below state averages and tourism jobs in the city of Asheville generally pay even less than the average for the county (Boyle and Barrett, 2016). Healthcare is also a pillar of the Asheville economy; the Mission Health System hospital, University of North Carolina-Asheville, and VA Medical Center are all large employers in the area. Healthcare and education jobs help to diversify the economy, and grow the metropolitan area, which has over 420,000 residents. Asheville also has a large rate of in-migration, with the majority of newcomers between the ages of 20 and 34. About 10,000 people in this age group move to Asheville annually (Cronin, 2015). While Asheville and the greater region is distinct from Dare County in several dimension, it is still facing similar issues when it comes to affordable housing.

### Affordable Housing Initiatives

According to a recent affordable housing study, except for small area in middle of downtown, there was no place in the city where households at 80% of median income would be spending less than 50% of their income on housing and transport.<sup>7</sup>

Perhaps because of these challenges, Asheville and the greater region have a well-developed affordable housing ecosystem of players and programs. Players include the City, Buncombe County, non-profits such as Mountain Housing Opportunities, regional groups such as the HOME Consortium, and developers. The HOME Consortium is made up by the City of Asheville, Buncombe County, and 3 other counties with the city serving as the lead entity.

Both the city and the Buncombe County have appropriated money to Housing Trust Funds for affordable housing development. As of 2010, the city fund had more than \$5 million and the county fund had nearly \$2 million (City of Asheville and the Asheville Regional Housing Consortium, 2010). Buncombe County has rental assistance, low-cost loans, and other rehabilitation programs. The County also has a density bonus that only affordable or workforce housing projects can take advantage of. The city has variety of programs. Federal programs include CDBG and HOME. Local programs are the land use incentive grant, other zoning ordinances, affordable housing rebate program to help with certain construction costs, and a housing trust fund that provides low cost loans to developers of affordable housing.

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<sup>7</sup> Mountain Housing Opportunities refers to this joint consideration of housing costs and transportation costs as “locational efficiency.”

There are also several active non-profit housing developers in the county such as Mountain Housing Opportunities and Habitat for Humanity among others. For-profit developers are also involved in expanding affordable housing. The city of Asheville also has a housing authority that serves the county.

### What Works

The Housing Trust Fund and the Land Use Incentive Grant have been two of the more successful city-level programs. The Housing Trust Fund has been in place since 2001. Over time, it began to focus more on rental development due to the risk inherent with homeownership. As a sign of its success, there is currently more demand for the housing trust fund than money in the fund. The fund is able to retain income in the fund to re-lend, but it does not really make interest. This year, the fund approved over \$1.2 million in loans.

The Land Use Incentive Grant program has been another useful policy tool for the city. It is intended to provide incentives to encourage development projects that fulfill important public purposes that include directly addressing annual strategic goals set by the City Council. It offers discretionary approval of cash incentives that the Council may choose to grant to projects they believe best achieve their goals. (City of Asheville, 2015). The Land Use Incentive Grant a sophisticated tool. According to one expert, in essence it is a form of synthetic tax increment financing program. Other cities such as Charlotte have used synthetic tax increment financing, but this tool is not suitable for all local governments.

A best practice that has worked well in Asheville is the Affordable Housing Advisory Committee that was formed in 2014. Since formed in 2014, the committee has conducted interviews with developers, other advisory members of council, and members of the public. Based on this outreach and other information gathering, the affordable housing advisory committee is able to make formal recommendations to the city council. This process has led to a better public understanding of the issues. In the past, there was not a formal way to interact with the city council on affordable housing issues. The lack of institutional structure meant that any time affordable housing plans came out, recommendations were not implemented.

One particular success of the Affordable Housing Advisory Committee has been pushing through changes for accessory dwelling units (ADUs). ADUs are detached or attached secondary dwelling units with their own kitchen and bathroom facilities. Asheville's first zoning ordinance governing secondary quarters was enacted in 1948, but the rules were somewhat outdated and the committee advocated for ADU rule changes that were recently adopted by the city council in 2015. The 2015 revisions to ADU rules reduced height restrictions for detached ADUs, but overall increased the allowable square footage of ADUs and enabled over 3,200 new residential parcels to be eligible for ADUs. The theory behind these changes is that it could open up expand affordable rental options in the city. While it is too soon to tell, experiences of other cities such as Denver, Colorado show that ADUs alone cannot meaningfully expand affordable housing options.

### Challenges

One of the things the greater Asheville area is dealing with is the loss of federal funds. According to one individual, the HOME consortium in 2009 provided \$1.6 million in funding which is down to \$900,000 today. The loss of federal funds is creating more demand for other funds to support affordable housing. Also, it was noted that the CDBG program has recently made changes that the county has had to adapt to.

The recession in 2009 also provided challenges and delayed affordable housing development when the housing market came to a halt.

#### Takeaways for Dare County

**Affordable housing tools that work in one community may not be appropriate for others:** Despite the early successes of the Land Use Incentive Grant program in Asheville, this tool does not appear to be appropriate for Dare County at this point in time. There are more straightforward policy tools that may be viable in Dare County.

**LIHTC tax credits could be a viable option:** Several interviewees mentioned that LIHTC projects are a no-brainer. Developers typically drive the process and often rely on financial or other support from localities. The county would need to speak with private developers and figure out ways to partner.

**Dedicated cash funds provide flexibility to local governments and can have a direct impact:** A local housing trust fund allows a local government to set affordable housing priorities directly. Local governments can set up an advisory committee of local bankers to help ensure that resources are spent with fiduciary responsibility.

**Counties and cities can work collaboratively to address affordable housing:** the county and city have a good working relationship when it comes to affordable housing. This could be a good model for Dare County, although the economic geography is different with smaller but more evenly sized cities within the county.

#### Contacts in the Community

**Jeff Staudinger**  
City of Asheville  
Assistant Director of  
Community & Economic  
Development  
[jstaudinger@ashevillenc.gov](mailto:jstaudinger@ashevillenc.gov)  
828-259-5723

**Vaidila Satvika**  
City of Asheville  
Urban Planner  
[VSatvika@ashevillenc.gov](mailto:VSatvika@ashevillenc.gov)  
828-259-5798

**Donna Cottrell**  
Buncombe County  
Accountant/Planner  
[donna.cottrell@buncombecounty.org](mailto:donna.cottrell@buncombecounty.org)  
828-250-4834

**Cynthia Fox Barcklow**  
Buncombe County  
Floodplain Administrator  
828-250-4836

**Rich Olejniczak**  
Mountain Housing  
Opportunities  
Senior Real Estate Developer  
[rich@mtnhousing.org](mailto:rich@mtnhousing.org)  
828-254-4030 ext. 125

**Geoffrey Barton**  
Mountain Housing  
Opportunities  
Architect  
[geoffrey@mtnhousing.org](mailto:geoffrey@mtnhousing.org)  
828-254-4030 ext. 130

## 4. Findings

We found that to move the needle on affordable housing, local governments have to employ a suite of policies and/or practices. In the absence of action, it is unlikely that affordable housing options will expand. We have attempted to identify the most logical policies and practices for Dare County to consider moving forward. For example, what has worked for Asheville – a city that is quite far along in its affordable housing programs – is not necessarily a good fit for other communities. However, we do believe that important lessons can be drawn from practitioner anywhere. In this section, we summarize both the policy tools and best practices that we believe are the most relevant for consideration.

### Policy Tools

Perhaps the most extensively used policy tool for expanding affordable housing is the LIHTC program administered by the North Carolina Housing Finance Agency. This is a federal tax credit program that developers apply for during a single annual cycle. It is a highly competitive process, but according to one expert, “Dare County should be winning at least one LIHTC project each year.” One challenge that Dare County could face with utilizing the LIHTC program is having enough qualifying households making less than 60% of median income. Dare County could consider speaking with the LIHTC developer community to further explore the possibility of LIHTC projects in the county and how Dare can partner with developers.

Another option, a land trust model could also prove to a viable option. Community land trusts have proved effective in over 260 communities across the U.S. in keeping costs down (Davis, 2014). Typically, land trusts use a 99-year or long-term lease structure on the underlying land, which allows for the buyers to pay only for purchase of building structures and improvements, without the price of the land itself. This way, costs are kept down below market prices and the land trust has rights to repurchase any structures built on the property at any time. Another advantage is that the county retains ownership of the land as it appreciates over time. The county could explore whether a land trust model would be effective in helping address the particular affordable housing needs in the county.<sup>8</sup>

No matter what policies are implemented, there is typically a need for funding. As the county explores its policy options, it may also consider creating a complementary cash fund dedicated to affordable housing. The benefit of a cash fund is that it provides local government with greater flexibility than some of the federal and state programs allow. It also protects counties against reductions in federal funding. Some communities have started a cash fund with a “penny tax” on property – \$0.01 per \$100 of assessed value. In Dare County, a penny tax for affordable housing would generate \$1.25 million per year at relatively minimal burden to individual taxpayers. The marginal increase in taxes resulting from a penny tax for an average residential property would be \$26. For an average commercial property, the marginal tax bill would be \$41 per year (Skeen, 2016). These funds can be used to make LIHTC projects more viable, to establish a land trust, or to fund any affordable housing initiatives.

Something that would require staff resources rather than funding is exploring the viability of accessory dwelling units (ADUs) as a way to expand affordable housing options for local workers. Admittedly, there are potential challenges that need to be better understood. For example, one local expert stated that many properties in Dare County are reliant on septic systems, so rather than simply extending water/sewer to ADUs, ADUs might require their own dedicated septic which adds to their cost. Another

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<sup>8</sup> See recommendation about housing market assessment below.

challenge is verifying that ADUs would be rented on a more long-term basis so that they add to the stock of housing for locals rather than the rental stock for tourists. The impact of ADUs may also be small in magnitude. One expert pointed out that Denver implemented a new ADU ordinance seven years ago and since then have only seen the construction of 50-60 new ADUs. For a city of Denver's size, 50-60 additional ADUs is quite small. While ADUs may not be a panacea for expanding affordable housing, they could perhaps be one small part of the overall strategy and they would be relatively low cost.

## Practices

How communities approach affordable housing and implement policy tools is equally important to success. Some practices can spur change in and of themselves, while others are foundational and enable policy tools to be more impactful. The county can sustain and further explore the following practices:

- **Integrating affordable housing into messaging:** One practice, which can have a subtle but meaningful impact, is integrating affordable housing language into communications. A first step would be establishing an affordable housing website on the county's webpage with a mission or vision statement. This signals a commitment to the issue. One expert stated that progress can be made just by mentioning affordable housing to developers when new buildings are being planned and approved.
- **Housing market assessments are needed:** Robust housing market assessments, conducted by local government staff or by a third-party consultant, can help inform local policy as well as help build public awareness of the local affordable housing situation.
- **Recurring planning cycles make a difference:** Many communities operate on a five-year cycle for planning for housing related initiatives. This often aligns with when housing market assessments are conducted. Regular planning gives communities an opportunity to tweak what is not working and improve what is.
- **Local policies can be targeted at specific affordable housing challenges. There are always tradeoffs, so plan accordingly:** For example, depending on the community's needs, local policies can be designed to encourage more affordable rental options, more affordable home ownership, or possibly both. Other aspects that can be favored are single-family versus multi-family housing, location along transportation corridors, housing for workers versus housing for the elderly population, and in-fill development. For example, Asheville's Land Use Incentive Grants have a scoring system that prioritizes a range of desired development characteristics. Communities should be clear about the specific affordable housing issues they are tackling.
- **Get institutional structures right to enable pathways for change:** Advisory committees, reporting structures, and other ways to directly involve experts and stakeholders from the community in affordable housing is critical. Pathways must exist for changes to be made to affordable housing policy over time. Affordable housing policy cannot be overly prescriptive and static and must change as community needs change and external factors change. Plans do not get implemented institutional pathways for change are lacking.
- **Broad community commitment makes long-term investments in affordable housing possible:** Support of elected officials, advocacy groups, and citizenry is needed to push through policy changes that invest in affordable housing with a long-term view. Having a reliable funding source allows multi-year planning to take place. Uncertainty about funding, on the other hand, can be detrimental for planning.

- **Housing authorities, counties, and cities can benefit from partnerships and contracting with outside groups:** It is important for housing authorities to realize that they can be flexible and contract with various groups in addition to the federal government. It is not necessary to rely solely on US Department of Housing and Urban Development (HUD) grants because there are other resources and partners to work with. For example, The Northwestern Regional Housing Authority in Watauga County contracts with a sister development organization whose mission is directly in line with the housing authority and operates under the same executive leadership. This unique structure speeds up the affordable housing process on the supply side.
- **New developments should be compatible with existing infrastructure:** When partnering with developers and others in planning efforts, local governments should make sure that new developments are compatible with existing infrastructure including water-sewer systems, road access, and other utilities. Infrastructure can make up large portion of costs and utility fees for developers can be sizable.

## Appendix A. Phone Interviews

#	Interview	Community	Organization(s)
1	Suzanne Rogers	Wilmington	City of Wilmington
2	Paul Stavovy	Wilmington	Cape Fear Housing Land Trust
3	Ned	Western NC	Northwestern Regional Housing Authority
4	Billie Jo Woodie	Western NC	Northwestern Regional Housing Authority
5	Jeff Staudinger	Asheville	City of Asheville
6	Vaidila Satvika	Asheville	City of Asheville
7	Donna Cottrell, Cynthia Fox Barcklow	Asheville	Buncombe County
8	Rich Olejniczak, Geoffrey Barton	Asheville	Mountain Housing Opportunities
9	Samuel Gunter, Mark Shelburne	State Experts	NC Housing Coalition, Novogradac & Company
10	Michael Blair	State Expert	Piedmont Triad Regional Council
11	Mai Nguyen	State Expert	UNC Chapel Hill
12	Bob Muller	Dare County	Formerly CDC
13	Andy Garman	Dare County	Nags Heads
14	Donna Creef	Dare County	Dare County



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