

Friday – September 6, 2019 - 9:00 a.m.
U.S. Cellular Center - Banquet Hall

Affordable Housing Workshop

Present: Mayor Esther E. Manheimer, Presiding; Vice-Mayor Gwen C. Wisler; Councilman Brian D. Haynes; Councilman Vijay Kapoor; Councilwoman Julie V. Mayfield; Councilwoman Sheneika Smith; Councilman W. Keith Young; City Manager Debra Campbell; City Attorney Brad Branham; and City Clerk Magdalen Burleson

Mayor Manheimer welcomed everyone to the City Council affordable housing workshop.

Mayor Manheimer convened the workshop and thanked Dionne Nelson, President and CEO of Lauren Street, a for-profit developer of affordable housing, for leading the development of affordable housing portion of this workshop. Mayor Manheimer said the goal of the session is to review the realities of local affordable housing needs, barriers to building affordable housing and the role of the City as a partner.

Mayor Manheimer said that staff and Ms. Nelson will present information on how we move forward together as a community to address this important challenge affecting many residents.

Community Development Director Paul D'Angelo said that affordable housing is defined as households, both rental & homeownership, should spend no more than 30% of their gross income on housing costs. For a renter - this includes rent and utilities. For a homeowner - this includes mortgage, insurance and taxes. The more money we spend on housing, the less we have to spend on life's other necessities and to support the local economy. He said the Bowen Report 2019 for Buncombe County shows that 46.1% of renters are cost burdened, 21.3% of owners are cost burdened, 19.4% of renters are severely burdened, and 7.9% of owners are severely burdened.

Regarding housing affordability, it's not just in Asheville. Nowhere in the United States can a worker earning minimum wage, full-time, afford a two-bedroom home at fair market rent. In only 28 counties nationwide can a full-time minimum wage worker afford a one-bedroom rental home at fair market rent. US housing construction is not keeping the pace with demand. Middle incomes are now impacted by housing cost burdens. In Buncombe County, a minimum wage worker would need to work 85 hours per week to afford a modest one-bedroom apartment. He then reviewed the Fiscal Year 2019 area median incomes from a one-person to a six-person household size.

An average annual salary of \$19.14 hour, a person or household would have \$995 to spend per month on housing. This salary could be supporting a family of 1, 2, 3, 4 +. He reviewed a chart of housing wage, housing costs and the gap. At a salary of approximately \$40,000 per year, supporting an individual or family, this community member could afford a home priced at \$135,000 (0% down) or \$170,000 (20% down).

Real Estate Manager Nikki Reid showed a chart of the median home sale price in the City of Asheville and Buncombe County from 2003 into the first quarter of 2019. In 2003, the median home price was \$148,000 and now in 2018, the median home price is \$310,000.

Regarding the Buncombe County housing market, in 2014, there were 863 homes available under \$300,000 vs. 280 today. In the Asheville city limits, only 48 homes are listed under \$275,000.

She showed a nationwide graph from 1967 to 2017, showing that in 2018, the housing costs are five times greater than the median income. In 2017, Asheville's Area Median Income (AMI) for a family of four is \$61,300.

In summary, (1) gap in wages vs. housing costs - City has limited influence on the income side; (2) supply vs. demand (a) not enough units are being added to the market; and (b) strong demand puts pressure on pricing; and (3) lowest income earners are the most cost burdened (a) needs cut across all income levels below 80% AMI; (b) the lower the AMI level, the higher the subsidy; and (c) our moderate and low income households are being priced out of homeownership in Asheville.

Ms. Reid said the problem is the gap. Most wages, salaries and incomes we produce in our area don't support the average housing costs in Asheville, both rental and home ownership. Our vision for housing includes an equitable inclusive mixed-income community with a variety of housing types at a variety of price points, both homeownership and rental, for the variety of incomes and wages we produce in Asheville.

Mr. D'Angelo explained the challenges for delivering affordable housing. The gap depends on percentage of AMI, length of affordability, number of units, location of build, and style of build.

Ms. Reid explained the challenges of delivering affordable housing (from the 2019 Urban Land Institute report) (1) cost of capital - financing cost; (2) lack of building efficiencies; (3) availability of buyer financing; (4) cost of materials; (5) lack of industry leadership; (6) lack of density; (7) NIMBYism; (8) local government regulation and fees; and (9) land prices/availability. For Asheville's development community the challenges are (1) land prices/availability; (2) cost of materials; (3) local government regulation and fees; and (4) cost of capital - financing costs.

Ms. Reid said the City's role in affordable housing is funding; city-owned land, regulatory, and collaborator/convenor.

In summary, (1) development constraints are knowns - land/availability; cost of capital; and government regulations; (2) the lower the AMI level, the higher the subsidy; and (3) once we fully understand how affordable housing is developed, we can design policies to make an impact and build community.

Ms. Nelson said that Laurel Street develops high quality, mixed income communities for working families and seniors that are affordable to households of a variety of incomes. She then explained their development portfolio.

The role of the developer is (1) create "places" that we live, work or play; (2) provide project management of a development from concept to profitable operations; (3) assume or manage the risk of each stage of execution; and (4) get paid appropriately for the risk assumed and successful execution.

A developer's focus is on (1) affordable/mixed income housing (a) make a reasonable return as allowed by partners and investors - mainly fee based; (b) minimize risk as limited upside provides limited room to absorb losses; and (c) community impact; and (2) market rate (a) make a return in excess of investor requirements - mainly tied to upside not fee; (b) increased complexity which increases risk - two to three times that of an affordable/mixed income development; and (c) compensation for increased risk - substantially greater than affordable development.

The risk assumed for mixed income development includes (1) developer overhead and operating costs of team and operations - \$1500,000 per project per year; (2) pursuit costs to

identify possible projects - up to \$100,000 per project concept; (3) predevelopment costs to complete due diligence and close financing - up to \$650,000 per project closing; (4) guaranty of construction completion and payoff of construction financing - up to \$15 Million per project; and (5) guaranty of successful operations - up to \$500,000 per project.

Ms. Nelson said the goal of affordable/mixed income housing is to develop and preserve market rate quality housing and make it affordable to households at a rate that is affordable.

She then showed a chart of incomes and occupations by AMI, along with a chart of affordable rents. Asheville residents need to earn nearly 120% AMI to afford market rents.

She explained why market rents are so high (1) supply and demand - most markets have under built housing for growing populations so constant demand drives up rents; (2) increased construction/development costs - rents must increase to justify investment in the construction of a new unit; (3) investor return expectations - market rate real estate investors expect returns in the 17%-20% range (3-5 year IRR); and (4) developers seek returns that exceed investor targets since their compensation is tied to upside above investor hurdles.

She explained the different financing structures; (1) affordable/mixed income housing (a) private (long term or social investor) or tax credit equity; (b) conventional debt and/or tax-exempt debt; and (c) subsidy financing (often more than one source; and (2) market rate (a) private equity; and (b) conventional debt.

Ms. Nelson showed several examples of projects in Charlotte, N.C. they developed, with AMIs.

She explained that a project with (1) total development costs of \$165,000; (2) 30% equity investment; (3) no structured parking; (4) no subsidy; and (5) market rents - \$1,200 for 1-bedroom; \$1,600 for 2-bedroom. The total investor return is 20%.

The impact of affordability for a project with (1) same development program; (2) no subsidy; (3) market rents - \$1,200 for 1-bedroom; \$1,600 for 2-bedroom; (4) 20% of units at 60% AMI; and (5) increased equity of \$1.2 Million to offset reduced debt capacity will equal a total investor return of 8%.

Subsidies to support affordability include low interest loans or grants, free/low cost land, property tax grants, social investor equity, waived fees or requirements, expedited approvals, and rent subsidies.

Ms. Nelson stressed that you can't realistically buy your way to affordability with City resources alone. Other partners must participate - County, School system, nonprofits, corporations and investors.

Mr. D'Angelo explained the City's role in affordable housing for funding. He said that the investment on the front end ... dollars incentivize the developer or invest on the back end ... dollars subsidize the renter or homeowner. He then reiterated the subsidy needed, noting that the gap depends on the percentage of AMI, length of affordability, number of units, location of build, and style of build.

He explained the City of Asheville's current funding (1) City as lender: funding streams include (a) Bond: \$25 Million - \$15 Million hi-impact sites (three); \$5 Million Housing Trust Fund; \$3 Million land banking; \$1 Million Down Payment Assistance; and \$1 Million Community Land Trust; (b) annual Housing Trust Fund - \$500,000; (c) annual Capital Improvement Program - \$2

Million; and (d) annual allocation of federal funds (HOME, Community Development Block Grant and Continuum of Care) - \$3 .2 Million; and (2) City as taxing authority - land use incentive grant.

Partner funding includes (1) low income housing tax credit/4%^s, 9%^s; (2) other tax credits/historia and mills; (3) rent subsidies - Housing Choice vouchers; (4) bank financing - Community Development Financial Institutions; Federal Home Loan Bank, and Community Reinvestment Act; (5) developer fee deferral; (6) grants; and (7) philanthropic.

Putting our limited funding to work includes (1) all in with our funding, \$30.7 Million, we could expect to produce 307 units of affordable housing; (2) utilizing other funding sources, our incentives, other partners ... if half the subsidy could be shared, we could produce 614 units; and (3) the more tools and partners we have at the table, the more units we can produce.

City Manager Campbell reiterated the goal of this discussion is hard, complicated and expensive, but needed. We have to be extremely strategic in how we invest, who we invest with and our expectation of results.

As a result of the analysis, City Manager Campbell asked for policy discussion on staff's recommendation of establishing a goal of 200 units per year, direct and indirect; (2) for needs served, staff recommends focus efforts 80% AMI and below, with emphasis/preference on 60% AMI and acceptance of Housing Choice vouchers; (3) prioritize leveraged investments (i.e. matching with County investment, etc.); and (4) prioritize geographic areas/land-banking for access to jobs, services and community amenities.

After discussion, it was the consensus of Council to move forward with staff's recommendation except that they establish a goal of 200 units per year by 2020, direct and indirect and then come back and look at issues and concerns and adjust the goal from there.

Ms. Reid said that regarding the City's role in affordable housing about City-owned land, the City land for Request for Qualifications this year include - 319 Biltmore (309 total units); 91 Riverside - 60+ total units; Cedar Hill - 239 total units; S. Charlotte Street (future); and Asheland Avenue (future).

The Disposition Policy guidelines: (1) Procedure 1 - the City decides when properties are available for redevelopment; (2) Procedure 2 - the City obtains appraisals and due diligence of property it seeks to redevelop; and (3) Procedure 3 - the City selects developers through an open and competitive process (RFQ, RFP or RFQ/P), unless otherwise directed by the Asheville City Council or City Manager.

Draft policy goals include (1) Affordable Housing Goal 1 - when developing City property, it is the City's goal to obtain a minimum of 20% of units at 60% AMI; (2) Affordable Housing Goal 2 - affordability period of at least 20 years, with a strong preference towards an affordability period of 30 years or longer; (3) Affordability Housing Goal 1 - when developing City property, it is the City's goal to obtain a minimum of 40% of total units as affordable - 20% of units at 80% AMI; 20% of units at 50% AMI; and (4) Affordable Housing Goal 2 - affordability period of at least 20 years, with a strong preference towards an affordability period of 30 years or longer.

Ms. Reid said explained that an analysis of policy for 319 Biltmore includes (1) 319 Biltmore site, when combined with Lee Walker Heights (a) under 40% affordability policy: 521 units/336 affordable - 64.5% affordable; (b) under 20% affordability policy: 521 units/273 affordable - 52% affordable; (2) other amenities and services - traffic signal, parking deck, supportive & community services; and community's desire for grocery, daycare, etc.; (3) perception/concentration of low income; (4) 20% affordable at 60% AMI - 61 units (a) requires potential subsidy of up to \$6.1 Million; and (b) land alone may suffice as subsidy. For 40%

affordable (60 and 80% AMI) - 124 units (a) requires potential subsidy of up to \$11 Million - land of \$0 plus additional City funding; (b) limits the pool of development partners; and (c) limits the ability to invest in other sites.

City Manager Campbell asked for, and received, policy discussion on staff's recommendation on the overall disposition policy on all city-owned land of (1) establish baseline at 20% of the units being affordable to 60% AMI and accept Housing Choice vouchers, with 20 year affordability period; (2) establish scoring criteria in the RFQ/P to incent greater affordability, where appropriate, and other community benefits; (3) cast a wide net to attract more development partners; (4) recognize that each site has context; and (5) promote vision of affordable, mixed income communities.

There was discussion on staff's recommendation on the overall disposition policy on all city-owned land, with directions to explore items brought forward at this meeting.

Ms. Reid said that regarding the City's role in affordable housing - regulatory, includes existing incentives (1) fee grant program; and (2) expedited review.

Housing solutions to meet demand is an equitable inclusive mixed-income community with a variety of housing types at a variety of price points, both homeownership and rental, for the variety of incomes and wages we produce in Asheville.

Land use regulations (1) 57% of residentially zoned land is zoned Single-Family residential; (2) single family zones do not allow duplexes, triplexes, or quadruplexes; (3) no quadruplexes or triplexes were built in the past year; and (4) 11 duplexes in the past year (22 units). Historic neighborhoods provide greater variety in housing types and variety of housing affordability.

Increased density on single family lots include Accessory Dwelling Units/Tiny Homes; duplex development; and cottage court concept.

City Manager Campbell asked for, and received, policy discussion on staff's recommendation to study reviewing residential zoning districts to address barriers/impediments to development of affordable housing: example - changes to single family zoning ordinance to allow a variety of housing types as a use by right (example - duplex in single family zoning).

There was discussion on staff's recommendation regarding reviewing residential zoning districts to address barriers/impediments to development of affordable housing, with directions to explore items brought forward at this meeting.

Mr. D'Angelo said that the City's role in affordable housing - convenor and collaborator. He explained (1) <30% AMI - homeless agencies - Housing First (example - Homeward Bound); (2) 30%-60% of AMI - public housing - Housing Authority of the City of Asheville (example - Lee Walker Heights); and Housing Choice voucher - Housing Authority of the City of Asheville/Homeward Bound; and (3) 60%-80% of AMI - local nonprofit developers/for-profit developers (example - Mountain Housing Opportunities, Asheville Habitat for Humanity; ABCLT/Kassinger).

To build community, you need policy, community and capacity to make change. And, a holistic comprehensive approach to build affordable mixed-income communities - social issue, equity issue, education issue, health issue, economic issue, racial issue, community issue, and political issue.

City Manager Campbell asked for policy discussion on staff's recommendation to pursue the development of a social equity fund to provide additional resources to produce, preserve and protect affordable housing. She stressed that to address affordable housing, we cannot do this by ourselves.

There was discussion on staff's recommendation to pursue the development of a social equity fund to provide additional resources to produce, preserve and protect affordable housing, with directions to explore items brought forward at this meeting.

Mr. D'Angelo said that the takeaways of this workshop include (1) support the partners already doing the hardest work, the under 60% AMI individuals and families; (2) identify the gaps in the partnerships, funding, programs, incentives, regulations and fill them so municipal resources can go farther for 60% - 80% - 100% AMI; (3) call on for-profit developers and lenders to be a part of the solution; and (4) build community coalition and bring more partners to the table

Throughout the presentations, Ms. Nelson, along with City staff, responded to various questions/comments from Council, with discussion focusing on the complexities around this issue; with the goal of identifying the most effective tools the community can use to address the affordable housing issue.

City Manager Campbell said that City Council will be considering the disposition policy on September 24, 2019. All of the other kinds of initiatives discussed today will be reviewed by the appropriate City Council Committees, along with the applicable boards and commissions.

At 1:04 p.m., Mayor Manheimer adjourned the meeting.

City Clerk

Mayor