Affordable Housing Task Force
Report to the Mayor and City Council

August 17, 2005

Affordable Housing Task Force

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Executive Summary

This report to City Council presents the work, findings, and recommendations of the Affordable Housing Task Force established by the Mayor in October 2004. The Task Force conducted its work from December 2004 through August 2005 in public meetings.

Having an adequate supply of affordable housing in the City of Suffolk, and proximity of jobs and housing, are key principles of Smart Growth, which is one of City Council's five strategic priorities. The Task Force finds that the City of Suffolk has many housing needs along a full "continuum of care." While the long-term goal should be to ensure that housing needs are being met along this continuum, the highest priority for the short-term should be to promote the development of an adequate supply for wage earners, to be referred to as **"workforce housing**," consisting of both homeownership and rental housing choices. Doing so will enable people who work in Suffolk to live in Suffolk. Of particular concern are the housing affordability needs of municipal employees who are vital to public safety, public works, and the education of our children.

By focusing time and resources on workforce housing solutions first, the Task Force believes that the housing needs of most moderate-income and some lower-income wage earners will be addressed. Once success has been demonstrated in addressing these housing needs, then attention can be directed the other housing needs identified in this report. Moreover, research indicates that many of the strategies that can be used to increase the supply of workforce housing choices are transferable to other needs identified.

This report establishes definitions for affordable housing that are specific to Suffolk, identifies factors affecting housing costs, presents an overview of housing in Suffolk and Suffolk's housing market, identifies a comprehensive list of housing needs, sets workforce housing as a priority, identifies goals and objectives for workforce housing in Suffolk, reviews existing housing policies and programs for their effectiveness and provides recommendations for enhancement, and sets forth a set of recommended strategies for workforce housing. These recommendations form the basis of a proposed Workforce Housing Initiative and include: promoting the City's desire to have this type of housing; setting an annual construction target for workforce housing units; increasing the supply of workforce housing units in both new and existing neighborhoods, using government incentives to increase the supply of workforce housing units, and using a variety of financing techniques, including establishment of an Affordable Housing Incentive Fund.

It is the desire of the Task Force that the goals, objectives and recommendations contained in this report be considered by City Council for incorporation into the update to the 2018 Comprehensive Plan, currently underway. In doing so, however, City Council is cautioned to recognize that housing affordability problems are not limited to Suffolk, alone. Rather, they are regional in nature and warrant all localities in our region working together for equitable solutions, so that the City of Suffolk is not bearing the entire burden for the rest of the region.

I. Introduction

Housing prices in the City of Suffolk have been rising rapidly for new construction, existing home resales, and single- and multi-family rentals. From January 1998 to the time the Task Force began its work in October 2004, data available indicated that the average sales price of a newly constructed home had increased by 114% to $276,339, existing home resale average prices had increased by 68% to $204,934, and market time had decreased across both sectors. More affordable homes, in the price range of $100,000 to $200,000, and rental housing, in general, became increasingly scarce during this time period. By the time the Task Force completed its work, home sales data available for the period of August 2004 – 2005 reflected that the average sales price of new construction and resales had jumped to $336,429 and $232,149, respectively, and the average listing price for active listings (new construction and resale) was $430,929. Rental choices from August 2004 – August 2005 period remained very scarce (30 active listings),[1] with the average rental rate being $1,412. These rapidly rising local housing market trends are not unlike what has been happening throughout the Hampton Roads region, the state and the nation, reflecting a very heated housing market, which some argue may not be sustainable in the long-term.

While, on the one hand, increasing home values are desirable it also means that, on the other, affordable housing is becoming increasingly scarce for persons with moderate-to-lower incomes, as defined by federal and state affordability guidelines. This situation is forcing these wage earners to look elsewhere to meet their housing needs, separating them from their workplaces in Suffolk and increasing their transportation costs. Furthermore, historically affordable housing stock in older neighborhoods has been deteriorating from lack of maintenance investment, prompting the need for potential costly redevelopment of these blighted areas. Smaller vacant infill lots, which might otherwise be developed with smaller, more affordable homes, also remain undeveloped, in part due to non-conformity with current subdivision and zoning regulations. There has been a recent surge in rehabilitation of housing in the core Downtown area, as a result of property owners using federal and state historic rehabilitation tax credit programs, as well as some new infill construction activity; however, most of these new housing opportunities are beyond the affordability range of many.

In 2003 the Virginia General Assembly passed HB 2406 requiring localities, as part of their comprehensive plans, to designate areas and implement measures for the construction, rehabilitation and maintenance of affordable housing that is sufficient to meet the current and future needs of residents of all levels of income in the locality. Also in 2003, the City began its first 5-year review of the *2018 Comprehensive Plan,* adopted in 1998, to determine if the plan should be modified to address any changed conditions since then. The *2018 Comprehensive Plan* is based, in large measure, on the generally-accepted principles of smart growth. While affordable housing is an explicit goal of smart growth, it is not explicitly addressed in our comprehensive plan. This comprehensive plan review and update process has presented an opportunity for Suffolk to re-examine its adopted housing policies and strategies set forth in the *2018 Comprehensive Plan* and their effectiveness at addressing the range of housing issues

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[1] Figures reflect only those rentals listed with the Multiple Listing Service (REIN), and does not include rental units available that are not listed on MLS.

facing the city-- both now and in the foreseeable future-- as well as the aforementioned state legislative mandate.

In October 2004 Mayor Ralph requested that an Affordable Housing Task Force be formed with representation from the City Council and Suffolk Redevelopment and Housing Authority, and respective staffs. The directive given by the Mayor to the Task Force was to clearly identify what the city's housing affordability needs and obstacles are, and to develop recommendations for addressing them to the extent that local government can and should influence the housing market. The Task Force met thirteen (13) times, beginning in December 2004 and working through August 2005. As appropriate to the topics under discussion, others were invited to provide input to the Task Force.

II. Purpose Statement and Work Method

The following purpose statement was developed and adopted early in the meeting process in order to set a desired outcome:

> **The purpose of this Affordable Housing Task Force is to recommend affordable housing policies and strategies for adoption by the Suffolk City Council as an amendment to the City's Comprehensive Plan, which both the City and the Suffolk Redevelopment and Housing Authority shall use as guidance.**

The following work method was used:

- research the local and regional housing market factors affecting housing costs and affordability, and the needs of consumers in Suffolk;
- define what affordable housing means in Suffolk and identify target consumers;
- establish goals for housing affordability for priority target consumers;
- identify and interview key stakeholders;
- review existing policies, strategies and programs administered by the City and SRHA for new opportunities to address the housing needs identified;
- identify institutional barriers to construction and preservation of quality affordable housing and recommend remedies;
- consider the latest technologies and design standards;
- research and consider a variety of financing techniques,
- research successful approaches being used in other states and localities, and determine how they can be tailored to address the needs identified in Suffolk;
- prepare a plan that ensures that the housing needs of these target consumers can be met equitably throughout Suffolk; and,
- identify key community and private sector partners that will be necessary for successful implementation of the plan.

All meetings were open to the public and guests, who are experts on the topic, were invited for input.

Meeting Dates:

December 13, 2004	April 13, 2005
January 12, 2005	April 27, 2005
January 26, 2005	June 22, 2005
February 9, 2005	July 13, 2005
February 23, 2005	August 3, 2005
March 9, 2005	August 10, 2005
March 26, 2005	

III. Defining Affordable Housing

Many ask, "just what is affordable housing?" While the answer will vary, depending on an individual's or family's ability to pay, the Task Force looked to established definitions as a basis for its work.

Section 15.2-2201 of the Code of Virginia states:

> **"Affordable housing" means, as a guideline, housing that is affordable to households with incomes at or below the area[2] median income, provided that the occupant pays not more than 30% of his gross income for gross housing costs, including utilities.**

According to the 2000 Census, area median household income in 1999[3] was $42,448, and median household income in Suffolk in 1999 was $41,115. In 1999, slightly more than half (51.3%) of households in Suffolk had incomes at or below area median income.

Using the state guideline above, and based on area median household income in 1999, housing is "affordable" if a householder is not spending more than $12,734.4/year or $1,061.20/month on it, including basic utilities. With some basic assumptions and applying third quarter 2004 average interest rates, $1,061.20 in total monthly housing costs could buy approximately a $132,000[5] home, including basic utilities costs or an equivalent rental.

The U.S. Department of Housing and Urban Development (HUD), which administers a variety of affordable housing programs, uses this same definition. HUD has also established housing assistance program qualification guidelines for moderate income, low-income and very low-income at 80%, 50%, and 30% of area median household income, respectively, adjusted annually (see Table 1).

Regardless of established definitions of housing affordability, what is considered affordable to an individual or family depends on their circumstances. In general, whether a house or other dwelling is affordable hinges on the following "affordability variables":

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[2] "Area" means Metropolitan Statistical Area (MSA). In the 2000 Census, the City of Suffolk was part of the Norfolk-Virginia Beach-Newport News-Newport News,VA-NC MSA.
[3] The 2000 Census reported 1999 incomes.
[4] The 2000 Census reported 1999 incomes.
[5] Assumptions:

- $120,000 mortgage
- 30-year, fixed rate conventional
- 6.5% interest rate + .50% mortgage insurance ($799 P&I)
- 10% downpayment and closing costs paid
- $1.08 tax rate ($108)
- annual insurance ($35)
- utilities (water, sewer, and electric and/or gas only) ($119)

1. Family/household size
2. Total income
3. Selling or rental price of dwelling

Household size and total income determine income status, whereas housing costs determine affordability.

Refer to Appendix A for selected 2000 Census for the City of Suffolk and selected salary data for municipal employees.

Table 1 – HUD's Area Median Income Limits 2005

Household Size	1	2	3	4	5	6	7	8
80%	33,150	37,900	42,600	47,350	51,150	54,950	58,750	62,500
50%	20,700	23,650	26,600	29,600	31,950	34,300	36,650	39,050
30%	12,450	14,200	16,000	17,750	19,200	20,600	22,000	23,450

Source: Suffolk Redevelopment and Housing Authority, 2005.

IV. Factors Affecting Housing Costs

The Task Force met with representatives from the building industry, including for-profit and non-profit developers and builders, modular home suppliers, and trade associations to gain a better understanding of the various factors currently influencing housing construction costs. The following were identified as the main factors, in priority order:

- Rising land costs
- Land availability
- Presence or lack thereof of high density zoning
- Presence or lack thereof of mixed use zoning
- Design standards
- Presence or lack thereof of local incentives
- Public perception of "affordable housing" - NIMBY

A summary of questions and responses can be found in Appendix B.

V. Analysis of Suffolk's Housing and Housing Market

The following information is contained in the "Existing Conditions Report" prepared by URS Corporation for the City of Suffolk for the *2018 Comprehensive Plan* Update, with recent updates by City staff. The report identifies the existing conditions within the City, showing pace of growth in terms of population and housing, and the impacts that these trends are having on the city. Information contained in the report was compiled from the Statistical Analysis for the City of Suffolk (a compilation of data from the 200 Census of Population and Housing), the Hampton Roads Fair Housing Analysis (December 2003), which also utilizes 2000 Census data, and data compiled by the Real Estate Information Network (REIN), a sales and rental data subscription service.

Suffolk enjoys a fairly wide range of housing options. Many charming older houses and traditional neighborhoods can be found downtown and in the rural villages. Farmsteads and estates are scattered throughout the more rural areas of Suffolk, particularly south of downtown, and a substantial amount of newer housing has been built in recent years in the central and northern sections of the city. While much of this new housing development has occurred in the city's two Suburban/Urban Development Areas, consistent with the intent of the *2018 Comprehensive Plan's* Land Use Plan, growth has occurred at a rate higher than anticipated and the cost of housing (both new and resale) has increased significantly. Therefore, keeping pace with the demand for housing and providing for a range of affordability for both existing residents and those who desire to live and work in Suffolk will continue to be a challenge.

Tenure

- In 2000, there were a total of 24,704 housing units in Suffolk. Of these, 23,283 or 94% were occupied, indicating a 6% vacancy rate, which is fairly high for growing communities such as Suffolk. Vacancy rate is a key statistic in determining the health of the local housing market. There will always be some vacancy in the housing market as people move from one home to another leaving one vacant for a short period of time. However, this is usually less than 5% of the housing stock. A 6% vacancy rate shows a slight softness in the housing market as it means that homes are being left unoccupied for longer periods of time.

- About 72% of the housing is owner-occupied (16,815 units) and 28% consists of renter-occupied units (6,468 units). This reflects a higher percentage of owner-occupancy than either the Hampton Roads region or the State overall. While on the surface a high percentage of owner occupancy can appear as a positive indicator for the city as a whole, the lack of available rental housing can negatively impact some segment's of the city's population.

- According to the 2000 Census there were 20,355 single-family units in Suffolk accounting for 82.3% of all housing units. Multi-family units accounted for 13.3% (3,294 units) of the housing stock. Most of the remaining 4.4% of housing units consisted of mobile homes.

Housing Values and Affordability

- Data compiled from the Real Estate Information Network (REIN) from the beginning of 1998-- the year the City's 2018 Comprehensive Plan was adopted-- through the third quarter of 2004-- when the Task Force was appointed-- indicates that the city-wide average sale price of a **new construction** home in Suffolk increased from $129,359 to $276,399, or by 113.6%. The average market time decreased from 36 days to 21 days, indicating an increasingly heated housing market. Refer to Appendix C for sales data.

- Data from REIN is reported in three geographic reporting areas: Northern Suffolk, Central Suffolk (in and around the Downtown), and Western/Southern Suffolk. By reporting area, average new construction sales prices had increased as follows: Northern Suffolk – 118.3%; Central Suffolk – 115.5%; and, Western/Southern Suffolk – 115.8%.

- Average new construction sales prices were consistently highest in the Northern area and lowest in the Central area; however, by the third quarter of 2004, the difference between the two was only $54,550. Through the third quarter 2004, new construction average sales prices were as follows: Northern area- $287,861; Central area - $233,331; and Western/Southern area - $269,900. The Western/Southern area experienced the largest annual increase in average sales prices between 2003 and the third quarter 2004 at $92,175.

- New construction home sales data for the period of August 2004 to August 2005 reflects that the average sales price increased to $336,429.

- The average **existing home resale** price during this same period had increased from $121,957 to $204,934, or by 68%. The average market time had decreased from 87 days to 25 days, indicating both an increasingly heated housing market and greater demand for existing, more affordable homes versus new construction. Refer to Appendix C for sales data.

- By reporting area, average resale prices had increased as follows: Northern Suffolk – 52.5%; Central Suffolk – 58.5%; and, Western/Southern Suffolk – 52.7%. Therefore, it is evident that increases in average new construction sales prices have far outpaced the prices of existing home resales by over 50%.

- Average resale prices were consistently highest in the Northern area and lowest in the Central area. By the third quarter 2004, average resale prices were as follows: Northern area- $237,638; Central area - $162,964; and Western/Southern area - $169,187.

- Existing home resale data for the period of August 2004 to August 2005 reflects that the average sales price increased to $232,149.

- In 2000, the median gross **rental rate** in Suffolk was $506, with the highest percentage of renters (34.9%) paying in the range of $500-$749. The Statistical Atlas reports that the southeast portion of the city has the highest percentage of units with rents less than

$250 per month, according to the 2000 Census. Units with the highest rents are more concentrated in the far northeast corner of the City and northwest of Downtown.

- For the period of August 2004 through August 2005, the average rental rate was $1,412, with only 30 active listings reported in August 2005, indicating a real scarcity of rental choices.[6]

  These data indicate that these average sales prices are not "affordable," based on the affordability guideline set forth in the Code of Virginia or by HUD's definition. In fact, a review of selected monthly owner costs, as a percentage of household incomes in 1999, revealed that 24% of households that own their homes paid more than 30% of their gross income on housing, and are considered "cost burdened." A review of the gross rental data reveals that 39.5% of renters are paying 30% or more of their household incomes on gross rent and were, thus, cost-burdened. The 2000 Census data indicated that over 52% of renter household in Census Tract 752 in northeast Suffolk were cost burdened. Given the rapidly rising sales and rental rates since 2000, it is likely that the number of "cost burdened" households has increased.

- The Regional Fair Housing Report notes that despite the concentration of older and lower cost housing in the Downtown area, areas in Suffolk with the highest percentage of housing affordability issues are also concentrated in Downtown (Census Tracts 651 and 655) and also in the northeast (Census Tract 751).

Housing Age and Quality

- According to the Statistical Atlas, about 58% of all housing units in Suffolk were built before 1980, with 40% built between 1950 and 1979, and about 18% built before 1950. Almost 42% of all housing units were built between 1980 and 2000. Thus, slightly less than one-half of the City's housing stock is relatively new. However, almost 38% of rental units were constructed before 1960. The range of housing ages in Suffolk compares similarly to the Hampton Roads region and Virginia, although Suffolk has a slightly higher percentage of housing built before 1950.

- The 2000 Census reveals that areas with the highest percentage of older housing, owner-occupied and rental, are located in the Downtown area.

- The vast majority of housing units in Suffolk have indoor plumbing and complete kitchen facilities. Less than 2% of the entire housing stock is lacking one or both of these features.

- Average house size has steadily increased over the past few decades and is now approximately 2,400 square feet. This reflects a national trend in consumer preference for larger houses, often with at least three-care garages and multiple bathrooms.

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[6] Figures reflect listings reported on the Multiple Listing Service (MLS) administered by the Real Estate Information Network (REIN), and do not reflect all rental units available, which do not utilize MLS.

VI. Housing Needs Identified – Workforce Housing as Priority

From an analysis of the housing and housing market in Suffolk, a full “continuum of care” of housing needs was identified:

- housing for the homeless
- publicly-assisted housing
- very-low income housing
- low-income housing
- moderate-income housing
- high-income housing
- active senior housing
- housing for those on fixed or retirement incomes
- assisted living facilities and long-term care facilities
- fair and accessible housing for disadvantaged populations
- homeownership and rental housing

There was consensus that, while the long-term goal should be to ensure that housing needs in the City of Suffolk are being met along this continuum, the highest priority for the short-term is to address the needs of those in the Suffolk workforce or **“workforce housing”**— to promote housing opportunities for those who are active in the Suffolk work force and who desire to live in Suffolk. This should consist of both homeownership and rental choices.

By focusing time and resources here first, the task force believes that the housing needs of most moderate-income and some lower-income wage earners, as well as housing needs for public safety employees and teachers-- identified as critical components of our workforce-- will be addressed. There are 261 municipal employee job classifications with starting salaries at or below area median household income ($42,488) – see Appendix A. **Once success has been demonstrated in addressing these needs, then attention can be focused on the addressing the other housing needs identified. Moreover, research indicates that many of the strategies that can be used to increase the supply of workforce housing are transferable to other needs identified.**

VII. Workforce Housing Goals and Objectives

After establishing workforce housing as the priority housing need to be addressed, consensus was reached on the following goals and objectives:

A. Goals

Goal 1: Increase the supply of homes, which sell in the price range of $100,000 to $200,000.

> There appears to be a strong market for homes in this price range, particularly for first-time homebuyers, young persons just out of college starting their careers, public service employees, and active seniors who are looking to downsize; yet, the market is not currently producing an adequate supply of homes of this size and at this price point. Such housing choices should include both new construction and rehabilitation of existing, deteriorated homes.

Goal 2. Increase the supply of housing that is affordable to moderate-income households, inclusive of both homeownership and rental opportunities.

> This is housing that is affordable to those with incomes between 80% and 100% of area median income, and such that no more than 30% of household income is spent on housing costs, including basic utilities. Therefore, based on area median household income of $42,448 as reported in the 2000 Census, this is housing that costs a homeowner or renter no more than $10,187.52-$12,734.40/year or $848.96-$1,061.20/month, including basic utilities.

Goal 3: Increase the supply of housing that is affordable to low-income households. If possible, this should include both homeownership and rental opportunities.

> This is housing that is affordable to those with incomes between 50% and 80% of area median income, and where no more than 30% of household income is spent on housing costs, including basic utilities. Therefore, based on area median household income of $42,448 as reported in the 2000 Census, this is housing that costs a homeowner or renter no more than $6,367.20-$10,187.52/year or $530.60-$848.96/month, including basic utilities.

The Task Force recognizes that local government's ability to influence the housing market and realize these affordability goals is limited in and of itself.

Goal 4: Create an equitable distribution of workforce housing throughout the City to avoid concentration.

> Workforce Dwelling Units (WDUs) should be built in both new and in existing neighborhoods. An annual target number of WDUs to be built and/or maintained annually, distributed evenly between and throughout the City's two designated "Urban/Suburban Development Areas" or growth areas should be set.

Goal 5: Ensure that all workforce housing, both new construction and rehabilitation of existing housing, is of such design quality that it is compatible with or better than surrounding housing, for long-term sustainability and minimal future maintenance.

Goal 6: Enhance effectiveness of existing housing assistance programs through local funding.

Goal 7: Build on the existing framework of housing assistance programs to create more homeowners.

Goal 8: Enable consumers to take advantage of new workforce housing opportunities.

Goal 9: Develop partnerships with non-governmental organizations to help implement the City of Suffolk's workforce housing goals.

Goal 10: Change negative perceptions about affordable housing by building housing that is an asset to the City.

B. Objectives

To realize the aforementioned goals, the Task Force identified the following important objectives:

Objective 1: Workforce housing choices should be found in both new and existing neighborhoods.

Objective 2**:** Local government incentives, including regulatory and financial, should be employed to minimize or remove institutional barriers to housing affordability and help close the gap to make workforce housing feasible for both developers and consumers.

Objective 3: Effectiveness of existing housing assistance programs should be enhanced by supplementing with local funding.

Objective 4: A variety of financing strategies to realize workforce housing goals should be pursued.

Objective 5: Marketing of developer and consumer education programs about the City's affordable housing goals and incentive and assistance programs should be pursued or enhanced where existing.

Objective 6: Key community partners who can play a role in realizing the City's affordable housing goals should be identified for support.

VIII. Existing City Housing Policies, Strategies, Plans and Programs, and Regulations

To determine how the City of Suffolk is currently addressing housing needs and, more specifically affordable and workforce housing needs, the Task Force received a presentation by City staff on existing policies, strategies, plans and programs, and regulations. The review included *the 2018 Comprehensive Plan,* and the Unified Development Ordinance. Additional information pertaining to the City's Consolidated Plan and regulations pertaining to the construction of single-family residences, has been included in this report. The effectiveness current policies and programs was considered, and recommendations for enhancing effectiveness are offered.

A. 2018 Comprehensive Plan and Unified Development Ordinance

The *2018 Comprehensive Plan*, adopted in 1999, does not contain a more traditional "Housing" element, whereby an analysis of housing characteristics and housing needs in the City are identified with accompanying policies and strategies. However, the plan does contain a few policies and action items related to housing, under the theme of "Balanced Growth" as follows:

> Policy 5: Balance the distribution of future population to ensure that a varied housing stock is provided and that disadvantaged populations are supported.
>
> - Action 5A: Achieve the population distribution shown in the 2018 Plan (see Maps 1 and 2).
>
> Policy 6: Strike the right balance between moderate cost housing needs and opportunities for higher-end housing.
>
> - Action 6A: Implement the 2018 Plan's pattern of housing densities (see Maps 1 and 2).
> - Action 6B: Create incentives for retirement housing in the zoning ordinance to encourage this population in Suffolk.
>
> Policy 8: Maximize accessibility and minimize vehicle miles traveled and vehicle hours of delay.
>
> - Action 8C: Promote land use strategies such as the co-location of jobs and housing, mixed use centers, and neighborhood or community-scale retail uses within communities.

To date, the City has used the following means to implement these recommended policies and actions:

- Rezoning land to establish new zoning districts, expand mixed-use zoning districts, and add more uses and higher densities in existing zoning districts, which encourage co-location of jobs and housing, such as the Planning Development (PD), Traditional

Neighborhood Development (TND), Village Center (VC), and Central Business District (CBD) zoning districts.

- Rezoning land for more zoning for commercial and industrial uses, thereby providing employment opportunities to Suffolk residents.
- Adopting a new Affordable Dwelling Unit (ADU) Ordinance as part of the new Unified Development Ordinance.
- Adopting and implementing Downtown, Neighborhood and Village Initiatives Plan, which provide opportunities for new housing and rehabilitation of existing housing.

More specifically, the **Affordable Dwelling Unit (ADU) Ordinance** is the city's primary tool for realizing the construction of affordable dwelling units with certain new development applications, providing regulations for and developer incentives to promote the construction of affordable dwelling units as part of new residential development projects. The ordinance is modeled on the enabling authority set forth in Section 15.2-2305 of the Code of Virginia, and follows it verbatim. Refer to Appendix D for the full text of the ordinance.

In brief, the purpose of the City's ADU Ordinance is:

> To provide affordable shelter for all residents in the city, to address housing needs, to promote a full range of housing choices, and to encourage the construction and continued existence of moderately-priced housing by providing for optional increases in density in order to reduce land costs for such moderately-priced housing.

The ordinance applies to any application for development approval, wherein the site, or a portion thereof, is the subject of an application for rezoning or special exception (conditional use permit), site plan or subdivision plat where fifty or more residential units are proposed within a public sewer service district, yields, as submitted by the applicant fifty or more residential units at an equivalent density greater than one unit per acre within an approved sewer area. It does not apply to applications requesting approval of an elevator structure four stories or above.

Any of these qualifying applications, which request approval of single family detached dwelling units, single-family attached dwelling units, and non-elevator multiple family dwelling units structures four stories or less in height, may be approved with an increase in the developable density of the site by no more than 20%, if the applicants consents to a **voluntary and enforceable condition** in which at least 12.5% of the units are set aside as Affordable Dwelling Units (no more than 10% if at least 6.25% of the units are set aside in a multi-family project application). The number of Affordable Dwelling Units required in exchange for the bonus density shall be based upon the maximum permissible dwelling units for the site, and shall not be reduced to account for any voluntary reduction in permitted dwelling units for Mixed Use development, any Open Space or Critical Areas, or any other voluntary reductions in the total permitted dwelling units. "Affordable Dwelling Unit" means any dwelling unit restricted as Low Income Housing or Very Low Income Housing.

As an example, applying this formula to the City of Suffolk residential zoning districts, which yield greater than one (1) unit per acre for a development proposal which yields fifty (50) units, if 12.5% of the fifty (50) units are set aside as Affordable Dwelling Units, then the City Council or Planning Commission could grant a density bonus of ten (10) additional units. Likewise, if a 50-unit mutli-family development proposal sets aside 6.2% percent of the units as Affordable Dwelling Units, then a density bonus of three (3) additional units may be granted. The more units proposed in a development application, the more bonus units can be granted.

The applicant must also agree to an enforceable phasing schedule, whereby market rate units must be built and occupied concurrent with a certain percentage of the affordable units, ensuring that both get built. As an incentive, expedited permitting is offered, allowing the City Council no more than 280 days in which to process site or subdivision plans proposing the development or construction of affordable housing or affordable dwelling units.

City Council may (i) establish qualifying jurisdiction-wide affordable dwelling unit sales prices based on local market conditions; (ii) establish jurisdiction-wide affordable dwelling unit qualifying income guidelines, and (iii) offer incentives other than density increases, such as reductions or waiver of permit, development, and infrastructure fees, as the governing body deems appropriate to encourage the provision of affordable housing.

An important component of the ordinance is the certainty provided to the developer, such that the sales and rental price for affordable dwelling units within a development shall be established such that the owner/applicant shall not suffer economic loss as a result of providing the required affordable dwelling units. Because of the bonus density offered in exchange for the required set aside of affordable units, the cost of the land is no longer a factor in the development cost of those units.

The City Council may authorize the Suffolk Redevelopment and Housing Authority (SRHA) to administer the ordinance. SRHA shall have an exclusive right to purchase up to one-third of the for-sale affordable dwelling units within ninety days of a dwelling unit being completed and ready for purchase, and an exclusive right to lease up to a specified percentage of the rental affordable dwelling units within a controlled period to be determined. Affordable dwelling unit sales and rental prices throughout the City shall be established by the SRHA initially and shall be adjusted semi-annually, based on a determination of all ordinary, necessary and reasonable costs required to construct the affordable dwelling unit prototype dwellings by private industry after considering written comment by the public, local housing authority or advisory body to the local governing body, and other information such as the area's current general market and economic conditions, provided that sales prices not include the cost of land, on-site sales commissions and marketing expenses, but may include, among other costs, builder-paid permanent mortgage placement costs and buy-down fees and closing costs except prepaid expenses required at settlement.

Prices for re-sales and re-rentals shall be controlled by the SRHA or City Councilor designee for a period of fifty years after the initial sale or rental transaction of each affordable dwelling unit. Rules and regulations to implement a price control provision are set forth in Chapter 42 of the City Code.

Effectiveness

Together, the few and relatively vague policies and actions set forth in the *2018 Comprehensive Plan* do not provide clear direction for how to address the full range of housing needs identified by the task force, or more specifically "affordable housing" or "workforce housing," and in and of themselves, cannot constitute a housing or affordable housing plan. They do not set a target percentage of housing stock (new construction and resale), which should be built and maintained annually as "affordable" and used as a benchmark to track progress. Furthermore, there does not appear to be a clear mechanism in place to ensure against concentration of poverty and lower-income households in certain areas of the city or to provide for a more equitable geographic distribution of affordable housing stock.

The various Downtown, Neighborhood and Village Revitalization Initiatives Plans, adopted from 1998 to the present, do contain new housing and affordable housing opportunities. However, realization of any of these opportunities will be over the long-term versus short-term, with progress limited by municipal funds availability to complete necessary costly infrastructure improvements and redevelopment of blighted areas to support these housing initiatives.

Since adoption of the *2018 Comprehensive Plan* and the Unified Development Ordinance, it is apparent that higher-end, more expensive housing has been constructed, and that real estate values have been increasing, as per Policy 6, Action 6B. Again, while these can be construed to be positive trends, and help realize important city fiscal management goals, moderate-to-lower income earners are beginning to fall out of the Suffolk housing market. Therefore, the biggest challenge remains in integrating affordable housing in new construction, and not just limited to new construction on leftover, smaller infill parcels.

The City's ADU Ordinance appears to be the city's only mechanism for achieving this. However, the City has not been using the ordinance to negotiate with and give developers an the option of setting aside affordable units in exchange for granting a bonus density as the ordinance allows. This has resulted in lost opportunities to realize the construction and integration of affordable dwelling units as part of larger residential development projects.

Furthermore, the City Council has not taken the necessary steps set forth in the ordinance to establish qualifying City-wide affordable dwelling unit sales prices based on local market conditions, or to establish City-wide affordable dwelling unit qualifying income guidelines, and the Suffolk Redevelopment and Housing Authority has not been engaged to administer the program as set forth in the ordinance.

When representatives of the development industry were asked why no developer to date has sought a bonus density increase under this ordinance, some claimed they were not aware of the ordinance, others stated that the density bonus was not rich enough to be attractive from a project financing and profitability standpoint, and that perception—real or perceived—that it would be very difficult, if not impossible, to sell market-rate units side by side with ADUs limited to low-income and very-low income householders.

The Task Force surmises that other deterrents to the ordinance's effectiveness may be the limitation of ADUs to either "low-income" or "very low-income," to the exclusion of "moderate-income" earners, or those earning 80% to 100% of area median household income. The Task Force also noted that the 50-year sale price or rental rate restriction period is also a disincentive for developers and consumers, who look to homeownership as an opportunity to build equity, and that a lesser holding period would be more acceptable. The enabling authority does not permit the resale or re-rental price restriction period to go beyond 50 years; however, it can be less. When Fairfax County adopted its ordinance, it had a 50-year re-sale or re-rental price restriction period on the ADUs and has since amended its ordinance to make it 15 and 20 years, respectively. The Task Force also noted that the density bonus limitation set forth in the Code of Virginia may not be sufficient enough for the for-profit developer. However, changes to the formula cannot be initiated by a local government, and the General Assembly would need to be petitioned to do so.

Lastly, the ADU Ordinance allows City Council to offer incentives other than density increases, such as reductions or waiver of permit, development, and infrastructure fees, as deemed appropriate to encourage the provision of affordable housing. To date, none of these approaches have been taken by City Council. This permissive authority recognizes that a density bonus, in and of itself, may not be enough to make the deal attractive and other incentives may need to be negotiated with the developer. This guideline provides a basis for which City Council can consider adoption of some or all of the workforce housing policies and strategies recommended in this report.

Recommendations

1. City Council should set a target number of new affordable dwelling units to be constructed and a target number of existing affordable units to be maintained on an annual basis.

2. City Council should establish a new Affordable Housing Overlay District whereby construction of new affordable dwelling units through land subdivision activity, infill development on smaller vacant lots, tax sales of delinquent properties for rehabilitation as affordable dwelling units, and rehabilitation of substandard housing as quality affordable dwelling units is encouraged through by-right zoning and a variety of developer incentives. It is recommended that this Overlay District be applied in both "Urban/Suburban Development Areas" where public utilities services currently exist, and in close proximity to employment centers.

3. With regard to the ADU Ordinance in the UDO:

    a. Implement the ADU ordinance to its fullest potential, by negotiating with developers to construct Affordable Dwelling Units in exchange for granting a density bonus, both during the rezoning process, as well as during the major subdivision plat preliminary review and site plan review process.

b. As set forth in the ADU Ordinance, City Council should establish qualifying jurisdiction-wide affordable dwelling unit sales prices based on local market conditions, and establish jurisdiction-wide affordable dwelling unit qualifying income guidelines.

c. As set forth in the ADU Ordinance, City Council should consider applying appropriate incentives, in addition to density bonuses, as needed on a case by case basis.

d. Consider expanding the definition of ADU's to include "moderate income" qualifying households" in addition to low- and very-low income households.

e. Engage the Suffolk Redevelopment and Housing Authority in the implementation of the ordinance as per the manner set forth in the ordinance.

f. Reduce the holding period on resale and re-rental prices from 50 years to a maximum of 15 and 20 years, respectively.

g. Include a table or chart with Table 417-1 in the ordinance, which demonstrates clearly to the developer how many bonus units can be obtained for the voluntary setaside. This will assist a developer in making this choice as it affects his bottom line.

h. Consider requesting the General Assembly to revisit the bonus density formula set forth in the enabling legislation to increase the density bonus that a locality can offer.

B. The Consolidated Plan

The Department of Management Services prepares a Consolidated Plan, which is a five-year strategic plan outlining how the city will spend annual federal housing (U.S. Department of Housing and Urban Development – HUD) program grants it is entitled to receive (e.g., Community Development Block Grant and HOME Investment Partnership Programs). HUD funding must be utilized to foster and/or maintain decent, safe, and affordable housing, and the Consolidated Plan has four major components:

1) *Managing the process*. This is an overview of the City's administrative capacity to foster community development, including the various HUD grants;

2) *Citizen Participation Plan*. This is a detailed vehicle dictating how community and citizen input will be solicited, and the how City will respond to complaints;

3) *Strategic Community Planning & Development*. This is a detailed community overview, proving demographically the impact of the City's utilization of the CDBG / HOME dollars will have, and specifically in which census tracts. It sets forth important goals and objectives for the next five years, as well as an assessment of the City's

community housing and non-housing development needs. It also contains an outline of strategies to address how the City will address them using HUD and other funding; and,

4) *Annual Action Plan*. These are the specific projects the City will employ during the upcoming fiscal year.

The City's current Consolidated Plan outlines strategies for purchasing or building affordable housing, eliminating substandard housing and replacing with new housing choices, providing home-ownership assistance for first-time homebuyers, rehabilitating existing homes for the elderly, conducting blight abatement, and assisting with homeless services.

Effectiveness

While the Consolidated Plan is a good plan and sets forth measurable strategies for addressing affordable housing needs, the Consolidated Plan development process appears to be "stand-alone" and is not linked to policies and actions recommended in the 2018 Comprehensive Plan, with the exception of implementing Downtown neighborhood revitalization initiatives plans.

Recommendations

1. The Consolidated Plan, as the City's strategic implementation plan for housing, should be based on the housing policies and recommended actions set forth in the City's Comprehensive Plan. Doing so will ensure linkage between the two plans.

2. City Council direction to the SRHA Board of Commissioners on housing needs priorities should be based on both the Comprehensive Plan and the Consolidated Plan.

C. Housing Construction Standards

All housing in the City of Suffolk must be constructed in accordance the Uniform Statewide Building Code (USBC), and building and housing officials enforce this Code. The UDO, when first adopted in 1999, also set forth additional standards for single-family construction. The purpose of these standards were: (1) to supplement the zoning regulations applied to site built, modular and manufactured homes with additional standards and procedures which will promote a satisfactory living environment for residents of single-family homes and which will permit a mix of homes and other types of housing within the City; (2) to permit greater diversity in the types of housing communities; (3) to ensure that all new single family dwelling are compatible with other forms of housing; and (4) to ensure the provision of single-family housing opportunities for person or families of low or moderate income by providing for design standards which ensure compatibility among various types of housing units as an alternative to exclusionary zoning. The standards were:

a. Not less than sixteen-percent (16%) of the total area of any front façade (excluding garage doors) shall consist of windows and doors.
b. Not less than 8% of the total area of any side or rear façade shall consist of windows and doors.

c. All residential structures shall be constructed on an eighteen inch (18") raised slab above grade or crawl space.
d. For major subdivisions, a customized entrance is provided at the entry street intersecting the arterial or major collector. A boulevard median is required.

These requirements were challenged before the General Assembly, and the General Assembly expressly stated that local building regulations cannot exceed standards set forth in the Uniform Statewide Building Code. Thereafter, the City amended the UDO such that it is only recommended that single-family homes conform to these standards and criteria. Furthermore, in addition to other building code requirements, any manufactured home on an individual lot shall conform to the same building setback standards, side and rear yard requirements, standards for enclosures, access, vehicle parking, and square footage standards and requirements to which a conventional single-family residential dwelling on the same lot would be subject. These standards are still applicable to by-right cluster pattern development. Likewise, if property is zoned PD-Planned Development, certain design standards apply.

In 2002 an analysis was done by the City, with assistance from a reputable local builder of custom, higher-end homes, to determine the increase in housing construction costs that would result from application of the single-family home design standards outlined above. The study revealed that the base construction cost of a home was increased by a range of .92-2.47% by incorporating these design standards, **thereby refuting the argument that the City's design standards are a major cost factor in housing affordability.** Refer to Appendix E for the full study.

Effectiveness

The design standards for single-family home construction cannot be effective if they remain voluntary. In particular, and in an effort to make homes more affordable, there is the potential for affordable housing to be constructed such that it is not compatible with or better than surrounding housing, bringing down the quality of existing residences.

Recommendations

1. Consider adoption of an Affordable Housing Overlay District, and establish residential building design standards which apply to that District. The latest building technologies and flexible use of building materials should be factored into the establishment of such design standards.

IX. Development Review, Permitting Process and Fees

Since all costs borne by the developer tend to be passed on directly to the consumer and are factored into the price of housing, the Task Force considered the City's development review and permitting process, and associated fees to determine if there are any barriers or disincentives to building workforce housing. In this regard, the Task Force recommends the following:

- Following the adage "time is money," City Administration should continue to explore ways to streamline the permitting process toward the end goal of a true "one-stop shop" where all reviews and permits associated with development can be obtained. While some permit consolidation was done with a recent restructuring of the Department of Neighborhood Development Services, a developer must still visit various city departments (e.g. Planning, Public Utilities, Public Works) to obtain all necessary reviews and permits.

- Consider offering expedited project review and permitting as a developer/builder incentive. It should be noted that the City's ADU Ordinance already offers such, but this same approach might be applied to all development applications for which affordable dwelling units are proposed and may not necessarily meet the eligibility requirements for the density bonus set forth in the ADU Ordinance.

- Consider offering reduction or waiver of utilities connection/availability fees as a developer/builder incentive. Such costs tend to be high. Offering flexibility for how infrastructure is developed to serve residences was also suggested.

- Consider other opportunities for permit fee reductions or waivers.

- Consider establishing an Affordable Housing Incentive Fund, which can be used to assist developers with development costs, to be negotiated, as needed and on a case-by-case basis.

With regard the utilities fees, it should be noted that the Code of Virginia states that utilities fees should be fair, reasonable, and equitable and should not distinguish between classes of customers. Therefore, inequitable treatment of customers by waiver or reduction of fees for certain customers would raise concerns of how utility fees are equitably applied. In the past, public utility systems have met legal challenges on their application of connection fees. The Utilities Department operates as an Enterprise Fund and all expenses must be covered; therefore, any fee reductions or waivers must be recouped elsewhere in the budget system, keeping the enterprise fund sound and fees applied equitably. Furthermore, if fees can be waived or reduced for certain customers, it affects the utility's ability to forecast revenues and its borrowing capacity for capital improvements.

It should be noted that with regard to sewer service fees, additional fees are assessed by the Hampton Roads Sanitation District, over which the City of Suffolk has no purview.

Refer to Appendix F for a list of the City's Development Review and Permit Fee Schedule.

X. Existing Housing Programs Administered by the Suffolk Redevelopment and Housing Authority (SRHA)

The Task Force received a presentation by the SRHA Executive Director, which provided an overview of all housing programs administered by SRHA. The effectiveness of each was considered and recommendations for enhancing effectiveness are offered.

In general, SRHA's programs assist people seeking rental and homeownership opportunities, and also provide assistance to existing homeowners to help maintain their homes. The SRHA is governed by a Board of Commissioners, appointed by City Council, and is administered by an Executive Director. The Divisions of Operation are: Development, Section 8, Public Housing, and Administration.

<u>Homeownership Programs</u>

- Homeownership Education

  Established in 1997 as support to the implementation of the Orlando Neighborhood Conservation Area Plan, this program is designed to educate participants about the home buying process in an effort to increase their capacity as potential homebuyers. The program helps participants to recognize the advantages and difficulties of homeownership, providing them with maintenance tips to help protect their investment. Most importantly, it helps participants understand what is expected of a homeowner. The program is modeled on the Virginia Housing Development Authority's homeowner education program, and is free to participants. Once a person makes a decision to become a homeowner and is successful in that effort, post-buying training programs are also offered to help the new homeowner.

- First Time Homebuyer Assistance

  This program is designed to provide the City of Suffolk's low-income first-time homebuyers with downpayment, closing cost and gap financing assistance and is subject to funds availability. The program is funded through the HUD HOME Investment Partnership Program, and is current funding is $12,000 annually.

  To participate in this program, applicants must meet the following eligibility requirements:

  1. Must not have owned a home within the last three (3) years;
  2. Must have a household income not to exceed 80% of the area median income (AMI), adjusted for family size (refer to Table 1);
  3. Must be able to qualify for a mortgage loan from a private lender;
  4. Must be able to contribute a minimum of two percent (2%) of sales price toward the down payment and closing cost;
  5. Must attend homeowner education class; and,

6. Cannot own any other real estate.

Real estate that is eligible for purchase by qualifying applicants must meet the following criteria:

1. Appraised value cannot exceed the HUD 203(b) mortgage limit for the area[7];
2. May be either single-family, condominiums or town homes, or manufactured homes that meet conventional guidelines and are considered real property;
3. Must meet minimum housing quality standards;
4. Must be free from any health and safety defects and lead based paint hazards;
5. Must be vacant or owner occupied upon execution of the purchase offer. Properties that are tenant-occupied as of the date of the purchase offering are not eligible.
6. Must serve as the homebuyer's principal residence.

- Homeowner Occupied Rehabilitation Housing Program

  Formerly referred to as the "City-Wide Home Repair Program," this program assists households whose income does not exceed 80% of the area median income limits with resources for maintenance and repair. Up to $25,000 may be requested for necessary repairs, in the form of a forgivable loan. Qualifying properties cannot be real estate tax delinquent, and the property must be determined to be "economically feasible." The program was originally funded through the City's HUD Community Development Block Program (CDBG) Entitlement Program, and is now administered under the HOME Investment Partnership Fund. The program is city-wide in eligibility and cannot be used on vacant, unoccupied structures.

- Disaster Relief Program

  This program was initiated in 1999 following the disastrous effects of Hurricanes Dennis and Floyd. It offers assistance to households whose income does not exceed 80% of the area median income limits with resources to repair homes damaged during natural disaster events. To qualify, the homeowner must not have homeowner's insurance and real estates taxes must be current. The program is funded by SRHA through bond sale proceeds for state-wide multi-family bond issues.

  To date, these two rehabilitation programs have assisted 101 families and 174 remain on a waiting list.

- Elderly Rehab Loan Program

  This program offers assistance to elderly householders who need rehabilitation assistance in the form of a loan. The program is limited to persons 62 years of age or older whose household income does not exceed 50% of the area median income limits. Real estate taxes must be current.

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[7] Currently $275,000, but this figure will change annually.

Rental Assistance Programs

- Section 8 Housing Choice Voucher Program

  The Section 8 Housing Choice Voucher Program is designed to provide rental assistance to very-low to moderate-income families, the elderly, and the disabled to afford decent, safe, and sanitary housing. Currently, the SRHA has budget authority to administer 809 Section 8 voucher units in the City. Because of the City's rapid rate of growth, the Authority could absorb even more than the budgeted number of vouchers but would have difficulty funding the need.

  In general, the program works such the family pays a portion of the rent and SRHA pays a portion, and this is determined largely by the family's total household income. If the family is determined eligible for the program, they are issued a voucher. The family selects a rental unit, which must pass a Housing Quality Standard Inspection. The rent asked must be reasonable in comparison to rental units on the open market. SRHA negotiates a Housing Assistance Program contract with the property owner, and a lease agreement is entered into between the family and the property owner. Thus, Section 8 housing is a three-way partnership between the SRHA, the property owner, and the family. The housing voucher is mobile to locality in the United States, such that if a family desires to relocate, the voucher moves with them. If the move is outside the locality in which it originated, it is referred to as "portability."

- Public Housing

  SRHA manages 466 units of public housing for families, elderly, and disabled individuals through the City of Suffolk. These units include: Cypress Manor Apartments, Hoffler Apartments, Parker Riddick Village, Colander Bishop Meadows, and Chorey Park. Applications for housing assistance are accepted weekly. Qualifying applicants must be 18 years of age, a US citizen or eligible for citizenship, and meet HUD income guidelines. Applicants must also go through credit reporting, state criminal background checks, personal interviews, home visits, and verification of current and previous landlords. Public Housing residents' rent is based on 30% of their gross annual income. Effective May 1, 2003, minimum rent is $50.00.

The SRHA also works with a number of Community Development Housing Organizations (CHDOs) in the region to construct new affordable housing for HUD income-qualifying households. For this purpose, SRHA can and has purchased real estate to sell to CHDOs.

Effectiveness

Both homeownership and rental assistance programs effectiveness is directly tied to funding availability. Federal funding assistance through HUD's CDBG and HOME Investment Partnership Program has continued to decline over time. Because federally-funded local entitlement programs are formula-based on area income, as Suffolk's median income levels continue to grow, entitlements to the City are decreasing. At the same time, the City's population is growing, and the need for more housing opportunities is growing along with that. In addition, as residents find themselves unable to retain housing in neighboring cities as a result of a multitude of redevelopment initiatives, the housing assistance needs in Suffolk continue to rise, especially with regard to rental housing assistance, given the limited availability of rental housing opportunities in the city. Federal and state funding shortfalls and subsequent program effectiveness could be offset through local funding.

Recommendations

1. Consider layering of appropriate housing assistance programs on top of affordable housing construction incentive programs to developers to ensure that income-qualifying individuals can take advantage of new affordable housing opportunities. The first-time homebuyer program and homeowner education programs are very appropriate in this regard.

2. Consider local subsidy of housing assistance programs to offset federal funding shortfalls, in order to enhance program service delivery and to meet the needs of the City's growing population.

3. Consider aggressive pursuit of real estate tax delinquency sales and offer right of first refusal to SRHA, which in turn can sell to CHDOs for rehabilitation of such properties to be offered for sale as affordable dwelling units. Enabling authority from the General Assembly would have to be pursued in order to grant SRHA a first right of refusal.

4. If any form of local subsidy is offered for use in housing assistance programs, enrollment in a homeowner education program should be mandatory.

5. SRHA should continue to explore ways to expand the Section 8 Housing Choice Voucher Program to include homeownership as well as rental opportunities. This approach has been successfully employed in other cities.

6. As public housing is determined to be obsolete, consider conversion of some public housing units into homeownership opportunities.

XI. Affordable Housing Techniques

Based on the aforementioned goals and objectives, and a review of how housing issues are currently being addressed in the city, the Task Force developed a set of "working" potential strategies for workforce housing. Desiring to not "reinvent the wheel" and to focus on solutions that have proven successful in other communities, the Task Force discussed program information from the 2003 National League of Cities workshop in Nashville, TN "Our House: Affordable Housing Blooms in Nashville," which is a model national affordable housing program, and the City of Richmond, "Neighborhoods in Bloom," as an example of a highly successful neighborhood revitalization and affordable housing program in Virginia.

The Task Force also reviewed a comprehensive list of affordable housing techniques that have been employed across the United States, which can be transferable to the stated workforce housing goals and objectives. The following techniques were reviewed and are described in detail in Appendix G, with examples of how each technique is being used in rapidly growing localities across the United States and locally within the Hampton Roads region, and the pros and cons which should be considered for each technique:

a. Inclusionary Zoning
b. Fast Track Development Review of Affordable Housing Proposals
c. Development Fee Waivers/Reimbursement of Fees
d. Special Consideration in Growth Management Initiatives
e. New Forms of Higher Density Housing (Doing More with Less): Tandem Houses, Zero Lot Line Zoning, Accessory Apartments
f. Banking Partnerships for Affordable Housing
g. Grants to Affordable Housing Developers
h. Downpayment Assistance/Closing Costs/Second Mortgages
i. Employee Homeownership Programs
j. Homeownership Education
k. Infrastructure Support
l. Land Purchase and Resale (or Donation) to Affordable Housing Developers
m. Community Land Trusts
n. Owner-Occupied and Rental Rehabilitation
o. City-initiated zoning for high density housing
p. De-regulation and Building Methods: Reducing Development Costs
q. Affordable Housing Overlay District
r. Linkage: Encouraging Housing with Commercial Developments
s. Grants/Other Assistance for Pre-development Costs
t. Lease/Purchase Housing
u. Existing Housing Purchase/Resale to Moderate-Income Purchasers
v. Development of Affordable Scattered Site Housing/Single-Family Subdivisions
w. Adaptive Reuse of City-Owned/Other
x. Converting Motels to Low-Income Housing, Converting Apartments to Affordable Condominiums

Many of these techniques were the same as, or similar to those already identified by the Task Force as possible strategies, which validated that their ideas were in sync with approaches being used elsewhere.

Each technique was reviewed for appropriateness and application in Suffolk, and ranked in priority order as "high," "medium," or "low." The Task Force assigned priority to those techniques which could be employed in the short-term (6 months – 1 year) and do not necessarily require any or additional local funding commitments, followed by those which may require new or additional funding, but may take longer to implement because they will necessitate the appropriation of local funding.

<u>Short Term – High Priority (no additional funding required)</u>

- Inclusionary Zoning (voluntary approaches)
- Fast Track Development Review of Affordable Housing Proposals (may require more staffing)
- City-initiated zoning for higher density housing
- New Forms of Higher Density Housing (e.g. tandem houses, zero lot line zoning, accessory apartments not limited to family members and in more zoning districts)
- Deregulation and Building Methods: Reducing Development Costs (more flexible building methods)
- Affordable Housing Overlay District (mandatory inclusionary zoning)

<u>Longer Term – High Priority (funding required)</u>

- Development Fee Waivers/Reimbursement of Fees (some legal limitations for water and sewer fees)
- Land Purchase and Resale/Donation to Affordable Housing Developers (public-private-non-profit partnerships, pursue tax sales more frequently) (SRHA Involvement)
- Existing housing purchase/Resale to Moderate Income Purchasers (encourage private sector investment before public)
- Infrastructure Support (TBD on project case by case basis)
- Development of Affordable Scattered Site Housing/Single-Family Subdivisions (may be accomplished through zoning changes?)

<u>Medium Priority</u>

- Banking Partnerships for Affordable Housing (municipal asset deposits in exchange for provision of affordable housing servicing) – would require some policy work, politically sensitive
- Infrastructure Support (TBD on project case by case basis)
- Land Purchase and Resale/Donation to Affordable Housing Developers (public-private-non-profit partnerships, pursue tax sales more frequently) (SRHA Involvement)
- Community land trusts (using private funds)

<u>Low Priority</u>

- Grants to Affordable Housing Developers
- Grants/Other Assistance for Pre-Development Costs
- Special Consideration (exemptions) in Growth Management Initiatives
- Linkage: Encourage Housing with Commercial Developments

Should Not Be Pursued

- Grants to Affordable Housing Developers
- Grants/Other Assistance to Pre-Development Costs
- Special Consideration (exemptions) in Growth Management Initiatives
- Adaptive Reuse of City-Owned or Other Buildings for Affordable Housing
- Converting Motels to Low-Income Housing/Converting Apartments to Affordable Condominiums

This ranking should be used as guidance by City staff and City Council when selection of workforce housing strategies are considered.

XII. Mixed Income and Affordable Housing Financing Techniques

The Task Force reviewed financing options to produce mixed-income and affordable housing. A variety of federal and state housing assistance programs area available. These include:

- VA Housing Development Authority (VHDA)
- HOME Investment Partnership Program
- Community Development Block Grant Program
- Section 108 Loan Program
- Historic Tax Credits
- State and Local Homeownership and Rental Incentives
- Low-Income Housing Tax Credits (LIHTC)
- Tax Exempt Bonds
- Private Debt
- Private Equity
- Other

For descriptions of each and examples of how they are being utilized around the United States and locally, refer to Appendix H.

These programs are used to assist localities with helping consumers obtain affordable housing and to revitalize blighted areas, as well to assisting the development community in building affordable housing. Funding obtained from these sources can be leveraged with local funding, and together those sources can be leveraged to obtain additional private lending assistance. Private lending is also available directly to the developer and the housing consumer. The key is to identify all possible funding sources for a specific housing initiative and to layer as many resources as possible to obtain the desired result.

The Task Force invited local and regional lending institutions to participate in this discussion. From that, it was clearly evident that there are programs and expertise available to assist both the developer and those desiring to own a home in the pursuit of affordable housing choices. Moreover, there is a desire on the part of these representative institutions to assist the City of Suffolk in achieving its workforce housing goals.

The Task Force also concluded that, if the realization of workforce housing opportunities in the City of Suffolk is a priority, then it will be necessary for City Council to appropriate funding, which can be used in a variety of ways to meeting workforce housing needs, on a project-by-project basis or on an individual consumer basis. Examples of uses could be developer incentives (e.g., fee waivers or reductions, infrastructure funding), and downpayment and/or closing cost assistance (e.g., soft second forgivable mortgages repayable at the time of sale to assist with "gap financing," municipal employee housing assistance, etc.). The establishment of an Affordable Housing Trust Fund is recommended for this purpose, and should be initially capitalized through a local appropriation or series of appropriations (e.g., dedication of one-cent on the tax rate), and should be designed to be a self-sustaining revolving fund over the long-term. The Task Force does not recommend a tax rate increase for this purpose.

XIII. Recommended Workforce Housing Strategies

The Task Force recommends a comprehensive approach to increasing the supply of workforce housing in the City of Suffolk, and to increasing the ability of consumers to benefit from such housing opportunities. In addition to the recommendations set forth throughout this report and guidelines regarding prioritization of techniques set forth in Section XI, the following specific recommendations are offered:

1. Promote the City's workforce housing initiative by:

    - Making for profit developers/builders aware of need for this type of housing and local incentives to increase supply.
    - Marketing the City's Affordable Dwelling Unit (ADU) Ordinance.
    - Discussing the City's affordable housing goals and needs with private lending institutions do identify partnership opportunities.
    - Enhanced marketing of housing assistance programs.
    - Building public awareness about the need for workforce housing and helping achieve acceptance of it through preparation of Public Service Announcements (PSAs) and promoting model developments of this type.
    - Establishing an awards program for developers/builders to showcase excellence in workforce housing development.

2. Promote the construction of workforce housing choices in new neighborhoods:

    - Implementing the Affordable Dwelling Unit (ADU) Ordinance to the fullest extent possible, as written, with the modification recommended in Section X of this report.
    - Develop minimum design standards for ADUs or workforce housing to ensure compatibility with surrounding housing.
    - Encourage development of ADUs as part of all new mixed use development projects.
    - To increase rental choices, allow "granny flats" or accessory apartments in all residential zoning districts, and not restricted to family members only. Consider permitting them by-right.

3. Promote workforce housing choices in existing neighborhoods by:

    - Establishing Affordable Housing Overlay Districts throughout the city and especially near employment centers and within infrastructure service districts, in which development of affordable housing is encouraged through a variety of incentives.
        - Using the City's Geographic Information System (GIS) to map vacant, smaller tracts of undeveloped residentially-zoned land within the developed areas of the City.
        - Encourage smaller developers and non-profits to construct infill housing on these vacant parcels.
        - Consider using flexibility in adherence to lot size minimums.
        - Develop minimum design standards for ADUs or workforce housing to ensure compatibility with or enhancements to surrounding housing.

        - Target these districts for priority application of rehab housing assistance programs.
        - Target these districts for priority application of first-time homeownership and rental housing assistance.
- To increase rental choices, allow "granny flats" or accessory dwellings in all residential zoning districts, and not restricted to family members only.

4. Offer government incentives, including:

    - Minimize or remove regulatory barriers and costs within reason and within legal limitations
    - Establish or modify zoning regulations to enable increased housing choice, mixed uses and mixed use buildings, co-location of jobs and housing, and higher densities
    - Streamline/expedite permitting and reducing/waiving fees (within legal limits)
    - Allow flexible use of materials but with adherence to design standards.
    - Revisit density bonus offered in ADU Ordinance to determine if it should be greater.
    - When density bonuses are sought for cluster pattern development, consider requiring that the bonus units be set aside as workforce dwelling units.

5. Use a variety of financing techniques, including:

    - Maximize use of federal and state housing programs to increase WDU supply and to qualify first-time homebuyers
    - Leverage federal housing assistance programs with Federal Home Loan Bank programs to qualify first-time homebuyers
    - Expand Section 8 "Housing Choice" voucher program beyond renters to first-time homebuyers
    - Work with local and regional lenders to create a Community Development Lending Corporation and/or encourage developers/builders to use the new state Community Development Bank which is presently under establishment.
    - Establish a local Affordable Housing Incentive Fund to be used for such things as:
        - Offset development costs (e.g., fee waivers/reductions, etc.)
        - Homebuyer assistance
            - Teacher/public safety personnel housing program assistance
            - Other municipal employee housing assistance programs
        - Acquire property for private development/rehab
        - Require initial and continuing homeownership education to qualify
        - Avoid tax rate increases to capitalize; consider dedication of tax revenue to initially capitalize and then structure to be a self-sustaining program (e.g. revolving funds program).

6. Periodic review of progress by:

- Continuing to engage the Affordable Housing Task Force in monitoring the implementation of the City's workforce housing initiative, and having the Task Force develop additional recommendations as necessary with community stakeholders.

XIV. Conclusion

In conclusion, the Task Force suggests that the following principles should be adhered to in order to ensure the success of the City's workforce housing initiative:

- Quality housing design and construction for long-term sustainability and acceptance by the community
- Higher density and mixed-use zoning
- Proximity of housing choices to employment centers
- Proximity of housing choices to mass transportation routes
- Period review of progress.

Appendices

A. Selected Demographic and Wage Data for the City of Suffolk

Population

2000: 63,677

- 5 years or less: 7.3%
- Under 18: 27.8%
- 18-65: 60.8%
- 65 years or older: 11.4%

2030 Estimate: 125,100 (+61,423)

Households

2000: 23,283

- Average household size: 2.69 persons
    - Average household size of owner-occupied: 2.71 persons
    - Average size of renter-occupied: 2.64 persons
- 76.1% are family households (married, w/ or w/out children, or female householder no husband)
- 23.9% are non-family households (unrelated, unmarried, householder living alone)
- 22.7% are households w/individuals 65 years or older

2030 Estimate: 48,800 (+25,517)

Income

Suffolk 1999

- Median Household Income: $41,115
- Suffolk Median Family Income: $47,342

Area: Virginia Beach-Norfolk-Newport News, VA-NC MSA (Area) 1999

- Median Household Income: $42,448
- Median Family Income: 49,228

State of Virginia 1999

- Median Household Income: $46,667

Suffolk Household Income: 1999

- Less than $10,000: 2,607 (11.2%)
- $10,000 - $14,999: 1,535 (6.6%)
- $15,000 - $24,999: 2,861 (12.3%)
- $25,000 - $34,999: 2,944 (12.6%)
- $35,000 - $49,999: 3,985 (17.1%)

Note: Area Median Household Income (AMI) = $42,472
51.25% of Suffolk residents earning at or below AMI

- $50,000 - $74,999: 5,014 (21.5%)
- $75,000 - $99,999: 2,248 (9.7%)
- $100,000 - $149,999: 1,498 (6.4%)
- $150,000 - $199,999: 293 (1.3%)
- $200,000 or more: 305 (1.3%)

Households w/earnings: 18,840 (80.9%)

Mean Household Earnings: $50,428

- Less than $10,000: 2,607 (11.2%)
- $10,000 - $14,999: 1,535 (6.6%)
- $15,000 - $24,999: 2,861 (12.3%)
- $25,000 - $34,999: 2,944 (12.6%)
- $35,000 - $49,999: 3,985 (17.1%)
- $50,000 - $74,999: 5,014 (21.5%)
- $75,000 - $99,999: 2,248 (9.7%)
- $100,000 - $149,999: 1,498 (6.4%)
- $150,000 - $199,999: 293 (1.3%)
- $200,000 or more: 305 (1.3%)

Households w/supplemental income:

- Social Security Income: 6,106 (26.2%)
  - Mean SSI = $10,120
- Supplemental Security Income: 1,500 (6.4%)
  - Mean SSI = $5,718
- Public Assistance Income: 817 (3.5%)
  - Mean PAI = $2,501
- Retirement Income: 4,814 (20.7%)
  - Mean RI = $14,341

Employment

2000: 27,178 workers

- Male, full-time, year-round: 38,852
- Female, full-time, year-round: 23,777
- All parents in family in labor force: 3,527 (67.3%)

2030 Estimate: 51,800 workers (27,534)

Occupations:

- Highest percentage (30.9%) in management, professional, and related occupations
- Highest percentage (72.9%) are private wage and salary workers (vs. government, self-employed or unpaid family)

Municipal Employee Salaries:

- Teachers
    - $35,400 (Step A) to $54,824 (Step W)

- All Other Municipal Employees (Contact Human Resources Department for 2005-2006 City of Suffolk Compensation Plan).

  Note: 261 municipal employee classifications have starting salaries at or below area median household income ($42,448).

B. Input from Area Residential Homebuilders

The following information is contained in the minutes of the February 26, 2005 Task Force meeting. Invited guests were:

Question: *Is there a market for new homes in the $200K and below price range and, if so, is it a strong or a weak market? If so, how can supply be increased?*

Responses:

- Yes, if you can bring that to the market, it will definitely sell, but it is hard to find data to back this up because homes have not been built in this price range for some time.
- There is not much supply because there is not much profit to be made in building homes in this price range due to a number of factors.

Question: *What are those factors? What affects the final price of a new home? What can government do to affect costs?*

Responses:

- Cost Factors Example:
    - 1,500 sf. home
    - Vinyl siding
    - Slab on grade construction
    - Infill development, where public services (water and sewer) already exist vs. greenfield development

  Will spend $15,000/acre as a minimum on land/housing unit, plus another $40K-$50K in construction costs/square foot. Therefore, hard costs = $60K-$75,000. Then add approximately $7-$10/square foot for soft costs (e.g. attorneys fees, realtor fees, etc.). Total cost = $116,000. Developer only makes 12% profit and for a for-profit developer, it doesn't make sense to their business plan to take this risk at this low a rate of return. Most for-profit developers seek a 25% profit margin (pre-tax and overhead).

- Rising <u>land costs</u> is the primary factor affecting housing costs today. Just a few years ago, the cost of the land, prior to any improvements, represented 25% of the value of a house, whereas today is approximately 47% of the value of a house. Before, undeveloped and zoned land sold for $15,000-$20,000/acre; today, it's double that or higher. Also, with limited land available for development at a given time, the scarcity drives the price up. With regard to modular homes, land prices are so much of the factor (note: average modular home price point is currently $185,000).

- <u>Land availability</u> or scarcity drives up land costs—it's supply and demand. In 2018 Comprehensive Plan Review and Update process, revisit land use plan, designated growth areas, and availability of zoned land.

Question: Can the city buy property to set aside for affordable housing development, then add housing programs to that to help get a buyer into the home?

City Attorney and Staff Response: Yes, but it's costly. The estimated costs for The Fairgrounds project (an affordable housing project in part) property assemblage is well over $1M, as a point of reference, and the city already owned 8 acres of the land area necessary for the project. The former Obici Hospital site is an example of where the City purchased property for a specific redevelopment use, and will use an RFP (Request for Proposal) process to solicit development proposals from developers to achieve what the city intends for that site (mixed use). A developer RFP process could be considered for any land purchased by the city for affordable housing development.

- Density. Lower densities increases housing costs because of the costs associated with providing infrastructure. The permitted density through zoning needs to be increased. Can build more units cheaper if the density is higher, because the development costs get spread across a greater number of units. The cluster pattern development originally had a bonus density formula that made this development pattern attractive; however, when the formula was adjusted, the number of bonus units was substantially decreased, making it less attractive. The city should revisit the density bonus again. Also, current city development codes don't permit by-right smaller homes on smaller lots, except in higher density zoning districts and, even then, the density isn't high enough. Since you can't get landowners to lower the asking price of raw land, because of supply and demand and high demand at the moment, to get the price point of a housing unit down, government needs to permit more units on the land.

  Question: Does the market want higher density?
  Response: In general, yes, there seems to be a growing trend in this regard. People are getting away from wanting the bigger yards, the maintenance associated with larger homes and yards. They want common open space and maintenance areas. Particularly as people get older, they want less. Also, young professionals without children want less, therefore, they are attracted to more urban areas with higher density and mixed uses, where they can live and walk to work.

- Mixed use zoning. Consider amending the UDO to include a by-right mixed use zoning district. Mixed use zones can accommodate higher densities and, therefore, begin to address the land cost problem. Mixed use zoning districts strategically placed through the city could address the goal of not concentrating affordable housing in any one location. City doesn't have zoning just for apartments.

- Design standards, such as those applied to cluster development patterns and PD zoning, also increase cost of house. If you have to meet all of these design standards, you can't make a profit in the end, or the profit that necessary. For non-profits, adherence to the design standards (e.g. hardiplank vs. vinyl) can also make or break the feasibility of a project. Non-profits, who tend to build smaller projects, cannot absorb design costs versus developers who build on a larger scale. Hardiplank is not only expensive to install, but it is also expensive to maintain over time. Minimal long-term maintenance was identified in the goals.

Staff comment: Suffolk's UDO does not require design standards for single-family homes built under conventional development patterns; it can only recommend them. Rather, design standards apply only to cluster, TND, and hamlet development patterns, and PD zoning. There are massing standards which apply to VC, CBD and higher-density residential zoning districts.

Question: Westbury in Portsmouth has strong design standards and hardiplank, and it's affordable (units sell for $100K or less). Why can't all new construction be?

Response: Because the PRHA controlled a number of other development cost factors there, including land ownership, land costs, infrastructure development, and they brought a variety of housing programs to bear which helped people typically unable to afford a new home to become first-time homebuyers.

Question: Can the city promote mixed-used development yet still insist on good design?

City Attorney: Yes, design standards could be incorporated into a mixed use zoning ordinance.

Question: What is the city's aversion to vinyl? It's base cost is less, and it's less expensive to maintain overtime.

Staff Response: Based on presentation made to staff by TBA and Vinyl Siding Institute, the historical aversion to vinyl was due to poor installation practices, and limited choices. It is acknowledged that both have improved dramatically.

- Sewer and water <u>tap fees</u> are very costly. In Suffolk, fees can be as high as $10,000 and can represent up to 10% of the cost of a home. In Isle of Wight County and Raleigh, NC, tap fees are even higher. Nonetheless, Suffolk should consider modifications to the tap fee requirements for affordable housing units.

- <u>Incentives</u>. Developers need incentives to build this type of housing because of the profit margin issue.

  Question: What incentives can the city offer?

  Responses: A streamlined review and permitting process for affordable housing projects. Reduced permitting fees. Bonus densities; because bonus densities require rezoning approval and adequate public facilities standards apply to rezonings, revisit applicability of adequate public facilities for this type of housing. Site layout flexibility. Opportunities to use private versus public streets, which must be built to VDOT subdivision streets standards and can add to the cost of development. Flexibility to do sidewalks only on one side of the street versus on both sides, as currently required for all new residential development. Flexibility with regard to meeting the connectivity ratio in the UDO.

Question: *Are there specific challenges that non-profit developers face versus for-profits?*

Response: In general, issues are similar to those for for-profits—land prices, connection fees, design standards, and getting past the NIMBY (Not in My Backyard) mentality of surrounding existing residents.

Question: *How many are aware of the City's Affordable Dwelling Unit Ordinance in the UDO? This is an ordinance that permits a bonus density via a rezoning request if a certain percentage of the proposed units are set aside as "affordable units" at certain price points. It is currently voluntary and not mandatory; some localities in Virginia who have this type of inclusionary zoning ordinance, yet make it applicable to all large developments and/or rezoning-density bonus requests.*

Response: Very few. Those that have looked into think it's a good concept but find it difficult to understand and work with, too complex. The density bonus offered is not rich enough to make the numbers work.

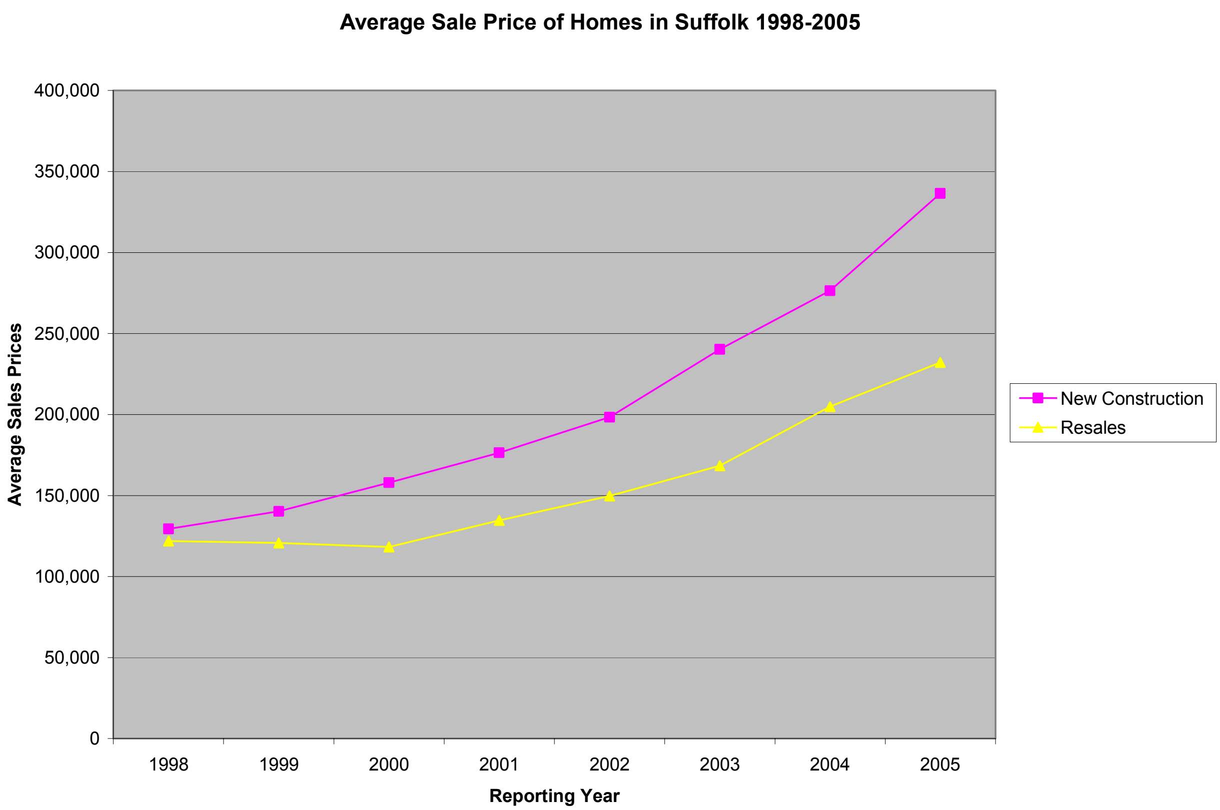
> **Question**: If the City had a mixed use zoning ordinance, would the ADU Ordinance still be necessary?
>
> **Response**: Probably not, because have mixed use zoning and development opportunities would makes it easier to provide a supply of affordable housing.

Question: *Anything else we haven't touched on?*

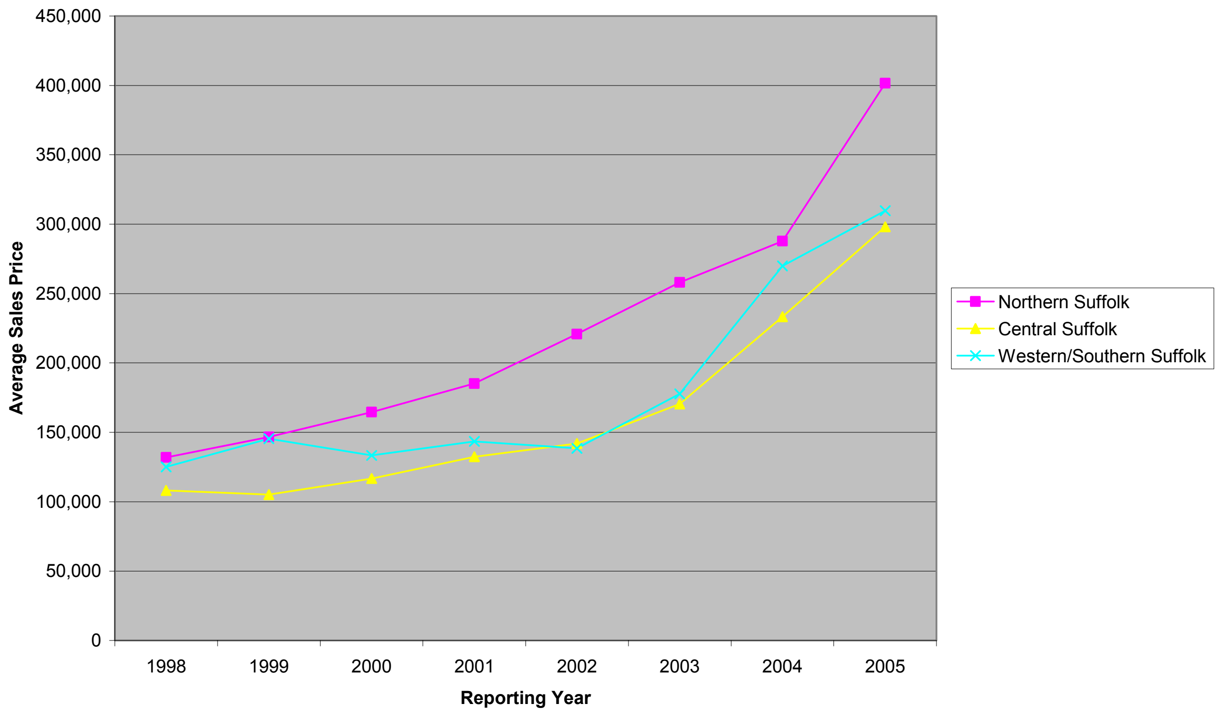
Responses: Educating the public about this important issue will be necessary—there is an inherent NIMBY attitude and much of it comes from an incorrect perception of what is meant by affordable housing—many equate it with low-income housing and poor quality housing, and fear that if it is next to them, it will decrease their own property values, result in crime, etc. That we are trying to provide more housing opportunities for working people needs to be the message. It is also important to put jobs where housing is, and this is particularly the case with affordable housing. The more people have to pay out of their incomes to transportation costs, the less than can put toward housing. Connecting jobs to housing by promoting pedestrian accessibility and mass transit is important. Strategic placement of job centers near housing should be factored into economic development decisions. Again, this gets back to the need for mixed use zoning. Also, don't think Suffolk is trying to address this issue alone; other cities in the region and all around the country are struggling with the same. There are a lot of good reference material and case studies to draw from.

C. Home Sales Data: City of Suffolk

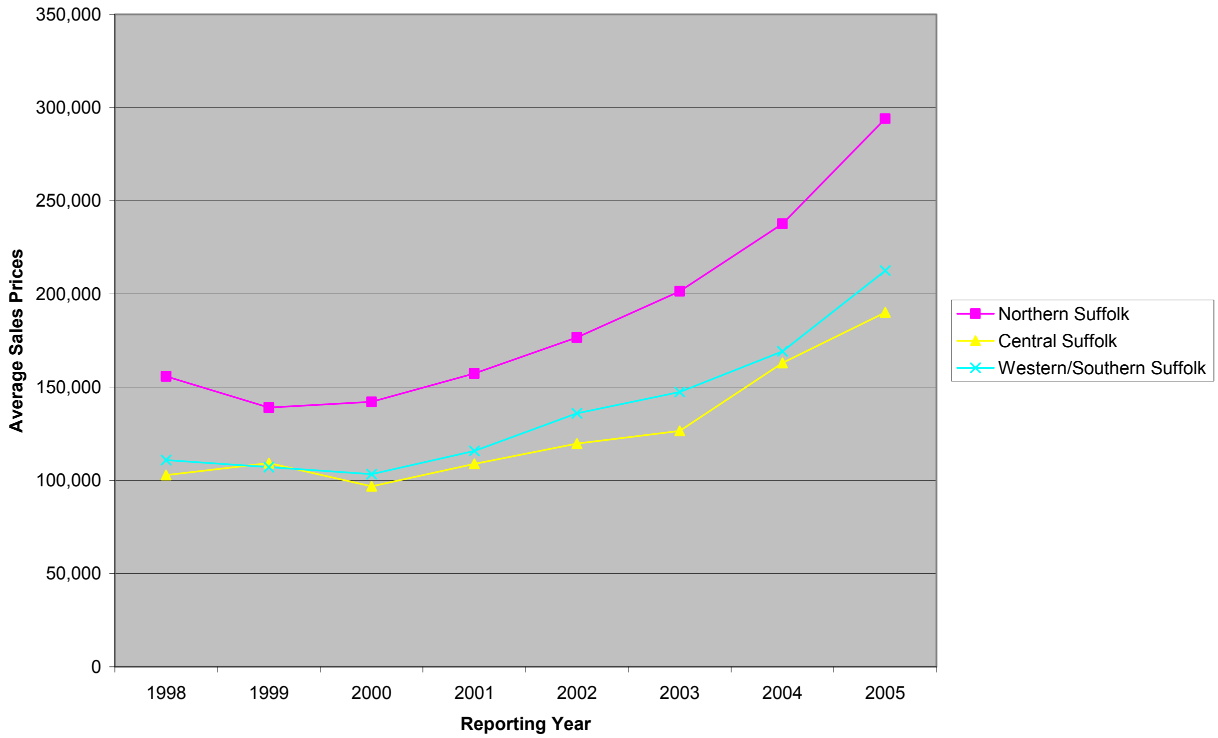
The following data was obtained from the Real Estate Information Network, a real estate subscription service located in Virginia Beach, VA. Geographic Reporting Areas are indicated on the attached map exhibit.



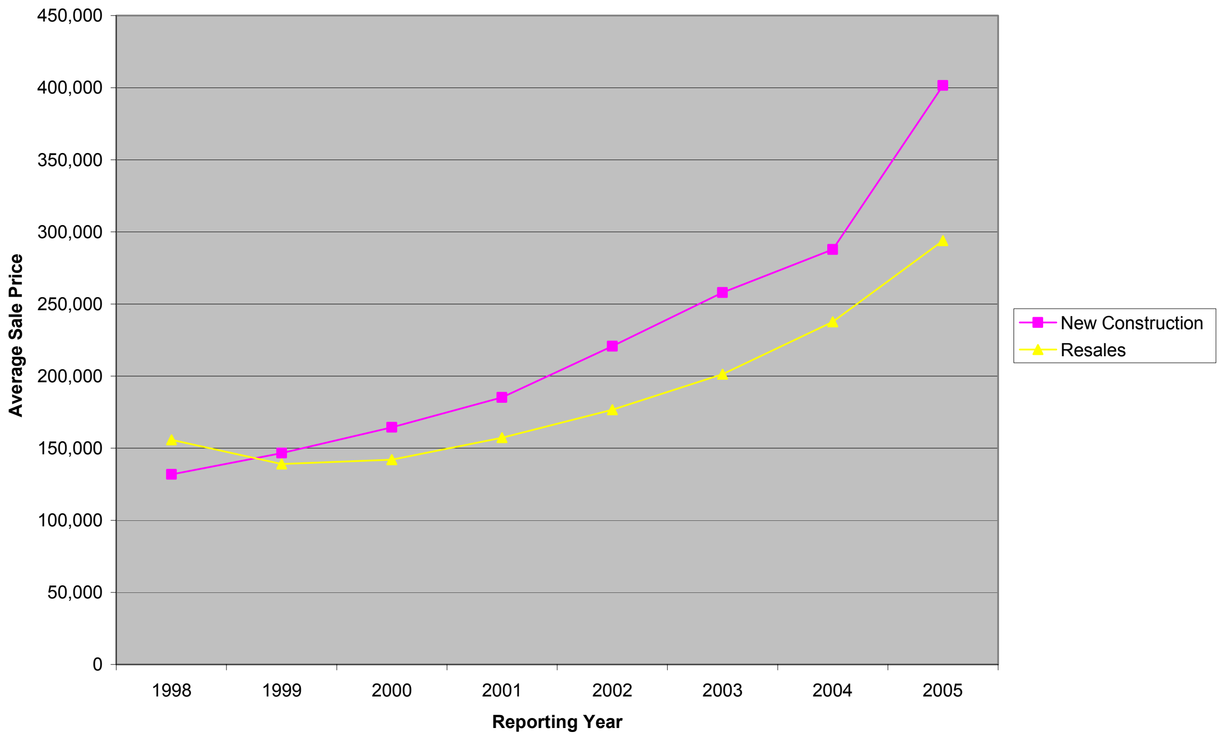
Average Sale Price of Homes in Suffolk
By Geographic Reporting Area (New Construction) - 1998 - 2005



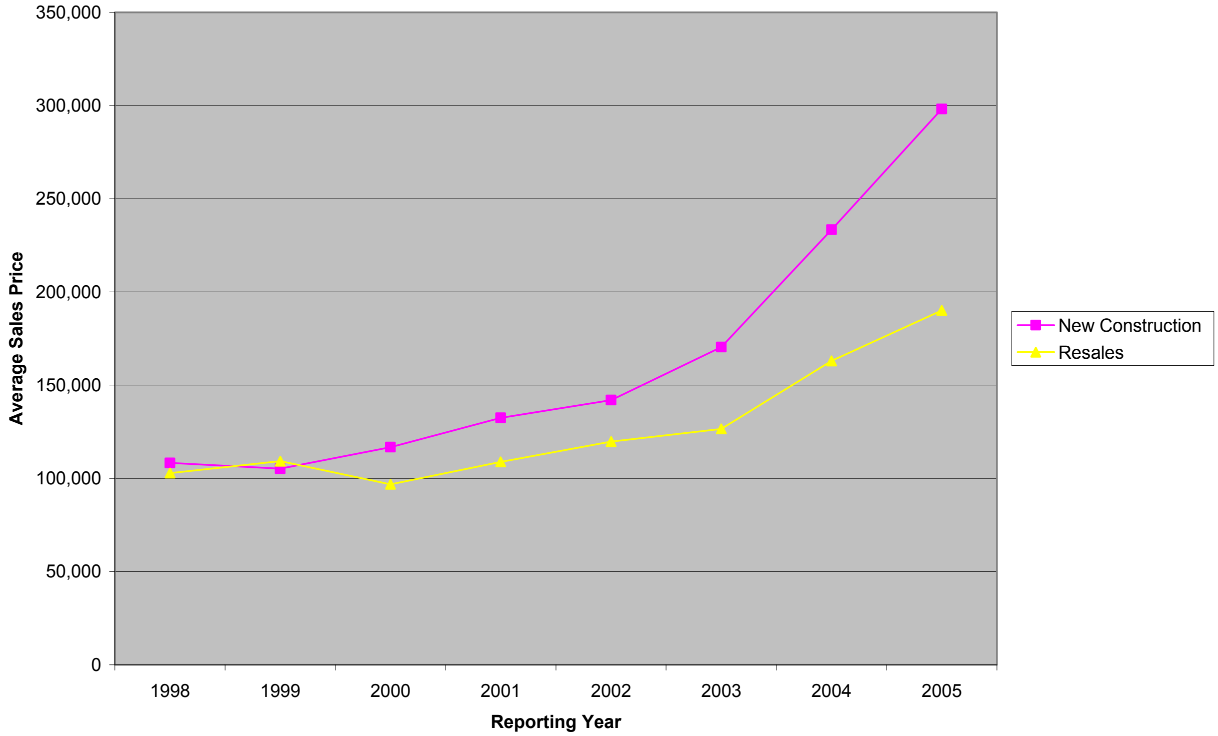
Average Sales Price of Homes in Suffolk by Geographic Reporting Area (Resales) - 1998-2005

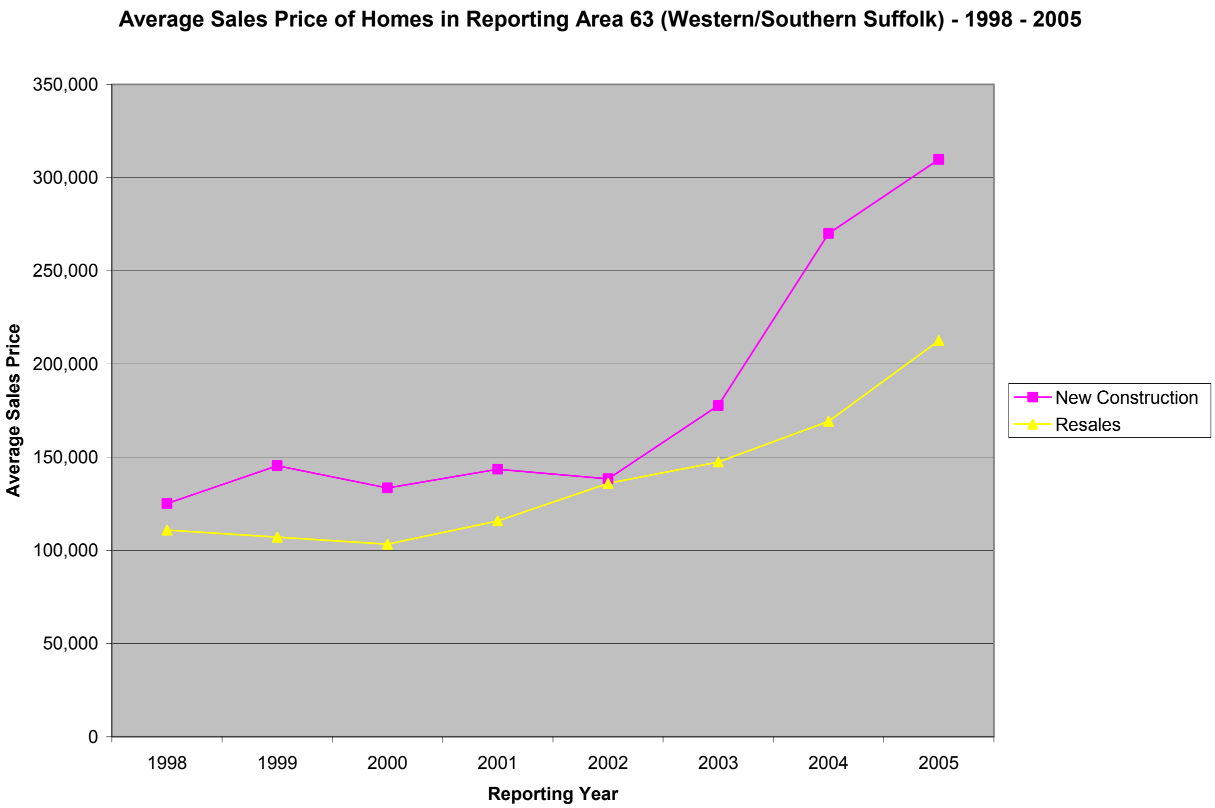


Average Sales Price of Homes in Reporting Area 61 (Northern Suffolk) - 1998-2005



Average Sales Price of Homes in Reporting Area 62 (Central Suffolk) - 1998 - 2005




Average Sales Price of Homes in Reporting Area 63 (Western/Southern Suffolk) - 1998 - 2005
350,000
300,000
250,000
200,000
150,000
100,000
50,000
0
Average Sales Price
1998
1999
2000
2001
2002
2003
2004
2005
Reporting Year
New Construction
Resales

New Construction – City Wide

Year	Average Sales Price	Days on Market
1998	$129,359	36
1999	$140,247	45
2000	$157,940	52
2001	$176,431	47
2002	$198,431	56
2003	$240,225	42
2004*	$276,399	21
2005**	$336,429	65

New Construction – By Geographic Reporting Area

Northern Suffolk - 61

Year	Average Sales Price
1998	$131,892
1999	$146,681
2000	$164,542
2001	$185,203
2002	$220,728
2003	$257,986
2004*	$287,861
2005**	$401,509

Central Suffolk - 62

Year	Average Sales Price
1998	$108,239
1999	$105,227
2000	$116,741
2001	$132,480
2002	$141,983
2003	$170,427
2004*	$233,331
2005**	$298,058

* Through September 24, 2004 only.
** From August 1, 2004 – August 9, 2005.

Western/Southern Suffolk - 63

Year	Average Sales Price
1998	$125,075
1999	$145,426
2000	$133,447
2001	$143,568
2002	$138,370
2003	$177,725
2004*	$269,900
2005**	$309,720

Resales – City Wide

Year	Average Sales Price	Days on Market
1998	$121,957	87
1999	$120,759	80
2000	$118,286	90
2001	$134,694	73
2002	$149,700	52
2003	$168,463	42
2004*	$204,934	25
2005**	$232,149	33

Resales – By Geographic Reporting Area

Northern Suffolk - 61

Year	Average Sales Price
1998	$155,837
1999	$139,052
2000	$142,072
2001	$157,255
2002	$176,656
2003	$201,393
2004*	$237,638
2005**	$293,928

* Through September 24, 2004 only.
** From August 1, 2004 – August 9, 2005.

Central Suffolk - 62

Year	Average Sales Price
1998	$102,820
1999	$109,197
2000	$96,795
2001	$108,853
2002	$119,727
2003	$126,578
2004*	$162,964
2005**	$190,077

Western/Southern Suffolk - 63

Year	Average Sales Price
1998	$110,835
1999	$107,074
2000	$103,327
2001	$115,845
2002	$136,002
2003	$147,393
2004*	$169,187
2005**	$212,442

* Through September 24, 2004 only.
** From August 1, 2004 – August 9, 2005.

D. Affordable Dwelling Unit (ADU) Ordinance

Reference online at:
http://www.suffolk.va.us/citygovt/udo/a4/section31417_zoning.pdf

E. Study – Impact of Architectural Design Standards on Residential Construction: An Analysis of Pre- and Post-UDO

Contact Jeryl Phillips, Plans & Policy Officer, City of Suffolk for copy of study at 757-923-2021.

F. City of Suffolk Development Fee Schedule

Contact Department of Finance.

G. Affordable Housing Tool Kit

This tool kit is an exploration of the variety of approaches that can been taken to implement an affordable housing initiative. Ordinances, policies, programs, and other practices are described, examples given from around the country, and the pros and cons are presented for each tool. Virtually all of the largest cities and counties in the U.S. have housing programs aimed at serving a wide spectrum of housing needs through land use regulations, public housing, rent subsidies, rehabilitation of older units, mortgage assistance, rental and single-family housing production, infrastructure development, and other public contributions and inducements. This tool kit focuses primarily on the affordable housing approaches of moderately-sized suburban communities experiencing growth pressures, since these types of communities are more analogous with the City of Suffolk rather than large, metropolitan cities.[8]

a. Inclusionary Zoning

This term refers to local government action to encourage or require the construction of housing within the means of moderate income families through mandatory government regulation or through incentives. Usually such ordinances require that housing be affordable (payments = 30% or less of moderate monthly income) for a period of years (these range from 5 to 30 years).

Typical questions regarding this tool are whether or not the inclusionary housing program should be voluntary or mandatory. The decision raises questions common to any policy debate involving markets and governmental regulation. Is a mandate needed to produce affordable housing or are incentives sufficient to spur developers to create affordable homes and apartments? Can a community provide enough incentives (through density bonuses, flexible zoning standards, fee waivers, etc.) to entice developers to build affordable housing without a mandate? Will mandates for affordability and the production of affordable housing, even when coupled with generous "cost offsets," chill market activity and exacerbate affordability problems by restricting supply? Mandatory or voluntary—which approach will produce more housing and more affordable housing for the preferred populations?[9]

Every community will engage in its own debate and evaluate its own legal authority to determine its position on mandates and incentives. However, experience with inclusionary zoning, both recent and long-standing, provides a number of insights on this important policy decision. Overall, mandatory programs produce more housing, including housing for lower-income populations. They also provide more predictability for developers and the community, and do not stifle development activity. As a result, more communities are choosing mandatory approaches.

A 1994 study by the California Coalition for Rural Housing says, "Mandatory programs produce the most very-low and low-income affordable units compared with voluntary programs both in terms of absolute numbers and percentage of total development." A 2003 study by the same

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[8] This research has been excerpted from the Town of Cary, North Carolina's Affordable Housing Plan, adopted May 11, 2000.
[9] American Planning Association. "Inclusionary Housing - Part One." *Zoning Practice*. Issue Number Nine, September 2004: 2.

organization and the Nonprofit Housing Association of Northern California found similar results. The 15 most productive inclusionary housing programs in California are mandatory programs. In fact, the report found that only 6% of the 107 communities reporting to have an inclusionary housing program said the program was voluntary. Two of those communities "specifically blame the voluntary nature of the programs for stagnant production of affordable housing despite a market rate boom."[10]

The following localities switched from voluntary to mandatory inclusionary zoning:

Boulder, Colorado. Throughout the 1980s and 1990s, the city's voluntary ordinance proved ineffective at generating affordable housing. Mandatory ordinance went into effect in 2000. As of June 2004, the program had created more than 300 units of housing and had collected $1.5 million in fees.

Cambridge, Massachusetts. Ten years of voluntary inclusionary zoning districts failed to generate any affordable housing. In 1991, Cambridge switched to a mandatory program. As of June 2004, this mandatory program had produced 135 housing units with 58 more in the pipeline.

Irvine, California and Fairfax County, Virginia. After 20 years in Irvine and after 10 years in Fairfax County, developers initiated a switch to a mandatory ordinance after years of confusion and uncertainty under a voluntary program. In Irvine, the new mandatory ordinance (adopted in the spring of 2003) is a concise program with uniform expectations and rewards for developers. As of June 2004, the mandatory and voluntary programs together had created 3,400 affordable homes and apartments with 750 more in the pipeline. The program also collected $3.8 million in fees. As of 2001 in Fairfax County, 843 affordable units had been built and offered for sale, and 458 units had been built and offered for rent, for a total of 1,301 new affordable units.

Pleasanton, California. A voluntary ordinance proved ineffective at creating affordable housing in the face of increasing housing costs and decreasing availability of land. A mandatory ordinance was passed in late 2000. As of June 2004, the program had created 408 affordable units with 154 more in the pipeline. The program also had collected $14 million in fees.

One community, Orange County, California, has switched from a mandatory to a voluntary program. The reason for the change was the political environment. The result has been a decrease in the production of affordable housing units. The voluntary program produced 952 units in 11 years (1983-1994). The mandatory program produced 6,389 units of affordable housing in four years (1979-1983).

Examples of Inclusionary Zoning Programs

Montgomery County, Maryland has had a Moderately-Priced Dwelling Unit (MPDU) program since 1974 which mandates that 12.5%-15% of all residential units being built in developments of fifty or more be sold to moderate-income families (80% of median family income) as certified by the county housing office. Developers are granted a density bonus of 22% above what

[10] Ibid.

current zoning allows. This program has produced nearly 10,000 units. According to the Innovative Housing Institute:

> The most successful inclusionary zoning program in the country in found in Montgomery County, Maryland. There, the local Moderately Priced Dwelling Unit (MPDU) ordinance, enacted in 1974, requires developments of more than 50 units to include 15% MPDUs. Of that 15%, two-thirds are sold to moderate-income first-time homebuyers and the remainder can be purchased by the local housing commission or local non-profits for use in their affordable rental programs. So, for example, in a typical new subdivision of 100 units, 85 units would be market-rate, 10 would be sold to first-time income-eligible homebuyers, and five would be owned by the housing commission (or a non-profit) for use in their rental programs.
>
> To make the program work Montgomery County provides a "density bonus" to developers; that is, within local planning constraints, a builder is granted the ability to build 22% more units in the subdivision than otherwise would be allowed. Thus, the land for the MPDU's is "free."
>
> Montgomery County's MPDU inclusionary zoning program has produced nearly 10,000 units since 1974. Other states, such as California and New Jersey, have instituted programs that promote affordable housing through the use of density bonuses. [There are] a number of jurisdictions throughout the country who are exploring or implementing inclusionary zoning ordinances.

Fairfax and Loudoun Counties in Northern Virginia have ordinances similar to Montgomery County's. Fairfax County's Affordable Dwelling Unit (ADU) program is linked to its First Time Homeowners Program and applies to developments of 50 or more units at densities of more than one unit per acre for which a rezoning for higher density is sought. Resale profit restrictions and other requirements are recorded in a covenant. Homeownership opportunities are restricted to condominiums and townhouses priced between $80,000 and $120,000 and are targeted to families at 70% or less of area median income (or AMI, of the Washington metro area). Rental opportunities are targeted to those at 65% of AMI (2/3 of units), and 50% AMI (1/3 of units). For development proposals of less than 50 units, voluntary proffers of ½ % of the sale price of all units are paid by the developer into the County's Housing Trust Fund, which funds are dispersed to support affordable housing projects throughout the county. Loudoun County's Affordable Dwelling Unit (ADU) program is directed to those earning between 30% and 70% of MFI, uses a lottery to select program participants, controls resale prices for 15 years, and requires good credit rating, low level of consumer debt, and sufficient savings to make at least a 5% down payment and pay closing costs. The Loudoun County ADU also includes a rental component for those earning between 30% and 50% of MFI, and the prices of rentals are controlled for 20 years after the initial rental.

Longmont, Colorado (pop. 58,000) and the **California communities of Irvine, Davis, Monterey County, and Chula Vista** also have inclusionary zoning programs. Longmont, which is 37 miles north of Denver, requires that 10% of all housing units built on annexed land of five acres or more be affordable through rents or purchase prices to lower income household ($43,500 for a family of four in 1998). Irvine's program requires a thirty-year affordability period, a mix of sizes, dispersion of affordable units (instead of clustering), and that 10% be accessible under ADA standards. Irvine includes a variety of incentives for builders who set aside up to 25% of their units for affordable housing; waiving development fees, CDBG funding, and land write-downs. Monterey's program is mandatory, requiring all projects (rental and for sale) to provide affordable housing for 15% of the total. The affordability period is 30 years. Incentives (fee waivers, density bonuses, fast-track review, cost of environmental studies) are offered to builders providing affordability at 25%. Chula Vista requires that 10% of projects with 50 or more units be affordable for 30 years or more through construction or dedication of land equal in value to the required units (in some cases a payment in lieu is accepted). Incentives include density bonuses and bond financing.

Sante Fe, New Mexico has an inclusionary zoning ordinance that is applicable to all developments except single lot splits and family transfers, and it includes density bonuses to offset the financial effects. Simplified paperwork is offered in cases of 75% to 100% affordability. The city ordinance requires developers to provide, at the time of application submittal, a "written declaration regarding the price classification of the proposed development" and whether it is predominantly for-sale or rental. The city created a trust fund capitalized by voluntary contributions from developers in compliance with its inclusionary housing program. One example is Villa de los Arboles, originally rezoned in 1993 for 34 residences. The developer requested and received an increase in density to 43 townhouse units—all of which are affordable. The city uses development agreements to assure affordability among for-profit developers.

Regional "Fair Share" Solutions: In response to court mandates, such as the one contained in the Mt. Laurel case in New Jersey, some communities have attempted to address affordable housing on a regional level, under the concept that every member jurisdiction in a region should share some of the burden of providing for the housing needs of all members of a region's population (as opposed to the model of concentrating lower cost housing in the central city ringed by suburbs of higher-cost housing). West Windsor Township, NJ, for example, provided for its "fair share" of low-and moderate-income housing by an inclusionary housing ordinance that required 10% low-income and 10% moderate-income housing to be dispersed within the subdivision where required and built "in tandem with the market units," and accessible to the same amenities, such as open space, shopping, and public facilities. The township also addressed the size of units (40% two-bedroom, 15% three-bedroom), and provided for a thirty-year affordability period and profit restrictions on resale.

Pro:

- Tried and true in various parts of the country. As long as compensation is provided to the developer (as in a density bonus that would allow more intensive development to enable the developer to recapture what the locality has required him/her to produce below what the market would sustain), "takings" challenges in the courts (Fifth Amendment prohibition of taking property without just compensation) can be avoided.

- Affordable units can be blended into market-rate developments, as has been demonstrated in Maryland, to minimize impact on market-rate re-sales and to avoid concentrations of lower-priced units.
- Mandatory programs produce more housing, serve low and very-low-income households, offer predictability for communities and developers, and evidence indicates that they do no arrest development.

Con:

- Potential for additional staff to be required and extra administrative costs.

b. Fast Track Development Review of Affordable Proposals

The adage that time is money is applicable to the field of residential construction. To the extent a planning office can reduce the time involved in approving a subdivision, the more receptive developers will be in providing what the community requires (such as affordable housing) to receive the reduced-time option. Although this tool doesn't contain clear, easy-to-calculate cost savings that translate into cheaper homes, it does at least make building affordable houses more attractive as a land development option.

Examples

Fort Collins, Colorado offers an expedited review process for developers proposing to building housing units for low- and moderate-income persons.

Monterey County, California offers an expedited review process for builders who guarantee that 25% of the houses to be built in a subdivision will be affordable.

Pro:

- Has the potential to help steer residential developers toward creating affordable housing to the extent that the normal process is perceived to be cumbersome or time-consuming.
- Sends a message that the City is serious about affordable housing by putting these types of projects "first in line."

Con:

- Assumes that there are procedures that are unnecessary or that staff has the ability to reduce the work hours involved in development review.
- May require additional staff.

c. Development Fee Waivers/Reimbursement of Fees

Eliminating or reducing development fees is a "carrot" localities can dangle in front of housing developers to encourage them to build lower cost housing and which can reduce the cost of housing when the savings are passed on to the buyers or renters. In some states cities can waive fees; in others, cities collect then reimburse after compliance is determined. In some cases all fees related to residential development are included (school and traffic impact fees, water and sewer fees, park fees, building permit fees), in other cases only some fees are waived.

Examples

Arvada, Colorado (suburb of Denver, 1995 est. pop. 103,700) has an ordinance that provides for a development fee waiver "for all housing developments which will be granted a federal subsidy for rent or mortgage payment."

Longmont, Colorado (suburb of Denver, pop. 58,000) also offers up to 100% waiver of certain fees, using a five-year affordability period for single-family development, ten years for multi-family.

Hillsborough County, Florida (around Tampa) has an Impact Fee Relief Program, which waives impact fees for water, sewer, rights-of-way, parks, and transportation. In one affordable apartment development project, almost $500,000 was saved, greatly enhancing the ability to offer low-cost rents.

Santa Fe, New Mexico offers fee waivers to development proposals offering 75% of units to those at or below 80% of median family income.

Orange County, North Carolina provides school construction impact fee rebates ($3,000 per unit in Chapel Hill and Carrboro, $750 elsewhere) to nonprofit groups building affordable units for first time homebuyers.

Wilson, North Carolina eliminated development fees for a thirty-five unit affordable subdivision it helped develop.

Asheville and Raleigh, North Carolina forgive developments fees for affordable housing developments (up to 50% of costs and up to 100% of costs, respectively). The process used in Asheville includes payment up front before construction of an 'affordable house," defined as one selling below $100,000 at the time the building permit is issued. A receipt is given for payment. When the home is sold (within 12 months of the issuance of a building permit), the payment receipt is sent back to the Asheville Community Development Department, along with the fee waiver form and a copy of the "HUD-1" closing statement proving the selling price of the home. The Department then sends a refund check to the applicant.

Apex and Holly Springs, North Carolina have financed development fees for moderate-priced construction at $4,087 and $5,600 per unit, respectively.

Pro:

- Requires no budget allocation.
- Can make affordable housing projects more attractive to developers since waivers result in fewer up-front, out-of-pocket costs by the developer, and reimbursements at least return the up-front costs to result in net savings.

- Provides another “layer” of subsidy to a project already benefiting from federal grants or loans, which in high-cost areas is often what is required to bring the costs of housing down to the level needed for their moderate-income residents and workers.

Con:

- Subsidy may not be deep enough to achieve a significant savings in new units, as shown in the case studies above; only helps incrementally.
- Difficult to track the passing of savings on to the housing consumer.
- Unless applied to units receiving another subsidy, may not guarantee that units are occupied by moderate-income persons.
- Has no impact on the sales price of existing units, only new houses.
- A 1992 study for the Town of Cary, NC concluded that “reductions in required impact/development fees are not likely to have a significant short-term impact.” In 1992 the fees typically totaled $3,400. In 1999 the fees had rising to $5,229, a 53% increase. By itself, as shown in the example above, a fee waiver would help, but not to a degree sufficient to bring a typical new house (even one well below the average sales price of new homes) into the affordability range for many moderate-income families.

d. Special Consideration in Growth Management Initiatives

High growth communities faced with the struggle to expand infrastructure (schools, roads, water, sewer, parks) to keep pace are increasingly turning to moratoria, caps, adequate public facilities ordinances, and other growth management tools. Such slow-down strategies, despite their advantages, can freeze the community’s attempts to increase a proportion of affordable housing, or worse, drive up the cost of housing even more by reducing the availability of land of buildable lots. Some communities recognize such unintended consequences in their growth control ordinances either as a regrettable but inevitable by-product or as a situation in need of countervailing measures.

Examples

Arvada, Colorado, which has instituted a residential building permit allocation system “to preserve the character of the city (597 allowed in 1999) nonetheless exempts low/moderate income housing as determined by HUD income limits.

The **Town of Cary, North Carolina** has included a clause in its schools adequate public facilities ordinances that allows an additional 5% above the adequacy standard for affordable housing projects.

Pro:

- Has the effect of increasing the proportion of housing stock that is moderately priced without the expenditure of public money.
- Assures that a locality’s affordable housing initiative continues at the same time the locality carries out growth management procedures.

Con:

- Has the potential of significant opposition from builders of higher end houses and apartments.
- The market may only provide moderate income housing, unless the locality promotes mixed-income housing (e.g. exemptions where at least 20% is affordable—rather than 100%).

e. New Forms of Higher Density Housing (Doing More with Less): Tandem Houses, Zero Lot Line Zoning, Accessory Apartments

Communities seeking to expand their stock of lower-cost housing are not restricted to encouraging new subdivisions though the usual script of annexations, rezonings, and extensions of water, sewer and roads. In some circumstances, a given development site can absorb higher density housing while providing a quality living environment and the current housing stock itself can be a resource for new housing.

Examples

Orlando, Florida has pioneered the concept of allowing subdivisions to include "tandem single-family development" as a conditional use on lots that allow duplex development. Orlando's ordinance requires a "minimum separation of ten feet between buildings/structures, with no less than five feet on each side of the property line." The design requirements include a provision that "all lot layouts, circulation, and open space provided…permit an attractive variety of orientations and groupings of dwelling and driveways consistent with the existing development pattern of the neighborhood." **Babylon, New York** passed a two-family dwelling law that allowed owners of existing houses to add a second living space but permitted only a single front entrance to maintain the appearance of a single-family dwelling. The added unit is either sold or rented.
Zero lot line (ZLL) development is a similar strategy to increase density in a single family detached environment. **Bentonville, Arkansas** and **Dade County, Florida** were showcased in a HUD report (Removing Regulatory Barriers to Affordable Housing) as successful models for ZLL. Bentonville responded to a major Wal-Mart expansion and other job creation activities through passing a zero lot line ordinance to overcome a housing shortage. The ZLL district allowed developers to increase density to 16 houses per acre (including duplexes and detached units), instead of the conventional 4 units. Average lot cost was reduced 50-75%, and streets were narrowed to 24 feet, with sidewalks required on public streets.

Allowing accessory apartments, or "granny flats," to be installed in single-family homes is one strategy that enables communities to expand their current housing stock on existing infrastructure and with less land consumption than, for example, the construction of a new apartment complex. By these measures, a community can achieve the multiple objectives of creating reasonably-priced apartments, allowing (for example) the widow on a fixed income to remain in her house and supplement her earnings, and allowing some to care for their less-than-totally-independent elderly parent(s). **Daly City, California** passed a Second Unit Ordinance in 1983 that permitted the development of accessory apartments by right and created 400 affordable units in less than ten years. **Asheville, North Carolina** allows accessory apartments in all residential districts. With a conditional use permit, the **City of Suffolk** permits accessory dwellings in certain zoning districts, but not all, particularly the more dense and urban zoning districts. These can be either outbuilding "carriage apartments" or contained within the main structure.

Some communities offer a density bonus (independent of inclusionary zoning) as the "carrot" to encourage developers to build more units per acre than ordinarily allowed under existing zoning. Normally a fixed percentage of a house reserved for low and moderate-income families is part of the ordinance and sometimes deed restrictions to ensure that the housing remains affordable are written into sales agreements. **Fairfax County, Virginia** tried and abandoned such a voluntary system in favor of a mandatory inclusionary zoning ordinance that included a density bonus as compensation. **Anaheim, California** grants a 25% density bonus to developers of affordable housing. **Town of Cary, North Carolina**, in the PUD section of its Unified Development Ordinance, provides a density bonus of up to 25% for projects that include housing affordable to those at or below 80% of the area median income, adjusted for family size; however, it has never been used.

The current **Town of Cary, North Carolina** Unified Development Ordinance allows all single-family homes to include accessory apartments as long as they are attached to the main buiding and occupied by a relative.

Pro:

- Apartments can be added to the current housing stock and/or new housing with less impact, and presumably less opposition, than a new apartment complex.
- Homeowner screening of tenants who will be sharing their dwelling or lot can be expected to be more thorough than the usual apartment complex process.
- Reduces sprawl as the population "grows in place."

Con:

- Care needs to be exercised, particularly with regard to allowing apartments to be added to existing houses, that parking is adequate to the increased occupancy.
- Opposition from adjacent property owners may emerge at some locations.

f. Banking Partnerships for Affordable Housing

Municipalities sometimes develop partnerships with local banks to carry out affordable housing activities. One example involves selecting financial institutions for deposit of local public funds based on the willingness of such institutions to contribute loans and other resources to valued public activities, such as facilitating moderate income home ownership. By "linking" their deposits to such activities, cities are better able to achieve civic improvements, provide additional housing resources, and other initiatives without spending taxpayer's money.

Examples

Loudoun County, Virginia won Virginia Municipal League and Governor's Housing Awards for their program of linking a proportion of county deposits ($5,500,000) in local financial institutions with the affordable housing activities of those institutions. After enabling legislation was secured in the Virginia General Assembly, an RFP was issued to allow equal access among all interested County financial institutions. Three responded and two banks split the deposit as well as the affordable housing activities to be provided. These activities include twenty Affordable Housing Mortgage presentations, marketing, eight First Time Homebuyers Seminars, $5,000,000 Home Mortgage funs with no Private Mortgage Insurance, $3,000,000 in Residential Construction Funds, and Federal Home Loan Bank Funds Advisory Services and presentations to non-profit housing agencies. The value of the bank's housing activities brought about by Loudoun County's $5,500,000 investment was calculated at $8,011,500. The interest income was only $5,000 below what otherwise would have been earned. Both residents of and those who work worked in Loudoun County were eligible, if the family income was 70% or less of median family income. Atlanta, Georgia and Charlotte, North Carolina have similar programs and Durham, North Carolina is considering steering city, county and school system investments to local banks investing in a variety of urban renewal efforts.

Pro:

- Uses a public-private partnership to achieve more inclusive housing.
- Some strategies require no new appropriation of public funds.
- Helps local banks meet Community Reinvestment Act responsibilities.

Con:

- Many local banks already have moderate-income homeownership programs.
- May be problematic to change banking accounts with locality's investments.

g. Grants to Affordable Housing Developers - "Gap Financing"

Examples

Columbus, Ohio entered into a partnership in 1995 with two developers and the State Savings Bank to produce mixed-income housing inside the city school district (growth was occurring in the suburbs). Phase 1 of the project was to build 400 homes. The bank committed $38 million for land acquisition, site development and mortgages, and the city provided $1.2 million (local funds) for down payment assistance for the home buyers at $3,000 each. The process (according to the HUD report *Models that Work*) is as follows: 1) the developer acquires site control; 2) the city approves development plans for each site, after which the developer enters into a development agreement with the city to create the subdivision (clearing and installation of sewer, streets, and sidewalks); 3) the city partially reimburses the developer for street construction costs in an amount equal to $3,000 per improved lot and the developer sells the lots to builders. At that time the $3,000 is deposited into an escrow account and is released toward downpayment and closing costs when the house is built and sold to a buyer. Phase II was announced in late 1995 for an additional 1,000 homes.

High Point, North Carolina, in its Infill Housing Reimbursement Program, provides up to $10,000 per infill house for construction of homes for first time homebuyers in core city neighborhoods. $100,000 in local general funds are committed to this program. In 1997 ten homes were constructed through this program. **Durham, North Carolina** recently provided grants to bring houses built by a local non-profit organization into the affordability range of moderate-income buyers.

Pro:

- Grants, unlike loans involving repayment over an extended period, are easier for the locality to administer, require no new collection system, and avoid delinquent payment issues.
- Grants (especially if from non-federal sources) are also easier for recipients to manage and therefore more likely to be used than a loan.

Con:

- Public acceptance of grants is lower than loans.
- Grants are not the best option if the housing program is to be self-supporting.

h. Downpayment Assistance/Closing Costs/Second Mortgages

Usually all of these tools are offered together in a "first time home buyer" program, and since HUD funds these efforts under its Community Development Block Grant Program (CDBG) and HOME Investment Partnership (HOME) programs, virtually all entitlement communities can provide these services. The City of Suffolk operates CDBG and HOME programs, the latter which provides first time homebuyer assistance.

Examples

Richland, West Virginia (high tech city, pop. 36,500, $48,200 median family income) has a Downpayment Assistance Program that assists qualified low and moderate income first-time homebuyers with up to 50% of the down payment, including housing costs and other associated costs payable at the time of closing. Eligible homes will be in the City of Richland. The assistance will be in the form of a 0% interest loan, with repayment deferred until sale or transfer of the property.

Boise, Idaho (pop. 175,000, 1998 MFI: $48,000, high-tech town) helps low- and moderate-income families build a home. The city lends up to $25,000 for a residential lot (5.5% interest, 30-year term, payments deferred for 5 years if family is 65% or less of median family income) and U.S. Bancorp provides up to $67,000 @ 7.5%, 30 years for the construction loan).

Austin, Texas provides financial assistance to purchasers, available in the form of: 1. Low interest financing (County Bond Program), 2. down payment/closing cost assistance (grant not to exceed $1,500), 3. a $8,000 no interest, no monthly payment second lien loan for as long as the home remains purchaser's primary residence.

Fresno, California provides loans for downpayment and closing costs (3.5% interest, 20-year term) which is forgiven unless the property is transferred. The buyer must provide from $2,000 to $4,000 for his own resources to qualify.

Cambridge, Massachusetts "Soft Second Mortgage Program" reduces a borrower's monthly costs by dividing the loan into two components: a conventional 30-year fixed rate loan (usually for 75% or less of the purchase price) and a subsidized second mortgage (interest only for 10 years). The program also has a 5% down payment requirement and more flexible underwriting than many conventional mortgage products and lower closing costs. Eligibility is contingent upon a family's moderate income status, completion of a first time homebuyer class, and meeting with a Housing Access Counselor. The program is funded by the state and loans are available through seven lenders.

> The "Cambridge Homebuyer Initiative (CHBI) is an affordable home ownership program for low and moderate income residents CHBI provides technical and financial assistance to residents who want to buy a condominium in the city. CHBI can provide financial assistance in three ways: 1) pay for necessary rehab (up to a fixed amount); 2) pay for the difference between the price of the condo and what buyer can afford; or 3) pay for a part of the down payment or a combination of all three (up to a fixed amount).

# of bedrooms	Total Cost (including rehab)	CHBI Contribution
Studio	$110,000	$20,000
1 bedroom	$125,000	$25,000
2 bedroom	$140,000	$30,000
3 bedroom	$150,000	$35,000

Akron, Ohio, in its Home Purchase Incentive Program (HPIP), provides a grant of up to $5,000 for homebuyers purchasing a home in target neighborhoods, with up to $2,000 to go toward the downpayment, the remainder toward rehab.

Dupage County, Illinois (a high-cost, fast-growing Chicago suburb) is host to a "homestead" program where one of 25 participating lenders provides a 30-year, fixed rate mortgage for up to 55% of the home purchase price (the loans are sold to Fannie Mae), and the state housing authority provides a second mortgage at 40% of value, 0% interest, 30-year term). Buyers receive a 2% downpayment grant and provide 3% from their own resources.

Topeka, Kansas (pop. 120,000) has a program with the easy-to-rembmer name TOTO (Topeka Opportunity to Own) to recycle its stock of vacant houses while providing ownership opportunities. The city has a partnership with five lenders, a nonprofit, and the Kansas Department of Corrections (inmate labor for carpentry). The lenders, who set aside a total of $5 million for TOTO, waive the loan origination and other fees, offer a lower-cost appraisal, and provide the first 30-year mortgage. The city provides a second mortgage for rehab, which may go up to $15,000 and is forgiven (with deferred monthly payments) if the owner remains in the home for ten years.

Tampa, Florida has a "Mayor's Challenge Fund Partnership," a cooperative effort among the City, lending institutions and non-profit agencies to increase the quality and number of affordable housing units in the City of Tampa. The primary objectives of the partnership are to encourage homeowners to repair their existing homes, to encourage homebuyers to buy within the city limits of Tampa and to encourage the rehabilitation of multi-family housing. In 1995, 28 local banks and credit unions committed more than $100 million in low-cost loans over five years. The City coordinates the program, provides loan processing, subsidized down payment assistance, loan guarantees and monitors the construction process. The lenders provide relaxed underwriting guidelines and below market interest rates. The non-profit agencies provide a bridge to Tampa's local neighborhoods and residents, to those who might not otherwise take advantage of homeownership through housing counseling, loan packaging, construction and marketing.

Wake County, North Carolina works with its First Citizens Bank Shelter Source homebuyer program. The bank program for low- and moderate-income first time homebuyers has been in operation since 1991 and closed 1,240 loans totaling $58.5 million in the first five years. Closing costs can be financed and neither points nor origination fees are charged to the borrower. Wake County provides downpayment assistance that can be combined with a Shelter Source mortgage.

Pro:

- These have become important gateways to homeownership for those having difficulties accumulating sufficient resources to afford a downpayment/closing costs.
- Second mortgages help bring houses in an expensive housing market within reach of those whose 30% of income is insufficient to afford a home.

Con:

- Often such programs are staff-intensive, especially those not restricted to the top of the moderate-income range (such as targeting resources to those between 60% and 80% of area median income), with the efforts sometimes required to clear up credit problems.

i. Employee Homeownership Programs

Some cities, and some companies, provide financial resources (low interest loans, matching grants, etc.) to enable their service workers to purchase a home as an employee benefit.

Examples

Baltimore, Maryland helped 213 of the moderate income workers of its 25,000 workforce buy homes through a homeownership program that provides up to $10,000 in assistance. $2 million was budgeted for the 1995 program. Employees must have at least $1,000 of their own money, which the city matches dollar-for-dollar up to $2,500. This is supplemented by a $7,500 deferred loan with a ten-year term with a declining balance. Fannie Mae agreed to purchase the loans and bring together eighteen lenders to make first mortgages. Homebuyer education was required. 40% of the participants were police officers, firefighters, and teachers. The average sales price was $70,600, the average first mortgage was $61,700, and the average income was $24,600.

Lawrence, Massachusetts, along with a bank, and two factories participated in an employee homeowner program. First Essex Savings Bank waived processing fees and closing points, the city provided $1,000 as a deferred loan, and the other businesses provided $1,500 for each buyer toward downpayment assistance. Sixty-two town and other employees purchased homes under the program in 1994-95.

Chicago, Illinois has a program to help teachers and other school employees own a home near the schools in which they work. Mortgages area ½ percent below market rate and participating lenders waive application and appraisal fees.

Yale University in **New Haven, Connecticut** provides a homebuyer program for its employees through providing grants of $2,000 per year for ten years, in addition to $4,000 for closing costs and home repairs. They must occupy the dwelling for a least two years and it must be located in a neighborhood near the university. In the first two years of the program, 227 Yale employees purchased homes (46% were clerical, technical, service or maintenance workers), requiring a $4 million commitment by Yale. Most of the properties were priced between $50,000 and $100,000.

Legacy/Emanuel Hospital in **Portland, Oregon** provides $5,000 in a forgiveable loan, the principal of which is reduced 20% per year for five years (which makes it a grant after five years). The hospital benefited 80 employees 1991-1995.

Los Angeles, California provides homebuyer assistance to its police officers and firefighters in the form of a $10,000 forgiveable loan (deferred as a "soft second" mortgage with a five-year declining balance). Maximum purchase price: $213,000 (1995).

Johnston County, North Carolina school officials encouraged a local developer to offer new teachers affordable homes in a new subdivision with "no money down." The county markets the subdivision to new teachers in an attempt to attract and keep teachers who have been attracted to more lucrative assignments in more affluent counties.

Durham County, North Carolina makes available a second $10,000 mortgage with deferred payments and waiver of water and sewer connection fees in an effort to attract the best teachers to its school system.

The **Town of Cary, North Carolina** offers downpayment/closing cost assistance to employees who have been on the payroll for at least one year and who have not owned a house in three years. This assistance is in the form of financing 50% of the downpayment and closing costs (not to exceed $5,000) repaid through a two-year diversion of Town contributions to the employee's 401(k) account, at an interest rate equal to prime minus 2. The North Carolina Housing Financing Agency (NCHFA) provides the first mortgage of 95% of the total, and a third mortgage for up to 25% of the downpayment and closing costs. The low maximum house sales price (NCHFA standard) limits the usefulness of this benefit to townhouses and condos.

Pro:

- This is a good way to directly benefit some of the most often cited groups in need of housing assistance: public employees such as police, firefighters and teachers.
- If homebuyer is limited to within the locality's boundaries, community time to work (and traffic load on highways) can be reduced—particularly important for "essential" employee's access to locality during public emergencies.
- Minimum public opposition.
- Local employers can be encouraged to follow the local government lead and offer a similar benefit to their employees.

Con:

- Care must be exercised to offer a generous enough offer to make a difference in the ability of targeted employees to buy houses in the city, with attention to average sales prices and rental rates.
- Other layers of assistance may have unrealistic maximum loan amounts that are out of sync with local real estate realities.

j. Homeownership Education

Virtually all major cities that administer federally funding housing programs (CDBG, HOME) include homeownership education, either through their own staff or through nonprofit groups. These programs usually charge a nominal fee or are free and seek to familiarize moderate-income earners with lending requirements, home budgeting principles, special mortgage lending programs, and public resources available to income-eligible households.

Example

Chattanooga, Tennessee is the origin of the Fannie Mae-approved, nationally-recognized "Fastrak to Homeownership" training program, which was developed by the Chattanooga Neighborhood Enterprise (CNE) nonprofit, and used by 200 public and private groups nationally. After performing an initial assessment, participants are steered to either one-on-one counseling or a Life Skills course (household financing, home maintenance, personal growth, and pre-purchase homebuyer training) before beginning the Fastrak instruction, or they being the Fastrak course immediately. Fastrak covers budgeting, underwriting and credit, finding a home, financing, the mortgage process, and post-purchase topics such as home maintenance, default, and foreclosure. CNE also provides mortgage loans and has a default rate of less than 2%.

Pro:
- Educating first time home buyers about the process or buying a home, maintaining it, paying the mortgage, saving up reserves for repairs, etc. are crucial to the success of homeownership programs. Many housing administrators cite such programs as critical to the ability of lower income groups and others to succeed and avoid default (or even foreclosure).

Con
- This type of assistance is often offered free or at low costs by banks, realtors, and others. There may not be a need for the locality to create its own program.

k. Infrastructure Support

A typical way to support new housing while reducing development costs is to provide the needed water, sewer, drainage, and streets (extensions of existing line and/or "on-site infrastructure). Often the proportion provided on-site is the same as the proportion of homes which will be occupied by low-and moderate-income families (LMI). Communities receiving federal CDBG and HOME funds often provide this type of assistance and monitor incomes of occupants for LMI status.

Examples

Suffolk, Virginia is implementing the new residential infill neighborhood components of its Fairgrounds Revitalization Plan with locally-funded infrastructure (new and improvements to existing) through its capital improvement plan. To supplement local funds, the City is using also its CDBG program by taking advantage of HUD's Section 108 Loan Program for this purpose. Locally-funded land purchase (through local operating and capital budgets, and CDBG Program entitlement) and resale to affordable housing developers, along with anticipated layering of housing assistance programs is also being used. Over 75 units of housing for LMI persons will be constructed alongside an equal number of market-rate units.

Portsmouth, Virginia and its Redevelopment and Housing Authority used this approach in its Westbury neighborhood project, which converted public assisted housing to homeownership and rental housing, using a HOPE VI Grant and local funding.

Staunton, Virginia is creating a new subdivision in a redevelopment area of cleared vacant houses with the assistance of CDBG (new water and sewer lines and internal streets) from the state and Habitat for Humanity.

Rochester, New York participated in a 50-unit affordable housing project through a $400,000 investment in rebuilding roadways, sewers, water lines, sidewalks, street lighting, and a new street. The New York State Affordable Housing Corporation provided mortgage buydown assistance and closing cost grants in the amount of $22,500 per house. $500,000 came from the Federal Home Loan Bank of New York Affordable Housing program, and First Federal Savings and Loan provided interest-free construction financing and gave up the $365,000 developer's fee.

Chicago, Illinois provides "perimeter site improvements" such as sidewalks to affordable housing developments.

Pro:

- The opportunity exists to tap into federal CDBG resources to pay the water, sewer, and street/drainage costs of an affordable housing development, with the administrative burden/monitoring borne by the locality.

Con:

- Water and sewer lines, streets and sidewalks, and neighborhood parks are expensive construction items.

l. Land Purchase and Resale (or Donation) to Affordable Housing Developers

Of the many variables that determine the cost of a house (land, labor, materials, fees) land price is a variable that can be radically different from one community to another. Materials and labor can be imported from less-costly neighboring communities but land is subject to the host community's market forces driven by relative scarcity, quality of life factors, and others that contribute ultimately to what a given building site costs to the developer and eventually the consumer. Some communities acquire land to exercise control over the land component of housing costs and either "write down" (meaning selling it for less than the cost of acquisition) to a nonprofit or other affordable housing developer, or selling the land directly to low-and moderate-income homebuyers. The acquisition amount is "forgiven," or not reclaimed in the property transfer, can be adjusted depending on the financial needs of the project or the homebuyer. Sometimes a land trust or other nonprofit intermediary is established to operate the program.

Examples

James City County, Virginia acquires land for mixed-income subdivisions where lot prices are lowered on a case-by case basis to enable moderate-income families to purchase new homes. The lower-cost units may lack a garage or some other amenity present in the market-rate units.

Staunton, Virginia creating a new subdivision in a redevelopment area of cleared vacant houses with the assistance of CDBG (new water and sewer lines and internal streets) from the state and Habitat for Humanity.

Lawrence, Kansas (which won a "Blue Ribbon" best practices award from HUD) has purchased land and developed a single-family detached subdivision that will offer 30 low- and moderate-income families the opportunity to own their own homes.

Lynn, Massachusetts (pop. 81,245), in its Infill Housing Program, since 1982 has donated vacant lots for 80 homes ranging in price from $57,000 to $105,000 for first-time moderate-income home buyers.

Santa Fe, New Mexico purchased 850 acres at a fraction of its appraised value after the bankruptcy of a residential developer. This was rezoned along with 571 acres on adjacent parcels to Planned Residential Community, "with the intention of creating a mixed-density, mixed-use community emphasizing affordable housing (web page)." The city created a non-profit group to act as the developer and a competition was held among local developers for the opportunity to prepare a revised master plan and design guidelines for the 1,421-acre site. A team was selected that included nationally know expert in neo-traditional planning (Peter Calthorpe). The result was a multi-phased development that includes low density and medium density single-family homes, rental town homes (transitional housing), subsidized apartments (low-income housing tax credits), and a business incubator. Sante Fe has partially funded (with HUD) the purchase of another site (30 acres) by its Community Housing Trust that became available when an industrial park proposal met with significant opposition. After a series of focus group meetings, the housing trust developed a plan for a mix of affordable single-family homes ($60,000 - $111,000) and elderly apartments. The city granted final plat approval even though there remained opposition from some neighborhood organizations. The project includes four acres of open space and play areas.

Asheville, Greensboro, Winston-Salem, and High Point, North Carolina administer on-going housing programs that include purchasing land and selling it below cost to developers of lower cost housing.

Hickory, North Carolina created a subdivision of single-family affordable homes using town-owned land and second mortgages from the North Carolina Housing Finance Agency.

Wilson, North Carolina was featured in Southern City (January, 1999) for its Freeman Place II development where the city acquired and demolished 56 properties, made infrastructure improvements, and gave the properties to the homebuilder's association for 33 new affordable housing homes to be constructed on site, while waiving development fees.

In the **Holly Springs, North Carolina** Westview development, land was donated by a private development firm, a CDBG grant from the state was used to pay for streets, water lines and sewer hook-ups, the Boy Scouts landscaped the entrance and donated trees, and 27 three-bedroom homes selling for $65,000 were built. The price of the homes was cut by $9,000.

Pro:

- A community is able to decide the location of affordable housing developments and its quality. Developers can be asked to compete for the opportunity to build on local-owned land.
- Since land cost is a major component of the selling price of a house, a community can remove this part of the equation for the benefit of its moderate-income citizens.

Con:

- Care must be taken to assure that the public subsidy is passed on to the consumer and that the developer fulfills all promises made.
- The question of the appropriate zoning of the acquired property—and the party responsible for the rezoning—needs to be considered, given the possibility of public opposition that could arise.

m. Community Land Trusts

Community land trusts (CLT) are a vehicle for assuring long-term affordability of houses since the land is held by a nonprofit while the houses on the land are sold to moderate-income persons. Usually the value of the land is not part of the original or subsequent purchase price and resale prices are limited by a formula which restricts the amount of profit a buyer is able to make. According to an article in PlannersWeb, there were 83 CLTs nationally in 1999, and 23 "under development."

Examples

Albany, New York has the non-profit Albany Community Land Trust, which financed the acquisition, renovation, and affordable resale of 11 houses which will remain permanently affordable through lease-purchase agreements.

In **Burlington, Vermont** a CLT acquired and renovated a large historic rooming house for temporary lodging for single women.

In **Sante Fe, New Mexico** both the city and county provide funding to a local nonprofit, the Santa Fe Community Housing Trust (SFCHT), which "acts as grantee, fiduciary agent and administrator of affordable housing funds," which are distributed only to nonprofit housing developers. Sante Fe also leases land to SFCHT, which develops housing (two-four bedroom units, $60,000-$110,000).

The **City of Charlotte, North Carolina** provides $2 million per year (a combination of local and federal money) to the Charlotte-Mecklenburg Housing Partnership, a nonprofit created in 1988 that has helped build or repair more than 1,300 homes in the city. One example of the groups success is Genesis park where CMHP bought dozens of houses (mostly duplexes) in an existing neighborhood and helped 90 families buy homes through counseling and lining up below-market financing. The homes sold for between $46,000 and $84,000. CMHP created a homeowners association and helps make sure that covenants are enforced to maintain the neighborhood's improved appearance.

Durham, North Carolina Community Land Trustees recently constructed 8 houses in the West End area, the design of which won an award in a contest sponsored by the American Institute of Architects. The units have pitched roofs and front porches in keeping with the pre-World War II bungalows in the neighborhood. The houses cost $73,000 each to build, but are being sold for $60,000, with city grants making up the difference.

The **Town of Carrboro, North Carolina** Board of Alderman recently voted to require developers who participate in the town's affordable housing density bonus program (allowing up to 150% of allowed density) to put land into a land trust. The last trust leases land to homeowners for one hundred years, during which time the resale price of the home is regulated to prevent homeowners buying below market from profiting from the extra increment provided through town regulation. It also has the effect of keeping the house affordable into the future.

Pro:

- Has the effect of assuring long term affordability
- The fact that profits are regulated may encourage turnover, making sure beneficiaries "buy up" when they can, freeing up land trust houses for those who truly need them.

Con:

- Permanent affordability deprives the homebuyers of the opportunity to fulfill one of the major goals of homeownership: realizing the investment potential of owning real estate.
- The locality has less control over a housing program administered by an independent trust.

n. Owner-Occupied and Rental Rehabilitation

Funded by the CDBG with the built-in income limits of 80% of area median family income, most cities and towns over 50,000 in population offer this assistance to bring the existing housing stock up to a basic level of safety, comfort, and soundness (HUD's minimum housing quality standards). Variations among cities' programs are in the areas of maximum subsidy per unit, whether the assistance is a grant or loan (amortized, deferred, or forgiveable), how high an interest rate is used (if any), whether rental properties are eligible for lower priority than owner-occupied units, and similar programmatic considerations. Often communities also offer emergency rehabilitation and weatherization programs that address items that pose an immediate life-threatening danger, such as a lack of water due to failed plumbing or lack of heat in winter.

Weatherization programs are designed to increase the energy efficiency of a home by adding things like insulation, weatherstripping, and caulk.

Examples

Richland, Washington's Rental Rehabilitation Program assist owners with improvements to substandard rental properties in low income neighborhoods. No interest loans are provided to the owner, who agrees to keep rents affordable for low-income renters for a period of 10 years. The program is not used as a substitute for commercial financing, but is a supplementary source for owners who cannot secure adequate financing from commercial lenders.

Kalamazoo, MI provides a federally funded program designed to encourage the rehabilitation of existing rental units for low-income persons. The HOME Rental Rehabilitation Program (HRRP) combines city subsidies with private funds for the rehabilitation of a property. Additionally, it provides deferred payment loans for up to 75% of the total eligible rehabilitation costs.

Austin, Texas' Housing Improvement Program (HIP) provides the lesser of 50% of costs or $20,000 per unit built ($15,000 for rehab).

Pro:

- Housing rehab programs have a long history with many established models available for local replication.

Con:

- Administering this program can be staff-intensive.

o. Locality-Initiated Zoning for High Density Zoning

The local government wishing to increase the supply of apartments, townhouses, and condos (more likely to be affordable than single family housing) in certain locations (such as near employment centers) may be the appropriate entity to fight the rezoning battle. This would relieve developers of the burden of going through contentious rezoning procedures and possible NIMBYism or adjacent property owners.

Examples

The suburbs of Minneapolis and St. Paul, Minnesota are required by state law to designate sites where affordable housing can be built in their communities.

Pro:

- Sends a clear message that the locality is serious about making high density (and possible affordable) housing happen.
- Allows the locality to select high density residential areas.

- Helps AH developers overcome the NIMBY syndrome.

Con:

- High density is not always equal to moderate-income housing. Without additional requirements (incentives, a special zoning category, etc.), there is the risk that high-density “luxury” housing may be built instead of the intended housing.
- Prezoning “guesses” the market and it is possible no one wants to build high density zoning on a site rezoned by the locality for such.
- Proffers typically negotiated through the rezoning process would be forgone, which can often better control the design and other features of the development; however, this can be overcome with a well-written zoning code for that district.
- An alternative to locally-initiated rezoning would be revising the public hearing protest petition of the rezoning process to assure that NIMBYism isn’t allowed to prevail in the absence of substantive objections to a proposed land use (similar to how major subdivisions are approved in the City of Suffolk).

p. De-regulation and Building Methods: Reducing Development Costs

Popular in the 1980s with HUD under Jack Kemp, local governments were encouraged to reduce subdivision design (street width, setbacks, etc.) and other standards to reduce the cost of housing. Some of these recommendations had environmental benefits, such as use of natural grassy swales (instead of curbs and gutters) to absorb and direct stormwater runoff and eliminating sidewalks to reduce the percentage of impervious cover.

Examples

Anaheim, California allows reduced parking, unit size, and building height standards for developments where 25% or more units are set aside for very low-income elderly tenants for 30 years.

Ogden, Utah adopted a progressive Infill Zoning Ordinance to provide more design flexibility and allow more creative land use planning. As a result the developer of the 24-unit Lorin Farr subdivision was able to use narrower streets and smaller lot sizes to produce high-amenity affordable homes (some rented, some purchased). The city’s redevelopment authority provided $400,000 in land acquisition and site improvement financing.

Westry Crossing in **Rocky Mount, North Carolina** won a 1998 North Carolina housing award for building (with Signature Homes) “high quality homes priced 20% below competition.” The builder used house designs that minimized material waste, using standard lumber sizes and standardizing the homes by eliminating non-essential items. There are ten floor plans ranging from 838 to 1,742 square feet, costing between $64,900 and $95,900. The builder also pays a portion of the closing costs and prepaid items.

Pro:

- May prove popular with those who prefer to avoid local tax expenditures for affordable housing.

Con:

- Care should be taken with this approach. The deregulation philosophy presupposes that onerous development regulations are the cause (or a major factor) in the high cost of housing and discounts many of the benefits of certain development standards.

q. Affordable Housing Overlay Districts

This device would allow affordable housing as a use by right in areas selected by the locality, regardless of the current zoning.

Examples

Arlington County, Virginia created a Special Affordable Housing Protection District (SAHPD) to offset the escalating housing prices put into motion since the extension of the DC Metro into Arlington in the 1970s. The County Land Use Plan designates certain areas that traditionally had hosted lower cost apartments. Before a developer can receive a rezoning to redevelop to the highest density allowed, the original units would have to be replaced in a comparable location (near a metro stop if that was the original location). Clarendon Court was a $14 million, 103-apartment project that was developed under the SAHPD with a $1.5 million loan from the county, low-income tax credits, and state housing funds. The financing agreement included the requirement that the units remain affordable for 25 years with purchase options for the tenants or nonprofit organization at the end of that term.

San Diego, California requires that developers demolishing multi-family housing replace the units in the county.

Santa Fe, New Mexico uses Arts and Crafts overlay zoning, which allows up to half a residence to be used as a commercial studio or artisan space for self-employed individuals. Buffalo Grass Studios was created, with 25 single-family live/work units on less than 7 acres.

Pro:

- Allows the freedom to insert affordable housing opportunities into selected locations and facilitate the production of apartments and townhouses near employment centers.

Con:

- Continues to concentrate moderate-to-lower income housing in certain areas of the locality, versus integrating across income levels within all new neighborhoods.
- Does not guarantee that affordable housing will actually be built.
- Care must be taken to assure that appropriate buffers, transitions, and connections in place to make for a compatible mix of residences and non-residential land uses.

- May reduce the likelihood that owners will keep up properties if their ability to maximize their return on their investment (as they perceive it) is stymied. This can be the can for any resale restricted program.

r. Linkage: Requiring Housing with Commercial Development

Most new economic development creates a need for housing as workers moving into the labor market area seek shelter. New businesses such as shopping centers or warehouse/distribution centers usually involve a multitude of lower wage service jobs, which means individuals and families not financially equipped to pay high rents or mortgages. The linkage concept requires new commercial projects to contribute to solving the related (or "linked") need for affordable housing by paying fees into a fund or through providing housing as part of their development, a proportion of which is required to be affordable.

Examples

Nantucket, Massachusetts requires one affordable housing unit for every 4,000 square feet of commercial development

Aspen, Colorado, where the year-round population is 7,2000 and the median home sales price was over $500,000 in 1990) requires that every residential or commercial development include a contribution to the city's affordable housing stock program through "deed restricted" dwelling units, land, or payments based on "employee-generation" multipliers. Owners are allowed to resell, but not in excess of 106% of the purchase price (except for minor improvements). The city and Pitkin County have provided over 1,600 affordable units in twenty years using this approach. **Telluride, Vail, Park City and Breckenridge, Colorado** have similar programs.

Boulder Colorado has a zoning code that encourages mixed-use development such as mixing housing with commercial development. Developers are allowed to construct fewer parking spaces per unit than would have been the case with the commercial-only development, the presumption being that people can live close to where they work and not need to drive. Where commercial developers include housing, they are allowed a higher floor area ratio (i.e., more square footage per square foot of lot).

Pro:

- Linkage helps assure that major employment generators provide close-in living for the new work force, thus relieving the housing crunch and workforce commuting otherwise created.
- Helps support the mixed-used activity center concept.

Con:

- Could possibly "scare off" potential employers who can build in the same market in a different jurisdiction that has no linkage requirements.

s. Grants/Other Assistance for Pre-Development Costs

Often the up-front "soft costs" are a barrier to the development of low-cost housing as would-be homebuilders fear the significant costs of exploratory environmental site studies that may not be recouped. Local governments can assume this risk on behalf of creating affordable housing by financing the costs of environmental and other studies, either as a grant or seeking repayment at zero or low interest at the end of construction. Cities around the country have entered into a variety of partnerships with developers, nonprofit organizations, and banks to create affordable housing opportunities.

Examples

Santa Fe, New Mexico offers a predevelopment loan fund to cover the following types of costs faced by a developer: options, design fees, appraisals, testing, legal work, financing consultants, and other costs of preparing a project for acquisition and construction financing. Maximum loan amount: $500 per unit/$20,000 per project; term: one year renewable; interest rate: from zero to market, "depending on need and social value." Loans are approved by a "roundtable" of nonprofit housing providers subsequent to review and recommendation by an allocation subcommittee of non-benefiting members. The loan fund was capitalized by a $750,000 contribution from a private foundation.

Cities around the country have entered into a variety of housing partnerships with developers, nonprofit organizations, and banks to create affordable housing opportunities.

Pros:
- Can remove barriers for the developer to enter the market.

Cons:
- Locality may put itself at risk for liability as a "potentially responsible party" for any should the site require environmental cleanup and problems manifest after housing is built.
- Requires staffing.

t. Lease/Purchase Housing

With this tool, houses are acquired or built and then leased to households unable to obtain mortgage for income or credit reasons. The assisted household is able during the lease period to accumulate downpayment funds, clear up bad credit, and receive homeownership and credit counseling. If the rent payments are at a level equivalent to a mortgage, then the ability to manage a mortgage is demonstrated to potential lenders. The Enterprise Foundation cities the following typical features: eligibility criteria usually include steady employment history, 33% mortgage-debt-to-income ratio and 40% total-debt-to-income ratio. Usually the step from renter to owner requires a grant or soft second mortgage from a public agency.

Examples

The **Cleveland** Housing Network (a nonprofit organization comprising 14 community-based development organizations) has operated a program since 1986 in conjunction with the federal Low Income Housing Tax Credit (LIHTC) program and produces 300 homes annually, acting as the managing general partner in a limited partnership for the 15-year LIHTC compliance period.

Austin, Texas also provides affordable houses in three neighborhoods through a 15-year lease-to-own period.

Tampa, Florida and the United Methodist Center have been successful rehabilitating over 350 vacant structures to provide homeownership opportunities for first-time homebuyers.

Hendersonville, North Carolina provides transitional rental housing to families trying to purchase a home. Eight two-bedroom, 900-square foot apartments are rented to families earning below 60% of median family income for $250/mo (1995), placing part of their earnings in escrow for downpayment on a house while receiving home purchase counseling.

Fairfield, Alabama enlisted the aid of a community-based housing development corporation to run its affordable housing production program. The nonprofit builds brick houses ($62,000 average selling price cited in 1997 HUD publication, "Models that Work"), which first time homebuyers lease for two years and assume a mortgage in the 25th month. A portion of the lease payment goes toward the downpayment ($700 on average).

In **Eugene, Oregon**, the Neighborhood Economic Development Corporation (NEDCO) operates a lease purchase program where participants during a three-to-five year lease period have an option to buy a house built by NEDCO while they accumulate a downpayment (which is supplemented by grants from the city of Eugene). Buyers assume the balance of the thirty-year loan from NEDCO at the end of the lease period. NEDCO's equity (the difference between the appraised value at time of property transfer and the value of the loan balance) is secured by a 0% interest note and second deed of trust, but repayable only if the house is sold during a ten-year period.

Pro:

- Allows prospective homebuyers to get on a "homeownership track" and save necessary downpayment funds while learning how to manage their finances as a homeowner.
- Provides the housing agency the ability to "grow" their homeownership clients through a lease period that can require attendance at credit counseling centers.

Con:

- Requires an entity with property management experience.
- A renting household that does not fulfill the purchase requirements must be evicted or have its lease extended: neither is a comforting prospect for public agencies.

u. Existing Housing Purchase/Resale to Moderate-Income Purchasers

Communities can bring their current housing stock within reach of their moderate-income citizens by buying existing homes and selling them to moderate-income purchasers. The community can sell the properties at a lower price or participate in the financing by using a "soft" second mortgage. Typically this is where the difference between 30% of the buyer's income and the selling price is either deferred until the property is next transferred, paid overtime to a lower interest rate (or principal only), or "forgiven" over time as long as the occupant continues to occupy a dwelling (or using a schedule such as 20% forgiven per year for five years).

Examples

Under the Charleston Housing Trust (established by an ordinance of City Council in 1988), the **City of Charleston, South Carolina** purchases vacant dilapidated houses for redevelopment. Once acquired, the City secures these properties and offers them for sale to persons or entities which agree to rehabilitate them for occupancy by low and moderate-income households. The Trust also offers a small deferred loan to assist with the rehabilitation of the building. More recently, the Trust's activities have included the development of new homes which are constructed and then sold to qualified first-time homebuyers under the City's Scattered Site Homeownership Program.

Nashville, Tennessee's Metropolitan Development and Housing Authority Agency's lease-purchase program won national awards and this strategy was pursued by Albany, New York through a non-profit organization.

Fairfax County, Virginia operates a Moderate Income Direct Sales (MIDS) program that provides primarily townhouses and condominiums for purchase by moderate-income families.

Others: Dubuque, IA, Paducah, KY, Chicago, IL, Tampa, FL, Colorado Springs, CO, Bartholomew County, IN, Minneapolis, MN, Charlotte, NC, Jacksonville, NC, High Point, NC, and Wilmington, NC

Pro:

- Takes advantage of already-available housing currently served by existing infrastructure on land already zoned residential.
- Can be administered independent of a third-party developer.

Con:

- May not be acceptable in communities that expect a self-supporting program.
- Assumes the availability of housing appropriate for the program (safe, decent, and sound, but non-luxury).
- There may be problems with neighborhood acceptance when someone moves in and pays significantly less than those who paid market rate for their homes.
- Cash must be spent up front by the locality at the risk that they picked homes not desired by moderate-income homebuyers.

v. Development of Affordable Scattered Site Housing/Single-Family Subdivisions

Examples

Richland, Washington offers an Infill Program which assist low income families or individuals (<80% median income) obtain affordable homeownership. Available funds may be used for obtaining an existing home and performing rehabilitation work, or purchasing a newly constructed home. Participating lenders reduce some fees and waive others. The Infill Program provides additional financing in the form of a second mortgage, secured by the property. For new construction in the city, participating contractors provide an assortment of home plans designed to be affordable.

Charleston, South Carolina's Housing Trust's activities have included the development of new homes which are constructed and then sold to pre-qualified first-time homebuyers under the City's Scattered Site Homeownership Program.

San Jose, California in California's Silicon Valley addressed its lack of moderately-priced housing through an infusion of local funds ($6.3 million), pro-housing policies and programs, forming partnerships with the public and private sectors, and requiring all affordable housing developments to meet high quality design standards. Since its housing office was established in 1989, 6,000 affordable units have been built and 2,000 rehabilitated, 25,000 persons have been assisted. San Jose has received many awards from a variety of national organizations for its efforts.

Others: Orlando, FL, San Jose, CA, Austin, TX, Albany, VT, Burlington, VT, Louisville, KY, Orange, NJ, Springfield, MA, Raleigh, NC, Holly Springs, NC, Suffolk, VA: Fairgrounds Plan

Pro:

- Local governments that maximize their involvement in the design, location, and other details of affordable housing enable themselves to "call the shots" instead of bemoaning the failure of the market to fill a need in the manner best suited to serving the common good.

Con:

- Housing development contains a level of complexity beyond the reach of many untrained in construction financing, site development, etc. and normally requires the involvement of other entities, if not the addition of staff.

w.Adaptive Reuse of City-Owned/Other Nonresidential Buildings for Low-Cost Housing

Often communities lacking financial resources nonetheless own schools or other buildings obsolete for their initial use that can be adapted for apartments. They can also assist private developers with financing for privately-owned adaptive reuse projects.

Examples

The **Towns of Damascus and Pembroke, and Craig County—all in southwest Virginia**—transformed landmark schools into apartments for low- and moderate-income families and elderly. **St. Paul, Virginia** transformed an old hotel into apartments for elderly. The **City of Lynchburg and the Town of Culpeper in central Virginia** also have pursued this strategy. **Sanford and Lee Counties in North Carolina** each provided interest-free 30-year loans of $250,000 to help transform the Wilrik Hotel into forty-one apartments. The North Carolina Housing Finance Agency also provided low-income housing tax credits for this $3.5 million project. **Garner** (old school), **Smithfield** (department store), **Warrenton** (hotel), **Statesville** (shirt factory), **Winston-Salem**, and **Wilmington (**Hooper School)—all in **North Carolina**—have transformed non-residential properties into lower-priced multi-family units.

Pro:

- Free buildings (sometimes acquired from school boards for $1.00) already connected to water and sewer—in the case of old schools—are important contributions to the overall project cost profile.
- "White elephants" can be transformed into sources of local pride.
- Local historic landmarks can be preserved.

Con:

- Asbestos, lead pant, and soil contamination are sometimes hazards initially overlook in this projects (as well as ADA requirements), which can add significantly to total project costs.
- Location is a given and in some cases may not be appropriate for the intended residents or host neighborhood. Zoning may not match the new use.

x. Converting Motels to Low-Income Housing, Converting Apartments to Affordable Condominiums

Often cities have older motels that are "past their prime" and become de facto temporary lodging for relocated workers, construction crews working on a local project, and other persons in need of short term housing. These motels can be transformed into more permanent affordable housing.

Examples

The **City of Bloomington, Indiana**, through its Department of Housing and Neighborhood Development (H.A.N.D.), partnered with the owners of a motel to rehabilitate the rooms into 40 efficiency apartments and four one-bedroom units. The renovations included adding kitchen facilities and cabinets, and new wiring and plumbing. The city invested $156,000 from federal HOME funds that the owner must pay back if, after five years, the rents are increased to market rate.

In **Santa Fe, New Mexico** a developer worked with the city to assure affordability of units for current residents of an older apartment community under conversion to condominiums. Sixty-six units were added to the city's stock of affordable owner-occupied units.

Pro:

- These types of projects can serve the dual functions of breathing new life into older properties in need of an upgrade and giving current residents (after a screening process) a first homeownership experience in the place where they live.

Con:

- In condominium conversions, care must be exercised to select the best candidates for homeownership, which may leave some current residents with the need to acquire another apartment at possibly higher cost.

H. Affordable and Mixed-Income Housing Financing Strategies

Low Income Housing Tax Credits

The most common subsidy used to serve moderate-income families is the Low-Income Housing Tax Credit (LIHTC). These credits were first available in 1987 and have since financed the development of hundreds of thousands of affordable units. Given its popularity, participating jurisdictions (PJs) should explore the use of LIHTCs to develop mixed-income housing.

LIHTCs generate equity capital for the construction and rehabilitation of affordable rental housing by providing owners of affordable housing a dollar-for-dollar credit against annual tax liability for up to 10 years. Although the LIHTC is administered by the IRS, states implement the program. Each state designates an agency or agencies (e.g. VHDA) to allocate the state's annual LIHTC allotment to for-profit and nonprofit developers in competitive rounds. After agencies award the credits, the developers sell or syndicate the credits to limited partners who have, or expect to have, Federal tax liability. This partnership between the developer and the investor becomes the owner of the property.

The owner must operate the property as a moderate-income facility for at least 15 years. Most states require developers to sign "extended use commitments" which lengthen the affordability period to as long as forty years. LIHTCs can help to secure substantial funding for projects—even with those serving low-income residents in as few as twenty percent of the units.

LIHTCs come in two forms, 9% or 4% credits, depending on the other sources involved, the form of assistance, and how the funds will be invested. The 9% rate is for new construction or rehabilitation developments not subsidized by the Federal government. The 4% rate applies to acquisition of eligible existing building and to federally-subsidized new construction or rehabilitation. For example, in the acquisition and rehabilitation of a structure, the costs related to acquiring the building may qualify for the 4% rate, while the unsubsidized rehabilitation hard and soft costs qualify for the 9% rate. This percent is multiplied by the eligible costs, or basis, of the project to arrive at a total amount of tax credits available for sale or syndication to investors. In some cases the basis of a project can be increased by 30% if it is located in a "qualifies census tract" (QCC) or a "difficult development area" (DDA).

To qualify for the credit the project must meet certain initial affordability requirements and must maintain that affordability during the life of the project. Each building in the project can meet the initial affordability requirements in one of the following ways:

- A minimum of 20% of the units must be affordable to households whose incomes are at or below 50% of area media income, or
- A minimum of 40% of the units must be affordable to households at whose income levels are at or below 60% of area median income.

Generally, one can raise about one-half or more of the project costs for a 100% tax credit project through the sale of the credits. The maximum LIHTC subsidy is not typically sufficient to support project feasibility, particularly in rural areas with low incomes and low rents and in urban areas with high development costs. Therefore, the remainder of the project funds must come in the form of loans from private lenders, or public sources such as HOME or CDBG, or some combination of public and private funds. In addition, rents in LIHTC-funded projects are not always affordable to very low-income households without additional subsidies. Using HOME funds to serve as the source of this additional subsidy allows for deeper income targeting.

VA Housing Development Authority (VHDA)

In 2005, the Virginia Housing Development Authority (VHDA) was given authority to raise $396.6 million through the issuance of tax-exempt bonds to fund affordable housing initiatives. These funds are derived from the Governor's discretionary portion of the 2004 VA Private Activity Bond Program Volume Cap Allocation ($100.9M), the remaining allocation from the Local Housing Authority pool ($65.2M) and the remaining allocation from the Industrial Development Bond pool ($230.5M).

These bond allocations enable VHDA to continue financing its mortgage lending programs on a tax-exempt basis over the next three years. Those buying their first home can benefit from the lower rates offered by VHDA. Affordable multi-family housing projects can continue to be built across the state, implementing LIHTC in Virginia. Can also be used to preserve existing affordable housing, enhance housing revitalization efforts, and assist those with disabilities and special needs.

Tax exempt bonds allow VHDA to raise capital for single family and multi-family loans featuring favorable interest rates. Bonds issued by VHDA—which are repaid as borrowers repay their loans—are not a debt of the Commonwealth of VA.

The new 1st Choice product is designed for first-time homebuyers who have the option of making interest-only payments for the first sever years of the loan, with a fixed rate for the life of the loan. This program is designed to increase homeownership—particularly in areas where housing prices are increasing at a rapid rate.

VHDA is a self-supporting state authority that provides affordable mortgage financing for low- and moderate-income Virginians. VHDA finances loans for homebuyers as well as developers of affordable rental housing. For more information about VHDA's programs, call 1-877-VHDA123 or visit www.vhda.com.

HOME Investment Partnership Program

In 1990, Congress created the HOME Program in order to expand the supply of decent and affordable housing to low-income Americans. The program was designed to be flexible so that it could be used to meet a wide variety of housing needs, in a wide variety of housing markets across the nation. As a block grant provided to state and local governments, HOME funds can be used for a number of eligible activities: to provide direct homebuyer assistance; to develop, through rehabilitation or new construction, new housing units for rental or for sale; to rehabilitate housing that is home-owner occupied; and to provide direct tenant-based rental assistance.

The flexibility of HOME funds makes them an ideal source of funding for mixed-income housing development (e.g. The Fairgrounds) because of its flexibility, in terms of the types of housing activities it can support, and in terms of how financing can be structured. HOME funds can be used to support mixed-income housing through:

- acquisition of existing rental or homeownership property
- new construction or rehabilitation of rental or for-sale housing
- direct homebuyer assistance programs

Unlike some funding sources, nearly all of the requirements of the HOME Program apply only to the units of housing that are financed with HOME funds. For developments that leverage private funds, HOME rules need not apply to the privately financed units. This means that virtually any rental or for-sale housing that includes a combination of HOME and private financing can be developed as mixed-income housing. PJs can, therefore, design mixed-income housing to meet their needs. The number of low-income units can vary widely in a mixed-income development based upon the PJs goals, and how much funding the PJ invests in the development. In conclusion, the HOME Program can be an effective source of public financing for this type of housing.

Development costs are eligible HOME costs for the HOME-assisted units only. These costs can be determined as a pro-rated share of the total development costs, when all the units are comparable. However, when the market-rate and HOME-assisted units are not comparable, the costs related to development of the units must be charged to the HOME Program on an actual cost basis, and cannot be based on a pro-rated share.

Projected sources of financing have to be completely thought through before any HOME-assisted housing project is approved to prevent projects from stalling or failing. In a mixed-income housing situation, the combination of financing resources may become more complex as unique financing structures between public and private resources become necessary to adequately subsidize the development, sale, and/or operation of the units for lower-income households, while not overly enriching the project developer. Many different combinations of public and private funding can be made to work for an individual project, so PJs should be sure to examine the project closely to determine which would be most appropriate for the development.

Community Development Block Grant Program (CDBG)

The Community Development Block Grant Program has three primary national objectives:

- Benefit to low-and moderate-income persons;
- Aid in the prevention or elimination of slums or blight; or
- Meet a need having particular urgency (“urgent need”)

Together, these objectives promote the development of viable urban communities by providing decent housing, a suitable living environment, and expanded economic opportunities principally for low-and moderate-income persons.

Like the HOME Program, CDBG is flexible in terms of the types of eligible activities and forms of assistance that it will support. CDBG funding is not restricted to housing; it can be used for a range of activities such as real property improvement (including acquisition and rehabilitation), economic development, public facilities and improvements, homeownership assistance, relocation, and private services.

There are some differences between CDBG and HOME, as they relate to mixed-income housing developments, that are noteworthy:

- Unlike HOME funds, CDBG funds may not be used for new construction of housing, unless it is performed by a community-based development organization (CBDO). However, CDBG funds can be used to acquire the land, finance pre-development activities, and provide infrastructure for new construction developments (e.g. how CDBG funds are being utilized to implement the city of Suffolk's Fairgrounds Plan).

- For rental housing rehabilitation, in most cases, the investment of any amount of CDBG funds automatically requires that fifty-one percent of units be occupied by low-or moderate-income households whose incomes are at or below 80% of area median income. Depending on the market and the PJs desired mix of incomes, this may or may not present a problem for a mixed-income development. In newly constructed housing of a multi-family, non-elderly rental housing project, however, the proportion of units in the project that must be occupied by households whose incomes are at or below 80% of area median income may be set equal to the proportion of the total cost of the project to be borne by CDBG funds, provided that at least 20% of the newly constructed units must be occupied by income-qualified households at affordable rents.

- Alone, the CDBG Program does not regulate rents, as does the HOME Program. The grantee is given the discretion to define rents, provided they meet an acceptable standard of "affordable." When grantees combine CDBG with HOME, HOME rent limits apply.

- CDBG does not require any specific long-term affordability period. This also means that there are no ongoing property inspection requirements, or income and rent recertification requirements. For purposes of mixed-income housing, however, a long-term affordability period can be an advantage, particularly in developments that are highly attractive and marketable, as it preserves a certain percentage of units for low-income occupants over time. When grantees combine CDBG with HOME, HOME periods of affordability apply.

- In homeownership housing, CDBG is similar to HOME in that it allows the definition of "single-family" properties to include two-to four-unit structures. CDBG funds may be used to rehabilitate the owner-and renter-occupied units in such structures. In such cases, as least one unit in a duplex must be occupied by a low-or moderate-income resident at the time of assistance, or 51% of the units must be LMI in a three-or four-unit property. In situations where low- or moderate-income renters occupy a property when it is initially obtained, the property must still meet the "affordable rent" requirements defined by the grantee. However, when a grantee combines CDBG with HOME, the HOME rules governing rents for two- to four-unit properties apply.

- In homeownership housing, there are no resale or recapture requirements in the CDBG program, whether the money is used for rehabilitation or used by a CBDO to develop new housing. When a grantee combines CDBG with HOME, the resale and recapture requirements of the HOME program apply.

Working the Block Grant Programs Together: CDBG and HOME Investment Partnership

One of the most significant resources for housing and community development continues to be HUD's Community Development Block Grant (CDBG) program and its Home Investment Partnership (HOME) program. Together, these programs provided funding of roughly $6.5 billion in fiscal year 2001 and were a critical source for local governments attempting to improve housing, infrastructure, and social services. The CDBG and HOME programs provide flexible block grant funding to states and localities for community revitalization, construction or renovation of community facilities, housing construction, rehabilitation loans, homebuyer assistance, housing counseling, and rental support for housing primarily in existing neighborhoods. In FY 2001, approximately 35% of CDBG funds were used to create housing. Just more than half of HOME funds were used to support rental housing (roughly distributed evenly between new construction and rehab/renovation), with the remainder allocated as homeowner and homebuyer assistance. Both programs require a matching contribution by participating jurisdictions and guarantee that the housing created will be affordable to households earning 80% of the median income or less for a period of five to twenty years. Furthermore, plans for use of CDBG and HOME funds must correspond to the area's consolidated plan, which provides a framework for local governments to determine and address their long-term housing needs.

The qualification for formula for the HOME program requires that funds are used in areas suffering from inadequate housing stock, poverty, and distress, conditions more likely to be found in existing cities and inner suburbs than in fringe development. Program funds can be used for the removal of existing units (if unsalvageable) for site preparation, new construction of units, rehabilitation of existing units or rental support through other development efforts targeted at improving existing neighborhoods. CDBG's ability to fund broad aspects of community development (including public facilities and public services) creates an opportunity and an incentive for localities to leverage these funds with additional investments in existing neighborhoods.

One risk of both programs, however, is that depending on how the resources are used, they may contribute to the concentration of the poor by focusing development of affordable housing in already distressed communities rather than dispersing it equitably through an area. Also, while both programs require conformance to a consolidated plan, many local governments and housing advocates acknowledge that this requirement represents more of a "pro forma" process than it does a true planning approach. This potential weakness can be mitigated through better coordination of the consolidated plan process with other regional and transportation planning processes.

Section 108 Loan Program

The Section 108 Program is a loan guarantee program that permits entitlement communities to borrow up to five times their annual CDBG grant toward CDBG-eligible activities (note: Suffolk is an entitlement community). Entitlement communities pledge future CDBG funds, as well as additional collateral, as security for the loan. HUD acts as the guarantor of a Section 108 loan, promising investors that the loan will be repaid.

The Section 108 Program enables jurisdictions to borrow large sums of money to undertake large scale, capital-intensive projects, and provides a mechanism to extend the impact of their CDBG program. While spreading the costs over time, Section 108 provides the ability to access long-term funds at a fixed rate. Interest rates and repayment schedules vary on a case-by-case basis, but the maximum loan term if for 20 years. Generally, most CDBG-eligible activities are Section 108-eligible as well.

Entitlement communities may pledge future CDBG funds as repayment for the loan, but it is prudent to use Section 108 loans for projects that are likely to generate sufficient funds for repayment so that CDBG funds can still be used for other worthy community development projects. However, if a project does not generate sufficient income for repayment, HUD will take funds for repayment from future years' CDBG allocations.

Because the Section 108 Program stems from the CDBG program, the rules for combining Section 108 and HOME are similar to those for combining CDBG and HOME. The key difference between CDBG and Section 108 is Section 108 is a loan program that requires repayment.

Historic Tax Credits

When PJs or developers are working on the rehabilitation of historic buildings for mixed-income housing, they may be eligible for historic tax credits. Both Federal and state governments may have funds available for these non-competitive tax credits (note: Virginia does).

The Federal government offers a 20% historic tax credit for qualified rehab projects. The credits are limited to properties that are either on or are eligible for listing on the National Register of Historic Places. Rehabilitation standards of such properties are strictly defined, and will often add to the cost of rehabilitation. The value of the historic tax credits is determined by the markets, which can include private institutional investors.

If a developer combines the Historic Tax Credit with LIHTC, the IRS requires a developer to deduct the entire amount of the Historic Tax Credit from a project's basis before calculating the basis for the LIHTC.

State historic tax credits vary. Credits are typically available to both developers and homeowners and can be used toward mixed-income housing in historically eligible properties. The credits can be the critical difference in making a revitalization project in an historic neighborhood or an older downtown feasible. For example, many loft conversions have used taking place across the country have used these credits to provide upscale downtown housing. Combined with HOME funds, some of these units now also serve low-income families as well. Applicants should pursue the historic tax credits with an experienced development team, strong project ideas, and financial mechanisms in place.

State and Local Homeownership and Rental Initiatives

State and local governments often provided funding that can be used to development mixed-income housing. Some examples include Florida's State Apartment Incentive Loan Program, Montgomery County, Maryland's Housing Initiative Fund, Indiana's tax abatement fund for homebuyers, and housing trust funds.

The SAIL Program in Florida, administered by the Florida Housing Finance Corporation, provides mortgage loans at low interest rates to developers who build or substantially rehabilitate rental developments that are affordable to very low-income individuals and families, often in mixed-income settings. Loans are generally secured by second mortgages on the property. The SAIL loan bridges the gap between the development's primary financing (plus equity and any additional sources of financing) and total development costs. Generally, loan amounts are provided up to 25% of qualified total development costs and are issued for a maximum of 15 years, unless Fannie Mae requirements dictate a longer term. The SAIL loan requires repayment of interest only. Annual interest payments are based upon actual cash flow. Principal and interest are due at maturity.

The Montgomery County Housing Initiative Fund provides funds for the acquisition, construction, or rehabilitation of affordable multi-family housing projects, including mixed-income housing. The Housing Initiative Fund is used for County-sponsored projects and joint projects with the county's public housing administrator. It is designed to provide "gap financing" to the administrator, as well as for-profit developers, and nonprofit organizations to create or preserve affordable housing since. Since 1989, more than $34M has been provided to 39 projects.

Indiana Tax Abatement Program allow units of local government in the state to choose to abate taxes for 6 years on an ascending basis to encourage the development of affordable and mixed income housing. Mixed-income development in participating areas would, therefore, pay not taxes the first year, with stepped increases to eventually paying full taxes in the sixth year. Participation in the program is based on a voluntary action at the local government level, but when activated it also results in the abatement of state and other local property taxes on the same ascending basis. (Note: City of Suffolk participates in a rehabilitation tax abatement program for older structures city-wide, commercial and residential).

There are many state and local affordable housing trust funds throughout the country, each with its own set of funding objectives and requirements. Most affordable housing trust funds are funded by a dedicated local revenue source, such as a percentage of the hotel bed tax or a fee charged at real estate closings. Housing trust fund dollars are often very flexible funding sources that can be used to support mixed-income housing developments, often in the form of closing cost assistance, low-interest loans, gap financing, and other financing mechanisms.