



# HOUSING AFFORDABILITY

## TOOLKIT

June 2022



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A research project conducted and prepared by the **Apartment Association of North Carolina (AANC)**

## SUMMARY

With the ongoing effects of the pandemic, rising cost of building materials, zoning and permitting delays and skyrocketing rents, lack of affordable housing has been steadily increasing throughout the country, including in the state of North Carolina. There are many reasons why affordable housing is in short supply, and there are ways that these can be reevaluated and addressed to increase the supply of affordable housing.

To address the lack of affordable housing, the Apartment Association of North Carolina assembled a task force to be a catalyst for finding affordable housing solutions. The apartment association administered a survey to 25 multifamily developers across the state with questions regarding the types of apartments in their portfolio, experience with developing affordable housing, the development issues that face the industry, and an array of incentive options that may remediate the issue.

The purpose of this document is to offer background information regarding the current state of housing affordability in North Carolina by taking a closer look at the apartment landscape as a whole and the survey conducted by the Apartment Association of North Carolina.

## MARKET OVERVIEW

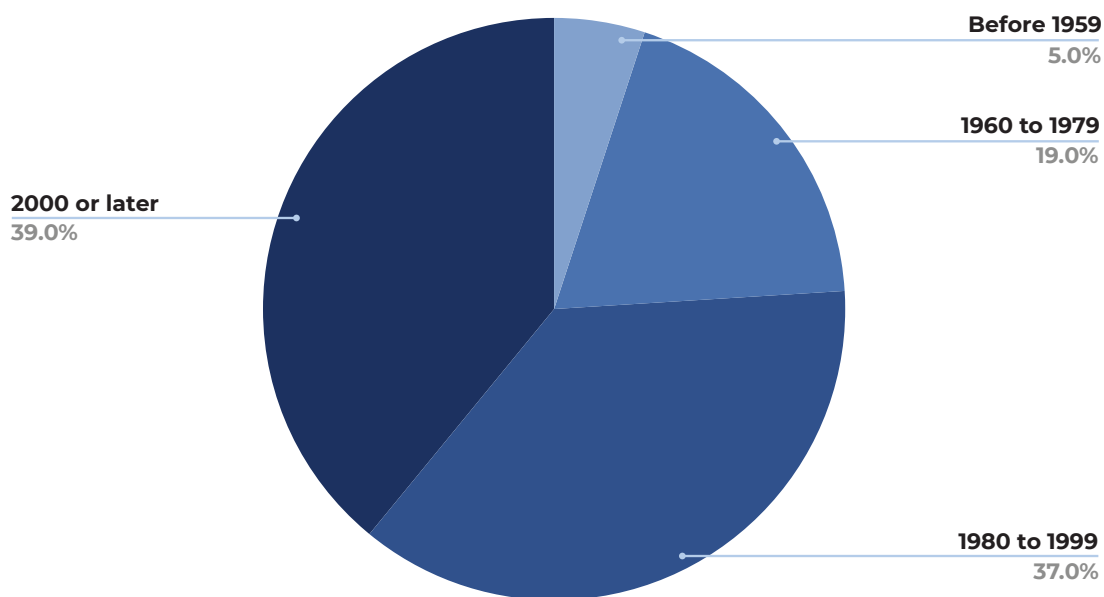
To understand North Carolina's housing affordability challenges, it is important to look at the broader apartment landscape across the state, including the specific market trends that impact both the supply and the cost of housing. As of 2021, North Carolina is home to 575,100 apartment homes, which contributes \$3.2B to the local economy each year (including \$799.4M in property taxes), creating 6,000 jobs<sup>1</sup>. While apartment demand is growing and the industry needs to keep up, producing enough new apartments to meet demand requires new development approaches, more incentives, and fewer restrictions.

Currently, approximately one million North Carolina residents live in apartments and this number will only increase as more and more individuals delay or exit homeownership<sup>2</sup>. At this rate, North Carolina needs to build 16,000 new apartments each year to meet demand. In addition to meeting the housing needs, this would be beneficial to the overall economy, as apartment construction contributes \$5B to North Carolina's economy annually and creates 27,000 jobs<sup>3</sup>.

Additionally, the renovation and repair of apartments helps to preserve North Carolina's older, naturally occurring affordable units, contributing \$1B to the local economy annually<sup>4</sup>. Naturally Occurring affordable Housing (NOAH) is existing housing that is accessible to modest and low-income renters. NOAH properties are typically class B or C units built between 1940 and 1990. As these properties age, rents are relatively lower compared to market value and unsubsidized. However, only 24% of North Carolina's apartments were built before 1980<sup>5</sup>, which means that a lot of the homes are newer and therefore, more highly priced, creating another affordability issue.

1. [https://weareapartments.org/data/North\\_Carolina](https://weareapartments.org/data/North_Carolina)
2. [https://weareapartments.org/data/North\\_Carolina](https://weareapartments.org/data/North_Carolina)
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## Age of NC Apartments



Lastly, across the state there are 347,275 renter households, or 25% of the total renter households, that are extremely low income. The term "low income" is based on the Area Median Income (AMI) of the county or city of the resident. Household incomes at or below 80% of the AMI are considered low income. Households at or below 30% AMI are considered extremely low income. In North Carolina there is a shortage of 195,661 rental homes that are affordable and available for extremely low income renters<sup>6</sup>. It is important to note that many of these households are severely cost burdened, which means they are spending more than half of their income on housing expenses. They are also more likely to sacrifice necessities, such as food and health, to pay for rent and are more likely to face obstacles such as evictions.

With all factors considered, North Carolina is suffering from a housing affordability crisis. We will now look at the methodology for conducting this study, as well as the results and policy recommendations from the Apartment Association of North Carolina.

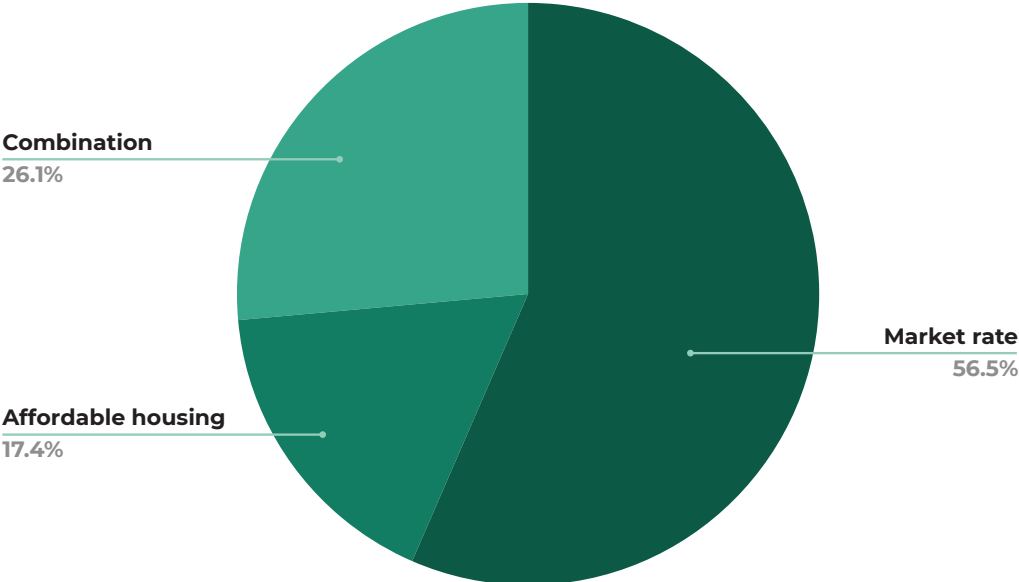
6. <https://nlhc.org/housing-needs-by-state/north-carolina>

## RESEARCH METHODOLOGY

Interest in building affordable housing in North Carolina has remained strong among multifamily developers, yet there are considerable impediments to bringing this to fruition, such as surging land and construction costs, long zoning and permitting delays, and lack of state incentives. Realizing the state faces an acute shortage of affordable housing options throughout North Carolina, AANC developed a Housing Affordability Committee with the goal of addressing these concerns and formulating effective solutions.

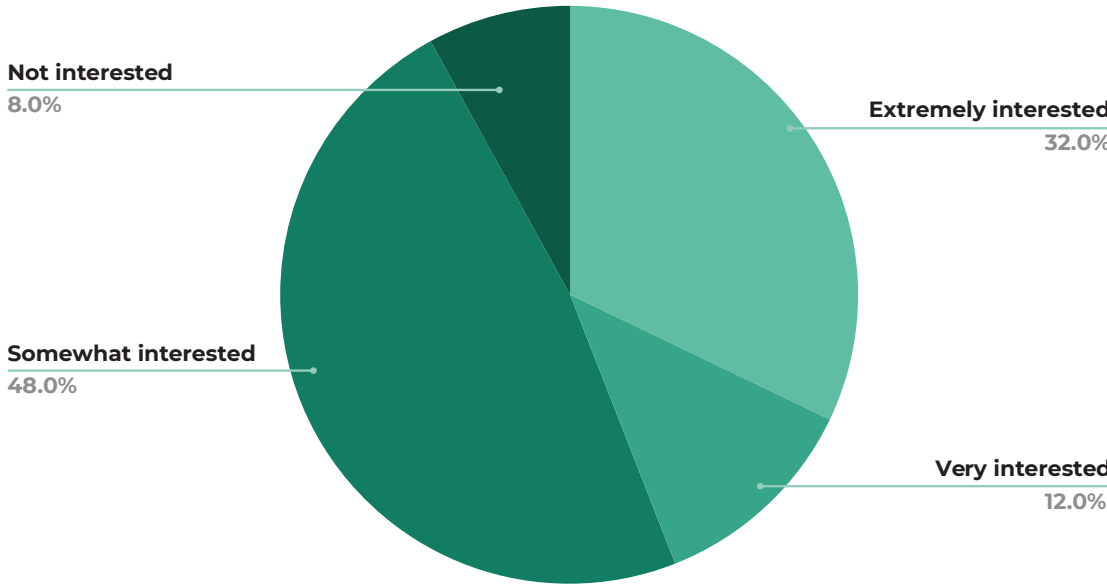
After assembling the Affordable Housing Committee with representatives from various sectors in the multifamily industry and across the state, the group began their research of the current environment by designing a survey for multifamily developers to provide insight on obstacles to affordable housing development. AANC conducted the survey in 2021 as part of their efforts to be a catalyst for affordable housing growth. The survey of 25 multifamily developers – most of them already engaged in developing properties across the state – helped to provide which incentives would spur more development.

Each of the developers surveyed were asked a series of questions to describe their field of expertise, opinions on the current rental market, ideas to address the situation, etc. Of the respondents, 56% said market rate best described the multifamily assets they develop, whereas 17% responded that affordable housing was their main asset class, and 26% of respondents were a combination of the two.



Of the companies surveyed, 92% of them were at least somewhat interested in building affordable housing units across North Carolina. It is important to note that most of the respondents were based in the Piedmont region of the state, with a few representing the Western region. Unfortunately, one flaw of the study was that neither the Coastal or Eastern developers responded to be a part of the research.

### Level of Interest in Building Affordable Housing



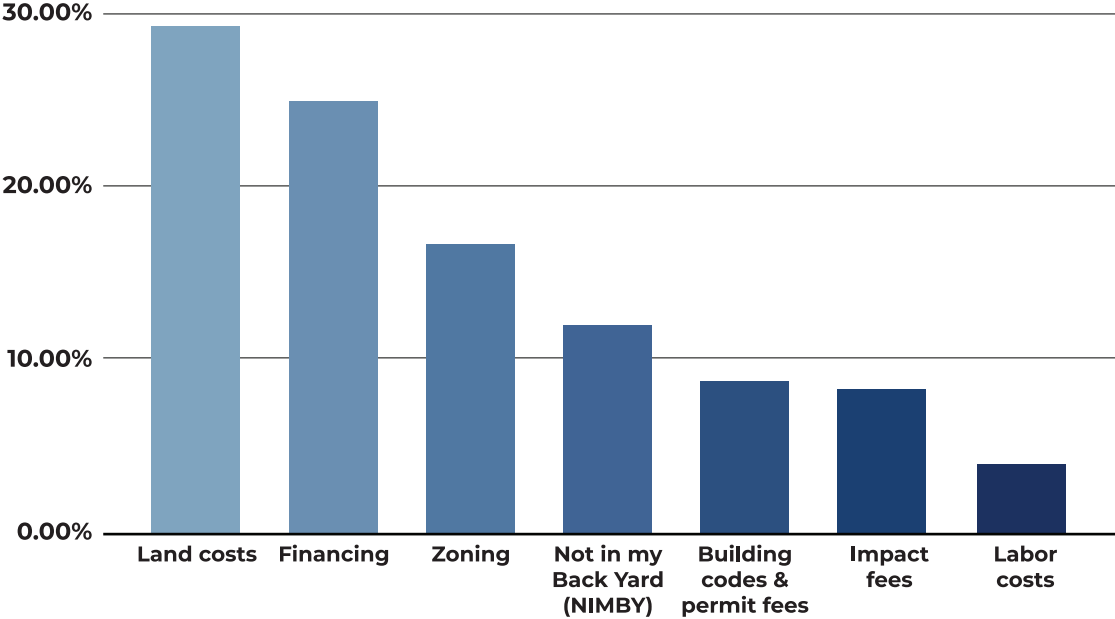
Developers who participated in the survey were asked to measure the challenges associated with affordable housing, as well as attractive incentives to increase affordable housing supply.

# RESULTS

## Challenges with Developing Affordable Housing

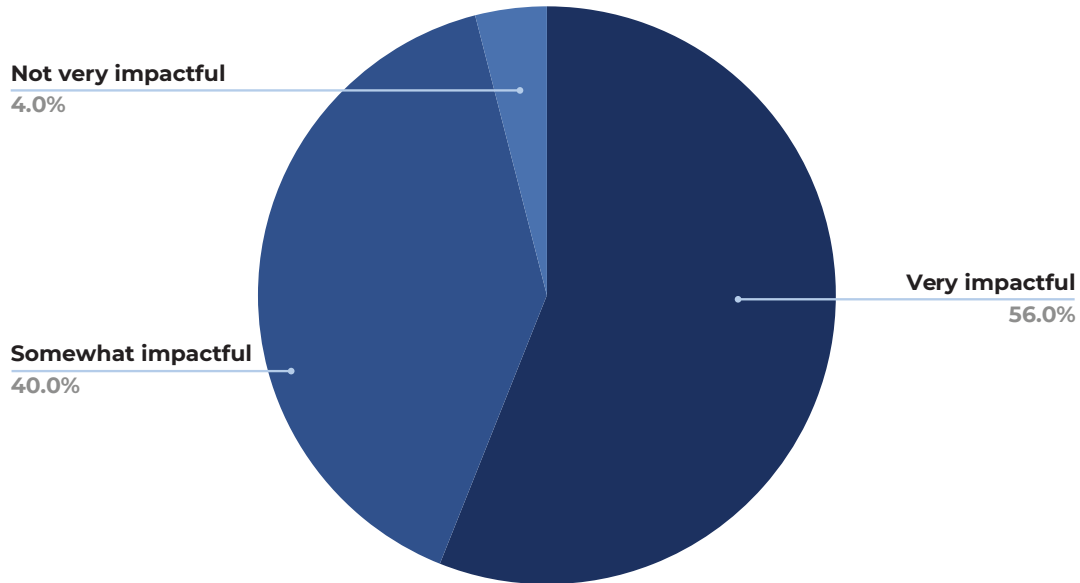
The greatest challenges faced by multifamily developers seeking to build affordable housing are land costs, zoning and NIMBY (not in my backyard) issues. Developers were asked which of these challenges were the most prevalent in the industry on a scale of one to five, with one being the greatest. 29% of respondents said that land costs were the number one challenge with affordable housing development, while 16% said zoning was the greatest challenge. According to the developers surveyed, rising construction costs in the wake of the COVID-19 pandemic are also a concern, with the cost of materials the biggest contributor to those increasing costs.

### Challenges Associated with Affordable Housing



Additionally, permitting delays are also a significant obstacle, with 94% of respondents saying the delays are “very” or “somewhat” impactful on development costs. In fact, 84% of respondents indicated delays on average of two months or more due to permits and additional studies per project.

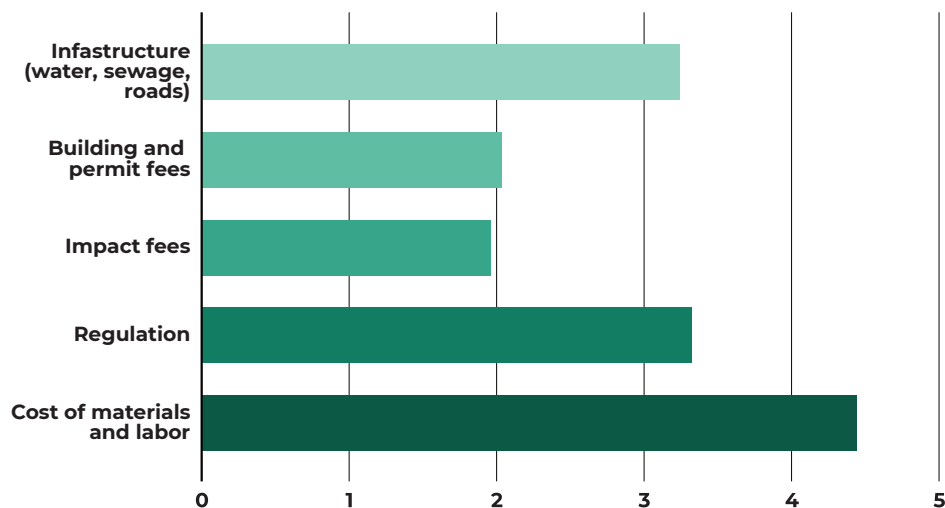
## Impact of Permit Delays to Development Costs



### Rising Construction Costs and Impact of COVID-19

One unique aspect of this affordable housing study was that it was administered during the COVID-19 pandemic. COVID-19 brought many challenges for multifamily developers and renters. Eviction moratoriums were set in place, leaving landlords strapped for cash and at a loss on how to pay their lenders, taxes, fees, etc. While it seemed like the rest of the world stood still, being locked in homes made people realize that they wanted to move, or renovate, or upgrade their homes to accommodate workspaces, workout areas, etc. With that, the demand for building materials, such as wood and paint, increased tremendously. Simultaneously, production of many of these supplies was curtailed by the pandemic, resulting in surging construction costs.

### Contributors to Increased Construction Costs



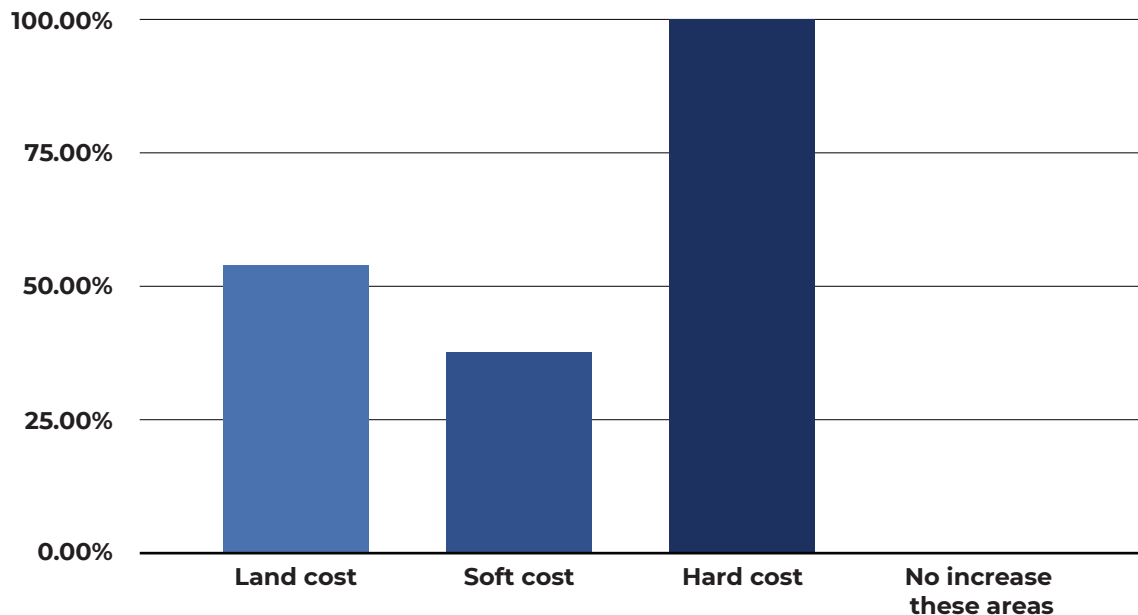


When asked what the greatest contributors to increased construction costs were, 72% of respondents said the cost of materials and labor, 12% said regulation, and 12% said infrastructure, such as water, sewer, and roads. Building and permit fees, and impact fees also played a role in the increasing costs.

As mentioned previously, COVID-19 was an unprecedented event for the multifamily industry. People were forced to stay in their homes, construction delays were prevalent, costs rose, and the housing market became chaotic. When asked whether their business had been impacted by COVID-19, 68% of respondents said yes, in a negative way, while 12% indicated yes they were impacted but in a positive way, and 20% responded that they were not impacted at all. Overall, 52% of respondents indicated they had to pause existing or upcoming projects due to the pandemic.

Survey respondents were also asked to consider where they have seen a surge in costs since the outbreak of COVID-19. Between land costs, soft costs, and hard costs, developers were asked to select all that apply for the ones that increased. 100% of respondents agreed that hard costs, such as labor and building materials, increased during the pandemic. Roughly 54% of respondents agreed that land costs increased and approximately 37% said soft costs, such as design, entitlements and permits, also increased in the COVID-19 era.

## Increase in Costs Since COVID-19

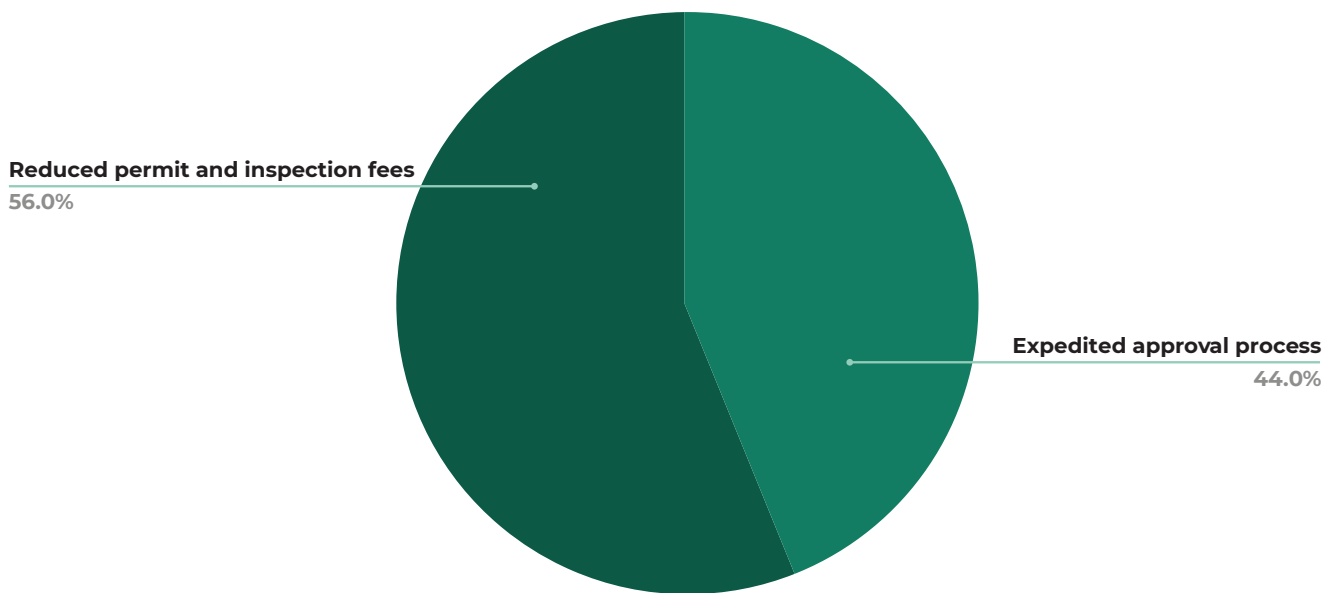


Overall, costs have increased and that has placed an incredible burden on developers' ability to build affordable housing across the state. Next, we will dive into the different incentives that would be desirable for developers.

## Incentives and Solutions for Affordable Housing

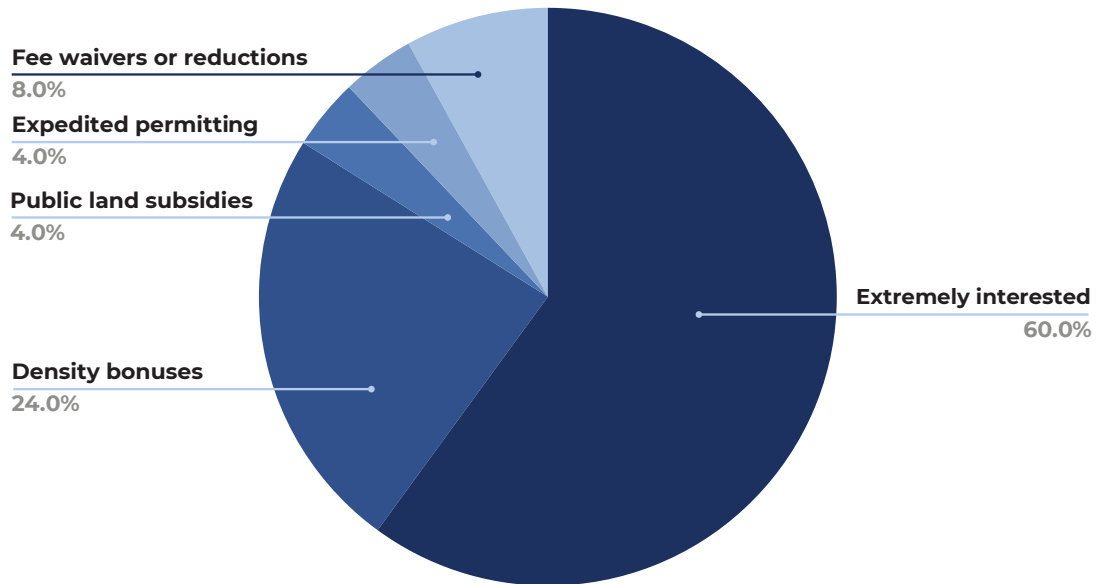
As discussed earlier, 92% of respondents were at least somewhat interested in the prospect of developing affordable housing. 32% were extremely interested, 12% were very interested and 48% were somewhat interested in adding more affordable units to their company's portfolio. However, due to surging costs, delays, zoning issues and more, developers haven't had the support or the financial resources needed to get these projects across the finish line.

Within the survey, respondents were asked about incentives that would be desirable or have the greatest impact on the industry's ability to develop affordable housing. When asked what would be more desirable, an expedited approval process or reduced permit and inspection fees, it was relatively split down the middle. 56% of respondents agreed that reduced permit and inspection fees would be more desirable, whereas 44% voted for an expedited approval process.



Additionally, respondents were asked which incentives would have the greatest impact on developing affordable housing. The tool that developers said was the most likely to incentivize affordable housing development in North Carolina was tax abatements. 61% of respondents said abatements were "very" or "extremely" likely to spur development, followed by density bonuses (50%) and fee waivers or reductions (48%). 60% of the developers also said they would consider public land and subsidized land costs an attractive incentive.

## Incentives for Affordable Housing



The incentives least likely to spur affordable housing development, according to the survey, were inclusionary zoning (44% of respondents said it was unlikely to help) and flexibility with discretionary design standards (28% said it was unlikely to help).

The survey responses make clear that to offset the incredible costs associated with building affordable housing, incentives are needed. Property tax abatements, density bonuses, public land subsidies, expedited permitting, and fee waivers or reductions would all help to alleviate the costs and make it easier and more cost-effective to develop affordable housing.

## CONCLUSION + POLICY RECOMMENDATIONS

Economic stability is predicated on the availability of housing for residents across every income category. Rapidly rising housing costs are associated with employment declines, and employment growth is slower in communities that lack sufficient housing for residents with median incomes (Glaeser 2006; Wardrip, Williams, and Hague 2011)<sup>7</sup>. In North Carolina, approximately one million residents live in apartments and the demand continues to rise. On average, North Carolina needs to build 16,000 apartments each year to keep up with the demand. An estimated 25% of renters in the state are considered extremely low income and within that demographic, a shortage of nearly 200,000 apartments exists. According to the Urban Institute's North Carolina demographers, by 2030 the housing supply will not meet the expected population growth currently projected to add 866,000 new households to the state. To address the growing shortage, innovative strategies are needed to expand, preserve and restore North Carolina's affordable housing stock.

The rise in rent cost has always reflected the rising cost of development. This includes regulatory fees required by state and local governments – stringent zoning laws, impact fees, lengthy and cumbersome permitting, building codes, and inspection processes – which widen the gap between the rent a household can afford to pay, and the rent required to develop and operate an apartment community. This is referred to as the affordable housing gap. To close or narrow the affordability gap, state and local governments must adopt housing policies that focus on reducing development costs, operating costs, or both. In doing so, the required rent would decrease. For example, reducing the required rent by \$100 a month for a single rental unit requires a reduction in development costs of approximately \$20,000.

Development costs frequently influence operating expenses. When development costs increase, additional financing is needed. This increases the operating expenses of the property, which is a critical factor when calculating the cost of rent per unit. With thoughtful implementation, the right policy change can significantly impact housing affordability by creating incentives that spur development, reduce operating costs, and boost the state's housing supply.

7. [https://www.urban.org/sites/default/files/publication/102473/housing-for-north-carolinas-future\\_0.pdf](https://www.urban.org/sites/default/files/publication/102473/housing-for-north-carolinas-future_0.pdf)

There are various approaches to address housing affordability challenges. Our survey highlighted some of the typical policy actions used to spur affordable housing development to determine what North Carolina developers considered to be the most effective. Overall, we found that 92% of developers surveyed expressed interest in developing affordable housing. Sixty percent of respondents identified tax incentives/abatements to have the greatest positive impact on increasing affordable supply.

This feedback is critical because legislation geared toward addressing the affordability crisis hinges on stakeholder viability. Without stakeholder buy-in legislative solutions fail to deliver the much-needed increase in housing due to through lack of participation. Historically, the most successful housing policies across the country have been voluntary, provide sufficient incentives, and have simple implementation requirements. Our survey findings suggest that a statewide tax incentive program geared towards multifamily development could be the key to restoring North Carolinas housing supply.

**Philadelphia:** Development in Philadelphia increased by 367% following the enactment of a 10-year tax incentive policy that took effect in 2000. A report by JLL found that for every \$1 in tax revenue foregone resulted in \$2 of net revenue through the resulting policy<sup>8</sup>.

**New York:** New York's long standing tax abatement policy that offers tax reductions from 10 to 25 years in exchange for affordability requirements placed on a percentage of the overall units<sup>9</sup>.

8. [https://housingtoolkit.nmhc.org/wp-content/uploads/2019/04/NMHC\\_PDF-Sections\\_Full-Doc.pdf](https://housingtoolkit.nmhc.org/wp-content/uploads/2019/04/NMHC_PDF-Sections_Full-Doc.pdf)  
9. <https://comptroller.nyc.gov/reports/a-better-way-than-421a/>

## Tax Incentives

Property tax incentives have always been an attractive solution to address housing affordability challenges. Tax incentives improve affordability by lowering the cost of operating rental housing to satisfy a greater need. In exchange for the reduced taxes, strategically enacted policies at the state or local level are implemented to encourage new development or revitalization efforts to existing buildings.

Property tax abatement is a tax incentive designed to lower operating costs by lowering ongoing expenses. This is a well-implemented incentive. Across the country, cities like Philadelphia and New York have successfully leveraged tax abatement projects to spur development in urban areas. This type of policy impacts affordability in two ways: (1) by increasing the housing supply and (2) ensuring a portion of the newly developed projects are accessible to individuals in the low to moderate income category.

The structure of the abatement depends on the associated policy goal. Some communities may grant landlords an annual reduction in their real estate tax assessment based on the number of units leased to voucher-holders. Other policies limit annual tax bill increases, freeze the taxable assessed value, reduce tax rates or otherwise reduce taxes owed for a designated time.

Communities with budgetary constraints should properly structure any tax abatement program to leverage and maximize the desired public benefit in order to minimize the overall fiscal impact. This policy incentive allows for townships and municipalities to customize an abatement structure that compliments the budgetary needs of the community while still addressing the shortage. Tax incentives are a housing solution that has been widely implemented throughout the country and strongly supported by North Carolina developers.

## **Policy Recommendation**

The results found in the AANC Multifamily Developer Survey provide great insights to the challenges associated with the development of affordable housing and possible solutions to help alleviate such barriers. While our survey was administered amongst our members, we encourage more research to be done, with additional insight from the Eastern and Coastal regions of the state. The Apartment Association of North Carolina supports policy solutions that spur housing affordability through property tax incentives. This potential solution has a proven track record of success and is a great first step to addressing the housing affordability challenges North Carolina faces.

We encourage State officials to explore and consider implementing a statewide voluntary program that provides incentives and comprehensive administration to encourage the expansion of affordable housing development across the state. A properly structured program could drastically change the landscape of the rental housing community to meet the states growing demand for additional housing.

The Apartment Association continues to be a leading partner in the housing industry and welcomes the opportunity to further discuss and advocate for comprehensive housing policies that best serve North Carolina renters and the multifamily industry alike.

