

STAFF REPORT

To: Affordable Housing Advisory Committee
From: Dave Hill, Community Development Analyst
Date: December 4, 2013
Subject: Developer Interviews Report

Summary

The City of Asheville Affordable Housing Advisory Committee (AHAC) conducted a series of affordable housing developer interviews during fall 2013. The results of the interviews are now available. This report provides some suggestions regarding common issues identified by the interviewees, and topics and priorities the Committee may want to consider as recommendations to City Council are prepared.

Background

The Affordable Housing Advisory Committee developed a list of 30 housing developers considered to be candidates for interviews to discuss affordable housing development, regardless of whether or not each candidate had actually developed an affordable housing project. The purpose of the interviews was to obtain feedback regarding primarily private investment and development of affordable housing, with specific interest in understanding the factors that could stimulate a higher level of private sector development of affordable housing inside the City of Asheville. An interview format was developed to obtain feedback on issues of concern, suggestions for improvements, and the relative importance of several factors that potentially influence affordable housing development decisions. All interviewees were asked to focus on affordable housing issues that could be addressed locally by the City of Asheville.

Suggested Topics for Committee Consideration

Based on the results of the interviews, staff suggests that the developers identified two broad categories of issues that have significant influence on affordable housing development: **Financing and Production**. This is supported by the actual comments received as well as the topic rankings collected at the end of the interview.

Affordable Housing Financing

Financing determines feasibility – if the financing doesn't work, the project dies at the planning stage. Committee recommendations could address the following issues:

1. Land Cost

Land cost was cited frequently as an important cost issue. Some land is available for affordable housing development, but as the economy improves many felt that land costs are likely to escalate. Some developers are already exploring sites in neighboring counties as a cost reduction measure. Some suggested that the City acquire land (or designate current City-owned property) for affordable housing development and offer the land for development through a competitive bidding process, or provide public funding for land cost write-downs.

2. Infrastructure Costs

The cost of infrastructure was cited as an important costs factor. Many said that City participation in infrastructure cost sharing had decreased over the years. Others wanted staff to have some administrative flexibility to waive some requirements. An example given was the requirement to dedicate rights-of-way, install curb, gutter, and sidewalks for infill lots in an existing neighborhood where most of the developed lots did not have such features and there was little chance the existing street would ever be widened.

3. Funding Programs

Many interviewees suggested funding program changes that involved increases to the City's Housing Trust Fund, funds for land acquisition, fee waivers (rather than fee rebates), property tax reductions, use of tax increment financing or New Market tax credits specifically for affordable housing, and affordable housing infrastructure capital funds. Some interviewees felt that that the same people are always awarded existing available grant funds year after year. Others were not aware of the full extent of existing funding programs, suggesting the need for better outreach and marketing.

4. Density

As a cost factor, increased density was mentioned frequently as a way to allow more housing units in the same area of land. Several city requirements such as setbacks, tree save, and open space require larger lots and drive affordable housing costs up. Many wanted some zoning districts to be reexamined to allow higher densities, particularly in light of the smaller home footprints associated with affordable housing.

5. Proximity to Transit Services

Although not a direct cost factor typically associated with an affordable housing development project, several interviewees were clearly cognizant of the need to find property within 1/2 mile of a transit line. The relationship between housing cost burden and household transportation costs is important enough to impact lending and underwriting standards, according to several of the developers. The committee may want to make a recommendation regarding future City transit system and extension investments.

6. Permit Fees

Because the profit margin for affordable housing development is much slimmer than for market or up-scale housing, several interviewees felt that permit fees can make a difference in a project's financial feasibility. Many interviewees felt that permit fees for affordable housing should be eliminated or at least reduced, with the benefit being upfront rather than in the form of a rebate.

Affordable Housing Production

Once the decision has been made that an affordable housing project is financially feasible, the actual follow-through and production of the housing units becomes a matter of obtaining governmental approvals potentially ranging from zoning to building inspections, staying within budget, minimizing carrying costs, and meeting construction schedules. Three primary subject areas of concern became apparent during the

interviews – **Land Use Policies & Regulations, Development Review & Permitting, and Neighborhood Opposition.** Despite the concerns listed below, most of the interviewees were highly complimentary of the dedication and customer service shown by City staff, and noted that past efforts to improve application processing were noticeable and helpful.

Most cities experience some level of tension between public regulators and the development community, and Asheville is no different. As part of any recommendations the Committee may want to consider regarding the issues below, staff would suggest that such recommendations be made within the context of the City Council's Strategic Operating Plan to enable the comprehensive evaluation of affordable housing and other important City priorities. Committee recommendations could address the following issues:

1. Land Use Policies & Regulations

The broad sentiment regarding land use policies and regulations was that of a disconnect between the City's affordable housing policies and the regulations governing actual development. Many interviewees want better predictability, less discretionary review, and clear and concise evaluation criteria when discretionary review is required.

Specific Policy Comments

As a general observation, most of the interviewees were pleased that affordable housing is a top priority of the City of Asheville. Only a few comments related to suggested policy changes. One concept mentioned more than once was the creation or establishment of geographic districts where affordable housing would be encouraged. The City could then assist in any necessary property rezoning applications and provide funding program assistance to stimulate affordable housing development. Staff would not recommend that the Committee support such a move due to concerns potentially related to fair housing, concentration of low income households, and discrimination, not to mention the complexity of effort that would be involved.

Examples of Specific Regulatory Comments

The City is currently engaged in a number of land use and development strategies, and the Committee may want to ask for a comprehensive review of the City's development regulations (zoning, subdivision regulations, and building codes) and their impact on affordable housing. It is quite clear from the comments received that developers of affordable housing see changes in City development regulations as far more important than changes in development review processing.

Some examples of issue-specific comments received are listed below:

- Driveway Aprons – overkill and expensive
- Sidewalks along perimeters of all street frontage whether practical or not create high costs
- Water/Sewer fees very expensive. Consider eliminating for affordable housing
- Curb and Gutter – Not an effective or environmentally sound way to convey storm water or improve water quality...and expensive
- Stormwater Management – City standards in excess of state standards drives cost up. Suggest City Collective watershed measures (with a fee to pay into as developed) versus individual project systems that are costly, have maintenance challenges and are ineffective

- Open Space / Tree Save standards – not required in the county. Requires expensive and good usable land and adds a liability to new neighborhoods especially if they are in bigger networked neighborhoods where open space and parks already exist
- Private drive requirements should be lessened and sharing should be encouraged
- Reduce public road standards to minimum fire code standards
- Stormwater pipe sizes in yard should be reexamined
- No public storm infrastructure – with City not having any storm water systems it makes this a liability to neighborhoods)
- Subjective approval process
- Lot size – square footage is too high / more affordable homes could be built on lesser sized lots
- Street Light requirements (added expense and many neighborhoods don't want it)
- Regulations that require engineering services should be reexamined
- City regulations need to promote infill, which really helps affordable housing production
- Cottage regulations could be revised slightly to be more usable
- Increase staff level authority to approve slight or minor deviations from the regulations
- City should reevaluate maximum accessory unit size (floor space minimums)
- More aggressive reuse of vacant, boarded-up properties
- Consider incentives with sliding scales, i.e. – from 15% to 100% affordable units
- Some UDO requirements (i.e. – setbacks) get in the way when trying to achieve density bonuses tied to affordable housing

2. Development Review & Permitting

When development review and permitting issues were raised by interviewees, they were asked for specific problems that could be identified. Based on the responses, very few specific issues or suggestions were made. It also seemed that several concerns associated with City review and inspections staff were really concerns with adopted regulations deemed to be impediments to affordable housing.

Some examples of related comments received are shown below:

- Ease of Access – if there was a lead city contact assigned to “walk” developers through the process, it would help a lot (developers currently have to work with several different departments in a fragmented manner)
- Fire Marshal's / City's interpretation of fire code requirements - the County and other areas in state are not requiring / interpreting the same.
- Fees – Eliminate them for affordable housing

3. Neighborhood Opposition

Although not mentioned as an issue that attracted several improvement suggestions, neighborhood opposition was raised as an issue that was important during the planning stage and also during the regulatory phase of gaining governmental approvals. If a potential development site requires rezoning, most developers will assess potential neighborhood opposition and might discuss their intent with neighborhood representatives informally. If the risk of undue delay or rezoning denial appears significant, they will reject the property as a potential project site – quietly and before any

significant investment is made. Those who have participated in a rezoning or other approval requiring a public hearing generally felt the process was unfair and stacked in favor of the neighborhood. Staff has identified this as a concern arising from the interviews, but does not have any suggestions for a Committee recommendation, other than to raise it as an issue deserving further discussion.

An example of a suggestion for improvement included:

- Protest petition should be reevaluated – reasons for eligibility should be tightened

Action Requested

During it's the December 5, 2013 meeting, staff requests Affordable Housing Advisory Committee discussion and guidance regarding the preparation of a final report, recommendations, and priorities.