



Residences at Renaissance

Evergreen Team Task Force
***Affordable Housing
Strategic Recommendations***

Charlotte + Mecklenburg County, 2018

Acknowledgements

The “Evergreen Team” is a volunteer committee of public and private leaders who agreed to meet monthly during calendar year 2017 to identify some bold ideas for affordable and workforce housing.

The committee includes:

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We thank each of these individuals for their valuable time.

Other participants in these meetings included Moira Quinn, Pam Wideman, Debra Campbell, Troy Drawz, Jeff Meadows, John Butler, Paul Baalman.

Mission

The Evergreen Team will explore “innovative and sustainable” affordable housing strategies that reduce barriers to the free market and more fully enable the capacity of the private sector, as well as existing affordable housing developers and agencies, to meet the housing needs of every family in the Charlotte region.



Guiding Principles

The Evergreen Team gathered a team of leaders/experts from the public, private, finance, legal, affordable housing and real estate communities to think creatively, collaboratively and differently about affordable housing.

Our goal was to break down barriers, create bold ideas and approaches and unleash the capacity of the private sector to build more affordable housing in our City and County.

The result is this report with its eight (8) bold ideas, presented through the lens of the following guiding principles.

- We believe a key measure of who we are as a City and County is how we treat those in need and how we stand and act on affordable housing. We believe the time for action is now.
- We believe affordable housing is an essential element of the equation for family stability and creates the opportunity for economic mobility and advancement.
- We believe affordable housing can prevent families and individuals from sliding into homelessness.
- We believe in a holistic affordable housing model that can give residents access to public safety, employment, healthcare, transportation options and education.
- We believe affordable housing should be available throughout our community in mixed income communities that create stable neighborhoods.
- This team believes it is imperative that our community create long-term sustainable affordable housing inventory. We believe the inventory must be created within a system that maintains quality places for individuals and families to live.
- We believe creating permanent deed restrictions can preserve the land for current and future affordable and workforce housing.
- The private marketplace, faith community, public and non-profit sectors and corporate philanthropy, working together, can tackle these challenges. A successful strategic model requires engagement, collaboration and creative effort from our entire community.
- The Evergreen Team supports the City's goal of creating and preserving 5,000 units of affordable housing; however, we know that goal only scratches the surface of the total need for affordable housing in our community and the private sector must assume a significant role in the affordable housing full solution set.
- We also support the recommendations on the Leading On Opportunity Task Force for Affordable Housing bonds.
- We believe this is difficult work and will require broad and sustained commitment.



The Need

- Charlotte, NC and Mecklenburg County are very attractive and successful places to live and do business. Along with that success comes the challenge of maintaining affordable housing options for our workers making 30-120% of median income. This is a business and a societal issue.
- The Charlotte MSA currently has a deficit of about 21,000 units for 50% AMI and under and the picture is getting worse. Over the past 10 years, we have only built an average of 312 units of new affordable housing per year.
- Naturally occurring affordable housing is being lost, replaced by new projects or renovations with rent increases as high as 30-40%. These systematic changes are driving many renters to travel greater distances to find affordability.
- Approximately 18,000 of our apartments are more than 40 years old. The useful life for a stick built apartment project is about 60 years.

It is vital to understand the need to unleash the private sector to address this issue. It will take a bold strategic plan and the long-term dedication of public and private leaders to solve this issue.

Bold Idea #1

Through the Leading On Opportunity Council, form an Affordable Housing Action Team charged with implementing an overall strategy to address affordable housing issues and publish an annual “State of Housing Report.”

In order to achieve a cohesive, long-term approach to the issue of affordable housing, we recommend forming a 10-year affordable housing team charged with implementing in a cohesive manner an overall strategy to the issue and to publish an annual “State of Housing Report” to ensure sustained focus on the issue. This committee should be made up of experts in the affordable housing space (CHA, CMHP, private developers, Leading On Opportunity Council and other civic leaders) - and should be charged to:

1. Develop a process in consultation with other stakeholders, such as the Housing Advisory Board, for implementing the overall strategy to address the affordable housing issue.
2. Conduct research and coordinate an Annual “State of Housing Report” for Charlotte. The report could be produced by the UNC- Charlotte Childress Klein Center for Real Estate. (The Evergreen Team produced a “preliminary 2017 draft” of this report to show intent-this draft is available on request). Release the key findings through an event that includes housing stakeholders and the media starting with the 2018 report. Determine the funding for this report.
3. Serve as a resource to educate and inform elected officials on the issue.

Execution Strategy

1. In consultation with the Leading on Opportunity Council and Housing Advisory Board, we recommend an Affordable Housing Action Team be created to lead implementation strategies.
2. Meet quarterly to work cohesively on implementing the strategic plan, share ideas and pursue innovation.
3. Meet with the UNC Charlotte Childress Klein Center for Real Estate team to both coordinate and seek funding sources for this report.
4. Coordinate efforts with ULI and others to host a series of top speakers.

Bold Idea #2

Create coordinated policies and a proactive program to identify land/building sites and obtain appropriate zoning and restrictions for these sites to be available to affordable developers to achieve sustainable progress.

Identify/create and own a growing number of land sites, proactively zone them for the appropriate use/density, and then lease /restrict the sites solely for affordable housing purposes on a long-term basis to support the supply of affordable housing product.

When you look at all of the land currently controlled by the City of Charlotte, Mecklenburg County, CMS, CATS, Charlotte Water, among other entities, there is a tremendous amount of “excess land” that could be used for affordable housing without affecting the primary use of the land. Let’s get those sites working for this cause, and activate the underutilized land around our schools and parks, utility plants, transit facilities and similar facilities. In addition, many of the area’s larger companies and houses of worship have excess land that could easily be donated or leased for affordable/workforce housing.

Wealthy individuals/foundations may also be a source for land, especially if we can perfect a tax write-off for the market value of the lease.

There may also be other attractive parcels that will need to be purchased by developers, the City, Mecklenburg County, or the Opportunity Fund – these parcels will need to be properly zoned, restricted/ offered up as affordable projects.

We also recommend creating standard documentation that has design approval, restrictions and other controls. The Evergreen Team will deliver a draft of this proposed documentation as part of its final work.

Execution Strategy

1. We need to designate a subset of the Affordable Housing Action Team to work with the City, County and other applicable entities to develop the appropriate policies/programs and to begin to identify appropriate sites.
2. We need to empower an entity to focus on the land identification issue every day. This entity might not be a developer, but rather a group that gets sites “shovel ready” for a small portion of the project development fee.
3. We need the City and County to each dedicate a person/team who will actively and cooperatively work on the identification issue. We need to be sure there is cooperation by all involved. Then we need a fair process for selecting the developer and signing the land leases and/or land control documents.
4. We need to enlist the help of a group of architects/land planners to show density designs on the parcels being rezoned.
5. We need to further explore the possibility of rezoning a number of sites collectively.
6. We need to work with the development community on acquisitions of NOAH, putting the land lease/ land control concept and restrictions in place on desirable sites.

We simply must control a growing number of sites in perpetuity if we are ever going to solve the affordable housing crisis on a sustained and cumulative basis.

Bold Idea #3

Create a Charitable Investment Fund

This fund will be a place for corporate donations, charitable individual or foundation contributions, and donations of land. The fund may buy land and lease it to projects, or alternatively provide loans or equity to projects as needed.

We recommend that permanent infrastructure be retained. We also recommend that further evaluation be conducted to determine if the fund can be established at Foundation For The Carolinas as part of the Leading On Opportunity Council. FFTC's expertise in fund management and governance could be a foundational asset for this new effort.

We recommend a high level of coordination among the Opportunity Fund and the investments of the Housing Trust Fund, as well as other proposed private sector equity funds, each playing a distinct and collaborative role.

Finally, we also think these funds may be uniquely positioned to apply creativity and long term solutions for affordable housing, including ideas like buying and banking land for the long term – leasing the land to project for 60 years (useful life of a stick built project), and then getting the land back to do another 60 year project. As a private non-profit, there will be great flexibility to respond to the evolving needs of our community.

Other cities have had great success with various funding and development models, which can serve as models for this work.

Execution Strategy

1. FFTC, in coordination with the Leading On Opportunity Council, will coordinate this effort. The initiative will include evaluation of the appropriate agency to hold the funds, a feasibility study to identify donors and capacity, integration with other affordable housing efforts including a private equity fund, meetings to discuss best practices and implementation strategies, etc.
2. The affordable housing action team will provide real estate expertise to help underwrite specific projects and investments.

Bold Idea #4

Recruit and Facilitate Social Impact Investors

Raise social impact capital to provide debt, equity or mezzanine capital to fund both new construction of affordable housing and to fund the acquisition and rehab of Naturally Occurring Affordable Housing (NOAH). We believe there is a market of social investors (such as high net-worth individuals, faith-based organizations and corporations) that will accept a risk-adjusted/sub-market return along with repayment of principal to support affordable housing as a pathway to economic mobility in Charlotte.

Such capital could be deployed through several vehicles, such as:

- National REITs (Real Estate Investment Trust) There is an extensive list of national REITs that may be interested in joint venturing affordable housing projects with developers in Charlotte. Alternatively, there may be a REIT willing to establish a Charlotte Fund.
- Local Social Impact Equity Fund - A local private equity fund
- CDFI's - Community Development Finance Institutions provide equity and debt products with flexible terms and lower interest rates.

Execution Strategy

1. The members of the action team are willing to evaluate funding alternatives and set up the governance of this Fund if needed.



Bold Idea #5

Simplify Processes, Reduce Costs and Eliminate Statutory/Policy Obstacles to the creation and maintenance of affordable housing

Local Processes/Regulations/Costs. The Evergreen Team is aware that the City of Charlotte and Mecklenburg County have several in-process initiatives to streamline processes and make improvements to accelerate affordable housing production.

The Evergreen Team endorses these initiatives and hopes they will result in the fast-track processing/permitting of affordable housing projects. The City and County are encouraged to work to streamline processes, policies and minimize costs associated with affordable projects while ensuring quality communities by:

1. Streamlining the permit review process and timing with special consideration for affordable housing projects.
2. Modifying City's current locational policies on affordable housing to better align with the strategy for promoting affordable housing throughout our community.
3. Modifying Zoning Ordinance residential density bonus provisions in a manner that would better align with goals of promoting affordable housing throughout our community.
4. Adding wording to City's residential locational criteria in the General Development Policies to give credit for including certain levels of affordable housing in rezoning projects.
5. Reducing/eliminating rezoning filing fees & streamlining the timeline of rezoning projects that include certain levels of affordable housing.
6. Reducing/eliminating where feasible and appropriate other permitting fees for projects that include certain levels of affordable housing.
7. Promoting where feasible and appropriate greater flexibility in implementation of transportation improvements and other land use guidelines/regulations.

To support these initiatives, the City and County are encouraged to further empower high level governmental "liaisons" charged directly with streamlining approval processes and removing regulatory obstacles that hinder delivery of affordable housing.

Tax-Exempt Bond Processes/Costs

Since a significant number of our affordable projects will use tax exempt bonds coupled with 4% tax credits, the requirements of issuers and the NC Housing Finance Agency are also a big factor in the cost of a project. The Agency produces annually a qualified allocation plan (QAP) that sets the requirements for unit sizes, cabinet space, etc. for all tax credit projects, and these need to be more representative of the urban conditions we have in Charlotte. In addition, it will be important to seek reductions in the costs/fees and simplify review processes at all levels of the bond issuance process.

State Level Legislative/Regulatory Initiative

Consideration should also be given to a comprehensive review of State-level impediments to the provision of affordable housing. This review would include elimination/modification of problematic legislative and administrative rules and regulations.

Execution Strategy

1. Work actively with the City and County on the new zoning, permitting and processing approach.
2. Meet annually with the NC Housing Finance Agency, well ahead of the time for the new QAP. Show them how they can make changes that will have significant benefits, and lobby state leaders if necessary to make progress.
3. Work with the Agency and issuers to reduce costs and fees and simplify review at all levels of the bond issuance process.
4. Support the City and County's efforts to implement the streamlining and cost reduction suggestions set forth above in this Bold Idea #5.
5. Work with City/County and Chamber of Commerce governmental relations teams to remove administrative and legislative obstacles at the State level whether within the Legislature or Executive Branch.



Bold Idea #6

Acquire and Preserve Naturally Occurring Affordable Projects (NOAH)

Acquiring existing projects whose rents are in the 30% - 120% median income range is an immediate and less expensive way to preserve mixed income housing. We need to empower both market-rate and affordable developers/ investors to acquire these properties, or rents on many of our better located projects will escalate out of the affordable spectrum. Key components of the acquisition and preservation strategy should include the following:

- Address deferred maintenance and renovations required to sustain building quality.
- Put in place permanent deed restrictions to maintain affordable rents.
- When possible, set rents for a broad range of incomes to promote mixed income housing and use income restrictions to insure the proper use of those units.
- Manage the property for the remainder of its useful life and then look to pursue substantial renovations or the development of a new affordable project on the site.

Execution Strategy

1. Develop capital strategies to help finance these acquisitions through Social Impact Investors, a Charitable Investment Fund, and the Housing Trust Fund.
2. Create public-sector initiatives that help preservation buyers compete against “value-add” funds.
3. Encourage the pursuit of acquisition opportunities by local market-rate and affordable developers/ investors through the identification of prospective properties and their current owners.

Bold Idea #7

Expand Use of Creative Financing Tools such as TIF/TIG & Create Debt Service Funds and Other Vehicles

A Debt Service Reserve Fund

If we can reduce the costs for an affordable project, then the funds required from the Housing Trust Fund or Opportunity Fund or charitable social impact fund will be reduced – thus allowing more projects to be funded. One alternative to lowering a development's debt service cost would be the use of a "Debt Service Reserve Fund Makeup" (DSRF). This DSRF would operate like a credit enhancement for projects, allowing lenders to offer lower rates and more flexible terms.

The City of Charlotte would fund the debt service reserve to provide a loan guarantee for City approved low/moderate income housing projects in exchange for deed restricted affordable housing units. The DSRF would support a portfolio of projects, reducing the concentration of risk.

A draw on the DSRF to cover a payment default would become a subordinate loan to that project, supported by a lien that the City could use to recover any unreimbursed draw from sale or refinancing proceeds. The City of Winston Salem has used this structure in the past for affordable housing. The result was that project debt was rated a half-grade below the City's general obligation rating by S&P Global Ratings.

Synthetic Tax Increment Financing

North Carolina local governments, including the City and the County, have for several years issued debt to assist the development of projects on the basis of the measure of tax increment resulting from the development. Ten million dollars in new construction might produce \$120,000 in new tax revenue to the City and the County.

At the City's borrowing cost, that amount might be leveraged into a \$1,500,000 contribution to the project, in return for covenants as to low and moderate income set asides.

Working Capital Reserves

Some projects require working capital reserves that must be funded with cash or a letter of credit. If the City were to fund the working capital reserve, this would operate as a subordinate loan to the project, much as described under the Debt Service Reserve Fund Makeup discussed above.

The City funds might operate as a revolving fund so that as working capital reserves were released on one project and returned to the City, the City could re-loan the funds to a new project.

Execution Strategy

1. Meet with City finance staff and housing staff to outline the proposal and discuss.
2. Develop the framework for implementing these and other available options for City contributions to the development of Affordable Housing.

Bold Idea #8

Create a More Personal and Understandable Conversation about Affordable and Workforce Housing

Conversations about affordable housing and workforce housing are often confusing. Even the definitions are widely misunderstood. In addition, the conversations are often very sterile, using terms like “units”, etc.

We would like to create a new, more personal approach that talks about the residents - home health care workers, retail workers, construction workers, etc. We also want to explain that this is a business and societal issue for Charlotte and Mecklenburg County.

All of this would be captured in the annual State of Housing Report, as well as the Powerpoint presentation that would be used throughout the year.

Execution Strategy

1. Create an overarching marketing/communications strategy.
2. Use the State of Housing report each year to “launch” the overall communication strategy.
3. Develop a powerful PowerPoint presentation that:
 - Tells the story of workforce, affordable, and social housing.
 - Includes a very personal approach, using real people in Charlotte if possible.
4. Make this presentation available to all significant parties, so that it can be used in fund raising activities, as well as key meetings.
5. Work actively with the media to use the desired language in addressing the issue.
6. Consider creating an active web page and social media approach for this conversation.



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