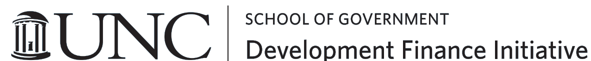
Expanding Affordable Housing Options in Communities Impacted by Hurricanes Matthew and Florence

August 2023

Development Finance Initiative
The School of Government at the University of North Carolina at Chapel Hill
For the North Carolina Office of Recovery and Resiliency



The Development Finance Initiative (DFI)

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In addition to assisting communities with downtown revitalization, neighborhood development, adaptive reuse of historic buildings, and other locally defined interests, DFI has worked with urban, suburban, and rural communities to provide technical assistance related to the development of housing for low- and moderate-income households. DFI's technical assistance includes housing needs assessments, tailored educational workshops, identification of sites appropriate for affordable housing development, predevelopment feasibility analysis, and help with the recruitment and identification of qualified private development partners for local governments.

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Contents

INTRODUCTION

Project Background and Summary . . . 1

MID-County Groupings . . . 1

Development Feasibility Analysis . . . 1

Near-Term Strategies to Deploy CDBG-DR for Rental Development . . . 2

New Multifamily Development . . . 2

New Single-Family and Small-to-Medium-Multifamily (SMMF) Development . . . 2

Preservation and Rehabilitation of Single-Family, SMMF, and Expiring Low-Income Housing Tax-Credit (LIHTC) Multifamily . . . 2

Impact of Strategic Approaches . . . 2

Funding Stretches Further with Certain Approaches . . . 2

Development Potential Is Capped by Timeline and Local Limitations . . . 3

Long-Term Strategies to Increase Leverage of CDBG-DR . . . 3

REPORT

Groupings of MID Counties with Similar Development Conditions . . . 5

Affordable Housing Development Feasibility . . . 5

Determining the Housing Gap . . . 6

Rental Units for Extremely Low-Income Households . . . 7

Rental Units That Serve LMI Senior Populations . . . 7

Preservation of Unsubsidized Affordable Units and Housing with Expiring Subsidies . . . 7

General Increase in Housing Supply Affordable to All Income Levels . . . 7

Determining the Capacity of Local Private Partners to Utilize CDBG-DR for Preservation or Development of Housing . . . 7

Sufficient Capacity in All Counties for Multifamily LIHTC and Single-Family Weatherization . . . 8

Underserved Housing Needs . . . 9

Identifying Sites Suitable for Housing Development or Preservation . . . 10

New Multifamily (LIHTC) . . . 10

Multifamily Preservation (Expiring LIHTC) . . . 11

New Single-Family and Small-to-Medium Multifamily . . . 11

Single-Family Preservation . . . 12

Mobile Home Relocation . . . 13

Estimating the Level of Gap Funding Required to Make Development Financially Feasible . . . 13

Strategies to Deploy Funds . . . 16

Development of New Multifamily . . . 16

Reactive Approach in Hazard-Prone, Small-Metro, and Urban Counties . . . 16

Proactive Approach in Rural and Tourism-Based Counties . . . 17

Development of New Single-Family and SMMF . . . 17

Preservation and Rehabilitation of Single-Family . . . 17

Preservation and Rehabilitation of SMMF and Expiring LIHTC Multifamily . . . 17

Impact of Each Strategic Approach . . . 18

Long-Term Strategies for MID Counties . . . 19

Opportunities to Reduce Costs and Increase Leverage of Local Assets . . . 19

Continue to Explore Alternative Construction Methods . . . 19

Foster Partnerships with Local Hospitals and Businesses to Invest in Projects . . . 20

Increase Capacity of Local Partners . . . 20

Opportunities to Expand Suitable Sites in Rural and Tourism Areas . . . 20

Engage Experts to Determine How Local Zoning Could Enable More Affordable Housing Development . . . 20

Increase Landlord Participation in Rehabilitation Programs through Consistent Outreach . . . 21

Support Critical Investments in Infrastructure . . . 21

Create a Land-Banking Program where an NCORR-Related Group Acquires Properties in Areas with High Distress . . . 21

APPENDIXES

Appendix A. Group Profiles . . . 24

Appendix B. Comparisons of MID Counties . . . 42

Appendix C. Methodology for Identifying Opportunity Sites . . . 46

Appendix D. Summary of Challenges to Financial Feasibility . . . 49

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INTRODUCTION

Project Background and Summary

In September 2021, the North Carolina Office of Recovery and Resiliency (NCORR) engaged the Development Finance Initiative (DFI) at the School of Government at the University of North Carolina at Chapel Hill. DFI provided analysis to support NCORR as it considered strategies to utilize Community Development Block Grant for Disaster Recovery (CDBG-DR) funds to expand and preserve rental-housing options for low- and moderate-income (LMI) households in the twenty-three Most Impacted and Distressed (MID) areas for Hurricanes Matthew and Florence. The DFI project team included Sarah Odio (Project Lead and DFI Assistant Director), Tyler Mulligan (Principal Investigator and DFI Lead Faculty), Frank Muraca (DFI Real Estate Development Analyst), and Marcia Perritt (DFI Director).

The goal was to understand opportunities for affordable housing development and what NCORR could do to drive development in areas that lack opportunities. DFI therefore organized the MID counties into groups with similar development conditions, conducted feasibility analysis to determine which areas have "investment ready" opportunities, and then explored how to effectively deploy CDBG-DR in all the federally designated and state-designated MID counties.

MID-County Groupings

A typology was created to organize the twenty-three MID counties into five groups, each representing comparable development conditions. Each MID county was assigned to a group as shown in Table 1.

Table 1. MID-County Groups

Hazard Prone	Rural	Small Metro	Urban	Tourism Based
Columbus	Beaufort	Craven	Cumberland	Brunswick
Edgecombe	Bladen	Harnett	Johnston	Carteret
Lenoir	Duplin	Onslow	New Hanover	Dare
Robeson	Jones	Pitt		Pamlico
Wayne	Sampson			Pender
	Scotland			

The development conditions evaluated included geographic context, population size, population density, household income, economic drivers, environmental features, and data availability (page 5).

Development Feasibility Analysis

DFI assessed opportunities to expand and preserve affordable housing in the MID counties. To determine the type and scale of development possible, DFI studied the feasibility of development across the region generally and within each county group. The analysis included

- examination of the housing gaps for populations eligible for CDBG-DR assistance (page 6),
- evaluation of local private partners' capacity to utilize CDBG-DR for preservation or construction of new rental housing (page 7),

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- identification of sites suitable for housing development of various types (page 10), and
- modeling of the financial feasibility of various approaches and the level of CDBG-DR required to facilitate development (page 13).

The outcome of this analysis is a set of strategies, framed by development potential and NCORR's funding parameters, to effectively deploy funding for recovery from Hurricanes Matthew and Florence by 2026. The analysis also revealed that a shortage of suitable sites and experienced development partners could hinder NCORR from achieving its objectives across the region. Therefore, DFI also recommended long-term strategies to tackle these limitations and enable better utilization of future funding.

Near-Term Strategies to Deploy CDBG-DR for Rental Development

New Multifamily Development

Hazard-prone, small-metro, and urban MID counties have sufficient multifamily-development opportunities to enable a reactive approach in which NCORR issues a request for proposals (RFP) for development.

Rural and tourism-based MID counties lack suitable sites due to local zoning regulations, vulnerability to flooding, infrastructure, or a combination of the three. In those counties, a reactive approach would be unlikely to accomplish much development. A proactive approach would be required. NCORR could engage a partner to conduct a predevelopment process in partnership with local governments to package publicly owned sites and attract experienced development partners (page 16).

New Single-Family and Small-to-Medium-Multifamily (SMMF) Development

Hazard-prone, rural, small-metro, and tourism-based MID counties all lack developer capacity for scattered-site single-family and SMMF development and therefore require a proactive approach. NCORR could engage a partner to conduct a predevelopment process in partnership with local governments as described above for multifamily development (page 17).

Preservation and Rehabilitation of Single-Family, SMMF, and Expiring Low-Income Housing Tax Credit (LIHTC) Multifamily

In all counties where single-family, SMMF, and expiring LIHTC multifamily is a priority, there are sufficient opportunities for preservation and rehabilitation of those housing types to enable a reactive approach in which NCORR issues an RFP for rehabilitation of such properties (page 17).

Impact of Strategic Approaches

Funding Stretches Further with Certain Approaches

Some county groups have few investment-ready opportunities or need additional technical assistance to enable housing development. Supporting a proactive approach in those areas will result in more new and preserved units than would be possible with a reactive approach. For example, engaging a partner to conduct a predevelopment process with local governments enables more affordable units to be produced by packaging sites and leveraging local government resources. Pursuing both new construction and preservation simultaneously also reaches more units (page 18).

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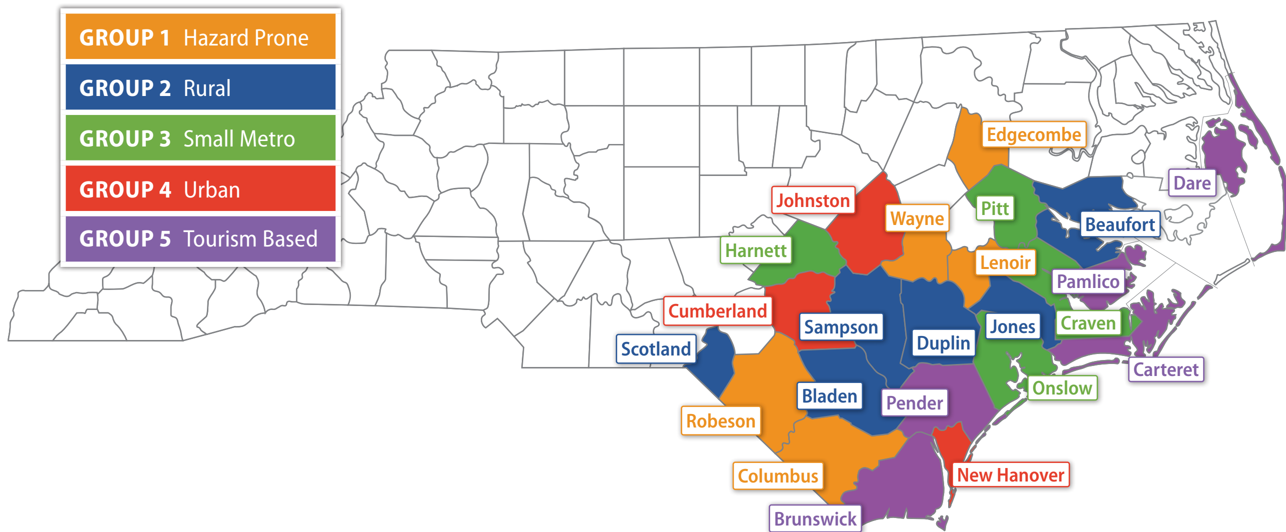
Figure 1. Hurricanes Matthew and Florence MID Counties, by Group



Development Potential Is Capped by Timeline and Local Limitations

Additionally, regardless of the approach taken and the level of funding provided, even high-producing counties like urban or small-metro counties will eventually reach a limit before the 2026 deadline due to the limited availability of sites and developer capacity (page 18).

Long-Term Strategies to Increase Leverage of CDBG-DR

As noted above, local limitations related to suitable sites and development capacity would prevent NCORR from fully addressing housing needs in the MID counties in the near term, even if additional funding were available. Long-term strategies can begin to address these limitations so that the State of North Carolina can be prepared to leverage future funding. The strategies fall into the following categories:

- engaging in efforts to reduce construction costs and increase leverage of local assets (page 19), and
- expanding the availability of suitable sites in rural and tourism-based counties (page 20).

The report summarizes the analyses described above and associated recommendations that were presented to NCORR in a series of presentations and memos during the calendar years 2021 and 2022.

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REPORT

Groupings of MID Counties with Similar Development Conditions

The US Department of Housing and Urban Development (HUD) identified sixteen MID counties, and the State identified seven more, for a total of twenty-three MID counties. NCORR directed DFI to assume that at least 80 percent of CDBG-DR funds allocated to the State must be spent in the sixteen HUD-identified MID counties; the remainder could be spent in the other state-identified areas. Approximately 2.3 million people live in the twenty-three MID counties. Although each community is unique, the counties can be grouped according to common economic, demographic, and environmental features that shape the character of the housing supply and the residents' needs. A typology was created in which each of the twenty-three MID counties was assigned to an appropriate group with similar development conditions. The development conditions evaluated included geographic context, population size and density, household income, economic drivers, environmental features, and data availability. Five groups were established, and counties were assigned to each group as shown in Table 2, with State-identified MID counties highlighted in blue. See Appendix A for more details on how MID counties were grouped.

Table 2. HUD- and State-Designated MID Counties by Grouping

Hazard Prone	Rural	Small Metro	Urban	Tourism Based
Columbus	Beaufort	Craven	Cumberland	Brunswick
Edgecombe	Bladen	Harnett	Johnston	Carteret
Lenoir	Duplin	Onslow	New Hanover	Dare
Robeson	Jones	Pitt		Pamlico
Wayne	Sampson			Pender
	Scotland			

Note: Counties in blue were designated MID by the state. The rest were designated MID by HUD.

Affordable Housing Development Feasibility

DFI conducted a feasibility analysis on each group to customize funding strategies based on their unique assets. First, DFI assessed the type and scale of affordable and resilient housing needed, considering the supply and demand in each county. The identified housing gaps then formed the framework for identifying suitable development sites, evaluating developer capacity, and estimating funding required. Counties that lack suitable sites, capacity, or the potential to leverage funding require a different approach to catalyze development from those that are investment ready. DFI recommended strategies to address potential barriers and deploy CDBG-DR funds in all twenty-three counties.

Several factors affect the potential for housing development in each county group. These factors include

- the gap in housing demanded by type and amount in each group;
- the capacity of private partners to utilize CDBG-DR for preservation or construction of housing;
- the availability of sites suitable to meet the demand previously identified; and,
- if all other factors are met, the level of funding required to make housing developments financially feasible.

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Figure 2. High-Priority Housing Interventions, by County Group

	Hazard Prone	Rural	Small Metro	Urban	Tourism Based
New Multifamily (50+)	●	●	●	●	●
New Small-to-Medium Multifamily (<49)	●	●	●		●
New Single-Family (<49)	●	●	●		●
Multifamily Preservation (5+)			●	●	
Single-Family Preservation	●	●	●		●
Mobile-Home-Park Relocation	●				

Note: A circle indicates that an intervention is a high priority in that group.

Determining the Housing Gap

Determining the housing gap involves identifying the discrepancy between the demand for housing and the available supply of housing units. In the twenty-three counties, there are approximately 72,600 LMI renter households that are spending more than 50 percent of their income on housing costs or living in Census-defined substandard housing.[1] Housing insecurity for renters in these counties has been compounded by the twin disasters of Hurricanes Matthew and Florence and by the potential for future catastrophic events. As a result, significant demand exists in every county group for various rental products, such as mobile homes, single-family, and small-to-large multifamily developments. Due to the breadth of need in these twenty-three counties, a wide range of interventions is required for LMI housing, ranging from construction of new units to preservation of "naturally" affordable or existing subsidized units.

Certain housing types and interventions are needed in some groups more than others. Figure 2 shows the high-priority interventions by county group based on the gaps in each market. Small-metro and urban counties have a higher concentration of aging multifamily buildings that are currently occupied by LMI households, are in urgent need of repairs, or are at risk of pricing out their tenants. Hazard-prone counties have a particularly high number of mobile home parks that are vulnerable to repeated flooding. Small-metro communities, due to population growth, proximity to large centers, and the makeup of their existing stock, could accommodate almost every type of housing examined in this analysis.

Certain needs, however, are universal. Regardless of size and character, all twenty-three counties have significant demand for the following housing types and interventions.

1. "CHAS: Background," Department of Housing and Urban Development website, Office of Policy Development and Research, accessed May 10, 2023, https://www.huduser.gov/portal/datasets/cp/CHAS/bg_chas.html.

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Rental Units for Extremely Low-Income Households

Extremely low-income (ELI) households—those earning less than 30 percent of area median income (AMI)—are most in need of affordable rental units. At least 52,000 additional restricted units would be required to serve ELI households facing a Census-defined housing problem.

Rental Units That Serve LMI Senior Populations

Elderly households face unique challenges related to aging in place and require additional services. Across all county groups, elderly households make up 40–52 percent of low-income renters facing Census-defined housing problems.

Preservation of Unsubsidized Affordable Units and Housing with Expiring Subsidies

To begin to address the existing gap in the number of affordable units, the market must avoid the loss of units that are already affordable to LMI households. Although some MID counties may not be experiencing the loss of affordable units at the same rate as urban MID counties, all have seen a decline in the last five years.

General Increase in Housing Supply Affordable to All Income Levels

In every county, there are more renters than affordable units available for both ELI households and for households with incomes above 80 percent of AMI. Unrestricted, quality market-rate housing has consequences for overall affordability because households with higher incomes are likely to occupy housing that is "below their budget" and crowd out renters with lower incomes if a sufficient supply of market-rate housing is not available.

Guide to Affordable-Housing Types and Interventions

Single-family refers to new construction or rehabilitation of scattered sites of either detached or attached single-family units, or developments with four or fewer units.

New small-to-medium multifamily (SMMF) refers to new construction of a multifamily development with five to forty-nine units. SMMF development can also include adaptive reuse of an existing motel or office building to a residential development with fewer than fifty units.

New multifamily construction refers to developments with fifty units or more. For the purposes of this analysis, it also assumes the use of Low-Income Housing Tax Credits (LIHTCs) administered through the NC Housing Finance Agency.

Multifamily preservation refers to the rehabilitation of SMMF and large multifamily developments with expiring LIHTC, as well as unsubsidized developments "naturally" affordable due to age and quality.

Mobile-home-park relocation refers to relocation of large trailers or prefabricated transportable homes that are typically stationary to sites outside of the flood zone within the same county.

Determining the Capacity of Local Private Partners to Utilize CDBG-DR for Preservation or Development of Housing

DFI expects that communities with existing organizational capacity could develop or rehabilitate affordable rental housing more quickly and efficiently than areas with no or minimal organizational capacity. Thus, each county's existing private-sector capacity to develop affordable housing was evaluated.

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Figure 3. Presence of Local Development Capacity to Complete High-Priority Housing Projects, by County Group

	Hazard Prone	Rural	Small Metro	Urban	Tourism Based
New Multifamily (50+)	●	●	●	●	●
New Single-Family Rental					
New Small-to-Medium Multifamily (<49)					
Multifamily Preservation (5+)			●	●	
Single-Family Preservation	●	●	●		●
Mobile-Home-Park Relocation	●				

Note: Shaded cells indicate housing types that are not a high priority in the county group. Circles indicate the county group possesses development capacity for the housing type.

An organization was deemed to have development capacity if it possessed the following characteristics:

- sufficient staff (or the potential to add staff) to secure funding sources, to comply with those sources' requirements, to bring together a development team, to oversee a development process, and to lease up and manage projects with affordability requirements;
- recent experience securing funding (particularly federal funding) for housing development; and
- recent experience working with subcontractors in the area and completing construction.

DFI identified over 150 organizations engaged in affordable housing development, rehabilitation, and other activities related to supporting LMI renters in the MID counties. The identified organizations exclude private landlords who operate housing that serves LMI renters without formal affordability restrictions or program requirements.

The purpose of this research was to determine whether sufficient capacity exists within each county group to develop and operate the housing that is needed. Figure 3 summarizes the capacity by county group and housing type, and further detail for specific housing types is provided below.

Sufficient Capacity in All Counties for Multifamily LIHTC and Single-Family Weatherization

All twenty-three counties have access to sufficient development capacity for multifamily development using LIHTC. LIHTC developers will generally pursue projects in any location where the required land and subsidy are available. Rural counties have attracted very few tax-credit developments in recent years, but according to developers, the limiting factor is not developer capacity but rather local regulations (zoning, stormwater, parking), the availability of suitable land (with water

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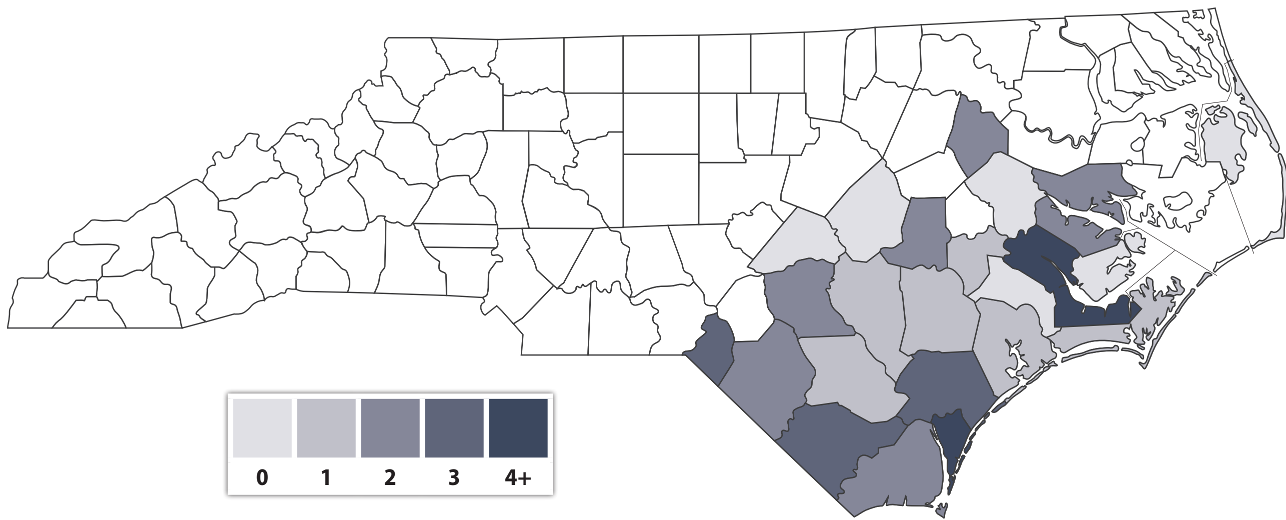
Figure 4. Concentration of Non-LIHTC Development Partners with Capacity to Utilize CDBG-DR for Preservation or New Construction of Affordable Housing



and sewer connections and locations outside of flood zones), and a lack of gap financing to make up for the lower rents in rural areas.

Additionally, all of the MID counties have multiple development partners who conduct single-family preservation, usually through weatherization programs. Nonprofits that participate in weatherization programs (including community action agencies) have a presence in almost every county. These nonprofits tend to focus on owner-occupied units due to the requirements of their funding sources, but they potentially have the capacity to expand their efforts to renter-occupied units. According to these nonprofits, however, rehabilitation of renter-occupied single-family units is challenging because (1) the landlord owner may not be low income, raising eligibility questions, and (2) even if a unit qualifies because the renter is low income, the landlord may not be amenable or accustomed to federal administrative requirements, such as tracking the income eligibility of tenants. To make it worthwhile for these nonprofits to engage in rehabilitation of renter-occupied single-family dwellings, according to them, any funding program must cover administrative costs adequately.

Underserved Housing Needs

New SMMF. The LIHTC program does not address the need for SMMF because feasible developments usually contain at least forty-eight units as a matter of practice, even though the minimum requirement is technically twenty-four units. In addition, SMMF development is becoming less common in all counties due to local regulations that restrict density. Furthermore, lower-density multifamily projects have higher per-unit construction costs, and this type of housing is typically more difficult to finance. As a result, there are only a few developers in the region who are constructing new SMMF projects.

New Scattered-Site Single-Family Housing. The small number of development partners who are capable of constructing new single-family at scattered sites are unlikely to turn their attention to

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it in the counties where they are needed. Development of single-family rentals at scattered sites is challenging; it requires a longer timeline for acquisition and does not have the management efficiencies of a multiunit development. Despite these challenges, a few organizations in the MID counties have started acquiring properties for scattered-site housing. However, rural counties, which have the greatest need for this approach, remain significantly underserved.

Preservation of Multifamily Properties with Expiring LIHTCs. In recent years, a few management companies in North Carolina have acquired expiring LIHTC properties, renovated them, and maintained their affordability. However, this practice has been limited to small metros and urban centers, where rents are high enough to justify the renovation costs.

Identifying Sites Suitable for Housing Development or Preservation

A site is suitable for affordable housing development if the physical and regulatory characteristics of the site meet the requirements of the funding source.

Sites must be large enough for development, have access to sewer systems to sustain denser housing types, and be placed outside of flood zones or other hazard-prone areas. Site suitability can also be restricted by funding sources that include rules about where affordable units can be built. For example, the North Carolina Housing Finance Agency (NCHFA) scores sites based on their proximity to groceries, pharmacies, and other amenities.

These restrictions can become more important, depending on housing type or the location of the opportunity. In hazard-prone counties and tourism-based counties, flood hazards limit the number of sites that can accommodate resilient affordable units.

Local zoning ordinances also affect site suitability. Parcels that are large enough to support greater density may be restricted by zoning that prohibits multifamily development. To measure the effect of zoning on site suitability, DFI determined whether the local zoning ordinances listed multifamily use as a permitted use on each site identified for new construction. While these data show a snapshot of how zoning affects the potential for multifamily housing, it does not fully capture how zoning affects the feasibility of developing it. Height limits, setback requirements, density constraints, and other zoning rules all uniquely affect the feasibility of developing multifamily housing.

Site ownership also plays a role in project feasibility. A portfolio of parcels owned by a single local government entity might have an easier path to development than a potential portfolio of properties with several different owners, for which negotiations could delay acquisition. Finally, development can be delayed or halted altogether if a site needs to go through a rezoning process to allow for needed density.

An overview of the availability of suitable sites is provided below by housing type. Additional detail on the methodology for identifying sites is provided in Appendix C.

New Multifamily (LIHTC)

In general, small-metro and urban MID counties have more sites that are competitive for the most generous LIHTC subsidy (also known as *9 percent tax credits*) due to a greater number of amenities like grocery stores and pharmacies. Sites in rural communities with few amenities typically do not score high enough to secure tax credits from NCHFA. And apart from Brunswick County, tourism-based counties have fewer undeveloped parcels with sufficient acreage to support denser

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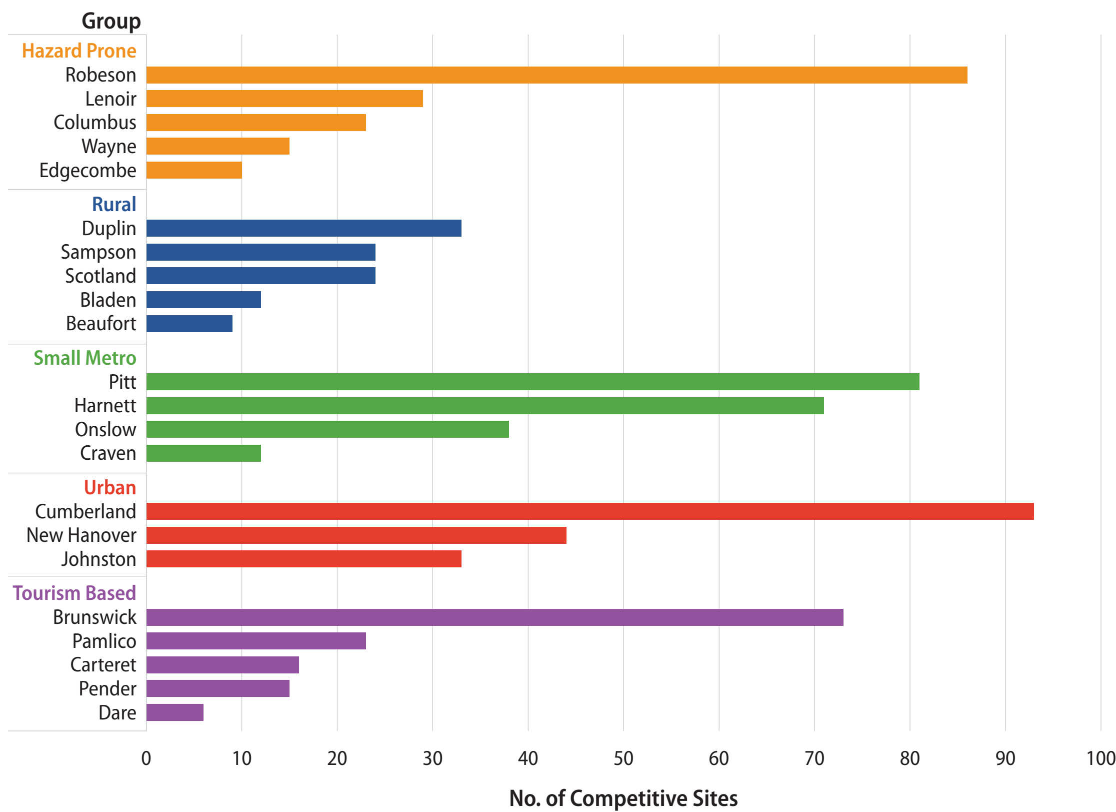
Figure 5. Number of Sites Competitive for 9 Percent LIHTC, by County Group



multifamily housing even if they have more amenities than rural counties. Zoning regulations affected the final number of competitive sites across all counties. The number of competitive sites in each county is shown in Figure 5.

Multifamily Preservation (Expiring LIHTC)

Over the next five years, approximately 1,500 LIHTC units in the MID counties will reach the end of their thirty-year affordability restrictions, representing about 5 percent of the total rental stock in affected counties. In high-growth markets, these units may be at risk of converting to market-rate rents and potentially displacing current LMI renters. In weaker markets, these developments may struggle to address long-term deferred maintenance.

Except for tourism-based counties, every county group has opportunities for multifamily preservation. Because the LIHTC program has historically produced few units in tourism-based counties, there are fewer opportunities for preservation.

New Single-Family and Small-to-Medium Multifamily

Sites for these housing types qualified as suitable if they were at least a tenth of an acre, located outside of the 100- and 500-year flood zones, in a neighborhood with existing residential units, and owned by a local government. If a private developer were to undertake a scattered-site

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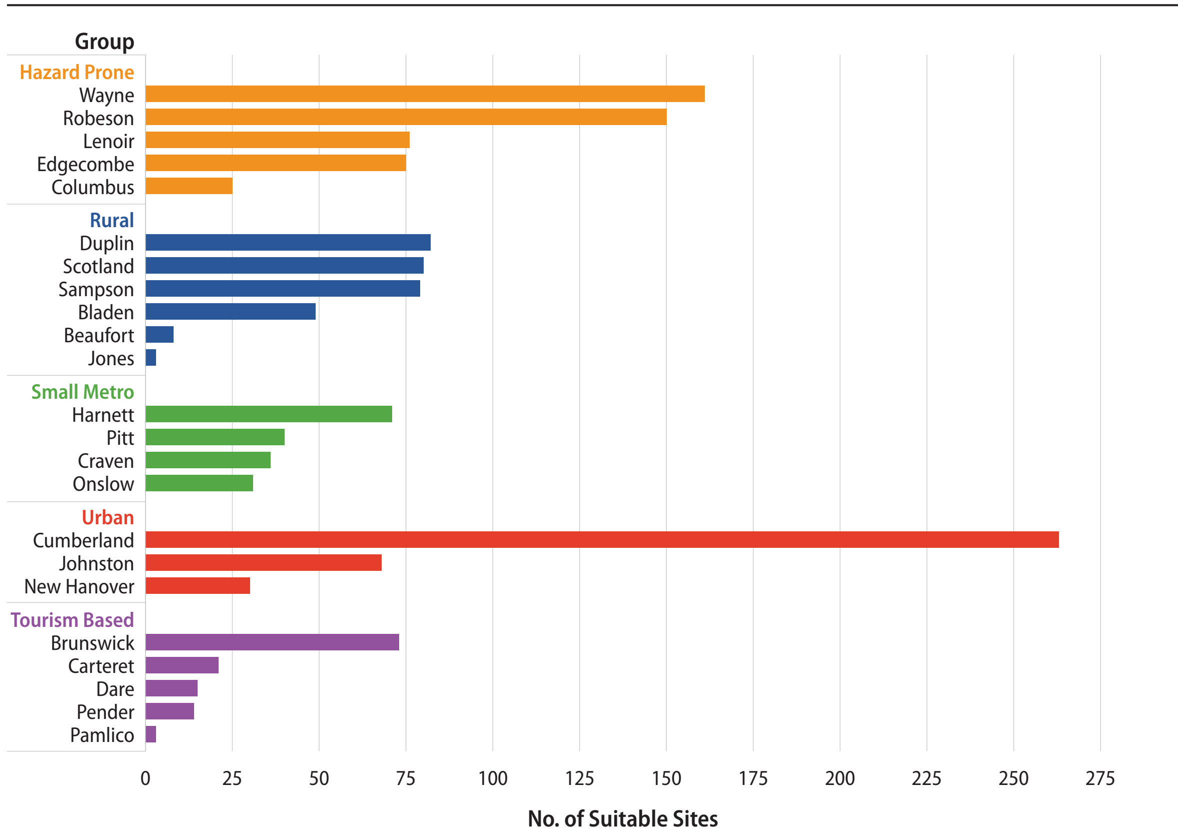
Figure 6. Number of Publicly Owned Sites Appropriate for Single-Family or Small-to-Medium Multifamily Development



single-family rental development, each lot would have to be purchased individually, which would be a time-consuming process if the lots were owned by multiple owners. The barrier to site control is reduced by identifying portfolios of properties already owned by a local government.

Several counties with only a few competitive LIHTC sites offer more prospects for single-family or SMMF developments. For instance, in Wayne County, only 15 sites are competitive for LIHTC, but over 150 sites are owned by a unit of local government and are likely suitable for smaller infill housing development, as shown in Figure 6. Additionally, rural counties lacking the amenities required by LIHTC are more likely to have publicly owned sites for infill housing than small-metro counties. However, tourism-based counties, apart from Brunswick, which is experiencing rapid growth, have few opportunities for this housing type, probably due to high demand for single-family lots to accommodate vacation rentals.

Single-Family Preservation

Single-family homes are the most common housing option among very low-income renters earning less than 50 percent of AMI in both urban and rural counties. To estimate opportunities for rehabilitating and preserving naturally affordable single-family units, DFI identified portfolios of

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Table 3. Total Potential Single-Family Opportunities for Rehabilitation and Preservation by County Group

County Group	Housing Units for Single-Family Preservation	Unique Owners	Median Year Built
Hazard prone	5,600	278	1970
Rural	1,700	88	1982
Small metro	9,600	333	1983
Urban	16,000	528	1978
Tourism based	2,000	132	1985
Total	**34,900**	**1,359**	

rental properties valued below the county's median. In total, nearly 35,000 units were identified as potential opportunities for single-family rehabilitation. More information about each county group is shown in Table 3.

Mobile Home Relocation

Approximately thirty mobile home parks across the twenty-three MID counties are in the 100- or 500-year flood zone or located in areas previously flooded during Hurricanes Matthew and Florence. There are limited opportunities for relocating mobile home parks to sites outside of the flood zone within the same county. Across all county groups, there are few undeveloped sites zoned for mobile home parks. When undeveloped sites with permitted uses were identified, they were rarely large enough to support the same density of parks exposed to flood hazards.

Estimating the Level of Gap Funding Required to Make Development Financially Feasible

Developing affordable housing for LMI households requires addressing shortfalls in the development budget due to lower operating income, as well as navigating hurdles to securing capital and reacting to market shifts such as rapidly rising construction costs. (See Appendix D for a detailed description of the challenges of financing the development or preservation of affordable housing.) For a development to be financially feasible, the developer must have access to capital to cover the cost of construction and operations.

CDBG-DR is well suited to fund housing development and ensure affordability for LMI households over the long term. However, to maximize the impact of this finite resource, CDBG-DR in this analysis is used to fill the financial gap only after loans and other equity sources have been exhausted. It is critical to note that markets can shift rapidly, and the cost increases observed in 2020 and 2021 alone demonstrate that NCORR and its partners should update financial assumptions quarterly to accurately reflect costs.

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Table 4. Assumed Minimum Control Periods

Condition	Period (years)
Rehabilitation or acquisition of existing housing is under $15,000 per unit	5
Rehabilitation or acquisition of existing housing is $15,000–$40,000 per unit	10
Rehabilitation or acquisition of existing housing is over $40,000 per unit or rehabilitation involves refinancing	15
New construction or acquisition of newly constructed housing	20

The deployment of CDBG-DR is constrained by federal regulations and state policy. NCORR provided DFI with the following parameters for the use of CDBG-DR:

- Funds must be deployed by 2026.
- No program income can be earned.
- Construction and rehabilitation must be prioritized over efforts to build local development capacity.

In addition, minimum control periods for affordability were assumed, as described in Table 4.

DFI's financial models assume that multifamily-housing projects would access debt products designed for affordable housing production, such as the HUD 221(d)4 and USDA Rural Development 515 loan programs. Additionally, "impact" equity is assumed to be available at below-market returns, which could take the form of cash, land, deferred development fees, or other forms, depending on the housing type and developer.

While additional funding sources may be available through state or local governments or through regional foundation grants that could further leverage CDBG-DR investment, these sources are not reliably offered and were not considered for this analysis. Therefore, this analysis relies on established and consistent funding sources, such as HUD 221(d)4 and USDA Rural Development 515 loans, instead of potential one-time allocations by public or charitable partners.

Several cities within the MID counties, including Fayetteville, Goldsboro, Greenville, Jacksonville, New Bern, Rocky Mount, and Wilmington, are entitlement communities that receive HOME Investment Partnerships and CDBG funds directly from HUD. Additionally, predevelopment work conducted with a local government partner could introduce additional funding sources and cost savings.

Table 5 lists the key variables that affect the funding gap across the five groups.

Table 5. Factors that Influence Development and Operating Costs

Development Costs	Operating Costs
• Hard costs (materials and labor)	• Maximum affordable rents
• Land value	• Utility costs
• Maximum density	• Capitalization rates (or *cap rates*)
• Permitting costs	

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The financial gap and access to capital for affordable housing development are affected by key variables, including location and housing type. Dense multifamily developments in urban areas and small metros generally have a smaller funding gap and more access to capital, whereas lower-density and scattered-site development in rural and hazard-prone areas may face significant gaps due to lower rents, higher expenses, escalating costs, and risk-averse capital providers.

In the case of single-family renovations, potential portfolio size varies by location. Tourism-based counties may have fewer and smaller portfolios of single-family rentals that house LMI households. To estimate the cost of rehabilitation, DFI assumed that these homes require moderate renovations to meet CDBG-DR rehabilitation standards. The portfolio approach also assumes that current property owners act as developers and that there are no additional acquisition costs. However, local governments may convey property at no cost, provided they adhere to affordability requirements,[2] to a nonprofit or private development partner or to an existing reputable landlord.

The amount of CDBG-DR needed to build 1,000 units in an urban center would be roughly $59 million, compared with $105 million in a hazard-prone county if development were limited only by funding. However, delivering 1,000 new units in hazard-prone areas by 2025 would be not just more expensive but also unlikely due to the lack of suitable sites and community partners. Moreover, using CDBG-DR extends the timeline for development because the environmental review and financial closing take an estimated three to six months longer than traditional housing development. Therefore, when considering potential ways that NCORR could allocate its CDBG-DR funding, a range of feasible scenarios is possible, based on the availability of funding and constraints such as available land and partner capacity. The following scenarios are illustrative:

1. NCORR could spend a maximum of $315 million on rental housing if it focused exclusively on new construction and distributed funds equally across the five groups to build roughly 3,700 units by 2026.
2. NCORR could likely distribute a maximum of approximately $57 million for 475 new-construction units in hazard-prone counties.
3. NCORR could distribute roughly $86 million for 1,400 units in urban centers.

These scenarios assume that NCORR follows the strategies to deploy funds described in the next section. However, the benefit is significantly reduced in rural, hazard-prone, and tourism-based counties if NCORR chooses to release funds without providing additional support to address barriers at the local level. As illustrated in the next section, the impact of a $20 million CDBG-DR investment varies greatly depending on the approach employed and the technical assistance provided at the local level.

To assist NCORR with decision-making and evaluating the key findings above, DFI created and delivered an impact dashboard to NCORR. The dashboard estimates the number of units deliverable within each group given a certain funding amount for new construction or preservation.

2. Tyler Mulligan, "Local Government Support for Privately Owned Affordable Housing," *Community and Economic Development* (UNC School of Government blog), May 16, 2022, https://ced.sog.unc.edu/2022/05/local-government-support-for-privately-owned-affordable-housing/.

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Strategies to Deploy Funds

The development feasibility analysis highlights the need for NCORR to employ multiple strategies to effectively allocate funds in the twenty-three counties.

In areas with investment-ready opportunities where need, sites, development capacity, and capital converge, NCORR can adopt a *reactive approach*. That is, NCORR will be able to maximize the impact of its investment by designing an RFP process that emphasizes its priorities, and NCORR can expect an adequate response from development partners.

In cases where an area or housing type lacks developer capacity or suitably zoned sites, a *proactive approach* will be necessary to stimulate development at a scale that can achieve NCORR's goals. One effective proactive method of attracting private housing development to underserved areas is to support a predevelopment process led by a local government or nonprofit organization. This process entails working with a local government to package and prioritize publicly owned sites for development and attract experienced development partners. Since local governments control many of the levers that can help expand development potential, they can serve as excellent partners for a proactive approach. The following are proposed strategies for each housing type.

Development of New Multifamily

To effectively deploy funds for new multifamily development, NCORR will need to use a combination of reactive and proactive approaches, based on the county group.

Reactive Approach in Hazard-Prone, Small-Metro, and Urban Counties

In hazard-prone, small-metro, and urban county groups, there are sufficient multifamily-development opportunities to enable a reactive approach. NCORR can therefore issue an RFP for gap funding on 4 percent LIHTC deals or partner with NCHFA to administer a "piggyback" program for gap funding on 4 percent LIHTC applications received by NCHFA. A piggyback program would allow projects seeking a volume-cap allocation in a MID county to access gap funding through a single application process.

Additional NCORR goals can be achieved by stating clear preferences in the RFP or application process while being careful not to impose additional requirements that may increase the funding gap. For example, preference could be afforded to proposals that include

- deeper affordability targeting lower-income households using the same amount of proposed funding;
- less gap funding requested due to
  - local government participation, such as
    - conveyance of property at no or nominal cost,
    - reduced permitting fees, or
    - infrastructure investments, or
  - a location in a qualified census tract or difficult development area, which qualifies for a tax-credit basis boost; or
- forming a partnership with a local nonprofit developer that is currently ineligible to apply for LIHTC due to insufficient experience with LIHTC.

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Proactive Approach in Rural and Tourism-Based Counties

Due to local zoning regulations or limited infrastructure, suitable sites are lacking in rural and tourism-based county groups. To address this issue, NCORR could engage an expert partner to conduct a predevelopment process in collaboration with local governments.

Development of New Single-Family and SMMF

Single-family and SMMF development is a priority in hazard-prone, rural, small-metro, and tourism-based counties. A proactive approach is required to achieve this development because these counties lack developer capacity for those housing types. NCORR could therefore engage an expert partner to conduct a predevelopment process in partnership with the local government. For SMMF development, the predevelopment process could focus on new construction and the conversion of motel and office properties into residential use, depending on the opportunities available in each community.

Preservation and Rehabilitation of Single-Family

A reactive approach is adequate for rehabilitating and preserving single-family rentals in all twenty-three counties, but effectively deploying funds for this housing type requires the participation of private landlords. Accordingly, targeted outreach to landlords will be essential.

NCORR could establish a grant program for renovation of single-family rental portfolios, whether the housing in those portfolios has existing affordability restrictions or not. As a condition of receiving funding, of course, affordability restrictions would be imposed. The program could prioritize participants in NCORR's HOPE rental-assistance program and nonprofit owners with an established history of assisting LMI households. The HOPE program aided over 80,000 LMI renter households by providing direct rental assistance and established a network of potentially cooperative landlords. A successful program would require outreach to landlords to inform them of benefits and requirements of the program. Housing authorities could help connect NCORR with landlords who accept housing-choice vouchers.

Preservation and Rehabilitation of SMMF and Expiring LIHTC Multifamily

Preservation of SMMF and expiring LIHTC multifamily is a priority in small-metro and urban counties. A reactive approach is adequate. NCORR can issue an RFP for gap funding to renovate existing SMMF properties and expiring LIHTC multifamily properties that currently house LMI households.

Preference could be given to proposals that include

- units in urban counties and small metros with expiring subsidies, including LIHTC;
- units that accept housing-choice vouchers; or
- commitments to affordability that exceed HUD's requirement of fifteen years.

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Table 6. Estimated Number of Units Produced or Preserved by Equally Distributing Public Investment across All MID Groups

	$20 Million	$100 Million
New construction		
Reactive only	75	1,000
Reactive and proactive	370	1,150
50% new construction and 50% preservation		
Reactive only	275	1,035
Reactive and proactive	500	1,300

Table 7. Estimated Number of New Units Produced by 2026 Based on Funding Allocation, Using Reactive and Proactive Approaches Together

Allocation	$20 Million	$100 Million
100% hazard prone	180	475[a]
100% urban	295	1,350[a]

[a]Estimated maximum production by 2026 is limited by factors other than funding, such as availability of sites and developer capacity.

Impact of Each Strategic Approach

The strategic approach taken will significantly influence the number of units produced and preserved in the MID counties. Table 6 demonstrates how the impact of CDBG-DR will vary based on whether NCORR releases funds exclusively through a reactive approach or whether it also applies strategic proactive approaches. By implementing proactive measures such as predevelopment partnerships with local governments and nonprofit developers for new construction, and outreach to private landlords for single-family rental preservation, NCORR could produce and preserve more units overall.

The table also demonstrates how a greater number of households would potentially benefit from the funding of both new construction and preservation. However, the advantage of allocating resources exclusively to new construction is that it would lead to a greater increase in the housing supply.

Table 7 illustrates how the outcomes would differ for two county groups, even when implementing all of the "strategies to deploy funds" described above. Additionally, regardless of the approach taken, even high-producing counties will eventually reach a limit before the 2026 deadline due to the limited availability of sites and developer capacity.

The way in which funds are distributed will affect the extent to which CDBG-DR can be used to produce and preserve housing units in the twenty-three MID counties. It is important to recognize that not all counties recovering from Hurricanes Matthew and Florence have the same potential for development. Certain limitations cannot be addressed in the short term, such as the availability of suitable sites and development capacity. To address these limitations, long-term strategies are required.

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Long-Term Strategies for MID Counties

The recommendations presented in this report are designed to accommodate NCORR's short timeline for distributing funding related to Hurricanes Matthew and Florence. However, NCORR may wish to consider some additional strategies that require a long-term view.

Opportunities to Reduce Costs and Increase Leverage of Local Assets

Between January 2020 and July 2022, material costs in North Carolina rose an estimated 20–35 percent, depending on the region.[3] The cost of land for new construction and the cost of acquiring existing single-family homes for rehabilitation has also risen as demand has escalated.

Many employers are recognizing the effect that a lack of housing availability and affordability has on their ability to attract and retain employees. These employers seek solutions but are unsure how best to use their resources. NCORR can support the following activities that do not directly affect projects today but can potentially mitigate costs in the long run.

Continue to Explore Alternative Construction Methods

To leverage recovery dollars across each county and combat rising material prices, NCORR could look for alternative construction methods that may help reduce soft and hard construction costs.

Many new construction techniques focus on standardization. Although each housing type faces unique challenges, NCORR and contractors could develop a plan to standardize and simplify design and streamline construction across all projects. NCORR has already pioneered a standardized construction model for its homeownership programs, so it could replicate that approach by providing standard designs for the development of single-family and SMMF rental units.

NCORR could also support research to understand the efficacy of alternative construction materials and methods. Some methods, such as modular construction, are increasingly used across the country but have not been widely adopted in North Carolina.[4] Innovative construction methods used for disaster recovery in other states include repurposing shipping containers and 3D printing smaller single-family homes. But local-level barriers such as general-contractor capacity and building codes have made it difficult for advancements in the construction industry to take root. NCORR, as an institutional market participant, is well positioned to identify solutions and provide resources to support the expansion of proven alternative methods that may reduce costs, increase the speed of development, and improve the energy efficiency of housing development.

While the call for faster and more affordable construction is common, NCORR should be prepared to explain and potentially demonstrate the cost-saving benefits of these construction methods to city and county officials. NCORR could provide training to local building inspectors on the modular-construction process to avoid inspection delays and facilitate updates to building codes.[5] Moreover, NCORR could seek partnerships with contractors who are willing to employ nontraditional construction approaches.

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3. RSMeans (2020 Q2–2022 Q4; accessed March 2022), https://www.rsmeansonline.com/, data on file with author.

4. See James Wilson, *Design for Modular Construction: An Introduction for Architects* (American Institute of Architects, n.d.), accessed May 18, 2023, https://content.aia.org/sites/default/files/2019-03/Materials_Practice_Guide_Modular_Construction.pdf.

5. Jared Brey, "Can New Construction Methods Lower the Cost of Housing?" *Shelterforce*, October 19, 2021, https://shelterforce.org/2021/10/19/can-new-construction-methods-lower-the-cost-of-housing/.

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Foster Partnerships with Local Hospitals and Businesses to Invest in Projects

Eastern North Carolina has a wide range of institutions and businesses that recognize the need for additional investment in housing for individuals repeatedly displaced by disasters. But these potential partners generally lack development expertise, and therefore may not know how best to deploy their resources. With a bird's-eye view of the region's housing needs, potential projects, and interested investors, NCORR is well positioned to bring regional partners together to establish a housing development fund or to match potential investors with local projects.

Increase Capacity of Local Partners

Capacity is lacking in all MID counties where construction of new single-family and new SMMF is needed. To address this concern over the long term, there are several possible approaches. First, to provide a foundation for local expertise and sustain it over time, NCORR could work with partners to ensure that recurring annual funding is available in the MID counties for scattered-site development. Second, NCORR could overcome the perception of local partners that federal funding is difficult for developers and landlords to use by deploying experts to train potential development partners and landlords who are interested in working with federal funding. Third, NCORR could employ social capital strategies to maintain a strong network of development partners, local governments, and other organizational stakeholders in the periods between emergencies, making it simpler and quicker to mobilize once an emergency occurs.[6] Social capital can be developed among existing federal partners such as Community Housing Development Organizations that receive funding through the HOME Investment Partnerships program and community action agencies that receive funding through the Community Service Block Grant program and often have experience with single-family rehabilitation and weatherization programs.

Opportunities to Expand Suitable Sites in Rural and Tourism Areas

Land is a relatively abundant resource in rural areas, but zoning and infrastructure limit opportunities for multifamily-housing development. By comparison, competition for developable land in coastal tourism-based communities often drives up prices beyond what is feasible for affordable housing developers. To expand the availability of sites suitable for affordable housing development in these unique environments, local-level solutions are needed.

Engage Experts to Determine How Local Zoning Could Enable More Affordable Housing Development

Even when a site is large enough and connected to adequate infrastructure to support multifamily housing, affordable housing developers may be unable or unwilling to take on the project if a lengthy rezoning process is required.

Local governments without experience in permitting multifamily developments may not fully understand how their zoning ordinances restrict the feasibility of this type of development in their communities. Regional experts, like regional councils of government, could assist local governments by reviewing how their local zoning ordinances affect multifamily development and providing recommendations for changes.

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6. Rick Morse, "The Primacy of Social Capital for Community Resilience," *Community and Economic Development in North Carolina and Beyond* (UNC School of Government blog), June 2, 2023, https://ced.sog.unc.edu/2023/06/the-primacy-of-social-capital-for-community-resilience/.

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Increase Landlord Participation in Rehabilitation Programs through Consistent Outreach

Addressing the deterioration of single-family rental homes that are already naturally affordable requires ongoing and meaningful outreach to landlords. In 2020, NCORR developed a robust landlord-engagement initiative through the HOPE program, which aided over 80,000 LMI renter households by providing direct rental assistance. NCORR could build on this engagement with private landlords by piloting a rehab-loan program designed to preserve the quality and affordability of units served through that program.

Local governments could be partners. State law empowers local governments to establish minimum housing codes to set habitation standards for local housing stock, but enactment is not mandatory.[7] Thus, it is not surprising that seventy-three counties in the State have not enacted such codes at the county level as of 2021.[8] Without a minimum housing code, a local government cannot require landlords and property owners to address deferred maintenance until the housing has become "especially dangerous to life."[9] This is particularly important in rural counties where housing quality is among the most significant challenges facing LMI renters. NCORR could employ a carrot-and-stick approach in partnership with local governments: the stick could be enforcement of minimum housing codes by local government partners, and the carrot could be NCORR funding for rehabilitation.

Support Critical Investments in Infrastructure

For many rural or hazard-prone counties, deteriorating or limited infrastructure can severely hinder new development. To address this, NCORR could collaborate with local government partners to track necessary infrastructure investments that will support the production of new housing. By identifying high-priority infrastructure projects now, as funds become available, NCORR can more efficiently allocate resources to support the development of affordable housing.

Create a Land-Banking Program where an NCORR-Related Group Acquires Properties in Areas with High Distress

In the wake of a disaster, communities are left with an inventory of vacant, abandoned, and dilapidated properties. These properties, if left alone, exert a blighting influence on their neighbors, stifling development, lowering property values, and preventing neighborhoods from completing their recovery. A proactive approach is required to address these problem properties. A "land bank" approach, often used to address problem properties in distressed urban areas,[10] could be applied as a disaster recovery tool.

A land bank is not a financial institution. Rather, it is a governmental or quasi-governmental entity that engages in systematic acquisition of troubled properties, stabilizes them, and then

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7. Chapter 160D, Section 1201, of the North Carolina General Statutes (hereinafter G.S.).

8. Korie Dean and Taylor Buck, "Thousands without Adequate Plumbing Could Be Helped by Minimum Codes," *Carolina Public Press*, February 23, 2021, https://carolinapublicpress.org/42729/thousands-without-adequate-plumbing-could-be-helped-by-minimum-codes/.

9. C. Tyler Mulligan and Jennifer L. Ma, *Housing Codes for Repair and Maintenance: Using the General Police Power and Minimum Housing Statutes to Prevent Dwelling Deterioration* (Chapel Hill: UNC School of Government, 2011), 5–8; G.S. 160D-1119.

10. Frank S. Alexander, *Land Banks and Land Banking*, 2nd ed. (Flint, MI: Center for Community Progress, 2015), https://communityprogress.org/wp-content/uploads/2021/08/2015-06-Land-Banks-and-Land-Banking-2-Publication.pdf.

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holds or disposes them in pursuit of a transparent and achievable strategy. These activities require substantial dedicated resources for several reasons. First, the mere acquisition and stabilization of property requires a significant amount of up-front capital. Second, the process of developing and executing an acquisition strategy often requires sophisticated analysis of tax parcel and real estate data. Third, the process of acquisition, stabilization, monitoring, and disposition requires attentive, knowledgeable, and capable staff. Should NCORR wish to serve as a land bank, the effort would need to be properly staffed and resourced.

North Carolina local governments could serve as a partner in this effort, with appropriate funding from NCORR. A municipality or county can approximate the powers of a land bank by cobbling together existing statutory powers to establish a land-bank program.[11] A land-bank "program" is distinct from a land bank because true land banks are created through a comprehensive statutory framework with additional powers related to tax foreclosure that are not currently available to North Carolina local governments.

One example of an additional power is the right of a land bank to purchase properties out of tax foreclosure ahead of other bidders. This enables a land bank to acquire properties more quickly and strategically, which halts the blighting influence on the community, allows for aggregation of property, and improves the chances of the property returning to productive use.

NCORR could pursue land-bank legislation to help achieve its disaster recovery goals through a limited grant of authority. Land-bank powers could be restricted, for example, only to areas that were severely affected by a disaster. Should the General Assembly be interested in enacting land-bank legislation, there are multiple examples from other states, and model legislation has been developed by national organizations.

11. Tyler Mulligan, "How a North Carolina Local Government Can Operate a Land Bank for Redevelopment," *Community and Economic Development in North Carolina and Beyond*, March 18, 2014, https://ced.sog.unc.edu/2014/03/how-a-north-carolina-local-government-can-operate-a-land-bank-for-redevelopment/.

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APPENDIXES

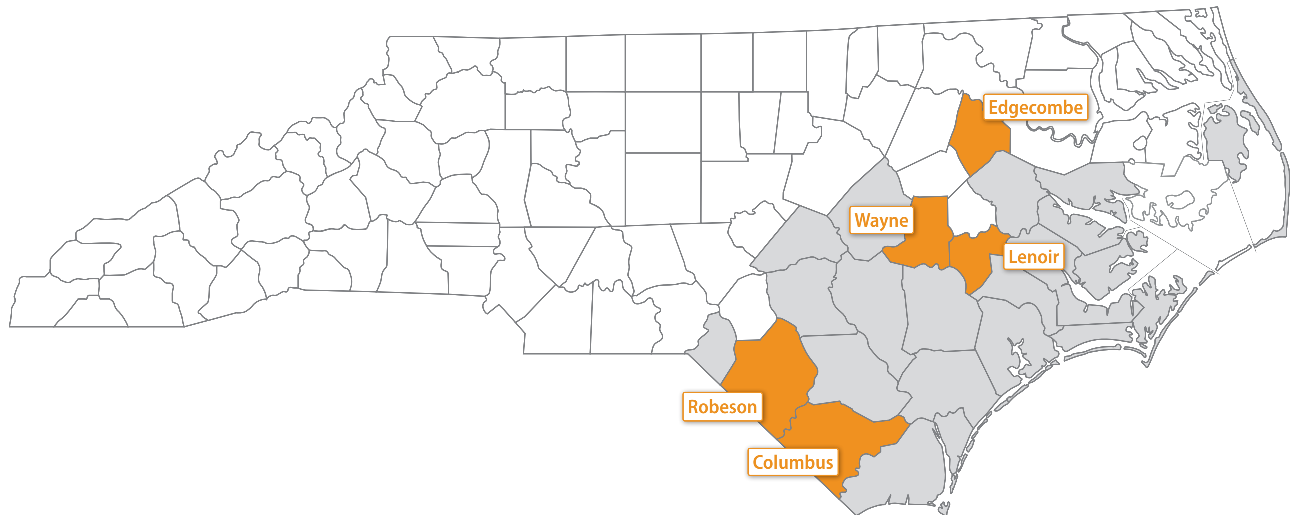
Appendix A. Group Profiles

Group 1: Hazard-Prone Counties

Overview

Group 1 includes the hazard-prone counties that have experienced repeated and significant flood-related hazards but are not located on the coast. The cities of Lumberton in Robeson County, Kinston in Lenoir, and Goldsboro in Wayne, and the towns of Princeville in Edgecombe and Fair Bluff in Columbus were identified by the State as "severely impacted communities" for Hurricane Matthew.[12] All of these counties, except for Columbus County, could have been classified with group 3 as small metros and micropolitan areas. However, these counties were placed in a separate group because they are growing at a slower rate and have median incomes and poverty rates more comparable to predominantly rural areas.

Figure A.1. Hazard-Prone MID Counties



12. NCORR, *Hurricane Matthew CDBG-DR Action Plan* (updated April 2021), 13–14, https://www.rebuild.nc.gov/media/1510/open.

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Table A.1. Summary Demographics for Hazard-Prone Counties

County	Population	Population Change (%), 2009–19	Households	Homeownership Rate (%)	Median Household Income ($)	Poverty Rate (%)
Robeson	132,596	4	45,927	66	34,976	28
Wayne	123,603	9	48,343	62	44,416	20
Lenoir	56,756	0	23,148	59	39,402	23
Columbus	56,068	4	21,580	72	37,628	23
Edgecombe	52,648	0	21,151	59	36,866	24

Sources: US Census Bureau, 2015–2019 American Community Survey 5-Year Estimates, September 2021. Data for population change is taken from US Census Bureau, 2009–2019 American Community Survey 1-Year Estimates, September 2021, https://data.census.gov/.

Housing Needs and Partner Capacity

The hazard-prone counties include Edgecombe, Lenoir, Robeson, Wayne, and Columbus. Although these counties are mostly similar in size and character to small metros, persistent exposure to hazards has influenced population and economic growth so that these areas have a household profile similar to that of rural areas.

Group 1 has 24,000 low-income renter households currently experiencing some form of housing need, 46 percent of which are elderly households.[13] Even though population growth is stagnant in these counties, rents have increased due to a lack of new supply, while the existing supply has deteriorated. The median age of renter-occupied housing units is over thirty-five years old, and 10 percent of the housing stock is vacant and not for sale or for rent. Among these vacant units, 61 percent are single-family homes and 31 percent are mobile homes.

The rents in these counties are comparable to small metros, but the perceived risk of investment in these areas has suppressed the development of residential products in the last ten years. Moreover, local leaders and contractors report a lack of subcontractors in these counties, leading to an increase in costs and limited local construction capacity.

In addition to quality-related challenges, low-income renters are at risk of displacement or further housing-stock deterioration due to flood hazards. Approximately 700 renters making less than $25,000 live in census tracts where over 80 percent of the area is either in the 100- or 500-year flood zone. Flood maps may underestimate the risk faced by renters in these counties. Within group 1 alone, about 2,000 renters making less than $25,000 live in census tracts where over 80 percent of the area experienced flooding in either Hurricane Matthew or Hurricane Florence.

In response to historical flood events, various community partners have taken part in recovery efforts. LIHTC developers delivered an estimated 1,200 rental units in the five counties between

13. *Housing need* is defined in this report as the presence of at least one of four severe housing problems defined by HUD: (1) monthly housing costs (including utilities) exceeding 50 percent of monthly income, (2) more than 1.5 persons per room, (3) lacking a complete kitchen, or (4) lacking complete plumbing facilities. See "CHAS: Background," HUD User (website), Office of Policy Development and Research, accessed June 8, 2023, https://www.huduser.gov/portal/datasets/cp/CHAS/bg_chas.html.

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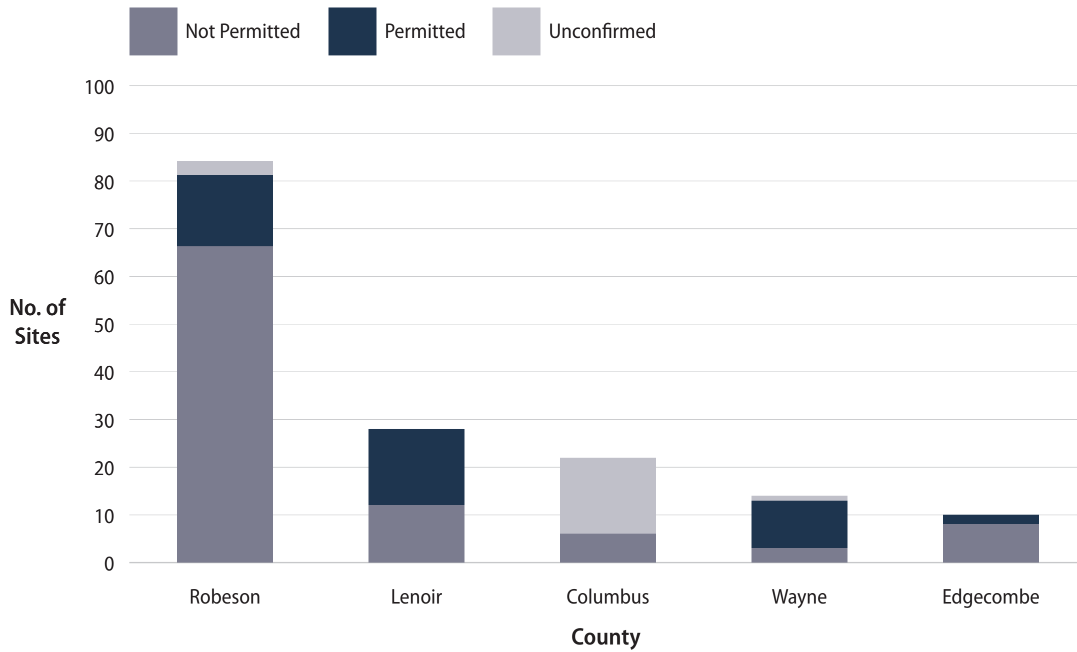
Figure A.2. Privately Owned LIHTC-Competitive Sites in Hazard-Prone Counties (Graph Indicates Whether Multifamily Use Is Listed as a Permitted Use)



2017 and 2021. Like rural areas, however, there are few locally based partners in Columbus, Lenoir, and Robeson that have made long-term investments in affordable rental housing.

Identification of Suitable Sites

Hazard-prone counties exhibit wide variation in the number of suitable sites for developing new rental units and the number of existing units in need of preservation.

Sites for New Multifamily (LIHTC)

Within group 1, Robeson County has the greatest number of sites that meet the criteria set by NCHFA—what are called *competitive sites* in this report (Appendix C provides more detail about the methodology used in this section). Despite having the greatest number of competitive sites, current zoning regulations do not permit multifamily development on 75 percent of them. In Edgecombe, only one of the competitive sites is zoned to allow multifamily development. In Lenoir and Wayne—although each has fewer competitive sites than Robeson—nearly the same number of sites are both competitive and zoned to allow multifamily development.

Multifamily Preservation (Expiring LIHTC)

Nearly 250 LIHTC units in Robeson County will lose their affordability requirements over the next five years, the second-largest stock of expiring units among all MID counties. In the remainder of the hazard-prone counties, there are fewer opportunities for preservation because the LIHTC program has not historically delivered new units in those counties.

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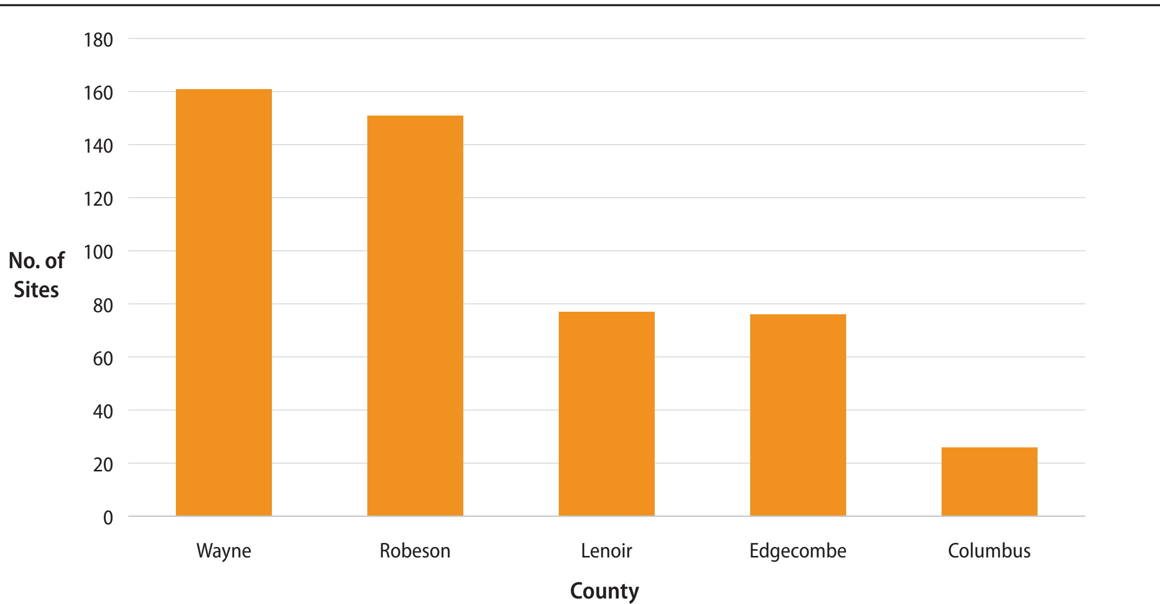
Figure A.3. Publicly Owned Sites Suitable for Single-Family or SMMF Development in Hazard-Prone Counties



New Single-Family and SMMF Rentals

Hazard-prone counties have more publicly owned sites that may be feasible for single-family rental or SMMF rental compared with other county groups. Wayne, Lenoir, and Edgecombe Counties all had more opportunities for infill rental housing than for LIHTC development. Wayne County—which had only fifteen competitive LIHTC sites—had over 150 sites suitable for single-family or SMMF housing.

Single-Family Preservation

An estimated 5,600 rental units occupied by LMI renters are likely in need of rehabilitation. Housing quality was identified as one of the largest challenges facing LMI renters in hazard-prone counties in DFI's housing needs assessment. About 10 percent of that overall housing stock is abandoned or off the market due to distressed physical conditions.

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Group 2: Rural Counties

Overview

Group 2 includes predominantly rural counties characterized by modest household incomes, low population density and high homeownership rates. Although Jones County is technically classified as an "outlying" or "small" metro county by the USDA and Census Bureau due to its proximity to New Bern, it is the least populous MID county, with the lowest density per square mile, and is typically considered rural. The housing stock in these counties is primarily composed of single-family homes and mobile homes.

Housing Needs and Partner Capacity

The rural counties in group 2 include Beaufort, Bladen, Duplin, Jones, Scotland, and Sampson. In many ways, these rural counties resemble the hazard-prone counties.

Group 2 has 13,000 low-income renter households currently experiencing some form of housing need, 49 percent of which are elderly households. While the effective rent in these counties is lower than all other groups, rents in rural areas have also increased steadily even as the population is stagnant or in decline. The comparably low rents relative to the cost of building have suppressed the development of any residential product in recent years. In addition, a lack of subcontractors, as seen in group 1, also extends to these areas; the result is inflated costs and reduced capacity to engage in construction or rehabilitation.

The predominant housing types among low-income renters are single-family homes and mobile homes. Among all MID counties, rural counties have had the fewest new units built over the past two decades and face severe challenges related to housing quality. The median age of renter-occupied units is over thirty-five years old, and 10 percent of the housing stock is vacant and not for sale or for rent.

According to interviews with local housing practitioners, these counties also tend to have less capacity and experience planning for denser housing developments. This can be due to such

Figure A.4. Rural MID Counties

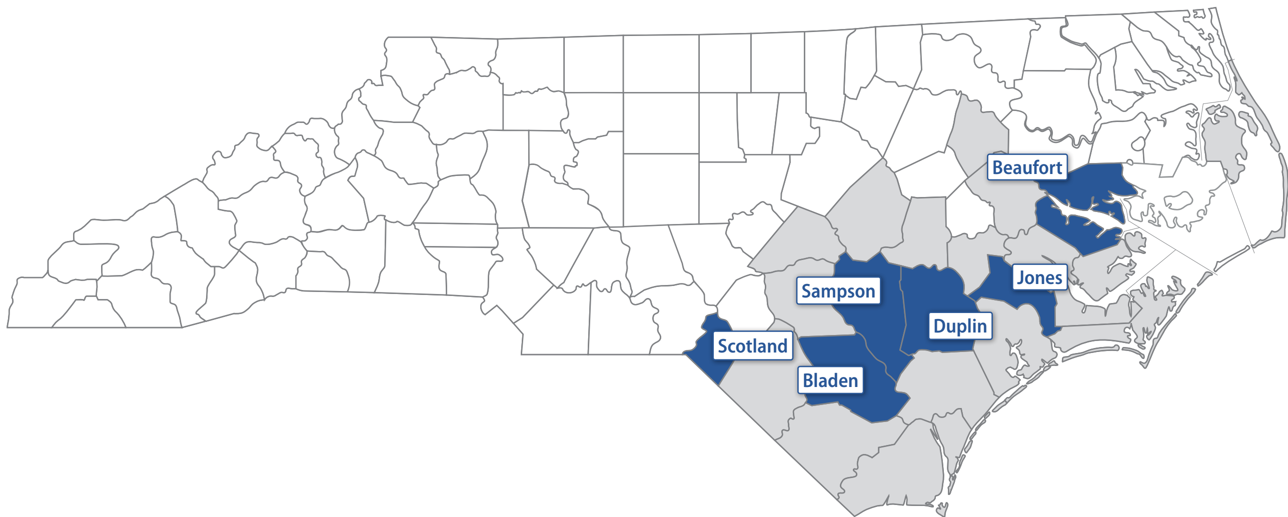

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Table A.2. Summary Demographics for Rural Counties

County	Population	Population Change (%), 2009–19	Households	Homeownership Rate (%)	Median Household Income ($)	Poverty Rate (%)
Sampson	63,385	1	23,416	69	42,151	21
Duplin	58,967	13	21,466	70	41,764	21
Beaufort	47,168	3	19,701	70	45,212	19
Scotland	35,076	-4	12,922	60	37,238	27
Bladen	33,407	3	13,636	71	36,173	24
Jones	9,594	-4	4,045	73	38,158	24

Sources: US Census Bureau, 2015–2019 American Community Survey 5-Year Estimates, September 2021. Data for population change is taken from US Census Bureau, 2009–2019 American Community Survey 1-Year Estimates, September 2021, https://data.census.gov/.

factors as a lack of appropriate zoning regulations, insufficient water and sewer capacity, or general inexperience working with multifamily developers.

Identification of Suitable Sites

Sites for New Multifamily (LIHTC)

Compared with other county groups, rural counties have the fewest sites competitive for 9 percent tax credits. Rural counties have fewer amenities, like grocery stores or pharmacies, that are required to be near any proposed LIHTC development. Jones County, for example, did not have any undeveloped sites with both sufficient acreage to support a multifamily development and proximity to amenities.

Multifamily Preservation (Expiring LIHTC)

Due to weak markets, tax-credit properties reaching the end of their thirty-year affordability period are less likely to convert to market-rate units but are more likely to need additional capital to address deferred maintenance. Among all MID counties, Bladen County had the third-greatest number of LIHTC units (150) nearing the end of their affordability requirements. Other rural counties had fewer opportunities for LIHTC preservation because fewer units were produced under the program thirty years ago.

New Single-Family and SMMF Rentals

Although rural counties have few suitable sites for LIHTC construction or preservation, they have a number of sites that are already owned by a local government and are suitable for single-family infill or SMMF development. Duplin, Sampson, and Scotland each have about eighty publicly owned sites for these housing types—more than most MID counties have. Beaufort and Jones, however, rank near the bottom of counties with suitable sites for single-family and SMMF development.

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Figure A.5. Privately Owned LIHTC-Competitive Sites in Rural Counties (Graph Indicates Whether Multifamily Use Is Listed as a Permitted Use)

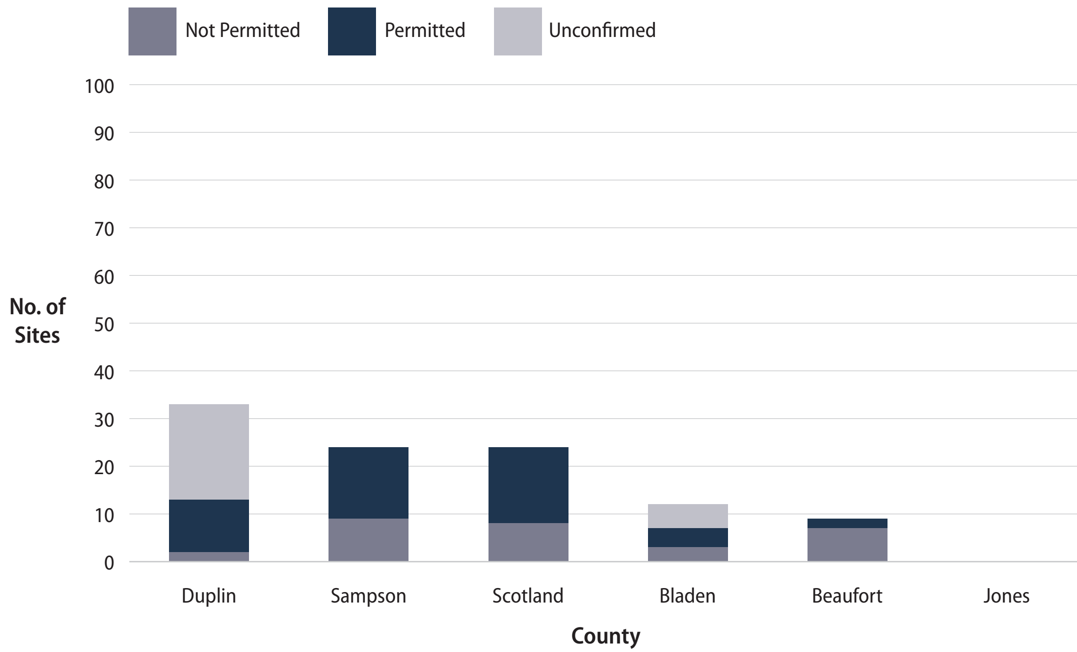
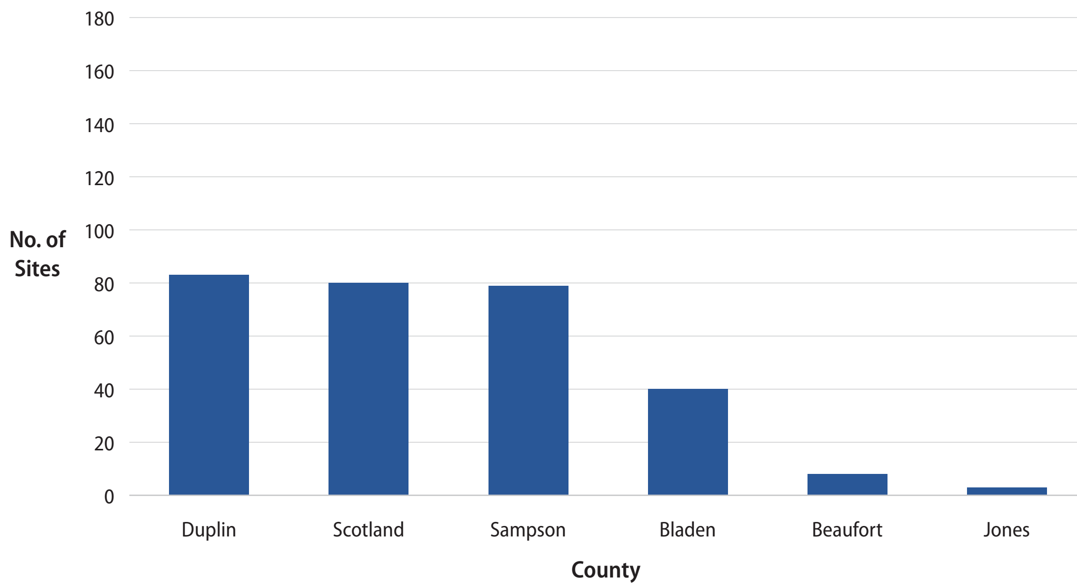


Figure A.6. Publicly Owned Sites Suitable for Single-Family or SMMF Development in Rural Counties



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Single-Family Preservation

As in hazard-prone counties, approximately 10 percent of the housing stock in rural counties are abandoned or off the market due to dilapidation, and the housing stock is older than in other county groups, suggesting a need for resources to preserve the quality of single-family rental housing. Approximately 1,700 rental units, likely occupied by LMI households, are privately owned by landlords and in need of repair.

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Group 3: Small-Metro Counties

Overview

Group 3 small-metro counties contain midsize cities such as Jacksonville in Onslow County, New Bern in Craven County, and Greenville in Pitt County. Most of the communities are growing at a rate that exceeds the state trend of 9 percent, though their populations remain relatively small. They are often described at the state level as being rural, but these communities are technically categorized as small metros or micropolitan by the USDA, US Census Bureau, and US Office of Management and Budget.

Housing Needs and Partner Capacity

The small-metro counties in group 3 include Pitt, Craven, Harnett, and Onslow. These counties typically have midsize population centers surrounded by primarily rural areas.

Group 3 has 37,500 renter households currently experiencing some form of housing need, 40 percent of which are elderly households. The predominant housing type for low-income renters is single-family homes, followed by small multifamily buildings that have between two and nine units. The population in these counties is growing more quickly than in group 1 or group 2. Even as more rental units are built in these counties, the number of units with rents below $700 is in decline.

Like renters in hazard-prone counties, renters in small-metro counties face challenges with flooding. While there are no census tracts in which over 80 percent of the area is within the 100- and 500-year flood zones, about 2,000 renters live in census tracts where over 80 percent of the area saw flooding during either Hurricane Matthew or Hurricane Florence. This suggests that traditional flood maps underestimate the extent of flood hazards in these counties.

Figure A.7. Small-Metro MID Counties

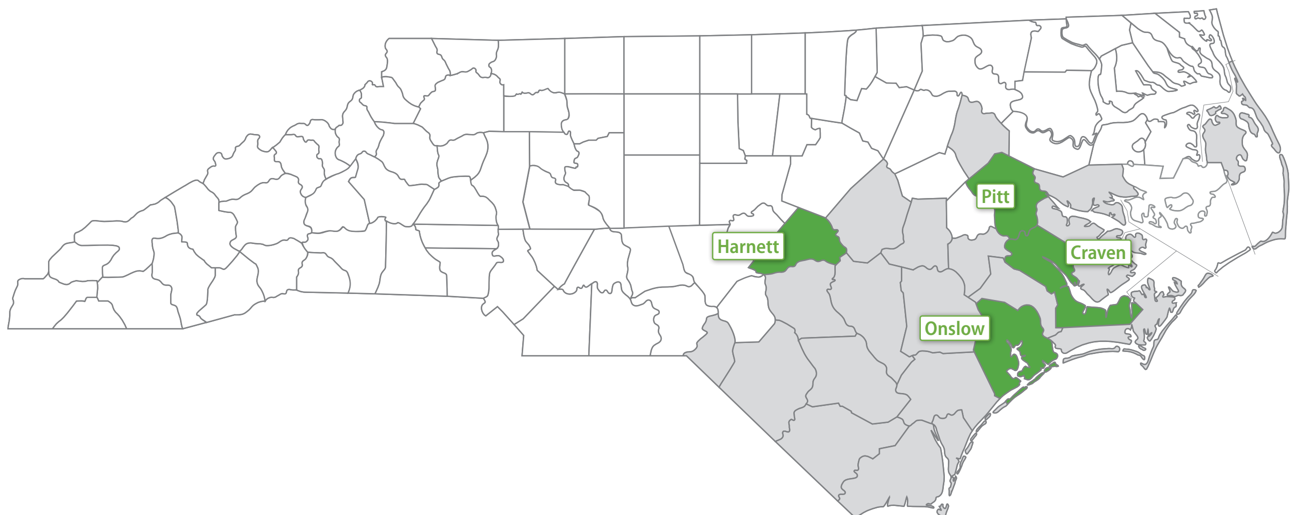

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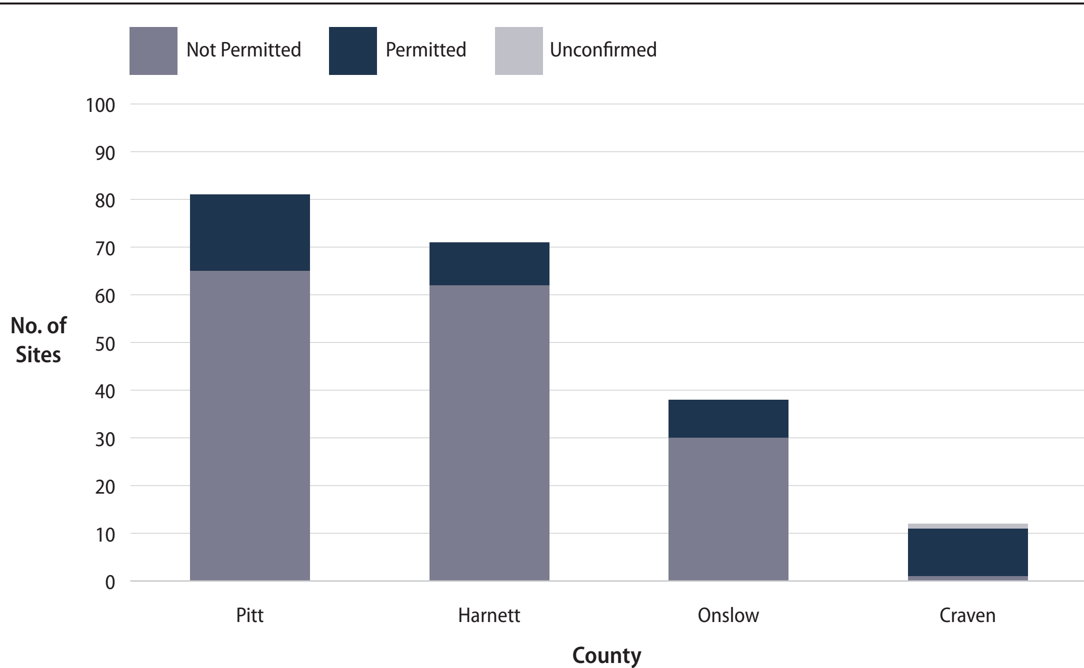
Table A.3. Summary Demographics for Small-Metro Counties

County	Population	Population Change (%), 2009–19	Households	Homeownership Rate (%)	Median Household Income ($)	Poverty Rate (%)
Onslow	195,069	18	64,386	53	50,278	13
Pitt	178,433	17	69,799	52	47,437	23
Harnett	132,283	21	45,416	65	53,554	16
Craven	102,491	6	41,226	63	52,687	15

Sources: US Census Bureau, 2015–2019 American Community Survey 5-Year Estimates, September 2021. Data for population change is taken from US Census Bureau, 2009–2019 American Community Survey 1-Year Estimates, September 2021, https://data.census.gov/.

Figure A.8. Privately Owned LIHTC-Competitive Sites in Small-Metro Counties (Graph Indicates Whether Multifamily Use Is Listed as a Permitted Use)



Identification of Suitable Sites

Sites for New Multifamily (LIHTC)

Small-metro counties have more LIHTC opportunities because of their access to amenities, but there are challenges. In small-metro counties with many tax-credit opportunities, such as Pitt and Harnett, a majority of the potential sites are located in zoning districts where multifamily housing is not permitted. Craven County has a different challenge; despite having nearly as many amenities as other small-metro counties, sites that would otherwise be competitive for 9 percent

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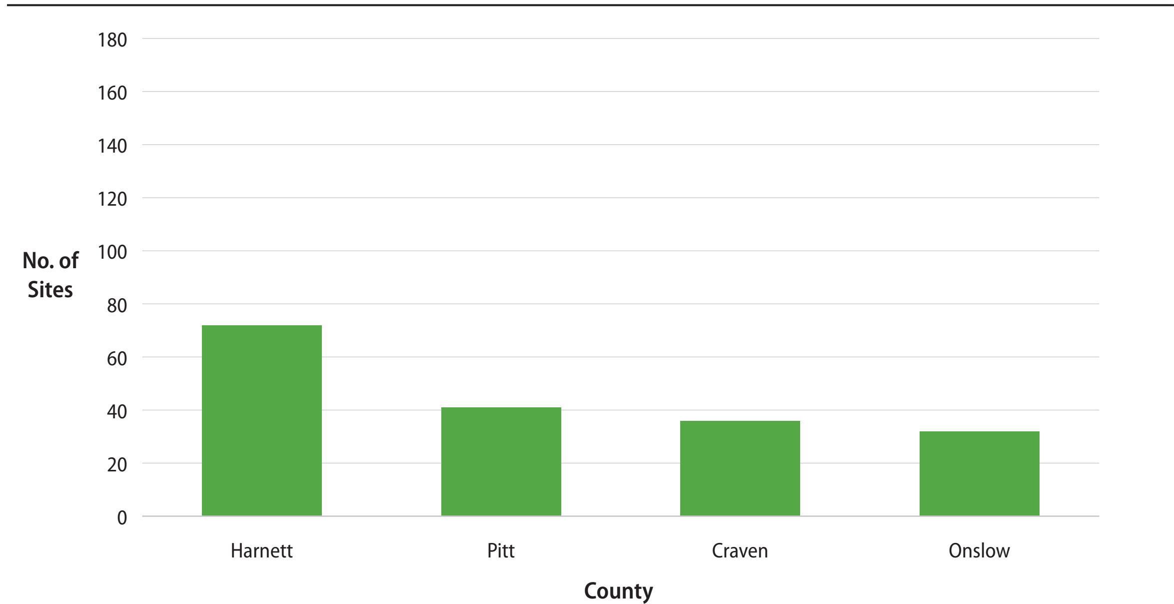
Figure A.9. Publicly Owned Sites Appropriate for Single-Family or SMMF Development in Small-Metro Counties



tax credits were located in the 100- or 500-year flood plain or in areas previously flooded during Hurricane Matthew or Hurricane Florence.

Multifamily Preservation (Expiring LIHTC)

Among the five county groups, small-metro counties have the second-lowest number of LIHTC units reaching the end of their affordability restrictions over the next five years. This is likely due to the LIHTC program's underperformance in these counties in the past. These counties have attracted more LIHTC development in recent years, and therefore opportunities for preserving LIHTC projects will likely emerge after 2030.

New Single-Family and SMMF Rentals

Harnett County has the greatest number of publicly owned sites that are suitable for single-family infill projects or SMMF projects.

Single-Family Preservation

Approximately 9,600 rental units in small-metro counties are owned by large-scale landlords, likely house LMI renters, and are in need of repair.

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Group 4: Urban Counties

Overview

Group 4 includes the three most populous MID counties: Cumberland, New Hanover, and Johnston. This group includes Fayetteville and Wilmington, both of which have grown significantly over the past 10 years. In these urban centers, over 40 percent of the housing units are renter occupied, and multifamily housing makes up a greater share of the housing stock than in most other MID counties. Although Johnston County's homeownership rate is similar to rural areas, it is one of the wealthiest and fastest-growing counties in the state. And although Johnston County does not contain any major cities, due to its proximity to the Triangle, the county is experiencing supply pressures comparable to urban centers across North Carolina.

Figure A.10. Urban MID Counties

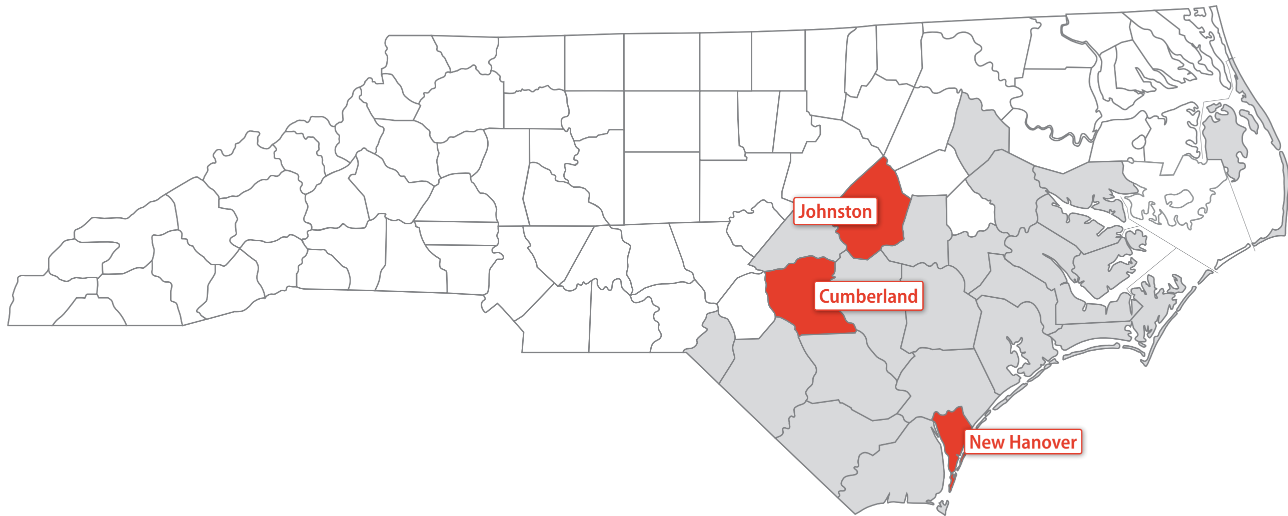

Table A.4. Summary Demographics for Urban Counties

County	Population	Population Change (%), 2009–19	Households	Homeownership Rate (%)	Median Household Income ($)	Poverty Rate (%)
Cumberland	332,861	8	125,427	51	46,875	18
New Hanover	227,938	20	95,638	58	54,891	16
Johnston	196,870	25	68,968	73	59,865	13

Sources: US Census Bureau, 2015–2019 American Community Survey 5-Year Estimates, September 2021. Data for population change is taken from US Census Bureau, 2009–2019 American Community Survey 1-Year Estimates, September 2021, https://data.census.gov/.

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Figure A.11. Privately Owned LIHTC-Competitive Sites in Urban Counties (Graph Indicates Whether Multifamily Use Is Listed as a Permitted Use)

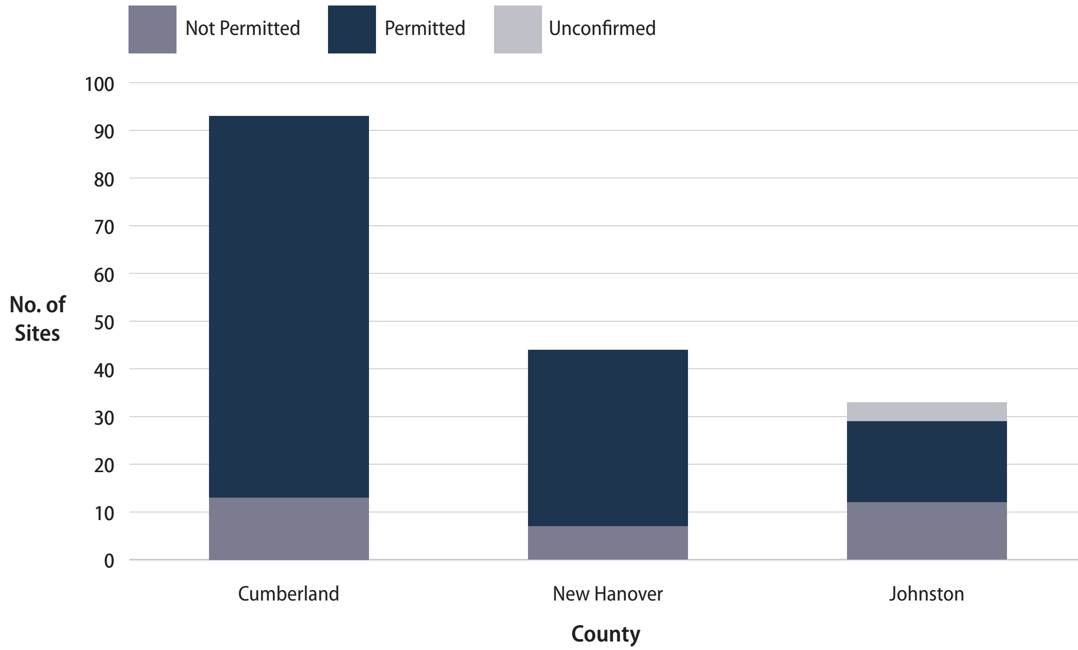
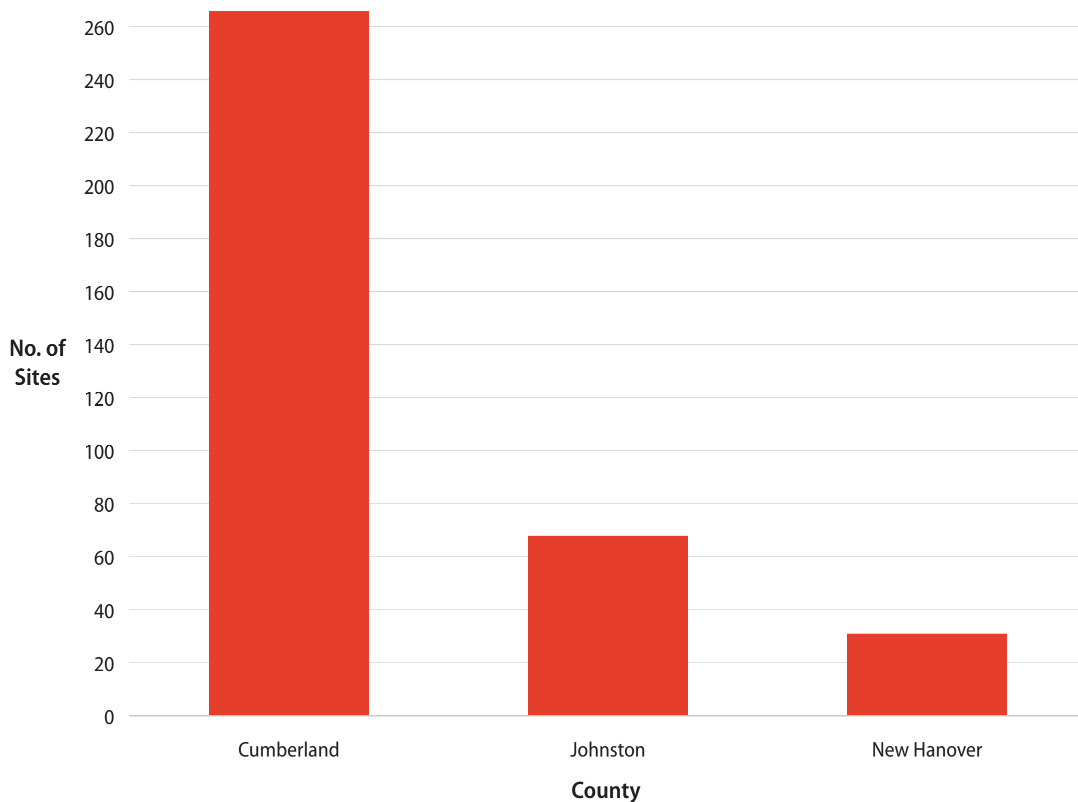


Figure A.12. Publicly Owned Sites Appropriate for Single-Family or SMMF Development in Urban Counties



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Housing Needs and Partner Capacity

Due to the scale of the need in urban areas, new multifamily development is critical to addressing it, as is ensuring that these counties do not continue to lose their existing affordable stock.

Group 4 has 51,000 low-income renter households currently experiencing some form of housing need, 41 percent of which are elderly households. Thirty-nine percent of very low-income renters live in single-family homes. Counties in Group 4 have experienced more population growth than any counties in the other county groups. Rents tend to reflect that population growth, especially in Johnston County and New Hanover County, where rents have increased 27 percent and 20 percent since 2016, respectively. As a result, the number of cost-burdened renters increased between 2015 and 2018. Like group 3, new rental units are being built in these communities, but the number of units with rents below $700 is in decline. Additionally, counties in group 4 will see the greatest number of LIHTC units (approximately 570) reach the end of their income-restriction requirements over the next five years. Units in these counties are more at risk of being converted to market-rate apartments when their affordability restrictions end due to high regional rents.

Affordable-housing subsidies do not go as far in these counties because of persistent increases in the area median income (AMI). The median-income gap between renters and homeowners in group 4 communities is among the largest of the MID counties. As new higher-income homeowners move into these counties, the AMI threshold for what is considered "low-income" increases, allowing higher-income renters to occupy subsidized units and making it more expensive to reach lower-income households.

Identification of Suitable Sites

Sites for New Multifamily (LIHTC)

Urban counties in general have an abundance of amenities, as required by the tax-credit program, but there is wide variation across the counties in the number of competitive sites for 9 percent tax-credit projects. New Hanover County's low number of competitive sites is explained by the relatively low number of undeveloped sites with sufficient acreage to support a multifamily development.

Over 80 percent of competitive sites in Cumberland and New Hanover are located in zoning districts where multifamily use is permitted.

Multifamily Preservation (Expiring LIHTC)

Urban counties have the greatest opportunity for preserving tax-credit projects (about 570 units) because of the program's historic success of delivering units in urban areas.

New Single-Family and SMMF Rentals

Cumberland County is an outlier in the number of publicly owned sites suitable for single-family infill or SMMF development. Most of the sites are small lots owned by the City of Fayetteville that could be packaged as scattered-site single-family rental developments.

Single-Family Preservation

An estimated 16,000 rental units in urban counties (1) are owned by large-scale landlords, (2) likely house LMI renters, and (3) need repairs. Because these counties have the greatest number of renters among all county groups, there are more opportunities for engaging landlords to preserve quality and affordability for LMI renters.

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Group 5: Tourism-Based Counties

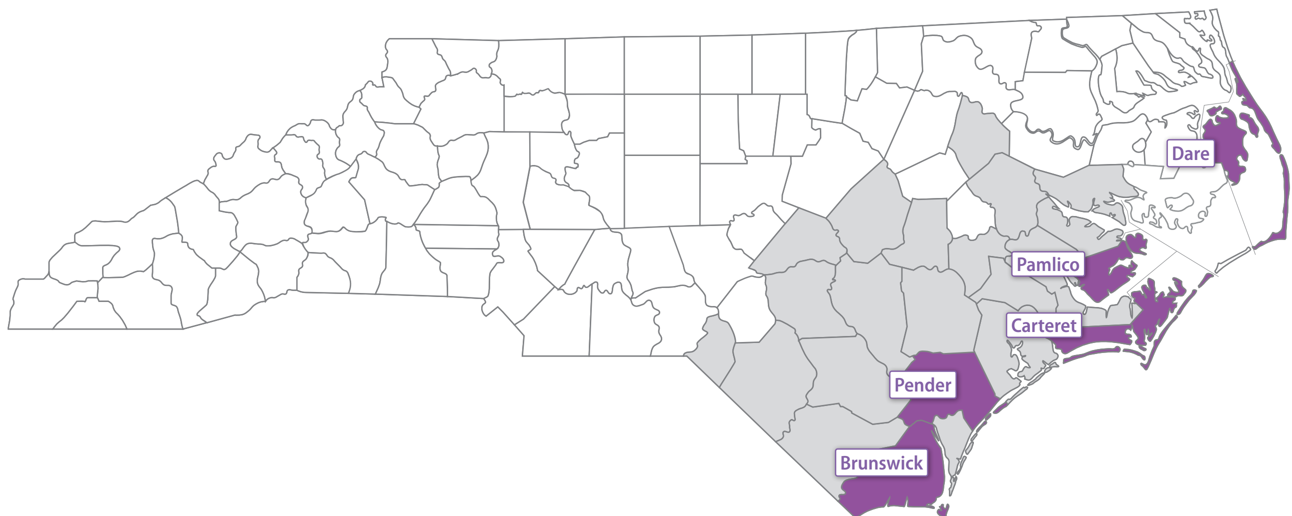
Overview

The tourism-based counties in Group 5 include Brunswick, Carteret, Dare, Pender, and Pamlico. They have been designated "recreation counties" by the US Department of Agriculture, using a weighted index of three measures:

1. wage and salary employment in entertainment and recreation, accommodations, eating and drinking places, and real estate as a percentage of all employment reported by the Bureau of Economic Analysis;
2. percentage of total personal income reported for these same categories by the Bureau of Economic Analysis; and
3. percentage of vacant housing units intended for seasonal or occasional use reported in the 2010 Census.[14]

This group is characterized by high rates of homeownership, including ownership of second homes. Tourism-based counties have relatively low poverty rates but large low-wage workforces. Population growth is inconsistent across these counties, with Brunswick growing at a faster rate than any other MID county and Pamlico more closely resembling a rural county.

Figure A.13. Tourism-Based MID Counties



14. "Documentation," Economic Research Service (US Department of Agriculture) website, updated October 23, 2019, https://www.ers.usda.gov/data-products/county-typology-codes/documentation/.

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Table A.5. Summary Demographics for Tourism-Based Counties

County	Population	Population Change (%), 2009–19	Households	Homeownership Rate (%)	Median Household Income ($)	Poverty Rate (%)
Brunswick	131,815	34	56,056	81	58,236	12
Carteret	69,070	9	29,755	73	57,194	11
Pender	60,399	22	21,740	81	57,240	14
Dare	36,222	7	15,529	63	59,381	9
Pamlico	12,701	2	5,416	59	46,728	13

Sources: US Census Bureau, 2015–2019 American Community Survey 5-Year Estimates, September 2021. Data for population change is taken from US Census Bureau, 2009–2019 American Community Survey 1-Year Estimates, September 2021, https://data.census.gov/.

Housing Needs and Partner Capacity

Group 5 has 11,000 low-income renter households currently experiencing some form of housing need, 52 percent of which are elderly households. As with groups 1 and 2, single-family homes and mobile homes are the predominant housing types among very low-income renters in group 5. Although group 5 counties saw the most building permits issued among all county groups between 2015 and 2019, the number of overall rental units in group 5 has declined over that same period, as has the number of units with rents below $700 a month. Tourism-based communities have the unique challenge of continually losing year-round rental-housing stock to the short-term-rental market, producing the same effect as areas that rarely see new construction. Between 2010 and 2019, the percentage of housing units vacant for seasonal or recreational use increased from 27 percent to 30 percent.

Land availability outside the 100-year and 500-year flood zones is scarce. In addition, land costs are high along the coast. Whenever possible, maximizing density on remaining and appropriate developable land will be important for addressing the significant lack of affordable rental supply.

Group 5 counties tend to lack existing affordable multifamily housing—subsidized or unsubsidized—leaving few opportunities for preservation.

Identification of Suitable Sites

Sites for New Multifamily (LIHTC)

Despite having access to amenities, tourism-based counties struggle with a general lack of undeveloped land that could support a multifamily project. The tax-credit program has been unable to deliver units in these counties due to a challenging environment for development.

Brunswick County is the exception in this group, with the third-highest number of sites competitive for the 9 percent tax credit of all MID counties. This is probably because Brunswick has an abundance of amenities and more developable acreage away from the coastline than other tourism-based counties. It is also an outlier in how these sites are zoned. Brunswick has among the greatest number of competitive sites in zoning districts where multifamily is also permitted.

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Figure A.14. Privately Owned LIHTC-Competitive Sites in Tourism-Based Counties (Graph Indicates Whether Multifamily Use Is Listed as a Permitted Use)

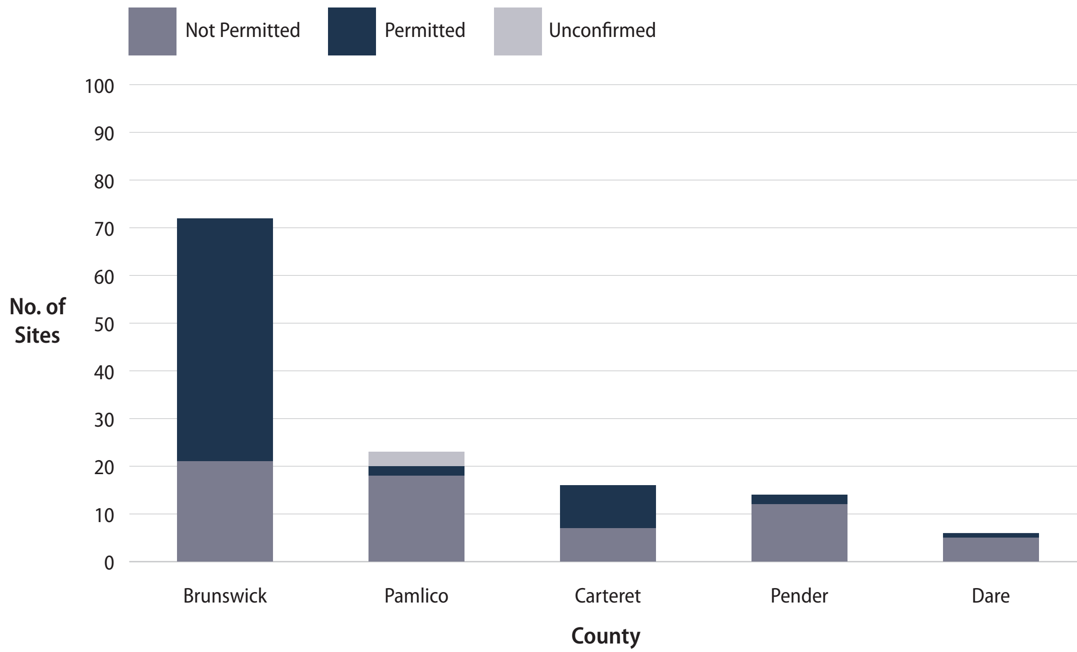
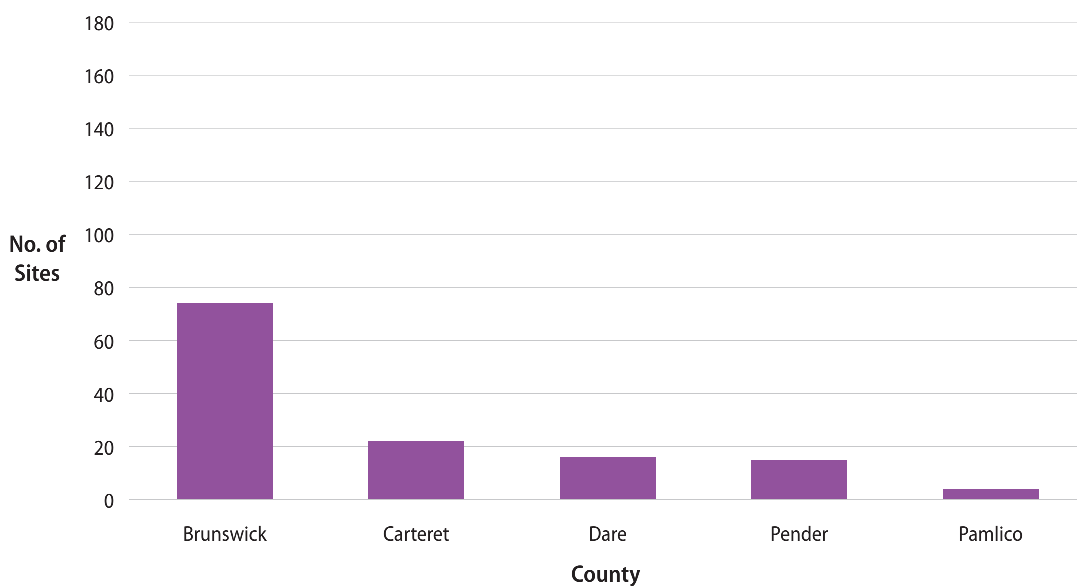


Figure A.15. Publicly Owned Sites Appropriate for Single-Family or SMMF Development in Tourism-Based Counties



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Multifamily Preservation (Expiring LIHTC)

Because the LIHTC program has not historically built units in tourism-based communities, there are limited opportunities (involving less than twenty-five units) for preserving tax-credit projects reaching the end of their affordability period.

New Single-Family and SMMF Rentals

Brunswick County stands out for the number of opportunity sites owned by a unit of local government and suitable for single-family rental infill projects and SMMF projects. Most tourism-based counties have few opportunities for new development outside of the tax-credit program.

Single-Family Preservation

Landlords in tourism-based counties are financially incentivized to convert their units from year-round rentals to seasonal or recreational rentals. As a result, preserving high-quality rental units for year-round tenants on the private market was identified as a major housing need in tourism communities. Approximately 2,000 units were identified as likely housing LMI renters and in need of repairs.

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Appendix B. Comparisons of MID Counties

The following characteristics were evaluated to assess potential county groupings:

- geographic context,
- population size and density,
- household income,
- economic drivers,
- environmental features, and
- data availability.

The graphs in this appendix compare demographic and housing-related data for the twenty-three MID counties. Unless otherwise noted, the graphs use American Community Survey estimates through 2019. These data may reflect the short-term impact of Hurricane Florence in 2018 but will not capture any demographic or economic effects of the COVID-19 pandemic.[15]

15. US Census Bureau, 2015–2019 American Community Survey 5-Year Estimates, (September 2021), https://data.census.gov/. Data for population change is taken from US Census Bureau, 2009–2019 American Community Survey 1-Year Estimates, September 2021, https://data.census.gov/.

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Figure B.1. Population and Median Income by Group

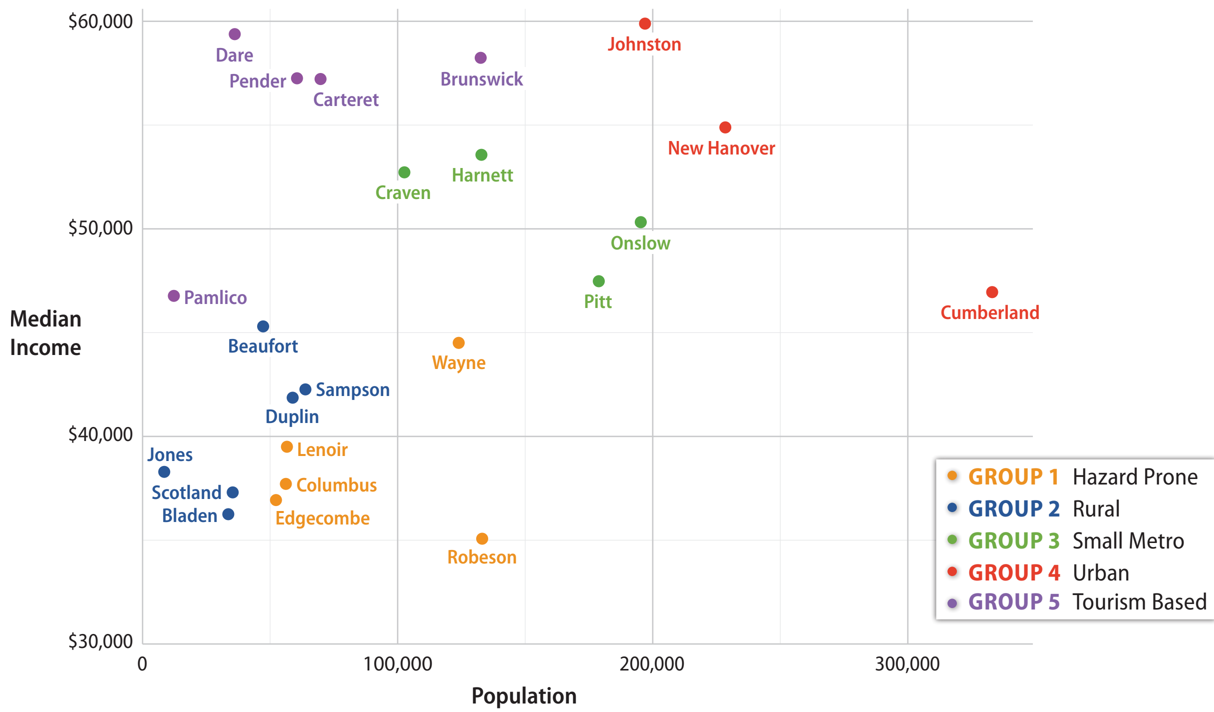
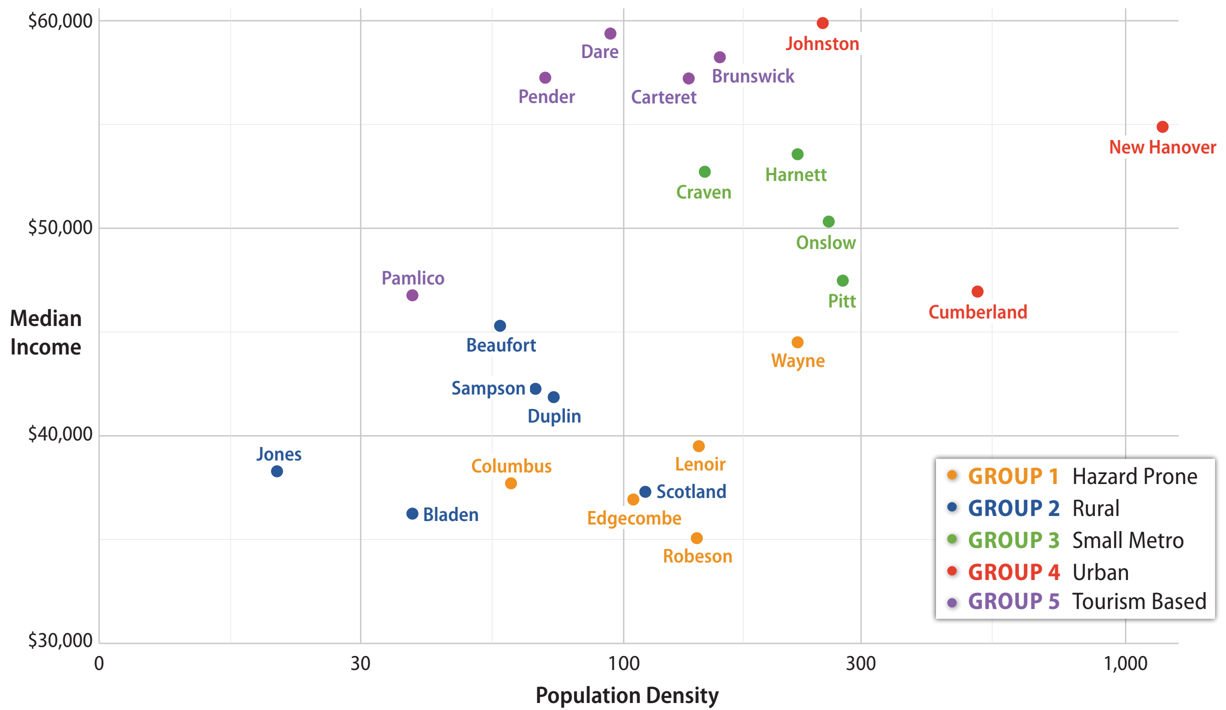


Figure B.2. Population Density and Median Income by Group



Note: Median income is in thousands of dollars. Population density is expressed in persons per square mile, on a logarithmic scale.

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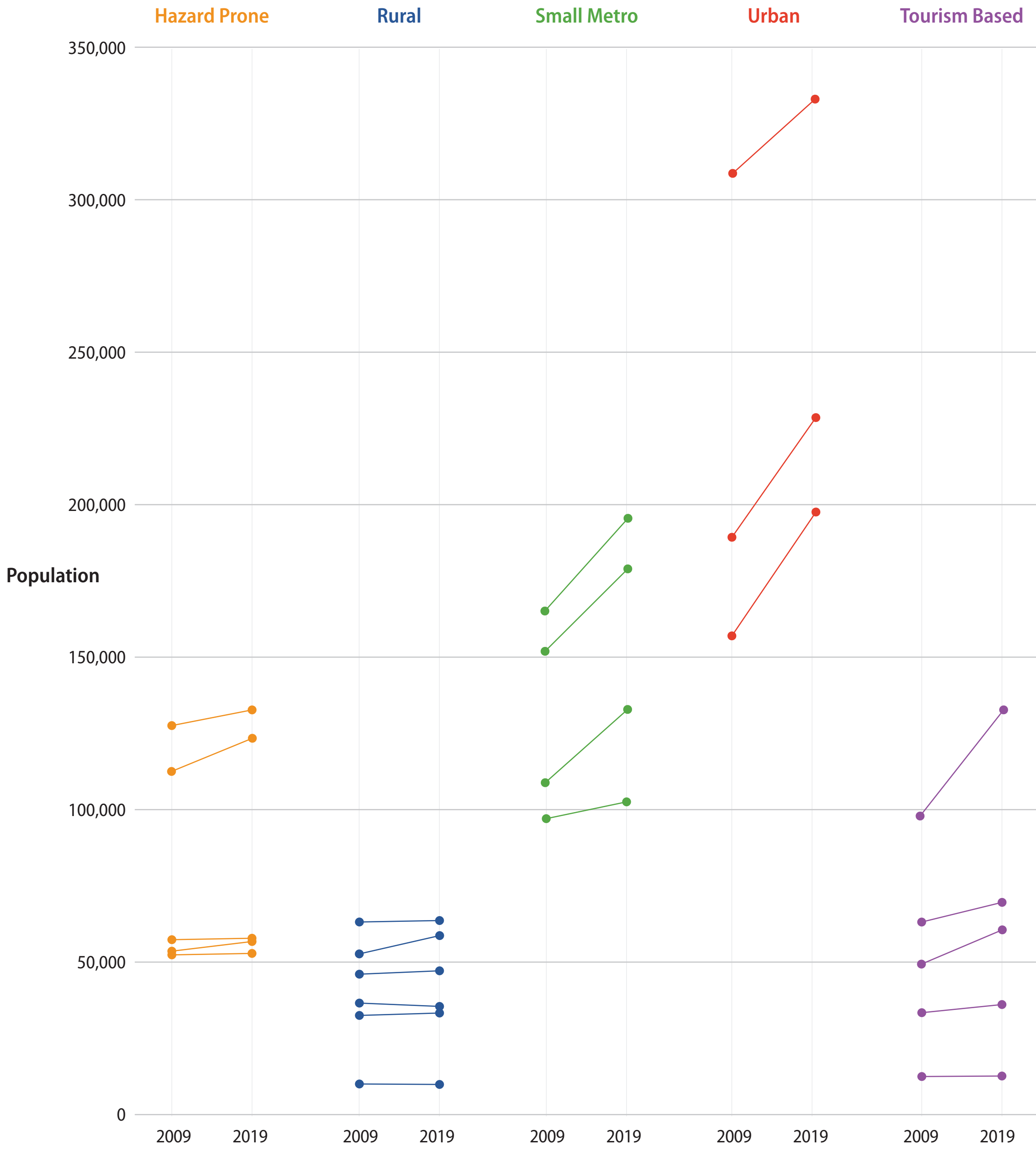
Figure B.3. Population Change in MID Counties, 2009–2019



Note: Each column represents a group and each line within a column is a county in that group. The slope of the line indicates population change over a ten-year period. Lines slope upward to indicate growth and downward to indicate decline. Flat lines indicate no change in population size. The three urban MID counties have grown rapidly, while most rural MID counties show slower growth or declining populations. (Data from US Census Bureau, 2009–2019 five-year estimates.)

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Figure B.4. Homeownership Rate by Group

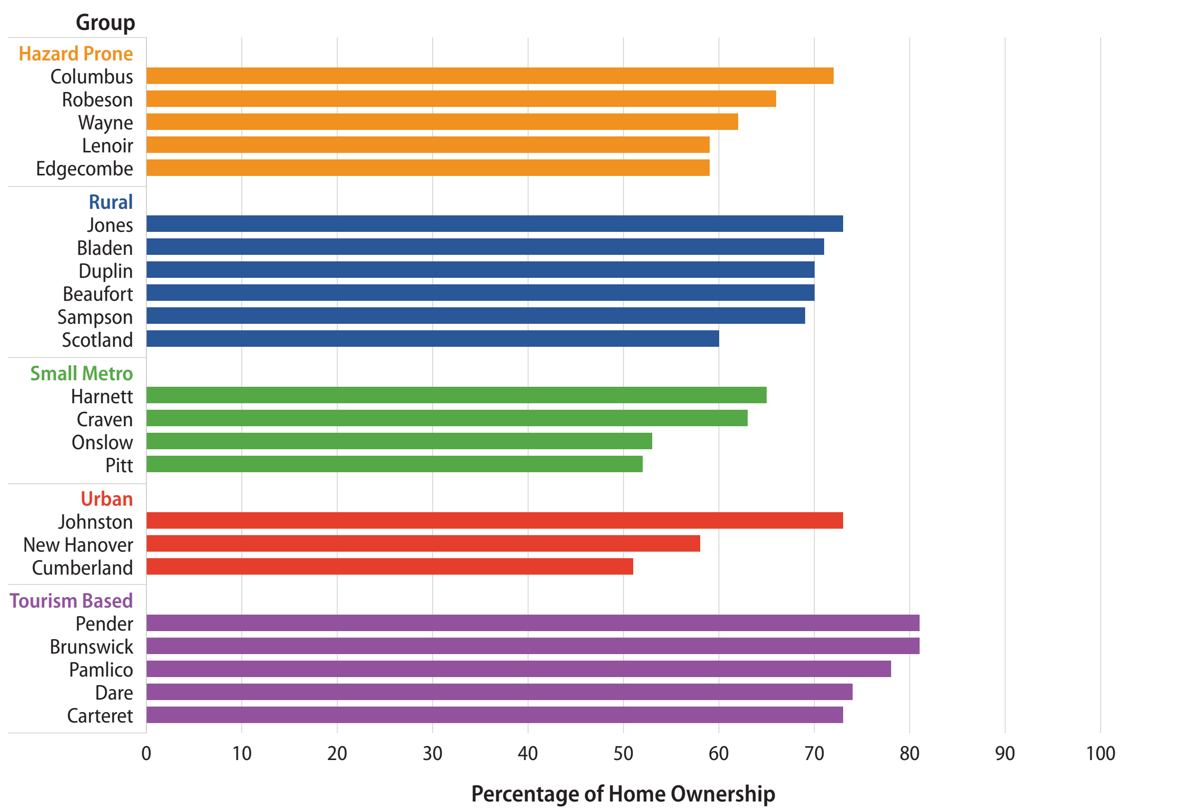
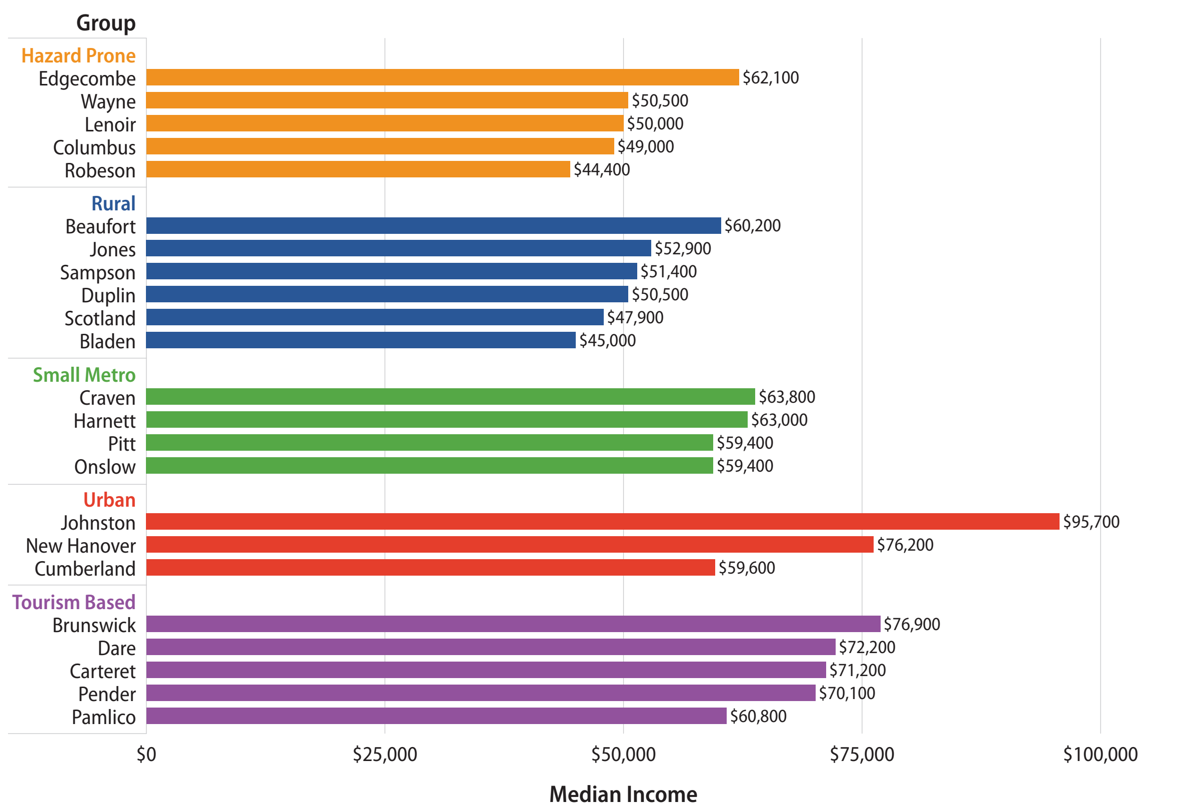


Figure B.5. HUD Area Median Income for a Family of Four in 2021, by Group



Source: Data from NC Housing Finance Agency, *2021 Multifamily Tax Subsidy Program (MTSP) Income and Rent Limits*, September 2021, PDF on file with author.

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Appendix C. Methodology for Identifying Opportunity Sites

Low-Income Housing Tax Credit (LIHTC)

Each year, the North Carolina Housing Finance Agency (NCHFA) issues regulations through a *qualified allocation plan* (QAP) that governs the selection of LIHTC projects in North Carolina. The QAP contains strict development standards and requirements pertaining to development location and amenities. To identify sites competitive for 9 percent tax credits (which typically must achieve near-perfect scores), DFI used site-scoring criteria from the 2022 QAP. Among these criteria were the following:

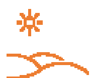
The site is less than 1.5 miles' driving distance from groceries, shopping, and pharmacies (less than 2.5 miles in municipalities with fewer than 10,000 people).

It is outside the 100- and 500-year flood zones as shown by the North Carolina Flood Risk Information System.

It is sufficiently distant from heavy industrial sites, railroads, airports, and prisons.

It has a favorable walk score as measured by the website Walk Score.[16]

DFI also used criteria that are not in the QAP but affect the feasibility and sustainability of potential LIHTC projects:



DFI only considered sites currently undeveloped and at least 3.5 acres in size.

DFI only considered sites currently located on an existing sewer system as shown in the Type A Current Public Sewer Systems dataset maintained by NC OneMap.[17]

DFI differentiated between public and private site ownership.

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16. North Carolina Housing Finance Agency, *The 2022 Low-Income Housing Tax Credit Qualified Allocation Plan for the State of North Carolina*, 12–13, 15–16, accessed May 24, 2023, https://www.nchfa.com/sites/default/files/page_attachments/QAP22-FinalQap_0.pdf. See "Walk Score Methodology," Walk Score website, accessed May 24, 2022, https://www.walkscore.com.

17. "Type A Current Public Sewer Systems (2004)," NC OneMap, accessed May 24, 2023, https://www.nconemap.gov/datasets/nconemap::type-a-current-public-sewer-systems-2004/explore?location=35.130054%2C-79.903950%2C7.19.

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Table C.1. Privately Owned Rental Units Likely Housing LMI Renters by MID Group

MID Group	Median Building Tax Value ($ / sq ft)	Estimated No. of Landlords with 10+ Properties	Housing Structures
Hazard prone	36	278	5,600
Rural	56	88	1,700
Small metro	65	333	9,600
Urban	70	528	16,000
Tourism based	62	132	2,000

Single-Family Rental and Small-to-Medium Multifamily (SMMF) Rental

Sites suitable for single-family and SMMF development were identified by searching for undeveloped sites outside of the 100- and 500-year flood zones, and outside of areas previously flooded in Hurricane Matthew or Hurricane Florence. Sites had a minimum size of 0.1 acres for single-family and 2 acres for SMMF. While the more stringent QAP requirements did not apply to this site-selection process, parcels were only chosen if they were within neighborhood or downtown settings rather than isolated areas without access to amenities. Sites also had to be on existing sewer systems as shown by data provided by NC OneMap.

Sites for this type of housing were only selected if they were owned by a unit of government (town, county, redevelopment commission, etc.). The goal of these criteria was to identify portfolios of properties where a local government already had site control and could "pool" properties to achieve more efficient investments.

Renovation and Weatherization of Rental Units

To identify opportunities for single-family-rental home repair, DFI estimated the number of privately owned portfolios of ten or more properties that are likely in need of rehabilitation funding.

To identify these large-scale landlords, DFI searched tax-parcel data for residential units owned by corporate entities whose names included *LLC*, *LP*, *LM*, *Corp.*, *Inc.*, or other indicators that an entity was registered with the NC Secretary of State. To identify landlords likely to house low- and moderate-income (LMI) renters, DFI then selected landlords for whom properties below the median building tax value for their county group made up at least half of their portfolios. To confirm results, DFI shared lists of landlords with local stakeholders and asked them which landlords they believed would likely qualify for rehabilitation funds.

LIHTC Preservation

Multifamily developments financed by LIHTC must maintain an affordability period of thirty years. To identify preservation opportunities for this housing type, DFI identified all developments reaching the end of their affordability periods using the National Housing Preservation

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Database, a resource managed by the National Low-Income Housing Coalition and the Public and Affordable Housing Research Corporation.

Mobile Home Relocation

Locations of mobile home parks were collected from the databases CoStar and Homeland Infrastructure Foundation-Level Data. DFI identified approximately thirty mobile home parks that either are in the 100- and 500-year flood zones or experienced flooding during Hurricane Matthew or Hurricane Florence. Using tax parcel data, DFI identified undeveloped lots that lay outside the flood zones and the areas flooded during the two hurricanes, roughly matched the acreage of at-risk mobile home parks within the same county, and were zoned to allow for mobile home parks. Strict zoning regulations for mobile home parks tended to limit the number of sustainable, undeveloped sites. Furthermore, at-risk mobile home parks were often located on larger parcels than the alternate sites identified. Because zoning ordinances regulated the density of mobile homes within a single park, it was often infeasible to relocate all at-risk homes to a new site.

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Appendix D. Summary of Challenges to Financial Feasibility

For a development to be financially "feasible," the developer must have access to capital to cover the cost of construction. In most cases, this means raising funds (debt and equity) from third-party capital providers. Capital providers have strict underwriting criteria to ensure that an asset's cash flow is sufficient to repay the lenders with interest and achieve reasonable returns for investors. Investors (and some lenders) also want to see that projected cash flows allow for an "exit," or the ability to take their investment out at an appropriate time, which is typically achieved through a sale or refinancing.

The financial gap is the difference between the total construction cost and the loans and equity a project can secure. Funding from disaster recovery dollars through NCORR can fill that gap and facilitate a financially feasible deal. But to most effectively leverage NCORR's limited dollars, it is important to first understand why a gap exists and what the specific challenges in the twenty-three MID counties are and then tailor funding solutions to these challenges.

Not only does affordable housing for low- and moderate-income (LMI) households come with unique hurdles related to operating income and securing capital, but these projects also face rapidly rising construction costs that are currently affecting all development types. Below is an account of the specific and broad challenges of financing affordable housing.

Operating Income

Net operating income is the cash flow that remains once operating expenses are deducted from rental income. Lenders use net operating income to size the maximum loan amount for a project.

Rental Income

In high-growth areas, affordable rents for LMI households can be less than half the market-rate rents achieved by new multifamily projects. In all twenty-three counties, the rents affordable to low-income households are still high enough to cover operating expenses for at least ten years to at least fifteen years. The challenge, however, is that less rental income results in less net operating income that is available to service a loan and provide cash for investor returns.

In areas with a higher area median income (AMI), like Johnston County (with an AMI of $95,700 for a family of four)[18] and other small-metro and urban areas, relatively higher LMI rents can support loans that provide at least half of the capital required for development. But in the hazard-prone and rural counties, AMIs are significantly lower ($44,000 in Robeson County). The lower income means

18. Fair Market Rates and Income Limits database (FY 2021 income limits for Johnston County, NC), HUD User Datasets, accessed May 25, 2023, https://www.huduser.gov/portal/datasets/il.html.

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that a lender will reduce the loan size, and even a favorable loan that requires a lower debt-service coverage ratio might provide only 5 percent or less of the capital needed for development.

Operating Expenses

Even if rents are lower, operating expenses are the same as for a market-rate development and are sometimes higher, depending on the region and housing type. Operating expenses include management fees, maintenance costs, landlord-paid utilities, insurance, and property taxes. In a market-rate development, expenses are typically 30–40 percent of rental income. When rents are affordable to LMI households, expenses are as much as 50–60 percent of income. Depending on density (unit count), rental rates, and housing type, that rate can differ, but the following are challenges specific to expenses in the twenty-three MID counties.

Insurance

A preliminary review of FEMA insurance data and conversations with stakeholders indicate that premiums in coastal communities (such as those in tourism-based MID counties) may be higher per unit, and it is possible that premiums are higher even for properties outside the 100- and 500-year flood zones. Even though potential rental incomes in tourism-based counties are higher than in more rural areas, the insurance premiums can essentially nullify the additional rent.

Management

The cost per unit is lower with greater density, as personnel costs can be spread across more units. In rural areas where density is constrained and a lower-density or scattered-site approach is required, management costs per unit can be more costly due to lower efficiency. Specialized housing such as senior housing generally requires more programing and services, thereby increasing management costs.

Utility Costs

Utility bills are on the rise across the country.[19] There are critical differences in electricity costs across the twenty-three MID counties that may make the funding gap larger in some towns or cities compared with others with similar or lower rents. In addition, when focusing on preservation, it is important to note that older buildings or houses may be less energy efficient and more costly to occupy.[20]

The following housing types face additional challenges.

Supportive Housing

Housing for extremely low-income households, earning less than 30 percent of AMI, is by far the greatest need across the state. Rental income, however, does not cover the cost of operating such developments. Therefore, a permanent recurring funding source is required to develop and operate supportive housing projects.

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19. Aliya Uteuova and Andrew Witherspoon, “What Is Causing US Utility Bills to Rise and Will It Persist in Warmer Months?” *The Guardian*, March 13, 2022, https://www.theguardian.com/us-news/2022/mar/13/us-utility-bills-energy-prices-increase.

20. Rachel M. Cohen, “How to Fight the Affordable Housing and Climate Crises at Once,” *Vox*, April 17, 2022, https://www.vox.com/23025378/energy-efficiency-utilities-repairs.

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Conversion of Seasonal Rental to Year-Round

By DFI's calculations, the owner of an investment property in a tourism-based MID county can earn twice the rental income by renting a unit to tourists rather than leasing it to a year-round resident, even at a market rate. Even where year-round rents are attractive, the incentive to keep the unit as a seasonal rental is significantly higher.

Development Costs

Construction Costs

Construction costs are rising at a faster rate than the rents LMI households can afford, expanding the funding gap on housing deals.[21] The costs of both materials and labor have risen dramatically since March 2020. The construction-cost-estimating database RSMeans estimates that hard costs between the fourth quarter of 2019 and first quarter of 2022 increased 21 percent in Kinston, as much as 35 percent in Wilmington, and 37 percent in Fayetteville.[22] There is still considerable uncertainty about the future trajectory of construction costs. As a result, developers reported in stakeholder conversations that they are now adding significant material contingencies to their budgets. In addition, developers are factoring in additional time (and therefore cost) to finish construction due to notable delays in the delivery of materials.

Some areas, such as rural and tourism-based MID communities, may require a greater investment in infrastructure to facilitate development on a site. The cost to build in tourism-based coastal communities is higher than all others.[23]

This rise in construction costs also affects the renovation of units to meet health standards, increase energy efficiency, and extend the life of the unit. Units built prior to 1978, which account for nearly half of the units DFI identified as unsubsidized rental housing affordable to low-income households, are more likely to require lead paint remediation.[24] That can cost as much as $25–$30 per square foot,[25] or $30,000–$36,000 for a 1,200-square-foot house.

Acquisition Costs

Land costs vary drastically across the five groups. Where acquisition is more expensive, building with additional density spreads that cost across more units. But in areas like the tourism-based communities, acquiring land is expensive *and* density is limited by several factors. Using the CoStar property database, DFI estimated that the cost of land with more than two acres in urban counties and tourism-based counties is more than four times the cost of land in rural areas. These differences in the cost of land also translate to the cost of purchasing existing buildings for preservation of unsubsidized or expiring subsidized units.

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21. Fair Market Rates and Income Limits Database (income limits for North Carolina, fiscal years 2016–2021), accessed May 25, 2023; RSMeans (2020 Q2–2022 Q4; accessed March 2022). DFI analysis of the AMI data from HUD and cost data from RSMeans indicates that construction costs are rising more quickly.

22. RSMeans (2020 Q2–2022 Q4; accessed March 2022).

23. RSMeans (2020 Q2–2022 Q4; accessed March 2022).

24. "Lead Abatement, Inspection and Risk Assessment," US Environmental Protection Agency website, updated January 7, 2023, https://www.epa.gov/lead/lead-abatement-inspection-and-risk-assessment.

25. RSMeans (2020 Q2–2022 Q4; accessed March 2022).

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Other Costs

Roughly 20 percent of development costs are considered "soft costs," which include due diligence, architecture, engineering, financing costs, and legal and accounting fees. They also include permitting costs, which can be substantial, differing across municipalities. Development using federal funding sources such as the Low-Income Housing Tax Credit or federally guaranteed loans has higher legal, accounting, and consulting fees associated with it.

Developers are compensated through various means including developer fees, share of ownership, and management fees. The developer fee, one of the largest soft costs, is critical for development organizations as it enables them to cover business expenses like staff salaries that are incurred earlier in the development process. The developer fee is calculated as a percentage of the total development cost, with 3–4 percent being typical for commercial development. For smaller developments, a 4 percent fee is nominal, and developers (nonprofits and for-profits) typically require as much as 10–15 percent to cover overhead until the development stabilizes, at which point they can shift to cash flows or management fees.

Capital Sources

Most of the capital in the market tends to flow to the market-rate residential sector, where there are higher returns and the perception of less risk. However, there are programs tailored to support the development of affordable housing. But program specifications tend to be more suitable for certain housing types and geographies.

Two overall trends could influence the availability of capital: First, interest rates are once again on the rise after dropping to historical lows at the onset of the pandemic. The Federal Reserve raised rates by a quarter point in March 2022, and rates are expected to continue increasing.[26] As the cost of capital increases, so does the financing gap. Second, the Community Reinvestment Act has a direct impact on lending and LIHTC investments in the twenty-three MID counties. At its most basic, the Community Reinvestment Act requires banks to invest in the LMI communities from which they take deposits. This creates an incentive for banks to invest in affordable housing at favorable rates. Changes to the regulations can have a seismic impact on the availability of capital for housing.[27]

Multifamily Development and Preservation

The LIHTC program is designed to fill the gap in financing for housing affordable to low-income households. Investors exchange an up-front equity investment for ten years of tax credits. The program has been remarkably successful at inducing the production of new affordable units across the country. However, tax credits are finite, and the prices that investors are willing to pay for these credits fluctuate. The State of North Carolina is allocated roughly $30 million in tax credits

26. "Federal Funds Effective Rate," Board of Governors of the Federal Reserve System, Federal Reserve Economic Data, updated April 21, 2022, https://fred.stlouisfed.org/series/DFF.

27. Frank Muraca, "Student Corner: The Community Reinvestment Act and LIHTC: How Changes in the Banking Sector Could Affect Affordable Housing," *Community and Economic Development* (blog), October 3, 2019, https://ced.sog.unc.edu/2019/10/the-community-reinvestment-act-lihtc-how-changes-in-the-banking-sector-could-affect-affordable-housing/.

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annually for the highly competitive 9 percent program, and approximately one in five developments that apply are awarded the credits.[28] The financing gap for developments that receive the 9 percent credit is low and often is filled with supplemental gap funding from the agency (as necessary). Alternatively, a 4 percent tax credit is available for developments that qualify for an allocation of volume cap for tax-exempt private-activity bonds, and the process is practically noncompetitive. But developments that take advantage of the 4 percent credit will receive substantially fewer tax credits and must find additional sources to fill the gap.

The price of each of these credits has been hovering at around $0.90 for the last few years.[29] Pricing in areas perceived as "riskier" can be as low as $0.85. Although $0.05 does not seem like much, it is a roughly $440,000 difference in equity on a $10 million development. The LIHTC program allows multiple lenders but does not allow additional investors, limiting the availability of additional outside capital.

The federal government has loan-guarantee programs through the US Department of Housing and Urban Development and the US Department of Agriculture to support the development of affordable multifamily rental housing. These programs define *multifamily* as having five or more units. Loans backed by these programs carry favorable terms (such as below-market interest rates), have at least thirty-five years of amortization, allow for lower debt-service coverage ratios, and offer higher loan-to-value percentages.[30] These programs, however, are perceived as cumbersome by developers because they require more paperwork and additional time to obtain a loan which can add cost to a development.

The government-sponsored entities (GSEs), Fannie Mae and Freddie Mac, also have multifamily-loan programs for both new construction and preservation. Of note are the GSEs' forward-commitment programs that support both the new construction and substantial rehabilitation of housing developments for LMI residents. Through a forward commitment, the GSEs agree to purchase the permanent mortgage, effectively locking its interest rate at the time of financial closing. Without a forward commitment, developers must shop for a permanent loan as construction nears completion, which is often eighteen to twenty-four months after breaking ground on a project. In that time, however, interest rates may grow to a level that makes the project operationally infeasible. Forward commitments increase construction lenders' confidence that their loans will be repaid, reduce developers' exposure to rising interest rates during construction, and provide certainty in the level of permanent debt service. In any given year, however, the GSEs cap the total amount they invest in forward commitments, which, once made available for applications, are quickly fully allocated to eligible projects. As a result, many affordable housing developers may struggle to access the programs through the GSEs' lender networks.

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28. North Carolina Housing Finance Agency, "Housing Credit Preliminary Applications" and project awards, 2018–2020.

29. "LIHTC Pricing Trends," Novogradac, accessed May 25, 2023, https://www.novoco.com/resource-centers/affordable-housing-tax-credits/lihtc-equity-pricing-trends.

30. "Mortgage Insurance for Rental and Cooperative Housing: Section 221(d)(4)," HUD.gov, US Department of Housing and Urban Development, accessed May 25, 2023, https://www.hud.gov/program_offices/housing/mfh/progdesc/rentcoophsg221d3n4; "Multifamily Housing Loan Guarantees," Rural Development (website), US Department of Agriculture, accessed May 25, 2023, https://www.rd.usda.gov/programs-services/multifamily-housing-programs/multifamily-housing-loan-guarantees.

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Scattered-Site Development of Single-Family or Small-to-Medium Multifamily (SMMF) Rental Units

On projects that do not qualify for LIHTC, such as scattered-site single-family or small-to-medium multifamily developments with less than forty-nine units, the amount of equity a project can raise depends on the remaining funds after debt payments are made. The equity on smaller deals typically comes directly from the developer or property owner. This makes it difficult for small nonprofits and developers to participate because they typically do not have excess capital to deploy.

Lending for small portfolios of scattered-site rental units or a small multifamily deal, for example, is rare even in urban areas. Local banks will work with landowners on a case-by-case basis, but financing is not readily available because the benefit to the lender is low relative to the complexity and risk.

As discussed in the section Determining the Capacity of Local Private Partners to Utilize CDBG-DR for Preservation or Development of Housing (page 7), rural areas lack experienced development partners to produce new single-family or SMMF units. “Homegrown” local developers are the most likely candidates for this type of development. But lenders and investors mitigate risk by requiring developers to bring capital and demonstrate experience, which immediately presents a barrier to many potential “homegrown” partners. Lenders expect developers to demonstrate a proven record in the specific product type. Roughly 3–5 percent of the costs expended occur during the predevelopment phase, when developers are determining whether a deal is feasible and are lining up investment partners. Those costs are then baked into the development budget and reimbursed by the construction loan. Jump-starting a development, therefore, requires up-front capital to float the due diligence until the project closes on financing. Given the inherent risk and lack of collateral in the early stages of development, lenders are typically unwilling to lend for predevelopment activities. The lack of access to a loan for predevelopment means that small for-profit developers and nonprofits are constrained when trying to put together a deal.

Renovation and Weatherization of Single-Family and SMMF Rental Units Housing LMI Households

Various grant programs exist at the federal, state, and local level for weatherization or improving the energy efficiency of a unit. There are also grant programs available for lead remediation. Federal programs like the Weatherization Assistance Program are well funded but cannot be accessed until health and safety improvements are made.[31] In addition, grants typically apply only to the cost of construction, and often do not adequately cover administrative costs that allow nonprofits to administer the grants appropriately.

Community action organizations report that landlord participation in rental-repair programs is often low. This could be because, particularly in distressed neighborhoods with low household incomes, landlords have no incentive to complete critical maintenance so long as they continue

31. Office of Energy Efficiency and Renewable Energy, *Weatherization Assistance Program*, January 2021, https://www.energy.gov/sites/default/files/2021/01/f82/WAP-fact-sheet_2021_0.pdf.

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to collect rental income. Under this business model, landlords are unlikely to take on debt from a rehabilitation program that might cut into profits.[32]

Regardless of housing type, the incorporation of CDBG-DR as a funding source adds complexity and potentially cost. Although the summary above highlights the critical need for a flexible source of gap financing like CDBG-DR, both the perception and reality of federal requirements may dampen developer interest.

32. Alan Mallach, "Lessons From Las Vegas: Housing Markets, Neighborhoods, and Distressed Single-Family Property Investors," *Housing Policy Debate* 24, no. 4 (2014): 769–801, https://doi.org/10.1080/10511482.2013.872160.

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