

If There's A Market For Affordable Housing, Why Don't Developers Build More Of It?

By Ely Portillo, Charlotte Observer, August 21, 2017

There's a big demand for more affordable housing in Charlotte, where rents and home prices have shot up much faster than wages over the past few years: Vacancy rates are lower for older, cheaper apartments than flashy new ones, waitlists for housing vouchers are long and starter homes are snapped up almost immediately.

So why aren't developers building more affordable housing? That was one of the main questions at a candidate education panel hosted by the Greater Charlotte Apartment Association on Friday, where about two dozen candidates for Charlotte City Council turned out to learn some of the basics on a complicated subject.

"Affordable housing is one of the topics you'll talk about a lot," Bryan Holladay, who supervises the group's government affairs outreach, told the candidates.

The subject is an alphabet soup of acronyms (like NOAH, or "Naturally Occurring Affordable Housing") and overlapping terms and definitions. Sometimes when people say "affordable housing" they mean government-subsidized, while others might mean market-rate housing that someone can afford for 30 percent or less of their income.

There are about 20,000 apartments in the Charlotte market that rent for \$800 or less a month, mostly older units from the 1960s or 70s. These fit into the NOAH category, because they're affordable to many renters without a subsidy. And they're in high demand: Such one-bedrooms have a vacancy rate below 2 percent, and two- and three-bedroom units in that range have less than 3 percent vacancy.

But such apartments make up only about 14 percent of the market, among the lowest in the U.S. Because of the surge of luxury apartment building, almost half of Charlotte's apartment market is made up of four- or five-star-rated units, the luxury buildings where a two-bedroom can go for north of \$2,000 a month.

Developers and affordable housing experts offered a number of explanations for why the market hasn't stepped in to fill the gap for a product – cheaper apartments – that clearly has a demand.

Construction and permitting costs

One reason it's hard to build new, unsubsidized apartments that rent for a price low- to median-income families can afford is the cost of actually building those units. Michael Tubridy, managing director of Charlotte developer Crescent Communities, said costs to build have shot up rapidly amidst a labor shortage.

Crescent, which is building almost 2,000 high-end apartments across Charlotte, compared construction costs for a garden-style apartment community they built in 2012 and another they're preparing to build now on an adjacent site. In that five-year span, the cost-per-apartment has risen from \$115,000 to \$175,000, Tubridy said. Higher labor costs are the biggest factor, he said.

That means that the developers will have to charge higher rent, Tubridy said. The first set of apartments could average \$1,150 a month, Tubridy said, while the new units will have to average \$1,400 a month.

And those \$800 per month apartments? The reason they're cheaper is because they're old, and you can't duplicate that with brand-new construction. "It's impossible to construct apartments at that price point," Tubridy said.

Another factor is the cost of permits, said Liz Ward, vice president of development for the Charlotte-Mecklenburg Housing Partnership. A project they're developing now will incur costs of \$400,000 for water and sewer connections and \$150,000 for various other permitting reviews. Some cities are waiving or reducing such fees for projects that have units reserved as affordable housing, she said.

"Construction costs (including labor) are so high we're having a difficult time raising enough money to build these projects," Ward said.

Limited development subsidies

Federal tax credits provide the main subsidy for developers who build housing that's reserved for certain income levels. But there's a limited number of such credits, and they're allocated to developers state-by-state, through a competitive process. The Charlotte region only gets enough tax credit allocations to subsidize two or three affordable apartment projects each year.

"The competition for this particular funding in North Carolina is fierce," said Hollis Fitch, CEO of affordable housing developer Fitch Irick. Out of the 80 or so applications this year in North Carolina, only about 20 won funding, he said.

The city's local funding subsidy, the housing trust fund, is funded by \$15 million worth of bonds, approved by voters every two years. The city allocates that money to help subsidize the construction of new affordable housing by private developers. There's still about \$20 million in the housing trust fund, but that will be reduced to about \$9 million if the current round of projects up for approval win allocations.

Ward said the city should increase the amount of each bond issue for the housing trust fund, possibly to \$50 million every two years. There's been increasing support lately from local elected officials for that step.

“I’m very much in support of increasing that bond ask,” she said. “\$15 million is not enough.”

NIMBYism

“Nothing kills an affordable housing deal faster than 60 t-shirts,” said Holladay, describing the political pressure opponents often apply at City Council meetings if affordable housing is on the table in their neighborhood.

That’s something City Council candidates will have to figure out how to deal with, he said.

“We’re going to build more affordable housing at high density in your neighborhood is not a campaign message that will be popular,” said Holladay.