



Novogradac

# Journal of Tax Credits

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Cantwell-Hatch Affordable  
Housing Credit Improvement Act  
Provides Pathway Forward  
Again in Congress

## VALUATION

### Government Support Boosts Affordable Housing in Raleigh, N.C.

## PLUS

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- ◆ HTC Improvement Act Introduction Anchors Broader Industry Strategy on Tax Reform
- ◆ Strategies Can Help Affordable Housing Developers Overcome NIMBYism





## FOCUS ON 🔍

### Focus on: Raleigh, N.C.

**BRAD STANHOPE, SENIOR EDITOR, NOVOGRADAC & COMPANY LLP**

**O**f all the reasons Raleigh, N.C., is attractive to affordable housing developers, none may be more important than this: A friendly city government.

“Raleigh is very supportive,” said Gregg Warren, president of DHIC, a nonprofit affordable housing developer in Raleigh that has built more than 1,400 low-income housing tax credit (LIHTC) apartments in the area. “One of the City Council’s highest priorities is affordable housing. It’s a good place if you’re looking for civic support.”

The council last year approved a 1-cent-per-\$100-valuation increase in property tax rate, which goes to expanding the city’s affordable housing program. And help doesn’t just come from the city.

“The county has launched an affordable housing plan and that’s a good thing,” said Larry Jarvis, director of housing and neighborhoods for Raleigh. “Most counties don’t think of that as a one of their roles.”

That’s not all. “Working with the North Carolina Housing Finance Agency is great,” said Denis Blackburne, senior vice president of The Woda Group and manager in the Savannah, Ga., office, which has

worked extensively in the area. “I work in a variety of states and they are especially professional and responsive.”

One result has been a quick expansion of LIHTC properties in Raleigh. “If you go back and look at 2012, 2013 or 2014, you see we were maybe doing 148 units [of tax-credit properties] per year,” said Jarvis. “Now, if it holds steady by 2018 or 2019, we’re online for 500-some, because that 1 percent tax and the decision about two years ago to solicit and support bond deals. What we think is sustainable is around 550 units per year.”

YEAR	POPULATION			
	RALEIGH, N.C. MSA		USA	
	NUMBER	ANNUAL CHANGE	NUMBER	ANNUAL CHANGE
2000	797,058	-	281,421,906	-
2010	1,130,490	4.2%	308,745,538	1.0%
2016	1,275,121	2.0%	323,580,626	0.8%
2021	1,415,954	2.2%	337,326,118	0.8%

Source: Esri Demographics 2016, Novogradac & Company LLP, March 2017

Raleigh just hopes the pace of growth can keep up with its rapid population expansion.

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## About Raleigh

Raleigh, in Wake County, is the state capital of North Carolina. The U.S. Census estimated its population as 451,066 on July 2, 2015, making it one of the fastest-growing cities in the country, more than doubling nationwide growth rate. That's true for Wake County, as well, as it adds an average of 62 people per day to its population. The Raleigh metropolitan statistical area—which includes Wake, Johnson and Franklin counties—had a population of 1,273,568 in 2015.

YEAR	MEDIAN HOUSEHOLD INCOME			
	RALEIGH, N.C. MSA		USA	
	NUMBER	ANNUAL CHANGE	NUMBER	ANNUAL CHANGE
2000	\$51,515	-	42,164	-
2016	\$63,910	1.5%	54,149	1.7%
2021	\$72,574	2.7%	59,476	2.0%

Source: Esri Demographics 2016, Novogradac & Company LLP, March 2017

Raleigh, known as the “City of Oaks,” was named after Sir Walter Raleigh. Chosen as a state capital in 1788 and incorporated in 1792, it is now best known for Research Triangle Park, which opened in 1959 and created an influx of jobs. It's the home of North Carolina State University and near to both Duke University and the University of North Carolina.

The population is about 57.5 percent white, 29 percent black, 7 percent Hispanic and 4.3 percent Asian. “Raleigh's a nice place, there's a nice mixture,” Blackburne said. “There's academia, the research park, governmental institutions and large financial services and technology corporations. There's not the traffic or pollution that you see in a larger MSA. Raleigh is the capital, but Charlotte is the largest place [in North Carolina].”

## Raleigh's Economy

The government—specifically the state government and the local school systems—makes up the top two employers in the Raleigh MSA, and IBM is third with

10,000 employees. North Carolina State University and WakeMedHealth & Hospitals are also major employers.

The unemployment rate in mid-2016 was 4.1 percent, lower than 4.9 statewide and national rates. The area median income (AMI) has increased by an average of 1.5 percent annually since 1999, although there were decreases in 2007, 2013 and 2016. The median household income for the MSA is higher than the national average.

## Raleigh-Specific Hurdles

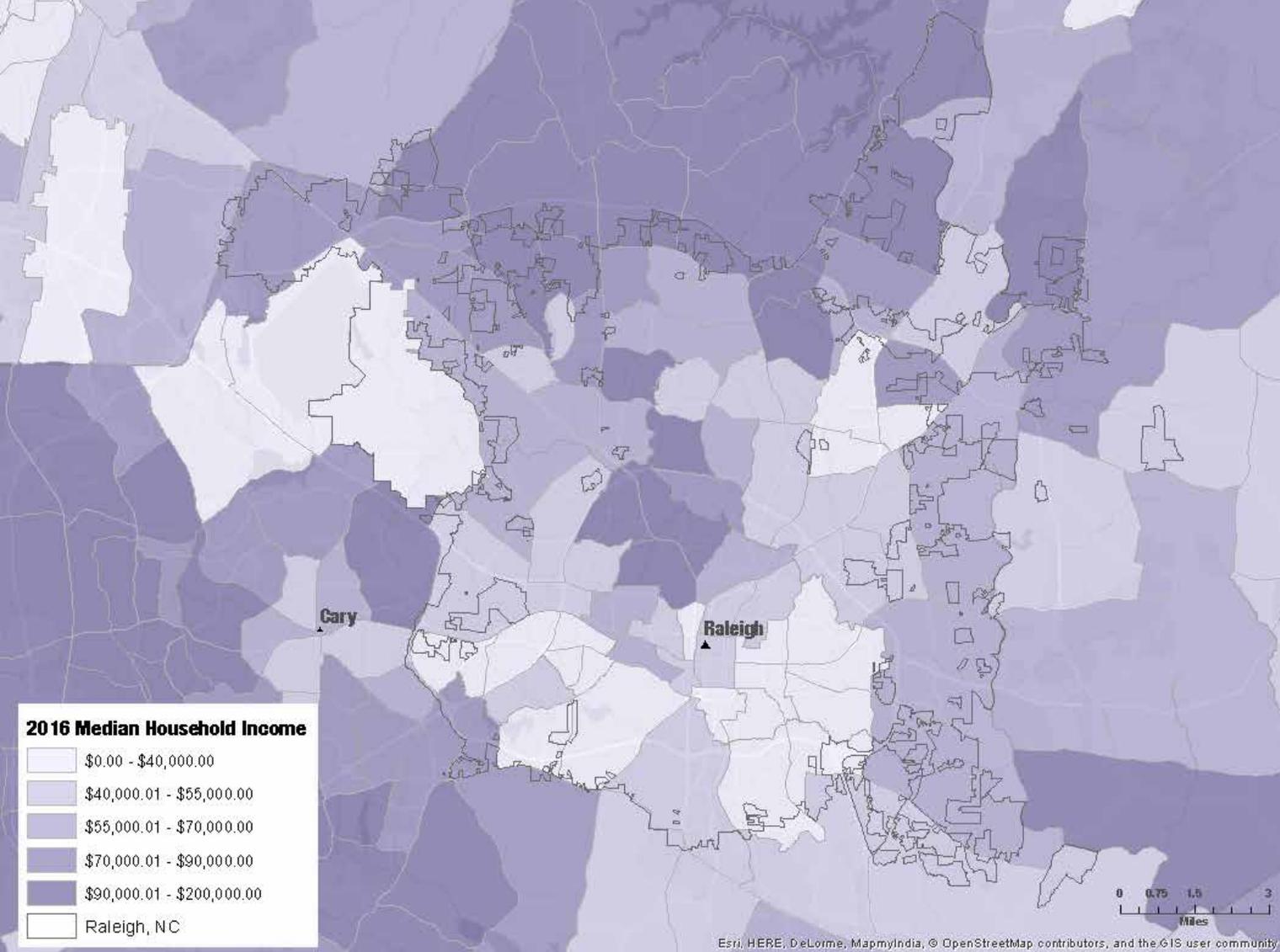
While the city and state government are friendly in Raleigh, the city faces difficulties because of its growth rate. “That adds pressure and the population we seem to attract are the younger millennials who prefer to live close to downtown,” Jarvis said. “That has caused some pressure for close-in neighborhoods that are traditionally African-American, affordable neighborhoods, and has caused some problems.”

Blackburne said when The Woda Group looked at areas around Raleigh, it found a range of responses. “We got a mixture from ‘we don't want you here,’ with NIMBYism, all the way to ‘we want you here, please,’” he said.

Blackburne said the influx of higher-income residents has led to more concern about affordable housing in certain neighborhoods. “I would say that NIMBYism might have more issues in those neighborhoods,” Blackburne said. “There is the Research Triangle and the academia, so you might see some nice neighborhoods where they say ‘this is a great place, but we don't want you here in our backyard.’”

Perhaps a bigger hurdle for developers is the price of land. “It's a very hot real estate market, so any land zoned for multifamily is a very hot commodity,” said Warren. “We are competing with market-rate developers for land. And given that a lot of multifamily land has been developed, you're sometimes faced with difficult sites to

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## Median Household Income in Raleigh, N.C.

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develop. All the flat land, which is easy to develop, has been developed in Raleigh.”

Natalie Britt, vice president of real estate at DHIC, said high labor costs are a factor. “It’s tough to even get prices sometimes,” she said. “It’s been happening for several years and it keeps trending up.”

Once built, Warren warns, developers must account for lower rents. “One thing that’s difficult is that Raleigh is not a particularly high-cost market for multifamily rental housing, so our developments typically don’t max out the tax credit rents,” Warren said. “The rents are lower than the 60 percent AMI maximum.”

The vacancy rate in the multifamily market in the Raleigh-Durham area was 5.8 percent for the second quarter of 2016, which is higher than the regional and national rates. Through 2020, the overall vacancy rate is forecast to increase to 6.5 percent in the Raleigh-Durham area and 15.2 percent for Raleigh, an increase influenced by an oversupply of new luxury apartments, not affordable properties.

### Opportunities in Raleigh

The increase in property tax devoted to affordable housing was a game-changer in Raleigh. “In Raleigh, that generated around \$5.7 million and that is essential to our plan,” Jarvis said. “We’ve taken \$5 million of that and set it aside for tax-credit projects. Part of the plan

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includes the ability to assist with site acquisition, so for instance, if you want a site that's nearer the transit improvements, we can assist someone in acquiring it."

Voters approved a 0.5 percent sales tax increase in November for transit planning, which gives a new opportunity to link transportation and affordable housing, Jarvis said.

There are some great opportunities to develop in the North Carolina capital, starting with senior housing. "Raleigh is a very popular retirement place," Warren said. "Rental development has looked more to senior housing than to family housing in the past five years."

"We're still doing a lot of family development," Britt said. "But you can develop senior housing on smaller sites. And the neighbors are often more receptive to affordable senior housing." She said her company has mixed senior and family housing—usually as separate developments on the same site—four times in the Raleigh area.

The effect of the U.S. Department of Housing and Urban Development's (HUD's) affirmatively furthering fair housing rules could also create better opportunities for cities like Raleigh. "The NCHFA [North Carolina Housing Finance Agency] has now switched tiebreakers to [prioritize] developments in census tracts with the lowest amount of poverty," Blackburne said. "That's pushing [affordable housing developments] toward higher-income, executive areas. I'm not sure how that will affect NIMBYism, but if that's the tiebreaker, developers will find a way to do it."

The previous tie-breaker was the cost per unit, which had the opposite effect. "[Developers] will be looking for higher-end communities, the type you find more in abundance in Raleigh than in other areas," said Blackburne.

## Wake County Growing

**40**  are new residents due to net migration (average of 188 arrive, 148 leave)

**22**  are due to natural increase (average of 34 births, 12 deaths per day)

### Of the 40 new residents:

**17**  live in apartments

**21**  have a college degree or professional degree

### Raleigh's role

**17**  daily births are in Raleigh

**12**  of the net migration daily gain is in Raleigh

Sources: Wake County; Novogradac & Company LLP

### Boom Town

For developers, the combination of aggressive city and county governments, a friendly state housing agency and the encouragement to build in areas of lower poverty makes Raleigh a great opportunity to build affordable housing.

The rapid growth rate makes it necessary. ❖

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*This article first appeared in the April 2017 issue of the Novogradac Journal of Tax Credits.*

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