## LOCAL GOVERNMENTS RESPONDING:

# THE HOUSING CRISIS IN NORTH CAROLINA

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NORTH CAROLINA ASSOCIATION OF COUNTY COMMISSIONERS
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# INTRO

North Carolina, like much of the rest of the country, faces a crisis in housing affordability. Few people question that reality, with the median home price in the state rising 25 percent in 2021. Added to that fact is that more and more renters in North Carolinians are cost-burdened, paying more than 30 percent of their income in rent.

Housing affordability has been an issue that the state's most urbanized areas have been facing and addressing for years, but finding affordable places to live is increasingly a problem in communities of all sizes. Outside of places like Raleigh and Charlotte, tourism communities in the mountains and at the coast have especially struggled in recent years to meet the housing needs of a workforce that allows local economies to function. And as urban centers have become more attractive, booming suburban communities have also seen housing costs rise.

The cause of the rise in the cost of housing is complex. It encompasses everything from a 60-year trend of urbanization to labor shortages to supply chain disruptions created by the COVID-19 pandemic. Nonetheless, some critics have wanted to place the blame on cities and counties themselves, without recognizing that these same communities, with their job growth and attractive amenities, are simply facing the consequences of their own success. Land-use policies, as well as building approval processes, have come under scrutiny as the housing affordability crisis has escalated.

In response to the housing crisis, the N.C. League of Municipalities (NCLM) and N.C. Association of County Commissioners (NCACC) undertook a survey of some of the fastest growing jurisdictions in North Carolina to better understand the scope of the problem, local policies and processes related to housing, and possible ways to better address the issue of affordable housing. Thirty-seven local jurisdictions (building inspections and planning departments), representing 31 municipalities and nine counties, responded. These jurisdictions ranged in size from the City of Raleigh and County of Mecklenburg to several smaller municipalities in fast-growing Brunswick County, such as Shallotte and Oak Island. They also included three joint municipal-county departments, Durham-Durham County, Sanford-Lee County and Winston-Salem-Forsyth County.

**This report examines those findings, delves more deeply into the causes of the housing affordability crisis, and looks at ways to help North Carolinians better accomplish the goal of home ownership and finding housing that fits their budget.**

About the survey: NCLM and NCACC reached out to building inspection and planning departments in the fastest growing areas of North Carolina. The respondents encompassed:

**31** Municipalities

**9** Counties

**3** Joint Municipal-County Departments

# A CRISIS IN AFFORDABILITY

The housing affordability crisis in North Carolina has become increasingly broad, affecting a range of communities. Even before the economic fallout associated with the COVID-19 pandemic, 45 percent of renters and 19 percent of homeowners in North Carolina were considered housing cost-burdened, that is, spending 30 percent or more of their income on housing costs, according to the NC Justice Center.

The last two years has exacerbated the issue. The median price of a home in North Carolina rose roughly 25 percent in 2021 and an estimated 5 percent in 2022. Also, the state has 347,275 extremely low-income renter households, but only 156,365 rental units considered affordable for those families. The NC Budget & Tax Center estimates that North Carolina could see the gap between housing units and residents' need grow to 900,000 units by 2030.

North Carolina is hardly alone in this housing crisis. U.S. Census Bureau data shows that 40 percent of renters nationwide meet the definition of cost-burdened. From 2019 to 2022, the average price of a home in the United States rose from $391,900 to $543,600, a 38 percent increase.

**The reasons for this affordability crisis are myriad and complex.**

Looking specifically at North Carolina, and going back decades, the state has seen a huge increase in urbanization. Just 60 years ago, jobs were not concentrated in the urban core, but in smaller communities across the state, with cotton mills and less-mechanized agriculture serving as primary drivers of employment in the state. Losses in textile and agricultural employment, combined with the explosion of high-tech industries and the rise of concentrated professional service jobs, have caused North Carolina's largest cities and the surrounding areas to see a majority of the state's job and population growth in recent decades.

Those changes in the state's economy began in the 1960s, accelerated in the 1980s, and continue to mean that land prices – which typically dictate the size of home that homebuilders construct – have risen fastest closest to the urban core.

The more recent surge in home prices has been driven by other factors, including cyclical building supply price increases and pandemic-related supply chain disruptions. According to the National Association of Home Builders (NAHB), building material prices have risen more than 35 percent since January 2020, with 80 percent of that increase coming since January 2021. Examples include exterior paint rising by 50 percent and gypsum rising by 22 percent. NAHB also reports that skilled labor shortages result in higher labor costs and an increase in the time required to build a home. Meanwhile, interest rate increases pushed the average mortgage rate to 5.9 percent in January 2023, the highest level since 2008, making home ownership more difficult.

*...the NCLM/NCACC survey results of fast-growing communities show that many have begun answering the call to allow more dense development in response to the ongoing housing crisis. Of the cities and counties responding, 60 percent indicated that they had revised zoning codes in recent years to allow more density by right.*

In this already challenging landscape, the rise of corporate buying of homes for both short-term rentals, like Airbnb, and longer-term rentals puts more pressure on housing costs.

Despite the complexity of the causes of the housing crisis, some critics have sought to shift heavy blame to local governments, and their land-use policies and building approval processes.

In a recent report produced by the CATO Institute in conjunction with the John Locke Foundation, Michael Tanner wrote, "North Carolina must build more housing now to avoid even greater hardship later. To do this, the state must reduce the artificial barriers imposed by overregulating the housing market, particularly exclusionary zoning. Lawmakers at the state and local levels should move quickly to remove all forms of this practice."

Tanner failed to acknowledge the extent to which local governments in North Carolina have already been curbing and even eliminating exclusionary zoning (as we will show in subsequent portions of this report), often at extreme political peril to the local elected officials who have done so.

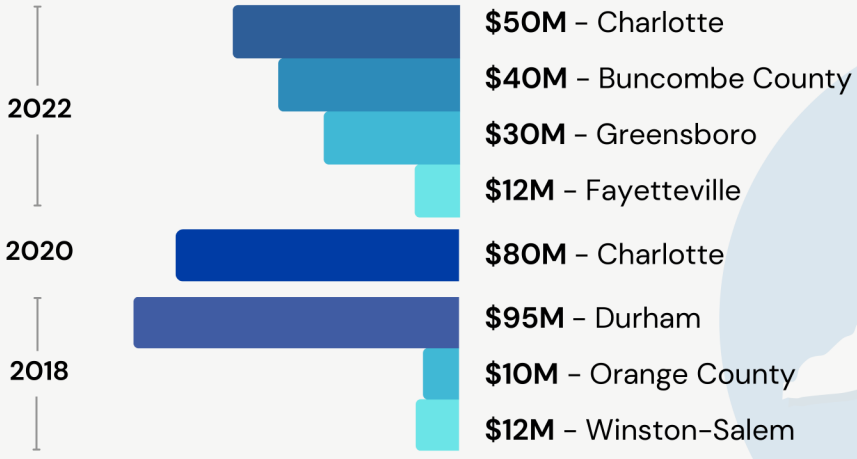
These critics also typically don't reveal that land-use reforms enacted to create more density have shown, at best, modest results when it comes to improving housing affordability. A study from the Terner Center for Housing Innovation at the University of California-Berkley estimated that California's new statewide zoning mandates would result in new homebuilding only on roughly 1 percent of existing home lots due to cost of land and other factors. Those same researchers held discussions with developers in seven states and found little appetite for taking advantage of zoning changes to build more affordable development. Meanwhile, the City of Houston, often cited by zoning critics as an example due to its lack of zoning controls, has the third highest housing costs in Texas, behind only Austin and Dallas.

In fact, local elected officials often find themselves caught between the push and pull of the NIMBYs (Not in My Backyard) and the YIMBYs (Yes in My Backyard) when it comes to addressing housing and fights over density zoning reforms. Over the past several years, it has not been unusual to see local elected officials defeated at the ballot box on the single issue of housing and density reform. Based on which side is taken, these officials incur the wrath of either existing homeowners worried about the effects of more density on their home values or activists and business interests worried about escalating housing costs.

## Housing Bonds: Local Taxpayers Invest in Housing

The housing affordability crisis has been ongoing for years in North Carolina's larger cities and counties. That is why local officials and residents in those places have approved housing bonds – typically by overwhelming majorities – over several years. These bonds have covered a range of needs and assisted people at a range of income levels through direct construction of low-income housing, down payment assistance and land banking.

**Recently Approved Housing Bond Issues & Amounts**



# LOCAL GOVERNMENTS RESPOND

Among local officials who work in the field of land-use planning and building approvals, there is a clear recognition that housing costs are rising faster than the wages of most residents. Many of those professionals cite the cost of land as making the development of affordable housing difficult, whether due to expected profit margins by builders and developers or the financing required to develop the property.

Nonetheless, the NCLM-NCACC survey results of fast-growing communities show that many have begun answering the call to allow more dense development in response to the ongoing housing crisis.

Of the cities and counties responding, 60 percent indicated that they had revised zoning codes in recent years to allow more density by right. Nine of those cities, counties or joint jurisdictions responded that they now allow construction of residential units other than single family units in 75 percent or more of their residential zones. Also, 26 of the represented local governments, or 65 percent, indicated that they now allow accessory dwelling units (ADUs), or in-law suites, on single family lots.

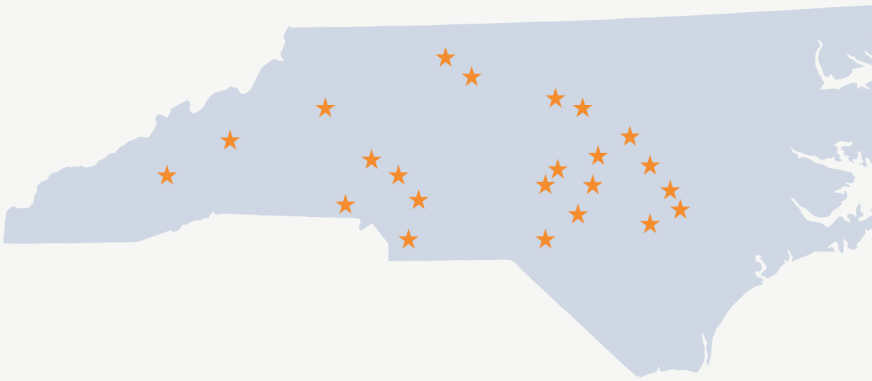
Land-use reforms designed to encourage affordable housing have not stopped there. Thirty-five percent of responding cities and counties indicated that they had loosened parking requirements, decreasing the amount of land required to be dedicated to parking for residential development, while another 30 percent allow density bonuses for housing construction.

Residents in local jurisdictions across the state have additionally approved major bond initiatives in recent years aimed at infusing resources into various solutions aimed at increasing the stock of affordable and middle housing.

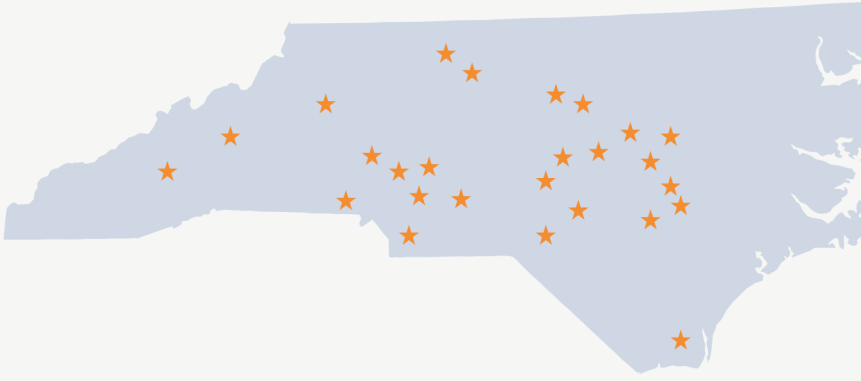
Those efforts to increase density and pursue housing bonds demonstrate that local officials, both elected officials and planning staff, are responding. They desperately want to find ways to address housing needs.

Equally clear from the survey results is that these local government staffs do not see themselves as having adversarial relationships with developers. Asked to best describe that relationship, a full 75 percent of respondents said that they "generally enjoy a good working relationship" with developers, that the development community understands the constraints faced by staff, and that staff works to accommodate their needs. None of those surveyed characterized the relationship as "difficult."

**Local Governments Revising Building Codes for More Density by Right**



**Local Governments Allowing ADUs on Single-Family Lots**



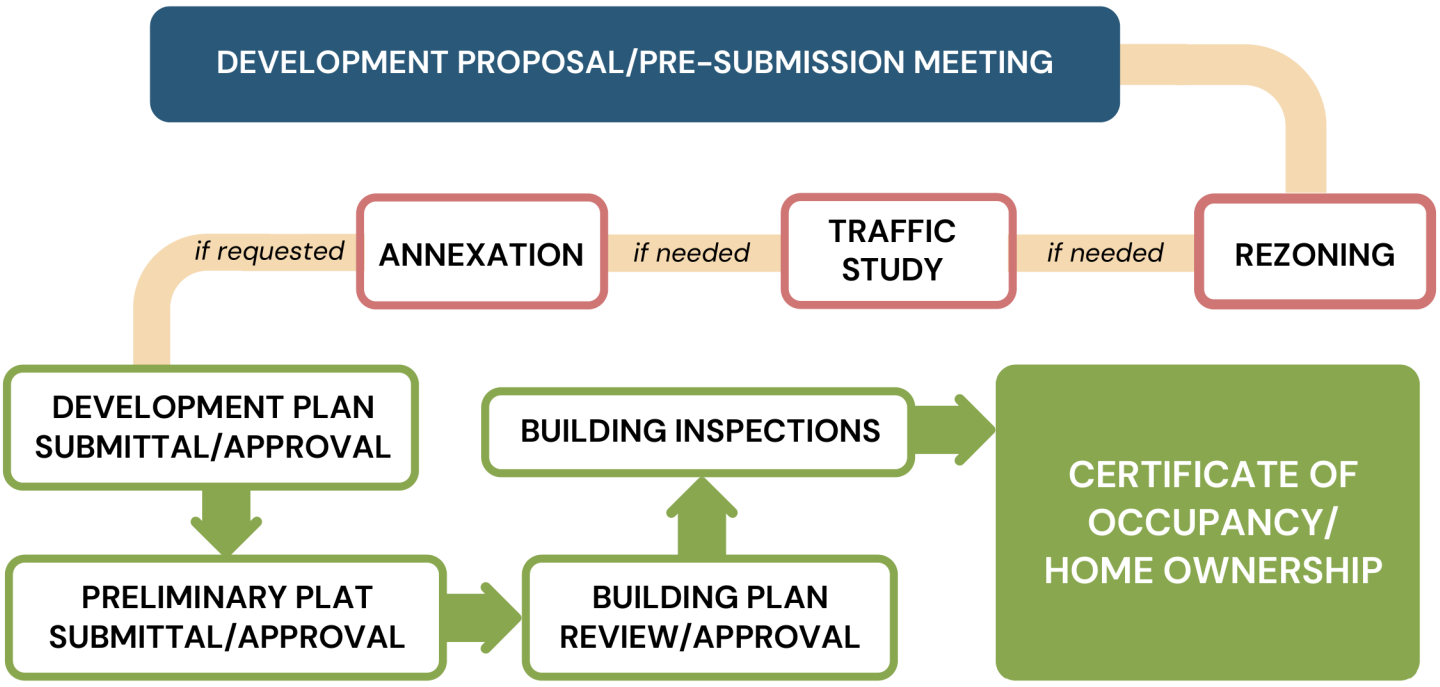
What is clear, though, is that growth can create tension among residents. Fifty percent of respondents said that residents have differing views about growth, depending on the development or project, while 22 percent reported palpable tension between those favoring and opposing development.

Meanwhile, larger land-use policies, and the conflicts that can be generated by them, have not been the sole focus of policy discussion around housing and development. At the N.C. General Assembly, legislative proposals have at times zeroed in on local planning and building approval processes. That focus should not come as a surprise. Home builders operate in an ever-changing economy in which time means money. The housing market can be fickle and volatile, changes in interest rates create substantial differences in that market, and larger swings in the economy affect the housing market more substantially than many other segments of economic activity.

Operating in that environment, land developers and homebuilders need effective and efficient building approval processes.

That process typically works like this: A developer may seek a pre-submission meeting with town's technical review committee, typically at no charge, to consider the steps required to develop a piece of property; if a rezoning is required, they would then make application and the change would go through public hearing and elected board approval process; a traffic study may also be required if a rezoning is needed; if the property is outside the municipal boundary and the developer seeks municipal services, a voluntary annexation petition would be filed; to develop a property, a site plan application would be submitted, and then reviewed to ensure that it conforms with local, state and federal regulation; a preliminary plat application to subdivide property would also be submitted; once those steps are taken, the building permit process would begin ahead of construction.

## Building Approval Processes:



Although that is how the process typically works, not every jurisdiction operates the same and procedures can vary. The NCLM-NCACC survey found that the median major subdivision site plan review typically takes 20 business days to complete, with a median number of three reviews and a mean of four. Commercial plan reviews were typically performed within 15 business days, according to the median response.

Of course, not all plan reviews happen the same way. Survey respondents noted that sometimes developers and engineering firms present highly incomplete plans. The reasons may vary, but consistently incomplete plans are interpreted by planning staff as, "They want us to do their work for them." In those cases, the back-and-forth and requirements for resubmittal and multiple reviews extends the timeframe for approval. Local planning officials also note that local governments are not the only entities involved in the development approval process, noting that private utilities, the state Department of Transportation, the Department of Environmental Quality and the U.S. Army Corps of Engineers are all entities that can slow down local review processes based on their requirements.

**Key survey findings:**

**20 DAYS**
Median Time required to complete a major subdivision site plan review. (Business Days)

**82 PERCENT**
Respondents who have adjusted development reviews over last two years to better partner with developers and citizens

**82 PERCENT**
Respondents who have provided a concurrent review process

It also should be noted that local governments, like many private sector industries, are experiencing labor shortages, with building inspectors one of the areas most affected. Those shortages corresponded with the home construction boom in major metro areas in 2021 and early 2022. According to real estate analysis firm Redfin, in the first quarter of 2022, the Raleigh metro area experienced the second-most single-family housing starts and the Charlotte metro area the fifth most among the top 20 metro areas in the country. In 2021, Mecklenburg County reported 72,684 residential building permits issued, compared to 65,703 in the preceding year, a 10.5 percent increase.

Even as the pace of building has slowed due to rising interest rates, building inspection staffs have continued to face shortages.

The labor issues do not mean that local agencies cannot and have not implemented steps to try to speed approvals. Roughly 82 percent of jurisdictions surveyed said they have adopted concurrent review processes. About the same number indicated that they have made changes to those processes to better partner with developers, citizens and other agencies. Finally, some jurisdictions have also created voluntary steps that developers and builders can take to speed up reviews. Those include free sketch plan reviews intended to reduce any issues with the formal review process. The Town of Cary, for example, goes further, offering pre-application conferences with the development technical review committee.

# CONCLUSION

Communities across North Carolina clearly are grappling with housing affordability, and local officials have been at the forefront in attempting to find answers to a difficult challenge. Given the complexity of the problem, no single solution can be put forth to suddenly produce more affordable housing.

What North Carolina can do is attempt to build upon the successes already present and recognize that, when it comes to building approvals, streamlining processes through technology and investing in human capital are likely to produce the most noticeable improvements.

Local governments do have the ability to look to their neighbors and determine best practices - which can be adopted without any policy changes at the state level - that are creating better results for homeowners, developers and the larger community.

## Local government best practices include:

- Approve concurrent review processes intended to speed overall building approvals and allow development to proceed more efficiently.
- Establish an option for pre-submittal meetings in which developers meet with planning staff to discuss the planned use ahead of subdivision or other development plan submissions.
- Create an ongoing process that allows developers, staff and citizens to meet to discuss development plans, land-use planning and building review processes, as well as development generally.
- Establish interlocal agreements with neighboring jurisdictions to allow for resource and personnel sharing during times of high-volume building or staffing issues.

At the state level, a focus on how to put more people into the building inspections profession, or conversely, assisting in the processes to allow them to be more efficient, would ameliorate a key concern of builders.

## Potential state policy changes that could accomplish those goals:

- Expand a state Department of Insurance pilot program to train more building inspectors.
- Create and fund uniform software for small jurisdictions that could streamline and speed up permitting processes and create more certainty for builders.
- Build a state-of-the-art educational lab where building inspectors and other personnel can be trained in seeing real-world examples of trade construction and how to correct code issues.
- Incentivizing investment in housing designed for various family income levels, whether through tax credits, land banking or public-private agreements, is time proven in addressing housing affordability.

Bringing together the expertise and experiences of everyone involved in housing, whether in the private, public or nonprofit sectors, would result in a better understanding of the causes of the housing affordability crisis and better solutions to address it. With that in mind, the creation of a legislative study committee, to meet over a period of months, would acknowledge the importance of housing affordability to the state's economy and residents' quality of life.

# CASE STUDY 01 - 02

## 01 Raleigh: ADUs That Work for You

The City of Raleigh is one of several cities and towns that have recently agreed to allow denser development in traditional single family-only zoned neighborhoods, a move that includes allowing so called accessory dwelling units, or “in-law suites.” In fact, in a survey conducted as part of this report, more than half of municipal and county jurisdictions that responded now allow these free-standing structures built alongside existing homes in their residential zoning areas. Raleigh has gone a step further in attempting to help residents utilize ADUs as a potential solution to housing affordability. Its planners have created 11 pre-approved ADU plans, with the plans costing between $400 and $1,200. While residents will still have to go through a site assessment to ensure setbacks and other regulations are met, building code issues will have already been resolved through the pre-approved plans. This should assist in helping the city meet its goal of doubling the number of ADUs, which polling has indicated are a favored solution among seniors for their housing needs, over the next few years.

"ADUs are a small but significant part of the solution to housing affordability. It creates opportunities for folks at all parts of the income spectrum and all parts of the age spectrum," Pat Young, Raleigh's Director of Planning and Development, told WUNC Radio.

## 02 Clayton: Listening & Communicating

In the Town of Clayton, local officials aren’t waiting until plans are submitted to hear from developers and builders. Each quarter, they meet with representatives of the development industry to hear their concerns related to both development processes and broader development issues in the town.

These roundtable meetings began in March 2022 and are sponsored by the local Chamber of Commerce. Local officials included in the meetings include the town manager, planning director, engineering director and economic development director. The meetings give town staff the opportunity to explain processes and their challenges, and then consider opportunities to improve them. This constructive forum for listening and communication has also established the developer group as a key stakeholder in the rewrite of land-use ordinances.

# CASE STUDY 03 - 05

## 03 Apex/Wake County: Affordable, Accessible Apartments

In many respects, the Broadstone Walk apartment complex planned near downtown Apex is not very different from many of the developments designed to address housing affordability in communities across the state. These projects typically work only through the careful cooperation of local governments and non-profit or private developers, with those developers often utilizing tax credits provide by the N.C. Housing Finance Agency. In the case of Broadstone Walk, Wake County and the Town of Apex provided $7 million in financing to non-profit developer DHIC Inc., that in turn helped it secure other loan financing. The 164-unit complex will offer 60 of those units to families making less than 50 percent of the area median income. A crucial part of the develop is also its location. The one-, two- and three-bedroom apartments are near grocery stores and other retail stores, as well as bus transit lines, ensuring that residents have ready access to their workplaces and shopping.

## 04 Asheville: Incentives & "Microhousing"

For over a decade, the City of Asheville has been utilizing its Land Use Incentive Grant program to address housing affordability and encourage the development of new housing. The program works by providing incentives to private developers in which at least 20 percent of the development's units are offered to those making 80 percent or less of the area median income, and with at least 50 percent of units allowing rental assistance of some type. The grant amounts are then determined based on a points system rewarding affordability. They are paid out as property tax rebates. To date, 11 projects have received the awards. The latest is perhaps the quintessential dense development – an 80-unit "microhousing" development in which each unit is only 250 square feet but will have communal kitchen and living areas. The developer describes the project as "reasonably priced workforce housing" with proximity to downtown amenities.

## 05 Wilmington/New Hanover County: New Housing for Areas Hit Hard by Hurricanes

When Hurricanes Florence and Matthew hit eastern North Carolina, the loss of rental housing was substantial, particularly as it affected workers crucial to the local tourism economies. In response, local governments have been working with the state and developers to rebound that rental housing stock. One example is the Starway Village planned for Wilmington. The 278-unit multi-family development is being funded with a $9 million award from the N.C. Office of Recovery and Resiliency, as well as $3.5 million from the City of Wilmington and $1.89 million from New Hanover County, with both utilizing their ARPA awards. The developer, Bradly Housing Developers, is constructing the project on the site of an old drive-in movie theater, which is accessible to nearby shopping and transit routes. Families who make less than 60 percent of the area median income will be eligible. The project is similar to those taking place in Morehead City and Greenville, which also suffered middle-housing losses due to the storms.

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*See this full report online at*
*nclm.org/advocacy/housing-crisis*

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