Affordable Housing Assessment and Anti-Displacement Toolkit

SB FRIEDMAN DEVELOPMENT ADVISORS, LLC | AUGUST 2024

TRANSIT ORIENTED DEVELOPMENT

BCDCOG

Contents

Executive Summary

LCRT Corridor Overview

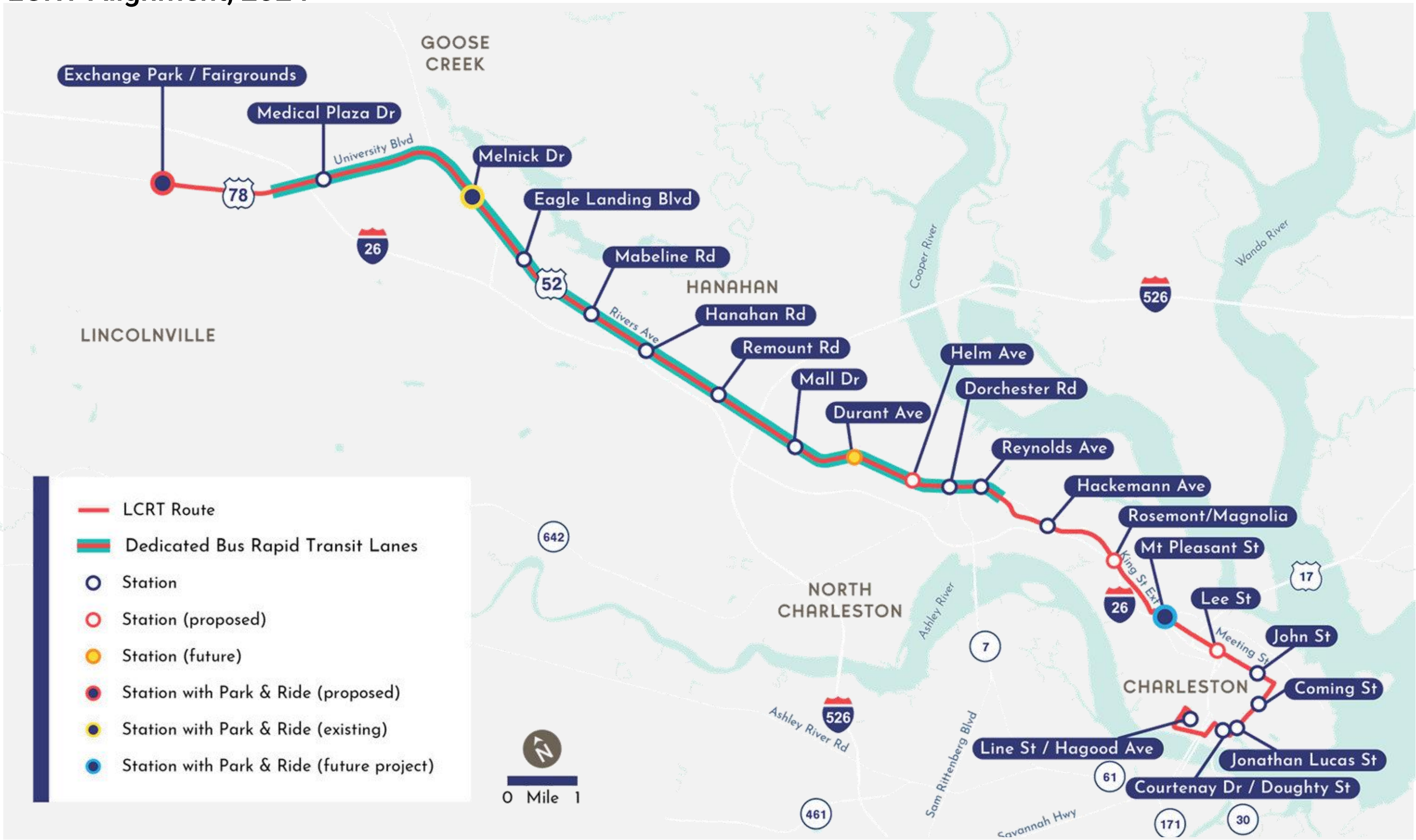
The LCRT system will increase housing demand along the Corridor

The LCRT system will be the first premium transit route in South Carolina. The route extends 21 miles from the heart of the Charleston Peninsula to Exchange Park at the far western extent of Charleston County. While still in planning and design, the Berkeley-Charleston-Dorchester Council of Governments (BCDCOG) has begun to plan for the market impacts associated with this massive infrastructure investment. The LCRT Corridor (the "Corridor") includes the area within one-half mile of the proposed alignment of the LCRT system.

The LCRT will increase access to jobs, education and other needs in the core of the BCDCOG Region (the "Region"), while reducing the cost of transportation for households. However, the improved access is anticipated to drive demand for housing with access to the LCRT, thus impacting affordability. Without properly planning for affordable housing needs, concentrated development and investment in neighborhoods adjacent to the LCRT has the potential to negatively impact vulnerable populations.

The Phase 1 TOD study completed in 2022 included an overview of various strategies that would address affordable housing needs within the LCRT corridor. However, there remains a need for funding to implement these strategies. In this Phase 2 TOD study, BCDCOG is focusing on actionable strategies that can increase funding for the preservation of existing affordable housing and development of new deed-restricted units to mitigate displacement risks within the Corridor.

LCRT Alignment, 2024



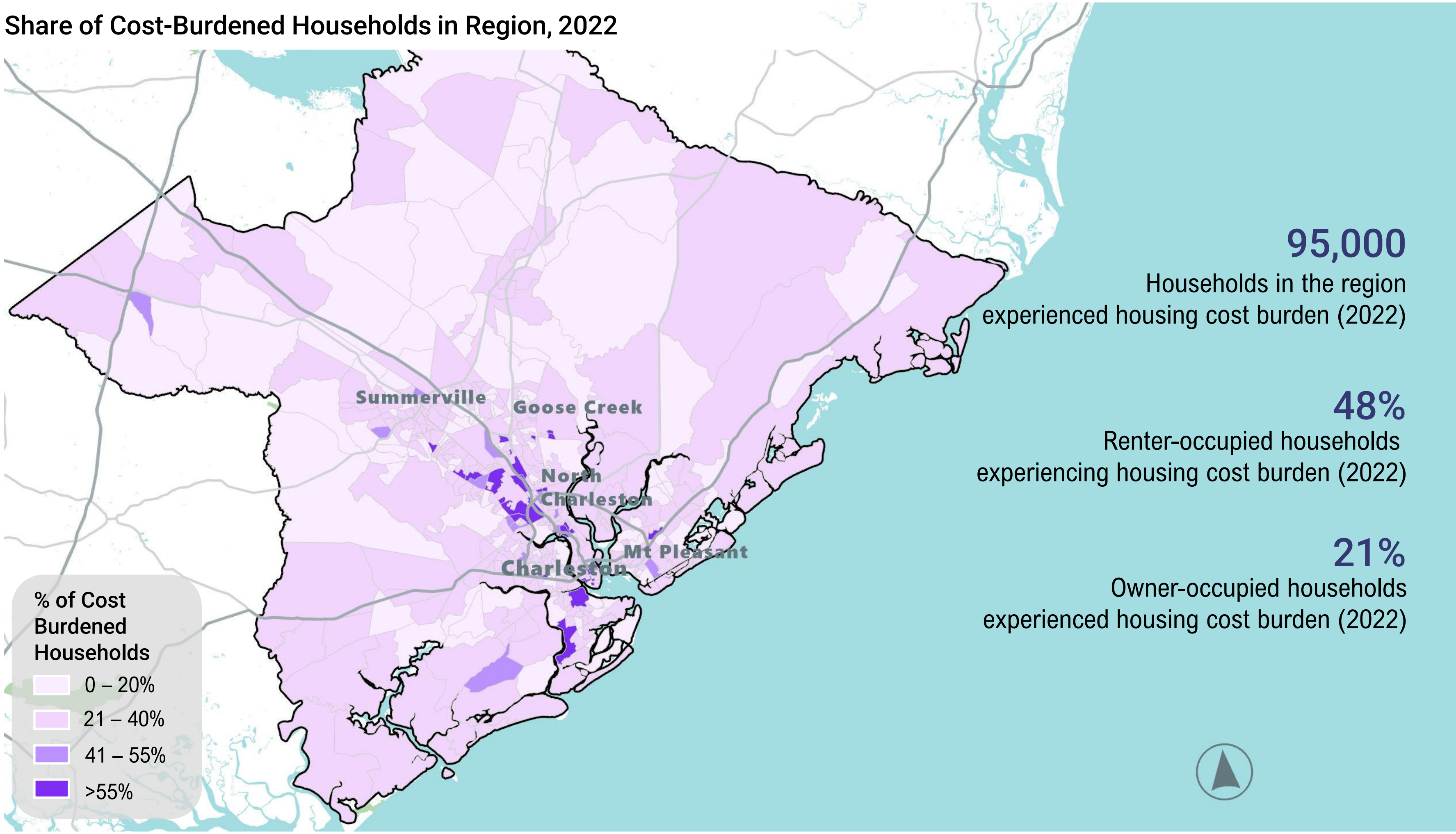
Source: BCDCOG

Regional Housing Cost Burden

Cost-burdened households are most vulnerable to the negative impacts of increased housing demand

Housing cost burden is a primary metric for affordability. The U.S. Department of Housing and Urban Development (HUD) considers a household to be cost-burdened if they spend more than 30% of their gross income on housing-related costs. Households that are cost-burdened are more likely to experience housing instability. For renters, typical housing-related costs include rent, utilities, and parking. Housing costs for home-owners typically include mortgage payments, utilities, property taxes, insurance, homeowner association fees and maintenance. In the Region, the share of cost-burdened renter households has increased from 45% in 2010 to 48% in 2022. Including homeowners, nearly one in three households in the Region are spending more than 30% of their income on housing.

Share of Cost-Burdened Households in Region, 2022



Source: American Community Survey 5-Year Estimates (2018-2022), SB Friedman

95,000
Households in the region experienced housing cost burden (2022)

48%
Renter-occupied households experiencing housing cost burden (2022)

21%
Owner-occupied households experienced housing cost burden (2022)

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Corridor Housing Priorities and Target Strategies

Housing needs vary throughout the Corridor and can be addressed through a variety of strategies

Identifying and prioritizing affordable housing needs can help proactively address displacement risk factors and mitigate adverse impacts to vulnerable populations. Increasing the supply of affordable housing within the Corridor is a growing priority as almost half of all Corridor households are cost burdened. This includes adding new legally restricted affordable housing (LRAH) units and preserving the existing naturally occurring affordable housing (NOAH).

While programs to achieve these outcomes exist in the Region today, the rapid increase in housing costs creates a challenging housing landscape for low- to moderate-income households. Expanding existing programs and implementing high-impact programs are key to addressing affordable housing priorities. To accomplish this, however, will require the use of new local, state and federal funding sources. Therefore, SB Friedman has developed a toolkit of strategies to increase funding for affordable housing and remove affordable housing production and preservation barriers.

HOUSING PRIORITIES

- Increase supply of LRAH units
- Preserve existing NOAH units
- Improve housing conditions and quality for residents

HOUSING STRATEGIES

STRATEGIES TO INCREASE FUNDING FOR AFFORDABLE HOUSING

- ACCOMMODATIONS TAX
- IMPACT FUND
- GENERAL FUNDS/CDBG
- STRENGTHEN FEE-IN-LIEU

STRATEGIES TO REMOVE AFFORDABLE HOUSING PRODUCTION & PRESEVATION BARRIERS

- REVOLVING GRANT/LOAN FUND
- BUILD AMERICA TIFIA/RRIF LOANS
- MULTICOUNTY BUSINESS PARK (MCBP)
  - FEE IN LIEU OF TAXES (FILOT)
- LEVERAGE PUBLICLY OWNED LAND

Existing Corridor Demographics

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Link Between Housing & Transit

Housing and transportation costs often represent the two largest expense categories for households

Housing and transportation expenses are two of the greatest monthly expenses for a typical household, collectively accounting for approximately 50% of a household's monthly budget on average. As a result, intervention to preserve or create affordable housing near transit has a twofold benefit: reducing the cost for both housing and transportation.

Prioritizing affordable housing near transit addresses two of a household's greatest expenses

25-30%
AVERAGE BCD REGION HOUSEHOLD EXPENDITURES ON HOUSING AS A PERCENTAGE OF TOTAL INCOME

21-24%
AVERAGE BCD REGION HOUSEHOLD EXPENDITURES ON TRANSPORTATION AS A PERCENTAGE OF TOTAL INCOME

Source: Center for Neighborhood Technology

Affordable Housing Definitions

'Affordable' purchase prices and rent limits depend on household income and household size

Affordable home values and rents are determined by the Area Median Income (AMI), which is the midpoint of household incomes in a region. Half of all households earn more than the AMI and half of all households earn less. In 2023, the median household income for the Region was $87,500 (assuming a three-person household). HUD identifies affordable housing for renters and homeowners at 60% and 100% AMI, respectively. HUD reports maximum affordable rents for a 60% AMI household as $1,520. SB Friedman used standard market assumption to estimate the maximum affordable purchase price for a 100% AMI household to be $328,000.

Income Limits for the Charleston-North Charleston Metropolitan Statistical Area, 2023

AMI	Household Income[1]	Maximum Affordable Home Value	Maximum Affordable Rent	
120%	$105,000	$394,000	$3,030	
100%	$87,500	$328,000	$2,530	maximum income for most affordable homeownership programs in the Region
80%	$70,000	$283,000	$2,020	
60%	$52,500	$211,000	$1,520	maximum income for most affordable renter programs in the Region
30%	$26,250	$106,000	$760	

[1] Household incomes reported for a three-person household
Source: HUD, SB Friedman

“The Big Squeeze” – Renter Households

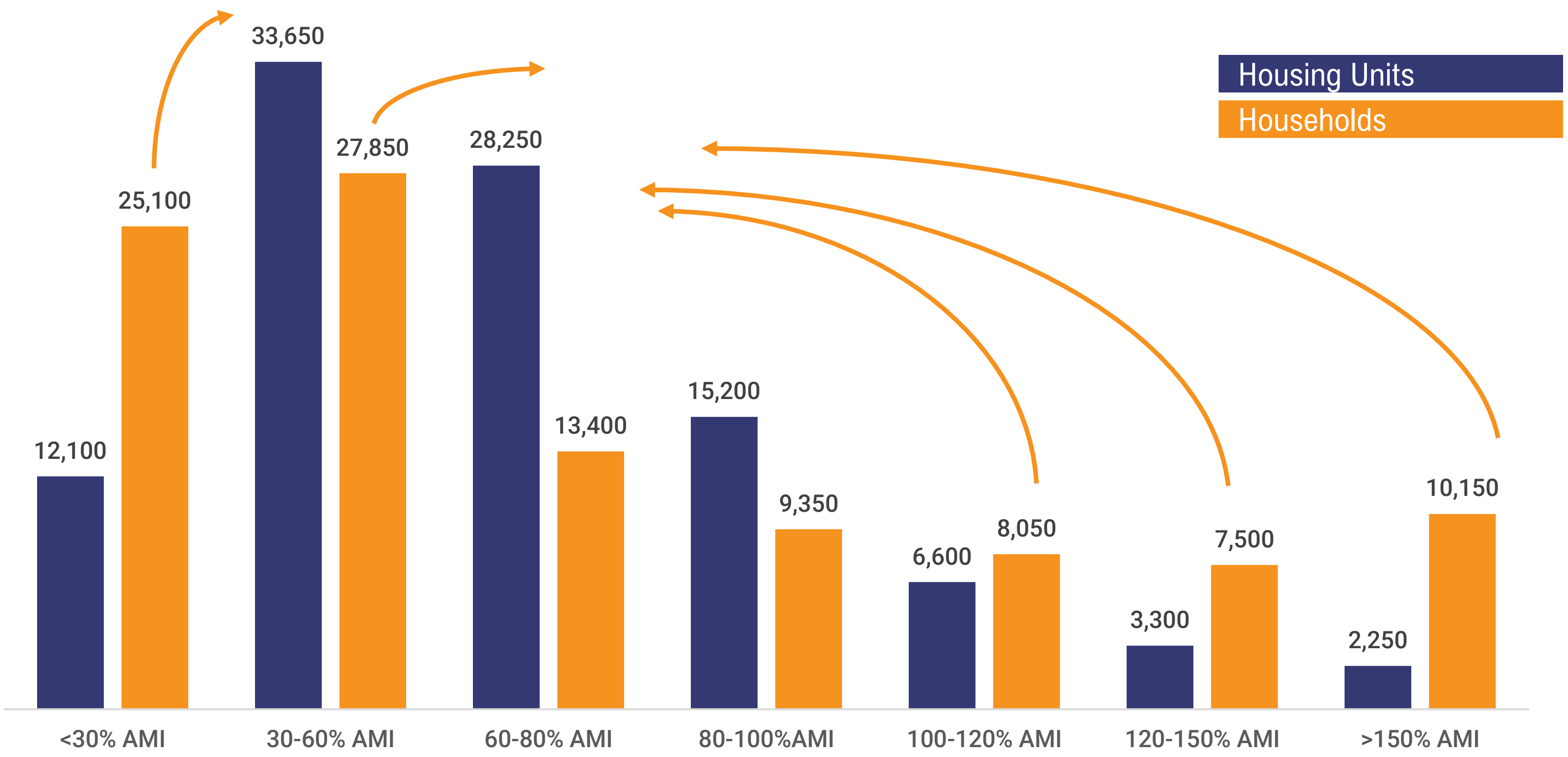
There are over 7,000 more lower-income renters than units affordable to them in the Region

Among the 101,000 renter households in the Region, over half (53,000 households) earn less than 60% AMI. However, there are only 47,000 units affordable to them, resulting in a deficit of approximately 7,000 units.

The number of renter households with incomes over 100% AMI (26,000 households) also significantly exceeds the number of units specifically affordable to them (12,100 units). Higher-income renter households rent units affordable to households at lower incomes.

Demand for moderately priced housing therefore comes from both lower-income and upper-income households – creating a ‘big squeeze’ on the middle of the market.

Renter Households by Income and Renter Units by Affordability Level, 2021



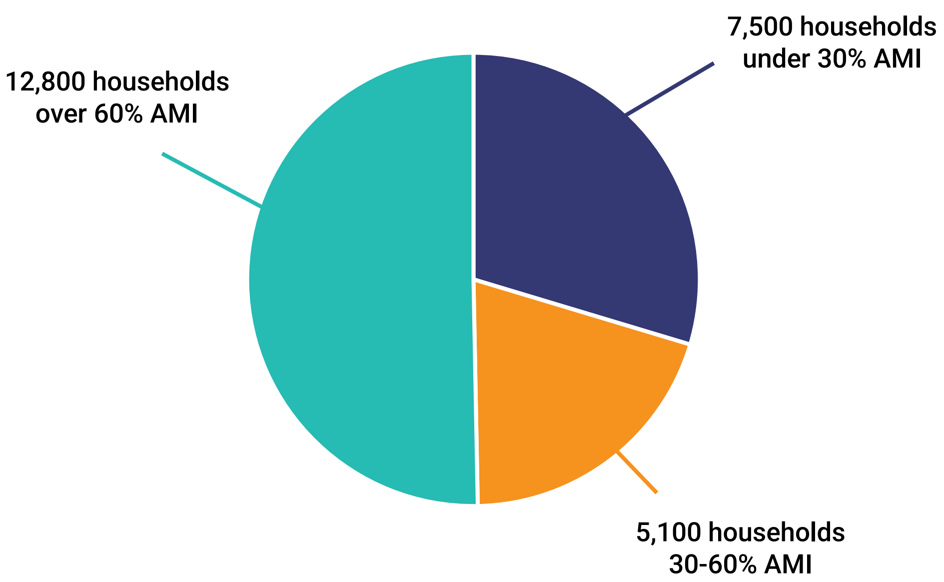
Source: American Community Survey 5-Year Estimates (2017-2021), ESRI, SB Friedman

Households by AMI Level in the Corridor

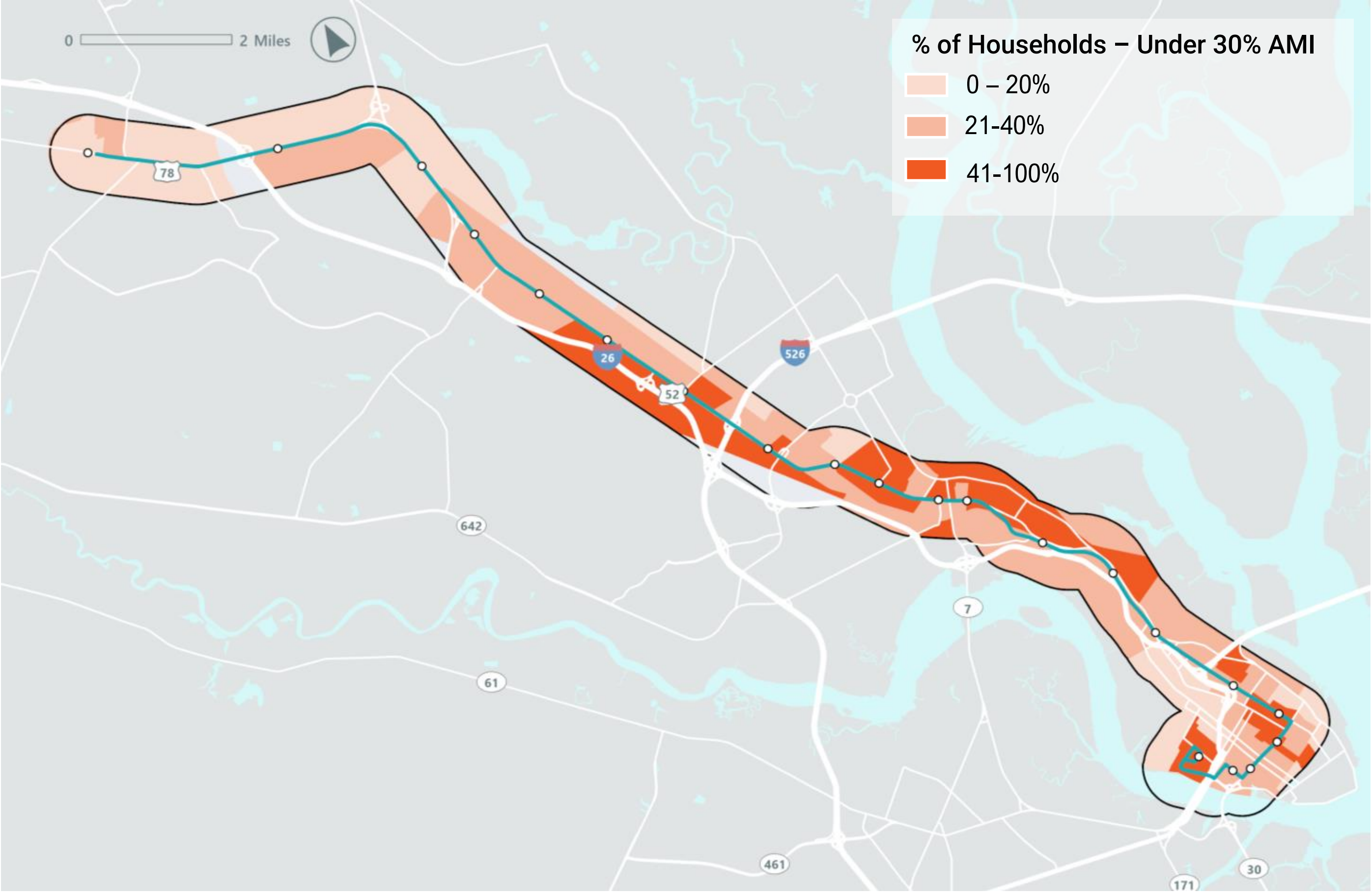
Lower-income households account for one-half of all households in the Corridor

A large share of households in the Corridor today are lower-income. Approximately half of Corridor households earn less than 60% AMI, and nearly one-third fall under 30% AMI.

Households by AMI (2021)



Share of Households Earning Less than 30% AMI, 2021



Source: American Community Survey 5-Year Estimates (2017-2021), ESRI, SB Friedman

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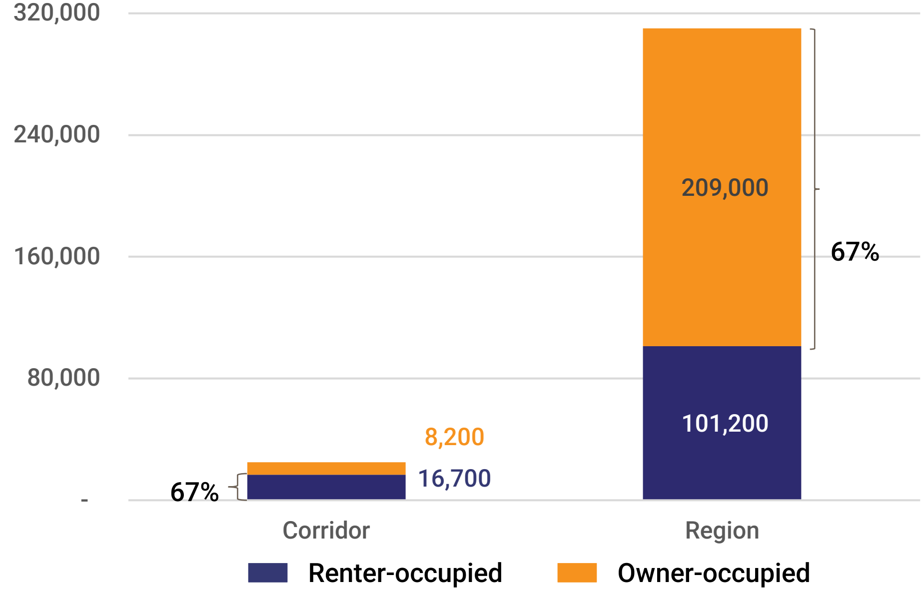
Housing Tenure

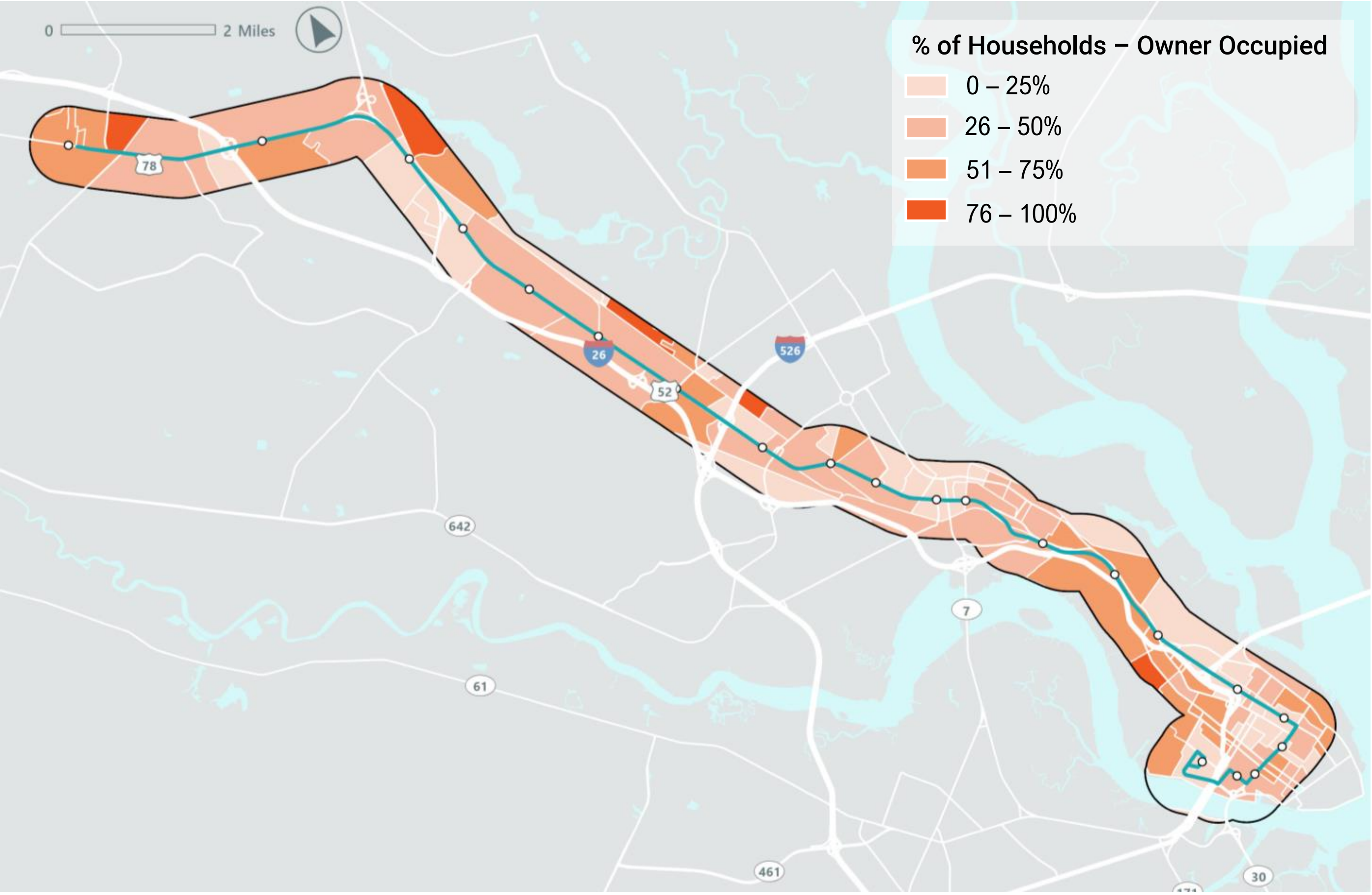
Most homes in the Corridor are renter-occupied

Approximately two-thirds of homes in the Corridor are renter-occupied, double the share of renter households regionally. There are significant concentrations of renter-occupied households in the Peninsula and lower North Charleston. The concentration of owner-occupied households is most notable in north of the Melnick Drive station area.

Housing Tenure (2021)



Share of Owner Households, 2021



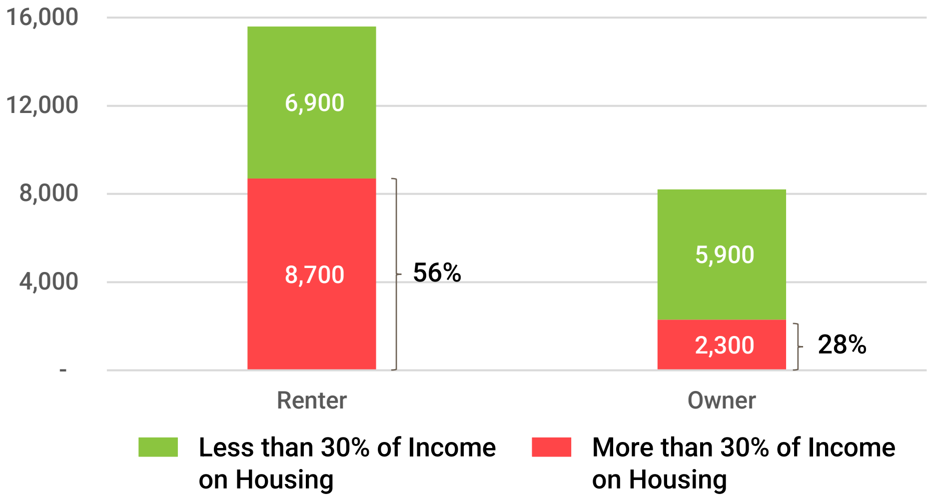
Source: American Community Survey 5-Year Estimates (2017-2021), ESRI, SB Friedman

Cost Burden

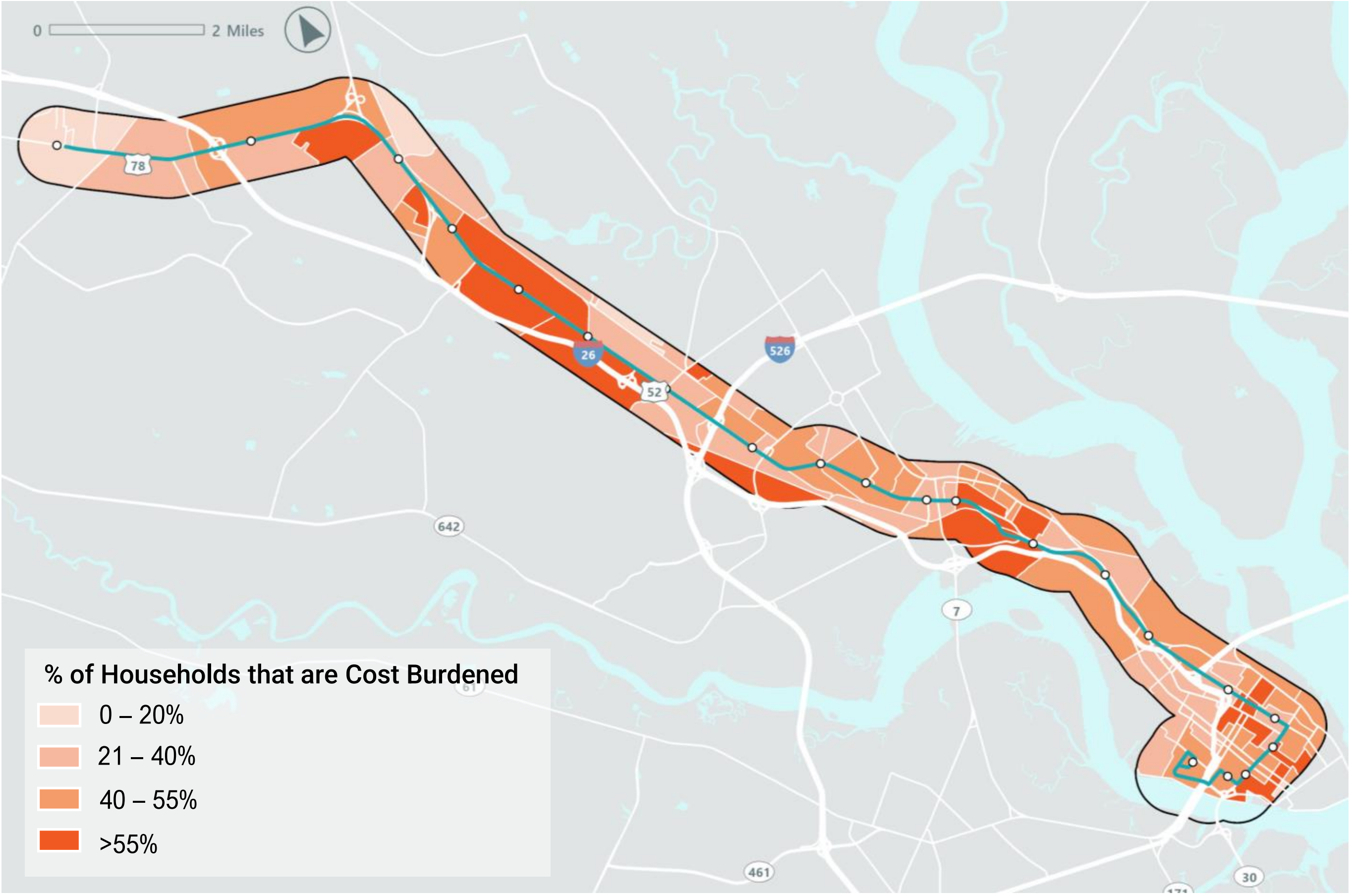
Over 50% of renter households in the Corridor are cost-burdened

Households throughout the Corridor are faced with housing costs that exceed what is affordable. The share of households that are cost-burdened in the Corridor (46%) is higher than the regional share (29%). Cost burden in the Corridor is more prevalent among renter households, 56% of which are cost-burdened. Still, approximately one in four homeowners in the Corridor is cost-burdened. The areas of greatest cost burden are in the Peninsula, North Charleston neighborhoods such as Accabee, Union Heights, and Chicora/Cherokee, and other neighborhoods along Rivers Avenue.

Housing Cost Burden by Tenure (2021)



Share of Households Experiencing Housing Cost Burden, 2021



Source: American Community Survey 5-Year Estimates (2017-2021), ESRI, SB Friedman

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Corridor Housing Affordability

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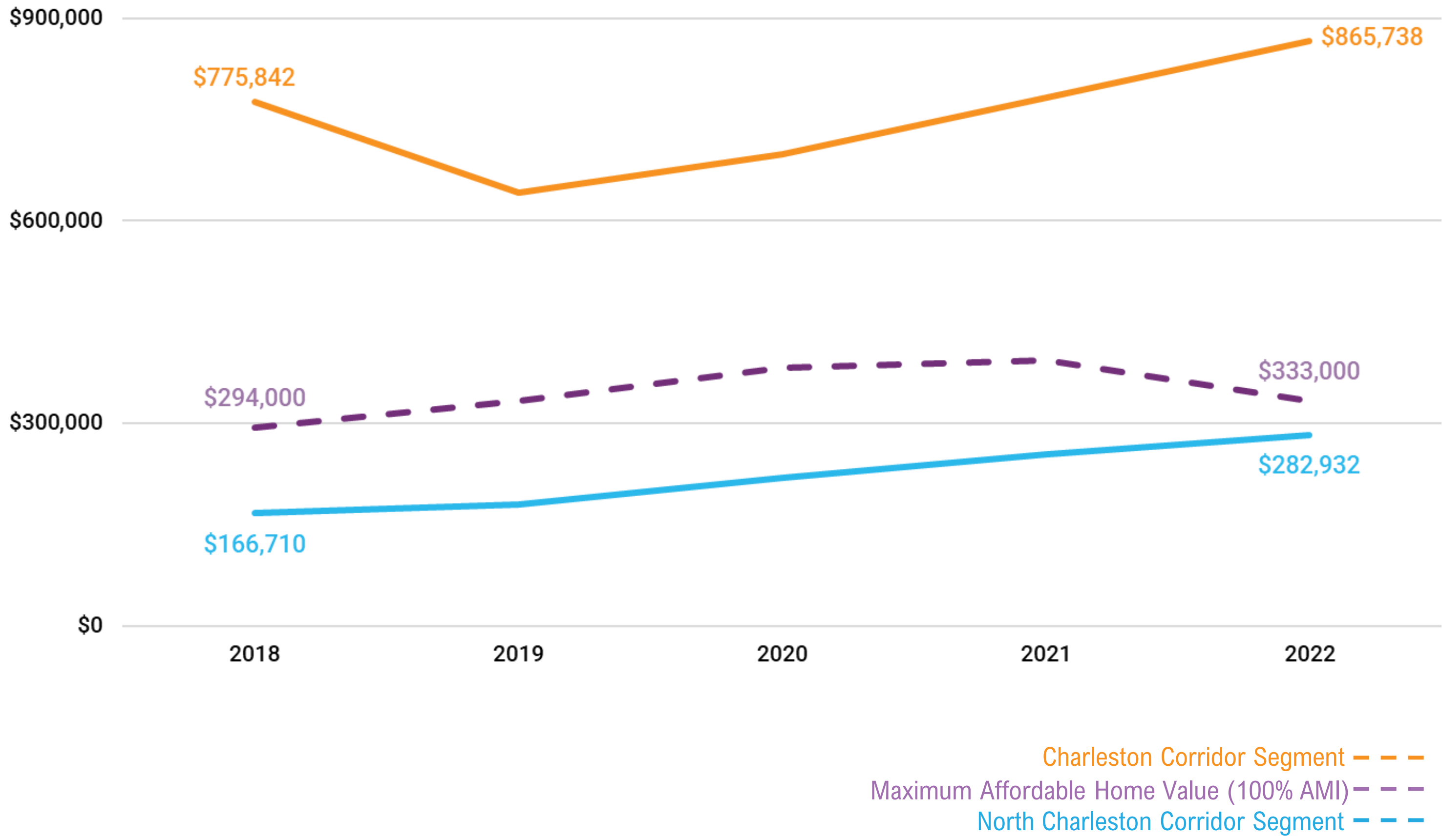
Recent Home Sale Price Growth

Home prices in North Charleston Corridor segments are increasing faster than Charleston segments

Since 2018, the average home sale price has grown dramatically in the Corridor. The average sale price of homes in the Charleston portion of the Corridor in 2022 was $865,700, nearly 12% higher than the average sale price in 2018. The average sale price in the North Charleston portion of the Corridor increased by nearly 15% between 2018 to 2022, from $166,700 to $282,900.

The HUD-reported AMI for each year between 2018 and 2022 was used to estimate the maximum affordable home value for households earning 100% AMI. The average home sale prices in the Charleston portion of the Corridor have consistently been well above the AMI threshold. The rapid growth in sale prices coupled with rising mortgage interest rates over the past several years has made for-sale housing increasingly unaffordable for low- to moderate-income households in North Charleston.

Average Home Sales Price, 2018-2022



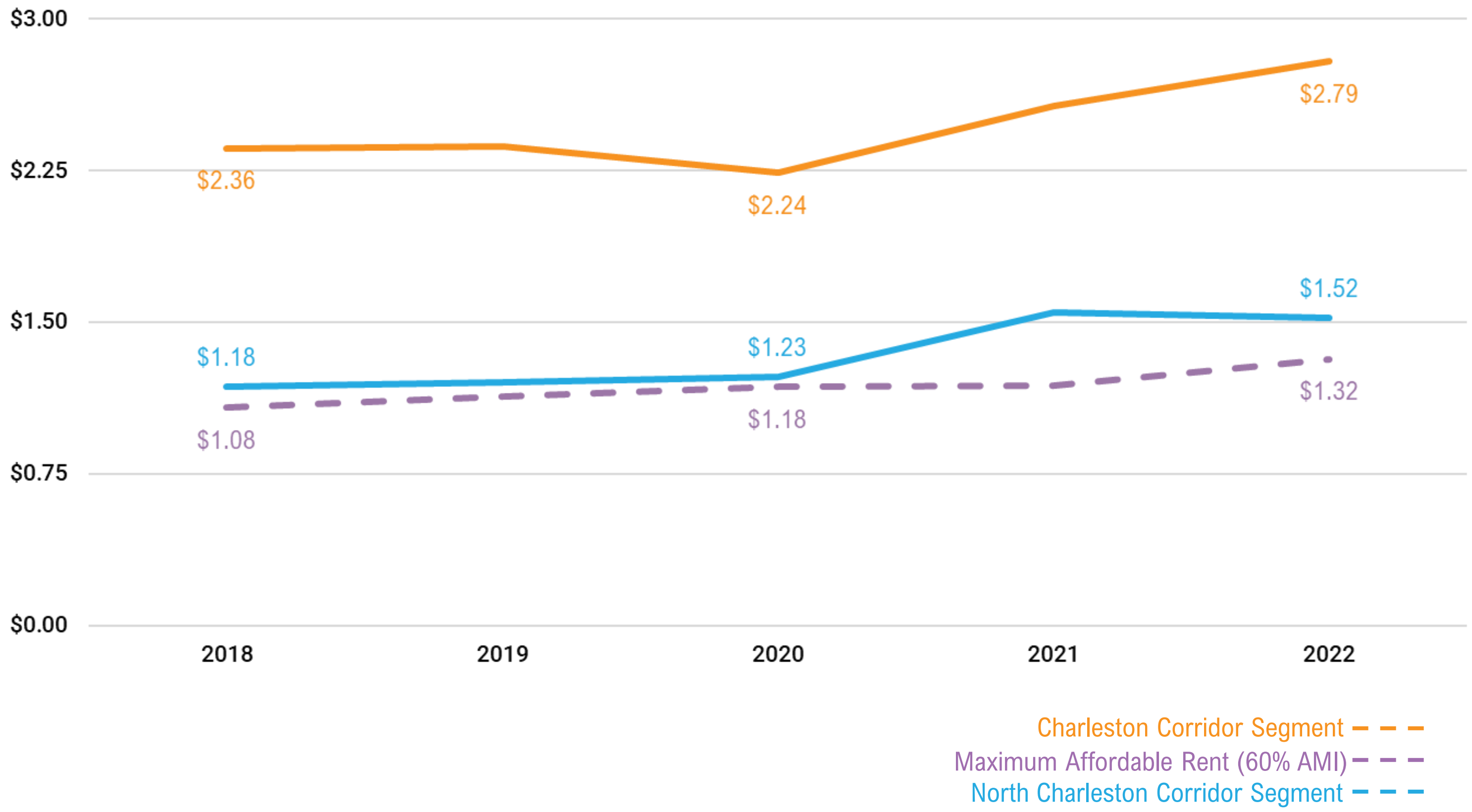
Source: HUD, Redfin, SB Friedman

Recent Rent Growth

Median rents across the Corridor exceed the maximum affordable rents to a 60% AMI household

Rents have also increased in the Corridor since 2018. The average rent in the Charleston portion of the Corridor in 2022 was $2.79 per-square foot (SF), growing by 18% between 2018 to 2022. The average rent per SF in the North Charleston portion of the Corridor has become increasingly unaffordable over the past several years. While historically the median reported rent closely mirrored the maximum affordable rent for a 60% AMI household, the 2022 average rent was reported 15% higher than the affordable limit.

Multifamily Rent ($/SF), 2018-2022



Source: HUD, CoStar, SB Friedman

Types of Housing by Affordability Status

The potential for housing cost to increase depends on the units existing affordability and protected status

There are two general categories of housing: market rate and affordable housing. Market-rate housing is privately owned, and costs do not adhere to any affordability requirements. Affordable housing can be further distinguished between legally restricted affordable housing and naturally occurring affordable housing. LRAH is contractually bound to be affordable, often as a requirement of receiving funding from a government agency or other funding source. In most cases, these units are meant to be affordable for renters earning 60% AMI or less or homeowners earning 100% AMI or less. NOAH is also affordable to the same defined AMI bands, but is not affordable due to any requirement, nor does it have any legal protections. NOAH units may be affordable due to the age, condition, location or size of the unit. However, since market conditions are subject to change, so is the cost of the unit. While NOAH may be affordable for current residents, these units are at risk of losing their affordability.

AFFORDABLE

LEGALLY RESTRICTED AFFORDABLE HOUSING	NATURALLY OCCURRING AFFORDABLE HOUSING	MARKET RATE HIGHER-COST HOUSING
Deed-restricted to be affordable to defined AMIs	affordable to defined AMIs without a deed-restriction	Market-rate housing that exceeds affordable rent or home value maximum thresholds

MARKET RATE

Renter-Occupied Housing

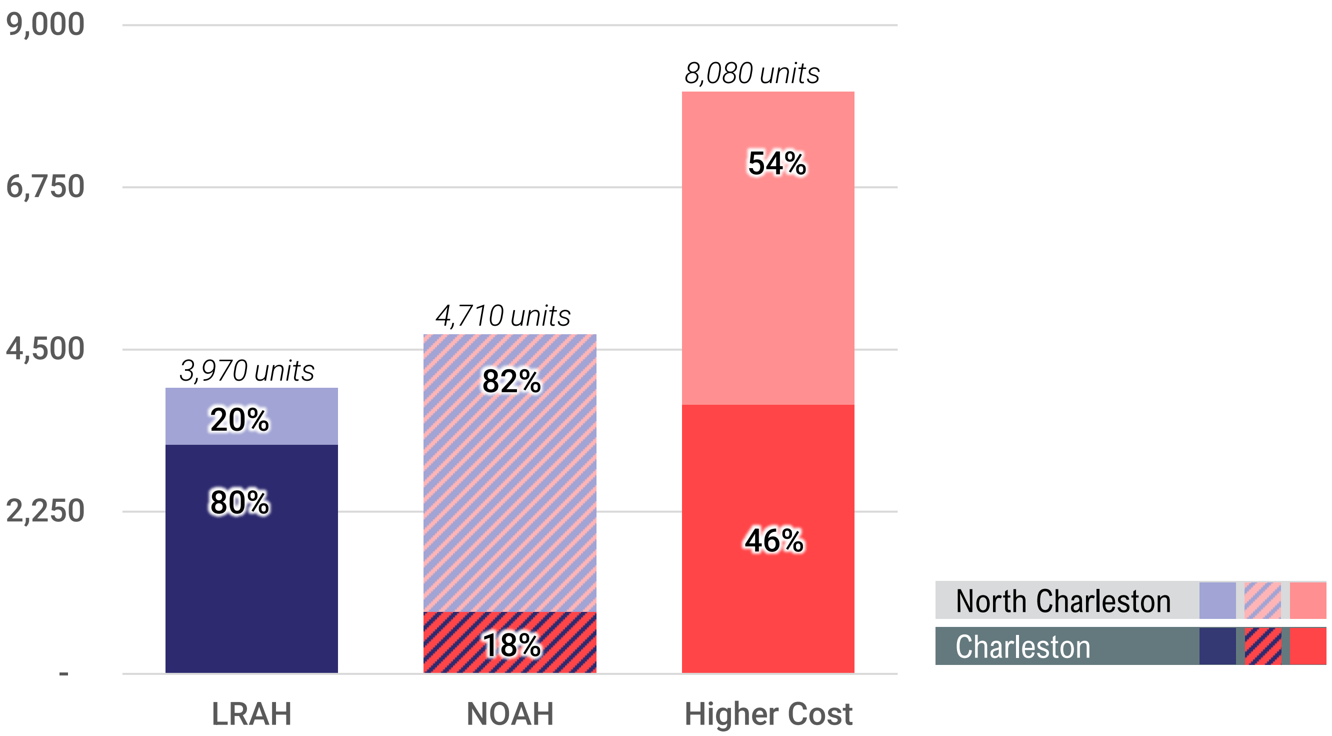
Affordable renter housing units are not evenly distributed throughout the Corridor

There are roughly 16,750 renter-occupied housing units within the Corridor. Approximately 48% of all renter-occupied housing units are higher-cost, market-rate units, 28% are NOAH, and 24% are LRAH.

More than 80% of the NOAH units are located within North Charleston, whereas 80% of the LRAH units are in the City of Charleston. As a result, most of the affordable rental housing stock in North Charleston is unprotected and increasingly at-risk to become unaffordable for low- to moderate-income residents.

Alternatively, market conditions in the City of Charleston make NOAH units sparse and affordability is primarily attained by securing competitive funding that can subsidize the construction of legally restricted affordable housing.

RENTAL **Housing Affordability in the Corridor, 2021**



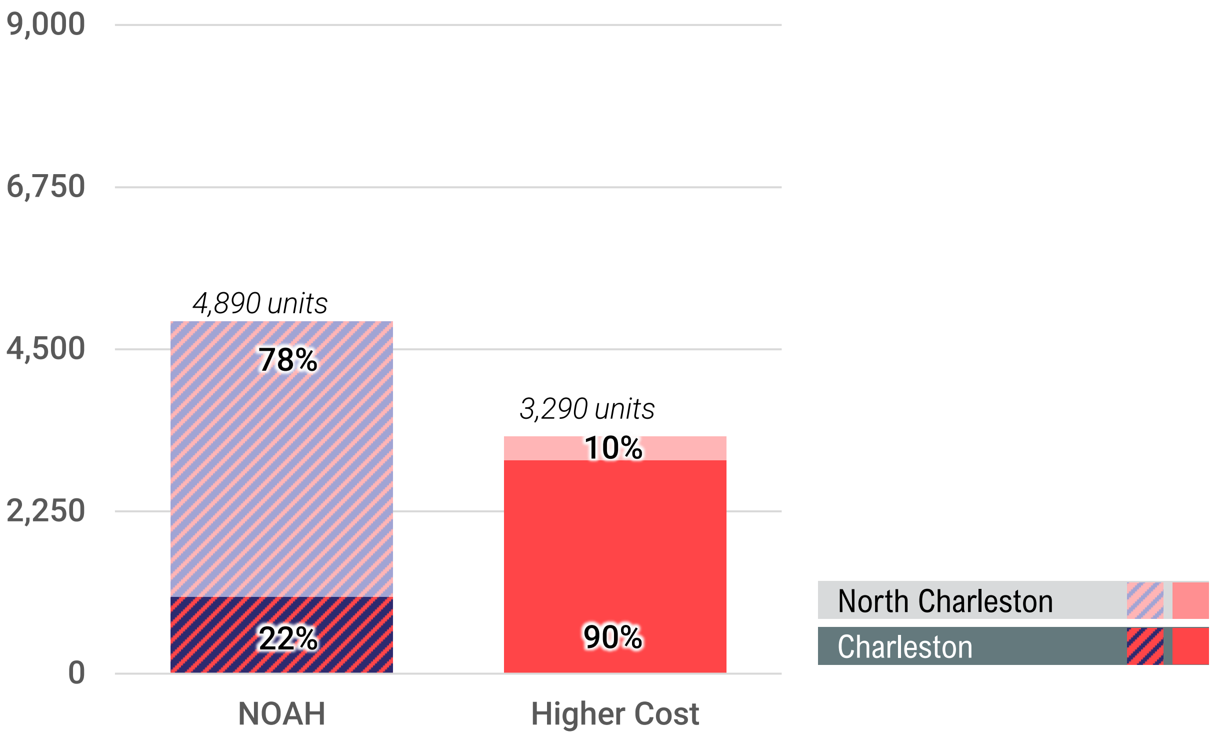
Source: City of Charleston, S.C. Housing, U.S. Census Bureau American Community Survey 5-Year Estimates (2017-2021), SB Friedman

Owner-Occupied Housing

There is very little affordable, owner-occupied housing in Charleston

There are slightly more than 8,100 owner-occupied housing units in the Corridor. NOAH units represent the majority (60%) of owner-occupied housing units in the Corridor but are largely in North Charleston. Nearly 80% of owner-occupied NOAH units are in North Charleston. Inversely, nearly all higher cost owner-occupied housing units are within the City of Charleston.

FOR-SALE **Housing Affordability in the Corridor, 2021**



Source: City of Charleston, S.C. Housing, U.S. Census Bureau American Community Survey 5-Year Estimates (2017-2021), SB Friedman

Housing in the Corridor

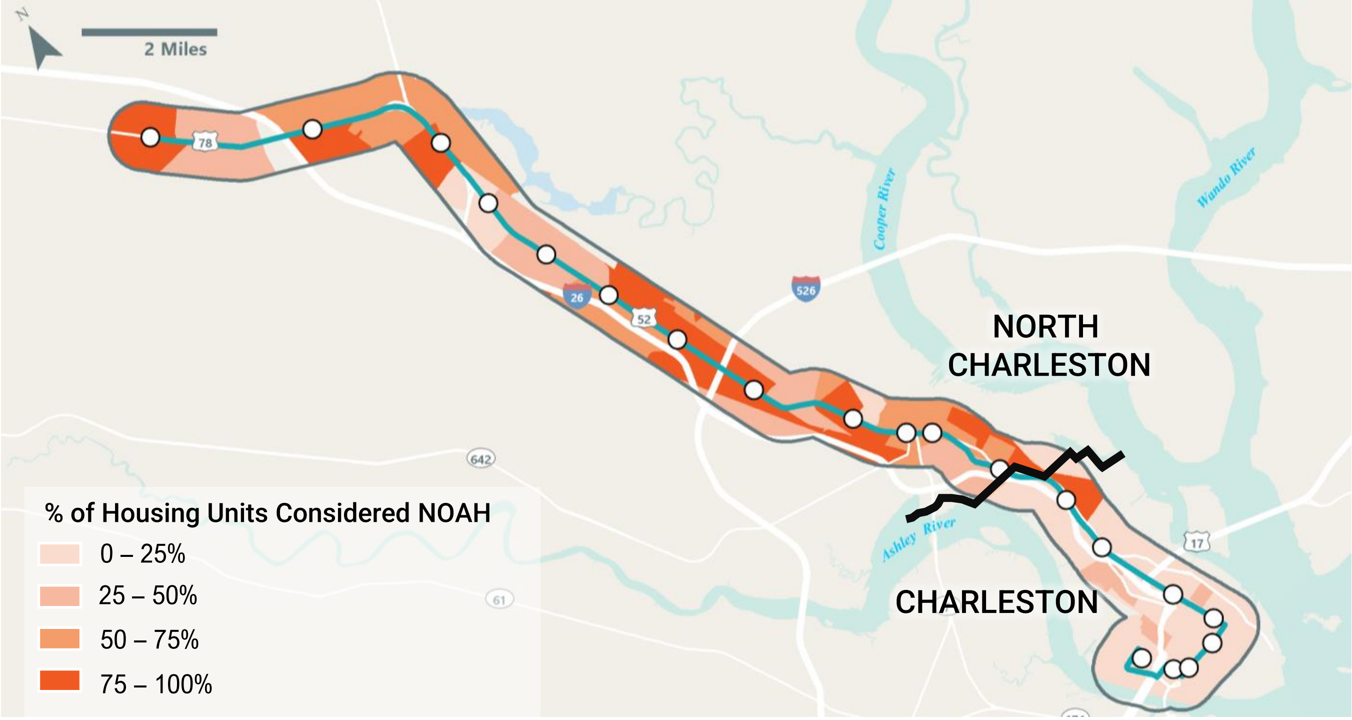
NOAH in the Corridor is primarily concentrated in North Charleston

There are approximately 24,900 occupied housing units within the Corridor. Roughly two-thirds are renter-occupied households and one-third are owner-occupied. Many Census Block Groups within the North Charleston portion of the Corridor are comprised primarily of NOAH and indeed, most of the NOAH within the Corridor is within North Charleston. NOAH is a critical factor in the affordable housing strategy and will be important to preserve as the corridor continues to attract investment.

Housing Units by Jurisdiction, Tenure and Type, 2021

Housing Unit Type	Total	LRAH	NOAH	Higher Cost
Rental Unit	**16,750**	**3,970**	**4,700**	**8,080**
Charleston	7,780	3,180	860	3,740
North Charleston	8,970	790	3,840	4,340
Owner Unit	**8,180**	**-**	**4,890**	**3,290**
Charleston	4,030	-	1,070	2,960
North Charleston	4,150	-	3,820	330
Total	**24,930**	**3,970**	**9,590**	**11,370**

NOAH Units as Share of Total Housing Units, 2021



Source: HUD, Charleston, American Community Survey 5-Year Estimates (2017-2021), ESRI, SB Friedman

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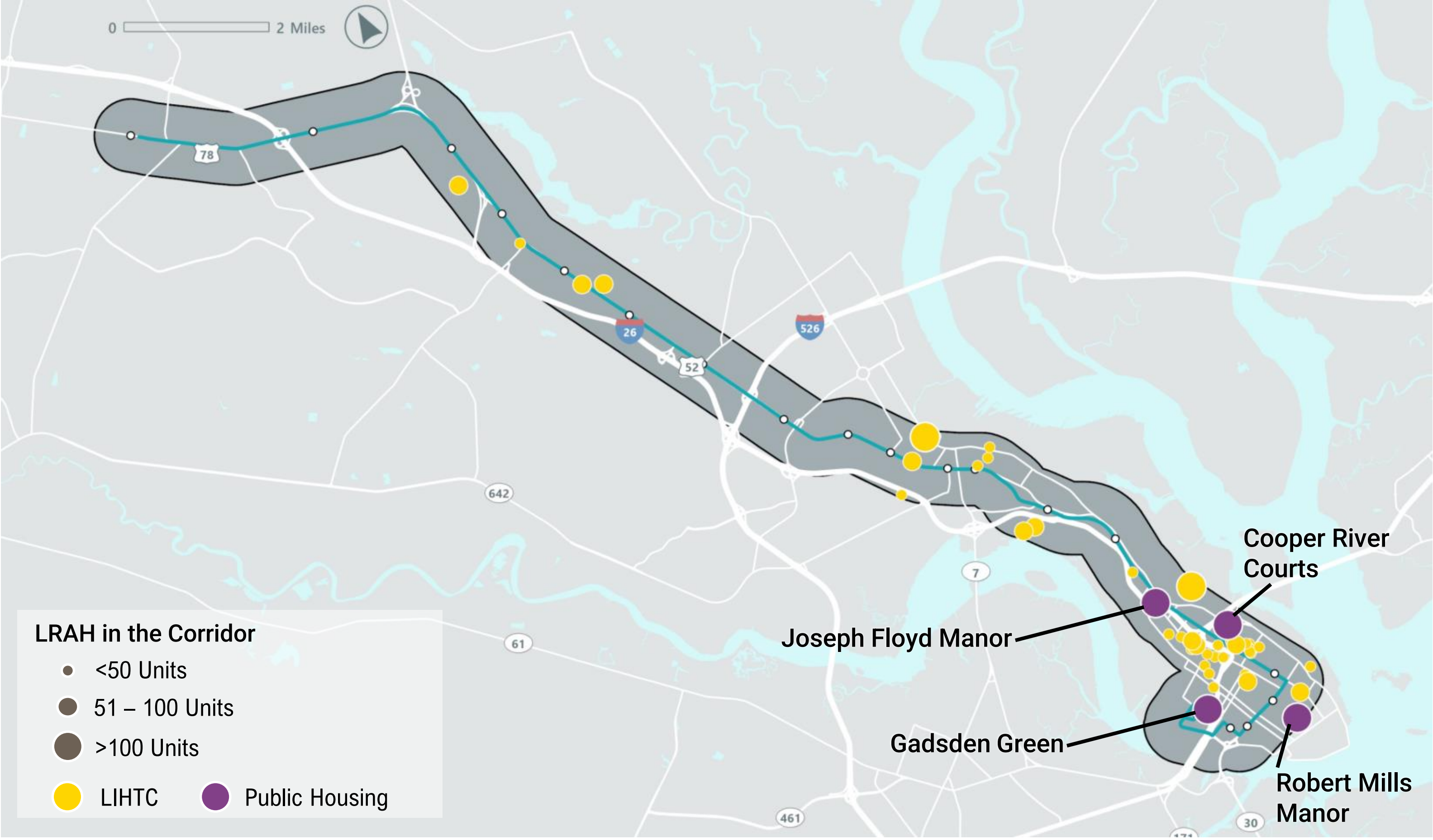
LRAH in the Corridor

Most of the LRAH in the Corridor is in the City of Charleston

LRAH in the Corridor is either a product of Low-Income Housing Tax Credit (LIHTC) subsidy or HUD-funded public housing projects. There has been limited LIHTC production in the Corridor in the past decade due to statewide limits on credit allocations and limited gap funding availability from local jurisdictions.

The public housing developments provide valuable deeply affordable units to Corridor households. HUD has launched the Rental Assistance Demonstration (RAD) program to incentivize reinvestment in existing public housing projects to enhance their quality while maintaining affordable housing units. Cooper River Courts is part of a RAD redevelopment plan that will replace existing affordable units in a mixed-income development. The three other HUD-sponsored public housing projects in the Corridor represent additional infill opportunities for mixed-income development.

LRAH Developments by Number of Units and Project Type, 2023



Source: Charleston County, ESRI, HUD, SB Friedman

Corridor NOAH

Most of the NOAH in the Corridor is in North Charleston

There are significant concentrations of NOAH units within station areas throughout the North Charleston portion of the Corridor. NOAH can take many forms, from single-family detached housing to larger investor-owned multifamily buildings.

At a parcel level, NOAH is often under LLC ownership, relatively old (built pre-1990s), and may have some level of building deterioration due to deferred maintenance.

Concentrations of NOAH Along the Corridor, 2021

LCRT | BCDCOG

Corridor NOAH Profiles

NOAH housing is a mix of scales and can be either owner- or renter-occupied housing

NOAH properties are often affordable due to their age, location, size, and/or condition. Many of the NOAH units in the Corridor display deferred maintenance and signs of aging. Most of the multifamily NOAH units are garden-style apartments built in the 1980's or before. Maintaining these units is a key strategy to preserving affordable units in the Corridor.

Address	3314 Florida Ave, North Charleston	5052 Delta St, North Charleston	15 Norman St, Charleston	1815 Clement Ave, North Charleston
Building Type	Garden Apartment	Garden Apartment	Duplex	Garden Apartment
Units	6 units	24 units	2 units	50 units
Year Built	-	1965	1935	1980
Last Sale Price	$305,000	$651,000	$405,000	$5,440,000
Last Sale Date	2017	2017	2013	2023
Rent	$783	$825	$871	$929
Station Area	Reynolds	Remount	Line	Hackemann

Source: Charleston County Assessor, CoStar, SB Friedman

Anti-Displacement Toolkit

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Emerging Affordable Housing Strategies

Increasing funding for affordable housing, and removing barriers to produce affordable housing are key

A variety of local revenue sources, development incentives, and federal funds can be leveraged to protect current renters and homeowners by preserving existing affordable housing and supporting the development of new affordable housing. Noted strategies incorporate refinements to existing strategies already being used locally, and emerging national best practices. Each provides a unique pathway to support affordable housing objectives within the Corridor and Region.

STRATEGIES TO INCREASE FUNDING FOR AFFORDABLE HOUSING

ACCOMMODATIONS TAX	Dedicate 15% of local accommodations tax allocation to advance workforce housing goals
IMPACT FUND	Attract philanthropic capital to support affordable housing
GENERAL FUNDS/ CDBG	Commit general fund or community development block grant revenues to support affordable housing initiatives
STRENGTHEN FEE-IN-LIEU	Adjust fee-in-lieu requirement in City of Charleston to reflect development cost of affordable housing units

STRATEGIES TO REMOVE AFFORDABLE HOUSING PRODUCTION & PRESERVATION BARRIERS

REVOLVING GRANT/LOAN FUND	Develop revolving loan program; increasing availability of patient capital for housing development
BUILD AMERICA TIFIA/RRIF LOANS	Pursue federal funding sources that can help finance TOD projects
MULTICOUNTY BUSINESS PARK (MCBP)	Use MCBP incentive authority granted by state to reduce property taxes on affordable housing development
FEE IN LIEU OF TAXES (FILOT)	Leverage Fee in Lieu of Tax agreements to further reduce property tax burden on housing developers
LEVERAGE PUBLICLY OWNED LAND	Activate publicly-owned land for affordable housing development

Accommodation Tax (A-Tax)

Recent South Carolina legislation empowers local jurisdictions to leverage hotel taxes for affordable housing

OVERVIEW

New South Carolina legislation in 2023 allows municipalities and counties to allocate up to 15% of their annual A-Tax revenue from the State to projects that expand “workforce housing” opportunities (units affordable for households earning 30-120% of the Area Median Income).

To utilize A-Tax revenues for housing, a housing impact study is required to demonstrate the need for funding and the impact of the additional funding on providing additional workforce housing.

In 2021, the City of Charleston generated approximately $8.3 million in A-Tax revenues. Under the new A-Tax legislation, about $1.25 million would be available annually to support workforce housing initiatives in Charleston. Charleston County A-Tax revenues in 2022 would have produced $4.15M to be used on workforce housing. Collectively, the two entities have the capacity to increase annual funding for affordable housing by millions.

NEAR-TERM ACTION ITEMS

1. Conduct the required housing impact study to demonstrate the need for funding
2. Identify uses and create a spending plan for A-Tax revenues
3. Coordinate the spending of A-Tax revenues between jurisdictions to maximize impact. The County is currently exploring options to partner with the SC Community Loan Fund to start a housing trust fund with the new revenues.

A-TAX 101:

A-Tax revenue generated by hotel visitors

↓

Municipalities receive share of the A-Tax revenue from state

↓

15% of state A-Tax allocation can be used to develop workforce housing

Impact Fund

Attract philanthropic and grant funding by demonstrating affordable housing is a high-impact community investment

OVERVIEW

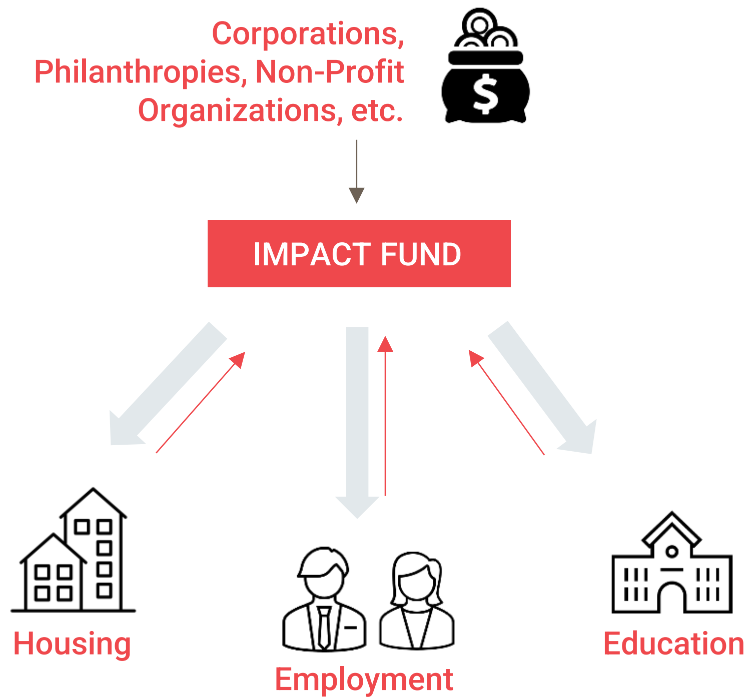
Impact funding leverages investment from public and private sector entities seeking to achieve social impact and economic returns. Impact funds often provide favorable loan terms (e.g., lower loan fees, lower interest rates, extended interest only periods) that can be used to develop new affordable housing or preserve existing affordable housing units.

Impact funds are typically managed by quasi-public entities who disperse funds as either grants or low-cost loans, sometimes with conditions related to the preservation of affordability. The lower cost of capital can allow a non-profit or public development agency to finance affordable housing developments and ensure the long-term affordability of projects that receive investments.

There are existing impact funds active in Charleston region, but none focused exclusively on affordable housing. Establishing a fund to address affordability concerns before development occurs within the Corridor can help achieve anti-displacement goals and add new affordable housing units to the Corridor.

NEAR-TERM ACTION ITEMS

1. Identify partnership opportunities with non-profits (ex. Coastal Community Foundation of South Carolina)
2. Conduct informational interviews with potential impact fund operators to build interest in the market and local understanding of regional priorities
3. Build market case for corporate involvement in an impact fund for affordable housing; show potential return scenarios
4. Conduct outreach with elected officials to increase awareness of impact fund potential



Case Study | Community Foundation for Greater Atlanta

Community Foundation for Greater Atlanta – Atlanta, GA

The Community Foundation for Greater Atlanta (CFGA) launched the GoATL fund in 2018. The fund has successfully attracted impact investment fund capital from corporate and philanthropic partners to advance community development goals in Atlanta. In the first five years, the GoATL fund has invested over $6.1M to build or renovate over 900 single-family and multifamily housing units.

Following the success of the initial impact fund, CFGA attracted two recent $100M awards from the Robert W. Woodruff and Joseph B. Whitehead Foundations. The Atlanta City Council also approved a $100M affordable housing bond in 2023, generating a collective $300M in philanthropic and public funds for affordable housing.

Source: Atlanta Civic Circle, Community Foundation for Greater Atlanta

50+
Partners Engaged

$220M
Leveraged Value

6K
New or Preserved Homes

General Fund/Community Development Block Grants (CDBG)

Repurpose existing funding to address critical affordable housing needs

OVERVIEW

General fund set-asides and HUD CDBG grants are bedrock sources for addressing housing needs. While politically challenging, dedicating general funds to affordable housing initiatives creates a flexible funding source with fewer spending limitations than federal sources. The City of Charleston has historically pursued an additional levy to support an affordable housing bond rather than dedicate funds out of the general fund. However, housing bonds can be perceived as stopgap measures rather than a recurring commitment to housing development and preservation.

The Cities of Charleston and North Charleston, as well as Charleston County, each receive CDBG funds from the federal government. Charleston historically prioritized spending of CDBG on homeownership support, development of new affordable housing, code enforcement, non-profit capacity building, and provision of financial assistance to homebuyers. These legacy programs could be further expanded with additional funding from non-CDBG sources.

Dedicating additional local funds to housing programs is challenging. However, municipalities across the country are finding that federal sources are insufficient to meet housing demand. Identifying and addressing unmet needs, especially those remaining after a municipality has exhausted all federal funding sources, is a critical component to achieving housing objectives.

NEAR TERM ACTION ITEMS

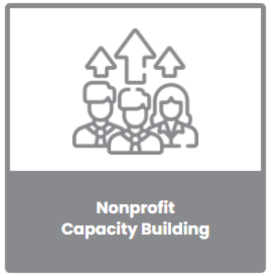
1. Identify annual unmet housing need after leveraging all existing funding sources
2. Propose priorities and spending plan for general fund allocation in support of affordable housing
3. Communicate housing need and spending plan to elected officials

Case Study | Cary, NC General Fund Commitment

Dedicated Housing Funding
Cary, NC

Cary is a rapidly growing municipality in North Carolina. Recognizing that housing affordability is a key challenge in the community, the Town of Cary has substantially increased dedicated funds to support four key housing priorities: housing development, housing rehabilitation, housing stability, and non-profit capacity building.

The Town increased funding for housing related initiatives from $2.4M in FY2022 to nearly $7.3M in FY2024. The increase in funds is largely attributable to a pioneering commitment of revenues from the Cary General Fund to support housing. The increase in funding has already been used to make an impact, with nearly 500 affordable units under construction, over 50 households receiving direct assistance, and $72M in private funds leveraged for housing development.



Cary Housing Funding (FY2022-2024)

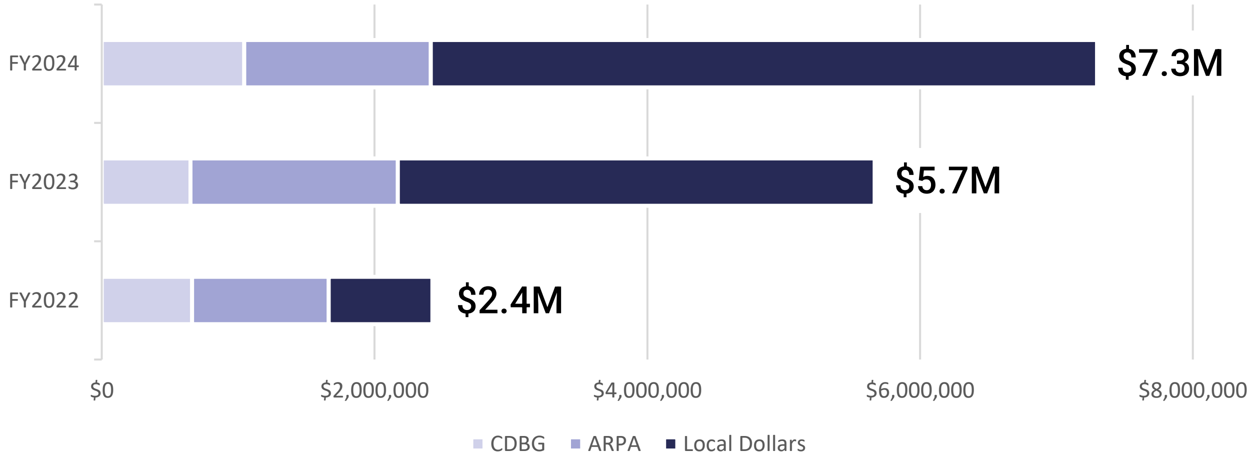


Image Source: Town of Cary
Data Source: Cary Annual Action Plan (FY2022-2024), SB Friedman

Strengthen Fee-in-Lieu

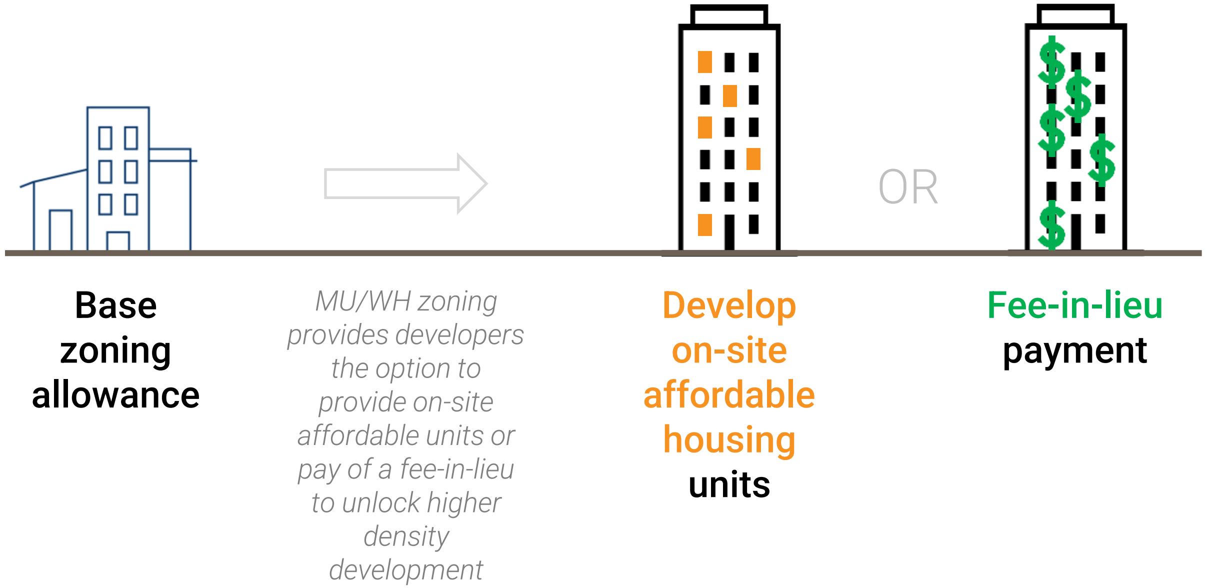
The existing affordable housing fee-in-lieu program is a value funding source for housing development

OVERVIEW

The mixed-use workforce housing (MU/WH) zoning district in the City of Charleston is a zoning district in which developers can elect to build at higher densities in exchange for providing affordable housing or paying a fee in-lieu. If a developer chooses to build affordable on-site, at least 20% of new residential units must be affordable to households earning 80% AMI or less. Most developers opt for the fee-in-lieu, a formula-based payment to the City to a dedicated affordable housing fund used to provide gap funding to development elsewhere. When the fee was first introduced, developers were charged a flat-rate fee of $3.40 per gross square foot. The City has since increased the rate multiple times. It is currently a tiered rate that increases annually by AMI growth or Consumer Price Index growth—whichever is greater. Since 2017, the City has received approximately $1.7M annually in fee payments.

NEAR TERM ACTION ITEMS

1. Regularly reassess the fee-in-lieu payment to maximize revenues available to support affordable units without compromising financial feasibility for market-rate development
2. Share assessment findings with developer advisory group and refine fee based on feedback
3. Report findings to Charleston elected officials



Strengthen Fee-in-Lieu BY THE NUMBERS

Higher densities improve project returns; rising costs limit feasibility of mixed-income projects

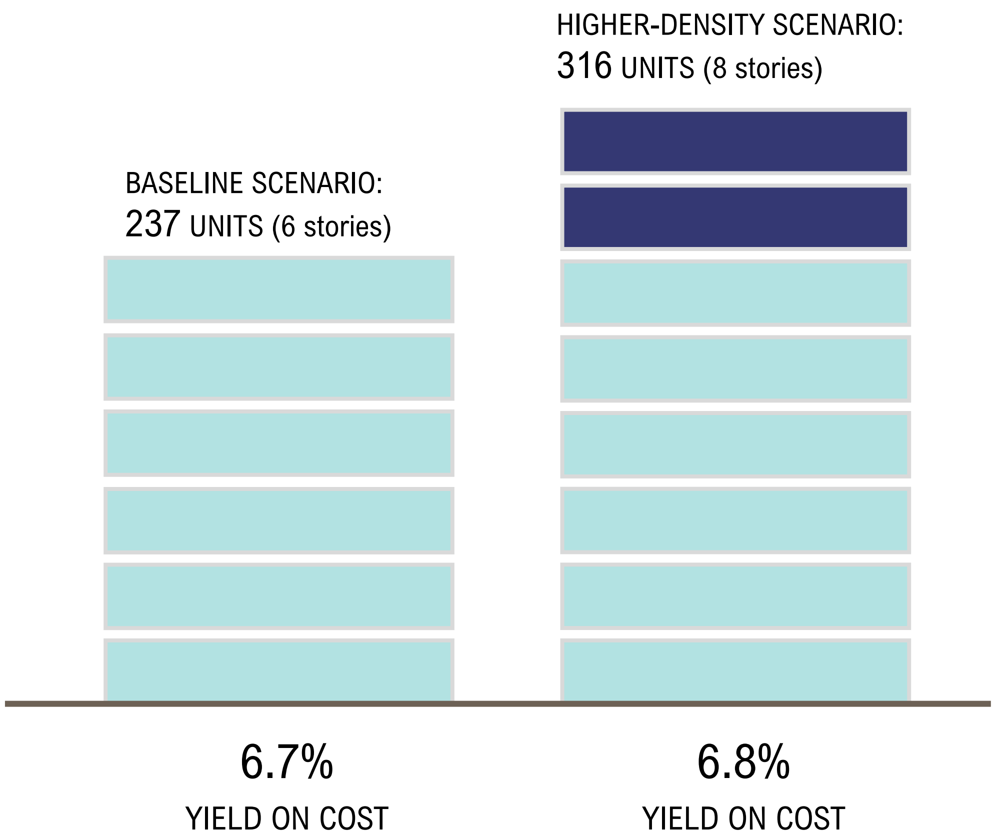
The typical cost to develop a multifamily rental unit in Charleston is approximately $350,000. Historically, the City of Charleston has provided gap funding for approximately 25% of the capital stack in affordable housing developments on average.

Based on the current fee-in-lieu formula, the average fee per unit that developers pay ($56,000) is approximately two-thirds of what the average gap funding assistance the City provides for an affordable housing unit ($87,000). The City should continue to regularly calibrate the fee, ultimately seeking a fee that can fully offset the cost of City subsidy to provide an affordable unit. Increasing the fee alone is likely to negatively impact project returns. However, financial analysis shows developers can absorb a higher fee when that fee is twinned with a density bonus.

2024 FEE ASSESSMENT:
Increasing development density often increases project returns due to economies of scale. Therefore, local regulatory control around zoning and entitlements can impact financial feasibility (i.e., higher density via increase in building height translates to higher developer returns).

SB Friedman tested the financial returns for prototypical multifamily developments for prototypical six and eight story multifamily developments on the Charleston peninsula, building pro forma based on reported construction costs, top-of-market rents, and national underwriting experience.

Based on the modeling, project returns increase from a 6.7% yield on cost[1] at stabilization to a 6.8% in the higher-density scenario. The higher returns create the opportunity for the City to further increase the affordable housing fee-in-lieu payment, paired a height increase incentive, without negatively impacting developer project economics. An increase in building height from 6 to 8 stories would allow the fee-in-lieu to increase by approximately $15,000 per unit without adversely impacting project feasibility.



[1] Yield on cost is a stabilized return metric calculated by dividing net operating income before debt service in the first year of stabilized operations by total project costs. The metric is an indicator of the annual overall return on investment.
Source: SB Friedman

Revolving Grant/Loan Fund

OVERVIEW

A revolving loan fund can be a powerful tool to preserve and create affordable housing. Identifying funding sources for the revolving loan fund is a crucial first step. Several local sources of funds (A-Tax, impact funds, municipal general funds, CDBG, or fee-in-lieu payments) could be used to initially seed the revolving loan fund.

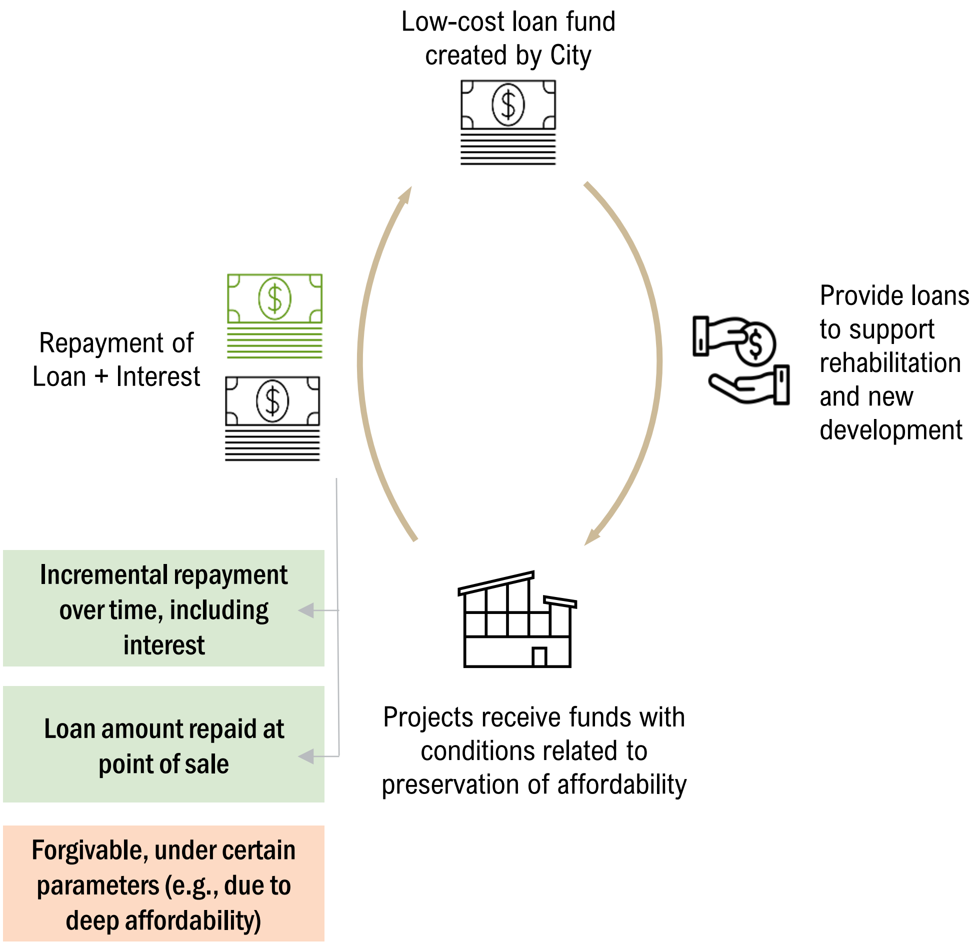
Recently, Charleston County provided $20 million in grants and loans (using American Rescue Plan Act funds) to offer gap funding for affordable housing and infill development. The success of these funds led the County to establish a pilot Revolving Loan Initiative to continue providing gap financing for new affordable multifamily and infill development.

A revolving loan fund in the Corridor could provide funding for new construction or rehabilitation projects in exchange for long-term unit affordability. The incremental repayment of the loan, including interest, would expand the funding capacity of the loan fund overtime. Loan eligibility and repayment criteria for participating projects should be based on objective parameters but be flexible enough to support the financial feasibility of any given property.

Affordable housing funding is often required to be forgivable or ‘soft’ debt without expectation of repayment. However, there are lending opportunities where repayment is reasonable and possible, including: 1) Providing interest-only loans for affordable homeownership units that waive principal until the unit is sold or refinanced, or 2) providing NOAH acquisition loans with repayment based on project feasibility until a point of sale, at which point the balance of the loan is repaid.

NEAR TERM ACTION ITEMS

1. Identify seed funding sources for a revolving loan fund
2. Engage with development community to determine spending priorities and estimated capital needs
3. Determine loan eligibility and repayment criteria (often varies project to project)



Case Study | Housing Impact Fund - Ascent Housing

Housing Impact Fund
Ascent Housing - Charlotte, NC

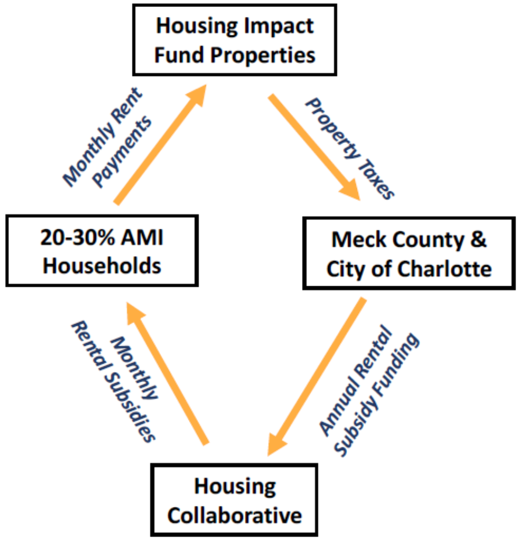
Ascent Housing manages the Housing Impact Fund in Charlotte, NC and raised $58 million to acquire five NOAH rental properties (805 units) from 2020 to 2022. Upon purchase, the property is placed under a 20-year deed restriction to maintain affordability and prevent the displacement of existing residents. The fund is a combination of low-cost equity contributions, City and County loans and grants, and non-profit and foundation investments. Each lender in the fund has return requirements for their respective capital. The City/County structured a loan to the fund as a 0-1% interest-only loan with a 20-year term, to be repaid at conversion to market-rate housing.

The fund benefits from a unique property tax structure, in which property taxes from Ascent's NOAH properties are redirected from Mecklenburg County and the City of Charlotte to a non-profit housing collaborative. The non-profit then uses the revenue to provide rent vouchers to households earning <30% AMI in the NOAH properties. The rent vouchers are a critical component to loan repayment, as they guarantee the consistent net operating income to the projects.

As the loans are paid back over time, the funds can be redeployed to support the preservation of additional units.

Impact Fund Portfolio

Affordability Level	Units
<30% AMI	242
50% AMI and Below	72
60% AMI and Below	331
80% AMI and Below	160
Total Units	**805**



Data & Image Source: Ascent Housing

Revolving Loan Fund

A revolving loan fund can support the pursuit of various policy priorities

Through conversations with local developers, SB Friedman identified alternative programs and structures for a revolving loan fund in the Region. The revolving loan fund should be structured so that the disbursement of funds aligns with the housing need being addressed.

For example, to gap finance construction of new single-unit affordable housing, a low-interest loan will support project feasibility while growing the loan fund through interest payments on the loan. The loan would be paid back upon the sale of the home, or the subsidy could be transferred to the next owner if the sale price is capped at an affordable price.

However, a low-interest loan may not be suitable for a homeowner who is seeking assistance for a necessary home repair. Instead, a forgivable loan to cover the cost of maintenance could prevent the displacement of the resident while maintaining the affordability of the unit.

PROGRAM ALTERNATIVES	A GAP FINANCING	B NOAH REPAIR	C NOAH PRESERVATION
Housing Type	New construction or substantial rehab	Existing NOAH units	Existing renter-occupied NOAH units
Mechanism	Loan or grant - often structured with extended interest only-period	Forgivable loan	Low-interest loan (3%+)
Repayment Expectation	Pay back subsidy from sale proceeds or transfer subsidy if unit is sold at similar AMI	N/A	Amortized payments of principle + interest
Purpose	Subsidize construction of new affordable housing	Provide financing for necessary home and building repairs to prevent displacement of residents	Preserve affordability of existing rental NOAH with deed restrictions to protect units from market-driven rent increases

Revolving Loan Fund BY THE NUMBERS

A limited investment can go a long way in supporting needs of current and new residents in the Corridor

A North Charleston investment of $1.5 million for housing affordability could have a large impact if used to seed a housing loan fund that prioritizes the LCRT Corridor.

Emergency repair grants are crucial life-lines to alleviate displacement pressures and allow current NOAH residents to stay in their housing while improving their housing conditions. The high number of NOAH residents in North Charleston makes NOAH repairs a high priority. North Charleston's existing emergency home repair program (repairs that focus on only one property component, such as the roof, or HVAC system, etc.), which cost $15,000 per home on average, are an efficient framework for distributing resources. A North Charleston commitment of $250,0000 annually for NOAH repair would fund 10-20 emergency repair grants.

If additional funds are available, North Charleston could provide gap funding for the creation of new legally restricted units by either supporting new affordable housing construction or requiring deed restricted affordability for NOAH units receiving repair grants or loans.

Funds should be distributed as loans or grants depending on the target affordability of the housing. Affordable units for households earning <80% AMI, for example, could receive grants whereas projects targeting households earning 80-120% AMI could be awarded low-cost loans.

$1.5 M — INITIAL INVESTMENT IN REVOLVING GRANT/LOAN FUND

$250,000 → EMERGENCY REPAIR GRANTS

MAX. $17,000 PER GRANT

$1,250,000

GAP FUNDING FOR NEW CONSTRUCTION AND NOAH PRESERVATION/ GRANTS (<80% AMI UNITS)

NEW CONSTRUCTION: APPROX. $75,000 PER UNIT
NOAH PRESERVATION: COST VARIES

NEW CONSTRUCTION AND NOAH PRESERVATION LOANS (80-120% AMI UNITS)

NEW CONSTRUCTION: APPROX. $150,000 PER UNIT
NOAH PRESERVATION: COST VARIES

Revolving Loan Fund BY THE NUMBERS

A larger capital investment could support construction of new units and multifamily NOAH preservation

A larger revolving loan fund ($20M) could increase the overall funding available for emergency repair grants, new affordable housing development and NOAH preservation. A revolving loan fund of this size would make a substantial impact toward producing and preserving affordable housing.

Under this scenario, $10M could be designated for NOAH acquisition and preservation, to support non-profits and other mission-driven entities in this space. This has been a successful anti-displacement and NOAH preservation strategy in peer communities experiencing rapid housing cost increases. The cost of preserving a NOAH unit is varied and depends on building condition, building age, and other factors. Therefore, designating $10M for NOAH acquisition and preservation could offer North Charleston the ability to prioritize a range of preservation and anti-displacement priorities.

The need for more legally-restricted affordable housing in North Charleston could be addressed by designating $7.5M for gap financing for new affordable housing construction. This could fill the funding shortfall between the cost of new construction and the funds available for affordable housing development. For example, the revolving loan fund could provide gap funding to homebuyers to increase access to affordable homeownership in the Corridor. Additionally, developments that target deeper affordability could receive more funding, especially if developments include wrap-around social and support services.

$20 M — INITIAL INVESTMENT IN REVOLVING GRANT/LOAN FUND

$2,500,000 → EMERGENCY REPAIR GRANTS

$7,500,000 →
- GAP FUNDING FOR NEW CONSTRUCTION / GRANTS (<80% AMI UNITS)
  APPROX. $75,000 PER UNIT
- NEW CONSTRUCTION LOANS (80-120% AMI UNITS)
  APPROX. $150,000 PER UNIT

$10,000,000 → NOAH PROPERTY PRESERVATION

Case Study | Wrap Around Services for Low Income Housing

One80 Place– Charleston, SC

70-unit building in Charleston providing rental units targeting individuals exiting homelessness. Rents will be limited to 30% AMI. The project is funded through a combination of federal and state tax credits, private sector equity, and City of Charleston affordable housing bond funds.

Many modern affordable housing developments also include wrap-around services to create viable communities by comprehensively addressing resident needs. One80 Place residents are connected to in-house support services including healthcare, legal services, and job training.

Image Source: One80 Place

Federal Funding for TOD Projects

Leverage federal TOD financing capacity to reduce the cost of capital for affordable housing development

OVERVIEW

In 2022, the United States Department of Transportation expanded eligibility criteria of two federal loan programs – the Transportation Infrastructure Finance and Innovation Act (TIFIA) and Railroad Rehabilitation and Improvement Funding (RRIF) – to include commercial and residential TOD projects. Government entities, transit agencies, and developers can apply for TIFIA loans which offer below-market interest rates and favorable amortization periods.

Transportation Infrastructure Finance and Innovation Act (TIFIA)

Eligible Projects
Commercial or residential shovel-ready development functionally related to public transit service that will result in new revenue to the public transit system and reduce the need for other federal assistance related to passenger transit service elsewhere.

Financing Capacity
Covers up to 49% of eligible project costs, with a $10M minimum eligible project cost threshold. Loans are structured as a 35-year term and offer below-market interest rates.

Railroad Rehabilitation & Improvement Financing (RRIF)

Eligible Projects
Commercial or residential shovel-ready development within a half mile of a BRT station that will result in new revenue to the public transit system.

Financing Capacity
Covers up to 75% of eligible project costs. Loans are structured as a 35-year term and offer below-market interest rates.

Source: Build America Bureau

LCRT | BCDCOG

Case Study | Federal Funding for TOD Projects

Build American Bureau Transportation Infrastructure Financing and Innovation Act (TIFIA)

The Build America Bureau (BAB) recently issued its first TIFIA loan to a TOD project located in Mount Vernon, WA. The $27M low-interest loan will save the City an estimated $3M, compared to traditional financing options, and supported the financial feasibility of the project.

The loan will be used to develop the Mt. Vernon Library Commons, which will include a new public library, community center, kitchen, and electric vehicle chargers near a transit hub that serves local and regional transit.

BAB reportedly has 20 other TOD projects in its funding pipeline that include affordable housing, public buildings, and other community redevelopment plans.

Source: The Bond Buyer

Mt. Vernon Library Commons, WA

Image Source: TFWB Engineers

MCBP & FILOT

Regional approach to incentivizing and subsidizing mixed-income multifamily development

OVERVIEW

The South Carolina Supreme Court recently ruled that rental housing is a ‘commercial enterprise’ making rental residential development eligible for Multicounty Business Park (MCBP) development incentives. Two such development incentives are negotiated fees-in-lieu of property taxes and special source revenue credits (SSRCs).

The fee-in-lieu of property taxes applies to properties placed within a MCBP that receive at least $2.5 million in investment within five years. Based on an agreement between the property owner and the County, the property is subject to a reduced assessment ratio (6%), and therefore lower property taxes for a defined period (typically 30 years). Properties receiving an enhanced investment of at least $400 million are eligible for a 4% assessment ratio. The assessment ratio reduction only benefits multifamily properties for the higher tier investment given the base assessment ratio is 6% for multifamily commercial.

SSRCs are tax credits that can be allocated to projects to reduce the fee payment required by a property owner. The distribution of SSRCs are negotiated on a case-by-case basis and are intended to help projects improve financial feasibility.

NEAR TERM ACTION ITEMS

1. Identify County-owned sites in Corridor suitable for housing development
2. Jurisdictions enact supporting legislation that allows for MCBP
3. Identify neighboring counties to act as “sister” counties as part of MCBP structure

FEE-IN-LIEU

REDUCES PROPERTY TAX BURDEN

SSRCs

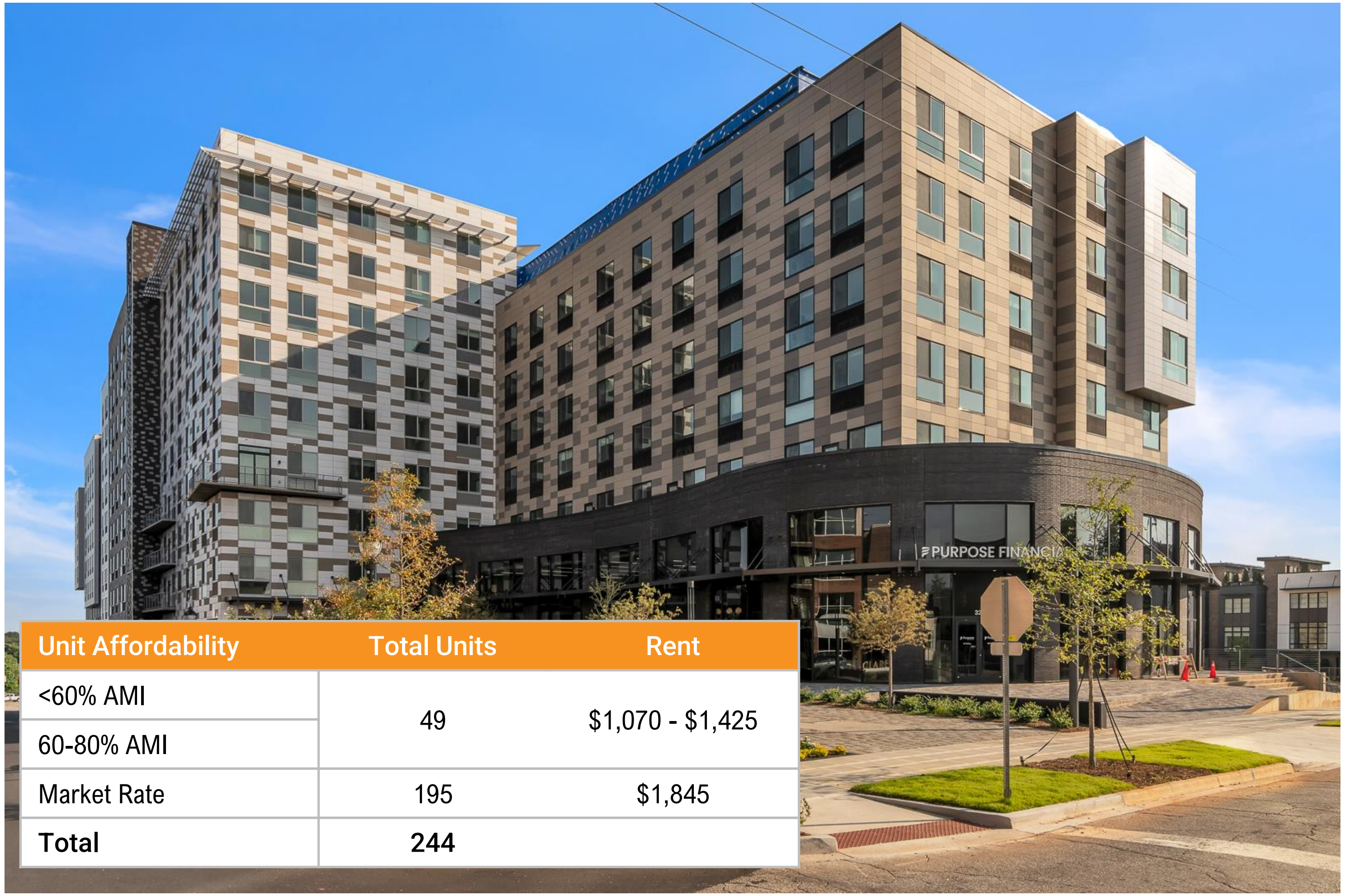
ABATE FEE-IN-LIEU PAYMENT

Case Study | MCBP & FILOT

The McClaren – Greenville, SC

The McClaren is a mixed-income residential development built in Greenville in 2023 that was financed utilizing MCBP incentives. The McClaren was developed in a MCBP and was therefore eligible for a fee payment in lieu of property taxes. A Greenville County ordinance allows the County to provide SSRCs to developers in exchange for on-site affordable units. In this case, the designation of 20% of units to be affordable resulted in an allocation of SSRCs to abate fee payments by 50% for 20 years.

The building includes 244 units, of which 49 are affordable to households earning up to 80% AMI. Rents for the affordable units are $400-800 less than the market rate unit rent monthly.



Unit Affordability	Total Units	Rent
<60% AMI	49	$1,070 - $1,425
60-80% AMI		
Market Rate	195	$1,845
Total	**244**	

Image Source: Apartments.com

Leverage Publicly Owned Land

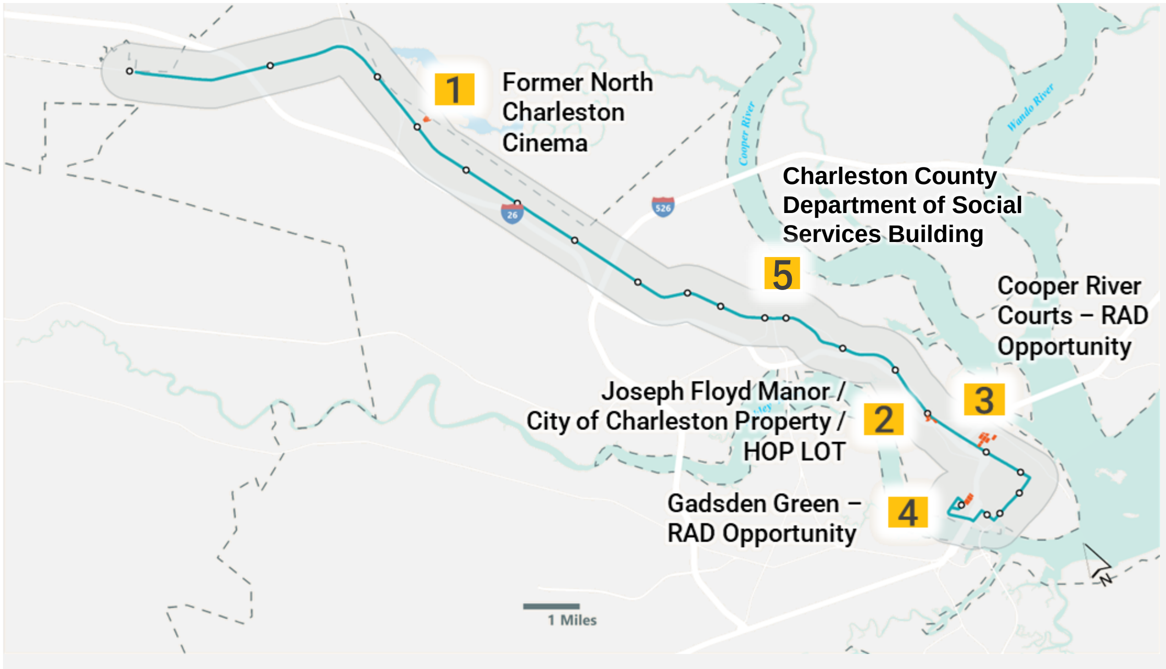
Strategically activate publicly owned land to pursue affordable housing priorities

OVERVIEW

There are multiple sites within future station areas that are owned by public entities. Land acquisition is often one of the largest barriers to developing affordable housing, representing up to 10-15% of total project costs. Repositioning sites for development can enable development outcomes that align with policy goals, including the provision of affordable housing within the Corridor.

Furthermore, several of the publicly-owned sites within the Corridor are existing affordable housing developments. The HUD RAD program provides funding to rehabilitate or redevelop existing affordable housing projects. Cooper River Courts within the Peninsula has recently been approved for a significant redevelopment using RAD program funding and will add additional units within a future station area. The Charleston Housing Authority will lease the land to the developer to ensure the long-term affordability of designated units.

Other public sites – such as Gadsden Green, the BCDCOG HOP Lot, Joseph Floyd Manor, and Laurel Island – could also unlock development of affordable or mixed-income housing under this same land-lease model to ensure long-term affordability of newly developed units.



NEAR TERM ACTION ITEMS

1. Identify development priorities for publicly owned land
2. Conduct outreach to establish developer partner pool with capacity to develop affordable or mixed-income housing

LCRT | BCDCOG

Conclusion

Affordable Housing Takeaways

Pursue funding opportunities and implement programs to proactively address affordability challenges

The LCRT system presents a catalytic investment in the core of the Region that will provide access to jobs, education and other needs. These benefits are expected to drive demand for housing within the Corridor which could adversely impact vulnerable populations. To mitigate the risk of displacement and increase the supply of affordable housing options in the Corridor, there are several strategies for the Cities of Charleston and North Charleston, as well as Charleston County, to pursue that could increase funding and remove barriers to affordable housing production and preservation.

STRATEGIES TO INCREASE FUNDING FOR AFFORDABLE HOUSING

- ACCOMMODATIONS TAX
- IMPACT FUND
- GENERAL FUNDS/CDBG
- STRENGTHEN FEE-IN-LIEU

STRATEGIES TO REMOVE AFFORDABLE HOUSING PRODUCTION & PRESERVATION BARRIERS

- REVOLVING GRANT/LOAN FUND
- BUILD AMERICA TIFIA/RRIF LOANS
- MULTICOUNTY BUSINESS PARK (MCBP)
  - FEE IN LIEU OF TAXES (FILOT)
- LEVERAGE PUBLICLY OWNED LAND

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Our report is based on estimates, assumptions and other information developed from research of the market, knowledge of the industry and meetings with the client and others during which we obtained certain information. The sources of information and bases of the estimates and assumptions are stated in the report. Some assumptions inevitably will not materialize, and unanticipated events and circumstances may occur; therefore, actual results achieved during the period covered by our analysis will necessarily vary from those described in our report and the variations may be material.

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