THE CITY OF ASHEVILLE

STAFF REPORT

Council Meeting Date: June 27, 2023

Subject: Policy Recommendation on Land Use Incentive Grants for Micro-Apartments

Staff Resource(s): Sasha Vrtunski, Affordable Housing Officer
Nikki Reid, Community & Economic Development Director

Action Requested: Adoption of a resolution to temporarily suspending consideration of micro-apartment applications and awards for the Land Use Incentive Grant (LUIG) program until the policy is revised and includes standards for micro-apartment projects.

Background:

- On February 8, 2023, the Housing & Community Development Committee (HCD) considered a LUIG application for micro-apartments at 46 Aston Street, a project with a total of 231 units, 47 affordable.
- The current LUIG Policy does not contemplate micro-apartments which are substantially smaller than a typical studio unit.
- Following their initial review, the HCD requested that the Affordable Housing Advisory Committee (AHAC) make a recommendation on how micro-apartments should be considered under the LUIG Policy.
- AHAC spent the majority of their meetings in April and May discussing policy implications of micro-apartments and also general issues with the current LUIG Policy.
- After review of AHAC's motion from their May 4, 2023 meeting, staff is recommending a temporary suspension of the consideration of micro-apartment applications and awards for the LUIG program.
- Below are a few of the policy considerations that need to be further considered as the LUIG Policy is reviewed in the next fiscal year, these consideration are the primary reason for staff's recommendation to temporarily suspend consideration of LUIG application for micro-apartments:
    - Typically, a micro-housing unit is 250 to 400 sq. ft.; studio units are 400 to 650 sq. ft., and a one bedroom unit is 650 to 750 sq. ft.
    - Micro-apartments typically have limited kitchenettes, with access to a communal kitchen.
    - Given that this is a new type of housing product in the Asheville market, it is currently unclear how micro-units will appeal to those seeking affordable housing.
    - Due to the small size of each unit, it is unclear whether the subsidies are needed to ensure affordability or if the rents will be in reach of voucher holders at the market rate.
    - The City does not have confirmation about how HUD would classify these units, if they are eligible for vouchers and if there's a HUD rent standard for them.
    - Appendix 1, which is used to determine allowable rents for projects receiving funding from the Housing Trust Fund and the Land Use Incentive Grant, has studio/efficiency rents, but does not have rents outlined for micro-apartments.
- The LUIG Policy will be reviewed with other affordable housing policies and existing affordable housing incentives as part of the Affordable Housing Plan update which will occur during Fiscal Year 2023-24.

AHAC Discussion
At their May 4 meeting, AHAC outlined specific concerns and issues with subsidizing micro-housing through the LUIG program, including:

- Should LUIG incentives be adjusted to account for the smaller unit size?
- Does the smaller unit size and shared common kitchen concept meet the needs of those seeking affordable housing?
- Micro-housing rents in other cities appear to be substantially below market rents, so do micro-housing projects need subsidies in order to be built?
- Do the micro-apartments meet qualifications for vouchers of the issuing agency (HUD, VA, etc.) and the applicable rent payment standards?

AHAC Recommendation

- On May 4, 2023, AHAC voted 12-0 on the following motion:
    - AHAC recommends developing micro-housing policy recommendations as part of our overall review of LUIG Policy.
    - In the meantime, we suggest the City may want to defer LUIG decisions for micro-housing or alternatively have developers fully address all of the committee's concerns, and commit to setting aside 50% of the affordable units for voucher holders.

Council Goal(s):

- Quality Affordable Housing
- An Equitable and Diverse Community

Committees:

- HCD considered this recommendation at their May 20, 2023 meeting and voted 2-0 to support a temporary pause in considering LUIG applications for micro-apartment projects.

Pro(s):

- The Affordable Housing Plan, which is scheduled to begin in August 2023, will put the LUIG Policy into the broader context of the City's investments in affordable housing.
    - Consultants for the plan can advise the City on the LUIG Policy before final revisions are made.
- Temporarily pausing the review and approval of micro-unit Land Use Incentive Grant applications will allow the opportunity to review the policy objectively without the deadline for a specific project awaiting Council decision.
- A pause on LUIG applications and awards for micro-apartment projects will also allow a careful consideration of how scarce City resources are being spent on affordable housing subsidies.
- The Land Use Incentive Grant Program is a voluntary incentive program. Participation in the program is voluntary on both the part of the City and the developer.
- Unlike a zoning application, an application for a LUIG grant does not create an entitlement for the applicant, nor a "right" for the grant request to be heard.
- In all cases, it is up to the City Council to determine if it wishes for an application to move forward, receive a hearing, and a final decision.

Con(s):

- It is unclear whether a temporary pause on considering micro-apartment projects will have a negative impact on the proposed development at 46 Aston.
- The LUIG is intended to offset the loss in rents due to keeping units affordable rather than support the development of the project.

Fiscal Impact:

- This action requires no additional City resources and has no fiscal impact.

Staff Recommendation:

- Staff recommends temporary suspension of applications and awards for Land Use Incentive Grants for micro-apartment projects until the policy is revised and includes standards for micro-apartment projects.

Suggested Motion:

- Motion to temporarily suspend consideration of applications and awards of Land Use Incentive Grants for micro-apartment projects until the policy is revised and includes standards for micro-apartment projects.

Attachment(s):

- Resolution
- AHAC Recommendation on LUIG and Micro-housing
- Current LUIG Policy

RESOLUTION NO. 23-_____

RESOLUTION TO TEMPORARILY PAUSE CONSIDERATION OF LAND USE INCENTIVE GRANT APPLICATIONS AND APPROVALS FOR MICRO-APARTMENT PROJECTS

WHEREAS, the City of Asheville has the authority pursuant to N.C. Gen. Stat. § 160D-1316 to provide incentive grants (or appropriations) to encourage development projects that fulfill important public purposes in the City of Asheville; and

WHEREAS, these public purposes include the development of affordable housing for persons of low and moderate income, per N.C. Gen. Stat. § 160A-1316, which are also principal components of the City's annual strategic goals and other adopted plans; and

WHEREAS, the City Council of Asheville has adopted a Land Use Incentive Policy (last updated in 2021 by Resolution #21-139) in order to encourage the development of projects that meet the aforementioned goals and plans; and

WHEREAS, Land Use Incentive Grants (LUIGs) are made with local tax dollars and City Council has full authority over the administration and timing of these grants; and

WHEREAS, temporarily pausing the review and approval of Land Use Incentive Grant applications for micro-apartments will allow the opportunity to review the policy objectively without the deadline for a specific project awaiting Council decision; and

WHEREAS, a pause on LUIG applications and awards for micro-apartment projects will also allow a careful consideration of how scarce City resources are being spent on affordable housing subsidies; and

WHEREAS, the Affordable Housing Plan process during 2023-24 will help inform the consideration of the LUIG policy and will be beginning in summer of 2023; and

WHEREAS, a revised policy is expected to be considered by City Council before the end of the 2023-24 fiscal year;

NOW, THEREFORE, BE IT RESOLVED BY THE CITY COUNCIL OF THE CITY OF ASHEVILLE THAT:

The Asheville City Council hereby temporarily suspends consideration of micro-apartment applications and awards for the Land Use Incentive Grant (LUIG) program until the policy is revised and includes standards for micro-apartment projects.

Read, approved and adopted this 27th day of June, 2023.

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CITY CLERK MAYOR

Approved as to form:

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CITY ATTORNEY