



Housing Opportunities + Market Evaluation

Sussex County, Delaware
October 2019

DRAFT FINAL REPORT





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 MelVinlene Truitt, Resident
 Ronald Denn, Resident



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Executive Summary

This *Housing Opportunities and Market Evaluation* presents strategies designed to promote housing choice and economic vitality for Sussex County’s residents and workforce. These strategies are the culmination of an eight-month initiative, supported by a housing needs assessment and economic feasibility study. The recommendations benefitted from input from residents, homebuilders and developers, advocates, County staff, County Council, and Planning Commissioners; however, the strategies and actions presented in this report represent the views of LSA, the consultant team hired by the County to prepare the report.

Housing Targets

Based on the analysis of future housing needs, Sussex County is expected to need to add 1,549 net new housing units each year over the next 10 years, including 520 which will be vacant at any point. This level of housing production includes both market-rate housing, as well as below-market-rate housing. This projected level of future housing production is below recent new construction trends in the County, which suggests that the County could approve somewhat *fewer* housing units in the years to come and still meet projected housing demand.

However, Sussex County has not seen construction of new homes at rents and prices that are affordable to lower-income households, including working individuals in key sectors of the local economy and individuals living on fixed incomes. Currently, there are nearly 10,700 households in Sussex County that are severely cost burdened, spending more than half of their income on housing each month. To help mitigate current and future housing challenges, support economic growth and promote a high quality of life for County residents, Sussex County should encourage the production of rental and for-sale homes affordable to households in different income ranges, as follows:

Figure 1. Annual Housing Targets by Income Group, 2020 to 2030 period

Affordable to households at:	New Housing Units
Less than 30% AMI	99
30% to 50% AMI	131
50% to 80% AMI	171
80% to 100% AMI	112
100% AMI or greater	515
Total households	1,029
<i>Vacant units</i>	<i>520</i>
Total housing units	1,549

Source: The Delaware Population Consortium Seasonal Vacancy Projection, 2015 Comprehensive Housing Affordability Strategy, LSA

Affordable Housing Strategies

This Plan includes three strategy recommendations prioritized to increase the production and preservation of housing at prices and rents currently not being delivered by the private market. Many of the recommended implementation steps must work in concert in order to be most effective.

- 1 Modify the Zoning Code to Promote Housing Affordability in Growth Areas Identified in the Comprehensive Plan.** Given the County's low base zoning, the County should 1) revise existing ordinances to better incentivize below-market-rate housing, with changes appropriately scaled to meet both housing needs of lower-income households and the economic realities of developing housing in Sussex County; and 2) review and modify the underlying zoning in all designated growth areas (i.e., Town Center, Developing Areas, Coastal Areas, and areas designated as Commercial). A zoning code that permits a range of housing types can help create a range of housing prices and rents that naturally serve households with varying incomes. In addition to encouraging a range of housing prices and rents, a zoning update would reduce the number of rezoning applications, increase transparency about rezoning proposals, and decrease the level of administrative review, while promoting development consistent with the County's long-range Comprehensive Plan.
- 2 Establish a Local Housing Trust Fund.** A trust fund is a distinct fund established by a public entity to support the preservation and/or production of affordable homes that the market has difficulty producing on its own. Local funds often are essential for filling the gap between the cost of producing market-rate housing and the cost of producing below-market-rate housing. Local funds are also important for leveraging other funding from the federal and state government. Local housing trust funds can be set up as revolving funds where loan repayments create a source of on-going funding for the trust fund. Eventual funding for the trust fund would come from non-general revenue sources; however, the County should allocate an initial amount to seed the fund and demonstrate successful implementation.
- 3 Preserve the Existing Supply of Affordable Housing.** Preserving the current affordable housing stock in the County increases net gains from new development, can prevent displacement as nearby property values and rents rise, and can be less costly than developing new units. In addition, preservation efforts can increase the County's tax base and promote neighborhood stability. Through the local Housing Trust Fund (implemented under Strategy 2), Sussex County could offer financing to developers and landlords to renovate their units and keep them affordable, including properties that are not income-restricted but are currently affordable to lower-income households, subsidized units nearing the end of their compliance period, and landlords who rent their single-family homes, townhomes, duplexes, or mobile homes.

Implementation Framework

This report includes a detailed framework for implementing the recommended housing strategies, including the public, private, and nonprofit partners that will need to be involved in implementation, as well as cost implications of recommended actions. Strategies are categorized by actions to be completed in the short-term (within one or two years), mid-term (within three to four years), and longer-term (within five or more years).

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Section 1

Background + Needs and Market Analysis

Background

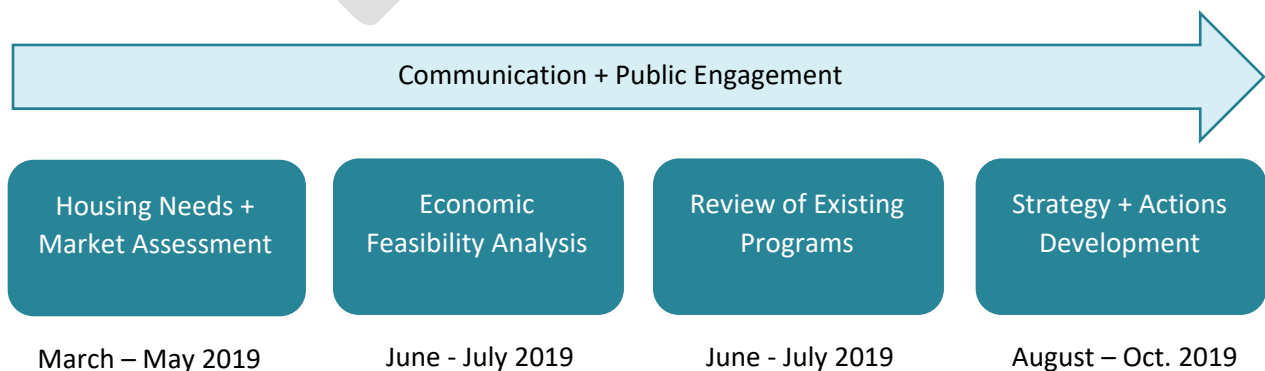
Sussex County is facing challenges ensuring there is sufficient affordable housing to meet the needs of its growing population and its workforce. Proximity to the beach and other outdoor attractions, low real estate taxes, and a high quality of life have attracted retirees, higher-earning households, and a growing seasonal use of the available housing stock. These changes have fueled growth in the real estate market, as well as the hospitality and health industries. High seasonal vacancy and the number of second homes on the market restrict the supply of houses available to year-round households, contributing to the increase in housing prices. Sussex County’s population growth has put upward pressure on market prices for both rentals and for-sale homes, leaving many housing options unaffordable to Sussex County’s year-round residents and workforce.

Housing affordability challenges are not new in Sussex County. In 2006, the County adopted its first affordable housing program, the Moderately Priced Housing Unit Program, designed to promote the development of lower-cost homeownership opportunities in exchange for density bonuses. Recognizing the challenges faced by renters, the County adopted the Sussex County Rental Program in 2008, with the goal of incentivizing the production of below-market-rate rental housing in exchange for increased density.

There was very little interest on the part of developers to take part in either of the density bonus programs, in part, due to the economic downturn and housing market crash, but also because the programs’ parameters were not set up appropriately to reflect economic and housing market conditions in the County.

Concerns about housing availability and affordability persisted. In 2019, the County completed an update of the Comprehensive Plan and during the three-year planning process, housing came up time and again from residents, advocates, staff, and elected officials. As a result, the Sussex County Council issued a Request for Proposals to solicit bids from organizations to assist the County with a thorough evaluation of housing needs and programs in the County and to make recommendations for ways in which the County can strengthen and add to the tools it has available to incentivize for-profit and nonprofit participants to deliver a wider range of housing options.

The *Housing Opportunities and Market Evaluation (HOME)* study began with a housing needs and market assessment, as well as in-depth conversations with a range of stakeholders in the community. An economic feasibility analysis of the County’s two density bonus programs was conducted and all County programs and policies were evaluated in light of the range of unmet housing needs. Finally, a set of strategy recommendations and action items were prepared as part of this final report.

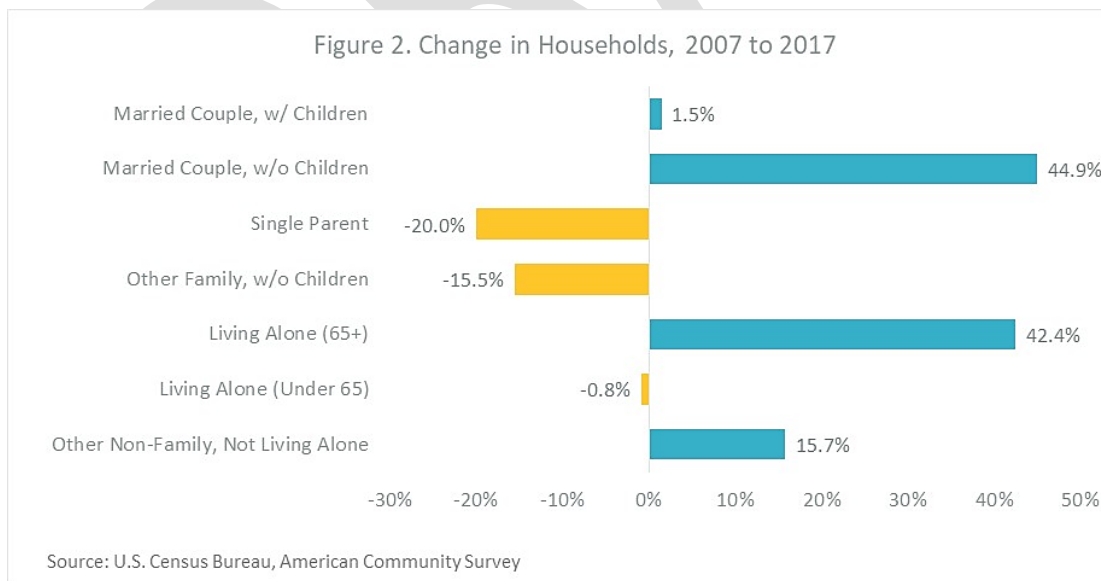


Through the study process, project staff consulted frequently with County staff and individual Councilmembers, as well as with for-profit and nonprofit developers and housing advocates in the County. The final report represents eight months of comprehensive analysis and broad outreach, and the recommendations are intended not only to create a more favorable environment for the production and preservation of below-market-rate housing in the County, but also to reflect the overarching values of the Sussex County community.

Housing Market Analysis and Needs Assessment

As part of the Sussex County HOME study, a comprehensive analysis of the County’s housing market and an assessment of housing needs was conducted.¹ This section summarizes demographic, household, employment, and housing market conditions and trends in the County, and evaluates current housing gaps and projections of future housing needs. The purpose of the market analysis and needs assessment is to better understand the housing types and prices that are needed in the community, but which are not being delivered by the market given the current economic and regulatory environment in Sussex County. This market analysis is a key input into the recommendations for ways in which Sussex County can partner with the private and nonprofit sectors to help ensure there is sufficient and appropriate housing in the County.

Sussex County is a fast-growing community, gaining population faster than both Kent County and New Castle County. The primary driver of the County’s population growth has been among adults age 65 and older. In recent years, Sussex County has not attracted young adults and families in the same way as it has retirees. These population trends suggest that Sussex County residents and visitors increasingly rely on fewer local, working-age residents to support the economy. However, by helping to support more housing options that are affordable to young workers and families, Sussex County can be better positioned to ensure sustainable economic growth and a high quality of life for both current and future residents.



¹ The full Housing Needs and Market Assessment is available on the County’s website at: <https://sussexcountyde.gov/HOME>

Many working individuals and families in Sussex County have a hard time finding housing they can afford. For example, the tourism sector is a critical component of the County’s economy. Jobs in the Accommodations and Food Services and Retail Trade sectors account for more than one out of every three jobs in Sussex County. However, wages for these workers tend to be lower than average. For example, a typical worker in the County’s Accommodation and Food Services sector earns \$20,582 annually. The typical Retail Trade worker earns \$28,025 a year. Workers in these sectors face limited housing choices in the County that they can afford. Many are forced to live in substandard housing. Other workers will commute long distances to work, increasing traffic congestion for all County residents. Still others will decide to leave the County and find work elsewhere.

Figure 3. Employment/Affordability Analysis: Jobs in Sussex County

Industry	No. Jobs	Avg. Wage	Affordable Rent Level*	Affordable Homeownership Level*
Accommodation & Food Services	12,968	\$20,582	\$515	\$144,074
Retail Trade	12,660	\$28,025	\$701	\$196,175
Health Care & Social Assistance	11,872	\$54,092	\$1,352	\$378,644
Manufacturing	10,476	\$45,242	\$1,131	\$316,694
Public Administration**	8,709	\$48,101	\$1,203	\$336,707
Administrative and Support and Waste Management	5,299	\$32,956	\$824	\$230,692
Construction	5,036	\$49,107	\$1,228	\$343,749
Other Services (except Public Administration)***	2,587	\$30,023	\$751	\$210,161
Professional, Scientific, & Technical Services	2,004	\$67,645	\$1,691	\$473,515
Finance & Insurance	1,733	\$63,527	\$1,588	\$444,689
Wholesale Trade	1,642	\$62,363	\$1,559	\$436,541
Transportation & Warehousing	1,615	\$42,074	\$1,052	\$294,518
State Government	1,615	\$37,710	\$943	\$263,970
Arts, Entertainment, & Recreation	1,530	\$22,127	\$553	\$154,889
Real Estate & Rental & Leasing	1,433	\$43,871	\$1,097	\$307,097
Federal Government	618	\$60,612	\$1,515	\$424,284
Information	499	\$64,884	\$1,622	\$454,188
Utilities	310	\$105,591	\$2,640	\$739,137
Educational Services	237	\$27,866	\$697	\$195,062
Management of Companies & Enterprises	220	\$156,318	\$3,908	\$1,094,226
Total	80,830	\$40,528	\$1,013	\$283,696

Sources: Delaware Department of Labor, Quarterly Census of Employment & Wages, LSA

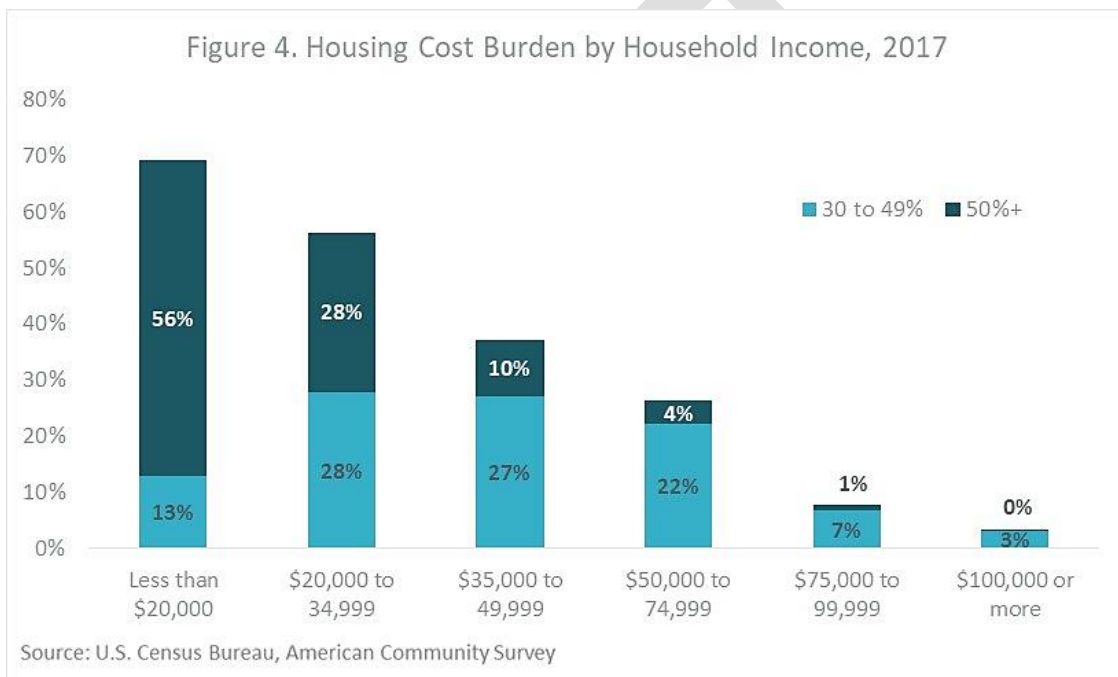
*Rent affordable to one worker at 30% of gross pay. Home affordable to two workers at 3.5 times gross pay.

**Includes local, state, and federal employees, including teachers and first responders.

***Includes services not provided under the Bureau of Labor Statistics classification system, including funeral care, pet care, dry cleaning and laundry, temporary parking services, advocacy work, dating services, and machinery repair, among others.

Health Care and Manufacturing workers in Sussex County earn more, on average, than some other workers. A typical worker in the County’s Health Care sector earns \$54,092 per year, while the typical worker in the Manufacturing sector earns \$45,242. However, many of these workers are finding it harder and harder to become homeowners in Sussex County, as new construction has tended towards higher-priced homes.

About 30% of all Sussex County households, including nearly half of renters and more than a quarter of homeowners, are housing cost burdened, spending 30% or more of their income each month on housing costs. About 13% of households—or nearly 10,700 households—spend more than half of their income on housing each month. Research has consistently shown that spending a disproportionate share of income on housing can leave too little for other necessities like food, health care and medicine, and transportation.²



Lower-income households in the County are significantly more likely to face housing affordability challenges than higher-income households. For example, 80% of households that earn less than \$20,000 per year are cost burdened. This includes someone working full time at minimum wage, including many workers in the Accommodations of Food Services sectors. About 56% of households earning between \$20,000 and \$34,999 are cost burdened, a group of households that could include two full-time minimum wage workers or someone in the Administrative and Support Services sector, for example.

There are federal and state housing programs, including the Low-Income Housing Tax Credit and Housing Choice Voucher programs, that make it easier for lower-income households to find housing they can afford. These programs determine eligibility based on income measured as a percentage of the County’s median income. These limits are adjusted and vary by how many people live in the household. Using the examples above, a full-time minimum wage worker would earn \$15,500 putting them just

² Joint Center for Housing Studies of Harvard University. 2018. *State of the Nation’s Housing*. <https://www.jchs.harvard.edu/state-nations-housing-2018>

above the “Extremely Low Income” category, or just above the income limits for 30% of area median income. A two-person household with two full-time minimum wage workers would earn \$31,000 annually, which means they would have an income below 50% of area median income. The County also uses these income categories in targeting assistance to families or setting eligibility for access to income-restricted housing.

Figure 5. Measuring Household Incomes in Sussex County

The U.S. Department of Housing and Urban Development (HUD) measures household incomes as a percentage of the County’s median income, or the area median income (AMI), adjusted for household size. These income levels are used to determine eligibility for federal, state and local housing programs.

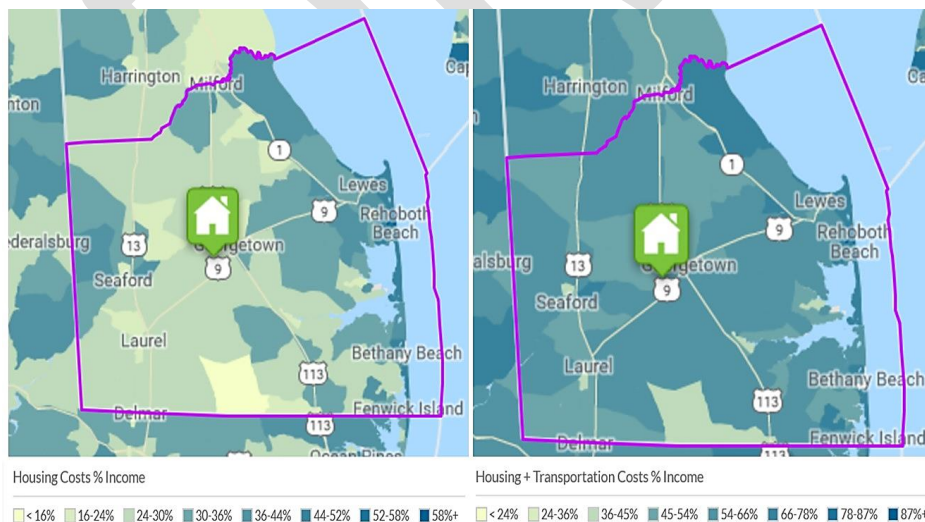
	Income Limit (\$) for a Households of Different Sizes			
	1-person	2-person	3-person	4-person
30% of AMI – Extremely Low Income	15,200	17,350	21,330	25,750
50% of AMI – Very Low Income	25,250	28,850	32,450	36,050
80% of AMI – Low Income	40,400	46,200	51,950	57,700
100% of AMI	50,500	57,700	64,900	72,100

Source: HUD FY2019 Income Limits, <https://www.huduser.gov/portal/datasets/il/il2019/2019summary.odn>

When workers cannot find housing they can afford near their jobs, they often look for options further away. However, in Sussex County, the housing + transportation cost data suggest that for many Sussex County residents, the savings associated with finding less expensive housing in the western part of the County is offset by the increased transportation costs they incur (e.g., greater fuel and maintenance costs.). A rule of thumb is that households should not spend more than 45% of income on combined housing + transportation costs.

Workers who live further west have similar combined housing + transportation costs as do workers who find more expensive housing in the eastern part of the County (Figure 6). In addition, their longer commutes also mean more traffic and congestion for all residents, workers, and visitors in Sussex County.

Figure 6. Housing + Transportation Costs, Sussex County



Source: Center for Neighborhood Technology, <https://htaindex.cnt.org/map/>

Figure 7. Who Would Benefit from More Housing Options in Sussex County?

Worker in the Accommodations and Food Services Industry

A young hotel or restaurant worker in Sussex County could earn an income that puts him in the Extremely Low Income category—that is, a single person earning less than \$15,200 per year. A worker at this income could reasonably afford housing that costs no more than \$380 per month. The median rent for a 1-bedroom apartment in the County is \$575 per month. However, new apartments in Sussex County are typically coming on line with rents above \$1,200 per month, so even with a roommate, it is very challenging for this worker to find an apartment that is affordable. Without more modest housing options with lower rents, this worker will be forced to make serious cutbacks on other expenses.

Senior on a Fixed Income

The average Social Security benefit in Delaware is about \$1,500 per month, or about \$18,000 per year.³ A senior living on Social Security has an income that puts her in the Very Low Income category, with an income less than 50% of the area median income. This elderly member of the community can afford to spend no more than \$450 per month on housing. However, there are very few homes that are available at this level. Furthermore, many of the places with the lowest rents are in very poor quality. A senior living on a fixed income may have to choose between living in substandard housing or cutting back on other necessities, notably health care and prescriptions, to make ends meet. More affordable housing options help keep Sussex County seniors safe and healthy.

Young Married Couple with a Baby

A husband and wife with a young baby find relatively few options to buy a home in Sussex County. As one example, if a husband works in a relatively good-paying job in the Manufacturing sector, he could earn \$45,242 annually, while his wife stays at home with the baby as long as the couple can afford it. The family has an income that puts them in the Low Income category, with an income below 80% of the area median income. This family can only afford a home priced at no more than \$146,000⁴ (assuming they have 10% to put down). Only about one in 10 homes listed for sale in Sussex County are priced below \$200,000, putting homeownership out of reach for many families like this young couple.

First-Year Public School Teacher

A recent college graduate moving to Sussex County to take a job as a first-year teacher can expect to earn \$42,435 annually.⁵ It is very unlikely that a new school teacher would be able to purchase a home on her salary in the County. Assuming she can accumulate 10% for a downpayment, the maximum home price she can afford is \$135,000.⁶ Virtually no new homes are being built close to this price range. Without more for-sale options at more modest prices, it will be very hard for first-year teachers to buy a home in Sussex County. Expanded downpayment assistance for teachers and other public sector employees could also help.

³ The Delaware monthly benefit was \$1,475 in 2018. See OASDI Beneficiaries by State and Zip Code, 2018. Social Security Administration, https://www.ssa.gov/policy/docs/statcomps/oasdi_zip/2018/index.html.

⁴ Used Delaware State Housing Authority's methodology in their affordability gap analysis, including a 5.12% interest rate., http://www.destatehousing.com/FormsAndInformation/datastatmedia/afford_gap_2018_full.pdf.

⁵ Sussex County Public Schools, Teacher Pay Scales 2019-2020, <https://www.sussex.k12.va.us/Page/141>

⁶ Used Delaware State Housing Authority's methodology (see note 4).

Current Unmet Housing Needs

Housing market and economic data suggest that many working individuals and families in Sussex County, as well as those who live on fixed incomes, are unable to afford a home without spending a disproportionately high share of their income on housing and transportation. The current housing stock in the County does not meet the needs of all its residents, evidenced by the more than 24,000 households living in the County who spend more than 30% of their income on housing costs. When transportation costs are factored in, Sussex County residents spend, on average, 56% of their income on housing and transportation.

There is a need for more housing affordable to working individuals and families, particularly those working in lower-wage jobs. Given the large portion of the population who work in relatively lower-wage jobs and support Sussex County's tourism industry, retail sector, and agricultural industries, there is significant need for rental housing with monthly rents (plus utilities) around \$1,000 or less. Homes that rent for \$1,000 are affordable to a three- or four-person family with an income at 50% of area median income, or a single person earning 80% of area median income.

The challenge is particularly acute for extremely low-income workers. A full-time, year-round minimum wage worker has an income just about 30% of area median income, which allows them to afford housing that costs no more than about \$380 per month. There is virtually no housing in the County that is available at this rent level.

In addition, nearly half of the Sussex County workforce earn incomes that allow them to buy a home with a price of no more than \$250,000, assuming two workers in the industry spend 3.5 times their annual income on a home. Currently, only one-quarter of the homes on the market are listed under \$250,000. This is a level affordable to a family earning 50% of the area median income with two workers, or a family with one worker at 100% of the area median income. For single-person households or single parents, this amount is even less. The average worker in Sussex County could only afford \$141,000 if they spend 3.5 times their annual income on a home.

Therefore, there is a significant current shortfall in the County of homes that rent for less than \$1,000 and homes that are priced at less than \$250,000.

Future Housing Needs

The Delaware Population Consortium projects that Sussex County will continue to grow over the coming decades, but at a slower rate than in the last several years. Between 2020 and 2050, there is expected to be a need for over 26,000 net new housing units in the County, which includes nearly 8,900 vacant housing units.⁷ Therefore, Sussex County is expected to gain 17,597 net new households over the next 30 years, which is a somewhat slower growth rate than the last several years.

These forecasts are a starting place for assessing future housing demand and setting targets to plan for housing that is affordable to all income groups in the County. Based on income data from the latest *Comprehensive Housing Affordability Strategy*, one out of five (22%) of future available housing units are needed to be affordable to households earning less than 50% of the area median income in order to

⁷ The Delaware Population Consortium's projection of vacant units applies a constant vacancy rate of 34% based off of housing vacancy trends over the last several years. The vast majority of vacant units are seasonal – units intended for occupancy during certain seasons of the year.

adequately accommodate future household growth. In today’s dollars, this amounts to rents and utilities less than \$631 for a single person living alone and \$900 for a family of four. This includes nearly 1,700 extremely low-income households who will need housing renting for about \$380 or less towards rent and utilities.

Another 17% of the future housing stock needs to be affordable to households earning between 50% and 80% AMI. In today’s dollars, a single person at this income range could afford a rental up to \$1,000 per month and a family of four could afford to purchase a home priced \$200,000 or less.

Figure 8. Forecasts of Future Housing Demand in Sussex County

	2020-2030	2030-2040	2040-2050	2020-2050
Net New Units	15,491	7,758	3,242	26,491
Vacancy	5,201	2,605	1,088	8,894
Net New Households	10,290	5,153	2,154	17,597
Needed Units by AMI*				
< 30% AMI	993	497	208	1,698
30-50% AMI	1,308	655	274	2,237
50-80% AMI	1,718	860	360	2,938
80-100% AMI	1,122	562	235	1,918
> 100% AMI	5,149	2,579	1,078	8,806
Total	10,290	5,153	2,154	17,597

Source: The Delaware Population Consortium Seasonal Vacancy Projection, 2015 Comprehensive Housing Affordability Strategy, LSA

*Multiplied percent of households at each AMI from current data with net new household projection during each decade.

Annual Housing Targets

Over the next decade, between 2020 and 2030, there needs to be 1,549 net new housing units added per year in Sussex County to meet expected demand. This includes vacant units as well as 1,029 net new occupied housing units each year. This level of future housing production will not address the County’s current housing needs, including the nearly 10,700 households that are severely cost burdened. However, the targets defined below will help ensure that the County makes progress on improving housing opportunities for current and future working individuals and families, and helping residents living on fixed incomes can find housing they can afford.

Between 2010 and 2017, the County added an average of 2,142 net new housing units annually. In 2018 alone, the County approved permits for over 4,000 new units to be built in the next few years. Therefore, delivering a sufficient *number* of new homes is not the primary challenge for Sussex County. Rather, the challenge will be to create the right incentives to ensure that homes at a range of price and rent levels are produced in the County so that low- and moderate-income working residents and residents on fixed incomes are not left out.

Specifically, in each year between 2020 and 2030, the County should aim to create opportunities for delivery of rental and for-sale homes at price and rent levels affordable to the following income groups:

- **99** housing units affordable to households at 30% of AMI
- **131** housing units affordable to households between 30% and 50% of AMI
- **171** housing units affordable to households between 50% and 80% of AMI
- **112** housing units affordable to households between 80% and 100% of AMI
- **515** housing units affordable to households at 100% or more of AMI

Figure 9 below summarizes the rent and price levels affordable to households at different price levels. Homes affordable at a range of rents and prices can be delivered by the private market, or through partnerships among the public, nonprofit and private sectors. This strategic plan includes an evaluation of the County’s current programs designed to encourage lower-cost housing, as well as specific strategic recommendations to help enable to County to meet these housing targets.

Figure 9. Rents and Prices Affordable to Households at Different Income Levels
Single-Person Household

	Income	Rent*	Mortgage**
< 30% AMI	< \$15,150	< \$379	< \$53,025
30-50% AMI	\$15,150 - \$25,250	\$379 - \$631	\$53,029 - \$88,375
50-80% AMI	\$25,250 - \$40,400	\$631 - \$1,010	\$88,375 - 141,400
80-100% AMI	\$40,400 - \$50,500	\$1,010 - \$1,263	\$141,400 - \$176,750

Family of 4

	Income	Rent*	Mortgage**
< 30% AMI	< \$21,630	< \$540	< \$75,705
30-50% AMI	\$21,630 - \$36,050	\$540 - \$901	\$75,705 - \$126,175
50-80% AMI	\$36,050 - \$57,680	\$901 - \$1,442	\$126,175 - \$201,880
80- 100% AMI	\$57,680 - \$72,100	\$1,442 - \$1,803	\$201,880 - \$252,350

Sources: 2019 HUD Income Limits, Novogradac Income and Rent Limit Calculator; LSA

*Rent, utilities affordable at 30% of gross household income

** Mortgage affordable at 3.5 times gross household income

Evaluation of Current Housing Programs in Sussex County

Sussex County has several policies and programs designed to promote the production and preservation of affordable or workforce housing, as well as programs that provide assistance to individuals and families in the community to make repairs and improvements to their homes. The County's land use regulations and zoning code also facilitate and sometimes impede the development of housing in the County. Finally, there are state and federal programs and funding that have been used in the County to promote housing opportunities. This section describes some of the key housing programs in the County, links the program goals to anticipated housing needs and evaluates some of the obstacles to the current programs and policies. Figure 8 provides a summary of the evaluation of current programs.

The two primary County programs that were initiated to promote affordable and workforce housing options are the Sussex County Rental Program and the Moderately Priced Housing Unit Program.

Sussex County Rental Program

In December 2008, the Sussex County Council approved the Sussex County Rental Program (SCRCP). The SCRCP was created in an attempt to address the severe shortage of affordable rental housing in the County. The SCRCP is the primary local program designed to support the production of below-market-rate rental housing in Sussex County. No affordable rental housing was created as a result of the 2008 SCRCP, due at least in part to the housing market downturn. In 2016, the Sussex County Council amended the ordinance to encourage stronger participation in the SCRCP. Despite the modification, only one developer has shown any interest in the program. The proposal was submitted on July 1, 2019, though the developer withdrew their application in September.

Key program elements:

- The SCRCP is a voluntary program. Any developer that wants to participate in the program submits to the County a plan for a housing development that provides for the development of affordable rental units.
- SCRCP projects must include 12.5% of all of the project's units as affordable (meeting the definitions below.) In exchange for the provision of affordable rental units, the proposed development can receive a density bonus of 20% up to 12 units per acre.
- SCRCP projects are also eligible for expedited review.
- Affordable units must be affordable to households with incomes between 30 and 80% of AMI. Rent levels are established and updated annually by the County based upon 25 percent of household income for 50% of AMI adjusted for household size and unit size.
- Eligible tenants must be employed and live in Sussex County for at least one year preceding application to the SCRCP.

Moderately Priced Housing Unit Program

In January 2006, the Sussex County Council adopted the Moderately Priced Housing Unit Program (MPHU). The ordinance was amended lightly in 2007 and 2013. The MPHU program was designed to incentivize the production and sale of for-sale homes affordable to moderate-income people who work in Sussex County. Five developers took part in the MPHU program initially, but there have been no new projects under the program since 2008.

Key program elements:

- For-sale projects consisting of at least 35 units and located on qualifying land can apply to participate in the MPHU program. Qualifying land includes land in a town center, developing area or environmentally sensitive developing area which is zoned for any type of residential development to which a density provision applies, or land that is designated on a town's comprehensive plan as lying within the town's growth and future annexation areas. Land must be on public sewer and water.
- Fifteen percent of all homes in the development must be set aside as affordable, with prices set at levels affordable to households with incomes between 50 and 125% of AMI. All affordable units must remain affordable for 20 years, with the control period re-setting upon re-sale.
- The County sets the initial sale price for each MPHU. Re-sale values are determined to allow up to three percent annual appreciation.
- The amount of extra density the developer can achieve under the MPHU program depends on the incomes targeted. The density bonus is 30% if homes are affordable at 80% of AMI, 25% if homes are affordable at 100% of AMI, and 20% if homes are affordable at 125% of AMI. Total density cannot exceed 12 units per acre.
- MPHU projects are also eligible for expedited review.
- Households eligible to purchase a MPHU must have lived and worked in Sussex County for at least one year prior to purchase. Every owner must occupy the MPHU as the owner's principal residence.

As part of the assessment of the County's SCRP and MPHU Program, an economic feasibility analysis was conducted to better understand the underlying economic factors that may be leading to a limited uptake on the programs. In general, projects would need to achieve densities of at least three units per acre and rental projects would need to achieve twelve units per acre in order to be financially feasible with some share of affordable units. Given the County's low based density, developers were not able to achieve these minimum densities without requesting zoning changes. Details about the analysis are included in the next section.

In addition to these specific programs codified in the County's Zoning Code, there are other land use and zoning regulations that are relevant when it comes to the ability of the market to deliver a range of housing types at different prices and rents to meet demand.

Multifamily Zoning Districts

Zoning districts in the County define the amounts, densities, heights and/or types of housing that can be built in different parts of the County. The zoning code also sets rules related to setbacks, heights, open space, parking and many other details related to building activity in the County. Currently, only 5.86% of the County's land is zoned so that multifamily housing is permitted or allowed as a conditional use. Even as the County has updated its long-range land use plan, there has not been an effort to update underlying zoning districts to reflect those long-range development areas. As such, even as demand for rental housing has increased, the opportunities for expanding rental housing is very limited in Sussex County.

Garage/Studio Apartment Ordinance

Sussex County has a provision in the zoning ordinance to allow garage/studio apartments in certain parts of the County. Since 2010, there have been 22 applications to Planning & Zoning to build garage/studio apartments; only one application has been denied.

A “garage/studio apartment” is defined as a building or use designed and used as a single apartment unit containing not more than 800 square feet of total floor area and accessory to the single-family dwelling. Garage/studio apartments had been designated as special use exceptions in AR-1 and AR-2 (Agricultural Residential Districts), MR (Medium Density Residential Uses) and GR (General Residential Uses) zoning districts provided at least one parking spot for exclusive use of the tenant is provide on-site. However, in October 2019, the County Council adopted an amendment to this ordinance to permit garage/studio apartments that do not have a substantially adverse effect of neighboring properties without the need for a special use exception. The impact of this ordinance change will need to be evaluated within the first year or two of this plan to determine its effectiveness.

Manufactured Housing Ordinance

Sussex County Council adopted a manufactured housing ordinance in October 2019 that promotes greater flexibility for this housing type. Under the previous code, a manufactured home (not part of an established mobile home park) was only permitted in an AR-1 zone if the home was not older than five years old, the lot was at least three-quarters of an acre, and it was not a multi-sectional manufactured home.

Given the recent advances in manufactured home design and building quality since the inception of manufactured home standards in the 1990s and early 2000s, County Council extended the allowable age of the home to be ten years old. In addition, the ordinance removes specific lot size requirements and allows multi-sectional homes to replace single-wide homes.

In addition to these local programs, Sussex County government, housing developers and advocates take advantage of several state-administered programs designed to expand housing opportunities and quality in the County. Descriptions of these programs are included in the Affordable Housing Toolbox in the Appendix.



Section 2

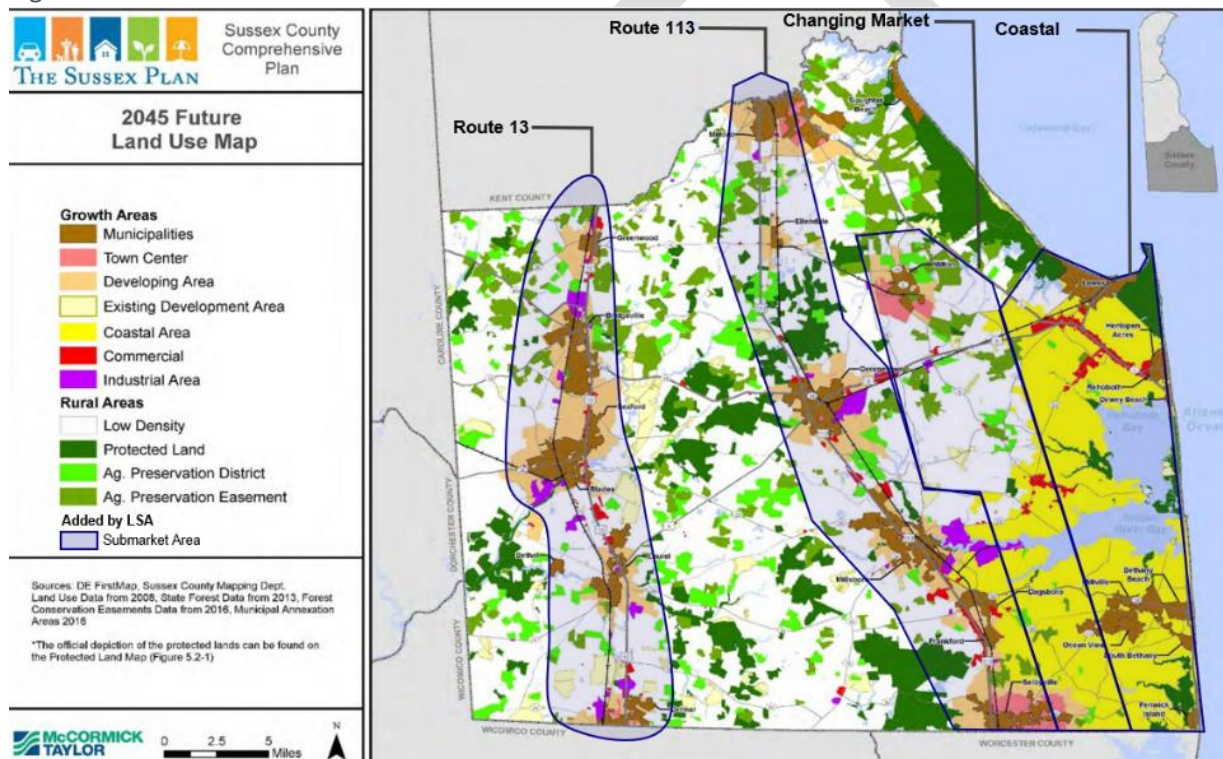
Economic Feasibility Analysis

Economic Feasibility Analysis: Overview

The economic feasibility of density was evaluated as *one tool* to promote the increase of below-market-rate housing in Sussex County. The analysis tested impacts of density on prototypical residential developments to determine at what density and affordability level can projects realistically support income-restricted units without the use of a government subsidy. To do this, Sussex County’s current density bonus programs, affordable set-aside percentages, and affordability levels at various densities were applied through various sensitivity tests. This study used standard best practices in addition to local data sources collected, including input from half a dozen developers and builders in the County.

The analysis created two hypothetical development scenarios – a multifamily rental project on a 15-acre parcel and a single-family project on a 35-acre parcel – which were evaluated across four submarkets in Sussex County.

Figure 10. Submarket Areas



Source: Sussex County Comprehensive Plan (2019); LSA Planning (Submarket Area Overlay)

The results of this analysis will not apply to every real estate deal in the County, given the many variables that impact a project’s financial feasibility –from land acquisition, infrastructure costs, and interest rates to market demand, building materials used, and the number of amenities onsite – and how those variables change over time. Rather, this modeling exercise should be used as a guide, reflective of conservative cost assumptions and conditions in the County, to make policy decisions about incentivizing or mandating affordable housing requirements with some degree of assurance that the incentives are appropriately scaled to meet both housing needs of lower-income households and profitability requirements of local developers and investors.

Sensitivity Analysis/Key Findings

- Given the higher rents and home values in the Coastal submarket, homeownership and rental projects are more financially profitable in Coastal communities. Projects are less profitable the further West a project is located. **Even though land is cheaper further west, the savings from less expensive land is less than the loss in revenue from lower home prices and rents the market commands in western portions of the County.** As a result, projects in the Coastal submarket become financially viable more quickly (i.e., at lower densities) than the same project in other areas of the County. This may explain why financially viable projects in Western Sussex County are built on larger parcels – the bigger the project, the better able the developer can spread fixed costs and reduce total costs per unit.
- The more units the developer can build (and spread fixed costs), the better able the project can support rent-restricted housing set at 80% AMI and below and home sales priced to households at 100% AMI and below. At higher densities, the market-rate units can “cross subsidize” within the project to support a larger percentage of income-restricted units or lower income restricted units (set at 50% AMI or 30% AMI).
- **In general, homeownership projects need to achieve densities of at least three units per acre and rental projects need to achieve at least 12 units per acre in order to be financially feasible with some share of affordable units include as part of the project.**
 - In the best-case **homeownership** scenario (Coastal model), the model becomes viable at three units per acre. At this density, projects could also support 25% of housing affordable at the median income. To achieve this same level of housing affordable to households at 50% AMI, the project would need at least four units per acre.
 - In the best-case **rental** scenario (Coastal model), the model becomes viable at almost 10 units per acre. At 12 units per acre, the project could support a 25% set aside of units affordable to households earning 80% AMI or below. To achieve about this level of housing affordable to 50% AMI and below, the project would need at least 16 units per acre.
 - Blending higher-income targets (100% AMI or 80% AMI) with lower-income targets (50% AMI or 30% AMI) could produce a higher number of income-restricted units than the project could achieve otherwise if the policy exclusively targeted 50% AMI and below.

The existing incentives do not provide projects with enough density to realistically support income-restricted units while maintaining its financial viability. Therefore, any update to the bonus density program should consider higher density increases and a change in how density is applied to incentivize below-market housing opportunities. The full Economic Feasibility Report is located in the Appendix.



Section 3

Strategies +

Implementation Framework

Strategy Recommendations

The *Housing Opportunities and Market Evaluation* includes a set of recommendations designed to address current and future housing needs in the County. No single initiative, however bold, can resolve the range of affordable housing issues in Sussex County. Rather, a range of tools – funded with adequate resources – is needed.

This Plan includes three recommended strategies to increase the production and preservation of housing at prices and rents currently not being delivered by the private market. These recommendations were prepared by LSA, the consultant team hired by Sussex County to conduct the study. The recommendations considered input from a range of stakeholders and interviews with County staff, County Council, and Planning Commissioners, but LSA developed the strategies and actions primarily from an analysis of existing programs, a review of best practices in other communities, a financial feasibility study, and a needs assessment and market analysis. Other policies and strategies were assessed, but were not included because they were deemed to be less relevant or impactful for Sussex County at this time. A full range of potential affordable housing tools considered is available in the Appendix.

Implementation of these recommended strategies will have significant impact on addressing current and future housing needs; however, proposed actions should be seen as a starting place from which to grow and will not entirely close the housing affordability gap.

- 1 **Modify the Zoning Code to Promote Housing Affordability in Growth Areas Identified in the Comprehensive Plan.** Given the County's low base zoning, the County should 1) revise existing ordinances to better incentivize below-market housing, with changes appropriately scaled to meet both housing needs of lower-income households and the economic realities of developing housing in Sussex County; and 2) review and modify the underlying zoning in all designated growth areas (i.e., Town Center, Developing Areas, Coastal Areas, and areas designated as Commercial). A zoning code that permits a range of housing types can help create a range of housing prices and rents that naturally serve households with varying incomes. In addition to encouraging below-market-rate housing, a zoning update would reduce the number of rezoning applications, increase transparency about rezoning proposals, and decrease the level of administrative review while promoting development consistent with the County's long-range Comprehensive Plan.
- 2 **Establish a Local Housing Trust Fund.** A trust fund is a distinct fund established by a public entity to support the preservation or production of affordable homes that the market has difficulty producing on its own. Local funds often are essential for filling the gap between the cost of producing market-rate housing and the cost of producing below-market rate housing. Local funds are also important for leveraging other funding from the federal and state government. Local housing trust funds can be set up as revolving funds where loan repayments create a source of on-going funding for the trust fund. Eventual funding for the trust fund would

come from non-general revenue sources; however, the County should allocate an initial amount to seed the fund and demonstrate successful implementation.

- 3 Preserve the Existing Supply of Affordable Housing.** Preserving the current affordable housing stock in the County increases net gains from new development, can prevent displacement as nearby property values and rents rise, and can be less costly than developing new units. In addition, preservation efforts can increase the County’s tax base and promote neighborhood stability. Through the local Housing Trust Fund (implemented under Strategy 2), Sussex County could offer financing to developers and landlords to renovate their units and keep them affordable, including properties that are not income-restricted but are currently affordable to lower-income households, subsidized units nearing the end of their compliance period, and one of the many small landlords who rent their single-family home, townhome, duplexes, or mobile homes.

Affordable Housing Definitions

People often think about “affordable housing” in different ways. In this report, the recommendations are explicitly designed to incentivize and promote housing that is not being delivered by the private market and is generally affordable to lower-income individuals and families in the County. There are several ways in which affordable housing might be defined:



Affordable Housing?

Housing where costs makes up 30 percent or less of the household income. For renters, housing costs include monthly gross rent plus renter-paid utilities. For owner households, housing costs include payments for mortgages, debts on the property, real estate taxes, insurance on the property, and utilities.



Workforce Housing?

Housing that is affordable to any individual with a job (or any household with a working member) who is contributing to the Sussex County Economy.



Affordable/Workforce Housing Programs?

A policy, initiative, or regulation that creates, incentivizes, or funds housing that is affordable to households at a specified income group.

This report mostly refers to the term “affordable housing.” Affordable housing concerns touch individuals and families of all incomes. Given this broad applicability, formally defining income parameters and eligibility requirements – supported by a housing needs assessment and market analysis – will create a transparent and predictable process for the development community and residents interested in participating in any programs created. The following are the specific income and eligibility definitions used for the HOME strategy recommendations:

Income Limits

Based on the assessment of housing needs in the County, housing strategies should target households with incomes below 80% of the AMI for rental housing and below 100% of AMI for for-sale housing. Income limits should be updated annually when the U.S. Department of Housing and Urban Development (HUD) updates its income limits.⁸

Figure 11. 2019 HUD Income Limits – Sussex County, Delaware

Income Group	Household Size			
	1-Person	2-Person	3-Person	4-Person
30% AMI	\$15,200	\$17,350	\$21,330	\$25,750
50% AMI	\$25,250	\$28,850	\$32,450	\$36,050
80% AMI	\$40,400	\$46,200	\$51,950	\$57,700
100% AMI	\$50,500	\$57,700	\$64,900	\$72,100

Prices and Rent Limits

Affordable housing units should be made available at rents and prices affordable to households in the income ranges above.

Rent Limits

To calculate maximum gross rent of an affordable unit, the set aside is compared to the number of bedrooms and the most current AMI schedule released by HUD. To maintain consistency for property managers and landlords, affordable set-aside rents are not based upon the actual number of members of a given household. Rather, the County should adopt HUD’s hypothetical household size methodology to select consistent income figures to set rents in a given year. Affordable rents should be capped at no more than 30% of the monthly income based upon the income-restriction and the household size outlined below:

- Efficiency/Studio: 1-person household
- 1-Bedroom: 1.5-person household⁹
- 2-Bedroom: 3-person household
- 3-Bedroom: 4.5-person household¹⁰

This, however, assumes landlords will then take off average utility payments from gross rents. Average utility payments are determined based upon a utility study or other HUD or State Housing Finance Agency approved documentation. To account for utility payments among landlords that do not reduce gross rents by average utilities, affordable rents should be capped at no more than 25% of the monthly income based upon the income-restriction and the household size outlined above.

⁸ See HUD Office of Policy Development & Research, <https://www.huduser.gov/portal/datasets/il.html>

⁹ Income used takes the average of a one-person and two-person household income at any given income group.

¹⁰ Income used takes the average of a four-person and five-person household income at any given income group.

Figure 12. 2019 Rent Limits (25% of Income)

Bedroom Size	Income Limit		
	30% AMI	50% AMI	80% AMI
Efficiency	\$317	\$526	\$842
1 Bedroom	\$339	\$563	\$902
2 Bedroom	\$444	\$676	\$1,082
3 Bedroom	\$468	\$872	\$1,250

Maximum Sale Prices

Affordable ownership units need to include two mechanisms for setting affordable price levels - the initial sales price and a re-sale price. Initial sale prices can use Delaware State Housing Authority’s (DSHA) sales price as part of their Delaware Affordability Gap Analysis produced quarterly. The Delaware State Housing Authority calculates affordable sales prices by income for Delaware’s three counties using certain assumptions about mortgage terms, interest rates, and estimated tax, insurance, and other costs based on market data at the time of the report. The latest maximum sale prices range from \$246,000 for homes priced at 100% AMI to under \$100,000 for homes priced at 50% AMI.¹¹ Sussex County should update their program materials as DSHA publishes new sales prices.

Figure 13. Maximum Allowable Sale Prices for Income-Restricted Units in Sussex County

Maximum Allowable Sale Price	100% AMI	80% AMI	50% AMI
	\$236,645	\$181,969	\$99,956

Source: Delaware State Housing Authority, Median Home Price and Affordability Ranges, December 2018

Affordable housing re-sale prices should be set to allow homeowners to accrue equity but also preserve the home’s affordability for other residents and working households. Nationally, housing programs with affordability restrictions use a variety of methods to set the resale price, including changes in the HUD area median income, real estate indices, a percentage of market price appreciation, the consumer price index, increases by prime rate, and preset dollar increments.¹²

Appreciation formulas based upon a compounding of 10-year changes in the AMI over a period between the unit purchase and the unit sale is recommended. This prevents a situation in which a homeowner would have to sell at a loss due to a short-term dip in AMI or sell at a price that is unlikely to allow the subsequent homeowner any price appreciation because of a short-term spike in AMI.

Sussex County should maintain a waitlist for income-eligible households interested in purchasing either a new or re-sale affordable housing unit. If the homeowner cannot find an eligible buyer within six

¹¹ DSHA’s assumptions include loan terms of 30 years at 5.125% interest rate with qualifying amount based on 33%/38% Debt to Income Ratio. Estimated monthly tax and insurance costs of \$200, and an estimated “other costs” of 12% was added (ex. School loans or credit card debt)

¹² For more information about resale formula options and case studies, visit: <https://inclusionaryhousing.org/designing-a-policy/affordability-preservation/mechanisms-for-preserving-affordability/>

months of listing the home¹³, the deed restriction can be lifted to allow the homeowner to sell at market value to any homebuyer. This provision, however, would remove the unit from the affordable housing stock. Deed restrictions could allow for exemptions under certain hardships (e.g., military deployment or employer relocation outside of the County).

To enhance coordination, Sussex County could leverage community development organizations or nonprofits to promote the program, existing homebuyer programs to pre-certify interested applicants to reduce problems of selecting buyers who cannot obtain adequate financing.

Geographic Targets

Incentivizing development near towns and employment opportunities should be promoted through land use and financial tools. Specifically, projects located in the following areas designated in the 2019 Comprehensive Plan should be prioritized in Sussex County's housing strategy:

- Town Center
- Developing Area
- Coastal Area
- Commercial

These areas were developed after an extensive, multi-year public engagement process and based off of their proximity to an incorporated municipality, presence of nearby public sewer and water (or short-term planned public sewer), and the environmental character, among others.

Any project located in Agricultural Preservation Districts or Forest Land Preservation Areas would be excluded from land use tools. In addition, safeguarding environmentally sensitive areas in Coastal Areas should be done through additional site restriction mechanisms. Site restrictions (e.g., height limits, setbacks) and any required impact studies (i.e., environmental and traffic impact) supersede any land use incentive.

The Delaware State Housing Authority's Area of Opportunity was evaluated as a geographic target. However, by restricting incentives and financing to these areas, Sussex County would be severely limiting housing choice and opportunities in many communities, particularly West of Route 113. As upward market pressure continues to move westward and Sussex County continues to promote revitalization efforts in distressed communities, land use and financial mechanisms will be in place to promote housing affordability alongside or as a catalyst to economic development.

¹³ The County could implement a "Good Faith Marketing Requirement" so that the burden is on the seller and not on the County to promote affirmative marketing. Upon lifting the deed restriction with the County, the seller would need to document steps taken to affirmatively market the unit, which could be based upon HUD program standards.

Implementation Framework

Each strategy includes a series of specific short-term, mid-term, and longer-term actions, providing a framework that guides implementation. Short-term strategies include actions that may require establishing policies or collecting data and should be completed within two years. Mid-term strategies include actions that should be completed within three to four years and may include implementation of pilot programs or updates to the zoning ordinance. Longer-term strategies include actions that would be implemented in year five and beyond and may require additional analysis or considerable public input to finalize implementation details.

Affordable Housing Partners

SCC	Sussex County Council
CDHD	Community Development and Housing Department
PZ	Planning & Zoning Department
PC	Planning Commission
FD	Finance Department
NPD	Nonprofit Developers
CO	Constable's Office
FPD	For Profit Developers
FI	Local Financial Institutions (e.g., banks, lenders)

Figure 14. The Villages at Five Points, Lewes, Delaware

This development is part of a larger 180-acre mixed-use Residential Planned Community built in 2007-2008. Density of the portion with single-family homes is approximately 3.3 units per acre (260 units on 78.96 acres).



Capacity Building and Coordination to Augment the Housing Strategies

The recommendations included in this Housing Opportunities and Market Evaluation include new (and refreshed) programs and incentives to promote housing choice and affordability in Sussex County. To ensure the County has the necessary capacity to implement and expand on the recommendations presented in this plan, the County should proactively promote partnerships and capacity building activities crucial to effective implementation.

Promote a Regional Approach to Addressing Housing Needs in the County by encouraging Town collaboration. Housing needs in the County would be best met with cross-town collaboration since the Towns control land use and resources within Town boundaries, and the Comprehensive Plan calls for growth in and around the Towns.

- *Present Housing Opportunities and Market Evaluation at the Sussex County Association of Towns.*
- *Encourage Town contributions to the Housing Trust Fund.*
- *Encourage sharing of resources, including a housing coordinator/planner with a background in development finance.*

Establish procedures for monitoring affordable housing units with developers and property managers. As part of the recommended housing strategies, residential projects will be incentivized to deliver housing that meets the definition of affordable housing established in zoning ordinances and Request for Proposals for financing. The County will need to establish a mechanism for initial reporting of rents/sales, on-going monitoring of rent and price levels and certification of the eligibility of households. The County should engage with developers and property managers to ensure procedures are fair, yet not overly burdensome to developers and property managers.

Develop relationships with local and regional employers. The ability to attract high-quality workforce is dependent on employees' ability to locate decent, safe, and affordable housing.

- *Attend local Chamber of Commerce meetings as well as Delaware State Chamber of Commerce meetings to make connections to employers and discuss Sussex County's workforce housing needs.*
- *Convene an employer roundtable to both local and regional employers with offices in Sussex County.* The convening would help the County better understand any challenges to maintain adequate workforce housing and discuss ways in which the County and employers can partner on workforce housing initiatives.

Capacity Building and Coordination to Augment the Housing Strategies

Continue and expand education and outreach activities. To maintain and build support for recommendations in this plan, the County should promote proactive public engagement and outreach.

- *Leverage the Sussex Housing Advisory Group.* A group comprised of practitioners and advocates regularly meet to discuss housing issues. This group could provide guidance on the implementation framework and future housing goals, and members could serve as spokespeople to educate the broader community.
- *Hold an annual housing expo to educate the public on housing resources and initiatives.* The expo could partner with the broader community to offer workshops on home maintenance and rehab, home purchase counseling, and other valuable resources. The expo provides opportunities for government agencies, service providers, lenders, realtors, developers, and community organizations to showcase their programs at exhibitor tables.
- *Highlight successful development projects of affordable housing programs through case studies and tours.* Documenting successes and challenges could inform policies, such as code modifications, zoning, or process improvements. In addition, projects could document market demand to developers and investors as well as build positive support for additional funding and other resources for the development and preservation of affordable housing.

Advocacy Efforts at the State level. Where the County is limited under State authority, statutes, and policies, Sussex County should advocate to implement changes that would benefit the County's local housing needs. This may include the following advocacy efforts:

- Allocation of resources as part of the State's Consolidated Planning process, which lays out goals and objectives for federal resources received from the U.S. Department of Housing and Urban Development;
- Promoting greater flexibility of HOME and CDBG resources allocated to the County by the State.
- Preferences for the Qualified Allocation Plan, which guides policies and preferences for allocating low-income housing tax credits;
- Streamlining the State's development review processes; and
- Promoting greater flexibility under tax law.

STRATEGY 1

Modify the Zoning Code to Promote Housing Affordability in Growth Areas Identified in the Comprehensive Plan

The restrictive land use and zoning code in Sussex County, born out of efforts to reduce traffic congestion, promote environmental stewardship, preserve the County's agricultural landscape, and/or reduce strain on infrastructure, is setting rules and regulations that place limits on the number and type of housing units that can be built in areas of the County that have been designated for growth. While well-intentioned, the zoning code is inadvertently placing upward pressure on housing prices and exacerbating the same policies the restrictions are working to address. Low-density, single-use developments increase traffic congestion, lengthy commutes to work, costs of installing new infrastructure, and the degradation of even more land from sprawling development.

A Zoning Code that permits a range of housing types can help create a range of housing prices that naturally serve households with varying incomes.

Changes to local zoning in the County are an important part of addressing affordable housing concerns. Actions to support this strategy were guided by:

- A severe lack of affordable rental housing documented in the Needs Assessment;
- A range of stakeholders who expressed a need for smaller homes, alternative housing options (e.g., accessory dwelling units, tiny homes, cohousing), and affordable housing opportunities near employment centers and municipalities;
- The 2019 Comprehensive Plan update, which calls for growth to concentrate around the Towns; and
- Economic feasibility analysis that documents that any meaningful incentive to produce below-market housing would need significant density increases.

Estimated Costs: Administrative costs to monitor and implement the Bonus Density Program, update Zoning Ordinances, and Analyze the Zoning Code for future updates.

Partners: SCC, PC, PZ, CDHD, FPD, NPD

Strategy 1 - Implementation Framework



Short-term Actions (within 2 years)

1.1 - Update the Existing Bonus Density Programs. An update to the SCRP and MPHU bonus density programs should include the following provisions:

Updated Bonus Density Provisions

- Eligible projects are located in an area designated as Coastal Area, Town Center, Developing Area, or Commercial.
- Projects located in Forest Land Preservation and Agricultural Preservation Districts are excluded from the programs.
- Projects are subjected to all other rules and requirements, including treatment of wetlands, any required outcomes from a transportation or environmental impact study, and other site requirements, which would supersede the bonus program.
- Project designates a percentage of units affordable to households that earn incomes at or below the median income according to one of two options in the Set-Aside table (see below). Developer can self-select options one or two (see below).
- Maximum density of 12 units per acre and is calculated based upon the developable area.
- All set asides calculations are rounded up to the next whole number.
- Set-asides created under both programs will be required to remain affordable for the life of a project. A project's "life" ends when the building becomes a different use (i.e., housing to office) or when the project is demolished. Each for-sale unit and each multi-family property will have a deed restriction and/or development condition agreement stipulating any affordability terms.
- Density increases are permitted by right. Certification prior to building permit or verification prior to receiving a certificate of occupancy may be required. For sites where housing types are conditional or not permitted, the developer would seek a use change. Once awarded, density in the set aside table is awarded by right as long as all other conditions are met.

All other rules and regulations of both programs would remain the same, including eligibility criteria (i.e., housing counseling completion, one-year residency requirement), the homebuyer lottery selection process, and the developer application process, until the programs generate enough completed projects to evaluate the delivery structure.

The initial update to the density bonus programs does not include an in-lieu fee option.

HOMEOWNERSHIP (MPHU)

Density Bonus	From 2 Units Per Acre to:	OPTION 1	OPTION 2
50%	3	15% at 80% AMI	25% at 100% AMI
100%	4	15% at 50% AMI	25% at 80% AMI
200%	6	10% at 100% AMI, 10% at 80% AMI, AND 10% at 50% AMI	

RENTAL (SCRP)

Units/Acre	OPTION 1	OPTION 2
12	10% at 60% AMI	10% at 80% AMI and 8% at 50% AMI

Why the Mix of Incomes?

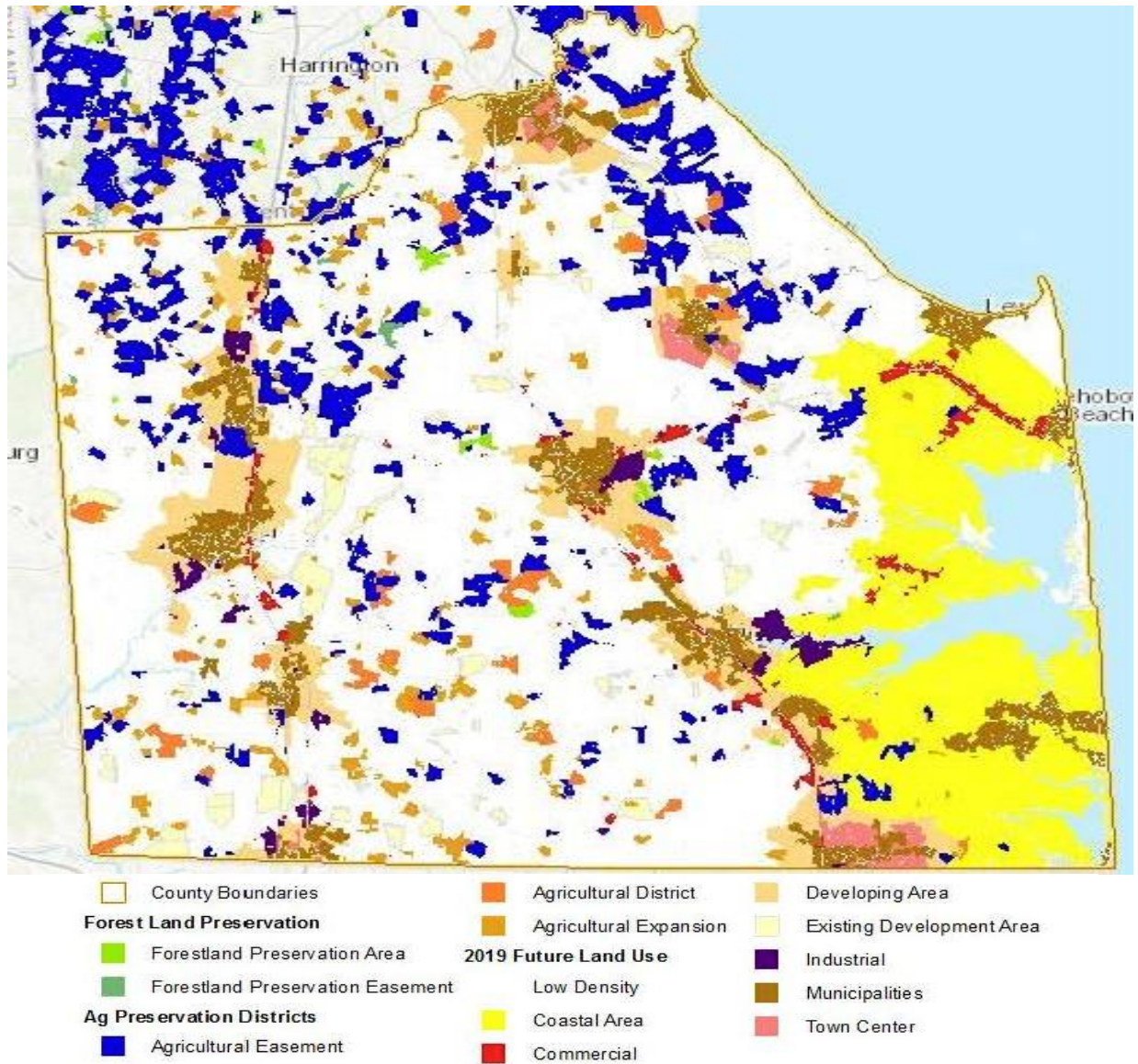
Under higher density options, set-asides have multiple income targets. A blend of income requirements within a project enables projects to produce a higher percentage of units targeted to low- and extremely low-income households that it could otherwise create. Mixed-income housing also promotes housing affordable at a range of incomes and offers an opportunity for households to remain at the property (for rental housing) when they exceed income limits.

Figure 15. Beach Plum Dunes Apartments, Lewes, Delaware

Built in 2015, this 144-unit property sits on 23.99 acres. Technically, this property's density is approximately 6 units per acre; however, by clustering the apartment buildings on approximately 10 acres of land, thereby protecting a large portion of the existing hardwood forests, density feels like it is between 14 and 15 units per acre.



Figure 16. 2019 Future Land Use Map, Sussex County, Delaware



Source: Sussex County Map Viewer, Accessed August 25, 2019 <https://maps.sussexcountysde.gov/OnlineMap/Map.html>

Mid-Term Actions (3-4 years)

All mid-term actions would require staff resources to prepare a zoning ordinance for adoption.

1.2 - In Zoning Districts where detached, single-family homes are permitted, also permit manufactured housing that meet certain design criteria. Manufactured homes can be a lower-cost housing alternative to households with modest means, but the number of manufactured housing in the County is declining. The Manufactured Home Improvement Act of 2000 mandates regular updates to the Federal Manufactured Home Construction and Safety Standard to more accurately resemble commonly accepted residential building standards. As a result, the quality of manufactured homes has improved dramatically over the past few decades and is of comparable quality to traditional single-

family homes. Manufactured homes built after 2000 should be permitted in areas where detached single-family homes are permitted. Site restrictions (i.e., lot size, density, and landscaping standards) of manufactured homes should be identical to single-family homes.

1.3 - In Town Center, Developing Areas, Coastal Areas, and Commercial zones where multifamily housing is currently a conditional use, change land use designation to a permitted use. Only one out of every three renters live in multifamily housing (3+ units) with the remaining living in houses, townhomes, duplexes, or mobile homes. Based off of stakeholder input, this is the by-product of a lack of multifamily housing and not renter preferences. Additional rental opportunities are needed, but little land is available to be developed as rental housing. Allowing multifamily as a permitted use—in growth areas where multifamily housing is appropriate—can help encourage private-sector development of more of this type of housing.

1.4 - In Town Center, Developing Areas, and Coastal Areas, where manufactured home parks are currently a conditional use, change land use designation to a permitted use if the property meets certain design criteria. Leasing a lot in a manufactured home park can expand homeownership to low- and moderate-income residents and workers because the land is not included in the cost of the home. Expanding the ability to develop manufactured home parks can be an important way to incentivize more affordable homeownership opportunities. Similar to manufactured housing on personal property, any ordinance could require new models built after 2000.

Longer-Term Actions (5+ years)

1.5 - Re-evaluate density/site requirements and identify where land could be rezoned as higher density and site restrictions can be relaxed. Given the County's low base density, many development projects have been approved with ad-hoc decision-making. Determining policies project-by-project reduces consistency and transparency and creates an environment of uncertainty for the developers. This action will require additional analysis of the Planning and Zoning Department with some stakeholder and public input prior to amending the zoning code. Leading up to implementing this action, Sussex County could explore this incrementally through one or more Small Area Plan processes or through Residential Planned Communities before making sweeping, Countywide changes.

1.6 - Modify the MPHU and SCRP program to more modest bonus densities and explore mandated requirements. By this point, developers may have taken advantage of the MPHU and SCRP program under the new updates. Sussex County should evaluate and reflect on the projects that may have been awarded bonus density to determine if income targeting, geographic targeting, or the bonus density itself should change.

A large-scale bonus density, however, is a short-term fix to addressing issues from a low base density. If the zoning analysis (see above) results in significantly more parcels with higher density within the Comprehensive Plan Growth Areas (i.e., Coastal Area, Developing Area, Town Center, or Commercial), then the MPHU and SCRP may need to be re-evaluated to provide more modest bonus densities consistent with the zoning update. The density cap should also be re-evaluated at this time. Depending upon the program outcomes and updated zoning code, mandated inclusionary zoning with pay in-lieu fee options could be explored.

STRATEGY 2

Establish a Local Housing Trust Fund

Despite available federal and state resources, more than 700 towns, cities, and counties across the country dedicate resources to local Housing Trust Funds, which support the preservation and production of affordable housing for local residents and workers.¹⁴ Local priorities dictate the allocation of resources, which often gives local Housing Trust Funds greater flexibility than federal or state resources, and leads to wide variation across the country in both the size and use of the funds.

A local fund can be used for programs that provide direct assistance to homebuyers or renters, or it can provide developers financing to reduce development costs and fill a gap between the cost of producing market-rate housing and the cost of producing below-market rate housing for lower-income households after an organization's fundraising capacity has been reached. Financial resources are particularly beneficial for targeting projects with units set at 50% AMI and below (\$25,250 for one person, \$36,050 for a family of four) where other land use tools have difficulty producing enough units affordable to low-income residents and workers. For projects that include supportive services (i.e., for special needs populations or formerly homeless individuals), financial tools are necessary.

Housing trust funds can be set up as a revolving loan fund with no- or low-interest loans (e.g., 1% to 3%). Structuring financing as a loan, as opposed to a grant, enables the recycling of funds to be re-used for subsequent projects.

A commitment of local resources is often the catalyst used by community-based organizations as the basis for their fundraising efforts and may increase a project's competitiveness for non-local resources, such as the Low-Income Housing Tax Credit. Local trust funds are most effective when they leverage other resources, thereby stretching local funds further and expanding the funds' impact. A fund set up as a 501(c)3 would have the additional benefit of being able to receive charitable donations from the private sector, including banks looking to meet their Community Reinvestment Act requirements.

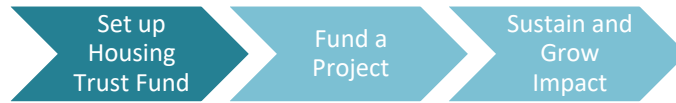
A nonprofit-managed fund would bring the additional benefit of 501(c)3 status, which may increase the number of charitable donations from the private sector. Legal guidance should be sought before establishment of the fund

Estimated Costs: Seed funding for the trust fund and estimated costs of at least one full-time position.

Partners: SCC, CDHD, FD, FI

¹⁴ Center for Community Change, Housing Trust Fund Project

Strategy 2 - Implementation Framework



Short-term Actions (within 2 years)

2.1 - Establish policies and goals for the housing trust fund. The enabling ordinance or legislation will clearly define basic policies and goals for the housing trust fund. In general, the trust fund will support projects or programs that explicitly lead to the production of, preservation of, or access to housing affordable to the County’s residents and workforce with incomes below 80% of AMI. In today’s dollars, that amounts to \$40,400 for one person or \$57,680 for a family of four.

The ordinance would not identify specific income in dollars, since the area median income changes on an annual basis. Rather, the governing agency would publish household income and rent limits produced annually by the U.S. Department of Housing and Urban Development.

For projects that receive bonus density through the County’s programs, housing trust fund assistance would only be available to assist the production of units that exceeds the minimum requirements under the MPHU or SCRP programs.

Projects funded with the housing trust fund should promote long-term compliance periods. Homebuyer assisted units will be required to have a deed restriction on the home stipulating any affordability terms for a minimum of twenty years.¹⁵ Rental properties will be required to have deed restrictions or development agreements stipulating a thirty-year compliance period.

Figure 14. Affordability Compliance Periods

Rental	30 Years
Homebuyer	20 Years

Potential Uses of Housing Trust Fund Resources

1. Pre-development loans for nonprofit housing developers.
2. Financing for the construction of new housing or rehabilitation or preservation of existing housing
3. Loans to develop housing and on-site facilities for low-income households with special needs (e.g., physical or intellectual disabilities, mentally ill, or victims of domestic violence).
4. Bridge loans and gap financing to reduce up-front costs (i.e., lower sewer impact fees).
5. Financing for site acquisition, construction loan guarantees, collateral, or operating capital.
6. Loans for first-effort model projects to test new housing types.
7. Fund Administration, not to exceed 10% per fiscal year of the funds deposited into the Fund.

¹⁵ Homes that sell prior to the 20-year compliance period will be subjected to re-sale restrictions. Affordability restrictions will be reset at the sale of the home.

Tasks of the Trust Fund Administrator

1. Manage Fund resources
2. Evaluate projects that apply for funding with the Advisory Board.
3. Coordinate Housing Trust Fund Advisory Board activities.
4. Produce Annual Reports that includes a list of the fund loan repayments due and paid during the reporting period and any developers not in compliance with their loan terms.
5. Create and maintain a publicly available database of Fund loans that includes the name of developer, date of award, loan amount, interest rate, number of affordable units created with the loan, and income levels served.
6. Provide outreach and housing production counseling and technical assistance to individuals or groups interested in producing housing.
7. Monitor projects for compliance under written agreement.
8. Make annual assessments of the housing needs of targeted populations and update priorities accordingly.
9. Make annual assessments of the housing needs of targeted populations and update priorities accordingly.

2.2 - Identify the appropriate organization to administer the housing trust fund. The local trust fund can be administered by the County or by an independent organization, such as the Delaware Community Foundation. Given the Community Development and Housing Department's experience operating housing programs, such as HOME and the Community Development Block Grant programs, this department is well positioned to administer the fund with assistance from the Finance Department, who could assist with loan repayment monitoring. However, the decision of the administering agency should be made by Sussex County Council and staff, and will largely depend upon the staff capacity as well as external groups that may be in a position to administer the fund.

Whether managed by the County or a nonprofit organization, the fund should be incorporated to allow for private contributions. A nonprofit-managed fund would have the additional benefit of 501(c)3 status, which may increase the number of charitable donations from the private sector, including banks looking to meet their Community Reinvestment Act requirements.

To cover costs of administering the trust fund, the County can use the general fund or cover costs through revenues committed to the trust fund (or a combination of both). If housing trust fund revenues are used to administer the fund, the County should specify a cap – usually a percentage of the total resources within a given year, though an annual dollar amount could be specified.

Figure 16. Chandler Heights II, Seaford, Delaware

Better Homes of Seaford substantially renovated this 28-unit apartment complex. USDA and HUD resources made this renovation possible and ensures residents pay no more than 30% of their income towards rent and utilities.



2.4 - Establish a local housing trust fund advisory board. An Advisory Board would provide recommendations on the development, financing, and operation of the local housing trust fund, including identifying policies and goals and selecting applicants for funding. Members would be appointed by Sussex County Council for a set time period (i.e., 4-year term) after a competitive Request for Proposal process, and would be representative of the general housing community. This ensures Advisory Board would provide considerable expertise to the governing agency while ensuring connection – and accountability – to the community. Representatives may include:



Ways to Promote Transparency of the Advisory Board

- Advertise open Board Member positions through a competitive Request for Application process.
- Approve Board member selection at a public hearing.
- Require Board Member with a project under consideration by the Advisory Board to recuse themselves from voting on their own project.
- Publish meeting agendas and other meeting materials on the County’s website.
- Open Advisory Board meetings to the general public.

2.5 - Allocate initial seed funding for a pilot program. With no funding mechanism established, Sussex County will need to commit seed funding from its general fund to the trust fund. Initial funding will demonstrate a commitment by the County to help incentivize affordable housing options to its residents and workers and demonstrate the impact of the trust fund to build support for ongoing dedicated resources. This initial investment could also be used to leverage additional resources from the private sector or municipalities. The number of households or organizations assisted from this initial investment will largely be determined by the amount of funding and the scenario in which the County invests. The table below lays out three different scenarios and how many units could be assisted based off of three different investment options.

Figure 17. Possible Units Assisted by Various Housing Trust Fund Investment Levels in Sussex County

Scenario	Units Assisted by Investment		
	\$500,000	\$1,000,000	\$5,000,000
Developers competing for Low-Income Housing Tax Credit financing on multifamily rental projects. Assumes DSHA's underwriting standards (\$50,000 per unit cap).	10	20	100
Acquisition assistance so that homebuilders can "buy-down" lots in a high opportunity area (e.g., outside of Lewes or Rehoboth Beach) that can be sold at an affordable price. Assumes a \$45,000/lot acquisition subsidy (based off of input from affordable homebuilders)	11	22	111
Expansion of the existing home rehab program using Sussex County's \$25,000 per home maximum	20	40	200
Assistance to develop Permanent Supportive Housing for formerly homeless individuals (Assumes \$160,615/unit subsidy) ¹⁶	3	6	31

2.6 - Establish the process for receiving and evaluating applications for trust fund resources.

Funding can be made available in one of two ways: 1) through a formal, competitive RFP process with specific application dates, or 2) on an on-going basis. An on-going application process may increase the nimbleness of the fund to promote the County's housing goals by allowing projects to more easily compete for other funding while applying for local funding at the same time, or to provide acquisition assistance to help nonprofit developers better compete against for-profit developers who tend to have greater access to capital and could more quickly pull resources together to purchase property.

A formal RFP process, however, would help streamline the administration of awards and the scoring process would promote competitiveness that may lead to stronger proposals. For either process, the County should establish minimum threshold criteria to be considered for funding. For competitive RFPs, projects that meet all minimum requirements would be scored against one another based upon

¹⁶Uses DSHA's subsidy limit for one bedroom unit according to the Permanent Supportive Housing Set-Aside Notice of Funding Availability guidelines from 2018 funding round.

http://www.destatehousing.com/Developers/developermedia/nhtf_2018_housing_setaside.pdf

prioritization scores that reflect Sussex County's housing needs and goals. The Appendix includes a basic outline that includes main components of a competitive RFP.

Strong preference should be given to projects that:

- Leverage non-local resources (i.e., grants, low-income housing tax credits, developer equity);
- Are located in areas proximate to neighborhood amenities and employment opportunities;
- Target households that earn below 50% of the area median income;
- Target special populations identified through community planning processes (e.g., older adults, individuals and families who are/were formerly homeless, persons with developmental or physical disabilities), and
- Agree to affordable compliance periods above the minimum trust fund requirements (i.e., 30 years for rental housing, 20 years for homeownership).

Any RFP process should include an educational component (i.e., pre-proposal conference, educational workshops) that can inform applicants of expectations and requirements of the proposal and ask any questions prior to applying for funds.

Mid-Term Actions (3-4 years)

2.7 - Complete an allocation to at least one program or project. In the third year, the trust fund should have released an RFP, evaluated funding applications, and allocated funds to at least one eligible project. The allocation(s) should be structured as a no- or low-interest loan so that funds will be funneled back into the fund and re-used for subsequent projects.

Longer-Term Actions (5+ years)

2.8 - Establish a dedicated source of funding to the local housing trust fund that would come outside of the annual budget allocation process. A dedicated source of funding to the local housing trust fund will provide an ongoing stream of revenue to ensure consistent, long-term financing for affordable housing needs in Sussex County. Dedicated funding can be sourced from a variety of different ways. Given Sussex County's growing population, economy, and increased real estate activity, it is recommended that development impact fees be the primary way in which the County raises dedicated funding for the local housing trust fund.

An impact fee surcharge of 0.5% to 1% on construction costs of all new housing units in the County would generate an estimated \$1,200,000 to \$2,400,000 annually for the fund,¹⁷ which would marginally impact a project's profitability. Any units set aside as affordable housing under any state, federal, or local programs, would be exempt from this impact fee surcharge.

¹⁷ This is conservative estimate applies a 0.5% and 1% fee based upon \$150,000/unit construction cost to 1,600 units, the approximate average annual housing units to be built based off of the Delaware Population Consortium's projections. Projections are lower than new construction activity in Sussex County in the last few years. If current growth continues as is, actual revenue could be higher than estimated.

To complement revenue generated from residential impact fees, Sussex County should also explore alternative revenue sources to encourage tourists, who rely on lower-wage workers in the hospitality and food industries, to contribute to the housing trust fund. This may include a percentage of local accommodation tax rate, meals, restaurant or alcohol tax, tax on short-term rentals (i.e., Air BnB), or a general increase in property tax with Homestead Exemption for year-round residents. Additional taxes, other than a general property tax increase, will require state approval.

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Leverage Non-Local Resources to Stretch the Housing Trust Fund Further

Project financing and other assistance is available from the State and Federal Governments to promote affordable housing efforts. The Low-Income Housing Tax Credit, Community Development Block Grant, State and Local Rental Assistance, Delaware's Housing Development Fund, National Housing Trust Fund, and Downtown Development District designations are a few examples of non-local resources available to Sussex County. Leveraging non-local resources helps stretch local resources further.

Expand incentives for below-market housing development to promote State and Federal Economic Development Programs. Projects located within the State-designated Opportunity Zones and Downtown Development Districts (DDD) receive federal and state incentives to spur private investment and economic activity. Affordable housing development and rehabilitation can often act as a catalyst for neighborhood revitalization. Promoting affordable housing development and rehab alongside economic development minimizes displacement caused by increases in property values from the additional economic activity and market demand. Incentives such as the County's matching grant for DDD projects will continue to leverage federal and state programs and promote neighborhood revitalization goals.

Educate County residents about State and Federal programs that they can access directly and expand incentives for their use. Ensure residents have access to and understand opportunities for funding, including homebuyer and rehabilitation programs. Similar to the DDD matching grant, the County could provide matching grants to promote their use and further the housing goals in this plan.

Consider establishing Participating Jurisdiction (PJ) Status. Sussex County recently surpassed minimum population requirements to become a PJ. This status enables Sussex County to receive federal resources directly. While the County would receive the same resources (\$1.3 million), the designation would enable the County to identify its own priority needs and goals, and dictate how resources are allocated. PJ status also unlocks other tools to promote economic development investment. The funding amount is tied to a jurisdiction's population. As the County continues to grow, so too would its federal entitlement award. The Community Development Block Grant is one of the most flexible federal resources and can be used for a range of activities like neighborhood revitalization, infrastructure improvements, and community amenities. However, the State has only allowed Sussex County to use the funds for home rehab and minor infrastructure improvements. Pursuing PJ status does come with additional reporting and administrative requirements, which is estimated to require two full-time staff; but up to 20% of the allocation may be spent towards administrative and planning expenses.

STRATEGY 3

Preserve the Existing Supply of Affordable Housing

According to the National Housing Preservation Database, 3,165 rental units (across 78 properties) receive federal assistance in Sussex County.¹⁸ These units represent 20% of the total occupied rental stock in Sussex County and 42% of the lower-rent units under \$1,000. There is currently no strategy in place to keep them affordable when their compliance period ends. While owners must comply with affordability requirements that can last up to 30 years, or more, in some cases, the owner may convert their property to market-rate once the affordability period is over.

In addition, Sussex County also has some properties that are not income-restricted but are currently affordable to lower-income households, a growing number of vacant/abandoned properties, and two-thirds of renters who rent from small landlords in single-family homes, townhomes, duplexes, or mobile homes.

Preserving the affordable housing stock increases net gains from new development, can prevent displacement as nearby property values and rents rise, and can be less costly than developing new units. Investing in preservation can also increase the County's tax base. As recommended land use and financial tools create new affordable units in the County, preservation strategies will become even more important.

Estimated costs: An initial \$250,000 plus one additional staff for monitoring and compliance

Partners: SCC, CDHD, CO, NPD, FPD

Figure 18. Meadowbridge Apartments, Seaford, Delaware
 Received Low-Income Housing Tax Credits to finance a complete renovation in 2017. The property has 104 units all affordable to households earning up to 60% of the area median income.



¹⁸ Most properties are funded using the Low-Income Housing Tax Credit, Department of Housing and Urban Development's Home Investment Partnership Program, or Section 8 program, as well as programs from the United States Department of Agriculture. In most cases, properties use a combination of funding sources as part of their financing structure.

Strategy 3 - Implementation Framework



Short-term Actions (within 2 years)

3.1 - Continue to update the DelawareHousingSearch.org listing for lower-cost housing options.

Projects funded under the Housing Trust Fund or incentivized through the Bonus Density program should be required to use the State's detailed affordable housing listing to list income restricted units as part of its marketing strategy.

3.2 - Establish a framework for monitoring and compliance for active stewardship of the available subsidized or set-aside housing. Affordable housing stewardship protects the community's investment by monitoring the physical asset and enforcing program requirements over a long period of time. The framework would include policies for:

- *Contract Compliance* – any federal or local compliance reviews as part of the underwriting and project development process;
- *Compliance Monitoring* – ensuring projects developed with density bonuses or financed using the local housing trust fund remain in compliance with local program requirements throughout the duration of the projects' affordability period. Periodic on-site visits to review files and physical inspections of the percentage of the assisted units may need to occur.
- *Mechanism that tracks compliance period of the units.* The County should cross-reference local projects with lists developed by the National Housing Preservation Database and DSHA database to have an understanding of total available affordable housing stock. This helps the County better understand properties that may be at risk of converting to market rate housing once the compliance period ends and establish preservation strategies for those properties (see preservation strategy below).

3.3 - Establish a process for surveying vacant/abandoned property within the County. The Constable's Office is responsible for enforcement of the County code, and relies on public complaints to address neighborhood blight related to property maintenance. In addition to this method, a survey of vacant/abandoned property within the County will help issue liens (see below), and where appropriate, County resources could help property owners who may need assistance to address issues. This survey could adopt similar methodology that the Community Development and Housing Department used during its 2016 inventory/windshield survey among 14 different communities.¹⁹ The County could

¹⁹ Communities surveyed include Cedar Creek, Concord, Cool Spring, Coverdale, Diamond Acres, Dog Patch, Greentop, Lucas Development, Mount Joy, New Hope/S. Old State Road, Pinetown, Polly Branch, Possum Point, and West Rehoboth.

partner with a third-party (e.g., a university or affordable housing developer), which could reduce the administrative burden. Dividing the County into 8-10 different sub-areas with specific goals (i.e., survey one sub area per quarter) will promote manageability of this action. *Estimated costs: \$30,000 to partner with a third party plus any administrative expenses by the County.*

Mid-Term Actions (3-4 Years)

3.4 - Develop a preservation strategy for projects nearing the end of their affordability compliance period. Most units will remain affordable in the next decade; however, 18% of subsidized rental units in the County will reach the end of their subsidy contracts and affordability restrictions in the next ten years, including 256 units within five years.

Figure 19. Subsidized Units by Expiring Affordability*

Prior to 2025	2025-2029	2030-2039	2040 and Later	No Expiration**	Total
256	303	1,598	958	50	3,165
8%	10%	50%	30%	2%	100%

Source: National Housing Preservation Database, Accessed 5/10/2019

*Latest expiration date used where multiple subsidies exist

**Public Housing managed by Delaware State Housing Authority

According to the National Housing Preservation Database, ownership among subsidized units in Sussex County is mixed – some property owners are mission-oriented owners and will likely pursue financing strategies leading up to their expiring contract that will preserve these low-rent units as long-term affordable housing. Others are profit-driven investors and owners who may be incentivized, particularly in submarkets experiencing upward market pressure, to increase rents, convert units to condos unaffordable to tenants, or sell the property.

In addition to upward market pressure and ownership status, one common early warning sign is the physical inspection score produced for HUD-funded properties, known as REAC.²⁰ Low (and trending downward) REAC scores leading up the property’s compliance period may indicate a landlord who has purposely stopped investing into their property because they will likely sell. Or, the low score may indicate a landlord without resources to effectively address property issues outlined in the report, and they may sell out of necessity.

With an understanding of the available housing stock (see action above), Sussex County can begin to reach out to property owners to learn about their intentions, the physical and capital needs of their respective properties, and the expiration of any housing subsidies. With adequate research, Sussex County will better understand the financial challenges properties may face in order to remain affordable, and be better equipped to develop viable preservation strategies that may include:

- Financing to address property issues in exchange for extensions of the affordability period;

²⁰ REAC stands for Real Estate Assessment Center. HUD-funded properties undergo regular inspections to evaluate the financial and physical condition of the property during the compliance period and ensure the development is decent, safe, and sanitary.

- Acquisition assistance to a mission-oriented landlord who is focused on active management of the development as an affordable rental property;
- Gap financing for landlords interested in leveraging additional resources, such as the low-income housing tax credit, for buildings in need of substantial renovation; or,
- Where contract termination is imminent, relocation assistance to tenants that would minimize the impact of their displacement.

3.5 - Establish a loan program to assist small rental property owners. Promote partnerships among the housing locator (partly funded by Sussex County), landlords, and tenants by offering no- or low-interest loans for needed rehabilitation activities to abate property code violations outlined in an inspection report by the Constable's Office. Property owners of fewer than 5 units would be eligible (including single-family homes, townhomes, duplexes, and quadruplexes). In exchange, property owners provide 10% of project costs in equity and agree to keep units affordable to households at 80% AMI over a certain period of time. Owners will enter into a regulatory agreement with Sussex County to ensure the financial viability, physical upkeep, and continued affordability. Loans would be forgiven at the end of the loan term for property owners that maintain required affordability and do not incur another code violation. *Estimated Costs: \$200,000 to run a pilot program (to assist at least 8 units), plus any administrative fees.*

3.6 - Establish a lien program that requires vacant and abandoned property owners to register their property with the County. Signed into law on September 2017, State House Bills 187 and 188 offer additional tools to local governments to address neighborhood blight and reduce the number of vacant and abandoned homes. Specifically, House Bill 187 allows local governments to prequalify bidders at sheriff's sales to restrict bidders who are delinquent on property taxes or violating property maintenance codes. House Bill 188 allows local governments to place a lien on a vacant property in violation of maintenance standards to recoup enforcement and abatement costs.

A property owner of a building that has been vacant for more than 45 consecutive days would be required to register the vacant property with the Constable's office. Vacant property fees would be assessed for any property that has been vacant in excess of one (1) year and billed to the Constable's Office. The registration fee would be based upon the total number of years the property sits vacant, which becomes incrementally more taxing year after year. The lien program can offer a one-time waiver program if substantial repairs or work is completed within a reasonable period of time or the property owner is actively selling during the vacancy period.

Funds generated from the lien program may be directed to the housing trust fund to assist in demolition or rehabilitation of property owners in need, or be directed to other needed housing programs.

Longer-Term Actions (5+ Years)

3.7 - Adopt a notification program related to State's Title 25 Sec. 7105 when Manufactured Home Communities are pursuing conversion of their property. Under this law, property owners of manufactured home communities who wish to sell, transfer, or convey all or part of the property must provide notice to the Delaware Manufactured Home Relocation Authority, the Consumer Protection Unit of the state Attorney General's office, and to the statewide manufactured home owners

association. In addition, tenants and a tenant's association (if one exists) receive a copy of the notice. Under state law, residents have a right of first offer and a right to match certain competing offers. Right of First Offer policies can be confusing and intimidating to tenant organizations, and fundraising enough to purchase the property is challenging.

As part of an offer, tenants could transfer their rights to a mission-oriented organization who would agree to keep lot rents affordable. Without knowledge of property sales, the County has limited opportunities to promote ownership of the land and prevent resident displacement. This action would expand the notification requirement of properties who trigger Title 25 Sec. 7105 to also notify the County. With this information, the County could:

- Better educate tenants and tenant organizations of their rights to purchase the property, and connect residents to ROC USA and other resources.²¹
- Make information publicly available, which would help connect mission-oriented developers and organizations with tenant associations who may agree to “transfer their rights” to the organization to purchase the property.
- Provide acquisition assistance (through the housing trust fund) to tenant organizations or mission-oriented organizations to purchase manufactured home communities.

3.8 - Explore a Right of First Refusal Option to lower-income homebuyers for properties undergoing

monition sales. Under Title 9 in the Delaware State Code, Sussex County has authority to sell tax delinquent properties. Prior to the sale to the general public, Sussex County should explore a right of first refusal opportunity to lower-income homebuyers and/or affordable housing developers and builders committed to producing and preserving affordable homeownership and rental housing. Additional steps need to be evaluated before adopting legislation. Currently, bidders are unable to enter the premises because existing property owners are sometimes still living on the property. This restricts a bidder's ability to perform home inspections and other due diligence that would ensure an adequate investment, and puts bidders in a precarious situation if the cost to adequately rehab the home to meet code and life safety standards exceeds the value of the home. Property owners also have sixty days to redeem the property after a sale by paying the purchase price plus 15% to the winning bidder.

As part of this process, Sussex County should explore taking *brief* ownership of the property to remove the sixty-day holding period hurdle and ensure property owners have vacated the premises. Disposition strategies would include:

- Partnership with a mission-oriented organization who may be interested in any necessary home rehab activities and connection to interested and qualified homebuyers;
- Auction; the County may be able to generate revenue if bidders have an opportunity to perform adequate due diligence that provides assurance to their investment; or

²¹ ROC USA is a nonprofit organization dedicated to promoting resident ownership of manufactured home communities. As part of the ROC USA Network, the organization provides technical assistance through regional affiliates, Capital, and CDFI lending. For more information, visit: <https://rocusa.org/>

- Right of first refusal option to homebuyers who complete certain eligibility criteria (e.g., completion of housing counseling program)

3.9 - Create a Tangled Title Fund Program to low-income households dealing with tangled title. The program could be awarded to low-income households seeking to legally clear title to their homes with the assistance of an attorney, paralegal, or housing counselor. The program's goal is to help prevent homelessness and reduce the likelihood of the home becoming vacant and abandoned. While the program could be structured to provide direct financial assistance to the household, a partnership with a housing counseling organization could leverage other resources (i.e., pro bono legal aid), which may increase the effectiveness of the program. *Estimated Program Costs: A pilot program of \$20,000 to assist 5 households (up to \$4,000 in assistance) plus any administrative costs to manage the program.*

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Figure 20. Summary of HOME Recommended Strategies and Implementation Steps

	Short Term	Mid Term	Longer Term
Strategy 1 - Modify the Zoning Code to Promote Housing Affordability in Growth Areas Identified in the Comprehensive Plan			
Update the Existing Bonus Density Programs.	█		
In Zoning Districts where detached, single-family homes are permitted, also permit manufactured housing that meet certain design criteria.		█	
In Town Center, Developing Areas, Coastal Areas, and Commercial zones where multifamily housing is a conditional use, change land use designation to a permitted use.		█	
In Town Center, Developing Areas, Coastal Areas, and Commercial zones where manufactured home parks are a conditional use, change land use designation to a permitted use.		█	
Re-evaluate density/site requirements and identify where land can be rezoned as higher density and site restrictions can be relaxed.			█
Modify the MPHU and SCRPP program to more modest bonus density requirements.			█
Strategy 2 - Establish a local Housing Trust Fund			
Establish policies and goals for the Housing Trust Fund.	█		
Identify the appropriate organization to administer the Fund.	█		
Establish a local housing trust fund Advisory Board.	█		
Allocate seed funding for an initial pilot program.	█		
Complete an allocation to at least one program or project.		█	
Establish a dedicated source of funding to the local housing trust fund that would come outside of the annual budget allocation process.			█
Strategy 3 - Preserve the Existing Supply of Affordable Housing			
Continue to update the DelawareHousingSearch.org list.	█		
Establish a framework for monitoring and compliance for active stewardship of the available subsidized or set-aside housing.	█		
Establish a process for surveying vacant/abandoned properties within the County.	█		
Develop a preservation strategy for projects nearing the end of their affordable compliance period.		█	
Establish a loan program to assist small rental property owners.		█	
Establish a lien program that requires vacant and abandoned property owners to register their property within the County.		█	
Adopt a notification program related to State's Title 25 Sec. 7105 when Manufactured Home Communities are pursuing conversion of their property.			█
Explore a Right of First Refusal Option to lower-income homebuyers for properties under the monition process.			█
Create a Tangled Title Fund Program to low-income households dealing with tangled title.			█



Appendix

DRAFT

Request for Proposal Outline

Introduction

- Outline funding goals and priorities supported by a housing needs assessment and recent data.
- Tie goals and priorities of funds to broader County initiatives and plans, including the 2019 Comprehensive Plan.
- Any notable or new features of the application.

Eligible Applicants

- For-profit and nonprofit developers
- Applicant should represent a development team that may include a developer, architect, a general contractor, property manager and other professional consultants.
- Applicants may submit development proposals for more than one project in the same funding round if their project team's capacity allows for it.

How to Apply

- Application due date and time
- Proposal Submission Process - Project binders, flash drive.²²
- Application Materials:
 - Form spreadsheet (created by the County or Administrator) that provides detailed financial information, including the development budget, operating pro-forma, and unit information.
 - Narrative Responses
 - Extensive list of documents, such as a property appraisal and Phase I environmental site assessment.

Process and Timeline

- **RFP Orientation:** In person orientation session that reviews the RFP, and includes an opportunity for prospective applicants to ask questions about RFP process.
- **Threshold review:** Once the application period closes, the housing trust fund administrator will review applications to ensure applications meet every requirement. Projects that do not meet all threshold criteria will not be reviewed further.

²² As the housing trust fund grows and more applicants apply for funds each year, an online application system would help streamline the process.

- **Scoring and Selections:** Applicants that meet all Threshold Eligibility Requirements will be scored against the Prioritization Scoring Criteria.²³ Highest scoring projects will be selected for underwriting.
- **Underwriting:** Loan terms and conditions will be developed and refined after deeper evaluation of project budget and proforma.
- **Pre-Closing Due Diligence:** After a commitment letter has been executed, the developer would submit required items as part of a pre-closing checklist. Some items will be general while others will be unique to the project type. The list may include the following documentation:
 - Final site plan
 - Final building permits (or will issue letter upon payment of permit fee)
 - Final funding commitments secured
 - Additional third-party studies
 - Pre-construction ALTA survey
- **Post-Closing:** After closing, the project will be monitored during construction, at lease-up or sale, and for the entire affordability compliance period and loan repayment term.

Date	Milestone
	RFP released
	RFP orientation
	Proposals due to housing trust fund administrator
	Projects that meet Threshold Criteria proceed to scoring; All Applicants will be notified of their Threshold Review results
	Project Selection Results Announced
	Letter of Commitment Issued
	Approval of the fund’s Advisory Board
	Approval of Sussex County Council (over \$500,000)
	Closing on Financing

Threshold Eligibility Requirements

Failure to meet the following eligibility requirements, or to properly document eligibility will result in elimination of the application from funding consideration.

Project Criteria

- Income Limits

²³ As the availability of funding increases and the number of applicants increases, the RFP process can set up different pools through which applicants can compete against projects with similar characteristics (e.g., homeownership, production, preservation, and senior housing).

Income Cap	Production (Rental)	Production (Homeownership)	Preservation
Above 80% AMI			
80% AMI		x	x
60% AMI		x	x
50% AMI	x	x	x
30% AMI	x	x	x

- Site Control
- Entitlement and Development Review Approvals

Financial Criteria

- Completed Excel Workbook to present details of the proposal within prescribed cost caps and other requirements.
- Any existing financial commitments, letters of interest, or letters of intent
- For existing projects, financial information for operational expenses

Applicant Criteria

- Identification of development team
- Delaware issued Certificate of Good Standing
- Any required contract affidavits

Reports and Plans

- Appraisal
- Market Study
- Environmental Phase I Site Assessment
- Building Evaluation Report (Rehab Projects)
- Transportation Impact Study (if required)
- Architectural Plans and Cost Estimates
- Relocation Plan (for existing and occupied buildings)

Scoring Criteria

Underwriting Scoring

- Financial and economic Feasibility
- Development team capacity and experience
- Acquisition cost reasonableness
- Compliance with cost and funding guidelines
- Leverage

Prioritization Scoring

- Family-Oriented Units
- Special Populations
- Income Levels Served
- Nonprofit participation
- Mixed-Income
- Proximity to high-opportunity areas
- Affordability Period Restrictions longer than 30 years (rental) and 20 years (homeownership)

Underwriting Guidelines

- Occupancy Restrictions and Rent Levels
- Financing Terms and Conditions
- Construction or Rehabilitation Costs
- Development Budget
- Limitation on Fees
- Operating Pro Forma

Compliance and Monitoring Requirements

Definitions

Affordable Housing Toolbox

There are many different strategies that have been used in communities across the country to expand below-market housing options. In most cases, local jurisdictions adopt a range of tools and policies, many that work together. Some tools will be more effective than others in a particular community. The strength of the market, the capacity of the development community, the regulatory environment and the characteristics of the existing housing stock will all impact the effectiveness of a particular approach. The *Housing Opportunities and Market Evaluation* outlines specific tools that were deemed to be most appropriate and effective for Sussex County to address the community's housing needs. The following section describes a range of additional housing initiatives that also could be considered as the County moves forward with a comprehensive housing strategy. This Affordable Housing Toolbox is organized around Production Strategies, Financial Tools, Housing Access, and Preservation Strategies.

Production-Based Strategies

Inclusionary Zoning Policies

Inclusionary housing policies use the zoning code to require or incentivize the production of housing affordable to low- and moderate-income households, often in exchange for increased density and/or other incentives. Nationally, inclusionary housing policies usually have been implemented as mandatory requirements, whereby developers must include affordable housing as part of a market-rate development. Even in these mandatory programs, however, local jurisdictions generally offer some type of regulatory relief to the residential developer to help offset the costs of providing below-market-rate housing units. Inclusionary housing policies have been adopted in more than 500 jurisdictions in 28 states across the country. Inclusionary housing programs can be found in a wide range of places, from big cities to suburban communities to rural areas. However, inclusionary zoning policies work best in places with high or rising housing costs. In most cases, these policies are adopted as part of a larger local strategy to expand housing options that are affordable to low- and moderate-income households. In addition to Sussex County's MPHU and SCRP program, New Castle County also manages an inclusionary zoning program.

Adaptive/Commercial Reuse

Adaptive reuse projects create new housing in existing buildings once used for commercial, industrial or public purposes. Adaptive reuse poses an alternative solution to demolition or deterioration, and provides an option for expanding housing options in an environmentally sustainable way, while also maintaining historic buildings and/or preserving existing community structures.

Common buildings used for adaptive reuse include, but are not limited to, historic buildings, schools, industrial factories, offices, and hotels. Increasingly, communities are looking at ways to convert vacant or underutilized commercial or retail buildings into housing, including commercial strip shopping centers, "big box" stores, malls and small standalone former office or retail spaces.

Changing the use of a commercial or industrial building to residential can often involve environmental remediation measures and modifications to bring the structures up to residential building code standards. While these safety-related requirements can sometimes add complexity to the scope of an adaptive reuse project, architects and engineers have become increasingly creative in this space and

familiar with solutions. In addition, there are ways local governments can offset these costs through the regulatory, plan review process, and financial assistance to make adaptive reuse an attractive option.

Adaptive reuse can require site plan committee review, special use permits, incentive programs, conversion factors and/or adoption of a new ordinance. Therefore, there is no one standard way to implement an adaptive reuse program. The approach depends on the goals and planning processes of the community, as well as the stock of potential buildings appropriate for repurposing as housing.

Adaptive reuse has been used to create affordable housing units, both for individuals at higher and lower wages. Multifamily units are a common end result when converting nonresidential to residential uses, and units can either be rental or owner (e.g., condominium). In some cases, housing units that result from adaptive reuse are more affordable because they are smaller units and/or take advantage of existing infrastructure which can, in some cases, reduce the cost of building the housing. However, adaptive reuse does not automatically mean “affordable” or “workforce” housing. Often, a public subsidy is needed to make units affordable to lower-wage workers.

A handful of adaptive reuse projects have created “non-traditional” homes, such as microunits and spaces with communal living areas, as one way to keep housing affordable. Communal living, or shared housing, is generally where residents have private bedrooms and bathrooms but share kitchen and dining areas. Microunits generally have been considered a type of small studio apartment, typically between 150 and 400 square feet, with a fully functioning kitchen and bathroom.

Adaptive reuse is not always viable. Sometimes, it is financially more efficient to tear down and rebuild, rather than try to repurpose an existing commercial structure as a residential building.

Public Land

Public land policies make government-owned land available at reduced or no cost for affordable or mixed-income housing. This could include land owned by the local government, school district, parks authority or transit agency, and can include both vacant and underutilized parcels. Because localities often own land in various locations throughout a jurisdiction, public land redevelopment can be a helpful strategy for siting workforce housing in areas connected to jobs, transit and other amenities throughout the jurisdiction. In high-cost jurisdictions, using public land has become an essential tool for subsidizing—without spending public money directly—the production of new, below-market-rate housing. A successful public land policy involves a transparent process that balances competing interests in the publicly-held properties. The provision of free or reduced-price land can have a major impact on the costs of development—and therefore on the ability to produce below-market-rate homes—in some types of neighborhoods, and less of an impact in others. Co-locating community facilities with below-market housing can be an effective way to create new housing options without the need for public financial subsidy. Reducing or eliminating the cost of land can reduce the amount of capital necessary to build housing that serves individuals and families with lower incomes. In addition to potential capital cost savings, co-locating complimentary uses also can produce operating efficiencies.

Faith-Based Development

There has been growing interest on the part of the faith community to become more directly involved in the production of housing affordable to lower-income individuals and families. Faith-based organizations often partner with local jurisdictions to provide services to vulnerable populations in the

community, including food assistance, job and life skills training, personal and family counseling and other services. However, faith-based organizations are increasingly looking for ways to partner with local governments and the development community to develop underutilized real estate resources into affordable housing. A house of worship may have surplus land or underutilized density, which could be used for the construction of below-market-rate housing. In addition to working with partners on the finance and development side, the faith-based group often will have to work with the local jurisdictions to get zoning changes and other development approvals.

Community Land Trust & Land Banking

A community land trust (CLT) is a nonprofit organization designed primarily to ensure community stewardship of land. CLTs can be used for many types of development, but are primarily used to provide permanently affordable housing options to lower-income households. The CLT purchases land and maintains ownership of it permanently. To promote homeownership, a prospective homeowner enters into a lease agreement with the CLT for the land and can therefore purchase a home at a lower cost since he or she does not have to purchase the land. As part of the agreement, when the homeowner sells the home, he or she receives a portion of the increased value, with the other portion remaining with the CLT to help ensure affordability of the home for future homeowners. The length of the lease is generally 99 years and the percentage earned by the homeowner varies across CLTs. By separating the ownership of land and housing, the CLT is designed to mitigate market factors that would cause home prices to rise significantly and can guarantee that housing can remain affordable for multiple homeowners over the long-term. While CLTs are often thought of as a mechanism primarily for homeownership, CLTs have been used to help make rental housing affordable to lower-income households. In fact, according to the National CLT Network, about two-thirds of residential properties stewarded by CLTs are rental properties. Because the land is owned by the trust, constructing and maintaining the overall property is lower, therefore allowing rents to be lower. Many rental CLTs also work to actively engage residents and provide services, such as financial counseling and other supports. The Diamond State Community Land Trust and the West Rehoboth Community Land Trust are two housing-related land trusts currently operating in Sussex County.

Small Area Plans

A small area plan guides development for a specific area within a jurisdiction, and is a supporting document to the Comprehensive Plan that tends to cover similar issue areas. The boundary may encompass a neighborhood, a District, an area surrounding a major economic development project, or a commercial corridor. Similar to the Comprehensive Plan process, community outreach and engagement from residents and stakeholders is a key component to the planning process and is used to devise a more detailed, fine-tuned vision, zoning regulations, and implementation actions than might be possible with a Countywide plan.

Recommendations and guidelines may require specific amounts of affordable housing or other community benefits, design guidelines, more flexible (or stringent) site requirements, such as building height, setback, or lot size coverage, density, and other development elements such as transportation, community revitalization, or economic development.

Small Area Plans often take the form of amendments to the Comprehensive Plan, and can be used as a tool to direct more affordable housing (or raise funds for additional affordable housing). Through a Small

Area Planning process, the County could also proactively identify key areas for increased density or allow relaxed site requirements to encourage more lower-cost housing.

Residential Planned Communities

A Residential Planned Community (RPC) is a mixed-use development that permits a variety of housing types and community buildings, recreational facilities, and possibly commercial units balanced to meet the community needs and promote the goals within the Comprehensive Plan. RPCs are designed to encourage high quality developments that provide certain public benefits in exchange for development flexibility (i.e., increased height or density, mix of uses).

While flexibility is given, projects are typically not approved if they are inconsistent with the Comprehensive Plan. Staff review may assess and mitigate impacts on neighborhood environment, allow increased height and density on the site where appropriate, and ensure that the project meets the areas vision and goals of other planning documents governing the area. RPCs tend to be approved by a Planning Commission and involve community involvement or support.

Jurisdictions can use RPCs as a way to leverage affordable housing units, either requiring a percentage set aside within the project, an in-lieu fee that is directed to a jurisdiction's local trust fund, or development of certain housing types that tend to be lower cost.

Transfer of Development Rights

Transfer of Development Rights (TDR) is a zoning mechanism generally used to preserve or protect natural resources, open space and/or cultural resources and redirect development that would occur on that land elsewhere, targeting community growth and development. TDR, also known as a density transfer credit program, is an innovative approach to development and can promote economic opportunities for land parcels in areas not specifically targeted for development. A TDR is similar to a Purchase of Development Rights (PDR) program, though a PDR policy typically results in land preservation without new development elsewhere in the community.

TDR programs allows landowners to sell their right to develop their property to developers or municipalities so they may develop in another area at higher-than-allowed densities. Conservation easements and development restrictions are typically critical elements of a TDR program. Another key element of a TDR program is the establishment of the appropriate value for development rights (i.e., the value of a square foot of development or of a residential unit).

A local municipality can take on several roles in setting up and administering a TDR program. A local government can help fund the purchase of TDRs within their municipalities, "bank" purchased TDRs until needed by local developers, sell TDRs to developers through a public bid process and/or reinvest funds obtained through TDR sales for new TDR purchase transactions.

TDRs have been used to create and preserve affordable and workforce housing by linking increased density to the provision of below-market-rate housing. A TDR policy can serve not only lower-wage working households needing affordable housing, but can benefit individuals and families who own land in environmentally or culturally sensitive areas by providing an economic benefit in lieu of the ability to develop their land themselves.

Manufactured home sites, particularly those that are offering affordable single-family housing, could also be an important piece of a TDR program. By allowing manufactured home sites to qualify as a sending area, their development rights can be purchased and existing uses preserved.

Form-Based Code

A form-based code is a land development tool that is designed to regulate physical form rather than specific use (e.g., commercial, residential). A form-based code is a regulation, not a mere guideline, adopted into local law. Communities often pursue form-based codes to attempt to create denser, more walkable, mixed-use neighborhoods. Often under a form-based code, developers are able to take advantage of higher allowable densities and more limited community review processes. However, local jurisdictions should invest considerable time upfront to get community input on the parameters that will shape the requirements under the code.

Form-based code is not typically used primarily to create below-market housing options. However, a form-based code can facilitate the production or preservation of below-market-rate housing by writing affordability requirements into the code. Higher densities also sometimes make it more feasible to produce below-market-rate housing units. Finally, a more predictable, streamlined review process under form-based code can help reduce the overall cost of development, making it easier to produce lower-cost units.

Well-designed form-based codes can potentially have a positive impact on affordability across the income spectrum if it encourages adequate supply and the development of “missing middle” housing typologies. Deeper levels of affordability can be provided if inclusionary housing elements are included in the policy.

Mixed-use, Mixed Income

“Mixed-use” and “mixed-income” can mean different things to different people. In general, these types of projects are defined based on the inclusion of households at different income levels and a variety of commercial and retail uses incorporated alongside the residential space. Mixed-use, mixed-income projects can be built both in low-income, emerging communities, as well as in higher-income, market-rate communities. There are different challenges associated with building in each type of submarket. Mixed-use, mixed-income projects can only be developed if that mix of uses is allowed under the locality’s zoning. In addition to land use and zoning issues, financing is a big issue for developing mixed-use and mixed-income communities. The ability to assemble the necessary financing for these types of projects depends a lot on the structure of the project. It is often the case that 100-percent affordable deals are much easier to find financing for than mixed-income, mixed-use projects. For example, on a typical new construction of a 100-percent affordable project, there may be equity from the Low-Income Housing Tax Credit (LIHTC) program along with land equity and gap financing from a local jurisdiction. A mixed-income project marries conventional financing with affordable financing, but the requirements and risk tolerances for the two different investment sources often do not align. As a result, developers of mixed-income, mixed-use projects end up having to “condominium-ize” the property, establishing different owners for the affordable and market units on the property.

Expedited Review

New residential (and commercial) construction typically goes through a process that involves review and approval by multiple local government departments (e.g., planning, zoning, transportation) and often must be reviewed by other agencies and organizations (e.g., utility companies, state environmental agencies). The review process can sometimes lead to the necessity of re-doing project plans or conducting additional studies to gain local support for the development. Delays and unpredictability associated with project review, zoning, permitting, entitlement and other approval processes add to the final costs of new housing. These costs typically are passed on to the final occupant of the new building and make it more difficult to build housing affordable to lower-income households. Expedited development review and permitting can be one way of reducing costs and to help promote the development of housing affordable to low- and moderate-income households. While fast-tracking review and permitting of affordable housing projects reduces developer costs at no cost to local jurisdictions, it also may mean fewer opportunities for community input on proposed projects. Therefore, it is important to balance the goals of an expedited process with other goals in the community. Alongside an expedited process, more education and coordinated outreach around the development review and approval process is often essential for helping developers and other stakeholders be more aware of the requirements and process.

Fee Waivers

Fees are charged as part of the development review and approval process. Some fees—such as subdivision review fees or board of zoning appeals fees—are associated with specific steps in the review and approval process. Impact fees are one-time charges assessed on new residential developments to help pay for new or expanded infrastructure to serve them. Revenue collected through impact fees can help fund the expansion of water and sewer lines if they do not exist, the building of new or improvement of existing roads or sidewalks in the area and/or the creation of public amenities, such as parks or new schools. Like other development costs, fees add to the final cost of housing. To make it easier to develop affordable housing, local jurisdictions sometimes offer to waive the impact and/or other fees associated with developments which include below-market-rate units. Alternatively, a “proportional” fee reduction program may be developed in which impact fees are adjusted according to the size of the housing unit or the location of the new housing. Larger homes and those located in outlying areas where infrastructure does not currently exist usually command a higher fee than smaller, in-town units. If fee waivers are not allowed in a community, an option has been to provide projects a rebate on impact and other fees from another local revenue source.

Accessory Dwelling Units

Accessory Dwelling Units Accessory dwelling units (ADUs) are smaller housing units that are either attached units as part of a primary dwelling unit or structure (e.g., as a lower-level apartment, over-garage apartment) or are a detached structure (e.g., tiny home). Sometimes called “granny flats” or “in law” apartments, these units can also be a source of lower-cost affordable housing. With attention to design, ADUs can be constructed to preserve neighborhood character and to have minimal impacts.

In addition to serving as a source of below-market housing, accessory units can be a source of income for homeowners if they are rented, allowing homeowners to remain in their homes over time. ADUs can also be a source of housing for caregivers and family members.

Reduced Parking

Most zoning ordinances require that new residential developments include a certain number of parking spaces per unit or per bedroom. These requirements can add significantly to the cost of developing housing and have been found to have a substantial impact on the financial feasibility of below-market rate housing developments. According to one recent study, requiring one parking space per unit increases the cost of development by 12.5%, and two spaces per unit increases costs by 25%.²⁴ Areas near transit are particularly well-situated for the elimination or reduction of parking requirements.

Financial Tools

Local Housing Trust Fund

Housing Trust Funds are distinct funds established by a city, county, state, or the federal government that generally receive ongoing dedicated sources of public funding to support the preservation and production of housing affordable to lower-income households. Revenue for local housing trust funds is generated from a variety of sources, including real estate transfer taxes or recordation fees, litigation settlements, inclusionary in-lieu fees and appropriations from a municipality's general revenue. Less common is for donations or dedicated contributions from local employers.

There is wide variation in the amounts local jurisdictions commit to housing trust funds, and the amounts can vary from year to year. Trust fund dollars can be combined with other local funding to support affordable and workforce housing programs and services. While there may be limits on uses of local trust fund dollars imposed by the state, generally there is a lot of flexibility in how these resources may be used.

In the most effective local housing trust funds, public dollars are used to leverage a range of additional funding sources, which expands the impact the fund can have. Trust fund dollars can be used to fund a wide variety of housing production and preservation activities, depending on the goals of the community. Funds can be allocated as grants or as loans for predevelopment activities, construction, rehabilitation or resident services. Loan repayments can ideally account for a share of the trust funds revenue.

Delaware Housing Development Fund

The Delaware Housing Development Fund (HDF) is the State's housing trust fund, and is designed to provide loan financing to developers of LIHTC projects. Loan financing is also available to non-LIHTC developers who are interested in developing affordable or maintaining multi-family rental housing and/or Special Populations housing. In addition to loan financing, the HDF program provides grant funding to sponsoring agencies to develop affordable homeownership opportunities, support Housing Support programs, and to assist with Energy and Accessibility improvements.

For FY 2019, DSHA has set-aside \$1.5 million of the HDF funding to support Homeownership Production and Preservation Grants for the new creation of affordable housing units and the preservation of owner-occupied housing units in DSHA's Homeownership Priority Areas (which includes parts of the Seaford

²⁴ Litman, Todd. 2016. Parking Requirement Impacts on Housing Affordability. Victoria, British Columbia: Victoria Transport Policy Institute. Available online <http://www.vtpi.org/park-hou.pdf>

and Laurel areas in Sussex County). Grant funding is available only for new construction and preference is given to households with incomes between 50 and 80% of AMI. The DSHA sets rules about the selling price and eligibility of buyers.

Strong Neighborhoods Housing Fund

The Strong Neighborhoods Housing Fund (SNHF) is a revolving fund of the State of Delaware to be used for the acquisition, renovation, and sale of vacant, abandoned, foreclosed or blighted property throughout the State. The funds are targeted for efforts that support community development, and/or transform neighborhoods that are experiencing blight or other forms of stress, including high crime.

In FY2019, \$3 million was allocated to the DSHA by the state legislature to continue the SNHF. The focus of the SNHF is on DSHA Homeownership Priority Areas. Funds can be used to support households with incomes up to 120% of AMI.

National Housing Trust Fund

The National Housing Trust Fund (HTF) is an affordable housing production program that complements existing federal, state and local efforts to increase and preserve the supply of housing for extremely low- and very low-income households, including homeless families. States and state-designated entities are eligible grantees for the HTF. The U.S. Department of Housing and Urban Development allocates HTF funds to states by formula annually. A state must use at least 80% of each annual grant for rental housing, up to 10% for homeownership and up to 10% for the grantee's reasonable administrative and planning costs. In FY2018, Delaware was allocated \$3 million from the HTF. Funding is allocated by the state to local projects on a competitive basis. HTF funds may be used for the production or preservation of affordable housing through the acquisition, new construction, reconstruction and/or rehabilitation of "non-luxury" housing with suitable amenities. All HTF-assisted units are required to have a minimum affordability period of 30 years. In Delaware, HTF funding is made available through a competitive process by which the highest scoring applications submitted during an annual funding cycle are awarded funding. The award criteria offer preference points for projects that serve the chronically homeless, persons with mental health or substance abuse, and persons with a disability. In addition, the FY 2019 Delaware HTF guidelines specifically call out projects located in Sussex County as a selection preference.

Low-Income Housing Tax Credit

The Low-Income Housing Tax Credit (LIHTC) program was created as part of the Tax Reform Act of 1986 and is the single-largest source of funding for affordable multifamily rental housing. The LIHTC is a federally-funded, state-administered program. Almost all new affordable rental housing built in the U.S. makes use of the LIHTC program, and it is also a critical source of funding for rehabilitation and redevelopment of affordable multifamily rental properties. In 2018, three projects in Sussex County were awarded credits through the LIHTC program.

Key program elements include:

- Housing financed with tax credits must include 20% of all units affordable to households with incomes below 50% of AMI or 40% of all units affordable to households with incomes below 60% of AMI. Units must remain affordable for 30 years.

- Each year, there are far more applications for credits than there are credits available, so most projects do not receive funding. The Delaware State Housing Agency (DSHA) specifies the criteria for how tax credits are allocated in its Qualified Action Plan (QAP). In 2019, priority for credits is given to:
 - Creation of new affordable rental housing in State Areas of Opportunity;
 - Preservation of existing affordable housing properties, especially federally-subsidized properties; and
 - Integrated, affordable housing for people with disabilities and extremely low incomes, and other special populations that may need supportive services and rental assistance to live independently.
- The State gives extra points to projects that leverage permanent funding sources not controlled by DSHA.
- Applications for tax credits must meet the federally-defined threshold criteria (see above). In addition, projects applying for tax credits must be located in the state's Investment Levels 1, 2 or 3.

Community Development Block Grant

The County uses CDBG funding to rehabilitate substandard homes, allowing homeowners to remain in their homes and helping to ensure the affordability and quality of those homes. The County applies to the Delaware State Housing Authority (DSHA) for a portion of the federal CDBG funds allocated to the state. The County's Community Development and Housing Department applies for funding on behalf of local municipalities who request assistance from the County. The State has mandated that rehab activities are the only allowable use of CDBG funds in Sussex County.

In the 2017 fiscal year, Sussex County received \$1.5 million in CDBG and Home Program funding, which assisted 127 low- to moderate-income households in that year. The County typically serves an average of 150 homeowners annually through the CDBG program, though there are more than 1,000 homes on the waiting list for rehabilitation assistance.

Public Housing

Public housing is a federal program designed to subsidize housing for individuals and households with very and extremely low incomes, generally below 30% of AMI. No federal funding has been authorized to increase the stock of public housing since the early 1990s, and federal funding for maintenance and upkeep has been insufficient to enable public housing authorities to maintain all their housing in decent condition.

DSHA owns and manages a total of 518 units of public housing in Kent and Sussex Counties. There are three public housing properties in Sussex County or its municipalities, totaling 151 units.

Opportunity Zones

Created as part of the 2017 Tax Cuts and Jobs Act, Opportunity Zones are designed to drive long-term capital into low-income communities across the nation, using tax incentives to encourage private investment into designated census tracts through privately- or publicly-managed investment funds. These investments can include supporting the development of affordable or workforce housing. Among

Delaware's 25 Census Tracts designated as an Opportunity Zone, five are located in Sussex County around Laurel, Seaford, and Georgetown.

The Opportunity Zones program provides investors, who have long-term capital gains, an opportunity to defer paying tax on those gains for a period of time while also investing in underserved communities that need capital. The funding would be administered through an Opportunity Fund. There is still uncertainty around how these funds would be managed. Most analysts believed the certification of Opportunity Funds would be performed through a structured process, perhaps administered by the Treasury Department's Community Development Financial Institutions (CDFI) Fund. However, in a series of Frequently Asked Questions published by the IRS on April 24, 2018, the IRS said a Qualified Opportunity Fund can self-certify and "no approval or action by the IRS is required." If this holds true, individuals with smaller gains may be able to reinvest them without having to worry about potential costs associated with investing in a larger, institutionally-managed fund. This process could make Opportunity Zone investing more efficient than similar incentives directed at low-income communities, such as the New Markets Tax Credit program or the Low-Income Housing Tax Credit (LIHTC) program.

Social Impact Bonds/Impact Investing

Social impact bonds (SIBs) are innovative financing tools that can allow local jurisdictions to use funds from private investors to develop or rehabilitate housing affordable to lower-income individuals and families. SIBs most commonly have been used to finance the development of supportive housing targeting homeless individuals who are frequent users of public services, including emergency rooms and police services. Savings associated with reduced costs in the health care and criminal justice systems resulting from individuals having access to stable housing is captured by the local jurisdiction and used to repay investors. SIBs are sometimes called "pay-for-success" programs, and investors are repaid if and when programs meet specified targets. Repayments are lower if goals are not met.

AirBnB Taxes

Another potential source of local funding for affordable housing in high-cost markets is a tax on short-term rentals, sometimes known as the Airbnb tax. The rise of Airbnb and VRBO—the online resources that connect people with short-term rentals—has led to discussions about whether this new approach to lodging could actually be making housing affordability worse in some high-cost places. In response, communities have begun taxing owners of Airbnb properties and sometimes directing that revenue to affordable housing.

Tax Increment Financing

Tax Increment Financing Tax increment financing (TIF) has become a popular source of revenue for economic development projects in many communities, but can also be leveraged for the development of below-market-rate housing. The local jurisdiction defines a TIF district and allocations of real estate property tax revenue are frozen at baseline levels. The additional tax revenue generated as the value of properties in the district increase is allocated to projects in the TIF district. The use of TIF revenue to finance workforce and affordable housing programs can help ensure that new economic development and growth that brings prosperity to the community does not have a negative impact on housing affordability among lower-wage working households.

Property Tax Abatements, Exemptions and Rebates

Local jurisdictions can adopt various types of tax incentives to encourage the development of new affordable housing or to incentivize owners to preserve the affordability of existing subsidized and unsubsidized affordable rental homes. Tax incentive programs often work by freezing or lowering the real estate tax assessments or tax rate, or rebating back all or a portion of the property tax amount, for properties that preserve affordability over a designated period of time.

General Obligation Bonds

General Obligation Bonds General Obligation (GO) Bonds are issued by a jurisdiction generally to pay for community improvement projects such as infrastructure, schools and other capital projects, though communities have used GO bonds to finance affordable housing. Unlike revenue bonds, projects funded by GO Bonds do not have to have a revenue source that repays the debt. Rather, the GO bonds are paid off as part of the jurisdiction's general expenditures on interest and debt. Typically, GO bonds have been used for school construction, infrastructure improvements and land acquisition.

Housing Access

Employer-Assisted Housing

Employer-assisted housing (EAH) is an employer-provided benefit, usually designed to assist employees in becoming homeowners. EAH programs often include grants for down payment assistance, low-interest loans, matched dollar savings plans, credit counseling and/or homebuyer education.

While there have been efforts to create EAH programs that extend to private-sector employers broadly, local EAH programs have traditionally focused on public employees (e.g., local government and school employees) and employees of large nonprofit or anchor institutions (e.g., universities and hospitals).

In addition to down payment and other homebuying assistance, there are examples of major employers investing directly in housing for their employees. This approach of directly building housing or supporting the construction of housing for employees has been most common in resort communities and in very high-cost markets.

Section 8 Housing Choice Vouchers

DSHA administers the federal Section 8 Housing Choice Voucher Program in Kent and Sussex counties, providing housing subsidies to eligible low-income individuals and families to rent privately-owned dwelling units from participating landlords. Currently, DHSAs administers about 900 vouchers across the two counties. The agency currently has a waiting list of 12,500 families.

Key program elements:

- Participants must enroll (or be enrolled) in the State's [Moving to Work \(MTW\) program](#).
- Participants pay 30 to 35% of their income for rent and utilities.
- Households must have an income no more than 80% of AMI.
- Working families, elderly (62 or over) and the disabled receive preference.

State Rental Assistance Program

The State Rental Assistance Program (SRAP) is designed to assist low-income households in need of affordable housing. The state vouchers target populations that are especially vulnerable to homelessness, such as youth exiting foster care or those exiting long-term care institutions.

Eligible households are those with incomes below 40% of AMI, *and* that meet one of the following categories: transitioning from an institution, covered by an Olmstead Agreement, or youth exiting foster care. The state provides tenant-based rental assistance and assistance with utilities. Households contribute 28% of their income to rent and the program pays the difference.

Local Housing Voucher/Grant

Like the Federal Housing Choice Voucher program, a local housing voucher/grant program provides assistance to households to enable them to rent housing in the private market. A local housing grant program using local resources could offer priority to individuals who hold jobs in the community. Administration of local grants is often through a local housing authority, but can also be managed by the local municipality or a local nonprofit organization. Local housing voucher programs are most beneficial when there are sufficient apartments available, landlords willing to take local vouchers and/or source of income discrimination laws (i.e., landlords cannot turn down a tenant because he or she is using a voucher).

First-Time Homebuyer Programs

Local first-time homebuyer programs assist low- and moderate-income households with purchasing a home by providing financial assistance with down payment, principal reduction and/or closing costs associated with a home purchase. Potential homebuyers generally apply for assistance and sometimes have to meet certain requirements, such as currently living or working in the community. In order to receive assistance, homebuyers must meet the definition of a first-time buyer, which typically means having not owned a home in the prior three years. Homebuyers often must qualify for a mortgage from an approved lender and undergo homeownership counseling. Funding for first-time homebuyer programs often comes from CDBG and HOME funding, as well as from local funding sources.

Preservation Strategies

Single-Family Rehabilitation

Upkeep of older housing can be costly for homeowners, especially lower-income families, seniors and others living on fixed incomes. Homeowner rehabilitation programs are available to low- and moderate-income households to assist them to fix health and safety issues, increase energy conservation and undertake preventive home maintenance. Assistance is usually provided as low-interest loans, though some local jurisdictions have grant programs (i.e., Sussex County's Home Rehab Program) that provide direct assistance to homeowners without a repayment requirement. Funding for single-family rehabilitation programs can come from federal sources, including the CDBG and HOME programs, but many local jurisdictions supplement with local resources and/or partner with local nonprofits to provide assistance.

Manufactured Home and Site Rehabilitation

Mobile homes can provide a valuable affordable housing option. Often, however, the condition of the mobile homes deteriorates and they can present health hazards. In addition, mobile homes are expensive to heat and cool. There are ways to preserve manufactured homes and improve conditions for families living in them. There are also options for redeveloping manufactured home parks/sites where the existing homes are in conditions beyond repair and rehabilitation.

Delaware Homeowner Relief

This program is a joint partnership between Delaware State Housing Authority and the Delaware Attorney General's Office. It was created in 2012 from the proceeds of the National Mortgage Foreclosure Settlement between the federal government, states and the nation's five largest mortgage-servicing banks. The Partnership supports emergency homeowner assistance programs, housing counseling, educational outreach, Delaware's mortgage mediation program, and mortgage fraud investigation and prosecution.

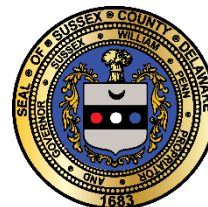
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Economic Feasibility of Promoting Housing and Homeownership in Sussex County

Prepared by LSA Planning
For Sussex County, Delaware
September 2019

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Introduction

As part of the Housing Opportunities and Market Evaluation, LSA Planning evaluated the economic feasibility of density as *one tool* to promote the increase of affordable housing in Sussex County. This feasibility model tests impacts of density on prototypical residential developments to determine at what density and affordability level can projects realistically support income-restricted units without the use of a government subsidy. To do this, LSA applied sensitivity tests of various policies - Sussex County's current density bonus programs, affordable set-aside percentages, and affordability levels at various densities. This study uses standard best practices in addition to local data sources collected, including input from half a dozen developers and builders in the County.

The results in this model will not apply to every real estate deal in the County, given the many variables that impact a project's financial feasibility - from land acquisition, infrastructure costs, and interest rates to market demand, building materials used, and the number of amenities onsite – and how those variables change over time. Rather, this modeling exercise should be used as a guide, reflective of conservative cost assumptions and conditions in the County, to make policy decisions about incentivizing or mandating affordable housing requirements with some degree of assurance that the incentives are appropriately scaled to meet both housing needs of lower-income households and profitability requirements of local developers and investors.

Model Structure

Prototypes

This analysis created two hypothetical development scenarios – a multifamily rental project on a 15-acre parcel and a single-family project on a 35-acre parcel. Average parcel sizes of recent rezoning proposals in Sussex County informed the average parcel size for these prototypes. Using projects that request a rezoning classification helps inform the density or scale that may be required for these projects to become financially feasible. Both prototypes require substantial sewer and infrastructure investment as well as other site improvements.

The analysis also assumes rental units are two-bedroom units and all for-sale homes are 1,750 square feet.²⁵ Actual projects will likely have more diverse unit sizes; however, these are meant to be averages (taken from available and recent for-sale and for-rent homes from Zillow and Apartments.com), recognizing that a typical project will include a unit mix with a blend of smaller and larger units.

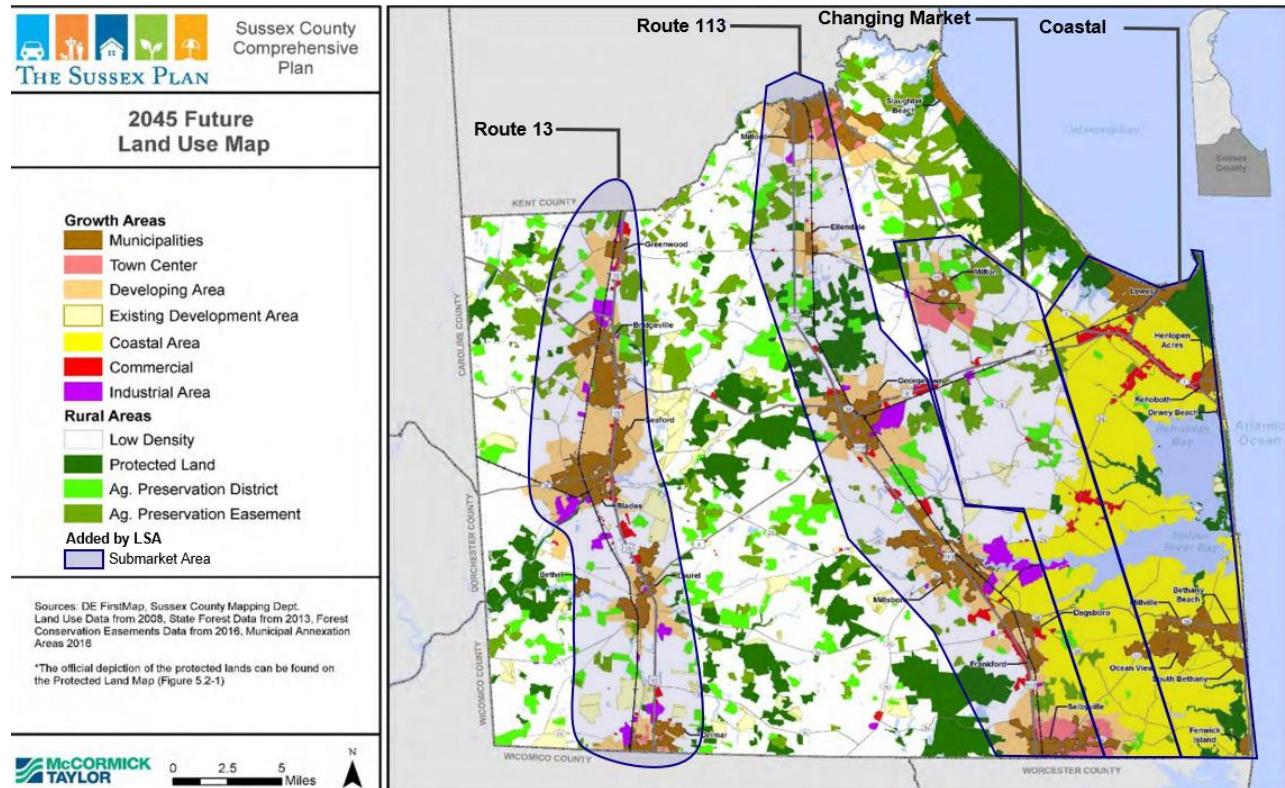
Submarkets

Each prototype was evaluated across four submarkets in Sussex County:

- 1) Coastal (east of Route 1),
- 2) Changing Markets (between Route 113 and Coastal Communities),
- 3) Communities along the Route 113 corridor, and
- 4) Communities along the Route 13 corridor.

²⁵ Homes in the Route 113 submarket were sized at 1,400 square feet. Homes in the Route 13 submarket were sized at 1,600 square feet. These sizes were reflective of home sizes on the market given the revenue the developer/builder could receive.

Figure 1. Submarket Areas



Source: Sussex County Comprehensive Plan (2019); LSA Planning (Submarket Area Overlay)

The analysis accounts for differences in land acquisition costs, average for-sale home sizes, average market rate rents and home prices, and makes some assumptions on construction costs per unit to support higher for-sale and rental prices.

Development Costs Assumptions

Land Costs

This analysis used recent land transactions on unimproved “Agricultural Residential” land. Land adjacent to the Coast costs over three times more than land along Route 113 and Route 13 and nearly double the cost of land in the Changing submarket.

This analysis assumes a 25% premium on land for multifamily rental housing, given that projects tend to be located closer to commercial corridors.

Table 1. Land Costs Per Acre by Submarkets

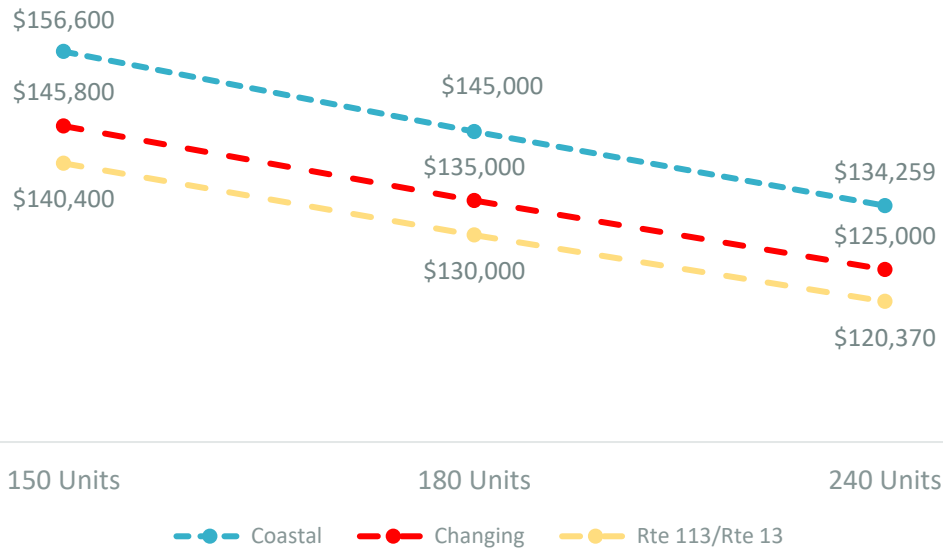
	Coastal	Changing	Route 113	Route 13
Single-Family	\$51,428	\$29,942	\$14,514	\$16,942
Multifamily Rental	\$64,285	\$37,428	\$18,143	\$25,058

Source: Recent land transactions (since January 1, 2018 to July 24, 2019) of unimproved land at least 10 acres. Report generated on July 24, 2019 from Sussex County Assessment Department.

“All-In” Costs

“All in” Costs includes land costs, in addition to both hard and soft costs. Hard costs include budget line items such as site work, site amenities (i.e., clubhouse), sewer and infrastructure improvements, and a per square foot cost to build the structure. Soft costs include line items such as architectural, engineering, insurance, legal, developer fees, and financing costs.

Figure 2. All in costs per unit, Prototypical Multi-family Rental Project



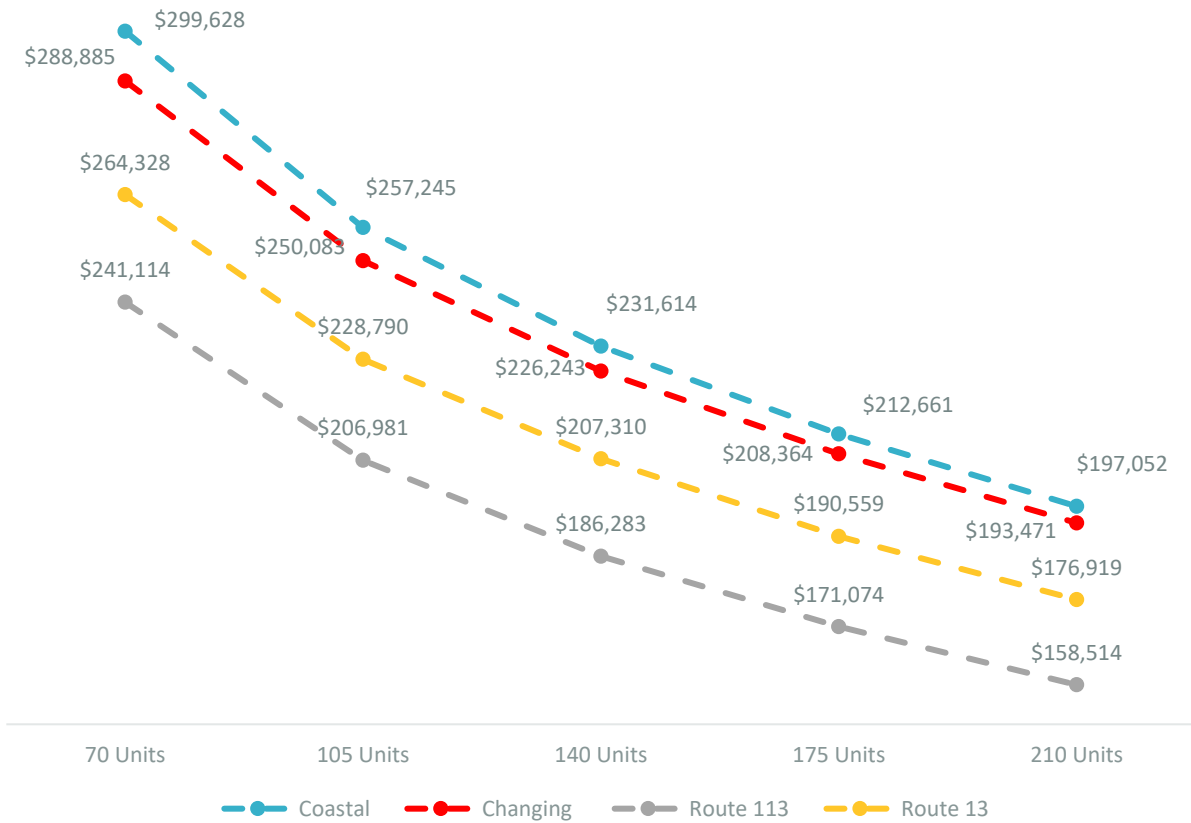
Source: LSA Planning, Developer Interviews (June 2019)

In addition to land costs, construction costs were reported to be higher in the Coastal Market and in the Changing Markets to properly command and justify higher rents with higher finishes and additional onsite amenities.

On the for-sale side, homes recently on the market tended to be smaller (with a lower purchase price) on average in the Route 113 and Route 13 submarkets. The development cost per unit is lower and is reflective of smaller home sizes that cost less to build. This analysis found similarly sized products in the Changing submarket as well as the Coastal submarket.

The homeowner analysis also assumes that project scaling- greater number of units with which to spread fixed costs- influences contract negotiations with general contractors, and applies a reduction in the per square foot cost at higher densities from \$110 per square foot to \$90 per square foot to build a home.

Figure 3. Hard and Soft Costs per unit, Prototypical Single-Family Project



Source: LSA Planning, Developer Interviews (2019)

Income Assumptions

Rental Income

The U.S. Department of Housing and Urban Development sets income limits each year for Sussex County. Standard maximum rent prices are based upon 30% of a household’s income (inclusive of utility costs). HUD also sets standard household sizes by unit size with which to base maximum rents. For example, a three-person household is used to set the maximum rental price (at their respective income level) for a two-bedroom unit. If tenants are required to pay for one or more utilities, affordable housing programs often require landlords to reduce the maximum allowable rents by a predetermined amount, usually through a utility study, to ensure that the household is not paying more than 30% of their income towards all housing costs, including tenant-paid utilities.

To account for utility payments, this analysis assumes the income-restricted household is not paying more than 25% of their income towards housing costs. Affordable rents vary widely – from just over \$1,000 for units restricted to households earning 80% AMI to about \$400 for a unit restricted to households earning 30% AMI.

Figure 4. 2019 Income limits and maximum allowable rents (25% of Income) in Sussex County, 2-bedroom unit

	80% AMI	60% AMI	50% AMI	30% AMI
Annual Income 3-Person Household	\$51,960	\$38,940	\$32,450	\$19,470
Maximum Allowable Rent	\$1,082	\$811	\$676	\$406

Source: 2019 Income Limits: Novogradac Rent and Income Limit Calculator; LSA Planning

Note: Maximum allowable rents are 25% of household income for a 3-person household

Market rate rents were identified based upon a review of newly built rental products (after 2012) from listings on property websites, Zillow, and Apartments.com. Market rate rents range from \$1,325 in the Coastal submarket to \$1,100 in Route 113/13.

Figure 5. Average Market Rate Rents across Submarkets in Sussex County, 2-bedroom unit

	Coastal	Changing	Route 113*	Route 13*
Market Rate Rents	\$1,325	\$1,200	\$1,100	\$1,100

Source: LSA Planning, apartments.com, project websites, June 2019

*Minimal availability of rental options

In addition to income, this model assumes a 5% vacancy rate and annual operating expenses of \$2,500 per unit²⁶ with an additional \$250 replacement reserve per unit. Affordable and market rate housing units have the same operating expense assumptions.

Sales Prices

The Delaware State Housing Authority calculates affordable sales prices by income for Delaware’s three counties using certain assumptions about mortgage terms, interest rates, and estimated tax, insurance, and other costs based on market data at the time of the report. The latest maximum sale prices range from \$236,645 for homes priced at 100% AMI to under \$100,000 for homes priced at 50% AMI. This calculation does include 12% of “other monthly costs,” which may include homeowners’ association fees. However, projects that have amenities that substantially increase homeowners’ association fees, such as golfing, a pool, or a clubhouse, can impact the affordability of homes, mostly due to the increased operating costs passed on to the homeowner in the form of higher condo or HOA fees.

Figure 6. Maximum Allowable Sale Prices for Income-Restricted Units in Sussex County

	100% AMI	80% AMI	60% AMI	50% AMI
Maximum Allowable Sale Price	\$236,645	\$181,969	\$127,294	\$99,956

Source: Delaware State Housing Authority, Median Home Price and Affordability Ranges, December 2018

Note: DSHA’s assumptions include loan terms of 30 years at 5.125% with qualifying amount based on 33%/38% Debt to Income Ratio. Estimated monthly tax and insurance costs of \$200, and an estimated “other costs” of 12% was added (ex. School loans or credit card debt, condo fees)

²⁶ Operating Expense of \$2,200 per unit was applied to the Route 113 and Route 13 submarkets, given that there would be less amenities on site with which staff would need to maintain. Replacement reserves remained the same at \$250 per unit.

Market rate sales prices were taken from a review of project websites of newly built products and of recently sold products on Zillow. Average home prices range from \$380,000 in the Coastal submarket to \$200,000 in the Route 113 submarket.

Figure 7. Average Market Sale Prices by Submarket in Sussex County

	Coastal	Changing	Route 113	Route 13
Market Sale Price	\$380,000	\$297,500	\$200,000	\$250,000

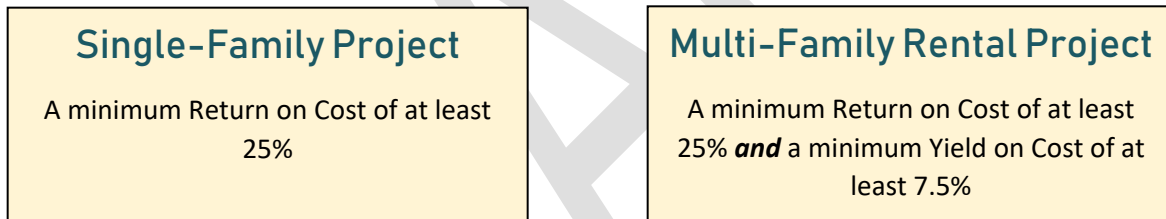
Source: LSA Planning, Zillow.com, project websites, June 2019

In addition to home prices, this analysis assumes settlement costs are 6%.

Profitability Assumptions

Return on Cost and Yield on Cost are two profitability measures used in this analysis to ensure project feasibility while introducing income-restricted housing. For each measure, a ‘hurdle rate’ – the minimum percentage a project must achieve to be considered financially viable- was identified. Scenarios that earn more than that hurdle rate were considered ‘feasible’ while those below the hurdle were deemed ‘infeasible.’

Prototype Hurdle Rates



- › **Yield on Cost:** A profitability tool only used in rental projects. Calculated by dividing the project’s net operating income (all rental income less any loss from vacancy and costs to operate the project) by the total development cost. This measure determines approximately how much net revenue will be generated each year, relative to the costs to build the projects. Projects with higher net cash flow (relative to cost) are more feasible.
- › **Return on Cost:** Compares the proceeds from selling a project to the cost to develop it.
 - For ownership projects, profit is calculated by subtracting the total development costs from the total unit sales revenue (net of sales costs), and that profit is divided by the total development costs.
 - For rental projects, value is calculated by dividing the net operating income by a capitalization rate (6.5% in this analysis). Then, profit is calculated by subtracting the total development cost from this estimated value, and then divided by the value of a project to the development cost.

Sensitivity Analysis

Sensitivity analysis in the context of financial modeling analyzes how different values (i.e., policy measures) affect the financial performance of the project under specific conditions (i.e., increased density). The different policy measures applied to each prototype include:

- › A project at 100% market rate,
- › Density bonus under Sussex County’s current Rental Program (SCRIP) or the Moderately Priced Housing Unit (MPHU) program,
- › A percentage of the project that is rented or sold to income-restricted households earning a specific percentage of the area median income (AMI) (100% AMI, 80% AMI, 60% AMI, 50% AMI, and 30% AMI).

These policies were applied to the prototype at different densities to determine at which density (or scale – i.e. number of units) can a project realistically support income-restricted housing – at a specific income-restriction and percentage of total units or a blend of various income restrictions.

Key Findings

- › Given the higher rents and home values in the Coastal submarket, both homeownership and rental projects are more financially profitable in Coastal communities. The project becomes less profitable the further West it is located.²⁷ **While land is cheaper the further west you travel away from the coast, the savings from cheaper land is less than the loss in revenue from lower home prices and rents the market commands in western portions of the County.** As a result, projects in the Coastal submarket become financially viable more quickly (i.e., at lower densities) than the same project in other areas of the County. This may explain why financially viable projects in Western Sussex County are built on larger parcels – the bigger the project, the better able the developer can spread fixed costs and reduce total costs per unit.
- › The more units the developer can build (and spread fixed costs), the better able the project can support rent-restricted housing set at 80% AMI and below and home sales priced to households at 100% AMI and below. At higher densities, the market rate units can “cross subsidize” within the project to support a larger percentage of income-restricted units or lower income restricted units (set at 50% AMI or 30% AMI).
- › **In general, homeownership projects need to achieve densities of at least 3 units per acre and rental projects need to achieve 12 units per acre in order to be financially feasible with some share of affordable units.**
 - In the best-case **homeownership** scenario (Coastal model), the model becomes viable at 3 units per acre. At this density, the project could also support 25% of housing

What is a Blended Rate?

A blended rate promotes a mix of incomes within the project and may introduce a higher percentage of low-income restricted units than the project could otherwise support.

The analysis evaluated what combination of three income targets could the project support. For the homeownership project, the blend is between 100% AMI, 80% AMI, and 50% AMI. For the rental project, the blend is between 80% AMI, 50% AMI, and 30% AMI.

²⁷ One exception is for the homeownership model where profitability was slightly higher for Route 13 than for Route 113, where home prices for newer product was slightly higher.

- affordable at the median income. To achieve this same level of housing affordable to 50% AMI, the project would need at least 4 units per acre (140 units)
- In the best-case **rental** scenario (Coastal model), the model becomes almost viable at 10 units per acre. At 12 units per acre, the project could support a 25% set aside to households earning less than 80% AMI. To achieve about this level of housing affordable to 50% AMI, the project would need at least 16 units per acre (240 units).
 - Blending higher-income targets (100% AMI or 80% AMI) with lower-income targets (50% AMI or 30% AMI) could produce a higher number of income-restricted units than the project could achieve otherwise if the policy exclusively targeted 50% AMI and below.

Moderately-Priced Dwelling Unit Program (MPHU)

The existing MPHU program offers a 25% bonus density in exchange for a minimum 15% set aside affordable to the median income. The program also offers a 30% bonus density in exchange for a minimum 15% set aside affordable to 80% AMI or 50% AMI. The bonus density improves the project's profitability by 4 to 8 percentage points, depending upon the project's location within the County. The greatest impact is in the Route 113 submarket, which increased profitability by 8.18 percentage points under the best scenario (30% bonus for 15% set aside at 80% AMI). The benefit of the MPHU program declines slightly in the Route 13 model, followed by the Changing submarket and the Coastal submarket. While submarkets that command higher prices are more financially viable at lesser densities than submarkets with lower home prices, the impact of the bonus density and affordable housing set asides is more valuable to lower-cost submarkets given the smaller differences between market rate home sales and maximum sales prices set for 80% AMI.

In all four submarkets, however, the incentive does not impact the project enough to be financially viable. While the program improves profitability of the project across all submarkets, development at this scale (35-acre parcel) does not become viable until at least 3 units per acre or when the developer is able to build at least 100 units. On larger parcels that may be able to build by right at 2 units per acre, the incentive may not be high enough to encourage participation given the red tape and uncertainty about the program rules.

Sussex County Rental Program

The existing Sussex County Rental Program (SCRIP) offers a 20% bonus density in exchange for a minimum 12.5% set aside at 50% AMI. The bonus density improves the project's profitability by about 2 percentage points, depending upon the project's location within the County. The SCRIP program has the greatest profitability improvement in the Route 13 and Route 113 submarket, which increases a project's profitability by 1.70 percentage points. The SCRIP program benefit declines the further east the project is located, and negatively impacts the project in the Coastal submarket. While submarkets that command higher rents are financially viable at lesser densities than submarkets with lower rents, the impact of the bonus density and affordable housing set asides is more valuable to lower-cost submarkets given smaller difference between market rate rents and rents set at 50% AMI. In every submarket where profitability is improved, however, the incentive does not impact the project enough to be financially viable.

Based upon interviews with County staff and stakeholders, the availability of land zoned for multi-family residential at this scale is severely limited and would require large bonus densities (and conditional use changes) for a multi-family project to become financially feasible (i.e., 400%) with 100% of the project at market-rate prices. Setting aside some units for income-restricted housing would require even more (i.e., 500%). This limited supply of land zoned for multi-family housing may explain why the program has only had one applicant over the last 11 years.

Single-Family Prototype Scenarios

Figure 8. Profitability Comparison – 70 Units (2 Units/Acre) and MPHU Program by Submarket

	Coastal	Changing	Route 113	Route 13
	Return on Cost			
2 Units/Acre (70 Units)	19.21%	-3.20%	-22.03%	-11.10%
MPHU Program (15% affordable)				
25% Density bonus – 100% AMI	21.15%	0.70%	-13.68%	-5.35%
30% Density bonus – 80% AMI	23.05%	1.47%	-13.85%	-5.07
30% Density bonus – 50% AMI	18.71%	-3.00%	-19.24%	-9.95

Figure 9. Percentage of Supportable Income-Restricted Units by Percentage of AMI and Submarket 105 Units (3 Units/Acre)

	Coastal	Changing*	Route 113*	Route 13*
	% of Total Units (Number of Units)			
100% AMI	25% (26 Units)	0%	0%	0%
80% AMI	18% (18)	0%	0%	0%
60% AMI	15% (15)	0%	0%	0%
50% AMI	13% (13)	0%	0%	0%
Blended Model – 100/80/50	100 – 8% (8) 80 – 5% (5) 50 – 5% (5)	N/A	N/A	N/A

*Project at 100% Market Rate does not meet minimum hurdle rate.

Figure 10. Percentage of Supportable Income-Restricted Units by Percentage of AMI and Submarket 140 Units (4 Units/Acre)

	Coastal	Changing*	Route 113*	Route 13*
	% of Total Units (Number of Units)			
100% AMI	50% (70)	0%	0%	0%
80% AMI	35% (49)	0%	0%	0%
60% AMI	28% (39)	0%	0%	0%
50% AMI	25% (35)	0%	0%	0%
Blended Model – 100/80/50 AMI	100 – 15% (21) 80 – 10% (14) 50 – 10% (14)	N/A	N/A	N/A

*Project at 100% Market Rate does not meet minimum profitability standards set.

Note: With minor value engineering, the Changing submarket would have been financially feasible at this scale.

Figure 11. Percentage of Supportable Income-Restricted Units by Percentage of AMI and Submarket 210 Units (6 Units/Acre)

	Coastal	Changing	Route 113*	Route 13
	% of Total Units (Number of Units)			
100% AMI	80% (168)	65% (168)	0%	100% (210)
80% AMI	60% (126)	30% (63)	0%	20% (42)
60% AMI	45% (94)	22% (46)	0%	12% (25)
50% AMI	40% (84)	20% (42)	0%	9% (18)
Blended Model – 100/80/50 AMI	100 – 20% (42) 80 – 20% (42) 50 – 15% (31)	100 – 10% (21) 80 – 10% (21) 50 – 10% (21)	N/A	100 – 10% (21) 80 – 5% (10) 50 – 5% (10)

*Project at 100% Market Rate does not meet minimum profitability standards set.

Note: With minor value engineering, the Route 113 submarket would have been financially feasible at this scale.

Multi-family Rental Project Scenarios

Figure 12. Profitability Comparison – 150 Units (10 Units/Acre) and SCRP Program by Submarket

	Coastal	Changing	Route 113	Route 13
	Yield on Cost (YoC)/Return on Cost (RoC)			
10 Units/Acre (150 Units)	YoC – 8.07% RoC – 24.18%	YoC – 7.50% RoC – 15.33%	YoC – 7.19% RoC – 10.56%	YoC – 7.19% RoC – 10.56%
SCRP Program (20% Bonus Density) – 180 Units				
12.5% - 50% AMI	YoC – 8.05% RoC – 23.92%	YoC – 7.54% RoC – 16.05%	YoC – 7.30% RoC – 12.26%	YoC – 7.30% RoC – 12.26%

Figure 13. Percentage of Supportable Income-Restricted Units by Percentage of AMI and Submarket 180 Units (12 Units/Acre)

	Coastal	Changing*	Route 113*	Route 13*
	% of Total Units (Number of Units)			
80% AMI	25% (45)	0%	0%	0%
60% AMI	12% (22)	0%	0%	0%
50% AMI	10% (18)	0%	0%	0%
30% AMI	7% (13)	0%	0%	0%
Blended Rate – 80/50/30 AMI	80 – 10% (18) 50 – 8% (14) 30 – 0% (0)	N/A	N/A	N/A

*Project at 100% Market Rate does not meet minimum profitability standards set.

Figure 14. Percentage of Supportable Income-Restricted Units by Percentage of AMI and Submarket 240 Units (16 Units/Acre)

	Coastal	Changing	Route 113	Route 13*
	% of Total Units (Number of Units)			
80% AMI	55% (132)	55% (132)	100% (240)	100% (240)
60% AMI	28% (67)	17% (41)	8% (19)	8% (19)
50% AMI	22% (53)	12% (29)	5% (12)	5% (12)
30% AMI	16% (38)	8% (20)	3% (7)	3% (7)
Blended Rate – 80/50/30 AMI	80 – 10% (24) 50 – 10% (24) 30 – 5% (12)	80 – 10% (24) 50 – 5% (12) 30 – 3% (7)	80 – 10% (24) 50 – 5% (12) 30 – 0% (0)	80 – 10% (24) 50 – 5% (12) 30 – 0% (0)

*Project at 100% Market Rate does not meet minimum profitability standards set.