Nashville-Davidson Metro Housing Policy & Feasibility Study

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Presented by:

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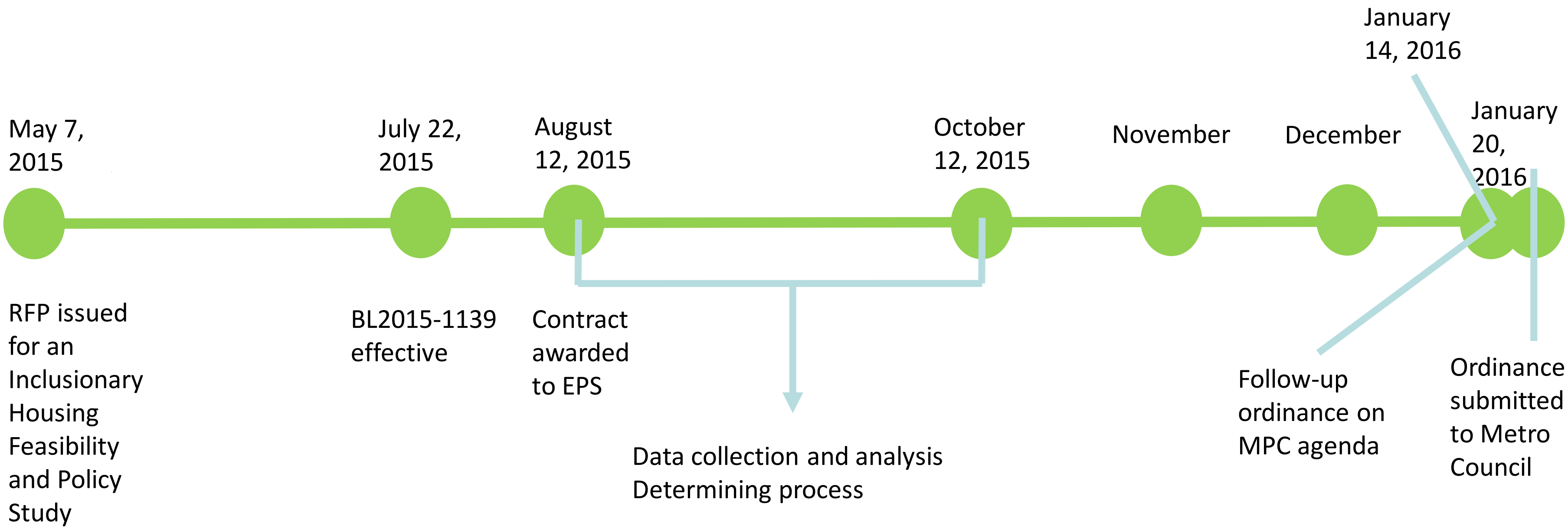
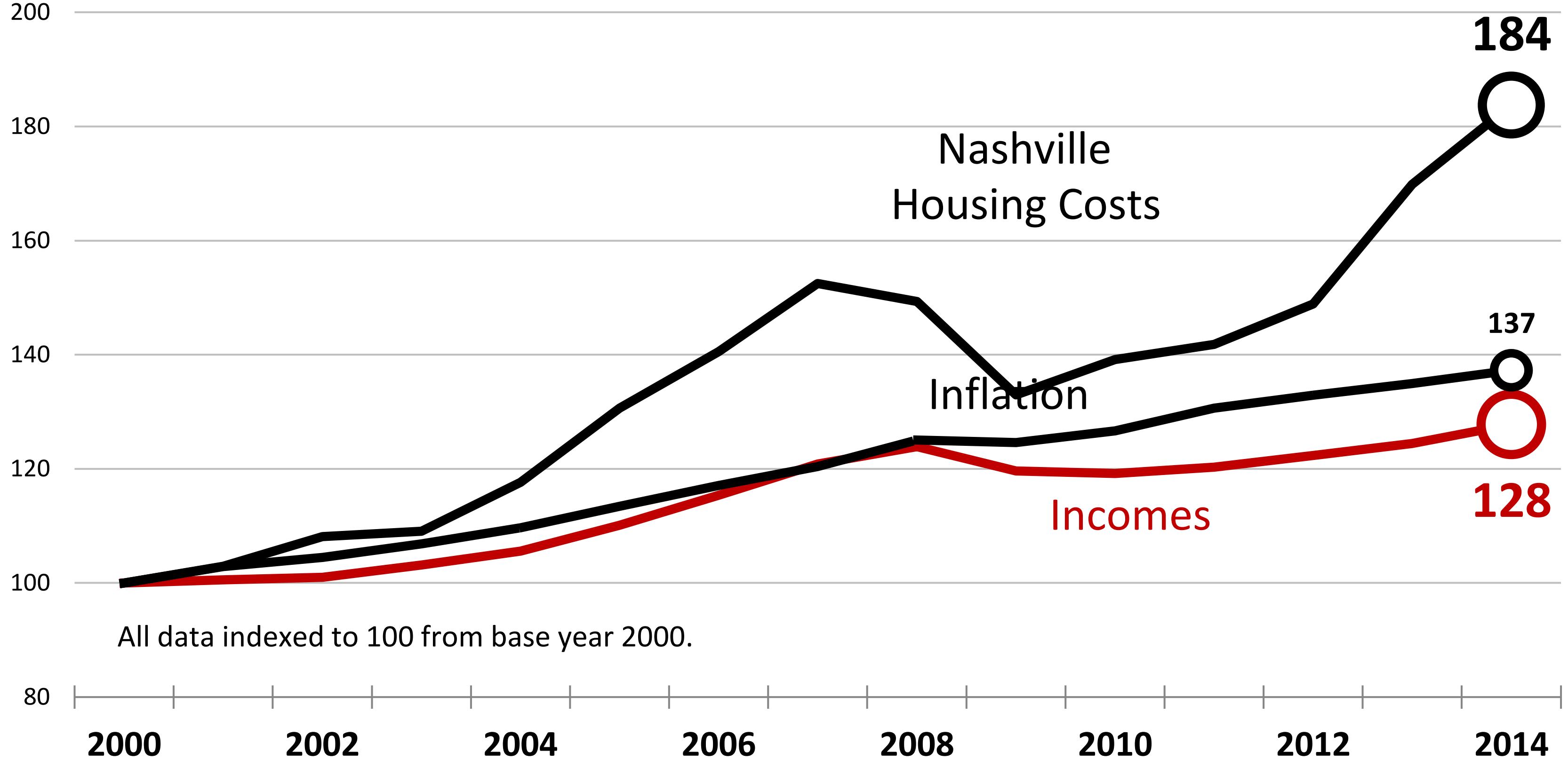
Economic & Planning Systems

- Full service economic consulting firm
- Denver, Berkeley, Sacramento, Los Angeles
- Expertise
  - Real estate economics
  - Economic development
  - Public finance
  - Fiscal and economic impacts
  - Land use policy
  - Housing policy, feasibility and analysis
- Clients
  - Cities, Counties, Public Agencies and Special Districts, State and Federal Agencies, Nonprofit/Advocacy Organizations, Private Sector, Educational Institutions, Industry Associations

Project Timeline



The problem? Gap between housing costs & incomes
(…or at least, one of the major problems)



[Note 1]: Historical household median income data collected from: https://www.census.gov/hhes/www/income/data/historical/household/
[Note 2]: Nashville house price index compiled from MLS data.
[Note 3]: CPI data collected from: http://www.bls.gov/cpi/#data

Wages aren't the only problem
(There are other influences)

Supply side influences

- Limited developable land
- Limited housing inventory
- Labor costs
- Materials costs
- Consumer protection laws
- Commercial financing terms
- Insurance regulation and pricing

Demand side influences

- Local and national wage structures
- Household / consumer housing preferences
- Population / employment growth
- Redevelopment pressure
- Homebuyer financing terms

What's in your purview? Can you…

- Change lending terms?
- Change the cost of labor or materials?
- Increase or decrease population growth?
- Leverage land use incentives (density or height)?
- Increase wages?

How do you address some of these issues?
(Some common approaches)

Targeted / Focused

- Private/Employer-based solutions
- Residential linkage
- Commercial linkage
- Inclusionary or incentive zoning
- Excise tax (on development)
- Land banking

Conventional

- Federal funding
  - CDBG
  - HOME
- Federal/state LIHTC programs

Broad Application

- Local Funding
  - Property tax
  - Sales tax
  - Lodging tax
- Permanent or housing trust funds

+ Many other unique approaches

What is the City doing already?
(and what more can it do?)

- Federal/State funding
  - *Production numbers from HOME (3,342 btw. 1994-2015)*
  - Rehab/acquisition (often used as pass-through gap financing for LIHTCs)
  - LIHTCs (~380 units / year since 1987)
- Recently-adopted localized tools
  - Establishment of grants authority (TCA §5-9-113)
  - Building permit fee reduction for workforce housing (BL2010-788)
  - Establishment of Barnes Fund (BL2013-487)
  - Short-term rental tax BL2014-909/951, and BL2015-1056 (a portion of which is dedicated to funding Barnes Fund)
  - Authorization of conveyance of land from municipalities with metro government to non-profits for purpose of affordable or workforce housing (TCA §7-3-314, HB1174/SB1123)
- What more can the City do?
  - Need to look more closely at affordability conditions and problems
  - What sort of limitations are there?
  - Tailor solution to meet criteria

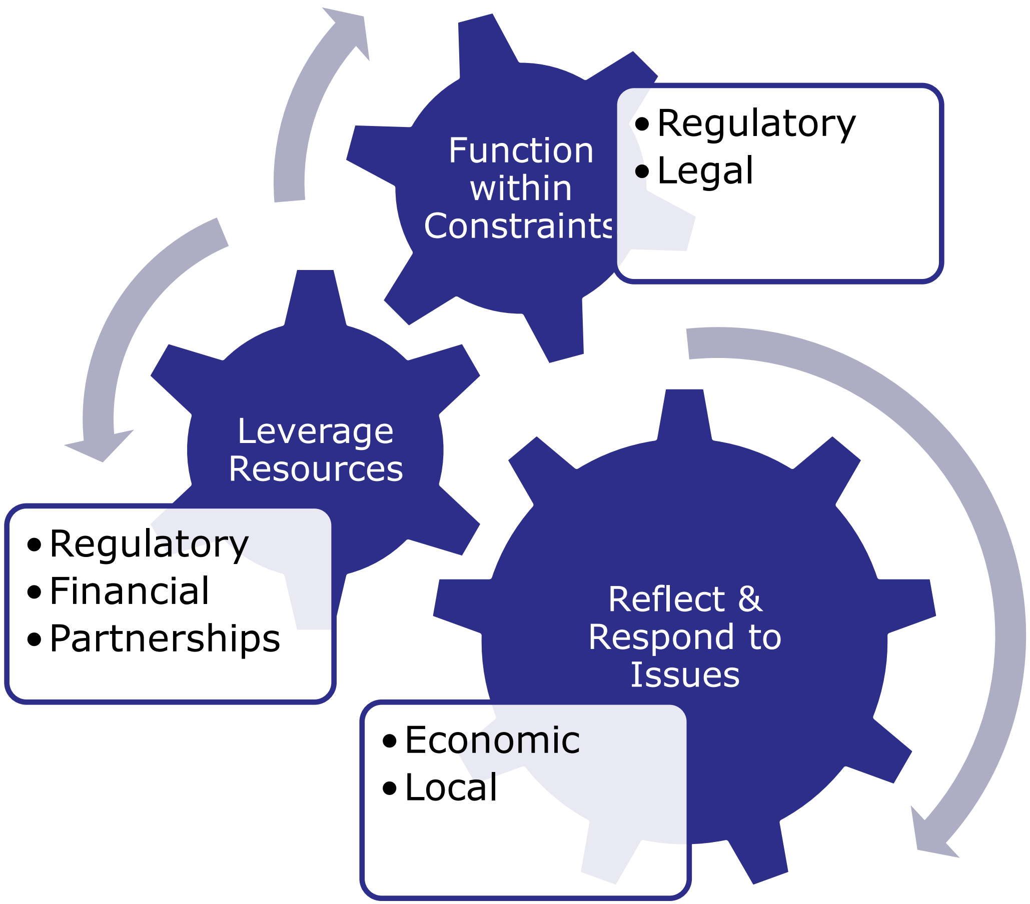
Definitions

TCA § 5-9-113 (2015)

- What is "affordable housing"?
  - "…housing that…costs 30 percent or less than the estimated median household income for households earning 60 percent or less of median household income [AMI]…"
- What is "workforce housing"?
  - "…housing that…costs 30 percent or less than the estimated median household income for households earning more than 60 percent and not to exceed 120 percent [AMI]…"

…but how do you know what tool(s) to use?

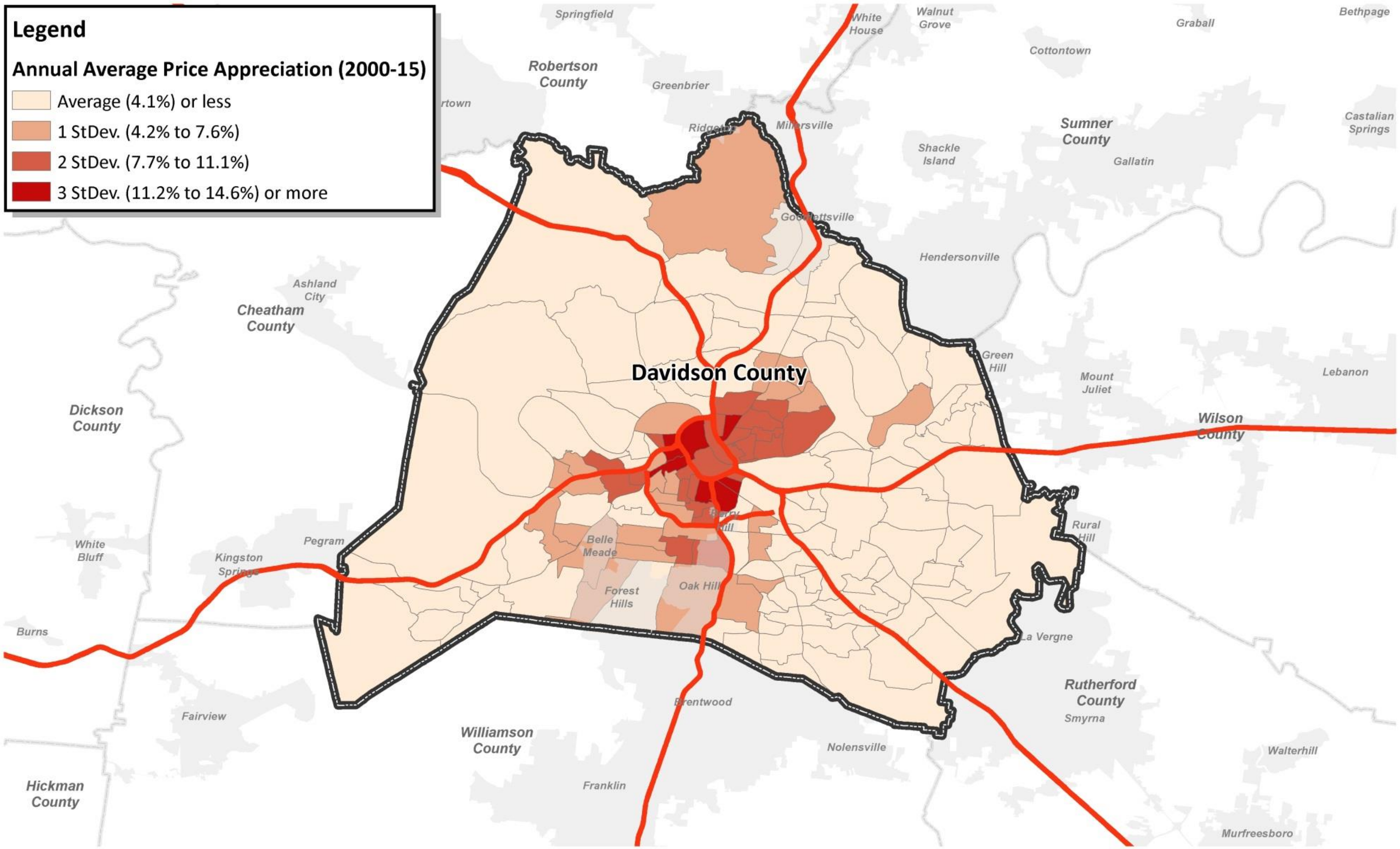
- Solutions should…
  - Respond to issues
  - Suit the market
  - Avoid negative externalities
  - Leverage partnerships
  - Work within regulatory framework
  - Be broad, allow flexibility



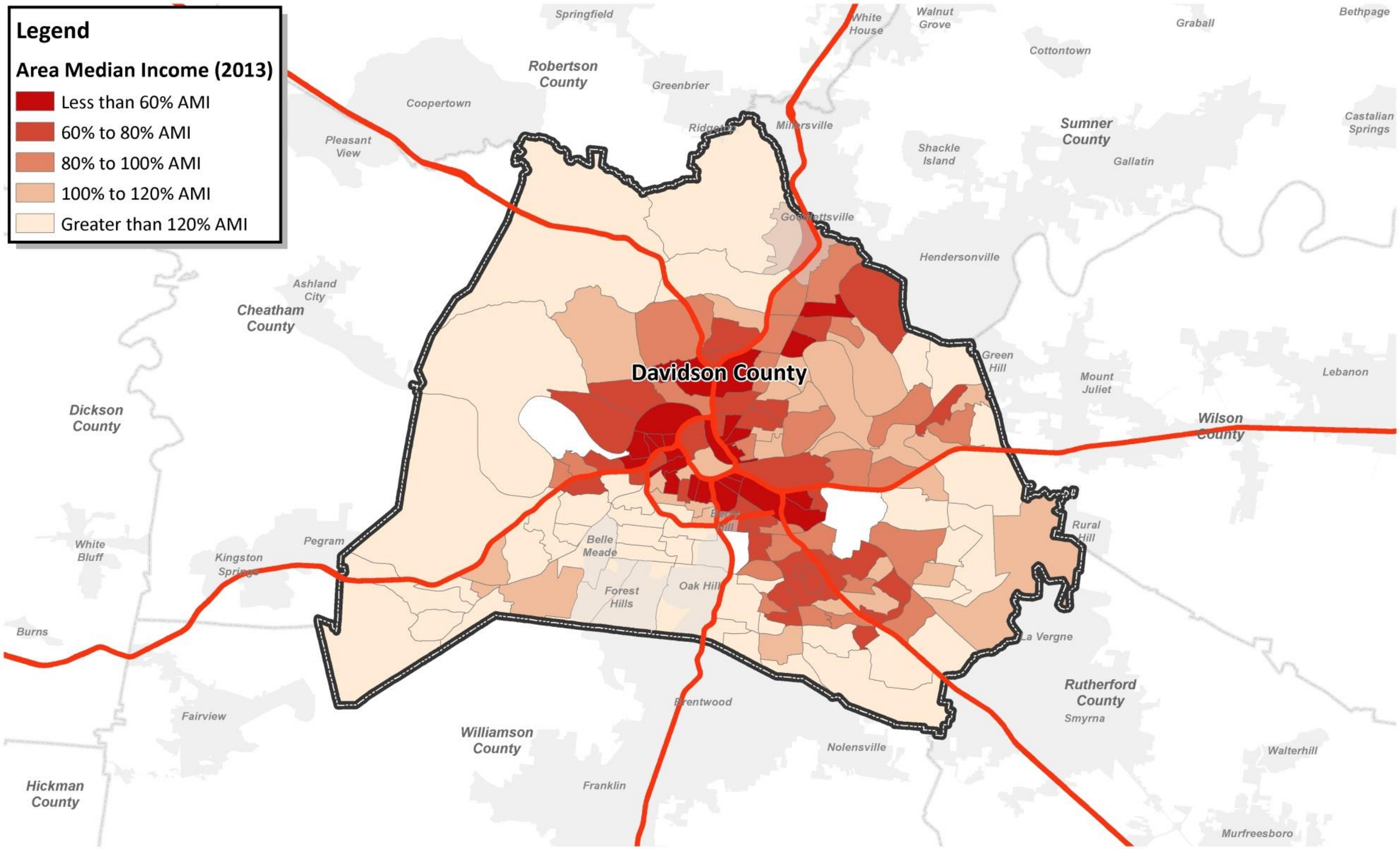
A look at some of the problems Nashville is facing

ECONOMIC CONDITIONS

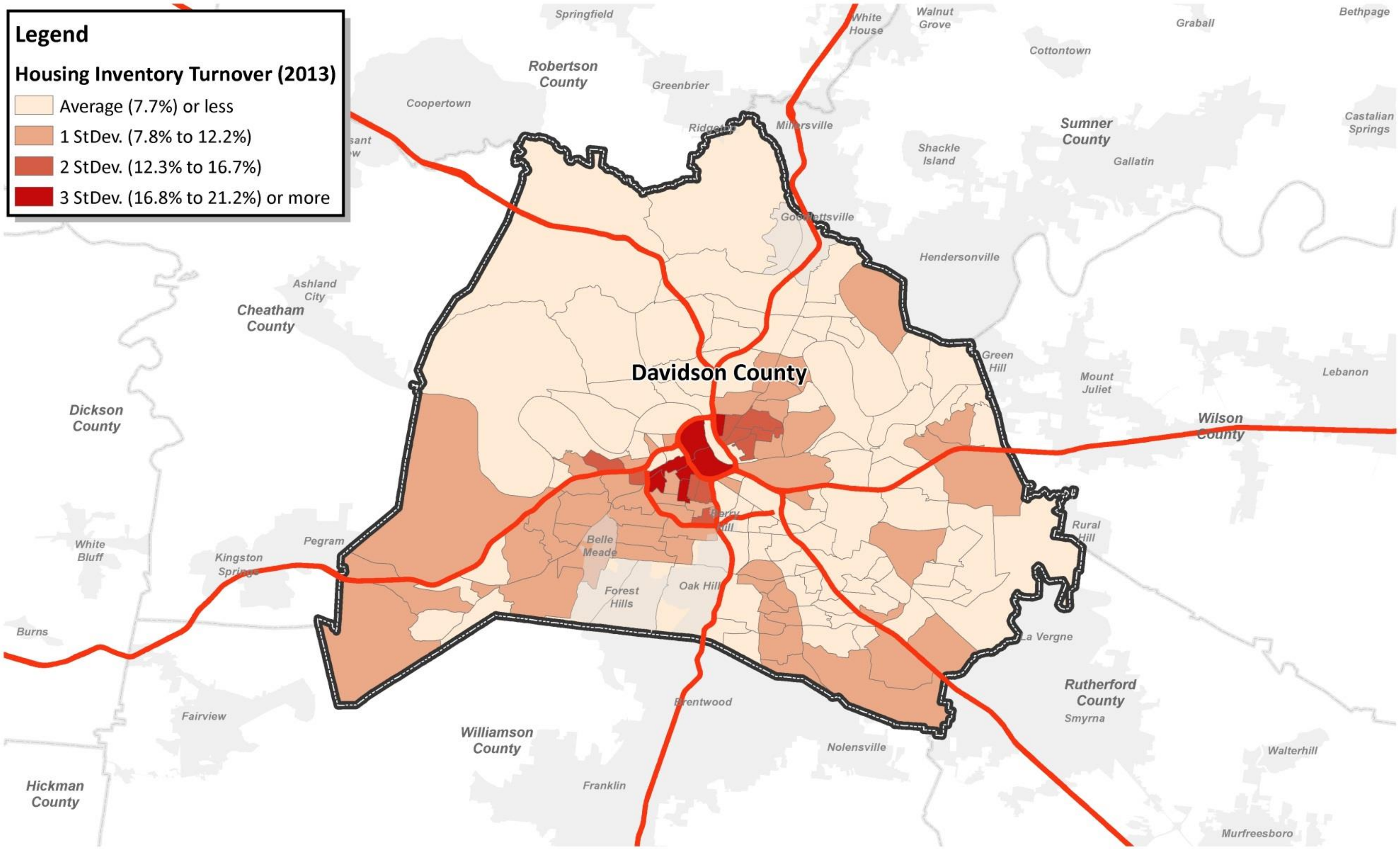
#1: Annual Appreciation
(2000-2015, above average census tracts)



#2: Incomes

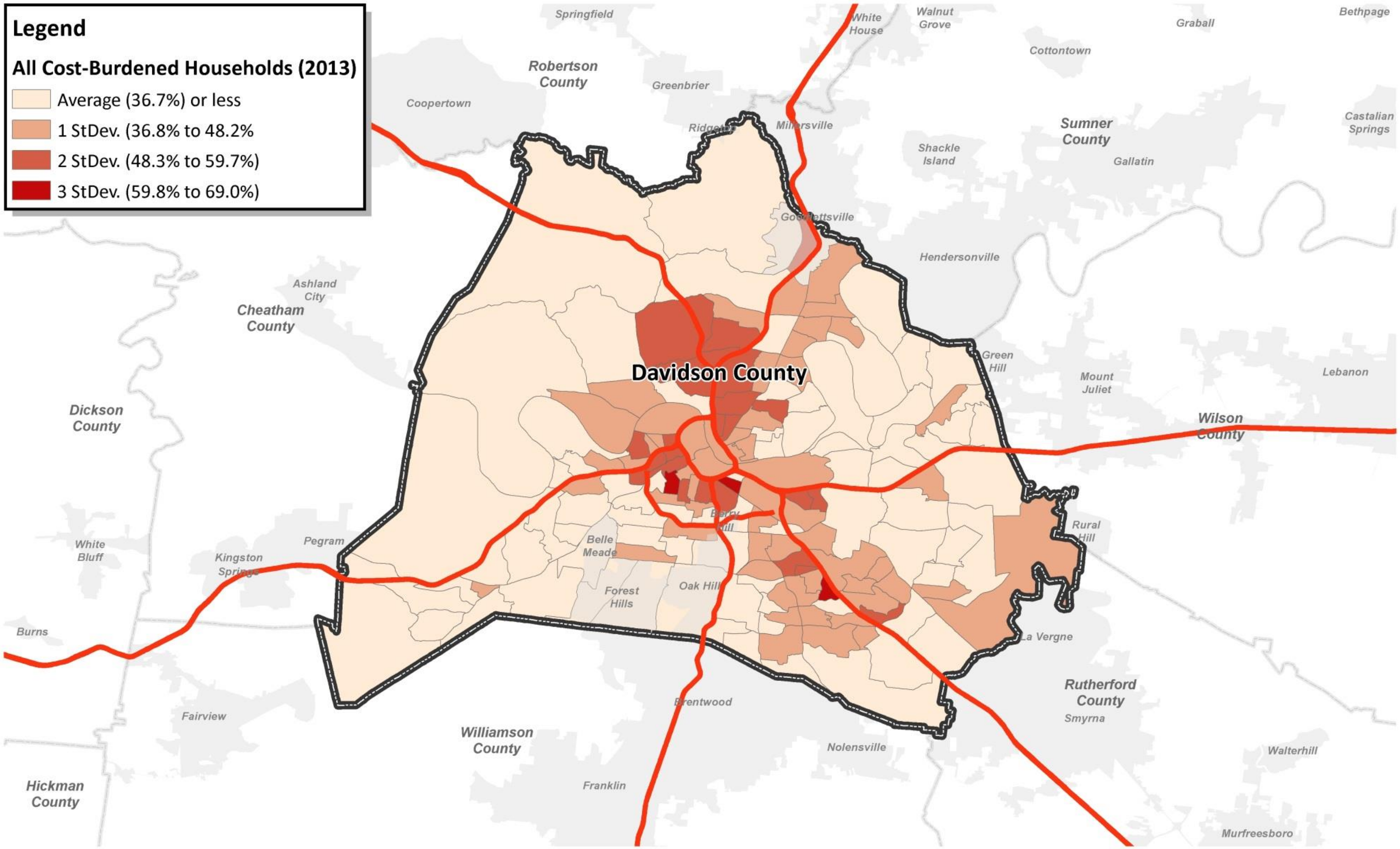

Legend
Area Median Income (2013)
Less than 60% AMI
60% to 80% AMI
80% to 100% AMI
100% to 120% AMI
Greater than 120% AMI
Davidson County
Springfield
Robertson County
Greenbrier
Coopertown
Pleasant View
White House
Walnut Grove
Graball
Bethpage
Cottontown
Millersville
Sumner County
Gallatin
Castalian Springs
Shackle Island
Hendersonville
Ashland City
Cheatham County
Green Hill
Mount Juliet
Lebanon
Wilson County
Dickson County
White Bluff
Kingston Springs
Pegram
Belle Meade
Forest Hills
Oak Hill
Rural Hill
La Vergne
Burns
Rutherford County
Smyrna
Brentwood
Fairview
Williamson County
Nolensville
Walterhill
Hickman County
Franklin
Murfreesboro

#3: Housing Inventory Turnover
(percent of housing stock selling in a year above average)



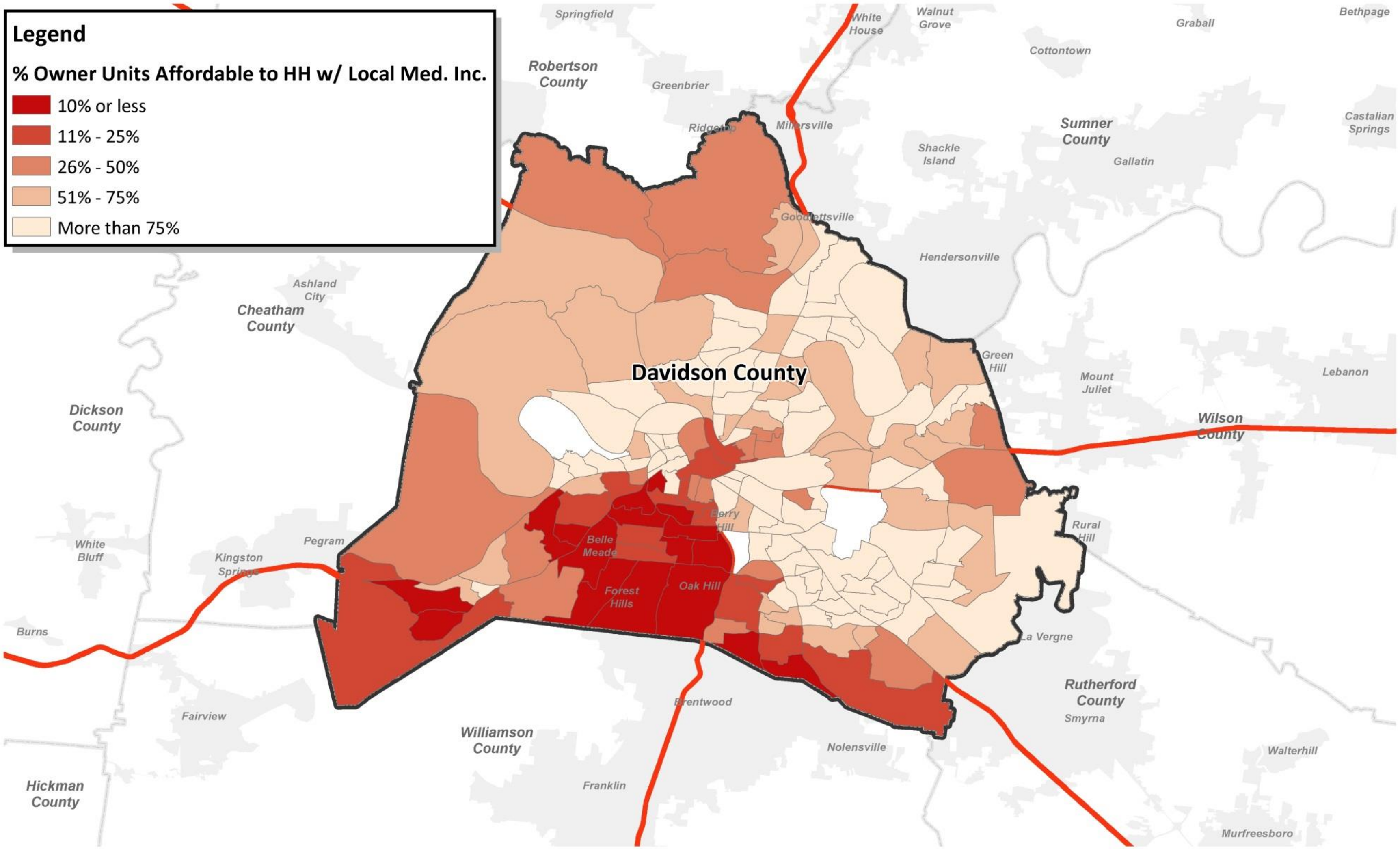
#4: Cost-Burdened Households

(Overall, 37% of all households spend more than 30% income on housing; 28% of owners, 47% of renters)

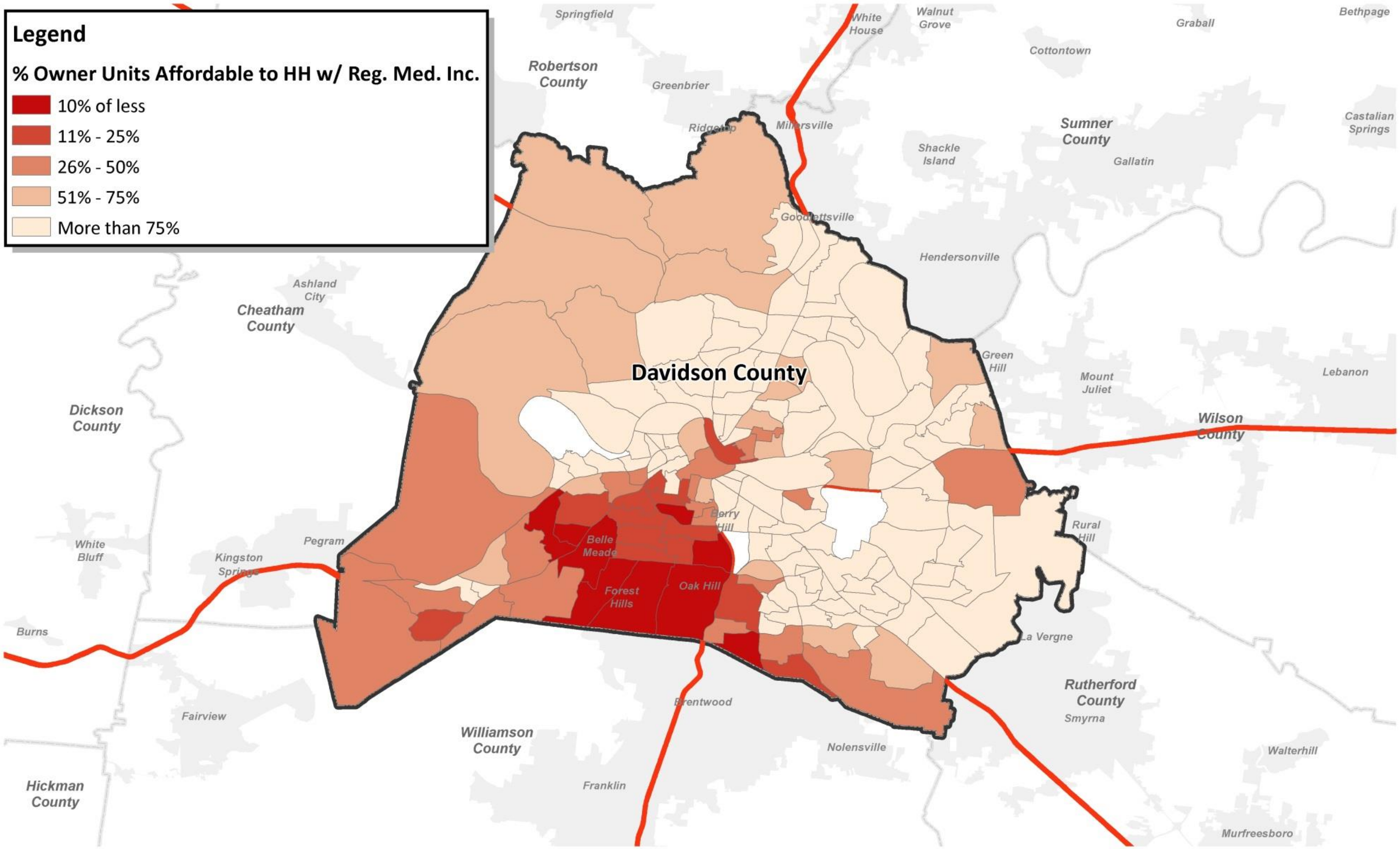


#5: Affordable Inventory

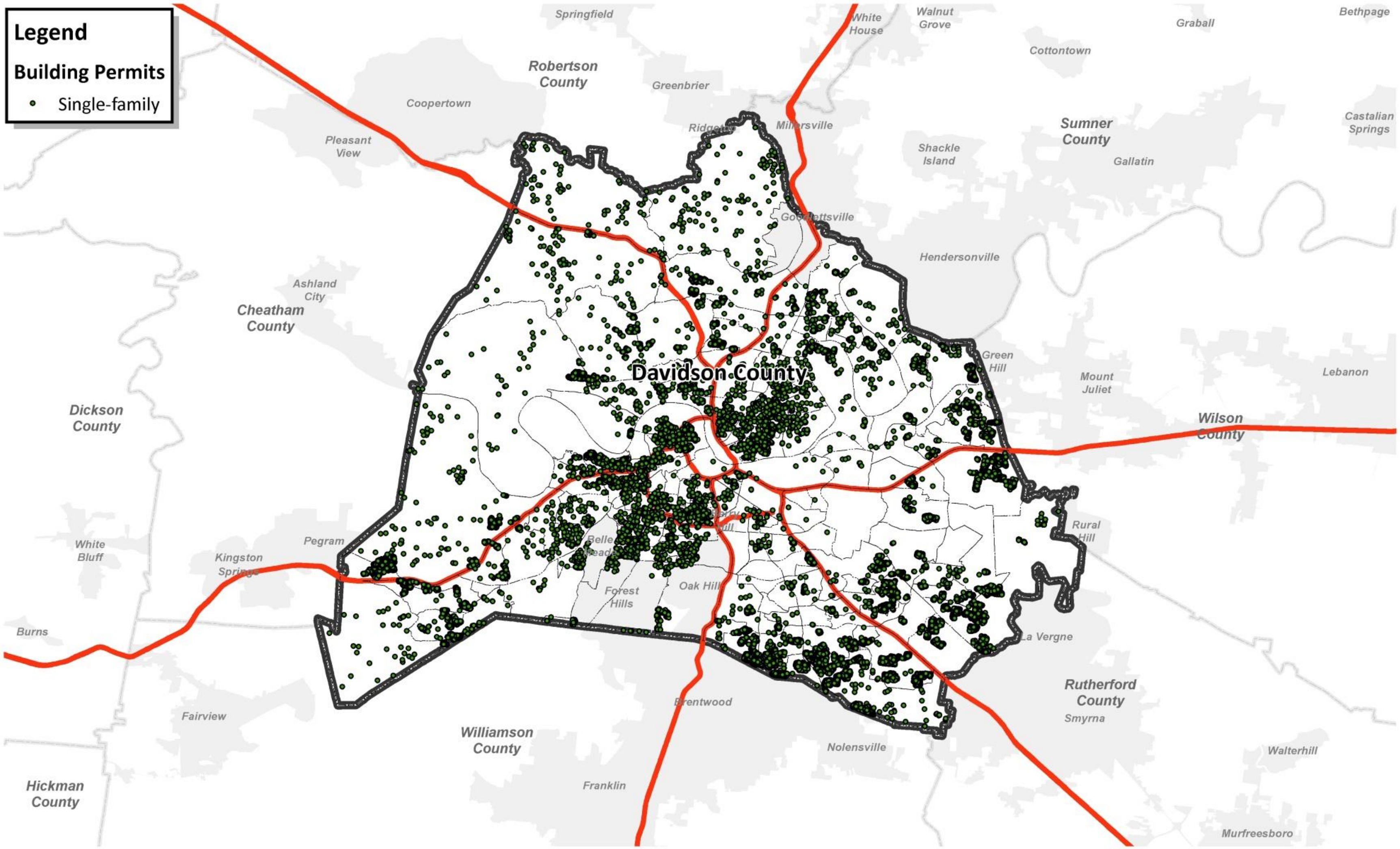
(ACS 2013, 55% of owner inventory affordable to local med. inc.; 2000: 50% of owner inventory affordable to local med. inc.)



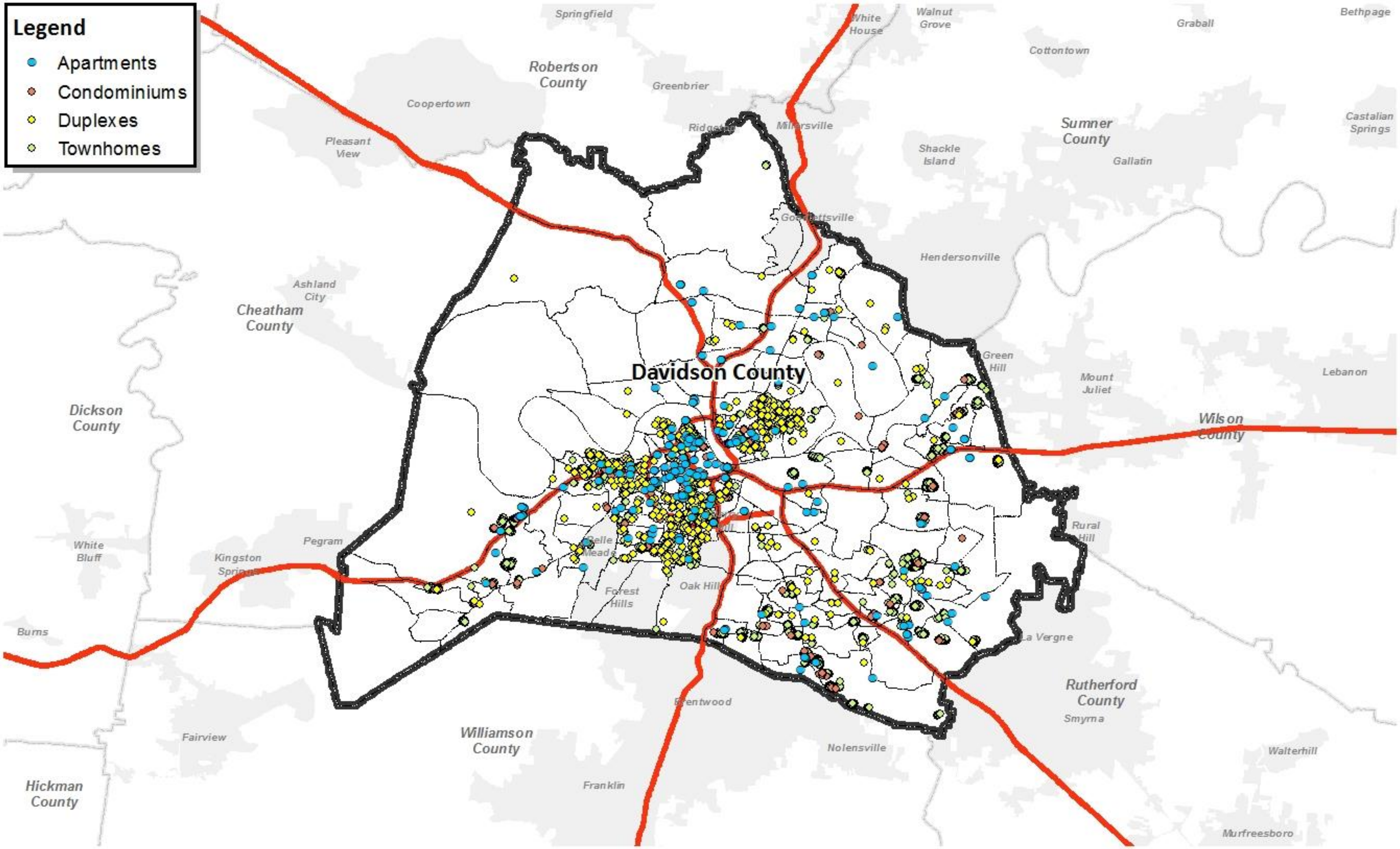
#5: Affordable Inventory
(ACS 2013, 64% of owner inventory affordable to regional med. inc.; 2000: 51% of owner inventory affordable to regional med. inc.)



Single-family construction activity
(2000-2015)

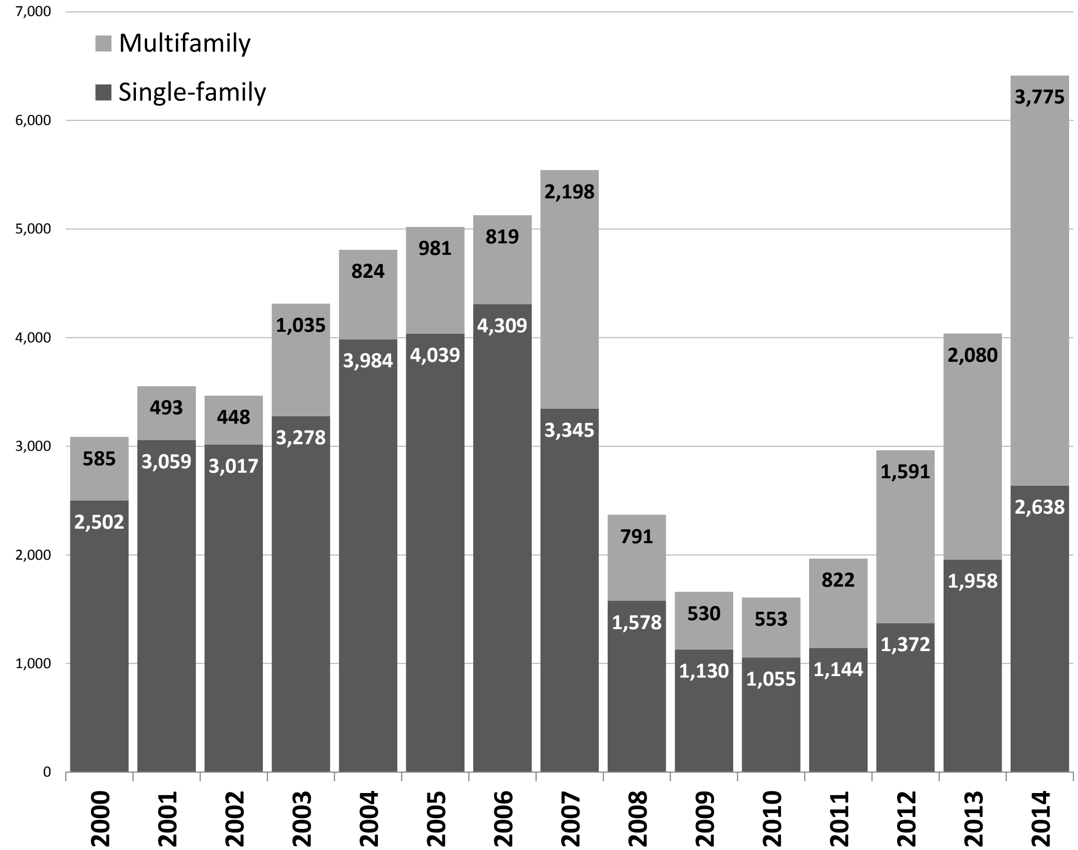


Multifamily construction activity
(2000-2015)

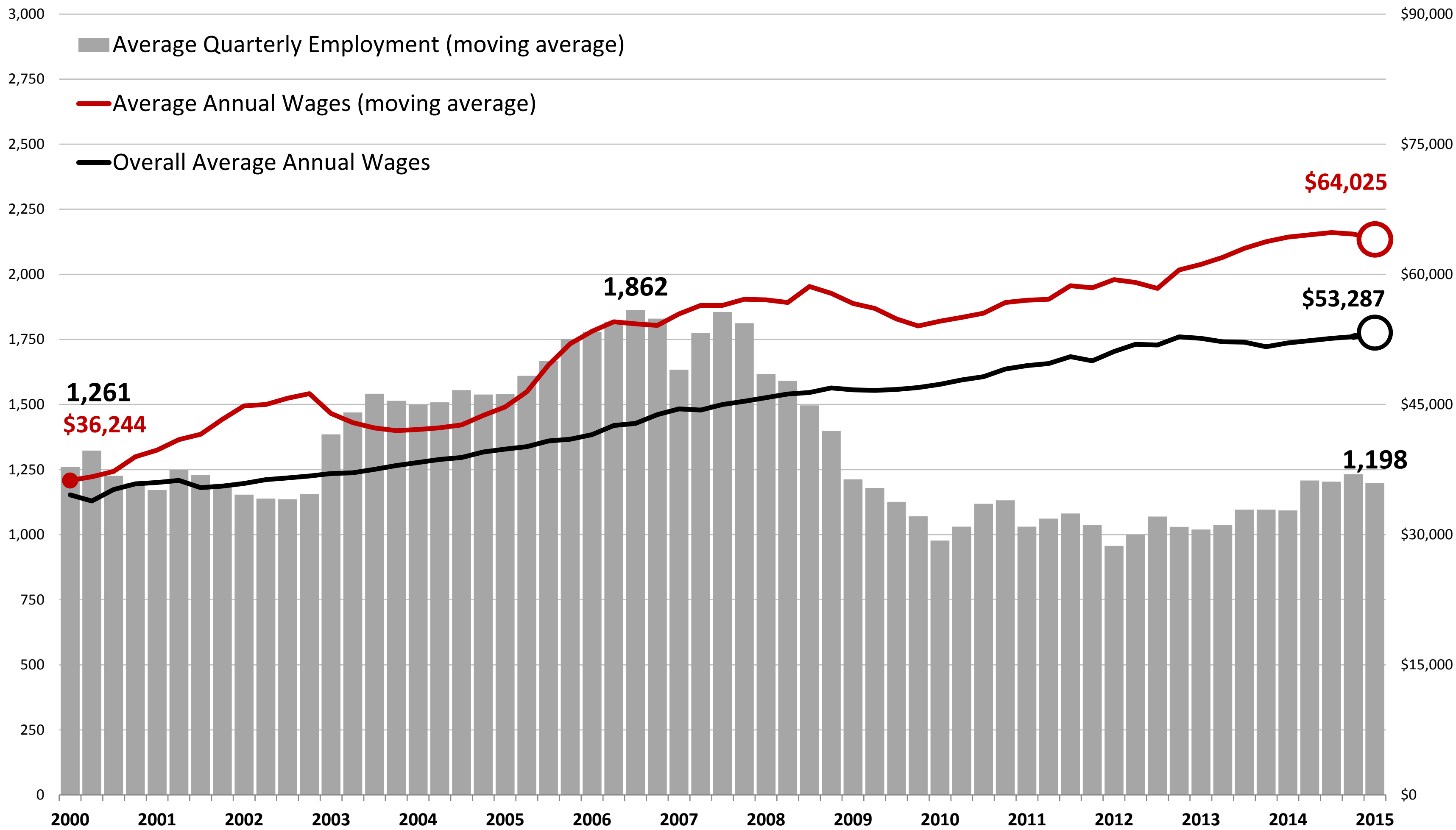


Building Activity (in units)
(Single-family vs. Multifamily construction)

- 2000-2014
  - $7.8B investment
  - 33% since 2011
  - Central Tracts
    - ➢ Pre-2007 = 4% ($151M)
    - ➢ Since 2011 = 40% ($1.0B)
- Pipeline Projects
  - $340M
  - Central Tracts
    - ➢ 47% of residential
    - ➢ 66% of commercial



Labor Costs for Residential Construction
(Davidson County, NAICS 2361)

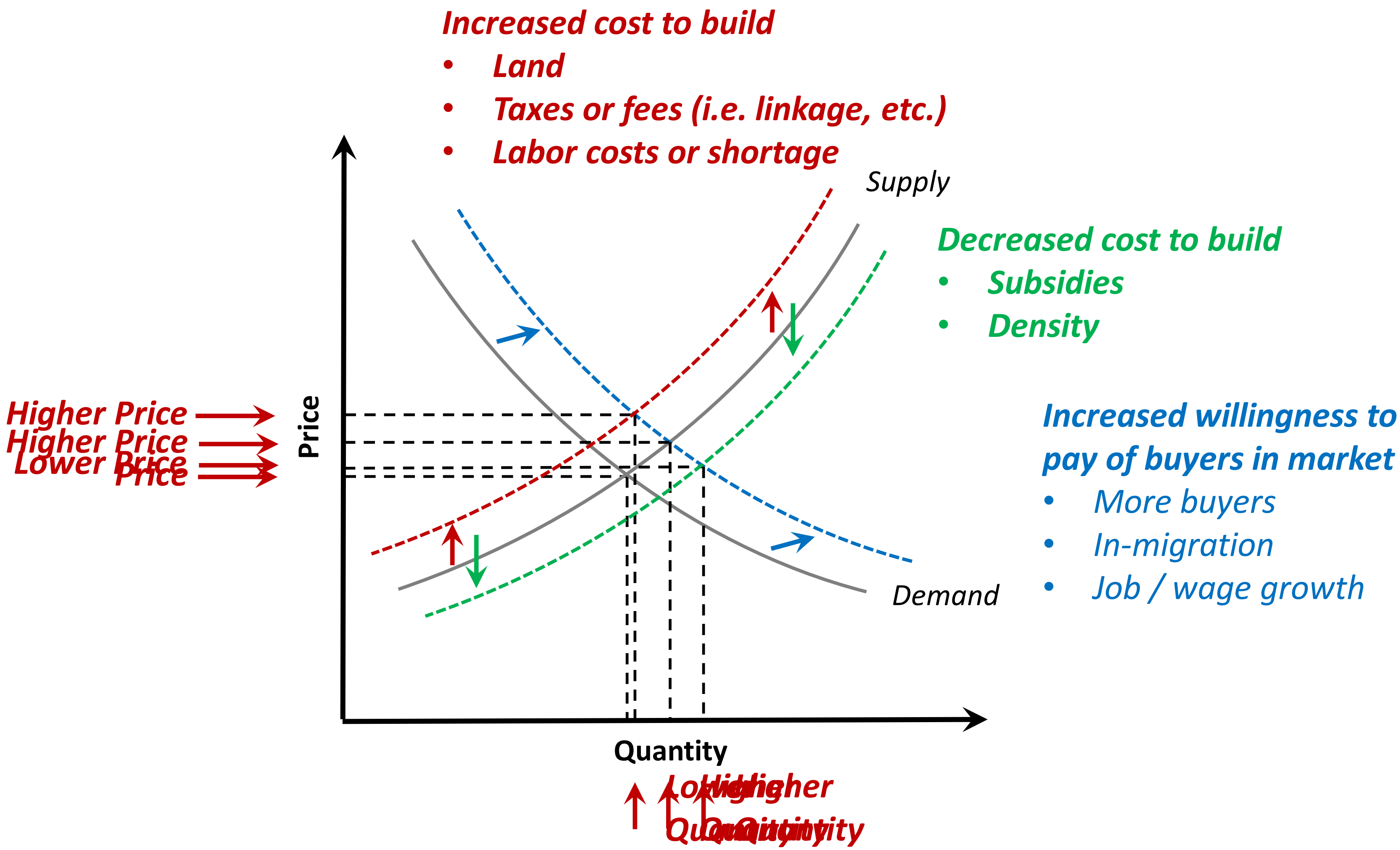


Other Important Contextual Considerations
(federal, state, local)

1. State rent control prohibition - TCA § 66-35-102 (2015)
   - *"A local government unit shall not enact, maintain or enforce an ordinance or resolution that would have the effect of controlling the amount of rent charged for leasing private residential or commercial property."*
2. "Disparate impact" ruling – *Texas Dept. of Housing and Community Affairs et al. v. Inclusive Communities Project, Inc. et al.* (2015)
   - Implications
   - Lingering questions
3. Other Issues
   - Federal funding declining sharply

Supply and Demand Influences on Price

(…and how a solution needs to be structured)



Findings

1. City's economic success is exacerbating affordability concerns
2. Housing cost appreciation
3. Housing turnover
4. Cost burden in central County
5. ~50% of residential building value in central County (compared to <4% of land mass)
6. 55% of housing is affordable to median income household
7. Policy tools in place to enhance
   - Incentive mechanisms, fee reductions, density/height bonuses, Barnes Fund, grants authority, land conveyance ability (land banking), short-term rental tax
8. Constraints
   - Rent control prohibition
   - Rezonings, downzonings
   - Declining federal funding
9. Solution needs to be broad
   - Housing needs span wide AMI spectrum
   - Funding needs to be robust, flexible

Framing a targeted approach

- What's the best way to address issues?
  - Mandates? Incentives? Funding? Tax reimbursement? Recalibration of zoning tools in targeted locations?
- Will the solutions work in the market?
  - Development context? Regulatory? Financially?
- Can any one solution address all levels of housing need?
- Will it leverage partnerships?

Policies and tools

APPROACHES

Menu of approaches around the U.S.

(Common, uncommon, overused, underused)

Sources of Financial Resources

- Property taxes (Seattle, Boston, Cambridge)
- Commercial linkage (San Francisco, Seattle, Boston, Boulder, Cambridge)
- Lodging taxes (Columbus, Atlanta)
- Head taxes (untested)
- Residential linkage (resorts, e.g. Jackson Hole, Aspen)
- Housing trust funds
- General Fund allocations
- Land-use resources (height, density)
- Expedited review
- CRA credits
- LIHTCs (local and some state)
- EB-5 (primarily coastal cities, limited use and must produce jobs beyond construction)

Partnerships

- PHAs, CHDOs, Non-profit and for-profit developers, MPOs, Transit authorities

Uses of Financial Resources

- New construction (i.e. subsidies)
- Rehabilitation, preservation
- Down payment assistance
- Unit price or rental buy-downs
- Land banking (where subsequent resale is below-market)
- Land trust (related, but units DR'd and ground is leased)
  - Works large scale
  - Small scale needs aggregated solution (Montana LT)
- Tax abatements
- TIF for affordable housing (must be defined as fulfilling public purpose/use)

Inclusionary Zoning
(Mandatory compliance)

- Would apply to new for-sale development only
  - Trigger points vary (5 to 30 units)
  - Set-aside requirements vary (generally 5% to 20%)
  - Affordability levels: ≥80% AMI (owner)
  - Incentives are tailored to local resources available
  - Alternative satisfaction
- Examples
  - High-cost cities
  - Some mid-size cities
  - San Francisco ($1,200,000*)
  - Montgomery Co. ($450,000)
  - Denver ($440,000)
  - Cambridge ($877,000)
  - Chapel Hill ($375,000)
  - Chicago ($230,000)
  - Davidson, NC ($340,000)
  - Resorts
  - * average home price

- Motivations for adoption
  - Implemented to address workforce needs
  - Businesses have documented cases of losing workers b/c of cost of housing
  - Businesses choose not to relocate b/c difficulty finding labor
  - There is no or almost no existing housing affordable to working households
- Economic arguments
  - Mandating that a % of housing is sold at below-market values means shifting those "costs" to market-rate units
  - Higher-value homebuyers are not as price-sensitive, thus not an issue of absorption rates
  - Predominance of investors, second homeowners
  - Extraordinarily high development pressures

- Performance
  - San Francisco (77 units / yr)
  - Montgomery Co. (239 units / year)
  - Denver (7 units / year + $7.6MM)
  - Cambridge (12 units / year)
  - Chapel Hill (12 units / year)
  - Chicago (<1 / year)
  - Davidson (4 units / year)

Attempts to influence the supply-side by manipulating a supply-side attribute

Incentive Zoning
(Voluntary compliance)

- Application
  - Res / Non-Res Development
- Quid pro quo
  - Something in exchange for something
    - Rezoning, change of use
  - Straight incentive
    - Additional height or density
    - Tax abatements
    - Fee waivers, reductions
  - Affordable housing requirements very similar
  - Fee in-lieu option
- Examples
  - Anaheim ($540,000)
  - Arlington County ($582,500)
  - Austin ($408,000)
  - Boston ($599,000)
  - Charlotte ($237,000)
  - Portland ($399,000)
  - Seattle ($500,000)

- Motivations for adoption
  - Incentive options have real economic value
  - City has unique incentives to offer
  - City's interest not to increase cost of doing business for development
  - There is substantial portion of existing housing affordable to working households
- Economic arguments
  - Development economics are site-specific
  - Incentives carry different economic value by site
  - Will be used when it's financially feasible

- Performance
  - Anaheim (120 units / year since 2005)
  - Arlington County (37 / year + $56MM)
  - Austin (55 / year + moderate-income housing 800 / year + $3MM)
  - Boston (106 / year + $58MM)
  - Charlotte (0 / year)
  - Seattle (8 / year + $50MM)

Attempts to influence the supply-side by leveraging a demand-side attribute

Common Incentives

(Used in mandatory or voluntary compliance policies)

- Density/Height bonus
  - Additional FAR or height quid pro quo
  - Works when:
    - Downtowns, corridors, or urban locations
    - Land values reflect base entitlement
  - Doesn't work when:
    - Suburban, low-density location
    - Land values assume add'l density/height
    - Too many options for getting bonus height
  - Possible in Nashville?
    - Yes with some modifications

Attempts to influence the supply-side

- Fee waivers / reductions / deferrals
  - What kind of fees?
    - Development review fees (building permit, plan check)
    - Impact fees
    - Water
  - Possible in Nashville?
    - Nobody using the building permit fee reduction
    - Water fees account for 60% of total fees (cannot waive)
    - Deferrals, maybe
- Expedited review
  - Does it have value?
    - Time is money in development
    - Can be significant where development review is lengthy
  - Possible in Nashville?
    - Maybe, but would require more staffing

Funding Sources

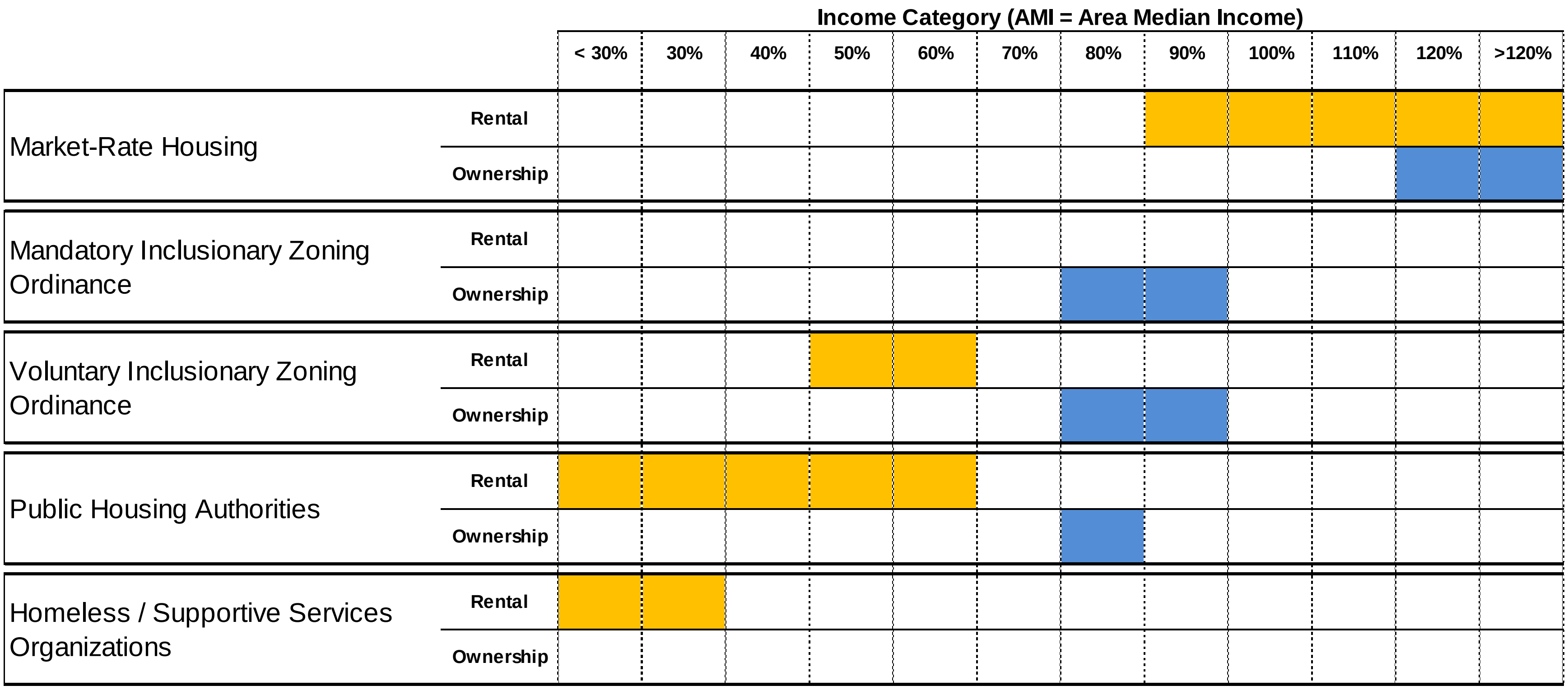
(Can be used most flexibly to address any and all housing needs)

- Distinct Advantages
  - Largest, most robust immediate revenue generation
  - Greatest flexibility in use of funds
- Property taxes
  - Rationale
    - Community-based solution
    - Broadens burden on market
    - Minimal taxpayer impact
  - What kind?
    - Time-limited (sunset clause, e.g. 5 to 10 years)
    - Permanent
  - How much?
    - Typically very low mill levy
    - Calibrated to impact average property owners by ≤$50 per year
  - Who uses them?
    - Seattle (~$20MM / year)
    - Cambridge (~$9.6MM / year)
    - Denver (~$13MM / year)
    - Boulder (~$1.3MM / year)
- Sales taxes
  - Rationale
    - Funding responsibility broadened to include tourism base as well
  - Who uses them?
    - Aspen(~$1.1MM / year)
    - St. Paul MN (~$15MM / year total, portion to housing)
    - Dayton OH
- Lodging taxes
  - Rationale
    - Funding responsibility broadened to include tourism base as well
  - Who uses them?
    - Columbus OH (~1M / year)
    - San Francisco (~5.5M / year)
- Excise taxes (construction materials)
  - Two uses
    - Funding for affordable housing initiatives
    - Reduced/Waived as an incentive to development providing affordable housing
  - Who uses them
    - Cambridge
    - San Francisco
    - Boulder

Other Ideas

- Land Trusts
  - What is it?
    - 501c3 set up to acquire, develop, and/or maintain deed-restricted housing
    - Missions can vary
    - Traditional model housing sold, but land held in trust ownership
    - For-sale or rental housing
  - Good examples
    - Cambridge Affordable Housing Trust (~2,600 units)
    - Champlain Housing Trust (~2,000 units)
    - Urban Land Conservancy (30+ development projects)
- Private Sector Initiatives
  - Harvard University 20/20/2000 Initiative
    - $20MM in low-interest financing
    - Also $6M revolving loan fund
    - Leveraged to produce 4,350 units since 2010
- Tax abatements
  - Municipality leverages and "forgoes" payment of taxes "in-lieu" of "in-kind" contribution, e.g. affordable housing
  - How does it work?
    - Developers of affordable housing get short- or long-term abatements of property taxes in exchange for some % of housing at low-/moderate- income levels
    - Abatement often proportional to length of affordability term
    - Could be varied by neighborhood (i.e. areas of need)
    - Relevant to rental projects
  - Who uses them?
    - Portland (max. $3MM / year)
    - Chattanooga (just enacted)
    - Jersey City (just enacted)

Coverage of Policies by AMI

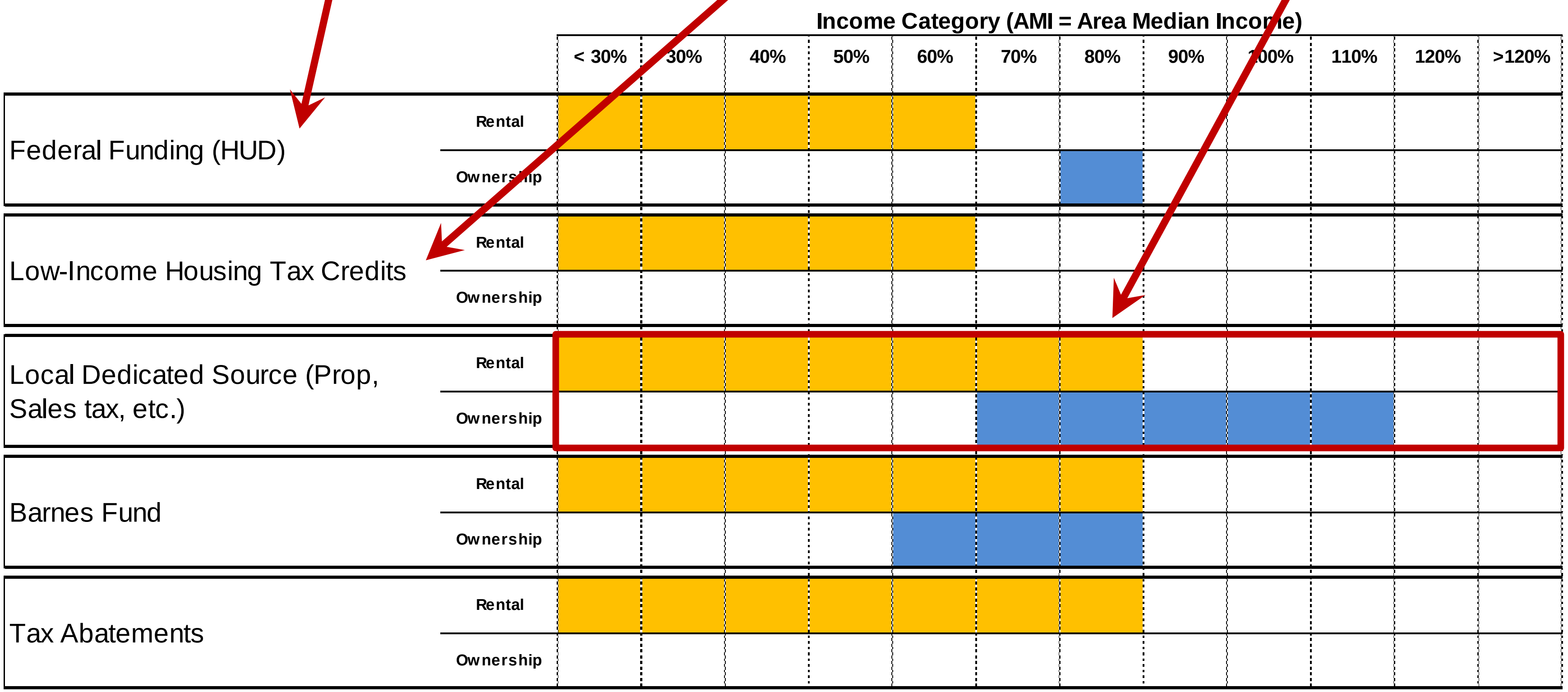


Coverage of Funding by AMI

Federal funding has declined significantly and will continue
- HOME/CDBG recipients will struggle more

- 9% deals competitive and limited
- 4% deals difficult to finance

- Most AMI coverage
- Most flexibility in use
- Can build capacity



Tailoring an appropriate policy

- Long-term solution to create affordable housing
  - Does it respond to the local regulatory environment?
- Will it achieve results?
  - Is it seeking to compel or incent a change in behavior?
  - Address supply-side
  - Real economic incentives
  - Works in the current and foreseeable market
- Avoid unintended consequences
  - Must reflect existing legal constraints
  - Will it negatively affect growth and development patterns?
  - Will it positively or negatively exacerbate affordability problems?

Inclusionary Zoning

FEASIBILITY

Feasibility Model
(Sample numbers shown – actuals will differ)

Drop down menus ("dials") allow for multiple scenarios to be tested

Scenarios can be defined by any combination of prototypical development and "dials"

	12-Story				20-Story			
	MPDU Const. (Existing Subsidy)	MPDU Const. (Increased Subsidy)	Cash in-lieu (Existing)	Cash in-lieu (Proposed)	MPDU Const. (Existing Subsidy)	MPDU Const. (Increased Subsidy)	Cash in-lieu (Existing)	Cash in-lieu (Proposed)
Major Adjustments								
Production Requirement	10%	10%	10%	10%	10%	10%	10%	10%
Cash In-Lieu Amount (as % of Max. Sales Price)	50%	50%	50%	70%	50%	50%	50%	60%
MPDU On-site Construction	100%	100%	0%	0%	100%	100%	0%	0%
MPDU Off-site Construction	0%	0%	0%	0%	0%	0%	0%	0%
% of IH Units Given Cash Subsidy	50%	100%	50%	50%	50%	100%	50%	50%
Size of IH Units as % of MR Units	100% of MR Units	100% of MR Units	100% of MR Units	100% of MR Units	100% of MR Units	100% of MR Units	100% of MR Units	100% of MR Units
AMI Levels								
1st AMI Level	80%	80%	80%	80%	80%	80%	80%	80%
2nd AMI Level	80%	80%	80%	80%	80%	80%	80%	80%
3rd AMI Level	80%	80%	80%	80%	80%	80%	80%	80%
Revenues								
Owner Sales (On- / Off-Site)	$53,454,700	$53,454,700	$55,932,000	$55,932,000	$89,076,388	$89,076,388	$93,102,000	$93,102,000
Cash Subsidy for IH Units	$44,000	$88,000	$0	$0	$71,500	$143,000	$0	$0
Total Revenues	**$53,498,700**	**$53,542,700**	**$55,932,000**	**$55,932,000**	**$89,147,888**	**$89,219,388**	**$93,102,000**	**$93,102,000**
Overall Value / Unit	$338,599 / unit	$338,878 / unit	$354,000 / unit	$354,000 / unit	$338,965 / unit	$339,237 / unit	$354,000 / unit	$354,000 / unit
Development Costs								
Land (On- / Off-Site Parcels)	$3,267,000	$3,267,000	$3,267,000	$3,267,000	$3,920,400	$3,920,400	$3,920,400	$3,920,400
Hard & Soft Costs (On- / Off-Site Parcels)	$44,534,960	$44,534,960	$44,534,960	$44,534,960	$76,266,050	$76,266,050	$76,266,050	$76,266,050
Subtotal Costs	**$47,801,960**	**$47,801,960**	**$47,801,960**	**$47,801,960**	**$80,186,450**	**$80,186,450**	**$80,186,450**	**$80,186,450**
Plus: CIL	$0	$0	$1,593,350	$2,230,690	$0	$0	$2,589,194	$3,107,033
Total Development Costs	**$47,801,960**	**$47,801,960**	**$49,395,310**	**$50,032,650**	**$80,186,450**	**$80,186,450**	**$82,775,644**	**$83,293,483**
per sqft	$257 / sqft	$257 / sqft	$266 / sqft	$269 / sqft	$259 / sqft	$259 / sqft	$267 / sqft	$269 / sqft
Project Profit	$5,696,740	$5,740,740	$6,536,690	$5,899,350	$8,961,438	$9,032,938	$10,326,356	$9,808,518
Profit (as % of Cost)	11.92%	12.01%	13.23%	11.79%	11.18%	11.26%	12.48%	11.78%
Δ Over / Under Base Case	N/A	$44,000	$839,950	$202,610	N/A	$71,500	$1,364,919	$847,080
Δ / IH Unit	N/A	$2,750 / unit	$52,497 / unit	$12,663 / unit	N/A	$2,750 / unit	$52,497 / unit	$32,580 / unit
Cash Subsidy / IH Unit	$5,500 / unit	$11,000 / unit	$0 / unit	$0 / unit	$5,500 / unit	$11,000 / unit	$0 / unit	$0 / unit
CIL / IH Unit	$0 / unit	$0 / unit	$99,584 / unit	$139,418 / unit	$0 / unit	$0 / unit	$99,584 / unit	$119,501 / unit

Revenues

Costs

Project Return

Source: Economic & Planning Systems

Major Model Inputs

(Not actual numbers)

- Site Assumptions
  - Acreage
  - Building area
  - FAR
- Development Assumptions
  - Unit sizes
  - Unit mix
  - Parking spaces per unit
  - % parking structured
- Revenue Assumptions
  - Market rate sales / sqft
  - DR'd sales prices (based on AMI)
- Cost Assumptions
  - Land
  - Hard and soft costs
  - Parking

	2-Story	4-Story	12-Story	20-Story
Site Assumptions				
Site (Acres)	0.33 ac.	0.50 ac.	0.75 ac.	0.75 ac.
Buildable Area (as % of Total)	85%	95%	95%	95%
FAR	1.50 FAR	4.00 FAR	6.00 FAR	10.00 FAR
Development Program Assumptions				
Unit Sizes				
One	800 sqft	800 sqft	800 sqft	800 sqft
Two	1,000 sqft	1,000 sqft	1,000 sqft	1,000 sqft
Three	1,200 sqft	1,200 sqft	1,200 sqft	1,200 sqft
Unit Mix				
One	25%	25%	25%	25%
Two	50%	50%	50%	50%
Three	25%	25%	25%	25%
IH Unit Mix by AMI Level				
One	30%	30%	30%	30%
Two	30%	30%	30%	30%
Three	40%	40%	40%	40%
Parking Spaces per Unit	1.00	1.00	0.75	0.50
% of Spaces Structured	0%	10%	100%	100%
Cost per Structured Parking Space	$25,000	$25,000	$25,000	$25,000
Cost per Surface Space	$5,000	$5,000	$5,000	$5,000
Revenue Assumptions				
Market Rate Unit Sales Prices per SQFT				
One	$315 / sqft	$325 / sqft	$365 / sqft	$365 / sqft
Two	$315 / sqft	$325 / sqft	$355 / sqft	$355 / sqft
Three	$315 / sqft	$325 / sqft	$345 / sqft	$345 / sqft
Cost Assumptions				
Hard Costs				
Site Costs as % of Building	10.0%	10.0%	10.0%	10.0%
Hard Costs (Building Shell)	$140 / sqft	$150 / sqft	$155 / sqft	$165 / sqft
On-Site Land Cost	$40 / sqft	$60 / sqft	$100 / sqft	$120 / sqft
Off-Site Land Cost	$30 / sqft	$30 / sqft	$35 / sqft	$35 / sqft
Soft Costs				
Architectural & Engineering	$5,000 / unit	$5,000 / unit	$5,000 / unit	$5,000 / unit
Development Fees & Admin.	3.0%	3.0%	3.0%	3.0%
Permits & Fees (Impact, Plant Inv, City Fees)	$20,000 / unit	$20,000 / unit	$20,000 / unit	$20,000 / unit
Entitlement Costs	2.0%	2.0%	2.0%	2.0%
Financing	10.0%	10.0%	10.0%	10.0%
Misc. Soft Costs	2.0%	2.0%	2.0%	2.0%

Source: Economic & Planning Systems

Feasibility Model Variables

- Variables to test
  - Set-aside
  - AMI levels
  - CIL amount
  - Density / height bonus
  - *(Parking reduction)*
  - *(Expedited review)*
- Outputs
  - Performance metrics (ROC / IRR)
  - What level of subsidy (i.e. incentives) are necessary to avoid unintended consequences (i.e. higher-priced market-rate units)?
  - Not every project is the same (as shown in this model), but…
  - To what extent does the requirement impact the decision to build a project at all?
- Other considerations
  - Only for-sale residential projects (no rental)
  - Trigger point and set-aside relationship (e.g. 10% and 10 unit threshold)
  - Geography
  - Use of incentives