

Nashville-Davidson Metro Housing Policy & Feasibility Study

Stakeholder Meeting #1

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Berkeley

Denver

Los Angeles

Sacramento

Economic & Planning Systems

- Full service economic consulting firm
- Denver, Berkeley, Sacramento, Los Angeles
- Expertise
 - Real estate economics
 - Economic development and industry studies
 - Public finance
 - Fiscal and economic impact analysis
 - 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

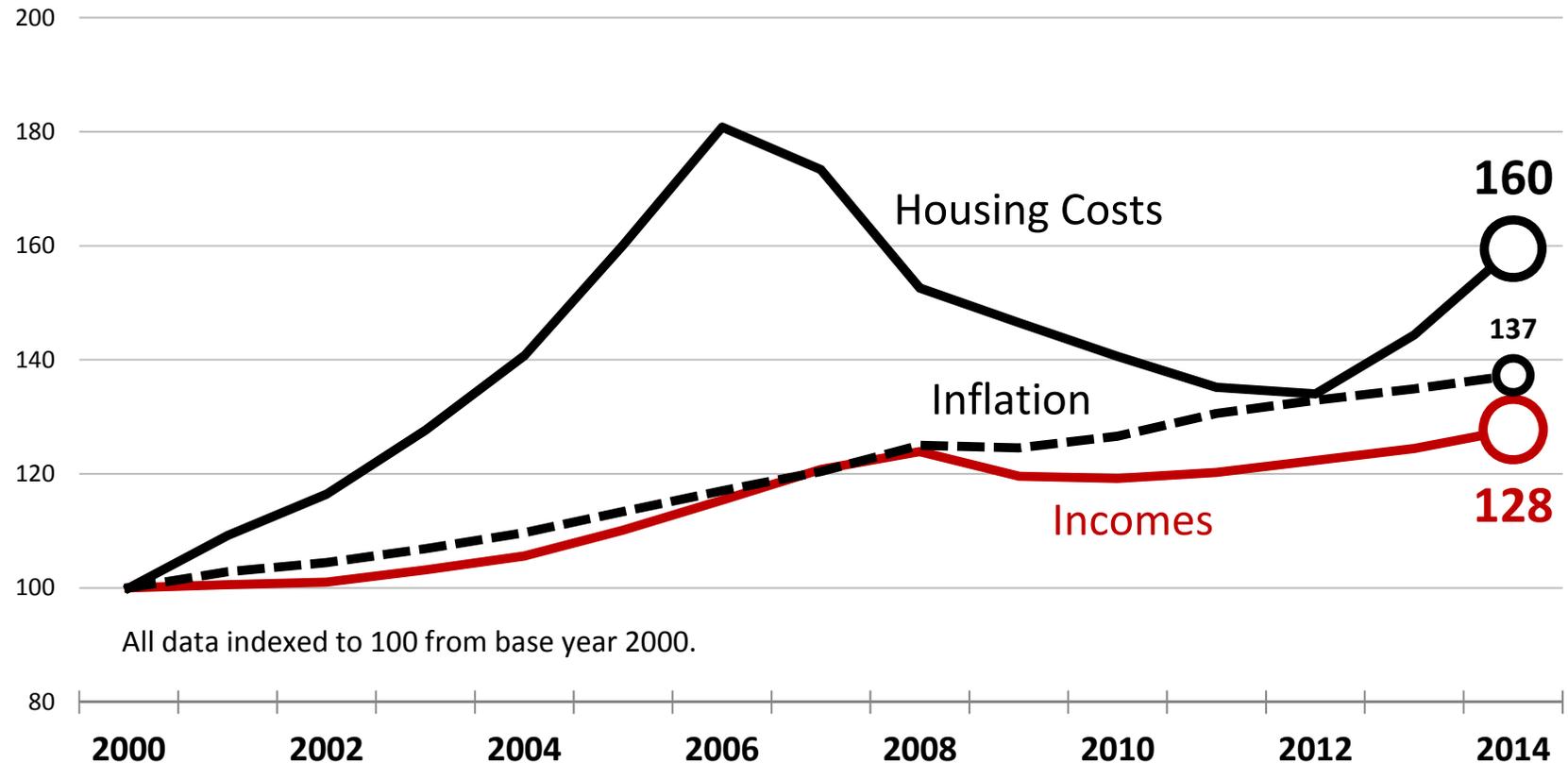


Motivations for looking at housing policy options

CONTEXT & APPROACH

The problem? Gap between costs & incomes

(...or at least, one of the major problems)



All data indexed to 100 from base year 2000.

[Note 1]: Historical household median income data collected from:

<https://www.census.gov/hhes/www/income/data/historical/household/>

[Note 2]: Case-Shiller indexes collected from: <http://us.spindices.com/indices/real-estate/sp-case-shiller-us-national-home-price-index>

[Note 3]: CPI data collected from: <http://www.bls.gov/cpi/#data>

...but wages aren't the only problem.

(What else affects it?)

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 those 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

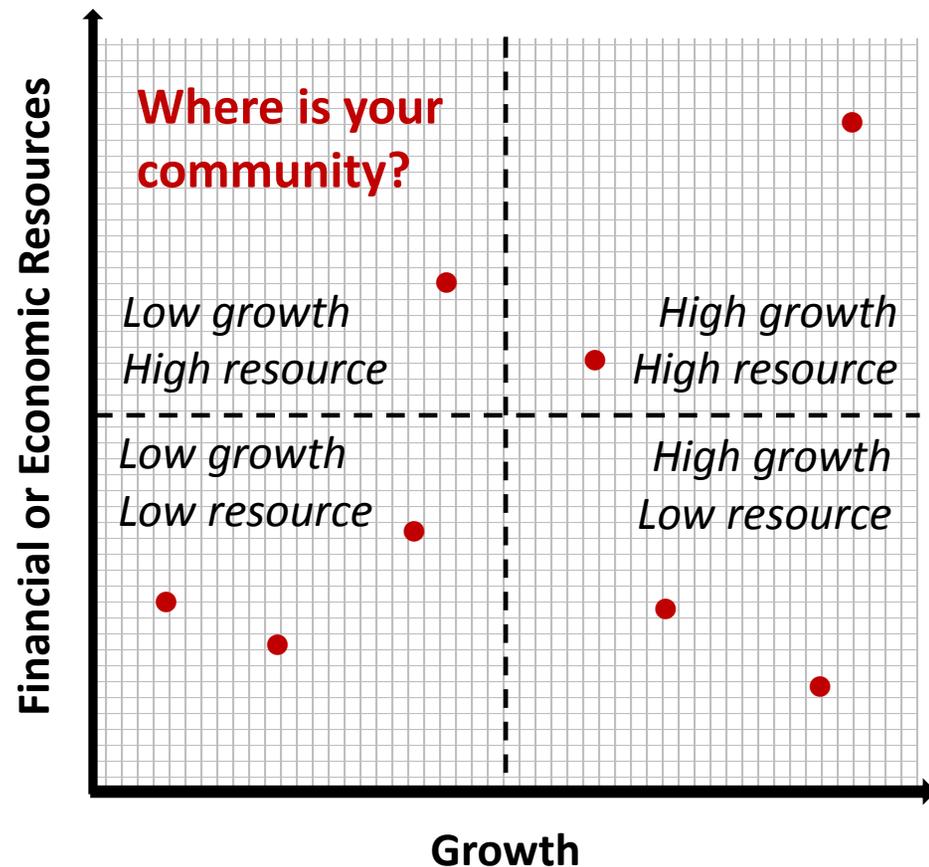
- Local Funding
 - Property tax
 - Sales tax
 - Lodging tax
- Permanent or housing trust funds

+ Many other unique approaches

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

- Some common “vehicles” to leverage in finding a locally-relevant solution...
 - Financial Resources
 - Other economically-valuable resources
 - Growth and development pressure (i.e. growth management)
 - Partnerships

Note #1: Because every community is different...there is
NO ONE SIZE FITS-ALL solution



Do you have leverage?

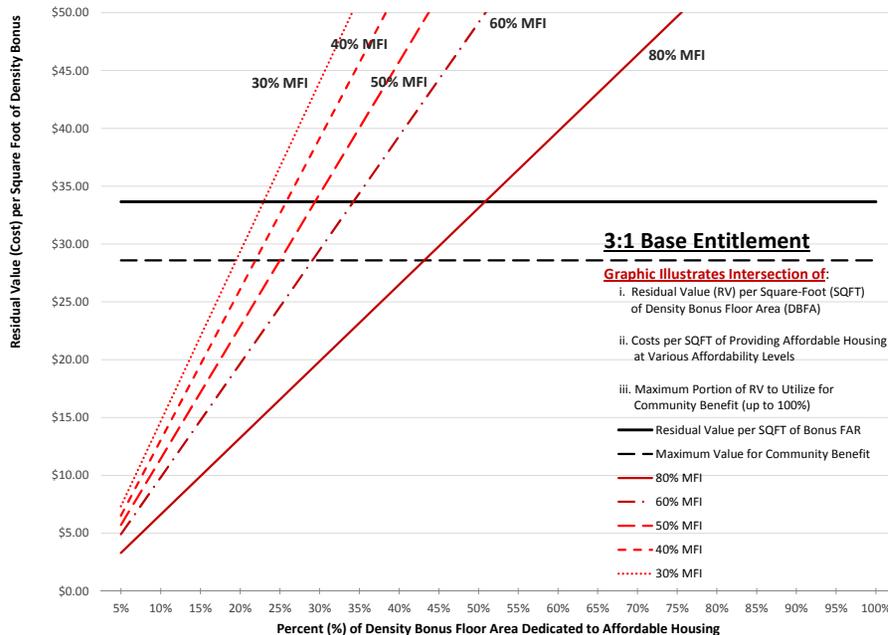
(Financial, land use, or regulatory resources)

Leverage is...

- What has value to the development community?
- What can a community offer that has value?

One-Size DOES NOT Fit All

- Works when there is intersection between A & B
 - Density, height, ability to waive/defer fees, etc.
- Doesn't work if no intersection
 - Base entitlement density or height never maxed out
- What else could be leveraged?
 - Fee structures
 - Lot size minimums
 - Maximum occupancies
 - Affordable housing preservation easements



Point of Departure

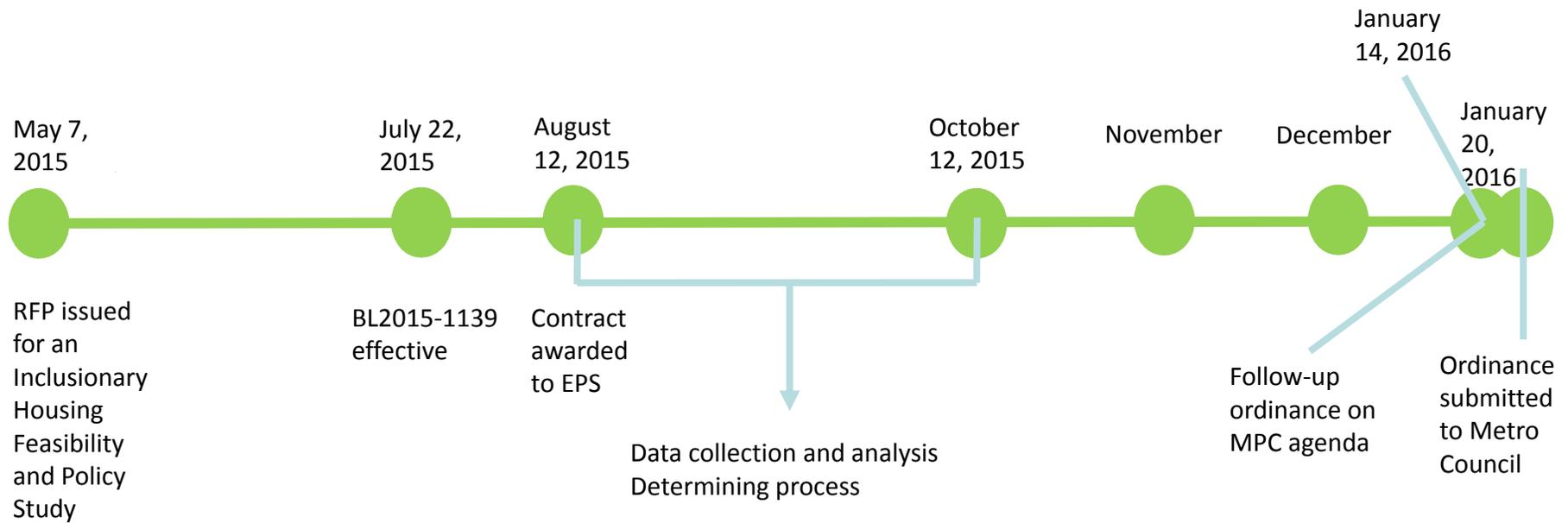
- Working assumptions
 - Council passed resolution directing Planning Department to look at the feasibility of an inclusionary zoning ordinance
 - If inclusionary zoning is found to be appropriate, this analysis will identify...
 - Mandatory or voluntary?
 - Application by geography or uniformly
 - Calibrated “asks” – e.g. set-aside, AMI, affordability terms, etc.
 - Calibrated “gives” – e.g. incentives
- Our perspective – mandates heighten need to tailor solution
 - Incentives
 - Market dynamics
 - Feasibility
- How we are treating this...
 - **No options are off the table**
 - Lots of questions to ask
 - Goal is to find equitable and effective solution(s) that address the issues
 - This is just the beginning of the process

Local & Regional Economic & Housing Market Conditions

PROCESS & GOALS



Project Timeline



Objectives

Task 1: Data Collection, Background Research and Stakeholder Outreach

- Review existing housing studies and data already collected by Metro, and compile additional data to fill any gaps identified by various HUD Area Median Income (AMI) levels, tenure (rental versus ownership), housing type, and geographic area.
- Working with Metro staff, identify a list of at least 20 key stakeholders and conduct targeted outreach (via phone or in-person meetings) to these stakeholders. These will include but not be limited to local government officials, affordable housing advocates and representatives from the residential development and financing industry.

Deliverable #1: Memorandum summarizing review of data, background research, supplemental research to address data gaps and stakeholder research.

Task 2: Market and Economic Trends Analysis

- Prepare a comprehensive market and economic trends analysis for Metro. This should include residential market trends for the urban area and submarkets as well as macroeconomic trends affecting the long-term need for affordable and workforce housing in Nashville. Specifically:
 - Analyze residential market trends by income levels, housing tenure, type and geographic/neighborhood sub-area.
 - Document long-term employment trends affecting the demand for housing.
 - Include primary data research on comparable for-sale and rental properties in various sub-markets of Nashville; this data will be used to provide inputs for the subsequent financial feasibility testing task.
 - Research local residential development costs by housing tenure, type and geographic sub-area.

Deliverable #2: Market and Economic Trends Analysis Memorandum

Task 3: Financial Feasibility Testing

- Conduct a financial feasibility analysis using current data and provide a written report assessing the potential impacts on project feasibility of inclusionary housing requirements (voluntary and mandatory) in conjunction with potential incentives. This should include at minimum five housing prototypes, representative of the type of housing projects currently being built and likely to be built in the near term in Nashville. These prototypes should include both urban and suburban housing types including ownership and rental project(s) and should reflect current development costs, market rents and prices. Using these prototypes:
 - Evaluate and report the financial impact of 3-5 different production requirements (% of units provided onsite) on the financial feasibility of each project prototype.
 - Evaluate and report on the financial feasibility of varying AMI targets by housing tenure and type.
 - Evaluate and report the impact of 2-3 approaches to establishing fees that would be paid in-lieu of on-site production (in-lieu fees).
 - Evaluate and report the impact of 5-7 potential development incentives on the feasibility of each project prototype, including but not limited to density bonuses, expedited permit or entitlement processing, residential fee reductions, parking requirement reductions and cash and/or financing incentives.
 - Evaluate and report the impact of varying the incentives and/or requirements in different geographic areas of the county.

Deliverable #3: Financial Feasibility Memorandum

Task 4: Stakeholder Focus Group

- Working with staff, the selected consultant will convene and facilitate a focus group of local residential developers and real estate and housing finance experts to share the draft results of the financial feasibility deliverable and gather more in-depth feedback to further refine the analysis. This focus group is intended to engage key local stakeholders in an open, informed and in-depth discussion of different potential policy options for inclusionary housing in Metro Nashville, both voluntary and mandatory.

Deliverable #4: Memorandum summarizing Focus Group discussion and refinements (if any) to financial feasibility analysis based on stakeholder feedback

Task 5: Final Report and Recommendations

- Building on all previous tasks, prepare a final financial feasibility and policy report with recommendations for structuring and implementing an effective inclusionary housing policy with a menu of implementation options that would be financially feasible for Nashville developers and meets the stated community goals for increasing long-term affordable housing options. This final report should clearly summarize the findings of the financial feasibility analysis as well as all policy recommendations including, but not limited to, variations in policy requirements by zoning district, development type or geographic area sub-area.

Deliverable #5: Final Report and Recommendations

BL2015-1139

17.10.010 Purpose and Intent

- A. The purpose of this chapter is:
 - 1. To increase the supply of affordable housing and workforce housing.
 - 2. To provide housing opportunities that meet the affordability needs of households needing affordable housing and workforce housing
 - 3. To disperse housing opportunities throughout Davidson County for households needing affordable housing and workforce housing.
 - 4. To promote social and economic integration in safe and stable neighborhoods.
 - 5. To promote the creation and maintenance of suitable residential areas that are safe, attractive and stable.
 - 6. To protect property values.
 - 7. To implement the housing goals and policies contained in the General Plan For Nashville and Davidson County.
- B. The intent of this chapter is to provide enabling legislation for residential development that creates Affordable Housing and Workforce Housing, and equitably distributes such housing within new or substantially renovated residential development and construction across all of Davidson County. These regulations may consider any means of providing affordable and/or workforce housing, including the following:
 - 1. Minimum project size that is required to provide Affordable Housing and/or Workforce Housing.
 - 2. Qualifications for “grandfathered” projects not required to provide Affordable Housing and/or Workforce Housing.
 - 3. Income eligibility and target population for the Affordable Housing and/or Workforce Housing
 - 4. Period of time that the units should remain Affordable Housing and/or Workforce Housing, and/or the conditions under which Affordable Housing and/or Workforce Housing units may be sold or re-sold, and who is entitled to the increased equity.
 - 5. Development and financial incentives for providing affordable or workforce housing.
 - 6. An in-lieu fee option for building affordable or workforce housing.
 - 7. An offsite option to build the affordable or workforce housing units, provided that the offsite option meets the intent to equitably distribute affordable and workforce housing.

17.10.020 Minimum Requirements

- A. In preparing the rules and regulations for implementation of this chapter, the planning department shall set a goal of requiring at least fourteen percent of the units in all residential development in Davidson County, including new construction and renovation be reserved and used for Affordable Housing and/or Workforce Housing.
- B. If any rule or regulation promulgated pursuant to this chapter allows an in lieu of payment in place of providing Affordable Housing or Workforce Housing units, all such payments shall be deposited in the Barnes Fund for Affordable Housing, or any successor fund.

Outreach and Engagement

- Stakeholder Group
- Targeted Interviews
- Subject Matter Focus Group
- Public Meeting
- Electronic Survey

Local & Regional Economic & Housing Market Conditions

MARKET ANALYSIS

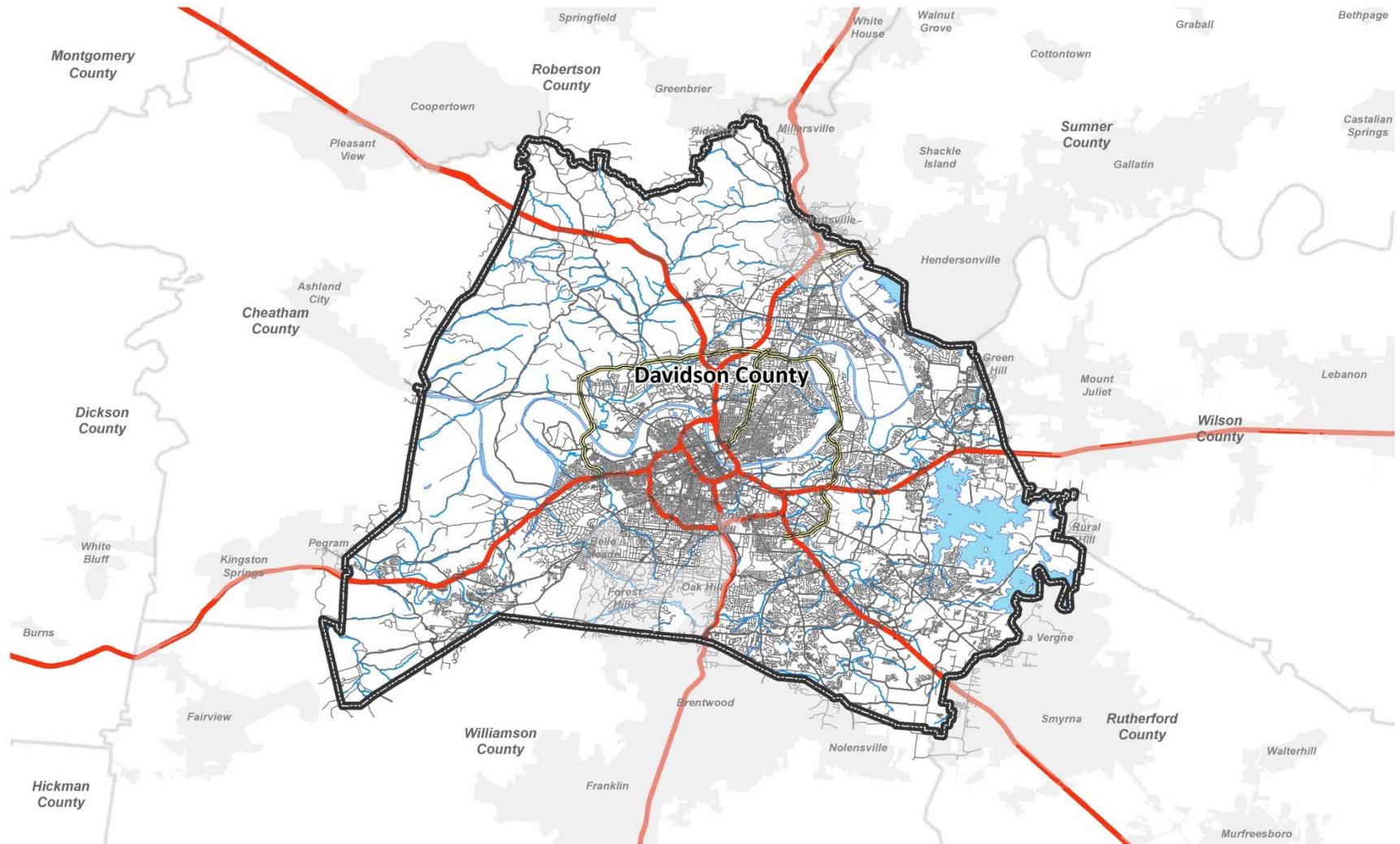


Starting the analysis means...

(Looking at the basics first)

- Defining a “market area” for a housing market/policy study?
 - Geographic areas that functions as an economy where workers choose from within its boundaries to find housing
 - Subareas are markets within this larger area that have distinct supply and demand characteristics (i.e. Downtown, Midtown, etc.)
 - Need to be commonly recognized
 - Generally have distinct economic conditions
 - Land value differences
 - Sales price / rental rates differs
 - Commercial lease rates differs
- What are appropriate subareas to use?
 - Areas buffered by major highways / transit corridors
 - Census tracts / Block groups
 - Neighborhoods
 - Planning areas
 - Overlay zones

...and begin with the basic map

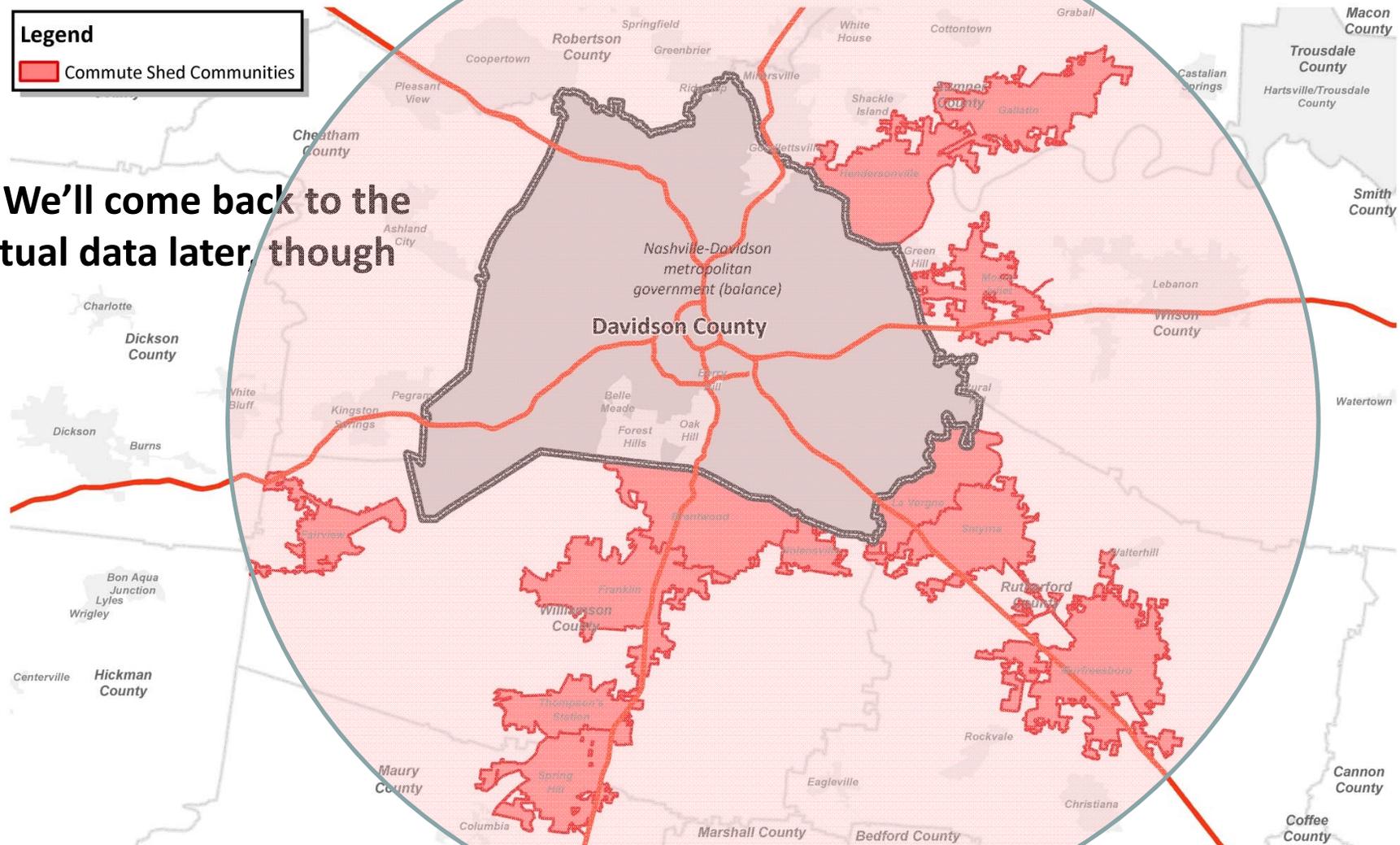


Identifying the market area...

(Look at commuting patterns – 2002-2013, U.S. Census LEHD)

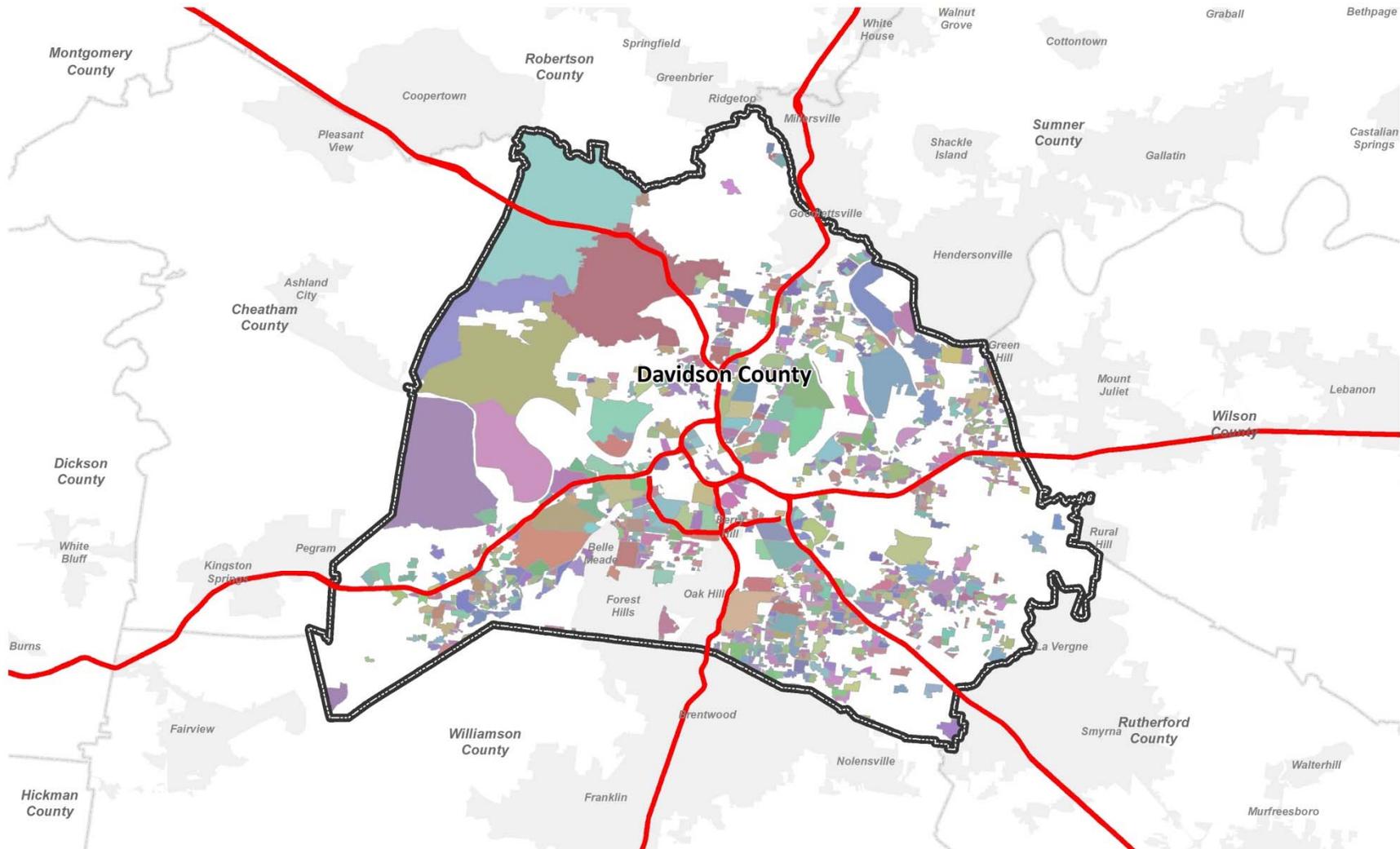
Legend
■ Commute Shed Communities

****We'll come back to the actual data later, though**



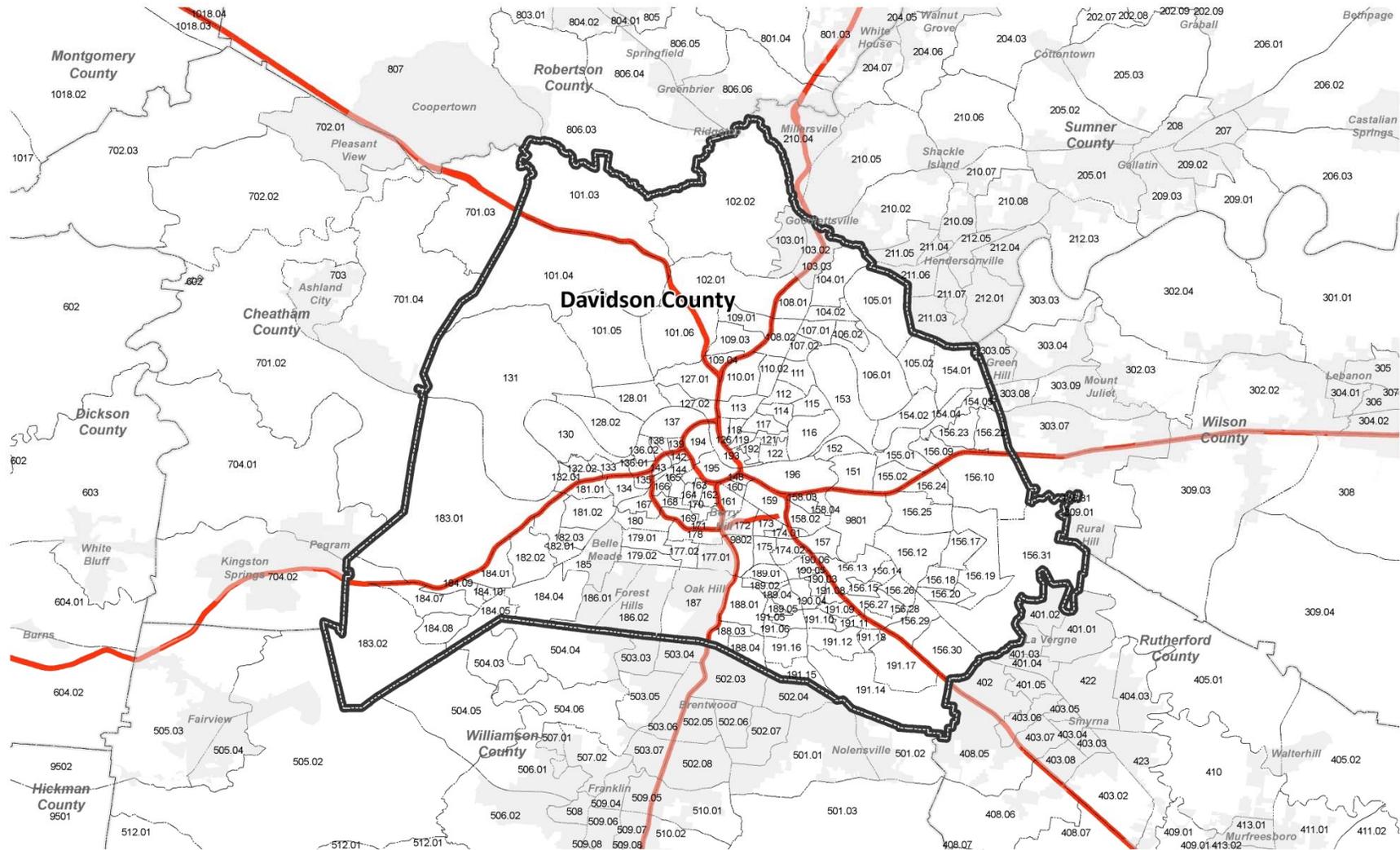
Identifying the sub-markets

(Sometimes neighborhoods do or don't reflect submarkets)



Census Tracts

(A common alternative for looking at geographic distinctions)



Conducting an appropriate analysis

- Once you've decided on a geographic basis, what data do you analyze?

Considerations for any future analysis/updates

- What reflects affordable housing needs?
- Isn't necessarily static
- What's available?
- How frequently are the data updated?
- Does it reflect the conditions you're trying to address?
- Some data are accurate, sophisticated and complex, but can it be understood
- Use proxies if possible
- Once "adopted", can it be updated?

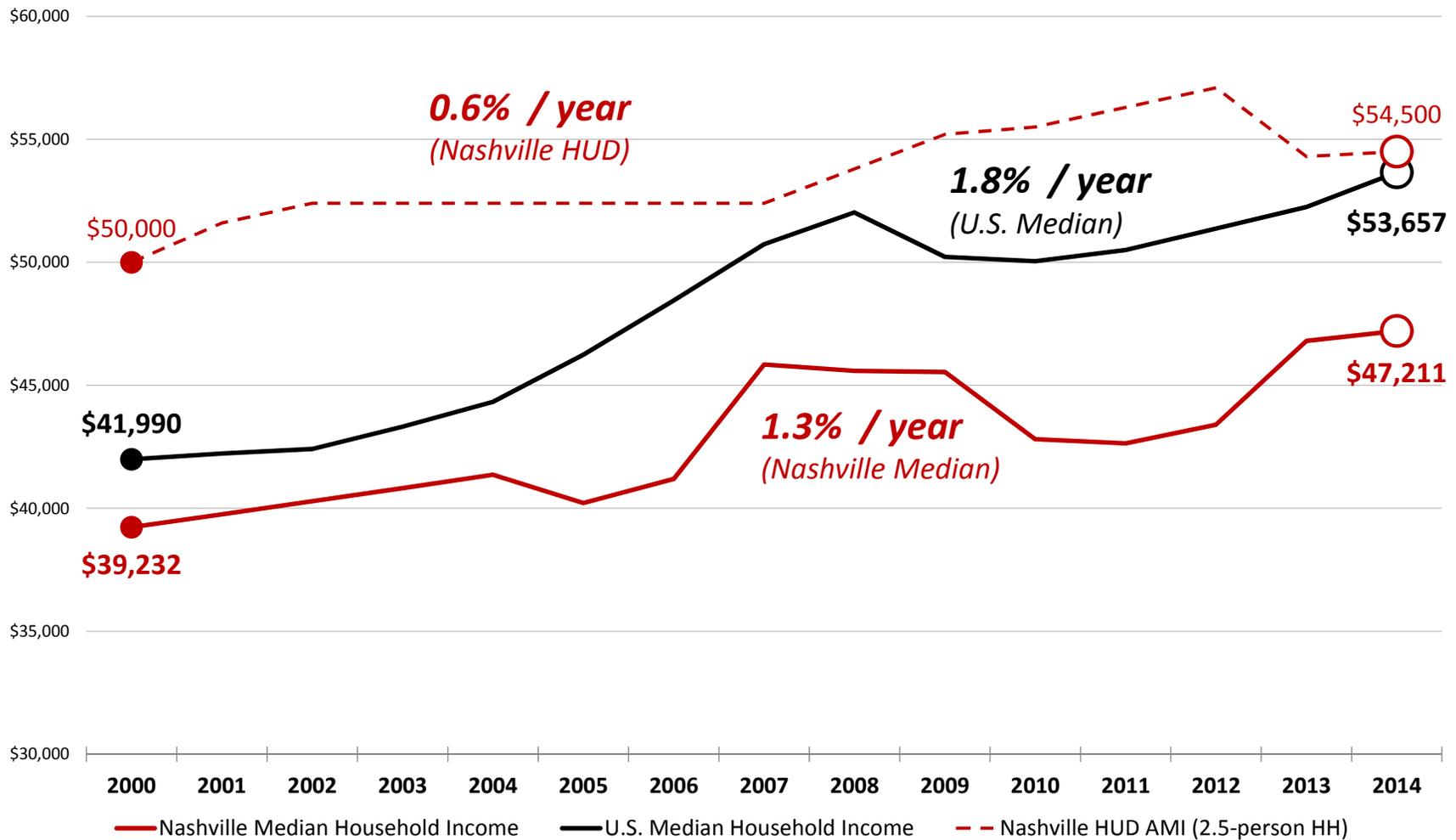
Income, Inflation, Building Activity

MARKET CONDITIONS

Framing the analysis means...

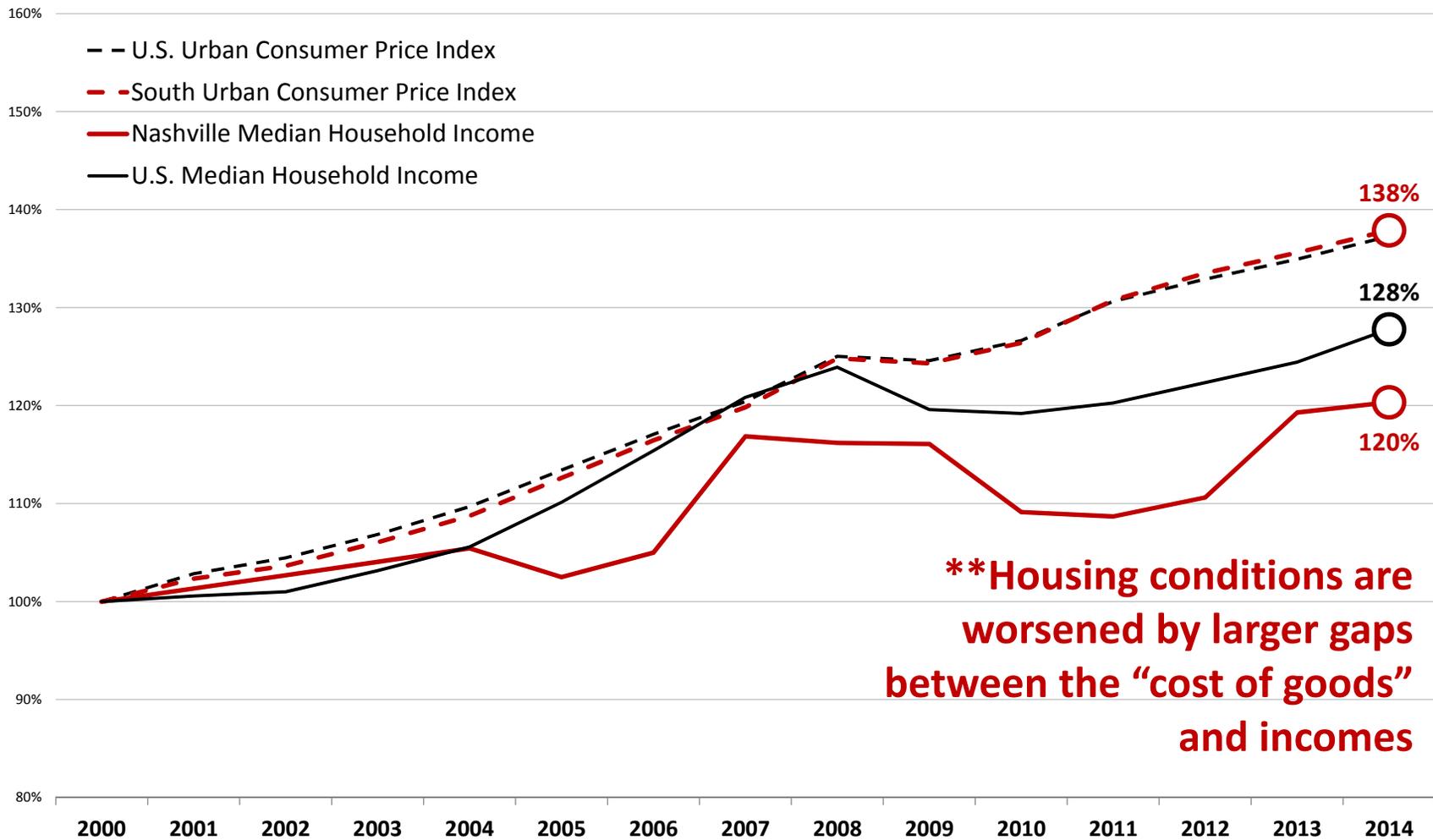
- Identifying economic conditions
 - Incomes
 - Inflation
- Identifying trends or developments that put pressure on the market
 - Population and employment growth
 - Residential development
 - Non-residential development
- Looking at where indicators of problems lie
 - Housing cost increases exceeding income increases
- If we miss anything, please mention and we will evaluate

Household Median Incomes (2000-2014)



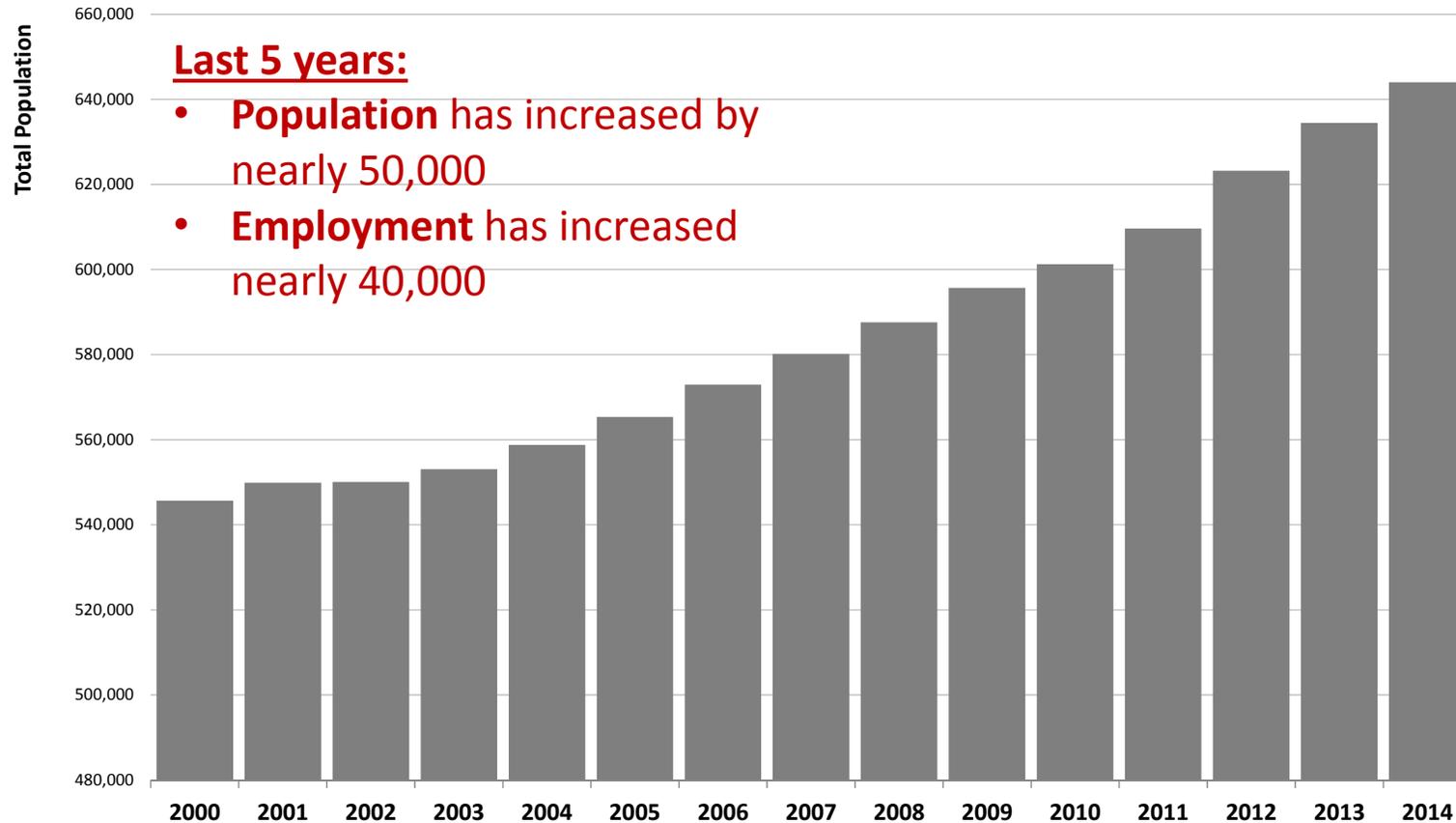
Incomes & Inflation

(2000-2014, Nashville-Davidson Co. Metro)



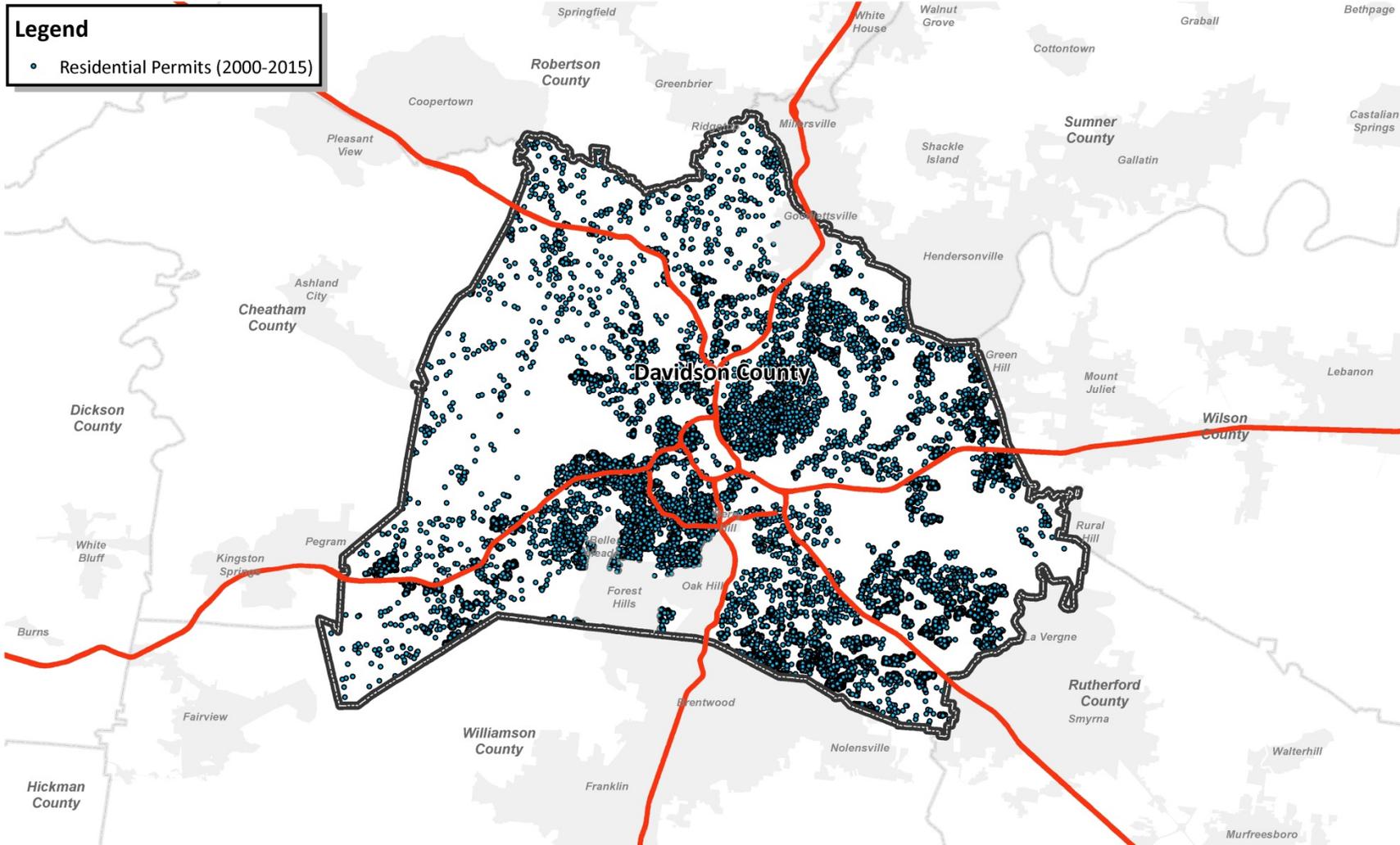
But the growth pressures continue...

(Population, 2000-2014)



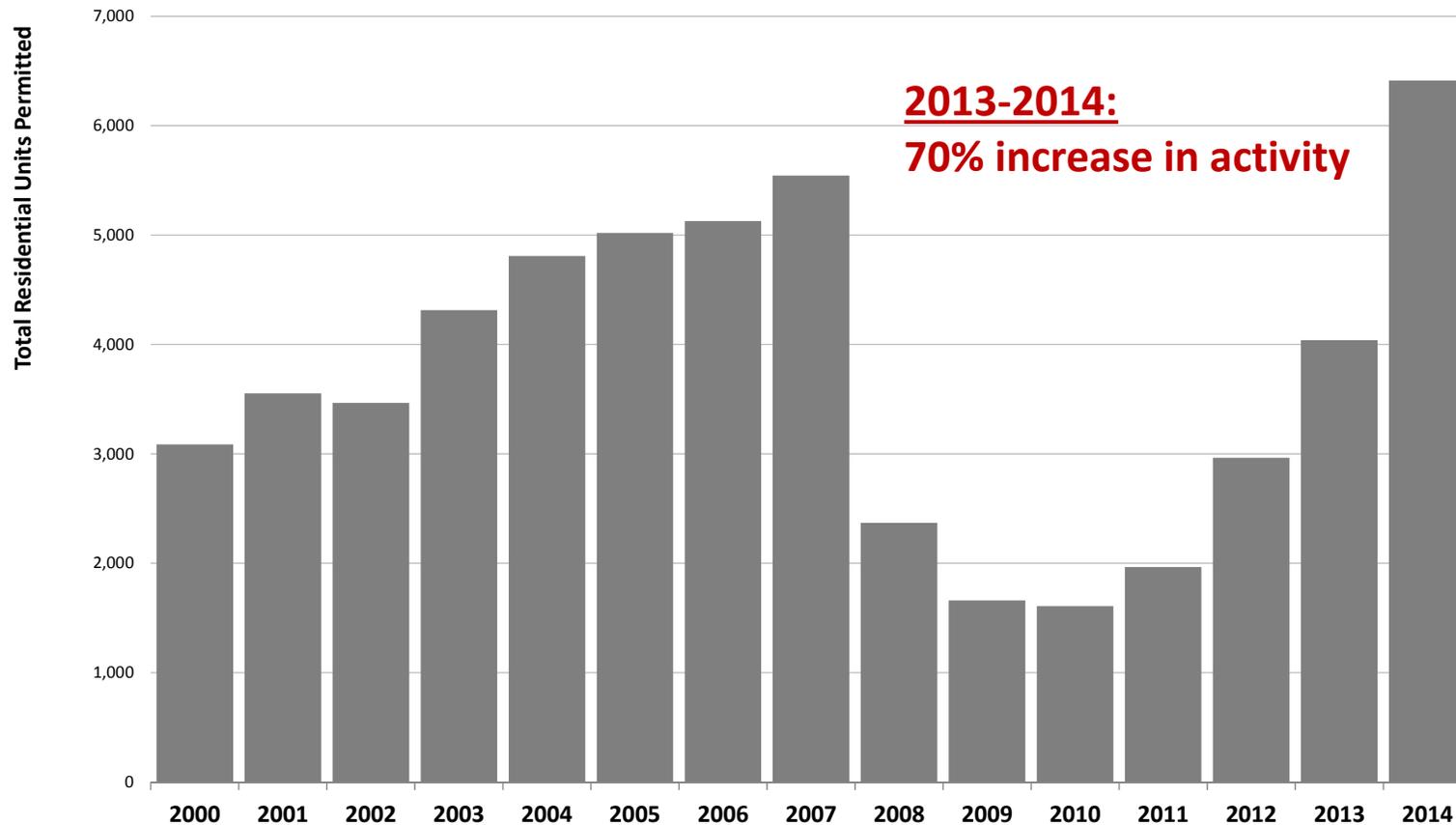
Source: U.S. Census; Economic & Planning Systems

Residential Building (data collected) (2000-2015)



Residential Units Constructed

(in Davidson County, 2000-2014)

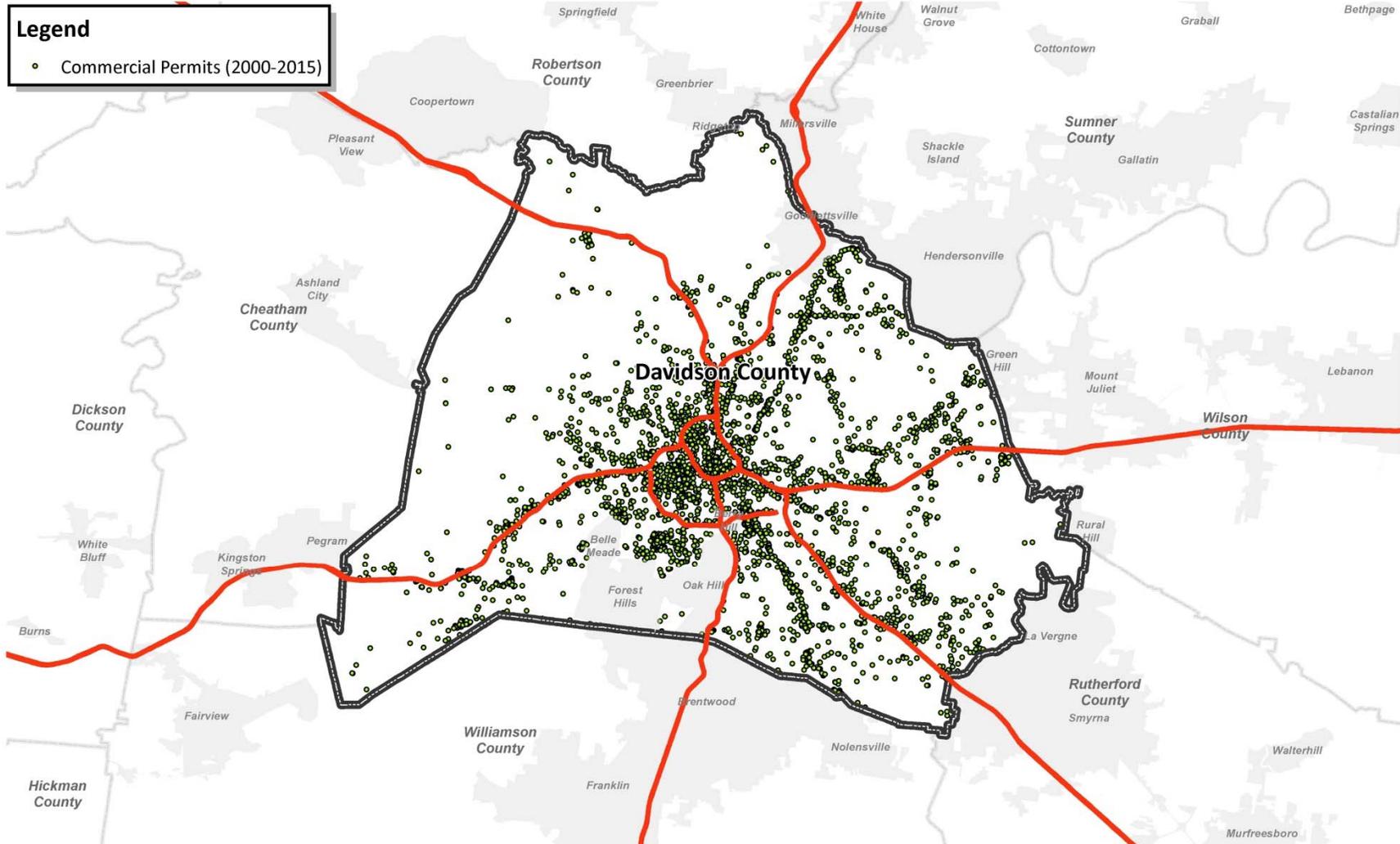


Source: U.S. Census C-40; Economic & Planning Systems



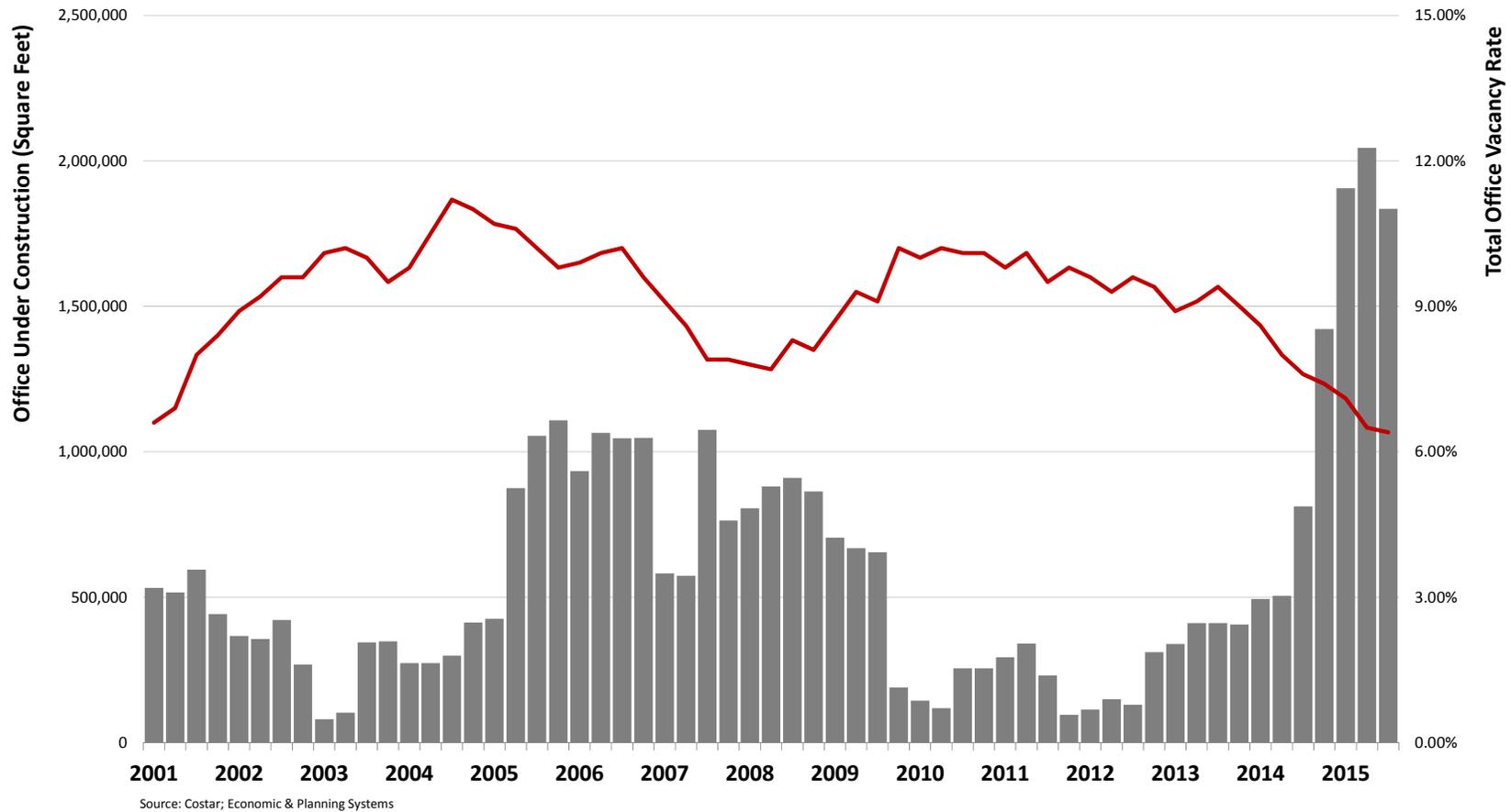
Pressure also comes from industry...

(Commercial building activity, 2000-2015)



Office Market

(Under construction, total vacancy rate)

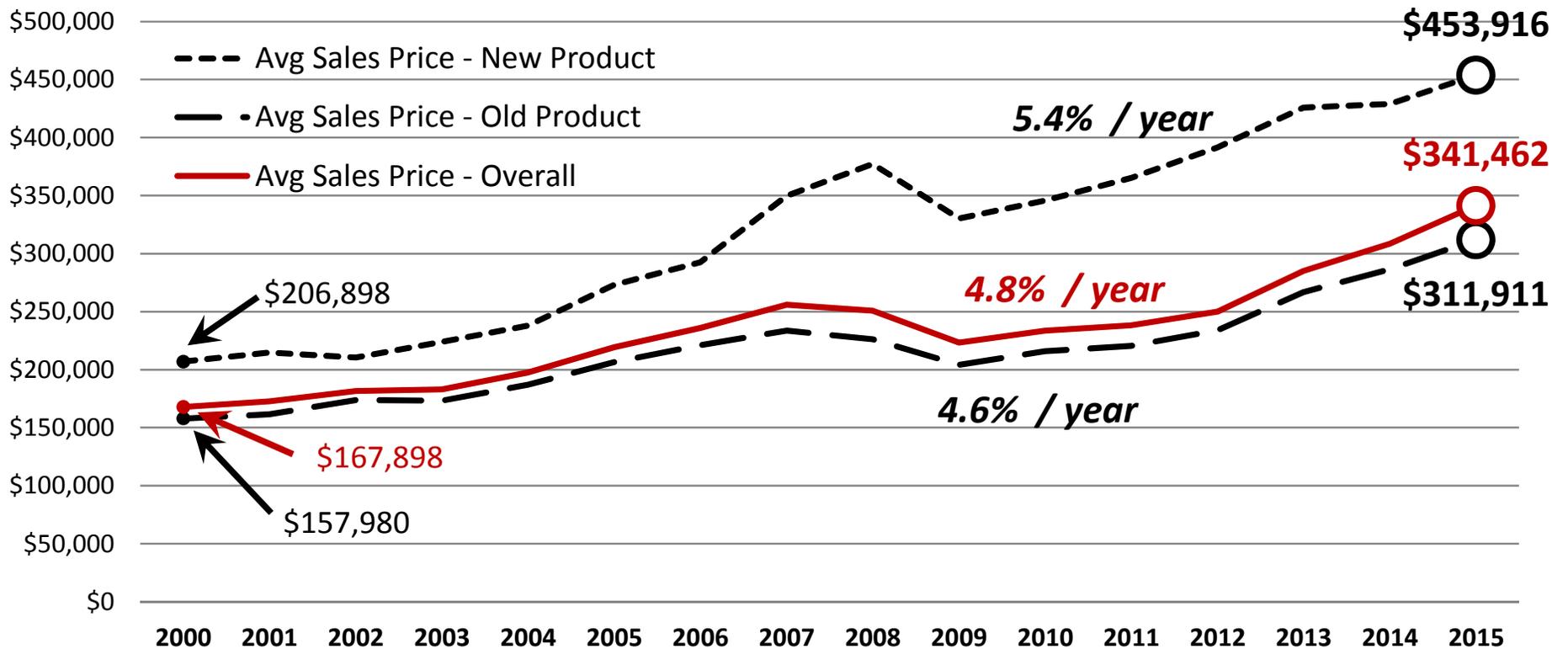


Analysis of Prices & Volume

HOUSING MARKET



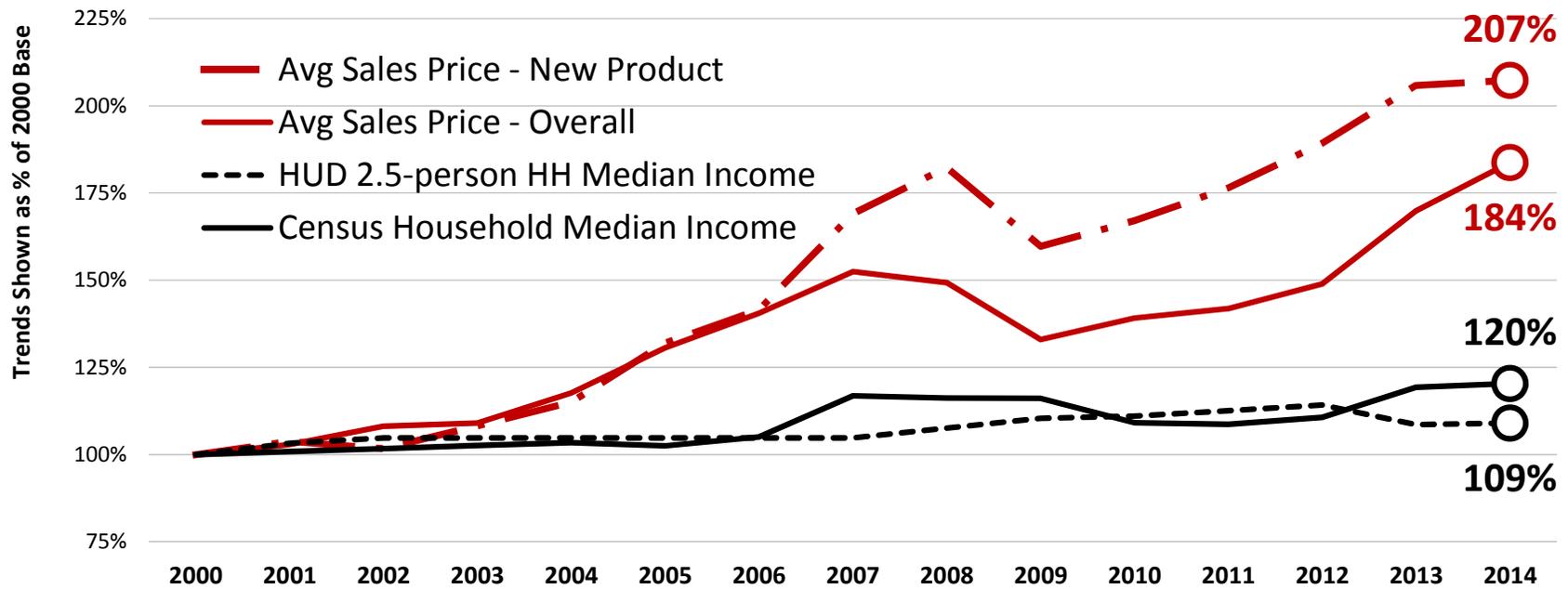
Single-Family Sales Price Trends (2000-2015)



[Note 1]: New Product defined as the sale of a unit no more than 5 years old at the time of sale.
Source: Realtracs MLS; Economic & Planning Systems

Average Sales Prices & Income

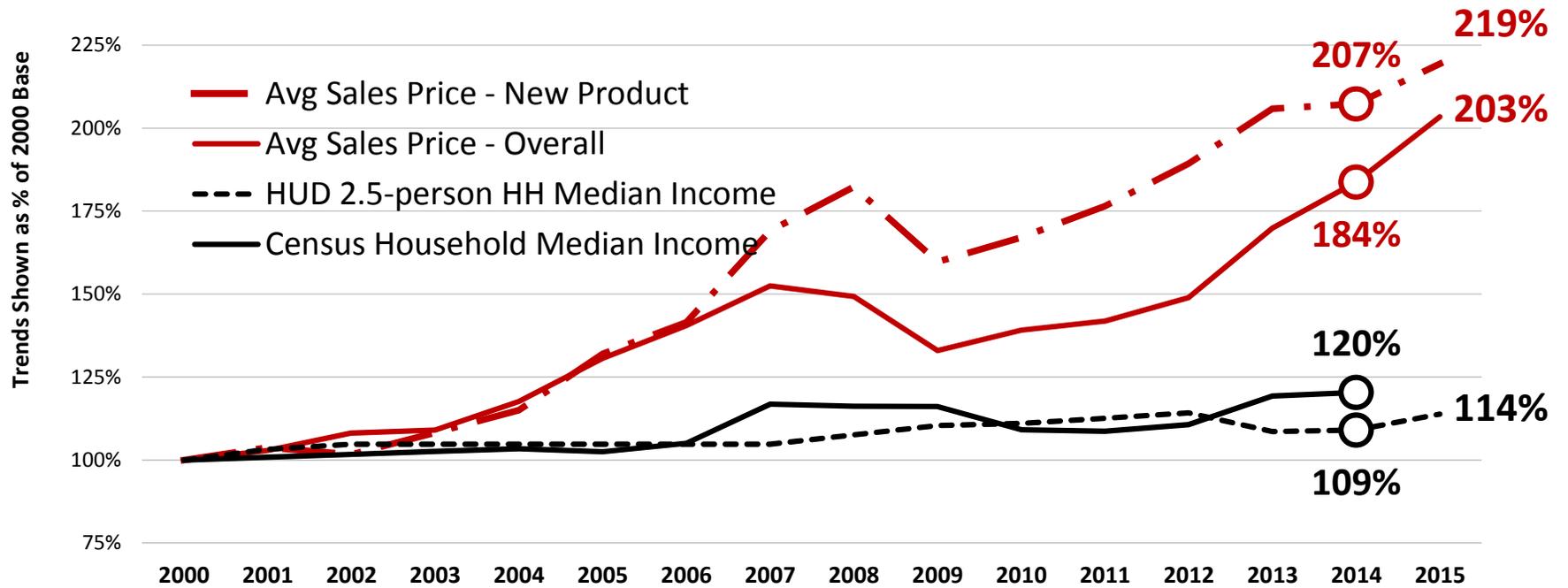
(2000-2014, Nashville-Davidson Co. Metro)



Source: MLS; HUD; U.S. Census; Economic & Planning Systems

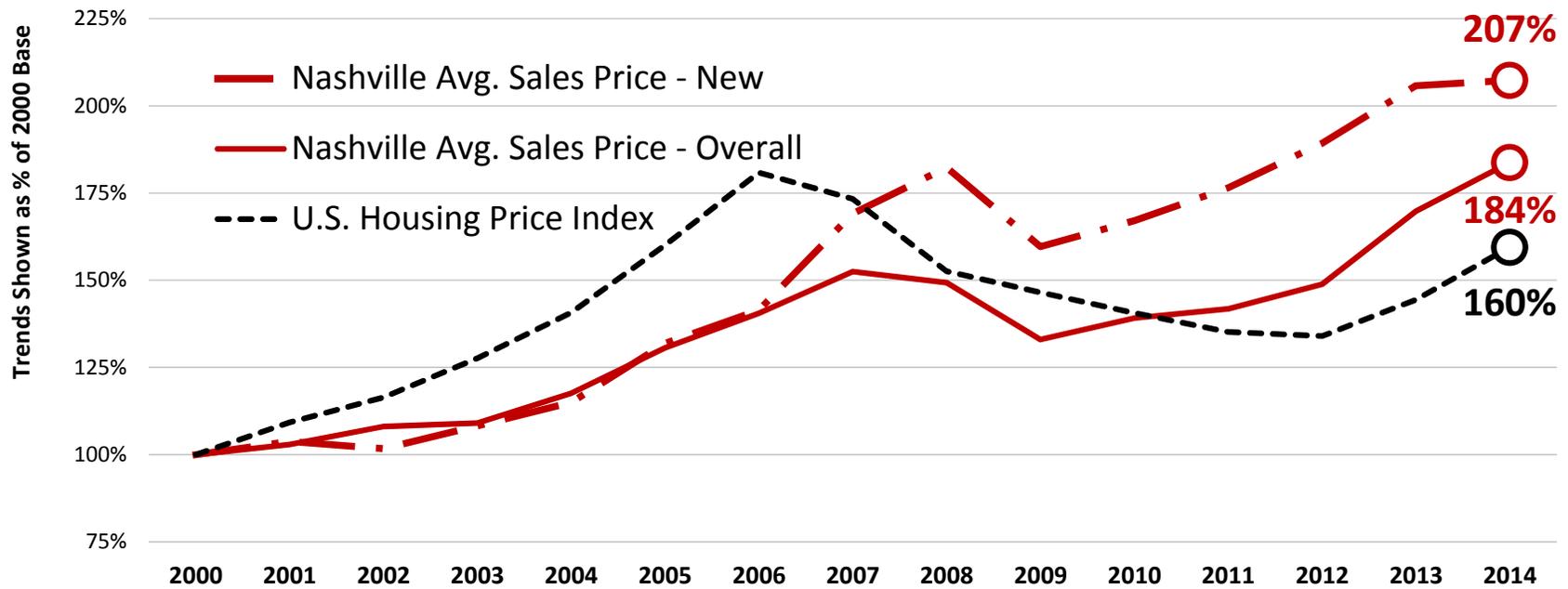
Average Sales Prices & Income

(including 2015 YTD)



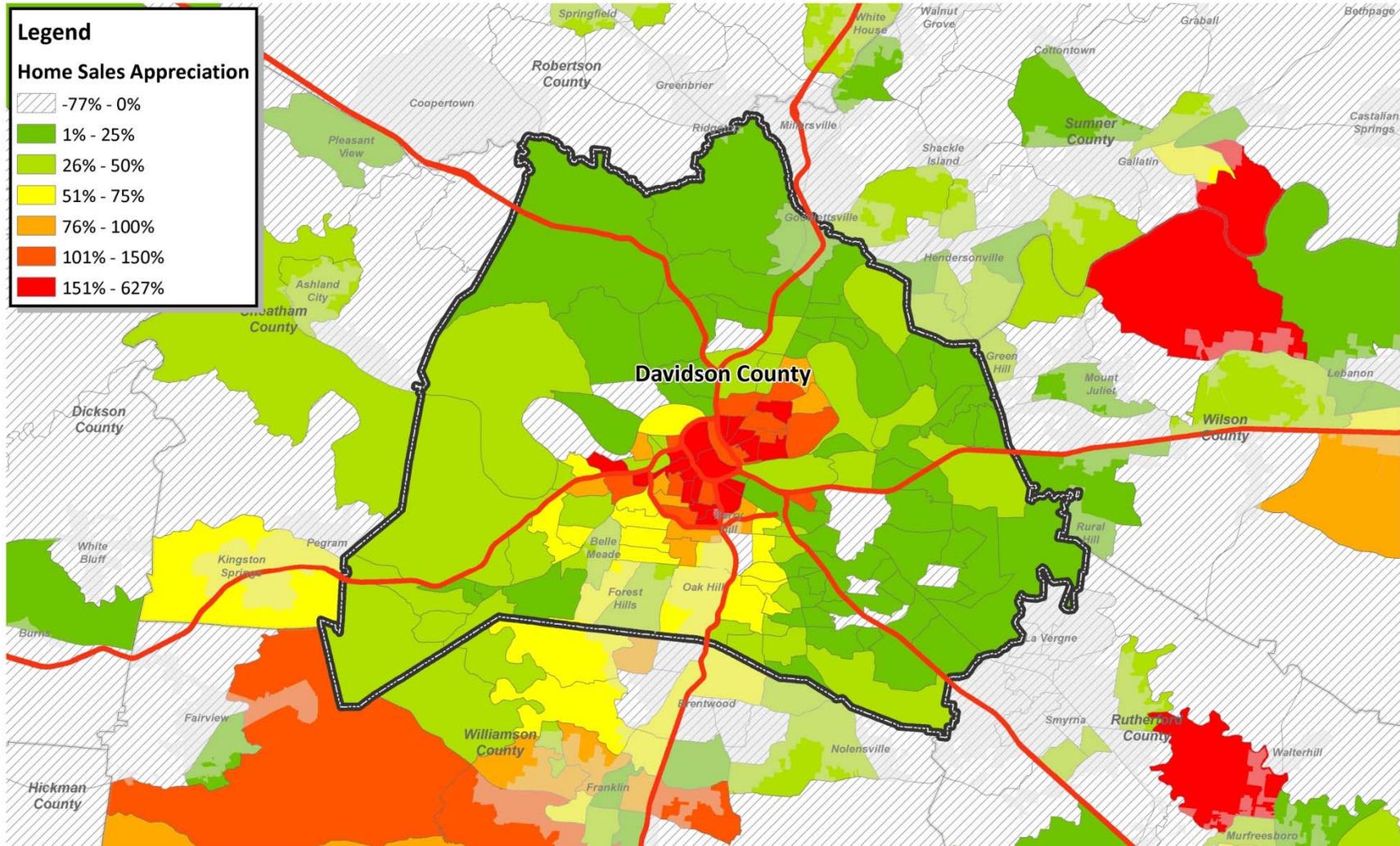
Source: MLS; HUD; U.S. Census; Economic & Planning Systems

How does Nashville's housing market compare?

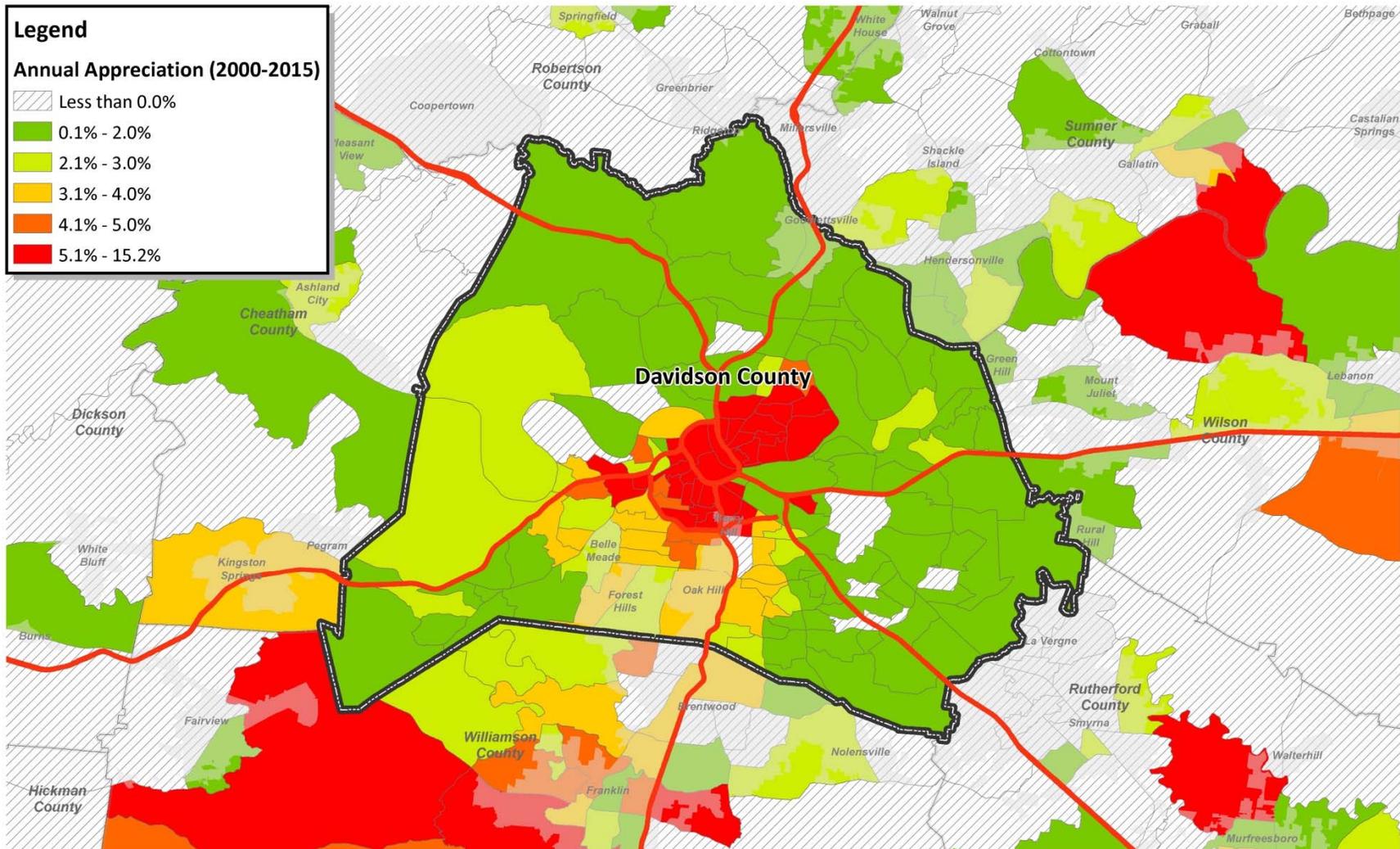


Source: MLS; HUD; U.S. Census; Economic & Planning Systems

Single-Family Overall Price Appreciation (2000-01 to 2013-15)



Single-Family Annual Price Appreciation (2000-01 to 2013-15)

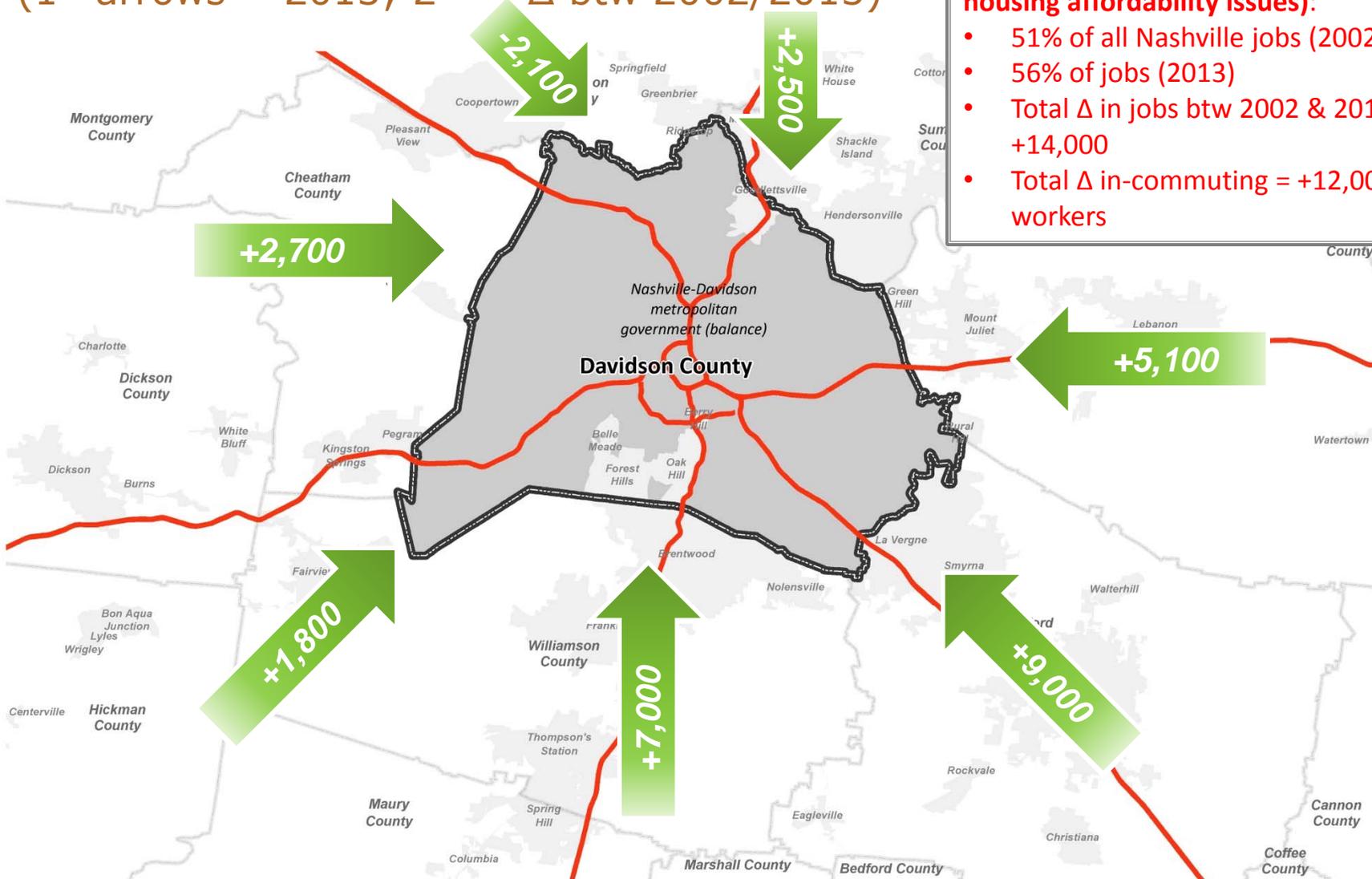


The result...in-commuting

(1st arrows = 2013; 2nd = Δ btw 2002/2013)

In-commuting (another indicator of housing affordability issues):

- 51% of all Nashville jobs (2002)
- 56% of jobs (2013)
- Total Δ in jobs btw 2002 & 2013 = +14,000
- Total Δ in-commuting = +12,000 workers



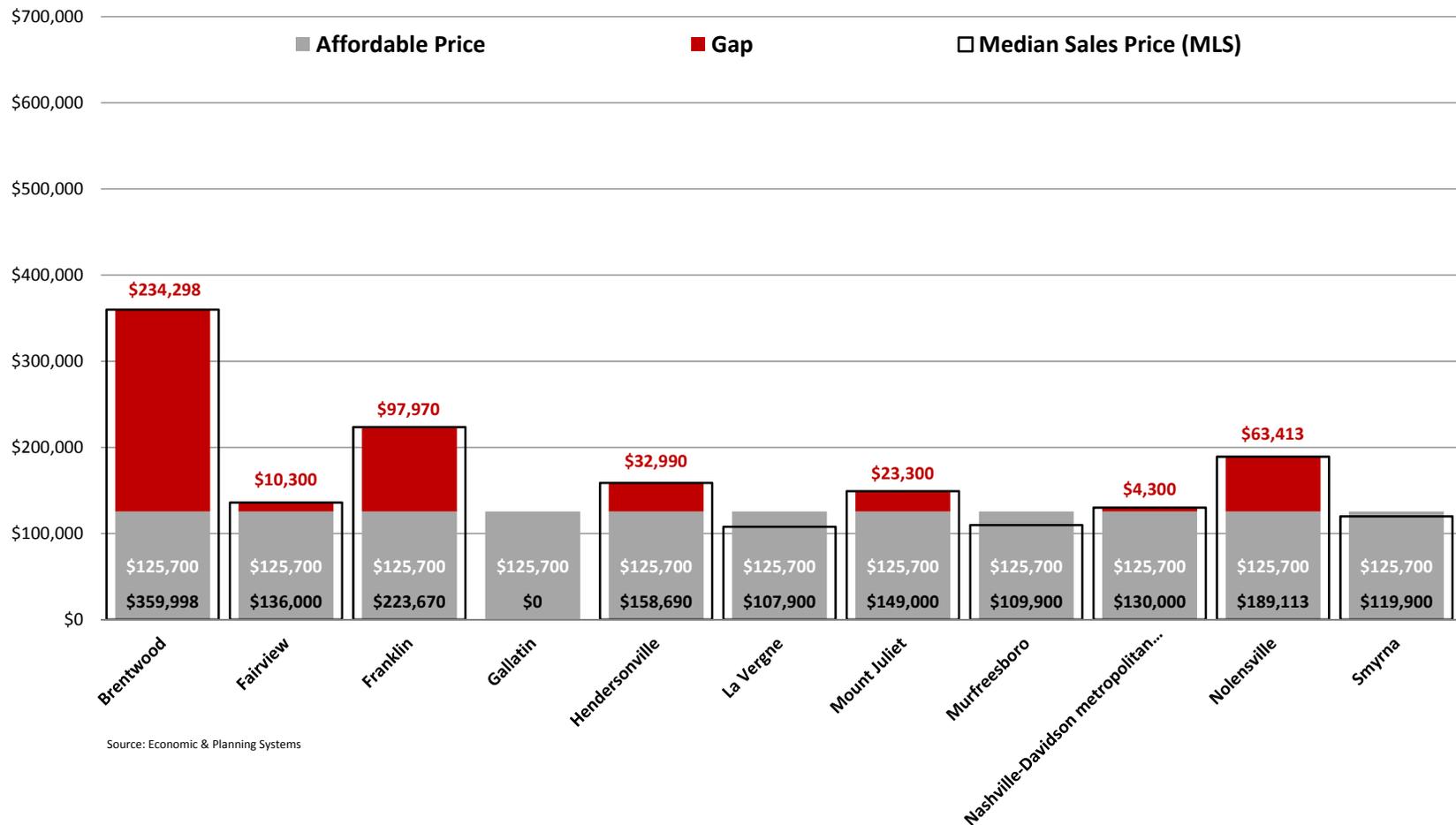
Any questions up to now?

Regional

AFFORDABILITY CONDITIONS

Regional Affordability Conditions (2000)

(calculated from MLS medians)

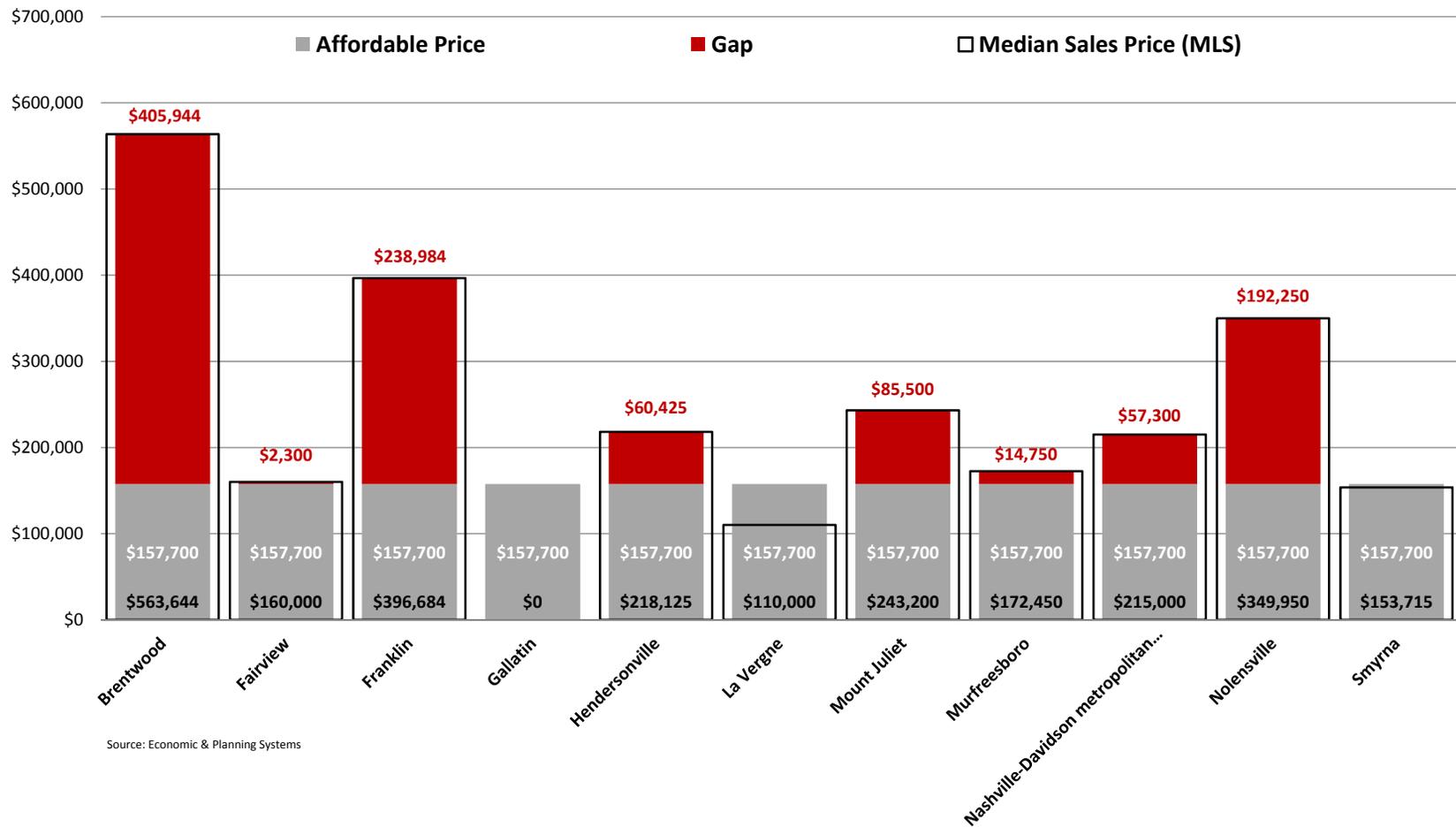


Source: Economic & Planning Systems



Regional Affordability Conditions (2013)

(calculated from MLS medians)



Questions to answer in the analysis...

- How strong is demand?
- Where is it?
- Is market-rate housing being built (or available) at affordable prices? (for a spectrum of incomes)
- What types of residential development are occurring? ...all high-end, all rental, etc.?
- Would there be any overlap between market-rate housing and deed-restricted housing?

Ways to think about...

FINDINGS TO DATE

Preliminary Findings

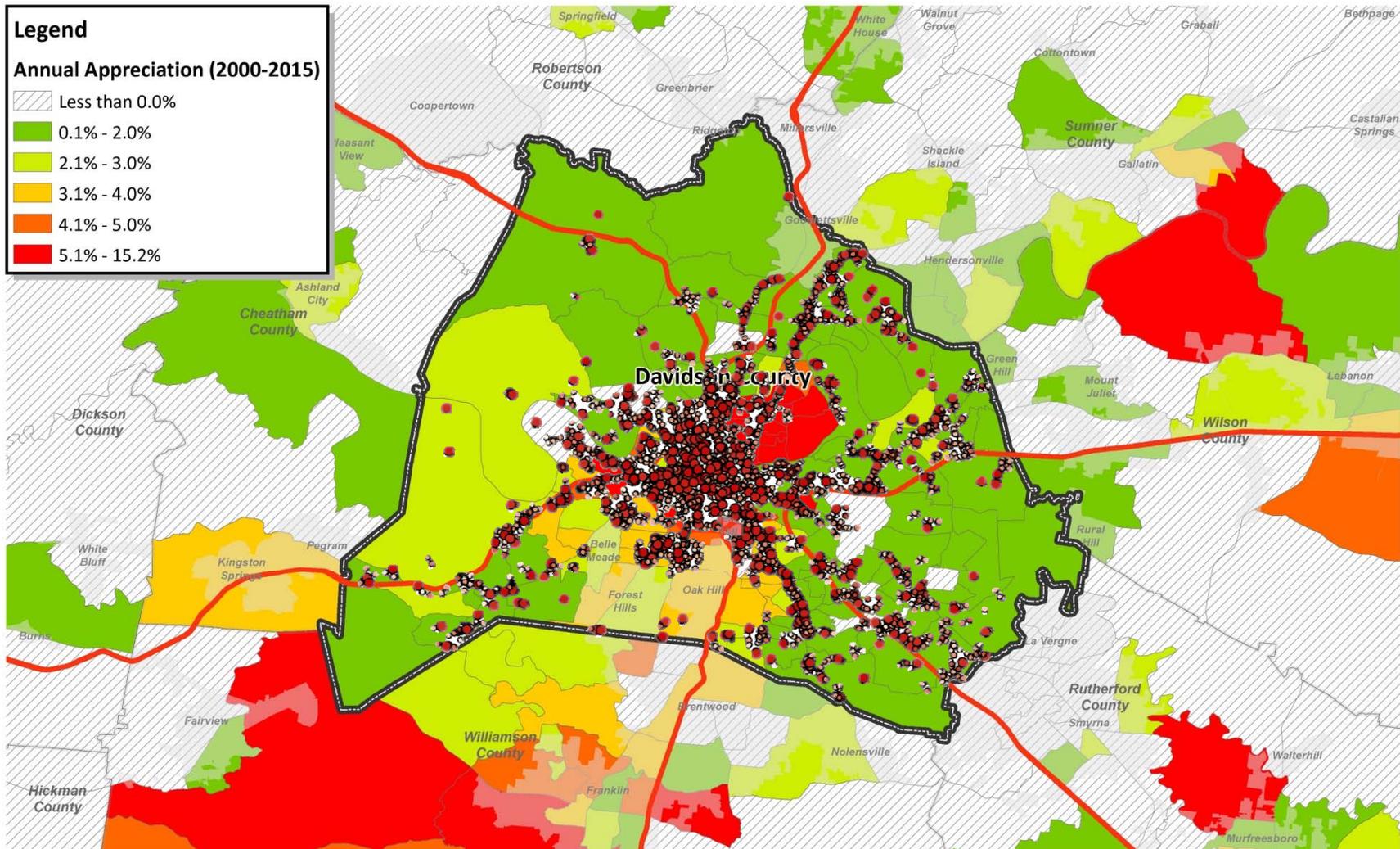
1. Local median household incomes are trending below national averages
 - Incomes aren't keeping up with the cost of goods
2. Housing price increases (new product or overall) are exceeding household income increases
 - Incomes aren't keeping up with the cost of housing
3. Nashville's increased housing costs are putting growth and housing pressures on surrounding communities
 - Sales volumes and commuting patterns
4. Need for price appreciation relief citywide
 - But particularly in the central city

What are we working toward?

(The solution (or solutions) should reflect the problem/s)

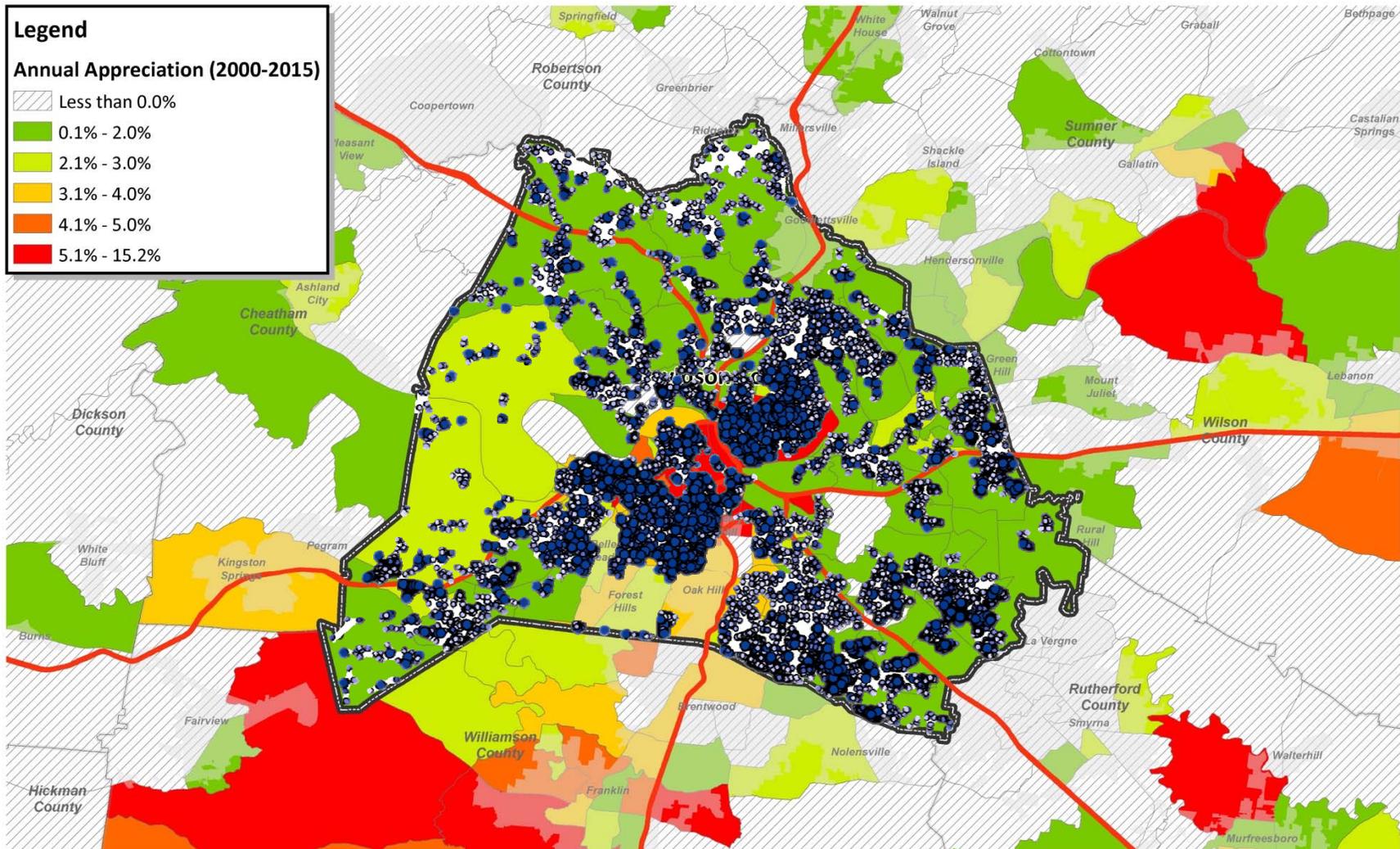
- For example,
 1. If employment and non-residential growth are creating the problem, the solution should involve this market.
 - Could use linkage fees to a fund, incentives, excise taxes, TIF
 2. If residential development and growth are creating the problem...
 - Could use voluntary or mandatory inclusionary zoning, incentives, linkage fees, land banking, land trusts, excise taxes, etc.

Is there a relationship? (SF price appreciation & employment growth)



...or here?

(SF price appreciation & population growth)



What are we working toward?

(The solution (or solutions) should reflect the problem/s)

3. If the problem is community-wide, the solution should be similarly broad
 - Could use permanent fund, local funding sources (e.g. lodging taxes, etc.)
4. If the problem is that some areas are not allowing enough density, height, etc., the solution should reflect this market problem.
 - Could use whatever regulatory incentives make sense and have value

Questions to answer...

- What incentives are available that would have value to the community providing or responsible for producing solutions?
 - Density, height, setback, parking reductions, minimum lot size
 - Any other land use resources?
 - TIF, other public financing, tax abatements (time-limited)
 - Fee waivers
- The incentives must...
 - Have economic value
 - Be practical
 - Must be available for use in the development process
 - ...preferably without the need for Council approval
 - They must not be granted through multiple other processes
 - i.e. too many ways to get a density bonus means that the path of least resistance is always chosen
- What other resources might the City have of value?
 - Land
 - GO bonds
 - Tax grants

What would a successful policy look like?

- It would have a sense of cross-strategy goals
 - e.g. policy that fulfills economic development, transportation, as well as housing
- Fundamentals have been evaluated
- Acknowledge the limitations of the chosen policy
 - No one size fits all
- Resources are layered where possible and used strategically and wisely
 - There aren't many cities in the U.S. that don't worry about finances
- There is good consideration for leveraging partnerships
- Hard decisions are made on all sides
 - City takes an honest look at what it can offer
 - The responsible community/development identifies what it can do

Approaches from around the U.S.

Sources of Financial Resources

- Property taxes (Seattle, Boston, Cambridge, MA CPA leg.)
- Voluntary or mandatory inclusionary zoning (many cities)
- 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
- LIHTCs (local and some state)
- EB-5 (primarily coastal cities, limited use and must produce jobs beyond construction)
- General Fund allocations
- Land-use resources (height, density)
- Expedited review

Partnerships

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

Uses of Financial Resources

- Down payment assistance
- Rehabilitation, preservation
- Unit price or rental buy-downs (aka developer incentives)
- 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)

Next Steps

- Policy Research and Options
 - Reminder: no options are off the table
 - Case study research (could include Franklin, Davidson, Tallahassee, Denver, Chapel Hill, Miami, Cambridge, etc.)
 - Inventory of what land use and regulatory resources are available
 - ...that have value to the development community
 - Such as density, height, setbacks, expedited review, etc.
 - Interviews (one-on-ones, focus groups, 2 more stakeholder group meetings)
 - Understand where major obstacles are
 - Identify where compromise may exist
 - Identify what has value to different stakeholders that can be leveraged
- Feasibility Analysis
 - Interviews with developers
 - Vet critical cost/revenue assumptions
 - Prototype development proformas reflective of current and future market (if development driven policy)
 - Scenario testing of policy (find optimal balance between the “give” and “ask”)

Thank You

QUESTIONS?

