Nashville-Davidson Metro Housing Policy & Feasibility Study

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Presented by:

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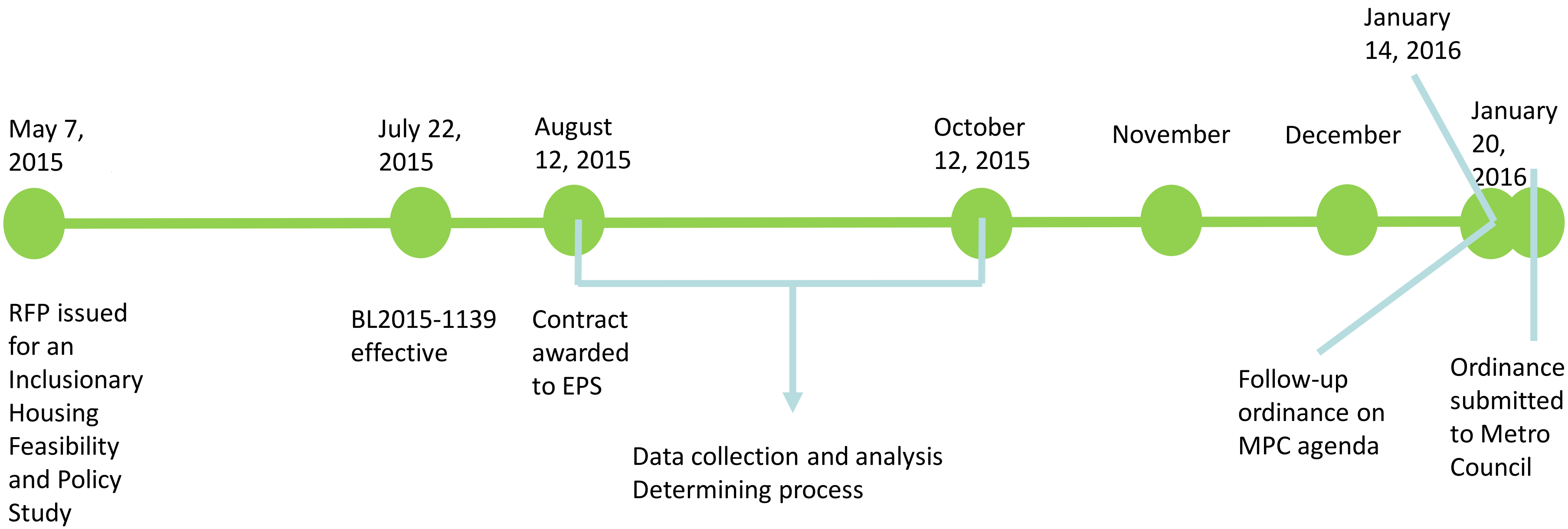
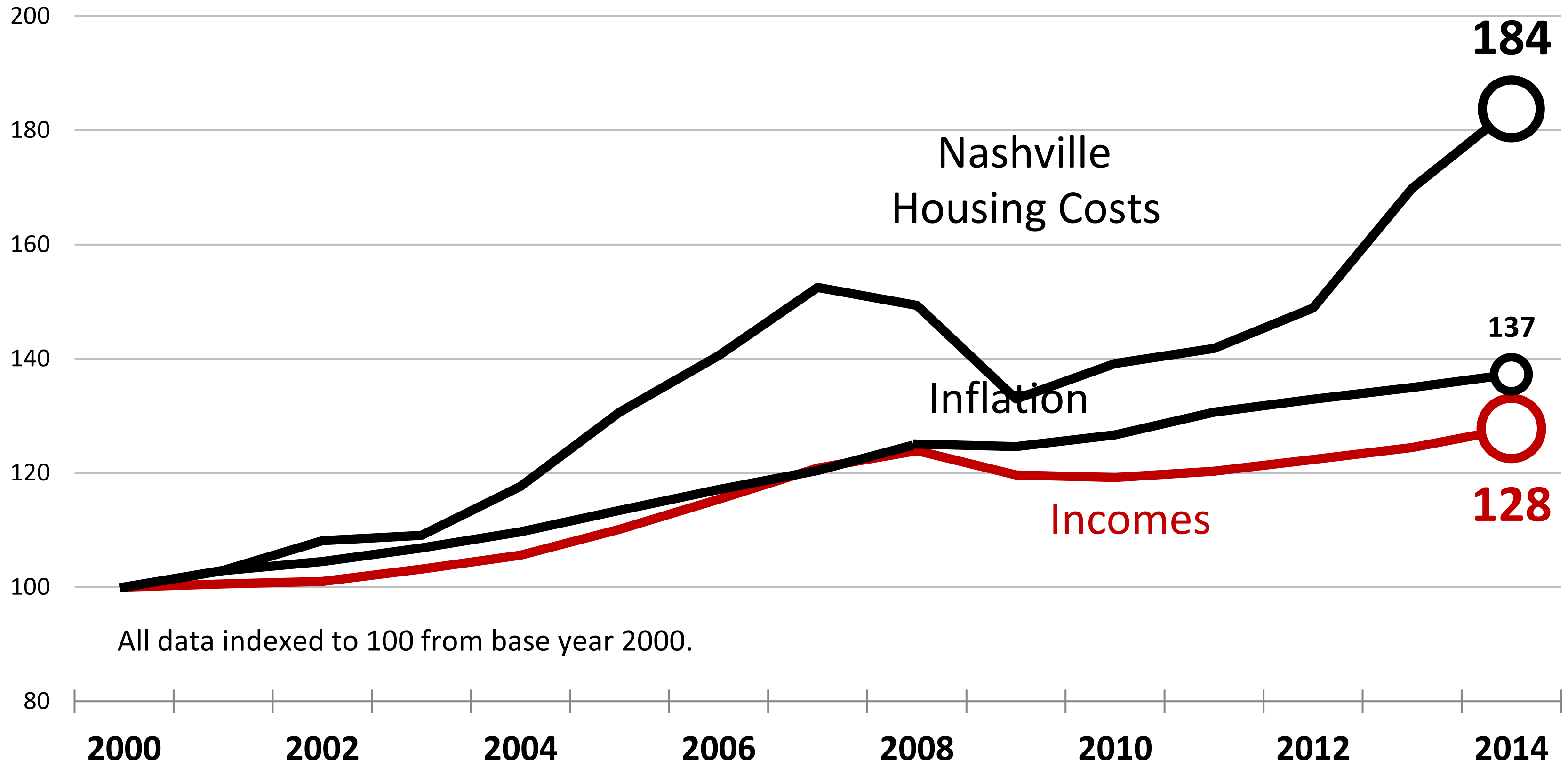
Economic & Planning Systems

- 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

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

Targeted / Focused	Conventional	Broad Application

• Private/Employer-based solutions
• Residential linkage
• Commercial linkage
• Inclusionary or incentive zoning
• Excise tax (on development)
• Land banking
	• Federal funding
	  • CDBG
	  • HOME
	• Federal/state LIHTC programs
		• 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

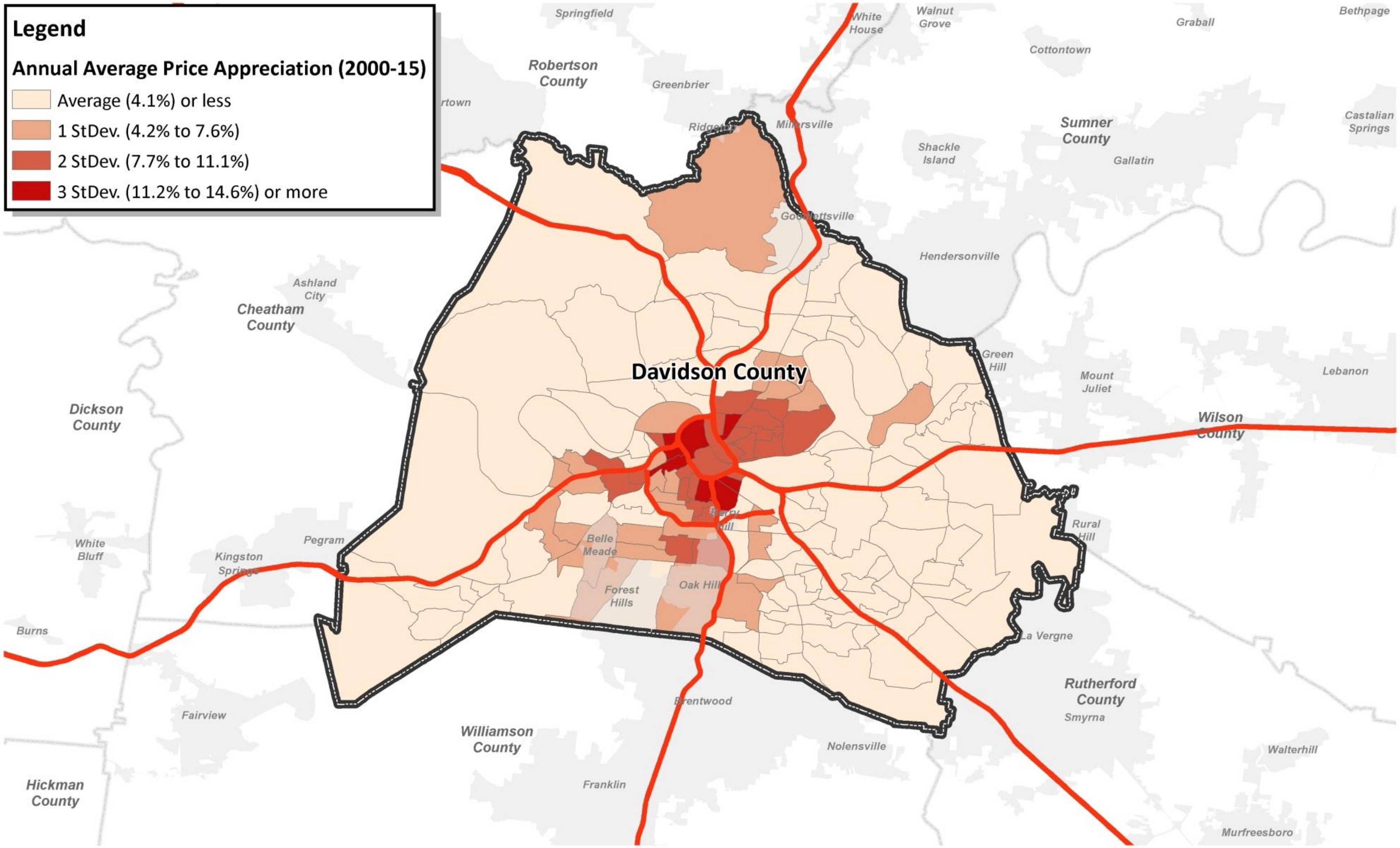
TCA § 5-9-113 (2015)

- 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]…”

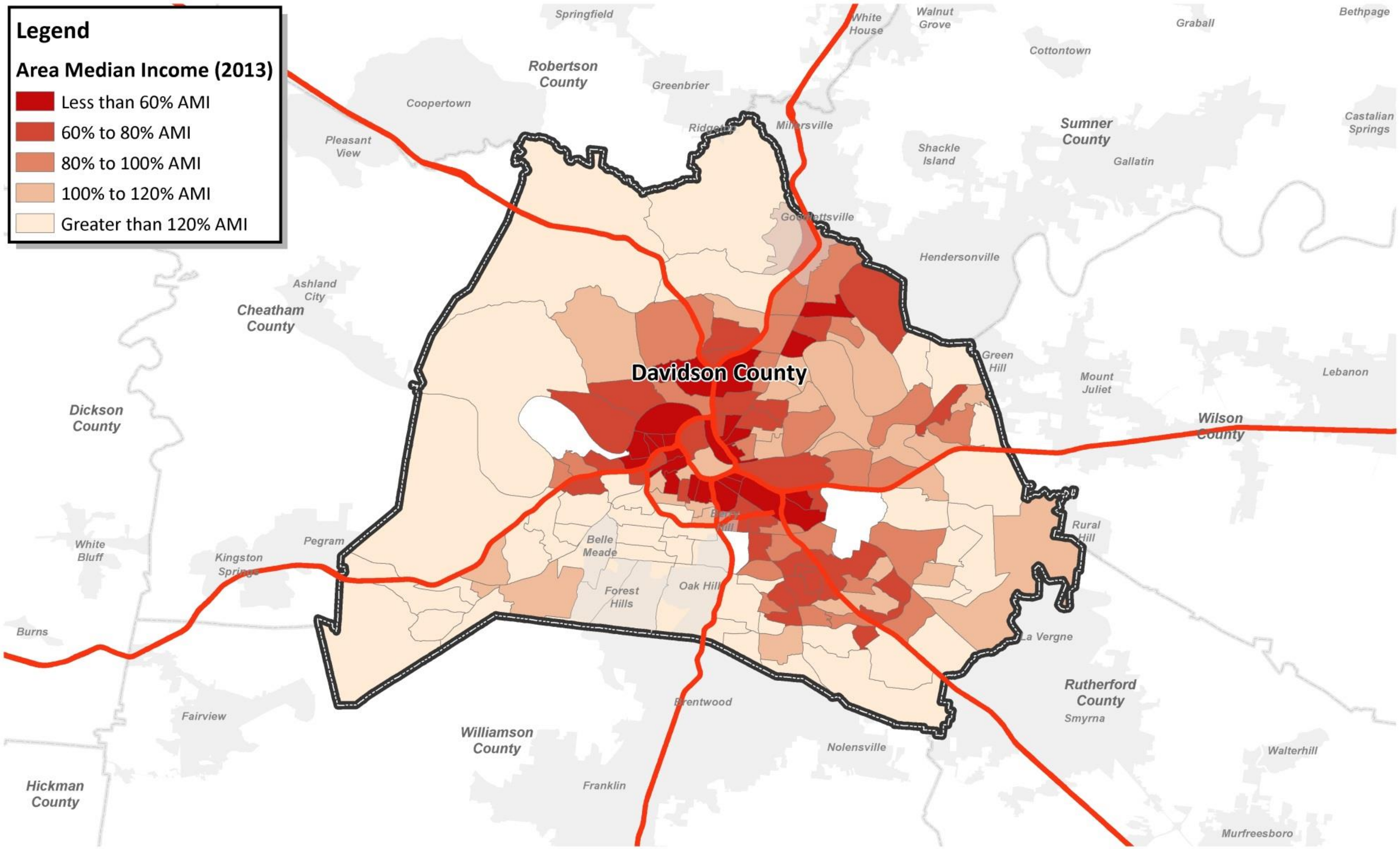
A look at some of the problems Nashville is facing

ECONOMIC CONDITIONS

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



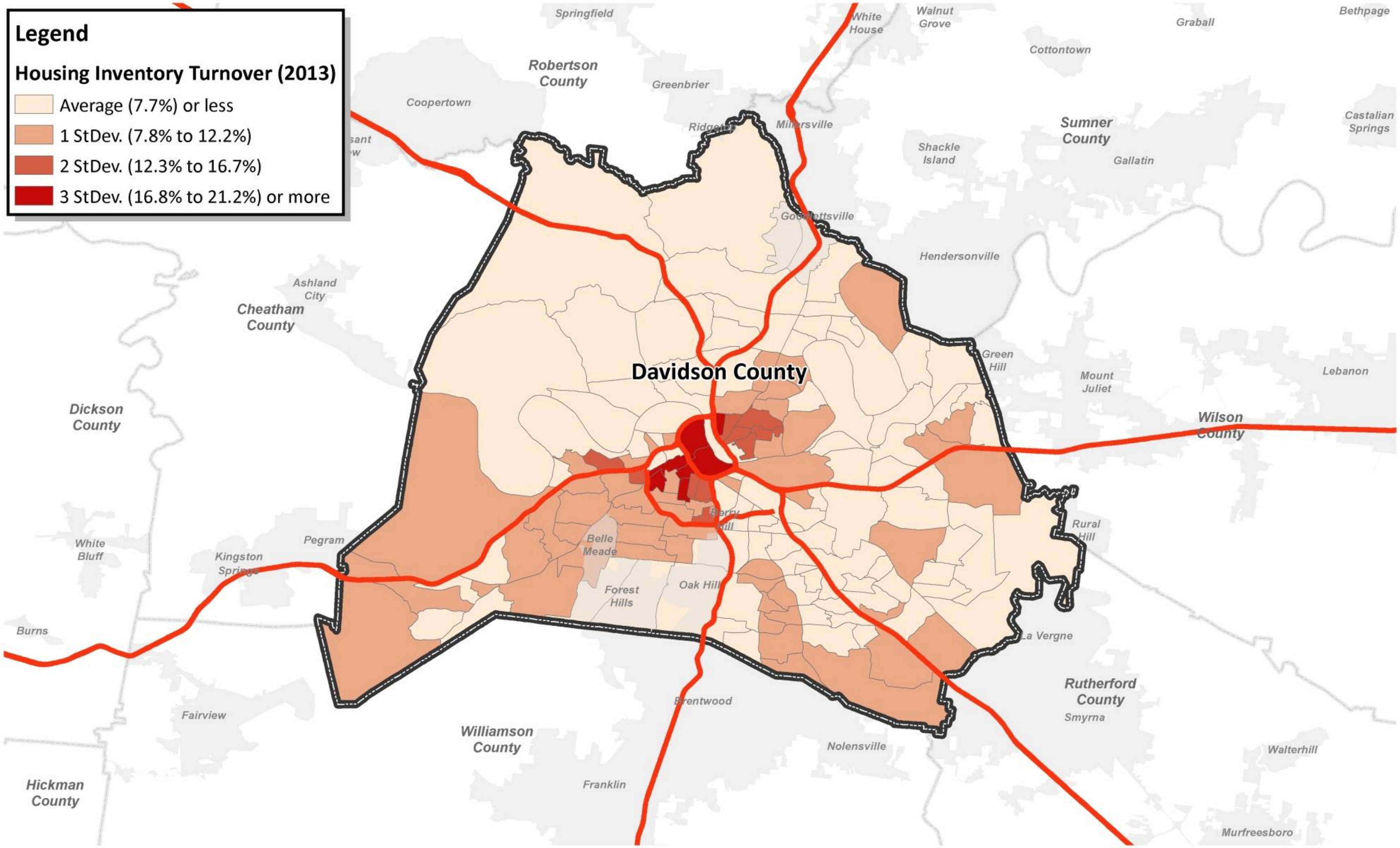
#2: Incomes



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
White House
Walnut Grove
Graball
Bethpage
Cottontown
Robertson County
Greenbrier
Coopertown
Millersville
Sumner County
Castalian Springs
Pleasant View
Shackle Island
Gallatin
Goodlettsville
Hendersonville
Ashland City
Cheatham County
Green Hill
Mount Juliet
Lebanon
Dickson County
Wilson County
Rural Hill
White Bluff
Kingston Springs
Pegram
Belle Meade
Forest Hills
Oak Hill
Burns
La Vergne
Rutherford County
Smyrna
Fairview
Brentwood
Williamson County
Nolensville
Walterhill
Hickman County
Franklin
Murfreesboro

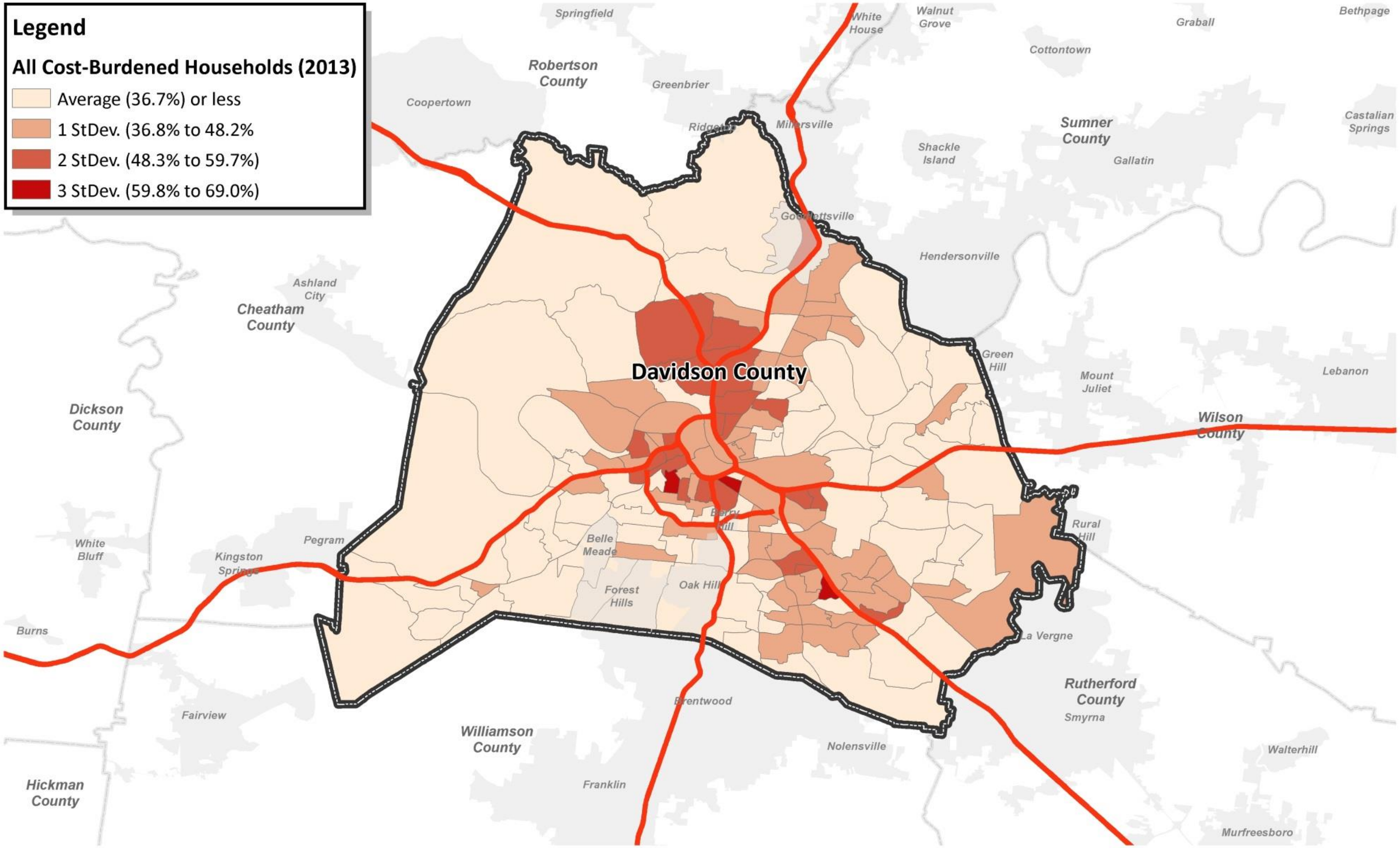
#3: Housing Inventory Turnover

(percent of housing stock selling in a year above average)



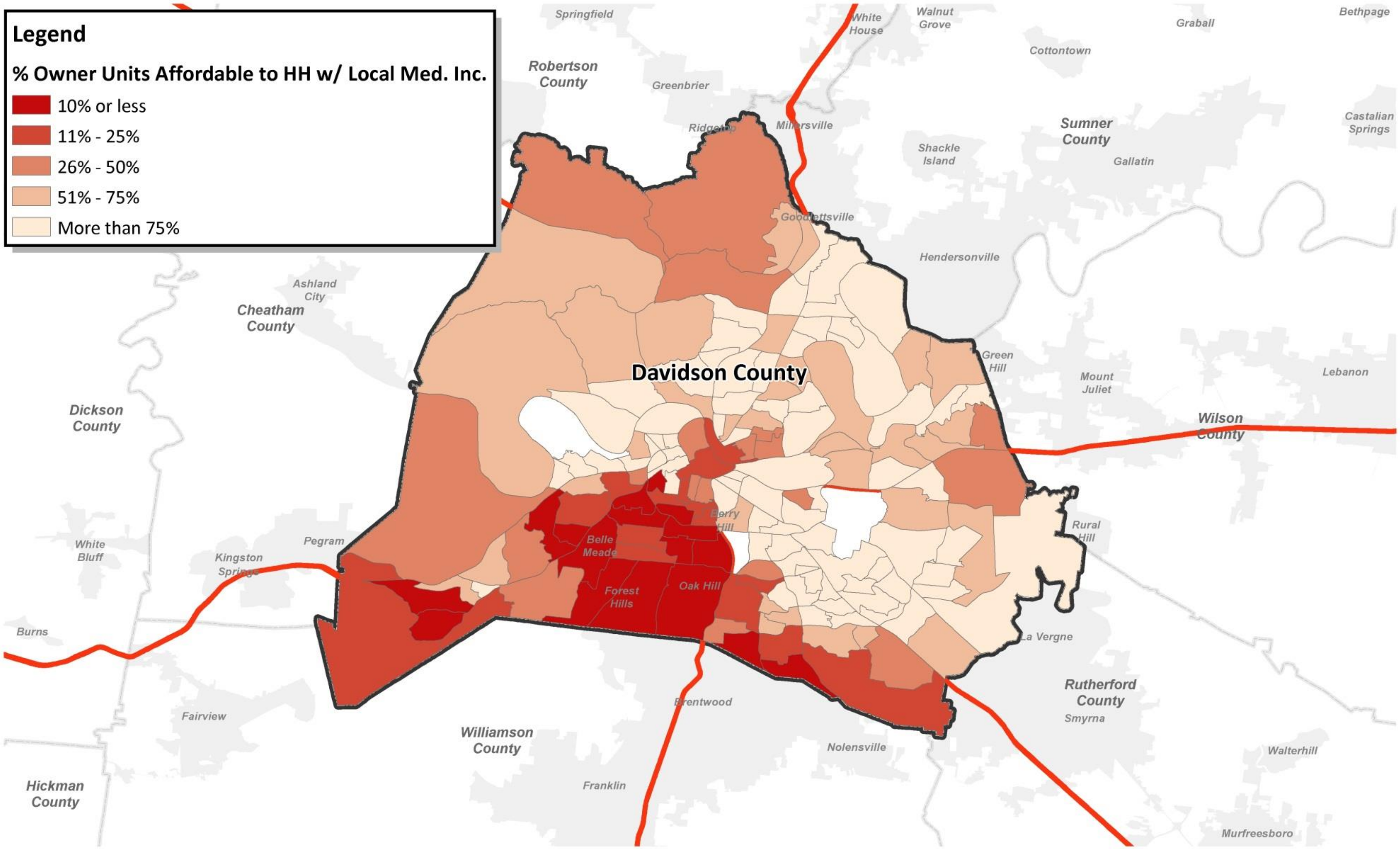
#4: Cost-Burdened Households

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



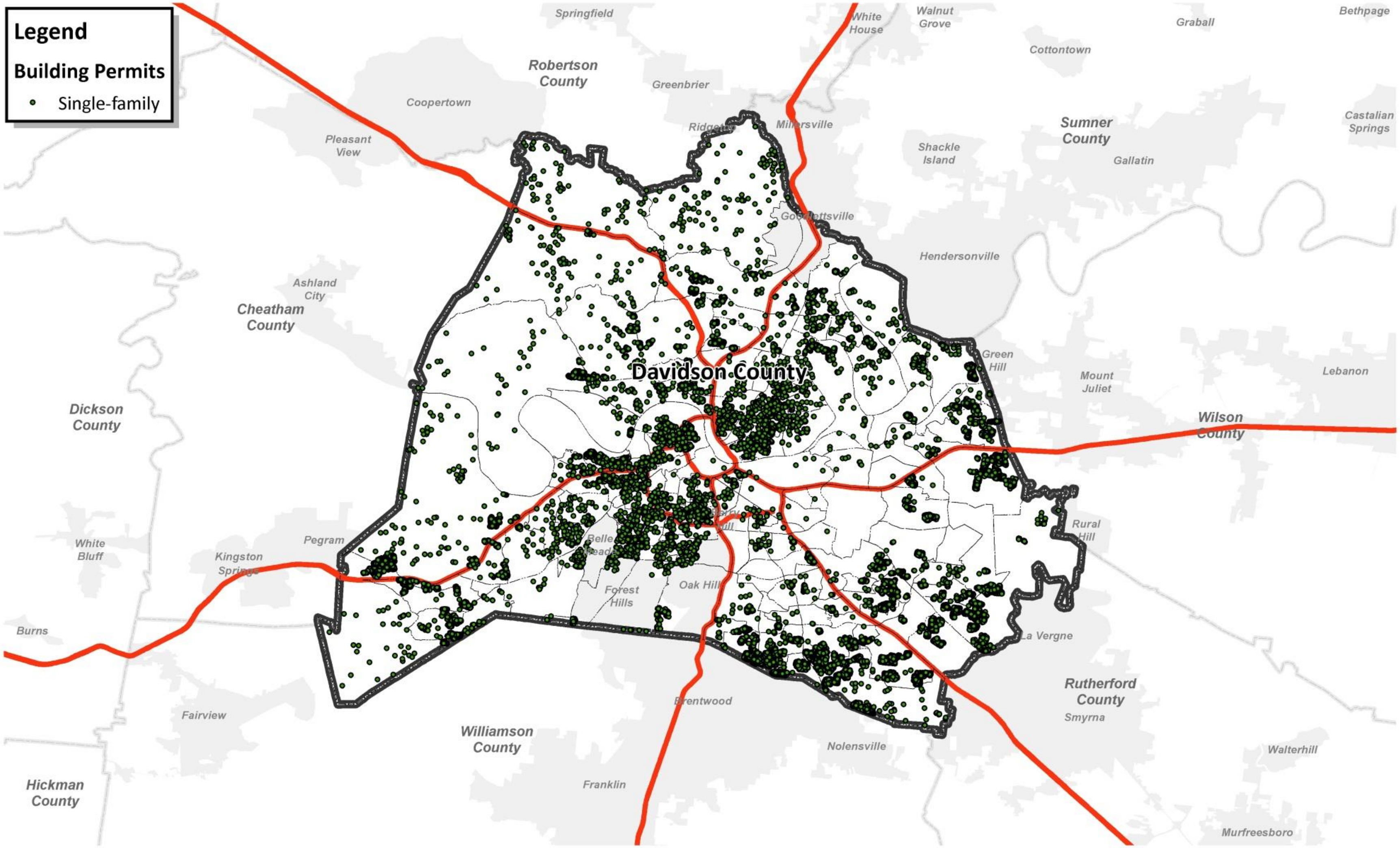
#5: Affordable Inventory

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

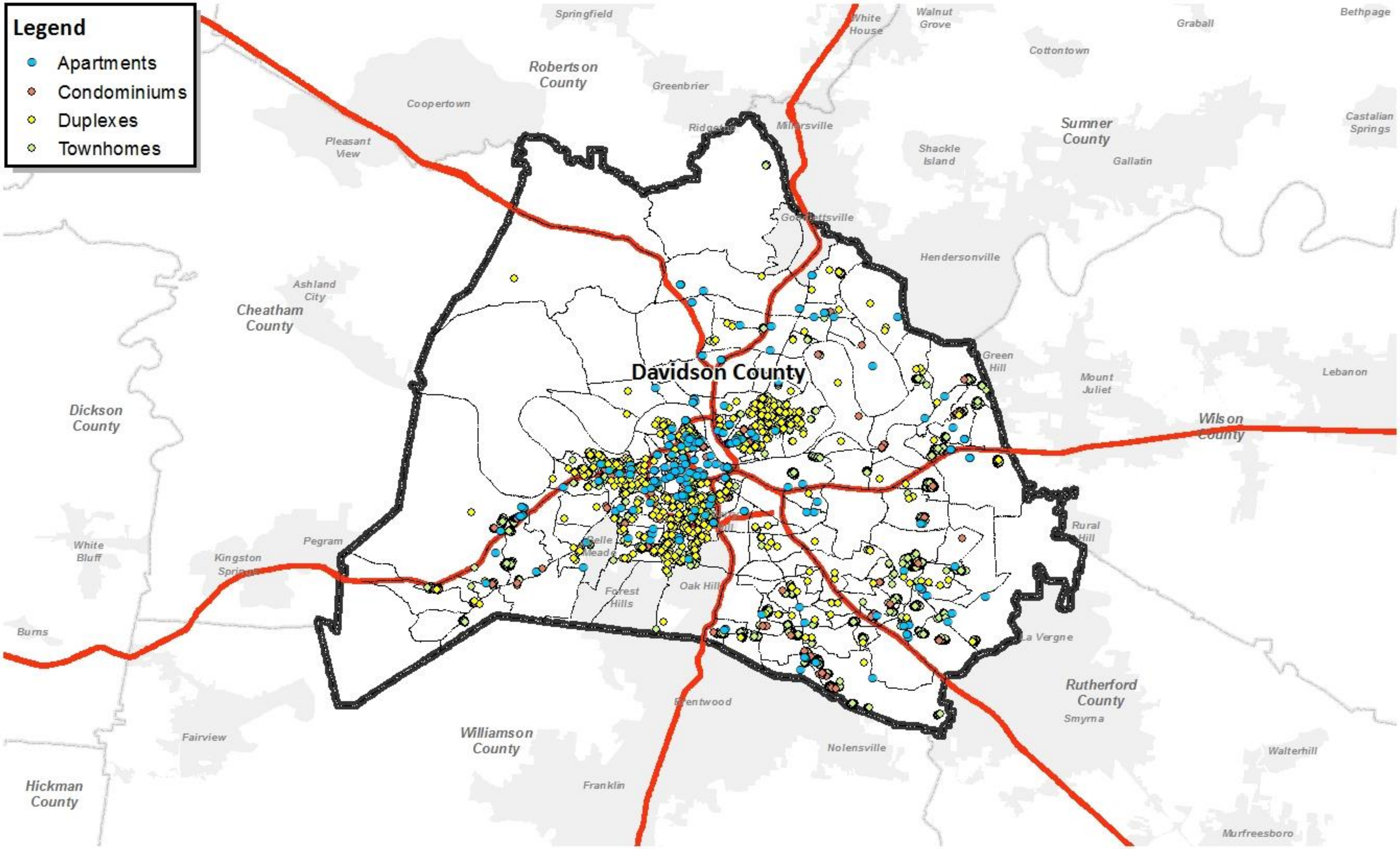


EPS

Single-family construction activity
(2000-2015)

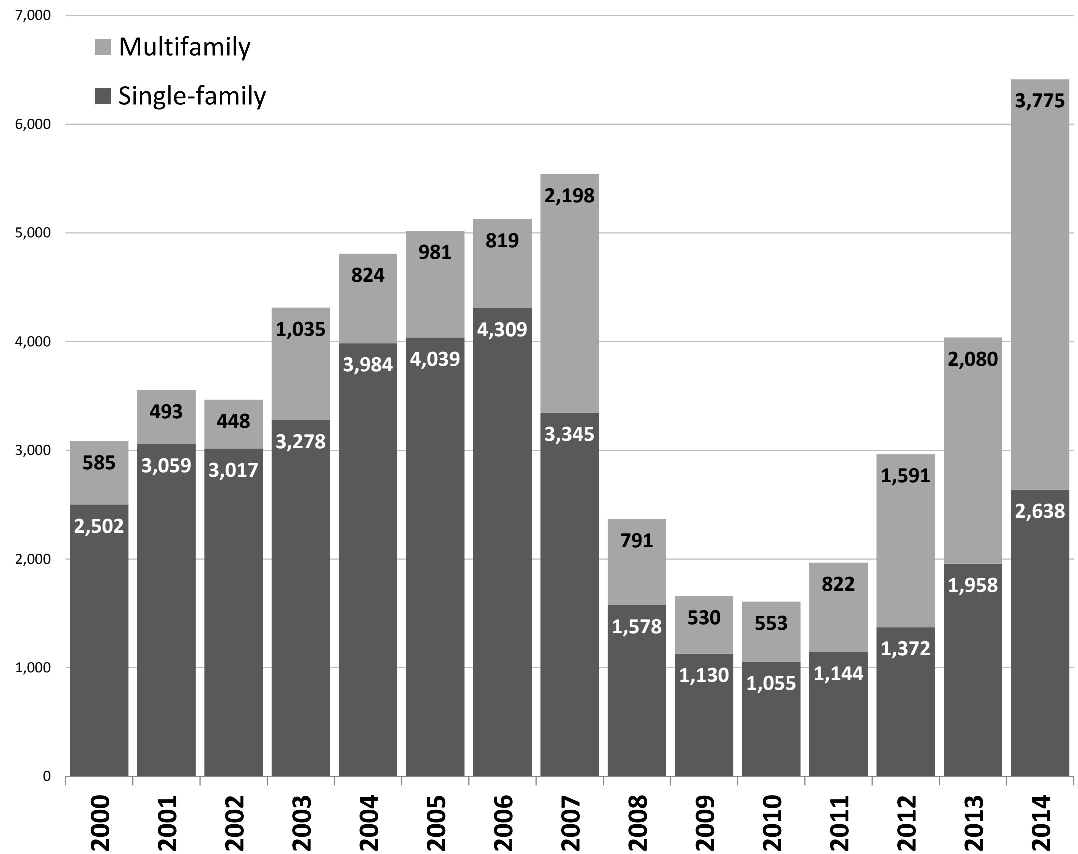


Multifamily construction activity
(2000-2015)

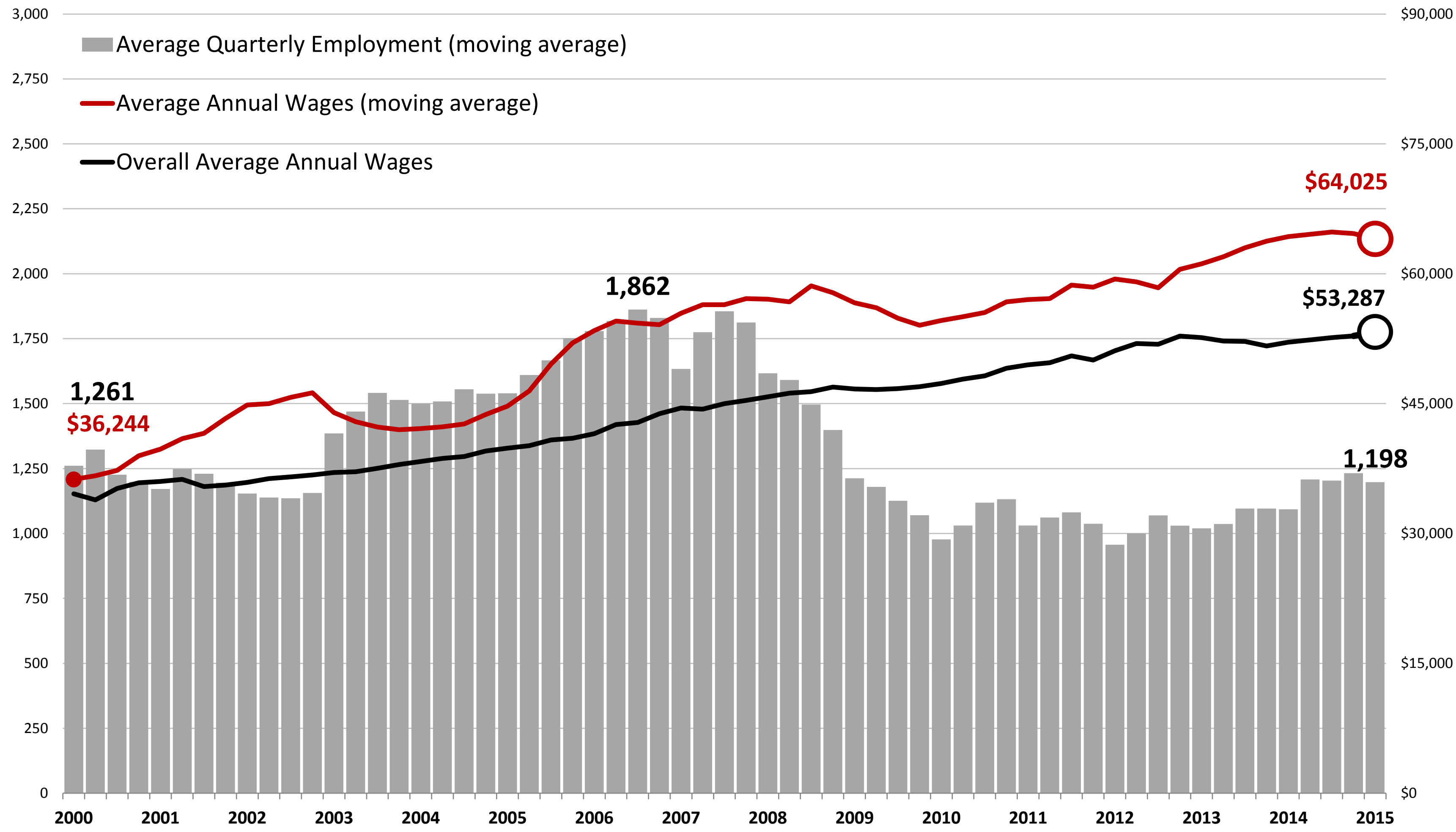


Building Activity (in units)
(Single-family vs. Multifamily construction)

- 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)

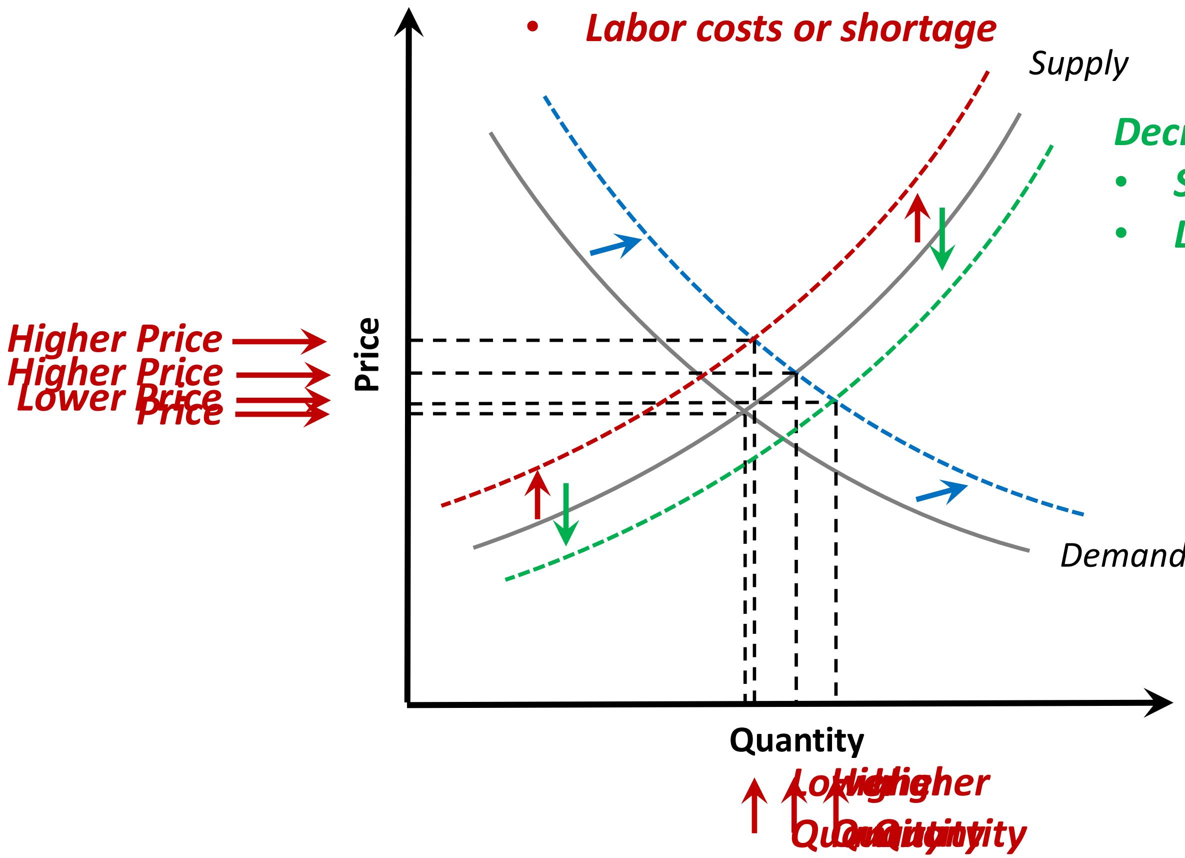
1. State rent control prohibition - TCA § 66-35-102 (2015)
   - *"A local government unit shall not enact, maintain or enforce an ordinance or resolution that would have the effect of controlling the amount of rent charged for leasing private residential or commercial property."*
2. "Disparate impact" 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)

Increased cost to build

- ***Land***
- ***Taxes or fees (i.e. linkage, etc.)***
- ***Labor costs or shortage***



Decreased cost to build

- ***Subsidies***
- ***Density***

Increased willingness to pay of buyers in market

- *More buyers*
- *In-migration*
- *Job / wage growth*

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

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)

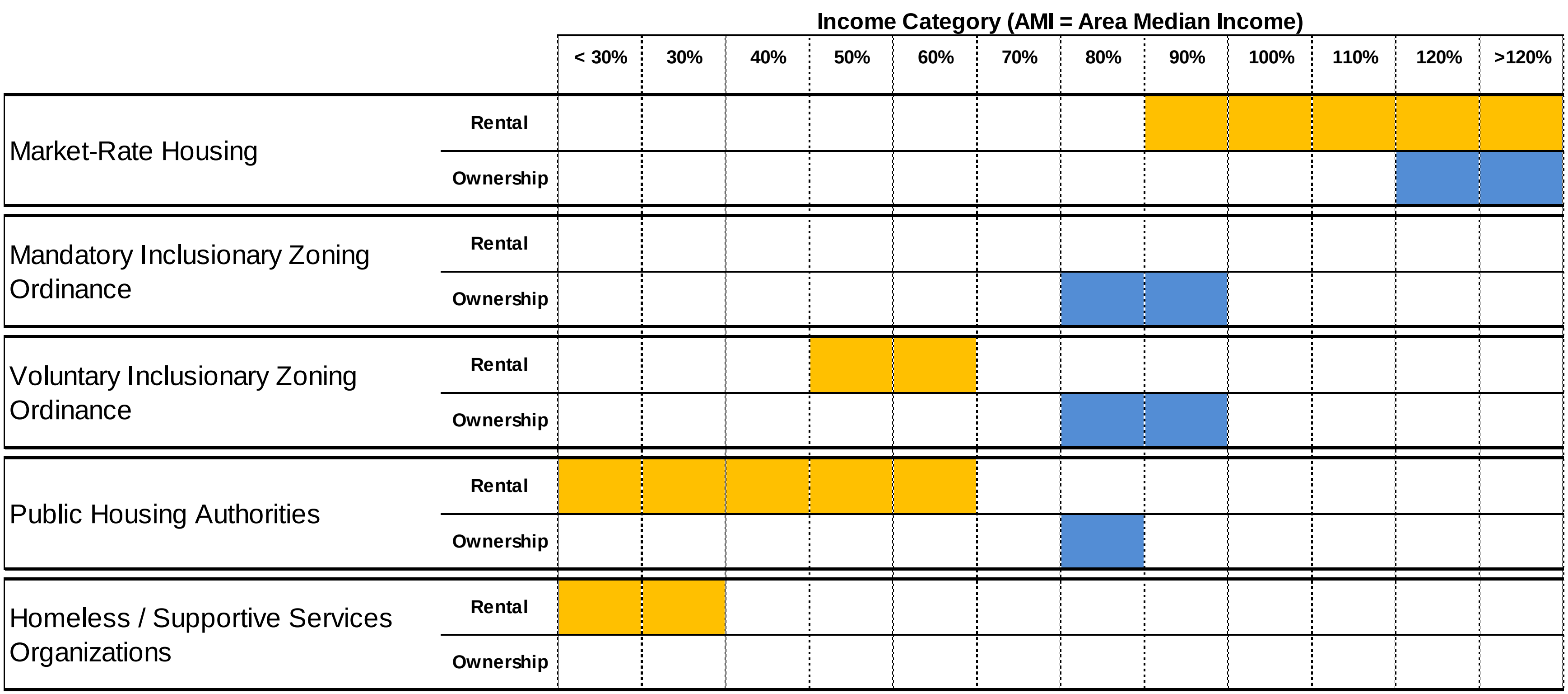
Attempts to influence the supply-side by leveraging a demand-side attribute

Funding Sources

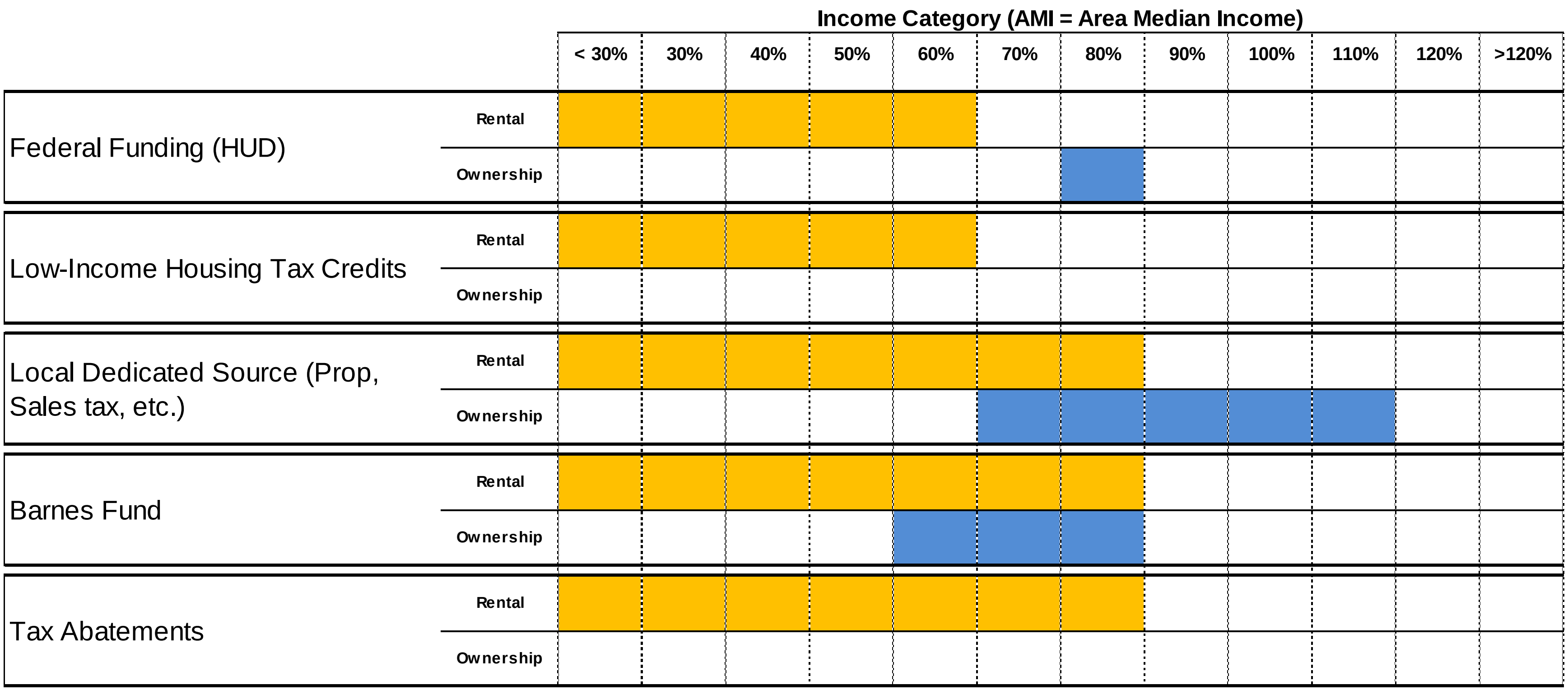
(Can be used most flexibly to address any and all housing needs)

- 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

Coverage of Policies by AMI



Coverage of Funding by AMI



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)

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%

	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)**
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

Source: Economic & Planning Systems