

# Nashville-Davidson Metro Housing Policy & Feasibility Study

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## Stakeholder Meeting #3

Presented by:

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# Agenda

- Scope of work
- Review of Major Policy Options
  - Mandatory & Voluntary Inclusionary Zoning Ord.
  - Dedicated Funding Source
- Recommendations
  - Dedicated Funding Source
  - Inclusionary Zoning Ordinance
  - Grants Program
  - Zoning Code changes
  - Enhanced Barnes Fund

# Scope of Work

- Housing Conditions
  - Market analysis
  - Affordability and need
- Stakeholder Input
  - Interviews
  - Subject matter focus groups
  - Stakeholder committee meetings
  - Public informational session
- Affordable Housing Policy Options
  - Regulatory
  - Funding
- **Feasibility Testing and Evaluation**
- **Recommendations**

# Approach to Recommendations

- Identify problems
  - Average housing costs have escalated more than 100% since 2000 (120% for new housing)
  - High rates of housing cost escalation countywide (highest rates in and around the inner loop)
  - High rates of housing turnover
  - Displacement of low-income renter households
- Approach
  - Examination of the problem and their causes
  - Targeted approaches to addressing them
  - Low-income household displacement (i.e. need for direct income or housing subsidies)
  - Rezoning process currently freely grants additional entitlements

# RECOMMENDATIONS

# 1) Dedicated Funding Source

## **Recommendation**

- Identify a robust, stable, and consistent funding source
- Approximately \$10 million / year
- Dedicate revenues for expanded Barnes Fund
- Community-wide affordability problem necessitates community-wide response and responsibility
- Solution is shared by community

## **Flexible Uses**

- Rehabilitation and maintenance needs
- Downpayment assistance
- Supportive services
- New production (rental and for-sale)
- Land acquisition

# 1) Impact of a Dedicated Funding Source

		\$5,000,000 / yr	\$10,000,000 / yr	\$15,000,000 / yr
	Factor			
<b>Annual Funds</b>				
Less: Administration Costs	8%	\$400,000 / yr	\$800,000 / yr	\$1,200,000 / yr
<b>Net Available for Affordable Housing Goals</b>		<b>\$4,600,000 / yr</b>	<b>\$9,200,000 / yr</b>	<b>\$13,800,000 / yr</b>
<b>Possible Allocation of Funding</b>				
For-Sale (New, at 80% AMI or lower)	20%	\$920,000	\$1,840,000	\$2,760,000
Rental (New, at 60% AMI or lower)	20%	\$920,000	\$1,840,000	\$2,760,000
Supportive Services (30% AMI or below)	20%	\$920,000	\$1,840,000	\$2,760,000
Acquisition/Rehab/Preservation	10%	\$460,000	\$920,000	\$1,380,000
Land	30%	\$1,380,000	\$2,760,000	\$4,140,000
<b>Total Production Capability (via subsidies)</b>				
For-Sale (New)	\$20,000 / unit	46	92	138
Rental (New)	\$15,000 / unit	61	123	184
Acquisition/Rehab/Preservation	\$12,500 / unit	<u>37</u>	<u>74</u>	<u>110</u>
<b>Total Units</b>		<b>144</b>	<b>288</b>	<b>432</b>
<b>Land (acres)</b>	\$75 / sqft	<b>0.42 acres</b>	<b>0.84 acres</b>	<b>1.27 acres</b>

## 2) Mandatory Inclusionary Zoning Option

### Advantages

- Easy to implement
- Mandatory
- Produces units in high-priced, hot real estate market
- Produces units through private development

### Production Estimate

- ~60 units per year in current market
- ~110 units in typical market

### Disadvantages

- Would not apply to rental projects
- Likely to impact small portion of current housing market
- Feasibility analysis indicates uncertain market acceptance of deed restrictions
- Places the burden of citywide problem on narrow segment of market
- May have negative impact on overall market rate housing
  - Developers shift “lost” revenues to market-rate units (increases would range 3% to 5%)

## 2) Voluntary Inclusionary Zoning Option

### Advantages

- Easy to implement
- Can apply to all new housing
- Can employ Grants Program as incentive for rental projects
- Developers can assess whether or not incentives will work under specific project circumstances

### Disadvantages

- Only works if incentives are compelling enough
- Feasibility analysis indicates uncertain market acceptance of deed restrictions
  - Supports the more flexible, voluntary compliance approach
  - More DPA funding in-lieu of DRs
- Places the burden of remedying affordable housing need on narrow segment of market

### Production Estimate

- ~90-100 units per year

# Production Consideration

Inclusionary Policy	<u>Current Market</u> (60% Rental)		<u>Typical Market</u> (30% Rental)	
	Mandatory	Voluntary	Mandatory	Voluntary
<b>Average Annual Residential Construction (Units)</b>	<b>3,500</b>	<b>3,500</b>	<b>3,500</b>	<b>3,500</b>
For-Sale (includes multifamily)	40%	40%	70%	70%
Rental	60%	60%	30%	30%
For-Sale (includes multifamily)	1,400	1,400	2,450	2,450
Rental	2,100	2,100	1,050	1,050
<b>Applicable to Policy</b>	<b>1,400</b>	<b>3,500</b>	<b>2,450</b>	<b>3,500</b>
% Projects w/ 5+ Units	60%	70%	60%	80%
<b>Units in Projects Above Trigger Point</b>	<b>840</b>	<b>2,450</b>	<b>1,470</b>	<b>2,800</b>
% Projects Opting to Build Affordable	50%	25%	50%	25%
% Projects Paying Fee in-Lieu	50%	25%	50%	25%
<b>Units in Projects Contributing Affordable Units</b>	<b>420</b>	<b>613</b>	<b>735</b>	<b>700</b>
Set-Aside Requirement	15%	15%	15%	15%
<b>Estimate of Affordable Units Built</b>	<b>63</b>	<b>92</b>	<b>110</b>	<b>105</b>
<b>Projects Contributing Fee in-Lieu</b>				
Fee in-Lieu (per for-sale unit)	\$75,000	\$75,000	\$75,000	\$75,000
Estimated Fees in-Lieu	\$4,725,000	\$6,890,625	\$8,268,750	\$7,875,000

## 2) Inclusionary Zoning Recommendation

### Geography Applicability

- Countywide
- Highest incentives targeted to UZO, collectors, arterials
  - Allows for flexibility of future corridors, including transit
  - Informed by analysis of economic and housing market conditions

### Trigger Point

- When a project requests entitlements beyond by-right zoning
  - Would apply to projects including infill (could be as little as 5 units)
- When a project receives public financing (e.g. TIF)
- Residential or non-residential

### Set-Aside

- Applicable to residential (or mixed-use) projects
  - Single-Family, THs, Low-rise multifamily = 20%
  - Mid-rise multifamily (Steel/concrete const., 7 to 19 stories) = 15%
  - High-rise (e.g.  $\geq 20$  stories) = 10%
- Applicable to non-residential projects provide 30% of bonus floor area

### Incentives

- \$20,000 / for-sale affordable unit built
- Grants Program (equal to predevelopment tax level) for a rental project
- Incentives also available to any project that builds appropriate % affordable housing (even if not seeking additional entitlements)

## 2) Inclusionary Zoning Recommendation

	Inside UZO and along collectors, arterials	Outside UZO
<b>Applicability</b>		
<b>Trigger</b>	A project: --seeks entitlements beyond by-right --receives public financing (e.g. TIF)	A project: --seeks entitlements beyond by-right --receives public financing (e.g. TIF)
<b>Scale</b>	generally $\geq 5$ units	generally $\geq 5$ units
<b>Type</b>	Residential & Non-Residential	Residential & Non-Residential
<b>Affordable Housing Set-Aside</b>	10% to 20% (depending on const. type)	10% to 20% (depending on const. type)
<b>Affordability Duration</b>		
For-Sale Projects	30 years	30 years
Rental Projects	15 years	15 years
<b>Affordability Level</b>		
For-Sale Projects	80% AMI	80% AMI
Rental Projects	60% AMI	60% AMI
<b>Incentives</b>		
For-Sale Projects	\$20,000 per affordable unit built	\$10,000 per affordable unit built
Rental Projects	Grants Program	Grants Program
<b>Payment in-lieu</b>		
For-Sale Projects	75% of Affordable Sales Price	50% of Affordable Sales Price
Rental Projects	Equivalent to Above	Equivalent to Above

# Production in Excess of Voluntary IZ

		\$5,000,000 / yr	\$10,000,000 / yr	\$15,000,000 / yr
	Factor			
<b>Annual Funds</b>				
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<b>Total Units</b>		<b>144</b>	<b>288</b>	<b>432</b>
<b>Estimated Production through Voluntary IZ</b>				
For-Sale (New)		37	37	37
Rental (New)		55	55	55
<b>Production in Excess of Voluntary IZ</b>				
For-Sale (New)	\$20,000 / unit	9	55	101
Rental (New)	\$15,000 / unit	6	68	129
Acquisition/Rehab/Preservation	\$12,500 / unit	37	74	110
<b>Total Units</b>		<b>52</b>	<b>196</b>	<b>341</b>
<b>Land (acres)</b>	\$75 / sqft	<b>0.42 acres</b>	<b>0.84 acres</b>	<b>1.27 acres</b>

# 3) Grants Program

## Advantages

- Functions like tax abatement
- Provides significant financial incentives to affordable rental housing projects
- Modeled already in Chattanooga and Memphis (downtown, and applicable to projects with >50 units)

## Disadvantages

- Private developers likely need to partner w/ non-profit for ongoing affordability compliance
- City should be aware of magnitude of potential usage and set annual potential cap

## Situation

- Available to residential or mixed-use projects
- Applicable to rental projects providing 10% to 20% affordable units
- To be eligible, the building renovations, site improvements, or new construction must be at least 50% rental (residential)
- Equal to freezing property taxes at the predevelopment level for 15 years
- Total amount of grant availability included in Metro's budget

# Zoning Modifications

1. Downtown Code
  - Reprioritize affordable / workforce housing bonus height option
  - Look into elimination of other options (e.g. LEED, parking garage liner, open space) that the market would or should otherwise provide
2. §17.12.070 – Special floor area ratio (FAR) provisions
  - Eliminate most other options (e.g. residential, parking bonuses)
  - Add affordable housing bonus
  - Parking should apply to FAR
3. §17.12.035(B) – Street setbacks within the urban zoning overlay district
  - 17.12.060.F Special Height Regulations for All Uses (Excluding Single-Family and Two-Family Dwellings) Within the Urban Zoning Overlay District
  - Currently requires BZA approval for a Special Exception to setback or additional height
  - Allow project to come closer to ROW or obtain add'l height if providing Affordable Housing
4. Commercial Services District – “Adaptive Residential”
  - Currently allows unlimited residential
  - Attribute FAR limits in accordance with MUL, MUG, and MUI districts

# Other Zoning Modifications

5. §17.40 Article III – Amendments to Zoning Code or Official Zoning Map
  - Require that any amendment that adds entitlements, including new uses, to the zoning code or official zoning map be accompanied by the provision of affordable housing in accordance with the Inclusionary Zoning Ordinance
6. §17.40.100-106 – Specific Plan (SP) districts
  - Currently allows a project to specify uses, bulk site plan, standards, etc.
  - Add subsection that clarifies that a project must provide affordable housing in accordance with the Inclusionary Zoning Ordinance
7. Review existing UDOs and remove various bonuses
  - Add affordable housing bonuses

# Organizational Recommendations

## Organizational Recommendation

### 1. Expand Authority of the Barnes Fund

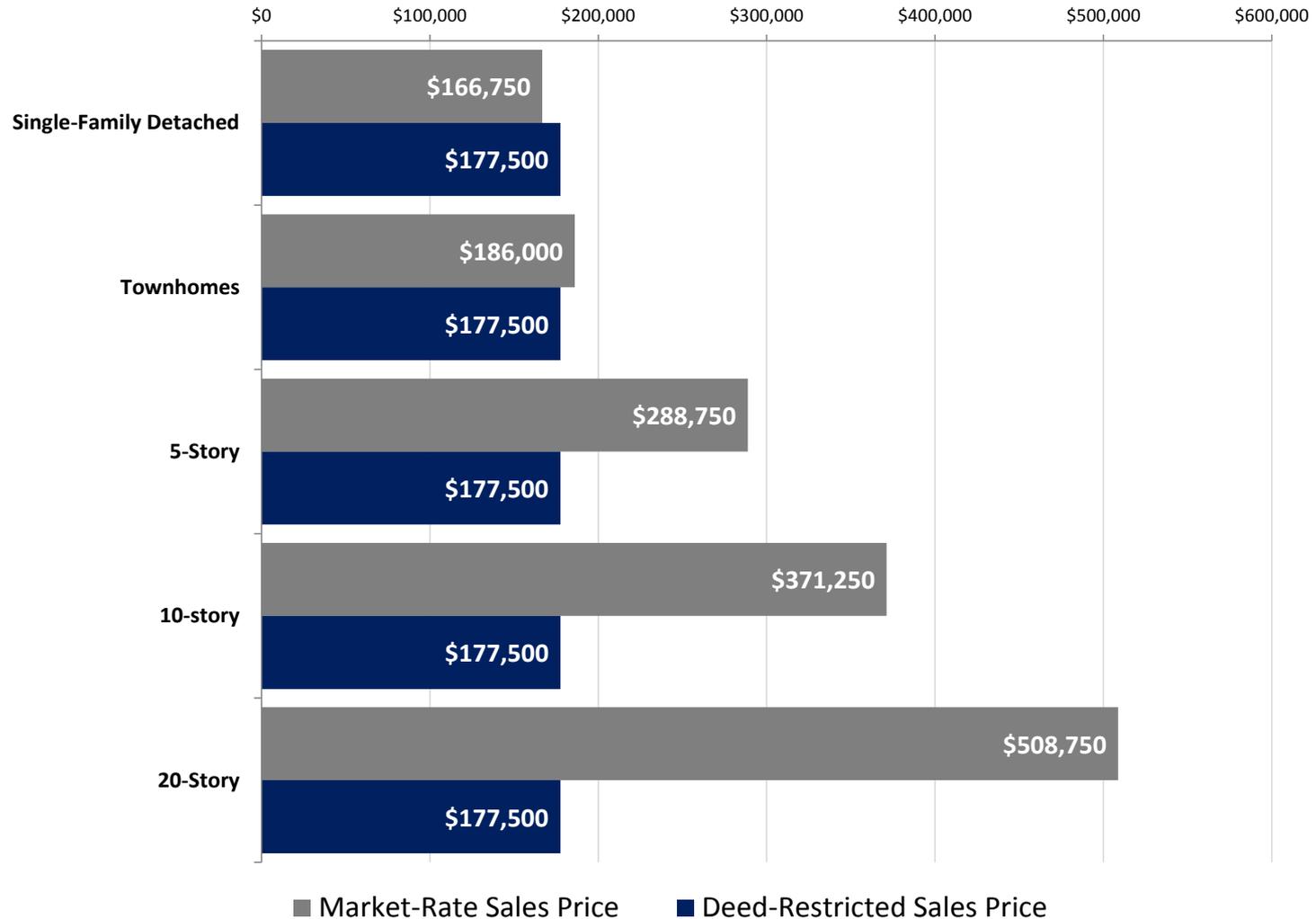
- Authorized to receive entirety of local dedicated funding source
  - Limited portion for administration ( $\leq 8\%$ )
    - Expanded staffing implication
  - Remainder for program ( $\geq 92\%$ )
    - Identify analytical-, community needs-, priority-based process by which allocation of funding is established
    - Identify process by which funds are distributed (via competitive NOFA, grants, etc.)
- Re-authorized as a community land trust with powers to:
  - Acquire land
  - Develop land for affordable housing (for-sale or rental)
  - Own and operate affordable housing
  - Maintenance assistance program
  - Administer a downpayment assistance program
- Structure MOU with non-profit partners to make loans with funds

# ADDITIONAL MATERIAL

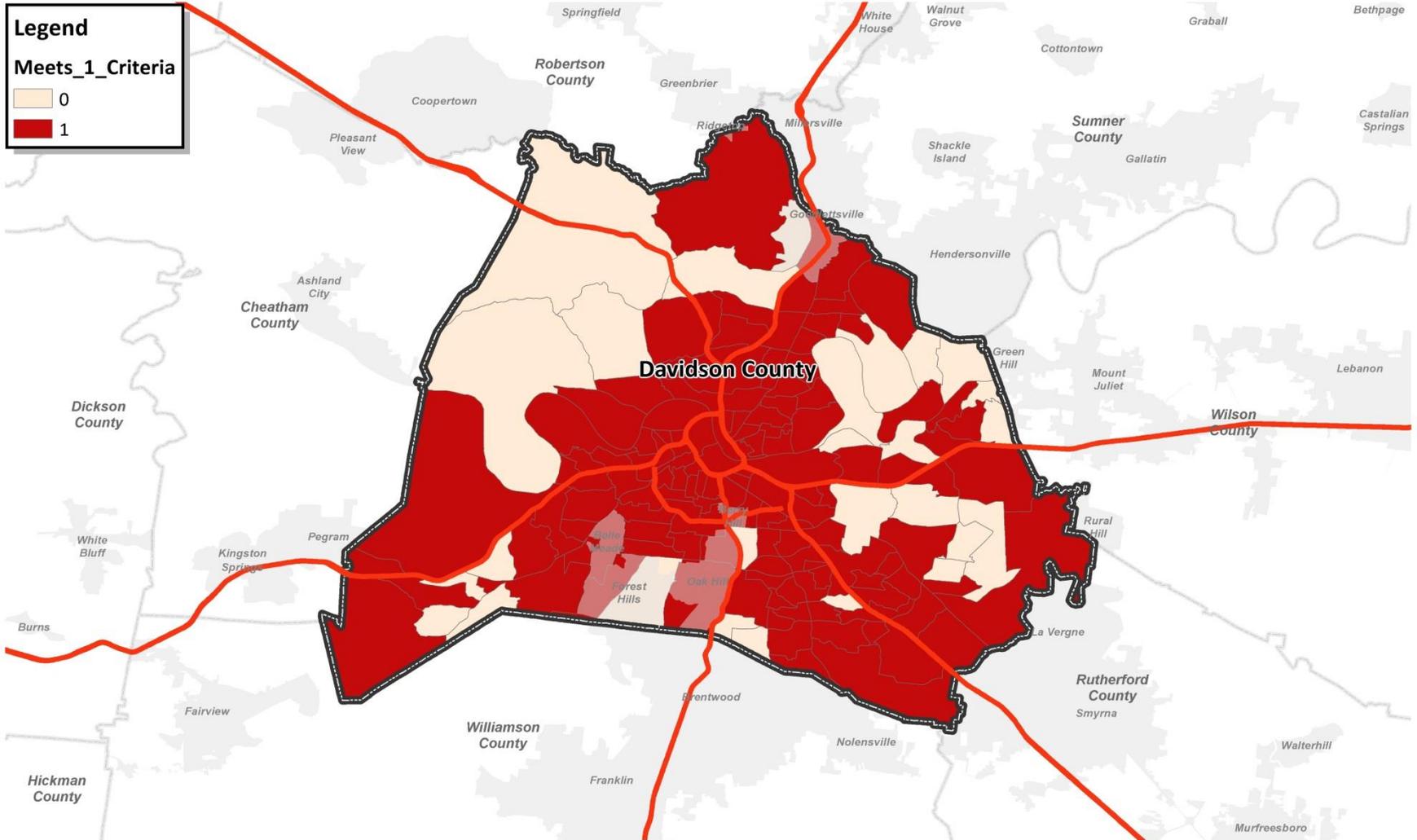
# Inclusionary Zoning Issues

- Uncertain market acceptance of deed-restricted units
  - 6,184 sales in 2015 (through beginning of September)
    - 2,308 (37% priced  $\leq$  \$203,450 or 100% AMI, \$56,900 for household of 2.5 persons)
    - 1,797 (29% priced  $\leq$  \$177,500 or 80% AMI, \$45,500)
  - Too much overlap between market-rate and deed-restricted housing
  - Communities with mandatory policies generally have  $\leq$ 10% sales affordable to 100% AMI or less
- Effect on overall housing costs
  - Not significant in saturated high-cost communities (e.g. San Francisco, resorts, etc.)
  - Community-wide increase in housing costs of 3 to 5% in more moderate or lower-priced markets
- Common result of mandatory zoning by construction scale
  - Lower-cost / lower-price construction (low-rise MF, SFD, SFA): too much overlap as mentioned above
  - Higher-cost / higher-priced construction (mid- to high-rise MF): gap too wide and can't be subsidized enough; developers will pay fee in-lieu
  - Result is units don't get put in place where they are desired

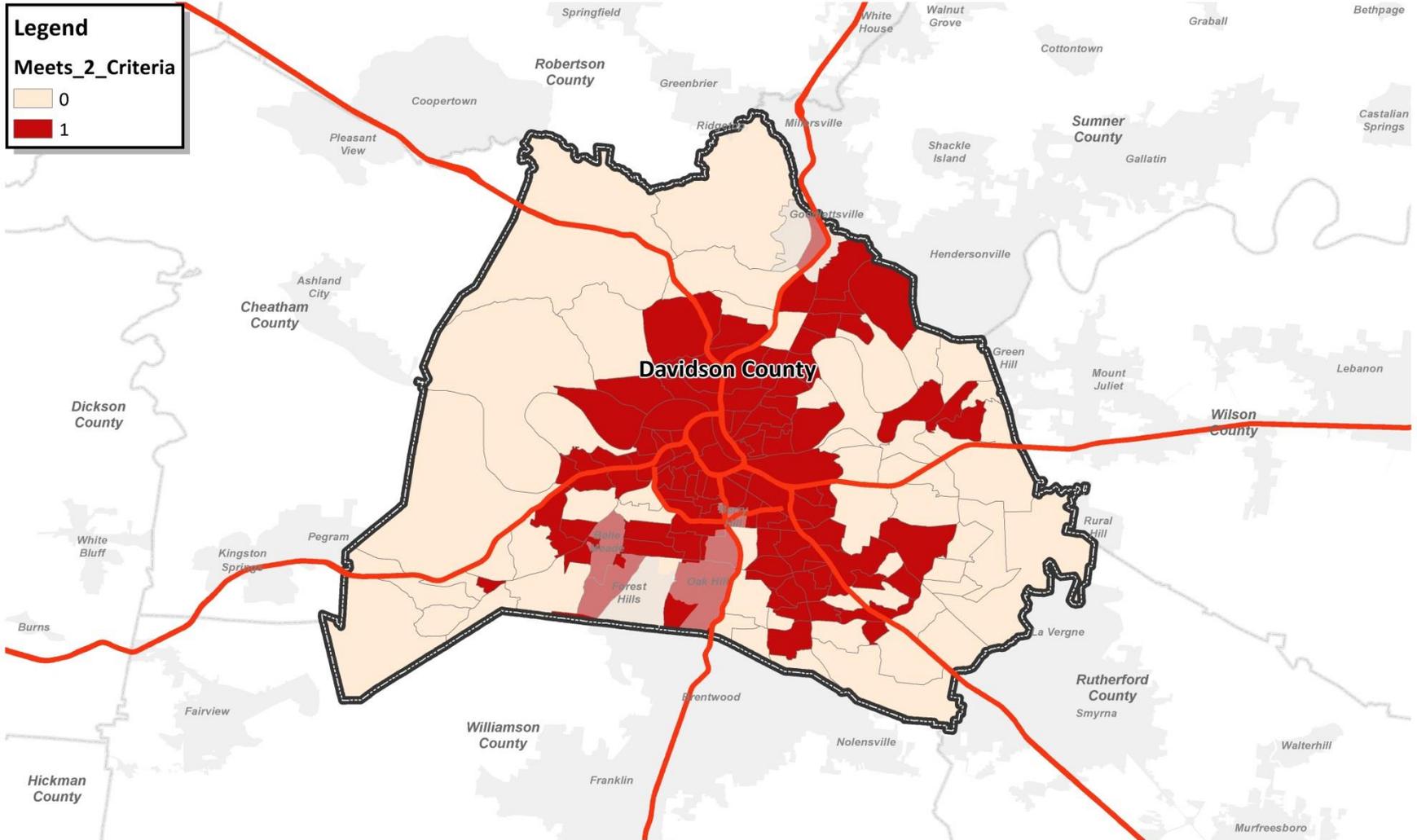
# Market-Rate & Deed-Restricted Pricing



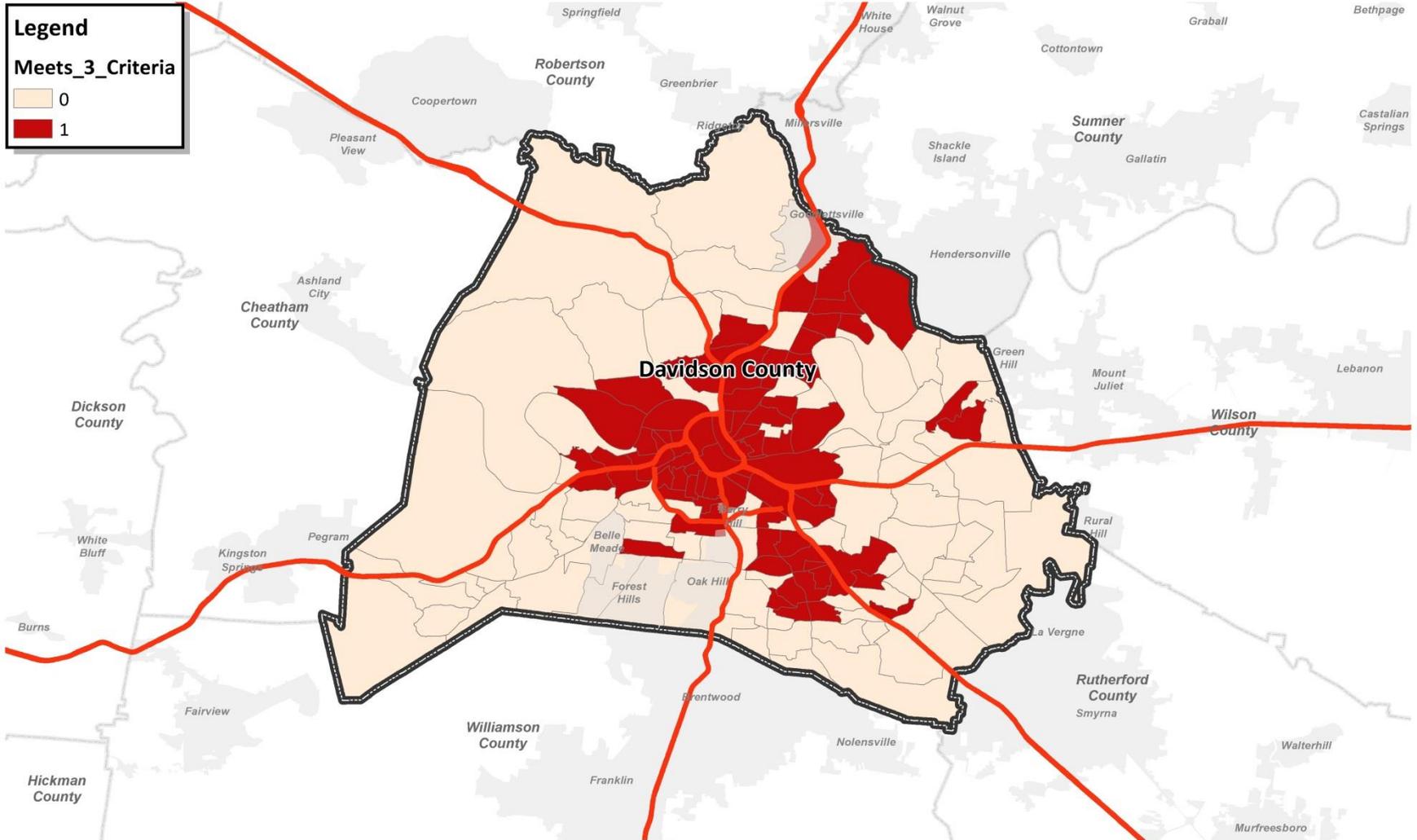
# Meets 1 Criteria



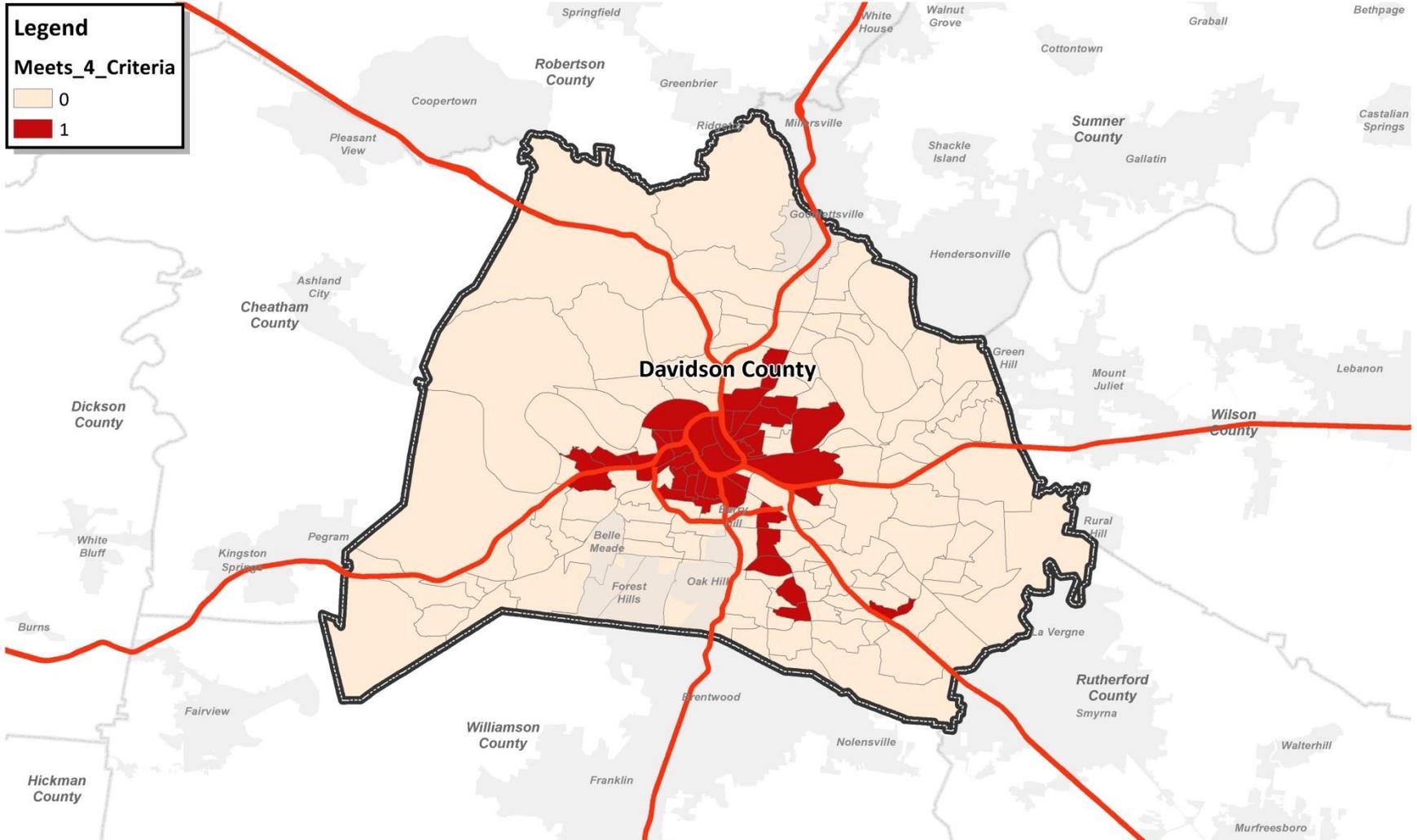
# Meets 2 Criteria



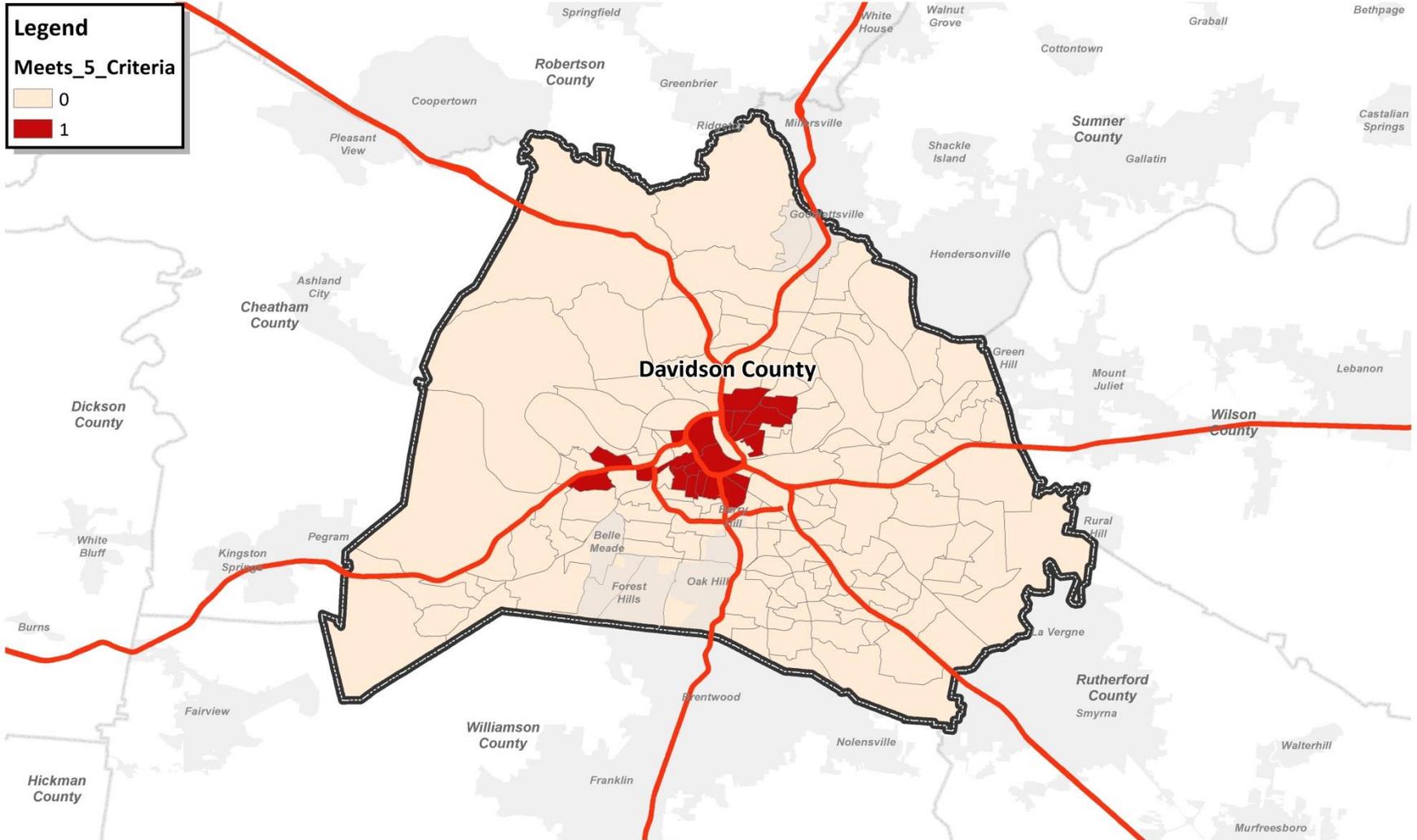
# Meets 3 Criteria



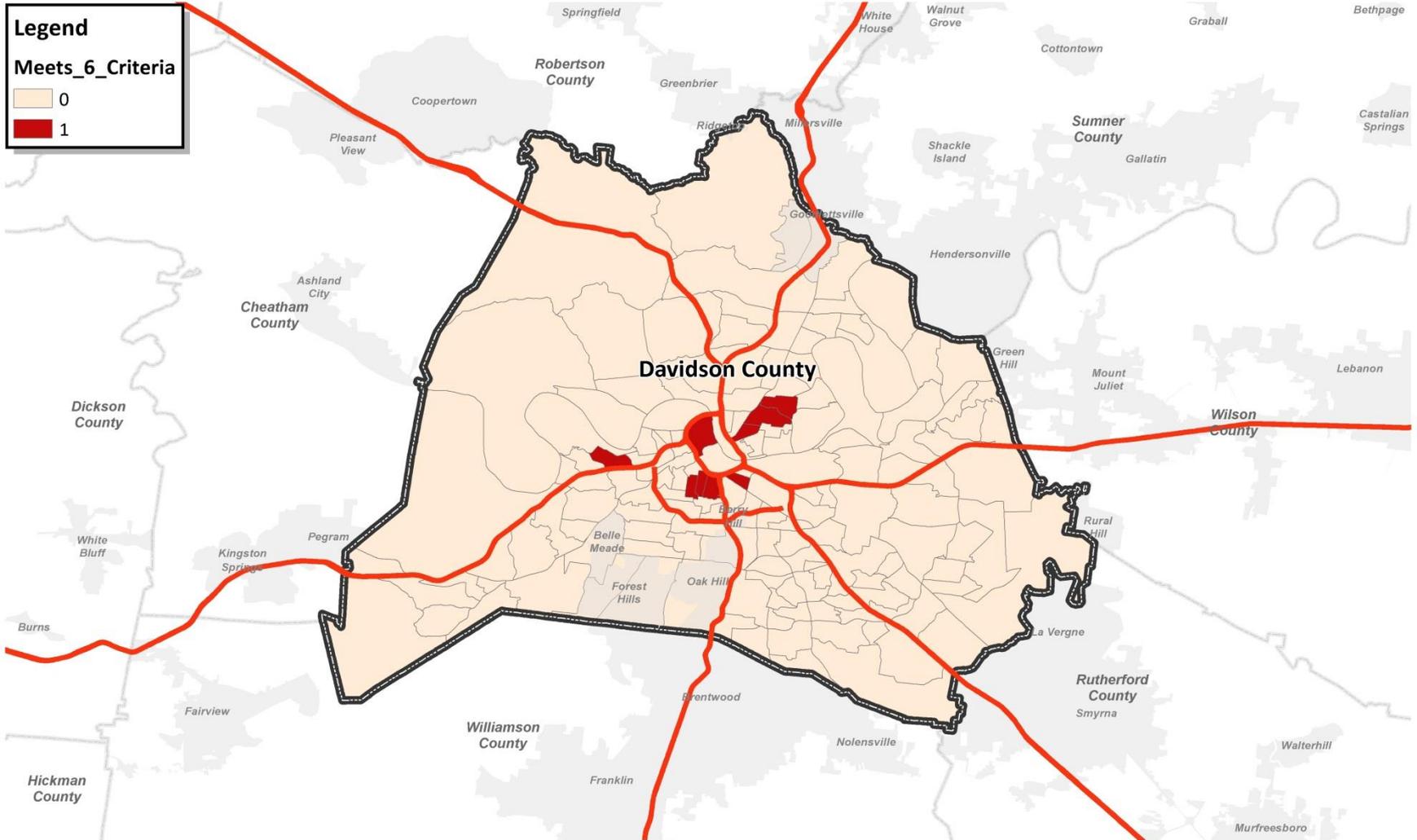
# Meets 4 Criteria



# Meets 5 Criteria



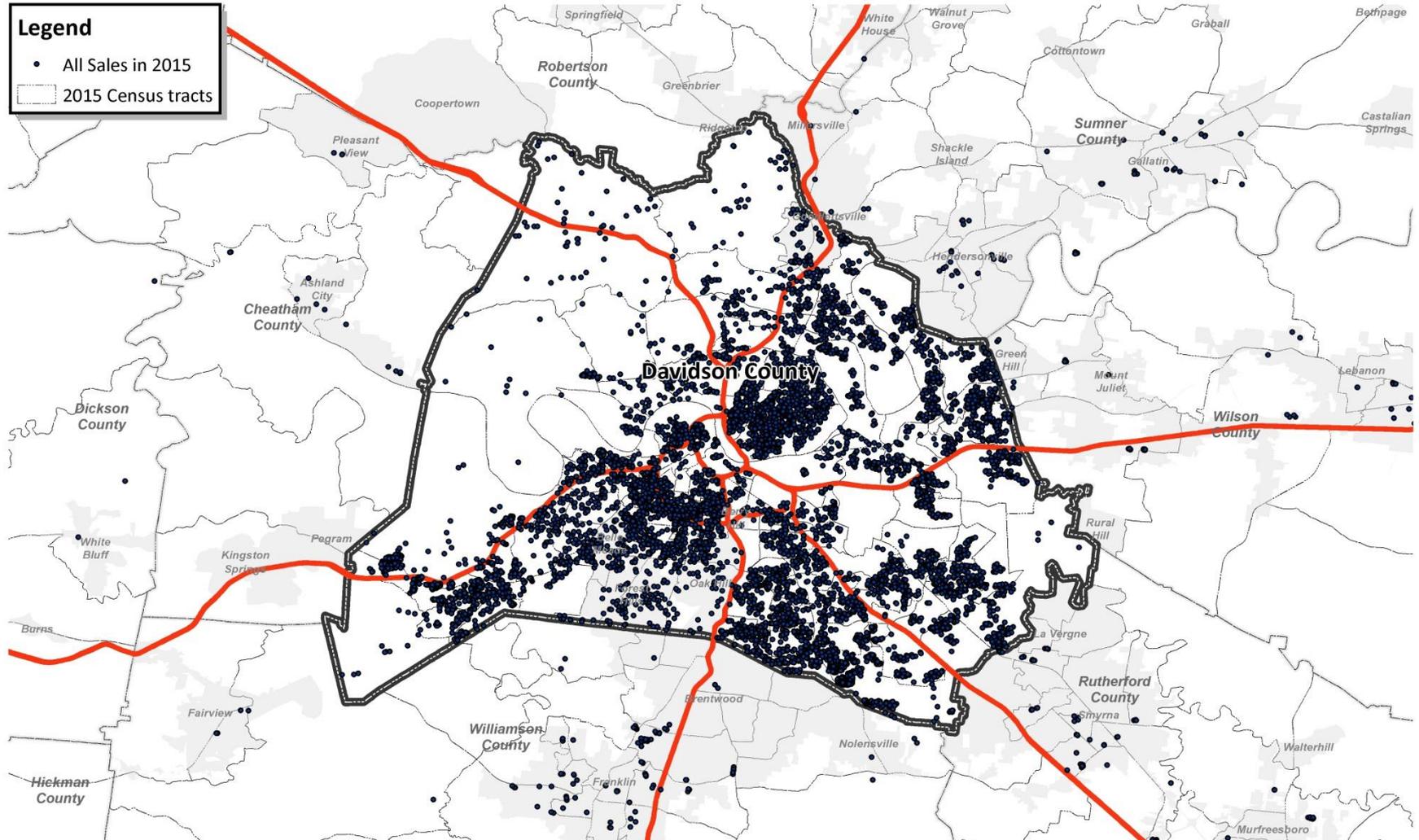
# Meets 6 Criteria





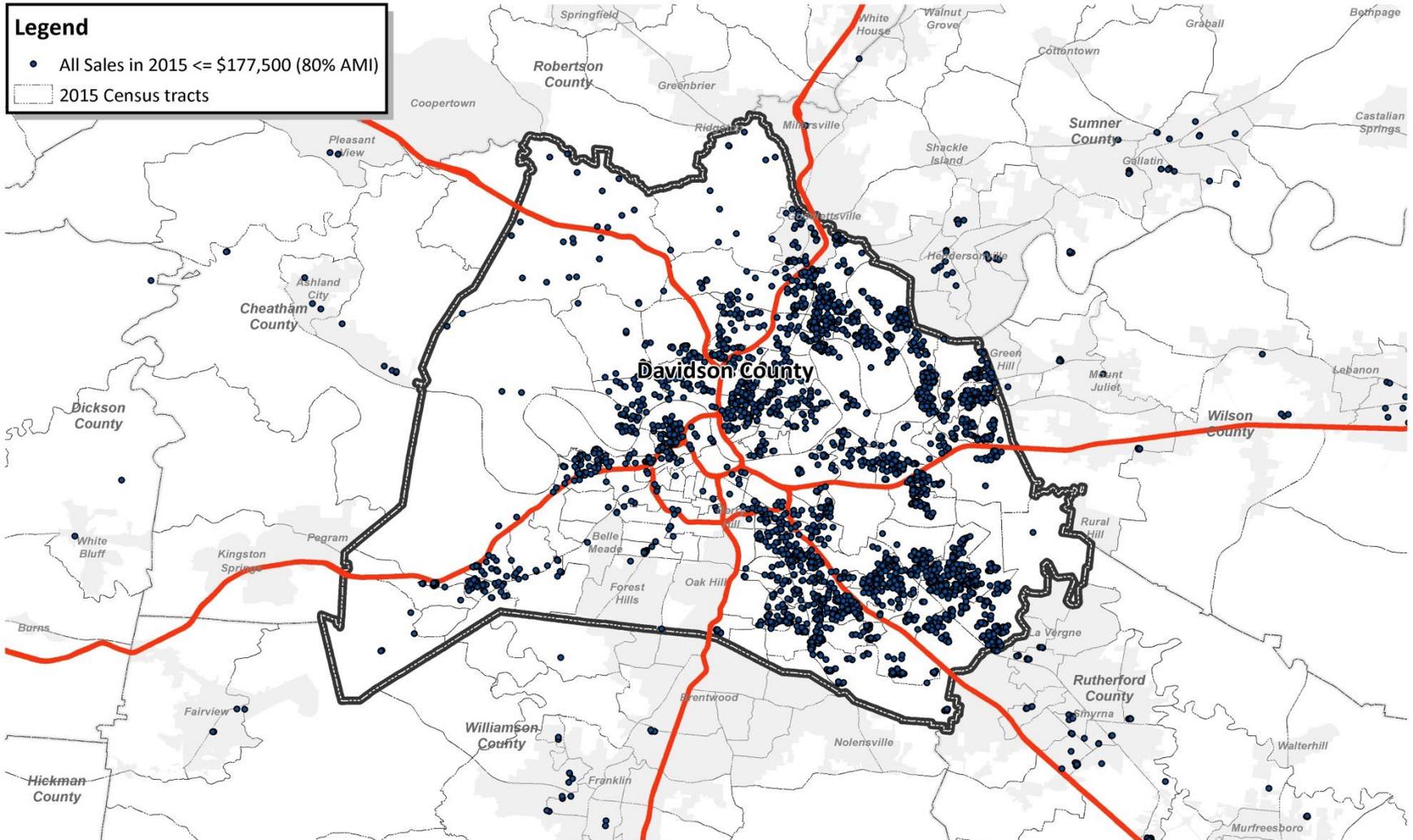
# 2015 Sales

(6,184 in Nashville; through beginning of September 2015)



# 2015 Sales Affordable to 80% AMI

(2.5-person hh income = \$45,500; Price = \$177,500; 1,797 sales)



# 2015 New Sales Affordable to 80% AMI

(2.5-person hh income = \$45,500; Price = \$177,500; 109 sales)

