Nashville-Davidson Metro
Housing Policy & Feasibility Study

Stakeholder Meeting #3

Presented by:

Dan Guimond, Principal
David Schwartz, Vice President
Economic & Planning Systems, Inc.
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

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<tr>
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<td>$75 / sqft</td>
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</tr>
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2) Mandatory Inclusionary Zoning Option

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

**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%)

**Production Estimate**
- ~60 units per year in current market
- ~110 units in typical market
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

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

<table>
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<tr>
<th>Applicability</th>
<th>Inside UZO and along collectors, arterials</th>
<th>Outside UZO</th>
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<tr>
<td><strong>Trigger</strong></td>
<td>A project: --seeks entitlements beyond by-right --receives public financing (e.g. TIF)</td>
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<td><strong>Scale</strong></td>
<td>generally ≥ 5 units</td>
<td>generally ≥ 5 units</td>
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<tr>
<td><strong>Type</strong></td>
<td>Residential &amp; Non-Residential</td>
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<tr>
<td><strong>Affordable Housing Set-Aside</strong></td>
<td>10% to 20% (depending on const. type)</td>
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<td><strong>Affordability Duration</strong></td>
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<td></td>
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<td>For-Sale Projects</td>
<td>30 years</td>
<td>30 years</td>
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<td><strong>Affordability Level</strong></td>
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<td>For-Sale Projects</td>
<td>80% AMI</td>
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<td><strong>Payment in-lieu</strong></td>
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<td>For-Sale Projects</td>
<td>75% of Affordable Sales Price</td>
<td>50% of Affordable Sales Price</td>
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<td>Equivalent to Above</td>
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## Production in Excess of Voluntary IZ

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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

   - 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 (≤8%)
       ➢ Expanded staffing implication
     ➢ Remainder for program (≥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 ≤ $203,450 or 100% AMI, $56,900 for household of 2.5 persons)
    - 1,797 (29% priced ≤ $177,500 or 80% AMI, $45,500)
  - Too much overlap between market-rate and deed-restricted housing
  - Communities with mandatory policies generally have ≤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

<table>
<thead>
<tr>
<th></th>
<th>Market-Rate Sales Price</th>
<th>Deed-Restricted Sales Price</th>
</tr>
</thead>
<tbody>
<tr>
<td>Single-Family Detached</td>
<td>$166,750</td>
<td>$177,500</td>
</tr>
<tr>
<td>Townhomes</td>
<td>$186,000</td>
<td>$177,500</td>
</tr>
<tr>
<td>5-Story</td>
<td>$177,500</td>
<td>$177,500</td>
</tr>
<tr>
<td>10-story</td>
<td>$288,750</td>
<td>$371,250</td>
</tr>
<tr>
<td>20-Story</td>
<td>$508,750</td>
<td>$508,750</td>
</tr>
</tbody>
</table>
Meets 1 Criteria
Meets 2 Criteria

Legend

Meets 2_Criteria
- 0
- 1
Meets 3 Criteria

Legend
Meets_3_Criteria
0
1

3rd Stakeholder Meeting - Recommendations
Meets 4 Criteria
Meets 5 Criteria
Overlap of UZO & Criteria Concentration
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)