STRATEGY C: BUILD NEW HOUSING

Create a range of new and affordable housing choices for all Nashvillians as appropriate across the county

What is the focus of this strategy?

Strategy C seeks to increase the total amount of housing in Nashville. The strategy includes actions to build more market-rate and affordable housing with a focus on building affordable rental housing that meets the needs of those with low to moderate-incomes. Housing options should be thought of as a continuum—with a variety of options that appeal to people at different income levels and life stages, from young adults to working families to seniors. These options should also be available across a range of neighborhoods and geographies, ensuring people can find housing near jobs, schools, transit, and other amenities. Actions proposed as part of Strategy C, in conjunction with the other strategies, seek to increase housing options in Nashville and serve the diverse needs of people who want to live in our community.

Why is this strategy important?

Within the Nashville market, there is demand for additional homes at all income levels. When Nashville's demand exceeds supply, housing prices rise and affordability decreases. Many Nashvillians, including paramedics, childcare staff, restaurant employees, and teachers, can't afford the average rent. Those struggling to pay for housing often face tough choices between housing and other essentials, like food, transportation, and healthcare. For Nashville to have a healthy housing market, it must build enough homes to accommodate the increase in the number of households, and those homes need to be priced to reflect the wages that the jobs in Nashville's economy pay.

Despite recent efforts to add affordable housing, Nashville still faces a shortage. As discussed in the "How Much Housing Do We Need" section, HR&A estimated that Nashville would benefit from adding an additional 20,000 homes affordable to households earning 60% of the Area Median Income (AMI) or below over the next 10 years. By adding more affordable rental homes over the next 10 years while preserving existing affordable housing, Nashville will be on track to close the existing rental shortage affordable at 60% AMI. The actions in this strategy seek to expand affordable housing options, particularly for households earning less than 60% of the AMI, with a focus on those earning 0-30%. Creating more affordable housing will ensure that our neighbors who help us in an emergency, care for our children, provide us meals, and teach our students have a safe and affordable place to live in Nashville.

Who will this strategy serve?

This strategy will serve all Nashvillians with a focus on those earning low to moderate incomes. Actions specific to building more affordable housing are focused on serving those earning 60% AMI or below and meeting the needs of vulnerable residents. Specific actions will focus on creating deeply affordable rental homes for those earning the lowest incomes.

How will we measure our progress?

Metric	Description	Source(s)
Affordable Housing Production – Rental	Total number of new affordable rental homes funded for development by affordability level (i.e., Area Median Income (AMI) bracket)	Metro Housing Division; MDHA; Developer Community
Rental Housing Gap by Income	The number of housing units available by AMI level versus the number of rental units affordable at that income level	Census, American Community Survey; Public Use Microdata Sample
Housing Cost Burden	The percentage of renters by demographic and special populations that are cost burdened (i.e., spending more than 30% of gross income on housing costs)	Census, American Community Survey
Jobs: Homes Ratio	The ratio of net new jobs added in the market compared to the number of new homes added	Bureau of Labor Statistics; Metro Planning/Codes
Percentage of Homes Affordable to Median Renter	The percentage of homes that are affordable to a renter earning the median income	Census, American Community Survey; Public Use Microdata Sample
Vacancy Rate	The share of rental homes that are vacant and available to occupy	CoStar

What will it take to achieve?

Staff Time, Capacity or Expertise

Underwriting Capacity

Funding or Financing

Data

Strategy C **Actions**

Action 13: Evaluate and adjust zoning and land use policies to unlock development opportunities, expand housing types, and increase annual housing production.

Land use policy is an important tool to support the creation of not only more homes but also more naturally affordable homes, a greater variety of housing types, and sustainable, resilient neighborhoods. Conversely, land use policies can function as an effective constraint on a city's overall supply of housing. When large land areas of a city are zoned as single-family, with a large minimum lot size, for example, this serves as a firm upper bound on the number of housing units that these neighborhoods can support, regardless of an area's overall population growth or underlying housing demand. Restrictive zoning also limits opportunities to develop housing near essential services and transit, reinforcing car dependency and increasing household transportation costs. At the same time, many areas in Nashville that are zoned for density, such as Downtown and Midtown, rely on expensive high-rise construction, making for more expensive multifamily in the places it is allowed.

Effective zoning and land use policies can unlock development opportunities by distributing land costs among multiple housing units, enabling lower-cost construction typologies, and meeting housing needs with less need for public subsidy. Transit-oriented development (TOD) is a particularly powerful approach to align land use with infrastructure investments by encouraging higher-density, mixed-use housing within half a mile walking distance to public transit. This model not only increases housing supply but also reduces forced reliance on cars, lowers transportation costs, and promotes more sustainable growth. Planning will identify the adjustments that are needed to land use policies through the Housing and Infrastructure study. Metro should prioritize zoning changes that reduce barriers to affordable housing, expand housing options, and align with infrastructure investments to foster equitable, connected, and resilient communities.

Expanding areas where multifamily housing is allowed, in alignment with the NashvilleNext Growth and Preservation Map, is a key strategy to support the development of more rental affordable homes and diversify housing types. Currently, most land available for affordable housing rental development is located along commercial corridors, where developers must compete with both commercial uses and market-rate multifamily projects. This competition drives up land costs, especially since commercially zoned property is often more expensive than residentially zoned land across much of the county. By encouraging multifamily development in transit-served areas and neighborhoods with existing infrastructure capacity, Metro can promote sustainable growth while increasing access to jobs, services, and public amenities.

In addition to supporting affordability more broadly, adjusting land use policies to allow middle multifamily housing on lower-cost residential land can reduce the cost of entitling projects and open new areas for affordable housing development. This approach not only enables affordable housing developers to pursue projects in a wider range of neighborhoods—reducing the concentration of affordable housing in any one community—but also allows public subsidies to stretch further and serve more residents.

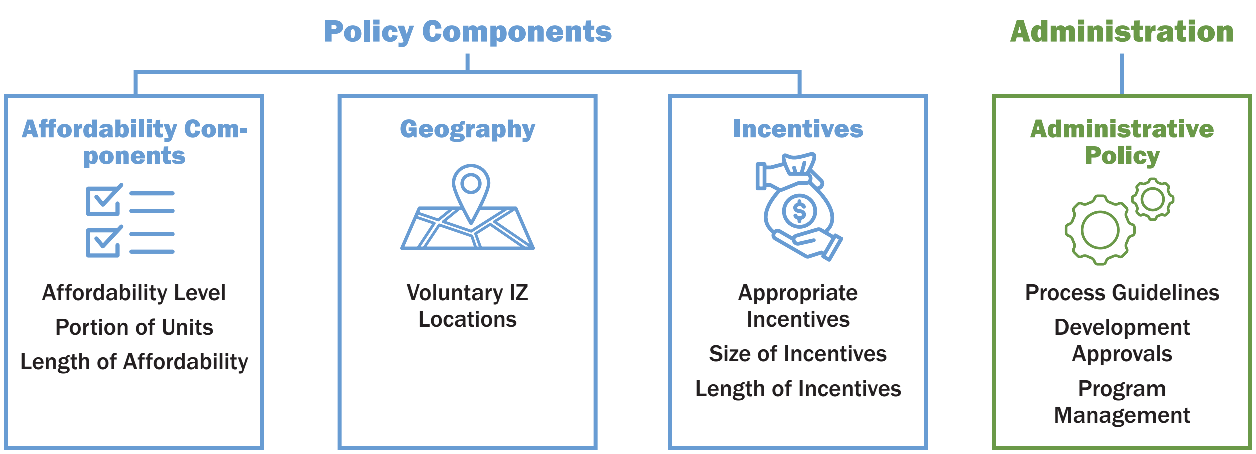
In addition to the zoning code, Metro will also look at specific areas of policy opportunity and concern. Additional adjustments to zoning and land use that impact housing include allowing accessory dwelling units (ADUs) which can create new, affordable opportunities for renters within a variety of neighborhoods and strongly regulating where short-term rentals are allowed.

While this action is primarily focused on the role of land use in advancing rental options, “Action 21: Leverage land use to expand the availability of entry-level homeownership” focuses on homeownership.

Action 14: Implement voluntary zoning incentives for attainable housing

In Spring 2024, the Tennessee General Assembly approved legislation authorizing municipalities to provide voluntary zoning incentives to promote attainable housing development as a response to the stressed housing market. Voluntary incentive programs create affordable homes within new market rate developments by offering incentives in exchange. These incentives can enable developers to build a wider variety of housing types across the income spectrum. Examples of incentives include increases in density, reduced parking minimums, and reduced building setbacks in exchange for affordability requirements for housing. The design of a voluntary incentive program must consider various components, illustrated below, including the affordability of homes, the appropriate incentives to offset developer costs, and administrative needs and processes.

Figure 25: Voluntary Incentive Program Components

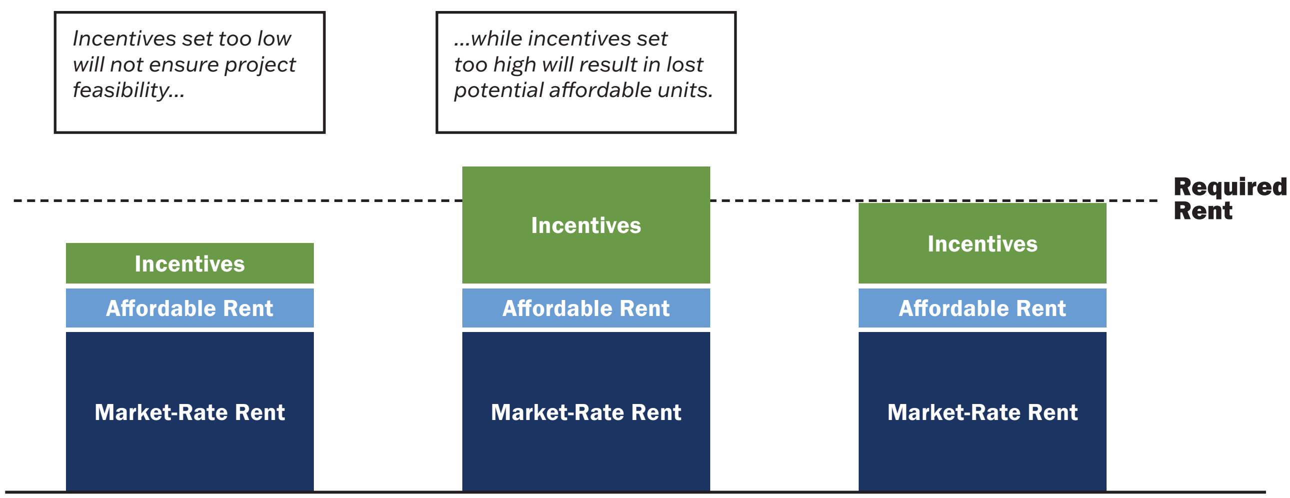


With voluntary incentive programs, if there is a gap between affordable rents and those required to keep a project financially feasible, then no developer will take the incentive, and no affordable rental homes will be built. Each of these components helps to ensure that voluntary incentive programs appropriately balance the cost to the developer of including affordable homes in the project and the benefit that they receive through the incentive. Adequately balancing the cost and incentives encourages developers to take advantage of the program, ensuring that affordable homes are delivered in the market. Because they are voluntary, the overall impact of these programs is limited, but they can be a powerful addition to leverage deeper or additional affordability, particularly when combined with other mixed-income financing tools, as the previous section illustrates. In that hypothetical project, a 10% density bonus combined with a PILOT, below-market senior debt, and must-pay subordinate debt transforms 150 market-rate homes to a project with 85 market-rate homes and 80 homes affordable at 60% AMI. While State law uses the term “attainable housing,” municipalities may define attainable; Metro should define “attainable” to be consistent with and advance the goals of the UHS.

Metro may want to look to Opportunity Zones (OZs) as areas to focus voluntary housing incentives. Enacted as part of the 2017 Tax Cuts and Jobs Act, OZs were designed to attract long-term private capital into distressed communities. While not a primary tool to create affordable housing, a working paper from Economic Innovation Group found that the OZ incentive roughly doubled the number of housing units in these areas between 2019 and 2024. It is expected that OZ's incentives are to be extended and renewed in 2025, but affordability requirements are not expected to be included. Therefore, providing voluntary housing incentives in OZs – where development is likely to come – is a way to achieve some level of affordability.

Finally, Metro should evaluate the degree to which the new law allows Metro to offer developers the option to pay into an affordable housing fund in exchange for the zoning incentive. It is often possible to create more affordable homes when they are not located in high-cost new construction buildings, and this option might be a useful source of funding to create and preserve affordable homes.

Figure 26: Balancing Incentives and Affordability Requirements



Action 15: Leverage publicly owned land portfolio by advancing infill development, co-location and policy changes to ensure strong management of land assets

Metro should address Nashville's significant housing shortage by advancing infill development, co-locating Metro assets, and creating master-planned districts. To achieve this, Metro should offer select parcels of land for 3 project types through a competitive RFQ process. This process should be open to experienced real estate developers in the Nashville market whose expertise aligns with Metro's goal of delivering new mixed-income residential projects efficiently and effectively.

Three Project Types

A. **Infill Lots:** Determine available Metro owned parcels in established or evolving neighborhoods that may be used for residential or mixed-use development. These lots could include tax delinquent properties that would be limited to nonprofit organizations.

B. **Co-Location:** Going forward, analyze all targeted existing or proposed sites for new Metro facilities including libraries, fire stations, MNPD precincts, MNPS facilities, and community centers for housing opportunities. Program and generate concept site plans that realize the potential of mixed-use development, adding affordable or mixed-income housing on site.

C. **Master Planned Districts:** Evaluate larger Metro-owned parcels that offer larger scale district development parcels via a master development agreement, similar to the East Bank RFQ process that yielded desired Metro affordable housing & amenity requirements to be completed in a defined timeframe under a long-term ground lease.

Land value is a key component in the development of affordable housing. Significantly reduced land basis yields lower cost housing and supports deeper affordability. The allocation of public land for affordable and mixed-income housing can reduce development costs and meet housing needs with less need for public subsidy. For example, public land can be sold or leased at a discount to developers with the savings directed toward subsidizing rents or offering homes at lower purchase prices for all or a portion of the units developed on the land. Additionally, levers such as long-term ground leases and deed restrictions on public land provide an opportunity to preserve affordability over multiple generations while allowing public entities to retain control over how the land is used. Leveraging public land in this way is an effective strategy to stretch limited public resources, accelerate affordable housing production, and address housing insecurity in a sustainable and equitable manner. Property tax implications will be determined by how the property is held.

Nashville has used the long-term ground lease of public land to create affordable housing in the past at sites such as 12th and Wedgewood and The East Bank. In addition to large parcels, Metro owns smaller infill lots that can be used to create housing. These lots can provide needed geographic choice as they may be located in amenity-rich neighborhoods, along transit lines, and in areas that are typically cost-prohibitive for affordable housing construction. Cities across the country are successfully leveraging their land for affordable housing creation, proving both the value and viability of this model.

Land banks play an important role in the stewardship of public land. Nashville is in the initial stages of creating its land bank; and upon creation, it will house critical authorities including the ability to assemble parcels, clear title, and dispose of land including transferring title to a community land trust or by holding on to a long-term ground lease. While Metro currently owns property that can be put to higher use while delivering affordable housing, the land bank can also advance a more proactive land strategy by making timely acquisitions.

In addition to infill development, many municipalities are co-locating housing with other public facilities, including libraries, community centers, and fire stations. In Charlottesville, North Carolina, the Council passed legislation requiring all new facilities be reviewed for compatibility with housing. In 2024, Atlanta released an RFP for proposals to build a residential tower above a redeveloped fire station on a three-quarter acre downtown parcel.

Other successful mixed-use projects that include co-location of public facilities with housing or other amenities include:

West End Square 50, Washington DC

DC Fire & EMS Engine Station No. 1 (15,000 sf)

(52) affordable housing units (at or below 60% AMI).

(3) permanent supportive housing units (at or below 30% AMI).

(6) market rate units

Engine Company 13 & Hyatt Place, Washington DC

(12) story mixed use building

(214) key Hyatt Place Hotel

Engine Company 13 Fire Station (22,000 sf)

Amenities including fitness center, studio, coffee/wine bar

(3) levels of underground parking.

Fifth City Commons, Chicago, IL

(43) mixed income apartments

4,500 sf of commercial space

Residential amenities

Future phase: affordable home ownership

In 2024, Mayor O'Connell created via executive order the Metro Property Special Projects Committee and team, which are focused on creating mixed-use joint ventures that bring an affordable housing lens to activating Metro owned assets through the co-location of affordable housing with public uses. For example, affordable housing located on top of a Metro public library well fits this objective. The Planning Department will continue to drive the effort to utilize publicly owned land to address public priorities, including affordable housing, by working with Metro Legal and Metro Council to establish a policy for utilization of surplus assets. This policy should include whether and how to surplus and dispose of assets, alternative strategies to employ, as well as standards for determining the programming of public assets.

Maintaining an up-to-date inventory of parcels designated for each department will be critical to the development effort. Metro has contracted for this inventory to be undertaken with departments reporting annually regarding any changes to their land needs. This required checkpoint will ensure parcels do not become neglected and are made available for their highest and best use.

Potential Parcels include:

Infill	Co-Location	Master Planned Districts
1612 4th Avenue North	Hadley Park Library	Former Bordeaux Hospital
2714 Old Lebanon Pike	Inglewood Library	
801 Olympic Street	88 Hermitage Avenue	
824 Seymour Avenue	Global Mall - west parcels	
1450 Lebanon Pike	Global Mall Transit Center	
1015 East Trinity Lane	3230 Brick Church Pike	
929 Anderson Lane	Murrill School	
136 Jacksonian Drive	Easley Community Center	
0 American Way Drive	Edgehill Library	
0 Hagan Street	SoBro Transit Center	
1240 Lewis Street	Midtown Hills Police Precinct	
1701 19th Avenue South	Fire Station 2/NFD HQ	
0 Portland Avenue		
1923 20th Avenue South		

Request for Qualifications/Request for Quotation Process

When pursuing development of Metro-owned sites, Planning should work with the Housing Division, other internal partners, and potential stakeholders to determine requirements for the development, taking into account the following:

- Tenure: Homeownership and rental needs of the neighborhood.
- Affordability: Market strength and ability to cross-subsidize affordable and market-rate homes.
- Public/Private Partnership viability: Ensure that the RFP selects development partners that have experience and a strong balance sheet to bring the project to fruition.

Neighborhood Characteristics:

- Transportation and Mobility: Locations near high frequency bus routes to ensure that residents can easily access jobs, schools, and services without needing a car. With Nashville's recent investment in transit infrastructure the number of suitable sites will expand. Neighborhoods that are pedestrian-friendly, or include bicycle infrastructure, with safe sidewalks, crosswalks, and access to greenways should be prioritized. CHIP funding should continue to prioritize improvements to pedestrian infrastructure and align with Vision Zero work.
- Proximity to job centers: Identify sites near areas with job opportunities (e.g. urban centers and neighborhood, business districts, or industrial hubs) to reduce transportation costs and increase access to economic mobility. The mix of job types—service sector, retail, manufacturing, and white-collar professions—should be considered such that residents with diverse skills and backgrounds can find employment.
- Availability of Essential Services: Access to healthcare, proximity to grocery stores and markets, schools, and childcare facilities, particularly for larger, multi-bedroom units to house families with children.
- Safety and Security: Locating new affordable and mixed-income housing in neighborhoods with low crime rates is critical to maintaining a sense of security and stability for residents.
- Quality Infrastructure and Amenities: Well-maintained roads, utilities (water, electricity, and waste management), and communication infrastructure (internet and phone service) are vital for creating a sustainable living environment. Access to green spaces, gathering spaces, playgrounds, and recreational areas that contribute to the quality of life and promote social connection, well-being, and healthy lifestyles. Local community centers and libraries offering programs and services like job training, financial literacy workshops, and social support can help strengthen the social fabric of the neighborhood.
- Climate resilience: Ensuring that new affordable and mixed-income housing is built in areas that are not highly vulnerable to natural disasters (e.g., flood-prone areas) and that include infrastructure such as stormwater management systems can render the neighborhood safer and more livable in the long term.

Potential RFQ Selection Criteria- Scoring system (in order of importance)

- Economic offer. Proposed affordable housing program including affordability level, proposed restriction term of affordability and ground lease terms.
- Milestone Schedule.
- Capital Stack/financing.
- Developer requests of Metro: Development capital, TIF, PILOT, infrastructure funding, subsidies.
- Developer balance sheet & project pipeline.
- Team Experience, depth, dedicated team personnel for project.
- Design and sustainability.
- Exceptions to or deviations from scope/program.
- Neighborhood and community-based amenities.
- Infrastructure/complete streets.
- Advantages of Public/Private Partnerships
- Timing. Working with experienced mixed-use developers already active in the market yields faster and more timely results in project planning, construction and delivery.
- Metro Leverage. All offered sites are fully owned and controlled by Metro and may be conveyed on reasonable terms under a long-term ground lease, thus making these deals more attractive in a competitive market with high land cost.
- Proven Joint Venture Partners. Vet both non-profit and for-profit developers to create a list of potential responders to the Request for Qualifications/Request for Quotation.
- Completion Guaranty. Submissions to include a Guarantor with respect to the ground lease as designated by the developer and approved by Metro.
- Metro obligations. Clearly define in the offering documents any and all Metro obligations if applicable. Selection criteria to include any proposed reduction in Metro obligations by the bidder.
- Design & Program. Metro Planning, Design Studio, and Housing Division to generate minimum residential unit requirements, proposed site plan, massing and other general guidelines for the RFQ. In some cases, the RFQ will require a subsequent SP to ensure greater density and level of quality.
- Other Restrictions. Metro, as holder of the land, may prohibit uses including short term rentals, bars, and other incompatible uses. Further, a stated minimum number of units or net rentable area of affordable units is to be deed restricted for a minimum of 30 years.

Advantages of Public/Private Partnerships

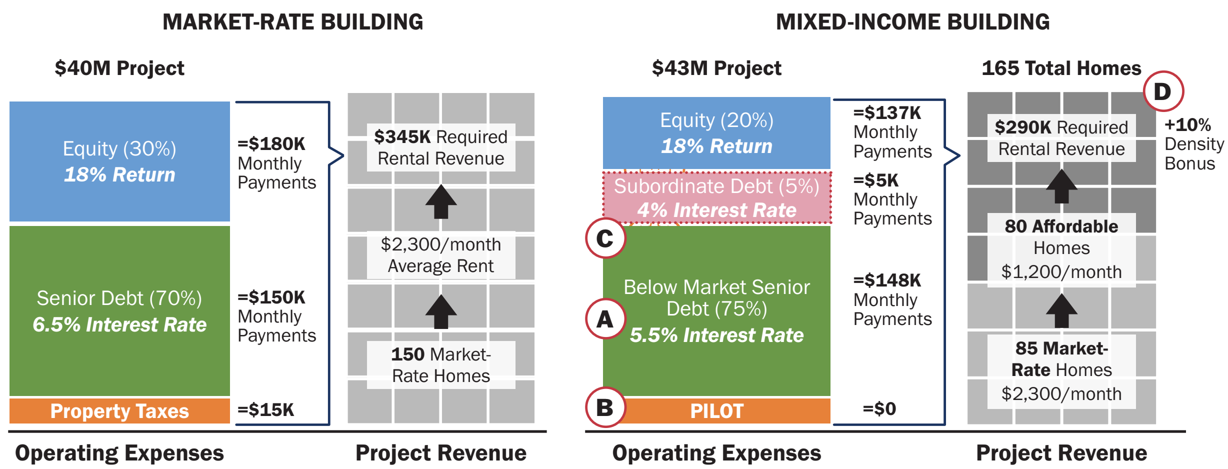
- Timing. Working with experienced mixed-use developers already active in the market yields faster and more timely results in project planning, construction and delivery.
- Metro Leverage. All offered sites are fully owned and controlled by Metro and may be conveyed on reasonable terms under a long-term ground lease, thus making these deals more attractive in a competitive market with high land cost.
- Proven Joint Venture Partners. Vet both non-profit and for-profit developers to create a list of potential responders to the Request for Qualifications/Request for Quotation.
- Completion Guaranty. Submissions to include a Guarantor with respect to the ground lease as designated by the developer and approved by Metro.
- Metro obligations. Clearly define in the offering documents any and all Metro obligations if applicable. Selection criteria to include any proposed reduction in Metro obligations by the bidder.
- Design & Program. Metro Planning, Design Studio, and Housing Division to generate minimum residential unit requirements, proposed site plan, massing and other general guidelines for the RFQ. In some cases, the RFQ will require a subsequent SP to ensure greater density and level of quality.
- Other Restrictions. Metro, as holder of the land, may prohibit uses including short term rentals, bars, and other incompatible uses. Further, a stated minimum number of units or net rentable area of affordable units is to be deed restricted for a minimum of 30 years.

Action 16: Develop a mixed-income housing financing toolkit and invest in sophisticated underwriting and finance capacity to support

Mixed-income developments create greater economic integration, which can benefit residents through improved neighborhood and housing amenities, sense of safety, mental health, and educational opportunities.[iii] In addition to the societal benefits of mixed-income developments, a locally driven financing program can be customized and responsive to the market conditions and priorities of Nashville, allowing Metro to drive growth during market slow downs, sustain labor demand, or require permanent affordability. This local control could be the foundation for Metro to expand into a social housing program in the future. Social housing is defined by permanent affordability at a range of income levels, democratic management which includes tenant protections, and decommodification of the property, generally defined as public or community ownership.

LIHTC will likely continue to be the main source of subsidy for affordable housing development in Nashville; however, the need for affordable rental homes is greater than the program can support. Other cities across the country are facing a similar set of challenges and have begun testing additional approaches to creating affordable rental homes. The strongest emerging approach is to combine a program that reduces property taxes with below market, senior debt, and mission driven subordinate debt to develop a mixed-income apartment building. Nashville has the advantage of being able to also layer in zoning incentives. Together the boost from reduced taxes and low-cost financing make adding affordable rental homes to market-rate projects financially viable.

Figure 27: Mixed Income Rental Housing Toolkit



**Simplified project example. In practice, not all projects will need all four tools, and the level of support needed will change based on market conditions.*

A **Below-market senior debt products** offer lower interest rates and flexible terms, increasing the loan amount while decreasing costs.

B **A PILOT** that removes some or all property tax burden decreases operating expenses, allowing the project to charge lower rents.

C **Must-pay subordinate debt** from the public sector or impact investors further reduces costs by replacing high-cost equity.

D **Incentive zoning,** in this case a density bonus increases project revenue by allowing the developer to build more homes.

Note: $1,200 per month is equivalent to a 2-bedroom apartment affordable at 50% AMI. Source: HR&A Example and Market-Sourced Assumptions

Recent changes to Tennessee law allow for voluntary incentive zoning[iv] (see Action 14: "Implement voluntary zoning incentive for attainable housing" for details), meaning Metro can access all four tools described above to create a comprehensive mixed-income housing approach, outside of LIHTC. Depending on project economics and market conditions, not every deal will need to combine all four tools to be financially feasible, and it will be necessary to underwrite as described in Action 11: "Establish underwriting capacity, requirements, and criteria to maximize public investments in housing" to evaluate need on a project-by-project basis. Metro should advance the following actions:

Action 16a: Consider using Bond authority to facilitate mixed-income development

A 2024 Tennessee State law allows the Industrial Development Board to issue bonds for affordable housing backed by Metro's credit support. Bonds for affordable housing are backed by the local tax base and are one of the most common tools to fund affordable housing. Peer communities such as Charlotte, NC, Atlanta, GA, and Austin, TX, have all tapped bonds to support affordable housing.

The difference between a bond and the other funding sources described is that a bond is a one-time source of capital made available by a pledge of ongoing public funds to pay off the bond. However, State law prohibits localities from using ad valorem property taxes to back the IDB bond, so it must rely on other sources. Metro collected $710 million in local sales taxes in the 2024 fiscal year. While the majority of that is earmarked for schools and other commitments, a modest portion of these taxes could be pledged to support a housing bond, depending on how much sales tax is currently unpledged.

Many local jurisdictions issue bonds to support affordable housing periodically, every five years or so. Peer cities have adopted bonds from $50 million up to over $350 million. Should Metro target a bond of $25 million to allow it to scale up its commitment to affordable housing, the required operating budget commitment for debt service would be between $2-5 million per year.

Metro must give careful consideration to the impact of any bond on its financial rating and bond capacity and may adjust the target bond amount as a result since Metro uses its bond capacity to fund capital expenses. If rating agencies believe Metro might not have sufficient funds to repay the bond, then they will give it a lower rating, making the interest Metro must pay on the housing bond and other future bonds significantly higher.

Action 16b: Optimize the for Mixed-Income PILOT while evolving and strengthening priorities and requirements to increase focus on deeper affordability, geographic choice, and market adaptability

In 2022, Metro launched a payment in-lieu of taxes (PILOT) program for projects that includes up to 40% affordable homes. The goal of this program is to capitalize on the significant amount of housing being delivered by market rate developers. Depending on the affordability mix and project location, developers are eligible for up to an 80% reduction in property taxes.

The structure of this program is efficient and effective as it decreases operating expenses over the life of the affordability period which aligns with the reduced revenue the developer is receiving as a result of discounted rents. However, the program launched with set tiers and limited AMIs, 50% and 75% AMI, which do not align with the unique aspects of market rate developments. In FY26, the Housing Division should focus on recalibrating the program criteria to be more adaptable and responsive to market conditions while still targeting the creation of units at or below 80% AMI.

Although the current program guidelines state a preference for 50% AMI units, only two applicants have applied at tiers that included 50% AMI units, and no other applications are in the pipeline. Going forward, the Housing Division should assess the feasibility of consolidating or otherwise revising the current affordability tiers to significantly elevate the priority on 50% AMI units. Metro can more aggressively incentivize the prioritization of 50% AMI units by layering additional incentives, such as the existing Connecting Housing to Infrastructure Program (CHIP), along with future voluntary incentives and discounted subordinate debt.

Action 16c: Build out capacity to attract or deploy new debt sources such as below-market senior debt and leverage authorized entities to access this financing

As illustrated in Figure 27, alongside the PILOT, below-market debt reduces project operating expenses by decreasing the overall cost of financing through lower interest rates, higher loan-to-value ratios, lower debt coverage ratio requirements, and other more flexible terms than traditional loans. Below-market senior debt can take a variety of forms including FHLB/FHA risk-share, multifamily revenue bonds, and 221(d)(4) mortgages as discussed in Action 7: “Explore new dedicated local and state funding sources for affordable housing and homelessness services” and Action 8: “Tap new and underutilized resources.”

Action 17: Continue strong production of affordable housing using LIHTC

The Low-Income Housing Tax Credit (LIHTC) program is a federal program that provides a tax credit to developers through state housing finance agencies, which are responsible for determining which projects receive tax credits under the state's allocation.

There are two general types of credits that can be awarded: 9% LIHTC covers a greater percentage of projects' development costs and are awarded on a competitive basis and 4% LIHTCs cover a lower credit to support the development of affordable rental housing. It is the largest source of funding for the production of affordable housing nationwide. Approximately 90% of affordable housing built in the U.S. utilizes LIHTC funding. LIHTC-financed housing developments primarily serve very low-income (50% AMI) and low-income (60% AMI) households. The LIHTC program distributes federal income tax credits percentage of projects' development costs and are awarded to most, but not all, projects that meet specific programmatic requirements and are financially feasible. 4% LIHTC projects are federally required to be paired with tax-exempt bond financing to make up the difference and, in many cases, require additional public funding.

Projects in Nashville have received immense support from the 4% LIHTC program, with over 4,500 affordable rental homes produced since 2020. This is an extraordinary rate of utilization, and maintaining LIHTC production levels will be key to meeting Nashville's ongoing affordable housing goals.[13]

In order to continue the pace of 1,000+ affordable rental homes per year using LIHTC 4% credits, Metro should do the following:

Action 17a: Ensure the continued operation and functioning of the LIHTC Payment in Lieu of Taxes (PILOT) program administered by MDHA

In Tennessee, the LIHTC PILOT is necessary, as state policy dictates that property tax assessors factor in the monetary value of the tax credits on top of the underlying property value when assessing LIHTC properties. Taxing LIHTC properties for receiving a tax credit essentially defeats the purpose of the program, so many Tennessee localities have offset this tax penalty by providing abatements to LIHTC properties. MDHA provides underwriting services to determine the necessary abatement amount per development. Metro Council approves the agreements and sets the annual abatement cap. The cap amount should be monitored and adjusted as needed to support the delivery of LIHTC developments.

[13] It should be noted that some aspects of program utilization remain outside local control. Given that the tax credits through the LIHTC program are sold off to investors, the reach of the program is fundamentally tied to market demand for tax credits. Given a new incoming administration, and the possibility of reductions in corporate tax liability, demand for tax credits through LIHTC may diminish in years to come, reducing the amount of money that can be used to finance affordable housing.

Action 17b: Monitor LIHTC requirements and align local tools to help maximize competitiveness

As the majority of funding for affordable housing production comes from the federal government, it is critical that Metro monitor policy changes and priorities to support competitive proposals. For example, Qualified Census Tracts (QCTs) are Census tracts federally designated as having high rates of low-income residents. QCTs are eligible for higher levels of LIHTC credits on a per-unit basis, relative to LIHTC properties outside of QCTs. Many, but not all, of Nashville's recent LIHTC 4% developments have occurred in QCTs because they receive a pronounced financial advantage, typically a 30% boost. As Nashville continues to grow and experience rising average incomes, some Census tracts that are currently designated as QCTs may lose this status as poverty rates drop.

The same boost is available in Difficult to Develop Areas (DDAs) which are areas where land costs are higher than the county average. While it is unlikely that developers could afford land in these areas, creative partnerships with religious institutions or public entities could facilitate tax credit deals that would receive the 30% boost.

Building out Metro's ability to track market conditions will be critical to staying ahead of which sites are eligible for QCTs. As Nashville loses QCTs, other funding sources and financing tools will be needed, such as mixed-income financing described below. However, Metro should carefully evaluate whether property it owns in QCTs is appropriate for a tax credit project using the criteria established in Action 15.

Like many states, Tennessee is nearing a ceiling for the number of 4% LIHTC projects it can award because of limits on the amount of private activity bonds it can issue. Financial structures such as bond volume recycling, that allow 4% LIHTC awards to be made while using a smaller amount private activity bond will expand the amount of 4% LIHTC awards Tennessee can make and help Nashville sustain its high rate of LIHTC development.

Action 18: Prioritize new income-restricted housing for vulnerable residents (e.g., families with children, older adults, persons with disabilities, and justice-impacted persons).

New affordable rental housing should prioritize the needs of populations facing the greatest challenges in finding and affording homes that meet their needs. As highlighted in the "Key Findings" section, vulnerable groups – such as families with children, older adults, persons with disabilities, and justice-impacted persons – encounter unique obstacles to securing housing beyond affordability. Data and input from the community engagement revealed that older adults and single-parent households experience significant cost burdens, while individuals with disabilities struggle to find accessible housing. Additionally, renter households earning less than 60% of the AMI, particularly those with four or more people earning less than 50% AMI, face a shortage of appropriately sized homes. The demand for 3-bedroom units is further constrained by smaller households – 2 and 3 people – renting larger units because they can afford to do so.

To address these issues, Metro should prioritize the development of units that are fully accessible to individuals with mobility and other physical needs (in accordance with the Uniform Federal Accessibility Standards) and ensure the inclusion of 3+ bedroom homes. Metro should incentivize the development of such homes within its program policies. The Housing Division should further collaborate with the development community to identify barriers for other vulnerable populations, including formerly incarcerated individuals, and promote holistic tenant application processes to ensure justice-impacted individuals are not automatically excluded from housing opportunities developed with Metro support.

Action 19: Prioritize the development of deeply affordable housing within existing programs

As highlighted in the "How Much Housing Do We Need" section, the most significant gaps in rental housing exist for households earning 30% of the Area Median Income (AMI) or below, often referred to as "deeply affordable housing." Developing units for this income group presents one of the greatest challenges in housing production, as the cost of construction often exceeds what can be supported by rental income alone. Without substantial subsidies to bridge the gap between development costs and rental revenue, producing deeply affordable housing becomes financially unfeasible. A recent analysis of the Barnes Fund's impact revealed that only 5% of total funding has been awarded to support 0-30% AMI units. Furthermore, out of nearly 50 organizations that have received Barnes funding, only 12 have developed projects with units for households earning 0-30% AMI. Despite these challenges, the need for housing at this income level remains urgent. Low-income and very-low-income households are particularly vulnerable to housing crises, such as homelessness, and are often forced to sacrifice essential needs to afford housing. Strengthening the availability of deeply affordable housing is critical to ensuring stability for these households in all areas of life.

Based on the analysis of current programs and the broader needs assessment, Metro should take the following actions to advance deeply affordable housing:

Action 19a: Offer deeper incentives for deeply affordable housing in locally subsidized affordable housing tools, including Barnes funded rental projects

Going forward, Metro Nashville's Housing Division and other agencies, boards, and commissions responsible for administering locally-funded programs should offer deeper incentives to advance deeply affordable housing. The Barnes Fund remains Nashville's most significant local tool for supporting affordable housing development and should be positioned to address the city's most pressing housing needs. As outlined further in Action 12a: "Focus the Barnes Fund to maximize its impact," the proposed Rental Track of the Barnes Fund should focus on producing rental housing affordable up to 60% of the AMI but offer deeper incentives for deeply affordable units and permanent supportive housing (PSH).

In the most recent funding round, the Metropolitan Housing Trust Fund Commission (HTFC), which governs the Barnes Fund, has sought to incentivize deeply affordable units by offering bonus points in the evaluation criteria. Applicants who commit to designating at least 25% of units for households with incomes at or below 30% AMI will be eligible for up to 10 bonus points, with the commitment not being contingent on the award of project-based vouchers. The HTFC in collaboration with Housing Division staff should evaluate whether the bonus structure is effective in advancing deeply affordable development. Furthermore, the HTFC and the Housing Division should be able to assess whether incentivizing such projects impacts the overall number of units supported by the Barnes Fund. Given the higher costs of producing deeply affordable units, it remains uncertain whether prioritizing these developments may reduce the total number of units produced. After assessing the results of the most recent round, the HTFC and Housing Division will be better positioned to understand how to balance the need for more affordable units with the necessity of increasing deeply affordable housing.

In addition to advancing deeply affordable units, there is also a pressing need to develop PSH units. More information about PSH can be found in Strategy E. Notably,

Action 29: "Develop a strategic plan for Permanent Supportive Housing to support annual creation of 900 PSH units for individuals experiencing or at risk of experiencing homelessness" calls on Metro to develop a PSH strategic plan. Following the guidance and direction of the plan, Metro should examine what further actions should be taken to advance PSH specifically within its existing affordable housing tools, including the Barnes Fund.

Action 19b: Continue funding the Connecting Housing and Infrastructure Program (CHIP) and identify how it can support the viability of deeply affordable projects

In addition to direct housing subsidies, the Connecting Housing to Infrastructure Program (CHIP) currently provides funding for enhanced infrastructure improvements, such as pedestrian crossings and transit access, that support Vision Zero and accessibility goals. As Metro Nashville continues to refine its approach to supporting deeply affordable housing, the Housing Division should explore how CHIP can further support these projects.

The Housing Division - or its future underwriting partner - should assess the amount of standard infrastructure costs to be covered during the underwriting process, in coordination with the Nashville Department of Transportation (NDOT), which determines standard infrastructure requirements. This determination should take into account the project gap, the number of PSH units, and other available gap subsidies.

Given the critical role of infrastructure costs in project feasibility, the Housing Division should also consider whether CHIP's scope could be expanded to cover additional standard infrastructure needs, such as sewer and water, alongside enhanced upgrades for projects providing PSH or other deeply affordable homes. In this case, the Housing Division - through its underwriting capacity - should coordinate with the relevant agency (e.g., Metro Water Services) to determine the appropriate amount of standard infrastructure cost to cover, again factoring in the project gap, number of PSH units, and other available gap subsidies.

Action 19c: Strategically deploy project-based vouchers to support deeply affordable housing

As a housing authority, MDHA is responsible for deploying federal project-based vouchers (PBVs) to affordable rental projects in Nashville. PBVs are a contract between MDHA and the owner of the project, whereby tenants pay no more than 30% of their income on rent while MDHA covers the remainder with federal funds. Developers and MDHA can use the commitment of the vouchers to secure low-cost mortgages to finance development of new affordable rental homes, making PBVs one of the most effective tools for building new rental homes that serve extremely low-income households (under 30% AMI). Because the amount MDHA can spend on PBVs annually is capped by the U.S. Department of Housing and Urban Development (HUD), MDHA carefully stewards the allocation of PBVs to maximize their impact. The coordinated RFP process, described in Action 5, could enable MDHA to coordinate with Metro to bring other affordable housing resources to the table and achieve greater impact with the PBVs it controls. Electing to designate vouchers as project-based deducts those vouchers from the number of Housing Choice Vouchers that are available so choice about this action should be pursued with strong consideration of the larger housing ecosystem.

Action 20: Commit multi-year capital spending for infrastructure investments for MDHA transformation projects to increase deeply affordable housing and support increased density

MDHA has embarked on an ambitious, multi-year redevelopment plan that seeks to transform six sites across Metro Nashville into more dense, mixed-income communities. MDHA is nearing completion on the first project, Cayce Transformation, which has resulted in the construction of 600+ mixed-income homes. For future phases, there is an opportunity to align specifically with the housing goals articulated in the UHS, including deep affordability and strong tenant protections. Modern redevelopments should prioritize the preservation of existing affordable housing while also enabling the addition of new units when new federal subsidizes are available.
To support priority projects and ensure that they meet UHS goals, Metro should dedicate local, multi-year infrastructure funding for the sites that add net new deeply affordable units.