NATIONAL MULTIFAMILY HOUSING COUNCIL

The Housing Affordability Toolkit

THE RENT REQUIRED TO SUPPORT THE CREATION OF NEW APARTMENTS IS DETERMINED BY THE COST TO DEVELOP AND OPERATE THAT HOUSING

State and local governments often establish policies and regulations that increase the costs of apartments without considering the impact those policies will have on rents and affordability in a community.

On the other hand, state and local governments can also create policies and regulations that reduce development costs and increase the affordability of new rental apartments.

This document describes the relationship between costs and rents and illustrates how state and local policies impact affordability.

Developed in Partnership with HR&A Advisors

Table of Contents

NATIONAL MULTIFAMILY HOUSING COUNCIL

Toolkit Guide

THE HOUSING AFFORDABILITY TOOLKIT

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The Housing Affordability Toolkit is intended to support engagement with local housing stakeholders.

Housing stakeholders – lawmakers, developers, community advocates, local residents, etc. – must be prepared to evaluate their housing market and effectively advocate for local housing policies in diverse communities across the nation. This requires a thorough understanding of national and local market trends, a working knowledge of various local policies and their impact on housing costs and development, and a compelling benefits case for multifamily housing.

The Housing Affordability Toolkit is intended to help stakeholders engage in local housing policy conversations by providing a framework for understanding how local government policy impacts housing affordability.

Impetus for the Toolkit

A GROWING HOUSING AFFORDABILITY CRISIS

Housing affordability is a growing issue in jurisdictions across the country and has reached the point of crisis in many communities. It is no longer an issue that impacts only large coastal cities or only low-income households. More communities and more households of all income levels are impacted.

INCREASING ACTION FROM LOCAL GOVERNMENTS

Local governments are increasingly enacting new local housing policies to address growing housing affordability challenges. This has led to a wave of new housing regulations in jurisdictions across the country.

INEFFECTIVE POLICIES HAVE UNINTENDED CONSEQUENCES

As more and more local housing policies are implemented, ineffective or poorly structured policies are increasingly resulting in unintended consequences. Policies meant to improve housing affordability might have the opposite of their intended effect – they increase housing costs and decrease housing affordability by discouraging housing development.

THERE IS A NEED FOR INCREASING ENGAGEMENT

Apartment developers, owners, and managers must engage more frequently with local housing advocates and policymakers to ensure that policies are effective at encouraging housing development and increasing housing affordability. This Toolkit is intended to help facilitate conversations that result in the enaction of effective local housing policies.

HOUSING AFFORDABILITY TOOLKIT

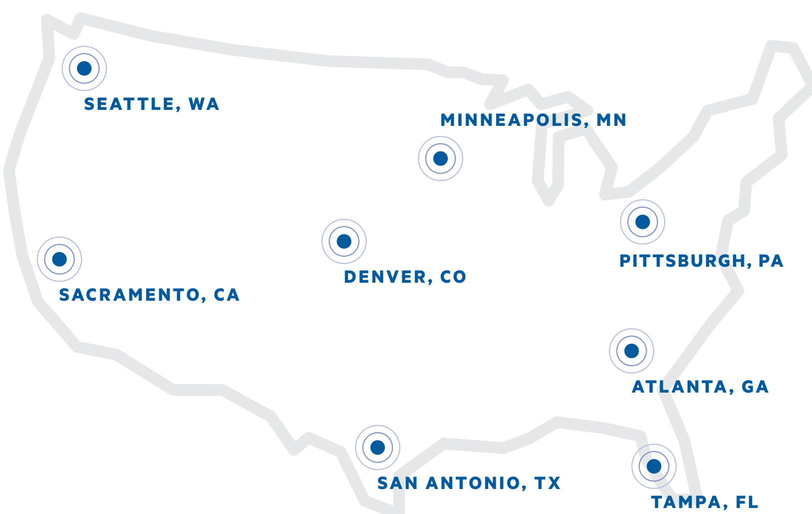
The State of Housing Affordability

The Toolkit explores national and local market trends in ***The State of Housing Affordability***. This section outlines the major drivers impacting housing affordability in order to inform conversations in a variety of housing market types.

The State of Housing Affordability includes an exploration of national housing market trends through eight case studies. These case study cities are shown below.

The National Trends section describes macro housing market trends that are driving affordability challenges across communities.

The case studies illustrate different housing market conditions, reflecting common sets of challenges cities face. Stakeholders can use one or more case studies to compare and contrast local issues with issues in well-understood housing markets.



11 · HOUSING AFFORDABILITY TOOLKIT — National Trends

National Trends

The combination of a **shortage in rental housing, rising development costs, and stagnant incomes** are driving the growing housing affordability crisis affecting U.S. cities.

SHORTAGE IN RENTAL HOUSING

Growing rental demand, limited new construction, and rising development costs have caused rents to rise.

The supply of rental housing units affordable to households earning less than $75,000 did not keep up with demand from 2000 to 2016.

6.3M New renter households earning under $75K
– 3.2M Change in rental housing units affordable to them
3.1M Shortage of rental housing units

RISING DEVELOPMENT COSTS

Development costs are rising, and rents must rise to cover the increased costs.

The cost to develop a new apartment building has risen more than twice as fast as inflation since 2000, increasing the rent that must be charged to support new development.

57% Real hard costs (materials and labor) increased by 57%.
2x Land costs increased 100%.

STAGNANT INCOMES

At the same time, renter incomes have stagnated.

The real median renter income declined by 5.5% from 2000 to 2016, leaving the median renter with $175 less per month.

-5.5% Renter income declined by 5.5% from 2000 to 2016.
-$175 The median renter household income was $175 less per month.

AFFORDABILITY CHALLENGES SPREAD

Stagnant incomes paired with rising rents have led to growing affordability challenges.

20.2 million renter households – 46% of all renters – struggled to afford rent in 2016. Middle-income renters experienced the largest increase in cost-burdened households* since 2000.

46% 46% of all renters struggled to afford rent.
129% 129% increase of middle-income burdened renters.

*Those paying more than 30 percent of their income in housing costs.
Source: Craftsman Cost Data, ACS, U.S. Census, HR&A analysis

112 · HOUSING AFFORDABILITY TOOLKIT — Case Studies: Atlanta

Atlanta, GA

Atlanta is experiencing strong population growth and worsening affordability challenges, affecting the ability of low- and middle-income renters to afford to live in the city.

Growth has been accommodated through the construction of new multifamily housing and the densification of neighborhoods where housing had not been developed in decades. However, much of this housing is targeted at higher-income households.

$53,800	$37,500	113,800	78,100
MEDIAN HOUSEHOLD INCOME	MEDIAN RENTER HOUSEHOLD INCOME	TOTAL RENTER HOUSEHOLDS	TOTAL MULTIFAMILY RENTAL UNITS

DRIVERS

Greater Demand for Rental Housing

Between 2000 and 2016, the number of renter households in Atlanta has grown on net by nearly 19,000, or 20%. On average, these new renters have higher incomes than the city's existing renters, leading to more households with greater resources competing for rental housing in Atlanta.

Rising Development Costs

Increases in construction costs (76% since 2000) and land prices (720% since 2012) have raised the cost to develop – and the rents necessary to support – new rental housing.

IMPACTS

Reduced Supply of Lower-Rent Housing

Greater demand for rental housing has raised rents for existing housing. As a result, the share of occupied rental units priced under $800 a month fell by 15.7 percentage points from 2000 to 2016.

High Rents for New Rental Housing

Rents for newly built units rose 24% between 2000 and 2016. The market built almost no new market-rate rental housing affordable to the median renter in 2016 or 2017 due to high development costs and competition from higher-income renters.

Emerging Affordability Challenges for Middle-Income Renters

Atlanta is struggling to attract and retain both new and existing low- and middle-income renters, who are disproportionately locating in lower-cost communities in the surrounding metro region.

Relevant Tools

For more information on relevant housing tools, programs, and policies, see the following pages:

- Public Land
- By-Right
- Tax Abatement
- Inclusionary Zoning

Cities Facing Similar Challenges

Cities facing similar housing affordability challenges include:

- Houston, TX
- Columbus, OH
- Irving, TX
- Columbia, SC

155 · HOUSING AFFORDABILITY TOOLKIT — Case Studies: Seattle

DRIVER

Unprecedented Demand for Rental Housing, Especially from High-Income Renters: Seattle's economic growth has led to an unprecedented level of demand from high-income renter households.

Seattle added 38,500 renter households between 2000 and 2016. The growth in renter households has been driven by both an influx of new renter households and an increase in renting among existing and newly formed households in the city.

The majority of new renters occupied apartments. This amounted to an increase of 35,000 in the number of occupied multifamily units. This trend indicates both a preference for and growing supply of higher density housing.

NET NEW RENTER HOUSEHOLDS BETWEEN 2000 AND 2016 BY UNITS IN OCCUPIED STRUCTURE

38.5K New Renter Households Between 2000 and 2016
9% of new renter households occupied single-family residences
91% of new renter households occupied units in multifamily buildings

The number of high-income renters grew substantially between 2000 and 2016. More than eight out of ten renters added in Seattle during this period were high-income renters; this amounts to an increase of 33,000 in high-income renter households. Fewer than two in ten new renters were low or middle income. This degree of income growth places considerable upward pressure on rents.

FOR EVERY 10 NET NEW RENTER HOUSEHOLDS ADDED BETWEEN 2000 AND 2016

0.7 were low income
0.4 were middle income
8.9 were high income

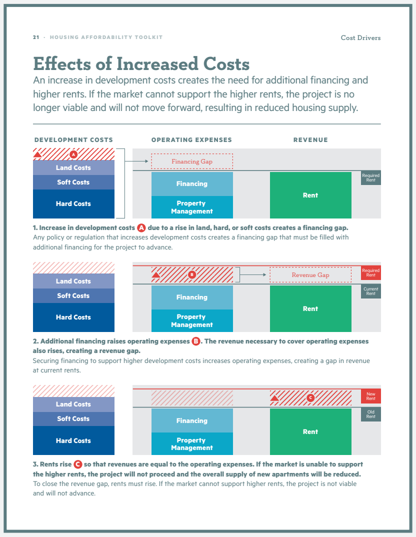
Low income: $0-35K | Middle income: $35-75K | High income: $75K+

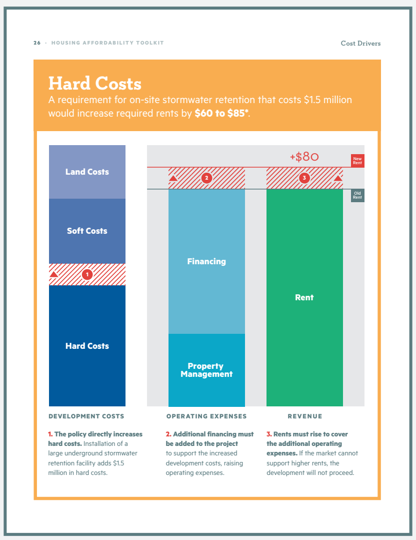
Between 2000 and 2016, the real median income for renter households increased by 24%. In contrast, the real national median declined over the same period. Seattle's rapid increase is attributable to its historic influx of high-income renters.

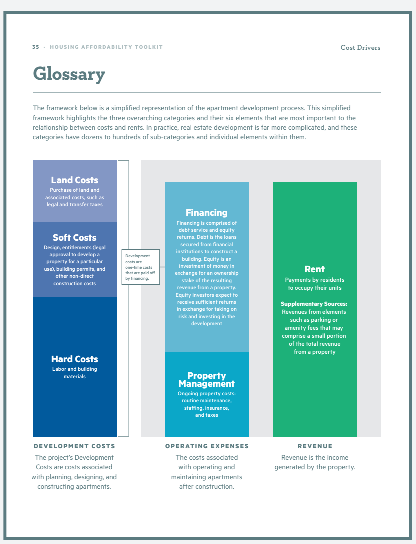
REAL MEDIAN RENTER HOUSEHOLD INCOME IN SEATTLE AND THE NATION

$56,900
$45,800
$37,300
$39,400
2000
2016
National Median Renter Income
Seattle Median Renter Income

Source: CoStar, ACS, U.S. Census, HR&A analysis







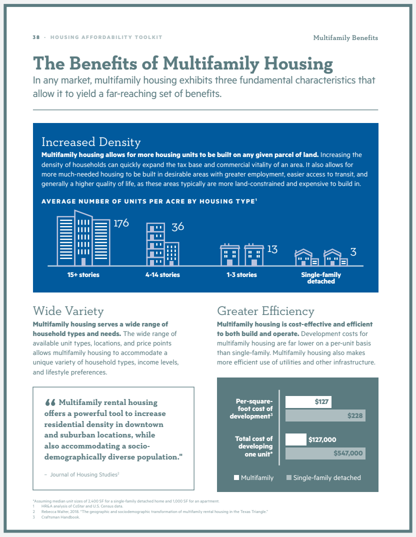
HOUSING AFFORDABILITY TOOLKIT

Housing Cost Drivers

The Toolkit continues with the ***Housing Cost Drivers*** section, which details the key factors that impact housing costs. Housing Cost Drivers is organized to provide clear visuals that show the impact of policies or regulations in the housing market.

The section consists of an overview of cost drivers; robust and illustrative examples of policies, regulations, and incentives; and an assessment of how these measures impact the cost of housing. Housing Cost Drivers also includes survey-generated market information on development costs and quantifies the costs of onerous regulations and policies.

Each scenario within Housing Cost Drivers can stand alone, giving users the opportunity to select examples that are most relevant to their current regulatory climate. Examples can be used to show the often-unseen connection between housing regulations or policies and cost increases.


38 · HOUSING AFFORDABILITY TOOLKIT
Multifamily Benefits

The Benefits of Multifamily Housing

In any market, multifamily housing exhibits three fundamental characteristics that allow it to yield a far-reaching set of benefits.

Increased Density

Multifamily housing allows for more housing units to be built on any given parcel of land. Increasing the density of households can quickly expand the tax base and commercial vitality of an area. It also allows for more much-needed housing to be built in desirable areas with greater employment, easier access to transit, and generally a higher quality of life, as these areas typically are more land-constrained and expensive to build in.

AVERAGE NUMBER OF UNITS PER ACRE BY HOUSING TYPE

Wide Variety

Multifamily housing serves a wide range of household types and needs. The wide range of available unit types, locations, and price points allows multifamily housing to accommodate a unique variety of household types, income levels, and lifestyle preferences.

"Multifamily rental housing offers a powerful tool to increase residential density in downtown and suburban locations, while also accommodating a socio-demographically diverse population."

— Journal of Housing Studies

Greater Efficiency

Multifamily housing is cost-effective and efficient to both build and operate. Development costs for multifamily housing are far lower on a per-unit basis than single-family. Multifamily housing also makes more efficient use of utilities and other infrastructure.


40 · HOUSING AFFORDABILITY TOOLKIT
Multifamily Benefits

Economic Growth and Vitality

Multifamily housing stimulates and sustains local economies, neighborhood health, and overall economic competitiveness.

Denser housing and denser cities support the formation and growth of businesses.

Denser urban areas are more economically productive due to the networks that form when firms and people locate near each other. As ideas are more freely exchanged between both collaborators and competitors, urban areas benefit from advancements in innovation. Multifamily housing contributes to this effect by significantly increasing urban density.

"Emerging sectors of the economy often place a premium on access to specialized business services, professional contacts, restaurants, and employee housing...these aspirations can best be realized in mixed-use agglomerations."

— Paul G. Lewis, Shaping Suburbia

PERCENTAGE OF PIPELINE PROPERTIES PLANNED AS MIXED-USE

Multifamily housing enables neighborhood investment and commercial activity.

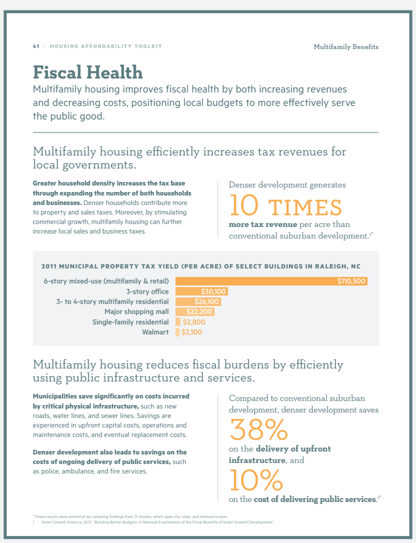
Multifamily housing development is a signal and stimulator of neighborhood growth.

The development of multifamily housing tends to encourage the concentration of households and incomes needed to support new retail and commercial development. At a time when retail footprints across the nation are receding, a notable increase in mixed-use developments containing residential with retail and/or office indicates that denser housing can attract and support commercial activity.

In other cases, multifamily housing is the necessary piece to transform areas filled with predominantly commercial uses (office, retail, public facilities) into vibrant, 24-hour mixed-use districts, as has been the case for downtowns across many major cities.

"Residential has been the big story over the last couple decades. Downtown, prior to that, evolved as the location for commercial office and retail, and then for the major arts and cultural institutions."

— Jon Scholes, President & CEO of the Downtown Seattle Association


41 · HOUSING AFFORDABILITY TOOLKIT
Multifamily Benefits

Fiscal Health

Multifamily housing improves fiscal health by both increasing revenues and decreasing costs, positioning local budgets to more effectively serve the public good.

Multifamily housing efficiently increases tax revenues for local governments.

Greater household density increases the tax base through expanding the number of both households and businesses. Denser households contribute more to property and sales taxes. Moreover, by stimulating commercial growth, multifamily housing can further increase local sales and business taxes.

Denser development generates 10 TIMES **more tax revenue** per acre than conventional suburban development.

2011 MUNICIPAL PROPERTY TAX YIELD (PER ACRE) OF SELECT BUILDINGS IN RALEIGH, NC

Multifamily housing reduces fiscal burdens by efficiently using public infrastructure and services.

Municipalities save significantly on costs incurred by critical physical infrastructure, such as new roads, water lines, and sewer lines. Savings are experienced in upfront capital costs, operations and maintenance costs, and eventual replacement costs.

Denser development also leads to savings on the costs of ongoing delivery of public services, such as police, ambulance, and fire services.

Compared to conventional suburban development, denser development saves 38% on the **delivery of upfront infrastructure**, and 10% on the **cost of delivering public services.**

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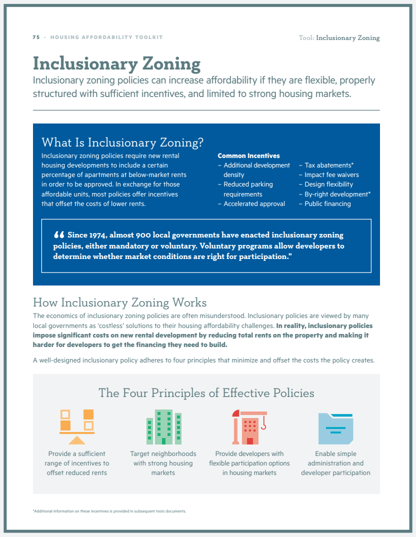
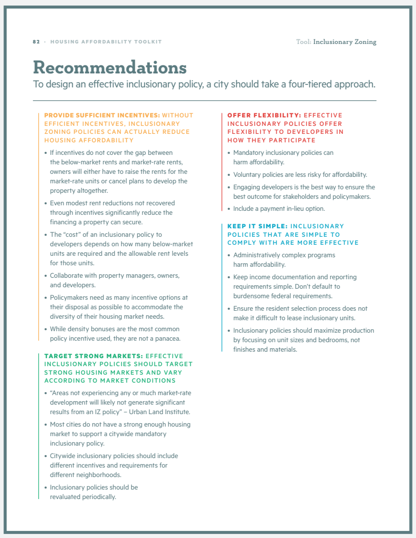
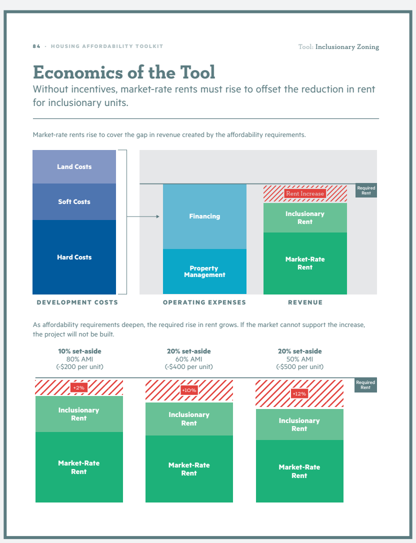
Multifamily Benefits Case

The ***Multifamily Benefits Case*** summarizes and synthesizes existing research on the community benefits of incorporating higher-density, multifamily housing into neighborhoods. At the same time, this section dispels common myths about high-density development. This section provides users with a strong foundation to advocate for multifamily developments in a variety of communities.

This section explores a number of benefits that may be compelling to local residents, officials, and advocates for other complementary causes. The Multifamily Benefits Case explores the economic, fiscal, social, and environmental benefits associated with dense housing development. Users are encouraged to select sections of the Multifamily Benefits Case that will most likely to resonate with their intended audience.







HOUSING AFFORDABILITY TOOLKIT

Housing Affordability Strategies

Finally, the ***Housing Affordability Strategies*** provide in-depth descriptions of tools, policies, and incentives to support housing affordability in a wide variety of housing market types and communities. Each strategy is described in detail and includes recommendations for structuring and implementing the policy, tool, or incentive in question.

In many ways, the Housing Affordability Strategies are the key advocacy documents within the Toolkit. Using this section, users will be able to effectively advocate for strategies that support housing development and help address housing affordability challenges in their target markets. For policies already under consideration, this section will help users work with local officials and housing advocates to structure policies in ways that are most effective at encouraging housing development and least harmful to housing affordability.

As with previous sections, each strategy in this section can stand alone and be used to guide discussions regarding specific policies, tools, or incentives. NMHC members are encouraged to pull from other sections of the Toolkit to bolster the recommendations within the Housing Affordability Strategies. Highlighted strategies include:

- Inclusionary Zoning
- Tax Abatement
- Public Land
- By-Right Development
- Rent Control
- Development Incentives

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National Trends

THE HOUSING AFFORDABILITY TOOLKIT

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National Trends

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6.3M New renter households earning under $75K

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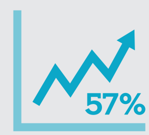

Real hard costs (materials and labor) increased by 57%.

Land costs increased 100%.

+

STAGNANT INCOMES

At the same time, renter incomes have stagnated.

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Renter income declined by 5.5% from 2000 to 2016.

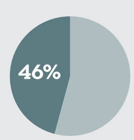
The median renter household income was $175 less per month.

=

AFFORDABILITY CHALLENGES SPREAD

Stagnant incomes paired with rising rents have led to growing affordability challenges.

20.2 million renter households – 46% of all renters – struggled to afford rent in 2016. Middle-income renters experienced the largest increase in cost-burdened households* since 2000.



46% of all renters struggled to afford rent.

129% increase of middle-income burdened renters.

*Those paying more than 30 percent of their income in housing costs.
Source: Craftsman Cost Data, ACS, U.S. Census, HR&A analysis

Shortage in Rental Housing

Rental demand is outpacing supply, leading to growing affordability challenges that are spreading beyond low-income households.

The U.S. needs to produce 4.6 million new apartments by 2030 to keep up with demand. This equates to 328,000 new apartment homes every year. We have only hit that number three times in the past 30 years.

THE PLIGHT OF LOW- AND MIDDLE-INCOME RENTERS BETWEEN 2000 AND 2016

Between 2000 and 2016...

6.3 MILLION

additional low- and middle-income households entered the rental market

3.2 MILLION

additional units affordable to them were added.

3.1 MILLION

This left a shortage of 1.2 million new units for these renters, resulting in competition for existing units that drives up rents.

> **"Housing [affordability] issues are a product of economic growth in the city bumping against strict zoning constraints. That's what leads to the unaffordability problem."**
>
> – David Shulman, Senior Economist at UCLA's Anderson School of Management, 2016

Between 2000 and 2016, 6.3 million net new low- and middle-income households (those earning less than $75,000) entered the rental market. But only 3.2 million rental units affordable to them were added.

The shortage in new supply against the backdrop of historically high rental demand has led to rising rents. Increased development for middle-income renters can reduce pressure on existing rental properties.

> **"More private development [is] associated with less displacement. More supply places downward pressure on prices and rents."**
>
> – California Legislative Analyst's Office, 2016

Source: CoStar, ACS, U.S. Census, HR&A analysis

Shortage in Rental Housing: The Changing Renter

Renting has become an increasingly popular lifestyle choice. With more middle- and high-income households choosing to rent, there is more competition for the existing supply of rental housing.

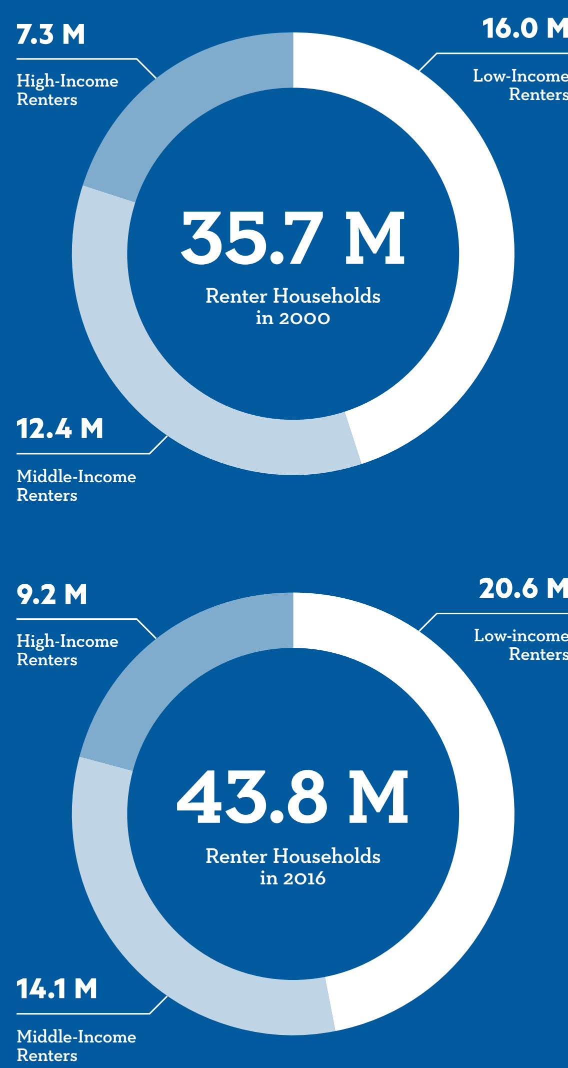
Rental demand is at an unprecedented level. Since 2000, the number of renter households grew by more than **8 million.** The number of middle- and high-income renters has increased by 13% and 27%, respectively, since 2000.

> **"After a decade of broad-based growth, renter households are increasingly likely to have higher incomes, be older, and have children."**
>
> – America's Rental Housing, Harvard Joint Center for Housing Studies, 2017

This increased demand has contributed to an increase in the real median rent. These new "renters by choice" compete with existing renters if new supply is not added to the market. If new construction is sufficient, potential displacement as a result of this competition can be mitigated.

> **"If new construction targets rich people, then that leaves older dwellings free to be occupied by the middle class. If nothing new is built, the rich will outbid the middle class of existing structures and renovate them."**
>
> – Vox Co-Founder Matthew Yglesias, 2018

RENTER HOUSEHOLDS BY INCOME



Low income: $0-35K
Middle income: $35-75K
High income: $75K+

Source: CoStar, ACS, U.S. Census, HR&A analysis

Rising Development Costs

Development costs are rising, which means rents must rise to cover those increased costs.

The cost of construction materials and labor grew 57% from 2000 to 2016. Land costs, meanwhile, have almost doubled since 2000.

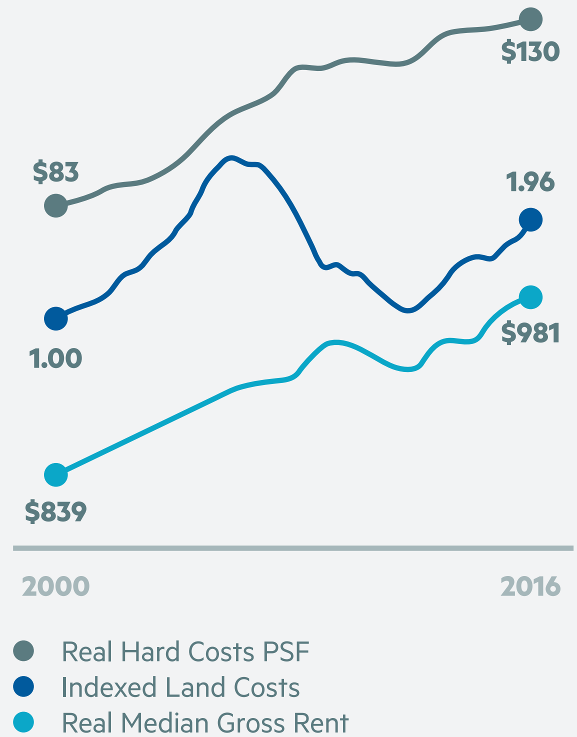
The cost to develop rental housing is rising due to increased development costs. These cost increases mean rents have to rise to make development viable.

This creates a barbell effect, where the market only produces high-end, high-rent apartments and low-rent units subsidized by the government. Units targeted to middle-income renters are not financially feasible because it costs more to build those units than middle-income renters can afford to pay.

In addition to rising land, labor and construction costs, state, local and neighborhood barriers add further to the cost of development and, therefore, lead to rising rents.

State and local governments have substantial control over development costs. Zoning policies, land use regulations and other state and local policies can add additional costs to new development. Alternatively, they can be reformed and streamlined to help reduce development costs.

Multifamily Development Cost and Rent Trends



> **"Over the past three decades, local barriers to housing development have intensified, particularly in the high-growth metropolitan areas increasingly fueling the national economy. The accumulation of such barriers – including zoning, other land use regulations, and lengthy development approval processes – has reduced the ability of many housing markets to respond to growing demand."**
>
> – Obama White House Housing Development Toolkit, 2016

Source: Craftsman Cost Data, Lincoln Institute, ACS, U.S. Census, HR&A analysis

Stagnant Incomes

Stagnant incomes for middle-income households are contributing to growing affordability challenges.

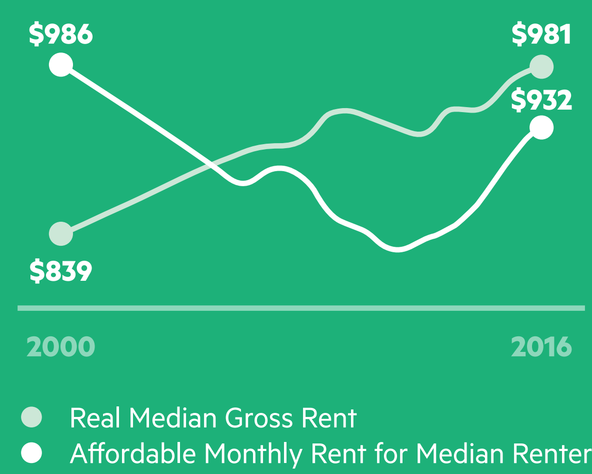
Incomes are falling for low-income households and are stagnant for middle-income households, causing rapid growth in affordability challenges. Since 2000, real household incomes have fallen for the bottom 40% of American households, while the middle 20% experienced almost no real household income growth.

Real renter incomes have declined since 2000. In 2000, the median renter earned $39,400, falling to $37,300 in 2016. This leaves the median renter with about $2,000 less to spend on necessities, including rent.

> There was a reduction of median renter household income between 2000 and 2016 by
>
> -5.5%

When incomes do not keep up with rents, the affordability of housing declines. In 2000, the median renter household could afford to pay the median gross rent with $147 left over per month. By 2016, they were $49 short of being able to afford the median gross rent. For this reason, we see more middle-income households struggling to afford housing than we have in the past.

Real Median Gross Rent and Affordable Monthly Rent for the Median Renter

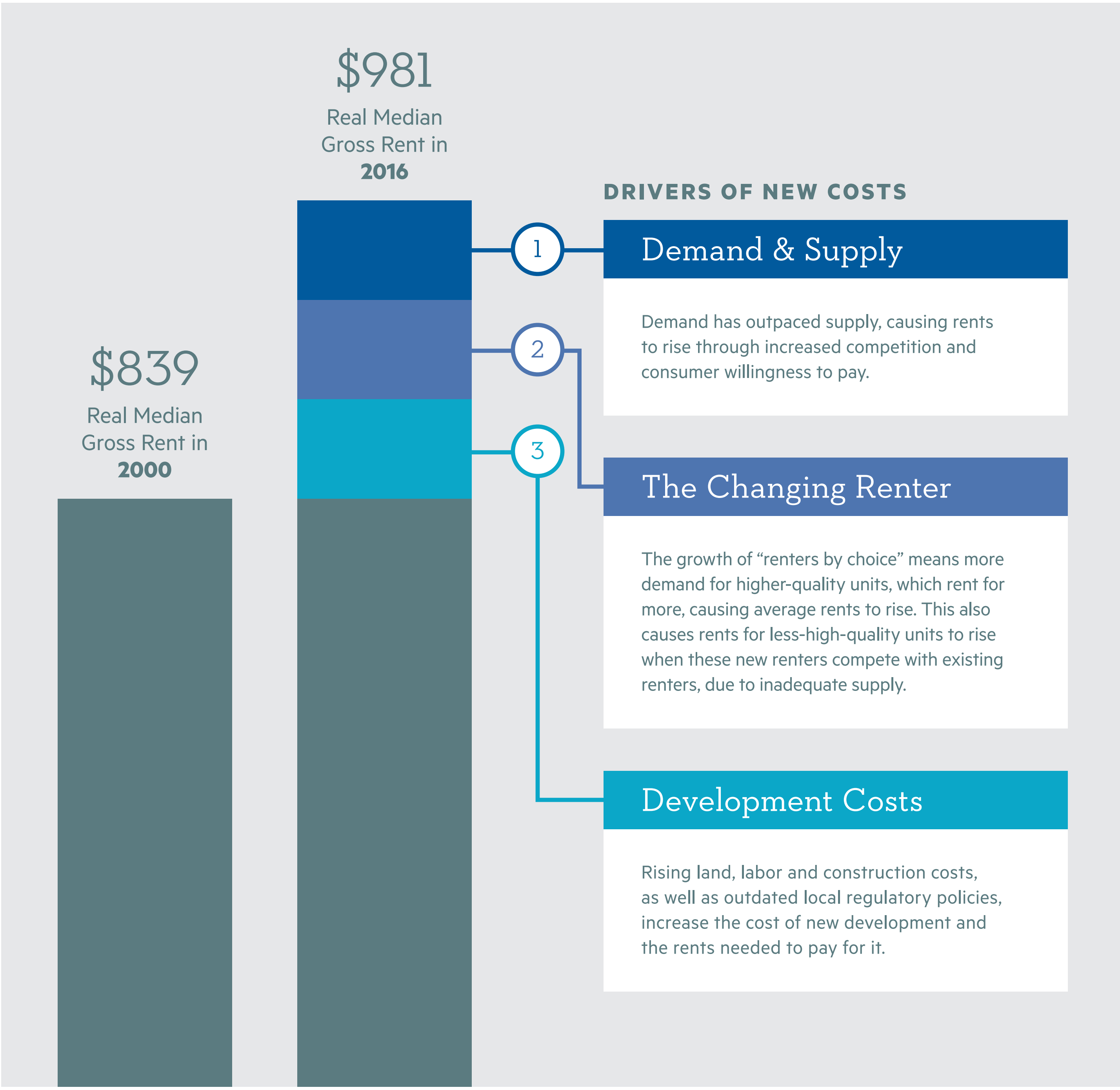


> The percent of income the median renter would need to pay to afford median rent is
>
> 32%

Source: ACS, U.S. Census, HR&A analysis

Upward Pressure on Rents

There are three major causes behind the nationwide increases in rents.



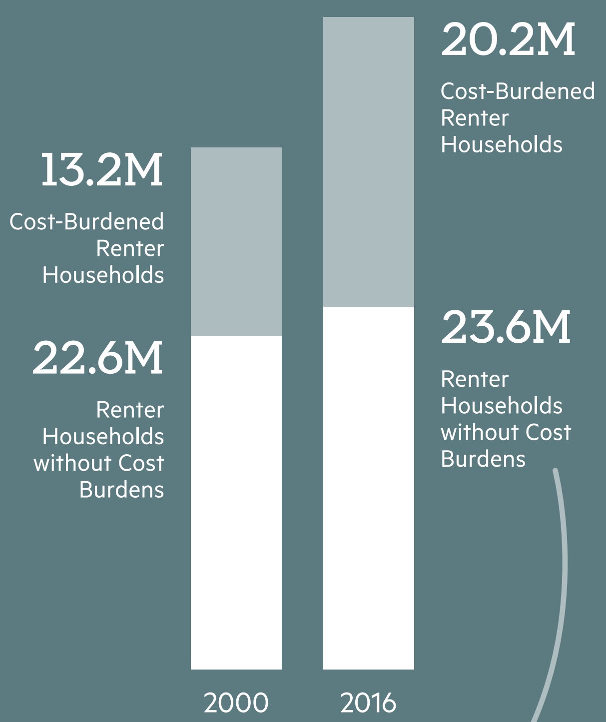
Source: ACS, U.S. Census, HR&A analysis

Affordability Challenges Spread

Housing affordability challenges have spread to middle-income households and beyond the high-cost coastal cities.

Today, more than 20 million renter households – 46% of all renters – struggle to afford rent. This number has increased by more than 50% since 2000.

REAL MEDIAN GROSS RENT AND AFFORDABLE MONTHLY RENT FOR THE MEDIAN RENTER



7MILLION

more cost-burdened households than in 2000

While housing affordability challenges continue to inordinately impact low-income households, the share of middle-income renters, earning between $35,000 and $75,000, who are rent-burdened increased dramatically between 2000 and 2016.

32%

of middle-income households were rent-burdened in 2016, up from 16% in 2000.

Housing affordability is now a major challenge throughout the country. In the past, high housing costs were confined to major coastal cities. This is no longer the case, as smaller cities and inland cities now struggle with real housing affordability issues.

> **“Over half of the mayors interviewed cited housing costs as one of the main reasons their constituents move, outpacing other key issues like schools, public safety, and jobs."**
>
> – 2017 Menino Survey of Mayors

Source: ACS, U.S. Census, HR&A analysis

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Cost Drivers

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The Cost of Developing New Apartments and the Link to Affordability

The rent required to support the creation of new apartments is determined by the cost to develop and operate that housing.

State and local governments often establish policies and regulations that increase the costs of apartments without considering the impact those policies will have on rents and affordability in a community.

On the other hand, state and local governments can also create policies and regulations that reduce development costs and increase the affordability of new rental apartments.

This document describes the relationship between costs and rents and illustrates how state and local policies impact affordability.

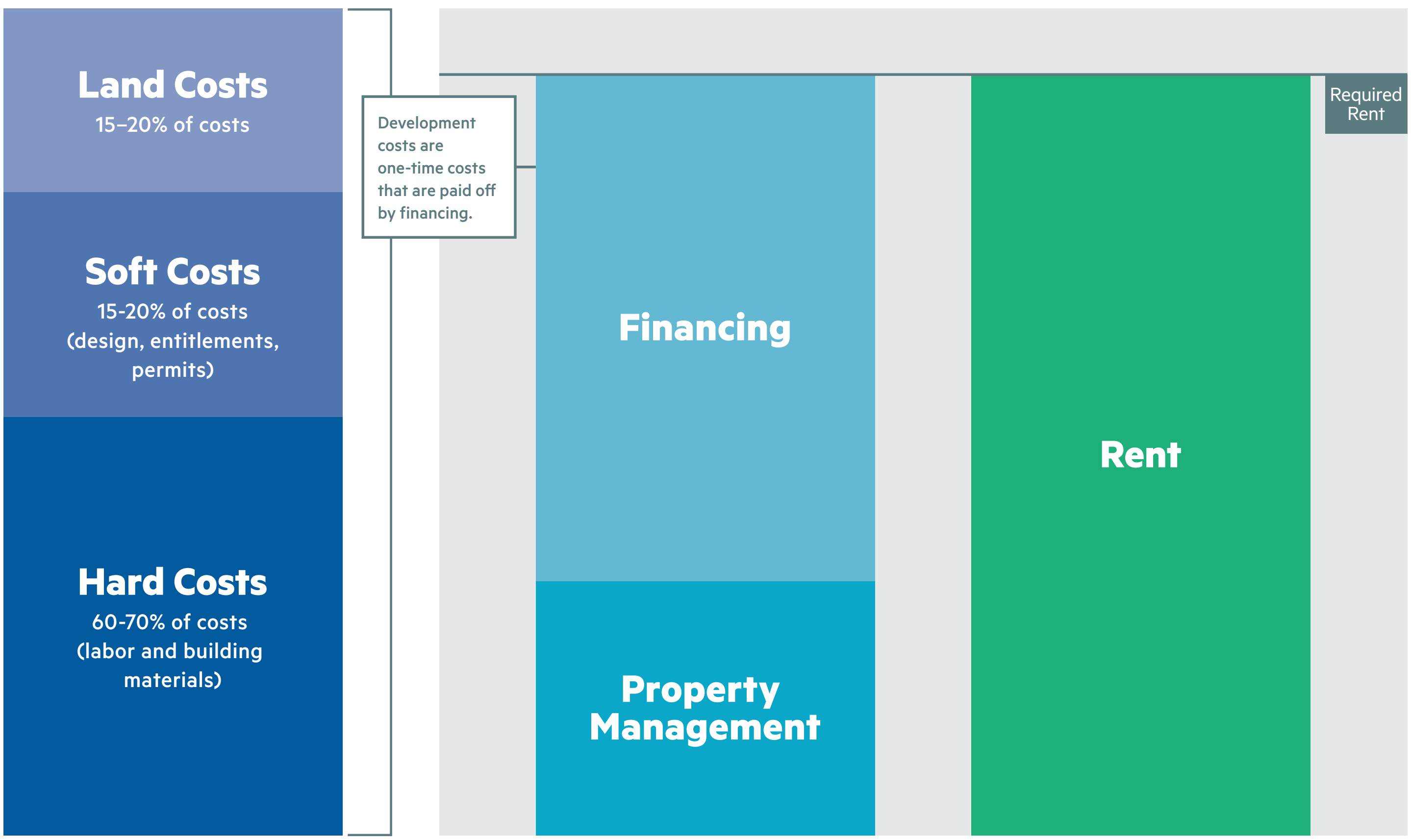
Apartment Development Framework

Development costs influence the operating costs for a property, which determine the rent required to make the project feasible.

Building new apartments incurs development costs that are paid for with financing. The greater the development costs, the more financing is needed. As the amount of financing increases (decreases), it raises (lowers) the operating cost for the apartments. As operating costs rise (fall), the required rent must rise to generate sufficient revenue to cover the higher operating expenses and maintain the apartments' viability.

SIMPLIFIED APARTMENT DEVELOPMENT FRAMEWORK

The framework below is a simplified representation of the apartment development process, illustrating the relationship between costs and rents



DEVELOPMENT COSTS

The project's **Development Costs** determine the amount of financing required.

OPERATING EXPENSES

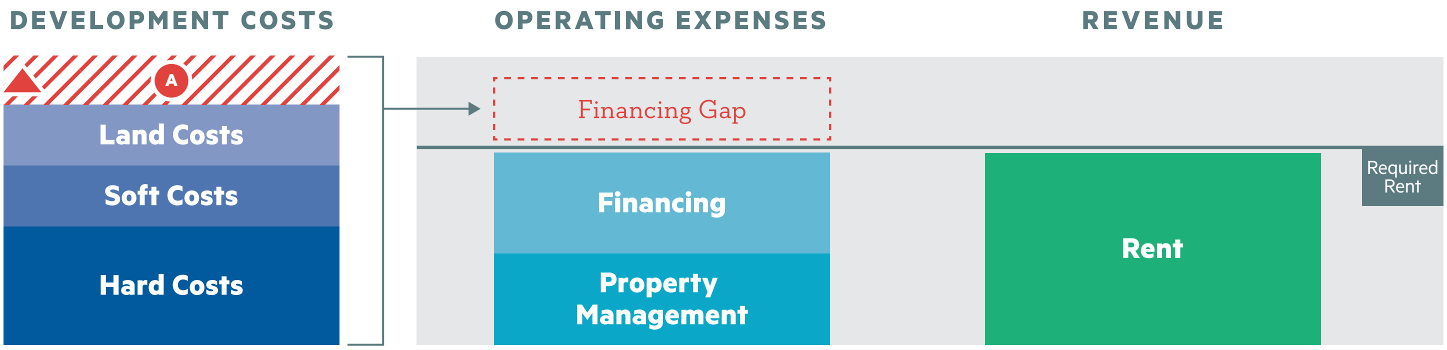
Financing Costs combined with property management costs make up the **Operating Expenses**.

REVENUE

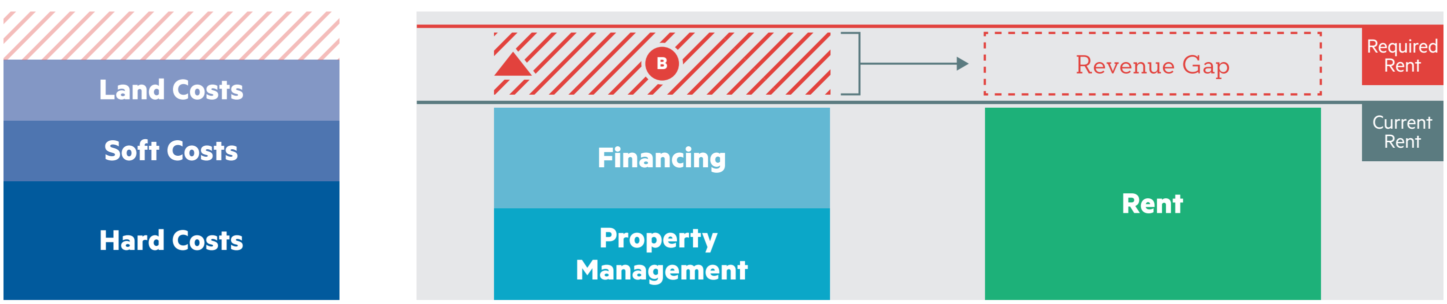
The project's revenues must cover the operating project's revenue. The **Required Rent** is the minimum average rent necessary for the project to be viable.

Effects of Increased Costs

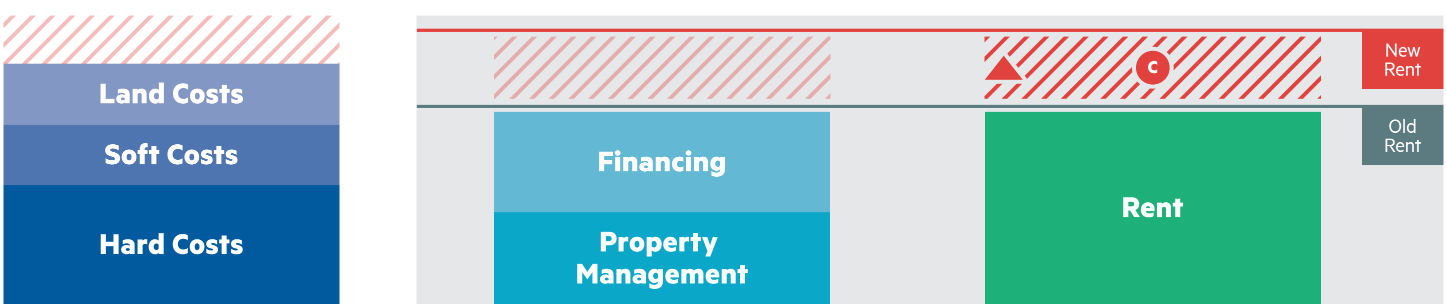
An increase in development costs creates the need for additional financing and higher rents. If the market cannot support the higher rents, the project is no longer viable and will not move forward, resulting in reduced housing supply.



1. Increase in development costs A due to a rise in land, hard, or soft costs creates a financing gap.
Any policy or regulation that increases development costs creates a financing gap that must be filled with additional financing for the project to advance.



2. Additional financing raises operating expenses B. The revenue necessary to cover operating expenses also rises, creating a revenue gap.
Securing financing to support higher development costs increases operating expenses, creating a gap in revenue at current rents.

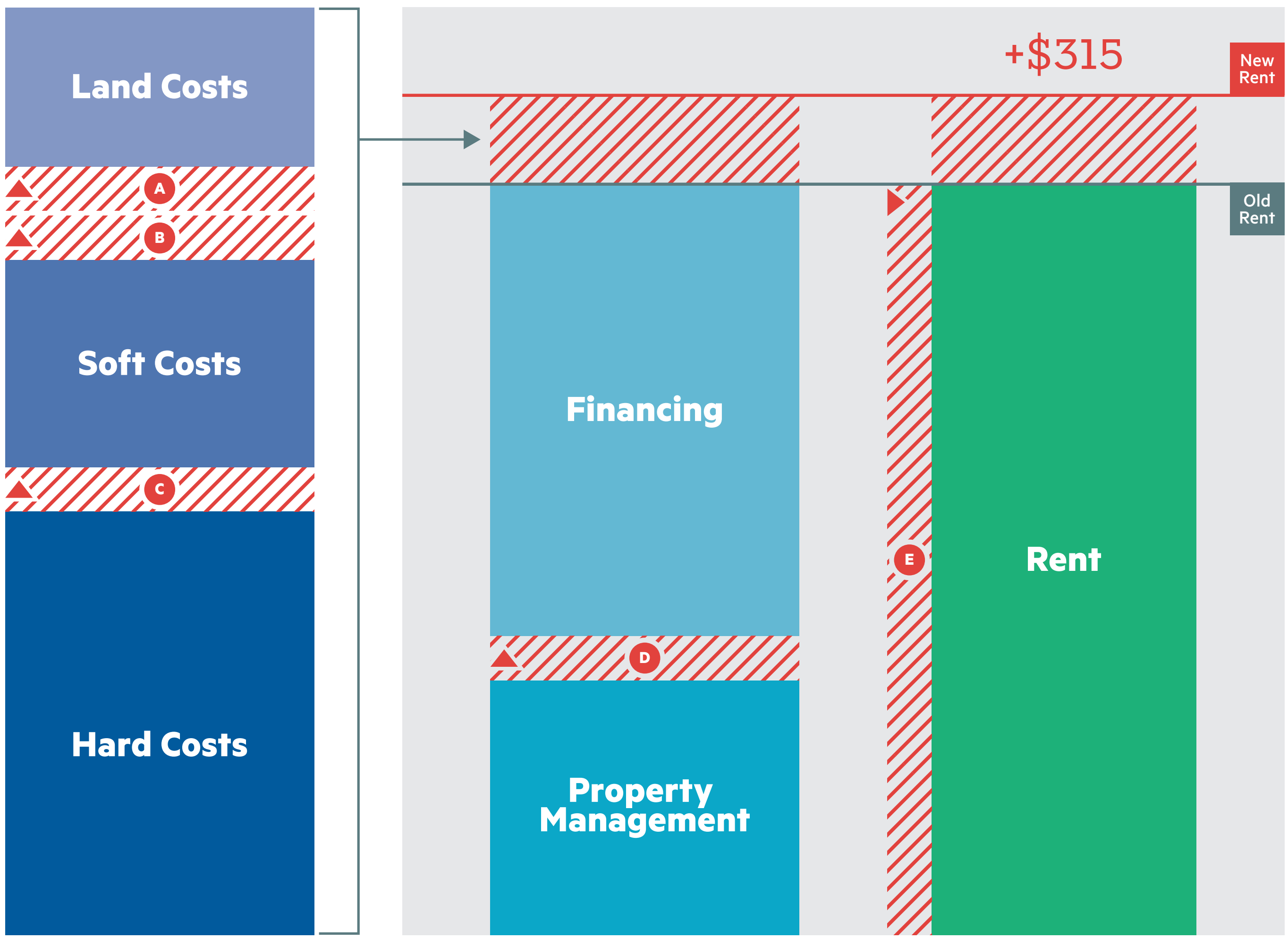


3. Rents rise C so that revenues are equal to the operating expenses. If the market is unable to support the higher rents, the project will not proceed and the overall supply of new apartments will be reduced.
To close the revenue gap, rents must rise. If the market cannot support higher rents, the project is not viable and will not advance.

Cumulative Impact of Government Policies

When state and local government policies are layered together, they can significantly raise the rent for new apartments.

State and local governments often establish new regulations that impact the cost of developing new apartments, without considering the impact on overall affordability. These regulations can add up over time and significantly increase rents in a community.*



STATE & LOCAL GOVERNMENT POLICIES

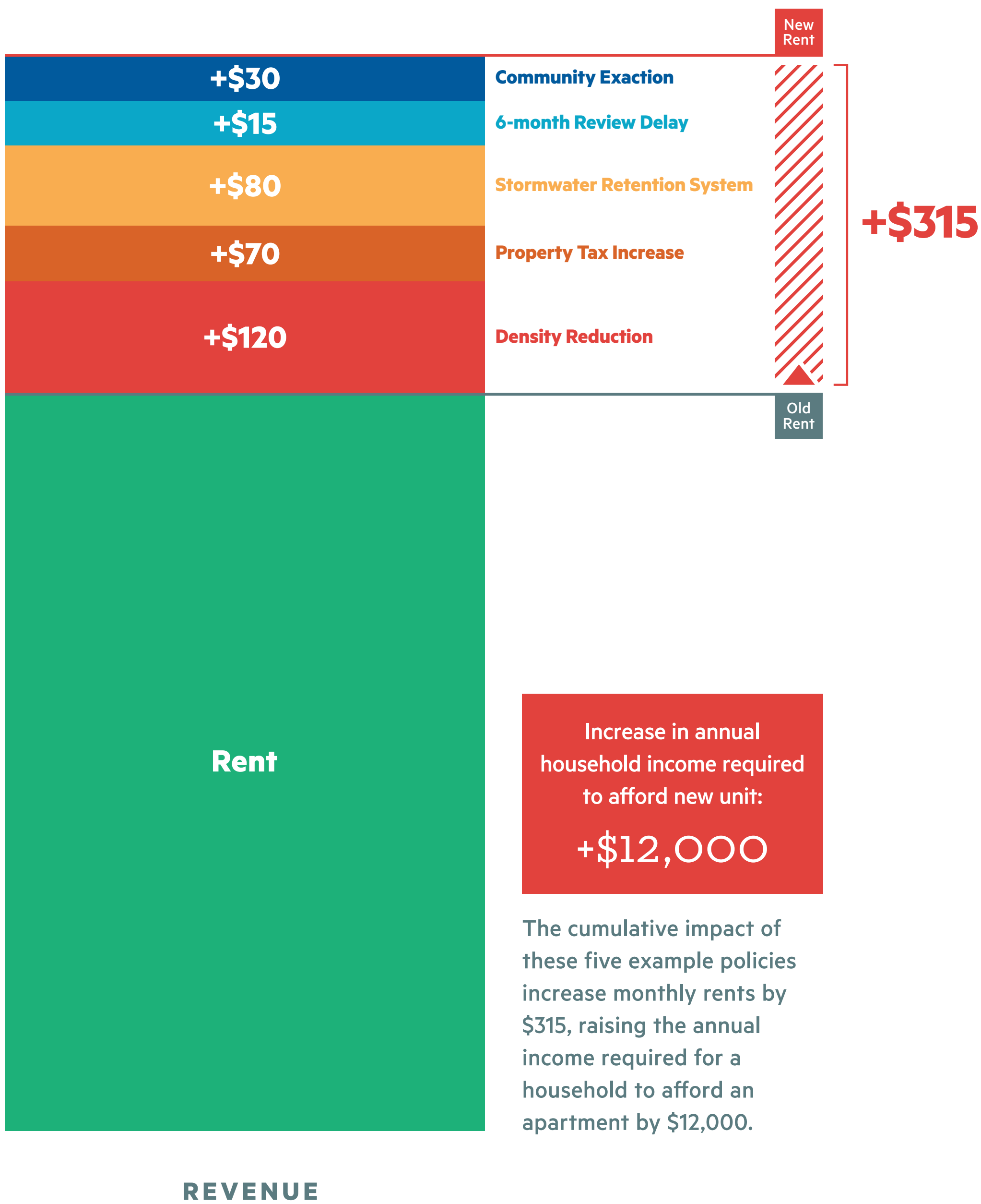
- **A** Community Exactions | Soft Cost Increase
- **B** 6-month Review Delay & Study | Soft Cost Increase
- **C** Stormwater Retention System | Hard Cost Increase
- **D** Property Tax Increase | Property Management Increase
- **E** Density Reduction** | Reduction to Revenues

1 * These calculations were based on a sample 200-unit garden-style apartment development in Atlanta. More information on the hypothetical project can be found in the appendix on pages 167 – 173.
2 ** A density reduction would also result in a marginal decrease in hard costs, shown in detail on page 28.

Cumulative Impact of Government Policies

The cumulative impact of many policies over time substantially reduces the affordability of new apartments.

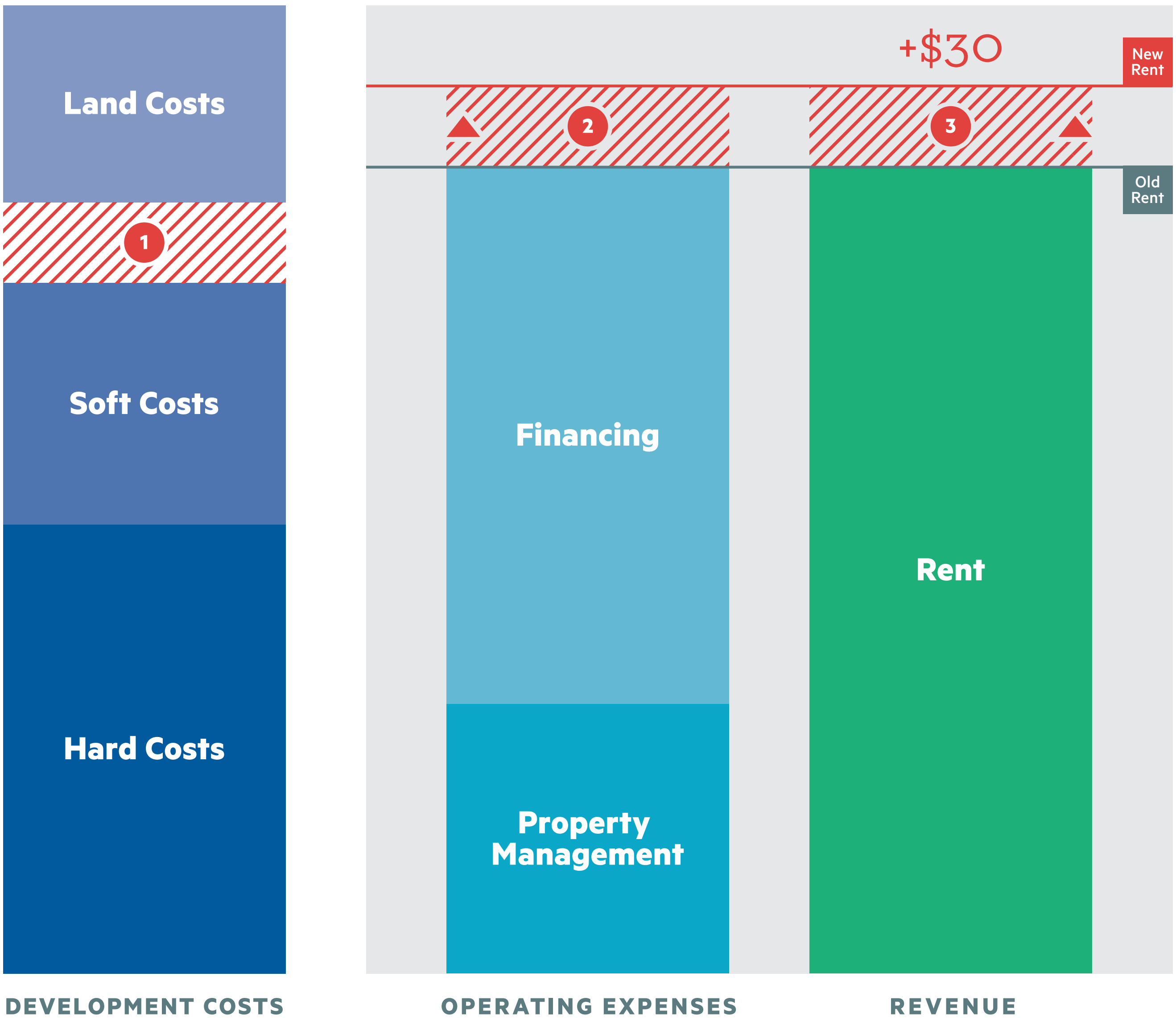
The analysis below provides an example of how **a series of state and local government policies can have a significant cumulative impact on affordability of apartments.** By increasing apartment development and operation costs, these state and local policies raise the required rent and decrease the portion of apartments that are affordable to middle- and low-income households. **State and local governments should consider the impact of their policies on housing affordability, as well as the cumulative impact these policies have on affordability in their community.**



The cumulative impact of these five example policies increase monthly rents by $315, raising the annual income required for a household to afford an apartment by $12,000.

Community Exaction

A community exaction for public open space costing $600,000 to secure approvals can increase rents **$20 to $50***.



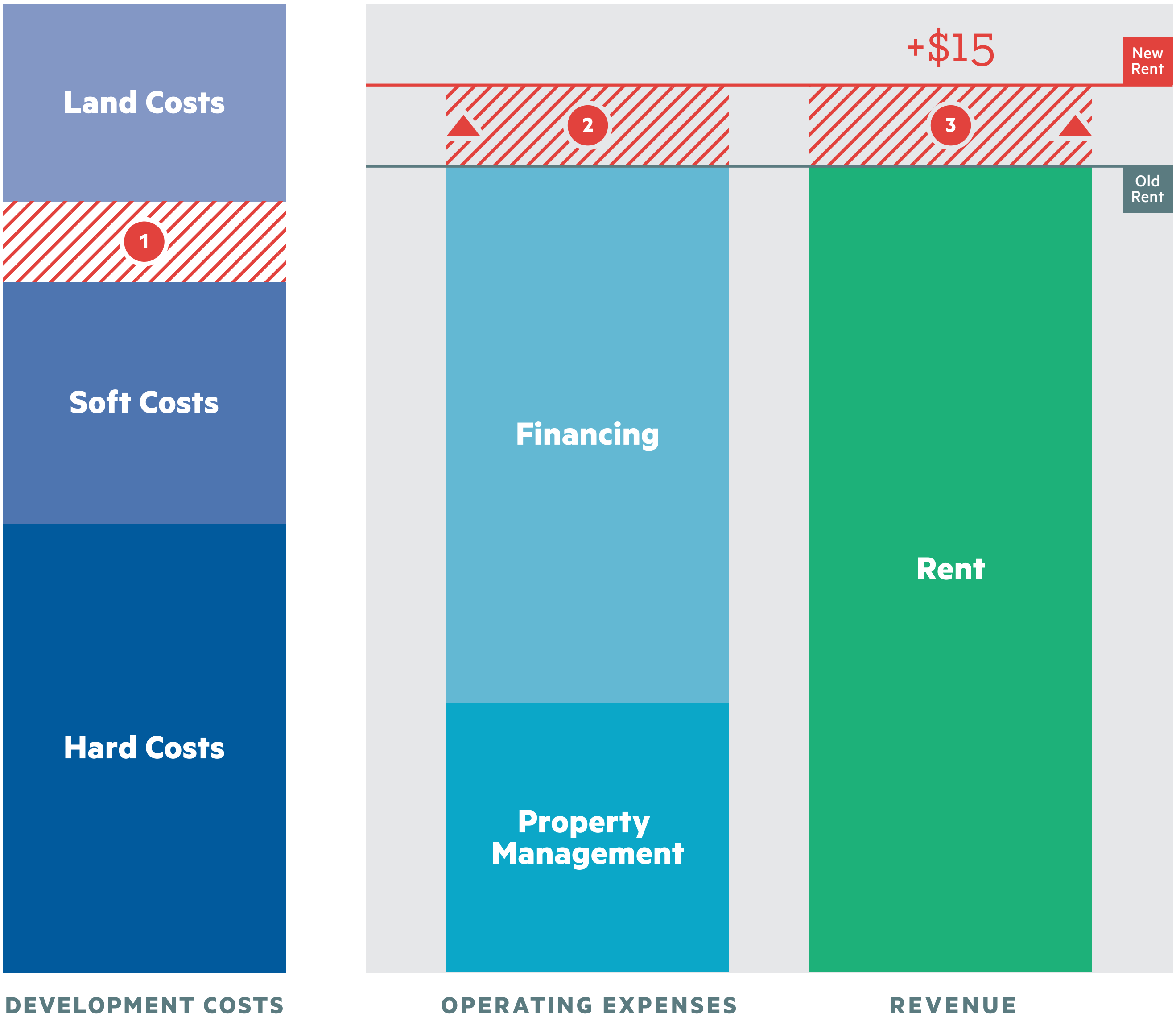
1. The exaction directly increases soft costs, requiring the developer to contribute $600,000 in extra costs for the public open space.

2. Additional financing must be added to the project to support the increased development costs, raising operating expenses.

3. Rents must rise to cover the additional operating expenses. If the market cannot support higher rents, the development will not proceed.

Approval Delay & Additional Studies

A six-month delay in development approval and $200,000 in additional studies can increase rents **$14 to $30***.



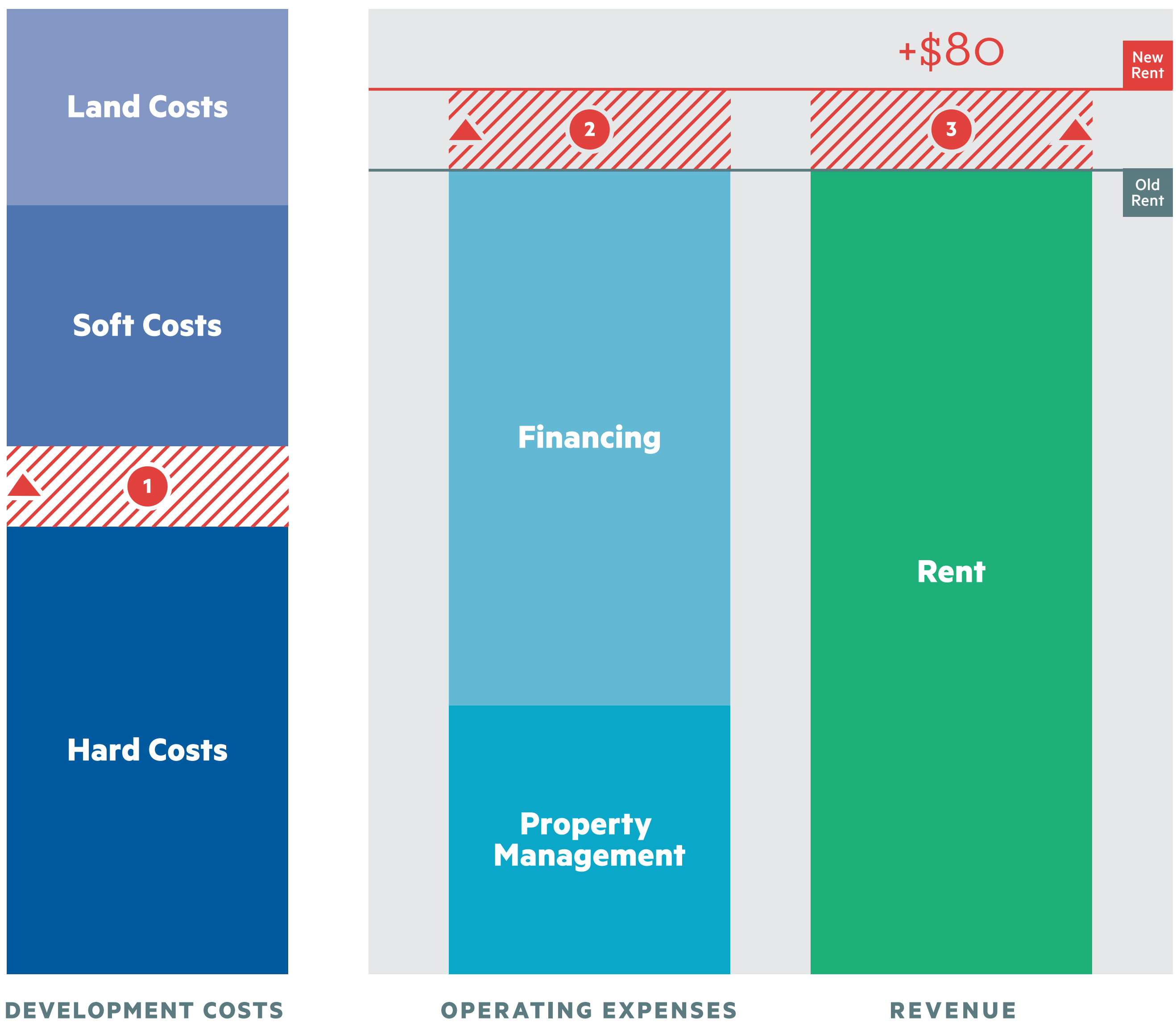
1. The delay and additional studies **directly increases soft costs.**

2. Additional financing must be added to the project to support the increased development costs, raising operating expenses.

3. Rents must rise to cover the additional operating expenses. If the market cannot support higher rents, the development will not proceed.

Hard Costs

A requirement for on-site stormwater retention that costs $1.5 million would increase required rents by **$60 to $85***.



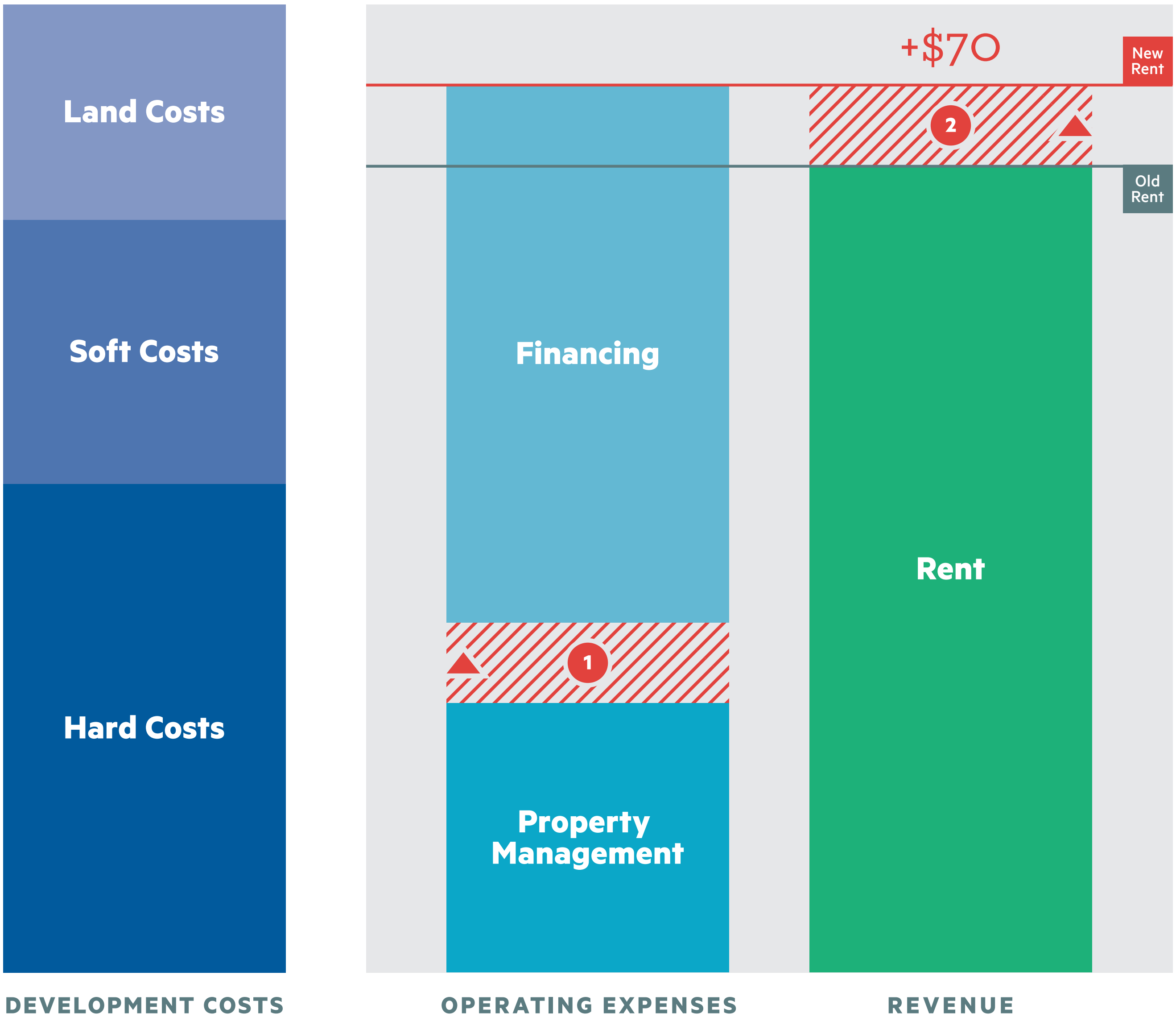
1. The policy directly increases hard costs. Installation of a large underground stormwater retention facility adds $1.5 million in hard costs.

2. Additional financing must be added to the project to support the increased development costs, raising operating expenses.

3. Rents must rise to cover the additional operating expenses. If the market cannot support higher rents, the development will not proceed.

Tax Increase

An increase in property taxes by $150,000 in the fourth year of operations can increase rents from **$50 to $100***.



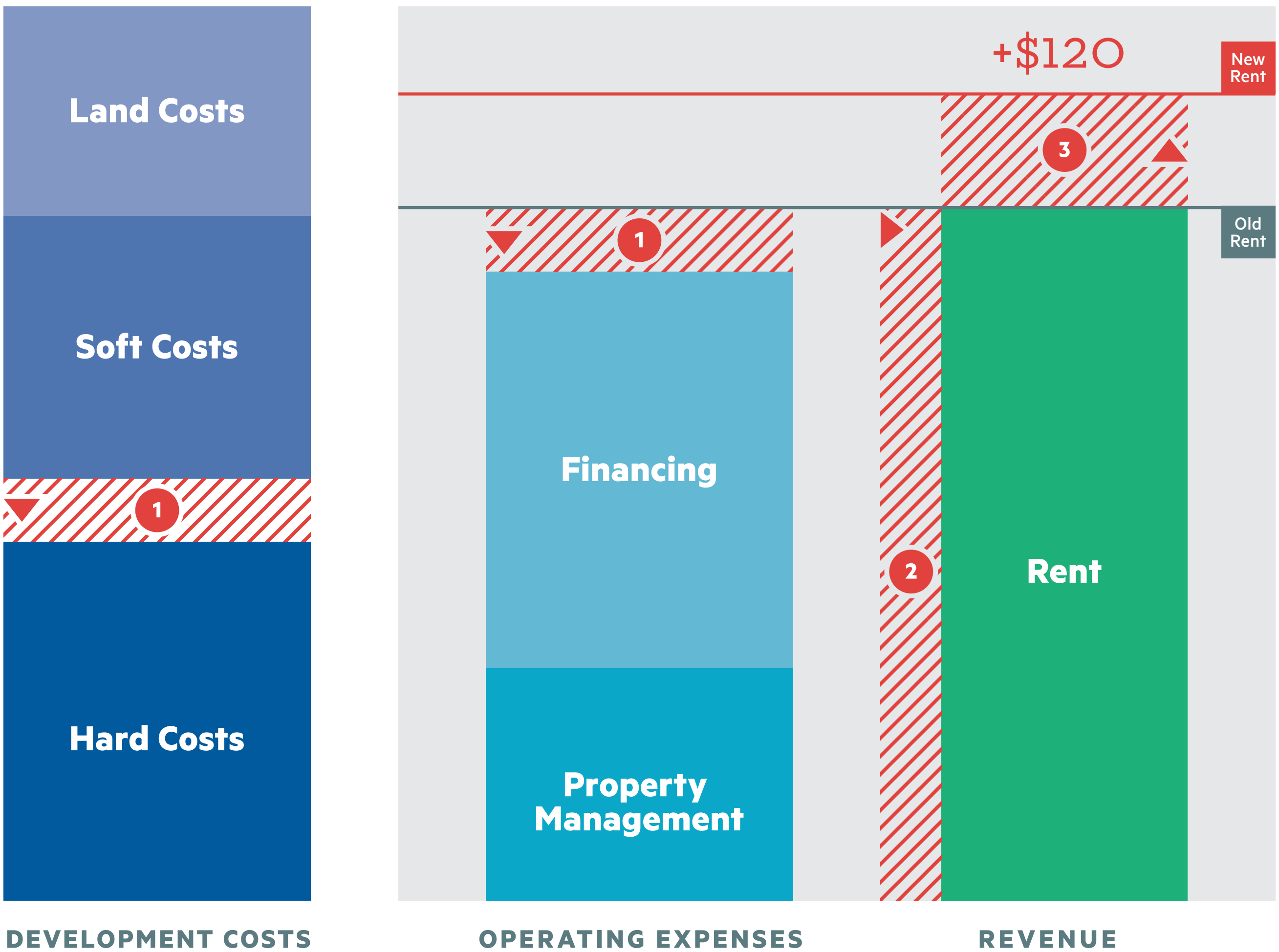
1. The additional tax directly increases property management costs. This raises the overall operating expenses of the project.

2. Rents must rise to cover the additional operating expenses. If the market cannot support higher rents, the development will not proceed.

Density Reduction

A reduction of 30 units for a 200-unit project can result in a **$70 to $140** increase in required rent.

The loss of units in the project reduces the total rents the property generates, but also decreases hard costs as there is less building space constructed and as a result lowers operating expenses slightly. Overall the decrease in revenues exceeds the limited reduction in operating expenses. The result is that rents on the remaining units must increase so that revenues once again equal operating expenses.



1. Reduction in Hard Costs and Financing. Reducing the number of units and the amount of building space decreases overall construction costs.

2. Reduction in Revenue. Reducing the number of units decreases the amount of rent produced by the property.

3. Rents on the remaining units must rise to cover the lost revenue so that the property continues to cover the operating expenses. If the market cannot support higher rents, the development will not proceed.

Who Influences Development Costs?

Most development costs are determined by market forces and state and local regulations, over which developers have limited influence.

LAND COSTS 15-20% of cost	**Market Forces:** Landowners are reluctant to accept less for their land than a prior observed market peak, a behavior known as *anchoring*. As a result, land prices rarely decline in the short-term absent a recession, and landowners rarely reduce their asking prices significantly.[1] Land in desirable areas with better access to regional employment centers and better amenities is more expensive. **State and Local Government:** The uses and density allowed by zoning influence the revenue a property can generate and, thus, affect the land's value and cost. By making additional land available for housing, zoning may help increase the supply of apartments, which helps reduce rents.
SOFT COSTS 15-20% of cost (design, entitlements, permits)	**Market Forces:** Market forces determine the cost of design and construction financing expenses, which comprise much of a project's soft costs. These market forces relate to the relative demand and supply of architecture and engineering consultants who design new housing, and the macroeconomic forces that determine interests rates. **State and Local Government:** The cost of required reviews and studies, and other approvals (entitlements & permits) imposed by state and local governments, directly impact the cost to build new apartments, and thus the
HARD COSTS 60-70% of cost (labor and building materials)	**Market Forces:** Labor and material costs have increased more than 50% since 2000, due to increased demand for both. This translates into higher rents.[2] **State and Local Government:** Beyond the market cost of materials, building codes can dramatically increase development costs. These codes affect cost by setting the standards for specific materials and construction methodologies that developers must use. Obsolete codes may increase costs by being inflexible or not allowing new building technologies.

1 Wheaton, Urban Economics and Real Estate Markets, 1996
2 National Building Cost Manual, 2018

Who Influences Operations Costs?

Most operation costs are determined by market forces and state and local regulations, over which developers have limited influence.

FINANCING

Market Forces: The cost to acquire capital to finance a property is determined by macroeconomic market forces. Most developers are not self-funded, meaning that they provide only a small portion of the funds that finance a property. Instead, developers must meet the demands of banks that provide the debt and investors who provide the equity investments that pay much of the development costs. Interest rates and the perceived risk of the local real estate market determine the cost of the debt, while the potential profits of alternative investment opportunities determine the cost (known as returns) demanded by equity investors.

To entice equity investors, developers must provide returns that are attractive compared to other investment alternatives, or the project will not secure the financing it requires.

State and Local Government: To encourage development of additional apartments at affordable prices, state and local governments may fund a portion of project development costs. This directly reduces the amount of financing required for development, decreasing the operating costs and the required rents.

PROPERTY MANAGEMENT

Market Forces: Property management is comprised of a number of expenses, such as routine maintenance, staffing, and insurance. The cost of these various components is determined by local market forces, such as the market wages for property staff.

State and Local Government: State and local governments directly control property taxes and often utilities, which are a significant portion of the management expenses. A 2016 survey of 217 rental properties nationwide found that taxes consumed 11%-13% of total revenues, while utilities consumed 2.5% of total revenues.[3]

3 NAA Survey of Operating Income & Expenses in Rental Apartment Communities, 2016

State and Local Housing Affordability Policy Tools

State and local governments have a broad range of powerful policy tools that can be used to lower costs and improve housing affordability.

State and Local Policy Tools

LAND COSTS 15–20% of cost	– **Zoning** – **Infrastructure & Services** – **Discounted Public Land**
SOFT COSTS 15-20% of cost (design, entitlements, permits)	– **Impact Fees** – **Required Studies** – **Exactions** – **Entitlement Process**
HARD COSTS 60-70% of cost (labor and building materials)	– **Building Codes** – **Prevailing Wage Requirements** – **Development Requirements**

Government Levers to Impact Land Costs

State and local governments have a broad range of powerful policy tools that can be used to lower costs and improve housing affordability.

Zoning

To increase the supply of apartments, local governments have the ability to allow denser development through a diverse range of policies. Examples include up-zoning land so that more units are allowed by-right, increasing floor to area ratios, and reducing minimum lot sizes. Numerous studies find that reduced regulation and zoning restrictions are associated with a reduction in housing costs.[4]

Infrastructure & Services

The level of infrastructure and services that state and local governments provide can make land available for new development, as well as make existing neighborhoods attractive for infill growth. This increases supply and helps to alleviate demand pressures that drive up apartment costs in other parts of the city.

Potential strategies to alleviate demand pressures include expanding access to transportation networks, investing broadly in utility and sewage expansion, and increasing community amenities.

Discounted Public Land

To provide a subsidy for affordable housing, state and local governments can make public land available at a reduced price. This lowers the overall development costs and enables production of apartments at reduced rents.

A zoning change that allows **an additional 80 units (30% increase)** results in a

$200 per month

decrease in the required rent to make a project feasible[5].

As the number of apartment units increases...

...the required rent per apartment unit decreases (so long as construction type is able to remain the same).

4 Based on a hypothetical podium-style mid-rise apartment in the Northeast for an average 2-BR apartment.
5 Urban Institute, 2016

Government Influence on Soft Costs

The project approval process, including required studies, entitlement fees, and exactions, influences total costs.

Impact Fees & Exactions

Impact fees are costs imposed on new development to pay for a portion of the infrastructure that supports it, while exactions are improvements provided to secure approvals. A study in Kings County, Washington, found that a $1 increase in impact fees correlated with a $1.66 increase in the sale price, indicating that these fees are passed on to renters and home buyers.[6]

Required Studies

Prior to granting entitlement approvals, state and local governments may require traffic studies, environmental impact studies, parking studies, and other studies that delay a project and directly increase costs. To reduce costs, governments may streamline these requirements and limit the ability of opposition groups to call for additional studies that effectively block development proposals.

Entitlement Process

Land entitlements can act as a bottleneck by delaying construction and reducing apartment production. Providing space for by-right apartment development can minimize these delays and allow developers to avoid navigating a regulatory maze of variances, adjustments, and permits. Reducing the entitlement period lowers cost by decreasing risk and reducing project development expenses.

A 2018 study in California[7] found that development fees in the state increase costs

up to **18%**

per apartment unit, with the expense passed on to renters.

Projects in the Mid-Atlantic region reported an

average delay of **4 months**

in the entitlement process for apartment developments.

This delay resulted in an increase in rent of

$125 (5%) per month.

6 Mathur et al., Urban Studies, 2004
7 Terner Center for Housing Innovation UC Berkeley, 2018

Government Influence on Hard Costs

Building codes, parking requirements, and prevailing wage requirements directly impact construction costs.

Building Codes

Building codes dictate construction standards, which significantly influence costs. A recent study found that changes to the International Building Code from 2012 to 2015 increase the cost to build a typical or prototype apartment tower by 10%.[8]

Prevailing Wage Requirements

Prevailing wage requirements mandate a minimum wage for construction laborers at levels similar to more highly paid unionized workers. A 2005 study of 205 projects in California found that prevailing wage requirements increased construction costs by 9% to 37%.[9] A similar 2016 study in New York found that construction costs increased 23% in affordable housing projects where prevailing wages were required.[10]

Development Requirements

Many local governments have requirements for developments related to parking, stormwater, traffic and other impacts. Parking requirements above what the market demands is one of the most common requirements. A 2018 report found that structured parking costs an average of $24,000 per space, while below-ground parking costs $33,000 per space.[11] Reducing parking requirements can reduce both the land required and the construction costs for new apartments.

An increase of 10% in hard costs due to a revised building code in a Texas mid-rise could result in a

+13% increase

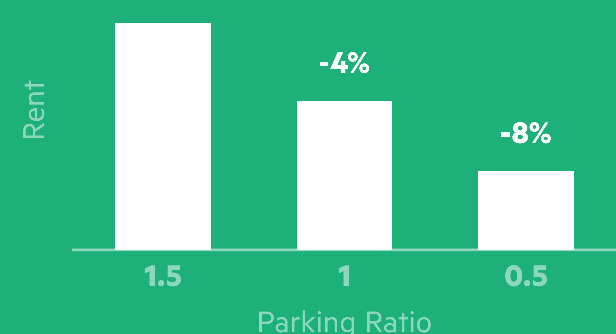
in required rent per unit.

A decrease of 15% in hard costs by lifting a prevailing wage requirement for a podium-style apartment could result in a

+20% decrease

in required rent per unit.

Reducing existing parking requirements can significantly decrease required rent for development feasibility.



8 University of Florida, 2016
9 Dunn et al. ILR Review, 2005
10 New York City Independent Budget Office, 2016
11 Rider Levett Bucknall, Riders Digest, 2018

Glossary

The framework below is a simplified representation of the apartment development process. This simplified framework highlights the three overarching categories and their six elements that are most important to the relationship between costs and rents. In practice, real estate development is far more complicated, and these categories have dozens to hundreds of sub-categories and individual elements within them.

Land Costs
Purchase of land and associated costs, such as legal and transfer taxes

Soft Costs
Design, entitlements (legal approval to develop a property for a particular use), building permits, and other non-direct construction costs

Hard Costs
Labor and building materials

Development costs are one-time costs that are paid off by financing.

Financing
Financing is comprised of debt service and equity returns. Debt is the loans secured from financial institutions to construct a building. Equity is an investment of money in exchange for an ownership stake of the resulting revenue from a property. Equity investors expect to receive sufficient returns in exchange for taking on risk and investing in the development

Property Management
Ongoing property costs: routine maintenance, staffing, insurance, and taxes

Rent
Payments by residents to occupy their units

Supplementary Sources: Revenues from elements such as parking or amenity fees that may comprise a small portion of the total revenue from a property

DEVELOPMENT COSTS

The project's Development Costs are costs associated with planning, designing, and constructing apartments.

OPERATING EXPENSES

The costs associated with operating and maintaining apartments after construction.

REVENUE

Revenue is the income generated by the property.

NATIONAL MULTIFAMILY HOUSING COUNCIL

Multifamily Benefits

THE HOUSING AFFORDABILITY TOOLKIT

Developed in Partnership with
HR&A Advisors

The Benefits of Multifamily Housing

Comprising 15% (20.6 million units) of the nation's housing stock, multifamily rental housing plays a vast and diverse housing role that serves an essential and evolving purpose in communities across the country.

At its core, multifamily housing increases the **density, variety, and efficiency** of a municipality's housing.

Multifamily housing broadly improves our cities in four far-reaching ways:

- Invigorating **economic vitality** by improving the livelihood of workers and businesses
- Improving **fiscal health** by increasing the tax base and efficiently using public resources
- Increasing **environmental sustainability** by efficiently building and operating residential units
- Enhancing **quality of life** by allowing for healthy, culturally vibrant, and place-based lifestyles

This document explores the extensive benefits of multifamily housing while dispelling several misconceptions.

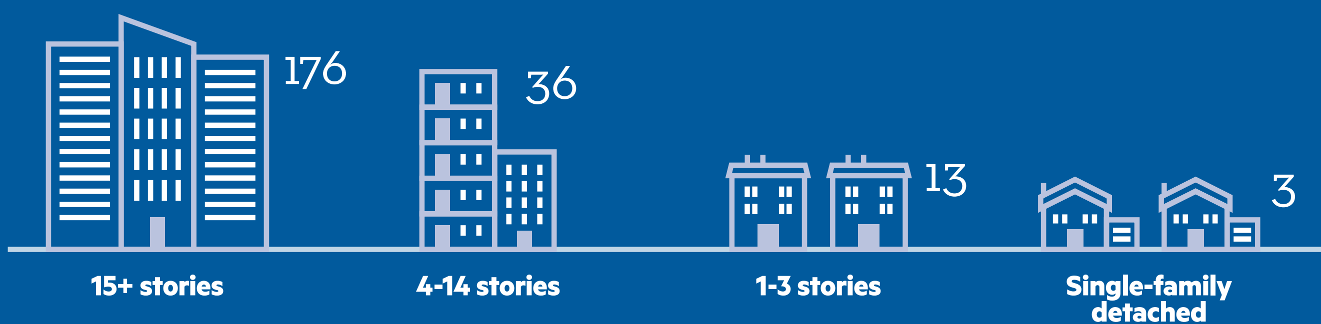
The Benefits of Multifamily Housing

In any market, multifamily housing exhibits three fundamental characteristics that allow it to yield a far-reaching set of benefits.

Increased Density

Multifamily housing allows for more housing units to be built on any given parcel of land. Increasing the density of households can quickly expand the tax base and commercial vitality of an area. It also allows for more much-needed housing to be built in desirable areas with greater employment, easier access to transit, and generally a higher quality of life, as these areas typically are more land-constrained and expensive to build in.

AVERAGE NUMBER OF UNITS PER ACRE BY HOUSING TYPE[1]



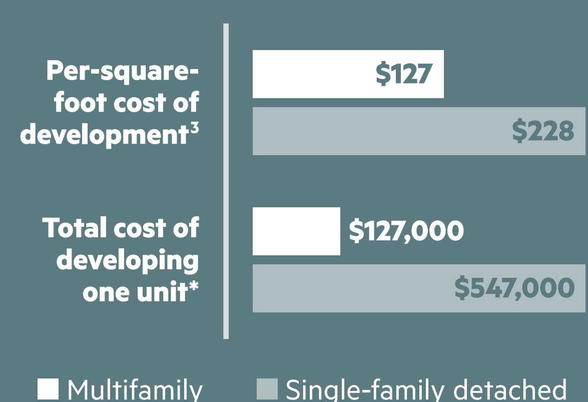
Wide Variety

Multifamily housing serves a wide range of household types and needs. The wide range of available unit types, locations, and price points allows multifamily housing to accommodate a unique variety of household types, income levels, and lifestyle preferences.

> **"Multifamily rental housing offers a powerful tool to increase residential density in downtown and suburban locations, while also accommodating a socio-demographically diverse population."**
>
> – Journal of Housing Studies[2]

Greater Efficiency

Multifamily housing is cost-effective and efficient to both build and operate. Development costs for multifamily housing are far lower on a per-unit basis than single-family. Multifamily housing also makes more efficient use of utilities and other infrastructure.



*Assuming median unit sizes of 2,400 SF for a single-family detached home and 1,000 SF for an apartment.

1 HR&A analysis of CoStar and U.S. Census data.

2 Rebecca Walter, 2018. "The geographic and sociodemographic transformation of multifamily rental housing in the Texas Triangle."

3 Craftsman Handbook.

Economic Growth and Vitality

Multifamily housing stimulates and sustains local economies, neighborhood health, and overall economic competitiveness.

Multifamily housing supports the expansion and diversification of the local workforce.

An expanding housing supply often both indicates and allows for an expanding economy. Multifamily housing is the most efficient way to increase the supply of housing, which is necessary to accommodate employment and household growth. A lack of housing supply will either prevent growth or lead to the displacement of existing households.

Housing density can improve the productivity and lifestyle of people who work in employment centers with high traffic volume. As jobs cluster within employment centers that experience growing levels of traffic, commute times can be ameliorated if people can find and afford housing near where they work. Because apartments allow housing to be efficiently built in desirable areas near employment and transit, people living in apartments have shorter commute times on average.

Multifamily rental housing attracts critical segments of the workforce, such as younger households and households earning modest incomes. While multifamily housing serves households of all ages and income levels, it is uniquely able to provide young people with the mobility and urbanism they often prefer and is able to provide affordably priced housing options in good locations.

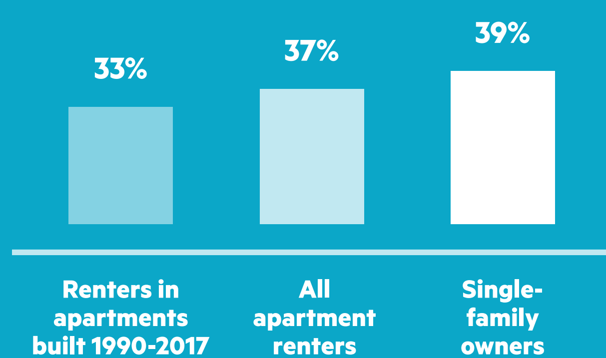
At a national level, housing constraints and regulations are estimated to have lowered aggregate economic growth by

36%

between 1964 and 2009.[1]

Due to a lack of housing in productive but highly regulated cities (such as New York City and San Francisco), people have consistently been priced out of optimal jobs.

SHARE OF HOUSEHOLDS COMMUTING 30 MINUTES OR MORE TO WORK[2]



Of households younger than 35:

7.1 MILLION

rent multifamily

6.2 MILLION

own single-family[3]

1 Chang-Tai Hsieh and Enrico Moretti, 2015. "Housing Constraints and Spatial Misallocation."
2 "NMHC Quick Facts." NMHC tabulations of 2016 American Community Survey.
3 2016 American Community Survey.

Economic Growth and Vitality

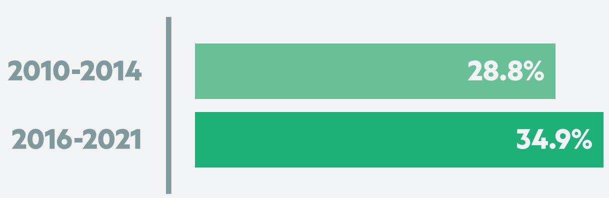
Multifamily housing stimulates and sustains local economies, neighborhood health, and overall economic competitiveness.

Denser housing and denser cities support the formation and growth of businesses.

Denser urban areas are more economically productive due to the networks that form when firms and people locate near each other. As ideas are more freely exchanged between both collaborators and competitors, urban areas benefit from advancements in innovation.[1] Multifamily housing contributes to this effect by significantly increasing urban density.

> **"Emerging sectors of the economy often place a premium on access to specialized business services, professional contacts, restaurants, and employee housing...these aspirations can best be realized in mixed-use agglomerations."**
>
> – Paul G. Lewis, *Shaping Suburbia*[2]

PERCENTAGE OF PIPELINE PROPERTIES PLANNED AS MIXED-USE[4]



Multifamily housing enables neighborhood investment and commercial activity.

Multifamily housing development is a signal and stimulator of neighborhood growth.

The development of multifamily housing tends to encourage the concentration of households and incomes needed to support new retail and commercial development. At a time when retail footprints across the nation are receding, a notable increase in mixed-use developments containing residential with retail and/or office indicates that denser housing can attract and support commercial activity.[3]

In other cases, multifamily housing is the necessary piece to transform areas filled with predominantly commercial uses (office, retail, public facilities) into vibrant, 24-hour mixed-use districts, as has been the case for downtowns across many major cities.

> **"Residential has been the big story over the last couple decades. Downtown, prior to that, evolved as the location for commercial office and retail, and then for the major arts and cultural institutions."**
>
> – Jon Scholes, President & CEO of the Downtown Seattle Association[5]

1 Glaeser and Gottlieb, 2009. "The Wealth of Cities: Agglomeration Economies and Spatial Equilibrium in the United States."
2 Paul G. Lewis, 1996. "Shaping Suburbia: How Political Institutions Organize Urban Development."
3 Forbes, 2018. "How Retail Real Estate Continues To Change."
4 Axiometrics, 2016. "Mixed Use Trending in Apartment Markets."
5 U.S. News Real Estate, 2016. "How Commercial Real Estate Is Changing Residential Housing."

Fiscal Health

Multifamily housing improves fiscal health by both increasing revenues and decreasing costs, positioning local budgets to more effectively serve the public good.

Multifamily housing efficiently increases tax revenues for local governments.

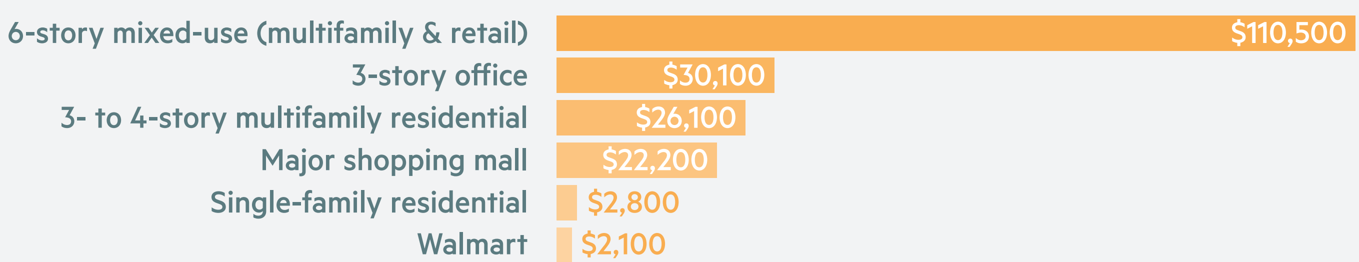
Greater household density increases the tax base through expanding the number of both households and businesses. Denser households contribute more to property and sales taxes. Moreover, by stimulating commercial growth, multifamily housing can further increase local sales and business taxes.

Denser development generates

10 TIMES

more tax revenue per acre than conventional suburban development.[1*]

2011 MUNICIPAL PROPERTY TAX YIELD (PER ACRE) OF SELECT BUILDINGS IN RALEIGH, NC



Multifamily housing reduces fiscal burdens by efficiently using public infrastructure and services.

Municipalities save significantly on costs incurred by critical physical infrastructure, such as new roads, water lines, and sewer lines. Savings are experienced in upfront capital costs, operations and maintenance costs, and eventual replacement costs.

Denser development also leads to savings on the costs of ongoing delivery of public services, such as police, ambulance, and fire services.

Compared to conventional suburban development, denser development saves

38%

on the **delivery of upfront infrastructure**, and

10%

on the **cost of delivering public services**.[1*]

*These results were arrived at by compiling findings from 17 studies, which span city, state, and national scopes.

1 Smart Growth America, 2013. “Building Better Budgets: A National Examination of the Fiscal Benefits of Smart Growth Development.”

Environmental Sustainability

Increased urban density benefits the environment by reducing carbon impact and preserving open space and natural amenities.

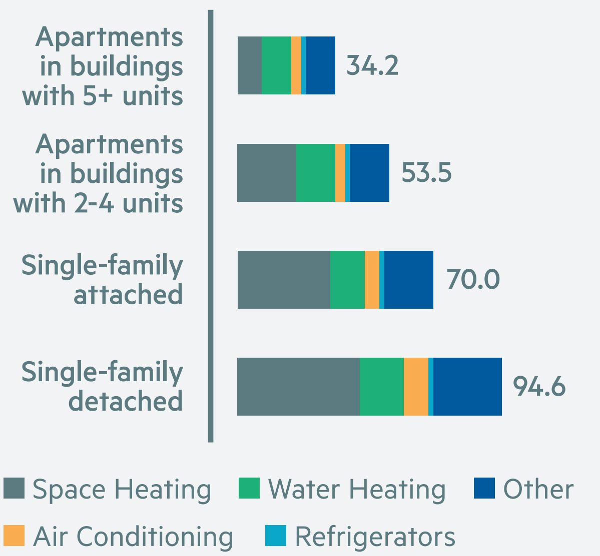
Density reduces the energy required to build, operate, and service residential units.

Multifamily housing lowers the energy intensity of creating a housing unit, or the "embodied energy" of extracting materials and building the structure. The energy savings can be substantial, as embodied energy can range from 10 to 45 percent of the total energy impact of a building through its lifecycle.[1]

Multifamily properties require less energy to maintain on a per-unit basis, resulting in both energy and cost savings for residents and property managers. This energy impact is substantial, as residential and commercial buildings consume 41 percent of the nation's energy each year.[3]

Multifamily housing decreases the resources used for infrastructure and services. Surrounding infrastructure, such as, roads, public transportation, street lighting, water pipes, and sewage treatment, also contributes to embodied and operational energy use. Multifamily housing makes uses of these resources much more efficiently.

ENERGY CONSUMED PER RESIDENTIAL UNIT (MILLIONS OF BTUS)[2] 2017



Energy consumption can be measured on a per-unit or per-square-foot basis. Both metrics show apartments use less energy after taking into account home size, climate, and other important characteristics (including whether the apartment renter pays utility costs directly).[4]

Denser housing allows for the preservation of open spaces and natural amenities.

By requiring a smaller land footprint, multifamily housing helps to **preserve open space and undeveloped land, natural amenities that can be difficult to preserve in sprawling areas.**

Planned, compact growth uses

20%-45%

less land than unplanned, sprawling, "overspill" development.[5]

1 Nichols and Kockelman, 2014. "Life-Cycle Energy Implications of Different Residential Settings."
2 HR&A analysis of 2017 Energy Information Administration data.
3 Takano et al., 2015. "Life cycle energy balance of residential buildings."
4 Obrinsky and Walter, 2016. "Energy Efficiency in Multifamily Rental Homes: An Analysis of the Residential Energy Consumption Data."
5 Burchell et al., 1998. Costs of Sprawl Revisited: The Evidence of Sprawl's Negative and Positive Impacts.

Quality of Life

Multifamily housing improves quality of life by improving public health, allowing for vibrant public spaces and amenities, and providing housing options for a variety of lifestyles.

Density increases connectivity.

Density allows for cities to be walkable and cyclable, for streetscapes to be attractively designed for high volumes of foot traffic, and for a wide variety of people to interact with each other. Not only does this improve the aesthetic experience of living in a city, it can positively affect public, physical, and mental health.

50%

of surveyed Americans would like to walk or bike more instead of driving.[1]

7 IN 10

renters are willing to downsize in order to live in a dense urban area.[2]

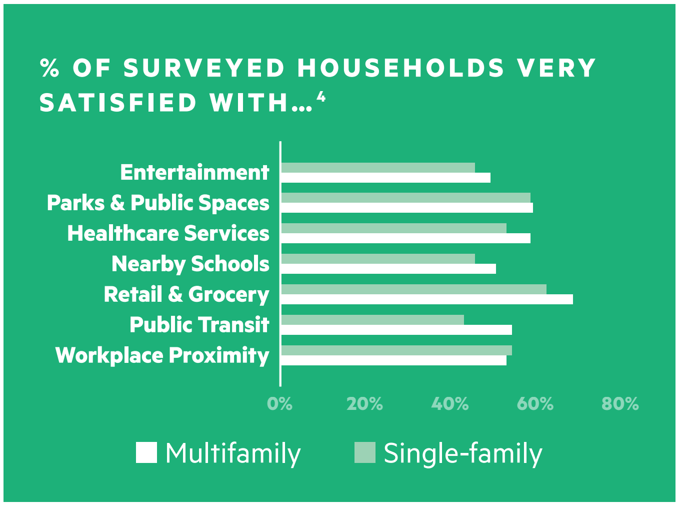
Density allows vibrant public spaces and cultural amenities to exist and thrive.

Denser housing helps to preserve open space and public facilities and contributes to the volume and diversity of people who make these spaces interesting. Valuable cultural spaces that require high volumes of patronage to remain viable are made possible by densification.

> “For consumers who want to be able to go to the opera regularly or go to live major league baseball games, living in large cities is a necessity."
>
> – Ed Glaeser, Professor of Economics at Harvard[3]

Varied housing provides choosing power.

By efficiently increasing the stock of housing available in a city, multifamily housing allows people to more easily choose where they live. People might be able to live nearer to their work or avoid being displaced from or priced out of a neighborhood or municipality they prefer. They may choose to adopt a lifestyle that is unique to multifamily housing, such as ease of maintenance and walkability.



1 Smart Growth America, 2003. “Measuring the Health Effects of Sprawl.”
2 Fannie Mae, March 2017. Consumer Omnibus Results.
3 Ed Glaeser et al. 2000. “Consumer City.”
4 http://www.fanniemae.com/resources/file/research/housingsurvey/pdf/nhs-study-affordability-perceptions.pdf

Misconceptions

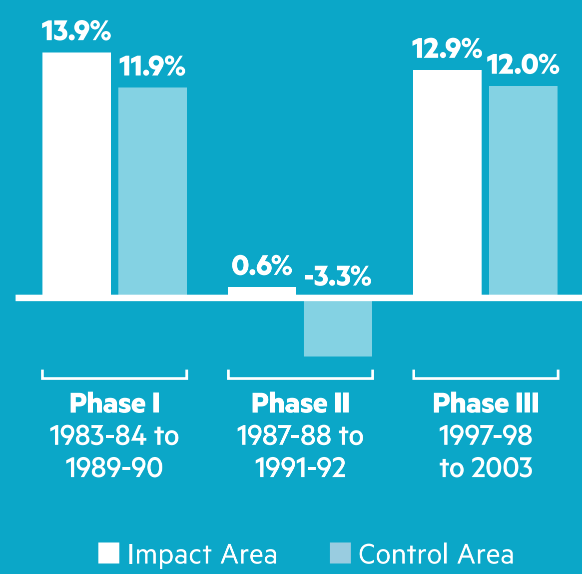
Contrary to some misconceptions, multifamily housing does not negatively affect property values, public schools, traffic, and emissions. In many markets, these community issues are in fact improved.

Single-family homeowners are understandably concerned about two community goods: property values for single-family homes and the viability of local public schools. Many studies have sought to understand the effects of multifamily housing on these goods.

Property values for single-family homes are not harmed, and in fact are often boosted, by the arrival of nearby multifamily housing development. Time series analyses of seven areas in Boston found that home values were generally boosted by being near pioneering multifamily housing developments over the course of thirty years, relative to areas without such development.[1] This study has been replicated in numerous cities, such as Portland, Richmond, and in numerous cities and regions, with similar results.[2]

Similarly, multifamily housing does not place undue strain on local public schools. This concern is premised on the assumption that multifamily developments will bring in too many families with school-age children while yielding lower tax revenues. In fact, residents of multifamily housing typically have far fewer children, while the net impact of multifamily housing on a city's fiscal health is positive when considering the increase in tax revenues.

CHANGE IN HOME VALUES IN BOSTON NEIGHBORHOODS WITH NEW MULTIFAMILY (IMPACT) AND WITHOUT (CONTROL)[1]



AVERAGE NUMBER OF SCHOOL-AGE CHILDREN PER 100 UNITS OF HOUSING*[3]

52	27	61	22
in single-family homes	in apartment units	in ***new*** single-family homes	in ***new*** apartment units

1 Pollakowski et al., 2005. "Effects of Mixed-Income, Multi-Family Rental Housing Developments on Single-Family Housing Values."
2 Streets MN, 2016. "No, Large Apartment Buildings Won't Devalue Your Home."
3 NAHB Special Studies, 2017.
* For recent mover households.

NATIONAL
MULTIFAMILY
HOUSING
COUNCIL

Affordability Strategies

THE HOUSING AFFORDABILITY TOOLKIT

Developed in Partnership with
HR&A Advisors

Local Housing Policy Guide

State and local governments have the policy and regulatory authority to improve housing affordability in their communities. Historically, local housing policies have been narrowly focused on how to best allocate federal subsidies to create, or preserve, income-restricted housing. As the pool of funding for federal housing subsidies continues to shrink and affordability challenges grow, state and local governments are increasingly turning to their own policy and regulatory authority to improve affordability.

The Local Housing Policy Guide describes how six common local housing policies work and provides recommendations for how localities can tailor them to their unique market conditions.

Housing policies that are not designed to fit with the local market conditions are likely to be ineffective or harmful. Local housing policies improve affordability by addressing market failures. It is impossible to establish effective local housing policy without an understanding of the drivers of a market failure. Too often, localities adopt housing policies without establishing an understanding of whether they are appropriate for their market. They may also misdiagnose the cause of affordability challenges, blaming high rents on new development instead of symptomatic failures in the housing market.

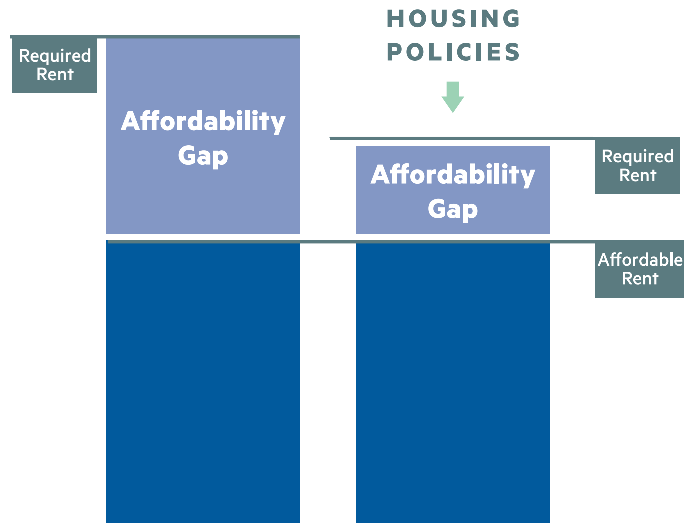
Designing Local Policies to Increase Affordability

Local housing policies increase affordability by reducing the rent required to develop and operate an apartment.

Local Policy Toolkit

- Inclusionary Zoning
- By-Right Development
- Tax Abatement
- Public Land Disposition
- Rent Control
- Development Incentives

The affordability gap is the difference between the rent a household can afford to pay (affordable rent) and the rent required to develop and operate an apartment (required rent). Local governments can close or narrow the affordability gap by adopting housing policies that reduce the required rent.



Local housing policies must significantly reduce development costs, operating costs or both to impact the affordability gap. Reducing the required rent by $100 a month for a single rental unit requires a reduction in development costs of approximately $20,000. To address the large and growing affordability challenges that most cities face, governments will need to enact and leverage a combination of appropriate housing policies targeted at reducing the cost of rental housing.

NATIONAL MULTIFAMILY HOUSING COUNCIL

Tool: Incentives to Develop

THE HOUSING AFFORDABILITY TOOLKIT

Developed in Partnership with
HR&A Advisors

Incentives to Develop

Housing development incentives can expand, diversify, and accelerate the production of affordably priced rental housing.

What Are Housing Development Incentives?

Local policies designed to stimulate the development of housing. A local government may employ a variety of mechanisms to incentivize the development of housing, whether by altering regulatory restrictions or by providing direct and indirect forms of support. Whatever the mechanism, these incentives ultimately increase revenue streams or decrease costs for a given development, thus increasing a project's likelihood of being developed.

REGULATORY INCENTIVES

Flexibility around project approvals, development rights, density, parking, and design.

FUNDING INCENTIVES

Direct or indirect funding or financing, to ease development costs or operating expenses.

How Housing Development Incentives Work

Housing development incentives can improve housing affordability in two ways – a direct approach that provides incentives in exchange for lower rents and a supply approach that increases the supply of rental housing to reduce the demand pressure on existing units.

DIRECT APPROACH

A well-run direct incentive program can increase affordability by requiring a reduction in rent in exchange for a commensurate set of incentives. These incentives can be achieved through negotiations between the developer and the municipality or through established government programs.

SUPPLY APPROACH

A supply approach focuses on increasing the overall supply of housing by reducing the costs of development and making more development feasible. An increased supply can stabilize or reduce rents and decrease the likelihood that existing residents are displaced.

Incentive Policies Can Be Designed to:

Expand Production
More housing is built than otherwise feasible

Diversify Production
Incentives strive for an optimal housing mix and depth of affordability

Accelerate Production
Housing is built more quickly than otherwise feasible

Incentives Categories

Housing development incentives vary widely in format and purpose and can be combined to achieve a suite of benefits.

Two Types of Incentives

Regulatory incentives can be relatively inexpensive and straightforward to implement but can be less effective than direct funding in increasing new housing by large amounts. Some incentives include:

- Density Bonuses
- Flexible Design Standards
- Reduced Parking Requirements
- Accelerated Approvals
- By-Right Development

Funding incentives provide money directly or indirectly from public reserves. They can be significant, and even necessary, for project feasibility. Some incentives include:

- Reduced Fees
- Public Land
- Tax Incentives
- Public Funding

All Incentives Should Strive to Be:

MEANINGFUL

To be meaningful to the developer, the incentive should pass the "but for" test: "but for" this incentive, the housing would not have been developed.

To be meaningful for the community, the incentive should be leveraged to **target a locality's specific needs.**

TRANSPARENT, CONSISTENT, AND ACCESSIBLE

Developers and other participants must be able to **understand, anticipate, and access** both the benefits and the associated restrictions and requirements.

MARKET-APPROPRIATE

The incentive must reflect local needs and constraints, such as market demand, political climate, affordability needs, and local cost levels.

Density Bonuses

In markets that can support more units, additional density will increase overall supply and help to bring rents in line with local needs.

Incentive Format

Density bonuses allow more units of housing to be built on a site than would be allowed for under existing zoning regulations in exchange for a developer's provision of affordably priced units or other public goals. The "bonus" can be achieved through an increase in floor area ratio (FAR), a greater building height, decreased minimum unit size, or loosened setback requirements. Density bonuses typically allow for an increase of between 10% and 20% over a zoning code's baseline permitted density. In effect, for every affordable unit in a development, the developer is able to add a determined number of market-rate units to the development.

Density bonuses work as an incentive by increasing a project's overall revenue and decreasing per-unit development costs. Developers are able to build, and eventually operate or sell, more units than otherwise possible. Often, these additional units are market-rate units that serve to offset the lower levels of rental revenue derived from affordably priced units.

Density bonuses are one of the most common incentives offered to developers. The incentive is relatively inexpensive, is straightforward to implement, and effectively advances public and private goals.

Market Impact & Considerations

IMPACT

In appropriate markets, density bonuses can effectively improve affordability through both direct and supply approaches.

Density bonuses can directly incentivize the building of more affordably priced units, if the rent generated by the additional units allowed is sufficient to offset the affordability requirements.

Moreover, by adding more units than otherwise would be the case, the project also contributes more to the overall supply of rental units, which can improve affordability.

CONSIDERATIONS

Is the market strong enough to support the additional units? A density bonus is not helpful if the additional units are left unabsorbed by the market.

Will the additional density alter the type of construction required for the building and, therefore, add exceptional costs? On a project-by-project basis, an increase in the number of units may trigger a need to use different construction materials. The potential increase in costs may nullify the increased revenue.

San Diego, CA's Affordable Homes Bonus Program (AHBP)

San Diego introduced a density bonus program that offers a maximum 50% density increase when at least 15% of units are rent-restricted. The AHBP also allowed developers to receive up to five density bonuses, rather than the three allowed by the state's analogous program. The AHBP received 18 applications within its first three months, marking a 900% increase in average monthly applications over submissions to the state density bonus program.

Flexible Design Standards

Flexible design allows for more housing to be built in places where it is most needed and reduces the cost of development.

Incentive Format

Design flexibility incentives reduce regulatory constraints, allowing for more flexible building designs. These incentives often entail reducing required setbacks, increasing buildable area, allowing for flexible lot consideration, or reducing minimum lot size requirements. Together, these design allowances increase the potential for development on infill sites, making use of a greater portion of urban land to provide housing.

By increasing the effective supply of developable land, flexible design standards work as an incentive by increasing project feasibility and unlocking potential revenues. Developers are able to build on land that would otherwise be unsuitable for housing if baseline design standards were maintained. Moreover, more challenging parcels of land that warrant design flexibility are often small infill sites in densely developed areas, where there is likely greater demand for housing. Flexibility incentives provide resident households the option to live in highly sought-after areas where there may be superior employment opportunity, public education, or transportation connectivity.

Market Impact & Considerations

IMPACT

Flexible design standards can contribute to affordability through both a direct and supply approach. Design flexibility incentives can be used to directly incentivize the addition of more affordably priced units. Moreover, by activating sites that would otherwise be unused, the incentive contributes to the overall supply of rental units, which can improve affordability.

CONSIDERATIONS

Is the market strong enough to support the additional units? In markets where units are not easily absorbed, the risks associated with the potential revenue may not justify the costs of undertaking an exceptional design.

Will the required changes in design lead to prohibitively high costs? On a project-by-project basis, the need for an unconventional design may cause a project to be costlier than is feasible.

A Suite of Design Incentives in Tallahassee, FL

In exchange for requiring 10% of new housing units to be affordable, the City of Tallahassee provides housing design flexibility, such as relief from setback requirements and minimum lot size requirements, as well as a 25% density bonus.

Reduced Parking

Relaxed parking requirements can decrease costs and allow more rental units to be developed.

Incentive Format

Reduced parking requirements relax zoning standards to allow for less required on-site parking, in return for the provision of more housing units.

Reduced parking requirements reduce costs and can potentially increase revenues. Structured parking is expensive to build, and surface lot parking is space-intensive. The flexibility to build only the parking space the market demands can amount to a significant reduction in construction costs and/or land costs. Moreover, it may be possible and market-supportable to use the saved space to build additional housing units, thus further increasing project revenues.

Market Impact & Considerations

IMPACT

Reduced parking requirements can contribute to affordability through both a direct and supply approach.

By requiring that projects provide a certain number or percentage of affordably priced units to qualify for the cost savings of reduced parking, the city may directly encourage an increase in affordably priced units. The lower costs of development can lower the necessary rent levels.

In addition, simply being able to build more housing units on space that would have otherwise been used for parking increases the overall supply of housing, thus easing rents through a supply approach.

CONSIDERATIONS

Are the levels of parking required reflective of market demand? A reduction in parking requirements should meet local demand for parking, amending what may be excessive requirements. As transportation options, such as ride-sharing, expand in some markets, local demand for parking spaces may meaningfully decrease.

How much costs do parking requirements add to development? The costs vary from market to market and by parking type but are significant in most areas.

Eased Downtown Parking Requirements for Seattle, WA

Seattle passed a bill in 2018 to reduce parking requirements for affordable housing projects, requiring one parking space per six units instead of three. In areas where “frequent transit” is available, no parking is required for any residential units. This measure will significantly ease rents in what is currently an expensive place to build – according to a 2015 report, one parking space per affordable housing unit increases rent by 12.5% in King County.

Accelerated Approvals

Saving time during pre-development and construction reduces both development costs and risks.

Incentive Format

Accelerated approvals move projects through key regulatory phases more quickly than usual. This may entail moving a project more quickly through initial land use approvals and post-entitlement planning or more expediently performing late-stage building code and construction inspections prior to delivery. Municipal staff may negotiate a timeline with the developer and may choose to prioritize projects and scale the approval timelines by each project's number of affordably priced units or depth of affordability.

Accelerated approvals work as an incentive by decreasing both the direct and opportunity costs associated with time and risk. By sticking to an expedited schedule, developers can avoid cost overruns and unnecessary delays, begin leasing units earlier, and obtain rental income sooner. Moreover, the resulting decrease in risk for a project may help developers access additional, or more favorable, sources of financing, decreasing necessary rents.

Market Impact & Considerations

IMPACT

Accelerated approvals contribute to affordability by directly reducing the cost of development, which allows for lower rents. Many cities promise to expedite reviews for projects that directly contribute to the city's stock of affordably priced units. The incentive is generally most effective in securing affordably priced units if provided alongside additional incentives.

CONSIDERATIONS

Is the incentive adequate on its own? Accelerated approvals alone are unlikely to "move the needle" on housing development. However, the incentive is relatively inexpensive and straightforward to provide, and when effectively delivered it models a general good practice for efficient government. The incentive can be especially effective in certain markets where risks are high or for certain projects or developers particularly sensitive to delays.

Accelerated Permitting in Santa Fe, NM

The City of Santa Fe, New Mexico accelerates the permitting process for projects that include at least 25 percent affordable housing. This policy is coupled with a number of other ordinances, including permit fee waivers, impact fee waivers, and a reduced utility expansion charge for affordably priced housing properties.

By-Right Development

Housing supply can grow in response to demand, helping to bring rents and housing options more in line with community needs.

Incentive Format

A by-right development approval process uses uniform, codified, and consistent zoning and development regulation to streamline and enable new housing developments. In contrast, "discretionary" zoning allows disparate groups to prioritize individual interests in ways that can be severely disruptive to the addition of housing supply and affordability.

By-right development works as an incentive by reducing softs costs and land costs and by mitigating project risk. An efficient and predictable entitlement process reduces carrying costs, consulting fees, and other costs associated with approval processes when compared to a lengthy discretionary review process. Land costs are reduced when the zoning premium on multifamily land is rendered obsolete, as by-right policies increase the number of parcels with few zoning restrictions, reducing competition and associated land costs.

Market Impact & Considerations

IMPACT

By-right development lowers the cost and increases the supply of rental housing in areas where there is the greatest demand, thereby reducing the competitive pressures that drive up rents. By decreasing the costs associated with permitting and entitlement, developments require less financing and lower rents to achieve viability. By-right development protocols also encourage a greater volume of new development, as developers can anticipate a transparent and efficient process.

CONSIDERATIONS

Does the market need more units? By-right development allows supply to be more responsive to demand or actual need.

Is there political will to adopt by-right development? By-right development requires political consensus, which can be difficult to achieve in many jurisdictions.

How does the building review process differ geographically? Areas where discretionary review is more stringent, and where communities are more well-organized, tend to be wealthier and more well-established communities where affordably priced housing is most needed.

"The Anti-Snob Law" – Massachusetts Chapter 40B

Once achieved, a statewide approach to by-right development both reflects and can act upon broad coalitions of support for more housing. The state of Massachusetts passed Chapter 40B in 1969, which allows affordable housing to be developed in towns where less than 10% of housing is affordable, regardless of local zoning ordinances. The policy has reduced local zoning and permitting barriers. 90% of qualifying projects submitted to local Zoning Boards of Appeals have been approved.

Reduced Fees

Waivers or reimbursements decrease costs dollar-for-dollar, while deferrals reduce risk.

Incentive Format

Fee reductions waive, reimburse, or defer a variety of fees typically incurred throughout a project's lifespan. These fees include those associated with building permitting, planning, and development, such as zoning fees, subdivision fees, site plan fees, building plan review-permit-inspection fees, and impact fees.

The extent of the fee reduction can be scaled depending on the type of housing units in question. For example, fees may be reimbursed to different percentages depending on the depth of affordability. Another policy option is to defer fees for market-rate units, such that the fee is to be paid when those units reach a certain level of occupancy.

Fee reductions work as an incentive by directly decreasing project costs (or project risk, in the case of fee deferrals). Fixed cost savings are especially valuable for smaller developments, and per-unit cost savings can be significant for larger developments with many housing units.

Market Impact & Considerations

IMPACT

Reduced fees contribute to affordability primarily through direct cost reduction.

Fee reductions cover development soft costs and, therefore, help to lower the rents that a project requires to be feasible and profitable.

In some markets, a large fee reduction may be adequate to instigate a greater volume of housing development, but the incentive does not often contribute to a significant growth in supply.

CONSIDERATIONS

How meaningful are fee reductions in a market? Fee reductions would be most impactful in markets where developers are already eager to build but where development costs are high enough for a waived fee to be significant.

How important are these fees to the property and community? Some fees, such as impact fees, would contribute to surrounding infrastructure and improvements. Foregoing this capital to incentivize affordability forces a tradeoff between important public goods.

Impact Fee Waivers in Polk County, FL

Polk County waives and reduces impact fees for newly developed for-sale and rental units provided to low-income households. Developers pay full impact fees up front when applying for a permit, but fees are reimbursed as housing units are occupied by low-income households. The county sets a maximum waiver cap of $250,000 per year across the city, to limit the program’s impact on the city budget.

Public Land

Public land sold at a below-market price in exchange for affordability lowers the cost of development and allows for lower rents.

Incentive Format

A public land policy establishes criteria by which local governments select and sell parcels of publicly controlled land at below-market prices (often free) to improve affordability. Effective policies draw from a broad portfolio of land parcels and work to maximize the value of that land – such as by allowing for dense and mixed-income developments. The policy should employ a well-defined selection process and expedient regulatory approvals.

Public land acts as an incentive by decreasing development costs. The reduction in land price mitigates a very significant development cost, allowing for lower rents and greater affordability.

Public land disposition can operate effectively and create community benefits in strong and weak markets alike. Disposition creates opportunities in strong markets and catalyzes reinvestment in weaker ones.

Market Impact & Considerations

IMPACT

Public land incentives can contribute to affordability through both direct and supply approaches. By minimizing a significant cost to development, public land incentives directly allow for the creation of more affordably priced units. And depending on the market need, public land can be provided as an incentive for a spectrum of housing types, to contribute to the overall supply of rental units, which can improve affordability.

CONSIDERATIONS

What is the size and strength of a municipality's public land portfolio? The impact of this incentive is directly tied to quantity and quality of land made available. More and better-quality parcels have a greater impact on affordability.

Is the incentive complemented by other policies? Public land incentives typically are not effective on their own. Even with a significant portfolio, a standalone land policy will produce fewer than 100 units annually.

High Density Transit-Oriented Workforce Housing in Atlanta, GA

Atlanta's public land disposition guidelines are complemented by zoning relief for project modifications, as well as higher density uses and reduced parking requirements. These offerings helped the Metropolitan Atlanta Rapid Transit Authority (MARTA) recruit developers for station-area transit-oriented development (TOD) contracts that include workforce units. The program, introduced in Q3 2018, is coupled with a $15 million fund that will provide below-market, low-rate financing to support development of workforce housing.

Tax Incentives

Property tax incentives improve affordability by lowering the cost to operate rental housing.

Incentive Format

Property tax incentives are state or local policies that reduce the tax burden on properties that support a public policy goal. The specific mechanisms vary but fall under three broad categories: tax abatements, tax rebates, or tax exemptions. These incentives can be strategically enacted in different geographies and for different project types, to encourage development for which the city has the greatest need. For example, tax incentives can be provided for both new development and for capital improvements on existing buildings.

These tax incentives work by reducing property taxes, lowering operating costs. For a designated period of time, tax reductions amount to a direct discount on a property's operating costs. As operating costs rise in many areas, this cost savings can be very meaningful for project budgets.

Market Impact & Considerations

IMPACT

Tax incentives can effectively contribute to affordability through both a direct and supply approach. By lowering operating expenses, tax incentives directly allow for projects to incur lower rents, as is often required. And in markets where the promise of tax incentives is enough to encourage more development overall, the incentive contributes to affordability by increasing housing supply.

CONSIDERATIONS

Can a municipality afford the cost of foregone revenue? A direct approach to improving affordability can work in any market, as long as the city is able to bear the opportunity cost of lower tax revenues.

Would other market conditions prevent the efficacy of tax incentives? Tax incentives would be most effective in markets where rents do not support construction costs, but where land is largely available and developable. If a city's land use and regulatory environment is the primary barrier, tax incentives will not be able to induce new development.

Inducing Development in Philadelphia, PA

Philadelphia's tax incentive policy is designed to induce development of for-sale and rental housing by applying a significant 10-year tax incentive to a market with relatively weak conditions and the fourth-highest construction costs in the country. As a result, development has increased by 367% since the incentive took effect in 2000, while suburban areas without the incentive saw only an 11% increase in building activity. A report by JLL found that every $1 in tax revenue foregone results in $2 of net revenue through the resulting effects of the policy.

Public Funding

Public money can catalyze development that would otherwise be financially infeasible.

Incentive Format

Public funding "closes the gap" for desirable but otherwise infeasible projects. This money can come from federal, state, and local levels, with a multitude of formats and restrictions. Meaningful funding levels typically range from hundreds of thousands to millions of dollars.

Funding can be invested *directly* into project costs (capital or operating). In this case, the incentive works by directly decreasing costs and expenses. Public money often constitutes a critical piece of the capital stack for developers of affordably priced housing.

Funding can also *indirectly* benefit a housing project by covering the costs of surrounding improvements. These amenities include transportation and utilities infrastructure, parks and open space, and investments in economic revitalization. These projects bolster the success and cash flow of not only the project, but also the community and future projects.

The promise of public money serves as an early-stage instigator for new housing projects. Funding can be competitive to secure and tightly budgeted, but – when properly allotted – can be transformational for funding recipients.

Market Impact & Considerations

IMPACT

Public funding contributes to affordability through both a direct and supply approach. Depending on the source, public funding is often competitively awarded to projects that promise to deliver affordably priced units. This is possible because the funding directly reduces development costs and, therefore, the rents necessary for a viable project. Public money and improvements also play an important role in galvanizing new development of all kinds, thus improving affordability by increasing supply overall.

CONSIDERATIONS

What restrictions does the public funding take? Depending on their design, public funds can come with many strings attached, which can affect the project's calculus in direct and indirect ways.

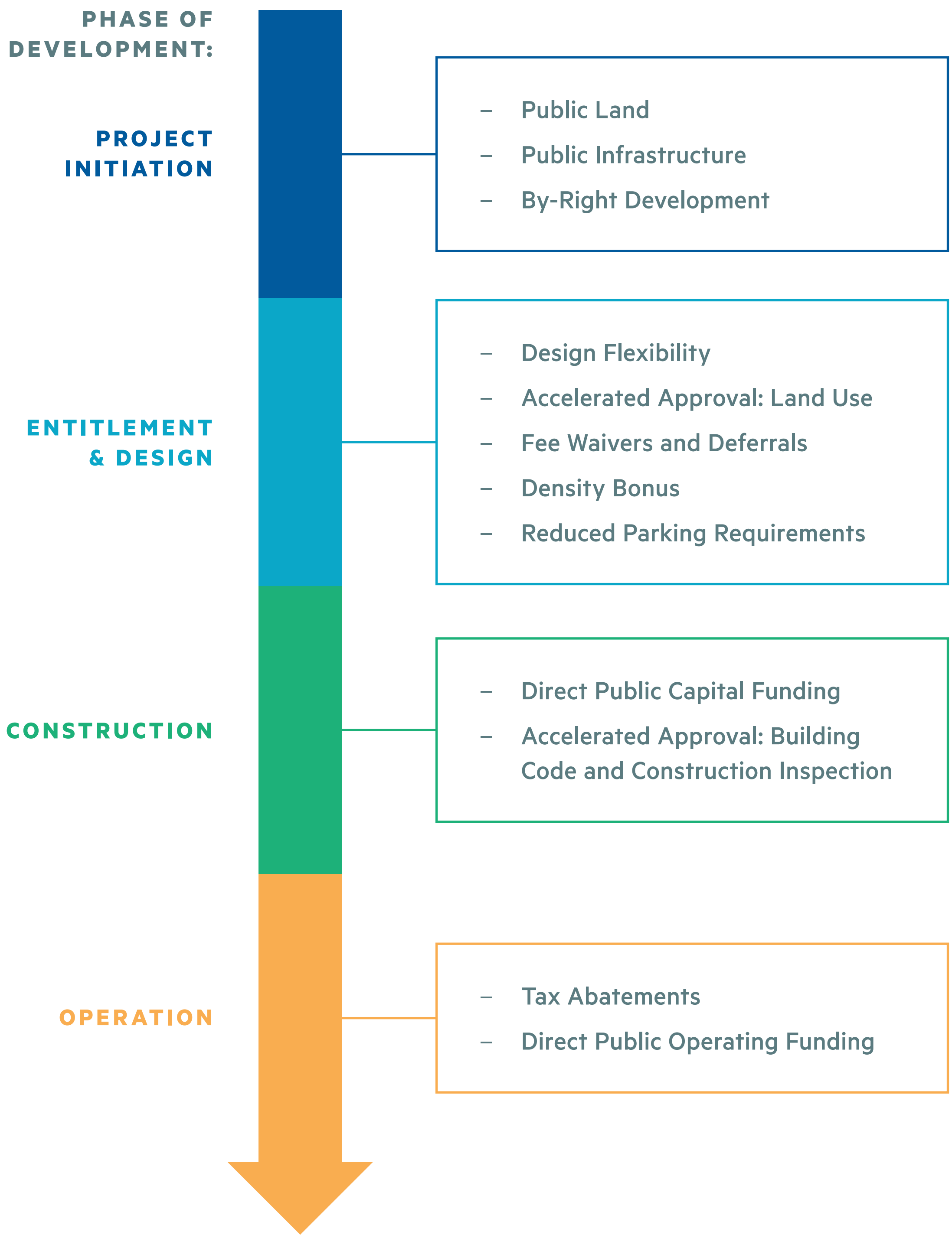
How significant is the financing gap, and will public money be adequate to fill it? In markets where building is expensive and/or rents are weak, a significant level of funding may be necessary – and public reserves may be inadequate.

Housing Production Trust Fund in Washington, D.C.

The HPTF is a special revenue fund in the District of Columbia that produces and preserves affordable housing. Drawing from a 15 percent tax on deed recordation and transfer taxes, the fund currently aims to commit $100 million per year (the second highest in the nation). Every dollar of HPTF funding is matched with $2.50 of private and federal financing, to be used toward qualifying and winning projects that serve a stipulated range of AMIs and housing needs. Between 2001 and 2016, the HPTF produced or preserved nearly 10,000 units of affordable housing.

Phases of Incentives

Housing incentive policies influence project financials and outcomes throughout the development process.

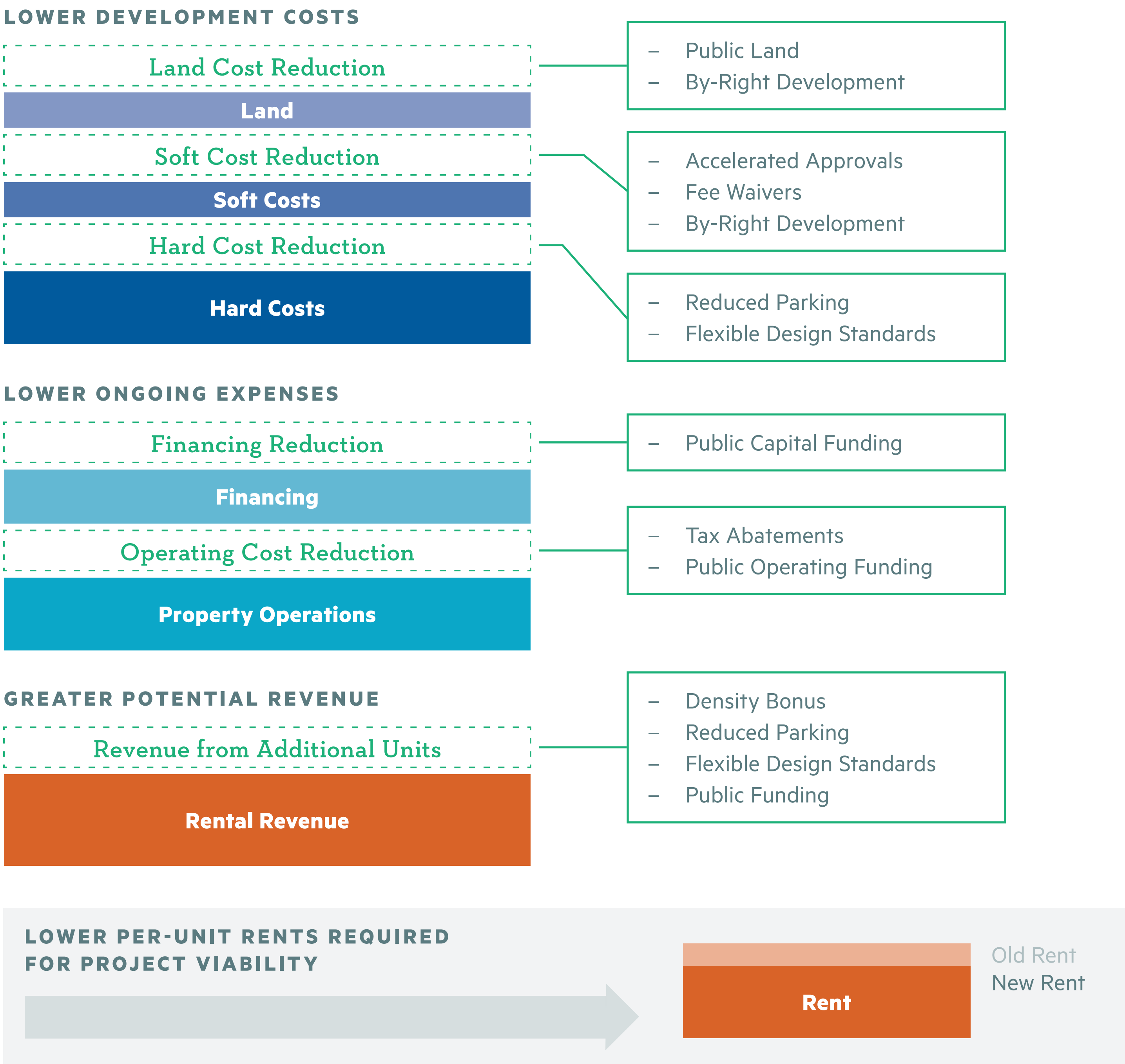


Economics of the Tool

Housing incentive policies can obligate and/or allow for a direct reduction in rents.

Direct Approach:
Reduced Costs and Expenses; Increased Revenue

Housing development incentives reduce costs or increase revenue, thus allowing for a direct decrease in rent for at least a portion of units, while still maintaining project viability.



Economics of the Tool

Housing development incentives can be designed to increase the production of all forms of housing.

Supply Approach: Increasing Overall Production

Housing development incentives can increase the supply of housing and, consequently, improve housing affordability. In particular, **incentives such as by-right development, flexible design standards, public land, public funding, and tax incentives can significantly increase the likelihood of development.**

Currently, the increase in rents of existing affordably priced market-rate housing is one of the largest factors driving the affordability crisis nationwide. The loss of this housing is a direct result of insufficient supply for new renter households. Increasing the supply expands affordability for all households.

The indirect impact of increased supply on lowering rents can be significant. Below is the estimated[1] impact of a 1% increase in housing supply on rents and the number of households who would be able to afford rental housing as a result.

	DECREASE IN SHARE OF UNITS <$800 SINCE 2000 (PERCENTAGE POINTS)	EFFECT OF 1% INCREASE IN SUPPLY: REDUCTION IN RENT	EFFECT OF 1% INCREASE IN SUPPLY: INCREASE IN AFFORDABILITY (BY HOUSEHOLDS)
Atlanta	15.7	0.63%	690
Sacramento	19.5	0.98%	720
Minneapolis	15.1	0.95%	780
Denver	20.9	0.98%	1,300
Pittsburgh	21.1	1.19%	730
San Antonio	19.3	0.82%	720
Seattle	14.5	1.02%	1,500
Tampa	26.8	1.00%	580

A **1% increase** in overall supply in Pittsburgh would add **1,200 units** to the market and reduce overall prices by **1.19%**. This would make Pittsburgh affordable to **730** additional households.[2]

1 A 2018 study by the Bay Area Council Economic Institute ("Solving the Housing Affordability Crisis") evaluated the effect of various housing policies based on the number of households for which housing would become affordable as a result of the policy, using a 30% housing-cost-burden assumption. The report evaluated the responsiveness of price to changing the supply through policy. Using a similar method, HR&A evaluated the number of households for which housing would become affordable, given a 1% increase in the overall supply of the eight case-study cities.

2 730 additional households would pass the threshold below 30% for affordability.

Tool: By-Right Development

THE HOUSING AFFORDABILITY TOOLKIT

Developed in Partnership with
HR&A Advisors

By-Right Development

Establishing by-right development allows the supply of housing to grow with demand and helps to stabilize and lower rents.

What Is By-Right Development?

A housing development policy that prioritizes the development of higher density multifamily housing through uniform, codified, and consistent zoning and development regulation.

HOW BY-RIGHT DEVELOPMENT WORKS

A by-right development approval process establishes a rule-based development approval process that improves the ability of the housing market to create new housing in response to increased demand.

BY-RIGHT DEVELOPMENT IMPROVES AFFORDABILITY IN TWO WAYS:

1. Lowers the cost of development through a faster, more predictable approval process.
2. Increases the supply of housing.

Faster, more predictable approval processes lower the cost to obtain development approval, reducing overall development costs. Creating new housing increases the supply of housing and reduces competition between new and long-time residents for existing housing.

> **"All neighborhoods benefit in the long run if they allow for the production of new housing units."**
>
> – Mark Willis, Senior Policy Fellow, NYU Furman Center

RULE-BASED VS. DISCRETIONARY

A rule-based approach clearly outlines the permitted use, shape, and density at a parcel level. When development projects are submitted, review is administrative and does not exercise discretionary judgement on the project.

Conversely, a discretionary approval process gives increased power to legislative bodies and city staff to create conditions and requirements that are unique to specific projects.

NOT IN MY BACKYARD (NIMBY)

NIMBYs are individuals or organizations that oppose the development of new housing in their neighborhood. NIMBYs routinely use discretionary, non-rule-based development approval processes to block the development of new housing.

Effective Policies

1. Rely on rule-based approval process

2. Encompass a significant portion of the market

3. Apply to more desirable neighborhoods

4. Require strong political support

Recommendations

1. Effective by-right development relies on a rule-based approval process.

The development approval process should be predictable. Developers should be able to evaluate with confidence what types of developments will be approved, what types of requirements the community will impose, and how long approval processes will take. Predictability reduces the cost of development by reducing the cost of obtaining development approvals and allows developers to focus on projects that will be approved, increasing overall supply.

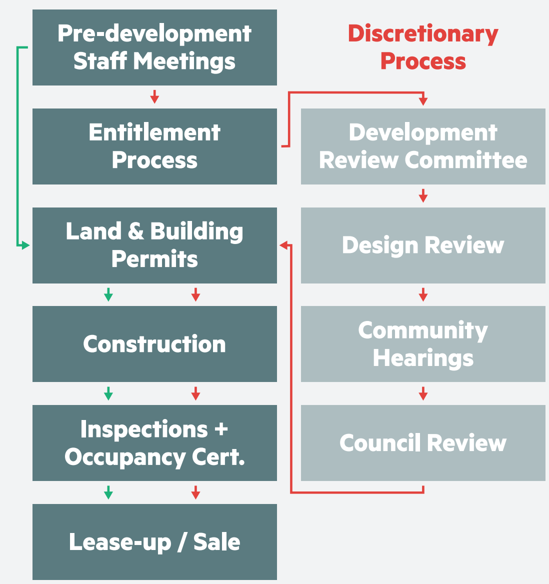
By-Right vs. Discretionary

Most cities exist on a spectrum between rule-based zoning and discretionary zoning. A rule-based approach clearly outlines the permitted use, shape, and density at a parcel level. When development projects are submitted, reviews are administrative and do not exercise discretionary judgement on the project. If all the zoning and code requirements are met, approval must be given for the project.

Conversely, a discretionary approval process gives increased power to review boards, elected officials, and city staff to create conditions and requirements that are unique to specific projects.

Most discretionary approval processes create a series of discretionary reviews, each of which can block development or increase costs. The development map to the right represents a typical development process distilled from a literature review of multifamily development processes across the country. Any one of the reviews can be used by NIMBYs to prevent the development of additional housing.

Typical Development Process Map



An effective by-right development process limits discretionary reviews. Every discretionary review can decrease the potential housing supply, either by blocking projects or reducing their size. A restricted housing supply contributes to affordability challenges. Communities may choose to include some additional discretionary reviews related to key public policy goals. But to keep the affordability benefits of a by-right approach, the number of reviews must be limited.

> "Design guidelines should control only those elements of design that don't affect the basic entitlement."
>
> – Los Angeles ReCode, 2014

Recommendations

1. Effective by-right development relies on a rule-based approval process.

Discretionary reviews in the development approval process should have well-defined criteria that set high thresholds for intervening in a proposed housing development. Discretionary reviews often use broad jurisdiction to interpret development standards. This flexibility allows NIMBYs to stretch the purpose of discretionary reviews and block new housing, often based on issues beyond the intended purpose of the review.

Design Review Roadblocks

A review of Los Angeles's zoning code[1] showed that the city often requires a lengthy urban design review process for multifamily buildings. This design review was often used as a tool by those that opposed new housing to limit zoning approvals and directly undermine the city's housing affordability goals.

An effective by-right process can still include minor additional discretionary reviews for extremely large projects. A catalytic redevelopment of a city block or a development proposing 1,000 or more units may meet this threshold. **However, only a very small portion of multifamily developments would meet the threshold; most should be approved through a rule-based process.** Local governments tend to set low thresholds, resulting in required discretionary reviews for a significant portion of large projects.

Although the implementation of a rule-based system is an important step in expanding by-right development, it can still be misused to restrict the supply of housing. The wealthy Silicon Valley suburb of Los Altos Hills has by-right zoning that only allows low-density, single-family housing and does not allow for any multifamily housing within city limits. The city does not contribute to the region's supply of housing, despite being adjacent to large and growing job centers.

"Large Project" Zoning Approval in Boston, MA

In Boston[2], any project larger than 50,000 square feet (40-45 units) requires a "large project review," which triggers a public comment period, reviews with interested City and State agencies, design review, and a negotiation process with the planning board. This has resulted in projects being "engineered" to fit the allocated 50,000 SF by reducing units, which artificially reduces Boston's housing supply. This process can take dozens of months and has created a cottage industry of consultants that manage multiple layers of review.

The process has three public review steps:

1. A Project Notification Form;
2. A Draft Project Impact Review analyzing the environmental, traffic, neighborhood, and other impacts of the project; and
3. A Final Project Impact Report in response to concerns raised during the public hearing.

At each point in this process, pressure from neighborhood groups can mount and halt or shrink the project, despite Mayor Walsh's housing goals in the Boston 2030 comprehensive plan.

A city's rule-based zoning policy must facilitate sufficient multifamily housing development to be an effective housing affordability tool.

1 Los Angeles ReCode, 2014
2 "What is Article 80?", Boston Planning and Development Authority

Recommendations

2. Effective by-right development encompasses a significant portion of the market.

The larger the scale of a by-right policy, the greater the potential impact on affordability. By-right development primarily impacts affordability by allowing the supply of housing to meet demand. Cities often restrict by-right multifamily development to a small area, substantially restricting the policy's ability to address affordability challenges. For a by-right policy to be effective, it must apply to a significant portion of the market.

Local governments need to understand the magnitude of projected growth and scale their by-right policies accordingly. Local governments should execute thoughtful planning exercises to predict the volume of growth and the location of high-growth areas prior to establishing the scope of by-right policies. When by-right development policies are not aligned with market conditions, they are far less effective at impacting affordability.

A regional approach to by-right development is often the most effective. Housing markets operate at a regional scale, so sole local governments may struggle to accommodate regional growth, even with a by-right policy in place.

> **"[SB 827]...could be "the biggest environmental boon, the best job creator, and the greatest strike against inequality anyone's proposed in the United States in decades."**
>
> – Boston Globe, June 2018[1]

"A Statewide Upzone" – SB 827

In 2016, the McKinsey Global Institute found that California needed to build 3.5 million homes by 2025[2] to address pent-up demand and stabilize rents across income groups.

A 2017 senate bill proposed by California State Senator Scott Wiener would have taken advantage of recently built transit infrastructure by enacting a statewide up-zoning to remove density limits and parking requirements on parcels within a ½ mile of high-speed transit. It was designed to override local zoning and set neighborhood maximum heights between 45 and 85 feet, depending on context.

An independent evaluation of the bill's impacts found that this would "significantly upzone nearly all of San Francisco to 45- and 85-foot heights (depending on distance to transit stops), as well as significant portions of Los Angeles, Long Beach, San Diego, Oakland and Berkeley." Another localized study found that metro stops in Oakland would be upzoned up to five times their current capacity.[3]

Although the bill did not pass, it struck a national chord by illustrating how by-right development is essential to addressing housing affordability.

1 Ramos, Dante, "Go on, California – blow your lousy zoning laws," 2018
2 Woetzel et al. "Closing California's Housing Gap" McKinsey Global Institute, 2016
3 DiStefano, "How Might SB827 Impact California?," 2018

Recommendations

3. Effective by-right policies apply to more neighborhoods with increased opportunities.

While development in all markets is helpful, developing new housing in strong areas has a larger stabilizing effect on a locality's rents than developing in weaker areas. **Neighborhoods with increased opportunities like good schools and amenities have the greatest demand.** They also tend to have more political and financial resources to use discretionary approval processes to block new housing. Moving to a by-right approach stops the misuse of discretionary reviews and leads to more housing development and more affordability.

If development is blocked in desirable neighborhoods, it moves to lower-income, largely minority communities. The discretionary approval process and the lack of by-right development in high opportunity neighborhoods are rarely identified as culprits, but they play a key role in the process of displacement.

> **"Living somewhere that feels like the suburbs but is next to an express train."**

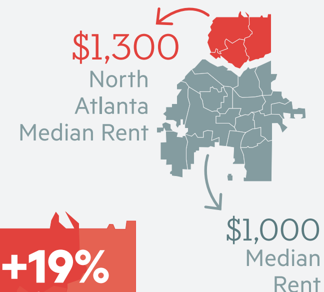
DITMAS PARK, BROOKLYN

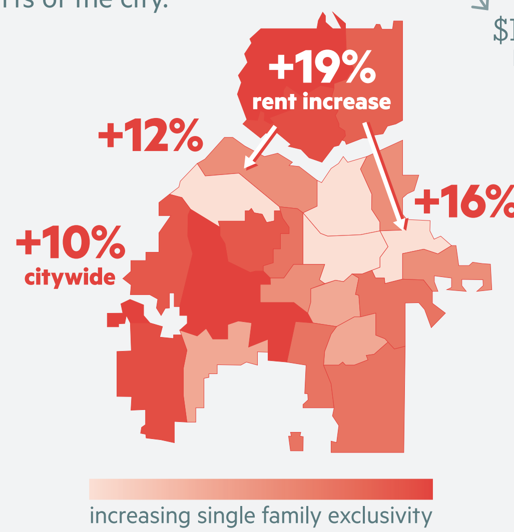
In order to reach the New York City's ambitious housing and equity targets, the Regional Planning Association (RPA) has recommended that the city up-zone and expand by-right development to all neighborhoods – including traditionally residential neighborhoods.[1]

The RPA found that none of these "desirable" neighborhoods, defined by RPA as tracts with median incomes greater than $50,000, top performing elementary schools, and within 0.6 miles of subway access, were up-zoned since 2000, unlike other middle-income neighborhoods in Brooklyn and Queens. These neighborhoods effectively blocked all up-zoning attempts and maintain low-density communities, while the city lacks sufficient housing.

Demand for Housing in Desirable North Atlanta has Spilled Over to West and East Atlanta.[2]

95% of north Atlanta is zoned for single-family housing and is one of the most desirable parts of the city.





Development in north Atlanta has been constricted by zoning, shifting demand to adjacent parts of the city. This has resulted in greater displacement and decreased affordability in parts of west and east Atlanta.

1 "Is NYC as Transit-Oriented as We Think?" – RPA Lab, 2018
2 HR&A analysis, Atlanta Equitable Housing Study, ACS 2016 5-year survey

Recommendations

4. Effective by-right policies require strong political support.

Strong political will and leadership is required to establish and sustain an effective by-right development policy. NIMBYs will put pressure on elected and appointed officials to block by-right development that they believe will impact their quality of life.

There are a number of ways to create political support for by-right development and improve affordability. Local governments and concerned community members should pursue multiple approaches:

Encourage community support and Yes In My BackYard (YIMBY) groups that advocate for increased development and multifamily housing to stabilize rents and improve affordability. These groups can be valuable partners of local governments and help spread awareness about the link between by-right development, increased supply, and greater affordability. Several of these groups have formed across the country, with active members in many cities facing high levels of discretionary zoning like Los Angeles, San Francisco, and Cambridge.

Review existing efforts to promote statewide by-right development. This is a drastic measure but may be necessary to overcome local opposition to new housing. A statewide approach takes the issue out of the hands of local elected officials and allows for the formation of broader coalitions of support.

"The Anti-Snob Law"

– MASSACHUSETTS CHAPTER 40B[1,2]

The best example of this is the Chapter 40B "anti-snob law" in Massachusetts, which allows development of affordable housing to be built in towns where less than 10% of housing is affordable despite local town zoning ordinances. It was created in 1969 to reduce local zoning and permitting barriers to housing production and to encourage the production of housing in all communities throughout the state.

If certain conditions are met, developers are eligible to submit a comprehensive permit to the local Zoning Board of Appeals (ZBA). Projects are approved 90% of the time. If they are not approved, the developer can appeal to the state Housing Appeal Committee. In these cases, the burden of proof falls on the local ZBA to prove that the project "demonstrates a valid local concern that outweighs the regional housing need."

1 Interviews with Chapter 40B administrators
2 Reid et al. "Borrowing Innovation, Achieving Affordability: What we can learn from Mass. Chapter 40B," 2016

Considerations & Limitations

Efforts to improve affordability in a community must include some form of by-right development to be effective.

Impact

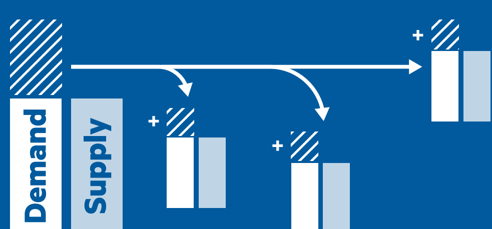
The reliance on discretionary zoning in place of by-right development restricts the supply of housing and decreases affordability for all income levels. Studies of the Bay Area, New York City, Boston, and Los Angeles have all found that sharp increases in zoning restrictions contribute to the current housing affordability crisis, exacerbate wealth disparities, and result in economic and racial segregation. The discretionary approval process allows NIMBYs to use traffic, school crowding, and environmental impacts of new housing to prioritize their quality of life over housing affordability for the broader community. Finally, by-right development reduces the potential impact of NIMBY groups on projects and communities.

> **"In 1960, Los Angeles was zoned to accommodate 10M residents and had a population of 2.5M. In 2016, the city was zoned for only 4.3M with a population of 4M.[1]"**

Market

Expanding by-right development is an effective strategy to increase supply and affordability in strong and weak markets alike. In both strong and weak markets, there are neighborhoods where there is demand for more housing. **It is most effective to expand by-right development in neighborhoods where demand pressure is the highest – this is where there is the greatest need for additional supply.**

When desirable neighborhoods restrict zoning and create excess demand, it causes demand pressure on adjacent communities, resulting in widespread rent increases and displacement.



Housing Goals

INCREASED HOUSING SUPPLY

INCLUSIVE, MIXED-INCOME NEIGHBORHOODS

When implementing housing policies, local governments may pursue a range of housing goals. Expanding by-right development is an effective strategy to **increase the overall supply of housing** by responding to demand increases. It can also create mixed-income neighborhoods, as cities undo the deleterious effects of exclusionary zoning and build in more desirable neighborhoods.

1 The White House (Obama Administration) Housing Affordability Toolkit, September 2016

Recommendations Summary

To design an effective by-right policy, a city should take a four-tiered approach.

1. EFFECTIVE BY-RIGHT POLICIES RELY ON RULE-BASED APPROVAL PROCESSES

- The development approval process should be predictable.
- Discretionary approval processes used by most cities create a series of obstacles – often in the form of multiple layers of discretionary reviews – to develop new multifamily housing.
- An effective by-right development process should include only a limited number of discretionary reviews.
- Although a rule-based system is an important step in expanding by-right development, it can still be misused to restrict the supply of housing. A city's rule-based zoning policy must facilitate multifamily housing development to be an effective tool in stabilizing and reducing rents.

2. EFFECTIVE BY-RIGHT POLICIES ENCOMPASS A SIGNIFICANT PORTION OF THE MARKET

- The larger the scale of a by-right policy in terms of where it applies within a jurisdiction, the greater the potential impact on affordability.
- Local governments need to understand the magnitude of projected population growth and scale their by-right policies accordingly.

3. EFFECTIVE BY-RIGHT POLICIES APPLY TO MORE DESIRABLE NEIGHBORHOODS

- By-right development policies have the greatest impact on housing affordability in high-demand neighborhoods by reducing the competition between existing residents and new residents for a limited supply of housing.
- Moving to a by-right approach stops abuse of discretionary processes and leads to increasing housing development in desirable areas.
- When desirable neighborhoods reject by-right policies, new housing development concentrates in lower-income and minority communities, driving displacement.

4. EFFECTIVE BY-RIGHT POLICIES REQUIRE STRONG POLITICAL SUPPORT

- Strong political will and leadership is required to establish and sustain an effective by-right development policy.
- Encourage Yes In My BackYard (YIMBY) groups that advocate for increased development and multifamily housing.
- In strong markets, tie by-right policies directly to the production of units with below-market-rate rents.
- Consider regional or statewide policies mandating by-right development when necessary to overcome local opposition to new housing.

By-Right Development Economics

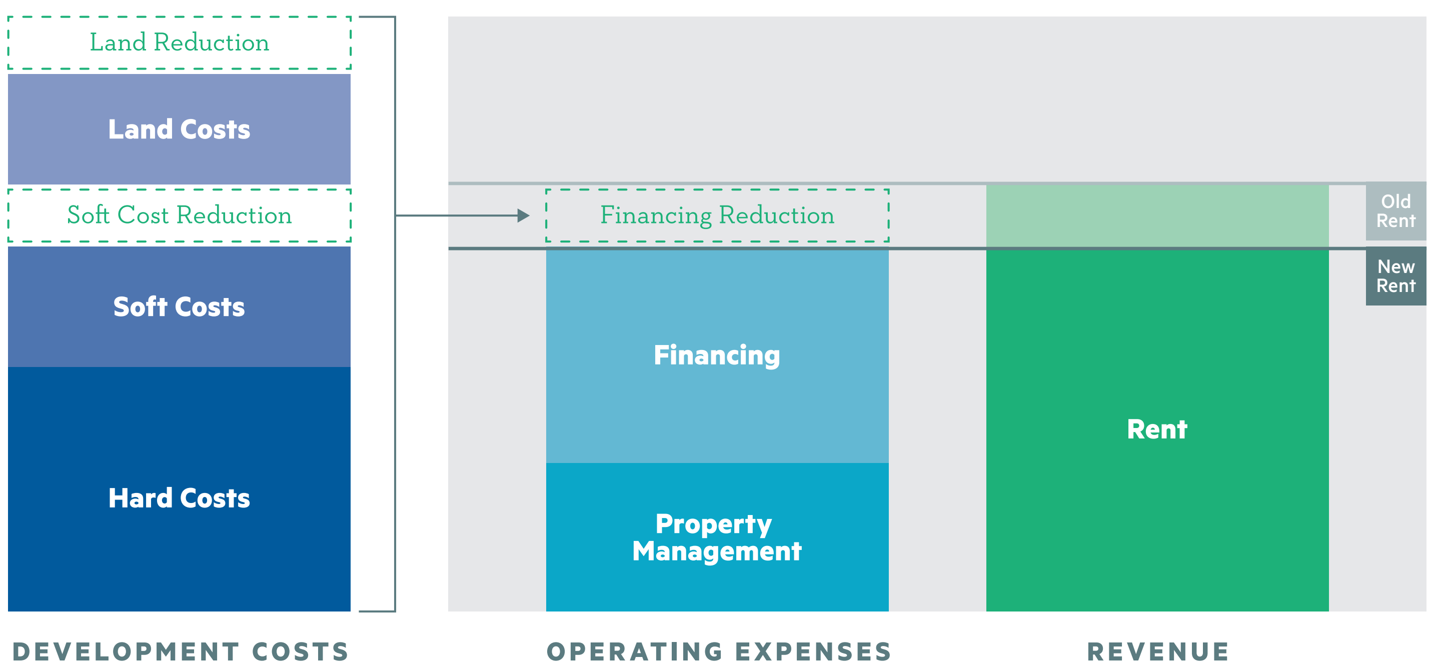
By-right development impacts affordability in two key ways – it reduces the cost of development and increases the supply of housing.

Reduced Development Costs

By-right development reduces both soft costs and land costs. An efficient and predictable entitlement process reduces carrying costs, consulting fees, and other costs associated with approval processes when compared to a lengthy discretionary review process. Land costs are reduced when the zoning premium on multifamily land is rendered obsolete – by-right policies increase the number of parcels with few zoning restrictions, reducing competition and associated land costs.

When costs decrease, developments require less financing and less rent to ensure project viability. Policy changes that allow for more by-right development can lead to lower rents for individual multifamily projects, resulting in lower overall rents.

The magnitude of land and soft cost savings depends on the specific market conditions of each city, in addition to the current permissiveness and duration of the entitlement process.



By-Right Development Economics

By-right development impacts affordability in two key ways – it reduces the cost of development and increases the supply.

Increased Supply

By-right development policies increase the housing supply and, consequently, housing affordability. One of the largest factors driving the national affordability crisis is rising rents in existing low-rent housing. Those rent increases are the result of failing to build enough multifamily housing to accommodate new renter households.

By-right development increases affordability indirectly. As supply increases, it reduces competition for existing housing and leads to lower rents. This indirect impact can be significant. Below is the estimated[1] impact of a 1% increase in housing supply on rents and the number of households that would be able to afford rental housing as a result.

	DECREASE IN SHARE OF UNITS <$800 SINCE 2000 (PERCENTAGE POINTS)	EFFECT OF 1% INCREASE IN SUPPLY	
		REDUCTION IN RENT	INCREASE IN AFFORDABILITY (BY HOUSEHOLDS)
Atlanta	15.7	0.63%	690
Sacramento	19.5	0.98%	720
Minneapolis	15.1	0.95%	780
Denver	20.9	0.98%	1,300
Pittsburgh	21.1	1.19%	730
San Antonio	19.3	0.82%	720
Seattle	14.5	1.02%	1,500
Tampa	26.8	1.00%	580

A **1% increase** in overall supply in Pittsburgh would add **1,200 units** to the market and reduce overall prices by **1.19%**. This would make Pittsburgh affordable to **730** additional households.[2]

1 A 2018 study by the Bay Area Council Economic Institute ("Solving the Housing Affordability Crisis") evaluated the effect of various housing policies based on the number of households for which housing would become affordable as a result of the policy, using a 30% housing-cost-burden assumption. The report evaluated the responsiveness of price to changing the supply through policy. Using a similar method, HR&A evaluated the number of households for which housing would become affordable, given a 1% increase in the overall supply of the eight case-study cities.

2 730 additional households would pass the threshold below 30% for affordability.

NATIONAL MULTIFAMILY HOUSING COUNCIL

Tool: Inclusionary Zoning

THE HOUSING AFFORDABILITY TOOLKIT

Developed in Partnership with
HR&A Advisors

Inclusionary Zoning

Inclusionary zoning policies can increase affordability if they are flexible, properly structured with sufficient incentives, and limited to strong housing markets.

What Is Inclusionary Zoning?

Inclusionary zoning policies require new rental housing developments to include a certain percentage of apartments at below-market rents in order to be approved. In exchange for those affordable units, most policies offer incentives that offset the costs of lower rents.

Common Incentives

- Additional development density
- Reduced parking requirements
- Accelerated approval
- Tax abatements*
- Impact fee waivers
- Design flexibility
- By-right development*
- Public financing

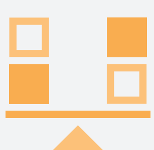
> **“Since 1974, almost 900 local governments have enacted inclusionary zoning policies, either mandatory or voluntary. Voluntary programs allow developers to determine whether market conditions are right for participation."**

How Inclusionary Zoning Works

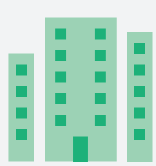
The economics of inclusionary zoning policies are often misunderstood. Inclusionary policies are viewed by many local governments as ‘costless’ solutions to their housing affordability challenges. **In reality, inclusionary policies impose significant costs on new rental development by reducing total rents on the property and making it harder for developers to get the financing they need to build.**

A well-designed inclusionary policy adheres to four principles that minimize and offset the costs the policy creates.

The Four Principles of Effective Policies



Provide a sufficient range of incentives to offset reduced rents



Target neighborhoods with strong housing markets

Provide developers with flexible participation options in housing markets

Enable simple administration and developer participation

*Additional information on these incentives is provided in subsequent tools documents.

Provide Sufficient Incentives

Without sufficient incentives, inclusionary zoning can actually reduce housing affordability.

If incentives do not cover the gap between the below-market rents and market-rate rents, owners will either have to raise the rents for the market-rate units or cancel plans to develop the property altogether. Both scenarios undermine affordability.

In markets where there is strong demand, the rents for market-rate units can rise to cover the reduction in rents on inclusionary units, shifting the cost of the reduced rent onto the market-rate units.

In markets where the demand for rental housing is not strong enough to support higher rents, projects on the margin may not be built. The decrease in development restricts supply and increases competition for existing housing, contributing to displacement and higher rents for existing rental housing.

Decreased Development Portland, OR

Since Portland's inclusionary policy took effect in February 2017, multifamily building permit applications have decreased 65%. The drop appears to be at least partially because the policy failed to provide sufficient incentives and created an onerous administrative process.

Source: Portland Housing Bureau

Even modest rent reductions not recovered through incentives significantly reduce the financing a property can secure. A $100 per month rent reduction for a single unit translates into approximately $20,000 less per unit in financing.

IMPACT OF RENT REDUCTION ON FINANCING

-$100 = -$20K

Reduction in Monthly Rent for 1 Unit = Financing Gap

The "cost" of an inclusionary policy to developers depends on how many below-market units are required and the allowable rent levels for those units. This example compares the burden of a policy that requires 15% of the units to be at 80% AMI* to a policy that requires 10% of the units to be at 60% AMI.

	Level of Affordability		# of units		Rent Reduction		Financing Gap
A	-$200 (80% AMI)	X	30	=	-$6K	=	-$1.2M
B	-$400 (60% AMI)	X	20	=	-$8K	=	-$1.6M

$100 reduction in monthly rent supports $20,000 in debt, assuming a 30-year amortizing mortgage with an interest rate of 5%.

AMI (Area Median Income) is a Department of Housing and Urban Development-determined measure of the household income for the middle household in a region.

Inclusionary zoning can also include for-sale homeownership housing. However, this is not addressed within this document.

Establishing Effective Incentives

Stakeholders should take a holistic approach when designing incentives.

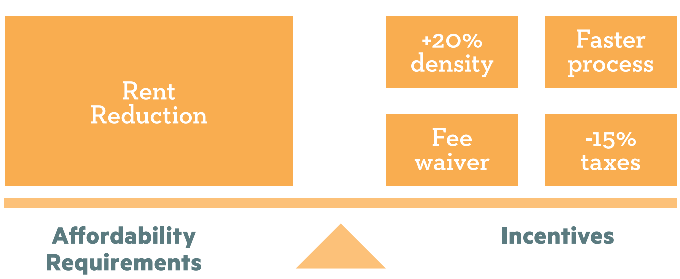
Collaborate with property managers, owners, and developers. Establishing a set of affordability requirements and offsetting incentives tailored to the conditions of a specific housing market is difficult absent input from stakeholders. These private sector partners are likely to have a more in-depth understanding of local market conditions from neighborhood to neighborhood and the complexities of multifamily housing finance than policymakers. Private sector partners substantive involvement in designing the program is necessary for its success. Since housing markets change over time, it may be necessary to engage them even after the policy has been adopted to modify it to adapt to changing market conditions.

Stakeholder Input Nashville, TN

In 2015, Nashville's Metro Planning Department convened stakeholders, including developers and lenders, to provide input on an inclusionary zoning policy through meetings and individual and group interviews. Their participation and input on land costs, development costs, rental rates and incentives helped develop a viable inclusionary policy that was adopted in 2016.

Possible incentives

- Additional development density "bonuses"
- Reduced parking requirements
- Accelerated approval
- Tax abatements
- Impact fee waivers
- Design flexibility
- By-right development
- Public financing

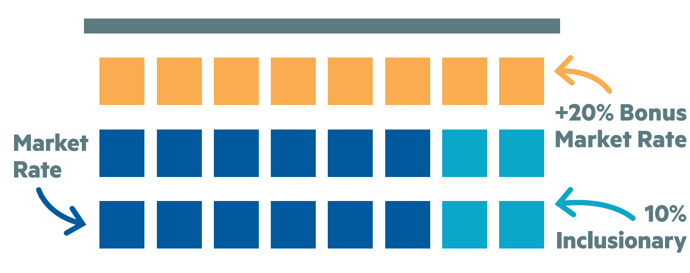


Policymakers need as many incentive options at their disposal as possible to accommodate the diversity of their housing market needs. Rarely will just one incentive program sufficiently offset reduced rent for every type of project and in every neighborhood. In some projects, additional density is more valuable in covering rent gaps than tax abatement. In other neighborhoods, the opposite may be true. Some developments may need to combine incentives to cover rent and financing gaps.

While density bonuses are the most common policy incentive used, they are not a panacea. Density bonuses are not always the most effective for many reasons.

1. They only work in a neighborhood where there is enough demand to absorb the additional units, otherwise there is no economic benefit to the bonus.
2. They only work if the extra density doesn't change the type of construction, such as going from a less expensive mid-rise building to a much more expensive high-rise property. In those cases, the increased construction costs will typically exceed the value of the density bonus.
3. The density bonus must allow for developers to add more market-rate units than the number of below-market rents required. A one-for-one incentive will not offset the reduced rent in an inclusionary unit.

DENSITY BONUS IN PRACTICE



Target Strong Markets

Effective inclusionary policies should target strong housing markets and vary according to market conditions.

> **“Areas not experiencing any or much market-rate development will likely not generate significant results from an IZ policy."**
>
> – Urban Land Institute

Inclusionary policies require strong housing markets to be effective. They depend on market-rate development to produce inclusionary units and demand from middle- and high- income renters to offset the reduced rent for inclusionary units. Neighborhoods with low rates of vacancy, high levels of construction, and steady growth in rent are most conducive to supporting an inclusive policy. Community perception about the strength of a real estate submarket often exceeds the actual strength of the market. A clear, data-driven assessment of the strength of the housing market is imperative for an informed discussion about where an inclusionary policy could be feasible.

Most cities do not have a strong enough housing market to support a citywide mandatory inclusionary policy. Many will have some neighborhoods with lower market rents, higher vacancies or limited development activity where incentives simply can’t offset the cost of the below-market-rent inclusionary units.

Citywide inclusionary policies should include different incentives and requirements for different neighborhoods. A downtown housing market where large residential towers are being developed calls for a different policy than a former warehouse district where industrial buildings are being converted to loft apartments. Both might be strong markets, but the appropriate incentives and the number and kind of required below-market units will differ significantly. The inclusionary policy must be targeted accordingly to reflect these differences.

Inclusionary policies should be revaluated periodically. Since effective inclusionary programs require strong housing markets, inclusionary policies should be reviewed on a regular basis to determine if the incentives they offer still cover the rent gap in the current market conditions. Once again, engaging stakeholders, such as developers and property owners, is critical to ensure that the affordability requirements don’t exacerbate housing affordability.

Regular Policy Updates Boston, MA

The City of Boston adopted an inclusionary zoning policy in 2000 that required any multifamily developer constructing 10 or more units, receiving funding from the city, developing property owned by the city, or receiving zoning flexibility from the city, to make 10% of the units affordable (or build the required units off site). In 2015, the city changed the on-site affordability requirements after a feasibility study and stakeholder input determined the current requirements were misaligned with market conditions. They began another policy review in March 2018.

Source: City of Boston, Boston Globe

Offer Flexibility

Effective inclusionary policies offer flexibility to developers in how they participate.

Mandatory inclusionary policies can harm affordability. If the policy does not offer sufficient incentives to cover rent gaps, developers will have to raise rents for the market-rate units or cancel plans to build. The opportunity for a mandatory inclusionary policy to harm housing affordability is significant because most are relatively complicated, apply across multiple neighborhoods and building types, and include a range of affordability requirements.

Voluntary policies are less risky for affordability. If the incentives in a voluntary program don't align with market conditions, developers can simply choose not to participate, but they can still build the housing the community needs. Assuming the policy is well-designed and incentives to include below-market-rent units outweigh the costs, developers will be motivated to participate.

Mandatory/Voluntary Mix New York, NY

NYC uses both mandatory and voluntary inclusionary policies in different areas of the city. The mandatory policy is closely linked to areas of the city where rezoning to allow for higher density is planned or has occurred. The voluntary program is used in neighborhoods that cannot support a mandatory policy.

Source: Housing Virginia, Fairfax County, VA

Engaging developers is the best way to ensure the best outcome for stakeholders and policymakers. Attracting sufficient participation can be a challenge with any inclusionary policy. As previously noted, if a mandatory policy doesn't offset the program costs, developers will build elsewhere. If the program is voluntary, they will opt out. Working with developers to design policies is one way to ensure they will be effective.

Voluntary Policy Fairfax County, VA

Fairfax County's Workforce Dwelling Unit (WDU) Program incentivizes development in high-density areas. If developers choose to opt-in to providing affordable workforce units within their high-rise developments, they are granted an up to 20% density bonus. Since these buildings are already employing higher-cost construction, the bonus has real economic value. In addition, the policy targets households at higher incomes, those earning between 60% and 120% of AMI, which reduces the rent gap between the market-rate and workforce units. Twenty-five include units that participate in the WDU program, creating approximately 1,200 units for workforce renters.

Source: Housing Virginia, Fairfax County, VA

Include a payment in-lieu option. Many inclusionary policies allow developers to pay a fee to the jurisdiction in-lieu of including below-market units in their development. These set fees reduce risk to the developer and encourage their participation in the program. Under them, they know they won't face unexpected costs from delays in finding a qualified resident, ongoing monitoring requirements, or other additional requirements.

The developer can weigh the cost of the fee in-lieu against the incentives the policy offers and make a choice about whether and how to participate. If the policy is mandatory, the fee still eliminates the administrative burden and risks of participation. Localities can use these fees to provide grants to nonprofits to build affordable housing where it is needed most and may be more cost effective to produce.

Keep It Simple

Inclusionary policies that are simple to comply with are more effective.

Administratively complex programs harm affordability. They take more time and resources with which to comply, which increases their "costs" to developers and results in higher rents or fewer units being developed if developers opt out.

Keep income documentation and reporting requirements simple. Don't default to burdensome federal requirements. Federally funded affordability programs are overly complex and discourage private sector participation as a result. Many local inclusionary policies default to burdensome federal rules for income documentation and recertification because they think it is easier for their local housing departments to administer. That simplicity comes at a cost to developers in terms of training and compliance, which affects their decision on whether or not to participate in a voluntary inclusionary program or whether or not to build in a jurisdiction where it's mandatory.

Annual Reporting Montgomery County, MD

Every April, property owners must report the number of below-market units leased, residents' names, household size, dates of lease and lease expiration, total annual household income and a notarized statement that the residents meet the eligibility requirements to the best of the property owner's information. These requirements exemplify a streamlined process, breaking from more onerous federal requirements.

Source: Montgomery County, MD

Ensure the resident selection process does not make it difficult to lease inclusionary units. Identifying residents eligible to occupy the inclusionary units can add significant costs to owners and can delay filling a building if they are unable to find residents. To avoid this, resident screening requirements should be clear and easy to incorporate into the standard screening process. One best practice to reduce the costs of delay is for local governments to work with a nonprofit partner to identify a pool of eligible residents from which property owners can draw.

Inclusionary policies should maximize production by focusing on unit sizes and bedrooms, not finishes and materials. The size of a unit and the number of bedrooms are directly related to affordability, and an inclusionary policy can reasonably require that inclusionary units be comparable to market-rate units to maximize production. An effective inclusionary policy does not establish requirements about materials, location within the building, and access to amenities for inclusionary units. These are not issues related to affordability and can decrease the number of units a developer is able to deliver.

Resident Selection Montgomery County, MD

Basic resident eligibility requirements include gross income requirements, primary residency status, and not having owned residential property within the past five years. Prospective residents must complete a certification form and submit most recent federal tax returns, W-2s and pay stubs. Similar to annual reporting, these requirements are streamlined and do not default to more extensive federal requirements.

Source: Montgomery County, MD

Considerations & Limitations

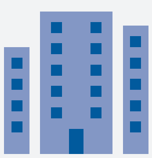
Before deciding to pursue an inclusionary housing policy, local governments should consider the limitations and benefits.

It can be very difficult to get an inclusionary zoning policy right. As this document explains, if the locality doesn't include the right incentives to offset the cost to comply with these programs, they can actually worsen their affordability challenges.

Local governments and the communities they serve should also have **realistic expectations about the number of inclusionary units and the level of affordability a policy will achieve.** The number of units produced by inclusionary policies is typically a small percentage of development in the area subject to the policy.

Few policies are effectively able to serve extremely low-income households because of the deep subsidy level required. **An inclusionary policy can be an effective component of a larger affordability strategy, but it will not be sufficient to address all affordability challenges of any community alone.**

Housing Goals



UNITS PRICED AFFORDABLY

MIXED-INCOME NEIGHBORHOODS

In implementing housing policies, local governments may pursue a range of housing goals. Properly structured inclusionary policies can be effective at **creating units with affordable rents and mixed-income neighborhoods,** but will not necessarily address racial segregation, displacement of existing residents, or other housing goals.

Impact

> **"Average annual production under local IZ programs varies across regions, but in all areas has contributed only a modest amount of affordable housing."**
>
> – Lance Freeman, Columbia University and Jenny Schuetz, Federal Reserve System

1 The White House (Obama Administration) Housing Affordability Toolkit, September 2016

Recommendations

To design an effective inclusionary policy, a city should take a four-tiered approach.

PROVIDE SUFFICIENT INCENTIVES: WITHOUT EFFICIENT INCENTIVES, INCLUSIONARY ZONING POLICIES CAN ACTUALLY REDUCE HOUSING AFFORDABILITY

- If incentives do not cover the gap between the below-market rents and market-rate rents, owners will either have to raise the rents for the market-rate units or cancel plans to develop the property altogether.
- Even modest rent reductions not recovered through incentives significantly reduce the financing a property can secure.
- The “cost” of an inclusionary policy to developers depends on how many below-market units are required and the allowable rent levels for those units.
- Collaborate with property managers, owners, and developers.
- Policymakers need as many incentive options at their disposal as possible to accommodate the diversity of their housing market needs.
- While density bonuses are the most common policy incentive used, they are not a panacea.

TARGET STRONG MARKETS: EFFECTIVE INCLUSIONARY POLICIES SHOULD TARGET STRONG HOUSING MARKETS AND VARY ACCORDING TO MARKET CONDITIONS

- “Areas not experiencing any or much market-rate development will likely not generate significant results from an IZ policy” – Urban Land Institute.
- Most cities do not have a strong enough housing market to support a citywide mandatory inclusionary policy.
- Citywide inclusionary policies should include different incentives and requirements for different neighborhoods.
- Inclusionary policies should be revaluated periodically.

OFFER FLEXIBILITY: EFFECTIVE INCLUSIONARY POLICIES OFFER FLEXIBILITY TO DEVELOPERS IN HOW THEY PARTICIPATE

- Mandatory inclusionary policies can harm affordability.
- Voluntary policies are less risky for affordability.
- Engaging developers is the best way to ensure the best outcome for stakeholders and policymakers.
- Include a payment in-lieu option.

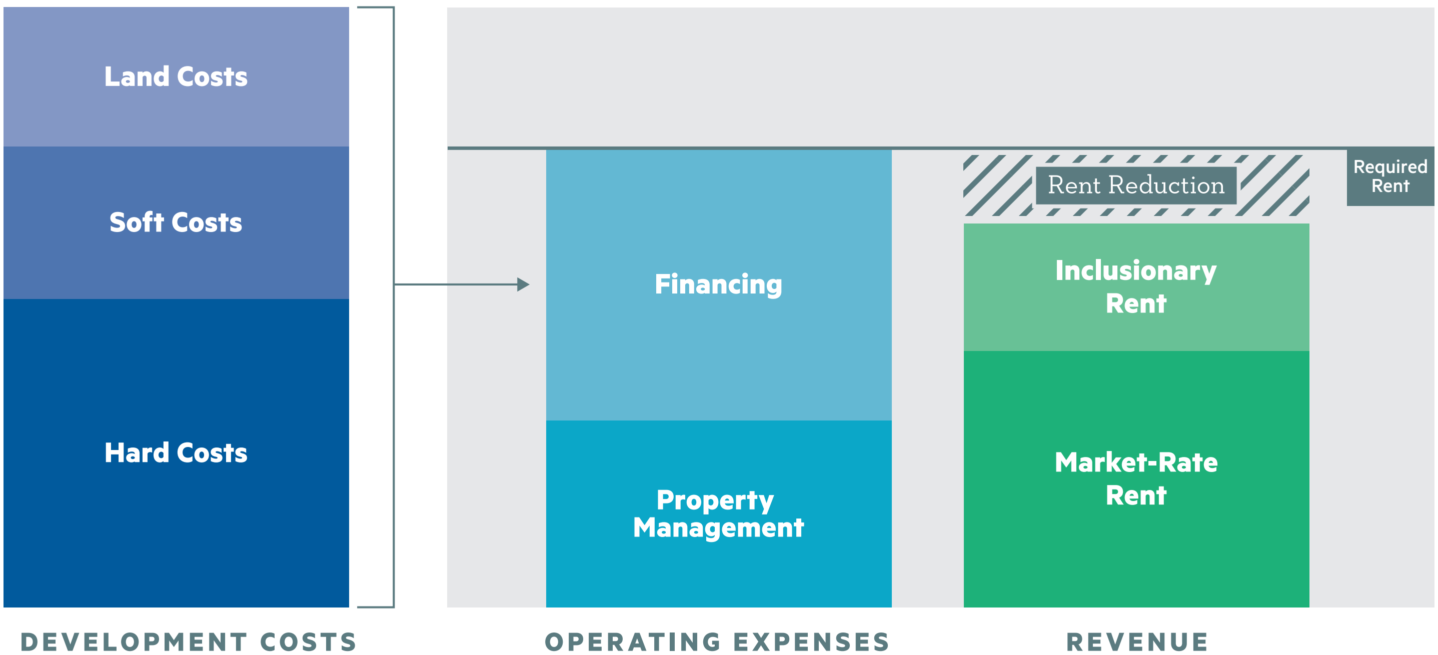
KEEP IT SIMPLE: INCLUSIONARY POLICIES THAT ARE SIMPLE TO COMPLY WITH ARE MORE EFFECTIVE

- Administratively complex programs harm affordability.
- Keep income documentation and reporting requirements simple. Don’t default to burdensome federal requirements.
- Ensure the resident selection process does not make it difficult to lease inclusionary units.
- Inclusionary policies should maximize production by focusing on unit sizes and bedrooms, not finishes and materials.

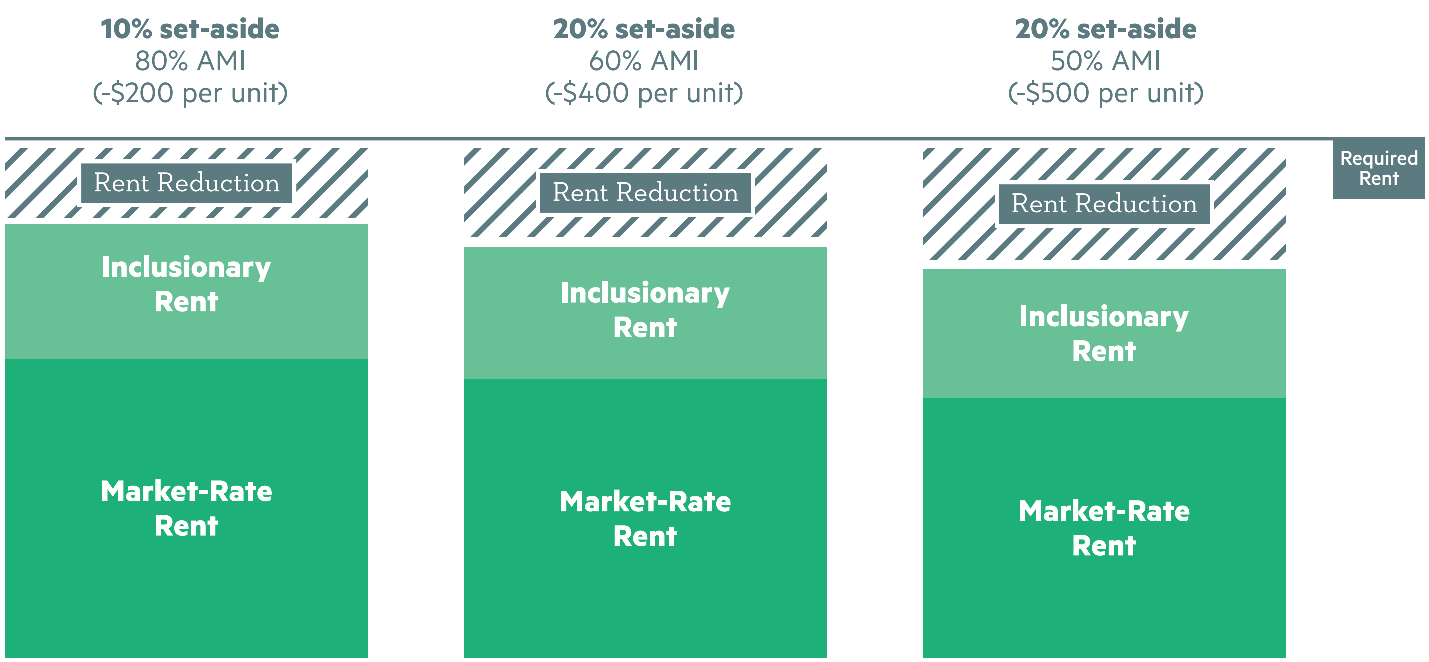
Economics of the Tool

Revenue from rent is reduced as affordability requirements are added.

The addition of inclusionary units in a new development introduces a gap in revenue. Without adequate revenue to cover expenses, a project becomes infeasible.



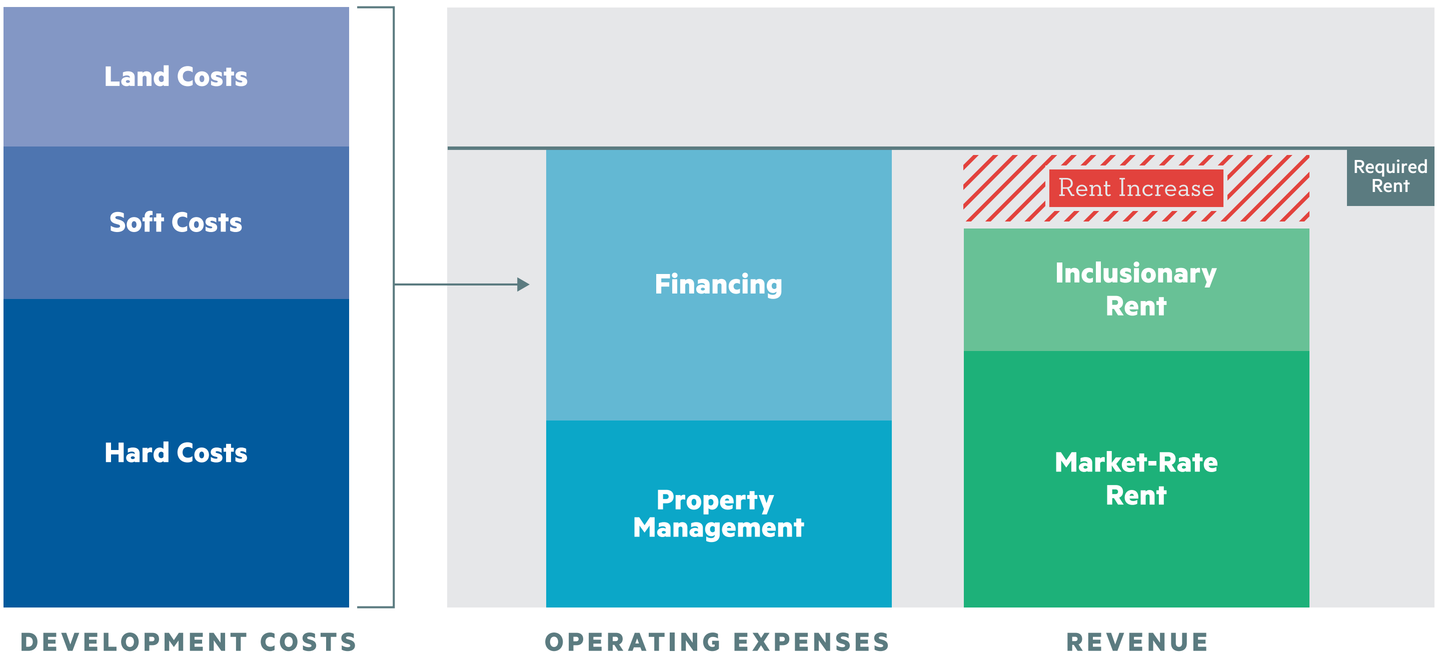
As affordability requirements deepen, the reduction in rent expands.



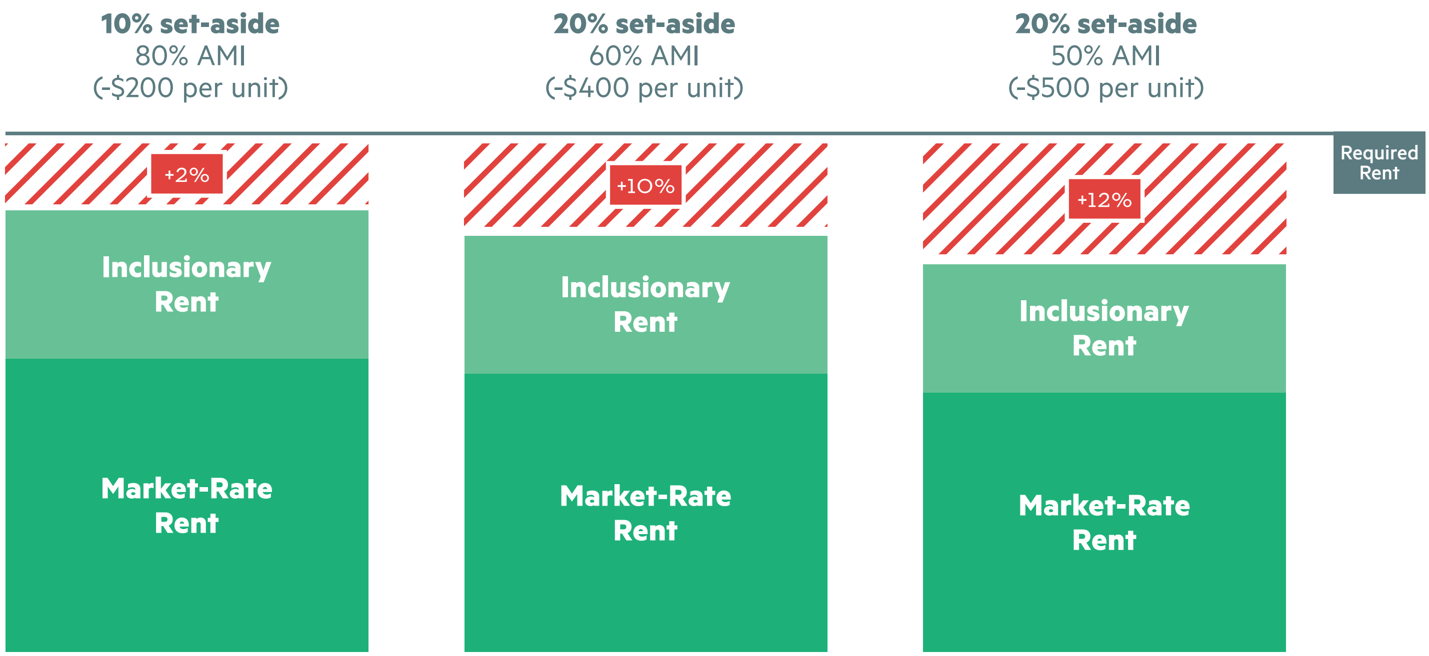
Economics of the Tool

Without incentives, market-rate rents must rise to offset the reduction in rent for inclusionary units.

Market-rate rents rise to cover the gap in revenue created by the affordability requirements.



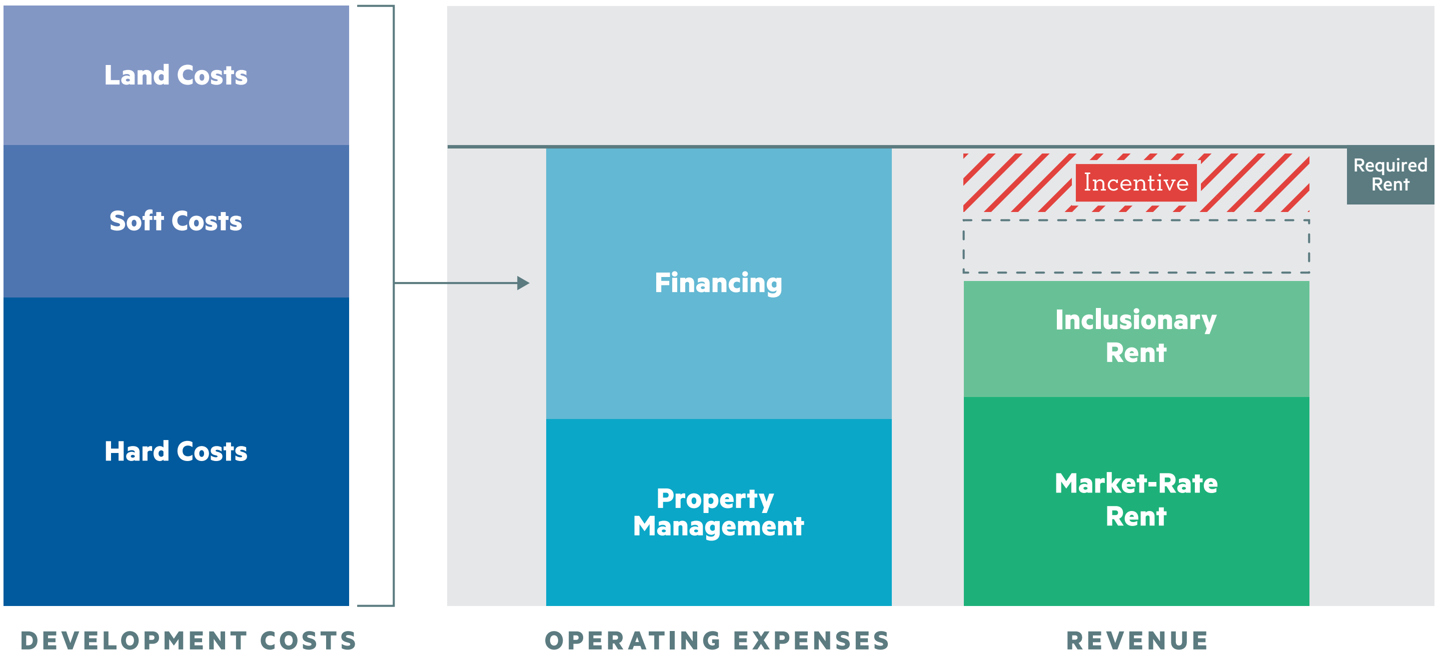
As affordability requirements deepen, the required rise in rent grows. If the market cannot support the increase, the project will not be built.



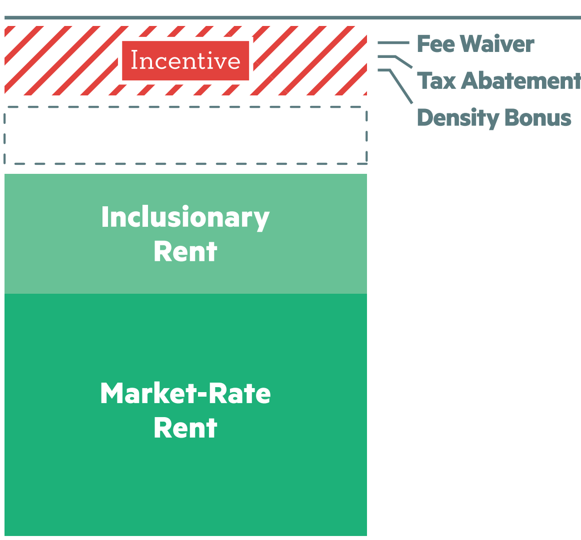
Economics of the Tool

Incentives can offset the reduction in rents from inclusionary requirements.

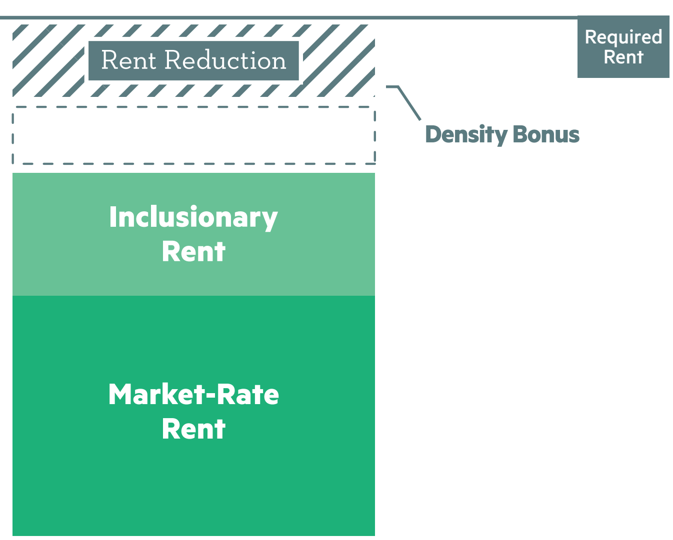
Jurisdictions can offer a variety of incentives to close the revenue gap. The incentives can lower development costs or operating expenses or increase the revenue earned from market-rate development.



If an incentive package addresses the gap created from rent reduction, market-rate rents will not rise.



If the incentives do not sufficiently fill the gap, market-rate rents will still rise, but to a lesser degree.



NATIONAL MULTIFAMILY HOUSING COUNCIL

Tool: Public Land Economics

THE HOUSING AFFORDABILITY TOOLKIT

Developed in Partnership with
HR&A Advisors

Public Land Policy

Selling public land at a below-market price to subsidize the development of housing can improve affordability in a community.

What Is a Public Land Policy?

A public land policy for affordable housing is a process and set of criteria established by a local government to select and sell parcels of publicly controlled land at below-market prices (often free) to improve affordability. The reduced land price lowers the cost of development and allows for lower rents and greater affordability.

Public land includes any land that is owned or controlled by a government entity or quasi-governmental entity, including:

- Transit agencies
- Housing authorities
- Redevelopment agencies
- Municipal facilities
- School districts

> **"Allocating public land for affordable housing can be an especially valuable way to reduce development costs and meet housing needs with less need for public subsidy."**
>
> – Urban Land Institute

How Public Land Policies Work

The sale of public land involves a public-private partnership between the government entity that controls the land and the private developer who creates the housing. Public land sales typically follow these steps:

1. Selection of a parcel of public land

2. Land listed for sale

3. Proposal or bid submission

4. Public-private partnership established

5. Development

Effective Public Land Policies

A well-designed public land policy will adhere to the three principles below to maximize value and community benefit.

1. Include a broad portfolio of publicly controlled land.

2. Maximize the value of public land.

3. Ensure a defined selection process.

Considerations

Before adopting a public land policy, local governments should consider how it fits in a larger housing affordability strategy.

Impact

The impact of public land disposition is directly tied to the **quantity and quality of land made available for development. More and better quality parcels can have a greater impact on affordability.**

In most communities, a public land disposition policy alone, even with a significant portfolio, will produce less than 100 units annually. As such, public land disposition should complement a larger housing affordability strategy and is not a solution on its own.

Market

Public land disposition can operate effectively and create community benefits in strong and weak markets alike. In strong markets, disposition creates opportunities for affordably priced housing where market forces would otherwise price out affordable units. In weaker markets, discounted land values create an opportunity to catalyze reinvestment while maintaining the affordability of the neighborhood.

> **"In a constrained financial environment, [public land] can be an asset, regardless of market strength."**
>
> – Enterprise Community Partners

Prioritizing Tax Credit-eligible Parcels in Wake County, NC

Wake County reviewed its portfolio of publicly owned land, prioritized land that was likely to leverage LIHTC projects. By leveraging LIHTC, and other funding sources, Wake County increases the impact on affordability of selling public land at below-market prices.

Housing Goals

UNITS PRICED AFFORDABLY

MIXED-INCOME NEIGHBORHOODS

In implementing housing policies, local governments may pursue a range of housing goals. Public land disposition policies are effective at **creating units with affordable rents, as well as promoting mixed-income neighborhoods.** However, public land disposition policies do not address displacement or preservation of existing housing.

Recommendations

1. Effective public land policies include a broad portfolio of publicly controlled land.

Conduct a thorough inventory of public land before adopting a public land policy. Local officials need to understand what parcels are available, any barriers to developing them as housing, and scale of housing they will produce to make their policy effective.

Apply public land policies to land held by all governmental departments and quasi-governmental agencies. Policies limited to a single department or direct control by local government are less effective. Instead, local governments should consider not only land they control directly, but also land controlled by their public partners to ensure they also prioritize housing affordability when making disposition decisions.

Local governments should look to include land controlled by:

- Transit agencies
- Housing authorities
- Redevelopment agencies
- Municipal utilities
- School districts

Prioritize high-value sites. There is often pressure to exclude high-value sites because selling those parcels at a reduced price has a greater impact on a local government's budget. However, including these sites allows localities to increase affordability in more desirable, high-opportunity neighborhoods that are often closer to jobs and transit. It also fosters mixed income communities.

Encourage co-location of government facilities and housing. Many communities limit public land policies to 'surplus land', which only includes vacant and unused parcels. This narrow definition covers only a sliver of public land in most communities. A more expansive view that includes parcels with existing government facilities on them broadens the portfolio of available land to help housing affordability.

Redesign public facilities to support co-location. Redesigning public facilities to support co-location with housing is difficult. It often involves higher construction costs and scrapping existing design standards. However, it is necessary to expand the portfolio of public land and have an effective public land policy. Large surface parking lots can be an opportunity to co-locate housing with existing facilities. For new development, facilities will have to be redesigned, such as shifting an elementary school from one to three

Fire Station Co-location

In Washington, DC's Foggy Bottom neighborhood, the city used a competitive solicitation process for two District-owned parcels to create a fire station that included 52 units of affordable housing above it. The result is *West End Square 50*, a 110,000 square foot, mixed-income, multi-use development.

> **"Thinking outside of the box resulted in a project that is putting residents into high-quality homes that are close to amenities, transit, and crucial safety services like this new fire station."**
>
> – Polly Donaldson, Director of Housing and Community Development, D.C. Government

Recommendations

2. Effective public land policies maximize land value, contributing the value in exchange for greater affordability.

The more land value contributed to a project, the greater the affordability that can be obtained. Local governments should consider contributing land for free or at the greatest possible discount to maximize affordability.

A public land policy should allow for mixed-income developments. Mixed-income housing developments have greater value and can provide more subsidy to improve affordability. The value from rents for market-rate units can be used to offset the reduced rent for affordably priced units, allowing for deeper affordability, or more units with affordable rents. Public land can be used to model and catalyze the type of mixed-income development a local government wishes to see more of in the market. *See the public land tool for a more detailed description of how mixed-income development increases affordability.*

High-Density Transit-Oriented Workforce Housing in Atlanta, GA

Atlanta's public land disposition guidelines, which include zoning relief for project modifications, and higher density uses and reduced parking requirements, helped the Metropolitan Atlanta Rapid Transit Authority (MARTA) recruit developers for station-area transit-oriented demand (TOD) contracts that include workforce units.

> **"...public land can play an important role in providing the diversity of housing the city needs, especially in areas with high and rising values."**
>
> – Coalition for Smarter Growth

A local government should use its regulatory authority to allow for higher density development. Local governments are better positioned to obtain approval for higher density development than private developers. By securing the ability to develop at a higher density prior to disposition, the local government increases the amount of housing that will be developed and the value of the land that can be used to support affordability.

Public land used to improve housing affordability should be "fast tracked" through regulatory approval processes. A streamlined or "fast tracked" regulatory approvals process encourages developers to make proposals for the development of public land and speeds up the process of housing being brought online. This is another area where local governments can increase the value of the land, and thus the subsidy available to support affordability.

Recommendations

3. Effective public land policies follow a defined selection process.

Local governments must use a clear and simple selection process. Overly complex selection processes discourage developer participation out of concerns that the final selection will be subjective or influenced by factors other than strength of their proposal. A simple and clear process will attract more, and stronger, developer responses, which will ensure the local government is getting the most public good in exchange for the discounted land value.

Community Engagement: Baltimore, MD

Community engagement is a key part of Baltimore's "21st Century Schools Initiative," in which Baltimore City Schools will transfer 26 school buildings to the City over a 10-year period.

The City created a robust community engagement process to explore opportunities to re-use and redevelop the schools. It included a dedicated website with an explanation of the redevelopment process, a detailed map and inventory of properties, and an opportunity to submit an expression of interest in school re-use or redevelopment.

Affordability goals and public benefits should be defined in the solicitation. Affordability goals might be tied to the number of units, income levels, or tenure type. Public benefits could include park space, infrastructure improvements, or community facilities. Local governments should make their goals clear so developers can focus their proposals on the desired public objectives and local officials can evaluate and defend strong proposals.

Affordability Goals: Transit in Seattle, WA

Seattle's metropolitan transit agency, Sound Transit, introduced an "equitable transit-oriented development" policy for land disposition. The policy designates surplus properties for the development of affordable units, following voter-approved transit investments.

The agency requires that developers set aside 80 percent of their residential units for tenants earning 80 percent of the area median income or below. Designated surplus properties now have upwards of 600 units planned for development throughout the Seattle metropolitan area.

Community engagement should be carefully incorporated into a public land policy. To ensure community support for redevelopment, engagement must be initiated early on. Understanding neighborhood expectations at the outset can prevent eventual opposition to development that slows the building development and production of affordably priced units.

Public Land Policy

Effective public land policies follow a defined selection process.

Five-Step Framework for Public Land Disposition

As local governments develop their public land policy, they should adapt a basic framework to meet their needs. It is important to adopt a clear process, enabling local governments to work through an entire portfolio of publicly held land and ensure the greatest impact possible. Without a clear implementation process, a local government is likely to approach each parcel of land on a one-off basis and never work through its entire portfolio, greatly limiting opportunities for affordability.

1. Selection of a Parcel of Public Land

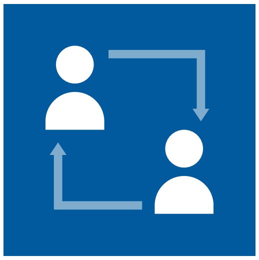
An inventory of public land is conducted to evaluate the suitability of publicly controlled land for housing development. One or more feasible sites are then selected to list for sale.

2. Land Listed for Sale

Local government issues a request for proposals (or bids) to develop the housing. Land may be listed with specific housing requirements or with defined criteria on which proposals compete.

3. Proposal or Bid Submission

Interested developers submit proposals or bids that are reviewed and scored by the local government.



4. Public-Private Partnership Established

Local government selects a developer and negotiates a development contract with them, entering into a public-private partnership.

5. Development

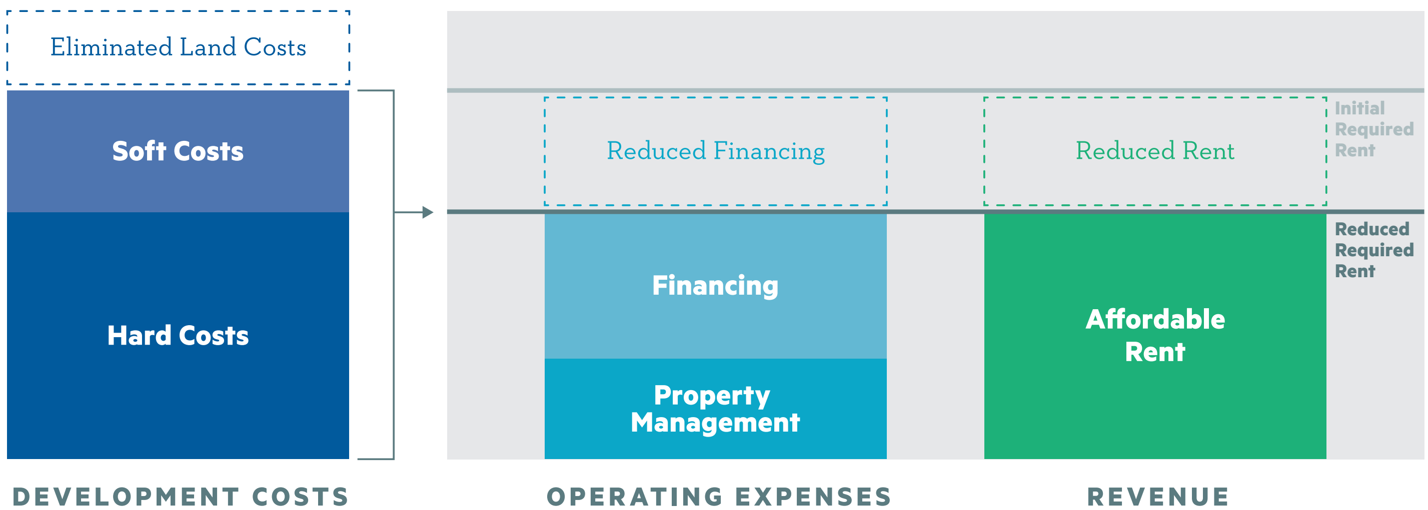
The selected developer executes the development and the proposed housing is built, improving affordability in the community.

Public Land Economics

The subsidy from the discounted sale of public land can either be spread across all of the units built or concentrated in a few.

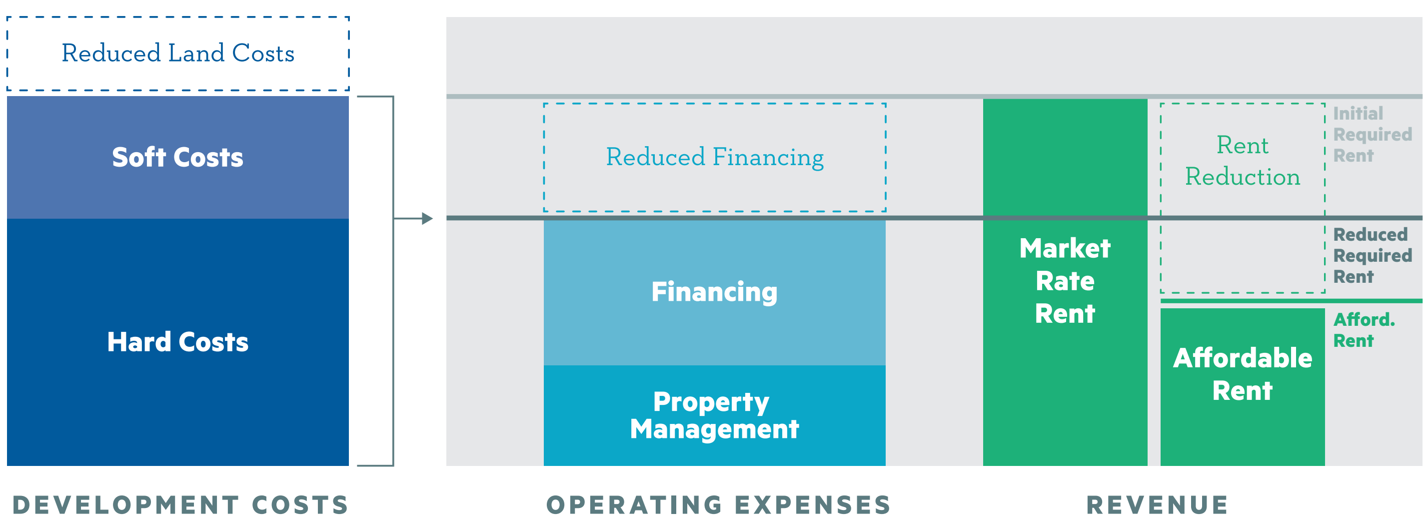
Fully Affordable Developments

A requirement that 100% of the units be affordable creates more units with below-market rents but lowers the rents by a smaller amount. To reach rents that are affordable to households with low incomes, other housing tools, such as tax abatement or public financing (Low-Income Housing Tax Credits, etc.), should be combined with the discounted sale of public land.



Mixed-Income Developments

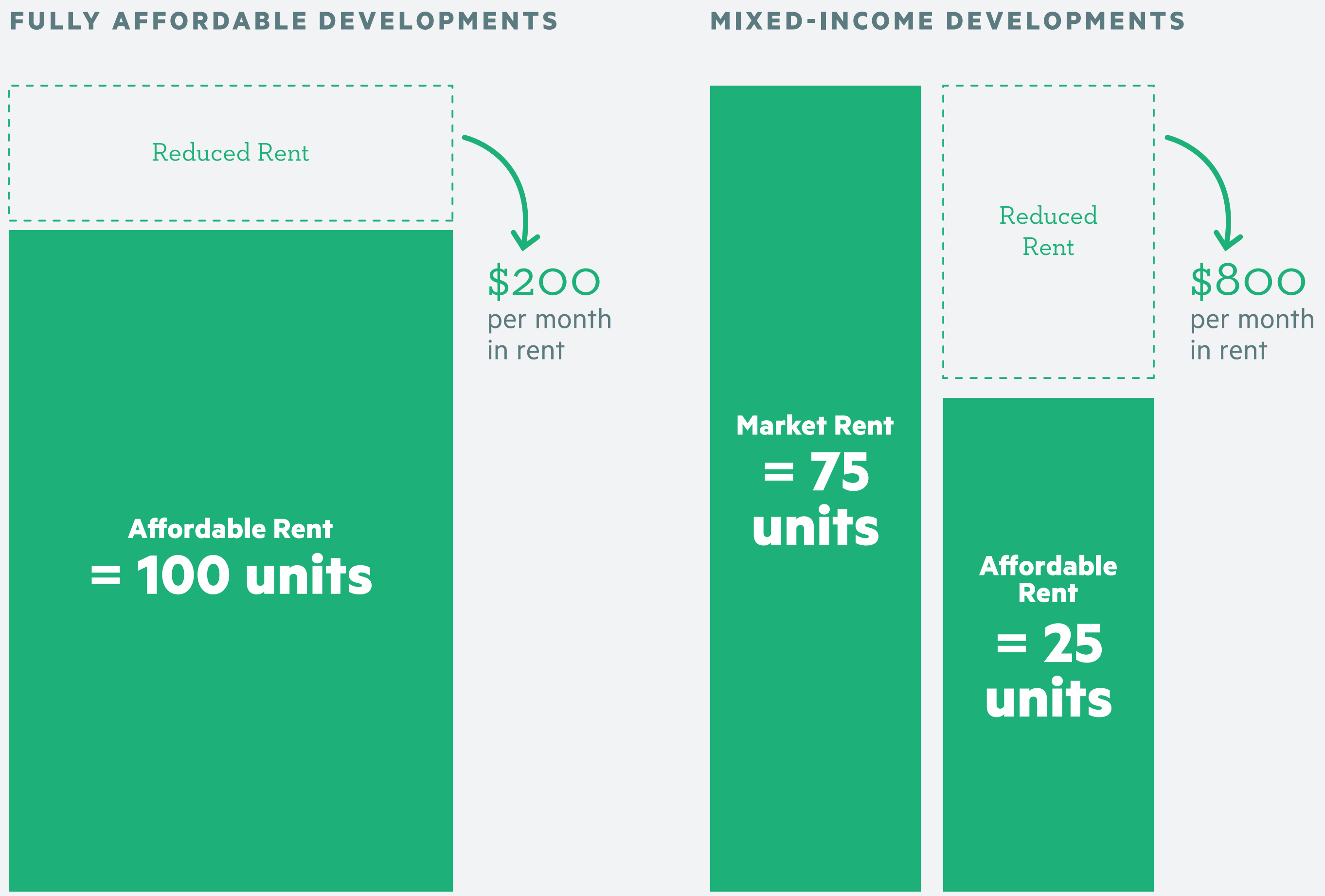
If a public land policy allows for mixed-income development, the subsidy from the discounted land can be targeted to fewer units, and those units can have significantly lower rents. The fewer the units with below-market rents, the greater the discount.



Public Land Economics

Public land policies should be crafted to target development projects that will advance community goals.

Local entities should have clear priorities when developing and executing a public land policy. If the goal of the policy is to moderately reduce rents for as many households as possible, then public land should be targeted toward fully affordable developments. If the goal is to significantly reduce rents for a smaller group of severely burdened households, then public land should be used for mixed-income developments.



- **Small reduction in rent ($200) for all units**
- **100 units with reduced rents**

- **Deep reduction in rent ($800) for 25 units**
- **75 units with market rents**

Recommendations Summary

To design an effective public land policy, a city should take a three-tiered approach.

1. EFFECTIVE PUBLIC LAND POLICIES INCLUDE A BROAD PORTFOLIO OF PUBLICLY CONTROLLED LAND

- Apply a public land policy to land held by all governmental departments and quasi-governmental agencies (e.g., transit or redevelopment agencies, housing authorities, municipal utilities, school districts, etc.)
- Prioritize high-value sites, rather than exempting sites in desirable areas.
- Encourage co-location of housing and government facilities, including redesigning public facilities.
- Conduct a thorough inventory of land to understand availability and barriers.

2. EFFECTIVE PUBLIC LAND POLICIES MAXIMIZE LAND VALUE IN ORDER TO CREATE MORE AFFORDABLY PRICED UNITS

- The more land value contributed to a project, the greater the affordability.
- By allowing mixed-income, high-density developments on high-value sites, public land policies can create more affordability.
- Public land can be used to model and catalyze the type of mixed income development a local government wishes to see more of in the market.
- Affordability can also be supported through ‘fast tracked’ regulatory processes, reducing uncertainty and development costs that threaten affordability.

3. EFFECTIVE PUBLIC LAND POLICIES FOLLOW A DEFINED SELECTION PROCESS

- The best selection processes will be clear and simple enough to attract a broad range of developers and competitive proposals, ensuring that a local government can get the best possible public value from a discounted land sale.
- Public benefits and affordability goals must be detailed and specific, helping developers strengthen their proposals.
- Early and effective community engagement is critical to a successful public land policy. Engagement can help to create a broadly supported selection criteria and prevent eventual community opposition to development.

NATIONAL MULTIFAMILY HOUSING COUNCIL

Tool: Tax Abatement

THE HOUSING AFFORDABILITY TOOLKIT

Developed in Partnership with
HR&A Advisors

Property Tax Incentives

Property tax incentives improve affordability by directly lowering rents or increasing the supply of rental housing.

What Are Property Tax Incentives?

Property tax incentives are state or local policies designed to reduce the tax burden on properties in order to support a public policy goal. The specific mechanisms vary by state and local municipality, but often fall under three broad categories: **tax abatements, tax rebates, and tax exemptions**. All three mechanisms have similar results – a net reduction in property taxes paid and lower operating costs.

TAX ABATEMENTS

Direct reduction in the amount of taxes owed.

TAX REBATES

A reduction in taxes applied after taxes are paid.

TAX EXEMPTIONS

A reduction in the appraised value of a property – thereby reducing overall taxes owed.

> **“Tax incentives can enhance development feasibility by allowing operators to reduce their operating costs."**
>
> – Urban Land Institute

How Tax Incentives Work

Tax incentives can work in two ways – a direct approach that provides incentives in exchange for rents at a certain affordability level and a supply approach that focuses on increasing the overall supply of rental housing to reduce the demand pressure on existing units.

DIRECT APPROACH

A well-run direct incentive program can increase affordability by requiring a reduction in rent in exchange for a commensurate reduction in property taxes. These incentives can be achieved either through negotiations between the developer and the municipality or through established government programs.

SUPPLY APPROACH

A well-run supply incentive program focuses on increasing the overall supply of housing by providing an incentive for an overall property, which would reduce the market rents required for new development and make more development feasible. Increased supply in a market can stabilize or reduce rents and decrease the likelihood that existing residents are displaced.

Effective Policies:

1. Define a clear and feasible approach

2. Balance affordability requirements with incentives

3. Enable simple administration and developer participation

Considerations

Tax incentives are flexible tools that can be adapted to support affordability.

Impact

Tax incentive policies vary greatly depending on how they are structured and targeted. It is important to ensure that the units developed due to an incentive would not have been built otherwise. This is typically referred to as a “but for” test and is an important analysis to ensure that limited public resources are used effectively.

DIRECT APPROACH

A direct approach functions as an operating subsidy – each dollar of tax abatement provided can result in an additional dollar of affordability per unit. This is an expensive option for municipalities, especially in areas with a substantial number of lower-income households where there is a large gap between what households can afford and the rent required to build and operate the unit. In these cases, a direct approach is most effective when complemented by other sources of subsidy.

SUPPLY APPROACH

A supply approach has an indirect impact on affordability by increasing the overall supply of housing through incentivizing a developer to build by removing the tax liabilities for a set period on an entire property. The new market-rate units help prevent rents in existing properties from rising. Depending on a jurisdiction’s existing market conditions, the impact of increased supply on affordability can be substantial.

Market

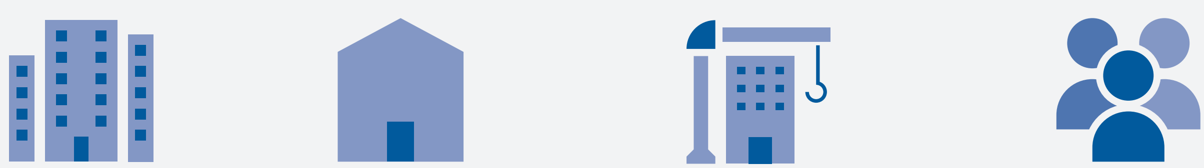
DIRECT APPROACH

A direct approach can work in any market. Municipalities need to decide if the net benefit of an incentive outweighs the cost of the foregone revenue.

SUPPLY APPROACH

A supply approach is more effective in a weaker market where rents do not support new construction. Providing tax incentives reduces the amount of financing a project would require, lowering required rents.

Housing Goals



Tax incentives are a flexible tool and can help meet a variety of policy goals. Carefully targeted requirements and policy design are key to ensuring that tax incentives work effectively.

Recommendations

1. Effective tax incentives have a defined and feasible approach to increase affordability.

Tax incentive policies should not only be limited to units that receive other federal and state subsidy sources. Combining tax incentive policies with other public funding sources like discounted loans, federal funding, or a local housing trust fund can leverage funding and allow a local government to set rents that are affordable for households with very low incomes. However, allowing apartments that are not receiving other public funding to access tax incentives expands the number of units that are available at below market rents. These tax incentives may be targeted toward middle-income households.

Tax incentives should be geographically targeted based on market conditions. Like other affordability tools, tax incentives should be responsive and adaptive to the market. Incentives that require high levels of affordability will not be effective in weaker markets, while there is a risk of over-subsidizing low levels of affordability in stronger markets.

Using incentives to drive investment in Philadelphia, PA

Philadelphia's tax incentive policy is designed to induce development by applying a 10-year tax incentive to address weak market conditions coupled with the fourth-highest construction costs in the country.[1] The program started in 2000 and applies across both rental and for-sale communities. Development increased by 376% in Philadelphia since the incentive took effect,[2] while Philadelphia suburbs without the incentive saw an 11% decrease in building activity. A report by JLL found that every $1 in tax revenue foregone through initially abated property results in $2 of net revenue through the resultant effects of the policy.

Philadelphia's program offers a blueprint for relatively weak-market cities looking to boost development and increase housing supply.

The flexibility of tax incentives should be used to create an approach customized to a market. In markets where the supply of housing is limited by a lack of developable land, a direct approach is best. However, a supply-based approach may be most effective in markets where housing is not being created for middle-income renters because prevailing market rents cannot support development costs. In these cases, an operating subsidy reduces the rent required for a project to be feasible and supports new production.

Tax Incentive "tiers" in Jersey City, NJ

Jersey City, NJ has had a development boom since 2000. However, growth has been uneven – neighborhoods with existing transit have developed the most, while others are still losing residents.

In response, the City enacted a tiered tax incentive in 2013 that grouped neighborhoods into four tiers, based on prior development activity. Tier 1, with the most development, has a tax incentive term of 10 years and 10% set-aside for affordable housing. Tier 4 neighborhoods have a tax incentive term of 30 years with 15% set-aside for affordable housing to protect existing residents. This program is designed to allocate tax-incentive dollars to maximize development and equitably distribute affordable and market-rate housing.[3]

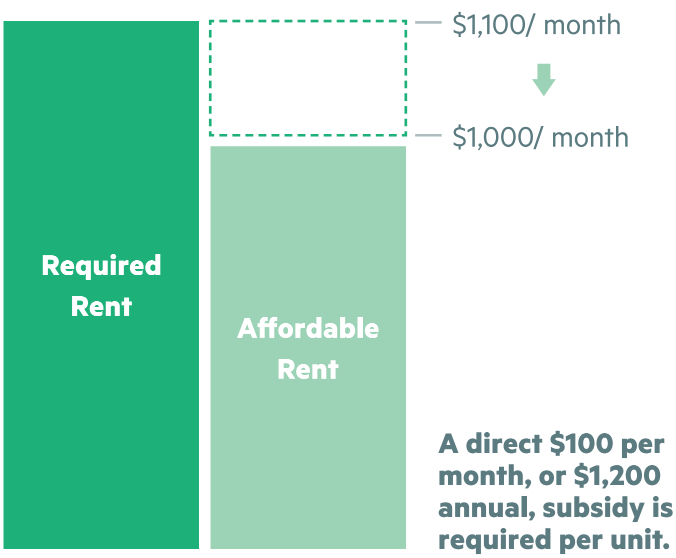
1 ENR.com
2 BIA Building Industry Association, 2017
3 Misra, Tanvi. Citylab, 2015

Recommendations

2. Effective property tax incentives are balanced with affordability requirements.

Successful tax incentives can have economic, fiscal, and policy benefits that outweigh the implementation costs and foregone tax revenue. Property tax incentives should be considered like other economic development-focused tax incentives that cities employ to attract business and investment. Residents that have lower housing costs are likely to stay in their neighborhoods and reinvest their income into the local economy, creating a multiplier effect that can benefit the entire community.

Property tax incentives with a direct approach should set the incentive to match the level of affordability the policy is aiming to achieve. Without an equitable match, a developer would not be incentivized to participate in the program. For example, consider a hypothetical policy designed to reduce rent by $100 per month for a targeted income group. An effective tax incentive to support housing for this group would have to be approximately equal to the reduction in rent. In this instance, if the tax incentive is valued at less than $100, then developers are not incentivized to produce the affordable unit, while incentives valued more than $100 would not be an efficient use of public revenue.



Effective direct property tax incentives carefully evaluate the time period of the incentive to ensure that it aligns with the larger policy goals of the incentive. Programs may have an initial period that can be extended through a longer-term exemption. Many cities also designate the timing of the incentive based on the specific geographic area in which the development is taking place.

To target deeper levels of affordability through a property tax abatement, incentives should allow tax reductions for market-rate units to cross-subsidize units at deeper levels of affordability. In strong markets, market-rate units can shift tax incentives allocated toward a mixed-income building toward deeply affordable units, allowing for the unit to be affordable at lower incomes.

Cross-subsidizing Affordability in New York

As the quintessential "strong market," New York City has always tried to reconcile high demand with limited land. The 421-a program allows full property exemption for 35 years if 25-30% of the units are reserved for low- to moderate-income tenants. The property exemption on the market rate units allows for deeper levels of affordability for the subsidized units, which have a larger gap between the rent required and what households can afford to pay. This program has been a significant part of Mayor de Blasio's affordable housing plan and is important to achieving the City's goal to build or preserve 200,000 below-market-rate apartments by 2022.

Recommendations

3. Effective property tax incentives enable simple administration and developer participation.

Tax incentives should rely on a rule-based approval process. These programs should be designed to work in tandem with an existing development process that is predictable and limits discretionary review. Clear and consistent affordability requirements can keep tax abatement programs from being an additional regulatory hurdle for developers. If tax exemptions require a negotiation, developers and city stakeholders should have clear guidelines over the terms of such a negotiation.

Administrative simplicity influences the effectiveness of tax incentives. Administering policies with greater complexity and difficulty requires more time and resources. An onerous process also discourages developers from participating in a program and developing units.

Policies should keep income documentation and reporting requirements simple and should not replicate burdensome federal requirements. Tax incentive requirements are locally controlled and are not required to follow the complex requirements of federally funded programs. Many local governments default to existing federal requirements for income documentation and monitoring requirements. Complying with overly complex income documentation and monitoring requirements can require additional staff and training, creating a significant cost for developers to participate in the policy.

Resident selection processes should not impede the process of filling rental housing. Resident screening requirements for eligibility to occupy an income-restricted unit should be clear and easy to incorporate into the standard screening process. Identifying income-eligible residents can be a significant added cost for property owners. To reduce costs, local governments should work with a nonprofit partner to identify a pool of eligible residents from which property owners can draw. Policies must also manage the legal regulations of the incentives. They need to ensure that developments that do not adhere to policy requirements lose incentive status and pay back the abated tax revenues to the city through a process known as a "clawback." This type of feature can help assuage local opposition to tax incentives, which are sometimes perceived as a "giveaway" to developers.

Recommendations Summary

To design effective property tax incentives, a city should take a three-tiered approach.

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1) EFFECTIVE TAX INCENTIVES HAVE A DEFINED AND FEASIBLE APPROACH TO INCREASE AFFORDABILITY.

- Tax incentive policies should not only be limited to units that receive other federal and state subsidy sources.
- Tax incentives should be geographically targeted based on market conditions.
- The flexibility of tax incentives should be used to create an approach customized to a market. In markets where the supply of housing is limited by a lack of developable land, a direct approach is best.

2) EFFECTIVE PROPERTY TAX INCENTIVES BALANCE AFFORDABILITY REQUIREMENTS WITH INCENTIVES.

- Successful tax incentives can have economic, fiscal, and policy benefits that outweigh the implementation costs and foregone tax revenue.
- Property tax incentives with a direct approach should set the incentive to match the level of affordability the policy is aiming to achieve.
- Effective direct property tax incentives carefully evaluate the period of the incentive to ensure that it aligns with the larger policy goals of the incentive.
- To target deeper levels of affordability through a property tax abatement, incentives should allow tax reductions for market-rate units to cross-subsidize units at deeper levels of affordability.

3) EFFECTIVE PROPERTY TAX INCENTIVES ENABLE SIMPLE ADMINISTRATION AND DEVELOPER PARTICIPATION.

- Tax incentives should rely on a rule-based approval process. These programs should be designed to work in tandem with an existing development process that is predictable and limits discretionary review.
- Administrative simplicity influences the ability of tax incentives to be effective.
- Policies should keep income documentation and reporting requirements simple and should not replicate burdensome federal requirements.
- Resident selection processes should not impede the process of filling rental housing.

Economics of the Tool

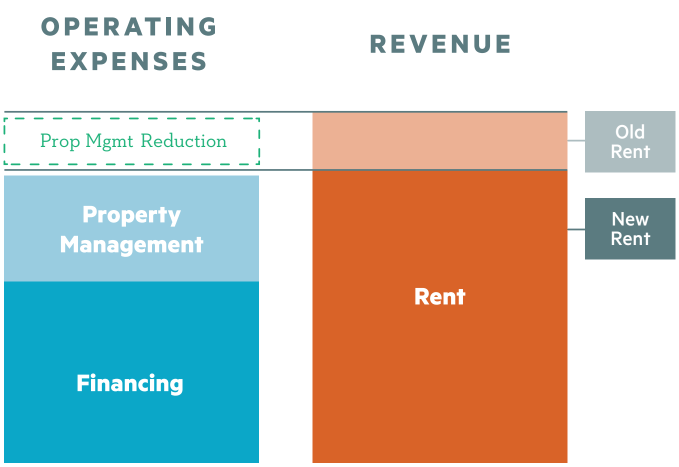
Tax incentive policies are designed to reduce operating expenses and the resulting rent required.

Direct Approach: Reduced Operating Expenses

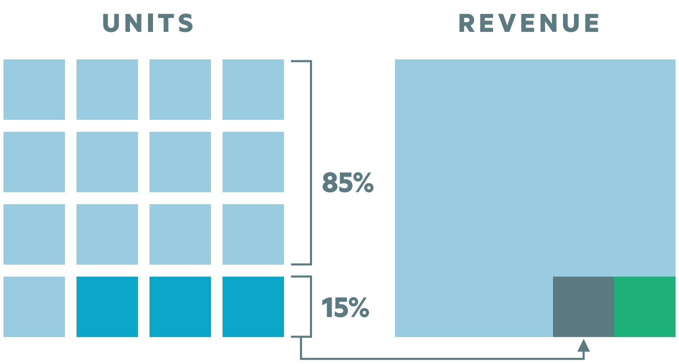
Tax incentives impact property management expenses directly by reducing the annual property tax paid by an owner. Lower property management expenses may also help underwrite more favorable financing terms.

A reduction in these costs leads to a lower amount of operating expenses required and a lower required rent to make the project viable. Policies that require affordability as a condition of tax incentive must ensure that the reduction in rent can be offset by the savings in operating expenses.

If the required rent for a project is $1,000 per month and a program is designed to create units that are affordable for households earning $30,000 or less, tax incentives must account for $250 per month per unit to make the project feasible. For this program to help 1,000 households, it would cost the city $3 million annually, plus additional administration costs, for each year that the units remain affordable.



For a mixed-income building, direct property tax incentives can be used to increase affordability for some of the units. For a hypothetical 100-unit building, if the required rent for a project is $1,000 per month and a program is designed to ensure that 15% of the units are affordable to households earning $20,000 or less (at $500 per month), a tax incentive could provide a tax incentive of $75 per unit. The market-rate units would be able to reallocate these savings toward the 15 units to account for their reduced rents.



With tax incentives, 15% of the units only need to account for 7.5% of the required rent

Market-Rate Units ($1,000/month)

Subsidized Units ($500/month)

Tax incentive subsidy

Economics of the Tool

Tax incentive policies are designed to reduce operating expenses and the resulting rent required.

Supply Approach

Tax incentives can increase affordability indirectly. As supply increases, it reduces competition for existing housing and leads to lower rents. This indirect impact can be significant. Below is the estimated[1] impact of a 1% increase in housing supply on rents and the number of households who would be able to afford rental housing as a result.

	DECREASE IN SHARE OF UNITS <$800 SINCE 2000 (PERCENTAGE POINTS)	EFFECT OF 1% INCREASE IN SUPPLY	
		REDUCTION IN RENT	INCREASE IN AFFORDABILITY (BY HOUSEHOLDS)
Atlanta	15.7	0.63%	690
Sacramento	19.5	0.98%	720
Minneapolis	15.1	0.95%	780
Denver	20.9	0.98%	1,300
Pittsburgh	21.1	1.19%	730
San Antonio	19.3	0.82%	720
Seattle	14.5	1.02%	1,500
Tampa	26.8	1.00%	580

1 A 2018 study by the Bay Area Council Economic Institute ("Solving the Housing Affordability Crisis") evaluated the effect of various housing policies based on the number of households for which housing would become affordable as a result of the policy, using a 30% housing cost burden assumption. The report evaluated the responsiveness of price to changing the supply through policy. Using a similar method, HR&A evaluated the number of households for which housing would become affordable, given a 1% increase in the overall supply of the eight case-study cities.

NATIONAL
MULTIFAMILY
HOUSING
COUNCIL

Tool: Rent Control

THE HOUSING AFFORDABILITY TOOLKIT

Developed in Partnership with
HR&A Advisors

Rent Control

Rent control is a counterproductive housing policy that does not address any of the key factors driving housing affordability.

What Is Rent Control?

Apartments have long provided people a flexible and inherently affordable housing option. However, as the number of renters has reached an all-time high, there has been a surge in demand. This has made it difficult for millions of families nationwide to find quality rental housing that is affordable across the income spectrum and has placed significant pressure on the available apartment supply. In response, some municipalities have tried to artificially restrict rents. While some of these rent control policies may be well intentioned, numerous studies have shown that rent control fails to increase the availability of affordable housing. Economists almost universally agree that rent controls reduce the quantity and quality of housing.[1]

Rent control regulations limit the amount of rent a landlord can charge, either by setting a rent ceiling or by limiting rent increase.[2] Currently, rent control regulations are in effect in four states and in Washington, D.C., while 36 states explicitly prohibit municipalities from implementing rent control.

How Rent Control Works

A set of price control regulations codify restriction on a city's rental housing market. The specific rules that govern rent control vary significantly between cities. Generally, these regulations establish which units rent control applies to, the conditions in which rent can rise, the amount of increase, how long rent control may remain in place, and processes for appeals and monitoring.

> **"The absurdity of New York City's housing market has become a standard part of many Econ 101 courses, because it is such a clear example of [rent control] that achieves the near opposite of its goals."**
>
> – Adam Davidson, *New York Times,* 2013.[3]

Rent control impacts affordability in three key ways

Rent control leads to a decrease in the supply of overall units and an increase in rents for unregulated units.

Rent control is an inefficient tool that often benefits high-income households as much as, if not more than, low-income households.

Rent control is complicated and expensive to administer.

1 NMHC, 2017
2 The Economist. "Do Rent Controls Work?," 2015
3 New York Times. "The Perverse Effects of Rent Regulation," 2013

Impacts

1. Rent control leads to a decrease in supply of overall units and an increase in rents for unregulated units.

Rent control leads to a decrease in the supply of overall units and an increase in rents for unregulated units. Studies across the country have found that forcing rents below market price has reduced the supply of new housing. This occurs in two ways:

1. Price ceilings make rental housing an unprofitable venture, and developers have less incentive to build. Money flows out of the local rental market and into more profitable markets.

Cambridge, MA ended rent control in 1995. As a result, annual investment expenditures more than doubled for all residential property from 1995 to 2004.

2. Property owners are incentivized to convert apartments into condos, which benefits higher-income households that can afford to own a home. The conversion of apartments to condos increases displacement **and creates a significant risk of displacement for existing residents.**

A study in Los Angeles, CA found that vacancy control resulted in a 7% decline in rental units as landlords converted apartments to condos.

These phenomena reduce the overall supply of housing and lead to increased competition for existing units – especially for those that remain unregulated. This drives up rents.

ACCELERATING GENTRIFICATION IN SAN FRANCISCO, CA

A Stanford Graduate School of Business study released in 2018 tracked the effects of rent control in San Francisco since their expansion of regulation in 1994. The study found that rent control reduced the supply of housing in the city by 6% and was responsible for more than 5% of the increase in rental prices of unregulated units. Additionally, rent control incentivized landlords to convert their properties into condos, further decreasing supply and raising rents. This may have accelerated gentrification in the Mission District, as smaller buildings that were once market-rate affordable housing rapidly became condos.

The study also found that the initial benefits of rent control helped existing tenants at the expense of new tenants. Tenants who lived in rent-regulated units before 1993 benefited by a net of $2.7B – exactly equal to the direct and indirect costs borne by new tenants living in unregulated units from 1993 onward. This created winners and losers and provided no overall benefit to tenants.

1 Author et al "Housing Market Spillovers: Evidence from the End of Rent Control in Cambridge, MA." Journal of Political Economy, University of Chicago, 2014
2 Ellis Act Evictions, Anti Eviction Mapping Project, 2018
3 Stanford Graduate School of Business. "Rent Control Winners and Losers," 2018

Impacts

2. Rent control is a blunt tool that does not efficiently target benefits.

Rent control is a blunt and inefficient tool that often benefits high-income households as much as, if not more than, low-income households. Rent control regulations are tied to units instead of households, and a rent-controlled unit can go to a household of any income. Low-income households must compete with higher-income households for rent control and receive no preference. There is significant evidence that this leads to a large and often arbitrary subsidy that can benefit households able to afford market-rate rents.

A 2000 study by the San Francisco comptroller found that 25% of rent-controlled units were occupied by households with incomes over $100,000.[1]

In 2012, the NYU Furman Center found that the median income of households in prized rent-stabilized units in Manhattan was higher than the median income of market-rate residents in all but eight neighborhoods across all five boroughs.[2] Higher-income residents in Manhattan paid less for their apartment than lower-income households in the cheaper markets of Brooklyn and Queens.

A study in Cambridge, MA found that households in rent-controlled housing had higher incomes than the citywide average, including the average incomes of homeowners.[3]

There are a number of reasons that rent-controlled apartments are more likely to end up with higher-income households residing in them. When a household leaves a rent-controlled apartment, the residents often "pass on" the apartment to someone in their social network in the same income level. In Los Angeles, there is evidence of a gray market of "key fees" that require potential tenants to pay a significant up-front cost for a rent-regulated unit. This practice further restricts lower-income households from accessing affordable, regulated units.[4]

Households in rent-controlled housing in Cambridge, MA had higher incomes than the citywide average.

1 New York Times, "San Francisco Rent Control Unintended Consequences," 2012
2 NYU Furman Center, 2012
3 Goetze, "Rent Control: Affordable Housing for the Privileged, Not the Poor," 1994
4 L.A. Weekly, "L.A. Moves to Curb "Cash-for-keys" Rent-Control Landlord Scams," 2016

Impacts

3. Rent control is complicated and expensive to administer.

Rent control requires elaborate bureaucratic systems. Rental property must be registered, detailed information on the rental property must be collected, and elaborate systems for determining rents and hearing complaints and appeals must be established. The associated costs in dollars and time falls not only on providers, but also on consumers and municipal authorities.

For example, in Santa Monica, the Rent Control Board in 1996 had a budget of more than $4 million a year to control the rents for only 28,000 apartments.

Denver's housing stock consists of 72,200 multifamily rental units that were built before 2000, which represents about half of the city's entire rental housing stock. These units vary widely in scale, owner type, and current leasing arrangements. To enact a rent control policy, the contracts of each of these units would need to change and be regulated by the city.

This would cost Denver an additional estimated

$10 MILLION[1]

1 Based on the cost of rent control administration in Santa Monica, CA, at $142 per unit annual

Considerations

Rent control does not address any of the key factors driving housing affordability challenges.

An insufficient supply of rental housing, rising development and operation costs, and stagnant incomes are the factors driving growing housing affordability challenges. Cities must address these key factors to address affordability. Rent control does not address any of these factors.

- Rent control decreases supply. Studies have shown that rent control leads to an overall decrease in supply as landlords convert units to condos and developers cannot bring units to market.
- Rent control increases administrative operation costs. Rent control adds compliance costs and the overall cost to operate rental housing.
- Rent control is not tied to those who need it. It does not provide a targeted subsidy for lower-income households who need assistance the most.

Rent control seeks to treat the symptom of rising rents without addressing these underlying factors. This leads to unintended consequences that shifts the affordability burden among tenants and often decreases overall housing affordability. Improving housing affordability means closing the gap between what a household can afford and what it costs to develop and operate rental housing. It also includes ensuring that the supply of rental housing can keep up with rising demand.

Local governments have many tools at their disposal that can decrease the affordability gap and increase overall supply. Rent vouchers can help increase what households can pay for units. Tools like property tax incentives, public land subsidies, and other developer incentives can decrease the cost to develop and operate housing, while expanding by-right development can help increase overall supply.

Economists have long considered rent control a failed housing policy – the benefits for a few select tenants do not outweigh the substantial economic and social costs. Cities around the country have shown that these policies have led to higher rents and fewer units overall.[1]

1 New York Times. “Why Rent Control Is a Lightning Rod,” 2018

NATIONAL MULTIFAMILY HOUSING COUNCIL

Case Studies: Atlanta

THE HOUSING AFFORDABILITY TOOLKIT

Developed in Partnership with
HR&A Advisors

Atlanta, GA

Atlanta is experiencing strong population growth and worsening affordability challenges, affecting the ability of low- and middle-income renters to afford to live in the city.

Growth has been accommodated through the construction of new multifamily housing and the densification of neighborhoods where housing had not been developed in decades. However, much of this housing is targeted at higher-income households.

$53,800	$37,500	113,800	78,100
MEDIAN HOUSEHOLD INCOME	MEDIAN RENTER HOUSEHOLD INCOME	TOTAL RENTER HOUSEHOLDS	TOTAL MULTIFAMILY RENTAL UNITS

DRIVERS

Greater Demand for Rental Housing

Between 2000 and 2016, the number of renter households in Atlanta has grown on net by nearly 19,000, or 20%. On average, these new renters have higher incomes than the city's existing renters, leading to more households with greater resources competing for rental housing in Atlanta.

Rising Development Costs

Increases in construction costs (76% since 2000) and land prices (720% since 2012) have raised the cost to develop – and the rents necessary to support – new rental housing.

IMPACTS

Reduced Supply of Lower-Rent Housing

Greater demand for rental housing has raised rents for existing housing. As a result, the share of occupied rental units priced under $800 a month fell by 15.7 percentage points from 2000 to 2016.

High Rents for New Rental Housing

Rents for newly built units rose 24% between 2000 and 2016. The market built almost no new market-rate rental housing affordable to the median renter in 2016 or 2017 due to high development costs and competition from higher-income renters.

Emerging Affordability Challenges for Middle-Income Renters

Atlanta is struggling to attract and retain both new and existing low- and middle-income renters, who are disproportionately locating in lower-cost communities in the surrounding metro region.

Relevant Tools

For more information on relevant housing tools, programs, and policies, see the following pages:

- Public Land
- By-Right
- Tax Abatement
- Inclusionary Zoning

Cities Facing Similar Challenges

Cities facing similar housing affordability challenges include:

- Houston, TX
- Columbus, OH
- Irving, TX
- Columbia, SC

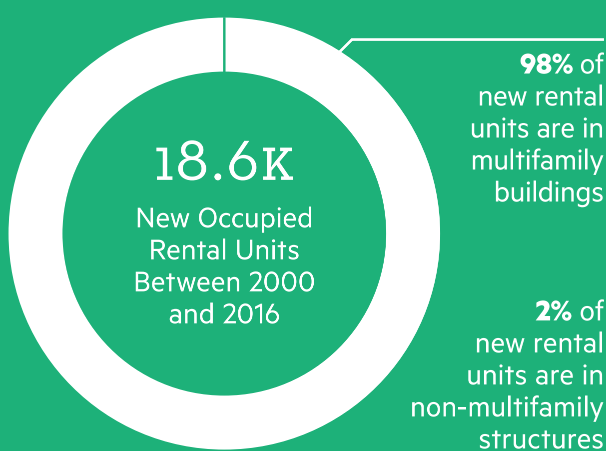
DRIVER

Greater Demand for Multifamily Rental Housing: The number of renter households in Atlanta has grown rapidly across all income segments.

Atlanta added nearly 19,000 net new renter households between 2000 and 2016. This marked a 20% increase in the number of renters.

Nearly 100% of net new renter households occupied multifamily units. This raised Atlanta's share of multifamily renter households (out of total renter households) from 63% in 2000 to 69% in 2016.

NET NEW OCCUPIED RENTAL UNITS BETWEEN 2000 AND 2016 BY UNITS IN STRUCTURE



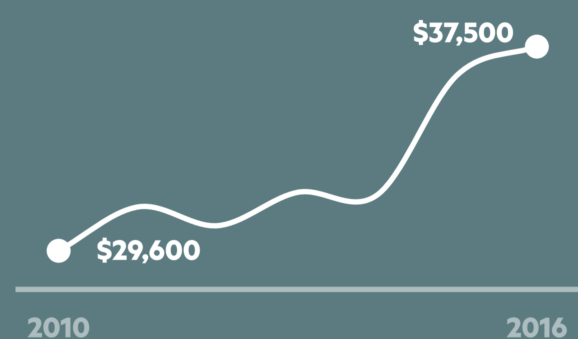
Atlanta attracted a mix of low-, middle-, and high-income renters. This indicates that housing was available and attractive to all income levels, reflecting Atlanta's broad, existing base of low-rent units, particularly on the southern and western sides of the city. However, affordability challenges have grown for low- and middle-income residents, suggesting that the supply of low-rent housing has not been meeting demand.

FOR EVERY 10 NET NEW RENTER HOUSEHOLDS ADDED BETWEEN 2000 AND 2016

Low income: $0-35K | Middle income: $35-75K | High income: $75K+

Atlanta is increasingly able to compete with the broader metro area for high-income renters. Between 2000 and 2016, the number of high-income renter households grew by 40% in the city compared to 34% in the metro area. Recent investments aimed at revitalizing and redeveloping residential neighborhoods have made Atlanta a desirable place to live for high-income renters, who were previously more likely to locate in the area's wealthy northern suburbs. New developments like Ponce City Market and Krog Street Market show the potential for investments to rapidly revitalize residential areas, while simultaneously attracting an influx of high-income renters.

REAL MEDIAN RENTER HOUSEHOLD INCOME IN ATLANTA



Increasing demand for rental housing from high-income renters is changing the economic profile of Atlanta's renter population. Between 2010 and 2016, the median income for renter households grew by 27%.

Source: CoStar, ACS, U.S. Census, HR&A analysis

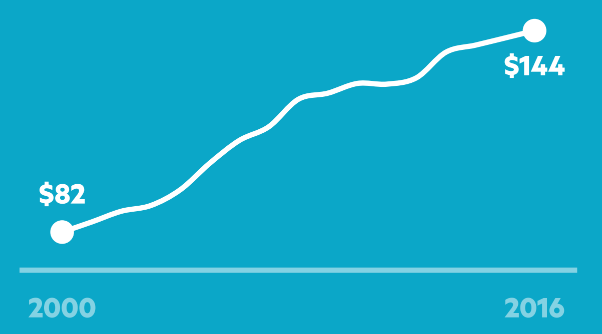
DRIVER

Rising Development Costs: Regulatory, construction, and land costs have all risen, leading to higher development costs.

Local regulatory conditions further intensify the rising cost of development. Policies that reduce the amount of land available for multifamily residential development, extend the development timeline through lengthy permit approval processes, limit development potential through stringent parking requirements, and other local requirements can each result in higher development costs.

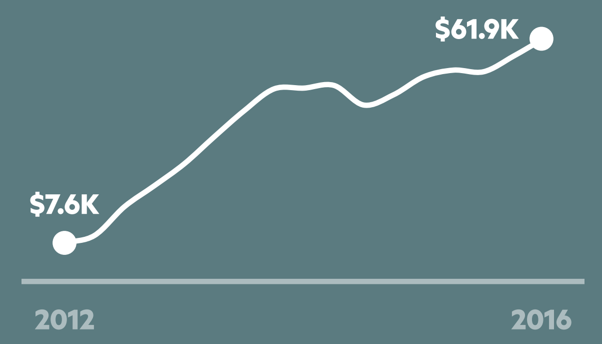
In the Atlanta area, hard costs, or the cost of labor and materials, increased by 75%. Hard costs increased from $82 PSF to $144 PSF for multifamily buildings in real terms. This is higher than the national increase of 57%.

REAL MULTIFAMILY CONSTRUCTION COSTS IN ATLANTA (HARD COSTS PSF)



Real land costs have also grown rapidly in recent years. The average cost of a single-family lot was $7,551 in 2012. By 2016, the average cost had grown to $61,900, a 720% increase.[1] As Atlanta grows, readily developable multifamily land will become increasingly scarce, driving up land costs even further.

AVERAGE COST FOR A SINGLE-FAMILY LOT IN THE ATLANTA MSA

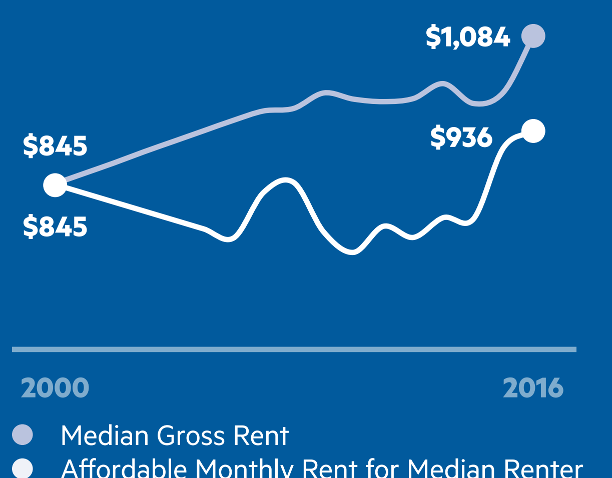


IMPACT

Reduced Supply of Lower-Rent Housing: Greater competition for rental housing is leading to higher rents and a decreased supply of low-rent housing.

Competition for rental housing and higher development costs are pushing up rents in Atlanta. Real median rent grew 28%, significantly faster than the national median or inflation. Rent growth also outpaced real median renter income growth in Atlanta, exacerbating affordability challenges.

REAL MEDIAN GROSS RENT AND AFFORDABLE MONTHLY RENT FOR THE MEDIAN RENTER HOUSEHOLD



1 Real land costs fell substantially during and immediately after the Great Recession, contributing to the high percentage growth seen in the market between the bottom of the market in 2012 and 2016.

Source: Lincoln Institute of Land Policy, Craftsman Book Company, HR&A analysis

The growth in rents for existing buildings is largely due to increased competition. The real median rent for units built before 2000 grew by 21% from 2000 to 2016. Since the quality and location of existing rental housing did not change, increased competition for rental housing appears to be the primary cause of rent increases.

Rent growth is heavily impacting historically affordable neighborhoods of Atlanta, leading to a dramatic decline in the availability of units renting for less than $800. The share of occupied units renting for under $800 has fallen by 15.7 percentage points since 2000. There is an increased willingness from middle- and high-income households to pay for Atlanta's existing rental stock, contributing to an increase in rents in such units.

29%

of occupied rental units were priced under $800 in 2016, **down from 44% in 2000.**

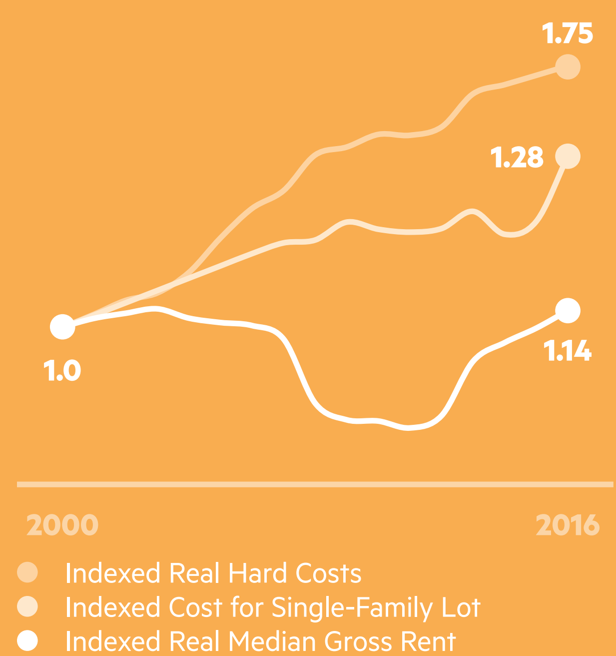
IMPACT

Rising Rents for New Rental Housing: Higher development costs and greater competition are contributing to higher rents and a lack of new rental housing affordable to the median renter.

The average asking rent for a new unit increased substantially within Atlanta. A new unit developed in 2016 or 2017 rents for 24% more than a new unit would have rented for in 2000 in real terms. This equates to an increase from $1,393 in 2000 to $1,731 in 2016.

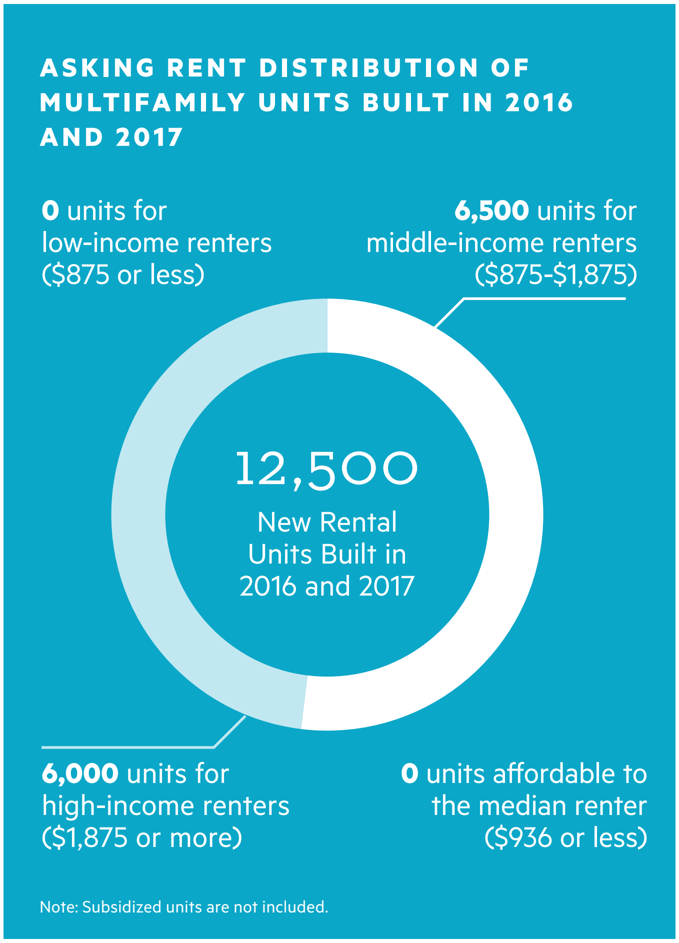
Higher development costs have increased the rent required to support new development. As the cost of development increases, more financing is needed to fund development. Higher rents are necessary to repay the additional financing used to cover higher development costs.

INDEXED CONSTRUCTION AND LAND COSTS AND MEDIAN RENT



Source: CoStar, ACS, U.S. Census, HR&A analysis

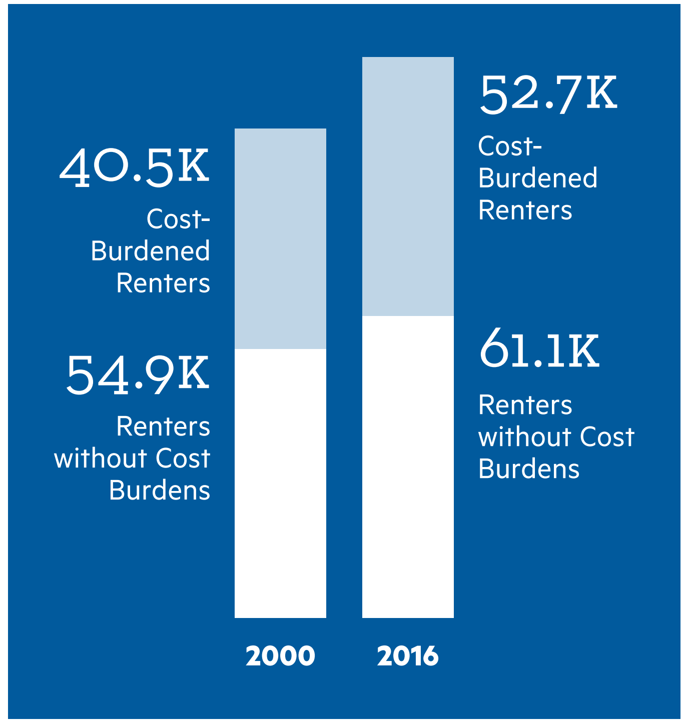
All market-rate units built in 2016 and 2017 were not affordable to the median renter. About half of the new market-rate units were priced above $1,875, and therefore were affordable only to high-income renters. When new units are not affordable to most middle-income renters, competition for existing units is further exacerbated.



IMPACT

Emerging Affordability Challenges for Middle-Income Renters: A declining supply of low-rent housing, a lack of new housing affordable to the median renter, and a growing number of low- and middle-income renters is resulting in worsening housing affordability.

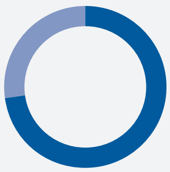
Renters in Atlanta are experiencing increasing affordability challenges. The total share of rent-burdened households increased from 42% to 46% between 2000 and 2016. The number of rent-burdened households grew by 12,200, equal to nearly two-thirds of the total net new renter households.



Middle-income households saw large increases in affordability challenges. The rate of rent-burdened, middle-income households grew from 23% in 2000 to 36% in 2016. Low-income renters continue to struggle to afford housing. Almost three quarters of low-income renters were burdened in 2016.

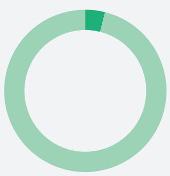
Source: CoStar, ACS, U.S. Census, HR&A analysis

SHARE OF RENT-BURDENED HOUSEHOLDS BY INCOME IN 2016



73% of low-income renters were rent burdened, up from 70% in 2000.

36% of middle-income renters were rent burdened, up from 23% in 2000.



4% of high-income renters were rent-burdened, up from 1% in 2000.

Low income: $0-35K | Middle income: $35-75K | High income: $75K+

Income growth is not evenly distributed among low-, medium, and high-income renters. An influx of high-income renters pulled up the area median rent, creating the perception that all renters have gotten richer. In reality, low- and middle-income renters have seen only moderate income growth, though they must increasingly compete with high-income renters in historically low-rent areas of Atlanta. This increased competition contributes to the growing number of rent-burdened households.

Affordability challenges are reaching a point where low- and middle-income renters are choosing not to live in Atlanta. The City of Atlanta is struggling to attract low- and middle-income renters, relative to the rest of the metro area. Between 2000 and 2016, the number of low- and middle-income renters in the city grew by 13% and 16%, respectively. In the surrounding metro areas, the number of middle-income renters grew by 46%, and low-income renters notably grew by 89%. These stark differences indicate that low- and middle-income renters are being priced out of Atlanta and locating in the outlying metro region due to higher housing costs.

GROWTH IN THE NUMBER OF LOW-INCOME RENTERS

13%
Atlanta

89%
Surrounding Metro

GROWTH IN THE NUMBER OF MIDDLE-INCOME RENTERS

16%
Atlanta

46%
Surrounding Metro

Source: CoStar, ACS, U.S. Census, HR&A analysis

NATIONAL MULTIFAMILY HOUSING COUNCIL

Case Studies: Denver

THE HOUSING AFFORDABILITY TOOLKIT

Developed in Partnership with
HR&A Advisors

Denver, CO

The rental market in Denver has grown rapidly in recent years. Much of the new housing stock is targeted at a growing segment of high-income renters.

Competition has intensified for the city's stock of existing units, which has driven up rents and decreased the number of lower-rent units. As a result, almost half of middle-income renters are now rent-burdened.

$61,100	$45,300	146,000	93,500
MEDIAN HOUSEHOLD INCOME	MEDIAN RENTER HOUSEHOLD INCOME	TOTAL RENTER HOUSEHOLDS	TOTAL MULTIFAMILY RENTAL UNITS

DRIVERS

Growing Renter Demand, Especially from High-Income Households

Denver added 32,000 renter households between 2000 and 2016, a nearly 30% increase. Real median renter incomes have risen by 12%, as new entrants to the market skew toward higher income brackets. By 2016, more than a quarter of households were high-income.

Rising Development Costs

Development costs have risen across the board. Growth in construction costs since 2000 outpaced the national rate. Land costs also rose significantly, growing by 143% since 2011.

IMPACTS

Steep Decline in Lower-Rent Units

Demand for rental housing has driven rents higher for all housing, including existing stock. As a result, the share of occupied rental units priced under $800 a month fell by 20.9 percentage points from 2000 to 2016. Only 20% of rental units now fall in this price range, compared to the national average of 37%.

Continued High Rents for New Rental Housing

Rents in Denver were already high in 2000 and have remained high despite a large number of new deliveries.

Growing Housing Affordability Challenges for Middle-Income Households

Affordability has dramatically worsened for the city's middle-income renter households, almost half of which are now cost-burdened.

Relevant Tools

For more information on relevant housing tools, programs, and policies, see the following pages:

- Public Land
- By-Right
- Tax Abatement
- Inclusionary Zoning

Cities Facing Similar Challenges

Cities facing similar housing affordability challenges include:

- San Diego, CA
- Portland, OR
- Honolulu, HI
- Austin, TX

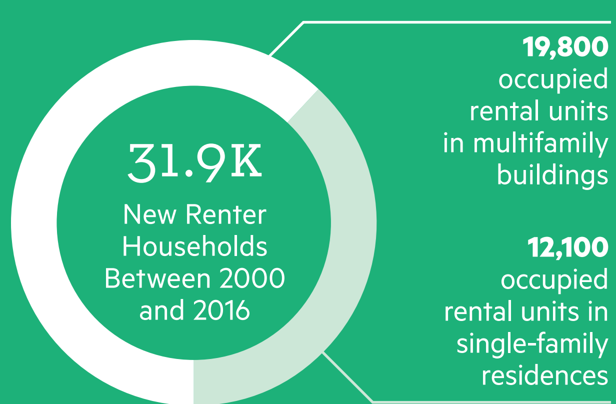
DRIVER

Growing Renter Demand, Especially from High-Income Households:

Historic levels of growth have skewed toward high-earning renters choosing to live in Denver.

The number of renter households grew by 32,000, at an unprecedented rate. This growth marks a 29% increase in renter households. Of these households, 62% chose to live in an apartment.

NET NEW RENTER HOUSEHOLDS BETWEEN 2000 AND 2016 BY UNITS IN OCCUPIED STRUCTURE



About half of new renter households were high-income. Middle-income households comprised the smallest share of new renters.

FOR EVERY 10 NET NEW RENTER HOUSEHOLDS ADDED BETWEEN 2000 AND 2016

Low income: $0-35K | Middle income: $35-75K | High income: $75K+

The number of high-income renters grew rapidly in both the city and surrounding metro area. The number of high-income renters in Denver grew 55% between 2000 and 2016. During the same period, the number of high-income renters grew by 54% in the metro region (excluding the city). If the supply of rental housing targeted to high-income renters does not keep pace with demand, high-income renters are likely to displace low- and middle-income renters in desirable neighborhoods.

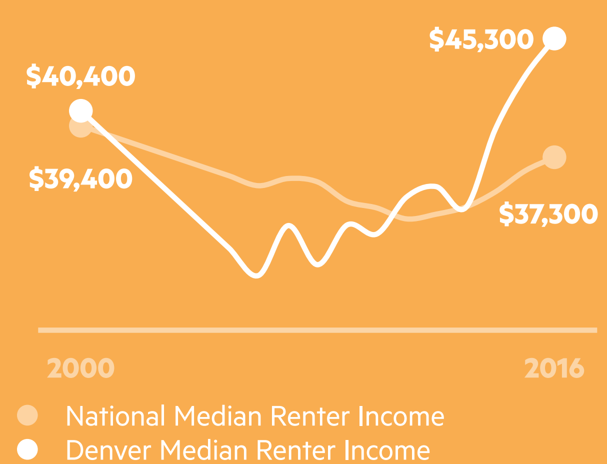
GROWTH IN THE NUMBER OF HIGH-INCOME RENTERS

55%
Denver

54%
Surrounding Metro

Between 2000 and 2016, real median renter income grew by 12%. Denver's median renter income has rapidly increased in recent years, such that by 2016 it was 21% higher than the national median. For some, these higher incomes help to mitigate the burden of rising rents, but the increase in incomes has intensified pricing competition overall.

MEDIAN RENTER HOUSEHOLD INCOME IN DENVER AND THE NATION



Source: CoStar, ACS, U.S. Census, HR&A analysis

DRIVER

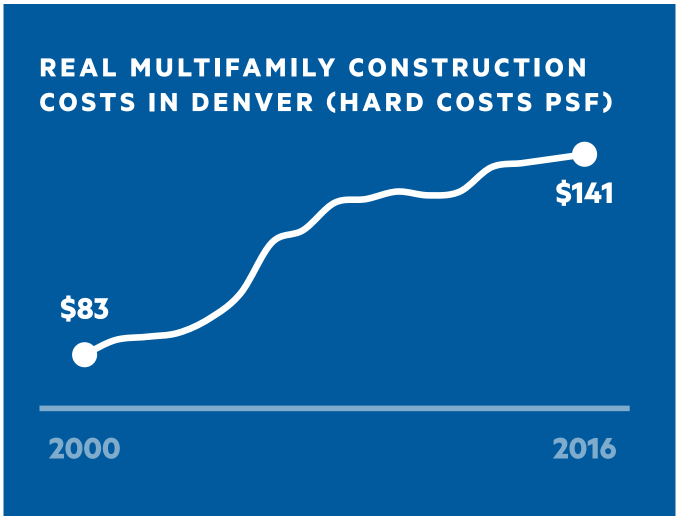
Rapidly Rising Development Costs:

Regulatory, construction, and land costs have all risen.

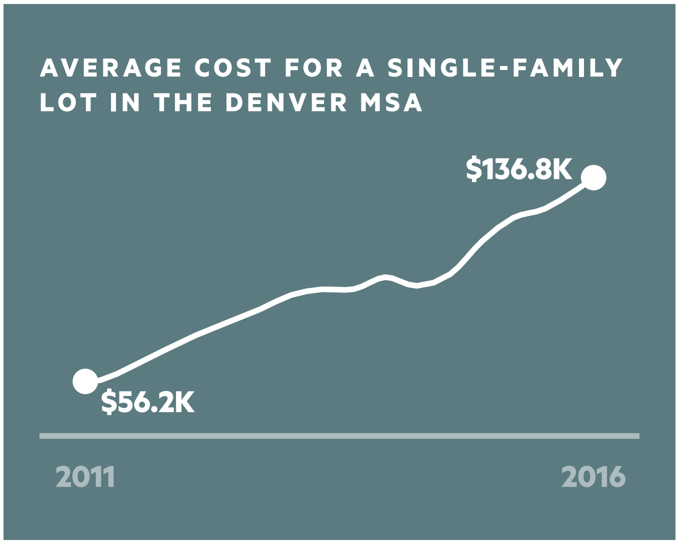
When development costs increase, rents must increase to cover the higher costs. The price of new development in Denver in 2000 was already significant due to the high costs of land and construction. Since then, development costs have continued to rise and have contributed to consistently high rents for new development. Development costs are derived from three main components – land costs, hard costs (labor and materials), and regulatory soft costs.

Local regulatory conditions intensify the rising cost of development. Higher costs are driven by local policies, such as those that reduce the amount of land available for multifamily residential development, extend the development timeline through lengthy permitting approvals, or limit development potential through parking requirements and other construction requirements.

In the Denver area, real hard costs have increased significantly. Real hard costs increased from $83 PSF to $141 PSF for multifamily buildings in real terms, amounting to an increase of 70%. This is higher than the nationwide increase of 57%.



Denver's real land costs increased by 143% between 2011 and 2016.[1] Rapidly rising land costs indicate a dwindling supply of well-located developable land in Denver, allowing owners of sought-after properties to command higher prices. Denver's quantity of developable land is physically constrained by the mountainous landscape and is limited by regulatory barriers to building. Increases in land costs have kept asking rents for new development high.



1 Real land costs fell substantially during and immediately after the Great Recession, contributing to the high percentage growth seen in the market between the bottom of the market in 2011 and 2016.

Source: Lincoln Institute of Land Policy, Craftsman Book Company, HR&A analysis

IMPACT

Rapidly Rising Rents for Existing Housing: Denver's existing housing stock has grown much more expensive as a result of increased competition.

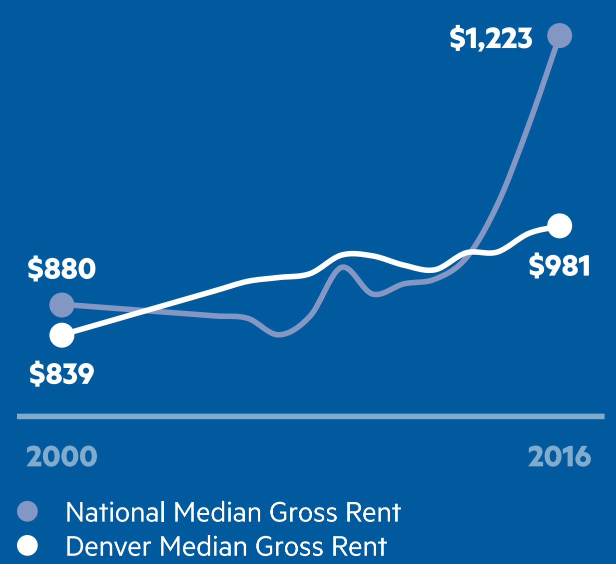
Rents for existing units are increasing much faster than the national average. Between 2000 and 2016, the real gross median rent for units built before 2000 increased by 32%, far above the nationwide growth rate of 13%. This indicates significant demand for existing units, due to insufficient supply of new rental units and/or inordinate demand for existing units.

The availability of rental units priced at under $800 in rent per month fell. While 41% of rental units in 2000 were priced below $800, this share fell to 20% by 2016 – a figure well below the national average. An influx of new renters increasingly relies on existing units for housing due to inadequate new supply, driving up rents and resulting in the loss of less expensive units.

> 20%
> of occupied rental units were priced under $800 in 2016, **down from 41% in 2000.**

Real gross median rent in Denver increased 39% between 2000 and 2016. Real gross median rent grew from $880 in 2000 to $1,223 in 2016. This is more than double the nationwide increase of 17%. The gross median rent in Denver is now almost $250 more than the nationwide gross median rent. The most dramatic increases in rent have occurred recently, between 2013 and 2016.

REAL MEDIAN GROSS RENT IN DENVER AND THE NATION



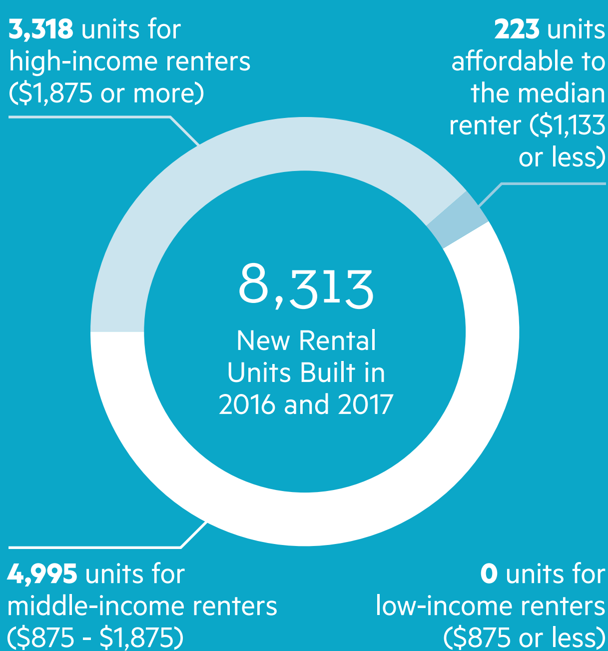
IMPACT

High Rents for New Housing: Steep development costs have kept rents for new supply high and out of reach of most renters.

Virtually all the new units produced in 2016 and 2017 were not affordable to the median renter. Only 223 out of 8,313 units were produced with average asking rents less than $1,133, the affordable monthly rent for the median renter. In contrast, 60% of all units delivered in Denver in 2016 were delivered to both middle- and high-income renters, while the remaining 40% of units were only affordable to high-income renters. No units were delivered that would be affordable to low-income renters.

Source: CoStar, ACS, U.S. Census, HR&A analysis

ASKING RENT DISTRIBUTION OF MULTIFAMILY UNITS BUILT IN 2016 AND 2017



Note: Subsidized units are not included.

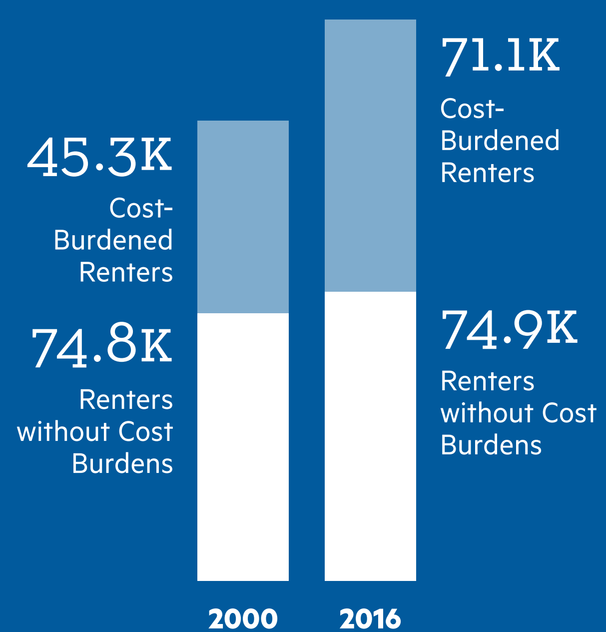
Multifamily vacancy rates rose slightly in the last few years. This generally indicates a better balance between supply and demand.

MULTIFAMILY VACANCY RATE IN DENVER

IMPACT

Growing Housing Affordability Challenges for Middle-Income Households: Cost burdens are now higher than average for both low- and middle-income renters, in a previously affordable city.

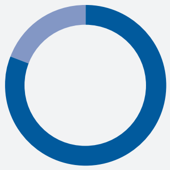
Rent burdens in Denver grew more than they did nationwide. The total share of rent-burdened households increased by 11 percentage points between 2000 and 2016.



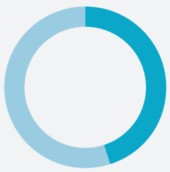
Low- and middle-income renters were significantly impacted by growing affordability challenges. Almost half (45%) of all middle-income renters were rent burdened in 2016, up from only 18% in 2000. More than four out of five low-income renters were rent burdened in 2016, up from nearly three out of four (73%) in 2000. Growth in affordability challenges is likely due to increased competition for rental housing, which is driving up rents faster than renter incomes.

Source: CoStar, ACS, U.S. Census, HR&A analysis

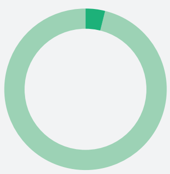
SHARE OF RENT-BURDENED HOUSEHOLDS BY INCOME IN 2016



81% of low-income renters were rent burdened, up from 73% in 2000.



45% of middle-income renters were rent burdened, up from 18% in 2000.

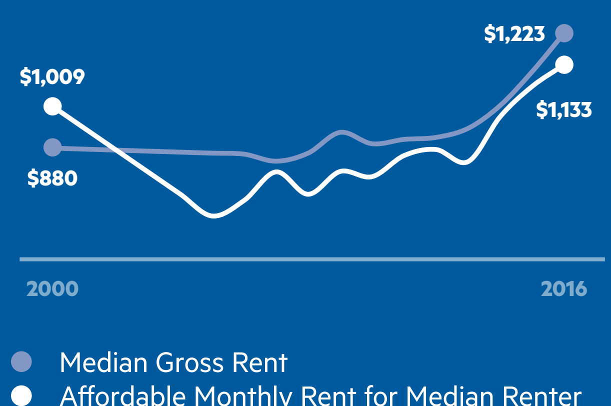


4% of high-income renters were rent burdened, up from 2% in 2000.

Low income: $0-35K | Middle income: $35-75K | High income: $75K+

Even with recent growth in renter incomes, the median rent was still out of reach for the median renter in 2016. While both renter incomes and rents in Denver have experienced increases in recent years, rent growth has outpaced renter income growth. In 2016, the median renter could not afford the median gross rent by about $90.

MEDIAN GROSS RENT AND AFFORDABLE MONTHLY RENT FOR THE MEDIAN DENVER RENTER HOUSEHOLD



Source: CoStar, ACS, U.S. Census, HR&A analysis

Denver is struggling to attract and retain low- and middle-income renters. Between 2000 and 2016, the number of low- and middle-income renters grew much more rapidly in the surrounding metro areas (excluding the city) than in the City of Denver itself. This disparity in growth rate, which has led to a falling share of low- and middle-income renters in the city, is at least partially – and likely substantially – due to an inability to afford quality housing in the city, rather than simply a preference for living elsewhere.

GROWTH IN THE NUMBER OF LOW-INCOME RENTERS

14%
Denver

61%
Surrounding Metro

GROWTH IN THE NUMBER OF MIDDLE-INCOME RENTERS

12%
Denver

44%
Surrounding Metro

NATIONAL
MULTIFAMILY
HOUSING
COUNCIL

Case Studies: Minneapolis

THE HOUSING AFFORDABILITY TOOLKIT

Developed in Partnership with
HR&A Advisors

Minneapolis, MN

Minneapolis is experiencing modest growth, limited new development, and moderately increasing rents, which have posed affordability challenges for low-income renters.

In recent years, the city's new rental stock has predominantly served its small influx of higher-income renters. With few options to locate in the city, low-income renters have disproportionately located in surrounding metro areas.

$56,300	$36,700	91,700	62,900
MEDIAN HOUSEHOLD INCOME	MEDIAN RENTER HOUSEHOLD INCOME	TOTAL RENTER HOUSEHOLDS	TOTAL MULTIFAMILY RENTAL UNITS

DRIVERS

Widening Gap in Renter Incomes

The number of renter households grew by 16% (12,700 households) between 2000 and 2016. Nearly half of these renters were low-income, while 40% were high-income. As a result, the renter composition in Minneapolis has shifted away from middle-income renters.

Low but Rising Hard Development Costs

Hard costs have grown 29% since 2000, well below the national rate of 57%. Real land costs have grown 415% from their lowest point in 2011, though land prices are still relatively low and below the national median.

IMPACTS

Moderately Rising Rents Overall but Very High Rents for Newly Built Units

Rents have risen 14% since 2000 for both new and existing housing, at a rate on par with the national average. However, while rent levels for pre-2000 buildings have remained low, rents for units in new buildings are, on average, twice as expensive as rents for existing units, as much of the city's new stock has targeted a new base of high-income renters.

Limited New Development Attainable for Low- and Middle-Income Residents

Minneapolis added zero units affordable for low-income renters in 2016 and 2017, and approximately half of new units were only affordable to high-income renters.

Continued Challenges for Low-Income, Emerging Challenges for Middle-Income

Once an extremely affordable city, Minneapolis's housing stock is increasingly out of reach for low-income, and even middle-income, renters. Both income segments have disproportionately located in metro areas outside of the city.

Relevant Tools

For more information on relevant housing tools, programs, and policies, see the following pages:

- Public Land
- By-Right
- Tax Abatement
- Inclusionary Zoning

Cities Facing Similar Challenges

Cities facing similar housing affordability challenges include:

- Charlotte, NC
- Raleigh, NC
- Louisville, KY
- Colorado Springs, CO

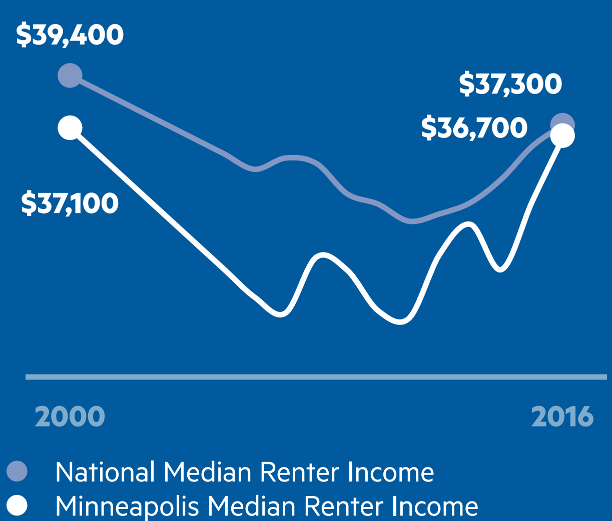
DRIVER

Widening Gap in Renter Incomes:

The median real renter income is 1% lower than in 2000, despite a recent growth in high-income households.

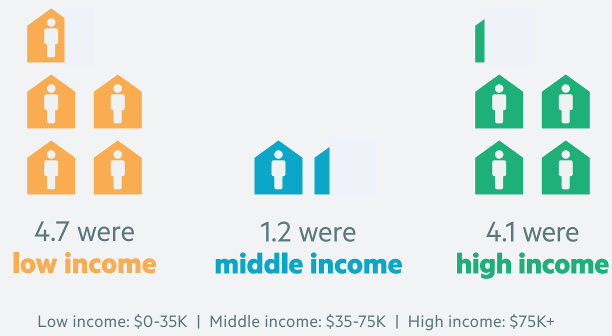
Between 2000 and 2016, the real median renter income fell by 1% on net. This percentage decline incorporates the steep decline in renter incomes prior to and after the Great Recession. Since 2010, renter income has risen largely due to an influx of high-income renters – which belies the number of renters whose wages remain stagnant.

REAL MEDIAN RENTER HOUSEHOLD INCOME IN MINNEAPOLIS AND THE NATION



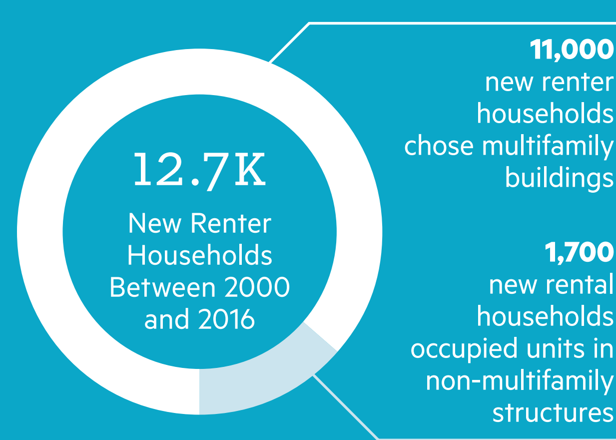
Half of all net new renters in Minneapolis were low-income. This contributed to little change in the median renter income, despite there being a significant share of high-income renters. There was little increase in middle-income renter households between 2000 and 2016. Given the current makeup of the city, where half of renter households are low-income, the large share of new high-income renters is noteworthy.

FOR EVERY 10 NET NEW RENTER HOUSEHOLDS ADDED BETWEEN 2000 AND 2016



The city added 12,700 net new renter households. This amounts to a 16% growth in renter households, below the national growth rate of 23%. A relatively high percentage of the net new renters occupied units in multifamily buildings.

NET NEW RENTER HOUSEHOLDS IN MINNEAPOLIS FROM 2000 TO 2016



Multifamily construction rates have been on par with the nation. 16,600 multifamily rental units were delivered between 2000 and 2016. This amounts to 30% of the multifamily housing stock that existed in 2000, the same rate of building seen on average nationwide.

Source: CoStar, ACS, U.S. Census, HR&A analysis

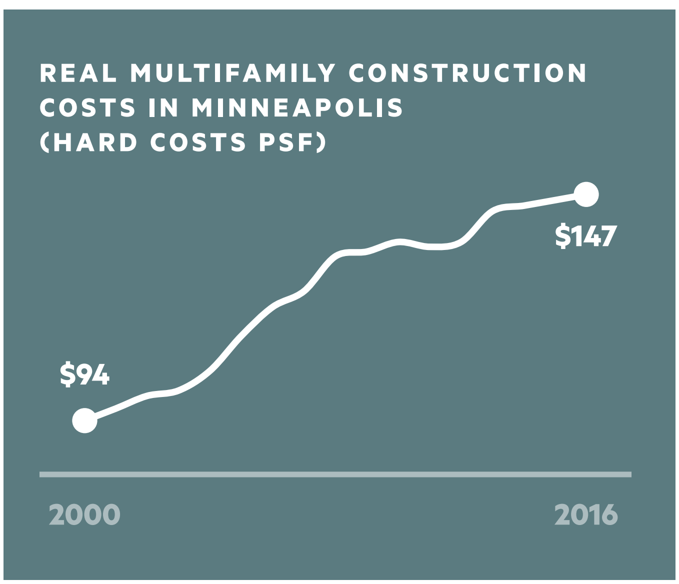
DRIVER

Low but Rising Hard Costs to Development: Hard costs have risen faster than the national average.

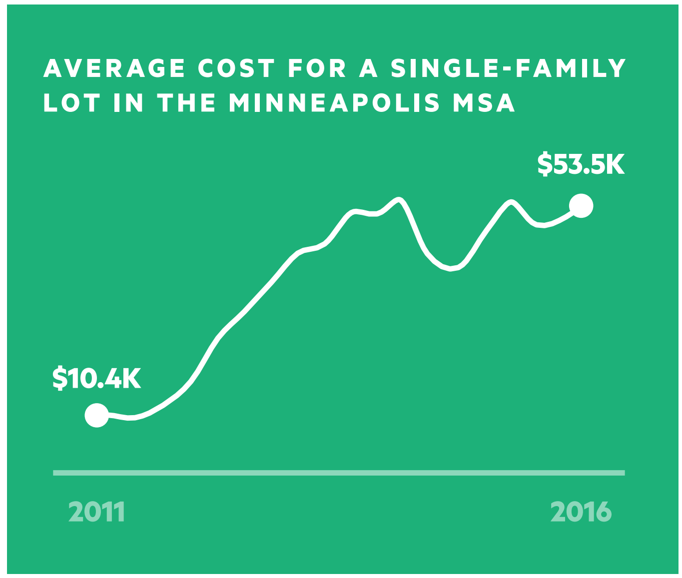
When development costs increase, rents must increase to cover the higher costs. This results in decreasing affordability for renters. The 14% increase in real asking rents for new units in Minneapolis is linked to rising development costs. Development costs are driven by three main components: land, labor and materials, and regulatory soft costs.

Local regulatory conditions further intensify the rising cost of development. Policies that reduce the amount of land available for multifamily residential development, extend the development timeline through lengthy permit approval processes, limit development potential through stringent parking requirements, and other local requirements can each result in higher development costs.

In the Minneapolis area, hard costs, or the cost associated with labor and materials, increased significantly between 2000 and 2016. Hard costs increased from $94 PSF to $147 PSF for multifamily buildings in real terms, amounting to an increase of 60%.



Minneapolis land costs grew rapidly between 2011 and 2016 but remain fairly low. Real land costs have rebounded since hitting the bottom of the market in 2011. However, land prices in 2016 remain lower than the national median of $66,000. This indicates that there may be an abundance of developable land in Minneapolis. When cities increase the amount of developable land, rent pressure generally decreases.



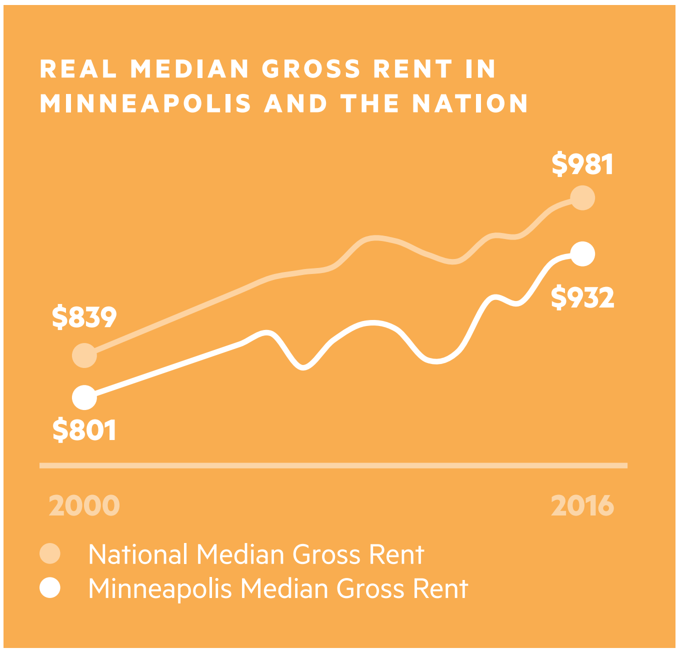
In Minneapolis, increasing real hard costs are the greatest contributor to growth in rents. Land costs have a lesser impact but may be a factor in highly desirable neighborhoods, from well-established ones such as North Oaks to rapidly growing ones such as Richfield.

Source: Lincoln Institute of Land Policy, Craftsman Book Company, HR&A analysis

IMPACT

Moderately Rising Rents: Rents have risen moderately, at a pace on par with the nation.

The real gross median rent in Minneapolis increased by 16% from 2000 to 2016, slightly below the national average. The increase in the median gross rent is moderate, but affordability challenges continue to increase due to stagnating renter incomes.



Rents for existing units are increasing at a similar rate as those for new units, an indicator of a potential supply shortage. Between 2000 and 2016, the real gross median rent for units built before 2000 increased by 13%. This overall rate of growth is low compared to many cities but still indicates excess demand for existing rental units. Rent increases for existing buildings likely varied across neighborhoods and occurred at a much higher rate in communities such as the Warehouse District and Loring Park.

The average asking rent for new multifamily apartment units increased by 14% from $1,604 in 2000 to $1,828 in 2016. Minneapolis has seen only a moderate increase in the asking rent for new units, at a pace similar to growth in rents for existing units. Still, the asking rent for new units remained high relative to renter incomes.

The share of occupied rental units priced under $800 a month fell by 15.1 percentage points in Minneapolis, compared to a decrease of 12.2 percentage points nationally. However, this decline is especially significant given the high number of low-income renters in this market who rely upon rents at this level.

> 36%
>
> of occupied rental units were priced under $800 in 2016, **down from 51% in 2000.**

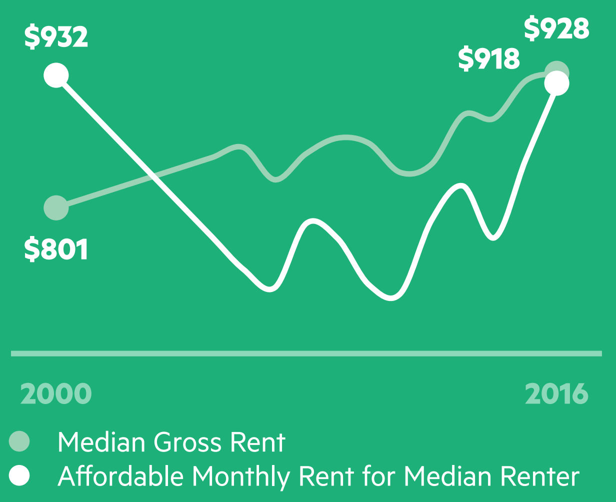
IMPACT

Lack of Units for Renters At and Below Median Income: The city's new rental supply is out of reach for many of its renters.

Real median renter income growth has not kept pace with real median gross rent growth. In 2000, the median renter could afford the median gross rent with a $130 surplus. In 2016, the median renter could no longer afford the median gross rent.

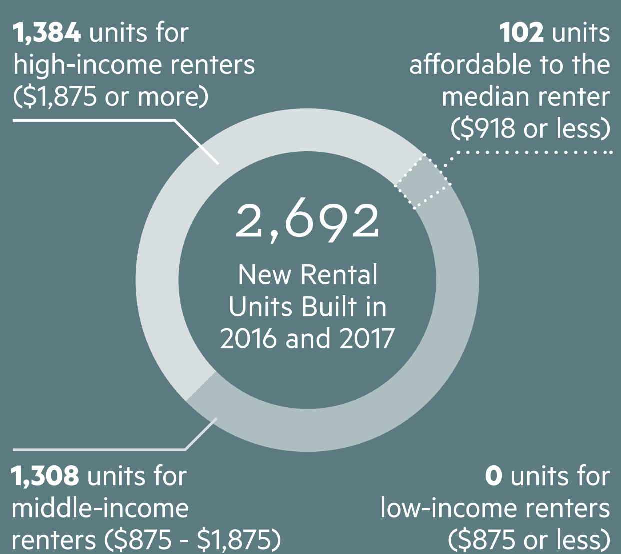
Source: CoStar, ACS, U.S. Census, HR&A analysis

MEDIAN GROSS RENT AND AFFORDABLE MONTHLY RENT FOR THE MEDIAN MINNEAPOLIS RENTER



The vast majority of units produced in 2016 and 2017 were out of reach for the median renter. Only 102 units were produced with average asking rents below $918, equal to the monthly rent affordable for a median-income renter in Minneapolis. About 2,600 units with asking rents over $918 were delivered in 2016 and 2017.

ASKING RENT DISTRIBUTION OF MULTIFAMILY UNITS BUILT IN 2016 AND 2017



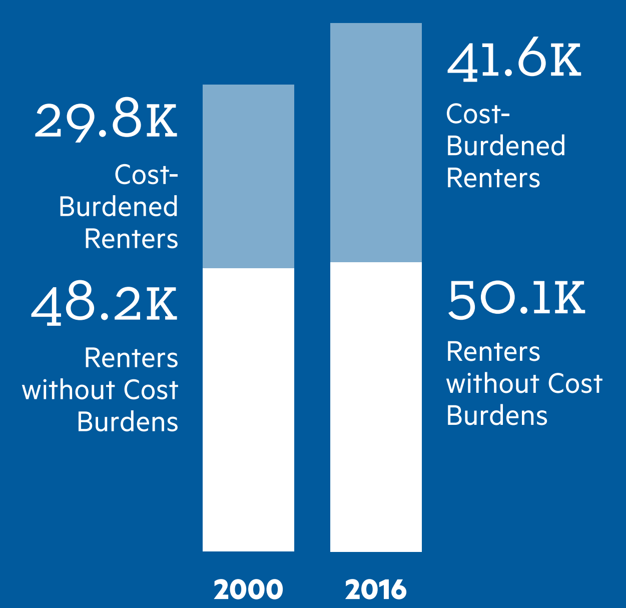
Note: Subsidized units are not included.

Source: CoStar, ACS, U.S. Census, HR&A analysis

IMPACT

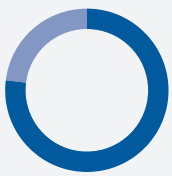
Continued Challenges for Low-Income Renters, Emerging Challenges for Middle-Income Renters: Affordability challenges are a new phenomenon for middle-income households, and many households have been led to locate outside of the city.

Like renters nationwide, renters in Minneapolis are increasingly struggling to pay rent. The total share of rent-burdened households increased from 38% to 45% between 2000 and 2016. The number of rent-burdened households grew by nearly 12,000, equal to 86% of the total renter households added.

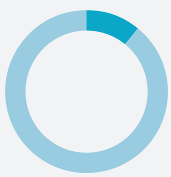


Low- and middle-income renters saw large increases in affordability challenges. The rate of rent-burdened middle-income households grew from 11% in 2000 to 26% in 2016. Three quarters (77%) of low-income renters were burdened in 2016, up from 70% in 2000. This is on par with the national trends of rapidly increasing rent burdens for low- and middle-income households.

SHARE OF RENT-BURDENED HOUSEHOLDS BY INCOME IN 2016



77% of low-income renters were rent burdened, up from 70% in 2000.



11% of middle-income renters were rent burdened, up from 15% in 2000.

2% of high-income renters were rent burdened, up from 0% in 2000.

Low income: $0-35K | Middle income: $35-75K | High income: $75K+

Minneapolis is struggling to attract and retain low- and middle-income renters. Between 2000 and 2016, the number of low-income renters grew by 14% in the city and 61% in the surrounding metro area. During the same period, middle-income renters demonstrated a similar difference in growth rate. This trend likely indicates that both low- and middle-income renters are increasingly being priced out of the city, due to the increasing difficulty of paying for quality rental housing in the city.

GROWTH IN THE NUMBER OF LOW-INCOME RENTERS

14%
Minneapolis

61%
Surrounding Metro

GROWTH IN THE NUMBER OF MIDDLE-INCOME RENTERS

8%
Minneapolis

38%
Surrounding Metro

Source: CoStar, ACS, U.S. Census, HR&A analysis

NATIONAL MULTIFAMILY HOUSING COUNCIL

Case Studies: Pittsburgh

THE HOUSING AFFORDABILITY TOOLKIT

Developed in Partnership with
HR&A Advisors

Pittsburgh, PA

Pittsburgh is home to a large number of low-income renters who are vulnerable to even modest increases in rent. However, the city's cost of rental housing is still relatively low.

Much of the city's existing lower-rent housing is becoming obsolete. The housing developed in recent years has primarily been for newer, high-income renters. This housing is out of reach for low-income residents and cannot replace the loss of existing lower-rent housing.

$44,700	$32,000	72,000	28,800
MEDIAN HOUSEHOLD INCOME	MEDIAN RENTER HOUSEHOLD INCOME	TOTAL RENTER HOUSEHOLDS	TOTAL MULTIFAMILY RENTAL UNITS

DRIVERS

Widening Gap in Renter Incomes

A majority of Pittsburgh's renter households are low-income (53% in 2016, down from 61% in 2000). At the same time, the city has experienced a small but meaningful influx of high-income renters, who have heightened competition for rental housing.

Aging Housing Stock

Much of Pittsburgh's stock of single-family and multifamily rental housing was built before World War II and is increasingly obsolete and uninhabitable.

Moderately Rising Development Costs

Hard costs have risen by 62% since 2000, slightly above the national average of 57%. Land costs have been volatile and largely fell throughout this period, reflecting the higher rates of vacant and underutilized land throughout the city.

IMPACTS

Rising Rents for Existing Rental Housing

Between 2000 and 2016, the real gross median rent for units built before 2000 increased by 26%, double the nationwide growth rate of 13%. This increase has had a significant impact on the many low-income renters who rely on the city's low cost of living. The share of occupied rental units priced under $800 a month has fallen by 21.1 percentage points from 2000 to 2016.

New Rental Housing Unaffordable for Low-Income Renters

Due to higher development costs and greater renter competition, only 4% of the units built in 2016 and 2017 were priced to be affordable to low-income renters.

Growing Housing Affordability Challenges for Low-income Renters

Though still relatively affordable to middle-income renters, the number of low-income households in the city has actively decreased, as they are unable to access quality housing at their price point.

Relevant Tools

For more information on relevant housing tools, programs, and policies, see the following pages:

- Public Land
- Tax Abatement

Cities Facing Similar Challenges

Cities facing similar housing affordability challenges include:

- St. Louis, MO
- Kansas City, MO
- Norfolk, VA
- Indianapolis, IN

DRIVER

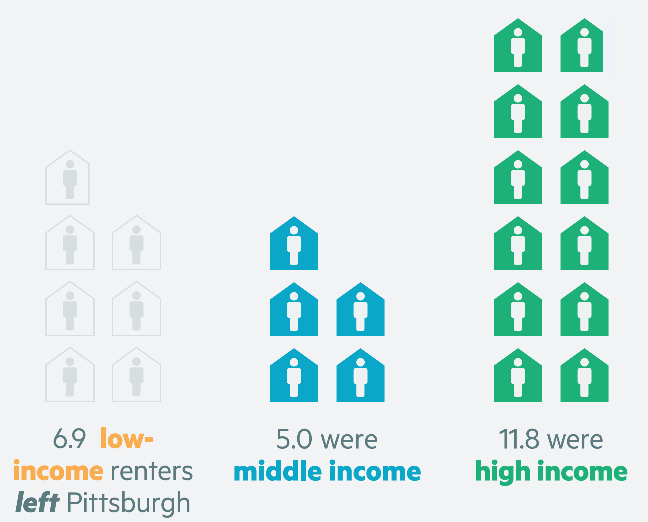
Widening Gap in Renter Incomes: The profile of renter households is shifting as low-income renters leave the city and high-income renters are added.

On net, the number of renter households increased by 3,200 from 2000 to 2016. This is a small level of growth, accounting for only a 5% increase in renter households. The loss of low-income renters masks the growth of middle- and high-income renter households.

Pittsburgh's net increase in renters between 2000 and 2016 was driven by high-income renters. Pittsburgh gained 5,400 high-income renters, equating to 64% growth in the total number of high-income renters in the city.

In contrast, Pittsburgh lost about 3,100 low-income renters, indicating that the city is increasingly unaffordable to low-income renters.

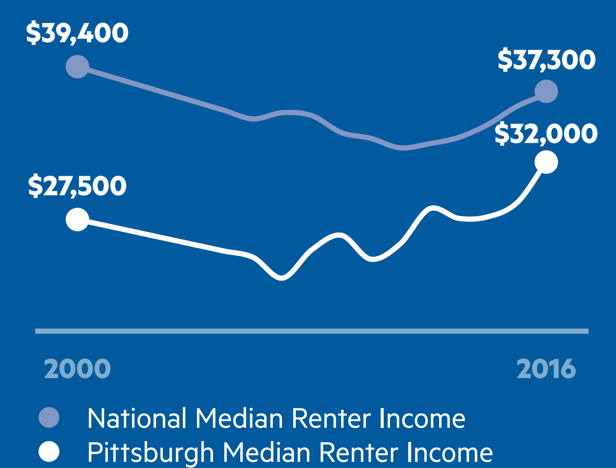
FOR EVERY 10 NET NEW RENTER HOUSEHOLDS ADDED BETWEEN 2000 AND 2016



Low income: $0-35K | Middle income: $35-75K | High income: $75K+

The real median renter income in Pittsburgh rose 16% from 2000 to 2016. The dramatic decrease in the number of low-income renters and increase in high-income renters appears to be the primary driver of the rise in renter incomes.

MEDIAN RENTER HOUSEHOLD INCOME IN PITTSBURGH AND THE NATION



DRIVER

Aging Housing Stock: Pittsburgh's existing rental units are increasingly unable to serve the needs of the renters who would occupy them.

Pittsburgh delivered just under 9,000 units of multifamily rental housing between 2000 and 2016. This is well below the national multifamily development rate of 19%.

SHARE OF RENTAL STOCK BUILT AFTER 2000

6%
Pittsburgh

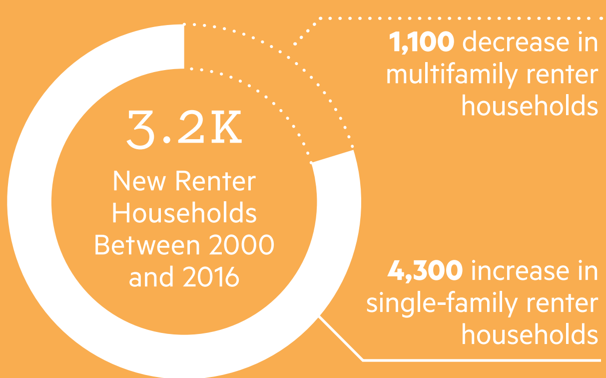
19%
Nation

Source: CoStar, ACS, U.S. Census, HR&A analysis

The supply of multifamily rental housing appears to have dropped. The number of households living in multifamily rental housing fell by 1,100. This appears to indicate that the pace of new development has not been sufficient to keep up with the loss of multifamily housing to obsolescence, much less the growth in the number of middle- and high-income renters.

Pittsburgh's slow pace of rental development means that new renters are more likely to turn to existing buildings for housing. As the stock of multifamily housing has declined, single-family rental housing has meet the growing demand from renters.

NET NEW OCCUPIED RENTAL UNITS BETWEEN 2000 AND 2016 BY UNITS IN STRUCTURE



Source: Lincoln Institute of Land Policy, Craftsman Book Company, HR&A analysis

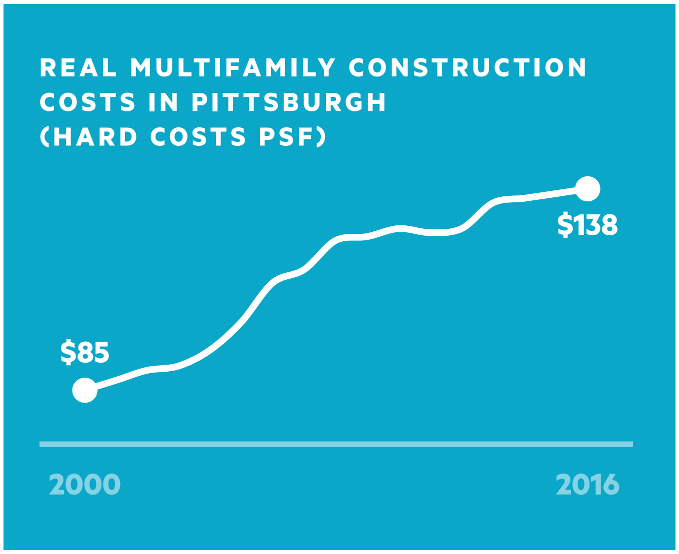
DRIVER

Rising Development Costs: Rising hard costs have contributed to increases in development costs and higher rents.

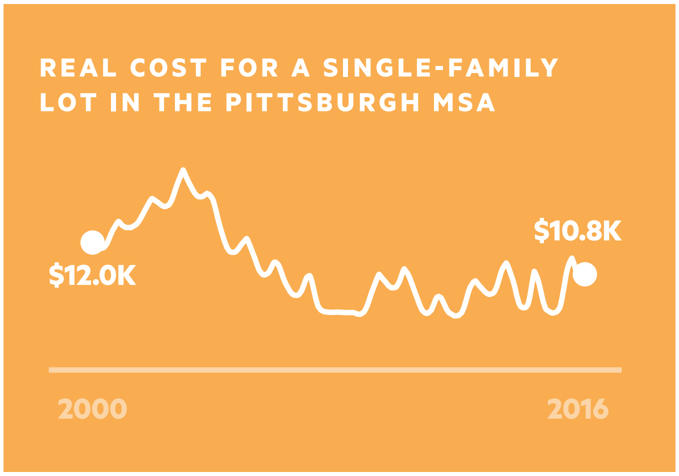
When development costs increase, rents must increase to cover the higher costs. In Pittsburgh, rising development costs contributed to the 106% increase in asking rents for new units. Development costs are driven by three main components: land, labor and materials, and regulatory costs.

Local regulatory conditions further intensify the rising cost of development. Policies that reduce the amount of land available for multifamily residential development, extend the development timeline through lengthy permit approval processes, limit development potential through stringent parking requirements, and other local requirements can each result in higher development costs.

In the Pittsburgh area, real hard costs, or the cost of labor and materials, increased significantly between 2000 and 2016. Real hard costs for multifamily buildings increased 63% from $85 PSF to $138 PSF in real terms, slightly higher than the nationwide increase of 57%. When hard costs increase at such a rate, developers must charge higher rents to make up for higher costs.



Real land costs were highly variable between 2000 and 2016. While land costs doubled nationwide between 2000 and 2016, land costs in Pittsburgh are low and generally falling. This indicates there is a sufficient amount of developable land in the city.



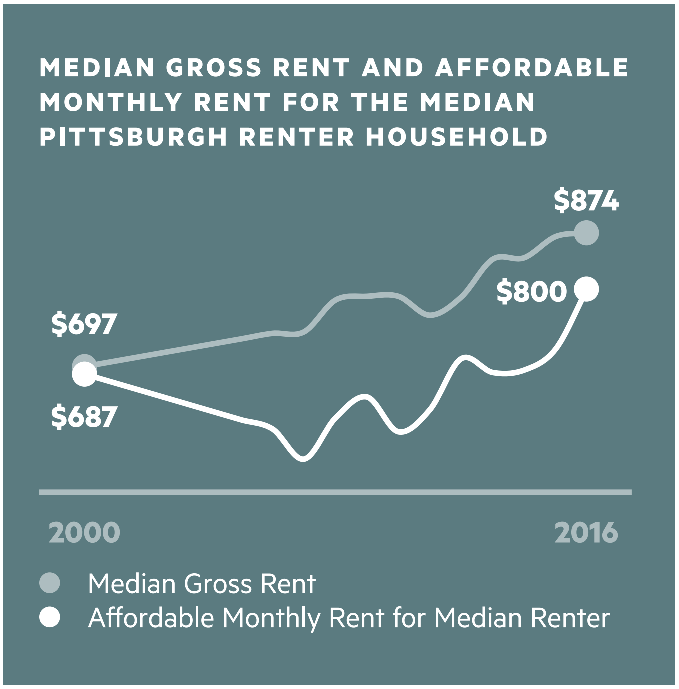
Rising real hard costs are the main cost driver behind rising rents in Pittsburgh. Land costs, which are highly variable and generally low, likely play a minimal role.

IMPACT

Rising Rents for Existing Rental Housing: Due to a diminishing supply, rents for existing units have grown rapidly.

Rents for existing units are increasing at a rate above the national rate. Between 2000 and 2016, the real gross median rent for units built before 2000 increased by 26%, double the nationwide growth rate of 13%. This indicates significant demand for existing units due to insufficient supply of rental housing. This growth rate likely varies widely based on geography and may be more pronounced in popular neighborhoods such as Squirrel Hill.

Real median gross rent growth has surpassed median renter income growth. While the median renter income has grown in recent years, median rent growth has outpaced renter income growth. In 2000, the median gross rent was $10 more per month than what the median renter could afford. By 2016, the number had increased to $74.

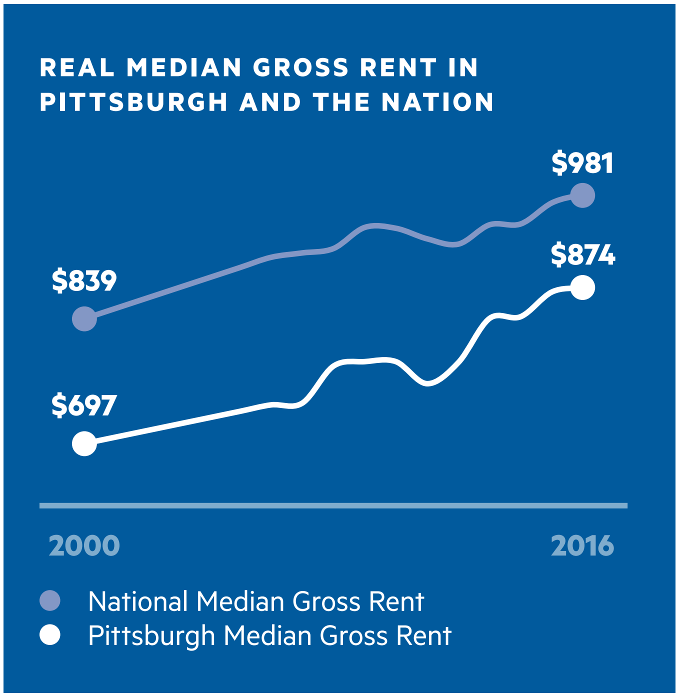


Source: CoStar, ACS, U.S. Census, HR&A analysis

Between 2000 and 2016, the share of occupied units renting below $800 fell by 21.1 percentage points in Pittsburgh, compared to 12.2 percentage points nationally. The slow pace of development in Pittsburgh has resulted in increasing competition for existing units, driving up rents for units that once rented for under $800.

> 44%
> of occupied rental units were priced under $800 in 2016, **down from 65% in 2000.**

The real gross median rent in Pittsburgh increased 25% from $697 in 2000 to $874 in 2016. This is greater than the nationwide increase of 17%. Despite the steep rent growth, the median gross rent in Pittsburgh was $100 less than the U.S. overall in 2016.

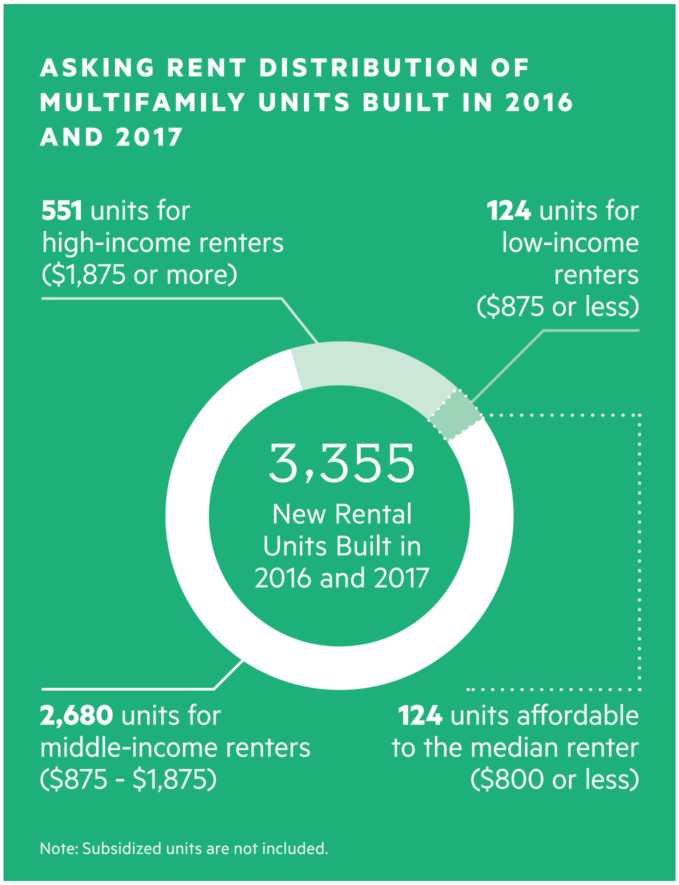


IMPACT

New Rental Housing Unaffordable for Low-Income Renters: New units are largely only affordable for middle- or higher-income households.

The average asking rent for new multifamily units doubled between 2000 and 2016. In 2000, the asking rent for a unit in a new building was $715 in real dollars. By 2016, the rent for a unit in a new building was $1,471, reflecting a 106% rise in real terms. This growth is due to a new influx of higher-end development.

Most units produced in 2016 and 2017 were not affordable to the median renter. Only 124 units were produced with average asking rents less than $800, the affordable monthly rent for the median renter, while 3,231 units affordable to middle- and high-income renters were produced.



Source: CoStar, ACS, U.S. Census, HR&A analysis

IMPACT

Growing Housing Affordability Challenges for Low-Income Renters:

Without housing they can afford, low-income renters are leaving the city.

Pittsburgh lost 8% of its low-income renters, likely due to rising rent pressures. The number of low-income renters grew by 6% in the surrounding metro region. In contrast, the number of high-income renters grew 64% in the city and increased by 3% in outlying metro areas. The growth in high-income renters and the loss of low-income renters indicates a shift in the affordability of housing in Pittsburgh.

GROWTH IN THE NUMBER OF LOW-INCOME RENTERS

-8%
Pittsburgh

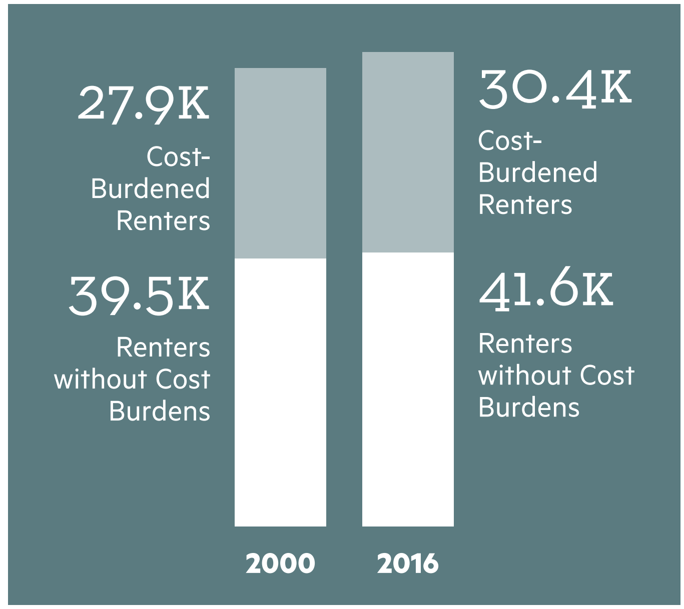
6%
Surrounding Metro

GROWTH IN THE NUMBER OF HIGH-INCOME RENTERS

57%
Pittsburgh

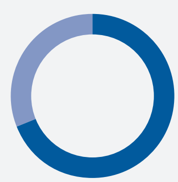
-3%
Surrounding Metro

These trends mask the depth of cost burden for the city's numerous low-income renters. The total share of rent-burdened households increased from 41% to 42% between 2000 and 2016. This relatively mild increase does not account for the many cost-burdened renters who have left the city. Affordability challenges are growing in Pittsburgh, but the city remains relatively affordable compared to other cities.

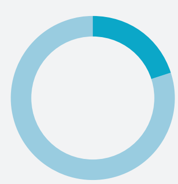


Middle-income renters in Pittsburgh experienced increases in affordability challenges. In 2000, 9% of middle-income renters were burdened compared to 20% in 2016. In contrast, 32% of middle-income renters nationwide were rent burdened in 2016. This increase is likely due to Pittsburgh's low rents and rising renter incomes.

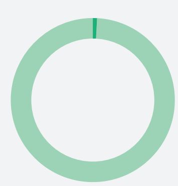
SHARE OF RENT-BURDENED HOUSEHOLDS BY INCOME IN 2016



69% of low-income renters were rent burdened, up from 64% in 2000.



20% of middle-income renters were rent burdened, up from 9% in 2000.



1% of high-income renters were rent burdened, up from 0% in 2000.

Low income: $0-35K | Middle income: $35-75K | High income: $75K+

Source: CoStar, ACS, U.S. Census, HR&A analysis

Case Studies: Sacramento

THE HOUSING AFFORDABILITY TOOLKIT

Developed in Partnership with
HR&A Advisors

Sacramento, CA

A lack of new multifamily supply and rising renter incomes have rapidly increased rents. In what was once a relatively affordable market, low- and middle-income renters are increasingly at risk of displacement.

Sacramento demonstrates the risk of restricting development within a market with growing renter demand and rising incomes. Over half of renters are now cost-burdened.

$55,200	$40,900	96,100	42,800
MEDIAN HOUSEHOLD INCOME	MEDIAN RENTER HOUSEHOLD INCOME	TOTAL RENTER HOUSEHOLDS	TOTAL MULTIFAMILY RENTAL UNITS

DRIVERS

Insufficient New Development

Sacramento grew its stock of apartments by only 19% between 2000 and 2016 despite a 24% increase in the number of renter households. While some of this demand was absorbed by single-family units, the apartment vacancy rate remains extremely low. This discrepancy between demand and supply strains

Demand from High-Income Renters

The median renter household income rose 8% from 2000 to 2016, as most new entrants to the market were in higher income brackets.

High Regulatory and Land Costs

Sacramento's already-high land costs rose 16% between 2000 and 2016.

IMPACTS

Rising Rents for Existing Rental Housing

Competition for rental housing has driven rents higher for both new and existing multifamily units. Real rents for units built before 2000 rose by 24% from 2000 to 2016. As a result, the share of occupied rental units priced under $800 a month has fallen by 19.5 percentage points from 2000 to 2016.

High Rents for New Rental Housing

Sacramento saw a significant increase in rent for new market-rate multifamily development. In 2000, average real rents for new buildings were low, at only $767 (2016 dollars); by 2016, they had grown by 117% to $1,662.

Declining Housing Affordability for Low- and Middle-Income Renters

Once an affordable market, Sacramento is now facing intensifying affordability challenges. For middle-income households in particular, the share of cost-burdened households increased from 16% to 43% since 2000. Low- and middle-income renters have been priced out of the city and increasingly locate in areas of the metro surrounding the city.

Relevant Tools

For more information on relevant housing tools, programs, and policies, see the following pages:

- Public Land
- By-Right
- Tax Abatement
- Inclusionary Zoning

Cities/Regions Facing Similar Challenges

Cities/Regions facing similar housing affordability challenges include:

- Long Beach, CA
- Orange County, CA
- Providence, RI
- Long Island, NY

DRIVER

Insufficient Development of New Rental Housing: The pace of multifamily development has not increased despite growing demand.

The number of renter households increased by 19,000 between 2000 and 2016. This growth is on par with the national average.

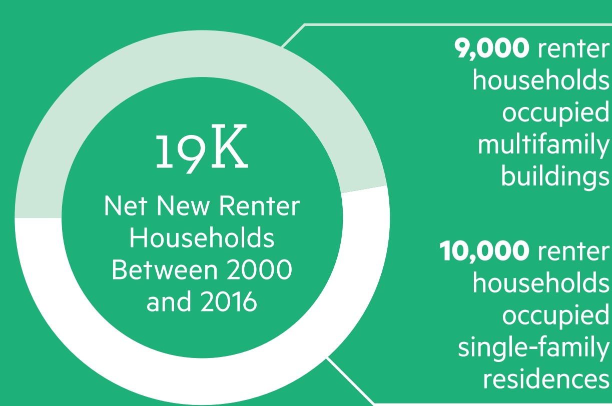
At the same time, Sacramento built very little multifamily housing. New deliveries of multifamily rental housing during this period amounted to only a 19% increase in the stock, compared to an average growth rate of 30% across the nation over the same period.

A striking indicator of the shortage of rental supply is the city's low multifamily vacancy rate. While the Class A vacancy rate increased slightly from 2000 to 2016, the overall vacancy rate in 2016 was unchanged from 2000.

MULTIFAMILY VACANCY RATE IN SACRAMENTO

Single-family rental units absorbed much of Sacramento's renter household growth. Of the 19,000 net new renter households, 10,000 occupied units in single-family buildings. The conversion of large numbers of single-family housing from ownership to rental is likely a strong indicator that there is significant unmet demand for multifamily rental housing.

NET NEW RENTER HOUSEHOLDS BETWEEN 2000 AND 2016 BY UNITS IN OCCUPIED STRUCTURE

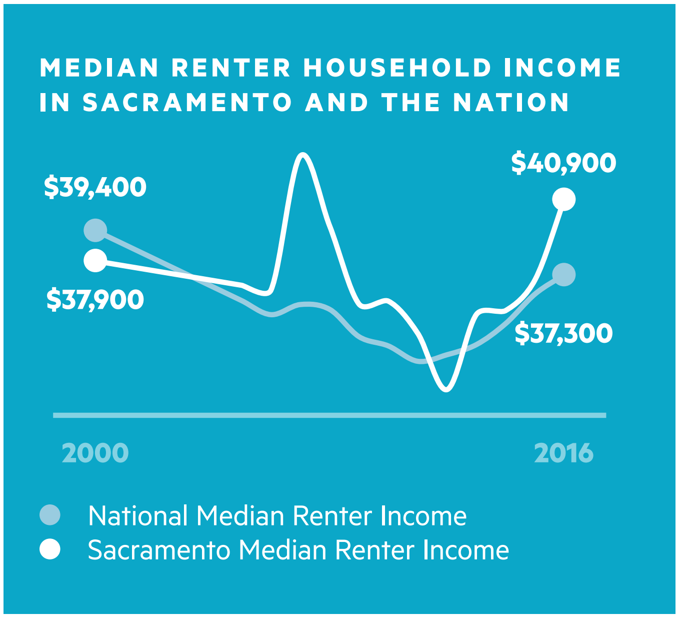


DRIVER

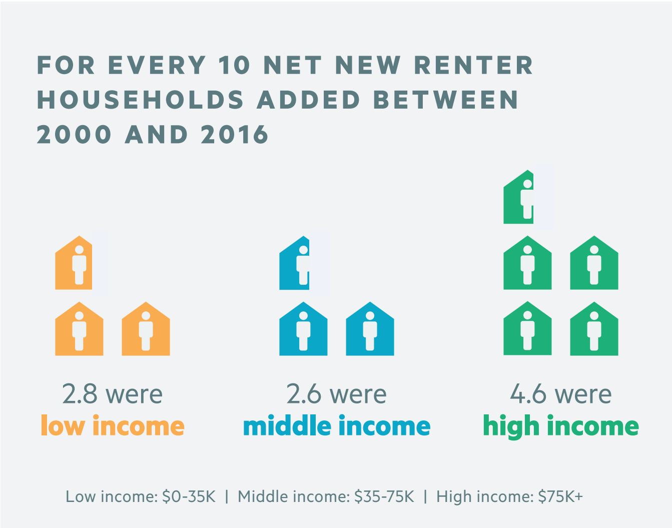
Rising Demand from High-Income Renters: The growth in renters has skewed toward higher-income households, placing upward pressure on rents.

The real median renter income in Sacramento rose by 8% between 2000 and 2016. While Sacramento's median renter income was lower than the national average in 2000, by 2016 Sacramento's real median renter income had risen to $40,900, notably higher than the national average of $37,000. Median renter income grew rapidly after 2012, driven by an influx of high-income renters.

Source: CoStar, ACS, U.S. Census, HR&A analysis



Sacramento's growth in renter households was relatively evenly distributed across the income spectrum, with a slight skew toward high-income households. This indicates the availability of rental housing for a wide range of incomes in the city. However, as rents continue to rise, new low- and middle-income renters may be increasingly priced out of the city.

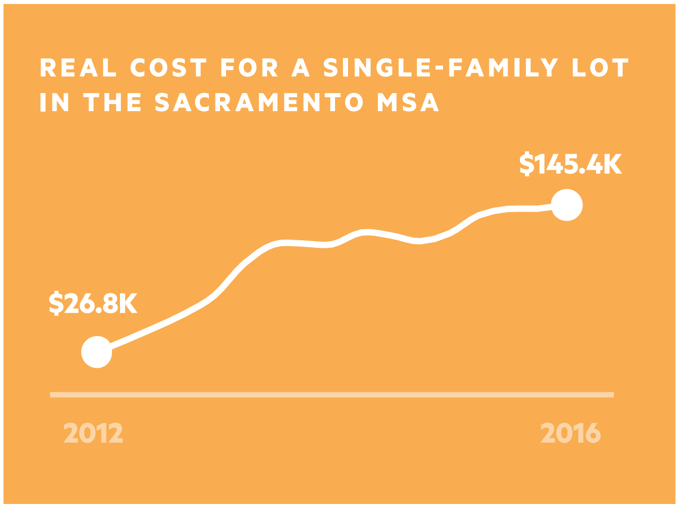


DRIVER

Rising Development Costs: Land use regulations and increases in land costs appear to be significant drivers of rising development costs in the Sacramento area.

When development costs increase, rents must increase to cover the higher costs. Development costs are driven by three main components – land, labor and materials, and regulatory soft costs – all of which are rising in Sacramento.

Real land costs increased by 440% between 2012 and 2016.[1] Rapidly increasing land costs indicate a constrained ability to develop. Easily developable land is commanding a premium, resulting in less development overall. Units that do get built must be priced higher to account for high land costs.



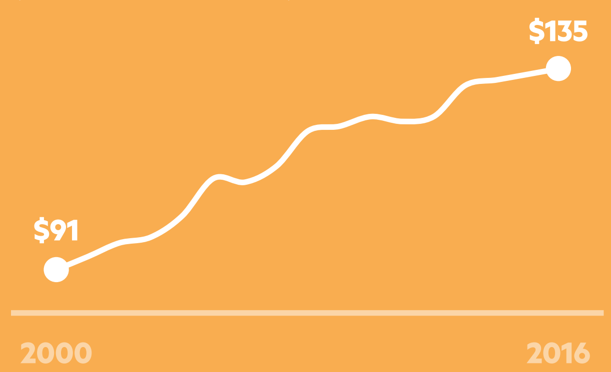
1 Real land costs fell substantially during and immediately after the Great Recession, contributing to the high percentage growth seen in the market between the bottom of the market in 2012 and 2016.

Source: Lincoln Institute of Land Policy, Craftsman Book Company, HR&A analysis

Local regulatory conditions appear to be a major factor contributing to Sacramento's affordability challenges. Policies that reduce the amount of land available for multifamily residential development, extend the development timeline through lengthy permit approval processes, and limit development potential can each result in higher development costs.

In the Sacramento area, real hard costs, or the cost of labor and materials, increased between 2000 and 2016. Real hard costs increased from $91 PSF to $135 PSF for multifamily buildings in real terms, amounting to an increase of 48%. Though this is below the average national growth of 57%, the increase is still likely to materially contribute to higher rents.

REAL MULTIFAMILY CONSTRUCTION COSTS IN SACRAMENTO (HARD COSTS PSF)



Rising real land and hard costs are driving Sacramento's rising rents. Land costs, in particular, are leading to rising development costs.

IMPACT

Rising Rents for Existing Rental Housing: Insufficient supply of multifamily housing has increased competition and rents for existing units.

Rents for existing units are increasing at a rate higher than the national rate. Between 2000 and 2016, the real gross median rent for units built before 2000 increased by 24% in Sacramento, compared to 13% in the U.S. overall. This indicates high demand for existing units throughout the market, likely due to insufficient supply of rental housing.

Between 2000 and 2016, the share of occupied rental units priced under $800 fell substantially – by 19.5 percentage points – far greater than that seen nationally. This trend is a product of rising rents due to demand for existing units and a lack of new supply.

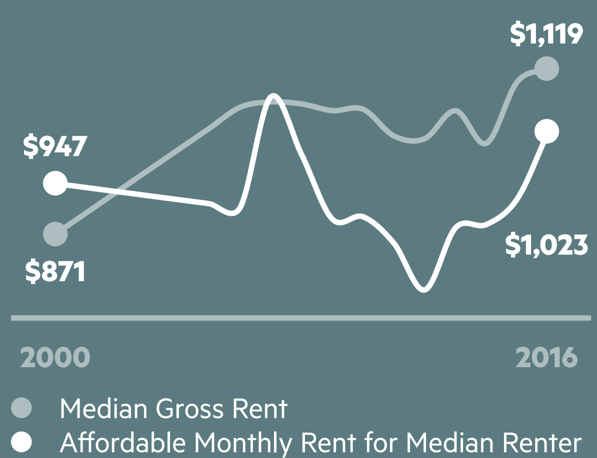
> 23%
> of occupied rental units were priced under $800 in 2016, **down from 42% in 2000.**

The real gross median rent in Sacramento increased by 28%, from $871 in 2000 to $1,119 in 2016. This is greater than the nationwide increase of 17%. Increases in rent are driven by a combination of increasing development costs – particularly land costs – and increasing competition for both new and existing rental units.

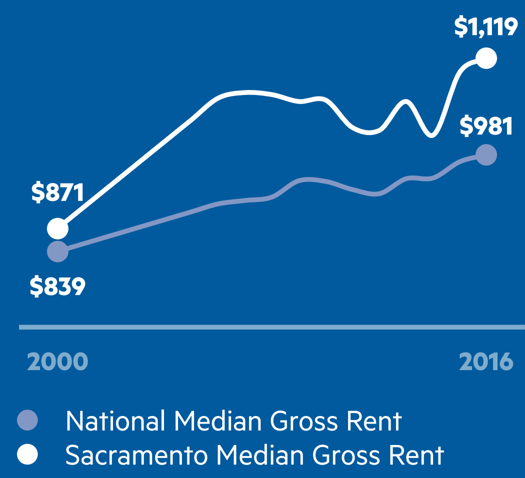
Source: CoStar, ACS, U.S. Census, HR&A analysis

Real median gross rent growth has surpassed median renter income growth. Median rent growth has outpaced increases in the median renter income. In 2000, the median renter was able to afford the median rent. By 2016, the median renter had to pay $100 more than they could afford without becoming cost-burdened.

MEDIAN GROSS RENT AND AFFORDABLE MONTHLY RENT FOR THE MEDIAN SACRAMENTO RENTER



REAL MEDIAN GROSS RENT IN SACRAMENTO AND THE NATION



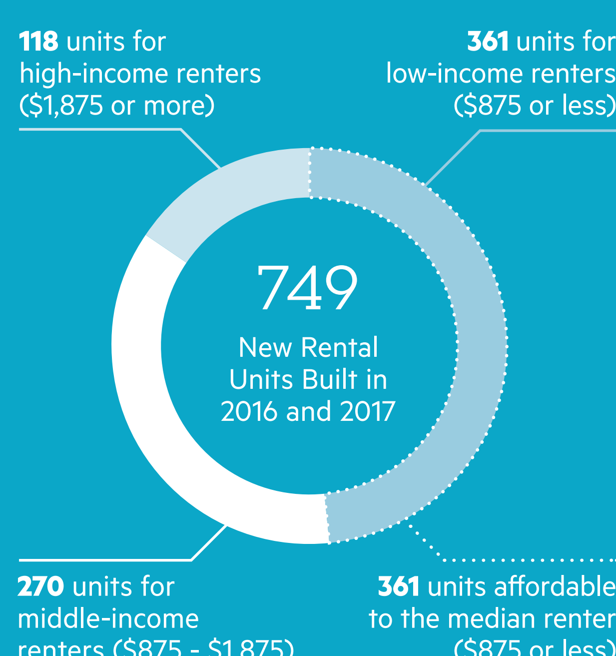
With few new deliveries to ease the shortage of supply, rents will likely remain elevated. Sacramento produced only 749 apartments in 2016 and 2017. Just half of the units were affordable to the median renter. The overall lack of development indicates a constrained environment for development.

IMPACT

Rapidly Rising Rents for New Rental Units: In addition to rapid rent growth for existing units, the low volume of newly delivered units has resulted in increasingly expensive rents.

The average asking rent for new multifamily units more than doubled between 2000 and 2016. In 2000, the asking rent for a unit in a new building was $767 in real dollars. In 2016, the rent for a new unit was $1,662, a 117% rise in real terms. This high rate of growth indicates a dramatic undersupply of new rental housing to meet existing demand.

ASKING RENT DISTRIBUTION OF MULTIFAMILY UNITS BUILT IN 2016 AND 2017



Note: Subsidized units are not included.

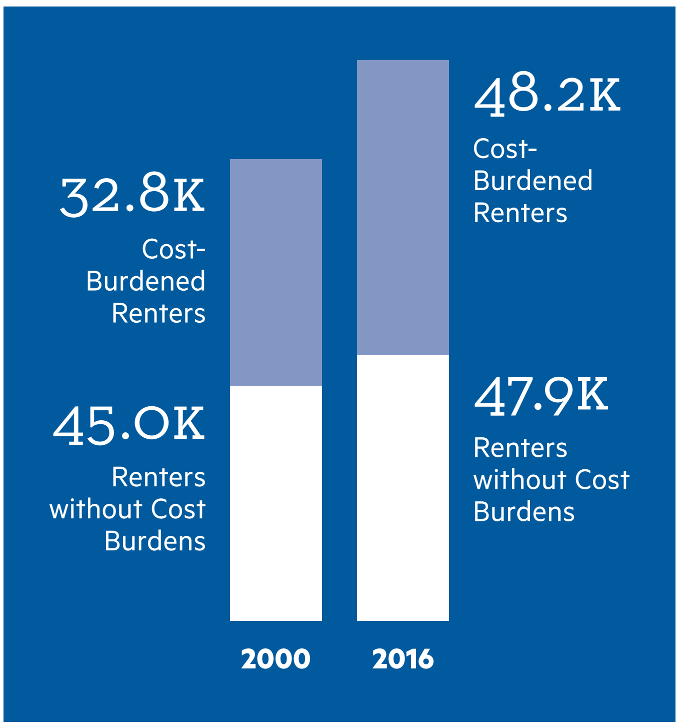
Source: CoStar, ACS, U.S. Census, HR&A analysis

IMPACT

Worsening Housing Affordability for Low- and Middle-Income Renters:

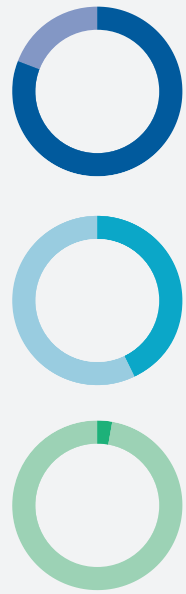
Rent burdens have grown particularly for middle-income households, leading many renter households to move outside of the city.

Almost half of Sacramento's renters were cost-burdened in 2016. The total share of rent-burdened households increased from 42% to 50% from 2000 to 2016.



The number of middle-income renters facing significant affordability challenges has more than doubled. Only 16% of middle-income renters were rent-burdened in 2000, compared to 43% by 2016. At the same time, the rent burden for low-income households has remained very high.

SHARE OF RENT-BURDENED HOUSEHOLDS BY INCOME IN 2016



81% of low-income renters were rent burdened, up from 77% in 2000.

43% of middle-income renters were rent burdened, up from 16% in 2000.

3% of high-income renters were rent burdened, up from 1% in 2000.

Low income: $0-35K | Middle income: $35-75K | High income: $75K+

Low-income renters are largely priced out of the city. Between 2000 and 2016, the number of low-income renters grew 14% in Sacramento and 46% in the surrounding metro area. Low-income renters tended to locate outside the city limits. This has been caused by insufficient housing supply in Sacramento, which drives competition for limited rental housing.

GROWTH IN THE NUMBER OF LOW-INCOME RENTERS

14%
Sacramento

46%
Metro

Source: CoStar, ACS, U.S. Census, HR&A analysis

NATIONAL MULTIFAMILY HOUSING COUNCIL

Case Studies: San Antonio

THE HOUSING AFFORDABILITY TOOLKIT

Developed in Partnership with
HR&A Advisors

San Antonio, TX

San Antonio has added a large quantity of multifamily rental housing and remains a relatively low-cost market where the median renter earns $36,000 a year.

However, as development costs rise, new rental housing has become increasingly out of reach for the city's large number of low-income renters.

$49,300	$36,000	231,100	122,300
MEDIAN HOUSEHOLD INCOME	MEDIAN RENTER HOUSEHOLD INCOME	TOTAL RENTER HOUSEHOLDS	TOTAL MULTIFAMILY RENTAL UNITS

DRIVERS

Strong Demand for Rental Housing from Low-Income Households

Over half of San Antonio's 60,000 new renter households from 2000 to 2016 were low-income. This trend signals both the city's relative affordability and its vulnerability to rent growth.

Rapid Development of Rental Housing

San Antonio's multifamily housing stock grew by 65% between 2000 and 2016, twice the national rate.

Low but Rising Development Costs

Real hard costs grew rapidly by 84%, from 8% below the national average to 8% above. Real land costs remain relatively low, though they have risen 275% from their lowest point after the Great Recession.

IMPACTS

Moderately Rising Rents

Competition has driven rents higher for all rental housing, including both new and existing stock. Between 2000 and 2016, real rents grew by 17% for newly built units and by 15% for units built before 2000. This indicates that even with rapid development, there is a lack of supply.

Falling Number of Lower-Rent Units

In San Antonio, the share of occupied rental units priced under $800 a month has fallen by 19.3 percentage points from 2000 to 2016.

Large-Scale Affordability Challenges Among Low-Income Renters

Housing costs remain relatively low in San Antonio, and rent growth has been modest. Nonetheless, while over one-third of renters were cost-burdened in 2000, nearly half were burdened in 2016. This increase was driven by the city's large number of low-income renters facing unprecedented affordability challenges.

Relevant Tools

For more information on relevant housing tools, programs, and policies, see the following pages:

- Public Land
- Tax Abatement

Cities Facing Similar Challenges

Cities facing similar housing affordability challenges include:

- El Paso, TX
- Nashville, TN
- Oklahoma City, OK
- Phoenix, AZ

DRIVER

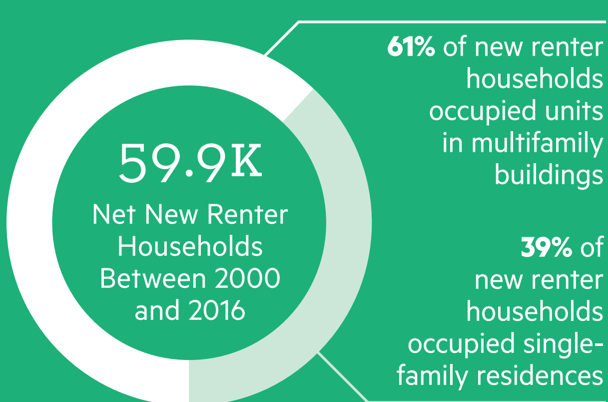
Strong Demand for Rental Housing from Low-Income Households:

San Antonio's rapid growth in renters has been driven by households earning less than $35,000.

Between 2000 and 2016, the number of renter households grew by about 60,000. This marks a 36% growth in the number of renter households, over ten percentage points higher than the national rate of 23%.

Of these renters, a majority chose to occupy multifamily units. The number of renter households occupying multifamily units rose by around 23,000, raising the rate of renter tenure in the city to 54% from 51%.

NET NEW RENTER HOUSEHOLDS BETWEEN 2000 AND 2016 BY UNITS IN OCCUPIED STRUCTURE



The number of low-income renters grew substantially between 2000 and 2016. More than half of all net new renters were low income. San Antonio attracted very few high-income renters and a moderate number of middle-income renters between 2000 and 2016. Low-income renters typically face higher affordability challenges, even with San Antonio's relatively low rent level.

FOR EVERY 10 NET NEW RENTER HOUSEHOLDS ADDED BETWEEN 2000 AND 2016

5.1 were **low income** | 3.1 were **middle income** | 1.8 were **high income**

Low income: $0-35K | Middle income: $35-75K | High income: $75K+

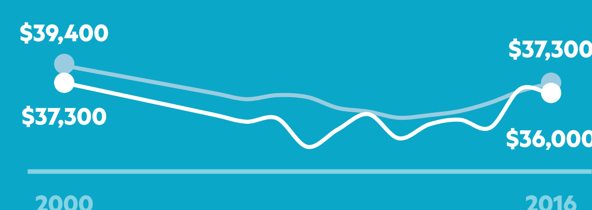
High-income renters have opted to live in surrounding metro areas. Between 2000 and 2016, the number of high-income renters grew by 42% in the city, compared to 79% elsewhere in the metro area. San Antonio defies the trend seen in many other cities, as wealthier renters do not show a preference for living within the city limits.

GROWTH IN THE NUMBER OF HIGH-INCOME RENTERS

42% San Antonio | 79% Surrounding Metro

Median income for renter households was 3% lower in 2016 than in 2000. This decline was most severe in the 2000s. Median renter income has since risen, though unsteadily.

REAL MEDIAN RENTER HOUSEHOLD INCOME IN SAN ANTONIO & THE NATION



- National Median Renter Income
- San Antonio Median Renter Income

Source: CoStar, ACS, U.S. Census, HR&A analysis

DRIVER

Rapid Development of Rental Housing: With low building costs and strong demand, San Antonio expanded its supply of multifamily units at a rapid pace.

The number of multifamily units in San Antonio grew by 65% between 2000 and 2016. During this period, the city delivered nearly 75,000 new units, though the net addition in units was lower due to obsolescence of existing housing stock. This growth has not entirely curbed a rise in affordability challenges, indicating that there is either unmet demand for rental housing or that rising development costs are driving up rents.

Vacancy rates for multifamily units increased slightly from 2000 levels. Moderate increases in the overall vacancy rate imply a slowdown of demand for rental units in San Antonio and dampen rising rents. This is likely due to the large number of rental units built between 2000 and 2016.

MULTIFAMILY VACANCY RATE IN SAN ANTONIO

DRIVER

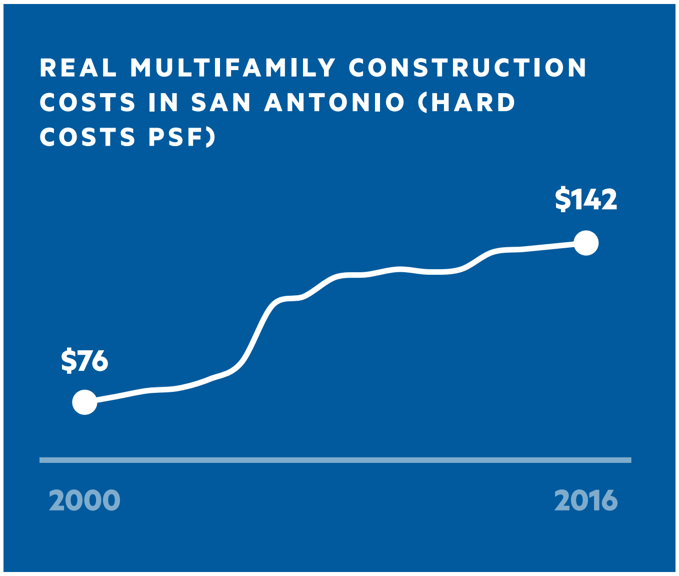
Low but Rising Development Costs: Low development costs have allowed for rapid and inexpensive building – but this trend is not indefinite.

When development costs increase, rents must increase to cover the higher costs. This results in decreasing affordability for renters. Development costs are driven by three main components: land costs, hard costs (labor and materials), and regulatory soft costs.

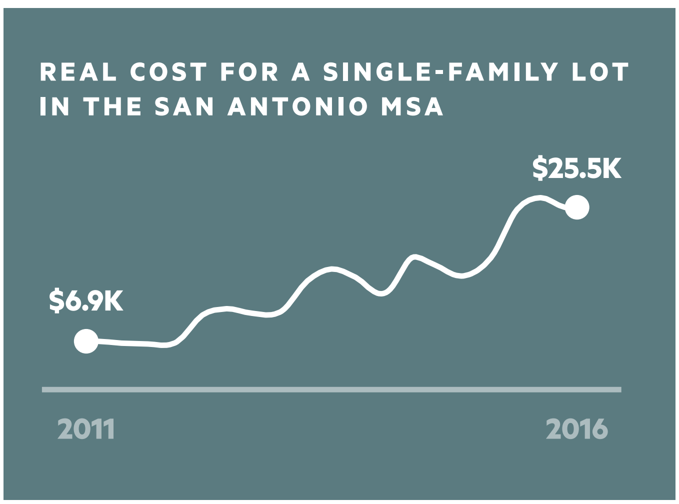
Local regulatory conditions further intensify the rising cost of development. Policies that reduce the amount of land available for multifamily residential development, extend the development timeline through lengthy permit approval processes, limit development potential through stringent parking requirements, and other local requirements can each result in higher development costs.

In the San Antonio area, hard costs, or the cost of labor and materials, have risen from a low level at a rate far higher than the national average. Hard costs increased from $76 PSF to $140 PSF for multifamily buildings in real terms, amounting to an increase of 84%. This increase is far higher than the national increase of 57% (from $83 to $130 PSF). A steep rise in development costs is likely driving an increase in rents citywide, exacerbating affordability challenges.

Source: Lincoln Institute of Land Policy, Craftsman Book Company, HR&A analysis



Real land costs in San Antonio have been volatile but recently on the rise. San Antonio's land costs are generally inexpensive. A large supply of developable land in San Antonio keeps land costs low by reducing competition for land. However, in recent years, they have grown 275% from their lowest point after the Great Recession, though only to a level that is still less than half of the national median of $67,000.[1]

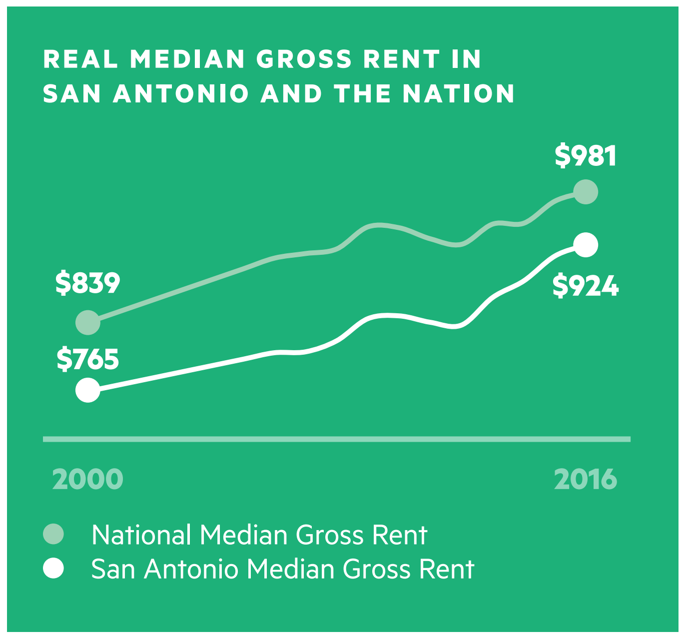


The steady growth in real hard costs has been the main cost driver behind rising rents. Developers must price rents for new units at a higher level.

IMPACT

Moderately Rising Rents for New and Existing Rental Units: Rents have grown at a steady pace, though remain lower than the national median.

The real gross median rent for all rental units in San Antonio grew by 21% between 2000 and 2016. The median rent increased from $765 in 2000 to $924 in 2016. This rate is slightly above the nationwide increase of 17%. The increase in the median gross rent is moderate, but trends indicate that affordability challenges will continue to increase as development costs rise and many renters remain low-income.



Real rents for existing units increased by 15%, a rate comparable to the nation. Between 2000 and 2016, the real gross median rent for units built before 2000 increased from $765 to $882, equating to about 1% growth per year. This is a modest rate of growth relative to the city's rapid population growth.

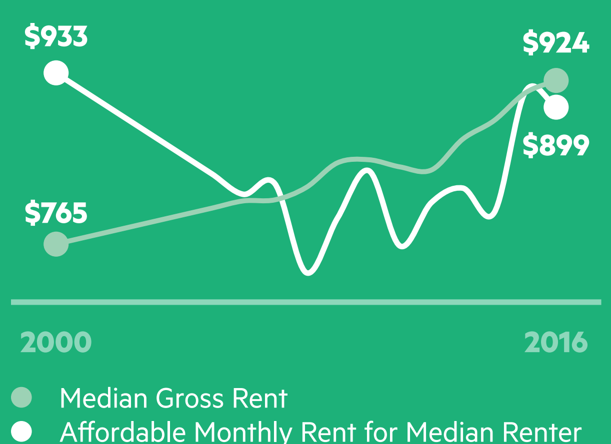
1 Real land costs fell substantially during and immediately after the Great Recession, contributing to the high percentage growth seen in the market between the bottom of the market in 2012 and 2016.

Source: CoStar, ACS, U.S. Census, HR&A analysis

The average asking rent for new apartments increased moderately. Rents increased by 17% from $1,040 for a new unit in 2000 to $1,221 in 2016. This rate of growth is significantly lower than the nationwide growth rate of 58%. Substantial development of new rental units has likely moderated rent growth for new units by providing adequate supply.

However, real median renter income growth has not kept pace with real median gross rent growth. In 2000, the median renter could afford the median gross rent with about a $170 surplus. In 2016, the median renter could no longer afford the median gross rent.

REAL MEDIAN GROSS RENT AND AFFORDABLE MONTHLY RENT FOR THE MEDIAN SAN ANTONIO RENTER HOUSEHOLD



IMPACT

Falling Number of Low-Rent Units:

Fewer existing and new units are affordable to the city's large number of low-income renters.

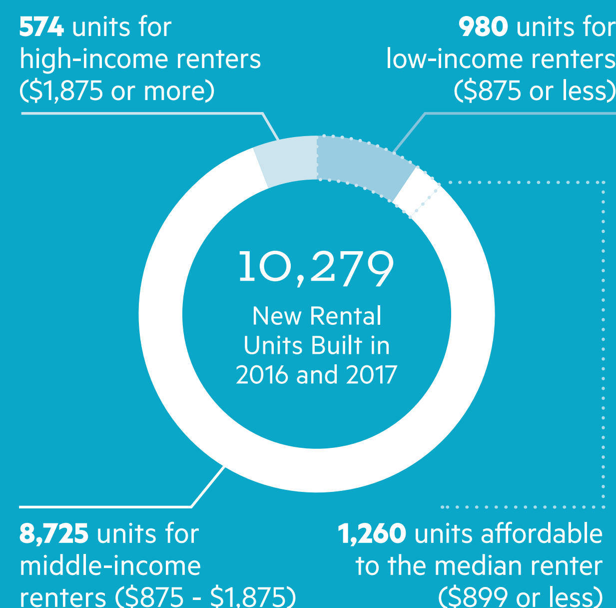
37%

of occupied rental units were priced under $800 in 2016, **down from 56% in 2000.**

The availability of rental units priced at under $800 in rent per month fell. While 56% of rental units in 2000 were priced below $800, this share fell to 37% by 2016 – a figure on par with the national average. San Antonio was able to retain many low-rent units due to already low rents in the city and substantial development of new rental units. These two factors help keep rents relatively low by reducing competition for existing units. Still, in a city of San Antonio's size, this amounted to 44,000 households being priced out of lower-rent units.

New units produced in 2016 and 2017 were largely affordable to middle-income renters but not low-income renters. Of these new units, 85% of units were affordable to middle-income renters. Despite this, only about 12% of new units were affordable to the median renter and rented for under $899. On the whole, new development has remained fairly affordable relative to many other parts of the country.

ASKING RENT DISTRIBUTION OF MULTIFAMILY UNITS BUILT IN 2016 AND 2017



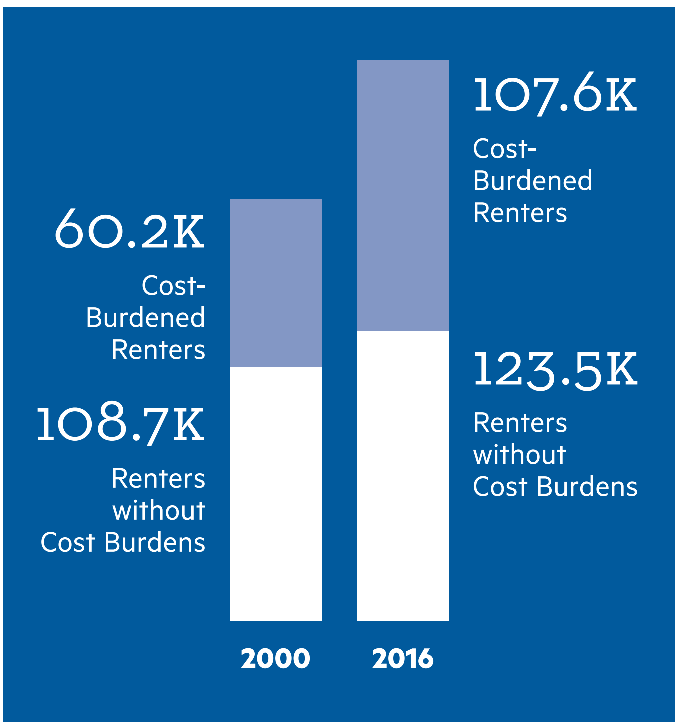
Note: Subsidized units are not included.

Source: CoStar, ACS, U.S. Census, HR&A analysis

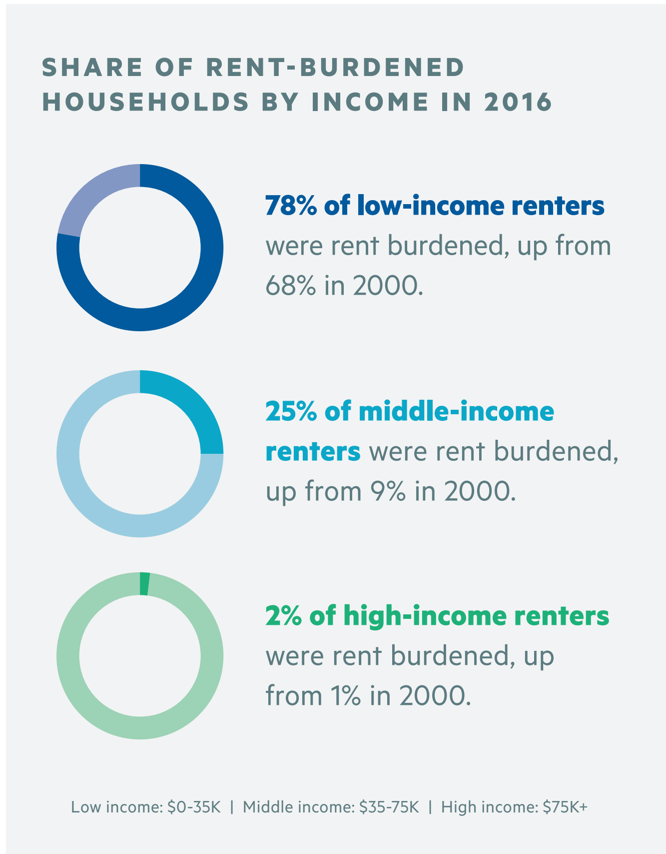
IMPACT

Large-Scale Affordability Challenges Among Low-Income Renters: Housing costs remain relatively low, even for middle-income renters. But cost burdens have risen for the city's large volume of low-income renters.

Like renters nationwide, renters in San Antonio are increasingly struggling to afford rent. The total share of rent-burdened households increased from 36% to 47% between 2000 and 2016. This equates to 47,400 new burdened renter households. Growing affordability challenges are driven by the growth in the number of low-income renters, as well as rising development costs.



Low- and middle-income households saw significant increases in affordability challenges between 2000 and 2016. The share of rent-burdened, low-income households grew from 68% in 2000 to 78% in 2016. The share of rent-burdened, middle-income households grew from 9% to 25%. This is particularly impactful due to the growing number of low- and middle-income renters in San Antonio.



Source: CoStar, ACS, U.S. Census, HR&A analysis

NATIONAL MULTIFAMILY HOUSING COUNCIL

Case Studies: Seattle

THE HOUSING AFFORDABILITY TOOLKIT

Developed in Partnership with
HR&A Advisors

Seattle, WA

Despite significant levels of new development, historic growth in high-income renters has pushed up rents for new and existing units to persistently high levels.

Seattle's housing affordability has been uniquely strained by the demographic makeup of its new renter households. Low- and middle-income renters represent a decreasing share of the population, and those who remain face a high risk of displacement and rent burden.

$83,500	$57,000	172,000	123,100
MEDIAN HOUSEHOLD INCOME	MEDIAN RENTER HOUSEHOLD INCOME	TOTAL RENTER HOUSEHOLDS	TOTAL MULTIFAMILY RENTAL UNITS

DRIVERS

Unprecedented Demand, Especially from High-Income Households
The city's record growth in high-income renters has provided ample demand for new and existing units. This demand has kept pace with a rapid growth in supply, as vacancy rates have stayed low despite 50,000 new units produced between 2000 and 2016.

High and Rising Development Costs
Seattle's land costs rose by about 80% from their trough in 2011, to reach a level over four times the national median by 2016. During this period, construction costs continued to rise from an already high level.

IMPACTS

Rapidly Rising Rents for Existing Rental Housing
As developers and property managers raise rents in response to strong and ongoing demand from high-income renters, Seattle's existing stock of low-rent units is rapidly diminishing. The share of occupied rental units priced under $800 in rent fell by 14.5 percentage points since 2000.

Persistently High Rents for New Rental Housing
New rental housing is necessitating high rents due to rapidly rising land costs and a large pool of high-income renter demand. Real rent growth from 2000 to 2016 appears modest (11%) but only because rents were already quite high in 2000.

Increasingly Unaffordable for Middle-Income Renters
Seattle's rental housing has long been unaffordable for low- and even middle-income households, but the situation has significantly worsened for existing and potential middle-income households, over half of whom are now cost-burdened.

Relevant tools
For more information on relevant housing tools, programs, and policies, see the following pages:

- Public Land
- By-Right
- Tax Abatement
- Inclusionary Zoning

Cities Facing Similar Challenges
Cities facing similar housing affordability challenges include:

- Washington, DC
- Boston, MA
- San Francisco, CA
- San Jose, CA

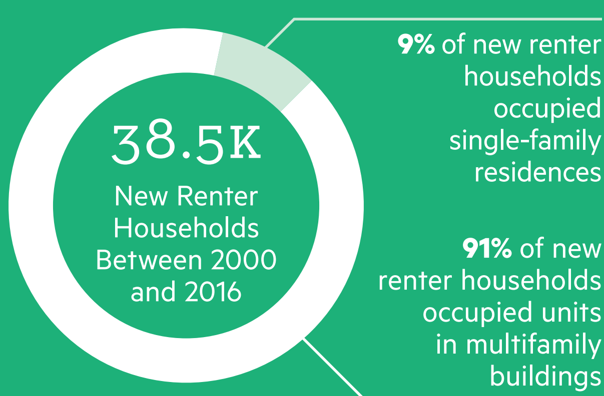
DRIVER

Unprecedented Demand for Rental Housing, Especially from High-Income Renters: Seattle's economic growth has led to an unprecedented level of demand from high-income renter households.

Seattle added 38,500 renter households between 2000 and 2016. The growth in renter households has been driven by both an influx of new renter households and an increase in renting among existing and newly formed households in the city.

The majority of new renters occupied apartments. This amounted to an increase of 35,000 in the number of occupied multifamily units. This trend indicates both a preference for and growing supply of higher density housing.

NET NEW RENTER HOUSEHOLDS BETWEEN 2000 AND 2016 BY UNITS IN OCCUPIED STRUCTURE



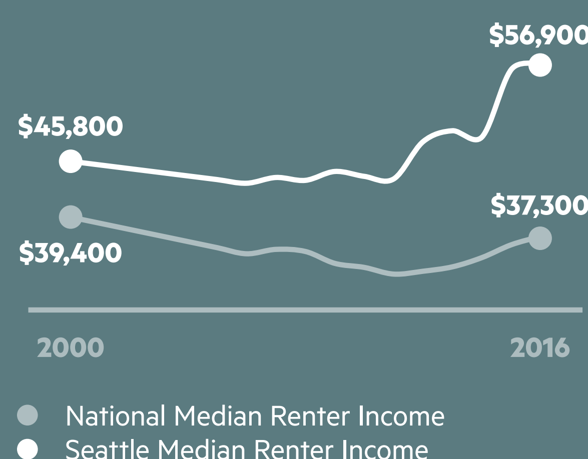
The number of high-income renters grew substantially between 2000 and 2016. More than eight out of ten renters added in Seattle during this period were high-income renters; this amounts to an increase of 33,000 in high-income renter households. Fewer than two in ten new renters were low or middle income. This degree of income growth places considerable upward pressure on rents.

FOR EVERY 10 NET NEW RENTER HOUSEHOLDS ADDED BETWEEN 2000 AND 2016

Low income: $0-35K | Middle income: $35-75K | High income: $75K+

Between 2000 and 2016, the real median income for renter households increased by 24%. In contrast, the real national median declined over the same period. Seattle's rapid increase is attributable to its historic influx of high-income renters.

REAL MEDIAN RENTER HOUSEHOLD INCOME IN SEATTLE AND THE NATION



Source: CoStar, ACS, U.S. Census, HR&A analysis

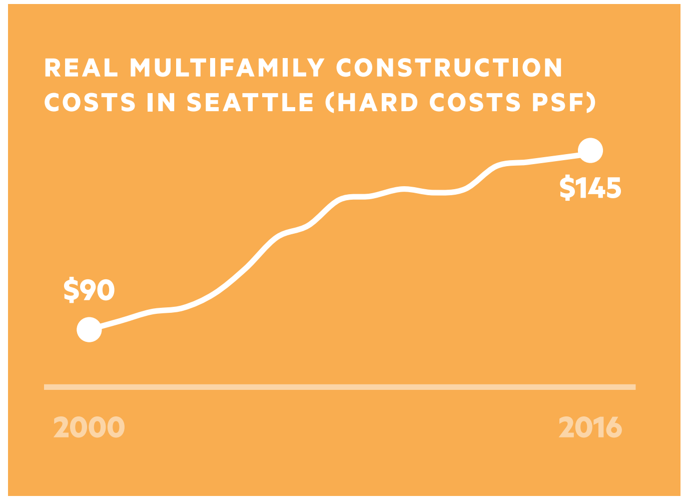
DRIVER

High and Rising Development Costs: Seattle has experienced particularly high growth in land costs, contributing to rent growth across the city.

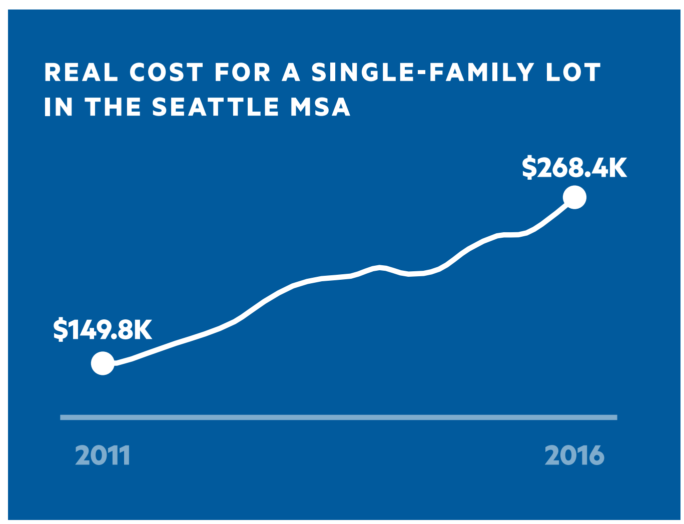
When development costs increase, rents must increase to cover the higher costs. As a result, rental units tend to become less affordable. Development costs are driven by three main components: land, labor and materials, and regulatory soft costs.

Local regulatory conditions further intensify the rising cost of development. Policies that reduce the amount of land available for multifamily residential development, extend the development timeline through lengthy permit approval processes, limit development potential through stringent parking requirements, and other local requirements can each result in higher development cost.

In the Seattle area, hard costs, or the cost of labor and materials, have remained consistently higher than the nation since 2000. Hard costs increased from $90 PSF to $144 PSF for multifamily buildings in real terms, amounting to an increase of 60%.



Already high land costs in Seattle keep rising. Real land costs increased by 79% between 2011 and 2016. This growth is especially significant given Seattle's already high land costs. In 2016, the price for a single-family lot in Seattle was about four times the national median. High land costs contribute to the overall increase in development costs, which in turn increase the need for higher rents to ensure project feasibility.



Source: Lincoln Institute of Land Policy, Craftsman Book Company, HR&A analysis

IMPACT

Rising Rents for Existing Rental Housing: Intense demand from increasingly high-income households has contributed to rising rents for even older and less ideally located housing.

Rents for existing units are increasing at a similar rate as the overall median rent, an indicator of a supply shortage. Between 2000 and 2016, the real gross median rent for units built before 2000 increased by 38%. This is nearly three times the national growth rate of 13%. This growth implies there is high demand for almost all rental housing regardless of location, vintage, or quality.

Between 2000 and 2016, the share of occupied units renting below $800 fell by 14.5 percentage points. This trend is especially stark given that Seattle's stock of lower-rent units was already very low – at 28% in 2000. Now, only 14% of all occupied rental units in Seattle are renting below $800 a month, compared to the nationwide average of 37%. This trend indicates intense demand pressure on rental units, driving up rents and decreasing overall affordability.

> 14%
>
> of occupied rental units were priced under $800 in 2016, **down from 28% in 2000.**

This is despite the city's rapid increase in its rental housing supply. Seattle's multifamily housing stock expanded by 58% between 2000 and 2016, compared to the nationwide rate of 30%. Still, market trends indicate that Seattle is not delivering enough housing to meet skyrocketing demand in the city.

IMPACT

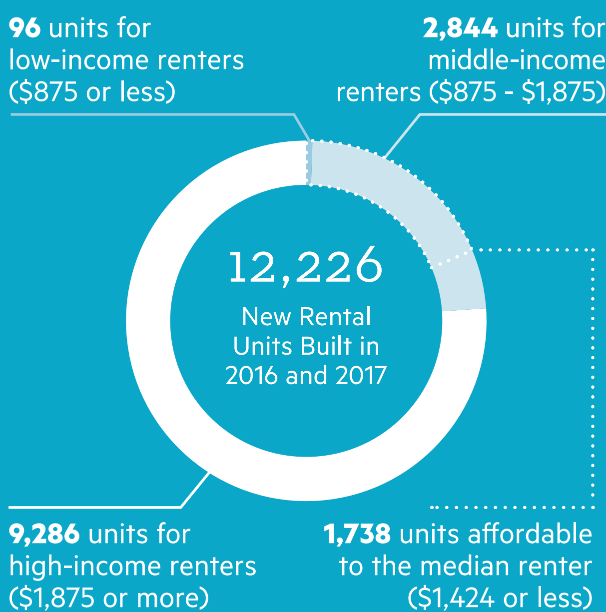
Persistently High Rents for New Rental Housing: Intense demand and high development costs have contributed to Seattle's rising rents.

The real average asking rent for new multifamily apartment units increased by 11%. Rent increased from $1,608 in 2000 to $1,791 in 2016 for new apartments. Seattle has not seen as drastically sharp an increase in rent for new units compared to existing units because the average asking rent for new units was already high in 2000. High and rising development costs, as well as record demand, contribute to high rents for new development.

76% of units delivered in 2016 and 2017 were only affordable to high-income renters. This equates to about 9,300 new units renting for more than $1,875 per month. Only 14% of new units rented for under $1,424 per month and were affordable to the median renter, and 0.7% of units were affordable to low-income renters.

Source: CoStar, ACS, U.S. Census, HR&A analysis

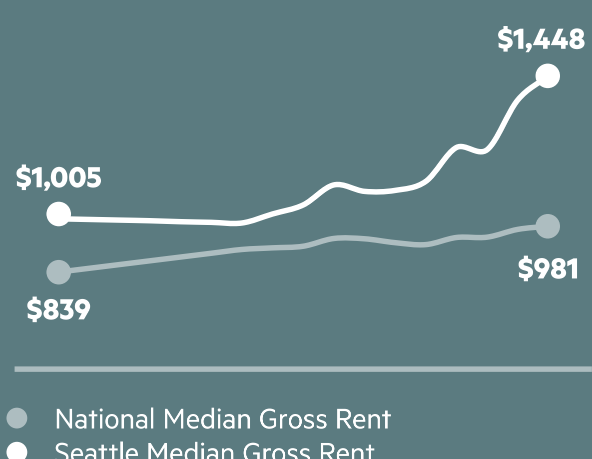
ASKING RENT DISTRIBUTION OF MULTIFAMILY UNITS BUILT IN 2016 AND 2017



Note: Subsidized units are not included.

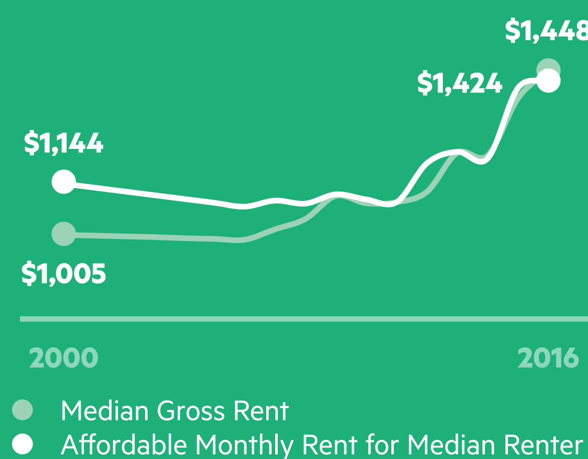
The real gross median rent for all renter housing in Seattle increased by 44%. The median rent increased from $1,005 to $1,448 between 2000 and 2016. This is more than double the nationwide growth rate of 17%. The substantial increase in the median gross rent is due to unmet demand for rental housing, which increases competition and drives up rents.

REAL MEDIAN GROSS RENT IN SEATTLE AND THE NATION



Rent growth has been so high that even a rapid increase in median renter income has not kept pace with median rents. In 2000, the median renter could afford the median gross rent with a $140 surplus. In 2016, the median renter could no longer afford the median gross rent.

REAL MEDIAN GROSS RENT AND AFFORDABLE MONTHLY RENT FOR THE MEDIAN SEATTLE RENTER HOUSEHOLD

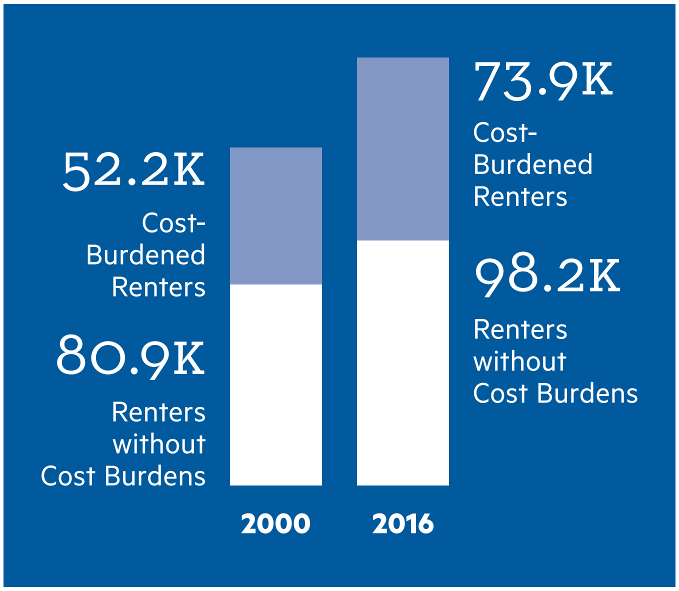


IMPACT

Increasingly Unaffordable for Middle-Income Renters: Middle-income and low-income renters are increasingly unable to afford housing in Seattle.

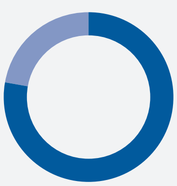
Though the overall share of rent-burdened households is relatively low due to the large number of renters with high incomes, rent burdens have steadily grown. Between 2000 and 2016, the number of rent-burdened households increased by 42%.

Source: CoStar, ACS, U.S. Census, HR&A analysis

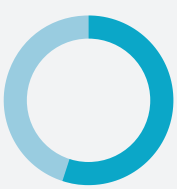


Middle-income households are experiencing growing affordability challenges. The rate of rent-burdened middle-income households grew from 26% in 2000 to 55% in 2016. In addition, more than three quarters of low-income renters were burdened in 2016. Seattle exhibits high rates of cost burden across all of its income groups relative to the nation.

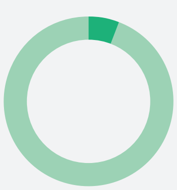
SHARE OF RENT-BURDENED HOUSEHOLDS BY INCOME IN 2016



78% of low-income renters were rent burdened, up from 76% in 2000.



55% of middle-income renters were rent burdened, up from 26% in 2000.



6% of high-income renters were rent burdened, up from 3% in 2000.

Low income: $0-35K | Middle income: $35-75K | High income: $75K+

Seattle is adding very few middle-income renters in the city. Between 2000 and 2016, the number of middle-income renters grew by only 3% in Seattle and by 20% within the metro. These rates of growth are considerably low when compared to the rates of growth in high-income renters. Middle-income renters are likely choosing to locate outside of Seattle and even outside of the broader metro region, due to rising housing costs.

GROWTH IN THE NUMBER OF MIDDLE-INCOME RENTER HOUSEHOLDS

3%
Seattle

20%
Metro

GROWTH IN THE NUMBER OF HIGH-INCOME RENTER HOUSEHOLDS

106%
Seattle

55%
Metro

Source: CoStar, ACS, U.S. Census, HR&A analysis

NATIONAL
MULTIFAMILY
HOUSING
COUNCIL

Case Studies: Tampa

THE HOUSING AFFORDABILITY TOOLKIT

Developed in Partnership with
HR&A Advisors

Tampa, FL

Tampa's low cost of living has long been attractive to lower-income renters, but rising rents have begun to erode this affordability.

Rents for both new and existing rental housing have grown burdensome for the city's large base of low- and middle-income renters. However, the city has continued to attract a broad base of renters, at a rate similar to metro areas surrounding the city.

$50,400	$35,000	79,900	41,800
MEDIAN HOUSEHOLD INCOME	MEDIAN RENTER HOUSEHOLD INCOME	TOTAL RENTER HOUSEHOLDS	TOTAL MULTIFAMILY RENTAL UNITS

DRIVERS

Rapid Increase in Low- and High-Income Renters
Between 2000 and 2016, the number of renter households grew by 43%, nearly double the national rate of 23%. Over half were low-income. Meanwhile, though high-income renters do not comprise a large share of Tampa's renters, they have increased by 73%, more than ten times the national rate.

Rising Development Costs
Tampa's construction costs grew rapidly from 2000 to 2016. Land costs remain low but have rebounded 600% from a low point in 2011.

IMPACTS

Significant Decrease in Supply of Lower-Rent Units
Demand has driven rents higher for all rental housing, including existing stock. In Tampa, the share of occupied rental units priced at under $800 per month fell by 26.8 percentage points from 2000 to 2016, compared to 12.2 percentage points nationally.

Rising Rents for New Rental Housing
As development costs rise, and as developers deliver higher-end apartments, real rents for apartments have risen by 57%, albeit to a relatively affordable rent level of $1,430.

Worsening Housing Affordability for Middle-Income Renters
The number of cost-burdened renters grew by 86%, well above the national average of 55%. This is largely driven by the increase in the number of cost-burdened middle-income renters, which has more than tripled.

Relevant Tools
For more information on relevant housing tools, programs, and policies, see the following pages:

- Public Land
- By-Right
- Tax Abatement

Cities Facing Similar Challenges
Cities facing similar housing affordability challenges include:

- Las Vegas, NV
- Riverside, CA
- Spokane, WA
- Charleston, SC

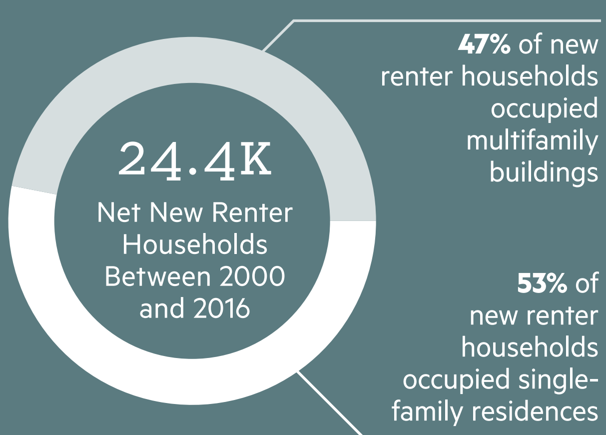
DRIVER

Rapid Increase in Low- and High-Income Renters: Strong household growth from low-income renters reflects the city's relative affordability, though rapid growth in high-income renters may challenge that.

The number of renter households grew by 24,400 between 2000 and 2016. This amounts to a 43% increase, almost double the national average of 23%.

The majority of new renter households occupied non-multifamily buildings. This trend is unlike most cities, where new renters occupy densifying areas of the city. The large share of single-family renters indicates a substantial conversion of single-family housing from ownership to rental. This may indicate an undersupply of multifamily housing, at least at specific price points.

NET NEW RENTER HOUSEHOLDS BETWEEN 2000 AND 2016 BY UNITS IN OCCUPIED STRUCTURE



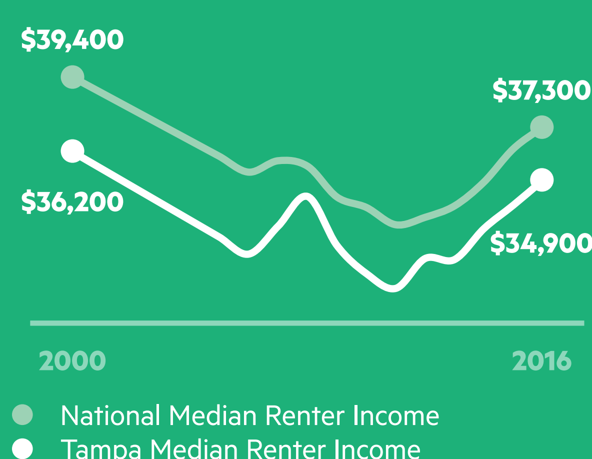
Low-income renters in Tampa made up more than half of all new renters added between 2000 and 2016. Middle- and high-income renters were added in equal amounts with each group representing one quarter of net new renters. Notably, high-income renters had the highest rate of growth due to the relatively small number of high-income renters in 2000.

FOR EVERY 10 NET NEW RENTER HOUSEHOLDS ADDED BETWEEN 2000 AND 2016

Low income: $0-35K | Middle income: $35-75K | High income: $75K+

Between 2000 and 2016, the real median renter income in Tampa decreased by 3.5%, though it has been rising in recent years. As with many cities nationwide, the median renter income has risen in Tampa over the last few years, but these gains have still not surpassed the overall decline which began in the early 2000s and continued during the Great Recession.

MEDIAN RENTER HOUSEHOLD INCOME IN TAMPA AND THE NATION



Source: CoStar, ACS, U.S. Census, HR&A analysis

High-income renters are the fastest-growing income segment in Tampa, growing by 73% between 2000 and 2016. This growth, though small in absolute terms, marks a deviation from affordability. The increase in high-income renters has driven an emerging stock of high-end development.

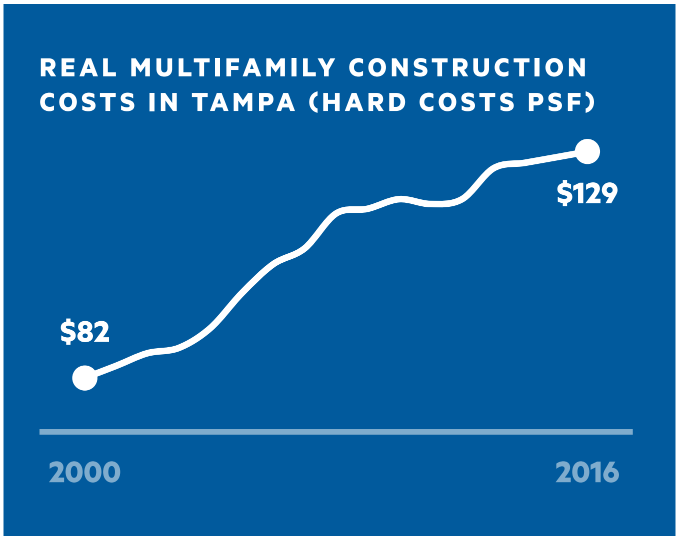
DRIVER

Rising Development Costs: Tampa's previously low construction costs have risen rapidly, contributing to rent increases.

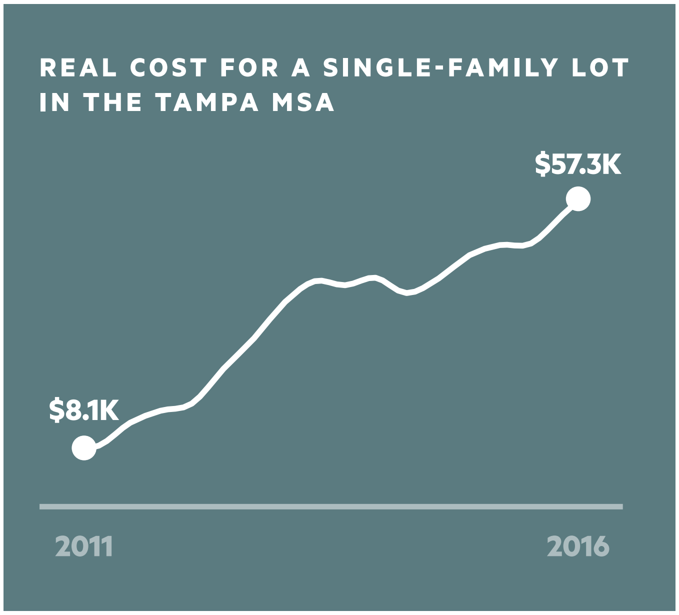
When development costs increase, developers must increase rents in order to cover the higher costs. Development costs are driven by three main components: land, labor and materials, and regulatory soft costs.

Local regulatory conditions further intensify the rising cost of development. Policies that reduce the amount of land available for multifamily residential development, extend the development timeline through lengthy permit approval processes, limit development potential through stringent parking requirements, and other local requirements can each result in higher development costs.

In the Tampa area, real hard costs, or the cost of labor and materials, increased significantly between 2000 and 2016. Real hard costs increased from $82 PSF to $129 PSF for multifamily buildings in real terms, amounting to a 57% increase. Nationwide increases in the cost of building materials and a tight labor market have led to increases well above the rate of inflation.



Real land costs in Tampa increased 28% between 2000 and 2016 but were still below the peak reached in 2006. Having rebounded somewhat since the Great Recession, real land costs are still well below peak levels. Growth in land costs since 2011 indicates that land is becoming increasingly difficult to acquire in the Tampa market.



Rising real hard costs are the main driver behind rising rents. Land costs, which are far below the 2006 peak, likely play a smaller role.

Source: Lincoln Institute of Land Policy, Craftsman Book Company, HR&A analysis

IMPACT

Significant Decrease in Supply of Lower-Rent Units: Rising rents for existing units have halved the number of lower-rent units in what was once an affordable market.

Rents for existing units are increasing at a rate above the national rate. Between 2000 and 2016, the real gross median rent for units built before 2000 increased by 23%. This is significantly higher than the nationwide growth rate of 13%. Rent growth for existing units indicates strong demand for rental housing and an insufficient supply, as competition for scarce units drives up rents.

The availability of rental units priced at under $800 in rent per month fell dramatically. While 53% of occupied rental units in 2000 were priced below $800, this share fell to 27% by 2016 – a figure well below the national average.

> 27%
>
> of occupied rental units were priced under $800 in 2016, **down from 53% in 2000.**

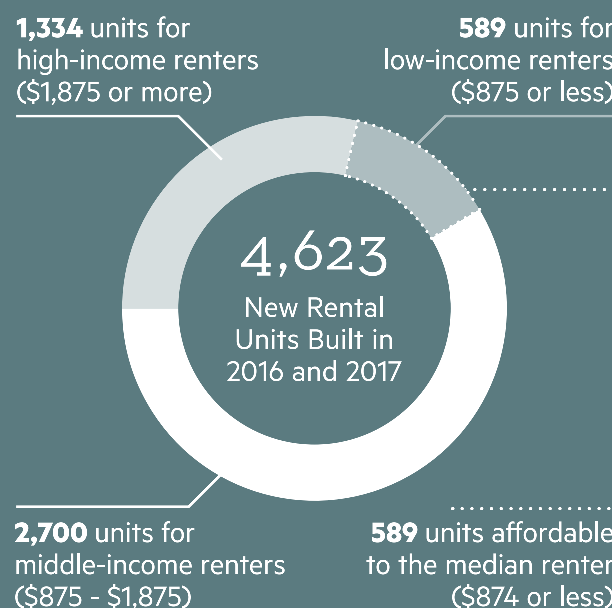
IMPACT

Rising Rents for New Rental Housing: Rents for new housing have risen rapidly, albeit from very affordable levels.

The average asking rent for new multifamily apartments increased rapidly between 2000 and 2016. In 2000, asking rent for a unit in a new building was $912 in real dollars. In 2016, the rent for a unit in a new building was $1,429, reflecting a 57% rise in real terms. This spike in rent for new units indicates a large influx of high-end development.

Of the units built in 2016 and 2017, 87% were not affordable to the median renter. In those two years, 589 units were delivered with average asking rents less than $874, the monthly rent affordable to the median renter in 2016. In contrast, 4,034 units were delivered with asking rents greater than $874, while 29% of all units (or 1,334 units) were priced to be affordable only for high-income renters, with rents above $1,875.

ASKING RENT DISTRIBUTION OF MULTIFAMILY UNITS BUILT IN 2016 AND 2017

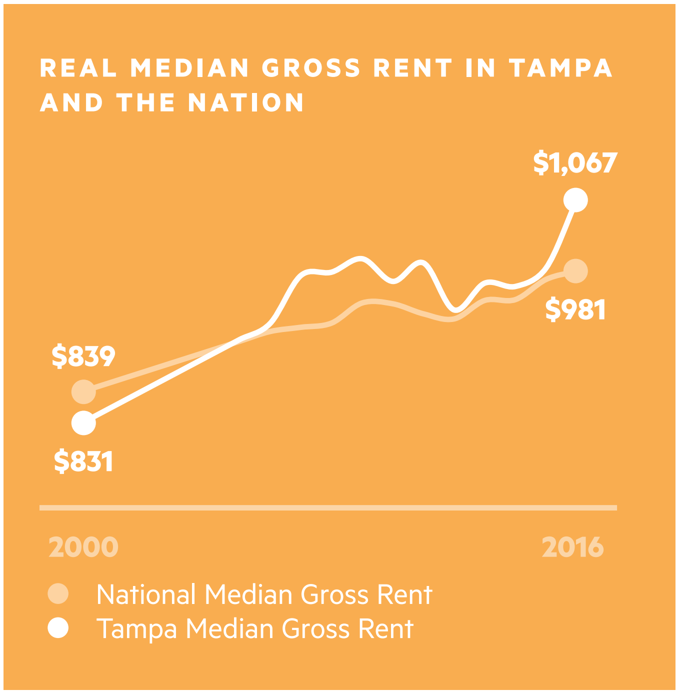


Note: Subsidized units are not included.

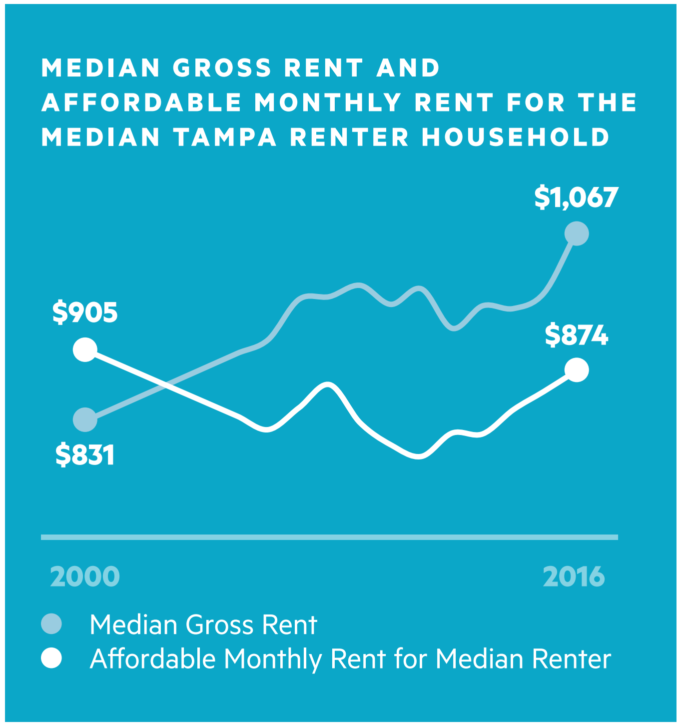
Source: CoStar, ACS, U.S. Census, HR&A analysis

A large influx of new rental housing has contributed to a rise in the median rent in Tampa. Between 2000 and 2016, Tampa's rental market experienced growth at a rate far above the national rate. The city delivered nearly 30,000 new multifamily rental units, which marks a 40% increase in the multifamily rental housing stock. Newer rental housing typically has higher rents, contributing to Tampa's median rent increase.

Real gross median rent in Tampa increased by 28% from $831 in 2000 to $1,067 in 2016, much higher than the nationwide increase of 17%. High and rising development costs and substantial unmet demand for rental housing in the market contributed to rising rents.



The growth in real median gross rent has far surpassed median renter income growth. In recent years, the median renter income has seen sustained growth, though it is still lower than it was in 2000 due to the large net increase in low-income renter households. This contributes to affordability challenges throughout Tampa.

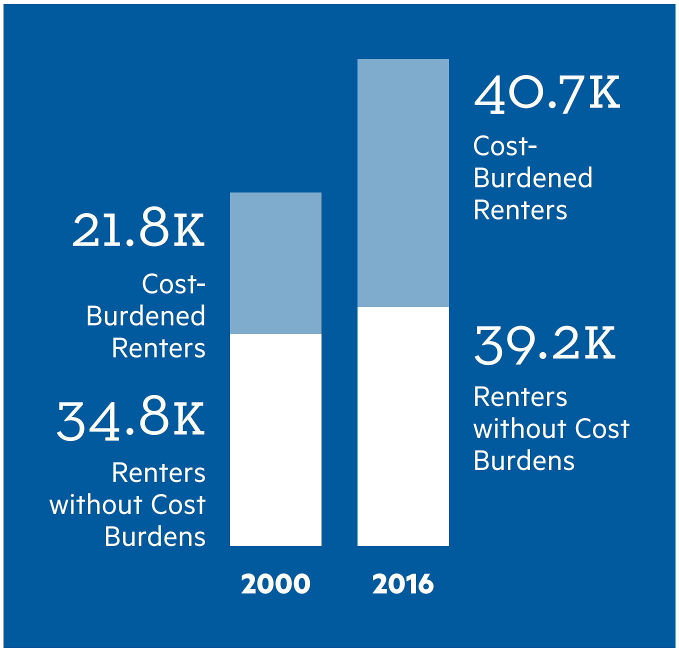


IMPACT

Worsening Housing Affordability for Middle-Income Renters: Rising rents and low renter incomes have led to an increasing cost burden for both low- and middle-income renters.

Tampa saw significant increases in the share of rent-burdened households. The number of cost-burdened renter households grew by 86%, far higher than the national rate of 55%. More than half of all renters are now cost-burdened, up from 39% of renters in 2000. Between 2000 and 2016, Tampa added 18,900 net new rent-burdened households, representing 81% of all net new renters.

Source: CoStar, ACS, U.S. Census, HR&A analysis



Low and middle-income renters in Tampa experienced large increases in affordability challenges. Of Tampa's middle-income renters, 38% were cost-burdened in 2016 versus 13% in 2000. More than three out of every four (78%) low-income renters were rent burdened in 2016. Tampa's affordability challenges reflect nationwide trends but to a higher degree.

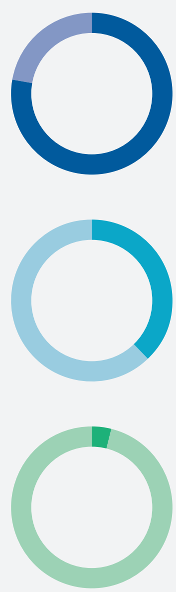
Tampa continues to add households at all income levels, though middle-income renters are growing more quickly in surrounding metro areas. All renter income groups saw substantial growth in Tampa – low-income renters grew by 40%, middle-income by 28%, and high-income by 73%.

GROWTH IN THE NUMBER OF MIDDLE-INCOME RENTERS

28%
Tampa

45%
Surrounding Metro

SHARE OF RENT-BURDENED HOUSEHOLDS BY INCOME IN 2016



78% of low-income renters were rent burdened, up from 68% in 2000.

38% of middle-income renters were rent burdened, up from 13% in 2000.

4% of high-income renters were rent burdened, up from 1% in 2000.

Low income: $0-35K | Middle income: $35-75K | High income: $75K+

Source: CoStar, ACS, U.S. Census, HR&A analysis

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Methodology

THE HOUSING AFFORDABILITY TOOLKIT

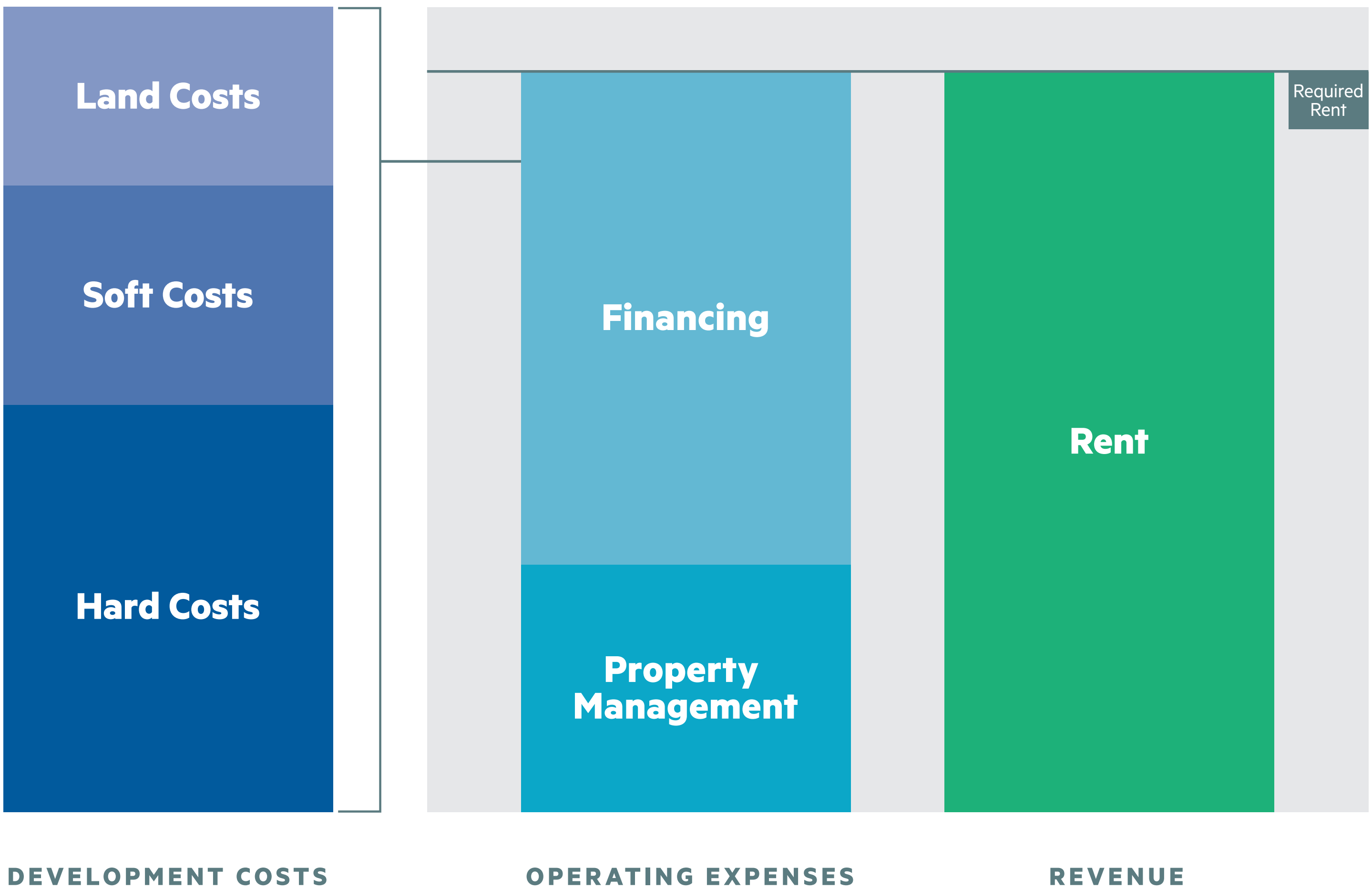
Developed in Partnership with
HR&A Advisors

The Apartment Development Framework is intended to provide a simplified structure of a typical apartment cash flow to help demonstrate how external cost drivers can impact rents and development feasibility. This framework builds off work from the Urban Land Institute and Enterprise Community Partners' 2014 report "Bending the Cost Curve"[1], as well as Rick Peiser's "Professional Real Estate Development: The ULI Guide to Business" from 2012.[2]

To test the effect of various regulatory and market impacts on a prototypical apartment development, HR&A developed a high-level proforma to model a hypothetical apartment's financial return based on costs, revenues, and capital assumptions.

Developing the Framework

The apartment development framework was a result of an iterative design process that builds off the understanding that development costs influence the operating costs for a property, which determine the rent required to make a project feasible. Constructing new apartments incurs **development costs** – land costs, hard costs (labor and building materials), and soft costs (design, entitlements, and permitting) that are largely paid for with external financing. As development costs increase, more financing is required to cover these costs – increasing overall operating expenses. In turn, these operating expenses are supported by the revenue that a project can generate through rent. As operating expenses increase, the rent must increase in tandem to support the project and maintain feasibility.



1 Jakabovics, Andrew, Lynn M. Ross, Molly Simpson, and Michael Spotts. Bending the Cost Curve: Solutions to Expand the Supply of Affordable Rentals. Washington, DC: Urban Land Institute, 2014.

2 Peiser, Richard B., and David Hamilton. Professional Real Estate Development: The ULI Guide to Business. Washington, DC: Urban Land Institute, 2012.

Development Costs

Costs associated with planning, designing, and constructing apartments. These costs are further divided into three categories:

LAND	Purchase of land and associated costs such as legal and transfer taxes.
SOFT COSTS	Design, entitlements (legal approval to develop property), building permits, and other non-direct construction costs. This also includes a developer fee – a payment made to the developer in exchange for overall project management and execution, typically 3% to 5% of a project's hard and soft costs.
HARD COSTS	Labor and building materials.

1 Wheaton, Urban Economics and Real Estate Markets, 1996.
2 National Building Cost Manual, 2018.

Operating Expenses

Costs associated with operating and maintaining apartments after construction.

FINANCING	Although every project has a unique capital structure, it is typically comprised of debt and equity. Debt is secured in the form of loans from a financial institution to support the building and comprises 50% to 70% of most projects. The remaining costs are paid for by equity – an investment in the project in exchange for an ownership stake of the resulting revenue. Equity investors expect to receive competitive returns in exchange for taking on the risk of investing in the project. In a typical capital structure, the rate of return is proportional to the level of risk the investment holds. Upon receiving revenue, a project will pay their debt obligations first and will use remaining funds to pay equity investors. As such, the interest rate on debt is lower than desired equity returns, set by macroeconomic market expectations and perceived risk. This process is highly simplified – a typical project often has a far more complicated capital structure with mezzanine financing, preferred equity returns, and other financing sources in the structure.
PROPERTY MANAGEMENT	Ongoing property costs, including routine maintenance, staffing, insurance, and property taxes.

Revenue

Income generated by the property.

RENT	Payments by residents to occupy the apartments. This model assumes that all of the properties are developed to be apartments without any for-sale product.
SUPPLEMENTARY SOURCES	Apartments may have smaller additional sources of income, such as parking fees, laundry revenue, or amenity fees that comprise a small portion of the total revenue.

3 NAA Survey of Operating Income & Expenses in Rental Apartment Communities, 2016.

Testing Regulatory and Market Impacts

The apartment development framework was used to develop a high-level proforma to evaluate the impacts of regulation on a hypothetical apartment project. To ground the proforma and develop assumptions, HR&A selected a prototypical garden-style apartment in a strong second-tier market. Garden apartments are low-rise multifamily communities, characterized by a considerable amount of open space around multiple buildings and surface parking. These communities can be found across the country – at the outer edges of cities and in suburbs.

HR&A sourced these assumptions through a survey instrument that was disseminated to NMHC members across the country that asked for development cost, revenue, and financial return assumptions. HR&A then verified and anonymized these responses into prototypical development typologies to test scenarios. This data was supplemented with a targeted multifamily market scan to gather rent, vacancy, construction cost, and operating cost information from a variety of proprietary data sources[4] to ensure that the proforma was representative of the product type and not beholden to project-specific considerations. A full list of assumptions can be found in Table 1.

Representative assumptions are a moving target. With rapidly increasing construction costs and market volatility, this analysis is meant to be demonstrative of the magnitude of impact from regulations, rather than an exact representation of rent and development costs. The changes in rent assume a **fixed required equity return** – investors have minimum market-driven expectation of return without which they will invest in other financial products. Based on the survey instrument and interviews with active developers, **HR&A selected a 16% leveraged internal rate-of-return** (IRR) as the benchmark financial return metric for this analysis. Return expectations can vary widely based on the regional market, perceived risk, and the opportunity cost of capital.

New Garden Apartment in the Strong Tier-II City

15 – 30 units per acre

Surface parking

Construction costs: $140+ per SF

Minimum rent required for a new two-bedroom unit: $1,900 per month

For each regulation, the “new rent required” metric is calculated to answer the following question: “if the return metrics were held constant despite a change in the regulatory environment, what would be the minimum rent required to clear the default 16% IRR threshold?" This change is the difference between “old rent” and “new rent.” For example, in the $1.5M increase in hard costs for stormwater retention, the increase results in a new required rent of $1,980 – an increase of $80 per month for an average 2-bedroom unit.

For other metrics in the report, HR&A conducted the same exercise of developing and testing assumptions and adjusting regulatory scenarios for different product types (mid-rise developments, high-rise developments, etc.) in different markets.

4 CoStar, Real Capital Analytics, Zillow, PricewaterhouseCoopers (PwC) quarterly real estate market reports.

TABLE 1: KEY ASSUMPTIONS FOR FINANCIAL ANALYSIS – GARDEN-STYLE APARTMENT

Product Type	**Garden Style**
Unlevered IRR	**10.24%**
Levered IRR	**16.03%**

Category	Inputs		Units	Avg SF	Total	Total PGI	*Rent Escalation*
Construction Period Cost							
Construction Period	24 Months						
Construction Loan to Cost	65%						
Construction Interest Rate	5.00%						
Lease-Up Period	8 Months						
Stabilization	32 Months						
Construction lender's points	1%						
Construction loan closing costs	1%						
Net/Gross SF Ratio	79%						
Hard Costs	$115/SF						
Soft Costs	$23/SF						
Land Costs (GSF)	$25/SF						
Developer Fee	3%						
NOI							
Potential Gross income			**Units**	**Avg SF**	**Total**	**Total PGI**	***Rent Escalation***
Studio	$0.00/SF	x	0	0 SF	0 SF	$0	3.0%
1 BR	$0.00/SF	x	0	0 SF	0 SF	$0	3.0%
2 BR	$1.72/SF	x	200	1,100 SF	220,000 SF	$377,314	3.0%
3 BR	$0.00/SF	x	0	0 SF	0 SF	$0	3.0%
Subtotal						**$4,527,772**	
Less Vacancy	7.0%					($316,944)	
Effective Gross Income (EGI)						**$4,210,828**	
Less Op Ex	$3,962	x			200	($792,400)	3.0%
Less Utilities	$0	x			200	$0	3.0%
Less Taxes	$2,600	x			200	($520,000)	3.0%
NOI						**$2,898,428**	
Cap Ex Contingency	3.0%						
Exit Year							
Exit Month	96 Months						
Exit Cap Rate	5.25%						
Gross Proceeds							
Cost of Sale	1%						
Cash flow before perm. Loan							
Unlevered IRR	**10.24%**						
1st Mortgage - Fees							
Lender's Points	1.0%						
Loan Closing Costs	1.0%						
1st Mortgage Calculations							
LTV	70%						
DSCR	1.2						
Term	30 years						
NOI at Stabilized Year	$3,074,943						
Rev value at issuance	$58,570,334						
Initial Bal. Based on DSCR	$38,293,030						
Initial Bal. Based on LTV	$40,999,234						
Beginning Balance	$38,293,030						
Principal							
Perm Loan Interest Rate	5.25%						
Levered IRR	**16.03%**						

5 Based on a hypothetical podium-style mid-rise apartment in the Northeast for an average 2-BR apartment.
6 Urban Institute, 2016.

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