

INCLUSIONARY ZONING

City Council Workshop

November 22, 2022

INCLUSIONARY ZONING (IZ)

- Housing Savannah Action Plan Strategy #5
 - *Support Local, State and Federal Housing Friendly Policy and Legislation*
 - 5.A.4 *Support, where appropriate and possible, zoning, development standard, licensing and similar ordinance amendments and/or new ordinances that promote housing affordability*
 - 5.A.5 *Support research of inclusionary zoning ordinance best practices and alternatives that result in the development and/or funding of affordable housing*



INCLUSIONARY ZONING

- February 2022: Visited with City of Atlanta
- May 2022: Hired KB Advisory—an experienced IZ consultant—to study the feasibility of enacting an IZ ordinance in Savannah
 - Prepared similar study for the Atlanta Beltway
- October 2022: Consultant completed the IZ study

INCLUSIONARY ZONING CONSULTANT STUDY SUMMARY

INCLUSIONARY ZONING

- Regulation that requires the “inclusion” of affordable housing as part of residential market rate developments
- Accomplished by incorporating affordable housing into the same development, building it elsewhere or contributing money to an in-lieu affordable housing fund
- Consultant retained to study the use of inclusionary zoning in Savannah to aid in affordable production and initiatives



AREA MEDIAN INCOME (AMI)

- HUD calculates, annually, the Area Median Income (AMI) for households in different communities across America
- AMI is also calculated and reported based upon the number of persons living in a household
- Household incomes are also calculated and reported as a percentage of AMI
- Households that pay more than 30% of their gross income toward rent or mortgage payments are considered Cost Burdened
- According to Census data, those most likely to be Cost Burdened in Savannah are persons and households who have gross annual incomes of \$60,000 or less per year

Savannah FY 2022 Income Limits by Family Size

% of Median Income	1-Person	2-Person	3-Person	4-Person
100%	\$52,950	\$60,500	\$68,100	\$75,550*
80%	\$42,350	\$48,400	\$54,450	\$60,450
50%	\$26,500	\$30,250	\$34,050	\$37,800
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Savannah FY 2022 Cost-Burden Threshold by Income Limits and Family Size**

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30%	\$398	\$455	\$511	\$568

*AMI for the Savannah MSA is \$83,400, but adjusted AMI as reported by the City of Savannah was used for tables and calculations

** Cost-Burden Thresholds are defined as 30% of monthly median family income

Source: KB Advisory with data from Savannah City Government

FAIR MARKET RENTS

- HUD calculates and publishes, annually, what it believes are Fair Market Rents (FMR) for communities across America
- FMRs are considered reasonably affordable and are used in various HUD funded programs like the Section 8 (now Housing Choice Voucher) program
- FMRs in Savannah can be significantly less than market rents

Savannah MSA FY 2022 Fair Market Rents (FMR) by Unit Bedrooms

Bedroom Type	Efficiency	1-Bedroom	2-Bedroom	3-Bedroom	4-Bedroom
FMR	\$880	\$937	\$1,067	\$1,466	\$1,713

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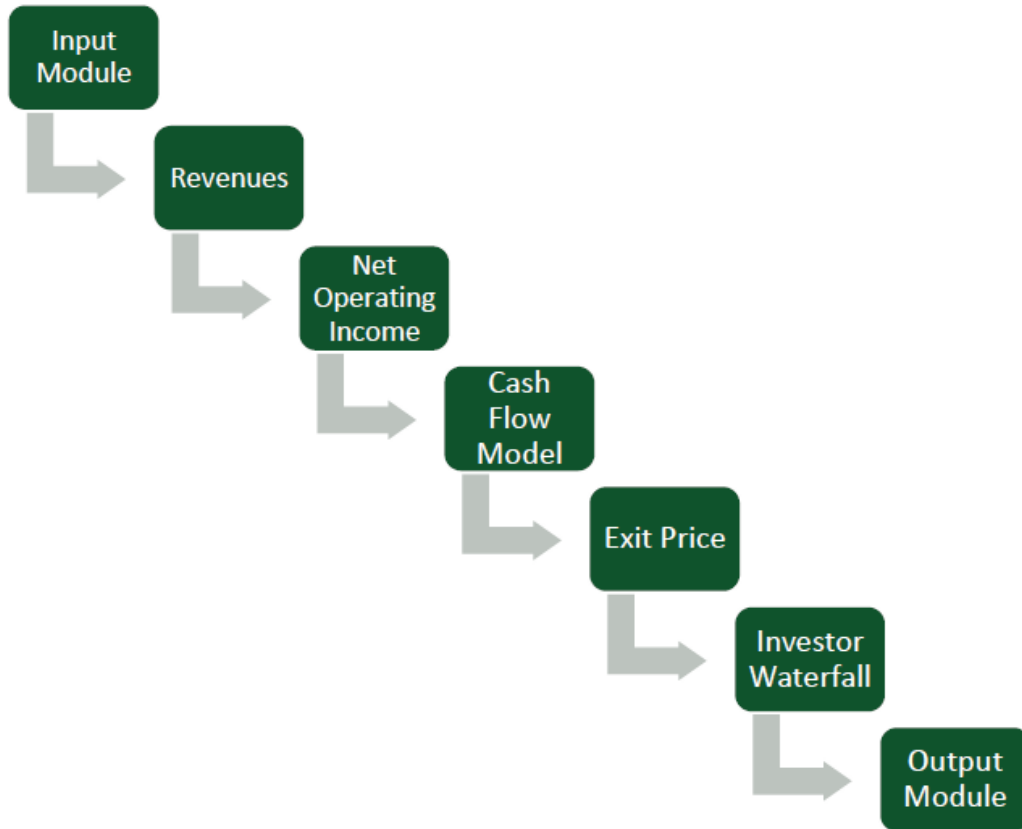
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METHODOLOGY OF IZ STUDY

- Tested parameters to determine the economic feasibility of delivering a market rate residential project with affordable housing
 1. Define total share of residential units subject to IZ policy
 2. Determine level of rents mandated to qualify (based on AMI)
 3. Identify minimum number of units where IZ policy applies
 4. Apply to specific geographic areas
 5. Determine if subsidies will be offered to offset costs
 6. Determine if in-lieu payment program applicable
- Used up-to-date market data, assessing broader financial and economic trends, and field-testing the development economics of Savannah
- Provided the City with information to be considered in drafting an Inclusionary Zoning Ordinance with affordable housing benefits

SCENARIO ASSUMPTIONS



Districts: 1 thru 6

Building type:

- Garden (2-5 stories, surface parking)
- Wrap (4-7 stories, structured parking)

Unit mix: IZ requirement for % if units that are:

- Market
- 100% AMI
- 80% AMI

Incentive

- None
- Per unit incentive
- Bond for title/tax abatement

In-lieu fee

- Fee per affordable unit
- Whether buyout is used, fully or partially

DEVELOPMENT MODEL FINANCIAL ASSUMPTIONS

- Development costs drive by:
 - Construction costs
 - Land costs
 - Interest rates
 - Expenses and soft costs
- Unit sizes and mix based on actual market average
- Deal structure:
 - Assumes 35% equity (10% developer, 90% investor)
 - 3% development fee
 - 10/90% return split up to 12% IRR, 30/70% split of residuals
- Development Model
 - 24 month construction period
 - Sell after 5 years
 - 5.75% capitalization rate

IZ Scenario	IZ Parameters
Base	100% Market Rate
1	10% of Units at 80% AMI
2	20% of Units at 80% AMI
3	20% of Units at 80% AMI \$40,000 Subsidy 10-Year Bond for Title (light incentives)
4	20% of Units at 80% AMI \$100,000 Subsidy 20-Year Bond for Title (Strong Incentives)

IZ STUDY RESULTS

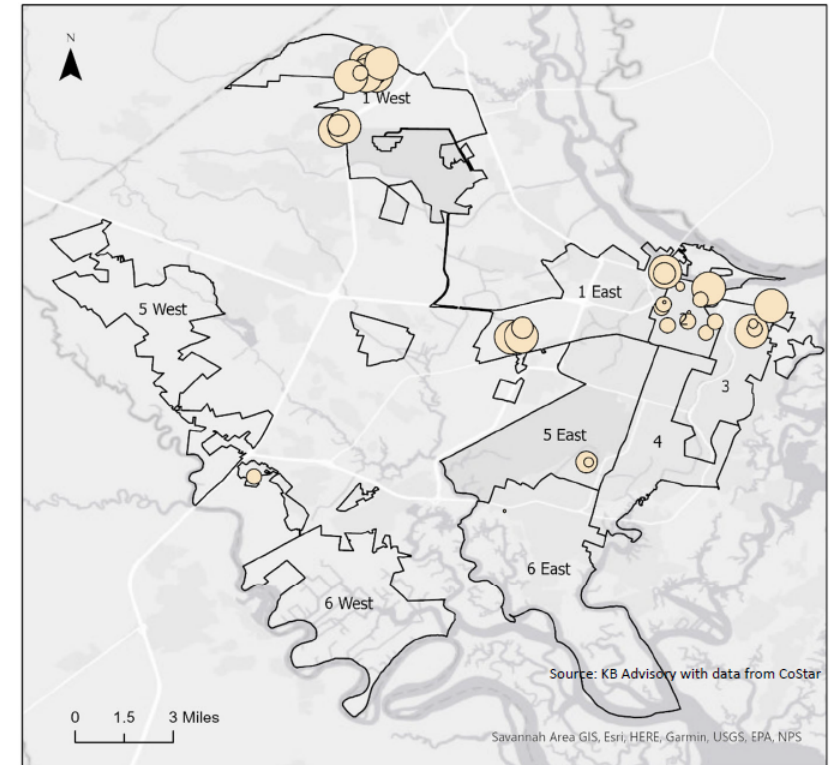
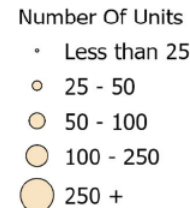
- IZ policy most effective in areas that have strong market-rate development activity
- Most feasible locations for IZ include areas with strong market-rate multifamily housing growth (Portions of Districts 1 & 2)
- Remaining Districts have less market-rate housing development; IZ policies would inhibit development
- City subsidies of between \$40,000 and \$100,000 per on-site affordable IZ dwelling are projected

MULTIFAMILY DEVELOPMENT PATTERNS

Post-2010 Multifamily Development by the Number of Units

New Units

This model output corresponds with market-based development patterns since 2010.



IZ STUDY RESULTS

- IZ not paired with targeted incentives and/or subsidies likely to suppress the delivery of new market-rate housing at all price points—ultimately contributing to housing scarcity and increased housing costs
- Effectiveness of IZ policy differ for every:
 - Project
 - Site
 - Development market
 - Point in time
- A static policy for fixed costs, subsidies, or in lieu payments will reduce effectiveness as conditions change over time and location
 - Expenses
 - Rents and Revenue
 - Market Circumstances



SUMMARY OF CONSULTANT'S INCLUSIONARY ZONING FINDINGS

Inclusionary Zoning is likely to only work in Savannah:

1. In geographic areas in which there is a high demand for housing development
2. If the City offers incentives to a developer that help offset the cost of including On-Site affordable housing
 - Consultant identifies incentive value could be between \$40,000 and \$100,000 per affordable dwelling
3. If IZ On-Site affordable dwelling occupants have incomes at or above 80% AMI
 - Lower income groups may be served if City funding/financial/development incentives increased
 - Lower income groups will be served if LIHTCs are the primary funding source of the development

**INCLUSIONARY ZONING
SAVANNAH POSSIBILITIES
FOR
CONSIDERATION**

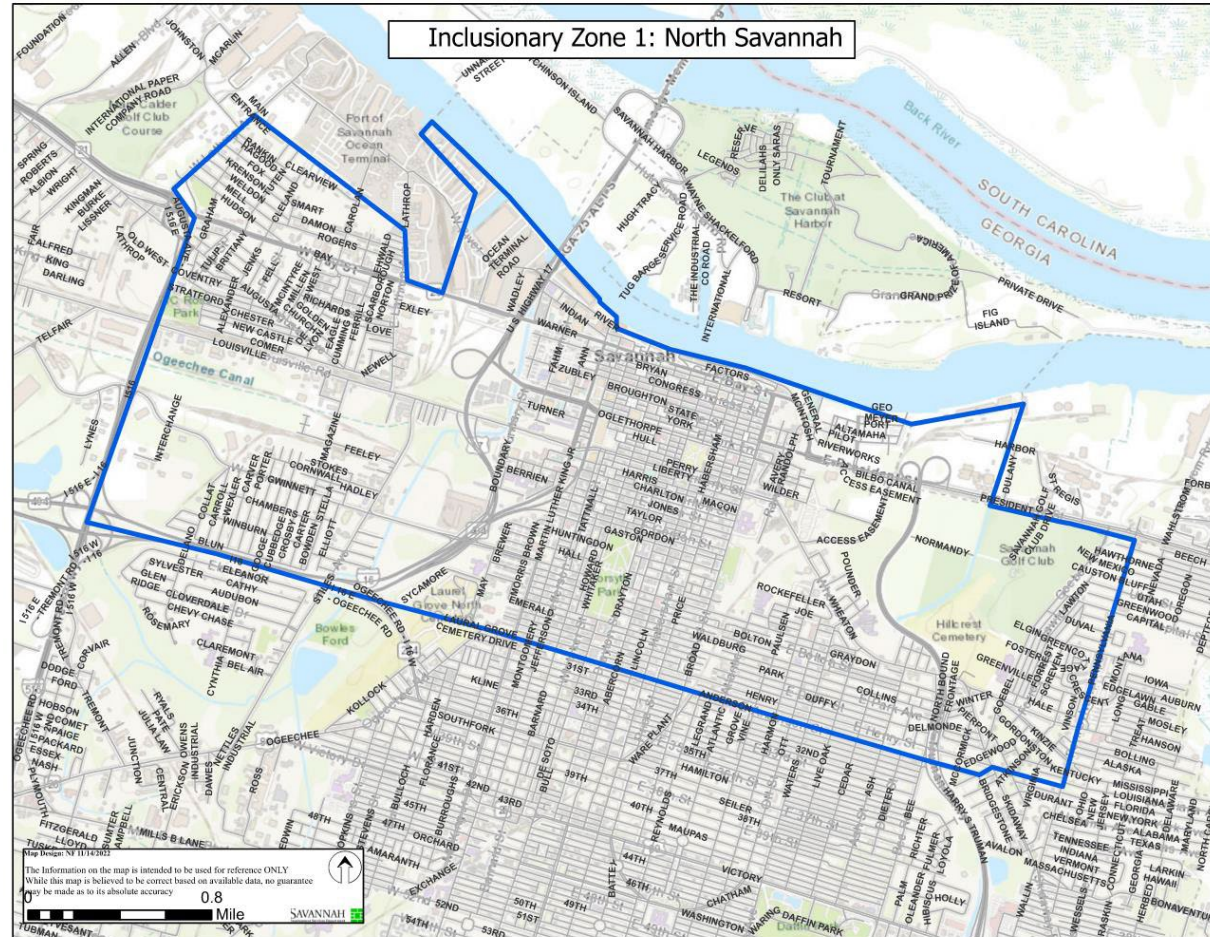
PROPOSED PURPOSES OF A SAVANNAH IZ PROGRAM INCLUDE

- Implement recommendation from the Housing Savannah Action Plan, adopted by City Council on October 14, 2021, to support zoning ordinances that promote housing affordability
- Ensure diverse housing options continue to be available for persons and/or households at or below the area median income (AMI)
- Improve the opportunities for blue collar workers, and moderate- and low-income persons, to afford to live in quality, affordable, housing in Savannah
- Maintain a balanced community by encouraging the finite supply of developable land to provide housing opportunities appropriate to meet various household needs and income levels
- Encourage the construction of affordable and workforce housing by offering zoning incentives for the provision of such housing as a portion of residential development to address both existing and anticipated future housing needs in the Overlay District
- Afford developers of residential development the flexibility to meet the broad objectives of the City's policies to assist in providing a percentage of affordable and workforce housing units as a portion of development or paying an In-Lieu Fee into the Savannah Affordable Housing Fund to support a range of City identified housing needs and persons



CONSIDER 3 INITIAL IZ GEOGRAPHIC ZONES

PROPOSED GEOGRAPHIC BOUNDARIES

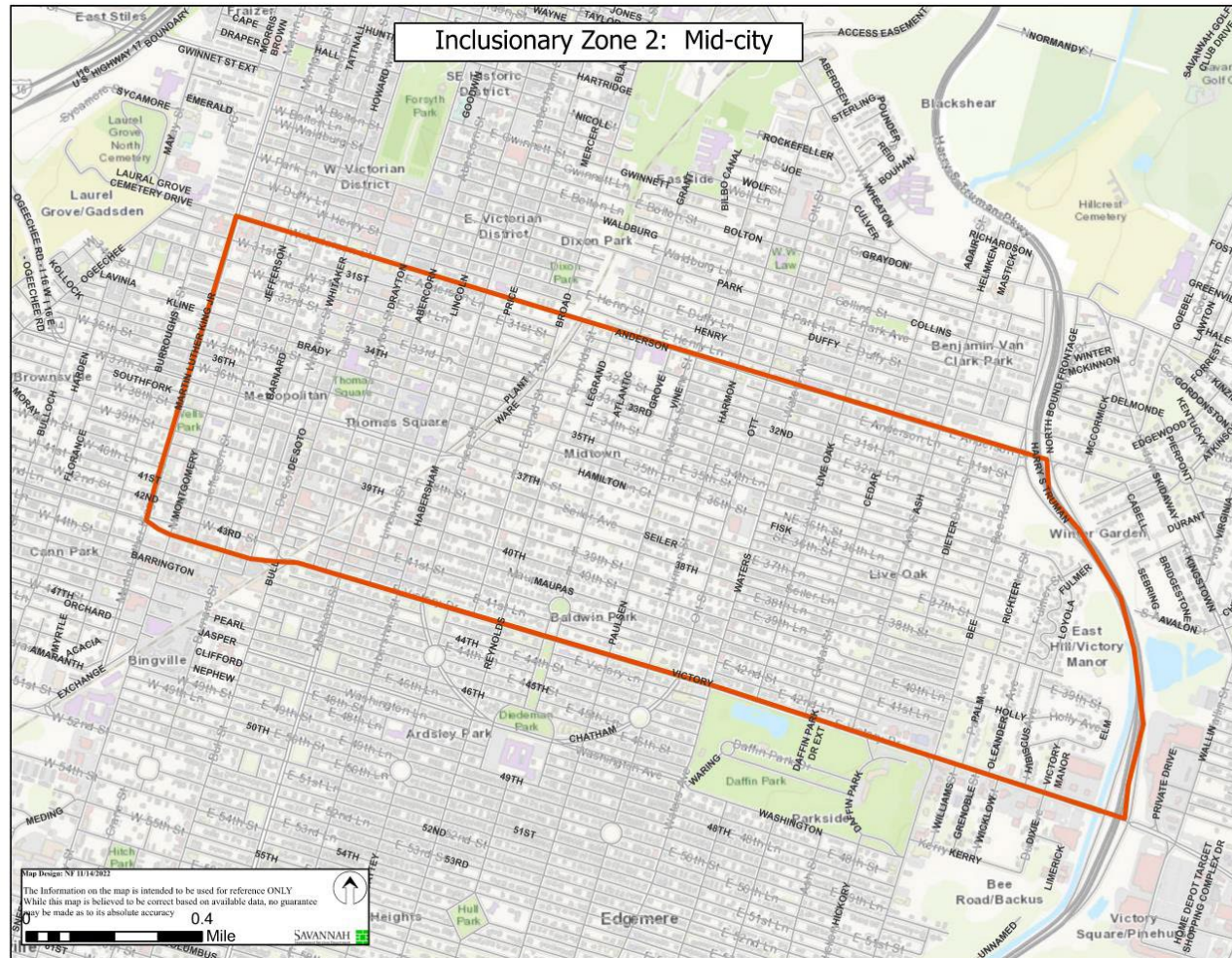


Zone 1

North Savannah

- Savannah River
- Anderson Street
- Pennsylvania Avenue
- I-516

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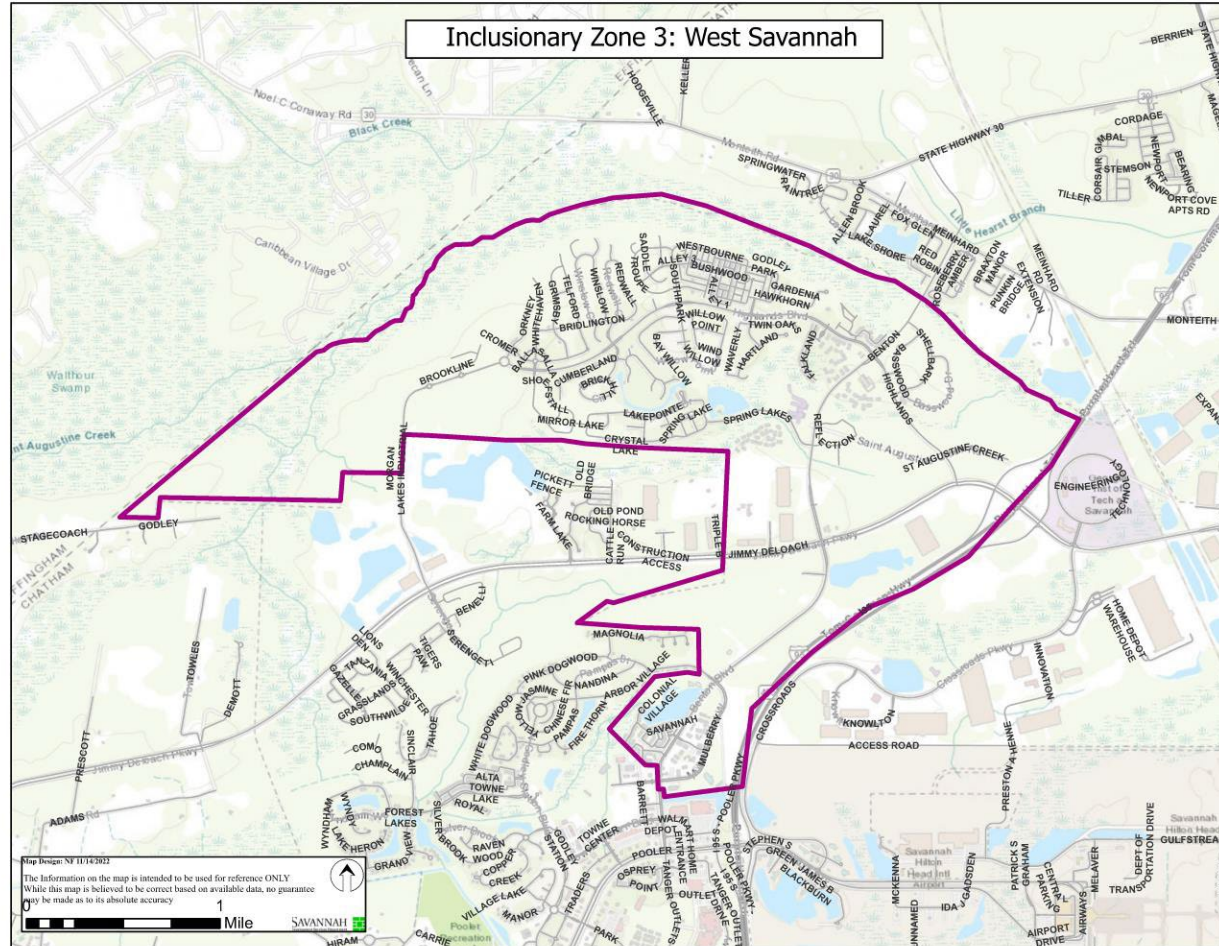


Zone 2

Mid-City Savannah

- 31st Street
- DeRenne Avenue
- Pennsylvania/Skidaway
- I-516

PROPOSED GEOGRAPHIC BOUNDARIES



Zone 3
West Savannah

- West of I-95

PROPOSED IZ ON-SITE DWELLING AFFORDABILITY REQUIREMENT

- Requirements apply to IZ Zones 1, 2 and 3
- Requirements apply to the construction and/or renovation of individual or multiple adjoining buildings on one or more land parcels that do or will include 10 or more residential rental dwellings including, but not limited to:
 - Newly constructed buildings with single family (1-4 unit) and multifamily housing
 - Newly constructed or renovated mixed use buildings
 - Renovation of existing buildings with housing
 - Renovation of existing buildings to include housing
- Requirements apply to 10% of all dwellings developed
 - For example, a 100 dwelling development will require that 10 dwellings meet IZ On-Site Dwelling Affordability Requirements
- Requirements are deed restricted and apply for 15 years from issuance of a Certificate of Occupancy



PROPOSED IZ ON-SITE DWELLING AFFORDABILITY REQUIREMENT

All IZ On-Site Dwellings must meet Affordability Requirements including:

- Be affordable and rented to households earning 80% or less of AMI
- Have rents that do not exceed HUD published FMRs
- Have rental policies that encourage and accept renters with Housing Choice Vouchers (Section 8 Vouchers)
- Have rental policies that do not use “source of income” as a means of disqualifying renters

Savannah FY 2022 Income Limits by Family Size

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PROPOSED IZ ON-SITE DWELLING AFFORDABILITY REQUIREMENT

Additional requirements include:

- Affordable housing units must be similar in construction and appearance to the market rate units
- Units should not be in isolated areas of the development
- Number of bedrooms proportionate to number of bedrooms in the market rate units



POSSIBLE ON-SITE IZ INCENTIVES

- Developments that include IZ On-Site affordable dwellings may apply for and include the following incentives:
 - Building height bonus (outside of Historic Districts)
 - Density bonus
 - Reduced parking requirements (structured parking)
 - Discounted development fees
 - Expedited permit review



PROPOSED ON-SITE IZ ENFORCEMENT

- Land Use Restrictive Agreement (LURA):
 - Between the City and applicant to encumber property that will require the development and active marketing of a percentage of units as affordable workforce housing units
 - Annual compliance report required in the LURA
- No temporary or final CO will be issued unless LURA is recorded with Chatham County
- Recorded copy of LURA attached to the CO
- Developer monitors affordability requirements with annual City review

LAND USE RESTRICTION AGREEMENT

THIS LAND USE RESTRICTION AGREEMENT (as amended, modified or supplemented from time to time, the "LURA") is made and entered into as of 201_ (the "Effective Date"), by and between [INSERT COMPANY NAME], a (as hereinafter defined), "Owner" and the CITY OF ATLANTA, a municipal corporation of the State of Georgia ("City").

WITNESSETH:

WHEREAS, Ordinances 17-O-1542 (Beltline Overlay District) and 17-O-1556 (Westside Overlay District) were adopted by the City of Atlanta ("Ordinances") and codified as Atlanta City Code Sections 16-36A.001 et seq. and 16-37.001 et seq.; and

WHEREAS, the Ordinances mandate that owners of multi-family residential property within the Beltline and Westside Overlay Districts provide Affordable Workforce Housing Units (as hereinafter defined) as a condition of the special administrative permit, building permit, land disturbance permit, or certificate of occupancy; and

WHEREAS, the Affordable Workforce Housing Units must be provided from one of the two tiers set forth in Atlanta City Code Sections 16-36A.004 and 16-37.004 during the Affordability Period (as hereinafter defined); and

WHEREAS, the Ordinances further provide that the Affordable Workforce Housing Units (as hereinafter defined) shall be similar in construction and appearance (e.g., square footage, type and brand of appliances, materials used for countertops, flooring, etc.) to the market rate units and shall not be in isolated areas in the development, but shall be interspersed among market rate units throughout the entirety of the Affordability Period (as hereinafter defined); and

WHEREAS, the Ordinances further provide that no certificate of occupancy shall be issued for owners of multi-family residential property until the owner provides a copy of a recorded land use restriction agreement in the form promulgated by the City; and

NOW, THEREFORE, it is hereby agreed by Owner as follows:

1. **Definitions.** As used in this LURA, the terms below shall have the following meanings:

"Actively Marketed" means that Owner shall coordinate with the City of Atlanta Office of Housing and Community Development to locate and place Workforce Residents in available Affordable Workforce Housing Units. If Owner coordinates in writing and in a commercially reasonable manner with the City of Atlanta Office of Housing and Community Development for a period of sixty (60) days with respect to any Affordable Workforce Housing Unit from the completion of such units or the vacation of any such unit by any Workforce Resident, and despite such coordination, such unit has not been leased to a Workforce Resident then such units shall be counted toward the Affordable Workforce Housing

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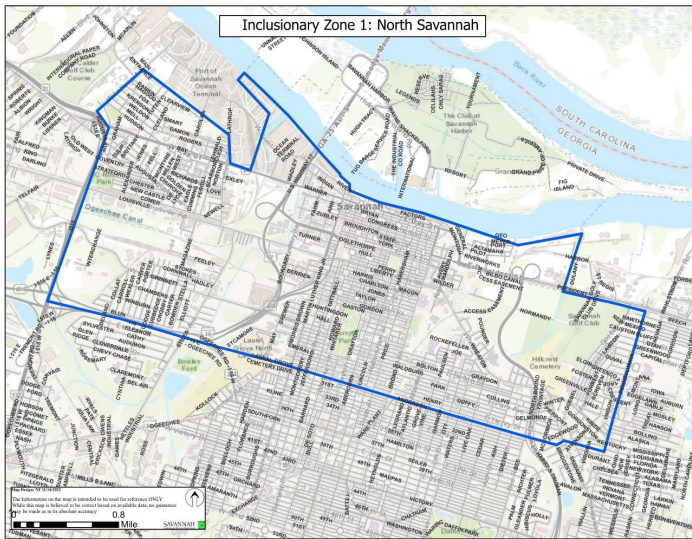
PROPOSED IN-LIEU FEE OPTION

- A developer may be permitted to pay a one-time Savannah Affordable Housing Fund In-Lieu Fee to the City instead of developing IZ On-Site Dwellings
- The In-Lieu Fee is calculated based upon the total number of **ALL** dwellings in the development
- Rates used to calculate the In-Lieu Fee are published on City's website and updated and adjusted for market conditions annually
- In-lieu fee payment must be submitted to the City prior to issuance of a building permit
- Only applies to properties in the IZ overlay boundaries



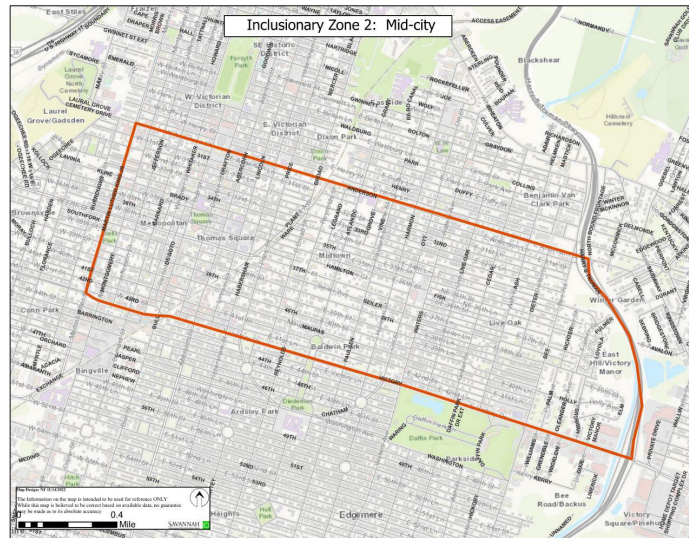
PROPOSED IN-LIEU FEE OPTIONS

- Example per dwelling In-Lieu Fees are shown below along with the total fee income generated for the Savannah Affordable Housing Fund from a 100 dwelling development
- Actual In-Lieu Fee amount, structure, and method of calculation will require additional study
- Every \$1,000 of In-Lieu Fee adds about \$10 a month to the rent of market rate dwellings



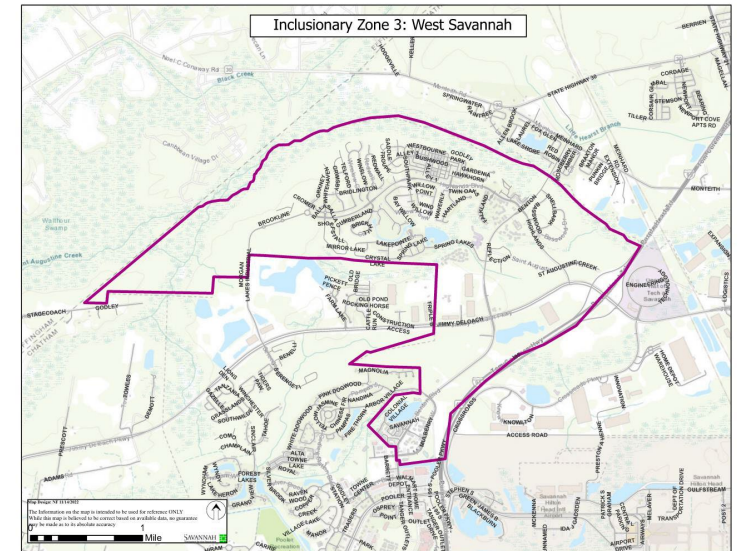
Zone 1

**\$10,000 per unit
x 100 = \$1,000,000**



Zone 2

**\$5,000 per unit
x 100 = \$500,000**



Zone 3

**\$2,500 per unit
x 100 = \$250,000**

PRELIMINARY COMPARISON OF ON-SITE REQUIREMENT vs IN-LIEU SAHF FEE OPTION

100 Unit Development	On-Site Housing	In-Lieu SAHF Fee Housing
City Incentives for Developer	Required	Not Required
SAHF Investment Received from Developer	\$0	<ul style="list-style-type: none"> • Zone 1: \$1,000,000 • Zone 2: \$ 500,000 • Zone 3: \$ 250,000
Number of Dwellings Impacted	10 Rental Apartments	<ul style="list-style-type: none"> • 25 to 100 Home Improvements, or • 10 to 40 Home Purchase Assistance, or • 8 to 33 LIHTC Apartments, or • 5 to 20 Dwellings for Homeless, or • A Combination of Above
Housing Options Flexibility	Minimal -- Limited to Site-Specific Rental Apartments	Maximum -- Can Help Address Multiple Needs In a Variety of Locations
Administrative Costs to City	2 FTEs Likely Annually	1 FTE Likely Annually

NEXT STEPS

- Outreach December-January 2023
- Internal Review & Coordination January 2023
- Present to Planning Commission February 2023
- Recommend to City Council March 2023

Questions/Comments?

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