CITY OF NEW ORLEANS

NEW ORLEANS INCLUSIONARY HOUSING STUDY

STUDY SUMMARY

FEBRUARY, 2019

HR&A Analyze. Advise. Act.

UrbanFocus LLC

HR&A is a leading real estate, economic development, and public policy advisory firm with national experience in affordable housing policy and programs.


Menil Collection


The High Line


New Orleans Incentives


Norfolk Affordable Housing


Detroit Inclusionary Housing


New Orleans 100 RC

Our team brings deep knowledge of the New Orleans market from our recent work on the City's Incentive Strategy and resilience planning efforts, and national experience in affordable housing, including advising on inclusionary policies in Detroit, Columbus, and Cambridge.

HR&A is joined by Urban Focus, a New Orleans-based firm with extensive local experience and market expertise.

Sacred Heart Redevelopment

NSP2 Program

Capital Absorption
in New Orleans

Greater New Orleans Foundation

Louisiana Loan Fund Underwriting

Augustine Redev. Feasibility

Urban Focus is a leader affordable housing and real estate with deep ties to New Orleans's affordable housing community. Their experience advising on development in New Orleans for public and private clients brings local expertise to the study.

The goal of a mandatory IZ policy is to support New Orleans' housing needs through the creation of affordable housing that the market would not otherwise build.

Inclusionary Zoning can create affordability and foster mixed-income communities, provided that it:

1. Aligns with housing needs;
2. Provides appropriate public incentives; and
3. Targets neighborhoods with sufficient market strength.

The HR&A Team was hired by the City of New Orleans to evaluate the feasibility of a mandatory IZ policy for rental and for-sale multifamily housing (10+ units).

POLICY COMPONENTS

Requirement

Affordability Level

Portion of Units

Length of Affordability

Geography

Mandatory IZ Locations

Voluntary IZ Locations

Incentives

Appropriate Incentives

Size of Incentives

Length of Incentives

ADMINISTRATION

Administrative Policy

Process Guidelines

Development Approvals

Program Management

We approached the work by completing three tasks that built on each other.

Assess Market Conditions and Identify Toolkit of Incentives → Create and Evaluate Development Feasibility Scenarios → Develop Recommendations

Our study was guided by a working group comprised of staff from the Office of Community Development, City Planning Commission, Department of Safety & Permits, and Mayor's Office.

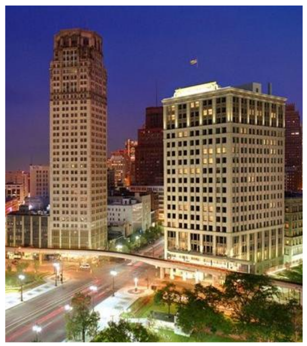
Our market conditions assessment laid a foundation through analysis of housing data, stakeholder interviews, and review of national best practices.

MARKET DATA	STAKEHOLDER INTERVIEWS	NATIONAL BEST PRACTICES
Rents $1,800-$2,400/mo. avg. (Class A, Core Submarkets) **Sale Prices** $450K-$550K avg. (Core Submarkets) **Development Costs** $140-$210 PSF **Development Pace** 1,200+ market rate apartments and condos since 2014 **Development Pipeline** 1,400+ market rate units currently under construction	**Housing Advocates** Enterprise Greater New Orleans Housing Alliance/ HousingNOLA **Developers & Financing** Alembic Community Development Domain Companies Edwards Communities Ekistics Inc. Gibbs Development Green Coast Enterprises Gulf Coast Housing Partnership Historic Restorations, Inc JCH Development Madderra, Cazalot, & Head MCC Group Sherman Strategies, Inc Wisznia Development **Public Agencies** Finance Authority of New Orleans Industrial Development Board	**HR&A Experience** Detroit Cambridge Columbus Norfolk Raleigh Atlanta Houston El Paso Milwaukee New York City Seattle

Source: CoStar, Zillow, HR&A Advisors

We created development scenarios for evaluation, emphasizing the nuances of the local market in terms of both the diversity of neighborhoods and building types.

BUILDING TYPOLOGIES BY SUBMARKET TYPE (10+ Units)



Submarket Type	Low-Density Historic Rehab	High-Density Historic Rehab	Low-Rise New Construction	Mid-Rise New Construction	High-Rise New Construction
Core (Rental and For-Sale)		●		●	●
Strong (Rental)	●	●		●	
Transitional (Rental)	●		●	●	

Note: For-sale development excluded Strong and Transitional Submarkets due to lack of market activity.

Based on identified needs and development feasibility findings, the HR&A Team recommends the following IZ policy for New Orleans.

POLICY COMPONENTS

Requirement

Requirement
5-10% of units affordable at 60% AMI

Term
99 Years

Scale
Market-rate development of 10+ units

In-Lieu Fee
$291,000 per rental unit
$366,000 per for-sale unit

Geography

Three tiers based on market ability to support IZ.

Tier 1 – Core
10% of units affordable at 60% AMI

Tier 2 – Strong
5% of units affordable at 60% AMI

Tier 3 – Transitional
Voluntary participation

Incentives

Density Bonus
Bonus of 30%, up to 50%

PILOT
10-year term, amount determined by independent underwriting, (generally 50-70%)

Rest. Tax Abatement
Reduction of renewal requirement for qualifying projects

Parking Reduction
10%, up to 30%

ADMINISTRATION

Administrative Policy

Development Approvals and Permitting
DSP and CPC

Tax Abatement
IDB or FANO

Density Bonus and Parking Reduction
CPC

Program Management
DSP and OCD

Units administered at property-level by owner

STUDY SUMMARY

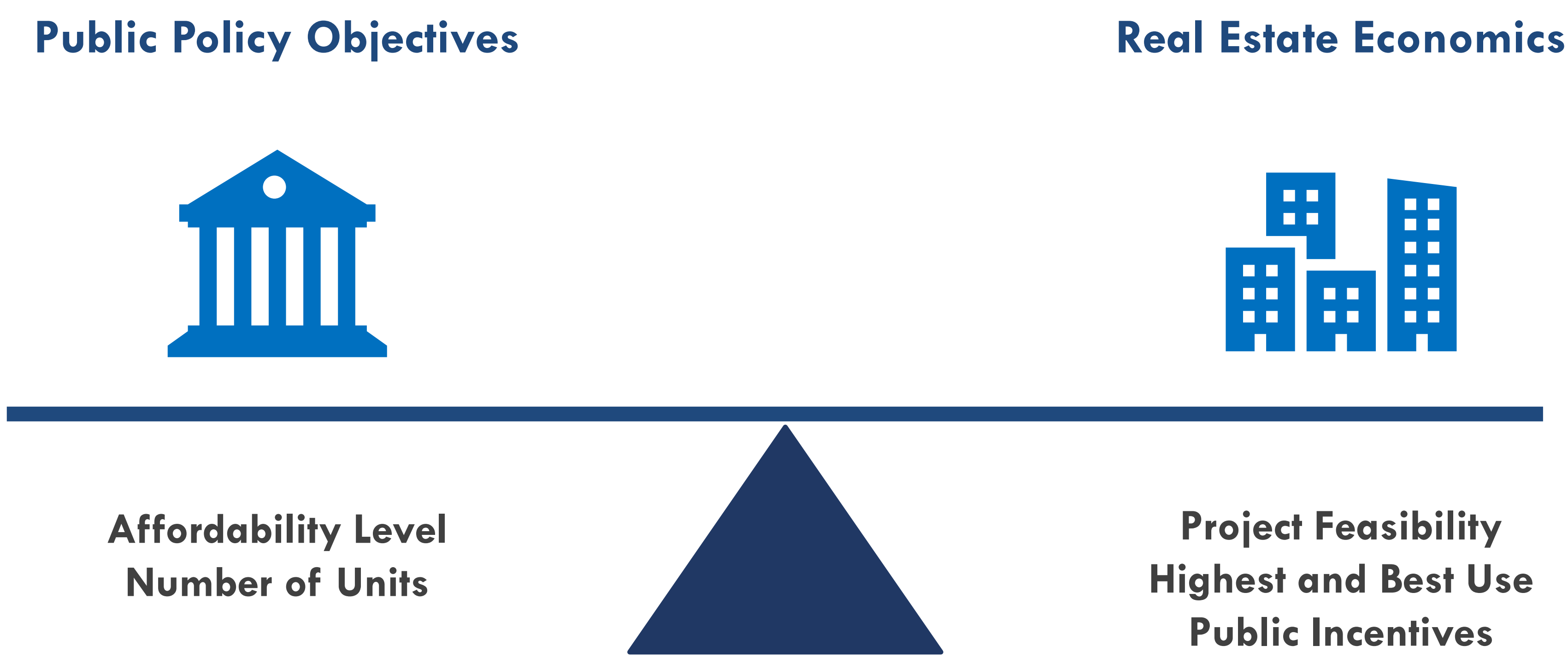
AFFORDABILITY REQUIREMENTS

GEOGRAPHIC BOUNDARIES

PUBLIC INCENTIVES

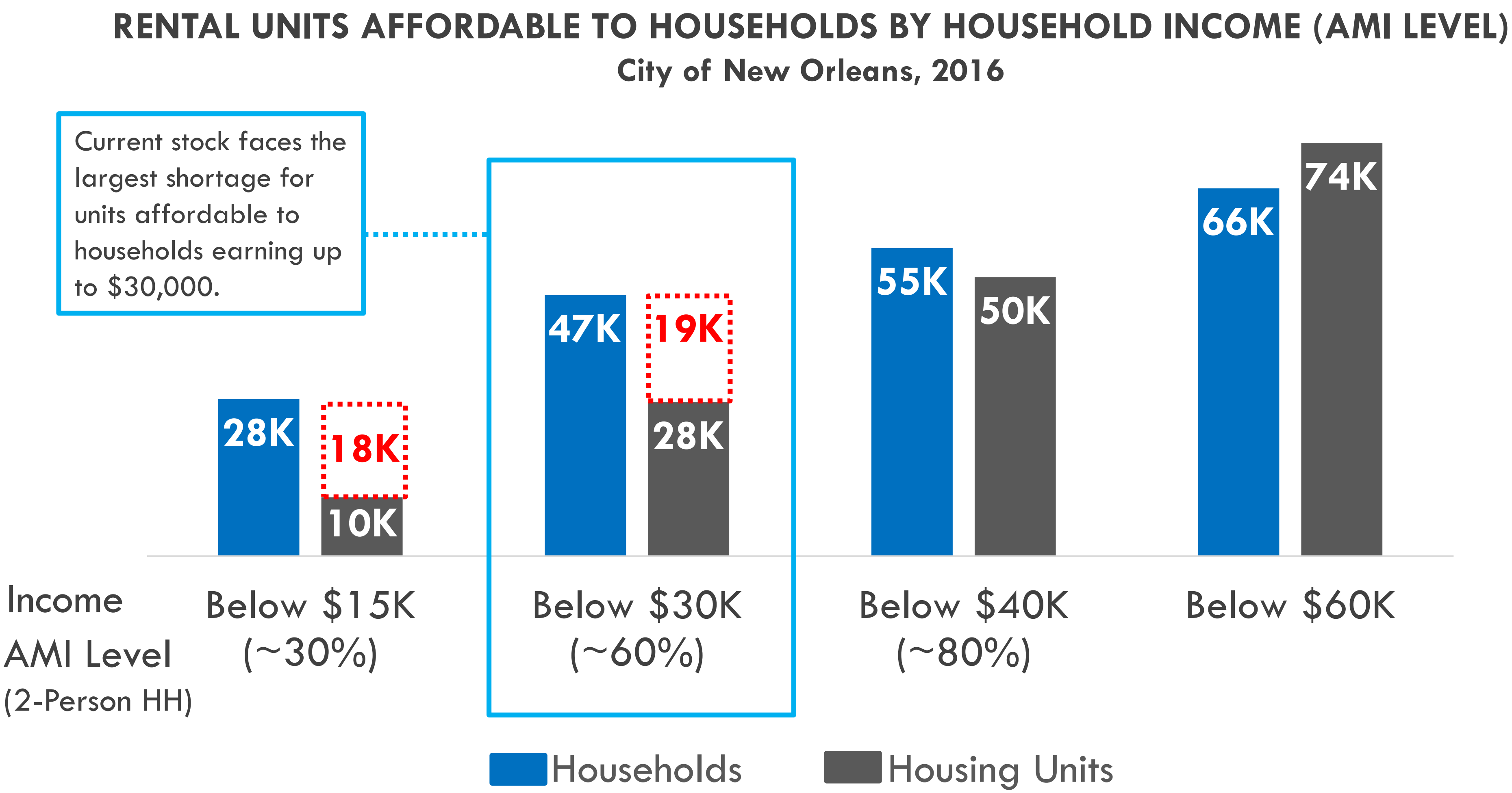
ADMINISTRATIVE POLICY

The public policy goals set in an inclusionary housing policy must balance public policy objectives with what the local real estate market can support.



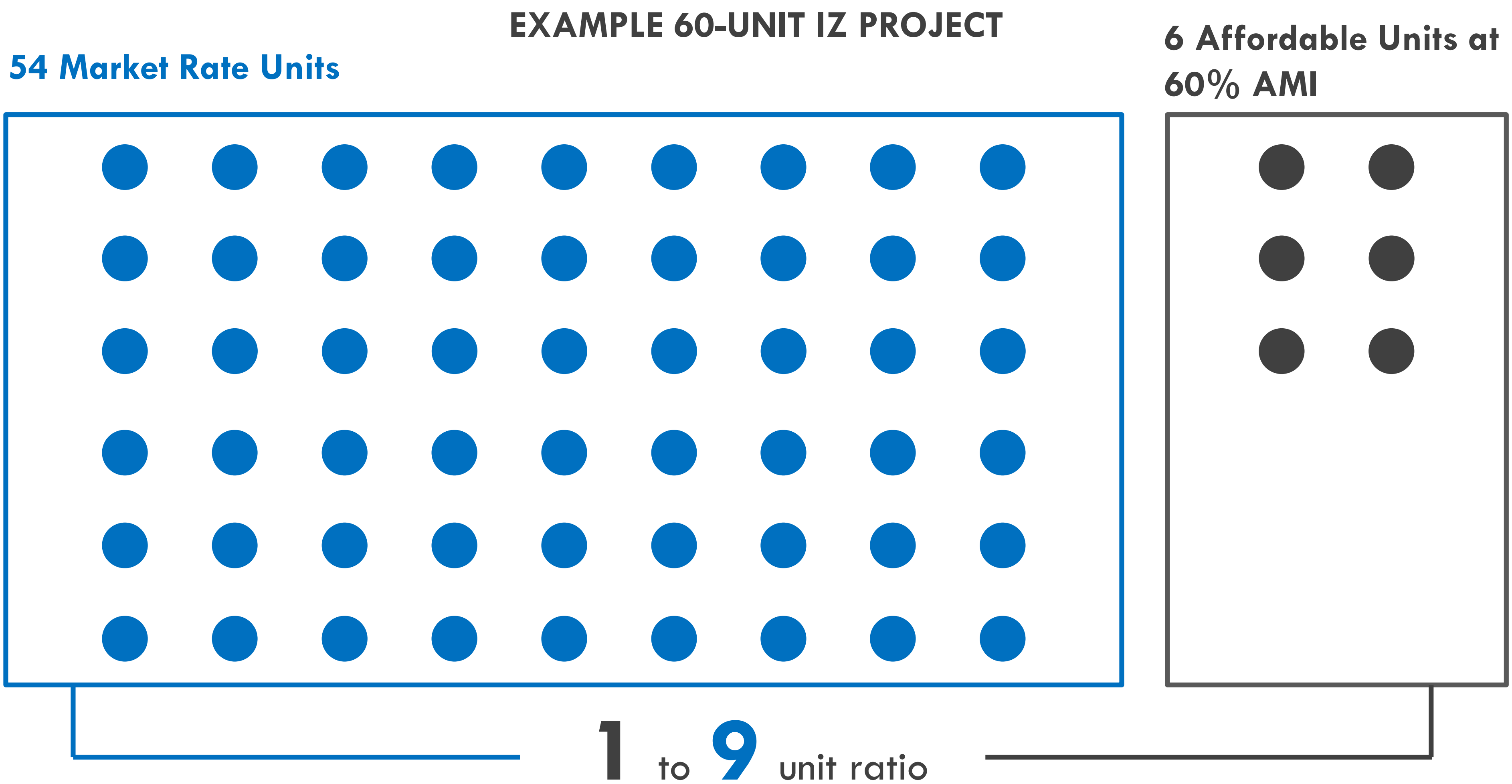
<u>When public policy goals and real estate economics are misaligned, both are ultimately harmed.</u>

The market analysis showed that the greatest affordable housing need is for households making up to $30,000 a year, or ~60% of the Area Median Income.



Note: AMI level shown is based on a 2-person household size. Housing affordability is calculated based on 30% of income allocated to housing costs.
Sources: American Community Survey; HR&A Advisors

New Orleans' Core market can support a policy requiring 10% of units at 60% AMI with the provision of proper incentives.



HR&A believes this is the balance that will provide the most units at the level of affordability with identified housing needs.

Requiring deeper levels of affordability or a larger share of affordable units is not feasible for rental units in current market conditions.

CORE SUBMARKET DEVELOPMENT FEASIBILITY – RENTAL

Construction Type	10% at 80% AMI	8% at 60% AMI	10% at 60% AMI	12% at 60% AMI	10% at 50% AMI
High-Density Historic Rehab	Feasible	Feasible	Feasible	Feasible	Feasible
Mid-Rise New Construction	Feasible	Feasible	Feasible	Borderline	Borderline
High-Rise New Construction	Feasible	Feasible	Borderline	Infeasible	Infeasible

INCREASING AFFORDABILITY →

Note: Results shown are inclusive of applicable incentives to support an IZ policy.

Development feasibility in Strong Submarkets is constrained across mandatory inclusionary scenarios by lower market rents.

STRONG SUBMARKET DEVELOPMENT FEASIBILITY – RENTAL

Construction Type	10% at 80% AMI	8% at 60% AMI	10% at 60% AMI	12% at 60% AMI	10% at 50% AMI
Low-Density Historic Rehab	Infeasible	Infeasible	Infeasible	Infeasible	Infeasible
High-Density Historic Rehab	Infeasible	Infeasible	Infeasible	Infeasible	Infeasible
Mid-Rise New Construction	Infeasible	Infeasible	Infeasible	Infeasible	Infeasible

INCREASING AFFORDABILITY →

Note: Results shown are inclusive of applicable incentives to support an IZ policy.

Lower unit requirements can be supported in Strong Submarkets, but feasibility varies by building type.

STRONG SUBMARKET DEVELOPMENT FEASIBILITY (GAP) / SURPLUS – RENTAL

Construction Type	2% at 60% AMI	5% at 60% AMI	8% at 60% AMI
Low-Density Historic Rehab	Feasible	Borderline	Infeasible
High-Density Historic Rehab	Borderline	Borderline	Infeasible
Mid-Rise New Construction	Borderline	Borderline	Infeasible

INCREASING AFFORDABILITY →

Note: Results shown are inclusive of applicable incentives to support an IZ policy.

Transitional submarkets are unable to support a mandatory IZ requirement largely due to lower market rents in these locations.

TRANSITIONAL SUBMARKET DEVELOPMENT FEASIBILITY – RENTAL

Construction Type	10% at 80% AMI	8% at 60% AMI	10% at 60% AMI	12% at 60% AMI	10% at 50% AMI
Low-Density Historic Rehab	Infeasible	Infeasible	Infeasible	Infeasible	Infeasible
Low-Rise New Construction	Infeasible	Infeasible	Infeasible	Infeasible	Infeasible
Mid-Rise New Construction	Infeasible	Infeasible	Infeasible	Infeasible	Infeasible

INCREASING AFFORDABILITY →

Note: Results shown are inclusive of applicable incentives to support an IZ policy.

Like rental development, for-sale condo development can support an allocation of 10% of units at 60% of AMI with the provision of incentives.

CORE SUBMARKET DEVELOPMENT FEASIBILITY – FOR-SALE

Construction Type	10% at 80% AMI	8% at 60% AMI	10% at 60% AMI	12% at 60% AMI	10% at 50% AMI
High-Density Historic Rehab	Feasible	Feasible	Feasible	Infeasible	Borderline
Mid-Rise New Construction	Feasible	Feasible	Feasible	Feasible	Feasible
High-Rise New Construction	Feasible	Feasible	Borderline	Infeasible	Infeasible

INCREASING AFFORDABILITY →

Note: Results shown are inclusive of applicable incentives to support an IZ policy.

If a 10% mandatory IZ policy requirement had been in place since 2014, the policy would have created 126 IZ units – or equivalent in-lieu fees – across 14 buildings.

Four Wind Apts

261 Units

26 Affordable Units

California Bldg

167 Units

17 Affordable Units

The Standard

89 Units

9 Affordable Units

The Paramount

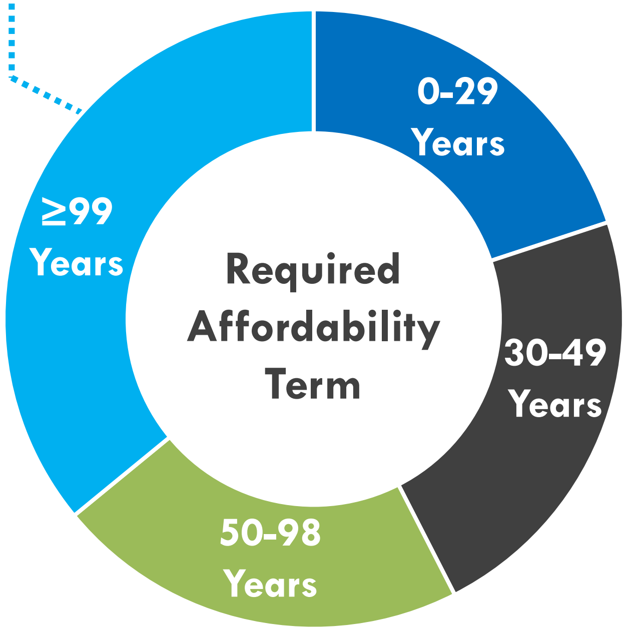
209 Units

21 Affordable Units

HR&A recommends an affordability term of 99 years—recorded through a covenant separate from applied incentives—for all IZ units to ensure long-term affordability.

NATIONAL PRECEDENCE
IZ Programs in United States, 2014

36% of cities with an IZ policy require affordability terms at or greater than 99 years.



Source: Lincoln Institute of Land Policy, 2014

LOCAL CONTEXT

HR&A's financial analysis modeled feasibility of long-term affordability in New Orleans based on applicable incentives.

Density Bonus
Creates permanent value in the form of increased on-site development

Tax Abatement
The present value of a 10-year abatement is sufficient to ensure development feasibility with a 99-year affordability term

The ratio between market rate and affordable units will provide sufficient funding to recapitalize properties as they age

HR&A recommends including an option for meeting the IZ requirement through an in-lieu fee, but structured to encourage on-site production.

NEW ORLEANS IN-LIEU FEE CALCULATION

Difference in Value between Market Rate and Affordable Units		Recommended Fee Per Affordable Unit
$277,100 Rental	**10%** Premium to Encourage On-Site Production	**$305,000** Rental
$348,000 For-Sale		**$383,000** For-Sale

In-lieu fees generate funding for units not otherwise supplied by the market, including family-sized units and supportive housing. Funds would be placed in the City's Neighborhood Housing Improvement Fund and would be paid at completion of a development.

STUDY SUMMARY

AFFORDABILITY REQUIREMENTS

GEOGRAPHIC BOUNDARIES

PUBLIC INCENTIVES

ADMINISTRATIVE POLICY

The City must establish boundaries for an IZ policy that align with market feasibility while also ensuring they do not encourage developing just outside the boundary.

GEOGRAPHIC CONSIDERATIONS

Recognizing Varied Market Strength

In New Orleans, differences in market strength across neighborhoods necessitate a focus on locations where a mandatory IZ requirement will be feasible.

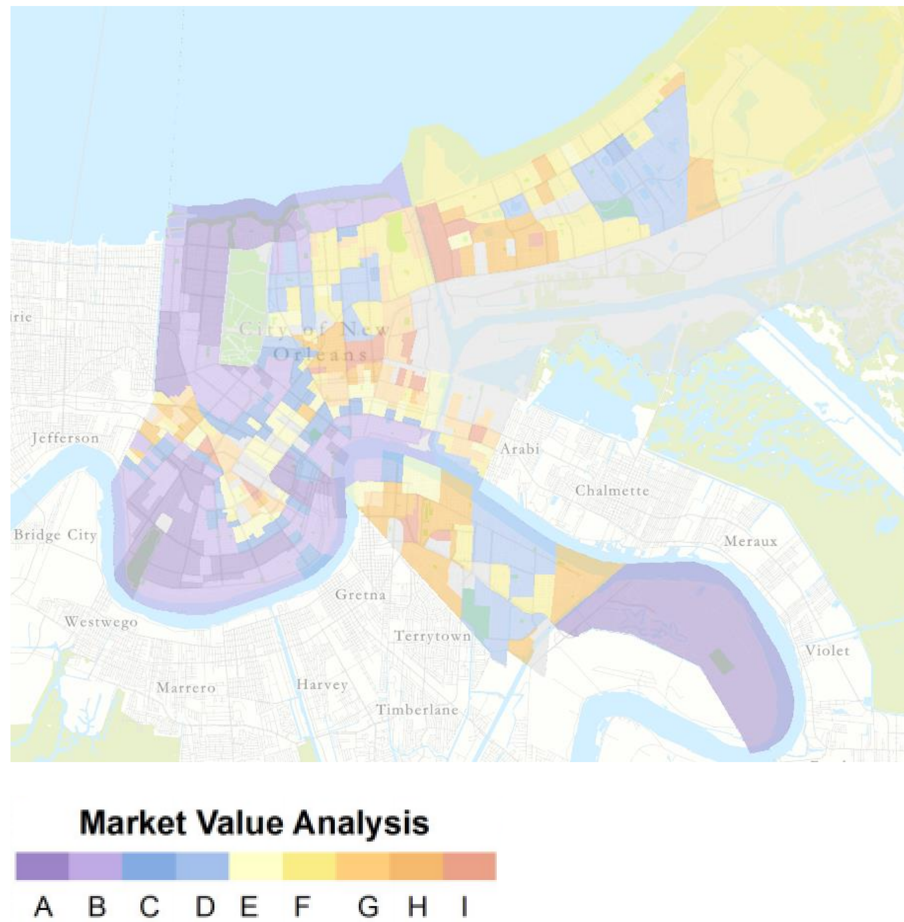
Setting Boundaries

The City must carefully consider the location of boundaries for an IZ requirement to prevent shifting new development just outside the boundary.

Creating Multiple Tiers

Establishing multiple tiers with requirements aligned to the market strength of each tier creates a policy that fits shifting market conditions.

REAL ESTATE MARKET STRENGTH



Source: New Orleans Market Value Analysis 2018, Reinvestment Fund

HR&A recommends establishing a policy with three geographic tiers for New Orleans based on market strength and ability to support new development.

THREE-TIERED INCLUSIONARY ZONING GEOGRAPHY POLICY

Tier	Submarket Description	Rents	Land Costs	Locations
Core	Strongest submarkets in the city; new high- and mid-rise construction and historic rehabs.	$2.35 - $3.00 PSF	~$100 - $150/GSF	CBD, French Quarter
Strong	Strong submarkets with some new development; new mid-rise construction and historic rehabs.	$1.50 - $2.00 PSF	~$40/GSF	Lower Gar, Dist. Bywater, Treme, Marigny, Mid-City, Uptown, Lakeview (portions)
Transitional	Emerging submarkets with limited new development; new low-rise construction and historic rehab.	$0.90 - $1.20 PSF	~$30/GSF	Remainder of city

The three geographic tiers correspond to submarkets based on multifamily residential market performance and building typologies.

Note: Results shown are inclusive of applicable incentives to support an IZ policy.

Each of the three geographic tiers will have a different affordability requirement.

THREE-TIERED INCLUSIONARY ZONING GEOGRAPHY POLICY

Tier	Recommended Policy	Locations
Core	Mandatory IZ requirement of 10% of Units at 60% AMI	CBD, French Quarter
Strong	Mandatory IZ requirement of 5% of rental units at 60% AMI	Lower Garden District, Bywater, Treme, Marigny, Mid-City, Uptown, Lakeview (portions)
Transitional	Voluntary participation (5% requirement) available for developments seeking certain inclusionary incentives	Remainder of city, with no exclusions

The three geographic tiers correspond to submarkets based on multifamily residential market performance and building typologies.

Note: Results shown are inclusive of applicable incentives to support an IZ policy.

STUDY SUMMARY

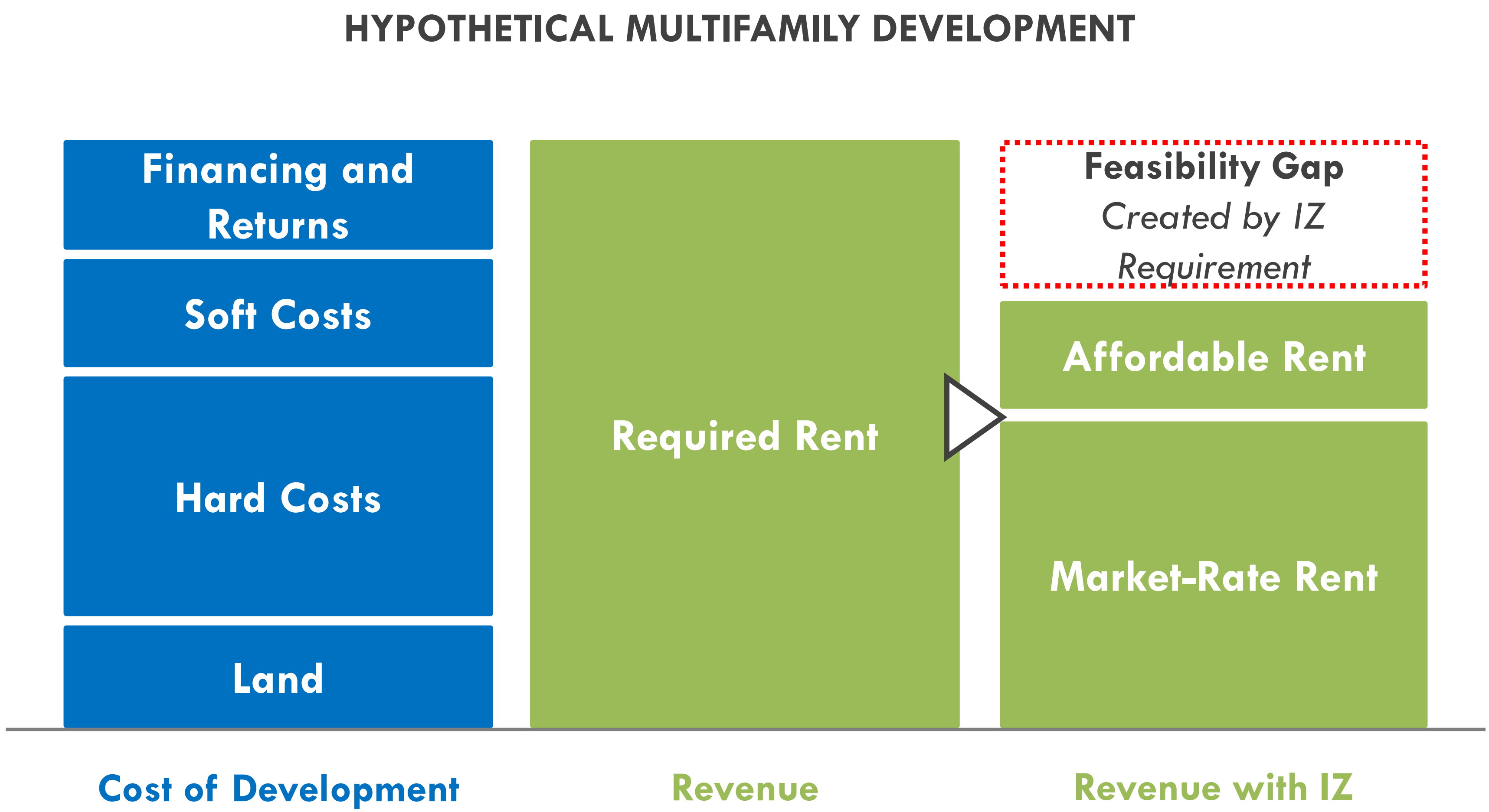
AFFORDABILITY REQUIREMENTS

GEOGRAPHIC BOUNDARIES

PUBLIC INCENTIVES

ADMINISTRATIVE POLICY

Public incentives are needed to cover the gap between market pricing and below-market pricing for IZ units.



Without sufficient incentives, a mandatory policy could reduce affordability by creating infeasible developments and restricting the production of new units.

New Orleans has a suite of existing incentives available for residential development that provide direct and indirect incentives to produce housing.

REGULATORY RELIEF	PROPERTY TAX REDUCTION	GRANTS & LOW-COST FINANCING	
Density Bonuses & Other Zoning Relief	Payment in-lieu-of Taxes (PILOT)	Soft Second Mortgage	NORA Residential Construction Lending
Stormwater Fee-in-Lieu Exemption	Restoration Tax Abatement (RTA)	Rental Housing Program (RHP)	Owner-Occupied Rehab Program
Building Code Waivers	Tax Increment Financing (TIF)	Community Devt Block Grant (CDBG)	HOME Funds
Minimum Parking Reduction		Neighborhood Housing Improvement Fund	
Fast Track Processing			

Of these programs, only a few are in the City's interest and can be meaningful in an IZ program.

REGULATORY RELIEF	PROPERTY TAX REDUCTION	GRANTS & LOW-COST FINANCING	
Density Bonuses & Other Zoning Relief	Payment in-lieu-of Taxes (PILOT)	Soft Second Mortgage	NORA Residential Construction Lending
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Minimum Parking Reduction		Neighborhood Housing Improvement Fund	
Fast Track Processing			

Reason for Exclusion

May undermine other City priorities	TIF not valuable for resi. development	Housing funds are limited, cannot be guaranteed by-right, and create significant additional dev. costs

HR&A recommends a combination of property tax reduction and regulatory relief as the optimal mix of incentives to ensure IZ feasibility.

RECOMMENDED CITY IZ INCENTIVES

Regulatory Relief

Density Bonus
30% reduction in minimum lot area per dwelling unit by-right, with the potential for up to 50%

Minimum Parking Reduction
10% reduction by-right in locations where applicable, with up to 30% reduction if market allows; use is anticipated to be limited due to market demand

Property Tax Reduction

Payment-in-Lieu-of-Taxes (PILOT)
10-year abatement, amount determined based on individual project underwriting

Restoration Tax Abatement (RTA)
Two five-year abatement periods, no reinvestment required for renewal after initial five-year period

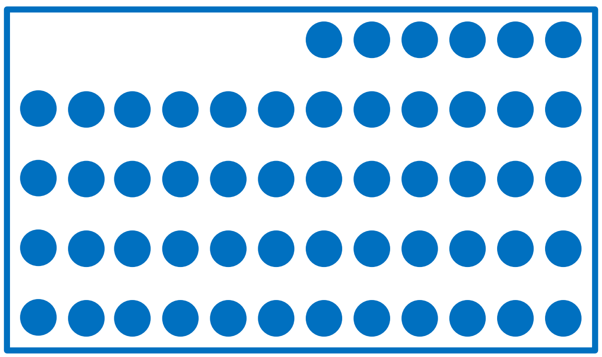
These incentives should be available as-of-right for market-rate and affordable housing development that meets the IZ requirement.

Policy implementation will allow for a mix of funding sources and incentives to produce affordable units.

HYPOTHETICAL DEVELOPMENT SCENARIO
NEW CONSTRUCTION – CORE SUBMARKETS

Without IZ Requirement

1-Acre Parcel
Min. Lot Area Per Unit: **800**



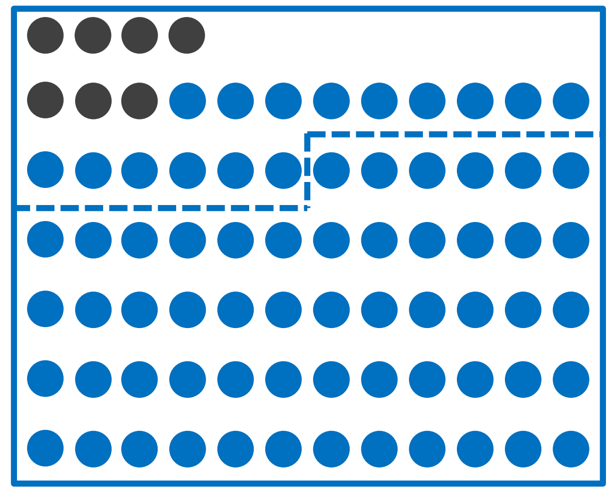
54 Market-Rate Units
0 Affordable Units
1BR avg. market rate rent: $1,790/mo.

30% Density Bonus (Min. Lot Area Per Unit)

50% PILOT ($56K/Year)

With IZ Requirement

1-Acre Parcel
Min. Lot Area Per Unit: **560**



69 Market-Rate Units
7 Affordable Units
1BR *aff. unit rent: $760/mo.**

**Affordable unit price is inclusive of utility costs.*

STUDY SUMMARY

AFFORDABILITY
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GEOGRAPHIC
BOUNDARIES

PUBLIC
INCENTIVES

ADMINISTRATIVE
POLICY

In conjunction with requirements, geographies, and incentives, the City must address additional policy components within the framework for an IZ policy.

Policy	Recommendation
Eligibility	60% AMI (~$30K/year for two-person household)
Unit Pricing	Alignment with HUD guidelines for affordable unit pricing
Affordability Term	99 years
Unit Characteristics	Indistinguishable from market rate units
Concurrency	Delivered at same time as market rate units
Fractional Units	Use standard rounding
In-Lieu Fee Alternative	$291,000 per rental unit and $366,000 per for-sale unit
Requirement Reevaluation	Every two years

Establishing IZ requirements through zoning overlays will allow for precision in creating policy boundaries and simplifying updates as market conditions evolve.

SETTING GEOGRAPHIC BOUNDARIES

- Geographic tier boundaries will be set by the city using a zoning overlay process to define tiers for the policy based on HR&A's analysis.
- HR&A recommends no neighborhood be able to exclude a development from voluntarily using the IZ program.

UPDATING GEOGRAPHIC BOUNDARIES

- Geographic boundaries are based on HR&A's assessment of current market conditions in New Orleans.
- Over time the boundaries for each tier must be updated to ensure the amount of affordable housing requirements align with evolving market dynamics.
- HR&A recommends geographic boundary updates be conducted every two years.

For program management, the City should leverage existing capacities and streamline permitting and approvals through department and agency coordination.

PERMITTING AND APPROVALS

Process	Responsible Party
IZ Certification	DSP and CPC
Density Bonus and Parking Reduction	DSP and CPC
PILOT Allocation	IDB or FANO
Underwriting	Independent (IDB / FANO / Third Party)

PROGRAM MANAGEMENT

Process	Responsible Party
Application / Marketing	Property Owners
Eligibility	DSP with OCD
Monitoring	DSP with OCD
Enforcement / Compliance	DSP with OCD

HR&A estimates additional staffing needs of 1.25 – 1.75 FTE based on the projected scale of IZ unit production and required coordination across agencies.

APPENDIX

Based on identified needs and development feasibility findings, the HR&A Team recommends the following IZ policy for New Orleans.

POLICY COMPONENTS

Requirement

Requirement
5-10% of units affordable at 60% AMI

Term
99 Years

Scale
Market-rate development of 10+ units

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Geography

Three tiers based on market ability to support IZ.

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DSP and CPC

Tax Abatement
IDB or FANO

Density Bonus and Parking Reduction
CPC

Program Management
DSP and OCD

Units administered at property-level by owner

Area Median Income – New Orleans MSA

Area Median Income, New Orleans MSA

Category	1-Person	2-Person	3-Person	4-Person	5-Person	6-Person
100% AMI	$44,375	$50,688	$57,000	$63,313	$68,438	$73,500
30% AMI	$13,313	$15,206	$17,100	$18,994	$20,531	$22,050
50% AMI	$22,188	$25,344	$28,500	$31,656	$34,219	$36,750
60% AMI	$26,625	$30,413	$34,200	$37,988	$41,063	$44,100
80% AMI	$35,500	$40,550	$45,600	$50,650	$54,750	$58,800
90% AMI	$39,938	$45,619	$51,300	$56,981	$61,594	$66,150

Source: HUD, https://www.nola.gov/getattachment/Community-Development/Section-3/Forms-and-Reference-Material/FY-2017-Income-Limits-New-Orleans.pdf/