

# **City of Charlottesville Tax Abatement Feasibility Analysis**

---

City Council Presentation

**February 17, 2026**



# Outline

- Study Purpose
- Study Methods
- Development Feasibility Assessment Tool
- Development Feasibility Findings
- Key Takeaways

# Findings Overview

- Limited development feasibility for “typical” development projects
- This would be true without inclusionary zoning, but IZ further limits feasibility
- Tax abatements help close financial gaps and have clear merit...
- ...But abatements don’t offset IZ impacts or ensure immediate market changes – alternative styles and incentives are encouraged

"TYPICAL" PROJECT FINANCIALS (YIELD ON COST)					
Typology	Tier 1	Tier 2	Tier 3	Tier 4	Tier 5
High Rise	6.2%	6.0%	5.8%	5.6%	5.6%
Mid Rise	5.0%	4.8%	4.5%	4.3%	4.8%
Low Rise	4.4%	4.1%	4.3%	4.1%	4.2%
Garden Apt	4.2%	3.9%	4.1%	4.0%	4.1%
Townhouse	4.5%	4.1%	4.2%	4.1%	3.9%

YIELDS WITHOUT IZ REQUIREMENT					
Typology	Tier 1	Tier 2	Tier 3	Tier 4	Tier 5
High Rise	6.6%	6.4%	6.2%	5.9%	5.9%
Mid Rise	5.3%	5.1%	4.8%	4.5%	5.0%
Low Rise	4.7%	4.3%	4.4%	4.3%	4.3%
Garden Apt	4.4%	4.1%	4.2%	4.1%	4.2%
Townhouse	4.8%	4.4%	4.5%	4.3%	4.1%

Likely Feasible
Possibly Feasible
Likely Not Feasible



# Study Purpose

# Overall Purpose

- Evaluate current housing market feasibility
- Evaluate the current financial impacts of inclusionary zoning
- Evaluate the current financial impacts of a tax abatement
- Provide a mechanism for continued monitoring of these impacts and findings

# What This Project Is and Isn't

This project is...

- A means to **inform** policy decisions by calculating the **financial** impact of public policy interventions
- A **collaborative** effort that relies upon reliable and ongoing cost/revenue inputs
- A **transparent, flexible, and adaptable** way to evaluate and inform moving forward

# What This Project Is and Isn't

This project isn't...

- A tool to **recommend** policy
- A tool covering all intricacies of **specific projects and financing mechanisms**
- An evaluation of **for-sale** market
- An evaluation of **non-financial** impacts

# Tax Abatement Defined

- Temporary reduction or exemption from taxes levied by a unit of government, typically to encourage a particular activity
- Purpose could be to improve financial feasibility of ADU production using new future revenue create by housing construction, while preserving base tax revenue and/or being informed of the impact on future tax revenue
- Authorized under §15.2-4905 (Industrial Development and Revenue Bond Act)
- In Virginia it must be executed as a performance-based grant that reimburses a portion of real estate taxes



# Charlottesville Development Feasibility Assessment Tool

# Tool Overview

- Charlottesville Development Feasibility Assessment Tool provides:
  - Evaluation of financial implications of **public incentives**
  - Ability to analyze across building types, submarkets, and **varying levels of affordability**
  - Evaluation of **financial impacts**, both traditional (yield on cost, internal rate of return) and other trade-offs (tax revenue, developer “burden”)

# Tool Interface

## CHARLOTTESVILLE DEVELOPMENT FEASIBILITY ASSESSMENT | Feasibility Evaluator

### PROJECT INPUTS

Development Type	Mid Rise	<- SELECT
Submarket	Tier 1	<- SELECT
Buildings in Project	3	
Avg Units per Building	45	
Total Units	135	
Parking Type	Above Ground Deck	
Spaces per Unit	0.75	

Affordable Units		
AMI Band 1	60%	<- SELECT
% of Units	10%	<- ENTER
AMI Band 2	80%	<- SELECT
% of Units	0%	<- ENTER
AMI Band 3	100%	<- SELECT
% of Units	0%	<- ENTER
Total Affordable Units		14

RESET TO DEFAULT

### POLICY TESTING

Tax Abatement	Yes	<- SELECT
Rent Gap Model	Yes/No	
Abatement %	50%	<- ENTER
Units Abated	Affordable Units	<- SELECT
Years	5	<- ENTER
Market Rent Avg	\$2,838	
Affordable Rent Avg	\$1,557	
Monthly Rent Gap	(\$1,280)	

Tax Abatement	No	<- SELECT
Base/Increment Model	Yes/No	
Abatement %	100%	<- ENTER
Units Abated	Affordable Units	<- SELECT
Years	5	

Gap Financing	No	<- SELECT
Yes/No		
Units Abated	Affordable Units	<- SELECT
Per Unit Amount	\$0	<- ENTER
Loan Rate	0%	<- ENTER

Approval Timeline	0	<- ENTER
		months reduced

### OVERALL FINDINGS

WITHOUT INCENTIVES	WITH INCENTIVES	DIFFERENCE
<b>Yield on Cost</b> <b>5.0%</b> <b>Unlikely Feasibility</b>	<b>Yield on Cost</b> <b>5.1%</b> <b>Unlikely Feasibility</b>	<b>Yield</b> <b>0.18%</b>
<b>IRR</b> <b>3.9%</b> <b>Unlikely Feasibility</b>	<b>IRR</b> <b>4.1%</b> <b>Unlikely Feasibility</b>	<b>IRR</b> <b>0.17%</b>

### OTHER SUMMARIES OF INCENTIVE COSTS & BENEFITS

Inclusionary Zoning Rent Change	Abatement Provides	Difference
(\$17,285)	\$8,642	(\$8,642)
per month	per month	
Annual New Tax Revenue	Annual Revenue Waived	
\$484,324	\$103,707	
Total New Tax Revenue	Total Revenue Waived	
\$2,421,618	\$518,537	
Percent Revenue Waived		
18%		

# Tool Interface

CHARLOTTESVILLE DEVELOPMENT FEASIBILITY ASSESSMENT | Feasibility Evaluator

**PROJECT INPUTS**

Development Type	Mid Rise	< SELECT
Submarket	Tier 1	< SELECT
Buildings in Project	3	
Avg Units per Building	45	
Total Units	135	
Parking Type	Above Ground Deck	
Construction	0.75	
Cost Adjustments		
Construction	Standard	< SELECT
Land	Standard	< SELECT
Rent	Standard	< SELECT

**Affordable Units**

AMI Band 1	60%	< SELECT
% of Units	10%	< ENTER
AMI Band 2	80%	< SELECT
% of Units	0%	< ENTER
AMI Band 3	100%	< SELECT
% of Units	0%	< ENTER
Total Affordable Units	14	

**RESET TO DEFAULT**

1  
User selects project details

**POLICY TESTING**

Tax Abatement	Yes	< SELECT
Rent Gap Model	Yes/No	
Abatement %	50%	< ENTER
Units Abated	Affordable Units	< SELECT
Years	5	< ENTER
Market Rent Avg	\$2,838	
Affordable Rent Avg	\$1,557	
Monthly Rent Gap	(\$1,280)	
Gap Financing	No	< SELECT
Yes/No		
Units Abated	Affordable Units	< SELECT
Per Unit Amount	\$0	< ENTER
Loan Rate	0%	< ENTER

**Approval Timeline**  
months reduced

2  
And selects policy intervention(s)

OVERALL FINDINGS		
WITHOUT INCENTIVES	WITH INCENTIVES	DIFFERENCE
<b>Yield on Cost</b> 5.0% <b>Unlikely Feasibility</b>	<b>Yield on Cost</b> 5.1% <b>Unlikely Feasibility</b>	<b>Yield</b> 0.18%
<b>IRR</b> 3.9% <b>Unlikely Feasibility</b>	<b>IRR</b> 4.1% <b>Unlikely Feasibility</b>	<b>IRR</b> 0.17%

## OTHER SUMMARIES OF INCENTIVE COSTS & BENEFITS

Inclusionary Zoning Rent Change (\$17,285)	per month	Abatement Provides \$8,642	per month	Difference (\$8,642)
Annual New Tax Revenue \$484,324		Annual Revenue Waived \$103,707		
Total New Tax Revenue \$2,421,618		Total Revenue Waived \$518,537		

3  
Financial summary is returned

# Inputs & Methods

- Inputs include:
  - **Costs** – Land, hard costs (materials & labor), soft costs (fees, plans), etc.
  - **Revenues** – Market rate and affordable rents
  - **Financial Assumptions** – Interest rates, ROI requirements, etc
- Inputs derived from local data, market research, paid data services, and local development community collaboration
- Importantly, many of these inputs can be unique to a single project, and can and do change with regularity, so our aim is to be reasonable, not perfect

# Feasibility Model Demonstration

- In the next series of slides we will show how the model can be used
- Will walk through making selections on projects and public policies/interventions
- Illustrates how changing variables changes financial feasibility

# CHARLOTTESVILLE DEVELOPMENT FEASIBILITY ASSESSMENT | Feasibility Evaluator

## PROJECT INPUTS

Development Type	Low Rise	<- SELECT
Submarket	Tier 3	<- SELECT
Buildings in Project	4	
Avg Units per Building	27	
Total Units	108	
Parking Type	Surface	
Spaces per Unit	1	

<b>Affordable Units</b>		
AMI Band 1	60%	<- SELECT
% of Units	10%	<- ENTER
AMI Band 2	80%	<- SELECT
% of Units	0%	<- ENTER
AMI Band 3	100%	<- SELECT
% of Units	0%	<- ENTER
<b>Total Affordable Units</b>	<b>11</b>	

<b>Cost Adjustments</b>		
Construction	Standard	<- SELECT
Land	Standard	<- SELECT
Rent	Standard	<- SELECT

RESET TO DEFAULT

## POLICY TESTING

Tax Abatement	No	<- SELECT
Rent Gap Model	Yes/No	
Abatement %	50%	<- ENTER
Units Abated	Affordable Units	<- SELECT
Years	10	<- ENTER
Market Rent Avg	\$2,164	
Affordable Rent Avg	\$1,586	
Monthly Rent Gap	(\$579)	

Tax Abatement	No	<- SELECT
Base/Increment Model	Yes/No	
Abatement %	50%	<- ENTER
Units Abated	Affordable Units	<- SELECT
Years	10	

Gap Financing	No	<- SELECT
	Yes/No	
Units Abated	Affordable Units	<- SELECT
Per Unit Amount	\$0	<- ENTER
Loan Rate	0%	<- ENTER

Approval Timeline	0	<- ENTER
	months reduced	

## OVERALL FINDINGS

WITHOUT INCENTIVES	WITH INCENTIVES	DIFFERENCE
<b>Yield on Cost</b> <b>4.2%</b> <b>Unlikely Feasibility</b>	<b>Yield on Cost</b> <b>4.2%</b> <b>Unlikely Feasibility</b>	<b>Yield</b> <b>0.00%</b>
<b>IRR</b> <b>-0.7%</b> <b>Unlikely Feasibility</b>	<b>IRR</b> <b>-0.7%</b> <b>Unlikely Feasibility</b>	<b>IRR</b> <b>0.00%</b>

## OTHER SUMMARIES OF INCENTIVE COSTS & BENEFITS

Inclusionary Zoning Rent Change	Abatement Provides	Difference
(\$6,250)	\$0	(\$6,250)
per month	per month	
Annual New Tax Revenue	Annual Revenue Waived	Percent
\$357,614	\$0	Revenue Waived
Total New Tax Revenue	Total Revenue Waived	0%
\$3,576,145	\$0	

# CHARLOTTESVILLE DEVELOPMENT FEASIBILITY ASSESSMENT | Feasibility Evaluator

## PROJECT INPUTS

Development Type	Low Rise	< SELECT
Submarket	Garden Apt	< SELECT
Buildings in Project	Low Rise	
Avg Units per Building	Mid Rise	
Total Units	High Rise	
Parking Type	Single Family	
Spaces per Unit	Townhouse	

Affordable Units	
AMI Band 1	60%
% of Units	10%
AMI Band 2	80%
% of Units	0%
AMI Band 3	100%
% of Units	0%
<b>Total Affordable Units</b>	<b>11</b>

RESET TO DEFAULT

## POLICY TESTING

Tax Abatement	No	< SELECT
Rent Gap Model	Yes/No	
Abatement %	50%	< ENTER
Units Abated	Affordable Units	< SELECT
Years	10	< ENTER
Market Rent Avg	\$2,164	
Affordable Rent Avg	\$1,586	
Monthly Rent Gap	(\$579)	

Tax Abatement	No	< SELECT
Base/Increment Model	Yes/No	
Abatement %	50%	< ENTER
Units Abated	Affordable Units	< SELECT
Years	10	

Gap Financing	No	< SELECT
	Yes/No	
Units Abated	Affordable Units	< SELECT
Per Unit Amount	\$0	< ENTER
Loan Rate	0%	< ENTER

## OVERALL FINDINGS

WITHOUT INCENTIVES	WITH INCENTIVES	DIFFERENCE
<b>Yield on Cost</b> <b>4.2%</b> <b>Unlikely Feasibility</b>	<b>Yield on Cost</b> <b>4.2%</b> <b>Unlikely Feasibility</b>	<b>Yield</b> <b>0.00%</b>
<b>IRR</b> <b>-0.7%</b> <b>Unlikely Feasibility</b>	<b>IRR</b> <b>-0.7%</b> <b>Unlikely Feasibility</b>	<b>IRR</b> <b>0.00%</b>

## OTHER SUMMARIES OF INCENTIVE COSTS & BENEFITS

Inclusionary Zoning Rent Change	Abatement Provides	Difference
(\$6,250)	\$0	(\$6,250)
per month	per month	
Annual New Tax Revenue	Annual Revenue Waived	Percent
\$357,614	\$0	Revenue Waived
Total New Tax Revenue	Total Revenue Waived	0%
\$3,576,145	\$0	

# CHARLOTTESVILLE DEVELOPMENT FEASIBILITY ASSESSMENT | Feasibility Evaluator

## PROJECT INPUTS

Development Type	Mid Rise	<- SELECT
Submarket	Tier 3	<- SELECT
Buildings in Project	Tier 1	
	Tier 2	
	Tier 3	
	Tier 4	
	Tier 5	
Parking Type	Above Ground Deck	
Spaces per Unit	1	

Affordable Units		
AMI Band 1	60%	<- SELECT
% of Units	10%	<- ENTER
AMI Band 2	80%	<- SELECT
% of Units	0%	<- ENTER
AMI Band 3	100%	<- SELECT
% of Units	0%	<- ENTER
<b>Total Affordable Units</b>	<b>14</b>	

Cost Adjustments		
Construction	Standard	<- SELECT
Land	Standard	<- SELECT
Rent	Standard	<- SELECT

RESET TO DEFAULT

## POLICY TESTING

Tax Abatement	No	<- SELECT
Rent Gap Model	Yes/No	
Abatement %	50%	<- ENTER
Units Abated	Affordable Units	<- SELECT
Years	10	<- ENTER
Market Rent Avg	\$2,567	
Affordable Rent Avg	\$1,557	
Monthly Rent Gap	(\$1,010)	

Tax Abatement	No	<- SELECT
Base/Increment Model	Yes/No	<- SELECT
Abatement %	50%	<- ENTER
Units Abated	Affordable Units	<- SELECT
Years	10	

Gap Financing	No	<- SELECT
	Yes/No	
Units Abated	Affordable Units	<- SELECT
Per Unit Amount	\$0	<- ENTER
Loan Rate	0%	<- ENTER

Approval Timeline	0	<- ENTER
	months reduced	

## OVERALL FINDINGS

WITHOUT INCENTIVES	WITH INCENTIVES	DIFFERENCE
<b>Yield on Cost</b> <b>4.5%</b> <b>Unlikely Feasibility</b>	<b>Yield on Cost</b> <b>4.5%</b> <b>Unlikely Feasibility</b>	<b>Yield</b> <b>0.00%</b>
<b>IRR</b> <b>1.5%</b> <b>Unlikely Feasibility</b>	<b>IRR</b> <b>1.5%</b> <b>Unlikely Feasibility</b>	<b>IRR</b> <b>0.00%</b>

## OTHER SUMMARIES OF INCENTIVE COSTS & BENEFITS

Inclusionary Zoning Rent Change	Abatement Provides	Difference
(\$13,636)	\$0	(\$13,636)
per month	per month	
Annual New Tax Revenue	Annual Revenue Waived	Percent
\$541,888	\$0	Revenue Waived
Total New Tax Revenue	Total Revenue Waived	0%
\$5,418,876	\$0	

# CHARLOTTESVILLE DEVELOPMENT FEASIBILITY ASSESSMENT | Feasibility Evaluator

## PROJECT INPUTS

Development Type	Mid Rise	< SELECT
Submarket	Tier 1	< SELECT
Buildings in Project	3	
Avg Units per Building	45	
Total Units	135	
Parking Type	Above Ground Deck	
Spaces per Unit	0.75	

Affordable Units	
AMI Band 1	60%
% of Units	10%
AMI Band 2	80%
% of Units	0%
AMI Band 3	100%
% of Units	0%
<b>Total Affordable Units</b>	<b>14</b>

RESET TO DEFAULT

## POLICY TESTING

Tax Abatement	No	< SELECT
Rent Gap Model	Yes/No	
Abatement %	50%	< ENTER
Units Abated	Affordable Units	< SELECT
Years	10	< ENTER
Market Rent Avg	\$2,838	
Affordable Rent Avg	\$1,557	
Monthly Rent Gap	(\$1,280)	

Tax Abatement	No	< SELECT
Base/Increment Model	Yes/No	
Abatement %	50%	< ENTER
Units Abated	Affordable Units	< SELECT
Years	10	

Gap Financing	No	< SELECT
	Yes/No	
Units Abated	Affordable Units	< SELECT
Per Unit Amount	\$0	< ENTER
Loan Rate	0%	< ENTER

Approval Timeline	0	< ENTER
	months reduced	

## OVERALL FINDINGS

WITHOUT INCENTIVES	WITH INCENTIVES	DIFFERENCE
<b>Yield on Cost</b> 5.0% Unlikely Feasibility	<b>Yield on Cost</b> 5.0% Unlikely Feasibility	<b>Yield</b> 0.00%
<b>IRR</b> 3.9% Unlikely Feasibility	<b>IRR</b> 3.9% Unlikely Feasibility	<b>IRR</b> 0.00%

## OTHER SUMMARIES OF INCENTIVE COSTS & BENEFITS

Inclusionary Zoning Rent Change	Abatement Provides	Difference
(\$17,285)	\$0	(\$17,285)
per month	per month	
Annual New Tax Revenue	Annual Revenue Waived	Percent
\$588,031	\$0	Revenue Waived
Total New Tax Revenue	Total Revenue Waived	0%
\$5,880,310	\$0	

# CHARLOTTESVILLE DEVELOPMENT FEASIBILITY ASSESSMENT | Feasibility Evaluator

## PROJECT INPUTS

Development Type	Mid Rise	<- SELECT
Submarket	Tier 1	<- SELECT
Buildings in Project	3	
Avg Units per Building	45	
Total Units	135	
Parking Type	Above Ground Deck	
Spaces per Unit	0.75	

Affordable Units	
AMI Band 1	60%
% of Units	25%
AMI Band 2	80%
% of Units	0%
AMI Band 3	100%
% of Units	0%
<b>Total Affordable Units</b>	<b>34</b>

RESET TO DEFAULT

## POLICY TESTING

Tax Abatement	No	<- SELECT
Rent Gap Model	Yes/No	
Abatement %	50%	<- ENTER
Units Abated	Affordable Units	<- SELECT
Years	10	<- ENTER
Market Rent Avg	\$2,838	
Affordable Rent Avg	\$1,557	
Monthly Rent Gap	<b>(\$1,280)</b>	

Tax Abatement	No	<- SELECT
Base/Increment Model	Yes/No	
Abatement %	50%	<- ENTER
Units Abated	Affordable Units	<- SELECT
Years	10	

Gap Financing	No	<- SELECT
	Yes/No	
Units Abated	Affordable Units	<- SELECT
Per Unit Amount	\$0	<- ENTER
Loan Rate	0%	<- ENTER

Approval Timeline	0	<- ENTER
	months reduced	

## OVERALL FINDINGS

WITHOUT INCENTIVES	WITH INCENTIVES	DIFFERENCE
<b>Yield on Cost</b> <b>4.4%</b> <b>Unlikely Feasibility</b>	<b>Yield on Cost</b> <b>4.4%</b> <b>Unlikely Feasibility</b>	<b>Yield</b> <b>0.00%</b>
<b>IRR</b> <b>0.5%</b> <b>Unlikely Feasibility</b>	<b>IRR</b> <b>0.5%</b> <b>Unlikely Feasibility</b>	<b>IRR</b> <b>0.00%</b>

## OTHER SUMMARIES OF INCENTIVE COSTS & BENEFITS

Inclusionary Zoning Rent Change	Abatement Provides	Difference
(\$43,211)	\$0	(\$43,211)
per month	per month	
Annual New Tax Revenue	Annual Revenue Waived	Percent
\$588,031	\$0	Revenue Waived
Total New Tax Revenue	Total Revenue Waived	0%
\$5,880,310	\$0	

# CHARLOTTESVILLE DEVELOPMENT FEASIBILITY ASSESSMENT | Feasibility Evaluator

## PROJECT INPUTS

Development Type	Mid Rise	← SELECT
Submarket	Tier 1	← SELECT
Buildings in Project	3	
Avg Units per Building	45	
Total Units	135	
Parking Type	Above Ground Deck	
Spaces per Unit	0.75	

Affordable Units		
AMI Band 1	60%	← SELECT
% of Units	10%	← ENTER
AMI Band 2	80%	← SELECT
% of Units	0%	← ENTER
AMI Band 3	100%	← SELECT
% of Units	10%	← ENTER
Total Affordable Units	27	

Cost Adjustments		
Construction	Standard	← SELECT
Land	Standard	← SELECT
Rent	Standard	← SELECT

RESET TO DEFAULT

## POLICY TESTING

Tax Abatement	No	← SELECT
Rent Gap Model	Yes/No	
Abatement %	50%	← ENTER
Units Abated	Affordable Units	← SELECT
Years	10	← ENTER
Market Rent Avg	\$2,838	
Affordable Rent Avg	\$2,076	
Monthly Rent Gap	(\$761)	

Tax Abatement	No	← SELECT
Base/Increment Model	Yes/No	
Abatement %	50%	← ENTER
Units Abated	Affordable Units	← SELECT
Years	10	

Gap Financing	No	← SELECT
	Yes/No	
Units Abated	Affordable Units	← SELECT
Per Unit Amount	\$0	← ENTER
Loan Rate	0%	← ENTER

## OVERALL FINDINGS

WITHOUT INCENTIVES	WITH INCENTIVES	DIFFERENCE
<b>Yield on Cost</b> <b>4.9%</b> <b>Unlikely Feasibility</b>	<b>Yield on Cost</b> <b>4.9%</b> <b>Unlikely Feasibility</b>	<b>Yield</b> <b>0.00%</b>
<b>IRR</b> <b>3.5%</b> <b>Unlikely Feasibility</b>	<b>IRR</b> <b>3.5%</b> <b>Unlikely Feasibility</b>	<b>IRR</b> <b>0.00%</b>

## OTHER SUMMARIES OF INCENTIVE COSTS & BENEFITS

Inclusionary Zoning Rent Change	Abatement Provides	Difference
(\$20,553)	\$0	(\$20,553)
per month	per month	
Annual New Tax Revenue	Annual Revenue Waived	Percent
\$588,031	\$0	Revenue Waived
Total New Tax Revenue	Total Revenue Waived	0%
\$5,880,310	\$0	

Approval Timeline 0 months reduced

# CHARLOTTESVILLE DEVELOPMENT FEASIBILITY ASSESSMENT | Feasibility Evaluator

## PROJECT INPUTS

Development Type	Mid Rise	<- SELECT
Submarket	Tier 1	<- SELECT
Buildings in Project	3	
Avg Units per Building	45	
Total Units	135	
Parking Type	Above Ground Deck	
Spaces per Unit	0.75	

<b>Affordable Units</b>		
AMI Band 1	60%	<- SELECT
% of Units	10%	<- ENTER
AMI Band 2	80%	<- SELECT
% of Units	0%	<- ENTER
AMI Band 3	100%	<- SELECT
% of Units	0%	<- ENTER
<b>Total Affordable Units</b>	<b>14</b>	

<b>Cost Adjustments</b>		
Construction	Standard	<- SELECT
Land	Standard	<- SELECT
Rent	Standard	<- SELECT

RESET TO DEFAULT

## POLICY TESTING

Tax Abatement	No	<- SELECT
Rent Gap Model	Yes/No	
Abatement %	50%	<- ENTER
Units Abated	Affordable Units	<- SELECT
Years	10	<- ENTER
Market Rent Avg	\$2,838	
Affordable Rent Avg	\$1,557	
Monthly Rent Gap	(\$1,280)	

<b>Tax Abatement</b>	No	<- SELECT
<b>Base/Increment Model</b>	Yes	
Abatement %	50%	<- ENTER
Units Abated	Affordable Units	<- SELECT
Years	10	

Gap Financing	No	<- SELECT
	Yes/No	
Units Abated	Affordable Units	<- SELECT
Per Unit Amount	\$0	<- ENTER
Loan Rate	0%	<- ENTER

<b>Approval Timeline</b>	0	<- ENTER
	months reduced	

## OVERALL FINDINGS

WITHOUT INCENTIVES	WITH INCENTIVES	DIFFERENCE
<b>Yield on Cost</b> 5.0% <b>Unlikely Feasibility</b>	<b>Yield on Cost</b> 5.0% <b>Unlikely Feasibility</b>	<b>Yield</b> 0.00%
<b>IRR</b> 3.9% <b>Unlikely Feasibility</b>	<b>IRR</b> 3.9% <b>Unlikely Feasibility</b>	<b>IRR</b> 0.00%

## OTHER SUMMARIES OF INCENTIVE COSTS & BENEFITS

Inclusionary Zoning Rent Change	Abatement Provides	Difference
(\$17,285)	\$0	(\$17,285)
per month	per month	
Annual New Tax Revenue	Annual Revenue Waived	Percent
\$588,031	\$0	Revenue Waived
Total New Tax Revenue	Total Revenue Waived	0%
\$5,880,310	\$0	

# CHARLOTTESVILLE DEVELOPMENT FEASIBILITY ASSESSMENT | Feasibility Evaluator

## PROJECT INPUTS

Development Type	Mid Rise	< SELECT
Submarket	Tier 1	< SELECT
Buildings in Project	3	
Avg Units per Building	45	
Total Units	135	
Parking Type	Above Ground Deck	
Spaces per Unit	0.75	

Affordable Units		
AMI Band 1	60%	< SELECT
% of Units	10%	< ENTER
AMI Band 2	80%	< SELECT
% of Units	0%	< ENTER
AMI Band 3	100%	< SELECT
% of Units	0%	< ENTER
<b>Total Affordable Units</b>		
<b>14</b>		

Cost Adjustments		
Construction	Standard	< SELECT
Land	Standard	< SELECT
Rent	Standard	< SELECT

RESET TO DEFAULT

## POLICY TESTING

Tax Abatement	No	< SELECT
Rent Gap Model	Yes/No	
Abatement %	50%	< ENTER
Units Abated	Affordable Units	< SELECT
Years	10	< ENTER
Market Rent Avg	\$2,838	
Affordable Rent Avg	\$1,557	
Monthly Rent Gap	<b>(\$1,280)</b>	

Tax Abatement	Yes	< SELECT
Base/Increment Model	Yes/No	
Abatement %	50%	< ENTER
Units Abated	Affordable Units	< SELECT
Years	10	

Gap Financing	No	< SELECT
	Yes/No	
Units Abated	Affordable Units	< SELECT
Per Unit Amount	\$0	< ENTER
Loan Rate	0%	< ENTER

Approval Timeline	0	< ENTER
months reduced		

## OVERALL FINDINGS

WITHOUT INCENTIVES	WITH INCENTIVES	DIFFERENCE
<b>Yield on Cost</b> 5.0% <b>Unlikely Feasibility</b>	<b>Yield on Cost</b> 5.0% <b>Unlikely Feasibility</b>	<b>Yield</b> 0.05%
<b>IRR</b> 3.9% <b>Unlikely Feasibility</b>	<b>IRR</b> 4.0% <b>Unlikely Feasibility</b>	<b>IRR</b> 0.10%

## OTHER SUMMARIES OF INCENTIVE COSTS & BENEFITS

Inclusionary Zoning Rent Change	Abatement Provides	Difference
(\$17,285)	\$2,569	(\$14,716)
per month	per month	
Annual New Tax Revenue	Annual Revenue Waived	Percent
\$557,207	\$30,824	Revenue Waived
Total New Tax Revenue	Total Revenue Waived	5%
\$5,572,072	\$308,238	

# CHARLOTTESVILLE DEVELOPMENT FEASIBILITY ASSESSMENT | Feasibility Evaluator

## PROJECT INPUTS

Development Type	Mid Rise	<- SELECT
Submarket	Tier 1	<- SELECT
Buildings in Project	3	
Avg Units per Building	45	
Total Units	135	
Parking Type	Above Ground Deck	
Spaces per Unit	0.75	

Affordable Units		
AMI Band 1	60%	<- SELECT
% of Units	10%	<- ENTER
AMI Band 2	80%	<- SELECT
% of Units	0%	<- ENTER
AMI Band 3	100%	<- SELECT
% of Units	0%	<- ENTER
<b>Total Affordable Units</b>		14

Cost Adjustments		
Construction	Standard	<- SELECT
Land	Standard	<- SELECT
Rent	Standard	<- SELECT

RESET TO DEFAULT

## POLICY TESTING

Tax Abatement	No	<- SELECT
Rent Gap Model	Yes/No	
Abatement %	50%	<- ENTER
Units Abated	Affordable Units	<- SELECT
Years	10	<- ENTER
Market Rent Avg	\$2,838	
Affordable Rent Avg	\$1,557	
Monthly Rent Gap	<b>(\$1,280)</b>	

Tax Abatement	Yes	<- SELECT
Base/Increment Model	Yes/No	
Abatement %	100%	<- ENTER
Units Abated	Affordable Units	<- SELECT
Years	10	

Gap Financing	No	<- SELECT
	Yes/No	
Units Abated	Affordable Units	<- SELECT
Per Unit Amount	\$0	<- ENTER
Loan Rate	0%	<- ENTER

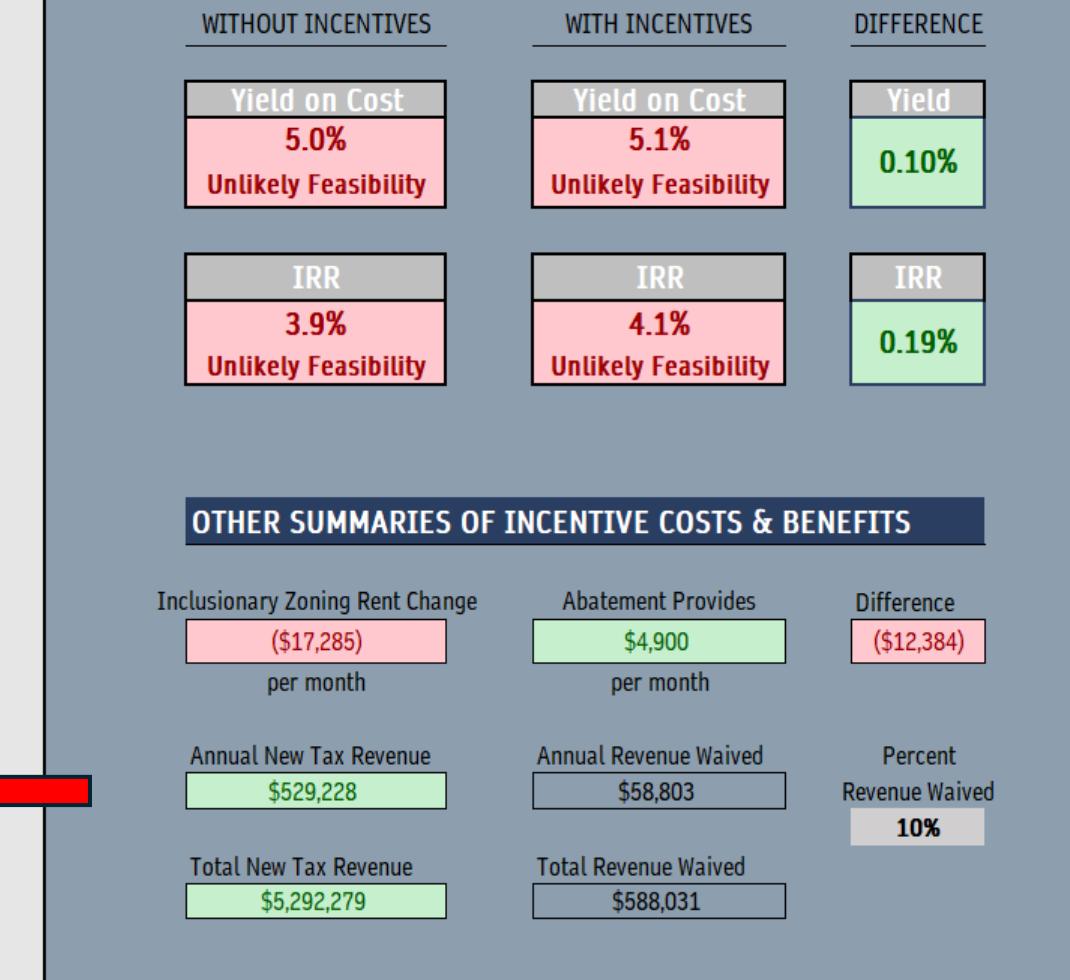
Approval Timeline	0	<- ENTER
months reduced		

## OVERALL FINDINGS

WITHOUT INCENTIVES	WITH INCENTIVES	DIFFERENCE
<b>Yield on Cost</b> <b>5.0%</b> <b>Unlikely Feasibility</b>	<b>Yield on Cost</b> <b>5.1%</b> <b>Unlikely Feasibility</b>	<b>Yield</b> <b>0.10%</b>
<b>IRR</b> <b>3.9%</b> <b>Unlikely Feasibility</b>	<b>IRR</b> <b>4.1%</b> <b>Unlikely Feasibility</b>	<b>IRR</b> <b>0.19%</b>

## OTHER SUMMARIES OF INCENTIVE COSTS & BENEFITS

Inclusionary Zoning Rent Change	Abatement Provides	Difference
(\$17,285)	\$4,900	(\$12,384)
per month	per month	
Annual New Tax Revenue	Annual Revenue Waived	Percent
\$529,228	\$58,803	Revenue Waived
Annual Revenue Waived	Total New Tax Revenue	10%
\$58,803	\$5,292,279	
Total Revenue Waived	\$588,031	



# CHARLOTTESVILLE DEVELOPMENT FEASIBILITY ASSESSMENT | Feasibility Evaluator

## PROJECT INPUTS

Development Type	Mid Rise	← SELECT
Submarket	Tier 1	← SELECT
Buildings in Project	3	
Avg Units per Building	45	
Total Units	135	
Parking Type	Above Ground Deck	
Spaces per Unit	0.75	

<b>Affordable Units</b>		
AMI Band 1	60%	← SELECT
% of Units	10%	← ENTER
AMI Band 2	80%	← SELECT
% of Units	0%	← ENTER
AMI Band 3	100%	← SELECT
% of Units	0%	← ENTER
<b>Total Affordable Units</b>	<b>14</b>	

<b>Cost Adjustments</b>		
Construction	Standard	← SELECT
Land	Standard	← SELECT
Rent	Standard	← SELECT

RESET TO DEFAULT

## POLICY TESTING

Tax Abatement	No	← SELECT
Rent Gap Model	Yes/No	
Abatement %	50%	← ENTER
Units Abated	Affordable Units	← SELECT
Years	15	← ENTER
Market Rent Avg	\$2,838	
Affordable Rent Avg	\$1,557	
Monthly Rent Gap	(\$1,280)	

Tax Abatement	Yes	← SELECT
Base/Increment Model	Yes/No	
Abatement %	100%	← ENTER
Units Abated	Affordable Units	← SELECT
Years	15	← ENTER



Gap Financing	No	← SELECT
	Yes/No	
Units Abated	Affordable Units	← SELECT
Per Unit Amount	\$0	← ENTER
Loan Rate	0%	← ENTER

Approval Timeline	0	← ENTER
	months reduced	

## OVERALL FINDINGS

WITHOUT INCENTIVES	WITH INCENTIVES	DIFFERENCE
<b>Yield on Cost</b> <b>5.0%</b> <b>Unlikely Feasibility</b>	<b>Yield on Cost</b> <b>5.1%</b> <b>Unlikely Feasibility</b>	<b>Yield</b> <b>0.10%</b>
<b>IRR</b> <b>3.9%</b> <b>Unlikely Feasibility</b>	<b>IRR</b> <b>4.5%</b> <b>Unlikely Feasibility</b>	<b>IRR</b> <b>0.56%</b>

## OTHER SUMMARIES OF INCENTIVE COSTS & BENEFITS

Inclusionary Zoning Rent Change	Abatement Provides	Difference
(\$17,285)	\$4,900	(\$12,384)
per month	per month	
Annual New Tax Revenue	Annual Revenue Waived	Percent
\$529,228	\$58,803	Revenue Waived
Annual Revenue Waived	Total New Tax Revenue	10%
\$58,803	\$7,938,419	
Total Revenue Waived	\$882,047	

# CHARLOTTESVILLE DEVELOPMENT FEASIBILITY ASSESSMENT | Feasibility Evaluator

## PROJECT INPUTS

Development Type	Mid Rise	<- SELECT
Submarket	Tier 1	<- SELECT
Buildings in Project	3	
Avg Units per Building	45	
Total Units	135	
Parking Type	Above Ground Deck	
Spaces per Unit	0.75	

Affordable Units		
AMI Band 1	60%	<- SELECT
% of Units	10%	<- ENTER
AMI Band 2	80%	<- SELECT
% of Units	0%	<- ENTER
AMI Band 3	100%	<- SELECT
% of Units	0%	<- ENTER
<b>Total Affordable Units</b>		14

Cost Adjustments		
Construction	Standard	<- SELECT
Land	Standard	<- SELECT
Rent	Standard	<- SELECT

RESET TO DEFAULT

## POLICY TESTING

Tax Abatement	Yes	<- SELECT
Rent Gap Model	Yes/No	
Abatement %	100%	<- ENTER
Units Abated	Affordable Units	<- SELECT
Years	15	<- ENTER
Market Rent Avg	\$2,838	
Affordable Rent Avg	\$1,557	
Monthly Rent Gap	(\$1,280)	

Tax Abatement	No	<- SELECT
Base/Increment Model	Yes/No	
Abatement %	100%	<- ENTER
Units Abated	Affordable Units	<- SELECT
Years	15	

Gap Financing	No	<- SELECT
Yes/No		
Units Abated	Affordable Units	<- SELECT
Per Unit Amount	\$0	<- ENTER
Loan Rate	0%	<- ENTER

Approval Timeline	0	<- ENTER
months reduced		

## OVERALL FINDINGS

WITHOUT INCENTIVES	WITH INCENTIVES	DIFFERENCE
<b>Yield on Cost</b> 5.0% Unlikely Feasibility	<b>Yield on Cost</b> 5.3% Unlikely Feasibility	<b>Yield</b> 0.36%
<b>IRR</b> 3.9% Unlikely Feasibility	<b>IRR</b> 5.8% Unlikely Feasibility	<b>IRR</b> 1.87%

## OTHER SUMMARIES OF INCENTIVE COSTS & BENEFITS

Inclusionary Zoning Rent Change	Abatement Provides	Difference
(\$17,285)	\$17,285	\$0
per month	per month	
Annual New Tax Revenue	Annual Revenue Waived	Percent
\$380,616	\$207,415	Revenue Waived
35%		
Total New Tax Revenue	Total Revenue Waived	
\$5,709,245	\$3,111,220	

Development Type	Mid Rise	← SELECT
Submarket	Tier 1	← SELECT
Buildings in Project	3	
Avg Units per Building	45	
Total Units	135	
Parking Type	Above Ground Deck	
Spaces per Unit	0.75	

Affordable Units		
AMI Band 1	60%	← SELECT
% of Units	10%	← ENTER
AMI Band 2	80%	← SELECT
% of Units	0%	← ENTER
AMI Band 3	100%	← SELECT
% of Units	0%	← ENTER
<b>Total Affordable Units</b>		14

Yield on Cost	
5.0%	← ENTER
Unlikely Feasibility	

Yield on Cost	
5.1%	← ENTER
Unlikely Feasibility	

Yield	
0.10%	← ENTER

Cost Adjustments		
Construction	Standard	← SELECT
Land	Standard	← SELECT
Rent	Standard	← SELECT

RESET TO DEFAULT

## POLICY TESTING

Tax Abatement	No	← SELECT
Rent Gap Model	Yes/No	← ENTER
Abatement %	50%	← ENTER
Units Abated	Affordable Units	← SELECT
Years	15	← ENTER
Market Rent Avg	\$2,838	
Affordable Rent Avg	\$1,557	
Monthly Rent Gap	(\$1,280)	

Tax Abatement	Yes	← SELECT
Base/Increment Model	Yes/No	← ENTER
Abatement %	100%	← ENTER
Units Abated	Affordable Units	← SELECT
Years	15	← ENTER

Gap Financing	No	← SELECT
Yes/No		
Units Abated	Affordable Units	← SELECT
Per Unit Amount	\$0	← ENTER
Loan Rate	0%	← ENTER

Approval Timeline	0	← ENTER
months reduced		

Land Provision	No	← SELECT
Yes/No		
0%	reduction	← ENTER

Forgivable Loan	No	← SELECT
Yes/No		
Amount	\$0	← ENTER

## OTHER SUMMARIES OF INCENTIVE COSTS & BENEFITS

Inclusionary Zoning Rent Change	Abatement Provides	Difference
(\$17,285)	\$4,900	(\$12,384)
per month	per month	
Annual New Tax Revenue	Annual Revenue Waived	Percent
\$529,228	\$58,803	Revenue Waived
Total New Tax Revenue	Total Revenue Waived	
\$7,938,419	\$882,047	



Development Type	Mid Rise	<- SELECT
Submarket	Tier 1	<- SELECT
Buildings in Project	3	
Avg Units per Building	45	
Total Units	135	
Parking Type	Above Ground Deck	
Spaces per Unit	0.75	

Affordable Units		
AMI Band 1	60%	<- SELECT
% of Units	10%	<- ENTER
AMI Band 2	80%	<- SELECT
% of Units	0%	<- ENTER
AMI Band 3	100%	<- SELECT
% of Units	0%	<- ENTER
Total Affordable Units		
14		

Yield on Cost	
5.0%	Unlikely Feasibility

Yield on Cost	
5.3%	Unlikely Feasibility

Yield	
0.37%	

IRR	
3.9%	Unlikely Feasibility

IRR	
7.0%	Unlikely Feasibility

IRR	
3.06%	

Cost Adjustments		
Construction	Standard	<- SELECT
Land	Standard	<- SELECT
Rent	Standard	<- SELECT

RESET TO DEFAULT

## POLICY TESTING

Tax Abatement	No	<- SELECT
Rent Gap Model	Yes/No	
Abatement %	50%	<- ENTER
Units Abated	Affordable Units	<- SELECT
Years	15	<- ENTER
Market Rent Avg	\$2,838	
Affordable Rent Avg	\$1,557	
Monthly Rent Gap	(\$1,280)	

Tax Abatement	Yes	<- SELECT
Base/Increment Model	Yes/No	
Abatement %	100%	<- ENTER
Units Abated	Affordable Units	<- SELECT
Years	15	

Inclusionary Zoning Rent Change

(\$17,285)

per month

Abatement Provides

\$4,900

per month

Difference

(\$12,384)

Annual New Tax Revenue

\$529,228

Annual Revenue Waived

\$58,803

Percent

Revenue Waived

10%

Total New Tax Revenue

\$7,938,419

Total Revenue Waived

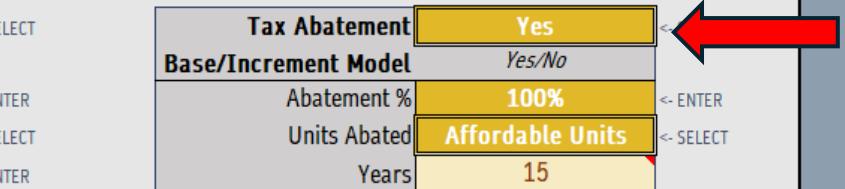
\$882,047

Gap Financing	No	<- SELECT
	Yes/No	
Units Abated	Affordable Units	<- SELECT
Per Unit Amount	\$0	<- ENTER
Loan Rate	0%	<- ENTER

Approval Timeline	0	<- ENTER
	months reduced	

Land Provision	Yes	<- SELECT
	Yes/No	
	100%	<- ENTER
	reduction	

Forgivable Loan	No	<- SELECT
	Yes/No	
Amount	\$0	<- ENTER





# Development Feasibility Analysis Overview

# Key Questions We Explored

- What is the feasibility of a “typical” project today?
- What does the inclusionary zoning policy do to feasibility?
- What do incentives (tax abatement + others) do to feasibility?
- What are the trade-offs for the City and the developer?

# Current Market Feasibility

- Assessed the market feasibility under current conditions, which includes the inclusionary zoning requirement
- New construction feasibility is limited, with no product reaching the yield or IRR thresholds for “likely feasible”

Likely Feasible
Possibly Feasible
Likely Not Feasible

CURRENT MARKET FEASIBILITY					
Yield on Cost					
Typology	Tier 1	Tier 2	Tier 3	Tier 4	Tier 5
High Rise	6.2%	6.0%	5.8%	5.6%	5.6%
Mid Rise	5.0%	4.8%	4.5%	4.3%	4.8%
Low Rise	4.4%	4.1%	4.3%	4.1%	4.2%
Garden Apt	4.2%	3.9%	4.1%	4.0%	4.1%
Townhouse	4.5%	4.1%	4.2%	4.1%	3.9%

IRR					
Typology	Tier 1	Tier 2	Tier 3	Tier 4	Tier 5
High Rise	8%	8%	7%	6%	7%
Mid Rise	4%	3%	2%	0%	4%
Low Rise	1%	-2%	0%	-1%	-1%
Garden Apt	-1%	0%	-2%	-3%	-2%
Townhouse	1%	-2%	0%	-2%	0%

# Inclusionary Zoning Feasibility Impact

- Next, looked at market feasibility without inclusionary zoning
- Yields increase by as much as 0.5% and IRR by 2+%\*
- Viability is still difficult for nearly all typicals

\* Under model's assumptions. This may be even higher for some projects and financing methods, per local feedback

Likely Feasible
Possibly Feasible
Likely Not Feasible

FEASIBILITY WITHOUT INCLUSIONARY ZONING

Typology	Yield on Cost				
	Tier 1	Tier 2	Tier 3	Tier 4	Tier 5
High Rise	6.7%	6.4%	6.2%	5.9%	6.0%
Mid Rise	5.3%	5.2%	4.8%	4.6%	5.1%
Low Rise	4.7%	4.3%	4.4%	4.3%	4.3%
Garden Apt	4.5%	4.1%	4.2%	4.1%	4.2%
Townhouse	4.8%	4.4%	4.5%	4.3%	4.1%

IRR

Typology	Tier 1	Tier 2	Tier 3	Tier 4	Tier 5
High Rise	10%	9%	9%	8%	8%
Mid Rise	6%	5%	4%	2%	5%
Low Rise	3%	0%	1%	0%	0%
Garden Apt	1%	-2%	-1%	-2%	-1%
Townhouse	3%	1%	2%	0%	-2%

# Tax Abatement Impacts

- We modeled the impacts of two different tax abatement approaches
- **Value-Based Abatement**
  - Traditional abatement, based on a percentage of the post-development incremental tax revenue. Relies on assessed property values
- **Rent-Gap Abatement**
  - Abatement based on the gap between market rent and affordable rent. Relies on current market prices

# Value-Based Tax Abatement Impacts

- Value-based abatement has a positive impact on returns, rising as abatement percentage rises
- But abatement “return” to owner is lower than rent “loss” from affordable unit
- Similar patterns emerge across housing types and locations

Mid-Rise Tier 3 Value-Based Abatement Example (135 unit development, ~\$2,500 avg rent)						
Abatement Percentage	Yield Change	IRR Change	Monthly Owner “Loss” from Affordable Units	Abatement “Return” for Affordable Units	Annual Revenue “Waived” / “Invested”	“New” Tax Revenue
25%	0.02%	0.17%	\$13,636	\$1,162	\$13,944	\$527,943
50%	0.05%	0.35%	\$13,636	\$2,324	\$27,888	\$513,599
75%	0.07%	0.52%	\$13,636	\$3,486	\$41,382	\$500,035
100%	0.09%	0.67%	\$13,636	\$4,516	\$54,189	\$487,699

# Rent-Gap Tax Abatement Impacts

- A rent gap abatement has larger benefit to yields and IRR
- Developments can be “made whole” using this, but comes at a greater cost to the City
- The abatement amount is tied to market prices, so as prices change so too does abatement

Mid-Rise Tier 3 Rent-Gap Abatement Example (135 unit development, ~\$2,500 avg rent)						
Abatement Percentage	Yield Change	IRR Change	Monthly Owner “Loss” from Affordable Units	Abatement “Return” for Affordable Units	Annual Revenue “Waived” / “Invested”	“New” Tax Revenue
25%	0.07%	0.51%	\$13,636	\$3,409	\$40,909	\$500,797
50%	0.14%	0.99%	\$13,636	\$6,818	\$81,817	\$460,070
75%	0.21%	1.45%	\$13,636	\$10,227	\$122,726	\$419,162
100%	0.29%	1.90%	\$13,636	\$13,636	\$163,634	\$378,253

# Abatement Approach Pros & Cons

## Value-Based Abatement

- Pros: Tried and true improvement to bottom line
- Cons: Doesn't fully close current market gaps; May not encourage development in difficult market conditions

## Rent-Gap Abatement

- Pros: Directly addresses IZ financial losses; Could be more appealing in difficult financial conditions
- Cons: Rarely used (Baltimore only found example, and it's new there), so administrative unknowns exist

# Tax Abatement Pros & Cons

- For all abatements, the possibility exists of providing financial benefit that can make new housing happen
- For all abatements, the risk exists that they are not sufficient to stimulate a down market, making them more commonly used during strong markets
- For all abatements, the risk exists that the City provides a tax abatement to a project that would have been built without it

# Other Potential Incentives

- Gap financing, land provision, reduced review/approval timeline, and forgivable loans all improve yields and IRRs in example analyses
- Tool can be used to further explore alternative incentives (alone or in combination)

OTHER POTENTIAL INCENTIVES (135 unit Mid-Rise Tier 3 development, ~\$2,500 avg rent)			
Incentive Type	Amount	IRR Change	
Gap Financing	\$1.4m	0.5%	
Land Provision	\$1.6m	1.4%	
Reduced Timeline	6 months	0.9%	
Forgivable Loan	\$1.5m	1.5%	



# Wrap-Up

# Key Findings

- Market conditions are challenging right now
- Inclusionary Zoning adding to that challenge
- Traditional tax abatements help, but alone currently insufficient
- Rent-gap tax abatement merits consideration as a better balance between public and private priorities
- Other incentives/policies may still be needed
- Leave-behind tool allows for future adaptability and exploration

# Contacts

- Jeremy Goldstein
  - [Jeremy@3tpventures.com](mailto:Jeremy@3tpventures.com)
- Mike Callahan
  - [Mike@3tpventures.com](mailto:Mike@3tpventures.com)