

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

A photograph of a busy city street, likely in New York City, featuring a Paramount Theatre marquee on the left and outdoor cafe seating with red umbrellas on the right. The image is overlaid with a semi-transparent blue filter. The marquee advertises the 'TOM TOM TOWNERS FESTIVAL' and 'SIXTH ANNUAL' on 'APRIL 10 & 11'. People are walking on the sidewalk, and many are seated at the outdoor cafe.

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

A photograph of a vibrant street scene in Charlottesville, Virginia. On the left, a marquee for the Paramount Theatre advertises the 'TOM TOM TOWNERS FESTIVAL SIXTH ANNUAL' on 'APRIL 10 & 11'. The street is filled with pedestrians, including a man in a blue plaid shirt and sunglasses in the foreground. To the right, an outdoor cafe with red umbrellas is bustling with patrons. The background shows historic brick buildings and leafless trees, suggesting a cool season. The entire image is overlaid with a semi-transparent blue filter.

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	

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

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
Yield on Cost 5.0% Unlikely Feasibility	Yield on Cost 5.1% Unlikely Feasibility	Yield 0.18%
IRR 3.9% Unlikely Feasibility	IRR 4.1% Unlikely Feasibility	IRR 0.17%

OTHER SUMMARIES OF INCENTIVE COSTS & BENEFITS

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

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	
Unit	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

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	months reduced
-------------------	----------------

OVERALL FINDINGS

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

OTHER SUMMARIES OF INCENTIVE COSTS & BENEFITS

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

1
User selects project
details

2
And selects policy
intervention(s)

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

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

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

11

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

\$2,164

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

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
Yield on Cost	Yield on Cost	Yield
4.2%	4.2%	0.00%
Unlikely Feasibility	Unlikely Feasibility	
IRR	IRR	IRR
-0.7%	-0.7%	0.00%
Unlikely Feasibility	Unlikely Feasibility	

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 Revenue Waived
\$357,614	\$0	0%
Total New Tax Revenue	Total Revenue Waived	
\$3,576,145	\$0	

PROJECT INPUTS

Development Type

Submarket

Buildings in Project

Avg Units per Building

Total Units

Parking Type

Spaces per Unit

Low Rise

Garden Apt

Low Rise

Mid Rise

High Rise

Single Family

Townhouse

108

Surface

1

< SELECT

< SELECT

< SELECT

< SELECT

< SELECT

< SELECT

< SELECT

Affordable Units

AMI Band 1

% of Units

AMI Band 2

% of Units

AMI Band 3

% of Units

Total Affordable Units

60%

10%

80%

0%

100%

0%

11

< SELECT

< ENTER

< SELECT

< ENTER

< SELECT

< ENTER

Cost Adjustments

Construction

Land

Rent

Standard

Standard

Standard

< SELECT

< SELECT

< SELECT

RESET TO DEFAULT

POLICY TESTING

Tax Abatement

Rent Gap Model

Abatement %

Units Abated

Years

Market Rent Avg

Affordable Rent Avg

Monthly Rent Gap

No

Yes/No

50%

Affordable Units

10

\$2,164

\$1,586

(\$579)

< SELECT

< ENTER

< SELECT

< ENTER

Tax Abatement

Base/Increment Model

Abatement %

Units Abated

Years

No

Yes/No

50%

Affordable Units

10

< SELECT

< ENTER

< SELECT

Gap Financing

Units Abated

Per Unit Amount

Loan Rate

No

Yes/No

Affordable Units

\$0

0%

< SELECT

< ENTER

< ENTER

Approval Timeline

0

months reduced

< ENTER

OVERALL FINDINGS

WITHOUT INCENTIVES	WITH INCENTIVES	DIFFERENCE
Yield on Cost	Yield on Cost	Yield
4.2%	4.2%	0.00%
Unlikely Feasibility	Unlikely Feasibility	
IRR	IRR	IRR
-0.7%	-0.7%	0.00%
Unlikely Feasibility	Unlikely Feasibility	

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 Revenue Waived
\$357,614	\$0	0%
Total New Tax Revenue	Total Revenue Waived	
\$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

Avg Units per Building

Total Units

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

Total Affordable Units

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

\$2,567

Affordable Rent Avg

\$1,557

Monthly Rent Gap

(\$1,010)

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
<div>Yield on Cost</div> <div>4.5%</div> <div>Unlikely Feasibility</div>	<div>Yield on Cost</div> <div>4.5%</div> <div>Unlikely Feasibility</div>	<div>Yield</div> <div>0.00%</div>
<div>IRR</div> <div>1.5%</div> <div>Unlikely Feasibility</div>	<div>IRR</div> <div>1.5%</div> <div>Unlikely Feasibility</div>	<div>IRR</div> <div>0.00%</div>

OTHER SUMMARIES OF INCENTIVE COSTS & BENEFITS

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

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

Cost Adjustments

Construction

Standard

<- SELECT

Land

Standard

<- SELECT

Rent

Standard

<- SELECT

Affordable Units

AMI Band 1

60%

<- SELECT

% of Units

10%

<-

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

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

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
<div>Yield on Cost</div> <div>5.0%</div> <div>Unlikely Feasibility</div>	<div>Yield on Cost</div> <div>5.0%</div> <div>Unlikely Feasibility</div>	<div>Yield</div> <div>0.00%</div>
<div>IRR</div> <div>3.9%</div> <div>Unlikely Feasibility</div>	<div>IRR</div> <div>3.9%</div> <div>Unlikely Feasibility</div>	<div>IRR</div> <div>0.00%</div>

OTHER SUMMARIES OF INCENTIVE COSTS & BENEFITS

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

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

Cost Adjustments

Construction

Standard

<- SELECT

Land

Standard

<- SELECT

Rent

Standard

<- SELECT

Affordable Units

AMI Band 1

60%

<- SELECT

% of Units

25%

<-

AMI Band 2

80%

<- SELECT

% of Units

0%

<- ENTER

AMI Band 3

100%

<- SELECT

% of Units

0%

<- ENTER

Total Affordable Units

34

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

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
<div>Yield on Cost</div> <div>4.4%</div> <div>Unlikely Feasibility</div>	<div>Yield on Cost</div> <div>4.4%</div> <div>Unlikely Feasibility</div>	<div>Yield</div> <div>0.00%</div>
<div>IRR</div> <div>0.5%</div> <div>Unlikely Feasibility</div>	<div>IRR</div> <div>0.5%</div> <div>Unlikely Feasibility</div>	<div>IRR</div> <div>0.00%</div>

OTHER SUMMARIES OF INCENTIVE COSTS & BENEFITS

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

Cost Adjustments

Construction

Standard

<- SELECT

Land

Standard

<- SELECT

Rent

Standard

<- SELECT

Affordable Units

AMI Band 1

60%

<- SELECT

% of Units

10%

<- SELECT

AMI Band 2

80%

<- SELECT

% of Units

0%

<- ENTER

AMI Band 3

100%

<- SELECT

% of Units

10%

<- ENTER

Total Affordable Units

27

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

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
<div>Yield on Cost</div> <div>4.9%</div> <div>Unlikely Feasibility</div>	<div>Yield on Cost</div> <div>4.9%</div> <div>Unlikely Feasibility</div>	<div>Yield</div> <div>0.00%</div>
<div>IRR</div> <div>3.5%</div> <div>Unlikely Feasibility</div>	<div>IRR</div> <div>3.5%</div> <div>Unlikely Feasibility</div>	<div>IRR</div> <div>0.00%</div>

OTHER SUMMARIES OF INCENTIVE COSTS & BENEFITS

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

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

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

(\$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

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
<div>Yield on Cost</div> <div>5.0%</div> <div>Unlikely Feasibility</div>	<div>Yield on Cost</div> <div>5.0%</div> <div>Unlikely Feasibility</div>	<div>Yield</div> <div>0.00%</div>
<div>IRR</div> <div>3.9%</div> <div>Unlikely Feasibility</div>	<div>IRR</div> <div>3.9%</div> <div>Unlikely Feasibility</div>	<div>IRR</div> <div>0.00%</div>

OTHER SUMMARIES OF INCENTIVE COSTS & BENEFITS

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

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

Cost Adjustments

Construction

Standard

<- SELECT

Land

Standard

<- SELECT

Rent

Standard

<- SELECT

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

Yes

<- SELECT

Base/Increment Model

Yes/No

Abatement %

50%

<- ENTER

Units Abated

Affordable Units

<- SELECT

Years

10

Gap Financing

No

<- SELECT

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
<div>Yield on Cost</div> <div>5.0%</div> <div>Unlikely Feasibility</div>	<div>Yield on Cost</div> <div>5.0%</div> <div>Unlikely Feasibility</div>	<div>Yield</div> <div>0.05%</div>
<div>IRR</div> <div>3.9%</div> <div>Unlikely Feasibility</div>	<div>IRR</div> <div>4.0%</div> <div>Unlikely Feasibility</div>	<div>IRR</div> <div>0.10%</div>

OTHER SUMMARIES OF INCENTIVE COSTS & BENEFITS

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

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

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)

Tax Abatement

Yes

<- SELECT

Base/Increment Model

Yes/No

Abatement %

100%

<- ENTER

Units Abated

Affordable Units

<- SELECT

Years

10

Gap Financing

No

<- SELECT

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
<div>Yield on Cost</div> <div>5.0%</div> <div>Unlikely Feasibility</div>	<div>Yield on Cost</div> <div>5.1%</div> <div>Unlikely Feasibility</div>	<div>Yield</div> <div>0.10%</div>
<div>IRR</div> <div>3.9%</div> <div>Unlikely Feasibility</div>	<div>IRR</div> <div>4.1%</div> <div>Unlikely Feasibility</div>	<div>IRR</div> <div>0.19%</div>

OTHER SUMMARIES OF INCENTIVE COSTS & BENEFITS

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

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	
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

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

Approval Timeline	0	<- ENTER
	months reduced	

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
Yield on Cost	Yield on Cost	Yield
5.0%	5.1%	0.10%
Unlikely Feasibility	Unlikely Feasibility	
IRR	IRR	IRR
3.9%	4.5%	0.56%
Unlikely Feasibility	Unlikely Feasibility	

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 Revenue Waived
\$529,228	\$58,803	10%
Total New Tax Revenue	Total Revenue Waived	
\$7,938,419	\$882,047	

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

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

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
<div>Yield on Cost</div> <div>5.0%</div> <div>Unlikely Feasibility</div>	<div>Yield on Cost</div> <div>5.3%</div> <div>Unlikely Feasibility</div>	<div>Yield</div> <div>0.36%</div>
<div>IRR</div> <div>3.9%</div> <div>Unlikely Feasibility</div>	<div>IRR</div> <div>5.8%</div> <div>Unlikely Feasibility</div>	<div>IRR</div> <div>1.87%</div>

OTHER SUMMARIES OF INCENTIVE COSTS & BENEFITS

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

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	

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

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	

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%	<- ENTER
	reduction	

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

Yield on Cost

5.0%

Unlikely Feasibility

Yield on Cost

5.1%

Unlikely Feasibility

Yield

0.10%

IRR

3.9%

Unlikely Feasibility

IRR

4.5%

Unlikely Feasibility

IRR

0.56%

OTHER SUMMARIES OF INCENTIVE COSTS & BENEFITS

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



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	
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	

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

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	Yield on Cost	Yield
5.0%	5.3%	0.37%
Unlikely Feasibility	Unlikely Feasibility	
IRR	IRR	IRR
3.9%	7.0%	3.06%
Unlikely Feasibility	Unlikely Feasibility	

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 Revenue Waived
\$529,228	\$58,803	10%
Total New Tax Revenue	Total Revenue Waived	
\$7,938,419	\$882,047	

A background image of a busy street scene. On the left, a marquee for the Paramount Theatre advertises the 'TOM TOM TOWNERS FESTIVAL SIXTH ANNUAL' on 'APRIL 10 & 11'. The street is filled with pedestrians, including a man in a blue plaid shirt and sunglasses in the foreground. To the right, there is an outdoor cafe with red umbrellas and people sitting at tables. The image has a blue tint and a semi-transparent dark blue overlay where the text is placed.

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

Yield on Cost					
Typology	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%

A photograph of a busy city street, likely in New York City, featuring a Paramount Theatre marquee on the left and outdoor cafe seating with red umbrellas on the right. The scene is filled with pedestrians and trees. The text "Wrap-Up" is overlaid in a large, dark blue font.

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
- Mike Callahan
 - Mike@3tpventures.com

