Charlottesville

Affordable Housing Tax Abatement Study

February 2026

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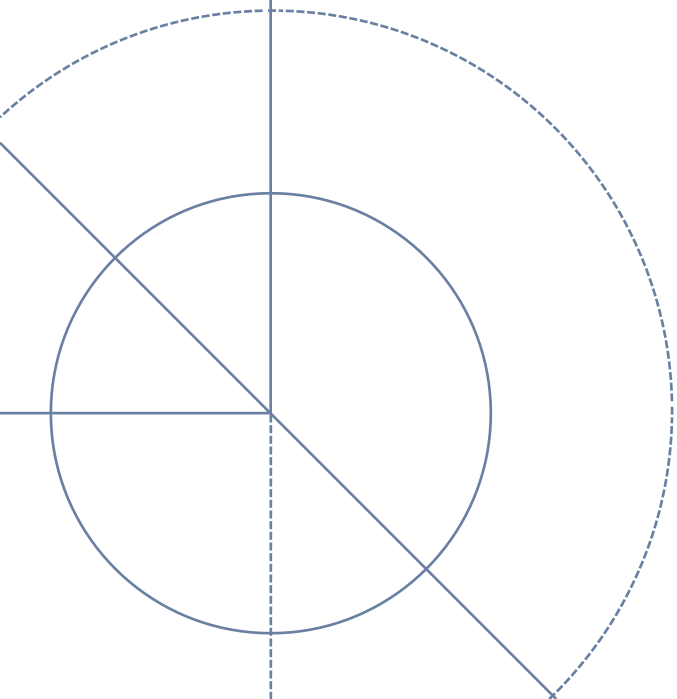

This report was developed by 3TP Ventures,
in collaboration with City staff

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Executive Summary

The purpose of this study was to assess how tax abatement may affect the market feasibility of new housing projects that include the required 10 percent affordable units in the new inclusionary zoning ordinance. This entailed extensive data collection and analysis described in the following sections, engagement with housing builders and advocates of affordable housing, and finally the creation and refinement of a model known as the Charlottesville Development Feasibility Assessment Tool. The process yielded several key findings, summarized here:

- Market Conditions are Challenging Regardless of City Policy: The current market conditions make many housing products difficult to build in 2025. Construction costs have increased and interest rates are high. These conditions make it difficult for developers to build larger housing projects even in the absence of the inclusionary zoning ordinance. Adding the costs of the affordable units increases this financial difficulty that even the presence of a tax abatement program may struggle to overcome.

- Inclusionary Zoning is a Material Financial Burden: The inclusionary zoning policy aims to alleviate the shortage of affordable housing units in Charlottesville. However, it does have quantifiable, negative impacts on financial returns of housing development. While projects may still earn a return on investment, the lenders that typically help finance projects are weighing other investment options and the inclusionary zoning ordinance substantively reduces the returns that can be realized from building 10-plus unit housing projects in the Charlottesville market.

- A Traditional Tax Abatement[1] Provides Financial Relief, But Not Equivalent to the Cost of Inclusionary Zoning: Through the process of modeling multiple levels of tax abatement for several project types it became clear that in the current conditions a traditional tax abatement model is unlikely to close the gap enough to entice developers to build most housing products without assuming long-term risk to city tax revenue. In general, the inclusionary zoning requirement impacts yields on cost by around one-half of one percent, while traditional improvement-value based abatements often contribute less than one-tenth of one percent to project yields. In order to significantly improve the feasibility of housing construction, the traditional abatement model would require long-term commitment of tax reductions based upon a number of hard to predict variables such as land values, improvement values, and

1 Traditional tax abatement is defined as the calculation model that preserves the original pre-construction base tax revenue as none of that original tax is eligible for abatement/credit relief. Rather, the abatement percentage, at whatever level is only applied to the new increment tax revenue that is the result of the new construction finished product. This calculation, therefore, can fluctuate dramatically over time as it is based upon changing land values, improvement values, and tax rates, all of which have multiple change drivers.

tax rates. The greatest risk of a tax abatement program is the risk of providing an abatement to a project that would have been built anyway. The traditional model that is based on these variables exacerbates that risk and thus increases the risk to city tax revenue.

- A Tax Abatement Based on a Rent Gap Approach Merits Consideration: An abatement model that is based on the gap between market rent and affordable rent, similar to Baltimore's High-Performance Inclusionary Housing Tax Credit, is worth considering in Charlottesville and by limiting the number of calculation variables, reduces the long-term budget risks. Such an approach that is applied only to the affordable units when using the accompanying feasibility model, essentially covers just the cost of the financial loss attributed to inclusionary zoning and lowers the cost risk of over subsidizing projects that may well have been built anyway. By addressing the rent gap, this approach covers what is considered by some to be an unfunded mandate of requiring a share of units to be offered at a reduced rent. This method also benefits from the ease of administration in calculating the abatement and monitoring it over time, as well as the ease of understanding by the public. And finally, with this model the City's cost will decrease going forward if market rate rents drop as the consequence of building more housing units across the city and the gap between market rate and affordable rent is reduced.

- Other Incentives and Policies Merit Consideration: As the initial results on tax abatement came in, the study expanded to incorporate other potential incentives into the Charlottesville Development Feasibility Assessment Tool. Approaches the City can use - such as pre-development timeline reduction, gap financing, and loan forgiveness - all have quantifiable benefits to development feasibility, and can be used in combination or tailored to maximize utility in specific situations.

- Conditions Will Change and the Tool Has Lasting Utility: These findings represent a snapshot in time. Costs and revenues are constantly changing in response to market forces and government policy. The efficacy of tax abatement and other policy interventions will change too as time rolls on. The Charlottesville Development Feasibility Assessment Tool is transparent and usable by City staff for this very reason. Steady upkeep of the tool will allow the City the best opportunity to be informed about the efficacy and magnitude of any intervention

The analysis presented in this study comes with an important caveat. It assumes that the primary obstacle to the construction of more mixed-income projects by the private sector is a financial one. It is not clear that simply removing the financial burden will lead to construction of mixed-income projects where 10 percent of the units are affordable to households at 60 percent of the area median income.

Introduction

This report documents the methods and findings of a study to assess the efficacy of tax abatement to increase the production of affordable housing units in the City. The study also considered other possible policy tools and strategies to understand their effectiveness.

The primary outcome of the study is a model, called the Charlottesville Development Feasibility Assessment Tool, which the City can use to assess the effectiveness of various policies and strategies for increasing the production of affordable housing units, with an emphasis on tax abatement. The tool is non-proprietary, which means all the assumptions, inputs, and math are visible to all and can be adjusted by staff, the development community, and the public at large to test different levels of tax abatement and other policies. The intent is that the City can maintain the tool by updating the inputs and use it on an ongoing basis to assess various policies aimed at increasing affordable housing.

The tool is informed by a market analysis that identified and quantified the cost drivers and income associated with housing development. For the purposes of this study the focus was solely on for-rent housing products. However, the methods can be adjusted to account for the for-sale market as well. This study also focused on housing projects with 10 or more units, which are subject to the new inclusionary zoning ordinance, which requires that 10 percent of units be affordable for households at or below 60 percent of the area median income. Additionally, the study considered submarkets to incorporate variations in cost and rent differences across the different geographies of the City. The report documents these inputs and provides instructions for how the City can update the data over time.

The study finds that the inclusionary zoning ordinance has a demonstrable financial impact on development feasibility, ***but that even without inclusionary zoning development feasibility within Charlottesville is limited due to a mismatch between development costs and anticipated revenues.*** Moreover, the study finds that a tax abatement has quantifiable financial benefits, and affords City decision-makers with a flexible development incentive. However, an abatement alone is unlikely to immediately produce significant shifts in development activity across all housing types due to the underlying market conditions mentioned above. As the underlying conditions driving up costs change, tax abatement may become a stronger incentive for affordable housing development, especially abatements designed to directly address the rent gap between affordable and market rate units.

Background

Origins of the Affordable Housing Tax Abatement Study. Charlottesville adopted a new development code on December 18, 2023. The code became effective on February 19, 2024. The new code includes a requirement that any development project of 10 or more residential dwelling units provides 10 percent of the units as affordable for households at or below 60 percent of the area median income. These affordable dwelling units must be income restricted for a minimum of 99 years. The requirement does not apply to projects in the Residential A, Residential B, Residential C, and Residential Core Neighborhood zoning districts.

The City adopted this inclusionary housing element of its zoning ordinance following a robust planning and community engagement process that began with the creation of an Affordable Housing Plan adopted by the City Council in 2021, and a Comprehensive Plan update also adopted in 2021.

The City's Affordable Housing Needs Assessment in 2018 informed the City's policies included in the Affordable Housing Plan, Comprehensive Plan, and inclusionary zoning ordinance. The assessment found a need for 3,318 affordable housing units in 2017 and 4,020 by 2040. The 2021 Affordable Housing Plan found that more than 2,700 renter households in Charlottesville pay more than 50 percent of their income on rent and utilities. These figures highlight the need for more housing construction and more affordable units.

Charlottesville City Council has recognized the need for public investment in affordable housing and committed $10 million per year for a decade to help the City achieve its affordable housing goals. The tax abatement under consideration is being considered in this context. The tax abatement policy can also help advance the Comprehensive Plan's stated goal to "focus and align subsidy programs with community-defined priorities and make changes to increase the impact of public spending."

Affordable Housing Tax Abatement Overview. Tax abatement is a temporary reduction or exemption from taxes levied by a unit of government, typically to encourage a particular activity. The purpose of the tax abatement under consideration in this study is to encourage mixed income housing developments of 10 or more units, which are subject to the City's Affordable Dwelling Unit Ordinance. Local governments across the United States and Virginia, including the City of Richmond and Albemarle County, have used tax abatement for similar purposes. This study provides insights on the efficacy of varying levels and terms of abatement based on conditions in the Charlottesville market.

An important caveat about tax abatement in Virginia is that state code does not allow abatement of taxes to private entities for affordable housing development. However, Virginia Code §15.2-

4905 allows for financial incentives, including grants tied to affordable housing development. Therefore, if Charlottesville were to adopt a tax abatement for affordable housing, the financial incentive would be leveraged from the increase in value and the associated increase in real estate tax revenue attributed to development, and reimbursed to the owner as a performance grant.

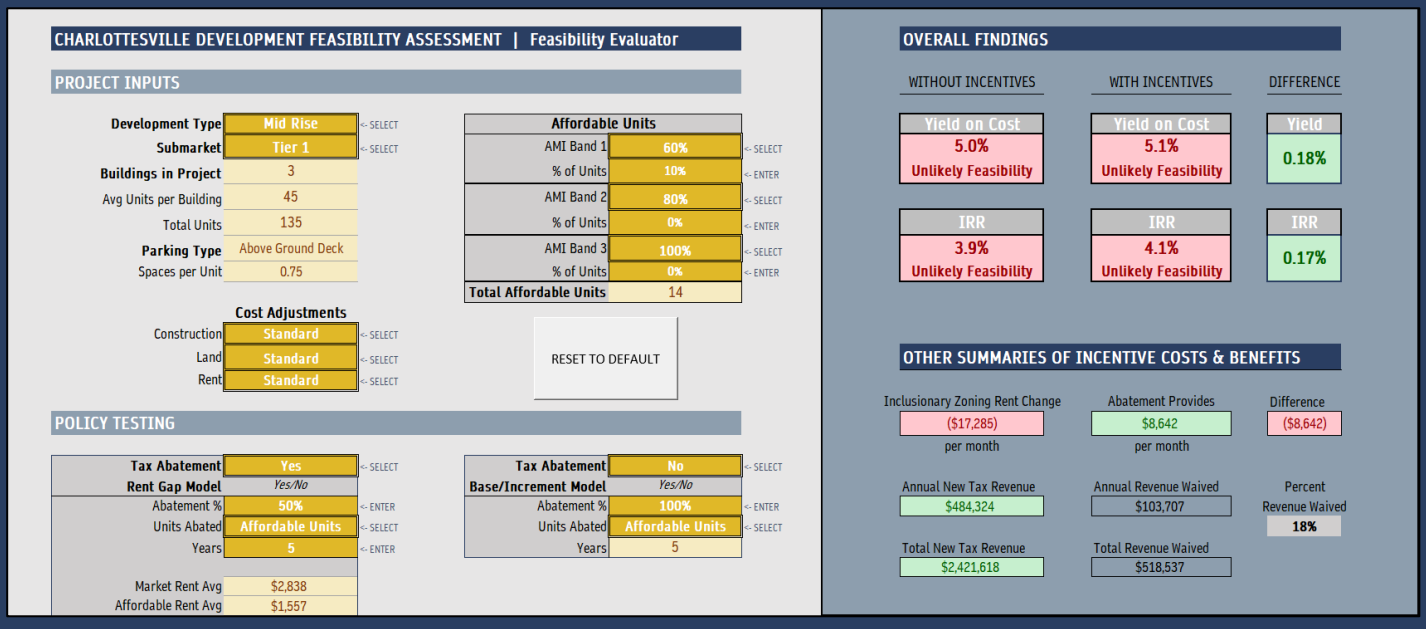
The property owner would therefore pay the full real estate taxes on the entire post-development assessed value, and then receive a reimbursement for some portion of the taxes on the increase in assessed value, post-construction.

Tax Abatement Analysis

Method Overview. The methods for the study are oriented towards providing reliable inputs to the Charlottesville Development Feasibility Assessment Tool. The tool uses inputs related to the costs and income associated with housing development to enable the evaluation of tax abatement, and other policies, on the feasibility of general housing projects.

In the tax abatement under consideration by the City of Charlottesville, the abatement would apply to the increase in property value resulting from a development of 10 or more units that includes affordable dwelling units. The baseline, pre-development, value would continue to be taxed as it was prior to the development. Meanwhile, only a portion of the increased value would be subject to real estate taxes. The portion of the increased value subject to real estate taxes, and the time period for the abatement, is a policy decision to be made by the City Council. This study, and resulting Charlottesville Development Feasibility Assessment Tool for assessing the efficacy of tax abatement, is intended to support informed decision making.

The tool uses a generalized pro-forma to summarize, for a "typical" project, the fiscal impacts of developments costs and revenues along traditional development timelines. However, it also runs parallel pro-formas for projects with and without City policy interventions. This allows the user to quantify the fiscal impacts of their selected intervention. As property taxes are



traditionally incorporated in a pro-forma as an input to net operating income, a pro-forma based evaluation for the impacts of a tax abatement is a natural fit.

The City first analyzed underlying development feasibility absent the inclusionary zoning requirement. In other words, the study evaluated how feasible large-scale development projects would be given current development costs and revenues with no affordable housing units. These findings were then compared to the same set of large-scale development projects, but with the 10 percent affordable units requirement. Finally, the development projects were analyzed using both the inclusionary zoning requirement and a range of tax abatement options.

The differences in findings between these three general conditions (no inclusionary zoning, with inclusionary zoning, with inclusionary zoning and tax abatements) reflects the financial implications of the inclusionary zoning mandate and associated abatements.

Housing Types. This analysis looked at six common housing types. These housing types are common in the City, except for high rise. The table below summarizes each type's general conditions. These conditions can be updated in the tool as needed. The following graphics also give the reader a sense of what each "housing type" means.

Housing Type	# Floors	Construction Materials	Assumed Average Unit Size (GSF)
High Rise	9+	Steel & concrete	900
Mid Rise	5-8	Wood & concrete	1,000
Low Rise	3-4	Wood	1,100
Garden Apartment	1-2	Wood	1,300
Townhouse	2	Brick & wood	1,800
Single Family	2	Brick & wood	2,000

Note that while the financial feasibility analysis tool includes single family housing, this housing type was not included in the analysis undertaken for this report.

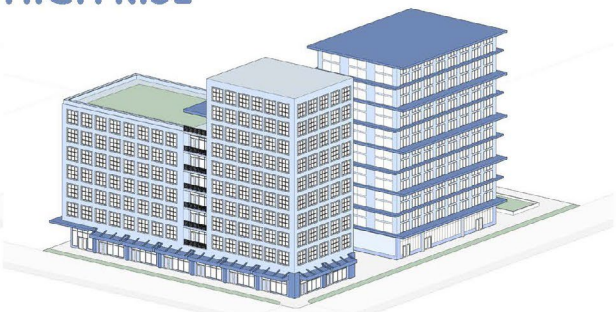
GENERAL HOUSING TYPES ASSESSED IN THE STUDY

GARDEN APARTMENT

LOW RISE

MID RISE

HIGH RISE



SINGLE FAMILY

TOWNHOUSE

Figure 1 | Graphical Examples of Housing Types

Submarkets. The tool allows the user to select a "submarket" as part of the analysis. This is important because the feasibility of a housing project is heavily influenced by its location, with both costs (in the form of land prices) and revenues (in the form of rents) being subject to location-specific variables that can vary widely even within a single locality.

As such, this model provides five different price-based submarkets, representing tiers of land costs and rents. Importantly, these five submarkets are not tied directly to Charlottesville neighborhoods. This is because neighborhood-based prices in any specific neighborhood can change relative to others over time.

However, the tool assumes that more expensive tiers would typically be situated on smaller lots than less expensive tiers. The tool assumes parcel sizes for tier 1 projects (most expensive areas) are 1 to 2 acres, while parcel sizes for tier 5 (least expensive) projects were 3 to 4 acres. As with all assumptions in the tool, these can be changed to reflect changes in the underlying conditions and typical development situations in the City.

Tool Inputs. All model inputs are grouped into one of five categories: hard costs, soft costs, land costs, revenues, and other assumptions. Each category is described below:

Hard Costs. Hard costs include all costs associated with the physical construction effort, including construction of the building, parking, and site preparation. Initial estimates for building construction costs are a blend of multiple sources. Initial data was acquired from the online cost estimating resource RSMeans Online, which provides total construction and per square foot construction cost estimates for a wide range of building types based on user inputs on materials and dimensions.

The study developed estimates for each building type using dimensions sourced from local examples, such that a "typical" mid-size development in the model reflects an amalgam of existing mid-size projects throughout the City. This data was then vetted and adjusted via feedback from local developers who contributed confidential financial data to this project.

Notably, the estimates from RSMeans and local developers often aligned but not always. The reasons for the cost differences between sources is elusive due to the many assumptions required in any cost estimating. But in such cases, it was assumed that the local developer input was more accurate as they are the local experts, and that data was used in place of RSMeans.

Soft Costs. Soft costs include all costs primarily associated with the development and approval of plans necessary for building permit approval, such as consultant fees and municipal fees.

Municipal fees can vary by project and project type but were set as 4.5 percent of total hard cost estimates, incorporating fees expected to be paid by typical projects from the building inspection fee schedule and the City's Neighborhood Development Services fee schedule.

Consultant fees cover services such as civil engineering, architecture, and legal. They are sensitive both to project complexity and timeline. As such, the model uses assumptions for standard (15 percent of hard costs) and minimum (12 percent of hard costs) consultant fees, and applies the standard fee to a typical development timeline. The tool assumes that changes to the typical predevelopment timeline would change the consultant fee.

Land Costs. Land costs relate exclusively to the cost of purchasing land in the City. Other costs that may be considered land costs, such as site preparation, are included in hard costs.

Land costs are extremely sensitive to market conditions and land entitlements, and can vary widely over time. While there was general consensus on hard costs and soft costs from the local development community, there was less agreement on land costs. Additionally, there have been too few land sales since the adoption of the new zoning code to fully assess the effects of the code on land prices. As such, the model relied more heavily on tax assessor data on assessed land values.

The process for developing typical land costs as an input to the tool started with comparing recent land sales to current assessed land values. The study found that for the limited number of 2024 and 2025 sales, sale prices were routinely 33% to 50% higher than assessed value, while 2023 sales were nearly identical to assessed values.

Next the study assigned each building type to a primary land use code from the City assessor. Each building type was also assigned an estimated units per acre. These assumptions allowed for estimated per door land cost by parcel by primary land use code.

Land cost tiers were initially defined simply by the percentile rank of assessed land values for all parcels with housing in the City. Next the study assigned a percentile rank to each tier as outlined on the following page.

Tier	Tier 1	Tier 2	Tier 3	Tier 4	Tier 5
Percentile Rank Assessed Land Value	85th	65th	50th	35th	15th

In other words, a Tier 1 land cost is the equivalent of the 85th percentile per acre assessed land value, Tier 2 is the equivalent of the 65th percentile per acre assessed land value, etc.

As a final step in the initial data-based land cost estimate, the study applied a sales-based adjustment factor of 33 percent increase to reflect the difference between assessed values and recent sales.

The developed land cost estimates were considered reasonable by some local developers, but too high by others. As such, land costs were adjusted down as a middle ground between estimates, but it is possible that land costs could be higher than those calculated based on the method described in this section and incorporated into the model.

Revenues. "Revenues" include market rate and affordable rents. The study estimated market rents by collecting existing asking rents across multiple online real estate platforms. The collected rents were assumed to be generally consistent with the tier 2 submarket, as the sources were generally from new or recent construction, and tended to have higher-end amenities. A typical tier 2 rent was defined as the average of available median and maximum asking rents. In the event there was insufficient data for a particular unit type, an estimate was created based on professional experience. Rents for each of the five tiers were then based on a proportion of that tier 2 rent, ranging from 85 percent (Tier 5) to 110 percent (Tier 1) of the tier 2 rents.

Affordable rents are set as 30 percent of gross income for the respective area median income band (mid-point of the area's income distribution). The City requires projects with 10 or more units to include 10 percent of the units leased at rents affordable to incomes that are 60 percent of the are median income. However, the tool allows users to assess other levels of income-based affordability.

The U.S. Department of Housing and Urban Development income limits are provided by household size, not number of bedrooms. To convert from household size to bedrooms, the study assumed that the bedrooms by household number was equivalent to one fewer bedrooms than the number of persons in the household (so the affordable rent for a 2 bedroom apartment equaled 30 percent of income for a 3-person household).

Other Assumptions. There are several other assumptions and necessary inputs to a pro-forma model, including predevelopment and construction timelines, property taxes, typical parcel sizes, unit mixes, and structures in a single development. Each was determined based on professional experience and vetted through consultation with staff and the local development community.

It is important to note that the tool is intended for use in assessing the effect of policy interventions of a "typical" project and is not intended for use to assess a specific project on a specific site. Such an analysis would require data on costs that are not accessible to the City at a reasonable level of effort. Furthermore, that level of analysis is not necessary to answer the key question of the City, which is about the effectiveness of tax abatement.

Findings & Implications

Current Market Feasibility. An initial step in the study was to assess the feasibility under current market conditions in the City, which includes the inclusionary zoning ordinance but not a tax abatement policy. The tables below summarize financial feasibility by housing type and submarket tiers. The tables shows that new housing construction feasibility is limited when applying the assumptions outlined earlier in this report. There is evidence that high-rise housing construction has the highest yields and internal rate of return (IRR), and may be feasible in some specific instances. Yet no housing product in any submarket reached the threshold of "likely feasible", which is defined in this report as a yield on cost at least 200 basis points above the estimated capitalization rate and/or an IRR of 18 percent or more. (Note that these thresholds can change over time and should be updated alongside other regular model updates.) No other housing type had sufficient yields or IRR to suggest anything other than limited to unlikely feasibility, meaning there would need to be some substantial change in either costs or revenues to support investment.

Yield on Cost					
Typology	Tier 1 Highest value areas	Tier 2	Tier 3	Tier 4	Tier 5 Lowest value areas
High Rise	6.1%	5.9%	5.8%	5.5%	5.5%
Mid Rise	5.0%	4.8%	4.5%	4.3%	4.8%
Low Rise	4.4%	4.1%	4.2%	4.1%	4.1%
Garden Apartment	4.2%	3.9%	4.1%	4.0%	4.0%
Townhouse	4.4%	4.1%	4.2%	4.0%	3.9%

Likely Feasible	6.75%+
Possibly Feasible	5.75-6.75%
Not Likely Feasible	<5.75%

IRR					
Typology	Tier 1 Highest value areas	Tier 2	Tier 3	Tier 4	Tier 5 Lowest value areas
High Rise	8%	8%	7%	6%	6%
Mid Rise	4%	3%	1%	0%	3%
Low Rise	1%	0%	-1%	0%	0%
Garden Apartment	-2%	0%	-2%	0%	0%
Townhouse	0%	-2%	-1%	-2%	0%

Likely Feasible	18%+
Possibly Feasible	12-18%
Not Likely Feasible	<12%

Market Feasibility without Inclusionary Zoning. A next step in the study was to assess the market feasibility of various housing products without the inclusionary zoning ordinance. Higher density developments, particularly with higher rents, would be most likely to reach "possibly feasible" investment thresholds, while most other large-scale projects would struggle to do so.

Yield on Cost					
Typology	Tier 1 Highest value areas	Tier 2	Tier 3	Tier 4	Tier 5 Lowest value areas
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 Apartment	4.4%	4.1%	4.2%	4.1%	4.2%
Townhouse	4.8%	4.4%	4.5%	4.3%	4.1%

Likely Feasible	6.75%+
Possibly Feasible	5.75-6.75%
Not Likely Feasible	<5.75%

IRR					
Typology	Tier 1 Highest value areas	Tier 2	Tier 3	Tier 4	Tier 5 Lowest value areas
High Rise	10%	9%	9%	8%	8%
Mid Rise	6%	5%	3%	2%	5%
Low Rise	2%	0%	1%	0%	0%
Garden Apartment	0%	-3%	-1%	-2%	-1%
Townhouse	2%	0%	1%	0%	-2%

Likely Feasible	18%+
Possibly Feasible	12-18%
Not Likely Feasible	<12%

This suggests two important findings. First, development feasibility is difficult to achieve under current market conditions even absent inclusionary zoning requirements. Second, the inclusionary zoning requirement has a substantive effect on feasibility. The following table compares returns with and without inclusionary zoning. The difference in yields are as large as 0.5%, and the difference in IRRs reach close to 3% in some circumstances.

INCLUSIONARY ZONING FEASIBILITY IMPACTS					
Yield on Cost					
Typology	Tier 1 Highest value areas	Tier 2	Tier 3	Tier 4	Tier 5 Lowest value areas
High Rise	-0.5%	-0.5%	-0.4%	-0.4%	-0.4%
Mid Rise	-0.3%	-0.3%	-0.3%	-0.2%	-0.2%
Low Rise	-0.3%	-0.2%	-0.2%	-0.2%	-0.2%
Garden Apartment	-0.2%	-0.2%	-0.1%	-0.1%	-0.2%
Townhouse	-0.4%	-0.3%	-0.3%	-0.3%	-0.2%

IRR					
Typology	Tier 1 Highest value areas	Tier 2	Tier 3	Tier 4	Tier 5 Lowest value areas
High Rise	-2%	-1%	-2%	-2%	-2%
Mid Rise	-2%	-2%	-2%	2%	-2%
Low Rise	-1%	0%	-2%	0%	0%
Garden Apartment	-2%	-3%	-1%	-2%	-1%
Townhouse	2%	-2%	-2%	-2%	-2%

Tax Abatement Strategies. With a firm understanding of the housing market, both with and without the inclusionary zoning ordinance, the focus shifted to modeling the effects of a tax abatement policy. Tax abatement can take many forms, therefore, the model Charlottesville Development Feasibility Assessment Tool is built to allow users to explore many abatement strategies.

Traditional tax abatements provide property tax relief for qualifying units. In general as typical best practice, only affordable units qualify for the abatement, and that was assumed for this analysis. (Note however, that for policy illustrations the Tool allows users to select abatements to apply to either affordable units only or all units, through in the tax gap approach the policy option to apply the abatement to "all" units violates the elegance of that model in addressing only the direct financial impact of the ADU requirement.) Therefore, if the typical approach were applied in Charlottesville it would mean that for projects meeting the minimum inclusionary zoning requirement, only those 10 percent of units set aside as affordable would be eligible for tax relief.

It bears reminding that the underlying theory of tax abatement programs is that the abatement applies only to the additional improvement value from the project and so it does not impact any

pre-development property taxes. The feasibility model assumes pre-development property taxes would be equivalent to the property's land sale price.

There are many ways a traditional abatement can be structured, with modifications to the abatement proportion, the length of the abatement, or eligibility requirements as examples. In discussions with local stakeholders and staff, several different abatement options were mentioned as worthy of evaluation, including policies from Minneapolis, MN; Columbus, OH; and Baltimore, MD. This is by no means an exhaustive list, nor was a thorough review of existing abatement policies a purpose of this study (though the model can be used to evaluate a wide range of policies at the City's discretion). However, a brief summary of these three programs is provided here for context.

Minneapolis, MN. Per the City of Minneapolis website, the 4d Affordable Housing Incentive Program provides a 10-year reduction in property taxes on all qualified units, to 0.25% (compared to around 1.2%), for property owners that agree to provide 20 percent of units affordable to households making 50 percent or 60 percent of AMI for 10 years. Eligible properties are offered additional incentives, including green infrastructure grants and rebates.

Columbus, OH. Program eligibility includes a geographic component, whereby the City includes three area designations based on a mix of economic indicators, each with their own set of requirements, generally targeting 20 percent or more of units available for 60 percent to 100 percent of AMI. All taxes on improved value are waived under this program.

Baltimore, MD. In January of 2024, Baltimore instituted the High-Performance Inclusionary Housing Tax Credit. This policy effectively serves as a rebate for all qualified affordable units, based on the revenue gap between the affordable rent and the market rate rent the unit otherwise would have commanded. Each year the program provides a tax credit equal to the rent difference between affordable units and comparable market-rate units.

Tax Abatement Efficacy. The following tables summarize the feasibility impacts of example abatement strategies.

The first example employs a traditional improvement-value-based tax abatement providing 30 years of abatement in a Mid-Rise tier 3 development, with 135 total units of which 14 are affordable to households at 60 percent AMI. The following table shows the fiscal impacts of abatements at four different rates, from 25% to 100% of estimated taxes on the affordable units.

Mid-Rise Tier 3	Yield Change	IRR Change	Monthly "Loss" for Affordable Units	Abatement "Return" for Affordable Units	Annual Revenue "Waived"	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

**This calculation assumes that a project would not be developed without the abatement, and thus no tax revenue would be generated.*

As the tax abatement increases the returns increase, as the tax revenue waived by the City is accrued by the property owner.

But importantly, the gap between the revenue loss incurred by the property owner is never matched by the value of the of the abatement. The inclusionary zoning requirement "cost" the development more $13,000 in foregone market-rate revenue while returning no more than $4,500 through the abatement.

Another analysis examined the impact of different submarkets to evaluate the locational element of the Columbus example. The table below shows the findings of the same Mid-Rise project but in a tier 1 submarket.

Mid-Rise Tier 1	Yield Change	IRR Change	Monthly "Loss" for Affordable Units	Abatement "Return" for Affordable Units	Annual Revenue "Waived"	New Tax Revenue *
25%	0.03%	0.15%	$17,285	$1,284	$15,412	$572,619
50%	0.05%	0.30%	$17,285	$1,569	$30,824	$557,207
75%	0.08%	0.44%	$17,285	$3,853	$46,236	$541,795
100%	0.01%	0.56%	$17,285	$4,900	$58,803	$529,282

**This calculation assumes that a project would not be developed without the abatement, and thus no tax revenue would be generated.*

The Mid-Rise Tier 1 abatement provides no additional benefit after 50% due to the higher estimated pre-development tax rate, and generally has lower overall benefits than the Tier 3 example. Similarly, Mid-Rise projects in Tier 5 perform slightly better than those in Tier 3. This suggest that there is at least a slight differentiation in abatement impacts across submarkets, so including a geographic component within an abatement policy may provide a benefit.

Finally, the table below summarizes the impacts of a gap-based abatement on a Mid-Rise Tier 3 product. As in the examples on the previous page, four abatement percentages were used.

Mid-Rise Tier 3	Yield Change	IRR Change	Monthly "Loss" for Affordable Units	Abatement "Return" for Affordable Units	Annual Revenue "Waived"	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

**This calculation assumes that a project would not be developed without the abatement, and thus no tax revenue would be generated.*

The findings reveal several key distinctions between the traditional improvement-value based and rent-gap based abatement styles:

- At each abatement percentage, the fiscal impacts are higher in the Rent Gap method than traditional abatements. With a gap of nearly $1,000 between estimated market rates and affordable rates in this example project, even small gap closures have significant implications. Even an abatement or reimbursement of 25 percent of the rent gap in this example has a higher return per affordable unit and thus overall amount of annual tax revenue waived.

- The Rent Gap method provides the opportunity to reimburse any proportion of revenue lost in the inclusionary zoning requirements, including all or more of market rent revenues lost.

- The Rent Gap model tends to have larger financial implications on tax revenues waived, making it a more "costly" intervention for the City.

- Qualification and enforcement would be different, with the Rent Gap model relying on market rents while other methods rely on assessed improvement values.

This last point is particularly notable, as the different methods create different theoretical incentives for City action. In traditional improvement value-based abatement policies, changes to property values have a positive effect on City tax revenue, but also increases the amount of the abatement the City provides. However, in rent gap abatement policies, changes in improvement value do not increase the amount of revenue "lost" through an abatement. Furthermore, as market rate rents decline relative to areawide income, so too does the cost of the abatement. In other words, lower housing costs lead to lower abatement "losses".

Other Potential Incentives. Recognizing that tax abatement alone is likely insufficient to stimulate the development of mixed-income housing products, the study incorporated other incentives for City exploration now and in the future. The list of incentives and basic descriptions are provided below:

- Gap Financing: This would be a low-interest loan provided by the City that offsets commercial construction or commercial loan costs. The model allows for a per-unit loan at a user-defined amount and rate. Using the mid-rise tier 3 project example, a $100,000 per unit affordable loan (totaling $1,400,000) at 1 percent interest would generate an IRR improvement of 0.45%, an impact similar to a 75 percent traditional improvement value-based tax abatement or 20 percent reimbursement in the Rent Gap method.

- Land Provision: This incentive adjusts land costs by allowing users to set the proportion of land costs that are waived by the prior landowner, thus reducing initial land costs. Using the mid-rise tier 3 project example, if land were provided for free (estimated value of approximately $1,600,000) it would generate an IRR improvement of 1.4 percent.

- Reduced Review/Approval Timeline: This incentive provides time and soft cost benefits by reducing the assumed timeline for construction permits. The model formulas assume that soft costs like consultant fees are lower through fewer review cycles or less onerous initial documentation requirements, while it also increases net present value of revenue, as units become available for rent sooner. The model allows for a user-determined timeline reduction in months. Using the mid-rise tier 3 project example, a 6-month reduction in the pre-development timeline generates an IRR improvement of 0.9 percent and a yield under 0.1 percent.

- Forgivable Loans: This incentive presumes a grant or loan that is not repaid, effectively reducing the project cost without incurring any additional downstream repayments. The model allows for a per-unit forgivable loan amount. Using the mid-rise tier 3 project example, a $1,500,000 forgivable loan would generate an IRR improvement of 1.5 percent and a yield improvement of 0.1 percent.

Incentive Approach	Incentive Amount	Units	IRR Impact
Gap Financing	$1,400,000	1% Loan	0.45%
Land Provision	$1,600,000	Land	1.40%
Reduced Review/Approval Timeline	6 months	Time (Months)	0.90%
Forgivable Loans	$1,500,000	Loan	1.50%

Future Potential Analyses. During the course of this task, stakeholders suggested several ideas for future analyses that may be beneficial to the City's decision-making process but were out of scope of this particular task. They include:

- Adding an analysis of workforce gained through construction or otherwise lost by not supporting construction
- Reviewing peer community permitting processes and recent activity
- Adding a voucher holder gap analysis
- Adding Opportunity Zone benefits to model calculations

These are all potential future enhancements to the Charlottesville Development Feasibility Assessment Tool.

Conclusion

Tax abatement is one of many tools the City can use to increase the feasibility of housing development. However, it likely will not in 2025 or 2026 help a project get to the threshold of "likely feasible" on its own. The current market conditions and inclusionary zoning ordinance are headwinds that are hindering the feasibility of projects with 10 or more units. The City may need to look at additional incentives to get projects built. The good news is that conditions can change quickly, and the City now has a tool it can use to assess the efficacy of various policies now and in the future.