



**CITY COUNCIL SPECIAL MEETING
October 11, 2023**

**WORK SESSION
CitySpace, 100 5th St NE**

J. Lloyd Snook, III, Mayor
Juandiego Wade, Vice Mayor
Michael K. Payne, Councilor
Brian R. Pinkston, Councilor
Leah Puryear, Councilor
Kyna Thomas, Clerk

6:00 PM City Council Work Session

- I. Call to Order/Roll Call**
- II. Presentation of Work Session Topic – "Population growth and the housing market"**
James Freas, Director of Neighborhood Development Services
- III. Council Discussion**
- IV. Adjournment**

This is an in-person meeting with an option for the public to participate electronically by registering in advance for the Zoom webinar at www.charlottesville.gov/zoom. The meeting may also be viewed on the City's streaming platforms and local government Channel 10. Individuals with disabilities who require assistance or special arrangements to participate in the public meeting may call (434) 970-3182 or submit a request via email to ada@charlottesville.gov. The City of Charlottesville requests that you provide a 48-hour notice so that proper arrangements may be made.

The meeting notice was published simultaneously to the public and the governing body on 9/20/23.

OCTOBER 11, 2023

Demographic and Housing Trends in Charlottesville



Weldon Cooper Center
for Public Service

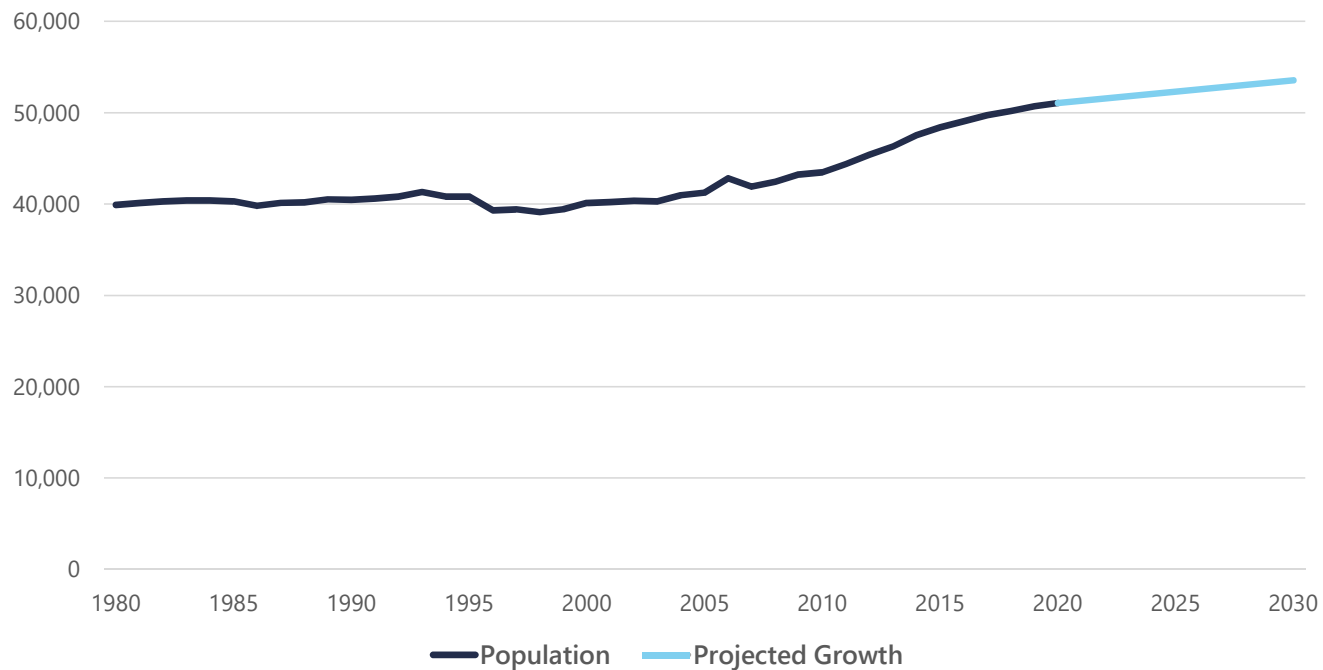


Charlottesville City Council



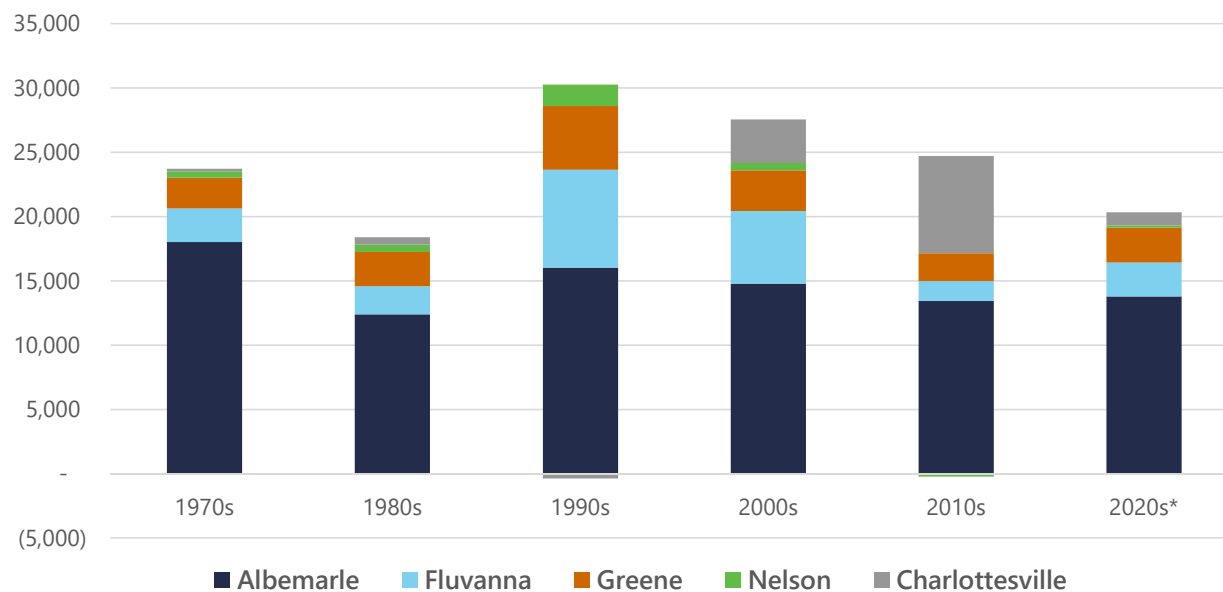
Hamilton Lombard
hl2qs@virginia.edu

Charlottesville Population 1980-2030



- Charlottesville's population was stable for decades after annexation ended.
- Growth resumed in Charlottesville after the 2003 upzoning.
- The city's population will likely continue to grow during the 2020s

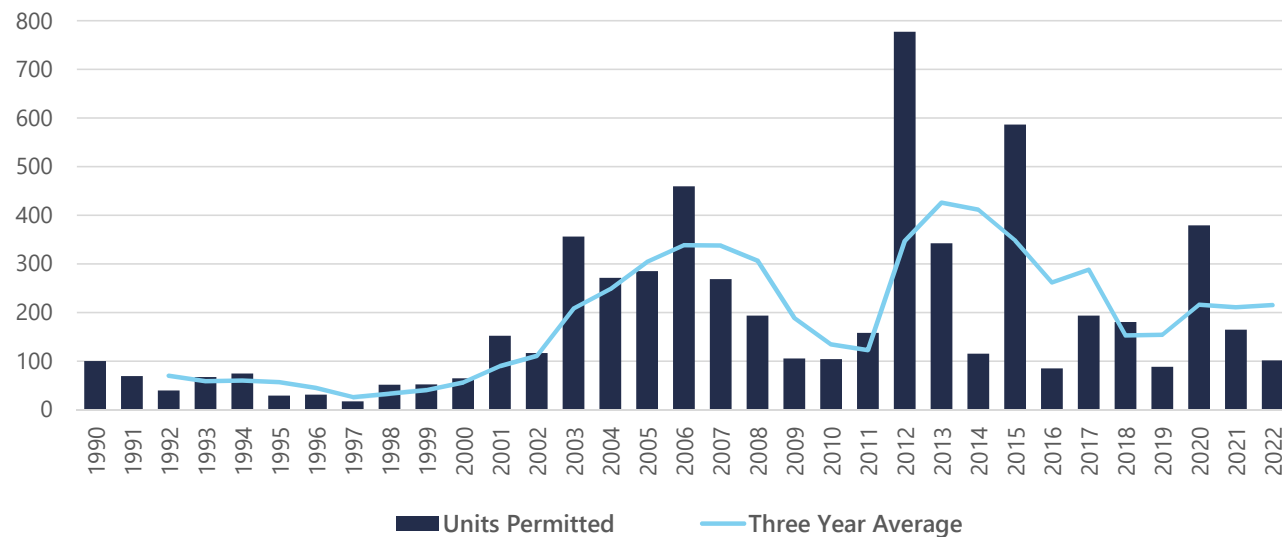
Population Change by Locality in the Charlottesville Metro Area



*Based on current growth rates

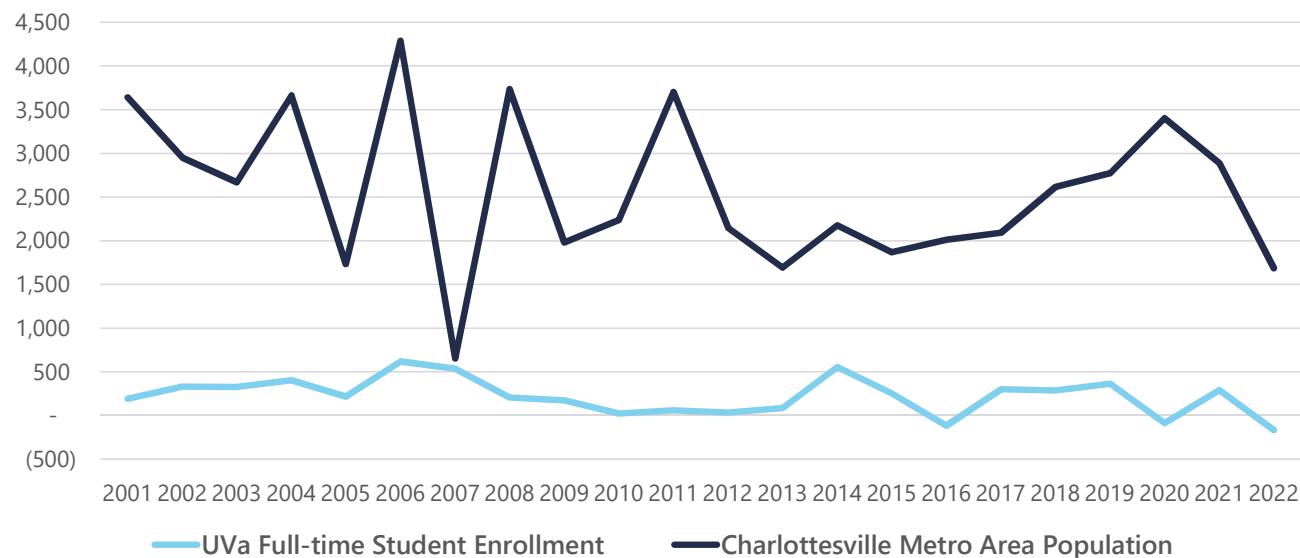
- In recent decades, growth in Charlottesville has helped siphon off growth from smaller localities nearby.
- During periods when Charlottesville's population has been stable, growth has accelerated in smaller localities nearby.

Annual Residential Units Permitted for Construction In Charlottesville



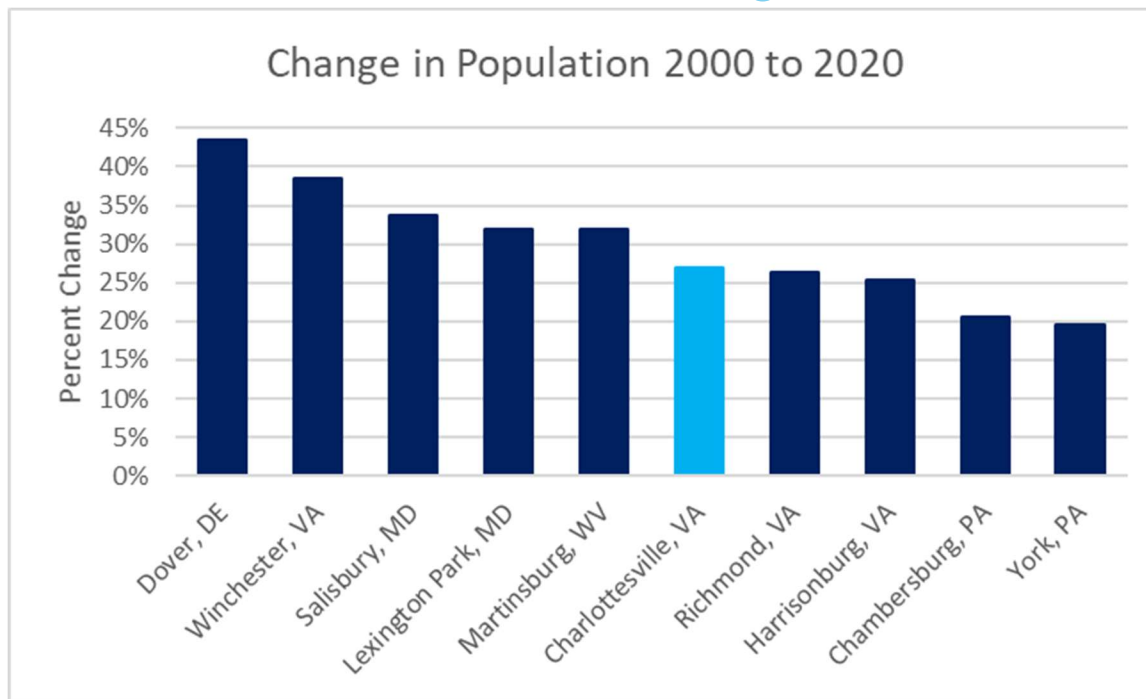
- The 2003 upzoning boosted housing construction in the city and helped spur population growth.
- Lower residential construction rates in recent years have slowed population growth in the city.

Annual Change in the Charlottesville Region's Population and UVA's Enrollment



- Since 2000, the Charlottesville Metro Area's population has grown by over 56,000.
- During the same period, UVA's enrollment increased by nearly 5,000 students.

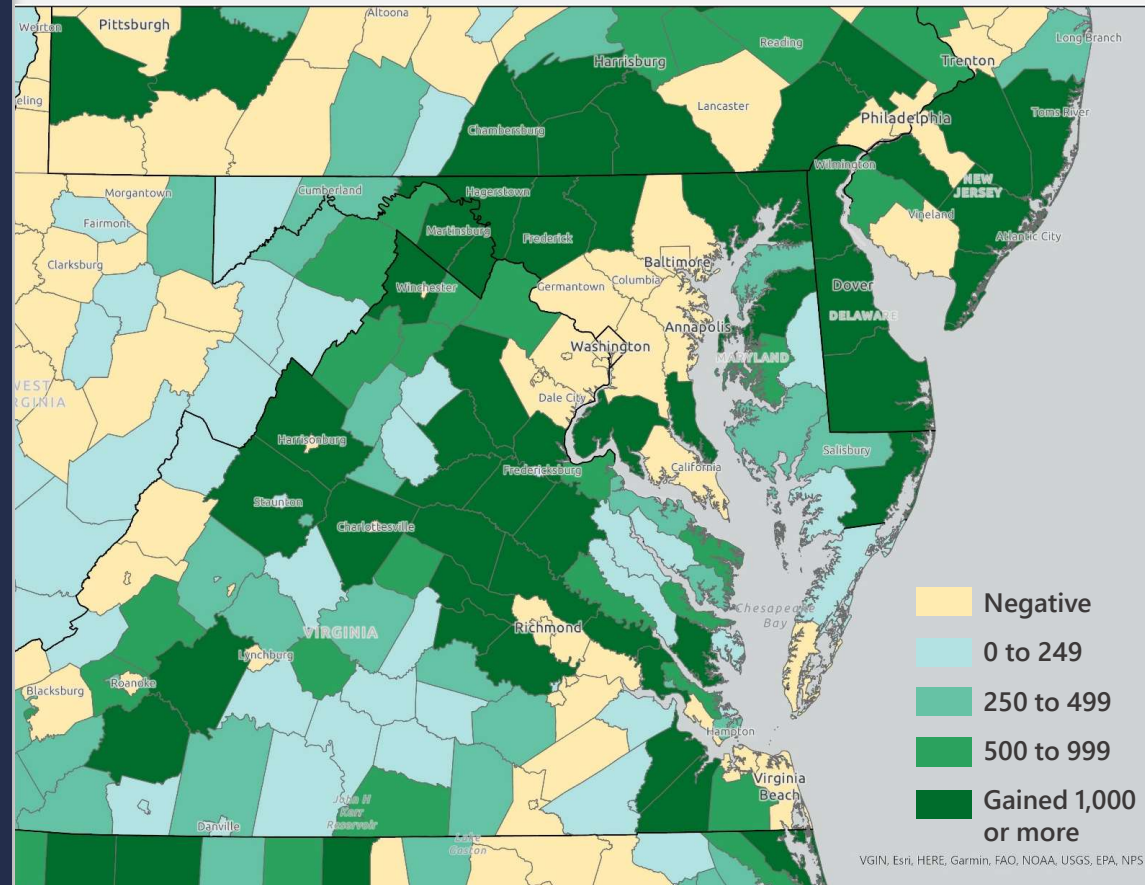
Population Change by Metro Area



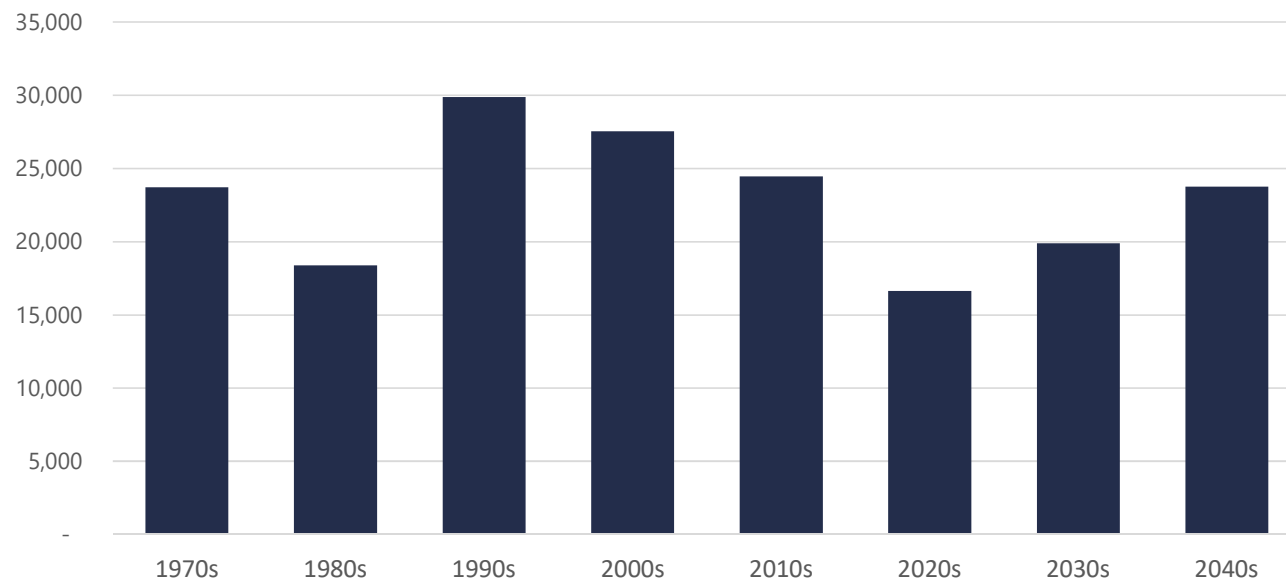
- The Charlottesville region's proximity to Washington DC and the densely populated Northeast Corridor has helped drive much of its growth in recent decades.
- Compared to other metro areas within two hours of DC, the Charlottesville region has not grown particularly quickly since 2000.

Domestic Migration since 2020

- The Washington DC MSA has one of the highest rates of working remotely in the country and some of the most expensive housing on the East Coast, helping fuel population growth in most counties within a two or three hour drive.



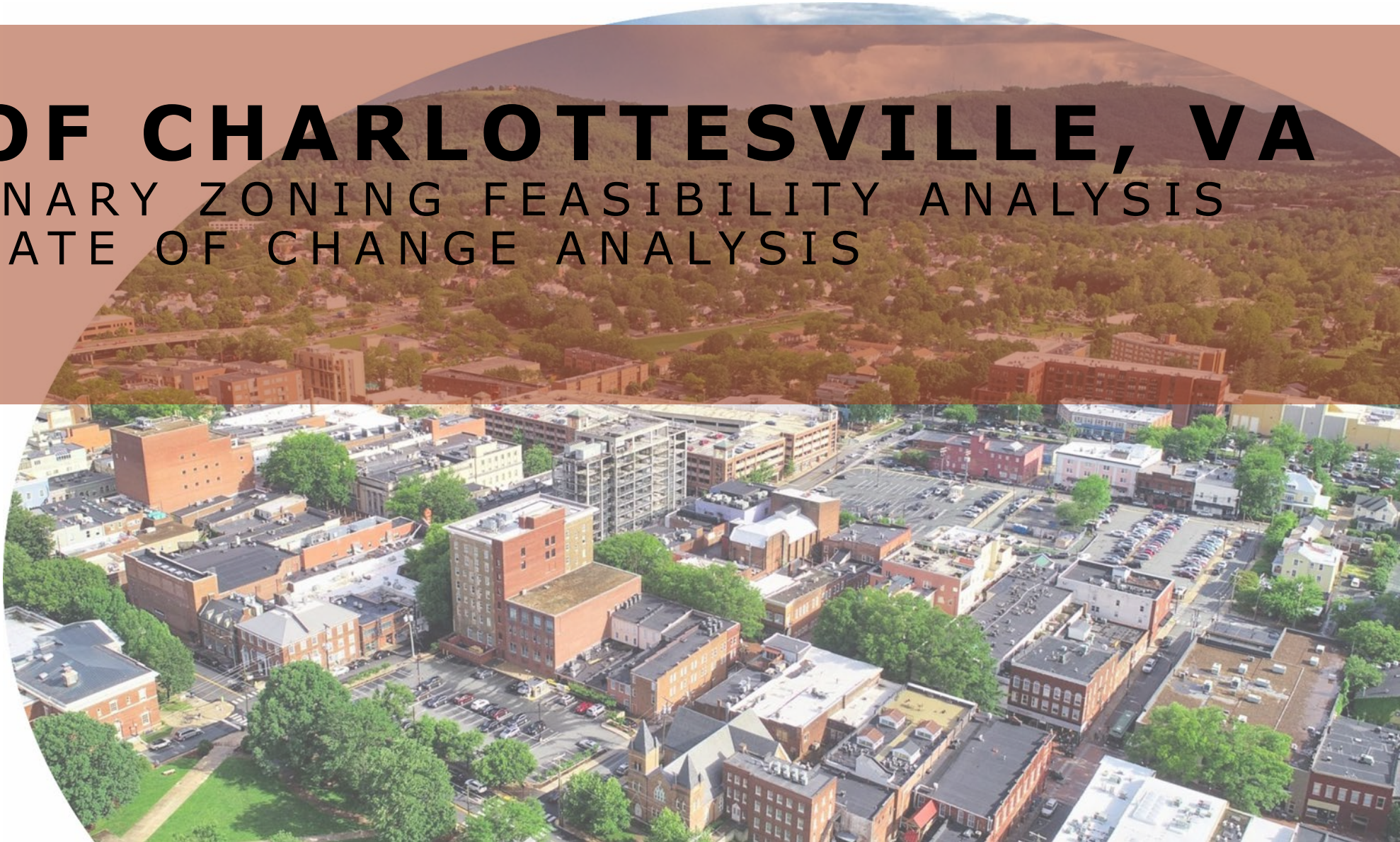
Charlottesville Metro Area Population Change, 1970-2050



- Population growth in the region has been relatively steady in recent decades.
- An aging population may temporarily slow growth during the 2020s.
- The persistence of remote work has added more uncertainty to future population projections.

CITY OF CHARLOTTESVILLE, VA

INCLUSIONARY ZONING FEASIBILITY ANALYSIS
ZONING RATE OF CHANGE ANALYSIS



SCOPE



The City of Charlottesville is seeking to better understand the market and financial realities of its proposed zoning changes. Specifically, the City seeks to understand

- ❖ The financial realities of its proposed **inclusionary zoning (IZ)** recommendation¹ to require projects with ten or more units to provide 10% of those units at a price point affordable to households earning 60% of the Area Median Income (AMI)
- ❖ The potential **rate of change** that may occur with the proposed R-A, R-B, and R-C zoning districts encouraged by the potential change in value due to the new zoning policies and allowances.

¹ Under Virginia law, and in Charlottesville's proposed zoning ordinance, an IZ program/ordinance is referred to as an Affordable Dwelling Unit (ADU) program/ordinance. This report will use the term IZ.

FINANCIAL FEASIBILITY MODELING

All financial feasibility modeling is based upon three principal components:

❖ Construction Costs

❖ Operational Costs

❖ Operational Revenues

❖ Construction Costs

- Soft costs – design and preparation
- Hard costs – materials and construction
- Land costs – physical location

❖ Operation Costs

- Financing costs – debt and equity to pay for the project
- Marketing, management, repairs, property taxes

❖ Operational Revenues

- Rental rates and sale prices
- Parking revenue



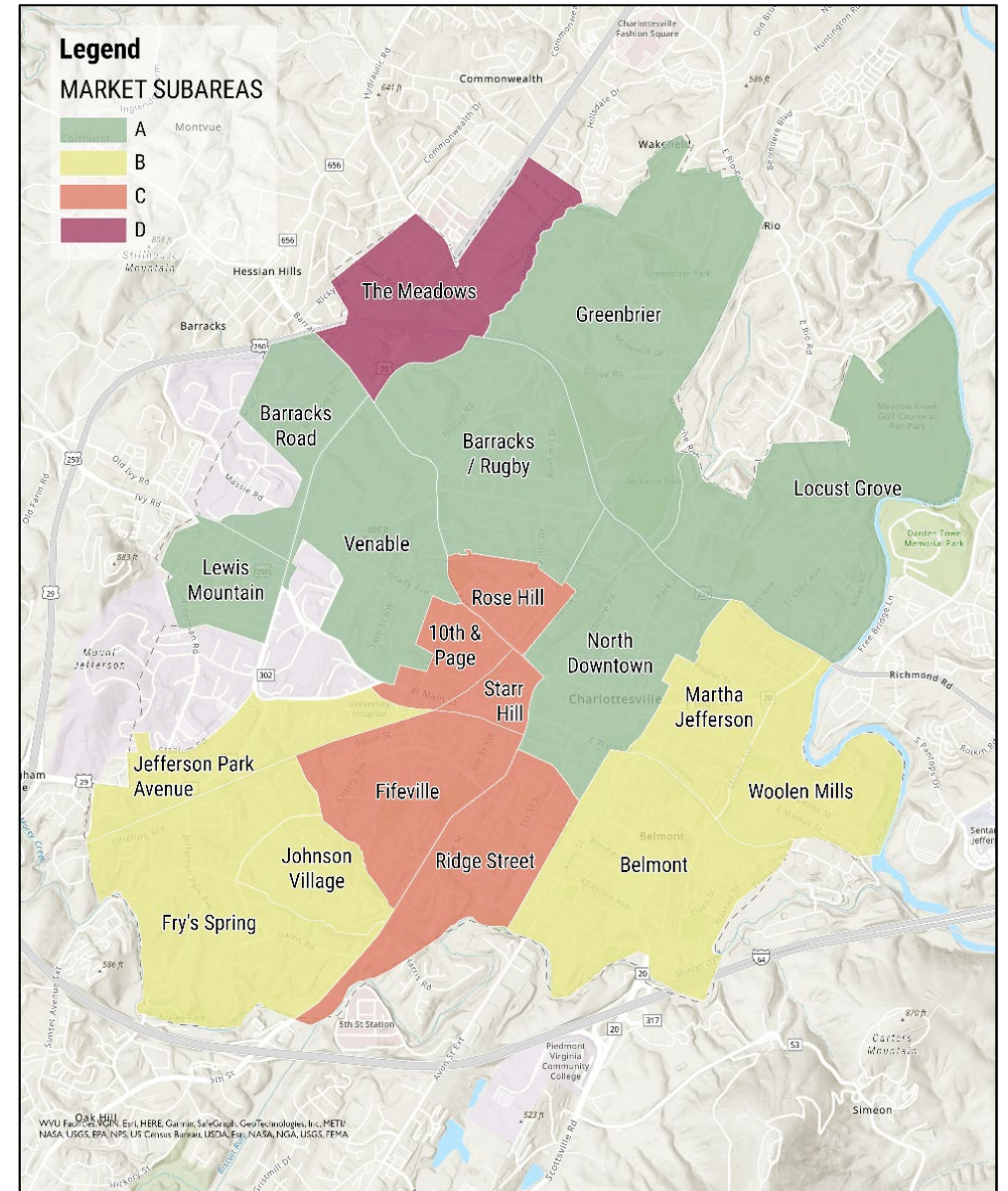
SUBAREA BOUNDARY MAP

RATE OF CHANGE

RKG used the City's established neighborhood boundaries to create four distinct subareas for assessment.

Each subarea was identified based on differentials in housing typology and housing value.

The sensitive neighborhoods were clustered (areas "C" and "D") to ensure a true understanding of how the rezoning policies could impact these communities in comparison with the rest of Charlottesville.



RATE OF CHANGE ANALYSIS

RKG Associates built upon the work completed under the previous assessment.

- Updated market data based on 2023 trends
- Compiled a new market value for properties impacted by the zoning change through the model
- Compared the new values to current market values based on current use
- Assessed the potential for current owner to sell based on differential in market value
 - Higher existing value – will not sell
 - 0% to 25% higher – small percentage will sell
 - 25% to 50% higher – more likely to sell
 - More than 50% higher – higher than average turnover
- Calculated number of parcels that would be acquired to use new zoning allowances

R-A SUMMARY OF FINDINGS

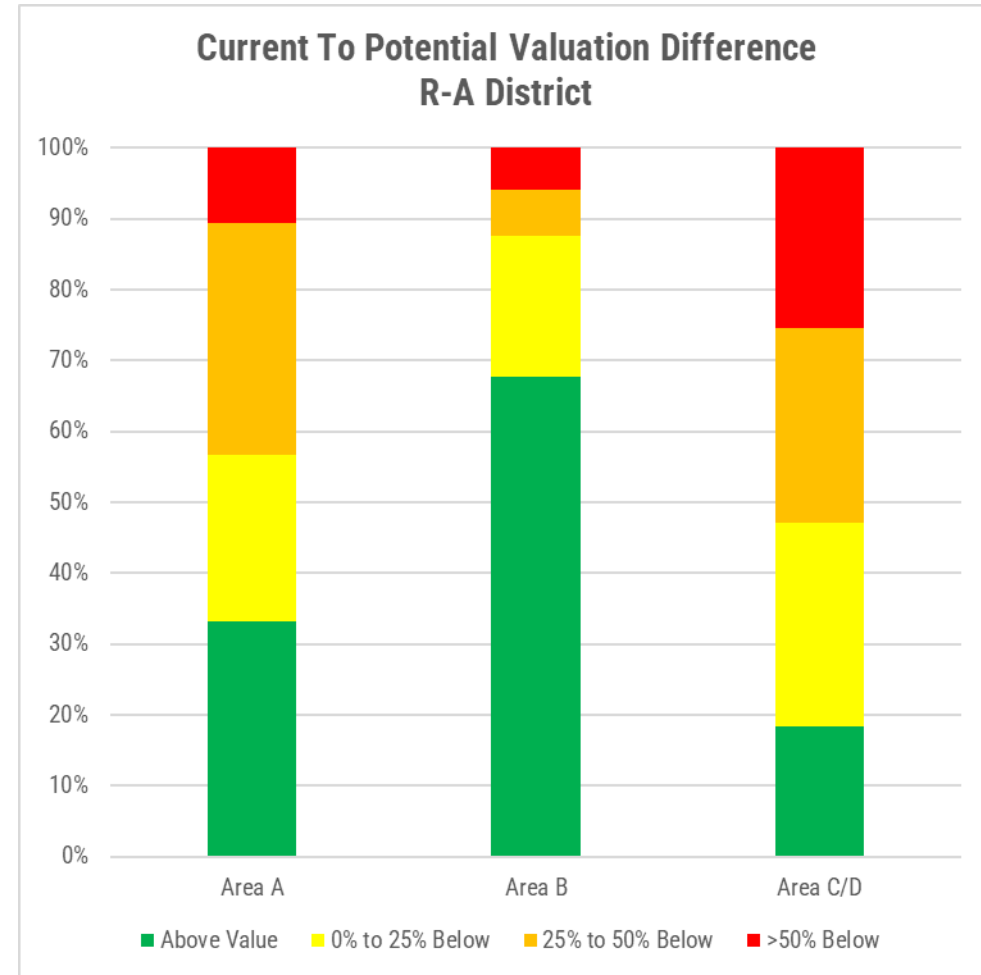
Parcels within Areas C and D (the sensitive neighborhoods within Charlottesville) have a much lower existing value compared to the potential value, on average. This means these parcels are more likely to be purchased for infill/redevelopment into market rate rental/ownership housing than Area A and Area B.

Based on the data analyzed for this effort, Areas C and D are 1.4x as likely to change than Area A and more than 4.1x more likely to change than Area B. Based on consumption patterns, the rate of change in zoning district R-A for each Area is:

Area A – 2.37% annually (77 parcels annually)

Area B – 0.81% annually (30 parcels annually)

Areas C/D – 3.32% annually (69 parcels annually)



R - B SUMMARY OF FINDINGS

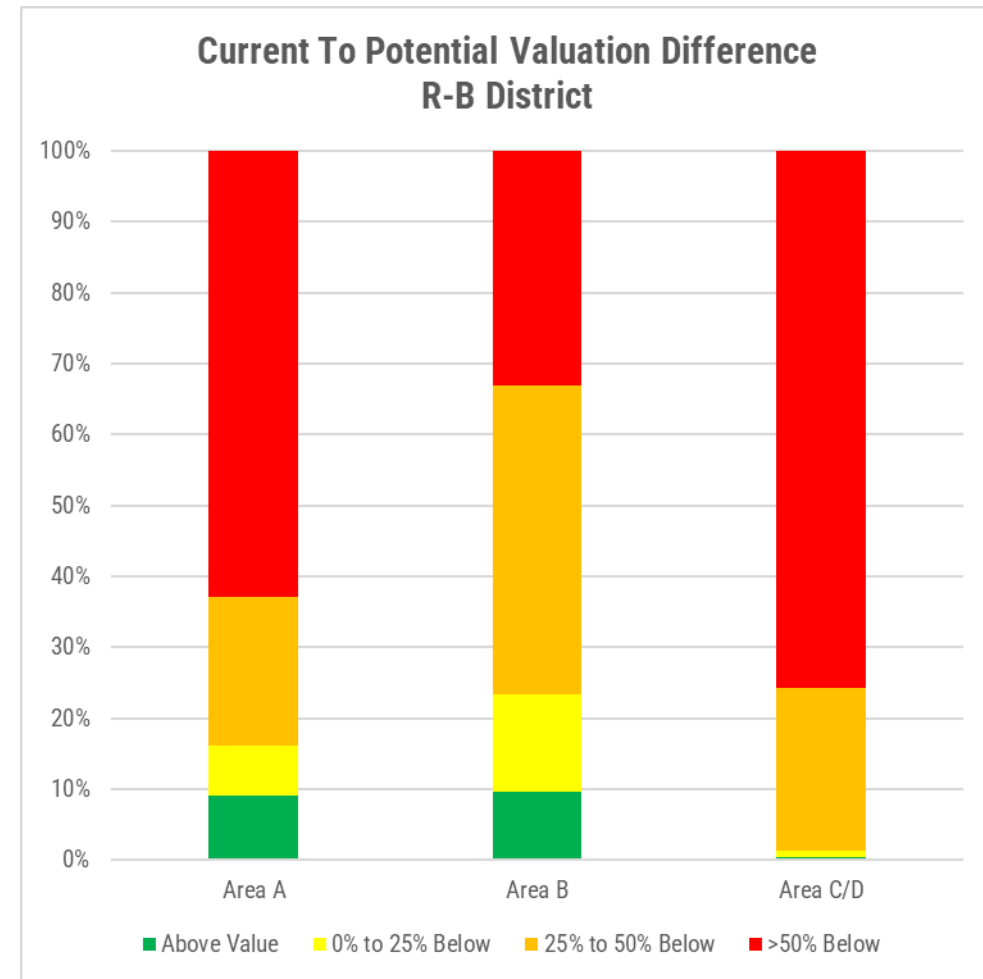
For zoning classification R-B, the additional allowed housing units create higher residual land values for redevelopment. As a result, the number of parcels where the new zoning will create a higher value than as the current use has gone up. As a result, the rate of change for R-B is much higher (5.49% annually to 1.95% annually) than in the R-A district.

Like the R-A analysis, the relatively higher land values in Areas A and B result in a comparatively lower rate of change. Based on consumption patterns, the rate of change in zoning district R-B for each Area is:

Area A – 5.98% annually (46 parcels annually)

Area B – 4.63% annually (39 parcels annually)

Areas C/D – 7.09% annually (15 parcels annually)



R-C SUMMARY OF FINDINGS

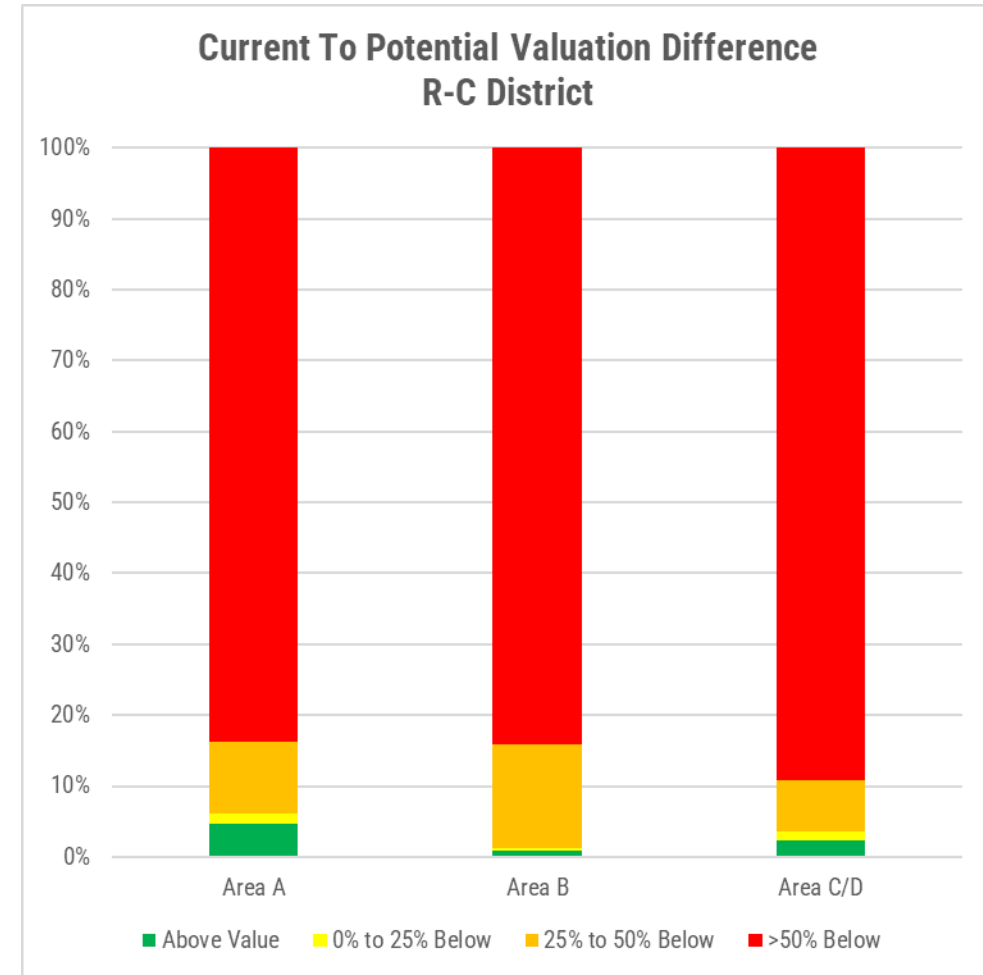
Allowing eight units by right on parcels previously used as single-family lots creates substantial market value (as rental or ownership). As a result, more than 80% of parcels in zoning classification R-C will become substantially more valuable for redevelopment. Unlike R-A and R-B, the value created exceeds existing values similarly across all four study areas.

Based on consumption patterns, the rate of change in zoning district R-C for each Area is:

Area A – 7.15% annually (9 parcels annually)

Area B – 7.39% annually (40 parcels annually)

Areas C/D – 7.46% annually (19 parcels annually)



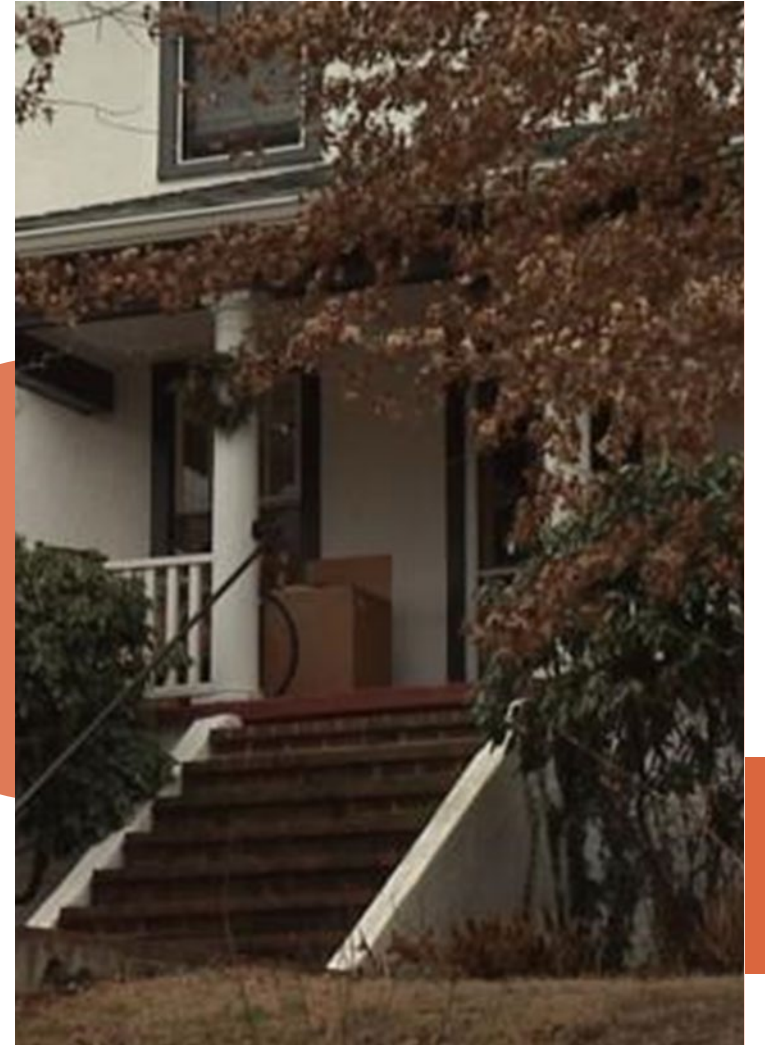
ROC SUMMARY OF FINDINGS

The new zoning classifications will have an impact on the current development patterns.

The data indicate that the new zoning groups will create value for several parcels within Charlottesville above their current value as single-family homes. The value creation varies substantially, with R-A having the least impact on value and R-C having the greatest. This is consistent with the development allowances, as R-C allows eight units by right compared to three units for R-A.

Rate of change analysis does not consider physical capacity of parcels.

It is important to note that the rate of change analysis currently assumes that no subdivision of the lot will occur. Based on the proposed zoning, a lot with an existing structure is considered developable. However, it is likely that some lots are not large enough to accommodate a 'full-sized' unit, or unit that meets the average size of recent construction. While micro units are popular, and continue to increase in popularity, having to develop smaller-than-average units would impact revenue, and therefore price. To this point, the existing analysis should be considered aggressive, with actual rates of change likely being lower.



ROC SUMMARY OF FINDINGS

Requiring income-controlled units to access bonus density creates positive market values, but lower than base zoning allowances.

Effectively, requiring income-controlled units to achieve the maximum development density creates a positive value for existing parcels. However, the positive value for these scenarios is below utilizing the base zoning only (with no bonus units OR income-control requirements). As a result, developers would not utilize the bonus density to maximize what they can offer for property acquisition.

BASE ZONING IRR

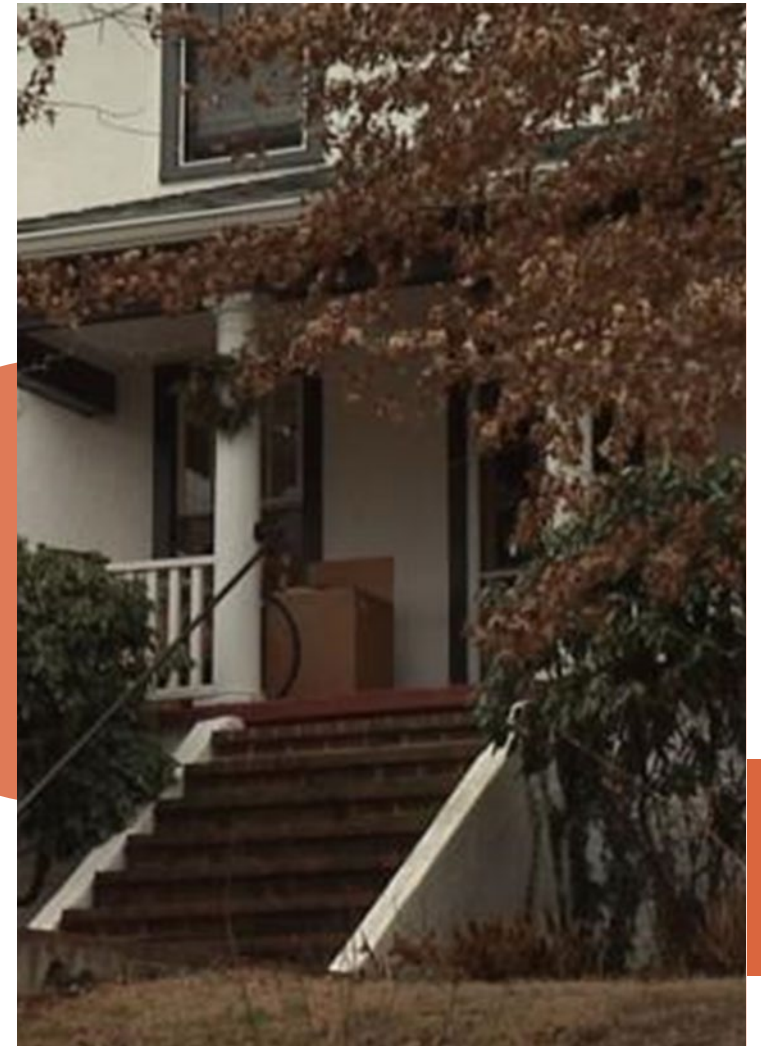
RENTAL	R-A	R-B	R-C
Area A	\$274,443	\$548,885	\$725,791
Area B	\$341,110	\$682,219	\$909,302
Area C/D	\$444,028	\$888,057	\$1,174,085

BONUS DENSITY - 100% AFFORDABILITY IRR

RENTAL	R-A	R-B	R-C
Area A	\$171,612	\$424,561	\$424,561
Area B	\$215,038	\$510,303	\$510,303
Area C/D	\$282,079	\$659,962	\$659,962

CONDO	R-A	R-B	R-C
Area A	\$666,602	\$1,349,206	\$1,812,125
Area B	\$231,547	\$479,095	\$637,434
Area C/D	\$104,009	\$224,019	\$301,941

CONDO	R-A	R-B	R-C
Area A	\$578,695	\$1,159,092	\$1,944,346
Area B	\$143,640	\$288,981	\$621,223
Area C/D	\$16,102	\$33,906	\$232,877



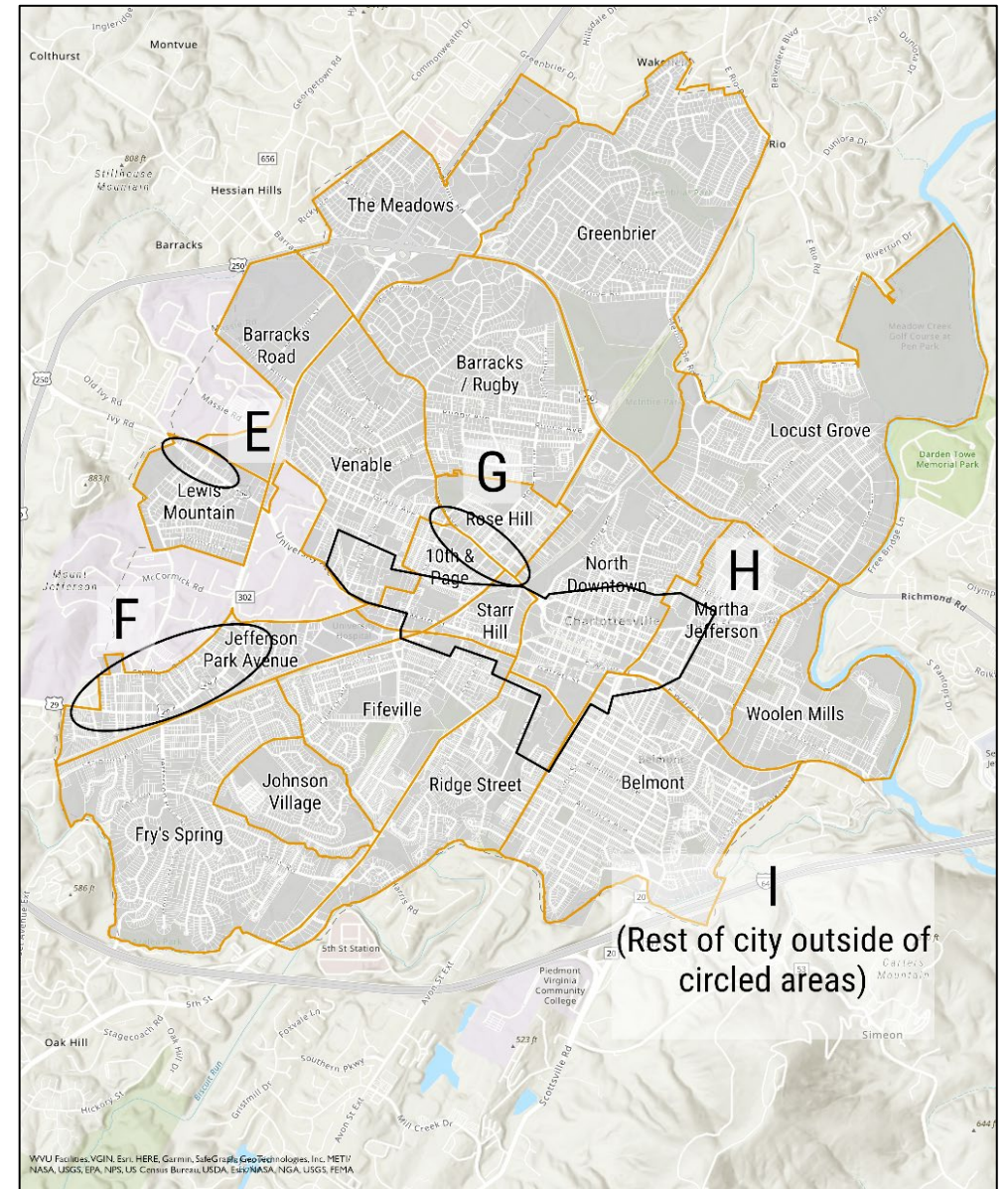
SUBAREA BOUNDARY MAP INCLUSIONARY ZONING

The inclusionary zoning financial feasibility analysis focused on those areas of the City where multifamily development was allowed/would likely occur.

Each area was identified based on differentials in revenue potential. Most notably, zoning districts located closest to downtown Charlottesville achieve the greatest rental incomes (on a per square foot basis) than other areas of the City.

Areas denoted as “E” and “F”, proximate to the University of Virginia.

Area “I”, effectively rental zones in the rest of the City.



INCLUSIONARY ZONING ANALYSIS

MARKET RATE DEVELOPMENT

ROC	10-Unit	25-Unit	100-Unit
Area E/F	6.46%	6.40%	5.07%
Area G/H	7.15%	7.08%	5.62%
Area I	5.86%	5.82%	4.63%

IRR	10-Unit	25-Unit	100-Unit
Area E/F	15.78%	15.21%	2.30%
Area G/H	21.39%	20.88%	8.18%
Area I	10.42%	10.06%	-3.39%

IZ ANALYSIS

ROC	10-Unit	25-Unit	100-Unit
Area E/F	6.38%	6.13%	4.80%
Area G/H	7.02%	6.74%	5.28%
Area I	5.83%	5.61%	4.42%

IRR	10-Unit	25-Unit	100-Unit
Area E/F	15.05%	12.12%	-0.98%
Area G/H	20.40%	16.98%	4.68%
Area I	10.13%	7.56%	-6.59%

BONUS DENSITY ANALYSIS

ROC	10-Unit	25-Unit	100-Unit
Area E/F	6.38%	6.16%	4.83%
Area G/H	7.04%	6.79%	5.32%
Area I	5.85%	5.66%	4.44%

IRR	10-Unit	25-Unit	100-Unit
Area E/F	14.35%	13.06%	-0.66%
Area G/H	19.55%	18.30%	5.00%
Area I	9.82%	8.44%	-6.26%

	Market feasible
	May have challenges to find funding
	Would require revenue/cost changes from current market thresholds
	Not market viable

Requires Podium or Steel-Frame Construction

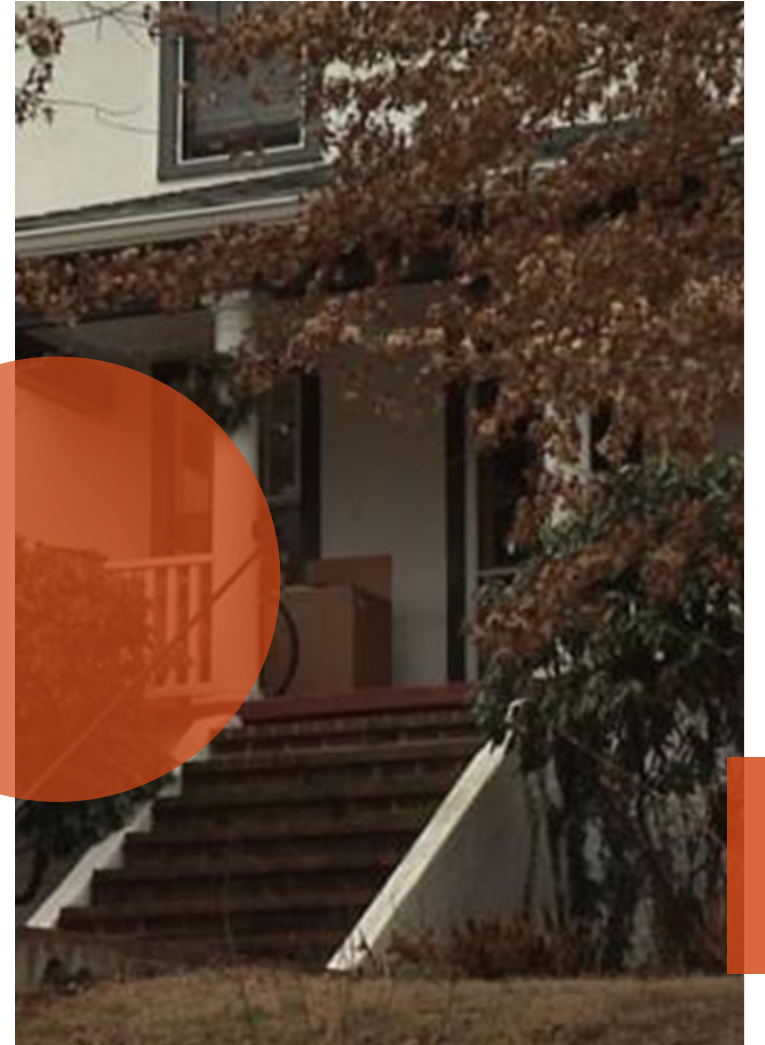
IZ SUMMARY OF FINDINGS

The proposed Inclusionary Zoning policy is appropriate in the City's traditional rental development areas.

The modeling indicates that requiring 10% of units at 60% of AMI is financially feasible in the areas surrounding Downtown, UVA, and along Route 29 (Area E). While the policy does have a slight negative financial impact on projects, the analysis indicates wood frame projects within Areas E, F, G, and H remain financially feasible.

The Downtown area could support greater affordability requirements.

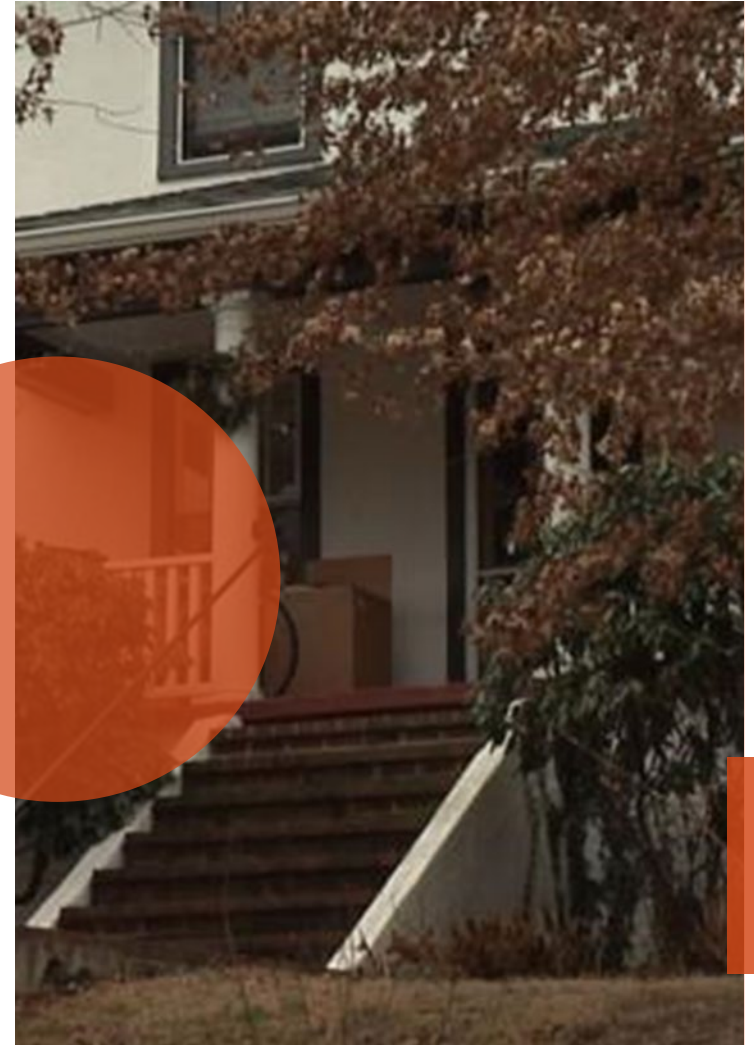
Due to the higher rent thresholds achieved in Areas G and H, the analysis indicates these areas could support a set aside rate of 15% and maintain financial feasibility (based on current conditions). Effectively, the higher rent capture can support a larger affordability requirement (either higher set aside or a lower AMI at 10% set aside). This would require the City to establish a tiered IZ policy based on location within Charlottesville.



IZ SUMMARY OF FINDINGS

Concrete and steel construction is not supportable.

As noted, the cost differential for concrete and steel construction is prohibitively high in Charlottesville based on the likely revenue capture. In effect, the cost of buildings has exceeded the rent capacity for most projects. While RKG recognizes that specialty projects (e.g., senior care) that command much higher rent levels than a 'traditional' rental project could succeed, the average multifamily project is infeasible under current market conditions without some cost or revenue intervention.



CONSIDERATIONS

Partial Unit Rule

How to address partial unit calculations

The current zoning policy requires that any partial unit calculation be rounded up to the next unit. Under this formula a 10-unit development would be required to provide 1 income-controlled unit, but an 11-unit development would be required to provide 2 income-controlled units. This will create a financial disincentive for developers to build projects that require 'additional' income-controlled units above the ratio of 1 unit out of every 10 built.

To this point, RKG Associates recommends the City consider changing the policy recommendation from 'round up' to calculating the partial unit as a payment into the City's Housing Trust Fund. In these cases, the partial unit (0.1 units in the 11-unit example above) would be calculated as 10%, requiring a 10% payment of the calculated value provided to the developer by allowing that unit to be market rate instead of affordable.

In this instance, RKG Associates recommends using a value gap analysis approach to determine the partial unit value (described later in this section). This fairly reduces the financial burden of the 'round up' approach by collecting the pro rata share of a unit that the development would be required under the 10% set aside rule.

Payment In Lieu

How to address developers who want to opt out of delivering units on-site

There may be instances where developers will request to provide a cash payment instead of delivering the income-controlled units within their development. Reasons for this vary, but ultimately work against delivering new income-controlled units given the City's lack of remaining undeveloped land.

In these instances, RKG Associates recommends the City use a total construction cost approach (described later in this section) to determine what the financial contribution to the City's Housing Trust Fund must be for each income-controlled unit not delivered on-site.

The total construction cost approach provide the City with sufficient funds for land acquisition and development of a new unit, which will be required to deliver an income-controlled unit elsewhere within Charlottesville.

CONSIDERATIONS

Value Gap Calculation Approach

The value gap is the difference between the value of a market rate unit and that of an affordable unit. The value of a rental unit is determined by the net operating income and the capitalization rate; for an ownership unit it is determined by the sales value of the unit. In the case of affordable units, the amount of rent or sale price is limited to the target income threshold of the inclusionary zoning policy. This results in lower revenue for a developer. This loss of revenue translates into a loss of value (hence, the value gap) and negatively impacts the overall financials of a developer because the cost of construction and land to build either an affordable or market rate unit are essentially the same. As part of the modeling process, an option was created to utilize the difference in value due to the loss of revenue in determining the fee amount to charge for fractional units. A table showing current gap calculations is included at the end of this narrative.

RENTAL

$$\frac{\text{NOI}_{\text{MR}} - \text{NOI}_{\text{IC}}}{\text{CAP RATE}}$$

MR – Market Rate
IC – Income-Controlled

OWNER

$$\text{PRICE}_{\text{MR}} - \text{PRICE}_{\text{IC}}$$

Construction Cost Approach

The construction cost approach focuses on the costs to build a housing unit. This includes land acquisition, land development and soft costs (e.g., design and engineering), approval process, and the hard construction costs for development. A table showing construction cost calculations is included at the end of this narrative.

PAYMENT IN LIEU

Value Gap Approach

RENTAL HOUSING VALUE GAP CALCULATIONS COMPARED TO MARKET RATE RENTS

AREAS E/F

	30% Affordable NOI	40% Affordable NOI	50% Affordable NOI	60% Affordable NOI	70% Affordable NOI	80% Affordable NOI
Studio	(\$133,871)	(\$103,931)	(\$73,991)	(\$44,051)	(\$14,111)	\$15,828
1BR	(\$204,696)	(\$174,756)	(\$144,816)	(\$114,876)	(\$84,936)	(\$54,996)
2BR	(\$266,720)	(\$236,780)	(\$206,840)	(\$176,900)	(\$146,960)	(\$117,020)
3BR	(\$340,033)	(\$310,093)	(\$280,153)	(\$250,213)	(\$220,273)	(\$190,333)
Average	(\$236,330)	(\$206,390)	(\$176,450)	(\$146,510)	(\$116,570)	(\$86,630)

AREAS G/H

	30% Affordable NOI	40% Affordable NOI	50% Affordable NOI	60% Affordable NOI	70% Affordable NOI	80% Affordable NOI
Studio	(\$153,904)	(\$123,964)	(\$94,024)	(\$64,084)	(\$34,144)	(\$4,204)
1BR	(\$226,050)	(\$196,110)	(\$166,170)	(\$136,230)	(\$106,290)	(\$76,350)
2BR	(\$319,227)	(\$289,287)	(\$259,347)	(\$229,407)	(\$199,467)	(\$169,527)
3BR	(\$397,952)	(\$368,012)	(\$338,072)	(\$308,132)	(\$278,193)	(\$248,253)
Average	(\$274,283)	(\$244,343)	(\$214,403)	(\$184,463)	(\$154,524)	(\$124,584)

AREA I

	30% Affordable NOI	40% Affordable NOI	50% Affordable NOI	60% Affordable NOI	70% Affordable NOI	80% Affordable NOI
Studio	(\$105,825)	(\$75,885)	(\$45,945)	(\$16,005)	\$13,934	\$43,874
1BR	(\$161,130)	(\$131,190)	(\$101,250)	(\$71,310)	(\$41,370)	(\$11,430)
2BR	(\$241,626)	(\$211,686)	(\$181,746)	(\$151,806)	(\$121,867)	(\$91,927)
3BR	(\$315,103)	(\$285,163)	(\$255,223)	(\$225,283)	(\$195,344)	(\$165,404)
Average	(\$205,921)	(\$175,981)	(\$146,041)	(\$116,101)	(\$86,161)	(\$56,222)

PAYMENT IN LIEU

Construction Cost Approach

RENTAL CONSTRUCTION COSTS

	Average Square Footage	Construction Cost Per Foot	Total Cost Per Unit
Studio	525	\$350.76	\$184,152
1BR	715	\$350.76	\$250,797
2BR	1,050	\$350.76	\$368,303
3BR	1,560	\$350.76	\$547,339
Average	963	\$350.76	\$337,648

OWNERSHIP CONDOMINIUM CONSTRUCTION COSTS

	Average Square Footage	Construction Cost Per Foot	Total Cost Per Unit
Studio	975	\$332.83	\$324,510
1BR	1,088	\$332.83	\$362,120
2BR	1,243	\$332.83	\$413,709
3BR	1,452	\$332.83	\$483,138
Average	1,189	\$332.83	\$395,869

OWNER - TOWNHOUSE

	RKG
Studio	\$352,411
1BR	\$422,894
2BR	\$528,617
3BR	\$775,305
Average	\$519,807

CONSIDERATIONS

Housing Voucher Considerations Blending the IZ with voucher units

Communities (e.g., Boston, MA) have been incorporating housing choice voucher requirements into their inclusionary zoning policies. Creating a dedicated set aside for housing vouchers benefits both the community (creates more diverse, lower-cost housing) and the development community (voucher payments often match or exceed target AMI rent thresholds). The following table compares Charlottesville's FMR thresholds for vouchers with the 60% of AMI calculations.

	50% AMI	Voucher	60% AMI
Studio	\$1,055	\$1,223	\$1,271
1 Bedroom	\$1,123	\$1,231	\$1,354
2 Bedroom	\$1,269	\$1,471	\$1,531
3 Bedroom	\$1,413	\$1,829	\$1,706

As seen, using vouchers exceeds 50% AMI threshold revenues and is consistent with 60% AMI thresholds. This means including vouchers could serve much lower income households while having no, or even positive (using bonus density), financial feasibility impacts.

Financial Incentives Maximizing the City's leverage with the new zoning requirements.

The use of financial incentives already exist in Virginia and the City of Charlottesville. Both the city and state provide financial support for certain housing projects (e.g., LIHTC projects), and are making direct and indirect contributions (e.g., reduced cost of publicly-owned land) to increase the production of price-diverse housing.

However, the City's financial tools have been exclusively used to augment other state and federal grant funds. With the new IZ requirements, the City can choose to invest in into private-sector projects. Most notably, the feasibility analysis reveals that achieving lower income thresholds (than 60% AMI) are more financially obtainable than higher set asides. Using City resources to 'buy down' the 60% AMI IZ units to something lower may more cost beneficial than investing in new construction LIHTC projects. The City can use existing programs, or even consider tax abatements, to increase the reach of the IZ without greater risk of market disruption.

CONSIDERATIONS

Approval Processes

The cost of gaining approvals from the City

Based on feedback from local real estate professionals, the development approval and permitting process in the City can be long and expensive depending on where a project is located, the size and complexity of the project, and if there is any neighborhood opposition to the project. It was noted that soft costs for construction can constitute as much as 20% of hard costs (between \$46 to \$80 PSF) for a project. This is a sizable percentage of total construction costs on a per square foot basis and is one of the few cost metrics the City can influence.

Finding ways to reduce those costs through these zoning changes, streamlining approval processes, and more proactive neighborhood planning that sets expectations for residents about future development can have a substantial impact on development costs, and therefore financial feasibility.

Maintaining the IZ Policy

Impacts of time on the feasibility findings

The results of this analysis vary (in some cases greatly) from the analysis performed in 2021. Development costs, operational expectations, interest rates, market pricing all change frequently. For example, the Median Income for a family of 4 in the Charlottesville region increased approximately 25% since 2021, going from \$93,700 in 2021 to \$123,300 in 2023. In this instance, a household (of 4 persons) earning 60% of AMI could afford a monthly rent (and utilities) payment of \$1,405.50 in 2021. In 2023, the monthly rent payment would be \$1,849.50.

This change in income thresholds impacts maximum rent levels for income-controlled units, which impacts financial feasibility and other calculations like value gap.

To this point, the City needs to update its IZ policy requirements and guidelines no more than every two (2) years to ensure the policy [1] does not create financial infeasibility over time, [2] promote outcomes undesirable to the city (e.g., making payments in lieu financially beneficial over delivering units on-site), and [3] ensures the goals and objectives of the policy still reflect the City's priorities and shifting opportunities.



Charlottesville Zoning Impact Analysis

