CITY OF NEW ORLEANS

NEW ORLEANS INCLUSIONARY HOUSING STUDY

FINAL REPORT

FEBRUARY, 2019

HR&A Analyze. Advise. Act.

UrbanFocus LLC

Introduction

The City of New Orleans is considering implementing a mandatory inclusionary zoning (IZ) policy to provide long-term affordable housing in the city. Following adoption of a new Comprehensive Zoning Ordinance (CZO) in 2015 that established a framework for voluntary inclusion of affordable housing in new development and the completion of the Smart Housing Mix Ordinance Study in 2017, there is now legislation before the New Orleans City Council (Council) to establish a mandatory IZ policy. Before moving forward with a vote on the legislation, Council requested a detailed assessment of how the policy would impact multifamily residential development.

In November 2018, the City retained HR&A Advisors, Inc (HR&A), in consultation with Urban Focus, to conduct a study determining the feasibility of a mandatory IZ policy, the findings of which will be used to inform the proposed legislation and modify components of it (if needed) to ensure alignment with current real estate market conditions. The HR&A Team's scope of work was to: **1) understand the City's goals for an IZ program, 2) perform a citywide market analysis and conduct stakeholder outreach to understand residential submarkets, 3) test the feasibility of various IZ policies through rigorous financial analysis, and 4) provide recommendations to the City regarding the feasibility of an IZ policy, its requirements, and a framework for implementation**.

As part of this study, the consultant team talked with over two dozen representatives of the development community in New Orleans, including private developers, real estate attorneys, affordable housing advocates, and City and local government officials.

NEW ORLEANS INCLUSIONARY ZONING TIMELINE

May 2015	Sept. 2015	Feb. 2017	Aug. 2018	Feb. 2019
New Comprehensive Zoning Ordinance (CZO) adopted with voluntary affordability provisions	CZO updated to provide density bonus for affordable development	Smart Housing Mix Ordinance Study completed	Zoning docket motion introduced for mandatory IZ policy	HR&A Team findings and recommendations delivered

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Study Summary

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

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

① Aligns with housing needs;

② Provides appropriate public incentives; and

③ Targets neighborhoods with sufficient market strength.

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

POLICY COMPONENTS

Requirement

Affordability Level

Portion of Units

Length of Affordability

Geography

Mandatory IZ Locations

Voluntary IZ Locations

Incentives

Appropriate Incentives

Size of Incentives

Length of Incentives

ADMINISTRATION

Administrative Policy

Process Guidelines

Development Approvals

Program Management

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

Assess Market Conditions and Identify Toolkit of Incentives

Create and Evaluate Development Feasibility Scenarios

Develop Recommendations

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

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

MARKET DATA

Rents
$1,800-$2,400/mo. avg.
(Class A, Core Submarkets)

Sale Prices
$450K-$550K avg.
(Core Submarkets)

Development Costs
$140-$210 PSF

Development Pace
1,200+ market rate apartments and condos since 2014

Development Pipeline
1,400+ market rate units currently under construction

STAKEHOLDER INTERVIEWS

Housing Advocates
Enterprise
Greater New Orleans Housing Alliance/ HousingNOLA

Developers & Financing
Alembic Community Development
Domain Companies
Edwards Communities
Ekistics Inc.
Gibbs Development
Green Coast Enterprises
Gulf Coast Housing Partnership
Historic Restorations, Inc
JCH Development
Madderra, Cazalot, & Head
MCC Group
Sherman Strategies, Inc
Wisznia Development

Public Agencies
Finance Authority of New Orleans
Industrial Development Board

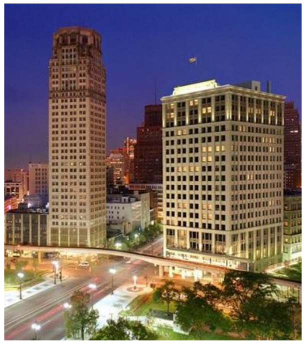
NATIONAL BEST PRACTICES

HR&A Experience
Detroit
Cambridge
Columbus
Norfolk
Raleigh
Atlanta
Houston
El Paso
Milwaukee
New York City
Seattle

Source: CoStar, Zillow, HR&A Advisors

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

BUILDING TYPOLOGIES BY SUBMARKET TYPE (10+ Units)

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

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

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

POLICY COMPONENTS

Requirement

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

Term
99 Years

Scale
Market-rate development of 10+ units

In-Lieu Fee
$291,000-305,000 per rental unit
$366,000-383,000 per for-sale unit

Geography

Three tiers based on market ability to support IZ.

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

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

Tier 3 – Transitional
Voluntary participation

Incentives

Density Bonus
Bonus of 30%, up to 50%

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

Rest. Tax Abatement
Reduction of renewal requirement for qualifying projects

Parking Reduction
10%, up to 30%

ADMINISTRATION

Administrative Policy

Development Approvals and Permitting
DSP and CPC

Tax Abatement
IDB or FANO

Density Bonus and Parking Reduction
CPC

Program Management
DSP and OCD

Units administered at property-level by owner

STUDY SUMMARY

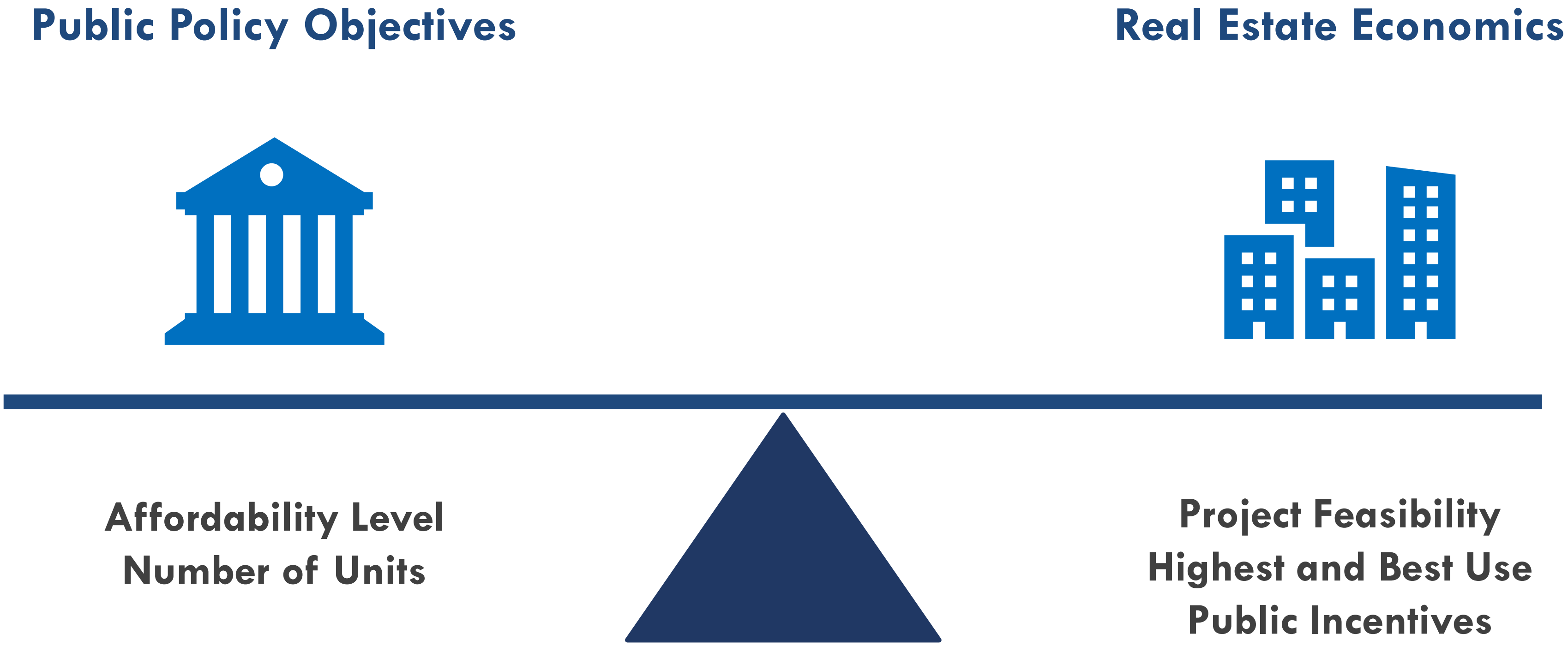
AFFORDABILITY REQUIREMENTS

GEOGRAPHIC BOUNDARIES

PUBLIC INCENTIVES

ADMINISTRATIVE POLICY

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



Public Policy Objectives

Affordability Level
Number of Units

Real Estate Economics

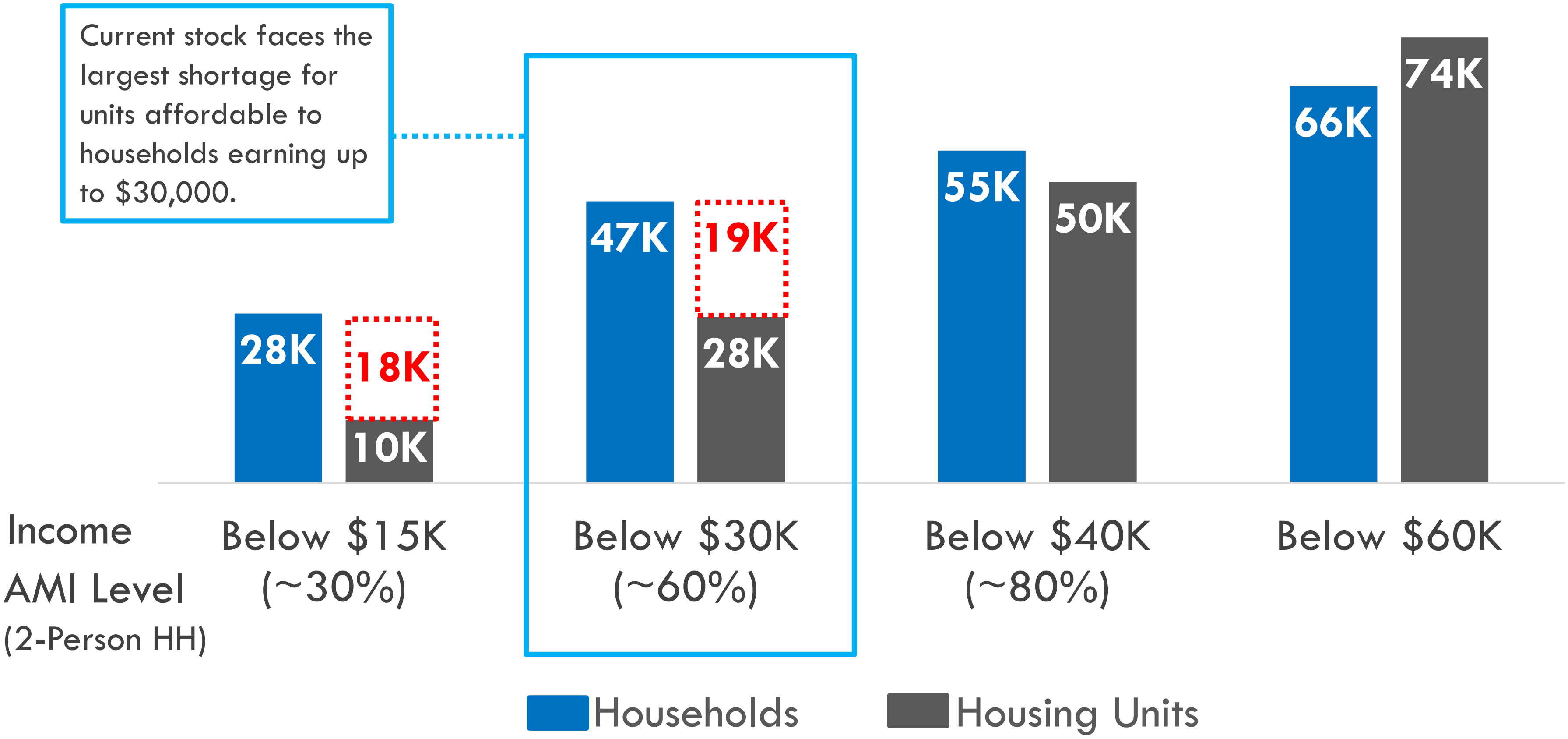
Project Feasibility
Highest and Best Use
Public Incentives

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

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

RENTAL UNITS AFFORDABLE TO HOUSEHOLDS BY HOUSEHOLD INCOME (AMI LEVEL)

City of New Orleans, 2016



Current stock faces the largest shortage for units affordable to households earning up to $30,000.

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

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

EXAMPLE 60-UNIT IZ PROJECT

54 Market Rate Units

6 Affordable Units at 60% AMI

1 to **9** unit ratio

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

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

CORE SUBMARKET DEVELOPMENT FEASIBILITY – RENTAL

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

INCREASING AFFORDABILITY →

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

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

STRONG SUBMARKET DEVELOPMENT FEASIBILITY – RENTAL

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

INCREASING AFFORDABILITY →

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

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

STRONG SUBMARKET DEVELOPMENT FEASIBILITY (GAP) / SURPLUS – RENTAL

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

INCREASING AFFORDABILITY →

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

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

TRANSITIONAL SUBMARKET DEVELOPMENT FEASIBILITY – RENTAL

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

INCREASING AFFORDABILITY →

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

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

CORE SUBMARKET DEVELOPMENT FEASIBILITY – FOR-SALE

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

INCREASING AFFORDABILITY →

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

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

Four Wind Apts

261 Units

↓

26 Affordable Units

California Bldg

167 Units

↓

17 Affordable Units

The Standard

89 Units

↓

9 Affordable Units

The Paramount

209 Units

↓

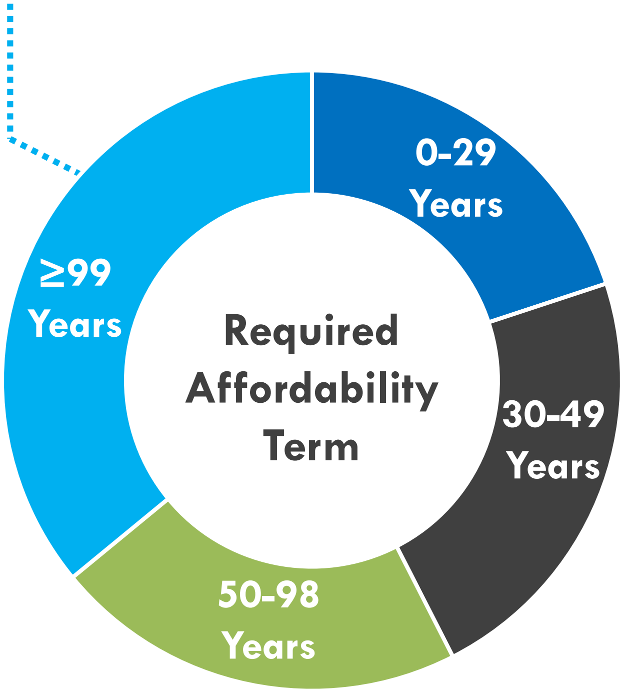
21 Affordable Units

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

NATIONAL PRECEDENCE

IZ Programs in United States, 2014

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



Source: Lincoln Institute of Land Policy, 2014

LOCAL CONTEXT

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

Density Bonus

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

Tax Abatement

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

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

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

NEW ORLEANS IN-LIEU FEE CALCULATION

Difference in Value between Market Rate and Affordable Units

$277,100

Rental

$348,000

For-Sale

5-10%

Premium
to Encourage
On-Site
Production

Recommended Fee Per Affordable Unit

$291,000-305,000

Rental

$366,000-383,000

For-Sale

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

STUDY SUMMARY

AFFORDABILITY REQUIREMENTS

GEOGRAPHIC BOUNDARIES

PUBLIC INCENTIVES

ADMINISTRATIVE POLICY

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

GEOGRAPHIC CONSIDERATIONS

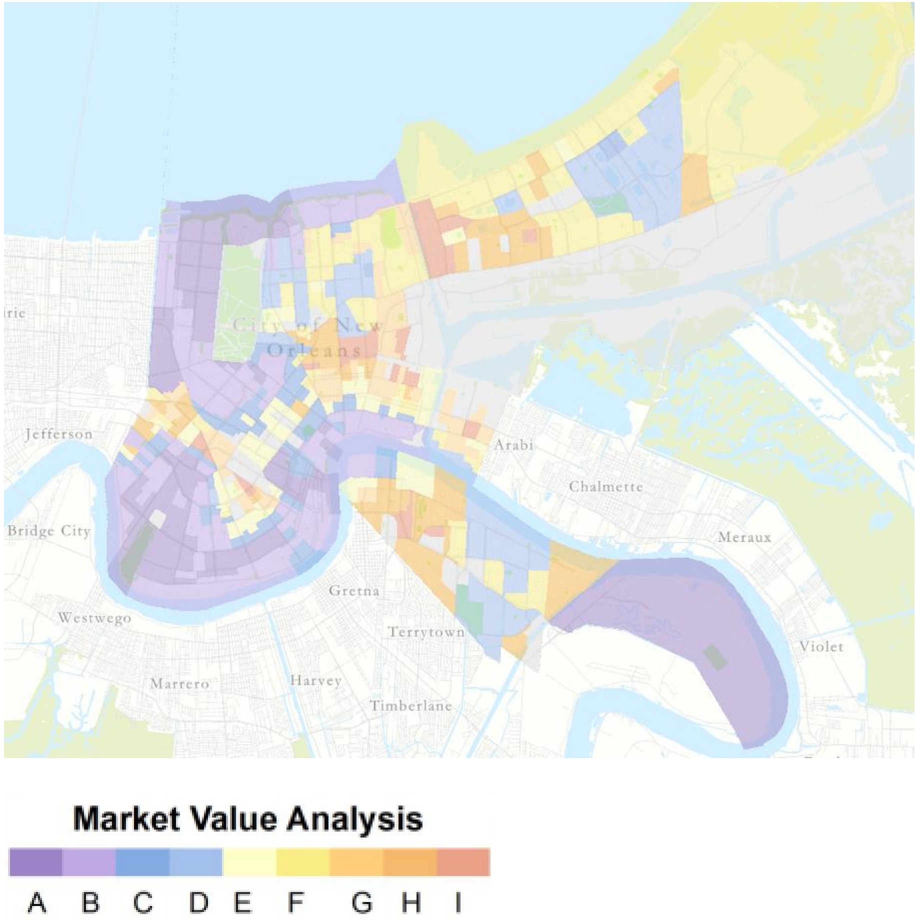
Recognizing Varied Market Strength
In New Orleans, differences in market strength across neighborhoods necessitate a focus on locations where a mandatory IZ requirement will be feasible.

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

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

Source: New Orleans Market Value Analysis 2018, Reinvestment Fund

REAL ESTATE MARKET STRENGTH



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

THREE-TIERED INCLUSIONARY ZONING GEOGRAPHY POLICY

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

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

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

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

THREE-TIERED INCLUSIONARY ZONING GEOGRAPHY POLICY

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

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

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

STUDY SUMMARY

AFFORDABILITY REQUIREMENTS

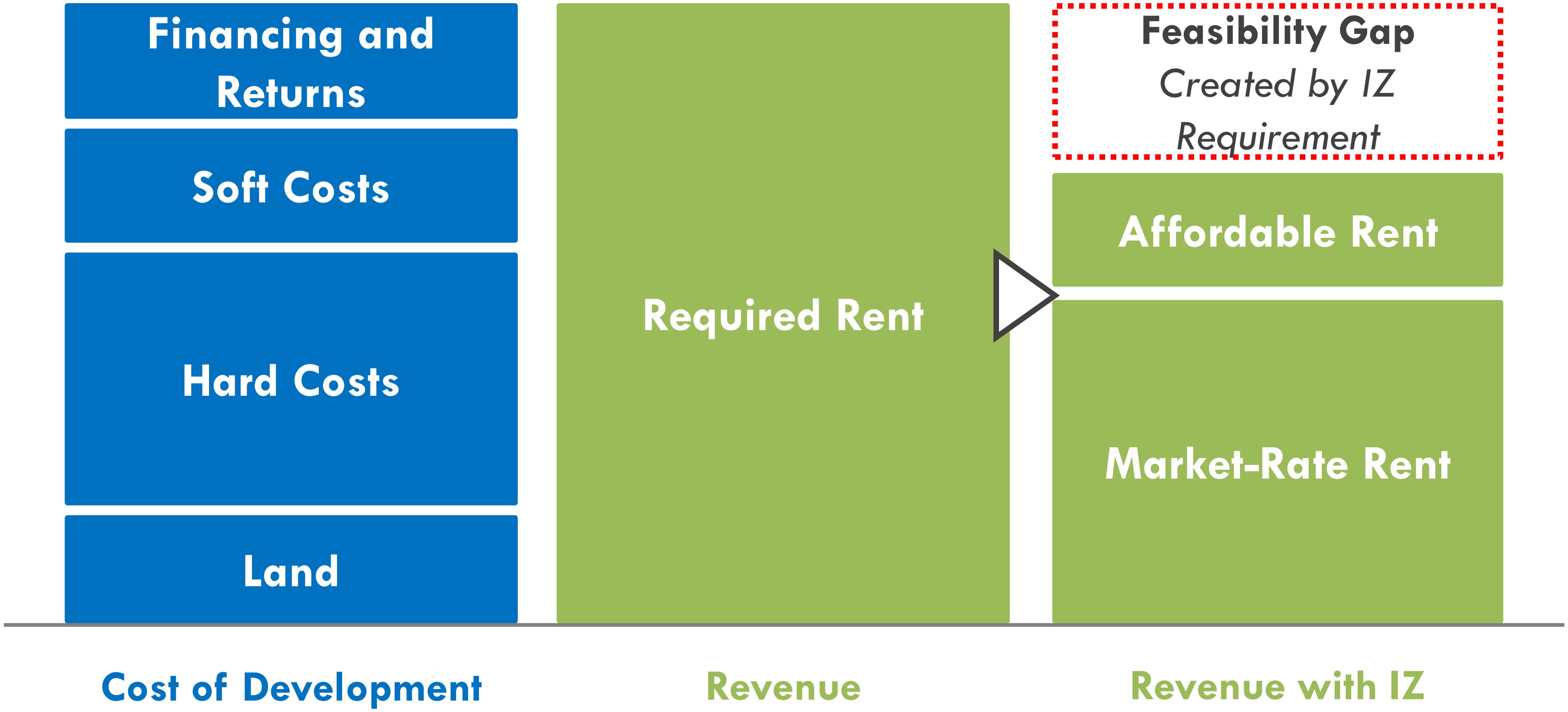
GEOGRAPHIC BOUNDARIES

PUBLIC INCENTIVES

ADMINISTRATIVE POLICY

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

HYPOTHETICAL MULTIFAMILY DEVELOPMENT



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

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

REGULATORY RELIEF

- Density Bonuses & Other Zoning Relief
- Stormwater Fee-in-Lieu Exemption
- Building Code Waivers
- Minimum Parking Reduction
- Fast Track Processing

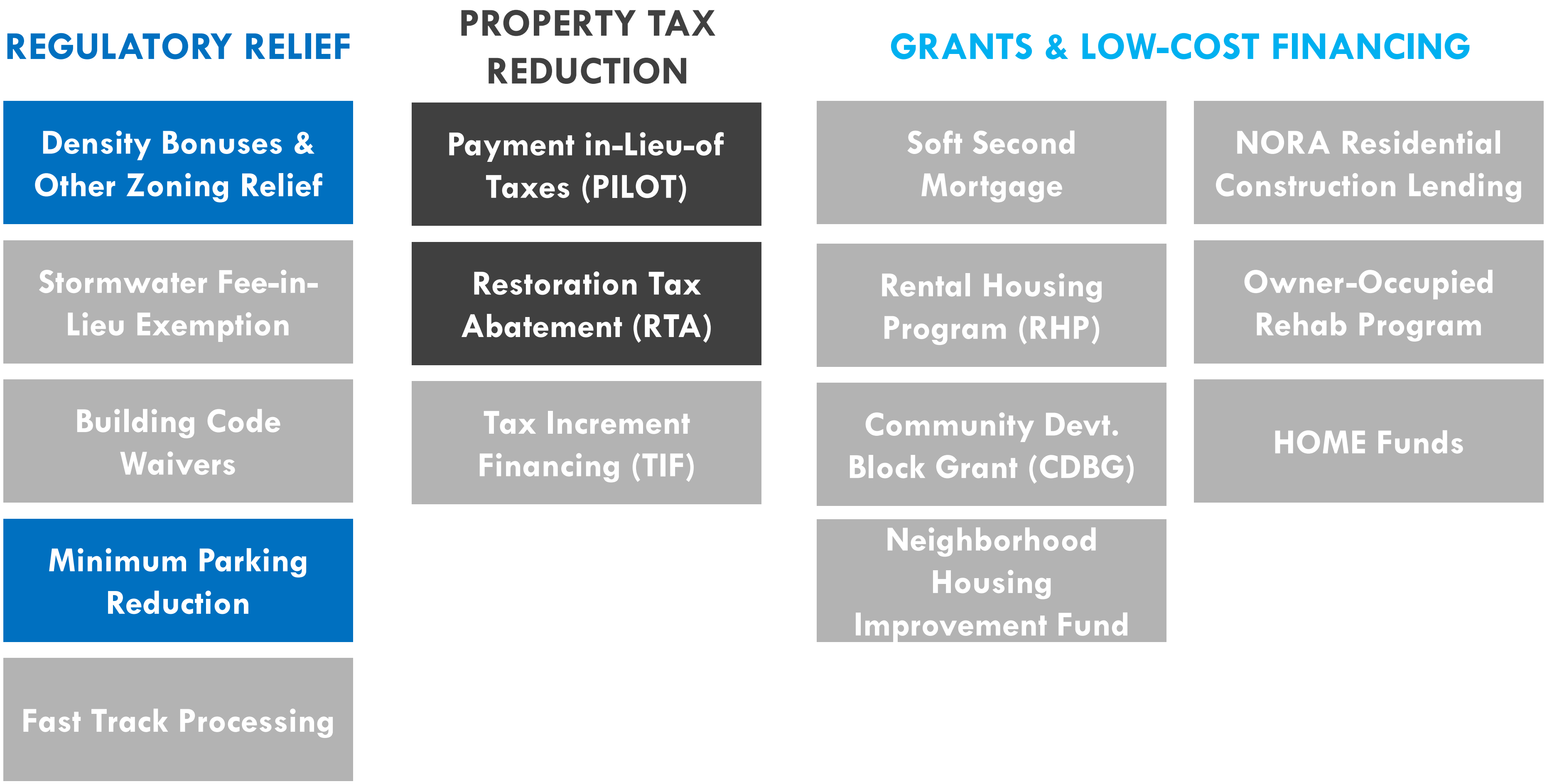
PROPERTY TAX REDUCTION

- Payment in-Lieu-of Taxes (PILOT)
- Restoration Tax Abatement (RTA)
- Tax Increment Financing (TIF)

GRANTS & LOW-COST FINANCING

- Soft Second Mortgage
- NORA Residential Construction Lending
- Rental Housing Program (RHP)
- Owner-Occupied Rehab Program
- Community Devt Block Grant (CDBG)
- HOME Funds
- Neighborhood Housing Improvement Fund

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



REGULATORY RELIEF

- Density Bonuses & Other Zoning Relief
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- Building Code Waivers
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PROPERTY TAX REDUCTION

- Payment in-Lieu-of Taxes (PILOT)
- Restoration Tax Abatement (RTA)
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GRANTS & LOW-COST FINANCING

- Soft Second Mortgage
- NORA Residential Construction Lending
- Rental Housing Program (RHP)
- Owner-Occupied Rehab Program
- Community Devt. Block Grant (CDBG)
- HOME Funds
- Neighborhood Housing Improvement Fund

Reason for Exclusion

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

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

RECOMMENDED CITY IZ INCENTIVES

Regulatory Relief

Density Bonus

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

Minimum Parking Reduction

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

Property Tax Reduction

Payment-in-Lieu-of-Taxes (PILOT)

10-year abatement, amount determined based on individual project underwriting

Restoration Tax Abatement (RTA)

Two five-year abatement periods, no reinvestment required for renewal after initial five-year period

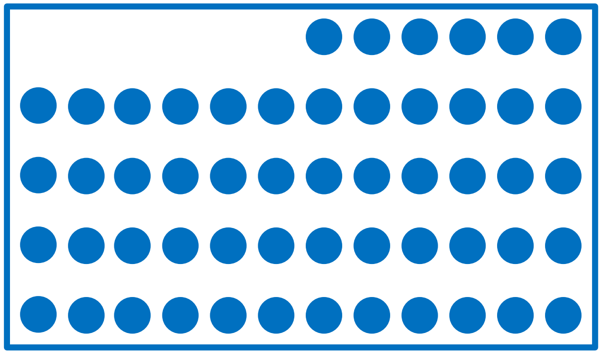
These incentives should be available as-of-right for market-rate and affordable housing development that meets the IZ requirement.

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

HYPOTHETICAL DEVELOPMENT SCENARIO
NEW CONSTRUCTION – CORE SUBMARKETS

Without IZ Requirement

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



54 Market-Rate Units

0 Affordable Units

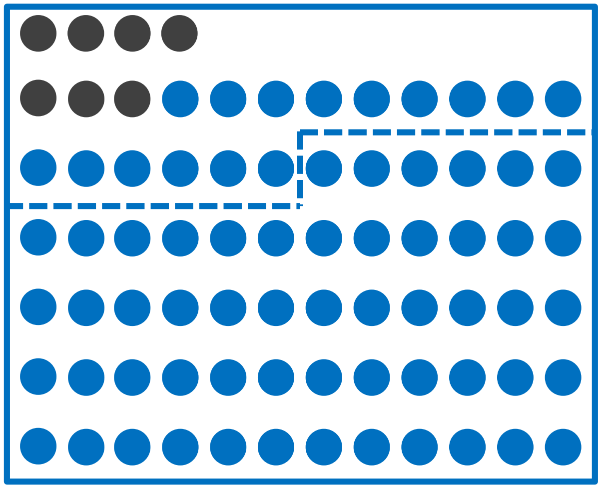
1BR avg. market rate rent: $1,790/mo.

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

50% PILOT ($56K/Year)

With IZ Requirement

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



69 Market-Rate Units

7 Affordable Units

*1BR aff. unit rent: $760/mo.**

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

STUDY SUMMARY

AFFORDABILITY REQUIREMENTS

GEOGRAPHIC BOUNDARIES

PUBLIC INCENTIVES

ADMINISTRATIVE POLICY

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

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

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

SETTING GEOGRAPHIC BOUNDARIES

- Geographic tier boundaries will be set by the city using a zoning overlay process to define tiers for the policy based on HR&A's analysis.

- HR&A recommends no neighborhood be able to exclude a development from voluntarily using the IZ program.

UPDATING GEOGRAPHIC BOUNDARIES

- Geographic boundaries are based on HR&A's assessment of current market conditions in New Orleans.

- Over time the boundaries for each tier must be updated to ensure the amount of affordable housing requirements align with evolving market dynamics.

- HR&A recommends geographic boundary updates be conducted every two years.

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

PERMITTING AND APPROVALS

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

PROGRAM MANAGEMENT

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

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

Market Study

The conditions and trends in the New Orleans housing market set the parameters for what mandatory IZ policy is feasible.

① **UNEVEN GROWTH: New Orleans is growing, though population trends vary by neighborhood.**

- Since 2010, New Orleans has averaged annual population growth of 1.7%, with new multifamily development concentrated near the Downtown core. However, overall population growth has slowed in recent years.

② **FRAGILE MARKET: While New Orleans' multifamily development market is active, its strength is limited.**

- Continued declines in multifamily vacancy (decrease from 13% to 7% between 2009 and 2018) bode well for the health of the market, though stagnant pricing for Class A units indicates some softness at the top of the market.
- New multifamily development starts reached a ten-year high in 2018, but much development continues to require some degree of public support and market confidence remains a challenge.
- New growth is concentrated in central neighborhoods including the CBD and French Quarter.

③ **AFFORDABILITY CHALLENGE: New Orleans has a significant cost-burdened population, and renter households are particularly in need of affordable housing.**

- 45% of households in New Orleans are cost burdened, paying more than 30% of income for housing. For renters, who make up more than half of New Orleans' households, 56% are cost burdened.
- For renter households, the gap between need vs. availability of housing is largest for households making less than $30,000 per year, or approximately 60% AMI for a two-person household.

④ **MARKET ALIGNMENT: An effective inclusionary housing policy will align affordability requirements with tools appropriately sized for New Orleans' varied submarkets to accomplish policy goals.**

- Achievable rents, and corresponding development feasibility, vary across New Orleans neighborhoods and affect the impact of an inclusionary policy on development feasibility.

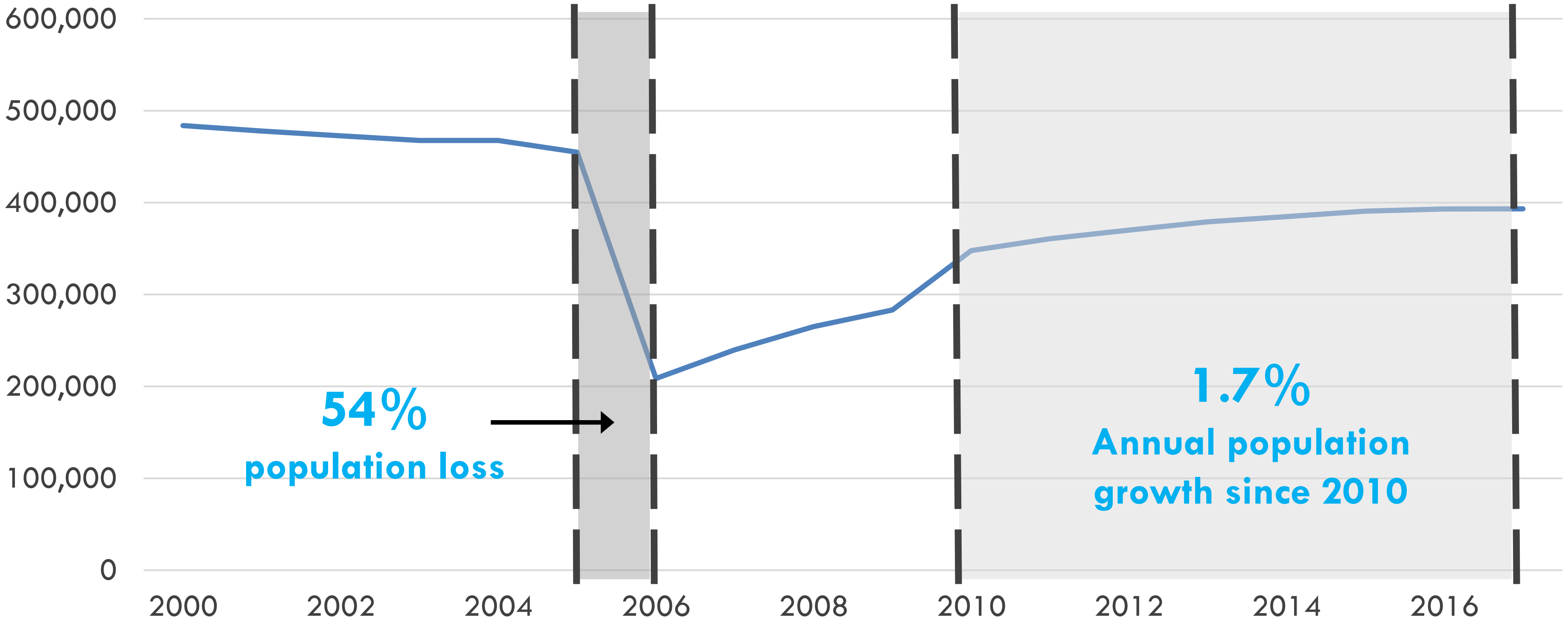
Uneven Growth

New Orleans has averaged annual population growth of 1.7% since stabilizing in 2010, though growth has been modest in recent years.

TOTAL POPULATION

City of New Orleans

2000-2017



Though total population remains well below pre-Katrina levels, New Orleans population is growing and the city is approaching 400,000 residents. Although growth has averaged 1.7% since 2010, it has slowed in recent years.

Sources: ESRI; Urban Focus; HR&A Advisors

Uneven Growth

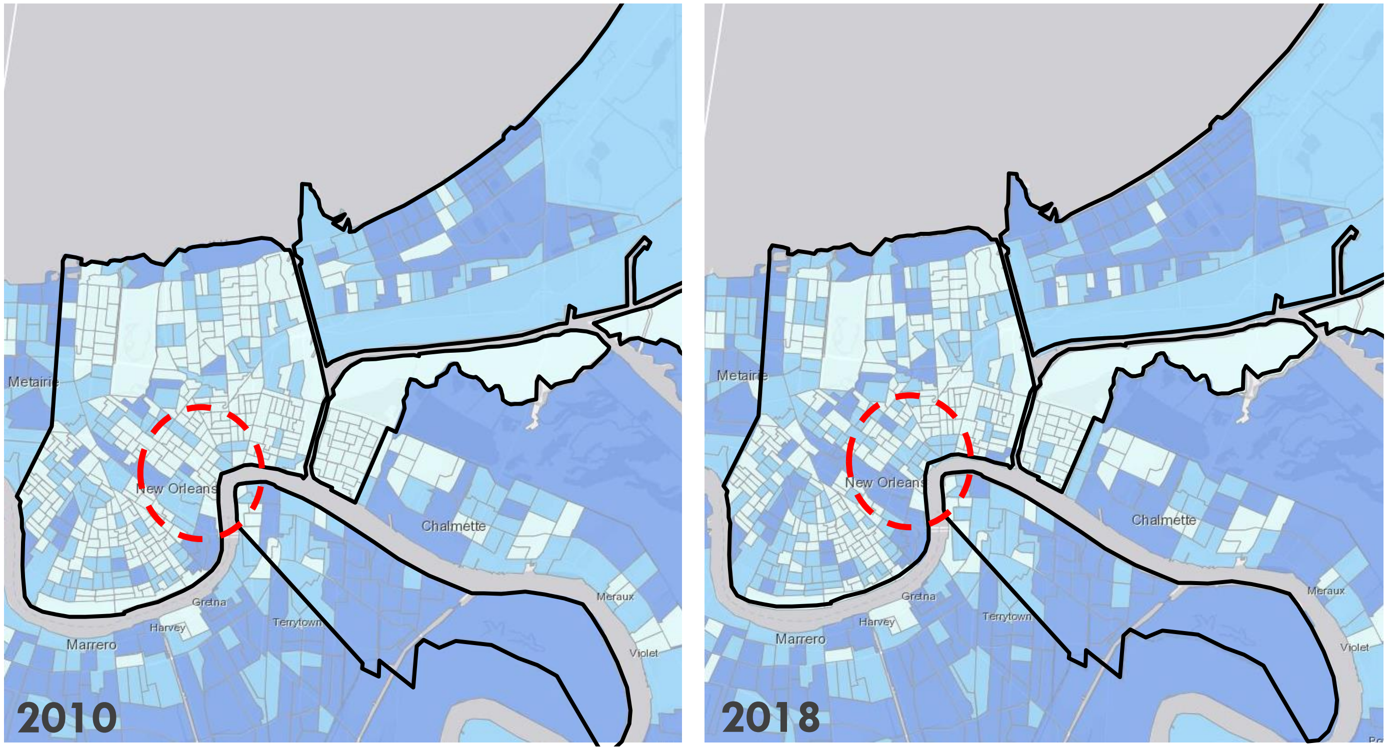
Population growth in recent years has been concentrated in the greater Downtown area.

TOTAL POPULATION BY CENSUS TRACT

City of New Orleans

2010 & 2018

Population growth has not been equal throughout New Orleans. Areas in and around Downtown have grown in recent years, reflecting national trends in urban living and proximity to amenities and employment. At the same time, growth has been mixed in other parts of the city. An IZ policy would target affordable housing in the strongest residential submarkets as an extension of their existing market demand.

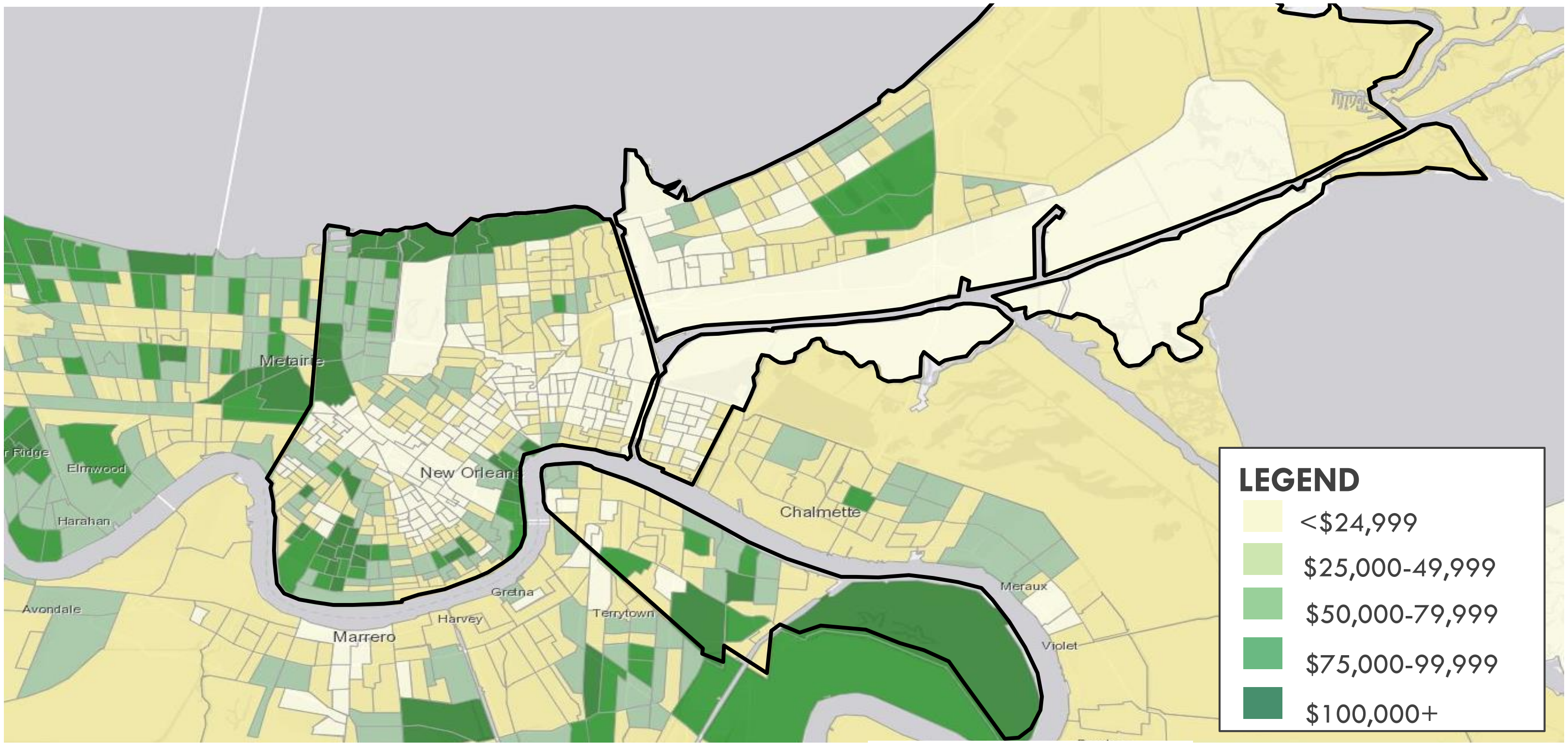


Legend: ■ 1,100+ people ■ 700-1,100 people ■ <700 people

Sources: ESRI; Urban Focus; HR&A Advisors

Uneven Growth

Median household income varies across the city and tends to be highest near the CBD, Garden District, Uptown, and along the Lakefront.



MEDIAN INCOME

City of New Orleans

2018

Median incomes of greater than $75,000 a year are most common in areas with the greatest increases of population. As population and incomes grow in these locations, housing becomes less accessible to lower income groups.

Sources: ESRI; Urban Focus; HR&A Advisors

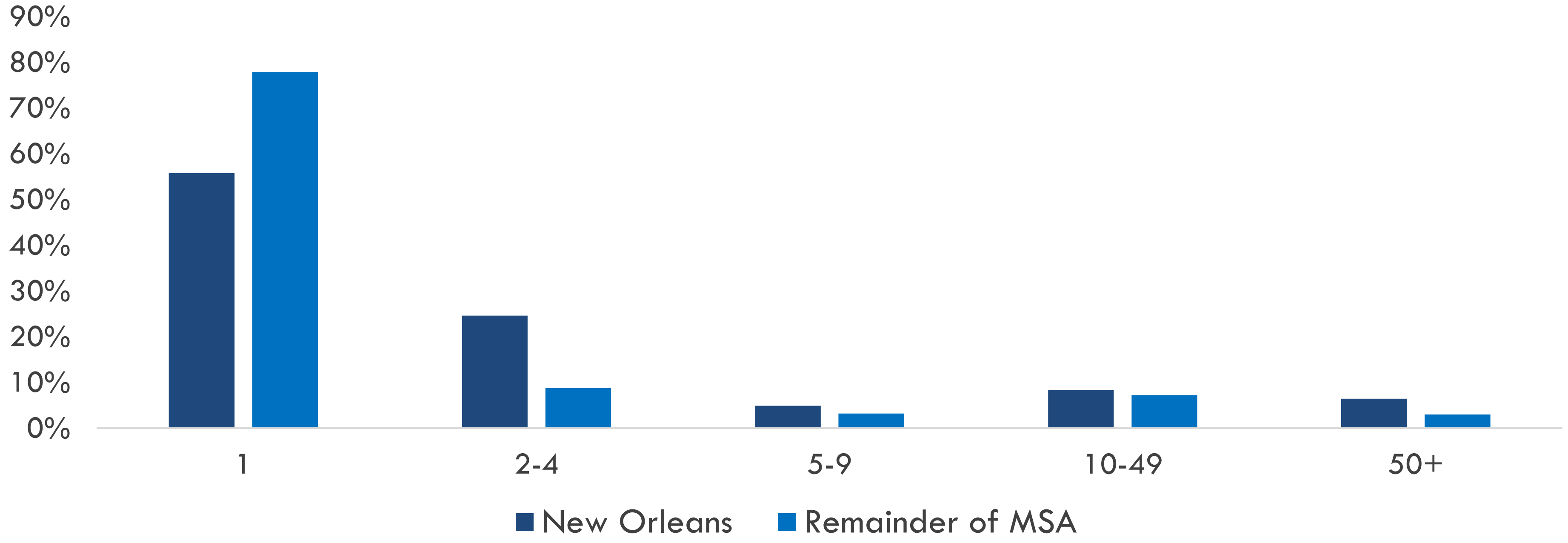
Fragile Market

New Orleans remains a predominantly low density home market in terms of overall stock.

RESIDENTIAL UNITS BY UNITS IN STRUCTURE

City of New Orleans

2016



New Orleans' housing stock is predominately made up of single family housing. Larger multifamily buildings with at least 10 units make up just 15% of the total housing stock. These figures reflect New Orleans' historic development patterns and multifamily development remains an uncommon housing type in large parts of the city.

Sources: Social Explorer; Urban Focus; HR&A Advisors

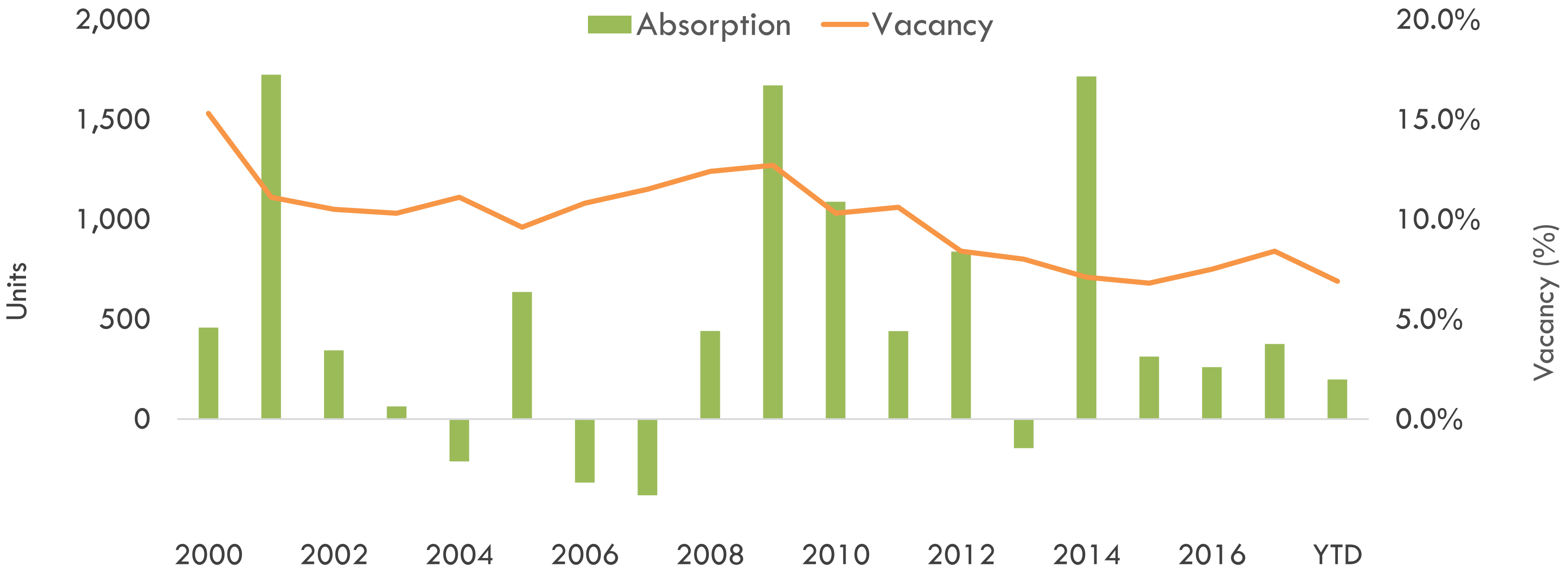
Fragile Market

Overall multifamily vacancy has trended downward from a high of almost 13% in 2009, but remains slightly elevated around 7%.

ABSORPTION AND VACANCY

City of New Orleans

2000 - 2018



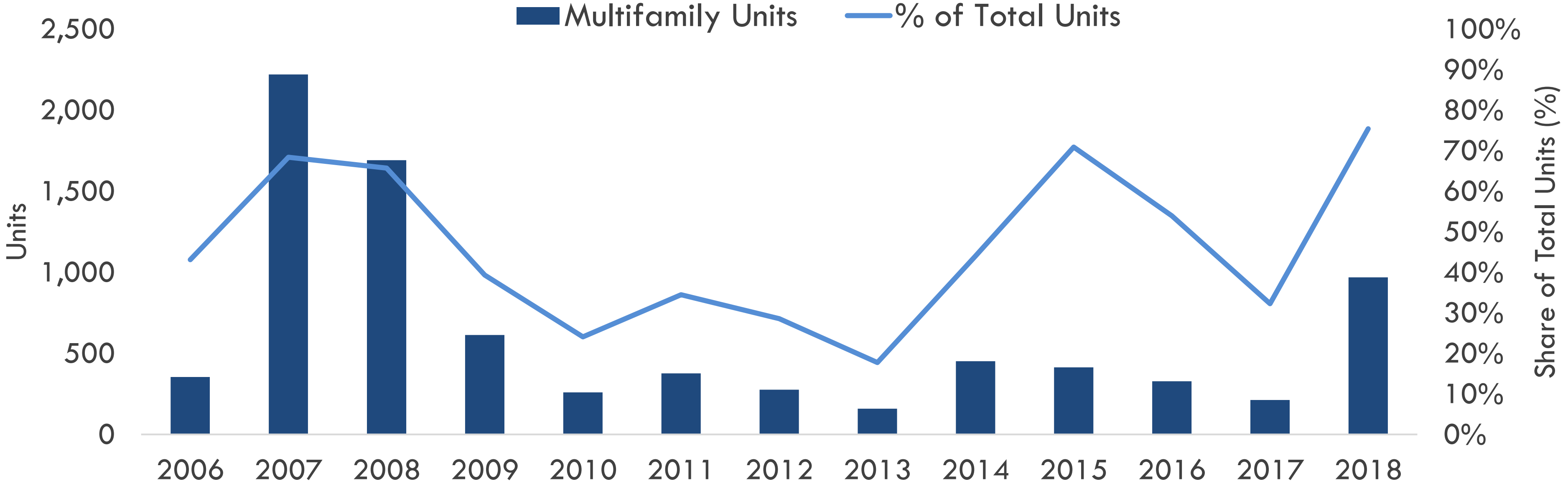
Multifamily absorption in New Orleans has been largely positive since 2008, resulting in decreasing vacancy. Recent completed new developments, however, have been keeping pace with absorption, meaning that despite strong leasing trends, vacancy has not fallen to a market-stabilized point of approximately 5%.

Sources: CoStar; Urban Focus; HR&A Advisors

Fragile Market

New multifamily construction starts in 2018 reached their highest level since reinvestment following Hurricane Katrina.

MULTIFAMILY BUILDING PERMITS
City of New Orleans
2006 - 2018



Multifamily housing development since 2009 has been fairly steady, delivering between 200 to 500 units annually. In the past year, nearly 1,000 housing units were completed, accounting for nearly 80% of all new housing construction in the city. If a mandatory IZ policy had been in place since 2014, 126 IZ units would have been produced through new development.*

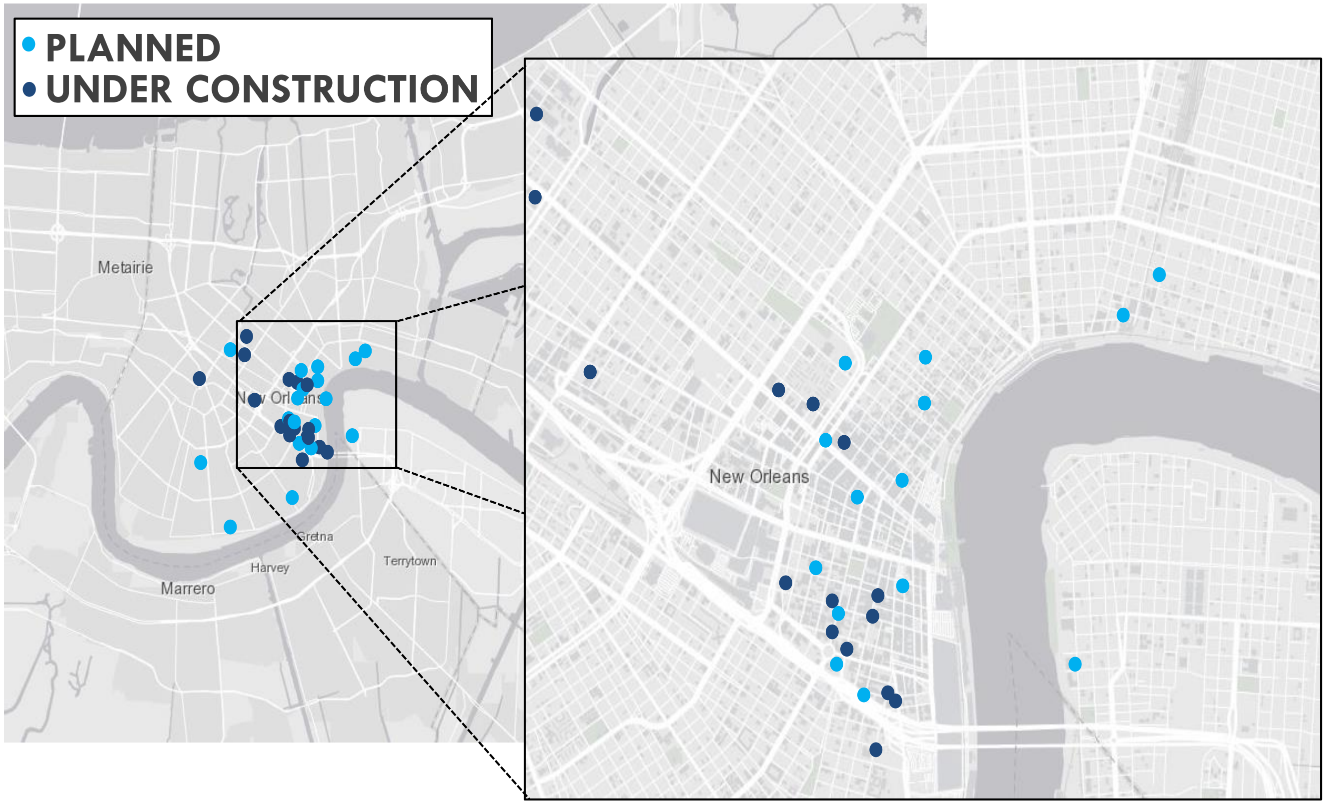
* *Hypothetical IZ production since 2014 is based only on total market rate multifamily production and excludes affordable housing development.*

Sources: HUD State of Cities Data Systems; Urban Focus; HR&A Advisors

Fragile Market

New construction is overwhelmingly concentrated in the greater Downtown area, though planned development extends into other areas.

UNDER CONSTRUCTION AND PLANNED MULTIFAMILY DEVELOPMENT



The current under construction and planned development pipeline for market rate development reflects where the multifamily market is strongest. Planned investments in the Garden District, Mid-City, Algiers, and the Bywater will test the viability of multifamily in these neighborhoods, but do not yet demonstrate a ready market.

Sources: CoStar; Urban Focus; HR&A Advisors

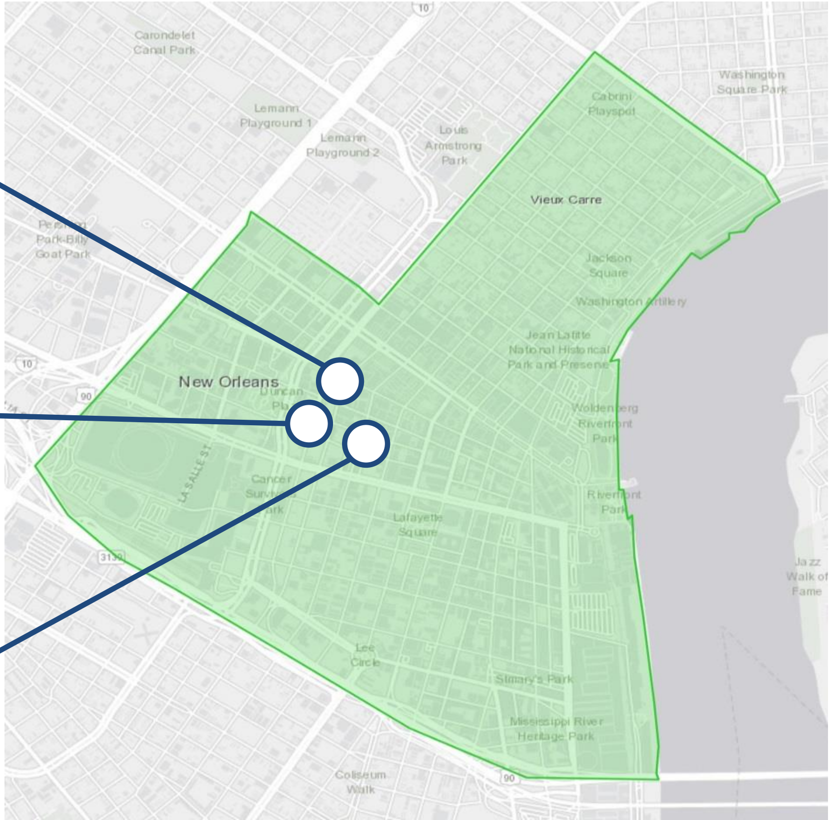
Fragile Market

Property owners in the CBD and French Quarter are repositioning several residential buildings to hospitality uses, removing housing supply.

THE ELK
144 Elk Place
98 Units

THE SARATOGA
212 Loyola Avenue
155 Units

THE MARITIME*
800 Common Street
105 Units
**Currently for sale as of January 2019*

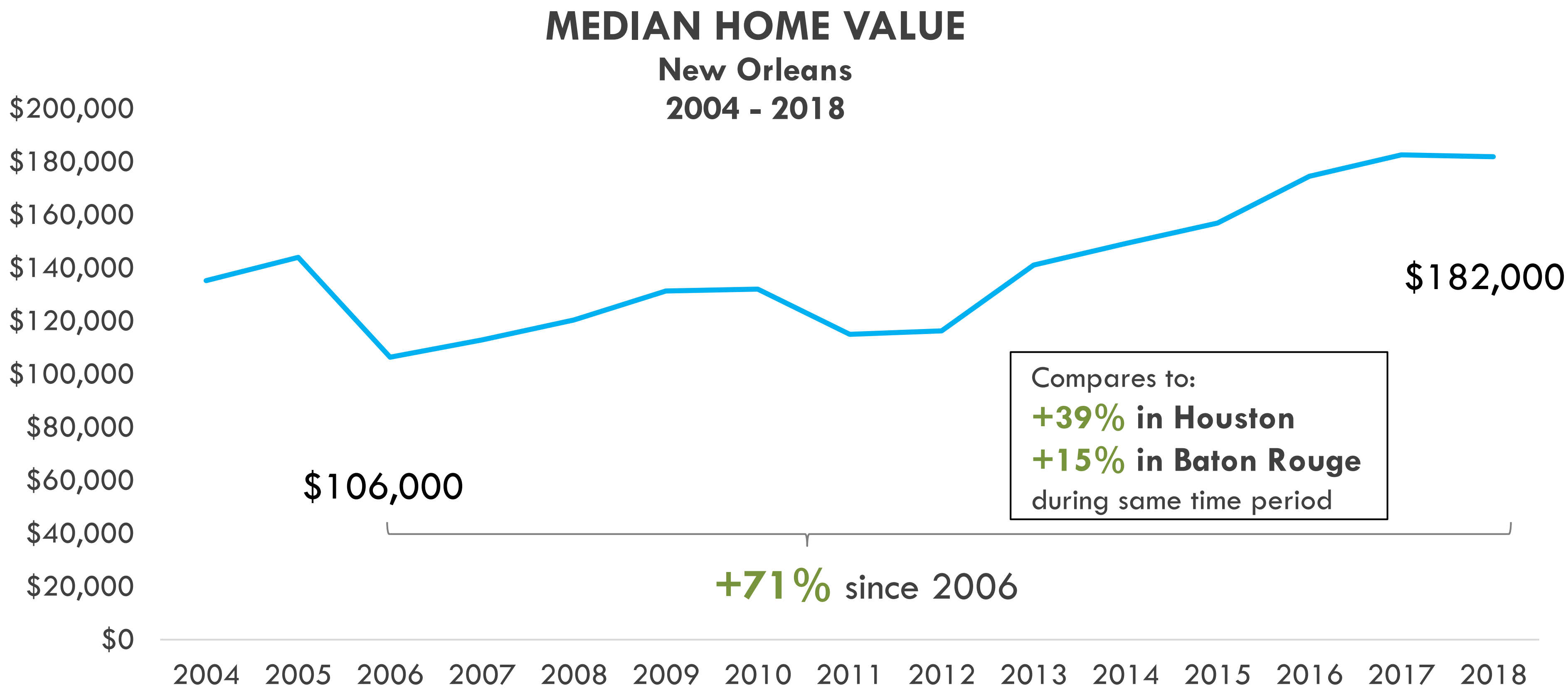


New Orleans' national status as a tourism destination is supporting continued growth of hospitality uses, particularly in the CBD and French Quarter. Stronger financial prospects for hospitality uses are driving several multifamily residential buildings to convert to hotels. At least three properties have recently sold or are in the process of being sold to extended stay hotel providers, thereby removing units from the multifamily supply for New Orleans. Several zones in the CBD have recently been rezoned to allow this change in use.

Sources: Urban Focus; HR&A Advisors

Affordability Challenge

Median home value has decreased slightly in 2018, but value has increased 72% since 2006.



MEDIAN HOME VALUE
New Orleans
2004 - 2018

$106,000

$182,000

+71% since 2006

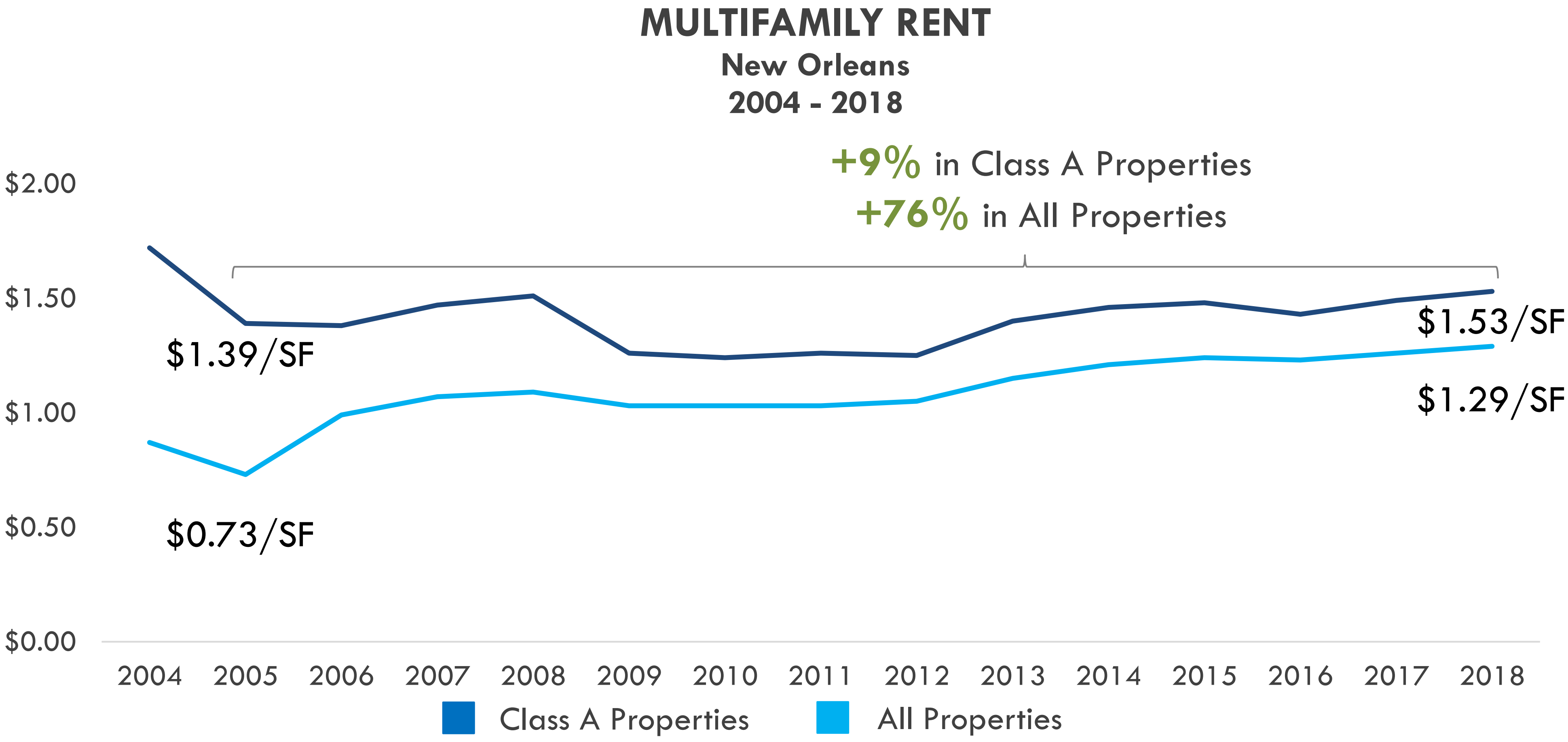
Compares to:
+39% in Houston
+15% in Baton Rouge
during same time period

Strong home appreciation, particularly from 2012 to 2017 is indicative of both recovery from reduced prices following Katrina and also an increase in demand for housing in recent years. This trend is significantly more present in New Orleans than in peer cities including Houston and Baton Rouge, where home values have increased at a more modest rate since 2006.

Sources: Zillow; Urban Focus; HR&A Advisors

Affordability Challenge

While rents in newer Class A properties has been fairly stagnant, there has been significant rent growth in older Class B and C properties.



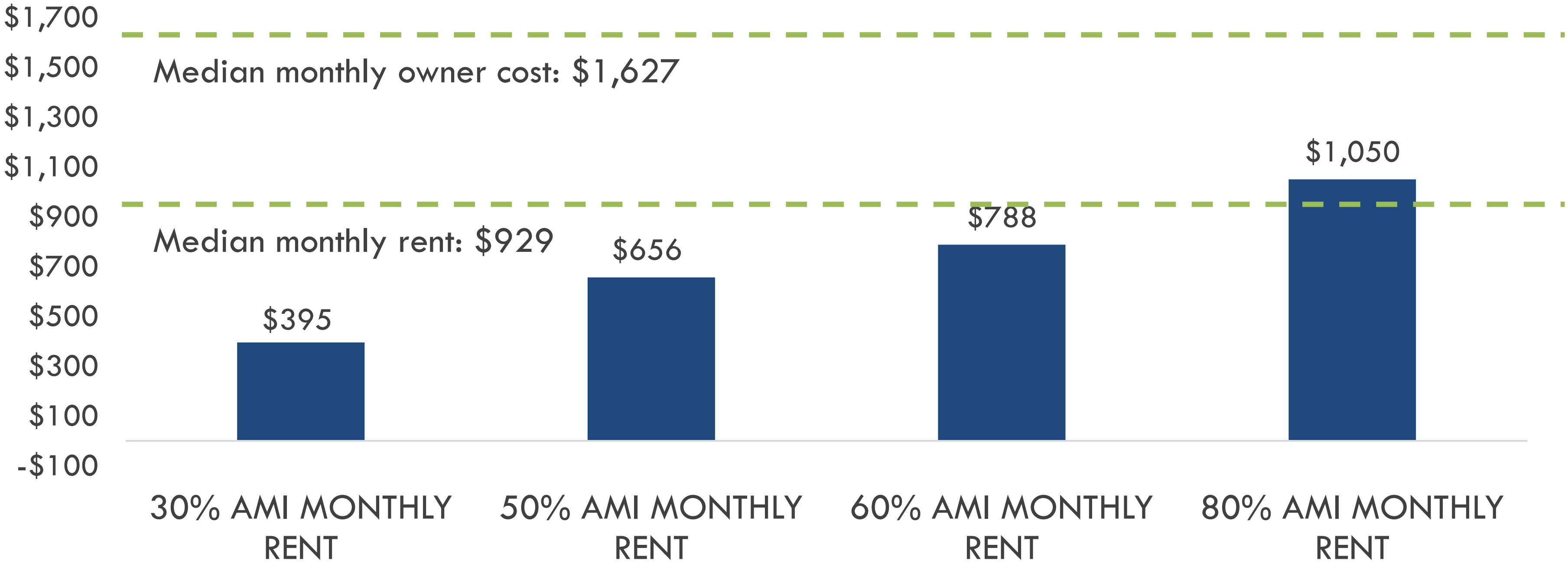
Class A rents grew by just 9% between 2005 and 2018, compared to 76% growth for Class B and C properties. While market demand for lower-cost housing is pushing these rents higher, repair and demolition of older structures during the post-Katrina recovery has also limited the supply of this housing stock. Since 2015, rent growth across all classes has stayed at similar rates.

Source: CoStar; HR&A Advisors

Affordability Challenge

Based on federal guidelines, the median monthly rent in New Orleans is affordable to households making just below 80% of AMI.

MONTHLY RENT BY AFFORDABILITY LEVEL



Income Limit (2 person HH):	**$15,800**	**$26,250**	**$31,500**	**$42,000**

Median monthly rent of $929 in New Orleans is affordable to households making 80% of Area Median Income (AMI). Those with lower incomes, including at 30%, 50%, and 60% AMI cannot afford this monthly market rent.

Note: Average rent in New Orleans is based on the citywide median gross rent. Homeowner cost is based on homeowners with a mortgage. Maximum housing cost by AMI is calculated based on 30% of income allocated to housing costs.

Source: Department of Housing and Urban Development; American Community Survey HR&A Advisors.

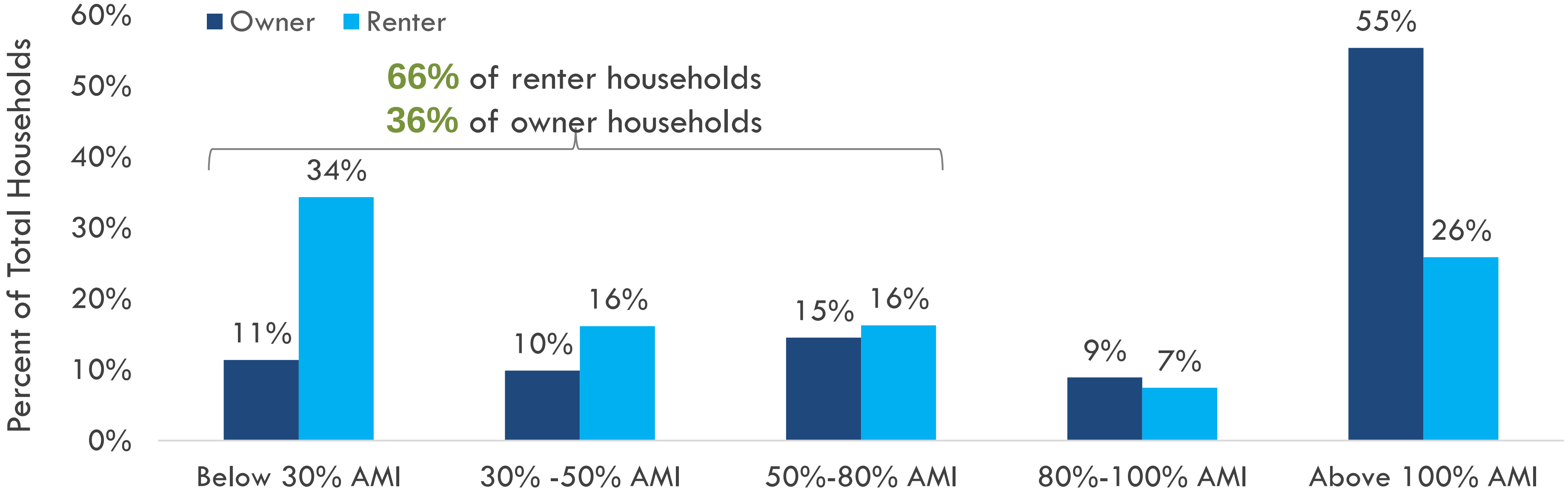
Affordability Challenge

Two-thirds of renter households and more than one-third of owner households make 80% or less of the MSA's AMI.

HOUSEHOLD INCOME BY AMI BENCHMARKS

City of New Orleans

2015



Income Limit (2 person HH):	**$15,800**	**$26,250**	**$42,000**	**$50,700**	**N/A**

Median housing costs in New Orleans are not affordable to nearly 66% of renter households and 36% of owner households.

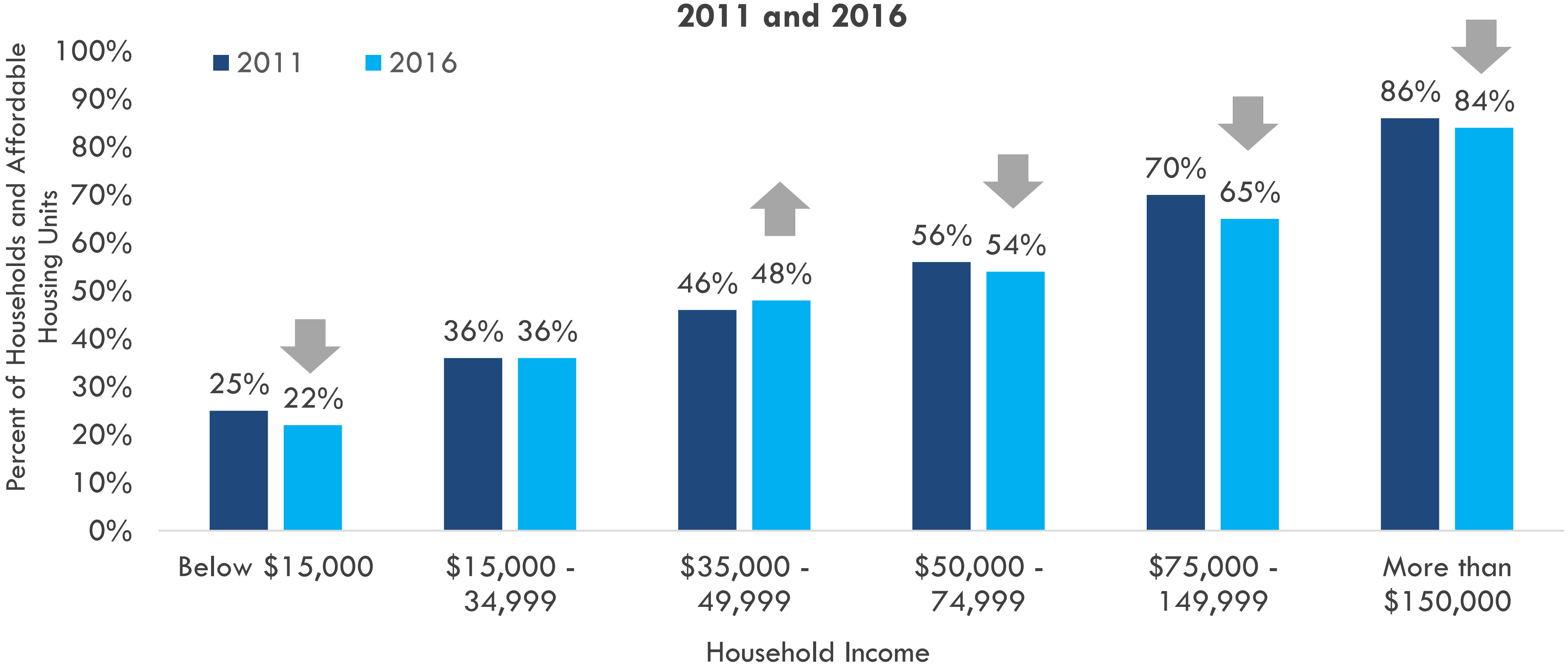
Source: HUD 2015 CHAS data; Urban Focus; HR&A Advisors

Affordability Challenge

Homeownership rates in New Orleans have decreased or remained flat across all but one income group in recent years.

HOMEOWNERSHIP RATE BY HOUSEHOLD INCOME

City of New Orleans
2011 and 2016



Homeownership, often a path to accruing wealth, has been declining in most income groups. Decreasing affordability of for-sale housing underscores the importance of providing both affordable rental and home ownership options.

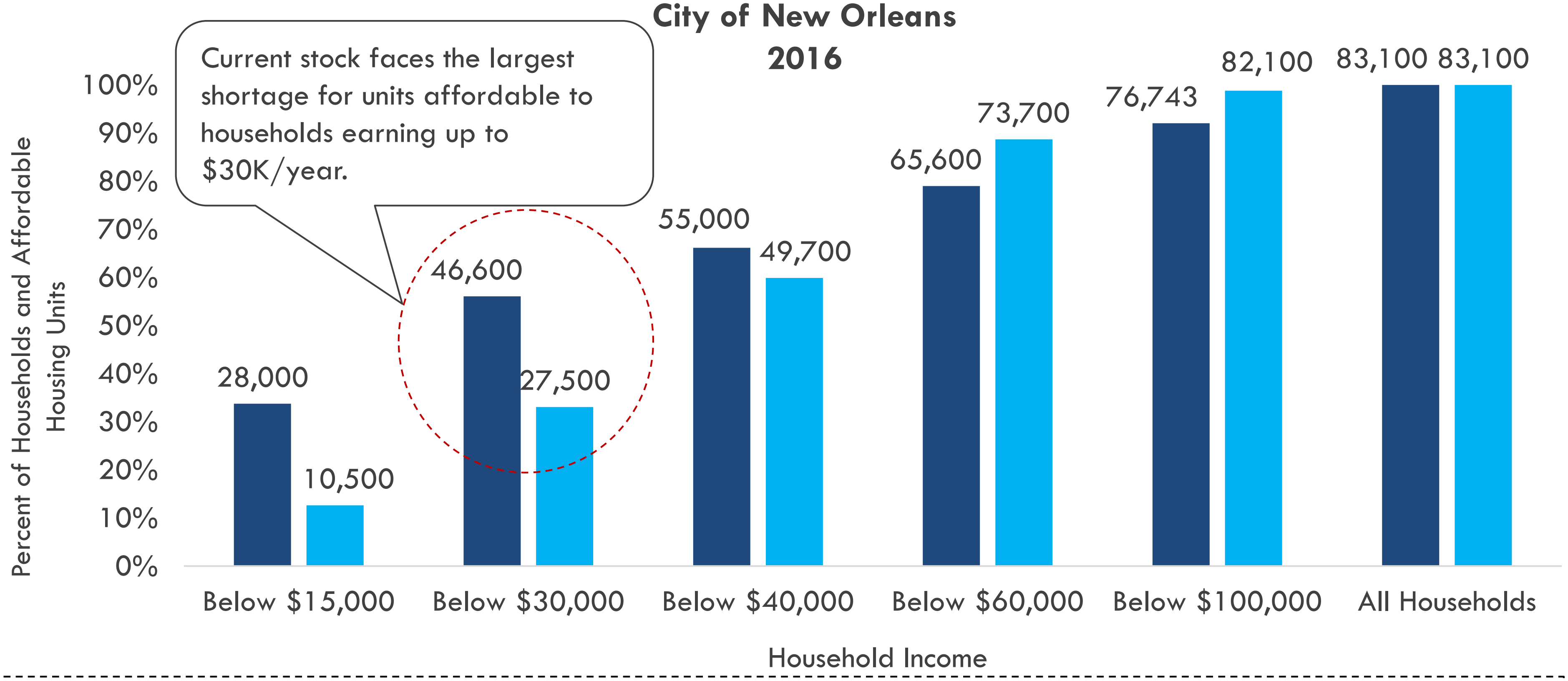
Source: American Community Survey; Urban Focus; HR&A Advisors

Affordability Challenge

The gap between need vs. availability of rental housing is largest for households making up to $30k, which is equal to about 60% of AMI.

SHARE OF RENTAL UNITS AFFORDABLE TO NEW ORLEANS HOUSEHOLDS BY HOUSEHOLD INCOME

City of New Orleans 2016



Current stock faces the largest shortage for units affordable to households earning up to $30K/year.

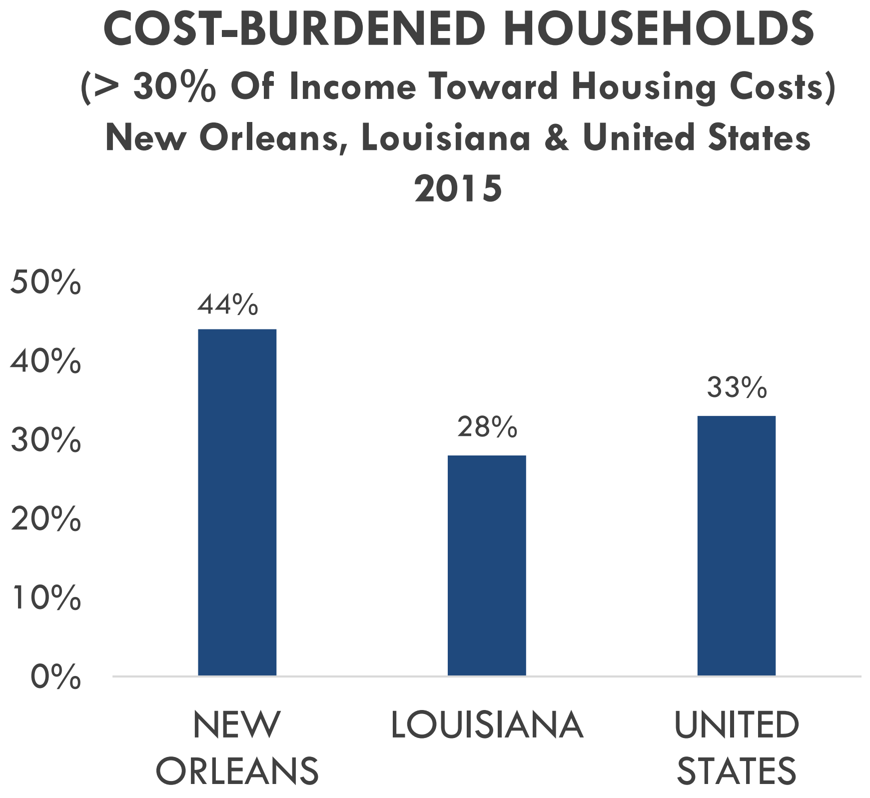
AMI Level (2 person HH):	**30%**	**$60%**	**80%**

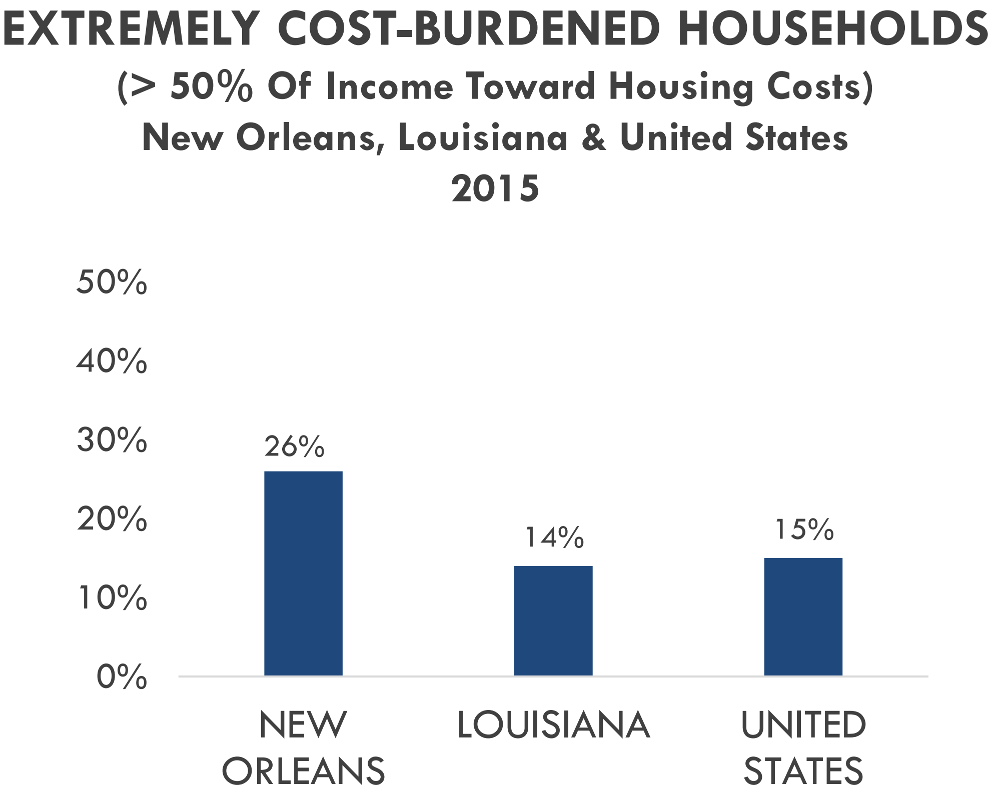
■ % of Households ■ % of Housing Units

Note: Housing affordability is calculated based on 30% of income allocated to housing costs.
Source: American Community Survey; HR&A Advisors

Affordability Challenge

New Orleans residents are cost burdened at a much higher rate than the state or nation.





Close to half of all households in New Orleans spend more than 30% of their incomes on housing, compared to just 28% for the state and 33% for the nation as a whole. Of these cost-burdened residents, 59% are extremely cost burdened.

Note: Cost burdened households are defined as spending more than 30% of income on housing costs (gross rent, including utilities). Extremely cost burdened households are defined as spending more than 50% of income on housing costs (gross rent, including utilities).

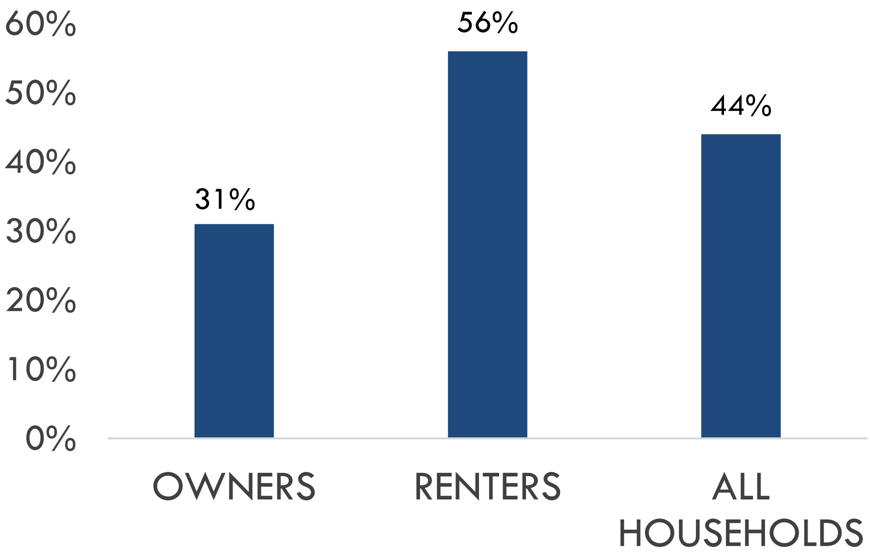
Source: HUD 2015 CHAS data; HR&A Advisors

Affordability Challenge

The affordability challenge is particularly acute for renters, more than half of whom are cost burdened.

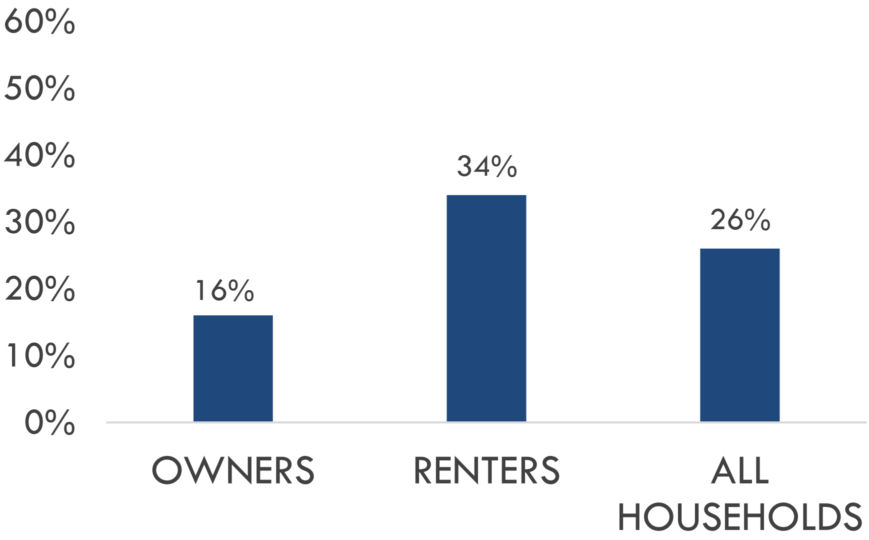
COST-BURDENED HOUSEHOLDS

(> 30% Of Income Toward Housing Costs)
City of New Orleans
2015



EXTREMELY COST-BURDENED HOUSEHOLDS

(> 50% Of Income Toward Housing Costs)
City of New Orleans
2015



Renters—who are most impacted by changing market conditions through rising rents and often have lower income than homeowners—are the most cost-burdened households in New Orleans.

Note: Cost burdened households are defined as spending more than 30% of income on housing costs (gross rent, including utilities). Extremely cost burdened households are defined as spending more than 50% of income on housing costs (gross rent, including utilities).
Source: HUD 2015 CHAS data; HR&A Advisors

Market Alignment

New Orleans Market Value Analysis Report (MVA), completed in June 2018, provides established precedent for assessing market strength.

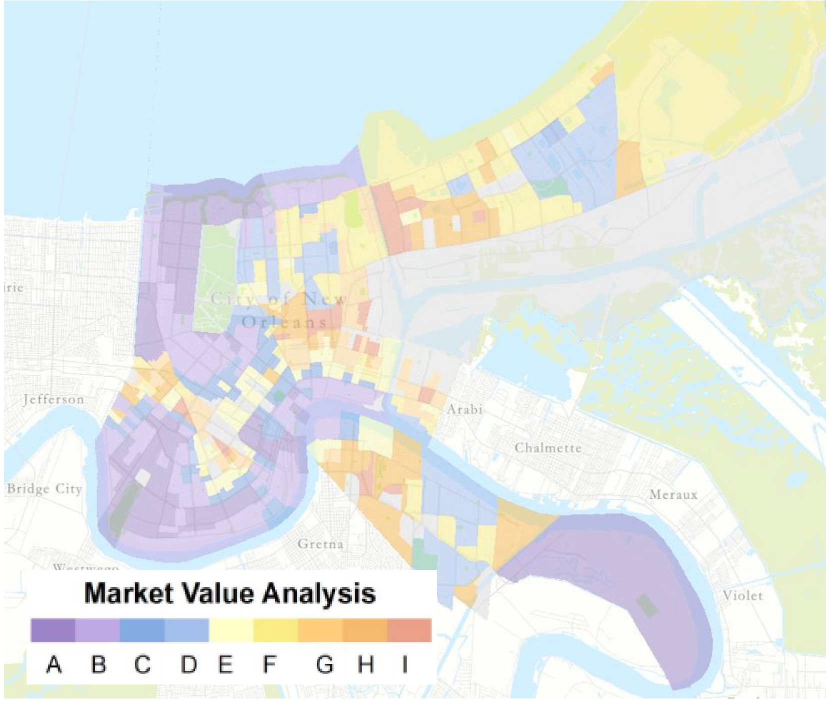
The MVA assesses overall market strength at the neighborhood level through the assessment of metrics tied to property value, new investment, blight and vacancy, and housing characteristics.

HR&A used the findings of our market assessment in conjunction with the MVA to define three submarket types representative of market strength for multifamily development:

- **Core Submarkets** represent locations where the majority of new market rate development is occurring today and prices are highest, including the CBD and French Quarter.
- **Strong Submarket** areas contain some development activity, but at prices lower than the Core. Neighborhoods include the Lower Garden Dist., Bywater, Marigny, Lakeview, Mid-City, Uptown, and Treme.
- **Transitional Submarket** areas are maturing and could possibly support market rate development in the future.

REAL ESTATE MARKET STRENGTH

New Orleans, 2018

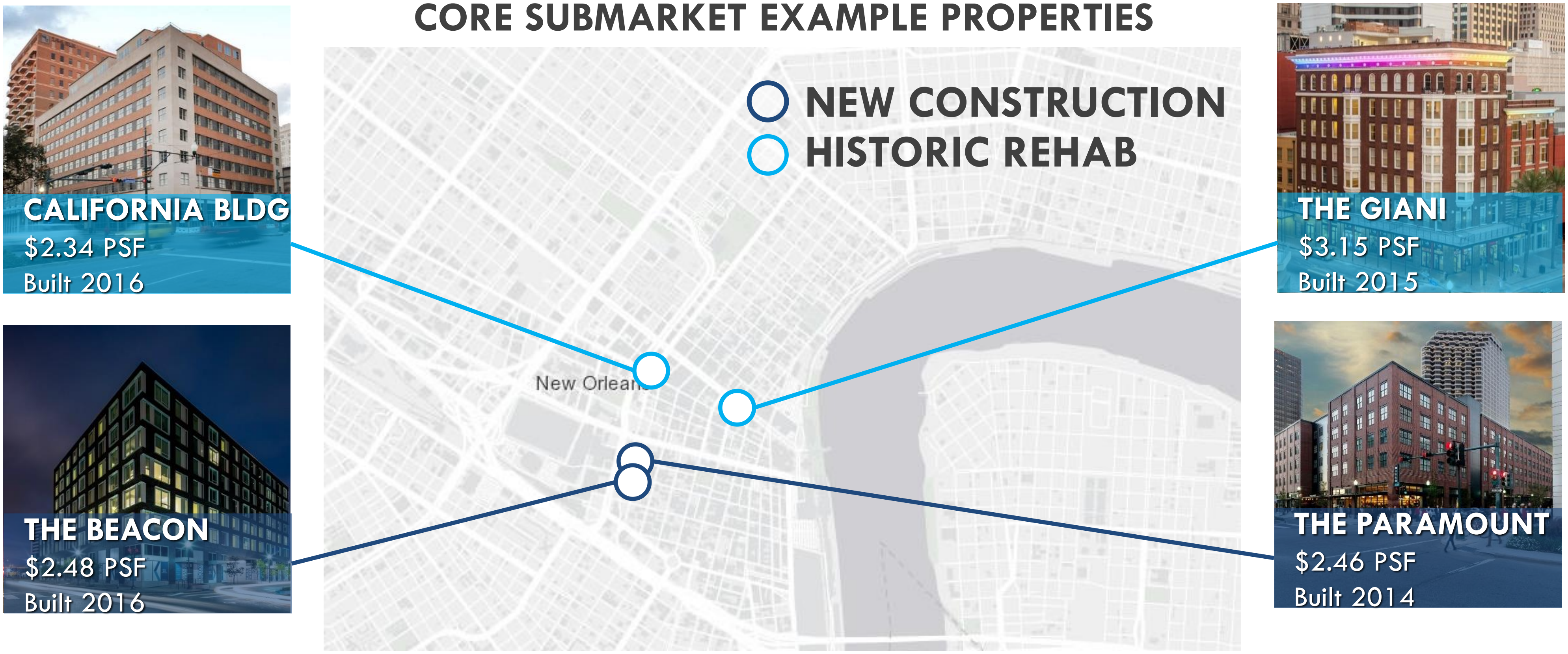


Source: The Reinvestment Fund; Urban Focus; HR&A Advisors

Market Alignment

Core Submarkets | Rents for new product in the Core Submarkets range from approximately $2.35 to 3.00 per square foot.

CORE SUBMARKET EXAMPLE PROPERTIES



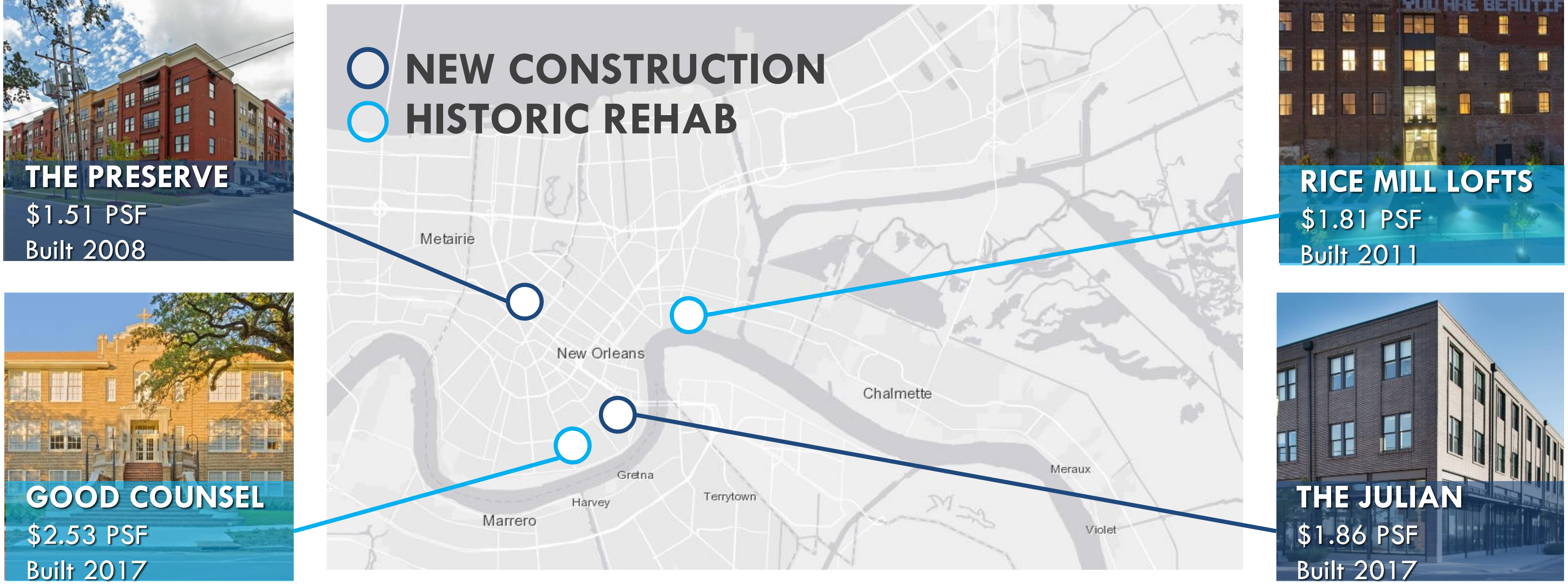
Core Submarkets such as the CBD and French Quarter have delivered large new construction and historic rehab projects in the last five years that command the highest rents in the City. Among newer developments rents range from $2.34 per square foot at the California Building to $3.15 per square foot at the Giani. In terms of unit pricing, these prices equate to about $1,900 to $2,500 per month for an 800 square foot apartment.

Sources: CoStar; HR&A Advisors

Market Alignment

Strong Submarkets | Newer buildings in Strong Submarkets currently garner rents of $1.50 to 2.00 per square foot.

STRONG SUBMARKET EXAMPLE PROPERTIES



THE PRESERVE
$1.51 PSF
Built 2008

RICE MILL LOFTS
$1.81 PSF
Built 2011

GOOD COUNSEL
$2.53 PSF
Built 2017

THE JULIAN
$1.86 PSF
Built 2017

Strong Submarkets are a diverse mix of both established and emerging markets. These markets have a few new multifamily projects with more planned. Rents, however, are significantly lower than the Core Submarkets, reflecting that these markets have fundamentally different demand drivers and should be evaluated separately for the purposes of the feasibility analysis. An exception to rental pricing trends in Strong Submarkets is the Good Counsel building, which is achieving rents of $2.53 per square foot.

Sources: CoStar; HR&A Advisors

Market Alignment

Transitional Submarkets | There is little new product in transitional markets, but older product rents are approximately $0.90 to 1.20 PSF.

TRANSITIONAL SUBMARKET EXAMPLE PROPERTIES

ELYSIAN COURTYARDS
$1.02 PSF
Built 1976, Ren. 2010

JACKSON'S LNDG.
$1.02 PSF
Built 1965, Ren. 2010

CARMEL BROOK
$1.15 PSF
Ren. 2008

WALNUT SQUARE
$0.90 PSF
Ren. 2010

Transitional Submarkets generally lack recently developed buildings or planned development, but could potentially support market rate development as market conditions continue to improve. Based on market conditions in Transitional Submarkets and the premium associated with new development, HR&A estimates that new market rate construction there could achieve rents of $1.30-$1.50 per square foot.

Sources: CoStar; HR&A Advisors

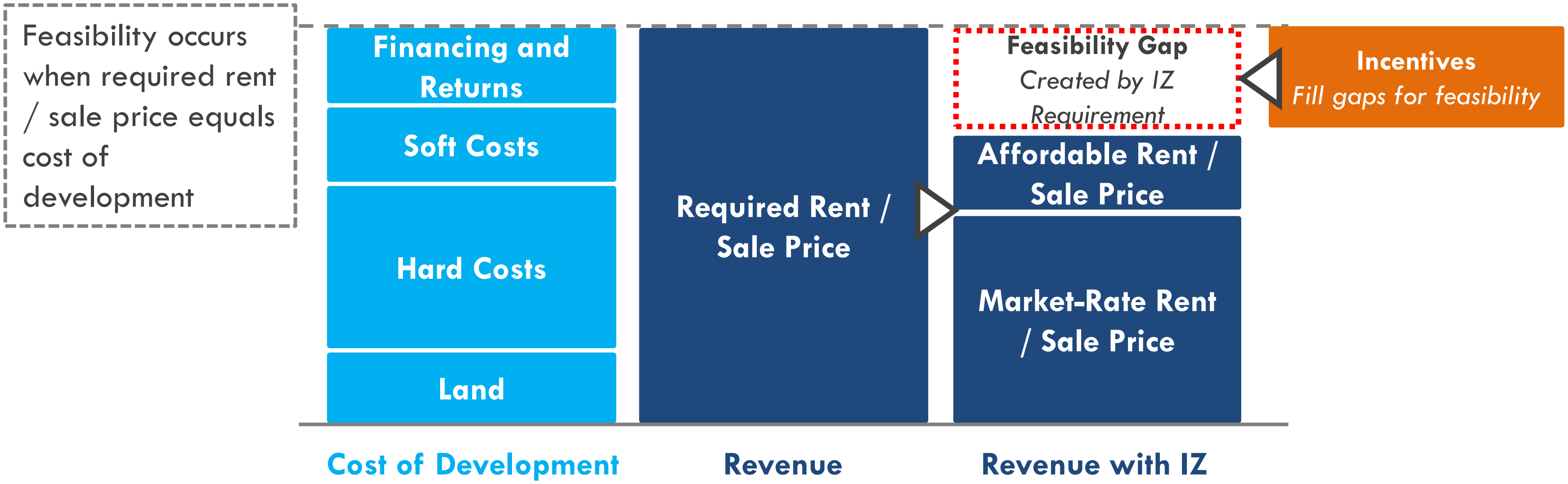
Incentive Assessment

Incentives are the primary mechanism the City can use in closing feasibility gaps that may arise through IZ affordability requirements.

Public incentives offsetting rent reductions from an IZ policy are often required to ensure development remains feasible. An IZ policy reduces attainable rents for property owners by providing units at below-market pricing. As a result, adding IZ units to market rate development can reduce project-wide revenue below minimum thresholds of financial feasibility. If left unaddressed, these feasibility gaps can stunt development interest and have the adverse impact of increasing required rents for market rate units to make up the gap. To avoid these negative impacts, the City can direct public support through the use of incentives to close the gap and ensure that IZ is feasible.

HR&A evaluated all potential incentive tools available to the City that might support an IZ policy. Although New Orleans has a range of incentives available for affordable housing development, only some are conducive for incorporating into an IZ policy.

HYPOTHETICAL MULTIFAMILY DEVELOPMENT



Feasibility occurs when required rent / sale price equals cost of development

Financing and Returns

Soft Costs

Hard Costs

Land

Required Rent / Sale Price

Feasibility Gap
Created by IZ Requirement

Affordable Rent / Sale Price

Market-Rate Rent / Sale Price

Incentives
Fill gaps for feasibility

Cost of Development

Revenue

Revenue with IZ

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

REGULATORY RELIEF

- Density Bonuses & Other Zoning Relief
- Stormwater Fee-in-Lieu Exemption
- Building Code Waivers
- Minimum Parking Reduction
- Fast Track Processing

PROPERTY TAX REDUCTION

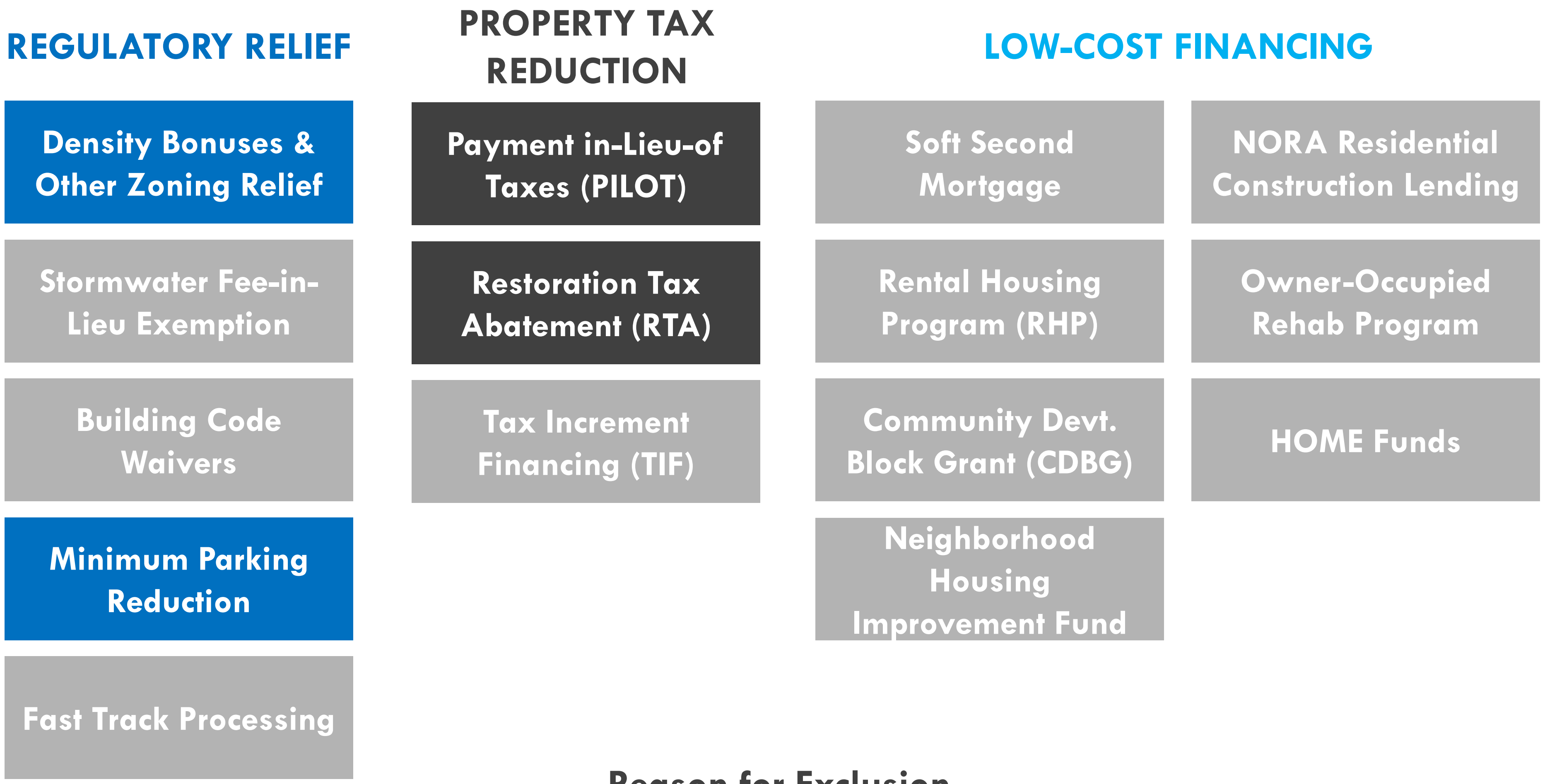
- Payment in-Lieu-of Taxes (PILOT)
- Restoration Tax Abatement (RTA)
- Tax Increment Financing (TIF)

LOW-COST FINANCING

- Soft Second Mortgage
- NORA Residential Construction Lending
- Rental Housing Program (RHP)
- Owner-Occupied Rehab Program
- Community Devt. Block Grant (CDBG)
- HOME Funds
- Neighborhood Housing Improvement Fund

Incentives administered by the City of New Orleans fall into three broad categories: regulatory relief, property tax reductions, and low-cost financing options, including both debt and grant instruments. HR&A evaluated the entire suite of incentives to identify those that had potential applicability for an IZ policy.

Of all available incentives in New Orleans, only some are appropriate for consideration as part of an IZ policy.



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- HOME Funds
- Neighborhood Housing Improvement Fund

Reason for Exclusion

Stormwater fee and code relief may undermine other City priorities.

TIF is not valuable for residential development.

Housing program funds are limited, cannot be guaranteed by-right, and create significant additional costs (Davis-Bacon, environmental review, etc.)

Incentives Evaluation – Regulatory Relief Tools

	Fast-Track Processing	Density Bonuses & Other Dimensional Relief
Description	Gives developers certainty that their projects will move smoothly through the entitlement and approvals process if they follow established guidelines and processes.	Provides greater building envelope to develop more or smaller units than allowable under current regulation, reducing the marginal cost per unit in a development.
Current Use in New Orleans	There is no formal fast-track approvals process in New Orleans. Members of the development community have expressed that current approvals process can be cumbersome and uncertain.	Current density bonuses for affordable housing have not been broadly utilized where available and have not created a substantial number of affordable units.
Use in IZ Programs Elsewhere	Fast tracking processes are most often implemented with success in small or medium sized municipalities.	Density bonus in IZ generally range from 10% to 20% and may be paired with other dimensional relief such as height and setback waivers.
Incentive Value to Developers	**Low –** The development community expressed interest in any process that reduces uncertainty and time costs of doing business in New Orleans, but monetary value is uncertain.	**Medium –** Density bonuses can be an attractive incentive to make IZ feasible in New Orleans, but may require being paired with other incentives to fully meet the additional costs of affordable housing.
Included in New Orleans Feasibility Analysis?	**No –** While HR&A recommends the City consider the potential fast-track processing with the approvals process, HR&A did not include fast tracking in our financial analysis due to difficulty in assigning monetary value to it.	**Yes –** HR&A modeled density bonuses up to 30%, assuming that other dimensional relief to fully utilize density bonuses are secured.

Incentives Evaluation – Regulatory Relief Tools

	Minimum Parking Reduction
Description	Reductions in required parking reduce development costs, particularly on smaller sites where structured parking is essential.
Current Use in New Orleans	Parking requirements are not used as an incentive in New Orleans today.
Use in IZ Programs Elsewhere	Reductions of 10 to 20% of required parking are common.
Incentive Value to Developers	**Low –** The development community held mixed views on the value of reduced parking minimums. Many developers believe renters and condo owners in most parts of the city would avoid apartments or condos that did not provide sufficient parking. The CZO exempts Historic Core Neighborhood Districts, the HU-B1A district, and the Central Business District from minimum parking requirements, while requirements in other areas align with market demand, limiting the value of this incentive in most areas of the city.
Included in New Orleans Feasibility Analysis?	**Yes –** There is limited ability to implement parking incentives in a meaningful way due to market demand for parking in much of the city and current zoning that exempts most downtown locations from parking requirements. However, to the extent minimum parking reductions could be applied to a specific development site, this tool should be considered.

Incentives Evaluation – Tax Reductions Tools

	Payment-in-Lieu-of-Taxes (PILOT)	Restoration Tax Abatement (RTA)
Description	Sets a negotiated payment to a non-taxable public entity for a duration of time in exchange for not paying property tax. Payments are typically significantly less than taxes would otherwise have been, reducing the operating costs for a property.	Provides abatement of improved ad valorem tax for two 5-year periods for qualifying properties within in the Downtown Development District, historic districts, and economic development districts. In New Orleans, renewal for the second 5-year term requires reinvestment.
Current Use in New Orleans	The Industrial Development Board (IDB) provides PILOT agreements in New Orleans. The Finance Authority of New Orleans (FANO) is also empowered to provide PILOTs, but has not used that authority.	86 new residential or mixed-use RTA deals were made between 2007-2016.
Use in IZ Programs Elsewhere	While property tax reduction or freezes are common in the many jurisdictions with inclusionary housing, PILOTs are not often the vehicle of incentive delivery for inclusionary housing.	RTA is specific to Louisiana, however tax abatements and freezes are common elsewhere.
Incentive Value to Developers	**High –** PILOTs have been key to the success of many of the new construction projects in the city in recent years.	**High –** The development community in New Orleans sees particular value in pairing the RTA with state and federal Historic Tax Credits.
Included in New Orleans Feasibility Analysis?	**Yes –** HR&A included varying levels of PILOT incentive as part of the feasibility analysis.	**Yes –** HR&A included RTA financing in a historic renovation scenario after layering in both state and federal Historic Tax Credits.

Incentives Evaluation – Tax Reduction Tools

	Tax Increment Financing (TIF)
Description	TIF refers to a special tax levied or a portion of incremental property and sales taxes diverted to raise funds for public infrastructure or other improvements needed in order to enable new development projects in designated districts. TIFs in Louisiana may only capture the undedicated portion of incremental tax, and revenue bonds backed by property taxes require voter approval, while bonds from sales tax increment do not.
Current Use in New Orleans	The five TIF projects in New Orleans to date have focused on sales tax increments, though the City is also authorized to issue property tax TIFs. Undedicated property taxes amount to just 10% of the City's millage rate, limiting property tax TIF impact.
Use in IZ Programs Elsewhere	TIFs have been effective in stimulating development, but are not commonly utilized to produce substantial affordable housing.
Incentive Value to Developers	**Low –** Developers would like to see expanded TIF use in the City, but are unsure of how it could be utilized to improve project value within an inclusionary policy.
Included in New Orleans Feasibility Analysis?	**No –** HR&A did not model a detailed TIF scenario because an IZ policy will impact residential projects, which typically produce little sales tax that TIFs are able to capture.

Incentives Evaluation – Low-Cost Financing Programs

	Rental Housing Program (RHP)
Description	Competitive grant program to reimburse acquisition, new construction, rehabilitation, and/or soft development costs associated with producing affordable units at or below 80% AMI. Long-term affordability is guaranteed for 20 years in new construction, and follows HOME term guidelines for rehabilitation. The program utilizes both federal (HOME, CDBG) and local (Neighborhood Housing Improvement Fund) funding sources. Currently structured to provide funding to 100% affordable developments.
Current Use in New Orleans	RHP deals produced 1,989 affordable housing units at an average cost to the City of $23,318 per unit (2016$). The average RHP unit was priced at 53% AMI.
Use in IZ Programs Elsewhere	RHP is specific to New Orleans.
Incentive Value to Developers	**High –** RHP has been effective in delivering affordable housing in New Orleans when paired with RTA, HTC, and federal LIHTC dollars.
Included in New Orleans Feasibility Analysis?	**No –** HR&A assumed the RHP program will continue to help deliver 100% affordable developments and would therefore not be applicable as part of an inclusionary housing subsidy. The City has few dedicated sources of subsidy for extremely low-income housing production, and expanding this tool to include IZ will likely result in fewer affordable units produced overall.

HR&A identified four tools for public support that could be incorporated into an IZ policy.

PUBLIC SUPPORT TOOLS FOR INCLUSION IN FEASIBILITY ANALYSIS

New Construction

- **PILOT (Tax Abatement)**
- **Density Bonus**
- **Minimum Parking Reduction**

Historic Rehab

- **Restoration Tax Abatement**
- **Density Bonus**
- **Minimum Parking Reduction**

Based on a review of the available City incentives, HR&A identified four incentive tools to be considered when evaluating development feasibility for an IZ policy. These tools include tax reductions through PILOTs and the Restoration Tax Abatement, and regulatory relief through density bonuses that reduce lot area per dwelling unit requirements (where applicable) and reduction in minimum parking requirements (where applicable). All tools are modeled in HR&A's financial feasibility analysis, though there are some scenarios in which certain tools are not applicable. For example, reductions in parking requirements are not applicable in the Downtown Core given that zoning there exempts minimum parking requirements.

Financial Feasibility Analysis and Findings

With an understanding of market conditions and available incentives, HR&A conducted a financial analysis to determine whether IZ could be supported in New Orleans.

A financial model evaluates an IZ policy to ensure that reductions in revenue for property owners are able to be offset by incentives or other project value. Understanding the impact of rent or sale price reductions as well as the value provided by potential incentives is necessary to:

- Determine whether an IZ policy is financially feasible, and
- Craft a policy that is structured to align with market conditions.

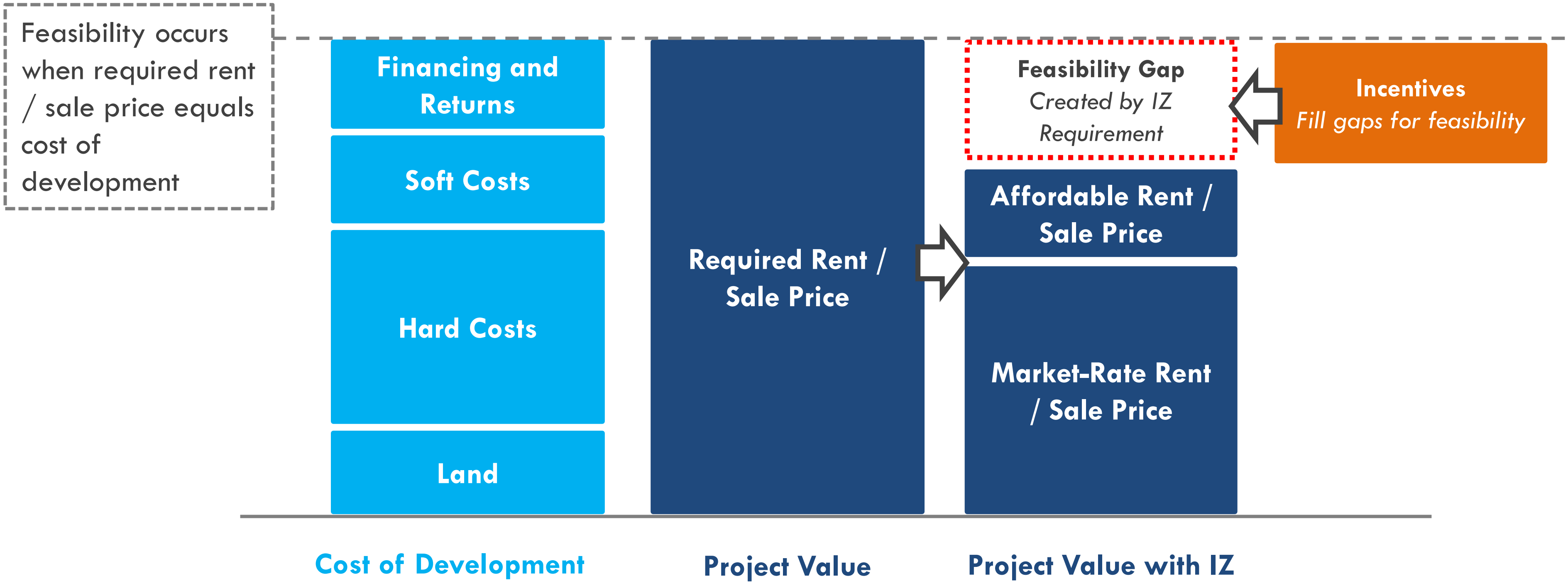
HR&A created a series of development scenarios to assess the impact of an IZ policy on different types of multifamily development occurring in New Orleans. The financial model assessed feasibility across a range of five identified building typologies and three neighborhood types in New Orleans. HR&A recognizes that every development project has unique characteristics that will differentiate it from other developments. Though it is not possible to model every development and its particular nuances, scenarios modeled for feasibility are intended to be representative of the full spectrum of multifamily development in New Orleans across building types and locations.

Together, the development scenarios provide an understanding of ability to support different affordability requirements. For each development scenario, HR&A evaluated a range of affordability requirements and corresponding incentives to determine the feasibility for building typologies within each geography at each level of affordability. For infeasible scenarios, the subsidy needed and resources available to fill this gap are out of alignment and a significant feasibility gap remains.

The financial analysis identified the feasibility of providing housing in New Orleans at defined levels of affordability across scenarios.

Typically, a financial feasibility analysis assessing an IZ policy would examine impact of the policy on residual land values. However, because the feasibility gap under existing conditions in New Orleans is too large to be made up by subsidies that address land costs alone, this analysis is focused on determining the feasibility gap rather than the impact to residual land value. Results of this analysis are presented as the resulting feasibility gap or surplus in any scenario, as illustrated in the graphic below.

HYPOTHETICAL MULTIFAMILY DEVELOPMENT



Feasibility occurs when required rent / sale price equals cost of development

Financing and Returns

Soft Costs

Hard Costs

Land

Required Rent / Sale Price

Feasibility Gap
Created by IZ Requirement

Incentives
Fill gaps for feasibility

Affordable Rent / Sale Price

Market-Rate Rent / Sale Price

Cost of Development

Project Value

Project Value with IZ

The HR&A Team tested the financial feasibility of multifamily development across a number of variables to determine the financial implications of an inclusionary policy.

CONSIDERATIONS FOR DEVELOPMENT FEASIBILITY

Market Conditions	Neighborhood Typologies	Building Typologies
Policy Requirements	Levels of Affordability	Public Subsidy

Conducting analysis across the identified variables is intended to provide findings that are broadly representative of feasibility in New Orleans, though HR&A recognizes each development project has unique characteristics that can impact feasibility.

Neighborhood Typologies

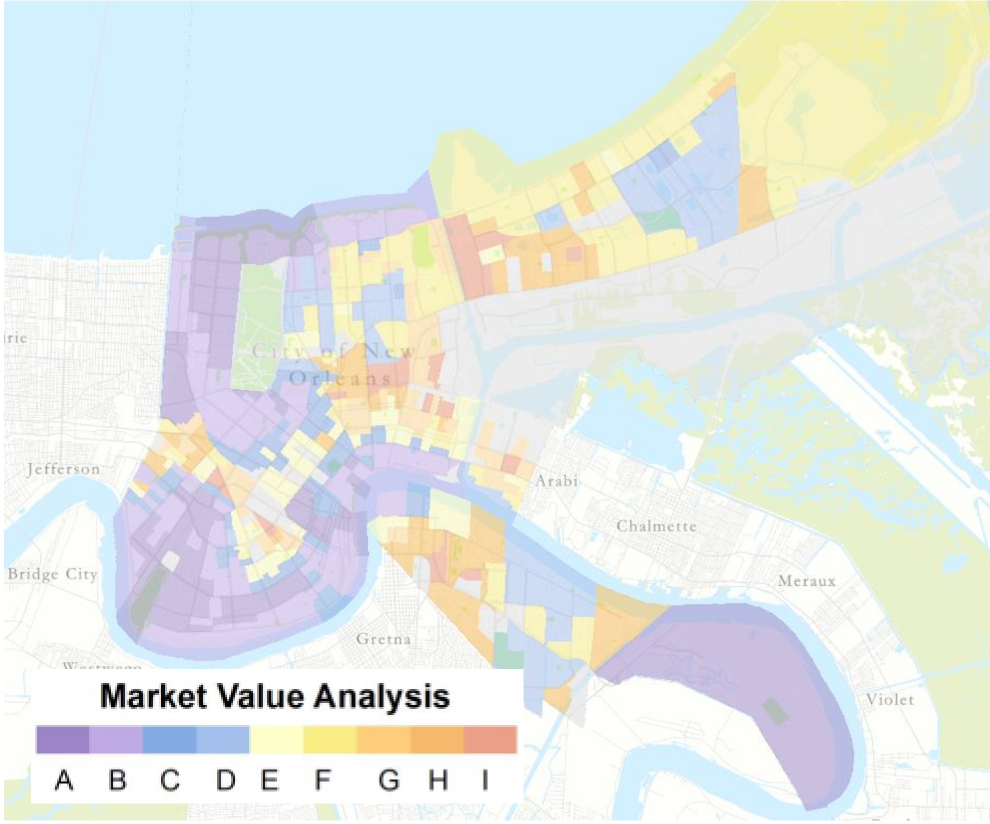
HR&A defined three neighborhood typologies – Core, Strong, and Transitional Submarkets – based on multifamily market strength.

HR&A used the findings of our market assessment in conjunction with the MVA to define three submarket types representative of market strength for multifamily development:

- **Core Submarkets** represent locations where the majority of new market rate development is occurring today and prices are highest, including the CBD and French Quarter.
- **Strong Submarket** areas contain some development activity, but at prices lower than the Core. Neighborhoods include the Lower Garden Dist., Bywater, Marigny, Mid-City, Lakeview, Uptown, and Treme.
- **Transitional Submarket** areas are maturing and could possibly support market rate development in the future.

MVA REAL ESTATE MARKET STRENGTH

New Orleans, 2018

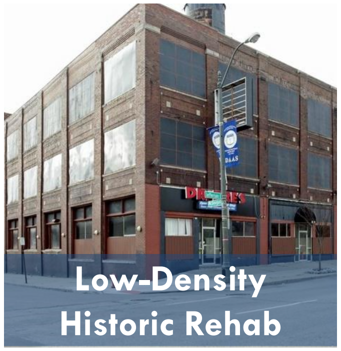
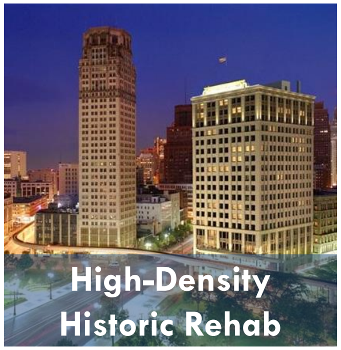


Source: The Reinvestment Fund; Urban Focus; HR&A Advisors

Building Typologies

Building typologies across market types are diverse and representative of existing, planned, and potential future development.

BUILDING TYPOLOGIES BY SUBMARKET TYPE (10+ Units)

	 Low-Density Historic Rehab	 High-Density Historic Rehab	 Low-Rise New Construction	 Mid-Rise New Construction	 High-Rise New Construction
Core Submarkets		X		X	X
Strong Submarkets	X	X	X	X	
Transitional Submarkets	X		X	X	

To best target IZ to New Orleans' diverse housing market, HR&A analyzed the feasibility of IZ in all building types typical for each submarket type. If a building typology did not exist, was not planned, or was unlikely to be present (such as high-rise new construction in Transitional Submarkets) it was not included in the analysis.

Levels of Affordability

The HR&A Team analyzed six levels of affordability across neighborhood and building typologies.

1	2	3	4	5	6
Market Rate	80% AMI	60% AMI	60% AMI	60% AMI	50% AMI
100% of units at market rate	10% of units at 80% of AMI (1:10 Units)	8% of units at 60% of AMI (1:12.5 Units)	10% of units at 60% of AMI (1:10 Units)	12% of units at 60% of AMI (1:8.3 Units)	10% of units at 50% of AMI (1:10 Units)
	$41k income for 2-person household	*$30k income for 2-person households*	*$30k income for 2-person households*	*$30k income for 2-person households*	*$25k income for 2-person households*

MARKET RATE → INCREASING AFFORDABILITY

HR&A examined detailed scenarios with affordability requirements ranging from 50% AMI to 80% AMI. While there is a need for housing at lower levels of affordability, analysis showed the impact on project feasibility was too significant in New Orleans to be supportable as part of an IZ policy, which is consistent with policies in other cities. Other programs are better suited to target lower-income populations at or below 30% of AMI.

Public Subsidy

While there are a number of incentive tools, only a few can be employed for meaningful impact as part of an inclusionary policy.

This analysis considers the use of tax reductions (PILOT and RTA) and regulatory relief, where applicable. Given that these tools are locally controlled sources of incentive or value creation, they will be the primary mechanisms for City use in closing feasibility gaps that may arise through IZ affordability requirements.

While all of these tools are included in HR&A's financial feasibility analysis, there are some scenarios in which certain tools are not applicable. For example, reductions in parking requirements are not applicable in the Downtown Core given that zoning there exempts minimum parking requirements.

PUBLIC SUPPORT PACKAGE MODELED BY PRODUCT TYPE

New Construction

- PILOT (Tax Abatement)
- 30% Density Bonus*
- Minimum Parking Reduction

Historic Rehab

- Restoration Tax Abatement
- 30% Density Bonus*
- Minimum Parking Reduction

** Density bonuses would be applied as a reduction in minimum lot area area per dwelling unit, which increases the number of units permitted on a site and may not necessarily increase the overall building envelope.*

HR&A's analysis of historic rehab projects assumes the use of Federal and State Historic Tax Credits

Financial inputs for development costs were developed through the HR&A team's own research and interviews of professionals with knowledge of local market conditions.

DEVELOPMENT COST INPUTS

City of New Orleans

	Neighborhood Typology 1: Core Submarkets	Neighborhood Typology 2: Strong Submarkets	Neighborhood Typology 3: Transitional Submarkets
Construction Cost ($/GSF of development)			
Low-density, Historic Rehab	--	$168	$168
High-density, Historic Rehab	$216	$216	$216
Low-rise, New Construction	--	$168	--
Mid-rise, New Construction	$180	$180	$180
High-rise, New Construction	$252	--	--
Land Cost ($/GSF of land)	$150 ($100 Mid-rise)	$40	$30
Gross-to-Net Ratio New Construction	0.85	0.85	0.85
Gross-to-Net Ratio Rehab	0.75	0.75	0.75
Cap Rate	5%	5.5%	6%

Financial assumptions for development costs, revenues and disposition were developed through the HR&A Team's own market research, interviews with developers active in New Orleans, and publicly available data on development costs available through applications submitted to the Industrial Development Board's PILOT application process.

Note: Construction costs include hard costs and soft costs.

Assumptions for revenue and operations are also based on the HR&A team's research and interviews of professionals with local knowledge.

DEVELOPMENT REVENUE AND OPERATIONS INPUTS

City of New Orleans

		Neighborhood Typology 1: Core Submarkets	Neighborhood Typology 2: Strong Submarkets	Neighborhood Typology 3: Transitional Submarkets
Rental	Rent ($/NSF/month)			
	Low-density, Historic Rehab	--	$1.80	$1.20
	High-density, Historic Rehab	$2.50	$2.15	$1.40
	Low-rise, New Construction	--	--	--
	Mid-rise, New Construction	$2.75	$2.15	$1.50
	High-rise, New Construction	$3.00	--	--
	Operating Expense (as % of revenue, excl. taxes)	18%	18%	18%
	Taxes (as % of revenue)	6%	6%	6%
	Vacancy	5%	5%	5%
For-Sale	Price ($/NSF)			
	Low-density, Historic Rehab	--	--	--
	High-density, Historic Rehab	$400	--	--
	Low-rise, New Construction	--	--	--
	Mid-rise, New Construction	$450	--	--
	High-rise, New Construction	$550	--	--

Rental pricing, for-sale pricing, and operating expenses are based on information gathered during interviews with developers on current rental rates for a range of submarkets as well as market data from CoStar and other data sources on comparable projects. For neighborhood without recently built comparable projects, HR&A relied on developer interviews to determine premiums on existing rents.

HR&A tested 12 development scenarios to model the feasibility of inclusionary housing across the city.

DEVELOPMENT SCENARIOS PROTOTYPE DEVELOPMENT

		Typology	Parcel Size	Lot Area/Unit (SF)	Modeled Units	Avg. Unit Size (SF)	Parking Spaces		Building GSF
							Structured	Surface	
Rental	Core	High-density Historic Rehab	42,000	N/A*	168	753	168	0	169,000
		High-rise New Construction	42,000	N/A*	184	753	184	0	163,000
		Mid-rise New Construction	42,000	800	52	753	52	0	46,000
	Strong	High-density Historic Rehab	50,000	1,000	50	753	50	0	50,000
		Low-density Historic Rehab	25,000	1,200	20	753	20	0	20,000
		Mid-rise New Construction	65,000	900	65	753	65	0	58,000
	Trans.	Low-density Historic Rehab	25,000	2,000	12	753	0	12	12,000
		Mid-rise New Construction	65,000	2,000	52	753	0	52	46,000
		Low-rise New Construction	41,000	1,250	20	753	0	20	18,000
Sale	Core	High-density Historic Rehab	42,000	N/A*	128	1,068	128	0	182,000
		High-rise New Construction	42,000	N/A*	141	1,068	141	0	177,000
		Mid-rise New Construction	42,000	800	52	1,068	52	0	65,000

HR&A developed a prototype development size and unit mix for each submarket that is representative of the type of development likely to occur. Assumptions for each prototype development, including the project size, were based on the construction type, existing development patterns, and location within New Orleans. The use of prototype projects allowed HR&A to determine the total feasibility gap/surplus for development in these submarkets.

** No minimum lot area/unit is required by zoning in the CBD. In these scenarios a 65 ft height limit is used to size developments.*

Financial Feasibility Analysis and Findings

- Rental
  - **Core Submarket Findings**
  - Strong Submarket Findings
  - Transitional Submarket Findings
- For-Sale
- In-Lieu Fee

Core Submarket Feasibility

Core Submarkets can support an inclusionary policy at some affordability requirements when incorporating all applicable tools.

CORE SUBMARKET DEVELOPMENT FEASIBILITY (GAP) / SURPLUS – RENTAL

🟥 Infeasible ⬜ Borderline Feasibility 🟩 Feasible

Building Typology

	Scenario 1: 10% at 80% AMI	Scenario 2: 8% at 60% AMI	Scenario 3: 10% at 60% AMI	Scenario 4: 12% at 60% AMI	Scenario 5: 10% at 50% AMI
Typology 1: Low-density Historic Rehab	Typology Not Common In Core Submarkets				
Typology 2: High-density Historic Rehab	$3,290,000	$3,260,000	$2,560,000	$1,870,000	$2,200,000
Typology 3: Low-rise New Construction	Typology Not Common in Core Submarkets				
Typology 4: Mid-rise New Construction	$920,000	$960,000	$590,000	$230,000	$430,000
Typology 5: High-rise New Construction	$640,000	$890,000	($170,000)	($1,230,000)	($580,000)

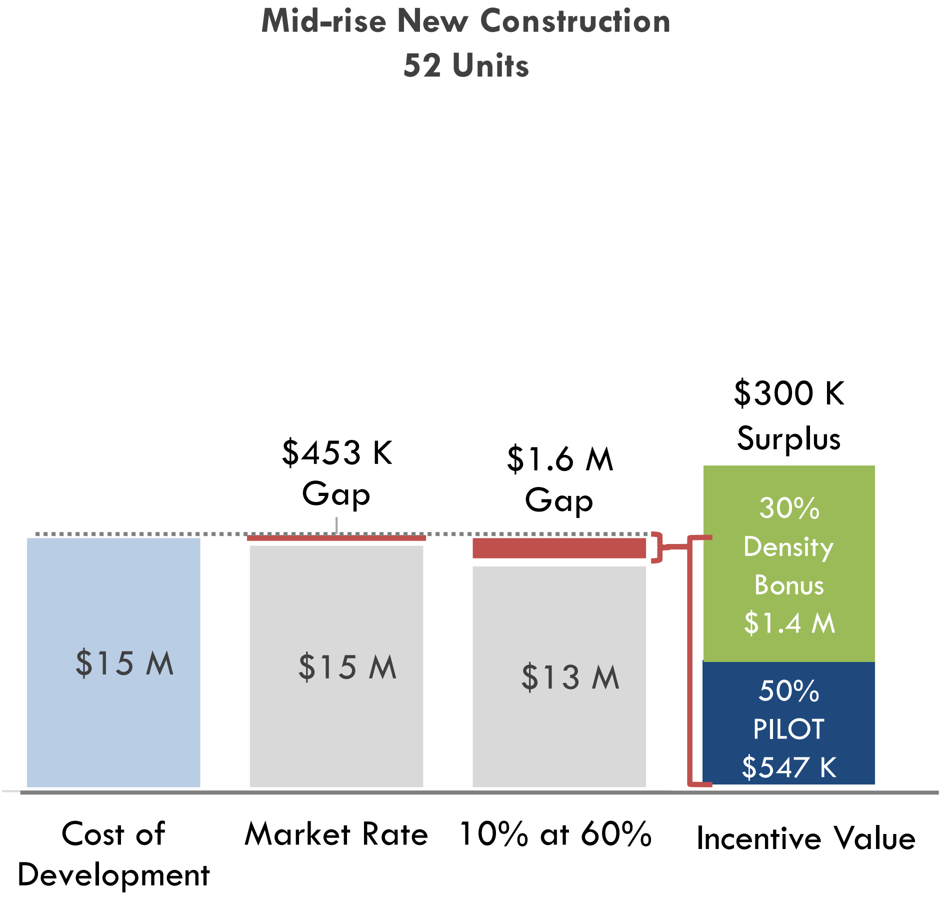
Development feasibility as modeled is inclusive of all available tools, including tax abatements (either RTA or PILOT) and density bonuses. Analysis assumes 70% PILOT and 30% density bonus, with the exception of Typology 5 (high-rise new construction), where 100% PILOT is applied due to higher construction costs.

Financial feasibility analysis is based on a required 7.5% cash on cash return for development projects, based on return requirements noted by professionals with local knowledge.
Low-density historic rehab and low-rise new construction typologies are not included in Core Submarket analysis given that those uses are not typical in those locations.
RTA is applied in typology 2, PILOTs are applied in typologies 4 & 5, and Density Bonuses are applied only in typology 4.

Core Submarket Feasibility

IZ in mid-rise construction in Core Submarkets can become feasible through the use of both a PILOT and a moderate density bonus.

BASELINE DEVELOPMENT FEASIBILITY GAP/SURPLUS – RENTAL



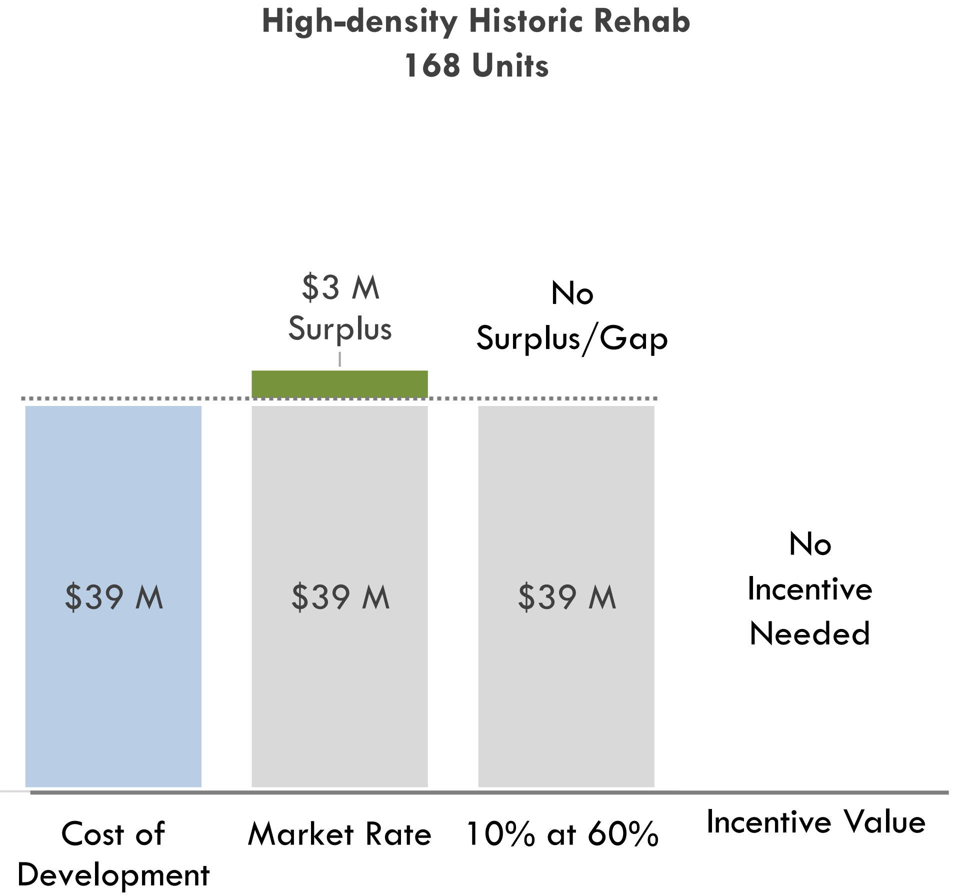
With a gap of $1.6 million, mid-rise project will struggle to be feasible under an IZ policy without incentive. When both a 50% PILOT and a 30% density bonus are applied, however, the development becomes feasible. While this hypothetical development can become feasible with less density bonus or PILOT, development is not possible without both incentives. Having the full toolkit available will ensure the widest range of developments achieve feasibility, though establishing a process for underwriting tax relief provided to developments would ensure projects are only provided incentives required for meet feasibility.

Financial feasibility analysis is based on a required 7.5% cash on cash return for development projects, based on return requirements noted by professionals with local knowledge. Historic Rehab costs are net of savings from state and federal historic tax credits.

Core Submarket Feasibility

High rents and the addition of historic tax credits allow many high-density historic rehab projects to remain feasible even with IZ.

DEVELOPMENT FEASIBILITY GAP/SURPLUS – RENTAL



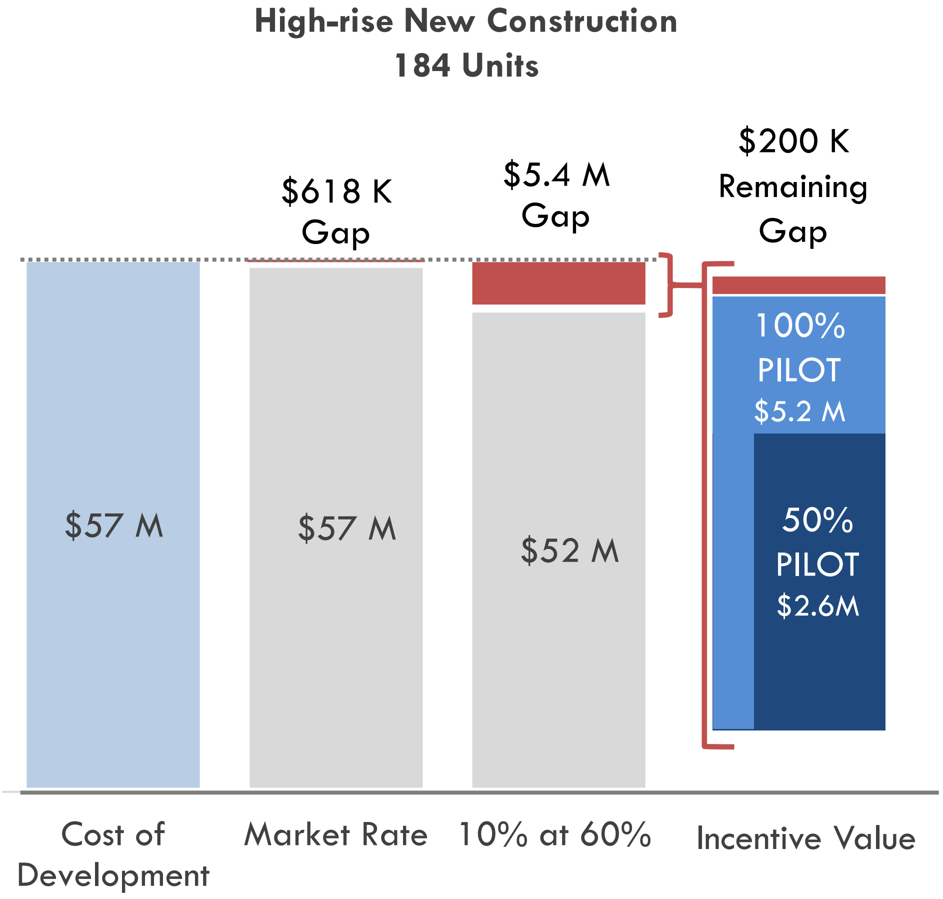
Rehab projects in Core submarkets generate a surplus of value under existing market conditions due to support from both state and federal historic tax credit projects. This surplus is eliminated with an IZ policy, but no additional incentives are needed to achieve minimum feasibility.

Financial feasibility analysis is based on a required 7.5% cash on cash return for development projects, based on return requirements noted by professionals with local knowledge. Historic Rehab costs are net of savings from state and federal historic tax credits.

Core Submarket Feasibility

High-rise development in Core Submarkets is not feasible with an IZ policy unless a 100% PILOT is implemented.

DEVELOPMENT FEASIBILITY GAP/SURPLUS – RENTAL



The borderline feasibility of high-rise developments under a 100% market rate scenarios is eliminated when an IZ policy is introduced. A gap of $5.4 million can all but be closed through extensive use of PILOTs. While a 50% PILOT is not enough to reduce the gap entirely, a 100% PILOT can close the gap to just $200,000 in upfront capital. As a result, while not required for every project, availability of a 100% PILOT when needed is recommended. Density bonus is not applied in this scenario for high-rise development in the Core since much of the CBD is not subject to height limits.

Financial feasibility analysis is based on a required 7.5% cash on cash return for development projects, based on return requirements noted by professionals with local knowledge. Historic Rehab costs are net of savings from state and federal historic tax credits.

Financial Feasibility Analysis and Findings

- Rental
  - Core Submarket Findings
  - **Strong Submarket Findings**
  - Transitional Submarket Findings
- For-Sale
- In-Lieu Fee

Strong Submarket Feasibility

Development feasibility in Strong Submarkets is constrained across affordability levels by lower rents than Core submarkets.

STRONG SUBMARKET DEVELOPMENT FEASIBILITY (GAP) / SURPLUS – RENTAL

🟥 Infeasible ⬜ Borderline Feasibility 🟩 Feasible

Building Typology

	Scenario 1: 10% at 80% AMI	Scenario 2: 8% at 60% AMI	Scenario 3: 10% at 60% AMI	Scenario 4: 12% at 60% AMI	Scenario 5: 10% at 50% AMI
Typology 1: Low-density Historic Rehab	($220,000)	($270,000)	($340,000)	($410,000)	($400,000)
Typology 2: High-density Historic Rehab	($760,000)	($830,000)	($1,020,000)	($1,210,000)	($1,150,000)
Typology 3: Low-rise New Construction	Typology Not Common in Strong Submarkets				
Typology 4: Mid-rise New Construction	($1,050,000)	($1,150,000)	($1,250,000)	($1,660,000)	($1,560,000)
Typology 5: High-rise New Construction	Typology Not Common in Strong Submarkets				

Development feasibility as modeled is inclusive of all available tools, including tax abatements (either RTA or PILOT) and density bonuses. Analysis assumes a 70% PILOT, reduced parking minimums, and a 50% density bonus for the purpose of maximizing potential feasibility with all available tools.

Financial feasibility analysis is based on a required 7.5% cash on cash return for development projects, based on return requirements noted by professionals with local knowledge.
High-rise new construction typology is not included in Strong Submarkets analysis given that use is not typical in those locations.
RTA is applied in typologies 1 & 2, PILOTs are applied in typologies 3 & 4, and Density Bonuses are applied in typologies 1-4.

Strong Submarket Feasibility

Though a 10% at 60% AMI policy cannot be supported in Strong Submarkets, a requirement of 5% of units at 60% AMI is feasible.

STRONG SUBMARKET DEVELOPMENT FEASIBILITY – RENTAL

🟥 Infeasible ⬜ Borderline Feasibility 🟩 Feasible

Building Typology

	2% at 60% AMI	5% at 60% AMI	8% at 60% AMI
Typology 1: Low-density Historic Rehab	**Feasible**	**Borderline**	Infeasible
Typology 2: High-density Historic Rehab	**Borderline**	**Borderline**	Infeasible
Typology 3: Low-rise New Construction	Typology Not Common in Strong Submarkets		
Typology 4: Mid-rise New Construction	**Borderline**	**Borderline**	Infeasible
Typology 5: High-rise New Construction	Typology Not Common in Strong Submarkets		

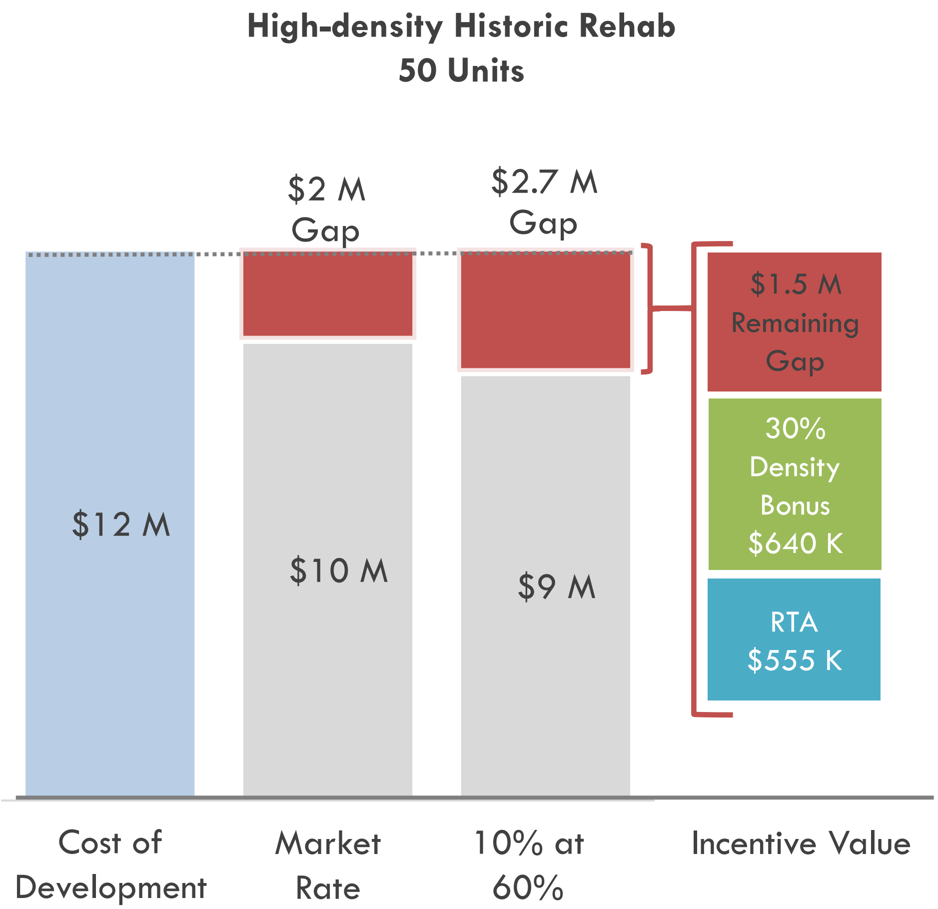
To provide some level of inclusionary housing in Strong Submarkets, a requirement up to 5% of units at 60% AMI is supportable. Development feasibility as modeled is inclusive of all available tools, including tax abatements (either RTA or PILOT) and regulatory relief (density bonus and parking reduction). Analysis assumes 100% PILOT, a 30% density bonus, and lower parking minimums for the purpose of maximizing feasibility with all available tools.

Financial feasibility analysis is based on a required 7.5% cash on cash return for development projects, based on return requirements noted by professionals with local knowledge. High-rise new construction typology is not included in Strong Submarkets analysis given that use is not typical in those locations.

Strong Submarket Feasibility

Incentives do not fully close feasibility gaps for the largest rehab projects in Strong Submarkets under a 10% unit requirement.

STRONG SUBMARKET DEVELOPMENT FEASIBILITY GAP/SURPLUS – RENTAL



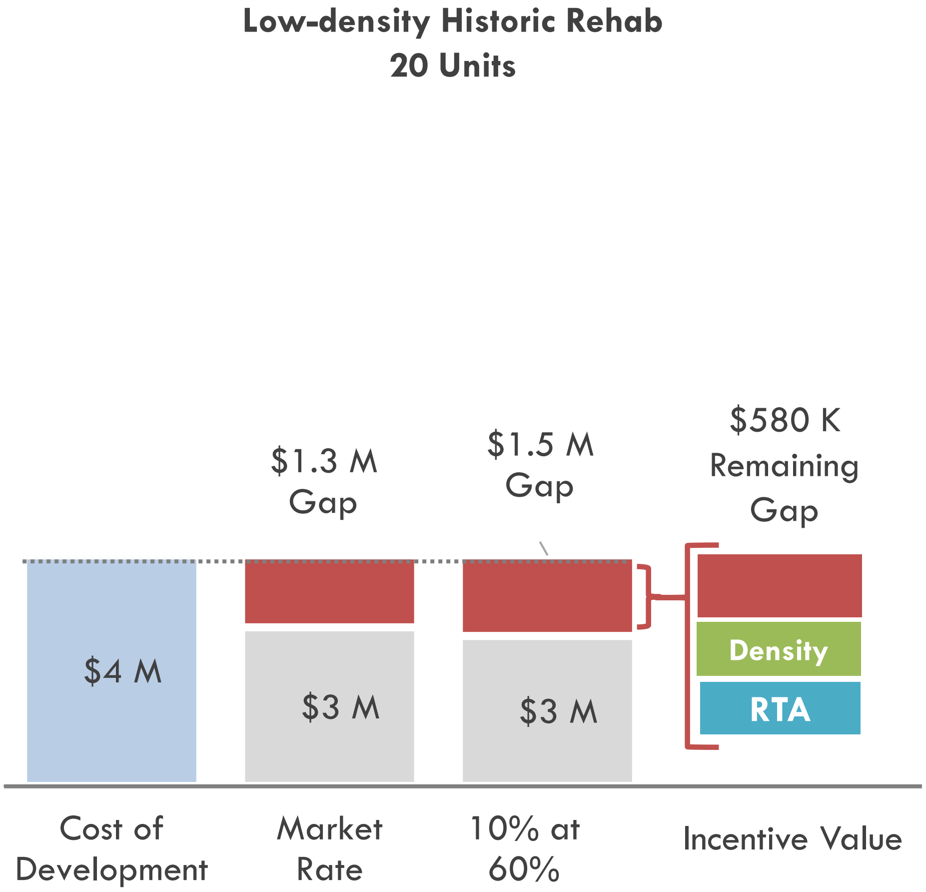
Strong Submarkets often rely on public incentives to close gaps that are present under market-rate conditions. Gaps of nearly $3 million in upfront investment in high-density historic rehab projects are closed somewhat by density bonuses and RTA. Under an IZ requirement of 10% of units at 60% AMI, a feasibility gap of $1.5 million remains after implementing these incentives. In this case, large historic rehab projects are unlikely to support an IZ policy at this level in Strong Submarkets.

Financial feasibility analysis is based on a required 7.5% cash on cash return for development projects, based on return requirements noted by professionals with local knowledge. Historic Rehab costs are net of savings from state and federal historic tax credits.

Strong Submarket Feasibility

Smaller rehab projects also face gaps in feasibility under a 10% requirement regardless of incentives.

STRONG SUBMARKET DEVELOPMENT FEASIBILITY GAP/SURPLUS – RENTAL



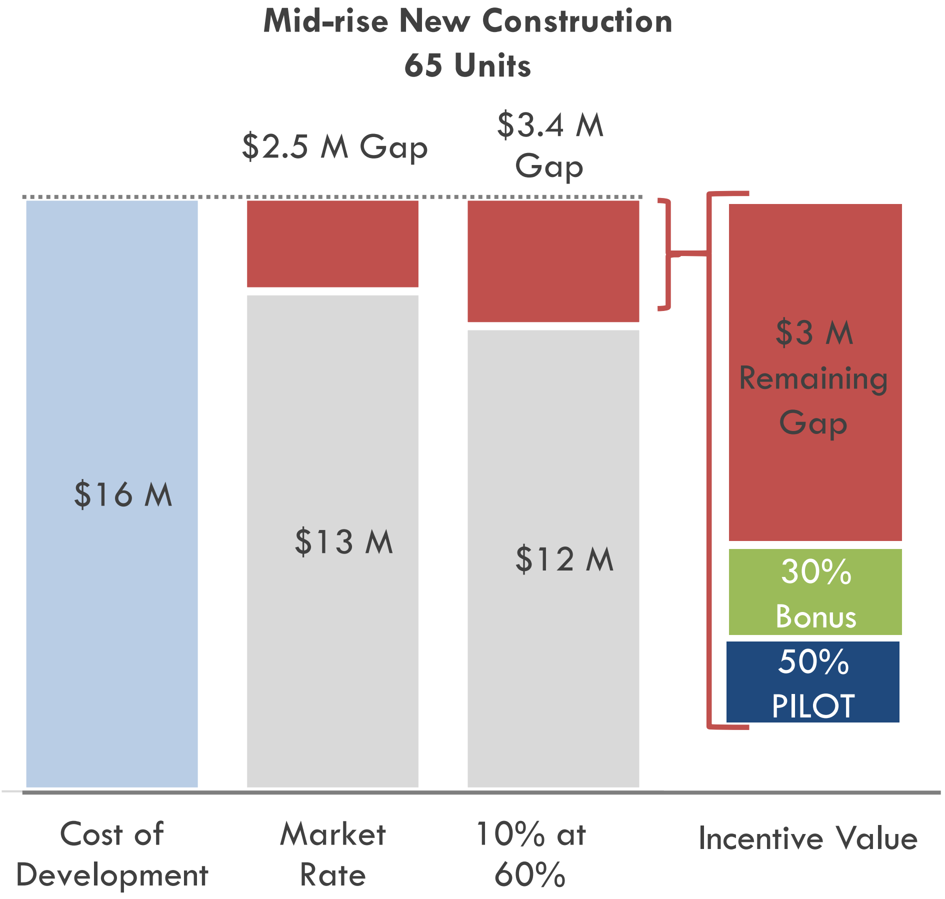
Low-density historic rehab projects have gaps of more than a third of their total project budgets. Available incentives are not enough to close this gap.

Financial feasibility analysis is based on a required 7.5% cash on cash return for development projects, based on return requirements noted by professionals with local knowledge. Historic Rehab costs are net of savings from state and federal historic tax credits.

Strong Submarket Feasibility

Mid-rise new construction is not feasible in Strong Markets without subsidy even at market rental rates.

STRONG SUBMARKET DEVELOPMENT FEASIBILITY GAP/SURPLUS – RENTAL



While mid-rise new construction's gap of $3.4 million dollars is a smaller proportion of the total cost of development, incentives make up just $400,000. The resulting $3 million gap cannot be closed, and mid-rise new construction in Strong Submarkets cannot support an IZ policy requirement of 10% of units at 60% AMI.

Financial feasibility analysis is based on a required 7.5% cash on cash return for development projects, based on return requirements noted by professionals with local knowledge. Historic Rehab costs are net of savings from state and federal historic tax credits.

Financial Feasibility Analysis and Findings

- Rental
  - Core Submarket Findings
  - Strong Submarket Findings
  - **Transitional Submarket Findings**
- For-Sale
- In-Lieu Fee

Transitional Submarket Feasibility

Transitional Submarkets are largely unable to support any inclusionary requirement with the available set of tools.

TRANSITIONAL SUBMARKET DEVELOPMENT FEASIBILITY (GAP) / SURPLUS – RENTAL

🟥 Infeasible ⬜ Borderline Feasibility 🟩 Feasible

Building Typology	Scenario 1: 10% at 80% AMI	Scenario 2: 8% at 60% AMI	Scenario 3: 10% at 60% AMI	Scenario 4: 12% at 60% AMI	Scenario 5: 10% at 50% AMI
Typology 1: Low-density Historic Rehab	($1,310,000)	($1,350,000)	($1,370,000)	($1,380,000)	($1,390,000)
Typology 2: High-density Historic Rehab	Typology Not Common in Transitional Submarkets				
Typology 3: Low-rise New Construction	($1,860,000)	($1,920,000)	($1,950,000)	($1,970,000)	($2,000,000)
Typology 4: Mid-rise New Construction	($3,660,000)	($3,810,000)	($3,890,000)	($3,980,000)	($4,010,000)
Typology 5: High-rise New Construction	Typology Not Common in Transitional Submarkets				

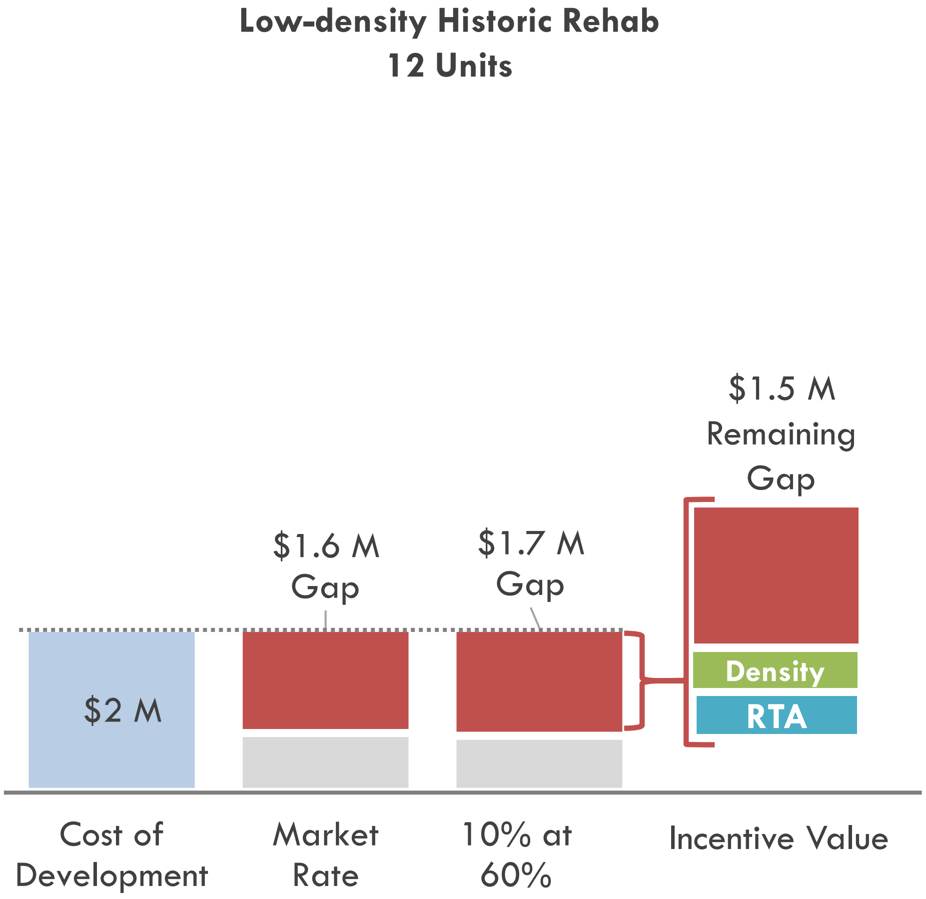
Even at higher AMIs and lower unit requirements, an inclusionary policy cannot be supported by market rate rents. An inclusionary policy should not be mandatory in these areas, as it will limit development feasibility of sites.

Financial feasibility analysis is based on a required 7.5% cash on cash return for development projects, based on return requirements noted by professionals with local knowledge.
High-density historic rehab and high-rise new construction typologies are not included in Transitional Submarket analysis given that those uses are not typical in those locations.
RTA is applied in typology 1, PILOTs are applied in typologies 3 & 4, and Density Bonuses are applied in typologies 1, 3, &4.

Transitional Submarket Feasibility

Across all Transitional Submarket typologies market rents cannot support development with or without an IZ policy.

TRANSITIONAL SUBMARKET DEV. FEASIBILITY GAP/SURPLUS – RENTAL



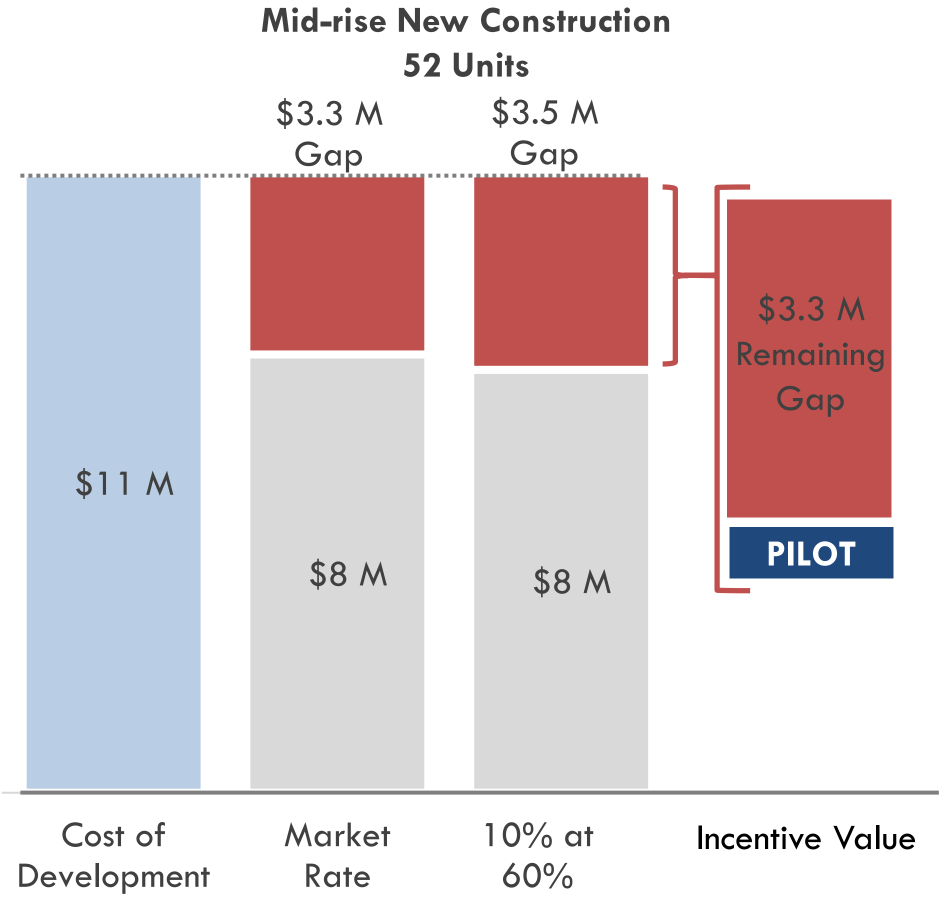
Low-density historic rehab projects, common in stronger submarkets in New Orleans, are not feasibly in transitional submarkets. Incentive available continue to leave a gap of over half the total cost of development.

Financial feasibility analysis is based on a required 7.5% cash on cash return for development projects, based on return requirements noted by professionals with local knowledge. Historic Rehab costs are net of savings from state and federal historic tax credits.

Transitional Submarket Feasibility

Across all Transitional Submarket typologies market rents cannot support development with or without an IZ policy.

TRANSITIONAL SUBMARKET DEV. FEASIBILITY GAP/SURPLUS – RENTAL



Larger mid-rise developments in transitional submarkets see no benefit from a density bonus because the value of the development does not increase with additional market rate units. Transitional submarkets are not yet in a position to be able to support inclusionary zoning for mid-rise product.

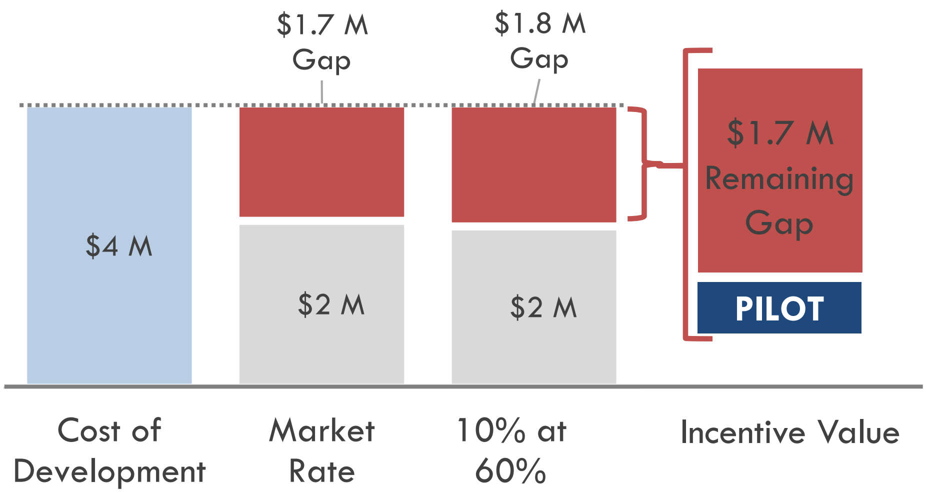
Financial feasibility analysis is based on a required 7.5% cash on cash return for development projects, based on return requirements noted by professionals with local knowledge. Historic Rehab costs are net of savings from state and federal historic tax credits.

Transitional Submarket Feasibility

Across all Transitional Submarket typologies market rents cannot support development with or without an IZ policy.

TRANSITIONAL SUBMARKET DEV. FEASIBILITY GAP/SURPLUS – RENTAL

Low-rise New Construction
20 Units



Like other development typologies in transitional submarkets, low-rise new construction projects also see no additional value created from a density bonus and an IZ policy for 10% of units at 60% AMI cannot be supported.

Financial feasibility analysis is based on a required 7.5% cash on cash return for development projects, based on return requirements noted by professionals with local knowledge. Historic Rehab costs are net of savings from state and federal historic tax credits.

Financial Feasibility Analysis and Findings

Rental

For-Sale

Core Submarket Findings

In-Lieu Fee

The feasibility of condo development in Core Submarkets is highly dependent on product type and level of affordability.

CORE SUBMARKET DEVELOPMENT FEASIBILITY (GAP) / SURPLUS - FOR-SALE

🟥 Infeasible ⬜ Borderline Feasibility 🟩 Feasible

Building Typology	Scenario 1: 10% at 80% AMI	Scenario 2: 8% at 60% AMI	Scenario 3: 10% at 60% AMI	Scenario 4: 12% at 60% AMI	Scenario 5: 10% at 50% AMI
Typology 1: Low-density Historic Rehab	Typology Not Common In Core Submarkets				
Typology 2: High-density Historic Rehab	$1,040,000	$760,000	$100,000	($560,000)	($370,000)
Typology 3: Low-rise New Construction	Typology Not Common In Core Submarkets				
Typology 4: Mid-rise New Construction	$1,150,000	$1,050,000	$600,000	$150,000	$330,000
Typology 5: High-rise New Construction	$680,000	$710,000	($360,000)	($1,420,000)	($870,000)

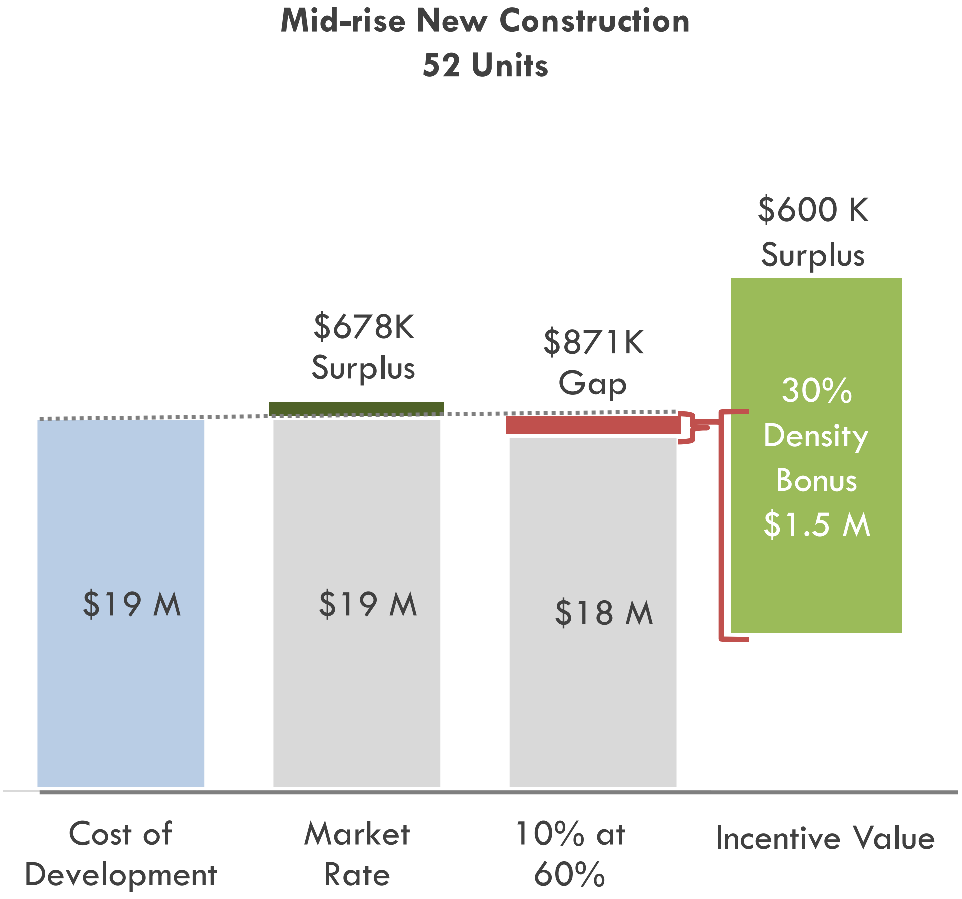
While small feasibly gaps remain for high-rise new construction at 10% at 60% AMI, this gap is likely within the range of acceptable lower returns for a developer. Increasing the percentage of units or level of affordability any deeper results in an infeasible project in most typologies.

Financial feasibility analysis is based on a required 2.0x equity multiple for development projects, based on return requirements noted by professionals with local knowledge.
Low-density historic rehab and low-rise new construction typologies are not included in Core Submarket analysis given that those uses are not typical in those locations.
The only incentive applied is a 30% density bonus to typology 4.

Core Submarket Feasibility

Mid-rise product's small feasibility gap can be closed through the use of density bonuses.

CORE SUBMARKET DEVELOPMENT FEASIBILITY GAP/SURPLUS – FOR SALE



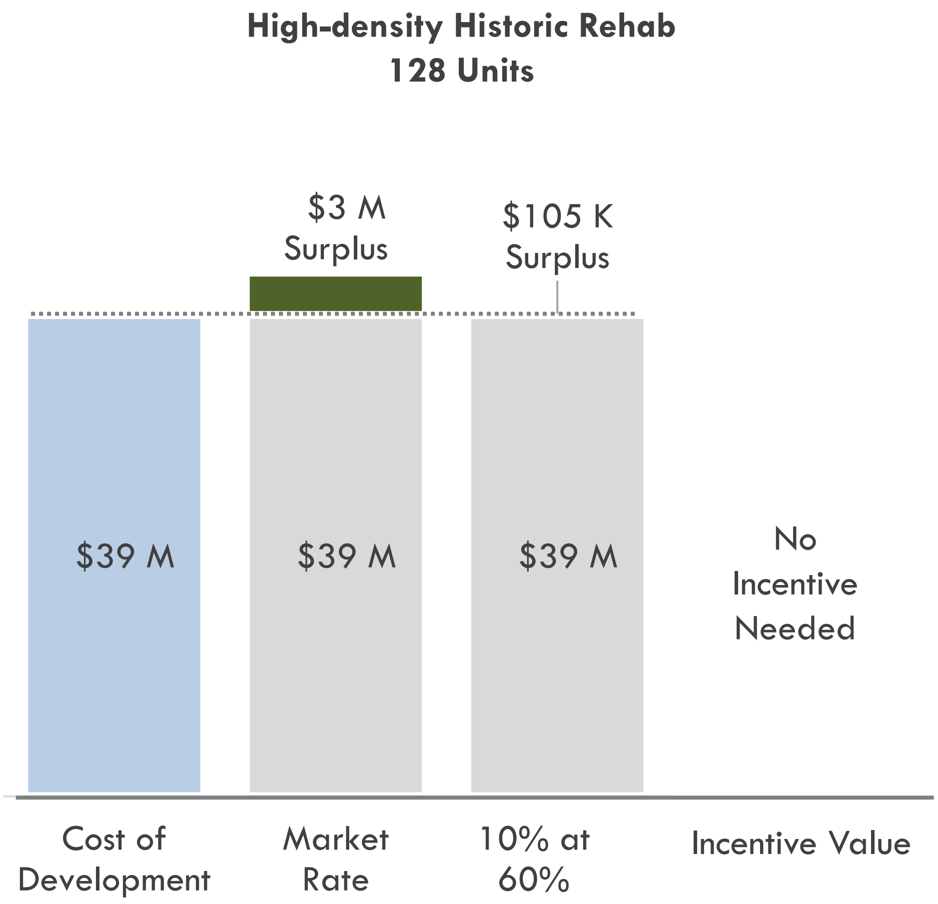
Mid-rise condo development results in a gap of $871,000 when an IZ policy of 10% of units at 60% AMI is applied. However, density bonuses can be effective tool in closing the gap and creating a feasible project.

Financial feasibility analysis is based on a required 7.5% cash on cash return for development projects, based on return requirements noted by professionals with local knowledge. Historic Rehab costs are net of savings from state and federal historic tax credits.

Core Submarket Feasibility

As in rental product, rehab condo projects in Core Submarkets can support an IZ policy without subsidy in most cases.

CORE SUBMARKET DEVELOPMENT FEASIBILITY GAP/SURPLUS – FOR SALE



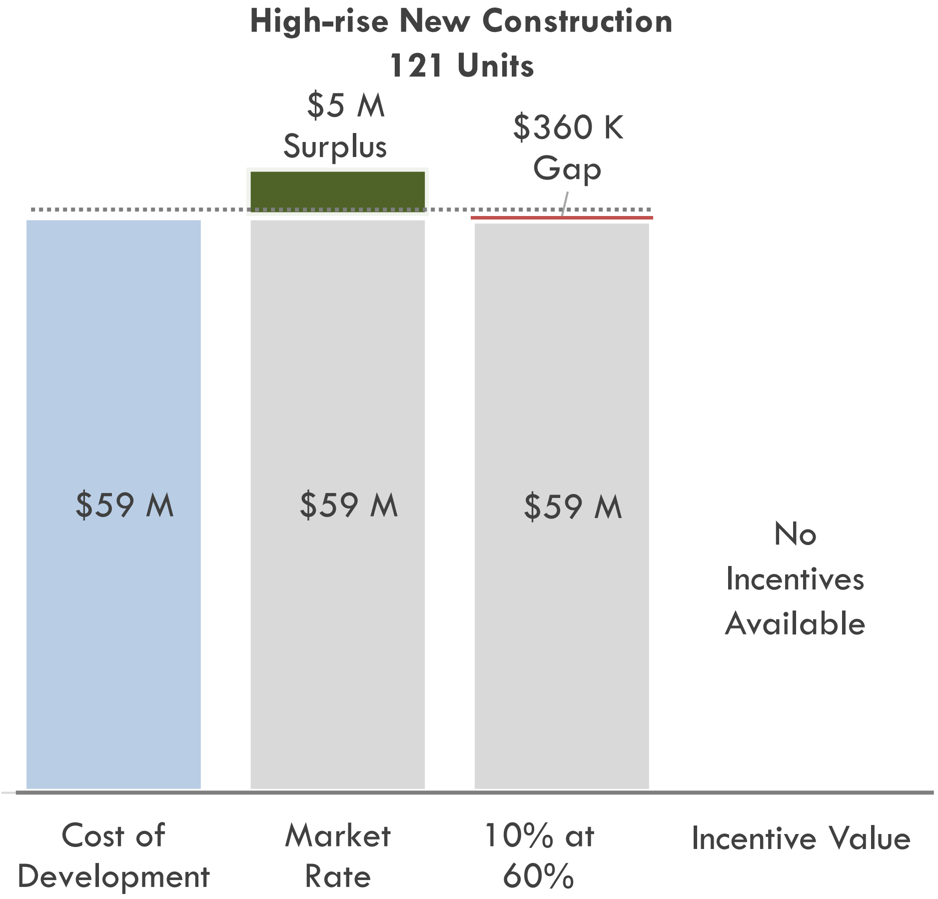
When an IZ requirement is imposed on for-sale historic rehab projects in Core Submarkets, the additional surplus beyond minimum feasibility is reduced, but not eliminated. As such, no incentives are needed to make the policy feasible for this typology in Core Submarkets.

Financial feasibility analysis is based on a required 7.5% cash on cash return for development projects, based on return requirements noted by professionals with local knowledge. Historic Rehab costs are net of savings from state and federal historic tax credits.

Core Submarket Feasibility

High-rise condo construction is borderline feasible in Core Submarkets, with a small gap resulting in some hypothetical projects.

CORE SUBMARKET DEVELOPMENT FEASIBILITY GAP/SURPLUS – FOR SALE



An IZ policy requiring 10% of units at 60% AMI results in a small feasibility gap of $360,000. While there are no incentives applied for high-rise for-sale development, as PILOTs are not common for condo projects and density in the core is not likely to be used, this gap falls within borderline feasibility and could likely be accommodated through a slightly lower but still acceptable return to a developer.

Financial feasibility analysis is based on a required 7.5% cash on cash return for development projects, based on return requirements noted by professionals with local knowledge. Historic Rehab costs are net of savings from state and federal historic tax credits.

Financial Feasibility Analysis and Findings

- Rental
- For-Sale
- **In-Lieu Fee**

In-Lieu Fee

An in-lieu fee option can be provided to developers by determining the difference in market value between market rate and affordable units.

NEW ORLEANS IN-LIEU FEE CALCULATION – RENTAL

Building Typology

Core Submarkets Rental	(Annual Net Income per Market Rate unit	- Annual Net Income per Affordable unit)	÷ Capitalization Rate	= **Difference in Project Value per Unit**
Typology 1: Low-density Historic Rehab	--	--	--	--
Typology 2: High-density Historic Rehab	$16,900	$3,000	5%	**$277,100**
Typology 3: Low-rise New Construction	--	--		--
Typology 4: Mid-rise New Construction	$18,900	$2,000	5%	**$370,600**
Typology 5: High-rise New Construction	$20,600	$2,000	5%	**$327,300**

An in-lieu fee option allows a development to meet an IZ requirement by paying a fee rather than providing IZ units on site. The fee is used to support affordable housing development and preservation and is generally structured to equal the opportunity cost to a property owner of providing an affordable unit rather than a market rate unit. The HR&A Team calculated the fee for rental units based on the difference in net income between a market rate unit and an affordable unit priced at 60% of AMI in New Orleans Core Submarkets. The annual income is extrapolated over the life of the project by using a market-based capitalization rate.

Differences in operating expenses across typologies result in a range of net income despite identical affordable rents.

In-Lieu Fee

HR&A recommends applying a premium to the in-lieu fee of 5-10% to encourage on-site production of affordable housing.

NEW ORLEANS IN-LIEU FEE CALCULATION – RENTAL

Building Typology

Core Submarkets Rental	Difference in Project Value per Unit	x	**Premium Above Base Fee (5-10%) II Recommended Fee Per Affordable Unit**	Most Common Typology?	**Applicable Fee**
Typology 1: Low-density Historic Rehab	--		--	--	**$291,000 – 305,000**
Typology 2: High-density Historic Rehab	$277,100		**$291,000 - 305,000**	YES	**$291,000 – 305,000**
Typology 3: Low-rise New Construction	--		--	--	**$291,000 – 305,000**
Typology 4: Mid-rise New Construction	$370,600		**$389,000 – 408,000**	NO	**$291,000 – 305,000**
Typology 5: High-rise New Construction	$327,300		**$344,000 – 360,000**	NO	**$291,000 – 305,000**

To encourage on-site production of IZ units, and to accommodate for the fact that building affordable units through an inclusionary policy will require additional non-monetary costs (time, uncertainty, and additional compliance review), HR&A recommends applying a 5-10% premium when establishing a fee per affordable unit. To align this fee with the market, the fee should be based on the most common typology in the Submarket. In Core Submarkets for rental properties a fee of $291,000 – 305,000 per affordable unit would be applied to all typologies.

Differences in operating expenses across typologies result in a range of net income despite identical affordable rents.

In-Lieu Fee

A similar methodology was applied to determine the in-lieu fee for for-sale units.

NEW ORLEANS IN-LIEU FEE CALCULATION – FOR SALE

Building Typology

Core Submarkets For-Sale	Difference in Project Value per Unit	x	**Premium Above Base Fee (5-10%) = Recommended Fee Per Affordable Unit**	Most Common Typology?	**Applicable Fee**
Typology 1:Low-density Historic Rehab	--		--	--	**$366,000 – 383,000**
Typology 2: High-density Historic Rehab	$348,500		**$366,000 – 383,000**	YES	**$366,000 – 383,000**
Typology 3: Low-rise New Construction	--		--	--	**$366,000 – 383,000**
Typology 4: Mid-rise New Construction	$401,900		**$422,000 – 442,090**	NO	**$366,000 – 383,000**
Typology 5: High-rise New Construction	$508,600		**$534,000 – 559,460**	NO	**$366,000 – 383,000**

For-sale projects have a higher difference in value per unit based on achievable pricing for for-sale units in Core Submarkets relative to units priced at 60% AMI. Applying a 5-10% premium over the base difference in value results in a fee per affordable unit of $366,000 – 383,000.

In-Lieu Fee

The proposed fee positions New Orleans below the cost of many higher-cost markets while still providing a valuable resource for affordable housing support and development.

INCLUSIONARY ZONING IN-LIEU FEES PER UNIT (RENTAL)

City	Fee Per Market Rate Unit	Fee Per Affordable Unit
Chula Vista	$12,422	$124,220
Chicago	$17,500	$175,000
Atlanta	$18,661	$186,605
San Jose	$25,000	$166,667
New Orleans (proposed)	**$29,100**	**$291,000**
Boulder	$29,400	$117,600
San Francisco	$47,880	$266,000
Pasadena	$56,576	$377,173
Boston	$68,400	$380,000

The calculated in-lieu fee for rental units in New Orleans ranks in the middle when compared to other cities with inclusionary policies offering in-lieu fee options. However, many of these programs do not provide incentives as part of the program or assigned a fee without a detailed methodology. As an example of the scale to which this could generate funds, if all eligible market rate development completed in 2017 and 2018 elected to pay the in-lieu fee rather than provide on-site units, approximately $4.5 million would have been generated for affordable housing.

To adapt for different calculation methods other cities' fees were assessed using an example project of 100 units with average unit sizes of 800 SF. Eligible units defined as those in projects with >10 units.

Policy Recommendations

Policy Recommendations | Overview

Based on the findings of this study, a geographically focused mandatory IZ policy can be an effective way to provide affordable housing in neighborhoods with strong multifamily real estate markets. A mandatory inclusionary housing policy which includes the entire city would likely be ineffective in most neighborhoods. It would deter a significant amount of development there, restricting growth rather than supporting inclusive growth.

An IZ policy reduces attainable rents for property owners and public incentives offsetting those rent reductions are necessary to ensure development remains feasible. A suite of tools, including density bonus, Payment In Lieu of Taxes (PILOT), Restoration Tax Abatement (RTA), and minimum parking requirement reductions can offset rent reductions.

A successful inclusionary housing requirement must establish a clear policy and appropriate administrative systems. HR&A has developed policy recommendations for an inclusionary requirement based on best practices for IZ requirements from across the country as well as our assessment of local context and existing policy in New Orleans.

This analysis specifically addresses and provides recommendations for the following policy components:

- **Geography**
- **Affordability Requirement**
- **Incentives**
- **Applicability**
- **Unit Pricing**
- **Affordability Term**
- **Unit Characteristics**
- **Concurrency**
- **Fractional Units**
- **In-Lieu Fee**

GEOGRAPHY

BACKGROUND

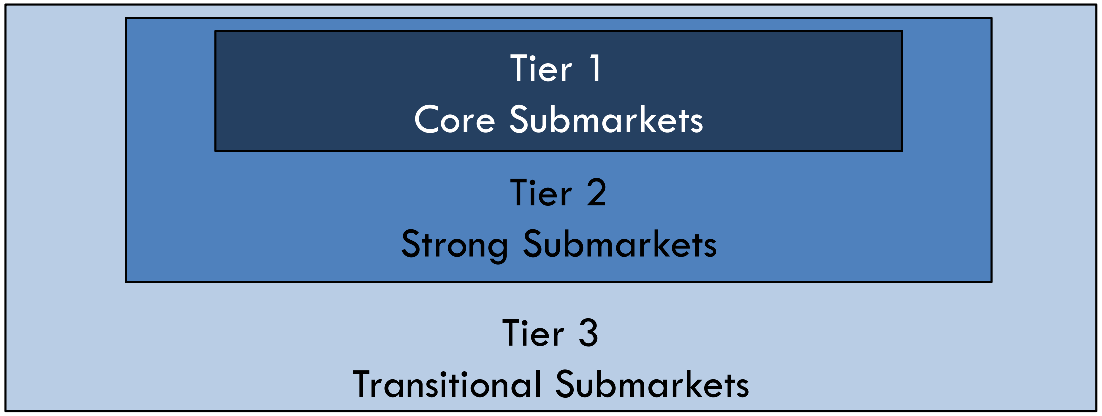
Analysis showed that a mandatory IZ policy is fully supportable in the City's Core Submarkets, supportable on a limited basis in Strong Submarkets, and is not financially feasible in Transitional Submarkets. In New Orleans, differences in market strength across neighborhoods necessitate a focus on locations where an IZ requirement can be supported. Were a city-wide policy to be enacted, it would restrict development in emerging neighborhoods and limit new housing production there.

When determining a boundary for an IZ policy, the City must carefully consider the location to prevent shifting development just outside the boundary. Establishing a multi-tiered boundary with requirements aligned to the market strength of each tier reduces ability to shift development location to evade requirements.

RECOMMENDATION

HR&A recommends implementing an IZ policy with three geographic tiers aligned with market strength and reflecting ability to support an IZ requirement based on analysis of the New Orleans market. Specific boundaries should be **established through a zoning overlay,** with borders to be determined by the City.

Three-Tier IZ Policy



Tier 1
Core Submarkets

Tier 2
Strong Submarkets

Tier 3
Transitional Submarkets

Neighborhoods

French Quarter, CBD

Lower Garden Dist., Bywater, Marigny, Treme, Mid-City, Uptown, Lakeview (portions)

Remainder of city

Policy Recommendations | Affordability Requirement

AFFORDABILITY REQUIREMENT

BACKGROUND

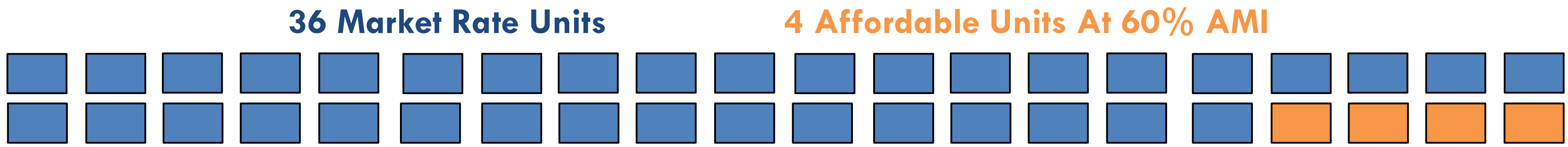
Careful calibration of the affordability requirement set-aside percentage and AMI is important to ensure development continues to occur while also creating new affordable housing. HR&A's financial analysis sought to balance the set-aside requirement with an affordability level best matching identified housing needs in New Orleans. When targeting affordability at 60% of AMI, the identified area of highest need in the City, analysis showed that the strongest multifamily housing markets can support an IZ requirement of 10% of units.

RECOMMENDATION

For each tier, HR&A recommends the City implement the following IZ requirements for rental and for-sale residential development:

> **Tier 1 - 10% of units affordable to households earning 60% AMI, for both rental and for-sale development**
>
> **Tier 2 – 5% of units affordable to households earning 60% AMI for rental development**
>
> **Tier 3 – No affordability requirement, though development in these locations may voluntarily provide IZ units (5%) in exchange for density bonus and minimum parking relief incentives reserved for IZ units.** There should be no exceptions to where Tier 3 can be applied.

EXAMPLE 40-UNIT SUBJECT TO TIER 1 INCLUSIONARY ZONING POLICY



Policy Recommendations | Incentives

Public incentives are needed to close the financial gap created by below-market pricing of IZ apartments and condos. New Orleans has a suite of existing incentive tools available for residential development that provide direct and indirect support to produce housing, including regulatory relief, property tax reduction, and low-cost financing. However, of these programs, only a few are well-suited to be incorporated as part of an IZ program. HR&A does not recommend using Federal or local housing program funds such as CDBG, HOME, or a housing trust fund since these funds are limited, cannot be guaranteed by-right, and create significant additional costs (Davis-Bacon requirements, environmental review, etc.).

HR&A recommends the City of New Orleans provide a package of incentives to IZ developments, which, based on current market conditions, will require both regulatory relief and tax reduction for financial feasibility. The size and scope of incentives are based on rigorous analysis of applicable incentives and development feasibility in each market tier.

DENSITY BONUS

HR&A recommends a by-right density bonus of 30% for IZ developments, provided in the form of a reduction in the required minimum lot area per dwelling unit. Additionally, we recommend allowing **up to a 50% density bonus** for developments in which the reduction in minimum lot area per dwelling unit would allow for development that remains within the permissible height and floor area ratios (FAR) governed by the zoning designation of the site.

PILOT

HR&A recommends guaranteeing PILOT to IZ developments based on project need. The size of the PILOT will be determined on a project-by-project basis based on independent underwriting and the allocation of other incentives to the development, though PILOTs providing tax relief in the range of 50% to 70% are likely needed to support the target policy.

RESTORATION TAX ABATEMENT

For qualifying historic developments, RTAs can be granted for two five-year terms. HR&A recommends a the City amend current policy to qualify IZ development for the second 5-year term without the additional reinvestment currently required.

REDUCTION IN PARKING MINIMUMS

HR&A recommends, where permissible, a by-right reduction in parking requirements of 10%, and up to 30% as applicable. Though, we expect limited applicability of this tool based on current requirements and market parking demand.

Policy Recommendations | Applicability

VOLUNTARY PARTICIPATION

For developments outside of geographies requiring IZ participation, the HR&A team recommends permitting **voluntarily opt-in for developments to provide affordable units in exchange for IZ density bonus incentives.** Receipt of PILOT or other tax reduction tools in these locations is not tied to meeting an affordability requirement. However, for any scenario in which public funds are being provided, the City should pursue affordable housing and other public goals to the extent possible.

APPLICABILITY OF POLICY TO NON-MARKET RATE DEVELOPMENT

The HR&A Team recommends that incentives made available to market rate IZ developments also be available to non-market rate developments meeting or exceeding the affordability requirement of the IZ policy, including developments such as Low Income Housing Tax Credit projects or other affordable housing. For example, a development in a Tier 1 location that is planned to have 40% of units provided at 60% AMI or below would be eligible for IZ incentives.

APPLICABILITY OF POLICY TO PLANNED DEVELOPMENT

The City should establish that the policy does not apply to developments that have already been approved. Developments which have already received a permit should not have a requirement to provide IZ units after gaining development approvals. Although this will slow the near-term production of affordable housing, requiring IZ units can significantly alter the financial feasibility of a development and cause an already approved development to no longer be feasible.

However, the HR&A Team recommends that the City provide an opt-in option for approved developments. Opt-in policies allow development which have already gained approval to voluntarily provide IZ units in exchange for the incentives offered for IZ developments.

Policy Recommendations | Unit Pricing

UNIT PRICING

The City of New Orleans must develop a pricing formula to ensure inclusionary units are affordable to households in the targeted income bracket. Unlike many other housing programs, inclusionary housing units are not regulated by the Department of Housing and Urban Development (HUD). As a result, there is significant variation in strategy used to price these units. **A complete pricing formula must address:**

- **The share of household income for housing that is considered affordable.** Using an affordability standard of 30% of gross household income for housing costs—including rent, condo fees, and utilities—aligns with federal guidance and is most appropriate for New Orleans. Utility costs should be based on utility allowances, which are published annually.
- **Unit size pricing based on household size.** Area Median Income, the common metric used for affordable housing programs, adjusts income limits by household size. However, it is not always clear to developers what household size to assume for a given apartment size (for example a two-bedroom apartment). HR&A recommends multiplying the number of bedrooms by 1.5 in order to match household size and bedroom size for standardized pricing. Some jurisdictions commonly use a "bedroom-plus-one" rule to match household sizes with bedroom count. Other jurisdictions multiply the number of bedrooms by 1.5, if for instance, both one and two-person households are expected to occupy one-bedroom units. While this formula results in lower-priced one-bedroom units than the "bedroom-plus-one" rule, it generates higher rent prices for units of three-bedrooms or more. Either policy can be effective, but it is important to have a clear policy that is publicly available for developers' planning purposes. To ensure this pricing remains affordable for target households, each household should have a minimum occupancy of one person per bedroom.
- **The income level used for pricing.** Based on IZ policy recommendations, the policy should clearly state that maximum rental cost levels for inclusionary units are equivalent to an affordable rent at 60% of AMI (per household) and use a similar structure to the pricing of Low Income Housing Tax Credit (LIHTC) units.

UNIT PRICING (CONTINUED)

- **The specific items included in housing costs.** All utilities paid by tenants and owners should be included in the affordability calculation (e.g. water, gas, electric) based on published utility allowances. Jurisdictions commonly use the utility cost schedules produced and updated by the local housing authority to indicate to developers the degree to which rent must be reduced from maximum levels for tenants paying utilities. Some jurisdictions, such as San Francisco, specify a flat, all-inclusive utility deduction, while others, such as Washington, DC, publish service-specific utility allowances. Either approach can be effective as long there is a consistent and published approach with an appeals process for properties with higher levels of energy efficiency.

- **For-sale units should have a fair resale formula established at purchase.** A standard formula to determine maximum resale price should be agreed to by purchasers to ensure long-term affordability of for-sale IZ units and the retention of equity for homeowners. The affordability requirement will be structured as a covenant on the property to ensure long-term affordability. The maximum resale price should be determined by changes in Consumer Price Index or Area Median Income from a unit's purchase date to sale date. Some jurisdictions also allow the maximum resale formula to include the cost of repairs and certain capital expenditures. The cost of capital expenditures with limited lifespans or personal preference are often not included. These excluded capital expenditures include changing a unit's floorplan or items not considered necessities.

TERM OF AFFORDABILITY

BACKGROUND

Affordable housing created through IZ programs vary in the length of time units are required to remain affordable. The term of affordability typically begins for rental units when the unit is granted a certificate of occupancy and for for-sale units at the time a unit is initially sold.

PRECEDENTS

Some cities such as Santa Fe, New Mexico have affordability terms as short as 10 years, though the vast majority of jurisdictions have longer terms. A 2014 national study by the Lincoln Institute of Land Policy found that more than 80% of rental inclusionary housing programs (75% of for-sale programs) require units to remain affordable for at least 30 years and one-third require 99-year or perpetual affordability. Long-term affordability is viewed as a best practice for preserving affordable housing and newer IZ policies are increasingly focused on long-term affordability.

RECOMMENDATION

The HR&A Team recommends that New Orleans establish an affordability term of 99 years. Long-term affordability will reinforce a sustainable model for affordable housing production in New Orleans and relieve pressure that developments to replace units as their term expires.

HR&A confirmed in our financial analysis that the incentives to be provided by an IZ policy ensure financial feasibility, even with a long-term affordability requirement. Key to determining long-term feasibility is understanding how incentives provide value to a development:

- Density Bonus – Density bonuses create permanent development value in the form of increased on-site development. The increased on-site development establishes long-term value for the development and property owner.
- Tax Reduction (PILOT and RTA) – The present value of a 10-year tax reduction establishes a reduced cost basis for developers when evaluating project costs and determining construction feasibility which includes long-term affordability for a portion of units.

Policy Recommendations | Unit Characteristics

UNIT CHARACTERISTICS

BACKGROUND

Common practice is to ensure IZ units are substantially similar to market rate units and are integrated into the rest of the building.

PRECEDENTS

Most jurisdictions, including San Mateo, CA and Washington, DC, require affordable units to be largely indistinguishable from market rate units. Important considerations include IZ unit location in building, quality of finishes, size, and unit mix relative to market rate units in the building.

RECOMMENDATION

HR&A recommends New Orleans require IZ housing units to be largely indistinguishable from market rate units and be integrated into the rest of the building, including specific guidelines such as:

- Scattering IZ units throughout the building so as not to be co-located on one floor or in less desirable areas of the building,
- Matching the quality of in-unit feature and finishes between affordable and market rate units, and
- Ensuring that IZ units resemble the makeup of the building in terms of unit size and unit mix.

CONCURRENCY

BACKGROUND

Concurrency guidelines ensure IZ units within a development are delivered at the same time as market rate units. Without concurrency guidelines, there is risk that the delivery of IZ units may be delayed until after market rate units are constructed and completed, or never built.

PRECEDENTS

Concurrency is commonplace in IZ programs across the country and policies may use simple and direct language to ensure developers understand their responsibilities for providing a proportional number of affordable units in the same timeframe as market rate units.

RECOMMENDATION

HR&A recommends New Orleans include a concurrency requirement as part of an IZ policy.

Policy Recommendations | Fractional Units

FRACTIONAL UNITS

BACKGROUND

Affordability requirements based on a percentage of total development regularly produce fractional inclusionary unit requirements. For example, a 42-unit building with a 10% affordability set-aside would be required to produce 4.2 affordable units. It is common practice to clarify how such cases should be handled.

PRECEDENTS

Although some jurisdictions require developments to round up to the next highest whole number, the American Planning Association's (APA) model policy for fractional units suggests using normal rounding where fractions above .5 round up to the next highest whole number while fractions below .5 round down to the next lower whole number. In the example 42-unit building above, the APA model policy would produce four units of affordable housing.

RECOMMENDATION

HR&A recommends that New Orleans follow APA guidelines and adopt normal rounding rules for determining the count of IZ units.

DEVELOPMENT SCALE

BACKGROUND

As a policy that uses the value of market rate development to support the creation of affordable housing, IZ policies typically establish a minimum project size for developments subject to an IZ requirement.

PRECEDENTS

The minimum development scale to require IZ varies by jurisdiction, though most are between ten and twenty units. Washington, DC applies IZ to developments with ten or more units and Portland, OR applies its IZ policy to projects with twenty or more units. Some jurisdictions, including Washington, DC, provide a process for opting into IZ in developments smaller than the minimum requirement if the developer desires to utilize inclusionary housing incentives. Niche multifamily residential development types including assisted living facilities and dormitories are typically exempt from adhering to IZ policies due to their different living typologies.

RECOMMENDATION

HR&A recommends New Orleans apply IZ requirements to multifamily residential of ten or more units, though smaller developments should be permitted to voluntarily opt-in in exchange for receiving incentives provided by the IZ policy. **Inclusionary requirements should not be imposed on assisted living facilities or student dormitory buildings.** For the purposes of exclusion from IZ, assisted living should be considered separately from independent living and other group homes.

IN-LIEU FEE

BACKGROUND

IZ programs often offer developers an option to opt-out of developing on-site affordable housing through a financial payment, or in-lieu fee. The in-lieu fee provides funding to support affordable housing that is not being developed by the market, including larger family-sized units, supportive housing, and other forms of housing to serve specific low- and moderate-income populations.

PRECEDENTS

Cities such as Boston, MA have written fees as specific dollar amounts in their policies, while other cities including Portland, OR and San Francisco, CA charge in-lieu fees based on a specified amount per gross square foot of development. In either case, the fee is usually developed based on the difference in market value between a market rate unit and an IZ unit. As market conditions change, the fee must be reevaluated to ensure it remains appropriately priced for the market.

RECOMMENDATION

HR&A recommends that the City of New Orleans establish an in-lieu fee option. The fees should be collected at the issuance of a building permit for the development, and the City should clearly outline how the fees will be deposited into a specified fund for affordable housing.

Adjustments to the in-lieu fee should be considered every two years to ensure it is set at an appropriate level as market conditions evolve. The IZ policy should clearly outline the process for updating, collecting, and expending fees. In some communities, a failure to update fee formulas has led to artificially low fee levels and developers overwhelmingly choosing to make fee contributions rather than construct on-site units.

CALCULATING THE IN-LIEU FEE

In order to ensure that developments in highly desirable neighborhoods still have an incentive to build affordable units on-site, the fee should be set above "average" opportunity cost to more closely resemble the true opportunity cost for high-end buildings. In New Orleans, it will be most appropriate to set this fee based on the strongest markets and most common building typologies. Under this structure, developers choosing to pay the fee will create the largest benefit to the surrounding community, who will receive the benefit of a fee that is larger in total financial worth than the subsidy that would flow to the affordable units within a given development.

Based on the analysis of current market conditions in New Orleans, the current fee in lieu in New Orleans should be $291,000-305,000 per affordable rental unit and $366,000-383,000 per affordable for-sale unit. The fee calculation is based on the difference in market value to a developer between constructing a market rate unit and an IZ unit in Core Submarkets, the strongest multifamily residential markets in New Orleans. An additional 5-10% premium should be imposed to incentivize development of affordable housing on-site.

IN-LIEU FEE CALCULATION

RENTAL UNITS	**$277,100** COST BURDEN PER AFFORDABLE RENTAL UNIT	X	**5-10% PREMIUM**	➡	**$291,000 – 305,000** RECOMMENDED FEE PER AFFORDABLE RENTAL UNIT
FOR-SALE UNITS	**$348,500** COST BURDEN PER AFFORDABLE FOR-SALE UNIT	X	**5-10% PREMIUM**	➡	**$366,000 – 383,000** RECOMMENDED FEE PER AFFORDABLE FOR-SALE UNIT

Policy Recommendations | Accommodating Households at Lower Levels of Affordability

ACCOMMODATING HOUSEHOLDS AT LOWER LEVELS OF AFFORDABILITY

HR&A recommends permitting the use of Housing Choice Vouchers in rental IZ units to provide additional housing options to households earning less than 60% AMI. Though the greatest housing shortage in New Orleans is for earning less than $30,000, which equates to approximately 60% AMI for a two-person household, residents earning lower levels of income face a similar shortage of housing.

Through the Housing Choice Voucher program, voucher holders, who generally earn less than 50% AMI, are able to pay up to Fair Market Rent for a unit of their choosing. Because Fair Market Rents in New Orleans are above 60% AMI, it is possible to meet deeper levels of affordability in IZ units by permitting voucher holders to occupy those units. HR&A recommends that the City of New Orleans allow voucher holders to occupy IZ units to support an IZ policy serving lower levels of need.

FAIR MARKET RENTS, NEW ORLEANS MSA

Category	Studio	1-Bedroom	2-Bedroom	3-Bedroom	4-Bedroom
2018 Fair Market Rent	$708	$827	$996	$1,277	$1,477

AFFORDABLE RENTS BASED ON AMI, NEW ORLEANS MSA

Category	Studio	1-Bedroom	2-Bedroom	3-Bedroom	4-Bedroom
30% AMI	🟩 $200	🟩 $239	🟩 $261	🟩 $276	🟩 $332
50% AMI	🟩 $422	🟩 $493	🟩 $546	🟩 $593	🟩 $706
60% AMI	🟩 $533	🟩 $619	🟩 $689	🟩 $751	🟩 $892
80% AMI	$755	$873	🟩 $974	🟩 $1,068	🟩 $1,266
100% AMI	$977	$1,126	$1,259	$1,384	$1,640

🟩 Affordable at Fair Market Rents

Source: HUD

Implementation and Administration

Implementation Framework | Overview

There are a number of considerations in developing procedures for an IZ policy, primarily focused on permitting and approvals when a development is in the planning process and program management once a development is complete. Coordination among various City agencies will be critical through the development approvals process and program management.

HR&A recommends that clear guidelines for administering and managing the IZ policy be incorporated into a procedural manual, rather than the policy itself, and include guidelines on both the entities that will administer the program and key functions. While structural elements of an IZ policy should be codified within legislation, rules and regulations related to implementation and oversight can be incorporated into a procedures manual that is able to be modified or updated with relative ease. Placing these functions in a procedural manual allows guidelines to change over time as conditions evolve. The procedural manual should be updated on an as-needed basis to address tenant eligibility, application process, monitoring, and enforcement guidelines. The procedural manual should be agile enough to adjust to changes over time and be focused on the values of the City of New Orleans.

A successful inclusionary housing requirement must be thoughtfully implemented and administered in a manner aligning existing roles and responsibilities of City departments or public entities, and minimizing administrative burden. These agencies will also require additional capacity in order to implement and administer the policy. Policy and process implementation components for permitting and approvals as well as program management include:

Permitting & Approvals
- **Development Approval**
- **Incentives Approval**
- **Underwriting**

Program Management
- **Eligibility**
- **Application Process**
- **Monitoring**
- **Enforcement**

Implementation Framework | Permitting and Approvals

PERMITTING AND APPROVALS

DEVELOPMENT APPROVALS

HR&A recommends the Department of Safety and Permitting (DSP) and City Planning Commission (CPC) work together through the One Stop process to oversee approval for an IZ certification and approval of incentives associated with dimensional relief, including density bonuses and reductions in parking requirements. Receipt of an IZ certification will permit developments to receive incentives provided through the IZ policy. Coordination among DSP/CPC and the agency administering PILOT is critical to ensure developments receive only the tax reduction incentive required for project feasibility.

INCENTIVES APPROVAL

HR&A recommends IDB and FANO coordinate to assign one agency responsibility for issuing affordable housing PILOTs. In New Orleans, both the Industrial Development Board (IDB) and Finance Authority of New Orleans (FANO) are authorized to issue PILOTs. Establishing one agency with responsibility will be critical in order to avoid situations in which a developer could apply for better incentives from an agency if unhappy with the incentives made available through the other. Allocation of responsibility can be established through a Cooperative Endeavor Agreement or other similar interagency agreement. Any PILOT issued for IZ development should be contingent on an IZ certification during the approvals process to ensure a project is complying with requirements and also that dimensional relief incentives are taken into account when determining the size of the PILOT. As a result, close coordination will be required between the agency overseeing PILOT allocation and DSP/CPC.

UNDERWRITING

To ensure strong fiscal stewardship of public incentives, HR&A recommends underwriting of proposed developments be completed by the City, a state-sanctioned local authority, or a third party not compensated by a developer or applicant. Developments will be underwritten on a project-by-project basis to ensure incentives are appropriately sized for each development.

ELIGIBILITY

PARTICIPANT ELIGIBILITY

The City of New Orleans IZ program should include clear criteria for household eligibility. This criteria should be included in the program manual developed by the City and not in the policy itself, as these requirements are too detailed and require frequent updates. Participant eligibility guidelines should:

- **Require households to earn at or below 60% AMI and pay an affordable amount.** Most jurisdictions use a set of standards aligned with guidelines for housing programs such as the Low Income Housing Tax Credit (LIHTC) program. When determining eligible households, the Office of Housing Policy and Community Development should require recent tax filings and W-2 pay stubs to determine total gross income is at or below 60% AMI. Income reported to the IRS can provide a fuller picture of a household's income, including not just wages but also sources such as child support, disability payments, business income, and capital gains. Administrative procedures should also indicate whose income is counted. Borrowing from standard HUD procedures contained in Part 5 in the 24th Chapter of the Code of Federal Regulations (CFR), inclusionary housing programs often request income documentation from all household members aged 18 or older.
- **Leave out asset calculations from the income verification process, but disqualify applicants that already own a home.** Asset review can require significant capacity of the implementing department. For this reason, the City should not require disclosures of non-income producing assets with the exception of real estate.
- **Exclude full-time students from eligibility.** Full-time students have lower incomes by nature of their investment in future earning potential and have potential to quickly increase their earnings following graduation.
- **Require for-sale participants to be first time homebuyers.**

MINIMUM/MAXIMUM OCCUPANCY

The City should require a minimum of one person per bedroom with the ability to provide exceptions to households that include dependents. Policies commonly set minimum occupancy limits to prevent scenarios in which, for example, an individual is able to rent a three-bedroom unit and sublet bedrooms. Maximum occupancies should be addressed by building code.

Implementation Framework | Program Management

APPLICATION PROCESS

HR&A recommends that applications for rental and for-sale IZ units be handled by building owners at the property level, with units offered on a first come, first serve basis to eligible participants. Once an eligible application has been accepted by the property owner or manager, it should be transmitted to the City to verify the participant meets program requirements. The application should include all relevant eligibility information in one package to be reviewed by the City. Localities with IZ programs commonly follow procedures similar to other housing programs such as the Low Income Housing Tax Credit (LIHTC) program for the documentation required to verify household eligibility.

HR&A recommends that the Department of Safety and Permits (DSP) and the Office of Housing Policy and Community Development (OCD) together oversee the application of IZ units for the City. DSP is the only city agency chartered to enforce zoning laws, which an IZ policy would fall under, while OCD has experience running application processes for affordable housing through their work with other housing programs. Coordination between the two agencies will be critical for successful program management of the IZ policy.

Implementation Framework | Program Management

MONITORING

HR&A recommends that DSP and OCD together oversee monitoring of the IZ program, as DSP is charted to enforce zoning laws and OCD has experience managing affordable housing programs. As the agencies overseeing monitoring, DSP and OCD should develop its procedural manual, create program summaries for developers, and liaise with developers during program rollout and on an ongoing basis. Rental property owners should also provide annual updates to DSP and OCD on inclusionary units to ensure they remain occupied and re-occupied by eligible participants in a timely manner.

RENTAL PARTICIPANTS

Rental participants should be required to recertify their income annually and HR&A recommends a tenant be required to vacate their unit within one year (or at the end of their lease) if their income is more than 20% over the eligible income. Rental participants in most jurisdictions are able to have incomes that exceed the AMI limit after living in an inclusionary unit, though are typically required to move if they earn too much. Montgomery County, MD allows participants to make 30% more than the target AMI before being required to move and requires over-income participants to vacate the unit within 90 days. Other jurisdictions have stricter restrictions on how far an over-income tenant may be while others allow a longer amount of time for tenants to find a new home.

FOR-SALE PARTICIPANTS

HR&A recommends New Orleans require usage certifications from owner participants. Owner participants should not need to recertify income annually, but should annually recertify that the unit is their primary residence. Some jurisdictions, such as San Mateo, CA, require owner participants to additionally not rent or sublease the property full time. These restrictions prevent the usage of a home by households other than the intended owner.

The price of resale units should be determined by a formula established by DSP and OCD in order to have for-sale units stay affordable over time. Resale pricing formulas are typically based on change in AMI or Consumer Price Index for the region, and some feature maximum growth rates to ensure long-term affordability. The specific formula should be easy to understand and available to prospective for-sale participants before they purchase a home. A covenant requiring long-term affordability on the home will carry through the sale to ensure affordability.

ENFORCEMENT

HR&A recommends that DSP and OCD together oversee enforcement of the IZ program, as DSP is charted to enforce zoning laws and OCD has experience enforcing affordable housing programs.

DEVELOPERS

The IZ procedural manual should include processes for liaising with developers, including enforcement of the policy and establishment of penalties for noncompliance. As DSP and OCD monitor IZ units, they will need tools in place to penalize property owners who do not fulfill affordability requirements. DSP and OCD should create a system that moves quickly from a warning (sometimes accompanied by a site visit and documentation of specific corrective actions required) to a fee or fine for property owners, applied frequently for a specific period of time (both the fee and time period should be set as part of the guidelines), to placing a lien on the property or pursuing legal action. The City will need to review which mechanisms are legally enforceable. Many jurisdictions such as Washington, DC issue notices to cure for violations and which allow a development or building owner to fix violations before DSP revokes a permit or certificate of occupancy.

PARTICIPANTS

Participant noncompliance penalties should also be established, and can include monetary fines, eviction for rental units, and forcing the sale of for-sale units. The most common penalty for persistent participant non-compliance is a notice to vacate a unit, providing a time limit ranging from three months in San Francisco to six months in Washington, DC. Many cities with IZ policies have put in place just cause eviction protections for IZ tenants to establish clear guidelines for pursuing tenant eviction resulting from noncompliance. HR&A recommends implementing just cause eviction protections for IZ tenants through a City ordinance.

Implementation Framework | Staffing and Capacity

STAFFING

Each function related to development approvals, underwriting, and program management of IZ will require additional staff to administer and manage processes. Best practices estimate program management staffing needs of one FTE for every 150 to 400 ownership units and one FTE for every 600 to 1,000 rental units. HR&A's recommendations for underwriting on an individual project basis will necessitate a higher ratio of support from the City.

HR&A estimates 1.25 to 1.75 FTEs will be required to successfully oversee an IZ policy once fully up and running. Based on multifamily development trends in New Orleans, an IZ policy requiring 10% of units to be affordable would have produced 126 IZ units between 2014 and 2018. Assuming development continues at a similar level into the future, 1.25 – 1.75 additional FTEs would be needed across agencies. These may be newly created staff positions or functions added to existing staff.

ESTIMATE OF ADDITIONAL CAPACITY REQUIRED FOR IZ PROGRAM MANAGEMENT

Function	Agency	Required FTE
Independent underwriting	In support of IDB/FANO	0.5
IZ certification and dimensional relief approvals	CPC and DSP	0.25 – 0.5
Participant eligibility verification	OCD and DSP	0.25
Monitoring and enforcement	OCD and DSP	0.25 – 0.5
Total		**1.25 – 1.75**