



Voluntary Housing Incentives

BACKGROUND

Tennessee’s Housing Challenge: We are not keeping up with the demand for housing created by our growing economy. For every 10 new jobs created, we are building 6 homes, leaving a significant gap in our housing supply. Tennessee’s ability to attract new economic development opportunities depends upon our ability to offer quality housing for all income levels. In addition, as home sale prices and rents skyrocketed across the state – rising over 20% since 2020 - thousands of Tennessee residents are being priced out of their communities.

Why New Incentives Are Vital: The reality is that no real estate developer can build housing that young professionals and senior citizens can afford without voluntary incentives or government subsidy to increase the project’s overall revenue or decrease construction costs. Giving towns and cities the option to offer development incentives to builders who want to build or preserve housing at price points that Tennessee families and seniors can afford makes sense. Voluntary incentives may include allowing builders to include more square footage or housing units on a piece of land so they can lower the price of each unit or reduce the high cost of construction by reducing the number of parking spaces. These performance-based voluntary incentives are inexpensive and straightforward ways to reduce the cost of housing. Let cities and counties have the option to determine if offering voluntary incentives meets their community’s housing needs.

In 2017, the Tennessee General Assembly amended the 2016 rent control law to prohibit local governments mandating a percentage of existing or newly constructed “private residential or commercial rental units for long-term retention as affordable or workforce housing” and stated the law “will apply to all current and future zoning regulations.” In 2021, the law was further modified to prevent local governments from offering developers incentives to build below-market rate units. The City of Chattanooga is proposing to repeal the current preemption and allow a municipality to offer voluntary incentives for the purpose of fostering additional housing options.

PROBLEM

In 2021, the Tennessee General Assembly amended a rent control law that prevents local governments from offering developers voluntary incentives to facilitate the construction of housing Tennesseans can afford.

REMEDY

Repeal the current preemption and allow a municipality to offer voluntary incentives such as permitting the construction of more units than would ordinarily be allowed on a piece of land, reducing a developer’s costs by choosing to require fewer parking spaces, or reducing required setbacks for the purpose of fostering the development of affordable housing options.



How Do Incentives Bring Down the Cost of Housing? Every Tennessee community has different housing needs. Examples of voluntary incentives that can help reduce the cost of building homes for entry level workers, young professionals and seniors on fixed incomes include:

- **Density Bonuses:** A city or county can help builders construct more units than would ordinarily be allowed on a piece of land to spread the cost of the land and building across more homes and make them a little less expensive.
- **Parking Minimums:** A city or county can help to reduce a developer's costs by choosing to require fewer parking spaces for every workforce attainable house or apartment creating savings up to \$14,000 per unit according to a 2023 Rutgers University study.
- **Setbacks:** a city or county can choose to reduce required setbacks. By allowing builders to leave less empty space around a building, it allows them to fit more houses on the same piece of land or construct housing on irregularly shaped pieces of land.

