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TO: City of Ann Arbor Planning Commission

FROM: Ben Carlisle, AICP
Megan Masson-Minock, AICP

DATE: June 29, 2023

RE: Stakeholder Consultations and Recommended Policy Options

It was a pleasure to meet with you on May 2, 2023 to discuss policy options to be discussed with stakeholders and which stakeholders to consult. For reference to our memo from that meeting, please see [here](#).

We are looking forward to meeting with you on July 11, 2023. The purpose of the meeting is to report on consultations with stakeholders and discuss policy options for zoning ordinance amendments to the Downtown Premiums.

Discussion Question

We ask that you come to your July 11th meeting prepared to discuss the following question:

- *Which policy – small menu with increased FAR or increased FAR with no premiums – should be drafted as ordinance amendments?*

Stakeholder Consultations

Per direction from the Planning Commission and staff, we conducted interviews with or attended the meetings of the following groups:

- Local Developers/Civil Engineers/Architects (7 interviews)
- Affordable Housing Developers (Ann Arbor Housing Commission, Avalon, Washtenaw Housing Alliance)
- Community Economic Development Association of Michigan (CEDAM)
- DDA Capital Improvements Committee (CIC)
- Energy Commission
- Renters Commission
- Housing and Human Services Advisory Board (HHSAB)

Benjamin R. Carlisle, *President* Douglas J. Lewan, *Executive Vice President* John L. Enos, *Vice President*
David Scurto, *Principal* Sally M. Elmiger, *Principal* R. Donald Wortman, *Principal*
Paul Montagno, *Principal*, Megan Masson-Minock, *Principal*, Laura Kreps, *Senior Associate*
Richard K. Carlisle, *Past President/Senior Principal*

For all of the interviews and meetings, we described the process and goals for the premiums, as well as the two policy approaches: increasing the base FAR with a small menu of premiums as well; and elimination of premiums with an increase to the base FAR. For each policy option, we asked stakeholders their thoughts, whether it would achieve the Planning Commission's goals, and if there would be unintended consequences. For developers, both profit and non-profit, we asked additional questions. The [stakeholder consultation worksheet](#) used is in the appendix of this report.

We have divided the responses into the following categories: items mentioned by all stakeholders, items of note, and items outside of the project scope. Stakeholder feedback in first two categories is summarized below and the [items outside of the project scope](#) is in the appendix of this report

Items mentioned by majority of stakeholders:

- Increase Base F.A.R.: The development community strongly supported the increase in the base F.A.R. They noted that an increase in base F.A.R. makes financing easier and allows for more flexibility in the diversity in land use and building design. The development community members interviewed also recommended that if the base F.A.R is raised, the city could and should make the premiums difficult to obtain to advance the city's goals. Lastly, they stressed the need for straightforward and easy to understand regulations.

Members of the HHSAB and DDA CIC stated that density is enough of a goal in itself and creates sustainability.

- Preference for small menu: The Renters Commission, the Energy Commission, the DDA CIC, architects, and non-profit and for-profit developers preferred small menu as it is easier to understand and implement. A member of the DDA CIC stated that the small menu option could achieve all of the goals, when the "no premiums" option would not achieve the housing diversity or attainability goals.
- Small Menu - Housing versus Sustainability: The Energy Commission felt that the sustainability premium was the most critical to retain while the Renters Commission the DDA CIC, and non-profit developers felt that the housing premium should be maintained.
- Housing Affordability: In all of the public commissions and committees consulted as well as with non-profit and for-profit developers, the question of what level of affordability to target was discussed. The appropriate range varied from 60-80% AMI (non-profit developers) to 80-100% AMI (DDA CIC). The development community felt that the city should focus on all levels of housing affordability in both the downtown and throughout the city.
- Financing is a Factor: Members of the Renters Commission, the DDA CIC, and the development community stated that financing is a constraint for development that is often not well understood. Development community members noted that, regardless of what the zoning may permit and the regulations required, if a project cannot be financed, it will not be built.
- 100% Payment In-Lieu: Developers and architects shared that a 100% in-lieu option was preferable to a requirement to include affordable units in new developments. The single payment is a one-time cost that is factored in the overall land costs and calculated

differently by underwriters. The development community stressed that it is very difficult from a financing and management perspective to mix market rate and affordable units. Developments that include a mix of market rate and affordable units are not eligible for common funding mechanisms for affordable housing development such as MSHDA funding and are much more difficult to obtain private funding.

The majority of the non-profit developers were in favor of the 100% in-lieu option, citing that units that had been dedicated in buildings as affordable units have not always been occupied by households that truly qualified. If lower income occupancy could be guaranteed, the non-profit developers would rather have affordable units be in buildings but questioned the implementation. Members of the HHSAB suggested keeping the in-lieu premium but removing the requirement for in-development affordable units.

Individuals on the Renters Commission and the DDA CIC had reservations about allowing a 100% in-lieu option. They felt that it could lead to a lack of affordable units in the Downtown, as well as an option for developers to buy their way out of providing affordable units.

- Unintended Consequence – Wealth Concentration: The Renters Commission, the DDA CIC felt that by letting developers pay 100% in-lieu for an affordable housing premium and/or the option to increase the FAR without premiums may lead to wealth being concentrated downtown. The development community recognized this concern but noted that development in the Downtown would significantly increase the taxes going towards the affordable housing millage, which would allow the Housing Commission or other entities to purchase or develop (city-owned) property in the Downtown. They felt that a dollar going to the Housing Commission or other experienced affordable housing entities could be used more efficiently than the requirement to provide units in building.
- Other Incentives: Other incentives shared were financial incentives, a lower fee structure for smaller developers/development, clearer code requirements, consistent communication, streamlining of the development approval process, and more brownfield money. Non-profit developers suggested that the time, fees, cost and design requirements above what is required by code could be reduced.

Items of note:

- Development Process Difficult: Developers, both for-profit and non-profit, as well as members of the DDA CIC mentioned the moving targets, complexity, unclear and interruptive code requirements, and difficulty of the development process in Ann Arbor.
- Family Housing: A member of the Renters Commission shared that housing downtown should be able to accommodate families so that households will stay longer. However, the non-profit developers felt that affordable housing for families in the Downtown was not practical. When one of the non-profit developers conducted a survey of low-income families, the majority of family households said that they would not want to live downtown unless there was parking.

- **Extension of Premiums:** A member of the Energy Commission felt that premiums should be extended to student neighborhoods. A developer interviewed suggested that premiums should be allowed in the floodplain and in historic districts under limited circumstances (e.g., additions, vacant parcels).

Policy Options

Based on the input provided by stakeholders, we recommend that the Planning Commission consider the policy approaches in the matrix on the following pages.

Policy Approach Matrix

Approach	Pros	Cons
<i>Eliminate Premiums but Increase Base F.A.R</i>	<ul style="list-style-type: none"> • Increases development downtown • Increases the number of residential units downtown • Increases potential for missing middle housing units • Increases tax base to support millages • Allows greater flexibility for developer, including land use • Development is easier to finance 	<ul style="list-style-type: none"> • Opportunity cost of lack of incentives for items that cannot be required • Infrastructure impacts due to larger buildings (parking, utility capacity) • Concentration of wealth Downtown, segregation of housing types within the City
<i>Increased FAR with small menu - Residential</i>	<ul style="list-style-type: none"> • Increases the number of residential units downtown • Leverages downtown development to advance affordable housing throughout the city. • Provides missing middle housing units • Increases tax base to support millages 	<ul style="list-style-type: none"> • May not be attractive to developers • May appeal to a limited interest within the community

Approach	Pros	Cons
Increased FAR with small menu - Housing affordability in unit	<ul style="list-style-type: none"> • Increases affordable housing supply in downtown 	<ul style="list-style-type: none"> • May not be attractive to developers • Hard to finance and include in pro-forma • Challenge of managing affordable units within market rate developments. • Resources may be more efficiently used by affordable housing experts • Downtown is most expensive land to build housing (affordable and market rate)
Increased FAR with small menu - Housing affordability payment in lieu	<ul style="list-style-type: none"> • Easier for developer to finance and include in pro-forma (i.e., one time cost) • Resources may be used more efficiently by affordable housing experts • Resources may be used more efficiently to build more affordable units outside of the downtown 	<ul style="list-style-type: none"> • Creates more residential units downtown that do not include affordable units • Standard and formula may be complicated to determine • The fee could be raised to a point where the bonus is no longer attractive or viable to developers
Increased FAR with small menu - Energy efficiency	<ul style="list-style-type: none"> • Creates more sustainable downtown buildings • Advances city sustainability goals 	<ul style="list-style-type: none"> • Standard and formula may be complicated to determine • Any bonus may not offset costs

Outline of Amendment Changes

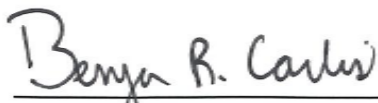
Later this summer, CWA and City staff will bring draft zoning ordinance amendment language to the Planning Commission. Based on our discussions with the Planning Commission and stakeholders, we anticipate the proposed amendments to follow the outline below:

1. Raise the base F.A.R. in the D1 and D2 districts: The base F.A.R. increase would be up for discussion, but a meaningful amount is recommended.
2. Maintain an Affordable Housing Premium: Based on discussions with non-profit and for-profit developers, an 100% in-lieu option would be the most attractive option. Whether in-building units should be required, and the subsequent income range can be a topic of discussion.
3. Maintain an Energy Efficiency/Sustainability Premium: An easy-to-understand, achievable energy efficiency or sustainability premium should be included. The Planning Commission will need to further define what energy efficiency or sustainability goals can be achieved with this zoning tool.
4. Eliminate Other Premiums: The historic preservation, pedestrian amenity, and public parking premiums no longer reflect the City's highest priorities.
5. Simplify Language: In the amendments, language will be kept as clear as possible.

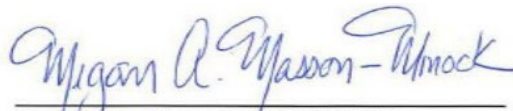
We would appreciate your insight as to whether the above outline is the proper approach.

We look forward to meeting with you on July 11, 2023. Thank you for the opportunity to work with you and the City of Ann Arbor again.

Sincerely,



CARLISLE/WORTMAN ASSOC., INC
Benjamin R. Carlisle, AICP, LEED AP
President



CARLISLE/WORTMAN ASSOC., INC
Megan Masson-Minock, AICP
Principal

Appendix

Stakeholder Worksheet

Items Outside of the Project Scope

Stakeholder Questions

Introduction

Since they were first adopted, the City has used downtown premiums as an incentive to achieve development goals, such as residential units in the downtown, energy-efficient buildings and affordable housing. As the City's vision, policies, and real estate market have changed, the premiums have been adjusted to align incentives with the goals of the City under market conditions.

The premiums currently incentivize affordable residential units, green building, historic preservation, pedestrian amenities, and public parking. Since the premiums were changed in 2019 to incentivize affordable housing units only (previously, market rate residential were eligible for premiums), only low-density, high -end condo applications have been submitted for approval.

With the establishment of an affordable housing millage, the sustainability focus of the City, and fundamental changes to the real estate market post-pandemic, the City is evaluating the effectiveness of the downtown premiums and considering policy changes. The Planning Commission has asked us to share the following goals and options with stakeholders for feedback.

Goals:

- Increase housing downtown
- Increase sustainability, including energy efficiency, in the downtown
- Increase accessibility in the downtown (more barrier-free or universal design dwelling units)
- Increase housing attainability in the downtown (those making the Area Median Income or a percentage of it can find housing without spending more than 30% of their income on housing expenses)
- Increase diversity of housing options (variety in the number of bedrooms: efficiencies, 1-bedrooms, 2-3 bedrooms often higher end, 4+ bedrooms often student housing).

- 1. The Planning Commission is considering increasing the base FAR and offering a small menu of premiums as well, limiting those premiums to either housing or sustainability. What are your thoughts on this approach? Would it achieve the goals listed above? Do you think there will be any unintended consequences?**
- 2. The Planning Commission is also considering eliminating premiums and increasing the base FAR. What are your thoughts on this approach? Would it achieve the goals listed above? Do you think there will be any unintended consequences?**
- 3. Are there other incentives, other than density, that the Planning Commission should consider?**

4. Is there anything else you would like to share about premiums?

For Housing Producers:

- 5. What base FAR makes financial sense for development in the downtown? In other words, at what density is it worth your while to tear down a building and build a new building? What is the minimum for development to happen in Downtown Ann Arbor? Is it not FAR? Is it stories?**
- 6. What incentive would convince you to build housing downtown that was not student housing or high-end, low-rise condos?**
- 7. What challenges does a requirement for affordable units on-site create? Does it have an impact on the price of development overall? On a per unit basis by percentage?**
- 8. If provision of affordable housing was offered, is a 100% in-lieu option needed?**

Items Outside of the Project Scope

Input provided by stakeholders on items outside of the project scope are summarized below:

- State Law Changes Needed: Members of the Renters Commission and the HHSAB felt that state lawmakers should be encouraged to change laws to allow inclusionary zoning.
- Parking: The development community noted that some amount of private, onsite parking is necessary for any housing development, often because of financing requirements.
- White Box Affordable Units: One architect suggested that if affordable units are required in buildings, the units be built as white boxes, which the Housing Commission can then build out and manage.
- More Accessible Units Needed: The non-profit developers shared that more units with universal design or accessibility are needed. Ideally, fifteen percent of units would be fully accessible in any new construction. Larger hallways, doorways, and bathrooms are critical because the population being served has more mobility issues.
- Design: One member of the DDA CIC pointed out that backlash to the new buildings usually has to do with aesthetics and asked if the Design Review Board could be re-tooled with specifics for housing and feedback loop to improve design of buildings either receiving premiums or those downtown overall.
- CEDAM had limited input: In the interview with Sarah Teater, she shared that CEDAM's partners felt that Ann Arbor has led the way in terms of affordable housing. She offered the following insights:
 - Webpages where municipalities effectively communicated incentives : City of Ferndale's [Incentives + Resources webpage](#); City of Holland's [Incentives webpage](#); and Township of Grosse Ile's [Business Resource Guide](#)
 - Some communities are using relocation and homecoming scholarships to incentivize young professionals to live in their communities.
 - Many communities are changing their zoning to allow more denser housing, but it was unclear if those housing types had been built yet.
 - A streamlined site plan review process is helpful