THE CITY OF COLUMBUS

Incentives Policy Evaluation

HR&A Analyze. Advise. Act.

VSI Specialists in Real Estate Market Research and Appraisals

Final Report

Table of Contents

I. Introduction

Columbus is in the midst of a sustained period of urban revitalization.

Columbus is in the midst of a sustained period of urban revitalization, having seen significant growth in residents and jobs over the past decade, supported by strong investment in its downtown and core neighborhoods.

As both the capital of Ohio and the home of The Ohio State University, **Columbus has established itself as one of the major Midwestern centers for young college graduates to launch their careers.** Its strong sectoral base in education, professional services, and government makes it a natural destination for college graduates.

Columbus is also attracting a host of new jobs to the city. Between 2004 and 2014, total employment in Columbus increased by 9%, or approximately 38,000 jobs. The fastest growing sectors include corporate management, health care and social assistance, educational services, transportation and warehousing, and finance and insurance.

Columbus has also made a series of investments that have capitalized and spurred this interest. For example, the Columbus Commons, a 9-acre park in the heart of downtown, is a popular open space that has drawn families into the downtown core with its robust programming schedule. Additionally, development of the Scioto Mile has facilitated new investments along the Scioto River.

The renewed interest in urban living in Columbus has translated into the revitalization of several of Columbus's core neighborhoods. Short North, which has received significant investment, is a prime example of a core neighborhood that has experienced a rebirth. With a bustling arts district, Short North has become one of the most vibrant neighborhoods in Columbus, including a sizable residential population in addition to a multitude of options for shopping, dining, and leisure.

Photo: Wikimedia

Short North Revitalization

Photo: Wikimedia

Scioto Mile

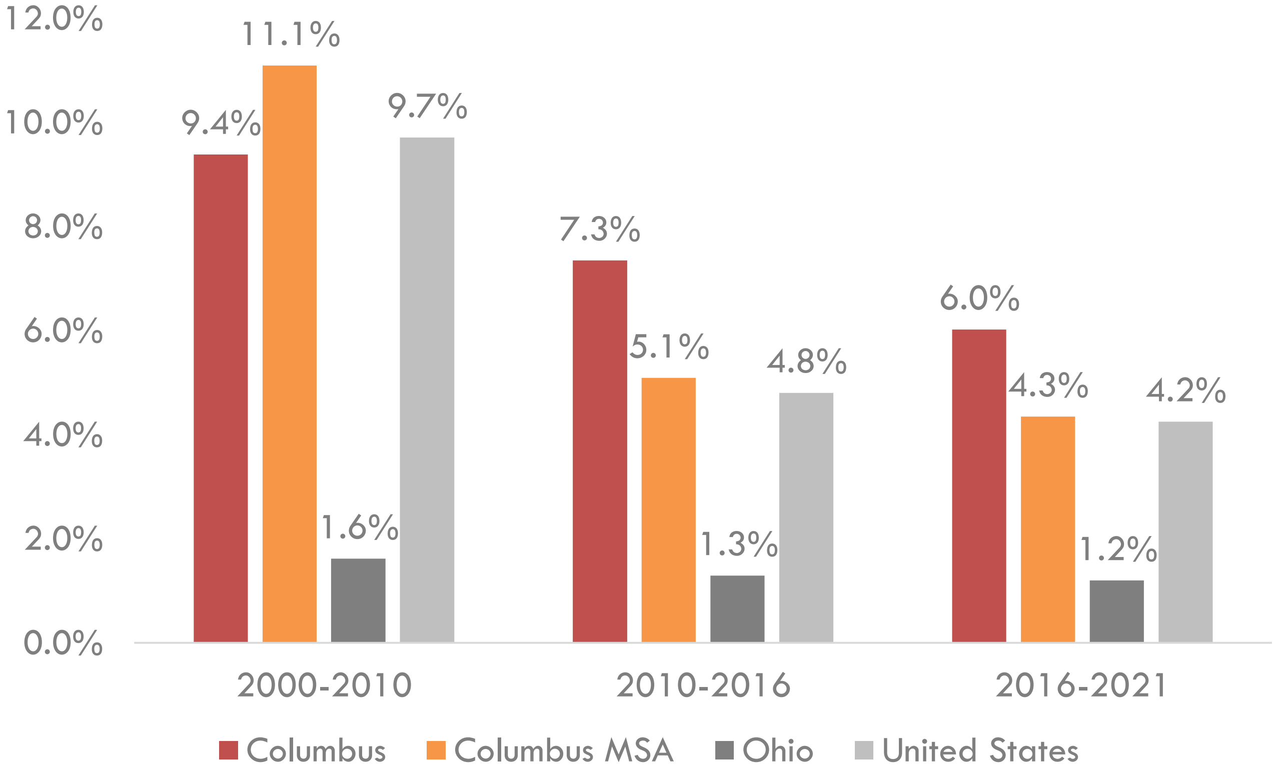
Photo: Columbus Parks and Recreation

Columbus Commons

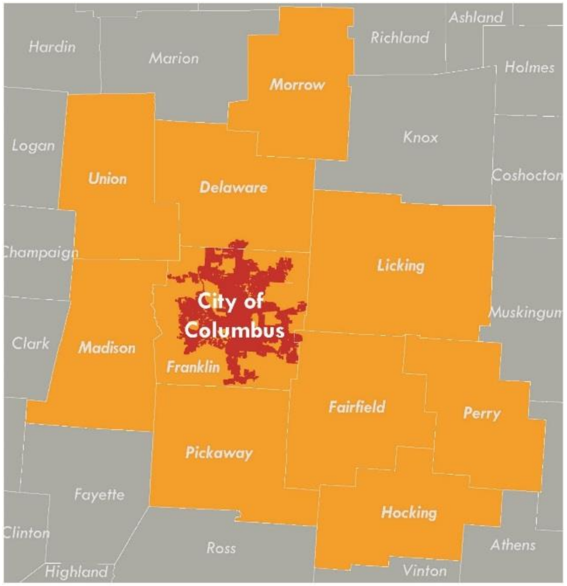
The city's population growth is emblematic of its success among Midwestern cities.

With a population of 860,000 as of 2016, **Columbus has added more than 140,000 residents since 2000**, far outpacing the population growth rate in the State of Ohio. Additionally, within the past six years, **the City of Columbus has seen faster growth than the overall Columbus MSA**, indicating renewed demand for urban living.

Population Trends & Projections



City of Columbus & Columbus MSA



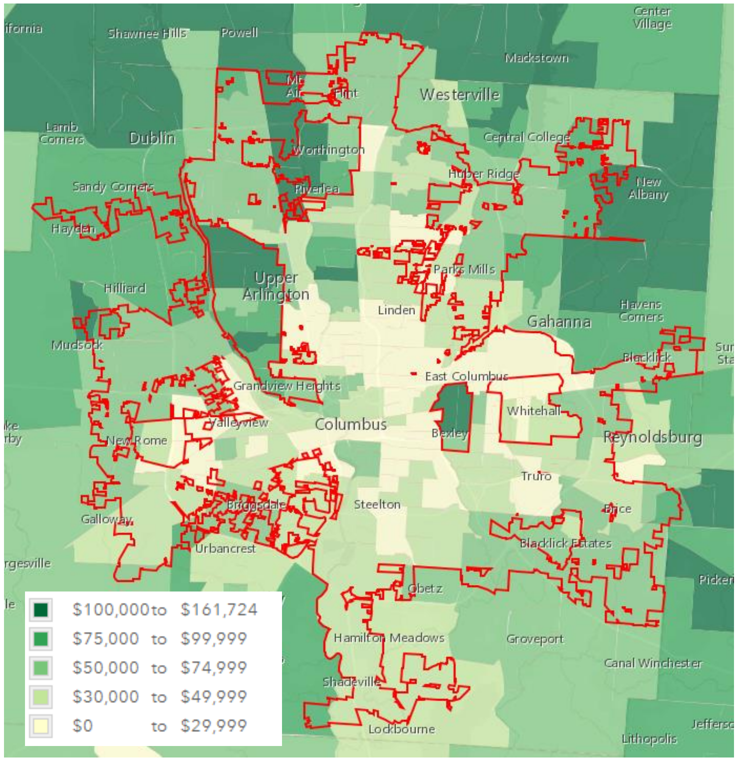
Source: U.S. Census, ESRI

Despite significant progress, there are still several areas where Columbus is experiencing challenges that threaten its overall prosperity.

Though Columbus has seen strong job growth in the past decade, adding approximately 38,000 jobs between 2004 and 2014, **real household income growth has lagged behind.** Real household incomes fell on an inflation adjusted basis during the great-recession and have yet to recover to their 2008 levels. That said, there have been noticeable gains in the past two years.

Moreover, though it has attracted some residential investment, **Columbus has failed to attract significant downtown commercial investment relative to its Midwestern peers.** According to CRBE's 2015 report "Resurgence in Midwest Secondary Markets," Columbus had only $250 million worth of commercial real estate under construction in its downtown, compared to more than $1,250 million for Indianapolis, $1,100 million for Cleveland, and $800 million for Cincinnati.

Additionally, though some neighborhoods have seen significant recent revitalization, others still struggle with realizing new investment. The Columbus MSA is ranked as the 5th most segregated large metro area by income according to the Martin Prosperity Institute. This indicates that there is more that can be done to ensure that economic prosperity in Columbus is shared by all.



Source: U.S. Census, CRBE, Martin Prosperity Institute, ESRI

This study assessed how Columbus can best utilize its incentive portfolio to realize community and development objectives and to remain competitive.

Columbus's success raises important questions about both the role of the City's incentive policies in continuing to support investment and unlocking opportunities to deepen and broaden revitalization across the City. With that in mind, the City developed a series of four key questions to be explored further for both its residential- and commercial-focused incentives.

Residential	Commercial
How effective have incentives been in supporting neighborhood revitalization to date?	How competitive are Columbus's commercial incentives in a regional and national context?
How can Columbus support inclusive growth across neighborhoods, and what should the role of incentives be in that process?	How can the portfolio best support achievement of the City's economic objectives?

Photo: Wikimedia

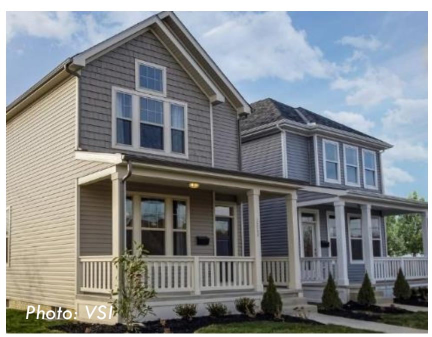


Photo: VSI

Photo: ODSA

Photo: Wikimedia

This study proceeded across a five-stage process to lead to affirmative recommendations for the City.

Stage 1 **Existing Data Review & Project Kickoff**

The HR&A team reviewed existing policy documents and analyzed incentive data to assess the contours of the City's incentive deployment in recent years. We convened a meeting of the Advisory Committee, comprised of local experts in the fields of real estate, community and economic development, to confirm study objectives and align on City economic and community development goals.

Stage 2 **Residential & Commercial Market Scan**

The team led a market study to understand market conditions citywide and in four neighborhoods selected by the City for more detailed analysis: Hilltop, Linden, the East Side, and Short North.

Stage 3 **Neighborhood-Based Incentive Analysis**

HR&A analyzed the use and impact of residential abatements in the four neighborhoods to date, and created a series of pro formas to demonstrate the role of the incentives in driving the financial feasibility of prototypical projects.

Stage 4 **Benchmarking of Office & Industrial Incentives**

HR&A reviewed the commercial office and industrial incentive portfolios of three neighboring municipalities and three national peers, and interviewed leaders from these cities to understand their approach to incentive deployment and derive best practices.

Stage 5 **Incentive Policy Recommendations**

HR&A synthesized the findings from the analysis to offer recommendations for re-positioning Columbus's incentive portfolio in order to better align its incentive offerings with community and development goals.

II. Overview: Incentive Toolkit & Policy Goals

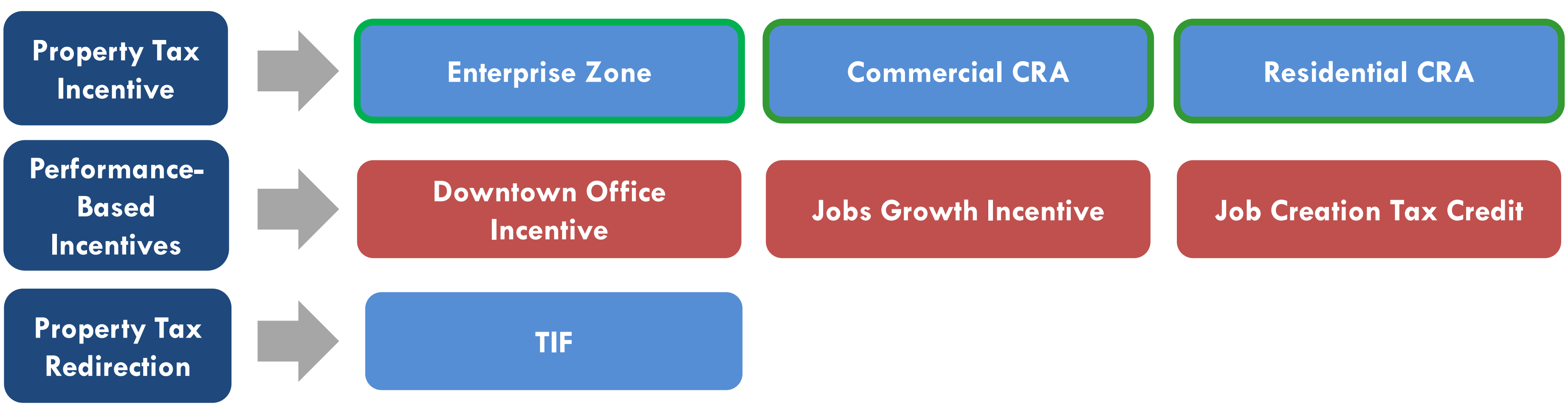
This study is focused on evaluating the City's property tax abatements and performance-based incentives.

The City has a toolkit of incentives that it deploys across Columbus, utilizing three broad mechanisms:

- **Property tax incentives:** Incentives for real estate investments that reduce the property taxes that owners otherwise would owe on new investments;
- **Performance-based incentives:** Incentives for businesses to relocate to or expand within Columbus, typically structured as either cash payments or tax credits; and
- **Property tax redirection**: Incentives for real estate investments that redirect incremental property tax revenues to fund private improvements with public benefits.

The programs seek to achieve three core objectives, each of which is color-coded with the incentive programs below:

- **Support property value growth** through capital investments that produce high-quality residential, commercial office, and industrial real estate;
- **Create jobs** by facilitating business attraction and retention; and
- **Enable inclusive economic growth** and vibrant neighborhoods across the City.



Each program has a distinct structure reflecting its purpose.

Property Tax Incentives

- **Enterprise Zone (EZ):** Negotiated property tax abatement of up to 75% on incremental value of commercial and industrial improvements for up to 10 years. For rates above 75% and terms above 10 years, School Board permission is required.
- **Commercial CRA (C-CRA):** Negotiated property tax abatement of up to 100% on incremental value of commercial and industrial improvements for up to 15 years. For rates above 50%, school Board permission is required.
- **Residential CRA (R-CRA):** As-of-right 100% property tax abatement on incremental value of residential improvements for up to 15 yrs.

Performance-Based Incentives

- **Downtown Office Incentive (DOI):** Negotiated incentive that offers cash payment equal to 50% of local income tax withholding for eligible new employees for up to 8 years. Reserved for firms Downtown.
- **Jobs Growth Incentive (JGI):** Negotiated incentive that offers cash payment equal to 25% of local income tax withholding for eligible new employees, typically for 5 years. Reserved for firms outside Downtown.
- **Job Creation Tax Credit (JCTC):** Negotiated incentive that offers non-reimbursable credit against firms' net profit tax equivalent to a set percentage of local income tax withholding for eligible new employees.

Property Tax Redirection

- **TIF:** A 30-year project based tax increment financing mechanism.

Columbus's incentive portfolio can be evaluated in light of its broader community and development goals and objectives.

Columbus has created a thoughtful framework for regional and City economic development that aligns with the region's relative strengths and challenges.

To further understand the City's goals, HR&A reviewed three key documents and initiatives:

- ***Columbus 2020***, an ongoing initiative launched in 2010 with the release of a Comprehensive Economic Development Strategy to enhance the Columbus region's economic competitiveness;
- ***Columbus Downtown Plan***, a strategic plan that offers an overall vision and implementation recommendations for Downtown Columbus, leveraging previous planning efforts;
- ***The Fiscal Year 2017 Proposed City Budget***.

Based on our review, HR&A synthesized a series of economic development goals, which were then reviewed and confirmed with the study's Advisory Committee and City staff.

Columbus's key goals

Regional economic engine
Anchor of competitive region with diversified economy.

Equitable access to opportunity
Inclusive economic growth built on quality jobs and workforce development.

Revitalized neighborhoods
Vibrant mixed-income neighborhoods that include a range of housing options and quality of life amenities.

Strong employment hubs
Vibrant employment centers and industrial hubs offering residents access to quality jobs.

Downtown powerhouse
Thriving 24-hour downtown that is a commercial, residential, and cultural center.

Sustainable Growth
Urban development and density concentrated in existing areas well-served by infrastructure.

Columbus's development goals should be used as a lens through which to evaluate the success of its residential and commercial incentive policies (1/2).

To ensure the efficacy of Columbus's incentives, it is important to understand how its existing offerings align with stated economic development goals, as well as where there may be opportunities for enhancement. Below, we summarize which incentive programs directly support economic and community development goals and identify where there are opportunities to strengthen the alignment between the goals and the existing incentive portfolio.

Development Goals	***Incentives***	***Alignment/Opportunity***
Regional economic engine	*DOI, JGI, JCTC, C-CRA, EZ*	**Alignment** The City's performance-based incentives (DOI, JGI, JCTC) help new or expanding firms grow jobs in the region. C-CRA and EZ promote capital investments in quality office and industrial space.
Revitalized neighborhoods	*R-CRA, C-CRA, EZ*	**Opportunity to strengthen alignment** R-CRA supports the creation of new or upgraded housing in neighborhoods. C-CRA and EZ help modernize office and industrial space in distressed neighborhoods. Nonetheless, there remains additional opportunity to utilize existing incentives programs to ensure a greater distribution of revitalization across neighborhoods.
Equitable access to opportunity	*JCTC, JGI, EZ*	**Opportunity to strengthen alignment** While JGI and JCTC have brought a range of jobs into Columbus, complementing the high-wage jobs associated with DOI, the opportunity exists to **support higher wages and greater workforce development for jobs incentivized under Columbus's programs.**

Columbus's development goals should be used as a lens through which to evaluate the success of its residential and commercial incentive policies (2/2).

Development Goals	***Incentives***	***Alignment/Opportunity***
Strong employment hubs	*DOI, JGI, JCTC, C-CRA, EZ*	**Alignment** The City's performance-based incentives (DOI, JGI, JCTC) encourage firms to locate such that they support strong jobs hubs. C-CRA and EZ promote quality commercial office and industrial space in these locations.
Downtown powerhouse	*DOI, C-CRA*	**Alignment** DOI helps lower costs for firms locating Downtown, while C-CRA helps overcome higher development costs associated with the delivery of Downtown commercial and residential product.
Sustainable growth	*N/A*	**Opportunity to strengthen alignment** Today, no incentives are targeted towards creating sustainable growth, with the exception of a new Property-Assessed Clean Energy (PACE) program being piloted by the Port Authority.

III. Residential Abatement Analysis & Recommendations

Using two guiding questions as a framework, we assessed how effective the City's residential incentives are at meeting community and development goals.

How effective have incentives been in supporting neighborhood revitalization to date?		How can Columbus support inclusive growth across neighborhoods, and what is the role of incentives in that process?	
1. Market Scan	**2. Impact Analysis**	**3. Categorization & Pro Formas**	**4. Recommendations**

1. Market Scan

The team conducted a high-level market scan using public and proprietary data for four target neighborhoods selected by the City, in order to represent the variation in market conditions that exists across Columbus. This analysis considered demographic, economic, and real estate market data.

2. Impact Analysis

Utilizing data furnished by the City and Franklin County, HR&A analyzed:

1. The use of Residential CRA in the four target neighborhoods between 2011 and 2016; and
2. The impact of those incentives on land value, building value, and development activity throughout the neighborhoods.

3. Categorization & Pro Formas

Based on the market scan and impact analysis, HR&A examined each of the four neighborhoods and developed a series of residential development pro formas to assess how the incentives affect the financial feasibility of development projects occurring within each neighborhood typology.

4. Recommendations

Based on the findings from the analysis and the City's development goals, HR&A produced recommendations to better align the City's incentive portfolio with its broader community and development objectives.

Effectiveness in Supporting Neighborhood Revitalization

Photo: Wikimedia

We examined four neighborhoods, each meant to reflect a potential neighborhood typology across Columbus.

The City selected four neighborhoods to represent a range of market conditions across Columbus, serving as a set of neighborhood typologies for which directional findings of the incentives study could be extrapolated. All four neighborhoods host either a CRA or Neighborhood Investment District (NID) where residential abatements are available. To capture the overall revitalization trajectories of each neighborhood, the team defined neighborhoods to include areas more extensive than their CRA or NID districts, more reflective of the real estate market's definition of its boundaries. For example, while the East Side neighborhood is effectively coterminous with the Near East NID district, the Hilltop, Linden, and the Short North neighborhoods include some additional areas pertinent to understanding market trends.

Hilltop

2016 Population: 26,780

Hilltop is a 7.6-square-mile neighborhood bounded by I-270 to the west; I-70 to the north and east; and Sullivant Avenue to the south.

Linden

2016 Population: 36,590

Linden is a 6.4-square-mile neighborhood bounded by I-71 and the Conrail railroad to the west; East Cooke Road to the north; Westerville Road, Joyce Avenue, and the Conrail railroad to the east; and the Conrail railroad to the south.

East Side

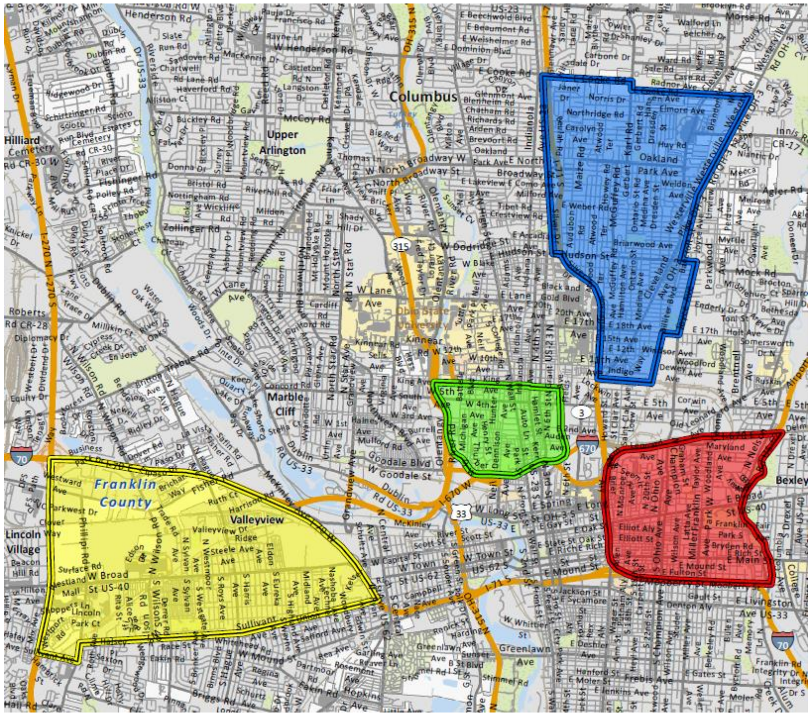
2016 Population: 20,000

The East Side is a 3.5-square-mile neighborhood bounded by I-71 to the west; I-670 to the north; Alum Creek to the east; and I-70 to the south.

Short North

2016 Population: 14,460

Shorth North is a 1.6-square-mile neighborhood bounded by State Route 315 to the west; King Avenue and E. 7th Avenue to the north; the CSX railroad to the east; and I-670 to the south.



Source: U.S. Census, ESRI, VSI

These neighborhoods reflect varying demographic and socioeconomic conditions.

The Short North stands out from the other neighborhoods and the City of Columbus as a whole due to its strong population growth from 2000 to 2016, population with higher levels of educational attainment, and lower poverty rate. The Short North's high population growth rate demonstrates the neighborhood's attractiveness to new residents, particularly well-educated professionals.

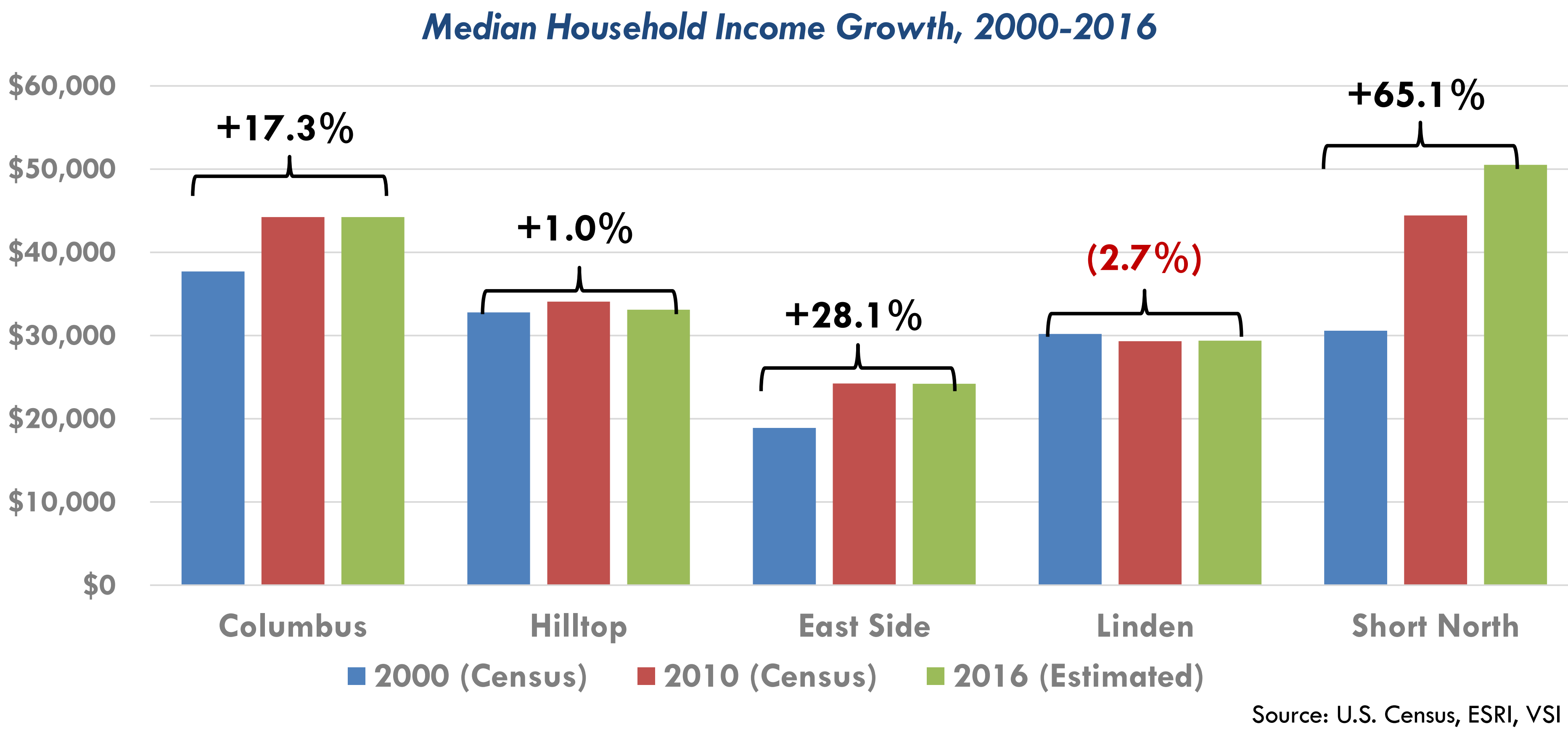
In contrast, Hilltop, Linden, and the East Side all experienced population decreases from 2000 to 2016, with the steepest population decline in Hilltop. Both Hilltop and Linden have populations with lower levels of educational attainment and above-average poverty rates. While the East Side has the highest poverty rate among the four neighborhoods, likely due to the presence of several large public housing complexes, the share of its population with a bachelor's degree and above is almost twice that of Hilltop and Linden.

	Hilltop	Linden	East Side	Short North	**Columbus**
Change in population, 2000-2016	(8.5%)	(5.6%)	(8.3%)	+22.5%	**+18.7%**
Population with Bachelor's degree & above, 2016	13%	13%	25%	69%	**35%**
Poverty rate	36%	33%	42%	19%	**21%**

Source: U.S. Census, ESRI, VSI

Short North's income growth has far outpaced that of the City and the other neighborhoods since 2000.

Overall, Columbus has experienced moderate growth in median household income since 2000, with the majority of the gains coming between 2000 and 2010. While Hilltop, Linden, and the Short North had roughly the same median household income levels in 2000, the Short North has experienced tremendous income growth since then, while the median income in Hilltop and Linden has stayed flat or fallen. The East Side, which started from the lowest base in 2000, experienced significant gains between 2000 and 2010, but remains well below the City average.



Housing characteristics across the four neighborhoods also differ, with the Near East and Short North having more relatively new and multifamily product.

Compared to the other neighborhoods, Short North has a greater share of residential structures built since 2000, indicating that it has been a center of development activity, notwithstanding some historical preservation limitations on structures that can be redeveloped.

In terms of structures developed since 2000, the East Side also has experienced some development activity, about a third as much as the Short North, but more than twice as much as Hilltop and Linden. In addition, the Short North and East Side both have greater-than-average shares of multifamily product, defined as housing with 5 or more units, as well as higher percentages of renters.

	Hilltop	Linden	East Side	Short North	**Columbus**
Share of housing built 2000 or later	2%	2%	5%	15%	**14%**
Share of housing with 5 or more units, 2015	22%	7%	32%	42%	**30%**
Renter rate, 2016	58%	52%	74%	76%	**54%**

Source: U.S. Census, ESRI, VSI

Housing stock differs greatly, with Linden and Hilltop dominated by 1-3 family housing, versus the increasing prevalence of mid-rise in Short North.

Hilltop is characterized by 1-3 family homes and some low-rise apartments. Single-family homes represent about 70% of the housing stock, and multifamily product (buildings with 5 or more units) about 22%.

In recent years, **Hilltop has attracted primarily affordable rental and homeownership development**, including Low Income Housing Tax Credit projects. This development has taken the form of infill single-family homes, low-rise rehab, and modest owner-occupied rehab.

Like Hilltop, **Linden primarily has 1-3 family homes and some low-rise apartments**. It has the highest share of single-family homes of the studied neighborhoods, with this typology accounting for almost 80% of its stock, as well as the lowest share of multifamily product (7%).

In recent years, like Hilltop, **Linden has attracted primarily affordable rental and homeownership development**, including Tax Credit projects.

The East Side has a diverse housing stock, with a mix of 1-3 family homes and some low- and mid-rise apartments. While single-family homes account for about 50% of its housing stock, multifamily product comprises about 32%.

In recent years, **the East Side has attracted some larger mixed-income projects** (e.g., Poindexter Place).

Of the studied neighborhoods, **Short North has the greatest share of multifamily product** (almost 42%), located in both low- and mid-rise buildings, with single-family homes comprising only about 36% of its stock.

In recent years, **development has been focused on mid-rise product**, especially along High Street, including both concrete podium/stick-built and concrete/steel typologies.

Source: U.S. Census, ESRI, VSI

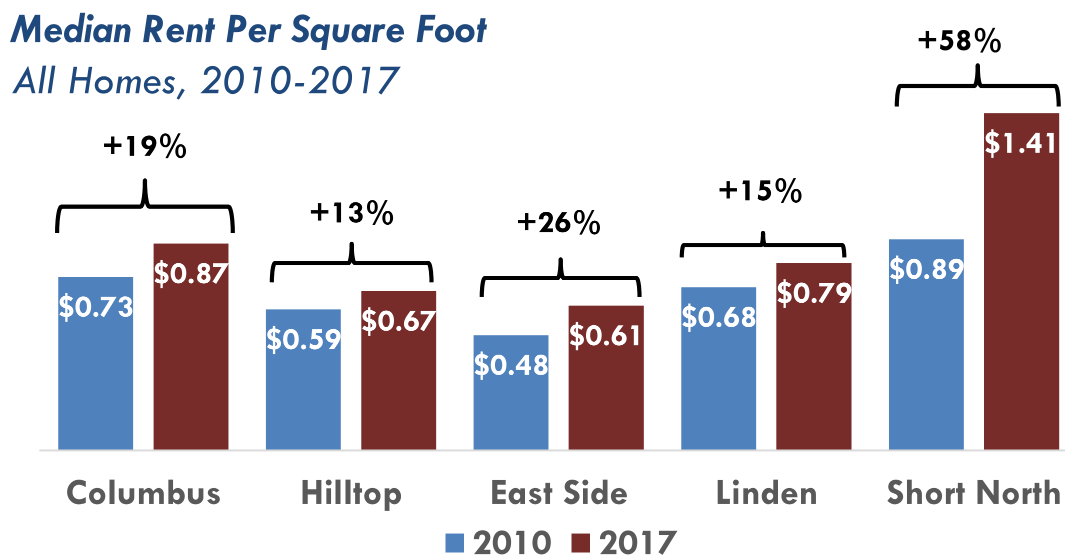
Columbus has seen substantial increases in its housing prices, both on a rental and sale price per square foot basis.

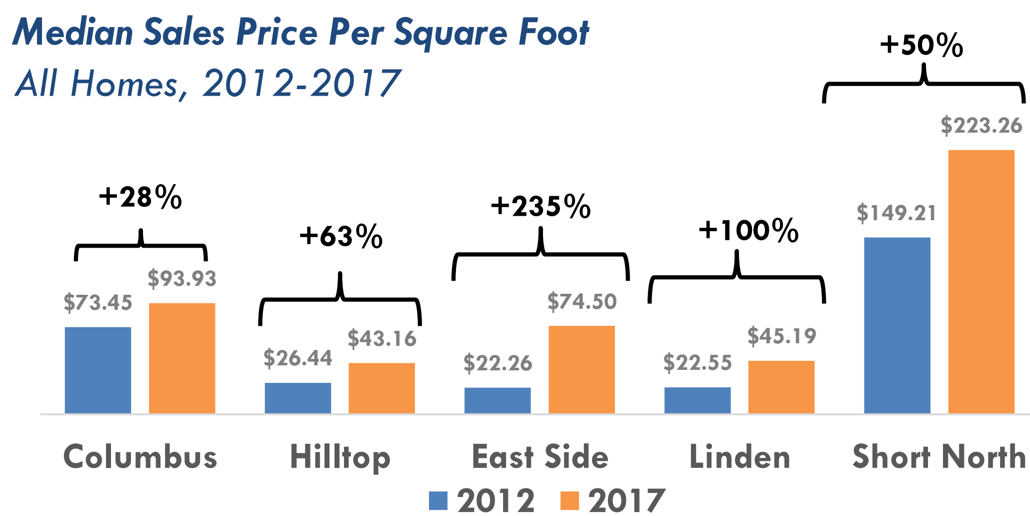
Since 2010, Columbus has experienced 19.3% growth in median rents per square foot. Rent growth in Hilltop and Linden has lagged behind the citywide increase, while rents in the Short North have grown almost three times as fast as in the City. It is important to note that these rents are for all homes in these neighborhoods, and thus lower than rents for new product only, as they include older and distressed assets (the same is true for sales price data below).

Sales prices per square foot also have increased in all neighborhoods. However, Hilltop, Linden, and the East Side experienced comparatively high growth rates starting from low bases. The fact that the East Side has seen very high sales price growth, but only modest rent increases, suggests that investment may be driven in part by speculation.

Sales Volume by Neighborhood	2012	2016
Hilltop	617	849
East Side	518	712
Linden	1,163	1,595
Short North	418	590

Source: Zillow.com, Redfin.com VSI





Columbus has two residential abatement programs, Community Revitalization Areas and Neighborhood Investment Districts, which operate similarly.

Under Ohio statute, the City can create CRA districts to support residential and/or commercial investment in areas where it is not occurring. The CRA program was first established in Ohio in 1977, and significantly amended in 1994. To establish a district, the City conducts a housing survey of the potential area in order to determine that it "is one in which housing facilities or structures of historical significance are located and new housing construction and repair of existing facilities or structures are discouraged." The City then passes an ordinance authorizing the district, defining the property types that can receive abatements within it, and setting the abatement rates and terms per state limits.

The City established its NID program in the early 2000s primarily to support housing creation. Columbus launched its first NIDs (Linden, North of Broad, South Side, Hilltop, and South of Main) in 2002 to provide abatements for owner-occupied and rental rehabs and owner-occupied new construction. In 2006, the City established two additional NIDs, Weinland Park and Franklinton. In 2011 and 2012, Columbus expanded abatements in Weinland Park and Franklinton to <u>rental</u> new construction. In 2015, the City made this change for all NIDs and created a new NID, North Central.

Structure	Property tax abatement on incremental value of improvements undertaken in a designated CRA or NID zone.
Minimum Investment	$2,500 (1-2 units) $5,000 (3 or more units) *For NIDS, owner-occupied rehab costs must be at least 20% of existing structure assessed value and rental rehab costs must be at least 50%.*
Rate	Default 100%, unless reduced in authorizing ordinance
Term	<u>Rehab</u> <2 units: Up to 10 years 3+ units: Up to 12 years <u>New construction</u> Up to 15 years

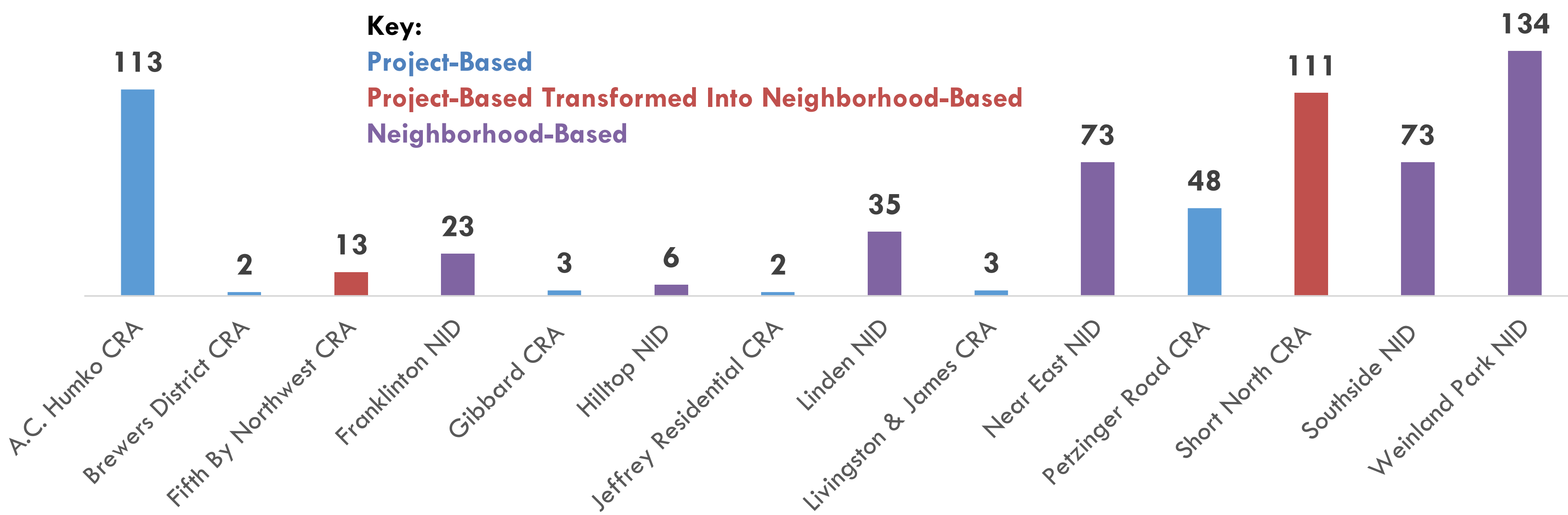
The City's CRA districts are differentiated by several characteristics, described below.

Property type(s) eligible for abatements	• The authorizing ordinance for each district identifies whether commercial office, industrial, and/or residential structures are eligible for abatements there, as well as whether new construction, rehabilitation, or both are eligible. • If the ordinance does not specify, then both new construction and rehabilitation projects for all property classes (commercial office, industrial, and residential) are eligible for abatements in the district.
Status as pre-1994 CRA	• CRAs created prior to July 1994 operate differently than those created after that date. In general, pre-1994 CRAs set fewer limitations on abatements and grant higher rates as-of-right. • For pre-1994 CRAs, both residential and commercial abatements are automatically granted at 100% for as-of-right terms. • For post-1994 CRAs, both residential and commercial abatements can be granted at rates below 100%. For residential abatements, rates (up to 100%) and terms (up to 15 years) are set as-of-right for specific project types within each district. For commercial abatements, rates (up to 100%) and terms (up to 15 years) are individually negotiated, and rates greater than 50% require School Board approval. • Pre-1994 CRA authorizing legislation can only be amended twice after July 1994 and still continue operation under pre-1994 laws.
Overlap with other economic development tools	• CRAs can fall within both TIF districts and Community Authority zones. • Properties that are subject to both CRA and TIF agreements have the property taxes on their CRA-associated improvements exempted for the CRA abatement duration and pay the property taxes on their TIF-associated improvements into the relevant TIF fund for the TIF duration.

Of the 639 residential abatements awarded 2011-2015, most projects have fallen within three districts: AC Humko, Short North, and Weinland Park.

Some CRA districts cover neighborhoods, while others target specific challenged sites where CRA designation is deemed necessary to catalyze revitalization. An example of a project-based district, the AC Humko district was created to enable the redevelopment of the eponymous former margarine factory site into the Harrison West development. In addition, some project-based districts evolve into neighborhood-based districts over time, as a project spurs revitalization and development becomes more broadly viable, such as has occurred in Fifth by Northwest. By their nature, the NIDs always cover neighborhoods, although some have more expansive boundaries than others. For example, the Near East NID covers the entirety of the East Side, while the Linden NID is focused on South Linden, the most challenged part of the neighborhood.

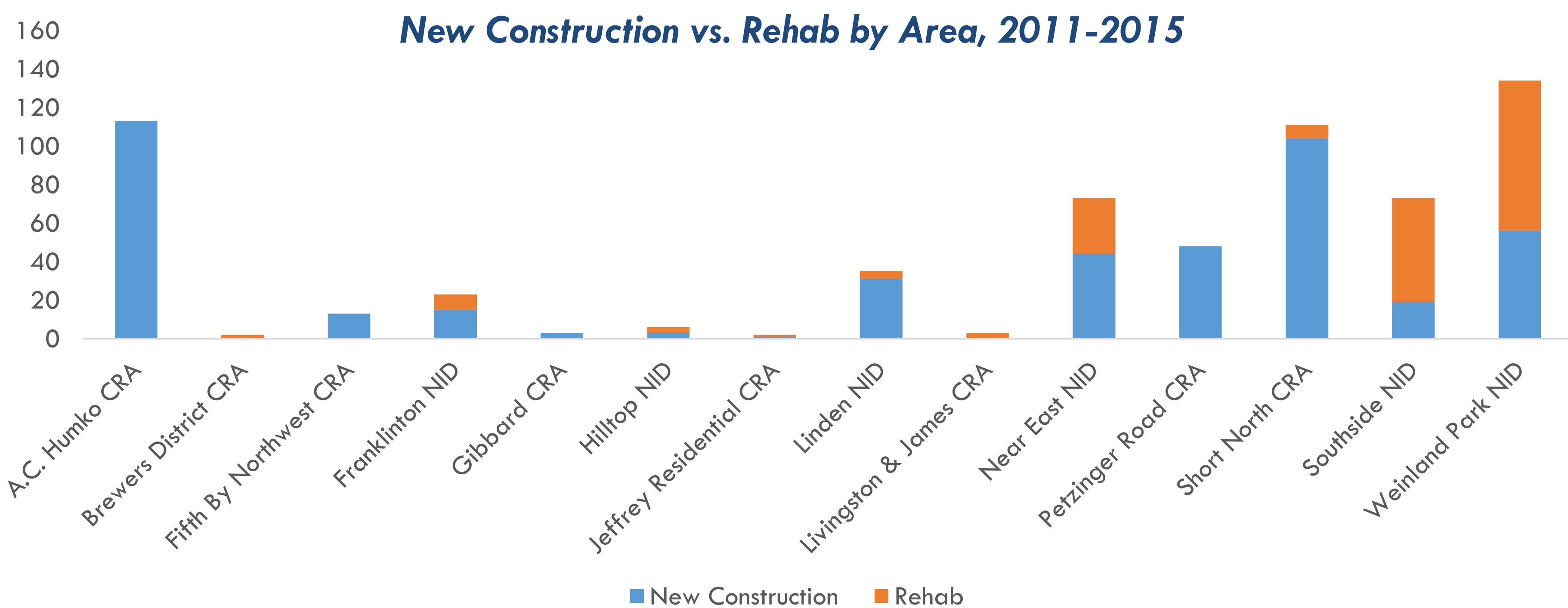
Residential Abatements Awarded By Area, 2011-2015



Tracking of abatements awarded is by parcel, so a project that encompasses multiple parcels can have multiple parcel-level abatements.
Source: City of Columbus.

Across all abatements, the majority (70%) have involved new construction, although there have been a modest number of rehabs.

The relative frequency of new construction versus rehab depends on two factors: 1) the existing housing stock, and especially the presence of properties that are attractive candidates for rehab, potentially combined with historic preservation requirements; and 2) the development economics of ground-up new construction. The relatively higher shares of new construction in the Short North and Fifth by Northwest districts represent areas where higher rents can likely be achieved, while those in AC Humko and Petzinger Road reflect lack of existing stock for rehab. The NIDs generally have experienced a mix of new construction and rehab, likely due to the fact that until recently, non-owner-occupied new construction was not eligible to receive an abatement.

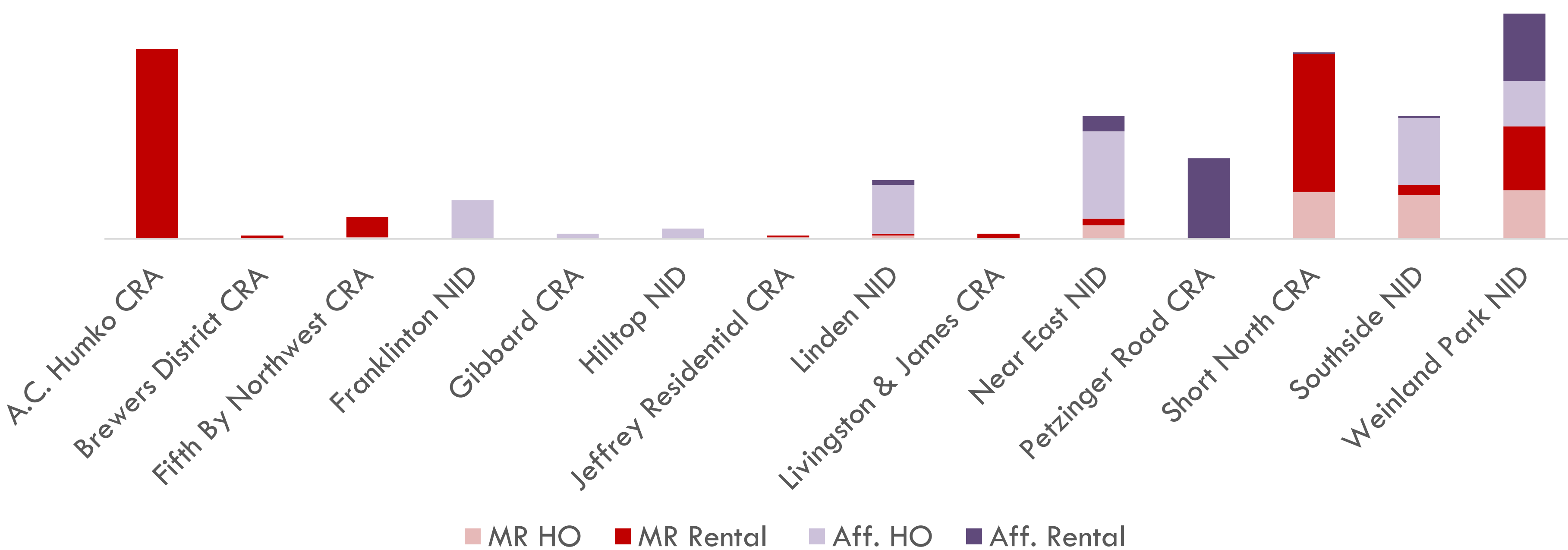


Source: City of Columbus

While use of abatements differ greatly by neighborhood, overall 56% of abatements supported market-rate, with the balance supporting affordable.

Most districts tended to have a focus on either affordable or market-rate abatements. For example, market-rate abatements constituted the vast majority of deals in AC Humko, Brewers' District, Fifth by Northwest, and the Short North. However, a small number of districts, concentrated among the NIDs, included a mix of market-rate and affordable abatements, as evidenced by Weinland Park, Southside, and to a lesser extent, the Near East. As development economics continue to improve in the Near East, it is likely to see a growing share of market-rate abatements. The majority of deals in Hilltop and Linden were affordable abatements.

Breakdown of Market-Rate vs. Affordable Deals, 2011-2015



Source: City of Columbus

Neighborhood Context Analysis | Methodology

To consider the impact that the availability of abatements had on the market value of properties in Columbus, HR&A conducted a neighborhood context analysis.

- For the four neighborhoods under study (Hilltop, Linden, Near East, and Short North), HR&A examined changes in value for parcels with and without abatements in place.
- For this analysis, HR&A relied on Franklin County assessment data from January 2011 and 2016, cross-checked against City data.
- HR&A defined the districts using the most recent parcel list from the relevant authorizing CRA or NID ordinance. In some cases, the district boundaries are different from those used to define the neighborhoods for the residential market scan, where the focus was on evaluating broader neighborhood revitalization trends.
- HR&A selected 2011 as the start year for this analysis for two reasons. First, it was the year of the first citywide reappraisal following the Great Recession. Second, because the minimum abatement term is 10 years and the oldest abatement districts under study (the Hilltop, Linden, and Near East NIDs) were created in 2002, it enabled identification of all parcels that received abatements, as abatements granted in the first year of the program would not start expiring until 2012. HR&A selected 2016 as the end year because it was the most recent assessment data available at the time.
- Parcels with abatements were defined to include any parcels with land or building value in the exempt category in 2011, 2016, or both years. Parcels include those added since 2011 due to subdivision. For the purpose of this analysis, parcels classified in the 600 range (600-699) under state land use codes were considered not to have abatements, as these codes indicate public or nonprofit assets that do not have to pay property taxes because they are exempt by law.
- In addition to parcels with CRA abatements, the Short North included a number of parcels subject to Tax Increment Financing agreements. These TIF agreements were regarded as separate from abatements, because they require the owner to pay the same amount of impacted property taxes, which are redirected for specific public purposes. Abatements do not require the owner to pay the impacted property taxes.

Abatement levels | The Near East Side has the largest number of parcels with abatements, and only 6% of parcels are abated in the Short North.

The intensity of abatement use differs between the neighborhoods. The Near East, which represents the largest district in terms of total parcels included within its boundaries and thus eligible for abatements, also contains the largest number of parcels with abatements. In contrast, the Short North is the smallest district in terms of total parcels eligible for abatements. While it has the largest share of parcels with abatements among the four neighborhoods, parcels with abatements still account for only 6% of total parcels.

Hilltop and Linden both have low absolute numbers and shares of parcels with abatements. This is notwithstanding the fact that these two NID districts have been in place since 2002, compared to 2009 for the Short North CRA. The differences in abatement use between the neighborhoods reflect varying levels of market demand to realize capital improvements.

Abatement Levels

Based on 2011 and 2016 Assessor's data

	Hilltop	*Linden*	*Near East*	*Short North*
Parcels with abatement	2%	1%	2%	6%
Total parcels in neighborhood	4,800*	8,421*	9,229*	1,836
Parcels with abatement	88	87	203	119
Parcels without abatement	4,712	8,334	9,026	1,706

*Parcel count excludes 5 parcels in Hilltop with missing data, 13 in Linden, and 4 in Near East.

Total value | For all neighborhoods, parcels with abatements are more likely to increase in total assessed value than parcels without.

Increases in total value from 2011 to 2016 for parcels with abatements likely reflect both the capital improvements facilitated by the abatement, which increased building value, and land appreciation associated with the area becoming more attractive through building and infrastructure upgrades.

In the Short North, the very high percentage of parcels experiencing total value increases, including both parcels with abatements (100%) and parcels without abatements (86%), indicates market strength in recent years, suggesting that investors have become confident making capital upgrades and land is appreciating. In contrast, the proportion of parcels experiencing total value increases in Hilltop and Linden are much lower, suggesting that there have been limited capital investments in building upgrades and low overall appreciation in these neighborhoods.

Total Value Increase

Based on 2011 and 2016 Assessor's data

	Hilltop	***Linden***	***Near East***	***Short North***
Parcels with abatement	2%	1%	2%	6%
Percentage of parcels with total value increase, 2011-16	11%	10%	33%	86%
Parcels with abatement	23%	48%	53%	100%
Parcels without abatement	11%	10%	32%	86%

Land value | In the Near East, parcels with abatements have experienced very high land appreciation, while those in Hilltop and Linden have declined less.

In the Near East and Short North, where overall land is appreciating, parcels with abatements help to support and enhance land value increases. The capital improvements being made on these parcels serve to upgrade the area and make the underlying land more attractive, suggesting that "a rising tide lifts all boats."

In Hilltop and Linden, where land values are falling, parcels with abatements serve to mitigate the decrease in valuing being felt throughout the neighborhoods. The capital improvements being made on these properties serve as a backstop against more severe decline.

Change in Land Value
Based on 2011 and 2016 Assessor's data

	Hilltop	***Linden***	***Near East***	***Short North***
Parcels with abatement	2%	1%	2%	6%
Percent change in land value	-18%	-27%	13%	60%
Parcels with abatement	-11%	-11%	183%	186%
Parcels without abatement	-18%	-27%	9%	56%

Building value | Parcels with abatements have experienced high growth in building values, reflecting their role in fostering rehab and new construction.

In the Near East and the Short North, parcels with abatements have experienced a larger total building value increase than parcels without, reflecting incentive-facilitated capital improvements. In Linden, the same is true, although the building value increase has been more modest. In contrast, parcels with abatements in Hilltop have not experienced a building value increase, but rather a lesser building value decline, due to three factors:

- **Demolitions**, where an older building removed for redevelopment has not yet been replaced;
- **Conversions to affordable housing,** where an older market-rate building has been redeveloped as new or rehabbed affordable housing, which is assessed by law at a lower rate;
- **Capital improvements insufficient to offset depreciation**, including parcels where capital improvements made years earlier have been insufficient to offset decreases associated with the building aging and/or overall neighborhood declining. This outcome is especially likely for owner-occupied and, to some degree, rental properties that experienced very light rehab.

Change in Building Value
Based on 2011 and 2016 Assessor's data

	Hilltop	***Linden***	***Near East***	***Short North***
Parcels with abatement	2%	1%	2%	6%
Percent change in building value	-24%	-21%	32%	18%
Parcels with abatement	-16%	4%	238%	820%
Parcels without abatement	-24%	-22%	26%	3%

The neighborhood context analysis suggests that residential abatements play different roles across various neighborhood types.

The neighborhood context analysis supported the identification of three broad neighborhood typologies, summarized below. These typologies reflect different demographic, residential market, and reinvestment conditions.

Typology	*Persistently Disinvested*	*Ready for Revitalization*	*Market-Ready*
	Linden, Hilltop	**Near East**	**Short North**
Characteristics	• Continued population decline and disinvestment. • Rents and home values far below cost to support market-rate development.	• Attracting some reinvestment and at a potential "tipping point." • Rents and home values below or approaching market-rate threshold.	• Steadily attracting reinvestment. • Rents and home values above cost needed to support market-rate development.
Role of Abatements	*Act as a backstop against further value declines by supporting targeted capital improvements.*	*Help secure an ongoing flow of investment and "tip the balance" in the neighborhood.*	*Promote continued investment in the neighborhood.*

There are a multitude of ways in which the growth of market-ready neighborhoods may benefit the overall city.

A healthy supply of market-ready neighborhoods benefits the overall City of Columbus in several ways, including:

- **Citywide brand-building.** The presence of distinctive, compelling neighborhoods helps to enhance the City's overall brand. These neighborhoods help present Columbus as an attractive, engaging place to live, work, and visit.

- **New retail and entertainment opportunities, serving both residents and visitors.** In market-ready neighborhoods, the presence of higher-income residents tends to attract new retail and entertainment offerings. Since use of these facilities is not confined to the people within them, Columbus as a whole benefits from these investments. In addition, market-ready neighborhoods offering a variety of retail and entertainment options can bring tourists to the City, who in turn create new economic activity.

- **Attraction and retention of young professionals.** Young professionals are interested in the dynamic live-work-play environments available in market-ready neighborhoods, so a supply of these neighborhoods is necessary to attract them. Young professionals support the City's economy through both their discretionary spending and role in drawing companies seeking a robust talent pipeline.

- **Spread of revitalization to adjoining neighborhoods.** The revitalization of one neighborhood can spur that of adjoining neighborhoods, helping to catalyze investment, encourage economic activity, and improve property values.

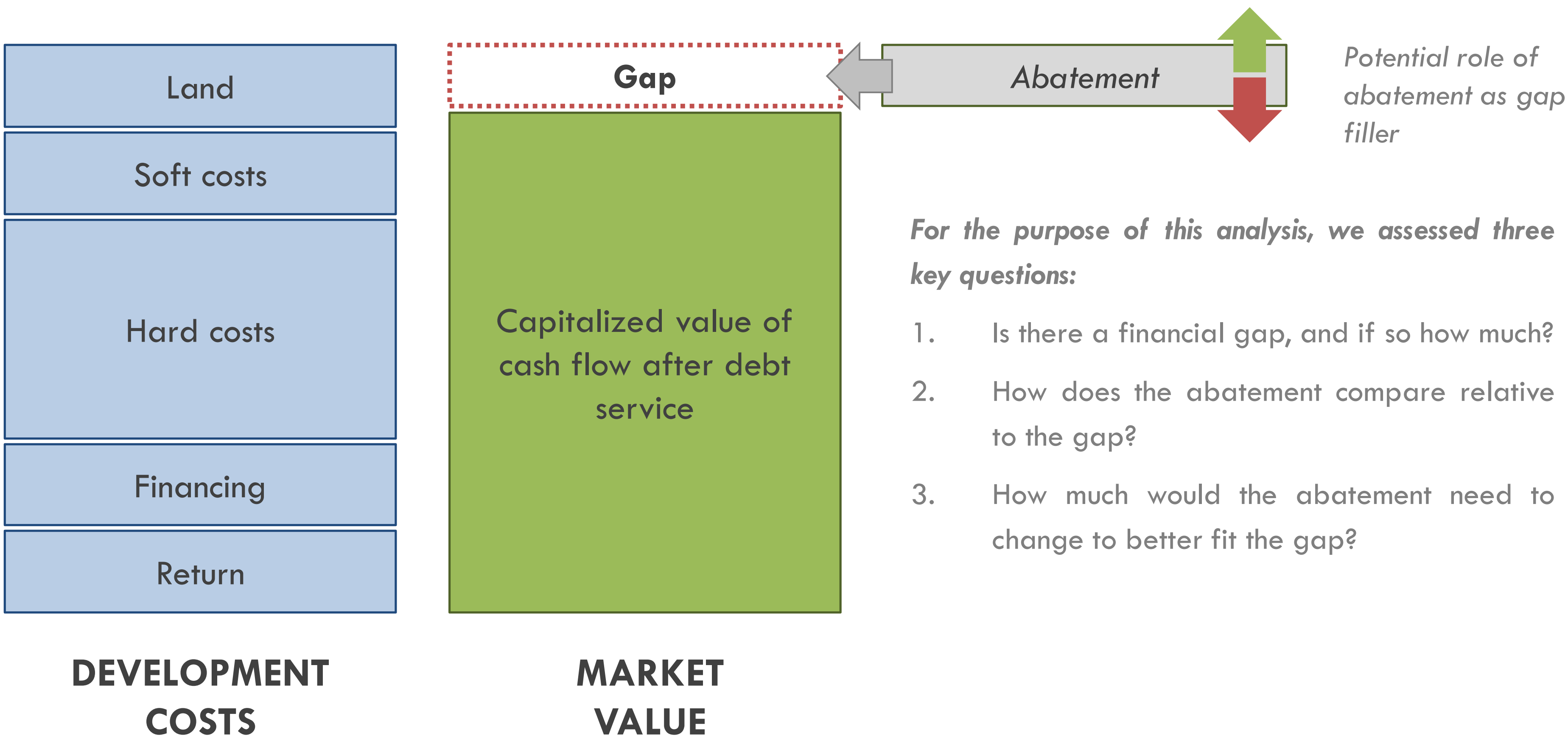
Source: Wikimedia

The Role of Incentives in Driving Development Feasibility

Photo: Wikimedia

To better understand the role that residential abatements play, HR&A examined development feasibility for rental product in the four neighborhoods.

Development is feasible when costs, including an appropriate developer return, are equal to the value that can be realized from the project over time. A financial gap occurs when development costs are greater than market value, meaning that the project does not generate sufficient revenue to justify undertaking it. Abatements can help close this financial gap by decreasing the ongoing operating cost of the project, which improves project cash flow.



For the purpose of this analysis, we assessed three key questions:

1. Is there a financial gap, and if so how much?
2. How does the abatement compare relative to the gap?
3. How much would the abatement need to change to better fit the gap?

We evaluated development feasibility in the neighborhoods using market-rate rental product types.

HR&A developed a series of sample projects for each neighborhood in order to quantify order-of-magnitude differences in development feasibility between the four submarkets. As previously described, the submarkets studied reflect the variations that exist in Columbus's residential market conditions and affect development feasibility for particular types of rental product. This exercise was intended to illustrate and quantify these differences <u>at a high level</u> and provide <u>directional</u> guidance for incentive policy refinement; findings may not be consistent for every development at a project by project level. The size of the financial gap faced by individual projects in the neighborhoods is likely to vary, depending on factors that drive higher costs or increase the value that can be realized, each which may also vary from project to project.

- For each submarket, HR&A developed residential market assumptions for modeling purposes, including rents and exit cap rates. We also identified development cost assumptions, including land price and construction costs, through review of relevant comparables and developer interviews.
- HR&A examined low-rise (4 stories and below) and mid-rise (5 to 10 stories) rental housing typologies. To provide a consistent basis for comparison across the four neighborhoods, we tested market-rate rental product, even though this product type currently is not being developed in all neighborhoods. Findings should not be read as to suggest that the City should incentivize market-rate development in all submarkets, as investment in affordable housing may be more effective in some neighborhoods and provide a better return on City investment.
- For each neighborhood, HR&A tested the ability of development to produce a threshold developer return under current market conditions, assumed to be an internal rate of return of 15%. For markets where market-rate development is not feasible today, the analysis identified the financial gap that must be filled to make development feasible.
- HR&A then evaluated the role of residential abatements in filling that gap, assuming the maximum possible term of 15 years under state statute, even for rehab projects, where the term is currently 12 years.
- For neighborhoods where development is not feasible even with a 15-year abatement, HR&A demonstrated the rent increase that would be necessary on top of the abatement to render market-rate development feasible.

HR&A studied the feasibility of four conceptual market-rate product types across the four neighborhoods.

The four conceptual product types were developed to be representative of the general development types that are likely in these neighborhoods in order to provide a high-level assessment of development feasibility with and without abatements in place. Both rehab and new construction projects were tested. New mid-rise construction is currently occurring only in the Short North and very limited areas of the Near East. For the Short North, mid-rise concrete and steel product with structured parking is reflective of recent development along the High Street corridor, while the mid-rise wood frame with concrete podium and low-rise typologies are more typical of what is being developed in the rest of the neighborhood.

	Townhomes / Low-Rise Apts., Wood Frame **New Construction** *Surface Parking*	**Townhomes / Low-Rise Apts., Wood Frame** **Rehab** *Surface Parking*	**Mid-Rise, Wood Frame w/ Concrete Podium** **New Construction** *Surface Parking*	**Mid-Rise, Concrete & Steel** **New Construction** *Structured Parking*
Hilltop	√	√		
Linden	√	√		
East Side	√	√	√	
Short North			√	√

We developed residential market and cost assumptions through local comparables and developer interviews.

HR&A estimated rents based on comparable projects to represent what could be realized for market-rate development in the neighborhoods. Land prices were estimated based on recent transactions and likely density of new development. Hard construction costs for rehab were assumed to be a fraction of hard construction costs for new development. HR&A conducted extensive developer interviews to verify assumptions.

Market Assumptions

	Rents (Per NSF/Month)				*Cap Rates*
	Townhomes / Low-Rise Apts., Wood *New Construction*	**Townhomes / Low-Rise Apts., Wood** *Rehab*	**Mid-Rise, Wood Frame w/ Podium** *New Construction*	**Mid-Rise, Concrete & Steel** *New Construction*	
Hilltop	$0.80	$0.72			8.5%
Linden	$0.75	$0.68			8.5%
East Side	$1.10	$0.99	$1.15		7.5%
Short North			$2.05	$2.35	5.5%

Cost Assumptions

	Development Costs (Per NSF of Dev.)
Townhomes/Low-Rise Apts., Wood - *New Construction*	$205
Townhomes/Low-Rise Apts., Wood - *Rehab*	$164
Mid-Rise, Wood Frame w/ Podium - *New Construction*	$233
Mid-Rise, Concrete & Steel - *New Construction*	$296

	Land Costs (Per GSF of Dev.)
Hilltop	$8
Linden	$6
East Side	$15
Short North (rest of nbhd.)	$30
Short North (High Street)	$38

Target Developer Leveraged Internal Rate of Return: 15%

Abatement Terms: 10, 12, and 15 years at 100%

NSF = net square foot; GSF = gross square foot

In Linden and Hilltop, the abatement cannot fill the gap on its own for market-rate development, and rents would have to rise significantly to close it.

For this analysis, Hilltop and Linden have been combined because of similar development economics, with slightly higher rents in Hilltop offset by higher land costs. **For both, there is a significant gap for market-rate low-rise new construction and rehab.** The gap is lower for rehab than new construction because construction costs are lower, and it is associated with only a modest decrement in rents.

The value of the 15-year abatement is not sufficient to offset the development gap on its own. Translating the gap and abatement into unit terms, assuming a 1,000 GSF unit for the low-rise new construction product, the financing gap is $90,000 and the abatement provides a benefit of $20,000 per unit.

Even with the abatement in place, rents would have to rise substantially to make the difference, by 100% for new construction and 80% for rehab. For the sake of comparison, overall rents in the Short North, one of the most rapidly appreciating areas in the City, increased by 60% from 2010 to 2017.

These findings are not unexpected, given that there is minimal market-rate low-rise development occurring in these neighborhoods, with affordable product accounting for the vast majority of what is being delivered. Nonetheless, findings provide a useful comparison to the other neighborhoods under study.

Linden and Hilltop	**Townhome/ Low-Rise, Wood *New Construction***	**Townhome/ Low-Rise, Wood *Rehab***
Financial gap (absent abatement), per GSF	-$90	-$70
Capitalized value of 15-yr. abatement, per GSF	+$20	+$15
Current incentive as a percentage of gap	25%	25%
Subsidy required to fill gap, per GSF	+$70	+$55
Rent required to fill gap, per NSF	$1.60	$1.30
Rent increase relative to current rent	100%	80%

In Near East, the abatement also cannot fill the gap on its own for market-rate development, but rents would have to rise to a lesser degree to close it.

In the Near East, a development feasibility gap exists for market-rate low-rise and mid-rise new construction, as well as low-rise rehab.

As in Hilltop and Linden, the value of the 15-year abatement is not sufficient to offset the development gap in the Near East. However, due to higher market values, the value of the abatement is relatively greater in the Near East. Higher rents also are better able to offset development costs.

For these reasons, with the 15-year abatement in place, rents have to rise by a lower percentage to make development feasible in the Near East than in Hilltop and Linden. Given that the Near East is favorably situated for further development, it may be possible for the market to contribute to a closing of the development gap over time. To give an indication of the rent increases possible in market-ready neighborhoods, the Short North experienced a 58% increase in overall rent from 2010 to 2017.

Near East	**Townhome/ Low-Rise, Wood** ***New Construction***	**Townhome/ Low-Rise, Wood** ***Rehab***	**Midrise, Wood Frame w/ Concrete Podium** ***New Construction***
Financial gap (absent abatement), per GSF	-$75	-$55	-$90
Capitalized value of 15-yr. abatement, per GSF	+$25	$20	+$25
Current incentive as a percentage of gap	35%	35%	30%
Subsidy required to fill gap, per GSF	+$50	+$35	+$65
Rent required to fill gap, per NSF	$1.55	$1.25	$1.70
Rent increase relative to current rent	40%	25%	50%

In Short North, the abatement is not required to make some market-rate products feasible, and has the capacity to be reduced for others.

For the Short North, the mid-rise concrete and steel typology with structured parking is reflective of recent product being developed along the High Street corridor. This typology involves higher construction costs than the mid-rise wood-frame and concrete podium typology with surface parking, the latter of which is more typical of development in the rest of the neighborhood.

Based on the financial analysis, there is no financial gap for the mid-rise wood-frame and concrete podium with surface parking product. This suggests an opportunity to significantly reduce abatements without hindering development feasibility for this product type. **For concrete and steel mid-rise product with structured parking, a financial gap exists due to higher construction costs that may not be fully offset by higher rents.** This suggests an opportunity to right-size the abatement through a more modest reduction.

Decreases in abatement levels may impact projects in two ways: reducing developer returns and/or reducing land values, with the latter being a likely outcome in the long term. In the near term, changes to incentives may slow the pace of development given the "stickiness" of land prices, wherein landowners may be reluctant to adjust prices. Any adjustments to abatements therefore should be both carefully considered and clearly communicated to all parties in advance of changes taking effect.

Short North	**Midrise, Wood Frame w/ Concrete Podium *New Construction***	**Mid-Rise, Concrete & Steel *New Construction***
Financial gap (absent abatement), per GSF	No gap	-$27
Capitalized value of 15-yr. abatement, per GSF	+$27	+$34
Current incentive as a percentage of gap	NA	127%
Abatement decrease to right-size incentive, per GSF	-$27	-$7
Abatement decrease relative to current incentive	-100%	-21%

The feasibility analysis suggest that abatements have varying impacts on development feasibility across neighborhoods.

In Hilltop and Linden, even with abatements in place, significant barriers remain to market-rate development. In the Near East, providing additional subsidy could catalyze market-rate development. In the Short North, subsidy could be reduced.

Typology	*Persistently Disinvested*	*Ready for Revitalization*	*Market-Ready*
	Linden, Hilltop	**Near East**	**Short North**
Abatement Impacts	• Large gap exists for low-rise new construction and rehab, even with maximum abatement. • Abatement on its own is not sufficient to catalyze market rate development.	• Gap exists for low-rise and mid-rise new construction. • Versus Hilltop & Linden, incentive performs better in covering gap, so less additional subsidy is needed to make market rate development feasible.	• Gap does not exist for mid-rise wood frame with concrete podium and surface parking new construction. • Gap does exist for mid-rise concrete and steel with structured parking, and is filled by abatement.
Policy Implications	*Using abatement to support quality affordable and mixed-income product is most appropriate in the near term.*	*Continue abatement use and explore use of additional subsidy to catalyze development, especially transformative larger-scale projects.*	*Right-size incentive and/or reposition them to support high quality product that delivers public benefits.*

Residential Incentives Recommendations

Photo: Pixabay

HR&A recommends alterations to the existing incentive structure to drive gains in efficiency, support citywide investment, and promote inclusive growth.

1. **Establish simple neighborhood typologies across Columbus to guide the use of incentives.** The three neighborhood typologies identified through this analysis (Persistently Disinvested, Ready for Revitalization, and Market-Ready) reflect varying market and demographic conditions, and can serve as a useful guide for how the City thinks about the role of its incentives in spurring investment and growth.

2. **Consider changes to incentive structure and deployment by neighborhood typology.** Given differing market conditions by typology, incentives can be more effectively targeted to spur desired outcomes. In Ready for Revitalization neighborhoods, the City may want to continue abatements and explore targeted use of additional subsidy or infrastructure and public realm to catalyze development. In contrast, in Market-Ready neighborhoods, the City may want to right-size incentives or reposition them to support high-quality product that delivers public benefits.

3. **Monitor and update typologies over time, using a key set of demographic, market, and reinvestment indicators.** Columbus should undertake periodic review of its neighborhood typologies, as well as a quantitative assessment of the role of incentives in development feasibility. This process could be undertaken once every four to five years, which would provide some consistency for the development process, but also ensure that the incentive structure is relatively up to date for market conditions. Special consideration may want to be given in the case of any significant shifts in the local or national economy impacting real estate. To guide neighborhood typology development and monitoring, a series of potential indicators is provided on subsequent pages of this report.

HR&A recommends alterations to the existing incentive structure to drive gains in efficiency, support citywide investment, and promote inclusive growth.

4. **Consider qualitative factors in awarding incentives in order to prioritize public benefits realized through development**. Columbus should formalize a list of desired public benefits that could be achieved through rehabilitation and new development, and make these transparent as part of the incentive review and awarding process. Potential public benefits may include **provision of affordable housing**, especially in mixed-income projects; **major infrastructure and public realm improvements**, including the creation of public parking garages, **bicycle and pedestrian infrastructure, and open space; creation of significant amounts of high-quality office space**, especially in mixed-use developments that promote a live-work-play environment; **serving as a "pioneer" project in an underinvested neighborhood**; and **redevelopment of large brownfield sites**. This approach recognizes that abatements fundamentally are a tool to grant developers value in exchange for public benefits.

5. **Continue to support market stability by providing a transparent and predictable incentive structure.** Changes to the tax abatement structure can significantly alter development economics in Columbus's neighborhoods, as abatement values are capitalized into land values in most locations. While abatement decreases could result in land price decreases in the long term, price "stickiness" could limit changes to land values in the near term, impacting developer returns and potentially slowing development activity. In addition, developers may perceive greater risk in a changing policy environment, which also could inhibit development activity. For this reason, it is critical for the City of Columbus to take a series of steps to preserve market stability, including:

   - Continuing to engage the development community in discussions about changes to the incentive policy (which has been a consistent focus as part of this study);
   - Providing developers and landowners advance notice of changes to the incentive structure; and
   - Providing clarity and transparency in how the programs will be amended so that all can understand how changes may impact development economics and can accommodate changes within their plans.

The three preliminary neighborhood typologies, which can be identified through indicators, can be used to guide incentive use.

The residential market scan conducted for the four focus neighborhoods (Hilltop, Linden, East Side, and the Short North) provided insight into neighborhood-level indicators that can be used to evaluate economic health and segment neighborhoods into the three typologies. These indicators fall into three primary groups, with selected indicators for each group summarized below. These indicators can be used to help assess when neighborhoods have reached a “tipping point” for investment (*see Appendix for further details*).

		Persistently Disinvested	Ready for Revitalization	Market-Ready	Columbus Baseline
Demographics	Population growth, 2000-2016	**Below** baseline	Can be **below or above** baseline, *depending on presence of vacant parcels awaiting redevelopment*	**Above** baseline	+19%
	Median household income growth, 2000-2016	Significantly **below** baseline	Ideally, **at or above** baseline	**Above** baseline	+17%
	Poverty rate, 2015	Significantly **above** baseline	Can be **above or below** baseline, *depending on concentrated, persistent poverty*	**Below** baseline	21%
Residential Market Demand	Median rent growth PSF, 2010-2017	**Below** baseline	**Above** baseline	**Above** baseline	+19%
	Housing vacancy rate, 2015	**Above** baseline	Can be **below or above** baseline, *depending on presence of vacant parcels awaiting redevelopment*	**Below** baseline	11%
Foreclosure Activity	Mortgage foreclosure rate: # of foreclosures per 10,000 homes, 2017	**Above** baseline	Ideally, **below** baseline	**Below** baseline	3.2

Two options exist for changes to incentive structure and deployment.

There are two basic ways for the City to reposition its existing residential incentives to advance its core goals.

Option 1.

Alter incentive structure by adjusting rate and/or term

Option 2.

Alter incentive structure by redirecting abatement proceeds to achieve public policy goals

CORE GOALS

Increase efficiency of incentive use

Ensure a greater return on investment for City-abated dollars.

Support inclusive revitalization

Encourage that benefits from investment activity accrue to a greater range of population and/or neighborhoods.

Columbus could alter incentive structure by adjusting the rate and/or term.

Application

In **Ready for Revitalization** and **Persistently Disinvested** neighborhoods:

- Increase incentive value by extending <u>rehab</u> incentive term, currently set at 12 years, to 15 years.

In **Market-Ready** neighborhoods:

- Reduce incentive value by either reducing rate below 100% or shortening term.

Ability to achieve core goals:

Increase efficiency of use	✓+
Support equitable revitalization	✓–

Precedents

✓ **Indianapolis's "burn-off" system.** Indianapolis has established an abatement system wherein the rate "steps down" over time. The developer receives a higher rate during the early years of the project, when abatement proceeds are already worth more due to the time value of money, and a lower rate during the later years.

✓ **Cincinnati's definition of multifamily as Commercial CRA.** In Ohio, jurisdictions can classify multifamily housing of 4 or more units as Commercial CRA, meaning that each abatement deal is individually negotiated, or Residential CRA, meaning that abatements are granted as-of-right to eligible projects in the district. Columbus has chosen to classify multifamily as Residential CRA to date. If it were to reclassify, Columbus would gain greater control over rate and term for deals, but increase its administrative burden, require School Board approval for deals, and increase developer perception of risk.

✓ **Columbus's past decisions to establish lower base rates in select districts.** Generally, the residential abatement rate is 100%. However, the AC Humko (75%) and Fifth By Northwest (80%) districts were established with lower rates.

Columbus alter incentive structure by directing abatement proceeds to achieve public policy goals.

Application

In **Market-Ready** neighborhoods:

- Redirect a portion of the abatement proceeds to support public policy goals, potentially including:
  - Infrastructure and public realm investments
  - Mixed-income and affordable housing
  - Targeted community revitalization fund

Ability to achieve core goals:

Increase efficiency of use	✓
Support equitable revitalization	✓+

Precedents

- ✓ **Cincinnati's recapture of a portion of Downtown abatement proceeds to fund streetcar operations.** For projects within the designated Voluntary Tax Incentive Contribution Agreement (VTICA) area, developers must pay 15% of the abatement that would otherwise have been granted to a special operating fund for the Cincinnati Bell Connector (e.g., the effective rate becomes 60%, instead of 75%).

- ✓ **Portland's designated set-aside of a percentage of all TIF revenues to fund affordable housing.** Since 2006, Portland has dedicated an aggregate 30% of tax increment financing revenues from all urban renewal districts citywide to fund affordable housing.

- ✓ **Columbus's existing "remote TIF" structure.** Under the agreement for the recently created Easton "remote TIF" district, the developer, the Georgetown Company, committed to provide $4.25M of upfront capital to Linden for street, sidewalk, and community recreation center improvements. The City will use Easton TIF proceeds over 30 years to pay back Georgetown Company.

Leveraging recaptured abatement proceeds, Columbus could create a designated Community Revitalization Fund to catalyze investment across the city.

Recapture mechanism. The abatement proceeds could be recaptured in Market-Ready neighborhoods by (i) dedicating a specific percentage of the abatement granted throughout the entire term (e.g., Cincinnati VTICA model) or (ii) requiring the developer to make a PILOT equivalent to the abatement proceeds during the later years of the term to this purpose.

Fund structure and leverage. The City should explore the potential to leverage the recaptured abatement proceeds against other sources of funding to increase the overall size and impact of the Community Revitalization fund. Funds may be leveraged against philanthropic capital, social impact investments, and bank CRA lending. While not relying on tax increment, similar funds have been created across the country, including the New York City Acquisition Fund, the Los Angeles New Generation Fund, and the soon-to-be-launched San Francisco Housing Accelerator Fund. In addition, the revitalization of Cincinnati's Over-the-Rhine neighborhood followed a similar funding model, with City investment leveraged against local corporate-sponsored social investment funds, foundation contributions, and CRA lending. Columbus should also explore whether there is a role for an independent quasi-public entity – new or existing – to run and strategically deploy fund capital.

Potential uses. The resources in the Community Revitalization Fund could be used to catalyze investment in Persistently Disinvested and Ready for Revitalization neighborhoods, by:

- Building community development corporation capacity to both support effective stakeholder coalitions in pursuing large redevelopment projects (per the Southside and Weinland Park neighborhood models) and provide technical to homeowners and smaller developers;
- Providing essential infrastructure and funding support for site assembly and remediation;
- Providing gap financing for affordable and mixed-income projects;
- Providing funds for owner-occupied rehab for low-income owners who cannot access abatement value without upfront capital.

While there is no doubt a wide variety of funding needs across the city, **the use of the fund should be strategically targeted for specific purposes in a limited set of geographies to ensure maximum impact.** These targets can evolve over time as the fund matures.

The Community Revitalization Fund could achieve significant scale over time.

Sizing Community Redevelopment Fund Potential, Using the Short North as a Model

- From 2011-2015, 6 projects with investments of over $1 million were awarded residential abatements in the Short North, with all abatements commencing in 2014 or 2015. In recent years, the Short North has been seeing 2 to 3 large projects per year. These projects generally have ranged in size from 60,000 to 80,000 GSF.
- Using Short North as a proxy for a Market-Ready neighborhood, and assuming 3 large projects per year, equivalent to about 240,000 GSF of space, with the City recapturing approximately one-fifth of abatement proceeds otherwise flowing to developers, the City could add $1.7 million per year to a community revitalization fund.

240,000	X	**$34**	X	**21%**	=	**$1.7M**
GSF of new development		*Average abatement value per GSF for 2 mid-rise products tested in SN*		*Percentage of abatement proceeds recaptured*		*Proceeds flowing to community revitalization fund*

Over 10 years, assuming that this quantity of projects continues to be realized, the fund could represent $17 million in new City contributions for community revitalization. An examination of affordable housing trust funds identified a typical leverage ratio of 1 to 3 for every dollar of public investment. Assuming a similar ratio, **this could translate to more than $50 million in new community investment across Columbus in the coming decade.** As additional momentum builds in the market, and as the fund becomes more fully established, this amount may further grow.

Source: Leverage ratio sourced from 2011 State Housing Trust Fund Survey, Center for Community Change

IV. Commercial Incentives & Recommendations

HR&A assessed Columbus's commercial incentive portfolio in the context of national peers and neighboring municipalities.

How can incentives enhance Columbus's competitiveness in a regional & national context?

How can the portfolio best support achievement of Columbus's economic objectives?

1. Economic Context

HR&A reviewed economic and demographic data for Columbus, as well as its national peers and regional neighboring municipalities, in order to understand the economic context in which each of their commercial incentive portfolios are being deployed.

2. Comparison

HR&A conducted a comparative analysis of the commercial incentive portfolios offered by national peer cities and neighboring suburban municipalities. In addition to gathering information on the types of incentives that each jurisdiction offers, HR&A interviewed key economic development staff in each city to better understand their incentive deployment practices.

3. Recommendations

Based on the findings from the benchmarking analysis and a review of the Columbus's economic development goals, HR&A identified best practices and produced recommendations to better align the City's incentive portfolio with its broader economic and community development objectives.

Commercial Incentive Overview

Photo: Wikimedia

Commercial incentives are most helpful to cities to address competitive disadvantages at the margins.

Relocation

Firms generally consider relocation only when faced with significant challenges operating in their current location. Relocation is expensive and risky.

Local Economic Factors

The quality of the labor pool, economic fundamentals, and quality of life drive location decision making, often times allowing an employer to narrow down to a key region or competitive set of cities.

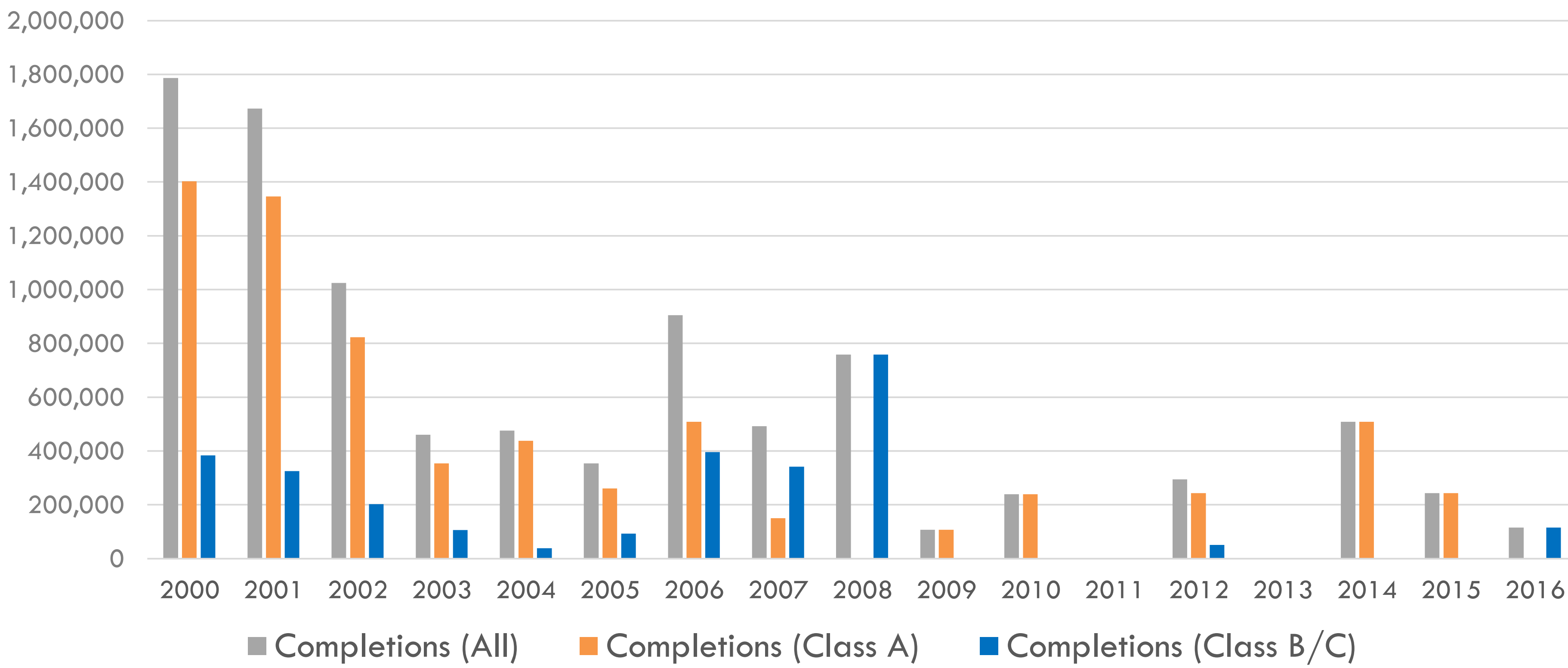
Incentives

Incentives become most influential after a firm has narrowed down location options, and can be used to address specific competitive disadvantage within a regional market with a shared labor pool or between comparable markets.

Columbus's office market is stable, but has experienced very little growth in recent years.

While relatively limited, the majority of the completions added to the market over the past 16 years consists of class A office space. A moderate supply of office product was introduced into the market during the first part of the last decade. There was a slight decline in completions from 2003 to 2005 followed by a few years of increased activity. Very little new office product has been added to the market in the past several years coming out of the Great Recession.

Completions, 2000-2016



Downtown is the strongest office submarket within the Columbus MSA, and certain suburban areas are facing very high vacancy rates and low rents.

	Columbus	Downtown	Suburbs
Inventory	Total office inventory increased by **19%** from 2000 to 2016, mostly among class A space	Represents **more than a third** of all office square footage throughout the Columbus market	Most suburban office space is **concentrated in Dublin/Hilliard and Worthington,** accounting for over a third of total MSA inventory, with the rest more dispersed throughout.
Rent	Asking rent of **$19.00** per square foot	Asking rent of **$20.50** per square foot	Asking rent of **$18.50** per square foot, although rents vary among submarkets, with Dublin-Hilliard at **$20.50**, Worthington at **$17.50**, and Upper Arlington at **$16.00.**
Vacancy	Overall vacancy rate of **18%** with a class A vacancy rate of 15%	Vacancy rate is less than **14%**, 4% lower than the overall Columbus market	Southeast and Westerville submarkets have the highest vacancy rates of **25%** and **28%**, respectively.

Industrial space is primarily suburban, with Rickenbacker International Airport driving industrial growth to the southeast of the City in recent years.

	Columbus	Downtown	Suburbs
Inventory	Total industry inventory increased by **10%** from 2000 to 2016	Represents **1%** of the industrial square footage space in the Columbus MSA	Significant development occurring in the **Southeast submarket near the airport.**
Rent	Median asking rent of **$4** per square foot	**Highest asking rent** among all submarkets	The Southeast submarket has the **lowest average asking rent,** partially due to the concentration of bulk warehouses.
Vacancy	**8%** overall vacancy rate	**7%** vacancy rate	The Southeast submarket, which contains the most square footage, has a higher vacancy rate (**9%**) than Downtown.

Among the City's performance-based incentives, JCTC offers both the most aggressive average rate and longest average term.

	Downtown Office Incentive (DOI)	***Job Growth Incentive (JGI)***	***Jobs Creation Tax Credit (JCTC)***
Structure	**Financial payment** equal to a percentage of local income tax withholding on eligible new jobs.	**Financial payment** equal to a percentage of local income tax withholding on eligible new jobs.	**Non-refundable tax credit** equal to a percentage of local income tax withholding on eligible new jobs, applied against net profits tax. The credit's usefulness depends on firms' municipal net profits tax liability.
Rate	Automatic **50%**	Typically **25%**, with a 5-10% incremental credit for resident hiring	Generally **60%**
Term	**Up to 8 years,** depending on jobs created and lease length. To realize 8-year term, firm must create at least 400 jobs.	**Typically 5 years,** depending on jobs created and lease length. To realize 8-year term, firm must create at least 400 jobs.	Generally **7 years**
Purpose	Create new Downtown jobs and strengthen office market by offsetting higher parking and leasing costs. Program is limited to firms using office space.	Create new jobs outside Downtown. Designed to fill gap that existed between DOI and JCTC and increase competitiveness of locations outside Downtown.	Create new jobs across City.
Other Reqs.	**A minimum of net new 10 jobs must be created over up to 3 years.** Firms must show that the incentive is a major factor in their decision to move forward.		

Among the City’s performance-based incentives, JGI represents the greatest number of deals and total foregone revenue to the City.

JGI, with its 25% cash payment for businesses locating outside Downtown, is both the most used incentive and the most costly to the City in terms of foregone revenue. However, on a cost per deal basis, JCTC is slightly more expensive.

While DOI is as frequently used as JCTC, despite being subject to geographic limitations, its cost on a per-deal basis is much lower.

Performance-Based Incentives — ***Active Deals, 2011-2105***

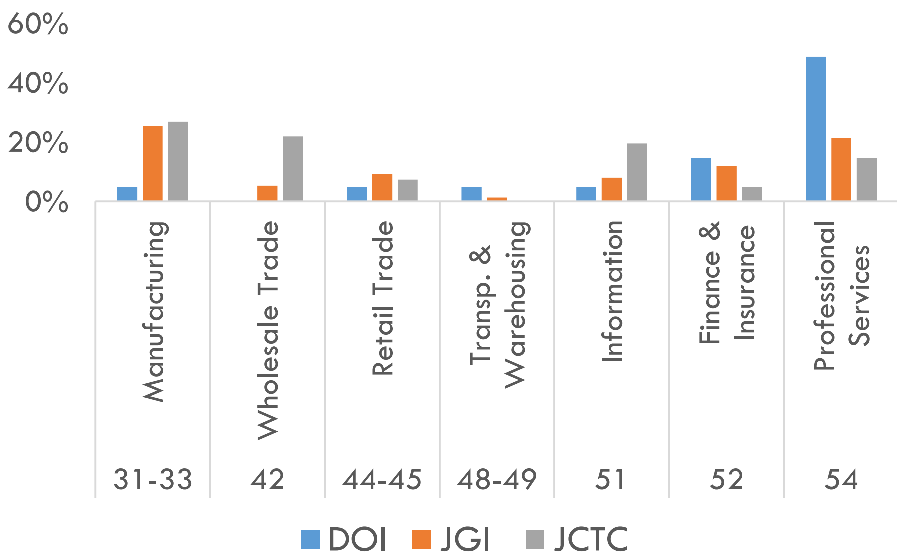
Program Type	Number of Deals	Total Cost to City	Average Cost Per Deal
Downtown Office Incentive	41	$ 4M	$ 0.1M
Jobs Growth Incentive	75	$ 76M	$ 1.0M
Jobs Creation Tax Credit	41	$ 46M	$ 1.1M

JCTC deals tend to deliver more jobs and capital investment, but at a greater cost to the City and with jobs at relatively lower wage levels than DOI or JGI.

JCTC supports projects that tend to be more job-intensive, especially compared to DOI. This partially reflects the fact that JCTC, like JGI, is able to incentivize large manufacturing projects, which DOI does not do, by virtue of both its geographic limitations and fundamental focus on office product. JCTC's use for manufacturing projects also means that it is associated with relatively large capital investments. However, on average, JCTC-supported jobs have the lowest median wage levels of the three incentive programs.

DOI's focus on Downtown office jobs means that it tends to support projects with higher-wage jobs, in sectors such as professional services or finance & insurance, but relatively small capital investments. DOI-linked capital expenditures tend to involve supplemental investments, such as furniture and fixtures and information technology upgrades.

Sectoral Breakdown



	DOI	JGI	JCTC
Total deals	41 deals	**75 deals**	41 deals
Median new jobs	40 jobs	62 jobs	**90 jobs**
Median investment (real property)	$225k	$623k	**$1.7M**
Median wage	**$70k**	$55k	$43k
Median cost per job	$2.6k	$1.2k	**$4.7k**

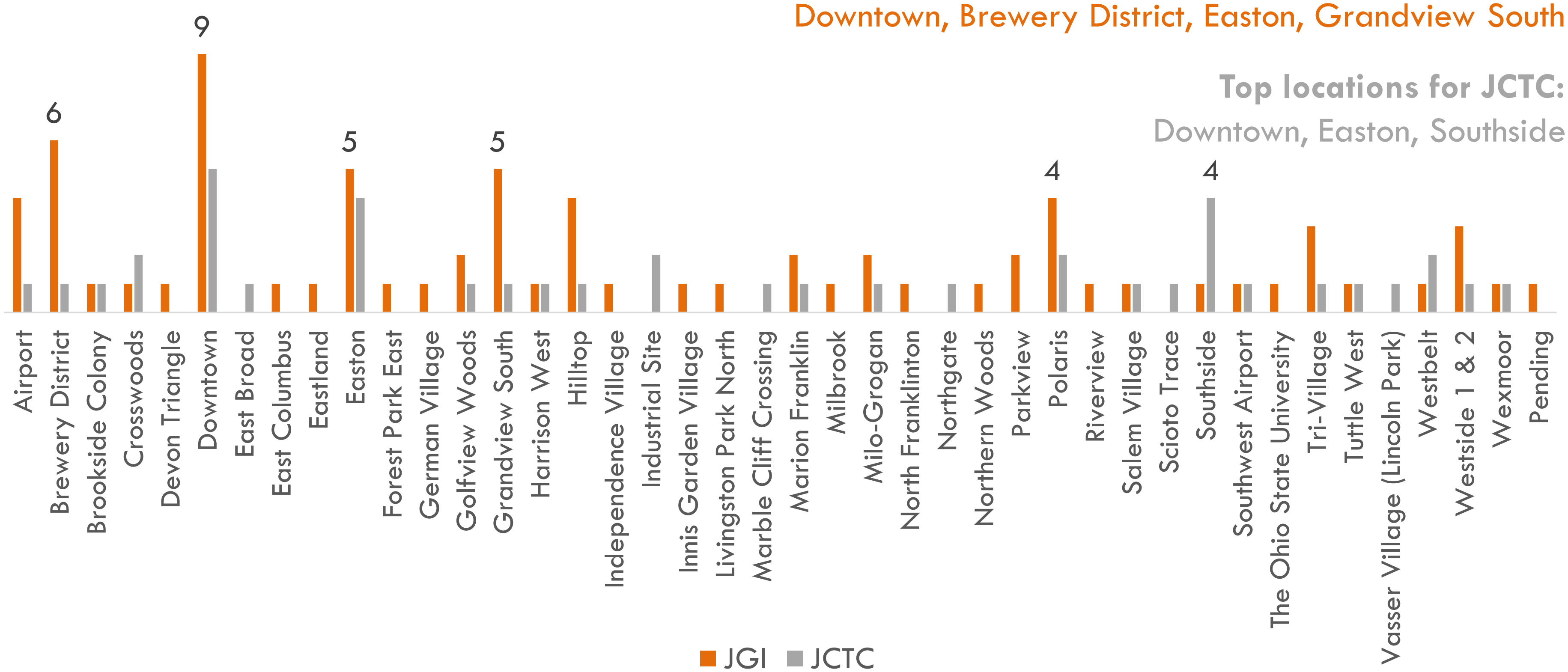
Per program requirements, DOI deals are concentrated Downtown, but JGI and JCTC are relatively dispersed throughout Columbus.

JGI and JCTC deals are generally well-distributed throughout Columbus, with most neighborhoods having at least one deal. However, there are several areas of concentration across the city. Downtown, as the core commercial district in Columbus, has the largest number of JGI and JCTC deals. Easton, a major corporate and retail center, also has received a substantial number of both types of deals. The Brewery District and Grandview South are hubs for JGI deals, while Southside attracts more JCTC deals.

Number of Deals by Program & Neighborhood

Top locations for JGI:
Downtown, Brewery District, Easton, Grandview South

Top locations for JCTC:
Downtown, Easton, Southside



Note: Deals were coded by neighborhood using the Columbus Neighborhoods file from Columbus Open Data.

Among abatement programs, Enterprise Zone deals are driven by job creation and capital investment, while Commercial CRA deals focus on the latter.

	Enterprise Zone (EZ)	*Commercial CRA (C-CRA)*
Structure	Abatement on **incremental property tax value** created by improvements.	Abatement on **incremental property tax value** created by improvements.
Rate	Target **75%*** (rates higher than 75% require School District approval)	Average **75%**
Term	**Up to 10 years** (terms from 10-15 years require School District approval)	For rehab, **up to 12 years** For new construction, **up to 15 years**
Purpose	To promote capital investment and job creation via the establishment, expansion, renovation, and occupation of facilities.	To promote significant capital investment.
Minimum Investment	Generally, $1 million, although there is statutory criteria by project type • **Establish:** "Significant" investment • **Expand:** Investment equal to at least 10% of existing facility's value • **Renovate:** Investment equal to at least 50% of existing facility's value • **Occupy:** Investment equal to at least 20% of existing facility's value	Generally, $1 million
Other Reqs.	If project creates new annual payroll of at least $1 million (including construction and project jobs), the City must enter into an income tax-sharing agreement with the relevant school district. If no agreement can be reached within 6 months, default income-sharing is 50/50. If the City incurs infrastructure costs that benefit the project, it can claim up to 35% of the new local income tax revenue before 50/50 sharing begins.	

** Target rate represents the rate that the City pursues as a policy decision, while average rate reflects the actual rate offered.*

Due to its more extensive availability throughout Columbus, more deals are done under the Enterprise Zone versus Commercial CRA structure.

EZ areas cover the vast majority of the City, while Commercial CRA is limited to specific authorized districts, with their boundaries generally drawn to encompass a particular project or set of projects.

Due to its more extensive availability throughout Columbus, the City generally has encouraged the majority of firms to seek EZ, and reserved the use of Commercial CRA for a smaller number of large projects. It follows that CRA deals are associated with a higher median number of jobs than EZ deals, as well as higher median investment. The jobs created through CRA deals also have a higher median wage than those created through EZ deals.

Relevant to the City's reliance on the EZ structure, the State of Ohio established the CRA program in perpetuity, but the EZ program is subject to regular reauthorization by the General Assembly.

	Enterprise Zone	***Commercial CRA***
Deals	**78 deals**	10 deals
Median new jobs	15 jobs	**73 jobs**
Median investment	$6.4M	**$18.5M**
Median wage	$35k	**$50k**
Median cost per job	**$2.5k**	$2.1k

The City has three Enterprise Zones, covering the majority of Columbus, with the Central Zone representing the oldest and largest zone.

Central Zone

The Central Zone, established in 1985, is the oldest EZ in Columbus. It is a full-authority (urban distress) zone, and represents the largest and most active zone, with the majority of active deals. Under state law, the MSA can have only one full-authority (urban distress) EZ. In this zone, retail projects are permitted, and firms do not have to obtain a waiver to relocate from other parts of Ohio.

North Zone

The North Zone, established in 2003, is a limited-authority (non-urban distress) zone. It contains the balance of active non-Central Zone deals.

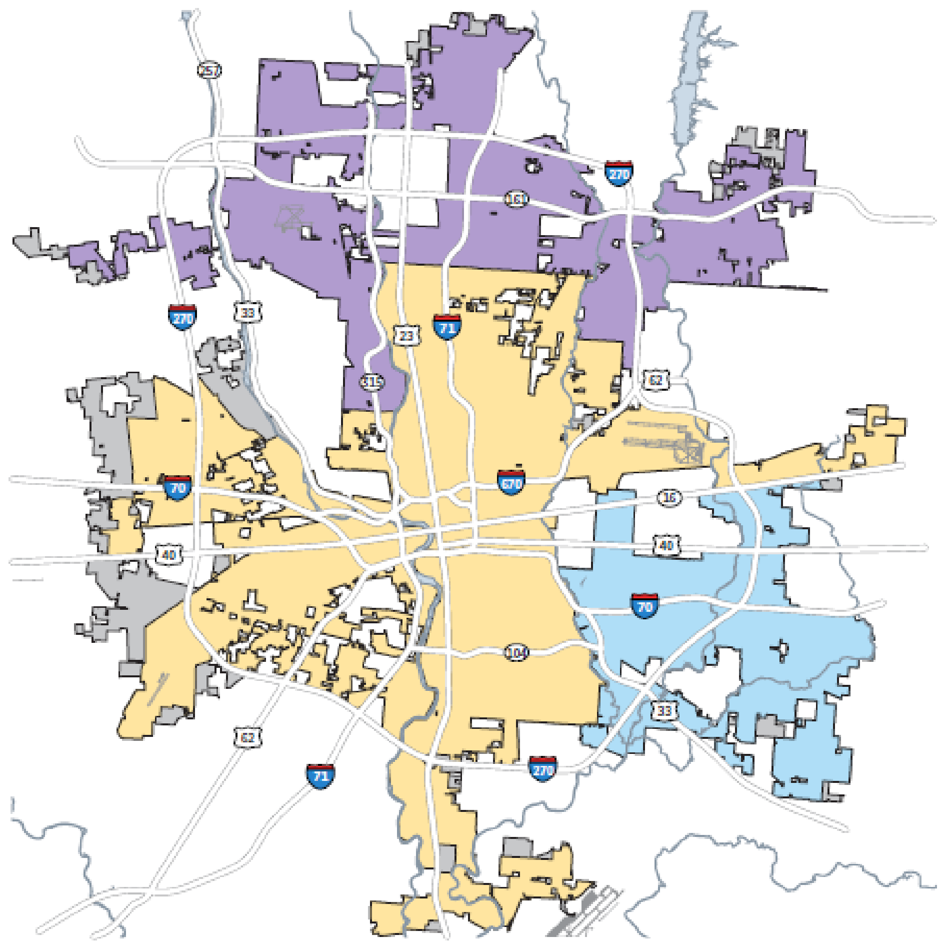
Southeast Zone

The Southeast Zone, also established in 2003, is also a limited-authority (non-urban distress) zone. It is not heavily utilized, and currently has no active deals.

Zone Name	Est. Year	% of Active Deals
Central Zone	1985	92%
North Zone	2003	8%
Southeast Zone	2003	0%

Source: City of Columbus map.

Columbus Enterprise Zones



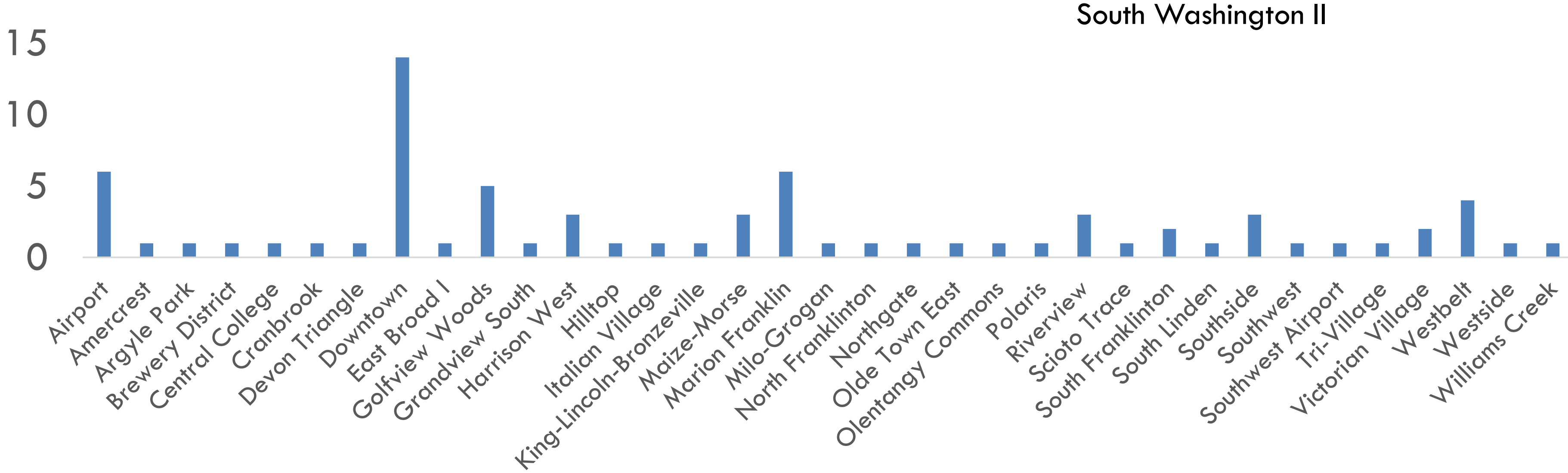
EZ deals demonstrate relatively extensive geographic distribution, while CRA deals are concentrated in select districts.

EZ deals are relatively distributed throughout Columbus, notwithstanding some notable pockets of concentration. Downtown, Marion-Franklin, and the Airport lead in total number of EZ deals.

Reflecting the fact that they are tied to districts, **CRA deals have been concentrated in specific locations.** While 35+ CRAs exist in the City, there are only 8 CRA zones with recent deals, with two, Old State Road and Short North, having more than one deal.

CRA Deals by District	*Deals*
Easton Square Place	1
Old State Road	2
Rickenbacker	1
Short North	2
Cassady/I-670	1
Brewer's Yard	1
Front St./West St.	1
South Washington II	1

Enterprise Zone Deals By Neighborhood



Note: Deals were coded by neighborhood using the Columbus Neighborhoods file from Columbus Open Data.

The City's CRAs have differing capacity to support various project types.

Since the CRA program was established in the 1970s, the City has created a large number of districts, many of which have been amended and/or consolidated over time. Depending on the districts' authorizing ordinances, different project types are eligible, with some districts focused primarily on residential, some focused primarily on commercial, and some on both types. The list below summarizes the 14 "active" CRA districts that the City considered available for future commercial deals as of January 2017.* The districts' status as pre-1994 vs. post-1994 zones also affects their capacity to support projects. While commercial deals can be granted as-of-right in pre-1994 districts, they must be individually negotiated in post-1994 districts, and a pre-1994 district can only be amended twice before transitioning to a post-1994 district.

	Residential		*Commercial*		
	New	*Rehab*	*New*	*Rehab*	*Pre-1994*
Primarily Commercial					
Easton Square Place	N	Limited	Y	N	
Hamilton-161	N	N	Y	Y	
Lazelle/Highbluffs	N	N	Y	Y	
Leonard Taylor	N	N	Y	N	Pre-
Norton-Crosswind	N	N	Y	N	Pre-
Old State Road	N	N	Y	N	
Rickenbacker	N	N	Y	Y	
Roberts Road	N	N	N	Y	Pre-
Stelzer-Stygler	N	Y	Y	Y	Pre-
Both Project Types					
Brewers District	Y	Y	Y	Y	Pre-
Columbus Downtown	Y	Y	Y	Y	Pre-
Jeffrey Residential	Y	Y	Y	N	Pre-
Short North	Y	Y	Y	N	
South Grove	Y	Y	Y	N	Pre-

*The City considers CRA districts to be "active" if 1) its authorizing ordinance does not contain a set date by which construction must be complete; 2) the CRA is still within that window; or 3) the date has passed, but City Council did not exercise its right to direct the Housing Officer to no longer accept new applications.

National Peers and Neighbors

Our study assessed the City's competiveness and incentive structures relative to national peers.

Unlike the other national peer cities where growth is being led by the center city, **Dallas's rapid growth is regional in nature** encompassing much of the Dallas - Ft. Worth Metroplex, which is home to more than 10,000 corporate headquarters, the largest concentration in the United States. Relatively affordable rents compared to other submarkets have attracted companies downtown.

Charlotte is a rapidly expanding banking and professional service hub, with a substantial employment base in finance and insurance. The city has a strong central business district which is home to several Fortune 500 companies. Charlotte is confronting challenges with upward mobility, ranking last in intergenerational mobility according to a 2014 Harvard study.

Indianapolis is a moderately growing, comparably affordable city that as the Indiana state capital serves as a hub of government and higher education institutions. Indianapolis benefits from a substantial, albeit shrinking manufacturing base, as well as a robust healthcare sector. Its governance is fundamentally different because it operates under a consolidated city-county government.

These peers have many characteristics in common with Columbus, with comparable populations, industry mixes, and educational attainment.

	Columbus	Indianapolis	Charlotte	Dallas
Population & percent growth from 2000	860,000 +21%	855,000 +9%	842,000 +56%	1,318,000 +11%
Top industries by concentration	1. Financial Activities 2. Professional and Business Services 3. Education & Health Services	1. Financial Activities 2. Information 3. Professional & Business Services	1. Financial Activities 2. Information 3. Professional & Business Services	1. Professional & Business Services 2. Financial Activities 3. Education and Health Services
Percent with bachelors degree	35%	31%	42%	29%

- The peer cities selected for this study have many characteristics in common with the City of Columbus. While Dallas is over 50% larger than Columbus, Charlotte and Indianapolis have roughly equal populations.
- Relative to the rest of the country, these cities share a similar mix of competitive industries, Financial Activities is either the first or second most concentrated industry in each and Professional Services & Business Services ranks amongst the top three in each city. Dallas and Columbus both share an “Eds and Meds” concentration, while Charlotte and Indianapolis are concentrated in Information.
- All four cities are magnets for young talent; Columbus ranks second in educational attainment of the four peers, outpacing Indianapolis and Dallas but lower than Charlotte.

Sources: U.S. Census, ESRI, U.S. Census LEHD, Bureau of Labor Statistics

Columbus is competitive with peer cities from both a cost of doing business and cost of living perspective.

	Columbus	Indianapolis	Charlotte	Dallas
Average Class A Office Rents (PSF)	$18	$21	$23	$20
Land Price for a Home*	$27K	$17K	$66K	$77K
Corporate Property Tax Rate Rank (1=highest taxes; 73=lowest taxes)**	41st	12th	60th	20th
Cost of Living (Percent greater than Columbus)***	-	1%	7%	8%

- Class A office rents for peer cluster in the $20 to $23 per square foot range for the selected peer cities, around 15% more expensive than Columbus at $18.
- There is a wide variation in the corporate property tax burdens for each city, with Indianapolis and Dallas having a relatively higher burden than Charlotte and Columbus.
- Columbus rates basically equal to Indianapolis in terms of cost of living, but 7% to 8% cheaper than both Charlotte and Dallas on this key metric.

* Average value of the land for a single-family detached owner-occupied unit
** Effective Tax Rate for $1-Million Valued Commercial Property, with $200k in Fixtures

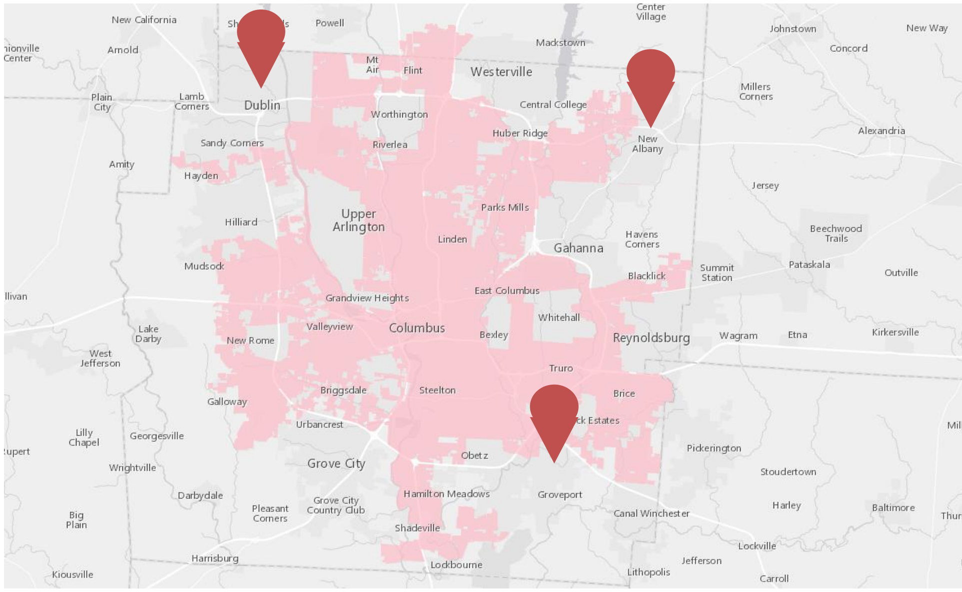
*** Based on the COLI index comparing 60 goods and services collected at the local level from independent researchers
Sources: CoStar, Lincoln Institute of Land Policy, Council for Community and Economic Research

The suite of incentives emphasized by each city is shaped by their statutory contexts and the particular competitive challenges they face.

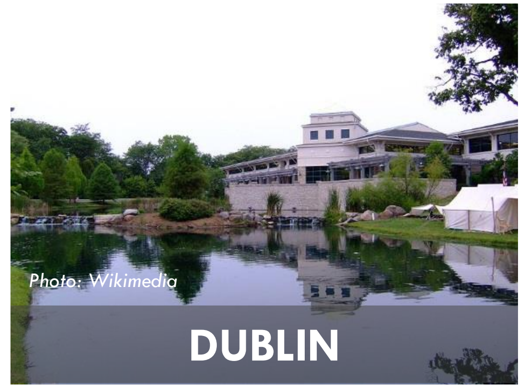
Columbus has a wide variety of programs available to the City, compared to some of its national peers. However, even among cities with more flexibility, each has distinct preferences among the tools they have and how they are deployed. The only consistency between all cities is the use of some version of Tax Increment Financing (TIF).

	Approach	Property Tax Incentives	Performance Incentives for Job Creation	Business & Development Support Grants	TIF
Columbus	Frequently uses performance-based incentives, with those targeting earning carrying the largest deals.	Enterprise Zone, Commercial Community Reinvestment Areas	Downtown Office Incentive, Jobs Growth Initiative, Job Creation Tax Credit		TIF
Indianapolis	Use of abatements and TIF to accomplish policy goals, with most conservative terms of any peer.	Real & Personal Property Tax Abatements, Vacant Building Incentive			TIF
Charlotte	Has only TIF and economic development grants at disposal, but City finds flexibility within limited toolkit.			Business Investment Program grant	Synthetic TIF (TIG)
Dallas	Frequently uses abatements, with localized use of TIF to focus investment.	Property Tax Abatement, Historic Tax Incentive		Economic Development 380 Grant, Neighborhood Redevelopment Grant	TIF

We also examined the incentive toolkits of regional peers to derive best practices within the greater Columbus market.



	Columbus	Dublin	New Albany	Groveport
Population, 2016 & growth from 2000	860,000 +21%	46,000 +45%	10,000 +179%	5,500 +44%
Jobs, 2014 & growth from 2002	499,000 +4.5%	40,000 +8%	11,000 +92%	10,000 +109%



Dublin is a well-established suburb of Columbus, home to the Wendy's headquarters, a distribution center for Cardinal Health, and other leading businesses.

A planned community, New Albany is the wealthiest of the regional peers and is home to the corporate headquarters for Abercrombie & Fitch and Bob Evans.

Groveport is a smaller community close to Rickenbacker Airport, with an industrial focus and a plethora of manufacturing and warehousing properties.

These regional peers all operate under shared enabling legislation from the State of Ohio, but each utilize different tools to different ends.

As these cities largely share a legal framework, there is more alignment across their programs, but still not complete uniformity. Here too, the larger economic context plays a major role in shaping program emphasis, with cities like Groveport leaning on CRA and others relying more on grants. Still, across all of Franklin County, TIF remains one of the most common economic development tools, exempting $1.9 billion in 2015, accounting for 72% of all abated real property values.

	Approach	Property Tax Performance-Based Incentive	Earnings Tax Incentives	Business & Development Support Grants	TIF
Columbus	Frequently uses performance-based incentives, with those targeting earning carrying the largest deals.	Enterprise Zone, Commercial Community Reinvestment Areas	Downtown Office Incentive, Jobs Growth Initiative, Job Creation Tax Credit		TIF
Dublin	Does not offer abatements and emphasizes land acquisition assistance and technology grants.		Job Creation Tax Credit	Land acquisition, Green building, Technology, Relocation grants	TIF
New Albany	Uses full range of programs, but as a master-planned community is very selective in choosing companies to work with.	Commercial Community Reinvestment Areas	Job Creation Tax Credit	Green building, Economic development fund grants	TIF
Groveport	Not much flexibility in deal-making, relying on generous automatic pre-1994 CRA terms.	Commercial Community Reinvestment Areas	Job Creation Tax Credit		

Best Practices to Ensure Competitiveness

HR&A identified three policy realms where Columbus can adapt strategies employed by other cities to achieve its goals.

1. **Real estate: Mitigating cost drivers and enhancing competitiveness**
   Reducing the costs for businesses to locate in Columbus, or improving the value of existing building assets, enhances the city's competitiveness. Relative to regional and national peers, Columbus is largely cost competitive, but the comparatively generous incentives available within the region complicates this dynamic.

2. **Neighborhoods: Targeting areas for commercial development**
   Getting businesses to create local jobs and invest in neighborhoods can bring positive spillover effects to the surrounding area. By selectively incentivizing commercial growth in targeted areas, the City can leverage its incentive portfolio to advance important neighborhood development goals and compete within the region for a variety of business types.

3. **Jobs: Promoting job quality and access to opportunity**
   Other communities have elected to establish industry and/or job quality targets in order to receive a deeper incentive or any incentive at all. Columbus can clarify its policy on the minimum wage required to receive incentive awards, and also explore ways to encourage certain types of jobs and career ways for local residents.

Columbus remains competitive with national peers, but faces significant competition from neighboring municipalities' generous terms.

Incentive Terms	
Ohio Cities	
Columbus	**CRA** Typically 50% or 100%, 15 year max **Enterprise Zone** Typically 75%, 10 year max
Groveport	**CRA, industrial/warehousing** 100% rate, 15 year max
New Albany	**CRA, office/manufacturing** > 150k sf: 100% rate, 15 year max < 150k sf: 100% rate, 10 year max
National Peers	
Dallas	**Property Tax Abatement** 90% rate, 10 year max
Indianapolis	**Property Tax Abatement** Initial 100% rate decreasing each year, 10 year max

- **Groveport and New Albany's long terms and 100% rates present strong competition** when a downtown location is not a factor. As smaller and more homogenous municipalities than Columbus, these cities aggressively pursue deals that fit their profile. Groveport makes available pre-1994, maximum CRA abatements to industrial and distribution businesses seeking proximity to Rickenbacker Airport. New Albany has maximum rates that are similarly generous for office and manufacturing, allowing it to extend offers when desired that can greatly exceed anything from Columbus under the same program.
- While its terms are different, the **maximum cost in Dallas is comparable to Columbus, while the incentive structure in Indianapolis is considerably more conservative due to the burn-off schedule employed.**

Typical incentive awards in Indianapolis follow a standard burn-off schedule, but the City maintains the flexibility to be more aggressive for some deals.

	1 Year	2 Years	3 Years	4 Years	5 Years	6 Years	7 Years	8 Years	9 Years	10 Years
YR 1	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
YR 2		50%	66%	75%	80%	85%	85%	88%	88%	95%
YR 3			33%	50%	60%	66%	71%	75%	77%	80%
YR 4				25%	40%	50%	57%	63%	66%	65%
YR 5					20%	34%	43%	50%	55%	50%
YR 6						17%	29%	38%	44%	40%
YR 7							14%	25%	33%	30%
YR 8								13%	22%	20%
YR 9									11%	10%
YR 10										5%

- **Indianapolis's burn-off means that rate declines each year.** This has major implications for the amount of money Indianapolis is laying out over the course of the deal, particularly on the back end. For example, in year nine of a deal under the standard schedule in Indianapolis, the recipient would be paying 90% of their tax (10% abated), while in Columbus, they could still be receiving a 100% abatement.

- **Indianapolis is willing to commit to a more aggressive schedule for priority projects.** A 70% abatement for 10 years can be a negotiated schedule for significant deals. As such they have the flexibility, when needed, to put together larger deals, although these terms and rates are both lower than what is available to Columbus.

Some cities have developed targeted real estate incentives designed to solve specific challenges.

- **Incentivizing physical improvements to aging commercial products** such as Dublin's technology upgrades to aging office buildings, makes the building more competitive in attracting and retaining tenants. Upgrades in Dublin have included the installation of 100 gigabit fiber optic networks to buildings within its Metro Center office park. Dublin views these investments as safer than issuing incentives specific to a single company, as positive impacts from investments within a building are sure to remain with the community.

- Incentives can **be directed to encourage green building**. New Albany provides tax credits and permit discounts for such investments, and Cincinnati offers automatic max durations for projects achieving LEED Silver or higher certification. The Cincinnati program has been one of most well-used incentive programs within their portfolio.

- Indianapolis's vacant building program offers up to two years in abatements to help **stabilize commercial districts** and keep buildings in use, bringing investment to long-neglected areas. This program can offer an abatement on current taxes in addition to future taxes and is restricted to nuisance buildings that have been vacant for extended periods of time.

National peer cities have continued to prioritize development in their downtowns, the core of the cities' business, vitality, and identity.

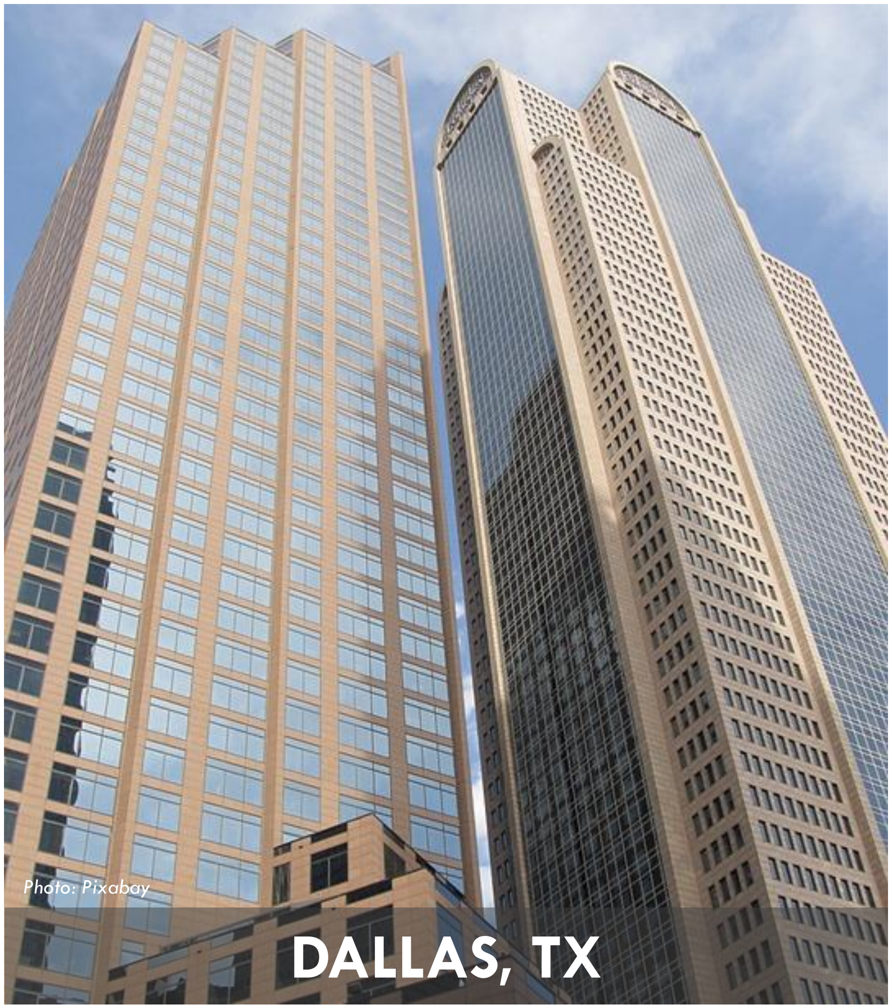


Photo: Pixabay

- **Dallas prioritizes commercial deals in downtown.** This is important to maintaining a competitive CBD, as stronger submarkets exist in the region. Previously, Dallas had additionally incentivized residential developments downtown, but has begun to move away from this as these projects have found success. Successful deals have included recruiting the headquarters of AT&T to bring thousand of jobs downtown. They are currently in the process of further expanding their presence, bringing an additional 1,000 employees and making improvements to surrounding public spaces through improved restaurant, retail, and event center offerings.

- **Uptown Charlotte (the CBD) remains a focus of incentive awards despite a healthy real estate market.** This helps Charlotte to continue to attract headquarter users to its most prominent business district and support related economic development initiatives.

Peer cities also give special consideration to areas in need of investment.

Photo: Flickr

- **Indianapolis considers increased levels of incentive** for deals in areas in need of revitalization. Geography is an important consideration as they assess deals, which is guided by local priorities, as well as national programs such as Promise Zones and census tracts identified as low and moderate income for the purpose of Community Development Block Grants.
- **Dallas applies a strict impact analysis, but also weighs incentives relative to policy goals.** Deals that are more borderline via traditional metrics can still be considered if they are in priority areas of the city.
- Both Indianapolis and Dallas have used **TIF to fund affordable housing.** These cities have expanded the focus of this tool to increase the supply of affordable units throughout the city. In the case of Dallas, it is the primary tool used to promote mixed-income housing, facilitating 2,300 affordable units in just over ten years.

Columbus should strengthen its commercial abatements in view of both local and national dynamics.

1. **Columbus should revise its commercial and industrial incentive policies to be more competitive with the awards offered by suburban municipalities.** Especially for projects that are highly sensitive to costs, the City of Columbus risks being uncompetitive without changes to its policies to allow for deeper incentives in specific circumstances. Columbus should develop an approach for enhancing the competitiveness of its commercial and industrial awards in outlying parts of the City that are less differentiated from suburban municipalities. Selection of these locations should be strategic and targeted so as to encourage the strengthening of outlying employment hubs.

2. **Columbus should implement new initiatives targeted to enhance the quality of aging existing office product throughout the city.** A green building/rehabilitation incentive (possibly utilizing the PACE program being advanced by the Port Authority) or other program promoting physical upgrades would improve the competitiveness of underperforming buildings or allow for an easier conversion to residential.

3. **Columbus should implement tiered levels of incentives to prioritize targeted jobs centers.** This could provide bonuses on top of a base incentive to provide the best rates and terms for actions that align with City interests. For example, a recipient could be eligible for a higher rate or term by choosing to locate in a disinvested area.

4. **Columbus must continue to prioritize the use of downtown incentives to strengthen the national presence of Downtown Columbus.** As existing market rents are not yet high enough to justify commercial construction with structured parking, the City should continue to focus on building a critical mass of downtown activity that can sustain itself and further enhance the profile of Downtown Columbus as a national and global business destination. The availability of downtown incentives is critical to supporting the continued evolution of Downtown Columbus, which is of benefit to the City and region as a whole.

Several of the peer cities are more targeted in the kinds of jobs and industries they are incentivizing, as well as their rationale for wage thresholds.

- **Some cities focus on incentivizing only those deals that create quality jobs contributing to an existing industry ecosystem.** Peer cities are using a variety of methods to weigh the benefits of these deals, even as they desire to keep some flexibility in these assessments, by adjusting factors and their weights to reflect priorities.

- **Indianapolis enhances term and rate depending on target industries and the number of jobs being produced in addition to factoring in wages** by utilizing a scorecard with weights that can change with priorities. For example, when Indianapolis evaluates prospective deals, they provide a bonus for businesses providing jobs in targeted industries and generally tries to keep projects with a minimum average hourly wage of $11 to $15. For jobs below those wages, Indianapolis may consider not counting those jobs in their scorecard, or may forgo the deal entirely.

- **Dublin heavily considers its target industries, which are in categories with relatively higher income,** such as corporate headquarters, medical research and development, business support services, information technology, marketing, and companies supporting the Honda factory. Dublin's programs, particularly their technology retrofits, are highly oriented towards these industries and the well-paying jobs they provide.

- **Charlotte aims to incentivize jobs that pay above the average for call center jobs,** setting their standard relative to call center jobs because they are a common project undertaken in the city. Still, Charlotte recognizes the need for jobs at different levels and skills and maintains a preference for higher paying positions.

- **Local suburban municipalities, such as New Albany, focus on incentivizing well-paying jobs.** As the entire City of New Albany is master planned, with 98% of the 3,000 acres in the business park owned by a single developer, they have the ability to be highly selective in the businesses they seek to attract – and will forgo incentives unless the prospect fits a very clear profile. Given its strong economic position, New Albany competes not just on a regional basis, but also with many of the cities considered peers of Columbus, such as Dallas, Charlotte, and Pittsburgh.

Suburban neighbors and national peers are additionally seeking to strengthen workforce development and preferences for marginalized populations.

- **Charlotte's Economic Development Department is considering implementing a 10% MWDBE participation goal** as a part of their grant programs and is examining ways to further incorporate workforce development requirements into their incentives.
- **New Albany makes special grants available** for training and development on a case-by-case basis. This increases the ability of New Albany to maintain flexibility and customize their approach for each prospective business while aligning these discussions closely with workforce development goals.
- **Indianapolis is exploring incentive enhancements in partnership with the City's ex-offender re-entry program** and workforce development programs, with possible implementation methods including bonuses to the incentive, or as an interim step towards receiving incentives.

HR&A tested the potential impacts of alternative wage requirements by examining them in the context of jobs created by incentivized firms to date.

The City currently requires firms that are receiving incentives to create jobs with wages of at least $12 per hour. To test the potential impacts of setting a higher wage threshold for jobs to be created under the City's performance-based incentives, HR&A determined the average wage per job for all DOI, JGI, and JCTC deals awarded between 2011 and 2015, using data on total payroll and number of jobs. HR&A then evaluated the share of deals falling under each program where the average wage (indexed for inflation) would have met or exceeded the relevant wage threshold ($13 per hour, $15 per hour, and the annual mean hourly wage for the Columbus MSA).

Percent of deals where average wage would have met or exceeded relevant wage threshold

Program	Ohio Min. Wage	$12 Per Hour Wage	$13 Per Hour Wage	$15 Per Hour Wage	Annual Mean Hourly Wage,. Columbus MSA
DOI	100%	100%	100%	98%	90%
JGI	100%	100%	99%	96%	63%
JCTC	100%	98%	95%	80%	51%

- Setting the threshold wage at **$13 per hour** would affect **less than 1% of DOI and JGI deals**, and only **5% of JCTC deals**. In contrast, setting the minimum threshold at **$15 per hour** would affect **20% of JCTC deals**, but only **2% and 4%** of **DOI and JGI deals**, respectively.
- **The vast majority of DOI deals incentivize jobs with wages above the MSA average**, while this is the case for only about half of JCTC deals.
- The differing capacity of jobs tied to deals under the three programs to meet the thresholds is tied to their different sectoral focuses.
- A $15 hour minimum wage floor would exclude a number of jobs in the wholesale trade and manufacturing sectors.
- In considering changes to the average minimum wage, it is important to **recognize the relative size of employment for average deals** in each of the programs, with JCTC representing slightly larger deals. As an example, JCTC had a median of 90 jobs per deal between 2011 and 2015, as compared to 62 jobs for JGI and 40 jobs for DOI, respectively.

Source: HR&A Advisors, Inc.

Columbus can better leverage its incentive policies to drive job quality and encourage economic opportunity.

1. **Columbus should consider developing a scorecard to support standardized decision-making and enable consistent evaluation of deals according to a set of quantitative and qualitative factors.** The scorecard could enable Columbus to assess deals by comparing them both within and across programs based on quantitative and qualitative factors identified by City policymakers as important. For example, cost per job (in terms of foregone revenue to the City) could be used as a quantitative metric to compare deals both within the JCTC program and across all three performance-based incentive programs (DOI, JGI, and JCTC). Other factors, such as job quality, could be assessed more qualitatively (e.g., support for workforce development programs).

2. **Columbus should consider implementing tiered levels of incentives to prioritize job quality and workforce development outcomes.** Similar to the approach for geographic bonuses, the City can likewise incorporate bonuses for offering jobs with a higher median wage, providing education and training opportunities, and other means of expanding economic opportunity.

3. **Columbus should consider enhancing the $12 per hour floor for incentives across programs, in light of data on jobs incentivized to date.** The majority of firms are already meeting this threshold, suggesting that there is an opportunity to both support higher-wage jobs across the board and to encourage firms that are lagging behind.

4. **Columbus should explore new programs to support economic inclusion, including incentives for participating in restored citizen re-entry and overall workforce development programs.** For maximum feasibility, the City may want to focus its recruitment efforts for these programs on firms that are currently located within Columbus and have a relationship with the City, so that it can work with them to overcome implementation barriers.

Appendix I: Neighborhood Decision Support Tool

Neighborhood Indicators | Decision Support Tool (1/2)

The residential scan conducted for the four focus neighborhoods (Hilltop, Linden, East Side, and Short North) provided insight into indicators that can be used to evaluate neighborhood health and segment neighborhoods into typologies. The indicators have been divided into three categories: **demographic**, **residential market demand,** and **reinvestment activity**.

The specific indicators were selected based on three criteria:

- Their usefulness in illuminating neighborhood market health;
- Their ability to be quantified and thus benchmarked across neighborhoods; and
- The accessibility of the underlying data.

While quantitative factors were prioritized because of their ability to be easily compared across neighborhoods, there also are qualitative factors useful in evaluating neighborhood health and investment readiness (e.g., neighborhood commitment to a shared vision, community development corporation capacity, etc.).

Neighborhood Indicators | Decision Support Tool (2/2)

As needed, we have identified caveats to guide usage of specific indicators. However, there are three overarching items to highlight:

1. The indicators represent a "snapshot" in time, and data must be updated moving forward.
2. To make market segmentation decisions, indicators should be considered in concert, as some, such as high housing vacancy, can reflect both a neighborhood in distress and one engaged in the early stages of revitalization.
3. While the indicators are designed for cross-neighborhood use, variations in economic health also likely exist within neighborhoods, such that a Ready for Revitalization neighborhood might include sub-areas more characteristic of Persistently Distressed or Market-Ready neighborhoods.

This set of indicators also complements other efforts in Columbus and the State of Ohio to define characteristics of neighborhoods that are primed for development if catalytic investment is provided.

- In **2013**, the Greater Ohio Policy Center evaluated indicators of housing investment and revitalization activity in Weinland Park ("Achieving Healthy Neighborhoods: The Impact of Housing Investments in Weinland Park").
- In **2017**, the Homes on the Hill Community Development Corporation worked with the Mid-Ohio Regional Planning Commission to develop a street-level tool for investment decisions in the neighborhood.
- In **2017**, the Greater Ohio Policy Center assessed relevant indicators and developed neighborhood typologies for Akron ("Build in Akron: Opportunities for Residential Reinvestment in Akron's Neighborhoods").

Demographic Indicators

	Persist. Disinvested	Ready for Revitalization	Market-Ready	Columbus Baseline	Rationale
a. Population growth, 2000-2016	Below baseline Hilltop / Linden -9% / -6%	Below or above baseline, *depending on presence of vacant parcels awaiting redevelopment* East Side -8%	Above baseline Short North +23%	+19%	In general, population declines suggest that the neighborhood is becoming less attractive to existing residents and/or new residents are not entering it. Population decline can be associated with redevelopment in the short term, but sustained declines are likely due to disinvestment.
b. Median household income growth, 2000-2016	Significantly below baseline Hilltop / Linden +1% / -3%	Ideally, at or above baseline *with slower growth in areas with large numbers of students or subsidized housing residents* East Side +28%	Above baseline Short North +65%	+17%	Rising median household incomes suggest that higher-income residents are entering the neighborhood, existing residents are increasing their earning potential, or lower-income residents are leaving.
c. Poverty rate	Significantly above baseline Hilltop / Linden: 36% / 33%	Above or below baseline, *depending on concentrated, persistent poverty* East Side 42%	Below baseline Short North 19%	21%	High levels of poverty suggest social and economic challenges that may pose a barrier to reinvestment. However, in neighborhoods that are otherwise prosperous, small, but concentrated, areas of poverty can raise the overall poverty rate.

Residential Market Demand Indicators

	Persist. Disinvested	Ready for Revitalization	Market-Ready	Columbus Baseline	Rationale
a. Growth in median rents PSF, 2010-2017	Below baseline Hilltop / Linden +13% / +15%	Below or above baseline, *depending on presence of vacant parcels awaiting redevelopment* East Side +26%	Above baseline Short North +58%	+19%	Higher rates of rent growth reflect rising housing demand. When considering rent growth rates, it is important to take base rent levels into account. Revitalizing neighborhoods may have higher rent growth rates relative to market-ready ones because they are starting from a lower base.
b. Housing vacancy rate	Above baseline Hilltop / Linden 20% / 16%	Can be below or above baseline, *depending on presence of vacant parcels awaiting redevelopment* East Side 28%	Below baseline Short North 9%	10%	Higher levels of vacancy can reflect lower housing demand or the presence of dilapidated housing. However, they also can indicate revitalization in progress, as units sit vacant before or immediately after redevelopment.

Reinvestment Activity Indicators

	Persist. Disinvested	Ready for Revitalization	Market-Ready	Columbus Baseline	Rationale
a. Mortgage foreclosure rate: # of foreclosures per 10,000 homes, 2017	Above baseline Hilltop / Linden 8.7 / 2.1	May be above or below baseline, *due to speculation. Revitalizing neighborhoods may have foreclosure spikes during downturns, as speculators retrench.* East Side 5.2	Above baseline Short North 0	3.2	Higher foreclosure rates suggest an environment of ongoing housing price declines, such that current prices fall below current mortgage values. Under these conditions, homeowners have both a reduced economic incentive to make their payments and difficulty locating investors to buy them out.

Appendix II: Advisory Committee Acknowledgements

Incentive Study Advisory Committee Acknowledgements

This Advisory Committee helped guide the City of Columbus and its consultants through the initial scope, draft reviews, and recommendations for the Incentive Study:

Liz Brown, Councilperson, Columbus City Council
Greg Daniels, Partner, Squire Patton Boggs
Amanda Hoffsis, Senior Director of Physical Planning & Real Estate, The Ohio State University
Bruce Luecke, President and CEO, Homeport
Bruce McClary, Vice President, Alliance Data Systems
Kenny McDonald, President and CEO, Columbus2020
Sean Mentel, Attorney, Kooperman Mentel Ferguson Yaross
Jaiza Page, Councilperson, Columbus City Council
Lisa Patt-McDaniel, President, Workforce Development Board of Central Ohio
Mark Wagenbrenner, President, Wagenbrenner Development
Trent Smith, Executive Director, Franklinton Board of Trade
Steven Schoeny, Director, City of Columbus Department of Development

Department of Development Staff:
Quentin Harris, Deputy Director
Tonya Barnett, Program Coordinator

Appendix III:
Study Timeline

Study Timeline

Jan. 30 & 31, 2017	Initial Meetings with HR&A and VSI (Mayor, Department of Development Internal Review Team, Incentive Study Advisory Team)
May/June, 2017	Presentation of Incentive Study Findings by HR&A and VSI to Department of Development and Incentive Study Advisory Team
June 20, 2017	Final Draft of Incentive Study and Recommendations
Aug. through Oct., 2017	Five Community Incentive Study Hearings led by Director of Development
Nov. through Dec., 2017	Final Recommendations for Policy Implementation reviewed internally
Jan. 2018	Final Incentive Study presented to Administration and City Council

THE CITY OF COLUMBUS

Incentives Policy Evaluation

HR&A Analyze. Advise. Act.

VSI Specialists in Real Estate Market Research and Appraisals

Final Report