



# **ADU Manual In-Lieu Fee & Student Housing Study**

**City Council Presentation**



# Agenda

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- **Study Background, Purpose & Scope**
- **Public Engagement, Goals, and Guiding Principles**
- **Study Findings**
  - Findings from Other Jurisdictions
  - Findings from Initial Fee Evaluation
- **Feasibility Impacts**
- **Policy Recommendations**

# Study Purpose, Background, and Scope



# Study Purpose

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- Annual review and update of the Affordable Dwelling Unit Monitoring and Procedures Manual (ADU Manual)
- Evaluate current merits of
  - In-lieu fee payments
  - Bonus height projects
  - Student housing
  - Geographic criteria



# Affordable Housing and Student Housing Requirements

## Residential Development:

- Projects  $\geq 10$  units provide 10% at  $\leq 60\%$  AMI or pay in-lieu fee
- Bonus height for units at  $\leq 50\%$  AMI or same fee
  - In-lieu fee = average total cost per unit of developing a residential unit in the Charlottesville market
  - Bedroom count up to 3 bedrooms

## Student Housing

- Projects that rent by the bedroom within  $\frac{1}{2}$  mile of Campus Grounds
- No on-site affordable units are allowed, in-lieu fee is required
  - In-lieu fee = difference between the value of a market rate unit and that of an affordable unit (i.e. value gap)
  - Bedroom count up to 3 bedrooms

## Current Fee Structure – Non-Student Housing

Number of Bedrooms	Cost per Rental Unit	Cost per Ownership Condominium Unit
Studio	\$184,152	\$324,510
1	\$250,797	\$362,120
2	\$368,303	\$413,709
3	\$547,339	\$483,138

## Current Fee Structure - Student Housing

Number of Bedrooms	Cost per Rental Unit	Cost per Ownership Condominium Unit
Studio	\$41,380	\$269,727
1	\$107,472	\$342,937
2	\$186,038	\$284,653
3	\$261,209	\$407,741



# Rationale for Different Student Housing Requirements

- Student housing projects do not typically include non-student housing
  - Unique requirements for student housing projects (rental by bedroom, parental preferences for student living conditions and amenities)
- Value gap method resulted in a lower in-lieu fee requirement
- Lower fee requirement deemed appropriate given the lack of an on-site affordable unit requirement

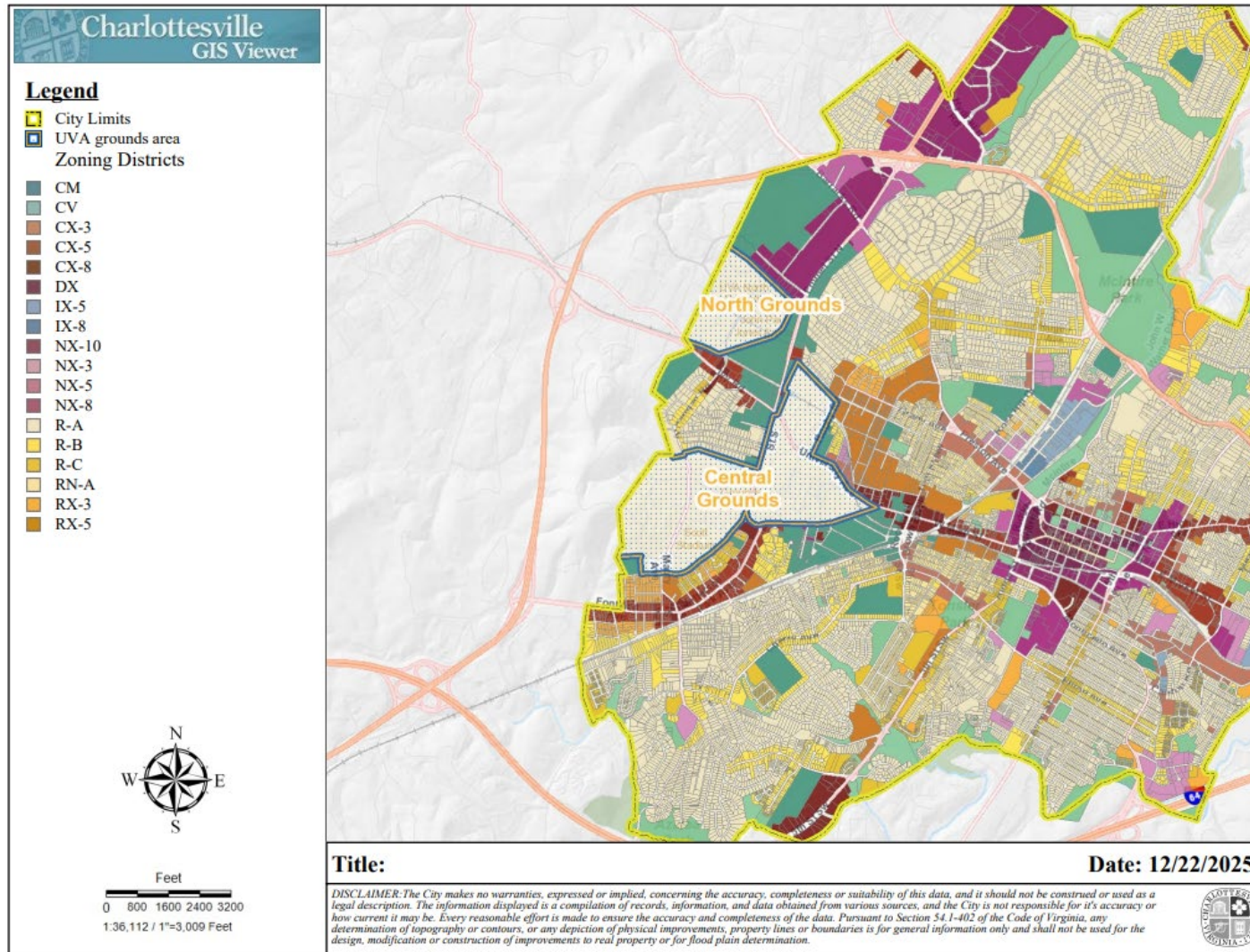
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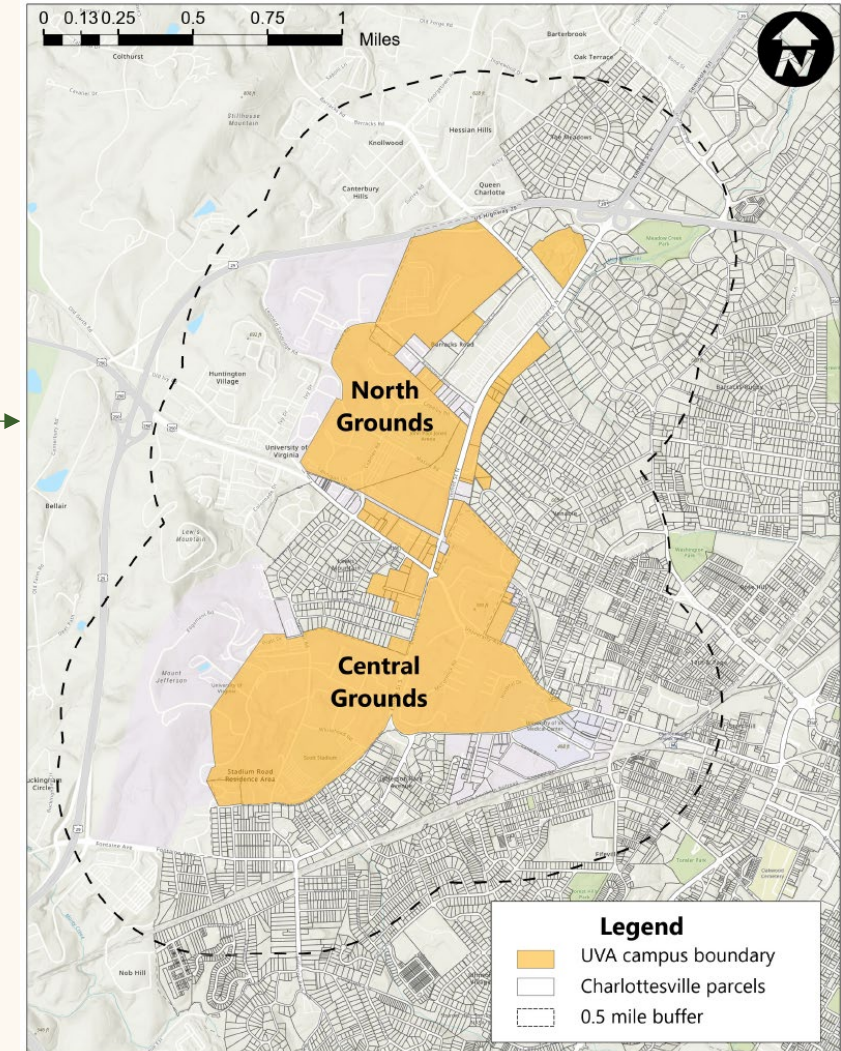
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# Locations Where Affordable Housing Expectations for Student Housing Apply



UVA Grounds



Area within 1/2 Mile of Grounds



# Student Housing History

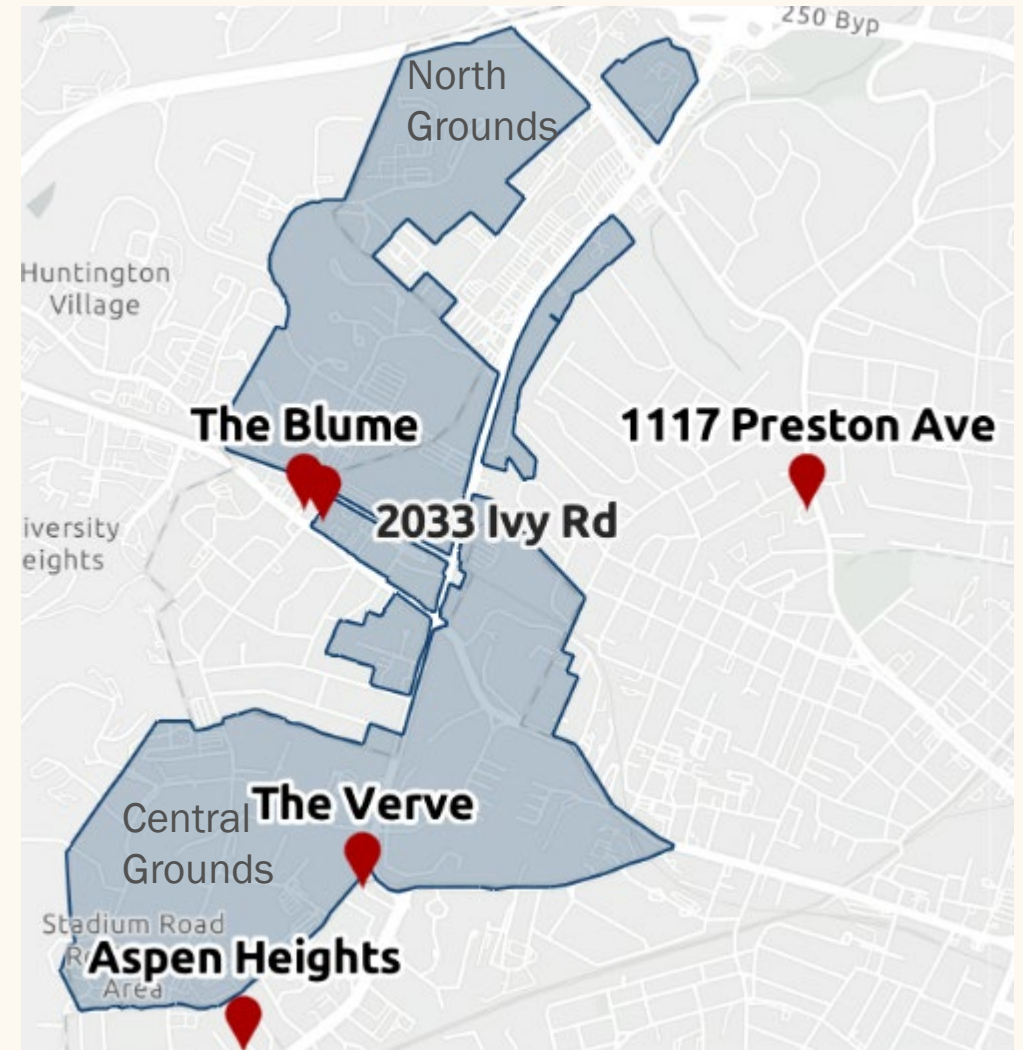
- UVA enrollment growth has steadily increased demand for student housing.
- Historically, students lived:
  - On Grounds (limited capacity)
  - In older apartment complexes near UVA
  - In converted single-family homes in neighborhoods within walking distance to the university
- As enrollment grew, private developers increasingly stepped in to build purpose-built student housing, concentrated closer to Grounds
  - 4-bedroom units, rental by bedroom

Neighborhood	Key Student Housing Features
The Corner / University Area	Oldest off-Grounds student district; dense housing near UVA
Venable	Early 20th-century homes converted to rentals; adjacent to Grounds
JPA Corridor	Mix of apartments + subdivided homes; close to hospital & Grounds
West Main	Longstanding transition zone; now major student-housing corridor
Fifeville (edges)	Increasing student-housing pressure near West Main
10 <sup>th</sup> and Page	Early 20 <sup>th</sup> -century homes converted to rentals; increasing student housing pressure

# Student Housing Supply and Demand

Total Undergraduate and Graduate Enrollment On Grounds ~ 27,000\*

- ~ 7,000 beds on Grounds (4,000 for First-Years)
- UVA has targeted for all 2<sup>nd</sup> Year Students to live on Grounds by 2030
- 5 projects currently under construction off Grounds, totaling 3,515 beds
  - Verve (442 Units / 1,332 beds)
  - Aspen Heights (119 Units / 390 beds)
  - 1117 Preston Avenue (16 Units / 32 beds)
  - Ivy (Blume) (231 Units / 641 beds)
  - 2033 Ivy Rd (780 beds)
  - Darden Graduate Housing (County) (340 beds)



\*Darden Graduate Housing not pictured

# Student Housing – National Perspective

- National report note a continued trend toward:
  - Private bedrooms and bathrooms
  - High-end amenities (fitness centers, study lounges, pools)
  - Mixed-use developments near campus
  - Preference for **private space and modern amenities**

\* [Inland-Insights-Robust-Student-Housing.pdf](#)



The Verve, Charlottesville, VA (UVA)



Ivy (Blume), Charlottesville, VA (UVA)

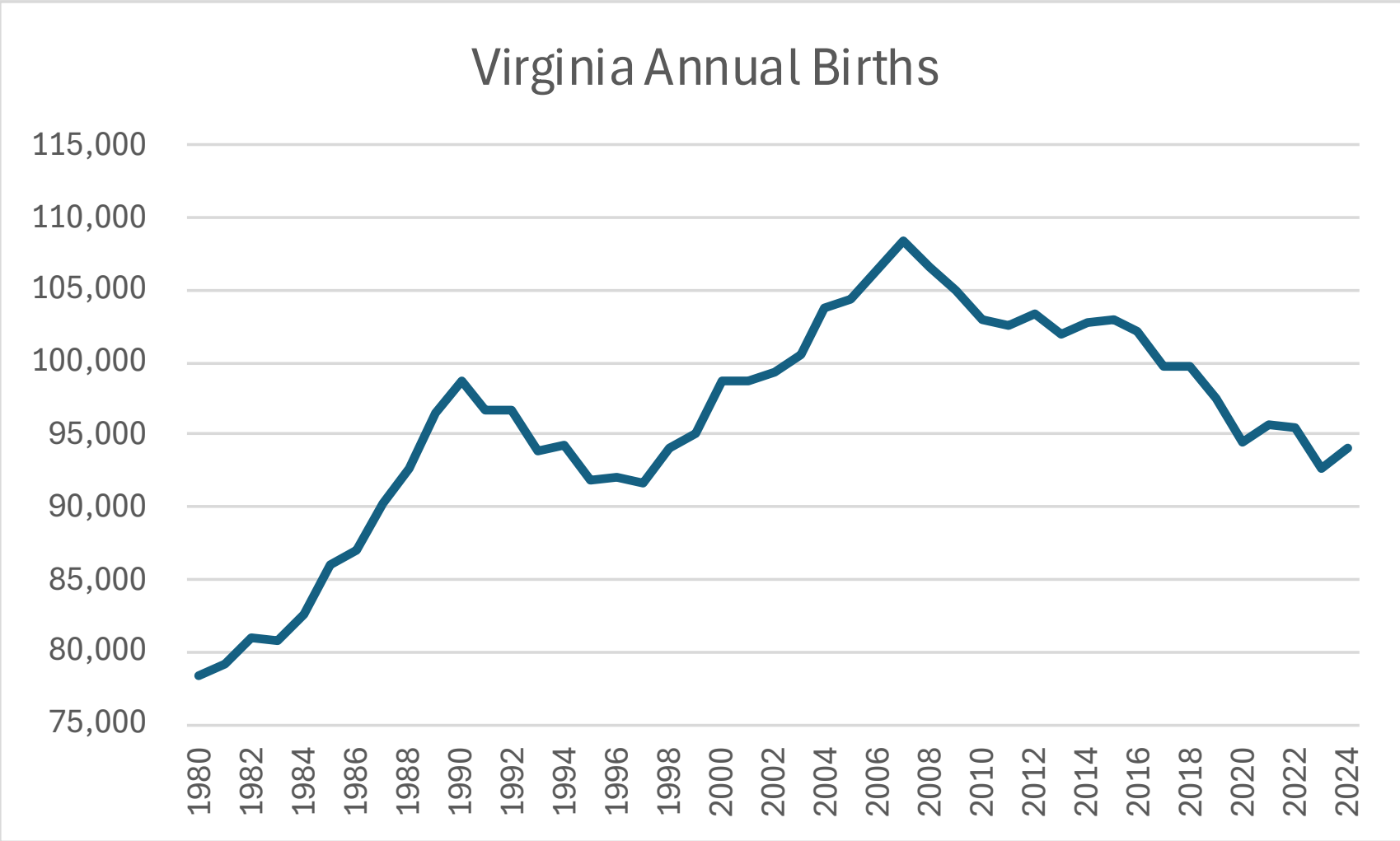


Jolly Roger, Greensboro (ECU)

# Virginia Demographic Trends



Number of births has been declining since 2008





# Initial Observations and Concerns

## Residential Development (Non-Student Housing)

- Significant gap between non-student and student fees
- Current fee structure may not be best practice
- In-lieu fee payment does not change for bonus height

Current Fee Structure – Non-Student Housing

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# Initial Observations and Concerns

## Student Housing

- Lack of on-site unit requirement limits new ADUs near campus
- Student housing’s lower per-bedroom fee further incentivizes student housing
- No consideration for conversions to non-student housing, or 4+ bed units
- Large geography leads to displacement concerns

### Current Fee Structure – Non-Student Housing

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# Timeline

December 2025 – January 2026: Consultant Evaluation of Key Study Questions

- Do the current in-lieu fee payment structures accurately reflect construction costs and the value gap?
- What are the approaches of other Virginia jurisdictions?
- What approach to requirements for in-lieu fee payments best incentivize production of on-site units without limiting development feasibility?

January – February 2026: Stakeholder Engagement

March – May 2026: Develop Proposals and Commission and Council Review



# Timeline

December 2025 – January 2026: Consultant Evaluation of Key Study Questions

January – February 2026: Stakeholder Engagement

- What are the most important things for the policy to achieve?
- What impacts do we want to avoid?

March – May 2026: Develop Proposals and Commission and Council Review



# Timeline

December 2025 – January 2026: Consultant Evaluation of Key Study Questions

January – February 2026: Stakeholder Engagement

March – May 2026: Develop Proposals and Commission and Council Review

- Guiding Principles
- Feasibility Analysis
- Policy Recommendations\*
- Manual and Development Code Amendments

\*Development of recommendations will be coordinated with presentation of key findings and recommendations from tax abatement study

# Public Engagement, Goals, and Guiding Principles



# Goals and Guiding Principles

Asked staff and stakeholders two key questions:

- **What are the most important things for the policy to achieve?**
- **What impacts do we want to avoid?**

Questions posed as ‘would you rather’, to highlight trade-offs in fee policy

## WHAT MATTERS MOST?

Fewer projects, but mixed income  
vs.  
More projects, but units built elsewhere

Mixed income in buildings  
vs.  
Mixed income on site

Private provision of ADUs  
vs.  
Nonprofit/public provision of ADUs

More financial control of ADU decisions  
vs.  
Less operational burden of ADU decisions





# Engagement Strategy & Reach

*The engagement process for the Housing and Student Housing Study utilized a "digital-first, community-supported" model to capture broad feedback and targeted stakeholder expertise.*

## **Connect Charlottesville Participation Metrics**

- 270 Unique Visitors and 475 Total project page
- Over 800 Page Views, indicating repeat engagement.
- 45 Contributions submitted across various forum topics and surveys.

## **Engagement Mediums**

- Digital: Connect Charlottesville portal, interactive website features, and targeted email campaigns.
- Consultative: Meetings with the Housing Advisory Committee, stakeholder group representatives, and the Neighborhood Leaders list-serve.
- In-Person/Offline: Promotions via Boards and Commissions, newsletters, and direct neighborhood outreach.



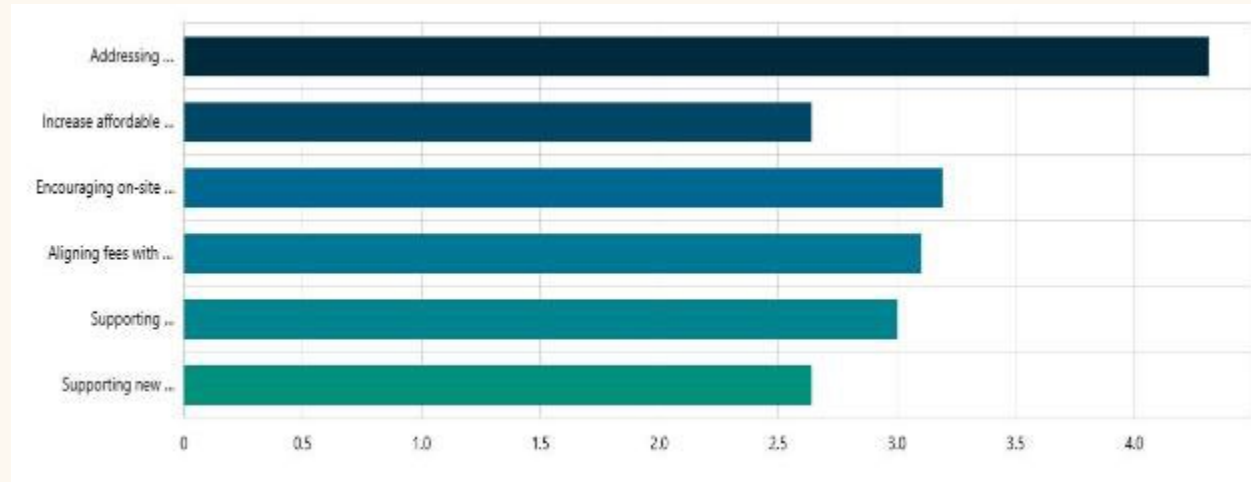
# Key Discussion Themes & Sentiments

## Core Themes:

1. **Neighborhood Preservation & Character** - A High concern regarding the "ruining of the character of Charlottesville" due to luxury high-rises, particularly in areas bordering the University.
2. **In-Lieu Fee Loopholes** - Significant apprehension that current in-lieu fee policies allow developers to bypass the actual construction of affordable units, potentially failing to meet the city's housing needs.
3. **Environmental & Quality of Life Impacts** - Concerns that increased building heights lead to reduced green space, loss of natural sunlight, and increased greenhouse gas impacts.
4. A recurring theme of private **Student Housing "Encroachment"** on year-round residential areas, creating a detrimental impact on neighborhood stability.
5. Specific anxiety that market-driven density mandates will accelerate **Displacement Risks** of long-term residents, particularly in historically marginalized areas.

# Community Priorities & Sentiment

1. **Addressing displacement pressures in vulnerable neighborhoods** – greatest percentage of participants ranking it as their top concern
2. **Encouraging on-site affordable housing units** - preference for "in-kind" units within new developments
3. **Aligning fees with current financial costs to produce and maintain affordable units** - ensuring policy revenue matches the actual cost of creating housing.
4. **Supporting development feasibility for housing production** - balancing policy requirements with the practical ability to build new units.
5. **Supporting new student housing within walking distance to UVA Grounds** – seeking to concentrate students to protect residential areas.
6. **Increasing affordable housing options for students** - expanding specific housing supply for the student population.



# Guiding Principles



## **We want to have:**

- ✓ Predictability
- ✓ ADUs on site in new development
- ✓ Development at a wide-range of price points
- ✓ A policy that promotes both public and private provision of ADUs
- ✓ New build and preservation of existing ADUs are both important

## **We want to avoid:**

- ✗ Concentrating ADUs in low-cost areas
- ✗ Making worse the displacement pressures in vulnerable neighborhoods

# Study Findings



# Study Findings | Best Practices Fee Methods

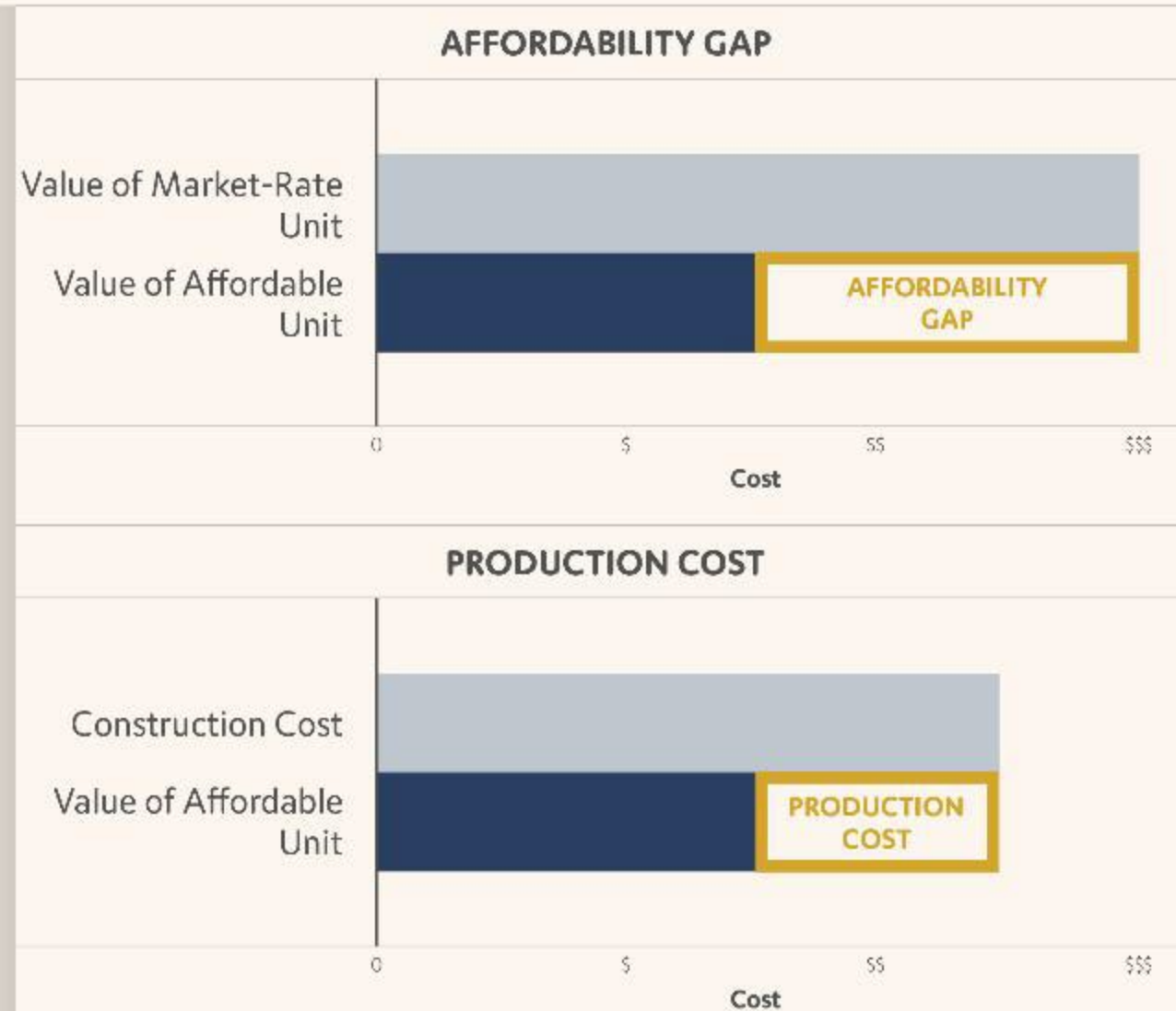
**Affordability Gap** –the financial gap between the value of a market-rate unit and that of an ADU. Measures impact on developer

**Production Cost** –the financial gap between construction cost and the value of an ADU. Measures impact on non-profit developer

- The amount needed to break even

**Fees can be fixed or indexed, and can be per unit or per SF**

References: [Urban Institute 2020](#), [Grounded Solutions Network](#)



# Study Findings | Best Practices Fee Methods

Note that construction cost (the current method) is **not listed** among common best practice

# Study Findings | Best Practices Fee Methods

PROS	CONS
<b>CONSTRUCTION COST</b>	
<ul style="list-style-type: none"><li>• High fee promotes on-site units</li><li>• Ensures sufficient funding to build units off site</li></ul>	<ul style="list-style-type: none"><li>• Lack of developable land limits off-site units</li><li>• Fee is higher than loss of revenue from ADUs</li><li>• Does not account for affordability levels</li></ul>
<b>PRODUCTION COST</b>	
<ul style="list-style-type: none"><li>• In line with subsidy for nonprofit developer to build off site units</li><li>• Doesn't depend on keeping up to date with fluctuating market rents/prices</li></ul>	<ul style="list-style-type: none"><li>• Lack of developable land limits off-site units</li><li>• Fee is much lower than loss of revenue from ADUs – developers likely to choose fee</li></ul>
<b>AFFORDABILITY GAP</b>	
<ul style="list-style-type: none"><li>• <b>Good match for market-rate developer cost</b></li><li>• <b>Could fully subsidize off-site units</b></li><li>• <b>Allows for fees at multiple affordability levels</b></li><li>• <b>May align well with tax abatement strategy</b></li></ul>	<ul style="list-style-type: none"><li>• <b>Lack of developable land limits off-site units</b></li><li>• <b>Less likely to promote on-site units than current fee</b></li></ul>

# Findings from Other Jurisdictions



# Takeaways from Other Virginia Jurisdictions

- Most places with requirements have an in-lieu fee
- Fee in lieu structures are different for every community
- Few communities have ADU requirements similar to Charlottesville



# Minneapolis Case Study

- Uses a definition of rooms rented by the bedroom and location to define student housing, within a university overlay district.
- Student housing projects can pay an in-lieu fee or provide onsite units for students.
- Projects with affordable units:



[Identity Dinkytown](#)



[Doyle Apartments](#)



[Fieldhouse Dinkytown](#)

# Findings & Takeaways of Initial Study

- Existing fee matches local construction costs, but fee is high and method is not a best practice (though it is used elsewhere in Virginia)
- Existing student housing fee (“value gap”) may actually be production cost, which is low
- **Affordability gap** is a best practice alternative with more flexibility and better policy alignment

# Feasibility Analysis



# Feasibility Analysis

- Used the feasibility tool developed for the tax abatement study to test the in-lieu fee's impact on development feasibility
- Compares feasibility of a project in three scenarios: on-site units, existing fee in lieu, proposed fee in lieu (Affordability Gap fee)
- In theory, feasibility of on-site and fee in-lieu should be similar

### CHARLOTTESVILLE DEVELOPMENT FEASIBILITY ASSESSMENT | Project Evaluator

#### PROJECT INPUTS

Development Type	High Rise	<- SELECT
Submarket	Tier 2	<- SELECT
Buildings in Project	2	
Avg Units per Building	100	
Total Units	200	
Parking Type	Below Ground Deck	

Affordable Units		
AMI Band 1	60%	<- SELECT
% of Units	10%	<- ENTER
Total Affordable Units	20	

#### OVERALL FINDINGS

WITH AFFORDABLE UNITS	EXISTING FEE IN LIEU	VALUE GAP FEE IN LIEU
Yield on Cost	Yield on Cost	Yield on Cost
6.0%	6.0%	6.1%
Possibly Feasible	Possibly Feasible	Possibly Feasible

# Existing Fee vs. Affordability Gap Fee

- Tested the existing fee compared to a fee based on the Affordability Gap method
- Included a fee for 4-bedroom units

Current Fee Structure

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Proposed Fee Structure

Number of Bedrooms	Cost per Rental Unit	Cost per Ownership Condominium Unit
Studio	\$136,000	\$97,000
1	\$176,000	\$154,000
2	\$317,000	\$228,000
3	\$411,000	\$393,000
4 or more	\$495,000	\$439,000

# Feasibility Analysis - Rentals

- Most housing types fall below desired 6% yield for rentals
- Fees do not (and should not) change yield much compared to units
- Little difference between existing and proposed fee for rentals
- Proposed fee (Affordability Gap) is a better match to units for most housing types

ESTIMATED TYPICAL YIELD ON COST BY HOUSING TYPE BY AFFORDABLE UNIT PROVISION		
Housing Type	Yield On Cost for projects On-Site Units	Yield on Cost for Projects Existing Fee
Garden Apt	4.1%	3.9%
Low Rise	4.2%	4.1%
Mid Rise	<b>4.5%</b>	<b>4.5%</b>
High Rise	<b>5.8%</b>	<b>5.8%</b>
Townhouse	4.2%	4.1%
Student Housing	6.6%	6.8%

ESTIMATED TYPICAL YIELD ON COST BY HOUSING TYPE BY AFFORDABLE UNIT PROVISION		
Housing Type	Yield On Cost for projects On-Site Units	Yield on Cost for Projects Affordability Gap
Garden Apt	<b>4.1%</b>	<b>4.0%</b>
Low Rise	<b>4.2%</b>	<b>4.2%</b>
Mid Rise	4.5%	4.6%
High Rise	5.8%	5.9%
Townhouse	<b>4.2%</b>	<b>4.2%</b>
Student Housing	<b>6.6%</b>	<b>6.6%</b>

# Feasibility Analysis - Condos

- Very little recent local data available on condos – limited confidence in results
- Model indicates that condo feasibility is far below target 20% gross margin
- Affordability gap shows much better alignment for condos compared to existing fee
- Lower fee helps but does not make projects feasible

ESTIMATED TYPICAL GROSS MARGIN BY HOUSING TYPE BY AFFORDABLE UNIT PROVISION		
Housing Type	Gross Margin for projects On-Site Units	Gross Margin for Projects Existing Fee
Garden Apt	8.1%	3.4%
Low Rise	4.9%	0.6%
Mid Rise	-1.3%	-4.7%
High Rise	11.8%	5.7%
Townhouse	-4.4%	-6.1%

ESTIMATED TYPICAL GROSS MARGIN BY HOUSING TYPE BY AFFORDABLE UNIT PROVISION		
Housing Type	Gross Margin for projects On-Site Units	Gross Margin for Projects Existing Fee
Garden Apt	<b>8.1%</b>	<b>7.7%</b>
Low Rise	<b>4.9%</b>	<b>4.6%</b>
Mid Rise	<b>-1.3%</b>	<b>-1.2%</b>
High Rise	<b>11.8%</b>	<b>11.2%</b>
Townhouse	<b>-4.4%</b>	<b>-4.2%</b>

# Feasibility Analysis | General Findings

- Changing to Affordability Gap fee narrows the financial gap between on-site provision and fee payments in most cases
- Changing the fee as recommended will not make a difference in project feasibility, especially for rentals
- Because the fee is an average,
  - Fee has higher feasibility than units in more expensive places
  - Units have higher feasibility than paying fee in less expensive places
  - This is true for both existing and proposed
- Bringing student housing fee in line with other housing types removes the incentive, but student housing remains the most feasible housing type to construct

# Policy Recommendations



# Change Fee Method to Affordability Gap

## Why?

- Brings fee in line with best practices and true cost
- Addresses possibility that current fee is curtailing new development

## Potential impacts

- Increased supply of housing
- Increased fee payment

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# Align Student Housing with Other Housing

## Why?

- “Student housing” is housing, so can be contributing in line with other housing types
- Further simplifies affordable housing policies
- Future change of use no longer a concern

## Potential Impacts

- Increase in student housing fee
- Increased revenue to support community needs

## Current Fee Structure

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# Eliminate Geographic Criteria for Student Housing

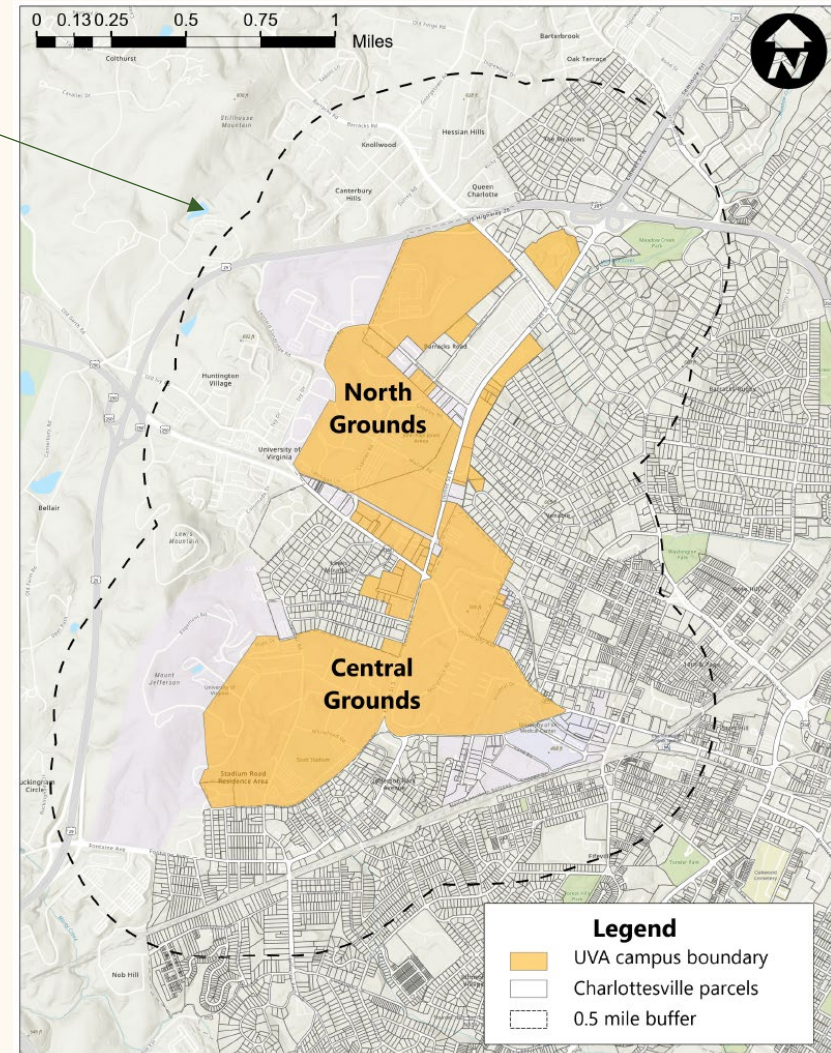
## Why?

- Equivalency with non-student housing expectations

## Potential Impacts

- Simplify affordable housing policies
- Market-driven concentration of student housing closest to Grounds

Remove



# Add In-Lieu Fees for 4+ Bedrooms

## Why?

- Current fee structure ends at 3 bedrooms
- Many units in student housing have 4 or more bedrooms

## Potential Impacts

- Increase revenue from 4+ bed units, or decrease the viability of this product
- Student housing still unlikely to include on-site units

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# Add Fee Requirements for Bonus Height

## Why?

- Concern that it's too easy to get the bonus height
- Concern about large buildings, especially near vulnerable neighborhoods

## Possible changes

- Higher in-lieu fee for bonus height (see table)
- Alternative: require on-site units to get bonus height

Fee for Bonus Height - Affordable at 50% AMI		
Number of Bedrooms	Cost per Rental Unit	Cost per Ownership Condominium Unit
Studio	\$185,000	\$152,000
1	\$227,000	\$196,000
2	\$358,000	\$262,000
3	\$446,000	\$422,000
4 or more	\$526,000	\$464,000



# Summary of Potential Options to Consider

## Non-Student Housing

- Apply affordability gap approach to in-lieu fee expectation in line with best practices and alignment with true cost
  - Addresses possibility that current fee is curtailing new development
- Increase fee for bonus height to reflect that the on-site requirement for bonus height is **50% AMI**, not 60% AMI

## Student Housing

- Require on-site affordable units for student housing, with allowance for an in-lieu fee equivalent
  - Addresses potential conversions to non-student housing
  - Allows for on-site affordable units when financial and market conditions are favorable
- Removes geographic criteria (1/2 mile distance from Grounds) for student housing, given new equivalency with expectations for non-student housing
- Add in-lieu fee requirement for four-bedroom units
  - Removes unintended incentive to build student housing

# Future Considerations

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- Monitoring how well fee promotes on-site units vs. fee payment once updated
- Monitoring market conditions given policy and demographic changes (e.g. second-year students, birth rates)

# Thank You

