

# Tennessee Cities Have a New Housing Tool

## Voluntary Zoning Incentives Will Help to Increase Housing Opportunities for Tennesseans

### POLICY BRIEF

Tennessee has a critical shortage of housing. While our state has experienced increased job growth in recent years, only six homes have been built for every 10 new jobs created in the state over the past decade.<sup>i</sup> In addition to a significant gap in housing supply, in 2023, 84% of renters with low incomes were cost-burdened—spending over 30% of their income on housing. While 67.7% of Tennesseans are homeowners (which ranks 29th in the country), nearly 20% of homeowners are cost-burdened.<sup>ii</sup>

Our ability to continue to attract and maintain good job opportunities for Tennesseans depends upon our ability to offer quality housing for a wide variety of income levels. After July 1, 2024, Tennessee communities will be able to provide incentives for housing investments that meet the needs of its workforce and families.

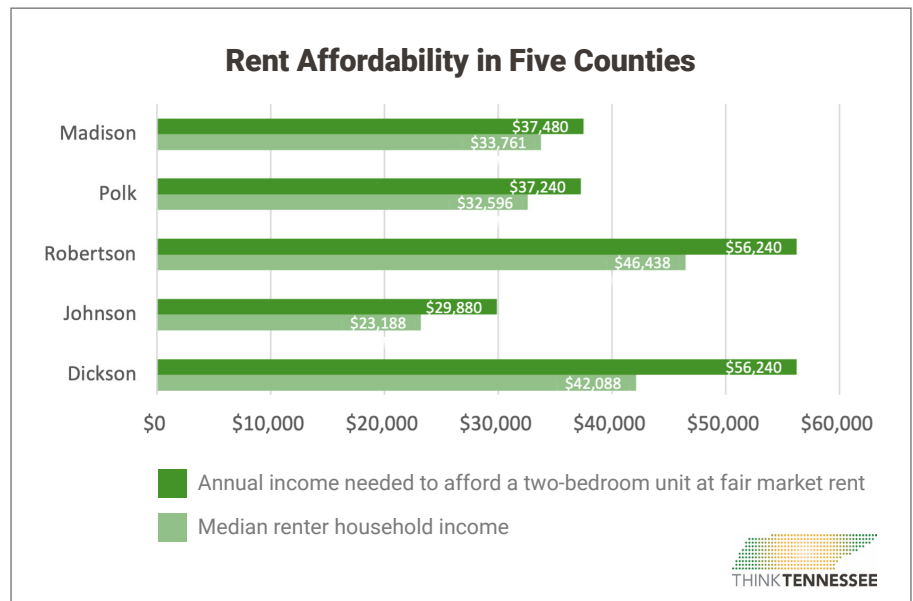
**Tennessee communities now have one more tool in their toolbox to meet the demand for housing.**

### Cities and counties now have more flexibility to address their housing shortage.

Compared to other states, Tennessee localities are limited—primarily relying on government subsidies—in how they can ensure their housing meets the diverse needs of their communities.<sup>iii</sup>

As a result, real estate developers are building more housing at higher price points rather than housing for Tennessee’s school bus drivers, paramedics, and teachers.

With the recent approval of HB 2623/SB 2496, local jurisdictions will have the ability to provide voluntary zoning incentives to potential developers, helping cities and counties to provide housing that Tennessee families can afford.<sup>iv</sup>



### Voluntary Zoning Incentives are a powerful tool to provide more affordable housing

Voluntary zoning incentives are offered by localities to developers interested in providing more affordable housing options. Incentives may include increases in density, reduced parking minimums, and reduced building setbacks in exchange for more affordable rents or housing prices within developments.

**Tennessee communities were previously prohibited from providing voluntary zoning incentives.**

Local governments in Tennessee were prohibited from offering zoning incentives or conditions on developments “to be sold or rented at below market rates.”<sup>v</sup> As a result, localities were limited to other tools (like public funding allocations or land) to try to incentivize developers to build housing that is affordable for their communities—a challenge made more difficult by increased costs of land and building materials.

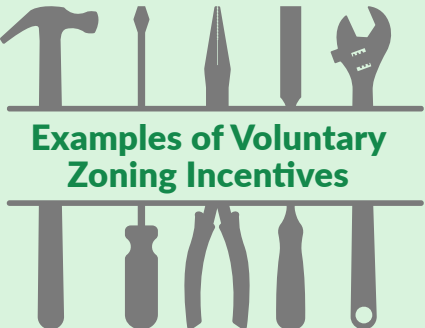
## Voluntary incentives are an inexpensive and straightforward tool to reduce the cost of housing.

### Local governments are able to lower construction costs and encourage developers to build more diverse housing.

Tennessee communities are now able to use incentives to promote housing development that is affordable, relieve the pressure of the current housing market by increasing housing supply, encourage a higher rate of housing construction in line with job growth, and create balanced and thriving communities where everyone can find a place to call home.

### Voluntary zoning incentives can be tailored to the needs of each locality.

Tennessee cities and counties can reduce the cost of housing in their communities by offering the tools that make the most sense for their needs.



**Examples of Voluntary Zoning Incentives**

- Density Bonuses**  
These allow builders to construct more units than would ordinarily be allowed on a piece of land in exchange for affordable housing units.
- Reduced Setbacks**  
These allow developers to increase buildable square footage on the full size of the lot, rather than a smaller footprint, in exchange for affordable housing units.
- Parking Minimums**  
These reduce a developer's costs by requiring fewer parking spaces for every affordable housing unit.
- Expedited Permitting**  
These reduce the standard permitting requirements for developers who opt to provide any level of affordability within their developments.

## Cities will implement voluntary zoning incentives in a series of steps.

**STEP 1: Municipality Passes a Resolution**

Any municipality offering these incentives will begin by passing a resolution or ordinance—in which it will define the terms and conditions of its incentive program—in line with local, state, and federal law.

**STEP 2: Developer Submits Notice of Interest**

Following the passage of the municipality's resolution or ordinance, applicants who wish to receive incentives would be required to provide a written notice of interest to participate.

**STEP 3: Municipality Issues a Decision**

Once notice has been received by the municipality, the property owner will determine whether the project fits the requirements and will ultimately receive approval or denial by their local planning commission. Projects approved would be deed restricted to ensure that the attainable housing continues to be offered in perpetuity.

## Voluntary zoning incentives are a critical tool that can help Tennessee communities decide how best to build housing that meets the needs of residents and a growing workforce.

Local leaders in cities and counties across Tennessee are facing pressure to create housing options for their residents and maintain the character of their communities. Voluntary incentives provide these leaders with additional tools to encourage responsible housing development that will allow them to achieve their vision for growth and create a safe, comfortable, and vibrant place for Tennesseans to call home.

<sup>1</sup>This figure was calculated for a Statewide Housing Working Group using data from the U.S. Bureau of Labor Statistics, State and Area Employment, House, and Earnings (Annual Averages) and U.S. Census Bureau, American Community Survey 1-year estimates from 2013-2022.

<sup>2</sup>ThinkTennessee. State of our State Dashboard. See <https://www.thinktennessee.org/state-of-our-state/>.

<sup>3</sup>In 2018, the legislature amended Tenn. Code Ann. § 66-35-102 to prevent localities from offering zoning incentives to developers to build below-market rate units. Effective July 1, 2024, a new law allows localities to provide these incentives.

<sup>4</sup>In 2024, HB 2623/SB 2496 amended Tenn. Code Ann. § 66-35-102 by clarifying that the section does not preempt a voluntary attainable housing incentive program. <https://See.wapp.capitol.tn.gov/apps/BillInfo/Default.aspx?BillNumber=SB2496&GA=113>.

<sup>5</sup>Tenn. Code Ann. § 66-35-102. After July 1, 2024, this code section will no longer prohibit communities from offering voluntary incentives.

### THINKTENNESSEE

ThinkTennessee is a nonpartisan, results-oriented research and advocacy think tank.

Written by: Adriane Harris, Senior Advisor on Housing Policy

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