Midlands Housing Trust Fund
Recommendations to City Council's
Administrative Policy Committee on Inclusionary Zoning

The Midlands Housing Trust Fund supports mandatory inclusionary zoning.

Studies have widely demonstrated that voluntary inclusionary zoning practices do not produce an adequate supply of affordable housing units. In fact, national analyses of voluntary inclusionary zoning have shown that such voluntary practices only produce units when substantial cash subsidies are provided to developers.

Mandatory inclusionary zoning is an effective tool for not only producing new affordable housing, but also maintaining affordability when new investment occurs in the community.

Mandatory inclusionary zoning offers a response to the City's affordable housing needs with help from the private sector – developers either produce affordable units or pay an in-lieu fee, which could be used by the Midlands Housing Trust Fund to finance the production of affordable developments. While developers argue that affordable housing is the public sector's responsibility, in reality, housing developers benefit from substantial public sector investment in infrastructure, transportation, and public safety, often without significantly contributing to the costs of such services.

The Midlands Housing Trust Fund supports providing developers with a variety of incentives to produce affordable housing:

Developer Compensation - Effective inclusionary zoning programs usually offer developers a range of cost offsets to achieve a double bottom line: affordable housing for residents and a reasonable, overall return for developers. Minimum profitability is important to ensuring private developers and their investors actually build. To determine the need for cost offsets, in relation to other program parameters, the City should conduct an economic feasibility analysis that takes into account various aspects of development (e.g., cost of land, normal profit margins, construction costs, fees, etc.) and the jurisdiction's housing needs and goals. Cost offsets rarely take the form of cash subsidy. Cost offsets, as illustrated in the following table, can be offered in a variety of forms and can have a substantial impact on reducing the overall cost of construction.

Type of offset	**What It Does and Why It Helps Developers**	**Example**
Density bonus	Allows developers to build at a greater density than residential zones typically permit. This allows developers to build additional market-rate units without having to acquire more land.	Most jurisdictions offer density bonuses. Typically they are equivalent to the required set-aside percentage. For example, **Santa Fe**, which varies its set-aside from 11 to 16 percent depending on the character of the market-rate units, matches its density bonus accordingly.
Unit size reduction	Allows developers to build smaller or differently configured inclusionary units, relative to market rate units, reducing construction and land costs.	Many programs allow unit size reduction while establishing minimum sizes. **Burlington, Vermont,** requires that inclusionary units be no smaller than 750 sqft. (1-bedroom), 1,000 sqft. (2-bedroom), 1,100 (3-bedroom) or 1,250 sqft. (4-bedroom).
Relaxed Parking Requirements	Allows parking space efficiency in higher density developments with underground or structured parking: reducing the number or size of spaces, or allowing tandem parking.	**Denver, Colorado,** waives 10 required parking spaces for each additional affordable unit, up to a total of 20 percent of the original parking requirement.
Design Flexibility	Grants flexibility in design guidelines-such as reduced setbacks from the street or property line, or waived minimum lot size requirement-utilizing land more efficiently.	**Boston, Massachusetts , grants inclusionary housing projects greater floor-to-area ratio allowances.** **Sacramento, California , permits modifications of road width, lot coverage, and minimum lot size in relation to design and infrastructure needs.**
Fee waivers or reductions	Reduces costs by waiving the impact and/or permit fees that support infrastructure development and municipal services. A jurisdiction must budget for this, since it will mean a loss of revenue.	**Longmont, California,** waives up to 14 fees if more affordable units (or units at deeper levels of affordability) are provided. Average fees waived are $3,250 per single family home, $2,283 per apartment unit.
Fee deferrals	Allows delayed payment of impact and/or permit fees. One approach allows developers to pay fees upon receipt of certificate of occupancy, rather than upon application for a building permit, reducing carrying costs.	**San Diego , California ,** allows deferral of Development Impact Fees and Facility Benefit Assessments.
Fast track permitting	Streamlines the permitting process for development projects, reducing developers' carrying costs (e.g., interest payments on predevelopment loans and other land and property taxes).	**Sacramento, California,** expedites the permitting of inclusionary zoning projects to 90 days from the usual time frame of 9-12 months. The City estimates an average savings of $250,000 per project.

The Set-aside - Inclusionary zoning programs require that a specific percentage of units be earmarked as affordable. The percentage can vary but is typically in the range of 15-25 percent. The Midlands Housing Trust Fund recommends a “light-touch” inclusionary zoning requirement of 10%, with additional incentives provided to developers to produce more than 10%.

Some jurisdictions have set-asides that vary based on the incomes targeted. In California redevelopment areas, for example, six percent of units must serve very-low-income households, three percent low income, and six percent moderate income. Because the size of the set-aside percentage impacts the affordability costs born by developers, the set-aside percentage should be considered together with other program parameters, such as the income target.

Project Trigger - The trigger determines what size developments are subject to inclusionary requirements (e.g., 5, 10, 20 unit buildings). Some jurisdictions apply inclusionary zoning policies to all new developments within the community, requiring that larger developments provide units while smaller ones pay a fee in-lieu of construction.

Income Targets - There are two ways in which an IZ policy ultimately achieves affordable housing. First, the policy defines the income target(s) at which the developer must produce housing. Second, some jurisdictions identify the programs that will allow the municipality to subsidize those units to reach even deeper affordability needs. Name Montgomery Type County , for example, asks developers to produce units at 65 percent of AMI and then authorizes its housing authority to purchase up to a third of those units to serve even lower-income families.

Where the income target is set determines who benefits from the inclusionary zoning policy. For example, a jurisdiction that wants to provide housing for moderate-income households, such as public sector employees, might set an income target at 80 percent of the AMI. Jurisdictions seeking to create affordable units for lower-income wage earners might choose an income target of 50 percent of AMI. Jurisdictions with affordability challenges across income categories often tier their income target to serve diverse needs (e.g., half the units at 50 percent of AMI, half the units at 80 percent of AMI).

Target income levels should be guided by housing needs and goals in the jurisdiction, but must be balanced with maintaining developer profit. Nationally, inclusionary zoning has demonstrated success when requiring developers to deliver affordable housing units at 50-120 percent of the AMI, and when in combination with public resources, those units can be made available to households between 0-50 percent of AMI.

There are three ways that jurisdictions utilize public resources to achieve deeper levels of affordability:

- Mandate that some proportion of inclusionary units go to housing choice voucher holders;
- Offer additional home buyer assistance to purchasers of IZ homeownership units; and
- Enable public agencies or nonprofit organizations to purchase and further subsidize inclusionary units.

Cambridge, Massachusetts achieves deep affordability through its IZ program by mandating that a portion of inclusionary units go to housing choice voucher holders. The Housing Choice Voucher Program (HCVP), also known as Section 8, is a rental assistance program that increases affordable housing choices for very low and extremely low income households. Typically, the local housing authority pays the gap between what the Housing Choice Voucher-holder can afford (30 percent of household income), and the cost of the private market rent (up to 110 percent of fair market rate). By placing HCV holders in inclusionary units priced lower than market rents, HCVP saves money that, in turn, allows it to serve more families. It also addresses key challenges for the HCVP program-insufficient units available for the number of voucher-holders, and discriminatory screening out of voucher holders by landlords.

Onsite vs. Offsite Construction - Some IZ programs require developers to construct affordable units within the larger development, while other programs allow developers to build the units offsite. Historically, affordable housing had been concentrated in certain neighborhoods, contributing to the concentration of poverty. This concentration of poverty often isolates poor families from social and economic opportunities in the region. Building affordable units onsite, within the larger development, leads to greater economic and racial integration, helping to connect low-income communities to regional opportunity.

Mandating Affordable Units vs. In-Lieu Fees - Some jurisdictions require developers to construct affordable housing units while others use in-lieu fees paid by developers “opting out” of IZ obligations to partially fund their local housing trust fund, which then provides low-cost loans to developers for affordable housing development.

Similarity/Compatibility In Outward Appearance - Many IZ policies require developers to construct affordable units that are similar or compatible in outward appearance to market rate units. This requirement contributes to cohesiveness in the physical appearance of a neighborhood helping to overcome negative perceptions of what constitutes "low income" housing. Developers generally have a vested interest in adhering to this requirement since units that are disparate in outward appearance can lower the market value of the development.

Term of Affordability - Inclusionary zoning ordinances housing units must remain affordable. Many programs have moved to requiring a minimum of 30 years for ownership units, and 45 or more years for rental units. Long affordability terms keeping housing units affordable for future generations.

Costs to the City for Mandatory Inclusionary Zoning

Inclusionary zoning programs result in few "hard costs" for jurisdictions beyond the costs of administering the program. However, some cost offsets provided to builders (e.g., fee waivers) can result in lost revenue. Therefore, it is important to quantify the amount of lost revenue and assess the benefit of the trade off. Also, when jurisdictions acquire affordable units from developers, they may incur further costs by providing subsidies to lower income families. When all the factors are weighed, nearly all jurisdictions have found inclusionary zoning to be a viable and cost-effective strategy for producing affordable housing.

Costs to Developers

Builders contribute to the stock of affordable housing in a jurisdiction since their developments benefit from the public investment in infrastructure (e.g., transportation, sewage, etc.). Furthermore, developers are given compensation for building units. Jurisdictions set compensations at a level that allows builders to profit or break even from the construction of affordable units.