

# Peer Learning Exchange: What Works in Mixed-Income Housing Policies

## Questions for Continued Discussion

In the last five years, multiple municipalities in Minnesota's Twin Cities region have adopted *mixed-income housing policies*, also known as *inclusionary zoning policies*, which require housing developers to include affordable units in market-rate rental projects that meet a stated threshold, such as receiving city financial assistance or requiring zoning changes. On October 30, 2019, the Family Housing Fund, the Federal Reserve Bank of Minneapolis, and the Urban Land Institute co-hosted a peer learning exchange targeted at city staff members who do the on-the-ground work of implementing housing policies. Sharing their city's experiences with local mixed-income housing policies at the event were:

- Eric Johnson, Community Development Director, City of Bloomington;
- Bill Neuendorf, Economic Development Coordinator, City of Edina; and
- Julie Wischnack, Community Development Director, City of Minnetonka

The October 30, 2019, peer learning exchange was the third in a series of mixed-income housing events hosted by the Minneapolis Fed. Learn more about the first two events [here](#) and [here](#).

The 30 attendees from cities across the Twin Cities region had the opportunity to lay out questions they had about mixed-income housing policies. Panelists responded to 7 key questions from attendees (which are marked with asterisks in the list below).

This document includes all of the questions that attendees generated (nearly 150 in total) and aggregates them into five groups:

- Questions cities need to ask themselves as they reflect on how mixed-income and affordable housing policies could advance their local goals around housing affordability;
- Questions about the process of developing and experience of implementing local mixed-income housing policies;
- Questions about what different stakeholders think about mixed-income housing policies;
- Questions about the economic viability and financial impacts of mixed-income housing policies; and
- Questions about affordable housing issues that are bigger than mixed-income housing policies alone.

Some of these questions could inform the development of future analysis of mixed-income housing policies, while others are concrete questions about city experiences.

### **Questions cities ask themselves as they reflect on whether mixed-income and affordable housing policies could advance their local goals around housing affordability**

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As cities contemplate, adopt, or implement local mixed-income and affordable housing policies, cities ask themselves (and their peers) questions to understand their policy goals and how policies could most effectively advance them. While some of these questions skirt quantitative issues, such as the cost-effectiveness of financial assistance, most of them address fundamentally political and philosophical concerns around what success looks like.

## What attributes make mixed-income housing policies successful?

The attendees' most frequently asked questions had to do with the design and implementation of successful mixed-income housing policies, and wanting to understand which local policies, programs, and practices work to advance affordable housing goals and which do not.

- What is the one most successful/acceptable zoning policy you've seen or used to incentivize affordable or mixed-income development?
- What are 1–2 examples of most successful and least successful policies?
- What has worked well with existing mixed-income housing programs? What hasn't?
- What is the biggest mistake that cities make that is counterproductive to affordable housing goals?
- How do we create win-wins? Are there tools or ideas we are not yet using that would provide more affordable housing without stifling construction?
- How to be flexible but give clear direction?
- Why are some cities able to do mixed-income housing more successfully than us?
- How can we give more “teeth” to some of our mixed-income projects that are not asking for financial assistance or rezoning?
- What does success look like? How do we measure it?
- What goals are we trying to achieve?
- When will you know if it's working? How to define success?

## What are the trade-offs between efficiency and impact that policymakers advancing affordable and mixed-income housing need to navigate?

As with any policy conversation, policies advancing affordable and mixed-income housing must balance efficiency, impact and cost—trade-offs that are particularly salient with the use of public funds to subsidize development.

- How do we ensure any public subsidy aligns with the level of need (and not over-subsidize)?
- Efficiency—how much/when should the city interject in the private market?
- Should developers contribute to public benefit (i.e., affordable housing) in exchange for city entitlements/investment?
- What is the balance between city resource to achieve affordability and developer buy-in to make an affordable mixed-income project work?
- What non-cash incentives are most valuable for developers in considering affordable housing?
- What's worth our time/effort from a cost-effective standpoint?
- When giving assistance, how good are cities at vetting the numbers/pro formas?
- How good is your city's housing data? How deeply have you dived in?
- What are the downsides of asking for long-term affordability (beyond subsidy terms)?
- Have we considered unintended consequences with the strong focus on affordable units? How do we address them? (wage theft, labor trafficking, etc.)
- How do cities best become developers themselves?
- How would rent control impact the market/future development?
- What role should the city play in monitoring community stability in apartment communities?
- If the problem is that there is not enough low-income housing, shouldn't there be an income-increasing solution discussed too?
- There seem to be silos in affordable housing—how do we break them?

## What are the trade-offs between mixed-income and affordable housing policies?

Another set of questions had to do with the overall desirability of mixed-income housing, both on its own and as a counterpart to affordable housing.

- How should cities prioritize mixed-income housing vs. affordable housing?
- What incentives exist to encourage mixed income in market or affordable housing projects?
- Can mixed-income housing occur naturally, or does it require regulations to be instigated?
- Can IZ [inclusionary zoning] policies produce family-sized units?
- How do we increase truly mixed-income development?
- How much affordable housing can be created with IZ? How much market-rate housing do we stand to lose in exchange?
- Is it a better use of resources to place all public financing into 100 percent affordable developments?
- How do cities know the right mix of affordable, market-rate, or luxury housing?
- Is IZ a good compromise between housing as a human right and housing as a commodity to capitalize on?

## What is the value of economic integration?

One of the commonly articulated rationales for mixed-income housing policies is the value of buildings, projects and communities that mix higher-income households and lower-income households—that is, creating economic integration. Attendees were interested to reflect on economic integration as a policy end.

- Is the value of creating affordable housing in market-rate projects (the value of economic integration) measured and understood?
- Given historical housing policy discrimination, what obligation does government have to ensure inclusive community development?
- What is the trade-off between costs/gaps vs. goal of economic integration?

## Questions about the process of developing and experience of implementing local mixed-income housing policies

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The second set of questions asked cities that have developed and are implementing local mixed-income housing policies about their process, their policies, and their experience of implementing local mixed-income housing policies. Cities who have developed policies shared their experiences, although there were also questions about how to make implementation smoother and more efficient. Learn more about the details of the adopted mixed-income housing policies [here](#).

## How did cities develop their mixed-income housing policies?

Attendees from cities that do not have mixed-income housing policies adopted were curious about the process that cities underwent to develop their mixed-income housing policies and the details of implementation.

- How long have you been implementing a mixed-income housing policy?
- What incentives are you providing developers?
- Did you use a racial equity toolkit/racial equity process in policy development?

- What were the main concerns from policymakers? How did you bring your councils along? To what degree is the council concerned with interference in the private market? What was the process of education?
- How much/what kind of developer outreach did you do in policy development?
- Developer/city sticking points—what gave you the courage?
- What alternatives to your policy did you consider initially and why did you land where you did?
- Have you made any tweaks to your policy since implementation? If so, why and what?

### **What has been your experience with implementation?**

Attendees from cities that do not have mixed-income housing policies adopted were curious about the experiences of cities that have adopted mixed-income housing policies.

- When you do give incentives, are you doing a TIF [tax increment financing] look-back several years after the project to see how aggressive you are compared to the underwriting of pro forma at the beginning?\*
- Have you seen changes in the projects post-policy implementation? (i.e., locations, project characteristics, design, etc.)
- Have you seen changes in the strength of your pipeline? Changes in the volume of development?
- How many units have the in-lieu fee constructed in your community?
- Are in-lieu fees working? How do people circulate it appropriately?
- Are units being constructed or are developers just paying the in-lieu fee?
- What happens at the end of the affordability term?
- How's the "in perpetuity" going?

### **What eases the burden of compliance and monitoring?**

One of the findings of the September 6, 2019, Developer Insights on Mixed-Income Housing Policies roundtable convened at the Federal Reserve Bank of Minneapolis was significant concern among market-rate developers about the staff necessary to support the compliance needs of affordable housing. With no or weak compliance mechanisms, higher-income households can occupy units intended for lower-income households. However, compliance mechanisms create a cost for both property management and the public entity responsible for monitoring compliance.

- How can we streamline compliance for both ease and to ensure target populations are served?
- How can existing credit check processes be modified to simplify compliance?
- Do we create a new bureaucracy with compliance that just raises costs/rents?
- What are ways that cities can reduce the burdens of compliance for affordable housing units?
- How do developers address the need to [have] staff experienced in managing affordable housing?

## What is the impact of economic cycles on affordable housing?

Attendees inquired how future economic slowdowns would affect the implementation of the presenters' cities' mixed-income housing policies.

- How would a recession or economic slowdown affect feasibility of mixed-income developments or policies?\*
- How will varying market cycles affect mixed-income housing development? Shifts/preparation?
- Is “filtering” [market rate construction resulting in existing units becoming affordable] still an accepted theory?

## Questions about what different stakeholders think about mixed-income housing policies

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The third set of questions channels a desire to better understand what different stakeholders think about both mixed-income housing policies and their implementation. These stakeholders include low- and moderate-income households, developers, investors, lenders, and political stakeholders at large. Answering these questions would take qualitative tools to measure opinions, such as focus groups, interviews, and surveys.

## What do residents—that is, low- and moderate-income households—need, expect, and prefer?

City staff members wanted to learn more about how residents respond to mixed-income housing and mixed-income policies and what policy characteristics work best for residents.

- How do we do this work with more focus on the renters, especially those with barriers to access?
- Do low- and moderate-income households want, if given an option, to live in market-rate housing?
- What experience will low-income renters have when they try to access the affordable units in a mixed-income development?
- How do you design mixed-income [housing] to meet expectations of all residents (safety, amenities, access)
- How can people be comfortable living with strangers?
- Are there negative impacts to affordable housing residents from lack of upscale housing?
- What are the housing needs for low- and fixed-income senior households?
- What are the most effective tenant protection actions?

## What do developers think about mixed-income housing policies?

After hearing the summary of the Developers' Roundtable, city staff members wanted to hear from cities that had successfully implemented mixed-income housing policies and what their experiences were with developers.

- Why do local and national developers respond differently to mixed-income policies?
- How are local and national developers responding/reacting differently to [inclusionary zoning] IZ/mixed-income policies? Why?\*
- What considerations does an IZ policy need to have for small, community-based developers?
- How do you connect the dots for developers to see the values of the different layers of policies?
- I've heard this morning about developers desiring partnerships and recognition of their “partnerships.” What does that mean?

- Are developers interested in technical assistance from peer companies or peer regions to figure out how to make mixed-income work?
- How are developers working with cities to understand and build housing to meet locally identified housing needs?

### **What do investors and lenders think about mixed-income housing policies?**

Like developers, the investors and lenders who provide the capital to build new housing play a large role in the viability of mixed-income housing policies; attendees were equally curious about what makes mixed-income housing viable in their eyes.

- How do we attract/cultivate investors comfortable with mixed-income developments?
- What will help financial institutions fund development with less parking (in the 'burbs)?
- How do we convince investors that less parking is okay?
- Understand the scale of capital markets?
- How do we influence expectations from the capital markets?
- Is there a way to create a pool of mission-driven investors that would accept lower returns for affordable housing projects?
- How does a city respond to the reluctance to finance mixed-income projects?
- Do we really want supply dictated to such a degree by the desires of institutional investors?
- Who are the current investors investing in mixed-income development projects?
- How do we get lenders to be comfortable with mixed income?

### **What works for messaging for affordable housing?**

By definition, policies that advance affordable and mixed-income housing are political and require political support from a range of stakeholders, including the employer community. Attendees were interested to learn more about what works to engage stakeholders.

- How do we change the affordable housing narrative? Economic opportunity? Lost opportunity?
- How do we create support for multifamily housing construction?
- How do cities handle residents who don't want any type of rental?
- What is community's reaction to mixed-income policy? Existing vs. new?
- How to turn/shift to stereotype? What is the framing of the issue to different audiences?
- Do affordable/mixed-income projects really have more police/fire demand?
- What are best practices for educating neighbors who do not want market rate, much less mixed-income or affordable?
- How do we tie housing solutions for workers earning no more than 30 percent of area median income in industries such as health care, hospitality, construction?
- How can we get the business community involved? Get business community to rally and move from concern to action and voice?
- What is the role of employers for this?
- Building the evidence base—how do we make the economic argument?

## Questions about the economic viability and financial impacts of mixed-income housing policies

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The fourth grouping of questions addresses the economic viability and financial impacts of mixed-income housing policies from both the development and public perspectives. Answering these questions would take analysis of real estate markets as well as fiscal impact analysis.

### When do mixed-income housing policies affect the viability of a development?

Attendees wondered about where the break-even points for developers are and how shrinking profit influences their willingness to engage in continued negotiation about housing development.

- What is the point (i.e., yield on cost or ROI [return on investment]) where development will or will not happen?
- What is the point at which a project flips from feasible to not feasible (profit/timeline/risk)?
- Are the developers realistic with ROI?
- Do we care if some developers walk away?
- Do we have data to support/dent the claim that IZ policies are discouraging investment in the Twin Cities?
- Is there any evidence in the Twin Cities or elsewhere where development has been curtailed by either an investor walking away or a developer walking away due to policy?
- Are folks with inclusionary policies requiring developers to “open the books,” and if so, does this lead to additional negotiations?
- Are developers afraid of just making lots of \$ instead of lots and lots of \$\$\$?

### Who pays for affordable and mixed-income housing? What’s cost-effective?

The creation of new affordable housing opportunities generally requires subsidy, whether direct public subsidy or a cross-subsidy from other development. This point led to questions about who pays for the cost of new affordable housing opportunities that rent alone cannot support.

- Who pays?
- Who bears the burden of the tax breaks?
- Isn’t the \$100,000–\$150,000 “tax” per inclusionary affordable unit still much less expensive than the per-unit cost in 100 percent affordable projects?
- Is increasing density sufficient to absorb the loss of revenue by including affordable units?
- Whose responsibility is it to provide the financial incentive? Is the burden falling disproportionately on cities with small tax bases?
- Is TIF enough of a financial incentive?
- Are there financial ways that state and regional regulators can help more financially?
- How can cities assist in securing full funding?
- At what point are we simply moving the tax burden to a different population?
- What is more cost-effective—tenant-based rental assistance or building affordable units?
- How can cities ensure the health, safety, and welfare of residents when it comes to new developments with no way to assess developers for infrastructure improvements outside of the four corners of the development?
- Are there any totally different ways to subsidize rents?

## **In what types of markets do these policies work?**

The cities presenting at the Peer Learning Exchange—the cities of Bloomington, Edina, and Minnetonka—have dynamic housing markets that attract developer interest. Attendees, on the other hand, came from cities across the Twin Cities area with a range of market dynamism. As a result, there was interest in how mixed-income housing policies work in different markets.

- Are there places where mixed-income policies don't work?
- How should mixed-income policies be adapted to disparities in where geographic investments are occurring (think west metro vs. east metro)?
- How do we reconcile the tension between wanting to have complementary regional policies that also account for potentially different submarkets?\*
- How will this impact cities that are largely made up of less strong submarkets?
- Should mixed-income policies and government investment be more focused in higher income communities? Or neighborhoods?

## **Questions about affordable housing issues bigger than mixed-income housing policies alone**

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The final grouping of questions addresses affordable housing issues beyond mixed-income housing policies alone, such as preserving naturally occurring affordable housing (NOAH), reducing the cost of constructing new affordable housing, developing homes for the lowest-income families, and providing affordable housing-ownership opportunities. These questions reflect a yearning for policy solutions, financing mechanisms, and implementation strategies that largely do not yet exist in the Twin Cities market.

### **How can local governments support the preservation of NOAH?**

Given the significant threat of the continued loss of NOAH, attendees wanted to know more about best practices to preserve, maintain, and expand NOAH in their communities.

- How can we incorporate NOAH in a redevelopment of that property (while retaining majority of affordable units)?
- How do we improve NOAH units? Repairs, roofs, boilers, etc.
- How do we measure the impact of market-rate housing on the preservation of NOAH?
- How can we incent NOAH preservation?
- Can income tax breaks be given to sellers who sell to affordable housing?

### **How can developers and the public sector reduce the cost of building and operating new affordable housing opportunities?**

Responding to the overwhelming influence of the cost of development on the availability of new affordable housing options, attendees wondered about ways of reducing the costs of new development.

- What can developers do on their end to lower development costs?\*
- How can modest homes be created in a world focused on amenities?
- Has anyone used vehicle sharing programs to reduce parking requirements/open more land up for development?
- How can cost of amenities—like covered parking—be reduced to enhance affordability?
- Can we evolve our “housing standards” to be part of the affordable housing solution? (e.g., modular construction, co-housing, smaller units, shared space, etc.)



- Is co-housing an effective strategy?
- Could the land trust model be used to create new affordable multi-family units?
- Should we look at how to improve 4d for long-term affordability?
- Better version of 4d?
- Is it reasonable [for] affordable housing to have the same finishes as market-rate units, given that the financing isn't really there?
- Can land trusts be used to eliminate land costs from pro formas?
- Water Availability Charge (WAC)/Service Access Charge (SAC)—what can realistically be reduced or waived for affordable housing?\*
- Could we have a SAC fee system that varies with affordability levels?
- Do changes in exterior materials accelerate decline into affordability?

### **How can there be more housing opportunities for households earning no more than 30 percent of area median income?**

Households earning no more than 30 percent of area median income (AMI) have the greatest need for affordable housing options and yet are the hardest to serve because the rents their extremely low incomes can afford cannot support the costs of development without quite significant subsidies.

- How can we provide housing at an affordability level [of] 30 percent AMI?\*
- How can we create a new source of funding to support 30 percent AMI?
- How do we fund new rental housing serving households earning no more than 30 percent of AMI?
- Are these policies being set up in a way that serves the households most in need of affordable housing?

### **How can mixed-income housing policies support affordable homeownership opportunities?**

While most of the conversation focused on expanding affordable opportunities within new rental development, questions also remained about how to use local mixed-income housing or inclusionary zoning policies to expand affordable homeownership.

- Are there best practices for IZ in homeownership?
- How can IZ policies be used [in] single-family development?
- Do minimum single-family lot sizes do more harm than good in an era of constrained supply?