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EXPERT INSIGHTS ON INCLUSIONARY ZONING

An in-depth look at the evidence, policy considerations, and impact

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The ABC's of IZ:

How does it work? Is it right for your city?

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Presentation outline

- What is inclusionary zoning?
 - How does it work?
 - How much affordable housing has IZ produced?
 - How does IZ impact local housing markets?
- Questions to guide IZ planning

What is inclusionary zoning (IZ)?

- IZ policies require or give incentives for developers of market-rate housing to set aside some units at below-market rents or prices
 - Mandatory example: require that 10% of new townhomes in subdivision be rented to tenants below 80% AMI
 - Incentive example: if developers choose to set aside 10% of apartments to low-income renters, city grants density bonus (increased height or FAR)
- IZ programs come in many flavors. They can be combined with other affordable housing tools available to local governments.

How does IZ work?

- IZ is popular way to create below-market housing without direct public subsidy
- IZ is pro-cyclical. It relies on high demand for market-rate housing to finance affordable units.
- Who “pays” for the subsidy?
 - Developer
 - Market rate buyers/renters in new developments
 - Landowners
 - Which group bears more of the costs depends on program design & housing market conditions

How does IZ work?

- Examples of who “pays” for the subsidy
 - In cities or neighborhoods with very strong demand from high-income households, IZ is usually paid for by higher market-rate rents/prices in new buildings.
 - If developers can choose to build in similar cities or towns without IZ policies, they are less likely to accept lower profits. Existing land owners may absorb IZ costs through lower land values.
 - Larger density bonuses or cost offsets enable developers to absorb IZ costs with smaller increases to market-rate rents/prices.

How much affordable housing has IZ produced?

Exhibit 2

Comparing Affordable Housing Production From Local IZ Programs

	IZ Programs	Average IZ per Year	Average LIHTC per Year	Total Housing
Northern California	55	14.9	46.8	23,186
Southern California	17	31.7	41.5	34,762
Boston suburbs	99	1.8	9.6	9,349
Washington, D.C. suburbs	4	220.4	269.2	264,645
New York City	1	178.5	4,499.7	3,200,912

IZ = Inclusionary Zoning. LIHTC = Low-Income Housing Tax Credit.

Source: Freeman and Schuetz (2017)

<https://www.huduser.gov/portal/periodicals/cityscope/vol19num1/ch11.pdf>

How does IZ affect local housing markets?

- Good research evaluating impacts of IZ on housing markets is very difficult.
 - IZ programs vary a lot in design & implementation
- Some research finds that IZ contributes to higher housing prices, reduced construction, & shift towards smaller housing units
- But impacts vary by region & time period
 - In Boston suburbs & Bay Area, jurisdictions with IZ saw larger price increases during hot housing markets
 - IZ creates some affordable housing, but market-rate housing becomes more expensive
 - Very inflexible IZ can deter new development

Questions to guide IZ planning

- What are your city/county's affordable housing goals?
 - Maximize production of affordable units?
 - Integrate affordable housing into middle- or upper-income neighborhoods?
 - Any income, age, or demographic groups of special interest?
 - Particular neighborhoods targeted for more housing?
- There are often tradeoffs between these goals.
 - Allowing off-site development in less expensive location can yield more units but reduces economic integration.
 - Reaching very low-income households requires larger subsidy than low- or moderate-income, so may yield fewer units.

Questions to guide IZ planning (contd)

- How well do your local and regional housing market conditions match with IZ?
 - Demand for/supply of market-rate housing
 - Do neighboring jurisdictions have IZ? Comparable design?
- What's your local government capacity?
 - Staff time & training for IZ implementation & oversight
 - Plans for data collection & monitoring

Comments and questions welcome!

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