INCLUSIONARY HOUSING

THE PROBLEM

Across the country more and more people are burdened by the rising cost of housing. Millions are currently paying more than half of their earnings toward housing costs.[1] During the foreclosure crisis, low-income communities and communities of color saw their home values decline at significantly higher rates than the general population. Additionally, low-income renters have been disproportionately impacted by decreased funding for public housing and voucher programs.

Even though many cities are now experiencing significant levels of development, this new construction is insufficient to meet the needs of the hundreds of thousands of people fighting for affordable and stable housing. In fact, in many places, new residential development attracts middle and upper-income families to areas they would not have previously considered desirable rather than providing housing for lower-income families in need.

In the face of the affordability crisis and declining investments by the federal government in affordable housing,[2] local governments are using a variety of tools to creatively expand and preserve their supply of affordable and workforce housing. In particular, they are using their role as regulators of land use to ensure that new residential developments include, or support the development of, affordable residential units for low-income and working families.

These “inclusionary housing policies” are notable not only for their ability to create more affordable housing, but because they do so in neighborhoods with efficient transportation, good schools, and safe streets. Historically, public and subsidized housing projects have been built predominantly in low-income neighborhoods suffering from a lack of public and private investment. Inclusionary housing policies help reverse these trends by creating affordable housing in places that are desirable to residents of all income levels and in neighborhoods where market-rate housing is booming.

THE SOLUTION

Local governments across the country are increasingly adopting inclusionary housing policies to expand the supply of affordable housing without requiring large investments of scarce public resources. In particular, local governments use their role as regulators of land use to help ensure that new residential development includes, or supports the development of, new affordable residential units.

POLICY ISSUES

REQUIRE OR ENCOURAGE LOW COST UNITS: In the past several decades, many municipalities have embraced a low cost, market-based tactic to ensure that new residential development includes units that are affordable to those who need them. These inclusionary housing policies require or incentivize new market-rate housing developments to include lower-priced units. In other words, home builders and developers set aside a certain percentage of their units for low and moderate income residents.

Inclusionary housing programs may be voluntary or mandatory. However, purely voluntary incentive-based programs typically yield far fewer units than mandatory programs. For this reason, voluntary programs often transition to a mandatory framework. In **New York City**, inclusionary zoning has been voluntary, and largely based on developers receiving density bonuses for the inclusion of affordable units. **New York** has created fewer than two thousand affordable units since its passage in 1987, a tiny fraction of its total market rate production.[3] As a result of this paucity of concrete results, the city’s ordinance will transition to a mandatory one in 2015.[4]

PROVIDING INCENTIVES: Under a mandatory program, a city can support development by easing other restrictions that affect its developers’ profit and flexibility. Some of the most popular developer benefits or cost-offsets are revenue neutral for the locality. These include density bonuses, reduced parking requirements, and other variances. A density bonus reduces the developer's per-unit development cost because it allows the developer to build more units in the designated space than would otherwise be permitted. Other cost-offsets include tax abatement, fee reductions, waivers, and fast-track processing, but these come at a financial cost to the locality.

ALTERNATIVES TO CONSTRUCTION: Most programs offer developers additional flexibility by offering alternative means of meeting the ordinance's requirements. For example, the city may offer options to pay a fee in lieu of building onsite units, build housing in a different location than the market-rate development, dedicate land, or preserve existing low-cost housing. Localities can shape their policy to shift the balance of developer contributions toward fee revenue or toward on-site affordable housing, for example, depending upon their policy goals. In **Chicago** paying fees is relatively simple, but in **Fairfax, VA**, and **Montgomery County, MD**, opting out of building affordable units requires proof of financial hardship. Because they have a high standard of proof, permission has never actually been granted.[5]

Unfortunately, many jurisdictions set their fee so low that they receive only fee revenue, not because it is the intention of the program, but because it is the easier option for the developer. In many cases, cities set fees low because of political pressure or because policy makers lack information on how to appropriately set fee levels. Experts can help determine the right fee level for local housing market conditions and policy goals.

BARRIERS TO INCLUSIONARY HOUSING: State law can also hamper local inclusionary housing efforts. Some states, including **California** and **Colorado**, limit the ability of localities to regulate residential rents, which has made inclusionary policies more complex. Three states, **Texas, Oregon**, and **Arizona**, passed sweeping bans against locally adopted inclusionary housing policies that make it impossible to implement a mandatory inclusionary housing policy at the local level. Voluntary programs are still possible, however, and **Austin**, Texas, has one of the most successful voluntary policies in the country.

Successful inclusionary zoning policies depend greatly on the trajectory of the real estate development market and inclusionary housing only works in places where market rate housing development is financially feasible. It is best to conduct a financial feasibility study to understand market conditions, developer constraints and potential incentives before crafting an inclusionary policy. The effectiveness of inclusionary zoning laws depends in large part on enforcement and longevity.

THE BEST INCLUSIONARY HOUSING PROGRAMS:

- Apply where new development is occurring or will occur;
- Are mandatory;
- Have long terms of affordability for inclusionary units;
- Plan for monitoring and stewardship;
- Are simple and predictable; and
- Objectively assess financial feasibility.

LANDSCAPE AND RESOURCES

For more information on inclusionary housing please check out **The Lincoln Institute of Land Policy**, **Inclusionary Housing: Creating and Maintaining Inclusive Communities**,[6] **Cornerstone Partnership**, **Center for Housing Policy** and **Furman Center for Real Estate and Urban Policy** at New York University.

Co-authored by the Grounded Solutions Network

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