INCLUSIONARY HOUSING

THE PROBLEM

Across the country, more and more people are housing-cost burdened. Millions are charged more than half of their earnings to pay for housing costs. Many cities are experiencing significant development, but this new construction is insufficient to meet affordable housing needs. In many places, residential development attracts middle and upper-income families to areas they would not have previously considered desirable—often leading to direct and indirect displacement of communities of color—rather than providing housing for lower-income families in need.[1] Exclusionary zoning practices (e.g. low-density zoning permitting only single-family homes, large expensive lots, or developments meeting parking requirements, and more) have exacerbated economic and racial segregation by preventing developers from building lower-cost homes and apartments, as well as subsdized affordable housing, especially in wealthier neighborhoods. As research from Opportunity Insights shows, upward mobility within a person's lifetime is highly dependent on where they reside.[2]

THE SOLUTION

Inclusionary housing programs were first introduced during the 1970s in response to rising home prices and segregation.

As housing prices rise, so does the value of land. Inclusionary housing policies seek to capture a portion of the increased land value for affordable housing by requiring or incentivizing developers to include affordable units in developments that would otherwise be entirely market-rate. Inclusionary housing policies tie the creation of affordable homes for low- and moderate-income households to the construction of market-rate housing or commercial/development. In its simplest form, an inclusionary housing program might require developers to sell or rent at least 10 to 25 percent of new residential units to lower-income residents. It may also require local hiring, fair employment, and anti-displacement guarantees. Programs have given developers the option of paying fees to a jurisdiction's affordable housing fund, if they do not meet various requirements.

Market-rate housing is often built in high-opportunity areas, with well-funded schools and parks, and access to jobs and transportation options. Inclusionary housing is a key policy tool that helps low-income families gain access to high-opportunity neighborhoods and the benefits they provide, thus addressing racial disparities in health and wealth.

POLICY ISSUES

ADDRESSING RACIAL DISPARITIES:

Done right, inclusionary housing programs can help address racial disparities in housing. Key strategies include:

1. Choose income targets for the affordable units that match those of extremely and very low-income renters of color
2. Adopt building design standards to avoid stigmatizing residents of affordable units
3. Establish high bar marketing requirements to ensure renters of color have access
4. Require a lottery for applicant selection (rather than first come, first served)
5. Set limits on resident selection screening criteria (e.g. credit history or criminal background checks)
6. Make inclusionary housing mandatory of all residential developments.

REQUIRING OR ENCOURAGING AFFORDABLE UNITS: Inclusionary housing programs may be voluntary or mandatory. Purely voluntary incentive-based programs typically yield far fewer units than mandatory programs. For this reason, voluntary programs often transition to a mandatory framework.

Seattle had a voluntary inclusionary program for a decade and recently switched to primarily relying on a mandatory program. From 2006 to 2017, the voluntary program produced 229 on-site units, and collected $130 million in fees from both residential and commercial development—less than three percent of its total market rate production. Given this lackluster performance amidst a worsening housing affordability crisis, Seattle adopted a Mandatory Housing Affordability (MHA) program in 2016.[3]

INCOME TARGETS: Programs should prioritize service for extremely and very low-income local residents, who suffer the greatest lack of available affordable housing. Affordability measures based on area median income (AMI) can easily bypass marginalized households, due to extreme income equality at this overly broad geographic area. Finer-grained measures such as using the neighborhood median income of the poorest communities as a targeting benchmark can help ensure housing created is truly affordable and that these residents are not displaced.

TERM OF AFFORDABILITY: Long-term restrictions are vital for inclusionary programs to have lasting impact. If homes expire out of a program and return to market rate after a few decades, this will not actually increase the stock of affordable housing. Inclusionary housing programs overwhelmingly adopt long-term affordability periods: only 7 percent of programs have terms of less than 30 years, and in 17 percent of programs, units must remain affordable in perpetuity, for 99 years or the life of the building.[4] Programs with shorter affordability restrictions aim to preserve affordability permanently by "resetting the clock" on each sales transaction and maintaining the preemptive option to purchase the unit back upon transfer.

INCLUDING JOB BENEFITS: In coalition with labor unions, housing rights groups have advocated for and won job benefits such as targeted hiring commitments, as a part of inclusionary development policies. In 2016, **Los Angeles** voters approved a measure that paired zoning changes with a requirement that 25 percent of units be affordable to extremely low-income households, while 30 percent of workers on these projects must be permanent city residents, and 10 percent people with records, unhoused people, veterans, single parents, or former foster youth.

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 cost offsets are revenue neutral for the locality. These include density bonuses, reduced parking requirements and other variances. A density bonus multiplies the developer's revenues by increasing the number of units permitted on a piece of land. Other cost offsets include tax abatement, fee reductions or waivers, and fast track processing, but these come at a financial cost to the locality. Incentives can make it financially possible for for-profit developers to build more affordable housing and/or target lower income levels. But since density bonuses can fuel gentrification, it is particularly important to seek higher affordable housing requirements and serve deeper income levels to offset displacement pressures.

PAIR WITH ANTI-DISPLACEMENT PROTECTIONS: To guard against displacement and ensure local low-income residents benefit, inclusionary policies should be paired with mandatory anti-displacement protections, such as one-to-one replacement of units, right to return, just cause eviction, and rent control. Especially for developments in gentrifying or nearby lower-income areas, these protections should be integrated with inclusionary zoning requirements.

ALTERNATIVES TO ON-SITE 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 should ensure such options do not undermine fair housing goals by contributing to segregation and displacement.

Somerville, MA created its inclusionary program at a time when local nonprofit developers did not have the capacity to build large quantities of affordable housing. Consequently, the city set its fees high to discourage developers from taking this option. As the nonprofit development community built capacity, the city lowered its fees.

Unfortunately, many jurisdictions set their fee so low that they receive only fee revenue, since it is the easier option for the developer. In many cases, cities set fees low because of political pressure or lack of information on how to appropriately set fee levels.

BARRIERS TO INCLUSIONARY HOUSING: A few states have adopted legislation that explicitly prohibits or limits local inclusionary housing policies. In other states, courts have interpreted statutory limits on local rent regulation policies so as to render inclusionary policies illegal. States legal frameworks regarding municipal authority to enact local legislation also affect local powers to adopt inclusionary policies.[5]

Locally, inclusionary housing policies tend to be popular when the housing market is strong (i.e., housing prices are high and construction booming). However, there is usually a delay between the time inclusionary housing policy is first considered and its adoption. It can make sense to adopt inclusionary housing policy before the market heats up. Communities with mixed housing markets, like **Detroit**[6] and **Minneapolis**,[7] have recently adopted inclusionary housing policies.

LANDSCAPE AND RESOURCES

For more information on inclusionary housing, please see Grounded Solutions Network's dedicated website www.inclusionaryhousing.org.

Co-authored by the Grounded Solutions Network

GROUNDED SOLUTIONS NETWORK
strong communities from the ground up

NOTES

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4. Ruoniu Wang and Sowmya Balachandran, "Inclusionary Housing in the United States: Prevalence, Practices, and Production in Local Jurisdictions as of 2019," Grounded Solutions Network, 2021, https://groundedsolutions.org/sites/default/files/2021-01/Inclusionary_Housing_US_v1_0.pdf.
5. Grounded Solutions Network, "Inclusionary Housing Map & Program Database," Inclusionary Housing, 2019, https://inclusionaryhousing.org/map/.
6. City of Detroit, "Inclusionary Housing Ordinance," 2021, https://detroitmi.gov/document/inclusionary-housing-ordinance-0.
7. City of Minneapolis, "Inclusionary Zoning Requirements," 2020, http://www2.minneapolismn.gov/cped/inclusionaryzoning.