Cities at Work: Progressive Local Policies to Rebuild the Middle Class

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Create affordable housing

Inclusionary zoning

Inclusionary zoning, or IZ, policies require developers of market-rate housing to reserve a portion of the units they create for affordable housing.[95] IZ links the production of affordable housing to market-rate housing, expanding the supply of affordable units at no monetary cost to government and creates mixed-income housing throughout the jurisdiction.

But the policies must take into account the market realities of housing development. If they’re too onerous, they will discourage development, fewer units of all types will be created, and the policy will not contribute to the city’s overall housing goals.

Cities should adopt an IZ policy based on the specifics of the local housing market. But the following elements are important to an effective policy:[96]

- **The policy should be mandatory.** Voluntary policies have not been successful in creating significant numbers of affordable units.
- **Units that are owned and rented should both be covered, as should different ownership models.** San Diego’s ordinance applies to condominium conversions, as well as new construction.[97]
- **Developments of all sizes should be covered, even buildings with few units.** The Chapel Hill, North Carolina, policy requires all projects that will create five or more units to comply.[98]
- **The percentage of affordable units required should be high.** The Boulder, Colorado, program begun in 1980 requires 20 percent of units to be aff dable.[99]
- **Developers willing to produce very-low- and low-income housing should receive additional incentives.** For instance, they could be allowed to meet a lower percentage of aff dable units than those producing moderate-income units.
- **The units should remain affordable for the longest possible time, preferably in perpetuity.** Alternatively, the “affordability clock” could reset each time the unit is sold.
- **Affordable units should be produced before, or at the same time as, market-rate units, preferably on the same site as the market-rate units.** The Cambridge, Massachusetts, ordinance focuses on developing units on the

same site as market-rate units and requires all units to be comparable in their finishes.[100] San Francisco requires 5 percent more affordable units if they are produced offsite.[101]

- **There should be alternatives to developers producing the units themselves such as payments in lieu of production or donation of land.** These alternatives, however, should be structured so that they do not create fewer units than would be otherwise required, and developer eligibility for the alternatives should not be automatic.
- **There should be some meaningful, nonmonetary incentive for developers who participate.** This might be any of the incentives discussed in the section below. It must, however, be tied to the realization of concrete policy goals. For example, density bonuses (defined below) might be given to developers for the creation of very-low-income units, but not units targeted at 80 percent of area median income. The Montgomery County, Maryland, ordinance, one of the earliest adopted, includes density bonuses.[102] It has produced at least 11,000 units of affordable housing over its 25-year lifespan.

Finally, there should be a clear path to compliance with an IZ policy, the policy should be applied equally to all covered projects, and the local government should have a system for monitoring compliance and tracking success.

Incentives for developers

In addition to requiring the development of affordable units, local governments can use a variety of incentives to encourage the development of affordable housing. These are generally related to the development process, fees associated with it, the property tax, or the provision of municipal infrastructure. They should all require permanent or at least long-term affordability in return for the incentive.

Local governments should offer a selection of incentives carefully crafted to produce the types of housing that the market will not provide on its own. They should not offer or should discontinue incentives for types of housing the market is producing. In addition to levels of affordability, incentives can reward proximity to transit and employment, or provision of onsite services.

Some states allow local jurisdictions to use property-tax abatement to encourage certain types of development. Cities should carefully examine state law before considering this tool, however, and should seriously consider how much—and for how long—they are willing to forego the tax revenue. Tax abatements should not be given lightly, but rather should be in exchange for maximum long-term affordability, at the level of 50 percent of AMI or lower. Seattle[103] offers a tax exemption to multifamily properties where at least 20 percent of the units are affordable at a certain level related to unit size.

Another way to reduce property taxes on affordable housing is to adjust the way they are assessed to account for the lower increases in rent, higher expense ratios, and lower resale values of affordable properties.[104]

Further, local governments usually have the ability to reduce or waive development or permit fees and requirements such as parkland dedication—or fees in lieu of—for affordable housing developments. These revenues are generally easier to forgo since they are one-time fees. This waiver can be leveraged to require long-term affordability by treating it as a deferment, with the fees due in full if the property transitions out of affordable housing. Flagstaff, Arizona, has a comprehensive incentive policy, which includes waivers for building permit, planning, and development-impact fees that are tied to the level of affordability produced.[105]

Another tool is the density bonus. Projects that would be limited by zoning codes to a certain floor-area ratio or number of stories can be granted additional area or height in exchange for the inclusion of affordable units. Los Angeles offers a by-right density bonus of 20 percent to affordable-housing projects. The bonus can be increased to 35 percent by increasing the percentage of affordable units or making them more affordable, providing on-site child care, or locating near employment or transportation centers.[106]

Cities may also offer regulatory flexibility for affordable-housing projects. These projects, for instance, may receive expedited permitting or presumptive approval within a certain timeframe. Costly requirements such as parking minimums may also be waived, or regulations about lot sizes and setbacks may be reduced. The Flagstaff, Arizona, program mentioned above provides expedited review and flexibility on parking requirements for projects that are at least 20 percent affordable. Bellingham, Washington, offers a number of different types of flexibility, including waivers of minimum lot size, street frontage, setbacks, parking requirements, usable open space, and maximum lot coverage regulations.[107]