GROUNDED SOLUTIONS NETWORK
strong communities from the ground up

What Do We Know About **Inclusionary Housing?**

Lessons from a National Survey of Programs

Introduction

More and more cities are considering the adoption of inclusionary housing policies as a means for reducing affordable housing shortages and fostering inclusive communities. Inclusionary housing refers to any land-use policy that requires or incentivizes developers to produce affordable housing or to pay a fee that generates revenue for affordable housing when new development occurs. However, too little is known about the characteristics and trends of this affordable-housing tool. Consequently, policymakers, city staff, and stakeholders are at the risk of "reinventing the wheel" as they design, modify and implement inclusionary housing policies.

A recent national survey, conducted by Grounded Solutions Network and published as a working paper by the Lincoln Institute of Land Policy,[1] addresses some gaps in knowledge on inclusionary housing policies. This survey, conducted in 2016,[2] was the most comprehensive investigation of inclusionary housing in the United States to date. It identified 886 jurisdictions with inclusionary housing programs located in 25 states and the District of Columbia at the end of 2016. Grounded Solutions Network gathered information on program productivity for 373 of these jurisdictions (about 40 percent) from primary and secondary sources.[3] That subset reports creating 173,707 affordable housing units and collecting $1.7 billion in impact or in-lieu fees for the creation of affordable housing through inclusionary housing programs.

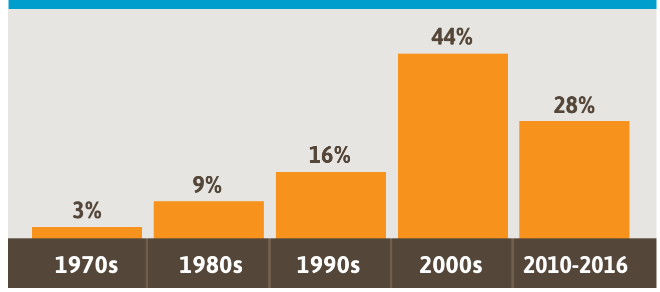
The present policy highlight draws from the 2016 national survey of programs to spotlight prevalent program characteristics and their implications for the field. The survey gathered primary data on 273 inclusionary housing programs in 168 jurisdictions from March 3, 2016, to January 10, 2017.[4] About half of this sample came from the state of California, and the data significantly underrepresents programs in the states of Massachusetts and New Jersey. Generalization of findings is therefore constrained by the geographic bias of the survey sample, as inclusionary housing policy design can be heavily influenced by local housing markets as well as state legal, judicial and political contexts. Nonetheless, the findings offer significant insight into the inclusionary housing programs currently operating in the United States.

When were Inclusionary Housing Programs Adopted?

Inclusionary housing policies are growing in popularity. The number of inclusionary housing programs in the United States grew slowly from the 1970s until 2000, and then a boom of program adoption occurred after that time. Over 70 percent of the programs represented in the sample were established after 2000. Of the 261 programs that provided information, 72 (28 percent) were adopted within the last seven years, and at least a dozen additional jurisdictions are presently pursuing adoption.

This pattern supports that there is a growing interest in inclusionary housing policies among local municipalities. This growing popularity is likely driven by the increasing demand for affordable housing across a wide range of housing markets. Nationally, housing costs continue to outpace wage growth, so many cities, suburbs and towns that are not traditionally seen as "hot markets" are confronted with residents struggling to afford housing expenses.[5] At the same time, migration into cities has increased pressure on the housing stock in dense, urban areas.[6] It is likely that these broader demographic trends have shifted the political will to embrace inclusionary housing in places with mixed markets and soft markets, and across a wide political spectrum.

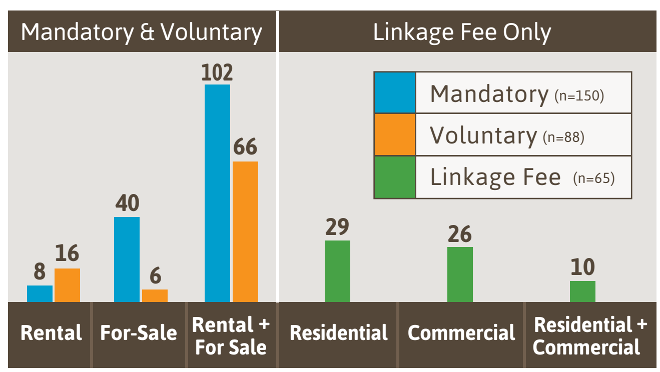
Percentage of Programs (n=261)



What is the Most Popular Type Of Program?

Mandatory programs far outnumber both voluntary programs and linkage fee programs, and most programs apply to both rental and for-sale development. The distinction between mandatory and voluntary programs lies in whether developers can choose to opt out of the program. In other words, they are required to provide affordable housing in the former and may choose to provide affordable housing in the latter. In the survey, responders were asked to identify the type of program they had and to which kind of development it applied. Some jurisdictions subsume multiple program types— mandatory, voluntary and/or linkage fee program—under one program name. Additionally, some jurisdictions consider themselves to have multiple programs.[7]

Program Type	Mandatory Program	Voluntary Program	Linkage Fee Program
Development Type	Rental Development		Residential Development
	For-Sale Development		Commercial Development
	Rental + For-Sale		Residential + Commercial

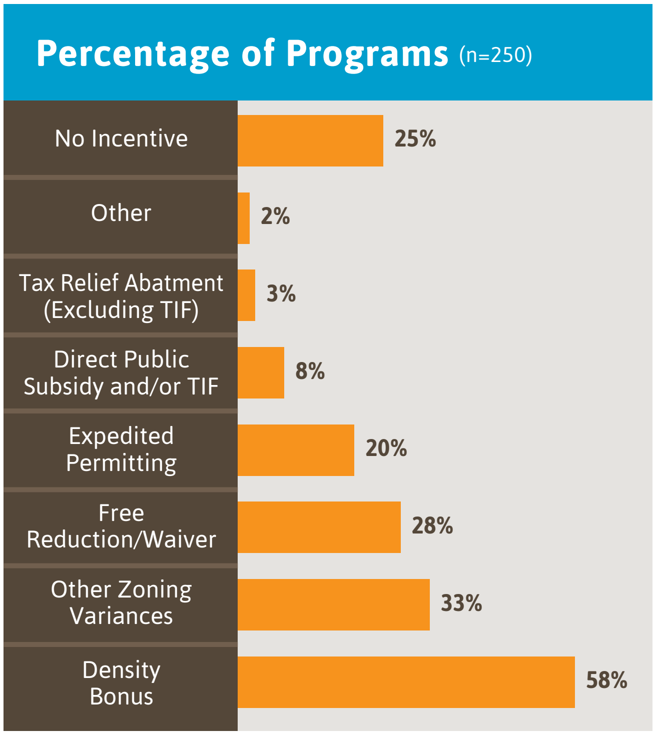


About one in five programs reported more than one type (the 265 programs that were reported included 303 policy types). As shown in the chart above, there are more mandatory programs than voluntary programs overall. However, for those programs applying only to rental development, there are twice as many voluntary programs as mandatory programs (16 vs. 8). This is because most of these programs are in California, where a 2009 court ruling disallowed municipalities from requiring affordable units on site in new rental developments.[8] In other findings, linkage fee programs usually apply to either residential development or commercial development; a linkage fee program applying to both residential and commercial developments is less common.

What Incentives do Programs Offer?

Incentive is commonly employed as a mechanism to reduce the financial impact of the inclusionary requirement. For many mandatory programs and most voluntary programs, offering some sort of incentive to developers warrants the feasibility of the development by offsetting the cost of providing affordable housing units. The survey finds that inclusionary housing programs offer a variety of incentives, with density bonuses being most common. One-third of programs offer other zoning variances, such as a reduction in site development standards, a modification of architectural design requirements, and a reduction in parking requirements. Twenty-eight percent of programs provide a waiver, reduction or deferral of development, administrative fees and/or financing fees. One-fifth of programs offer expedited processing. Less commonly used incentives include direct public subsidy and tax relief abatement. Survey respondents also described other incentives, such as concessions on the size and cost of finishes of affordable units and technical assistance from the city.

Notably, a quarter of programs did not offer any incentives. Conversely, many programs offered more than one type of incentive. For programs offering any incentives, mandatory programs tended to offer fewer incentive options to developers than voluntary programs. Offering multiple incentives does not necessarily indicate a more "generous" program, since the value of any incentive is unknown and varies by how it is designed and the market where it is located. However, offering multiple incentives does imply that jurisdictions are thinking creatively about how to capture the value of various benefits they can offer to developers to optimize the impact of their policies.

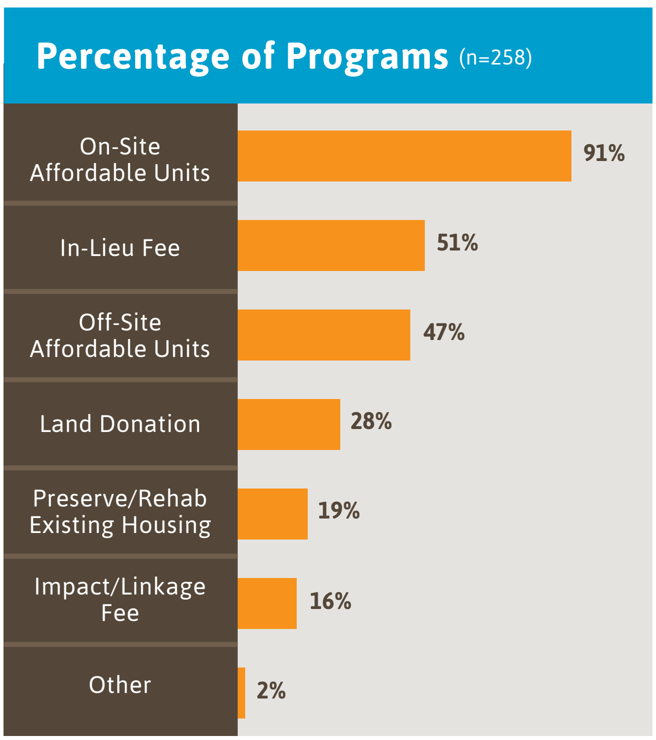


Eliminating Barriers

Eliminating barriers—such as long processing delays, low heights allowances or high parking requirements—can help increase the overall supply of housing and facilitate development of mixed-income buildings. Restrictions on the physical form of development, while often important for safety or for neighborhood integrity, can also increase per-unit development costs. When paired with inclusionary requirements, easing barriers to development can make projects more feasible while also ensuring that the benefits of growth are shared with low- and moderate-income residents. Financial incentives—such as fee waivers, tax abatements and direct cash grants—can also be useful cost-offsetting measures, especially in soft or fragile markets. However, utilizing such incentives for the inclusionary program must be weighed against other potential uses for scarce public funds.

What are the Developers' Compliance Options?

Developers can be given options for how to contribute to the creation of affordable housing under an inclusionary housing policy. Providing on-site affordable units is the predominant way developers are asked or required to contribute to affordable housing. While most programs also offer secondary options—such as building off-site or paying a fee—about one in five programs only allowed affordable units to be built on site. This finding confirms that inclusionary housing is not only a means of affordable housing production, but also as a strategy to promote economic integration. Requiring on-site inclusionary housing is one of the few successful housing strategies that effectively integrates lower-income residents into asset-rich neighborhoods. In fact, inclusionary housing programs are more successful at promoting income integration than major federal housing programs, such as public housing, the Low Income Housing Tax Credit program, and the Housing Choice Voucher program.[9, 10]



While on-site performance offers building-level and neighborhood-level integration, program flexibility also has benefits. Offering alternative compliance options—when they are correctly calibrated to offer developers a meaningful choice—can ensure developers are able to comply with the policy in a manner that best suits their business model. Furthermore, rigorous alternative compliance options can sometimes result in more total affordable units than on-site compliance would have produced.

About half of sample programs allowed options to pay a fee in lieu of offering some on-site units or to build affordable housing in an alternative location (off site). Less popular alternative compliance options include land donation, preservation or rehabilitation of existing housing, and impact or linkage fees for commercial development.[11] On average, mandatory programs offer three options for developers to meet policy requirements, almost double the number offered by voluntary programs.

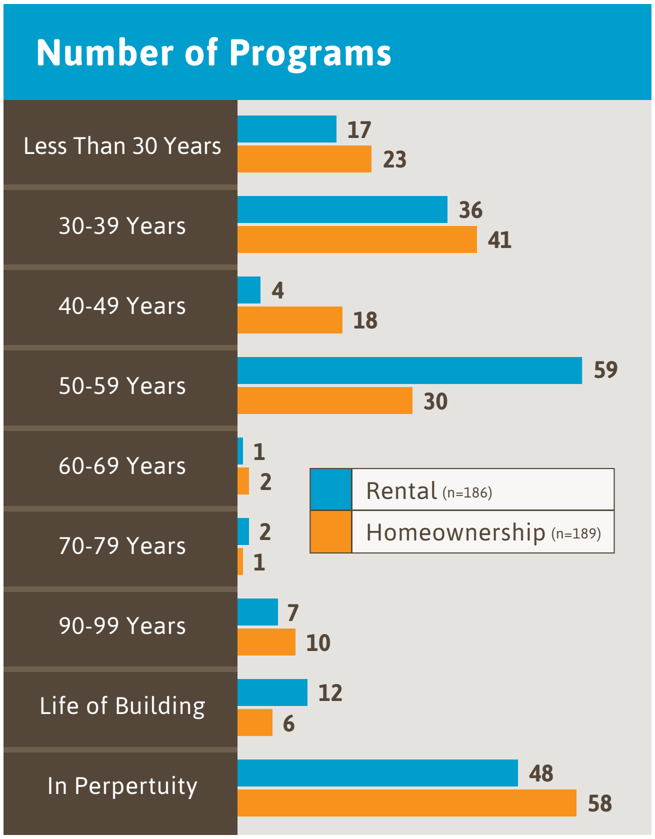
Certain alternatives to on-site compliance may be declining in popularity, while others appear to be on the rise. The share of programs offering the option of paying a fee in lieu of on-site or off-site development was 15 percent less in programs established after 2006 than in those established earlier. This could potentially be the result of policymakers and advocates having witnessed the pitfalls of incorrectly calibrated options in older programs. For instance, if the in-lieu fee is less expensive than the cost of providing a unit on site, then fee payment is likely to become the default option selected by local developers. If economic integration is a programmatic goal, such mistakes in calibration can undermine the desired outcome of more mixed-income development.

In contrast, the option to preserve existing housing as an alternative to new construction appears to be trending upward. Fourteen percent of older inclusionary housing programs (adopted in 2006 or before) offer the option to preserve or rehabilitate existing housing, compared to 24 percent for those adopted in 2007 or later. "Preservation" can refer to two slightly different activities, which are not clearly distinguished in the survey data. Preservation can refer to purchase and renovation of an existing unregulated building to then offer units for sale or rent for income-qualified families. This term also commonly refers to investment in currently regulated affordable housing buildings to make physical improvements and extend their term of affordability. Both forms of preservation are increasingly recognized as cost-effective means to sustain a healthy mix of housing. According to HUD, preservation typically costs about one-half to two-thirds as much as new construction.[12] Inclusionary housing policies can be one tool in the preservation toolkit, as jurisdictions aim to stabilize their regulated affordable buildings as well as their naturally occurring affordable housing stock.
However, in comparison to on-site compliance, preservation activities may be less likely to facilitate access to high-amenity neighborhoods, because pre-existing affordable housing opportunities are typically located in low-income areas.

What are the Affordability Periods?

Consistent in both rental and homeownership projects, most inclusionary housing programs have affordability requirements that last for 30 years or longer. As inclusionary housing is proven to be one of the few strategies for creating mixed-income communities,[13] the embrace of long-term affordability requirements by local governments illustrates their commitment to preserve a diverse, inclusive and integrated society. Jurisdictions don't want to lose the affordable housing that they work so hard to create. This trend in local inclusionary housing programs differs from the relatively short-term affordability requirements in federal housing programs, which range from five to 30 years. Unlike federal housing programs, many inclusionary housing programs applying to both rental and ownership developments require renewal of the affordability term upon each sale, which effectively guarantees perpetual affordability.[14]

The study found that mandatory programs tended to have longer affordability terms than voluntary programs (on average, eight years longer for rental projects and 13 years longer for homeownership projects). Programs adopted within the last decade also had longer affordability terms than older programs.



Insights on Affordability Preservation Strategies

An earlier study conducted by Grounded Solutions Network of 20 inclusionary housing programs provided insights on affordability preservation strategies.[15] For programs with relatively short affordability restrictions, local jurisdictions typically lengthened, rather than shortened, affordability periods over time. For many programs with less than perpetual affordability periods, affordability terms were reset on each transaction. Many local jurisdictions maintained the preemptive option to buy back the unit upon transfer.

The study also found that achieving lasting affordability requires more than simply setting long affordability periods. Mechanisms are needed to ensure the lasting affordability of affordable homeownership. For example, strong legal mechanisms can help jurisdictions stay notified of illegal sales, improper refinancing, over-encumbrance with second loans, and defaults that could jeopardize the continued availability of affordable homes. Also, carefully designed resale restrictions can successfully balance the goals of ensuring lasting affordability for subsequent homeowners and promoting wealth building among homeowners. In addition, strategic partnerships between the lead public agency and a private or nonprofit partner can help enable many inclusionary housing programs to improve their stewardship and oversight of for-sale and rental inclusionary units by subcontracting some elements of program management.

Conclusion

Findings from the 2016 survey of inclusionary housing programs support that this local affordable housing strategy is growing exponentially and evolving in a promising direction. Notably, a smaller fraction of programs adopted in the past decade offered paying in-lieu fees as an alternative compliance option than older programs, and longer affordability terms were observed for newer programs. These trends uphold the notion that more programs are adopting program characteristics that better foster economic and racial integration. Although program evolution has been documented at the local level,[16] this study is the first to capture the trends of inclusionary housing programs as a whole.

The prevalence of mandatory programs is nearly double that of voluntary programs. Although the 2016 survey did not have the ability to correlate productivity with particular program design features, there is ample previous research that suggests mandatory programs outperform voluntary programs. The survey also finds that, on average, they have longer affordability terms than voluntary programs.

Last but not the least, this study reaffirms that most inclusionary housing programs continue to implement durable affordability requirements that last for 30 years or longer. Whereas many federal housing programs still have shorter affordability terms, inclusionary housing policies serve as a long-term housing solution that stabilizes the affordable housing stock in our communities.

Ultimately, this housing strategy retains affordability and substantially increases impact, as more families can be served over time by these affordable homes.

Biographies

Ruoniu (Vince) Wang, Ph.D., is the research manager at Grounded Solutions Network. His research focuses on affordable housing policy and programs, residential mobility and neighborhood of opportunity. His publications appear in urban study journals, including Urban Affairs Review, Journal of Planning Education and Research, Housing Policy Debate, Urban Studies, Cityscape, and City & Community. Previously, Vince worked at the Shimberg Center for Housing Studies at the University of Florida, where he worked on multiple research projects pertaining to assisted and affordable housing.

Sasha Hauswald is the director of state and local policy at Grounded Solutions Network. Prior, she was senior program officer at Cornerstone Partnership, where she led its inclusionary housing engagements and activities. Before that, she worked in the San Francisco Mayor's Office of Housing and Community Development, where she oversaw legislative affairs, strategic planning and program evaluation projects as public policy manager.

Emily Thaden, Ph.D., is the director of national policy and sector strategy at Grounded Solutions Network. Her research on housing with lasting affordability has been published in Housing Studies, Urban Geography, Journal of Architectural and Planning Research, Social Science Quarterly, Shelterforce, and reports published by the Lincoln Institute of Land Policy. Emily also serves on the Board of Commissioners for the Metropolitan Development and Housing Agency in Nashville, Tenn., and the Advisory Board for Habitat for Humanity of Greater Nashville.

References

[1] Thaden, Emily and Ruoniu Wang. 2017. “IH in the United States: Prevalence, Impact, and Practices.” Cambridge, MA: Lincoln Institute of Land Policy. http://www.lincolninst.edu/publications/working-papers/inclusionary-housing-united-states

[2] As additional programs have been uncovered after the survey, the list of jurisdictions with inclusionary housing programs is expanding. By the time of this policy brief, there were 917 jurisdictions with inclusionary housing programs located in 31 states and the District of Columbia.

[3] Not all of these 373 jurisdictions, however, have complete data on program productivity. For example, linkage/impact fee data was not collected for all jurisdictions in Massachusetts.

[4] As specified in the following sections, the number of programs included in each summary may vary depending on whether all survey participants addressed the corresponding question in the survey. The remaining unit production information came from secondary sources.

[5] New York Post. “US Housing Prices are Rising Twice as Fast as Wages.” May 30, 2017. http://nypost.com/2017/05/30/us-housing-prices-are-rising-twice-as-fast-as-wages/

[6] Hauswald, Sasha. 2017. “10 Ways to Talk About Inclusionary Housing, Differently.” Montclair, N.J.: Shelterforce. https://shelterforce.org/2017/09/20/10-ways-talk-inclusionary-housing-differently/

[7] For instance, Boulder, Colo., reported two programs: inclusionary housing program and commercial impact fee program. With one jurisdiction possibly having multiple inclusionary housing programs and one program having multiple policy and development types, administering and complying with inclusionary housing policies can become complex.

[8] California offers an example of how state legal changes can create layered inclusionary policies. While the 2009 appellate court ruling resulted in many communities changing their on-site rental requirements to linkage fee requirements, a new bill passed in May 2017 reaffirms the legitimacy of requiring developers to include affordable rental units in new developments. It is now expected that some California cities will switch back from linkage fee programs to mandatory rental programs or otherwise amend and build upon their current policy framework.

[9] Jacobus, Rick. 2015. Inclusionary Housing - Creating and Maintaining Equitable Communities. ISBN 978-1-55844-330-3. Cambridge, Mass.: Lincoln Institute of Land Policy.

[10] Schwartz, Heather L., Lisa Ecola, Kristin Leuschner and Aaron Kofner. 2012. “Is Inclusionary Zoning Inclusionary? A Guide for Practitioners.” Santa Monica, Calif.: RAND Corporation. http://www.rand.org/pubs/technical_reports/TR1231.html

[11] Inclusionary unit credits are introduced in some programs where projects owners can opt to use these credits to meet the inclusionary requirement. These credits can be either purchased (in this case, it is equivalent to the in-lieu fee compliance option) or transferred from another project of the same developer in the event that project exceeds the total number of inclusionary units required by a site.

[12] Evidence Matters. 2013. “Preserving Affordable Rental Housing: A Snapshot of Growing Need, Current Threats, and Innovative Solutions.” Office of Policy Development and Research, U.S. Department of Housing and Urban Development. https://www.huduser.gov/portal/periodicals/em/summer13/highlight1.html

[13] Jacobus, 2015.

[14] Hickey, Robert, Lisa Sturtevant, and Emily Thaden. 2014. “Achieving Lasting Affordability through IH.” Cambridge, Mass.: Lincoln Institute of Land Policy. http://www.lincolninst.edu/sites/default/files/pubfiles/achieving-lasting-affordability-through-inclusionary-housing-full.pdf

[15] Hickey et al., 2014.

[16] Levy, Diane K., Kaitlin Franks, Kassie Bertumen, Martin Abravanel, Gerrit J. Knaap, Jason K. Sartori, and Mariela Garcia-Colberg. 2012. “Expanding Housing Opportunities through Inclusionary Zoning: Lessons from two Counties.” Washington, DC: U.S. Department of Housing and Urban Development, Office of Policy Development and Research. March 6. www.huduser.gov/portal/publications/HUD-496_new.pdf

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