Inclusionary Housing Frequently Asked Questions

Who does inclusionary housing benefit?

Inclusionary housing programs (a.k.a. inclusionary zoning) make housing affordable for low and moderate-income families typically earning between 60 and 120 percent of the Area Median Income. This workforce housing provides homes to nurses, teachers, police officers and other moderate-income households where reasonably priced options would not otherwise be available. Inclusionary developments near places of employment improves access to jobs and helps workers avoid long distance commutes. Employers benefit from having a stable and reliable workforce, and everyone benefits from reduced traffic.[1] [2]

Does inclusionary housing kill development?

A common fear among policymakers is that inclusionary housing requirements will undermine the market for new housing development. The best available evidence from inclusionary zoning policies in diverse locations around the country shows that developers are not typically discouraged from developing new residential housing. In one study, researchers found that inclusionary zoning programs had slowed construction in the Boston area because programs were highly demanding and rigid, but several others showed no such effect in other parts of the country.[3] Larger market forces, such as population growth, play a bigger role in determining whether a housing market will grow.

Is inclusionary housing a coastal/hot market policy?

Over 500 programs operating in 27 states of the US, with and without cost offsets and incentives, have produced workforce-housing units. Many programs are located in small cities and suburban jurisdictions, and even growing rural communities have adopted inclusionary housing programs. Inclusionary housing is not a one-size-fits-all. Local policy-makers, often with the help or developers and real-estate economists, design tailored ordinances that are sensitive to their unique market conditions. Most inclusionary policies include flexibility (such as the option to pay a fee instead of building units) and incentives (such as tax benefits) to ensure that they work well for developers.[4] [5]

Who pays the costs for inclusionary housing?

Inclusionary housing policies add costs for developers—the difference between the market price without the requirement and the price the developer actually receives for the affordable unit.

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[1] Tedder, Wayne (Director of Tallahassee-Leon County Planning Department); “Who’s Really Included in Inclusionary Housing”; International City/County Management Association July, 2006; http://icma.org/en/Article/10834/Whos_Really_Included_in_Inclusionary_Housing

[2] Williams, Stockton; “The Economics of Inclusionary Zoning”; The Urban Land Institute, 2016; http://urbanland.uli.org/development-business/best-use-zoning-policies-spur-workforce-housing-development/

[3] Schuetz, Jenny, Rachel Meltzer, and Vicki Been. "Silver Bullet or Trojan Horse? The Effects of Inclusionary Zoning on Local Housing Markets in the United States."*Urban Studies* 48.2 (2011): 297-329. Web.

[4] Brunick, Nicholas; “The Impact of Inclusionary Housing on Development”; http://www.bpichicago.org/documents/impact_iz_development.pdf;

[5] National Association of Realtors; “Field Guide to Inclusionary Zoning” https://www.nar.realtor/field-guides/field-guide-to-inclusionary-zoning

However, most of this cost is actually born by landowners, *not* developers. Zoning changes affect the price of land because zoning often determines how many units can be built on a parcel. For instance, reducing expensive parking requirements increases the value of land. On the other hand, inclusionary policies decrease the amount developers can pay for the land and still make a profit. Thus, over time, inclusionary housing policies reduce the land prices from what they would be otherwise.

Although the costs of inclusionary housing will be absorbed into land values over time, in the short run, policies offer incentives to offset project costs. These incentives frequently include reduced parking requirements, direct subsidies, tax abatement, and density bonuses. [6] Density bonuses and relaxed zoning requirements let developers be more creative and can actually stimulate *more* housing development. Incentives like these help developers who already own land to move their projects forward.

Does inclusionary housing drive up the cost of housing for everyone else?

Inclusionary housing policies have not caused significant increases in the cost of market rate housing. Consumers, not developers, set housing prices in most places. Brand new homes are a small share of the options available to house-hunters. If a developer decides to inflate their price above other vacant homes of equivalent quality, renters and buyers will simply take their money elsewhere.[7,8]

Is a voluntary and incentive driven policy better?

Some inclusionary housing programs require that developers provide reasonably priced workforce housing onsite, while others allow developers to opt into participation. Both types of programs typically provide cost-offsetting incentives to developers. Many programs, both voluntary and mandatory, remove restrictive zoning requirements as an incentive. About 80 percent of inclusionary housing programs in the country include a requirement, as well as cost-offsets, for local developers. Research shows that purely incentive driven non-mandatory programs are not very productive at creating workforce housing. In addition to being more productive, mandatory programs reduce developer's financial risks by providing predictability in the planning process. In Chapel Hill, NC, the fast growing college town's voluntary inclusionary program inefficiently required developers to negotiate requirements for each individual development. The city adopted Inclusionary Zoning Ordinance in part due to the support of the development community, which preferred the predictability of a formal ordinance.

For more information please visit InclusionaryHousing.Org or contact Sasha Hauswald, Director of State and Local Policy, at SHauswald@GroundedSolutions.org.

[6] Ibid.

[7] While this generalization would likely hold true for Indiana, there is evidence that very demanding inclusionary policies in unique, high-cost housing markets like San Francisco or New York could increase prices of *high end* market rate housing by about 3 percent. Even in these circumstances there is little evidence that the policies inflate prices of homes and apartments affordable to middle class and low-wage workers.

[8] Bento, Antonio, Scott Lowe, Gerrit-Jan Knaap, and Arnab Chakraborty. 2009. "Housing Market Effects of Inclusionary Zoning" Cityscape, 11.2, Regulatory Innovation and Affordable Housing 7-26.