



Best Practices in Geographic Scoping and Tiering of Inclusionary Housing Policies

Introduction

Cities across the United States face challenges when crafting effective inclusionary housing policies. Many U.S. cities, especially geographically large cities, have a diverse range of neighborhoods with very different economic conditions and individual local housing markets. These cities have grappled with how to design inclusionary housing policies that are effective, but also flexible enough to address the individual needs of each of these diverse neighborhoods.

Against this background, this memo highlights lessons learned from other U.S. cities that have implemented effective, but flexible inclusionary housing policies. In many cases, these cities either limit the geographic scope of their inclusionary policies or adjust their inclusionary housing requirements to respond to specific neighborhood housing markets or economic conditions. Using lessons from existing policies in these cities, this memo summarizes how city officials can structure an inclusionary housing policy that will both produce new affordable housing and support economic revitalization in urban neighborhoods with weaker housing markets.

Targeting and Tiering of Inclusionary Housing Policies

According to a recent study commissioned by the Lincoln Institute of Land Policy, approximately 500 jurisdictions in 27 states and Washington D.C. have some form of inclusionary housing policy. These vary widely in form, but the vast majority of these policies are mandatory, rather than voluntary, and apply to an entire jurisdiction (city or county), rather than a specific set of project types or geographic zones.

In the states with the largest number of inclusionary housing programs (California, New Jersey, and Massachusetts), geographic targeting of policies—also known as tiering—by neighborhood area or project type is relatively rare. In high-cost or strong housing market cities, a single policy which applies uniformly across the jurisdiction is often preferable for ease of administration. Uniform policies also avoid the unintended market consequences of applying policies differently across the same jurisdiction. An unintended consequence, for example, occurs when residential developers choose parts of town with lower requirements. In addition, having a single, clear policy which applies to all parts of a jurisdiction can deliver the added benefit of providing clarity to developers and land owners who may find more nuanced or layered inclusionary policies overly complicated or confusing.

Despite the above mentioned concerns about geographic targeting or tiering of policies, there are a number of jurisdictions across the United States that have adopted either voluntary or mandatory policies which include an element of targeting or tiering. Targeting or tiering of requirements can depend on geography or type of project. The most common metrics used in these policies are presented in Table 1.

Based on a review of these types of policies from a diverse range of urban jurisdictions, the following basic policy types and practices were identified: (1) geographically-targeted policies by census tract; (2) policies limited to specific zoning districts; and (3) policies which vary by project type. We discuss each of these practices in greater detail below.

Geographically-Targeted Policies by Census Tract

In jurisdictions like Charlotte, NC and Tallahassee, FL, inclusionary housing policies apply only to specifically designated census tracts. Charlotte's new voluntary policy provides developer incentives for including affordable units only in census tracts where the median homes sale price is at or above the metropolitan area median according to the U.S. Census Bureau's American Community Survey. Per the City ordinance, this metric will be reassessed by staff every five years based on Census data. Tallahassee also has a policy which applies only to particular census tracts, but this policy is mandatory in all tracts where the family median income is greater than the countywide median as defined by the U.S. Census or HUD.

Key Takeaways. The advantage of using the census tract for varying these policies is that census tracts often form a relatively small geographic area, and a variety of data metrics are available on that level, including median sale price, median income, percent below poverty. However, the census tract may be less accurate unit for calibrating policy in dense urban areas

where a single census tract may span both high-end and more modest housing development types. Another disadvantage of using this type of geographic targeting is that no one metric can perfectly indicate or signal a rapidly changing neighborhood housing market. This is largely the result of time lags in data collection and the fluid nature of real estate investment and housing market dynamics in complex urban environments.

Policies Limited to Specific Zoning Districts

Examples of cities where inclusionary policies apply only to specific zoning or planning districts include Austin, TX and Washington, D.C. Austin's incentive-based voluntary program provides for developer incentives only in areas with specific types of neighborhood overlay zoning. In Washington, D.C., the mandatory policy applies to mid- and high-density zones within the city. San Francisco, CA has adopted a variation on this concept, where inclusionary housing is mandatory city-wide, but affordability requirements are increased in zones that have been "significantly upzoned."

Key Takeaways. The basic concept behind these types of policies is that there is more real estate value in areas that allow for greater residential development intensity. As a result, these areas provide more opportunities for the public sector to capture some portion of that value and channel it toward supporting mixed-income or affordable housing development. Austin's policy has been effective in terms of overall production, but much of that productively has occurred in new communities rather than in infill areas. Washington's policy, while promising, has produced less than 60 units since its implementation in 2009. Meanwhile, affordable unit rent and price levels in Washington have also been criticized for being too close to market rates in certain neighborhoods. In San Francisco, although inclusionary housing has been successfully implemented in general, one additional challenge for the development industry is understanding clearly how the requirements vary in the "significantly upzoned" in Eastern neighborhoods versus other parts of the city.

Policies which Vary by Project Type

In both Chicago, IL and Denver, CO, inclusionary policies are calibrated by project type. According to Chicago's Affordable Requirements Ordinance, the inclusionary program applies selectively to projects with ten or more units that:

- 1) Receive a zoning change that:
 - a) permits a higher floor area ratio (FAR);
 - b) changes from a non-residential to a residential use; or

- c) permits residential uses on ground floor, where that use was formerly not allowed.
- 2) Include land purchased from the City.
- 3) Receive financial assistance from the City.
- 4) Are part of a Planned Development (PD) in a downtown zoning district.

In Denver, the affordability target by Area Median Income (AMI) level varies according to construction type. Specifically, in developments with buildings that are greater than three stories tall, elevators are provided, and over 60 percent of the parking is in a garage, inclusionary unit affordability targets may rise up to 95 percent of AMI compared to the standard 50 to 80 percent of AMI range for other projects.

Another example of this general type of policy is Burlington, Vermont which adjusts the inclusionary percentage requirements based on the rental or sales price of the market rate development. For developments affordable to people making 180 percent of AMI or more, the set aside requirement can be as high as 25 percent. However, these set aside requirements can also be as low as 15 percent in less expensive developments. This policy applies to all developments outside of the Burlington's waterfront area. Within the city's waterfront district, inclusionary requirements can rise up to 25 percent and neither off-site production nor in-lieu fees are permitted.

Key Takeaways. Applying or varying inclusionary requirements by project, rather than by geographic area, has the potential advantage of creating a fine-grained policy that responds directly to actual development activity, rather than to administrative boundaries. The disadvantage of these policies is that they are complex, and therefore may be difficult to interpret and apply. Moreover, neither the Chicago nor the Denver policies have resulted in significant housing production to date.

Conclusions and Recommendations

In most high-cost cities with rapidly changing housing markets, a single mandatory policy which applies to all parts of the city is often preferable for the clarity it provides to the general public and the real estate development industry. A single city-wide policy may not always be practical in the short-term for both political and economic reasons. Cities should consider the following key considerations when deciding whether to vary or tier production requirements based on neighborhood market conditions:

- 1) **Clear and Reliable Data Metrics and Standards:** If the policy will be indexed to one or more data metrics, such as median income or median sale price, the source of the data should be easily obtainable and updated regularly. The U.S. Census Bureau's American Community Survey is a good example. The ordinance or policy language identifying the metric or metrics to be used should also specify the exact time frame for updating the data and the process by which this update will affect policy changes at the neighborhood level. Staff responsibility and funding for this process should also be clearly identified and built into the ongoing administration of the program. A list of common metrics with a description of sources and their advantages and disadvantages is included in Table 1 below.
- 2) **Clear and Transparent Policy Guidance:** The national evidence around best practices suggests that often relatively simple and straightforward policies are the most effective over the long-term. This is true both in terms of unit production and certainty and clarity for developers and landowners. To the extent possible, cities should standardize policy requirements and guidance around new mandatory requirements, even where some neighborhoods have lower production targets or AMI level targets than others.



GROUND SOLUTIONS NETWORK

Potential Inclusionary Housing Policy Tiering Metrics

	Description	Source	Notes/Examples	Pros/Cons
Income Metrics				
Median Household Income	Measure of median income by household (family income is similar but excludes non-family or one-person households)	U.S. Census Bureau, American Community Survey	Tallahassee, FL uses median family income as a metric to target its inclusionary program in higher income census tracts.	For all income measures, the major concern is the lack of consistent data collection at all levels of geography, particularly below the City level.
Income Diversity Ratio	Measure of income diversity in a given area	U.S. Census Bureau, American Community Survey; Furman Center	Furman Center publishes this metric at the City, Borough and Community District levels.	
Real Estate Market Metrics				
Median Sale Price	Measure of median home sale price in a given area during a specific period of time.	NYC Department of Finance, NYU Furman Center.	Charlotte, NC uses this measure to target its voluntary incentive program in particular census tracts. Denver also uses this metric to adjust its in-lieu fee requirements by neighborhood.	Sale price and rental data is collected and published on an annual basis in NY by the Furman Center down to the Community District Level. Not as robust a measure of neighborhood economic conditions as income, but more easily tracked.
House Price Appreciation	Appreciation in median prices, tracked by year and quarter.	NYC Department of Finance, NYU Furman Center.	Furman Center publishes this on annual basis.	
Median Rental Rates	Rental rates in new for new "movers" and existing renters.	NYU Furman Center.	Furman Center publishes this on annual basis.	