

Inclusionary Zoning to Support Affordable Housing

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Glossary

Affordable housing Housing that is offered at prices accessible to households or individuals earning relatively low incomes. Precise definitions vary by location and programme, but most generally, housing is considered affordable if its monthly costs are equal to or less than one-third of the resident's monthly income. Many, but not all, affordable housing units receive subsidies or otherwise qualify as social housing.

Buyout An option to provide cash, land, or to participate in other activities in lieu of building the affordable housing mandated under the inclusionary zoning programme.

Density bonus Permission for developers to build additional or 'bonus' housing units above those that would conventionally be allowed on a given parcel of

land, in exchange for the provision of some public good or service, such as affordable housing.

Inclusionary zoning (IZ) Also known as inclusionary housing or incentive zoning. IZ is a class of policies that make use of land-use planning and zoning regimes to mandate or encourage the production of affordable housing from market-rate housing developers.

Market rate Priced to reflect conditions in the private real estate market, for example, without any government subsidy or direct price regulation. Landlords of market-rate units can adjust rents based on the prevailing price and are not subject to government rent regulation.

Subsidised or social housing Housing units that receive some form of government funding or are subject to rent regulation, thereby accomplishing a 'social' goal of providing housing that is affordable to low-income households.

Introduction

Inclusionary zoning (IZ), also known as inclusionary housing or incentive zoning, is a class of policies that make use of land-use planning and zoning regimes to mandate or encourage the production of affordable housing from market-rate housing developers. As we explain below, the structure of programmes varies greatly within and across countries. Some programmes require developers to build a certain share of affordable units within market-rate developments, while others enable local governments to exact monetary or land contributions that are dedicated to future production of affordable housing. The common thread among these programmes is that they use the mechanism of land-use planning, rather than general taxation or direct subsidy, to finance the production of affordable housing.

IZ programmes are a relatively recent affordable housing policy, compared to more traditional public or social housing, which has existed in most developed countries since the Second World War. In the United States, although a few early programmes emerged in the 1970s and 1980s, IZ gained widespread popularity in the 1990s, a period noted for decreasing federal subsidies for affordable housing production, devolution of housing policy from federal to local agencies, and a general trend towards more market-based solutions for affordable housing. IZ

programmes also emerged in some parts of Canada, Western Europe, and Australia during the 1990s and after 2000. The policy has been especially popular during times of strong housing markets, because it is seen as a tool for governments to recapture land value gains that accrue to developers on being granted planning permission.

Although the structure of IZ programmes can vary quite widely, there are three traits that distinguish IZ programmes from other types of affordable housing programmes. First, IZ is generally viewed as a more market-oriented policy than traditional social housing, because it harnesses increases in land values or production of market-rate housing to finance affordable housing production, rather than direct subsidies from general tax revenues. Second, IZ is explicitly intended to integrate low-income housing with market-rate units, resulting in mixed-income housing developments. This goal stems partly from previous negative experiences with high concentrations of poor households in public or social housing developments (see article Policies to Address Social Mix in Communities). Third, IZ programmes are established and implemented by local or regional agencies, not by the federal government, which has generally been the progenitor of legislation for most social housing.

How Widespread Is the Adoption of IZ?

IZ programmes are most common in the United States, but similar types of policies have also been adopted in a number of other countries, including Canada, Ireland, the United Kingdom, Spain, Italy, Australia, and Malaysia, as shown in **Table 1**. Within the United States, IZ policies are heavily concentrated in states and metropolitan areas along the coasts, notably California, Massachusetts, and the Washington DC region. There is currently no institution charged with maintaining an inventory of IZ programmes, either within or across countries, making it difficult to determine the location and age of many programmes.

The reason most frequently offered by governments for adopting IZ is to meet low- and moderate-income families' need for low-cost housing, particularly in response to sudden increases in housing prices or rents. Notably, Ireland and the Catalonia region of Spain adopted their IZ policies during the historic housing price booms. In the United States, IZ is most prevalent among local governments in large metropolitan areas with high housing costs and a reliance on other types of land-use regulations, such as growth controls, environmental regulations, impact fees, and restrictions on high-density development. Within California, the state with the greatest number of local IZ programmes, jurisdictions with more politically liberal (i.e., democratic) populations are more likely to adopt IZ, as are places with more established not-for-profit affordable housing organisations.

How Are IZ Programmes Structured?

The structure and details of IZ programmes vary widely across countries and even across jurisdictions within states

and regions. Such variations reflect local differences in policy goals, housing market conditions and political circumstances, and can affect the volume of affordable housing produced through the programmes and the impact of IZ on the price and production of market-rate housing. Although there are a countless number of variations in existing IZ programmes, traditional IZ policies are defined by several main dimensions: mandatory status, the presence and type of cost offsets, alternatives to on-site construction, exemptions or trigger conditions, target population, the percentage of affordable units, and length of affordability restrictions. Each characteristic is discussed in more detail below. **Table 2** compares the structure of IZ programmes in three regions of the United States.

The most important dimension of IZ programmes is whether they are mandatory or voluntary. Mandatory IZ requires developers to commit some amount of below-market-rate housing before planning permission is granted; voluntary programmes offer incentives for developers to participate. All else being equal, mandatory programmes are more restrictive than voluntary ones.

All voluntary IZ programmes and many mandatory ones offer cost offsets to developers, which are intended to alleviate the reduction in profits due to the inclusion of below-market-rate units. Density bonuses (allowing developers to build a greater total number of units per parcel than would be allowed under conventional zoning) is the most commonly offered form of cost offset, although others may include fast-track permitting, reductions in development fees, or relaxation of other zoning requirements, such as lot size, frontage, or parking spaces.

Because one of the goals of IZ is to achieve mixed-income development, traditional IZ programmes require developers to integrate the affordable units with

Table 1 Location of IZ programmes

	<i>Number/type of programmes</i>	<i>Years adopted^a</i>
<i>Asia</i>		
Malaysia	National law, implemented by states	1982
<i>Australia</i>		
South Australia		Unknown
<i>Europe</i>		
Ireland	National law, implemented by local agencies	2000
United Kingdom	National law, implemented by local agencies	1990
Spain	Basque Region	1994
	Catalonia	2002
Italy	Rome	Post-2000
	Florence	Post-2000
<i>North America</i>		
Canada	British Columbia: 4 municipalities	1988–2007
	Quebec: 1 (Montreal)	2005
United States	San Francisco Bay Area: 70 municipalities	1973–2006
	Suburban Boston region: 99 municipalities	1972–2004
	Washington DC region: 11 municipalities	1974–2007
	Other California: 86 municipalities	1978–2006
	Other United States: 11+ municipalities	1983–2008

Table 2 Comparison of IZ programmes in selective US regions

	<i>San Francisco</i>	<i>Boston</i>	<i>Washington DC</i>
Prevalence of IZ	7/10 Counties 48/104 Cities/towns	99/187 Cities/towns	5 Counties
Year adopted	1992	2001	1991
Median range	1973–2006	1972–2004	1974–1996
% Affordable required (median)	15	15	10
Income targets	Very low, low, and moderate	Low	65–70%
Affordability	Low and moderate Median 45 years	Low and moderate One-third require permanent Half do not specify	Area median income Median 10 years renters 20 Years owners
Mandatory (%)	93	58	80
Density bonus (%)	67	71	100
Buyouts (%)	86	38	100
Exemptions	Broadly applicable	Limited eligibility Broad exemptions	Medium applicability Limited exemptions
Median annual production	Counties: 15 units Cities/towns: 6 units	43% Produced no units	227 Units

market-rate ones in the same development. However, some IZ programmes, such as Section 106 (S106) planning contributions in the United Kingdom, allow alternatives to building affordable units on-site, such as granting permission to produce the required affordable units at a different location within the jurisdiction, paying cash in lieu of development, or donating land intended for future affordable housing (see article Policies to Support Access and Affordability of Housing). These alternatives to on-site construction, sometimes called buyout options, may lower the cost to developers of participating, if they are able to use or donate lower cost land elsewhere for the affordable units.

IZ programmes also vary in the breadth of their applicability. The most stringent programmes require some contribution from all market-rate developments within the jurisdiction. However, for mandatory IZ programmes, it is fairly common to specify certain types or locations of projects that are exempt from participating. The most common exemption is based on the size of the development (typically under 10 units), while other programmes exempt developments in certain locations or of particular structure types. The most narrowly written programmes may be triggered only by one specific type of development, such as age-restricted or multifamily housing.

The share of units that must be set aside at below-market prices or rents differs with programme. In the United States and Canada, affordable shares of 10, 15, or 20% are most typical, although the share can be as high as 50% in some circumstances. The affordable share is often set as a sliding scale, where developers are eligible to receive larger cost offsets for larger affordable unit set-asides or for targeting a lower-income population.

Although all IZ programmes (like other types of below-market-rate housing) are intended to serve less affluent households, the exact income group of the target

population varies considerably. In the United States, many jurisdictions follow the guidelines of the federal Department of Housing and Urban Development (HUD) and designate the units for households with very low, low, or moderate incomes (generally defined as 30, 50, and 80% of the median household income for the surrounding metropolitan area). Some programmes explicitly state how many units must be set aside for each income group (e.g., half each for low-income and moderate-income), while others leave this to negotiations between the developer and the administering agency. Some programmes specify additional criteria for eligible households, such as residency or employment in the jurisdiction or minimum age limits. In most cases, the programmes assume that there will be an excess of eligible households, so the affordable units must be rationed in some way.

Some IZ programmes require that the affordable housing created under the programmes be maintained at below-market prices or rents in perpetuity (similar to imposing rent control or rent regulation), while others allow the units to revert to market rates after a designated period of time, ranging from 15 to 99 years. Affordability terms may vary by tenure, with terms for renter-occupied units generally longer than those for owner-occupied.

Because of the number of defining characteristics and the ways in which the characteristics interact with one another, IZ programmes are highly complex policies. Adding further to the complexity, many programmes are written to allow the responsible public agency (or nonprofit housing association, for some European countries) considerable leeway in implementation and enforcement. Indeed, many IZ policies essentially establish a framework under which the government and developers negotiate over an appropriate contribution to affordable housing or other public goals. The

flexibility and extent of local authority also distinguishes IZ from other social housing programmes, which tend to be defined more rigidly.

How Effective Is IZ at Producing Affordable Housing?

Just as the structure of IZ programmes varies widely across jurisdictions, the amount of affordable housing produced under these policies differs considerably. Because of the decentralised nature of these programmes, obtaining an accurate inventory of affordable units within and across jurisdictions is quite difficult.

In the San Francisco Bay Area, all jurisdictions with IZ programmes have produced some affordable units, although mean annual production rates are quite low (15 units per year for counties, 6 units per year for cities and towns). Most of the IZ programmes in the Washington DC region have produced more than 500 units of affordable housing since adoption, the jurisdictions in Washington DC are quite a bit larger than those in the Bay Area, so relative to the size of the existing housing stock this output is still modest. But in the Suburban Boston region, over one-third of jurisdictions with IZ were unable to report whether any affordable units had been produced, and of those that did keep data, two-thirds had not built any affordable units. Some of this may be attributable to the relatively recent adoption of IZ in the Boston region. In all regions, affordable housing production under IZ lags well behind affordable units built under the Low Income Housing Tax Credit Program, the largest subsidised housing production programme in the United States (see article Low-Income Housing Tax Credits).

IZ programmes in Europe and Canada have also shown varied effectiveness in producing affordable housing, generally resulting in fewer units than traditional social housing programmes. Though Montreal's programme has only been in place since 2005, the programme exceeded its 30% target in the first full year of implementation (39.4% of all housing started in 2006 participated in the programme). In Ireland, by September 2005, only 20 600 social units had been provided through Part V's social housing plan despite a strategic goal of 35 000 units. According to Housing Investment Programme data, the UK's S106 produces approximately 15 000 housing units annually, a number well below potential contributions under the plan. Only one project has been completed through the IZ ordinance in Florence, Italy, and Burnaby, British Columbia has only produced 400 inclusionary units since their programme was created in 1988.

What Have Been the Effects of IZ on Surrounding Housing Markets?

Despite their recent popularity, IZ programmes are controversial because of their potential to restrict the supply of market-rate housing and increase prices of both new and existing housing. By reducing land values or developers' profits, IZ essentially acts as a tax on new housing development. The size and incidence of the impacts will depend on a variety of factors, including the stringency and structure of the IZ programme, the strictness of other types of land-use regulations, and the relative elasticities of housing supply and demand. In large part, because of the difficulty of obtaining data on the presence and characteristics of IZ programmes, to date there has been very little empirical research on the effects of IZ on housing production and prices. Several researchers have conducted case studies of individual locations, but only two studies have produced quantitative empirical analyses.

One of these studies, authored by Knaap et al. (2008), looked at the impact of IZ programmes on the production and prices of housing in California. They find that IZ does not significantly decrease housing permits for either single-family or multifamily housing. However, they find that single-family housing permits as a share of total permits are 7 percentage points lower in jurisdictions with IZ than those without IZ. The decreased share of single-family permits is even more pronounced for IZ jurisdictions with lower project size threshold levels and higher required shares of affordable units. They also find that, holding all else constant, in jurisdictions with IZ, housing prices increase, on average, by 2.2% relative to jurisdictions without IZ in place. This effect, however, is different for high- and low-priced houses: IZ programmes actually lower the price by about 0.8% for houses below median price and raise prices by about 5% for above-median priced houses. Their results also suggest that IZ programmes decrease the mean single-family housing size by approximately 48 square feet, particularly for houses below the median price.

The other study, authored by Schuetz et al. (2010), examined the effects of IZ programmes in the San Francisco Bay Area and Suburban Boston. In it, the authors looked explicitly at whether the effects vary by robustness of the regional housing market. They find that in the Boston area suburbs, IZ has increased prices and lowered production during periods of regional housing price appreciation, although the estimated effect is relatively small. IZ does not appear to have an effect on Suburban Boston housing markets when the regional housing market is soft. The analysis of IZ in the Bay Area shows no evidence of statistically significant effects of IZ on production levels. However, regressions suggest that IZ does contribute to increased sales prices of existing single-family homes during rising regional markets

and may depress local housing prices when regional prices decline.

An additional area of concern is what financial effect IZ programmes have on local governments. In particular, if local governments are granting substantial cost offsets to encourage developers to participate, those cost offsets may lead to fiscal losses for the government. For instance, waiving development fees will reduce revenues, or allowing additional units through a density bonus may increase the demand for public services in excess of the property tax revenues that the units generate. Again, relatively little empirical work has been done on this question. Studies conducted by the Cambridge Centre for Housing and Planning Research have suggested that in the United Kingdom, S106 developments may be crowding out other types of housing subsidies, because the subsidy required to purchase land in those developments is higher.

Conclusion

In recent decades, municipal and regional governments across the globe have adopted IZ as a policy to provide affordable housing. The design of the programme can take on various forms, and the implementation is often subject to negotiation. All of the existing programmes, however, rely on common features that lay out requirements for the depth and breadth of affordability, and stipulate the options for cost offsets and programme buyouts. Local governments adapt IZ to meet the needs of the local market, and the great variation in IZ policies reflects this flexibility. While there are numerous sources that describe programme details and case studies for specific jurisdictions, there exists little systematic research on the impact of these programmes overall on affordable housing production and local housing markets. Still, as a result of its rapid diffusion, IZ has become a well-known and politically viable tool for locally driven social housing production.

See also: Low-Income Housing Tax Credits; Policies to Address Social Mix in Communities; Policies to Support Access and Affordability of Housing.

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