Staff Report

INCLUSIONARY ZONING BACKGROUND INFORMATION

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BACKGROUND:

City Council identified within the Planning Division Work Plan a task to provide information concerning an affordable housing strategy known as Inclusionary Zoning. Inclusionary zoning was first created in response to issues of exclusionary standards that segregated housing. **Inclusionary zoning in its most basic sense is a requirement that a percentage of homes constructed in a development are set-aside as affordable housing. Inclusionary zoning can address both rental and ownership housing, but with varying standards. The required percentage of units is typically between 10% to 20% of the overall units. The basis for setting the percentage is a combination of determining a housing need through a nexus study and understanding the economic viability of projects with the obligation to include affordable housing units.**

Inclusionary housing programs have existed since the early 1970s. Inclusionary ordinance can be designed as either voluntary with incentives or mandatory. Hundreds of jurisdictions across the country have mandatory inclusionary zoning standards to varying degrees. California, New Jersey, and Massachusetts have the most local programs. Within Iowa, Iowa City is only city that currently has a mandatory inclusionary housing program, which is targeted only to the Riverfront Crossings[1] area.

Implementation of an inclusionary housing ordinance requires standards related to the level of affordability, occupancy, and resale controls. City staff would likely need to verify qualified households for both rental and ownership housing. The initial sales price or rental rate would be determined by the targeted affordability level for a household. **Inclusionary standards for rental often focus on low income households, defined as households earning less than 60% of median income and ownership programs typically focus on moderate income households within the 80 to 110% of median income.** Rental rates are set annually based upon HUD guidelines for income and affordability. Subsequent resale of ownership homes would be based on a predetermined formula to ensure they remain affordable and provide equity interest to the homeowner. An ownership unit is not subject to annual review of qualifications as would be required of a rental unit.

Inclusionary ordinances can allow for developer options to meet the standards. Typically, an affordable unit may be sized or finished in manner that is similar to a

[1] Iowa City adopted an inclusionary housing requirement for the targeted redevelopment area south of Downtown know as Riverfront Crossings. The City requires that 10% of the total units constructed be set-aside for rental to households earning less than 60% of the median income and the units are restricted for a period of 10 years. For-sale condos are restricted to 110% of median income. The ordinance allows for use of off-site units, donation of land, or an in-lieu fee per unit of approximately $90k. In addition to the inclusionary zoning standard, the City's TIF policy requires 15% of the units in an assisted project to be kept as affordable for a period of 20 years.

market rate unit, but does not necessarily have all the same features or size. **Some inclusionary ordinances allow for an in-lieu fee to be collected if a developer does not desire to build affordable units on site.** With collection of an in-lieu fee, it would be incumbent upon the City to use the funds to create or preserve affordable housing opportunities rather than the developer. **Additional options could include providing land or off-site units to meet the standard.** Allowances can be built into the ordinance to allow for the developer to sell or rent a unit at market rate if there are no eligible households interested in the home within a reasonable time.

In some cases, including voluntary programs, a development incentive is offered to defray costs to a developer for providing affordable housing. A local community would need to identify which development standards are of high enough value that an exception to the standards would be viewed as an incentive**. From staff's experience, the most commonly offered incentive is a density bonus to allow for additional market rate units.** Rezoning could be viewed as a density bonus for areas requesting changes or they could be bonus allowances within existing zoning districts for providing affordable housing. However, in a market where low density projects are built at minimum density levels, a density bonus is unlikely to be viewed as an incentive.

Other incentives within both low and high density zones could be a development rights transfer, reduced minimum density, increased building height, reduced open space, or reduced parking requirements, or other changes that either lower development costs or increasing efficiency of development. It should be noted that within our highest density zoning district of RH, there are minimal site design requirements to allow for exceptions to promote affordable housing, other than potentially reducing parking.

The assumption of the cost burden for affordable units is that the subsidy for lower cost homes will come out of the value of the land or lower profit margin for a developer in high demand areas. The costs of affordable housing should not directly affect the cost of new market rate housing in such a scenario because builder is charging what the market will bear for a dwelling unit and they cannot arbitrarily increase the price of the same product to cover other costs or produce more profit. This point on who bears the costs of affordable housing is debatable in economics and planning fields and in some opinions it restricts construction of housing overall by making market housing more expensive or less profitable to produce thereby reducing overall supply even if some low income housing is created.

Rather than setting rent and sales price targets for affordable housing, zoning standards could direct a specific type of housing or mix of features to diversify development. This could include requirements such as maximum lot size or maximum house size to help direct the market into producing lower costs housing, but not necessarily low income housing. Other nontraditional inclusionary housing options could include allowances for development related to participating in other affordable housing programs such as Section 8 for a defined period of time or allow for second units (accessory living units) if restricted to affordable housing. City Council also has the ability to consider contract rezoning as an option for negotiating for different types of housing with rezoning requests.

Summary of Policy issues

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