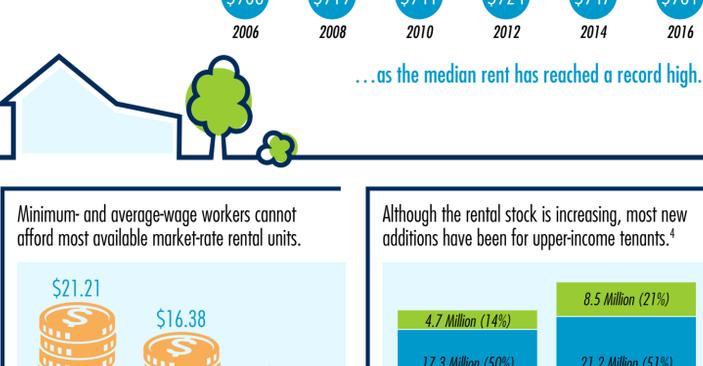


INCLUSIONARY ZONING IN THE U.S. AND THE FIFTH DISTRICT

THE PROBLEM

The share of low- and middle-income¹ renters with cost burdens² is increasing in the U.S. ...



... as the median rent has reached a record high.

Minimum- and average-wage workers cannot afford most available market-rate rental units.



Although the rental stock is increasing, most new additions have been for upper-income tenants.⁴



LACK OF AFFORDABLE HOUSING was the #1 issue impacting the welfare of communities in the Federal Reserve's 5th District in 2017, according to results from the Richmond Fed's Community Pulse Survey.

TO ADDRESS THE ONGOING RENTAL HOUSING AFFORDABILITY PROBLEM, LOCAL GOVERNMENTS CAN UTILIZE A RANGE OF DIFFERENT HOUSING POLICY TOOLS:

Affordable Housing Production

- Enterprise zones
- Municipal bonds
- Tax increment financing
- Housing trust/loan fund

Rental Assistance

- Tenant-based subsidy
- Short-term emergency assistance
- Renter tax credit
- Rental search support

Land Use and Regulations

- Rent Control
- Growth management reform
- Inclusionary Zoning
- Land use regulation reform

Municipalities throughout the U.S. are currently considering adopting or expanding Inclusionary Zoning (IZ) programs.

WHAT IS INCLUSIONARY ZONING?

IZ PROGRAMS TYPICALLY DO EACH OF THE FOLLOWING:

- Impel developers to produce more housing that is affordable for low- or middle-income renters and, less commonly, homeowners.**
- Require or incentivize developers to set aside a portion of units in a market-rate residential development for low- or moderate-income households.**
- Capitalize on market growth to encourage developers to produce new affordable housing, unlike other programs that use direct subsidies.**

HOW DOES INCLUSIONARY ZONING WORK?

CONSIDER THE FOLLOWING SCENARIO⁵:

- A residential developer has plans to build the following multifamily rental development in a city with above-average annual rent growth of 4%.
 - 7 stories (height limit)
 - 28 market-rate rental units
 - 24,000 sq. ft.
 - Total cost: \$5 million
- To get approval for the new development, the developer must go to the local Zoning Administrator for approval.
 - Scenario 1: Rejected (X)
 - Scenario 2: Approved (checkmark)
- Based on the guidelines established in the IZ policy, the administrator may propose one of the following options to the developer:

Mandatory	Mandatory – Fee In-Lieu	Voluntary – with Density Bonus
You must make four of your residential units affordable for families making 60% AMI or below, or you cannot build. <ul style="list-style-type: none"> 4 Affordable Units 	You must either make four of your units affordable OR pay \$5 per square foot into the city's housing trust fund, or you cannot build. <ul style="list-style-type: none"> 4 Affordable Units City Housing Trust Fund (\$120,000) 	I could approve your development BUT if you make four of your units affordable for low-income families, you can build an extra two stories above the zoning limit. <ul style="list-style-type: none"> 28 market-rate units 0 affordable units OR 9 stories 32 market-rate units 4 affordable units

WHAT JURISDICTIONS IN THE 5TH DISTRICT HAVE INCLUSIONARY ZONING PROGRAMS?

AT LEAST 886 JURISDICTIONS ACROSS 25 STATES AND THE DISTRICT OF COLUMBIA HAVE INCLUSIONARY ZONING PROGRAMS, INCLUDING 27 IN THE 5TH DISTRICT.⁶

INCLUSIONARY ZONING PROGRAMS IN THE 5TH DISTRICT⁷

- Mandatory
- Mandatory, fee in-lieu
- Voluntary



The 1st IZ programs started in Fairfax County, VA⁸ (1971), and Montgomery County, MD (1973).

STATUTORY AUTHORITY FOR INCLUSIONARY ZONING IN THE 5TH DISTRICT

	NO*	YES
Maryland		✓
North Carolina ⁹	✓	
South Carolina	✓	
Virginia		✓
Washington, D.C.		✓
West Virginia	✓	

*State law is silent about IZ

DOES INCLUSIONARY ZONING WORK?

SOME IZ PROGRAMS ARE MORE EFFECTIVE AT PRODUCING AFFORDABLE RENTAL HOUSING THAN OTHERS. SUCCESS DEPENDS ON:

- Local housing market conditions
- Community and political support
- Geographic application
- Proportion of affordable housing needed to meet program requirements
- Enforcement mechanisms (mandatory vs. voluntary)

CONSIDER THE IMPACTS OF THE FOLLOWING DIFFERENT IZ PROGRAMS:

Montgomery County, MD

Population (2016): 1,043,863
 Median Rent (2016): \$1,662
 Real Median Rent Change, 2006-2016: 13%
 Year IZ Program Adopted: 1973
 Program Type: **Mandatory**
 Affordable Units Required: 12.5% - 15%

5,065 Total Affordable Rental Units Produced, 1973-2016

27,311 Low-Income Affordable Rental Housing Gap,¹⁰ 2016

Fairfax County, VA

Population (2016): 1,138,652
 Median Rent (2016): \$1,774
 Real Median Rent Change, 2006-2016: 13%
 Year IZ Program Adopted: 1990
 Program Type: **Mandatory***
 Affordable Units Required: 6% - 12.5%

*on small multifamily buildings only

1,305 Total Affordable Rental Units Produced, 1990-2016

20,204 Low-Income Affordable Rental Housing Gap, 2016

Winston-Salem, NC

Population (2016): 242,200
 Median Rent (2016): \$745
 Real Median Rent Change, 2006-2016: 5%
 Year IZ Program Adopted: 1994
 Program Type: **Voluntary****
 Affordable Units Required: 20-40%***

**with Density Bonus
 ***of units built above height limit

0 Total Affordable Rental Units Produced, 1994-2016

5,298 Low-Income Affordable Rental Housing Gap, 2016

Production of no affordable units in Winston-Salem is primarily the result of:

- Higher construction costs for high-density projects
- Existing low land costs that make increased density unnecessary

EVEN WHEN IZ PROGRAMS PRODUCE AFFORDABLE HOUSING, THEY GENERALLY DON'T HELP LOW-INCOME FAMILIES.



IN ADDITION TO PRODUCING AFFORDABLE HOUSING, IZ PROGRAMS HAVE BEEN SHOWN TO HAVE OTHER EFFECTS ON LOCAL HOUSING MARKETS. ON AVERAGE, IZ PROGRAMS MAY:

Moderately increase market rent

Decrease new home size

Increase neighborhood density

Decrease economic segregation

FOOTNOTES
 1 A low-income household is defined as one earning at most 50% of the area median household income and a moderate-income household is one earning at most 80% of the area median household income. 80% of the nationwide median household income was \$46,100 in 2016.
 2 A rental cost-burdened household is one that spends at least 30% of its monthly income on rent. Some households may choose to spend more on their homes, so housing cost burden alone is not an absolute measure of an affordability problem.
 3 Fair Market Rent (FMR) is defined as the 40th percentile of gross rents for a standard rental unit, and is typically used as an estimate of what a family can expect to pay for a modest rental home. Every area has a unique FMR; in 2017 the national average for a two-bedroom apartment was \$1,103.
 4 Units priced below \$1,500 are affordable to households earning \$60,000, approximately the national median income in 2016. Units priced below \$750 are affordable to households earning \$30,000, approximately 50% of the national median income in 2016.
 5 IZ programs can take many forms, including applying to single family developments or for-sale purchases. This example portrays a transaction for a multifamily rental development, a common application of Inclusionary Zoning.
 6 There are no municipalities in South Carolina and West Virginia that have an Inclusionary Zoning program.
 7 Rockville and Gaithersburg, Maryland have Inclusionary Zoning programs, and both are located in Montgomery County, which also has an IZ program.
 8 The Virginia Supreme Court overturned Fairfax County's first IZ policy in 1973; in 1990 the county reinstated the program under a new statute.
 9 Although North Carolina does not explicitly forbid Inclusionary Zoning, programs in numerous cities are being contested under existing law.
 10 The Low Income Affordable Rental Housing Gap is defined as the total number of rental households earning less than 50% of the Area Median Income, less the total number of low-income rental households paying affordable rent, less the number of vacant units affordable to low-income renters, plus the number of standard units rented by low-income households paying affordable rent, plus the number of standard vacant units affordable to low-income renters.

GENERAL SOURCES
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 What jurisdictions in the 5th District have Inclusionary Zoning programs?:
 Emily Thaden and Ruoni Wang, "Inclusionary Housing in the United States: Prevalence, Impact, and Practices," Lincoln Institute of Land Policy (Sept 2017); John Faulkes, "State law holds back affordable housing," The Daily Tar Heel (Jan. 2016); Alan Wilson, "To The Honorable Wendell G. Gilliland," (26 Apr. 2017); Timothy S. Hollister, Allison M. McKeen and Danielle G. McGrath, "National Survey of Statutory and Case Law Authority for Inclusionary Zoning."
 Does Inclusionary Zoning Work?:
 U.S. Census Bureau, American Community Survey 1-Year Estimates, 2006-2016; Thomas Silverstein et al., "Welcome to the Neighborhood: A Practitioner's Guide to Inclusionary Housing," Housing Virginia: A Paul Norby, "Memorandum to Mayor Allan Jones and Members of the City Council," (9 June 2015); "Number of MPDUs Produced Since 1976," Montgomery County Department of Housing and Community Development; Steven Ruggles, Katie Genodak, Ronald Goeken, Josiah Grover, and Matthew Sobek, Integrated Public Use Microdata Series: Version 7.0 [dataset], Minneapolis, MN: University of Minnesota (2017).
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 Emily Thaden and Ruoni Wang, "Inclusionary Housing in the United States: Prevalence, Impact, and Practices," Lincoln Institute of Land Policy; "Latest Research and Reports on Housing Affordability and Inclusionary Zoning," National Association of Home Builders; Knoop, Benito, and Lowe, "Housing Market Impacts of Inclusionary Zoning," National Center for Smart Growth Research, University of Maryland; "Economics of Inclusionary Housing Policies: Effects on Housing Prices," Grounded Solutions Network; "The Economics of Inclusionary Housing Policies and Impact Fees: A Literature Review," Grounded Solutions Network.