# Inclusionary Zoning: Myths and Realtities

Kerry D. Vandell
Center for Urban Land Economics Research
University of Wisconsin-Madison

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## Inclusionary Zoning: Myths and Realities

### Executive Summary

Housing affordability has been identified as an issue of policy concern in Madison, and Inclusionary Zoning (IZ) is being considered as a primary tool to address this issue. This study is intended to inform that discussion by asking what economic theory predicts about the expected impact of IZ on the housing market and evaluating the existing empirical and anecdotal evidence on its impact in those jurisdictions that have adopted it. We summarize our findings here.

First, the adoption of IZ has been heavily concentrated in California and New Jersey, where state legislation (in California) and litigation over "fair share" housing (in New Jersey) mandated it. Outside of these areas only about 20 jurisdictions have adopted IZ. The adoptee jurisdictions tend to be higher-income suburban jurisdictions with high-valued housing in which values and rents have increased at a rapid rate relative to the country, although it has been adopted by a few central cities (many of them smaller, such as Boulder) and a few (primarily suburban) counties, most notably Montgomery County MD. The rate of adoption has varied over the years since the early 1970's rising after the California and New Jersey actions, which tended to follow rapid run-ups in prices and rents, and declining during periods of greater normalcy in the market. This rate has declined considerably since 2000.

Economic theory predicts that both *direct* and *indirect* effects would flow from the adoption of IZ in a local community. The direct effect, of course, would be construction of new at-market and affordable units approved under the IZ ordinance. The indirect effects would be many. If increased costs caused by the affordable housing subsidy and more restrictive production requirements are not fully compensated to permit project feasibility, residential developers will reduce production in the IZ jurisdiction and increase it elsewhere (which, if the IZ jurisdiction is a central city, will increase "sprawl"). This causes "filtering" of the housing stock, in which the increased supply in the other jurisdictions would reduces rents and prices there ("downward filering"), while the reduced supply in the IZ jurisdiction would increase rents and prices ("upward filetering"). The overall level of housing supply and aggregate property values would be lowered because of reduced market efficiency, thus reducing the property tax base.

The magnitude of these effects would depend upon conditions in the local market and the characteristics of the IZ ordinance. If the developer is fully compensated by density bonuses and other incentives to allow "normal" profits, then the negative dynamics above are less, but efficiency is still reduced because the market is constrained, and the cost to compensate is not "free". If an IZ market is temporarily "hot", it may be possible to temporarily bid away "super-normal" profits from developers to "cross-subsidize" affordable units, but this is not sustainable. If IZ covers an entire metropolitan area, the costs would tend to be partially felt through adjustments in land values, creating windfall gains and losses, but developers would still tend to disinvest to a degree in housing, and there would be lower aggregate values.

There also would always be expected to be some "leakage"; that is affordable units that would have been provided anyway through new construction or filtering using the private market or other subsidy programs would be displaced by IZ affordable units (e.g., layering of Section 8 or Section 42 subsidies within IZ projects). Thus, the new affordable unit production reported under IZ would only be "gross" and not "net" new production. Under the competitive theory of the housing market, there must always be greater inefficiencies under a set of IZ constraints; thus IZ's desirability must be based upon the social benefits provided to lower-income households that ultimately spill over to the rest of the community.

There is very little in the way of comprehensive, rigorous empirical analysis of the impact of IZ in local communities. Most evidence is either anecdotal or advocacy, employing either very partial analysis or simply unsubstantiated assertions. We have evaluated what evidence exists on seventeen assertions by proponents or opponents of IZ We summarize our findings for eight of these:

- (Pro) *Produces a high volume of affordable housing*: This appears to be untrue in that there has been a low level of affordable-unit production in virtually every IZ jurisdiction. Typically 3-7% of the net new stock produced annually represents affordable housing in IZ jurisdictions. New stock in a community typically averages about 2-3% of the total existing stock per year, implying that the affordable stock provision approximates only 0.06-0.20% of the total existing stock annually, a very low number.
- (Con) *Reduces the market values of housing near affordable units*: The empirical evidence suggest this is untrue, There is no evidence of such adverse effects, especially given the low level of affordable housing concentration under IZ and the income levels served.
- (Pro) *Encourages higher-density development and discourages sprawl*: There has been no comprehensive study of this issue, but anecdotal and limited empirical evidence suggests it is untrue in many circumstances.
- (Con) *Density bonuses and other incentives are necessary to render IZ feasible*: Most (including proponents such as David Rusk) agree that this is true for legal and economic reasons, to avoid a "taking" and permit project feasibility, but there has been no comprehensive study of this issue.
- (Pro) *Will serve low-income households*: Again, there is no comprehensive empirical evidence in all IZ jurisdictions on this question, but limited empirical evidence in New Jersey and California (Calavita, Grimes, and Mallach (1997)) and the relatively high income limits for eligibility in many IZ jurisdictions suggests this assertion is untrue in most circumstances.
- (Pro) *Will serve to integrate neighborhoods by income and race*: There has been no comprehensive analysis of this assertion. By design, economic integration should be true, but the low rate of production (see above) suggests whatever effect there is must be. There is no evidence on racial integration, but the fact that there is less minority representation among moderate-income than low-income households, and since moderate-income households make up a significant portion of IZ-affordable households, we expect IZ to have a minor effect at best.

- (Pro) *Will serve to enhance school performance of lower-income children*. There exists much research on the effects of neighborhoods and school quality on children, but unfortunately much of this does not properly separate their effects. Again, low production levels for affordable housing under IZ and moderate income participation suggests a marginal impact at best.
- (Pro) *Mandatory more effective than voluntary*. There is no comprehensive study and conflicting anecdotal claims. "Negotiated," with flexibility to local market and project conditions would be expected to be optimal from an economic efficiency standpoint.

Mayor Cieslewicz' proposed IZ ordinance is quite extreme in some dimensions, relative to the distribution of characteristics of other IZ ordinances nationally, particularly in a lower affordable housing income restriction for owned housing (60-70% AMI) and rental housing (40-50% AMI), a greater preference toward encouraging nonprofit development, a higher affordability period (99 years), and costly off-site and cash-in-lieu requirements. However, it is more in line with other ordinances in terms of the minimum required affordable housing commitment (15%) and the permitted density bonuses and other incentives. It seems to us to be out of the range of realistic market demand in its very low minimum size requirements for condominiums (650-850 sq. ft. for 2-3 bedroom units)and single-family detached units (950 sq. ft.).

In order to get a sense of the prognosis for Madison under the Mayor's proposed IZ ordinance, we undertook two exercises: First, we looked at the experience of three IZ jurisdictions considered as comparables by the Mayor's Office that have had an ordinance in place throughout the decade of the 1990's, Boulder CO, Burlington VT, and Montgomery County MD. We compared the housing market and income dynamics of these jurisdictions with those of Madison, without IZ. We found that all had only moderate growth in housing units, about average for U.S or below. However, there was a surprisingly low growth rate in housing for Montgomery County (13.2% vs. 24.8% for the Washington, D.C. metro area), which we would normally expect to be a rapidly-growing suburban county. There were also low growth rates for Boulder (12.5% growth vs. 26.7% for the metro area) and Burlington (5.9% vs. 31.5% for the metro area). In all three jurisdictions, this slow growth in the housing stock was in spite of land availability The implication is that there is something else besides land availability hindering new housing development in these jurisdictions, whether it is developers going elsewhere, lower demand, restrictive development regulations, or a combination. At the same time, Madison grew its housing stock 15.4% during the decade, and its metro area grew 22.0%, much more in balance than the comparables The implication from this admittedly imperfect empirical analysis is that there may well be more "sprawl" generated in IZ communities. We also looked at relative changes in rents, prices, housing affordability, and incomes in a similar fashion, with similar results that are detailed in the paper.

Our second exercise compared the development feasibility of two prototypical residential developments – a high-end condo development on expensive land downtown and a mid-range single-family detached development on less expensive land on the suburban fringe -- under the Mayor's ordinance vs. under existing market regulations

The results concluded that the condo project was clearly infeasible, leaving a major "gap" between return and cost, requiring additional support. (and this even ignoring the strong likelihood that the Mayor's proposed low minimum affordable condo size are too small to generate market demand). The cost of such additional support would have to come from somewhere else, as density bonuses were inadequate. We found also that there existed a high opportunity cost in terms of number of affordable units provided under this project vs. the number able to be provided off-site for same cost. Such an imbalance could well serve to shut off condo development downtown The feasibility analysis found the mid-range single family development in the suburbs to be more workable, but only if we accept the very low minimum unit size (950 sq. ft.) that we believe would find insufficient demand among eligible households, thus hurting feasibility and increasing costs.

Our conclusion from these two exercises and our review of the theoretical and empirical literature is that the Mayor's IZ ordinance as currently proposed will have marginal effects on affordable housing production The affordable housing produced will tend to house moderate- not low-income households The ordinance likely will increase relative levels of development in the suburbs (i.e., increase, not decrease sprawl). There is also a real possibility of increasing housing prices in the city due to "filtering." Finally, there is a danger of having a relatively greater adverse effect on downtown development unless costly incentives provided. The ultimate outcome, however, is in the nature of the IZ ordinance considered; the devil is in the details" of the plan.

We conclude that an "optimal" affordable housing policy for the City of Madison must not rely excessively on IZ or any other single approach. Instead it should be comprehensive, employing a variety of policy and market tools. Although Madison has been quite adept at using existing subsidy programs (Section 8, Section 42), it has paid inadequate attention to a major driver of housing unaffordability – the supply (cost) side of the market. There has been virtually no attention paid to cutting down the costs of development and management of housing in the form of expediting development review, relaxing development densities or other design standards, or reforming building codes for affordable unit production. Such attention would provide much greater "bang for the buck" in terms of affordable housing provision than simple attention to IZ. Madison should also work closely suburban jurisdictions to "open up" their communities to their fair share of affordable housing provision; only under a regional program will the displacement of residential development to the suburbs under an IZ ordinance be minimized. Instead of fighting the workings of the housing market, Madison housing policymakers could in fact harness its immense power and use it to their advantage.

A variation of IZ can be a component to such a policy, but only a restrictive set of conditions: It must be realistic in terms of the cost/feasibility effects of rigid constraints on percent AMI, relative size, appearance, and type of affordable units required. To achieve lower income occupancy, it should permit the layering with existing subsidies (but one would still have to be mindful of the opportunity costs associated with the displacement of subsidy provision from elsewhere). It must recognize the very high costs per affordable unit provided especially in high-end developments. And finally, it should

consider that "negotiated," rather than "mandatory" or "voluntary" may in fact be the most efficient option, permitting a flexible response to market conditions and project type.

## Inclusionary Zoning: Myths and Realities

### I. Introduction

The city of Madison is currently engaged in a discussion about housing affordability. It has always been the goal of the city to provide a high quality of life for its citizens, and decent, safe, affordable housing is an important part of that quality of life. Not only does housing provide shelter, it is intimately associated with the quality of the physical and social environment of the neighborhood and it can provide one of the primary means of building wealth for many households.

The discussion of housing affordability in Madison has taken on additional urgency recently, as house prices and rents have been rising, while the economy has been softening. Housing affordability was a major issue in the recent mayoral election, and it has been the subject of a special committee appointed to study the issue. The most visible product of this attention has been a set of competing proposals issued by the Mayor, several city alderpersons, and individuals and groups from the private sector for the adoption of an Inclusionary Zoning (IZ) ordinance. We are currently in the middle of a debate over these competing proposals.

It is the purpose of this study to serve as a resource to help inform this debate. In the heat of discussion, arguments over the merits of alternative policy proposals often become advocacy positions. While these serve to clearly separate the issues in the minds of the lay public, they unfortunately too often are unsubstantiated claims which ignore detail and the broader, more subtle consequences of policy intervention strategies. In an attempt to fill this void, we intend to do the following in this study:

(1) First, we will define exactly what is meant by the term "Inclusionary Zoning" and seek to examine its development from an historical perspective. This will serve to provide an understanding of the context within which its proposed adoption in Madison can be viewed.

(2) We will next examine where IZ ordinances have been adopted, and the array of variations that have characterized them.

(3) Then we will turn to theory: our understanding of the expected response of the housing market to the introduction of an IZ policy in the short run and the long run.

(4) Next we will ask what is known about the impact that existing IZ ordinances have had on the rate of production of affordable housing and indirectly on prices/ rents and other market conditions.

(5) We will then compare the elements of the competing proposed IZ ordinances in Madison to those of other jurisdictions to get a sense of where Madison falls in the spectrum.

(6) This information and the available information on expected and actual impacts will then be used to draw certain conclusions with respect to the anticipated impact of IZ in Madison.

(7) Finally, we will conclude with a more general statement, substantiated by the previous analysis, about the appropriate structure and role of IZ in a comprehensive affordable housing policy for the city.

## II. What is Inclusionary Zoning?

An interest in providing "a decent home and a suitable living environment" for every American household has been an important objective of American housing policy formally since 1949 and informally long before that. In recent years, achieving this goal has been made more challenging by the triple whammy of rapidly rising rents and prices in a number of our "hottest" cities and metropolitan areas, an increasingly divergent distribution of income and wealth across households, and the reduction of federal government involvement in traditional programs intended to provide affordable housing to lower-income families.[1] Frustration over this situation by affordable housing advocates and those left paying substantial portions of their incomes for housing have led to political pressures to provide affordable housing through alternative mechanisms that do not rely on substantial governmental outlays, which seem to be currently politically unpopular when directed toward new social policy initiatives.

Inclusionary Zoning (IZ) emerged from this frustration. A number of housing policy experts and advocates in the 1970's began exploring ways in which development regulations could be used as an instrument for providing affordable housing. At that time, "exclusionary zoning" ordinances, usually composed of large-lot zoning restrictions and minimum unit-size and building code standards that exceeded standards necessary to protect health and safety, were being adopted across the country. These were having an adverse effect on affordability, especially in many suburban jurisdictions. The intent of these advocates was to turn these policies on their head -- rather than increasing housing costs, "inclusionary zoning" ordinances would be intended to reduce them and assure the provision of an affordable housing stock. However, rather than simply relaxing the standards that were causing affordability problems, this group proposed to become proactive and require developers to provide units that met defined affordability standards as a minimum fraction of the units they completed each year. Such a policy it was hoped would have the additional benefit of creating economically integrated communities, as opposed to typical new development that has highly homogeneous income groupings.

Gradually, the IZ concept took shape. The minimum-volume standards for developers subject to the program were instituted. Standards for construction of the

[1] Examples of programs that have been eliminated or substantially reduced include the Public Housing program, the Section 235 homeownership program, the Section 236 subsidized rental program, and Section 8 project-based assistance

affordable units were set that related to size, appearance, and quality of construction relative to the "at-market" stock. The units had to be scattered among the at-market stock. Rents and prices had to be maintained below a certain maximum level relative to the occupying household's income. Households occupying the units had to satisfy income-eligibility standards relative to the area's median income. Affordability had to be preserved over a specified period of time. A portion of capital gains upon resale of an affordable unit was felt to merit recapture, in view of subsidy involved. In some cases, a "buy-out" alternative was proposed that permitted developers to pay a certain lump sum to an affordable housing trust fund in lieu of actually providing the units. In a narrow sense, just as "exclusionary zoning" was not truly "zoning" in that it was not embedded within a traditional zoning ordinance, neither was "inclusionary zoning" true zoning. Rather, it emerged an ordinance that was usually intended to be included within the development regulations of a community.

## III. History of Inclusionary Zoning

The late 1960's and early 1970's were a time of transition with respect to low-and-moderate housing policy in the US. The federal government was quite active during the late 1960's with the introduction of aggressive high-subsidy housing production programs on both the ownership and rental sides of the market in the form of the Section 235 and 236 programs, among others. By 1972, with a change in the national political landscape, these had been replaced with the Section 8 program, which was restricted simply to subsidies that made up the difference between "market" rentals for standard housing and an "affordable" proportion of a low-to-moderate income household's income (around 30%). Thus, the federal government stepped back from support of newly developed affordable housing through large direct subsidies, a retrenchment that has been maintained to today.

Another event also occurred during the mid-1970's that exacerbated the need for support for affordable housing provision: the period of "stagflation" during 1974-75, brought on by the inflation coincident with the Arab oil embargo, combined with a national recession, which reduced incomes among working class and poor households, while at the same time increasing the cost of consumer goods and housing.

The retreat of the federal government from a commitment to affordable housing at the same time of increasing need generated a movement among the advocates for affordable housing to look increasingly to local governments and the private sector. By the mid-1970's, the practice of "exclusionary zoning" among suburban jurisdictions intent upon preserving low-density, upper-income communities, had become well established. Exclusionary zoning involved such practices as large-lot restrictions, minimum size requirements, and excessively restrictive building codes. Advocates for affordable housing provision, frustrated by the mixed success through litigation of reversing these trends, turned toward other approaches that they hoped would increase the stock of new affordable housing. One of these approaches involved turning exclusionary zoning upside down by explicitly requiring in new residential developments

an explicit allocation of units intended to be affordable to low-and-moderate income households for rental or purchase – a requirement which came to be know as Inclusionary Zoning, or IZ.

IZ was first introduced in the Washington D.C. metropolitan area, California, and New York/New Jersey beginning in the early to mid 1970's.[2] These were all areas experiencing the most extreme run-ups in rents and prices at the time (a condition that is still true today). Fairfax County Virginia passed an ordinance in 1971 that required developers of more than 50 multifamily dwelling units provide 15 percent of their units to be "affordable," defined as 60-80 percent of area median income. The Virginia Supreme Court, however, ruled the ordinance as an unconstitutional taking in 1973. It was not until two decades later that an inclusionary zoning ordinance was again passed in Fairfax County, this time as a voluntary program.

Montomery County Maryland followed in 1973 with the passage of its Moderately Priced Dwelling Unit (MPDU) ordinance. This ordinance, with some modifications over the years, has become the model for much subsequent IZ legislation. It required developers of more than 50 units (of any type) to include 12.5 to 15 percent affordable units (defined as affordable to those households at 50 to 80 percent of area median income) dispersed throughout the project. The ordinance has been held to be responsible for over 10,000 units of affordable housing since its inception (an average of about 350 units per year).

The California Coastal Commission has had an affordable housing requirement for any coastal property since the 1960's, resulting in the first IZ programs in California in the early 1970's. The State Redevelopment Act was amended in the early 1980's to permit the adoption of IZ ordinances by all local communities. Roughly half of the IZ ordinances adopted nationwide today exist in California municipalities. These ordinances vary widely in their characteristics.

IZ adoption in the New York/ New Jersey metropolitan area has been rather scattered and modest, with the exception of New Jersey, where the New Jersey Council on Affordable Housing, created as the result of earlier court decisions on the legality of exclusionary "large-lot" zoning restrictions, adopted a de factor IZ requirement for those municipalities under its oversight authority. About 250 New Jersey communities have adopted some form of IZ, and these provisions have been held to be responsible for over 12,000 affordable units since 1986 (an average of about 700 units per year).

Adoption of IZ has been more scattered elsewhere, not prompted by court decisions or state legislation. Notable programs and their date of adoption include those in Boulder CO (1983), Portland OR (1998), Santa Fe NM (1998), Boston MA (2000), five Boston suburbs (Brookline, Arlington, Cambridge, Lexington, Newton, Somerville) (between 1977 and 2000), Denver CO (2002), and Highland Park IL (2003), and. Several surveys have been undertaken to determine the extent and nature of IZ nationally (see for example Mallach (1984), Nenno (1990), Goetz (1991), and Rusk (2003)). These have

[2] The following discussion borrows heavily from Burchell and Galley (2000).

varied considerably in their timing, methodology, degree of formality, and definition of what constitutes an IZ ordinance. As a result they vary considerably in their estimation of number of jurisdictions with IZ, ranging from 50 by Nenno, to 72 by Malloch, to 129 by Rusk and 133 by Goetz. A survey by the San Diego Housing Commission in 1992 (Newman (1993)) identified more than 50 IZ programs in California alone that were credited with having produced over 20,000 affordable units. Roughly two-thirds of all IZ ordinances were found to exist in California and New Jersey, with only scattered ordinances across other states. Goetz and others found that those communities that had adopted IZ ordinances were also more likely than others to have adopted other affordable-housing provision programs, including such policies as linkage fees, rent control, or required replacement of demolished units. They also tended to be communities that had experienced the highest housing costs and the most recent increases in rents and prices.

The pace of IZ adoption by local communities over time has seemed to vary with pressures on housing affordability (see Table 1, using data compiled by Rusk (2003)). It increased considerably in the early 1990's in California as the economy there stagnated. It also increased in the late 1990's until 2001 as the economy again faltered and house price increases continued unabated. The most widespread adoption of IZ outside of California occurred during this period. Since 2001, IZ adoption seems to have slowed, in spite of an increased pace of advocacy for such programs by planners and the affordable housing policy community. Factors that have hindered its expansion include the remaining threat of legal challenge as a taking, the lack of statewide legislative or court mandates, a relatively robust economy (until recently), increased access to homeownership through lower interest rates and new mortgage programs, and political opposition. In the next section of this study we identify the known details of those IZ programs currently in existence.

## IV. Where Does Inclusionary Zoning Exist and in What Form?

As the above discussion indicates. There seems to be no definitive list of those jurisdictions that have adopted IZ ordinances, along with the characteristics of those ordinances. That is because many affordable housing measures include elements of IZ but are not as comprehensive as the "model" ordinance, thus may be included in one list and not in another

Table 1 (from Rusk (2003)) represents one of the most recent and comprehensive efforts at compiling a list of IZ communities, together with dates of IZ adoption, community data, characteristics of the IZ ordinance, and affordable housing unit production under the ordinance. Note that there are many blanks, indicating that there is much yet that is unknown about many of the ordinances. Note also that Rusk excludes the New Jersey communities adopting IZ in compliance with the requirements of the New Jersey Council on Affordable Housing.

The total number of jurisdictions in Table 1 comes to 129, with 109 of these in California. Combining this with the 250 New Jersey communities reported elsewhere to have adopted some form of IZ, would bring us to a grand total of 379 jurisdictions with IZ. This total is almost certainly higher than the true number of jurisdictions that consider themselves to have adopted an IZ ordinance.

The jurisdictions that have adopted IZ ordinances largely tend to be suburban or small city, however with several large central cities represented, such as San Francisco, Sacramento, San Diego, Portland, Denver, and Boston. Only a few counties have adopted IZ ordinances, including Montgomery County MD, Fairfax and Loudoun Counties VA, King County WA, St. Johns County FL, and eleven Counties in California. The one thing that clearly distinguishes the group of adoptees is the high cost of housing in those jurisdictions, especially relative to incomes.

We have only limited information on characteristics of the ordinances, again derived from Rusk's data:

- The minimum affordable housing set-aside ranges from less than 10% to 30% or higher, with a median of 17% and a mean of 15.4%
- The minimum development size to trigger the set-aside ranges from as low as a single unit in Boulder CO and several other communities to 50 or more units. Montgomery County MD is toward the high end of this distribution, with a minimum 35-unit development trigger, while Fairfax and Loudon Counties VA and Rockvill MD have adopted a minimum of 50 or more units. Rio Vista CA is at the extreme, with a minimum development level of 400 units! The median is between 5 and 9 units with a mean (excluding Rio Vista) of 9.9 units.
- The household income ceiling to be used as the basis for calculating maximum rents and prices is bifurcated for rental and ownership units in many communities. In some cases also, the limits are further divided such that a (typically smaller) proportion of affordable units are set aside for households of lower income than the others. Here there is clearly a bimodal distribution. The lowest target income ranges are at less than 30% of area median income in two communities in California, but the vast bulk (23%) of low-end income ceilings are clustered at 50% of area median income. At the high end, the limits are clustered at 80% and 80-120% of area median income (with 40% and 33% respectively of the total). It is clear from these ratios that IZ often is not really intended for truly low-income households. Even 50% percent of area median income represents a lower-middle income in many of these communities, while 80% clearly moves into the middle class.
- The restricted resale price or rent control periods to maintain affordability over time range from 10 years in Montgomery County MD and 7 other communities to permanent restrictions representing 16% of the total in Boulder CO, Cambridge MA, and 21 communities in California. Restrictions tend also to be clustered at 30 years (34% of the total) and 50-55 years (14% of the total), with a median of 30 years. Several

communities have separate restrictions for ownership vs. rental or for moderate income vs. low income occupancy.

Unfortunately, this is all the information that we can find that has been compiled on a comprehensive basis comparing the IZ ordinances across jurisdictions. Among the elements on which we have only limited information include the following:

- The proportion of ordinances that are mandatory vs. voluntary
- The proportion of equity able to be captured by owner households upon resale
- Resale options (e.g. to non-profits)
- The formula to determine level of housing cost to income
- Cash by-outs in lieu of production on-site
- Physical and locational standards for affordable units
- Permitted density bonuses
- Other incentives (e.g., fee reductions)
- Expedited approval process
- Subsidy overlays permitted (e.g., Section 8, Section 42, mortgage revenue bonds)

These are all clearly important in helping to identify the character and judge the effectiveness of the various IZ designs that have been adopted across the country Unfortunately, this effort is yet to be accomplished.

## V. What Does Economic Theory Tell Us about the Expected Short- and Long-Term Impacts of Inclusionary Zoning?

It is clear from our above discussion that Inclusionary Zoning (IZ) represents a policy intervention into the workings of the housing market, intended to increase the supply of affordable housing in a community. As with any intervention into the "natural" workings of a market for economic goods (including housing), it is appropriate to ask what other outcomes can result from the adoption of such intervention policies. Such questions are regularly posed for policy proposals, and have become integral components of many local land use and economic development policy evaluation processes in the form of benefit-cost analyses, environmental impact statements, etc. These evaluations of the broad set of impacts are important for two reasons: First, policymakers need guidance as to what elements of proposed policies seem to matter most in terms of achieving the intended objectives of the intervention strategy and minimizing the unintended consequences, as a guide to policy design. Second, there is the question of the fundamental desirability of the policy itself, however designed, to the extent that the unintended (and undesirable) consequences far outweigh the anticipated positive impacts.

Past experience with intervention policies into the housing market at both the local and national level have confirmed that "unintended consequences" are regularly confronted. One example is the aggressive subsidized homeownership and rental (Section

235 and Section 236) housing programs during the early 1970's, when high levels of new supply left the existing private market with deteriorating rents and values and high levels of vacancy and abandonment. A second, at the local level, is aggressive housing code enforcement at the lower-end of the market prior to the 1970's, which resulted in high levels of "milking" of properties by landlords and abandonment. These examples suggest that "unintended consequences" are not irrelevant, and a responsible policy evaluation process must consider them.

*The Competitive Housing Market.* Before one can evaluate the broad set of market responses to an intervention strategy, however, it is important to properly describe the market that is being considered. In this respect, virtually all analysts have concluded that the housing market in general approaches the characteristics of a competitive market. This means that there are typically many buyers and sellers (i.e. tenants/ buyers and landlords/builders/owners) who are active in the market at any one time and are competing against each other to achieve market transactions (i.e., the renting or selling of housing services or stock). Furthermore, there are relatively low barriers to entry into the market for market participants. The result is that rents and prices approach those levels considered "competitive", tenants/ purchasers tend to select those units which maximize their "utility" given their preferences for housing and income and wealth, and landlords/builders/owners tend to achieve "competitive" returns on their investments [3]

Competitive market conditions imply that tenants/ homebuyers are free to choose that housing that best satisfies their desires from those units available at that time, subject only to their available resources to rent/ purchase and the availability and cost of other goods and services. They also imply that landlords/builders/homesellers cannot in the long-run enjoy "super-normal" profits, since new entrants seeking such returns could not be prevented from entering the market and providing additional housing supply, thus bidding down prices, hence bringing returns back to "competitive" levels. Conversely, if profits are "subnormal", suppliers will withdraw from the market, thus driving the supply of available units down and bidding rents/ prices up to "competitive" levels.

This is not to say that housing markets are considered "perfectly" competitive in a theoretical sense. There are a variety of conditions that have been well studied by housing economists and others that cause deviation from such an idealized condition in certain circumstances – including reduced information on alternatives by renters/ buyers, housing or mortgage market discrimination, transaction costs to movement, and wide variations in the package of housing and neighborhood amenities offered by the array of units available. However, there is broad agreement that over the real estate cycle, at least, in the mainstream housing market (including the "affordable housing" market), and on average, prices, rents, and profits tend to approach competitive conditions today in the U.S. urban housing market much more than they reflect "monopolistic" or other deviant

[3] For discussions of the housing market in a competitive market context, see E. Olsen, "A Competitive Theory of the Housing Market," *American Economic Review*, Vol. 59, Sept. 1969, pp. 612-621.

conditions.[4] Thus, it is useful to examine IZ as a policy in the "quasi-competitive" context, taking into account the market imperfections that may occur in certain circumstances, as a benchmark against which we may evaluate the possible broader set of impacts from its introduction. We attempt in the following discussion to provide an intuitively appealing economic explanation of what we would expect to go on subsequent to the introduction of IZ into a community, rather than a technical treatise couched in "econo-mese" and inscrutable supply-demand graphs.

*The Introduction of an IZ Ordinance.* The introduction of an IZ ordinance into the urban housing market involves a mandate that suppliers of new units into the market above a certain volume of units annually include a certain level of "affordable" units. Affordable units are defined as units that, if rented or purchased by households below a certain income level, would cost more than a certain fraction of their income. For analytic purposes, we assume there are two submarkets within the urban housing market – the "standard" submarket, which includes housing provided to households with incomes above the "affordable" limits, and the "affordable" submarket provided to households with incomes below the "affordable" limits. In both the standard and affordable submarkets under the normal working of the housing market, households would be assumed to experience a distribution of ratios of house payment to income, depending upon a variety of factors, including their tastes for housing, the per-unit cost of housing relative to their incomes and the prices of other goods and services, their wealth endowments, etc. However, "unaffordability" would be defined to exist only for those households in the affordable sector that exceeded a certain critical ratio of house payments to income. These would be the households targeted for an IZ program. Housing units provided under the IZ program would have to be sold or rented at a cost at or below the critical ratio for lower-income households below the income threshold.

*Direct Effects.* The direct effects of such a program, according to the theory of the competitive housing market, would be the following: Some additional "affordable" units would be provided by those builders/developers constructing new (or substantially rehabilitated) units under the IZ ordinance. These would have to satisfy the size/quality requirements embodied in the IZ ordinance and would have to be made available to qualifying households at "affordable" prices and rent. The IZ ordinance would normally not directly affect transactions for existing housing units. This would be the primary "direct" effect of the ordinance.

*Indirect Effects.* Other "indirect" effects would follow. The requirement of providing affordable units below-cost prices/rents would reduce developers' profits below competitive levels. This would have several effects in a competitive housing market. First, to the extent that there are competitive sites in alternative jurisdictions nearby, developers would reduce or eliminate their housing activity in the jurisdiction adopting IZ and shift their activity elsewhere. If the jurisdiction adopting IZ were a central city, this would result in dispersal of new housing development, or "sprawl".

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[4] An example of a study that considers the economic workings of the urban housing market, recognizing the variety of deviations from perfectly competitive market conditions that can occur, is George Sternlieb, *The Tenement Landlord*, New Brunswick NJ: Rutgers University Press, September 1969

The increased supply of standard housing on the periphery would tend to drive down prices/rents there, and the reduced supply of standard housing in the IZ jurisdiction would tend to increase prices there. However, at first there would be little or no impact on rents or prices of affordable housing in the IZ jurisdiction, since little or no new affordable housing supply would have been produced without the ordinance.

*Filtering.* This condition would not last for long, however, as the housing stock would also tend to "filter" (i.e., shift to occupancy by higher- or lower- income households) in both the IZ and peripheral jurisdictions. Lower prices for standard units in the periphery would cause some downward filtering to some households at slightly lower incomes. Higher prices for standard housing in the IZ jurisdiction would increase the level of income required for affordability in that submarket. Because some demand by displaced higher-income households in the IZ jurisdiction would "spill over" to the affordable housing stock their, prices/rents for the affordable housing stock would tend to be bid up, thus reducing the affordability of the lower-end stock in the IZ jurisdiction. The overall level of housing supply would be reduced from the unconstrained market case without IZ, and aggregate values would be lower, suggesting reduced market efficiency.

*In "Hot" Markets.* In the event that the housing market in the IZ jurisdiction is "hot", however, owing to high rates of growth combined with frictions for new development, another scenario could unfold. Temporary "supernormal" profits could be enjoyed by developers. In such a case, the IZ requirements would result in "cross-subsidization," in which developers would use some of their supernormal profits to offset the losses incurred by being required to produce affordable units. Affordable units would be built, along with standard units. The artificially increased supply of affordable housing would tend to drive down prices/rents in that segment of the stock and cause downward filtering in which increasingly lower-income households could afford the available units. For this situation to occur, it is not sufficient, however, that developers be making supernormal profits in the IZ jurisdiction, they must be also making higher levels of profits than in the alternative surrounding jurisdictions without IZ.

*Covering Entire Metro Areas.* Finally, consider a scenario in which the IZ ordinance covers a large area surrounding which there are no competing housing submarkets without IZ. In this market situation, there is "nowhere to hide" for housing developers. If they remain in business, they must follow the IZ ordinance for new development. It is adjustments in land prices which create long-term competitive returns in the real estate market: if conditions change such that developers of housing are making supernormal returns, land prices will adjust upward such that these excess returns are bid away (i.e., developers will have to pay more for the land they acquire). Conversely, if they are making subnormal returns, land prices will drop, returning them to normal levels of return. There would be windfall profits or losses experienced by those who hold the land (including both vacant and built-upon parcels), but these would be transitory as the market adjusts to its new equilibrium.

Now, what would we expect to happen in this final case if an IZ ordinance were passed? First, some developers would in fact cease doing business. In particular those whose short-term losses would be most severely impacted by IZ would tend to be those who would disappear (or morph) – those who bear the brunt of the cost would be those who tend to serve the high-end market and for whom the subsidy to provide affordable units would tend to be the greatest. There would also be a reduction generally in housing production because housing in general would be less profitable to produce than, say, commercial or retail development. To the extent that demand for housing remained constant (at least in the short run), this would tend to cause there to be a tighter market. These effects would be especially felt at the upper end of the market, which would tend to have the net effect of bidding up prices and rents there. At the affordable end of the market, the reduction in "natural" production would tend to be offset by increased supply directly provided through mandated IZ units, thus resulting in a lesser increase, or even a slight decrease, in rents and prices.

There would also be secondary effects felt in the market created by filtering of the housing stock. Higher prices/ rents and tightness in the standard unit market would tend to cause displaced higher-income households to bid away some of the affordable stock, thus causing "filtering up" and a reduction in the available supply (hence an increase in the prices/rents of affordable units). Overall, in this scenario there would be a reduction in aggregate values, reflecting the economic inefficiency generated as the result of the IZ requirements. Justification of the ordinance here would rest on grounds that the reduced welfare created by value losses (and attendant tax revenue losses) is more than offset by the social gain in providing an increased supply of affordable units.

*"Leakage"*. We should note that in the scenarios in which the market is competitive and not "hot", there is an expectation that an IZ ordinance would result in some "displacement" in the production of affordable units that would have occurred anyway. This is the classic case of "leakage" that economists are quite aware of with respect to the imposition of taxes or subsidies.[5] This occurs because both because of market inefficiencies generated though the costs of administering the program and because previous producers of affordable housing would find prospective tenants/ purchasers drawn away to the IZ-produced units, hence weakening the prospects for profitability of providing such additional units and reducing their supply. Since much of the stock at the affordable end of the housing spectrum is produced through the filtering mechanism and not through new production, this would tend primarily to have the effect of reducing the rate of downward filtering into the affordable housing segment of the market. In the extreme, "naturally" produced affordable housing would tend to be displaced one-for-one by the IZ program, resulting in no net increase in the affordable stock.

*Summary*. The above scenarios tell us several things about the anticipated outcome of the adoption of an IZ ordinance in a local community:

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[5] For example, see Koesman, Shilling, and Vandell, "Did Historic Preservation Tax Credits increase the Rate of Rehabilitation in the Boston Office Market," working paper, University of Wisconsin-Madison, 2003

(1) The market response is a complex one; in addition to the direct effects of the level of production of affordable units through the program, there are myriad indirect secondary effects, both positive and negative, that influence the outcome and potentially are quite large, thus swamping the direct effects.

(2) The nature of the market response depends upon conditions in the local market. If the market is operating under normal growth and tightness and the IZ ordinance is passed in a single jurisdiction with many alternative housing options elsewhere, the response to IZ tends to be negative, causing sprawl and not adding significant numbers of affordable housing units. Only if the housing market is very tight and growing rapidly, or if the IZ ordinance is metropolitan-area wide would there be any possibility of developing net additional affordable units without having an adverse effect on prices, rents, or availability throughout the market. However, even here there would likely be adverse transitional effects, and the net effect could still be minimal, depending on a variety of other conditions.

(3) Among the other conditions that could affect the nature of the market response include the magnitude of new development relative to the size of the overall market (alternatively, the magnitude of household growth rates), the absolute and relative rates at which higher-income and lower-income households change their demand for housing with increases and decrease in price (price elasticity of demand), the responsiveness of affordable and standard housing developers to changes in the price of housing (price elasticity of supply), the effectiveness of land use and other regulatory restrictions on the supply of new housing, the availability of sites with appropriate development approvals, the presence of natural barriers to new housing development (e.g., mountains, lakes, oceanfront, wetlands, etc.), factors that could cause a deviation from competitive housing market conditions (e.g., large dominant landlords, racial or income discrimination, rent or price controls, arbitrary building permit denials, etc.), NIMBY'ism (restrictions on newcomers from entering the market), and restrictions on the entry of new developers/ landlords/ homeowners into the market.

(4) It should be emphasized that under *all* of the above housing market scenarios under roughly competitive conditions, the market outcome after the imposition of an IZ ordinance is one that is inefficient from the standpoint of maximizing aggregate social utility and market values of real estate (hence the tax base). To be considered desirable in an economic sense, such a policy would have to provide higher intangible social utility benefits to lower-income households now able to better afford standard housing than they are willing to pay for with their available income and savings. These benefits would also have to exceed the losses borne by the

economy in the form of reduced values, growth, and tax base created by the distortionary IZ market intervention policy.

We are left with the clear conclusion that in order to adequately evaluate the desirability of a specific IZ ordinance proposal, it is necessary to look both at the specifics of the ordinance itself and at the specifics of the market. In that spirit, in the next section of this study, we will attempt to look inside the characteristics of the IZ ordinances that have been adopted in this country over the last 25 years as well as the characteristics of those markets within which they have been adopted. We will then do what we can to obtain information about the relative performance of these ordinances and attempt to draw some conclusions about the relationship of such performance to ordinance and market characteristics. To the extent that these relationships are consistent with those predicted by the above economic analysis, we may conclude that these markets are behaving in a competitive fashion. Finally, we will look at the characteristics of the proposed IZ ordinances in Madison and, given our relationships from our broader analysis, draw some conclusions about the likely effectiveness of such ordinances. Development of the characteristics of an "optimal" affordable housing policy for Madison follows.

## VI. What Evidence Do We Have about the Impacts of Inclusionary Zoning?

The above discussion emphasizes the fact that we would expect there to be additional direct and indirect results in a local housing market as the result of the adoption of an IZ ordinance, beyond simply the production of additional "affordable" housing units. Some may be negligible in magnitude, but others could be significant, creating costs that could far outweigh the direct benefits of additional new affordable housing construction. In order to determine this, it is necessary to obtain empirical evidence from the marketplace, specifically those jurisdictions that have adopted IZ ordinances.

What evidence exists to support or refute claims made by proponents and opponents of IZ? Here generally, we can say that the studies undertaken to evaluate these impacts are quite sparse, and even nonexistent if one requires a certain degree of rigor of the analysis. Rather, the evidence presented to support claims tends to be largely anecdotal and without appropriate controls to separate out the various factors. More specifically, we cite the following:

- *Large numbers of affordable housing units will be produced as the result of IZ.* This appears to be untrue, based upon the information provided in Table 1. The annual affordable housing production[6] under IZ ordinances in the U.S. must come from new development, which constitutes only about 2-3% of the total stock annually. Further, there is a ceiling to this

[6] This assumes that all units reported are in IZ-governed projects and are net additions to the affordable stock, which we shall see below, may not be true.

new production, which, depending on the ordinance, may be 15% or so of the total new stock produced, or 3% x .15 = 0.45% maximum. The actual fraction, from Table 1, is only 3-7% of total new stock produced, implying the affordable stock provision under IZ approximated only 0.06 to 0.20% of the total stock in place annually. This compares with existing housing subsidy programs, admittedly small, which constitute currently about 4.2 percent of the existing housing stock and provide about 0.9 to 4.0 percent of the new stock annually, depending upon the year. This represents .02 to .12% of the total stock in place annually, the same degree of magnitude as IZ.

- *Affordable housing production reported subsequent to IZ is due entirely to the ordinance.* This statement appears to be of questionable legitimacy for two reasons. First, we have found that the number of reported affordable units produced after the passage of the ordinance often includes *all* affordable housing production and not only that in projects approved under IZ or produced using IZ payment-in-lieu funds. What is and is not included in the affordable housing production numbers varies from jurisdiction to jurisdiction. Second, even if the reported number is due to the IZ ordinance, the reported number represents the *gross* affordable housing production and not the *net additional* affordable housing production in the jurisdiction. The second number could diverge from the first to the extent that the leakage effects cited above cause a substitution effect whereby some affordable housing units that would otherwise have been built in the private market or through subsidies elsewhere are displaced to an IZ project. No analyses have been carried out to evaluate this impact, but to the extent that subsidies are used in the provision of IZ project units, it would be expected to be greater than zero unless the subsidies are *additional* funds obtained by the jurisdiction.

- *The rate of production of new housing will not be affected by the adoption of an IZ ordinance.* Implicit in this argument is the notion that developers are either making "supernormal" profits, are not affected by profit potential, or will experience land price declines in the long run that offset their increased costs under IZ. With respect to the first assumption, the evidence seems to point to the conclusion that most housing markets are at least quasi-competitive in which developers (at least those that survive) make competitive returns over the long run. That is not to say that during certain "hot" periods in which there is unanticipated demand for housing relative to supply, prices/rents and profits rise to "supernormal" levels. During these periods, which could be over a relatively extended period of time, say 4 or 5 years, in markets that continue to be hot, with restrictions on the supply side, such as those in California and the Northeast, an IZ ordinance could result in the cross-subsidization case cited above in which an IZ ordinance could result in a reduction in the profit margin and continued housing production. However, this situation is not sustainable

for the reason that eventually a demand-supply balance will be achieved again and normal profits will return. Historically, this has occurred in every housing market over time, even those that are typically considered "hot". This has to occur, for if supernormal profits were expected and sustainable, additional capital would continue to flow into the market until the balance is restored. The second argument, that they are not affected by profit expectations, is one that is obviously flawed on the face of it and well accepted by anyone who has dealt with the developer community. Developers always undertake their profitability analysis, whether formally or informally, to determine their expectations of return and allocate their capital accordingly. With respect to the third possibility – land price declines – this would depend critically whether the IZ ordinance dealt with an entire large metropolitan area, where developers have little choice (since they are often local) but to remain. However, even in this case, they must make competitive returns over the cycle (see point above), or they will disappear. IZ ordinances dealing only with one municipality within a larger metropolitan area would be expected to experience a high degree of leakage to surrounding jurisdictions, since most developers do not confine their activities to a single jurisdiction alone.

- *Developer incentives such as density bonuses are necessary to render IZ feasible.* To our knowledge, there has been no comprehensive analysis of this claim made using experience nationally. However, anecdotal evidence and the even the positions of most advocates for IZ (such as David Rusk) recommend the provision of density bonuses and other incentives to developers to offset the costs of affordable housing provision. The rationale for this in part has been legal, in that without mitigating "gifts" for "grabs" of development rights, the courts may interpret an IZ ordinance as a "taking". However, part too is due to the recognition that during periods of normalcy in the market (i.e., not during temporarily "hot" market periods) any costs imposed upon a developer in development and restrictions in return from sale or rental must come from somewhere to permit normal returns, or the developer will take his capital elsewhere. We thus conclude that such incentives are necessary under normal circumstances. Their use is best applied on a negotiated basis, in which the community and developer agree as to which set of terms is most mutually beneficial, yet still permits project feasibility.

- *The developer costs associated with provision of affordable housing are simply offset by higher at-market unit rents and prices.* No empirical evidence has been presented either supporting or refuting this argument of opponents of IZ. However, from a theoretical perspective as we have seen above, the answer to this question depends on the nature and condition of the local housing market. The extent to which increased developer costs are able to be passed on in the form of higher rents or prices depends in the economist's jargon, the short- and long-run elasticity of demand

among at-market households. Few alternative options for housing in a market signal a highly inelastic demand and an ability to pass costs on However, to the extent that other options exist, either in other jurisdictions without IZ or in the existing stock in the IZ jurisdiction, little or none of the cost can be passed on.

- *IZ will serve low-income households.* Again, there is no comprehensive empirical analysis, but there is substantial evidence that this argument is not true. Simply looking at the design of existing IZ ordinances reveals that virtually none are designed for households below 50% of area median income, and many others are set at 80-120% of area median income, reaching into the middle-income population. Furthermore, simulations of economic performance under alternative IZ formulas reveals that one typically cannot move down much beyond 50% (and not even to that level for very high-cost jurisdictions) because it would cause the required density bonus or other incentives to be outside of the range of feasibility.

- *IZ will serve working-class households and government employees.* No comprehensive survey exists as to the occupational profile of those housed in IZ affordable housing units, but mixed anecdotal evidence exists. On the one hand, the income limits suggest that the served population would represent lower-middle income to middle-income households, which normally includes government and service workers. However, this depends upon the jurisdiction and design of the program. In some cases, with heavy unionization among public and private employees and a prevailing "living wage", combined with moderate incomes in the region, such households could be beyond the income limits to qualify In other jurisdictions with very high area median incomes and service workers relatively low paid, they could be below the income limits

- *IZ units will go to those households who need them the most* We have already seen above that IZ is not really a program for very low-income households, who would be most likely to have the greatest need relative to their current housing condition, but what about those who qualify for affordable housing produced under IZ? Since the supply is very low relative to the need (as we have seen above) and since the housing produced is provided at below cost, we would expect there to be excess demand for IZ housing units relative to the supply. Indeed, in many jurisdictions, lotteries or other means are used to allocate IZ-produced housing. This is therefore a classical rationing problem; its correlation with household "need", however defined, is dependent upon the nature of the rationing procedure adopted. In the jargon of public finance, this is a case of "horizontal inequity" which bedevils any subsidized program that provides inadequate supply relative to the demand at the reduced cost

- *IZ will serve as an instrument to encourage higher-density compact development and discourage sprawl.* Again, there is little comprehensive empirical analysis of existing programs, but theory and anecdotal evidence suggest that this would not be expected to hold true except in circumstances that may be independent of the IZ ordinance per se. IZ pertains to new development, not the existing stock, and the vast bulk of new development occurs at the fringe of urban areas, not as infill. The density of this new IZ development could be "compact", but that could exist only with viable density bonuses and other planning decisions that may be independent of IZ. On the other hand, to the extent that IZ has been adopted only in a central city jurisdiction, the incentive for developers to flee to the suburbs would effectively increase the decentralization of development, hence sprawl. The ultimate outcome is dependent upon the nature of the local market and the incentives presented in the IZ ordinance.

- *IZ will serve to integrate communities by income and race.* By design, an IZ ordinance requires housing to be occupied by households of an income below what would be the case without the ordinance in place. Thus, on the face of it, IZ results in greater income integration, especially at the level of the neighborhood or block. As we have seen, however, the pace of this is very slow and has no impact on the vast bulk of the existing urban area already built up. With respect to racial integration, there is absolutely no evidence that has been provided about the racial composition of IZ affordable housing occupants. So far as we know, racial quotas have not been a part of the rationing process associated with IZ allocation. We would expect there to be a somewhat higher degree of representation of minorities in IZ housing because they tend to make up a greater proportion of the lower-middle to middle-class market that IZ serves than the upper middle or upper income market of the jurisdictions themselves. However, this representation would not be expected to be as high as if IZ served very-low income households.

- *IZ will permit families to participate in the "American Dream" of homeownership.* The question here is the extent to which homeownership can be achieved for those households otherwise unable to afford it. Again, on the face of it, the IZ formula fosters homeownership because it allows selected households to qualify for a home mortgage based upon a below-market price for unit they would not be able to qualify for otherwise However, simply counting the number of homeowning households under IZ is insufficient to answer this question for several reasons. First, the households could have qualified for a less expensive at-market home in the IZ jurisdiction or elsewhere and most likely from within the existing stock (where most moderate-income households find their units). Unless there is a significant shortage of such less-expensive homes relative to the households qualified to purchase them, these households should be netted

out against the total. Second, restrictions on equity accumulation could reduce one very important component of homeownership, the opportunity to accumulate housing wealth. Thus, some households will avoid the IZ program because there is a greater return from at-market units. Again, it is the *net* and not the *gross* number that is relevant, and there has been no definitive study evaluating this.

- *IZ will serve to enhance the school performance of children from lower-income families.* This argument has perhaps been put forward most forcefully by David Rusk in *Inside Game: Outside Game*. It deals with an issue that is broader than IZ, namely the social benefits that can accrue to lower-income children from living or going to school in a higher-income environment. The literature in this area is voluminous, ranging from studies of the Gautreaux experiment in Chicago, to developmental studies of neighborhood effects on children, but I will not go into it here. I will comment however on why we would expect such benefits, to the extent they exist, to be rather limited under IZ. First, much of the social science literature has concentrated on the school environment and not untangled it sufficiently from the neighborhood environment. To the extent that benefits accrue to children living in higher-income neighborhoods, it is not clear that many of these benefits come from the school environment, in which case they would accrue from busing or paired schools as well as actual relocation. Second is simply the fact, as pointed out above, that the actual level of participation in IZ is actually quite low as a proportion of eligible households; moreover, those households that do participate are overwhelmingly from working- or middle-class families, not the urban poor. The empirical evidence that IZ is a major generator of positive social consequences associated with the neighborhood per se is wholly absent.

- *IZ will reduce housing costs* This argument is the flip side of the argument above by opponents of IZ that house prices are raised. The rationale here is that an increased supply of affordable units through IZ will tend to reduce prices and rents for affordable units throughout the market, thus aiding all eligible households. Again, there is no definitive empirical analysis of this question. We do have some theoretical expectations, however. The extent to which prices for affordable units in the market to drop would again be due to the elasticity of demand by eligible households. Only in markets in which they have few options would price drops occur, and housing advocates would not want such markets to exist for a variety of reasons. This argument also ignores the indirect effects of upward filtering, in which higher-income households, forced to pay more for their units due to IZ would create higher demand elsewhere in the city, driving up prices and competing against the previously affordable unit stock. One may also note that even if prices went up faster in IZ communities, incomes could have gone up even more, thus making housing actually more affordable. Empirical analysis of these

issues requires us to compare rent, price, and affordability trends for IZ communities against those for those without IZ, controlling for all other relevant factors, which is an exercise that has not been carried out. We do provide in the next section of this report, however, a case study of three IZ jurisdictions that been designated as comparables to Madison's trends in this regard.

- *IZ will cause a reduction in at-market new housing values because of reduced demand by households to buy or rent near affordable housing.* There is a large literature on this question which seeks to estimate any "negative gradient" in property values with proximity to any "negative amenities". The literature evaluating "low-income housing" generally has found significant negative gradients only for the most extreme cases of a very low-income high density public housing project with problems associated with drugs and gang activity in the midst of a middle-income neighborhood. For most other cases of moderate-income "affordable" housing or "mixed-income" housing without a high concentration of visible poverty conditions, there is generally agreement that there are not significant adverse effects on nearby property values. Since these are the conditions that typically characterize IZ developments (i.e., not highly concentrated, not including very low income households), we would conclude that this argument by opponents of IZ is not valid.

- *IZ will "distill" central city low-income neighborhoods of their upwardly-mobile population, thus adversely affecting the remaining residents.* This again is an argument that relates to a policy issue that is broader than IZ. Central city "development" vs. "dispersal" as competing strategies for community development and upward mobility of the poor have been broadly evaluated, and there is no consensus that one clearly dominates over the other. David Rusk's position clearly favors that of "dispersal". However, given what we have concluded above concerning the likely low incidence of truly low-income households in IZ projects, we would speculate that most eligible residents for the affordable housing will not come from inner-city poverty areas but from older moderate- to middle-income neighborhoods surrounding the urban core. Thus, there is only minimal likelihood of IZ validating this prediction, and even if it did, there would be different interpretations of its consequences.

- *Mandatory IZ ordinances are far more effective than voluntary ones in encouraging affordable housing production.* Again, there has been no comprehensive effort at investigating this claim comprehensively. Only anecdotal information is available and that is conflicting. On the one side, advocates such as the Non-Profit Housing Association of Northern California (2003) argue that the few jurisdictions that have voluntary ordinances in California have been displeased with them because of their lack of effectiveness. However, there are others (Enterprise Foundation

(2003)) who argue that voluntary programs are more common and have produced much more affordable housing than local mandatory requirements. Positive experience with voluntary programs in such communities as Austin TX, Irvine CA, and Chicago, IL also suggests that the condition of being voluntary alone is not sufficient to reduce the effectiveness of IZ. Observational evidence suggests that "negotiated" programs that are flexible to local conditions and housing needs could work most effectively, but again there has been little empirical evidence provided to support this.

- *IZ merely shifts the costs of providing affordable housing from the government (and the taxpayers) to developers and at-market new home owners and renters.* Again, sadly, we must report that there has been virtually no comprehensive analysis of this question from a long-term market equilibrium standpoint. Only simple simulations have been run that look only at direct effects, assuming that the developer bears the full brunt of the costs and must be compensated by density bonuses or ignoring his profit constraint altogether. A few recognize that in equilibrium the full costs would not be able to be passed on in the long run (see above discussion about prices), but virtually none recognize the impact this modification of market conditions can have on filtering of both the at-market and the affordable stock. We repeat our statement above that the ultimate effects depend upon the nature of the IZ ordinance and conditions in local markets. We can safely say, however, that under most conditions neither the developers nor the new at-market purchasers or renters would be expected to bear the full brunt of the costs. These tend to be spread throughout the housing market in the entire metropolitan area.

## VI. Madison's Proposed Ordinances vs. the Ordinances of Other Jurisdictions

We now have a sense of the array of different IZ ordinances that exist across the U.S. and have surveyed the evidence of past and expected future performance of IZ from available theoretical and empirical information. In this section, we shall focus more specifically on where the proposed IZ ordinances in Madison fall in the spectrum of characteristics and expected performance.

Table 2 summarizes the characteristics of Madison's two proposed IZ ordinances by Mayor Cieslewicz (current as of November 17) and by Smart Growth Madison. Also shown for comparison are summaries of the ordinances of several communities often said to be Comparables" to Madison's situation: Boulder CO, Burlington VT, Denver CO, and Montgomery County MD. We also include selected demographic characteristics of Madison and the other communities and affordable housing production rates, where known, for the comparable communities.

*Covered Developments*. The Mayor's proposal for covered developments is quite restrictive, with a proposed trigger of 10 or more units. Smart Growth Madison's trigger is 30 units (without counting all units built by a single developer), which is toward the upper end of the distribution for all IZ ordinances but comparable to Denver's (30) and Montgomery County's (35). Boulder is at the low end, essentially involving all development, while Burlington's is comparable to the Mayor's proposal.

*Required Affordable Housing Commitment*. The Mayor's plan would require a minimum of 15% affordable units in a project. This is about at the mean for all IZ jurisdictions. Smart Growth Madison proposes 10%, which is the modal value for all IZ jurisdictions. These compare to figures of 10% in Denver, 12.5-15% in Montgomery County, 20% in Boulder (for projects of 5 or more units), and 15 or 5% in Burlington, depending upon whether occupant households are at 80% area median income (AMI) or 81-99% AMI.

*Affordability Criteria for Owner Housing*. Under the Mayor's proposal, 25% of the affordable owned units would have to be made available to households at 60% AMI, with 75% for those at 70% AMI. Smart Growth Madison proposes 80% of median income for detached units and 70% for attached units, with nonprofit rental or ownership deemed an eligible household. These compare to the higher limit of 90% AMI (including asset limits) in Boulder, 80% in Denver and Montgomery County, and 75% in Burlington. Clearly, the Mayor's proposal is toward the low end of the comparables for owned housing.

*Affordability Criteria for Rental Housing*. The Mayor proposes that 25% of affordable units be made available to households at 40% AMI, with 75% to households at 50% AMI. Again, these are quite low relative to the comparables (80% of AMI in Boulder and Montgomery County, 65% in Burlington, and voluntary compliance in Denver). SGM proposes a 60% AMI limit for rental housing.

*Controlled Affordability Period*. Here there exists considerable divergence between proposals and existing ordinances. The Mayor seeks a 99-year (essentially permanent) restriction, while Smart Growth Madison proposes 10 years for owned units and 15 for rental. SGM also proposes that the City facilitate marketing through a pre-qualification and referral program. If a unit is not sold or rented within a specific time period to an eligible household, then it could be sold or rented to higher-income households. These compare to permanent controls in Boulder and 99 years in Burlington, but only 10 years for owned units and 20 years for rented units in Montgomery County (comparable to Smart Growth Madison's proposal).

*Equity Repayment or Recapture Terms*. The Mayor's proposal requests that sale of owned units be limited to a sales price affordable to an income-eligible household, plus a 3% sales cost. Fifty percent of substantial rehabilitation costs could be recaptured. The City would retain an option to buy an owned or rental unit upon first sale or at the end of the affordability period. In the event that a unit could not be rented within 90 days or sold within 120 days, it could be marketed to a household at a 10% higher AMI limit,

with this increasing by 10% for every 90- or 120-day period subsequent. Smart Growth Madison wants a sliding scale, which ranges from 0 to 50% of the equity from appreciation, depending upon the holding period. In Boulder, the resale price cannot exceed the purchase price, plus transaction costs and capital improvements, plus the owner's share of appreciation (relative to her original share of purchase price) Burlington is comparable to the Mayor's proposal at a permitted 25% of the appreciated value.

*Off-site Alternatives or Payments-in-Lieu.* The Mayor's proposal permits off-site development if a project with affordable units is otherwise infeasible, but requires this to be at 125% the on-site requirement and requires location within the same census tract. It does not allow for cash buy-outs. Smart Growth Madison proposes that the City may determine that a proposed project be excluded from IZ requirements if it is deemed infeasible to include affordable units. These compare with Boulder's requirement that at least half the units be on site (unless otherwise determined by the City Manager) and cash in lieu be permitted according to a formula of $55 x 20% of total floor area ($44,000 for a 4000 sq. ft. unit). Burlington's requirement is comparable to the Mayor's proposal, while Denver permits cash in lieu of 50% of the sales price of a standard affordable unit. It appears from this that Boulder and Denver have some fairly inexpensive buy-outs for developers, relative to those proposed by the Mayor, whereas Burlington's are comparably rigorous.

*Appearance and Dispersion of Affordable Units.* The Mayor's proposal requires the exterior appearance of affordable units to be similar to at-market units, although they may be smaller, according to a schedule ranging from a minimum of 400 square feet for an efficiency unit to 1300 square feet for a five-bedroom apartment or condominium, and 950 square feet for a detached unit or duplex. Interior finish-out could also be less expensive. They must be scattered throughout the development and reflect the mix of at-market units. Smart Growth Madison requests also that they have the same appearance of at-market units and be dispersed throughout the development, the mix is left unspecified Minimum unit sizes are specified by type of unit. In comparison, only Boulder has explicit appearance and dispersion requirements among all the comparables. For detached units, affordable units must be 48% of the floor area of at-market units, whereas attached units must be 80%, with a maximum of 1200 sq. ft. Units must be allocated by tenure type and attached/detached status according to the at-market units. The Mayor's proposal appears to be at the more restrictive end of the spectrum, especially as pertains to minimum size requirements.

*Developer Incentives.* The Mayor's proposal permits up to a 30% density bonus using R-1 zoning for a base and a possibly higher density bonus for multifamily structures of greater than four stories or with underground parking garages, whereas Smart Growth Madison requests 30% based upon adopted neighborhood plan permits or current zoning. Burlington's density bonus is between 11 and 25%, and Montgomery County's is up to 22%. Thus, there is a slightly greater density incentive in both Madison proposals. The Mayor's proposal expedites the approval process through a staff vetting process and a concurrent review. Smart Growth Madison is more aggressive, requiring a

"streamlined" process with flow charts and check lists and automatic eligibility if no decision by Planning in 30 days. Of the comparable ordinances, only Denver has an expedited process of 180 days. Design and set-back considerations are proposed to be flexible in both the Mayor's and SGM's plan. Only Burlington provides any flexibility here, namely administrative relief. With respect to sewers, streets, and other infrastructure, the Mayor's plan indicates that other incentives relating to flexibility in financing "may" be available. SGM asks for possible reduced or waived fees. Of the comparables, only Montgomery County provides any incentive, namely waiver of some water/sewer development charges and impact fees. Both the Mayor's proposal and SGM's proposal request flexibility also in the form of parking requirements and parkland consideration. In each case, these "may" be available. Only Denver, among the comparables, provides any flexibility in these areas, giving up to 20% reduction in parking requirements. Finally, with respect to additional financial incentives, the Mayor's proposal would limit Madison's Housing Trust Fund to non-profits in an effort to facilitate a longer period of affordability and encourage the use of for-profits as builders, not developers. SGM proposes that the city provide from a special revenue fund to all developers an amount to fill the gap between the full market value and the value under the affordability constraint. Among the comparables, only Denver provides additional financial incentive in the form of a $5000 rebate for each 80% AMI unit, capped at 50% of development units, or $10,000 per unit for each 60% AMI unit.

In summary, the two Madison proposals and the four comparable IZ jurisdictions diverge more in some dimensions of the proposed ordinances than in others. In general, the Mayor's plan is more restrictive with respect to its treatment of private developers and its encouragement of nonprofits than the SGM proposal. The two dimensions in which the Mayor's proposal diverges most notably from the standards embodied the SGM proposals is in

(1) Lower income eligibility standards, at 60-70% AMI for owned units and 40-50% AMI for rented units vs. 70-90% AMI for owned units and 60-80% AMI for rental units in the SGM plan and among the comparables

(2) Much longer period of required affordability of 99 years (comparable to Boulder and Burlington), vs. 10-15 years for the SGM proposal and 10-20 years in Montgomery County.

There is somewhat greater congruence, however, among the proposals and comparable ordinances in several dimensions, including percentage affordable set-asides and developer incentives, especially in the areas of flexibility in fees and other costs. It shall be the purpose of the next section to draw conclusions with respect to the performance of the Mayor's proposal based upon these differences, the character of the Madison market, and what theory or previous research has told us about expected IZ performance.

## VII. The Prognosis for Inclusionary Zoning in Madison

In order to make some judgment about the expected performance of IZ in Madison, we will undertake two exercises: In the first, we will examine the characteristics of the Madison housing market in comparison with other comparable jurisdictions with IZ ordinances in place during the decade of the 1990's. In the second, we will evaluate the feasibility of different types of residential projects under unrestricted and IZ-restricted conditions, using the Mayor's current (as of November 17, 2003) proposed ordinance.

### 1. Housing Market Performance in the 1990's in Madison vs. Comparable IZ-Jurisdictions.

Table 3 provides some selected data from the 1990 and 2000 Census of Housing for the City of Madison and three of the four comparable IZ jurisdictions above – Boulder CO, Burlington VT, and Montgomery County MD. We exclude Denver because its IZ ordinance was only adopted in 2002; thus its impact would not be felt during the decade of the 1990's. We can make the following observations about Madison's market relative to those of the IZ jurisdictions:

*Growth in the Housing Stock.* First, it is clear that none of the jurisdictions is especially fast growing, since the rates of growth in the housing stock are about average for the U.S. as a whole In Burlington, it is actually substantially below the average. Constraints in growth could occur because of slow growth on the urban fringe, boundary constraints, little net in-fill development, or a combination of some or all of these. Madison actually has the highest rate of growth of all, at 15.4%, which is still only a little higher than average for the country as a whole (13.3%). We are especially surprised at the low rate of growth of Montgomery County (13.2%), since it is a suburban county of Washington, D.C. that would be expected to be prime for higher suburban development rates. In fact housing units in the Washington, D C. area overall increased 24.8% during the 1990's. At the beginning of the decade, Montgomery County made up 19.0% of the total housing units in the Washington, D C. metropolitan area, but by 2000 this had dropped to 17.2%. Since there is plenty of vacant developable land yet in the County, it is not because the county is built out and constrained by its boundaries. We are left with the conclusion that residential development was directed away from the County for some other reason during the 1990's.

The city of Boulder is largely unbounded on its municipal border by other communities, thus there is plenty of developable land which could accommodate expansion and annexation. Yet its housing unit growth during the 1990's was only 12.5% relative to the Boulder-Longmont metropolitan area which grew 26.7%. At the beginning of the decade, Boulder contained 38.3% of the total housing units in the metropolitan area; by the end of the decade, this had dropped to 34.0%.

The story is the same in Burlington, VT. The city grew only 5.9% during the 1990's, while the metropolitan area grew 31.5%, in spite of the fact that the city was not

hemmed in by developed surrounding communities The city's share of housing in the metropolitan area dropped from 29.4% in 1990 to 23.7% in 2000

We may compare the experience of these IZ jurisdictions with that of Madison – without IZ – during the 1990's. The imbalance between Madison's growth and that of the metropolitan area – 15.4% vs. 22.0% -- is significantly less than that of the other jurisdictions. Madison's share of total metropolitan housing development only dropped from 54.1% to 51.1% during the 1990's.

There is no doubt that these comparisons represent small samples and that growth imbalances could be caused by a variety of factors as outlined above. But given that the imbalances do not appear to be largely due to already built-up areas and boundary constraints, it suggests that either demand is relatively lower in the IZ jurisdictions or supply of new housing is relatively restricted by something other than lack of land availability. At the very least, it provides evidence consistent with the argument that the presence of IZ in a community does not reduce sprawl; indeed it may serve to exacerbate it.

*Growth in Incomes*: Median household incomes in the U.S. grew by 39.7% during the 1990's, from $30,056 to $41,994. We expect that typical urban growth patterns would result in higher percentage increases in the suburbs than in the central cities as filtering occurs. IZ in a suburban jurisdiction would be expected to ameliorate this imbalance, as a greater number of affordable units are provided. However, the result would be unclear if the IZ were introduced into a central city jurisdiction, since it would depend where the households occupying the new affordable units came from. At the very least, however, we would not expect a higher increase in income in the central city; it should either be the same or lower.

What do the results in Table 3 suggest? The results in Madison are as expected for a non-IZ jurisdiction, and Boulder's are ambiguous; both display higher rates of increase in the suburbs. However, Burlington, where the IZ jurisdiction is the central city, is anomalous; the increase is higher in the city, suggesting a greater relative representation of lower-income households in the suburbs over the decade. This is also true of Montgomery County, where the IZ jurisdiction is a suburban area. The difference is quite significant; incomes in Montgomery County grew by 43.4% during the 1990's, whereas they only grew by 32.7% in the Washington D.C. metropolitan area. These results suggest that IZ actually may have worked to *increase* not *decrease* relative representation of higher-income households in the jurisdiction.

*Value and Rent Levels and Changes*. Under IZ, the intent would be that the jurisdiction would experience a moderation of house price and rent increases over time relative to the rest of the metropolitan area without IZ. This would reflect both a change in the mix of units provided, with a greater proportion of affordable units built in the IZ jurisdiction, as well as a moderation of price and rent increases due to increased supply in general.

From Table 3, however, we see that in for two of the three of the comparable IZ jurisdictions, this does not occur. In both Burlington and Montgomery County, Rents and prices increase more during the 1990's in the IZ jurisdictions than in the rest of the metropolitan area. Boulder has mixed results. Median house values in the city of Boulder increased more than in the metropolitan area, but rents rose at a lower rate. This does not seem to have to do primarily with relative increases in rental and owner occupied housing in Boulder during the 1990's, since the renter-occupied housing stock in Boulder city rose only 7.5%, while the owner-occupied stock rose 13.6%. In the metro area as a whole, the renter-occupied stock increased 18.4% vs. 39.3% for owner-occupied housing. It could have to do with more expensive for-sale units being built in Boulder during the 1990's relative to that for rental units; the extent to which this result is driven by changes in the unit mix vs. changes in the supply and demand for units awaits further analysis.

In contrast, we observe in Table 3 that Madison, without IZ during the decade of the 1990's, behaves exactly as we would expect an IZ jurisdiction to behave, with lower rates of increase in median rents and prices in the city relative to the metropolitan area.

The evidence from this analysis thus does not support the claims of IZ proponents that IZ will moderate prices and rents in a community. However, to get at this question more explicitly, we need to look at better measures of housing affordability, since increases in house prices and rents could hide increased affordability if household incomes rise more rapidly than rents and prices. We undertake this exercise next.

*Housing Affordability Levels and Changes.* Finally, we shall consider the relative performance of Madison vs. the three comparable IZ jurisdictions in terms of housing affordability as proxied by the proportion of households spending more than 30% of their income on housing costs. IZ proponents would argue that affordability would increase, especially relative to other nearby jurisdictions without IZ. As we can see from Table 3, however, clear evidence for this is lacking.

In the U.S. as a whole during the decade for the 1990's, rental housing affordability actually increased somewhat, with only 36.8% of households paying more than 30% of their income in gross rent in 2000 as compared to 38.6% in 1990. This pattern tends to hold in both the Washington, D.C. metro area as well as Montgomery County, with declines in affordability over the decade evident in both cases. Montgomery County, however, although higher in median household income than the metro area, remained more "unaffordable" (i.e., with a higher proportion of households paying more than 30% of their income) over the decade. Evidence of the impact of IZ in reducing rents is lacking.

In Burlington, there is evidence that could be considered supportive of the expectations of IZ proponents. Rental affordability drops slightly in the metropolitan area as a whole during the 1990's, bucking the national trend, whereas it increases in the city of Burlington. Since this increase is consistent with the national trend, it is unclear as to what is going on. IZ could have offset pressures for rent increases that occurred in the general area or the suburbs experienced differentially greater rent pressures. The result

could also be due to a different mix of rental housing production, with a greater proportion of affordable rental housing produced in the suburbs, thus being occupied by lower-income households with a higher payment-to-income ratio. This question awaits further analysis.

In Boulder, however, not only is rental housing more expensive in the city than in the suburbs, its unaffordability increases slightly over the decade in both areas. This is not consistent with the notion that IZ should increase affordability. In contrast, both the city of Madison and its metro area increased in rental affordability during the 1990's, consistent with the national trend.

We should note that the rent and rental affordability figures for Madison, Burlington, and Boulder are all influenced by the fact that a large proportion of the rental population is represented by students at the universities in these cities, which accounts for the fact that rental affordability seems quite low. For example, there are about 41,000 students at the University of Wisconsin-Madison, and only 6700 of these live in on-campus housing, leaving 34,300 living off-campus, either in owned or rented private housing. If we assume 90% of these live in Madison in private rental housing and conservatively estimate that students on average live three occupants to a unit, this would imply that 10,290 units of Madison's 46,385 rental units, or 22%, are occupied by students.[7] Realistically assuming that virtually all of these students are paying more than 30% of their income in rent would reduce Madison's 2000 percent of households paying more than 30% of their income in gross rent from 43.5% to 29.4%. Unfortunately, advocates for an IZ ordinance in Madison have not taken the student population into account when citing rental affordability figures. This adjustment suggests that Madison's rental affordability may in fact be higher than that for the nation as a whole.[8]

With respect to ownership affordability, the national data suggests that ownership became less affordable over the decade, as house prices increased more rapidly than incomes. Those households paying more than 30% of their income in housing costs increased from 19.4 to 21.8%. This pattern is reflected in Madison and all the comparable IZ communities, as well as their respective metropolitan areas, with the exception of one anomaly: A lower proportion of home-owning households in the Washington, D.C. metropolitan area suffered a high payment-to-income ratio in 2000 than in 1990 (22.2% vs. 23.0%) owing to a strikingly low rate of appreciation of D.C. area housing during the decade. However, this was not true in Montgomery County, which saw an increase in this percentage from 21.4 to 21.8%. This apparently was not due to a higher proportion of lower-income home owners moving into the county, since the increase in median household income in the county (43.4%) was substantially higher than the increase in the metro area (32.7%) during the decade. This belies the claims of IZ advocates that home

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[7] This was confirmed by discussions with real estate people, who estimated roughly between a quarter and a third of Madison's rental units are student-occupied.

[8] This is also true for Burlington and Boulder, of course, and suggests that these affordability measures should be adjusted also. We note that if the student populations were approximately proportional to the population, however, in 1990 and 2000, the relative change of these affordability measures between 1990 and 2000 should not be significantly affected.

ownership was made more affordable in Montgomery County as the result of the ordinance.

## 2 Feasibility of Alternative Residential Development Types under the Mayor's Proposed IZ Ordinance in Madison

Our intent in this second exercise is to evaluate the extent to which different types of proposed residential developments would be affected by the requirements of an IZ ordinance in Madison. We ask first what sort of development program a developer of a site would propose under a non-restricted "highest and best use" scenario. In other words, given her required margin and the set of costs and other conditions in the marketplace, how many units would be proposed at what cost? We then impose the required development criteria and sales price or rent level requirements set by the IZ ordinance and ask whether feasibility is maintained, and if it is not, what is the financial "gap" necessary to be filled to render it feasible.

An intuitive discussion of this exercise is useful for understanding before we present the results. Under the unrestricted case, it is assumed there would be no affordable units produced. Under the IZ case, we assume the same unit size for the at-market units, as in the unrestricted case, and set the affordable unit size at the required minimum (relative to the at-market units) under the ordinance (initially 85%). We increase the density to the limit of the bonus permitted by the ordinance (30%). We impose the required minimum percent of affordable units in the mix (15%). We assume area median income levels current in Madison and the Mayor's current requirements as to required income-eligibility standards for affordable units as a percent of area median income. In both the unrestricted and IZ-restricted cases, we assume parameter values for unit sizes, building efficiency, infrastructure costs, construction costs, soft costs, land costs, and required margin to be typical for developers in the Madison market today. The output under the unrestricted "at-market" case is a given number of at-market units to be sold at a given price, yielding the required margin ("return on total cost") to the developer. The output under the IZ-restricted case is the new (higher) number of units to be sold at their market value (for at-market units) or their restricted price (for affordable units). The financial "gap" represents the dollar difference between the total sales price and the required total sales price if the developer met her required margin. We also calculate the total developer return as the percentage gain in net revenues from sale less costs.

We should note that the analysis recognizes the different treatment of land costs for "multifamily" vs. "single-family detached" developments. In the case of multifamily, the land use used purely for location of the project, and increasing intensity of land use does not influence the market value of the unit, so long as its size and other amenities are the same. Thus, a high-rise structure, in which each unit consumes less in the way of land value, would sell for the same per unit as a unit in a low-rise development (in fact, it could even sell for more, to the extent that view is valued). Thus, the "gain" from

economizing on land costs in the higher-density development, could offset a part of the loss by restricted affordable-unit sales prices (or rents).[9]

In the case of single-family detached development, however, the volume of land consumed is indeed valued by a household, and a reduction in one's yard reduces the amount one would be willing to pay for a unit, even if it were the same size and type as a unit on a larger lot. Thus, moving to more intensive development density does not provide the "gain" from the same sales price with less land consumption. Instead, there is a reduction in sales price owing to the smaller yard.

We report upon the results of our feasibility analysis for two cases: that of a high-end, high-rise condominium development on expensive land in downtown and that of a lower-density mid-range single-family development on cheaper land on the suburban fringe. The results are shown in Tables 4 and 5.

As Table 4 indicates, the condo development is infeasible under the assumed set of conditions. The financial gap faced by the developer would face would be $511,000, which would have to be filled by different means than the 30% density bonus. There is a possibility the density bonus could be increased above 30% in the Mayor's most recent plan, but there is also an increased expectation at significantly higher densities that the developer would be "overbuilding" the market and not be able to achieve the required sales price of his at-market units to achieve feasibility. We also doubt that the minimum affordable unit size under the Mayor's new proposal of 650 sq. ft. for 2-bedroom units and 850 sq ft. for 3-bedroom units (we have assumed 750 sq. ft. average, i.e., 50% each of 2- and 3-bedroom units, in our simulation) would be feasible, and if they have to be purchased by "at-market" households, we doubt they could bring their required price point. Thus, we have been quite optimistic in this base scenario, relative to how we would actually expect the market to respond. One can test the sensitivity of the results by manipulating any of the parameters in the feasibility model, but the result for any reasonable set of circumstances is that the Mayor's current plan would be difficult to render feasible in the case of a high-end downtown condo development.

The results for a low-density mid-range suburban single-family development under the set of conditions required by the Mayor's latest plan are shown in Table 5. They indicate that feasibility could be achieved under the given set of conditions. However, again we do not believe a 950 sq. ft. single-family dwelling would really be feasible for sale, especially if it has to be sold to an at-market household to reach the required price point. We have also been especially conservative in our assumptions about construction costs for the affordable units, as in very low size ranges, such as those necessary under the Mayor's plan, the per square foot construction costs tend to increase

[9] In a true highest-and-best use framework, however, land prices would adjust upward for higher-intensity uses that were justified by the market. If the unrestricted density were in fact the highest and best use density, increasing density would actually lower land prices in the long run because the units could not bring the same sales price. In our analysis, we have assumed the land has already been bought at a given price, or equivalently that the band of highest and best use density is wide enough that it makes no significant difference in land prices within the ranges considered

significantly because a higher proportion of the unit is made up of expensive kitchen and bathroom space. We also point out that in long-term equilibrium land values would tend to decline in any development inconsistent with a highest and best use development program. Since we have assumed no impact on land values under the IZ development scenario, this has not been taken into account and we have therefore tended to overstate developer profit.

The final conclusion for the impact of the Mayor's plan under a mid-level suburban single-family development scenario is that feasibility may be easier to achieve than in the high-rise downtown condo case, but it is still questionable as to whether the Mayor's permitted size ranges for affordable units are realistic. *The bottom line is that under any required development scenario that deviates from that which the market would dictate under a highest and best use equilibrium, there must exist a financial gap that has to be filled by some means.*

## 3. The Expected Performance of IZ in Madison

The above exercises allow us now to draw the following general conclusions with respect to the expected results of imposition of the proposed IZ ordinance in the city of Madison:

- Future residential development will be relatively greater in the suburban jurisdictions of the county than it would be without IZ.
- A relatively low proportion of the total housing stock in Madison will be represented by "affordable" units built under IZ.
- A relatively low-proportion of the "affordable" housing stock built under IZ will be occupied by truly low-income families.
- House prices and rents, for both new and existing housing, will be higher in Madison then they would be without IZ.
- Median household income levels in Madison will be the same or higher than they would be without IZ
- The rate of high-end condo development in downtown will be particularly adversely affected
- The rate of middle-income single-family suburban development will be less impacted but will still be lower than without IZ.

Many of these results, of course, are counterintuitive and contrary to the intent of proponents of IZ, but they are consistent both with our empirical evidence, our simulations, and the economic theory of housing market behavior. Of course, many of

these effects would not be noticeable, since we do not have a proper "control" in the form of a Madison without IZ against which we can compare our results after the fact. Indeed, under IZ we would be able to point to individual apparently successful projects that provide evidence of "quality" developments, with affordable housing interspersed with at-market units winning awards for fine architecture and planning. But this measure alone does not take into account the opportunity cost of increased unaffordability among the existing stock and the displaced development elsewhere that we expect to accompany it.

## VIII. An "Optimal" Affordable Housing Policy for Madison

We see above that an IZ ordinance, especially if improperly designed, could actually have an adverse impact on housing affordability in Madison and contribute to sprawl. But is there no role for an IZ–type component in affordable housing policy in the City of Madison? Professor William Fischel of Dartmouth University is probably the most distinguished economist in the country in the area of the economics of land use regulatory policy In his monograph, *The Economics of Zoning Laws* (1987), in a section entitled "How Inclusionary Zoning Can Be Exclusionary", he argues just that Fishel's economic analysis of IZ comes to the same conclusion ours did, that IZ tends to reduce residential development in the IZ jurisdiction, forcing it elsewhere, that it tends to cause that development that does occur to be forced elsewhere, that it causes that residential development remaining in the IZ jurisdiction to be more expensive, and that it tends to *reduce* rather than *increase* affordability.

Fischel's attitude toward the motivations of IZ proponents is quite cynical. He points out that many of the champion communities for IZ are in fact high-income communities that historically have been quite exclusionary when it comes to housing diversity. He argues that the purpose of these proponents is to fend off legal attacks aimed towards opening these communities to low-income housing. It eliminates the past alliance that developers' frequently had with groups representing poor people in zoning litigation, making their interests diverge in that higher production of affordable housing now imposes higher costs on the developer. It also put much of the cost of social integration on prospective residents rather than existing residents.

I do not share Fischel's cynicism with respect to the motivation of IZ proponents. Nor do I share the notion that the negative aspects of IZ have to be so extreme that they offset the intended benefits. The devil is again in the details of the adopted ordinance and administration and in the overall nature of an affordable housing policy in the city.

First, we comment upon the necessary characteristics of an IZ ordinance that would minimize the negative attributes of many existing ordinances cited above. The ordinance must be realistic in terms of cost/feasibility effects of rigid constraints on the income eligibility levels, relative size requirements, appearance and type standards, etc. More restrictive standards imply greater costs imposed upon the developer that must come from somewhere or the development does not get built. The extent that they can come partially from increased profits from the sale or rental of at-market units depends

upon individual circumstances of the market and project. To achieve lower income occupancy, one should be encouraged to layer with existing subsidies but has to be mindful of the opportunity costs in terms of affordable units not provided within the existing stock, possibly at lower cost. Affordable home purchasers must be able to retain equity accumulation in their unit at the same rate they would obtain in purchased units outside the IZ jurisdiction, or they will not choose to purchase.[10] The IZ ordinance must recognize the higher costs per affordable unit provided especially in high-end developments on expensive land downtown and take care to recognize the tradeoffs inherent in designing on-site production vs. buy-outs or other in-kind affordable housing commitments.

This suggests that a "negotiated" rather than "mandatory" or "voluntary" ordinance may be optimal, permitting response to individual market conditions and project type. This does not have to be any more costly or time-consuming a process than the adoption of PDD's, so long as standards in terms of affordability are flexible. One remaining difficulty remains in the fact that unless existing density standards and other development requirements are far below the levels that would be considered appropriate at a "highest and best use" development program, the necessary offsets to the costs imposed on developers for the provision of affordable units will be insufficient. This will necessitate a separate commitment of funding from the IZ jurisdiction itself, and this cannot come from an Affordable Housing Trust Fund funded by developer contributions in kind. However disguised, this would imply the necessity of the community taxing itself to provide for affordable housing, a proposition that IZ communities have found unpalatable to date.

Second, we comment upon the need to consider IZ as merely one component of a truly comprehensive affordable housing policy. There exist a number of tools on both the demand and supply sides of the market that can enhance affordability. Madison has become quite adept at employing most of the formal subsidy programs, including Section 8, Section 42, mortgage revenue bonds, and below-market housing rehabilitation loans. However, it has done a relatively poor job of addressing the supply side of encouraging affordable housing provision. The supply side involves encouragement of increased supply of affordable stock by reducing the constraints and the marginal costs of providing such units. This includes much greater flexibility in unit mix, density, size, and type standards, less restrictive building and housing codes that no longer go beyond basic standards of health and safety, subdivision and plat regulations that eliminate unnecessary costs in affordable projects, and more streamlined processing of development applications, all of which would go a long way toward reducing the cost of provision of new affordable housing projects, hence reducing rents and prices. Greater attention to the supply side of the market in this way in Madison would provide much more "bang for the buck" in terms of a reduction in housing costs than even the most efficiently-designed IZ ordinance.

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[10] This is a problem in Boulder, where highly-restrictive equity recapture rules have meant that 60% of municipal workers have chosen to live outside the City, where they can retain their equity accumulation from home ownership.

Another component of a supply-side policy toward affordable housing that could be effective is working with suburban jurisdictions to "open up" their communities to permit a higher density, more diverse housing stock. This would not only increase supply elsewhere, it would relieve pressure on Madison for being one of the few options for lower-income housing, thus reducing prices and rents in the City. "Fair share" housing programs have been mandated by the courts in such places as the state of New Jersey, and in other areas such as Boston have been adopted voluntarily. Encouraging such regional strategies could be good for all.[11]

The bottom line is that Madison has a real opportunity to truly effect an affordable housing policy. But instead of fighting the powerful forces of the housing market at every turn through restrictions, constraints, and mandates, the City must recognize that its power can also be harnessed and used to its advantage in accomplishing its aims.

[11] Note that this also implies that one variant of exclusionary zoning, under the guise of "farmland preservation" in the path of normal development pressures would have to be opposed.

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TABLE 1

A Summary of Inclusionary Zoning Ordinances by Jurisdiction

Characteristics of Community and Ordinance and Rate of Affordable Housing Production

| JURISDICTION | COUNTY | YEAR ADOPTED | POPULATION 1999 | MIN PCT AFFORDABLE SET-ASIDE | MIN PROJECT SIZE FOR REQRD SET-ASIDE | AFFORDABLE UNITS REPORTED BUILT | AVG. ANNUAL UNITS BUILT |
|---|---|---|---|---|---|---|---|
| CALIFORNIA | | | | | | 26,746 | 31.33 |
| Alameda County (balance) | Alameda | 2000 | 134,081 | | 1 | | |
| Berkeley | Alameda | 1986 | 108,319 | 20 | 5 | 75 | 4.41 |
| Dublin | Alameda | 1996 | 30,926 | 13 | 20 | 59 | 8.43 |
| Emeryville | Alameda | 1990 | 7,032 | 20 | 30 | 463 | 35.62 |
| Fremont | Alameda | 2002 | 208,620 | 17 | 5 | | |
| Livermore | Alameda | 1986 | 75,515 | 10 | 10 | 217 | 12.76 |
| Pleasanton | Alameda | 1978 | 66,482 | 20 | 1 | 300 | 12.00 |
| San Leandro | Alameda | 1980 | 75,084 | 10 | 20 | 312 | 13.57 |
| Union City | Alameda | 2001 | 66,012 | 17 | 1 | | |
| *Brentwood* | *Contra Costa* | *1998* | *20,024* | | | | |
| Clayton | Contra Costa | 1995 | 12,120 | | 10 | 84 | 10.50 |
| Contra Costa County (balance) | Contra Costa | na | 176,388 | 25 | 1 | 756 | |
| Danville | Contra Costa | 1999 | 41,122 | 25 | 5 | 70 | 17.50 |
| Hercules | Contra Costa | 1997 | 20,296 | 10 | | | |
| Pleasant Hill | Contra Costa | 1991 | 33,697 | 25 | 5 | 5 | 0.42 |
| Richmond | Contra Costa | 2001 | 94,100 | 17 | 10 | | |
| Corte Madera | Marin | 1989 | 8,370 | 10 | 10 | 43 | 3.07 |
| Fairfax | Marin | na | 6,903 | | 1 | | |
| Larkspur | Marin | 1990 | 11,550 | 17 | 10 | 85 | 6.54 |
| Marin County (balance) | Marin | na | 66,361 | 17 | 10 | | |
| Mill Valley | Marin | 1988 | 12,744 | 13 | 10 | 319 | 21.27 |
| Novato | Marin | 1999 | 48,978 | 17 | 1 | 40 | 10.00 |
| San Anselmo | Marin | 1995 | 11,344 | 10 | 10 | | |
| San Rafael | Marin | 1988 | 51,046 | 10 | 10 | 611 | 40.73 |
| Tiburon | Marin | 1988 | 8,227 | 10 | 1 | 19 | 1.27 |
| San Francisco | San Francisco | 1992 | 746,777 | 17 | 10 | 302 | 27.45 |
| Daly City | San Mateo | 1991 | 99,206 | | 30 | | |
| East Palo Alto | San Mateo | 1994 | 24,906 | 20 | 1 | 115 | 12.78 |
| Half Moon Bay | San Mateo | 1996 | 10,901 | 20 | 10 | 12 | 1.71 |
| Menlo Park | San Mateo | 1980s | 30,693 | 17 | 5 | 28 | |
| Portola Valley | San Mateo | 1991 | 4,462 | 17 | 1 | | |
| San Carlos | San Mateo | 1991 | 27,854 | 10 | 10 | 40 | 3.33 |
| San Mateo | San Mateo | 1992 | 97,799 | 10 | 10 | 102 | 9.27 |
| San Mateo County (balance) | San Mateo | 1994 | 62,210 | 20 | 10 | 124 | 13.78 |
| South San Francisco | San Mateo | 2001 | 59,059 | 20 | 5 | | |
| Cupertino | Santa Clara | 1983 | 45,844 | 17 | | 160 | 8.00 |
| Los Altos | Santa Clara | 1990 | 27,745 | 20 | 1 | 50 | 3.85 |
| Los Gatos | Santa Clara | na | 29,039 | 10 | 5 | | |
| Morgan Hill | Santa Clara | 1977 | 30,903 | 10 | 1 | 302 | 11.62 |
| Mountain View | Santa Clara | 1999 | 71,470 | 10 | | | |

TABLE 1 (Continued)

| JURISDICTION | COUNTY | YEAR ADOPTED | POPULATION 1999 | MIN PCT AFFORDABLE SET-ASIDE | MIN PROJECT SIZE FOR REQRD SET-ASIDE | AFFORDABLE UNITS REPORTED BUILT | AVG. ANNUAL UNITS BUILT |
|---|---|---|---|---|---|---|---|
| Palo Alto | Santa Clara | 1973 | 58,843 | 20 | 5 | 274 | 9.13 |
| Santa Clara | Santa Clara | 1992 | 100,048 | 10 | 10 | | |
| Sunnyvale | Santa Clara | 1980 | 127,324 | 10 | 10 | 749 | 32.57 |
| Santa Cruz | Santa Cruz | 1980 | 53,511 | 17 | 5 | 640 | 27.83 |
| Santa Cruz County (balance) | Santa Cruz | 1978 | 133,928 | 17 | 1 | 750 | 30.00 |
| Watsonville | Santa Cruz | 1991 | 36,783 | 20 | | 11 | 0.92 |
| Calistoga | Napa | 1990 | 4,910 | 10 | 5 | 78 | 6.00 |
| Napa | Napa | 1999 | 67,811 | 10 | 1 | 56 | 14.00 |
| Napa County (balance) | Napa | 1992 | 30,551 | 10 | 1 | | |
| Yountville | Napa | 1992 | 3,591 | 17 | 5 | 19 | 1.73 |
| Benicia | Solano | 2000 | 27,236 | 10 | | | |
| Rio Vista | Solano | 2002 | 4,434 | 10 | 400 | | |
| Cotati | Sonoma | 1985 | 6,368 | 17 | 5 | | |
| Healdsburg | Sonoma | 1993 | 10,614 | 17 | 1 | | |
| Petaluma | Sonoma | 1984 | 54,548 | 17 | 5 | 1,442 | 75.89 |
| Rohnert Park | Sonoma | 2002 | 41,082 | 17 | 5 | | |
| Santa Rosa | Sonoma | 1992 | 136,898 | 17 | 1 | 385 | 35.00 |
| Sebastapol | Sonoma | 1994 | 7,597 | 20 | 1 | 9 | 1.00 |
| Sonoma | Sonoma | 1995 | 9,202 | 10 | 5 | 11 | 1.38 |
| Agoura Hills | Los Angeles | 1987 | 21,092 | 17 | 10 | 50 | 3.13 |
| Long Beach | Los Angeles | na | 435,027 | | 5 | | |
| Monrovia | Los Angeles | 1990 | 37,876 | 20 | 1 | 280 | 21.54 |
| Pasadena | Los Angeles | 1991 | 135,698 | 17 | 10 | 14 | 1.17 |
| Rancho Palos Verdes | Los Angeles | 1997 | 43,355 | 10 | 5 | | |
| Santa Monica | Los Angeles | 1985 | 91,084 | 30 | 1 | | |
| West Hollywood | Los Angeles | 1986 | 36,294 | 20 | 1 | 13 | 0.76 |
| Brea | Orange | 1993 | 36,078 | 10 | 20 | 278 | 27.80 |
| Huntington Beach | Orange | 2001 | 199,618 | 10 | | 313 | 156.50 |
| Irvine | Orange | 1977 | 142,744 | 17 | 1 | 4,469 | 171.88 |
| Laguna Beach | Orange | 1985 | 25,569 | 25 | 1 | 139 | 7.72 |
| San Clemente | Orange | 1980 | 47,531 | 17 | 5 | 627 | 27.26 |
| San Juan Capistrano | Orange | 1995 | 31,753 | 30 | 1 | 196 | 24.50 |
| Hesperia | San Bernardino | 1991 | 63,983 | | | 202 | 16.83 |
| Oxnard | Ventura | 1999 | 156,372 | 10 | 10 | 15 | 3.75 |
| Port Hueneme | Ventura | na | 21,080 | 25 | 10 | 20 | |
| Gonzales | Monterey | na | 6,031 | | 1 | | |
| Monterey | Monterey | 1981 | 31,804 | 17 | 10 | 438 | 19.91 |
| Monterey County (balance) | Monterey | 1980 | 99,604 | 17 | 1 | 1,338 | 58.17 |
| Salinas | Monterey | 1992 | 123,607 | 13 | 10 | 453 | 41.18 |
| Isleton | Sacramento | 2000 | 818 | 17 | | | |
| Sacramento (New Growth Areas) | Sacramento | 2000 | 406,899 | 17 | 10 | 92 | 30.67 |
| Roseville | Placer | 1988 | 77,048 | 10 | 1 | 2,000 | 133.33 |
| Davis | Yolo | 1974 | 56,336 | 30 | 20 | 1,453 | 50.10 |
| Winters | Yolo | 1994 | 5,218 | 17 | 5 | 76 | 8.44 |
| Woodland | Yolo | na | 44,131 | 20 | 10 | | |
| Yolo County (balance) | Yolo | 1996 | 19,616 | 10 | 10 | | |
| Carlsbad | San Diego | 1993 | 77,192 | 17 | 1 | 1,142 | 114.20 |

TABLE 1 (Continued)

| JURISDICTION | COUNTY | YEAR ADOPTED | POPULATION 1999 | MIN PCT AFFORDABLE SET-ASIDE | MIN PROJECT SIZE FOR REQRD SET-ASIDE | AFFORDABLE UNITS REPORTED BUILT | AVG. ANNUAL UNITS BUILT |
|---|---|---|---|---|---|---|---|
| *Chula Vista* | *San Diego* | *1981* | *173,556* | | | *1,172* | 53.27 |
| Coronado | San Diego | 1982 | 28,168 | 20 | 1 | | |
| Del Mar | San Diego | na | 5,430 | 30 | 10 | | |
| Encinitas | San Diego | 1990 | 61,263 | 10 | 10 | 56 | 4.31 |
| Oceanside | San Diego | 1991 | 156,538 | 10 | 5 | | |
| Poway* | San Diego | 1993 | 50,075 | 17 | | | |
| San Diego (Future Urbanizing Areas) | San Diego | 1994 | 1,238,974 | 20 | 1 | 537 | 59.67 |
| San Marcos | San Diego | na | 51,756 | 17 | 1 | | |
| Solana Beach | San Diego | 1997 | 13,813 | 10 | 1 | | |
| Vista* | San Diego | na | 82,098 | 5 | 1 | | |
| Ripon | San Joaquin | 2001 | 10,038 | 10 | 5 | | |
| Arroyo Grande | San Luis Obispo | 1993 | 15,631 | 10 | 5 | 1 | 0.10 |
| Morro Bay | San Luis Obispo | na | 9,996 | 10 | 1 | | |
| Pismo Beach | San Luis Obispo | 2001 | 8,501 | 10 | 5 | | |
| San Luis Obispo | San Luis Obispo | 1999 | 42,891 | 17 | 5 | | |
| Lompoc | Santa Barbara | 1992 | 41,295 | 10 | 10 | 2 | 0.27 |
| Santa Barbara County (balance) | Santa Barbara | 1993 | 166,021 | 5 | 5 | 2,244 | 224.40 |
| Patterson | Stanislaus | 1995 | 10,645 | 10 | 5 | 5 | 0.63 |
| Sutter County (balance) | Sutter | 1995 | 37,801 | 5 | 10 | | |
| Mammoth Lakes | Mono | 2000 | 4,875 | 10 | 1 | 2 | 0.67 |
| Nevada County (balance) | Nevada | 1995 | 68,643 | 10 | 20 | | |
| San Benito County (balance) | San Benito | 1997 | 18,375 | 20 | 1 | | |
| San Juan Bautista | San Benito | 2000 | 1,527 | 17 | 5 | 1 | 0.33 |
| OTHER STATES | | | | | | | |
| Fairfax County (balance) | Fairfax VA | 1991 | 909,098 | 13 | 50 | | |
| Loudoun County (balance) | Loudoun VA | 1995 | 122,634 | | 50 | | |
| Montgomery County (balance) | Montgomery MD | 1973 | 717,827 | 13 | 35 | 11,210 | 373.67 |
| Rockville | Montgomery MD | 2002 | 48,160 | 13 | 50 | | |
| Santa Fe | Santa Fe NM | 1998 | 69,299 | 13 | 5 | | |
| Portland | Multnomah OR | 1998 | 501,664 | | 10 | | |
| Denver | Denver CO | 2002 | 499,775 | 10 | 30 | | |
| Boulder | Boulder CO | 1983 | 91,238 | 20 | 1 | | |
| Longmont | Boulder CO | na | 71,093 | 10 | 1 | | |
| Boston | Suffolk MA | 2000 | 555,249 | 10 | 10 | 68 | 22.67 |
| Brookline | Norfolk MA | 1987 | 57,107 | 17 | 5 | 54 | 3.38 |
| Arlington | Middlesex MA | 2000 | 43,298 | 17 | 5 | | |
| Cambridge | Middlesex MA | 1999 | 92,942 | 17 | 10 | 88 | 22.00 |
| Lexington | Middlesex MA | 1985 | 30,355 | | 10 | 111 | 6.17 |
| Newton | Middlesex MA | 1977 | 80,143 | 25 | 1 | 225 | 8.65 |
| Somerville | Middlesex MA | 1990 | 77,478 | 13 | 5 | | |
| Burlington | Chittenden VT | 1990 | 38,332 | 25 | 5 | | |
| Tallahassee | Leon FL | 1990s | 135,938 | | | | |
| St John's County (balance) | St John's FL | 2000s | 101,400 | | | | |
| Highland Park | Cook IL | 2003 | 31,365 | | | | |
| average | | | 12,729,249 | | | | |

*Sources: PolicyLink; Georgetown University Law Center; Business and Professional People in the Public Interest; Non-Profit Housing Association of Northern California; David Rusk*

Table 2
Comparison of Proposed Inclusionary Zoning Ordinances

| POLICY ISSUES | VERSIONS OF PROPOSED INCLUSIONARY ZONING ORDINANCES November 17, 2003 DRAFT<br>Mayor's Substitute Comprehensive Proposal November 17, 2003 draft | HOUSING COMMITTEE Proposal November 13, 2003 | Mayor's Proposal (retained) | Smart Growth Madison |
|---|---|---|---|---|
| Covered developments | All for-sale (owner-occupied) developments with 10 or more dwelling units All rental developments with 10 or more dwelling units that reuiqre a zoning map amendment, subdivision or land division | Minimum 10 units in for-sale developments Threshold for rental development includes rezoning, subdivision, or land division approval, of ten or more units No counting of other developments by same developer This includes new construction and substantial rehab | all for-sale (owner) developments of 5 or more dwelling units; all rental developments of 5 or more units that seek rezoning, land or subdivision approval; multiple developments within 12-month period count as one "project" | all "new" developments of over 30 dwelling units constructed for the first time or substantially rehabbed |
| Expectations for the city's affordable units | | | | |
| Percentage of affordable units in project | No less than 15% of the dwelling units in the development | At least 15% unless economic analysis shows infeasible and the Plan Commission concurs with a finding. May be reduced if lack of sufficent incentives. Financial infeasibility shall include project development costs and/or household operating costs (e g condo fees) | 15% of total units in project | minimum of 10% of total units in project |
| Target group: owner housing | At least 25% of affordable units affordable to households at 60% of Area Median Income (AMI); remainder available to households at 70% of AMI; City may designate non-profits and CDA as eligible households | At least 25% of affordable units affordable to households at 60% of Area Median Income (AMI); balance of affordable units to be available to households at 70% of AMI; City-designated non-profits and CDA as eligible households | 25% of affordable units affordable to households at 60% of Area Median Income (AMI); 75% available to households at 70% of AMI; City may designate non-profits and CDA as eligible households | 80% of median income for detached units; 70% for attached units; non-profits deemed eligible households |
| Target group: rental housing | At least 25% of affordable units affordable to households at 40% of Area Median Income (AMI); remainder of affordable units available to households at 50% of AMI; City may designate non-profits and CDA as eligible households | 50% of median income City designated non-profits and CDA as eligible households | 25% of affordable units affordable to households at 40% of Area Median Income (AMI); 75% available to households at 50% of AMI; City may designate non-profits and CDA as eligible households | 60% of median income; non-profits deemed eligible households |
| Level of housing cost related to income | 30% of income | 30% of income | 30% of income | up to 33% of income |
| Period of affordability (length of control period) | 99 years | 99 years | 99 years | for sale: 10 years; for rent: 15 years |
| Period of affordability (terms of control period) | sale or rent only to income-target household; (Owner unit can be rented up to 1 year during 7 year period). City may designate non-profits and CDA as eligible households | sale or rent only to income-target household; City designated non-profits and CDA as eligible households | sale or rent only to income-target household; City may designate non-profits and CDA as eligible households | sale or rent only to income-eligible household; non-profits deemed eligible households |
| Repayment or recapture provisions | owner: during period of affordability, without significant improvements to dwelling unit, sale to income-eligible household, plus 3% sales costs. If significant improvements made, then sale to income-eligible household plus 50% of value of improvements, plus 3% sales costs. After period of affordability, for first sale, City gets option to buy with formula that makes price affordable to next households, and that recognizes portion of imporvements and 3% sales cost. Excess cash of City share should go to City affordable housing programs or stay in dwelling unit to increase affordability;<br>rental: during period of affordability or at first sale, City shall have option to purchase at a price that recognizes limited income of IZ units | owner: repay prorated share of appreciated value;minus owner-financed improvements that add value. Excess cash of City share should go to City affordable housing programs or stay in dwelling unit to increase affordability;<br>rental: limited income will be reflected in appraisal, and reduced sales price, so no recapture during period of affordability After period of affordability, for first sale, City gets pro-rated share, for purposes stated above | resale proceeds limited to 25% of appreciated value during period; rent increases limited to % change in median household income | sliding scale of appreciation related to year of sale to owner who sells (ranges from 0% to 50%); City special revenue fund receives 1/2 of excess appreciation on sale after control period |

Table 2 (Continued)

| POLICY ISSUES | VERSIONS OF PROPOSED INCLUSIONARY ZONING ORDINANCE: November 17, 2003 DRAFT<br>Mayor's Substitute Comprehensive Proposal November 17, 2003 draft | HOUSING COMMITTEE Proposal November 13, 2003 | Mayor's Proposal (original) | "Smart Growth" Madison |
|---|---|---|---|---|
| Alternatives to on-site affordable units? | yes if financially unfeasible on site, but at ratio of 1.25 times on-site requirement within census tract | off-site within census tract, only if financially infeasible, at a ratio of 1 0 times on-site requirement. (project or household costs, such as condo fees) | yes if financially unfeasible on site, but at ratio of 1.25 times on-site requirement, within census tract | City may determine proposal ineligible |
| Cash buy-out? | If not financially feasible on-site nor on-site, then cash buy-out possible with range of $35,000 to $75,000/ IZ unit. May be mix of on-site, off-site, and cash-buy- | No cash buy-out because of variable percentage of up to 15% of affordable units | does not include at this time | |
| Physical standards for affordable units? | Does not include extra requirements beyond code | Do not include extra requirements beyond code, but Committee recommends City pursue these goals in other ways | does not include extra requirements beyond code, but discussion of other ways to promote these physical standards outside of the IZ ordinance | minimum lot sizes and two bedrooms for owner detached; minimum size and one bedroom for owner attached; minimum square footage per HUD for rental |
| Appearance and dispersion of affordable units, including size | Exterior appearance to be similar to market rate, amenities can vary, but insulation, energy rating, heating systems and general quality of construction shall be similar. Mix, proportion of owner-rental, shall reflect mix of market-rate units. Affordable untis to be dispersed throughout development and built in similar phasing. | Exterior appearance of affordable units to be similar to market-rate units; mix of affordable units should reflect the mix of market-rate units; affordable units should be dispersed throughout the development; come on-line at same pace as market rate; size would be size required by HUD based on bedroom size | appearance of affordable units to be similar in appearance to market-rate units; can be smaller, but not less than 85% of market units; mix of affordable units should reflect the mix of market-rate units | appearance of affordable units to be similar in appearance to market-rate units; minimum unit size specified; units dispersed through development |
| **Incentives for development** | | | | |
| Density bonus | Up to 30% may be available than would be possible under existing zoning. Development more than 4 stories or with underground parking may be permitted more than 30%. If no zoning or if agricultural, then mid-point of range of Neighborhood Development Plan to be used, with specific articulation by zoning district classification | If Neighborhood Development Plan, then up to 30% of top end of range in site; if no Neighborhood Development Plan, then use underlying zoning. | up to 30% above original underlying zoning, with R-1 base for agricultural land; up to 30% above existing portion of mixed-use or for non-residential use R-1 as base | up to 30% more than adopted Neighborhood Plan permits; refer to current zoning if no plan exists |
| Process considerations | Ordinance lists types of expedited review available depending opn nature and location of development including combining preliminary and final platting processes, combining General Development and Specific Implementation plan processes, concurrent agency review, and preparation of a Neighborhood Development Plan under special circumstances | expedited process suggested | develop staff vetting process to identify opportunities for extra level of customer service for affordable housing projects; expedited process concurrent review | "streamlined process"; flow charts and check lists; presumed eligibility if Planning does not decide otherwise in 30 days; traditional neighborhood development allowed as conditional use or as overlay district |
| Design and set-back considerations | administrative relief possible | administrative relief possible | flexible design and set-backs | flexible design, set-back of up to 25% permitted |
| Streets, sewer and/or sidewalk considerations; | administrative relief possible, including reduction of certain | administrative relief possible | other incentives relating to flexibility may be available | reduced or waived fees may be available |
| Parking requirements | other incentives relating to flexibility may be available | administrative relief possible | other incentives relating to flexibility may be available | reduced space requirement may be available |
| Parkland consideration | Alternative parkland development or credit may be available at City's discretion | credit against parkland dedication for on-site recreation accessible to public | other incentives relating to flexibility may be available, including alternative parkland | reduced or waived park fee may be available |
| Financial assistance | Not applicable to this ordinance Usual sources of City assistance may be available under standard terms | not applicable;Committee already expressed recommendation to adopt a Housing Trust Fund ordinance | limit Housing Trust Fund to non-profits to facilitate for-profit use of non-profits, lengthier period of affordability, role of for-profits as builders; permit small assistance to for-profits from new fund to meet special cases | City may provide from a special revenue fund an equalizing adjustment for each affordable unit, based on gap between "market value" and affordable unit |
| **Other features** | | | | |
| | Owner of an IZ unit shall be required to give notice to City of judgement for foreclosure | | provide for appeal of any measures to Plan Commission; sole remedy from on-site is 1.25 times on-site and location within census tract | City to facilitate marketing through pre-qualification and referral program; if not sold/rented within certain period of days to eligible household then can be sold/rented to higher income household |
| | | | City monitoring of affordable housing unit with provisions for | sunset within 4 years of adoption |

Table 2 (Continued)

| CHART COMPARING PRIMARY FEATURES OF VARIOUS APPROACHES TO INCLUSIONARY ZONING | | | | |
|---|---|---|---|---|
| Draft: 21/July/2003 | | SELECTED OTHER CITIES | | |
| POLICY ISSUES: comparable features | | | | |
| Various versions > | Boulder | Burlington | Denver | Montgomery County Md |
| | CO Supreme Court invalidated portion of Boulder plan in Telluride case | | | |
| Covered developments | All developments applying for development approval or a building permit | New construction of 5 or more units: Adaptive re-use or conversion of 10 or more units; multiple dev in prior 12 months count as one project | Construction of for-sale dwellings of 30 or more | All developments over 35 dwelling units (formerly 50) |
| Expectations of the City re: affordable units | | | | |
| Percentage of affordable units in project | 5+ units in development: 20% to be affordable: < 4 units: 1 Unit on-site or dedicate 1 unit or land off-site or cash in lieu of... | up to 15% of total units in project < 80% of Area Median Income (AMI) ; 5% at, equal to 81-99% of AMI | up to 10% of total units in project | 12.5-15% of all units depending upon other factors |
| Target group: owner housing | Average price affordable to 90% of AMI: (10% more than HUD 'low-income') Includes asset limit set by City Manager | 75% of Area Median Income (AMI) | 80% of median income | 80% of median income |
| Target group: rental housing | 80% of AMI (HUD's definition of 'low-income') | 65% of Area Median Income (AMI); Defines specific number of bedrooms to specific hh size | voluntary' | 80% of median income |
| Level of housing cost related to income | 30% of income | 30% of income | 30% of income | |
| Period of affordability (control period length) | Owner: 'permanent' Rental: Average maximum rent must be affordable to hh at 70% AMI; Maximum hh income in affordable unit not to exceed 80% AMI | 99 years from date of occupancy | | For Sale: 10 years For Rent: 20 years |

Table 2 (Continued)

| | | | | |
|---|---|---|---|---|
| Period of affordability (control period terms) | Owner: Resale restrictions<br>Rental of owner unit permitted but not to exceed total of 1 year out of seven. Can rent a bedroom but City ok of lease. Rental: Average maximum rent must be affordable to hh at 70% AMI; Maximum hh income in affordable unit not to exceed 80% AMI | Housing Trust Fund has 120 day initial period to purchase; if not exercised, developer can sell to any hh below median income<br>Non-profit deemed eligible household | | |
| Repayment or recapture provisions | Resale price cannot exceed purchase price by owner, plus closing costs, sales commission, plus capital improvements by owner, and share of appreciation | Resale proceeds limited to 25% of appreciated value during period; rent increases limited to % increase in median hh income | | |
| Alternatives to on-site affordable units? | At least half of affordable units must be on site, unlesswise determined by City Manager (half can be off-site.) | Off-site option available at 125% ratio of affordable units otherwise required on-site | | |
| Cash buy-out? | Cash in lieu of a single unit calculated by formula: $55 * 20% of total floor area | | Cash in lieu equal to 50% of sale price of standard affordable unit | |
| Physical standards for affordable units? | Detached Units:<br>Minimum of 48% of floor area of market units, with maximum of 1200 sq ft<br>Attached Units:<br>80% of average of market units; max of 1200 sq.ft | | | |
| Appearance and dispersion of affordable units | Comparable allocation of units by tenure type and attached/detached status of affordable to market units | | | |
| Incentives for development | | | | |

Table 2 (Continued)

| | | | | |
|---|---|---|---|---|
| Density bonus | | Between 11% and 25% | | Up to 22% above original underlying zoning, |
| Process considerations | No taking of property without compensation; includes appeal procedure for developer | | 180 day expedited process | |
| Design and set-back considerations | | Administrative relief | | |
| Streets/sewer/-sidewalk consideration, infrastructure financing | | | | Waiver of some water/sewer dev. Charges and impact fees |
| Parking requirements | | | Up to 20% parking space reduction | |
| Parkland consideration | | | | |
| | | | | |
| Financial assistance | | Housing Trust Fund must issue certificate of inclusionary housing compliance prior to City issuance of occupancy permit | $5000 rebate for each unit at 80% AMI or below; capped at 50% of development project units Rebate of $10,000 per unit for each unit at 60% AMI | |
| | | | | |
| Other features: | | | | |

Table 2 (Continued)

| | | | | |
|---|---|---|---|---|
| | Establish average price affordable to 80% AMI for affordable units within a development, but maximum price for any one owner occupant affordable unit permitted to be affordable up to 90% of AMI<br>City manager maintains list of eligilbe hh for referral | | Units available to eligible hh on CPDA list | Local Housing authority can buy up to 33% of affordable units; also qualified non-profits |
| | Extensive transition arrangements for implementation of ordinance | | | |
| | | | | |
| Severability? | | | | |
| | | | | |
| How many affordable units per year on average produced since inception? | Adopted in 1997; report on operation to be done July, 2002; Boulder reports about 125 units developed during 2001 and 2002 | | Enacted summer 2002 | Enacted 1978, with some revisions since |
| Expected Annual rate of production of affordable units | | | | |
| Statutory basis of ordinance | | 24 V.S.A. section 4406 | | |
| Background Information | | | | |
| Nature of Jurisdiction | | City: | City/county | Suburban county |
| Size of market | City: | City:<br>100,000 people | Metropolitan area (Denver, Boulder, Greeley) 2.6 million | Washington-Baltimore area: 7 6 million |
| Further information or website address: www.... | ci.boulder.co/us/cao/brc/965.html | ci.burlington.vt.us/planning/zoning/znordinance/article14/html | denvergov.com/Development_Review/ | |

Table 3
Selected Housing and Income Characteristics
1990 and 2000
U.S., Madison, and Comparable Jurisdictions with Inclusionary Zoning

| | | Jurisdiction | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | U.S. | Madison WI | Madison WI MSA | Boulder CO | Boulder-Longmont CO MSA | Burlington VT | Burlington VT MSA | Montgomery County MD | Washington DC MSA |
| Housing Units 1990 | 102 263,678 | 80,047 | 147,851 | 36,270 | 94 621 | 15,480 | 52,614 | 295,723 | 1 556 749 |
| Housing Units 2000 | 115,904,641 | 92,353 | 180,398 | 40,797 | 119,900 | 16,395 | 69,170 | 334,632 | 1,942,641 |
| Percent Change 1990-2000 | 13.3% | 15.4% | 22.0% | 12.5% | 26.7% | 5.9% | 31.5% | 13.2% | 24.8% |
| Median Gross Rent 1990 | $447 | $472 | $465 | $521 | $502 | $493 | $525 | $740 | $667 |
| Median Gross Rent 2000 | $602 | $644 | $641 | $818 | $825 | $618 | $643 | $914 | $811 |
| Percent Change 1990-2000 | 34.7% | 36.4% | 37.8% | 57.0% | 64.3% | 25.4% | 22.5% | 23.5% | 21.6% |
| Median Value 1990 | $78,500 | $74,700 | $77,900 | $122,500 | $102,300 | $113,500 | $117,200 | $200 800 | $165 300 |
| Median Value 2000 | $119,600 | $139,300 | $146,900 | $304,700 | $241,900 | $131,200 | $135,000 | $221,800 | $178,900 |
| Percent Change 1990-2000 | 52.4% | 86.5% | 88.6% | 148.7% | 136.5% | 15.6% | 15.2% | 10.5% | 8.2% |
| Median Household Income 1990 | $30,056 | $29,407 | $32,703 | $29,420 | $35,322 | $25 523 | $36,691 | $54,089 | $46 884 |
| Median Household Income 2000 | $41,994 | $41,941 | $49,223 | $44,748 | $55,861 | $33,070 | $46,732 | $77,551 | $62,216 |
| Percent Change 1990-2000 | 39.7% | 42.6% | 50.5% | 52.1% | 58.1% | 29.6% | 27.4% | 43.4% | 32.7% |
| Percent of Renter Households Paying more than 30% Income for Housing 1990 | 38.6% | 45.1% | 39.5% | 51.9% | 45.4% | 49.3% | 40.3% | 39.3% | 36.6% |
| Percent of Renter Households Paying more than 30% Income for Housing 2000 | 36.8% | 43.5% | 38.5% | 52.2% | 45.7% | 46.8% | 40.6% | 35.3% | 33.2% |
| Percent of Owner Households Paying more than 30% Income for Housing 1990 | 19.4% | 16.5% | 16.3% | 20.0% | 21.2% | 20.0% | 19.0% | 21.4% | 23.0% |
| Percent of Owner Households Paying more than 30% Income for Housing 2000 | 21.8% | 20.8% | 19.9% | 22.5% | 23.5% | 21.8% | 21.4% | 21.8% | 22.2% |
| Year Ordinance Adopted | -- | -- | -- | 1983 | -- | 1990 | -- | 1973 | -- |

*Source: U.S. Bureau of the Census, Census of Housing 1990 and 2000.*

Table 4
Development Pro Forma
Downtown High-End Condominium Development

| CONDITIONS: | |
|---|---|
| Site area (acres) | 1.00 |
| Land cost ($/sq. ft. land) | $35.00 |
| Construction cost at-market units ($/sq. ft.) | $120.00 |
| Construction cost affordable units ($/sq. ft.) | $110.00 |
| Construction cost common areas ($/sq. ft.) | $120.00 |
| Soft costs (% of hard costs) | 20% |
| Required % affordable | 15% |
| % med. Area inc. considered affordable | 67.5% |
| Affordability max payment/income ratio | 30% |
| Max density all at-market units (FAR) | 3.0 |
| Density Bonus (%) | 30% |
| Size market-rate unit (sq. ft.) | 1500 |
| Size affordable unit (sq. ft.) | 750 |
| Required Return on Total Cost (%) | 15.0% |
| Building efficiency ratio (%) | 80% |
| Median area income ($) | $63,563 |
| Assumed mortgage rate (%) | 5.50% |
| Assumed term (years) | 30 |
| Assumed Loan-to-Value ratio | 95.00% |
| Assumed insurance premium (% of value) | 0.25% |
| Assumed property tax rate (% of value) | 2.50% |
| Assumed monthly condo fee ($/sq. ft./yr.) | $2.00 |

| OUTPUT: | |
|---|---|
| FOR AT-MARKET DEVELOPMENT: | |
| Total sq. ft. building permitted | 130,680 |
| Total land cost ($) | $1,524,600 |
| Total construction cost if all market ($) | $15,681,600 |
| Total hard cost if all market ($, land+bldg) | $17,206,200 |
| Soft cost if all market ($) | $3,441,240 |
| Total cost if all market ($) | $20,647,440 |
| Total units permitted if all market | 70 |
| Avg. cost per unit ($) | $296,250 |
| Sales price per unit if all market ($) | $340,688 |
| Sales price psf if all market ($/sq. ft.) | $227.13 |

| FOR IZ MIXED-INCOME DEVELOPMENT: | |
|---|---|
| Total sq. ft. building permitted | 169,884 |
| Total sq. ft. residential units | 135,907 |
| Total residential units permitted | 98 |
| Total at-market units permitted | 83 |
| Total affordable units permitted | 15 |
| Total sq. ft. at-market units | 124,888 |
| Total sq. ft. affordable units | 11,020 |
| Total land cost ($) | $1,524,600 |
| Total construction cost at-market units ($) | $14,986,524 |
| Total construction cost affordable units ($) | $1,212,145 |
| Total construction cost common area ($) | $4,077,216 |
| Total hard cost ($, land+bldg) | $21,800,485 |
| Soft cost ($) | $4,360,097 |
| Total cost ($) | $26,160,582 |
| Avg. cost per unit | $267,078 |
| Reqd total sales price | $30,084,669 |
| Reqd avg. sales price per unit | $307,140 |
| Total required sales price at-market units | $27,761,821 |
| Total reqd sales price affordable units | $2,322,848 |
| Reqd total sales price | $30,084,669 |
| Avg. reqd sales price per at-market unit ($) | $333,441 |
| Avg. reqd sales price per affordable unit ($) | $158,096 |
| Affordability income limit ($) | $42,905 |
| Max. monthly payment for affordable units | $1,072.63 |
| Monthly mortgage pmt per $ loan | $0.005678 |
| Max affordable unit price ($) | $123,298 |
| Dev. loss per affordable unit (reqd-max price) ($) | $34,798 |
| Gain per at-market unit (sale price at market-reqd sale price) | $7,246 |
| Total dev. Loss (loss/unit x afford. units) | $511,274 |
| Total dev. Gain from sale at-market units (gain/unit x at-mkt u | $603,297 |
| Net developer gain (loss) ($) | $92,024 |
| Total developer revenue ($) | $29,573,396 |
| Total developer cost ($) | $26,160,582 |
| Developer profit ($) | $3,412,814 |
| Developer return (%) | 13.0% |
| Required developer profit @ required return ($) | $3,924,087 |
| Required developer return (%) | 15.0% |
| Financial "gap" (required profit-actual profit) ($) | $511,274 |

Table 5
Development Pro Forma
Suburban Middle-Income Residential Subdivision

| CONDITIONS: | |
|---|---|
| Site area (acres) | 50.00 |
| Land cost ($/sq. ft. land) | $2.50 |
| Construction cost at-market units ($/sq. ft.) | $60.00 |
| Construction cost affordable units ($/sq. ft.) | $60.00 |
| Construction cost infrastructure ($/sq. ft. land) | $1.00 |
| Soft costs (% of hard costs) | 20% |
| Required % affordable | 15% |
| % med. Area inc. considered affordable | 67.5% |
| Affordability max payment/income ratio | 30% |
| Max density all at-market units (FAR) | 0.2 |
| Density Bonus (%) | 30% |
| Size market-rate unit (sq. ft.) | 2400 |
| Size affordable unit (sq. ft.) | 950 |
| Required Return on Total Cost (%) | 15.0% |
| Building efficiency ratio (%) | 100% |
| Median area income ($) | $63,563 |
| Assumed mortgage rate (%) | 5.50% |
| Assumed term (years) | 30 |
| Assumed Loan-to-Value ratio | 95.00% |
| Assumed insurance premium (% of value) | 0.25% |
| Assumed property tax rate (% of value) | 2.50% |

OUTPUT:

| FOR AT-MARKET DEVELOPMENT: | |
|---|---|
| Total sq. ft. building permitted | 435,600 |
| Total land cost ($) | $6,445,000 |
| Total construction cost if all market ($) | $26,136,000 |
| Total infrastructure cost if all market ($) | $2,178,000 |
| Total hard cost if all market ($, land+bldg) | $33,759,000 |
| Soft cost if all market ($) | $6,751,800 |
| Total cost if all market ($) | $40,510,800 |
| Total units permitted if all market | 182 |
| Avg. cost per unit ($) | $223,200 |
| Sales price per unit if all market ($) | $256,680 |
| Sales price psf if all market ($/sq. ft.) | $106.95 |

| FOR IZ MIXED-INCOME DEVELOPMENT: | |
|---|---|
| Total sq. ft. building permitted | 566,280 |
| Total sq. ft. residential units | 566,280 |
| Total residential units permitted | 259 |
| Total at-market units permitted | 221 |
| Total affordable units permitted | 39 |
| Total sq. ft. at-market units | 529,306 |
| Total sq. ft. affordable units | 36,974 |
| Total land cost ($) | $5,445,000 |
| Total construction cost at-market units ($) | $31,758,384 |
| Total construction cost affordable units ($) | $2,218,416 |
| Total construction cost infrastructure ($) | $2,645,784 |
| Total hard cost ($, land+bldg) | $42,067,584 |
| Soft cost ($) | $8,413,517 |
| Total cost ($) | $50,481,100 |
| Avg. cost per unit | $194,559 |
| Reqd total sales price | $58,053,265 |
| Reqd avg. sales price per unit | $223,743 |
| Total required sales price at-market units | $54,262,846 |
| Total reqd sales price affordable units | $3,790,419 |
| Reqd total sales price | $58,053,265 |
| Avg. required sales price per at-market unit ($) (also market price | $246,041 |
| Avg. reqd sales price per affordable unit ($) | $97,391 |
| Affordability income limit ($) | $42,905 |
| Max. monthly payment for affordable units | $1,072.63 |
| Monthly mortgage pmt per $ loan | $0.005678 |
| Max affordable unit price ($) | $97,391 |
| Dev. loss per affordable unit (reqd-max price) ($) | $0 |
| Gain per at-market unit (sale at market-reqd sale) | $0 |
| Total dev. Loss (loss/unit x afford. units) | $0 |
| Total dev. Gain from sale at-market units (gain/unit x at-mkt units | $0 |
| Net developer gain (loss) ($) | $0 |
| Total developer revenue ($) | $58,053,265 |
| Total developer cost ($) | $50,481,100 |
| Developer profit ($) | $7,572,165 |
| Developer return (%) | 15.0% |