Development Code – Focus Group

Meeting Agenda

San Marcos Workforce Housing Task Force

Wednesday April 4, 2019 – 12:00 p.m.

2nd Floor Municipal Building 630 E Hopkins Street

PURPOSE OF THE MEETING: Review and discuss potential development code updates to encourage or require additional affordable and workforce housing.

OUTCOME OF THE MEETING: Identify a strategy for interim code updates.

AGENDA

1. Review and discuss current San Marcos Development Code incentives for workforce and affordable housing

2. Review and discuss strategies from surrounding Cities and Model Ordinances

3. Review and discuss an interim and long term strategy for Code updates based on the project schedule.

Current City of San Marcos Code of Ordinances Related to Affordable and Workforce Housing Incentives

ARTICLE 3: GENERAL TO ALL

DIVISION 1: AFFORDABLE HOUSING

Section 4.3.1.1 Purpose and Intent

This Division implements the City's Affordable Housing Policy, which is intended to foster the preservation and production of permanently affordable housing units. The intent of supporting affordable housing is:

A. To narrow the housing deficit for households that cannot afford market-priced rental or for-sale housing.

B. To support the local workforce and provide housing stability for residents and families allowing them to live close to their jobs and other services facilitating reduced traffic congestion, air pollution, and investments in city infrastructure.

C. To support residents and families of San Marcos contributing to and developing the local economy in the long term.

Section 4.3.1.2 Definitions

A. Affordable Housing. Affordable Housing is defined as housing or shelter that is developed or re-developed for households earning no more than 80% of the median family income. In order to avoid being cost burdened, households should not spend more than 30% of their gross income on housing.

B. Workforce Housing. Workforce housing is defined as housing or shelter that is developed or re-developed for households earning no more than 140% of the median family income.

Section 4.3.1.3 Applicability

A. Developments that elect to incorporate affordable or workforce housing meeting the requirements of this section are eligible for the following types of incentives:

1. Bonus density under Section 4.3.2.3.

2. Additional stories under Section 4.3.4.5.

3. Reduced parking under Section 7.1.3.2.

B. Housing Preservation. If an applicant is considering permanently preserving housing stock that had an expiring period of affordability, they may take advantage of any incentives that are applicable to their application.

Section 4.3.1.4 Standards

A. Period of Affordability. Affordable and workforce housing is required to be maintained for a period of no less than 30 years.

1. For Sale Units. The resale price of any affordable unit shall not exceed the purchase price paid by the owner of that unit during the period of affordability with the following exceptions:

a. Customary closing costs and costs of sale.

b. Costs of real estate commissions paid by the seller if a licensed real estate salesperson is employed.

c. Consideration of permanent capital improvements installed by the seller.

d. An inflation factor to be applied to the original sale price of a for-sale unit pursuant to rules established under Section 4.3.1.5.

2. Rental Units. During the period of affordability, the applicant or his or her agent shall manage and operate affordable units and shall submit an annual report identifying which units are affordable units, the monthly rent for each unit, vacancy information for each year for the prior year, monthly income for tenants of each affordable units, and other information as required, while ensuring the privacy of the tenants. The annual report shall contain information sufficient to determine whether tenants of for-rent units qualify for affordable or workforce housing.

B. Eligible Households. In the case of for-rent affordable housing units, eligible households under the affordable housing standards shall meet the following additional requirements:

1. Affordable and workforce rental units shall not be located within a complex that is designed, marketed or used for the primary purpose of housing students.

2. Affordable and workforce rental units shall be targeted to residents that are 22 years of age or older.

C. Location Efficient Areas. Affordable and workforce housing shall be located in areas meeting one of the requirements identified below:

1. The proposed development must have a bus route located within one-half mile of the development by the time 80 percent of the development is completed;

2. The proposed development has direct pedestrian access to several land uses that service residential customers, such as food sales, general retail and other key services within one-half mile; or

3. The proposed development is within one of the following comprehensive plan areas:

   a. High Intensity Zone

   b. Medium Intensity Zone

   c. Existing Neighborhood Area

D. Dispersal of Units and Construction Phasing. The affordable units shall be distributed proportionally throughout the development, appropriately designed and integrated with the market-rate units, and, as feasible, contain the same number of bedrooms as the market rate units. Thirty percent of affordable units must be delivered in the first phase (where applicable) and the remainder of the units must be delivered proportionally based on the development build-out and phasing.

Section 4.3.1.5 Enforcement; Affordability Controls

A. The Responsible Official shall promulgate rules as necessary to implement this ordinance. On an annual basis, the Responsible Official shall publish or make available household income limits and rental limits applicable to affordable units within the City as determined by the City's Affordable Housing Policy, and determine an inflation factor to establish a resale price of an affordable unit.

B. Prior to issuing a building permit for any affordable housing development receiving an incentive under Section 4.3.1.3 the applicant shall execute any and all documents in a form approved by the City Attorney including without limitation, restrictive covenants, deed restrictions, and related instruments to ensure the continued affordability of the units under this Section 4.3.1.1.

C. For all sales of for-sale affordable housing units, the parties to the transaction shall execute and record documentation including the provisions of this ordinance and shall provide at a minimum, each of the following:

1. The affordable housing unit shall be sold to and occupied by eligible households for a period of 30 years from the date of the initial certificate of occupancy.

2. The affordable housing unit shall be conveyed subject to restrictions that shall maintain the affordability of such affordable housing units for eligible households.

D. In the case of for-rent affordable housing units, the owner of the affordable housing development shall execute and record such documentation including the provisions of this ordinance and shall provide, at a minimum, each of the following:

1. The affordable housing units shall be leased to and occupied by eligible households.

2. The affordable housing units shall be leased at rent levels affordable to eligible households for a period of 30 years from the date of the initial certificate of occupancy.

3. Subleasing of affordable housing units shall not be permitted.

DIVISION 2: MEASURING SITES AND LOTS

Section 4.3.2.1 Site

A. Defined. A site is any lot or group of contiguous lots owned or functionally controlled by the same person or entity, assembled for the purpose of development.

B. Site Area

1. **Gross.** Gross site area is the total area of a site, including proposed streets, or other land required for public use that is attributable to the site, as dedicated by the owner or predecessor in title.

2. **Net.** Net site area is the area included within the rear, side and front lot lines of the site. Does not include existing or proposed public streets or right-of-way.

C. Site Width. Site width is the distance between the side property lines of the site (generally running perpendicular to a street) measured at the primary street property line along a straight line or along the chord of the property line.

D. Site Depth. Site depth is the distance between the front and rear property lines of the site measured along a line midway between the side property lines.

Section 4.3.2.2 Lot

A. Defined. A parcel of land either vacant or occupied intended as a unit for the purpose, whether immediate or for the future, of transfer of ownership or possession or for development.

B. Lot Area. Lot area is the area included within the rear, side and front lot lines. It does not include existing or proposed right-of-way, whether dedicated or not dedicated to public use. Zoning District density applies, and may require larger lots than those required for an individual building type.

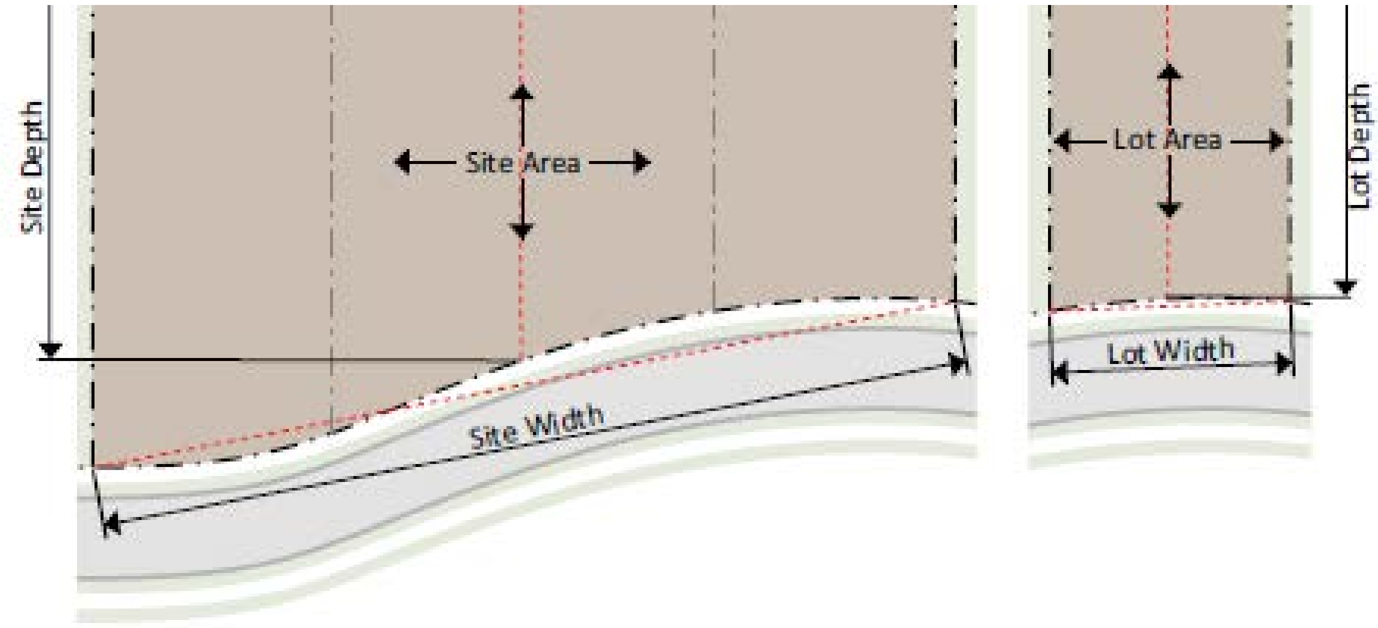
C. Lot Width. Lot width is the distance between the side lot lines (generally running perpendicular to a street) measured at the primary street property line along a straight line or along the chord of the property line.

D. Lot Depth. Lot depth is the distance between the front and rear property lines measured along a line midway between the side property lines.

Section 4.3.2.3 Density

A. Residential density is expressed in units per acre and is calculated by dividing the total number of dwelling units by the gross site area.

FIGURE 4.3 MEASURING SITES AND LOTS



B. Density Bonus. An applicant may be eligible for a density bonus in the following districts if at least 10 percent of the proposed units are affordable. The density bonus is an increase in residential units over the maximum residential density. A density bonus is available in the following districts:

1. **Neighborhood Density Districts.** Qualifying properties in an ND3.5, ND4 or N-MS district are eligible for a density bonus for for-sale units only.

2. **Character District.** Qualifying properties in Character districts are eligible for a density bonus for for-sale or rental units.

C. The units gained from qualifying for a density bonus can be rented or sold at market rates without affordability covenants or deed restrictions, so long as the proposed percentage of affordable units is satisfied within the development.

D. In determining the number of density bonus units to be granted pursuant to this Section, before the density bonus is added the maximum residential density for the site shall be multiplied by the percentage of density bonus listed in Table below, based on the percentage of affordable units provided for affordable or workforce housing. All density calculations resulting in fractional units shall be rounded to the next whole number. For example:

Maximum density = 100 units

Affordable Housing Units = 12 units (12 percent)

Density bonus = 24 percent (100 x .24 = 24 units)

Total units = 124 units

Table 4.11 Density Bonus

Percent Affordable Units	Affordable Housing Bonus	Workforce Housing Bonus
10%	20%	10%
12%	24%	12%
14%	28%	14%
16%	32%	16%
18%	38%	18%
20% or more	45%	20%

Section 4.3.2.4 Impervious Cover

A. Impervious Cover. Impervious cover is the maximum area of a lot that is permitted to be covered by impervious surfaces. Impervious surface may be reduced through the use of partially permeable surfaces in accordance with Section 3.9.1.3.

C. Intent. The intent of the two-story minimum requirement is to ensure that the building scale is compatible with other structures and the relationship of the building to the public space. A minimum building height also serves to promote a mixture of uses.

D. Alternative Compliance Findings. The Planning and Zoning Commission may in accordance with Section 2.8.4.1 allow an alternative to the minimum two-story requirements, subject to the following findings:

1. The approved alternate meets the intent of the minimum two-story requirements;
2. The approved alternate conforms with the Comprehensive Plan and other adopted City Plans; and
3. The approved alternate conforms to the Downtown Design Guidelines.

Section 4.3.4.5 Additional Stories

A. Alternative Compliance Findings. The City Council may in accordance with Section 2.8.4.1 allow additional stories in the CD-5 or up to two additional stories in CD-5D zoning districts, subject to the following considerations:

1. The project is consistent with the objectives and guidelines from the City's Comprehensive Plan and Downtown Master Plan where applicable.
2. For a residential project, the additional stories provide an opportunity to include a minimum of ten (10%) percent of the project as affordable housing under Section 4.3.1.1;
3. For a residential project, the additional stories provide an opportunity to include a minimum of twenty (20%) percent of the project as workforce housing under Section 4.3.1.1;
4. The additional stories provide an opportunity for additional professional office or commercial space providing employment opportunities;
5. The additional stories provide an opportunity to deliver a building that is rated a minimum of a silver in the LEED green building program;
6. The additional stories provide an opportunity to include child care within the facility;
7. The additional stories provide an opportunity to add public parking in or adjacent to the downtown;
8. The additional stories provide an opportunity to include on-site publicly accessible open space in excess of the open space required under Section 3.10.1.2.
9. If located in the CD-5D district, the additional stories are located in a preferred area for height in the downtown design guidelines; and
10. The project proposes architectural elements that mitigate any effects on adjacent properties or the pedestrian experience from the street level.

Section 4.3.4.6 Varied Upper Floor Massing Requirement

A. Applicability. The varied upper floor massing requirements apply to buildings in the CD-5D district that meet the following criteria:

1. The building is over three (3) stories in height; and
2. The building has a frontage greater than sixty (60) feet in width.

B. Intent. The intent of the varied upper floor massing requirements is to:

1. Encourage and enhance the variety in building heights that exists in downtown San Marcos that help to define the character of the area; and
2. Ensure that new development continues the tradition of height variation, expressing and supporting human scale and architectural diversity in the area.

C. General Standards. The varied upper floor massing requirements can be achieved through the selection of one of the following alternatives:

1. A minimum of forty (40%) percent of the building facade over three (3) stories in height shall be set back a minimum of twenty (20) feet from the front building wall.
2. A minimum of fifty (50%) percent of the building facade over three (3) stories in height shall be set back a minimum of fifteen (15) feet from the front building wall.

Table 7.3 Parking occupancy table

Use	M - F	M - F	M - F	SAT - SUN	SAT - SUN	SAT - SUN
	8AM TO 6PM	6PM TO 12AM	12AM TO 8AM	8AM TO 6PM	6PM TO 12AM	12AM TO 8AM
RESIDENTIAL	60%	100%	100%	80%	100%	100%
OFFICE	100%	20%	5%	5%	5%	5%
RETAIL	90%	80%	5%	100%	70%	5%
LODGING	70%	100%	100%	70%	100%	100%
RESTAURANT	70%	100%	100%	70%	100%	100%
MOVIE THEATER	40%	80%	10%	80%	100%	10%
ENTERTAINMENT	40%	100%	10%	80%	100%	50%
CONFERENCE	100%	100%	5%	100%	100%	5%
CIVIC (NON-CHURCH)	100%	20%	5%	100%	50%	5%
CIVIC (CHURCH)	20%	20%	5%	100%	50%	5%

Section 7.1.3.2 Vehicle Parking Reductions

A. Affordable Housing

1. Required parking for an affordable housing development may be reduced to a rate of 1 parking space for each unit.
2. The affordable housing reduction applies only to required spaces for dwelling units. If required, visitor spaces must be provided at the standard rate.

B. Senior Housing

1. Senior housing is only required to provide 1 space per dwelling or rooming unit.
2. The senior housing reduction applies only to required spaces for dwelling or rooming units. If required, visitor spaces must be provided at the standard rate.

C. Private Car Sharing Program

1. A reduction in the number of required parking spaces for residential units is allowed where an active on-site car-sharing program is made available for the exclusive use of residents.
2. The parking requirements for all dwelling units may be reduced by 5 spaces for each car-share vehicle provided. If required, visitor spaces cannot be substituted.

Section 7.1.3.3 Remote Parking or Off Site Parking

A. Required parking spaces may be permitted on a separate site from the site on which the principal use is located if the remote parking complies with the following.

Table 7.4 Remote Parking distance requirements

Zoning District	Parking Lot must be within
CD-5, CD-5D, CD-4, N-MS	2,500 feet
Valet Service for Lodging Use in CD-5D	No Distance Requirement
All other districts	1,500 feet

B. The distance to a remote parking area is measured in walking distance from the nearest point of the remote parking lot to the primary entrance of the use served.

C. Where remote or off-site parking spaces are under separate ownership from the principal lot, a parking agreement shall be submitted on a form acceptable to the City.

Model Ordinance for Voluntary Inclusionary Zoning.

4.4 MODEL AFFORDABLE HOUSING DENSITY BONUS ORDINANCE

Many communities today are adopting inclusionary zoning ordinances with the intent of increasing the supply of affordable housing. These ordinances either require or encourage the provision of affordable housing in market-rate development, typically by the provision of density bonuses and other incentives. The ordinances include:

- Definitions, including those defining "affordable housing" and "low- and moderate-income households";
- Procedures for the review of affordable housing developments;
- A requirement that the developer of housing enter into development agreements that will ensure that the affordable housing, whether for sale or for rent, remains affordable;
- Designation of an officer or body to review and approve applications for developments that include affordable housing; and
- Provisions for enforcement.

Some communities with such ordinances have made a political commitment to such housing, recognizing that, in some real estate markets, affordable housing would not be produced without governmental intervention, and others have adopted such ordinances to respond to state-established housing goals. In addition, such ordinances ensure that critical governmental service workers (e.g., teachers, firefighters, and police officers) can afford to live in communities where they work despite their low pay. Numerous monographs and studies have described the operation and success of such programs in both suburban areas and central cities. For a good overview, see Morris (2000), Ross (2003), and Brunick (2004a and 2004b).

The following model ordinance for affordable housing provides two alternatives: (1) a mandatory alternative in which affordable housing is required, in some manner, in all development that produces new residential units, either through new construction or through rehabilitation and conversion of existing units or commercial space; (2) an incentive-based approach in which a density bonus of one market-rate unit for each affordable unit is offered as of right. In either case, the affordable housing density bonus is offered for all types of residential construction. The model ordinance uses the U.S. Department of Housing and Urban Development definitions of low- and moderate-income to establish eligibility criteria for purchase or rental of affordable units.

An applicant for an Affordable Housing Development would be required to submit an Affordable Housing Development Plan and enter into a development agreement with the local government. The development agreement would fix the responsibilities of the respective parties with regard to the provision of affordable housing. Under this model, affordable housing units need not only be those subsidized by the federal or state government. Rather, they can be subject to private deed restrictions to ensure they remain affordable for a period of time, typically for 30 years. In the case of for-sale affordable units, purchasers would have to be income-qualified, and appreciation of the dwelling unit would be calculated on the basis of certain listed factors to ensure that the unit remains affordable in the case of resale. In the case of for-rent affordable units, the development agreement would establish an income-qualification process to ensure that the affordable units are rented to eligible households. The model ordinance also describes the creation of an affordable housing trust fund that can be used for a variety of purposes, including waivers of permit and tap-in fees.

Primary Smart Growth Principle Addressed: Range of housing choices.
Secondary Smart Growth Principle Addressed: Not applicable

101. Purpose

The purposes of this ordinance are to:

(a) Require the construction of affordable housing [or payment of fees-in-lieu] as a portion of new development within the community;

[Or]

(a) Create incentives for the provision of affordable housing as a portion of certain new development within the community;

(b) Implement the affordable housing goals, policies, and objectives contained in the [*insert name of local government's*] comprehensive plan;

(c) Ensure the opportunity of affordable housing for employees of businesses that are located in or will be located in the community; [and]

(d) Maintain a balanced community that provides housing for people of all income levels [; and]

[(e) Implement planning for affordable housing as required by [*cite to applicable state statutes*]].

102. Definitions

As used in this ordinance, the following words and terms shall have the meanings specified herein:

"**Affordable Housing**" means housing with a sales price or rental amount within the means of a household that may occupy moderate- and low-income housing. In the case of dwelling units for sale, affordable means housing in which mortgage, amortization, taxes, insurance, and condominium or association fees, if any, constitute no more than [30] percent of such gross annual household income for a household of the size that may occupy the unit in question. In the case of dwelling units for rent, affordable means housing for which the rent and utilities constitute no more than [30] percent of such gross annual household income for a household of the size that may occupy the unit in question.

"Affordable Housing Development Agreement" means a written agreement between an applicant for a development and the [*name of local government*] containing specific requirements to ensure the continuing affordability of housing included in the development.

"Affordable Housing Dwelling Unit" means any affordable housing subject to covenants or restrictions requiring such dwelling units to be sold or rented at prices preserving them as affordable housing for a period of at least [30] years.

"**Affordable Housing Development**" means any housing subsidized by the federal or state government, or any housing development in which at least [20] percent of the housing units are affordable dwelling units.

"Affordable Housing Development Plan" means that plan prepared by an applicant for an Affordable Housing Development under this ordinance that outlines and specifies the development's compliance with the applicable requirements of this ordinance.

"Affordable Housing Trust Fund" means the fund created by the [name of local government] pursuant to Section 109 of this ordinance.

"Affordable Housing Unit" means either a housing unit subsidized by the federal or state government or an affordable dwelling unit.

Comment: *Note that an "Affordable Housing Unit" can either be federally or state subsidized or subject to covenants and deed restrictions that ensure its continued affordability.*

"Conversion" means a change in a residential rental development or a mixed-use development that includes rental dwelling units to a development that contains only owner-occupied individual dwelling units or a change in a development that contains owner-occupied individual units to a residential rental development or mixed-use development.

"Density Bonus" means an increase in the number of market-rate units on the site in order to provide an incentive for the construction of affordable housing pursuant to this ordinance.

"Development" means the entire proposal to construct or place one or more dwelling units on a particular lot or contiguous lots including, without limitation, a planned unit development, site plan, or subdivision.

"Lot" means either: (a) the basic development unit for determination of area, width, depth, and other dimensional variations; or (b) a parcel of land whose boundaries have been established by some legal instrument, such as a recorded deed or recorded map, and is recognized as a separate legal entity for purposes of transfer of title.

"**Low-Income Housing**" means housing that is affordable, according to the U.S. Department of Housing and Urban Development, for either home ownership or rental, and that is occupied, reserved, or marketed for occupancy by households with a gross household income that does not exceed 50 percent of the median gross household income for households of the same size within the [*insert name of housing region or county*] in which the housing is located.

"Median Gross Household Income" means the median income level for the [*insert name of housing region or county*], as established and defined in the annual schedule published by the Secretary of the U.S. Department of Housing and Urban Development, adjusted for household size.

"**Moderate-Income Housing**" means housing that is affordable, according to the federal Department of Housing and Urban Development, for either home ownership or rental, and that is occupied, reserved, or marketed for occupancy by households with a gross household income that is greater than 50 percent but does not exceed 80 percent of the median gross household income for households of the same size within the [*insert name of housing region or county*] in which the housing is located.

"Renovation" means physical improvement that adds to the value of real property, but that excludes painting, ordinary repairs, and normal maintenance.

103. Scope of Application; Density Bonus

[*Alternative 1: Mandatory Affordable Units*]

(1) All of the following developments that result in or contain five or more residential dwelling units shall include sufficient numbers of affordable housing units in order to constitute an Affordable Housing Development as determined by the calculation in paragraph (2) below:

(a) New residential construction, regardless of the type of dwelling unit

(b) New mixed-use development with a residential component

(c) Renovation of a multiple-family residential structure that increases the number of residential units from the number of units in the original structure

(d) Conversion of an existing single-family residential structure to a multiple-family residential structure

(e) Development that will change the use of an existing building from nonresidential to residential

(f) Development that includes the conversion of rental residential property to condominium property

Developments subject to this paragraph include projects undertaken in phases, stages, or otherwise developed in distinct sections.

(2) To calculate the minimum number of affordable housing units required in any development listed in paragraph (1) above, the total number of proposed units shall be multiplied by 20 percent. If the product includes a fraction, a fraction of 0.5 or more shall be rounded up to the next higher whole number, and a fraction of less than 0.5 shall be rounded down to the next lower whole number.

(3) Any development providing affordable housing pursuant to paragraph (1) above shall receive a density bonus of one market-rate unit for each affordable housing unit provided. All market-rate units shall be provided on site, except that, in a development undertaken in phases, stages, or otherwise developed in distinct sections, such units may be located in other phases, stages, or sections, subject to the terms of the Affordable Housing Development Plan.

(4) Any development containing four dwelling units or fewer shall comply with the requirement to include at least 20 percent of all units in a development as affordable housing by:

(a) Including one additional affordable housing dwelling unit in the development, which shall constitute a density bonus;

(b) Providing one affordable housing dwelling unit off site; or

(c) Providing a cash-in-lieu payment to the [*name of local government's*] affordable housing trust fund proportional to the number of market-rate dwelling units proposed.

Comment: *Under (3)(c), the proportion of the in-lieu fee would be computed as follows. Assume an affordable unit in-lieu fee of $120,000. In a four-unit development, the fee would be 4/5s of the $120,000, or $96,000, in a three-unit development, the fee would be 3/5s, or $72,000, and so on.*

[*Alternative 2: Incentives for Affordable Units*]

Any Affordable Housing Development or any development that otherwise includes one affordable housing dwelling unit for each four market-rate dwelling units shall receive a density bonus of one market-rate unit for each affordable housing dwelling unit provided on-site.

104. Cash Payment in Lieu of Housing Units

Comment: *This section would be required only under a mandatory affordable housing alternative.*

(1) The applicant may make a cash payment in lieu of constructing some or all of the required housing units only if the development is a single-family detached development that has no more than [10] dwelling units. In the case of an in-lieu payment, the applicant shall not be entitled to a density bonus.

(2) The [legislative body] shall establish the in-lieu per-unit cash payment on written recommendation by the [*planning director or city or county manager*] and adopt it as part of the [local government's] schedule of fees. The per-unit amount shall be based on an estimate of the actual cost of providing an affordable housing unit using actual construction cost data from current developments within the [local government] and from adjoining jurisdictions. At least once every three years, the [legislative body] shall, with the written recommendation of the [*planning director or city or county manager*], review the per-unit payment and amend the schedule of fees.

(3) All in-lieu cash payments received pursuant to this ordinance shall be deposited directly into the affordable housing trust fund established by Section 109 below.

(4) For the purposes of determining the total in-lieu payment, the per-unit amount established by the [legislative body] pursuant to paragraph (1) above shall be multiplied by 20 percent of the number of units proposed in the development. For the purposes of such calculation, if 20 percent of the number of proposed units results in a fraction, the fraction shall not be rounded up or down. If the cash payment is in lieu of providing one or more of the required units, the calculation shall be prorated as appropriate.

105. Application and Affordable Housing Development Plan

(1) For all developments [in which affordable housing is required to be provided *or* in which the applicant proposes to include affordable housing], the applicant shall complete and file an application on a form required by the [local government] with the [*name of local government*

department responsible for reviewing applications]. The application shall require, and the applicant shall provide, among other things, general information on the nature and the scope of the development as the [local government] may determine is necessary to properly evaluate the proposed development.

(2) As part of the application required under paragraph (1) above, the applicant shall provide to the [local government] an Affordable Housing Development Plan. The plan shall be subject to approval by the [local government] and shall be incorporated into the Affordable Housing Development Agreement pursuant to Section 106 below. An Affordable Housing Development Plan is not required for developments in which the affordable housing obligation is satisfied by a cash payment in lieu of construction of affordable housing units. The Affordable Housing Development Plan shall contain, at a minimum, the following information concerning the development:

(a) A general description of the development, including whether the development will contain units for rent or for sale

(b) The total number of market-rate units and affordable housing units

(c) The number of bedrooms in each market-rate unit and each affordable unit

(d) The square footage of each market-rate unit and of each affordable unit measured from the interior walls of the unit and including heated and unheated areas

(e) The location in the development of each market-rate and affordable housing unit

(f) If construction of dwelling units is to be phased, a phasing plan stating the number of market-rate and affordable housing units in each phase

(g) The estimated sale price or monthly rent of each market-rate unit and each affordable housing unit

(h) Documentation and plans regarding the exterior appearances, materials, and finishes of the Affordable Housing Development and each of its individual units

(i) A marketing plan the applicant proposes to implement to promote the sale or rental of the affordable units within the development to eligible households

106. Criteria for Location, Integration, Character of Affordable Housing Units

An Affordable Housing Development shall comply with the following criteria:

(a) Affordable housing units in an Affordable Housing Development shall be mixed with, and not clustered together or segregated in any way from, market-rate units.

(b) If the Affordable Housing Development Plan contains a phasing plan, the phasing plan shall provide for the development of affordable housing units concurrently with the market-rate units. No phasing plan shall provide that the affordable housing units built are the last units in an Affordable Housing Development.

(c) The exterior appearance of affordable housing units in an Affordable Housing Development shall be made similar to market-rate units by the provision of exterior building materials and finishes substantially the same in type and quality.

Comment*: Some of the affordable housing ordinances reviewed by APA contained minimum-square-footage requirements for dwelling units or suggested that there be a mix of units with different numbers of bedrooms, especially to ensure that for-rent projects contain sufficient numbers of bedrooms for larger families. While minimum-square-footage requirements, especially for bedroom sizes, are customarily found in housing codes, rather than zoning codes, it is possible to amend this model to include such minimums.*

107. Affordable Housing Development Agreement

Comment: *A development agreement between the local government and the developer of the affordable housing project is necessary to reduce to writing the commitments of both parties, thus eliminating ambiguity over what is required regarding maintaining the affordability of the units and establishing and monitoring the eligibility of those who purchase or rent them.*

(1) Prior to the issuance of a building permit for any units in an Affordable Housing Development or any development in which an affordable unit is required, the applicant shall have entered into an Affordable Housing Development Agreement with the [local government]. The development agreement shall set forth the commitments and obligations of the [local government] and the applicant, including, as necessary, cash in-lieu payments, and shall incorporate, among other things, the Affordable Housing Plan.

(2) The applicant shall execute any and all documents deemed necessary by the [local government] in a form to be established by the [law director], including, without limitation, restrictive covenants, deed restrictions, and related instruments (including requirements for income qualification for tenants of for-rent units) to ensure the continued affordability of the affordable housing units in accordance with this ordinance.

(3) Restrictive covenants or deed restrictions required for affordable units shall specify that the title to the subject property shall only be transferred with prior written approval by the [local government].

108. Enforcement of Affordable Housing Development Agreement; Affordability Controls

(1) The director of [*name of responsible local government department*] shall promulgate rules as necessary to implement this ordinance. On an annual basis, the director shall publish or make available copies of the U.S. Department of Housing and Urban Development household income limits and rental limits applicable to affordable units within the local government's jurisdiction, and determine an inflation factor to establish a resale price of an affordable unit.

(2) The resale price of any affordable unit shall not exceed the purchase price paid by the owner of that unit with the following exceptions:

(a) Customary closing costs and costs of sale

(b) Costs of real estate commissions paid by the seller if a licensed real estate salesperson is employed

(c) Consideration of permanent capital improvements installed by the seller

(d) An inflation factor to be applied to the original sale price of a for-sale unit pursuant to rules established pursuant to paragraph (1) above

(3) The applicant or his or her agent shall manage and operate affordable units and shall submit an annual report to the [local government] identifying which units are affordable units in an Affordable Housing Development, the monthly rent for each unit, vacancy information for each year for the prior year, monthly income for tenants of each affordable units, and other information as required by the [local government], while ensuring the privacy of the tenants. The annual report shall contain information sufficient to determine whether tenants of for-rent units qualify as low- or moderate-income households.

(4) For all sales of for-sale affordable housing units, the parties to the transaction shall execute and record such documentation as required by the Affordable Housing Development Agreement. Such documentation shall include the provisions of this ordinance and shall provide, at a minimum, each of the following:

(a) The affordable housing unit shall be sold to and occupied by eligible households for a period of 30 years from the date of the initial certificate of occupancy.

(b) The affordable housing unit shall be conveyed subject to restrictions that shall maintain the affordability of such affordable housing units for eligible households.

(5) In the case of for-rent affordable housing units, the owner of the Affordable Housing Development shall execute and record such document as required by the Affordable Housing Development Agreement. Such documentation shall include the provisions of this ordinance and shall provide, at a minimum, each of the following:

(a) The affordable housing units shall be leased to and occupied by eligible households.

(b) The affordable housing units shall be leased at rent levels affordable to eligible households for a period of 30 years from the date of the initial certificate of occupancy.

(c) Subleasing of affordable housing units shall not be permitted without the express written consent of the director of [*name of responsible local government department*].

109. Affordable Housing Trust Fund

[*This section establishes a housing trust fund into which monies from cash in-lieu payments and other sources of revenues will be deposited. Because of the variation as to how such funds could be established and the differences in state law, no model language is provided.*]

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City of Austin List of Current Affordable Housing Incentives and Benefits

City of Austin Affordable Housing Development Incentive Policy Overview

Policy	Incentive Policy Type	Applicability	Development Incentives & Waivers/Modifications	Affordability Set-Aside Requirements	Maximum Income Limit (as % of MFI)*		Affordability Period		Fee-in-Lieu Rate	Year Adopted	Most Recent Amendment	Original Ordinance	Land Development Code Reference
					Owner	Rental	Owner	Rental					
Downtown Density Bonus (DDB)	Density Bonus	Central Business Distict	Increased maximum height and floor-to-area ratio (FAR)	10% of residential bonus area	120%	80%	99 years	40 years	$3 to $10 per gross bonus square foot for residential projects only. No fee for non-residential projects.	2013		Ordinance No. 20130627-105	§ 25-2-586
East Riverside Corridor (ERC) Development Bonus	Density Bonus	East Riverside Corridor Regulating District	Increased maximum height, FAR, and modification to compatability standards	25% of bonus area	80%	60%	99 years	40 years	$1 per gross bonus square foot for buildings over 90 ft. (no in-lieu option under 90')	2013		Regulating Plan	§ 25-2-149
Micro-Unit Density Bonus	Density Bonus	Applies to multifamily use in Transit Oriented Development Districts or along Core Transit Corridors when units are 500 square feet or less	Waiver of minimum site area requirements and reduction in off-street parking requirements	10% of total units	80%	50%	99 years	40 years	None	2014		Ordinance No. 20141211-228	§ 25-2-780
North Burnet Gateway (NBG) Development Bonus	Density Bonus	North Burnet Gateway Regulating District	Increased maximum height and FAR	10% of bonus area	80%	60%	99 years	40 years	$7 per gross bonus square foot	2009		Ordinance No. 20090312-035	§ 25-2-148
Planned Unit Development (PUD) Density Bonus	Density Bonus	Planned Unit Developments where the proposed land use exceeds base entitlements	Increased maximum height, FAR, and building coverage	10% of bonus area (rental) and 5% of bonus area (ownership)	80%	60%	99 years	40 years	$7 per gross bonus square foot	2008	Ordinance No. 20131003-096	Ordinance No. 20080618-098	§ 25-2-Subchapter B Article 2.5
Rainey Street Density Bonus	Density Bonus	Rainey Street Subdistrict	Waiver of maximum height up to 8:1 FAR	5% of total residential area	80%	80%	none	none	None	2005	Ordinance No. 20140227-054	Ordinance No. 20050407-063	§ 25-2-739
S.M.A.R.T. Housing	Fee Waivers & Development Incentives	Citywide	Permit, inspection, and Capital Recovery fee waivers	At least 10% of total units	80%	80%	1 year	5 years	None	2007	Ordinance No. 20071129-100	Ordinance No. 20141106-124	§ 25-1 Article 15.2
S.M.A.R.T. Housing Greenfield Single-Family Density Bonus	Density Bonus	SF-2 & SF-3 zoning districts on lots 3 acres or greater	Site may be developed under SF-4A zoning district standards	10% of total units	80% and 100%	60%	1 year	5 years	None	2008		Ordinance No. 20080131-132	§ 25-2-566
S.M.A.R.T. Housing Greenfield Multi-Family Density Bonus	Density Bonus	Undeveloped lots with MF-2 through MF-5 zoning	Site may be developed under MF-6 zoning district standards	10% of total units	80% and 100%	60%	99 years	40 years	None	2008		Ordinance No. 20080131-132	§ 25-2-567
Transit Oriented Development (TOD) Development Bonus	Density Bonus	Plaza Saltillo, Crestview, and MLK Transit Oriented Development Districts	Increased maximum height, FAR, and modification to compatability standards	At least 10% of total area	80%	50% and/or 60%	99 years	40 years	$12 per gross bonus square foot	2009		Ordinance No. 200902012-070	§ 25-2 Subchapter C Article 3.10
University Neighborhood Overlay (UNO) Density Bonus (Pre 2/24/14)	Density Bonus	University Neighborhood Overlay District, On or Before February 24, 2014	Increased maximum height, FAR, and modification to compatability and parking standards	At least 10% of total units	65% and/or 80%	65% and/or 80%	15 years 15 years	15 years 15 years	None $0.50 per net rentable square foot	2004	Ordinance No. 20140213-056	Ordinance No. 040902-58	§ 25-2 Subchapter C Article 3.09
University Neighborhood Overlay (UNO) Density Bonus (Post 2/24/14)	Density Bonus	University Neighborhood Overlay District, After February 24, 2014	Increased maximum height, FAR, and modification to compatability and parking standards	At least 10% of total area	50% and/or 60%	50% and/or 60%	40 years 40 years	40 years 40 years	$1 per net rentable square foot for residential use or $2 per net rentable square foot for hotel use	2014		Ordinance 20140213-056	§ 25-2 Subchapter C Article 3.09
Vertical Mixed Use (VMU)	Density Bonus	Vertical Mixed Use and Mixed Use Combining Districts	Relaxed site area requirements, setbacks, and parking requirements, and waiver of FAR	10% of total units	80 and 100%	60% or 80%	99 years	40 years	None (Fee amount for commercial space above ground floor pending)	2010	Ordinance No. 20130606-088	Ordinance No. 20100408-049	§ 25-2-Subchapter E Article 4.3

DISCLAIMER: The City of Austin Neighborhood Housing and Community Development Department makes reasonable efforts to ensure the information contained herein is accurate and current. However, this document is not intended to provide a comprehensive summary of all policy/program requirements. Interested parties should refer to the appropriate sections (referenced herein) of the Land Development Code and Regulating Plans for further details.

*MFI = Median Family Income. See http://www.austintexas.gov/page/income-limits for more information.

Draft Bill Recently Proposed by Council Member Greg Casar to offer a comprehensive list of incentives for the Construction of Affordable and Workforce Housing

RESOLUTION NO. <u>20190221-XXX</u>

WHEREAS, in order to address the affordable housing crisis, the Austin City Council adopted the Strategic Housing Blueprint with the goal of producing a total of 135,000 new units with a goal of at least 60,000 new income restricted units by 2027; and

WHEREAS, to create more than 47,000 affordable units, additional City Council policy direction is required; and

WHEREAS, there is a need for affordable housing of all types including, but not limited to, single family, duplex, townhome, condominium, and multifamily, located throughout the City; and

WHEREAS, currently many affordable housing units, including new affordable housing developments and properties that accept Housing Choice Vouchers are located in Districts 1, 2, 3, and 4 and the City's extraterritorial jurisdiction (ETJ); and

WHEREAS, the 4% Low Income Housing Tax Credit (LIHTC) program is a popular financing tool used to create affordable housing and requires at least 50% of a development's units to average at 60% median family income; and

WHEREAS, many 4% LIHTC developments in the City or in City's ETJ are located in areas designated "low opportunity," far from many amenities; and

WHEREAS, past affordable housing efforts have not maximized their potential impact because of some city restrictions, thereby limiting the number of affordable units, limiting levels of affordability, and limiting the availability of income restricted family-friendly units; and

WHEREAS, in November, 2018, voters approved $250 million for affordable housing, which may serve more families at deeper levels of affordability if City restrictions on residential development are modified; and

WHEREAS, the Austin Strategic Housing Blueprint, Austin's Fair Housing Action Plan, the Obama White House Housing Development Toolkit, and multiple other studies and reports have found that some land use restrictions can be a barrier to housing affordability; and

WHEREAS, maximizing the use of land for affordable housing will allow for more affordable units, deeper levels of affordability, more family-friendly units, and will facilitate affordable housing in higher opportunity areas; and

WHEREAS, the City Council approves many zoning cases for affordable housing developments; however, some restrictions that may result in additional affordable housing units cannot be waived in a zoning case; and

WHEREAS, the rezoning process may be costly, time consuming, and may ultimately limit the number of affordable units, level of affordability, and number of family-friendly units in an affordable housing development and allowing affordable housing to be built by-right without rezoning may benefit the City's affordable housing stock; and

WHEREAS, the City Council has missed opportunities to allow for the creation of more affordable units; and

WHEREAS, Saigebrook's Aria Grand is a 9% LIHTC multifamily property in Travis Heights that received $1.5 million in affordable housing bond subsidies to develop 60 affordable units, but could have created 10 more affordable units without compatibility and 20 more affordable units without parking requirements with negligible increases in public subsidies and a decrease in the overall subsidy per unit; and

WHEREAS, Guadalupe Neighborhood Development Corporation was able to build 6 more units for a total of 22 units at its La Vista de Guadalupe development due to a substantial reduction of compatibility limitations; and

WHEREAS, Habitat for Humanity's development in the Plaza Saltillo Transit Oriented Development is participating in an affordable housing bonus program that waives parking, allowing it to build 56 affordable units, where they would not have built any otherwise; and

WHEREAS, the City Council is dedicated to finding creative, innovative solutions to address the City's affordable housing crisis, to create more affordable housing in high opportunity areas, to increase the effectiveness of public dollars, and to meet the goals of the Austin Strategic Housing Blueprint; **NOW, THEREFORE,**

BE IT RESOLVED BY THE CITY COUNCIL OF THE CITY OF AUSTIN:

In order to increase the number of affordable units and to most effectively utilize 2018 Affordable Housing Bond funds and other public funds and resources, the Council initiates amendments to City Code Title 25 (*Land Development Code*) to create an affordable housing program on a citywide basis. After adopting the amendments initiated by this resolution, Council directs the Planning Commission to review the results of the program after three years.

To be eligible for this program, a residential development must provide the following:

1. for rental housing, at least 50% of total units at an average of 60% MFI or below and including at least 20% of total units at 50% MFI or below, rounded up to the nearest unit, for at least 40 years;
2. for homeownership housing, at least 50% of owner-occupied units at an average of 80% MFI or below, rounded up to the nearest unit, for at least 99 years;
3. at least three units total, unless the development is 100% affordable;
4. at least 25% of affordable units must have two or more bedrooms, unless the affordable units are permanent supportive housing or senior housing, rounded up to the nearest unit; and
5. provide just cause eviction protections and the right of tenants to organize, as required in existing city/federal affordable housing agreements.

This program would be available for a residential development or redevelopment irrespective of whether the proposed development or redevelopment requires a zoning change or other discretionary action from a City commission or the Council. A property owner would be allowed to use this program in addition to any other existing affordable housing bonus programs.

This program would be available when an existing residential development is redeveloped or rebuilt only if:

1. the reason for the redevelopment or rebuilding is to replace aging or dilapidated residential facilities; and

2. the property owner agrees to replace the affordable units one for one, grant current tenants a right to return to the development after redeveloping or rebuilding, set rents so that current tenants are able to afford to return, and provide relocation benefits that are consistent with Uniform Relocation Act.

BE IT FURTHER RESOLVED:

The Council intends for a residential development that participates in this program to be allowed in any commercial zone, besides industrial zones, without waiving existing rules and requirements related to residential uses near health hazards; and to comply only with the occupancy limits for multi-family zoning districts.

The Council intends for this program to:

1. waive compatibility standards for height and setbacks;
2. increase building height to 1.25 times the current zoning district's height entitlements;
3. waive parking requirements;
4. reduce front yard and rear setbacks by 50%;
5. increase density, by 1.5 times the current zoning district's density limits or allow six units, whichever is greater;
6. waive maximum floor-to-area-ratio;
7. waive the Residential Design Standards, as codified in Chapter 25-2, Subchapter E;
8. waive the requirement to submit a site plan for projects of 12 or fewer units; and

9. waive common wall, roof, front porch, and other restrictions specific to duplexes in Section 25-2-773.

BE IT FURTHER RESOLVED:

The amendments initiated by this resolution should be designed with the goal of expanding the requirements, through subsequent code amendments, to align with any future changes to other City affordable housing program requirements or approvals that extend the affordability period, require rights of first refusal, or modify other program requirements.

BE IT FURTHER RESOLVED:

A residential development can establish eligibility for this program using documents required to participate in affordable housing programs operated by a local, state, or federal agency. Examples of affordable housing programs include the Low-Income Housing Tax Credit (LIHTC) program, the City's Rental Housing Development Assistance Program (RHDA), and programs funded through the U.S. Department of Housing and Urban Development. Otherwise, the Director shall establish eligibility procedures for the program that are similar to the procedures of other City bonus programs.

BE IT FURTHER RESOLVED:

The Council acknowledges that Planning Commission may recommend modifications to the amendment described in this resolution to best achieve the goals in Imagine Austin.

BE IT FURTHER RESOLVED:

The amendments initiated by this resolution may not include increases in allowable impervious cover.

BE IT FURTHER RESOLVED:

The City Council directs the City Manager to bring back an ordinance for Council consideration no later than May 9, 2019.

ADOPTED: _______________, 2019 **ATTEST:** ___________________________

Jannette S. Goodall
City Clerk

City of San Antonio
Incentives Policy

Center City Housing Incentive Policy

Effective January 2, 2019

Section 1. Background

In spring 2011, Centro Partnership San Antonio initiated the creation of a Downtown Strategic Framework Plan. In an effort to ensure the execution of the Framework Plan, the Center City Development Office created the Center City Implementation Plan.

The Center City Implementation Plan provided recommendations on how to best implement the Downtown Strategic Framework Plan through increased public investment, creation of a housing finance strategy, coordinated management, and regulation of development. The Implementation Plan recommended that the City establish a predictable housing incentive system for housing in the Center City. Such a system would assist in normalizing land values, provide greater certainty, increase the speed of approvals, and reduce the risk associated with infill development. Therefore, the Center City Development Office developed the Center City Housing Incentive Policy (CCHIP).

The CCHIP incorporates the goals and objectives of the Implementation Plan and provides greater incentives to housing projects within targeted growth areas identified in the Downtown Strategic Framework Plan and prioritizes the Downtown Core. The Policy leverages increasing development in the Center City in order to facilitate the creation and preservation of affordable housing, incorporating recommendations developed by the Mayor's Housing Policy Task Force. The program also recognizes the need for incenting affordable housing throughout the City's Regional Centers in accordance with SA Tomorrow.

Section 2. Eligibility

The CCHIP applies to high density rental and for-sale housing projects (Projects) within the Greater Downtown Area (GDA), Regional Centers, and Transportation Corridors identified in the Via 2040 plan. Eligible Projects may receive City Fee Waivers, SAWS Impact Fee Waivers, Real Property Tax Reimbursement Grants, and infrastructure grants based on the terms outlined in the CCHIP.

Projects with an approved building permit at time of agreement execution are not eligible for CCHIP incentives. All projects must receive approval from the Historic and Design Review Commission prior to project commencement.

The CCHIP Policy was last amended by City Council on June 16, 2016. That policy revision established that properties zoned as "Single Family Residential" (e.g. "R-6," "R-5," "R-4") and "Mixed Residential" (e.g. "RM-4", "RM-5", "RM-6") are ineligible for incentives under this policy. No properties that were zoned as "Single Family Residential" or "Mixed Residential" as of June 16, 2016, are eligible for incentives under this policy. Rezoning the property to an eligible zoning type does not make the property eligible for incentives.

Properties with zoning of "Neighborhood Preservation" (e.g. "NP-8", "NP-10", "NP-15") or that allow for Manufactured Housing (e.g. "MH", "MHP", "MHC") are ineligible for incentives as of the effective date of the 2018 CCHIP policy. Rezoning the property to an eligible zoning type does not make the property eligible for incentives.

Any project receiving incentives through the CCHIP are not eligible to receive a permit through the Short Term Rental (STR) program that results in an entire housing unit being offered for rent on STR platforms such as Airbnb or VRBO.

Projects including a hotel component are not eligible for incentives through CCHIP.

Projects over the Edwards Aquifer Recharge or Contributing Zones, and projects located outside the current city limits, including the extraterritorial jurisdiction and areas of limited-purpose annexation, are not eligible for incentives through CCHIP.

Section 3. Definitions

Adaptive Reuse – The reuse of a building or structure, usually for a purpose different from the original. The term implies that certain structural or design changes have been made to the building in order for it to function in its new use.

Affordable Housing and Workforce Housing (also Affordable Unit and Workforce Unit) –

- Affordable Rental Units are reserved for households earning at or below 60% of the Area Median Income (AMI) for the San Antonio-New Braunfels metropolitan area using HUD and/or TDHCA income limits as applicable (Affordable Housing).

- Workforce Rental Units are reserved for households earning between 61% - 80% of the Area Median Income (AMI) for the San Antonio-New Braunfels metropolitan area using HUD and/or TDHCA income limits as applicable (Workforce Housing).
    a. To qualify under this policy, rents charged for affordable units and workforce units shall not exceed approximately 30% of the household's gross monthly income. Affordable rental units and workforce rental units shall demonstrate affordability for a minimum of fifteen (15) years or be qualified through a local, state, or federal affordable housing program that includes a minimum affordability term and regular compliance requirements (e.g. Housing Tax Credits, HOME, etc.).

- For-sale Units reserved for households earning at or below 120% of the Area Median Income (AMI) for the San Antonio-New Braunfels metropolitan area using HUD and/or TDHCA income limits as applicable will be deemed affordable. To qualify under this policy, homes sold to income-qualified households must be the owner's primary residence. For-sale units must demonstrate affordability to a qualified homebuyer at the time of sale and include a resale restriction for a minimum of five (5) years following the initial sale.

City of San Antonio Fee Waiver Program – A City Council adopted Policy of the City of San Antonio to promote the development and preservation of affordable housing, the rehabilitation of historic structures, and small business and industry development through the use of development fee waivers. The City of San Antonio Fee Waiver Program replaces the Inner City Reinvestment/Infill Policy (ICRIP). Fees eligible for waiver will be reviewed administratively.

Historic Rehabilitation – The process of returning a property to a state of utility, through repair or alteration, which makes possible an efficient contemporary use while preserving those portions and features of the property that are significant to its historic, architectural and cultural values.

Inner City Reinvestment/Infill Policy (ICRIP) – see *City of San Antonio Fee Waiver Program*.

Market-Rate Housing – A Project in which more than 85% of the units are priced for rental or sale subject to market conditions, without temporary or permanent pricing restrictions.

Mixed-Income Housing – A Project in which at least 15% of the housing units are priced for rental or sale to households or persons at or below 80% of the Area Median Income.

Project – A rental or for-sale housing development that creates multiple housing units at a density of at least:

- 18 dwelling units per acre for adaptive reuse or historic rehabilitation projects within the Greater Downtown Area (Level 1 or Level 2 areas) or in Level 3
- 33 dwelling units per acre for multifamily projects (25 dwelling units per acre for projects consisting exclusively of for-sale housing units) outside the Central Business District (Level 2 and Level 3 areas)
- 50 dwelling units per acre for all projects in the Central Business District (Level 1 Area)

Section 4. Geographic Area

The incentives provided by the CCHIP is based on the Project's location and future land use classification within the Greater Downtown Area (GDA). Properties with a future land use classification of "Urban Low Density Residential," "Medium Density Residential," and "Parks/Open Space" in an SA Tomorrow Regional Center or Community Plan shall not qualify for incentives under CCHIP. See attached map in Exhibit A for program areas. If there is conflict between an area described and Exhibit A, then Exhibit A controls.

Projects within the Central Business District (CBD) are within the Level 1 Incentive Area, projects located in the Greater Downtown Area and outside of the CBD are within the Level 2 Incentive Area. The Level 3 Incentive Area includes properties with eligible zoning in the SA Tomorrow Regional Centers and parcels with eligible zoning that are abutting Via's Primary Transportation Corridors under the 2040 Long Range Plan.

Level 3 Incentive Areas will go into effect when City Council adopts the Land Use Plan for the corresponding Regional Center or when Via determines the route locations for primary transit corridors through Via 2040.

Section 5. Affordability Requirements

Projects in the Level 2 Area that are under 5 stories must include a minimum of 10% affordable units, and an additional 10% of units in the project must either be affordable or workforce units. . Projects in Level 3 Area must include 20% affordable units. For projects consisting of rental housing in Level 2 and Level 3, the unit mix of affordable and workforce housing units shall be comparable to the unit mix of any market-rate units provided in the same project (*for example, if 20 percent of market-rate units contain two bedrooms, 20 percent of affordable units shall also contain two bedrooms*).

All projects with for sale units are ineligible for incentives if more than half of the for sale units have an initial sale price above the Federal Housing Administration's Forward Loan Limit. (see: https://entp.hud.gov/idapp/html/hicostlook.cfm). [Note: the FHA Forward maximum loan amount differs from the maximum loan amount available through Fannie Mae/Freddie Mac loan. The FHA Forward loan amount is the maximum sale price for eligibility under this policy.]

All rental housing projects must have average residential rents (the average rent across all residential units) less than $2.75 per square foot ("Maximum Rent Rate"). The developer must recertify rents annually. If rents rise above the Maximum Rent Rate in the first five years of occupancy from the date a Certificate of Occupancy is issued, then all incentives under this policy must be reimbursed. If rents rise over the Maximum Rent Rate after five years of building occupancy, then the owner will no longer be eligible for ongoing tax reimbursement grants, however they will not be required to reimburse incentives already received under the policy. The Maximum Rent Rate shall adjust annually based on the percentage change in AMI.

For projects approved by the Public Facility Corporation's (PFC) Board, the PFC's adopted affordability rules and requirements govern over the affordability requirements listed above.

Section 6. Fee Waivers

All projects eligible for incentives under this policy will receive City Fee Waivers as permitted by the City of San Antonio Fee Waiver Program.

A Project within the CBD (Level 1 Area) is also eligible to receive a SAWS Impact Fee Waiver equal to 100% of the Project's SAWS water and impact fees, not to exceed $1,000,000. Projects within the GDA outside of the CBD (Level 2 Area) are eligible for SAWS fee waivers equal to 100% of the Project's SAWS impact fees, not to exceed $500,000. Projects within Level 3 are eligible for SAWS fee waivers equal to 100% of the Project's SAWS impact fees, not to exceed $250,000.

City Fee Waivers are made available on an annual basis through the City's General Fund. For Fiscal Year 2019, the amount is $2,500,000.00. Of this annual allocation, $1,000,000.00 will be made available to projects meeting the criteria herein; the actual amount available to CCHIP projects may be prorated based on the actual amount of City Fee Waivers available for the given fiscal year and may be adjusted based on demand with administrative approval by the Director of the Center City Development & Operations Department.

SAWS Fee Waivers have been made available to the City through Ordinance 2014-05-29-0363 that covers a six-year period from FY 2015 to FY 2020, in an annual amount of approximately $3,000,000.00. Of this annual allocation, $1,500,000.00 will be made available to projects meeting the criteria herein; the actual amount available to CCHIP projects may be prorated based on the actual amount of SAWS Fee Waivers available for the given fiscal year. All Fee Waivers are subject to funding availability.

Section 7. Real Property Tax Reimbursement Grant

Eligible projects will receive a Real Property Tax Reimbursement Grant (Grant) disbursed over 15 years for Level 1 projects or 10 years for projects within Level 2 and Level 3. The reimbursement grant will be a rebate of 75% of the previous year's Maintenance & Operations (M&O) portion of the City's real property tax revenue remitted to the City (approximately 62.5% of City portion of the real property tax bill, subject to change). The remaining 25% of the M&O portion of the City's tax revenue will be deposited in a fund established for the purpose of creating and/or preserving affordable housing units, to be administered by the Neighborhood and Housing Services Department. The City's real property tax increment generated as a result of the Project is the funding source of the Grant. Rebate payments through the Real Property Tax Reimbursement Grant may be requested after Project completion on an annual basis, and payments will be disbursed annually as funds become available.

If a Project is within a Tax Increment Reinvestment Zone it will receive a rebate of the previous year's real property tax increment remitted to the City over a period of time that is determined based on the Projects geographic location or type. The rebate is based on the City's participation level in the Tax Increment Reinvestment Zone where the Project is located (this includes both the debt rate and the M&O rate). Recipient must remit 25 percent of the annual property tax rebate they receive back to the City. The funds remitted back to the City will be deposited in the affordable housing fund to be administered by the Neighborhood and Housing Services Department. Recipient and project are not eligible for any tax reimbursements under this policy if 25% of funds previously remitted to the project have not been paid to City.

Additionally, if the Project qualifies for a Historic Tax Exemption or Historic Tax Credit per the Office of Historic Preservation, the Tax Rebate Grant and the Tax Credit or Exemption will be used together when possible in order to maximize the incentive.

Section 8. Infrastructure Grant

A Project qualifies for an Infrastructure Grant if the Project is located in the CBD (Level 1 Area) and at least 10% of the units qualify as affordable or workforce housing. The infrastructure grant is designed to assist with infrastructure upgrades and repairs considered typical for urban infill development, and may be used toward the following expenses:

- Water and/or sewer line repairs, upgrades, or extensions
- Electric service upgrades or repairs
- Public right-of-way improvements to include street and/or sidewalk enhancements, landscaping, and lighting
- Street-level façade improvements (for adaptive reuse or historic rehabilitation projects only)

A qualifying project will receive $10,000 for each affordable or workforce housing unit provided on site, up to a maximum of $500,000. Projects outside the CBD (Level 2 Area) are not eligible. The infrastructure grant is subject to funding availability.

Section 9. Density Bonus

Construction costs escalate as developers create height and density. Within Level 1 and Level 2 of the program area, residential density supports healthy street level retail, allows for a reduction in transportation demand, and increases property valuations and tax base, in turn generating dollars that can be used for public improvements and programs. Within Level 1 and Level 2, a density bonus of $0.10 per sq ft to the Maximum Rent Rate when the project is a "High Rise Building", as defined by the 2015 International Building Code.

Section 10. Displacement of Residents

Projects resulting in the direct displacement of residential tenants are not eligible for as-of-right CCHIP incentives.

Section 11. Additional Protections for Single Family Units

Any existing single family dwelling unit located on a property eligible for incentives may not be demolished, unless applicant demonstrates that the building is a "Dangerous Building" per Article VIII, Sec. 6-156 of the City Code. An applicant may submit a request to the Director of Development Services (or his/her designee) to request certification that the dwelling meets the definition of a "Dangerous Building". Notwithstanding the process identified above, any eligible project with a single family dwelling unit with historic designation that will be demolished as a result of the project must follow existing process in the City Code to completion (obtain a demolition permit) before the project can be eligible for incentives.

If a single family dwelling unit is present on a parcel at the time this policy is adopted and is subsequently demolished, the property will be ineligible for as of right incentives under this policy.

Section 12. Requirements for Additional Bike and Scooter Parking

A project seeking incentives under this policy must exceed the bike parking requirements from Sec. 35-526 of the Unified Development Code by 20% [See Chapter 35, Sec. 35-526 (b)(8) & (b)(9)], as well as accommodate parking for scooters on the property.

Section 12. Exceptions

Any exceptions to the CCHIP require City Council approval.

Section 13. Review and Term

The City will initiate a housing study for the CCHIP area every two years to inventory the total number of housing units, monitor the rental rates and sales values, and identify any necessary adjustments to the policy. Unless the City Council extends and or amends the terms of the CCHIP, it will expire within 2 years of the date of City Council adoption.

Section 14. Recapture Provisions

CCHIP Agreements will include a provision for the recapture of the incentives (e.g. grants and loans) in the event Agreement terms and requirements are not met. These recapture provisions will survive any subsequent assignment of the Agreement.

Section 15. Administration

The Center City Development & Operations (CCDO) Department will administer the CCHIP and any associated program fees. The CCDO Director is authorized to make non-substantive program changes as necessary for administrative purposes.

Section 16. Legal Documents

The legal documents used to officiate this policy include the CCHIP Application and the CCHIP Incentive Agreement as described in Exhibits B and C, which may be amended as necessary. The City Attorney's Office, in conjunction with the City Manager or her designee, may negotiate additional terms of the agreement as long as those terms do not change the total incentive amount. The City Manager or her designee will be the signatory of the agreement.

ULI Report on the Economics of Inclusionary Development

The Economics of Inclusionary Development

Urban Land Institute

Terwilliger Center for Housing

Urban Land Institute
2001 L Street, NW
Suite 200
Washington, DC 20036-4948

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About the Urban Land Institute

The mission of the Urban Land Institute is to provide leadership in the responsible use of land and in creating and sustaining thriving communities worldwide. ULI is committed to

- Bringing together leaders from across the fields of real estate and land use policy to exchange best practices and serve community needs;
- Fostering collaboration within and beyond ULI's membership through mentoring, dialogue, and problem solving;
- Exploring issues of urbanization, conservation, regeneration, land use, capital formation, and sustainable development;
- Advancing land use policies and design practices that respect the uniqueness of both the built and natural environments;
- Sharing knowledge through education, applied research, publishing, and electronic media; and
- Sustaining a diverse global network of local practice and advisory efforts that address current and future challenges.

Established in 1936, the ULI today has more than 38,000 members worldwide, representing the entire spectrum of the land use and development disciplines. Professionals represented include developers, builders, property owners, investors, architects, public officials, planners, real estate brokers, appraisers, attorneys, engineers, financiers, academics, students, and librarians.

About the ULI Terwilliger Center for Housing

The ULI Terwilliger Center for Housing conducts research, performs analysis, and develops best practice and policy recommendations that reflect the land use and development priorities of ULI members across all residential product types. The Center's mission is to facilitate creating and sustaining a full spectrum of housing opportunities—including workforce and affordable housing—in communities across the country. The Center was founded in 2007 with a gift from longtime ULI member and former ULI chairman J. Ronald Terwilliger.

About ECONorthwest

ECONorthwest is a consulting firm based in the Pacific Northwest that specializes in economics, finance, and planning. The firm understands that businesses and governments face difficult decisions about how to make the best use of limited resources. ECONorthwest helps its clients make thoughtful, data-driven decisions using tools and methods that meet the highest standards of best practice. At the core of everything the firm does is applied microeconomics. This perspective allows the firm to fully understand—and effectively communicate—the benefits, costs, and tradeoffs associated with any decision. ECONorthwest's consultants have advanced degrees in a variety of fields, including economics, planning, and public policy; and work on projects ranging from strategy to implementation. On these projects, the firm provides a range of services, including business economics and modeling, natural resource economics, fiscal and economic impact analysis, land-use planning, policy analysis, urban and regional planning.

About MapCraft.io

MapCraft.io produces analytical tools to help solve complicated urban problems. MapCraft focuses on spatial real estate and transportation analyses shared via highly interactive websites. With projects that have varied in scale from the parcel to the metropolitan area and from the transit station to the regional network, MapCraft's principals are seasoned consultants and technologists with decades of experience serving private, nonprofit, and government sector clients. Reflecting the critical questions being faced by cities today, MapCraft's tools address transit-oriented development, equitable real estate development, redevelopment planning, and other facets of urban development.

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Douglas Tymins
AIG Global Real Estate Investment Corp.

Stephen Whyte
Vitus Group

Margaret Wylde
ProMatura Group LLC

Robert Youngentob
EYA

Authors

Stockton Williams
Ian Carlton
Lorelei Juntunen
Emily Picha
Mike Wilkerson

Project Staff

Urban Land Institute
Stockton Williams
Executive Director
ULI Terwilliger Center for Housing

James A. Mulligan
Senior Editor

Laura Glassman, Publications Professionals LLC
Manuscript Editor

Betsy Van Buskirk
Creative Director

Craig Chapman
Senior Director, Publishing Operations

Mapcraft.io
Ian Carlton

ECONorthwest
Lorelei Juntunen
Tina Morgan
Emily Picha
Mike Wilkerson

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Preface

Even as home mortgage interest rates remain at near-historic lows and multifamily apartment construction reaches near-record highs, millions of working Americans are dealing with serious housing affordability challenges. Nearly 10 million low- and moderate-income working households—one in four working renters and 16 percent of working homeowners—pay more than half their income for housing.[1]

High housing costs are not only detrimental for families: they are also bad for business and local competitiveness. They make it harder for companies to attract and retain workers or force employers to pay higher wages, which may be passed along to consumers in the form of higher prices. Workers forced to make unduly long commutes between their jobs and where they can afford to live may be less productive and spend less of their income in the community of their employment. Some research even suggests that housing shortages in highly productive cities have reduced the national gross domestic product.[2]

A growing number of cities are using their zoning authority to increase the development of new workforce housing units. The most widely used zoning approach is inclusionary zoning (IZ). Through IZ, cities require or encourage developers to create below-market rental apartments or for-sale homes in connection with the local zoning approval of a proposed market-rate development project.

Interest in IZ approaches is surging. New York City recently enacted the nation's most far-reaching policy, which is projected to drive development of 12,000 new below-market units over the next several years—substantially more if a recently lapsed tax incentive expected to accompany the program is revived.[3] San Francisco voters in June of this year endorsed a major expansion of the city's existing IZ policy. Proposals to put IZ in place are advancing in Atlanta, Detroit, Los Angeles, Nashville, Pittsburgh, Portland, and Seattle, among a number of other cities. Across America's northern border, the provincial government of Ontario announced in March 2016 its intent to pass legislation that would enable its cities to enact IZ.[4]

IZ can be a complicated and controversial policy approach. Complicated because it aspires to harness the ever-changing dynamics of market-rate real estate development to achieve a fixed policy objective. Controversial because it aims to balance often opposing points of view in communities regarding the roles and responsibilities of the private sector to help meet a public need within a free-market economic system.

IZ's complexity and controversy come together around the extent to which the policies are mandatory, voluntary, or somewhere in between—i.e., applying only in certain situations, such as when local zoning is changed for a neighborhood or development project. Wherever a city lands along this continuum, almost all cities offer various types of development incentives that attempt to mitigate or offset the economic impacts the inclusionary policy has on land values and real estate development.

Understanding those effects is important. By definition, IZ is intended to generate a below-market real estate end use—workforce housing units—that the private market on its own would not produce at a given location. IZ may make that site less valuable than it would be if developed to its highest and best use.

The positive news is that cities have at their disposal a variety of tools to make inclusionary development more favorable from the landowner's and developer's perspectives. Using those tools to optimize private developer participation—and spur the desired development of new workforce housing units—is challenging for most cities. Many have asked ULI District Councils and members for their advice on the best way to do it.

This study provides such advice on what incentives work best in which development scenarios. The study's purpose is to enable policy makers to better understand how an IZ policy affects real estate development and how to use the necessary development incentives for IZ to be most effective.

We approached this study with no preconceived point of view about IZ. We believe that for at least as long as real estate development remains robust in the current economic cycle and housing affordability for the workforce remains a priority for business and political leaders, IZ concepts will be part of local land use policy making. The question then becomes: How can an IZ policy be best designed to work in the context of the local real estate development market? We hope this study will be useful to any community seeking practical answers to that question.

Stockton Williams

Executive Director

ULI Terwilliger Center for Housing

Introduction

About This Study

The study focuses on multifamily rental development, which is a priority in many current and emerging IZ policies. The implications of IZ on mixed-use and for-sale housing development are outside the scope of the study.

The study has four main sections:

- **Introduction**
  This section details the focus of the study, defines key terms and development prototypes, and describes the technical methodology and modeling assumptions.
- **Section I: Understanding the Economics of Development**
  This section provides an overview of real estate development economics and key drivers of real estate development feasibility from a developer's perspective.
- **Section II: Assessing the Impacts of Inclusionary Zoning on Development**
  This section summarizes relevant research on IZ policies and performance and assesses how key IZ policy features—share of below-market housing units and income targeting of those units—affect development feasibility.
- **Section III: Optimizing the Effectiveness of Incentives for Inclusionary Development**
  This section explores how and when the principal development incentives available to cities—direct subsidies, tax abatements, density bonuses, and reduced parking requirements—can be most effective as part of an IZ policy.

Key Takeaways

- **A growing number of cities in the United States and Canada are turning to their zoning authority as a means to generate new development of workforce housing units, which are in short and decreasing supply in many communities.**
- **The most common zoning approach is inclusionary zoning.** Through IZ, cities require or encourage developers to create below-market rental apartments or for-sale homes in connection with the local zoning approval of a proposed market-rate development project.
- **The single most important factor for an IZ policy to achieve its goals is a significant and sustained level of market-rate development in the local market.** If a community is not currently experiencing a material amount of new development, an IZ policy will not generate a meaningful number of new workforce housing units.
- **In most cases, jurisdictions will need to provide development incentives to ensure the feasibility of development projects affected by an IZ policy.** The principal incentives are direct subsidies, density bonuses, tax abatements, and reduced parking requirements. Individually and in combination these incentives can substantially enhance the feasibility of development projects affected by an IZ policy. Each incentive has strengths and limitations that derive from the local real estate development environment.
- **In the right market conditions and with the optimal availability of development incentives, IZ policies can generate development of new workforce housing units that would not otherwise be built.** Even in such situations where the stars align, IZ at its most effective is only one tool in what must be a broad-based toolbox available to local governments to meet their workforce housing needs.

Methodology and Modeling Assumptions

The study relies on several analytic approaches.

Literature review and expert review

We reviewed 17 major studies and reports on IZ reflecting a wide range of perspectives and methodologies (listed in Sources) and received input on the study approach and content from an advisory group of developers, consultants, and public officials who have worked directly with IZ programs. (The members of the advisory group are listed in the Acknowledgments section.)

Spreadsheet pro formas

Pro forma cash flow models are common decision-making tools used by real estate developers and local policy makers. In interviews with developers and other experts and a comprehensive literature review of IZ policy and performance, we found that pro formas are the most widely used tool for evaluating IZ policy criteria and development incentives.

To assess the feasibility of development using land residual calculations, we produced spreadsheet pro formas for three prototypical multifamily development types: stacked flats, four over one, and residential towers. These are described on page XI.

The pro forma inputs (i.e., analytic assumptions) are broadly illustrative of an average U.S. region as of June 2016. These assumptions may or may not be accurate for a specific market within the United States. The inputs are as follows:

- Soft cost: 30 percent of hard costs;
- Developer fee: 4 percent of hard and soft costs;
- Operating cost (as a percent of revenue): 30 percent;
- Vacancy rate: 10 percent;
- Cap rate: 4.5;
- Return on cost cap yield spread: 1.5 percent;
- Return on cost feasibility target: 6 percent; and
- Area median income (AMI): $74,000.

Rapid pro forma prototyping

To better understand the sensitivity of development feasibility to IZ policy criteria and development incentives, we carried out a rapid testing algorithm that modified multiple pro forma inputs simultaneously. We calculated residual land values and other outputs that resulted from hundreds of thousands of distinct pro forma inputs. These metrics helped the team better understand the behavior of pro formas with varied IZ requirements and offsetting incentives.

Machine-learning segmentation

To inform our feasibility analysis, we used machine-learning algorithms to cluster U.S. regional markets based on factors that play a role in real estate development feasibility. We clustered U.S. metropolitan markets based on mean construction costs, median incomes, and mean apartment rents.

Residual land value analysis

We used residual land value analysis to assess and compare development feasibility under various scenarios. Residual land value is a measure of what a developer would be able to pay for the land, given a set of assumptions regarding capital and operating costs and revenue. Residual land value, in essence, represents the developer's land budget. A higher residual land value means that a proposed development project is likely to be more feasible. A negative residual land value—a land budget below $0—means that a proposed development project is not feasible absent offsetting incentives.

Residual land value analysis is a common metric used by developers to evaluate development feasibility. It is also a useful metric for assessing IZ and accompanying development incentives because IZ policies principally affect land value, especially in the short run.

Prototypes Used

This analysis uses three development prototypes throughout. The table below provides a summary.

	Stacked flats	4 over 1	Residential tower
Stories	3	5 (+ one level underground)	17
Units	61	177	15 wrap units around garage 239 tower units
Unit mix	30% studio 40% one bedroom 30% two bedroom	30% studio 40% one bedroom 30% two bedroom	25% studio 35% one bedroom 25% two bedroom 15% three bedroom
Average unit size (gross square feet)	805	805	1,430 (wrap units) 805 (tower units)
Residential efficiency (% leasable area)	90%	90%	100% in wrap units 90% in tower units
Parking	61 surface spaces	102 podium stalls 75 underground stalls	254 integrated parking stalls
Primary construction costs (hard costs)	Residential: $125/sq ft Surface parking: $7,000/stall	Residential: $165/sq ft Podium parking: $30,000/stall Underground parking: $40,000/stall	Wrap residential: $153/sq ft Tower residential: $210/sq ft Integrated deck parking: $33,000/stall

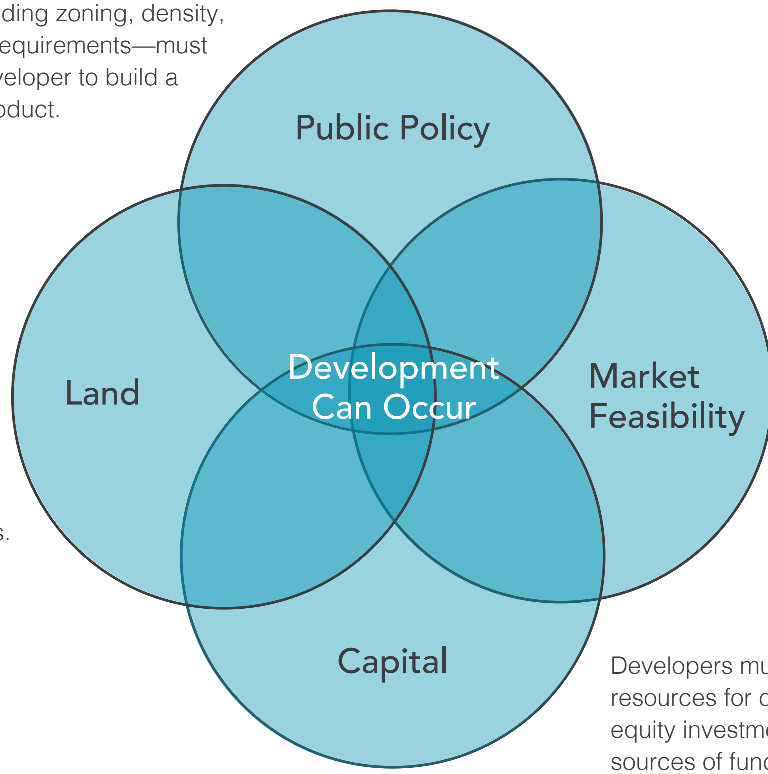
Section I: Understanding the Economics of Development

Four Factors Determine Development Feasibility

The goal of an IZ policy is to leverage new market-rate development to provide new workforce housing units. Because IZ depends on market-rate development, IZ works only when new development is occurring. For that reason, understanding how market-rate development occurs is an optimal starting place for understanding how IZ policies can be structured to work with the market to increase the supply of workforce housing.

The diagram below illustrates in a highly schematic manner the principal factors that intersect to determine development feasibility: public policy (allowable density, required use mix), market feasibility (achievable pricing relative to production cost), capital (cost and availability), and land (cost and availability). IZ principally intersects with land and market feasibility.

Policy—including zoning, density, and design requirements—must allow the developer to build a profitable product.



The developer must see sufficient demand for space to support a profitable project.

The developer must be able to control the site with reasonable acquisition costs.

Developers must be able to access the resources for development, including equity investment, bank loans, or other sources of funds.

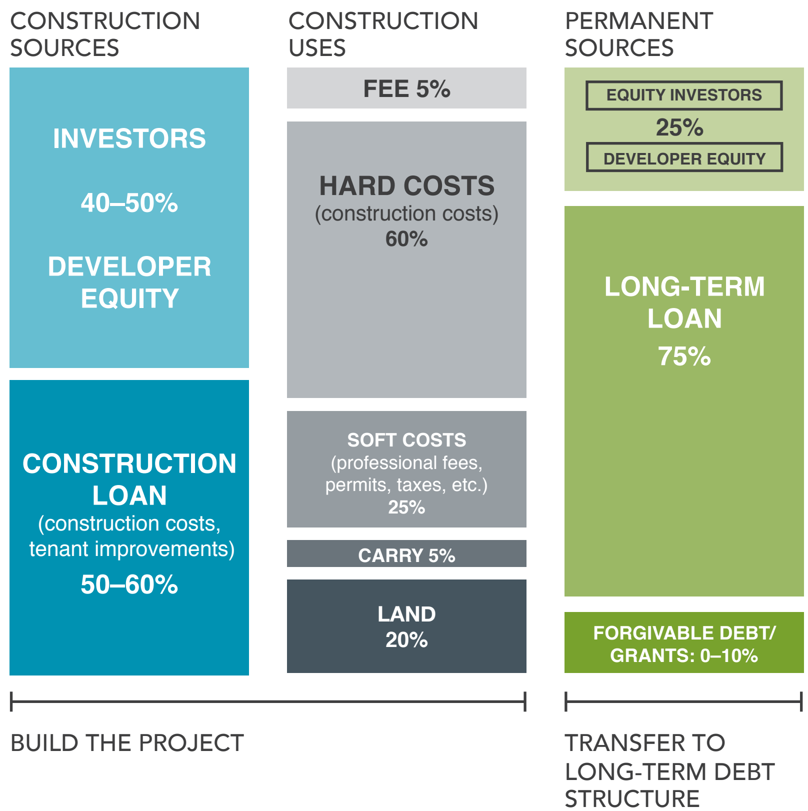
Developers Fund Construction Costs Using a Variety of Sources

Feasibility is based on a set of calculations that assess whether the project (a) has sufficient demand (measured in market rents or sales) to cover its construction and operating costs and (b) can provide financial returns for the effort and risk undertaken by the developer and its sources of funding. Public policies affect feasibility in various ways throughout the development process. Some may increase upfront costs (e.g., requiring higher-quality design), while others may reduce ongoing operating costs (e.g., tax abatements).

Feasibility calculations have two major components. The first is **sources and uses**, which reflects the costs of building and financing a development project. Uses reflect the costs of creating a development project. Sources describe the various sources of capital available. For a project to be built, the sources must meet or exceed the uses. The following percentages are broadly illustrative of the breakdown of sources and uses for a multifamily development project.

The **construction sources** provide funding to build the project. The developer and outside investors typically provide equity. Most projects also have a construction loan that accounts for at least half the sources. Some projects have mezzanine debt (a hybrid of equity and debt).

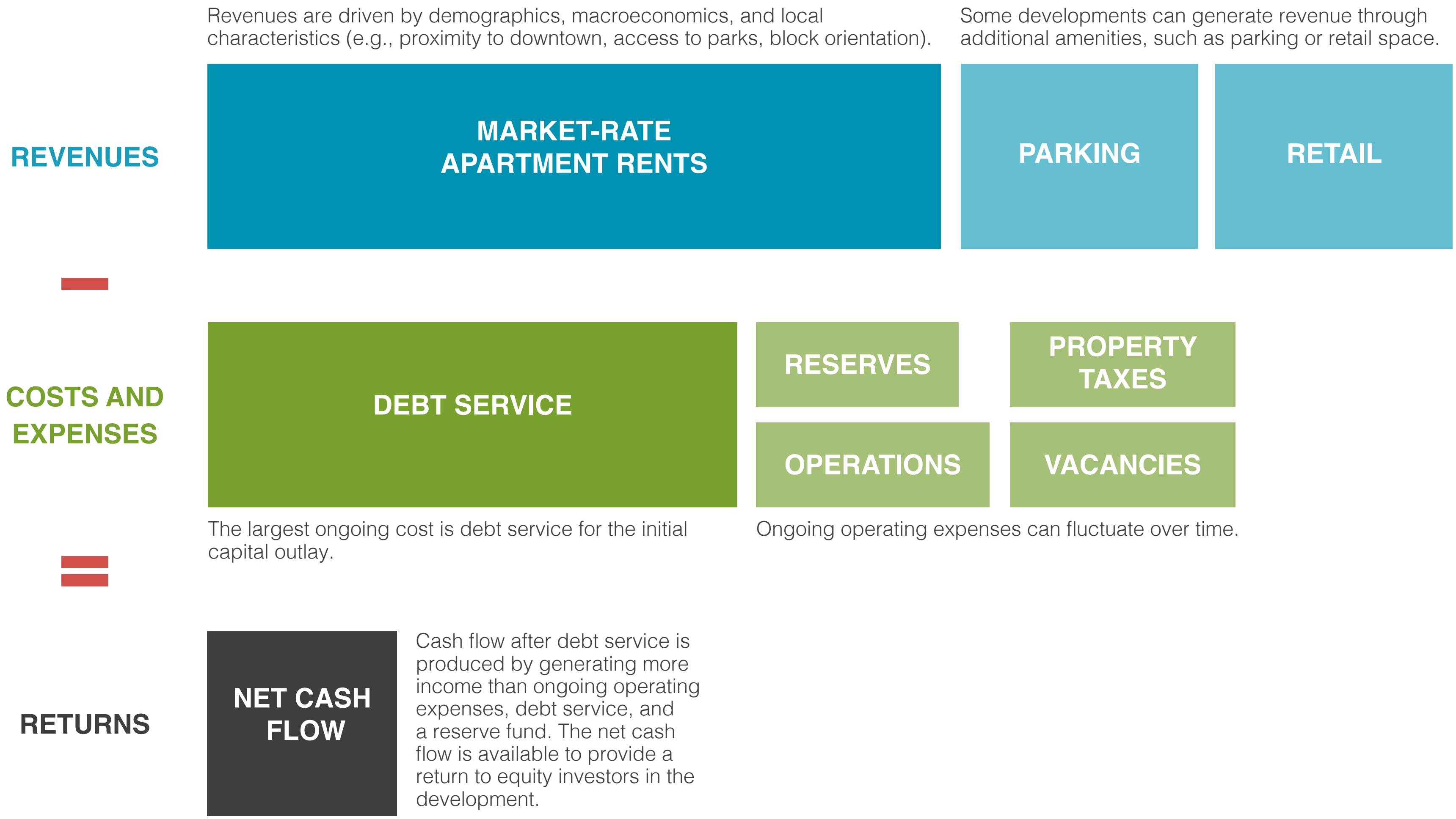
The **uses** are the costs of the project, including the costs to acquire the site, construct the project, pay for architectural, engineering, and other services, and pay interest on financing the construction loan (carry). In addition, developers must cover overhead costs for staff and other expenses and often choose a fee for their time and expenses.



The **permanent sources** pay off the construction loan when the project is operational. Some construction loans are "convertible" into permanent loans while other developers arrange for separate long-term financing that repays the construction lender once construction is complete.

Project Operating Revenues Must Exceed Costs to Generate Investment Returns

The second major component of development feasibility is **costs and revenues**, which are reflected in a development pro forma or a cash flow statement. A pro forma compares a set of ongoing operating costs to a set of ongoing operating revenues derived from rents. Revenues minus costs equal net operating income (NOI). Out of NOI, property owners pay debt service and set aside capital reserves. Investors and lenders must be confident that the resulting net cash flow (after debt service and reserves) is sufficient to cover all operating costs and compensate them for their capital commitments. The graphic below shows broad illustrative cost and revenue categories for a typical multifamily project.



Development Feasibility Varies by Submarket

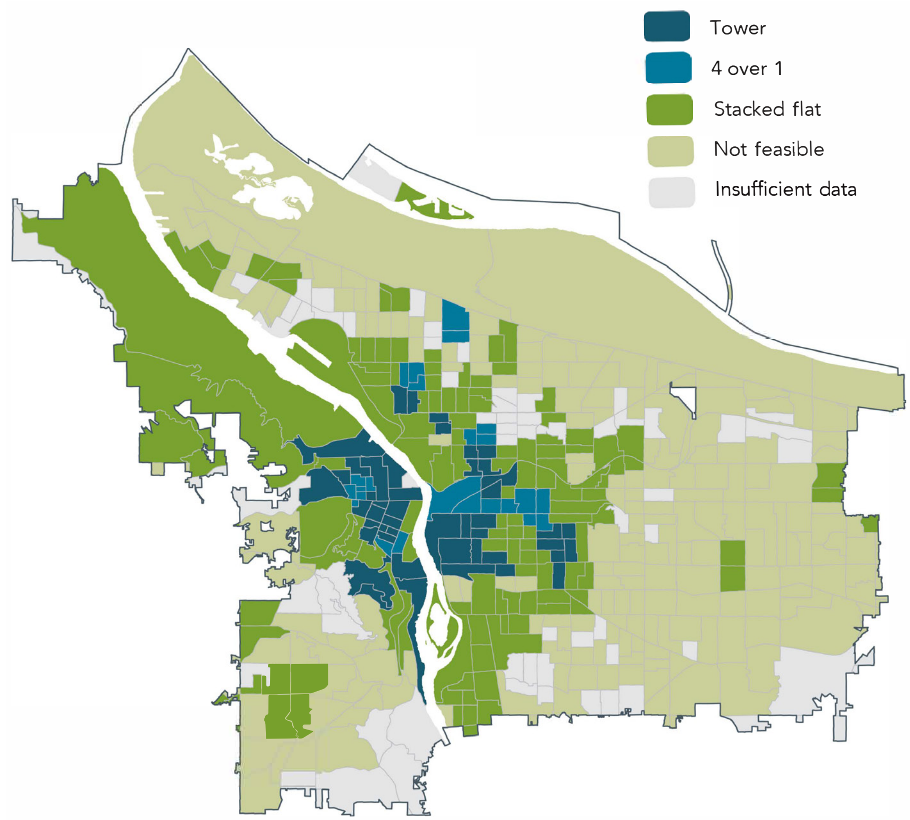
Every city and region have development submarkets that are "hot" or "cold" areas for new development. Although the development equation is complex, this relative temperature is, at any point in time, driven largely by three variables: market rents, construction costs, and the availability and price of land.

In some parts of a city (or region), the rents and prices are high enough to cover the cost of constructing a new higher-density building. In other areas, they are not. Even in areas where prices are sufficient to cover construction costs, developers must also find land that is available and affordable. In highly built-out areas of a city where rents and prices are quite high, little development may occur because any available land is too costly to support new development. In general, developers of higher-density buildings will be willing to pay more per square foot for land.

These variables are influenced by zoning policy. In most jurisdictions, local zoning limits the size and shape of buildings and the types of tenants that can occupy them. Sometimes those restrictions preclude developers from building projects that are financially feasible. For example, a city may allow only a four-story building to be built on a particular parcel, but the revenues from a four-story building may be too low to justify the purchase and demolition of a two-story building. In such cases, sites are likely to be repositioned in the market or adaptively used.

The map at right illustrates how development feasibility varies by development typology and by submarket in a single city. Using current data compiled at the U.S. census block group level and a pro forma model, the map shows where development at different densities would be feasible within Portland, Oregon. Zoning policies, including IZ, thus will have varying impacts and efficacy in different areas of a city or region. Portland has a cost index that is at the U.S. average. (See page XI for a description of the development typologies.)

Case Example



Note: This map displays the feasibility of any of the three development types (stacked flats, 4 over 1, residential tower) based on an assumed land value of $0. Because it is unlikely that land will be available at a price of $0, this map is more representative of where market-rate development is *not* likely to occur than where it will occur.

This analysis measures development feasibility in terms of residual land value—a measure of what a developer would be able to pay for the land, given a set of capital and operating cost and revenue assumptions. Residual land value, in essence, represents the developer's land budget. A higher residual land value means that a proposed development project is likely to be more feasible. A negative residual land value—a land budget below $0—means that a proposed development project is not feasible absent offsetting incentives.

Section II: Assessing the Impacts of Inclusionary Zoning on Development

Inclusionary Zoning Policies Vary Widely in Many Respects

More than 500 cities and counties in 27 states and the District of Columbia have adopted an IZ policy. Although all share the common approach of using zoning authority to encourage or require development of below-market workforce housing units in connection with approval of a proposed market-rate project, they reflect considerable diversity in design and implementation. Major aspects about which IZ policies differ from place to place are summarized below.

Less Flexible	More Flexible	
Mandatory	Voluntary	**a. Mandatory vs. voluntary status.** Most programs are mandatory, with wide variety in where and when the requirements apply. For example, some mandatory programs apply only in the context of a zoning change.
Higher setaside	Lower setaside	**b. Setaside amount.** Most setasides are between 10 and 20 percent, but some places have much higher requirements or sliding requirements.
Longer rent restriction, lower income target	Shorter rent restriction, higher income target	**c. Eligibility and term.** Most policies set income eligibility requirements aimed at households that earn between 60 and 120 percent of the area median income. Many policies also define the length of time for which affordability must be maintained and include compliance and monitoring requirements.
Jurisdiction-wide, all housing types	Specific housing types, specific locations	**d. Types and locations of development.** Some policies exempt projects based on project size (number of units) or type (condominium, redevelopment, or adaptive use). Some policies have specific requirements by neighborhood.
No opt-outs	Opt-outs: in lieu/off site	**e. Opt-outs.** Some policies allow developers to make use of in lieu payments into a local housing fund or provide the below-market units off site.
No or ineffective incentives	Market-responsive incentives	**f. Incentives.** Most policies provide incentives to encourage developer participation or to offset the impacts of mandatory policies. Common incentives include some combination of direct subsidies, tax abatements, density bonuses, and reduced parking requirements.

Inclusionary Zoning Has Had Significant Impact in Some Areas

The most comprehensive assessment of new housing units generated by IZ programs suggests a seemingly modest total of roughly 150,000 units across 500 programs, some of which are several decades old.[5] This figure probably substantially understates IZ production for two reasons. First, the assessment was released in 2010 and most of its data was from 2008 and 2009, so it does not account for IZ-induced development over the past several years when market-rate multifamily development boomed. Second, reliable data are not available on the amount of funding raised and units produced through fee in lieu payments from developers as part of IZ policies.

A closer examination indicates that IZ approaches have achieved significant new below-market-rate production in some markets, such as Fairfax County, Virginia; Montgomery County, Maryland; Palm Beach County, Florida; and throughout southern California. In addition, in cities such as Boston, Chicago, and San Francisco, IZ's relatively small impact compared with overall development may mask its benefits in creating workforce housing in high-cost environments that otherwise would not have occurred.

Nevertheless, IZ has fallen short of its promise in any number of places, probably for one or more of the following reasons:

- **Insufficient levels of new market-rate development:** A number of cities and counties with IZ policies on the books are relatively small or weaker development markets. Moreover, policies in many cities were likely stymied by the Great Recession.
- **Shortcomings in program design and administration:** Even though research suggests that more than 80 percent of policies are mandatory, anecdotal evidences suggests that many have been crafted loosely, administered inconsistently, or enforced weakly.
- **Lack of adequate development incentives:** In many communities, the costs (in reduced land value or economic return) of developing in accordance with the IZ policy outweigh the benefits, so developers do not participate. The otherwise large body of research on IZ has paid scant attention to this issue.

"Whereas a considerable amount of research has dealt with IZ effects on house values, little work has focused on builders themselves and how ordinances might affect their activities. Little is known . . . about which incentives are most effective in garnering policy participation among builders and developers." (Urban Institute. *Expanding Housing Opportunities through Inclusionary Zoning: Lessons from Two Counties.* Washington, DC: U.S. Department of Housing and Urban Development, 2012.)

Three Key Findings Emerge from the Research on Inclusionary Zoning

IZ policies depend on market-rate development. In general, IZ policies generate the most below-market units in areas where the most market-rate development is occurring. Conversely, as New York City's feasibility analysis of its policy as designed concluded: "Rental projects in moderate and weak markets do not achieve sufficient returns to achieve feasibility without subsidies, even before incorporating an inclusionary requirement. This reflects the reality that few market-rate rental projects are being built in markets with relatively low rents, as they are unable to support current construction costs and land prices."[6]

IZ policies must be carefully crafted to avoid adverse effects. Some studies have shown that IZ policies in some areas have contributed to higher housing prices or rents or depressed or delayed market rate development. Other studies have not found these effects. A recent review of the leading IZ research from across the ideological spectrum concluded that "the most highly regarded empirical evidence suggests that inclusionary housing programs can produce affordable housing and do not lead to significant declines in overall housing production or to increases in market-rate prices."[7] The study cautioned, however, that careful attention to the design details and the structuring of incentives is critical to avoid adverse effects.

IZ policies usually target moderate-income households. Most IZ policies primarily focus on households earning between 60 percent and 120 percent of AMI (the standard housing industry income range that defines "workforce housing"). Cities have options for serving lower-income families through IZ, such as allowing developers to "trade" targeting lower-income households in exchange for developing fewer below-market units. Cities can also increase the subsidies and incentives to enhance the feasibility of lower-income units. And cities can allow developers to pay a fee to the city in lieu of developing IZ units, which the city can use to support construction for lower-income households directly.

Housing Market Impacts Associated with Local Inclusionary Housing Programs: Results from Key Evaluation Studies

Jurisdiction	Period	Impacts on overall housing supply	Impacts on home prices/rents
California (28 programs)[8]	1981–2001	No negative effect on housing starts	Not available
California (65 programs)[9]	1988–2005	No decline in single-family starts Increase in multifamily starts	Increase in single-family home prices of 2.2 percent
California (125 programs)[10]	2007–2013	Not available	Stricter programs associated with 1.9 percent decline in rents
San Francisco (55 programs)[11]	1987–2004	No negative effect on housing starts	No effect on home prices
Los Angeles and Orange counties (17 programs)[12]	1998–2005	No negative effect on housing starts	Not available
Boston area (99 programs)[13]	1987–2004	Up to a 10 percent decline in housing starts	Increase in single-family home prices of 1 percent

Source: Lisa Sturtevant, "Separating Fact from Fiction to Design Effective Inclusionary Housing Programs," Center for Housing Policy brief, National Housing Conference, Washington, D.C., 2016.

Inclusionary Zoning Affects Development Feasibility

At the most fundamental level, IZ policies reduce the economic value of a development site by driving part of its use to a below-market purpose: the provision of units affordable to households that otherwise would not be able to afford the maximum achievable rent in the property. This has the effect of lowering NOI, which reduces the value of the development project.

When faced with such a situation, developers typically have three options:

- Decline to proceed with the proposed market-rate development project at the desired location (and possibly develop a similar project in another nearby jurisdiction without IZ).
- Persuade the owner of the development site to sell it for a below-market price, which most private landowners are unwilling to do.
- Accept a lower return on the proposed market-rate project, which most developers have limited (if any) ability to do.

However, development can move forward under IZ without experiencing any of these outcomes under the following two scenarios:

The first is the rare instance in which the rents for the market-rate units are high enough to "cross subsidize" the lost value associated with rents for the below-market units.

The second scenario is when the local jurisdiction provides development incentives to sufficiently mitigate the impact of the below-market units on overall development feasibility. That subject, which is relevant in any city with an IZ policy, is the focus of section III of this study.

First, though, we must understand how the two primary policy features of IZ policies affect development feasibility:

- **Setaside percentage** (the share of units that are below market); and
- **Depth of affordability requirements** (the average or maximum income level of households who are eligible for the setaside units).

Emerald Vista, Dublin, California. (© 2013 Jeff Peters, Vantage Point Photography Inc.)

Assessing the Impacts of Below-Market-Unit Setasides

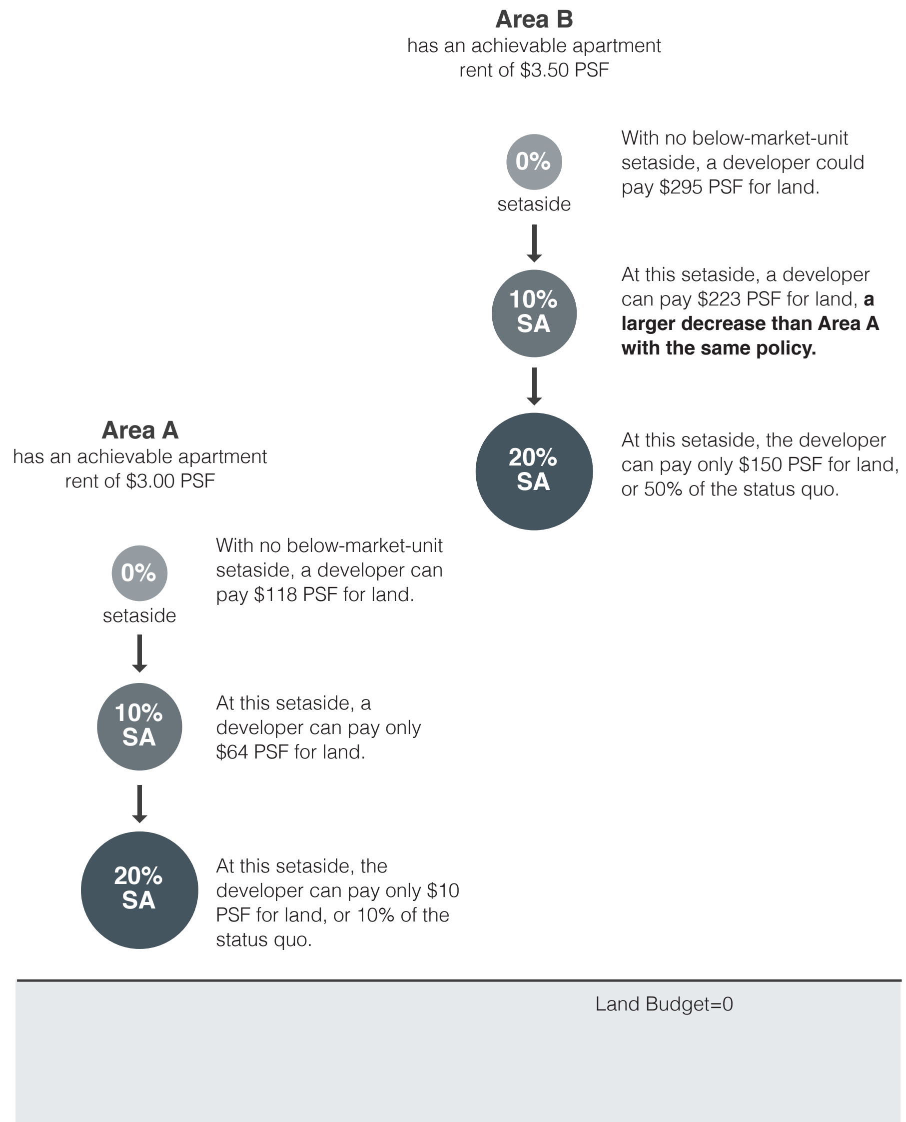
What it is: Most IZ policies establish a setaside of below-market units at between 10 percent and 20 percent of the total number of units in a proposed development project.

How it affects the pro forma: As the setaside percentage increases, the average per-unit revenue of a development declines. In general, the revenue loss associated with increasing the setaside percentage is greater for projects that can generate higher market-rate rents.

Key takeaway: The setaside (or percentage of units required to rent below market) can significantly affect development feasibility.

Assessing the impacts of depth of affordability targets: This graphic shows the impact of different setaside levels at 80 percent of AMI within two different areas of a city: Area A with rents at $3.00 per square foot and Area B with rents at $3.50 per square foot.

Land residual of a 4 over 1 podium building at different setaside levels:



Note: PSF=per square foot, SA=setaside.

Assessing the Impacts of Below-Market-Unit Income Levels

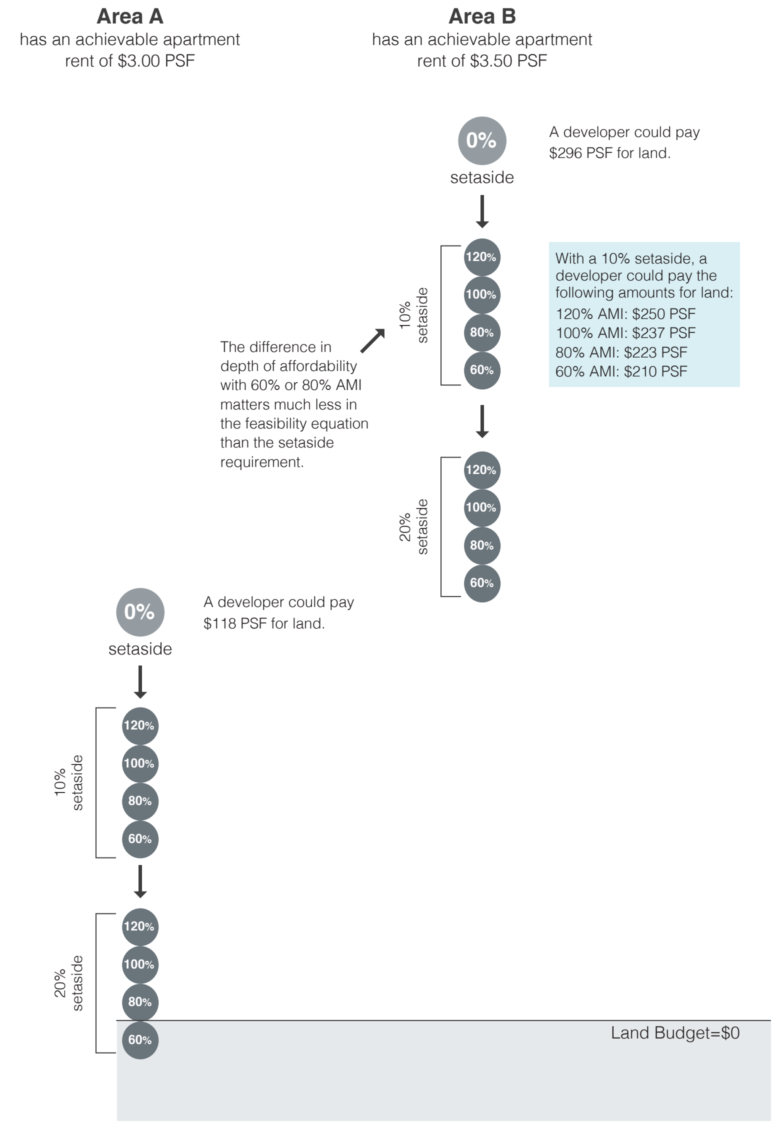
What it is: Most IZ policies target below-market units to households earning between 60 percent and 120 percent of AMI. Many programs also specify narrow income bands within these ranges.

How it affects the pro forma: Lowering the income levels of the below-market units in the IZ policy has the same effect as the setaside percentage. It reduces project income and prospective investor returns relative to the status quo.

Key takeaway: The required level of affordability can have a significant impact on development feasibility.

Assessing the impacts of depth of affordability targets: This graphic shows the impact of different setaside levels and depth of affordability targets within two different submarkets in a city: Area A with rents at $3.00 per square foot and Area B with rents at $3.50 per square foot.

Land residual of a 4 over 1 podium building at different rent targets:



Note: PSF=per square foot.

Policy Tradeoffs Exist from the Developer's Perspective

Policy makers can make tradeoffs between the percentage of units set aside for below-market housing and the depth of affordability of units. Because of the varying sensitivity of land residuals in different contexts, policy makers may experience resistance from the development community about the effects of different IZ policies. Policy makers should be aware of the context-specific tradeoffs of IZ requirements and consider policies that vary by context or policies that allow flexibility between affordability targets and the percentage of below-market units.

Scenario 1: Land Residuals (Stacked Flats)

Where market rents and below-market rent targets are relatively close, development impacts may be relatively small if only a small percentage of units is required. However, in such instances, developments may yield similar land residuals when a high percentage of units is required at a higher level of affordability. For that reason, developers that focus on low-rise apartments in suburban locations may argue against deeper levels of affordability.

Market situation within the region: Market-rate rents ($2.25) at or close to below-market rent targets.

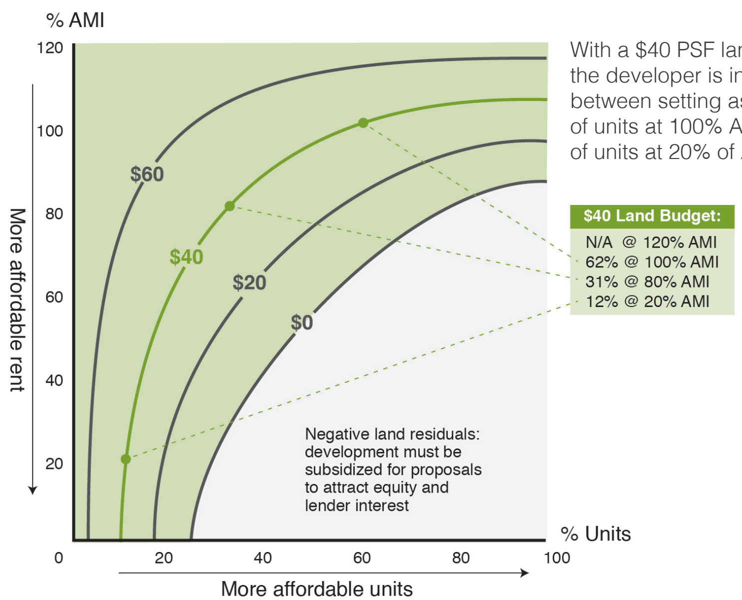
Impact: The developer may be able to accommodate a high percentage of below-market units in a development project at higher AMI-based affordability targets and still expect an adequate land budget.

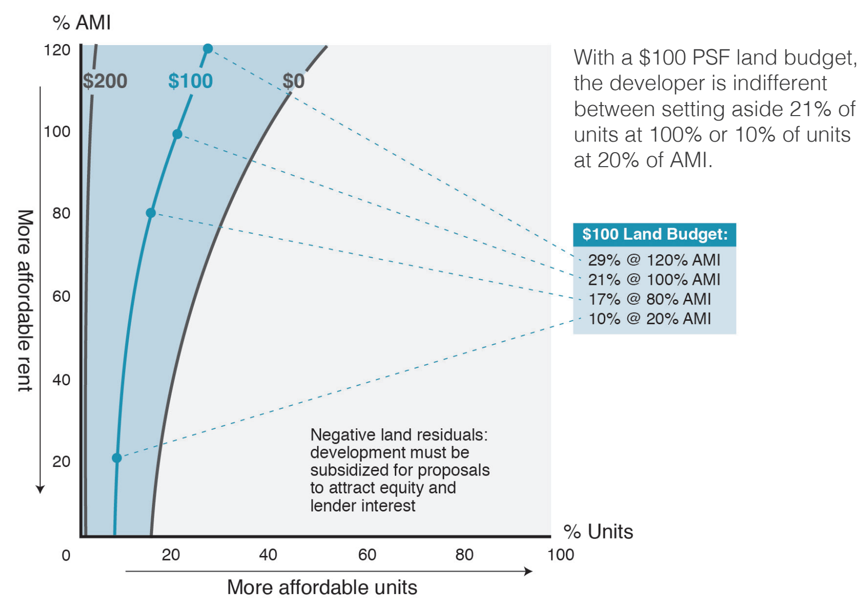
Scenario 2: Land Residuals (4 over 1)

Where market rents are high relative to below-market rent targets, developers are relatively indifferent to below-market rent targets. In such circumstances, projects may yield similar land residuals with either high or relatively deep below-market rent targets as long as only a small percentage of units is required. For this reason, developers that focus on mid-rise and high-rise projects in high-rent submarkets may argue against requiring higher percentages of below-market units.

Market situation within region: High market rents ($3.25) relative to below-market rent targets.

Impact: The depth of affordability has less impact on the developer's ability to acquire the site than the unit setasides.





Section III: Optimizing the Effectiveness of Incentives for Inclusionary Development

Development incentives are often required to encourage and enable the private sector to produce the desired amount of new workforce housing units as part of an IZ policy. The question is: What type and mix of incentives make most sense?

The answer is that it depends on local market (and submarket) conditions and development product type, as summarized in section I. Unless market-rate rents are high enough to cross subsidize the below-market units, the value of development incentives in most cases will need to substantially mitigate, if not fully offset, the costs (in lost economic value) of the below-market setaside and income targeting, as discussed in Section II.

Local communities have an array of options for providing inclusionary development incentives. This section assesses the utility and limitations of four types: direct subsidies, tax abatements, density bonuses, and reduced parking requirements. (Some jurisdictions reduce or waive fees as an inclusionary development incentive; while often helpful and worth doing in general, fees are generally not a primary determinant of feasibility.)

Local governments can also give developers the ability to opt out of an inclusionary commitment by making a payment to the jurisdiction in lieu of meeting the IZ requirement to provide below-market units on site. This option is also discussed in this section.

To understand how developers would likely respond to these incentives in the context of an IZ policy given a particular construction type (stacked flat, four over one, and residential tower) and local market conditions (rent/purchase price, construction costs, land prices, etc.), we used building prototypes and pro formas to standardize the financial analysis. To aid in the evaluation of the effectiveness of different policy approaches, we used computer algorithms to run multiple pro forma permutations. Thus, although our modeling and examples may not precisely reflect costs and impact in some markets, they are broadly illustrative of national development variables.

1400 Mission Street, San Francisco, California. (Tishman Speyer)

Direct Construction Subsidies Can Enhance Feasibility but Can Be Expensive

Takeaways: Direct construction subsidies provide an offset to the costs of development and can be used to incentivize development in locations where it might not otherwise be feasible. Construction subsidies are very effective and efficient from a developer's perspective.

What it is: One-time infusion of funding that reduces construction costs.

Examples: Forgivable zero-interest loans and grants; low-interest equity loans; tax increment investments; sales tax exemptions; prevailing wage exemptions; land writedowns if land is publicly owned; fee waivers, etc.

How it affects the pro forma: Subsidies reduce the required equity or debt needed to fund construction. When hard construction and financing costs are reduced enough to offset the lost economic value associated with the below-market units, developers can afford to pay the market price for land.

Key considerations: Direct subsidies can be relatively expensive, especially in high-cost markets. Using public subsidies to support IZ by definition diverts public resources from other priorities and may engender community opposition on these grounds. Direct subsidies may also come with local requirements that increase development costs, such as prevailing-wage and local-hiring mandates.

Direct construction subsidies required to offset IZ requirements vary by market strength. The higher the submarket rents, the greater the subsidy required to fill the gap between achievable submarket rents/prices and AMI restricted rates.

The chart below shows the amount of capital subsidy required to offset IZ setaside requirements for three development typologies with varied rent inputs. The subsidies are measured per building. Not surprisingly, the total subsidy required is greater at higher setaside amounts for all development typologies, and the highest-density development types require the largest subsidies (as much as $14 million for one residential tower building when 20 percent of the units are required to be set aside as below market).

Capital Subsidy to Offset IZ Impacts at 80% AMI

Lighter bars denote 10% setaside; darker bars denote 20% setaside.

Tax Abatements Can Incentivize Development in Otherwise Infeasible Locations

Takeaways: By reducing annual operating costs, tax abatements can help offset the negative economic impact of IZ. Relatively few cities to date have used tax abatements in connection with IZ, suggesting an opportunity for wider use.

How it works: Tax abatements provide a temporary (or, less frequently, permanent) reduction in recurring taxes associated with real property or tenants of real property.

Examples: Property tax assessment freeze; property tax rate reductions; sales, import, or income tax-free zones.

How it affects the pro forma: Tax abatements can enhance development feasibility by allowing operators to reduce their operating costs. Either yields higher NOI and a higher property value.

Key considerations: Tax abatements divert resources from other local priorities and their establishment may be politically infeasible. In fact, some jurisdictions limit or preclude tax abatements and similar tax relief approaches. In addition, tax abatements may conflict with other tax-based urban development incentive programs. For example, tax increment financing (TIF) is a tool used by jurisdictions to provide capital subsidies to development projects. However, TIF relies on property tax revenues, some of which may be forgone with property tax abatements.

Finally, the scale of the tax abatement is limited by a jurisdiction's tax formulas. For example, some development proposals may require subsidies greater than the project's total tax burden. Therefore, tax abatements may be insufficient incentives to fully offset the impacts of IZ. The chart below describes the level of tax abatement required to fully offset the impacts of IZ for a set of hypothetical circumstances.

Tax Rate Abatement Required to Offset IZ Impact at 80% AMI

Lighter bars denote 10% setaside; darker bars denote 20% setaside.

Density Bonuses Can Enhance Feasibility Where Development Is Already Occurring

Takeaway: Working with the local development community to craft sensible bulk and height policies is one way to address housing affordability irrespective of inclusionary zoning. Density bonuses are by far the most common form of incentive that accompanies IZ policies and are used in both voluntary and mandatory programs.

How it works: Density bonuses allow developers to build larger buildings (in terms of height or floor/area ratio) on a site as an incentive or offset for providing below-market units.

How it affects the pro forma: Density bonuses can enhance development feasibility—and mitigate negative economic impacts associated with below-market units—by increasing a property's gross rents, which can generate more rent and yield a higher land value.

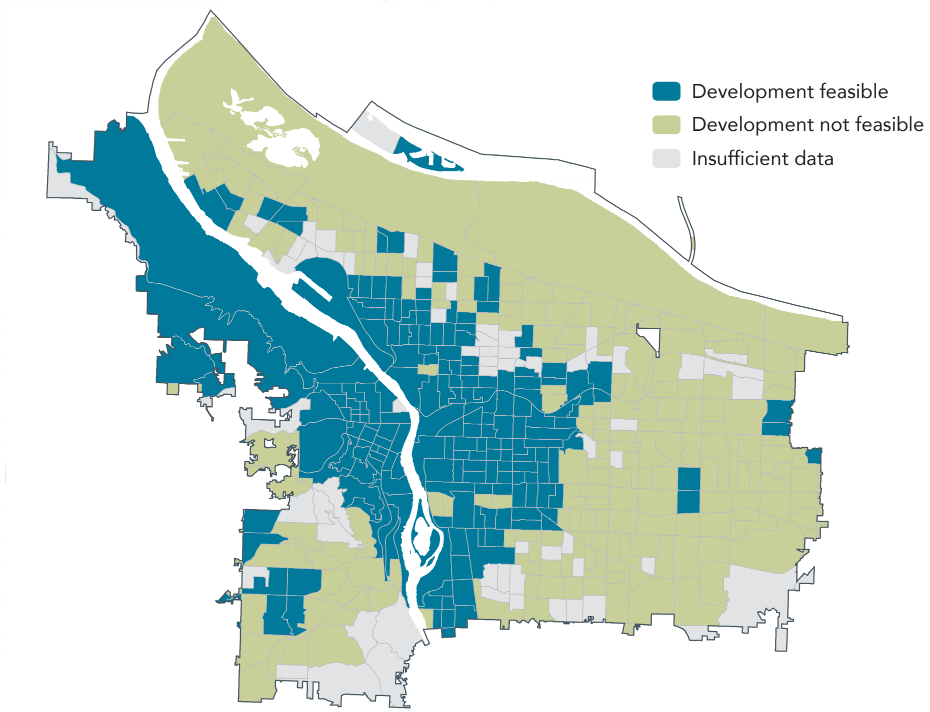
Key considerations: The effects of density bonuses vary substantially based on market conditions. In general, density bonuses are attractive only in markets where developing additional square feet of new development is profitable. Density bonuses by definition will not provide an incentive in areas where market-rate development is not already occurring and will offer only a modest incentive in areas where development is happening on a limited basis.

Increasing density, height, or both can put properties into another construction cost category. For example, a building can change from a podium construction type (maximum of six or seven stories) to a steel and concrete construction (more than seven stories) and actually make a denser project less feasible. It can also interact with parking requirements in ways that create development challenges. If each additional unit carries with it the burden of additional parking, this "incentive" can both add upfront costs and make for a less efficient building configuration—for example, requiring parking underground to accommodate additional stalls.

Adding density to a site may reduce the efficiency of the layout or generate layouts that are less attractive. For example, if the only way to take advantage of a density bonus would be to reduce the widths of light wells, courtyards, and open spaces, it may reduce the achievable rents of the project and yield a less profitable building than a lower-density alternative.

Case Example

This map illustrates the results of financial feasibility modeling, based on the achievable rents in U.S. census block groups in Portland, Oregon. It shows that development at any density is feasible only in certain parts of the city. Any policies that seek to leverage private development would have power only in these areas.



Note: This map displays the feasibility of any of the three development types (stacked flats, 4 over 1, residential tower) based on an assumed land value of $0. Because it is unlikely that land will be available at a price of $0, this map is more representative of where market-rate development is *not* likely to occur than where it will occur.

Reduced Parking Requirements Can Enhance Feasibility in Certain Scenarios

Takeaway: Development incentives that reduce parking requirements are valuable only where the policies require more parking than a developer would optimally provide.

How it works: This approach allows developers to reduce the amount of parking required to be built as part of a development.

How it affects the pro forma: Parking requirements can have a material impact on development costs, because parking is expensive to build ($30,000–$50,000 per underground space in many urban markets) and often does not produce revenue. By decreasing construction costs, reducing parking requirements can enhance development feasibility and mitigate negative economic impacts associated with below-market units. The value of parking incentives is related to the optimal parking configuration for a project as well as to the required amount of parking.

Key considerations: Parking reductions may be valuable in some locations and have little or no value in other contexts (for example, immediately adjacent to a high-capacity transit line). A reduction in required parking is beneficial only where requirements are set higher than market demand.

The value of a parking reduction will vary based on the optimal building form, given the parking requirements. For example, a parking reduction may allow a developer to use more of a parcel's area for building footprint and therefore provide more housing units. Given the higher planned use of the land, the developer can offer to pay more and is more likely to strike a development deal with the landowner.

Parking capital costs vary considerably based on the type of stalls. For example, a project with surface parking may see only a modest reduction in project cost by reducing the number of stalls. In contrast, a central-city tower with underground parking may save tens of thousands of dollars per unit by reducing the number of stalls provided.

A reduction in parking may have negative effects in some development situations. For example, reducing the amount of parking in an upscale condominium tower may lead to lower sales prices because potential homeowners must pay for off-site parking. Reducing the amount of parking in a suburban garden apartment complex may lead to lower rental rates because of the difficulties tenants may face when seeking a parking spot near their unit. Thus, developers may not take advantage of lower parking requirements in many cases. For these types of reasons, lenders may object to reductions in the parking provided in a given development.

Rhode Island Row, Washington, D.C. (Urban Atlantic and A&R Development)

Opt-Out Options Payments Can Provide Flexibility but Come with Tradeoffs

Many IZ policies provide developers the option of buying out of the requirement to directly produce below-market units within their proposed market-rate development projects. Three opt-out options are discussed most prominently in the literature: in lieu payments, off-site provision, and donating off-site land. Developer payments made in lieu of delivering below-market units off site are typically used by cities to directly support the development of workforce housing units elsewhere. Though less common, some IZ policies give developers the opportunity to provide workforce housing off site rather than delivering the units within the same physical structure. In rare instances, developers may donate buildable land to a housing agency in lieu of providing the below-market units required by the IZ policy.

Each of these opt-out options is an alternative that developers can weigh against building below-market units within their market-rate developments, and all of the options can advance the policy goals of IZ. Policy makers must understand how these options might be perceived by developers to understand their efficacy and the policy tradeoffs that exist.

Setting the in lieu payment amount affects IZ outcomes. If the payment amount is set high, developers may not be able to feasibly support the in lieu payments and will either be able to deliver the below-market units within a project or not build at all. If the payment is set low, the local jurisdiction may realize less workforce housing development than might have been achievable through the IZ policy.

Several typical approaches exist to setting an IZ in lieu payment amount. The amount can be set as (a) the difference in development costs between market-rate and below-market units; (b) the difference between the value of the market-rate and below-market-rate units; or (c) the average amount of subsidy per unit that the local government currently provides for development of similar units. Fees may be set based on the total square footage of the market-rate development project or the number of units.

In both cases (a) and (b), the in lieu fee amount would depend on the submarket and the highest and best use of particular development sites. Because IZ policies are typically formulated as standard one-size-fits-all requirements across entire jurisdictions, the resulting in lieu fees may be set high or low relative to most submarkets. Context-oriented in lieu fees can yield better results for both developers and policy makers. Whatever the policy formulation, indexing or otherwise enabling IZ in lieu fees to fluctuate with inflation or local development costs can prevent their erosion as a resource over time.

An important policy consideration in establishing an IZ off-site option is defining the off-site location of new below-market units. Should the off-site location be required to be at another site in the vicinity of the market-rate project or at any location? On the one hand, requiring the units nearby may ensure that workforce housing units have access to the same assets and amenities as market-rate housing units.

On the other hand, allowing workforce units to be located far from developers' original projects, specifically in areas where land is less expensive, may allow off-site policies to generate a higher number of new workforce units. In either case, jurisdictions must carefully structure and closely assess the outcomes of IZ off-site provisions.

Likewise, jurisdictions must be careful in formulating land donation policies as an IZ opt-out option. Portions of the property being developed for market-rate housing could be donated to an affordable housing developer, a nearby parcel could be donated, or a distant location could be donated. Workforce housing units built near the market-rate units give both sets of housing units access to the same amenities.

Jurisdictions must consider the difficulty of delivering units in various locations, including the cost of doing so, and the timing of delivery. Site donation often shifts the burden—including all the risks—of developing workforce housing to the jurisdiction, its housing development partners, or both. Further, depending on the capacity of the jurisdiction, this may lead to a delay in delivering the workforce units relative to the timing of on-site and off-site requirements.

Like the other IZ design elements, the efficacy of opt-out provisions varies with market conditions, developers' capacities, and the availability of incentives that can make on-site provision of below-market units more attractive than opt-out policy options.

Putting It All Together

In some areas, cities will likely need to provide multiple incentives to optimize private sector participation in an IZ policy to offset the costs of producing ambitious inclusionary housing goals. The following two scenarios demonstrate the impact of a 20 percent setaside, targeting 80 percent of AMI, on land value. We then display the effect of two different policy incentives—a property tax abatement and a parking requirement reduction. The property tax incentive is modeled as a full abatement assuming a rate of 1.5 percent of market value. The parking ratio incentive reduces the required parking ratio from one per unit to 0.5 per unit.

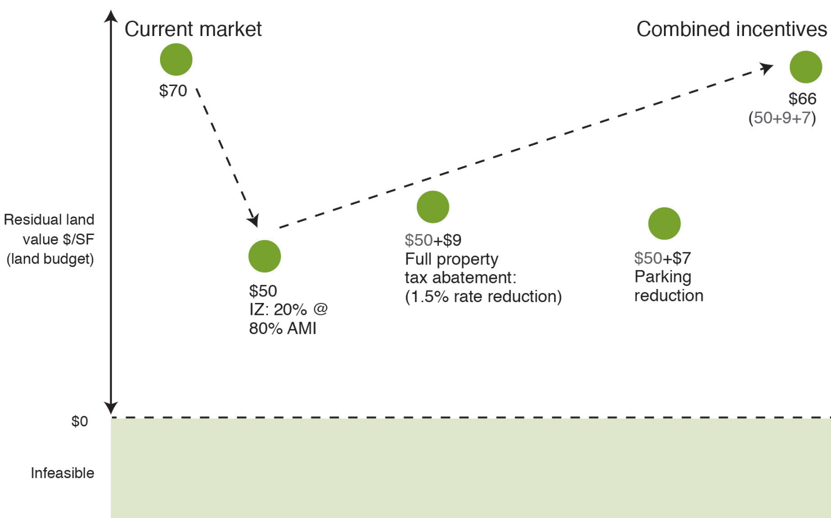
Scenario 1: Stacked-flat building with market rents at $2.25 PSF

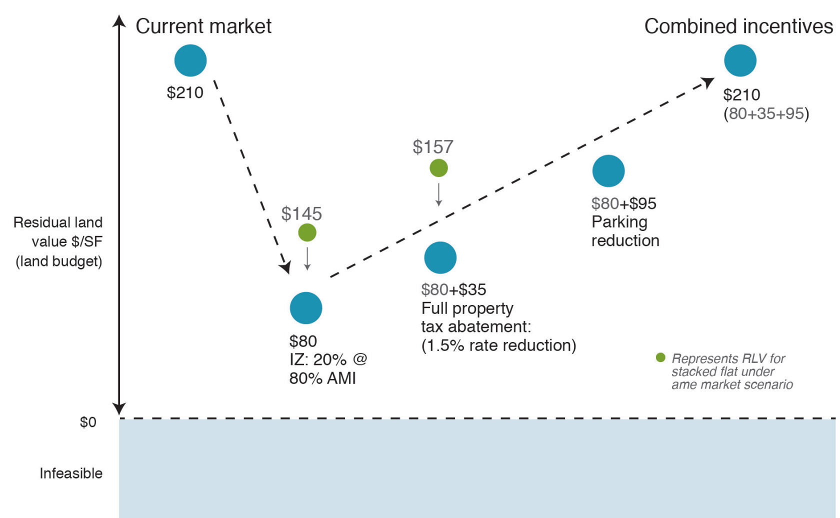
A developer proposes a three-story building in an area with rents of $2.25 per square foot. With no incentives to offset an IZ policy, the development is feasible only if the developer is able to acquire the land at a price of about 70 percent of its pre-IZ policy market value—$50 per square foot compared with $70 per square foot. The developer will also consider uses other than apartments with land values greater than $50 per square foot. When combined, incentives allow a developer to pay up to $66 per square foot for land, which is slightly lower than the minimum land cost the developer can afford to pay before the IZ policy. The incentive would increase the likelihood of development occurring absent an incentive.

Scenario 2: 4 over 1 podium building with market rents at $3.25 PSF

A developer proposes a mid-rise, five-story building in an area with achievable rents of $3.25 per square foot. With no incentives, the development is feasible only if the developer is able to acquire the land at a price of about 40 percent of its pre-IZ policy market value—$80 per square foot compared with $210 per square foot. The developer will consider alternative uses with land values greater than $80 per square foot.

When combined, these incentives allow a developer to pay up to $210 per square foot for land, which completely offsets the impact of the IZ policy and allows the developer to pay the same amount for land prior to the IZ policy.





● The green dots represent residual land value (RLV) for stacked-flat building under same market scenario. Under these policy regimes, the stacked-flat prototype yields a higher RLV than the 4 over 1 prototype, suggesting a developer may choose to build at a lower density.

Conclusion

IZ policies can be an effective tool for harnessing local real estate market dynamics to generate development of new workforce housing units under certain conditions. Most important, IZ policies depend on market-rate development to be successful; areas not experiencing any or much market-rate development will likely not generate significant results from an IZ policy.

In very strong development environments (substantial amounts of new construction and rehabilitation, steady rent and price growth, low vacancy rates), IZ policies can yield development of new workforce housing units without subsidy or other development incentive from the local jurisdiction. In some moderately strong development environments, IZ policies can achieve their goals as well, provided the city or county contributes the optimal levels and combinations of development incentives.

For a site to be developable, landowners must be willing to part with their land and any occupied or operating asset on the site for a price that developers can afford. The price that developers are willing to pay is determined by the financial viability of a proposed development project on that site. Because IZ policies may reduce what a developer can pay for land, the best-case scenario is that the reduced land value is still the highest and best use for that site at that moment in the market cycle, and absent any price adjustment for the landowner, the development outcome will still be the same. However, that is not always the case. In many instances, incentives are required for development to be feasible.

To the extent that IZ policies remain in place over a sustained period of time, land prices may adjust and the IZ requirements may be absorbed as a "cost of doing business" in the jurisdiction. The challenge is that the most effective IZ policies need to have the ability to adapt in response to changing market conditions. Both these somewhat opposing values—policy consistency and policy flexibility—have value to developers and contribute to the success of an IZ policy. Balancing them appropriately in design and administration of IZ is perhaps the central challenge for cities seeking to make best use of this particular policy tool.

In the right market conditions and with the optimal availability of development incentives, IZ policies can generate development of new workforce housing units that would not otherwise be built. Even in such situations where the "stars align," IZ at its most effective is only one tool in what must be a broad-based toolbox available to local governments to meet their workforce housing needs.

Via6, Seattle, Washington. (Tim Rice Architectural Photography)

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Urban Land Institute

2001 L Street, NW
Suite 200
Washington, DC 20036-4948
www.uli.org

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Development Code – Focus Group

Meeting Minutes
San Marcos Workforce Housing Task Force
Wednesday April 4, 2019 – 12:00 p.m.
2nd Floor Municipal Building 630 E Hopkins Street

PURPOSE OF THE MEETING**:** Review and discuss potential development code updates to encourage or require additional affordable and workforce housing.

ATTENDANCE:

Task Force Members: Laura Dupont, Gloria Salazar, Albert Sierra, Will Holder, Robert Watts, Michael Nolen

Staff: Abby Gillfillan, Andrea Villalobos, Chris Sanchez, Stacy Brown

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AGENDA

1. Review and discuss current San Marcos Development Code incentives for workforce and affordable housing
   a. Task Force members recommended that the existing incentives be promoted to encourage more affordable housing and to make sure that they are usable and helpful.

2. Review and discuss strategies from surrounding Cities and Model Ordinances
   a. Robert Watts shared Habitat's shared equity model for achieving long term affordability

3. Review and discuss an interim and long term strategy for Code updates based on the project schedule.
   a. Task Force Members reviewed and provided feedback and direction on a draft report and letter describing interim and comprehensive amendments to the Development Code.