

While affordable housing is generally squeezed out of high cost housing markets, there is a potential silver lining for affordable housing development in such areas. Local authorities can employ developers' eagerness to build in these markets to spur the production of affordable units along with the market-rate housing units they hope to build. For example, some local governments offer cost offsets or incentives to developers who voluntarily agree to set aside a certain percentage of housing units for low- and moderate-income households within otherwise market-rate developments. Alternatively, many localities can require that developers create these affordable housing set-asides by adopting "inclusionary zoning" or "inclusionary housing" ordinances.

Inclusionary programs first appeared in the 1970s and have been adopted by hundreds of jurisdictions around the nation. There is a great deal of variation in the way these inclusionary programs are structured. From the percent of units required to be affordable to the income-targeting of the units to the project size threshold for triggering an inclusionary requirement, each program sets unique performance guidelines. There are also variations in the way developers are brought to the table. Incentives and cost offsets, which are often incorporated into ordinances, can include density bonuses that allow builders to place more units on a site than allowed under the zoning guidelines, fee reductions or waivers, streamlined permitting processes, or reduced parking requirements. Developers are also given the option of building affordable units off-site or contributing in-lieu fees to a housing trust fund rather than building units on-site.

One of the first, and most successful, inclusionary programs is in Montgomery County, Maryland, where the county's Moderately Priced Dwelling Unit program requires a 12.5-15 percent affordability component in both for-sale and rental developments. Montgomery County's program has created 13,000 affordable units in the county over the past 30 years.¹ In California, the 107 inclusionary programs in place as of 2003 accounted for the production of over 34,000 units of affordable housing over the preceding 30 years.²

Despite relative success, inclusionary programs are not without detractors. Critics of inclusionary policies argue that this market-based approach to affordable housing policy shifts the cost of affordable housing production from the public onto private developers. They contend that developers are forced to pass this cost onto market-rate homebuyers, or become so burdened by the added cost that they are dissuaded from developing any housing whatsoever. Claims are made that the resultant decrease in the overall supply of housing raises housing costs for everyone.

Supporters of inclusionary programs note that this argument doesn't hold up under scrutiny. Significant methodological flaws have been identified³ in the 2004 Reason Public Policy Institute report entitled "Housing Supply and Affordability: Do Affordable Housing Mandates Work?," which claimed that inclusionary programs in the San Francisco Bay Area had led to a decline in housing production. A study commissioned for the City of Los Angeles found that in California, inclusionary housing programs over a 20 year period (1981-2000) had not had a negative effect on overall housing production, and that most jurisdictions with inclusionary programs saw an increase in housing production.⁴

Arguments also crop up around the notion that inclusionary zoning constitutes an illegal "taking" by government since potential profits are reduced due to the requirements to construct affordable units. Legal precedent, however, has established the constitutionality of soundly structured and fairly applied inclusionary ordinances in areas where there is a clear need for affordable housing.⁵

Some difficulty remains in understanding the effectiveness of inclusionary programs. This is in part because critics and supporters of inclusionary policies often use the same data to argue very different points. For example, the Non-Profit Housing Association of Northern California, an affordable housing advocacy group, lauds the on-average production of 220 affordable units per year in the San Francisco Bay Area, where 57 jurisdictions have adopted inclusionary programs. The Reason Public Policy Institute used this same data as proof that the Bay Area programs were ineffective since *only* 220 units on-average were produced.

More research is needed to determine just how effective this policy measure is in creating affordable housing. In the meantime, high cost areas like Los Angeles, Maui, and Washington D.C. are debating proposals to adopt inclusionary ordinances, aiming to mirror other cities' efforts to translate high real estate demand into increased affordable housing. This is no small order, but is an important endeavor in areas where affordable housing is increasingly difficult to build.

For more information on inclusionary housing, particularly as experienced in California, see:

The California Inclusionary Housing Reader* and *Inclusionary Zoning: The California Experience

Available at <http://www.ilsg.org/inclusionary>

Endnotes

Affordable Housing in High Cost Areas

- 1 Nothhaft, F., A. C. Cutts, et al. (2005). "Driving Home the Point." *Economic & Housing Outlook*, July 7, 2005. July 13, 2005, from http://www.freddiemac.com/news/finance/outlooks/outlook_070705.html.
- 2 Leonhardt, D. (2005). Boom in Jobs, Not Just Houses, As Real Estate Drives Economy. *New York Times*, July 9, 2005, New York, NY.
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- 4 Foust, D. (2005). The Mortgage Trap. *Business Week*, June 27, 2005.
- 5 See *Community Investments*, Volume 17, Number 1, January 2005, for a review of the community development needs of the Federal Reserve's 12th District.
- 6 Critical housing needs is defined as spending more than 50 percent of one's wages for housing—both rental or ownership—or living in substandard conditions.
- 7 Krainer, J. and C. Wei (2004). "House Prices and Fundamental Value." *FRBSF Economic Letter* 2004-27: 1-4.
- 8 Office of Federal Housing Enterprise Oversight, *House Price Index*, available at <http://www.ofheo.gov/HPI.asp>.
- 9 Barbara Lipman (2005). *Paycheck to Paycheck: Wages and the Cost of Housing in America*. Center for Housing Policy, Washington, D.C.
- 10 Federal Deposit Insurance Corporation (2005). U.S. Home Prices: Does Bust Always Follow Boom? *FYI Revisited: An Update on Emerging Issues in Banking*, May 2, 2005.
- 11 Office of Federal Housing Enterprise Oversight, *House Price Index*, available at <http://www.ofheo.gov/HPI.asp>.
- 12 Joint Center for Housing Studies (2005). *The State of the Nation's Housing 2005*.
- 13 Federal Deposit Insurance Corporation, *2005 State Profiles*, accessible at <http://www.fdic.gov/bank/analytical/stateprofile/index.html>.
- 14 McDonough, S. (2005). Spiraling Housing Costs Hurting Americans. *San Francisco Chronicle*, April 29, 2005. San Francisco, CA.
- 15 Joint Center for Housing Studies (2005). *The State of the Nation's Housing 2005*.
- 16 For an introduction to the LIHTC, see the article in the March 2002 issue of *Community Investments*.
- 17 Joint Center for Housing Studies (2005). *The State of the Nation's Housing 2005*.
- 18 For information on the National Housing Trust Fund Campaign, visit <http://www.nhtf.org/>.

Adjusting Limits to Account for High Costs Areas (Box 1.1)

- 1 For a detailed explanation of the procedure, see United States Department of Housing and Urban Development (2004). "Statutorily Mandated Designation of Difficult Development Areas for Section 42 of the Internal Revenue Code of 1986; Notice." *Federal Register* 69(229).
- 2 The original legislation set a higher limit for mortgages on residences in Alaska, Hawaii, and Guam, all thought at the time to have higher than normal costs of building and lower than normal access to credit because of their remoteness. In those areas, the conforming loan limit was set at 150 percent of the limit that applied to the rest of the nation.
- 3 Miles, B. and M. Jickling (2005). Proposed Changes to the Conforming Loan Limit. *CRS Report for Congress*. Washington, D.C., Library of Congress Congressional Research Service.

North Beach Place (Box 1.2)

- 1 Adapted from Keat Foon (2004). "Golden Gate Bridging: Super-Sized Affordable Project In San Fran Layers on the Financing," *Multi-Housing News*, December 1, 2004; "Citibank and BRIDGE Housing Celebrate Creation of 341 Affordable and Senior Citizen Housing Units at North Beach Place," Citibank Press Release, June 17, 2003; and personal communication, John Stewart of the John Stewart Company.
- 2 Ilene Lelchuk (2005). "They Don't Call the Project Outta Control Anymore: Success of Renewal Using HOPE VI is Evident All Around," *The San Francisco Chronicle*, March 28, 2005.
- 3 U.S. Department of Housing and Urban Development, Fair Market Rents Schedule B, Fiscal Year 2006, available at: <http://www.huduser.org/datasets/fmr.html>.
- 4 San Francisco (2004). "One of California's Largest Affordable Housing Communities, North Beach Place, Opens to Residents Today in San Francisco," *Business Wire*, October 22, 2004.
- 5 Ryan Tate (2005). "Winner: North Beach Place, San Francisco, Real Estate Deals of the Year," *San Francisco Business Times*, March 25, 2005.
- 6 Therese Fitzgerald (2004). "San Fran Public Housing Project Completes \$106 million Makeover," *Commercial Property News*, November 16, 2004.

Endnotes

Inclusionary housing (Box 2.1)

- 1 Brunick, Nicholas (2004), "The Inclusionary Housing Debate: The Effectiveness of Mandatory Programs Over Volunteer Programs." *Zoning Practice*, The American Planning Association, September 2004.
- 2 *Inclusionary Housing in California: 30 Years of Innovation*. Non-Profit Housing Association of Northern California and California Coalition for Rural Housing, June 2003.
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- 4 David Paul Rosen and Associates (2002). *City of Los Angeles Inclusionary Housing Study*. Prepared for: Los Angeles Housing Department, September 25, 2002.
- 5 Homebuilders of Northern California vs. City of Napa, 90Cal.App 4th188.

State Housing Trust Funds

- 1 The Non-Profit Housing Association of Northern California (2005). *Making the Bay Area A More Affordable Place to Live: Progress Report on the Housing and Emergency Shelter Trust Fund Act of 2002*, May 2005.
- 2 Data on the number of housing trust funds are collected by the Center for Community Change. Because the field is changing so rapidly, it is hard to get an exact count of the number of housing trust funds in the United States.
- 3 In their original intent, housing trust funds were designed to be sources of public funding for affordable housing, and do not rely on corporate contributions, foundation grants, or bank commitments to be sustainable. Still, as employers increasingly recognize that housing affordability has a serious impact on their workers, promising models for cross-sector collaboration in the establishment of affordable housing trust funds are emerging.
- 4 Jeff Gray, Arizona Department of Housing. Personal communication 8/25/2005.
- 5 Arizona Department of Housing (2005). "Governor Announces Continuation of State Funding for Tribal Housing," *Information Bulletin*, August 15, 2005.
- 6 Gordon Pang (2005). "Conveyance tax hike will likely pass today," *Honolulu Advertiser*, May 3, 2005.
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- 9 Gordon Pang and Derrick DePledge (2005). "Taxes on real estate purchases may go up," *Honolulu Advertiser*, April 30, 2005.
- 10 Information on the Olene Walker Housing Trust Fund can be found online at http://community.utah.gov/housing_and_community_development/OWHLF/index.html.
- 11 PolicyLink (2005). *Expanding Opportunity: New Resources to Meet California's Housing Needs*. PolicyLink, California.

Not just your granny's flat (Box 3.1)

1. Gwen Mickelson, "Housing Prices Smash Record Again: Fewer County Residents are able to Afford Soaring Cost of Homes." *Santa Cruz Sentinel*, July 8, 2005. Available at <http://www.santacruzsentinel.com/archive/2005/July/08/local/stories/06local.htm>
2. "Out of Reach 2004," National Low Income Housing Coalition. Available at http://www.nlihc.org/oor_current/table3.htm

Figures

Figures 1.1 & 1.2: JCHS tabulations of the 2000 Census Supplemental Survey and the 2003 American Community Survey. Reprinted from *The State of the Nation's Housing 2005* with permission from the Joint Center for Housing Studies of Harvard University. All rights reserved.

Figure 1.3: Office of Federal Housing Enterprise Oversight (OFHEO). "U.S. House Prices Continue to Rise Rapidly," June 1, 2005. Data are reported for period ending March 31st, 2005.

Figure 1.4: Federal Deposit Insurance Corporation, *2005 State Profiles*, accessible at <http://www.fdic.gov/bank/analytical/stateprofile/index.html>. Data are for December 2004 and reflect the average annual growth for the preceding year. Washington data are for September 2004.

Figure 1.5: HUD's Fair Market Rents for 2004, based on methodology developed by the National Low Income Housing Coalition. Adapted from *The State of the Nation's Housing 2005* with permission from the Joint Center for Housing Studies of Harvard University. All rights reserved.

Figure 1.6: U.S. Department of Housing and Urban Development, Low Income Housing Tax Credit Database.

Figure 3.1: Center for Community Change (2005) www.communitychange.org