

Walking the Inclusionary Zoning Tightrope

The Economics of IZ

Ian Carlton
February 2nd, 2017

Cornerstone Calculator

The image shows a screenshot of the 'Cornerstone Calculator' web application. The interface has a blue header with the title 'High Rise - Rental' and several numerical values: '132' (units), '10%' (density), and '\$2,721,308' (total value). Below the header, there are input fields for 'Unit Price' (\$9,000) and 'Total Value' (\$2,721,308). The main body of the calculator is divided into several sections with sliders and input fields for various parameters like 'Density', 'Unit Price', 'Total Value', 'Density', 'Unit Price', 'Total Value', etc. On the right side, there is a red arrow pointing down to a button labeled 'Click here to Register for the Inclusionary Calculator'. The button is highlighted with a red border.

High Rise - Rental

132 units 10% Density \$2,721,308 Total Value

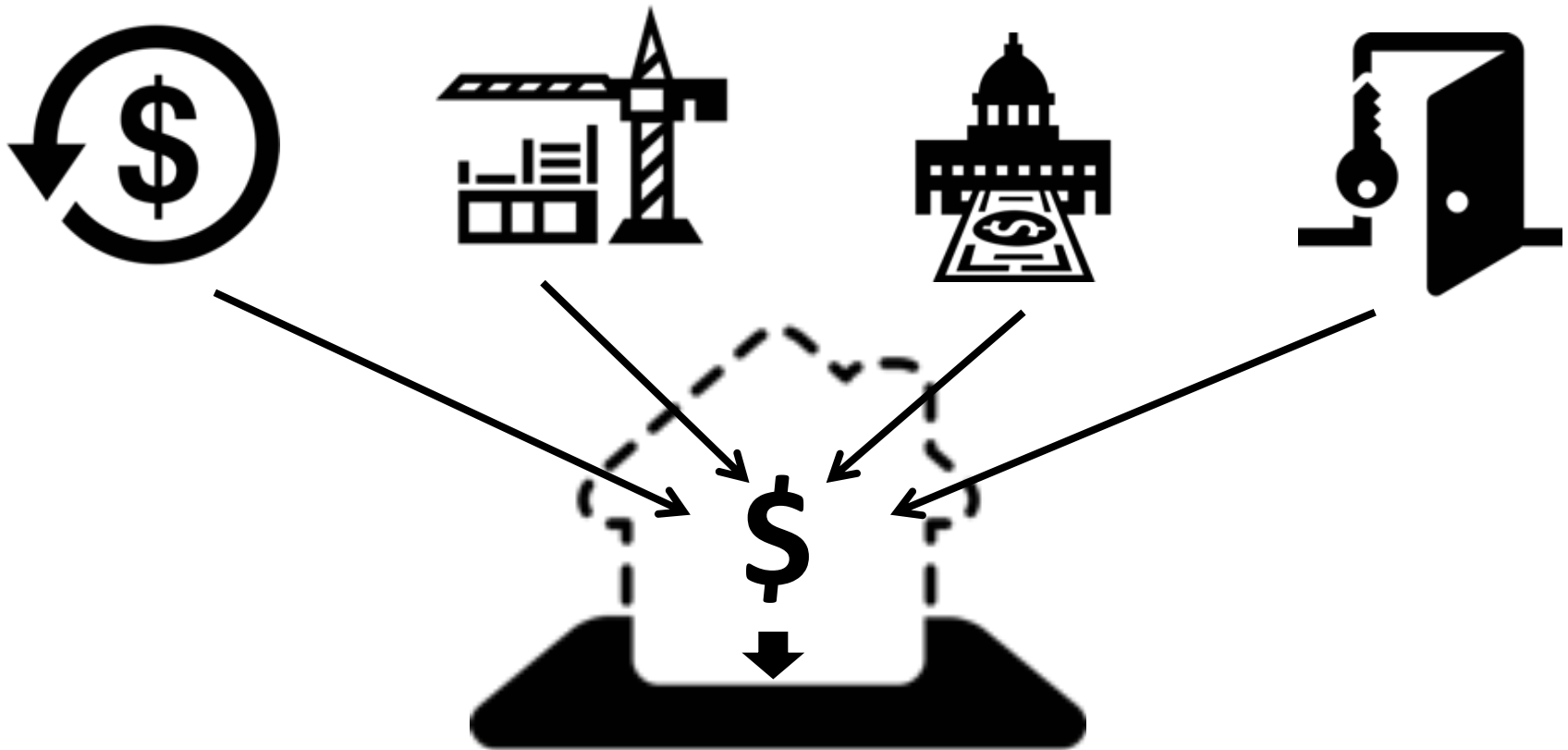
Unit Price \$9,000 Total Value \$2,721,308

Click here to Register for the Inclusionary Calculator

<http://www.affordableownership.org/inclusionary-housing/inclusionary-housing-calculator-tool/>

$RLV = \text{Developer Maximum Land Budget}$

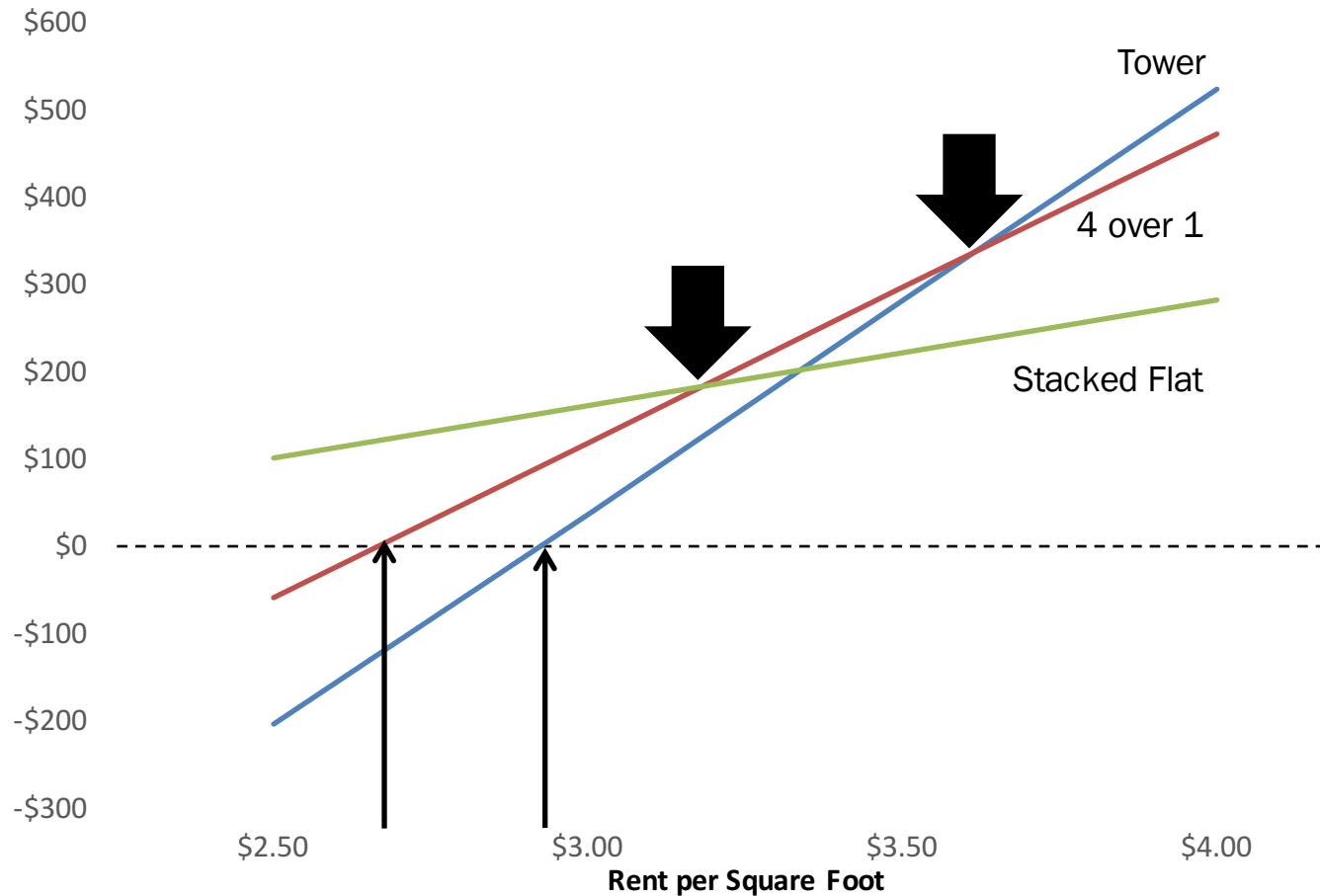
Given a set of capital, construction, operating costs, and revenue assumptions



Economics of Development



Residual Land Value by Construction Prototype

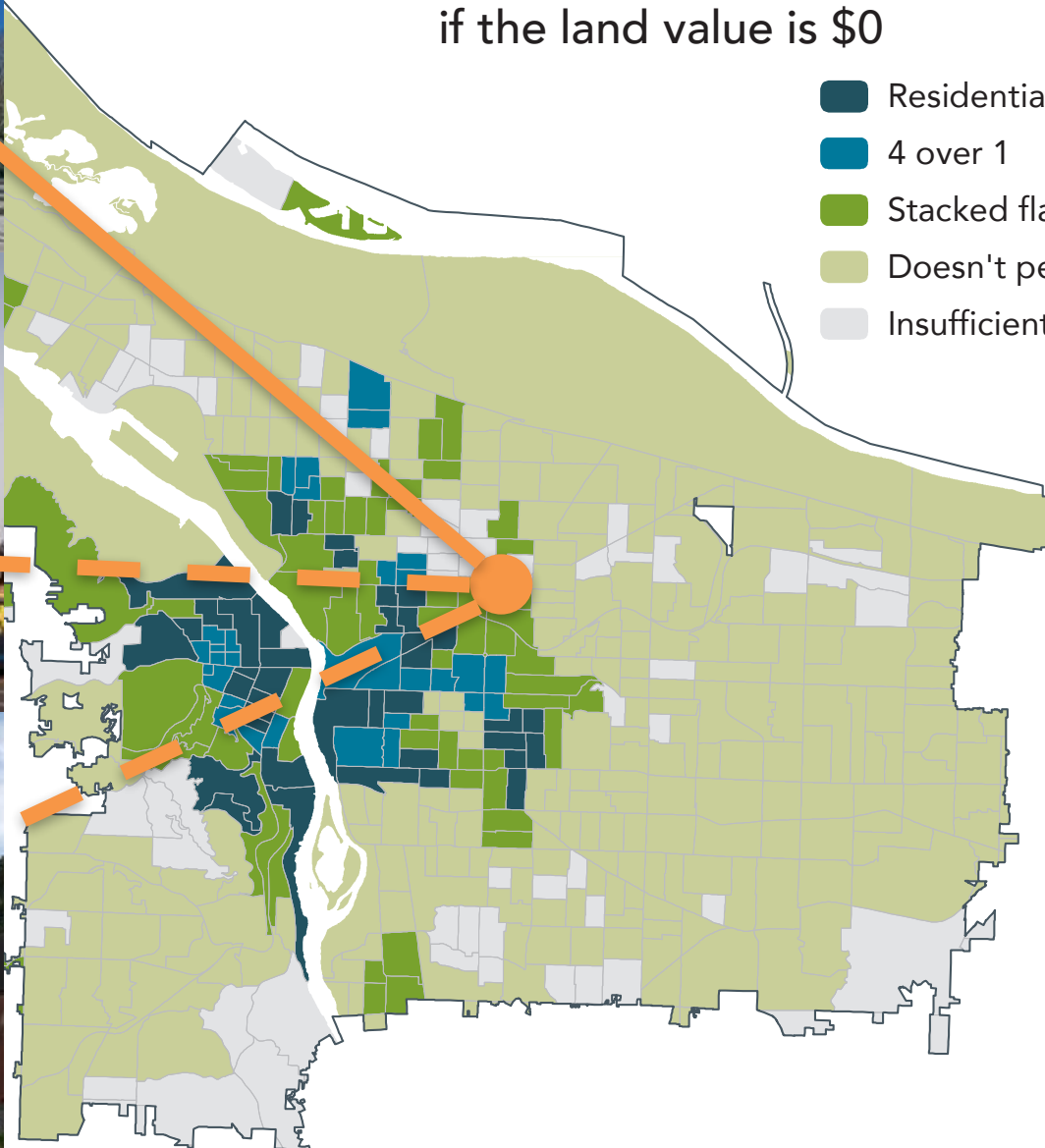


RLV = \$ per gross square foot of land

Housing Development Feasibility

Financially feasible building types
if the land value is \$0

- Residential tower
- 4 over 1
- Stacked flats
- Doesn't pencil
- Insufficient data



Stacked Flats



4 over 1 (podium)

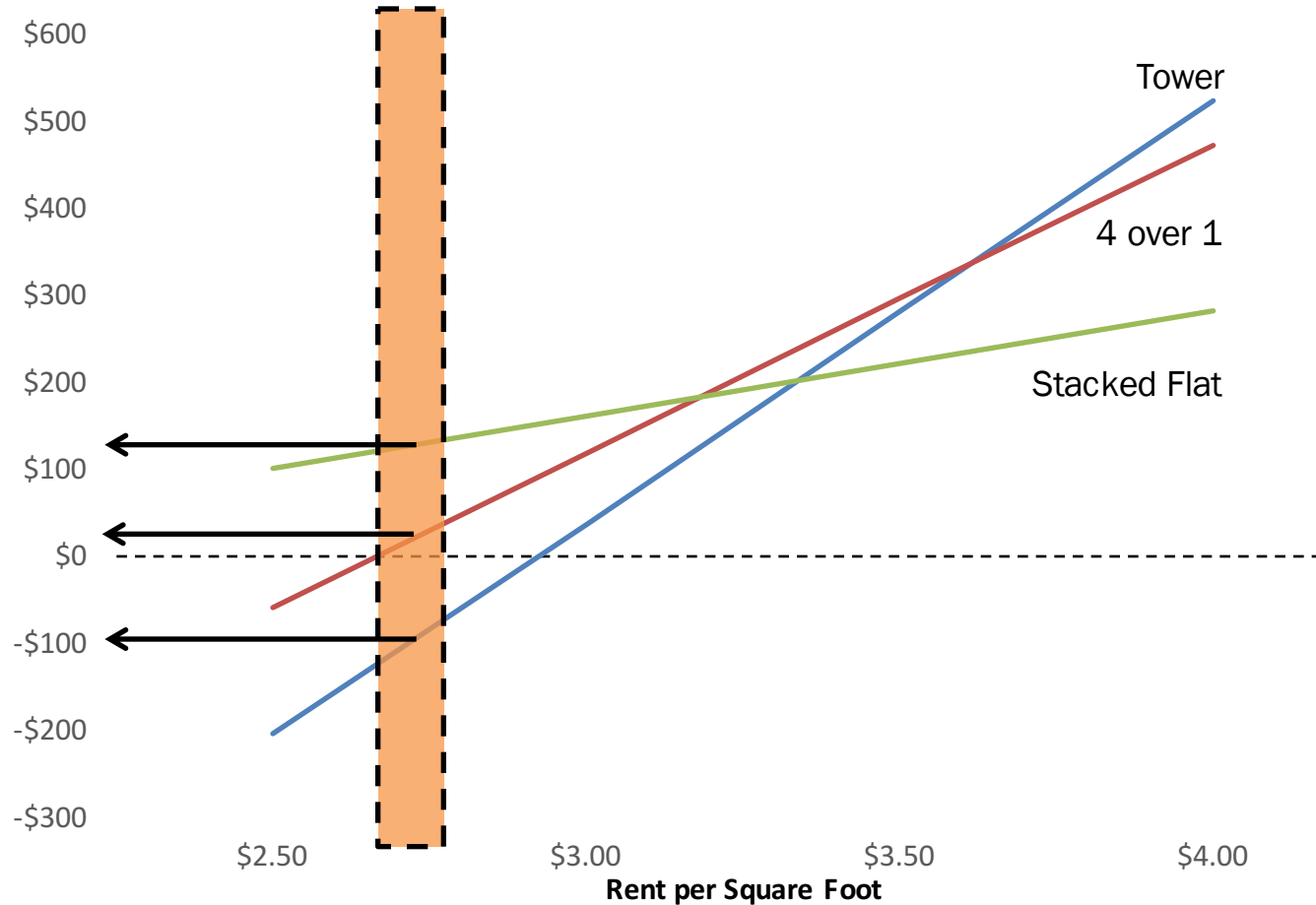


Residential Tower

Economics of Development



Residual Land Value by Construction Prototype

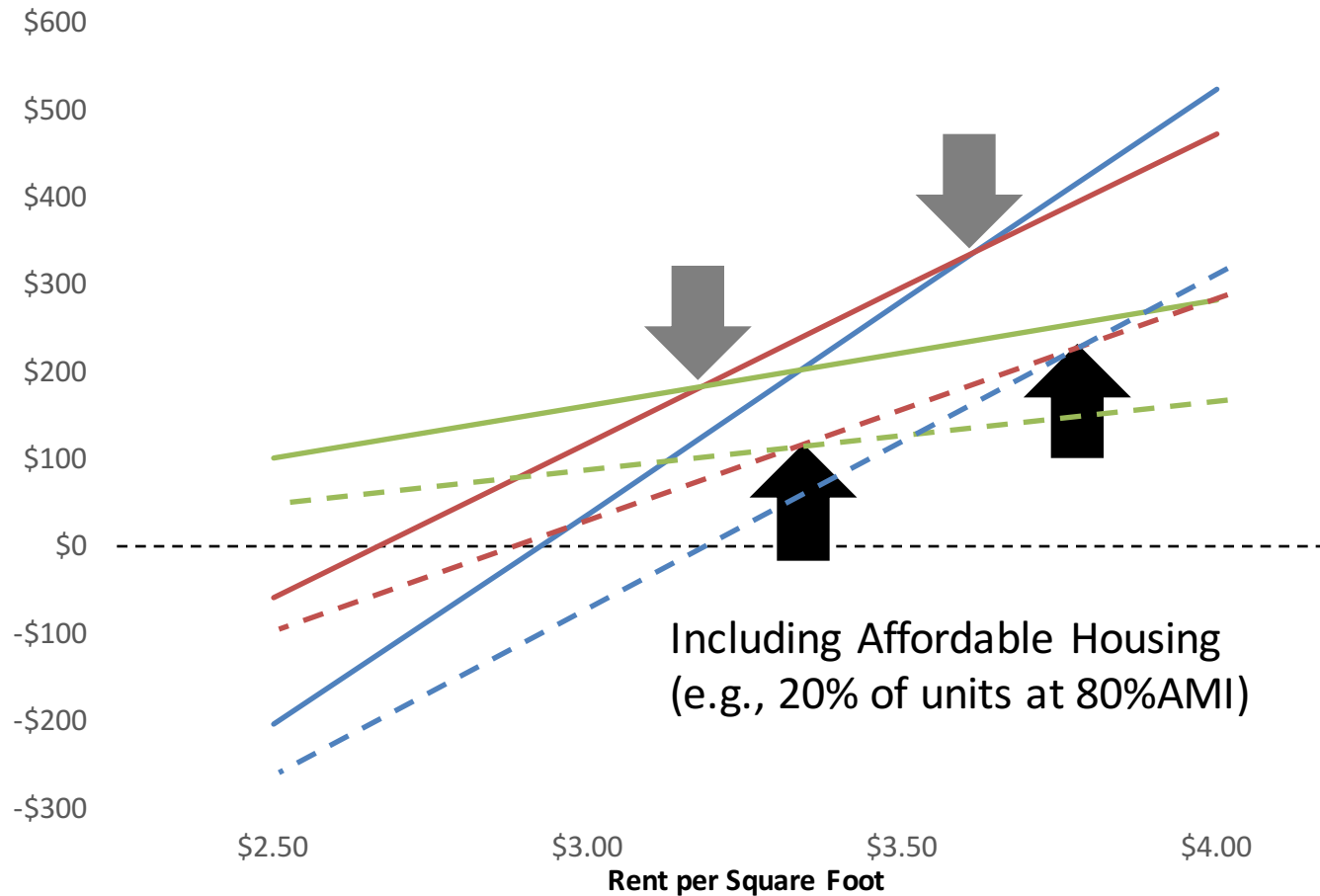


RLV = \$ per gross square foot of land

Economics of Development



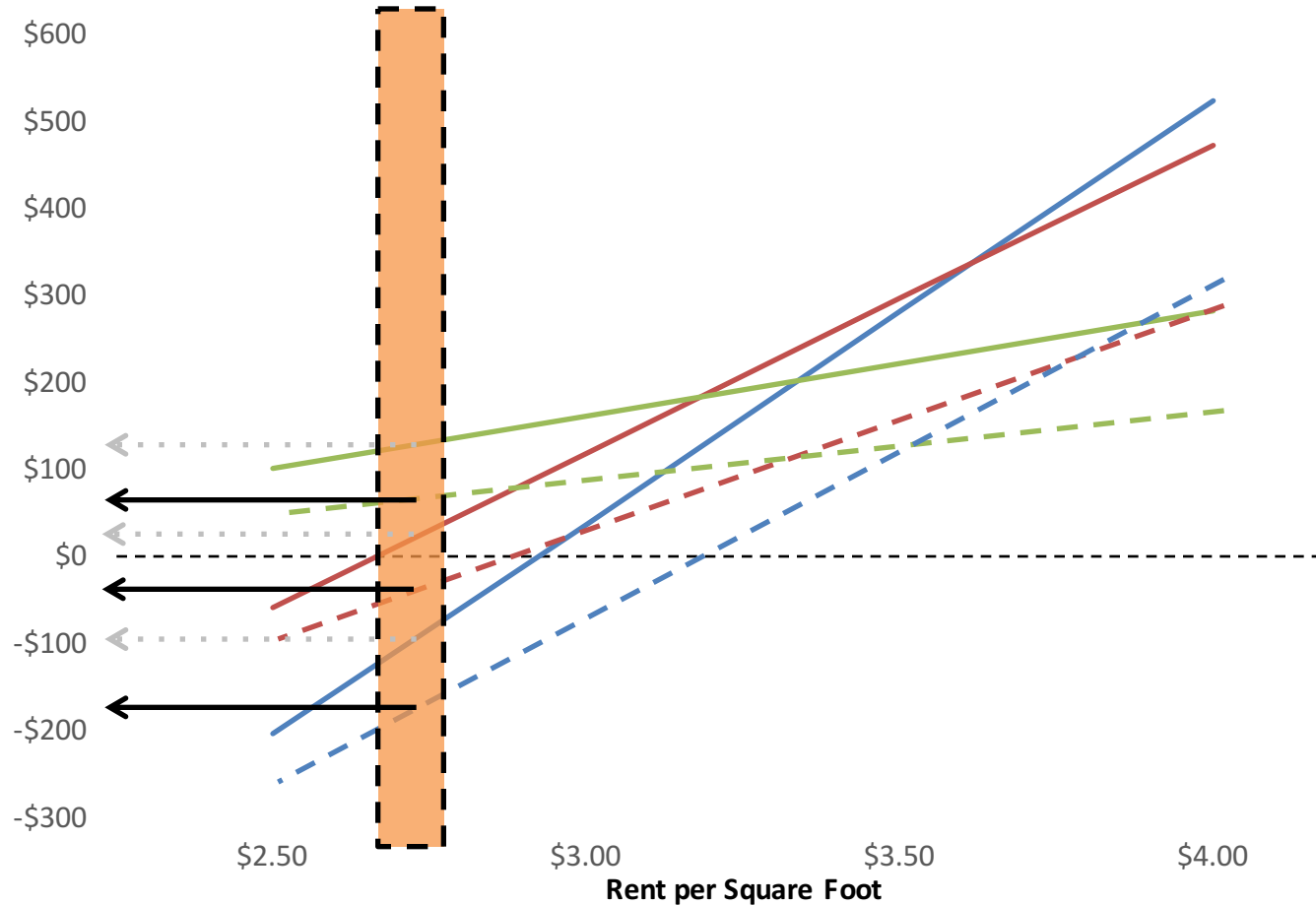
Residual Land Value by Construction Prototype



Economics of Development



Residual Land Value by Construction Prototype

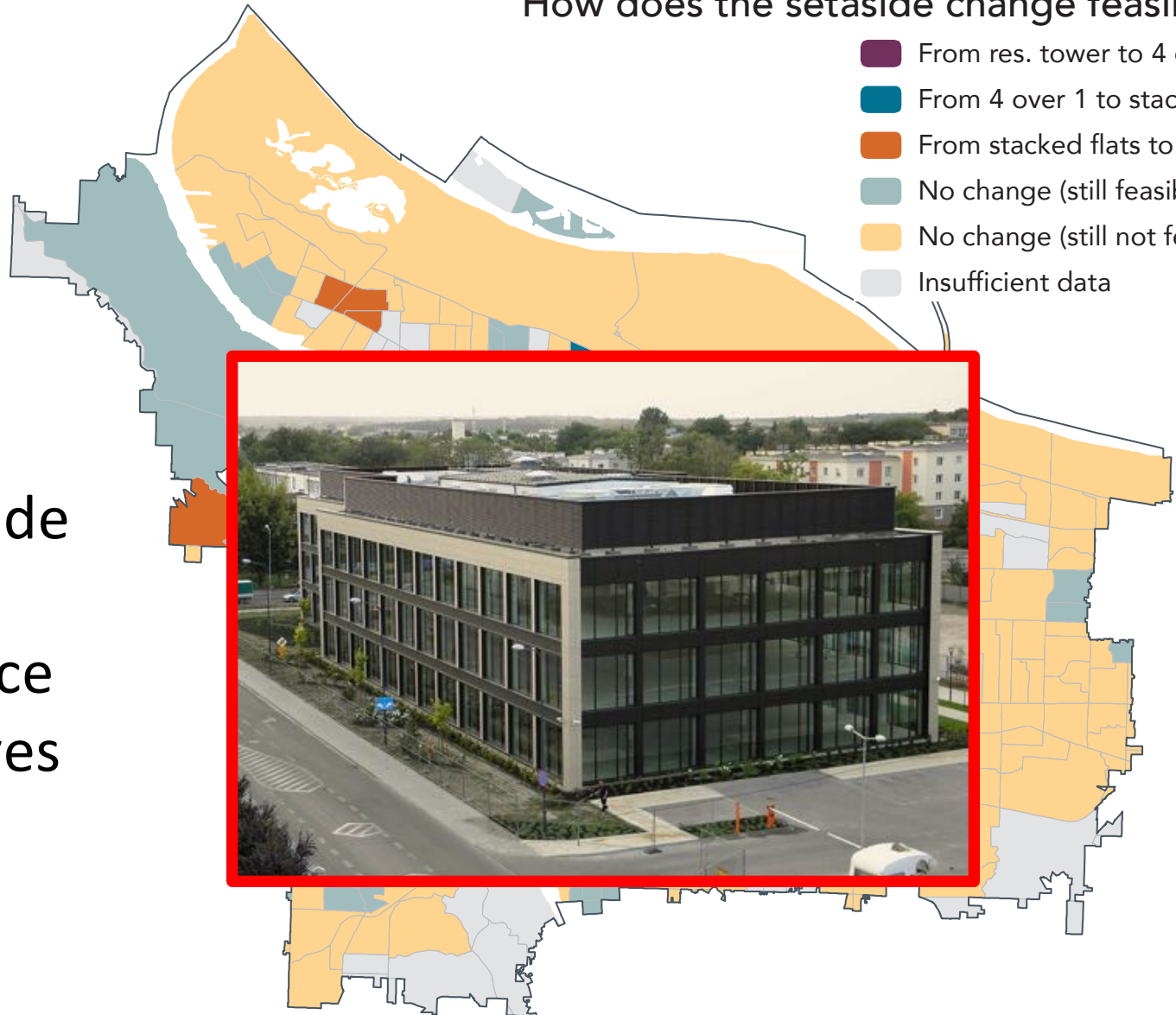


RLV = \$ per gross square foot of land

The Impact of Affordable Units Without

How does the setaside change feasibility?

- From res. tower to 4 over 1
- From 4 over 1 to stacked flats
- From stacked flats to infeasible
- No change (still feasible)
- No change (still not feasible)
- Insufficient data



IZ Policy

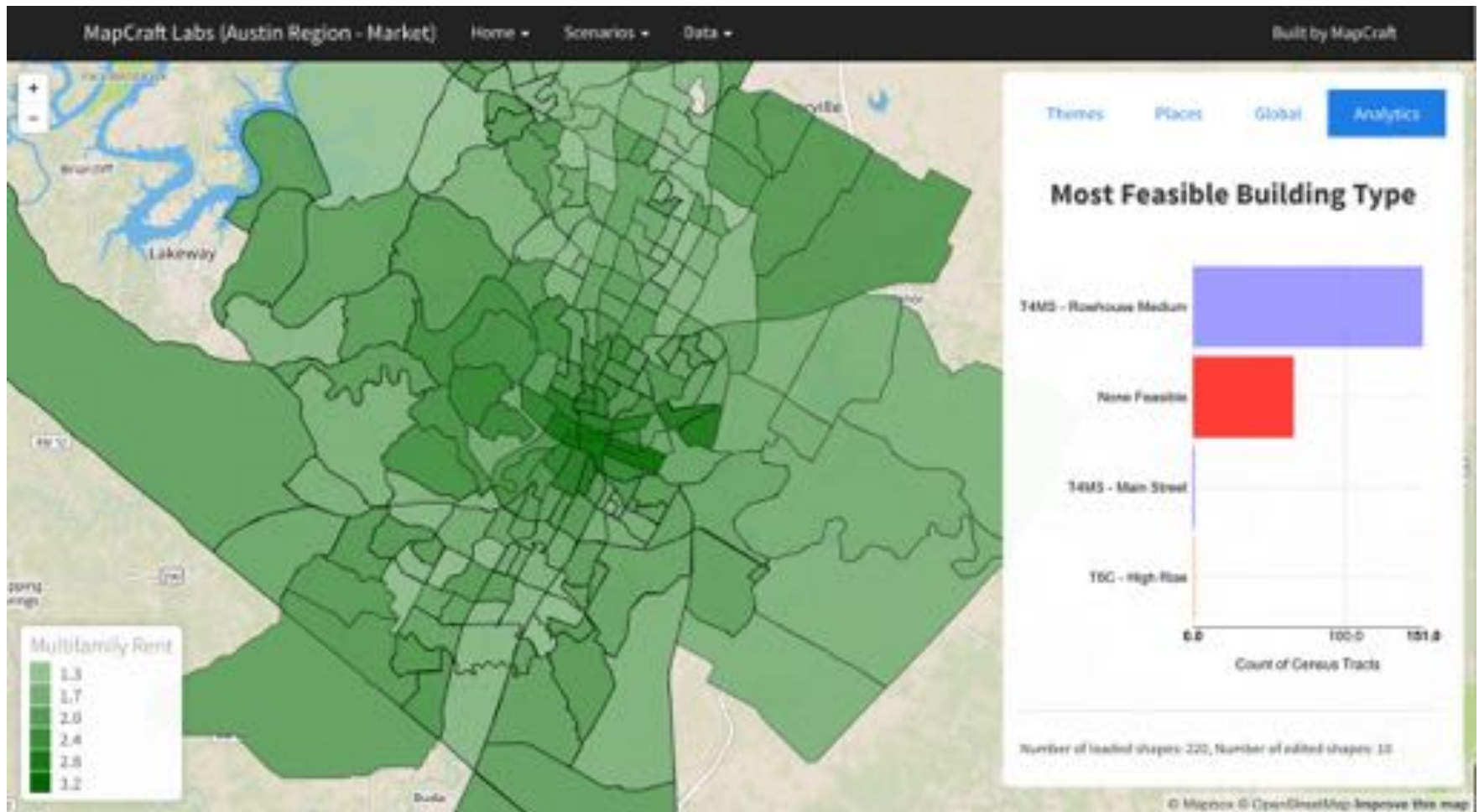
20% Set Aside

80% of MFI

\$0 Land Price

No Incentives

Austin Example



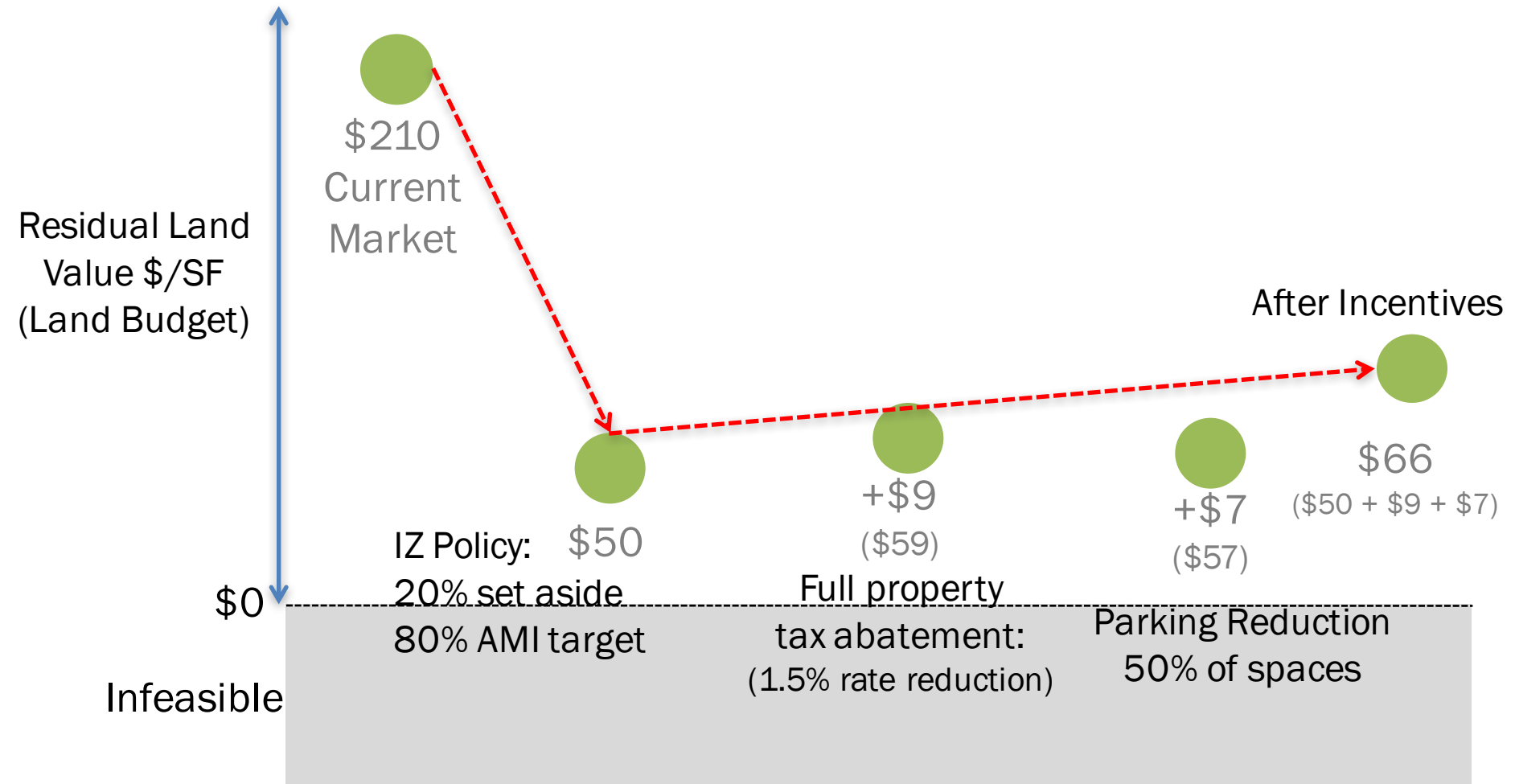
<https://mapcraftlabs.github.io/austin/austin.html>

Offsetting Financial Incentives

	Revenue-oriented	Cost-oriented
Construction-oriented	Grants, tax credit equity, targeted loans (deferred interest, low-interest, etc.)	Land write downs, parking minimum reductions + maximum reductions, streamlined processes, fee waivers
Operations-oriented	Relaxed height and/or FAR restrictions, Section 8	Property tax abatements

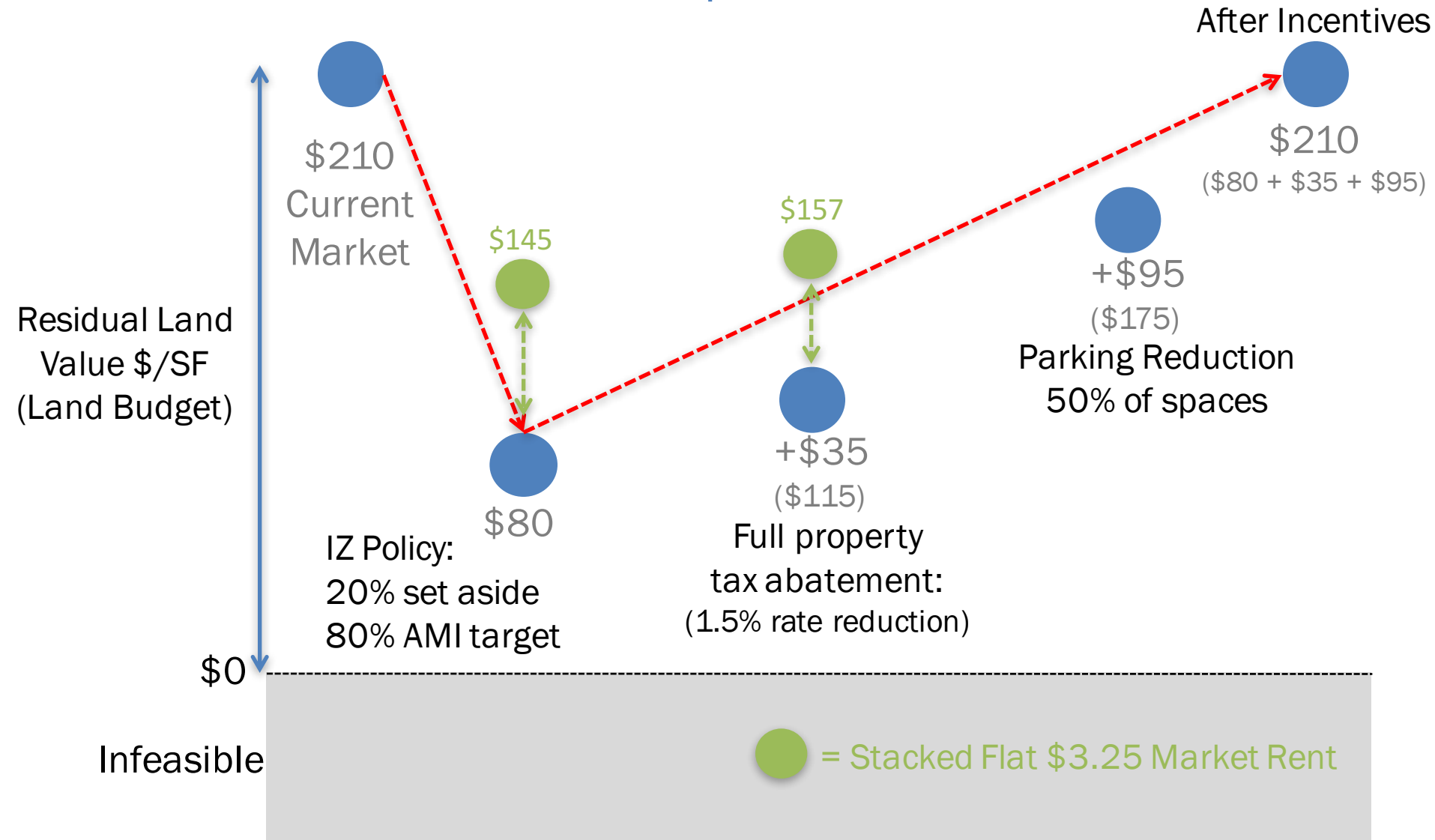
IZ Policy Offset – Incentive Comparison

Stacked Flat \$2.25 Market Rent



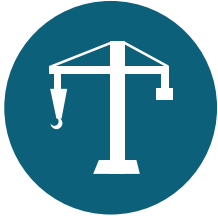
IZ Policy Offset – Incentive Comparison

4 over 1 Podium \$3.25 Market Rent



Financial Incentive Complications

Direct Subsidies



- Sources of grant funds?
- Opportunity cost of forgone revenues?
- Org capacity to streamline processes?
- Subsidizing land market?

Reduced Parking



- Not right-sized already?
- Incite affordable housing pushback?

Operating Subsidies



- Sources of grant funds?
- Tax abatements undermine TIF?
- How big is the tax burden?
- Funds to offset forgone \$?

Density Bonus



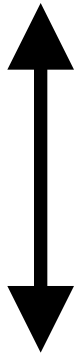
- Not right-sized already?
- Valuable in desired geographies?
- Org capable of regular calibration?
- Incite affordable housing pushback?

IZ Tightrope or...

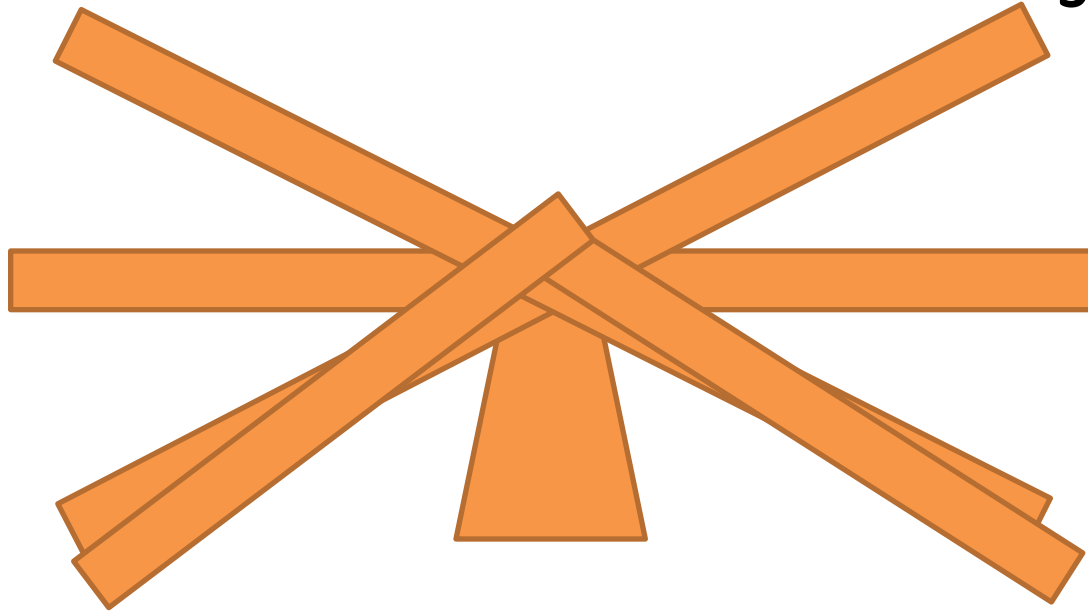


...Economic Teeter-Totter?

**Market-rate
Housing**



**Deeply
Affordable
Housing**



**Supplementa
l Subsidy**



**Ubiquitous
Subsidy**



- Value is capitalized in the Land
 - Highest and best use can change with IZ impacts
 - Large-scale IZ programs generally require incentives to maintain housing production levels
- Flexible programs are less likely to cause market disruptions (unintended consequences)
 - One size fits all vs. sub-regional vs. project-based calibration
 - Revisiting requirements / incentives as realities change
 - On site requirement vs. offsite vs. opt-out
- So much unaddressed here!
 - Ownership vs. Rental Policy (e.g., TIF vs. property tax abatement)
 - Varied effectiveness of incentives, especially due to HOA

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ECONOMICS • FINANCE • PLANNING

Email: carlton@econw.com

Phone: 503.200.5082



Eugene



Portland

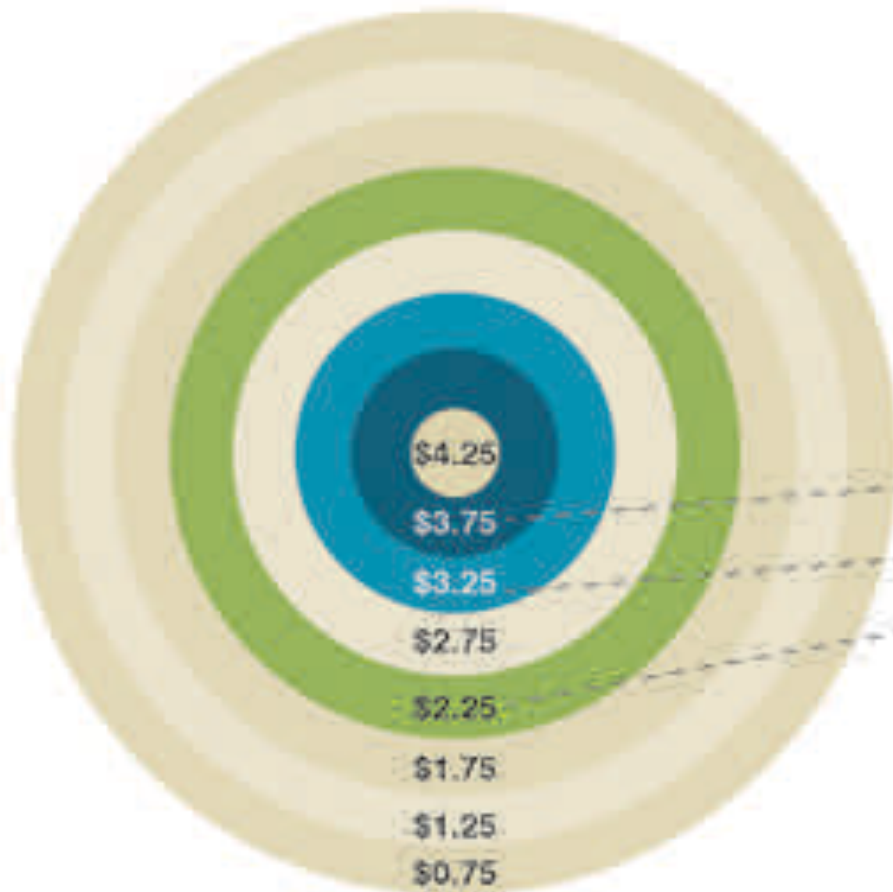


Seattle



Boise

Market vs. Affordable Rent Varies within Cities

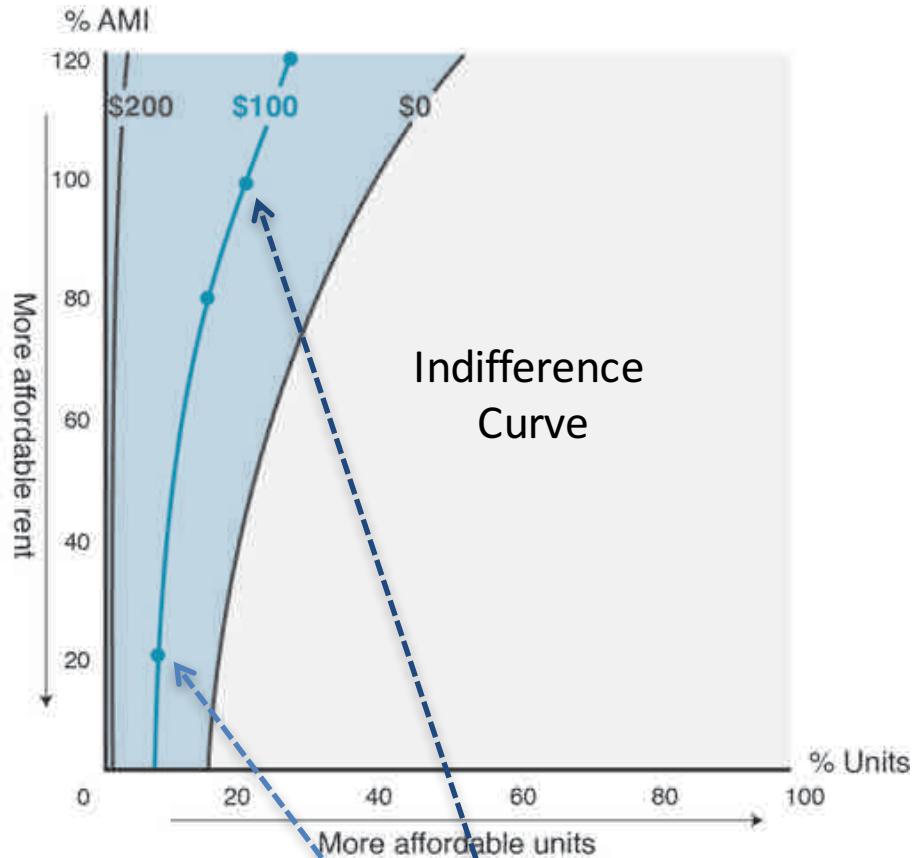


Average Market Rent for High-Quality New Housing Units per square foot	Typical Two-Bedroom Affordable Unit at 100% AMI* per square foot
\$3.75	\$1.65
\$3.25	\$1.65
\$2.25	\$1.65

*Affordable rents determined on a per unit basis, and per square foot rates will vary based on unit sizes.

IZ Setaside vs. Income Target Tradeoff

4 over 1 (podium) -- Rent @ \$3.25/SF



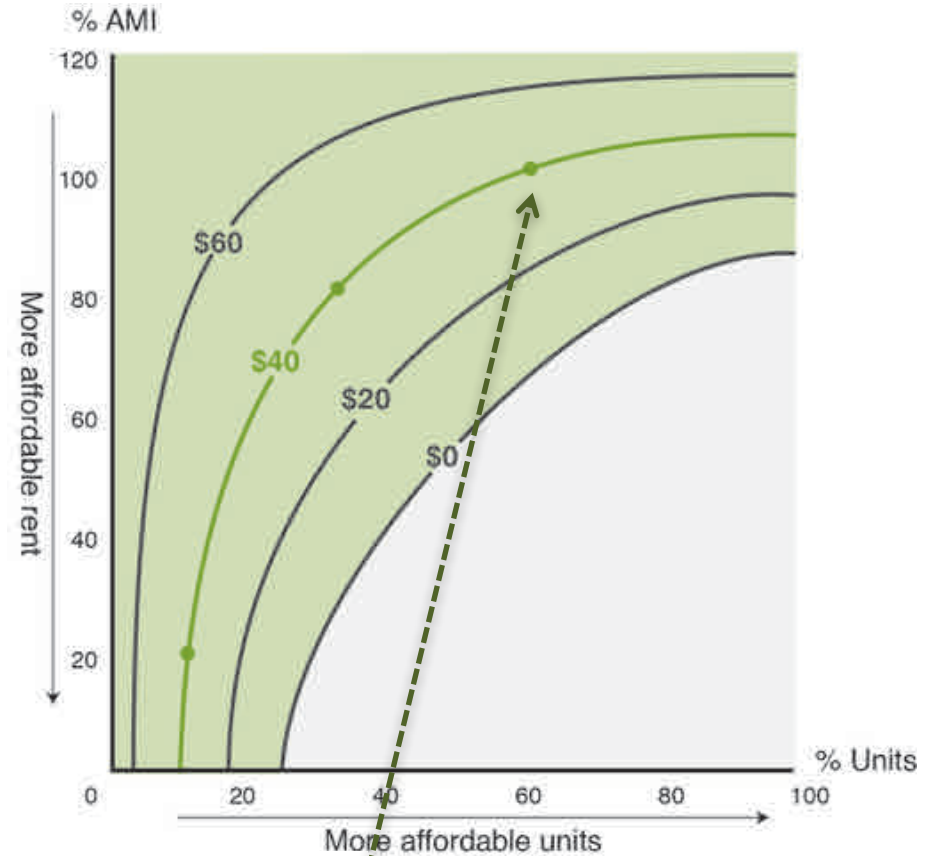
Indifference
Curve

\$100 Land Budget:

29%	@	120% AMI
21%	@	100% AMI
17%	@	80% AMI
10%	@	20% AMI

21% vs. 17%
setaside

Stacked Flat -- Rent @ \$2.25/SF



\$40 Land Budget:

N/A	@	120% AMI
62%	@	100% AMI
31%	@	80% AMI
12%	@	20% AMI

62% vs. 31%
setaside

Net Cash Flow Distributions (“Waterfall”)

