Walking the Inclusionary Zoning Tightrope

The Economics of IZ

Ian Carlton

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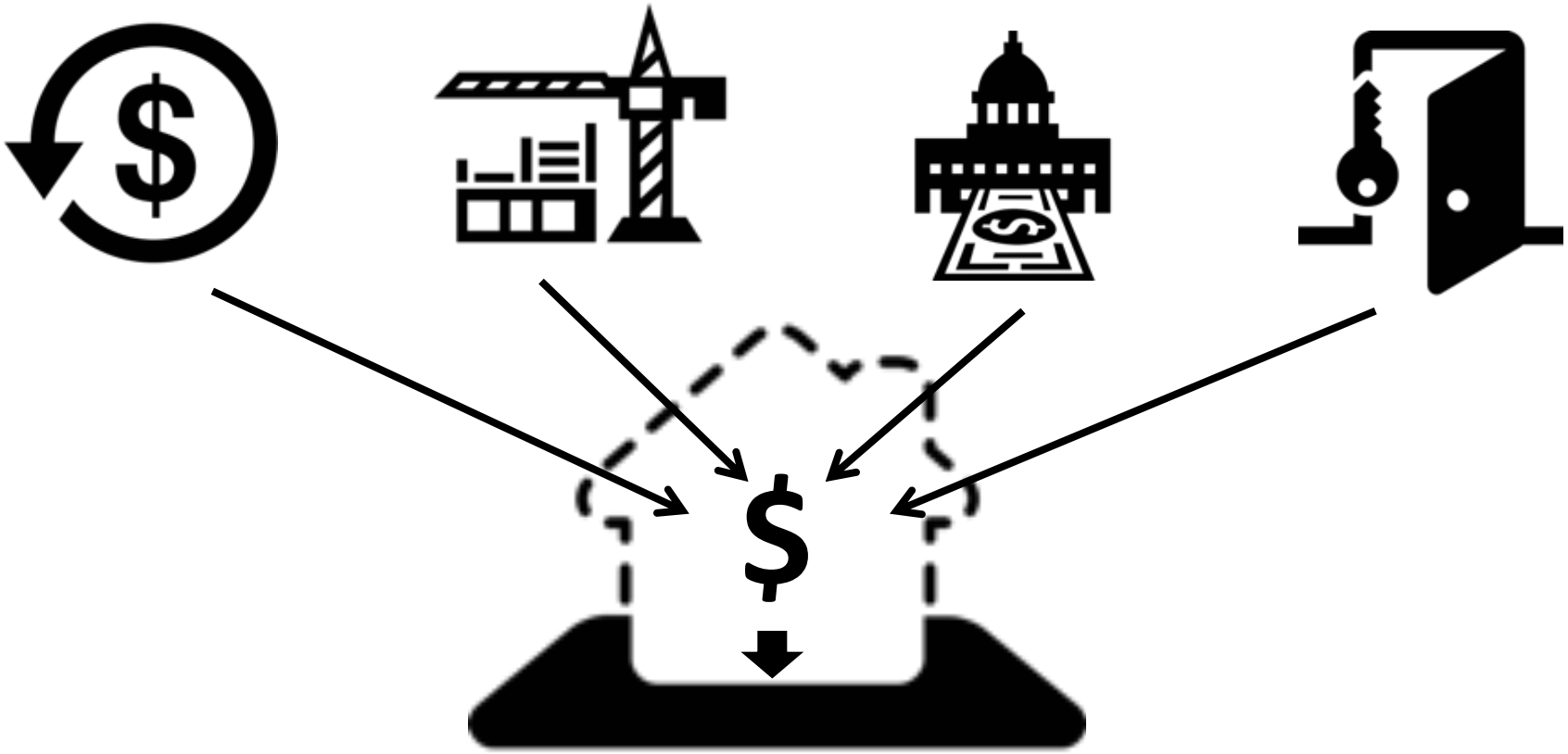
Cornerstone Calculator

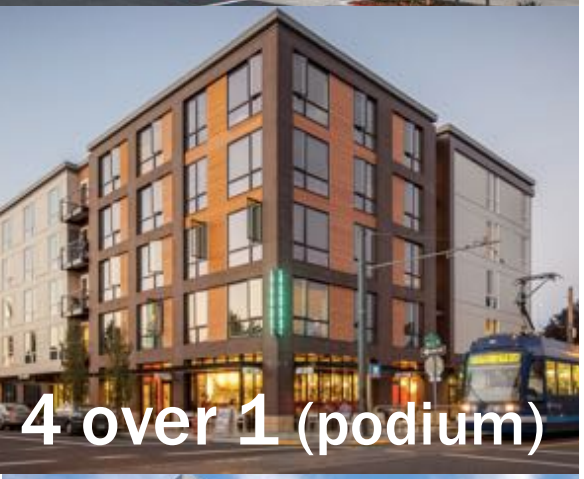
http://www.affordableownership.org/inclusionary-housing/inclusionary-housing-calculator-tool/

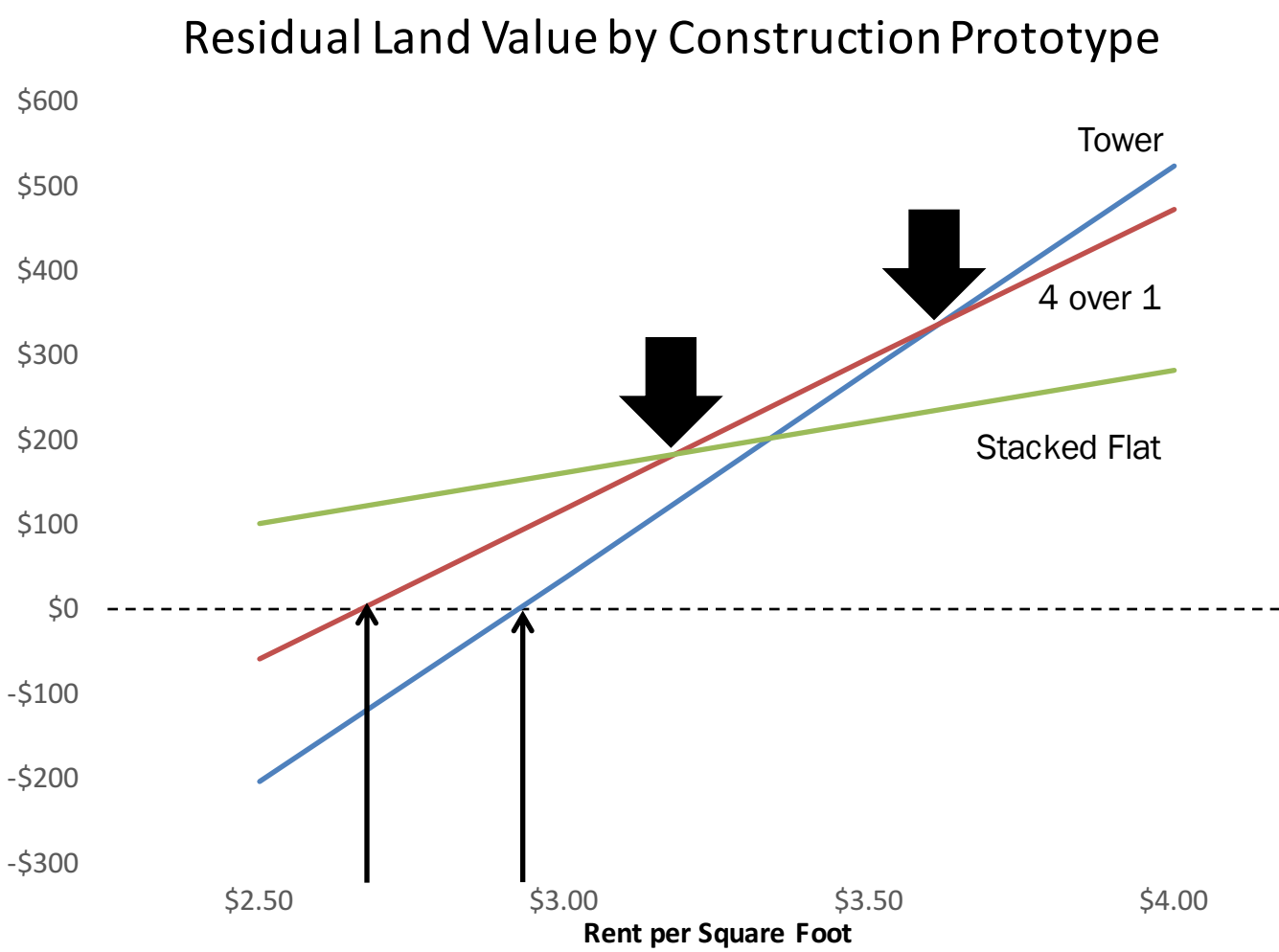
RLV = Developer Maximum Land Budget

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



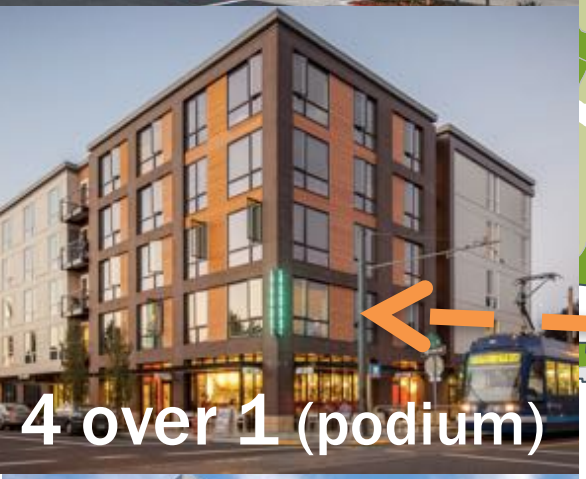
Economics of Development

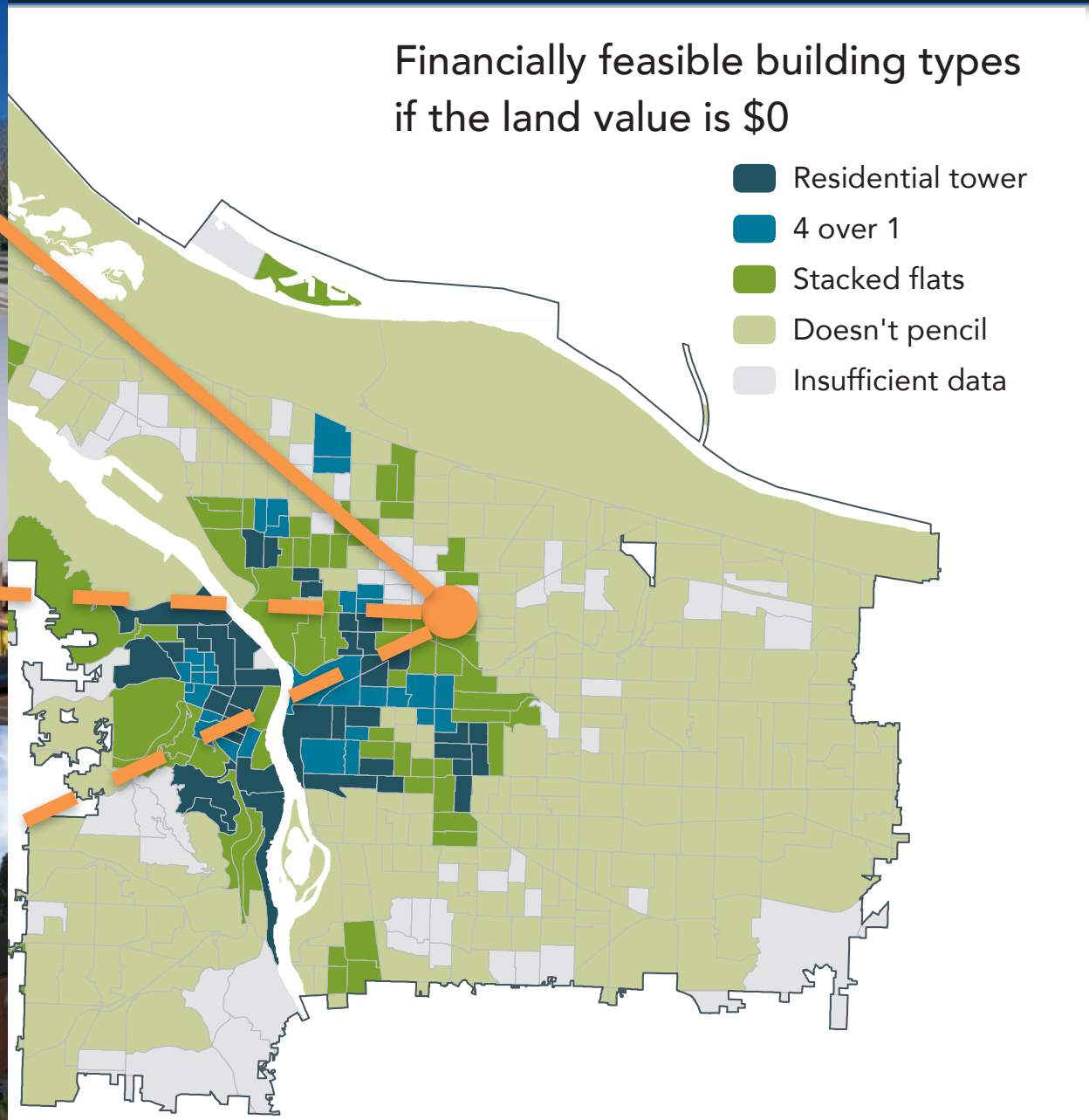




RLV = $ per gross square foot of land

Housing Development Feasibility





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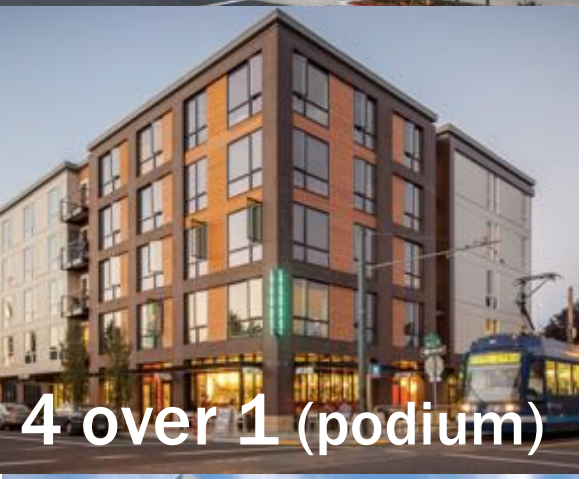

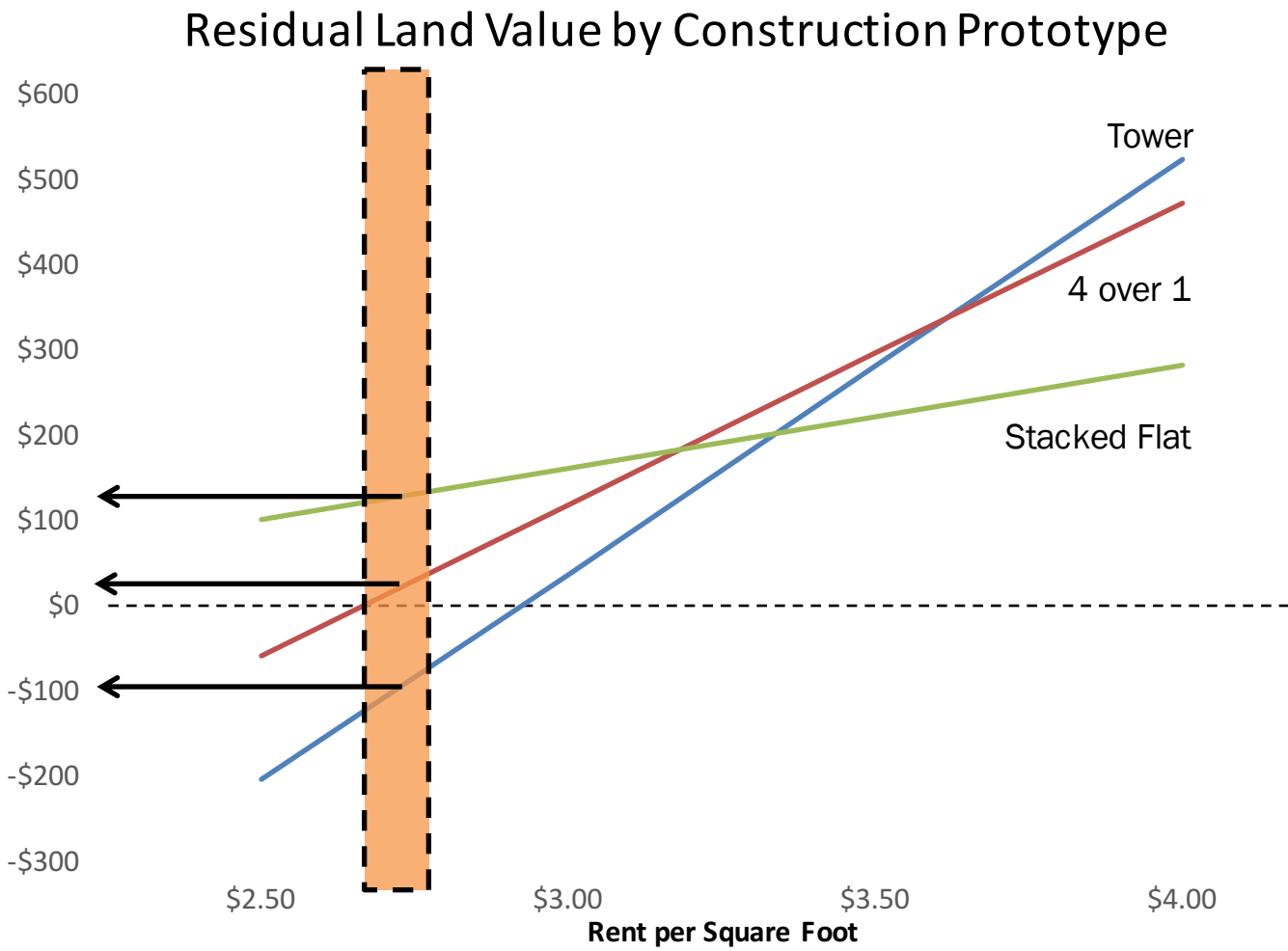

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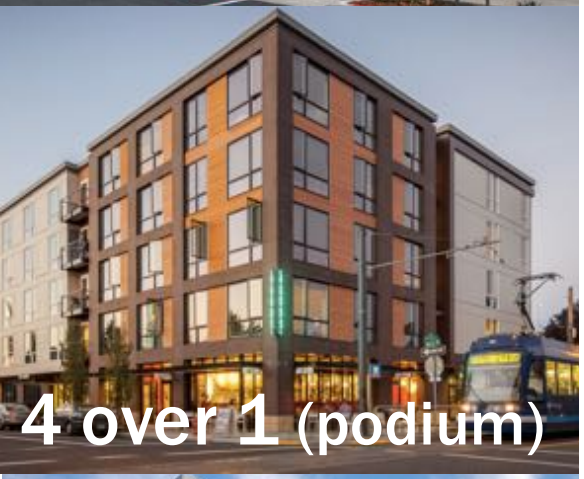

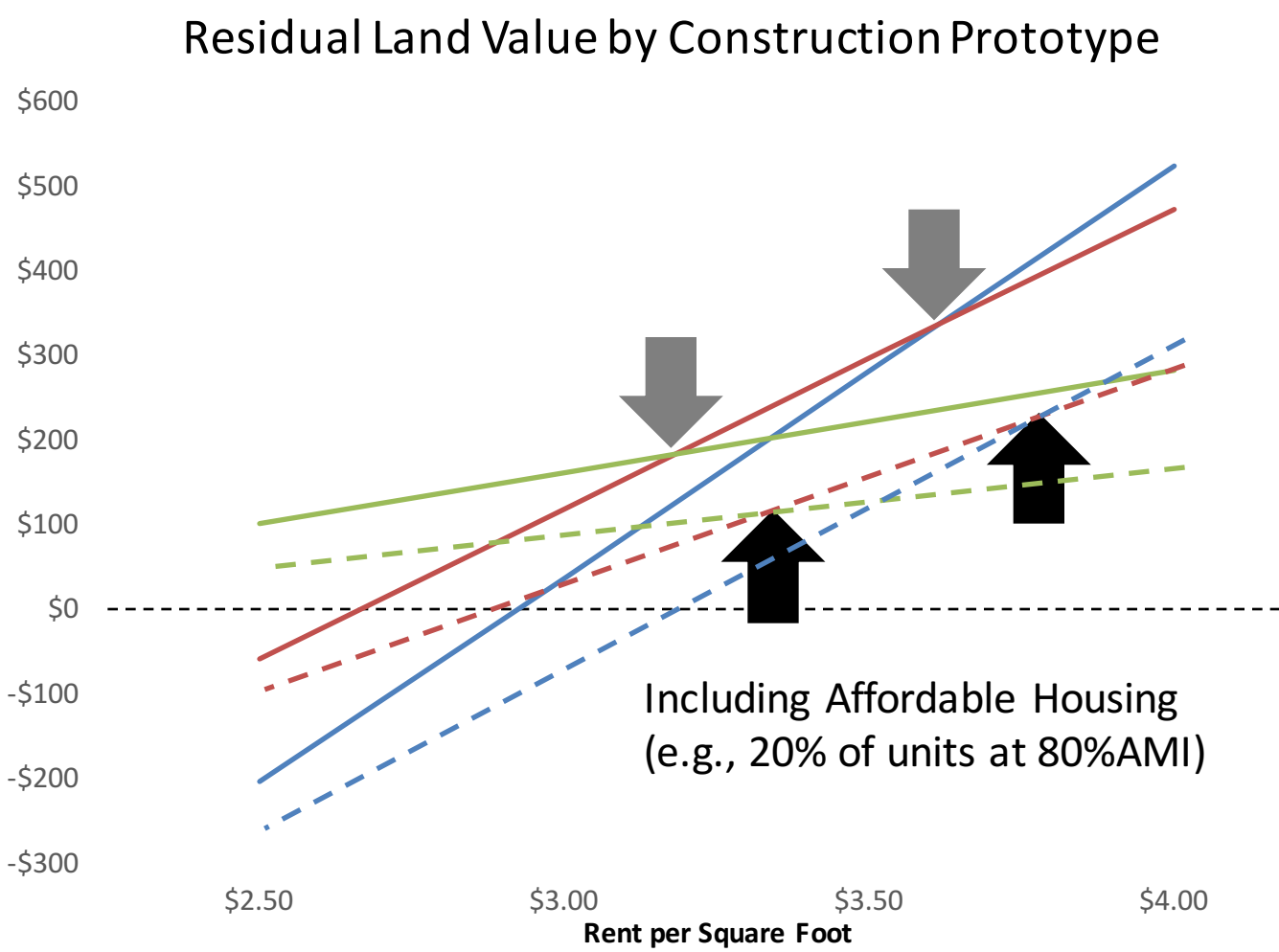

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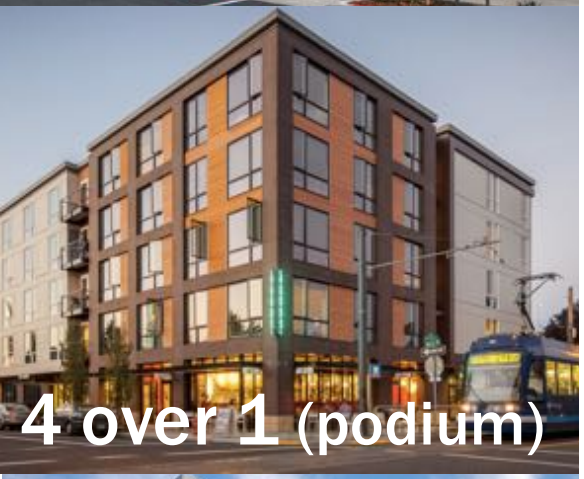
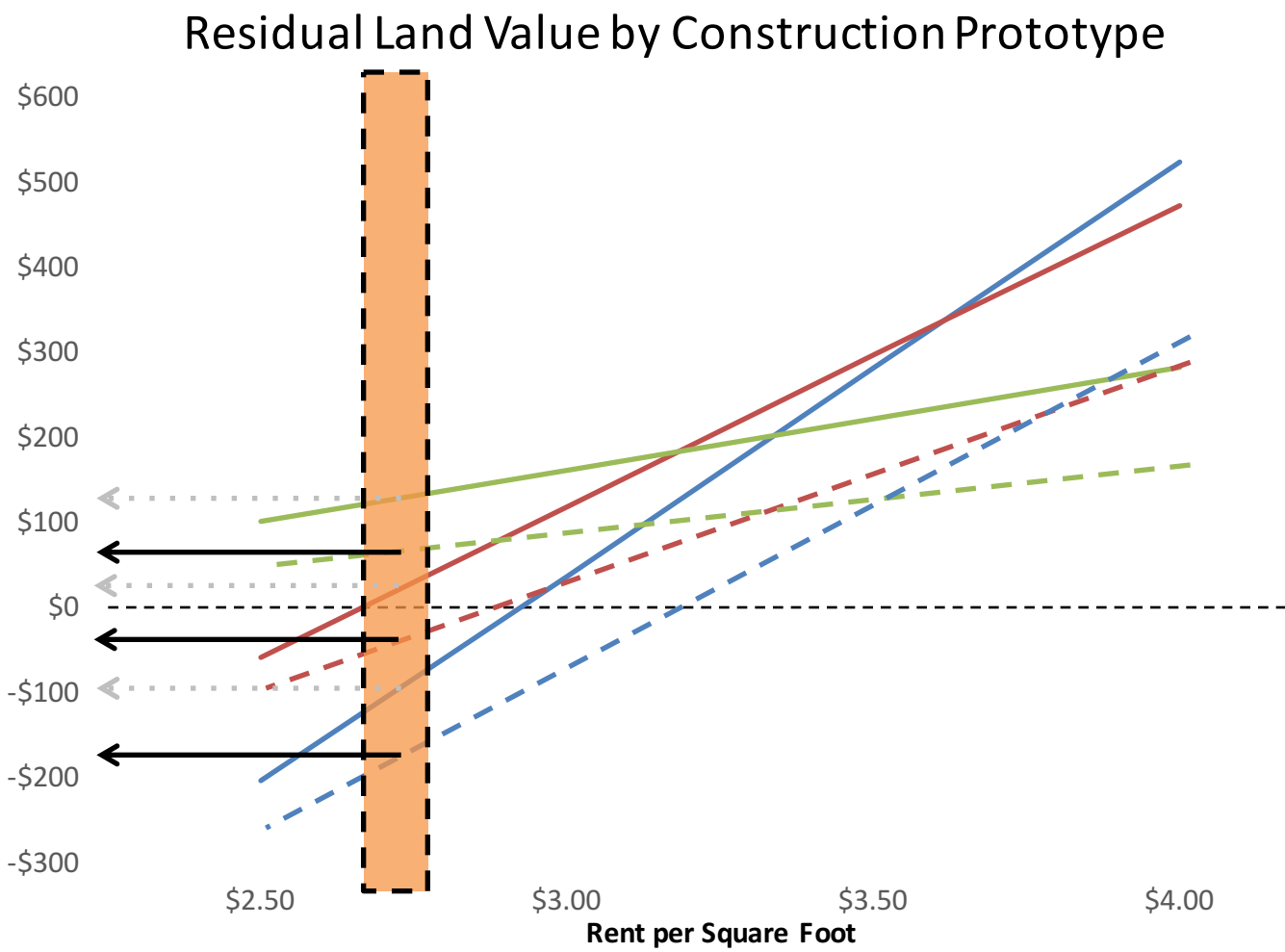




RLV = $ per gross square foot of land

The Impact of Affordable Units Without

<u>IZ Policy</u>

20% Set Aside

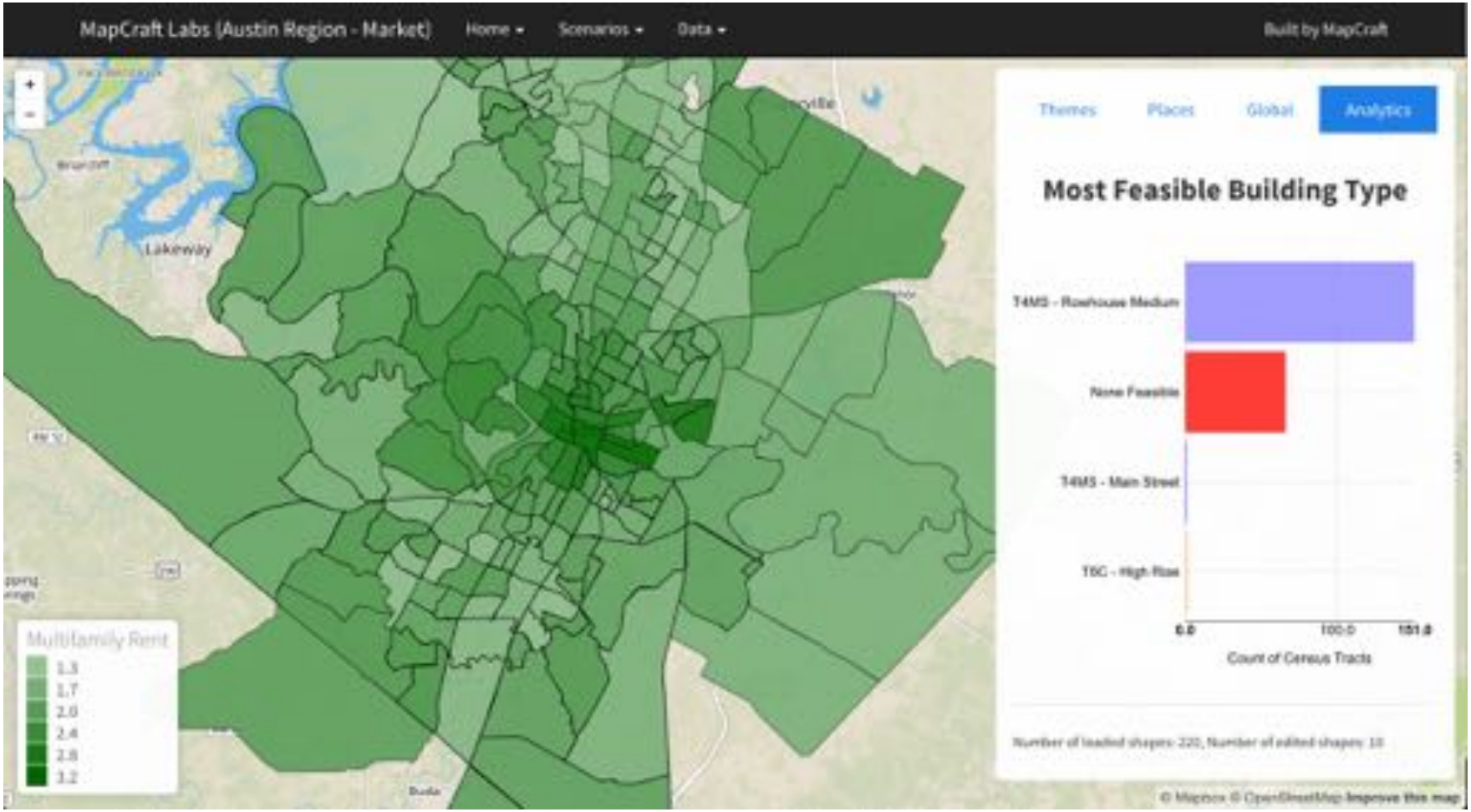
80% of MFI

$0 Land Price

No Incentives

https://commons.wikimedia.org/wiki/File:Radom_office_park.jpg

Austin Example



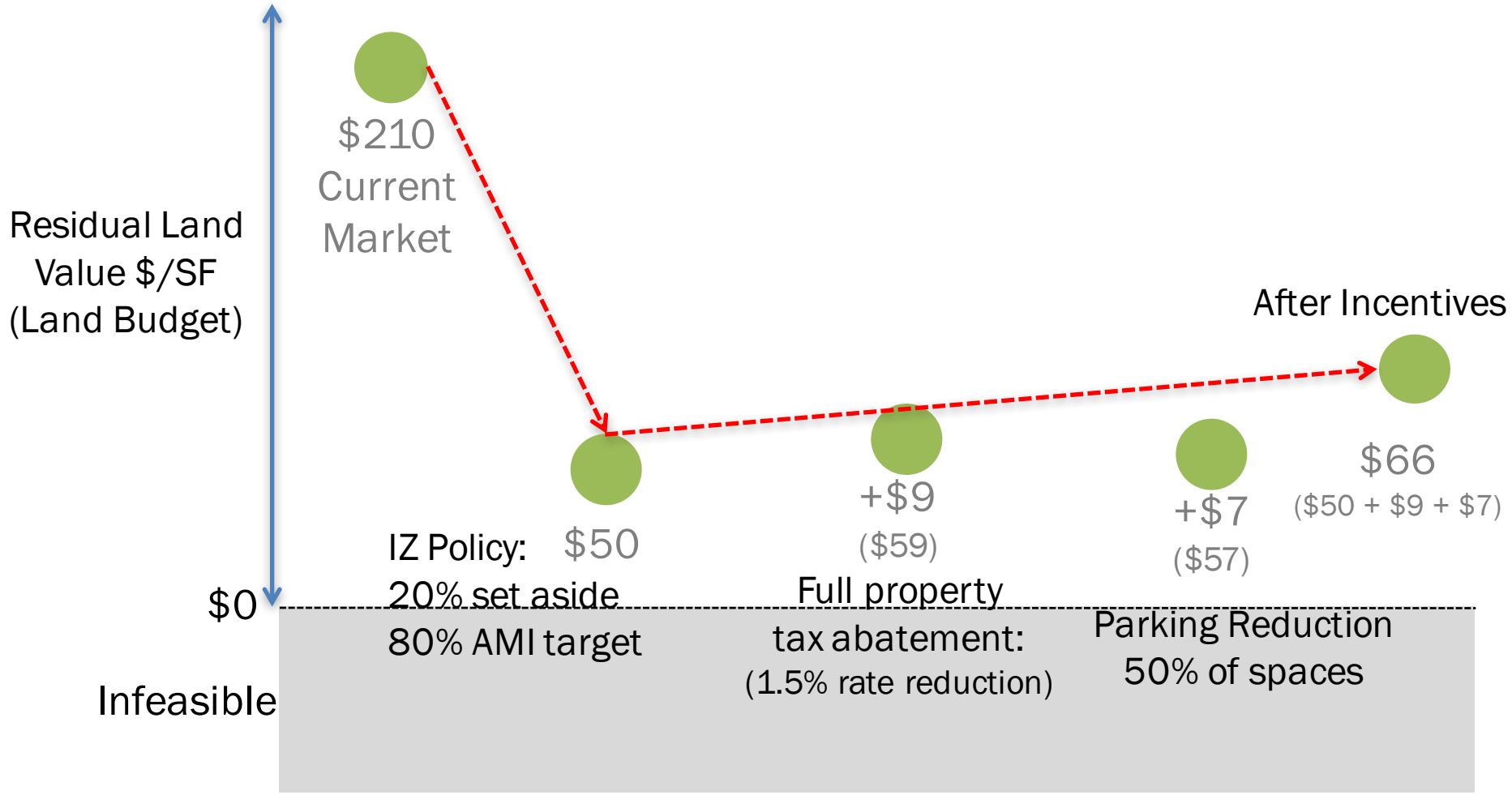
https://mapcraftlabs.github.io/austin/austin.html

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

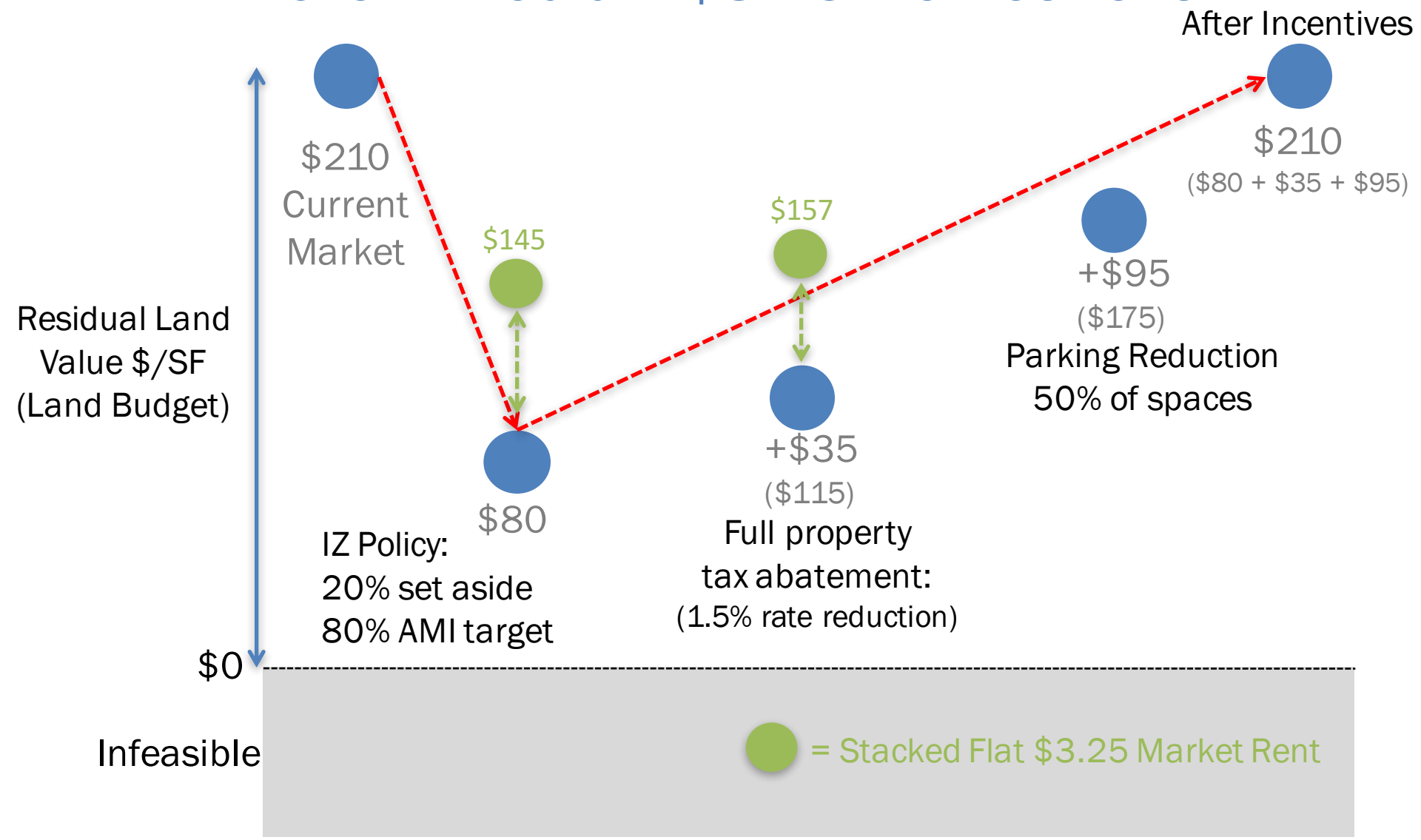
IZ Policy Offset – Incentive Comparison

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

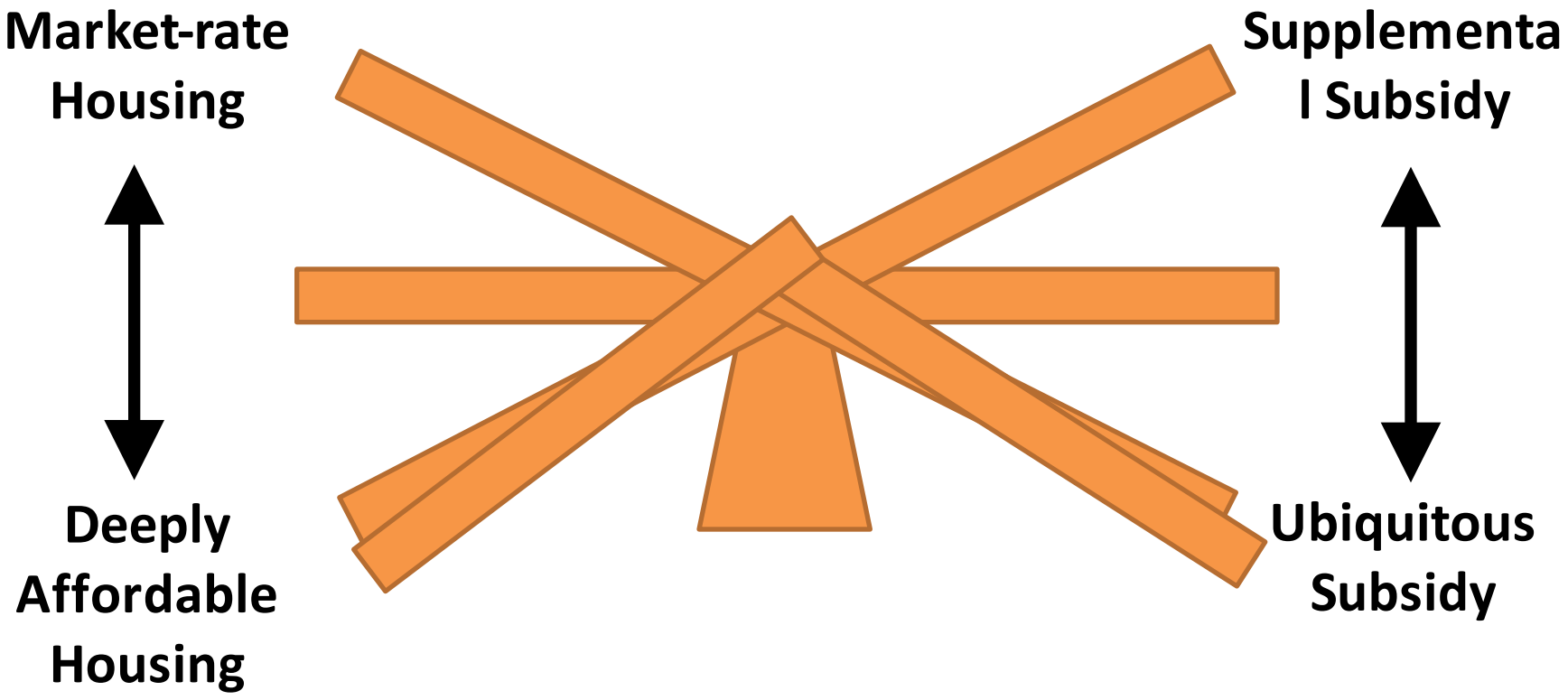
- Sources of grant funds?
- Tax abatements undermine TIF?
- How big is the tax burden?
- Funds to offset forgone $?

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?



Takeaways

- 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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Email: carlton@econw.com
Phone: 503.200.5082

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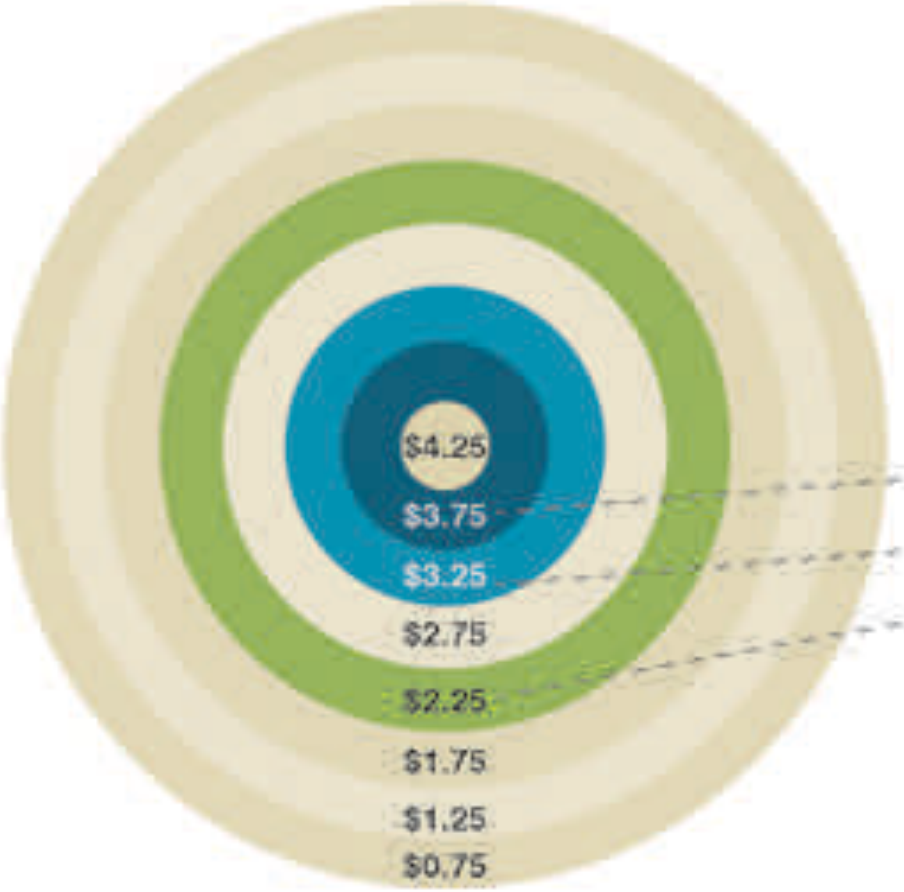
Market vs. Affordable Rent Varies within Cities

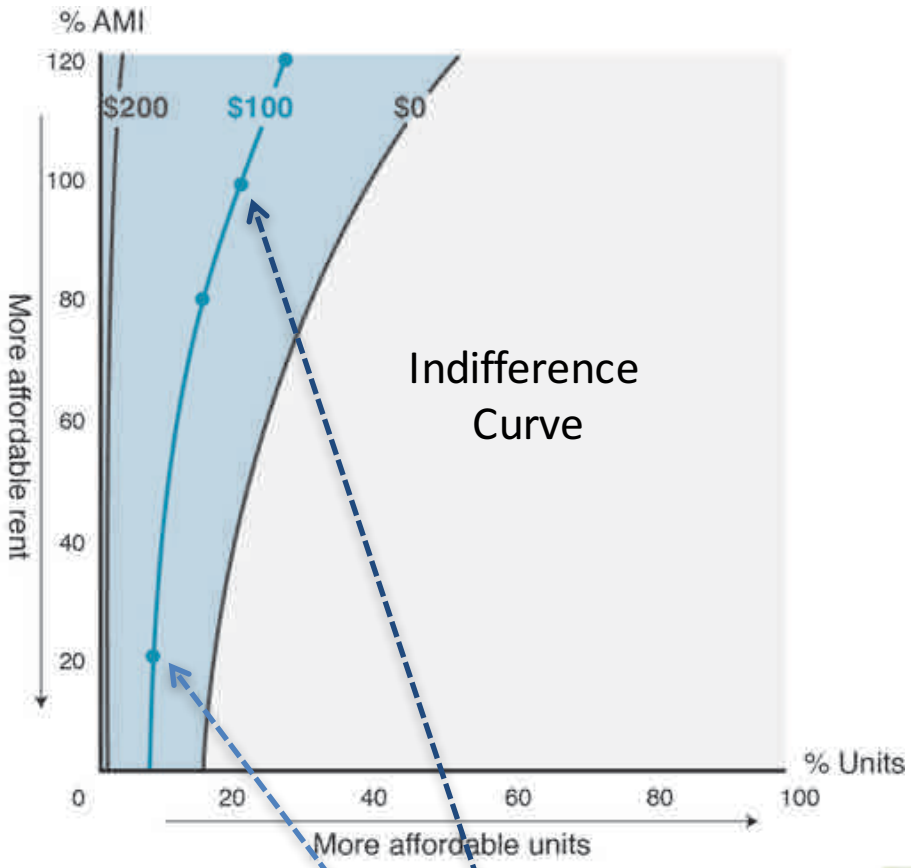


Average Market Rent for High-Quality New Housing Units *per square feet*	Typical Two-Bedroom Affordable Unit at 100% AMI* *per square feet*
$3.75	$1.65
$3.25	$1.65
$2.25	$1.65

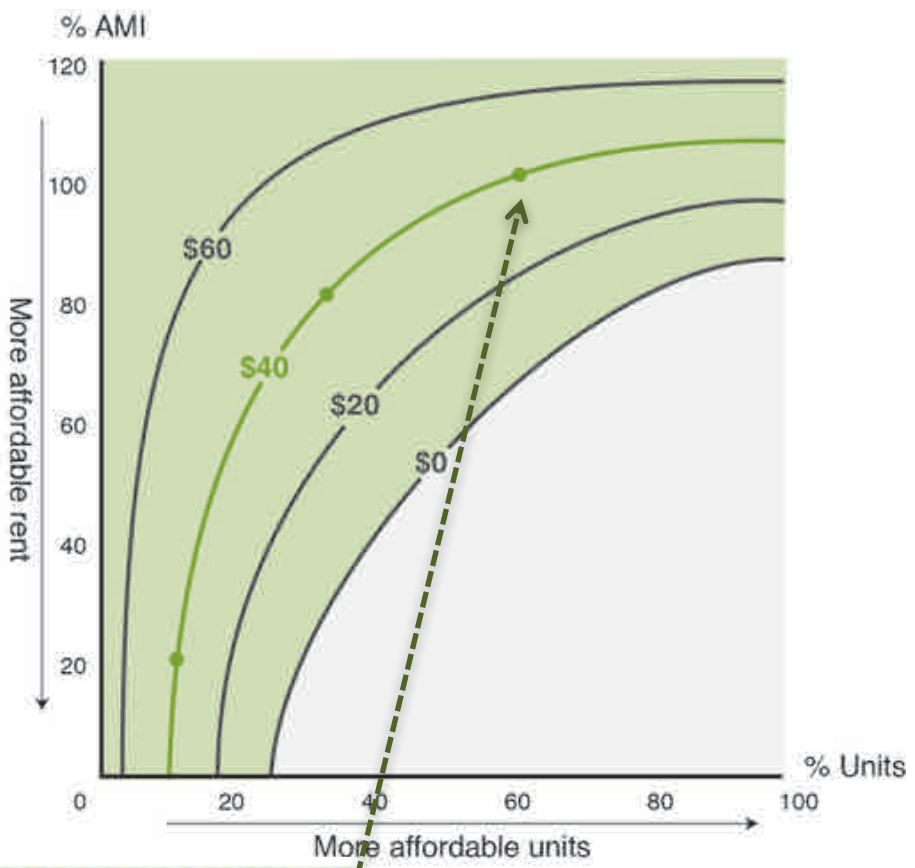
*Affordable rents determined on a per unit basis, and per square foot rates will vary based on unit sizes.

IZ Setaside vs. Income Target Tradeoff

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



Stacked Flat -- Rent @ $2.25/SF



21% vs. 17% setaside

62% vs. 31% setaside

Net Cash Flow Distributions ("Waterfall")