



INCLUSIONARY ZONING 101

Should Housing Developers Be Required to Build Affordable Housing?
Sounds good at first glance, proves counterproductive under closer study.

Inclusionary Zoning (IZ) is regulation that requires a percentage of all residential dwelling units in a development to be sold/rented at a price that is affordable to persons in low-income ranges; and then sold/rented only to low-income customers for some number of years into the future (even for homeowner-to-homeowner re-sales.)

- A typical program might require 20% of dwelling units to be priced as affordable to - and sold/rented only to - buyers making 60% or less of a city's median household income (for a family of 4 in our area, roughly \$800/month rent or \$125,000 maximum sale price.) These requirements might stay in effect for, say, 15 years.
- In addition, to prevent the "affordable" units from being stigmatized, some programs require the "affordable" units to be intermingled with the market-rate units, not grouped in a separate product cluster. Some even require that they look substantially like the market-rate units.

IZ programs are **rare** and **controversial** because of the **heavy administrative bureaucracy** and **dubious results**.

- They are a **local government foray into price controls**...
 - o in a private market that has abundant competition and **no monopoly or anti-trust issues**; and
 - o where government regulation can actually be shown to be substantially responsible for the lack of affordability, so **"even more regulation" will not solve the problem**.
- They actually **magnify affordability problems for all other citizens**, because the prices of the market-rate units have to be raised to subsidize the lower pricing of the "affordable" units.
 - o **"Workforce housing" prices suffer the most**, and the gap between rich and poor grows. Our teachers, nurses, manufacturing workers, young families, etc. - who have tight budgets but do not qualify for the "affordable" housing - are less and less able to find housing at prices they can afford.
 - o This price inflation is even worse where the units must be made similar in appearance.
- Home-value appreciation is a key reason to own a home (occasional market "bubbles" notwithstanding.) By controlling resale prices and buyer pools, **IZ programs actually limit the amount of equity the "affordable" homeowners are allowed to accumulate**. The owner's only solution is to stay in the home for what may be far longer than necessary, suitable or feasible for them, tying up affordable units that other families need.
- Development financing is contingent on "projected income after development costs", so **projects can "die"** when a city limits private income with price/rent controls. (The Section 8 program recognizes and avoids this reality.)

The few IZ programs in the U.S. that might be said to "work" are in rare markets where land supply is uniquely limited, and demand is uniquely high for very-high income buyers. For example: an area with scarce land supply, very-high incomes and excellent schools and other services; but which is fully surrounded by areas with very poor schools and other services that buyers want to avoid. **IZ is not a viable solution in the Triad**, where development and its customers can easily buy in other jurisdictions with less expensive regulation.

A few jurisdictions in **North Carolina** have statutory authority to institute **voluntary IZ programs, which have not been productive**. The developer incentive is typically a density bonus, which gets negotiated away during long, burdensome, NIMBY-dominated rezoning processes.

There are also basic constitutional property rights and fairness problems with IZ programs. Lower-income persons need cars, food, clothing and furniture too. But we wouldn't think of requiring auto dealers, grocery stores, or retailers to sell their products at a loss to certain customers under a heavy bureaucratic burden.

Affordable housing is an important element of personal self-sufficiency, healthy economies and stable societies. That's why America commits to affordable housing programs like FHA/VA loan programs, mortgage interest deductions, bonds, dedicated funding sources, public rental housing, Section 8 subsidies, public-private development partnerships, etc. **TREBIC works with communities to develop solutions** to affordable housing challenges like:

- streamlined regulations and approval processes;
- new codes and processes that are friendly to new housing products in spite of NIMBYism;
- approval of higher densities and compact development even if they are controversial;
- more resources dedicated to existing affordable housing programs, especially public-private partnerships;
- tax credits for affordable housing;
- local and state programs that mirror Section 8 for public subsidies;
- more state funding for NC's incredibly effective Affordable Housing Trust Fund;
- and effective economic development efforts bringing higher, more stable incomes to our area's citizens.

Greensboro's "Housing Our Community" Affordability Initiative – A 2016 study identified a \$100M affordable housing need in the City. The study inspired the 2016 \$25M Housing Bond initiative and The Community Foundation of Greater Greensboro is discussing raising endowment funds. Now CFGG, the City and about 100 stakeholders are partnering on an extraordinary community initiative called Housing Our Community to recommend solutions by the end of 2017.

The City of High Point is focused on an effective, multi-year initiative to improve neighborhoods and affordable housing supply simultaneously, using various policy, code enforcement and incentive tactics. **TREBIC is active in both of these efforts**.