



**GROUND
ED
SOLUTIONS
NETWORK**

strong communities
from the ground up

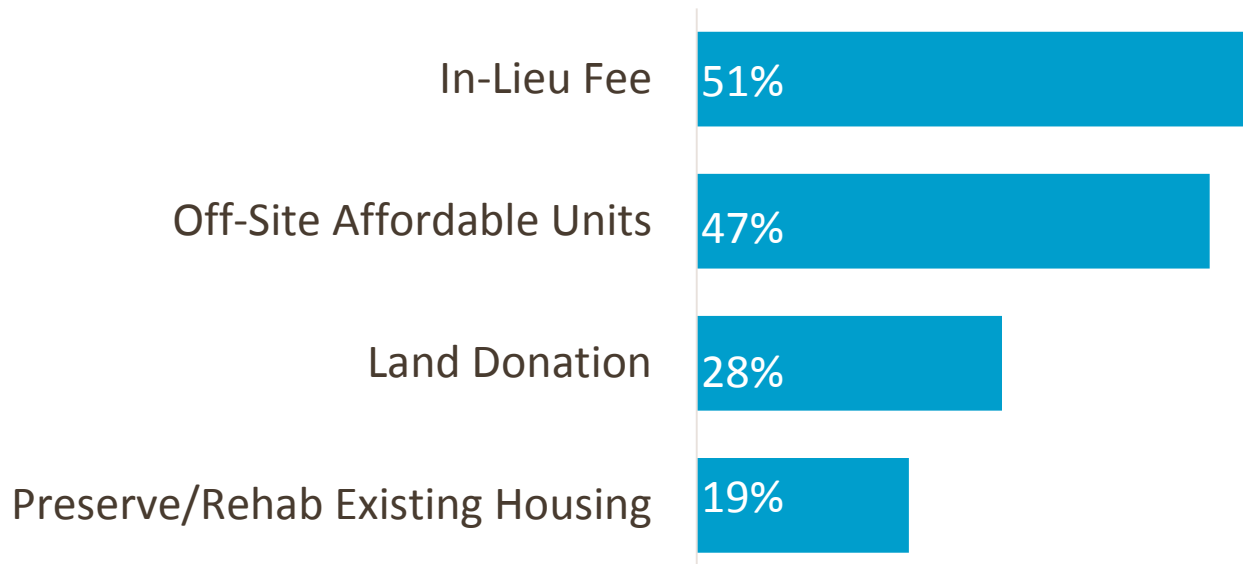
Compliance Alternatives for Inclusionary Housing Policies

Stephanie Reyes | July 2019



Types of Compliance Alternatives

Types of Compliance Alternatives



258 Programs Surveyed

Source: Emily Thaden, Ph.D. & Ruoniu (Vince) Wang, Ph.D., Grounded Solutions Network (2017) Inclusionary Housing in the United States: Prevalence, Impact, and Practices (W17ET1). Cambridge, MA: Lincoln Institute of Land Policy.

Types of Compliance Alternatives



In-Lieu Fees



Types of Compliance Alternatives



Off-Site Production



Market-rate luxury condos, San Francisco



Affordable units provided off-site

Types of Compliance Alternatives



Land Donation



Land dedicated for use for affordable housing

Types of Compliance Alternatives



Preserve/Rehabilitate Existing Affordable Housing



Types of Compliance Alternatives



All lead to generally the same outcome

In-Lieu Fees

Off-site Production

Land Donation

Preserve /
Rehabilitate
Existing Affordable
Housing



Affordable units in an all-affordable building built on another site by a nonprofit developer



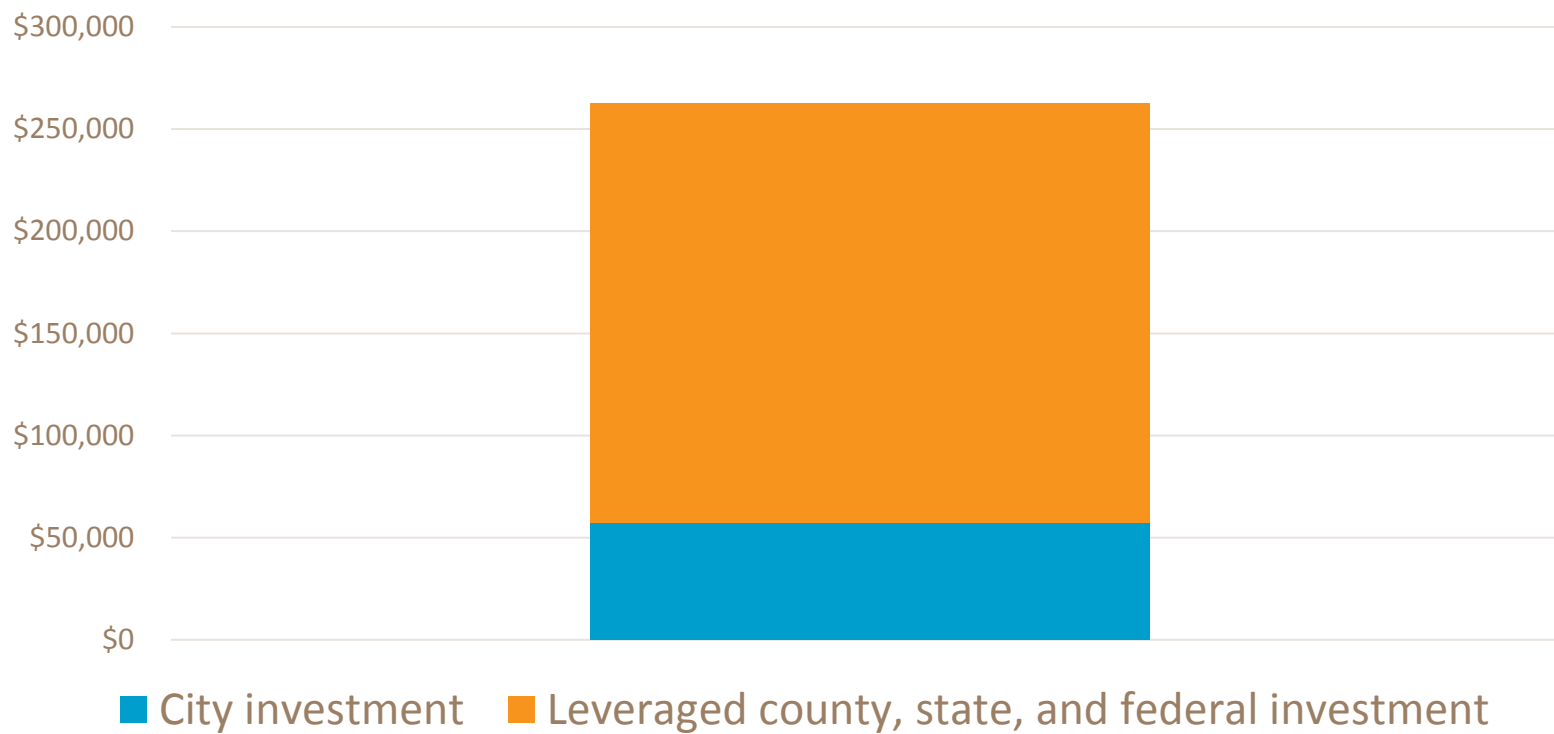
Benefits of Compliance Alternatives

Benefits of Compliance Alternatives



Leverage Other Funding Sources; Build More Units

Seattle 4% Tax Credit Projects, 2009-2012

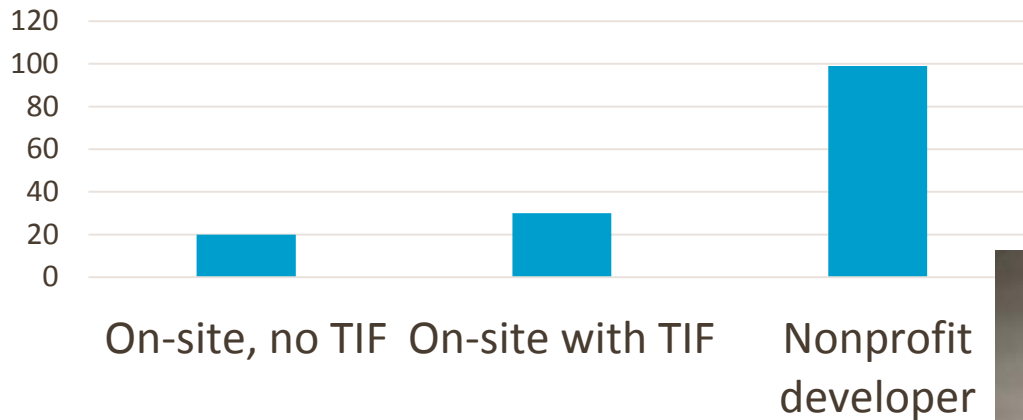


Benefits of Compliance Alternatives



Partner with Nonprofit Housing Developers

Term of Affordability for Affordable Units (Years)



Benefits of Compliance Alternatives



Use Funds Flexibly

- ▶ Achieve deeper affordability

Seattle's in-lieu fee-funded units served 30-60% AMI;
on-site units would have served 80% AMI

- ▶ Preserve affordability of existing units

- ▶ Fund more rental or homeownership depending on need

- ▶ Build different unit sizes depending on need

- ▶ Create and preserve affordable units in neighborhoods that are transitioning

Benefits of Compliance Alternatives



Address Challenging Situations



Student housing



Luxury housing

Benefits of Compliance Alternatives



More Projects Achieve Financial Feasibility

Geography of Programs Studied	Time Period	Impacts on Housing Starts
San Francisco Bay Area (55 programs)	1987-2004	No negative effect on housing starts
Boston, MA area (99 programs)	1987-2004	Small decline in housing starts

San Francisco-area programs offered **more compliance alternatives** and more incentives than Boston-area programs.

Source: Schuetz, Jenny, Rachel Meltzer and Vicki Been, 2008. *31 Flavors of Inclusionary Zoning: Comparing Policies from San Francisco, Washington DC, and suburban Boston*. New York, NY: Furman Center for Real Estate and Urban Policy.



Downsides of Compliance Alternatives

Mixed-Income Development



minneapolis | 2040

Mixed Income Housing: Promote mixed-income development throughout the city.

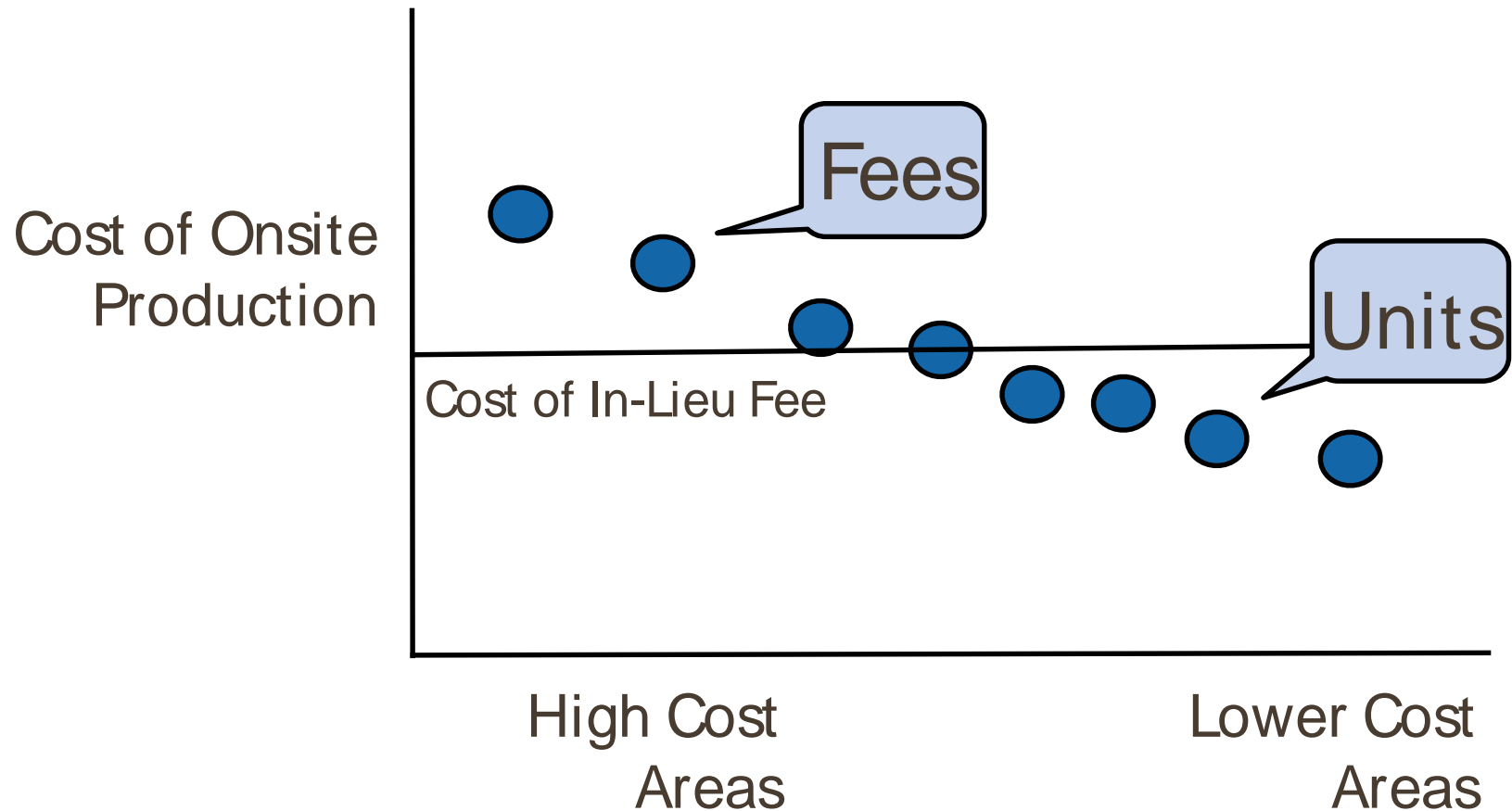
The development of new housing in Minneapolis is mostly occurring in amenity-rich areas with access to transportation choices, jobs, goods, services, and recreation. The cost of this new housing is typically out of reach for those making the city's median household income. In Minneapolis, the median household income is \$52,611 and the median family income is \$72,970. The market alone will not deliver new affordable housing units to many of the city's existing residents. *Affordable housing* is rental housing with rent and income restrictions (typically 60% of Area Median Income or below) or housing for homeownership with income restrictions (typically less than 80 percent of Area Median Income) as governed by local, state and federal housing assistance programs. This is in comparison to *Housing Affordability*, which is access to homeownership or rental options based on housing price relative to household income.

City intervention may be needed throughout the city to support mixed-income housing, including both market rate and affordable housing, at all levels of affordability.

Downsides of Compliance Alternatives



Need Careful Structure to Create Mixed-Income Communities



Downsides of Compliance Alternatives



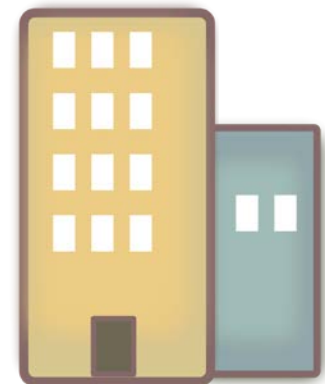
Delay in Construction of Affordable Units



Fees
Collected

Market-rate
Housing Built

Fees
Spent



Affordable
Housing Built

Average 3.9 Years (Seattle)

Downsides of Compliance Alternatives



- ▶ Scarcity of leveraging resources
- ▶ Alternative compliance requirements often set so low that they result in fewer units than on-site construction
- ▶ Perception of compliance alternatives as “loopholes”



Addressing the Downsides through Policy



Need Careful Structure to Create Mixed-Income Communities

▶ Vary in -lieu fees geographically

Chicago Zone	In-Lieu Fee
Low-Moderate Income	\$50,000
Higher Income	\$125,000
Downtown	\$175,000
Downtown premium for-sale	\$225,000

▶ Set requirements for geographic use of alternatives

- Off-site units must be within a certain distance of market-rate project
- In-lieu fees must be spent in areas with demonstrated need for affordable housing



Delay in Construction of Affordable Units



Require prior or concurrent approval and construction of off-site units



Other Downsides

- ▶ Set alternative requirements high enough to build at least the equivalent number of required on-site affordable units elsewhere
- ▶ Limit “by-right” use of alternatives
- ▶ Require at least some on -site units
- ▶ Make on-site development preferable most of the time
 - Require a greater percentage for off-site production
 - Set the in-lieu fee to be higher than the cost of on-site production for most projects



Feedback Received



Developer Focus Group

- ▶ Inclusionary zoning is not financially feasible in Minneapolis. Development projects are currently on the edge of feasibility; typical market-rate projects can't afford to make any kind of contribution to affordable housing.
- ▶ Grounded Solutions' response: while the amount of feasible contribution to affordable housing may vary as housing market conditions shift, we remain confident in our assessment that market-rate housing in Minneapolis can contribute to affordable housing and still remain financially feasible.



Nonprofit Focus Group

- ▶ Providing flexibility through compliance alternatives makes sense
- ▶ Important to ensure that the contribution to affordable housing from compliance alternatives is equivalent in impact to on-site production
- ▶ Homes that serve households at lower AMIs are most needed (e.g. 50% AMI rather than 60% AMI)
- ▶ When Housing TIF districts are used, direct any excess TIF not needed for project feasibility to AHTF



Discussion Questions

Discussion Questions



- ▶ What compliance alternatives do you think make sense for Minneapolis?
- ▶ What policy options to address the potential downsides of compliance alternatives do you think make sense?