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# **Inclusionary Housing: A Policy that Works for the City that Works**

**BUSINESS AND PROFESSIONAL PEOPLE  
FOR THE PUBLIC INTEREST (BPI)**

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**Authors:**

Nicholas Brunick  
Jessica Webster

**Editor:**

Susannah Levine



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Founded in 1969, BPI is a public interest law and policy center dedicated to equal justice and to enhancing the quality and equity of life for all people living in the Chicago region.

**BPI**  
**25 East Washington St.**  
**Suite 1515**  
**Chicago, IL 60602**  
**312.641.5570**  
[www.bpichicago.org](http://www.bpichicago.org)

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## **Executive Summary**

Chicago has long been known as the “city that works.” Unfortunately, for many working households trying to find and maintain affordable housing today, Chicago is not working so well. The city already has a Five Year Plan for housing and a number of successful programs to address the affordable housing crisis, yet the crisis continues to grow. Given the tough budget climate and scarce federal and state resources for affordable housing, can anything more really be done?

*Inclusionary Housing: A Policy that Works for the City that Works* provides one hopeful answer. A citywide inclusionary housing or “set-aside” law could create a significant amount of affordable housing without stifling the city’s development boom, harming the local property tax base, or exhausting scarce public resources.

### **What is Inclusionary Housing?**

An inclusionary housing program, or mandatory set-aside law, requires that all developments of a certain size include a percentage of housing affordable to low- and moderate-income households. Most programs contain some basic components such as a threshold level of coverage (e.g. all developments of 10 or more units); income targets for the populations to be served (e.g. at or below 80% of Area Median Income); and cost offsets or developer incentives such as density bonuses, expedited permitting, flexible zoning, or reduced parking requirements.

Hundreds of communities across the country from Massachusetts to California, Colorado, Vermont, Florida, Illinois, and New Mexico use some form of inclusionary housing to address the shortage of affordable homes and apartments without burdening scarce local resources. Many of these communities are also enjoying related benefits such as an improved climate for economic development and decreased racial and economic segregation.

### **Does Chicago Need Inclusionary Housing?**

The need for affordable housing in Chicago is clear and well-documented. Police officers, teachers, child care instructors, janitors, security guards, young families, and seniors all face difficulties in affording Chicago’s rising rents and home prices. Homelessness is on the rise. There is a shortage of affordable housing units for low- and moderate-income households. Eight years of booming new construction has not helped to alleviate this situation. An increased number of people in the city are spending more than 30% of their income on housing costs, and the city lost nearly 3,000 rental units from 1990 to 2000. The study reveals that:

- According to the 2000 census, 25% of the city’s households face a shortage of approximately 77,000 affordable homes and apartments.
- Over the past eight years, only 2% of all new home construction has been affordable to households earning at or below 50% of the HUD Median Family Income for the Chicago region (\$34,350 in 2003). In 2000, 44% of Chicago households earned at or below 50% of the HUD Median Family Income. Only 10% of all new home construction has been

affordable to households earning at or below 80% of the HUD Median Family Income for the Chicago region (\$54,960 in 2003). In 2000, 65% of Chicago households earned at or below 80% of the HUD Median Family Income.

### **How Much Affordable Housing Would an Inclusionary Program Create in Chicago?**

This report includes an analysis of the city of Chicago's residential permit data from the last five and one-half years. The analysis is based on permits for new residential construction and residential rehabilitation designated "new usage."

This study demonstrates the positive impact an inclusionary housing program would have in Chicago:

- A modest inclusionary housing ordinance would have produced approximately 5,000 units over the last five years.
- A mid-level program would have produced over 7,000 affordable units over the last five years.
- A strong program would have produced over 12,000 affordable units over the last five years.

### **Will Inclusionary Housing Stifle Development and/or Harm the Property Tax Base?**

Economic analyses, national case studies, analytical reports, feasibility studies, and developer and community reaction all indicate that inclusionary housing does not stifle development, drive down property values, or hurt tax revenues.

Development is unlikely to slow; in fact it may accelerate. In some communities, the presence of cost offsets, hot local housing markets, and possible reductions in land prices over time can help pay for the cost of producing affordable homes and apartments. In many communities, developers gain the benefit of increased predictability and certainty in the development process and, quite often, a new capacity to build for a broader segment of the housing market that is eager to purchase or rent affordable units. These benefits, coupled with the desirability of the housing market, ensure that developers will continue to produce housing under an inclusionary housing program. The study highlights the following:

- **Development continues apace in many different kinds of communities.** Hundreds of communities (suburban, small and large city) have used inclusionary housing to produce thousands of units. Major cities like Boston, San Diego, Denver, and San Francisco all have successful programs. In Loudon County, Virginia, the inclusionary housing ordinance was even amended recently because it spurred too much growth.
- **Development continues in communities that offer few or no developer incentives.** An analysis of development patterns by local planning staff before and after passage of inclusionary housing programs in Boston, San Diego, San Francisco, and Chapel Hill, North Carolina, (where few or no cost offsets are provided) revealed that market-rate

development has not slowed. In fact, in one community — San Francisco — market-rate development actually *increased* after passage of the program.

- **Studies from California, the D.C. metro area, and the nation at large show development continues.** A study examining the level of residential building permits over 20 years in 28 California cities, with and without inclusionary housing programs, indicates no negative effect on levels of development.
- **Support from developers, realtors, and the community.** Many developers, homebuilders, and realtors have become supporters of inclusionary housing in locations where such programs exist. At the same time, more and more communities are adopting inclusionary housing (43 in California in the 1990s alone) and strengthening existing programs.

It is also unlikely that the property tax base will be negatively affected; in fact, it may be enhanced. Inclusionary housing is unlikely to drive down property values or limit the creation of market-rate units in specific developments.

- Studies from Montgomery County, Maryland, and Fairfax County, Virginia, (locations with longstanding inclusionary housing policies) found that market-rate units in developments with affordable housing preserved or appreciated in value as well as market-rate units in developments without affordable housing.
- A 1988 study completed by Washington-area developer Bill Berry of 14 similar communities in Montgomery County, Maryland, indicated that the market-rate housing in inclusionary developments enjoyed a greater appreciation in property values over time than the market-rate units in developments without affordable housing.
- No studies indicate that any community has experienced a decline in its property tax base as a result of an inclusionary housing program.

The benefits that accrue from creating more affordable housing and expanding homeownership to more working families are more likely to enhance and expand the city's property tax base and contribute to the long-term social and fiscal health of the city. An inclusionary housing program will produce affordable housing without the need for a public subsidy — thereby preserving city tax dollars for other valuable needs. Density bonuses will help to create additional ownership units above and beyond what the market would normally produce. By creating housing affordable to all levels of the workforce, inclusionary housing can improve a city's competitiveness in attracting new business. By enabling more moderate- and low-income families to spend a smaller percentage of their income on housing, a set-aside law can provide economic stimulus to local businesses and improve the self-sufficiency, health, and well-being of low- and moderate-income families.

## **A Policy That Works for the City That Works**

An inclusionary housing law in Chicago could conservatively produce anywhere from approximately 1,500 to 2,500 new affordable homes and apartments each year above and beyond what the city is currently producing. Economic analyses, national case studies, analytical reports, feasibility studies, and developer and community reaction all indicate these new homes could be produced without stifling the development boom or undermining the local property tax base. Now is the time for the city of Chicago to realize that inclusionary housing is a policy that can work for the city that works.

## Introduction

Chicago has long been known as the city that works. Unfortunately, for many working households trying to find and maintain affordable housing today, Chicago is not working so well. The city faces a severe affordable housing crisis. This is an urgent need that has been recognized and lamented by many of the major institutions in Chicago (the Mayor, the media, religious institutions, civic and business organizations).<sup>1</sup> The crisis threatens the social and economic well-being of the city. The city already has a Five Year Plan for housing and a number of successful programs geared toward addressing this crisis. And yet, the crisis continues to grow. Given the tough budget climate and scarce federal and state resources for affordable housing, can anything more really be done?

Inclusionary housing, or a mandatory affordable housing “set-aside” law, provides one hopeful answer. *Inclusionary Housing: A Policy that Works for the City that Works* examines inclusionary housing as one viable policy solution for the affordable housing shortage in Chicago.

By requiring all new developments of a certain threshold size to include some percentage of all new units as affordable, the city can harness the power of the marketplace to produce high-quality homes and apartments across the city for seniors and low- to moderate-income households. By providing density bonuses, reduced parking requirements, and flexible zoning or other “cost offsets” to developers under this program, affordable housing can be produced without a major public subsidy, thereby saving the city’s scarce tax revenues for other valuable uses. In addition, inclusionary housing can help meet the city’s need for “workforce housing,” contribute to economic development efforts, stabilize communities undergoing rapid gentrification, discourage sprawl and disinvestment, and help to decrease the level of economic and racial segregation in the city. Hundreds of communities around the country are realizing some or all of these benefits as they use inclusionary housing policies as one tool to address their pressing need for more affordable housing.

Opponents of this approach question whether a mandatory set-aside can really work. They argue that a mandatory inclusionary housing program will: 1) stifle the city’s development boom, and 2) harm the local property tax base.

This report will explore these two key issues as it examines in depth whether inclusionary housing is a “workable” policy for the city that works. The study defines inclusionary housing, provides examples from around the country, highlights the benefits of such a program, and identifies two major concerns with inclusionary housing. The report examines why the city of Chicago needs an inclusionary housing program and illustrates the impact a mandatory set-aside law would have had on the city’s affordable housing stock over the past five years. The report deals with the development and tax base concerns through economic analysis, national and regional studies, the experiences of other municipalities, and the reaction of developers, homebuilders, and realtors to inclusionary housing programs in their locales. The final section of the report draws important

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<sup>1</sup> See: “The push for affordable housing” *Chicago Tribune*. August 13, 2003, p.24.; Fran Spielman, “Clergy push for affordable housing set-asides,” *Chicago Sun-Times*. November 26, 2003. Available online: <http://www.suntimes.com/output/news/cst-nws-hous26.html>. Accessed: 12-1-03.; Ray Quintanilla, “George backs housing effort,” *Chicago Tribune*. July 20, 2002, p.14; Suzanne Hanney, “Affordable Housing Shortage Threatens City Growth,” *StreetWise* August 5-11, 2002. Vol. 10, No. 37, p. 1,9.



conclusions regarding the importance of inclusionary housing as a means to remedy Chicago's affordable housing crisis.

This report is not intended to determine whether a *specific* inclusionary housing program will be "economically feasible" in Chicago. Rather, its purpose is to inform the ongoing debate over mandatory set-asides and provide the information necessary to determine whether inclusionary housing offers a good policy choice for the city of Chicago.

## I. What is Inclusionary Housing?

Inclusionary housing has become a popular tool nationwide for addressing the shortage of affordable housing.<sup>2</sup> Inclusionary housing requires developers to reserve a certain percentage of new residential development as affordable to low- and moderate-income households.

Hundreds of communities across the country now use some form of inclusionary zoning at the local level in order to address affordable housing needs. According to a recently completed study, at least 107 inclusionary zoning programs exist in California as of March 2003.<sup>3</sup> In Massachusetts, there are 118 programs where the local jurisdiction uses traditional inclusionary zoning or some sort of incentive zoning to create affordable housing.<sup>4</sup> In New Jersey, 266 “de facto” inclusionary housing programs are in place as a result of the *Mt. Laurel* litigation and the state’s Fair Housing Act.<sup>5</sup> Two or three dozen more programs exist in cities and counties scattered around the country (with four alone in the Washington, D.C., area and in local jurisdictions in states such as North Carolina, New Mexico, Florida, Illinois, Vermont, and Colorado).<sup>6</sup>

### The Nuts and Bolts

How inclusionary housing works depends on the language and elements of an ordinance. Most mandatory inclusionary housing ordinances contain the following elements:

- Threshold
- Applicability
- Set-Aside Requirement
- Developer Incentives
- Income Targeting
- Control Period
- In-Lieu Alternatives
- Housing Provider

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<sup>2</sup> The terms “inclusionary housing,” “inclusionary zoning,” and “set-aside” will be used interchangeably throughout this report referring to local programs that require or encourage developers to reserve some portion of the housing units in covered developments as affordable to low- and moderate-income households.

<sup>3</sup> California Coalition for Rural Housing and Non-Profit Housing Association of Northern California. 2003. *Inclusionary Housing in California: 30 Years of Innovation*. San Francisco, CA: California Coalition for Rural Housing and Non-Profit Housing Association of Northern California, p.7.

<sup>4</sup> Clark Ziegler. 2002. “Introduction,” in *Inclusionary Housing: Lessons Learned in Massachusetts*. National Housing Conference (NHC) Affordable Housing Policy Review. Vol. 2, Issue 1. Washington, D.C.: National Housing Conference, p.1.

<sup>5</sup> The *Mt. Laurel* litigation ruled “exclusionary zoning” practices to be unconstitutional under the New Jersey State Constitution and provided a “builder’s remedy” to developers wishing to build affordable housing. The legislatively enacted Fair Housing Act creates an obligation on local governments to produce their “fair share” of affordable housing. Richard Tustian. 2000. “Inclusionary Zoning and Affordable Housing,” in *Inclusionary Zoning: A Viable Solution to the Affordable Housing Crisis?* New Century Housing, Vol. 1, Issue 2. Washington, D.C.: The Center for Housing Policy, p. 23.

<sup>6</sup> Compiled from resources produced by the Innovative Housing Institute, PolicyLink, and Business and Professional People for the Public Interest. 2003.

The **Set-Aside Requirement** is the percentage of units a developer is required to set aside as affordable within a proposed development (example: 15% of units in the development must be affordable). **Threshold** is the size of the development that triggers the set-aside requirement (example: a development that includes 10 or more units requires a set-aside for affordable housing units). **Applicability** refers to the kinds of development covered by the ordinance (example: new construction, condo conversion, and substantial rehabilitation).

**Developer Incentives** help the developer make the project cost feasible. Under an inclusionary housing program, a density bonus would allow a developer some flexibility to build extra market-rate units in the development. Floor area ratios, height requirements, and front and rear setbacks could also be adjusted to help the developer make the affordable units feasible. A developer might receive a reduced off-street parking requirement. A developer could also receive a cash subsidy, a waiver of permit fees on the affordable units, or an expedited permit process. Finally, the developer might build accessory units, such as coach houses, in the development.

**Income Targeting** is the practice of identifying the income range of the residents for whom the affordable units are intended (example: a unit might be priced affordable to households earning a certain percentage of the Area Median Income – 50%, 100%, etc.). The **Control Period** is the length of time an affordable unit is required to be priced as affordable. **In-Lieu Alternatives** are options a developer might consider instead of building the affordable units on-site at the proposed development (example: a developer might build the affordable units elsewhere or contribute money to a fund for others to build affordable housing). **Housing Provider** provisions allow non-profit or public entities the right to purchase some percentage of the affordable units in the development to ensure that the inclusionary housing program will serve a broader range of low-income households.

### **Examples of Successful Inclusionary Housing**

From Massachusetts to California, Colorado, New Mexico, Illinois, Vermont and Florida — hundreds of inclusionary housing programs are working in communities across the nation.<sup>7</sup> Communities have produced thousands of affordable units in a relatively short period of time. Most offer some form of cost offsets or incentives to developers. The set-aside percentages generally range from 5% to 30% with a range of moderate- and low-income persons served. In some communities, the rental and for-sale units stay affordable forever; in others, they remain affordable for 15 to 55 years.

### ***Inclusionary Housing Across the U.S.<sup>8</sup>***

- ***Boston, Massachusetts***, implemented an inclusionary housing policy in 2000 requiring a 10% set-aside in all developments over 10 units. Only developers in the financial district receive flexible zoning incentives. To date, the ordinance has produced over 200 units with many more in the pipeline.

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<sup>7</sup> See Appendix A for a more comprehensive listing of examples of inclusionary housing ordinances.

<sup>8</sup> National examples are taken from BPI's inclusionary housing research; more complete information on the inclusionary housing programs can be found in BPI's 2003 report "Opening the Door to Inclusionary Housing" or on the Web at [http://www.bpichicago.org/rah/rihi\\_pubs.html](http://www.bpichicago.org/rah/rihi_pubs.html).

- *Denver, Colorado*, offers its developers a cash subsidy and a density bonus in return for a mandatory 10% set-aside on all new construction and substantial rehab projects of 10 or more units. Since 2002, more than 845 affordable units have entered the development pipeline.
- *Fairfax County, Virginia*, has produced nearly 2,000 affordable units with its sliding 6%-12.5% set-aside requirement since 1991. Fairfax County gives developers a density bonus and an option to pay a fee instead of building the affordable units.
- *Montgomery County, Maryland*, implemented a set-aside program in 1974. More than 11,500 units have been created. The set-aside requirement ranges from 12.5% to 15%, and developers are offered a density bonus and fee waivers for their mandatory participation.
- *San Francisco, California*, has a 10% set-aside requirement and offers developers some fee waivers on the affordable units. Since 2002, 90 units have been completed and 745 more are in the pipeline.
- *Sacramento, California*, has a 15% set-aside requirement and offers developers density bonuses and an expedited permit process. About 465 units have been produced since 2000 with more in the development pipeline.
- *San Diego, California*, implemented a mandatory inclusionary housing program in 1992 limited to the Future Urbanizing Area (FUA), a redeveloping section of town. That program has produced over 1,200 units in a decade. The city recently expanded this program citywide, requiring a 10% set-aside on all projects of 10 or more units. San Diego's affordable units will stay affordable for 55 years for both rental and for-sale units.

### ***Inclusionary Housing in Illinois***<sup>9</sup>

- *Highland Park, Illinois*, passed its inclusionary housing ordinance in August 2003. Highland Park requires a 20% set-aside in all developments of five units or more and offers developers density bonuses and fee waivers. The Highland Park policy covers new construction, condo conversion, and substantial rehabilitation projects.

### **Benefits of Inclusionary Housing**

The benefits<sup>10</sup> that inclusionary housing offers a community are multi-dimensional and include:

- **Strengthens Communities:** Inclusionary housing produces affordable homes and apartments for low- and moderate-wage workers and households: police officers, firefighters, and other public sector employees; seniors; young families; and social service professionals and service sector workers such as day care instructors, home health care aides, and security guards.
- **Prompts Market-Driven, Fiscally Responsible Solutions:** Inclusionary housing harnesses the power of the marketplace to produce affordable homes and apartments without significant outlays of public subsidy. This preserves existing public revenues for other community needs, including housing programs to serve extremely low-income families who are unlikely to be the main beneficiaries of an inclusionary housing program.

<sup>9</sup> Ibid.

<sup>10</sup> This is not meant to be an exhaustive list of benefits, but rather a list of the good results that many different communities and practitioners have identified about inclusionary housing.

- **Stimulates Economic Development:** Inclusionary housing aids economic development efforts by providing housing for the workforce (which helps to retain and attract new business investment) and by providing more disposable income for low- and moderate-income households by ensuring that they only have to spend 30% of their income for housing instead of 35-50% or more. This additional disposable income can provide economic stimulus as low- and moderate-income households spend that money on goods and services in the local economy.
- **Supports Smart Growth Principles and Protects Against Disinvestment:** Inclusionary housing contributes to smart growth and reinvestment in already developed areas by making it possible to produce affordable housing in the urban core and not just on the suburban fringe.
- **Enhances Economic and Racial Integration:** Inclusionary housing promotes economic and racial integration which can lead to a host of positive social and economic outcomes such as improved schools, decreased crime, and reduced poverty — all of which have not only significant social benefits, but also significant fiscal benefits to city government.
- **Overcomes NIMBYism:** Inclusionary housing helps to demonstrate that affordable housing can be successfully mixed with market-rate housing, thereby helping to overcome longstanding stereotypes.
- **Offers Predictability and a Level Playing Field to Developers:** Inclusionary housing levels the playing field in the development community and provides some predictability in the development process. Every developer is subject to the same policy and procedures. The developer also often receives cost offsets and incentives for producing the affordable units. The developer knows “up front” what is required and what he or she will receive in return.

### Concerns About Inclusionary Housing

Legitimate concerns do exist about inclusionary housing. These concerns<sup>11</sup> include:

- **Will inclusionary housing slow or stop development?** Will developers stop developing in a city that has an inclusionary housing ordinance? Hundreds of communities across the U.S. have implemented inclusionary housing programs, and thousands of affordable units have been produced within market-rate developments and subdivisions across the U.S.
- **Is inclusionary housing cost-feasible for developers?** Cost feasibility will depend on the language of the ordinance. Density bonuses and flexible zoning can provide developers with major cost savings in their projects.
- **Does inclusionary housing harm the local property tax base?** Will an inclusionary housing program reduce property tax revenues or the assessable tax base by limiting new development or undermining the value of market-rate housing?

These concerns will be examined more fully later in this report. Despite concerns, inclusionary housing has become a widely used tool across the country with a number of promising benefits. This report next examines whether the city of Chicago is in need of this tool.

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<sup>11</sup> This is not meant to be an exhaustive list of concerns, but rather to highlight the major policy concerns expressed about inclusionary housing.

## **II. Why Does Chicago Need Inclusionary Housing?**

Chicago is known as the city that works. However, Chicago is not working so well when it comes to affordable housing for moderate- and low-income families. Four indicators point to a deficit of housing affordable to these households:

- 1) Low and moderate wages do not support rising Chicago housing costs.
- 2) High housing costs have caused increased homelessness throughout the city.
- 3) A shortage of nearly 80,000 units exists for households that earn less than \$20,000 a year.
- 4) Chicago's new construction is priced out of reach for thousands of moderate- and low-income households.

### **Wages Do Not Support Chicago Housing Costs**

The U.S. Department of Housing and Urban Development defines affordable housing as housing that costs no more than 30% of a household's gross income. For a single, full-time minimum wage worker in Chicago, housing considered affordable by HUD should cost no more than \$264 a month. It is therefore impossible for many Chicago workers earning minimum and moderate wages to pay only 30% for market-rate housing in the city. Such workers are often stretched to pay more than half of their income toward housing expenses.

The Fitz family of Pilsen provides a Chicago example of the wages and housing mismatch.<sup>12</sup> Celestino Fitz and his wife earn little more than minimum wage in their full-time jobs as office janitors. When their \$800 two-bedroom apartment increased to \$900 a month, the five members of the Fitz family moved into a one-room attic in a dilapidated Pilsen house. The bedroom is separated from the "kitchen" by a bed sheet, rain leaks down the cracked walls, and roaches are an incessant problem.

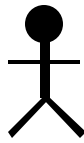
Everyday working families of the city can no longer afford to live in many of its neighborhoods. A Chicago minimum-wage worker would have to work more than 139 hours a week to afford a \$900 two-bedroom apartment in the city. An individual would have to earn roughly \$17.13 an hour to afford the fair market rent for a two-bedroom apartment in the city.<sup>13</sup> As rents exceed \$1,000 per month and home prices surpass \$300,000, these housing prices are not attainable for a major portion of the city's population: teachers, police officers, nursing assistants, CTA bus drivers, store attendants, and restaurant workers.

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<sup>12</sup> Based on an interview with the Fitz family at their home in February of 2003.

<sup>13</sup> National Low-Income Housing Coalition, *Out of Reach 2001: American's Growing Rent Disparity*, 2001.

**TABLE 3.1:**  
**Minimum Wage Workers Cannot Afford Chicago Rents**



Ella earns \$5.50 an hour in a restaurant and supports two children



Ella must work **more than 139 hours a week** to afford her \$900 two-bedroom apartment

The 2000 Chicago median rent of \$616 is not affordable to bank tellers, janitors, dental assistants, security guards, retail clerks, nursing aides, and fast food workers if they are the sole wage earner in their household.<sup>14</sup> The \$144,300 median home price is out of reach for **all** of the workers listed below (including police officers and teachers).

**TABLE 3.2**  
**2003 Median Wages for Cook County**  
**Illinois Department of Employment Security**

Occupation	Median Salary	Affordable Rent*	Actual Chicago Median Rent**	Affordability Gap	Affordable Home^	Actual Chicago Median Home Value**	Affordability Gap
Police Officer	\$45,598	\$1,140	\$616	<b>\$524</b>	\$136,794	<b>\$144,300</b>	<b>(\$7,506)</b>
Elementary Teachers	\$42,766	\$1,069	\$616	<b>\$453</b>	\$128,298	<b>\$144,300</b>	<b>(\$16,002)</b>
Bank Teller	\$22,679	\$567	\$616	<b>(\$49)</b>	\$68,037	<b>\$144,300</b>	<b>(\$76,263)</b>
Janitor	\$21,622	\$541	\$616	<b>(\$75)</b>	\$64,866	<b>\$144,300</b>	<b>(\$79,434)</b>
Dental Assistant	\$20,293	\$507	\$616	<b>(\$109)</b>	\$60,879	<b>\$144,300</b>	<b>(\$83,421)</b>
Security Guard	\$19,985	\$500	\$616	<b>(\$116)</b>	\$59,955	<b>\$144,300</b>	<b>(\$84,345)</b>
Preschool Teacher	\$19,735	\$493	\$616	<b>(\$123)</b>	\$59,205	<b>\$144,300</b>	<b>(\$85,095)</b>
Retail Clerk	\$19,441	\$486	\$616	<b>(\$130)</b>	\$58,323	<b>\$144,300</b>	<b>(\$85,977)</b>
Nursing Aide	\$19,321	\$483	\$616	<b>(\$133)</b>	\$57,963	<b>\$144,300</b>	<b>(\$86,337)</b>
Fast Food Worker	\$13,974	\$349	\$616	<b>(\$267)</b>	\$41,922	<b>\$144,300</b>	<b>(\$102,378)</b>

\*Calculated as 30% of income

\*\*Based on 2000 U.S. Census Data

^Calculated as three times annual income

**Chicago Housing Costs Contribute to Homelessness Crisis**

As housing costs skyrocket, Chicago's working classes are being displaced. When apartments are converted to condominiums, tenants are asked to leave. When affordable buildings are demolished for luxury high-rise housing, tenants are asked to move out. Chicago's current supply of affordable housing is not absorbing its displaced citizens. Some even become

<sup>14</sup> The \$616 Chicago median rent is taken from table H63, Summary File 3 of the U.S. Census.

homeless as a result. Consider the following statistics from the Chicago Coalition for the Homeless:

- Approximately 166,000 people experience homelessness in the Chicago metropolitan area each year.<sup>15</sup>
- Chicago reported a 35% increase in demand for shelter for families in 2001 compared to the previous year.<sup>16</sup>

### **The Affordable Housing Shortage in Chicago**

It is important to note that the city of Chicago has acted in a number of ways using federal, state, and local dollars and incentives to make housing more affordable. The City Council passed an ordinance this year for affordable housing set-asides in developments that receive a city subsidy (TIF or write-down on city-owned land). In 2001, the city reported that it sponsored the construction or substantial rehabilitation of about 1,600 apartments affordable to moderate- or low-income families. The city also promotes and supports affordable housing through its Single-Family Rehab and New Construction programs such as New Homes for Chicago and the HomeStart Program, as well as its Multi-Family Rehab and New Construction Initiatives.<sup>17</sup> Finally, the city offers homeownership assistance through initiatives like the City Mortgage Program with low interest loans or rental assistance through the Low-Income Housing Trust Fund Rental Subsidy Program.<sup>18</sup> The Mayor recently reaffirmed his commitment to affordable housing in the *Chicago Sun-Times* stating, “Our goal is to make sure Chicago neighborhoods are affordable to people of every age, income and background -- and housing is an important part of that commitment.”<sup>19</sup>

The city should be commended for its efforts. Unfortunately, current initiatives are not enough to meet the housing crisis that swells across the city.

Using U.S. Census household income and housing-unit data, a special analysis by Business and Professional People for the Public Interest (BPI) found:

- (1) A shortage of housing affordable to households earning at or below 50% of the Chicago median income (one quarter of the city’s households) exists (See Table 3.3).<sup>20</sup>

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<sup>15</sup> *For Rent: Housing Options in the Chicago Region* (University of Illinois at Chicago, November 1999).

<sup>16</sup> Chicago Coalition for the Homeless. [www.chicagohomeless.org](http://www.chicagohomeless.org).

<sup>17</sup> Chicago Department of Housing Affordable Housing Plan 1999-2003: Sept. 30, 2003 Quarterly Progress Report. Through New Homes for Chicago, the HomeStart Program, Condo Rehab, the Chicago Partnership for Affordable Neighborhoods, City land donations, and City Fee Waivers – the city of Chicago anticipated in 2003 that it would develop 698 units. Through Multi-Family Loans, Affordable Rents for Chicago, TIF subsidies, Tax Credit Equity, Multi-Family Mortgage Revenue Bonds, City land donations, City Fee Waivers, and Illinois Affordable Housing Tax Credits – the city anticipated in 2003 that it would develop 4,913 units.

<sup>18</sup> The City also gives homeownership assistance through the Police Home Buyer Assistance program, Home Options program, Home Purchase Assistance Program, and Neighborhood Lending programs.

<sup>19</sup> “City’s heart in making housing affordable.” *Chicago Sun Times*. November 30, 2003.

<sup>20</sup> This number does not provide an exact measurement of the shortage of hard units, only an approximation. One cannot tell from Census data which income levels are living in which units. A family earning an income at 80% of the city median household income may be living in a home that is at a price level affordable to a household at 50% of the city median household income level. If anything, this “shortage” is thus a conservative approximation.



**TABLE 3.3:  
A Shortage Exists for Households Earning Less Than \$20,000 a Year<sup>21</sup>  
(50% of Chicago Household Median Income) – Y2000**

<b>Chicago Income Data:</b>	273,928 Chicago households (25% of Chicago households) earned at or below \$19,313 a year. <sup>22</sup>
<b>Available Housing:</b>	Only 157,639 rental units were affordable to these households and only 38,734 owner-occupied units were affordable. <sup>23</sup>
<b>The Shortage:</b>	<b>A shortage of 77,555 housing units existed</b> for Chicago households earning less than \$19,313 a year.

(2) Census data indicate that there is a lack of owner-occupied housing affordable to households earning at or below 80% of the Chicago median income (40% of Chicago households) (See Table 3.4). This shortage is much less severe than the shortage for households at 50% of the Chicago median household income, but significant nonetheless.

**TABLE 3.4:  
A Lack of Owner-Occupied Housing for Households Earning Less than \$31,000 a Year<sup>24</sup>  
(80% of Chicago Household Median Income) – Y2000**

<b>Chicago Income Data:</b>	428,180 Chicago households earned at or below \$30,900 a year in 2000 (40% of Chicago households). <sup>25</sup>
<b>Available Housing:</b>	Only 107,164 owner-occupied housing units were affordable to Chicago households earning less than \$30,900 a year. <sup>26</sup>
<b>The Shortage:</b>	<b>77% of owner-occupied units were not affordable to households earning less than \$30,900 a year.</b>

(3) An increasing number of Chicago owner-occupied households paid more than 30% of their income toward housing costs in 2000. The number of such households increased nearly 41% during the 1990s, from 52,117 households in 1990 to 73,365 households in 2000.<sup>27</sup>

<sup>21</sup> For complete methodology, see Appendices B, C, and D.

<sup>22</sup> \$19,313 is 50% of the city of Chicago median income of \$38,625. This median income was taken from table P53 in Summary File 3 of the U.S. Census. The number of households was taken from table P52 in Summary File 3 of the U.S. Census.

<sup>23</sup> Affordability is calculated as 30% of a household's gross monthly income. The housing unit data was taken from tables H62 and H84 in Summary File 3 of the U.S. Census.

<sup>24</sup> For complete methodology, see Appendices B, C, and D.

<sup>25</sup> \$30,900 is 80% of the city of Chicago median income of \$38,625. This median income was taken from table P53 in Summary File 3 of the U.S. Census. The number of households was taken from table P52 in Summary File 3 of the U.S. Census.

<sup>26</sup> Affordability is calculated as 30% of a household's gross monthly income. The housing unit data were taken from tables H62 and H84 in Summary File 3 of the U.S. Census.

- (4) Rental housing — housing that is valuable to many moderate- and low-income families in Chicago — decreased by 2,577 units between 1990 and 2000, despite an increase in population for the city.<sup>28</sup>

**New Construction Is Forcing Chicago's Working Families Out of the Market**

The flurry of development across the city in the past 10 years is praised for beautifying Chicago, revitalizing neighborhoods, and boosting home values for Chicago's home owners. Unfortunately, this flurry of development has also had a negative effect on Chicago's moderate- and low-income households. Not only are most of these families unable to purchase these homes, many are being displaced from their current housing to make room for new, luxury condominiums and homes. In 2003, the median price for new single-family homes, condos, and town homes was \$322,288. A household would have to earn \$128,915 a year to afford that home — a level that is triple the median income of Chicago households in 2000.

Single-family home prices increased over 200%, while condominium and town home prices increased 49% and 77% respectively between 1995 and 2003, according to Multiple Listing Service data (See Table 3.5 below).

**TABLE 3.5: Chicago New Construction Home Prices, 1995-2003**

Type of New Construction	1995 Median Sales Price	2003 Median Sales Price	% Change
Condos	\$205,980	\$307,000	49%
Townhomes	\$269,000	\$477,427	77%
Single-Family Homes	\$221,000	\$744,148	236%

BPI's analysis of all new residential construction in Chicago between 1995 and October of 2003 shows that, on average, **less than 2% of all new home construction has been affordable to households earning at or below 50% of the HUD Median Family Income for the Chicago Region.**<sup>29</sup> In 2000, 44% of Chicago households earned at or below 50% of the HUD Median Family Income.

<sup>27</sup> The U.S. Department of Housing and Urban Development defines affordable housing as housing that costs no more than 30% of one's household income. These Chicago data – an increase from 52,117 households in 1990 to 73,365 households in 2000--were taken from tables H69 and H94 in Summary File 3 of the U.S. Census. This increase is roughly a 3.5% increase of total owners each year paying more than 30% (from 12.2% to 15.7%)

<sup>28</sup> Taken from Summary File 3 of the U.S. Census.

<sup>29</sup> Annual median income figures were taken from the annual income limits distributed by the U.S. Department of Housing and Urban Development. Affordability was calculated using the Fannie Mae "specific payment" calculator at [www.fanniemae.com](http://www.fanniemae.com). Assumptions made in the affordability calculation included a 10% down payment, 5% payment toward closing costs, zero debt, a .2222 tax rate, and a 7% interest rate. See Appendix E for details on the income and affordability levels.

**Only 10% of newly constructed units have been affordable to households earning at or below 80% of the HUD Median Family Income for the same time period** (See Table 3.6 below). In 2000, 65% of Chicago households earned at or below 80% of the HUD Median Family Income.

**TABLE 3.6: New Residential Construction in Chicago, 1995 to October of 2003**  
(Pricing data from the Multiple Listing Service of Northern Illinois)

	1995	1996	1997	1998	1999	2000	2001	2002	2003YTD	TOTAL
<b>Total New Construction Units</b>	606	907	962	1521	2225	1800	2199	2571	1883	14,674
<b>Total Affordable Units at 50% AMI</b>	8	22	19	19	21	26	65	54	25	259
<b>% Affordable Units at 50% AMI</b>	1.32%	2.43%	1.98%	1.25%	0.94%	1.44%	2.96%	2.10%	1.33%	1.77%
<b>Total Affordable Units at 80% AMI</b>	62	126	98	220	256	132	218	267	92	1471
<b>% Affordable Units at 80% AMI</b>	10.23%	13.89%	10.19%	14.46%	11.51%	7.33%	9.91%	10.39%	4.89%	10.02%

The facts are clear. Housing costs in the city continue to rise beyond the wages and incomes of working people. Homelessness is rising. U.S. Census data reveal conclusively that housing shortages exist for low- and moderate-income households. These shortages are exacerbated by the fact that, despite the city's development boom and increase in population during the 1990s, the amount of rental housing in the city decreased by more than 2,500 units.

Finally, data from the real estate industry indicate that the building boom is not providing for Chicago's working population. Over the past eight years, only 2% of all new home construction has been affordable to households earning at or below 50% of the HUD Median Family Income for the Chicago region (\$34,350 in 2003). In 2000, 44% of Chicago households earned at or below 50% of the HUD Median Family Income. Only 10% of all new home construction has been affordable to households earning at or below 80% of the HUD Median Family Income for the Chicago region (\$54,960 in 2003). In 2000, 65% of Chicago households earned at or below 80% of the HUD Median Family Income. These data suggest that the booming housing market and the city's existing programs are not solving the affordable housing crisis. More must be done.

### III. What Could an Inclusionary Housing Ordinance Produce in Chicago?

When ranking Chicago among the top 10 places to live in 2002, *Money Magazine* applauded the city for its transformation of the South Loop.<sup>30</sup> Dozens of factories, abandoned buildings, and rundown housing units were transformed into high-priced, luxury condominiums — affordable to those fortunate few earning at least 10 times the city’s median income. For all the units created in the South Loop, an inclusionary housing ordinance could have produced hundreds of additional housing units affordable to middle- and low-income families. These units would have made housing available to the people who clean the South Loop office buildings, work in the nearby restaurants and shops, manicure the trees and flowers, and direct rush hour traffic. From \$400,000 to \$2 million+, however, the units of the South Loop remain out of reach to most working families, just like many of the high-end, newly converted condos built across the city.

Given all the development that occurred in the city over the last decade, the question remains: how much affordable housing *would* have been created if an inclusionary housing ordinance had been put in place just five years ago?

BPI’s 2003 analysis of Chicago building permit data illustrates how thousands of families would have benefited from an inclusionary housing ordinance in Chicago. The data show that a modest ordinance (a 10% set-aside with a 10-unit threshold) would have produced **nearly 5,000 units**. An ever stronger ordinance (with a 25% set-aside and 5-unit threshold) would have produced **almost 13,000 units**.

#### Methodology

BPI obtained residential permit data from the Chicago Department of Buildings for the five and a half year period from 1998 through July 2003.<sup>31</sup> This analysis includes new residential construction and residential rehabilitation, new usage. City projects coded as additions, rehabilitation existing usage, repairs, or miscellaneous were not included.

In addition, 442 projects in our study did not have numbers of units available. The Department of Buildings informed BPI that the Department’s residential permit data are “rough and incomplete.”<sup>32</sup> Not only are 442 projects missing unit data, other projects may have been coded incorrectly.<sup>33</sup> The Department maintains that these data are still the best data available.

*Due to the missing unit data, these production numbers most likely represent a conservative estimate of the impact of an inclusionary zoning ordinance in Chicago.*

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<sup>30</sup> “Money’s Best Places to Live.” November 19, 2002.

[http://money.cnn.com/2002/11/08/pf/yourhome/bplive\\_chicago/index.htm](http://money.cnn.com/2002/11/08/pf/yourhome/bplive_chicago/index.htm)

<sup>31</sup> These data were acquired on July 23, 2003 from the city of Chicago Department of Buildings, and include data up through July 21, 2003.

<sup>32</sup> Interview with a planner in the city of Chicago’s Department of Buildings. September 30, 2003.

<sup>33</sup> Interview with a planner in the city of Chicago’s Department of Buildings. September 30, 2003.

## **Results**

The bullets below show affordable housing unit production using different set-aside percentages and unit thresholds. (For example, a five-unit threshold means all development over five units would be subject to the set-aside ordinance). See Appendix H for the annual production numbers at various set-aside percentages and thresholds.

- Under a strong ordinance: **12,775 units** would have been produced between 1998 and July 2003 with a 25% set-aside and 5-unit threshold.
- Under a mid-level ordinance: **7,338 units** would have been produced between 1998 and July 2003 with a 15% set-aside and a 10-unit threshold.
- Under a modest ordinance: **4,880 units** would have been produced between 1998 and July 2003 with a 10% set-aside and 10-unit threshold.

Overall, our study showed that a change in the unit threshold between five and 10 units does not significantly affect affordable unit production (for example: a 15% set-aside produces 283 more units over five years if the threshold is decreased from 10 units to 5 units). However, every **5%** increase in the set-aside requirement results in roughly **500 more affordable units** per year, or **2,500 more affordable homes** over the 5-year period (See Appendix H for the sensitivity to different variables).

This analysis of residential permit data indicates that thousands of families would have benefited from an inclusionary housing ordinance over the past five years. Depending on the set-aside percentage, **anywhere from 1,000 to 2,000+ new affordable units per year** could have been dispersed throughout Chicago's neighborhoods during this period.

## IV. Will Inclusionary Housing Stop Development?

No policy tool will be a panacea to Chicago's affordable housing crisis. One major concern frequently raised regarding inclusionary zoning is that it will stifle future development. If true, this would lead to two negative outcomes:

- 1) It could further exacerbate the shortage of affordable housing. If less housing is being built or rehabbed and more people are chasing fewer homes, the price of housing will increase.
- 2) It could also harm a community's tax base and economic development as developers take their private investment elsewhere. The community would thus lose not only the developers' capital, but also the property tax revenue that comes from new homebuyers who move into the units built by developers.

This concern must be addressed by those considering inclusionary zoning programs. Does inclusionary zoning slow development?

In answering this question, it should be acknowledged that to date not a great deal of empirical research exists on the subject. However, it is possible to draw reasonable inferences about the impact of inclusionary zoning from four sources:

- 1) Economic literature about the "theoretical" incidence of inclusionary zoning.
- 2) The results of inclusionary zoning ordinances in different communities around the country and the subsequent response by those local communities.
- 3) Studies examining the "pros and cons" of inclusionary zoning, based on real-world experiences.
- 4) The reaction of developers and other concerned constituencies to inclusionary zoning over time. That is to say, do developers in particular remain negative to inclusionary zoning after they have lived with it?

Based on information from these four sources, one can conclude that **inclusionary zoning is unlikely to slow private, residential development, and in some cases, it may actually help to accelerate development.** Of course, whether or not development will slow or rapidly increase in a specific community depends to a much larger degree on the strength of the local housing market, broader economic trends, and the specific provisions of the inclusionary program itself. As a general rule, larger market forces (interest rates, the unemployment rate, levels of aggregate demand, consumer confidence, overall economic growth rates, etc.) will determine whether development in any particular community will rise or fall; the presence or absence of inclusionary zoning is not the primary determinant.

### The Theoretical Incidence

Basic economic theory suggests that an inclusionary set-aside, without providing cost offsets or incentives to cover the incremental cost of producing the affordable units, would cause developers to take one or some combination of the following four actions:

- 1) Raise prices on market-rate housing
- 2) Develop less housing
- 3) Reduce profits
- 4) Negotiate to pay less for certain “inputs” into the development process (such as land)

Though universal agreement among scholars does not exist, most of the economic literature indicates that #4 above is most likely.<sup>34</sup> Developers will most likely incorporate the cost of the affordable homes or apartments into their projects ahead of time and bargain for a lower land price in order to profitably develop the housing. Thus, the theoretical incidence of an inclusionary zoning program (without sufficient cost offsets or incentives) over time, would be born by owners of land available for development purposes that fall within the threshold of the inclusionary housing requirement (e.g. 10 units or more). Of course, the level of “cost offsets” or incentives that a community chooses to include in its inclusionary housing program can ameliorate the level of moderation in land prices. With generous “cost offsets,” a developer may require no reduction in land prices.

This outcome is not surprising, given the fact that zoning does in large part determine the price of land.<sup>35</sup> Nor is this outcome necessarily inequitable. Because most inclusionary housing programs contain a unit “threshold” of 5, 10, or even 50 units, the incidence of the program would be born by landowners of vacant land of significant size, not single-family homeowners largely dependent upon the amount of equity in their homes for livelihood and retirement. Landowners of vacant land parcels large enough to require an affordable component (e.g. 10 units) might see a reduced rate of appreciation in the values of their land over time. However, this moderate reduction in a rising real estate market is not likely to deprive these owners of earning a still very healthy return on their investment.<sup>36</sup> Furthermore, a moderate reduction in land costs is precisely what is needed to help improve affordability and enable developers to produce affordable homes in a rapidly escalating real estate environment.

While this analysis is based on economic theory, it should also be emphasized that most inclusionary housing programs around the country contain cost offsets and developer incentives.<sup>37</sup>

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<sup>34</sup>See: Alan Mallach. 1984. *Inclusionary Housing Programs: Policies and Practices*. New Brunswick, NJ: Center for Urban Policy Research -- Rutgers University.; Dr. Robert W. Burchell and Catherine C. Galley. 2000. “Inclusionary Zoning: Pros and Cons,” in *Inclusionary Zoning: A Viable Solution to the Affordable Housing Crisis?* New Century Housing, Vol. 1, Issue 2. Washington, D.C.: The Center for Housing Policy, p.7.; Nico Calavita and Kenneth Grimes. 1998. “Inclusionary Housing in California: The Experience of Two Decades.” *Journal of the American Planning Association*. Vol. 64, No. 2, Spring. Chicago, IL: American Planning Association (APA), pp. 150-170.; Arthur O’Sullivan. 1996. *Urban Economics*. 3<sup>rd</sup> Ed. Chicago IL: Irwin Publishers, p. 294.

<sup>35</sup> Calavita and Grimes, “Inclusionary Housing in California,” p. 152.

<sup>36</sup> Ibid.

<sup>37</sup> Ibid.

## **The Performance of Inclusionary Zoning Programs and Local Governmental Response**

One way to determine whether an inclusionary housing program is in fact slowing development is to examine whether or not the program continues to produce affordable units. After all, under inclusionary zoning, if private residential activity slows, so does affordable housing production.<sup>38</sup>

A review of sample inclusionary communities indicates that a significant number of new affordable units continue to be produced. No evidence exists to indicate that development has slowed in these communities. Appendix A lists a number of programs across the country. It reveals how inclusionary zoning has worked in many different localities: from wealthy counties with large suburban populations to small, mid-sized, and more recently, large cities. In addition to new affordable housing, many of these programs have also generated significant levels of fee-in-lieu dollars that are designated to support additional affordable housing efforts in the community.

The record of affordable production in inclusionary communities is impressive (See Table 1 below). During a 30 year period in California, one-third of the more than 107 programs (some passed many years ago and others passed more recently) have produced over 34,000 affordable units.<sup>39</sup> In the Washington, D.C., metro area, four county-level programs (passed in 1973, 1990, 1993, and 1991) have produced over 15,000 units over the past 30 years.<sup>40</sup> In New Jersey, “de facto” inclusionary housing programs exist in 250 of the state’s 566 communities as a result of the *Mt. Laurel* litigation and the state’s Fair Housing Act. Over 15,000 affordable units were directly produced under these programs from 1985 to 2000 at one-third of the cost of market-rate units (\$75,000 per unit).<sup>41</sup>

**TABLE 5.1: Affordable Housing Production Under Inclusionary Programs**

<b>Region/State</b>	<b># of Programs</b>	<b># of Affordable Units</b>	<b>Time Period</b>
California	At least 107	Over 34,000 (from 1/3 of the 107 programs)	30 years
Washington, D.C., Metro Area	4 County-based programs	Over 15,000	30 years
New Jersey	250 “de facto” programs	15,000	15 years

<sup>38</sup> This of course will not absolutely determine whether development has slowed or not, but it does provide some indication of whether development has slowed or stopped.

<sup>39</sup> California Coalition for Rural Housing. *Inclusionary Housing in California: 30 Years of Innovation.*, p. 7.

<sup>40</sup> The record of production comes from four programs: Montgomery County, MD; Fairfax County, VA; Loudon County, VA; and Prince George County’s, MD. Prince George’s County repealed its program in 1996, but the community of Rockdale, MD recently passed a new program bringing the total number of programs in the D.C. metro area back to four. Radhika K. Fox and Kalima Rose.. 2003. *Expanding Housing Opportunity in Washington, D.C.: The Case for Inclusionary Zoning.* A PolicyLink Report. Oakland, CA: Policy Link, p. 15.

<sup>41</sup> Tustian, “Inclusionary Zoning and Affordable Housing,” p. 23.



A number of individual inclusionary programs are particularly noteworthy when it comes to affordable housing production. Montgomery County, Maryland, alone has produced over 11,500 affordable units since 1973 and has generated \$477.4 million of private sector investment in affordable housing.<sup>42</sup> Fairfax County, Virginia, has produced 1,746 units since passage of its program in 1991 with another 254 units in the development pipeline. Irvine, California, has produced 3,415 units and Longmont, Colorado, despite a population of only 70,000 people, has produced 545 units since 1995 with 444 more units in the production or planning pipeline.

Larger cities have also produced impressive results with relatively new programs. Denver, Colorado, has 804 units in the development pipeline since passage of its program in 2002. San Francisco, California, has produced 90 affordable units since 2002 with approximately 800 more in the development pipeline. Successful new programs also exist in larger urban centers such as San Diego, Boston, and Sacramento, California.<sup>43</sup>

In fact, in many communities, development under inclusionary zoning has continued so robustly that it has led local officials to consider slowing development in the interest of protecting rural and open space. In Loudon County, Virginia, the nation's fourth fastest growing county, the decade-old inclusionary zoning program was recently amended because it was producing so much new construction that local officials were concerned about its effects on Loudon's shrinking amounts of rural countryside.<sup>44</sup>

***Mini Case Study: Four Locations with Inclusionary Housing Programs, but Few Cost Offsets or Incentives for Developers.***

The four inclusionary housing programs profiled below provide a closer look at this issue (See Table 5.2 below). Recent experience from three large cities — San Diego, Boston, San Francisco — and one smaller college town — Chapel Hill, North Carolina, (population 48,000) — suggests that inclusionary housing does not stifle development. In fact, they show that development under an inclusionary housing program can thrive without large cost offsets or developer incentives. These municipalities treat the affordability component as an integral part of the zoning code, no different from other zoning requirements such as minimum lot size, limited building height allowance, required setbacks, etc. This decision stems from a belief that a strong housing market and the ability to negotiate land prices negate the need for a municipality to provide significant cost offsets or incentives in order to subsidize affordable housing production.<sup>45</sup>

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<sup>42</sup> Phone Interview with Eric Larsen, August 2003.; Karen Destorel Brown. 2001. *Expanding Affordable Housing Through Inclusionary Zoning: Lessons from the Washington Metropolitan Area*. Washington, D.C.: Brooking Institution, Center on Urban and Metropolitan Policy, p.14.

<sup>43</sup> Sacramento, CA (population 407,075) and Denver, CO (population 554,636) also qualify as “large cities” with inclusionary housing programs. Sacramento passed its program in 2000 and as of the summer of 2003, the program had produced 254 units, with hundreds more in the development pipeline. Denver passed its program in 2002 and as of the summer of 2003, 804 affordable units were already in the development pipeline. There is no evidence that development has slowed in either city as a result of the programs.

<sup>44</sup> Brown. *Expanding Affordable Housing*., p.9.

<sup>45</sup> Calavita and Grimes. “Inclusionary Housing in California,” pp. 152.

In Boston, Mayor Thomas Menino signed an Executive Order in 2000 that requires a 10% affordability component in any residential project of ten or more units, financed by or developed on property owned by the city of Boston or the Boston Redevelopment Authority (BRA) or where zoning relief is requested. The city may provide projects located in the financial district with a height bonus; otherwise, no cost offsets are provided to covered developments.

The city of San Francisco recently established a mandatory citywide inclusionary housing program which requires a 10% set-aside in projects of ten or more units. Unlike most inclusionary zoning programs in the nation, San Francisco does not supply significant incentives such as a density bonus or flexible zoning. San Francisco does provide refunds on environmental review and building permit fees for the portion of the development that is affordable.

In 2003, after a decade of success with a localized mandatory inclusionary zoning program requiring a 20% set-aside, the city of San Diego enacted a citywide ordinance requiring a 10% affordable housing component in all projects of ten or more units. The program contains no “cost offsets” or incentives for developers.

The town of Chapel Hill recently ceased waiving its development application fees, previously offered as a cost offset under the town's voluntary inclusionary zoning policy. Its policy calls for a 15% set-aside in all developments of five or more units.<sup>46</sup>

**TABLE 5.2: Production Under Programs with Few or No Cost Offsets**

City and Year Passed	% Set Aside	Cost Offsets	# of Units	Effect on Level of Market-Rate Development
Boston, MA (2000)	10%	Height bonus in financial district only	200 units with more in the development pipeline	<u>No effect</u> – can now meet market <i>and</i> affordable production goals
San Francisco, CA (1992, expanded in 2002)	10%	Refunds on environmental review and building permit fees for affordable units only	128 units from 1992-2002; 90 since 2002 with 745 more in the pipeline	Market-rate development <i>has increased</i>
San Diego, CA (1992, expanded in 2003)	20% in FUA; 10% elsewhere	No offsets in either program	1,200 units from 1992-2003 from the FUA. 1,200 more anticipated from new citywide ordinance	<u>No effect</u>
Chapel Hill, NC	15%	No offsets	154 units between 2000 and 2002	<u>No effect</u>

<sup>46</sup> The city’s program, though officially voluntary, is implemented by city staff very aggressively, as if it were mandatory. Phone Interview of Phil Mason, Town of Chapel Hill Senior Planner, June 2003.

City planners in all four locations recently analyzed development trends before and after the adoption of inclusionary housing programs and found no decrease in overall development. According to Meg Kiely, Deputy Director of Community Development and Housing at the Boston Redevelopment Authority, inclusionary zoning has not negatively affected the pace of housing construction in the city. Thanks to its new policy, Boston can now meet both its market-rate *and* affordable housing production goals.<sup>47</sup>

According to Theresa Ojeda, a city planner for the city of San Francisco, there was no slowdown in permit and planning approval after the inclusionary zoning program was expanded in 2002 to cover all developments over ten units. In fact, there was an increase in development due to prime market conditions in the city.<sup>48</sup> According to San Diego senior city planner Bill Levin, development did not slow after passage of inclusionary zoning in 1992 for the North City Future Urbanizing Area (FUA).<sup>49</sup> In fact, the success of the FUA ordinance led to the adoption of a citywide mandatory inclusionary zoning law in San Diego in 2003. In Chapel Hill, the city no longer views inclusionary zoning as a policy necessitating a town subsidy in the form of a fee waiver.<sup>50</sup> Thus far, the lack of incentives has not discouraged development in Chapel Hill.<sup>51</sup>

While they may not be required, strong policy, political, and legal reasons exist for including real and substantial “cost offsets” or “incentives” for developers in any inclusionary housing program. As a matter of policy, such incentives can ensure that the burden of producing affordable housing is shared equally by the entire community. Politically, the presence of cost offsets can help to win broader support for an inclusionary housing program. Legally, the inclusion of cost offsets can help to ensure that an inclusionary zoning program will not be judged unconstitutional.<sup>52</sup>

### ***Reaction by Governmental Jurisdictions to Inclusionary Housing Programs***

Hundreds of inclusionary housing programs now exist around the country. More and more communities are newly adopting this policy tool; many communities are strengthening programs they already have; and virtually no communities have repealed programs after adoption.

Despite hundreds of programs over the past thirty years, BPI research uncovered only two communities where inclusionary housing programs have been repealed. In one of those communities — Fairfax County, Virginia — the program was invalidated by the courts in the early 1970s, in part because the program lacked any cost offsets for

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<sup>47</sup> Meg Kiely. “Boston’s Policy Gives Developers Choice,” In: [Inclusionary Zoning: Lessons Learned from Massachusetts](#), NHC Affordable Housing Policy Review, January, 2002; Phone interview of Meg Kiely, Deputy Director of Community Development and Housing at the Boston Redevelopment Authority, August, 2003.

<sup>48</sup> Phone Interview of Theresa Ojeda, San Francisco City Planner, July, 2003.

<sup>49</sup> Phone Interview of Bill Levin, San Diego Senior Planner, August, 2003.

<sup>50</sup> Phone Interview of Phil Mason, Town of Chapel Hill Senior Planner, June 2003.

<sup>51</sup> Ibid.

<sup>52</sup> This is not to say that inclusionary housing programs without cost offsets do not meet constitutional muster, just that one’s legal defense of a program is enhanced with prudent cost offsets.

developers.<sup>53</sup> However, in 1991, Fairfax County passed a mandatory ordinance with cost offsets that has seen strong and successful production. The other community, Prince George's County, Maryland, had a successful inclusionary zoning ordinance from 1991 to 1996 that produced 1,600 units in just five years without stunting development.<sup>54</sup> However, county officials repealed the program in 1996 because they felt that the county already had its "fair share" of affordable housing for the D.C. metro area.<sup>55</sup>

Many more communities are now adopting inclusionary housing, seeing it as a viable way to address the affordable housing crisis in a world of shrinking federal and state housing subsidies. Between 1994 and 2003, at least 43 communities in the state of California adopted inclusionary housing programs.<sup>56</sup> Since 1990, three communities in Colorado, one in New Mexico, two in Florida, one in Vermont, and one community in Illinois (the first ever in the state) have adopted mandatory inclusionary zoning laws.

A number of jurisdictions are expanding the existing programs and strengthening them from voluntary to mandatory programs. Cambridge, Massachusetts; Irvine, California; Pleasanton, California; and Boulder, Colorado, all recently made the switch and have experienced a significant increase in the production of affordable housing as a result.<sup>57</sup>

### **Broad Studies of Inclusionary Zoning and Feasibility Studies from Specific Cities**

In considering the impact of inclusionary housing on development, a number of surveys and studies also lead to a similar conclusion: inclusionary zoning does not dampen or stifle development.<sup>58</sup>

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<sup>53</sup> See: *Board of Supervisors of Fairfax County v. Degroff Enterprises, Inc.* 198 S.E.2d 600 (VA 1973). Business and Professional People for the Public Interest (BPI). 2003. *Opening the Door to Inclusionary Housing*. Chicago, IL: Business and Professional People for the Public Interest, p. 56.

<sup>54</sup> Brown, *Expanding Affordable Housing*, p.11; Fox and Rose, *Expanding Housing Opportunity in Washington D.C.*, p.15.

<sup>55</sup> *Ibid.*

<sup>56</sup> California Coalition for Rural Housing et. Al., *Inclusionary Housing in California*, p.2.

<sup>57</sup> See: Business and Professional People for the Public Interest. November, 2003. *Voluntary or Mandatory Inclusionary Housing? Production, Predictability, and Enforcement*. Chicago, IL: Business and Professional People for the Public Interest.

<sup>58</sup> California Coalition for Rural Housing. 1994. *Creating Affordable Communities: Inclusionary Housing Programs in California*. Sacramento, CA: California Coalition for Rural Housing.; Center for Housing Policy. 2000. *Inclusionary Zoning: A Viable Solution to the Affordable Housing Crisis?* New Century Housing, Vol. 1, Issue 2. Washington, D.C.: Center for Housing Policy.; National Housing Conference (NHC). 2002. *Inclusionary Zoning: Lessons Learned from Massachusetts*, NHC Affordable Housing Policy Review, Vol. 2, Issue 1. Washington, D.C.: National Housing Conference.; David Paul Rosen and Associates. 2002. *City of Los Angeles Inclusionary Housing Study: Final Report*. Los Angeles, CA: Prepared by David Paul Rosen and Associates for the Los Angeles Housing Department.; Nico Calavita, Kenneth Grimes, and Alan Mallach. 1997. "Inclusionary Housing in California and New Jersey: A Comparative Analysis." *Housing Policy Debate*. Vol. 8, Issue 1. Washington, D.C.: Fannie Mae Foundation. P. 122.; Marc Brown and Ann Harrington. 1991. "The Case for Inclusionary Zoning," *Land Use Forum* 1(1): 23-24.; San Diego Housing Commission. 1992. *Inclusionary Housing Analysis: Balancing Affordability and Regulatory Reform*. Report to the Deputy City Manager. San Diego, California.; Brown, *Expanding Affordable Housing Through Inclusionary Zoning*.; Calavita and Grimes. "Inclusionary Housing in California" 150-170.; California Coalition for Rural Housing et. al. *Inclusionary Housing in California: 30 Years of Innovation*.; Fox and Rose. *Expanding Housing Opportunity in Washington, D.C.* pp. 15-16.

## ***No Negative Impact in California***

A study by David Paul Rosen and Associates examining the effect of inclusionary housing programs on the pace of development in 28 California cities over a 20-year period provides the best available example of a comprehensive study addressing the question of whether inclusionary housing dampens or slows development.<sup>59</sup> The study examined new construction residential building permit data for 28 cities in Orange, San Diego, San Francisco, Los Angeles, and Sacramento counties — including jurisdictions with and without inclusionary zoning. The study also examined the effect of variables independent of inclusionary housing for their impact on housing production (including changes in the prime rate, median price for new construction homes, 30-year mortgage rate, unemployment levels, and the 1986 Tax Reform Act).

Results showed that inclusionary housing programs did not have a negative effect on overall levels of housing production. In fact, in a number of jurisdictions (including San Diego, Carlsbad, Irvine, Chula Vista, and Sacramento), housing production increased, in some cases quite dramatically.<sup>60</sup> In only one community, Oceanside, did housing production fall after passage of inclusionary zoning, but this drop in production was most likely due to increasing unemployment and increasing rates of housing vacancy.<sup>61</sup> The study also concluded that housing production was heavily affected by unemployment levels (in general, as the unemployment rate rises, housing production falls and vice versa) and the median price of new construction homes (as median home prices rise, housing production rises and as median home prices fall, housing production falls).

A 2003 study by the California Coalition for Rural Housing and the Non-Profit Housing Association of Northern California comes to the same conclusion.<sup>62</sup> It examines 107 inclusionary zoning programs across the state of California and fails to uncover any evidence that inclusionary zoning has or is slowing or dampening development. It states:

“...the market arguments that inclusionary policies will stifle construction or dramatically increase market-rate real estate prices have yet gone unproved. During the 1990s, construction rates and permit valuations remained steady or rose in inclusionary jurisdictions, as they did statewide. Anecdotal reports confirm that developers continue to build and that more newly constructed units are affordable as a result of local inclusionary programs.”<sup>63</sup>

In fact, the survey also demonstrates that programs that target the affordable units to a lower income target (e.g. 80% of the AMI instead of 100% of the AMI) do not discourage development.<sup>64</sup> Two other studies examining the performance of inclusionary zoning in the state of California, one from 1994 and the other from 1998, also suggest

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<sup>59</sup> See: David Paul Rosen and Associates. 2002. *Los Angeles Inclusionary Housing Study*, pp. 49-57.

<sup>60</sup> *Ibid.*, pp. 49-53.

<sup>61</sup> *Ibid.*

<sup>62</sup> California Coalition for Rural Housing et al. *Inclusionary Housing in California*.

<sup>63</sup> *Ibid.*, p.20.

<sup>64</sup> *Ibid.*, p.22.

that inclusionary zoning has produced significant numbers of affordable units without evidence of a decline in overall production.<sup>65</sup>

### ***National Reports Indicate No Negative Effect on Development***

Three national reports arrive at similar conclusions. Two reports examining inclusionary housing in the Washington, D.C., metro area indicate that levels of housing production have remained strong under inclusionary zoning programs.<sup>66</sup> A recent 2003 report by PolicyLink, entitled *Expanding Housing Opportunity in Washington D.C.*, examines the pros and cons of inclusionary zoning in general and its record of performance specifically in the Washington, D.C., metro area. On the issue of whether inclusionary zoning slows development, the PolicyLink report offers the following:

“While research on this question shows that housing production has not declined in jurisdictions with inclusionary zoning, no studies have undertaken a comprehensive analysis of changes in developer profit once IZ [inclusionary zoning] is adopted.”<sup>67</sup>

Another study on inclusionary zoning in the Washington D.C. metro area, entitled *Expanding Affordable Housing Through Inclusionary Zoning: Lessons from the Washington Metropolitan Area*, examines the performance of four inclusionary zoning programs in the D.C. metro area.<sup>68</sup> It finds that these programs have successfully produced significant numbers of new affordable housing.<sup>69</sup>

While the report indicates that in Montgomery County, Maryland, the development of high-rise rental buildings may have been limited by a lack of sufficient and appropriate cost offsets (no density bonuses were offered in central business districts), it is important to note that despite this specific difficulty, no evidence exists that overall housing production has suffered as a result of inclusionary zoning.

Additionally, a Center for Housing Policy report examining the advantages and disadvantages of inclusionary zoning does not identify any municipalities where inclusionary zoning has led to a decrease in development or in the tax base.<sup>70</sup>

### ***Feasibility Studies***

Finally, a handful of feasibility studies from individual cities exist (e.g., San Diego and Salinas, California) that indicate that local offsets and/or hot housing markets can sufficiently address the “profitability gap” faced by developers under an inclusionary zoning program.<sup>71</sup>

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<sup>65</sup> California Coalition for Rural Housing, *Creating Affordable Communities*; Calavita and Grimes. “Inclusionary Housing in California”, pp. 150-170.

<sup>66</sup> Fox and Rose. *Expanding Housing Opportunity in Washington, D.C.* pp. 15-16.; Brown, *Expanding Affordable Housing*, p. 13.

<sup>67</sup> Ibid.

<sup>68</sup> Montgomery County, MD; Fairfax County, VA; Loudon County, VA; Prince George’s County, MD.

<sup>69</sup> Brown, *Expanding Affordable Housing*, p. 13.

<sup>70</sup> Center for Housing Policy. *Inclusionary Zoning*.

<sup>71</sup> Calavita et. al. “Inclusionary Housing in California and New Jersey.” p. 122.; Brown and Harrington. 1991. “The Case for Inclusionary Zoning,” pp. 23-24.; San Diego Housing Commission. *Inclusionary Housing Analysis*; Fox and Rose. *Expanding Housing Opportunity in Washington, D.C.* pp. 15-16.

Two such San Diego feasibility studies exist. Analysis by a citywide task force in the 1990s concluded that inclusionary housing could operate successfully in San Diego if the appropriate incentives were included.<sup>72</sup> In 2000, the San Diego Plan Commission created a working group to consider a citywide inclusionary zoning law. Developers were initially opposed to the idea, but a detailed economic analysis produced by the city helped convince developers that such a program was in fact feasible.<sup>73</sup>

Bay Area Economics (BAE) completed a study for Salinas, California.<sup>74</sup> After establishing the need for affordable housing, it analyzed a series of “baseline pro formas” for five housing types: standard single-family, small lot single-family, townhomes, condominiums, and multifamily rental.

The authors then analyzed the feasibility of these five project types without cost offsets and under a variety of affordable housing set-aside requirements (from 15-40%). A project was deemed “feasible” if it could sustain a 10% profit for the private developer.<sup>75</sup> The study determined that a 20% affordable housing set-aside program serving households at or below 80% of the AMI (low-income households) was feasible on all four of the “for-sale” project types. At the 25% set-aside level, the standard lot single-family program was no longer viable, but the other three “for-sale” project types were. On the rental side, a multifamily rental project was feasible at the 15% set-aside requirement when serving households at or below 80% of the AMI (low-income households). In order to be feasible at a 10% profit margin while producing units affordable to households at or below 50% of the AMI (very-low-income households), the percentage set-aside had to be lowered to 12%.

With developer incentives included in the program, the authors concluded that the city could make the inclusionary requirement even more feasible. The study found that up to a 40% inclusionary requirement could be cost-feasible for owner-occupied and rental units when supported by a density bonus.<sup>76</sup> The authors recommended other cost-saving incentives, including a reduction in the affordable set-aside requirement for a developer who provides some portion of affordable units with more bedrooms, and reduced parking and street width requirements.<sup>77</sup>

### **Reaction of Developers and Realtors to Inclusionary Housing Over Time**

In general, opposition to inclusionary zoning initially surfaces from developers and realtors, who perceive it as a danger to their economic well-being and an unjustified

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<sup>72</sup> Calavita et. al. “Inclusionary Housing in California and New Jersey.” P. 122, see FN 4.

<sup>73</sup> Phone Interview of Susan Tinsky, Chief Policy Officer Advisor for the City of San Diego Housing Commission, August 2003.

<sup>74</sup> See: Bay Area Economics. 2003. *City of Salinas Inclusionary Housing Program Feasibility Study*. Berkeley, CA: Bay Area Economics.

<sup>75</sup> The authors identified this 10% profit baseline as a “conservative threshold,” stating that many developers often use an 8% profit margin to determine feasibility. Ibid, p. vii.

<sup>76</sup> See: Bay Area Economics. 2003. *City of Salinas Inclusionary Housing Program Feasibility Study*. Berkeley, CA: Bay Area Economic, p.40.

<sup>77</sup> Ibid.

intrusion on free enterprise. However, over time, in many locations, these “opponents” have eventually become supporters, and in a number of cases, outright advocates of inclusionary zoning.

In the Washington, D.C., metro area, where four<sup>78</sup> separate inclusionary housing programs operate, a number of developers and realtors have expressed support and affirmed their ability to profitably build affordable housing.<sup>79</sup> Tony Natelli, Chairman of Natelli Communities, has served as an advisor to community and civic groups working to create inclusionary housing programs in Maryland and Virginia. He convincingly attests to the fact that it is possible to produce housing (both affordable and market) under inclusionary zoning and still make a profit.<sup>80</sup>

In Massachusetts, where a number of inclusionary housing programs exist in the Boston suburbs, individual developers, homebuilders and realtors have all expressed support for inclusionary housing programs.<sup>81</sup> In fact, the Homebuilders Association of Massachusetts has publicly supported the adoption of inclusionary housing programs by local jurisdictions, provided that such programs include sufficient “cost offsets” such as density bonuses.<sup>82</sup> Robert Engler, a developer and consultant to developers in Massachusetts, has been an active proponent of inclusionary housing, writing articles and speaking publicly about how inclusionary housing can work to serve both the needs of developers and the local community.<sup>83</sup>

In California, developers have supported various inclusionary housing programs. In Irvine, developers recently lobbied the city council to convert its inclusionary zoning program from voluntary to mandatory. According to Irvine senior planner, Barry Curtis, developers initiated the change in response to the confusion and uncertainty of the

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<sup>78</sup> Rockville, MD recently passed an inclusionary zoning law. They join Montgomery County, MD, Loudon County, VA, and Fairfax County, VA. Prince George’s County repealed its ordinance in 1996.

<sup>79</sup> See: Center for Housing Policy. 2000. “Inclusionary Zoning: The Developers’ Perspective,” in *Inclusionary Zoning: A Viable Solution to the Affordable Housing Crisis?* New Century Housing, Vol. 1, Issue 2. Washington, D.C.: Center for Housing Policy, pp. 30-32. -- Richard Dubin, President of The Dubin Company and David Flanagan, Principal and President of Elm Street Development, Inc. speak about how they have developed successfully under inclusionary housing programs.; Phone Interview with Bernard Tetreault, former Executive Director of the Housing Authority of Montgomery County (MD) and the Housing Opportunities Commission and President and Founder of the Innovative Housing Institute. March 2003.

<sup>80</sup> Phone Interview with Bernard Tetreault, March 2003; Comments by Tom Doerr, Senior Associate of the Innovative Housing Institute, during a panel discussion on problem-solving for inclusionary zoning at “Creating Mixed Income Communities through Inclusionary Zoning” Innovative Housing Institute Conference. Bethesda, Maryland: October 10, 2003.

<sup>81</sup> Interview with Ben Fierro, Counsel for the Homebuilders Association of Massachusetts. Boston, MA: October 3, 2003.; Presentation by Robert Engler, BPI Common Interest Luncheon, Palmer House Hilton, Chicago, IL: September 17, 2002.

<sup>82</sup> Interview with Ben Fierro, Counsel for the Homebuilders Association of Massachusetts. Boston, MA: October 3, 2003

<sup>83</sup> Robert Engler. 2002. “An Inclusionary Housing Case Study: Newton, Massachusetts,” *Inclusionary Zoning: Lessons Learned in Massachusetts*. NHC Affordable Housing Policy Review. Vol. 2, Issue 1. Washington, D.C.: National Housing Conference, pp. 18-22.; Presentation by Robert Engler, BPI Common Interest Luncheon, September 17, 2002.



voluntary program.<sup>84</sup> What is instructive here is that the developers did not lobby for repeal of the program; they lobbied to strengthen it.

The case should not be overstated. Many developers and homebuilders remain skeptical.<sup>85</sup> Some developers, realtors, and homebuilders remain steadfastly opposed to inclusionary housing as an unwanted mandate and undesirable solution to the affordable housing crisis.<sup>86</sup> However, even in their criticism, developers and realtors tend to focus on the burden of inclusionary zoning and its inability to solve the affordability crisis. On the whole, they do not argue that inclusionary zoning has slowed development.<sup>87</sup> The fact remains that many developers, homebuilders, and realtors in locations with inclusionary zoning have become supportive after doing business under an inclusionary housing program. Their support for inclusionary zoning suggests that the pace of development does not have to suffer under such a program.

### **Why Doesn't Inclusionary Housing Stop Development?**

The available evidence, both theoretical and empirical, indicates that inclusionary zoning does not impair development. Why is this the case? How can an inclusionary housing program impose the additional cost of producing affordable units without creating negative impacts? Who pays the bill for inclusionary housing?

#### **Cost Offsets**

In some cases, cost offsets help pay the bill. Many inclusionary zoning ordinances do not have a negative effect on development because they provide incentives to developers that help defray the cost of building affordable units.

Cost offsets found in inclusionary zoning ordinances across the country include, but are not limited to: increased zoning allowances (density bonuses, increased FARs, etc.), relaxed development standards (reduced parking requirements), fee waivers, subsidies, and expedited permit and/or approval processes.

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<sup>84</sup> Interview of Barry Curtis, Irvine Senior Planner, June 2003. The City of Irvine offers developers both financial and processing incentives, which include modifications for setbacks or building heights, fee waivers, density bonuses, and expedited permit processing. Chapter 2-3, Section 6, "Role of Financial and Processing Incentives," Affordable Housing Implementation Procedure for the City of Irvine.

<sup>85</sup> Kent Conine. 2000. "Inclusionary Zoning: A Viable Solution to the Affordable Housing Crisis? A Home Builder's Policy View on Inclusionary Zoning." In *Inclusionary Zoning: A Viable Solution to the Affordable Housing Crisis?* New Century Housing, Vol. 1, Issue 2. Washington, D.C.: Center for Housing Policy, pp. 30-33. Also found in: Institute for Local Self Government. 2003. *The California Inclusionary Housing Reader* Sacramento, CA: Institute for Local Self Government, pp. 33-36.

<sup>86</sup> See: Michael D. Pattinson. 2001. "Inclusionary Zoning in California: If Everything is So Good, Why Does It Feel So Bad?" California Building Industry Association (CBIA). Available Online: <http://www.cbia.org/featur4e.asp?siid=113>. Accessed: 12-1-03.; Brian W. Blaesser and Janet R. Stearns. 2002. "The Inclusionary Housing Debate: Who Really Pays for Affordable Housing?" *On Common Ground* Winter, pp. 34-39.

<sup>87</sup> Ibid.

## ***Hot Markets and Desirable Development Locales Offset the Cost of Development***

In some cities, only minimal cost offsets are provided, and sometimes, none at all. Nevertheless, the best available evidence indicates that development has not slowed in these communities such as Boston, Chapel Hill, San Diego, and San Francisco.<sup>88</sup> In these locations, it is most likely that some combination of modest market-rate increases, reduced developer profit margins, or reduced land prices are offsetting the cost of the affordable units. As indicated, the economic literature suggests that the most likely scenario is a moderation in land prices over time. With a hot housing market, developers view the inclusionary housing requirement as a cost of doing business in a desirable location (not unlike requirements such as “all brick” construction, green roofs, open space dedications, limitations on FAR, height, bulk, etc.).

### ***Certainty, Predictability, and a Level Playing Field***

An inclusionary zoning ordinance provides the added benefits of certainty, predictability, and a level playing field for developers. These advantages can improve the climate for developers even as a new requirement is imposed upon them.

In many communities, developers face high levels of uncertainty and unpredictability when proposing residential development. In many cases, the shape and form of an allowed development will change based on community pressure or political expediency. Under a mandatory inclusionary housing program, the developer will be required to reserve a certain portion of the units as affordable. At the same time, a developer often receives a guarantee of certain “cost offsets” that can be quite lucrative. In Montgomery County, Maryland, for example, a developer receives a 17-22% density bonus based on the percentage of affordable housing included in the development (12.5-15%).<sup>89</sup> So, under an inclusionary housing program, the developer knows what is expected, what will be offered, and that the rules apply equally to all competitors. In this environment, it is much easier to take risks and conduct business.

In addition, the developer gains a level playing field. In some communities, the local government may require affordable housing units from some developers while not requiring those units from others. This puts some developers at a competitive disadvantage and creates the opportunity for abuse as politically connected developers avoid the mandate to provide affordable housing while others do not. Under a mandatory inclusionary zoning program with universal application to all developments of a certain size, all developers confront the same standards and requirements. They always know where they stand and can deal with the situation more effectively as a result.

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<sup>88</sup> Planning officials in these communities feel fairly confident that the strong local housing market allows developers to absorb the cost of producing the affordable units while still making a healthy return on investment. Phone interview of Thera Ojeda, San Francisco City Planner, July 2003.; Phone interview of Bill Levin, San Diego Senior Planner, August 2003.; Phone interview of Phil Mason, Town of Chapel Hill Senior Planner, June 2003.

<sup>89</sup> See Section 25A-5 of the Montgomery County, MD inclusionary zoning ordinance.

## ***Additional Benefits***

Developers often realize other benefits as well. Developers sometimes find that inclusionary programs allow them to develop more housing for a broader market than without it. The density bonuses, cost offsets, and the moderation in land prices that may come with inclusionary zoning can provide developers with the ability to produce housing that they otherwise could not build.<sup>90</sup>

Second, developers sometimes find that the affordable homes and apartments that they are required to build are a benefit to them because of the consistently high demand for such units. Inclusionary zoning thus helps to sustain developers through hard times. In Montgomery County, Maryland, over the thirty-year existence of the program, developers have found the Moderately-Priced Dwelling Units (MPDUs), the affordable units, to be an asset because they always sell out or rent up quickly and help to sustain developers during slower economic times.<sup>91</sup>

## **Inclusionary Housing Does Not Stop Development**

Without a long line of studies specifically examining this issue, one must look to the best available evidence. Market theory indicates that developers are unlikely to stop developing residential housing under an inclusionary zoning law because they will either take advantage of “cost offsets” offered by the local community and/or bargain for a lower land price before developing housing with the required affordable component. This theory is supported by: the experience of a wide diversity of communities with inclusionary housing programs over time, broad studies examining the issue, and the reaction of developers and realtors in locations where inclusionary housing has been implemented.

Programs in diverse locations around the country — with and without generous cost offsets and incentives for developers — have produced significant amounts of affordable housing without any evidence of a negative impact on housing production. Studies examining inclusionary zoning programs in California, the D.C. metro area, and the nation at large indicate no negative impact on development. In fact, there is some evidence from California and the D.C. metro area that inclusionary housing has helped to accelerate levels of housing production. Finally, the positive reaction of many developers, homebuilders, and realtors to inclusionary housing programs suggests that far from killing development, inclusionary housing programs may enhance development opportunities.

The best available evidence indicates that inclusionary housing does not slow development. Larger market forces will determine whether the residential real estate market will be robust or not. Inclusionary zoning will ensure that as development occurs, more households of moderate- and low-income will be able to find housing and live in the communities where they work.

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<sup>90</sup> Interview with Ben Fierro, Counsel for the Homebuilders Association of Massachusetts. Boston, MA: October 3, 2003.

<sup>91</sup> Comments by Eric Larsen, Administrator of the Montgomery County, Maryland MPDU program and John Clarke, Vice President for Elm St. Development, Inc. which develops regularly under the MPDU program in Montgomery County, “Creating Mixed Income Communities through Inclusionary Zoning” Innovative Housing Institute Conference. Bethesda, Maryland: October 10, 2003.

## **V. Will Inclusionary Housing Negatively Affect the Property Tax Base?**

Many local communities depend on their local property tax base to fund most major city services. If property tax revenues decline or do not grow as fast as anticipated, it could be difficult for a local community to effectively fund its police or fire services, its schools, its park district and community programs, or the infrastructure necessary to sustain and expand economic development.

Three ways that inclusionary housing policy can potentially hurt the local property tax base are:

- 1) It could slow or stop residential development. If this occurs, the city would lose property tax revenues generated from the new housing.
- 2) Affordable housing could drive down the property values of market-rate units. Obviously, this would reduce tax revenues for the municipality.
- 3) It could limit the development and sale of market-rate units. If an inclusionary housing program replaced market-rate units with affordable ones on a one-to-one basis, then the city could receive less property tax revenue than it would have.

In answering whether inclusionary housing policies hurt the local property tax base, it is useful to explore the experiences of hundreds of communities that have implemented inclusionary housing policies and the developers who were affected.

### ***Slowing Residential Development***

As detailed in Section IV above, the overwhelming body of evidence shows that inclusionary housing does not slow development. In some cases, it may help to accelerate development by broadening the housing market.

### ***Driving Down Property Values***

The urban legend that affordable housing causes a decline in property values remains strong. However, multiple studies from around the country (including the Chicago suburbs) repeatedly show that the location of affordable or subsidized housing in or near high-end, market-rate developments does not undermine housing values.<sup>92</sup>

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<sup>92</sup> Michael MaRous. 1996. "Low-Income Housing in Our Backyard: What Happens to Residential Property Values?" *The Appraisal Journal* 64, 1, pp. 27-34.; Maxfield Research. 2000. *A Study of the Relationship Between Affordable Family Rental Housing and Home Values in the Twin Cities* Minneapolis, MN: Family Housing Fund.; Joyce Siegel. 1999. *The House Next Door*, Innovative Housing Institute. Available online: <http://www.inhousing.org/housenex.htm>; Elizabeth Warren, Robert Aduddell, and Raymond Tatlovich. 1983. *The Impact of Subsidized Housing on Property Values: A Two-Pronged Analysis of Chicago and Cook County Suburbs*. Center for Urban Policy, Loyola University of Chicago, Urban Insight Series No. 13.; Paul Cummings and John Landis. 1993. *Relationships Between Affordable Housing Developments and Neighboring Property Values*. Institute of Urban and Regional Development, University of California at Berkeley, Working Paper 599.; Jeffery Baird. 1980. *The Effects of Federally Subsidized Low-Income Housing on Residential Property Values in Suburban Neighborhoods*. Northern Virginia Board of Realtors Research Study.; Hugh Nourse. 1984. "The Effect of Public Housing on Property Values in St. Louis."

Experience with inclusionary housing programs specifically shows that the values of market-rate homes are not damaged by the presence of affordable homes and apartments. Studies of inclusionary zoning programs in Montgomery County, Maryland, and Fairfax County, Virginia reveal that the presence of the affordable inclusionary units has not had demonstrated negative effects on the property values of market-rate units.<sup>93</sup> In fact, a 1988 study by Washington Area developer Bill Berry of 14 Montgomery County communities (seven communities with affordable units and seven communities with 100% market-rate housing) revealed that market-rate units in “inclusionary developments” (developments with affordable units) actually appreciated more than market-rate homes in developments with 100% market-rate housing.<sup>94</sup>

A 1999 study by the Innovative Housing Institute built on Berry’s work by examining every real estate transaction from 1992 to 1996 in 14 communities of Montgomery County, Maryland, and Fairfax County, Virginia. In both counties, the analysis revealed no difference in price behavior between market-rate homes located within 500 feet of a subsidized or affordable unit and those market-rate units farther away. It also found no difference in price behavior between market-rate homes located adjacent to subsidized/affordable units and those farther away.<sup>95</sup>

Anecdotal evidence from the city of Chicago supports the same conclusion. The city of Chicago is full of examples of “mixed-income housing” where affordable or subsidized units do not negatively affect the property values of market-rate housing.

Inclusionary housing programs do not drive down the property values of market-rate units. New market-rate units produced under an inclusionary housing program will continue to generate strong levels of property tax revenue for the city.

### ***Limiting the Creation of Market-Rate Units***

If the city’s inclusionary housing program were to contain a density bonus as a cost offset for producing the affordable homes, a decrease in property tax revenues would be unlikely. With a density bonus under an inclusionary housing program, the developer is actually able to build *more units* than he or she originally would have produced. For example: with a 20% set-aside requirement, four units of a 20-unit development would have to be affordable. With a one-for-one density bonus (one market-rate unit for each affordable unit required), a developer could build 24 units total. Thus, instead of just receiving the property tax revenue from the market-rate units (as is currently occurring with development in the city), the city would receive incremental property tax revenue from the mandatory affordable units.

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*Land Economics* 60 (2); Carol Babb, Louis Pol, and Rebecca Guy. 1984. “The Impact of Federally-Assisted Housing on Single-Family Housing Sales: 1970-1980.” *Mid-South Business Journal*.

<sup>93</sup> See: Siegel. *The House Next Door*.; Paul Fischer and Jo Patton. 2001. *Expanding Housing Options Through Inclusionary Zoning Ideas@Work*. June. Vol. No.3. Chicago, IL: Campaign for Sensible Growth.

<sup>94</sup> Siegel. *The House Next Door*.

<sup>95</sup> *Ibid*.

In the case of a condominium conversion or a new construction project where a density bonus was not granted, one could argue that the city would receive less property tax revenue from a few units. In the example above, the developer would build 16 market-rate units and 4 affordable units. The city *could* receive less property tax revenue from those four affordable units.<sup>96</sup> This, though, is a potential criticism of *a number* of the city’s affordable housing programs. For example, if the city builds a “New Homes for Chicago” home in a gentrifying neighborhood, instead of allowing a new \$1 million home to be built in its place, the same potential problem could arise.

It is a very short-sighted view of the city’s well-being to suggest that creating new homeowners and stable and safe places to live for working households and seniors is bad for the city’s fiscal health. Any minimal loss of property tax revenues from affordable units is outweighed by the multiple benefits that accrue to the city from ensuring an adequate supply of affordable housing. In addition, an inclusionary housing program *may* stimulate additional development, thereby generating market-rate units that would not have been produced without an inclusionary program.

One could argue that, theoretically, it would be best if the city permitted homes valued at nothing less than \$500,000 in price. After all, such a scenario would produce the most property tax revenue. However, it would do nothing to address the availability of workforce housing necessary to maintain the city as a viable and competitive economic center in the global economy. It would do nothing to ensure a sufficient housing stock for young families and elderly seniors. It would do nothing to preserve our city as the diverse and vibrant place that makes it such an attractive locale for tourism, business, and quality of life in general.

### **How an Inclusionary Housing Program Could Help the Local Property Tax Base**

As just demonstrated, inclusionary housing is unlikely to harm the local property tax base. The possibilities for a negative effect on the tax base are few and unlikely; the possibilities for enhancing and expanding the tax base are many and realistic.

#### ***Preserve the City’s Tax Base for Other Valuable Needs***

An inclusionary housing program can produce affordable homes and apartments with little or no public subsidy. By providing developers with cost offsets (such as density bonuses, flexible zoning, and/or reduced parking requirements), the city can create affordable units through the private sector without an outlay of public tax dollars. This will preserve the city’s tax base during these difficult budget times for other valuable uses: police, fire, transportation, infrastructure improvements, and serving the housing needs of extremely low-income households.

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<sup>96</sup> Whether it would or not receive less property tax revenue would depend on how the units are assessed. If the units were assessed based on their “comparable value,” the city might end up receiving nearly the same amount in property taxes that they would have if the development were 100% market-rate development.

### ***Expand Homeownership and Create More Ownership Units***

An inclusionary housing program will allow more working-class Chicagoans to become homeowners. This will add households to the city's property tax rolls, providing additional revenue for schools, parks, infrastructure, and public safety. It will also help many of Chicago's working families build equity and economic security, become more invested in the condition and safety of their own neighborhoods, save for their children's education and their own retirement. With a density bonus as a cost offset, an inclusionary housing program in Chicago will also produce additional homeownership units.

### ***Enable Chicagoans to Reduce the Amount They Spend on Housing***

An inclusionary housing program will also help many Chicago households to reduce the amount of income they currently spend on housing. Because of the dearth of affordable housing, many Chicagoans are forced to spend more than 30% of their income on housing, the level widely acknowledged as the standard for affordability. Consider the following statistics from the 2000 Census documenting the housing cost burdens facing Chicago households:

- More than one in every five homeowners (21.1%) in Chicago paid more than 35% of their income for mortgage costs.<sup>97</sup>
- More than one in every 10 homeowners (11.2%) paid more than 50% of their income for mortgage costs.<sup>98</sup>
- For renters, the situation is much worse. Almost one in three renters (30.8%) spent more than 35% of their income on rent.
- Approximately 1 in 5 renters (19.6%) paid more than half their income for housing.<sup>99</sup>

When a family is required to spend upwards of 50% or more of its income on housing, inadequate amounts are left for health care, food, transportation, or other basic necessities, with no possibility of saving for the future. Enabling more households to spend only 30% of their income for housing would be beneficial to Chicago families, neighborhoods, local businesses, and the local sales tax base, allowing increased spending on goods and services and an improved standard of living for many.

### ***Improve the City's Economic Competitiveness***

In order to maintain a preferred position in the highly competitive global economy, Chicago must ensure the presence of a highly-skilled, hard-working labor force, capable of meeting the varied occupational needs of a diverse, robust economy. To attract business, the city must have a range of housing options affordable to every workforce

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<sup>97</sup> Taken from Table H94 (Mortgage Status By Selected Monthly Owner Costs as a Percentage of Household Income) in Summary File 3 of the U.S. Census.

<sup>98</sup> Ibid.

<sup>99</sup> Taken from Table H69 (Gross Rent as a Percentage of Household Income) in Summary File 3 of the U.S. Census.

need. The city must ensure that entry-level workers, technicians, service sector employees, and public employees all have an affordable place to live. Chicago will not be able to satisfy the needs of business and commerce if virtually all its new housing stock is affordable only to the top of the income pyramid -- attorneys, investment bankers, and business executives, etc. An inclusionary housing program will help to ensure that as Chicago develops, the housing stock will remain diverse, offering a wide range of options for all income groups.

### ***Improve the City's Social and Fiscal Health***

An inclusionary housing program can provide a long-term pay-off to the city's livability and bottom line. By increasing the number of homeowners, by providing a broad range of housing options for the city's workforce to attract new business, by stabilizing the housing costs of working families and seniors, by contributing to a healthy integration of races and incomes across the city, inclusionary housing can help Chicago succeed over the long run.

If people are spending 30% of their income on housing, instead of 35 to 50% or more, they are more likely to be self-sufficient and less likely to need public assistance.<sup>100</sup> If low- and moderate-income households enjoy greater economic security, they can be better parents and citizens, able to devote more time to their children's education and to the welfare of their neighborhoods.<sup>101</sup> This could save the city future spending to improve the schools, ensure safety in economically-stressed communities, and to provide poverty, health, and housing services to those in great need.<sup>102</sup>

If Chicago has housing affordable to a broad and capable workforce, that will help to retain existing business and attract new business to the city, resulting in the expansion of the city's tax base. If the city can break down some of its longstanding racial and economic segregation through a housing policy that creates affordable homes and apartments in every neighborhood, it will help eradicate the concentrated pockets of poverty that contribute to crime, joblessness, and disinvestment.<sup>103</sup>

**Not one of the many studies examining inclusionary housing programs around the country indicates that an inclusionary housing program has led to the reduction of a community's property tax base.**<sup>104</sup> It is highly unlikely that an inclusionary housing program would harm the city's property tax base by slowing development, driving down the

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<sup>100</sup> See: David M. Gordon. 1996. *Fat and Mean*. New York, NY: The Free Press, Chapter 6.

<sup>101</sup> Ibid.

<sup>102</sup> A series of studies from the Brookings Institution and the Wharton Real Estate Center reveal that large cities spend a significant portion of their local budgets on efforts to address the effects of poverty. These large cities could realize significant savings in tax expenditures through poverty reduction. See: Joseph A. Gyourko and Anita A. Summers. 1997. "A New Strategy for Helping Cities Pay for the Poor." *Issue Brief #18*. Washington, D.C.: Brookings Institution.; Joseph Gyourko. 1997. "Place vs. People-based Aid and the Role of an Urban Audit in a New Urban Strategy," *Working Paper #245*. Philadelphia, PA: University of Pennsylvania, Wharton Real Estate Center.; Anita A. Summers and Garrett Ritter. 1996. "The Costs to Large Cities of Educating Poor Children," Draft Working Paper. Philadelphia, PA: University of Pennsylvania, Wharton Real Estate Center.

<sup>103</sup> See: David Rusk. 1999. *Inside Game/Outside Game: Winning Strategies for Saving Urban America*. Washington, D.C.: Brookings Institution. Chapter 9, pp. 178-200.

<sup>104</sup> See FN 58 supra.



value of market-rate units, or limiting the production of market-rate housing. To the contrary, both in the near term and over the long run, inclusionary housing will most likely enhance and expand the city's property tax base and contribute to the social and fiscal health of the city.

### **Inclusionary Housing Will Work in Chicago. It Already Does.**

A mandatory citywide inclusionary housing program covering all developments of 10 or more units would be a new policy, but not a new direction for the city. Chicago already has a mandatory inclusionary housing program on the books — requiring a 20% set-aside of affordable housing in all developments of 10 or more units that receive a Tax Increment Financing (TIF) subsidy and a 10% set-aside of affordable housing on all developments of 10 or more units that receive a write-down on city-owned land. According to the Department of Housing, the city has created 376 affordable units since 1994 with the 20% set-aside requirement on developments that receive TIF money.<sup>105</sup>

The city has also been approving set-asides on an ad hoc, project-by-project basis in wards where community groups and some aldermen have brought developers to the table through the city's Chicago Partnership for Affordable Neighborhoods (CPAN) program. There is no indication that these inclusionary housing requirements have stifled or stopped development or harmed the city's property tax base. To the contrary, these programs seem to be working quite well. CPAN has developed 59 units of affordable housing in 2003, with 41 more units anticipated.<sup>106</sup> The affordable units created by the CPAN initiative are in high demand. In Uptown, for example, several hundred eligible Chicagoans entered a lottery in November 2003 to purchase one of 37 affordable condominiums currently under construction in the neighborhood.<sup>107</sup> These 37 affordable units resulted from the combined efforts of local community organizations, including the Organization of the North East (ONE), Alderman Helen Schiller (46<sup>th</sup> Ward), the City of Chicago, and some local developers.<sup>108</sup>

However, as evidenced by this report, the city of Chicago can do even more to address the affordable housing crisis by embracing a mandatory citywide inclusionary housing law. The experience of municipalities around the country cited in this report makes a compelling case that the downsides to pursuing such a course are not significant, while the benefits are multi-dimensional. The city should look beyond the concerns raised about inclusionary housing to the evidence from around the country, to the promise of its many benefits, and to a broader vision of what the city can become. Inclusionary housing provides the city with a powerful tool to help create a city that works for all its citizens.

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<sup>105</sup> City of Chicago Department of Housing fact sheet provided by spokesperson Jen Frank.

<sup>106</sup> Chicago Department of Housing Affordable Housing Plan, 1999-2003: September 30, 2003 Quarterly Progress Report.

<sup>107</sup> See: "37 New Home Owners in Uptown." *Inside*. 36(45): November 12-18, 2003

<sup>108</sup> *Ibid*.

## VI. Conclusion

The city that works is facing a crisis that threatens the very people who make it work. Many communities around the country face this same dilemma. In the face of scarce local resources and retreating commitments to affordable housing at the federal and state levels, many of these communities are turning to inclusionary housing programs as an effective means to address this problem.

In Chicago, concerns have been raised: Will inclusionary housing stop or slow the development boom that has provided so many benefits to the city over the last ten years? Will inclusionary housing undermine the local property tax base that is the lifeblood of the city's parks, schools, sewers, streets, and public services?

Based on economic literature, national case studies, analytical reports, feasibility studies, and developer and community reaction — it is unequivocally clear that inclusionary housing does not stop development, drive down property values, or harm the property tax base. Furthermore, it is apparent that many communities around the country have reaped significant and enduring benefits from inclusionary housing programs — new affordable housing units for families, seniors, and people who work in critical professions; increased economic development; decreased racial and economic segregation; and, not insignificantly, a local policy tool that does not rely primarily on public subsidies to produce affordable housing.

Chicago is generating some positive results from its current affordable housing initiatives. However, the scale to date is small. Chicago will need to produce new affordable housing on a much larger scale to meet its growing need. With a mandatory inclusionary housing program in place over the last five years, Chicago could have produced from 5,000 to 13,000 units of affordable housing, *above and beyond what current city efforts are already helping to create.*

Nearly half of Chicago's households could benefit directly from an inclusionary housing program, including police officers, firefighters, and other public sector employees; seniors and young families; social workers, day care instructors, home health care aides, security guards, and others who work in the service sector. The city should embrace inclusionary housing because it creates decent, affordable places to live for the many people who need them while at the same time preserving the city's tax base and ensuring the long-term social and economic well-being of the city.

Across the entire country — in Massachusetts, California, Colorado, New Mexico, Illinois, Vermont, and Florida — hundreds of communities have discovered a workable policy to help them address their need for affordable housing. Chicago faces a similar need even more urgently. In order to remain a place where those who do the work can live and thrive, a new tool is needed. That tool is inclusionary housing — the policy that will work for the city that works.

**APPENDIX A**  
**Inclusionary Housing in Other Cities**

	<b>Affordable Units Produced</b>	<b>Set-aside Requirement</b>	<b>Density Bonus</b>	<b>Other Developer Incentives</b>
<b>Boston, Massachusetts</b> (2000)	200	10% of on-site units	None	Increased height and FAR allowances (in the financial district only)
<b>Burlington, Vermont</b> (1990)	150 units completed since 1990	0-25% sliding set-aside	15%-25% density bonus available	None
<b>Boulder, Colorado</b> (1999)	150	20% low-income in for-sale and rental developments	None	Waiver of development excise taxes
<b>Cambridge, Massachusetts</b> (1999)	131	15%	30%	Increased FAR, decreased min. lot area requirement, no variances needed for affordable units
<b>Chapel Hill, North Carolina</b> (2000)	154 units completed between 2000 and 2002	15% set-aside	None	Expedited permit and approval processing
<b>Davidson, North Carolina</b> (2002)	230 units approved since 2002	12.5% for all new developments (with a few exceptions)	None	None
<b>Davis, California</b> (1990)	1502	25% in for-sale developments 25-35% in rental developments	One-for-one in for-sale developments 15% in rental developments	Relaxed development standards
<b>Denver, Colorado</b> (2002)	804 anticipated	10% for-sale at 80% AMI or below. 10% rental at 65% AMI or below	10%	Cash subsidy, reduced parking requirements, expedited review process
<b>Fairfax County, Virginia</b> (1991)	1746 produced 2000 total anticipated	Sliding scale requirement-- cannot exceed 12.5% for single family developments; 6.25% for multi-family	20% for single family units 10% for multi-family units	None
<b>Highland Park, Illinois</b> (2003)	Ordinance Adopted August 26, 2003	20% set-aside	1-for-1 (PUDs can receive up to 1.5-for-1)	Fee waivers (ex. impact, demolition, utility connection fees)

	Affordable Units Produced	Set-aside Requirement	Density Bonus	Other Developer Incentives
<b>Irvine, California</b> (1978)	3415	Mandatory; 15% of all units	25%	None currently offered
<b>Longmont, Colorado</b> (1995)	545 of 989 anticipated	10% of all units in annexation areas	Yes	Relaxed regulatory requirements
<b>Montgomery County, Maryland</b> (1974)	Over 11,500	12.5-15% of all units Of these, PHA may purchase 33%, and qualified not-for-profits may purchase 7%	Up to 22%	Waiver of water, sewer charge and impact fees. Offer 10% compatibility allowance and other incentives
<b>Pleasanton, California</b> (adopted mandatory ordinance in 2002 but has had voluntary inclusionary policies since the late 1970s)	300 units between 1997 and 2001 under city's voluntary policy; 154 units in the pipeline	15-20% sliding scale	None	Fee waiver or deferral, design, priority processing
<b>Newton, Massachusetts</b> (1977)	225	25%	20%	None
<b>Sacramento, California</b> (2000)	465	15% of all units. 1/3 priced affordable to households between 50-80% of AMI.	25%	Expedited permit process, fee waivers, relaxed design standards.
<b>San Diego, CA</b> (1992, expanded in 2003)	1,200 units completed between 1992 and 2003 (1200 more anticipated)	10% set-aside	None	None
<b>San Francisco, CA</b> (1992, expanded in 2002)	128 units completed between 1992 and 2000; 90 units since 2002; 745 units in the pipeline	10% set-aside	None	Refunds available on the environmental review and building permit fees that apply to the affordable units
<b>Santa Fe, New Mexico</b> (1998)	12 produced 100 anticipated	11% in developments targeted over 120% AMI 16% in developments targeted over 200% AMI	Bonus equals set-aside %. 16% in developments targeted under 80% of AMI	Waiver of building fees

**APPENDIX B**  
**U.S. Census data on Chicago Existing Housing Stock**

**2000 Chicago Owner-Occupied Housing Units**  
**U.S. Census Data (Table H84, Summary File 3)**

Owner-occupied housing units: Value is Less than \$ 10,000	Owner-occupied housing units: Value is \$10,000 to \$14,999	Owner-occupied housing units: Value is \$15,000 to \$19,999	Owner-occupied housing units: Value is \$20,000 to \$24,999	Owner-occupied housing units: Value is \$25,000 to \$29,999	Owner-occupied housing units: Value is \$30,000 to \$34,999	Owner-occupied housing units: Value is \$35,000 to \$39,999	Owner-occupied housing units: Value is \$40,000 to \$49,999	Owner-occupied housing units: Value is \$50,000 to \$59,999
1024	926	725	999	1239	1721	2137	6346	9948

Owner-occupied housing units: Value is \$60,000 to \$69,999	Owner-occupied housing units: Value is \$70,000 to \$79,999	Owner-occupied housing units: Value is \$80,000 to \$89,999	Owner-occupied housing units: Value is \$90,000 to \$99,999	Owner-occupied housing units: Value is \$100,000 to \$124,999	Owner-occupied housing units: Value is \$125,000 to \$149,999	Owner-occupied housing units: Value is \$150,000 to \$174,999	Owner-occupied housing units: Value is \$175,000 to \$199,999	Owner-occupied housing units: Value is \$200,000 to \$249,999
15475	21746	31291	32684	59117	60913	54397	37664	43893

Owner-occupied housing units: Value is \$250,000 to \$299,999	Owner-occupied housing units: Value is \$300,000 to \$399,999	Owner-occupied housing units: Value is \$400,000 to \$499,999	Owner-occupied housing units: Value is \$500,000 to \$749,999	Owner-occupied housing units: Value is \$750,000 to \$999,999	Owner-occupied housing units: Value is \$1,000,000 or more
27357	25021	11717	10570	3694	4308

**2000 Chicago Specified Renter-Occupied Housing Units**  
**U.S. Census Data (Table H62, Summary File 3)**

Specified renter-occupied housing units: With cash rent	Specified renter-occupied housing units: With cash rent; Less than \$100	Specified renter-occupied housing units: With cash rent; \$100 to \$149	Specified renter-occupied housing units: With cash rent; \$150 to \$199	Specified renter-occupied housing units: With cash rent; \$200 to \$249	Specified renter-occupied housing units: With cash rent; \$250 to \$299	Specified renter-occupied housing units: With cash rent; \$300 to \$349	Specified renter-occupied housing units: With cash rent; \$350 to \$399	Specified renter-occupied housing units: With cash rent; \$400 to \$449
583838	9269	15601	12745	11244	11249	15653	21441	32318

Specified renter-occupied housing units: With cash rent; \$450 to \$499	Specified renter-occupied housing units: With cash rent; \$500 to \$549	Specified renter-occupied housing units: With cash rent; \$550 to \$599	Specified renter-occupied housing units: With cash rent; \$600 to \$649	Specified renter-occupied housing units: With cash rent; \$650 to \$699	Specified renter-occupied housing units: With cash rent; \$700 to \$749	Specified renter-occupied housing units: With cash rent; \$750 to \$799	Specified renter-occupied housing units: With cash rent; \$800 to \$899	Specified renter-occupied housing units: With cash rent; \$900 to \$999
42604	51644	51646	51211	43826	37627	31023	44117	28593

Specified renter-occupied housing units: With cash rent; \$1,000 to \$1,249	Specified renter-occupied housing units: With cash rent; \$1,250 to \$1,499	Specified renter-occupied housing units: With cash rent; \$1,500 to \$1,999	Specified renter-occupied housing units: With cash rent; \$2,000 or more
35811	17362	13091	5763

**APPENDIX C**  
**U.S. Census data on Chicago Household Income Levels**

**2000 Chicago Household Income**  
**U.S. Census Data (Table P52, Summary File 3)**

Households: Household income; Less than \$10,000	Households: Household income; \$10,000 to \$14,999	Households: Household income; \$15,000 to \$19,999	Households: Household income; \$20,000 to \$24,999	Households: Household income; \$25,000 to \$29,999	Households: Household income; \$30,000 to \$34,999	Households: Household income; \$35,000 to \$39,999	Households: Household income; \$40,000 to \$44,999	Households: Household income; \$45,000 to \$49,999
146192	71103	65654	66685	66446	67224	62459	58506	50175

Households: Household income; \$50,000 to \$59,999	Households: Household income; \$60,000 to \$74,999	Households: Household income; \$75,000 to \$99,999	Households: Household income; \$100,000 to \$124,999	Households: Household income; \$125,000 to \$149,999	Households: Household income; \$150,000 to \$199,999	Households: Household income; \$200,000 or more
89305	99395	95162	51340	24403	21884	26031

## APPENDIX D Housing Stock Analysis

### 2000 Affordable Owner-Occupied Units

UNITS (\$38,625 CITY--50% cut off income is \$19,313)	Interpolation %	Affordable Units (@ 50%)	Total Units	% Affordable @ 50%	UNITS (\$38,625 CITY -- 80% cut off income is \$30,900)	Interpolation %	Affordable Units @80%	Total Units	% Affordable (@ 80%)
58833	0.8833	38734	464912	8.33	94157	0.4157	107164	464912	23.05

### 2000 Affordable Specified Renter-Occupied Units

UNITS (\$38,625 CITY--50% cut off income is \$19,313)	Interpolation %	Affordable Renter Units (@50%)	Total Units	% Affordable (@ 50%)	UNITS (\$38,625 CITY --80% cut off income is \$30,900)	Interpolation %	Affordable Renter Units (@80%)	Total Units	% Affordable (@ 80%)
483	0.66	157639	583838	27.00	773	0.46	422349	583838	72.34

**APPENDIX E**  
**Annual Median Family Income Figures for the Chicago Region, 1995-2003**  
**U.S. Department of Housing and Urban Development**

<b>YEAR</b>	<b>HUD MEDIAN FAMILY INCOME</b>
1995	<b>\$51,300</b>
1996	<b>\$54,100</b>
1997	<b>\$55,800</b>
1998	<b>\$59,500</b>
1999	<b>\$63,800</b>
2000	<b>\$67,900</b>
2001	<b>\$70,500</b>
2002	<b>\$75,400</b>
2003	<b>\$68,700</b>

**Owner-Occupied Affordability Calculation**  
**“How Much Can You Afford With a Specific Payment” Fannie Mae Affordability Calculator**  
 (<http://www.fanniemae.com/homebuyers/calculators/index.jhtml?p=Resources&s=Calculators>)

	<b>50% of Median Income</b>	<b>monthly payment</b>	<b>Affordable Home Price</b>		<b>80% of Median Income</b>	<b>monthly payment</b>	<b>Affordable Home Price</b>
<b>1995</b>	\$25,650	\$641	\$78,078		\$41,040	\$1,026	\$124,974
<b>1996</b>	\$27,050	\$676	\$82,341		\$43,280	\$1,082	\$131,795
<b>1997</b>	\$27,900	\$698	\$85,021		\$44,640	\$1,116	\$135,936
<b>1998</b>	\$29,750	\$744	\$90,624		\$47,600	\$1,190	\$144,950
<b>1999</b>	\$31,900	\$798	\$97,202		\$51,040	\$1,276	\$155,425
<b>2000</b>	\$33,950	\$849	\$103,414		\$54,320	\$1,358	\$165,414
<b>2001</b>	\$35,250	\$881	\$107,312		\$56,400	\$1,410	\$171,748
<b>2002</b>	\$37,700	\$943	\$114,864		\$60,320	\$1,508	\$183,685
<b>2003</b>	\$34,350	\$859	\$104,632		\$54,960	\$1,374	\$167,363



**APPENDIX F**  
**Breakdown of New Construction Affordability**  
**by Single-Family Homes, Town Homes and Condos**  
 (Source: Multiple Listing Service of Northern Illinois)

	1995	1996	1997	1998	1999	2000	2001	2002	2003YTD	TOTAL
<b>Total new construction Units</b>	606	907	962	1521	2225	1800	2199	2571	1883	<b>14,674</b>
<b>Total Affordable Units at 50%</b>	8	22	19	19	21	26	65	54	25	<b>259</b>
<b>% Affordable Units at 50%</b>	1.32%	2.43%	1.98%	1.25%	0.94%	1.44%	2.96%	2.10%	1.33%	<b>1.77%</b>
<b>Total Affordable Units at 80%</b>	62	126	98	220	256	132	218	267	92	<b>1471</b>
<b>% Affordable Units at 80%</b>	10.23%	13.89%	10.19%	14.46%	11.51%	7.33%	9.91%	10.39%	4.89%	<b>10.02%</b>
<b>Single Family Homes</b>										
<b>Total # SF Homes</b>	117	161	167	167	222	205	222	188	142	<b>1,591</b>
<b># Affordable at 50%</b>	3	14	13	8	9	4	8	3	2	<b>64</b>
<b>% Affordable at 50%</b>	2.56%	8.70%	7.78%	4.79%	4.05%	1.95%	3.60%	1.60%	1.41%	<b>4.02%</b>
<b># Affordable at 80%</b>	18	40	27	23	28	17	20	9	7	<b>189</b>
<b>% Affordable at 80%</b>	15.38%	24.84%	16.17%	13.77%	12.61%	8.29%	9.01%	4.79%	4.93%	<b>11.88%</b>
<b>Townhomes</b>										
<b>Total # Townhomes</b>	174	190	210	326	394	251	324	318	174	<b>2,361</b>
<b># Affordable at 50%</b>	0	1	1	7	4	0	1	0	0	<b>14</b>
<b>% Affordable at 50%</b>	0.00%	0.53%	0.48%	2.15%	1.02%	0.00%	0.31%	0.00%	0.00%	<b>0.59%</b>
<b># Affordable at 80%</b>	2	3	14	18	26	0	3	0	1	<b>67</b>
<b>% Affordable at 80%</b>	1.15%	1.58%	6.67%	5.52%	6.60%	0.00%	0.93%	0.00%	0.57%	<b>2.84%</b>
<b>Condos</b>										
<b>Total # Condos</b>	315	556	585	1028	1609	1344	1653	2,065	1567	<b>10,722</b>
<b># Affordable at 50%</b>	5	7	5	4	8	22	56	51	23	<b>181</b>
<b>% Affordable at 50%</b>	1.59%	1.26%	0.85%	0.39%	0.50%	1.64%	3.39%	2.47%	1.47%	<b>1.69%</b>
<b># Affordable at 80%</b>	42	83	57	179	202	115	195	258	84	<b>1,215</b>
<b>% Affordable at 80%</b>	13.33%	14.93%	9.74%	17.41%	12.55%	8.56%	11.80%	12.49%	5.36%	<b>11.33%</b>

**APPENDIX G**  
**Median Sales Prices for All New Construction 1995-October 2003 for Single Family Homes, Town Homes and Condos**  
 (Source: Multiple Listing Service of Northern Illinois)

*MEDIAN sales price for ALL Single Family Homes, Townhomes and Condos*

	1995	1996	1997	1998	1999	2000	2001	2002	2003YTD
	\$230,610	\$225,000	\$251,950	\$230,000	\$248,632	\$302,725	\$322,900	\$315,280	\$322,288
<b>Affordable to what household income?*</b>	\$92,244	\$90,000	\$100,780	\$92,000	\$99,453	\$121,090	\$129,160	\$126,112	\$128,915

*MEDIAN sales price for Single Family Homes*

	1995	1996	1997	1998	1999	2000	2001	2002	2003YTD
	\$221,000	\$225,900	\$345,000	\$400,000	\$480,000	\$598,000	\$649,422	\$689,500	\$744,148
<b>Affordable to what household income?*</b>	\$88,400	\$90,360	\$138,000	\$160,000	\$192,000	\$239,200	\$259,769	\$275,800	\$297,659

*MEDIAN sales price for Townhomes*

	1995	1996	1997	1998	1999	2000	2001	2002	2003YTD
	\$269,000	\$264,594	\$263,613	\$250,025	\$275,063	\$330,800	\$398,597	\$503,347	\$477,427
<b>Affordable to what household income?*</b>	\$107,600	\$105,837	\$105,445	\$100,010	\$110,025	\$132,320	\$159,439	\$201,339	\$190,971

*MEDIAN sales price for Condos*

	1995	1996	1997	1998	1999	2000	2001	2002	2003YTD
	\$205,980	\$212,450	\$239,900	\$219,000	\$233,000	\$290,849	\$289,000	\$292,400	\$307,000
<b>Affordable to what household income?*</b>	\$82,392	\$84,980	\$95,960	\$87,600	\$93,200	\$116,340	\$115,600	\$116,960	\$122,800

**\*Affordability is calculated as 2.5 times household income.**

## APPENDIX H

**How many affordable units would have been produced in Chicago from 1998-2003YTD with a Set-Aside Ordinance?**

Year	Total Constructed & Rehabbed Units in Chicago	# Projects with no unit data available	5-Unit Threshold				8-Unit Threshold				10-Unit Threshold			
			25% Set-Aside	20% Set-Aside	15% Set-Aside	10% Set-Aside	25% Set-Aside	20% Set-Aside	15% Set-Aside	10% Set-Aside	25% Set-Aside	20% Set-Aside	15% Set-Aside	10% Set-Aside
<b>1998</b>	9,459	80	2,314	1,838	1,378	932	2,248	1,795	1,345	899	2,201	1,755	1,318	879
<b>1999</b>	8,564	57	2,079	1,639	1,245	838	2,017	1,604	1,214	807	1,994	1,584	1,201	797
<b>2000</b>	8,416	57	2,071	1,636	1,236	832	2,007	1,595	1,204	800	1,983	1,575	1,190	790
<b>2001</b>	9,130	74	2,238	1,767	1,338	899	2,176	1,728	1,307	868	2,158	1,714	1,296	861
<b>2002</b>	9,888	95	2,423	1,911	1,445	966	2,367	1,877	1,417	938	2,342	1,857	1,402	928
<b>2003 YTD*</b>	6,734	79	1,650	1,302	979	670	1,582	1,257	945	636	1,557	1,235	931	625
<b>TOTALS 1998-2003</b>	<b>52,191</b>	<b>442</b>	<b>12,775</b>	<b>10,093</b>	<b>7,621</b>	<b>5,137</b>	<b>12,397</b>	<b>9,856</b>	<b>7,432</b>	<b>4,948</b>	<b>12,235</b>	<b>9,720</b>	<b>7,338</b>	<b>4,880</b>

\*2003 YTD is January 1 through July 21, 2003

### TOTALS 1998-2003 (ytd)

	5-Unit	8-Unit	10-Unit	Difference between 5-10 units
<b>10% Set-aside</b>	5,137	4,948	4,880	257
<b>15% Set-aside</b>	7,621	7,432	7,338	283
<b>20% Set-aside</b>	10,093	9,856	9,720	373
<b>25% Set-aside</b>	12,775	12,397	12,235	540
<b>Difference (10% vs. 25%)</b>	7,638	7,449	7,355	

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