

# Inclusionary Zoning – Analysis and Modeling Assumptions

## Introduction and Purpose

The *GO TO 2040* plan, due to be complete in 2010, will make recommendations for policies, strategies, and investments needed for northeastern Illinois to reach its potential. For the plan to be viable, it is critical that the *benefits* and *costs* of these recommendations be understood. This document is part of a series that begins to analyze potential plan recommendations in this context by developing “sample programs” for the implementation of potential plan recommendations.

In this case, a “sample program” for inclusionary zoning (IZ) was developed. This sample program is based heavily on the research completed for the inclusionary zoning strategy paper, which details the usage and effects of affordable housing creation through an inclusionary zoning policy. The sample program applies a tiered approach of inclusionary zoning region wide, with different affordable housing set-aside requirements based on the characteristics of the local area. The remainder of this document, and the accompanying presentation, describe how this “program” was developed.

Before reviewing the remainder of this document, please read the following notes, which explain its purpose and limitations.

- **Implementation:** This document does not address in detail the responsibility for implementing the “sample program” described here. This is a very important consideration and will be addressed as a next step.
- **Scenario context:** Inclusionary zoning will not be pursued in the absence of other strategies. CMAP recognizes that the benefits of the strategy are magnified when linked with other strategies, such as transit oriented development. As a later step, inclusionary zoning will be analyzed along with these other strategies; but for this series of documents, CMAP is attempting to isolate and examine the benefits of individual strategies.
- **Site specificity:** The results of this analysis are not accurate at the parcel level, and further geographic detail beyond what is shown in this document cannot be given.
- **Assumptions:** To perform the analysis of the “sample program” described here, assumptions were made for appropriate locations, unit costs, and others. The purpose of this document is to allow these assumptions to be discussed and questioned, but please note that *some* assumptions must be made for any analysis to be possible.

The purpose of the analysis and modeling exercise is to determine, on a regional scale where inclusionary zoning policies would be implemented, how this program would affect the supply of affordable housing, what kind of costs this policy incurs, and how it would impact key indicators.

## Key Assumptions

Any regional analysis and modeling process involves making generalities and assumptions. These assumptions were based on available literature and evaluating existing inclusionary zoning policies, as well as through interviews with regional and national experts. Assumptions include:

1. Local governments are the most appropriate level of government to implement and administer inclusionary zoning.
2. Inclusionary zoning policies would be adopted voluntarily by municipalities and would vary based on local conditions.
3. The financial costs of inclusionary zoning to the public sector are negligible.

4. A regional inclusionary zoning policy, as described in this report, will create more than 53,000 affordable housing units and modify the regional distribution of affordable housing.

The assumptions within each of these stages of analysis will be fleshed out in greater detail below.

1. Local governments are the most appropriate level of government to implement and administer inclusionary zoning.

Inclusionary zoning has been shown to be an effective way to increase the stock of affordable housing. This strategy and its potential effects have been researched extensively in the Inclusionary Zoning strategy report available online at: <http://www.goto2040.org/ideazone/forum.aspx?id=674>. For a detailed description, history, and case studies of inclusionary zoning policies refer to this strategy report. In brief, inclusionary zoning policies create affordable housing by requiring a percentage of new and redeveloped housing to be affordable when the project meets defined criteria and thresholds. Currently, there are three municipalities in the northeastern Illinois region with inclusionary zoning policies: Chicago, Highland Park, and St. Charles. Local municipalities have found this strategy as a mechanism to reduce the housing burden on their local residents; diverse housing stocks allow more people to live near where they work, resulting in positive ripple effects across many areas of planning, including transportation, environmental, economic, and overall quality of life issues.

Locally adopted inclusionary zoning policies may also be an effective way for municipalities to be in compliance with the Affordable Housing Planning and Appeal Act, which requires municipalities to create a housing plan to increase their stock of affordable housing so that at a minimum, ten percent of housing meets the HUD definition of affordability. This state law applies to municipalities with a population of at least 1,000 and a housing stock with less than 10 percent affordable.<sup>1</sup> The definition of affordable here and throughout this report is based on the commonly used HUD definition: monthly rent is no higher than 60% of the PMSA median income and ownership is available to those earning up to 80% of the PMSA median income. Additionally, a household should not be expected to pay more than 30 percent of its income toward rental housing, or three times their annual salary for owner-occupied units. The state law does not require non-exempt municipalities from instituting specific affordable housing creation policies, however inclusionary zoning applied regionally based on the local conditions may be an effective and feasible policy to achieve the goals of the Act. Additionally, under the law municipalities must monitor changes in their housing stock and an inclusionary zoning policy may greatly assist in the achieving a steady supply of new affordable housing, which can help maintain the required 10% minimum.

There are examples of county and state administered inclusionary zoning policies, however this sample program will assume local municipalities administer the program.

2. Inclusionary zoning policies would be adopted voluntarily by municipalities and would vary based on local conditions.

There is considerable variation between communities across the region and a one-size-fits-all inclusionary zoning policy would not be as effective as a tiered policy based on local conditions. This program assumes that each municipality would decide voluntarily what type, if any, of an inclusionary zoning policy is appropriate, and that this is based on local conditions and needs.

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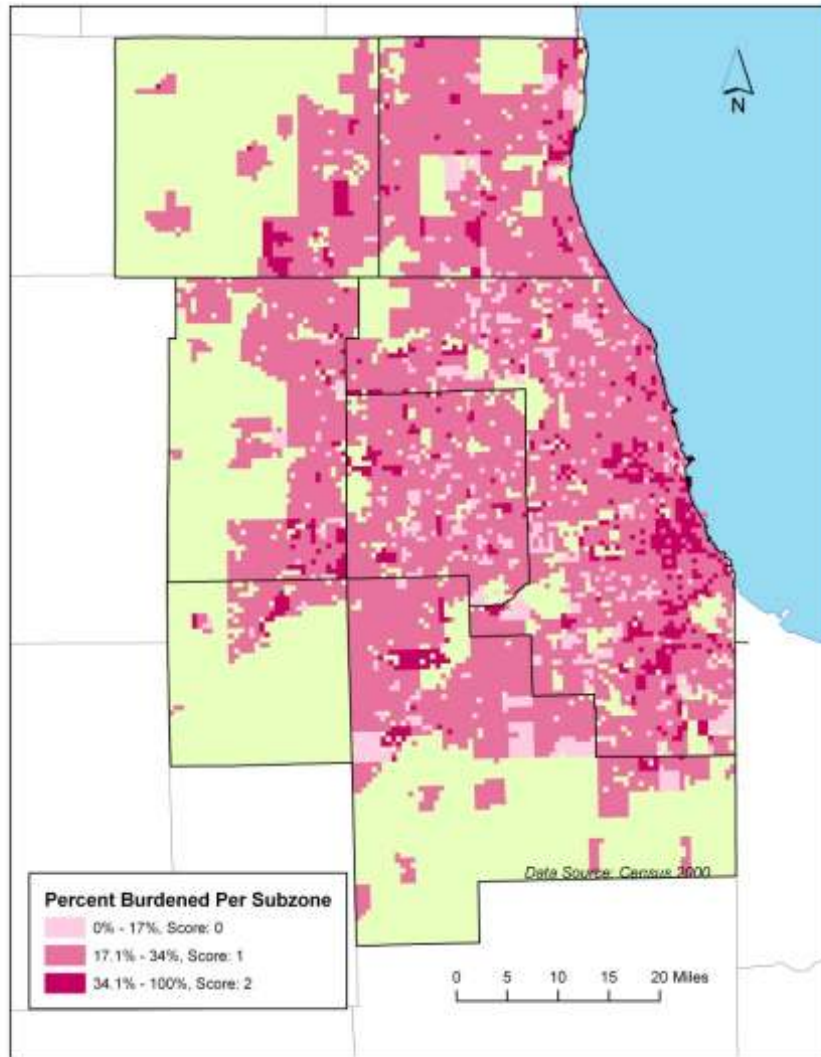
<sup>1</sup> The Affordable Housing Planning and Appeal Act, in effect since January 1, 2004.

In the development of this sample program, three factors at the local level are considered: current stock of affordable housing, the percent of residents that are housing burdened (paying more than 30% of their income on housing), and proximity to transit. The inclusionary zoning strategy paper described a tiered inclusionary zoning policy where areas with the least amount of affordable housing had the highest set aside requirement and those with the most affordable housing had no IZ policy. This sample program will also be a tiered policy with municipalities (and Chicago wards) assumed to adopt a policy of 10%, 20% or no IZ policy, based on the number of criteria the locality meets. The criteria were measured at the subzone geography (1/4 square mile), using 2000 Census housing data. Similar to the IZ strategy paper, thresholds are set for the housing criteria based on the regional mean and the standard deviation. Each subzone was given a score based on the local conditions, presented in the following table:

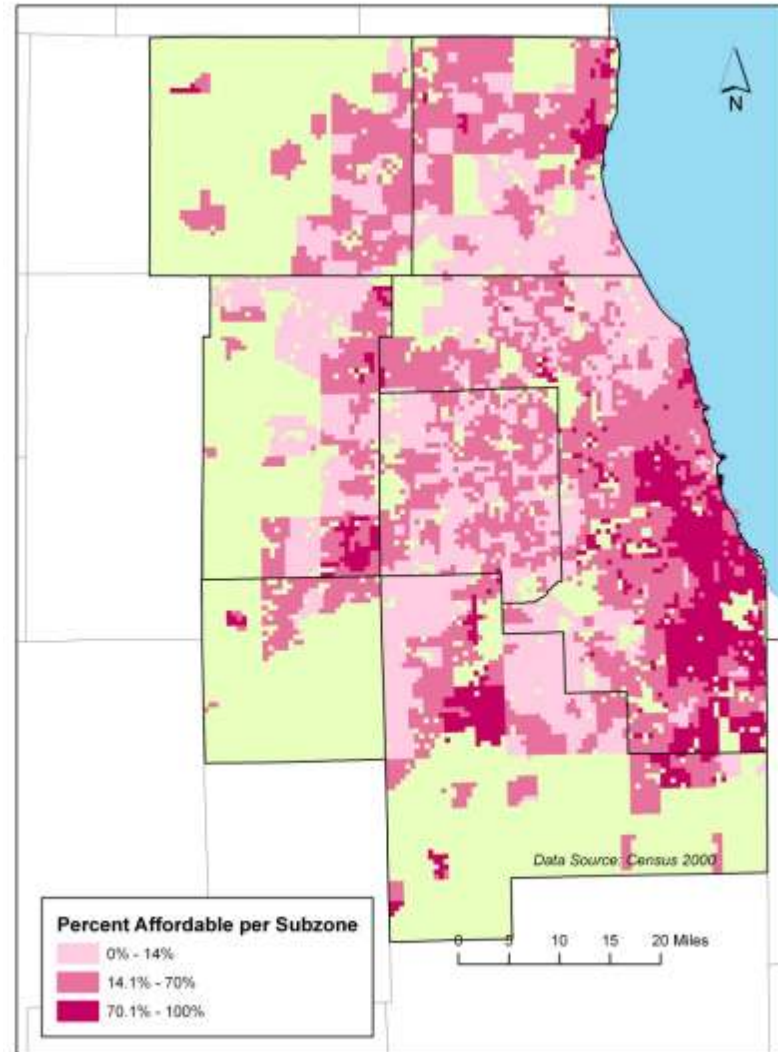
Criteria	Thresholds	Score
Percent Affordable (Regional Mean: 42%)	0%-14% (two standard deviations below the mean)	2
	15%-70% (one standard deviation above and below the mean)	1
	71%-100% (two standard deviations above the mean)	0
Percent Burdened (Regional Mean: 25%)	0-17% (two standard deviations below the mean)	0
	18%-34% (one standard deviation above and below the mean)	1
	34%-100% (two standard deviations above the mean)	2
Proximity to Transit Station	Within half mile	1
	Not within half mile	0

Because this sample program is assumed to be administered at the local level by municipalities, unincorporated areas were not included. Additionally, subzones with less than one household per four acres were excluded. The following maps show the percent of affordable and burdened units.

Percent of Burdened Households Per Subzone



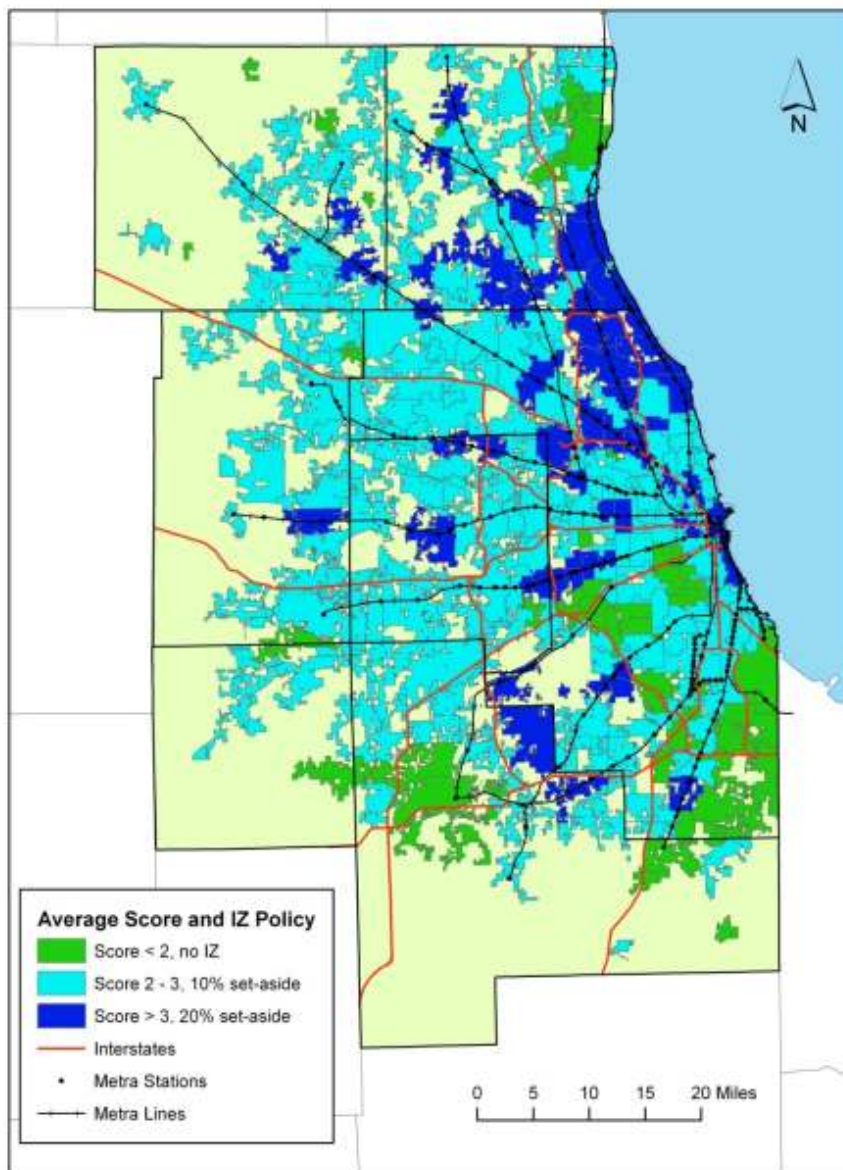
Percent of Affordable Housing Per Subzone



An inclusionary zoning policy is assumed to be administered at the local level, so to determine which level of policy each municipality would choose to adopt, the subzones scores were averaged for each municipality. Because of the size and diversity of the City of Chicago, subzone scores were averaged for each ward. Similar to the tiered policy described in the IZ strategy paper, this sample program assumes localities with the greatest lack of affordable housing would adopt a higher set-aside inclusionary zoning policy. In this analysis, a higher score indicates a greater need for more affordable housing. Municipalities and wards with a score of greater than three are assumed to adopt a 20% IZ policy, those with a score of two or three would have a 10% IZ policy, and localities with a score of less than two would have no IZ policy.

The following map shows the tiered policy by municipality and Chicago ward.

### Inclusionary Zoning Tiered Policy





3. The financial costs of inclusionary zoning to the public sector are negligible.

Inclusionary zoning policies are explicitly designed to limit public sector financial investments and instead place responsibility with the private sector. It creates affordable housing through a regulation on the private sector, which does have costs. However, development incentives are often common, including density bonuses, fee waivers, and expedited permitting. Municipalities that enact an IZ policy often incur administrative costs only.<sup>2</sup> Administrative requirements include processing of development applications, income qualification, training, and certification of homebuyers, long-term monitoring and enforcement.

A common concern regarding inclusionary zoning is that it will stall development and lower tax revenue due to lower property values. These concerns have been studied extensively; the IZ strategy paper includes a review of studies on this issue and most show that IZ's impact on reducing development and lowering revenues are negligible. A recent study by S.B Friedman and Company examined the St. Charles IZ policy and its impact on development and financial feasibility. The study finds that there is some variation on financial attractiveness for different types of developments and developments of different sizes, but on the whole the policy by itself will not induce a decline in development. When IZ is targeted and implemented in high-growth or high-demand areas, it can ensure a level of affordability remains, while not reducing the value of nearby properties. Such is the case in transit oriented developments, for example.

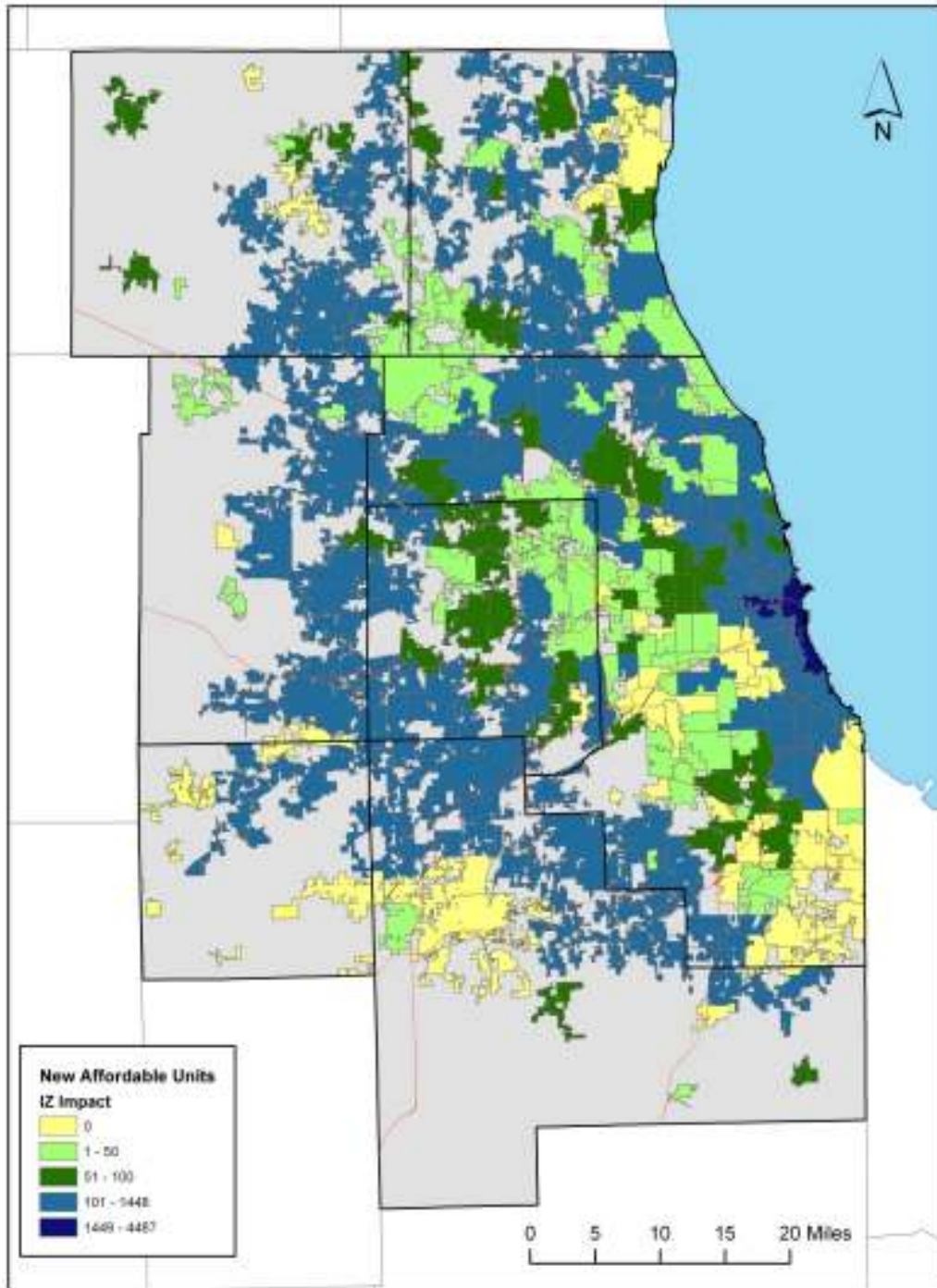
4. A regional inclusionary zoning policy, as described in this report, will create more than 53,000 affordable housing units and modify the regional distribution of affordable housing.

The preliminary 2040 forecasts include approximately 465,000 additional households within existing municipal boundaries. According to these forecasts, the tiered inclusionary zoning policy in this sample program would create more than 53,000 affordable housing units. This is 11.5% of the new households in currently incorporated areas. The map below shows how many affordable units would be created in each municipality or Chicago ward.

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<sup>2</sup> Brunick, Nicholas and Jessica Webster, "Inclusionary Housing: A Policy that Works for the City that Works." Business and Professional People for the Public Interest, December 2003  
[http://bpichicago.org/documents/ih\\_works\\_report\\_000.pdf](http://bpichicago.org/documents/ih_works_report_000.pdf)

### Inclusionary Zoning Tiered Policy Housing Impacts in 2040



#### Next Steps

Acknowledging several assumptions, the inclusionary zoning sample program would be adopted and administered locally and the financial cost to public agencies would be restricted to the administration fees. The tiered IZ policy in this sample program would result in approximately

53,000 affordable households distributed across the region. Understanding the benefits and costs is critical to developing viable plan recommendations for inclusionary zoning. However, this analysis is not complete, and there are several additional components which need to be considered:

- Refining the estimated impact of IZ by considering additional variables, including: where will redevelopment but little new growth occur, where would affordable units be created without inclusionary zoning, and how should growth outside existing municipal boundaries be included.
- Evaluating the outcomes of IZ in the reinvest scenario, where development will be focused in existing communities and near transit.
- Evaluating the impact on jobs-affordable housing mismatch.

These are important aspects of this strategy which need to be carefully explored and understood in the next steps of analysis.

CMAP staff encourages feedback and suggestions on how to improve this strategy sample program and measuring its impact.