

INCLUSIONARY ZONING STRATEGY REPORT



Chicago Metropolitan Agency for Planning
June 2008

Inclusionary Zoning Strategy Report

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Introduction

The purpose of this paper is to analyze the impact of possible inclusionary zoning (IZ) policies in the northeastern Illinois region. This paper will proceed as follows: first, it will define inclusionary zoning and review how this housing policy has been implemented in other cities and regions throughout the U.S.. Second, it will explore the existing conditions of affordable housing in northeastern Illinois. Third, it will examine how an inclusionary zoning policy in northeastern Illinois could influence affordable housing development locally and regionally, and evaluate the impacts of these changes for municipalities and the region as whole.

This analysis examines various inclusionary zoning policies through a review of literature from various policy organizations, advocacy groups, scholars, and public agencies. Much of the literature speaks to how inclusionary zoning can address affordable housing shortages in high-income communities through requiring a “set-aside” of units, which must meet specific affordability requirements in new residential developments. For example, under a universal 10-percent policy, all new residential developments would have to set-aside 10-percent of the units as affordable. Much of the research on inclusionary zoning examines various existing IZ policies and the results produced within a specific geography.



Both the Regional Framework Plan (NIPC) and the 2030 Regional Transportation Plan (CATS) identify affordable housing as an important issue. The Regional Framework Plan recommends seventeen implementation strategies to reach its regional vision. Two strategies relate to housing: achieve a balance between jobs and housing, and provide affordable housing opportunities. While inclusionary zoning is specifically highlighted as a method to provide affordable housing, the Regional Framework Plan does not attempt to measure the potential impacts of this strategy on the overall supply of affordable housing in the region or ramifications on land-use and transportation. The 2030 Regional Transportation Plan includes transportation and economic development objectives that recognize the need for improved transportation between affordable housing locations and appropriate jobs and services. Additionally, one of the Plan’s social equity objectives includes the promotion of transportation projects that support affordable housing opportunities. The intent of this research is to explore whether or not inclusionary zoning policies can have a significant impact in increasing the affordable housing supply and better integrating a mix of incomes in communities throughout our region.

Objectives of Inclusionary Zoning

In general, inclusionary zoning policies attempt to fulfill two objectives:

Objective 1: To ease the housing cost burden on low-income households residing in moderate-to-high-income communities. Many municipalities contain more low-income households (defined as those falling beneath the affordability threshold of 60% or 80% of the area median income for renters and owners, respectively) than “affordable units” to house them. As a result, some lower income residents can be defined as “housing cost burdened”. In this case, inclusionary zoning may reduce the disparity between the affordable housing supply and household demand. This objective primarily affects current residents of less-affordable communities.

Objective 2: To remove affordability barriers in communities with low supplies of affordable housing. Inclusionary zoning started as a way to counteract “exclusionary” policies that prevented the mixing of incomes in some communities. Residents that had been priced out of certain neighborhoods and municipalities could seek affordable housing in a wider range of communities by requiring affordable set-asides. Ideally, this would have the dual effect of increasing housing choice in both high and low-income communities as affordable housing would be more evenly distributed and the concentration and pockets of affordable housing would be reduced.

Inclusionary zoning is distinctive from other affordable housing programs in three major respects:

- First, it primarily utilizes private sector development. Unlike many other affordable housing creation programs, inclusionary zoning does not necessitate a direct government subsidy. Municipalities that enact an IZ policy often incur administrative costs only. (Brunick and Webster) However, developers often state that IZ policies increase their costs, which are then passed on to homebuyers. To help address developer concerns, the cost of producing the affordable units can be off-set to the developer by providing a number of incentives, such as density bonuses.
- Second, it integrates affordable units directly into market-rate developments, thus dispersing incomes throughout the municipality, instead of concentrating affordable housing in one area.
- Third, inclusionary zoning often produces more for-sale units than conventional affordable housing programs (because it is the result of market production rather than government subsidies, which often mandate rental housing) targeting families at the higher end of the “low-income” spectrum. It is important to note, that this last point raises questions about the effect of such policies on the lowest income brackets. (Schofield and Brown-Graham)

Criticism of inclusionary zoning is that it presents an undue tax on development. Critics argue that by making construction more costly for developers, IZ necessarily makes housing more costly for homebuyers (through higher sales prices) and landowners (through lower bids on vacant, developable land) – if developers are to recoup their lost revenues. This argument often further contends that if housing development becomes less profitable, fewer houses will be built, which will drive up prices for home seekers of every income level, directly belying IZ’s affordability objective.

On the other hand, IZ supporters point to a number of incentives written into most IZ policies that are intended to off-set many of the costs incurred by the affordable units. These can include density bonuses and zoning variances, as well as fast-track or fee-waivered permitting. The details of these programs are outlined in the report below.

IZ policies represent a unique affordable housing model that depends almost exclusively on the private sector for production and financing. Such a model can only work insofar as it does not stifle the development market. Regardless of how stringent an IZ policy is and to whom it’s targeted, sufficient development incentives are always advisable to create a revenue-neutral policy that works with, not against, local housing developers.

Inclusionary Zoning Background and Examples

History and National Case Studies

The first inclusionary zoning policy was drafted in 1971 by Fairfax County, Virginia. Though struck down by the state courts as unconstitutional, its principles resurfaced in subsequent policies that were upheld in other parts of the country. In 1974, Montgomery County, Maryland enacted the first legally defensible IZ policy. Today more than 200 localities have similar statutes. Inclusionary zoning ordinances can be applied at the local, county and state levels. California has statewide legislation that applies to all redevelopment areas requiring private developers to set-aside fifteen percent and public agencies to set-aside thirty percent of units for affordable housing. Nearly every municipality in New Jersey has an inclusionary zoning ordinance due to the state’s Supreme Court ruling that all municipalities have a constitutional obligation to provide a fair share of current and prospective housing needs to low and moderate income families. In Minnesota, the state legislature created a voluntary inclusionary zoning program which provides developers gap financing and regulatory relief if ten to fifteen percent of units are set-aside as affordable to low income households. According to building permit calculations by the Campaign for Sensible Growth, if in 1974 the Chicago region had instituted the same policy as Montgomery County to only half of its new structures, 136,000 units would have been created by 1999. In Chicago alone, 19,675 would have been created.

Much of the research on IZ analyzes the variations between policies in terms of both variables and impacts. All these policies share the same objective: to set-aside a proportion of housing units as affordable for a specific income group. Likewise, the over-arching goals of inclusionary zoning policies are typically similar in that they strive to preserve and improve the availability of affordable housing and encourage mixed-income communities. Finally, the impetus for most IZ policy formation is driven by either market conditions or exclusionary zoning regulations discouraging the development of affordable housing. Beyond these similarities, inclusionary zoning policies typically break down into many components with many variations.

Adding to this complexity is the tendency for an ordinance to define a single variable in multiple ways. For example, the IZ policy in Cambridge, Massachusetts defines the affordable unit set-aside requirement as either 15 percent of units or 15 percent of square footage.

The key variables to be determined in an inclusionary zoning policy include:

1. Set-aside: the percent of the development that will be affordable.
2. Development size threshold: the triggering point at which the ordinance is required, typically the number of units in a development.
3. Type of development: new, rehab, for-rent, for-sale, multi-unit, subdivision, conversion, etc.
4. Income targeting: defines the income group the units will be affordable. For example: the units created through IZ will be made available to only those that earn 30-50% of the Area Median Income.
5. Developer incentives: mechanisms that help off-set lost income to the developer, including density bonuses, tax breaks, fee waivers, etc.
6. Alternatives to meeting the set-aside requirement: fee-in-lieu, off-site development, etc.
7. Voluntary vs. mandatory: whether or not the set-asides are optional or mandatory for projects meeting the development threshold
8. Affordability control periods: length of time the units must remain affordable

Reviewing specific case studies can be helpful to understanding how inclusionary zoning can be implemented. More detailed information on the case studies is available at the end of this report.

- Denver's 2002 inclusionary zoning policy provides a good example of the flexibility possible within such an ordinance.
- Localities vary in how they approach the process of establishing an inclusionary zoning ordinance; however a typical process includes a committee, task force, or interest group that organizes to support an inclusionary zoning policy to fulfill established goals. Baltimore went through a well-documented process to establish an inclusionary zoning ordinance.
- Given the complexity of local growth patterns, inclusionary zoning shows different results in different places. In fact, many cities, including San Francisco, enact an ordinance that is later deemed ineffective due to its guidelines.
- Boston adopted an inclusionary zoning ordinance in 2000, but a fee-in-lieu of option has limited the amount of affordable housing constructed
- The St. Cloud area's inclusionary zoning policy turned out to be less successful than others. Due to changing market conditions and insufficient public and private grant funding St. Cloud's inclusionary zoning policy was terminated in 2007 until the market is deemed more appropriate for such a policy.

Current Inclusionary Policies in the Chicago Region

The municipalities in the northeastern Illinois region with current inclusionary zoning policies include Highland Park, Lake Forest, the City of Chicago, and most recently, St. Charles. The ordinance in Highland Park requires all residential developments (new construction, renovations and conversions) resulting in five or more units to set-aside 20 percent as affordable. This is a slightly more aggressive policy than most; however, in 2000 only seven percent of Highland Park's housing stock was deemed affordable. Due to a significant decline in rental housing stock and sharply escalating housing values since the early nineties, Highland Park embarked on an extensive affordable housing planning process which included the adoption of strategies such as inclusionary zoning, a housing trust fund, and demolition fees. For more details, visit Highland Park's website at <http://www.cityhpil.com/pdf/ordinances/article21.pdf>.

Likewise, in 2000, only five percent of Lake Forest's housing was considered affordable and an increase in housing prices became an issue that needed to be addressed. Through a process that included the creation of an affordable housing committee consisting of city council members and the Mayor, Lake Forest enacted an inclusionary zoning ordinance in 2005. The Lake Forest ordinance requires that all residential or mixed-use developments (new construction, renovations of at least 50 percent of total square feet, and

conversions) with five or more dwelling units set-aside 15 percent as affordable. For more details, visit Lake Forest's website at <http://cityoflakeforest.com/pdf/cd/inclusionaryhousing.pdf>.

Chicago first enacted an inclusionary zoning policy, known as the Affordable Requirements Ordinance, in 2003 and later expanded it in May 2007. According to its website, the city-wide policy includes the following conditions:

- Applies to for-sale and rental developments with 10 or more units.
- Requires that 10 percent of the units be affordable in developments built on land purchased from the city.
- Applies if a zoning change is granted that increases project density or allows a residential use not previously allowed.
- The development is a "planned development," except for developments outside of the downtown area that do not obtain density increases
- Requires that 20 percent of the units be affordable in residential developments that receive TIF assistance.
- In for-sale developments, units must be affordable to and purchased by households with incomes at or below 100 percent of the area median household income.
- In rental developments, units must be affordable to and occupied by households with incomes at or below 60 percent of the area median household income.
- Affordable units are required to remain affordable for 30 years.
- Developers can meet the affordability requirements by providing the affordable units as part of the development project or by paying a \$100,000 fee in lieu of each required affordable unit.

The case studies in this report are intended to highlight the successes, considerations, and issues that jurisdictions from around the country have experienced with various IZ policies. It shows that the many states, counties and municipalities that have adopted inclusionary zoning policies have generally experienced an increase in the affordable housing stock. However it is also apparent that in developing an IZ policy, governments must consider market conditions in order to achieve success.

Determining the Impact of Potential Inclusionary Zoning Policies

Ideally, an analysis of inclusionary zoning in northeastern Illinois would measure the impacts of various ordinances that have been tailored to meet the specific characteristics of each municipality or county. For example, the projected population growth rate of a community can have a significant impact on the total amount of affordable housing produced through an IZ policy. Further, the establishment of a task force to engage various stakeholders can help to determine ordinance criteria that are appropriate for the context of a specific community.

To better determine the potential impact of inclusionary zoning if broadly instituted throughout the region, two samples with a standard set-aside variable are used. This approach has limitations because it is unable to factor in the typical local nuances of IZ policies; however it does illustrate the potential impact of inclusionary zoning if the region were to adopt various policies. Please note that this should not be interpreted as a recommendation from CMAP concerning how inclusionary zoning should be adopted in this region. We provide these examples to illustrate how potential inclusionary zoning policies might affect the region.

For the purposes of this report, "affordable housing" is defined as housing that can be afforded by people who make less than the area median income (AMI) for the Primary Metropolitan Statistical Area of Chicago. According to this definition, which is based on standards used by the Illinois Housing Development Authority, housing that can be purchased by people who make 80% of AMI or below and housing that can be rented by people who make 60% of AMI or below is affordable.

The sample inclusionary zoning policies in this analysis were based on the most common policies in other cities, as determined through the literature review. Since the IZ policies were analyzed across the entire region, it is most appropriate to apply a policy that is neither excessive nor ineffective. The sample policies used are:

1. A ten percent set-aside for all new residential developments in every municipality; and
2. A three-tiered policy of 'No' policy, '10-percent' set-aside, and '20-percent' set-aside for all developments at the municipal level, depending on the percentage of the existing housing stock that is affordable (2000 U.S. Census). This policy assumes that municipalities with lower supplies of affordable housing will adopt policies that are more aggressive in creating affordable housing.

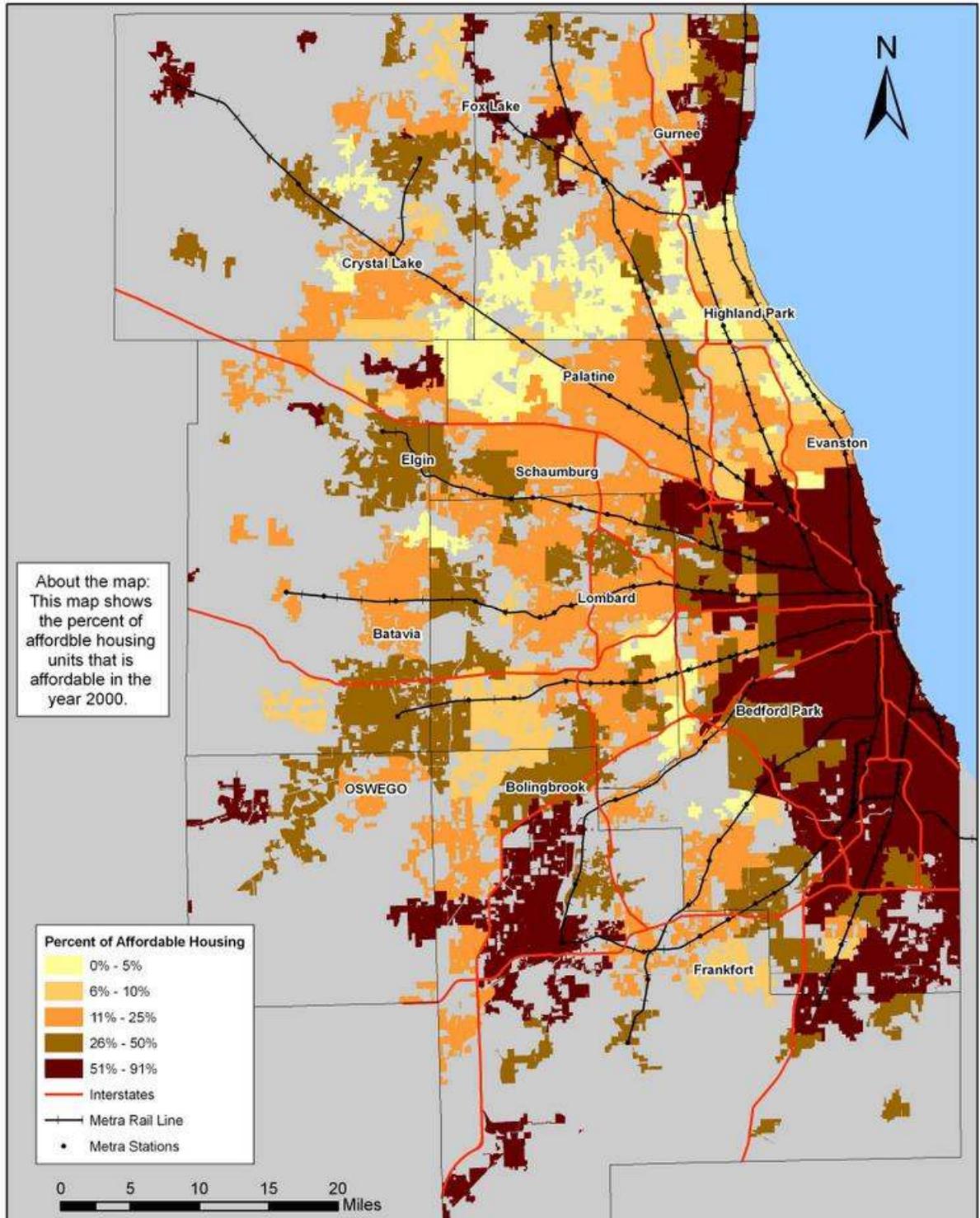
In order to estimate how many affordable units would be created through each policy and the impacts this would have on the region, 2030 forecast data was analyzed to determine the projected affordable housing supply in 2030 (See Figure 1: "Percent of Affordable Housing in 2000" in the appendix). Housing data from the 2000 U.S. census determined a baseline of current affordable housing stock for each municipality. Holding the ratio of rental to owner-occupied tenure, and the respective affordable housing stock constant (2000), affordable housing supplies were projected for 2030 under a baseline scenario. By applying the two aforementioned sample policies, inclusionary zoning policies were analyzed among municipalities in the region.

Table 1. Regional Affordability in 2000

County	Affordable Units in 2000	% of Total Housing that is affordable in 2000
Cook	901,621	47.11%
Cook w/o Chicago	308,165	36.14%
DuPage	56,339	19.18%
Kane	51,358	38.59%
Lake	56,255	28.62%
McHenry	15,493	25.62%
Will	50,582	44.64%
Total*	1,131,648	41.75%
<i>* Including Chicago</i>		

Map 1:

Percent of Affordable Housing in 2000



Measuring the number of units available can help to determine the supply-side of affordable housing however, it doesn't account for families that live in affordable housing but could afford more expensive housing (thus making affordable units unavailable to those who need them). Another proxy for measuring affordability is to examine housing cost-burden. Housing cost-burden is defined as households paying in excess of thirty-percent of gross income on housing. Measuring housing cost-burden can help to determine the demand side of affordable housing. In northeastern Illinois housing cost-burden has drastically increased in the recent decades up from twenty-nine percent in 1990 to forty-one percent in 2006. While this research primarily focuses on the supply-side of affordable housing, it is worth noting that with escalating housing values and diminishing incomes, the demand for more affordably housing is growing precipitously.

Sample Policy 1: Universal 10-Percent Inclusionary Zoning

Without new affordable housing policies, it is anticipated that of the 728,907 forecasted additional households by 2030, 332,755 would be affordable housing units when holding ratios constant with 2000 data. Under a universal 10-percent set-aside, northeastern Illinois could add an additional 50,000 affordable units to the housing stock that would not otherwise be realized through the baseline scenario. This represents an overall 1.45 percent increase in the regional affordable housing stock (as a percentage of total housing units). Therefore, a 10 percent universal inclusionary zoning policy in the aggregate would result in a relatively significant increase in new affordable housing units. The results, however, vary by county primarily due to anticipated growth rates and the amount of existing affordable housing stock.

Table 2: Universal Inclusionary Zoning Policy with a 10% Set-Aside (aggregated to county)

County	Affordable Units in 2000	% Affordable in 2000	Annual Growth Rate	Additional AF Units Created by IZ in 2030	% Affordable w/ IZ in 2030
Cook	901,621	47.11%	0.05%	14,482	47.91%
Cook w/o Chicago	308,165	36.14%	0.04%	7,472	37.14%
DuPage	56,339	19.18%	0.06%	4,925	20.23%
Kane	51,358	38.59%	2.16%	7,865	39.65%
Lake	56,255	28.62%	1.15%	5,748	30.59%
McHenry	15,493	25.62%	2.95%	6,310	29.65%
Will	50,582	44.64%	3.15%	11,362	42.52%
Total*	1,131,648	41.75%	0.86%	50,693	41.98%
* Including Chicago					

Results of a 10% set-aside by county (aggregated from the municipality) are shown in Table 2. While Cook County would certainly experience the largest net gain in affordable units due to its proportion of households in the region, the collar counties McHenry, Kane and Will would experience a higher percentage increase in affordable units due to the higher projected growth rates. In order for an inclusionary zoning policy to create a large quantity of new affordable units, new households need to be added at a significant rate. For example, DuPage County would not realize significant increases in its affordable housing stock as compared to other counties due its relatively low growth rate and low levels of existing affordable housing units. In this

instance, policy directions might address how to create more affordable housing options where new developments are not anticipated en masse.

Table 3. Municipalities with Greatest Net Increase in Affordable Units w/10% Inclusionary Policy

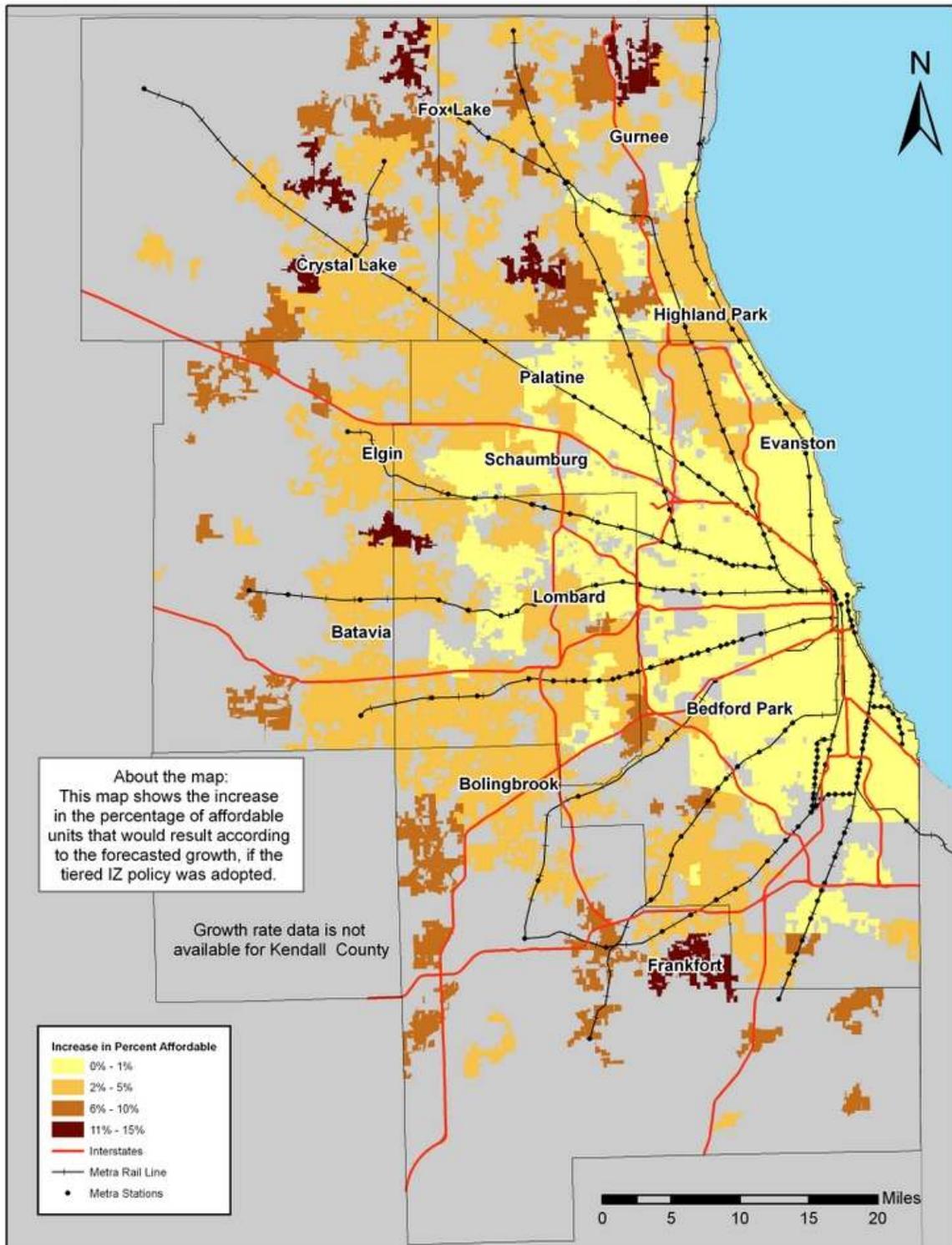
City	County	Annual Growth Rate	Total Number of Units in 2000	2000 % Affordable	Additional Affordable Units Created by IZ in 2030	2030 % Affordable with IZ
Chicago	Cook	.05%	1,060,972	55.94%	7010	56.51%
New Lenox	Will	5.39%	5,822	19.98%	1789	26.32%
Sugar Grove	Kane	9.71%	1,289	9.70%	1762	18.17%
Elgin	Kane	2.03%	31,532	45.42%	1430	47.89%
Naperville	DuPage	.96%	43,715	9.03%	1324	11.31%

Results for the cities with the greatest increase in affordable housing percentages are shown in Table 3. Consistent with the above discussion, the communities that would add the most affordable housing through inclusionary zoning are those where the most growth is projected to occur by 2030.

See maps on the following pages to view the number of affordable units by municipality created through the universal 10-percent IZ policy and the percent increase. These maps indicate that the greatest percentage increases in affordable housing would occur in high-growth communities in less-developed parts of the region, though larger communities like Chicago and Aurora would add more affordable units in total.

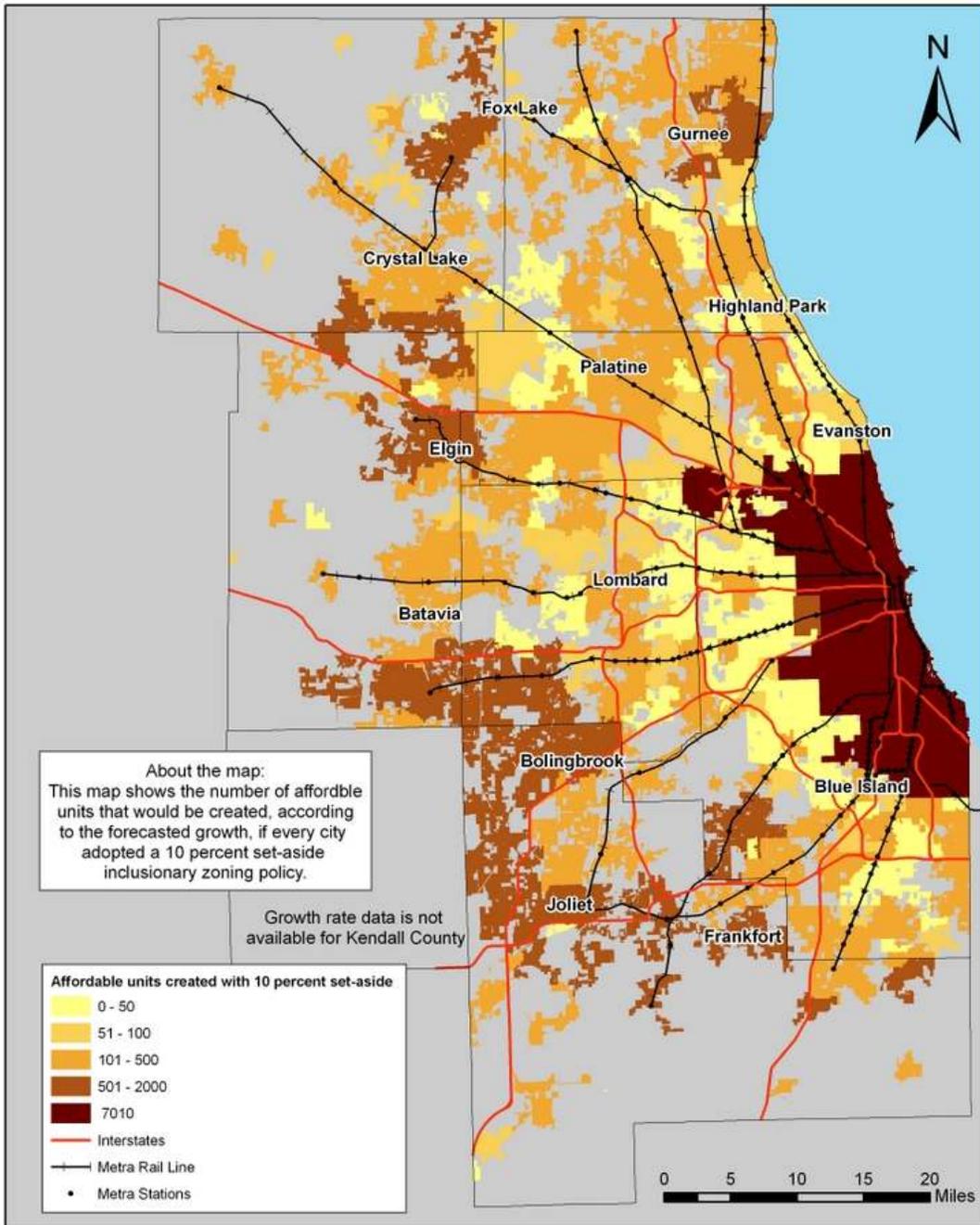
Map 2:

Increase in Percent Affordable Through Tiered Policy



Map 3:

Number of Affordable Units Created Through Regional 10% IZ



Sample Policy 2: "Tiered" Inclusionary Zoning

When applying the 'tiered' policy, that is, either 'No' IZ policy, a '10-percent' set-aside, or a '20-percent' set-aside depending upon the percentage of existing housing stock that is affordable, the results vary substantially from the 'Universal' ten-percent policy. The most notable impact in the tiered system is its boost to affordable housing production in communities where little affordable housing currently exists. At the regional level, the quantity of affordable housing produced between these two methods is marginal; however, the tiered policy would better distribute affordable housing to communities which currently lack such a supply. For example, a 20-percent set-aside for the 47 municipalities that currently have the lowest supply of affordable housing would create over 9,000 affordable units by 2030, which is more than a 100-percent increase for these communities. Tailoring IZ policies to fit the housing demographics of specific communities is palpably more effective at spatially distributing affordable housing throughout the region.

Table 4. Tiered Policy by County

County	Affordable Units in 2000	% Affordable in 2000	Annual Growth Rate	% Affordable in 2030 w/o IZ	Additional Affordable Units Created by IZ in 2030	2030 % Affordable with IZ
Cook	901,621	47.11%	0.05%	47.25%	14,839	47.93%
Cook w/o Chicago	308,165	36.14%	0.04%	36.37%	7,828	37.17%
DuPage	56,339	19.18%	0.06%	18.93%	5,365	20.45%
Kane	51,358	38.59%	2.16%	36.54%	7,557	39.53%
Lake	56,255	28.62%	1.15%	28.51%	6,771	30.96%
McHenry	15,493	25.62%	2.95%	25.29%	6,683	29.91%
Will	50,582	44.64%	3.15%	38.56%	11,816	42.68%
Total w/Chicago	1,131,648	41.75%	0.86%	40.53%	53,029	42.04%

Table 5. Cities with Greatest Increase of Affordable Units w/ Tiered Policy

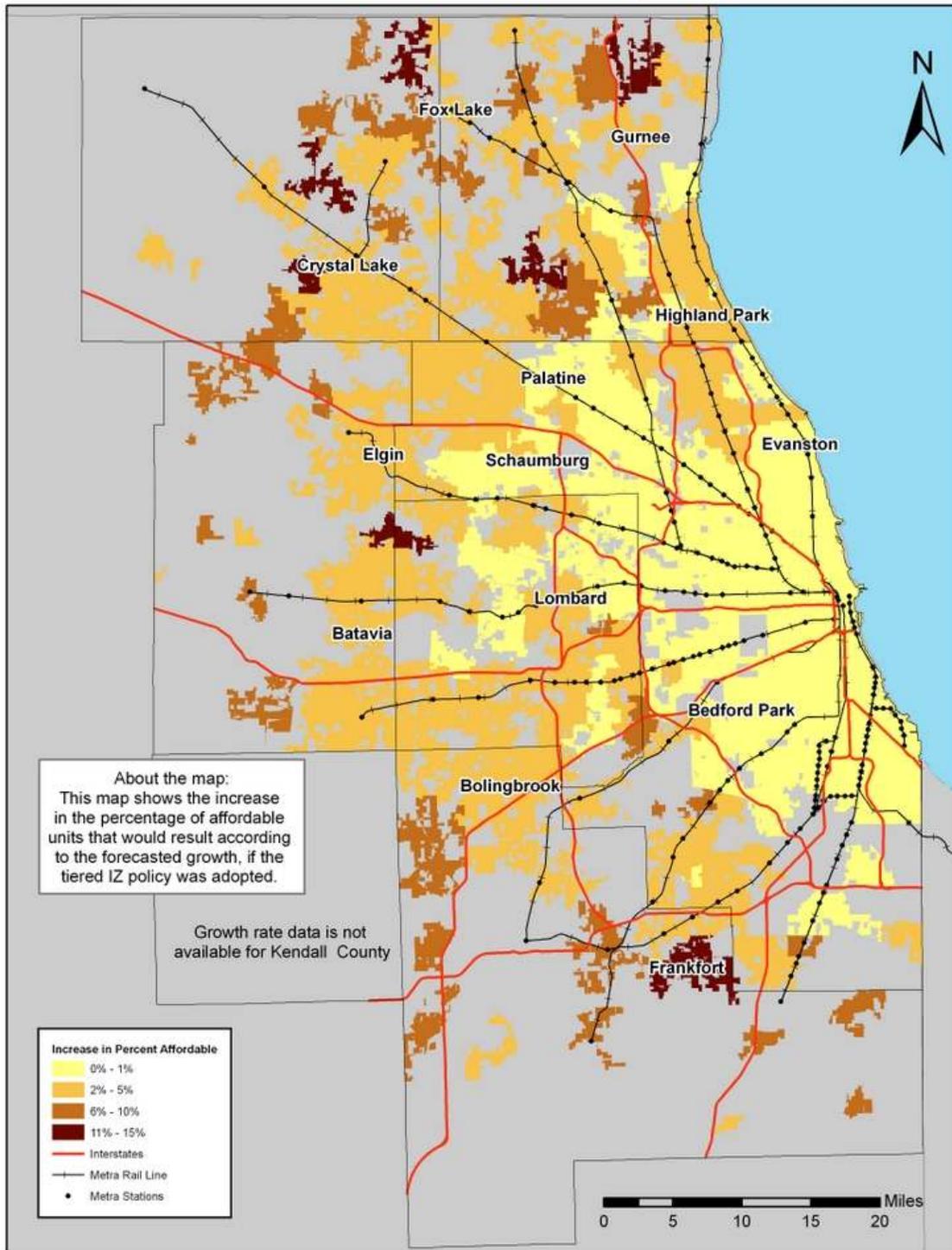
City	County	Annual Growth Rate	Total Number of Units in 2000	2000 % Affordable	Additional Affordable Units Created by IZ in 2030	2030 % Affordable with IZ
Chicago	Cook	0.05%	1,060,972	55.94%	7010	56.51%
Frankfort	Will	5.36%	3,420	6.90%	2412	21.63%
New Lenox	Will	5.34%	5,822	19.98%	1789	26.32%
Sugar Grove	Kane	9.71%	1,289	9.70%	1762	18.17%
Elgin	Kane	2.04%	31,532	45.42%	1430	47.89%

See Table 4 for results by county and Table 5 for the cities with the greatest increases in affordable housing. Note that all of these communities have at least one of the two qualities necessary for inclusionary zoning to produce larger quantities of affordable housing: a high growth rate (the regional mean is 1.7%); and a large net increase in housing stock. The correlation between the development of new housing units and the creation of affordable housing units in an IZ policy means that the cities that have the highest number of projected new housing units are those that would create the most affordable housing. Not surprisingly, the municipality that is projected to create the most new housing units by 2030 is Chicago. On the other hand, nearly all of Chicago’s bordering municipalities are projected to have less residential growth than the outer ring suburbs, as shown in the maps to the right.

While both the *universal 10-percent* and *tiered* policies show improvements over the baseline scenario, the quantity of units produced and spatial distribution of their impacts vary. The most significant difference in each scenario is the geographic distribution of new affordable housing. While every municipality is assumed to adopt the same set-aside under the universal policy, under the tiered method, municipalities with the lowest percentages of affordable housing are assumed to adopt the most ambitious (20%) set-aside. It exempts municipalities with the highest percentage of affordable housing from a required set-aside. With the tiered method, only the municipalities that have a moderate level of affordable housing adopt a 10-percent set-aside. The customization of the tiered policy allows for greater affordable housing gains in the cities that need them most, and lesser or no gains in cities that already have substantial affordable housing percentages.

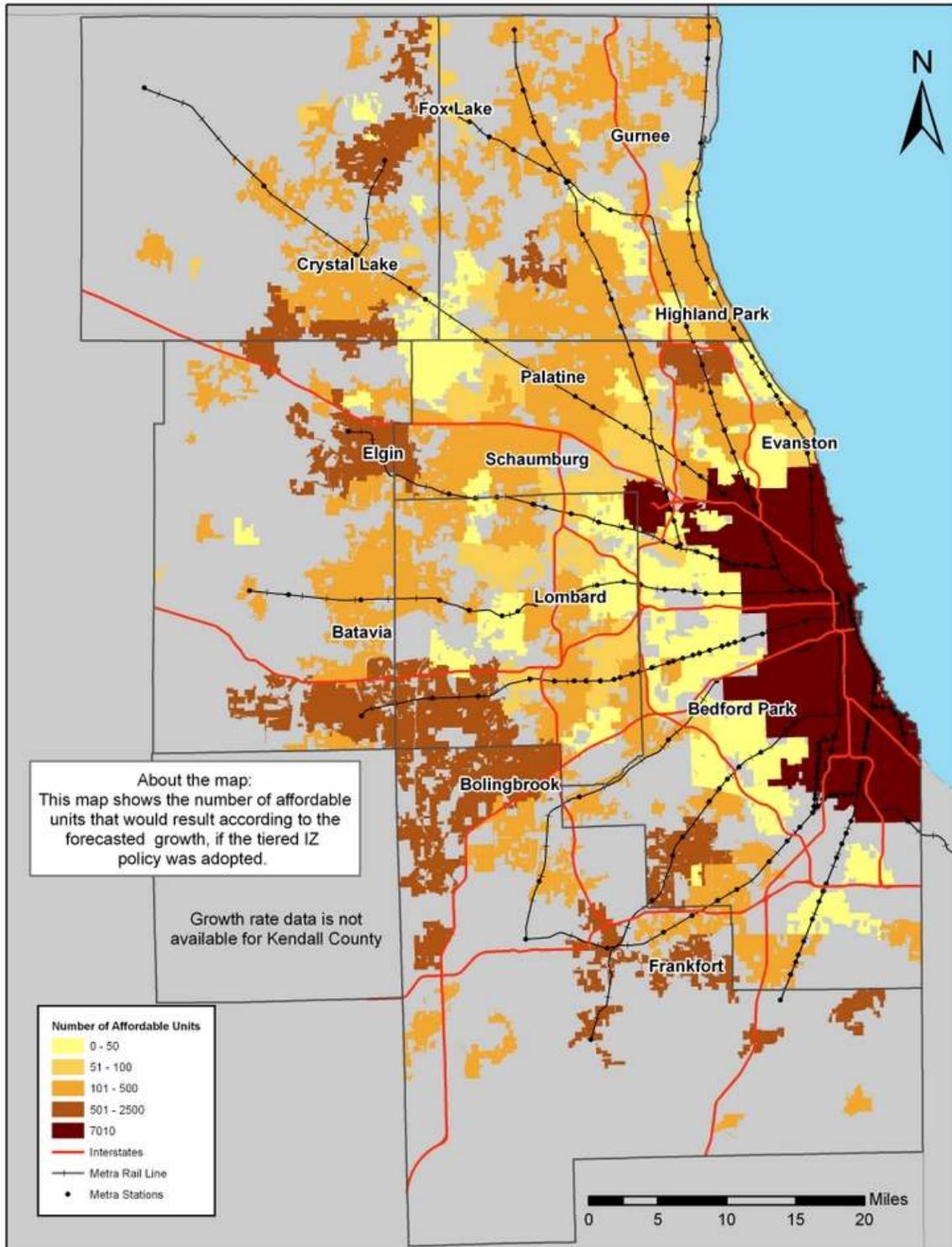
Map 4:

Increase in Percent Affordable Through Tiered Policy



Map 5:

Number of Affordable Units Created Through Tiered Policy



Impacts of Inclusionary Zoning

A major component of inclusionary zoning research is evaluating its potential impacts on other land use, transportation, and planning systems. While inclusionary zoning is likely to have a minor effect on a wide range of indicators, several of these are significantly impacted, including housing mix, income distribution, effects on minority and low-income groups, and transportation. It should be noted that IZ is not a “one size fits all” strategy; various policies will produce different results in different places. For example, if the IZ policy allows developers to build the affordable units off-site or pay a fee in lieu of, then further income segregation could result if the units are built in solely low-income communities.

Inclusionary zoning stands to create the most benefit in areas with high growth rates, good access to transit and jobs, and little existing affordable housing. Under this circumstance, inclusionary zoning could produce a significant number of units, have a positive effect on increasing transit ridership, and bring people closer to work. While a more sophisticated analysis is required to accurately estimate the impacts of such IZ policies, it can be assumed that an IZ policy may not be appropriate for a city if it creates many affordable units where there are little to no transit or job opportunities. Furthermore, inclusionary zoning in communities with little to no anticipated household growth may not be able to produce a significant quantity of affordable units if the inclusionary zoning policy focuses only on new developments. Communities in ‘closed-in’ locales may need to consider a wider variety of affordable housing production mechanisms.

Affordable Housing Distribution

Inclusionary Zoning should help low-income families find housing in communities from which they would otherwise be excluded, creating a positive impact on the housing mix and income distribution. However, the degree to which this occurs depends largely on income targeting. If all affordable units created through IZ were for those earning up to 60-80 percent of the median income, this policy could end up subsidizing housing solely for those of moderate income, leaving low-income families further behind. Municipalities that have a mix of targeting lower income and moderate income households will achieve a more equitable mix. Depending on the structure and thresholds of the income targeting of an inclusionary zoning policy, households at various income levels will be affected differently.

As noted above, a major objective of inclusionary zoning is to provide more affordable housing in less affordable communities. However, inclusionary zoning policies would not shift the distribution of affordable housing (thus income distribution) across the region appreciably. If a ten percent IZ policy were instituted region-wide, Cook County would still constitute the largest proportion of affordable housing in 2030. This is shown in Table 6.

Table 6. Distribution of Affordable Housing as a Proportion of Total Housing Units by County

	Share of Region's Housing Units in 2000	Share of Region's AFH in 2000	Share of Region's Households in 2030	Share of Region's AFH in 2030
Cook	70.60%	79.67%	62.53%	71.37%
DuPage	10.83%	4.98%	10.08%	4.88%
Kane	4.91%	4.54%	7.20%	6.81%
Lake	7.25%	4.97%	7.89%	5.75%
McHenry	2.23%	1.37%	4.12%	2.91%
Will	4.18%	4.47%	8.18%	8.29%

Also, as noted in previous sections, a tiered policy would more effectively distribute affordable housing units to municipalities who currently have the lowest affordable housing stock. The tiered IZ policy is nearly two times more effective at spatially distributing affordable units than applying a blanket 10-percent set-aside.

However, neither policy significantly closes the affordability gap between communities. The presented IZ examples would have to be coupled with other affordable housing policies to properly address equity between communities. Furthermore, while the spatial distribution of affordable housing may shift, an IZ policy would still have to carefully consider income thresholds to appreciably affect a more equitable mix of incomes across communities. It also important to note that IZ is primarily a homeownership tool and it does not typically address demand for affordable rental housing. Therefore, IZ policies should be coupled with other affordable housing strategies that address rental housing demands.

Transportation

A wide range of affordable housing alternatives across many communities is important not only for its inherent equity and quality-of-life implications, but also for access to employment. In the Chicago metropolitan region, many employment subcenters exist along commuter train lines in economically vibrant communities, which often price out the lowest income households. These circumstances are in line with national trends. (Lipman, 2006) As the job market has drastically changed in the past few decades with the decline in manufacturing jobs and the increase in low-wage service sector jobs, so has the spatial distribution of jobs. As a consequence many residents cannot afford to live near work. Increasingly, low and moderate income workers must move farther from their jobs, incurring greater commuter costs. A range of 12 to 15 miles from employment is where increased transportation costs tend to outweigh decreased housing costs, according to a 2006 study by the Center for Housing Policy. (Lipman, 2006) In the region there is a clear imbalance in median income between communities with direct access to job centers and those that fall in or beyond this range. Inclusionary zoning could help remedy this imbalance by locating affordable units in job centers directly, or by integrating them into communities along train lines that could shorten commute times and preclude the need for a car. With proper targeting of the locations of affordable housing created by inclusionary zoning, the strategy could increase transit ridership, reduce vehicle miles traveled, and have other beneficial transportation effects.

Land Use and Development

An inclusionary zoning policy does not directly dictate where a housing unit is built. IZ restricts the sale price of a unit but does not make any assumptions as to where the unit will be developed. Therefore, if a community were to adopt an inclusionary zoning policy in which development consists primarily of greenfields, then the units may contribute to this kind of development. However, since the units would be built regardless of an IZ policy, inclusionary zoning does not directly contribute to greenfield development. Other linkages between affordable housing and greenfield development have been drawn. A frequent component of an inclusionary zoning policy includes a density bonus which allows the developer to build additional market rate units than otherwise allowed to help make up for any loss in revenue from the affordable units; anti-sprawl advocates cite inclusionary zoning as a mechanism to promote denser development near the urban core and reduce greenfield development. As density bonuses increase the capacity of developments, they can decrease the need to develop on fringe land and preserve open space (PolicyLink).



Just as IZ can be tied to reducing development on greenfield land, it is linked to promoting infill development. Infill development in underutilized areas can save taxpayers and new residents money when construction occurs in places where public services exist and may be underutilized. (California Housing Roundtable) Additionally, higher-density developments allow for greater capacity in areas with existing infrastructures, limiting the costs associated with building new infrastructure, such as roads and water mains. It has also been recognized that lack of affordable housing in urban centers increases sprawl as developers and residents will look to the fringe for more affordable development opportunities. (Brunick, Goldberg and Levine) An inclusionary zoning policy can help deter this move to greenfield development by mandating affordable housing options in and near the urban core alongside market rate developments.

An example of an inclusionary zoning policy that is linked to limiting sprawl is in Montgomery County, Maryland. In 1964, ten years prior to its IZ ordinance, Montgomery County created a plan based on preserving open space and channeling new development into urban centers. (Joint Center for Housing Studies, 2002) Creating a strategy to ensure affordable housing became a necessary component of this desired development pattern. Montgomery County's IZ policy has brought the county recognition as having a well crafted growth management system.

Economy and Property Value

Despite the common argument that affordable housing and inclusionary zoning reduces the value of properties neighboring affordable units, extensive empirical research and numerous studies have shown this belief is largely a myth. Studies have determined the impact of affordable housing on property values of neighboring market rate buildings and indicate nearly conclusively that affordable housing does not cause property values to decline. The California Housing Authority has conducted a series of studies on this relationship and found that 14 out of 15 cases of affordable housing developments resulted in either a slightly positive or negligible effect on neighboring property values. (McLean County Regional Planning Commission) One of the most thorough and cited studies on this relationship is published by the University of Wisconsin and shows that the only instance property value was affected adversely is when the affordable housing is located in a concentrated area of poverty. (Green, 2002) Evidence from this study has shown that when affordable rental housing is located in higher income neighborhoods, the impact is actually positive on property values.

A literature review of 17 studies shows that several factors influence the extent to which property values are lowered due to affordable housing, including design and management of affordable housing, compatibility between affordable housing and surrounding neighborhood, and concentration of affordable housing. (Nguyen, 2005) In the affluent Fairfax County, VA and Montgomery County, MD where inclusionary zoning has been enacted for several decades, a study tested whether subsidized housing causes the decline in value of non-subsidized housing. The study found proximity of subsidized housing made no difference in property values relative to the market as a whole. (Innovative Housing Institute) A local study of four very low-income family residential developments in suburban Chicago has also shown positive impacts on surrounding property values. (BPI, 2004) Overall, the studies on the effects affordable housing has on property values show a limited relationship, especially when affordable housing is dispersed.

When analyzing cost through a strict fiscal lens, municipal revenues and expenditures are central. Expenditures have been indirectly discussed in the *greenfield* and *infill* sections (if inclusionary zoning necessitates new infrastructure due to increased greenfield development or decreased infill development, expenditures will go up). Revenues, however, are less straightforward and more controversial. Many critics of inclusionary zoning claim that compulsory “affordable” developments hinder or diminish the value of neighboring market-rate properties. They further argue that these lesser property values weaken the tax base and create less solvent municipal governments. (Powell and Stringham) As previously discussed, the contentiousness of these claims has prompted ample research, the vast majority of which found no negative correlation between affordable housing developments and adjacent property values (Innovative Housing Institute; Pollakowski et al), nor a marked difference in municipal revenue due to inclusionary zoning policies or mixed-income development. (Nakajima et al)

Inclusionary zoning also impacts more general economic factors. For instance, the County Council of Montgomery County, Maryland found that their lack of affordable housing caused longer commute times for low-income residents who could not afford to live near their jobs. This in turn led to greater personnel turnover in local businesses, industries and public agencies, which hurt the local economy and placed an undue financial burden on the taxpayers of the county. (Burchell et al) As previously stated, Montgomery County was one of the first places in the country to administer an inclusionary zoning policy.

Another contentious issue of IZ centers on the question of who is actually subsidizing the units. Some state that IZ is an unfair tax on developers (Ellickson) while others argue that the real cost is born by landowners, who face decreased bids on their land, and homebuyers (Burchell et al), who face increased housing prices to help off-set the profits lost by selling the additional units at an affordable rate. However according to a recent study by Business and Professional People for the Public Interest (BPI), “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 dependant upon the amount of equity in their homes for livelihood and retirement...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.” (Brunick)

Infrastructure

Inclusionary zoning’s impact on necessary infrastructure has not been evaluated at length, however several effects are possible. These impacts are related directly to the degree to which greenfield development is discouraged and infill development is promoted, as a result of such a policy. Increases in density permitted through density bonuses and other development incentives can decrease development along the urban

fringe and redirect development to areas already served by infrastructure such as water, sewers, and schools. This will reduce costs of new infrastructure while providing additional property tax revenues to maintain and improve existing infrastructure. Additionally, inclusionary zoning can have a positive effect on transportation infrastructure when it allows low-income workers to live closer to their jobs, reducing commute distances and wear on local roads. (Burchell)

Conclusion

Though often laden with controversy, inclusionary zoning policies have proven effective at providing affordable housing to economically exclusive communities throughout the country. They create a greater number of total affordable units as well as a more thorough diffusion of wealth than the status quo in regions where they are implemented. However, these results are far from a panacea. To properly address affordable housing shortages and income inequity across communities, other housing and economic development policies must work in concert with IZ. Furthermore, IZ is measurably more effective when it is tailored to the economic circumstances of individual cities rather than implemented uniformly on a regional scale. Therefore, a thorough demographic analysis at the regional and municipal levels is important before proposing an IZ policy at either scale.

Appendix

Case Studies

Denver:

Like many other cities, Denver, Colorado recognized a growing affordable-housing crisis as real estate appreciation rates outpaced incomes. In 2002, an inclusionary zoning policy was enacted to help address this issue. In addition to the ordinance, Denver rezoned large scale developments and proactively planned for affordable-housing development. As a result of these policy changes, 3,395 affordable homes were created within three years of the policy's inception. The ordinance requires that all new construction of for-sale units with more than 30 units set-aside 10% as affordable for persons earning less than 80% of the Area Median Income (AMI). These units must remain affordable for 15 years. Cost-offsets are provided to make the set-asides feasible to developers and encourage this type of development. These include a 10% density bonus, \$5,000-\$10,000 subsidy per unit for up to 50% of new units, parking requirement reductions, and expedited permits. Additionally, developers may be approved to pay a fee in lieu of creating the affordable units (50% of the price per affordable unit not built), or can build the affordable units off-site if the number of units exceeds the required minimum. A voluntary policy with the same thresholds exists for rental housing, except rental units must be affordable to persons earning less than 60% of the AMI. (BPI 2005) As shown by the complexity of this ordinance, the Denver ordinance illustrates the flexibility and variation in form that inclusionary zoning policies can take.

Baltimore:

In July 2006, the Baltimore City Task Force on Inclusionary Housing released a report entitled, *At Home in Baltimore: A Plan for an Inclusive City of Neighborhoods*. The report outlines the process in which ten goals were established that guided the recommendations for an inclusionary zoning policy. The task force consisted of 13 members appointed by the City Council. However, the creation of recommendations for an inclusionary zoning policy took place over seven months and involved more than 100 community-based organizations, business representatives, advocacy groups, and additional stakeholders. The process included informational sessions on inclusionary zoning, workgroup meetings, interviews, and cost-modeling sessions. Through this process, great care was taken in determining an appropriate and realistic ordinance that would be effective and feasible for Baltimore.

San Francisco:

San Francisco is such an example and has since adopted modified guidelines that have increased the benefits of inclusionary zoning. The original ordinance was enacted in 1992 and applied to only planned-unit developments (PUDs), and developments that required a conditional use permit. The nature and size of land and residential developments in San Francisco limited the number of residential projects meeting both requirements. Throughout the 1990s, the stock of affordable housing further diminished and low-income households were displaced at higher rates due to rising property values. In January 2002, the inclusionary zoning ordinance was changed to apply to all residential developments of 10 or more units. The set-aside requires 10 percent of residential development be affordable, however the developer is given the option to build the affordable units in a different location. If the developer opts to build the affordable units off-site, then a 15-percent set-aside is required. Under the new ordinance, PUDs and developments that require a conditional-use permit must provide a 12-percent set-aside for on-site units and 17-percent set-aside for off-site units. This new ordinance resulted in the development of 90 affordable units in its first two years, with an additional 745 in the pipeline as of November 2003 (Brunick, Goldberg and Levine).

Boston:

The inclusionary zoning ordinance enacted by Boston in February 2000 has been described as immediately effective, although based on the data available, its effectiveness appears to be somewhat questionable. The Executive Order mandating inclusionary zoning requires a 10-percent set-aside for onsite units and 15 percent set-aside for off-site units on all residential developments that are either financed by the City of Boston or the Boston Redevelopment Authority (BRA), developed on land owned by the City of Boston or the BRA and includes 10 units or more, or requires zoning relief and is 10 units of more. Nearly all residential developments of 10 units or more require some zoning relief due to the zoning structure. (Brunick, Goldberg and Levine) This criterion of developments requiring zoning relief has been critical to generating affordable units. In its first year, the policy applied to eight privately financed developments of 10

units or more, which were largely located in high-end, more desirable neighborhoods. In its first two years, 72 affordable units have been built as a result of the policy and over \$4 million have been contributed to an affordable housing trust fund by developers that chose the cash contribution option instead of building affordable units. This option requires the developer to make a contribution to the BRA of 15 percent of the total number of market-rate units multiplied by an affordable housing cost factor. (Kiely) Based on the available data for the first two years of the policy, this seems to be a choice taken approximately as often as the decision to build affordable units. The number and location of the affordable units built by the BRA with developer fees-in-lieu is not published information. Therefore, the ultimate impact of the policy is uncertain.

St. Cloud:

An inclusionary zoning policy was put into place in the five city St. Cloud area, located approximately 70 miles northwest of Minneapolis. The policy, known as the Joint Powers Agreement for Affordable/Life Cycle Housing ordinance, has not reached expected results since its inception in 2002. The ordinance was implemented with the objective to meet a 15% target of affordable new construction single and multi-family units. This agreement was put into place to maintain at least the current ratio of affordable housing to ensure an adequate supply of housing options. To lessen the cost to developers, subdivision design standards were modified to allow for greater density and a portion of fees to cities were reduced. Despite these off-sets, the program was not reaching its goals. This is primarily due to insufficient public and private grant funding as well to changes in the housing market. The program was based on a broad regional effort rather than being project specific, which reduced its competitiveness for certain grant funding. The housing market changes included a rash of first time home- owners and existing home-owners purchasing higher cost housing, resulting in vacant more affordable homes. In 2007, it was decided that the program should be terminated at least until market conditions are more appropriate for such a program.

Table 1. Regional Affordability in 2000

County	Affordable Units in 2000	% of Total Housing that is affordable in 2000
Cook	901,621	47.11%
Cook w/o Chicago	308,165	36.14%
DuPage	56,339	19.18%
Kane	51,358	38.59%
Lake	56,255	28.62%
McHenry	15,493	25.62%
Will	50,582	44.64%
Total*	1,131,648	41.75%
* Including Chicago		

Table 2. Universal Inclusionary Zoning Policy with a 10% Set-Aside (aggregated to county)

County	Affordable Units in 2000	% Affordable in 2000	Annual Growth Rate	Additional AF Units Created by IZ in 2030	% Affordable w/ IZ in 2030
Cook	901,621	47.11%	0.05%	14,482	47.77%
Cook w/o Chicago	308,165	36.14%	0.04%	7,472	36.91%
DuPage	56,339	19.18%	0.06%	4,925	20.57%
Kane	51,358	38.59%	2.16%	7,865	41.70%
Lake	56,255	28.62%	1.15%	5,748	30.70%
McHenry	15,493	25.62%	2.95%	6,310	29.98%
Will	50,582	44.64%	3.15%	11,362	48.60%
Total*	1,131,648	41.75%	0.86%	50,693	43.20%
* Including Chicago					

Table 3: Municipalities with Greatest Net Increase in Affordable Units w/10% Inclusionary Policy as Percentage of Total Units

City	County	Annual Growth Rate	Total Number of Units in 2000	2000 % Affordable	Additional Affordable Units Created by IZ in 2030	2030 % Affordable with IZ
Chicago	Cook	.05%	1,060,972	55.94%	7010	56.51%
New Lenox	Will	5.39%	5,822	19.98%	1789	26.32%
Sugar Grove	Kane	9.71%	1,289	9.70%	1762	18.17%
Elgin	Kane	2.03%	31,532	45.42%	1430	47.89%
Naperville	DuPage	.96%	43,715	9.03%	1324	11.31%
Plainfield	Will	5.19%	4,284	13.61%	1318	20.35%
Frankfort	Will	5.36%	3,420	6.90%	1206	14.27%
Huntley	McHenry	6.66%	2,369	14.73%	1195	22.03%
Aurora	Kane	1.24%	46,577	48.46%	1068	50.05%
Manhattan	Will	9.24%	1,153	38.86%	927	44.54%

Table 4: Tiered Policy by County

County	Affordable Units in 2000	% Affordable in 2000	Annual Growth Rate	% Affordable in 2030 w/o IZ	Additional Affordable Units Created by IZ in 2030	2030 % Affordable with IZ
Cook	901,621	47.11%	0.05%	47.25%	14,839	47.93%
Cook, w/o Chicago	308,165	36.14%	0.04%	36.37%	7,828	37.17%
DuPage	56,339	19.18%	0.06%	18.93%	5,365	20.45%
Kane	51,358	38.59%	2.16%	36.54%	7,557	39.53%
Lake	56,255	28.62%	1.15%	28.51%	6,771	30.96%
McHenry	15,493	25.62%	2.95%	25.29%	6,683	29.91%
Will	50,582	44.64%	3.15%	38.56%	11,816	42.68%
Total*	1,131,648	41.75%	0.86%	40.53%	53,029	42.04%
*Including Chicago						

Methodology

Data Sources

Data sources include the 2000 census and 2030 forecast data from the Northeastern Illinois Planning Commission. In order to measure the impacts of IZ, the current supplies of affordable households in each municipality were calculated as were the municipal growth rate. The following outlines the process of developing each data set.

A. Determining Regional “Affordability” and Local Supply of Affordable Units

1. Data was extracted from the 2000 Census SF-3 data at the municipal level, for rental and owner-occupied housing prices. Area median income (AMI) was drawn from the Chicago Primary Metropolitan Statistical Area (PMSA).
2. The 2000 AMI for the Chicago PMSA (\$51,680) was used to calculate affordability for rental and owner-occupied units. Convention dictates that, to be deemed “affordable,” (as established by US HUD and IHDA) rental units should be available to those earning up to 60 percent of the AMI; and ownership should be available to those earning up to 80 percent of the AMI. 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.
3. The 60/80 income thresholds were applied throughout the region to determine the current number of units that qualify as affordable. Results are shown in table one and map one
 - i. The affordable rental threshold was calculated with the formula: $[(51,680 \cdot 0.6) / 12] \cdot 3 = \$775/\text{month}$.
 - ii. The affordable ownership threshold was calculated with the formula: $[(51,680 \cdot 0.8) \cdot 3] = \$124,032$.

B. Unit Projections in a “Baseline” environment

1. Using The Chicago Metropolitan Agency for Planning’s 2030 household forecast data, growth rates for each municipality were calculated with the formula: $[(2030 \text{ HH} / 2000 \text{ HH})^{(1/30)} - 1]$
2. Using the compounding growth formula $[(U_x = U_1 \cdot (1+R)^X]$ where U= Housing Units, R= Annual Growth Rate and X= Number of Years Projected into the Future), the total number of units (rental and owner-occupied) expected per municipality in 2030 were estimated. The growth rate for each county is shown in table two.

In 2030, it was assumed that the same ratio of affordable housing for each municipality would remain consistent with 2000 data. (Though municipal affordable housing percentages remained constant through the projection period, the aggregate percentage did not. This can be attributed to the different growth rates among municipalities and the subsequent changes in each’s regional share of total households.)

3. This ratio was used to determine the total number of affordable units for each municipality in 2030

Table 1: Regional Growth Projected to 2030

County	Total Housing Units in 2000	Total Housing Units in 2030	Annual Growth Rate
Cook	1,913,741	2,193,370	0.00456
Cook w/o Chicago	852,769	973,306	0.00442
DuPage	293,669	353,475	0.00620
Kane	133,074	252,712	0.02161
Lake	196,570	276,678	0.01146
McHenry	60,461	144,651	0.02950
Will	113,318	287,053	0.03147
Total*	2,710,833	3,507,939	0.00863

* Including Chicago

C. Unit Projections with Inclusionary Zoning

Before applying the appropriate set-aside for each policy, the annual market-rate households that would be created through 2030 were calculated. (The number of market-rate households (MR_i) is the difference between total households (HH_i) and affordable households (AF_i). $[(HH_i) - (AF_i) = (MR_i)]$ All IZ policies were applied to market-rate households created between 2000 and 2030 $[(MR_{i31}) - (MR_{i1})]$.)

It was assumed that the housing mix would remain constant from 2000. (i.e. the number of market rate owner-occupied and renter-occupied units in 2030 will be proportionate to the mix in 2000).

The following outlines the methods used to execute each IZ policy.

Method One: Ten-percent set-aside for all new residential units applied to each municipality.

Ten percent of all market-rate households created between 2000 and 2030 were set-aside as affordable for each municipality. These numbers were then aggregated to the county level.

Method Two: Stratified IZ policy with tiers of no policy, 10 percent set-aside, and 20 percent set-aside, dependant on 2000 affordable housing percentages.

The mean percent of affordable housing was calculated and the standard deviation was used to determine which cities should get which IZ policy. The mean is 33.4 percent and the standard deviation is 25.6.

No Policy: Applied to places one standard deviation above the mean (>59% AF). The cities in this category would not create any affordable units through an IZ policy.

10- Percent Policy: Applied to places between one standard deviation above and below the mean (7.81% to 59% AF). For cities in this category, the number of new market rate units in each city was multiplied by (.10) to determine the number of affordable units created through IZ.

20-Percent Policy: Applied to places one standard deviation below the mean (0% to 7.8% AF). For cities in this category, the number of new market rate units in each city was multiplied by (.20) to determine the number of affordable units created through IZ.

Table 2 shows how the policy was dispersed by county.

Table 2: Municipal Breakdown of Policies by County

County	Number of Cities by Tiered Policy			Total
	No Policy	10-Percent	20-Percent	
Cook	34	69	16	119
DuPage	0	25	5	30
Kane	2	18	1	21
Lake	5	21	20	46
McHenry	2	20	3	25
Will	8	15	2	25
Total	51	168	47	266

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