

May 4, 2018

The Role of Incentives in Closing the Affordability Gap in Inclusionary Zoning

Based on NAHB's substantial experience reviewing ordinances from across the country and its work with builders and developers, we know that most Inclusionary Zoning (IZ) ordinances offer some form of incentives, in an effort to avoid unconstitutional exactions claims and also to allow the developer to recoup some of the subsidy he is being required to provide by constructing a certain percentage of lower-priced units within a market-rate development project.

Typical incentives offered include density bonuses, parking reductions, expedited development review processes, and reduced fees. But implementing these incentives is not always achievable in today's complex and lengthy development approval process, which includes heavy citizen input and opposition to development—especially affordable housing. They also typically don't cover much of the developer's subsidy gap. For example, concessions made during the review and approval process make it difficult to obtain the density already theoretically allowed by zoning, so IZ incentive density bonuses only end up restoring part of the density that should have been allowed originally.

The notion that IZ programs need to take development economics into account has been echoed by [Urban Land Institute EcoNorthwest](#), [Grounded Solutions Network](#), and the [Urban Institute](#), all of whom have developed educational tools with a similar goal in mind: to make IZ work better for all players. Yet as noted, only a few types of incentives are generally discussed in planning policy circles.

In reality, multiple incentives used in combination are needed to close this considerable financing gap and thus make projects feasible. The relative value of any one incentive or combination of incentives to a project can also vary depending upon the product type—e.g., horizontal single-family versus vertical multifamily—and the market. Parking incentives, for example, are generally only relevant and useful to higher density, multifamily rental projects.

NAHB recently developed a greatly expanded list of incentives based on input from roundtable groups of developers, financiers, builders, planners, and municipal representatives. It includes incentives that can be used with single-family as well as multifamily applications, in a variety of market types, from urban to small communities. Some include important contributions local governments can make to achieve results with IZ, as well.

For more information please contact [Claire Worshtil](#) or [Debra Bassert](#).

INCLUSIONARY ZONING PROGRAMS

Incentives That Enhance Project Feasibility

DENSITY BONUS

- Bonus Formula (e.g., 1 market-rate unit or lot for each affordable unit or lot)
- Bonus Amount Based on Percentage of Affordable Units/Lots

CONSTRUCTION/DESIGN

- Reduction in Interior Amenities
- Different Interior Amenities if Finishes of Durable/Good Quality

PUBLIC COST LIMITING/SHARING

- Payment of In-Lieu Fee for Required IZ Units
- Tax incentives
- Contribution or lease of underutilized or vacant land
- Demolition cost
- Tax abatement
- Environmental liability
- Soft (Forgivable) Second Mortgage
- Funding or implementation of social support programs for project
- Units Off-Site
-

ZONING/SUBDIVISION DIMENSIONAL MODIFICATIONS

- Lot Coverage
- Building Height
- Lot Area
- Open Space/Landscaping
- Frontage

EXPEDITED PERMITTING

- Limit on No. of Days for Completion of Review and Approval
- Separate Approval Process
- Priority Processing of Project

FEE REDUCTIONS/WAIVERS

- Mitigation (Impact) Fees
- Permitting Fees
 - Permit Review
 - Building Inspection
- Utility Connections

PARKING MODIFICATIONS

- Reduction in No. of Parking Spaces Required
- Increase in No. of Compact Spaces Allowed

INFRASTRUCTURE

- Tax increment financing of infrastructure
- Extension or updating of utilities to serve site