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# Silver Bullet or Trojan Horse?

## The Effects of Inclusionary Zoning on Housing Markets in Greater Boston

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# Overview of research project

- Inclusionary zoning (IZ) requires developers to set aside units in market-rate developments at below-market prices/rents
- IZ increasingly popular policy, especially in high housing cost, heavily regulated areas
- Highly polarized ideological debate about IZ
  - Pro: produces affordable housing without direct subsidies
  - Con: may constrain production of market-rate housing & increase prices
- Use Local Housing Regulation Database (Pioneer/Rappaport 2004) to examine characteristics and impacts of IZ in Greater Boston
  - How are IZ programs structured?
  - How much affordable housing has been produced under IZ?
  - What are effects of IZ on price and production of market-rate housing?
- Compare IZ programs in Boston with San Francisco & Washington DC

# IZ is becoming increasingly popular

<b>Year IZ adopted</b>	<b>Number</b>	<b>Percent</b>
Pre 1980	3	2%
1980-89	14	7%
1990-99	16	9%
2000-04	48	26%
Date unknown	18	10%
No IZ*	88	47%
<b>Total</b>	<b>187</b>	<b>100%</b>

\* Some cities and towns have adopted IZ since 2004.

# Under what conditions does IZ apply?

<b>Trigger condition</b>	<b>Number of communities</b>
Minimum project size	28
Cluster/Planned Unit Development	33
Structure type	18
Multifamily:	14
Townhouse:	2
Accessory apartments:	2
Duplex:	1
Senior housing	11
Specific districts	12
Developer initiated	10
Special Permit/variance request	7
Conversion/reuse	3
No specific condition listed	8

Note: Trigger conditions are not mutually exclusive. Many communities have more than one IZ policy with different triggers, or may list multiple conditions for a single program (i.e. multifamily housing in a specific district).

# Characteristics and structure of IZ

- Mixture of mandatory (34%), voluntary (42%) and combination (23%)
- Density bonuses or other cost offsets:
  - 1/3 of mandatory, nearly all voluntary programs include
- Alternatives to developing affordable units on-site
  - Off-site development, cash or land in-lieu
  - 50% of mandatory, 25% of voluntary
- Share of affordable units required:
  - 10-15% most common
  - 9 communities require 25-33%
  - 3 require 50-60%
- Targeted income groups range from very-low to moderate
- Affordability restrictions very long-term (80+ years), although half of programs don't specify terms

Has IZ produced affordable housing? Is it too soon to tell?

Inclusionary status	Any affordable units built?			Total	Percent built any units (of known outcomes)
	Yes	No	Unknown		
Optional	10	18	14	42	36%
Mandatory	6	14	14	34	30%
Both optional & mandatory	5	11	7	23	31%
Total	21	43	35	99	33%

# Effects of IZ on housing permits & prices

- Use regression analysis to identify effects of IZ on new housing development, prices, within reduced-form framework
  - Outcomes: single-family permits (1980-2006) and prices (1987-2004)
  - Control for annual determinants of housing supply and demand
  - Include jurisdiction and year fixed effects
- Effects on new housing development:
  - Established IZ programs associated with 10% decrease in annual permits (approximately 3.5 permits)
  - Results not statistically significant when controlling for market factors
- Effects on housing prices:
  - Established IZ programs associated with 2-4% increase in housing prices (approximately \$4000-6000)
  - Results on older programs robust to additional controls

# Comparison of IZ across regions

	<b>Suburban Boston</b>	<b>San Francisco MSA</b>	<b>Washington DC</b>
Prevalence of IZ	99/187 cities/towns	6/9 counties 49/105 cities/towns	6/23 counties* 5/117 cities (including D.C.)
Year adopted			
Median	2001	1992	1996
Range	1972-2004	1973-2006	1974-2007
Mandatory	58%	93%	82%
Exemptions	Limited eligibility Broad exemptions	Broadly applicable	Exemptions for < 50 units; Other exemptions vary by jurisdiction
Buyouts	38%	86%	100%
% affordable required (median)	15%	15%	12.50%
Density bonus	71%	67%	100%
Income targets	Low Low & mod	Very low, low & mod Low & mod	60-70% AMI
Affordability	1/3 require permanent Half don't specify	Median 45 yrs	10-30 for owners 20-30 for renters
Median annual production	43% produced no units	Counties: 15 units Cities/towns: 6 units	180 units**

\* Prince George's County MD adopted IZ in 1991 but repealed it in 1996.

\*\* Includes the District of Columbia (adopted in 2007)

\*\*\* Units produced reported for 6 jurisdictions that adopted IZ prior to 2003

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# Conclusions

- IZ programs in Greater Boston vary greatly in policy design
- Relatively small amount of affordable housing produced, but programs still quite recent
- Some evidence that IZ constrains production, increases prices
- IZ programs in San Francisco, Washington DC areas have produced more affordable units, although difficult to compare outcomes because of data limitations
- Need for additional empirical research
  - Will IZ produce more affordable housing over time?
  - How does IZ affect prices, supply in economic downturn?
  - How does IZ interact with Chapter 40B?