Proven Local Strategies
For Expanding the Supply of Affordable Homes and Addressing Cost Challenges

By Ahmad Abu-Khalaf
About Enterprise Community Partners

Enterprise is a proven and powerful nonprofit that improves communities and people’s lives by making well-designed homes affordable. We bring together the nationwide know-how, partners, policy leadership and investments to multiply the impact of local affordable housing development. Over 35 years, Enterprise has created 529,000 homes, invested $36 billion and touched millions of lives. Join us at www.EnterpriseCommunity.org.

The Policy Development & Research team provides thought leadership and data-backed recommendations to influence housing and community development policy, addressing both emerging policy issues and long-term needs. Read reports and policy briefs by the team (bit.ly/PDR_Reports) and follow us on Twitter @E_HousingPolicy.

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# Contents

<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Introduction</td>
<td>1</td>
</tr>
<tr>
<td><strong>Leveraging Existing Assets</strong></td>
<td>3</td>
</tr>
<tr>
<td>Utilizing Publicly Owned Parcels for Affordability</td>
<td>3</td>
</tr>
<tr>
<td>Acquisition of Privately Owned Vacant and Underutilized Property</td>
<td>5</td>
</tr>
<tr>
<td>Preservation of Unsubsidized Affordable Housing</td>
<td>5</td>
</tr>
<tr>
<td><strong>Creating Public Funding Opportunities</strong></td>
<td>8</td>
</tr>
<tr>
<td>Linkage Fees</td>
<td>8</td>
</tr>
<tr>
<td>Housing Trust Funds</td>
<td>9</td>
</tr>
<tr>
<td>Ballot Measures</td>
<td>11</td>
</tr>
<tr>
<td><strong>Leveraging Land Use Controls</strong></td>
<td>12</td>
</tr>
<tr>
<td>Inclusionary Zoning</td>
<td>12</td>
</tr>
<tr>
<td>Inclusionary Zoning Incentives</td>
<td>14</td>
</tr>
<tr>
<td><strong>Improving the Approval Process</strong></td>
<td>17</td>
</tr>
<tr>
<td><strong>Key Takeaways and Next Steps</strong></td>
<td>18</td>
</tr>
</tbody>
</table>
Introduction

It is increasingly widely recognized that there is a shortage of affordable housing in nearly every city in America. At the national level, 11 million renter households — more than one in four — spent upwards of half their income on rent in 2016.\(^1\) In addition, the National Low Income Housing Coalition’s latest report on the national gap in affordable homes finds that there is a shortage of 7.2 million affordable and available rental homes for extremely low-income renter households — families earning up to 30 percent of their area median income (AMI).\(^2\) Moreover, it is estimated that the number of severely cost-burdened renter households—families who pay more than 50 percent of their income on housing — will increase by 11 percent\(^3\) from an estimated 11.8 million in 2015 to 13.1 million in 2025,\(^4\) according to Projecting Trends in Severely Cost-Burdened Renters, jointly published by Enterprise and the Harvard University Joint Center for Housing Studies (JCHS).

Given the tremendous ongoing demand for affordable housing, increasing the supply of affordable homes through new construction and preventing the loss of existing homes that are affordably priced are critical. Enterprise recognizes that the rising demand for safe, well-designed affordable homes has created a pressing need for identifying innovative approaches for expanding the supply of affordable homes and improving the cost-effectiveness of the affordable housing delivery system. In 2014, Enterprise, in partnership with the Urban Land Institute (ULI) Terwilliger Center for Housing, released a report, Bending the Cost Curve: Solutions to Expand the Supply of Affordable Rentals, which identifies and provides recommendations for addressing the cost drivers of affordable housing development, including: state and local regulations, hurdles in accessing financing, complexity and unpredictable timeframes, community opposition and limits on by-right approvals, and additional paper work and due diligence expenses.\(^5\) Building on this research effort, Enterprise established the Expanding the Supply of Affordable Homes program, which provides research and implementation support to improve housing affordability through financial innovations, regulatory optimization and development/preservation cost-effectiveness. Through this program, Enterprise has been undertaking research initiatives that explore innovative, promising tools for expanding the supply of affordable homes across the nation.

The High-Cost Cities Housing Forum (HCHF) is a peer-to-peer group that comprises the local housing commissioners from nine of the most expensive cities in the United States: Boston, Chicago, Denver, Los Angeles, Miami, New York, San Francisco, Seattle and Washington, D.C. Enterprise has convened the HCHF for 12 years as a venue for local policymakers to discuss housing policy, offer program ideas and exchange best practices.

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1. Enterprise Community Partners calculation of 2016 American Community 1-year Survey data as provided by IPUMS-USA, University of Minnesota, www.ipums.org
3. This projection is based on a baseline scenario where both rents and incomes grow in line with inflation (set at 2 percent)
To support those efforts, we identify local strategies that can help jurisdictions address the cost drivers of affordable housing development and expand the supply of affordable rental housing. **Proven Local Strategies for Expanding the Supply of Affordable Homes and Addressing Cost Challenges** highlights proven strategies for expanding the supply of affordable homes and addressing cost-related challenges, focusing on four key strategies: leveraging existing assets, creating public funding opportunities, utilizing land use controls and improving the approval process. This white paper builds on recent Enterprise research on cost containment and solutions for expanding the supply of affordable homes, including Bending the Cost Curve: Solutions to Expand the Supply of Affordable Rentals\(^6\) and Public Benefit from Publicly Owned Parcels: Effective Practices in Affordable Housing Development.\(^7\) It was also informed by the High-Cost Cities Housing Forum’s 2018 convening in Los Angeles, which focused on discussing strategies for containing the cost of affordable housing development.

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6. Jakabovics et al.
Leveraging Existing Assets

While financing the production of new affordable homes is essential for expanding the supply of affordable housing, it is important to leverage existing assets to create and preserve affordable homes. Jurisdictions can utilize their surplus public property to create affordable housing, especially in markets in which mission-driven developers struggle to acquire sites against better-funded market-rate developers. Private assets can also be leveraged to expand the supply of affordable homes, and jurisdictions can help mission-driven developers transform vacant, privately owned property into affordable housing by offering low-cost financing for acquisition and pre-development. Furthermore, jurisdictions can offer public funding opportunities for preserving unsubsidized affordable housing — unsubsidized units that are affordable largely due to their age and lack of additional amenities — with the goal of mitigating the loss of affordable homes and displacement of lower- and moderate-income households.

Utilizing Publicly Owned Parcels for Affordability

A publicly owned parcel is any site that is owned by a governmental or government-chartered entity, such as units of state or local governments, government departments like housing and public works, transit agencies and schools. The utilization of publicly owned parcels for affordable housing is a promising approach for expanding the supply of affordable homes, as many public entities have significant amounts of underutilized or vacant sites. Furthermore, these entities can provide incentives — such as offering the sale or lease of the public sites they own at no cost or a discounted price, providing gap funding and offering to hold the land for affordable housing development — to support the creation of affordable housing. In 2017, Enterprise released a report, Public Benefit from Publicly Owned Parcels: Effective Practices in Affordable Housing Development, which identifies leading practices and recommendations for overcoming challenges to creating affordable housing and other community benefits on publicly owned parcels. It notes that in today’s environment of resource scarcity, publicly owned parcels represent a rare opportunity to provide a range of benefits to both public agencies and broader communities.

Several jurisdictions have made efforts to produce affordable housing through the publicly owned parcel development process. Earlier this year, the State of Washington adopted legislation that requires the state to inventory underutilized and surplus property, creates a first-right-of-refusal for public agencies seeking to secure state land for affordable housing, and authorizes state and local entities to discount the price of land if it will be developed for a public benefit.

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8. Spotts, Abu-Khalaf and Hale-Case.
In 2017, the District of Columbia launched the Vacant to Vibrant DC initiative to transform its vacant and underutilized sites into vibrant and productive uses, including affordable and workforce housing.\footnote{DHCD, “Vacant to Vibrant DC,” DC.Gov Department of Housing and Community Development, accessed April 3, 2018, \url{https://dhcd.dc.gov/page/vacant-vibrant-dc}.}

After a comprehensive survey of all vacant sites in the city, New York City has facilitated the development of affordable and mixed-income housing on city-owned parcels by conveying sites that are suitable for affordable and mixed-income housing development to developers for a nominal price.\footnote{“NYC Housing Preservation & Development City-Owned Sites,” NYC.Gov, accessed February 15, 2018, \url{http://www1.nyc.gov/site/hpd/community/city-owned-site.page}.} The city has also created the Neighborhood Construction Program\footnote{“NYC Housing Preservation & Development - Development Programs - Neighborhood Construction Program,” NYC.Gov, accessed May 22, 2018, \url{http://www1.nyc.gov/site/hpd/developers/development-programs/neighborhood-construction.page}.} and the New Infill Homeownership Opportunities Program\footnote{“NYC Housing Preservation & Development - Development Programs - New Infill Homeownership Opportunities Program,” NYC.Gov, accessed May 22, 2018, \url{http://www1.nyc.gov/site/hpd/developers/development-programs/new-infill-homeownership-opportunities.page}.} to aggregate clusters of small public sites for affordable housing, with the goal of achieving economies of scale, as well developing capacity among nonprofit and mission-driven local developers and community development corporations.

In conjunction with its citywide Homeless Plan, Los Angeles launched a program to identify and make available surplus public land for affordable housing development. In 18 months the city selected developers for 32 city-owned sites that will result in an estimated 1,700 affordable units, including 800 units for chronically homeless individuals.\footnote{Doug Smith, “L.A. Budgets $430 Million to Help Homeless, Most of It Long-Term Debt,” latimes.com, accessed June 4, 2018, \url{http://www.latimes.com/local/lanow/la-me-ln-city-homeless-budget-20180430-story.html}.}

Chicago launched the Large Lot Program in 2014 in a 13-square mile area of the city’s South Side that is characterized by disinvestment and a 63 percent population loss since 1960, which resulted in 11,000 vacant lots totaling 800 acres. The program was developed with residents who expressed a strong desire to purchase vacant, city-owned land in their communities at an affordable cost for side yards, community gardens and similar uses. During the first year of the Large Lot Program, the City sold 278 lots and as of May 2018 has sold 1,240 lots to local residents and businesses.\footnote{“City of Chicago - Large Lot Program,” CityofChicago.Org, accessed May 23, 2018, \url{https://www.cityofchicago.org/city/en/depts/dcd/supp_info/large-lot-program.html}.} Furthermore, in October 2017, Chicago created the City Lots for Working Families program, through which the city sells vacant, city-owned lots for $1 to developers to construct affordable single-family and two-flats on these lots. The program streamlines requirements to reduce costs; incentivize smaller, local developers to participate in the program; and expand homeownership opportunities in the low- and moderate-income neighborhoods where concentrations of vacant city lots predominate.\footnote{“City of Chicago - City Lots for Working Families,” CityofChicago.Org, accessed May 23, 2018, \url{https://www.cityofchicago.org/city/en/depts/dcd/supp_info/city-lots-for-working-families.html}.}
It is important to highlight that the ability to use publicly owned land for affordable housing extends beyond municipal land. Several transit agencies utilize their sites for creating affordable housing and community benefit. For example, in 2015, Los Angeles County Metropolitan Transportation Authority (LACMTA) adopted an updated joint development policy, which includes an objective that 35 percent of all housing units developed on its land — portfolio wide — will be affordable to households earning up to 60 percent of AMI. The policy also allows LACMTA to offer the lease of its property at a discounted price to support affordable housing development. Seattle’s Sound Transit, the region’s primary public transit provider, is required by the Sound Transit 3 (ST3) legislation to offer at least 80 percent of its surplus land, at no-cost sale or discounted lease, first to qualified entities that agree to set aside 80 percent of the constructed units as affordable to households earning up to 80 percent of AMI. This requirement is also commonly known as the 80-80-80 rule.

Acquisition of Privately Owned Vacant and Underutilized Property

In an environment of resource scarcity, transforming vacant and underutilized privately owned property into affordable housing can provide an important opportunity to increase the supply of affordable homes. Jurisdictions can offer developers low-cost financing to incentivize them to acquire privately owned vacant sites or buildings and turn them into affordable housing developments. The provision of low-cost financing is typically linked to meeting desired affordability periods and levels, which would ensure that the resulting units serve low- and moderate-income households.

Several jurisdictions have made efforts to acquire and transform vacant and/or underutilized buildings and sites into affordable housing. For example, Chicago’s Troubled Building Initiative is an inter-departmental program that aims to prevent neighborhood blight and improve housing in low- and moderate-income neighborhoods. It allows the city to work with homeowners and lien holders, primarily through the housing court process and the acquisition of distressed notes and liens, to prevent buildings from deteriorating into a state that can lead to displacement, loss of affordable housing and unnecessary demolition. Since it was adopted in 2004, the program has preserved and rehabilitated 16,000 housing units that were at the risk of abandonment or demolition. Another example is Boston’s Vacant Site Acquisition Fund, which was established by the city in 2017 to provide nonprofit developers with financing to acquire vacant land and underutilized buildings that can be developed as mixed income, multi-family housing. The fund offers short-term bridge loans for site deposit assistance, low interest rate financing to help nonprofit developers acquire sites, and loans that help defray the cost of holding property.

Preservation of Unsubsidized Affordable Housing

Unsubsidized affordable housing is safe and functional housing that is affordable for low- and moderate-income households largely due to its age and lack of additional amenities. It is important to note that this type of housing is affordable without receiving public subsidies like the Low-Income Housing Tax Credit. A 2016 analysis by CoStar, a provider of data and analytics for the real estate industry, found that at least 5.5 million unsubsidized affordable rentals existed in cities across the nation. Preserving this type of housing is a tool that can help address the loss of affordable housing and the displacement of lower-income households.

Several jurisdictions across the nation have adopted programs and initiatives that aim to preserve their stock of unsubsidized affordable housing. For example, San Francisco’s Small Sites Program offers acquisition and rehabilitation loans for protecting existing and establishing long-term affordable housing in smaller multi-family rental properties — those with five to 25 units. It focuses on properties that are particularly vulnerable to market pressure that could result in property sales, evictions or spikes in rents. The program requires restricting the acquired units to households earning up to 80 percent of AMI. Earlier this year Los Angeles launched the Naturally Occurring Affordable Housing “NOAH” loan program, which aims to help preserve affordable housing in neighborhoods that are experiencing rapid gentrification. The program is

a partnership between the city of Los Angeles Housing & Community Investment Department, the State of California Housing Finance Agency and the privately managed New Generation Fund. The goal of the NOAH Loan program is to enable mission-driven property owners to purchase and rehabilitate rental properties that are not income restricted and occupied by lower-income households. The NOAH loan program offers short-term acquisition and rehabilitation financing, as well long-term take-out financing and soft debt of up to $60,000 per unit, in exchange for long-term affordability restrictions on the properties.

The District of Columbia’s Tenant Opportunity to Purchase Act (TOPA) requires that tenants threatened with displacement because of the sale or demolition of their apartment building be offered the first opportunity to purchase the building to convert it to cooperatives or condominiums — either individually as tenants or by forming a tenant association to purchase the building as a whole. The District’s Department of Housing and Community Development (DHCD) offers low-interest loans to low- and moderate-income tenants who are exercising their “first right” to purchase their apartment buildings. These loans can be used for down payment; earnest money deposits; purchase of units; and legal, architectural and engineering costs. DHCD also offers technical assistance to qualified tenant groups, such as help with loan applications, assistance with structuring the tenant association, and preparation of legal documents. Since 2002, TOPA has helped preserve 1,000 affordable units, mitigating displacement and increasing homeownership.²⁴

New York City recently launched the Neighborhood Pillars program, which leverages the New York City Acquisition Fund to help nonprofit and other mission-based affordable housing developers acquire rent-stabilized housing that is otherwise unregulated in order to rehabilitate properties and lock in long-term affordability.²⁵ Another example is the Metro Affordable Transit Connected to Housing (MATCH) Program, which provides acquisition and predevelopment financing to help developers preserve and expand affordable rental housing located near Los Angeles County public transit. The program, which includes Enterprise Community Partners, the Low Income Investment Fund and Local Initiatives Support Corporation as originating lenders, is a public-private lending partnership with an estimated loan capitalization of $75 million.²⁶ Twenty-five percent of the MATCH program will go to predevelopment loans and 85 percent will go to preservation and expansion of existing lower-rent housing. The program also targets financing existing properties with likely potential to increase density and create affordable housing units.²⁷

²⁷. “LACMTA Joint Development Program.”
Local jurisdictions have their own ability to raise revenues outside of the budget appropriations process to support affordable housing development. Examples of funding mechanisms through which these resources can be generated include adopting development linkage fees that generate funds through charging developers of new residential and/or commercial projects; establishing housing trust funds to allocate a continuing dedicated stream of funding for affordable housing; and placing housing measures on ballots to urge voters to approve legislation that allocates additional funds to the creation and preservation of affordable housing.

**Linkage Fees**

Development linkage fees require developers to pay a fee for each square foot of new market rate commercial and/or residential development. This allows jurisdictions to create new funding sources for affordable housing. The amount of a linkage fee is typically based on a nexus study that examines the potential impact of new development on the broader need for affordable housing. Jurisdictions should track the impact of this fee on overall development activity to avoid sudden spikes in development costs that can hinder the creation of new homes or commercial space.

**Boston** has one of the oldest development linkage programs in the country. The linkage program, which was established in 1983 through state enabling legislation, charges developers of new commercial and institutional developments larger than 100,000 square feet about $8 per square foot to fund the provision of affordable housing. The city uses the linkage program to fund the Boston Neighborhood Housing Trust Fund, which provides gap financing to affordable homeownership, rental, cooperative, transitional and permanent housing developments, giving priority for developments serving the greatest number of low-income households.**Los Angeles** recently adopted a linkage fee that generates funds for affordable housing. The city requires developers to pay $1 to $15 per square foot — depending on the type of development and area — to generate funds for the city’s Housing Impact Trust Fund. The linkage fee is expected to generate up to $104.4 million annually, which would help finance the construction or preservation of up to nearly 1,800 units of affordable housing units per year.

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Last year, Denver adopted a new linkage fee on commercial and residential development that supports affordable housing. It is calculated based on the gross floor area of the proposed development, excluding parking areas. Developers are required to pay the fee when they are issued building permits for new square footage — with a narrow set of exceptions that includes affordable housing and additions to single-family or duplex buildings up to 400 gross square feet. The linkage fee ranges from $0.40 to $1.70 per square foot for industrial, single-family, duplex, multifamily and commercial development. Together with a portion of a property tax mill, the linkage fee is expected to generate at least $150 million over the next 10 years. Investments from the new dedicated housing fund will be guided by a five-year housing plan, which was adopted by Denver’s city council in February 2018 and aims to create or preserve at least 3,000 units and impact 30,000 households by 2023.

### Housing Trust Funds

Housing trust funds are distinct funds that create a dedicated source of public revenue for creating and preserving affordable housing. Trust funds can help shift affordable housing funding from relying heavily on annual appropriations to receiving dedicated, ongoing streams of funding. An elected body, such as county commission or city council, can establish a housing trust fund by passing a resolution, ordinance or legislation; the process varies across jurisdictions and states. According to the Center for Community Change, more than 770 housing trust funds nationwide generate more than $1.2 billion annually to support the creation and preservation of affordable housing.

The Chicago Low-Income Housing Trust Fund was created by city council ordinance on June 28, 1989, and incorporated as a nonprofit organization on February 27, 1990, to meet the housing needs of Chicago’s very low-income residents. The trust fund assists residents living in poverty, those earning up to 30 percent of AMI, by providing two programs: the Rental Subsidy Program (RSP) and the Multi-Year through Upfront Investment (MAUI) program. The RSP provides annual rental subsidies to owners of qualified buildings or developments that reduce rents on a specified number of units for very low-income individuals and families, and the MAUI program offers interest-free forgivable loans to replace up to 50 percent of a developer’s private first-mortgage loan; the resulting savings are used to reduce the rents for specified units designated for very low-income tenants. The trust fund is required to use at least 50 percent of its resources for households earning less than 15 percent of AMI and the balance of its resources for households earning up to 30 percent of AMI. For fiscal year 2018, the Chicago

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Low-Income Housing Trust Fund has appropriated over $33.1 million in housing subsidies that will support approximately 2,900 households.

In 2002, the Mayor and City Council of the city of Los Angeles established the Affordable Housing Trust Fund (AHTF) to provide resources to alleviate the city’s severe affordable housing shortage. The proposal included a multi-year funding plan for a $100 million housing trust fund. The funding plan included federal sources normally allocated to affordable housing, as well other sources such as new revenue generated by an enhanced business tax enforcement, an increase in resources for affordable housing from the federal Community Development Block Grants allocation, an increase from 20 to 25 percent in tax increment funds from the Los Angeles Community Redevelopment Area Agency, revenue from a tobacco settlement, and general funds from the sale of city-owned sites. Consequently, in February 2003, the AHTF High Leverage Program was created, with the goal of leveraging the city’s AHTF with the state’s Multifamily Housing Program authorized under California State’s Proposition 46. In addition, projects funded under the AHTF would also compete for the state’s Low-Income Housing Tax Credits.

The District of Columbia has a long-established Housing Production Trust Fund (HPTF), a special revenue fund that provides gap financing for housing developments that are affordable to low- and moderate-income households. Washington, D.C. Mayor Muriel Bowser has committed $100 million annually to the fund each year of her administration — more per capita than any city in the country. This trust fund, which is funded through 15 percent of revenue from deed recordation and transfer taxes and through the District’s general fund, has financed nearly 9,000 affordable units since 2001. The HPTF provides financing in different forms, including pre-development loans for nonprofit developers, financing for site acquisition and construction loan guarantees and gap financing to reduce costs of residential development. In April 2018, Mayor Bowser established a new $2 million fund that aims to help nonprofit developers secure capital for predevelopment soft costs. The Oramenta Newsome Predevelopment Loan Assistance Fund for Nonprofit Developers, which is funded through the District’s HPTF and the D.C. Housing Finance Agency’s McKinney Act Fund, offers nonprofit developers predevelopment loans up to $100,000 per project, requiring that each applicant have a one-to-one match for loan funds. These funds are available on a rolling basis to help support the costs of predevelopment, and applicants will be able to submit funding requests at any time.

In 2016, the city of Denver established its affordable housing fund, with the goal of generating $150 million over 10 years to support affordable housing development and preservation. It is funded through property taxes and a linkage fee on new commercial and residential development. The trust fund allocates resources to affordable rental and for-sale housing that serves households earning up to 80 percent of AMI.

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Ballot Measures

Jurisdictions can introduce housing measures on ballots to provide additional funding for affordable housing development. A ballot measure, also commonly known as a proposition, is proposed legislation that is subject to the approval of eligible voters. Housing measures are typically placed on ballots through a vote of the jurisdiction’s council or the collection of a minimum number of signatures that qualify the proposed legislation for the ballot.

In 2016, Los Angeles voters overwhelmingly approved Proposition HHH, which provides funding for up to 10,000 permanent supportive housing units that serve homeless individuals and families, as well as facilities to increase access to necessary services and treatment programs. The $1.2 billion measure is funded through city-issued general obligation bonds. Another example is the 2016 Seattle Housing Levy, which provides $290 million to primarily fund affordable rental housing for low-income residents. The tax property levy also allocates funds for homeownership assistance and homelessness prevention and housing stability efforts. In addition, voters in the city of Miami passed a $400 million general obligation bond (GO bond) in 2017 that provides $100 million to affordable housing and economic development projects. The Miami Forever GO bond will be paid back through a 3 percent property tax that was formerly allocated to paying off a previous bond. Affordable housing ballot measures provide an important opportunity to illustrate public support for allocating public funding to the creation and preservation of affordable homes.

State and local land use regulations can have a significant impact on the supply and cost of affordable housing. These regulations, such as building height maximums, lot coverage ratios and unit size minimums, influence the cost of housing by dictating the type of housing and the number of units that can be built on a given site. Jurisdictions across the nation have undertaken efforts to revise their land use regulations by adopting inclusionary zoning, offering density bonuses and reducing/eliminating parking requirements, among other strategies, to incentivize developers to build more affordable housing. These efforts are especially effective in expensive housing markets where such incentives leverage high demand for market-rate units to add to the affordable supply while lowering per-unit costs of land acquisition and construction.

**Inclusionary Zoning**

Inclusionary zoning programs aim to leverage new market-rate developments to provide new affordable housing units. These programs, which can be voluntary or mandatory, encourage or require developers to set aside a certain percentage of new units as affordable to low- and moderate-income households. These programs may offer incentives, such as density bonuses and waivers for parking requirements, with the goal of reducing the cost of development and offsetting, in whole or in part, the costs of providing a share of affordable units in new development. When adopting inclusionary zoning programs, jurisdictions often require developers to set aside 10 to 20 percent of the total number of new units for low- and moderate-income households. Identifying a balanced share of preserved affordable units and feasible affordability requirements can be a complicated process that often benefits from receiving feedback from stakeholders, including developers, advocates and investors.

Jurisdictions can also allow developers to meet inclusionary housing requirements through developing affordable units off-site or paying a fee in lieu of the provision of affordable homes. This flexibility can maximize the overall supply of affordable housing across the jurisdiction, but these approaches are less effective in ensuring that affordable housing is spread across high-opportunity areas, such as transit-rich and low-poverty neighborhoods. It is important to note that the success of inclusionary zoning programs rely on the strength of the housing market, and these programs are particularly effective in strong markets where they can tie the development of affordable housing to new market-rate development.

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Several HCHF jurisdictions have adopted inclusionary zoning programs to expand the supply of affordable housing. For example, New York City has adopted an Inclusionary Housing Program (IHP) to preserve and promote affordable housing within neighborhoods where zoning has been modified to encourage new development. IHP takes a two-pronged approach: the Voluntary Inclusionary Housing program enables a development to receive a density bonus in return for the new construction, substantial rehabilitation or preservation of permanently affordable housing; and the Mandatory Inclusionary Housing program, which was adopted in 2016, requires a share of new housing to be permanently affordable in medium- and high-density areas that are being rezoned.43

The city of San Francisco has also adopted an inclusionary housing program that requires developers of housing developments with 10 or more units to reserve a share of units in the new building or another building they construct to be rented or sold at a below market rate, or to pay a fee in lieu of providing affordable housing. The city’s Planning Department establishes the share of units that will be reserved as below-market housing or the fee amount that will be paid by the developer as a part of the development approval process. The program requires low- and middle-income households to apply for the affordable units produced through the inclusionary housing program and go through a lottery or waitlist to rent or purchase these units.44

Another example of inclusionary zoning ordinances is Chicago’s Affordable Requirements Ordinance (ARO), which pertains to developers of housing developments of 10 or more units who obtain zoning changes that increase floor area, receive city financial assistance or utilize city-owned land. These developers must set aside 10 percent of their units as rental housing affordable to households earning up to 60 percent of AMI or for-sale housing affordable to households earning up to 100 percent of AMI. Since 2007, the ARO has resulted in commitments for 663 affordable units in or near market-rate developments, and over $86 million for in-lieu fees, which the city uses to create very-low-income housing.45 Finally, the District of Columbia Inclusionary Zoning program requires developers of new residential developments with 10 or more units or rehabilitation projects that expand an existing building by 50 percent or more to set aside 8 to 10 percent of the residential floor for affordable units.46


44. City and County of San Francisco, “City and County of San Francisco - Mayor’s Office of Housing and Community Development - Inclusionary Housing Program,” SFMOHCD.org, accessed March 20, 2018, http://sfmohcd.org/inclusionary-housing-program


Inclusionary Zoning Incentives

Local jurisdictions typically provide incentives, such as density bonuses and reduced/waived parking requirements, to ensure that requiring developers to set aside affordable units does not negatively impact development feasibility or to encourage more market-rate developers to provide affordable units in the case of voluntary inclusionary zoning programs.

Density bonuses

Density bonuses enable developers to build more units than what regular zoning allows in return for setting aside units at below-market levels for low- and moderate-income households. Offering this incentive is particularly effective in prime areas with high demand for housing where affordable housing generally would not be feasible without offering developers some sort of assistance. Density bonus programs or policies vary in their structures and a jurisdiction can design its own density incentives based on the local market conditions and the desired affordability outcome.

Several jurisdictions incentivize the creation of new affordable housing by offering developers density bonuses. For example, the city of Los Angeles developed the Transit Oriented Communities Affordable Housing Incentive Program (TOC Program), pursuant to Measure JJJ, a voter-approved ballot measure in 2016. The TOC Program provides incentives for developing affordable housing near transit stops, including reduced parking requirements, greater allowable heights and larger numbers of allowable total units. The proximity of the development site to transit stops, the type of transit stop and the level of desired affordability determine the amount of affordable housing that is required to trigger the incentives. The program assigns each parcel in a TOC Affordable Housing Incentive Area a specific tier based on the shortest distance between any point on the lot and a qualified major transit stop. It also calculates the minimum number of required affordable units based on the assigned tier and the total number of constructed units. For example, a developer of a housing development in tier 1 must set aside 8 percent of the total number of dwelling units for extremely low-income households, 11 percent of the total number of units for very low-income households, or 20 percent of the total number of units for lower-income households.

The city of Chicago has also adopted the Neighborhood Opportunity Bonus System, which allows a developer of a downtown project to receive higher floor area ratio (FAR) — a measure that reflects the total square footage of the building divided by the area of the development site — in return for a payment that is calculated based on the following equation: cost of one square foot of floor area = 80 percent X median cost of land per buildable square foot. The received payments are allocated into three development funds: the Neighborhood Opportunity Fund, which receives and allocates 80 percent of all FAR contributions to support development projects within under-served commercial corridors; the city-wide Adopt-A-Landmark Fund, which receives and allocates 10 percent of all contributions to support the restoration of structures designated as official landmarks; and the Local Impact Fund, which receives and allocates 10 percent of contributions to support improvements within one mile of the development site generating the development funds, such as public transit facilities and open spaces.

The Neighborhood Opportunity Bonus is based on the Chicago’s earlier Downtown Affordable Housing Bonus, which generated over $63 million for affordable housing construction since 2005. That program was phased out after the city’s inclusionary housing ordinance, the Affordable Requirements Ordinance, described on page 12, was expanded in 2015. It is important to point out that this program is used by the city to primarily support commercial development and public improvements, but it


could serve as a model for city density bonus programs that
would support affordable housing development.

The city of Denver has adopted a pilot height incentive
overlay for the River North / 38th & Blake Station area,
requiring approximately 10 percent of housing units in
residential developments to be affordable in exchange
for increased maximum heights within the overlay area.
To maintain equity across development types, the pilot
requires commercial developers to pay a higher affordable
housing fee — based on a multiplier of the city’s linkage
fee that generates funds for the Denver affordable housing
fund (described on page 10) — when on-site affordable
housing production is not feasible or possible. Alternatively,
commercial developers can offer a portion of the square
footage in their building at below market cost to community-
serving businesses.49 The city is looking to expand the
height incentive overlay to other areas of Denver alongside
updates to the city’s land use and transportation plan,
Blueprint Denver.

Miami-Dade County has adopted the Workforce Housing
Development Program, which is a voluntary program that
offers density bonuses and other incentives for developers
of workforce housing that is affordable to households
earning between 60 and 140 percent of the county’s
AMI.50 Los Angeles also has a citywide density bonus that
grants a developer an additional density bonus of up to 35
percent if their housing development provides 30 percent
of its units for moderate-income households, 20 percent for
low-income households, or 11 percent for very-low
income households.51

Reducing or waiving parking requirements
Excessive parking requirements increase construction-
related hard costs, reduce the number of affordable units
that can be built on a given site and raise per-unit costs.
Developers can construct a larger number of affordable
units on a given site by incorporating structured parking,
but such structures have significantly higher construction
costs than surface parking. Jurisdictions can address these
challenges by adopting policies that reduce or waive
parking requirements for affordable housing development
with the goal of expanding the supply of affordable homes.
These policies are particularly effective in transit-rich areas
where large amounts of parking are not necessary and land
values are high.

For example, the Seattle City Council has recently
approved legislation that revises city regulations to provide
developers more flexibility in deciding how much parking
to include in developments in areas with frequent transit
and to enable building owners to rent their unused parking
spots. This legislation enables the city to: allow for greater
sharing of off-street parking in certain zones; reduce the
parking requirements for rental and income-restricted
housing; enable landlords to rent out excess parking to
individuals who do not live or work in their buildings; and
require owners of apartment buildings with 10 or more units
to charge separately for parking spaces, giving tenants
the option to forgo parking and pay less for housing.52 In
2016, the District of Columbia also undertook efforts to
reduce parking minimums in some areas, especially those
close to Metro stations, along high-capacity bus lines
and throughout downtown. The District reduced minimum
parking requirements for multifamily housing development
from one space per one to four units — depending on
zoning designation — to one space per three units. It also
cut parking minimums by half for mixed-use developments

52. Sarah Anne Lloyd, “Seattle City Council Passes Suite of Parking Reforms,” Curbed Seattle, April 2, 2018,
that are within half-mile of a Metro station or a quarter-mile from a streetcar line or priority bus corridor.\footnote{53}

The \textbf{Chicago Transit Oriented Development Ordinance} aims to encourage more developments in transit zones. In 2013, the city of Chicago adopted the Transit Oriented Developments Ordinance to encourage developments that are less automobile dependent. In 2015, the ordinance was amended to provide various bulk, density and parking premiums for proposals in business, commercial, downtown or manufacturing zoning districts if those properties are located within 1,320 feet of a Chicago Transit Authority or Metra rail station (extended to 2,640 feet if the property is on a pedestrian street). These development incentives related to height, density or building bulk increases are only applicable in zoning districts that also have a three-floor area designation. Parking reductions can be applied for regardless of the project’s floor area.\footnote{54}

\textbf{New York City} offers both density and parking incentives through its modernized zoning rules, Zoning for Quality and Affordability (ZQA), and the adoption of the Mandatory Inclusionary Housing program (described on page 12). ZQA lowers costs and reduces barriers to construction for affordable and senior housing by increasing density and reducing parking requirements near transit.\footnote{55}


Jurisdictions can adopt and implement policies that streamline the development process or offer by-right approvals for affordable housing development to expedite and spur the development of affordable housing, such as 100 percent affordable housing, permanent supportive housing or mixed-income housing that sets aside a certain share of the total number of units for low- and moderate-income households. One option is to adopt legislation or ordinances that streamline the approval process for affordable housing proposals that meet objective local zoning requirements and design standards, exempting these proposals from additional review processes. Jurisdictions can also take a step further by offering entities responsible for reviewing affordable housing proposals flexibility in approving them, which would ease the local regulatory barriers that hold back the development of affordable homes. Jurisdictions have the ability to shape their own streamlined approval process eligibility criteria by requiring a certain share of housing units as affordable housing to be set aside, establishing affordability targets and/or enforcing affordability periods.

For example, Massachusetts’ Chapter 40B is a statute that streamlines approval processes for qualified affordable housing proposals and offers local zoning boards flexibility in approving those proposed developments. To qualify for the expedited approval process, development proposals must be approved under a state or federal housing program. The statute also requires that at least 20 percent of rental housing developments are set aside for households earning up to 50 percent of AMI, and developers must also agree to restrict their profit to a maximum of 20 percent in for-sale developments and 10 percent per year for rental developments. Chapter 40B allows a developer of a qualified proposed project to submit one application to the local Zoning Board of Appeals (ZBA), which significantly expedites the approval process. The ZBA is authorized to grant all local approvals for a qualified proposal after consulting with other relevant boards and to apply more flexible standards than local zoning regulations require.56

A Los Angeles ordinance streamlines the development of permanent supportive housing. It creates a ministerial approval process to reduce the permitting time and limit the ability for local opposition to stall the process, with the goal of ultimately reducing development costs and expanding the supply of permanent supportive housing across the city. The adoption of the ordinance is a result of struggles that have emerged in trying to implement Proposition HHH, a $1.2 billion bond measure dedicated to building supportive housing and other services for homeless individuals and households. The state is now considering a similar bill, SB 2162, which would require that supportive housing proposals that meet specified criteria be a use-by right in zones where multiple multifamily dwellings and mixed uses are permitted.57


Building on recent Enterprise research initiatives that identify and offer recommendations for addressing the factors that increase the cost of affordable housing development as well explore innovative solutions for expanding the supply of affordable homes, this white paper highlights a variety of proven local strategies for expanding the supply of affordable homes and addressing challenges related to the cost of affordable housing development. The adoption of effective local policies, programs and tools that can help jurisdictions boost their supply of affordable homes is a key piece in the national affordable housing delivery system. The preceding examples illustrate that local jurisdictions across the country have successfully implemented and undertaken efforts that enable them to: leverage existing assets to create affordability; create public funding opportunities for gaps in affordable housing financing; utilize land use controls to address regulatory barriers to increasing the supply of affordable homes; and improve approval processes to expedite the construction of affordable housing. It is also important to note that many other jurisdictions have adopted or are in the process of adopting their own innovative cost-containing programs and policies.

Enterprise will continue to research and disseminate best practices on containing the cost of affordable housing development with the goal of expanding the Bending the Cost Curve research, as well as engage with practitioners to assist them with identifying and implementing innovative cost-containing strategies.