

## Is inclusionary zoning providing our much needed affordable housing?

By Carol Lloyd, Special to SF Gate

Friday, April 25, 2008

Now that the housing markets are softening, it's worth stepping back and looking at what we can learn from this insane boom-bust cycle. Specifically — despite the madcap development rush in the Bay Area — where are we in terms of providing affordable housing?

Sitting in San Francisco, where a studio apartment *with a shared bathroom down the hall* runs you around \$900, it doesn't look so good. Though housing prices in many areas may have dropped, rents have continued to shoot upwards. In the cities or along transit lines, there is still a shortage of affordable housing.

In the past decade, when housing developers were harvesting money like mad and the federal government was backing away from developing affordable housing, inclusionary zoning represented a viable market-based solution. Need affordable housing? Make the developers build it. Or barring that, make them pay handsomely for the privilege of skirting that responsibility.

Not surprisingly, a lot of developers hated the idea. Inclusionary zoning would throw a wet blanket over housing production, they said. Those developers who do build inclusionary housing will just raise the price of their market rate units — and drive the price of homes further out of reach.

A few weeks ago, New York University's Furman Center for Real Estate and Urban Policy released the first rigorous analysis of inclusionary zoning and its effect on housing prices and production. The research compared the effects of inclusionary zoning on the Bay Area to its effects on suburban Boston. The good news is that our region's housing wonks seem to be doing something right.

According to the study, inclusionary zoning had no dampening effect on housing production in the Bay Area — which as of 2004 had created 10,000 affordable units. Nor did the policy help drive the price of homes skyward. This stands in stark contrast to some suburbs of Boston where inclusionary zoning laws haven't produced a single unit of affordable housing.

The Furman report notes that such distinctions can be explained in numerous ways: In part it may be because some of the laws in the Boston area are relatively new and the buildings with inclusionary units haven't yet been completed. The researchers also found that the Bay Area's "flexible program design" — especially developer incentives like density bonuses (which allow the development to be more densely built in exchange for creating affordable housing) — catalyzed more affordable housing production.

Yet the study also found that inclusionary zoning is far from a one-stop affordable housing solution: Although such policies may not bring development to a screeching halt, they are also not producing the quantity of affordable units that these regions need.

"We found that IZ policies have produced only a modest number of affordable housing units," says Vicki Been, director of the Furman Center. "It's neither panacea nor a great danger — it's much muddier than that."

During the recent boom, inclusionary housing laws were being passed in increasing numbers of counties and cities across the country. In the Bay Area, where over 60 percent of the jurisdictions — from Pittsburg to San Francisco — have some form of inclusionary housing and some laws have been around since 1973, it has become part of the cost of doing business.

As the price of real estate left more average Americans behind, the percentages of required inclusionary housing have crept higher. Currently San Francisco requires 15 percent for on-site and 20 percent for off-site development. Oakland is considering a 20 percent inclusionary housing requirement, as is San Jose. For some affordable housing advocates, there's no requirement too high. For some developers on the other hand, any amount of inclusionary housing is an unfair tax on one sector of society to bear the brunt of a broad societal need. What's more, having to produce 20 percent affordable housing can make a project seem financially infeasible.

When developers were making money hand over fist, it was hard to sympathize with this argument. But in this new economic era of stratospheric building costs, plummeting home prices and tightening credit, inclusionary housing presents another hurdle in an increasingly arduous obstacle course. If a tanking real estate market whittles down the profit margins of housing development, should we really be depending on developers to provide a substantial amount of affordable housing in the next 10 years?

In other words, the high cost of building inclusionary can skew developers toward building more luxury homes, where the profit margins have tended to be fatter.

"It's not without challenges," says Dixie Baus, director of affordable housing for Core Companies, a group of companies that produces both affordable and market-rate housing. "I love (inclusionary zoning), but when you're building first time home buyer product in the moderate income range, it can be difficult for these projects to be feasible."

Despite Baus' concerns that in the current market inclusionary zoning may be the straw that breaks the project's budget, she echoes the Furman report: "A good inclusionary housing policy is a good thing. A bad one is not good."

According to Doug Shumacher at the Mayor's Office of Housing, San Francisco has attempted to build flexibility into inclusionary housing regulations and be responsive to developer's complaints. "We offer alternative ways of complying (on-site, off-site and in-lieu fees) so that the developer can figure out what's best for them and the site," he says. Recently the city began discussing a new alternative formula to the affordable housing percentage for developers who are attempting to create so-called workforce housing — homes for moderate income buyers — not (as is the city norm) luxury product.

Yet the fallout from the current real estate market and its effect on long term production is hard to predict. Inclusionary housing may be a new cost of doing business, but in the wake of a wildly fluctuating market, producing government regulated affordable homeownership housing can result in some

uncomfortable ironies.

Last year I reported on the experience of Barbara Hernandez, the buyer of an "affordable" studio in downtown San Francisco provided by inclusionary housing, who has since experienced so many hikes in her homeowner association fee that it is approaching the cost of her mortgage, effectively doubling her payments to the point that she can no longer afford her home. Her experience suggests that adding a dollop of affordable housing into a luxury recipe can do those in need of affordable housing more harm than good.

Last month Voice of San Diego reported on a development in which some inclusionary housing condos were priced at \$183,701 when a comparable market-rate unit in the same project was listed for \$168,000. In such odd cases, it seems market forces are doing a better job than the government at creating affordable housing.