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TECHNICAL REPORT

# Is Inclusionary Zoning Inclusionary?

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## A Guide for Practitioners

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Environment, Energy, and Economic Development

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## Summary

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Inclusionary zoning (IZ) is a land-use policy intended to enable some lower- and moderate-income households to live in middle- and upper-income communities. IZ policies either mandate or encourage real estate developers to incorporate into their market-rate developments a proportion of homes that are sold or rented at below-market prices in exchange for development rights or zoning variances.

IZ policies have been implemented in many states and localities within the United States and internationally. Most of the literature on IZ has attempted to assess how many IZ units have been produced and the effect of IZ on housing prices and on the production of market- and below-market-rate homes. However, little research has examined the socially inclusive aspect of these policies. Two factors in particular—the characteristics of neighborhoods in which IZ homes are located and the characteristics of schools to which IZ homes are assigned—presumably predetermine the potential for IZ programs to have their intended inclusionary effect. However, the simple adoption of an IZ policy within a high-cost housing market does not guarantee the production of IZ homes, the targeting of those homes to low-income recipients, or the location of IZ homes in high-cost neighborhoods or within catchment areas for high-performing schools.

To test the assumption that IZ policies inherently promote social inclusion, we examined 11 IZ programs across the United States to determine the extent to which these policies serve lower-income families and provide IZ recipients with access to low-poverty neighborhoods and residentially assign them to high-performing schools. We also considered ways in which IZ policies vary and how different design features might affect the success of the programs in promoting affordable housing and social inclusion.

Since exclusionary zoning increases the likelihood that low-income households are priced out of homes in neighborhoods with high-scoring schools (Rothwell, 2012), IZ programs could theoretically mitigate this trend by introducing affordable housing into jurisdictions that otherwise lack it, thereby promoting the academic achievement and educational attainment of children of IZ recipients. The long-standing and widening income achievement gap in the United States (Reardon, 2011) underscores the potential policy importance of IZ, since there is evidence that low-income students benefit from attending higher-scoring (often lower-poverty) schools (Rumberger and Palardy, 2005; Schwartz, 2012).

The study does not address whether IZ programs increase residents' access to low-poverty settings relative to the absence of IZ, improve children's and adults' outcomes such as academic achievement, or impact the overall production of housing within a jurisdiction. While these are highly important aspects of IZ to understand, the study addresses a question that precedes these outcomes: Do IZ policies have the potential to promote IZ recipients' social inclusion

through residential access to the amenities that many low-poverty neighborhoods and schools provide?

### **Success in Providing Lower-Income Families with Access to Low-Poverty Neighborhoods and Schools**

Although the 11 programs studied vary considerably, overall, the IZ policies provide access to low-poverty schools and neighborhoods.

**IZ homes tend to serve low-income people.** Six of the 11 programs we studied serve only households making 80 percent or less of the Area Median Income (AMI), and three of the six target households earning as little as 30 percent of the AMI for rental IZ units. The other five programs reserve a portion of the IZ homes for households earning up to 100 or 120 percent of the AMI.

**The programs tend to serve owners rather than renters.** Seventy-eight percent of the IZ homes in this study were for sale, and only one of the IZ programs exclusively provided rentals. The vast majority of the for-sale homes were sold to low-income households that would otherwise qualify for federally subsidized rental housing on the basis of their income. The primacy of ownership partly reflects the fact that most IZ laws require that IZ units have the same tenure as non-IZ market-rate units, which in suburban locations are primarily intended for ownership. The ten jurisdictions selling IZ homes made them affordable to low-income households by selling them at substantially discounted prices or with subordinate financing (or both). For example, IZ homes in Burlington, Vermont; Chicago, Illinois; and Fairfax County, Virginia, were priced at an average of 39 percent, 26 percent, and 17 percent less than their assessed market prices.

**IZ homes tend to be dispersed throughout jurisdictions.** One concern about the provision of affordable housing is the clustering of low-income families in what can thereby become high-poverty neighborhoods zoned into high-poverty schools. In contrast to other supply-side affordable housing programs that tend to concentrate within a few neighborhoods in a municipality (e.g., public housing), IZ units were located in one out of every ten census block groups in the 11 localities and one out of every five census tracts as of 2005–2009. IZ homes were residentially assigned to one in four elementary schools in the neighborhoods.

**IZ homes are located in low-poverty neighborhoods.** Across the 11 localities, the typical IZ unit is located in a census block group (or tract) where 7 percent of households lived in poverty as of 2005–2009. This is lower than the average poverty rate among the block groups without IZ homes in the same jurisdictions (16 percent) and the typical U.S. census block group nationally for the same years (14 percent). Further, 75 percent of the IZ units examined in this study are located in a low-poverty census block group or tract, compared with estimates ranging from 8 to 34 percent for other forms of affordable housing (Ellen et al., 2009; Newman and Schnare, 1997). The typical IZ unit is located in a neighborhood where, as of 2005–2009, the vast majority of adults of working age were employed (94 percent), the majority of adults aged 25 and older had a college degree, and more than half of the neighborhood population (57 percent) was white. Very few IZ homes (2.5 percent) in the study were in high-poverty neighborhoods, defined as those where 30 percent or more of households are in poverty.

**IZ homes are assigned to relatively low-poverty public schools.** Across the 11 localities, the typical IZ unit is located within an elementary-school catchment area that had a lower

proportion of students that qualify for free or reduced-price meals than among elementary schools with no residentially assigned IZ homes (44 versus 64 percent) in school years 2006–2010. This also compares favorably to the average elementary school nationally, where nearly one out of every two students (49 percent) qualified in those school years. Forty-four percent of IZ dwelling units are assigned to low-poverty schools, defined here as elementary schools where less than one in five students qualifies for free or reduced-price meals.

**IZ homes are assigned to schools performing better than schools in the same jurisdiction that do not serve IZ homes.** Across the 11 localities, the typical IZ unit was located in a residential catchment area for an elementary school that ranked in the third quintile (i.e., the 40th to 60th percentile among all elementary schools in the state) on statewide tests in math and English Language Arts (ELA) over school years 2006–2010. Within the same jurisdictions, elementary schools without residentially assigned IZ homes ranked in the second quintile (i.e., the 20th to 40th percentile) among other elementary schools within their states.

## Features of IZ Programs That Influence Their Potential to Provide Affordable Housing and Promote Social Inclusion

Based on the extensive information each of the 11 localities provided about their ordinances and program structures, we identified seven program-design aspects that shape the potential to meet the goals of providing affordable housing to low-income households and promoting social inclusion for IZ recipients:

- How the IZ policy defines eligibility for recipients;
- Whether the IZ policy includes rental and ownership opportunities;
- Whether developers are required to comply with IZ set-asides as a condition of permit approval;
- The size of developments to which the IZ policy applies and the proportion of homes that must be set aside as affordable;
- The types of cost offsets and opt-outs provided to developers;
- The continued affordability of the homes after initial resale or leasing; and
- The ability to monitor compliance with the IZ program regulations.

These aspects of IZ policies affect not only how many homes are built, but also who may live in them, how long they are available to income-eligible households, and their inclusion in market-rate neighborhoods. We found substantial variation in designs along each of these seven dimensions.

## Conclusion

While IZ programs serve relatively more-advantaged families than other affordable housing programs generally do, the degree of access IZ provides to low-poverty places is still remarkable. However, in serving primarily homeowners, the IZ programs are not typically designed to serve households at the lowest income levels or those with extensive needs for support, for whom clustered affordable housing might be a more efficient means of disseminating social

services. There are exceptions, however, where IZ programs have explicitly built in means to house the lowest-income renters—for example, by allowing a locality’s public housing authority to purchase and operate some IZ homes for occupancy by federally subsidized renters.

IZ policies offer something that other economically integrative housing programs largely do not—namely, to the extent that IZ policies include long-term affordability requirements, they have the potential to provide low-income recipients with extended exposure to low-poverty settings. This is important, since research indicates that a significant amount of time is required (in some cases, generations) for low-income populations to reap the benefits of low-poverty settings. However, care should be taken in developing program features, because these features influence the degree to which IZ policies can increase the supply of affordable housing and include participating families in their communities.