



The Research Bureau

## Bureau Brief—Inclusionary Zoning

In September of 2022, the City Manager's office put forth a proposal for the first time in 20 years to adopt an "inclusionary zoning" (IZ) policy to amend the Worcester Zoning Ordinance, for new housing built in the city. If adopted, the amendment would require that developers set aside a certain percentage of their otherwise market-rate dwelling units for those households earning under a certain threshold of income. Adopting this policy would include Worcester with the 140 communities across Massachusetts with some form of inclusionary zoning. According to the "Grounded Solutions Network," Massachusetts is third after New Jersey and California for number of jurisdictions with IZ policies.

Housing affordability in Worcester is increasingly a topic of concern. Nearly 58% of occupied housing units in the city are renter-occupied. According to the Census Bureau's 2020 American Community Survey, just over 50% of renter-occupied units in Worcester are cost-burdened, meaning they spend more than 30% of their monthly household income on housing costs. In 2010, it was 47.7%. Compare this to owner-occupied units, 28.5% of which are cost-burdened, a decrease from 39.1% over the same time period.

The proposed IZ policy would require that a percentage of new dwelling units are reserved for households at 60-80% Area Median Income (AMI). AMI is a statistical measure created by the Federal Department of Housing and Urban Development, based on incomes not only in Worcester but in many of the surrounding communities. The IZ policy would apply to both new "for-rent" and "for-sale" developments. Affordable "for-rent" units cannot charge more than 30% of a household's gross income for rent, nor more than the Fair Market Rent (FMR) for the unit type. Affordable "for-sale" units cannot exceed the median sales price for the property type "at the time of sale published by the Massachusetts Multiple Listing Service."

The end of the report contains a Summary and Flowchart of the City's Zoning proposal.

### The Worcester Inclusionary Zoning Debate

Inclusionary Zoning seems to be on a path towards approval in Worcester. However, the debate is centered on the affordability limit. While the City has proposed 60-80% AMI, other members of the community have argued that the City needs to limit developers to building units at 60% AMI only. **Proponents of the sliding scale of 60-80% argue that limiting developers to 60% AMI will disincentivize them from building in Worcester, stifling housing production overall, and therefore worsening the current housing supply problem.** They argue that 60% AMI would affect the financial feasibility of development, impacting developers' ability to fund new construction. After all, IZ does rely on buy-in from developers to continue building and on a strong housing market in order to create any affordable units. In addition, the City Manager's Office has argued that **there are more than 10,000 households between 60-80% AMI**, and that these households could be left out if the program was set to 60% of AMI only.

Those arguing for limiting developers to 60% of AMI contend that although rent at even 60% is out of reach for most Worcester renters, limiting to rent to 60% of AMI is a better choice for housing affordability. **The median household income for renter households in Worcester is \$34,484**, according to the Census Bureau's 2020 American Community Survey, 5-Year Estimates—about half of renter-households in Worcester make less than \$34,484 and about half make more. Of renter-occupied units, nearly 21,000 have an income of less than \$35,000. If we increase income to \$50,000 that number increases to 27,452 households. About 14,510 households have an income greater than that. Considering **that 60% AMI for a two-person household is \$53,040**, nearly 65% of renter households in Worcester have an income lower than the 60% threshold.

### Inclusionary Zoning Evidence

Inclusionary zoning is just one among many tools that a community could consider to bolster affordable housing within its boundaries. This is especially true if its IZ policy produces only a handful of units a year, which studies have found to be typical. For example, a study done by the Rappaport Foundation of an IZ proposal in Revere earlier this year discussed above found that Revere would likely only build five to 25 units per year three years after the policy was adopted. (Rappaport 2022) One 2021 research survey found that on average, among the 258 local programs in the United States that reported creating at least one unit, each built 21 IZ units in a year. This was equal to 9% of permitted housing units built in those jurisdictions. (Wang and Balachandran 2021, 17) That same survey found that, among 84 local IZ policies in Massachusetts that reported creating at least one unit, going as far back as 1972, 8882 to 9042 units have been built since those programs began, including 7186 to 7321 rental units. Since 1972, then, on average these 84 policies have created 107 for-sale and for-rent units, or 134 rental units, each, while the median policy has only built 25 units of any type, or 54 rental units. However, 64 jurisdictions, or 76.2% of total enacted policies in Massachusetts, have adopted IZ since 2000, and for those the average policy has created 74 rental units while the median has created only 25, for a total of about 4794 (Grounded Solutions Network; Wang and Balachandran, 2021) Building some affordable units is preferable to building none at all, but IZ should not be the only attempt to create a more affordable city.

Inclusionary Zoning on its own is no panacea for a community's affordable housing needs. Indeed, evidence from across the United States is mixed on its overall effectiveness. Where and when IZ has been successful in producing affordable units, two clear trends have emerged: (1) the policy

itself is mandatory and provides cost offsets for developers to continue to build units, and (2) the local housing market is strong enough to attract developers despite the requirement to build these units.

Neither voluntary IZ (i.e., developers are under no obligation to create units, but if they do they might receive an incentive) nor mandatory IZ with loose guidelines are very successful. (Benson 2010; Urban Land Institute 2016)

Strength of the local housing market is key for IZ success. Rather than rely on government construction of homes, IZ shifts some of the burden on private developers to build affordable housing, which means that local market dynamics will play a large role in construction. Even though Worcester would allow developers building affordable units to build denser housing and to apply for lower parking minimums, a situation where people aren't buying or renting the market-rate units may lead developers to refuse to build at all. Without the market-rate development, no affordable units will be built. Availability of land, general zoning policies, the regional market, and cost of construction matter too. If no market viability exists, cities must be willing to provide some amount of subsidy to attract developers. (Urban Land Institute 2016)

Although some argue that IZ increases the prices of and decreases the amount of market-rate units being built, the evidence is mixed depending on the jurisdiction of study. Ultimately, what matters is shape of the zoning policy itself and the strength of the housing and development market. (Schuetz, Meltzer, Been, 2010; Urban Land Institute 2016; Ramakrishnan, Treskon, Greene, 2019)

**In Worcester’s Proposed Policy, Developers Cannot Charge More than 30% of Monthly Gross Income, Nor More than HUD’s Fair Market Rent Value**

AMI	Two Person Income	30% of Monthly Gross Income	Efficiency FMR	One Bedroom FMR	Two Bedroom FMR
60%	\$53,040	\$1,326	\$1,231	\$1,272	\$1,635
80%	\$70,750	\$1,769	\$1,231	\$1,272	\$1,635

Source: Department of Housing and Urban Development, and City of Worcester Executive Office of Economic Development

Cities must strike a balance in their IZ policies between financial feasibility and affordability requirements. For example, recently the City of Revere considered adopting an IZ policy. The Metropolitan Area Planning Council (MAPC) found that in order to address affordability in a way that was financially feasible for developers—in this case, making units at 50 or 60% AMI—Revere would need to provide height and density relief, reduce required parking, and provide property tax relief to developers to make those units financially feasible. In the 60-80% AMI policy presented in Worcester, developers are offered a density bonus and the ability to apply to reduce required parking minimums. Limiting affordability to 60% AMI only, as has been advocated for by many in the community, may require Worcester to provide more offsets for developers.

### The Importance of More Affordable Housing

If the housing market in Worcester continues to be strong enough to support a program of Inclusionary Zoning, and the IZ program itself remains well-defined, Worcester should continue to attract developers. City Administration should continue to do what it can to attract developers to Worcester to continue building housing of all types. However, IZ alone will not solve all the housing needs of the Worcester community, whether with incomes at or below 60% or 80% AMI. Given the problems of rising housing costs, inflation, and years of housing under-production across Massachusetts, this would be another tool in the toolkit to help Worcester residents, but should not be the final attempt to solve this problem.

The fact that more than 50% of renter households in Worcester are cost-burdened underlines the need for more affordable housing. IZ cannot be the end of this discussion, and Worcester should explore all of its options. For example, **Worcester has recently created an Affordable Housing Trust Fund**, into which the IZ policy's payment-in-lieu option would provide funds. Worcester could explore other options for building homes, like additional zoning reform. After all, according to the 2020 American Community Survey, Worcester's rental vacancy rate was only 3.4%. This would indicate that supply issues, in some

cases, may be affecting the price of rents. Creating more units overall should help to relieve some of the pressure on prices, but the City must also be mindful and create units across the income spectrum. Some options for building and relieving housing pressure include:

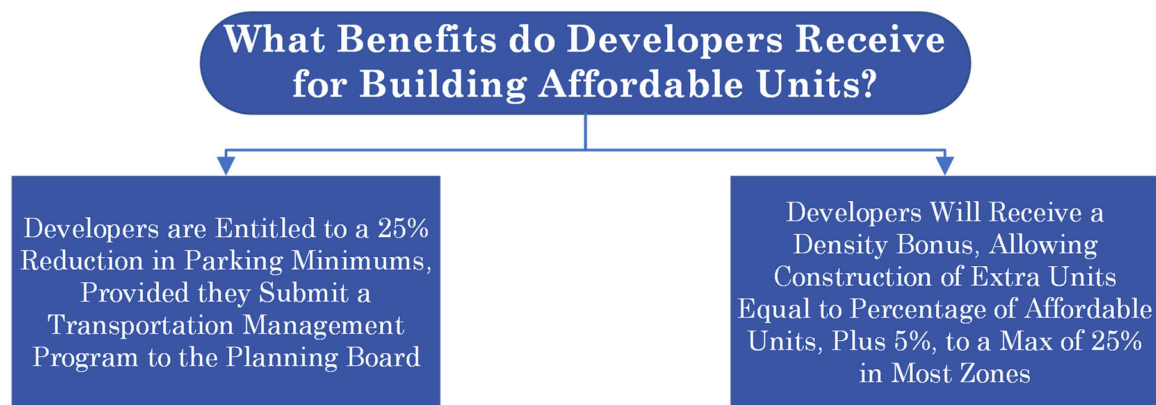
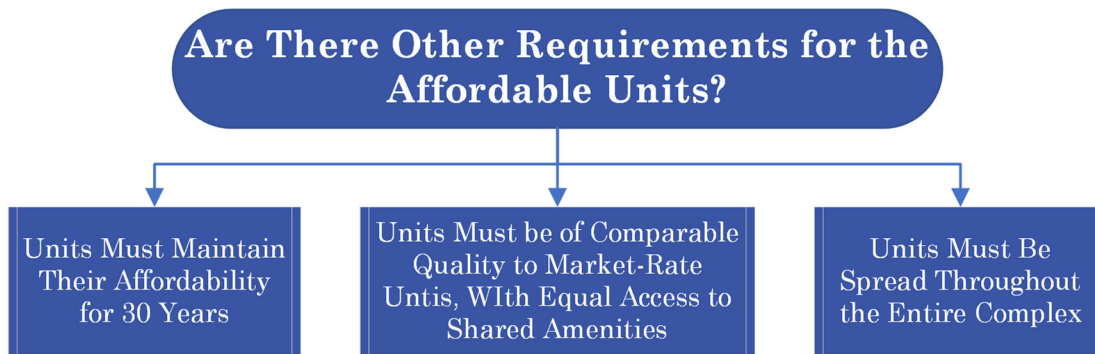
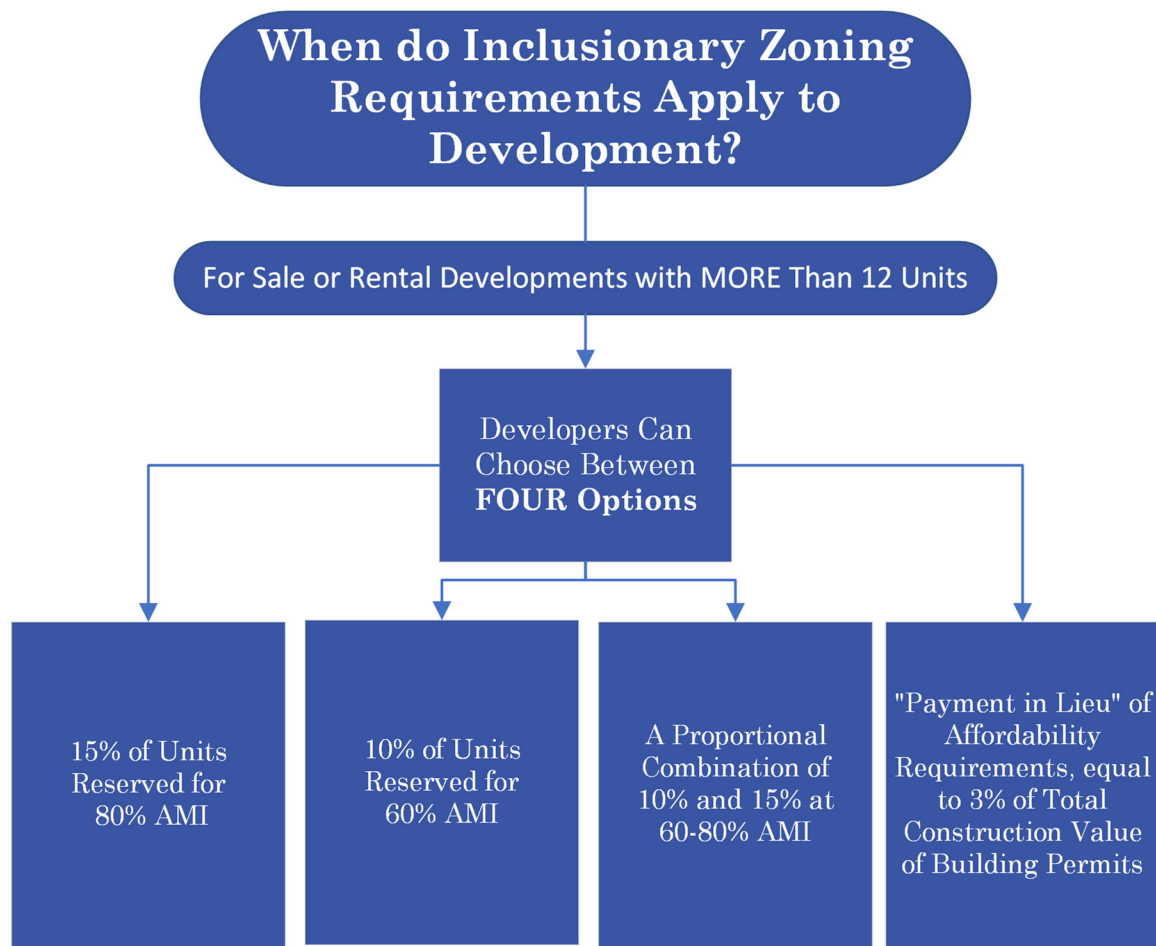
- **Zoning Reform**, which could include
  - adjusting height and density requirements
  - allowing for accessory dwelling units on single-family lots
- **Massachusetts could address the backlog of projects waiting in the Housing Development Incentive Program pipeline**, by raising the funding cap from \$10 million to \$30 million as requested earlier this year by a number of Gateway Cities.
- Worcester could also **develop an affordable housing strategy in its currently ongoing master plan process**, “Worcester Now|Next.”
- The City could **continue to invest and encourage development in its Subsidized Housing Inventory, which currently has more than 10,000 units of deed-restricted affordable housing.**
- Finally, municipal governments and policy organizations across the region could **pursue and align partnerships to create an affordable housing strategy for the area.**

In any case, the City Administration should continue to pursue policies that support the 58% of housing units in Worcester that are occupied by renters, and the more than 65% of renter-households that fall far below even 60% of Area Median Income. Neither inclusionary zoning, or simply building more market-rate units without a comprehensive housing strategy, will be enough to help. Without a successful housing strategy for all residents, Worcester's future prosperity may be impacted.

## September 20th Inclusionary Zoning Proposal by the Executive Office of Economic Development

- Any multifamily development that nets 12 or more units, either rental or for-sale, MUST
  - Restrict 15% of its units for households at or below 80% of Area Median Income, OR
  - Restrict 10% of its units for households at or below 60% of Area Median Income, OR
  - Some Combination of these two limits, AND
  - Must maintain this affordability for at least 30 years AND
  - These affordable units must be comparable quality and design to the market-rate units (including proportion of units of each bedroom size), with equal access to shared amenities, AND
  - Affordable units cannot be grouped together but spread throughout an entire complex.
- A "payment in Lieu" option allows developers to pay three percent of the total construction value of all building permits into the Affordable Housing Trust Fund, rather than build the affordable units.
- Developers may increase the number of units in the building beyond what is normally allowed for in the new building's zoning district. This density bonus is equal to the percentage of affordable units plus 5%, up to a maximum of 25% (15% in certain zones).
- Developers may reduce the requirement for a minimum number of parking spaces by 25%, provided that they submit a Transportation Management Program to the Planning Board. In addition, the City recommends that the Planning Board be able to further adjust parking and loading requirements, though such adjustments cannot result in more than a 50% reduction in parking.

Since this proposal, the City Council referred IZ to the Planning Board for a public hearing (tentatively scheduled for Nov. 9th). From there, it will move to the City Council, which would refer it to the Economic Development Committee for another hearing. Finally, it will move back to the City Council for a 2/3 vote for approval.



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