Developing Affordable Transit Neighborhoods:
Land Use Lessons for Los Angeles

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Developing Affordable Transit Neighborhoods: Land Use Lessons for Los Angeles

A comprehensive project submitted in partial
satisfaction of the requirements for the degree
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by
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Contents

List of Tables

List of Figures

EXECUTIVE SUMMARY

Background

Public investment in new transportation infrastructure, promised by Los Angeles County voters' passage of Measure R in 2008, has the power to redefine the urban landscape in Los Angeles neighborhoods. New public transit infrastructure will likely result in the enhanced desirability of surrounding neighborhoods as locations for living and working, and could encourage new development that spurs neighborhood revitalization. However, increased desirability and investment also have the potential to increase land values and make it difficult for current low-income residents to remain in these neighborhoods, or for new families with lower incomes to have access to newly revitalized neighborhoods and transit infrastructure.

The City of Los Angeles should maximize the benefits of investment in public transit through the development of transit-oriented neighborhoods that include housing with a diversity of affordability levels. In Southern California, the average household is 'burdened' by the high cost of housing (CTOD 2010). Thus the expansion of affordable housing options, especially in proximity to transit (further reducing the combined costs of housing and daily transportation) is crucial to future development in Los Angeles.

While a number of tools, including local, State, and Federal funding, are necessary to preserve and produce affordable housing, land use planning is a mechanism that local governments can use to carefully shape the ways particular neighborhoods develop into the future. The City of Los Angeles has the opportunity to use zoning policies tied to transit districts as tools to encourage the development of diverse and vibrant neighborhoods surrounding new transit station areas.

Case Studies

There are a number of cities from which Los Angeles can draw lessons on ways to use land use policy to support the preservation and production of affordable housing in transit neighborhoods. The Cities of Seattle and San Francisco, both with large populations and housing affordability issues that make them comparable to the City of Los Angeles, have gained attention for innovative affordable housing and land use strategies in transit neighborhoods.

This project involves policy research and in-depth interviews with professional participants in the policies of each city. An

analysis of the strategies the cities of Seattle and San Francisco have used to preserve affordable housing stock and encourage the production of new affordable housing proximate to transit stations leads to policy recommendations for the planning of transit neighborhoods in Los Angeles.

Key Findings

Both San Francisco and Seattle closely align affordable housing policies with transit-oriented neighborhood planning. In San Francisco, this policy is the Inclusionary Affordable Housing program, which requires market-rate housing developers to contribute to affordable housing in the same neighborhood. Inclusionary Affordable Housing is citywide, but is tailored in transit-rich neighborhoods to meet transit-oriented goals. In Seattle, Incentive Zoning offers market-rate housing developers bonus buildable area in exchange for their contribution to affordable housing.

The key findings across these cases are the following:

1. Inclusionary Housing/Incentive Zoning is an effective policy for targeting the development of new affordable housing in transit-oriented neighborhoods.

2. Allowing a number of alternatives for developers to meet affordable housing requirements allows more projects to be feasible, and allows the policy to meet a variety of housing goals.

3. Geographic and temporal flexibility are necessary to aid development feasibility and to target policies accurately to stimulate development.

4. Transferable Development Rights policies are preservation strategies that do not disadvantage owners of preserved properties, but rather provide capital to improve and maintain affordable housing.

5. Advocacy organizations and the building of coalitions are important to policy adoption and implementation.

6. Additional land use policies are necessary to meet affordable housing need in transit neighborhoods. City-wide commercial development impact fees and second units in single-family neighborhoods are examples of promising additional strategies.

Recommendations

The underlying recommendation resulting from this project is that the City of Los Angeles should use strategically crafted planning of Transit-Oriented Zones to ensure the intersection of transit-oriented land use policy with affordable housing land use policies. Specifically, this intersection should ensure that new development around transit stations includes affordable housing. Transit-Oriented Zone policy should also aim to preserve existing affordable housing stock.

Recommendation I: Adopt Inclusionary Housing in Transit-Oriented Zones in Los Angeles

- Create Alternatives for Fulfilling Inclusionary Requirements, Using Primacy of In-Lieu Fees to Avoid Legal Discrepancies
- Make Affordable Housing Contributions Mandatory, but Modest Enough to Keep Projects Feasible
- When Appropriate, Relate Inclusionary Housing to Changes in Allowable Density
- Set Affordability Targeting Based on Financial Research
- Design Inclusionary Affordable Housing in Transit-Oriented Zones Policy to be Flexible Based on a Small Number of Neighborhood Real Estate Typologies Based on Market Strengths
- Develop a Mechanism for Temporal Flexibility Within the Policy Tied to Changes in the Real Estate Market Based on a Formula Simple Enough to Allow City Staff to Update Policy Measures Regularly
- Identify Implementation Resources, Especially Aligned with SB375

Recommendation II: Adopt Transferable Development Rights in Los Angeles

- Allow All 100% Affordable Housing Buildings City-Wide to Sell Un-Used Development Rights
- Restrict Purchase of TDR to Housing Developers in Transit-Oriented Zones

Recommendation III: Advocacy Organizations Should Lead the Policy Adoption Process

- Coordinate Advocacy Organizations to Draft Transit-Oriented Zone Policies
- Work With Building Community to Identify Shared Interests and Mutually Beneficial Policies
- Grow This Coalition to Create a Constituency for the Policy that is Attractive to City Administration
- Identify and Support Advocates for the Policy within the City
- Remain Involved Post-Adoption as Champions for Implementation

Recommendation IV: Advocates and City Staff Should Consider Additional Land Use Policies to Meet Affordable Housing Need in Transit Neighborhoods

While Inclusionary/Incentive Zoning effectively encourages affordable housing development and Transferable Development Rights works to preserve existing housing, more tools are necessary to meet the need for affordable housing

in these neighborhoods.

Both case study cities levy an impact fee on commercial development. In Seattle, this is structured as an incentive for increased density, and in San Francisco, these policies exist citywide. A 2011 study in Los Angeles recommends that a citywide impact fee, so long as it is a modest proportion of total development cost, would not pose a significant impact on development feasibility (City of Los Angeles 2011). Policy makers in Los Angeles should consider adoption of this policy. One opportunity to further target transit-oriented affordable housing would be to structure this policy to collect impact -fees on commercial development citywide, but to restrict the spending of these fees to transit neighborhoods.

In addition, planners and policy-makers in both case study cities pointed to Accessory Dwelling Units (ADUs) on single-family residential lots as a potentially promising tool to encourage a greater diversity of housing options in transit neighborhoods. San Francisco and Seattle both include single-family neighborhoods with rich access to public transit, and both have pointed to policies that encourage ADUs as potential steps to add housing for people of a mix of income levels in these areas.

In Los Angeles, in which 85% of the city's residential land is zoned for single-family homes (cityLab 2010), this may be a particularly promising tool. However, as this particular policy has not been the focus of this project, more research is necessary to determine the effectiveness of this and other strategies to supplement Inclusionary Housing and Transferable Development Rights policies in the provision of affordable housing in Los Angeles transit neighborhoods.

This paper presents the research and findings in a number of sections. First, a review of the literature on transit-oriented development, its connection to affordable housing, and the importance of land use policy in this context will evidence the need for an effective package of land use policies for the development of Los Angeles' transit oriented neighborhoods. Second, an outline of the research methodology explains how policy analysis and extensive interviews were crucial in understanding land use policies and their implementation. Next, the Case Study Analysis chapter examines the two major land use policies most crucial in the case study cities: San Francisco's Inclusionary Housing policy, and its particular application to specific area plans in transit rich neighborhoods; and Seattle's Incentive Zoning policy, which is similarly tied to a process of planning for neighborhoods with transit access. In-depth analysis of San Francisco and Seattle's programs will include their impact and implementation successes. Finally, this analysis will lead to a number of policy recommendations for planning the neighborhoods surrounding Los Angeles' fixed-route transit stations.

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INTRODUCTION

The rhetoric and aims of environmental sustainability and efficient use of resources dominate planning, policy and politics in the United States today. Concurrently, a growing population produces intensive congestion and an escalating environmental impact in many American cities, especially in California's major metropolitan areas, which have experienced rapid growth that is projected to continue over the next few decades. As a result, planners and policy makers are now focusing particular attention towards strategies to reduce congestion and its environmental consequences. Increasing the use of public transit among metropolitan residents is a major strategy that cities across the country are looking towards as they aim to decrease the impacts of personal automobile travel.

Associated with these goals is the concept of 'transit-oriented development,' which refers to the encouragement of transit use and reduction of automobile-dependence via increased residential and commercial density near transit centers. Specifically, in this paper, transit-oriented development indicates focused, strategic planning for development in the areas immediately surrounding fixed-route transit systems (including rail stations and bus rapid transit). This development should be compact, and should concentrate a higher density of housing in proximity to transit stations than would be found in other neighborhoods of a city. This development should also include a mix of uses, including residential as well as employment centers, commercial services, retail locations, institutional uses, recreational facilities and other basic necessities. A mix of uses can provide a number of benefits, both social and environmental, to residents of these districts; such as creating opportunities for people to live in close proximity to where they work, and allowing residents access to services and amenities without the need to drive. While many refer to specific projects as transit-oriented developments, this paper will use the term more generally to discuss the planning and development of transit-oriented neighborhoods.

In California, the importance of pairing land use planning with transportation planning and investment is reflected in the state's Senate Bill 375 (Steinberg, 2008), which supports the achievement of the California Air Resources Board's greenhouse gas reduction targets by encouraging Californians to limit the emissions produced from personal-use vehicles. The Bill requires regional planning agencies to create a Sustainable Communities Strategy as part of their Regional Transportation Plan that integrates land use and housing with transportation investments.

In Los Angeles, the passage of Measure R in 2008 evidenced

a widespread desire to address issues related to the environment and congestion, when Los Angeles County voters approved a sales tax increase that is projected to raise forty billion dollars over the next thirty years. These funds will be dedicated to roadway and transit expansion and improvements. Included in LA Metro's planned Measure R projects is the completion of the regional rail system with four new light rail lines spanning the County.

This public investment in new transportation infrastructure has the power to redefine the urban landscape in the Los Angeles neighborhoods where new rail stations are built. The new public transit infrastructure will likely result in the increased desirability of these neighborhoods as locations for living and working, and could encourage new development that spurs neighborhood revitalization. However, increased desirability and investment also have the potential to increase land values and make it difficult for current low-income residents to remain in these neighborhoods, or for new families with lower incomes to have access to newly revitalized neighborhoods and transit infrastructure.

The City of Los Angeles must maximize the benefits of investment in public transit through the development of transit-oriented neighborhoods that include housing with a diversity of affordability levels. The high cost of land and housing development in Los Angeles has contributed to rent escalation that dramatically outpaces increases in income (Economic Roundtable 2011), leaving high-quality housing out of reach for many Angelenos. Housing is typically considered affordable when the cost of housing takes up no more than 30% of a family's monthly income. In Southern California, the Center for Transit Oriented Development estimates that the average household is 'burdened' by the high costs of these basic necessities (CTOD 2010). Thus the expansion of affordable housing options, especially in proximity to transit (further reducing the combined costs of housing and daily transportation) is crucial to future development in Los Angeles.

While a number of tools, including local, State, and Federal funding, are necessary to preserve and produce affordable housing, land use planning is a mechanism that local governments can use to carefully shape the ways in which particular neighborhoods develop into the future. The City of Los Angeles has the opportunity to use neighborhood planning as a tool to encourage the development of diverse and vibrant neighborhoods surrounding new transit station areas.

There are a number of cities from which Los Angeles can draw lessons on ways to use land use policy to support the preservation and production of affordable housing in transit neighborhoods. The Cities of Seattle and San Francisco, both with large populations and housing affordability issues that make them comparable to the City of Los Angeles, have both gained attention for neighborhood and land use planning processes that encourage affordable housing in their transit neighborhoods.

Figure 1: Transit-oriented development in San Francisco's SOMA district. Source: Flickr 2012

Inspired by the Southern California Association of Non-Profit Housing's interest in ensuring the expansion of affordable housing options in Los Angeles, as well as my own interest in local jurisdictions' abilities to use policy to shape the built environment and create vibrant communities, this research will outline and analyze the land use policies that the Cities of Seattle and San Francisco have used to preserve affordable housing stock and encourage the production of new affordable housing proximate to transit stations. Based on this case research, we may draw policy recommendations for the planning of transit neighborhoods in Los Angeles.

This paper will present the research and findings in a number of sections. First, a review of the literature on transit-oriented development, its connection to affordable housing, and the importance of land use policy in this context, will evidence the need for an effective package of land use policies for the development of Los Angeles' transit oriented neighborhoods. Second, I will outline the methodology with which I carried out my research. Next, I will provide an overview of the two major land use policies which I found to be most crucial in the case study cities: San Francisco's Inclusionary Housing policy, and its particular application to specific area plans in transit rich neighborhoods; and Seattle's Incentive Zoning policy, which is similarly tied to a process of planning for neighborhoods with transit access. Following this introduction to the policies, I will engage in an in-depth analysis of San Francisco's and Seattle's programs, including their impact, as well as their implementation. Finally, this analysis will lead to a number of policy recommendations for planning the neighborhoods surrounding Los Angeles' fixed-route transit stations.

LITERATURE REVIEW

This chapter will review previous works and research in the areas of transit-oriented development, inclusion of affordable housing in transit-oriented development, and assessment of land use policies to support affordable housing. Together, this body of literature makes apparent the need for comprehensive land use policies to guide planning for transit stations in Los Angeles to ensure development of mixed-income transit-oriented neighborhoods.

Background: What is Transit Oriented Development?

The recent passage of two landmark legislations in California that stipulate methods to reduce greenhouse gas emissions, and especially those emitted through personal vehicle travel, indicate the prioritization of environmental sustainability within State policy. Assembly Bill 32 (Nunez, 2006), or the California Global Warming Solutions Act, requires the California Air Resources Board (CARB) to establish statewide goals for the reduction of greenhouse gas emissions levels from significant sources through market mechanisms, and to adopt a plan and timeline by which this would occur. CARB is also charged with monitoring and enforcing compliance with this plan. The related Senate Bill 375 (Steinberg, 2008) supports the achievement of AB 32's targets by encouraging Californians to limit the greenhouse gases produced from personal-use vehicles. The Bill requires regional planning agencies to create a Sustainable Communities Strategy as part of their Regional Transportation Plan that integrates land use and housing with transportation investments to reduce vehicle miles traveled and achieve greenhouse gas reduction targets. The result, in many metropolitan areas, is new investment in transit, as well as a desire to maximize transit use and plan for growth by focusing population density and new development proximate to existing and future transit stations.

Planners and policy makers commonly understand this development strategy to be useful in "capitalizing on transit investments by providing improved access to transit facilities and increasing ridership...[and] encouraging more 'walkable' compact and infill development," (CA DOT 2002). Increasing transit ridership is a key goal of TOD for many local agencies (Cervero 2004). Studies show mixed evidence regarding the effectiveness of transit-oriented development (TOD) in increasing transit ridership (see Cervero 2004 for a discussion of key factors and the varying evidence regarding ridership impacts), or decreases vehicle-miles traveled by personal-use vehicles (Ewing 2007, Pollack et al 2010). However, a meta-analysis of studies with varying results re-

garding the impact of the built environment on travel patterns found that, while the impact on individual modes of travel may be smaller than commonly attributed to TOD, in combining changes in all modes of travel, transit-oriented development can result in larger impacts on travel behavior (Cervero and Ewing, 2010).

While the influence of the built environment on transit use is crucial justification for transit-oriented development, contemporary policy-makers and planners tend to accept the utility of TOD, even though some studies, as shown above, are inconclusive. State and local agencies are moving forward with plans to promote this development style. Thus, regardless of ridership results, analysis of effective strategies for developing neighborhoods oriented to transit is necessary to guide this planning trend.

Why is Affordable Housing Important in Transit Oriented Neighborhoods?

This paper is based on an underlying concept that the inclusion of affordable housing is a desirable and necessary factor in successful transit-oriented neighborhoods. A number of rationales point to the need to ensure transit-oriented development includes housing that is accessible to people from a diversity of income levels. These justifications include the economic desirability of mixed-income neighborhoods, the necessity of mixed-income housing to achieve environmental goals, and concepts of equal access to publicly funded amenities that increase land value.

Economic Rationale

Residential segregation by income and race could generate significant negative impacts on the economy of American metropolitan regions. During recent decades, employment opportunities decentralized to suburban towns and centers (especially in manufacturing sectors), as did upper- and upper-middle income and white households (Holzer 1991, Calthorpe and Fulton 2001). Although the nature of the relationship between housing and employment location and accessibility remains contested (Ellwood 1986, Kain 1992), some relationship between the two, as they relate to urban economies, seems to exist (Holzer 1991). The trend tends to produce disparities between residential and employment opportunities, in which low-wage or service-sector jobs relocate to suburbs, but housing opportunities for lower-income households do not accompany them. The resulting concentration of lower-income populations (often without personal-vehicle access) in central city neighborhoods creates a barrier for both employees and employers, and negatively effects local and regional economies (Calthorpe, Fulton 2001). Housing opportunities for lower-income employees and families in transit- and employment-rich areas are thus crucial to a successful regional economy. Current trends indicate that, due to demographic changes and high fuel costs, among other reasons, in the future employment opportunities may increasingly cluster in city centers (Brookings Institute 2010). If these projections hold true, it will continue to be important to ensure that diverse housing options provide access to these employment opportunities for low-income workers.

Environmental Rationale

The discrepancy between locations of employment and housing for low-income workers also creates an environmental rationale for including affordable housing in transit-oriented development. If transit-oriented neighborhoods are to include a mix of uses, including residential, commercial services and office or large-scale employment centers, this indicates the need for a mix of employees. Avoidance of significant commutes into the neighborhood (which would create congestion and environmental consequences that counter the sustainability goals of transit-oriented development) thus necessitates housing that is accessible to employees with a range of incomes (Calthorpe, Fulton 2001).

Further, "core transit riders" are disproportionately low-income, people of color, and renters (Pollack et al. 2010, p. 12, according to 2001 National Household Travel Survey), and are less likely to own vehicles. Maintaining these families' access to transit systems is central to maximizing transit ridership, and thus to reaching the environmental goals of transit-oriented development.

Public Investment, Land Value and Fairness

Development and maintenance of the transit systems that are the backbone of transit-oriented development requires massive public investment. These projects are often the result of a combination of Federal, State, regional, local and transit agency funding. A common rationale for the necessity of adequate affordable housing proximate to transit stations is one of fairness: affordable housing is necessary to ensure that people of all income levels have access to publicly-funded amenities.

The land-value effects of transportation investments give further significance to this argument. The literature supporting this view suggests that public investment in transit systems creates a desirable amenity and, as such, increases the value of land proximate to the transit station, resulting in increasingly costly housing. High housing prices then limit the ability of lower-income families that need or desire access to public transit to live in transit-oriented neighborhoods. This land-value effect may also result in the displacement of existing low-income residents as rents rise, and the desirability of these neighborhoods creates a heightened market for redevelopment of units aimed at high-income families.

Landis, Guhathakurta and Zhang (1994) found that among single family homes in San Francisco, for each meter closer to a Bay Area Rapid Transit (BART) station, all else being equal, the home's 1990 sale price increased by approximately $2.29. The same study found that houses in Alameda County located several blocks from a BART station sold for an average of almost 40% more than similar houses about 20 miles from a BART station. Similarly, Cervero and Duncan's study of Santa Clara County (2007) showed that commercial land values rose with increasing proximity to fixed-route transit stations. Cervero and Duncan argue that this increase in land values should be capitalized upon to leverage transit-oriented development.

However, related studies found less conclusive results. Gatzlaff and Smith (1993) found that residential properties

in the Miami region proximate to Metrorail stations experienced little or no increase in housing values. This may have been a result of the Metrorail system's limited coverage, making station proximity a less-desirable amenity. A 1992 study of housing prices near Atlanta's MARTA rapid rail system (Nelson 1992) found mixed results: transit accessibility increased housing values in lower-income U.S. Census tracts, but decreased values in upper-income areas. Thus, studies are somewhat inconclusive regarding the land value effects of public transportation investment. For this reason, the potential for displacement of low-income households likely varies amongst neighborhoods. However there clearly seems to be a relationship between transit accessibility and home values in at least some cases.

Transit neighborhoods provide an optimal opportunity to meet low-income families' needs through the provision of affordable housing for reasons besides the potential land value effects of transit investment. Discussion of housing affordability must include the cost of transit (for example, consideration of the price a low-cost home located a significant distance from the occupant's place of work must include commute time and expense). According to the Center for Transit Oriented Development (2010) the average Southern Californian household spends about 54% of the regional median income on the combined cost of housing and transportation, higher than the average of 47% spent nationally. In a highly rent-burdened county like Los Angles, the opportunity to live in close proximity to reliable transit can significantly reduce costs to low-income families. Holtzclaw et al. (2002) found that families in central areas of Los Angeles proximate to transit save on vehicle use and ownership costs an average of about $200 per month compared with the average suburban family in the region. Transit-oriented development thus represents a potentially effective method to provide housing that is more affordable to low-income families. Further, for low-income families already living in transit neighborhoods, the increased land value that can be associated with new transit amenities can result in significant displacement.

Why is Land Use Policy Necessary to Support Affordable Housing Near Transit?

Policy and regulation regarding land use – including types of uses, intensity of uses, and neighborhood design – is necessary to promote transit-oriented development that provides housing for people with a mix of income levels. Especially at the local level, careful advanced planning is necessary to ensure that transit-proximate neighborhoods experience the maximum benefit of transit investments.

The market effects of the increase in land value that is often attributed to the neighborhoods surrounding transit stations is not adequate to increase density to desirable levels, and will not necessarily encourage the inclusion of affordable housing. Economic principles of supply and demand suggest that simply increasing density around transit stations would, in the long run, reduce housing prices due to the increase in supply. However, research has shown that the land value effect is not in itself enough to dramatically increase density in transit station areas. A study of housing

prices proximate to the San Francisco Bay Area Rapid Transit system (Cervero, Landis 1999) produced mixed results. In the study, housing prices increased proximate to BART stations in some cities, but decreased in other cities. Only a few neighborhoods saw significant increases in housing density, which was related to local planning and supportive policies beyond simply investing in transit.

Without deliberate local planning, transit-oriented development can be exceptionally costly to developers. Mixed-use development is a relatively new focus in modern American cities, and can thus be risky to pursue. Further, transit-oriented development usually relies on the development or redevelopment of small urban lots. Such development tends to be 'infill' development, occurring on parcels surrounded by built-out lots, and often includes environmental remediation based on contaminants remaining from previous uses (Poticha, Wood 2009). These processes are costly and time-consuming, making transit-oriented development riskier and more expensive than the suburban development of greenfield areas that is more typical to recent American trends. Local plans that encourage and facilitate density and a mix of uses in the right neighborhoods are crucial to make transit-oriented development feasible.

Many cities and regional agencies recognize the need to plan for increasing density around transit stations and have developed land use policies to guide development within these neighborhoods. The City of San Diego was the first, in 1992, to write an ordinance calling for the development of compact districts surrounding transit stations (Dunphy et al 2004). However, even policies calling for increasingly dense development will not ensure these neighborhoods include housing of a diversity of affordability levels.

In fact, a study investigating ways that the Federal Department of Housing and Urban Development (HUD) can promote environmental sustainability and housing equity found that, in the New York City metropolitan area, most neighborhoods are either environmentally sustainable (compact, walkable and transit-oriented), or do not provide access to opportunity for low-income families. Only 11% of the neighborhoods studied in the New York metropolitan area scored higher than their metropolitan area medians for both environmental and equity indicators (Been et al 2010). The study concluded that HUD, as well as State and local agencies, must ensure that policies concentrate both on achieving environmental sustainability targets and on providing access to quality neighborhoods for low-income families. Policies focusing on just one of these goals are more likely to produce neighborhoods of concentrated poverty or the exclusion of low-income families from neighborhoods with access to a high level of amenities.

Focus on environmental goals of density must be paired with policies that ensure affordable housing development. Even if land use policies increased density of development to a supply sufficient to reduce overall housing prices in the long term, such policies would not address the short term, in which low-income families with high housing and transportation cost burdens need transit access, or may be displaced by the initial development of higher cost housing. Calthorpe and Fulton (2001) and the Center for Transit Oriented Development (2010) point out that transit

investment often occurs in central city areas that are disproportionately occupied by low-income households. The land value effect related to the desirability of transit access, paired with land use policies that encourage increased density but which lack a focus on affordable housing, incentivize the development of high cost housing that could result in the displacement of low-income households. Local policies must explicitly direct the use of land in transit-oriented neighborhoods in order to preserve existing affordable housing, prevent displacement, and encourage increasingly dense and mixed-use neighborhoods that include the production of new affordable housing.

Finally, California's alignment of SB 375 with the State Regional Housing Need Assessment (RHNA) process mandates that regions use land use policy to include affordable housing within planning for environmental targets of increased housing density proximate to transit. The California State Housing Element Law (originally enacted in 1969) requires regions within the State to allocate to local governments the responsibility to plan in their General Plan's Housing Element for an adequate housing supply to meet the needs of all economic segments of the jurisdiction's population. SB 375 requires that regional agencies align the allocation of housing units associated with RHNA with the regional Sustainable Communities Strategy that plans for sustainable future growth in the region (California Senate Bill 375 2008). The alignment of SB 375 with the RHNA process highlights the importance of aligning principles of transit-oriented development with a supply of housing that is accessible to people of all income levels.

The Need for an Effective Package of Policies for Los Angeles TOD

Circumstances in Los Angeles

In November of 2008, Los Angeles County voters approved Measure R, which will direct approximately $40 billion to highway and transit expansion and improvement in the next ten to thirty years (LA Metro). A significant portion of this funding is committed to public transit improvements and expansion via fifteen rail and rapid transit projects. This new investment in transit provides an unprecedented opportunity for redefining travel and development patterns in the Los Angeles region. It is crucial that the City of Los Angeles, as well as the County and region, use targeted land use planning to maximize the benefits of this investment through the development of transit-oriented neighborhoods that include housing with a diversity of affordability levels.

It is especially significant that this opportunity for the development of new neighborhoods in Los Angeles includes the preservation and production of affordable housing. About six in ten Angelenos live in rental housing, and many local employment opportunities offer low wages compared with average rents (Steckler, Garcia 2008). Further, during the last development cycle, over 13,000 rent-controlled apartments were lost due to conversion to condominiums or other reuse (*ibid*), and the Los Angeles Housing Department estimates that during the next five years the covenants of approximately 18,000 existing units of affordable

housing will expire (LAHD).

Similarly, the expansive size of the region, and its notorious congestion, make transportation costs a significant burden on low-income families and workers. As cited above, a 2002 study found significant savings on transportation expenses for families in Los Angeles living near central transit systems, as compared with families in suburban parts of the region (Holtzclaw et al. 2002).

The City of Los Angeles and LA Metro did incorporate transit-oriented development into the planning for some existing transit stations, however these developments have not all paid adequate attention to opportunities for affordable housing for low-income residents (for example, see Dunphy et al.'s 2004 discussion of the underperforming entertainment complex developed as a TOD at Los Angeles Red Line's Hollywood and Highland station). These past TOD trends, paired with the placement of many stations in low-income neighborhoods (see CTOD 2008) and the looming loss of existing covenanted units, all indicate a need for strategic planning for new and existing transit-oriented neighborhoods.

Past Assessments of Affordable Housing Policies and the Need for New Study to Guide Policy in Los Angeles TOD's

Many studies have assessed the effectiveness of individual land use policies aimed to produce affordable housing, however few consider specifically the context of transit-oriented development, and few assess and recommend comprehensive packages of policies to direct transit-oriented mixed-income neighborhoods.

One of the most widely analyzed affordable housing strategies is that of inclusionary zoning (often called inclusionary housing in California). Inclusionary zoning tends to be city-wide, and requires that market-rate housing developers of projects larger than a given size include a specified proportion of affordable units within the development. The size of developments to which this regulation applies, the required percentage of affordable units, and the option to instead pay in-lieu fees varies among inclusionary ordinances. Since 2000, five major American cities with populations of over 500,000 have adopted comprehensive inclusionary zoning ordinances including Boston, Denver, San Francisco, San Diego and Sacramento (City of San Francisco BLA 2012). The legal context of inclusionary zoning has changed since the 2009 decision in the case of *Palmer/Sixth St. Properties LP v. City of Los Angeles* case in which the California Court of Appeal found the setting of initial rents through inclusionary zoning to be an unfair takings and violation of developers' rights under the Costa-Hawkins Act. This factor will be discussed further later in this paper. It is important to recognize that, although this case has changed the legal framework of inclusionary zoning, careful structuring of inclusionary zoning as primarily a fee, as opposed to a setting of rents, has allowed these policies to remain legal and effective in California even since the 2009 decision.

Brown (2001) and Mukhija et al. (2009) both found inclusionary zoning to be an effective policy, however its results

changed with variables such as the option and size of the in-lieu fee and whether or not the program was mandatory. Mukhija et al. evaluated local inclusionary ordinances by comparing the number of units produced in a city over a given time through inclusionary requirements with the number produced via the Federal Low Income Housing Tax Credit, and found inclusionary zoning proved comparably effective. The primary concern of scholars disapproving of inclusionary zoning is that, by increasing the costs to developers, inclusionary requirements pass heightened housing prices on to homebuyers and renters, or result in lower profits for landowners (Ellickson 1981). Calavita and Grimes (1998) refute the claim that housing prices increase as a result of inclusionary zoning, and respond that a reduced profit to landowners is not an unfair or unreasonable outcome, as the landowners profit is not 'earned.'

This analysis would be markedly different in a context specific to transit-oriented districts. An increase in land values as a result of public investment in transit would negate unfair profit losses to landowners. In this circumstance landowners would experience higher land values due to no personal effort, and thus some diminishing of these values as a result of inclusionary zoning would not create an unreasonable burden. Brunick's (2004) analysis of inclusionary zoning in large cities may be more relevant to the Los Angeles context, in which he found that inclusionary policies did not slow development in case study cities. The analysis provides insights into the use of offsets to incentivize developer participation, as well as the inclusion of requirements for affordability within condominium conversions. Although these case studies are relevant to the City of Los Angeles based on the scale of case study cities, again the study does not account for the transit-oriented neighborhood context within which policies must be developed in Los Angeles.

Poticha and Wood's 2009 study considers effective packages of land use policies for transit-oriented neighborhoods that support affordable housing in case study cities. Such a comprehensive set of land use policies is necessary to guide the development of successful mixed-income neighborhoods in Los Angeles transit districts. The Center for Transit Oriented Development's 2008 report evidenced the need for comprehensive transit-oriented planning in Los Angeles that includes a focus on housing affordability. Helpfully, this report groups Los Angeles transit stations into nine station typologies, providing information on existing conditions and regulations, as well as priorities for stations that face a heightened risk of displacement. This information serves as a guide for the existing context within which transit-oriented development and affordable housing policy must be formulated in Los Angeles station areas.

Summary

As illustrated in this review of the literature, planners and policy-makers in the City of Los Angeles must ensure that transit investment is paired with comprehensive land use policies to guide the development of surrounding neighborhoods and to guarantee the inclusion of adequate housing for people of a mix of income levels.

Regardless of the studies of the effects of transit-oriented development on transit use, transit investment is certain in Los Angeles based on the passage of Measure R. Similarly, due not only to contemporary focus on the need to reduce vehicle miles traveled, but also as a result of California's SB 375 and changing market demands and preferences for urban lifestyles, cities and regions in California are looking to transit-oriented development as a solution to manage growth sustainably.

As municipalities and metropolitan areas shape the built environment based on proximity to transit, it is crucial to explicitly preserve and produce affordable housing. Ensuring that transit-oriented neighborhoods include housing affordable to people of a diversity of income levels is crucial for economic and environmental reasons, as well as based on concerns of access to publicly funded amenities and the potential for displacement as a result of increasing land values. Based on existing housing and transportation conditions in Los Angeles, it is especially important that new and existing transit stations are developed based on a comprehensive package of land use policies that target preservation of existing affordable housing, as well as the production of a sufficient supply of new affordable housing.

METHODOLOGY

This chapter will describe in detail the design of the research and methodology used to analyze information and reach recommendations and conclusions.

Research Question

The purpose of this research is to answer the following research question:

What are the land use policies that would most effectively support the retention of existing affordable housing and development of new mixed-income neighborhoods in rail-transit station areas in Los Angeles?

Goal

The goal of this project was to determine the most effective land-use policies to support the preservation and production of affordable housing in transit-oriented neighborhoods. Analysis of land use policies in case study cities then formed the basis for recommendations for similarly effective policies in Los Angeles' transit-rich neighborhoods.

The research tested the hypothesis effective support for affordable housing in transit-oriented neighborhoods occurs via policies that are transit district-specific, policies that set requirements carefully so as to minimize the impact on market-rate development, and are adopted via a strong campaign of community and stakeholder engagement.

Methodology

The design of this research was based upon the contextual understanding of transit-oriented affordable housing land use policies gained through the previous chapter's review of the relevant literature.

Case Studies were deployed as an appropriate method due to the nature of the research question, which attempts to explain a complex phenomenon based not on a single dependent variable but rather on an in-depth contextual understanding of the problem and solutions. The need to investigate "real-life" implementation of complex policies makes this type of qualitative empirical analysis based on case studies appropriate (Yin, 1994). The case studies are used to build implications for the design and implementation of transit-oriented affordable housing land use policies in Los Angeles. A case study method allows for an in-depth understanding and comprehensive analysis of various policy regulations, outcomes and impacts, as well as the factors

necessary to encourage the initial adoption of the policy. The development of this research involved a number of methodological steps, detailed here.

Identifying Case Study Cities

Primary to the development of the project was the determination of case study cities. It was important to choose cities that have adopted policies related to this research, and whose demographic contexts make their experiences relevant to that of the City of Los Angeles.

This identification of case study cities followed the following process, with each step further reducing the number of relevant potential study cities, eventually resulting in the two cities studied here, Seattle and San Francisco.

1. Identify the twenty-five cities in the United States with the largest populations. In 2010, the City of Los Angeles had the second highest population in the country, following the City of New York. Limiting case study cities to those with similarly large populations was one mechanism to research cases relevant to the specific context of Los Angeles.
2. Determine the comparability of housing affordability issues to those of Los Angeles, based on housing affordability indices from the National Low Income Housing Coalition's 2011 'Out of Reach' report, which measures housing affordability compared with typical wages. This step further limited potential case studies to only those with similar housing cost issues as the City of Los Angeles.
3. Consider which of these cities have fixed-route transit systems.
4. Ascertain which of these cities have adopted policies to support affordable housing in transit neighborhoods. Special attention was paid to cities that have gained some level of recognition for their policy innovation or dedication to transit-oriented affordable housing (such as through academic journal articles and awards from national housing advocacy groups).

These steps resulted in the decision to research the cities of San Francisco, California, and Seattle, Washington, as case studies from which to draw implications for transit-oriented affordable housing policies in Los Angeles. Both San Francisco and Seattle have high housing prices relative to typical wages. San Francisco's housing cost indices were incredibly similar to those of Los Angeles. While Seattle has slightly more affordable housing stock than San Francisco or Seattle, its prices put decent housing out of the reach of much of the workforce sector. Seattle also has a light rail system that is currently in the process of expansion, comparable to the Los Angeles land use and transit accessibility context.

Secondary Research: City-wide and Transit-oriented Affordable Housing Policies

The first step in the research process was to review policy documents related to affordable housing policies in the two

case study cities to understand the kinds of land use regulations that each city uses to support transit-oriented affordable housing. This policy review led to this project's focus on one primary policy in each case study city (the tiered method of Inclusionary Affordable Housing Policy through specific area planning in San Francisco; and Seattle's neighborhood-based Incentive Zoning program).

After pinpointing these two programs as the focus of the project, I researched in-depth the relevant local codes and planning documents to gain an understanding of the policy prescriptions of these programs.

Later, during the analysis process, a review of all available program evaluations helped to identify the magnitude of success of the policy (especially in terms of number of units produced and preserved in the transit district as a result of the land use policy).

Primary Research: Interviews with Involved Professionals

To gain a more complete understanding of the policies in each city, including the process of their adoption and the insights gained during their implementation, I conducted primary research by interviewing professional participants.

In each city, I interviewed:

1. Staff person of the local planning department
2. Staff person at the local housing department
3. Affordable housing developer, or affordable housing advocacy group staff
4. Market-rate real-estate developer

Interview tools can be found in Appendix C.

Analysis and Recommendations

Interviews and review of relevant policy documents and literature allowed me to undertake a comprehensive analysis of each case study. By analyzing the responses of varying professional participants, and comparing these 'on the ground' perspectives to the goals set out in policy documents, I was able to measure the effectiveness of each policy. I analyzed policy effectiveness by considering policy impact, in terms of the productivity of various alternatives to fulfill affordability requirements, the total level of affordable housing production, as well as the impact on market-rate development.

After processing and analyzing the data to come up with a cohesive understanding of the case studies, I used my findings to make recommendations for Los Angeles station areas. The development of recommendations included considerations of the ways in which Los Angeles differs from case study cities, and what policy changes would be necessary in Los Angeles compared to case study cities.

ANALYSIS OF CASE STUDIES

This chapter uses case study analysis of policies in San Francisco and Seattle to determine land use policies that would most effectively support the retention of existing affordable housing and development of new mixed-income neighborhoods in rail-transit station areas in Los Angeles. Both San Francisco and Seattle have adopted transit-oriented land use policies, which include direct targeting of affordable housing preservation and production.

San Francisco uses a specific area planning process to tailor land use planning to neighborhood-specific needs. Priority neighborhoods for specific area planning are those with access to fixed-route transit stations. These areas are thus considered prime locations for future growth, and planners address them accordingly. In these neighborhoods, detailed Inclusionary Zoning policies are strategies to ensure that significant levels of affordable housing are produced in transit-oriented neighborhoods, more so than in other areas of the City. Further, the process of planning neighborhood by neighborhood allows planners to tailor policies in such a way to avoid displacement of older, naturally affordable housing.

Seattle has adopted certain design overly guides for all transit-oriented districts, based on a radius from planned and existing light rail stations. Then, to align plans for future development with these transit-oriented goals, the City has embarked on a program of adding density in neighborhoods with access to these transit stations by increasing allowable building heights. In neighborhoods where the City has added development capacity, it has also introduced Incentive Zoning as a policy to ensure that this new housing includes units affordable to low-income families. Incentive Zoning can be used in combination with a Transferable Development Rights program, a preservation mechanism to protect and invest in existing affordable housing.

In each of the following case study sections, I will discuss and analyze the details of the affordable housing land use policies each city uses as part of its transit-oriented planning. Next, a recounting and study of the process involved in the designing of each city's policies will shed light on the strategies necessary to adopt each program. Analyses of the impacts of the policies will first measure effectiveness in terms of affordable housing production, and second will consider the impact of each on project feasibility for market-rate developers. Critiques of the policies from diverse participants will allow an understanding of some of the successes and failures of each city's policies. Lastly, a

description of other policies in each city that support affordable housing development will paint a more complete picture of how affordable housing is produced and preserved in case study cities.

San Francisco's Inclusionary Housing in Specific Area Plans

Introduction: Housing Need in San Francisco

The City of San Francisco, California, is an incredibly desirable, and thus expensive, place to live. The City is the financial hub of Northern California, and is the centerpiece of the San Francisco Bay Area. San Francisco is closely linked (both geographically and economically) with the Silicon Valley, known for its innovative technological productivity and prosperous economy. San Francisco boasts a beautiful and scenic geography, pleasant climate, and a rich cultural history. The City is also geographically restricted from expansion: water surrounds it on three sides, and other urban areas on the fourth.

Together, these factors contribute to both population growth and escalating housing prices. According to the Housing Element of the City's General Plan, over 40% of renter households and nearly 40% of owner-occupied households spend more than 30% of their income on housing (City of San Francisco BLA 2012).

California's Regional Housing Needs Allocations process requires that regional Councils of Governments provide local governments with information regarding the amount of new housing production, at varying affordability levels, for which the jurisdiction is responsible over a given future period. Table 1 shows the number of housing units in each

economic segment allocated to the City of San Francisco by the Association of Bay Area Governments from the years 1999-2006, as well as actual housing production during the same period.

Table 1. San Francisco's 1999-2006 RHNA Goals and Actual Production

Household Income (% Area Median Income)	**RHNA Allocation (Number of Units)**	**Actual Production (Number of Units)**	**Percent of Allocation Produced**
Very Low (<50% AMI)	5,244	4,342	83%
Low (50-79% AMI)	2,126	1,113	52%
Moderate (80-120% AMI)	5,639	725	13%
Market (>120% AMI)	7,363	11,293	153%
Total	**20,372**	**17,473**	**85.8%**

Source: City of San Francisco BLA Performance Audit 2012

This data evidences the abundance of market rate housing that developers produce in San Francisco, as well as the City's significant investment in housing for residents in the very low income category. However, the City did very poorly in providing new housing for moderate-income residents (although this demographic may be able to find older housing options), and remains significantly below its production targets in all below market rate housing.

Inclusionary Housing in San Francisco's Transit Neighborhoods: Introduction and Impetus for the Program

San Francisco's Planning Commission adopted San Francisco's Inclusionary Affordable Housing Policy in 1992 (SF Planning Code Sec. 415) as a citywide strategy to encourage affordable housing production by market rate developers. The justification for the ordinance is that the new residents of market rate housing increase the demand for services, and thus employees, in the City of San Francisco, and increasing market-rate housing without simultaneously increasing in below-market-rate housing forces these new employees to live in inadequate housing, unaffordable housing, or live outside of the City (*ibid*). In 2002, the San Francisco Board of Supervisors adopted an ordinance reflecting these goals. The ordinance required developers of projects with ten or more residential units to restrict ten percent of these units for deed-

restricted affordable housing, or to provide fifteen percent of these units as affordable housing in a different location. The set-aside requirements were slightly higher for those developers seeking a conditional use permit for their projects. In 2006, Supervisors amended the ordinance to apply the requirements to all projects of five units or more, increased the off-site set aside to a minimum of twenty percent, and provided the option of instead paying an in-lieu fee (City of San Francisco BLA 2012).

The City Planning Department and the Mayor's Office of Housing both share responsibility for administering different portions of the City's Inclusionary Affordable Housing Policy. The Planning Department reviews projects throughout the entitlements process, including determining the requirements that a developer must meet to move forward with the project, and incorporating these agreements into the Conditions of Approval forms for the project. The Planning Department also designates a location if a developer chooses to provide the units off-site (this option will be discussed in further detail below), or is responsible for approving the project's design if the developer will build the units within the proposed project. The Mayor's Office of Housing is responsible for setting the rent or sale prices for the units, marketing units and determining eligible applicants, and monitoring ongoing compliance by the developer, as well as forecasting and publicizing future availability to maintain occupancy in the affordable units (City of San Francisco BLA 2012). In the Fiscal Year (FY) 2010-11, the City spent approximately $631,500 to administer the program (*ibid*). Federal Community Development Block Grants used to pay for the administration of the policy, however after recent changes to the Federal grants the local Affordable Housing Fund (which will be described further below) is now responsible for covering administrative costs.

In 2002, as a result of significant population growth in the City since 1990 and with projections of increasingly rapid future growth (City of San Francisco Better Neighborhoods Program Website), the City of San Francisco Planning Department began the Better Neighborhoods Program. The Better Neighborhoods Program is a strategy of the Planning Department for creating specific area plans to focus and guide growth in appropriate neighborhoods in the City. These neighborhoods have capacity for increased residential development and employment opportunities, and have rich access to San Francisco's extensive public transit system (which includes the Bay Area Rapid Transit regional rail system, as well as the Muni Light Rail system and bus service). The Planning Department approaches these neighborhoods individually in order to create comprehensive strategies that will encourage growth in appropriate places by linking land use with transportation and promoting vibrant mixed-use neighborhoods.

In addition to the tiered Inclusionary Housing policy that the rest of this chapter will analyze, the specific area plans for transit-rich neighborhoods involved a number of planning code changes. Such changes included unbundling parking from residential development, and changing parking minimums to parking maximums (with a maximum of .75 parking spaces per unit in some zones, and 1 space per

unit in others). These land use changes may or may not indirectly contribute to housing affordability by lowering development costs (this has not been proven). However it is important to note the comprehensive package of changes designed to promote not only affordable housing in these neighborhoods, but also walkable and transit-oriented communities.

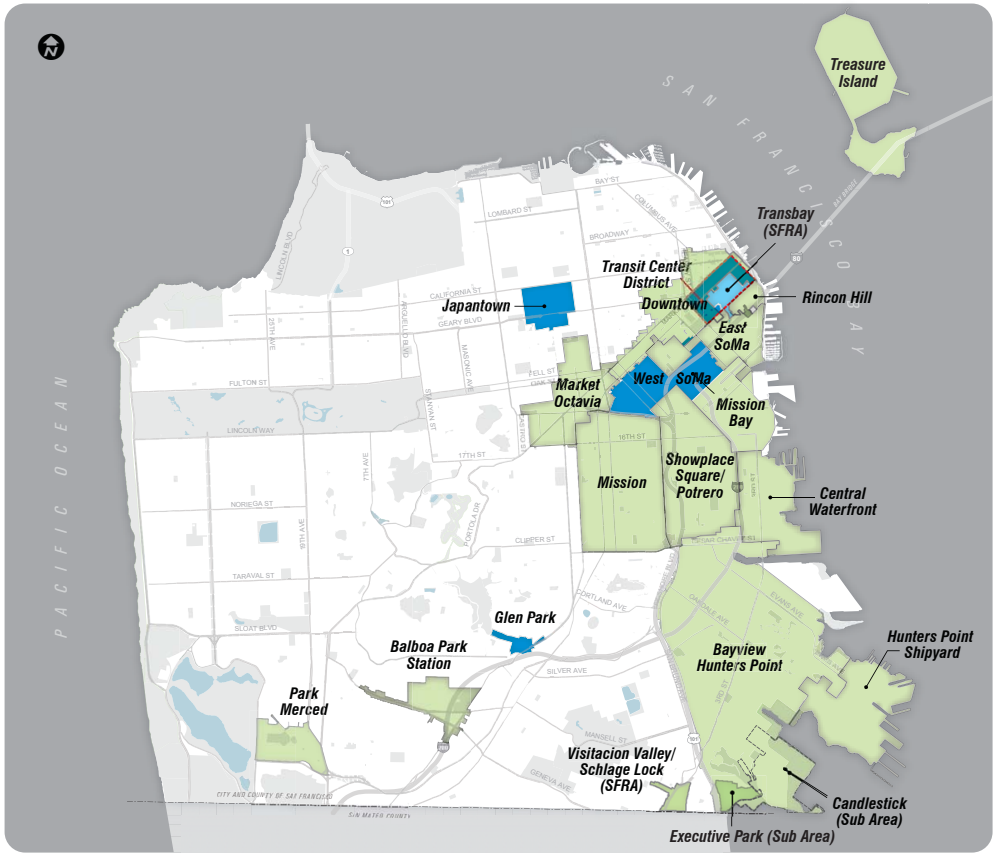
Planners working on specific area plans in these neighborhoods have used tweaks in the citywide inclusionary housing program to require a higher set-aside requirement as part of a "value capture scheme" in plan-areas that have been up-zoned to allow higher density development (interview with S. Dennis-Phillips). The program was designed to try to maximize the affordable housing return in specific neighborhoods without being so aggressive as to make development in the neighborhood unfeasible (*ibid*).

The remainder of this chapter will focus on San Francisco's Inclusionary Housing requirements as they relate to specific area plans within the Better Neighborhoods Program.

Program Details

The specific neighborhood planning process through the Better Neighborhoods Program created new inclusionary housing requirements in many San Francisco neighborhoods, based on the amount of development potential added through new zoning policies. Because these requirements are set by neighborhood, I will often refer to the plans for individual San Francisco neighborhoods when discussing detailed requirements.

Figure 2: City of San Francisco Neighborhoods with Specific Plans



Source: San Francisco Department of City Planning 2012

In all neighborhoods, the inclusionary housing requirements are not voluntary. In order to receive permits and approval for the development of market-rate housing projects of five units or more, private developers must demonstrate their plans to meet the inclusionary housing requirements set in the specific area plan.

Each of the specific area plans in transit-rich neighborhoods has taken similar actions to encourage new development, including affordable housing development. In 2008 the San Francisco Planning Code was amended to adopt a number of transit-oriented zoning districts to increase development capacity and promote affordable housing development. These include Neighborhood Transit Districts, Residential Transit-Oriented Neighborhood Districts, and other districts particular to planning areas.

The majority of the following discussion will use the San Francisco Eastern Neighborhoods Area Plans as an example the way specific area plans work in San Francisco. One larger area plan guides development in all of the Eastern Neighborhoods (which includes the Mission District, the Central Waterfront area, East South of Market and the Showplace Square/Potrero Hill neighborhood, pictured in Figure 1), and some special zoning districts vary within the Eastern Neighborhoods (for example, while the Eastern Neighborhoods Plans direct development both in East South of Market and the Mission District, some zoning policies function differently in these two neighborhoods).

Set Aside Requirements

In the specific area plan for San Francisco's Eastern Neighborhoods, the new zoning designation of Urban Mixed Use zones was applied to encourage higher density development of housing and commercial services in those areas formerly zoned for Light and Heavy Industrial and Heavy Commercial uses. Before the Eastern Neighborhoods Plan re-zone, market-rate housing was prohibited in these zones except by conditional use permit. The new Urban Mixed Use (UMU) zones allow market-rate housing by-right, as long as developers meet the Inclusionary Affordable Housing requirements set in the specific area plan (City of San Francisco Planning Department Implementation Document 2008). It is primarily in these Urban Mixed Use zones that new zoning policies added development capacity. Thus, inclusionary housing requirements are highest in these zones, depending on allowable densities. Table 2 shows the tiered requirements based on new zoning policies in the Eastern Neighborhoods plan, and compares these requirements to the lower requirements for projects elsewhere in the City.

Table 2. On-Site Inclusionary Requirements: Citywide vs Eastern Neighborhoods

Location/Zoning Designation	**Inclusionary Set-Aside Requirement**
City-wide	15%
Eastern Neighborhoods/UMU Zones	
Remain at Current Height	18%
UMU Rezoned; 1-2 Story Height Increase	20%
UMU Rezoned; 3+ Story Height Increase	22%

Source: Eastern Neighborhoods Area Plans, San Francisco Planning Department, 2008

The Planning Department proposed these requirements based on a financial analysis conducted by Seifel Consulting Inc. in 2008. The analysis compared the value of land before zoning changes to land value after increasing development capacity in order to determine the value created by zoning changes, and calculated the potential amount that developers could spend on public improvements and affordability requirements before projects become infeasible or unattractive (Seifel Consulting Inc., 2008). Of the added value created through increasing development capacity, the San Francisco Planning Department intended for approximately half to be captured by developers as an incentive for stimulating new development in the neighborhood, and about half to become public (interview with S. Dennis-Phillips).

Tiered inclusionary housing requirements in the Eastern Neighborhoods Area plans in accordance with the goals, allowable densities, and feasibility of developing in a particular neighborhood evidence the power of specific area planning, and the potential flexibility of inclusionary housing requirements, to provide affordable housing in transit neighborhoods.

Affordability Targeting and Unit Requirements

Both in the citywide Inclusionary Affordable Housing Policy, and in the more fine-grained requirements in specific area plans, the levels of affordability of inclusionary units are set to ensure that developers target populations in need of deed-restricted housing.

Inclusionary affordable units available for rent must be deed-restricted for rents that are affordable (no more than 30% of monthly income) for households making less than 60% of the median income for the area, considered as the low- to very-low income category. Units created through the inclusionary program before a 2007 revision to the City's monitoring pro-

cedures must be deed-restricted to remain affordable for 50 years, unless otherwise specified during the approval and permitting process. Affordable units built through the program after this 2007 revision must have restricted rents for the life of the project (City and County of San Francisco, 2007). Inclusionary units for sale must be deed-restricted as affordable for households with income equal or less than the median for the area (City of San Francisco BLA 2012). These units must be restricted in their re-sale prices for the entire life of the project, unless otherwise specified in the permitting and approval of the project (City and County of San Francisco 2007).

The policy decision regarding affordability requirements is more complicated than it may seem, as competing goals and values for the inclusionary housing program exist among participants involved in the program. For example, many advocates for affordable housing believe that the inclusionary housing requirements, especially for ownership opportunities, are targeted at households with income levels that are too high, and do not serve those most in need of housing (interview with E. Stivers). At the same time, although City planners are aware that the program does not target those most in need (for example the very-low income populations making between twenty and sixty percent of the Area Median Income), they have also witnessed a gap between the label of 'moderate income' and people's actual ability to buy a home. That is, many workers make between 120-150% of the Area Median Income, but 150-160% of AMI will buy a market rate house in San Francisco (interview with S. Dennis-Phillips). Thus decisions regarding affordability targeting can be incredibly complex as policy-makers attempt to balance a desire to provide housing to those most in need, as well as to moderate-income workers, while maintaining the potential feasibility of projects for developers.

Although the City does not usually set requirements regarding unit size or type, the regulations in specific plan areas typically require that a minimum of 40% of all units include two bedrooms, or 30% include three bedrooms (interview with S. Dennis-Phillips). These requirements ensure that units are not simply affordable because they are small, and will be appropriately sized for occupancy by families.

Figure 3: Transit-oriented development in San Francisco's SOMA in the Eastern Neighborhoods. Source: Flickr 2012

Alternatives to Fulfill Inclusionary Requirements

Developers can meet the inclusionary housing requirements using a number of mechanisms other than constructing affordable units within the proposed project. Table 3 shows the various levels of set-aside required of developers for each potential mechanism with which they can meet inclusionary housing requirements in the tiered zones of the Eastern Neighborhoods specific area plans. An analysis of each alternative method follows.

Table 3. Options for Inclusionary Requirements in Eastern Neighborhood UMU Zones

Development Capacity	**On-Site Housing Requirement (Proportion of units to be built affordable)**	**Off-Site/In-Lieu Fee Requirement (Proportion of units for which affordable fee is paid)**	**Middle Income Alternative (Proportion of units to be built affordable)**	**Land Dedication Alternative (Proportion of site to be dedicated to City)**
Remain at current height	18%	23%	40%	35%
1-2 story height increase	20%	25%	50%	40%
3+ story height increase	22%	27%	60%	50%

Source: City of San Francisco Planning Department Implementation Document, Dennis and Rich 2008

- In-Lieu Fees

The citywide Inclusionary Affordable Housing Policy allows developers to pay a fee to the City in-lieu of providing housing on-site. Similar to the on-site requirements, the requirements are increasingly strict in many specific plan areas, including in the Urban Mixed-Use re-zoned areas of the Eastern Neighborhoods plans, as shown in Table 3.

Developers are required to pay the in-lieu fee on a percentage of their total units, determined by the Inclusionary Housing requirements. City-wide, the in-lieu fee is set to require payment on 20% of a project's units. This percentage is higher within special districts and specific plan areas. As indicated in Table 3, in the Eastern Neighborhoods this percentage is significantly higher, and increases based on the level of density added during the re-zoning process. The fee schedule is based on unit size.

Table 4: In-Lieu Fee Schedule by Unit Size

Unit Size	**Fee**
Studio	$179,952
1 bedroom	$248,210
2 bedroom	$334,478
3 bedroom	374,712

Source: City of San Francisco Mayor's Office of Housing website

A developer building a 100-unit project of 1 bedroom apartments in an area that experienced a 1-2 story height increase in the Eastern Neighborhoods UMU zone would be required to pay this fee on 25 units (totaling 25 x $179,952, or $4,498,800). If the project included a mix of unit sizes, the fees are set proportional to that mix.

Developers pay Inclusionary Housing fees into the citywide Affordable Housing Fund. The City then leverages this Fund with other funding opportunities to provide resources to subsidize housing units or facilitate the development of affordable housing units by non-profit developers. Between FY 2002-03 through FY 2010-11, developers of residential projects paying in lieu fees, as well as jobs-housing linkage fees resulting from the development of commercial and office buildings, have together deposited nearly $96 million in the Fund (City of San Francisco BLA 2012). In the Eastern Neighborhoods specific plan area, the City is required to spend a percentage of residential in-lieu fees on the acquisition and rehabilitation of affordable units that may be nearing the expiration of their deed restriction, or of buildings that are 'naturally' affordable (due to their age) and can be rehabilitated and turned over to a non-profit housing manager to maintain and monitor as deed-restricted affordable housing (interview with S. Dennis-Phillips).

Developers must typically pay in-lieu fees at the time of obtaining building permits for the project in question. However, based on the recent lack of interest in development as a result of a slow national and local economic climate, the City placed a temporary moratorium period during which developers can defer fees until the time of achieving occupancy permits. This moratorium is only in effect in certain specific areas in which the City most hoped to stimulate new development. While the effect of delaying the timing for paying fees is often only marginally beneficial to developers, it can still help improve the feasibility of projects by reducing the amount of time a developer must pay interest on initial loans before receiving revenue from the completed project (Marc Babsin, Interview).

In 2010, after the *Palmer/Sixth St. Properties LP v. City of*

Los Angeles case in which the California Court of Appeal (2009) found the setting of initial rents through inclusionary zoning to be an unfair takings and violation of developers' rights under the Costa-Hawkins Act, the City of San Francisco restructured its Inclusionary Affordable Housing policy to make the in-lieu fee the primary option for developers to meet affordability requirements (City of San Francisco BLA 2012). Developers may still build units on-site if desired, after meeting certain conditions. This restructuring has changed the way San Francisco's Inclusionary Affordable Housing program works, but may help to keep the City safe from lawsuits that would use the *Palmer* case as a precedent.

- Off-Site Units

In the Urban Mixed Use re-zoned area of the Eastern Neighborhoods specific area plans, developers also have the option of constructing units off-site, provided the chosen location is within one mile of the initial project.

- Middle-Income Units

Developers with sites that are defined as infill parcels within Urban Mixed Use districts in the Eastern Neighborhoods plan area can opt to provide a larger proportion of on-site units within the project at a slightly higher rent level. If developers agree to this higher set-aside requirement, they may restrict the deeds of these units to rent or sell to households making between 120-150% of the Area Median Income (City of San Francisco Planning Department Implementation Memo 2008). So far, few if any developers have taken advantage of this option (interview with S. Dennis-Phillips). However, it does add flexibility for developers looking for feasible projects in specific plan areas, and may in the future help to address the gaps in affordability targeting mentioned above.

- Site Dedication

In the Eastern Neighborhoods and Market-Octavia specific plan areas, developers have the option of meeting their inclusionary housing requirements by dedicating a portion of the site to the City. In this case, the Mayor's Office of Housing provides the land received at significantly reduced costs to non-profit affordable housing developers.

Comparative Analysis of Inclusionary Alternatives

There are a number of potential benefits, as well as drawbacks, associated with each alternative for satisfying inclusionary requirements. An interpretation of the benefits of each method depends upon one's objectives for the Inclusionary Affordable Housing program.

The mixed-income alternative, although little used so far, has some significant potential benefits. These include filling the gap in housing availability for moderate-income households discussed above. Further, the ability to charge slightly higher rents could make feasible some projects that, with the requirement to provide housing at much lower rents, may have been infeasible. However, a number of advocates

for affordable housing believe that the affordability targeting in inclusionary housing requirements is already too high, and should instead focus on households with very low incomes. Thus these advocates are likely to not see the benefit in the option to target moderate-income households. In addition, it is worth noting that this definition of moderate income (between 120-150% AMI) is quite different than the definition of moderate income housing addressed by ABAG's RHNA process, which shows a significant need for housing in affordable to households making 70-120% AMI. Table 1, above, shows that housing for those making greater than 120% of AMI is produced at the highest rate in San Francisco, indicating a potentially problematic relationship between differing definitions of 'moderate' income.

Many affordable housing advocates place a high value on mixed-income projects, created when developers meet their inclusionary housing requirements by providing deed-restricted units on-site. They argue not only for the inherent benefits of mixing economic segments of a city's population, but also that by requiring market-rate developers to provide these units on site, they may be completed faster than it would be possible to dispense and utilize funds from the in-lieu fee alternative. In addition, inclusion of affordable units in market-rate projects may allow low-income households access to housing in premium locations. Further, there is concern that the option to pay in-lieu fees in specific plan areas may result in the primacy of market-rate housing in transit-rich neighborhoods, with affordable housing provided elsewhere, where land may be cheaper (City of San Francisco BLA 20122012).

However, other affordable housing professionals have concerns that the affordable units provided as part of market-rate development projects do not target affordability deeply enough, and thus do not fulfill the needs of the neediest households in San Francisco (interview with E. Stivers). The affordable housing produced through the spending of in-lieu fees typically is directed to non-profit affordable housing developers. These non-profits tend to be mission-driven to provide housing for households making less than half of the area's median income (City of San Francisco BLA 2012). In addition, the dispensing of these fees to public or non-profit housing developers allow the targeting of more specific populations, such as supportive housing for seniors or recently homeless.

Further, some affordable housing advocates and providers believe that market-rate developers and management companies are not practiced in the effective monitoring and management of below-market-rate units. They worry that deed-restricted units in market rate projects often go unoccupied for periods of time simply because of the difficulty of monitoring and marketing them (interview with E. Stivers).

These advocates thus see the need for preserving sites for projects that include only below-market-rate housing units as the most important strategy for the provision of affordable housing in San Francisco (*ibid*). In this context, the option to dedicate a portion of a developer's site offers an attractive potential solution. The San Francisco Planning Department estimated that approximately 500 new units could be created through site-dedication just within

the Eastern Neighborhoods plan area, and that this policy could allow the Mayor's Office of Housing to provide nearly twice as many affordable units as would be developed through on-site inclusionary housing (City of San Francisco Planning Department Implementation Document 2008). In cases in which site dedication is not possible, the requirement that a portion of in-lieu fees paid within the Eastern Neighborhoods must be dedicated to site or building acquisition could help facilitate this priority of acquiring sites for stand-alone affordable developments.

A performance audit conducted by the San Francisco Budget and Legislative Analyst (2012) expressed concern that the option to defer the payment of in-lieu fees until the point of achieving occupancy permits significantly slows the construction of affordable housing. However, given the fact that this deferral can make a difference to feasibility (interview with M. Babsin), it may preferable to delay the construction of affordable units in order to enable projects to be feasible, without which the fees would not be collected at all. Thus, the option to defer payment appears a worthwhile one.

In sum, each of the options for fulfilling inclusionary requirements has benefits and weaknesses depending on one's primary values for new affordable housing construction. Interviews with a market rate developer in San Francisco revealed that there is no singular option that is most financially attractive for developers. Rather, the various requirements can interact with other aspects of the project's finances differently depending on any number of circumstances. For example, the same developer found it most cost effective to pay over $16 million in in-lieu fees for one project, but took advantage of financing options in another project in the same neighborhood that required the provision of on-site affordable housing (interview with M. Babsin). In addition, a joint statement by the Non-Profit Housing Association of Northern California and the Home Builders Association of Northern California similarly emphasizes the importance of a number of flexible alternatives to meet affordable housing goals, as well as the needs of market rate developers (NPH HBANC 2005). Given the emphasis on the importance of flexibility to support project feasibility, maintaining a number of these carefully chosen alternatives helps achieve the largest number of objectives for affordable housing, while allowing more projects to remain financially feasible.

Avoiding of Displacement and Preserving Affordable Units

Planners involved in the process of creating specific area plans for transit rich neighborhoods are aware that increasing development capacity by up-zoning, and promoting high-quality transit-oriented neighborhoods, had the potential to increase land values. Increasing land values can disadvantage low-income households not only because new developments are likely to produce high-cost housing, but also because it can result in the displacement of existing residents. This can happen in a number of ways: landlords may simply raise rents based on the new attractiveness and infrastructure in the neighborhood knowing that they can attract higher-income households; or landlords may be

enticed to sell their land and buildings to developers who would demolish housing that is naturally affordable based on its age in order to take advantage of increased allowable densities to build higher-revenue projects.

San Francisco has citywide policies regarding rent control and limiting conversion of rental housing, which will be discussed later in this chapter. However planners also built in some protections against this kind of displacement particular to specific area plans. For example, in the Eastern Neighborhoods specific area plan, as mentioned above, the City is mandated to spend a portion of the in-lieu fees it receives from market-rate developers on the acquisition and rehabilitation of naturally affordable housing stock. This allows the City to ensure this housing remains in quality condition, and to make these properties available to non-profit housing organizations that will manage the units as deed-restricted affordable housing.

In the Mission Street specific plan area, the San Francisco Planning Department initially proposed increasing height limits in the entire neighborhood by two to three stories (interview with S. Dennis-Phillips). However, planners realized that this kind of across-the-board up-zoning would likely displace small local businesses and naturally affordable housing stock. To avoid this problem, the Planning Department is proposing a complex block-by-block re-zoning of the neighborhood that would likely take place in 2013. The Department would avoid changing zoning on blocks in the neighborhood that include older buildings containing small local businesses and naturally affordable housing. To encourage neighborhood growth without changing the development capacity of such blocks, planners would add even more density to blocks with larger parcels that could be redeveloped without causing displacement of homes and businesses (*ibid*).

This detailed neighborhood-level approach to planning is admirable and incredibly comprehensive, and is being proposed with the important intention of preventing displacement. Unfortunately, it has the potential to disadvantage some property owners who may have been able to benefit from re-zones to their properties. Transferable Development Rights is a policy that will be discussed in great detail in later chapters of this report, and so I will not explore the concept fully here. However this process, which allows property owners to sell unused development potential to a market-rate developer (giving the developer increased development capacity on his or her site, while providing an infusion of capital to the property owner which could be used for building improvements), may have been a more useful one to pursue here. This would allow the owners of small or ageing buildings to capture some of the benefits of neighborhood change while still preventing displacement of existing residents.

Process of Program Design

The specific area planning process is time-consuming and complicated. It requires detailed analysis of neighborhoods, close work with the community and stakeholders to develop goals and strategies by neighborhood, and en-

vironmental analysis before approaching the time of adoption. While San Francisco planners faced numerous obstacles in the process of program design and adoption, they were ultimately successful in developing comprehensive neighborhood plans that include innovative strategies for the production and preservation of affordable housing. Understanding the process involved in adopting this policy is crucial to an analysis of its replicability.

As discussed above, the impetus for the specific area planning process was a result of projections for significant growth in the City, and the desire to focus this growth in appropriate neighborhoods with rich access to public transit. The motivations for incorporating comprehensive affordable housing strategies into these plans included an awareness of San Francisco's significant need for affordable housing, as well as a desire to re-capture for public benefit some of the value that would be created by zoning changes and neighborhood improvements.

Approach

San Francisco planners' first step in developing the specific area plan for the Eastern Neighborhoods was to work with the community, including residents and other stakeholders, to develop neighborhood goals and planning strategies to achieve those goals. Planners developed a number of proposed land use options, which they brought to community workshops to guide discussions towards the development of a plan (interview with S. Dennis-Phillips).

However, these options had not already undergone California Environmental Quality Act (CEQA) analysis. For the first specific neighborhood plan, the Market-Octavia area plan, after deciding upon land use alternatives in numerous community workshops, simply acquiring funding for environmental analysis took between two and three years. This was followed by another year and a half for a final Environmental Impact Report (EIR) and plan adoption. Though subsequent plans proceeded more quickly, they still took on average between five and seven years each, from the time of initial community workshops to adoption (interview with S. Dennis-Phillips). These processes each involved workshops in the community, then a yes or no certification by the San Francisco Board of Supervisors, with the details of plans worked out and adopted into Planning Code by the Planning Commission.

Community Participation

The process of community participation was extremely important to developing specific area plans, both in order to identify plans that would work in the neighborhood, but also to ensure public approval and the eventual adoption of the plan.

Throughout the long process of identifying land use alternatives and undergoing environmental analysis for the preferred scenario, the planners worked with the community to build champions of the plan. This community education process was crucial, and created a different mindset about development in the plan areas than in other San Francis-

co neighborhoods. As a result, it can actually be easier to gain project approval in specific plan areas, where people are well versed in the importance of focusing growth in appropriate places. (interview with S. Dennis-Phillips). The lengthy time period for CEQA analysis did result in some participants growing fatigued with the process. And, as new residents moved into the neighborhood city planners sometimes had to begin the public education process anew to make sure residents felt comfortable with the plan. However, this long process also allowed a more in-depth public education process. For example in one of these neighborhoods, Visitacion Valley, neighbors were initially wary of buildings taller than four stories. Planners engaged directly with these fears, and led residents on tours of other neighborhoods in San Francisco in which slightly higher buildings added to, rather than detracted from, the vibrancy of the area. At the end of this process, residents tended to embrace plans for increasing density in their neighborhoods (interview with S. Dennis-Phillips).

Planners codified these neighborhood champions of the plans by creating a Citizens Advisory Committee. The primary duty of this committee is to decide how to spend impact fees, and to weigh in on other aspects of plan implementation (*ibid*).

In hindsight, some planners recognize that it may have been beneficial to work more pro-actively in the beginning of the process to build neighborhood champions of specific area plans (*ibid*). Currently, planners are working on a specific area plan for the neighborhood surrounding the Central Subway station area. These planners are working more proactively than was typical in earlier specific area plans, including knocking on doors and making presentations at the meetings of existing community organizations, rather than simply holding public workshops.

A major barrier to the production of below-market-rate units can be the unwieldy process of project approval, in which public hearings often draw out neighbors who are resistant to increasing density or affordable housing development (interview with S. Hauswald). The public education involved in a specific area planning process, and importance of building champions of the plan within the neighborhood, may thus be an important technique in the production of affordable housing.

It is also important to note that other non-resident groups played important roles in the specific area planning process. In the San Francisco Bay Area, the Great Communities Collaborative is a coalition of a number of nonprofit organizations all with interests in comprehensive and equitable planning for transit station neighborhoods. The Collaborative offers technical support to cities and advocates for the development of plans for transit-oriented neighborhoods, including specific area plans in San Francisco like the Eastern Neighborhoods Plans (interview with E. Stivers).

Impact of Inclusionary Zoning in Transit Neighborhoods: Unit Production

The recent adoption of San Francisco's specific area plans in 2008, and the slow economic context into which they were

adopted, means that not enough time has passed to be sure of the long-term effectiveness of these policies. Monitoring the production and preservation of affordable housing units into the future as the development cycle gains momentum will be important to truly gauge the success of tailoring San Francisco's Inclusionary Affordable Housing policy to transit neighborhoods.

However, since the adoption of these planning policies in 2008 through 2011, just over 19% of the new housing produced in transit-oriented districts are deed restricted affordable units. Nearly 40% of these units were built through the Inclusionary Affordable Housing Policy (City of San Francisco BLA 2012). Table 5 shows slightly finer grained detail regarding the proportion and type of new affordable housing within transit neighborhoods.

Table 5: Market-Rate/Affordable Housing Produced in Transit Neighborhoods Since 2008

Year	Total New Units	New Market Rate Units	New Affordable Units - Inclusionary	New Affordable Units - Other Source	Total New Affordable Units	Percent Affordable Units	Percent of Affordable Units from Inclusionary
2008	0	0	0	0	0	n/a	n/a
2009	3	3	0	0	0	n/a	n/a
2010	123	99	9	15	24	19.5%	37.5%
Total	**126**	**102**	**9**	**15**	**24**	**19%**	**37.5%**

Source: City of San Francisco BLA 2012

Clearly, not enough time has passed, or development has occurred, to be sure of the effectiveness of the program. However looking at broader data regarding San Francisco's Inclusionary Affordable Housing Policy, and comparing such data to the table above, shows strong potential for the success of this program.

During the time from FY2002-03 through FY2010-11, the inclusionary housing policy resulted in market rate developers producing a total of 1,050 affordable units on-site within their projects. Nearly 300 of these units were deed restricted affordable rental housing (restricted to be affordable for households earning 50-120% AMI), and about 750 were units sold at affordable prices to households in the same income category. These on-site affordable units represent just over 10% of the affordable units developed during that period (City of San Francisco BLA 2012). The payment of in-lieu fees to meet

inclusionary housing requirements resulted in the deposit of about $40 million in the City's Affordable Housing Fund, and resulted in the development of an estimated 154 units.

Together, the affordable units developed as a result of the Inclusionary policy represent 15% of the total affordable housing units financed by local sources (including the Mayor's Office of Housing and the San Francisco Redevelopment Agency) during the same period (*ibid*).

Affordable units from inclusionary policies represented just less than 10% of the total affordable units built in San Francisco during that period. While this initially appears to be a small proportion, it is important to note that this percentage of the total number of affordable housing units produced is comparable to the number of units produced by the combination of the Federal CDBG, HOME and HOPWA grants (at 10% of total affordable units), and is not far behind all State level sources combined (at 19%). This comparison shows the citywide Inclusionary Affordable Housing Policy to be similarly productive, in terms of the number of affordable units produced, as some of the largest major sources that fund affordable housing. For this reason the program can be regarded as an effective tool in the production of affordable housing units.

Further, in this context, the fact that affordable units built as a result of the Inclusionary Policy in transit neighborhoods represents nearly 40% (see Table 5) of all new affordable housing units built in these neighborhoods is striking: the proportion is much greater than the proportion of affordable housing production that is a result of Inclusionary policies citywide (10%). This indicates that the stepping up of these requirements through specific area plans is successfully increasing its productivity in transit neighborhoods. For this reason, I would argue that tailoring Inclusionary Affordable Housing policies to transit-rich neighborhoods through specific area planning processes is an effective mechanism to target the production of affordable housing in transit rich neighborhoods.

Impact of Inclusionary Policies on Project Feasibility

The link between Inclusionary Affordable Housing policy requirements and project feasibility is not direct. Whether or not a project is feasible, and which option for meeting inclusionary requirements is least costly to a developer, depends on a number of factors. Affordability requirements are just one variable of many involved in the financing of real estate development.

According to personal interviews with a real estate developer in San Francisco, timing may be the most important of these factors (interview with M. Babsin). One year ago, in an incredibly difficult real estate market, a 15% Inclusionary Housing requirement may indeed have compromised a project's feasibility. This is especially problematic when a City may want to stimulate, rather than discourage, development to spur the local economy. The disparity between the nature of development costs and sales revenues during a slow economic period compounds this problem further: construction costs of material decreased, but because of San Francisco's high minimum wage and the need to pay prevailing wages if public money is involved, total construction cost did not drop nearly as much as sales prices (interview with M. Babsin). This causes otherwise manageable requirements for affordable housing to become more challenging. Now that the rental market is picking up, affordability requirements will likely not have an impact on the feasibility of these projects, but may still complicate feasibility for condominium projects (*ibid*).

The primary problem seems to be the static nature of this type of program. Cities do review programs periodically, however perhaps not frequently enough. A policy with a minor impact based on the real estate market when it was adopted may make projects infeasible at a slower point in the market cycle. That same policy may not be as aggressive in encouraging affordable housing as it could be if the real estate market picks up beyond its condition at the time of adopting the policy. A mechanism to reassess the policy based on market fluctuations would allow a city to encourage development, and also support affordable housing to every extent possible. For example a drop or rise in building permit applications by a certain amount over a given timeframe could trigger a reassessment, and new analysis to reset requirements at an appropriate level. However San Francisco does not have such a tool, and real estate developers have felt the consequences of this during the recent downturn of the real estate market.

Post-Adoption Critiques of the Policy

The tiered Inclusionary Housing requirements in San Francisco's specific area plans are innovative and, so far, effective mechanisms for supporting affordable housing in transit neighborhoods. But professional participants in the program do have some critiques that provide useful knowledge for cities looking to pursue similar policies. Evaluation of particular elements of the program has been woven into the analysis of the policy details throughout this section. This final segment on San Francisco's tiered Inclusionary Housing policy in specific area plans outlines the few

broader policy critiques of some of the program's participants.

Incongruent Timing of Policy Change, Development Activity

One concern is that of the timing of the adoption of these neighborhood specific planning codes: the occurrence of a national economic recession just following the adoption of the specific area plans has caused a gap between the time of zoning changes and when a significant scale of new development will likely begin. This gap means that, at the time of development when landowners and developers experience a small decrease in their profit due to the Inclusionary Housing requirements, they are not simultaneously witnessing the increased value of their land due to adding development potential. While this value still exists, it is less apparent given the time delay between re-zoning the neighborhood and new development. A related fear is that these requirements, and the lack of visibility of increased land value, will act as an incentive for developers to build outside of these neighborhoods defined as focus areas for growth (interview with S. Dennis-Phillips).

Inability to Achieve CEQA Streamlining Goals

A goal of the specific planning process was to perform an adequate program-level Environmental Impact Report (EIR) to allow individual projects to tier their environmental analyses off of the program-level analysis. The California Environmental Quality Act (CEQA) exempts individual residential projects from environmental review when these projects serve to implement specific plans that are certified with a sufficient EIR (Governor's Office of Planning and Research). If these projects are not completely exempt from environmental review, the process may be significantly streamlined. Simplifying the CEQA process to that extent would have been a substantial incentive to develop within these specific plan neighborhoods. This benefit would likely have ensured developers' willingness to build within the plan area, regardless of affordable housing requirements. However, planning staff fears that the program-level EIRs of specific area plans were not sufficient for individual projects to tier completely (interview with S. Dennis-Phillips). However, the recent adoption of these policies means their impacts have not yet been adequately tested.

Policy Exceptions

Another concern is that exceptions to rules and political interference may have weakened policy priorities of the specific area plans. For example, as explained above, specific area plans changed parking policy from requiring a minimum level of parking to a maximum amount of parking permitted by individual projects. However, during the process of designing specific area plans, the City modified this maximum to allow exceptions, such as allowing developers building projects with family size units to apply for an increase in allowable parking (interview with S. Dennis-Phillips). Similarly, the Planning Commission is able to approve variations, and has so far approved a considerable number of parking spaces in addition to the maximums outlined in

the plan (City of San Francisco BLA 2012). This illustrates the way in which the ability to grant exceptions to the plan can undermine the policy's original intentions.

Need for Other Affordable Housing Tools

Although the impact of this program is significant, staff at the Mayor's Office of Housing did express concern regarding the need for considerable funding in addition to all the existing resources for below-market-rate housing. State level reform (such as a funding mechanism to support the implementation of Senate Bill 375 and RHNA plans, or simplification the requirements for municipalities to adopt Infrastructure Finance Districts) is necessary to really achieve the need for affordable housing in San Francisco (interview with S. Hauswald).

Staff in the City's Planning Department expressed similar thoughts regarding the need for other solutions, in addition to specific area plans, to support affordable housing in San Francisco. Creative and collaborative policies are necessary. For example, in single-family neighborhoods with transit access, policies that streamline and facilitate the construction of Secondary Dwelling Units could significantly increase the supply of affordable housing in the City without imposing on developers' profits (interview with S. Dennis-Phillips).

While the tiered Inclusionary Affordable Housing in specific area plans is crucial to encourage the development of affordable housing within these transit-oriented neighborhoods, it is not a tool adequate on its own to meet the City's larger affordable housing need.

Other Supportive Policies

San Francisco is well known as a City dedicated to progressive causes, including sustainable and affordable development. It is considered one of few cities which uses a complete package of policies to ensure it works consistently towards meeting its affordable housing need (interview with E. Stivers). Although the following policies are not transit neighborhood specific, it is important to mention their ability to support the success of tiered Inclusionary Housing policies in specific area planning.

Commercial Development Impact Fee

San Francisco's Mayor's Office of Housing administers a citywide Jobs-Housing Linkage Fee, which requires various types of commercial developments to pay a fee per square foot towards the City's fund to support affordable housing. These fees range between approximately $15-$20 per square foot, depending on the type of development, and are levied on all projects larger than 25,000 square feet (policylink.org).

Rent Control

San Francisco has a citywide rent control policy. Approximately 86% of San Francisco's rental housing stock is subject to rent control (interview with S. Hauswald). In these

apartments, landlords can only substantially increase rent after a tenant moves out (annual rent increases for current tenants are limited to an amount equal to 60% of the increase in the Consumer Price Index. Over the past 10 years, this restriction has resulted in allowable increases between .1% and 2.7%). To prevent landlords from evicting tenants to enable them to increase rents to market rates, San Francisco has a Just Cause Eviction rule, which prohibits landlords from evicting tenants unless they violate provisions of the lease (except in certain cases, such as if the owner is moving) (*ibid*). Rent control is especially important in specific area plan neighborhoods to prevent displacement as re-zoning and neighborhood improvements may result in land value increases. It also prevents landlords from evicting tenants for the purpose of capturing this new value.

Conversion Limitations

San Francisco also regulates conversion of rental units to condominiums in order to protect rental-housing stock by limiting the ability to turn rental units into ownership units. Property owners of 3-6 unit buildings wishing to convert the units in their buildings to condominiums must apply into a citywide lottery. From this lottery, each year only 200 units are chosen and permitted to convert to condominiums. Rental buildings containing over 6 units may not convert (interview with S. Hauswald). Condominium conversion limitations, like rent control, are incredibly important in specific plan areas. Increasing development capacity through re-zoning, planning for a thriving neighborhood, and proximity to transit infrastructure may increase land values, and tempt property owners to convert units to sell to wealthier potential homeowners.

San Francisco also carefully restricts the conversion of Single Room Occupancy units (SROs). While this policy has successfully prevented the loss of SROs, it also means there is less incentive (or resources) for landlords or property owners to upgrade and maintain units. The City, whenever possible, acquires SROs to convert them to affordable housing. The City has also participated in master-leasing agreements, where the landlord is required to perform upgrades, and the City contracts with a non-profit organization to manage the SRO units as supportive housing for the recently homeless (interview with S. Hauswald). Although this can be a complicated process, and leaves the City responsible for negotiating maintenance issues with the landlord, it does help ensure these units are preserved as part of San Francisco's stock of housing available to low-income residents.

These conversion regulations, paired with the rent control ordinance, means that households are usually protected from rent escalation, and that it is challenging to take units out of the stock of rental housing.

Transferable Development Rights

San Francisco has a Transferable Development Rights (TDR) program that does not target affordable housing preservation. However, because TDR will become important in the discussion of Seattle's affordable housing strate-

gies in the following chapter, it is worth mentioning here that San Francisco does have a TDR policy.

San Francisco's TDR Ordinance allows properties deemed 'historic' that are in high density commercial zoning districts to sell unused development rights to developers producing projects in specific zoning districts that are permitted to receive TDR. There is an exception to this rule regulating potential receiver sites: if the building selling TDR is an individual landmark, it can sell TDR to any lot in San Francisco zoned for high density commercial uses. In order to be deemed eligible to sell TDR, the historic property must submit a preservation, maintenance and rehabilitation plan (San Francisco Planning Code Section 128 2010).

This policy allows developers receiving TDR to build at a greater density than they would have been able to otherwise, and provides a capital infusion for the selling property owner, which can be used for maintenance purposes.

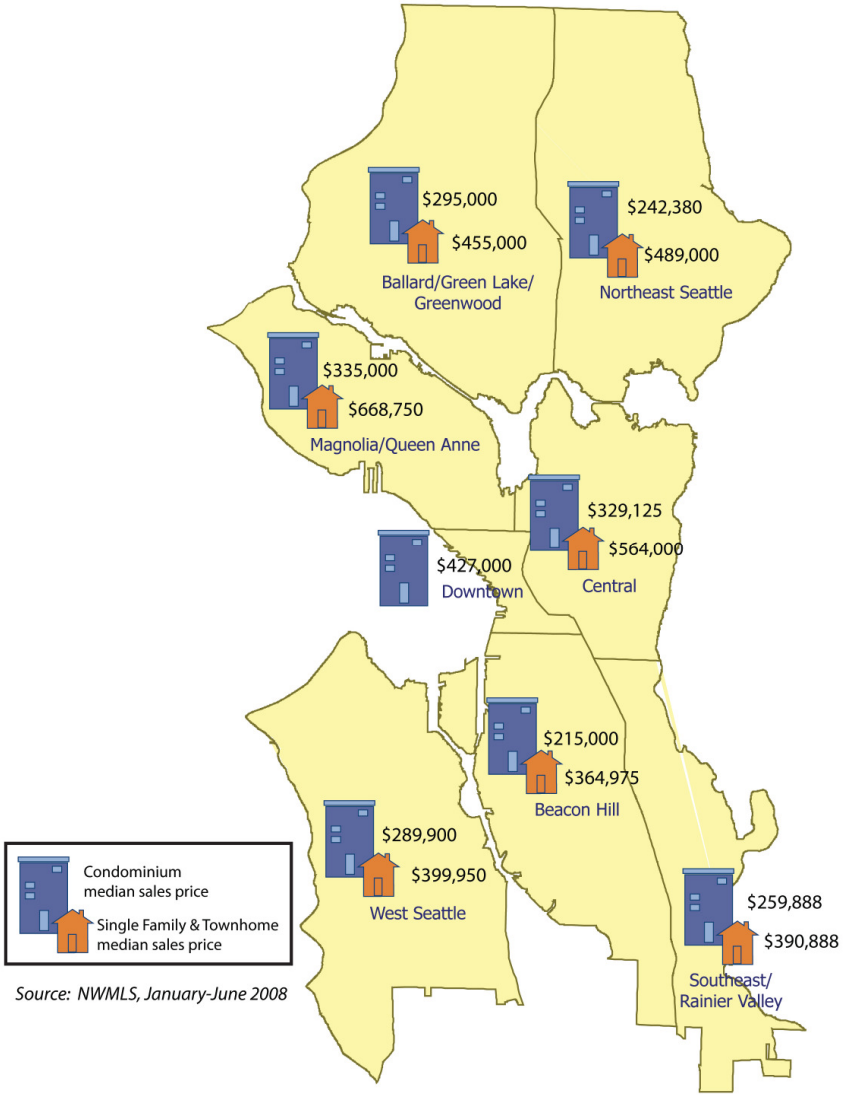
Seattle's Incentive Zoning Program

Introduction: Housing Need in Seattle

The City of Seattle, Washington, is an incredibly desirable and prosperous city for residents and businesses alike. It is the largest metropolis in the Northwest United States, with beautiful geography, a rich artistic and musical culture, a bustling port (and the industries associated with port activity), as well as other large industrial centers such as the Boeing Company's factory.

Seattle experienced a strengthening economy in the early 2000's, resulting in increasing land values and associated increases in residential rents (City of Seattle Consolidated Plan 2009-2012), and with home prices especially high in central, transit rich neighborhoods (see Figure 2). Now, expansion of Seattle's light rail system has added a desirable amenity to a number of areas, and there is potential for significant neighborhood change and the stimulation of new development. Recently in Seattle, increases in home prices outpaced gains in income: between 2000 and 2008, average home prices increased by more than 75%, while the average annual salary increased by just over 30% during the same time period (*ibid*). In this context, it is perhaps not surprising that nearly 20% of Seattle renters spend more than half of their income on rent (*ibid*).

Figure 4: Seattle Median Home and Condominum Prices by Neighborhood (Existing and New Construction Combined)



Source: City of Seattle Consolidated Plan 2009

Seattle is also growing significantly in population. The City's population increased every year between 2000 and 2008, with growth accelerating in 2006 and projected to increase at rising rates at least until 2030 (*ibid*). As a response to projections for similar growth throughout the state, the State of Washington adopted a Growth Management Act in 1990. The Act requires all cities and counties to plan for future growth, with goals including the focusing of growth in urban areas, the reduction of sprawl, the provision of adequate transportation facilities, and the encouragement of affordable housing, among others (State of Washington 1990).

To fulfill its requirements under the Growth Management Act, the City of Seattle adopted the *Toward a Sustainable Seattle: Seattle Comprehensive Plan* in 1994, with further amendments passed in 2011. The Comprehensive Plan includes affordability targets for new housing stock, reflected in Table 6 below. Seattle is pursuing citywide policies, and directing Federal and State resources, to work towards these targets.

Table 6. Housing Affordability Targets in Seattle's Comp. Plan

Share of New Housing Stock	Affordability Targets (as share of Area Median Income)
20%	At or below 50% AMI
17%	50-80% AMI
27%	80-120% AMI

City of Seattle Consolidated Plan 2009-2012

In addition, since the late 1990's, the City of Seattle has created 38 Neighborhood Plans throughout the city. City Planning staff developed these neighborhood plans grounded in close work with residents (interview with D. Meier). The plans create neighborhood-specific strategies to meet the goals of the Comprehensive Plan, including stimulating appropriate growth. The Neighborhood Plans also have acted as a mechanism to introduce innovative policies to encourage affordable housing in association with planned and existing transit infrastructure in certain neighborhoods.

Incentive Zoning in Seattle: Introduction and Impetus for the Program

The major land use strategy employed in Seattle's neighborhood planning and zoning process to encourage affordable housing development as a part of the growth of transit-rich neighborhoods is Incentive Zoning. The City introduces Incen-

tive Zoning policies in neighborhoods in which simultaneous zoning changes allow increasingly dense development in a particular area. Developers in these areas may choose to take advantage of additional height or floor area ratio opportunities in exchange for providing public benefits, including affordable housing (Seattle Planning Commission Report 2007).

The State of Washington has statutory prohibitions against takings that are significantly stricter than in California (interview, L. Walker), and thus Inclusionary Housing, as it functions in San Francisco, is not a possibility here. Incentive Zoning is entirely voluntary; the incentives and details will be described in detail throughout this chapter. However, it has some similarities to San Francisco's Inclusionary Affordable Housing Policy in that it is a land use policy utilizing private investment in market-rate housing as a trigger to stimulate affordable housing production based on the scale and impact of the market-rate project.

The City adopted its first residential Incentive Zoning in 2006 in its Downtown through new amendments to the Downtown Land Use Code (City of Seattle Ordinance 122054 2006, as amended). This initial Incentive Zoning program was based on a financial nexus analysis conducted by Keyser Marston Associates, Inc. in 2005 (interview with L. Walker). The analysis found that the impact of market-rate residential development in Downtown triggered a need for new affordable housing development, and specific financial findings, discussed later in this chapter, directly influenced the Incentive Zoning policy's details. A separate chapter of the code devoted entirely to Incentive Zoning was adopted in 2008 that included provisions for achieving extra residential floor area in future rezone areas outside of Downtown (Ordinance 122882 2008, as amended).

In 2006, Washington State House Bill 2984 clarified cities' legal authority to use incentive programs that offer increased development capacity in exchange for the provision of affordable housing. This Bill thus eliminated the need for a nexus analysis before enacting Incentive Zoning in other neighborhoods (Seattle Planning Commission Report 2007). Because of the strong Washington State statute against the public takings of private profit through dictating rents, Seattle's Incentive Zoning program is *only* utilized in neighborhoods that have been up-zoned, which legitimizes the public sector capture of some of the value it creates by adding development capacity.

This chapter will proceed to discuss and analyze Seattle's Incentive Zoning program, the process of its adoption, its impact on the production of affordable housing and the feasibility of market-rate projects, critiques from professional participants, and some of the other citywide policies with which it interacts.

Program Details

Between 2006 and 2011, the City expanded the Incentive Zoning program to include a number of new neighborhoods (including the South Downtown neighborhood plan area, the Roosevelt neighborhood and the West Seattle

Triangle neighborhood), as well as some citywide zoning districts. For example, developers may now take advantage of Incentive Zoning in mid-rise and high-rise multi-family zones where they exist throughout the city (interview with L. Walker). In each of these neighborhoods, as the City introduced new zoning policies to add development capacity, the option of Incentive Zoning was attached. City staff is currently working on updating new neighborhood plans, such as in the South Lake Union neighborhood and in other 'urban villages' targeted for growth in Seattle's Comprehensive Plan, in which Incentive Zoning will be introduced as a mechanism to encourage affordable housing.

Figure 5: Seattle's South Lake Union neighborhood is under consideration for Incentive Zoning based on new transit and increased density. Source: Flickr 2012.

In neighborhoods with light rail stations, the City in 2001 codified Station Area Overlay Districts around approximately a quarter mile area from light rail stations. These Overlay Districts impose the same design standards around all light rail stations (such as changing parking requirements), and alter some of the permitted uses (for example, driving oriented businesses are prohibited) (interview with D. Meier). These areas are intended to be developed and fine tuned in the future as pedestrian and transit-oriented districts. Many of these will also see increases in the allowable density. The City supports introduction of Incentive Zoning concurrent with rezones or changes to development standards that increase development potential (Resolution 30939 2006; Seattle Comprehensive Plan policies LU5 and H31; interview with L. Walker).

Set Aside Requirements

In order to take advantage of the bonus Floor Area Ration (FAR) allowed through Incentive Zoning, a residential developer must provide affordable housing with a gross floor area at least equal to the greatest of the following three options:

1. 17.5% of the net residential floor area gained through the bonus

2. 300 net residential square feet

3. Any minimum floor area specified in the zoning code of the applicable district

Here, the net residential bonus floor area is equal to 80% of the gross floor area gained through the incentive zoning. This allows for an efficiency factor for which developers advocated during the design of the program (interview with L. Walker). The amount of affordable housing that must be provided may be reduced to a minimum of 15% of the net bonus floor area if the City Council determines that this adjustment is necessary to accomplish the goals of the Comprehensive Plan, or as a response to economic conditions in the area (City of Seattle Ordinance 122882 2008).

The 17.5% set aside requirement is directly reflective of Keyser Marston Associates' 2005 Nexus Analysis, which found that for every 100 market rate condominiums built in Downtown Seattle, the consumption needs of condominium owners generate the need for 17.48 low-income households (Keyser Marston Associates Inc. 2005). For each 100 rental apartments in high-rise buildings, renters generate the need for 15.9 low-income households (*ibid*).

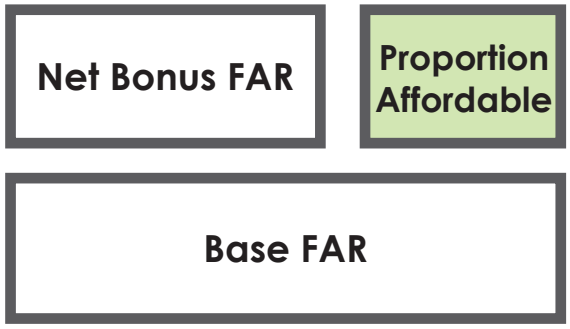


Figure 6: Graphic approximation of Incentive Zoning requirements

Incentive zoning is also applicable to commercial development in the form of a fee levied upon 75% of the bonus floor area (Seattle Planning Commission Report, 2007). The majority of this chapter will focus on residential incentive zoning, as this is most comparable to the San Francisco policy. However it is important to note that the policy covers commercial development as well.

Affordability Targeting and Unit Requirements

The affordable rental units produced through Seattle's Incentive Zoning program must be deed restricted to be affordable to households making 80% of the Area Median Income (AMI) or less. Ownership units produced through the program must be affordable to households making 100% AMI or less. These units must be deed-restricted for 50 years (City of Seattle Ordinance 122882 2008, as amended). This is the minimum length of time required by the Washington State statute authorizing cities and counties to enact or expand affordable housing incentive programs providing for development of low-income housing units through development regulations or conditions on rezoning or permit decisions, or both (State of Washington RCW 36.70A.540; interview with L. Walker).

The maximum affordability limit of 80% of AMI for rental units produced through Incentive Zoning was one of three levels analyzed (in addition to 30% of AMI and 50% of AMI) by Keyser Marston for the purposes of a jobs-housing nexus analysis to legally support Incentive Zoning for hotel and office development adopted as part of the Downtown land use code in 2001 (Keyser Marston Associates Inc. 2005 and

Ordinance 120443 2001, as amended). This level of affordability targeting was demonstrated as appropriate given, in part, high land prices in Downtown where Incentive Zoning was first adopted. This figure was then carried to other neighborhoods as upzones occurred in different parts of the City, a decision made based on political, in addition to policy, realities (interview with L. Walker).

When discussing the introduction of Incentive Zoning as part of rezones around light rail stations in Southeast Seattle, where older housing stock and lower land values mean a lot of housing is naturally affordable (without subsidy) to lower-income families, some stakeholders are concerned that the real estate market is already too soft there and thus requiring units restricted at or below 80% of AMI for 50 years would make projects infeasible (interview with L. Walker). However, although this affordability level may be high for the neighborhood, given the current market, the fact that the units remain covenanted for fifty years may help the City achieve goals for equitable development over the long term, especially if land prices (and thus rents) increase as a result of transit accessibility and neighborhood improvements.

There are benefits and drawbacks to applying this 80% AMI across numerous neighborhoods after being determined for the Downtown neighborhood. Unlike San Francisco's tiered Inclusionary Housing program, the consistency of the 80% AMI affordability targeting makes the program more predictable to developers, and perhaps administratively simpler. In addition, as will be further discussed later, while a number of other subsidy programs exist to develop housing for the low- and very-low income populations, there is no other source of subsidy for building new housing for moderate-income families. However, basing the requirements in a diversity of neighborhoods on the nexus analysis for Downtown may make the program less accurate or effective than it could be were the affordability targets more nuanced by neighborhood.

At this moment, City staff is working on tweaks to the program to streamline its administration and make it more productive. However it has been noted that the political will that would be required to change affordability targets does not currently exist, and that City staff are not aware of housing advocates pushing for change with regard to affordability, as it does not seem viable (interview with L. Walker).

Alternatives to Fulfill Incentive Requirements

Developers in Seattle wishing to participate in the Incentive Zoning program may choose a number of other mechanisms through which to meet the affordable housing requirement besides the provision of below-market-rate units within their projects. One important exception is that alternatives may not be used if the maximum allowable height under the zoning restrictions of the district is 85 feet or less. In these cases, developers wishing to participate in the Incentive Zoning program must provide below-market-rate units on-site (City of Seattle Ordinance 122882 2008).

- In-Lieu Fees

A developer applying to participate in the Incentive Zoning program may pay a fee in lieu of all or part of the on-site option. In this case, the applicant would pay to the City of Seattle $18.94 per square foot of the net bonus residential floor area (defined in the same way here as above) (City of Seattle Ordinance 122882 2008). Again, this pricing aligns closely with the 2005 Keyser Marston analysis' finding that each square foot of market-rate condominiums or apartments creates a nexus cost of $22.24 towards affordable housing and related programs (Keyser Marston Associates Inc. 2005).

Applicants choosing this option must make the appropriate payment as a condition for receiving the first building permit for the project. Developers may choose to defer in-lieu fee payments to the time of achieving a certificate of occupancy. However, if one chooses to defer the fee, the applicant must pay an interest factor if there is any increase in the Consumer Price Index. If the applicant chooses this option, the full fee payment including interest is a condition for the issuance of a certificate of occupancy.

The City of Seattle deposits these fees into an account to support the development or preservation of affordable housing, including land purchase. The City must, if possible, prioritize the dispensing of these fees towards the production or preservation of affordable housing within the same neighborhood as the new market-rate project. If this is not possible, the City must dispense the funds elsewhere in the City but within one-half of a mile from a light rail or bus rapid transit station (City of Seattle Ordinance 122882). If neither of these options is possible, a less desirable site will be chosen.

- Off-Site Units

Developers choosing to participate in the Incentive Zoning program may also opt to take responsibility for building the units, but to build them on a site different than the market-rate project. This option is subject to the discretion and approval of the Director of the Office of Housing. The prioritization of sites for this alternative is similar to those for the dispensation of in-lieu fees: the developer must provide the below-market-rate units in the same neighborhood as the initial project, if possible. If this is not possible, they must prioritize sites within one half of a mile from a light-rail or bus rapid transit station. If neither of these is possible, the units must be built in the same City sector (a rough division of the City into a few large areas). If a developer chooses to provide units off-site, the affordable housing project must be executed and recorded before the City will issue a building permit for the market-rate project (City of Seattle Ordinance 122882 2008).

- Lower-Income Alternative

A developer may also choose to provide below-market rate units on-site, but to provide fewer units that are more deeply affordable. Rather than providing 17.5% of the net bonus floor area to households earning 80% AMI or less,

developers may opt to use only 10% of the net bonus floor area for below-market rate units, but to restrict them to a rent affordable to households with incomes at 50% AMI or less.

Comparative Analysis of Incentive Alternatives

Comparing these alternatives allows an assessment of their impact, as well as their ability to meet objectives of the Incentive Zoning program.

First, an analysis of the amount of housing produced by the in-lieu fee as compared to the on-site requirement reveals that the in-lieu fee option would tend to be significantly less productive than the provision of units on-site.

Table 7 uses a sample development program to show that the choice to pay an in-lieu fee on the net bonus residential produces approximately the equivalent of 7.1% of that bonus floor area as affordable housing (compared to the 17.5% required on-site). The estimate for the total development cost of one unit is based on assumptions used in Keyser Marston's 2005 financial nexus analysis. Although this figure may no longer be accurate today, it illustrates the significant relative gaps between the on-site and in-lieu fee requirements.

The sample development program in Table 7 also takes into consideration that, for the construction of affordable units, some type of public subsidy would cover a portion of the total development cost. This analysis uses a 4% tax credit equity scenario. The 4% tax credit equity is not overly competitive and thus could certainly be achieved for this type of development. According to the City of Seattle Office of Housing, for a similar project the 4% tax credit equity covered 25-30% of total development costs. In order to reflect the availability of such subsidies, in Table 7, 25% of the total development cost for an affordable unit is subtracted before analyzing the percent of one affordable housing unit that could be built through the affordability requirements placed on one market rate unit.

Table 7. Analysis of Productivity of Fee Option

Assumptions	
Size of Market Rate Unit	1,000 s.f.
Required In-Lieu Fee (on net residential bonus floor area)	$18.94/s.f.
Total Development Cost of 1 Affordable Unit	$356,250
4% Tax Credit Equity Percent	25%
4% Tax Credit Equity Amount	$89,062
TDC Less Tax Credit Equity	$267,188
Analysis	
Total fee for one unit from net bonus residential floor area	$18,940
Percent of 1 affordable unit built by 1 market rate unit from net bonus residential floor area	7.1%

Sources: Keyser Marston 2005; City of Seattle Ord. 12288

Another way to look at the same data is to consider how many market rate units are required to support the development of one affordable unit. Dividing the average total development cost for one unit (less the 4% tax credit equity amount) of $267,188 by the $18,940 fee, shows that it would require approximately 14 market rate units to support the development of one affordable unit. Again, although these figures are rough and perhaps no longer accurately reflect construction costs in Seattle (and do not consider the possibility of a higher cost of construction for a market-rate unit), they do show a significant gap between the contributions of a developer who chooses the fee and a developer who provides the units on-site.

This likely creates a significant incentive for developers to pay in-lieu fees instead of building the units on-site. If this were the case, the pattern would make the Incentive Zoning program far less productive in terms of the number of units produced than it would initially when considering the on-site requirements.

City staff is currently working on updating Incentive Zoning policies in a number of ways. One potential recommendation would eliminate the in-lieu fee option, so that participating developers would be required to build units on-site. The reason for this change has to do with the objectives for this program: while the in-lieu fees tend to address the production of housing for households with much lower incomes, other sources of funding do exist to subsidize housing for the very-low income populations, whereas no other funding source exists for building homes for the niche of housing affordable to households making 60-80% AMI (interview with L. Walker).

On the other hand, advocates for affordable housing in Seattle believe that a significant fund for acquiring land to be developed and managed by affordable housing developers would be a solution to Seattle's largest barrier to affordable housing production (interview with S. Lee). Especially in districts where new transit amenities, neighborhood improvements, or up-zoning increase land values, it is difficult for non-profits to raise the funds necessary to purchase land. For market-rate developers, up-zoning can allow increased revenues that potentially trump the increased land value associated with transit amenities and neighborhood improvements; but, non-profit developers tend to only been successful building four to five story wooden-frame buildings. These non-profit developers can typically acquire a certain amount of funding from the State, and a proportion from local and other grant sources, which locks them into building $13-15 million mid-rise buildings, and unable to build much more expensive high-rise buildings that would take advantage of added development capacity (*ibid*). Thus the increase in land-value associate with up-zoning can often leave non-profit developers unable to compete for sites. In this context, the policy of directing in-lieu fees to the acquisition of sites for development of affordable housing may be an important one.

The two analyses above illustrate that the utility of the in-lieu fee option depends upon prioritizing among many objectives for the program. However, as long as the in-lieu fee

does exist, it is important to keep in mind that the current fee will tend to produce fewer units than would be produced by the on-site regulations for the same project. Seattle's requirement to prioritize the dispensation of in-lieu fees within the same neighborhood is an important model, as it ensures that low-income households are included within the transit-oriented neighborhood, but would produce more units, and more closely align with on-site requirements, at a higher fee rate.

While in the abstract the formula for determining the affordable housing requirement is clear, the process of figuring out a percentage of the net bonus the developer chooses to use is conceptually cumbersome for staff and developers compared to a percentage of units (interview with L. Walker). A recent State Statute gives municipalities the authority to establish a minimum amount of affordable housing that must be provided by all developments where an incentive is offered. The City of Seattle would like to consider taking advantage of this authority as it refines the Incentive Zoning program in the next year (*ibid*). This would change the formula for affordability requirements to a percentage of total residential units, rather than a percentage of the bonus floor area, and would require developers to provide some amount of affordable housing whether or not they use the incentive floor area, so long as the incentive it is offered.

Preservation of Affordable Units

Seattle has a successful Transferable Development Rights program that is the primary land use mechanism for preservation of affordable housing. This policy will be discussed in detail at the end of this chapter. Within the Incentive Zoning program, the mechanism for housing preservation is through the dispensation of funds obtained via in-lieu fees, spent on acquisition and rehabilitation of affordable housing in addition to new housing development.

Process of Program Design and Adoption

Zoning for increased density and for the inclusion of affordable housing can often be a lengthy and contentious process. However the City of Seattle has been successful in the adoption of these policies in a number of neighborhoods. They have also been able to adopt policies in some neighborhoods even before the arrival of planned transit infrastructure and neighborhood change, working to ensure that from the beginning the neighborhood is planned with strategies to support affordable housing. This signifies a successful approach and process of community participation worth exploring.

Residential Incentive Zoning by neighborhood originated in Seattle with the re-zoning of the Downtown neighborhood in 2006. However, as explained above, Washington's Growth Management Act prompted the process of neighborhood planning in transit-rich districts.

Approach

The initial phase of transit-oriented land-use planning was the establishment of transit station overlay districts around

light rail or bus rapid transit stations in those areas defined as 'urban villages' in Seattle's Comprehensive Plan. City staff followed this step with the fine-tuning of neighborhood-level plans, including re-zoning and the introduction of Incentive Zoning (interview with D. Meier).

City staff prioritizes re-zoning in neighborhoods with superior access to public transit, or with planned stations on the expanding light rail system (interview with L. Walker). The Roosevelt Neighborhood is an example of a district with a planned light rail station that was prioritized for re-zoning, and in which the City has adopted Incentive Zoning even before the arrival of transit infrastructure.

Community Participation

Establishing resident approval of plans that will encourage neighborhood change can be incredibly difficult, and can result in numerous stakeholders defending opposing positions, stalling or preventing neighborhood planning. However in Seattle, the first Incentive Zoning policy was adopted based on an unusual coalition of interests. As City staff works to expand the program by adopting Incentive Zoning in other neighborhoods, processes of community engagement have tended to be incredibly helpful in moving forward the planning process.

Incentive Zoning was established in Downtown Seattle as a result of an uncommon alignment between the Downtown Seattle Association (largely made up of attorneys, developers, and other significant business interests) and the Housing Development Consortium (a group of nonprofit housing advocates) (interview with L. Walker). The Downtown Seattle Association's interest in increased development capacity and the objectives of representatives of nonprofit housing development agencies to encourage affordable housing production allowed these groups to work together on a compromise that was politically attractive to City leadership. The relationship between the two groups was the result of the neighborhood planning process that had occurred previously (interview with D. Meier), thus stakeholders knew each other and were aware of the potential for their interests to align. Debates about the details of the program did exist, but the alliance of these two interests meant almost sure success for program adoption, especially as it provided the city's political leadership the rare opportunity to pass an ordinance that met the objectives of both groups.

This process illustrates the critical nature of cooperation and coordination among stakeholders and community members. Groups with different objectives tend to prioritize their individual goals, as opposed to the areas in which they can agree with other interests in order to push policy forward. The process of planning for neighborhood change will always include some level of contention, however strategizing and encouraging collaboration among relevant interests can significantly ease and speed the progression towards policy adoption. City staff learned some crucial lessons from the adoption of Incentive Zoning in Downtown, including the necessity of political strategizing mentioned above. There is an awareness of the importance of identify-

ing the developers with the most property, and the highest stakes in neighborhood zoning policies, and making sure to gain their support, as well as working with affordable housing advocates.

Further, continuous community engagement over the course of the neighborhood planning process has functioned as a public education mechanism. Now, residents in most neighborhoods that have undergone this planning process recognize the value of transit-oriented districts that include higher densities and a mix of uses (interview with D. Meier). In neighborhoods where significant community resistance created controversy in the planning process, the City Council's leadership was irreplaceable in enabling policy adoption. For example, in the early phases of planning for the Roosevelt Neighborhood, a neighborhood group lobbied for the increased residential density to occur at the edge of the neighborhood near a freeway, rather than in its proposed location in the center of the neighborhood near the planned light rail station. In this case, leadership from the Council and an engaged mayoral administration were crucial to push the process forward.

The institution of a design review process has helped to solidify community support for neighborhood plans by allowing residents to feel more control within the otherwise worrisome process of neighborhood change. While projects that undergo design review may not change significantly, the process does increase community members' comfort with new development (interview with D. Meier). The design review process added additional time to the review process, especially for larger, more complicated projects. But neighborhood Design Review Boards can allow departures from most development standards, and this added flexibility may reduce the time otherwise required complete the entitlements process. Developers that do not work closely with the community to create acceptable projects encounter barriers to development that they likely would have without the design review process, such as negative commentary at public hearings and possible appeals (*ibid*). The City is also investigating ways to streamline the process to reduce the time required.

Housing advocates can also play an important role in winning community approval for specific projects or for neighborhood policies. The Low Income Housing Institute (LIHI), a non-profit affordable and supportive housing development organization in Seattle, was at the forefront of the adoption of a local policy that allows for a significant parking reduction for affordable housing developments (interview with S. Lee). When Seattle residents began to push back against the proposal based on fears of inadequate parking in their neighborhoods, LIHI pursued a proactive approach to gaining public and political support. The organization surveyed all of their existing developments with similar characteristics, and found very low car-ownership. LIHI presented these results to the City Council, and eventually succeeded in gaining enough support for the policy to be adopted (*ibid*).

Similarly, LIHI proactively addresses the issue of community buy-in at the project level. In circumstances when neigh-

bors have fought projects on a case-by-case basis, LIHI engages in extensive community engagement. After sending fliers, proposals, and meeting invitations to neighbors and community associations and businesses, LIHI also offers tours of their completed developments in other neighborhoods. When community members witness the attractiveness and quality of management of these developments, LIHI typically enjoys a high-level of public support (interview with S. Lee).

Extensive processes of positive public engagement in the neighborhood planning process by City staff and housing advocates have been crucial in building the public and political support necessary to successfully adopt plans that stimulate affordable housing development.

Impact of Incentive Zoning: Unit Production

Seattle's strategy of using Incentive Zoning by neighborhood plan area to target affordable housing in transit rich neighborhoods is extremely innovative. It is, however, a very new program (adopted first in Downtown in 2006, and expanded to other neighborhoods beginning in 2008). The short amount of time since this policy was adopted in various neighborhoods means it is impossible to see what the long-term impact of Incentive Zoning will be on the production of affordable housing units. Like San Francisco's tiered Inclusionary Zoning in neighborhood plan areas, Incentive Zoning was adopted just prior to a national economic recession and a depressed local real estate market. Thus, the number of units produced – both affordable and market rate – since the time of adoption is relatively low.

However, from the time of policy adoption in 2006 through February of 2009, developers of 17 different projects (including mixed-use buildings and apartment buildings) applied to participate in the Incentive Zoning program in the Downtown neighborhood alone (as well as three commercial projects that applied for the commercial density bonus program). Of these 17 projects, two were completed, while the rest remain in the pipelines. By February 2009, developers had used the Incentive Zoning program to contribute $9.5 million to affordable housing in Downtown (Schaffner and Waxman 2009). This figure is significant; especially considering it represents only the Downtown neighborhood, during three years in which the real estate market was challenging, and at the very beginning of the program before developers became comfortable with or even aware of the program. This indicates potential for a significant level of unit production as the program expands in the future.

In 2008, the City of Seattle's Consolidated Plan anticipated that in the year 2009, the Downtown Commercial and Residential Incentive programs combined would produce approximately $3.5 million revenue towards rental affordable housing production, and half of a million dollars in revenue towards the production of affordable ownership units (Seattle Consolidated Plan 2009-2012). This estimate includes commercial and office development as well, but again, only reflects the Downtown neighborhood, and not the many others in which the program has been adopted.

Table 8. Analysis of Anticipated 2009 Affordable Housing Revenue

Selected Seattle Affordable Rental Programs	**Anticipated Funding in 2009**	**Percent of Anticipated Funding in 2009**
Housing Levy (Total)	$10,441,855	44.8%
CDBG	$627,205	2.7%
HOME	$2,760,874	11.8%
Downtown Commercial/Residential Bonus/TDR	$3,500,000	15.0%
Other	$5,983,442	25.7%
Total Rental Funding	*$23,318,177*	*100%*
Selected Affordable Homeownership Programs		
Housing Levy	$1,115,857	25.7%
CDBG Money for Affordable Housing	$92,712	2.1%
HOME	$911,567	21.0%
Downtown Residential Bonus Program	$500,000	11.5%
Other	$1,717,787	39.6%
Total Homeownership Funding	*$4,337,923*	*100%*

Source: City Seattle Consolidated Plan 2009-2012

Utilizing the method of Mukhija et. al. (2009) of assessing the utility of such affordable housing land use policies by comparing to other funding sources (as discussed in Chapter 2), Incentive Zoning can be deemed a significant source for the funding of below-market-rate units in Seattle. Table 8 gives a sense of the anticipated revenue from various funding sources in Seattle in 2009, according to the Consolidated Plan for 2009-2012.

These data show that Incentive programs can contribute significantly to total funding for affordable housing. The figure for the share of rental housing, as noted in the table, is a combination of anticipated revenue from both the Downtown

Commercial and Residential Incentive Zoning programs as well as the use of Transferable Development Rights. However, again, the estimate does not include the anticipated revenue from Incentive Zoning in other neighborhoods (this Consolidated Plan was adopted in 2008, the same year in which Seattle first expanded the Incentive Zoning program to other neighborhoods). Although this figure is approximate, it represents 15% of total anticipated affordable housing funds citywide. This figure is more than a third of the anticipated funding from Seattle's local Housing Levy, the largest source of funding for affordable rental housing, and is greater than the contribution anticipated from Seattle's allocation of Federal HOME funds.

The results are similar in an analysis of anticipated revenues for affordable homeownership opportunities. Note that in this figure, the $500,000 represents the anticipated revenue solely for the Downtown Residential Incentive Zoning program. This figure again is nearly half of one of the largest sources, the local Housing Levy, and is again greater than the contribution from CDBG programs. Here, the expected contribution from Downtown Incentive Zoning is nearly 12% of the total anticipated funding for affordable for-sale unit production. Once again, this only considers Incentive Zoning in one neighborhood. The impact will increase significantly as the expansion of the program to more neighborhoods moves forward.

Therefore, while Incentive Zoning is not responsible for the largest portion of funding for affordable housing development, its contribution is significant. I therefore argue the program is effective in its goal of producing affordable rental and for-sale units in Seattle.

Impact of Incentive Zoning on Project Feasibility

Similar to this study's findings in the City of San Francisco, the effect of affordability requirements on project feasibility depends on a number of conditions, and the particular context of the proposed project. Incentive Zoning should not make any project infeasible: by its very nature as a voluntary program, any developer for whom the affordability requirement provides a hardship may simply decide not to participate in the program. Instead, it is important that the incentive is adequate to attract developer participation.

Overall, Incentive Zoning is likely an especially attractive option to developers building projects in 'hot' real estate market areas where property is incredibly desirable and an increase in allowable height and floor area ratio is worth the sacrifice of providing affordable housing or paying in-lieu fees. A 2007 study of the feasibility of incentive zoning in Downtown Seattle found that, so long as the rate of return of the base allowable floor area ratio is competitive with other similar investment options, a developer's choice to participate in the Incentive program would create significant profit (Seyfried 2007).

However, in neighborhoods that have experienced underinvestment in which developers must lead the market, Incentive Zoning may not be as effective. In these neighborhoods, the increase in allowable development capacity often is not

enough to make the affordability requirement feasible (interview with J. Mueller). However, increasing the development capacity of these sites even more would cause buildings to be tall enough that they must be built with steel or concrete, rather than wooden frames. These projects are much more expensive, and thus are infeasible unless the project is a high-rise, a building type that is inappropriate in many of these neighborhoods outside of Downtown with a midrise scale of building form. This analysis parallels Seyfried's 2007 findings: because the land value in such neighborhoods likely makes such projects less profitable to begin with, pursuing the Incentive Zoning option, and the associated affordability requirements, may make the project infeasible.

This study makes apparent the importance of differentiating affordability requirements or zoning options amongst typologies of neighborhoods based on real estate markets if developers are to utilize Incentive Zoning in underinvested neighborhoods. It also reveals the critical nature of ensuring that affordability requirements are not unevenly placed on one area or type of parcel and not other potentially competitive districts. Such uneven policy mechanisms would cause those sites to yield less than competitors, making it nearly impossible for a developer to achieve financing due to low projected rates of return.

Another critique regarding the impact of Incentive Zoning on feasibility is that the time necessary to determine the affordability requirements and allowable bonus floor area makes the attraction of private capital difficult. According to one market-rate real estate developer in Seattle, the ability to attract private capital is greatly enhanced if the project is a "plug-in-and-play" opportunity (interview with J. Mueller). If the zoning is already in place and requirements are known in advance, then affordable housing opportunities can be quantified with certainty. Cities should 'stress test' proposed incentive formulas to verify that the proposal actually adds value for the developer. If there is little incremental value above the costs for the developer, he or she will not be willing or able to participate. This evaluation reveals that planning for transit neighborhoods, and careful analysis of the effect of Incentive Zoning on feasibility in different contexts, is crucial to creating affordability requirements that will produce below-market-rate units by encouraging market-rate development.

Post-Adoption Critiques of the Policy

Seattle's Incentive Zoning program is an innovative and effective land use policy for ensuring that affordable housing development accompanies the levels of market-rate development that transit-neighborhoods tend to support. Although the adoption of this policy is quite recent, even in a difficult real estate market it is so far proving successful in supporting unit production, especially when compared to the levels of revenue raised by other important funding sources. However, being a new policy, it is not yet perfect. Analysis of regulatory elements, the process of policy adoption, and the impact of the program on unit production and project feasibility have already been covered in this chapter. This final section will consider and analyze some more

general critiques of the policy since its recent adoption.

City of Seattle staff has recognized some concerns with the policy's design and administration that they intend to fix through amendments to streamline and clarify the Land Use Code over the next one to two years. Neighborhood-by-neighborhood adoption of Incentive Zoning, although in alignment with neighborhood plans and the Comprehensive Plan, means that Incentive Zoning regulations exist in a number of chapters of the City's Land Use Code. City staff is currently working to move these all into a single chapter, likely SMC 23.58A, of the Land Use Code (interview with L. Walker). As mentioned earlier in this chapter, they also hope to change the affordable housing requirement to be based upon a percentage of total units built, rather than a portion of the net bonus floor area. This would make the process both administratively simpler and more readily understandable to participating developers.

While the goal to streamline the administrative complexity of the program is an important one – both to ensure the capacity of staff to administer it and to enhance developers' understanding and comfort with the policy – streamlining the requirements by neighborhood may solidify some of the problems faced by developers noted in the previous section. The significant differences among the real estate markets of varying neighborhoods create some barriers to participating in the incentive program when the same requirements that are successful in high-land-value areas are applied to under-invested neighborhoods. Incentive Zoning produces more units and has a smaller effect on feasibility in areas with desirable real estate markets. The City of Seattle clearly, and for good reason, prioritized adopting Incentive Zoning in areas where future development is anticipated and desirable, especially around planned or existing transit stations. This ensures that when developers begin to pursue projects in the area, policies to support affordable housing are already in place. However, there is significant diversity among transit neighborhoods. In those with lower land values where economic development is desirable but is difficult for developers to make profitable, tailored regulations and a mechanism of providing subsidies for developers who build affordable housing would likely be more effective.

A private developer interviewed in this study suggested the importance of identifying a formula that works to interest for-profit capital in supporting workforce and low-income housing (interview with J. Mueller). This might entail a waiver of floor area ratio and height restrictions for affordable projects built in conjunction with market-rate projects. This would increase a given parcel's capacity and create a marketable slice of the land investment that could be sold by market-rate or non-profit developers to make their respective projects feasible. This could manifest itself horizontally in the form of more lot coverage, or vertically (for example with ground level retail and subsidized affordable housing, with market rate housing using air rights to develop above non-profit projects) (*ibid*). In neighborhoods in need of investment as well as affordable housing, such a structure would incentivize private developers to build without imposing affordability requirements, in part-

nership with subsidized non-profits to manage affordable units.

Similar to critiques explored regarding San Francisco's Inclusionary Affordable Housing policy, one concern voiced by housing advocates is that Incentive Zoning will never spur the level of affordable housing production necessary to meet the City's need (interview with S. Lee). Rather, permanent financing (which was recently reduced due to decreased State and Federal support for affordable housing) is imperative to significantly increase Seattle's stock of affordable housing. This financing could be used to support non-profits' ability to acquire land, as without subsidies they cannot compete for land (especially in high market neighborhoods) and thus are unable to pursue projects. Financing for land acquisition is especially important in the context of the underinvested neighborhoods mentioned above: ensuring acquisition financing for non-profits early on in the process of rail expansion allows for the purchase of developable sites or affordable buildings that might otherwise become market-rate with increasing rents, and convert them to permanent non-profit management. In addition, Seattle's Planning Commission recently noted that to help meet the City's need for affordable housing, other creative options are necessary, such as encouraging Accessory Dwelling Units in single-family neighborhoods with transit access, as well as changing zoning designations in multifamily neighborhoods from density maximums to density minimums.

The City of Seattle has a local affordable housing fund created by a voter-adopted housing levy. This funding, and its use in conjunction with Federal HOME and CDBG resources, is the most productive resource for affordable housing. However, as shown above, the revenues from Incentive Zoning in the Downtown neighborhood alone were not insignificant, even when compared with these incredibly productive funding sources. Thus, although Incentive Zoning is not the largest source for affordable housing funding in Seattle, and won't function on its own to meet Seattle's total affordable housing need, it is an effective land use policy to encourage affordable housing development in transit-oriented neighborhoods.

Other Supportive Policies

Transferable Development Rights

Seattle's Transferable Development Rights (TDR) program has gained significant attention as an innovative strategy to support the long-term preservation of affordable housing units. The program requires two participants: the seller is the owner of an affordable housing or historic landmark building, generally one with an allowable Floor Area Ratio greater than the existing building; the buyer is a developer of a new project seeking to build more density than allowed by current zoning. The seller may sell their unused development capacity to the buyer, allowing the buyer to build the increased amount sold to them through the TDR program (City of Seattle Consolidated Plan 2009-2012). Prices paid per square foot in the TDR program are market driven. Because the program is competing with Incentive Zoning as

a mechanism allowing developers to increase their allowable density, TDR usually sells for about twenty dollars per square foot or less (interview with L. Walker).

This program can provide affordable housing owners and managers a significant infusion of capital to preserve existing housing. Between 1986 and 2005, the owners of nearly 1,000 affordable rental units received a total of about $7.8 million by taking advantage of the TDR program (housingpolicy.org). Rental units that are preserved through TDR must be deed restricted to remain affordable to households making up to 50% AMI for a period of 50 years (City of Seattle Consolidated Plan 2009-2012). Transferable Development Rights is an important tool for preserving affordable housing units while simultaneously providing a benefit to developers wishing to increase their allowable density.

Figure 7: Capitol Hill Housing CDC preserved the Brewster Apartments by selling TDR. Source: Capitol Hill Housing

Summary of Case Study Analyses

Comprehensive analyses of policies in San Francisco and Seattle produce some major findings both within and across cases. The underlying finding in both cases is that each city, inspired by concerns of sustainable growth management, adopted deliberate land use policies to create transit-oriented nodes. Both cities used land use planning to ensure that policies of transit-oriented neighborhoods distinctly intersect with policies to support the production and preservation of affordable housing. In both case studies, the increasing of allowable densities acted as an incentive for market rate development, even with affordable housing requirements. However, San Francisco also adopted heightened Inclusionary Zoning requirements in transit neighborhoods even where up-zoning did not occur. This signifies that, while up-zoning can add an incentive for developers, it is not absolutely necessary that all transit neighborhoods be up-zoned in order to adopt affordable housing policies.

In addition to this underlying connection between transit-oriented land use policies and affordable housing strategies, the most important findings of this study are:

1. *Inclusionary Housing/Incentive Zoning is an effective policy for targeting the development of new affordable housing in transit-oriented neighborhoods.*

   Inclusionary Housing and Incentive Zoning are both significant contributors to the total level of afford-

able housing production in their respective cities. While Inclusionary Housing and Incentive Zoning are not the largest source of support for affordable housing in case study cities, their contributions to the total development of affordable housing is significant.

More important than their contribution to the total amount of affordable housing is their ability to target affordable housing development in desirable transit-oriented neighborhoods. Although it is too soon after the adoption of these policies to be certain of their effectiveness in the long run, so far, even in a slow real estate market, they have been successful in locating affordable units into transit neighborhoods. Further, while market-rate developers had some suggestions to reduce the impact of affordability requirements on their ability to profit from new developments, developers are building and participating in these programs, indicating they do not significantly deter from project feasibility.

2. *Allowing a number of alternatives for developers to meet affordable housing requirements allows more projects to be feasible, and allows the policy to meet a variety of housing goals.*

   Both case study cities allow market-rate developers to meet affordable housing requirements through a number of methods (including providing units on- or off-site, paying in-lieu fees, dedicating land, or offering different income-targeting mixes). These alternatives each serve some of the varying objectives for affordable housing policy, and the increased flexibility adds more options for developers to ensure feasibility of projects with affordability requirements. In California, after the 2009 Palmer decision, these alternatives are especially important to ensure the legal soundness of inclusionary policies.

3. *Geographic and temporal flexibility are necessary to aid development feasibility and to target policies accurately to stimulate development.*

   Market-rate developers flagged the static nature of Inclusionary and Incentive Zoning policies as the most problematic aspect of these affordable housing strategies. Policies that do not change over time can significantly hinder development in slow phases of the real estate cycle. Policies that do not change amongst the drastically opposed real estate markets of different neighborhoods within a city may thwart development in underinvested neighborhoods where some economic development may be a goal, or may fail to take advantage of the 'hot' real estate markets of other neighborhoods.

4. *A Transferable Development Rights policy is a preservation strategy that provides capital to improve and maintain existing affordable housing, and prevents displacement without disadvantaging owners of preserved properties.*

San Francisco and Seattle's policies both include strategies to preserve existing affordable housing. However, San Francisco's proposed strategy, though positive in intention, is a more piece-meal planning process of maintaining the existing zoning on blocks with older, naturally affordable housing, that could leave owners of these buildings without receiving any of the benefit of broader neighborhood change. Seattle's model of Transferable Development Rights, which provides an incentive to developers who in turn provide capital to older affordable housing buildings, is more effective. Not only does it target preservation of these buildings, but it also allows them to profit from the process of neighborhood change, and improve and maintain these older units.

5. *Advocacy organizations and the building of coalitions are important to policy adoption and implementation.*

   In both cities, advocacy organizations and broad public outreach campaigns were necessary to build the high level of support necessary to adopt and implement these complex policies. Creating a constituency in support of these affordable housing strategies makes their adoption politically attractive to leaders in local government, whose roles in both San Francisco and Seattle were crucial to policy adoption. Successful advocacy and public outreach can also diminish the neighborhood resistance that can impede policy adoption and project-by-project implementation.

6. *Advocates and City Staff need to research additional land use policies to meet affordable housing need in transit neighborhoods.*

   Staff in San Francisco and Seattle both acknowledged that, while Inclusionary and Incentive Zoning are working effectively as designed, neither on their own can produce the level of affordable housing necessary to truly meet the needs of the cities' residents. San Francisco Planning staff and Seattle's Planning Commission have both pointed to the encouragement of Secondary Dwelling Units in single-family neighborhoods proximate to transit as an additional possible strategy. Further research should look in to this, as well as other strategies to contribute to the supply of affordable housing in transit neighborhoods.

POLICY RECOMMENDATIONS FOR LOS ANGELES

Case study research of San Francisco's transit neighborhood-specific Inclusionary Affordable Housing Policy and Seattle's Incentive Zoning and Transferable Development Rights programs show how land use policies can be effective strategies for encouraging the preservation and production of affordable housing in transit-rich neighborhoods. This chapter will use the analysis of the San Francisco and Seattle cases from the previous sections to formulate recommendations for policy in Los Angeles. These recommendations will include regulatory details that should be included within policies as well as recommendations regarding the process for policy adoption.

The underlying recommendation resulting from this project is that the City of Los Angeles should use strategically crafted planning of Transit-Oriented Zones to ensure the intersection of transit-oriented policy with affordable housing land use policies. Specifically, this intersection should ensure that new development around transit stations includes affordable housing. Transit-Oriented Zone policy should also aim to preserve existing affordable housing stock. This project has shown that, while land use policy is not, on its own, an adequate strategy to meet the larger need for affordable housing in high-cost metropolitan areas, it is an effective mechanism to target the locating of affordable housing proximate to transit stations and meet a significant portion of the affordable housing need.

Based on the analysis in this project, I would argue that Los Angeles should adopt an affordable housing policy tailored to transit neighborhoods. The strategy should first create new multi-family transit-zone designated districts, within which an Inclusionary Housing policy would require that market-rate developers pay an in-lieu fee to an affordable housing fund, or may choose instead to set aside a proportion of their units to be deed-restricted as affordable housing. The strategy should also utilize a Transferable Development Rights program to target affordable housing preservation. The following detailed recommendations will outline the regulations that should be included within the Inclusionary Housing and Transferable Development Rights policies that should be a part of Transit-Oriented Zone planning, followed by recommended processes with which to pursue their adoption and implementation.

Recommendation I: Adopt Inclusionary Housing in Transit-Oriented Zones in Los Angeles

The City of Los Angeles should adopt a policy that requires affordable housing set-asides (either on-site, through in-lieu fees, or a variety of other options) in market-rate multifamily housing developments within a given radius from fixed-route transit stations. This radius should be based upon careful research that considers the maximum area around a transit station that has superior access to transit amenities and where land values are expected to increase as a result.

In case study cities, affordable housing strategies were adopted by neighborhood, not by a radius from transit stations. However there are two reasons a radius will, in the near term, be more effective in Los Angeles. Firstly, the neighborhood designations in San Francisco and Seattle tend to be much smaller than Los Angeles' neighborhoods. Thus in San Francisco, in a neighborhood with one transit station, it is likely that all residents of this neighborhood will be in close proximity to the station, thus adopting a neighborhood-wide policy is logical. The second reason has to do with timing: Los Angeles County's transit expansion is, in some locations, already in the construction phase, and a number of neighborhoods that already boast fixed-route transit stations are facing issues of housing access even today. San Francisco's neighborhood planning took approximately five years per neighborhood. To follow a similar process in Los Angeles would likely result in the adoption of policies long after the transit infrastructure is complete. Instead, adopting affordable housing policies based on a radius from transit stations (similar to Seattle's adoption of transit-oriented district design guidelines) would increase the likelihood of policy adoption and land use development that is temporally alligned with the introduction of transit amenities.

Los Angeles housing organizations have advocated for city-wide inclusionary housing policies in the past. So far, these efforts have been unsuccessful. However, consideration of these policies in the specific context of transit-oriented neighborhoods does change the political implications, and impact on development feasibility. Appropriate research, and input from a number of groups (as detailed later in this section) must be used to ensure that the regulatory requirements outlined here do not negatively effect market-rate development and thus are more politically palatable.

Recommendation 1.1: Make Affordable Housing Contributions Mandatory, but Modest Enough to Keep Projects Feasible.

The San Francisco and Seattle case studies differed in the mandatory nature of their respective policies: all San Francisco market rate developers are required to participate; in Seattle, only developers choosing to take advantage of bonus development capacity must meet affordability requirements. In Seattle, Incentive Zoning must be voluntary, as State statute prohibits mandatory inclusionary zoning. However, in San Francisco, the mandatory nature of requirements means that similar requirements are placed on

all properties within the city. This means that certain properties are not disadvantaged relative to others due to similar and mandatory requirements across neighborhoods.

In Los Angeles, it will be appropriate to add development capacity in multi-family neighborhoods around some transit stations. However, there may be transit neighborhoods in which it is not appropriate or feasible to increase density in multi-family neighborhoods. In these neighborhoods, though, property owners are likely to still experience a heightened desirability of land due to new transit accessibility and other associated neighborhood changes. Thus, the Inclusionary Housing policy should not solely be tied to increased densities. The regulations should be set so that all multi-family development (even those that don't benefit from increases in allowable density) within these zones is subject to a modest set-aside. It is especially important that these requirements do not negatively impact the feasibility of market-rate projects as, in Los Angeles, regulations will not be citywide, but rather transit-zone specific. Affordable housing requirements that are too stringent may have the adverse impact of encouraging developers to build outside of transit zones.

Recommendation 1.2: Where Appropriate, Relate Inclusionary Housing to Changes in Allowable Density.

It will be appropriate in some zoning districts to increase allowable densities through increased heights or floor area ratios. In these districts, the inclusionary housing set-aside requirement should heighten on a tiered basis in conjunction with the added development capacity the market-rate developer enjoys, following the example of San Francisco. Increasing allowable density will be desirable in many of these neighborhoods to maximize use of new transit-neighborhoods through 'smart growth' techniques. Increasing development capacity also can make the adoption of the inclusionary ordinance more politically feasible, as developers experience a benefit in conjunction with the affordable housing requirement.

Recommendation 1.3: Set Affordability Targeting Based on Financial Research.

The policy should set a maximum allowable percentage of Area Median Income for which the inclusionary units must be deed-restricted. This affordability targeting should be set carefully so that it maximizes the affordability of housing without tipping market-rate projects to be infeasible. The City of Los Angeles should contract financial consultants to conduct a nexus analysis to determine the affordability levels for which need is created by the building of the market-rate project, as well as the deepest level of affordability requirement possible without harming project feasibility.

Recommendation 1.4: Create Alternatives for Fulfilling Inclusionary Requirements.

In addition to the option to provide affordable units within the market-rate development, other alternatives for fulfilling inclusionary requirements are crucial. These alter-

natives can help meet other goals for affordable housing (such as making funding available for site acquisition by non-profit developers). A number of options also allows the market-rate developer flexibility in determining the most cost-effective method for meeting requirements, and thus enhances the implementation of the Inclusionary policy. The Los Angeles Inclusionary Housing in Transit-Oriented Zones policy should allow market-rate developers to meet requirements in the following ways:

- In-lieu fee

The in-lieu fee option would allow market-rate developers the option to pay a fee to the City of Los Angeles, rather than providing deed-restricted affordable housing units within the market-rate project.

As explained in the analysis of the San Francisco and Seattle case studies, in-lieu fees should be paid into an Affordable Housing Fund to be used for land acquisition for affordable housing development by non-profit organizations, and for the acquisition and rehabilitation of affordable housing buildings to be turned over to non-profit organizations for management. These fees help address one of the most pressing affordable housing needs evidenced both in San Francisco and Seattle: the need for a fund for non-profit site acquisition and rehabilitation of existing affordable stock. Like both San Francisco and Seattle, a set proportion of these funds should be mandatorily directed to site acquisition and rehabilitation of existing units. Both cases prioritize these efforts to be within the same neighborhood as the market-rate project. Los Angeles should do the same. Also, because they are directed towards non-profit affordable housing developments, these funds are likely to target more deeply affordable housing than would be provided by a market-rate developer on-site.

The City of Los Angeles should require that Affordable Housing Fund resources be dispersed within Los Angeles Transit-Oriented Zones in order to ensure the revenue received from the Inclusionary Housing in Transit-Oriented Zones policy achieves the policy objectives of transit-oriented affordable housing.

In order to protect the City of Los Angeles from legal challenges to its Inclusionary Housing policy based on the Costa-Hawkins Act and using the *Palmer v. City of Los Angeles* case as a precedent, it will be desirable to structure the policy so that the in-lieu fee is the primary option. This will require justification through an impact fee study, however this expense by the City is worth the considerable investment in affordable housing that will be reaped as a result. Similar to San Francisco, developers would be allowed to construct units on-site, instead of paying the fee, after meeting certain conditions that prevent them from legally challenging the City on this issue.

- Site-dedication

Developers should also have the option of fulfilling Inclusionary Housing in Transit-Oriented Zones requirements by dedicating a portion of the site to the City of Los Angeles. This allows the City to make land available to non-profit housing developers to build affordable projects. Similar to the in-lieu fee, this option allows for the deeper affordability targeting often achieved by non-profit developers, and aids the problem of non-profit site acquisition through the direct provision of land. Based on the evidence from San Francisco, this alternative can sometimes be the most cost-effective for the market-rate developer while also providing the largest number of affordable units.

Further research must identify a minimum land area, or minimum proportion of the original project site, that a developer may dedicate to the City to meet this requirement, as well as any other relevant rules (such as excluding land that necessitates environmental remediation or other costly processes).

- Middle and Lower-Income Alternatives

The middle and lower-income alternatives allow market-rate developers to meet Inclusionary Housing requirements by providing either: more affordable housing units set at levels affordable to households making higher incomes than would otherwise be required by the policy; or by providing fewer units set at levels affordable to households making lower incomes than otherwise required. The benefits of this program are the ability to target a diversity of households, and to provide market-rate developers with increased flexibility.

Further research must be done to determine whether the provision of middle and lower-income alternatives would be beneficial in the Los Angeles housing context, and if so at what level of affordability and number of units these options should be set. Each of these should be carefully set based on financial research and data on housing need.

Recommendation 1.5: Design Inclusionary Affordable Housing in Transit-Oriented Zones Policy to be Flexible Based on Neighborhood Real Estate Market Typologies.

The case study of Seattle's Incentive Zoning program evidenced the need for affordable housing policies to consider the vastly different economic contexts among different transit neighborhoods. The primary difference is between areas with desirable real estate markets and those marked by underinvestment. In the former, inclusionary requirements are incredibly important, as housing would likely otherwise be unaffordable to low- and moderate-income households. Further, in these 'hot' market neighborhoods, inclusionary requirements are less likely to have an impact on a project's feasibility.

In contrast, in neighborhoods with slower real estate markets, it can be difficult for any market-rate project to be feasible, and so the imposition of affordability requirements may have a more significant impact. Furthermore, in these neighborhoods, there tends to be an abundance of housing stock that is naturally affordable due to its age and the lower land values. In these transit neighborhoods, strategies should focus on the acquisition of naturally affordable housing to be rehabilitated and managed as permanently affordable housing by non-profit organizations.

Careful research should be used to craft a combination of policies appropriate for different typologies of neighborhoods based on the real estate market context. Neither San Francisco nor Seattle has pursued this strategy, and in both cases, not doing so had negative implications for market-rate developers. Los Angeles should survey the real estate markets of different transit neighborhoods to create 'hot' real estate market and 'slow' real estate market typologies based on land value, property turn-over, vacancy rates, and rent and sales prices. The City should tailor Inclusionary policies to these two different neighborhood types. One strategy could be to provide incentives such as extra density bonuses to market-rate developers that meet inclusionary housing requirements in slow real estate market areas. Another technique may be to direct the revenues from in-lieu fees in hot market neighborhoods towards the acquisition of housing stock in underinvested transit districts. These underinvested districts should also be target areas for Transferable Development Rights (see Recommendation II).

Recommendation 1.6: Develop a Mechanism for Temporal Flexibility Within the Policy Tied to Changes in the Real Estate Market.

Inclusionary Housing policies are most successful during periods of economic growth, when modest affordable housing requirements do not change the high profitability of new development. When real estate markets are slow and new development is already difficult, affordability requirements may have unintended consequences of making projects infeasible. Interviews with market rate developers revealed that the same affordable housing requirements that were achievable during times of economic growth were more difficult to achieve during the recent economic recession. In neither case did policies include mechanisms to address their potential to have a negative impact on development feasibility during slow times in the economic cycle, but the introduction of such a system might address the issues developers discussed.

Because of the dramatic impact the changing real estate market has on the effectiveness of Inclusionary Housing, it is important that Los Angeles create a dynamic policy. This is contrary to typical land use codes, like those in the case studies, which are static for a given period after adoption. Instead, Los Angeles advocates and policy makers should develop a mechanism for temporal flexibility of the policy based on changes in the real estate market. This mechanism could be based on changes in the number of building permit applications. An increase or decrease in applications by a predetermined amount over a given period could

trigger a resetting of affordability requirements. The reset would be based on a process of financial analysis to determine a new set-aside proportion that maximizes affordable housing production without impeding project feasibility. This analysis should be relatively simple and formulaic, determined during the first financial study required to structure the in-lieu fee, and set up so that it can be repeated frequently by City staff planners.

Recommendation 1.7: Identify Implementation Resources.

This level of neighborhood planning requires significant local resources. To implement these recommendations, the City of Los Angeles will need to acquire funding from the regional and State level.

The policies recommended here are directly correlated with California's Senate Bill 375, which requires land-use planning in combination with transit investments to manage growth sustainably. SB 375 is also aligned with the State's Regional Housing Needs Allocation process, signifying the State's priority of including affordable housing strategies in transit-oriented planning. The City of Los Angeles should present clear plans for the adoption and implementation of this policy to the Southern California Association of Governments (SCAG) and the State of California to receive funding to implement SB 375 through this program. SCAG has the authority to apply for State and Federal level grants for sustainable growth management, and the State does have some resources (including grants from the California Department of Transportation) to allocate specifically to the implementation of SB 375.

Framing the policies suggested in this section as a strategy for the implementation of State-mandated planning for housing in combination with transit should be used to attract resources allowing Los Angeles to pursue this detailed level of neighborhood planning.

Recommendation II: Adopt Transferable Development Rights in Los Angeles

The City of Los Angeles should adopt a Transferable Development Rights program that allows affordable housing developments to sell unused development rights to market-rate developers in Transit-Oriented Zones. As exemplified in Seattle, such a program allows an infusion of capital for owners or managing organizations of affordable housing buildings, while allowing market-rate developers to build denser projects than would otherwise be allowed in the applicable zone.

Recommendation 2.1: Allow Any 100% Affordable Housing Building in Los Angeles to Sell Un-Used Development Rights.

While the focus of this project is on the promotion of affordable housing in transit districts, this particular strategy should be extended citywide. Any deed-restricted affordable housing development with unused development capacity should be able to sell the rights to this unused square footage. This acts as an affordable housing preser-

vation strategy, as older buildings in need of capital repairs and maintenance, or buildings managed by struggling non-profits, can have access to this additional funding.

However, this will more likely be useful in districts that have recently been up-zoned, including any transit-oriented zones in which adding development capacity is appropriate. In these areas, it will be more likely that existing affordable housing buildings will, as a result, have development rights available to sell.

Recommendation 2.2: Restrict Purchase of TDR to Housing Developers in Transit-Oriented Zones.

The buyers of Transferable Development Rights should be limited to housing developers building projects in Transit-Oriented Zones. The developers able to buy TDR will likely be market-rate developers, however any affordable housing developer building within a Transit-Oriented Zone may also participate in the project.

Some limits should be created depending upon the zoning designation of the receiving parcel, so that TDR does not allow the development of projects of significantly different scales than the surrounding district. However, outside of these limitations, the allowable density resulting from the purchase of TDR should be in addition to any other allowances used by developers. It is in this way that TDR remains an incentive for developers, and encourages them to provide capital to owners of affordable housing or rent-controlled buildings.

Recommendation III: Advocacy Organizations Should Lead the Policy Adoption Process

A number of steps are necessary to encourage adoption of such planning mechanisms in Los Angeles, and to ensure that regulations are set to meet specific affordable housing and transit-neighborhood goals as outlined above. Advocates and other organizations should play a significant role in facilitating the design, adoption and implementation of transit-oriented affordable housing land use policies.

Recommendation 3.1: Coordinate Advocacy Organizations to Draft Transit-Oriented Zone Policies.

While final policy adoption depends on approval from the City's administration, affordable housing advocates can initiate the process of writing and proposing an ordinance. This ensures that the progression towards a final ordinance begins as soon as possible, before the development of a number of Los Angeles' planned rail stations. Initial drafting by advocates also guarantees the evolution of transit-oriented land use policy in Los Angeles is firmly rooted in the objective of affordable housing provision.

Recommendation 3.2: Work With the Market-Rate Building Community to Identify Shared Interests and Mutually Beneficial Policies.

It is crucial to the success of transit-oriented affordable housing policies that advocates and affordable housing de-

velopers work closely with the market-rate building and development community to identify shared interests and craft mutually beneficial policies. Without this important step, the ordinance is more likely to fail: it would be both politically unattractive to City administrators, and, even if adopted, would likely fail to produce the level of market-rate housing necessary for Inclusionary Housing and Transferable Development Rights to work effectively.

Consultation with the building community should inform many of the regulatory details explained above, including geographic and temporal flexibility, as well as alternatives for fulfilling requirements. This process will support the creation of regulations that enhance the potential for effective administration of Inclusionary Housing and Transferable Development Rights policies in Transit-Oriented Zones.

An awareness of the effect of timing on builders' interest in participating is important. A 2005 Joint Policy Statement released by the Northern California Association for Non-Profit Housing and the Home Builders Association of Northern California evidences the mutual interests that affordable housing regulations can provide for both non-profit housing advocates and the building and development community. This important coalition between the market-rate development community and affordable housing builders and advocates also occurred in Seattle, and was irreplaceable in the process of adopting Incentive Zoning.

However, the partnership between these communities in Seattle formed during a time of rapid economic growth. In this context, both groups likely felt a pressing need to meet these objectives: the market-rate building community could immediately take advantage of any allowances for increased density, and command a high price for these projects; the housing advocacy community was likely concerned about rapid development without affordable housing and rising rents and land values. Currently in 2012, the United States is on its way out of a significant economic recession and land values, rents and home prices are still suffering. It is important to understand that many builders and developers may have experienced significant drops in the viability of their businesses, and so might not be willing to work towards affordable housing policy in this current difficult context. But, as the market begins to change in the near future, builders and developers may become more interested in these policies of they satisfy mutual interests. At that point, it may be easier to build the coalition necessary to craft policies to be maximally effective.

In the mean time, housing advocates should identify those in the development and building communities that are most prominent (for example, who own significant amounts of property throughout the city), and are most likely to be sympathetic to the need for these policies in the future. Advocates working to craft the Inclusionary Housing and Transferable Development Rights Transit-Oriented Zone policies should work to ensure these influential builders and developers become allies, and champions of the policy within their own professional communities.

Recommendation 3.3: Grow This Coalition to Create a Constituency for the Policy that is Attractive to City Administration.

Housing advocates should reach out to other groups with shared interests to advance a wider coalition pursuing policies for transit neighborhood planning. This could include other equity-focused groups, labor and union groups, environmentalist groups and transit advocates.

San Francisco and Seattle's case studies both exemplified the importance of basing this policy adoption process within the framework of meeting numerous interests. In San Francisco, the Great Communities Collaborative (a coalition of interested nonprofits) provided technical support to City planners during the planning process. In Seattle, the coalition between nonprofit housing organizations and the Downtown business and development community provided City leadership with the attractive opportunity to meet the interests of both of these important constituents simultaneously. This unusual alignment played a significant role in the eventual adoption of Incentive Zoning.

The ability to advance such a coalition is crucial both to the successful design of these policies in Los Angeles, as well as to the political viability of their adoption.

Recommendation 3.4: Identify and Support Advocates for the Policy within the City.

The case studies conducted in this paper both exemplify the importance of planning staff and City leadership dedicated to the adoption of transit-neighborhood affordable housing policies. It is important that advocates of these policies in Los Angeles identify influential City staff and City Council members that are likely to support transit-oriented affordable housing policies. Advocates should consider past campaigns and projects to determine staff within Los Angeles' City Planning Department, as well as members of City Council, who have shown support for affordable housing and transit-neighborhood planning in the past.

City planners and Council members committed to the success of these policies can have a significant impact on the likelihood of their adoption. City planners can influence the design of these policies, and City Council is eventually responsible for their ultimate approval. Further, both planners and political leaders can play a role in gaining neighborhood support. Advocates in Los Angeles should work closely with these local government insiders to create dedicated support for these policies among planners and decision-makers.

Recommendation 3.5: Remain Involved Post-Adoption as Champions for Implementation.

Inclusionary Housing and Transferable Development Rights in Transit-Oriented Zones will continue to face challenges after adoption. Advocates must remain involved throughout implementation to ensure these policies function as planned. This involvement is most important as individual projects that meet the objectives of these policies progress

through the planning, review, and entitlements processes. Even after plans and policies have been adopted, individual projects can be stalled and even halted by resistance from neighborhood residents or decision-makers.

In Seattle, a nonprofit housing organization's close work with neighborhood residents in opposition to a low-income housing development was successful in changing public opinion and gaining community support. San Francisco's neighborhood planning process turned involved residents into champions for the plan, and new development projects now gain neighborhood approval more easily in these neighborhoods than elsewhere in the city. Los Angeles advocates can play a role in gaining this kind of community support to aid policy implementation by easing the process of project approval. By working closely with communities through public education, and by encouraging coalition members in various neighborhoods to remain involved, advocates can facilitate the implementation of affordable housing policies in Los Angeles' transit neighborhoods.

Recommendation IV: Advocates and City Staff Should Research Additional Land Use Policies to Meet Affordable Housing Need in Transit Neighborhoods

This research has shown that, while Inclusionary and Incentive Zoning effectively encourage affordable housing development and Transferable Development Rights works to preserve existing housing, more tools are necessary to meet the total need for affordable housing in these neighborhoods.

Both case study cities levy an impact fee on commercial development. In Seattle, this is structured as an incentive for increased density, and in San Francisco, these policies exist citywide. A 2011 study in Los Angeles recommends that a citywide impact fee, so long as it is a modest proportion of total development cost, would not pose a significant impact on development feasibility (City of Los Angeles 2011). Policy makers in Los Angeles should consider adoption of this policy. One opportunity to further target transit-oriented affordable housing would be to structure this policy to collect impact -fees on commercial development citywide, but to restrict the spending of these fees to transit neighborhoods.

In addition, planners and policy-makers in both case study cities pointed to Accessory Dwelling Units (ADUs) on single-family residential lots as a potentially promising tool to encourage a greater diversity of housing options, with varying affordability levels, in transit neighborhoods. ADUs are typically built in the backyard of a single-family home, and (because of their small size and minimal development costs) can provide affordable housing without requiring a public subsidy. Rather, they can produce an economic benefit for the homeowner as they receive rent from the ADU occupant. San Francisco and Seattle both include single-family neighborhoods with rich access to public transit, and both have pointed to policies that encourage ADUs as potential steps to add housing with a diversity of rents in

these areas.

Figure 8: An ADU in the Los Angeles area. Source: redfin.com

In Los Angeles, in which 85% of the city's residential land is zoned for single-family homes (cityLab 2010), this may be a particularly promising tool. However, as this policy has not been the focus of this project, more research is necessary to determine the effectiveness of this and other strategies to supplement Inclusionary Housing and Transferable Development Rights policies in the provision of housing in Los Angeles transit neighborhoods.

CONCLUDING REMARKS

Case study analysis of San Francisco's Inclusionary Affordable Housing policy and Seattle's Incentive Zoning program determined that, while some challenges exist in implementation, these programs are effective in supporting the development of affordable housing in transit-oriented neighborhoods. In addition, Seattle's Transferable Development Rights program emerged as a useful tool to encourage preservation of existing affordable housing. Los Angeles should follow these models, and incorporate the lessons learned through analysis of these programs, in order to adopt the policies recommended above to support production and preservation of affordable housing in transit-oriented neighborhoods.

These recommended strategies are land use policies that will effectively target affordable housing, through a neighborhood-planning approach, to ensure its inclusion in the development of transit-rich neighborhoods. However, throughout the research, the State of California's lack of a permanent dedicated funding source for affordable housing emerged as a significant problem to all affordable housing policy. This problem is especially severe following the demise of California's Redevelopment Agencies, which previously were required to spend at least 20% of revenues on affordable housing. Even successful land use policies will not produce the level of affordable housing needed in California's cities without additional public funds to subsidize affordable housing development.

Thus a significant conclusion of this project is that, while it is crucial that Los Angeles' advocates and public servants work to adopt appropriate land use policies in the city, it is equally important that these local actors come together with others throughout the State to push for dedicated funding for affordable housing. This paper therefore ends with a brief discussion of a few potential strategies to approach the underlying problem of long-term funding.

Funding to Implement SB 375

Senate Bill 375 (Steinberg, 2008) requires regional planning agencies to create a Sustainable Communities Strategy as part of their Regional Transportation Plan that integrates land use and housing with transportation investments to reduce vehicle miles traveled in personal use vehicles. SB 375 requires that regional agencies align the allocation of housing units associated with the State Regional Housing Need Assessment (RHNA) with the regional Sustainable Communities Strategy that plans for sustainable future

growth in the region (California Senate Bill 375 2008). The alignment of SB 375 with the RHNA process highlights the importance of aligning principles of transit-oriented development with a supply of housing that is accessible to people of all income levels. However, the State has not backed this mandate on cities and regions with adequate funding for its implementation.

Los Angeles' housing, transit and environmental advocates, as well as the public sector, the building community, and others, need to work as a region, and with other regions across the State to make clear that achieving the goals of SB 375 is impossible without dedicated funding for affordable housing. This platform should approach the State's Strategic Growth Council (SGC) with policy ideas to address this funding gap. As a Cabinet-level Council dedicated to achieving the principles set out in SB 375, the SGC is an important State body with whom California's regions and advocates can work to develop solutions.

For example, when California's budget becomes more stable in the future, the SGC could direct a small proportion of State property tax revenue to regional agencies with Sustainable Communities Strategies that meet requirements created by the SGC. This proportion of property tax revenue could be considerably smaller than the portion previously directed to Redevelopment. This smaller funding pool could be made more efficient by requiring regional agencies to allocate this revenue to local jurisdictions for redevelopment and affordable housing projects that are consistent with SB 375 regional plans.

SB 1220: Real Estate Transfer Tax

Senate Bill 1220 (DeSaulnier and Steinberg 2012) is currently on the California State Senate floor. The bill would introduce a $75 document recording fee onto real estate transactions in the State. This fee would go directly to housing trust funds to support affordable housing development. This bill, or other similar fees, would create a permanent dedicated funding source that would provide a permanent source of funding for the production of affordable housing in California's cities.

AB 485: Infrastructure Finance Districts

Infrastructure Finance Districts are currently used to fund redevelopment and infrastructure projects in California. The Districts are somewhat similar to California's previous Redevelopment Law, as they fund projects through use of tax increments to finance infrastructure improvements (although provide significantly less funding than Redevelopment Agencies did previously). However, as they exist currently, adoption of an Infrastructure Finance District requires a 2/3 public vote. This high level of public approval makes IFDs nearly impossible tools for the support of public projects.

AB 485 (Ma 2011) would remove this 2/3 requirement, instead allowing local jurisdictions to adopt Infrastructure Finance Districts without a public vote. The Bill would also require that 20% of these funds be used to increase, improve or preserve the jurisdiction's supply of affordable

housing. Advocates and the public sector should both be working with local representatives at the State level to push this policy, as it would free up funding for much needed re-development and affordable housing projects.

These potential State-level policies are important tools to keep in mind as Los Angeles and the State of California move forward in addressing the overall need for affordable housing. This paper has found land use policy to be successful in meeting the place-based need for affordable housing in transit districts. However the larger strategies presented in this final section are necessary to address the lack of funding for affordable housing that looms over all local attempts to plan for affordable housing preservation and production.

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APPENDICES

Appendix A: List of Interviewees

1. Sarah Dennis-Phillips, City Planner, City of San Francisco
2. Sasha M. Hauswald, Public Policy Manager, San Francisco Mayor's Office of Housing
3. Evelyn Stivers, Field Director, Northern California Association of Non-Profit Housing
4. Marc Babsin, Principal, Emerald Fund
5. Laura Hewitt Walker, Strategic Advisor, City of Seattle Office of Housing
6. Dennis Meier, City Planner, City of Seattle
7. Sharon Lee, Executive Director, Low-Income Housing Institute
8. James Mueller, Managaing Partner, JC Mueller LLC

Appendix B: Interview Tool

Questions:

- What is your organization/agency?
- What is your role in the organization/agency?
- Please talk about what [insert city name] is doing to support affordable housing in transit neighborhoods?
- Is there a permanent source of funding in the city to support affordable housing?
- How does this funding source work?
- Does it provide sufficient funds?
- How many affordable housing units are funded or built per year? During the last 10 years?
- Of these, what is the breakdown in proportion of very-low, low- and moderate-income housing?
- Are there restrictions on unit size or numbers of bedrooms?
- Is this funding source applicable to the whole city or just particular districts?
- Are there land use policies that encourage, support or facilitate affordable housing?
- Do these policies address preservation AND production of affordable housing?
- What are the zoning and density requirements in transit-station neighborhoods?
- Are the parking requirements different in transit-oriented neighborhoods than in other areas in the city?
- Please talk about your involvement in these policies and programs?
- What were the policies for supporting affordable housing in the city at large before this policy was implemented?
- What is the city's general view on new development?
- What are the major barriers to new affordable housing

development?

- Has the policy helped address any of these barriers?
- Please talk about the process that took place in the planning and adoption of these policies?
- Please talk about what you think has worked and has not worked about the program?
- Is there a way measure the effectiveness of the program? If so, how?
- Please talk about what you see as the results of these policies?
- What do you think makes the program effective or ineffective?
- What do you think is the most important aspect of the program or policies? What would you change?
- Has there been a significant shift in your process or ability to pursue projects in these areas?
- Has this program changed your ability to complete projects in the transit neighborhood compared to other neighborhoods in the city?
- What aspect of the policy or which program is the most crucial in allowing you to complete projects?
- Are these policies more effective in some station areas than others?
- What are the characteristics of station areas where these programs are more or less successful?
- Do you have anything else to add that you think is important for me to know about this policy or the process of promoting affordable housing in transit neighborhoods in your city?
- Is there anyone else you would recommend I speak with?
- Is it alright if I contact you in the future if I have more questions?