

# The Economics of Inclusionary Housing

Portland Planning and Sustainability Commission

Lorelei Juntunen  
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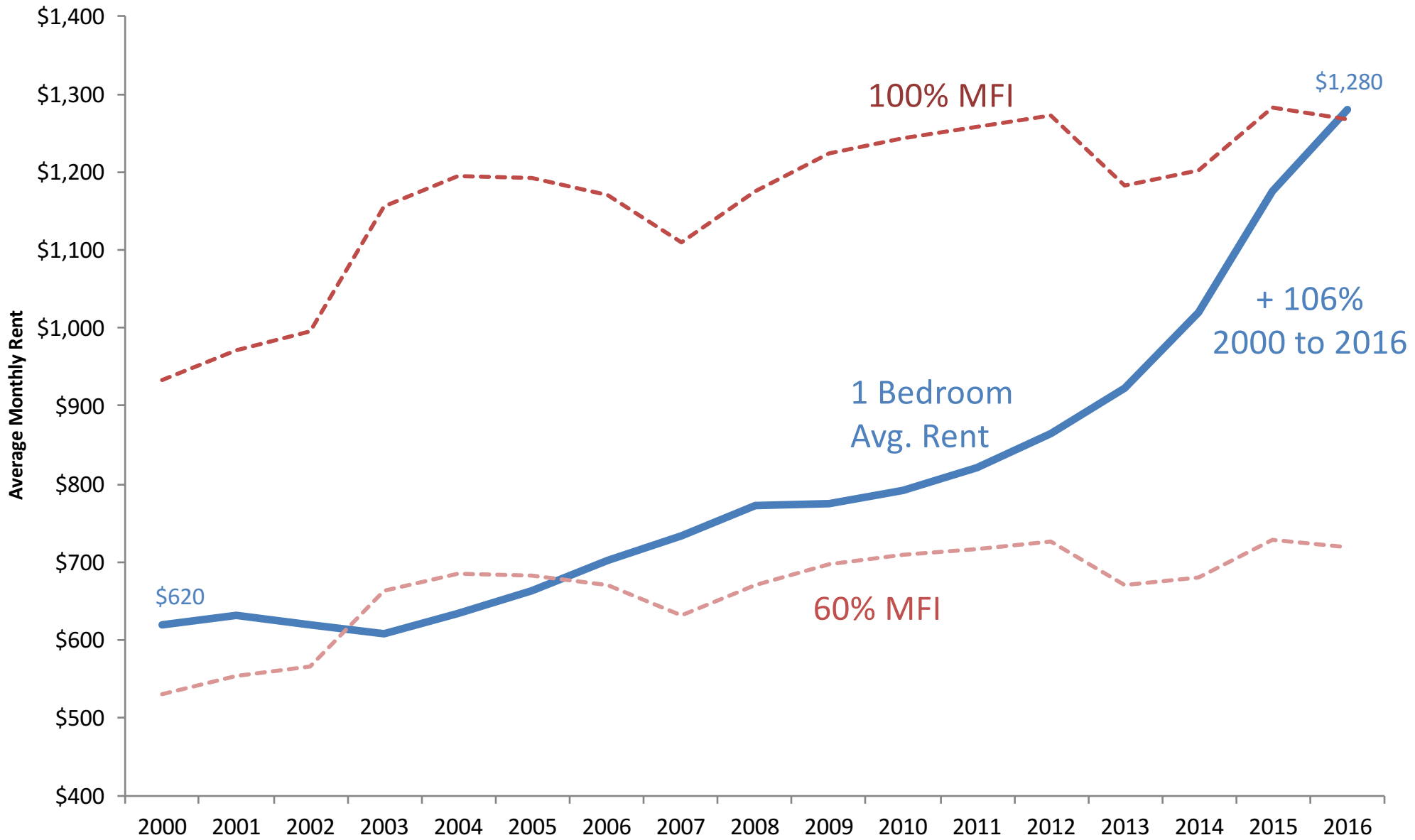
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# The Economics of Inclusionary Development



## Average Market Rent vs. MFI

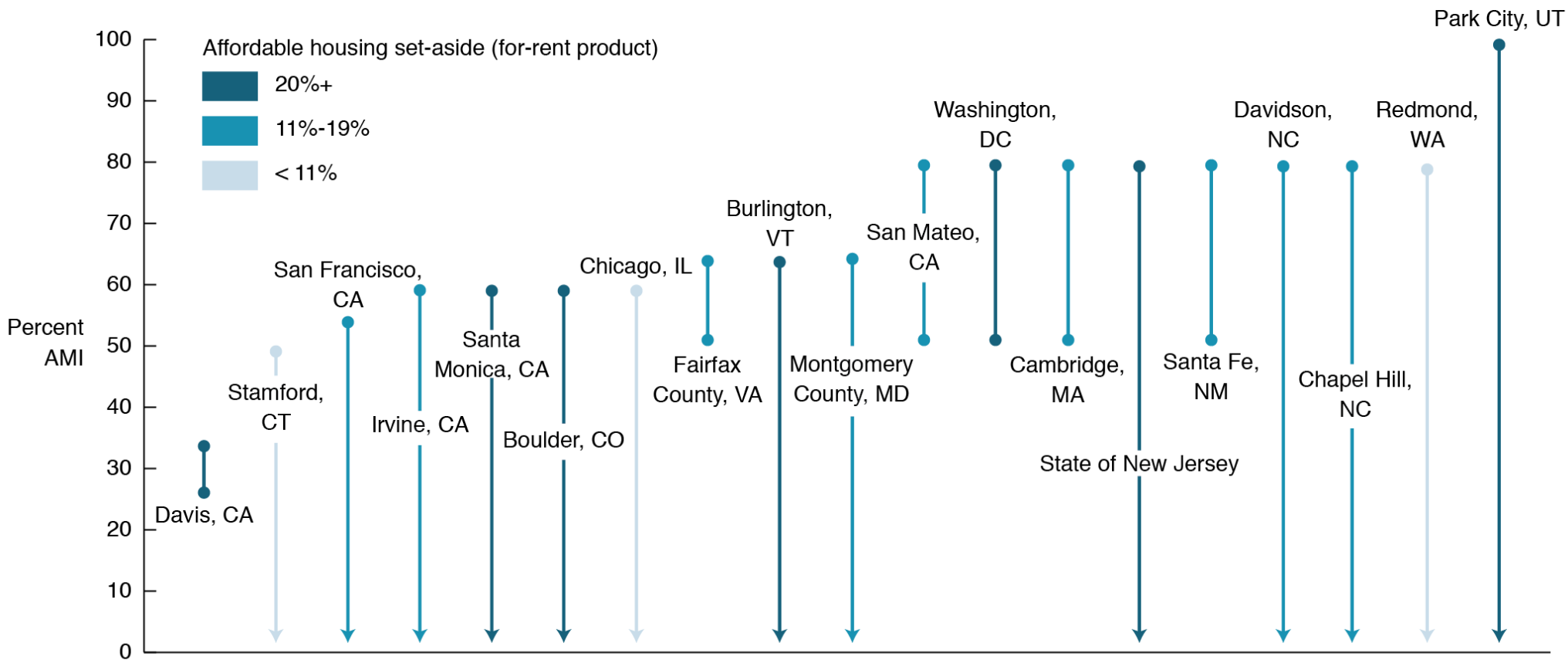


Source: Costar and HUD

Note: \$100 (2016\$) was deducted to account for utilities in the affordability calculation

# Overview of Sample IH Programs

## Median Income Targeted (Rental)



# Inclusionary Housing Policy Design

## Less Flexible

Mandatory

Higher setaside

Lower income target  
Longer rent restriction

Jurisdiction wide  
All housing types

No opt outs

No or ineffective  
incentives

or

30% to 5%

0% to 120%

Permanent to 10 years

City to neighborhood

# units or ownership

or

Public sector \$

## More Flexible

Voluntary

Lower setaside

Higher income target  
Shorter rent restriction

Spatial calibration  
Specific housing types

Opt-outs  
In lieu or off site

Market responsive  
incentives



# **What Makes Development Happen?**

# Project Operating Pro Forma

Revenues

Apartment Rent

Retail

Parking

Costs and Expenses

Debt Service

Operations

Vacancy

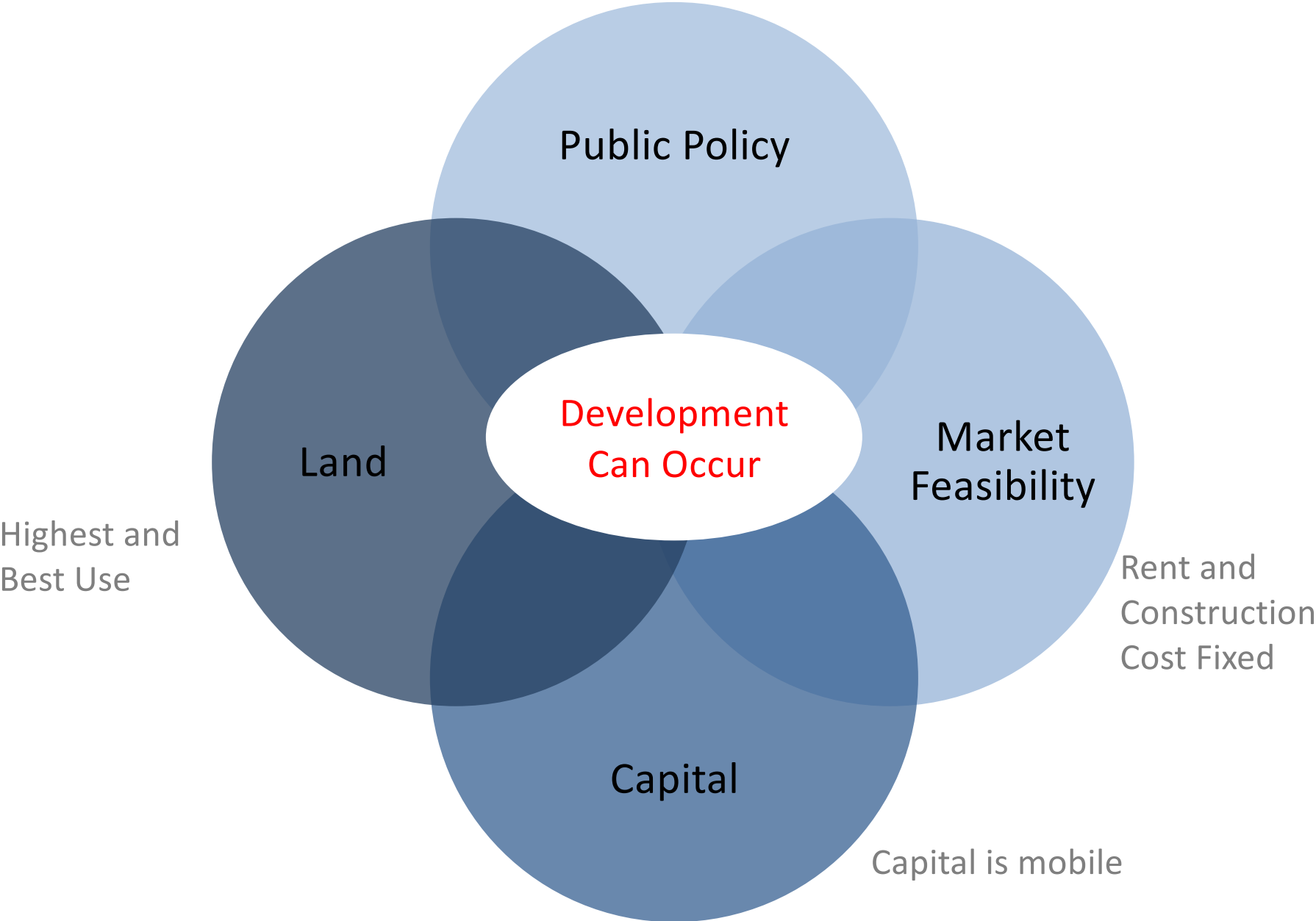
Property Tax

Reserves

Returns

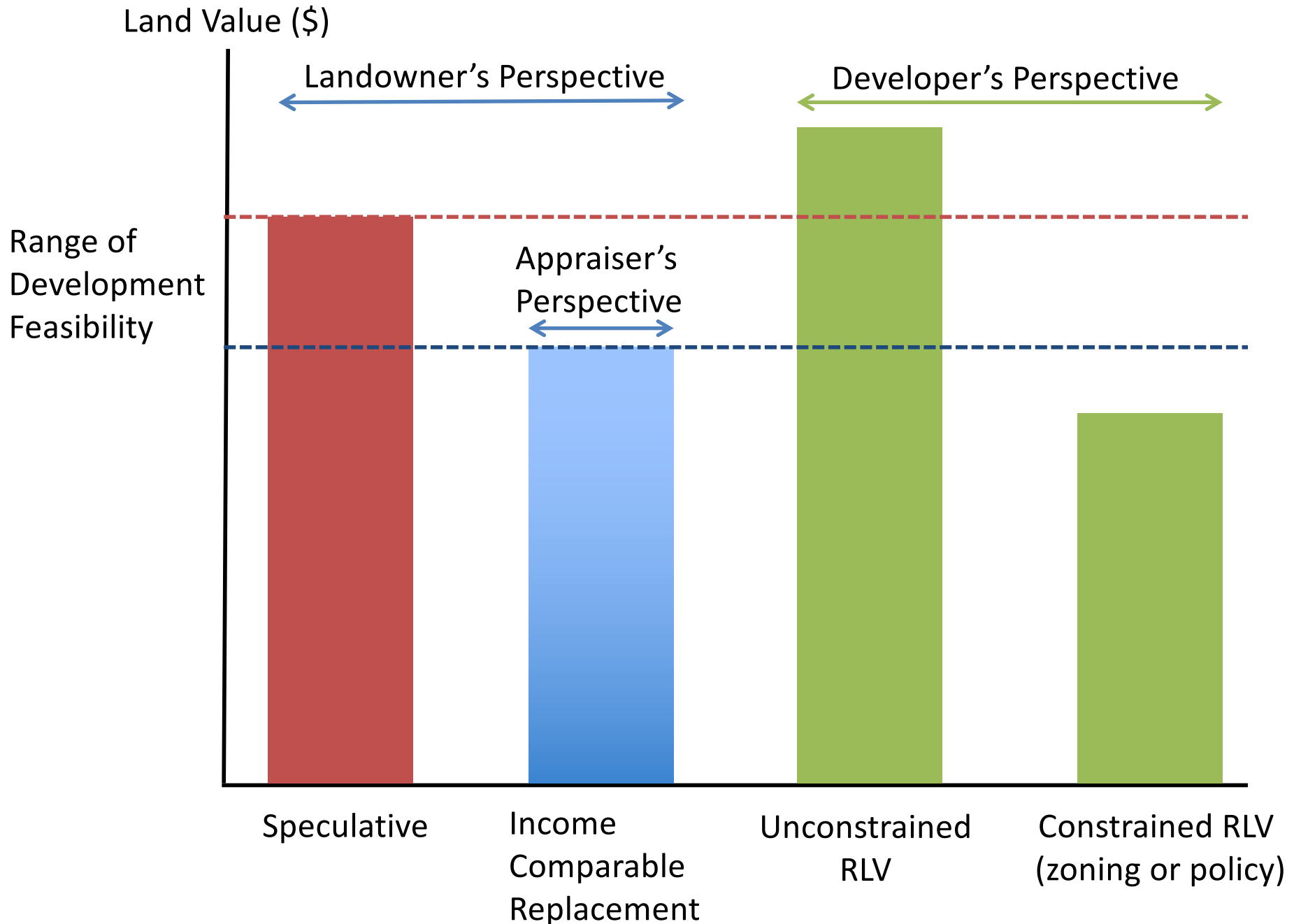
Net Cash Flow

# Understanding the Economics of Development



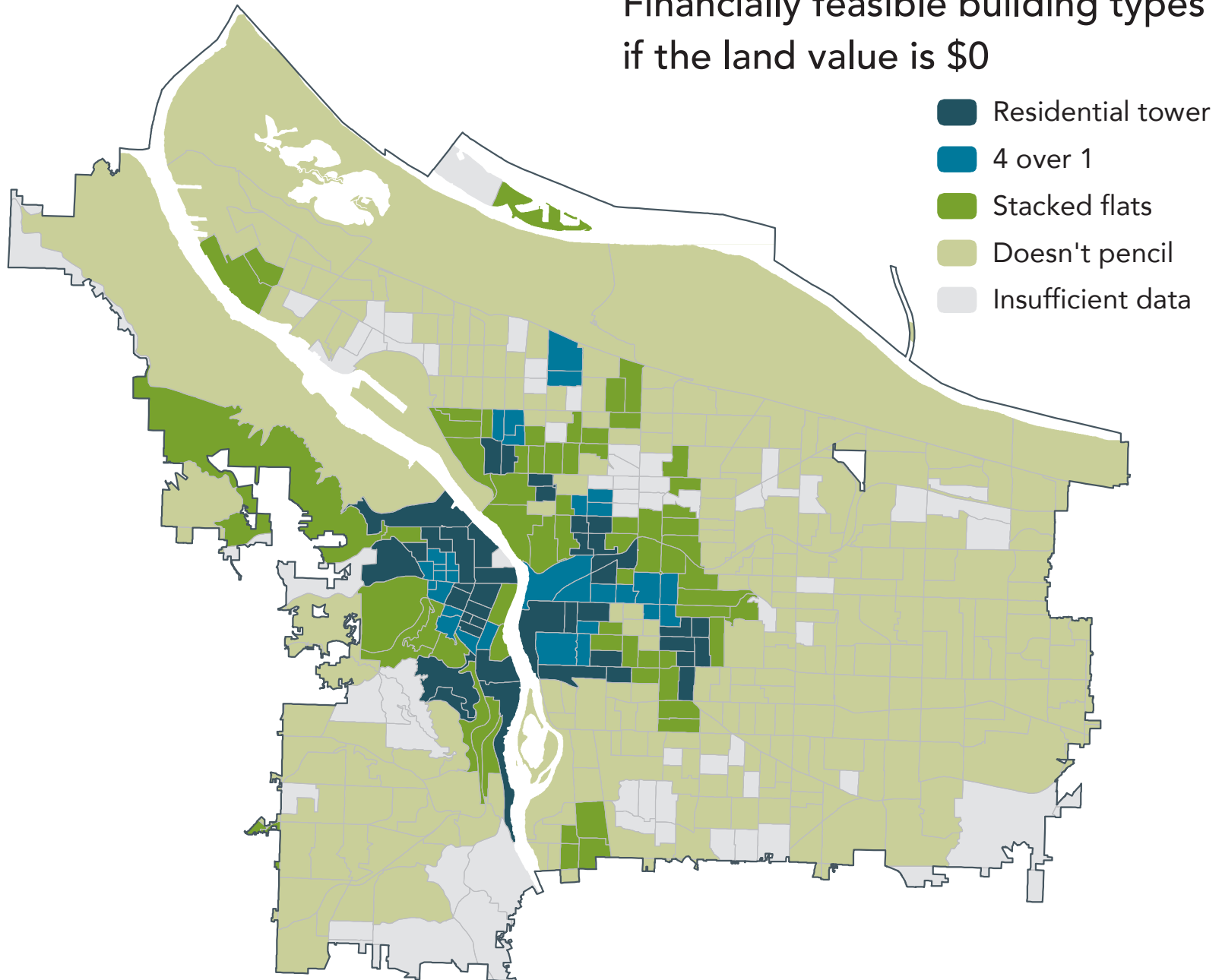


# Land Value - Highest and Best Use



# Markets Vary Within a Region

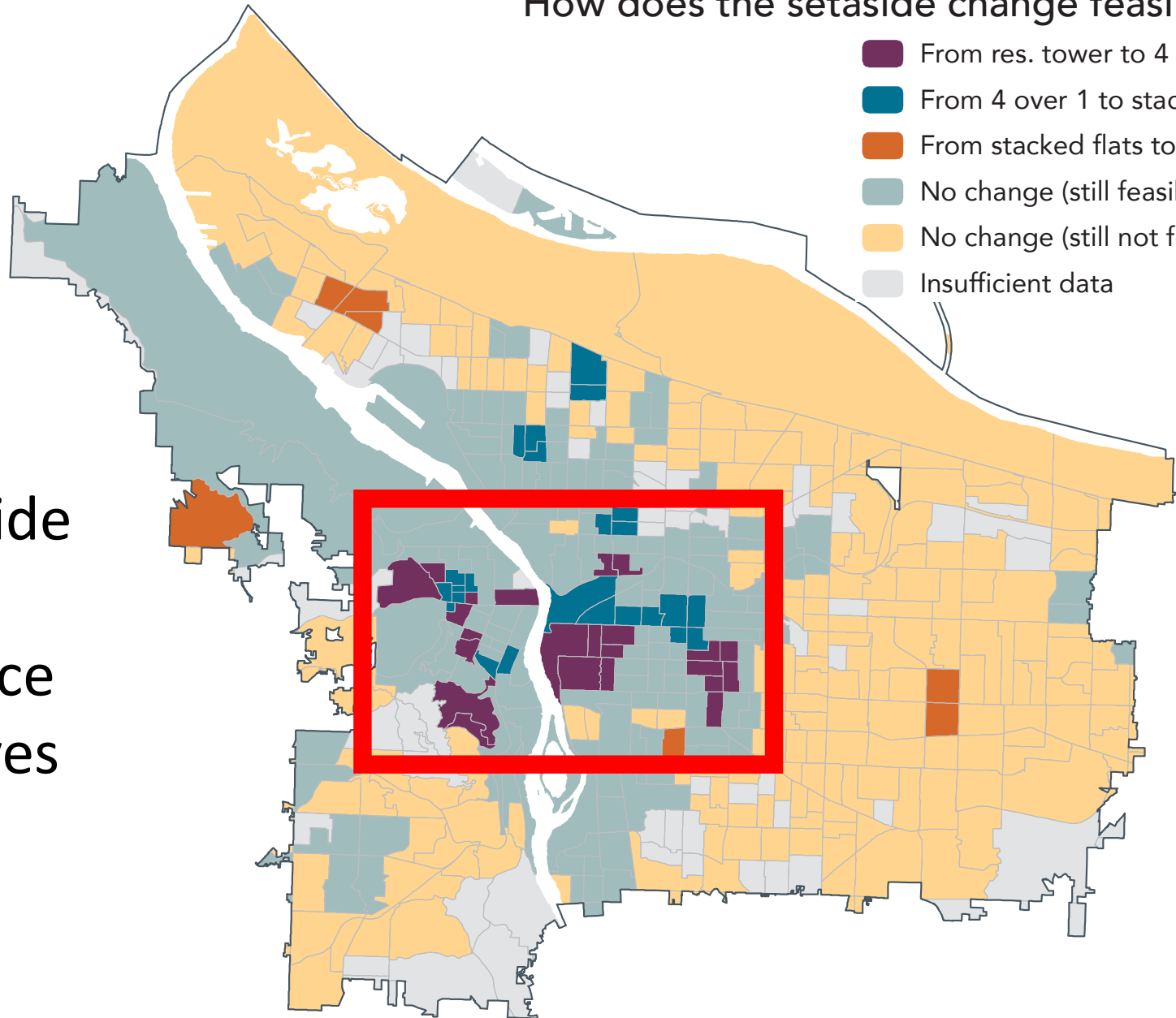
Financially feasible building types  
if the land value is \$0



# The Impact of IH Without Incentives

How does the setback change feasibility?

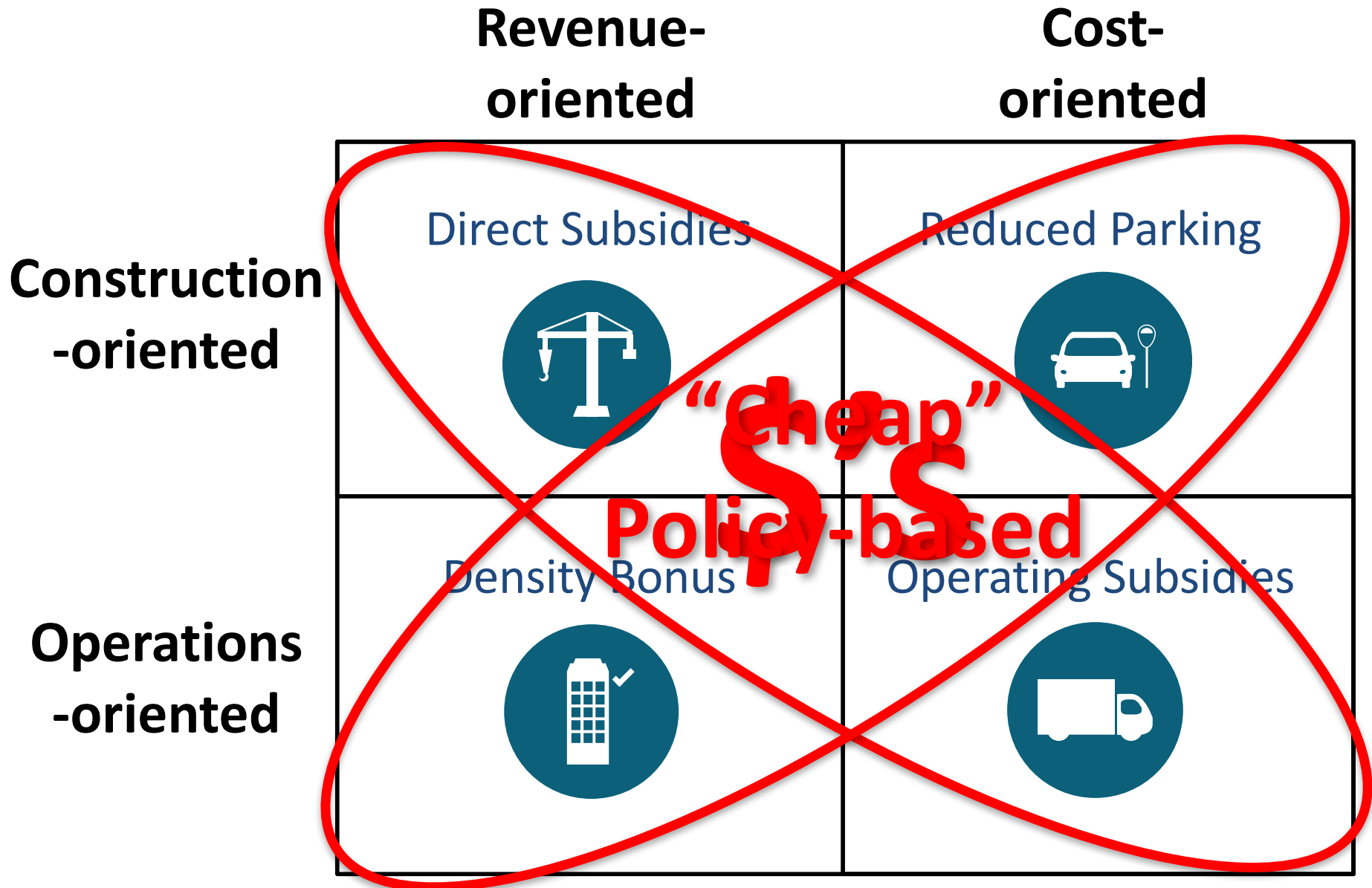
- From res. tower to 4 over 1
- From 4 over 1 to stacked flats
- From stacked flats to infeasible
- No change (still feasible)
- No change (still not feasible)
- Insufficient data



## IZ Policy

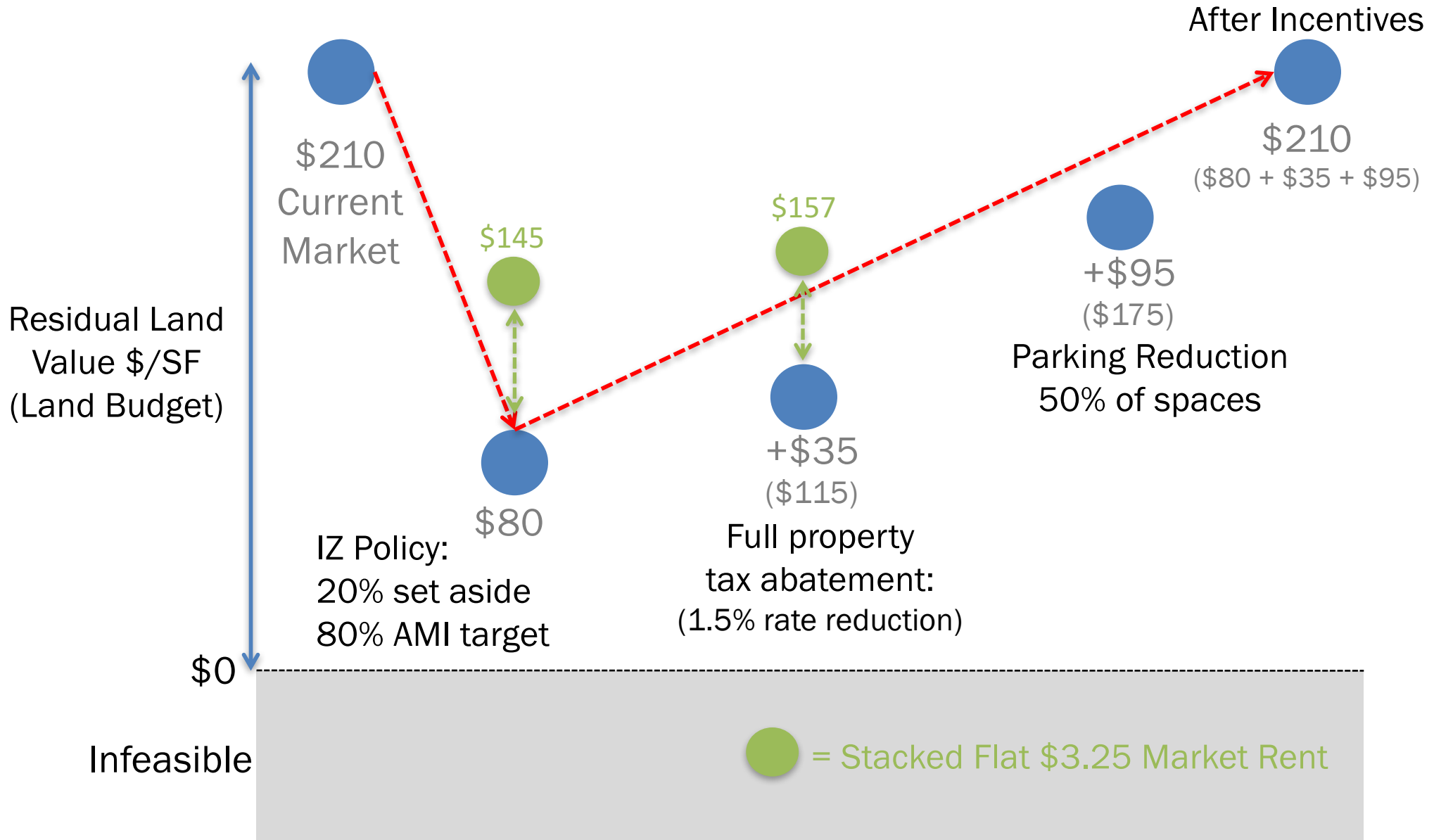
20% Set Aside  
80% of MFI  
\$0 Land Price  
No Incentives

# Offsetting Financial Incentives



# IZ Policy Offset – Incentive Comparison

## 4 over 1 Podium \$3.25 Market Rent





- Well-calibrated IH programs can result in mixed income buildings in areas where new development is occurring
- Poorly-calibrated IH programs create market disruptions and reduce development outcomes
- Flexible programs are better
  - Incentives
  - One size fits all vs. sub-market approach
  - Revisiting policy as market changes
  - Opt-out or fee-in-lieu

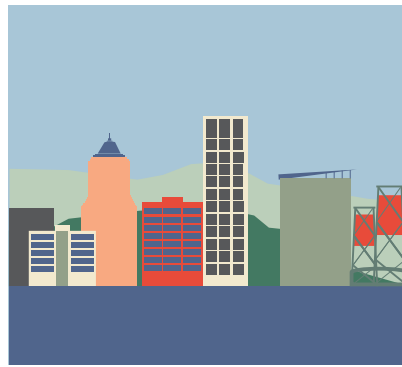
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Email: [juntunen@econw.com](mailto:juntunen@econw.com)



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