

**Exclusionary Zoning & Inclusionary Zoning Study**

January 2022 Update

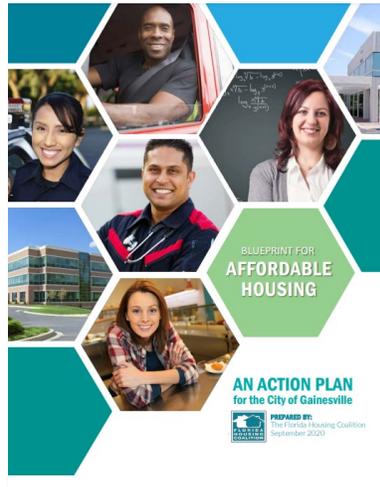
HR&A

**Project Overview** | HR&A Advisors was engaged by the City of Gainesville to analyze the causes of and potential strategies to address housing instability and racial inequities.

**This study responds to the following guiding questions:**

1. What drives housing instability and inequities in Gainesville?
2. How do exclusionary land use controls drive local housing market trends?
3. How can changes to exclusionary land use controls make housing in Gainesville more equitable?
4. Is an inclusionary zoning policy a feasible and effective tool for producing new affordable housing in Gainesville?
5. What other programs and policies are needed to address housing instability and inequities?

**Project Overview** | The City of Gainesville has been committed to creating a path toward an equitable housing landscape. This study is additive to these efforts.



### Recent Housing Efforts in Gainesville:

- Gainesville's **Housing Action Plan** (2020) calls for diversifying funding sources, increased zoning flexibility, and permanent affordability.
- Gainesville's current **Comprehensive Planning Process** includes a chapter exploring housing strategies to house all Gainesville residents.
- The **Gainesville Community Reinvestment Area** has pursued urban infill housing and worked to attract investment to underserved parts of the city.
- The **Gainesville Housing Authority** has partnered with private developers to subsidize permanently affordable housing.
- The **Gainesville Housing and Community Development Department** continues to administer funding and programs through CDBG, HOME and SHIP programs.

**Existing Conditions** | An analysis of existing conditions in Gainesville reveals several distinct but related issues that are driving instability and unequal housing outcomes.



### Racial Segregation

In Gainesville, race is a key determinant of where you live, access to diverse housing options and homeownership, and the value of your home.



### Housing Cost Burden

Extreme housing cost burden, driven primarily by low incomes, is a key driver of housing instability in Gainesville.



### Housing Access and Quality

New rental housing in Gainesville has disproportionately benefited student renters, and non-student renters live in older, less diverse housing types as a result.

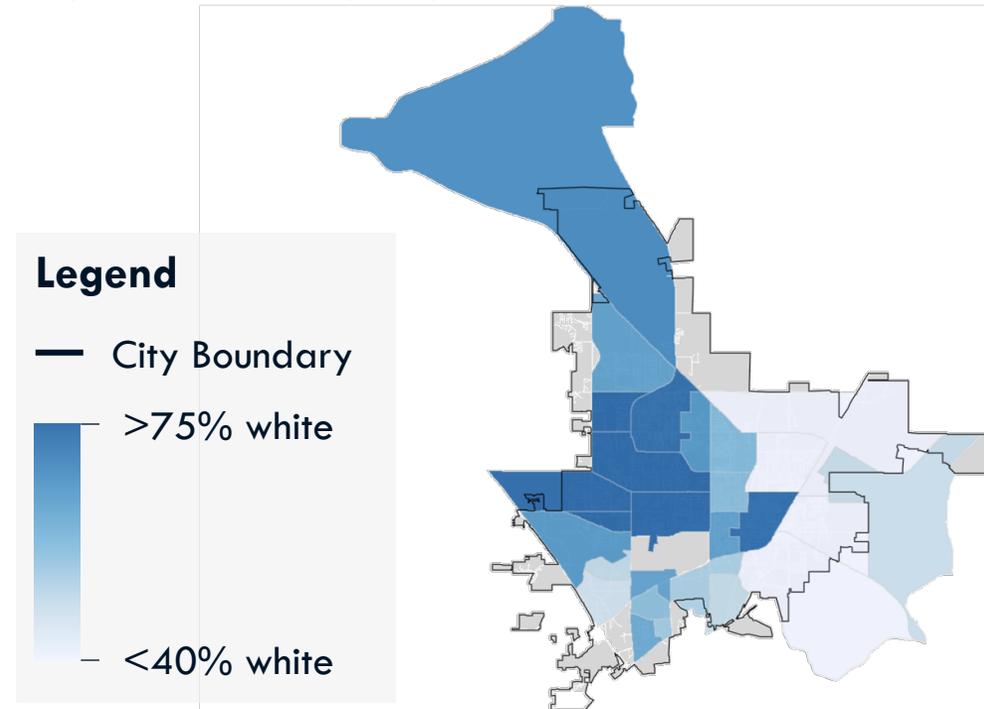
**Existing Conditions |** In Gainesville, race is a key determinant of where you live, your access to diverse housing options and homeownership, and the value of your home.



### Racial Segregation

- White households are more likely to live in single-family homes (which are typically owned, rather than rented).
- Gainesville’s Black population occupies “missing middle” housing, or buildings with 2-4 units, at a high rate relative to the population. These units tend to be more affordable in Gainesville.
- Homes in predominately white neighborhoods are assessed at higher values, increasing the wealth that accrues to white households.

### Share of Non-Hispanic or Latinx white Households (Census Tracts, All)



Source: Social Explorer – ACS 2019 (5-Year Estimates)

# Existing Conditions | Extreme housing cost burden, driven primarily by low incomes, is a key driver of housing instability in Gainesville.

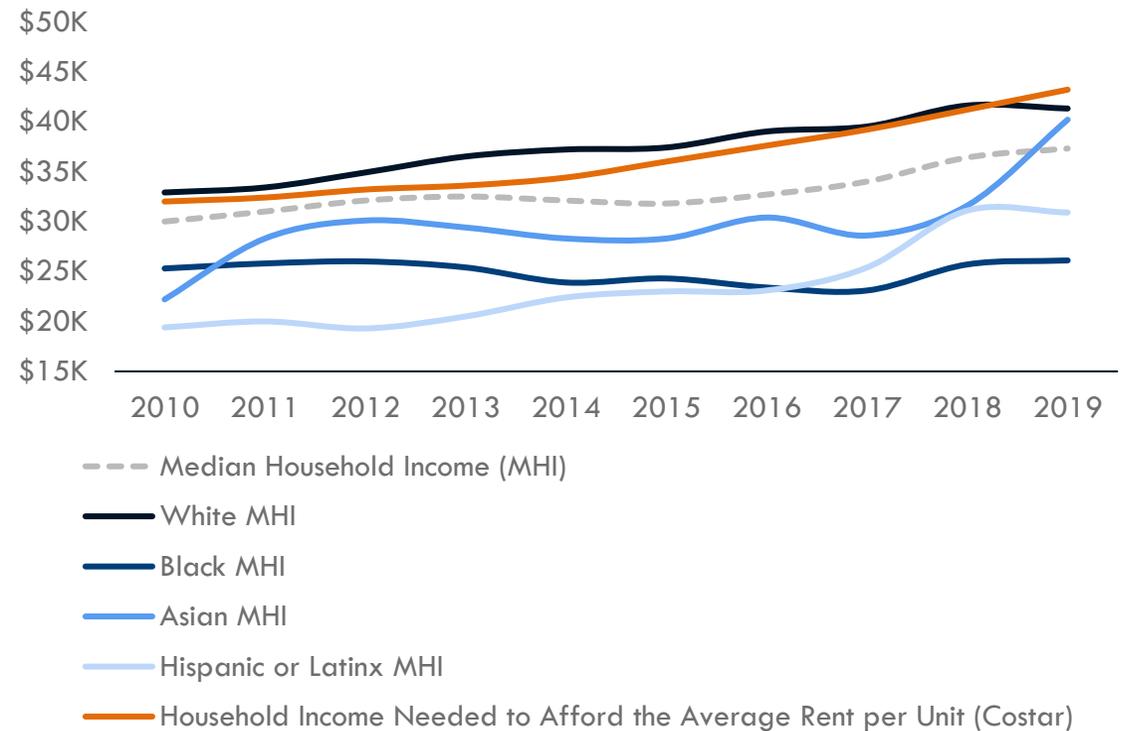


## Housing Cost Burden

- Renters across all racial groups earning <\$35K annually experience high rates of housing cost burden.
- Race is a predictor of household income and poverty in Gainesville. Only white and Asian households earn above Gainesville’s median household income. Black households make 73% of the median.
- The average rental unit is currently only affordable to the typical white or homeowner household in Gainesville.

Source: Social Explorer – ACS 2019 (5-Year Estimates)

### Income at which Average Rental Unit is Affordable by Race (All)



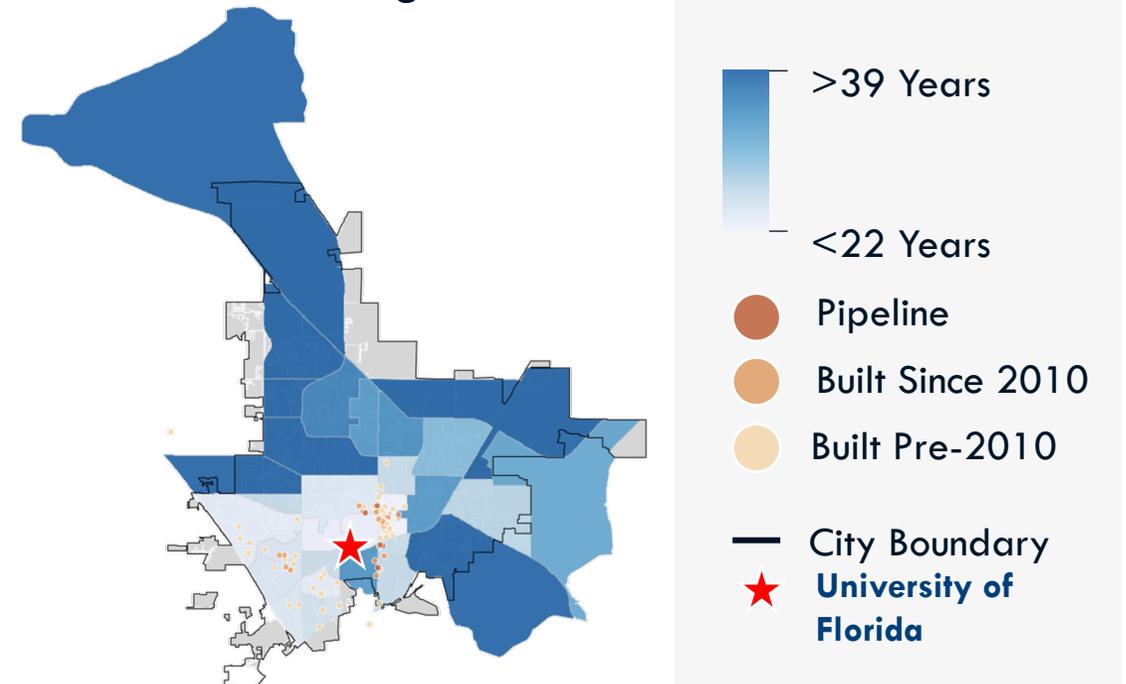
**Existing Conditions |** The student housing market is the strongest rental market in Gainesville. Non-student renters are not benefitting from new housing at the same rate.



### Housing Access and Quality

- Student renters are the primary beneficiaries of new rental housing development in Gainesville, which makes it more difficult for non-students to access such housing.
- Student renters make up 36% of the total population but comprise 50% of the population that lives in housing built after 2000.
- The average household in Gainesville struggles to access homeownership, especially Black, Hispanic or Latinx, and renter households. As a result, 61% of households in the City are renters. Less than a third of Black and Hispanic or Latinx households are homeowners.

### Median Age by Census Tract and Student Housing\*



\*Includes both student housing (i.e., housing that exclusively serves students) and student-focused housing (i.e., housing that caters to students but is available to all residents).

Source: Social Explorer – ACS 2019 (5-Year Estimates)

**Land Use |** This study explores how land use tools can help to create a housing landscape in which who you are does not determine your housing options.

While there are many housing tools, programs, and mechanisms that can improve housing equity and affordability, this study is tasked with assessing two specific land use strategies.



**Land Use Tools** use municipal regulations and zoning authority to indirectly improve affordability by increasing the supply of housing and to directly require the production of affordable units.



**Subsidy Tools**, in the form of below-market rate loans, grants, or other public resources, close the gap between what a household can afford to pay and the costs to develop and operate housing.



**Tenants' Rights Tools** preserve existing affordable housing and housing stability by using laws and regulations that protect current occupants.

**Land Use |** Land use mechanisms analyzed here include: (i) redressing exclusionary policies and (ii) implementing an inclusionary zoning program.



**In general, land use tools are most effective at addressing the housing needs of moderate-income residents and are not effective at addressing the housing needs of low- and very low-income residents.**

**Redressing exclusionary policies** is a strategy to expand housing options throughout the city, creating housing opportunities for residents of all racial and economic statuses in places that households want and can afford to live in.

**Inclusionary zoning**, while not necessarily the antidote to exclusionary zoning, is a strategy to produce regulated affordable housing for moderate income households in the private market by incentivizing, requiring, and/or subsidizing private housing developers to deliver new affordable housing when they build new market rate housing.

*These two land use strategies can, but don't necessarily need to, work hand in hand. While this study focuses on two specific land use strategies, future housing plans should consider the full landscape of housing tools to increase housing stability and equity in Gainesville, including subsidy and tenants' rights tools.*

**Recommendations** | This study makes recommendations on land use strategies that can help drive an equitable housing landscape in Gainesville.



The City should **redress existing exclusionary land use controls**, with a particular focus on those that have the highest exclusionary impact in Gainesville, including strict lot utilization and parcel constraints, strict design and compatibility requirements, and occupancy and mobile home limitations.

The City should implement a **mandatory IZ policy** requiring that rental developments with at least 10 residential units provide a 10 percent set-aside of units that are affordable to households earning up to 80 percent of Area Median Income, offering a density bonus incentive of up to 30 percent. If possible, the City should also explore additional incentives, such as a synthetic TIF, to deepen affordability (e.g., to create units affordable to 60 percent of AMI).

*Both of these strategies should be used in combination with a **set of housing tools** to address the housing needs of low- and very low-income Gainesville residents, who have the highest housing need. HR&A recommends that the City of Gainesville work to identify revenue sources for an Affordable Housing Trust Fund and assess the possibility of deploying local subsidy for affordable housing.*

**Exclusionary Land Use Controls** | Exclusionary land use controls exclude a diverse (often racially diverse) range of households from residential neighborhoods.

**Exclusionary lands use controls both directly limit the types of housing that can be built, and indirect limit housing access by contributing to prohibitive housing costs.** While zoning is a recognizable land use control, it is one of many tools that local government uses to control *how, where, and what kind* of development occurs. County and State land use regulations and housing policy, such as HB 7103, also play a role in determining development patterns in Gainesville. HR&A developed criteria with which to review Gainesville's Code of Ordinances.

**Exclusionary land use controls are local regulations that:**

- 1. Directly decrease or limit housing supply in residential areas** (*strict lot utilization and parcel constraints*)
- 2. Increase the cost to build new housing** (*strict design and compatibility requirements*)
- 3. Limit the use of existing housing** (*strict occupancy limitations and mobile home location limitations*)

*Each of these dynamics drives disparate outcomes by race.*

**Exclusionary Land Use Controls** | Changing exclusionary land use controls is an important tool for reducing racial and economic exclusion across a housing market.



**Benefits of Changing Exclusionary LUCs:**

- No public funding required to induce private development
- Increases the overall supply of housing
- Can help address legacies of racial segregation by driving new housing supply more evenly across the city
- Reduces the ability of a limited constituency to prevent the creation of housing
- Supports economic growth and expands the City's tax base

*Without reducing exclusionary land use controls, all other housing strategies, and those that require subsidy in particular, are less effective and more costly.*

**Exclusionary Land Use Controls** | The City of Gainesville should complete in-depth land use analyses to consider the following changes to exclusionary land use controls.

### Actions to Consider

- Reduce setbacks in low and moderate density residential areas.
- Permit lot splits in minor subdivisions.
- Reduce minimum lot dimensions.
- Allow housing typologies beyond single family ("missing middle", 2-4 unit housing) in residential districts with strict lot utilization constraints.
  
- Eliminate compatibility requirements between multifamily and single family uses.
- Reduce expensive design standards in historic preservation districts.
  
- Identify additional areas to permit mobile home uses.
- Eliminate single family occupancy limitations in low density districts.
- Increase the bedroom limit in the University of Florida Context Area when a structure includes more than one dwelling (attached housing).

### Outcomes



**1. Increase the amount and type of housing in residential areas**



**2. Decrease the cost to build and maintain housing**



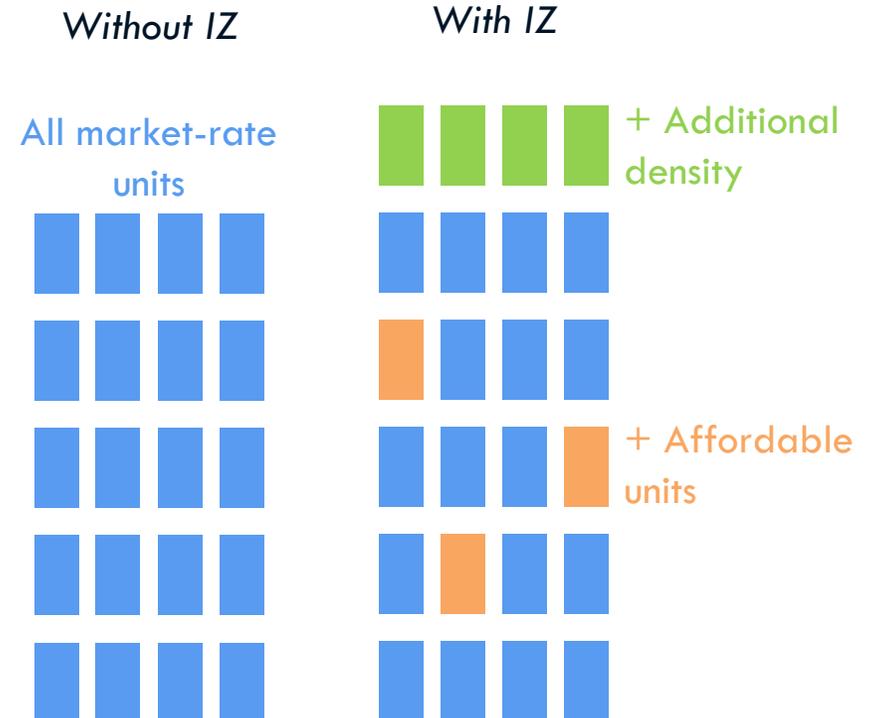
**3. Increase options for the use of existing housing**

## Inclusionary Zoning | The goal of an inclusionary zoning policy is to support Gainesville’s housing needs through the creation of affordable housing.

Inclusionary zoning is a land use tool that requires or encourages developers to create affordable units in new market-rate residential and commercial developments. Incentives such as reduced parking requirements, additional density allowances, or tax abatements are sometimes provided to encourage participation.

More than 1000 jurisdictions across 30+ states have inclusionary zoning programs. These programs vary along many design considerations, including whether the program is voluntary or mandatory, what amount and depth of affordability is required, if it applies to rental or for-sale development, whether there are alternative compliance pathways such as the payment of a fee in-lieu, and what incentives are available. These policy elements are adjusted based on local policy priorities, housing market strength, and affordability needs.

### Illustrative IZ Policy with Density Bonus Incentive



**Inclusionary Zoning** | Inclusionary zoning is one of many tools that can support housing affordability, and it presents a variety of benefits and limitations.

### Benefits of IZ

**Captures value of land in areas with strong housing markets.** The Gainesville market has seen steady market-rate development in recent years in some neighborhoods, suggesting the potential to support development of some affordable housing.

**Serves households earning up to 80% of Area Median Income (AMI),** which is an area of need for Gainesville.

**Does not require public subsidy, though public subsidy may be provided as an incentive** to achieve more or deeper affordability.

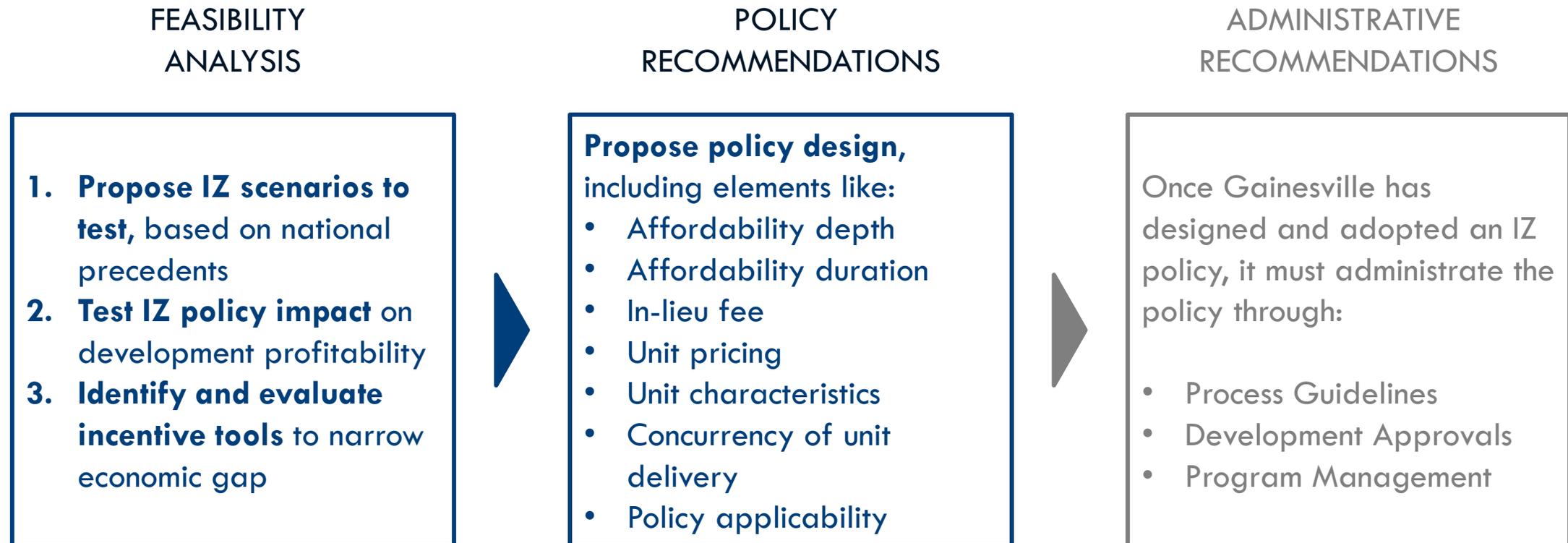
### Limitations of IZ

**Does not work in weaker housing markets and submarkets,** where an overly restrictive IZ policy risks decreasing housing development, which ultimately harms affordability by both failing to deliver the mandated IZ units and limiting overall housing supply. An IZ policy that is overly restrictive relative to nearby jurisdictions also risks driving new development outside of political boundaries.

**Do not serve very deep levels of affordability need, such as for households earning up to 30% AMI.** For these residents, other alternatives such as housing vouchers should be layered with increased supply of rent-restricted affordable housing.

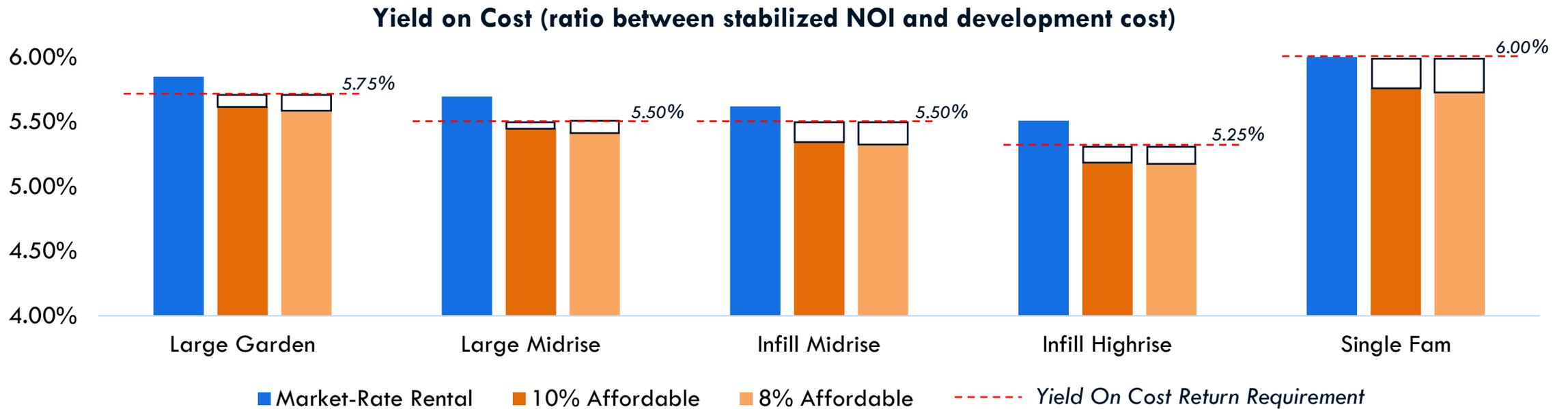
**Need to triangulate and optimize** between maximizing depth of affordability, ensuring continued housing development, and limiting the cost of incentives.

## Inclusionary Zoning | HR&A tested the feasibility and impact of an inclusionary zoning policy in Gainesville and provided recommendations for policy design.



## Inclusionary Zoning | HR&A’s modeling finds that 10% and 8% IZ requirements bring project profitability below threshold return requirements for all five typologies.

Project profitability was measured using Yield on Cost, calculated for each property type using a 10-year cash flow model. The model was populated with assumptions gathered from empirical market data and developer interviews (see summary table of assumptions in the Appendix). The calculations below give a sense of the average directional impact and relative magnitude of policies. Falling below the return threshold does not mean every deal will die, but that fewer deals will happen; similarly, not every project above the return threshold will necessarily happen. Based on our model, **the likely profitability gap for a developer per required affordable unit is between \$16,000 to \$140,000.**



## Inclusionary Zoning | A range of incentives are available to overcome the gap in expected financial returns.

Incentive	Proposal	Tradeoffs
<b>Additional density</b>	<i>Offer up to 30% additional density (more units)</i>	Can deliver strong financial value for owners without directly spending public dollars, but impact is limited if developers are currently building below existing land use regulations.
<b>Public land contributions</b>	<i>Waive an appropriate portion of public land costs (if density bonus is not sufficient)</i>	A highly valuable tool that reduces upfront development costs, but applicability may be limited (based on City land holdings).
<b>Expedited review</b>	<i>Always prioritize and expedite review for IZ projects, target 2 weeks</i>	Little to no cost to City; likely not valuable enough to be a “but for” incentive
<b>By-right development</b>	<i>Consider by-right approvals for IZ projects</i>	Little to no cost to City; likely not valuable enough to be a “but for” incentive
<b>Synthetic Tax Increment Financing</b>	<i>Explore mechanism for tax-increment financing to further deepen affordability</i>	Some cost to City, need to establish mechanism for residential properties, and requires Council vote; offers way to provide valuable subsidy without commitment of new dollars
<b>Direct subsidy</b>	<i>Not recommended unless reliable source of funding is identified and subsidy is used towards deepening affordability</i>	<ul style="list-style-type: none"> <li>• No sustainable, reliable source of ongoing funding</li> <li>• Highly valuable to developers, but costly to the City, and likely not the highest-impact/efficiency use of limited housing funds</li> </ul>
<b>Parking development</b>	<i>Not recommended</i>	Not meaningful as parking requirements are already low, sometimes below market demand

## Inclusionary Zoning | HR&A recommends that Gainesville adopt an IZ policy with a 10% set-aside for households earning up to 80% AMI, with the option of an in-lieu fee.

These requirements should be periodically reviewed and adjusted, every two years.

Key Program Design Element	Recommendation
<b>Set Aside &amp; Affordability Requirements:</b> calibrating depth and amount of affordable units, vs. feasibility of requiring units	<ul style="list-style-type: none"> <li>10% affordable units at 80% AMI</li> </ul>
<b>In-Lieu Fee / Flexibility for Compliance</b>	<ul style="list-style-type: none"> <li>Establish in-lieu fee option, set at \$120-160K per affordable unit that would have been built under IZ; adjust fee level every two years</li> </ul>
<b>Development Scale</b> (Size of Developments Subject to IZ)	<ul style="list-style-type: none"> <li>Apply IZ requirements to multifamily residential developments with ten or more units</li> </ul>
<b>Applicability</b> (Voluntary vs. Mandatory, Applicability to Existing Developments)	<ul style="list-style-type: none"> <li>Voluntary opt-in for geographies outside of IZ policy</li> <li>Incentives applicable to non-market rate units</li> <li>Not applicable to existing development</li> </ul>
<b>Affordability Term / Duration</b>	<ul style="list-style-type: none"> <li>99 years</li> </ul>
<b>Unit Pricing</b> (based on household income and size)	<ul style="list-style-type: none"> <li>Follow existing HUD guidelines</li> </ul>
<b>Unit Characteristics</b>	<ul style="list-style-type: none"> <li>Ensure affordable units are identical with market-rate units</li> </ul>
<b>Concurrency</b> of Delivery of Affordable Units	<ul style="list-style-type: none"> <li>Include a concurrency requirement</li> </ul>
<b>Fractional Units</b>	<ul style="list-style-type: none"> <li>Adopt normal rounding rules, rounding up for fractional units above 0.5</li> </ul>

## Next Steps

### Exclusionary Land Use Controls

- Provide guidance to the Department of Sustainable Development on key land use code elements for revision (all or a subset of those identified in this study).
- Implement land use control changes through land use code changes and other code or regulation changes, as needed.

### Inclusionary Zoning Policy

- Explore priorities for affordable housing preservation and production to determine whether an inclusionary zoning policy is the highest-priority next step.
  - If IZ is not the highest-priority policy, pursue alternatives, such as an affordable housing trust fund.
  - If IZ is the highest-priority policy, begin to prepare for implementation by establishing an “owner” for policy design and development.