TO: Community Development and Neighborhood Revitalization Committee

CC: CEDO, Mayor's Office

FROM: Erik Hoekstra, Managing Partner, Redstone

DATE: January 31, 2017

RE: Inclusionary Zoning Evaluation

We would like to thank the City for taking on the task of conducting an evaluation of the existing Inclusionary Zoning (IZ) policy. A number of the observations in the evaluation report shed light on the effectiveness of the IZ policy as it stands and offer some creative ideas for the future, however, we have a number of questions, comments and suggestions that we hope will help shape policy going forward.

Background information and observations:

There is a myth that I hear talked about in Burlington that the private sector does not want to build affordable housing because of some stigma associated with affordable housing or because "greedy" developers will not accept lower profits associated with affordable housing. That is a myth and simply not true. The private sector is motivated to develop housing at all income levels as long as there is some profit potential. The reality is that affordable housing production in Burlington is a non-profit activity that requires 100% subsidy; there is no profit available in the production of affordable housing. This is a simple fact and unfortunate reality. Groups like CHT, Cathedral Square, COTS, Housing Vermont, and Burlington Housing Authority are setup to produce non-profit affordable housing. This housing requires 100% subsidy in the form of tax credits, grants and no interest loans. Non-profits are able to tap into these subsidies more effectively than the private sector; many of these sources of funds have either a non-profit priority or are only available to the non-profit sector. The non-profit affordable housing system in Burlington is currently producing as much affordable housing as the subsidy funding system allows. In order to see bigger production numbers in affordable housing, more subsidy is required and it is unclear where that additional subsidy will come from.

The private sector loses money on every affordable unit it has to produce under the IZ policy. If you dig into the housing production numbers, we suspect you will see that from 1990 to about 2011, there was almost no new private sector rental housing produced in Burlington. That is because the economics of rental housing development did not work during that period of time. During the same period of time, a significant number of rental housing was produced by the private sector in communities like South Burlington, Colchester, and Williston where no IZ policy existed.

The report accurately describes a dynamic where at the same time that Burlington has become increasingly attractive with people from all over the country moving here for our high quality of life, we have failed to keep up with the demand for housing associated with the growth in the number of households living in our city. The growth that has occurred has largely taken place in the suburbs surrounding Burlington, while the Queen City lags behind.

Since 2011, low interest rates are the only reason that any new private sector rental housing has been built. All signs point to Federal Reserve policy that will continue raising interest rates into the foreseeable future. It will not be long before the economics of private sector rental housing production in Burlington no longer work once again. Now is our opportunity to get ahead of that challenge and reconfigure our IZ policy in a way that will actually result in housing production numbers that begin to catch up to the supply/demand imbalance we currently have in Burlington.

Concerns and questions related to the report:

1. IZ unit production numbers may be over-stated. We would like to see the data behind the 56 projects completed under IZ between 1990-2015. We have never seen this data and are concerned that there may be some mistakes in the analysis. We suspect that the percentage of IZ units in non-profit led projects is much higher than stated in the report and that the percentage of units in private sector led projects is actually very small.

2. Including non-profit led projects overstates the effectiveness of the IZ policy in Burlington. These non-profit projects would likely have happened regardless of the IZ policy and are not a result of the IZ policy. The work of the non-profit affordable housing sector is critical in the creation and preservation of affordable housing in Burlington, however, there is little to support an argument that the existence of IZ has generated more non-profit affordable housing in Burlington than would have occurred without IZ. If you look at communities surrounding Burlington during the same 1990-2015 period, none of those communities had any IZ policy, however, large numbers of affordable housing units were produced in those communities during that period of time. A prime example is the non-profit and private sector collaboration along Farrell Street where a mix of affordable rental, senior/special needs affordable rental, affordable home ownership, market rate home ownership, and market rate rental have all occurred.

3. Private and non-profit partnerships in Burlington such as the former Thayer School/DMV site and the future housing at the diocese/Burlington College site would have happened without IZ – again you can look to the housing development in South Burlington along Farrell Street where there were no affordable requirements, yet private and non-profit developers worked together to create a mixed-income neighborhood.

4. The true measure of IZ effectiveness are IZ units that have been created in private sector development projects that did not involve non-profit project partners. I suspect that the total number from 1990-2015 for purely private sector projects is in the neighborhood of 20 total IZ units or less than 1 new IZ unit per year.

5. Seattle and Austin examples for raising money for affordable housing do not translate well to Burlington. Seattle is a city of nearly 700,000 in a metro area of 4,000,000 and Austin is a city over 900,000 in a metro of over 2,000,000. Both cities are much larger than Burlington. Additionally, both are very wealthy cities and are growing much more rapidly than Burlington.

6. The comparative policy matrix in the report only lists communities that are much larger than ours or are directly related to large metro areas. Boulder is essentially a suburb of Denver; Annapolis is in the Washington-Baltimore metro area; Cambridge is part of the Boston metro; Chapel Hill is in the research triangle of Raleigh-Durham; Davis, CA is in the Sacramento metro area; Evanston, IL is effectively an extension of the City of Chicago.

7. We often see studies like this with comparisons to cities that do not scale to Burlington, we need to look to cities of comparable scale with similar economic factors when looking for ideas on shaping policy that is right sized for Burlington.

8. Density bonuses are rarely achievable in practice; we find that we are consistently bumping up against a functional parking ratio as the limiting factor for greater density, with no ability to take advantage of density bonuses in mixed-use or high-density residential zones. Density bonuses as an incentive to meet the goal of producing IZ units have not worked in Burlington.

9. Additional funding would be great, however, with a lot of people already feeling over-burdened by taxes, it is hard to see a clear path to providing funding that would be well received by voters.

Recommendations:

1. Payment in lieu as a flexible option. We know that the current payment in lieu model with payments over $115,000 per IZ unit is not working since no projects have used it since it was raised to this level from a previous level of $20,000 per unit. Something closer to $50,000 would be more effective; this is still significantly higher than the $20,000 average that was in place before the hike to $100,000. Some developers may choose the payment in lieu option at a $50,000 level; however, many will still choose to produce IZ units on-site.

2. Making the off-site option more flexible with clear guidance and “as-of-right” standards would be helpful. To our knowledge, the off-site option has never been utilized because the burden of proof for the DRB is too vague.

3. A higher AMI target for IZ units would make it easier to comply with the ordinance and would result in more housing production overall in Burlington. We recommend 80% AMI for rental, a standard that has been used in other localities and is currently the Act 250

threshold for affordability, and up to 120% AMI for for-sale housing. These levels are still below market rate and require developers to use creativity to implement projects.

4. Increase the threshold for application of IZ to projects greater than 40 units. Many infill projects in Burlington are at a scale under 40 units; at this level it is very hard for the private sector to internally subsidize IZ units. We have done it with a few projects over the past 5 years; however, we have only been able to do it because interest rates are incredibly low. With interest rates on the rise, we are currently seeing the end of private sector housing production in Burlington in the near future. The 10-unit threshold suggested by the report is still too small for IZ application.