

Inclusionary Housing

Montgomery County, MD

This model policy is part of the Inclusionary Housing Policy Toolkit. Visit the “Policy Toolkits” page of the [Local Leaders Council web site](#) for more information and implementation tips.

Inclusionary housing aims to increase the supply of affordable housing by requiring some portion of housing units in new projects be set-aside for low and moderate income households. The following model ordinance from the American Planning Association (APA) provides a template for local legislation to establish an inclusionary housing policy. It is also available on the APA web site: www.planning.org/research/smartgrowth/pdf/section44.pdf.

Model Affordable Housing Density Bonus Ordinance

Developed by the American Planning Association

101 Purpose

102 Definitions

(E.g., low/moderate income, affordable unit, affordable housing trust fund, density bonus)

103 Scope of Ordinance and Density Bonus

- Types and size of developments subject to ordinance requirements
- Calculation of affordable units required and density bonus allowance

104 Cash Payment in Lieu of Housing Units

- Establishes rules for fee in lieu alternative to building the affordable units

105 Application and Affordable Housing Development Plan

- Requires the developer to submit a written plan specifying number/location of market/affordable units, marketing plan, estimated sales and rental prices, etc.

106 Criteria for Location, Integration, Character of Affordable Housing Units

- Requires affordable units to be built concurrently with market units
- Disallows clustering of affordable units

107 Affordable Housing Development Agreement

- Requires written agreement between municipality and the developer delineating commitments of both parties

108 Enforcement and Affordability Controls

- Establishes affordability period
- Sets rules for resale of for-sale units and leasing of rental units
- Authorizes municipal agency to administer and enforce the program

109 Affordable Housing Trust Fund

- Establishes a housing trust fund where fees in-lieu will be deposited

4.4 MODEL AFFORDABLE HOUSING DENSITY BONUS ORDINANCE

Many communities today are adopting inclusionary zoning ordinances with the intent of increasing the supply of affordable housing. These ordinances either require or encourage the provision of affordable housing in market-rate development, typically by the provision of density bonuses and other incentives. The ordinances include:

- ◆ Definitions, including those defining “affordable housing” and “low- and moderate-income households”;
- ◆ Procedures for the review of affordable housing developments;
- ◆ A requirement that the developer of housing enter into development agreements that will ensure that the affordable housing, whether for sale or for rent, remains affordable;
- ◆ Designation of an officer or body to review and approve applications for developments that include affordable housing; and
- ◆ Provisions for enforcement.

Some communities with such ordinances have made a political commitment to such housing, recognizing that, in some real estate markets, affordable housing would not be produced without governmental intervention, and others have adopted such ordinances to respond to state-established housing goals. In addition, such ordinances ensure that critical governmental service workers (e.g., teachers, firefighters, and police officers) can afford to live in communities where they work despite their low pay. Numerous monographs and studies have described the operation and success of such programs in both suburban areas and central cities. For a good overview, see Morris (2000), Ross (2003), and Brunick (2004a and 2004b).

The following model ordinance for affordable housing provides two alternatives: (1) a mandatory alternative in which affordable housing is required, in some manner, in all development that produces new residential units, either through new construction or through rehabilitation and conversion of existing units or commercial space; (2) an incentive-based approach in which a density bonus of one market-rate unit for each affordable unit is offered as of right. In either case, the affordable housing density bonus is offered for all types of residential construction. The model ordinance uses the U.S. Department of Housing and Urban Development definitions of low- and moderate-income to establish eligibility criteria for purchase or rental of affordable units.

An applicant for an Affordable Housing Development would be required to submit an Affordable Housing Development Plan and enter into a development agreement with the local government. The development agreement would fix the responsibilities of the respective parties with regard to the provision of affordable housing. Under this model, affordable housing units need not only be those subsidized by the federal or state government. Rather, they can be subject to private deed restrictions to ensure they remain affordable for a period of time, typically for 30 years. In the case of for-sale affordable units, purchasers would have to be income-qualified, and appreciation of the dwelling unit would be calculated on the basis of certain listed factors to ensure that the unit remains affordable in the case of resale. In the case of for-rent affordable units, the development agreement would establish an income-qualification process to ensure that the affordable units are rented to eligible households. The model ordinance also describes the

creation of an affordable housing trust fund that can be used for a variety of purposes, including waivers of permit and tap-in fees.

Primary Smart Growth Principle Addressed: Range of housing choices.

Secondary Smart Growth Principle Addressed: Not applicable

101. Purpose

The purposes of this ordinance are to:

(a) Require the construction of affordable housing [or payment of fees-in-lieu] as a portion of new development within the community;

[Or]

(a) Create incentives for the provision of affordable housing as a portion of certain new development within the community;

(b) Implement the affordable housing goals, policies, and objectives contained in the [insert name of local government's] comprehensive plan;

(c) Ensure the opportunity of affordable housing for employees of businesses that are located in or will be located in the community; [and]

(d) Maintain a balanced community that provides housing for people of all income levels [; and]

[(e) Implement planning for affordable housing as required by [cite to applicable state statutes]].

102. Definitions

As used in this ordinance, the following words and terms shall have the meanings specified herein:

“Affordable Housing” means housing with a sales price or rental amount within the means of a household that may occupy moderate- and low-income housing. In the case of dwelling units for sale, affordable means housing in which mortgage, amortization, taxes, insurance, and condominium or association fees, if any, constitute no more than [30] percent of such gross annual household income for a household of the size that may occupy the unit in question. In the case of dwelling units for rent, affordable means housing for which the rent and utilities constitute no more than [30] percent of such gross annual household income for a household of the size that may occupy the unit in question.

“Affordable Housing Development Agreement” means a written agreement between an applicant for a development and the [name of local government] containing specific requirements to ensure the continuing affordability of housing included in the development.

“Affordable Housing Dwelling Unit” means any affordable housing subject to covenants or restrictions requiring such dwelling units to be sold or rented at prices preserving them as affordable housing for a period of at least [30] years.

“Affordable Housing Development” means any housing subsidized by the federal or state government, or any housing development in which at least [20] percent of the housing units are affordable dwelling units.

“Affordable Housing Development Plan” means that plan prepared by an applicant for an Affordable Housing Development under this ordinance that outlines and specifies the development’s compliance with the applicable requirements of this ordinance.

“Affordable Housing Trust Fund” means the fund created by the [name of local government] pursuant to Section 109 of this ordinance.

“Affordable Housing Unit” means either a housing unit subsidized by the federal or state government or an affordable dwelling unit.

Comment: *Note that an “Affordable Housing Unit” can either be federally or state subsidized or subject to covenants and deed restrictions that ensure its continued affordability.*

“Conversion” means a change in a residential rental development or a mixed-use development that includes rental dwelling units to a development that contains only owner-occupied individual dwelling units or a change in a development that contains owner-occupied individual units to a residential rental development or mixed-use development.

“Density Bonus” means an increase in the number of market-rate units on the site in order to provide an incentive for the construction of affordable housing pursuant to this ordinance.

“Development” means the entire proposal to construct or place one or more dwelling units on a particular lot or contiguous lots including, without limitation, a planned unit development, site plan, or subdivision.

“Lot” means either: (a) the basic development unit for determination of area, width, depth, and other dimensional variations; or (b) a parcel of land whose boundaries have been established by some legal instrument, such as a recorded deed or recorded map, and is recognized as a separate legal entity for purposes of transfer of title.

“Low-Income Housing” means housing that is affordable, according to the U.S. Department of Housing and Urban Development, for either home ownership or rental, and that is occupied, reserved, or marketed for occupancy by households with a gross household income that does not exceed 50 percent of the median gross household income for households of the same size within the *[insert name of housing region or county]* in which the housing is located.

“Median Gross Household Income” means the median income level for the *[insert name of housing region or county]*, as established and defined in the annual schedule published by the Secretary of the U.S. Department of Housing and Urban Development, adjusted for household size.

“Moderate-Income Housing” means housing that is affordable, according to the federal Department of Housing and Urban Development, for either home ownership or rental, and that is occupied, reserved, or marketed for occupancy by households with a gross household income that is greater than 50 percent but does not exceed 80 percent of the median gross household income for households of the same size within the *[insert name of housing region or county]* in which the housing is located.

“Renovation” means physical improvement that adds to the value of real property, but that excludes painting, ordinary repairs, and normal maintenance.

103. Scope of Application; Density Bonus

[Alternative 1: Mandatory Affordable Units]

(1) All of the following developments that result in or contain five or more residential dwelling units shall include sufficient numbers of affordable housing units in order to constitute an Affordable Housing Development as determined by the calculation in paragraph (2) below:

- (a) New residential construction, regardless of the type of dwelling unit
- (b) New mixed-use development with a residential component
- (c) Renovation of a multiple-family residential structure that increases the number of residential units from the number of units in the original structure

- (d) Conversion of an existing single-family residential structure to a multiple-family residential structure
- (e) Development that will change the use of an existing building from nonresidential to residential
- (f) Development that includes the conversion of rental residential property to condominium property

Developments subject to this paragraph include projects undertaken in phases, stages, or otherwise developed in distinct sections.

(2) To calculate the minimum number of affordable housing units required in any development listed in paragraph (1) above, the total number of proposed units shall be multiplied by 20 percent. If the product includes a fraction, a fraction of 0.5 or more shall be rounded up to the next higher whole number, and a fraction of less than 0.5 shall be rounded down to the next lower whole number.

(3) Any development providing affordable housing pursuant to paragraph (1) above shall receive a density bonus of one market-rate unit for each affordable housing unit provided. All market-rate units shall be provided on site, except that, in a development undertaken in phases, stages, or otherwise developed in distinct sections, such units may be located in other phases, stages, or sections, subject to the terms of the Affordable Housing Development Plan.

(4) Any development containing four dwelling units or fewer shall comply with the requirement to include at least 20 percent of all units in a development as affordable housing by:

- (a) Including one additional affordable housing dwelling unit in the development, which shall constitute a density bonus;
- (b) Providing one affordable housing dwelling unit off site; or
- (c) Providing a cash-in-lieu payment to the [name of local government's] affordable housing trust fund proportional to the number of market-rate dwelling units proposed.

Comment: *Under (3)(c), the proportion of the in-lieu fee would be computed as follows. Assume an affordable unit in-lieu fee of \$120,000. In a four-unit development, the fee would be 4/5s of the \$120,000, or \$96,000, in a three-unit development, the fee would be 3/5s, or \$72,000, and so on.*

[Alternative 2: Incentives for Affordable Units]

Any Affordable Housing Development or any development that otherwise includes one affordable housing dwelling unit for each four market-rate dwelling units shall receive a density bonus of one market-rate unit for each affordable housing dwelling unit provided on-site.

104. Cash Payment in Lieu of Housing Units

Comment: *This section would be required only under a mandatory affordable housing alternative.*

(1) The applicant may make a cash payment in lieu of constructing some or all of the required housing units only if the development is a single-family detached development that has no more than [10] dwelling units. In the case of an in-lieu payment, the applicant shall not be entitled to a density bonus.

(2) The [legislative body] shall establish the in-lieu per-unit cash payment on written recommendation by the [planning director or city or county manager] and adopt it as part of the [local government's] schedule of fees. The per-unit amount shall be based on an estimate of the actual cost of providing an affordable housing unit using actual construction cost data from current developments within the [local government] and from adjoining jurisdictions. At least once every three years, the [legislative body] shall, with the written recommendation of the [planning director or city or county manager], review the per-unit payment and amend the schedule of fees.

(3) All in-lieu cash payments received pursuant to this ordinance shall be deposited directly into the affordable housing trust fund established by Section 109 below.

(4) For the purposes of determining the total in-lieu payment, the per-unit amount established by the [legislative body] pursuant to paragraph (1) above shall be multiplied by 20 percent of the number of units proposed in the development. For the purposes of such calculation, if 20 percent of the number of proposed units results in a fraction, the fraction shall not be rounded up or down. If the cash payment is in lieu of providing one or more of the required units, the calculation shall be prorated as appropriate.

105. Application and Affordable Housing Development Plan

(1) For all developments [in which affordable housing is required to be provided *or* in which the applicant proposes to include affordable housing], the applicant shall complete and file an application on a form required by the [local government] with the [name of local government]

department responsible for reviewing applications]. The application shall require, and the applicant shall provide, among other things, general information on the nature and the scope of the development as the [local government] may determine is necessary to properly evaluate the proposed development.

(2) As part of the application required under paragraph (1) above, the applicant shall provide to the [local government] an Affordable Housing Development Plan. The plan shall be subject to approval by the [local government] and shall be incorporated into the Affordable Housing Development Agreement pursuant to Section 106 below. An Affordable Housing Development Plan is not required for developments in which the affordable housing obligation is satisfied by a cash payment in lieu of construction of affordable housing units. The Affordable Housing Development Plan shall contain, at a minimum, the following information concerning the development:

- (a) A general description of the development, including whether the development will contain units for rent or for sale
- (b) The total number of market-rate units and affordable housing units
- (c) The number of bedrooms in each market-rate unit and each affordable unit
- (d) The square footage of each market-rate unit and of each affordable unit measured from the interior walls of the unit and including heated and unheated areas
- (e) The location in the development of each market-rate and affordable housing unit
- (f) If construction of dwelling units is to be phased, a phasing plan stating the number of market-rate and affordable housing units in each phase
- (g) The estimated sale price or monthly rent of each market-rate unit and each affordable housing unit
- (h) Documentation and plans regarding the exterior appearances, materials, and finishes of the Affordable Housing Development and each of its individual units
- (i) A marketing plan the applicant proposes to implement to promote the sale or rental of the affordable units within the development to eligible households

106. Criteria for Location, Integration, Character of Affordable Housing Units

An Affordable Housing Development shall comply with the following criteria:

- (a) Affordable housing units in an Affordable Housing Development shall be mixed with, and not clustered together or segregated in any way from, market-rate units.
- (b) If the Affordable Housing Development Plan contains a phasing plan, the phasing plan shall provide for the development of affordable housing units concurrently with the market-rate units. No phasing plan shall provide that the affordable housing units built are the last units in an Affordable Housing Development.
- (c) The exterior appearance of affordable housing units in an Affordable Housing Development shall be made similar to market-rate units by the provision of exterior building materials and finishes substantially the same in type and quality.

Comment: *Some of the affordable housing ordinances reviewed by APA contained minimum-square-footage requirements for dwelling units or suggested that there be a mix of units with different numbers of bedrooms, especially to ensure that for-rent projects contain sufficient numbers of bedrooms for larger families. While minimum-square-footage requirements, especially for bedroom sizes, are customarily found in housing codes, rather than zoning codes, it is possible to amend this model to include such minimums.*

107. Affordable Housing Development Agreement

Comment: *A development agreement between the local government and the developer of the affordable housing project is necessary to reduce to writing the commitments of both parties, thus eliminating ambiguity over what is required regarding maintaining the affordability of the units and establishing and monitoring the eligibility of those who purchase or rent them.*

(1) Prior to the issuance of a building permit for any units in an Affordable Housing Development or any development in which an affordable unit is required, the applicant shall have entered into an Affordable Housing Development Agreement with the [local government]. The development agreement shall set forth the commitments and obligations of the [local government] and the applicant, including, as necessary, cash in-lieu payments, and shall incorporate, among other things, the Affordable Housing Plan.

(2) The applicant shall execute any and all documents deemed necessary by the [local government] in a form to be established by the [law director], including, without limitation, restrictive covenants, deed restrictions, and related instruments (including requirements for income qualification for tenants of for-rent units) to ensure the continued affordability of the affordable housing units in accordance with this ordinance.

(3) Restrictive covenants or deed restrictions required for affordable units shall specify that the title to the subject property shall only be transferred with prior written approval by the [local government].

108. Enforcement of Affordable Housing Development Agreement; Affordability Controls

(1) The director of [*name of responsible local government department*] shall promulgate rules as necessary to implement this ordinance. On an annual basis, the director shall publish or make available copies of the U.S. Department of Housing and Urban Development household income limits and rental limits applicable to affordable units within the local government's jurisdiction, and determine an inflation factor to establish a resale price of an affordable unit.

(2) The resale price of any affordable unit shall not exceed the purchase price paid by the owner of that unit with the following exceptions:

(a) Customary closing costs and costs of sale

(b) Costs of real estate commissions paid by the seller if a licensed real estate salesperson is employed

(c) Consideration of permanent capital improvements installed by the seller

(d) An inflation factor to be applied to the original sale price of a for-sale unit pursuant to rules established pursuant to paragraph (1) above

(3) The applicant or his or her agent shall manage and operate affordable units and shall submit an annual report to the [local government] identifying which units are affordable units in an Affordable Housing Development, the monthly rent for each unit, vacancy information for each year for the prior year, monthly income for tenants of each affordable units, and other information as required by the [local government], while ensuring the privacy of the tenants. The annual report shall contain information sufficient to determine whether tenants of for-rent units qualify as low- or moderate-income households.

(4) For all sales of for-sale affordable housing units, the parties to the transaction shall execute and record such documentation as required by the Affordable Housing Development Agreement. Such documentation shall include the provisions of this ordinance and shall provide, at a minimum, each of the following:

(a) The affordable housing unit shall be sold to and occupied by eligible households for a period of 30 years from the date of the initial certificate of occupancy.

(b) The affordable housing unit shall be conveyed subject to restrictions that shall maintain the affordability of such affordable housing units for eligible households.

(5) In the case of for-rent affordable housing units, the owner of the Affordable Housing Development shall execute and record such document as required by the Affordable Housing Development Agreement. Such documentation shall include the provisions of this ordinance and shall provide, at a minimum, each of the following:

(a) The affordable housing units shall be leased to and occupied by eligible households.

(b) The affordable housing units shall be leased at rent levels affordable to eligible households for a period of 30 years from the date of the initial certificate of occupancy.

(c) Subleasing of affordable housing units shall not be permitted without the express written consent of the director of [*name of responsible local government department*].

109. Affordable Housing Trust Fund

[This section establishes a housing trust fund into which monies from cash in-lieu payments and other sources of revenues will be deposited. Because of the variation as to how such funds could be established and the differences in state law, no model language is provided.]

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