

# Inclusionary Housing: In Lieu Fees Vs Onsite Units



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Street Level Advisors

# What's Most Effective?

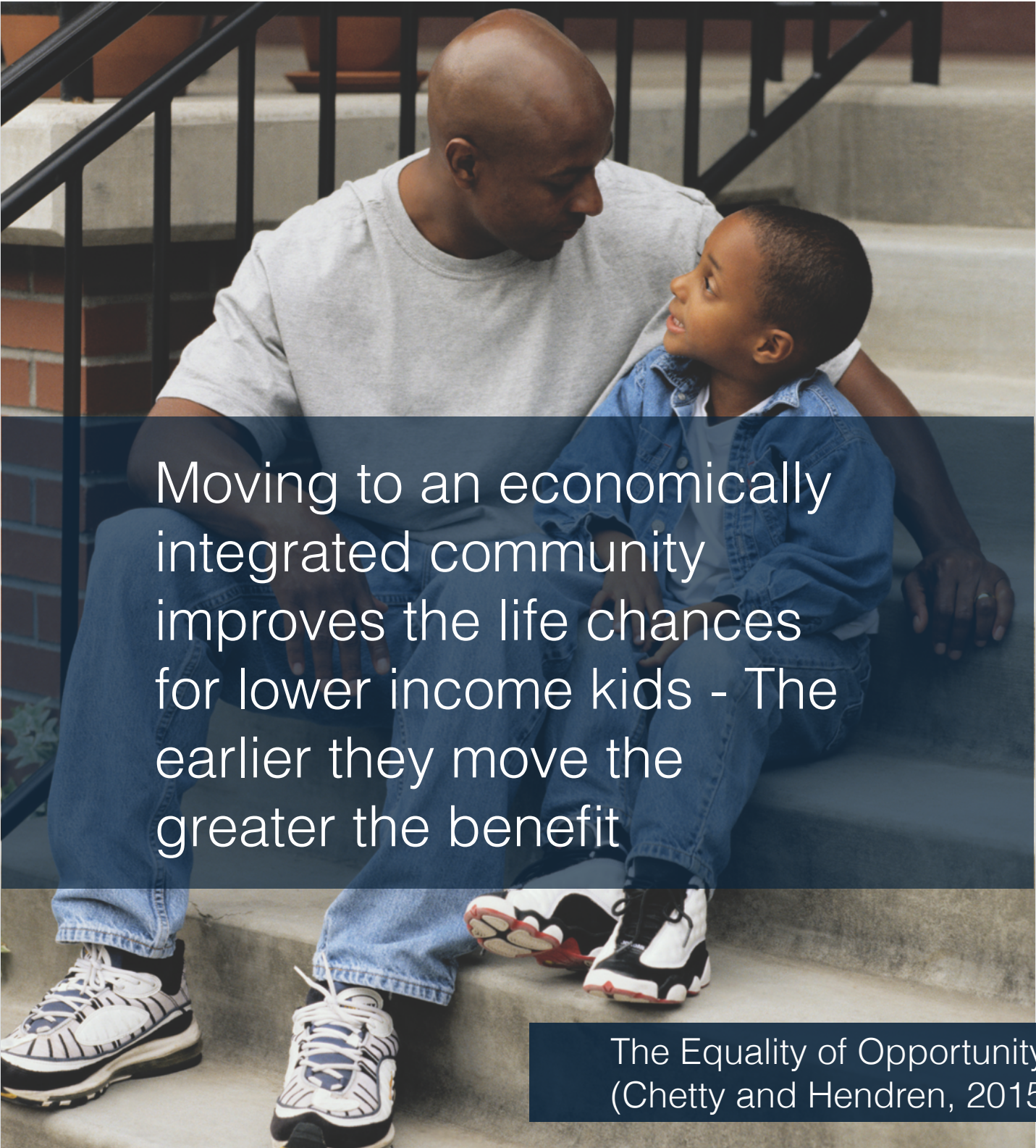
Should an inclusionary policy require onsite affordable units or allow payment of an in lieu fee as an alternative?

	Units	Fees
Advantages	Ensure economic integration, generally built sooner	Efficiency and leverage enable more housing
Limitations	Benefits of economic integration are sometimes overstated	Efficiency is not automatic – many cities don't achieve it.

Differences in poverty rate in the **neighborhood** where kids grow up make a bigger difference to their economic future than differences in **parents** income.




Pew Charitable Trust,  
Economic Mobility  
Project (Sharkey 2009)


A photograph of a man and a young boy sitting on concrete steps outdoors. The man, on the left, is bald and wearing a light gray t-shirt and blue jeans. The boy, on the right, is wearing a blue denim jacket over a light blue shirt and blue jeans. They are both looking at each other. The background shows a brick wall and a black metal railing. A semi-transparent dark blue box is overlaid on the image, containing white text.

Moving to an economically integrated community improves the life chances for lower income kids - The earlier they move the greater the benefit

The Equality of Opportunity Project  
(Chetty and Hendren, 2015)

An aerial photograph of a city, showing a large, dense public housing complex in the foreground. The complex consists of numerous multi-story apartment buildings arranged in a grid-like pattern. The surrounding city is also densely packed with buildings and streets. In the background, a large body of water is visible, likely a river or bay. The overall scene is a high-angle, black and white view of an urban landscape.

Our affordable housing programs have not been successful in accessing higher opportunity neighborhoods.

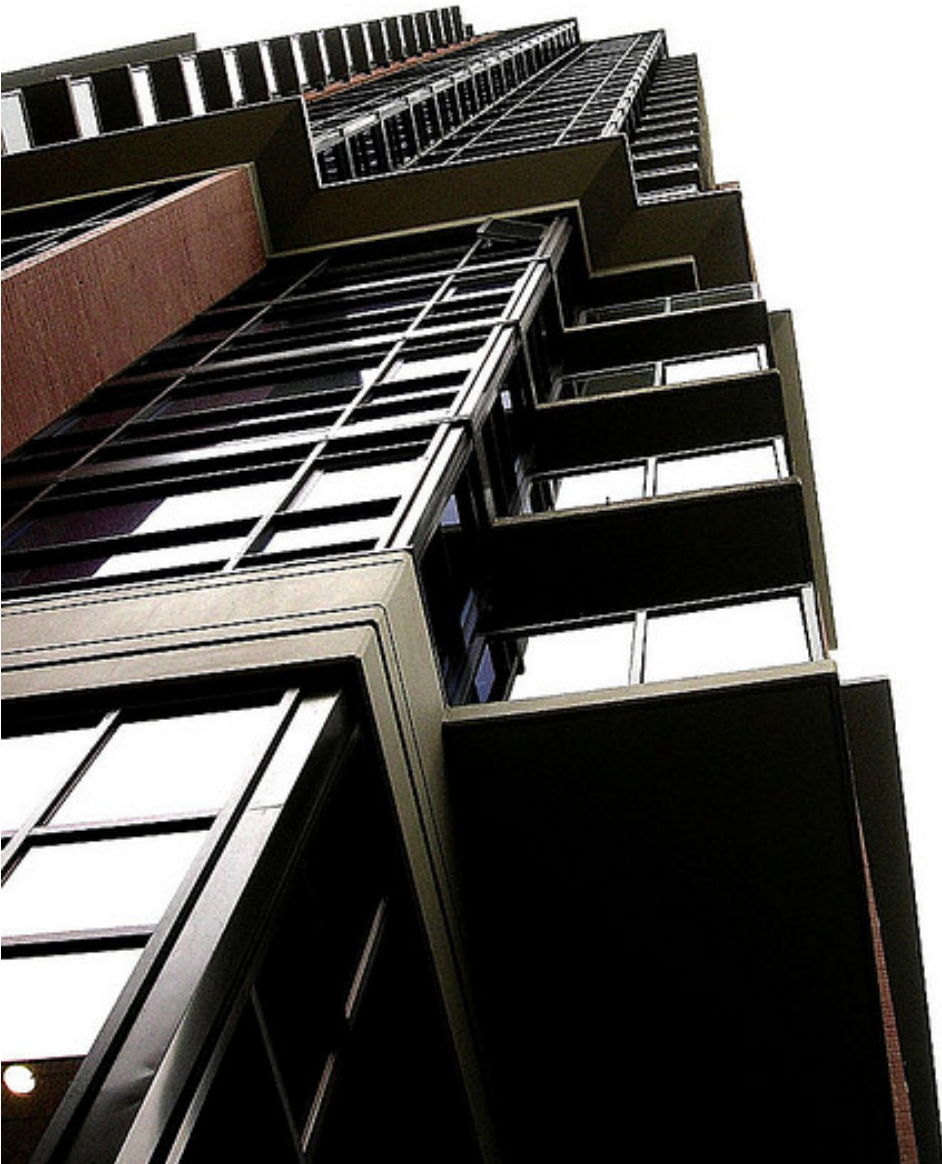


“The benefits that low income families have realized from living in mixed-income developments and income-diverse neighborhoods have been derived from **improvements in place** rather than **interactions with people.**”

Levy, Diane K., Zach McDade, and Kassie Dumlao. 2011. “Effects from Living in Mixed-Income Communities for Low-Income Families: A Review of the Literature.” Metropolitan Housing and Communities Center. Washington, DC: Urban Institute.

# Seattle

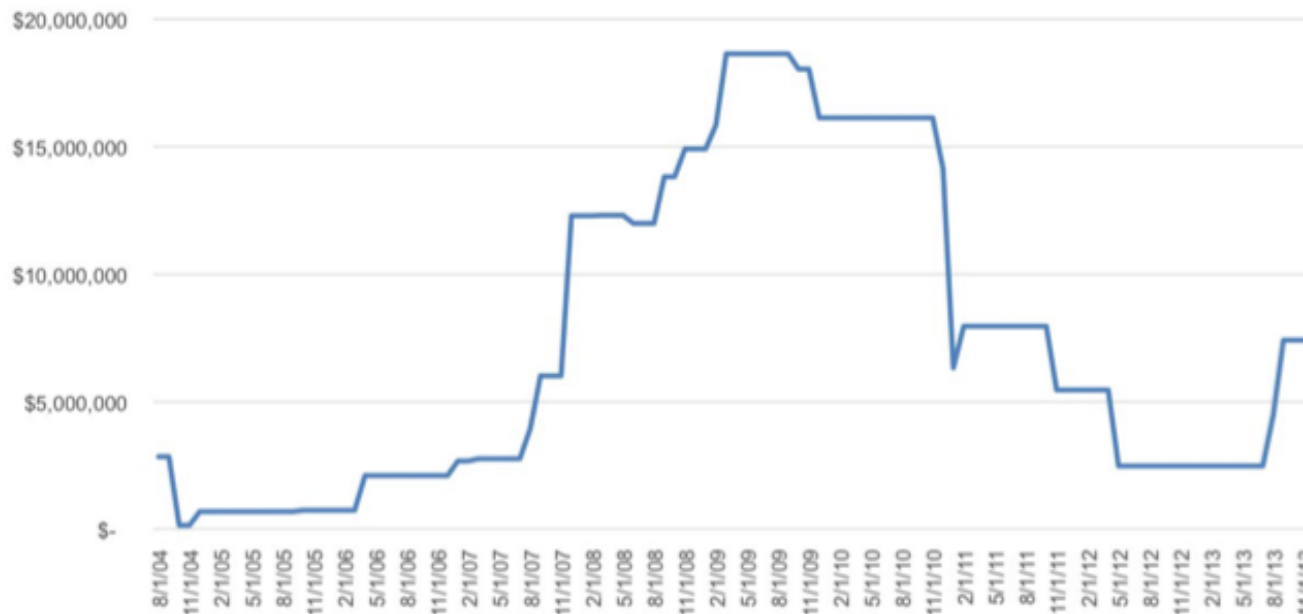
- Seattle Incentive Zoning Program
- Most developers were given a choice between providing units on site or paying a fee
- In every case, developers with the choice paid the fee
- Should the program be changed to require onsite units only?



# How long does it take to spend fee \$?

- It took Seattle an average of 47 months (3.9 years) to spend fee revenue.

Balance of uncommitted funds



# The fee option allowed Seattle to produce 3 times more units

?

Max Feasible:  
What the bonus floor  
area is “worth” to a  
developer

**\$325,000**

“Cost” to  
provide one  
unit onsite

**\$146,000**

Fee In  
Lieu

**~\$49,000**

City cost per  
LIHTC Unit

The Residential and Non-Residential Bonus element of the City of Seattle's incentive zoning program enables developers to provide affordable housing units in exchange for extra floor area. Developers can provide the affordable housing units on-site, off-site, or through fee-in-lieu payments to the Office of Housing.

This map shows affordable housing produced through the City's incentive zoning since 2001.

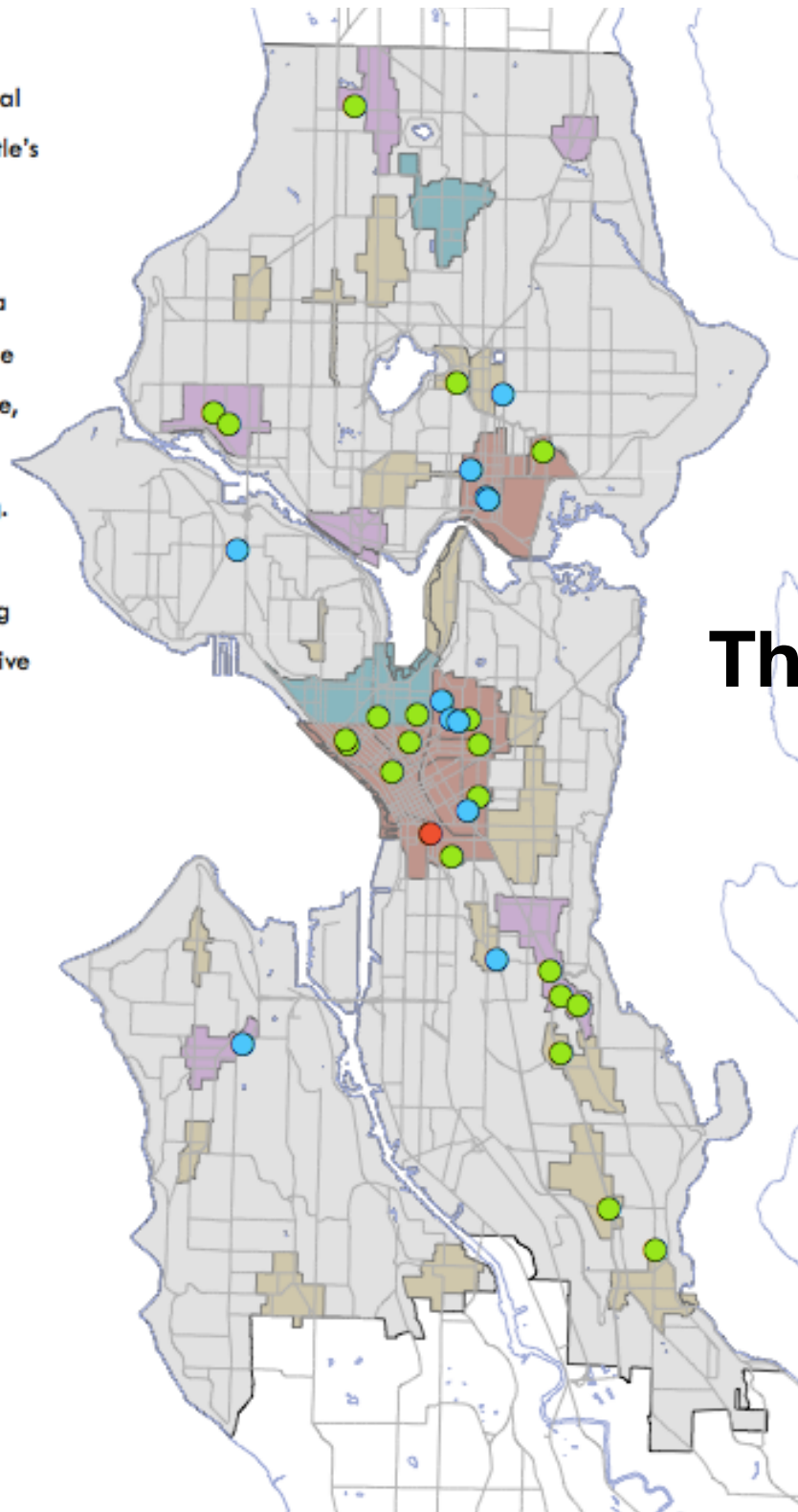
**The fee funded units were in the same neighborhoods as market projects**

**Types of Development in Incentive Zoning Program**

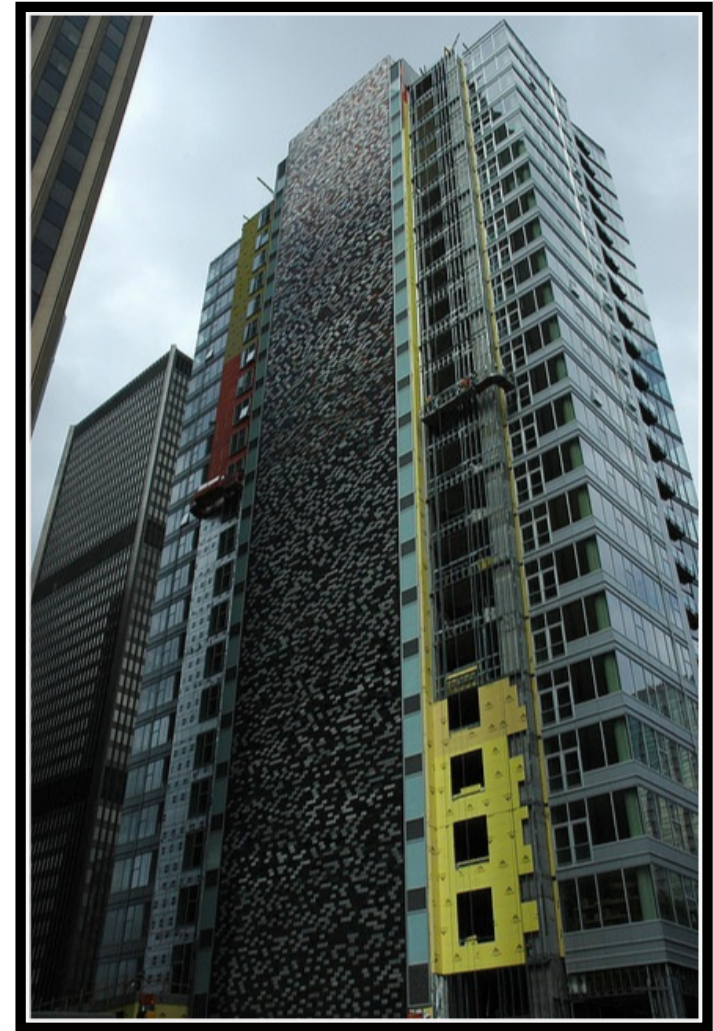
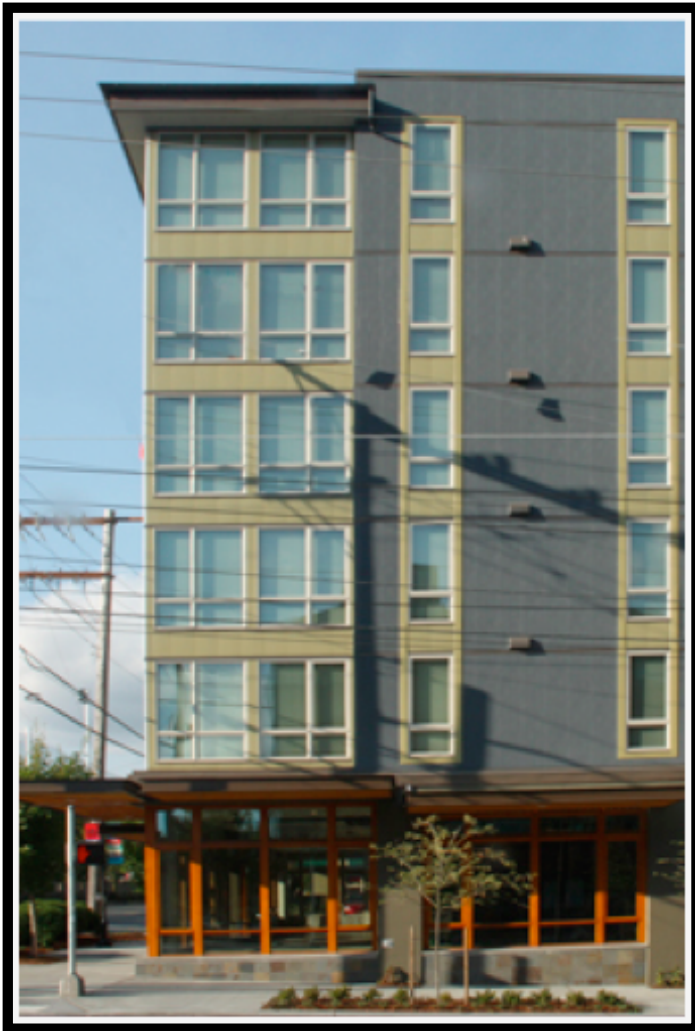
- Fee-in-Lieu
- Off-Site Performance
- On-Site Performance

**Urban Villages**

- Hub Urban Village
- Residential Urban Village
- Urban Center
- Urban Center Village



# Fee Funded Projects: 30-60% of AMI

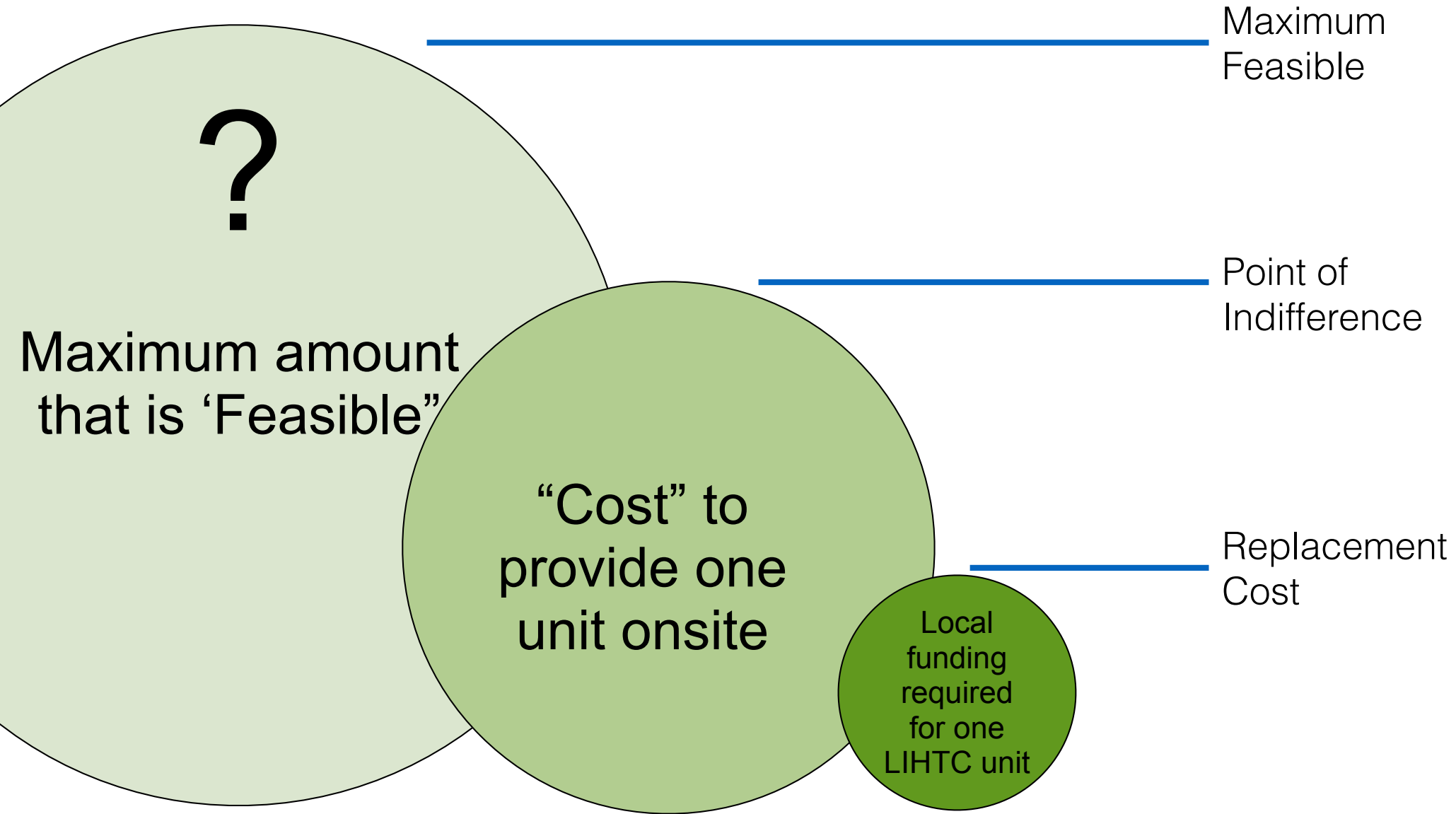


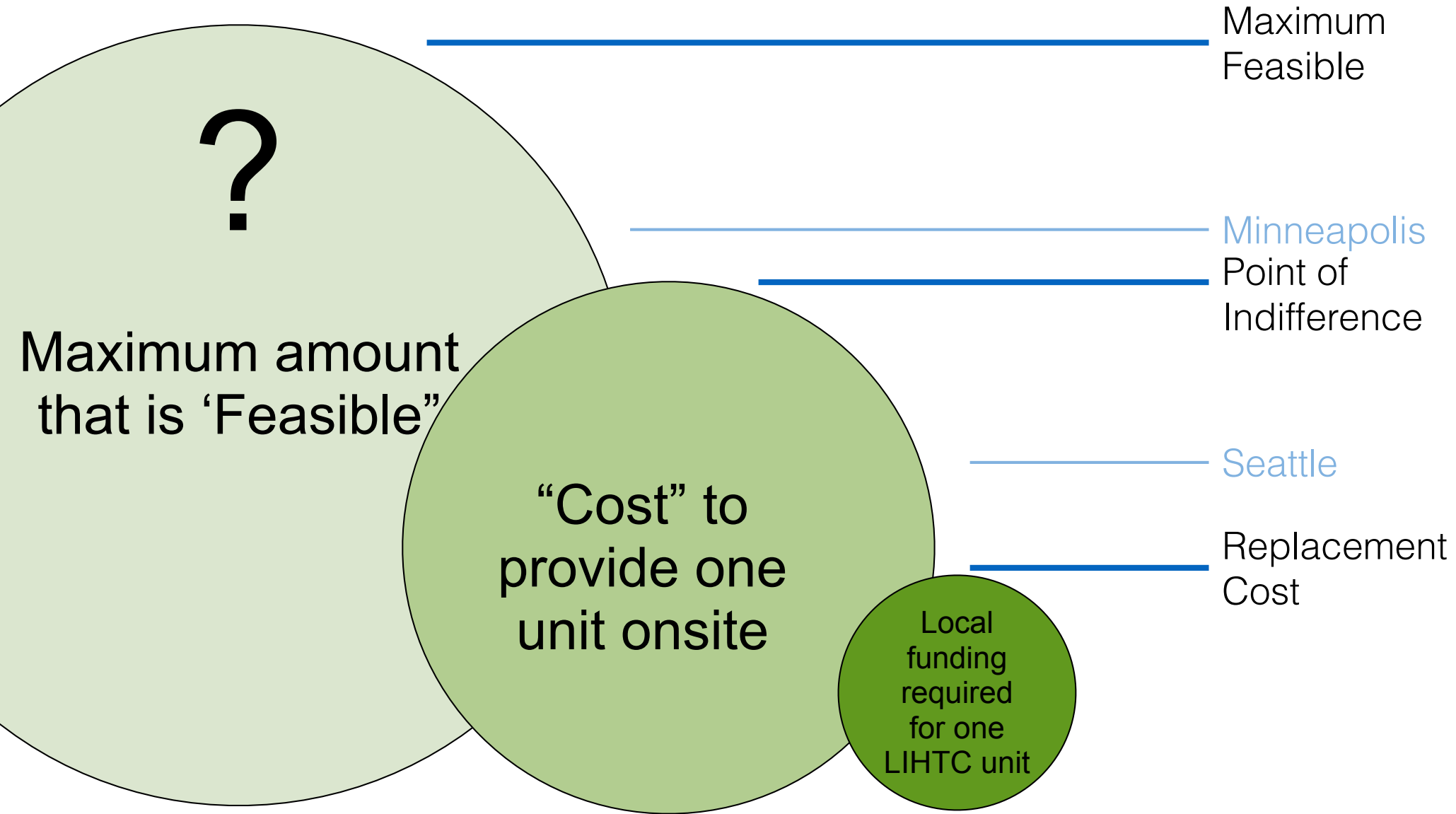
**Onsite Units:  
80% of AMI**

# Minneapolis



- Adopted Inclusionary Zoning in 2019
- Council expressed strong preference for onsite units - as long as they were feasible
- Council adopted a fee that was intentionally higher than the typical cost of onsite units
- But they only required 8% onsite units to make the program feasible





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Maximum amount that is 'Feasible'

"Cost" to provide one unit onsite

Local funding required for one LIHTC unit

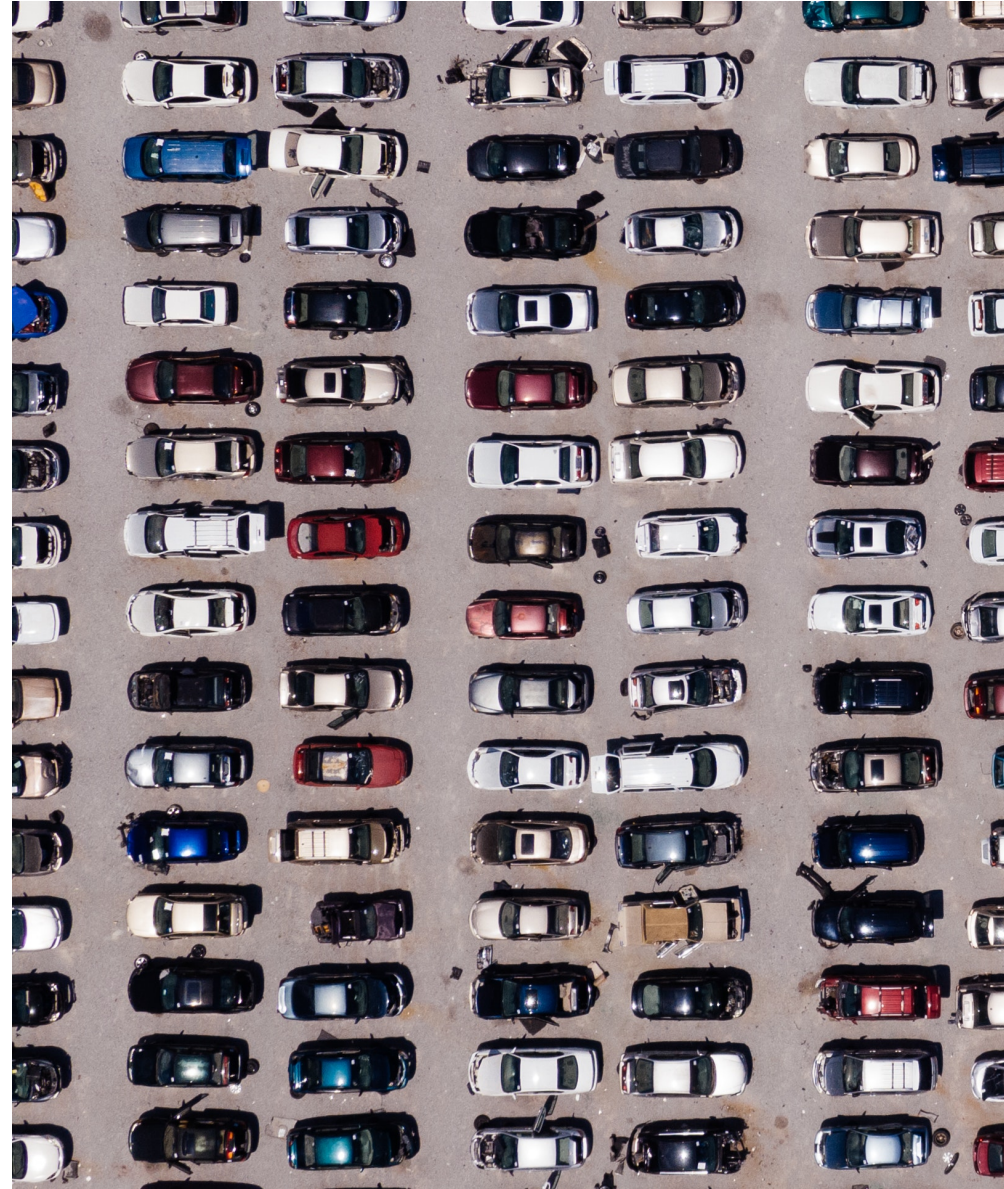
Maximum Feasible

Minneapolis Point of Indifference

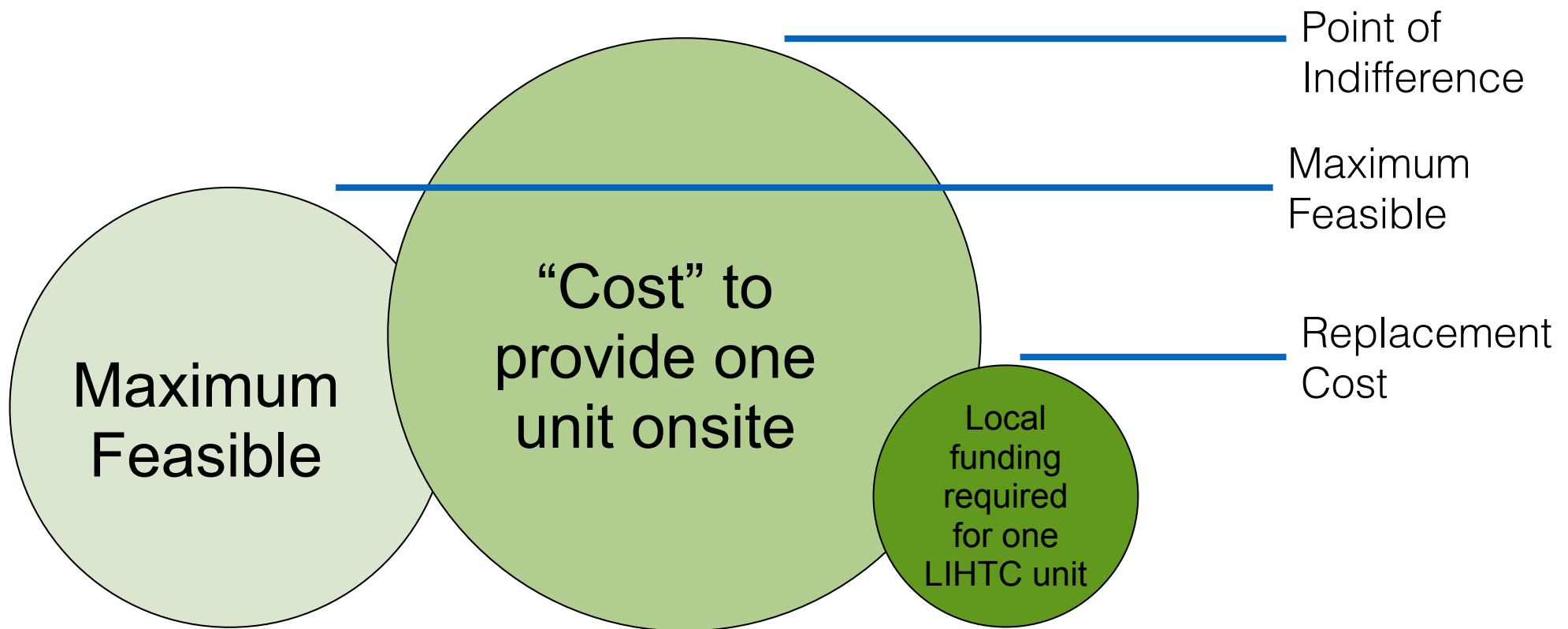
Seattle

Replacement Cost

**What happens  
when  
buildings are  
not feasible?**



# Sometimes the fee is the only option that is feasible



# The Grand Bargain



**1** Create places where people want to live



**2** Make it easier to build **abundant housing**



**3** Require new buildings to support **affordable housing**

# The Grand Bargain

Creates more  
**middle income**  
housing

Creates more  
**low income**  
housing



**1**

Create places  
where people  
**want to live**

**2**

Make it easier to  
build **abundant**  
**housing**

**3**

Require new  
buildings to support  
**affordable housing**

# The Grand Bargain

Increases land values



Increases land values



Reduces land values (Shares benefits)



**1**

Create places where people want to live

**2**

Make it easier to build **abundant housing**

**3**

Require new buildings to support **affordable housing**

# Rick Jacobus



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