



# **Inclusionary Zoning**

for the Provision of **Affordable Housing**

**A Comparative Analysis of San Francisco and Vancouver**

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This paper studies the use of inclusionary zoning, a municipal tool for generating affordable housing from private residential development via the development approval process. Two cities, Vancouver, British Columbia and San Francisco, California, are similar west coast cities with a growing population and an acute shortage of affordable housing; however, their approach to inclusionary zoning is vastly different.

San Francisco first adopted a voluntary inclusionary housing policy in 1992, which then became a mandatory program in 2002. The Inclusionary Affordable Housing Program requires projects of five units or more to include 15%~20% affordable housing or pay in-lieu fees. Vancouver's inclusionary housing policy was adopted in 1988, and it requires 20% affordable housing in rezoned neighbourhoods.

Inclusionary zoning is often challenged as illegal 'taking' of private property or unfair taxation of developers and market-rate homebuyers. However, in both Vancouver and San Francisco inclusionary zoning is permitted, although it is not explicitly stated in either state or provincial statutes. The municipal authority to adopt inclusionary zoning is devolved from the California Government Code and the

Vancouver Charter. The inclusionary housing ordinance of San Francisco is enshrined in the Planning Code, while Vancouver's inclusionary housing policy is encoded in area-specific Official Development Plans and CD-1 By-laws. The Vancouver Charter requires the city to reach a housing agreement with the landowner that stipulates the terms of the inclusion, in return for increased density; in San Francisco, the city may provide developer offsets like density bonus or expedited permits.

The numbers of affordable units produced from the inclusionary policies of the two cities are comparable. The 20 percent policy in Vancouver produced approximately 1,430 affordable units, while San Francisco's Inclusionary Affordable Housing Program produced about 1,140 below-market rate (BMR) units. The fact that San Francisco has a much more streamlined implementation procedure has not resulted in more units than Vancouver. All inclusionary projects in San Francisco follow the same procedures and methods of delivery to the homeowners under the guidance of the Mayor's Office of Housing. The developer finances, builds and markets the units directly to the would-be homeowner.



Vancouver, on the other hand, has a much more flexible policy. The developer is only required to set aside land for affordable housing, while construction is financed with funds from the provincial government. As a result, only about half of the dedicated affordable units are built and the rest are waiting for funding from the provincial government. The city may accept in-lieu fees and/or reduce the inclusionary requirement if not enough funding is secured. Thus, unlike San Francisco, Vancouver has a more discretionary procedure, where the city negotiates the terms of the inclusion with the developer, and assembles private assets with public funding for the provision of affordable housing. Therefore, inclusionary zoning is a deal making process in Vancouver, whereas it is more administrative in San Francisco, given the well-defined ordinance in place.

A flexible inclusionary policy allows the City of Vancouver to find the best affordable housing solution for each development project; however, it can be time consuming and labour intensive. Moreover, it requires knowledgeable planning staff with skills in real estate finance and negotiations. When all the elements of resources, political support and timing are present, the project can be successful in generating homes for low and moderate-income



earners. When these elements are hard to assemble, a predictable and streamlined approach that is taken in San Francisco may be more appropriate.

As an alternative to the current approach, a conventional inclusionary housing model could be adopted in Vancouver. However, a sensitivity analysis has shown that most projects would not be viable with a 20% inclusion. A more realistic target would be 10% with some incentives and cost offsets like density bonus and low-cost design, including wood-frame rather than concrete structure. Furthermore, the analysis shows that the lower the

income target group, the harder it is to reach economic feasibility on a project. This point has been stated by other researchers and policymakers in the past, but it is worth repeating: inclusionary policy is no substitute for government subsidy for affordable housing for the lowest income earners. Therefore, inclusionary zoning must be complemented by other housing policies and programs.

