

DRAFT

NAPERVILLE CITY COUNCIL WORKSHOP – INCLUSIONARY ZONING ORDINANCE CASE STUDIES & KEY PARAMETERS

June 21, 2021



VISION
ECONOMICS
STRATEGY
FINANCE
IMPLEMENTATION

Chicago-based consultancy working with the public & private sectors in a range of disciplines

- Real estate, economic & community development
- Market analysis & real estate economics
- Development strategy & planning
- Public-private partnerships & implementation

PROJECT TEAM

FRAN LEFOR ROOD
Senior Vice President



LANCE DORN
Vice President



ELENA CAMINER
Associate



duncan | associates

Consultancy with offices in Chicago and Austin working with local governments in two primary areas:

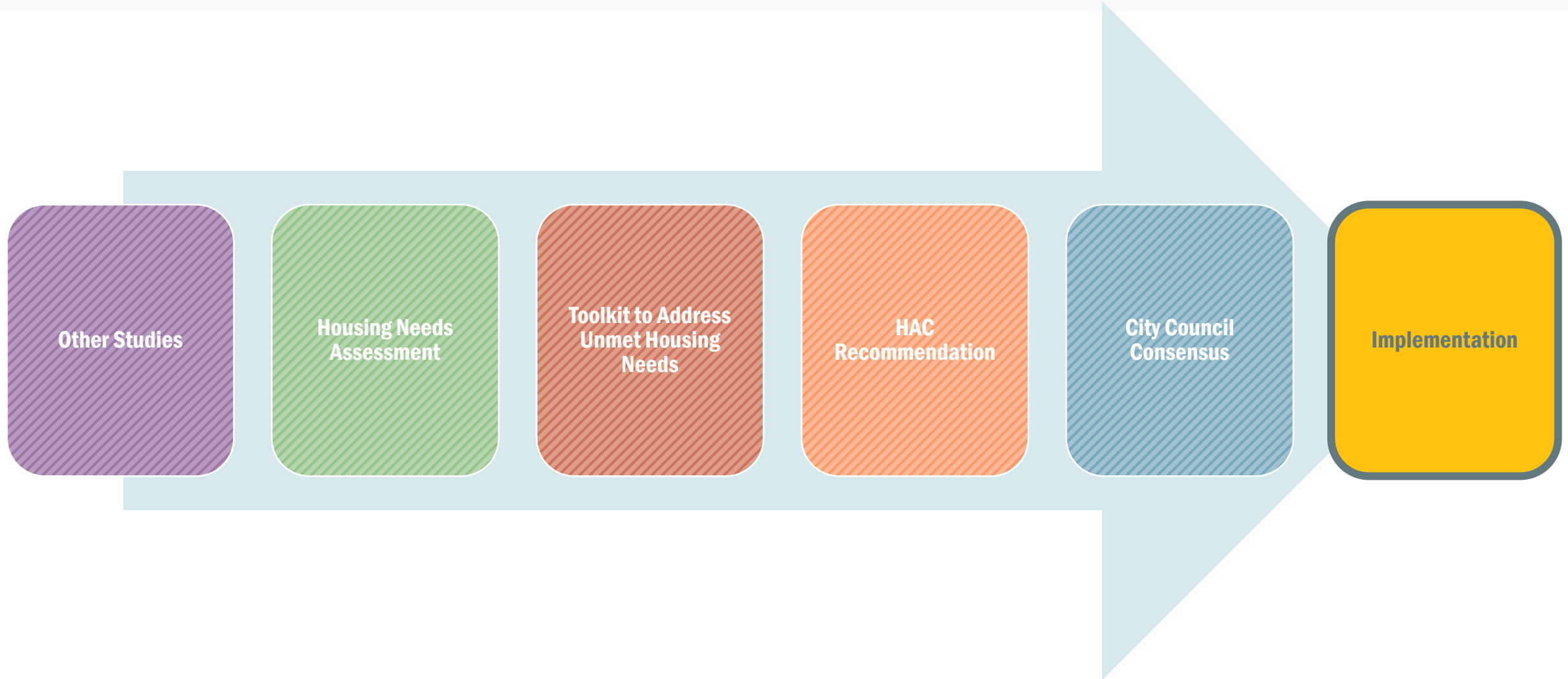
- Revising zoning and development regulations
- Preparing impact fee studies

KIRK BISHOP
Principal



ADDRESSING NAPERVILLE'S UNMET HOUSING NEEDS

Naperville has taken a series of actions toward implementing strategies to address housing needs

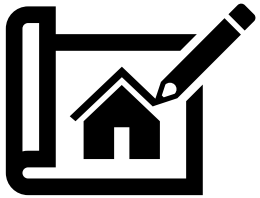


HAC RECOMMENDATIONS TO COUNCIL



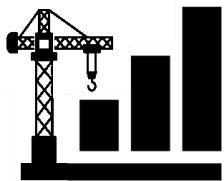
PRESERVE EXISTING HOUSING

- Develop plan to preserve naturally-occurring affordable housing
- Identify additional resources to assist populations with special housing needs
- Establish revolving rehabilitation loan fund targeted to low-income seniors



FINANCING/STAFFING INFRASTRUCTURE

- Establish housing trust fund targeted towards veterans, seniors, special housing needs populations & first responders in purchasing a home
- Create housing-specific staff position(s) within city or non-profit organization



DEVELOP HOUSING

- Develop working relationships with affordable housing developers
- Develop strategy to leverage publicly-owned land
- Implement an inclusionary zoning ordinance (IZO)

EXPLORING A POTENTIAL IZO

SB Friedman was retained to evaluate and structure and potential IZO

- Research national IZO case studies
 - Supplements previously reported regional case studies
- Conduct interviews with development community
- Assist Council in considering key decision points for a potential IZO

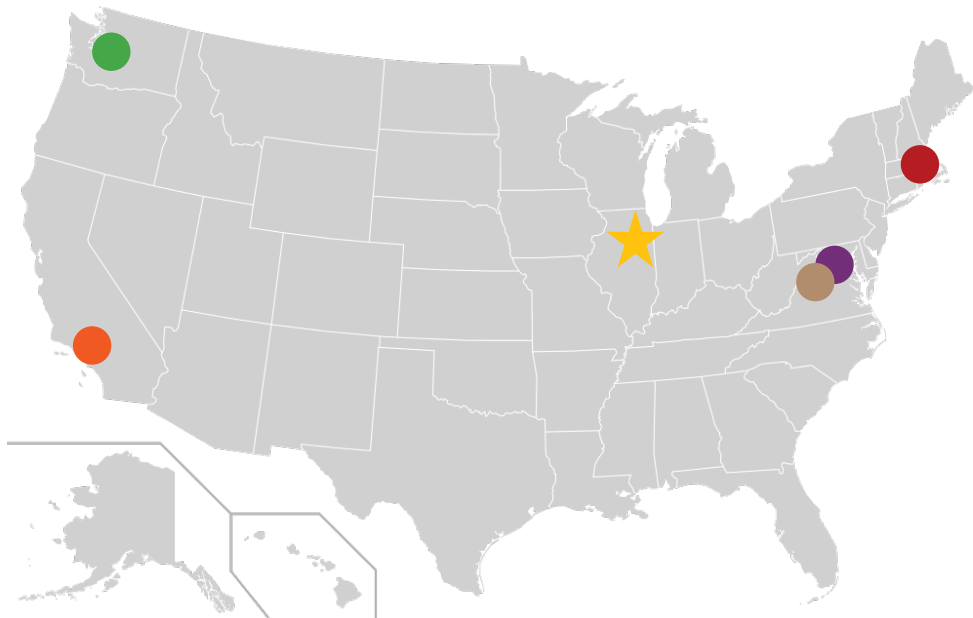
NEXT STEPS

- Conduct a financial analysis of IZO parameters on a prototypical development
- Lead a workshop with the HAC to discuss the potential IZO
- If Council decides to proceed, draft an ordinance for review

01 KEY INCLUSIONARY ZONING PARAMETERS

INCLUSIONARY ZONING IN COMPARABLE COMMUNITIES

Similar communities around the country have enacted IZOs



Population
Median HH Income
Median Home Value
IZO Adoption Year



Naperville, IL	Montgomery County, MD	Newton, MA
148,400	1,050,700	88,400
\$125,900	\$109,000	\$151,000
\$416,700	\$485,000	\$915,000
--	1974	1977



Bellevue, WA	San Marcos, CA	Arlington County, VA
148,200	96,700	236,800
\$120,500	\$79,000	\$120,000
\$809,200	\$538,000	\$705,000
1991	2000	2005

Source: "Inclusionary Housing in the United States" (Wang & Balachandran, 2021), US Census Bureau
SB Friedman Development Advisors

AFFORDABILITY LIMITS

Housing costs are deemed affordable if they are 30% or less of a household's income

IHDA Chicago Region (includes DuPage & Will Counties)

Median Household Income (100% AMI): \$81,900 (3 person households)

Area Median Income (AMI)	Household Income	Maximum Affordable Rent	Maximum Affordable Home Cost [1]
60%	\$49k	\$1,200	\$172k
80%	\$66k	\$1,600	\$229k
100%	\$82k	\$2,000	\$286k

Naperville

Median Household Income (100% AMI): \$113,300 (3 person households)

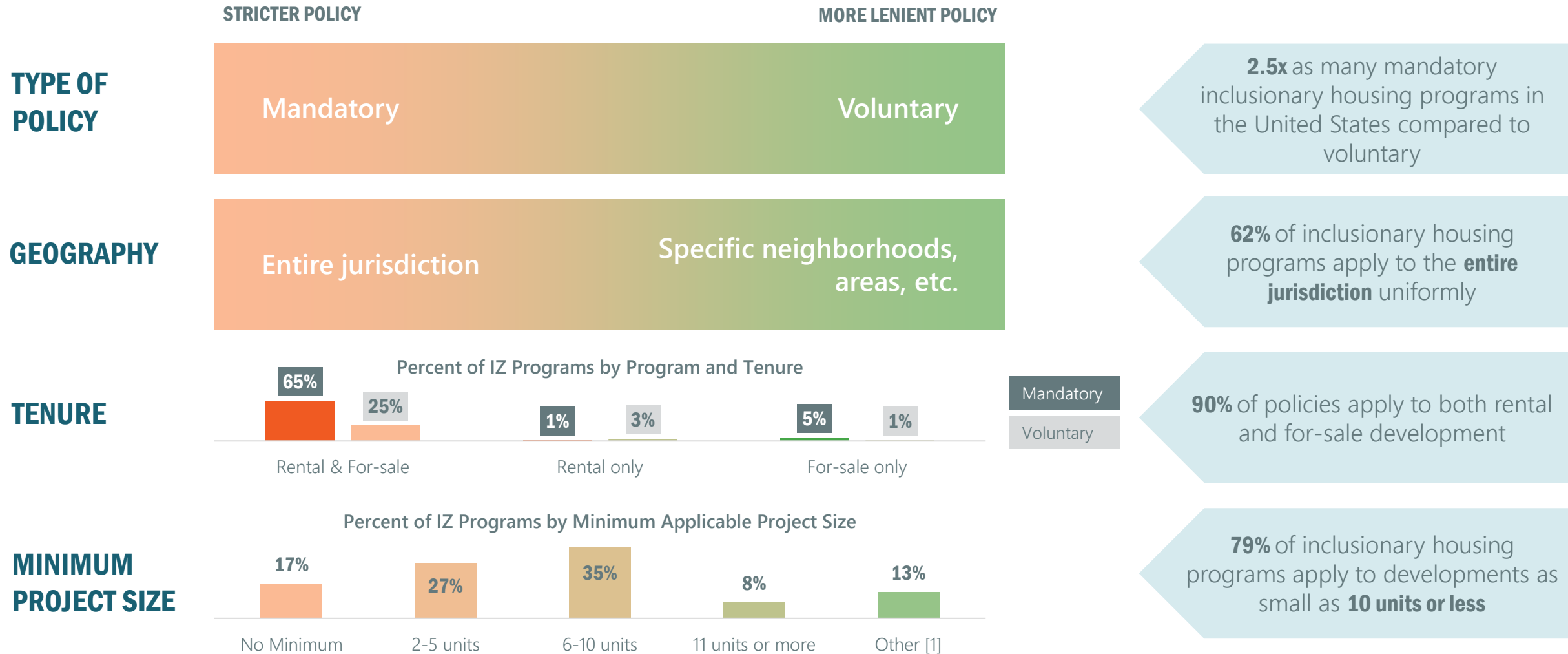
Area Median Income (AMI)	Household Income	Maximum Affordable Rent	Maximum Affordable Home Cost [1]
60%	\$68k	\$1,700	\$237k
80%	\$91k	\$2,300	\$317k
100%	\$113k	\$2,800	\$396k

[1] The value of owner-occupied housing similarly assumes 30% of a household's monthly income is the maximum available for mortgage payments and other related housing costs. Mortgage payments are calculated assuming they account for 60% of monthly owner costs, a 30-year mortgage with a 4% interest rate.

Source: Illinois Housing Development Authority, US Census Bureau

STRUCTURE & APPLICABILITY

Key parameters of the policy will determine the number of developments impacted by the IZO



[1] Other includes policies that use a measure other than the number of units, such as land area, to determine a threshold.

INCLUSIONARY ZONING IN COMPARABLE COMMUNITIES

Structure

	Jurisdiction	Naperville, IL	Montgomery County, MD	Newton, MA	Bellevue, WA	San Marcos, CA	Arlington County, VA
STRUCTURE	Type		Mandatory	Mandatory	Voluntary	Mandatory	Mandatory
	Geographic Criteria		Entire jurisdiction [1]	Entire jurisdiction	Specific areas	Entire jurisdiction	Entire jurisdiction
	Tenure		Rental & For-sale	Rental & For-sale	Rental & For-sale	Rental & For-sale	Rental & For-sale
	Minimum Project Size		20 units	7 units	N/A	6 units [2]	Other [3]

[1] Inclusionary zoning requirements cover the entire county but vary by zoning, neighborhood, or district.

[2] Any development with six or less units required to pay a fee-in-lieu.

[3] Applicable to residential developments with planned densities greater than 1.0 FAR, such as multifamily and denser single-family homes.

Source: 2015–2019 ACS 5-Year Estimates, "Inclusionary Housing in the United States" (Wang & Balachandran, 2021), US Census Bureau 2019 Estimates

SB Friedman Development Advisors

Stricter policy

More lenient policy

COMPLIANCE OPTIONS

Communities may provide development alternatives for fulfilling the inclusionary zoning ordinance

COMPLIANCE
OPTIONS



41% of inclusionary housing programs in the United States **require on-site** construction of affordable housing units

49% of inclusionary housing programs **allow a fee-in-lieu** as an alternative to building affordable units

[1] Less common alternative options include land donation or affordable housing unit rehabilitation.
SB Friedman Development Advisors

Source: "Inclusionary Housing in the United States" (Wang & Balachandran, 2021)

INCLUSIONARY ZONING IN COMPARABLE COMMUNITIES

Compliance

	Jurisdiction	Naperville, IL	Montgomery County, MD	Newton, MA	Bellevue, WA	San Marcos, CA	Arlington County, VA
STRUCTURE	Type		Mandatory	Mandatory	Voluntary	Mandatory	Mandatory
	Geographic Criteria		Entire jurisdiction [1]	Entire jurisdiction	Specific areas	Entire jurisdiction	Entire jurisdiction
	Tenure		Rental & For-sale	Rental & For-sale	Rental & For-sale	Rental & For-sale	Rental & For-sale
	Minimum Project Size		20 units	7 units	N/A	6 units [2]	Other [3]
COMPLIANCE	Unit Location		On-Site or Off-Site	On-Site or Off-Site	On-Site	On-Site or Off-Site	On-Site or Off-Site
	Alternative Options		No	Fee-In-Lieu	N/A	Fee-In-Lieu, Land donation	Fee-in-Lieu

[1] Inclusionary zoning requirements cover the entire county but vary by zoning, neighborhood, or district.
[2] Any development with six or less units required to pay a fee-in-lieu.
[3] Applicable to residential developments with planned densities greater than 1.0 FAR, such as multifamily and denser single-family homes.
Source: 2015–2019 ACS 5-Year Estimates, "Inclusionary Housing in the United States" (Wang & Balachandran, 2021), US Census Bureau 2019 Estimates
SB Friedman Development Advisors

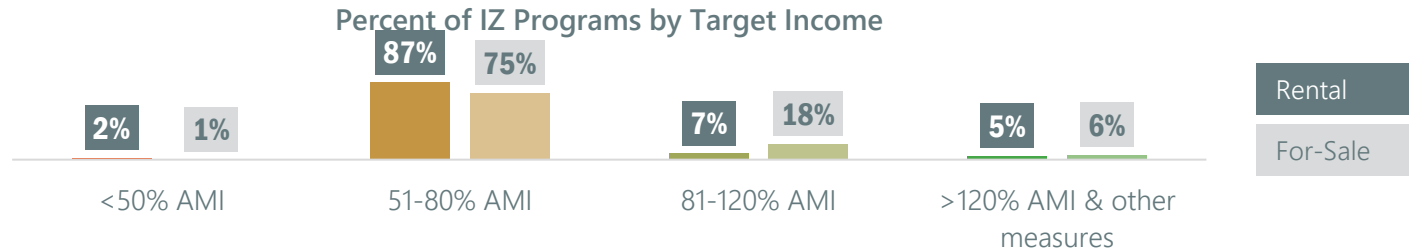
Stricter policy

More lenient policy

UNIT REQUIREMENTS

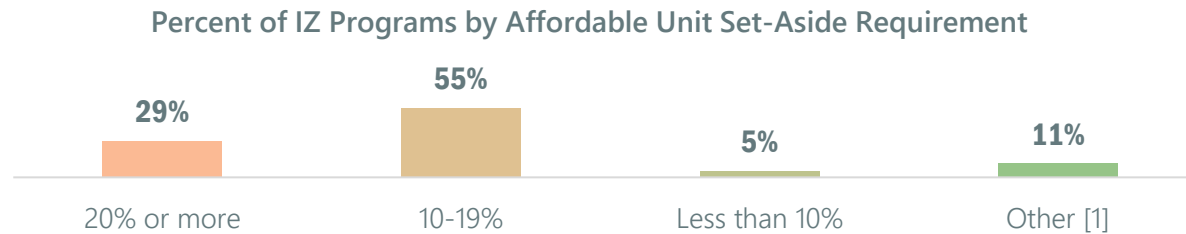
The IZO informs the quantity and type of affordable units developed

TARGETED INCOME



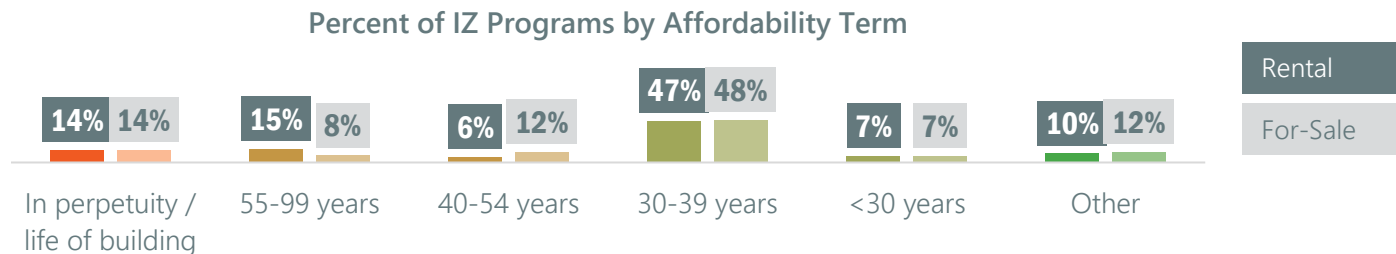
Of policies with one income requirement, the majority target **51-80% AMI households**

AFFORDABLE UNIT SET ASIDE



More than 60% of inclusionary housing programs in the United States require **20% or fewer** affordable units

AFFORDABILITY TERM



Nearly 50% of policies require an affordability term of **30-39 years** for both rental and for-sale housing

UNIT SIZE

Based on needs of community Match building composition No requirement

STRICTER POLICY

MORE LENIENT POLICY

Best practice: affordable units should reflect the community's needs

[1] Includes programs with no set-aside percentage (7% of programs) or that have a different measure for set-aside requirements (4% of programs)

INCLUSIONARY ZONING IN COMPARABLE COMMUNITIES

Unit Requirements

	Jurisdiction	Naperville, IL	Montgomery County, MD	Newton, MA	Bellevue, WA	San Marcos, CA	Arlington County, VA
COMP STRUCTURE	Type		Mandatory	Mandatory	Voluntary	Mandatory	Mandatory
	Geographic Criteria		Entire jurisdiction [1]	Entire jurisdiction	Specific areas	Entire jurisdiction	Entire jurisdiction
	Tenure		Rental & For-sale	Rental & For-sale	Rental & For-sale	Rental & For-sale	Rental & For-sale
	Minimum Project Size		20 units	7 units	N/A	6 units [2]	Other [3]
COMP	Unit Location		On-Site or Off-Site	On-Site or Off-Site	On-Site	On-Site or Off-Site	On-Site or Off-Site
	Alternative Options		No	Fee-In-Lieu	N/A	Fee-In-Lieu, Land donation	Fee-in-Lieu
REQUIREMENTS	Targeted Income		<70% AMI	<80% AMI and <110% AMI (multiple requirements for larger developments)	<80% AMI	Varies	60-80% AMI
	Set Aside Percentage		12.5-15% of units	15-17.5% of units	N/A	15% of units	5-10% of gross floor area
	Affordability Term		99 years for rental 30 years for for-sale	30 years	Perpetuity	55 years	30 years for rental Perpetuity for for-sale
	Unit Size		Bedroom mix equal to market-rate units	Bedroom mix equal to market-rate units; comparable unit sizes	N/A	Bedroom mix equal to market-rate units; comparable unit sizes	Community Needs

[1] Inclusionary zoning requirements cover the entire county but vary by zoning, neighborhood, or district.

[2] Any development with six or less units required to pay a fee-in-lieu.

[3] Applicable to residential developments with planned densities greater than 1.0 FAR, such as multifamily and denser single-family homes.

Source: 2015–2019 ACS 5-Year Estimates, "Inclusionary Housing in the United States" (Wang & Balachandran, 2021), US Census Bureau 2019 Estimates

SB Friedman Development Advisors

Stricter policy

More lenient policy

MECHANISMS TO OFFSET FINANCIAL IMPACTS OF IZO

Developers may receive offsetting benefits for building affordable housing by right or through negotiations

**DEVELOPMENT
BONUS**

Zoning code permits more units, additional floor area/height, or other development bonus

57% of inclusionary housing programs in the United States offer a density bonus as an incentive

**PARKING
REDUCTIONS**

Zoning code requires fewer parking spaces

24% of policies offer other zoning variances, such as parking reductions, modification to architecture design, etc.

PROCESS

Streamlined entitlement process to expedite approvals

13% of policies offer expedited processing

29% of policies do NOT offer any offsetting benefits

Source: "Inclusionary Housing in the United States" (Wang & Balachandran, 2021)

INCLUSIONARY ZONING IN COMPARABLE COMMUNITIES

Mechanisms to offset financial impacts

	Jurisdiction	Naperville, IL	Montgomery County, MD	Newton, MA	Bellevue, WA	San Marcos, CA	Arlington County, VA
COMP STRUCTURE	Type		Mandatory	Mandatory	Voluntary	Mandatory	Mandatory
	Geographic Criteria		Entire jurisdiction [1]	Entire jurisdiction	Specific areas	Entire jurisdiction	Entire jurisdiction
	Tenure		Rental & For-sale	Rental & For-sale	Rental & For-sale	Rental & For-sale	Rental & For-sale
	Minimum Project Size		20 units	7 units	N/A	6 units [2]	Other [3]
COMP	Unit Location		On-Site or Off-Site	On-Site or Off-Site	On-Site	On-Site or Off-Site	On-Site or Off-Site
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	Affordability Term		99 years for rental 30 years for for-sale	30 years	Perpetuity	55 years	30 years for rental Perpetuity for for-sale
	Unit Size		Bedroom mix equal to market-rate units	Bedroom mix equal to market-rate units; comparable unit sizes	N/A	Bedroom mix equal to market-rate units; comparable unit sizes	Community Needs
Offsetting Benefits			Density bonus, design modifications	Density bonus for additional affordable units beyond requirement	Density bonus, design modifications, parking requirements, etc.	Density bonus, design modifications, etc.	Density bonus

[1] Inclusionary zoning requirements cover the entire county but vary by zoning, neighborhood, or district.

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[3] Applicable to residential developments with planned densities greater than 1.0 FAR, such as multifamily and denser single-family homes.

Source: 2015-2019 ACS 5-Year Estimates, "Inclusionary Housing in the United States" (Wang & Balachandran, 2021), US Census Bureau 2019 Estimates

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INCLUSIONARY ZONING IN COMPARABLE COMMUNITIES

Outcomes of IZO

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REQUIREMENTS	Targeted Income		<70% AMI	<80% AMI and <110% AMI (multiple requirements for larger developments)	<80% AMI	Varies	60-80% AMI
	Set Aside Percentage		12.5-15% of units	15-17.5% of units	N/A	15% of units	5-10% of gross floor area
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	Unit Size		Bedroom mix equal to market-rate units	Bedroom mix equal to market-rate units; comparable unit sizes	N/A	Bedroom mix equal to market-rate units; comparable unit sizes	Community Needs
Offsetting Benefits			Density bonus, design modifications	Density bonus for additional affordable units beyond requirement	Density bonus, design modifications, parking requirements, etc.	Density bonus, design modifications, etc.	Density bonus
Outcomes: Affordable Units and Fees-in-Lieu Collected			16,189 units	100-200 units	248 units	Not Available	276 units \$90.6M in fees collected

[1] Inclusionary zoning requirements cover the entire county but vary by zoning, neighborhood, or district.

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[3] Applicable to residential developments with planned densities greater than 1.0 FAR, such as multifamily and denser single-family homes.

Source: 2015-2019 ACS 5-Year Estimates, "Inclusionary Housing in the United States" (Wang & Balachandran, 2021), US Census Bureau 2019 Estimates

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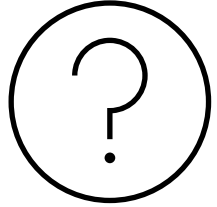
Stricter policy

More lenient policy

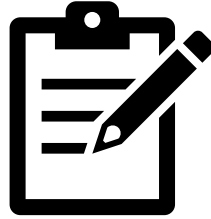
02 OTHER CONSIDERATIONS

FEEDBACK FROM DEVELOPMENT COMMUNITY

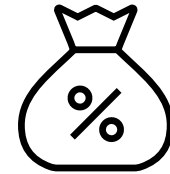
SB Friedman met with 3 market-rate developers and others from the development community



UNCERTAINTY OVER IZO
STALLS DEVELOPMENT



NEED A CONSISTENT
APPROVED POLICY



CONSIDER DEDICATED
FUNDING SOURCE FOR
AFFORDABLE HOUSING



FINANCIAL IMPACT OF AN IZO
MAY FALL ON LANDOWNERS



CONSIDER PARTNERSHIPS
WITH AFFORDABLE
HOUSING DEVELOPERS



POTENTIAL OFFSETTING
BENEFITS: DENSITY BONUS,
IMPACT, PERMIT & REVIEW FEE
WAIVERS, BUILDING CODE
CHANGES

03 DECISION POINTS

IZO TYPE

Mandatory or voluntary?

BOTH OPTIONS

- Require a new ordinance
- Allow for offsetting benefits

2.5x as many mandatory inclusionary housing programs in the U.S. compared to voluntary

BENEFITS

MANDATORY

- More developments required to contribute affordable units
- Clear policy

VOLUNTARY

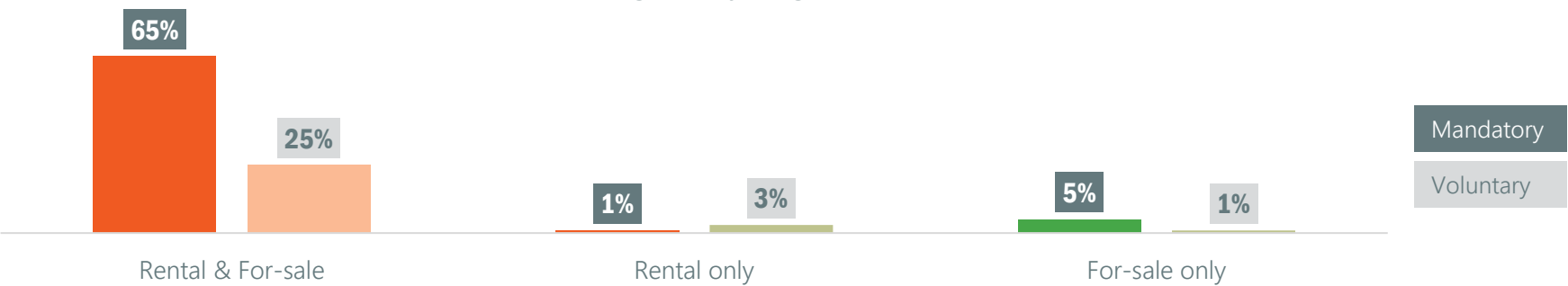
- Allows for more flexibility
- More lenient policy

Source: "Inclusionary Housing in the United States" (Wang & Balachandran, 2021)

PROJECT REQUIREMENT

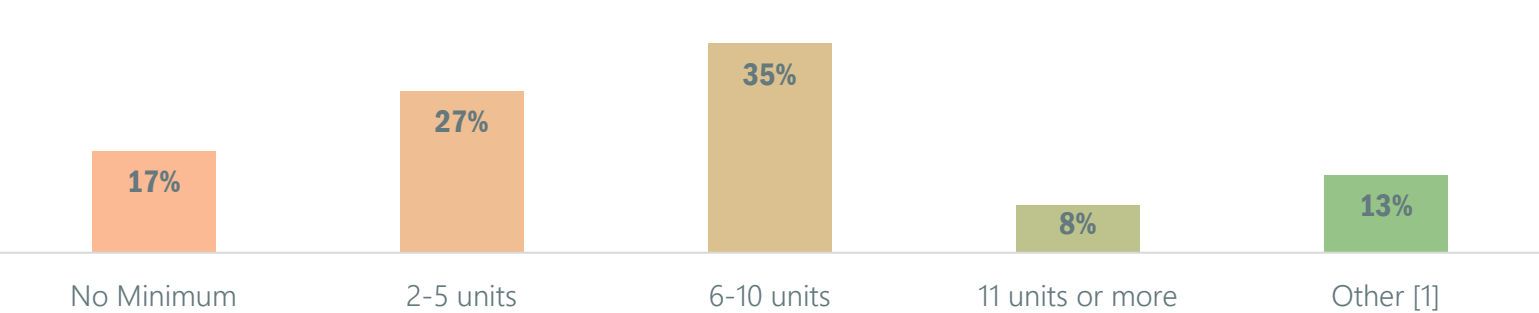
Does it apply to all residential projects? Is there a minimum applicable project size?

Percent of IZ Programs by Program and Tenure



90% of policies apply to both rental and for-sale development

Percent of IZ Programs by Minimum Applicable Project Size

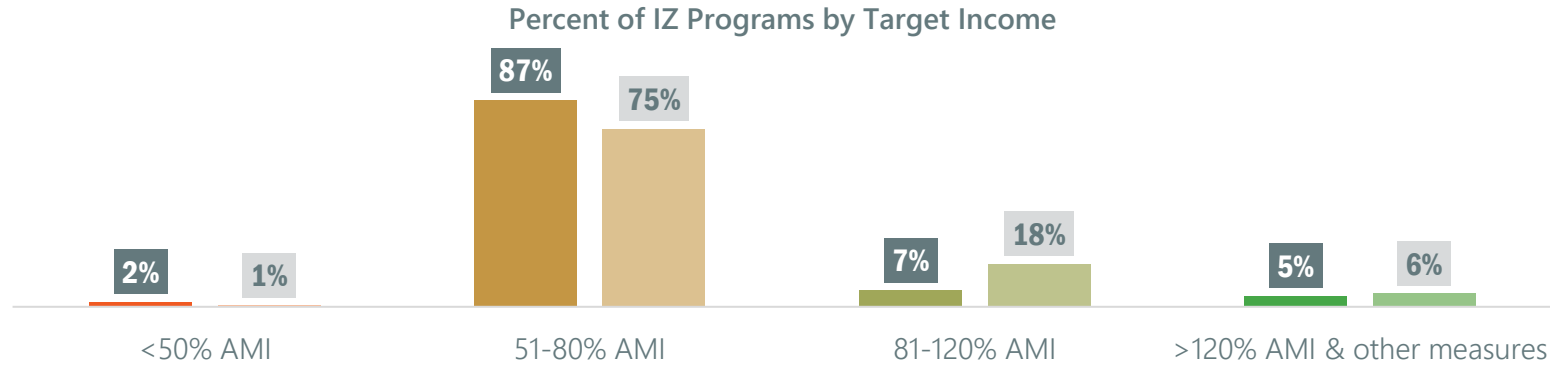


79% of inclusionary housing programs apply to developments as small as 10 units or less

[1] Other includes policies that use a measure other than the number of units, such as land area, to determine a threshold.

TARGETED INCOME

What AMI level should be targeted? How will AMI be defined?



Of policies with one income requirement, the majority target **51-80% AMI households**

IHDA Chicago Region (includes DuPage & Will Counties)
Median Household Income (100% AMI)
\$81,900 (3 person households)

Naperville
Median Household Income (100% AMI)
\$113,300 (3 person households)

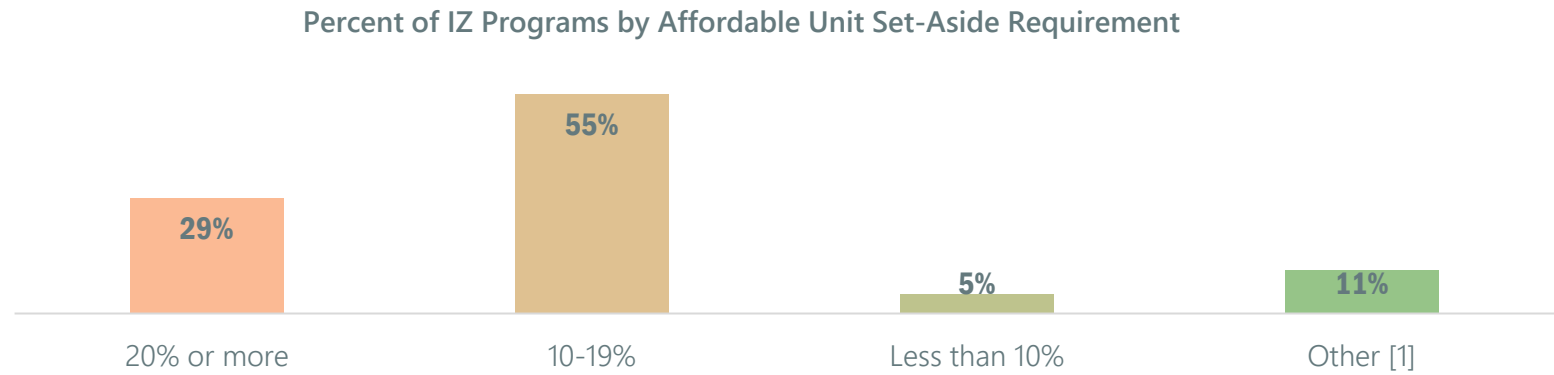
Area Median Income (AMI)	Household Income Range (2-4 person households)		Maximum Affordable Rent		Maximum Affordable Home Cost [1]	
	IHDA Chicago Region	Naperville	IHDA Chicago Region	Naperville	IHDA Chicago Region	Naperville
60%	\$49k	\$68k	\$1,200	\$1,700	\$172k	\$237k
80%	\$66k	\$91k	\$1,600	\$2,300	\$229k	\$317k
100%	\$82k	\$113k	\$2,000	\$2,800	\$286k	\$396k

[1] The value of owner-occupied housing similarly assumes 30% of a household's monthly income is the maximum available for mortgage payments and other related housing costs. Mortgage payments are calculated assuming they account for 60% of monthly owner costs, a 30-year mortgage with a 4% interest rate.
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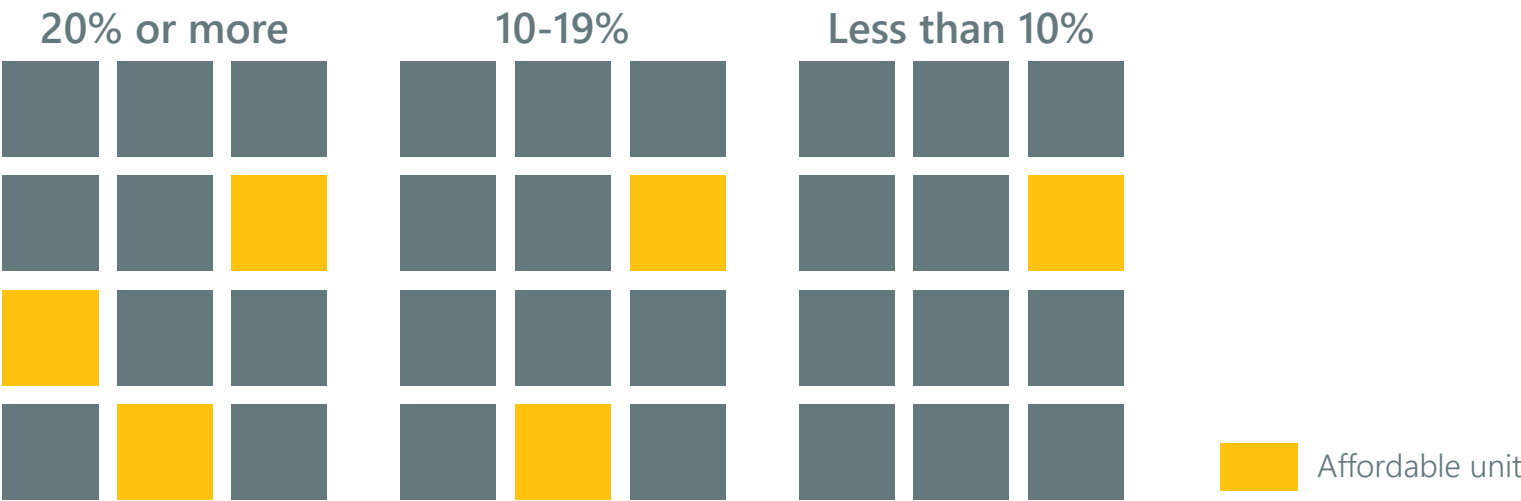
Source: "Inclusionary Housing in the United States" (Wang & Balachandran, 2021),
 Illinois Housing Development Authority, US Census Bureau

AFFORDABLE UNIT SET-ASIDE

What percentage of units per development should be set-aside as affordable?



60% of inclusionary housing programs in the United States require **19% or fewer** affordable units



[1] Includes programs with no set-aside percentage (7% of programs) or that have a different measure for set-aside requirements (4% of programs)

04 NEXT STEPS

NEXT STEPS

- Conduct financial analysis of potential policy framework
- Refine parameters with continued input from
 - Housing Advisory Council
 - City Council
- Determine City's capacity to implement and track IZO
- Draft ordinance



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VISION | ECONOMICS
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