



IZ done right requires balancing new requirements with equal benefits to homebuilders, called “offsets”. If the offset for developers is in the form of land use policies, these offsets could include the opportunity to build extra apartments increasing density or encourage compact, walkable, bikeable, transit-rich communities. If IZ imposes costs that it doesn’t sufficiently offset, it can suppress homebuilding. Without new development, IZ can effectively reduce housing choices, inflate home prices, accelerate the displacement of working families, create walls to opportunity and inclusion, and reduce increased density opportunities and affordability. If not done correctly, IZ can be a detriment to a community’s future development.

There are some obstacles to establishing a successful IZ policy. Because offsets are a necessary part of a successful IZ policy, it is important to have an established funding source that can adequately provide the revenue necessary to pay for the financial offsets needed to incentivize the desired development. A mandatory IZ policy requires some financial offsets that a city must be able to provide without depleting revenue sources needed elsewhere. Even voluntary policies may cause developers to build fewer homes until a point when the lack of new construction worsens the housing shortage and the heightened competition for homes pushes rents and ownership costs up. Once housing prices rise enough to account for the increased expense of the IZ policy, development of homes will continue, but at a higher cost.

Although there are more than 500 cities and counties in 27 states and the District of Columbia that have adopted some type IZ policy, they reflect considerable diversity in design and implementation. In Oregon there are several cities that have adopted some form of voluntary policies, but Portland is the only municipality in the state to adopt a have a mandatory policy.

In September 2018, the Portland Housing Bureau (PHB) prepared an 18-month review of its Inclusionary Housing Program. At the time of the memo, the City of Portland had a deficit of 22,000 affordable housing units. The program was designed to supplement publicly financed affordable housing development and help bridge the gap by linking the production of affordable housing to the production of market-rate housing.

In the first 18 months the program was in effect, the City of Portland permitted, or was in process to permit, 362 Inclusionary Housing units associated with 43 development projects. These projects, 36 privately financed and 7 accepting Housing Bureau subsidy, accounted for roughly 2,269 total units in projects that have submitted development applications after IH went into effect, February 1, 2017. The IZ units in the 36 privately financed projects were roughly the equivalent of a \$32 million-dollar public subsidy (or \$88,000/IZ unit), based on the average per-unit cost to the City to develop affordable rental housing.

IZ policies and programs can have modest impacts on the development of new affordable housing units, but they need to be tailored to the needs and characteristics of city and combined with other affordable housing strategies. As noted above, the development of an IZ policy is not necessarily feasible in all cities and may be an ineffective solution in cities or areas suffering from high land costs and limited land availability or where developers have little incentive to build.

If an IZ policy were adopted, the Council would need to remain attentive to changes in economic conditions and the housing market that affect IZ programs. IZ policies and programs require a

