Maximizing Affordable Housing
in Mall and Office Reuse Projects

Association of Bay Area Governments

METROPOLITAN TRANSPORTATION COMMISSION

Image: Milpitas Metro

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Transforming Malls and Office Parks

This guide complements a series of six working group meetings convened by MTC/ABAG with local governments around the Bay Area during the fall of 2022. The working group meetings focused on different aspects of mall and office park transformation, including site design, infrastructure planning and financing, housing development, and affordable housing financing and implementation. This guide is focused on affordable housing. The MTC/ABAG website also has guides and toolkits available for other topics discussed during the series of six working group meetings, as well as presentations from and recordings of the working sessions.

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INTRODUCTION

If you're a local city staff or elected official interested in exploring ways to incorporate affordable housing into a potential mall or office park reuse project, this guide is for you. It provides insights into how you can leverage local affordable housing requirements, zoning regulations, state planning laws, and negotiated land use deals to create affordable units during the redevelopment process. With Californians facing rising housing costs and spending more of their income on housing than residents of any other state, there's a critical need for action. While the State has increased funding and policy interventions, local governments remain the most influential regulators of housing markets. Redeveloping aging malls and office parks presents a unique opportunity to address this issue by adding significantly to the stock of affordable housing. This guide aims to equip you with the knowledge needed to be at the forefront of reducing the housing-cost burden of residents in your jurisdiction.

The guide discusses the various ways in which affordable housing can be incorporated into the redevelopment of larger shopping centers or office parks:

- **Section 1** highlights affordable housing requirements, such as Density Bonus Programs, Development Agreements, Inclusionary Housing Policies, SB 35, Affordable Housing Overlay Zones, and General Plan Affordable Housing Policies. Any or all of these policies can be used to incorporate affordable housing into redevelopment projects. The section provides details on each of these approaches and suggests further resources to help jurisdictions design appropriate requirements.
- **Section 2** features strategies that go beyond simply including some affordable housing to maximize the amount of affordable housing on redevelopment sites to achieve a share of affordability closer to the Regional Housing Needs Allocation. To deliver more affordable homes than market-rate developers can feasibly provide, jurisdictions can leverage local resources and policies to take advantage of federal and state programs. Among the strategies outlined in section 2 are land dedication, clustering affordable units, and phasing the affordable component of larger developments.
- **Section 3** discusses the role of financial feasibility in the design of new affordable housing requirements, highlighting the impact of local land use and planning rules on the value of any project as well as best practices in conducting feasibility analyses. It explains the concept of "residual land value" and describes approaches to "land value capture," a win-win scenario where private owners receive a portion of the increase in value, and the local government realizes some of the value in the form of greater community benefits.

I. Affordable Housing Requirements

When a larger shopping center or office park is redeveloped, it creates a rare opportunity to create much needed affordable housing. Presented with this opportunity, jurisdictions can consider requiring new multi-family housing developments on these sites to include a share of units that are permanently restricted to lower income residents at below market rate (BMR) rents or sales prices. Many jurisdictions have adopted such policies, which are sometimes enabled by state legislation and locally administered. These policies are critical for creating more affordable housing in areas where housing costs continue to rise and can significantly contribute to meeting the needs of lower-income residents.

Affordable housing requirements are frequently imposed as part of

- Density Bonus Programs
- Development Agreements
- Inclusionary Zoning Policies
- SB 35
- Affordable Housing Overlay Zones, or
- General Plan Affordable Housing Policies

This section describes each of these approaches and highlights further resources that can help jurisdictions design appropriate requirements.

Further Reading

American Planning Association	Overview of major zoning techniques.
Institute for Local Government	The Planning Commissioner Handbook. Introduction to planning and land use regulations in California.
Change Lab Solutions	Introductory toolkit for how local land use regulations work and how to make changes through them.
Local Housing Solutions	Policy platform to help Cities develop, implement and monitor local housing solutions.

Density Bonus Programs

The State of California's Government Code provides a pathway for developers to access additional height, density, and other planning incentives in exchange for a dedicated share of affordable housing through the State Density Bonus, see Gov Code § 65915. This code applies statewide as a minimum density bonus program although jurisdictions may choose to implement larger or more generous density bonus programs or offer additional bonus density for projects that reach deeper affordability levels. Crucially, jurisdictions are required to accept these proposals. So, when developing other programs and regulations, city planners and policy makers should keep in mind that this state program always exists as an option for developers.

State Density Bonus
State law includes a number of options for public benefits for developers to provide to access the benefit of increased density and less restrictive development standards. The most common use is to provide at least 10% of the project to low-income households (80% AMI) or 5% very low-income units (50% AMI). Other options include senior housing, moderate-income for-sale housing, very low-income housing for transitional foster youth, or low-income student housing. Additional density bonuses are also available to

projects that build a childcare center on-site or that transfer land to the City for affordable housing development.

This state law means that for any mall or office park reuse project, there is a reasonable chance that a developer will propose to include some affordable housing units whether or not the City adopts any additional requirements or incentives.

Local Density Bonus Programs
A local density bonus program that sits on top of and extends the state density bonus program can provide an additional incentive to encourage more affordable units without strictly requiring affordable units. Because the state bonus provides meaningful incentives in exchange for affordable units, a local program that extends the state bonus must offer incentives that are even more valuable in order to incentivize the provision of additional affordable units. And because the state bonus program entitles developers to request wavers and concessions, a local program that only offers additional density may not always be more attractive.

Case Study – Los Angeles. In late 2021, a development group proposed replacing a large parking lot and two-story strip mall in the historic Filipinotown area of Los Angeles at 1925 W. Temple Street. The new development will include 93 homes built atop 112 parking spaces and served by rooftop open spaces. The project took advantage of LA's Transit Oriented Communities (TOC) program which builds on top of the State Density Bonus to allow taller and denser buildings with smaller setbacks. In exchange for the extra density, the development will provide eight extremely low-income units. This represents 11% of the total project which will be affordable to households making less than 30% of area median income ("AMI") which in 2022 was $35,750 for a family of four. The project was privately funded and did not take advantage of LIHTC financing or any other city subsidies.

Further Reading:

Meyers Nave	Guide to California Density Bonus Law.
California Government Code	California state law governing the State Density Bonus.

Development Agreements

Jurisdictions use development agreements to negotiate land use regulations tailored to a specific parcel and project. These are often used for larger parcels, more unusual projects, or when the underlying zoning no longer reflects a community's values. Jurisdictions have wide latitude in negotiating a development agreement and can push for additional affordable housing in projects that would otherwise not be required to provide them.

Case Study – Pleasanton. The City of Pleasanton entered into a Development Agreement in 2013 for new housing at an 8-acre site within the Hacienda Business Park. At the time, the City had set aside their inclusionary housing policy following the Palmer decision, a court ruling that temporarily challenged the enforceability of mandatory affordable housing requirements. But even without a citywide ordinance, city leaders wanted to ensure that an appropriate share of affordable units were included at the Hacienda Office Park. The project proponents came to the City requesting a rezoning to allow for high-density housing and retail in addition to office space. As part of this development agreement, the project was required to provide 46 affordable housing units which constituted 15% of the proposed 305 apartment units.

Further Reading:

CALAFCO	Development agreement manual. Detailed introduction to the background, law, and practice of development agreements in California.
California Government Code	State law governing development agreements.

Inclusionary Zoning

Local jurisdictions may adopt ordinances that require private developments to restrict the rents of some of their units so that they remain affordable to lower-income households. These laws can apply to both rental and for-sale developments and often require that 5-20% of units be set aside at rents affordable to low or very low-income tenants. State Law provides a few guardrails for these ordinances by requiring an alternative method of compliance such as paying a fee, known as an 'in-lieu fee', or dedicating land elsewhere among many other options. State law also requires a feasibility study for inclusionary ordinances that propose more than 15% of new units be affordable.

Case Study – Milpitas. The City of Milpitas' inclusionary housing ordinance is responsible for the creation of hundreds of affordable homes through the development of surface parking lots and malls in the Milpitas Metro Specific Plan area. This portion of the City centered around the BART station has already seen the entitlement of over 7,000 homes through the Transit Area Specific Plan. That plan did not include a specific affordable housing component, but the City did adopt an affordable housing ordinance in 2018 to ensure future developments citywide included at least 15% of their rental units as affordable to low-income households and 15% of ownership units to moderate-income households. The City is slated to adopt the Milpitas Metro Specific Plan in early 2023 which will allow the creation of many more housing units as part of the redevelopment of the 437 acre Milpitas Great Mall. The current iteration of the plan anticipates approximately 7,500 residential units as part of the Great Mall which would mean approximately 1,125 affordable homes.

Further Reading:

Inclusionary Housing.org	Resource site with best practices information about inclusionary housing policies across the United States
Non-Profit Housing Association of Northern CA	2007 report detailing growth of inclusionary housing ordinances in California and reviewing research on impact.
CA Coalition for Rural Housing	Searchable database of inclusionary housing programs in California.

SB35

In 2017, the State of California adopted Senate Bill 35 ('SB 35') creating a streamlined, ministerial permitting process for housing development projects that meet specified affordability thresholds. Depending upon the progress of the jurisdiction in which the project is located toward meeting its RHNA target, developers must provide either 50% or 10% of the units in their project as affordable to qualify for this CEQA exempt process depending on a determination from HCD. Each year, HCD makes that determination based on whether a jurisdiction is on track to meet its regional housing needs allocation (RHNA). Jurisdictions not meeting the above-moderate income housing goal or who have not submitted a compliant housing element to the state are assigned the 10% threshold for SB35 projects. Jurisdictions not meeting the very low- and low-income housings goals are assigned the 50% threshold and jurisdictions meeting all their goals are exempted from SB35 projects. Project sites must also be located on eligible sites free from environmental hazards, wildfire risk, and a number of other risks. After completing a consultation with local indigenous tribes, a project proponent can receive their planning permits within several months if they meet all of a jurisdiction's objective planning and zoning regulations. This powerful tool can be combined with the State Density Bonus to create larger affordable housing projects. As jurisdictions seek to create new and different tools to encourage the production of affordable housing, they should keep in mind this state mandated tool for quicker and less risky project approvals.

Case Study – Cupertino. One of the most prominent uses of SB35 is the ongoing redevelopment of Vallco Town Square in Cupertino. Now known as 'the Rise', the 50-acre development was originally planned as an office and retail complex but added a significant housing component to meet the ⅔ housing requirement for SB35 eligibility and expedited approvals. As entitled, the mixed-use project includes 2,402 total housing units, half of which will be affordable to comply with SB35. Pursuing this level of affordability in the heart of Silicon Valley without public subsidies was only possible due to the streamlined entitlement process protected by this State Law.

Further Reading:

California Government Code	California state law 'SB35', CA Gov Code 65913.4
CA Department of Housing and Community Development	Guidelines issued by the state regulator, HCD, explaining SB35 and its implementation.

Overlay Zones

Jurisdictions can replicate the success of the State Density Bonus and SB35 by creating zoning overlay districts that allow for increased development intensity, streamlined permit approvals or both in certain areas in exchange for affordability levels over and above the state programs. Alternatively, these zones can restrict these additional benefits to 100% affordable housing projects to expedite achieving RHNA goals.
Many overlay zones are defined to offer affordable housing incentives in targeted areas (such as neighborhood around transit stops or major redevelopment projects). Some are adopted with a city-wide application. In those cases they may function just like local density bonus programs (discussed above).

Further Reading:

Case Study – Palo Alto. The City of Palo Alto adopted the Affordable Housing Incentive Program in 2018 to support the creation of 100% affordable housing defined as serving households making up to 120% of AMI. This district applied to commercially zoned sites near transit stops and relaxed standards related to lot coverage, open space, parking, height limits and density. After limited uptake in its first year, the zone was amended in 2022 to include streamlined approval process by eliminating hearings to shorten the development timeline by up to 1 year.

Terner Center	Case study on Oakley, CA's use of an affordable housing overlay
National Association of Housing Builders	Guide on using zoning to create affordable housing including overlay zones

General Plan Policy

Jurisdictions can unlock housing development City-wide on strip malls, parking lots and other underutilized commercial properties through a General Plan policy. These policies can take many forms including directives to require affordable housing in development agreements or rezonings, relaxing development standards for 100% affordable housing projects, and allowing residential development to proceed in commercial zones contingent on providing sufficient affordable housing.

Case Study – San Jose. San Jose's most recent General Plan created a vision for new urban villages along certain commercial corridors. Eventually, each urban village will have its own specific plan that updates the commercial zoning to allow residential uses. Anticipating the slow pace of adopting that many specific plans, the City included Implementing Policy 5.12 to allow 100% affordable housing projects to proceed in advance of a specific plan. This has allowed numerous affordable housing developers to redevelop commercial lands in advance of market rate developers.

II. Strategies to Maximize Affordable Units

Jurisdictions commonly use the tools described above to ensure that a mall or office park reuse project includes some modest level of affordable housing. But the growing housing crisis and the increased RHNA obligation to plan for provision of housing for low and very low-income residents has led more jurisdictions to seek strategies to not just include a small share of affordable housing but to ***fully maximize*** the amount that can be provided on these sites. Jurisdictions can't generally legislate a requirement that 30, 40 or 50% of units in all new residential development projects be below market rate. These high requirements are typically economically infeasible for market-rate developers. Instead, a community that wants to maximize affordable unit production needs to leverage their local resources and policies to take advantage of federal and state programs that subsidize affordable homes. These leveraging strategies can be applied uniformly through citywide policies or opportunistically on a project-by-project basis.

These approaches which 'leverage' private and public commitments to reach higher shares of affordable units can also be combined with more modest affordable housing requirements that apply more broadly. For example, a jurisdiction may require 20% affordable housing through a local inclusionary zoning policy but aim to reach 50% affordable housing by leveraging land dedication, clustering of affordable units and phasing as described below.

Land Dedication

In some cases, local governments augment an on-site affordable housing requirement by negotiating with a private developer/property owner to donate a portion of a site to the public agency for the purpose of providing affordable or mixed income housing. Local governments can then leverage these properties to maximize affordable housing in several ways. One option would be to lease the land to a developer to construct a 100% affordable housing project. For a larger site, a jurisdiction might seek a project developer that could build a mixed income project with a higher share of affordable units than would otherwise be feasible without free or deeply discounted land. A jurisdiction might complete a Request for Proposals ('RFP') process to dispose of the land according to procurement and solicitation regulations. A jurisdiction has the ability to require or incentivize providing affordable housing by writing preferences explicitly into the scoring criteria of the RFP.

Further Reading:

CA Dept of Housing and Community Development	Background on the surplus lands act and technical assistance
Local Housing Solutions	Primer on the use of publicly owned land for affordable housing with case studies.

Case Study – **El Cerrito.** The City of El Cerrito owned approximately 65,000 square feet over three parcels adjacent to the Del Norte BART Station valued at approximately $3.75 million. The City initially released a request for qualifications and garnered 11 applications from development teams. Three teams were invited to apply to a subsequent RFP that was intentionally general in its requirements. The RFP indicated a desire for a mixed-use development and emphasized the importance of affordable housing instead of requiring it. This strategy reflected the City's uncertainty about how much public benefit could be supported in addition to the sales price. In the end, the selected development team committed to providing 30% affordability and seeks to anchor a new dense, walkable portion of El Cerrito.

Figure 4 Mayfair Station

Clustering Affordable Units

Many jurisdictions require that affordable housing units be dispersed throughout mixed-income developments to promote economic integration. This requirement generally means that a market-rate developer cannot access most state and federal affordable housing subsidies to finance the affordable units they are required to provide as part of the project. For inclusionary housing programs that require 10-20% affordable units, this is generally not a problem because the market rate housing is often profitable enough to enable projects to provide some low-income units and still achieve profit targets.

If we want projects to reach higher levels of affordable units better aligned with the Regional Housing Needs Allocation (30-50% or more), then we need to be able to take advantage of tools like the Low-Income Housing Tax Credit (LIHTC) program which generally are only available in buildings where all (100%) of the units are affordable. One way to achieve this is to cluster the affordable unit in a master planned development into one or more 100% affordable buildings. For example, a project might build 300 housing units with 30% affordable by including one 200-unit market rate building next door to a 100-unit LIHTC financed affordable building. This strategy allows us to 'leverage' the private funding from the market rate project with federal tax credits so that it becomes feasible to provide far more affordable units.

Understanding Economic Integration

One common concern with this clustering strategy is that it sacrifices the goal of economic integration in order to provide more affordable housing units. The conventional wisdom is that dispersing affordable units throughout a development benefits low-income households by creating social bonds and networks with higher-income, neighboring households. It is certainly clear from recent research that lower-income people can benefit from opportunities to live in more mixed income *neighborhoods*, but it is not clear that living in mixed income *buildings* offers additional benefits. A summary of the research by the Urban Institute showed that "the benefits that low income families have realized from living in income-diverse neighborhoods have been derived from improvements in place rather than interactions with people."[1] A clustering strategy achieves the critical goal of offering affordable housing in the same areas that new market rate housing is being built – areas that are more likely to have access to high quality schools, parks and open space and lower rates of crime and pollution – and it makes it possible to make those benefits available to far more low-income families than would be possible if low-income units were required to be integrated into the same building.

[1] 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.

Case Study – Berkeley. The City of Berkeley's Affordable Housing Requirements law (a form of Inclusionary housing) requires developers to provide 20% of the units as affordable on site or pay a fee. Recently the City has been planning for the redevelopment of the Ashby and North Berkeley BART stations. Community stakeholders in Berkeley have consistently prioritized affordable housing as a potential use at both of these sites and the City and BART jointly committed to including no less than 35% affordable units while striving for 50% or more. Recognizing that higher affordability levels can be very challenging financially, the City committed $53 million from its own affordable housing resources to support these projects. But City leaders were concerned about public subsidy letting developers 'off the hook' for the 20% affordable housing that they would otherwise be required to provide.

In response the city developed a framework specifically for the BART sites that encouraged developers at the BART stations to propose projects with the highest feasible levels of affordable units. The City will require projects to underwrite the cost of providing 20% affordable units through internal subsidy from market rate housing units. Developers will be expected to make a minimum contribution (cash or in kind) from market rate projects. .

Rather than paying a fee or building units mixed into market rate buildings (as the City's law requires on other sites), developers at the BART stations are allowed to build clustered, 100% affordable housing buildings within the master development. These clustered projects will receive public subsidy from the City, state and federal housing programs as well as financial contributions from the market rate buildings at each site. Because the clustered affordable units are part of the same overall project, they will enable the project to access the State Density bonus and possibly benefit from streamlining protections under SB 35.

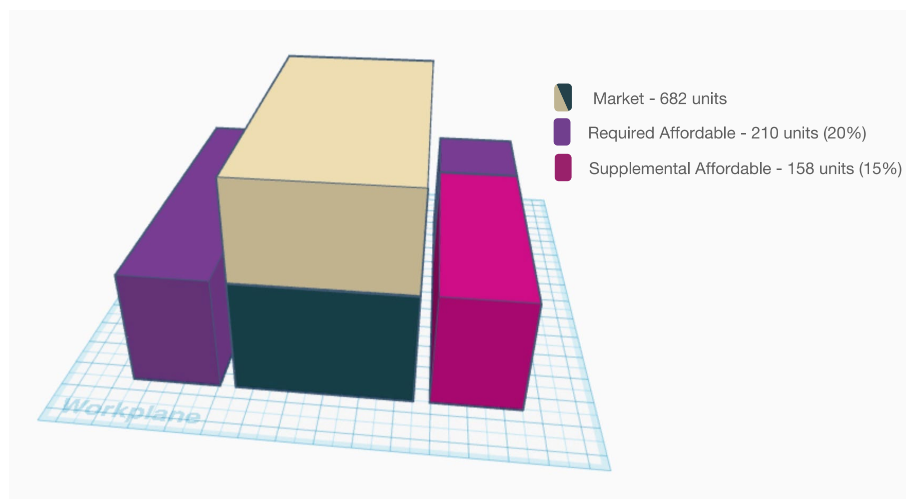

Figure 7: Illustration of potential development combining public and private resources to reach 35% affordable units.

Leveraging Private Contribution

For a clustering strategy to work, jurisdictions must ensure that the market rate projects are making meaningful financial contributions to the affordable housing rather than simply using state and federal subsidy as a substitute for private investment. To some extent, just requiring a higher share of affordable units ensures some degree of private investment simply because it is so difficult to line up enough public subsidy to deliver the required share of affordable housing. However, many jurisdictions have developed more explicit policies to avoid 'double dipping' and ensure that private developers provide meaningful contributions even when other public subsidy is used to reach higher levels of affordable housing.

Case Study - Healdsburg. The redevelopment of a former mill in Healdsburg, CA provided an opportunity for a win-win between the developer and the City through clustering. The City's inclusionary housing law requires 20% of the units to be affordable to low-, moderate- or middle-income households and that those units are "distributed throughout the residential project site to the extent practicable." Rather than accept 20% affordability, the City negotiated a development agreement and conditional use permit that created 33% affordable units overall through $7.8 million in cash and land, middle-income townhomes and a dedicated 100% low-income development. The standalone, 41-unit affordable housing development will be affordable to households earning less than 50% of AMI and was constructed by an experienced nonprofit affordable housing development partner with a financing package of LIHTC and project-based housing vouchers from the local housing authority. In the end, negotiating a development with clustered units increased the number of affordable housing units from 42 to 62 and deepened the affordability levels. The market rate developer still contributed to create affordable housing but clustering the affordable units made it possible to build more affordable units than would have been feasible otherwise.

Figure 5 Mill District Healdsburg

Phasing Affordable Projects

Cities can assist the creation of affordable housing by allowing larger developments to take a phased approach to delivering affordable units. Often, a project with multiple buildings and hundreds or thousands of units will be built over many years. Affordable housing requirements, however, often require that all affordable units are built before a certificate of occupancy can be issued for the market rate portion of the project. This presents an obstacle to larger mixed-income projects as the intense competition for state and federal tax credits means that many affordable housing projects take many years to build their capital stack. Requiring the affordable units be permitted first makes sense when only a relatively small number of affordable units are being required, but when the share of affordable units rises, more flexibility in the timing of provision is often necessary.

Case Study – Oakland. The Brooklyn Basin development agreement with the City of Oakland required 465 units of affordable housing across four separate projects. Midpen Housing, the non-profit affordable housing partner in the development team, was unable to secure financing for all four projects at once. Flexibility in the agreement allowed for a phased approach where the affordable projects will be built sequentially over at least 7 years, generally in a similar time frame as the market-rate housing and site infrastructure.

Figure 8 Rendering of Brooklyn Basin

III. Understanding Financial Feasibility

Affordable housing requirements are only successful in creating new affordable housing units when they are imposed at a level which is financially feasible. In the rare cases where requirements are set too high, they can be a barrier to development with the result that the community gets less, not more, affordable housing because nothing gets built. While there is general agreement, in principle, that there is a point beyond which requirements become financially infeasible, actually determining that specific point for any potential project is often quite challenging.

Policymakers sometimes talk about financial feasibility as if the economics of a potential project were fixed. In fact, the value of a redevelopment project is very sensitive to changes in market conditions, construction costs, etc. And it turns out that local land use and planning rules have a very significant impact on the value of any project. In the context of affordable housing requirements, this means that for the local government there is never just one answer to the question of how much affordable housing is 'feasible.' What is feasible will depend on what a developer is allowed to build and what conditions or requirements are imposed on the project.

Understanding Land Value

One way that economists often think about financial feasibility is through the idea of "Residual Land Value." This is the idea that what a developer can afford to pay for land is basically whatever is left over after they pay for everything else. To understand the idea, imagine you are a developer negotiating to buy a vacant lot that is zoned in a way that would allow for construction of 20 townhouses. If you knew those townhouses could be sold for $1 million each ($20 million total) and that construction would cost $13 million, you might offer to pay $5 million for the land – leaving you $2 million as a developer fee/profit. If the city changed the zoning to allow more townhouses, the project would be more profitable. It is easy to imagine that the change would mean that you as developer would be able to keep a much higher level of profit. But if you don't already own the land, you are not going to be able to keep most of that profit. And that is because other developers are going to be bidding against you for that land. The land owner is going to know that the zoning has changed and they are going to expect more for their lot now. If you were willing to build the 20-unit project for $2 million, you might need somewhat more to take on the risk of a larger project but not much, In order to get the land, you are simply going to have to offer a much higher price for land that can hold more townhomes.

And the same 'land residual' principal works in reverse as well when the public sector imposes costs on development. When a city adopts an impact fee, for example, this action will push down the amount that every developer will have left over after paying for everything. The new fee will push down the amount that anyone will offer for the land. We often talk about impact fees as imposing costs on developers, and it will be developers who will write the check, but it will ultimately be landowners who bear the expense. Developers will generally make the same return with or without impact fees, but land owners will receive lower prices if their property is subjected to a new fee.

Every rule or regulation that a jurisdiction imposes that has a cost will impact land values. A requirement that new buildings have fire sprinkler systems will lower land values, excessive parking requirements will push down land values, and any requirement that buildings provide affordable housing directly impacts that maximum amount that any potential developer will pay for land.

Estimating the value that a public regulatory decision confers to proposed development allows for a win-win scenario where the private owner receives a portion of the increase in value, and the local government also realizes some of the value in the form of greater community benefits. This concept is known as '***land value capture'*** and comes in many forms.

A few common examples are:

- A city-wide mandatory inclusionary housing ordinance may be instituted at the same time as a city-wide upzoning. The additional value conferred on land by the right to build more housing units is partially recaptured by the jurisdictions through the inclusionary housing ordinance's requirement for below market rate units.
- A voluntary density bonus program increases the value of a project by allowing more development capacity. The jurisdiction captures some of that additional value by requiring projects that elect to use the bonus density to provide some units restricted to below market rate rents.
- A rezoning might allow for a residential project to move forward on land where only commercial development is typically allowed. The right to build a more profitable type of project confers additional value, and a jurisdiction might capture some of that value by requiring a new park, a contribution of land for a future school site, or building new traffic lights at a nearby corner.

The economic effect of each of these changes is the same: a set of regulatory changes increase land value by allowing for more profitable development but then captures some of that increase for the public by also requiring provision of affordable housing.

These strategies require understanding the financial feasibility of development projects in order to fine tune the net impact of both the incentives and the requirements. Understanding how much value is being conferred and how much value can be captured to provide affordable housing and other community benefits while maintaining financially feasible development projects generally requires complex financial analyses.

Communities undertaking large scale redevelopment projects will often hire an economist to conduct a financial feasibility study in order to better understand the economic potential of their project. This is difficult to do for individual smaller projects but many cities commission in-depth feasibility studies before adopting citywide affordable housing requirements or incentive programs.

In either case, the consultant will

- research market conditions in order to understand the likely market rents or home prices (and possibly also commercial rents)
- Research market trends and speak with potential developers to better understand the types of projects that are likely to be built including issues like the likely size of new housing units, typical building amenities, and the amount of parking that potential residents expect.
- Research construction costs and trends for projects like the expected project
- Research current market financing costs and the current requirements of lenders and investors in comparable projects
- Research local land values
- Construct a proforma that captures the likely revenues and the associated costs for the type of project contemplated including an estimate of the likely value of the project based on the projected Net Operating Income.
- Evaluate the overall profitability of the project for investors or land owners.

- Use the proforma model to compare the profitability of several alternative scenarios including alternative levels of affordable housing requirements and alternative levels of incentives (density bonus, streamlined approvals, fee waivers, etc)

It is important to understand that, while the economists go to great lengths to construct proformas based upon the best available data for these studies, the exercise is very valuable to policymakers even though real projects are inevitably far more complicated. Economists can never anticipate all the relevant factors which might influence the feasibility of a given project. But, while the real project may ultimately differ from the simpler proforma in a feasibility study, the cost of providing affordable units and the value of public incentives is much easier to model and understanding these factors is critical to making appropriate land use policy decisions.

Further Reading:

Lincoln Institute	Short video primer on land value capture.
Street Level Advisors	Video on the Economics of Inclusionary Housing
Financial feasibility RFPs	Rancho Cordova, Escondido, Culver City
Financial feasibility studies	San Luis Obispo, San Francisco