

**Research on State  
and Local Means of  
Increasing Affordable  
Housing**

**From Insight to Impact**  
– worldwide

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# INTRODUCTION

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High quality, affordable housing<sup>1</sup> is fundamental to the economic and physical well being of families, communities, and the nation. Despite its importance, a “perfect storm” of factors over the last several years has led to near crisis-level shortages of affordable housing. Among these factors are formerly pro-growth local governments that have become slow-growth, NIMBYs (Not-In-My-Backyard sentiments by neighbors of proposed housing developments) who resist development, rapid price increases in housing across much of the country in the first half of this decade, and declines in federal resources for affordable housing. Most recently, the problems in the subprime mortgage market have limited access to loans even for borrowers with good credit histories.

Each party in a development proposal has legitimate concerns: local budgets are strained, causing challenges in how to finance the education of current schoolchildren, much less new ones who may occupy new developments. Likewise, NIMBYs often have legitimate concerns about traffic and environmental impact.

The people who need the affordable housing also have a legitimate claim, however, and the lack of housing is leading to consequences for both households and local and regional economies that may become increasingly severe. The most obvious of these is that many families pay disproportionate shares of their income for housing, leading to financial stress.

Metropolitan areas also suffer. For example, some cities, such as Boston, are losing a large share of the population key to driving future economic success in the city – 24 to 34-year-olds – many of whom are leaving precisely because they view housing as too expensive. Employers often decide not to locate in a community if housing costs are too high and their workers can’t afford to live nearby. The environment, which NIMBYs and others try to protect, also suffers. The housing that does get approved tends to be high-end, in outer-ring locations that are seen as yielding higher property taxes and requiring fewer local services – but add to congestion and impacts on natural resources.

Lower-income families have long struggled to find housing that fits their budgets; the difference now is that the need for affordable housing exists nearly across the income spectrum and includes families earning up to 120 percent of the area median income and even higher in very high cost areas such as Southern California. The extent of the problem calls for new solutions, and the good news shared in this report is that new solutions are rapidly being generated and adopted at the local level.

The challenge is sharing these ideas across communities rapidly enough to avert the worst consequences of affordable housing shortages. The shift in responsibility for affordable housing from the federal government, with its declining resources, to state and local governments increases the complexity of spreading information about successful strategies. The disparate

actors involved and their poor connections with one another make it difficult to share strategies. A few strategies – such as inclusionary zoning – have spread to many places in the 30-plus years since they were first introduced. Despite the incidence of inclusionary zoning, however, no single strategy can fix the affordable housing shortage, and no single strategy works in every market. Inclusionary zoning may not work at all in a slow market, for example, and may well exacerbate the shortage of affordable housing even in a hot market.

Many strategies have not previously been well known or understood. The purpose of this report is to shed greater light on what approaches are being used successfully at the state and local level so that communities can adopt more comprehensive and effective strategies to address this critical need and problem.

## Outline of the Report

This compendium of strategies being used at the state and local level to increase affordable housing is intended to help speed the spread of innovative ideas. Ideally, this resource will be valuable to developers, affordable housing advocates, and state and local officials in identifying new approaches to encouraging affordable housing in their locations.

Although the focus of the report is on innovative strategies, it is also intended to be as comprehensive as possible, so some strategies included, such as property tax abatements for maintaining affordable housing, have been in use for decades. This collection builds on the work of many people, but in particular Jeffrey Lubell and Tasha Harmon,<sup>2</sup> who have written shorter guides to tools for producing affordable housing.

Sixty-five different strategies are included here in all. These are divided into three categories: land use, financial, and a catch-all “other” strategies category. There is a great deal of overlap between both categories and strategies, so cross-references are included where appropriate.

***Land-use strategies*** may work through the zoning process, create particular types of housing development, make land available for affordable housing development, provide relief for regulatory barriers to producing housing, or use local ordinances to control the use of land in other ways.

The land-use strategies chapter begins with a section on planning for affordable housing, which is an essential first step, but one that is often overlooked. Ideally, communities that solicit businesses to locate within their borders also plan for the housing new workers will need. Without this kind of planning, the population growth that accompanies economic development leads to increases in demand for housing that outstrip the ability of the market to respond, given the current land use system. Rises in the price of housing quickly exceed wage growth.

***Financial strategies*** include sources of funding used by state and local governments to improve the affordability of existing housing, encourage the development of new affordable units, or discourage the conversion of affordable housing to more expensive

housing or to non-housing uses. Financial strategies may affect property taxes or other taxes, provide tax credits, provide financing from other sources, reduce or eliminate impact fees, provide regional approaches to financing affordable housing, or provide other types of financial assistance.

*Other strategies* operate in ways other than through regulation of land use or through providing financial incentives. They include provisions of state law intended to encourage affordable housing, strategies that provide information to communities and developers to improve acceptance of affordable housing, the creation of organizations that promote affordable housing, and relief from regulations (other than land use regulations) that impede the development of affordable housing.

In general, the strategies included are limited to those that lead to the production of new housing. Strategies useful for assisting individual homebuyers or renters, such as rent vouchers, property tax waivers for low-income homeowners, and downpayment assistance are generally excluded.

In addition, only strategies that can be implemented by state and local governments are included. The arsenal of federal strategies available for affordable housing is excluded because they are better known, and increasingly scarce. The strategies included here provide ideas for local and state governments stepping in to fill the void left by declines in funding for federal programs. In addition, they show how state and local governments are serving moderate-income households in need of workforce housing, who are largely unserved by federal programs.

Two to three page descriptions of each strategy include the history of the strategy, its target population, and the extent of its use. How the strategy is funded and administered is also included, as are pros and cons for using the strategy or types of markets where the strategy is more or less effective.

In addition, because seeing is believing, this report includes as many examples of locations using each strategy as possible. It also gives results of the strategies (number of units produced in a particular location, for example). Each description concludes with sources of information about the strategy (reports and websites) and contact information for people and organizations knowledgeable about the strategy.

Case studies of about half the strategies provide an in-depth look at how the strategy has been used in a specific location. The case studies are based on interviews with local officials, developers, and non-profits who have implemented or used the strategy. In some cases, the case studies highlight successes in using a particular approach. In others, they highlight lessons learned about implementing a strategy and offer advice for other places considering the strategy. It is clear that strategies must be very carefully adapted to each location and market condition and that, in some cases, there is still a lot to learn.

## Observations from case studies

Several things stand out from the case studies research. First, the most successful places rely on an array of strategies to encourage affordable housing rather than any single strategy. Austin, Texas, for example, combines impact fee waivers, expedited permitting, advocacy to reduce NIMBYism, transit-oriented locations to reduce commuting expenses, and energy efficiency to reduce utilities costs. Austin's efforts result in 1,500 units of moderately priced housing per year, making it one of the most productive programs in the country. Polk County, Florida, in contrast, relies primarily on impact fee waivers, which people we interviewed feel would be far more effective if combined with downpayment assistance.

Second, inclusionary zoning is a commonly used approach. However, its implementation and success varies widely, from places that offer no cost offsets to developers whatsoever to places like Highland Park, Illinois, which offers developers cost offsets as well as – perhaps most importantly – flexibility in the size and type of affordable units compared with the market-rate units. In addition, in places with the most effective housing affordability programs, inclusionary zoning ordinances guarantee strong incentives for developers and are combined with several other strategies to produce affordable housing rather than being the only or primary strategy. In fact, voluntary programs with appropriate incentives such as those in Irvine, California, Lexington, Massachusetts, and Chapel Hill, North Carolina are considered to be quite effective.

Third, virtually all states in the nation are involved in efforts to produce affordable housing, not just very expensive places like California, New York, and the Northeast. Case studies cover locations in 15 different states, and examples of locations where strategies are used cover fully 49 states.

Fourth, the strategies that get the most press are not necessarily the most effective. Communities trying strategies such as transfers of development rights, cluster development, and transit-oriented development for affordable housing are generally having only mixed success, although we hope the lessons they have learned in using these tools (presented in case studies) will help other communities further develop these strategies to increase their effectiveness.

In contrast, less flashy strategies such as expedited permitting processes, advocacy efforts to reduce NIMBYism, zoning changes to encourage affordable housing, and regular local planning efforts that incorporate realistic assessments of the area's remaining development capacity, can have broad effects on housing affordability. These strategies are more difficult to quantify, but can affect virtually every new development in a community.

Last, the task of improving access to housing that is affordable to low- and moderate-income households is never finished. Constantly changing economic conditions, housing markets, and local conditions mean that even communities with highly successful programs to improve housing affordability must constantly reevaluate their efforts. We hope this resource is valuable to communities in all phases of their mission.

# OTHER STRATEGIES FOR ENCOURAGING AFFORDABLE HOUSING

**MANY STRATEGIES** for improving housing affordability do not fit neatly into either a land-use or financing category; however, this makes them no less effective. One of the most powerful strategies for encouraging communities to accept the responsibility to host housing that is affordable to low- and moderate-income households is **State Legislation**, such as laws that provide an appeals process to developers whose proposals to build affordable housing are rejected. These laws typically set a goal of the share of each community's housing stock that should be affordable; developers in communities that have not reached their goal have the option of appealing the community's permit application denial.

Several approaches are **Informational Strategies** that provide information to stakeholders that facilitate affordable housing. These include databases of affordable housing information, vacant building registries, and efforts to improve the energy efficiency of housing and thus the expense of utilities. Educating homebuyers about the process of buying, financing, and maintaining a home has been shown to have an important impact on their ability to maintain homeownership. Two strategies reduce the tendency for neighbors of proposed housing developments to oppose them. Media campaigns such as television ads, radio ads, and billboards can help improve acceptance of affordable housing among a community generally; and advocacy efforts for particular affordable housing developments can address neighbors' specific concerns about a proposed development.

Efforts to organize programs that encourage affordable housing require the participation of a lot of people. The section on **Organizational Strategies** describes six different ways groups can be organized to build or promote affordable housing, including task forces on affordable housing, community land trusts, and partnerships between for profit and nonprofit organizations and between public and private organizations.

Last, the section on **Reforming Development, Construction, and Building Codes** describes some of the most broadly applicable and useful strategies for reducing the cost of housing. Building code changes to promote rehabilitation and reforming construction standards and building codes are efforts that have been underway in some places for decades. Communities have also looked for ways to expedite permitting processes; a case study of Oregon's new e-Permitting system demonstrates that this can be a state-level strategy, leveraging state resources, expertise, and the ability to organize diverse stakeholders.

## For Profit-Nonprofit Partnerships

### **Strategy description**

Affordable housing units in mixed-income or mixed-use developments often are created by partnerships between for-profit and non-profit organizations. Non-profits can sometimes access sources of funding not available to for-profits, such as HOME and LIHTC nonprofit set-asides. For-profits may provide expertise needed for large-scale development projects. In other types of profit-nonprofit partnerships, nonprofit developers partner with for-profit financial institutions to provide below-market capital.

### **History of the strategy**

For profit-nonprofit partnerships to develop affordable and workforce housing have become increasingly common as federal and state sources of funding for construction of affordable housing is targeted to nonprofits.

### **Target population**

Housing developments built by for-profit-nonprofit partnerships often include a mix of housing types. Affordable units included in the developments are targeted to low- and moderate-income renters and homebuyers; market rate units are often also included.

### **How the strategy is administered**

Partnerships tend to form on a project basis, often without any local or state government involvement. However, partnerships may form in response to notices of funding availability for federal or state sources of funding, and a local government agency may become one of the partners.

### **How the strategy is funded**

No funding is necessary to form a partnership.

### **Extent of use of the strategy**

Widely used.

### **Examples of locations where the strategy is being used**

- The Bluestone Organization, in Brooklyn, NY, is a building company in its third generation of operation. The for-profit company has partnered with city and non-profit organizations to build affordable, subsidized housing and middle-income rental apartments. In addition, Bluestone Organization shares the benefit of its 70 years of experience by acting as general contractor for non-profits.<sup>170</sup>

- HomeSight, in Seattle, WA, partnered with the Buchanan General Contracting Company to build Stellina Condominiums, 34 one- and two-bedroom homes affordable to low- and moderate-income households.
- Arlington Partnership for Affordable Housing (APAH) in Arlington County, VA is a private nonprofit that purchases and renovates apartment buildings to preserve them as affordable housing and improve the condition of the property and its neighborhood. The mixed-use, mixed-income development projects are undertaken in partnership with local government, other nonprofits, commercial developers such as Paradigm Companies, and property owners.

### **Strategy results**

The Bluestone Organization has built over 1,700 units in Queens, Brooklyn, and Manhattan in partnership with the New York City Department of Housing Preservation Development, the New York City Housing Development Corporation, and other organizations.

### **Pros and cons to using the strategy and/or types of markets where the strategy is more or less effective**

#### **Pros:**

- For-profit and nonprofit organizations often bring unique qualifications to a project. Nonprofit organizations may have good relations with funding sources, qualify for sources of funding that are not available to for-profits, and have strong ties to the community where the project is being built which may help to improve acceptance of the project. For-profits are more likely to have experience constructing larger developments and may add financial strength that improves financing options.

### **Sources of information about the strategy**

- NAHB's Innovations in Workforce Housing Awards recognize communities where the majority of homes were sold at or below the averaged-priced home in the area or county. Many of these communities are developed by for profit-nonprofit partnerships. See [www.nahb.org/](http://www.nahb.org/).
- Developer or builder websites: [www.homesightwa.org](http://www.homesightwa.org/); [www.bluestoneorg.com/](http://www.bluestoneorg.com/); [www.paradigmcos.com/](http://www.paradigmcos.com/); and [www.apah.org](http://www.apah.org/).

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## EDEN HOUSING, HAYWARD, CALIFORNIA

### FOR PROFIT-NONPROFIT PARTNERSHIPS

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Eden Housing, a 40-year-old nonprofit developer in Hayward, CA, is finding its partnerships with private developers of market-rate housing to be a cost-effective strategy for producing affordable housing. Eden Housing has partnered with several private developers in the San Francisco Bay Area to build and maintain affordable housing projects.

- ✓ For profit-nonprofit partnerships
- ✓ Inclusionary zoning

One important motivation for partnerships between for-profit and nonprofit developers is the inclusionary housing ordinances passed recently in many communities in Northern California.

Eden Housing had been collaborating with for-profit development companies long before Hayward passed its inclusionary housing ordinance. However, the new requirements have brought a new focus to this type of collaboration. As a non-profit developer, Eden Housing has access to a variety of financing sources that decrease the cost of building affordable housing, such as the federal Low-Income Housing Tax Credit program, Section 202 for seniors, and Section 811 for people with disabilities.

Two of Eden Housing's current projects illustrate the innovation and impact this type of development partnership can provide. In 2004, the City of Hayward passed an inclusionary ordinance requiring developers to set aside 15 percent of units in new developments of 20 units or more to the City's affordable housing stock.<sup>171</sup> With plans to develop 179 units of market-rate, single-family homes, Hayward's inclusionary ordinance would have required the DeSilva Group to include 26 units of affordable housing on site.

Instead, the City allowed DeSilva to instead satisfy its inclusionary requirements by buying the site of an old pickle plant and selling it to Eden Housing for \$1 while providing demolition, environmental cleanup, and perimeter improvements. Eden Housing is now working with La Vista, LLC, an affiliate of the DeSilva Group, and

the City of Hayward to build 78 units of rental housing affordable to low- and very low-income families earning between \$14,000 and \$52,000. The project is the first new housing project subject to Hayward’s inclusionary housing policy that includes a collaboration of this type.

The combination of Eden Housing’s access to tax credits and tax credit financing for affordable housing; the use of lower-cost land; and the revenue DeSilva earned from selling extra affordability credits to other developers in Hayward allowed DeSilva to spend the same amount of money and make a much larger impact on the production of affordable housing in Hayward. Jim Summers, president of the DeSilva Group commented, “The real benefit for everybody is that the City ends up getting three times the number of affordable units and at a much lower affordability level.”



In a second project, Eden Housing is partnering with Citation Homes of Santa Clara on the Cannery Place development. In 2005, Citation Homes won initial approval by the Hayward City Council to develop 628 new condominiums. To fulfill local inclusionary housing laws for the new development, Citation will include 57 moderately priced units on site that will be sold to families earning 110 percent of AMI.

In addition, Citation is tearing down a nearby abandoned Hunt-Wesson potato cannery in downtown Hayward and selling the three-acre site to Eden Housing for \$1. Eden will build 60 units of rental housing for very-low-income seniors and new office space for Eden Housing on the ground floor.<sup>172</sup> The project will provide the first new housing development in Hayward specifically designed for low-income seniors since the 1980s.

Because the Eden Housing development allowed Citation to exceed the inclusionary requirements for the first development by 23 units at deeper affordability levels, the City allowed Citation to use that surplus as a credit toward future development. Citation now has a long-term option to build an additional 170 townhomes on another piece of land, with requirements to include 16 moderately priced units on site.

Linda Mandolini, executive director of Eden Housing, estimates that their collaborations with market-rate developers have produced about 1,100 affordable units. Between the two projects described above, the City of Hayward has met 78 percent of its Housing Element requirement. Mandolini explains, “The bang for the buck for cities to do this is huge. Cities don’t have to put in a dollar.”

Developers have also welcomed the partnership as a more cost-effective way to meet affordability requirements. Mandolini explains, “With building costs at well over \$300,000 on top of high land acquisition costs, getting the subsidy to sell housing to very low-income households is just not possible.”

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*“The bang for the buck for cities to do this is huge.”*

-Linda Mandolini

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According to Summers’ calculations, “The sale price for the ordinance-required moderate income homes would have been in the mid \$300,000’s. But the market cost would be in the \$800,000-plus range. That’s \$13 million for 26 units of moderately affordable housing. We were able to take that same money and leverage it into 78 units of very low- and low-income affordable housing.”

All three of the players in the Hayward collaborations – Eden Housing, the market-rate developers, and the City – have faced their own challenges. Mandolini found that a successful collaboration with for-profit developers required first gaining their trust. “Even though we have a good reputation, they didn’t know how we worked. They were quite surprised. We have very sophisticated staff and rocket science financing. They’re now figuring out that we can deliver and we can help them.”

Now, after working on more than 20 projects in Hayward, Mandolini thinks Eden’s local reputation has become an asset to developers politically as they try to get their projects through the City Council approvals process.

Summers notes that for developers, a key challenge to a successful collaboration is finding a piece of property at a price that makes the numbers work. In Northern California, where land prices are soaring, he believes developers will not always be able to find that.

Finally, all developers have had to convince the City to allow inclusionary affordable housing off site. “It’s a tradeoff between getting [an affordable] development site and breaking down economic barriers,” Mandolini says. However, the City has agreed to provide Council approval if developers can clearly demonstrate the affordability benefits of off-site development.

Looking back, Mandolini’s advice to communities considering policies that encourage collaboration between market-rate and affordable housing developers is to have a flexible inclusionary housing ordinance. “In looking at policies, think about how a policy can realize a greater benefit. We were very fortunate that the City Manager in Hayward and the City Council understood how much benefit they were getting,” said Mandolini.

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