

Enhanced Inclusionary Zoning for Pittsburgh

Councilperson Bob Charland

January 14, 2025



2022 Housing Needs Assessment

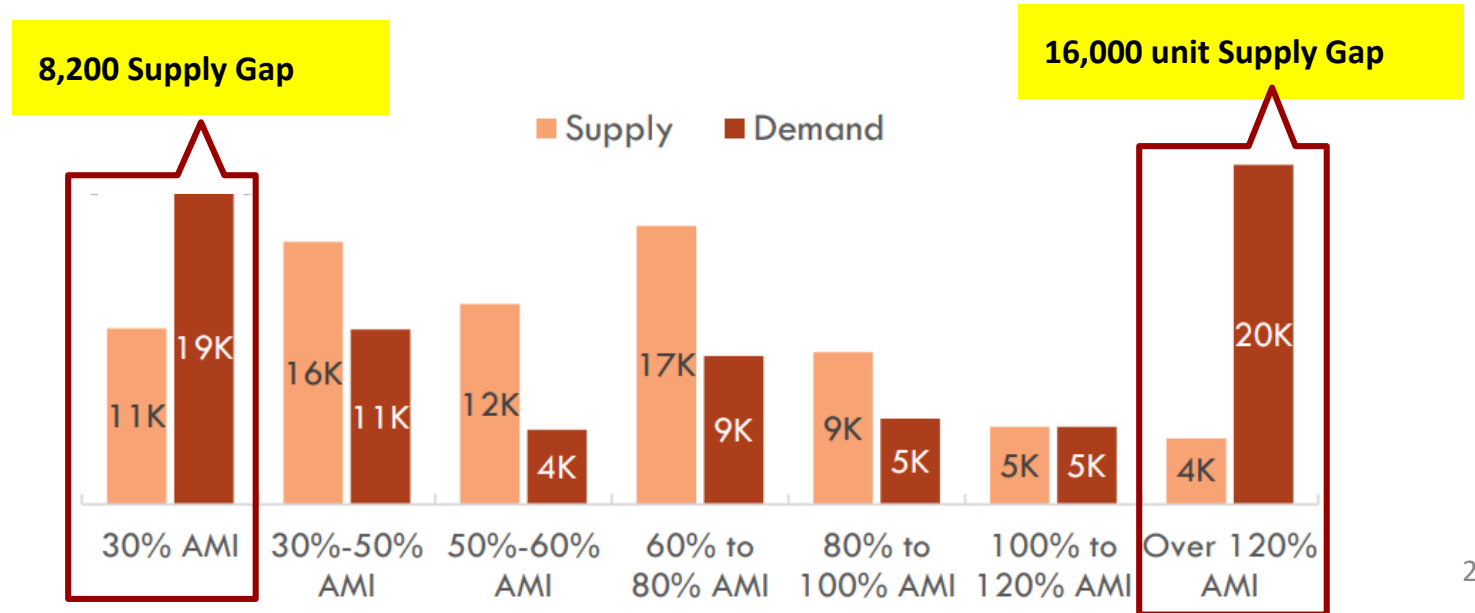
- Largest gaps in supply are for <30% AMI and >120% AMI
- Current IZ regime does nothing to resolve **either issue**:
 - Supply gap of 8,200 units for <30% AMI (~\$22k/year for a single person)
 - Supply gap of 16,000 units for >120% AMI (~\$85k/year for a single person)



PITTSBURGH HOUSING NEEDS ASSESSMENT

Final Report | January 2022

Rental Supply/Demand Gap by AMI Level, 2019



2022 Housing Needs Assessment

Market-Related Vacancy at Lowest Rate Since 1980

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Vacancy has consistently trended downward since the Great Recession, with market-related vacancy decreasing by more than half in this time. Indefinite vacancy, **an indication of abandonment**, has been slower to recover, but began to decrease in 2015 after 30 years of consistent upward trajectory.

Multifamily Rental Dominates Future Housing Need

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Pittsburgh is projected to **add 9,700 households over the next ten years, with almost $\frac{3}{4}$ as renters**. In total, about half of all new Pittsburgh households will be looking to rent multifamily, placing additional price pressure on this housing type.

- Nearly all new units in Pittsburgh are in multifamily buildings
 - 90% of all new units are in buildings of 20+ units since 2012
 - Current IZ policy forces affordability mandates only on new multifamily buildings
- Low vacancy leads to rent increases

Some History

- Current IZ program has FAILED
 - Doesn't meet urgent and growing need
 - Current overlay has produced **only 38 affordable units** since 2019
 - Means a lot to 38 families -> *What about affordability as a whole?*
 - Additionally, IZ requirements helped to derail projects such as the ShurSave redevelopment, losing the City hundreds of units and potentially millions in tax dollars
- We need a program that will *actually work*, not just something that sounds good
 - IZ programs increase project costs by mandating affordable units
 - Without sufficient subsidy, this will depress construction of **all types of units**.
This means:
 - Lower tax revenues
 - Fewer jobs for union tradespeople
 - Higher rents for all city renters

Who Pays for IZ in Pittsburgh?

- Current IZ policy is paid for by renters
 - Average Homeowner net worth - \$255k¹
 - Average Renter net worth - \$6k
- Only applies to multifamily rental buildings
 - Increases the cost of developing new apartments or rehabilitating existing apartments
 - Reduces the supply of apartments
 - Lower supply -> Lower vacancy -> Higher rent costs
- According to researcher Shane Phillips of UCLA
 - Renters “up and down the income spectrum” pay for IZ via higher rents driven by housing shortage
 - Since IZ increases development costs; **it reduces home construction, increases scarcity, and increases prices**

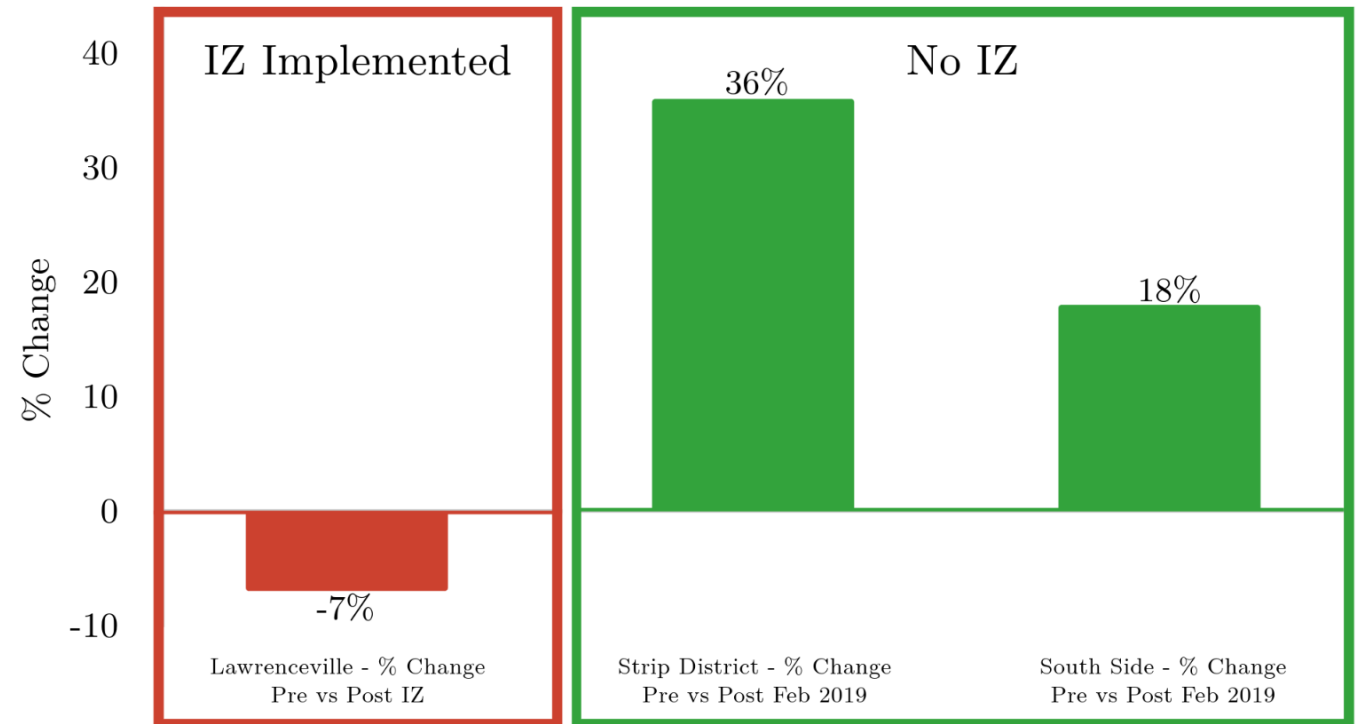
¹<https://www.nahb.org/blog/2021/02/homeownership-remains-primary-driver-of-household-wealth/>
<https://www.federalreserve.gov/econres/scfindex.htm>

Pittsburgh Example

- Advocacy group Pro-Housing Pittsburgh examined the effects of IZ across Pittsburgh by comparing Pre- and Post-IZ Lawrenceville with the Strip District and South Side Flats

Findings

- Construction **dropped 7%** in Lawrenceville since IZ was implemented
- Construction **increased in the Strip by 36% and South Side by 18%, with no IZ**



Enhanced IZ (EIZ) is the Solution

- December 2024, I introduced legislation to enhance our Inclusionary Zoning Overlay, Bill 2024-1284
- EIZ spreads the cost of building affordable units more equitably across Pittsburgh homeowners, renters and entities who do business here
- Following other cities' examples, EIZ will create more market rate units and more affordable units
- We also introduced amendments that
 - Kept existing overlays in tact
 - Lowered top end definition of workforce housing to 99% AMI
 - Eliminated financial subsidy to workforce housing (failed at council)

Enhanced IZ (EIZ) is the Solution

- This new policy will ensure that *all* Pittsburghers, not just renters, participate in the funding of affordable units
 - Under old IZ Landlords pass costs (Real Estate taxes, Deed Transfer Taxes) on to renters, but renters are the only ones who pay for a suppressed rental market
- EIZ also makes it easier to build by reducing administrative burdens to ensure more housing gets built
- Building more ensures that renters and homeowners up and down the income spectrum have more options and lower costs

About EIZ - Neighborhood Determination

- IZ does not work in neighborhoods without high asking rents
 - Neighborhoods like Lawrenceville and Strip District have much higher asking rents than Beltzhoover and Allentown
 - A program developed in Lawrenceville, with input from Lawrenceville stakeholders will not fit all 90 neighborhoods, who did not have the opportunity to weigh in on it
 - It's already incredible difficult to get projects to pencil, even in the highest rent neighborhoods
 - Projects will not pencil in any neighborhoods without significant subsidy
- EIZ allows IZ to be imposed on a neighborhood-by-neighborhood basis
 - Housing Needs Assessment reiterates this:

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Rental Supply Gap Most Severe in High-Priced, Single-Family Areas

Traditionally high-priced neighborhoods like Squirrel Hill and Shadyside have the **greatest affordable housing gap**. Other quickly gentrifying portions of the city, like Lawrenceville, Bloomfield, Brookline, and Mount Washington, also show signs of a growing supply gap.

About EIZ - Affordability Levels and Subsidy

- **Multiple options for developments. Developers can choose one of:**
 - 10% of units affordable to 50% AMI (~\$35K for a 1-person household)
 - 15% of units affordable to 50%-80% AMI (~\$35K-\$56K for a 1-person household)
 - 20% of units affordable to 80%-99% AMI (~\$56K-\$71K for a 1-person household)
- **Subsidy to cover financial gap for affordable units**
 - 10% @ 50% AMI - Full subsidy to cover financial gap
 - 15% @ 50%-80% AMI - Full subsidy to cover financial gap
 - 20% @ 80%-99% AMI - No Subsidy (Proposed, but failed at Council)
- **Subsidy source will be determined by City Council**
 - Potential options for subsidy include LERTA (likely in cooperation w/ County/PPS)
 - Housing Opportunity Fund
 - Affordable Housing Bond

About EIZ - Incentives

- Help make buildings more economical by providing incentives
 - Additional height and FAR for IZ projects
 - Affordability period is 35 years (amendment passed at council)
 - Using incentives instead of mandates to encourage more building
- Get projects built faster
 - “Shot Clock” for project approvals - “deemed approval” if not timely reviewed
 - Note: This is the same system used by all municipalities in Pennsylvania except for Pittsburgh and Philadelphia
 - Ensures timely review of all required entitlements by DCP, Zoning, Planning Commission, and PLI

About EIZ - Other Improvements

- Current IZ policy evicts tenants if their income increases
 - If tenants income is >80% AMI after, they must vacate the unit within 60-days
 - This punishes tenants for making more money, and **enforces a cycle of poverty**
- EIZ would eliminate this cruel process
 - Upon renewal of lease, rent would be reset to no more than 30% of tenants income, or market rate, whichever is lower
 - Renter would not be required to vacate unit
- Voluntary option
 - For neighborhoods that have not elected EIZ in their boundary, developments could still elect to include affordable units in exchange for subsidy and development bonuses

EIZ - for discussion

- EIZ is not prescriptive on how neighborhoods become EIZ neighborhoods
 - Future discussion for City Council and Department of City Planning.
- EIZ is not prescriptive on how subsidy would be assembled
 - Future discussion for City Council, URA, HOF, HACP, etc.

IZ in other cities

If mandatory, unfunded IZ works as intended, why are the cities who pioneered IZ removing the unfunded mandates and enhancing their programs?

Cities that have reformed IZ:

- *Montgomery County, MD*
- *Baltimore, MD*
- *Portland, OR*
- *Minneapolis, MN*
- *More*



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They call it “inclusionary zoning,” but in reality the government mandate for a portion of developments to be “affordable” limits supply and drives up costs. Chicago should pull back from this form of rent control.

“Layering inclusionary zoning on top of the rules that stand in the way of new relatively low-cost multifamily housing will never produce housing markets that serve the majority of low- and moderate-income households well [...] Relying on new housing construction to provide subsidized units is not a strategy that can lead to more housing that’s affordable for more people. In cases where inclusionary zoning raises house prices generally, the costs of the policy fall hardest on the lowest-income residents who aren’t lucky enough to qualify for one of the units that’s been designated as affordable.”

- Dr. Emily Hamilton, George Mason University

If it is to be the public policy of this government to provide affordable housing to its citizens, the solution cannot be to, "force some people alone to bear public burdens which, in all fairness and justice, should be borne by the public as a whole."

-Armstrong v. U.S., 364 U.S., at 49.

Thank you for your time and consideration