Density bonuses

Overview

Density bonuses encourage the production of affordable housing by allowing developers to build more units than would ordinarily be allowed on a site by the underlying zoning code, in exchange for a commitment to include a certain number of below-market units in the development.

This arrangement enables developers to recoup some or all of the foregone revenue associated with offering some of the units at prices affordable to low- or moderate-income households. A policy to provide a density bonus to qualifying developments is essentially a type of voluntary inclusionary zoning policy, though many communities simply refer to the policy as a “density bonus.” Density bonuses are also common cost offsets in mandatory inclusionary zoning policies. Depending on how the policy is structured, the additional density may be used to build up or out; that is, to add more floors to a multifamily building or additional structures to a planned development. Density bonuses are most likely to yield affordable housing in neighborhoods with a robust level of construction or redevelopment activity, where residential development types include moderate- or high-density development, and where the bonus is carefully calibrated to make it financially advantageous to developers.

Cities, towns and counties interested in allowing bonus density at eligible developments will need to consider the way that the policy is structured, as well as how effective it is likely to be in the context of local neighborhoods and development sites. In this section, we describe some of the ways that density bonuses can be designed to provide effective incentives for affordable housing in different types of communities.

Approach

There are several ways to structure a density bonus, and cities, towns and counties will need to determine which is most compatible with existing development regulations. For example, many jurisdictions calculate the increase as a multiple of the floor area ratio (FAR)—that is, the ratio of the total usable floor area of buildings on a site to the total area of the lot. Other options include:

- Permitting a larger number of units in a building or development site
• Providing a bonus height allowance or exemption from height restrictions that allows for construction of additional stories
• Reducing the amount of open space required on a development site
• Reducing the required number of parking spaces

Local jurisdictions will also need to decide how much extra density will be allowed at qualifying developments. This allowance may vary based on the proposed level of affordability and share of units to be set aside as affordable (typically, projects that provide deeper affordability and/or a larger share of affordable units receive greater density bonuses), the location of the development (e.g., whether it’s near public transit or located in an area targeted for redevelopment), and other variables of local importance. Larger jurisdictions, where the density bonus incentives may apply to a variety of projects and sub-markets, may use a menu or “sliding scale” approach that offers options, by formula, of different incentives depending on the share of affordable units and level of affordability provided.

Alternatively, density bonuses may be calculated on a case-by-case basis. This approach allows for more nuanced assessment of site-specific conditions that may or may not be compatible with increased density and also may provide communities with greater control over local land use decisions. On the other hand, case-by-case judgments can be burdensome to administer and do not provide as much transparency and predictability in the development process, which can lead to a reduction in the amount of housing production below the level that might otherwise be induced. Whatever approach is used, the procedure for calculating bonus density can be complicated and communities should strive to make their regulations as clear as possible. (See related resources below for examples from other communities.)

In weighing these considerations, local officials will need to ascertain whether the proposed density bonus provides a sufficiently large financial incentive, so as to be successful in generating affordable units. This amount can vary significantly depending on development patterns and local housing market conditions (e.g., rent levels, construction costs, etc.), but can translate to a bonus density of 15 to 25 (or even higher) percent more housing units than would previously have been permitted. Consultation with for-profit and non-profit residential developers and housing market analysts early in the policy design process will likely be useful in guiding these decisions. In general, it’s more important to set the bonus at the level needed to incent development in the market than to try to replicate the bonus levels used in other jurisdictions that may have different market conditions.
Eligibility

Density bonus guidelines should specify the criteria for eligibility, including the income level(s) that must be served to qualify for this incentive, the share of units in the development that must meet these affordability requirements, and how long the units must remain available at affordable prices. Density bonuses are commonly offered as a cost offset for mandatory inclusionary zoning programs and the requirements for those programs will determine the answers to many of these questions. When offered as a standalone incentive, however, communities will need to determine the affordability thresholds that are most likely to address local housing needs. Some communities establish a single threshold (e.g., at least ten percent of units must be affordable to very low-income households for a period of at least 30 years). Others provide options based on level of affordability, such as requiring a set-aside of ten percent of units for very low-income households or 20 percent of units for low-income households in order to qualify for a density bonus.

Program guidelines should specify whether the incentive is available throughout the jurisdiction or only in designated areas that are well-equipped to handle increased density and/or where the community wishes to stimulate new development. Local officials will also need to determine whether the density bonus program applies to both rental housing and for-sale housing or just one tenure type, and whether it is limited to developers of multifamily properties and/or single-family developments. Some communities also limit bonuses to developments above a certain size threshold, such as projects with 5 units or more.

Other coverage decisions relate to the nature of the development activity. Density bonuses may be provided to new construction only, or may be available in other scenarios, such as the rehabilitation or redevelopment of older buildings or the conversion of rental apartments to condos.

Other considerations

- **Practical application.** Local jurisdictions should be cognizant of factors that may limit developers’ ability to make full use of density bonuses and, as a result, reduce the value of density bonuses as an incentive to create affordable housing. For example, land use regulations such as minimum lot size requirements or setback requirements may make it difficult or impossible to take full advantage of a density bonus. Waivers or relaxation of these requirements can help to improve their usability. Other factors may include infrastructure capacity and proximity to natural features that impact development potential. Where these factors pose serious limitations, it may be appropriate to consider other types of incentives.

- **Consumer preferences.** When designing a density bonus policy, local officials will
want to give careful consideration to existing development patterns, and the areas and development types for which higher-density development will be compatible with existing neighborhoods and consumer preferences. Developers who have knowledge of the local market will be unlikely to make use of a density bonus that results in housing that is not attractive to market-rate renters or buyers.

Examples

- With approval of the County Board, Arlington, VA allows developers to build at higher densities than would otherwise be allowed for projects that provide housing for low- or moderate-income households. Allowances include increases in building height (up to six stories or 60 feet above the height ordinarily permitted) and in residential density. Density bonuses are determined on the basis of the share of low-or moderate-income units to be provided, the location and size of those units, the amenities to be provided for low- and moderate-income residents, and other factors. Affordable units must remain available for at least 30 years or as approved by the Board. See here, subsection H.7 for more details.

- Arlington County also provides special density bonuses for specific revitalization areas. In the Clarendon Revitalization District, for example, properties can receive bonus density up to 1.5 FAR if 10 percent of the bonus density is reserved for affordable housing. (Eligibility is limited to properties in which the bonus density is more than 4,000 square feet in gross floor area.) In the Nauck Village Center, developers can receive an increase in density up to 2.0 FAR in exchange for providing at least 10 percent of residential units as Committed Affordable Units. See here for more details.

Related resources

Policy design and implementation

- Model Affordable Housing Density Bonus Ordinance, American Planning Association (2009) – Lays out key provisions for mandatory and voluntary density bonus policies; also available for purchase here.

Case studies and local programs

- Affordable Housing Zoning Bonus Administrative Regulations and Procedures, City of Chicago – Describes provisions of Chicago’s density bonus program including definitions, methods for calculating the bonus, administrative procedures in various scenarios, and affordability requirements.

- Procedures for Implementation of State Density Bonus Law, City of Berkeley (2014) – Describes how Berkeley’s density bonus policy is implemented—notably, procedures for determining the base project and calculating the density bonus—and
how it interacts with the state density bonus law.