

HOUSING AND COMMUNITIES

Integrating Affordable Housing in Market-Rate Developments

Approaches to Achieving Inclusionary Housing in Washington, DC

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RESEARCH REPORT

January 2026



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Acknowledgments

This report was funded by a grant from Huron Philanthropies. We are grateful to them and to all our funders, who make it possible for Urban to advance its mission.

The views expressed are those of the authors and should not be attributed to the Urban Institute, its trustees, or its funders. Funders do not determine research findings or the insights and recommendations of Urban experts. Further information on the Urban Institute’s funding principles is available at urban.org/fundingprinciples.

We thank Leah Hendey, Andrew Trueblood, Peter Tatian, Janneke Ratcliffe, Emilia Calma, Yesim Sayin, Rob Stewart, and Devlan O’Connor for their thoughtful comments on drafts of the paper. We thank Sarah LaCorte for her detailed edits.

Executive Summary

Renting or owning a home in Washington, DC, is increasingly out of reach for thousands of residents with low or moderate incomes as rents and home values increase more rapidly than incomes. The city's residents continue to be geographically segregated on income and racial lines, depriving many of access to opportunity. To help address these problems, the District government adopted an inclusionary zoning (IZ) program in 2006 (Tatian and Oo 2014). This program requires that developers of new housing in much of the city include some permanently affordable homes in their projects in exchange for a density bonus for new construction and property tax relief.

The IZ program generated more than 2,600 units between 2015 and 2024, disproportionately in neighborhoods with good job access and high-quality local amenities—though not in neighborhoods with little recent construction, such as Rock Creek West. IZ has been more effective in encouraging sociospatial integration than the city's larger affordable housing initiatives, which have concentrated new units for families with low and moderate incomes in neighborhoods where people with low incomes already predominate, thereby reinforcing existing inequities and sometimes concentrating poverty.

When accounting for a combination of public and private costs, the IZ program is likely more expensive than alternatives like purchasing existing units and enforcing rent limits on them. IZ requires affordable units to be integrated into new buildings, which, on a unit-by-unit basis, are more expensive than older structures. IZ may also make financing new residential buildings more difficult, in essence requiring developers to account for the subsidy that makes certain units affordable, although DC's program provides a density bonus that—along with lower property taxes due to lower rents—partially offsets these costs. In the context of recent declines in housing permitting in DC and its metropolitan area, those higher costs may be inhibiting building to some degree. That said, national evidence is mixed about whether IZ programs significantly reduce overall housing provision (Mukhija et al. 2015).

In this report, we examine housing costs and investments in neighborhoods across DC. We then estimate the cost of the current IZ program for developers and the city. Considering the above-average market rent of new developments, we find a relatively high marginal cost per affordable unit. We then estimate the effects of an alternative approach, with the goal of assessing whether another system could help the District spur additional affordable housing. This alternative would introduce higher taxes or fees on new development instead of IZ requirements. If the alternative is mandatory and replaces the current system, higher tax rates could be set lower than the current developer's cost of IZ to counteract

the challenges of the current real-estate environment. If the alternative is voluntary, the city could set a higher rate to target those developers that have the highest cost of providing affordable units, while others could continue providing on-site affordable units as under the current system.

Under an alternative approach, revenues would be distributed to a program that subsidizes housing units to become affordable *in existing buildings in high-opportunity neighborhoods*, through either minimum requirements (e.g., all current market-rate apartment buildings must host a certain share of affordable units in exchange for a subsidy) or an opt-in system (e.g., current building management can receive a subsidy to accommodate affordable units). Because most DC neighborhoods have a large stock of older housing with substantially lower average rents than new developments, this type of program could theoretically reduce investment costs per affordable unit, but could be challenging for the city to administer. We find that this type of alternative could result in substantially more affordable units in the short to medium term, though the benefit would stabilize over the long term.

Ultimately, we recommend that the city pilot a program that allows IZ-applicable developers to either continue providing on-site affordability through the IZ program or accept an increase in property taxes. This approach would enable project-by-project decisions about the most effective financing options and generate a new source of funds for affordable housing in high-opportunity areas that currently lack such units. If effective, such an alternative approach could provide valuable insight that could be leveraged by other cities as they adapt their housing policies to market trends.

To conduct this research, we collected and examined data on housing costs, focusing on conditions within 10 large “neighborhoods.” We explored the location of IZ program projects and other affordable housing developments. Next, we estimated the public and private costs associated with the IZ program. Apart from enforcement,¹ the IZ program is designed to have no government budgetary cost but is a tax expenditure (because affordable units reduce tax assessments) that adds private costs by requiring developers to cross-subsidize affordable units with revenues from market-rate homes. Finally, we estimated how an alternative policy would compare in terms of affordable housing generation.

DC’s Housing Affordability Differs across Neighborhoods

We show that rent levels vary substantially across the city, with much higher rents in neighborhoods west of Rock Creek Park and near downtown, among other neighborhoods, than in the city’s Northeast quadrant or east of the Anacostia River. In all but one area we profile, we find substantially higher median rents among housing units built since 2010 than among other units in the same area. This is

unsurprising but reaffirms that housing units in newer buildings are more expensive. Thus, an affordable housing strategy that relies on them, such as the current IZ program, is likely more costly to implement per unit than a program that supports residents in older units.

Next, we show that subsidized housing, both federally supported and funded through city sources, is disproportionately located in the poorest part of the city, especially east of the Anacostia River. Few subsidized affordable housing units are located west of Rock Creek Park. This is unsurprising as subsidies go further in areas with low land costs. Even affordable units in newly built buildings follow this trend, with the exception of units in mixed-income buildings, such as those completed through the IZ program. This suggests that, on net, the city's current housing affordability strategy is reinforcing existing patterns of income- and race-based segregation, not combating it as effectively as it could.

The Inclusionary Zoning Program Has Increased Access to Affordable Housing, but Has Costs

The IZ program is adding units in neighborhoods with high levels of economic opportunity, as those are generally the neighborhoods where new market-rate construction occurs. These units provide living options *within* buildings for households with low incomes. The IZ program, unlike other affordable housing initiatives, has rarely been used to create affordable units in neighborhoods that exhibit elevated poverty rates. As such, the IZ program is likely helping reduce sociospatial segregation.

Nevertheless, the IZ program is also limited because of its reliance on market-rate development. Over the past decade, the program has produced fewer than 300 affordable units per year on average, a small number compared with the city's other affordable housing programs or the city's need for tens of thousands of additional units for households with low incomes. Moreover, by design, few IZ units support the housing needs of people with extremely or very low incomes, because the program is generally meant to create units affordable for families with between 50 and 80 percent of median family income (MFI)—between \$77,350 and \$123,750 for a family of four in 2024—too high for many families. IZ is, finally, adding only a few units in neighborhoods with limited market-rate housing construction.²

The IZ program imposes costs on new development, though it benefits developers through an increase in allowed density: we find that the current system maintains project feasibility even with affordable units, thanks to the density bonus. Further, the incidence of IZ costs depends on the difference between affordable rents (calculated based on metropolitan area incomes) and market-rate rents. Because multifamily buildings are assessed based on income generated, IZ units reduce

assessments and property taxes paid. We estimate that, through reduced taxes, the city provides a monthly subsidy of up to about \$300 per affordable unit, depending on the neighborhood. And we estimate that private investors provide a monthly subsidy of up to about \$1,700 for each affordable unit (net of lower property taxes paid). These private costs may impede construction by increasing the minimum rent developers must charge for new market-rate units to compensate for the costs of providing affordable units on site. Additionally, lower expected returns on new development should translate into lower land value. However, research suggests land prices fail to adequately adjust down (Stacy et al. 2021), shifting the burden to other tenants by increasing market rents.

Alternative Policies Could Increase Affordable Housing Availability

DC's required IZ program may reduce project feasibility as the market weakens. We test a potential alternative: maintaining the IZ density boosts, increasing property taxes on new developments but at a rate lower than the private costs of IZ, and reallocating revenues to subsidize housing units in existing buildings in high-opportunity neighborhoods for residents with low and moderate incomes.

New units fetch higher rents, but as buildings age, we expect the rent differential with average neighborhood rents to decrease. The alternative policy would lift the IZ requirement for a period—we assume 20 years in our analysis, but policymakers may prefer a longer or shorter period—after which the tax rate would return to baseline, and buildings would provide an IZ-equivalent share of affordable units. We estimate that developers currently subject to IZ requirements could accept a considerable increase in their property tax rate if they do not have to provide on-site affordable units. If the currently planned IZ buildings were taxed at that higher rate, they could generate \$3 million to \$7 million in annual additional tax revenues. We acknowledge that some developers may be unwilling to trade on-site IZ affordable units for higher taxes, especially in the short term, given comfort with the current system. An efficient design would allow developers to choose between the existing IZ program and this alternative, which would reduce revenues but maintain the provision of some on-site IZ units.

New tax revenues could focus on reducing rents in existing units in high-opportunity neighborhoods, such as west of Rock Creek Park. We estimate that this alternative would generate more affordable units in the immediate and medium term. This would remain true even if the city were to implement the tax increase at a lower rate to encourage construction during the current downturn. Assuming a steady new development rate, tax revenue and affordable units produced under this

alternative would grow each year. After 20 years, the city would reach an equilibrium whereby revenues and units stabilize as older buildings become exempt from the higher tax and start providing on-site affordable units instead.

We therefore recommend that the city maintain the current density boost and pilot giving developers of new multifamily buildings the option to choose between providing on-site affordable units and paying a higher property tax, with revenues redirected to support affordable housing in high-opportunity neighborhoods. The share of developers choosing to implement on-site affordable housing versus taking a higher tax rate would depend on the tax rate; a higher rate would encourage more developers to keep affordable units on site.

Table ES.1 summarizes our analysis of the private and public subsidies for an existing 1-bedroom IZ unit available for a household at 60 percent or less of MFI. The potential difference in cost to subsidize affordable units between those under the IZ program—on-site in new projects—and those in older existing housing stock is large. We estimate that a new 1-bedroom 60 percent MFI affordable unit in Rock Creek West would cost developers close to \$1,600 a month, while the city would forgo over \$300 in property taxes monthly. In comparison, the median cost to building owners to convert an existing market unit into a guaranteed affordable unit is less than \$900 per month.

TABLE ES.1
The Inclusionary Zoning Program Likely Would Cost More than Subsidizing Existing Units

Neighborhood	Number of IZ units	Estimated Monthly Subsidy		
		Private, for IZ units (1BR, 60% MFI)	Public, for IZ units (1BR, 60% MFI)	Private, under alternative, for existing units
Mid-City	361	\$1,559	\$232	\$754
Near Northwest	186	\$1,720	\$253	\$897
Rock Creek West	133	\$1,598	\$332	\$846

Source: Authors' analysis.

Note: BR = bedroom; IZ = inclusionary zoning; MFI = median family income.

Policymakers may be cautious about revising a program that has delivered a steady number of affordable housing units for Washingtonians over the past 15 years. To alleviate those concerns, we recommend that the city commence its voluntary alternative with a relatively high property tax rate. Based on data on upcoming IZ buildings from the District, we assume an additional 250 affordable units created per year through the program (table ES.2). With an alternative 1.35 percent property tax rate for new construction (an increase from the current 0.85 percent rate), we estimate that this figure could

increase to 380 units annually, of which 163 would be created on-site in new buildings and 217 could be created by subsidized existing units in Rock Creek West through additional tax revenues (this figure would be higher if the city subsidized existing units in less expensive areas, such as Mid-City). The city should closely monitor developers’ choices between the current and alternative systems.

TABLE ES.2
Washington, DC, Could Produce More Affordable Housing Rental Stock under an Alternative Program
Affordable units produced

	IZ	Alternative		
	Total	Total	Total on-site in new development	Subsidized existing units funded by new tax revenues ^a
Yearly	250	380	163	217
After 20 years	5,000	7,600	3,260	4,340

Source: Authors’ analysis.
Notes: Assumes a voluntary 1.35 percent property tax rate on new development. IZ = inclusionary zoning.
^a If concentrated in Rock Creek West. Figures would be higher if concentrated in other areas.

Questions remain about whether and how to reform the IZ program, which produces new affordable units in neighborhoods that improve the city’s sociospatial integration. Other alternatives than the one we consider might be reasonable. One possibility could be to reduce property taxes more substantially for IZ projects, an approach undertaken by the State of Washington through its multifamily tax exemption program, with the goal of boosting housing construction overall. Another is to buy down rents in newly constructed buildings through multiyear affordability covenants.

The city should monitor the alternative system and vary the tax rate based on economic conditions to encourage construction in years with a challenging real-estate market. For the new affordable housing fund, managing subsidies across units in existing buildings would be administratively complex and perhaps more costly for the city than overseeing units in new buildings. Although the IZ program guarantees that most units are in high-opportunity neighborhoods—as those are where new market-rate units are generally built—the creation of a new city fund would have to intentionally target such neighborhoods, many of which have historically resisted adding affordable housing. Alternatively, the city may use those revenues to fund and expand other affordable housing programs.

Finally, we emphasize that it is unfair for new construction to take on additional costs related to affordable housing when the need for such units is a citywide concern. Rather than continuing its IZ approach, Washington, DC, could dedicate more tax revenues, collected from all taxpayers, to fund affordable units in high-opportunity neighborhoods, in either existing or new buildings.

Better Access to Affordable Housing

For households with low and moderate incomes, the District of Columbia is an expensive place to live. High housing costs expose renters to instability, reduce their ability to afford food and other necessities, and encourage them to leave the city to find affordable units elsewhere. This makes the city increasingly off-limits to people who want to move in. At the same time, the city's population is, to a large degree, spatially segregated by race, ethnicity, and income. People who have lower incomes and are not white are more likely to live in neighborhoods with less access to jobs³ and with other challenges, such as higher rates of crime and schools where students perform worse on tests.

Partly to address this problem, in 2006 the DC government and the city's Zoning Commission enacted an inclusionary zoning (IZ) policy that requires newly constructed apartment buildings with 10 or more units in most of the city (not including downtown)⁴ to include a minimum share of units that are permanently affordable to households with incomes at or below 50, 60, or 80 percent of the metropolitan area's median family income (MFI); since 2017, new regulations set aside most affordable rental units at 60 percent of MFI. This requirement is associated with lower property tax assessments and a density bonus, a zoning incentive that enables developers to build up to 20 percent larger than otherwise.

The District's policy—similar to IZ policies implemented in many other cities across the United States—was first designed to provide additional affordable housing units. Its second goal was to improve the distribution of those units into mixed-income buildings and mixed-income neighborhoods to increase sociospatial integration. In so doing, IZ would theoretically help resolve two of the city's most intractable problems at no direct budgetary cost, while also ensuring that the residents of those units can live in buildings or complexes where a mix of incomes is present. The program has produced more than 2,600 affordable housing units between 2015 and 2024, disproportionately located in neighborhoods with a high quality of life.

DC's IZ policy relies on private-market developers to propose, finance, and construct new buildings, and the new affordable housing units created within them are relatively expensive to provide *because* they are in new buildings. This expense has resulted in a limited number of affordable units being completed, with fewer than 300 created on an annual basis so far, according to city data.⁵ IZ is not the only District affordable housing program, but it is unique in placing the burden of affordable housing costs on the developers of new market-rate buildings. This makes building more expensive, undermining certain projects' financial feasibility and thus potentially limiting overall housing construction.

The expense of development is a concern in the current uncertain regional economic context, in which the number of building permits issued in DC has declined steadily since 2022.⁶ New construction is difficult to finance because of declining demand (especially since federal layoffs began in 2025),⁷ combined with the high costs of debt and materials. Added costs to developers may also be borne by renters through increased market-rate supply rents, as projects subject to the IZ requirement may only be feasible if they can cross-subsidize the losses incurred by hosting lower-than-market rentals. And the location of IZ-produced affordable housing is not necessarily determined based on where those units are most needed to increase economic diversity. Rather, units are located where developers are allowed to build multifamily housing and expect to profit from market-rate units.

In this report, we explore current housing conditions in the District of Columbia, focusing on housing affordability and the recent construction of new affordable housing units, including through the IZ program. We evaluate how much the IZ program is likely costing developers. We then sketch out a potential alternative approach to undertaking IZ that is not focused on adding affordable units to new market-rate buildings but rather on subsidizing existing units in older buildings in high-opportunity neighborhoods. Our interest is in testing how effectively a different sort of IZ program could accomplish the joint goals of increasing access to affordable housing, increasing neighborhood socioeconomic integration, and encouraging additional overall housing production.

Inclusionary Zoning: An Increasingly Used Tool to Generate Affordable Housing

As of 2019, 1,019 IZ programs were in operation across 31 states (Wang and Balachandran 2021). IZ enables cities to expand access to affordable housing without expending large sums of public funding to do so (Spauster, Lo, and Freemark 2021). Yet the design of these programs varies greatly, often reflecting differences in jurisdictions' characteristics and their policy goals. For instance, some cities emphasize housing production by offering developers incentives to mitigate or offset the cost of providing affordable units. California requires cities to offer developers density bonuses in their IZ ordinances to offset the cost of providing affordable units (Goetz and Sakai 2021). Some cities, such as Seattle, reduce construction costs by offering zoning variances and expedited permitting to projects that undergo the IZ process.⁸ Other programs, such as New York City's 485-x or Washington State's multifamily housing program, offer property tax exemptions in exchange for the provision of affordable units.⁹ Most programs emphasize rental housing, but some also have provisions for for-sale units.

Cities differ in terms of the level of affordability required or the share of units to be made affordable. For example, San Francisco requires that new market-rate buildings set aside 10 percent of units for households with low incomes, defined as no more than 55 percent of the area median income (AMI), and requires that rents be affordable to them.¹⁰ Portland, which has a similar requirement, also has an alternative option that requires a larger share of units to be affordable (20 percent), but for households with moderate incomes of 80 percent of AMI.¹¹ Furthermore, some cities offer the option to opt out of IZ requirements by paying an in lieu fee or by building units off-site.¹² Finally, many cities have voluntary density bonus programs that, in essence, grant developers the right to construct larger buildings if some of those units are available to families at lower-than-market rents.

Despite this variation in approach and execution, IZ policies—like DC’s—seek to advance two interrelated goals:¹³

- **Increasing the number of housing units available and affordable** for people with low and moderate incomes.
- **Encouraging the integration of buildings and neighborhoods** to reduce segregation in already developed communities and prevent newly developed areas from becoming disproportionately populated by people who can afford higher market rents.

IZ programs are one example of a broad array of mechanisms local governments use to provide housing affordable to households with low and moderate incomes. In table 1, we summarize four general approaches to housing provision and describe how each might impact availability of affordable housing and neighborhood economic integration. These policies can be used in association with one another, or in some neighborhoods and not others. Some policy approaches do nothing to support affordable housing directly but tend to result in families with low incomes being unable to secure adequate housing. Many cities use local, state, and federal funds to invest in housing units directly through “project-based” units, while others fund households with low incomes directly through vouchers. Finally, many have implemented IZ programs.

TABLE 1

Local Approaches to Providing Affordable Housing

Policy approach	Policy elements	Impact on availability of affordable housing	Impact on neighborhood integration
No affordability provisions	- Minimizes need for public subsidies. - Provides no support for households with incomes too low to afford market costs, increasing cost burden and homelessness. - Segregates households by affordability levels, encouraging class-based enclaves.	Households with low incomes are limited to low-quality private-market housing, and/or housing that they cannot easily afford, and/or in locations that are far from opportunity.	No obstacle to neighborhoods remaining largely segregated by income.
Tax- and levy-funded project-based affordable units	- Guarantees specific units are affordable for people with low and moderate incomes. Broadly distributes the cost burden for affordable housing. - Limits resident choice for affordable units among just subsidized units.	- Households benefit from publicly subsidized affordable units. - Number of units determined by amount of public subsidy.	Integration possible if project-based support is distributed to neighborhoods with high incomes.
Tax- and levy-funded affordability vouchers	- Enables residents with low and moderate incomes to select among market-rate housing units for a place to live. Distributes the cost burden for affordable housing broadly. - Exposes residents to potential source-of-income discrimination. Concentrates residents in neighborhoods and buildings that meet voucher criteria.	- Households benefit from vouchers to reduce costs in private-market units. - Number of households benefiting determined by amount of public subsidy.	Integration possible if residents with low incomes can access private units in neighborhoods with high incomes.
Inclusionary zoning (IZ) programs	- Encourages the creation of mixed-income, integrated neighborhoods. Minimizes public-sector costs for affordable housing provision. - Requires private investors to be willing to build. Focuses the cost burden of affordable housing on new development.	Number of households benefiting determined by rate of market-rate housing development.	Integration likely, but at limited rates, since IZ units are typically a small number compared with market-rate units.

Source: Authors, based on a review of approaches to affordable housing provision.

Tax- and levy-funded affordable housing programs impose their costs on the public at large. The DC Housing Production Trust Fund, for example, is funded through a mix of sources, including the city's operating budget, itself largely funded by property tax revenue from all property taxpayers. IZ programs, on the other hand, impose the costs (and associated incentives) of providing affordable housing on the developers of new housing and market renters. This is a political choice to minimize

direct public expenditures, but it also has the effect of concentrating the cost of affordable housing on a subset of the tax base. That IZ programs impose their costs on new development also means their design is key to their success. If an IZ requirement is too stringent, it may cut off development entirely by making projects financially infeasible. If the requirement is too lenient, it may underdeliver benefits to those who need it most.

Despite the increasing use of IZ programs, evidence about their effects on housing markets remains inadequate. One reason is that significant variation in design, unique local housing needs, and differences in local regulations make it difficult to come to conclusions about IZ programs as a whole. Efforts to summarize the effects of IZ policies tend to produce varied conclusions about outcomes (Ramakrishan, Treskon, and Greene 2019). Much of the difficulty arises from differences in the specific policy elements of each IZ regulation (Stacy et al. 2021).

What are the effects of IZ ordinances on local housing markets? Using a housing policy simulator, Phillips (2024) finds that poorly calibrated IZ policies could be associated with lower housing production. He argues that too high an IZ requirement, moreover, can undermine the goal of producing housing for families with low incomes, because it may inhibit market-rate construction. IZ requirements might reduce land value proportional to the cost of providing affordable housing, but there is inadequate evidence to demonstrate that connection.

Others have studied the effects of actual IZ policies. Scheutz, Meltzer, and Been (2011) find that in Boston, IZ corresponds with larger increases in housing prices during hot housing market periods but decreased prices during soft-market periods. They do not find any effects in San Francisco. Hamilton (2021), meanwhile, studies the effects of IZ in the Baltimore–Washington region and finds that IZ increases market-rate prices but does not change the supply of new housing. Bento and coauthors' (2009) study of IZ in California similarly finds that IZ causes market-rate prices to increase but does not cause changes in new construction.

Although these studies shed some light on the impact of IZ, they reflect specific local contexts and are not necessarily generalizable. Policymakers must consider program design, local regulations, and local housing market conditions when making decisions about IZ. As IZ imposes a cost on development (Ellickson 1981), the policy may include compensation through subsidies (e.g., property tax relief) or incentives (e.g., density bonuses), but this may not always be the case.

The District of Columbia's Inclusionary Zoning Program

The District's IZ program was first enacted in 2006, with final regulations promulgated by the city in 2009; it became active in 2011 and was modified in 2021.¹⁴ DC's IZ policy has the following elements:

- In most new residential building projects of 10 or more units¹⁵ within a specific geographic zone, 8 to 12.5 percent of residential floor area must be set aside for permanently affordable "inclusionary" units. The requirement is lower for projects in more densely developed neighborhoods and projects using steel and concrete construction rather than cheaper wood construction. Allowances are also made under certain circumstances for the mandated affordable units to be located nearby. Average unit size must be at least 98 percent of the average size of the same type of market-rate unit in the development, or achieve a minimum city-defined size.
- IZ units must be rented or made for sale at a price affordable to households with incomes at 50, 60, or 80 percent of regional MFI, including utility costs (Government of the District of Columbia 2024a). Affordability is generally defined as not exceeding 38 percent of a family's income, but up to 50 percent of income is allowed. Until 2017, developers could choose between providing all units at 60 percent of MFI or half of units at 50 percent of MFI and half of units at 80 percent of MFI. Building permits obtained after 2017 require affordable rental units at 60 percent of MFI.
- Developers receive a density bonus above zoning requirements of up to 20 percent. (Because the IZ program is mandatory, this bonus is, in essence, by right.)
- Developers within and outside the IZ geographical zone can file a zoning map amendment to rezone their parcels to a higher density. In exchange, they must provide affordable housing, with the level of affordable housing scaled to the density increase (this is called IZ+). This increase can produce a 10 to 20 percent set-aside for affordable units in these projects.¹⁶
- Households with low incomes can sign up for the IZ waiting list. The city can select households for units through a lottery or developers that prefer to do so can fill units themselves.

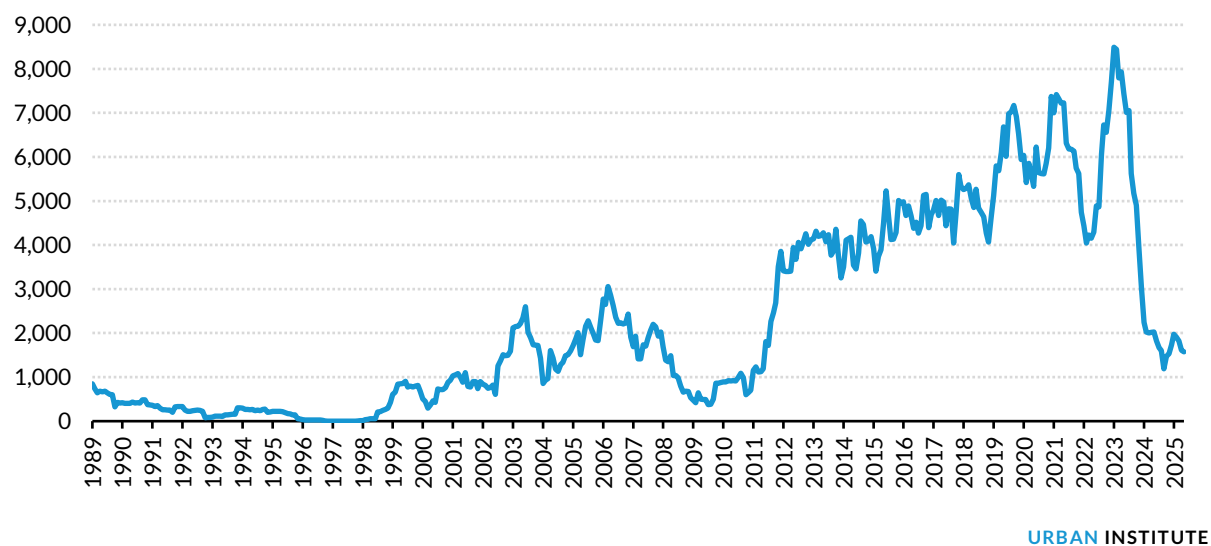
The majority of the IZ program's units have been for rent, rather than for sale (Government of the District of Columbia 2024b). The number of IZ units produced has increased each year, rising to more than 400 in 2023, composing a modest share of city housing growth (overall, more than 3,000 units were permitted citywide in 2023). Since the program's inception, most units produced were made affordable to households earning 60 or 80 percent of MFI—in 2024, the maximum income was about

\$65,000 and \$87,000, respectively, for a single-person household. The program largely serves households with moderate incomes rather than those with low incomes (Tatian and Oo 2014). Most households in IZ units have one or two members.

The IZ program's affordable housing waiting list has attracted more than nine times as many applicants as the city has filled, indicating that while demand for these low-rent and high-quality units is substantial, that demand has not been matched by production (Boston, McDaniels, and Farley 2024). The lottery structure for applicants is akin to a winner-takes-all program. Moreover, the current system experiences enforcement challenges. Most properties do not submit annual reports, and they may not be ensuring that inhabitants are households with the correct income. Moreover, the city has been slow to fill units when they become available, imposing costs on recipients and building owners.

DC's IZ program was implemented during a period of tremendous growth in the city. After the Great Recession, DC housing development boomed, with permitting steadily increasing between 2011 and 2022 (figure 1). Since 2022, however, DC's housing permitting has declined. This threatens IZ's ability to produce affordable units, as the program relies on market-rate development.

FIGURE 1
Permitting for Housing Construction in Washington, DC, Has Declined Since 2022
New private housing units authorized by building permits over previous 12 months



Source: Authors, based on data from the US Census Bureau, Building Permits Survey.

Current IZ requirements may make new housing projects difficult to finance. This, in turn, could further reduce the number of housing units being completed—both market-rate and affordable units.

What other options could Washington, DC, consider to reduce the burden of affordable housing investment? Cities can expand investment in older housing, which can be purchased at a lower cost than providing affordable units in new buildings (DC already does so to some degree). The Philadelphia Housing Authority, for example, is buying apartment buildings to create a mix of market-rate and affordable units.¹⁷ This approach has allowed the agency to spend about \$250,000 per housing unit, considerably less than the cost to build a new unit. Other cities provide vouchers for residents with low incomes to rent units of their choice. These approaches can be funded by tax and fee revenues.

Another option is to implement alternative options that enable developers to pay impact or in lieu fees whose revenues are redirected to support investment in affordable housing, though this approach may have less potential to reduce segregation. San José, California, implemented such an impact fee in 2014 that charges developers roughly \$20 per square foot of construction. This is on top of the city's in-lieu fee, which charges developers about \$145,000 per equivalent affordable housing unit.¹⁸ These funds are redirected to expenditures on affordable housing elsewhere.

Alternatively, cities can provide developers with additional support to better cover the cost of on-site affordable housing. Certain communities have implemented broad tax benefits. Portland, Oregon, for example, associates a citywide 10 percent IZ requirement with a building-wide 10-year property tax exemption.¹⁹ This policy reduces tax revenue, but those losses are smaller per unit than other strategies to fund affordable housing, equivalent to about one-twentieth of the cost of building a new unit.²⁰ In Washington State, similarly, the state government maintains a 12- to 20-year property tax exemption for projects that include 20 percent of units affordable over 99 years (individual cities can strengthen these requirements).²¹

Research Methods and Data

To provide affordable housing and encourage more housing construction, DC could consider changes to its IZ program. In this report, we consider the following questions:

- How do housing costs vary across the District?
- How are the District's subsidized housing units distributed?
- Are there alternatives to the current IZ system that could help meet the twin goals of expanding the number of affordable housing units and encouraging neighborhood integration?

Existing Housing Conditions in DC

We gathered data on Washington, DC, at the census tract level. These data allow us to evaluate how different neighborhoods would be impacted by changes to the city's IZ requirements. We collected information from the US Census American Community Survey for the five-year sample period from 2018 to 2022. These data offer insight into how housing and demographic conditions vary across the city. We divided the city into 10 "super neighborhoods;" these neighborhoods are similar to those used as planning areas by the DC Office of Planning, though not exactly the same, considering our desire to use census tracts as our level of analysis.

We downloaded information from the National Housing Preservation Database, which provides information about housing units subsidized by federal assistance programs, such as Low Income Housing Tax Credits (LIHTC), the public housing program, and the Section 8 project-based program. We also collected information from the US Department of Housing and Urban Development on Housing Choice Voucher use by tract. We amassed DC government data on city-funded affordable housing units, including those created through IZ, planned unit development (PUD) processes, and public subsidies.

Data on Market Rents

It was necessary to establish baseline information about rents in buildings with IZ units to estimate the private costs of IZ. Market-rate rents tell us what residents living in IZ projects' market-rate units are willing to pay. These rents are different than those of the affordable units, which are determined by the maximum rents the city sets by type of unit (e.g., studio, 1-bedroom) and MFI level served.

To estimate market rents, we obtained or collected the following data:

- Current buildings subject to IZ requirements, with information regarding the number of affordable units by type of unit, MFI eligibility, and the maximum rent, from the city. Appendix table A.3 presents the current distribution of affordable units by AMI.²²
- Current market rent data of IZ buildings, from three sources:
 - » Market rents available on building websites or apartment listing websites (e.g., Apartments.com, ApartmentAdvisor, Zillow.com, Redfin.com)
 - » Zillow research market data
 - » American Community Survey median rent data for tracts where IZ projects are located
- The assessed value of multifamily residential buildings and property taxes paid for all buildings, including IZ buildings, from the 2025 DC property tax roll.

We collected market rent data between January and April 2025 for all DC buildings subject to the IZ program and including at least eight affordable units (81 buildings), as well as additional data for many IZ buildings with fewer affordable units. In total, we collected rent data for 131 IZ buildings. Market rents vary depending on square footage, location in the building, or outdoor access. We collected data on all units available and used the median across all units as the applicable rent. When available, we collected rent information on units by type (e.g., studio). We present the average and median rents in appendix table A.4.

For some buildings, we were unable to collect market rents for any unit or for all types of units. For buildings without market data, we imputed rents based on median neighborhood rents. When we identified data for one type of unit for a specific building, we imputed the rent of other unit types by using the median ratio or rents by unit type at the neighborhood level. For example, if the typical rent ratio in a neighborhood between a 1-bedroom and a studio was 1.25, and we had collected data showing median studio rents of \$2,000 for a specific building, we imputed the market rent for a 1-bedroom as \$2,500. Because maximum IZ rents include utility costs, but market rents typically exclude utilities, we relied on estimated utility costs by type of IZ unit provided by the city and subtracted the result from the maximum IZ rents.²³

Zillow research data offer median rent information for multifamily buildings by zip code. We accessed April 2025 data for rental units overall. Because 1-bedrooms are the most common rental unit type in DC, it is likely that the median rent captures the rent of a 1-bedroom apartment in that zip code. We then imputed rents of other unit types by applying the estimated rent ratio between unit types from our collected neighborhood-level data, as described. We performed the same imputation strategy, but using the average rent ratio across unit types reported in June 2025 from Apartments.com and ApartmentAdvisor. We used the average imputed rents for units other than 1-bedrooms as the average of those two measures and matched our Zillow rents to IZ buildings using zip code geographies.

Finally, we obtained 2018–22 American Community Survey rent data. The data include the median rent for various unit types by tract. Census data may lead to underestimates of market rents because they also include subsidized and IZ units.

Private and Public Costs of the Inclusionary Zoning Program

To assess the private costs of providing affordable units, for each IZ building, we estimated the difference between our measure of the market rent by type of unit and the maximum IZ/affordable rent. We assumed that the costs of operating rental buildings are the same with or without IZ units.

The difference between the market rent, adjusted for expected vacancy levels, and the maximum affordable unit rent is what we refer to as the *gross cost*, which incorporates the direct cost for the developers of including affordable units plus the direct cost to the city of reduced property taxes. Currently, the property tax rate in DC is 0.85 percent. Commercial and multifamily buildings are typically assessed using an income method. Building owners submit an annual financial report with their property's net operating income. The assessor then divides the net operating income by a capitalization rate. The relevant capitalization rate is determined by the Office of Tax and Revenue, which uses information from various sources. The rate can vary over time and by type of building. For tax year 2025, capitalization rates ranged from 2.8 to over 9 percent, but the average and median ranged from 4.7 to 5.3 percent.²⁴ We used a constant 5 percent capitalization rate in our analysis.

In the context of commercial real estate, the property tax is equivalent to an income tax. For example, imagine that a multifamily building generates an additional net income of \$1,000 in 2025 compared with 2024. The assessor will increase its assessment by \$20,000 ($\$1,000 \div 5$ percent) and its property tax liability by \$170 ($\$20,000 \times 0.85$ percent). With a 5 percent capitalization rate, the 0.85 percent property tax rate is thus equivalent to a 17 percent tax on additional net income. It follows that if the annual difference between the market rent and the IZ rent is \$1,000 and the cost to the city in reduced property tax income is \$170, the developer will pay the remaining \$830.

To estimate average costs by neighborhood, we used the average cost in each building in that neighborhood, weighted by the number of affordable units in each IZ building. (Effectively, we estimated the total cost in each neighborhood by adding the costs in each building and dividing by the total number of affordable units.) We similarly estimated the average cost by MFI and type of unit.

As a robustness test, we used a pro forma model for real estate projects in Washington, DC, to estimate the net impact of affordable housing units on project costs. We then estimated the effects of removing IZ requirements on project profitability. This provided us with another measure of the cost to developers of affordable housing units.

Using these data collectively, we show how much it costs to provide affordable housing units on site by converting the cost of providing affordable units into an equivalent property tax rate. IZ buildings with high market rents face higher costs than IZ buildings with lower market rents, but provide the same percentage of affordable units as a share of total units.

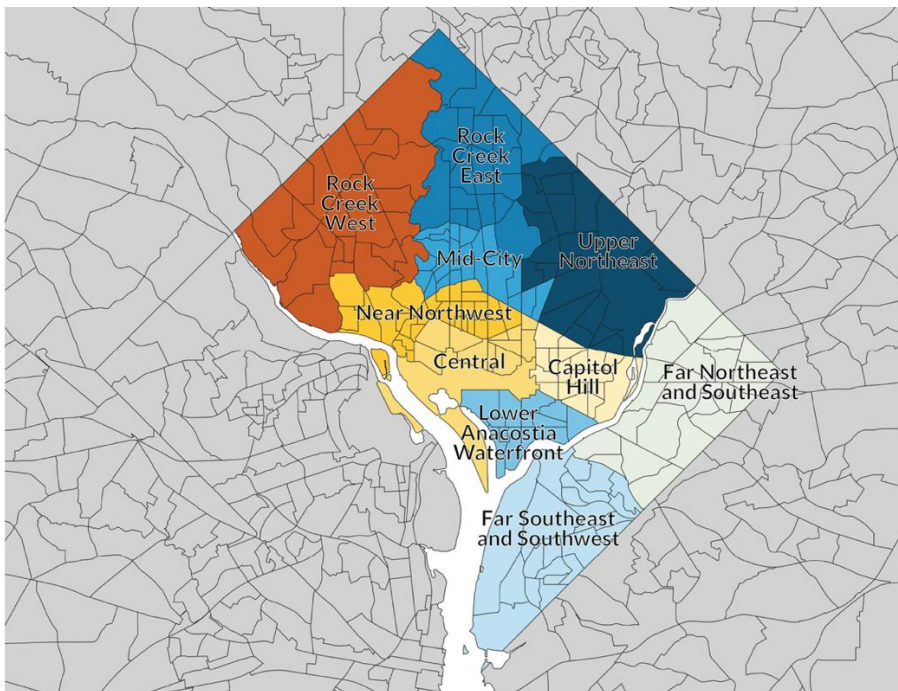
We use these data to assess alternative approaches to the current IZ system. We estimated the effects of exposing new construction buildings to a higher tax rate implemented over 20 years following project completion, then estimated how many existing housing units the additional tax revenues could

make affordable for households with different incomes. This is our primary approach to sketching out the impacts of an alternative IZ system on the ability to provide affordable housing.

Analysis Geographies

We divide the city into 10 “super neighborhoods,” reflecting that the ability to leverage IZ to fund affordable housing depends on local market conditions, and Washington, DC, exhibits a diversity of conditions. These neighborhoods generally follow well-known city divisions (figure 2).

FIGURE 2
Super Neighborhoods across Washington, DC



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Source: Authors, based on 2020 census tract geographies.

Notes: Lower Anacostia Waterfront includes Near Southwest.

The 10 super neighborhoods we profile differ in some important ways:

- A minority of residents in Rock Creek East, Mid-City, Far Southeast and Southwest, Far Northeast and Southeast, and Upper Northeast are non-Hispanic white; a plurality is Black in each, except Mid-City. Rock Creek East and Mid-City are home to a substantial share of Hispanic residents. Asian residents are most likely to live in the Near Northwest and Central Washington neighborhoods.

- Higher educational levels are common in the most central District neighborhoods. Less than 30 percent of adults 25 years or older who live east of the Anacostia River, however, hold a bachelor's degree or more.
- The Rock Creek West and Capitol Hill neighborhoods have high median household incomes. Incomes are much lower east of the Anacostia River. Local incomes are highly correlated with median home values, which are more than twice as high in Rock Creek West as they are in neighborhoods east of the Anacostia.
- About half of households own their homes in Rock Creek East, Rock Creek West, and Capitol Hill. Homeownership rates are lowest in Central Washington and Far Southeast and Southwest.
- More than half of housing units in Capitol Hill and Rock Creek East are single-family homes. Single-family homes are far less common in Central Washington, where 89 percent of units are located in buildings with at least 50 units. The highest share of homes has been completed since 2010 in Central Washington, Lower Anacostia Waterfront, and Near Southwest.

We detail the differences between neighborhoods in appendix tables A.1 and A.2.

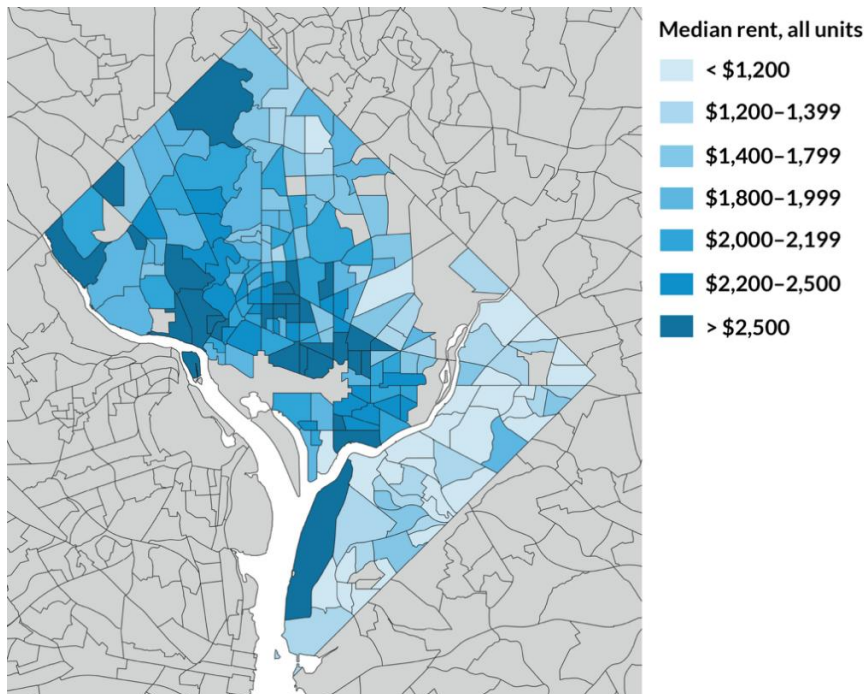
Housing Conditions and Affordability in Washington, DC

In this chapter, we explore differences in rents between neighborhoods before examining the geographic distribution of current supports for affordable housing, including the IZ program.

Housing Costs

Rental housing costs vary by neighborhood (figure 3). Median rental costs for all housing units are higher than \$2,500 a month in the center and northwest, in neighborhoods like Capitol Hill, Central Washington, Lower Anacostia Waterfront and Near Southwest, Mid-City, Near Northwest, and Rock Creek West. Rents are lower east of the Anacostia River, reflecting lower inhabitant incomes there.

FIGURE 3
Median Rent by Tract in Washington, DC



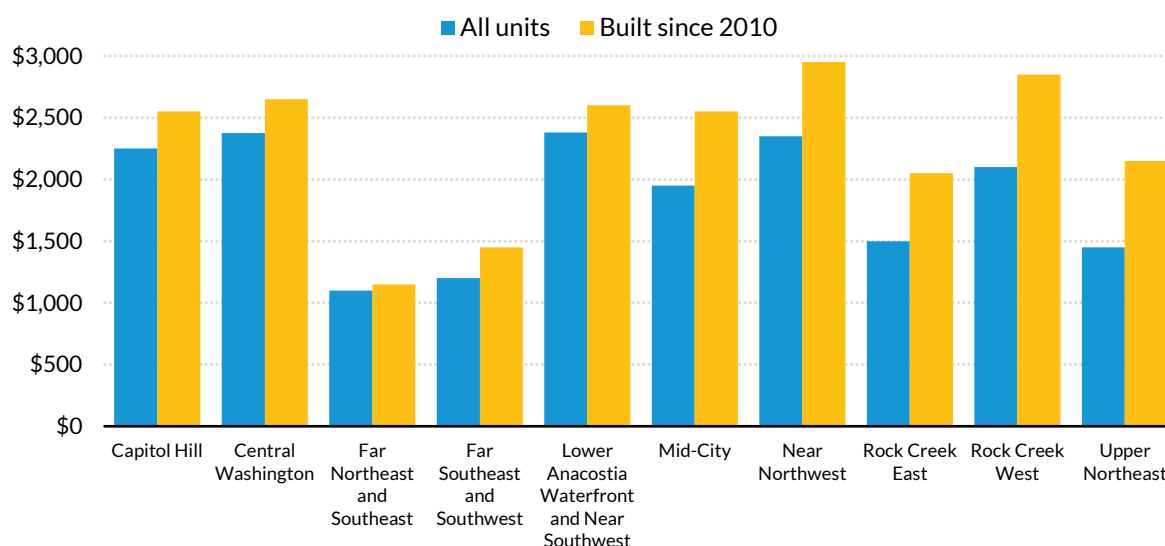
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Source: Authors, based on US Census, American Community Survey, five-year data, 2018–22.

Note: Tracts within city limits with few or no residents are shown in gray.

Housing costs vary based on building age. In each area except Far Northeast and Southeast, median rents for housing units built since 2010 are substantially higher than those for all housing units (figure 4). The difference is largest in Rock Creek West and Upper Northeast. This has implications for housing subsidies, because older units may be, on average, less expensive to rent. (Many older units are subject to rent stabilization; we do not have the data to differentiate between units that are rent stabilized and those that are not in this study.) There may be no significant difference between newer and older units in Far Northeast and Southeast because subsidized units predominate there, as we show below.

FIGURE 4
Throughout DC, Units in Newer Buildings Have Higher Rents Than Units Overall
Median rent



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Source: Authors, based on US Census, American Community Survey, five-year data, 2018–22.

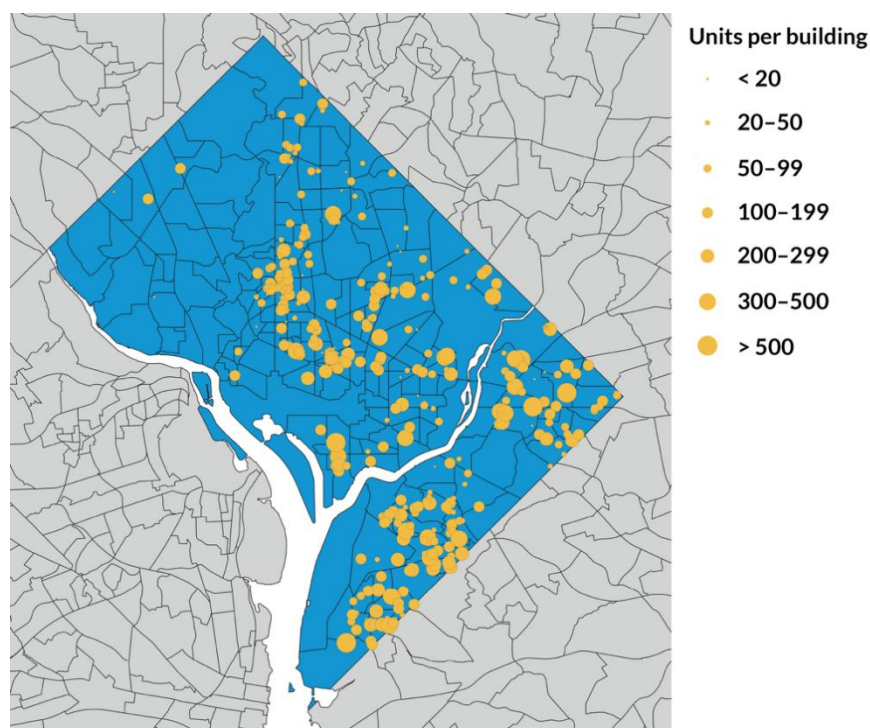
To confirm these data, we collected data on all 2-bedroom apartments available for rent as of September 2025 in Cleveland Park along Wisconsin Avenue Northwest, in buildings with at least two available units. We identified 38 units in new buildings and 18 in older buildings, generally built several decades ago.²⁵ Units in new buildings had rents that averaged \$4.58 per square foot, versus \$3.45 per square foot in older buildings. This means that, at least in some neighborhoods, the difference between market rents for 2-bedroom units in older versus newer buildings can be greater than \$1,000.

Housing Affordable to Households with Low Incomes

Next, we study the location of DC's subsidized units affordable to households with low incomes. Concentrating new affordable units in neighborhoods that have few of those units can encourage neighborhood integration. In figure 5, we illustrate the locations of federally subsidized affordable housing units. Federally subsidized affordable units are rare west of Rock Creek Park; they generally concentrate along the 16th Street corridor north of downtown, as well as east of the Anacostia River.

FIGURE 5

Washington, DC, Buildings with Project-Based Federally Subsidized Affordable Housing Units



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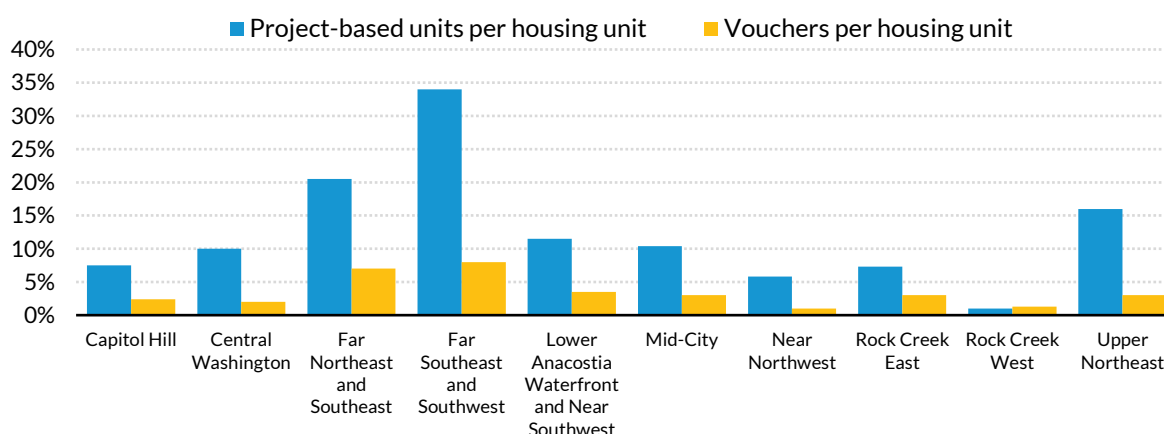
Source: Authors, based on National Housing Preservation Database, 2024.

Notes: Includes units funded by Low Income Housing Tax Credit, public housing, Project-Based Section 8, and similar federal housing affordability programs.

For each neighborhood, we identified the number of federally subsidized project-based units and the number of Housing Choice Vouchers in use versus the number of housing units overall. This comparison clarifies how unevenly distributed such subsidies are. These affordable housing subsidies are concentrated east of the Anacostia River (figure 6). In Far Southeast and Southwest, more than 30 percent of housing units are subsidized by project-based support and about 8 percent are the homes of

households with vouchers (some households with vouchers live in units with project-based subsidies). More than 20 percent of housing units are subsidized by project-based support in Far Northeast and Southeast. These figures are each much higher than elsewhere. Virtually no units in the Rock Creek West neighborhood are affordable to households with low incomes and subsidized by federal support.

FIGURE 6
Subsidized Housing in DC Is Disproportionately Located East of the Anacostia River
Share of housing units subsidized through federal funding sources



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Source: Authors, based on National Housing Preservation Database, 2024; US Department of Housing and Urban Development, 2024 (for vouchers data); US Census, American Community Survey, five-year data, 2018–22.

Note: Includes units funded by Low Income Housing Tax Credit, public housing, Project-Based Section 8, and similar federal housing affordability programs.

East of the Anacostia River, market-rate rents are often little different from those in subsidized units. DC’s current rent guidelines for 1- and 2-bedroom units at 60 percent of MFI allow for rents (subtracting utility costs) of up to \$1,279 and \$1,508, respectively.²⁶ A recent search on Zillow shows that, of the 158 and 101 1- and 2-bedroom units available citywide under those rents, respectively, 58 and 93 percent are located east of the Anacostia (accounting for more than one-third of units there)—far higher than those neighborhoods’ roughly 5 percent city rental market share.²⁷

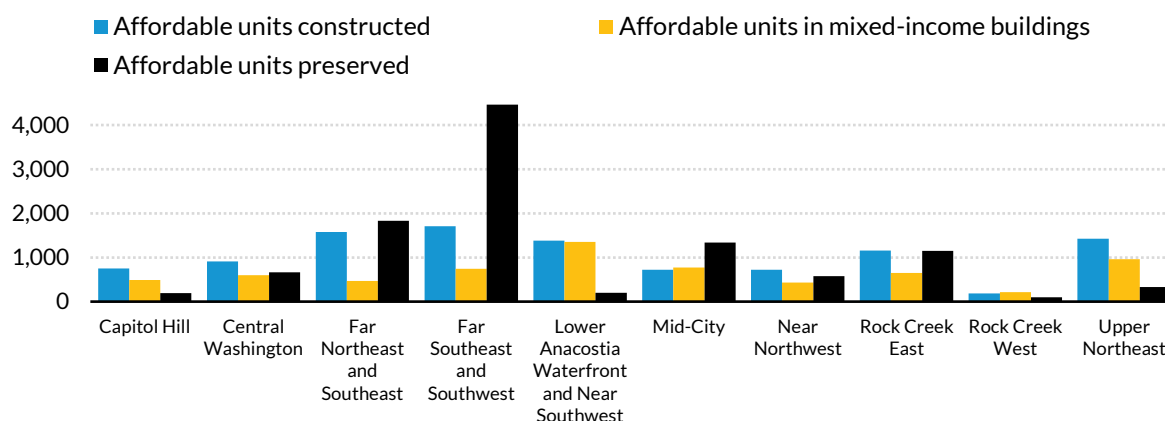
These data indicate that the affordable housing subsidies for new construction, such as through the LIHTC program, concentrate investments in areas where subsidized rents are little different from the market and may thus be concentrating people with low incomes. At the same time, city subsidies may also provide some of the only investments available for *quality* new housing, which is more difficult to finance in neighborhoods with low market rents.

Recently subsidized affordable units have been unevenly distributed (figure 7). Since 2015, the city has produced 10,557 affordable units through new construction, either in fully affordable buildings or in mixed-income structures. DC has also preserved or created new affordability covenants for 10,821 units, such as by purchasing existing units, renovating them, and placing affordability requirements on them. Among the newly produced affordable units, 5,322 were constructed in mixed-income buildings that included market-rate units through the IZ or planned unit development process. The average such mixed-income building had 17.5 percent of its units dedicated as affordable.²⁸

FIGURE 7

DC's Affordable Housing Program Has Largely Overlooked Rock Creek West

Number of affordable housing units created, 2015–24



URBAN INSTITUTE

Source: Authors, based on data from DC government.

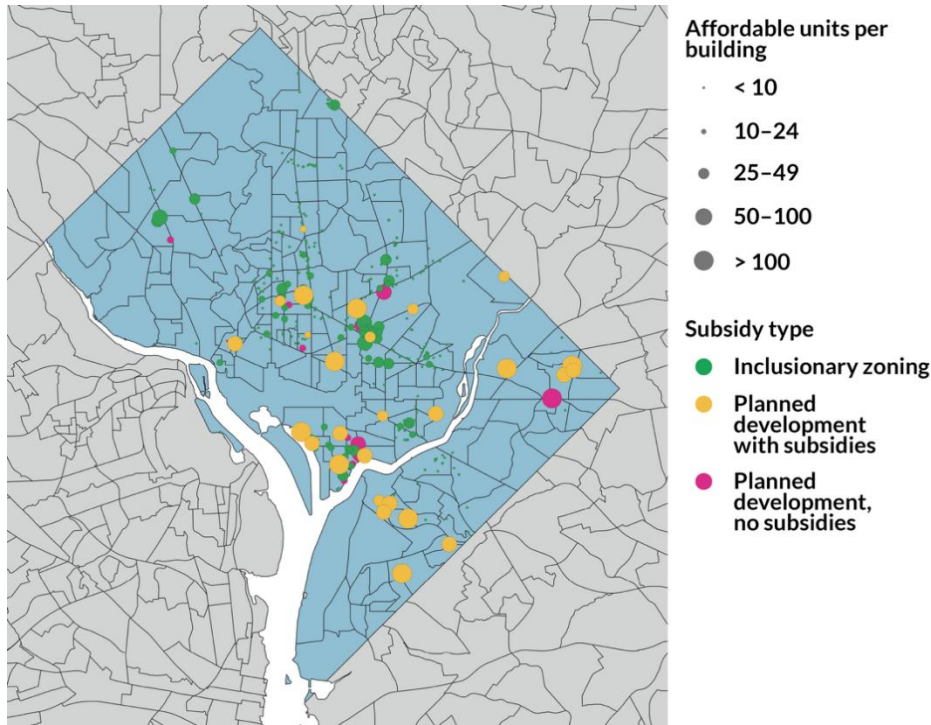
Note: Most affordable units in mixed-income buildings were added in newly constructed buildings; however, a small share were in buildings that were preserved.

More than half of preserved housing units, and one-third of newly constructed affordable units, were east of the Anacostia River. This is a higher rate than the area's share of housing overall (about 20 percent). This means that the area is increasing its share of citywide subsidized units. Affordable units in mixed-income buildings were more evenly distributed, with the most completed in Lower Anacostia Waterfront and Near Southwest. Figure 7 shows that almost all newly constructed affordable housing units in that neighborhood were in mixed-income buildings. Capitol Hill and Rock Creek West, meanwhile, have seen limited investment in affordable housing since 2015. Collectively, these neighborhoods account for about 20 percent of the city's housing units (and a higher share of its land area) but less than 5 percent of new affordable units constructed and even fewer of the preserved units. These neighborhoods have high housing costs and often face community opposition to development.

We map affordable housing units completed since 2015 in mixed-income projects in figure 8. This map shows a concentration of such units in the Navy Yard, along the Southwest Waterfront, and in NoMa, which are relatively high-opportunity neighborhoods.

FIGURE 8

Affordable Units in Washington, DC, Buildings Using Inclusionary Zoning or Planned Unit Development Processes, Completed 2015–24



URBAN INSTITUTE

Source: Authors, based on data from DC government.

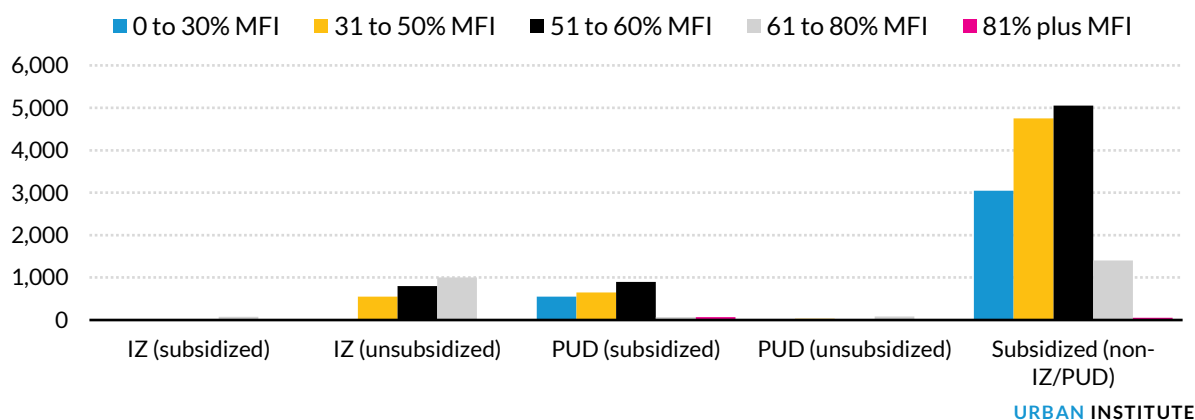
A total of 2,632 affordable units were completed through the IZ program between 2015 and September 2024, an almost 10-year period; that is an average of fewer than 300 affordable units completed through IZ per year. Of these, 87 percent (2,304) received no direct public subsidy from the District. Figure 8 suggests that the IZ program is largely *not* reinforcing existing patterns of subsidized housing. Even so, we find that few affordable units have been completed in this fashion in areas west of Rock Creek Park, to a large degree because of a lack of market-rate housing production. In addition, 2,367 affordable units were completed as part of PUDs; of these, just 10 percent (242) were completed without additional public subsidies.

IZ unit production pales in comparison with the city's overall subsidized housing production outside IZ or PUD projects (figure 9). Moreover, IZ production—by design—has not served the households with the lowest incomes (because the city has chosen to use other programs to focus on that need). None of the IZ units created were designed to be affordable for households with up to 30 percent of MFI: households with extremely low incomes. About 21 percent of affordable units in IZ buildings were affordable for households with very low incomes (incomes between 31 and 50 percent of MFI; most of these were probably set at 50 percent of MFI because of the program's design). More than two-thirds of affordable IZ units were affordable for households with incomes of 51 percent or higher of MFI.

FIGURE 9

Most of DC's New Affordable Housing Has Been Generated Outside the Inclusionary Zoning Program

Number of affordable housing units completed 2015–24



Source: Authors, based on data from DC government.

Note: IZ = inclusionary zoning; MFI = median family income; PUD = planned unit development.

Though affordable housing units produced through IZ and other affordable housing programs are not irrelevant, their production pales in comparison with the need. The National Low Income Housing Coalition estimates that about 50,000 renter households with extremely low incomes live in DC, but affordable homes are available for only 33 percent of them.²⁹ This indicates a supply gap of more than 30,000 units, which would take many decades to fill through current city affordable housing policies.

In sum, these data provide evidence that DC's current affordable housing programs, including IZ, may benefit from enhancements. The city's neighborhoods remain segregated by income and other demographic characteristics, and subsidies for affordable housing are largely reinforcing—rather than counteracting—those challenges. Although the IZ program is doing a better job on that front compared with other affordable housing programs, it is producing relatively few units.

The Costs of Inclusionary Zoning Subsidies

How much does the IZ program cost? This question is difficult to answer because IZ does not have any quantified impacts on the DC budget.³⁰ Nevertheless, we estimate the program's public and private costs. We focus on IZ units in the rental market and abstract from the small number of for-sale IZ units whose economic implications, plus cost for developers, may differ from those of rental units.

Washington, DC, gives developers a density bonus to compensate for providing affordable units. Through the analysis, we assume alternatives to the current IZ program would maintain or increase the supply of new housing. For simplicity, our analysis abstracts from the general equilibrium effect of IZ policy on market rents and housing supply overall. Similarly, we assume private costs are borne by developers. However, both market renters and developers bear the cost in equilibrium and would likely benefit from lifting IZ requirements. As a result, our analysis maintains the current density bonus for all new developments.

IZ produces an opportunity cost by lowering the income stream new development produces and the property taxes that may be collected as a result. We can divide IZ's costs into three categories:

1. **Direct private cost** is the difference between the market rent a developer can charge unsubsidized tenants and the maximum IZ rent (appendix table B.1). This cost varies depending on the IZ rent, which is based on unit sizes and income requirements (i.e., the MFI affordability level to be achieved). The cost also varies depending on the market rents developers could fetch absent requirements; market rents depend on the size and type of units, amenities, and location. Direct costs in high-rent areas or for highly valued amenities will therefore be higher than those for IZ units in buildings in lower-rent areas and with fewer amenities.
2. **Indirect private costs.** IZ requirements are associated with administrative costs. Even absent direct costs, developers may value an exemption from the IZ program, which carries compliance and reporting costs. In addition, if the city cannot fill vacant units expeditiously, developers must carry their cost.
3. **Property tax costs.** Although the city does not (typically) subsidize affordable units in IZ buildings directly, it subsidizes them indirectly by collecting lower property taxes. The value of multifamily residential buildings a company owns and operates depends on a building's net income. Because affordable units generate less income than market units but require similar

operating expenses, the city collects fewer property taxes. (That said, the city may collect *more* revenues because of the density bonus, but we do not incorporate that issue into our analysis.)

The private and public costs of the IZ program vary by neighborhood, depending on the difference between the market rental rates for new developments and the maximum chargeable IZ rents (which do not vary between neighborhoods). Lifting IZ requirements would increase property tax revenues for the city. At baseline, we estimate the monthly subsidy for each affordable housing unit by comparing IZ rents with market-rate rents, using three separate data sources (table 2).

TABLE 2
Private and Public Subsidies of the Washington, DC, Inclusionary Zoning Program, by Data Source

Estimated monthly subsidy per unit

Neighborhood	Total IZ units	Rents from IZ Buildings		Census Median Rents		Zillow Rents	
		Private subsidy	Property tax subsidy	Private subsidy	Property tax subsidy	Private subsidy	Property tax subsidy
Capitol Hill	311	\$880	\$180	\$716	\$147	\$812	\$166
Central Washington	53	\$796	\$163	\$1,721	\$352	\$859	\$176
Far Northeast and Southeast	58	\$180	\$37	-\$558	-\$114	-\$53	-\$11
Lower Anacostia	423	\$893	\$183	\$730	\$150	\$773	\$158
Waterfront and Near Southwest							
Mid-City	361	\$1,132	\$232	\$752	\$154	\$1,000	\$205
Near Northwest	186	\$1,233	\$253	\$678	\$139	\$878	\$180
Rock Creek East	125	\$647	\$133	\$232	\$48	\$602	\$123
Rock Creek West	133	\$1,623	\$332	\$884	\$181	\$1,200	\$246
Upper Northeast	461	\$982	\$201	\$560	\$115	\$820	\$168

Source: Authors, based on an analysis of collected rent data from buildings, Zillow, and US Census. Data on IZ units from the Department of Housing and Community Development of the District of Columbia.

Notes: *Total IZ units* represents the total number of rental IZ units awarded by lottery as of May 2025. It does not include pending units. IZ units listed for sale are excluded. *Private subsidy* represents the monthly average cost of an IZ unit for developers in each area. It is equal to the average monthly difference between the market rent and the maximum IZ rent of an affordable unit, adjusted for property taxes paid. Multifamily buildings are assessed based on income generated; because IZ rents generate less income, property owners incur lower property tax. Lower property taxes paid are a revenue loss for the city, represented here as an indirect property tax subsidy. *Property tax subsidy* captures the property tax loss per affordable unit for the city. It is estimated as the difference between market and maximum IZ rent, divided by an assumed capitalization rate of 5 percent and multiplied by the property tax rate of 0.85 percent. The Far Southeast and Southwest neighborhood is excluded, as only 1 IZ unit is listed in our database for that area. Buildings are excluded when listed as IZ with units requiring 30 percent median family income or 100 percent median family income, along with buildings with only affordable units listed, as they are not traditional IZ. IZ buildings with fewer than 7 affordable units, for which we could not collect market rent data, are excluded. IZ = inclusionary zoning.

These comparisons show that the private monthly subsidy (the difference between market rents and IZ rents) ranges from negative (meaning market rents are *lower* than IZ rents) in Far Northeast and

Southeast to up to \$1,600 in Rock Creek West. This subsidy does not take into account the additional revenue developers receive from the added units made possible by the density bonus. The property tax subsidy is mechanically smaller but still substantial, according to our estimates, in many neighborhoods.

Because developers face large and often fixed costs, such as land and permitting, that do not depend on the type of units produced, higher-end developments often make more economic sense if rented to those who can afford them. It follows that new IZ units are often in buildings with high market rents and large implicit subsidies.

Our estimate of the costs of IZ is typically larger when relying on collected rents from buildings with IZ units and lowest when using census rents, with costs estimated using Zillow rents in between. Table 2 highlights how critical it is to have rent data representative of actual market rents when evaluating IZ policy. Our collected rent measure may overestimate market rents if vacant market units have a higher rent, on average. However, IZ regulations require building owners to provide affordable units comparable in quality with market units.

An Alternative Approach to Providing Affordable Housing

The joint goals of increasing affordable housing supply—improving sociospatial integration and maintaining overall housing construction levels—could be achieved in many ways. We therefore examine whether an alternative model is possible. We focus here on a single alternative, which could be implemented as a requirement or as an optional approach, and estimate its effects on development and tax revenue. This model would include the following elements:

- Eliminating the current IZ mandate on new buildings and replacing it with a higher property tax on these structures over a defined time period—we use 20 years—designed to hold developers constant in terms of profitability, or even provide them some additional profit to help address the current downturn in the DC construction market.³¹ After 20 years, building owners will pay the regular property tax and be required to guarantee affordability for a share of units on site, at a level equivalent to the IZ requirements.
- Leveraging the additional tax revenue produced by this change to subsidize existing housing to ensure its affordability, with a focus on high-opportunity neighborhoods.³² We hypothesize that this funding could support more housing units than currently funded by IZ, support a deeper level of affordability, and provide more geographic diversity of units.

Obtaining information on developers' expectations about future rents is critical for successful implementation. If developers expect market rents to grow faster than IZ rents, the expected cost of providing IZ units would rise over time. Conversely, if market rents grow slower, the costs of IZ units would decline. The tax rate that makes developers indifferent between the current system and the alternative proposal therefore depends on expected future rents. A tax rate set too low would convince many developers to switch to the alternative policy but may fail to attract enough revenue. With a voluntary policy, a tax rate set too high may fail to convince developers to switch from the current system, similarly failing to bring in enough revenue. With a mandatory system, a tax rate set too high would increase the cost of new developments, potentially lowering the supply of new housing.

This alternative is just one of many possibilities. The city could implement property tax *relief* for market-rate construction combined with the existing IZ mandate. This relief would be similar to the tax exemptions Portland has put into place to fund IZ; the exemptions would increase after-tax returns on new investment and increase developments' financial viability. Property tax relief could also be

designed to benefit midrange rather than high-end new housing. A second possibility is creating an IZ requirement for older buildings, subsidized with property tax relief or direct payments from the city. A third alternative is to use money collected from this program to invest directly in social or public housing projects in high-opportunity neighborhoods; this could guarantee long-term affordability. These alternative approaches require much further study than we are able to provide here.

Willingness to Pay to Lift Inclusionary Zoning Requirements

If the city were to implement an alternative program, it could make the program mandatory, or it could offer developers the choice to continue with the current approach. In either case, we want to estimate the *maximum* amount a developer would be willing to pay to lift the IZ requirement for a unit. This willingness to pay is equal to the direct costs in table 2, with some adjustments. First, we assume that market rents would not be affected by the presence of IZ units (it is possible that the presence of affordable units could reduce market-rate rents). If current IZ requirements were lifted, we assume that building owners would be able to fetch the current market rates for all building units. Second, we assume that both IZ and market units have an average vacancy rate of 5 percent, a typical standard that captures tenant turnover. We capture vacancy cost by proportionately reducing rents in our model.³³

To evaluate the applicable property tax rate that owners of IZ buildings would be willing to accept to lift the IZ requirement, we leverage property tax data. This is critical because an alternative program without affordable units on site would impose a higher property tax rate. We estimate the net income used by the city to compute assessment and property tax liability. We then estimate the total income absent IZ requirements by adding the total difference between adjusted market rents and IZ rents in the building overall. In each building in our sample, we then estimate the (generally higher) property tax rate that would generate the same after-tax income without IZ requirements as in the current system. At the neighborhood level, we estimate a weighted average property tax rate by summing income across all IZ buildings before estimating the alternative rate.

Several additional considerations are relevant. Developers face IZ-related administrative costs. As such, we are likely underestimating developers' willingness to pay to lift IZ requirements. Our measure relies on current-year data, but the true cost of the IZ program is the present value of the cost for all future years. How much a developer would be willing to pay to lift requirements depends on how they expect market rents to evolve compared with IZ rents. If developers expect market rents to grow 2

percentage points faster than IZ maximum rents (which we assume grow at 3 percent annually), the private cost of providing on-site affordable units would increase over time, as would the value of lifting the requirement, which is roughly 40 to 50 percent higher than our baseline estimate in which market rents grow at the same rate as IZ rents. On the other hand, if developers expect market rents to grow 2 percentage points slower than IZ rents, the value of lifting on-site affordability requirements is 40 to 50 percent *lower*. Those calculations highlight the importance of considering the dynamic impact of affordable housing policy and developers' expectations regarding future rents.

Table 3 presents our estimates, under three alternative scenarios for market rent growth, of developers' willingness to pay per unit, per month in exchange for lifting on-site affordable housing requirements for 20 years. We assume developers would make fixed payments over 20 years but that afterward, the equivalent share of market units would be converted into affordable housing units. Willingness to pay would be substantially higher if the market units were never converted into IZ units.

TABLE 3

Estimated In Lieu Fee or Property Tax Developers Would Be Willing to Pay to Lift On-Site Affordable Housing Requirements in Washington, DC

Neighborhood	Per Month per Unit Fee			Property Tax Rate (%) ^a		
	Expected Rate of Growth in IZ versus Market Rent					
	Same	Slower	Faster	Same	Slower	Faster
Capitol Hill	\$886	\$1,299	\$555	1.11	1.19	1.03
Central Washington	\$801	\$1,196	\$485	1.16	1.25	1.05
Far Northeast and Southeast	\$181	\$507	-\$79	1.09	1.44	0.62
Lower Anacostia Waterfront and Near Southwest	\$899	\$1,329	\$555	1.12	1.20	1.03
Mid-City	\$1,140	\$1,578	\$789	1.30	1.39	1.20
Near Northwest	\$1,242	\$1,716	\$862	1.23	1.30	1.14
Rock Creek East	\$652	\$1,016	\$360	1.19	1.31	1.04
Rock Creek West	\$1,635	\$2,171	\$1,205	1.26	1.32	1.19
Upper Northeast	\$989	\$1,403	\$656	1.28	1.38	1.17

Source: Authors, based on analysis of collected rent data from buildings. Data on IZ units from the Department of Housing and Community Development of the District of Columbia. Data on 2025 tax assessment of IZ buildings from the property tax roll of the District of Columbia, matched to authors' IZ building database.

Notes: Property tax roll data matched to authors' IZ building database. Estimated willingness to pay represents the average monthly amount a property developer would willingly pay in the first year of a 20-year term, adjusted for inflation by 3 percent each year thereafter, to lift the IZ requirement per unit. (Appendix table B.2 presents monthly payments fixed during 20-year period.) Present value of additional income generated from lifting IZ is adjusted for 5 percent vacancy rate and higher property taxes than the current 0.85 percent. Fixed monthly payment equals total present value of net additional income, assuming 6 percent discount rate. Instead of a monthly payment, the city could increase property taxes on buildings that opt out of IZ. Higher property tax rate estimated by setting total after-tax income under current policy equal to total after-tax income without IZ requirement but higher property tax rate. Current income of IZ buildings estimated by multiplying their tax assessment by assumed capitalization rate of 5 percent. IZ = inclusionary zoning.

^a Rate that makes property owners indifferent between IZ and no IZ but higher tax rate (average across buildings).

Table 3 presents the estimated monthly payments (or higher property taxes) developers would be willing to pay over a period of 20 years following project completion, using a discount rate of 6 percent. Table 3 presents nominal payments in the first year, after which they increase by 3 percent every year to adjust for inflation. (We present alternative constant nominal payments over 20 years in appendix table B.2). If the relevant discount rate for building developers is lower, the willingness to pay will be larger than our estimates. We estimate that—assuming IZ rents increase at the same rate as market rents—developers would be willing to pay more than \$800 per month per unit to be freed of the IZ requirement in most of the city if market rents grow at the same pace as IZ rents; this figure could go over \$1,600 monthly in Rock Creek West. If developers expect faster growth of market rents, they are willing to pay more, up to over \$2,200 monthly in Rock Creek West. This reflects the large rent differential in new developments in that neighborhood.

Table 3 also summarizes our estimates of the average equivalent maximum property tax rate developers would be willing to accept to lift the IZ requirements. We find that—again, assuming IZ rents increase at the same rate as market rents—developers would maintain profitability in most parts of the city even if tax rates were to increase by about 25 to 70 percent (above the current 0.85 percent rate), depending on the neighborhood and the expected growth rate of market rents. Unlike the willingness to pay, which fully correlates with local rents, the alternative property tax also depends on the assessment and profitability of developments across neighborhoods.

As an example, consider a building with 100 units, of which 10 are affordable under the IZ program. Let us assume the average market rate is \$3,000 and the average IZ rent is \$1,800. With a vacancy rate of 5 percent for all units, the building's yearly gross income would be about \$3.3 million. The developer would then need to subtract variable costs as well as the depreciation of fixed costs. Assuming a yield on revenue of 6 percent, we estimate the net income generated by the building would be roughly \$200,000 annually. With a capitalization rate of 5 percent, property taxes at the current rate of 0.85 percent would be about \$35,000, and the after-property tax income would therefore be about \$165,000. Without the IZ requirement, we estimate that the same building would generate an additional roughly \$140,000 in net income, and the yield on revenue would increase to 9.8 percent. In this stylized example, a property tax rate of almost 2.5 percent applied to the net income of the building would equalize after-tax income with the same building under the IZ requirement. Of course, in neighborhoods with lower market rents, such as those east of the Anacostia River, the additional net income from converting IZ units to market units would produce a smaller increase, if any.

We also estimate equivalent in lieu fees developers might pay, rather than higher property tax rates. We estimate the in lieu fee as the equivalent of the present value of monthly payments in

increased taxes over 20 years (see appendix table B.3). These differ by neighborhood, from \$30,000 in Far Northeast and Southeast to \$286,000 in Rock Creek West. To be implemented appropriately, this fee should be adjusted for inflation over time and vary by neighborhood. It also may bring in more or less funding to the city in revenues, depending on two factors: (1) where projects are located, since projects located in areas with higher in lieu fees would generate more in lieu fees; and (2) whether market rents grow more or less quickly than IZ rents. If market rents grow more quickly, the in lieu fee should be increased; if they grow more slowly, it should be reduced.

Pro Forma Analysis Comparison

To further substantiate our analysis of developer willingness to pay in the context of alternative IZ strategies, we leverage a pro forma Urban Institute developed to assess real-estate projects in Washington, DC. This spreadsheet model incorporates current data about market rents, IZ rents, development costs, and land values. We conduct this analysis on a prototypical project in a high-opportunity, high rental cost neighborhood with characteristics similar to central or close-in northwest DC. The project would, under baseline zoning, allow 155 housing units to be built; with a density boost (such as provided by the IZ program), this could increase to 185 units.

We compare outcomes related to this project in table 4. Models I and II show the financial feasibility of this project with or without affordability requirements, respectively. Including affordability requirements at 10 percent of units requires an increased equity contribution, while reducing the project's net present value and internal rate of return. Next, we model what would happen if we provided a density boost while maintaining affordability levels, as under the current IZ program (model IV). This would substantially increase the net present value and increase the internal rate of return to the levels of model I, suggesting that the IZ program is well-calibrated; its density boost provides developers a benefit roughly on par to the added expense of providing on-site affordable units.

Next, we model how the finances of a project under current IZ parameters (model IV) compare with those of a project having higher property tax levels but no on-site affordability (models V and VI). We estimate that the city could increase the property tax by almost 50 percent (from 0.85 percent to 1.25 percent) and developers would be able to achieve similar net present values and internal rates of return. An increase to 1.25 percent would produce about \$470,000 more tax revenues annually, or about \$2,600 in additional monthly revenues per missing affordable unit—similar to the high end of our projections for Rock Creek West in table 3, both in terms of revenues and tax rates. Finally, we estimate that a developer would be able to pay an in lieu fee of about \$150,000 per missing affordable unit and

maintain similar levels of profitability (model VII); this is at the lower end of the estimates we produced from our broader model, but within a reasonable range (appendix table B.3). In either case, this pro forma model confirms our broader findings.

TABLE 4

Pro Forma Models for Prototypical Washington, DC, Development Project, with and without Housing Affordability Requirements

	Model						
	I	II	III	IV	V	VI	VII
Density boost	No	No	Yes	Yes	Yes	Yes	Yes
Affordability rate (%)	0	10	0	10	0	0	0
Affordable units	0	16	0	19	0	0	0
Total units	155	155	185	185	185	185	185
Tax rate (%)	0.85	0.85 ^a	0.85	0.85 ^a	1.05	1.25	0.85
In lieu fee	\$0	\$0	\$0	\$0	\$0	\$0	\$2.9 m ^b
Annual real-estate property taxes	\$630,000	\$600,000	\$725,000	\$600,000	\$900,000	\$1.1 m	\$725,000
Development costs	\$78 m	\$78 m	\$89 m	\$89 m	\$89 m	\$89 m	\$92 m
Equity contribution	\$13 m	\$16 m	\$13 m	\$17 m	\$15 m	\$17 m	\$16 m
Net present value	\$11.7 m	\$10.6 m	\$14.9 m	\$13.6 m	\$14.2 m	\$13.6 m	\$13.9 m
Levered IRR, 20 years (%)	11.7	11.4	12.0	11.7	11.9	11.7	11.7
Yield on costs (%)	7.3	7.0	7.5	7.1	7.3	7.1	7.2

Source: Author analysis of Urban Institute pro forma model.

Notes: Units would be 60 percent 1-bedroom and 40 percent 2-bedroom. Affordability set at 60 percent of median family income. Models are (I) baseline, (II) baseline with affordability, (III) density boost, (IV) density boost with affordability (current IZ), (V) density boost with higher tax, (VI) density boost with highest tax, and (VII) density boost with in lieu fee. IRR = internal rate of return.

^a Adjusted to provide relief for affordable units.

^b \$150,000 per missing affordable unit.

Revenue Potential of Alternative Inclusionary Zoning Strategies

To estimate how much revenue the city could raise by requiring developers to pay a fee or increase property tax in exchange for lifting IZ requirements, we combine data from our analysis on current IZ buildings with data on IZ buildings in the construction or planning phase as of June 2025. Our analysis finds 284 IZ projects in the planning or construction phase, of which we identify 116 with rental units (the rest are marked as for-sale units). We exclude buildings in the Far Southwest and Southeast as they are not mixed-income IZ buildings, and projects in that neighborhood would be unlikely to benefit from

our alternative policies. For 94 buildings, we have data on the total number of planned affordable units (768 units, excluding Far Southwest and Southeast), as well as the type of unit by MFI limit (table 5).

TABLE 5
Inclusionary Zoning Units in Washington, DC, Developments in the Planning or Construction Phase

Neighborhood	Total new buildings	IZ Units		
		50% MFI	60% MFI	80% MFI
Capitol Hill	6	5	34	2
Far Northeast and Southeast	25	136	53	3
Lower Anacostia Waterfront and Near Southwest	4	3	52	0
Mid-City	10	4	65	3
Near Northwest	7	3	89	5
Rock Creek East	17	10	45	4
Rock Creek West	7	8	108	0
Upper Northeast	18	8	90	38
Total	94	177	536	55

Source: Authors, based on data from the DC government.

Notes: Total amount of planned rental IZ units based on available data on number of units from buildings under construction (92 as of July 2025) and in the planning phase (12 as of July 2025). IZ = inclusionary zoning; MFI = median family income.

For the 10 buildings without any data on the number of units, we impute the average distribution and total number of affordable units for IZ buildings in each neighborhood. We use the average for two reasons. First, many types of units, like 2-bedrooms at 50 percent of MFI, are in a few buildings, and the median number of actual units is 0, except for very common units, like 1-bedrooms and studios at 60 percent of MFI. Second, we find an average of 10 upcoming affordable units and a median of 3 units in buildings with available data. In comparison, we find an average of 17 affordable units and a median of 10 units in existing IZ buildings in our analysis. Excluding the Far Southeast and Southwest neighborhood, we find with our imputations an additional 10 upcoming IZ buildings with rental units, and 103 additional affordable units.

In each building in the pipeline, we estimate the willingness to pay to lift IZ requirements by type of unit, using a method similar to the one we used with current IZ buildings. We use the average collected rent in each neighborhood from existing IZ buildings and match it to planned IZ buildings based on address. We use collected rents in this section of the analysis, as we believe they are most representative of the market rates of upcoming IZ buildings. Summing the willingness to pay for all affordable units in the construction or development phase generates the theoretical maximum amount

of revenues—abstracting from developers’ administrative cost of providing affordable units—DC could raise from reforming the IZ requirement on planned units.

Expectations of future rents, as well as assumptions on vacancy rate and market adjustment, matter in determining developers’ willingness to pay to lift IZ requirements. If the city implemented the new policy slowly, we can assume no market adjustment for the market rents. Even if the increased supply of market rents puts downward pressure on market rents in the short term, it is unlikely to have an impact on long-term rent equilibrium in DC. Washington has hundreds of thousands of market units in 2025; switching a few thousand affordable units to market rates (especially when the policy would fund the conversion of *other* market-rate units to affordability) would likely have little effect on the overall market. As in the previous section, we estimate the willingness to pay under three alternative scenarios: (1) market rents grow at the same rate, (2) faster, or (3) slower than IZ rents. We assume that the pipeline of buildings in the construction and planning phases will deliver affordable units within the next three years. To estimate annual revenues, we divide total estimated revenues from upcoming affordable units by three (roughly 250 units per year, excluding the Far Southwest and Southeast neighborhood).

Overall, we estimate that the maximum willingness to pay to lift IZ requirements in upcoming buildings lies between \$3.8 and \$7.4 million yearly, depending on the scenario (\$5.4 million assuming rents increase at the same rate). This is equivalent to the maximum yearly revenue under various rent growth assumptions from lifting affordable housing requirements on new developments in a year and assuming steady yearly payments over 20 years. That means that if buildings scheduled to be completed in 2026 paid the maximum amount they are willing to lift IZ requirements, the city would collect \$3.8 to \$7.4 million each year from those buildings over 20 years (table 6).

If the city collected one-time in lieu fees, revenues collected would be much larger in year 1, but the city would not collect any additional revenues from those buildings in subsequent years. One-time in lieu fees would be equal to fixed yearly payments over 20 years in present value. If, instead, the city implemented a higher property tax rate (at the building or neighborhood level), it would collect less than presented in table 6 in the first year, but revenues would increase over time. Similarly, the sum of property tax revenues over 20 years would equal the sum of fixed yearly payments, in present value.

TABLE 6

Estimated Annual Maximum Above-Baseline Revenue Developers in Washington, DC, Would Pay Yearly in Exchange for Lifting Inclusionary Zoning Requirements

Neighborhood	Expected Rate of IZ Rent Growth versus Market Rent		
	Same	Slower	Faster
Capitol Hill	\$278,580	\$383,527	\$194,435
Central Washington	\$60,962	\$82,629	\$43,589
Far Northeast and Southeast	\$804,133	\$1,163,218	\$516,224
Lower Anacostia Waterfront and Near Southwest	\$371,600	\$513,625	\$257,726
Mid-City	\$595,774	\$801,819	\$430,569
Near Northwest	\$832,791	\$1,108,612	\$611,640
Rock Creek East	\$312,264	\$442,633	\$207,736
Rock Creek West	\$1,498,143	\$1,938,950	\$1,144,709
Upper Northeast	\$674,781	\$975,471	\$433,692
Total	\$5,429,028	\$7,410,484	\$3,840,320

Source: Authors, based on an analysis of collected rent data from buildings.

Notes: Assumes 3-year timeline for projects in current planning and construction. Assumes the city could estimate and collect developers' maximum willingness to pay to lift on-site affordability provision. Amounts are total yearly payments over 20 years for all planned IZ units and include increase in property taxes from converting IZ units into market units. IZ = inclusionary zoning.

The numbers presented in table 6 assume that the city generates revenues in a way that builders are indifferent between the current system and the alternative system. In practice, the city may implement strategies that raise more or less revenues than presented. As discussed, the city must choose between three alternative mechanisms to raise revenues in exchange for lifting the affordable housing requirements for a specific time. In our estimation, we assume that IZ requirements are lifted for 20 years, after which market units must be converted to IZ units (the same number as in current law for new developments). Depending on its objectives, the city may choose a shorter or longer period. It could also offer to lift the IZ requirement permanently in exchange for one of three alternatives:

1. A one-time in lieu fee paid when the construction is completed
2. A yearly payment for a given period
3. A higher property tax rate for a given period

Each alternative has its pros and cons, all of which require capable bureaucracy to be implemented. In lieu fees are common in cities that have adopted IZ policies. Because the fees are paid once, they are administratively easier. But they have some downsides. Estimating in lieu fees requires assumptions on builders' discount rates and how much income is generated by lifting IZ requirements. Set too low, in lieu fees generate too little revenue to fund other affordable units. Set too high, and assuming they are optional, they also generate little revenue, as developers prefer providing IZ units. In lieu fees may

require significant upfront cash flow from developers. The most efficient way of raising revenues that make builders indifferent would require fees to be calculated at the building or neighborhood level.

Yearly payments require the same assumptions as one-time in lieu fees and can similarly be set too high or too low, but they can be integrated by developers into the yearly cost of operating buildings and have a much smaller impact on cash flow. Finally, the city could introduce some flexibility into that policy, whereby yearly payments can be adjusted depending on characteristics of the market. For example, yearly fees could incorporate automatic adjustments depending on inflation and changes in market rents, such that the city would generate more revenues if market rents increase faster than expected and less if they increase lower than expected. The city could also include an early opt-out option, whereby building owners would stop the yearly payments and provide IZ units instead.

A higher property tax rate has similar pros and cons as yearly payments. However, it has potential for easier administration and higher flexibility. In comparison with estimating in lieu fees and payments across new buildings, implementing an alternative tax rate would be relatively straightforward: the assessment roll would include information on whether a building pays a higher property tax rate, and for how long. Importantly, and unlike fixed payments, a higher property tax rate shares some market risks between developers and the city. As noted, in the context of commercial developments, the property tax resembles an income tax. If market rents grow faster than expected, the city will collect higher tax revenue, and vice versa if market rents grow slower. Or, if a building owner faces an unexpected increase in maintenance costs, it will pay lower taxes as it generates less net operating income.

To lift a maximum amount of revenues without making builders worse off, the city would have to estimate a maximum willingness to pay or an individual property tax rate in each new building. A neighborhood-specific rate would yield revenue close to the amount that makes builders indifferent. That said, an area-specific property tax rate may be legally or practically infeasible. Instead, the city might set an alternative property tax rate calibrated to average development feasibility. Critically, the impact on development costs and total new revenue will vary if new buildings can choose to opt in to the alternative program or if the city mandates it to replace the current IZ program.

Washington, DC, must therefore decide whether to offer developers choices:

1. *Mandatory alternative program.* Instead of providing IZ units, developers would obtain a density bonus and pay higher property taxes for a determined length of time (or an in lieu fee).
2. *Voluntary program.* The city would offer developers a choice between paying a higher property tax rate or providing affordable units, both in exchange for a density bonus.

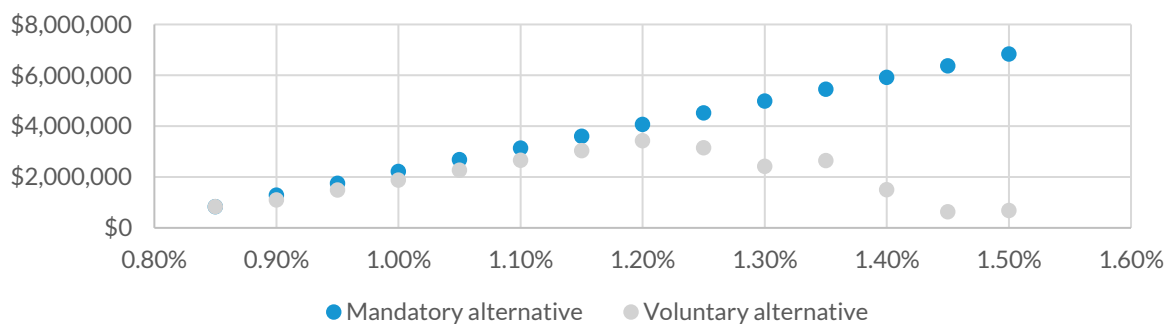
3. *Opt-in and -out options.* The city would offer the option for developers to provide affordable units instead of paying higher property taxes or fees, or allow them to mix these options.

In figure 10, we estimate how much revenue the city would collect by lifting the IZ requirements in exchange for various higher property tax rates. We imputed the market rents and equivalent property tax rates estimated for existing buildings in the previous section to upcoming buildings. If the alternative tax rate were higher than the maximum alternative rate—the rate under which developers would expect the same income in either the current or alternative program— they would choose the current program. The revenue estimate for the current rate (0.85 percent) captures the impact of higher reported income and assessments from lifting IZ requirements. Each additional 0.1 percentage point in the alternative property tax rate—assuming a capitalization rate of 5 percent—translates into a 2 percent tax increase on the net income of new buildings. If the program is voluntary, new revenues steadily increase until a rate of 1.2 percent (because almost all developers would maximize their profit by choosing a higher tax rate rather than keeping affordable units on site). Above a rate of 1.2 percent, however, an increasingly large share of developers would choose to keep affordable units on site because it would cost them less to do so than paying the higher rate. In year 1, revenues are also substantially smaller than presented in table 4, which assumes fixed yearly payments. In contrast, revenues under a higher property tax rate rise over time.

FIGURE 10

Estimated New Revenues Would Grow in DC Under Mandatory versus Voluntary Alternative Higher Property Tax Rate

Annual tax revenues in year 1, based on observed rents



URBAN INSTITUTE

Source: Authors, based on an analysis of collected rent data from buildings.

Notes: Revenues estimated under alternative option that offers a higher property tax rate in exchange for lifting IZ requirements. Revenues are for planned buildings in year 1. Assuming growth in market and IZ rents, revenues will grow over time. Revenues in the year buildings are constructed will similarly be higher and track the growth in market rents. IZ = inclusionary zoning.

We believe a voluntary alternative program would be the most efficient. It would give developers the flexibility to choose between providing IZ units and the alternative policy, on the basis of which makes more sense economically. An alternative rate between 1.25 and 1.35 percent could be an efficient mixed system, whereby the city raises additional revenues on buildings where the IZ costs are highest, while many buildings with low or average costs would choose the current IZ system. Practically, developers that expect market rents to grow more slowly would be more likely to choose to keep affordable housing on site, rather than pay the higher tax rate.

A voluntary alternative program offers several advantages and efficiency improvements. Developers with the highest IZ unit costs would be indifferent or better off under the alternative option. As a result, there is a potential positive impact on housing supply by lowering the cost of new developments with high market rents but no downside compared with the current program, because the alternative would be voluntary. The IZ units most expensive to subsidize would convert to market units, and the city would collect additional revenues to subsidize new IZ units or to fund alternative existing affordable housing programs like housing vouchers.

The optimal alternative method depends on the administrative cost and expected revenues under each program. Additionally, to improve the fairness of development throughout the city and spread the cost of affordable housing more equitably, the government could offer an optional density bonus with higher property tax or in lieu payments citywide—not just to buildings for which IZ is mandated.

Subsidies Required to Create Affordable Units in Existing Buildings

In this section, we move on to evaluating how much it would cost, on average, the city to subsidize existing market-rate housing units in older buildings in high-opportunity neighborhoods, using those new revenues to make units affordable to families with low incomes.

To do so, we created a database of DC assessor data on multifamily rental buildings, removing buildings that pay little or no taxes, as these likely already have subsidized units. We then performed an online search of buildings with at least 100 units to confirm they are not restricted to a certain population (e.g., retirement facilities). As above, we rely on both Zillow and census data in this analysis. (See appendix table B.4 for average and median rents used, by neighborhood.) Given the large number of buildings in this sample, we collected market rent data in only 40 of the largest existing buildings where newly subsidized affordable units might be located. We compared our sample of collected rents

with census and Zillow rents and found that average collected rents of older buildings were likely to fall between census and Zillow rents (appendix table A.5). We assumed that the distribution of unit types (e.g., studio, 1-bedroom) that could be converted to affordable units subsidized by the city is the same as the current distribution of IZ units. We then estimated the average market rent of current units and the average rent by income limit if these are converted to affordable units.

Using this baseline, we first calculated the average private cost of providing IZ units in existing buildings for building owners in each neighborhood and across three affordability levels: 50, 60, and 80 percent of MFI (table 7), and assuming the same distribution by type of unit (e.g., studio, 1-bedroom) as current IZ units. Unsurprisingly, areas with higher market rents, like Capitol Hill and Rock Creek West have higher private costs and would require devoting higher subsidies to help developers cover the costs of affordability provision. (See appendix table B.5 for the private cost by type of unit, MFI, and neighborhood.) No subsidy would be needed for neighborhoods like Far Northeast and Southeast and Far Southeast and Southwest, where market rents are low (as market rents are, on average, already affordable to people with low and moderate incomes).

TABLE 7

Private Cost of Potential New Affordable Units in Washington, DC, by Income Limit

Neighborhood	All units	Difference with existing IZ units	Private cost for 50% MFI units	Private cost for 60% MFI units	Difference with existing IZ units (60% MFI)	Private cost for 80% MFI units
Capitol Hill	\$714	-\$405	\$894	\$900	-\$300	\$392
Central Washington	\$905	-\$169	\$1,095	\$1,079	-\$89	\$594
Far Northeast and Southeast	\$20	-\$431	\$428	\$183	-\$383	-\$277
Lower Anacostia Waterfront and Near Southwest	\$873	-\$392	\$1,074	\$1,063	-\$290	\$547
Mid-City	\$656	-\$669	\$874	\$844	-\$559	\$330
Near Northwest	\$897	-\$705	\$981	\$1,090	-\$554	\$568
Rock Creek East	\$443	-\$234	\$638	\$610	-\$171	\$141
Rock Creek West	\$737	-\$921	\$1,097	\$923	-\$772	\$413
Upper Northeast	\$400	-\$531	\$556	\$571	-\$456	\$93

Source: Authors, based on an analysis of data from US Census, Zillow, and DC assessor.

Notes: Private cost is difference between market-rate unit and affordable unit costs, adjusted for difference in property tax. Estimates are average private cost of turning existing market units into IZ units. *Private cost* is the equivalent of our estimates for the private cost of affordable units. Average difference is the estimated weighted average between estimated market rents and maximum IZ rent in each potential building. Because private cost differs depending on type of unit (studio, 1-bedroom, etc.), average private cost by MFI is estimated based on current average distribution of affordable units across the city. Cost of existing IZ units is estimated using average, rather than actual, distribution for comparison. Because distribution of units is different, average cost may vary compared with table 2. IZ = inclusionary zoning; MFI = median family income.

The third and sixth columns of table 7 compare the average private cost of existing IZ units with the private cost of providing affordable units in older buildings, using the average distribution of existing IZ units across the city by MFI and type of units. In Rock Creek West, a neighborhood with few existing affordable units, the cost of conversion would be substantially lower, by \$921 (i.e., it would cost on average \$921 less for the owner of an existing building to make a unit affordable than it would for the owner of a new building, assuming no vacancy). For units in Rock Creek West at 60 percent of MFI—the most prevalent type of IZ unit—the average difference would be almost \$800.

In table 8, we estimate the corollary of the willingness to pay presented in table 6 by computing how much owners of older buildings would accept to convert a market-rate unit into an affordable unit. This exercise again assumes a vacancy rate of 5 percent for both market and IZ units and that market and IZ rents grow over time, possibly at different rates. In Rock Creek West, for example, we predict that owners of existing buildings would require an average subsidy of \$914 in the first year to convert a market-rate unit to an affordable unit. We abstract from administrative costs here, so the average subsidy required could be larger. On the other hand, many market units in high-rent neighborhoods would likely require a lower subsidy.

TABLE 8
Estimated In Lieu Payment or Property Tax at Which Developers Would be Willing to Convert Existing Market Units to Inclusionary Zoning Units in Washington, DC

Neighborhood	Per Month per Unit Payment		
	Expected Rate of Growth in IZ versus Market Rent		
	Same	Slower	Faster
Capitol Hill	\$662	\$1,034	\$365
Central Washington	\$806	\$1,201	\$488
Far Northeast and Southeast	-\$179	\$75	-\$383
Lower Anacostia Waterfront and Near Southwest	\$770	\$1,176	\$445
Mid-City	\$714	\$1,072	\$426
Near Northwest	\$759	\$1,143	\$451
Rock Creek East	\$504	\$843	\$233
Rock Creek West	\$914	\$1,319	\$589
Upper Northeast	\$531	\$861	\$267

Source: Authors, based on an analysis of data from Zillow and US Census, data on IZ rents and distribution from the Department of Housing and Community Development of the District of Columbia, and data on the 2025 tax assessment of all buildings from the property tax roll of the District of Columbia.

Notes: Estimated “willingness to convert” payments represent the average monthly amount a property developer would willingly pay in the first year of a 20-year term to convert market units into IZ units. Amounts are assumed to increase by 3 percent each year to adjust for higher rents and inflation. Present value of the lower generated income from converting units is adjusted for a 5 percent vacancy of market units and higher property taxes than the current 0.85 percent. Fixed monthly payment equals the total present value of net lower income, assuming a 6 percent discount rate. Current distribution of IZ units is baseline for estimating willingness to pay across neighborhoods. IZ = inclusionary zoning.

Estimates are based on fixed and constant monthly payments for 20 years. (See appendix table B.6 for present value monthly equivalent payments in the first year that grow by 3 percent every year.) The monthly estimates also incorporate property tax savings resulting from lower income and assessment for IZ units. Costs would increase if the city were to subsidize larger units or units with lower maximum income requirements. Similarly, the city could create more affordable units if it focused on smaller units or units available at a higher maximum income. (See appendix table B.7 for the estimated willingness to pay by MFI, assuming the same growth rates for market rents and IZ rents.)

Affordable Housing Creation under the Current Inclusionary Zoning System versus an Alternative Approach

Our analysis can be leveraged to estimate the number of affordable units by type of unit and MFI, depending on the city's implementation approach for the IZ program. The approach of raising revenues, rather than requiring affordable housing on site, estimates a lower and higher bound on revenues collected. Depending on the policy goals, the city can then choose how much of its collected revenues to spend across neighborhoods, type of units, and MFI.

For example, consider the possibility that Washington, DC, wanted to focus affordable housing investments in Mid-City or Rock Creek West, where few such units are currently available and where additional socioeconomic integration may be desirable. Based on the current distribution of IZ units in each neighborhood, appendix table B.6 notes that, on average, a developer would be willing to be paid to convert an existing market-rate unit to that level of affordability at a constant cost of \$906 and \$1,160 per month per unit over 20 years, respectively (assuming a distribution of affordability similar to that of the current IZ system).

If the city were to convert its current IZ system to one based on charging higher taxes across neighborhoods on newly developed buildings, we estimate that it would be able to generate up to \$5.4 million a year, at least under a steady-state scenario (table 6). Assuming that 10 percent of costs need to be allocated to administrative expenses, this revenue could be enough to support about 449 or 351 units in Mid-City or Rock Creek West, respectively, at those affordability levels.³⁴ If the city were to implement a citywide voluntary alternative tax of 1.35 percent, we estimate that the city would collect about an additional \$2.64 million a year, which could newly subsidize 220 existing units in Mid-City or

171 in Rock Creek West. As many builders would still prefer the current IZ policy, an additional 163 regular IZ units would be added per year across the city.

Either number would be higher than the current roughly estimated 250 new annual IZ units. The alternative program would give the city additional flexibility, and new units could also be located in neighborhoods with limited affordable housing currently. This example highlights how a mixed system with standard IZ units and newly subsidized units in older buildings could represent an improvement in terms of both total affordable units and their distribution across the District.

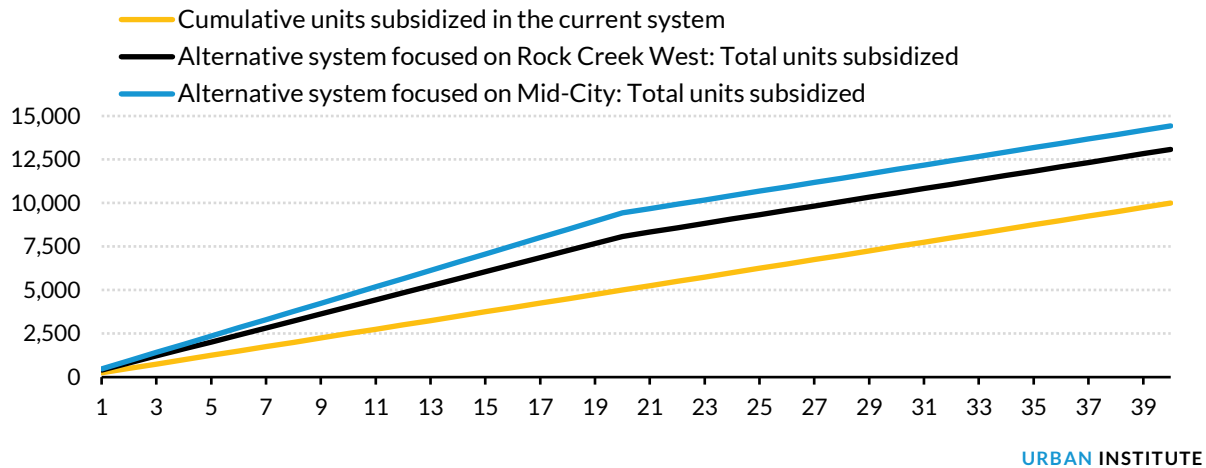
The current IZ system exhibits important differences in practice than a version based on property tax increases on new construction. The current IZ system requires that affordable units maintain a certain level of affordability. Say that an alternative system collects property taxes at a higher rate for newly developed buildings over a 20-year period following construction; these funds would then be amassed by the city to subsidize renters in existing buildings. In figure 11, we estimate the differences between the number of units subsidized by the current IZ system and those potentially subsidized under an alternative policy with a voluntary higher tax rate of 1.35 percent in exchange for lifting IZ requirements. This scenario, in which new affordable units in older buildings would be entirely in Mid-City or entirely in Rock Creek West, also assumes that rates of development are steady (an assumption that, of course, may not be realized) and that projects are taking on a higher property tax for 20 years then converting an IZ-equivalent share of units to affordability.

Figure 11 shows that, under the current IZ system, we might expect the creation of 10,000 permanently subsidized units in total after 40 years. On the other hand, assuming units under an alternative system are made affordable are located in either Mid-City or Rock Creek West, we calculate that a higher number of units could be subsidized permanently (as many as 14,500 after 40 years, if subsidies were focused in Mid-City only). In the first 20 years of the program, the city could steadily increase the number of affordable units by leveraging new revenues to convert existing market rent units into affordable units. After 20 years, the wedge between the current system and the alternative program would stabilize.

FIGURE 11

Subsidized Units in DC Under Current Inclusionary Zoning System and Potential Alternatives, by Program Year

Total subsidized units supported by current IZ or alternative program (voluntary 1.35 percent higher property tax), including still-subsidized units that were initially subsidized in a previous year



Source: Authors, based on an analysis of data from US Census, Zillow, and DC assessor.

Notes: An increase of 250 standard IZ units per year is assumed under current IZ system. Additional number of IZ units estimated by leveraging average cost in respective neighborhoods from table 6, assuming (1) steady development timeline and 20-year alternative system with a tax of 1.35 percent for new developments, (2) about \$2.64 million collected in the first year under alternative system, (3) 10 percent of costs used for administration, and (4) property tax revenue growth at 3 percent (same as rents). IZ = inclusionary zoning; MFI = median family income.

Revenues from new buildings could generate additional affordable units from the pool of older buildings. At the same time, 20-year-old buildings would not generate additional revenues, but, under our proposal, would convert some of their market-rate units into IZ units. This suggests that an alternative system to the current IZ approach could produce more affordable housing over the long term, although there is an upper limit based on how long new construction units generate revenues before they produce IZ units—providing affordable units in older buildings is less costly than in new buildings. (If the property tax increase were permanent, the higher-tax alternative would produce more units over the long term; however, we believe it makes little sense to enforce higher taxes on projects that are 20 years old.) Essentially, the alternative policy would delay the creation of IZ units by 20 years, the years when the market rents and implied costs of converting into IZ units are the highest.

The models presented in figure 11 assume that the buildings subjected to the alternative approach are the same as those currently affected by the IZ system. But many of the city's recent permits have been for buildings that do not meet those requirements, for example, because they are single-family homes or downtown. An alternative approach would be easier to implement on smaller buildings (e.g.,

an increased property tax on a new single-family home is possible, while an on-site affordable housing requirement is not). This would support a higher number of units than shown in figure 11.

Impact of Alternative Policies on Overall Housing Supply

Would lifting the IZ requirement, increasing taxes, and keeping the density bonus currently linked with affordable housing production affect overall housing supply? Fundamentally, there is too little evidence to say with confidence. We suspect, however, that a higher property tax rate on new development would need to be calibrated carefully to balance revenue generation against the feasibility of development. If the tax rate is set too low, it may stimulate overall supply but generate insufficient funding for affordable housing. If the rate is too high, it could suppress new construction altogether.

Long-term housing supply is determined primarily by regional incomes—which influence demand—interacting with land availability and local regulations (Freemark 2025; Gyourko and Molloy 2015; Saiz 2010). Rising incomes remain the dominant determinants of housing affordability, regardless of supply constraints (Louie, Mondragon, and Wieland 2025). Any impact of the proposed policy on overall housing supply is therefore likely to be short to medium term and modest in magnitude, with limited implications for long-term rent levels.

That said, several theoretical claims can be drawn. Compared with the current IZ policy, our alternative could raise yields on cost for developments that would otherwise have IZ units, thereby increasing the financial viability of new projects, especially in areas with high land costs. A property tax rate that varies with market conditions could also help stabilize housing production, encouraging construction during downturns and generating additional affordable housing revenue during booms.

If Washington, DC, could capture the full value of lifting the IZ requirement to fund an alternative program, new development profitability—and thus supply—would likely remain unchanged. However, eliminating the obligation to include on-site affordable units could make market-rate projects more attractive to some developers, which merits further study. The extent to which IZ requirements and higher property taxes affect land values is also crucial. We assume that the benefits of the alternative policy are capitalized into building values through higher net income. Yet if these benefits are instead capitalized into land prices, developers would face higher acquisition costs, eroding potential gains in return on investment and dampening any increase in housing supply.

To frame our theoretical argument with some numbers, we can rely on empirical estimates in the literature of the elasticity of housing supply with respect to price. Because the market price of

multifamily housing is closely tied to the income it generates, lifting IZ requirements should increase both income and assessed value. For instance, in the pro forma example in table 4, the baseline yield on cost under current policy is 7.1 percent. Raising the property tax rate from 0.85 percent to 1.25 percent without IZ requirements would maintain the same yield on costs, whereas an increase to 1.05 percent would increase the yield by 0.2 percentage points (or 3 percent). Assuming a constant capitalization rate, we would expect the price of the building to also increase by 3 percent.

Empirical studies suggest that the elasticity of housing supply likely lies between 0 and 1, closer to 0 for highly constrained metro areas (Saiz 2010). Baum-Snow and Han (2024) find an average price elasticity of the quantity of new units between 0.2 and 0.9. Similarly, Aastveit, Albuquerque, and Anundsen (2023) find an elasticity lower than 1 in the DC metropolitan area between 2012 and 2017. This implies that an increase of 3 percent of the yield on the cost of new development would increase the supply of similar new developments roughly between 0.6 and 2.7 percent, modest but positive. In contrast, if the property tax in the pro forma example were increased to 1.25 percent or higher, we would not expect an increase in overall construction.

Using our data on existing IZ buildings, we estimate the average yield on cost increase from a policy that offers a higher property tax rate but lifts IZ requirements—assuming developers who would generate higher income from the alternative policy choose it. If the alternative rate is set at 1 percent, almost 90 percent of existing units in IZ buildings would generate higher net income under the alternative policy, with a median increase in price of about 10 percent and an average increase of about 20 percent (weighted by the number of units in each building). Based on elasticity estimates, this could translate into a 1.8 to 9.0 percent higher number of units in buildings that benefit from the policy, or a roughly 1.6 to 8.0 percent increase in the number of units in buildings subject to IZ or a higher tax. With a 1.25 percent tax rate, only about 45 percent of existing units in IZ buildings would generate higher net income, with a median price increase of about 15 percent and an average increase of 27 percent. This could translate into a 1.2 to 6 percent increase in unit construction. The difference between the two tax rates is modest because most of the aggregate effect is driven by those projects that benefit the most choosing the option, while those projects that do not benefit choose to maintain the IZ requirement.

These estimates assume that other costs, including land prices, remain constant. But if land value increases under the alternative policy as the value of development rises, then a sizeable fraction of the surplus generated under the alternative policy accrues to landowners, limiting the potential positive impact on housing supply. Additionally, applying a higher property tax rate on all new developments could have a negative impact on housing supply in the short term, although the impact is likely to be muted in the long term.

Alignment of Alternative Policy Approaches with City Goals

If DC were to implement an alternative model to promote affordable housing, it would have to be carefully implemented and tracked over time to avoid challenges. Implementation matters a great deal in achieving the goals of both increasing the number of affordable housing units available and encouraging more integrated buildings and neighborhoods. The model could be executed in multiple ways, and multiple policy questions are worth debating:

- **Mandatory versus voluntary.** Many cities throughout the country allow developers to choose between providing affordable housing units on site as part of their projects or paying cities fees in lieu of those units. In lieu fees are designed to be equivalent to the subsidized cost of the new affordable housing unit. In Chicago, developers are given a range of options to choose from. They can fully or partially provide affordable units on site, paying in lieu fees to make up the gap; these fees differ based on the neighborhood where the project is located, with higher market areas having higher fees than elsewhere.³⁵ If units are located on site, projects benefit from a property tax reduction.³⁶ In DC's context, a new IZ program could enable developers to choose among an increased property tax or in lieu fee—both adjusted for neighborhood market contexts—with no on-site affordable units; affordable units on site, as in the current program, combined with a property tax reduction; or a combination of the two.
- **More units or higher subsidies.** As with any affordable housing program, an alternative IZ program must prioritize what types of units to fund. Given new funding, the IZ program could, for example, support a certain number of units affordable at 60 percent of MFI or a lower number of units at 30 percent of MFI. The trade-off is whether the city wants to provide more units that are affordable or more units that are affordable for families at a lower income.
- **Vouchers versus project-based support.** One option is to convert the subsidies produced by an alternative IZ program into vouchers that qualifying households can use to rent units in certain neighborhoods. This would have the advantage of giving households greater choice. However, this approach may have the negative outcome of overloading certain buildings with tenants who use vouchers and subjecting voucher holders to source-of-income discrimination, which is illegal in DC³⁷ but may still occur. Another option is to prenegotiate deals with landlords of market-rate buildings to set aside 10 to 20 percent of their units for families in a certain income range at a subsidized rent, such as through inclusionary covenants.³⁸ This could reduce the time

qualifying families spend searching for units, as the units could be preregistered on a city-sponsored list displaying rental levels.

- *Investing in older buildings or new construction to finance affordable housing.* As in other cities like Philadelphia, the District could use the additional revenues to buy older buildings and convert units into affordable units.³⁹ As with subsidizing IZ units in older buildings, the city would have more flexibility to target specific neighborhoods and focus on cheaper units to increase the number of affordable units.
- *Neighborhood versus citywide focus.* To achieve the goal of increased neighborhood integration, newly subsidized housing must be located primarily in neighborhoods where such units are now rare. This means, perhaps, focusing subsidies only in neighborhoods such as Capitol Hill and Rock Creek West. But this could raise concerns that other neighborhood residents are not receiving support, although they desire more affordable housing.
- *Appropriate subsidy levels.* Above, we estimated the average subsidies needed to meet the difference between median rents per neighborhood and the maximum rent affordable by household income level. In practice, to increase the efficiency of the alternative program, the city should estimate subsidies based on market rates within a building or at the tract level.
- *Limit subsidized units so as not to overload existing buildings.* To avoid concentrating people with low and moderate incomes in certain buildings, the city may choose to limit the share of units in any individual building that can receive a subsidy, whether that subsidy is project based or through vouchers. This could ensure that market-rate buildings remain largely market rate, even with the addition of newly subsidized units.

To be implemented, a new affordability approach would require considerably more nuanced analysis. One major concern is a falloff in newly developed housing, as we have seen in recent years. DC would experience less IZ unit creation under the current system. But the continued falloff in construction would also mean less tax revenue for DC under an alternative system, especially if overall economic conditions devalue property.

We also caution that the implementation of an alternative approach to IZ may be difficult for the city to establish from an administrative perspective. Managing affordability in a limited number of newly constructed buildings may be simpler, for example, than managing affordability (and ensuring quality) across a wider number of existing apartments. A more difficult system may require more funds to manage, diminishing an alternative program's benefits. Moreover, we propose that the city focus its affordable housing subsidies in neighborhoods with historically limited affordable housing, such as Rock

Creek West. This would require an intentional effort on the part of the city, which may not be politically feasible.

We expect that any effort to develop a new approach to affordable housing provision in the District would raise important new challenges for the city. Although the current system has its limitations, so, of course, would one oriented around increasing property taxes or imposing in lieu fees for new development. The IZ system is well understood and has been adopted by dozens of developments for more than a decade. The following issues raise concerns and would have to be addressed before a program advances:

- An alternative program focused on older buildings could be more difficult to enforce than one based on new development, like the current IZ program. It would require that DC sign agreements with many more property owners than under the current system or expand its voucher system to cover many more individual residents. In both cases, this could reduce the program's efficiency.
- DC government staff would have to closely monitor market-rate rents in existing buildings to ensure that the subsidies they attribute to affordable units are fair. This could require the city to develop a citywide rental database, which it does not currently have. Similarly, the city must be a careful steward of taxpayer dollars and not turn the program into a subsidy for market-rate development. This means that the increased property tax rate or in lieu fee must be carefully and frequently adjusted so that it meets the city's goals.
- It is possible that an increase in property tax on new development could be associated with lower property values, particularly on sites primed for redevelopment. If property values decline, tax assessments could decline, creating a negative cycle that ultimately lowers the city's ability to collect revenues. On the other hand, the current IZ system may also reduce property values, so this effect may not be meaningful, especially if the tax increase is aligned to maintain project financing feasibility.

No matter what, implementing an alternative IZ model would require the city to clarify that additional tax revenues generated from new market-rate buildings are to be leveraged entirely for affordable housing. If not, it is possible that DC's revenue results in less support for affordable housing over time compared with the baseline. At the same time, to achieve the goal of increasing neighborhood sociospatial integration, the city must be careful to ensure that newly subsidized units are located in neighborhoods with a deficit of affordable housing, not positioned in areas that already have a relatively high number of such units. In addition, the city would benefit from carefully managing the program to

limit overhead costs. Each additional dollar spent on the program is a dollar not spent on support for affordable housing.

Ultimately, given the risks associated with fully revamping the current system—which, despite its shortcomings, has produced a steady and growing number of affordable units over the years—we recommend that DC implement a pilot program designed to provide developers an option to choose a higher property tax rate. This rate should be set high enough so that only buildings for which implementing IZ units is the costliest choose the alternative rate. In that scenario, only a fraction of developers, if any, may prefer the alternative option. Thus, either the city would collect a healthy amount of revenue or no developers would choose the alternative if the rate were set too high. Either way, the pilot would give the city valuable information on the private and unobservable costs of IZ units for developers. The city could then evaluate whether to adjust the rate and expand the policy. If the pilot were successful, the city could carefully plan and evaluate how to use additional revenues to fund affordable housing, either by subsidizing existing market units, as we propose here, or through other alternative housing programs.

We conclude by asking readers to consider a broader question: whether it makes sense to place a particular burden of funding affordable housing on new multifamily developments. New housing developments contribute to overall housing supply and expand options for renters. But the current IZ system likely adds a cost to multifamily development. As such, the city should evaluate the possibility of implementing the alternative IZ approach—increased property taxes or in lieu fees—on smaller projects (e.g., single-family homes) in association with a density boost; this would help spread the cost of affordable housing provision and increase fairness. Finally, the city should explore whether IZ might be replaced with a general tax increase on all property to fund affordable housing, combined with an increase in homestead deduction or specific credits to minimize the impact on vulnerable homeowners. This would expand the base of potential revenues, while substantially lowering the rate required to generate revenues adequate to subsidize a large number of families.

Appendix A. Analysis of Housing Characteristics in Washington, DC

TABLE A.1

Washington, DC, Neighborhood Population Characteristics

Neighborhood	Population	White ^a (%)	Black ^a (%)	Hispanic (%)	Asian ^a (%)	Adults with BA (%)	Median household income
Capitol Hill	51,104	56.6	26.5	8.1	3.2	77.5	\$149,246
Central Washington	26,835	55.3	17.3	10.9	11.8	77.7	\$104,421
Far Southeast and Southwest	72,710	5.1	86.1	3.5	0.7	20.1	\$49,144
Far Northeast and Southeast	84,857	2.5	89.1	4.5	0.3	27.4	\$59,909
Lower Anacostia Waterfront and Near Southwest	34,384	54.9	28.3	8.2	4.0	78.3	\$132,844
Mid-City	82,854	44.2	25.9	19.0	5.7	75.1	\$126,308
Near Northwest	81,702	60.9	12.9	13.3	8.1	84.6	\$135,203
Rock Creek West	83,979	69.8	8.7	10.8	6.0	88.0	\$169,697
Rock Creek East	79,669	20.9	51.3	21.4	1.7	56.1	\$119,275
Upper Northeast	72,493	18.9	62.9	11.4	2.5	47.0	\$84,048

Source: US Census American Community Survey five-year data (2018–22) at tract level.

Notes: Data for characteristics weighted by population or by housing units per tract in each neighborhood. BA = bachelor's degree.

^aNon-Hispanic.

TABLE A.2

Washington, DC, Neighborhood Housing Characteristics

Neighborhood	Housing units	Owners (%)	Single family (%)	50-plus-unit building (%)	Units built since 2010 (%)	Median home value
Capitol Hill	25,132	46.9	52.2	12.7	13.0	\$922,654
Central Washington	18,737	15.3	1.7	89.0	35.5	\$617,243
Far Southeast and Southwest	34,704	20.6	30.9	7.6	7.6	\$379,427
Far Northeast and Southeast	40,465	36.9	45.3	8.5	6.6	\$402,433
Lower Anacostia Waterfront and Near Southwest	22,813	27.3	17.9	67.9	34.9	\$694,768
Mid-City	44,539	34.0	24.8	35.0	11.8	\$800,085
Near Northwest	51,415	36.2	20.6	46.1	9.8	\$873,794
Rock Creek West	43,821	49.5	37.1	45.8	4.5	\$954,167
Rock Creek East	34,709	52.8	53.6	15.7	8.0	\$755,111
Upper Northeast	34,037	41.4	45.8	18.2	13.6	\$645,277

Source: US Census American Community Survey five-year data (2018–22) at tract level.

Note: Data for characteristics weighted by population or by housing units per tract in each neighborhood.

TABLE A.3

Distribution of Inclusionary Zoning Units in Washington, DC, by Income Limit and Type of Unit

Neighborhood	50 Percent AMI				60 Percent AMI				80 Percent AMI			
	Studio	1BR	2BR	3BR	Studio	1BR	2BR	3BR	Studio	1BR	2BR	3BR
Capitol Hill	26	20	27	1	15	28	21	0	63	72	37	1
Central Washington	0	0	0	0	4	16	7	0	13	13	0	0
Far Northeast and Southeast	0	0	1	0	0	0	3	2	10	29	15	0
Far Southeast and Southwest	0	0	0	0	0	0	0	1	0	0	0	0
Lower Anacostia Waterfront and Near Southwest	14	9	9	2	30	38	32	1	75	132	54	6
Mid-City	53	36	31	0	37	34	38	4	50	50	20	0
Near Northwest	3	10	6	0	32	21	20	0	50	31	9	0
Rock Creek East	2	11	3	0	7	36	16	0	3	3	6	1
Rock Creek West	2	10	0	0	2	7	11	1	9	18	8	0
Upper Northeast	46	53	48	11	53	53	57	2	43	55	38	8
Total	146	149	125	14	180	233	205	11	316	403	187	16

Source: Authors, based on an analysis of IZ buildings from the DC government.

Note: AMI = area median income; BR = bedroom; IZ = inclusionary zoning.

TABLE A.4

Maximum Inclusionary Zoning Rent and Utilities in Washington, DC, by Income Limit and Type of Unit

	50 Percent AMI				60 Percent AMI				80 Percent AMI			
	Studio	1BR	2BR	3BR	Studio	1BR	2BR	3BR	Studio	1BR	2BR	3BR
Maximum IZ rent	\$1,170	\$1,270	\$1,520	\$1,780	\$1,430	\$1,520	\$1,830	\$2,140	\$1,900	\$2,030	\$2,430	\$2,850
Maximum utilities	\$136	\$205	\$274	\$345	\$136	\$205	\$274	\$345	\$136	\$205	\$274	\$345
Maximum rent in analysis	\$1,035	\$1,065	\$1,246	\$1,436	\$1,295	\$1,315	\$1,556	\$1,796	\$1,765	\$1,825	\$2,156	\$2,506

Source: Authors, based on an analysis of IZ buildings from the DC government.

Notes: Maximum rents in the IZ program represent the maximum a tenant should pay, including utilities. If the tenant pays some or all utilities, as it is often the new in new development, the housing department provides estimated utility costs that must be deducted from the maximum IZ rent. For example, an IZ tenant of a 1-bedroom at 60 percent of median family income who pays water and electric bills separately can be charged only \$1,315 a month (the base IZ rent of \$1,520 minus estimated monthly utility costs of \$205). Estimated utility costs are deducted from maximum IZ rent, as tenants are likely responsible for utility bills. AMI = area median income; BR = bedroom; IZ = inclusionary zoning.

TABLE A.5

Estimated Average and Median Rents for Washington, DC, by Type of Unit and Data Source

Neighborhood	Average								
	1-Bedroom			Studio			2-Bedroom		
	Collected	Zillow	Census	Collected	Zillow	Census	Collected	Zillow	Census
Capitol Hill	\$2,446	\$2,463	\$2,508	\$2,043	\$2,002	\$1,977	\$3,748	\$3,350	\$3,077
Central Washington	\$2,496	\$2,648	\$3,975	\$2,108	\$2,153	\$3,232	\$3,739	\$3,602	\$3,346
Far Northeast and Southeast	\$1,942	\$1,669	\$1,156	\$1,498	\$1,357	\$948	\$2,545	\$2,270	\$1,404
Far Southeast and Southwest	\$1,121	\$1,669	\$1,221	\$913	\$1,357	\$1,004	\$1,650	\$2,270	\$1,411
Lower Anacostia Waterfront and Near Southwest	\$2,555	\$2,492	\$2,498	\$2,064	\$2,026	\$2,028	\$3,661	\$3,390	\$3,357
Mid-City	\$2,541	\$2,547	\$2,408	\$2,087	\$2,071	\$1,900	\$3,880	\$3,464	\$2,757
Near Northwest	\$2,942	\$2,668	\$2,429	\$2,422	\$2,169	\$2,027	\$4,504	\$3,579	\$3,269
Rock Creek East	\$2,210	\$2,104	\$1,748	\$1,868	\$1,711	\$1,317	\$3,170	\$2,862	\$2,291
Rock Creek West	\$2,912	\$2,706	\$2,345	\$2,582	\$2,200	\$1,812	\$4,657	\$3,680	\$3,243
Upper Northeast	\$2,370	\$2,322	\$2,095	\$1,923	\$1,888	\$1,708	\$3,437	\$3,078	\$2,638

Neighborhood	Median								
	1-Bedroom			Studio			2-Bedroom		
	Collected	Zillow	Census	Collected	Zillow	Census	Collected	Zillow	Census
Capitol Hill	\$2,458	\$2,411	\$2,737	\$2,024	\$1,960	\$2,061	\$3,621	\$3,278	\$3,241
Central Washington	\$2,587	\$2,648	\$3,975	\$2,272	\$2,153	\$3,232	\$3,975	\$3,602	\$3,346
Far Northeast and Southeast	\$2,040	\$1,669	\$1,115	\$1,569	\$1,357	\$917	\$2,665	\$2,270	\$1,330
Far SE and SW	\$1,121	\$1,669	\$1,221	\$913	\$1,357	\$1,004	\$1,650	\$2,270	\$1,411
Lower Anacostia Waterfront and Near Southwest	\$2,556	\$2,431	\$2,747	\$2,052	\$1,976	\$2,138	\$3,682	\$3,306	\$3,403
Mid-City	\$2,466	\$2,648	\$2,701	\$2,051	\$2,153	\$2,111	\$3,669	\$3,602	\$2,727
Near Northwest	\$2,762	\$2,648	\$2,486	\$2,280	\$2,153	\$2,070	\$4,350	\$3,602	\$3,380
Rock Creek East	\$2,189	\$2,082	\$1,799	\$1,804	\$1,693	\$1,410	\$3,298	\$2,831	\$2,303
Rock Creek West	\$2,965	\$2,820	\$2,426	\$2,497	\$2,293	\$1,784	\$4,664	\$3,836	\$3,219
Upper Northeast	\$2,238	\$2,411	\$2,200	\$1,914	\$1,960	\$1,809	\$3,445	\$3,278	\$3,192

Source: Authors, based on analysis of collected rent data from buildings, Zillow, and US Census.

Notes: Collected rent is estimated recent market rent data in each IZ building. The relevant rent measure is then allocated using Zillow data at zip code level and Census data at tract level based on address of each building. Median and average rents are then estimated across the neighborhood, weighted by the number of units for each data point. Average and median rents represent rents used in the analysis of the private cost of providing IZ buildings and potential revenues from lifting IZ requirements in exchange for payments or higher property tax rate. IZ = inclusionary zoning.

Appendix B. Estimates of Inclusionary Zoning Program Subsidies and Costs

TABLE B.1

Estimated Monthly Private Subsidies of the Washington, DC, Inclusionary Zoning Program, by Income Limit and Type of Unit

Neighborhood	50 Percent AMI			60 Percent AMI			80 Percent AMI		
	Studio	1BR	2BR	Studio	1BR	2BR	Studio	1BR	2BR
Capitol Hill	\$982	\$1,214	\$2,064	\$695	\$895	\$1,480	\$185	\$508	\$1,379
Central Washington	NA	NA	NA	\$811	\$1,056	\$2,008	\$137	\$476	NA
Far Northeast and Southeast	NA	NA	\$913	NA	NA	-\$29	-\$162	\$178	\$405
Lower Anacostia Waterfront and Near Southwest	\$947	\$1,271	\$1,803	\$454	\$1,147	\$1,714	\$341	\$623	\$1,318
Mid-City	\$772	\$1,155	\$2,717	\$625	\$1,559	\$1,697	\$231	\$631	\$1,640
Near Northwest	\$1,138	\$1,477	\$2,456	\$931	\$1,720	\$2,674	\$413	\$1,099	\$2,028
Rock Creek East	\$586	\$710	\$1,663	\$535	\$529	\$1,312	\$10	\$269	\$755
Rock Creek West	\$1,539	\$1,215	NA	\$1,017	\$1,598	\$3,548	\$508	\$720	\$1,674
Upper Northeast	\$831	\$1,207	\$2,067	\$481	\$836	\$1,532	\$258	\$525	\$1,175

Source: Authors, based on an analysis of collected rent data from existing IZ buildings and data on IZ units from the Department of Housing and Community Development of the District of Columbia.

Notes: Private subsidies represent monthly average cost to developers of IZ unit. This is equal to the average monthly difference between market rent and maximum IZ rent of an IZ unit, adjusted for property taxes paid. Multifamily buildings are typically assessed based on the income generated, and because IZ rents generate less income, property owners incur lower property tax. Income estimates are based on collected rents. Entries without any IZ unit of that type in a neighborhood are not shown. AMI = area median income; BR = bedroom; IZ = inclusionary zoning; NA = no information available.

TABLE B.2

Estimated per Month per Unit Cost Developers Would Be Willing to Pay to Lift Inclusionary Zoning Requirements in Washington, DC

Constant nominal payments every year for 20 years

Neighborhood	Expected Rate of IZ Rent Growth versus Market Rent		
	Same	Slower	Faster
Capitol Hill	\$1,124	\$1,649	\$704
Central Washington	\$1,017	\$1,518	\$615
Far Northeast and Southeast	\$230	\$643	-\$101
Lower Anacostia Waterfront and Near Southwest	\$1,142	\$1,687	\$705
Mid-City	\$1,447	\$2,004	\$1,001
Near Northwest	\$1,577	\$2,178	\$1,094
Rock Creek East	\$827	\$1,289	\$457
Rock Creek West	\$2,075	\$2,756	\$1,529
Upper Northeast	\$1,255	\$1,782	\$833

Source: Authors, based on analysis of collected rent data from buildings. Data on IZ units from the Department of Housing and Community Development of the District of Columbia. Data on 2025 tax assessment of IZ buildings from the property tax roll of the District of Columbia, matched to authors' IZ building database

Notes: Estimated willingness to pay represents average fixed monthly amount a property developer would willingly pay in the first year of a 20-year term to lift the IZ requirement. Present value of additional income generated from lifting IZ is adjusted for 5 percent vacancy of market units and higher property taxes. Fixed monthly payment equals total present value of net additional income, assuming 6 percent discount rate and payments. Current income of IZ buildings estimated by multiplying their assessment by assumed capitalization rate of 5 percent. IZ = inclusionary zoning.

TABLE B.3

Estimated In Lieu Fees Developers Would Pay to Lift Inclusionary Zoning Requirement in New Buildings in Washington, DC

Market-appropriate one-time per unit average

Neighborhood	Expected Rent Growth in Market-Rate versus IZ Units		
	Same	Higher	Lower
Capitol Hill	\$154,763	\$226,935	\$96,896
Central Washington	\$139,985	\$208,934	\$84,704
Far Northeast and Southeast	\$31,710	\$88,555	n.a.
Lower Anacostia Waterfront and Near Southwest	\$157,137	\$232,175	\$96,972
Mid-City	\$199,220	\$275,810	\$137,811
Near Northwest	\$216,994	\$299,819	\$150,585
Rock Creek East	\$113,873	\$177,474	\$62,879
Rock Creek West	\$285,647	\$379,396	\$210,480
Upper Northeast	\$172,743	\$245,235	\$114,620

Source: Authors, based on analysis of collected rent data from existing IZ buildings. Data on IZ units from the Department of Housing and Community Development of the District of Columbia.

Notes: Estimated fees based on the average fee using either collected rents or Zillow rents. Fee based on alternative monthly payment or higher property tax rate over 20 years, with 6 percent discount rate. A longer period or lower discount rate would lead to a higher fee, while a shorter period or higher discount rate would lead to a lower fee. Z = inclusionary zoning; n.a. = not applicable.

TABLE B.4

Average and Median Estimated Rents for Analysis of Potential New Inclusionary Zoning Units in Washington, DC, by Type of Unit and Data Source

Neighborhood	1-Bedroom		Studio		2-Bedroom	
	Zillow	Census	Zillow	Census	Zillow	Census
Average rent						
Capitol Hill	\$2,459	\$2,170	\$1,999	\$1,765	\$3,344	\$2,829
Central Washington	\$2,555	\$2,697	\$2,077	\$2,230	\$3,474	\$2,837
Far Northeast and Southeast	\$1,889	\$1,164	\$1,535	\$975	\$2,568	\$1,363
Far Southeast and Southwest	\$1,673	\$1,203	\$1,360	\$962	\$2,275	\$1,346
Lower Anacostia Waterfront and Near Southwest	\$2,529	\$2,417	\$2,056	\$2,100	\$3,439	\$3,223
Mid-City	\$2,466	\$1,982	\$2,005	\$1,597	\$3,354	\$2,751
Near Northwest	\$2,669	\$2,344	\$2,170	\$1,952	\$3,630	\$3,158
Rock Creek East	\$2,290	\$1,854	\$1,862	\$1,506	\$3,114	\$1,931
Rock Creek West	\$2,512	\$2,158	\$2,042	\$1,767	\$3,416	\$2,836
Median rent						
Capitol Hill	\$2,430	\$2,334	\$1,975	\$1,786	\$3,304	\$3,125
Central Washington	\$2,648	\$2,670	\$2,153	\$2,222	\$3,601	\$3,005
Far Northeast and Southeast	\$1,968	\$1,135	\$1,600	\$933	\$2,677	\$1,348
Far Southeast and Southwest	\$1,661	\$1,118	\$1,351	\$909	\$2,259	\$1,348
Lower Anacostia Waterfront and Near Southwest	\$2,604	\$2,607	\$2,117	\$2,138	\$3,541	\$3,501
Mid-City	\$2,571	\$2,038	\$2,090	\$1,687	\$3,497	\$2,694
Near Northwest	\$2,648	\$2,316	\$2,153	\$1,894	\$3,601	\$3,206
Rock Creek East	\$2,334	\$1,708	\$1,898	\$1,410	\$3,174	\$1,904
Rock Creek West	\$2,271	\$2,148	\$1,847	\$1,765	\$3,089	\$2,782

Sources: Authors, based on an analysis of rent data from Zillow at zip code level and US Census at tract level.

Notes: Rent from both sources is matched to each building based on address. Median and average rents are then estimated across each neighborhood, weighted by the number of units for each data point. IZ = inclusionary zoning.

TABLE B.5

Estimated Monthly Private Costs to Subsidize New Inclusionary Zoning Units in Older Buildings in Washington, DC, by Income Limit and Type of Unit

Neighborhood	50 Percent AMI			60 Percent AMI			80 Percent AMI		
	Studio	1BR	2BR	Studio	1BR	2BR	Studio	1BR	2BR
Capitol Hill	\$704	\$1,037	\$1,528	\$488	\$829	\$1,270	\$98	\$406	\$772
Central Washington	\$929	\$1,296	\$1,585	\$713	\$1,088	\$1,328	\$323	\$665	\$830
Far Northeast and Southeast	\$179	\$373	\$582	-\$32	\$170	\$331	-\$413	-\$243	-\$155
Lower Anacostia Waterfront and Near Southwest	\$866	\$1,169	\$1,731	\$650	\$961	\$1,473	\$260	\$538	\$975
Mid-City	\$636	\$962	\$1,499	\$420	\$754	\$1,242	\$30	\$331	\$744
Near Northwest	\$852	\$1,197	\$1,783	\$636	\$989	\$1,526	\$246	\$566	\$1,028
Rock Creek East	\$535	\$829	\$1,051	\$320	\$623	\$796	-\$67	\$203	\$302
Rock Creek West	\$722	\$1,054	\$1,561	\$506	\$846	\$1,303	\$116	\$423	\$805
Upper Northeast	\$484	\$775	\$1,050	\$268	\$568	\$793	-\$122	\$144	\$295

Source: Authors, based on an analysis of US Census and Zillow data, and data on potential units from the assessor's office.

Notes: Private subsidies represent monthly average cost of a new IZ unit for owners of older buildings. Estimated costs rely on average rent using both census and Zillow data. Cost is equal to average monthly difference between market rent and maximum IZ rent of an IZ unit, adjusted for property taxes. Rent estimates based on census data. Entries without any IZ unit of that type in a neighborhood are not shown. We assume the same growth rates for market and IZ rents. AMI = area median income; BR = bedroom; IZ = inclusionary zoning.

TABLE B.6

Estimated per Month, per Unit Cost at Which Developers Would be Willing to Convert Market Units to Inclusionary Zoning Units in Washington, DC

Neighborhood	Expected Rate of IZ Rent Growth versus Market Rent		
	Same	Slower	Faster
Capitol Hill	\$841	\$1,313	\$463
Central Washington	\$1,023	\$1,525	\$620
Far Northeast and Southeast	-\$228	\$95	-\$487
Lower Anacostia Waterfront and Near Southwest	\$978	\$1,493	\$565
Mid-City	\$906	\$1,361	\$541
Near Northwest	\$964	\$1,451	\$573
Rock Creek East	\$640	\$1,070	\$296
Rock Creek West	\$1,160	\$1,675	\$748
Upper Northeast	\$674	\$1,093	\$338

Source: Authors, based on analysis of US Census and Zillow data collected from buildings. Data on IZ units from the Department of Housing and Community Development of the District of Columbia. Data on 2025 tax assessment of IZ buildings from the property tax roll of the District of Columbia, matched to authors' IZ building database.

Notes: Estimated willingness to convert represents the fixed monthly amount a property developer would willingly pay over 20 years to convert market units into IZ units. Present value of income lowered by converting units is adjusted for 5 percent vacancy of market units and higher property taxes than the current 0.85 percent. Fixed monthly payment equals total present value of net lower income, assuming 6 percent discount rate. Equivalent lower property tax rate estimated by setting total after-tax income under current policy equal to total after-tax income with 10 percent of market units converted to IZ units. Tax assessment of IZ buildings used to estimate their current income by multiplying their assessment by assumed 5 percent capitalization rate. IZ = inclusionary zoning.

TABLE B.7

Estimated Cost at Which Developers Would be Willing to Convert Market Units to Inclusionary Zoning Units, by Income Limit and Expected Rate of Rent Increase

Neighborhood	50% of MFI			60% of MFI		
	Rate of IZ Rent Growth versus Market Rent					
	Same	Slower	Faster	Same	Slower	Faster
Capitol Hill	\$1,422	\$1,908	\$1,032	\$1,151	\$1,641	\$758
Central Washington	\$1,650	\$2,178	\$1,227	\$1,379	\$1,911	\$952
Far Northeast and Southeast	\$762	\$1,147	\$454	\$234	\$550	-\$20
Lower Anacostia Waterfront and Near Southwest	\$1,594	\$2,112	\$1,178	\$1,359	\$1,887	\$935
Mid-City	\$1,223	\$1,667	\$867	\$1,079	\$1,555	\$697
Near Northwest	\$1,697	\$2,233	\$1,267	\$1,393	\$1,928	\$964
Rock Creek East	\$1,052	\$1,461	\$724	\$780	\$1,201	\$444
Rock Creek West	\$1,277	\$1,723	\$919	\$1,181	\$1,676	\$783
Upper Northeast	\$1,089	\$1,518	\$745	\$730	\$1,142	\$400

Source: Authors, based on analysis of collected rent data from buildings. Data on IZ units from the Department of Housing and Community Development of the District of Columbia. Data on the 2025 tax assessment of IZ buildings from the property tax roll of the District of Columbia, matched to authors' IZ building database.

Notes: Estimated willingness to convert represents the fixed monthly amount a property developer would willingly pay in the first year of a 20-year term to convert market units into IZ units. Present value of income lowered by converting units is adjusted for 5 percent vacancy of market units and higher property taxes than the current 0.85 percent. Fixed monthly payment equals total present value of net lower income, assuming 6 percent discount rate. Equivalent lower property tax rate estimated by setting total after-tax income under current policy equal to total after-tax income with 10 percent of market units converted to IZ units. Tax assessment of IZ buildings used to estimate their current income by multiplying their assessment by assumed 5 percent capitalization rate. IZ = inclusionary zoning; MFI = median family income.

Notes

- ¹ In 2025, the city spent \$1.1 million on IZ enforcement and had nine full-time-equivalent staff working on the issue. See Department of Housing and Community Development, "[FY 2025 Proposed Budget and Financial Plan](#)," accessed January 8, 2026.
- ² "[Inclusionary Zoning Program 2024-2025 Maximum Income, Rent, and Purchase Price Schedule](#)," Government of the District of Columbia, August 30, 2024.
- ³ Surprisingly, this lack of access to jobs prevails even within the confines of DC. See David Levinson, "Washington: Jobs Within 30 Minutes by Transit," 2017, accessed August 18, 2025, https://www.researchgate.net/figure/Map-of-job-accessibility-by-transit-in-the-Washington-DC-metropolitan-area_fig3_308941479.
- ⁴ Washington, DC, has developed a program similar to IZ but with its own rules, called Housing in Downtown, that includes an affordability requirement and a tax abatement for multifamily projects.
- ⁵ City of Washington, DC, "Affordable Housing," accessed June 20, 2025, <https://opendata.dc.gov/datasets/DCGIS::affordable-housing/explore?location=38.881656%2C-77.014706%2C14.17>.
- ⁶ Federal Reserve Bank of St. Louis, "New Private Housing Units Authorized by Building Permits for District of Columbia," updated June 25, 2025, <https://fred.stlouisfed.org/series/DCBPPIV#>.
- ⁷ Cuneyt Dil, "DC's DOGE Recession Is Fast Approaching," Axios DC, May 13, 2025, <https://www.axios.com/local/washington-dc/2025/05/13/dc-recession-federal-cuts-layoffs>.
- ⁸ Housing Development Consortium, "Inclusionary Housing," accessed April 17, 2025, <https://www.housingconsortium.org/policy/inclusionaryhousing/>.
- ⁹ Erica Buckley, Aaron Yowell, and Nichole Thomas, "The Developers' Guide to Affordable Neighborhoods for New Yorkers, a.k.a. the 485-x Tax Exemption," Nixon Peabody, January 16, 2025; Washington State Department of Commerce, "Multi-Family Housing Property Tax Exemption Program (MFTE)," June 16, 2025, <https://www.commerce.wa.gov/growth-management/housing-planning/mfte/>.
- ¹⁰ San Francisco Planning, Sec. 415.6, Inclusionary Affordable Housing Program, accessed April 17, 2025, https://codelibrary.amlegal.com/codes/san_francisco/latest/sf_planning/0-0-0-23919#JD_415.6.
- ¹¹ City of Portland, "Inclusionary Housing," accessed April 17, 2025, <https://www.portland.gov/phb/inclusionary-housing>.
- ¹² The District provided the developer of CityCenterDC the ability to pay an in lieu fee rather than offer affordable units on site, but this may be the only example of this occurring in the city.
- ¹³ DC also has the goal of increasing homeownership for households with moderate incomes.
- ¹⁴ DC Department of Housing and Community Development, "Inclusionary Zoning (IZ) Affordable Housing Program," accessed April 21, 2025, <https://www.dhcd.dc.gov/service/inclusionary-zoning-iz-affordable-housing-program>.
- ¹⁵ IZ set-asides for new building also apply to rehabilitation and renovation projects, but these are much less common.
- ¹⁶ Andrew DeFrank, "Make It Make Sense: Inclusionary Zoning +," *Greater Greater Washington*, April 24, 2023, <https://ggwash.org/view/89384/make-it-make-sense-iz>.

- ¹⁷ Michael Tanenbaum, “Philadelphia Housing Authority ‘Aggressively’ Buying Apartments to Boost Affordable Housing Inventory,” *Philly Voice*, March 28, 2025, <https://www.phillyvoice.com/philadelphia-housing-authority-buy-apartment-buildings-affordable-housing/>.
- ¹⁸ National Housing Conference, “Program Profiles,” accessed July 10, 2025, <https://nhc.org/policy-guide/impact-fees-the-basics/program-profiles-if/>; City of San José, “Developer Fees and Charges,” accessed July 10, 2025, <https://www.sanjoseca.gov/your-government/departments-offices/housing/developers/developer-fees-charges>.
- ¹⁹ Michael Andersen, “Now Fully Funded, Portland’s Affordability Mandate Should Be a Model,” *Sightline*, February 23, 2024, <https://www.sightline.org/2024/02/23/now-fully-funded-portlands-affordability-mandate-should-be-a-model/>.
- ²⁰ Matt Kowta and Matt Fairris, “[Re: Portland Inclusionary Housing Calibration Study - Foregone Revenue Analysis](#),” November 3, 2023.
- ²¹ Washington State Department of Commerce, “Multi-Family Housing Property Tax Exemption Program (MFTE),” June 16, 2025, <https://www.commerce.wa.gov/growth-management/housing-planning/mfte>.
- ²² We obtain these data from the Department of Housing and Community Development, “Inclusionary Zoning and Affordable Dwelling Units (ADUs),” <https://octo.quickbase.com/nav/app/bi9iqv4v7/action/appoverview>.
- ²³ “[Inclusionary Zoning Program 2024-2025 Maximum Income, Rent, and Purchase Price Schedule](#),” Government of the District of Columbia.
- ²⁴ Office of Tax and Revenue, District of Columbia, “[Tax Year 2025, Commercial Property Assessment Market Analytics](#),” accessed January 8, 2026.
- ²⁵ We used Zillow to conduct this brief analysis. All the new buildings have been completed over the past five years. The older buildings were built several decades ago.
- ²⁶ “[Inclusionary Zoning Program 2024-2025 Maximum Income, Rent, and Purchase Price Schedule](#),” Government of the District of Columbia.
- ²⁷ Search on Zillow performed July 11, 2025.
- ²⁸ These data overlap to some degree with previously presented data but they are not the same, as these include many units created through IZ or PUD or through use of District-specific funds, whereas the previous data focus exclusively on federally supported units.
- ²⁹ National Low Income Housing Coalition, “Housing Needs by State: District of Columbia,” accessed July 11, 2025, <https://nlihc.org/housing-needs-by-state/district-columbia>.
- ³⁰ The city estimates the cost of property transfer tax abatements under the IZ program, but not the cost of the IZ program itself. See Bowser and Lee (2024).
- ³¹ Though we test only new construction here, one might retroactively apply an alternative approach to existing IZ buildings.
- ³² The District provides tax abatements for newly constructed mixed-income projects with its Tax Abatements for Affordable Housing in High-Needs Areas program.
- ³³ If a market rent is \$2,000, we use \$1,900 ($\$2,000 \times 0.95$) as the adjusted market rate in the cost analysis.
- ³⁴ For example, $(\$5,400,000 \times 90\%) \div (\$914 \times 12 \text{ months})$.
- ³⁵ City of Chicago, “[ARO In-ieu Fee Table-with 2023 CPI Increases](#),” January 1, 2024..

³⁶ City of Chicago Department of Housing, "[The Illinois Affordable Housing Omnibus of 2021 and Chicago](#)," accessed January 8, 2026.

³⁷ City of Washington, DC, Office of Human Rights, Fair Housing Resource Portal, updated May 13, 2025, <https://ohr.dc.gov/fairhousing>.

³⁸ Yesim Sayin, "Appraising the District's Rentals—Inclusionary Conversions," DC Policy Center, April 1, 2020, <https://www.dcpolicycenter.org/publications/appraising-districts-rentals-chapter-v/>.

³⁹ Tanenbaum, "Philadelphia Housing Authority."

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