Mayor and Council

Inclusionary Zoning Research Presentation and Moderately Priced Dwelling Unit (MPDU) Program Work Session

November 3, 2025

City of Rockville
Housing & Community Development

Outline

- Requested Feedback
- Background
- Objectives
- Report Findings
- Next Steps with MPDU Code Rewrite
- Requested Feedback

Background

Connection to Housing Strategies

- Housing is one of five focus areas
- In 2024, there were three work sessions on the city's housing strategies.
- Comprehensively updating MPDU code was approved as a strategy by the Mayor and Council.

Objectives

- Identify the strengths and weaknesses of the existing MPDU program.
- Understand findings from academic research and national best practices.
- Design an inclusionary zoning policy that will best serve Rockville residents by creating new affordable housing and providing economic diversity while minimizing cost impacts on market-rate renters and homebuyers.

Requested Feedback

Do you agree with staff that the city should:

1. Continue to have an inclusionary zoning program?
2. Explore policies that lessen the cost burden of an IZ program on market-rate renters and homebuyers and balance the need to incentivize housing development?
3. Explore a more flexible payment-in-lieu option, while prioritizing the construction of income-restricted units?
4. Explore ways to target lower incomes and improve reliability?

Report Findings

Overview

I. Housing Affordability Challenges

II. Inclusionary Zoning Design

III. Inclusionary Zoning Unit Production

IV. Economic Impact on Housing Developers, Market-Rate Consumers, and Governments

V. Racial and Economic Integration Outcomes

VI. Conclusion

Report Findings

I. Housing Affordability Challenges: Renter-Occupied

Housing Affordability Gap Analysis, Rockville, MD
CHAS, 2017-2021

Renters	A	B	C	D = B+C	E = D-A	F	G	H = G/D	I = E-G
	Renter HHs Within Income Limits*	Renter Occupied Units by Affordability Level *	Vacant for Rent *	Total Units	Surplus / Deficit	Units Occupied by HH Within Income Limits *	Units Occupied by HH Above Income Limits *	% Units Occupied by HH Above Income Limits	Gross Surplus / Deficit
HH Income									
≤ 30% AMI	2,389	1,045	20	1,065	-1,324	735	318	30%	-1,642
> 30% AMI and ≤ 50% AMI	1,295	730	65	795	-500	175	173	22%	-673
> 50% AMI and ≤ 80% AMI	1,169	2,390	90	2,480	1,311	465	970	39%	341

Source: Author

Data: 2017-2021 HUD CHAS data for Rockville, MD.
URL: http://www.huduser.org/portal/datasets/cp.html
Tables: 17A, 17B, 18A, 18B, 18C
** Data taken from CHAS*

Report Findings

I. Housing Affordability Challenges: Owner-Occupied

Housing Affordability Gap Analysis, Rockville, MD
CHAS, 2017-2021

Owners	A	B	C	D = B+C	E = D-A	F	G	H = G/D	I = E-G
HH Income	Owner HHs Within Income Limits *	Owner Occupied Units by Affordability Level *	Vacant For Sale *	Total Units	Surplus / Deficit	Units Occupied by HH Within Income Limits *	Units Occupied by HH Above Income Limits *	% Units Occupied by HH Above Income Limits	Gross Surplus / Deficit
All Mortgages									
≤ 50% AMI	1,897	744	40	784	-1,113	328	424	54%	-1,537
> 50% AMI and ≤ 80% AMI	920	614	55	669	-251	20	424	63%	-675
> 80% AMI and ≤ 100% AMI	1,028	2,105	10	2,115	1,087	255	1,285	61%	-198

Source: Author

Data: 2017-2021 HUD CHAS data for Rockville, MD.
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Tables: 17A, 17B, 18A, 18B, 18C
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Report Findings

II. Inclusionary Zoning Design and Unit Production

- Inclusionary zoning (IZ) is used by localities to expand the supply of affordable housing and increase access to high-cost and high-opportunity neighborhoods.
- Requires or encourages developers to designate a portion of new housing units to be priced below market rate.

Report Findings

II. City of Rockville’s MPDU Program Design

- *Minimum set-aside*: 15% of total units.
- *Affected projects threshold*: Projects proposing 20 or more units.
- *Developer incentives*: Optional density bonus for projects in residential-medium-density zones (RMD-10, RMD-15, and RMD-25) that provide a higher percentage of MPDUs than is required.
- *Income targeting*: Rental MPDUs are targeted at household earning roughly 60% AMI. For-sale MPDUs are targeted at households earning between roughly 50% and 80% AMI.
- *Affordability Duration*: Rental units must remain affordable for 99 years. For-sale units must remain affordable for 30 years.

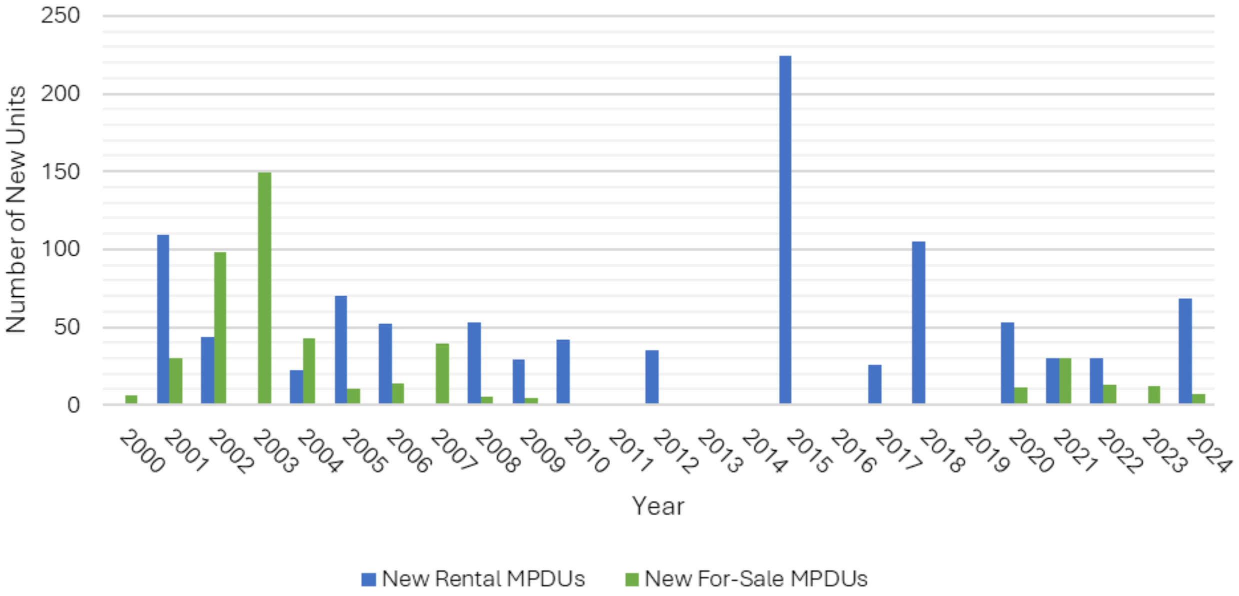
Report Findings

III. Inclusionary Zoning Unit Production

- Factors associated with inclusionary unit production: strong housing markets, mandatory program participation, incentives for developers, clear and predictable program guidelines, and flexible compliance options.
- An increase in the minimum set-aside is associated with a decrease in total inclusionary units.
- Number of inclusionary units built increases as the minimum project size that triggers IZ increases.

Report Findings

Figure 2: Number of MPDUs Produced Per Year in Rockville, MD, 2000-2024



Total Units Produced:	Rental: 992 For-sale: 472
Annual Average:	Rental: 40 For-sale: 19
Expired:	Rental: 109 For-sale: 25
Under Construction:	Rental: 68 For-Sale: 93

Note: Years 1990 to 1999 are omitted as no MPDUs were produced during the period.

Data: City of Rockville, Department of Housing and Community Development

Report Findings

IV. Economic Impact on Developers

Five L's of Development	
Labor	IZ is unlikely to change the price that developers must pay for labor.
Land	IZ may reduce the value of completed projects, therefore reducing the residual land value.
Lumber	Overly stringent design standards for inclusionary units may unnecessarily increase some material costs.
Laws	Uncertainty created by discretionary or slow approval increases the risk of losing predevelopment capital and leads developers to demand larger profit margins.
Lending	Lenders are likely to offer smaller loans to IZ projects compared to projects with no affordability restrictions.

Report Findings

IV. Economic Impact on Market-Rate Consumers

- Developers may be more likely to pass the cost to market-rate consumers in the form of higher rents or home prices in places where housing alternatives are scarce.
- A homeowner vacancy rate of 1% to 2% and rental vacancy rate of 7% to 8% is typical in a balanced market.
- In the City, the homeowner vacancy rate is 0.8% and the rental vacancy rate is 3%.
- Many studies find an association between IZ and higher market-rate home prices.

Report Findings

IV. Economic Impact on Governments

- Common incentives: density bonus, waivers or deferral of impact fees, tax deferment, expedited permitting, zoning variances, and other regulatory concessions that reduce developers' costs.
- While offering incentives has been found to be an effective strategy for increasing inclusionary unit production, it creates real costs for the public sector.

Report Findings

V. Racial and Economic Diversity Outcomes

- In addition to the affordability goal, inclusionary zoning also seeks to increase racial and economic diversity in neighborhoods and communities.
- The limited available research indicates that IZ can foster diversity and lead to meaningful outcomes, although it is context dependent.

Report Findings

VI. Conclusion

- Provides long-term stability for MPDU tenants and homeowners through deed-restricted affordability.
- Can improve life outcomes for tenants and offer individuals who have previously experienced barriers to homeownership an opportunity to build wealth.
- City's MPDU program is unlikely to provide affordable housing for low-income households (≤30% AMI).
- Developers do not always absorb the cost of IZ.
- Effective IZ programs leverage developer incentives but prevent the wide-scale adoption of beneficial policies.

Next Steps with MPDU Code Rewrite

- Timeline: Begin the MPDU code rewrite engagement in Spring 2026
- Additional research in the meantime from other graduate students and the upcoming Housing Needs Assessment
- Engagement with MPDU renters and homeowners, developers, and community

Requested Feedback

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