

Planning & Development

City of Newton



MEMO

To: Councilor R. Lisle Baker, chair, Zoning & Planning Committee
Members of the Zoning & Planning Committee

From: Barney Heath, Director, Planning and Development
John Sisson, Director of Economic Development

Re: **Docket Item #24-24. Discussion and possible ordinance amendments relative to aiding small businesses impacted by development**

Date: January 18, 2024

CC: City Council
Economic Development Commission
Jonathan Yeo, Chief Operating Officer
Alissa Giuliani, City Solicitor

CURRENT SMALL BUSINESS SUPPORT

The Economic Development Commission and the Economic Development Director endeavor to “promote, assist, and encourage the preservation and development” of Newton industry, business, and commerce. As most commercial enterprises are small businesses, most of the people we help represent small businesses.

Most City staff time is spent helping small businesses navigate City licensing and permitting processes, as well as zoning regulations. This work has led us to identify sections of the Zoning Ordinance that can burden small businesses—some of which we’ve been able to amend with the help of the City Council, such as restrictions on uses and reducing parking requirements in village centers.

In addition, Planning staff coordinate with multiple departments to:

- assist startups and existing businesses with locating available storefronts, at the same time helping local landlords fill vacant storefronts and other commercial spaces;
- connect small businesses and property owners with opportunities for commercial transactions and leases; and
- connect entrepreneurs with established businesses that can provide guidance.

FINANCIAL ASSISTANCE FOR SMALL BUSINESSES

Some Massachusetts cities offer small business assistance programs, services, and grants. These programs are typically funded with federal dollars. However, strict eligibility requirements limit participation based on household income. HUD policy prioritizes areas where at least 51% of the residents are low- and moderate-income.

The City of Newton, in past years, did administer an economic development loan program using CDBG funds. U.S. Census data shows that neighborhoods in Newton no longer qualify for this use of federal funding.

Planning & Development does receive inquiries about financial assistance from home-based businesses and brick-and-mortar stores. Callers are generally seeking help paying for physical storefront improvements or the purchase of equipment or services. Programs implemented by other municipalities should serve as good models for any rollout of a local initiative. However, the identification of funding sources would be a necessary first step.

ANTI-DISPLACEMENT EFFORTS

Small businesses close or relocate for many reasons and preventing displacement is challenging. However, there are strategies that cities can explore to reduce displacement and/or help displaced businesses find new locations within the city.

The following list is drawn from the *Small Business Anti-Displacement Toolkit* published by a nonprofit network and available on its website <https://antidisplacement.org/>:

- Preservation: commercial façade improvement grants or loans; legacy business programs designed to preserve a neighborhood's history, identity, and character; promotional efforts for cultural or historic districts.
- Technical support: a wide range of professional guidance.
- Financial relief: tax credits, abatements, and exemptions.
- Business district creation.
- Zoning: placing caps on store size, streamlined permitting and licensing.
- Commercial tenant protections: rent control, construction impact mitigation.
- Land trusts and cooperatives: creation, real estate acquisition, and operation.

The Harvard Kennedy School, in cooperation with the City of Somerville, studied existing conditions in Somerville's commercial districts, development pressures, and impacts to small businesses. The study (attached) identified some strategies to ameliorate negative outcomes:

- Make municipal information and processes more business friendly.
- Improve communication about real estate developments.

- Improve public-private engagement to make the planning processes feel more participatory to small businesses.
- Increase municipal support and services to businesses, including financial assistance to businesses for construction impacts, relocation, and below-market renovations.
- Incentivize or require developers make a portion of a building's retail space affordable.
- Create a revolving loan fund to support small, especially BIPOC, businesses.

This preliminary research illustrates a range of potential anti-displacement policies which can be considered for the benefit of Newton's small businesses. Some of these strategies are already in place in Newton to a degree. For example, the recently adopted Village Center Overlay District provides streamlined permitting, places caps on retail size (unless by special permit) and eliminates parking requirements for ground floor retail (which is often a barrier to new tenants moving into existing spaces that lack on-site parking). Staff regularly provide technical support to business owners and Planning and Inspectional Services staff have been working with the City Council to further refine the construction protections in place when there is nearby development.

Planning staff will continue to explore the recommendations listed above as well as research successful policies and programs from other communities and recommend zoning, ordinance, and policy changes as appropriate.

ATTACHMENT

TO: Katjana Ballantyne, Mayor of Somerville; and Ted Fields, Senior Economic Development Planner, Office of Strategic Planning & Community Development

FROM: Jeanney Liu, Shannon Zhan, Joy Linyue Zhang, Pat Olson, and Eleni Neyland; Harvard Kennedy School of Government

DATE: May 19, 2023

SUBJECT: Mitigating Small Business Displacement (Draft Memo for Policy Discussion Only)

Executive Summary

Development in Somerville has created displacement pressure, threatening the small businesses that make the City unique, vibrant, and quirky. While small businesses grapple with the changing neighborhood demographics and increased rents that come with gentrification, they are also still recovering from interruptions related to the COVID-19 pandemic. Many of these small businesses are BIPOC- and/or women-owned. Their experiences vary based on location—Somerville's neighborhoods reflect the full spectrum of development—as well as business, landlord, and property type; but all small businesses are experiencing some degree of displacement pressure and related fears.

Mayor Ballantyne has prioritized small businesses support as a cornerstone of her Administration. The Mayor sought to understand how the City could further prepare for, assist businesses in navigating, and prevent future commercial displacement. The Harvard Kennedy School (HKS) team prepared the following transmittal memo, and accompanying presentation, financial model, and R programming files to address this question. The action plan presented in this memo suggests next steps for the City's forthcoming Small Business Displacement Committee on the Anti-Displacement Task Force.

The City's Somervision 2040 states, "Smart policymaking can mitigate the role commercial development plays [in] rising costs and protect the existing squares and main streets that are an important part of the Somerville community." This project seeks to make that vision a reality.

Scope of Work:

The HKS team conducted the following research activities over the course of the project:

- Interviewed 15 small businesses in Davis Square, Union Square, and East Somerville.
- Interviewed 17 stakeholders including developers, Main Streets organizations, and policymakers.
- Collected and analyzed geospatial and financial data.
- Researched and benchmarked best practices from across the country.

Findings:

This memo is divided into four sections: (1) interview findings; (2) preparation; (3) assistance; and (4) prevention.

1. **Interview Findings:** This section synthesizes main themes from small business and stakeholder interviews; this qualitative data both serves as a standalone tool for the City to utilize, and informs the analysis presented in this memo.

Sections 2 - 4 reflect the City's framework for understanding anti-displacement activities:

- 1.
2. **Preparation.** Preparation refers to the City's ability to spot future displacement; this foresight will allow the City to act proactively, rather than reactively, in addressing displacement. The HKS team conducted geospatial data analysis and produced a series of maps that integrate leading indicators of future displacement. These maps are most relevant for pre-development areas such as Winter Hill. The ultimate action item related to preparation is the immediate acquisition of high quality data and development of a risk assessment heat map with the R coding provided.
3. **Assistance.** Assistance refers to support the City can provide to small businesses to weather displacement-related interruptions, including relocation. The City requested a particular focus on transition assistance through financial support. The HKS team benchmarked policies from other cities. The output of this research is a series of decision points for the City's consideration in designing a transition assistance program.
4. **Prevention.** Prevention refers to City policies that may prevent displacement forces from reaching certain businesses, spaces, and/or neighborhoods. At the City's request, this section focused on inclusionary zoning, affordable set-asides, master lessor agreements, and commercial community land trusts. The HKS team conducted a financial analysis to create a mock developer pro forma, and analyzed Somerville's Zoning Ordinance and zoning regulations from other cities. This section outlines a series of potential zoning reforms. The associated action plan recommendation is for the City to identify preliminary paths of interest in zoning reform and pursue said reform(s) through City Council, Land Use Committee, and Planning Board.

The analysis and findings presented here represent a starting point for the City's Anti-Displacement Task Force to make decisions better informed by financial, geospatial, and qualitative data, as well as national best practices. Though this memo highlights an urgent need for further support for small businesses, it also positions Somerville to lead the nation in deploying innovative policies that can meaningfully address commercial displacement.

I. Interview Findings

Primary qualitative research allowed the HKS team to better understand the small business landscape in Somerville; to outline a research agenda based on local priorities; and to vet preliminary research findings. From March 1 to May 4, 2023, the HKS team conducted 31 interviews with small business owners, nonprofit staff, developers, academics, and local government officials that elicited different perspectives on the challenge of small business displacement and potential strategies to mitigate its effects or prevent its occurrence altogether.

This section provides a summary of the major themes that emerged. The summary demonstrates that different stakeholders hold common goals, but often have different perspectives on the right approach to achieve them. Interviewees agreed the City of Somerville is well positioned to lead the process and implement the policies necessary to allow development without displacement. A more detailed explanation of themes specific to each stakeholder group and a record of all interviews held for this project appear in Appendix A.

High Level Interview Themes:

Shared Vision

Most interviewees emphasized similar goals for the future of Somerville's economic development regardless of their organization type, including retention of existing businesses and preservation of diversity, affordability, and local identity. Primary differences surround whether new development can serve as a vehicle for this preservation—developers are more optimistic than small businesses—and how to best utilize public space to support small businesses, including re-orientation towards pedestrians and public transit vs. private transit options—small businesses are concerned about a loss of access for car-driving customers.

Displacement Spectrum

Small businesses face similar pressures regardless of location; however, these are felt more acutely in areas of Somerville undergoing rapid change such as Union Square. Here, the general feeling is that gentrification is inevitable and that businesses have extremely limited options for avoiding its effects. Elsewhere, in East Somerville for example, small businesses generally feel more insulated and able to prepare for change.

Transitioning Customer Base

Business owners readily acknowledge and feel mostly optimistic about the opportunity brought by new workers and residents. The long-term outlook for most, even businesses with minority customer bases, is positive because they feel they can market themselves in a new environment if given the resources and space. There is a short-term pessimism in areas like Union Square, however, where small businesses feel unable to cope with the pace of change long enough to benefit from its upsides.

Common Small Business Challenges

Primary challenges faced by business owners include an inability to secure leases from their landlords, escalating rent, and reduced patronage due to disruptions from COVID-19, construction patterns, and changes in the built space surrounding their business (e.g. bike lanes). Small businesses feel the City's transit goals do not align with their customers' interests, many of whom rely on cars to travel from surrounding communities. For those seeking greater stability in a new location, there is an acute shortage of affordable, properly equipped, and right-sized space. Interviewees also feel they lack information on and meaningful participation in City decisions.

City Services

There is strong support for City services, including the technical and financial assistance that helped many small businesses weather the COVID-19 pandemic. Many businesses acknowledge the efforts underway to increase communication through block walks. However, there is a clear consensus about the difficulty of City processes. The delays, difficulty, and number of offices involved in obtaining permits are seen as confusing and frustrating. In some cases, failure to obtain permits in a timely manner has cut into small business revenues.

Developer Disconnect with Small Businesses

There is a range of dispositions among developers toward the issues of inclusive retail; their degree of focus on community engagement to inform projects; and the public amenities they seek to provide. The nature of discussions taking place between small businesses, developers, and retail brokers indicates a disconnect between the stated intentions of developers to provide affordable spaces and the actual feasibility of their offers for many. Developers and small businesses have a different understanding of what qualifies as affordable and what business models can work within new buildings. Small businesses noted half-hearted attempts at outreach and low responsiveness by developers in some cases. For their part, developers feel that business maturity, the legal complexity of lease terms, and build out costs for the space represent the primary obstacles to greater inclusivity.

Lack of Coordination Among Different Actors

Interviewees cited a lack of information sharing and coordination among and between all groups as a barrier to achieving better compromise. Some feel more organization is needed among the small business community to share resources and advocate for their needs. The entire business community, including developers, would like greater participation in City decision making. Somerville's nonprofit community, mostly prominently the Main Streets organizations, serve as key intermediaries to fill gaps in awareness and representation for these groups, but are stretched beyond their means. Interviewees recognize that additional platforms or resources are needed to increase collaboration and ensure accountability among the different groups.

Inconsistent Problem Diagnosis

Developers and small businesses emphasize different drivers of displacement, including inadequate demand for services vs. supply of assistance measures. Developers see change as inevitable and focus on demand-driven opportunities for businesses' to increase their sales and afford higher rents. Small businesses recognize the opportunity to leverage new customer demand, but feel customer demand is artificially constrained by many impediments associated with new development. Some feel they cannot fully take advantage of new opportunities present without a greater supply of affordable space, regulatory reform, and financial assistance to relocate or upgrade their business infrastructure.

Shared Proposed Solutions

Unlike the problem's diagnosis, interviewees had relatively shared views on solutions. There is consensus on (1) the need for stronger coordination between all actors; (2) that developers can afford to do more when provided the right incentives; and (3) that the City has the policy tools to increase small business retention whether from a demand or supply perspective through new forms of assistance, regulatory reform, and zoning incentives.

These interview findings informed the subsequent analysis.

II. Preparation

To contribute to the City's goal of preparing for displacement by understanding where risk is greatest, the HKS team conducted geospatial data analysis and produced a displacement risk heat map. This section and the accompanying Appendix B provide a detailed methodology and findings based on currently available data.

Geospatial Data Analysis:

The City must understand where displacement risk exists to successfully address it. This section relies on quantitative and spatial analysis to assess the risk of small business displacement on a parcel level throughout Somerville.

Risk Assessment Methodology

A full methodology for developing a displacement risk heat map appears in Appendix B. More broadly, the HKS team:

1. Collected relevant data.
2. Created "risk indicators" by identifying quantifiable signs of impending gentrification.
3. Integrated and equally weighted these indicators to produce an example heat map at the parcel level (see Map 9 below).

Findings: Risk Assessment Example

This risk assessment example demonstrates the potential of the methodology outlined in Appendix B. The City can pursue higher quality data than the HKS team had available; consider additional risk indicators; and decide appropriate weights and interactions in the integrated map. The R coding to complete this task is provided.

Risk Indicators

The HKS identified and secured data for the following four risk indicators. Maps and further details for each risk indicator appear in Appendix B.

- 1. The number of small businesses:** Change in the count of small businesses across different areas over the years serves as a valuable indicator for displacement risk. Areas that have experienced a decline in the number of small businesses in the past are more likely to continue this trend in the near future.
- 2. Change in Small Business Rents:** Changes in rent over time serve as a significant indicator for assessing displacement risk. A continued increase in rent—often correlated with new development—imposes greater financial burdens on small businesses.
- 3. Building Height:** Stakeholder interviews emphasized the significance of building height when assessing the risk of small business displacement. Small businesses located in lower buildings are more vulnerable, as they are more likely to be sold or redeveloped into taller structures by developers.
- 4. The Green Line Extension:** The Green Line extension (GLX) opened in 2022. Conservative estimates based on 2021 small business data indicate that the GLX has led to a significant increase of 180% in the number of small businesses within a 10-minute walking radius of the T (refer to Table 4 and Map 7 in Appendix B). The GLX presents both opportunities and risks for businesses. Risk is especially concentrated for small businesses located in lower buildings near the new stations, which are more valuable and attractive for redevelopment.

The City can consider adding additional risk indicators to an updated risk map if relevant data is available, including building age, type of landlord, and recency of building ownership turnover.

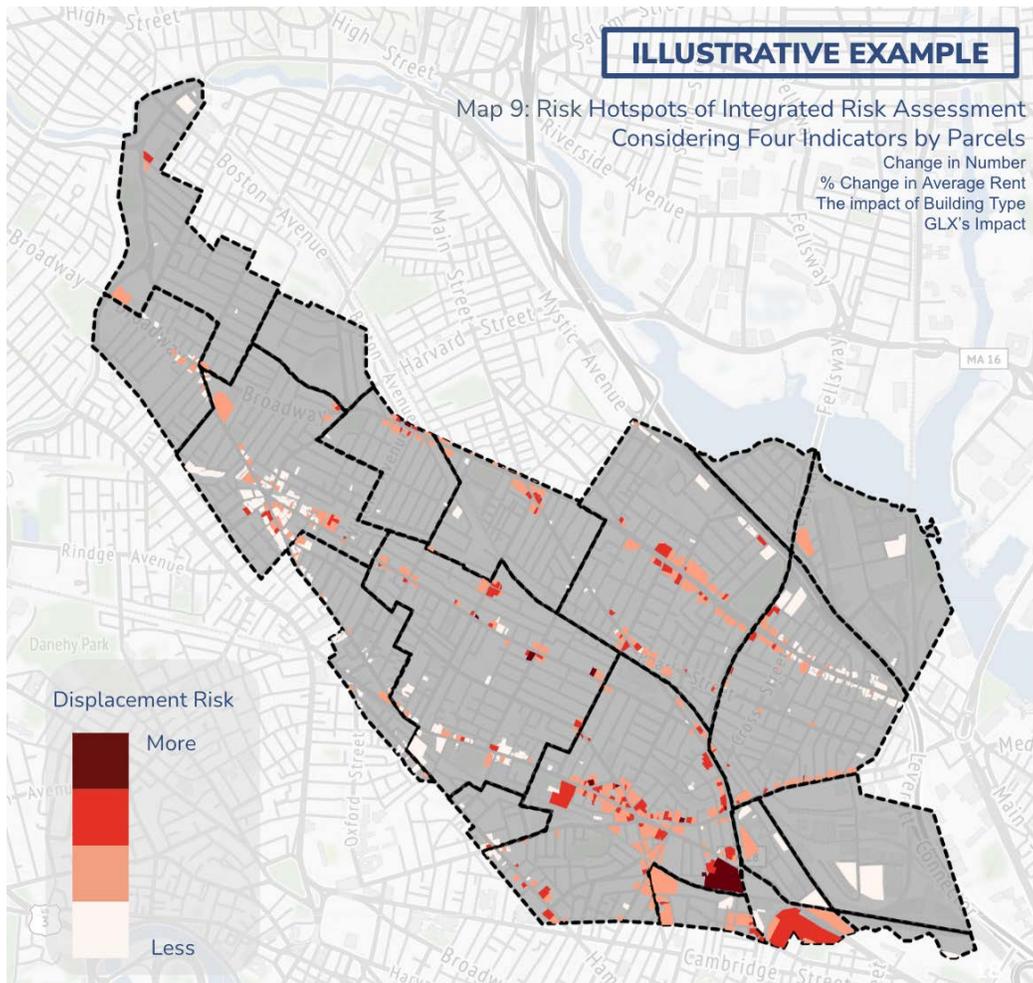
Integrated Risk Assessment

An integrated assessment allows for the simultaneous consideration of multiple displacement indicators. This approach acknowledges the diverse factors contributing to small business displacement and emphasizes the importance of assigning appropriate weights to each indicator based on specific priorities and objectives.

To exemplify this approach, Map 9 shows the utilization of the four single indicators outlined, with equal weights assigned to each. The analysis is conducted at a building parcel level. Different shades of red indicate a certain level of displacement risk. For example, the cluster of

darker red around Union Square represents a higher risk of displacement, while the cluster of lighter yellow around Davis Square represents a relatively lower risk.

Map 9: Risk hotspots of integrated risk assessment considering four indicators by parcels (four indicators are: change in small business number, % change in average rent, the impact of building type, the impact of GLX)



As the City updates the risk map, it is important to consider which single indicators to use; how to weigh the indicators; and whether to account for interactions between them. Additionally, the City can use multiple iterations of the map to visualize the implications of their assumptions.

This interactive map resulting from the integrated assessment facilitates a more comprehensive understanding of the complex dynamics affecting small business displacement. By considering multiple indicators and adjusting their relative importance, decision-makers can make informed and targeted interventions with the assistance and prevention policies outlined below.

III. Assistance

To contribute to the City's understanding of how to provide material assistance to small businesses facing displacement pressure, the HKS team conducted case studies of transition funds in other cities. The findings are integrated with qualitative data from interviews to produce a series of decision points for Somerville to consider in designing their own program.

Transition Funding

During interviews, small business owners continuously raised transition periods during development as a major pain point. In neighborhoods with looming development, business owners face uncertainty and difficulties around:

- Negotiating / renewing leases.
- Recouping investments (e.g., renovations, expansions, etc.).
- Making decisions about future investments in their businesses.
- Maintaining their customer base if they are forced to move.

Business owners expressed interest in financial support to ease the disruption of moving due to development, and several other cities have used a similar concept to support small businesses impacted by infrastructure construction. The City of Somerville itself has used forgivable loans in the past to support small businesses during the COVID-19 pandemic.

Currently, the City is launching a new Small Business Support Fund using \$2.5 million from ARPA covid funds. This program would offer small businesses, including those threatened by displacement with tailored small business coaching and up to \$10,000 in grants to improve business operations. Additionally, the program would help businesses find a new location within the city in response to displacement pressures.

This section includes an overview of supplementary programming the City could employ as well as key decision points in building out assistance measures specifically targeted towards small businesses who are forced to move.

Transition Funding Case Studies

Minneapolis and Los Angeles have both implemented transition funding to support small businesses located along the extensions of their public transportation systems. Appendix C contains case studies on these programs, highlighting some of the key decisions each locality made regarding their program.

Findings: Transition Funding Program Decision Points

Case studies in Appendix C inform the decision points identified in this section. Specifically, the City would need to carefully consider the type of assistance provided; eligibility requirements; funding requirements; program administrator; and communications strategy.

Type of Assistance

The City could provide many types of assistance in a transition funding program. On the financial side, the City could provide grants, forgivable loans, or low/no-interest loans. Other types of assistance that small businesses have expressed interest in or are used in other cities include legal assistance (e.g., negotiating a new lease), support in finding a new location, business advisors, and technical financial assistance (e.g., accounting, filing taxes).

The City should consider operational and fiscal feasibility, as well as best fit for small businesses. The City already has operational experience from running the Small Business Recovery Fund, and can incorporate small business feedback requesting a more user-friendly application in the future. Additionally, barring fiscal restraints requiring the City to move forward with forgivable or low/no-interest loans, grants would allow the City to achieve the same outcomes with less operational complexity and greater small business satisfaction—as happened in Los Angeles. The funding source for this program, which is yet to be determined, will also constrain the types of assistance that can be offered. City, ARPA, philanthropic, other federal, and state funds all come with unique restrictions. The amount of the funding available will also determine how much financial assistance can be offered, and if any non-financial supports can be offered as well.

Business Eligibility Requirements

The City will need to decide which businesses are eligible for the transition funding, considering legal defensibility, operational feasibility, and small businesses perspectives. The fund could focus on small businesses who are forced to move due to the redevelopment of their current buildings. For additional requirements, the City could use established eligibility requirements from previous programs including its Small Business Recovery Fund, or borrow from other cities that have established similar programs. It could also use definitions from the Small Business Administration or other federal programs, or consider geographic designations based on census block redevelopment zones or existing zoning overlay areas to narrow the scope of eligibility.

During interviews, small businesses frequently cited the redundancy of the Small Business Recovery Fund's application. For example, small businesses had to submit the same paperwork for each round of funding, even if their information had not changed. They also had to submit City-issued paperwork (e.g., licenses). The transition funding program could streamline the requirements and integrate City databases so the process is more user friendly.

Funding Requirements and Limitations

The City will need to decide the requirements and limitations placed on the funding. The City should consider (1) fiscal sustainability; (2) feedback from small businesses; and (3) operational feasibility.

The program could limit the categories on which transition funding could be spent, similar to Los Angeles' program. For example, the funding could cover both moving costs and past renovation costs within the last five years. A concern small businesses frequently cited was the money they had recently invested into improving their current locations. If they are forced to move, their investment would be lost, and it would be extremely difficult to start over in a new location. Covering past renovation costs could help mitigate this risk and provide small businesses with some measure of stability as they plan investments for their future. These inputs from small businesses will have to be balanced with what is fiscally and operationally feasible.

The City could also use the transition funding requirements as an opportunity to gather more accurate data on a number of risk indicators to support preparation efforts and to assess its own impact. For example, as part of its funding requirements, small businesses could be required to answer a 3 month, 6 month, and 12 month survey on a range of topics including their new rent, landlord relationships, number of employees, annual sales, and how likely they are to stay in business in their new location. Los Angeles' reporting requirements are an excellent reference on how data can be collected to assess program impact and encourage iteration.¹

Program Administrator & Program Communications

The City will need to decide who administers this program. There are several options including the City of Somerville, an existing non-profit (e.g., Main Streets), a new collaborative or non-profit, or a contractor. When making this decision the City should consider operational and fiscal sustainability; ease of navigation; and trust from small businesses.

For operational ease, the City could contract, as with the Small Business Recovery Fund. Small businesses relied heavily on non-profits such as Main Streets, however, to tell them about the program and help them apply.

Small businesses consistently cited confusing and infrequent communication as a major pain point with the City. The business liaisons, Michael Robles (USMS) and Adriana Fernandes (City of Somerville), were commonly perceived as major pillars of support. Business owners are extremely busy and need more support that meets them where they are. Increasing the number of business liaisons is one option to make a transition funding program successful.

IV. Prevention

The City does not have unlimited resources to support small businesses, so preventing displacement forces from reaching businesses is a crucial policy goal. This section includes a mock developer pro forma, that along with analysis of Somerville's Zoning Ordinance and zoning regulations from other cities, informs a series of potential inclusionary zoning reforms.

Financial Analysis:

Mock Developer's Pro Forma

By replicating a pro forma for a “typical” development in Somerville, the City can gain a better understanding of its bargaining zone with developers. These findings can inform both individual community benefits negotiations and the broader policy decisions presented in this section.

The attached Pro Forma and Discounted Cash Flow analysis provides a dynamic model to measure the change in financial returns given various incentive zoning measures from two mixed-use development scenarios. The first is a residential development and the second is a lab and office development. In both scenarios, the entire first floor is dedicated to commercial retail. The pro forma includes inputs and assumptions gathered from local subject matter experts (i.e. development costs) and industry benchmarks (i.e. lease rates) for the Greater Boston area. Additional details on this financial analysis appear in Appendix D.

The City can use a financial model to weigh different policy measures and better understand the implications to a developer's bottom line. The following examples will demonstrate two use cases of the model for a 5-story mixed-use residential development:

1. Calculating the break even for a density increase given that the developer must condoize 30% of ground floor retail (i.e. \$0 in income for 30% of commercial space).
 - The *break even is a 0.45 density bonus*, which is equivalent to 9 additional residential units. See Appendix D.
2. Calculating the tradeoff between square footage allotment to affordable retail and the depth of the lease cap as a percent of market-rate
 - *Setting aside 30% of affordable retail space at 50% of market-rate rents is equivalent to setting aside 50% of affordable retail space at 70% of market-rate rents.* See Appendix D.

Findings - Zoning Analysis:

Zoning is the City's greatest tool to pursue displacement prevention. Through zoning, the City of Somerville can pursue policies to incentivize or require property owners and developers to make a portion of their ground-floor retail affordable to small businesses. The City can pursue any combination of the options presented here to create affordability City-wide, neighborhood-wide,

or by development type. The legal, financial, and logistical considerations for each of these policies are presented in conjunction with Somerville-specific takeaways from the financial and geospatial analyses, and national best practices from other cities that have experimented at the forefront of commercial anti-displacement. A visual representation of the options presented here appears in Appendix E.

Leveraging Inclusionary Zoning, Master Lessor Agreements, and Community Land Trusts

Through zoning, the City can incentivize or require property owners and developers to make a portion of their ground floor retail affordable. Inclusionary zoning is a common tool used to create and preserve affordable housing, but cities are only at a nascent understanding of how to use this tool to preserve affordable commercial space.² *Somerville has the opportunity to lead the country in rethinking commercial anti-displacement via zoning.*

This section draws from lessons in residential inclusionary zoning and commercial anti-displacement efforts to outline the three major decision points around possible commercial inclusionary zoning. The first is the strength of zoning incentives: whether change is accomplished through by-right or bonuses, and whether in overlay or non-overlay districts. The second is defining affordability, which is a key challenge around any zoning innovations since these definitions must be legally defensible. Finally, the third decision point is the implementation structure, and whether to pursue a community land trust model or leverage the Somerville Redevelopment Authority.

Zoning Incentive Strength

Somerville, like many cities, accomplishes residential affordability through both by-right and incentive zoning. In by-right, in Urban Residential (UR), High Rise (HR), and most Mid Rise districts, buildings with at least four dwelling units are required to have 20% of those dwelling units be affordable (i.e. Required ADUs), for example.³ On the incentive side, Zoning Ordinance grants additional floors and additional dwelling units for affordable housing: in the Affordable Housing Overlay, 100% affordable residential developments in UR Districts are exempt from any maximum number of dwelling units or minimum gross floor area (notwithstanding building codes).⁴

By-right zoning is inherently more comprehensive because new development must comply with those requirements. It is possible to temper the strength of by-right zoning changes by either allowing administrative or special permit opt-outs (as the City currently does with parking maximums in transit areas), or including an in-lieu payment option (as the City does with ADUs). Though these additions would make new zoning regulations less comprehensive, they would nonetheless flip the burden from requiring developments to opt in by allowing them to opt out; this tactic has proven effective in residential inclusionary zoning including Somerville's

parking maximums. However, by-right commercial inclusionary zoning may also open the City to more legal challenges, given the nascent state of this policy.⁵

Zoning incentives or bonuses are often tied to overlays, which are less geographically comprehensive, but more intentionally targeted. Incentive zoning may also allow the City more creativity at this early stage in policy development.⁶ The City has seen great success with zoning incentives: the Net Zero Ready Building provision, which grants the same bonuses as the 100% affordable overlay, has quickly gained traction and is now common in eligible developments, per the City's Planning and Zoning Division.⁷ One challenge with the incentive model is that the City already provides density and additional floors for net zero, 100% affordable, and larger lots (graduated density); the City would have to analyze whether a commercial inclusionary addition would detract from these other policy goals, or whether the City could provide new or deeper incentives. Competing goals may be tempered by Somerville's adoption of the state Stretch Energy Code, which may render the net zero incentive moot. Deeper incentives may include additional height. New incentives could relate to expediting permitting processes: developers interviewed for this project shared deep frustration with the length of permitting processes.⁸ Other cities such as San Diego leverage expedited permitting in incentive zoning packages.⁹

The geospatial analysis did not show a strong overlap between all the riskiest areas and any single overlay district. It did show that several existing overlay districts are almost entirely at risk of displacement, including the Master Development Plan overlay. Also, MR3 and MR4 districts seemed to face high displacement risk, and could be considered as the basis of a new incentive overlay.

Defining Affordability

Somerville's Zoning Ordinance defines Accessory Dwelling Unit Price (12.1.5) and Purchase & Tenancy Standards (12.1.6).¹⁰ To do so, the City relies on inclusionary zoning conventions that are common nationwide and have held up in court,¹¹ such as Median Family Income calculated by the Department of Housing and Urban Development. No such standards exist for commercial inclusionary, due to the nascent state of these policies.

Purchase and tenancy standards– i.e. which businesses would benefit from affordable rent or purchase price– can draw from other City and federal programs benefiting small businesses. The Small Business Administration, for example, sets size standards by annual receipts in millions of dollars or by number of employees for all NAICS codes.¹² In Somerville, the Small Business Recovery Fund supported businesses with fewer than 20 full-time employees, and gave preference to women- and minority-owned businesses.¹³ Any of these definitions raise concerns around intertemporal equity by benefiting existing business, rather than businesses that have already closed or aspiring businesses who are unable to open. The City may face legal challenges should they attempt to privilege some small businesses (i.e. restaurant and retail) over others.

Unit price is more difficult to determine, in part because no universal, federally-calculated convention such as a percentage of area median income or medium family income exists for commercial spaces, and in part because commercial spaces are more heterogeneous than residential spaces. Some cities circumvent this challenge by avoiding an affordability definition and instead setting out square footage maximums or relying on intermediaries such as community land trusts or redevelopment authorities.

Square footage maximums on ground floor retail can ensure both that large firms and franchises do not pursue those spaces,¹⁴ and that even when the price per square foot is high, the space may still be affordable to small businesses. Somerville currently pursues square footage maximums in the Small Business Overlay district.¹⁵ Interviews with small businesses suggest that even in smaller spaces, however, they cannot sustain their businesses when rent prices have in some cases doubled per square foot in recent years. The City might consider pursuing a study on the gap between what existing small businesses can pay in rent compared to market rate projections.

Intermediaries such as community land trusts and redevelopment authorities could allow the City to promote affordability without precisely defining it by incentivizing the donation of a condoized portion of ground floor space to an intermediary. The space could then be sublet to small businesses at a rate set by the intermediary, and not in the Zoning Ordinance. The City would still have to decide which portion of ground floor space would be feasible. Financial modeling suggests that ground floor retail contributes less than 20% of IRR for five- to seven-story mixed use developments; numerous interviews with developers and real estate experts likewise suggest that ground floor retail in large buildings is often considered more important for branding than for generating operating revenue. The model also clearly demonstrates that increased density (number of units or floors) can offset loss of ground floor rental income. A stylized five story building with ground floor retail and otherwise residential would break even at a donation of 30% of the ground floor space if they could build an additional nine units. For a five story office building, less than one additional floor would more than compensate for a donation of 30% of ground floor space.

Somerville could also seek to lead the nation in commercial anti-displacement innovation by defining an affordable rate for small commercial spaces. A definition of affordability would allow for either (1) an affordability set aside restricting the rent of a certain percentage of ground floor retail, similar to affordable dwelling units; or (2) a requirement that property owners lease a certain percentage of space to an intermediary at an affordable rate (that the intermediary would then sublet to small businesses via master lease agreements).

A definition of affordability could come as a percentage of market rate, as Somerville currently pursues in covenant agreements on new developments. Given the growth of market rate rents, a market rate-based approach may prove insufficient. Likewise, the heterogeneity of rents across

commercial spaces (i.e. vastly different facilities from retail storefronts to kitchen-equipped spaces) may privilege some business types over others. Some nonprofits and commercial community land trusts that rent affordable space define affordability by each business' ability to pay; this model would not translate well to zoning. Finally, any attempt to fix a price per square foot or to cap the amount rent can rise each year may fall in violation of Massachusetts' ban on rent control; in this case, the City would likely need to file a home rule petition.

If the City pursues defining commercial affordability, it incurs legal risk; additionally, such an effort would likely require expanded capacity in the Planning and Zoning Division and related departments. Additionally, the implementation of an affordability program would likely generate great demand, and if left to property managers could lead to concerns of favoritism: one small business in Somerville spoke of her lease not getting renewed so a family member of the property owner could operate their boutique business in the space.

As with residential zoning, the City would have to assess the tradeoff between the percentage of ground floor retail held affordable, and the depth of that affordability. Financial modeling suggests that 5 - 10 story developments could sustain limited deep affordability or more extensive light affordability. There is not a great risk that the amount of affordable square footage would impact the rent of market rate space, as any affordability requirements would be capitalized into land price, and developers would only pursue revenue positive incentives.

Implementation Structure: Redevelopment Authority & Community Land Trusts

Both the master lessor and the donation model would involve an intermediary. Two particularly promising intermediaries include the Somerville Redevelopment Authority and a community land trust (either Somerville's existing residential-focused CLT or a new organization). These intermediaries would ensure that the businesses chosen to occupy affordable spaces accomplish community goals: the Anchorage Community Land Trust, for example, recruited a credit union and urban farm to address unmet community needs¹⁶; the Rondo Community Land Trust in St. Paul prioritized Black-owned and longtime neighborhood businesses from a reparative perspective¹⁷; while CORE in Los Angeles focused on local artists.¹⁸ While the City would determine the baseline definition of small businesses to benefit from affordability (e.g., 20 or fewer full time equivalent employees), the intermediary would conduct community engagement, select businesses, and determine their length of stay. The intermediary could also set the rent for those businesses as a function of their revenue, rather than as a function of the space itself.

Both the Redevelopment Authority and a CLT would insulate the City from some legal risk. A CLT could conduct additional anti-displacement activities and cover operational costs with the affordable revenue it charges businesses. The Redevelopment Authority could contract property management to a nonprofit, as the Cambridge Redevelopment Authority does, given their flexibility in procurement.

Action Plan & Conclusion

This memo presents a vast collection of data, analysis, and findings across the various facets of anti-displacement. The recommended action plan resulting from this body of work is issued to the new Anti-Displacement Task Force.

- **Preparation:** Acquire high quality data and develop a risk assessment using framework and coding presented here. [Immediate].
- **Assistance:** Consider the City's desired form of transition assistance and design the program relying on decision points identified here. [Short-term].
- **Prevention:** Identify preliminary paths of interest in zoning reform and pursue said reform(s) through the City Council, Land Use Committee, and Planning Board. [Medium-term].

With continued commitment and dedicated capacity, the City can meaningfully combat displacement and protect the small businesses that make Somerville, Somerville.

Appendix A: Further Interview Findings

The 31 interviews conducted for this project with small businesses, City staff, developers, nonprofit organizations, and other subject matter experts covered a wide range of topics and perspectives on the issue of small business displacement. This section explores those themes in greater detail using direct quotes organized by stakeholder and topic to provide a more in-depth review of challenges and proposed remedies. The quotes selected exemplify sentiments that came up repeatedly during interviews. They have been made anonymous to protect the privacy of interviewees.

Small Business Perspectives

There are numerous challenges faced by small businesses in Somerville, most of which are present regardless of location. These include a lack of long-term leases, shortage of affordable spaces, impediments to their operations from construction and parking issues, and difficulty with the City's permitting processes. The following quotes highlight some of these difficulties as well as desired forms of support.

Leases and Landlords: Many businesses shared that they do not have a long-term lease in place and have a mixed relationship with their landlord, in part due to this issue.

- “Currently we don't have a lease. Our landlord has declined to provide one since 2018 although we've asked for one to provide more long term certainty. We also tried to expand to the vacant space next door to us owned by the same landlord but they haven't responded to our offers. We think he's waiting to receive a better offer from a new business that comes after the influx of new development.”
- “We haven't had a lease for four years. We have an ongoing verbal agreement but worry our landlord is considering developing the property into something else. They're leaving several spaces they own vacant until they decide what to do with them.”
- “If something is wrong with the restaurant, I prefer not to bother the landlord so they won't have a reason to raise the rent. The neighbors next door complained about some issues and their rent was raised afterward.”

City Planning and Processes: The difficulty of the City's permitting and licensing system came up often. As did the perceived hostility to cars and lack of consideration for small businesses when making infrastructure decisions that impact them.

- “Redo the permitting and licensing system. Right now, it pits residents, environmentalists, and businesses against each other. It's a Lord of the Flies dynamic.”
- “Make everything clearer and easier to find online. It's difficult to reach a human unless you go to City Hall but departments are scattered around.”

- “I don’t know what’s happening. There is no communication. Sometimes I have to learn about what’s happening from my customers.”
- “It would be good to know more about upcoming developments to help us prepare.”
- “Nobody wants to come because of the difficulty of parking. Our customers are mostly not local, they’re coming from Peabody, Chelsea, all over.”
- “The economics of this place are already difficult. Obstacles like bike lanes add to this. Now they’re talking about closing down the square to traffic entirely. With permitting, there’s no transparency or consistency between departments. They opened the application for outdoor dining several days before the season begins knowing it has to go through multiple departments to be approved. That time cuts into our revenues.”
- “The big transportation and development projects get most of their support. The City seems more interested in pushing agendas that seem politically correct than thinking about the realistic consequences for businesses. They’re trying to create pathways to make us more like Europe in ways our City was not developed to facilitate. It makes me look selfish for trying to help my business survive. The impact of their policies end up being anti-car and anti-business because they’re not thinking through how all these decisions impact us.”
- “Stop trying to take away cars!”

Evolving Neighborhood Culture and Prices: The topic of evolving demographics, cultural shifts, and the increased costs associated with these changing dynamics is a concern, particularly for businesses with customer bases that are gradually moving away. Businesses located further away from blocks experiencing the fastest change were more optimistic and felt the changes were an opportunity for growth.

- “There’s a lot of ongoing displacement in Union Square. You’re starting to see a different atmosphere that’s changing the culture itself...Barber shops, nonprofits, ESL classes, ethnic clubs, churches and other organizations with minority customer bases may find it difficult to remain behind.”
- “I’m alarmed about the cultural displacement as a business owner. Think of the small market that caters to our Bangladeshi population or the multitude of Portuguese and other minority shops. Local residents look around and say it’s not my place anymore.”
- “Our strength is the diversity of our businesses, Brazilian, Salvadorean, and the older Italian and Irish immigrant population. People want to see this culture stay. The challenge is figuring out how to sustain this diversity.”
- “I’m for all these developments but worried that we won’t be around long enough to realize the benefits. A public parking lot is supposed to come in a few years but I’m not sure if we can hold on that long.”

- “The prices of everything are going up, water, taxes, food. If we didn’t own the place, we wouldn’t have been able to stay. Money from the City’s program helped us get through the winter.”
- “Recently a business mentioned they have so many fewer customers than they did years ago. Residents are changing and not necessarily patronizing the same shops.”
- “I’m proud of the change happening. I’ve been living here for 25 years and seeing positive change picking up. When everything is ready, it’s going to help our situation. I’ve been making upgrades to the restaurant to prepare for the new era. We see new clients showing up and have plans to hire English speaking staff.”

Desired Technical and Financial Support: Businesses appreciate the direct services the City provides. As with anything else, there are time sensitivities involved but owners would like to see an expansion of current technical and financial assistance mechanisms.

- “We have issues with our digital capaCity. We’re working on delivering things which helps. The City’s assistance with digital services has been very helpful but their financial assistance takes too long to receive. Other helpful things would be signage to promote our business, social media support, English classes, and technical assistance provided in Spanish.”
- “More proactive grants. It feels like you need to be about to fail to get help.”

Access to More Affordable Spaces: A greater supply and variety of spaces will help businesses find locations for their unique needs. Several people indicated there’s a gap in the market for medium sized spaces around 1,000 square feet.

- “The biggest challenge is affordable space. Commercial rent space has been so expensive that startups, particularly minorities, struggle to run their business with the rent escalation that’s happening across the City.”
- “My crusade in this world is incentivizing developers to create smaller spaces than they would normally make. It allows a much wider set of businesses to lease from them without negatively impacting price per square feet.”
- “The developers suggested 5x the amount of rent to be within their space and they can only provide us half the space we would need to occupy to afford that price... The rent and common area charges alone would be the totality of our profit without room to cover food and labor. So what are you going to get in there? Businesses that take a huge chance and go belly up or chains.”

City Government Perspectives

City staff are tracking most of the above issues to varying degrees but uncertain how best to support businesses given limited time and resources. The challenges of reaching small businesses given their busy

schedules, working with businesses more proactively to prevent small problems from becoming large ones, and receiving feedback to improve services were key themes.

Technical Assistance: The following quotes highlight concerns from OSPCD staff about how to improve the timing, quality, and accessibility of its technical services.

- “Some businesses need intensive training on how to start a business. They don’t take the necessary time to figure out their model. Structuring training programs to help them becomes a challenge because they are behind a counter all day. How do we connect them with the right kind of tools so they’re ready to receive that?”
- “People come to us too late when they are already deep in the hole. The issue comes from signing leases that overcommit them without having a lawyer present to review.”
- “When you talk to business owners, the vast majority of their desire is to get more customers. But when you triage, the problem isn't getting more customers. They often have some fundamental problem in the way your business is set up, or accounting issues, or rent is too high for their sales volume.”
- “We have offered on-call technical assistance which was very flexible during the pandemic. But we haven’t taken a critical look at the quality of the assistance. It would be interesting to see who signed up for this. We did grants but these are not sustainable, particularly the storefront improvements through community block grants because they have so many bureaucratic constraints. We need a more flexible funding source moving forward.”

Nonprofit Perspectives

Nonprofit organizations, most prominently the Main Streets organizations, are viewed as important resources due to their familiarity with small business challenges and their role to organize, increase awareness, and advocate for shared needs. The perspectives below highlight issues nonprofit staff think need greater attention to better support the small business community.

City Services: With noted improvements on outreach to small businesses, several interviewees felt more could be done to engage small businesses in decision making and to improve the quality of technical assistance by relying less on external consultants.

- “I have seen a change in engagement. The Mayor has done block walks. The Small Business Liaison is wonderful. Businesses feel more heard which makes them want to stay here. It’s clear they’re making an effort and it’s appreciated.”
- “The City has brought in external consultants to advise minority community businesses. It’s just not adding up. They get paid a lot and fail to move the needle because they lack local context. Communication channels need to improve for businesses to inform them of what’s going on in the community.”

Community Advocacy: There are too few organizations providing the kinds of support offered by the Main Streets organizations, which are seen as crucial for expanding awareness and mobilizing small businesses to advocate for their needs.

- “Only two of ten business districts in Somerville have dedicated staff. We’ve had businesses from other areas reaching out to us about helping them get similar organization and advocacy for their area.”
- “What will developers respond to? The market. So convince them that these businesses are good to invest in because the community will support them. The other thing is if they start getting pressure through mobilization that points out ‘You said one thing and are doing something else, and we’ll work to ensure you don’t get other projects here.’”

Small Business Needs: Like other stakeholders, nonprofit staff felt more communication, joint decision-making, technical assistance, and financial support are priorities for small businesses. One interviewee suggested creating a guide to help businesses navigate these resources.

- “More participatory planning processes. Businesses disillusioned don’t believe there really is any say in the decision or compromise. Listen to us and incorporate some aspect of what we’re saying into final decisions.”
- “There could be more concentrated projects funded by the City like storefront improvements. I would love to see an easier permitting system so businesses don’t have to spend so many hours of their time applying.”
- “Social investments with sustainable financing from developers. One time payments are good but we would like to see a longer term framework for how they sustainably contribute to the neighborhoods they create.”
- “Technical assistance to existing businesses is very important. Something as simple as an unexpected \$4k bill can wipe a business out. We need more community development fund initiatives to lend to small businesses without access to traditional funders.”
- “I would love to see the creation of more incubation space with platform support for organizations that are here to help them scale up their business and afford market rents.”
- “Create a resource guide after asking around to see what small businesses would find helpful. For example, increasing access to capital with low interest rates and coaching assistance that doesn’t require small businesses to close for the day to participate.”

Developer Perspectives

Developers expressed a broad range of views about the issue of inclusive retail and how to help small businesses access space in new buildings. Recurring topics include the importance of customer demand, access to financing for space build outs, different approaches for lowering barriers to entry in new buildings, and the importance of increasing the flexibility of City zoning.

Small Business Needs: Some developers felt there is too much focus on rent prices and that other challenges, such as build out costs, the legal complexity of commercial leases, and ability to grow customer sales are more relevant for helping small businesses occupy space in new buildings.

- “I’m not sure that going after rent is the right answer. I’m comfortable we can make the rent work but tenants have to be able to manage the buildout of the space. I think the City could create a fund to help small businesses with an allowance for that.”
- “The institutional landlord and small business owner speak different languages. How do we distill the language and terms so that some guy in a suit makes sense for a first generation retail owner who has never signed a 70-page commercial lease? Shorten the lease document. Distill the contract terms and help them identify what they can afford.”
- “Ultimately, the rent a retailer can pay is a derivative of their sales. With new workers and residents the hope is that more patrons increases their bottom line.”
- “Encourage more robust patronage for outdoor dining with easier permitting requirements. Reduce barriers to patronage wherever opportunities exist.”

Affordable Retail Spaces: While all developers indicated some willingness to provide below-market rents, each organization had its own approach for helping small businesses make the jump into new buildings. These include attracting businesses with demonstrated community support, underwriting ground floor spaces, designing buildings for a diverse range of business sizes, or providing a programmatic startup budget.

- “Retail is an amenity and benefit to the neighborhood. But we can’t be a charity to groups that don’t have a viable business. Whenever we can we identify local businesses that have draw and are an important part of the community and we’ll underwrite them at a below market rent.”
- “We underwrote the retail as a loss leader. Instead we created the most spaces around the plaza possible to activate the ground floor and ensure it’s successful for our businesses.”
- “How do we create a retail mix that reflects the community? Through small spaces from 900 to 1200 SF with footprints that cater to local business needs with below market rents. This enables retailers graduating from Bow Market to take the next step. We designed our retail space to enable that eclectic mix.”
- “Most don’t have the money to make that jump [to a new building]. It doesn’t work unless you’re very well backed financially. We make sure to provide a budget to fit out the space and programming to jump start the organization until they can manage the operation on their own.”

City Processes: As with small businesses, some developers indicated a desire for greater participation and flexibility in City decision making on a project by project basis. Others had encouragement for the City’s approach, which they found highly collaborative.

- “Somerville has a well-earned reputation for being extremely difficult from a permitting and licensing perspective. We are more difficult to work with than other cities. It’s harder to get things accomplished. Why? It’s how City government is run in terms of independent offices that don’t follow the same priority list or coordinate well. They’re fairly conservative and unwilling to try creative approaches.”
- “Business leaders are willing to discuss having the government take more funding for social needs. But we would like to be more incorporated into what strategy is adopted.”
- “Having a more collaborative approach with the development community would be a benefit to where the policies are a little more thoughtful or cater to the project specifically as opposed to a one size fits all solution developed by someone who doesn’t understand the business aspect. Prescription destroys our flexibility.”
- “Somerville is a very hot real estate market. We came in expecting steep hurdles and for the neighborhood to be less versed in the process. But we were pleasantly surprised. We found the process a breath of fresh air in terms of how open the City was with us. We had transparency as a key norm. It can be tough to share bad news, but we were able to be open about our price tag and the designs needed to reach a deal.

Zoning Policy: Developers shared that offering density incentives and relaxing certain prescriptions within the zoning code would provide them with more flexibility to create affordable retail units within their buildings and to offer these in a range of sizes.

- “Zoning impacts the minimum size retail space which needs to be 2500 square feet vs. the 150 square feet in Bow Market. Micro retailers require special permits which introduce uncertainty. That could be made more accessible. We would aspire to introduce more micro businesses but it’s difficult to do in the current environment.”
- “Incentives in the form of density have been very successful. Economically you can get the density you need to justify more of that [subsidized] space. Incentivizing things with a carrot vs. stick. The Somerville approach right now is the stick but you can craft a plan that gets everyone to a great spot.”
- “When cities push for more density, particularly transit oriented buildings, I believe it creates an environment where developers are incentivized to put more money into the building.”
- “Some things Somerville has done around zoning have been helpful. But there’s a lot of new urbanism stuff going on here that’s trying to apply formulaic requirements around what can go into the ground floor. I think dynamic cities require oversight and regulation but they’re not formulaic.”
- “Somerville has a very prescriptive way of thinking about parks and plazas. The City has to be less formulaic when thinking about blending uses in the public realm. How do we create more room for experimentation for retailers to do more and get rid of unhelpful regulations.”

- “The City is talking about increasing linkage fees. Be careful with those. You will exhaust developers at some point and it will become easier to build elsewhere. Also, the City lacks bureaucracy to deal with welfare qualifications. It’s not in a great position to determine who assistance goes to.”
- “I’m afraid of any policy that doesn’t not increase productivity but just increases costs. Costs just get passed on to tenants. The number one thing the City could provide is time.”

Record Of Interviews Conducted

City (4)

- Somerville OSPCD Economic Development and Zoning staff
- Cambridge Redevelopment Authority

Small Businesses (15)

- Bow Market
- CrossFit Somerville
- Ebi Sushi
- El Potro Mexican Grill
- Grace’s Hair Salon
- The Neighborhood Restaurant
- Himalayan Kitchen
- Union Square Tailoring
- Masala Square Indian Kitchen
- Tiny Turns Paperie
- Amantolli
- Jozy’s Hair Salon
- Susanita’s Fiestas
- Rei da Picanha
- Dragon Pizza

Nonprofit (4)

- Somerville Community Corporation
- USQ Main Streets
- East Somerville Main Streets
- Chamber of Commerce

Real Estate Developer / Brokerage (6)

- Everstreet
- Graffito SP
- Mark Development
- Asana
- US2
- Raffi Properties

Subject Matter Experts (2)

- HKS Taubman Center for State and Local Gov
- GSD Dept of Urban Planning and Design

Appendix B: Displacement Risk Mapping

This Appendix provides additional information about methodology; data sets; and results from the chosen indicators, including maps. The information in this Appendix should be read in conjunction with the Preparation section of this memo and the R Programming folder also provided.

Methodology:

To derive useful insights from the quantitative and spatial analysis, the first step is to acquire high-quality data from reliable resources. The dataset should have metadata that helps to understand the collection methods, and it should be representative of the universe or sample. It is also important to collect data on different aspects related to business and external factors that could impact the operation of small businesses.

The second step is to create risk indicators using the data collected. These indicators can be classified into two groups. The first group represents the changes in businesses themselves, such as business numbers, rents, sales, etc. The second group represents external factors that help to evaluate the impact of infrastructure and development on small businesses, such as building age, building height, and green line extension.

The final step is to use the risk indicators to assess the risk. There are different ways to use the indicators. They can be used individually or combined as an integrated one. Different weights can be given to different indicators based on the specific focus. The risk assessment can be conducted on different spatial levels, such as census block and business point level.

Example Displacement Risk Map

To demonstrate the strength of this methodology, the HKS team created an example displacement risk map. The datasets and indicators used are elaborated here.

Datasets

Five datasets from public and private sources are utilized in this example, as outlined in Table 1.

Acquiring business data proved challenging. Firstly, disaggregated business data is not publicly available. Secondly, though the private dataset from DataAxle (paid version) contains valuable information on various aspects of businesses (e.g., number of employees, estimated sales), the HKS team was unable to purchase it due to time and budgetary constraints. Fortunately, the team obtained a sectional paid version of DataAxle data for 2019 and 2021, and a free version of DataAxle data for 2021 and 2022 from ArcGIS. In cleaning the data, the team discovered that the business information in the DataAxle data from 2019 is not perfect; however, it is the closest source of truth. As such, the team assumed that the DataAxle data from 2019 contains the universe of businesses in Somerville.

Lifestyle businesses are filtered out from all business categories using NAICS codes, with a focus on those in the retail, arts, entertainment, accommodation, and food services sectors.¹⁹ Small businesses are identified as those having fewer than 20 employees among all lifestyle businesses.²⁰

Currently, there is no data source that can provide information on current rents paid by individual small businesses. As a workaround, the team used the estimated rent for commercial and office spaces from CoStar as a proxy for the rent level of small businesses operating within the same geographic areas. However, it is important to note that during interviews with small businesses, a significant number revealed that they do not have lease contracts with their landlords. So while CoStar is a valuable data source, it may not fully reflect the actual rents paid by small businesses.

In future iterations, thorough vetting of DataAxle data will be required. For example, through random spot checks, the team identified a subset of businesses that were permanently closed but still appeared in the dataset. The trickiest part is that these businesses were not in the 2019 file but were in the 2021 file. Therefore, it is imperative to fact check future data that will be used in the geospatial analyses or ensure consistency in methodology year-over-year in pulling DataAxle data so that the business information is comparable.

Table 1 Datasets used in the Analysis

No.	Accessibility	Observation	Attributes	Data Source	Date
1	Private	Business	location, type	DataAxle from MAPC	2019, 2021
2	Public	Business	type, number of employees, and estimated sales	DataAxle from ArcGIS Business Analyst	2021, 2022
3	Private	Retail and Office Properties	location, estimated rent	CoStar	2022, 2023
4	Public	MBTA System	location	MassGIS	2022
5	Public	Building Parcels	zoning and assessing attributes	GIS Department	2022

Single Indicators

The team identified four displacement risk indicators from available data to use in the example risk map.

1. **Number of small businesses:** Change in the count of small businesses across different areas over the years serves as a valuable indicator for displacement risk. Areas that have experienced a

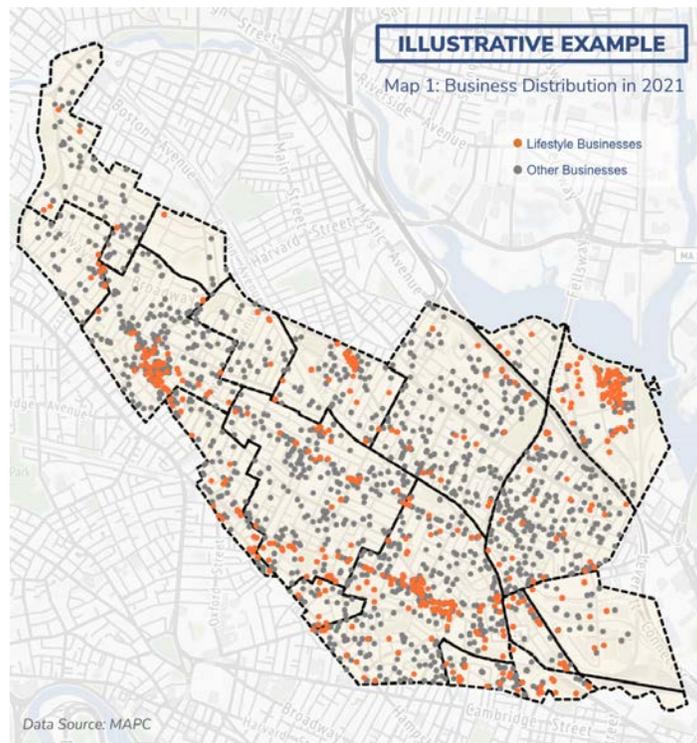
decline in the number of small businesses in the past are more likely to continue this trend in the near future.

The number of small businesses in 2019 and 2021 is presented in Table 2. In 2021, there were 3,070 lifestyle businesses in Somerville, accounting for approximately 18% of the total businesses (refer to Map 1). Among these lifestyle businesses, approximately 84% were classified as small businesses (refer to Map 2). In comparison to 2019, there was an 8% decrease in the number of small businesses. Map 3 utilizes varying shades of red to highlight blocks where the number of small businesses decreased between 2019 and 2021, indicating different levels of displacement risk.

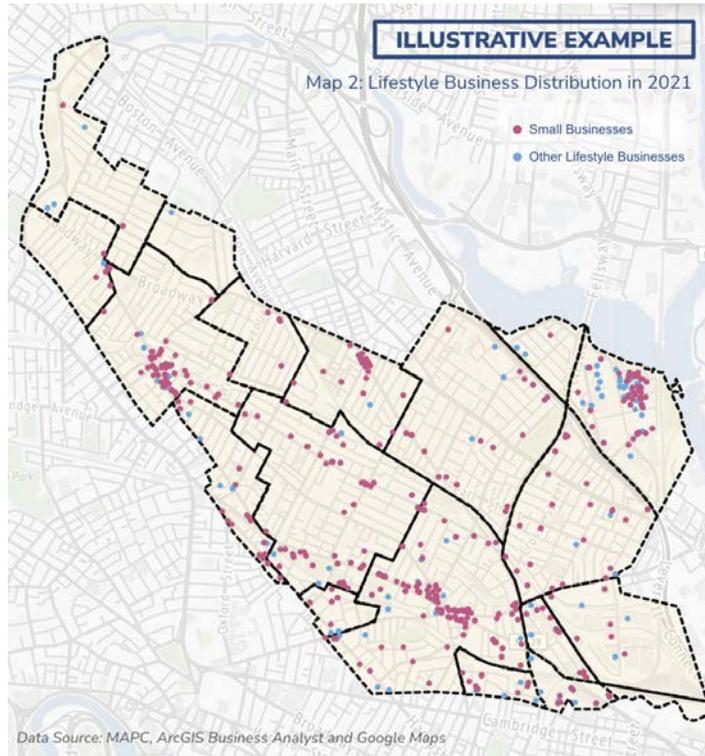
Table 2 The number of businesses in 2019 and 2021 (Data Source: DataAxle)

Year	Count of Total Businesses	Count of Lifestyle Businesses	Count of Small Businesses
2019	4015	719	604
2021	3741	671	553

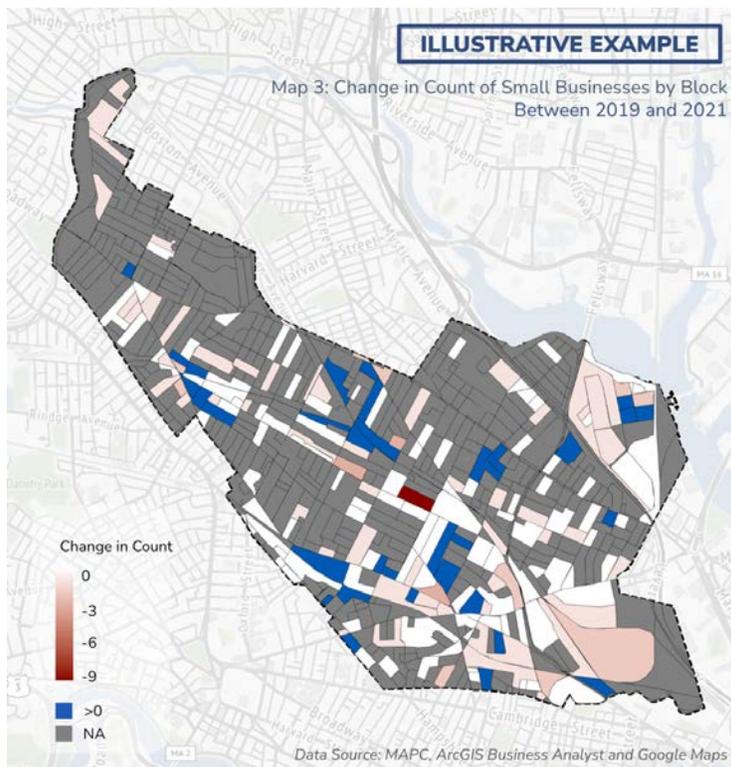
Map 1: Distribution of Business (including lifestyle businesses and other businesses) in Somerville in 2021



Map 2: Distribution of lifestyle businesses (including Small Businesses and other Lifestyle Businesses) in Somerville in 2021



Map 3: Change in the count of small businesses by block in Somerville between 2019 and 2021



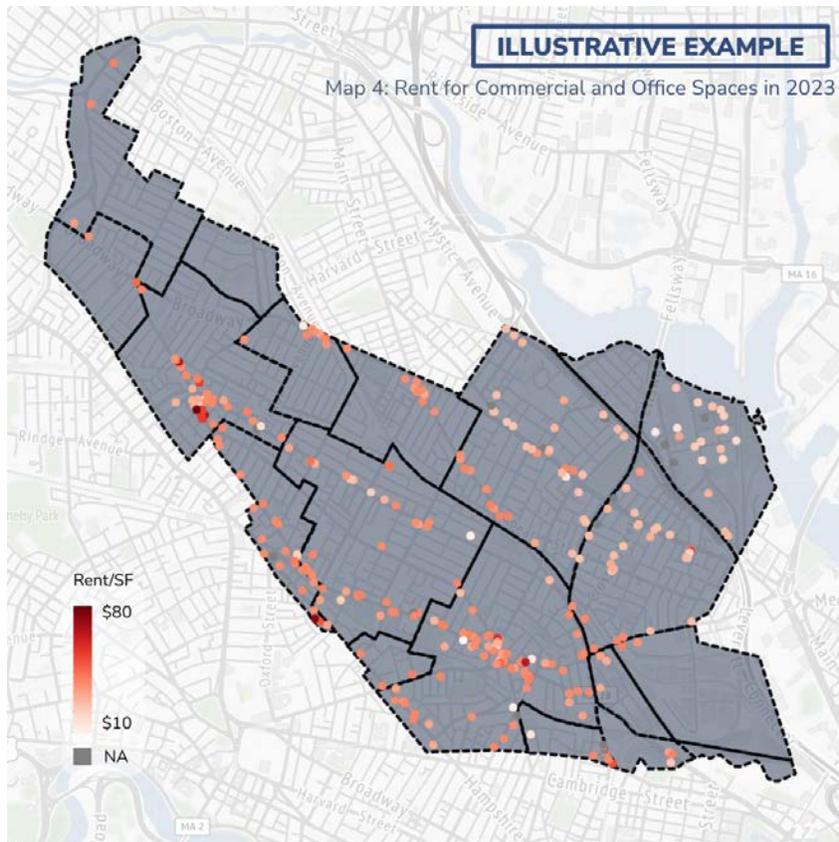
2. **Change in Small Business Rents:** Changes in rent over time serve as a significant indicator for assessing displacement risk. A continued increase in rent—often correlated with new development—imposes greater financial burdens on small businesses.

The minimum, maximum, and average rent in Somerville for the year 2023 are presented in Table 3. Map 4 demonstrates a notable variation in rent levels across the City, with higher rents concentrated in the southern and western areas. Map 5 illustrates blocks that have experienced an increase in average rent, with different shades of red indicating varying levels of risk (darker shades representing higher risk). This visualization helps identify areas where small businesses may face higher challenges due to rising rents.

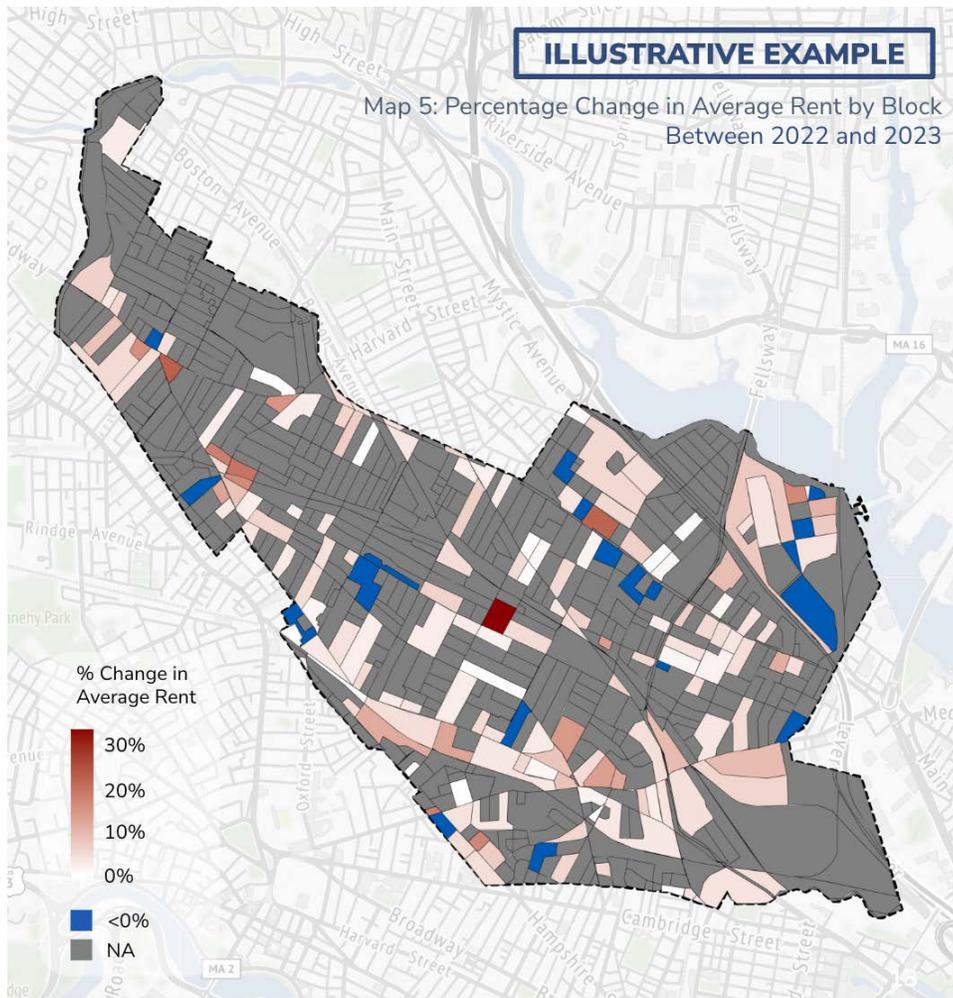
Table 3 Statistics of Commercial and Office Space Rent in 2023 (Data Source: CoStar)

Statistics	Rent/SF
Min	\$9.91
Max	\$78.83
Average	\$33.58

Map 4: Rent for commercial and office spaces in Somerville in 2023



Map 5: Percentage change in average rent by block in Somerville between 2022 and 2023

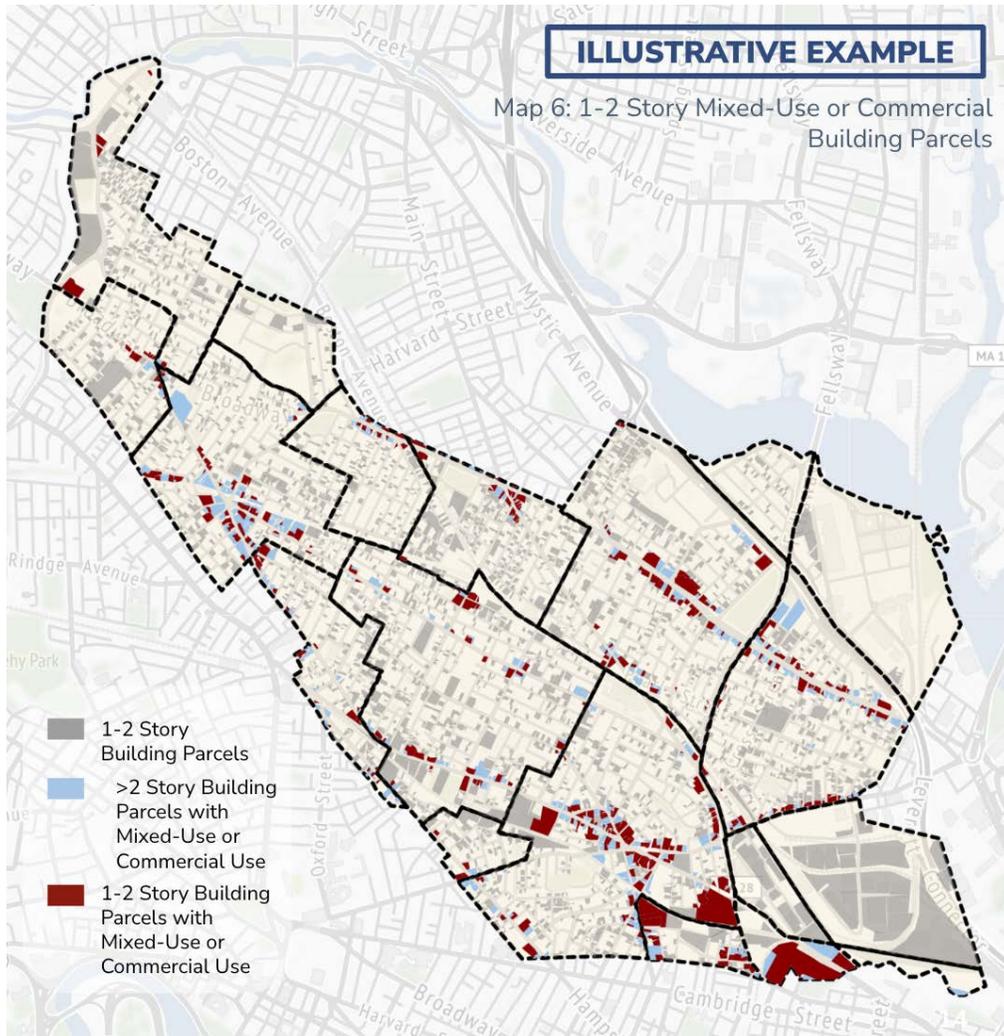


- Building Height:** Stakeholder interviews emphasized the significance of building height when assessing the risk of small business displacement. Small businesses located in lower buildings are more vulnerable, as they are more likely to be sold or redeveloped into taller structures by developers.

In 2021, approximately 46% of small businesses were situated in 1-2 story buildings, indicating that the influence of building height cannot be overlooked.

To identify this risk, Map 6 highlights parcels with mixed-use and commercial 1-2 story buildings throughout the City in dark red. Small businesses operating within these building parcels face a higher risk of displacement.

Map 6: 1-2 story mixed-use or commercial building parcels



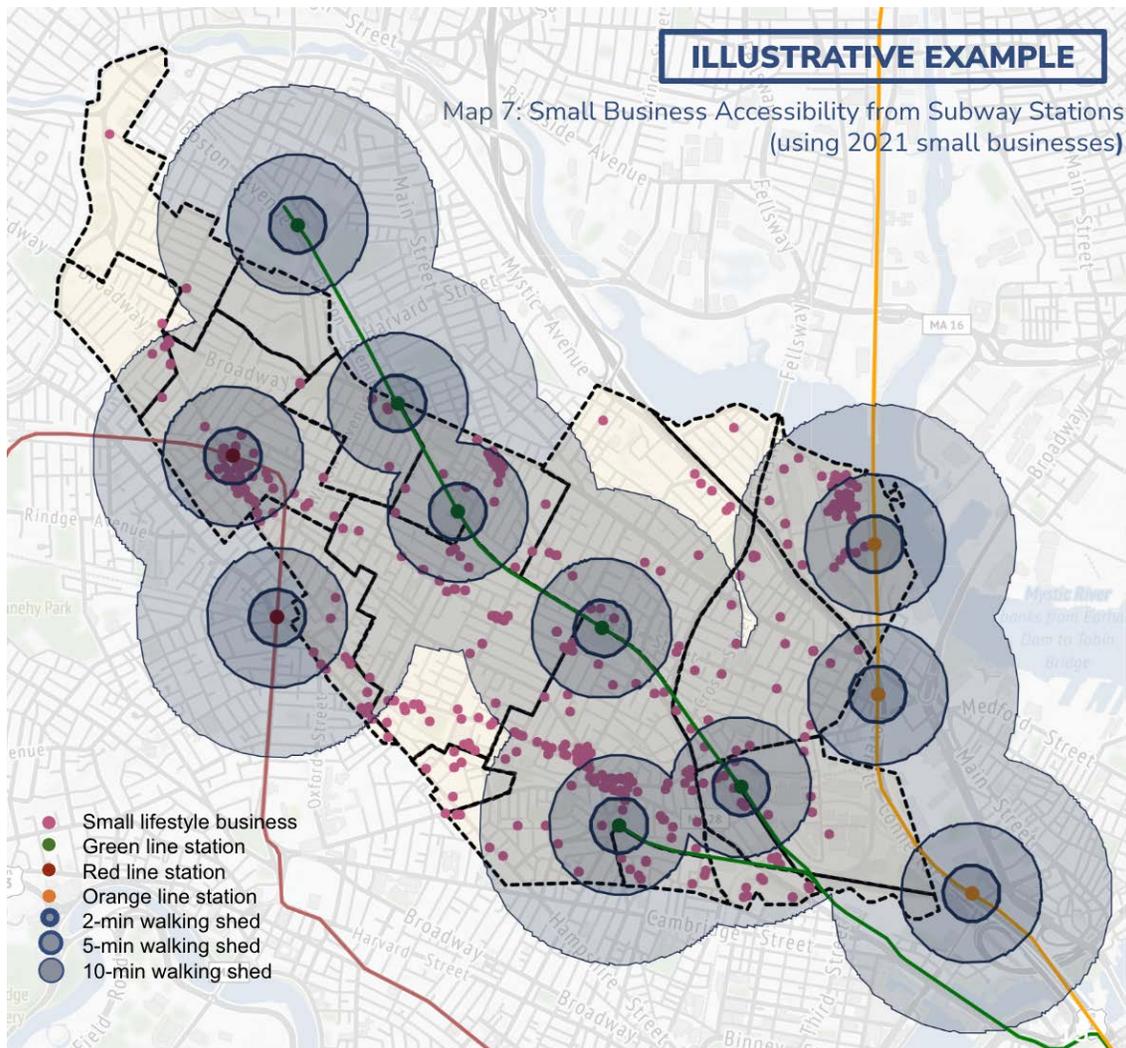
4. **Green Line Extension:** The Green Line extension (GLX) opened in 2022. Conservative estimates based on 2021 small business data indicate that the GLX has led to a significant increase of 180% in the number of small businesses within a 10-minute walking radius of the T (refer to Table 4 and Map 7 in Appendix B). The GLX presents both opportunities and risks for businesses. Risk is especially concentrated for small businesses located in lower buildings near the new stations, which are more valuable and attractive for redevelopment.

For instance, Map 8 illustrates the risks associated with the GLX by highlighting 1-2 story mixed-use or commercial building parcels within a 10-minute walking radius of the new Green Line stations in red. This signifies that small businesses operating within these building parcels are exposed to a higher risk of displacement.

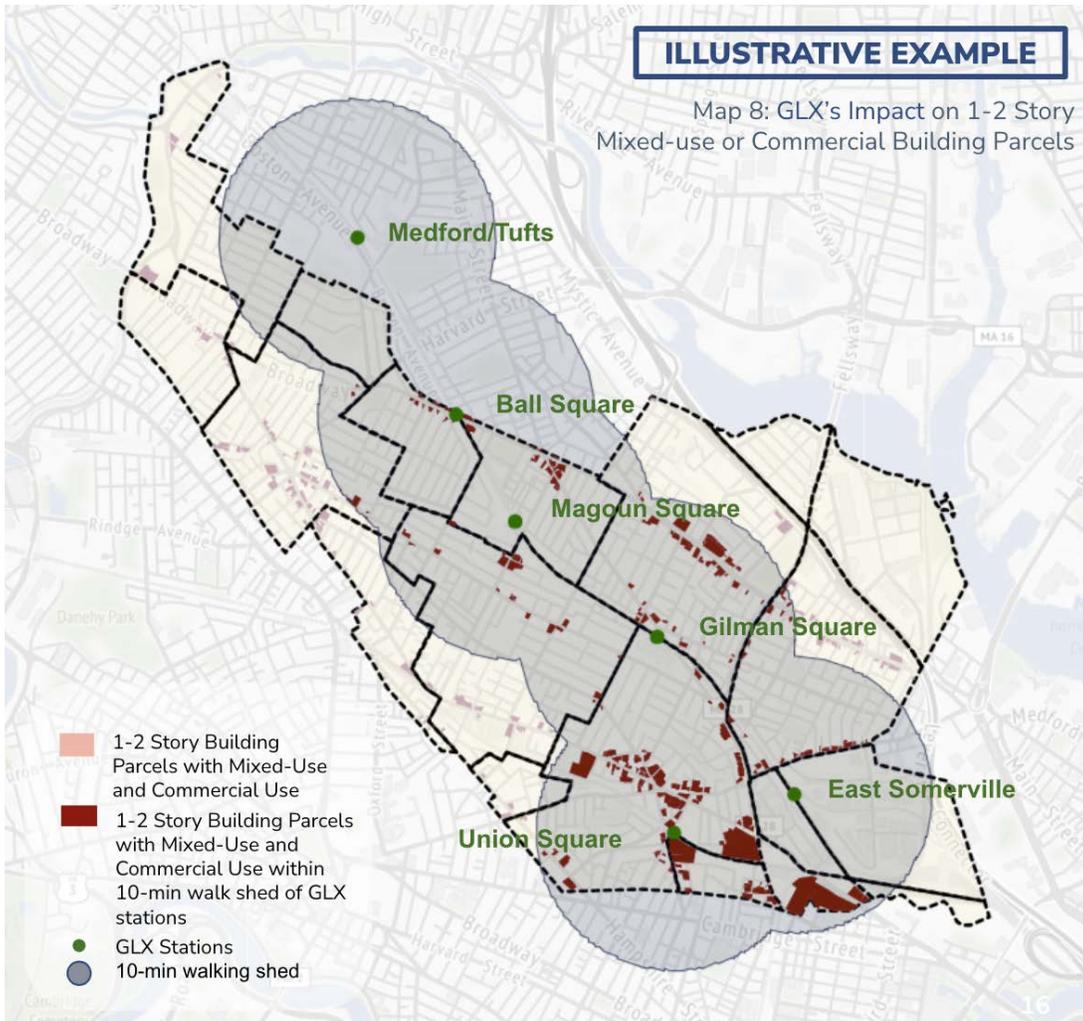
Table 4 The number of small businesses within the 2-min, 5-min and 10-min walking sheds of the T system before and after GLX (Small business Data Source: 2021 DataAxle data)

Distance	Count of Small Businesses Before GLX	Count of Small Businesses After GLX
In 2-min walking sheds	37	59
In 5-min walking sheds	91	275
In 10-min walking sheds	161	452

Map 7: Accessibility of Small Businesses from T Stations after GLX (using 2021 data)



Map 8: GLX's impact on 1-2 story mixed-use or commercial building parcels.



Appendix C: Transition Funding Case Studies

The following two case studies were used to identify key decision points the City of Somerville will face in creating a transition funding program.

Minneapolis Ready for Rail Loans

Minneapolis's Ready for Rail Loans offered no-interest loans of up to \$20,000 for small businesses along their Central Corridor and new light rail line. Twenty percent of the loan was forgiven for each year that the small business remained in their location in the Central Corridor. Ultimately, Minneapolis provided \$3.8 million to 200+ small businesses through the program from 2012-2014.²¹ As part of the process of standing up this program, the Central Corridor Funders Collaborative worked with local residents and businesses to identify and elevate concerns they had regarding the light rail construction. The Collaborative eventually honed in on financial burdens as one of the most pressing issues to address, and they worked to create the Ready for Rails loans program. A sub-committee called the Business Resources Collaborative supported small businesses through the application process and also assisted with accounting, tax filing, and marketing support.²²

It is also worth noting some small businesses have critiqued the program for being inadequate to fund the full scale of the issue businesses face.²³ Although it is impossible to design a program that meets every businesses' needs, it highlights the fine line cities must walk by providing a meaningful amount of assistance and assistance that is fiscally sustainable.

Los Angeles' Business Interruption Fund

Similarly, LA's Business Interruption Fund, funded and operated by the Los Angeles Metro, provides financial assistance to mom and pop businesses (defined as businesses with less than 25 employees) during the Metro's expansion. There are several requirements small businesses must meet including:

- **Geographic limitations:** Only small businesses that are immediately adjacent, defined as having a property line abutting or facing the rail corridor or a designated construction staging or construction storage area, are eligible.
- **Financial standards:** Must be solvent, in good standing with all local, state and federal taxing and licensing authorities, and provide financial records to prove it.
- **Time requirement:** Businesses must have already continuously operated for at least two years along the corridor.²⁴

Once a small business applies online, they are each assigned a business advisor who works with each applicant on the technical documents required including a business's financials. As of the end of 2021, the fund has awarded more than \$32.9M to more than 430 unique small businesses, and the LA Metro's Board of Directors has authorized \$10M annually to fund the BIF.²⁵

The LA Metro offers several other resources to small businesses and the community to increase transparency on BIF processes and grants. In addition to the business advisor, small businesses can attend a BIF application workshop or access FAQ and detailed instructions in four different languages. They publish maps of grantees in each area, small business spotlights, and quarterly status reports which contain further detailed information regarding the amount of grants awarded, progress towards their stated

outcomes, and small business satisfaction data.²⁶ The specific measures of effectiveness the program tracks as of September 2021 are:

- Number of businesses referred to support services post grant award (100%)
- Number of completed applications processed within 9 business days (97%)
- Client satisfaction rating (via survey): <= 30 days after grant award (99%)
- Number of businesses remaining in business post grant award/support for: 6M (94%)
- Number of businesses remaining in business post grant award/support for: 12M (87%)
- Number of businesses remaining in business post grant award/support for: 24M (80%)²⁷

Appendix D: Financial Modeling

The HKS team created a mock developer pro forma to inform both the City's negotiations with developers and potential policy creation. The information in this Appendix should be read in conjunction with the Prevention section of this memo and the excel file also provided.

The base case programming is currently set to a 5-story development. In scenario 1, this includes four floors of residential units and one floor for commercial retail. In scenario 2, this includes two floors of lab space, two floors of office space, and one floor for commercial retail. These cells are highlighted in blue font and are editable at the City's discretion. Other key assumptions to note are indicated below:

Mixed-Use Residential	Mixed-Use Lab & Office	Financial Assumptions
<ul style="list-style-type: none"> ● Market-Rate Rent: \$3,300 / unit ● Avg Unit Size: 800 sqft ● Parking Requirement: 0.1 spots / unit (low) 	<ul style="list-style-type: none"> ● Lab Rent: \$80/sqft (conservative) ● Office Rent: \$50/sqft (average) ● Parking Requirement: 1 spot / 1,000 sqft (low) 	<ul style="list-style-type: none"> ● Discount Rate: 5% ● Capitalization Rate: 6% ● Lot Size: 20,000 sqft ● New Construction Retail Rent: \$40/sqft at triple net

The financial model can calculate a development's profitability changes from inclusionary and incentive zoning policies. This portion of the model is dynamic and allows the City to test the gains and losses with the following parameters:

- Condoizing a portion of the ground floor retail space to a master lessor or community land trust (e.g., at \$0 per square foot);
- Setting a portion of ground floor retail space aside at an affordable rate;
- Fixing the affordability rate as a percentage of market-value rent;
- Testing the affordability rate at a price per square foot; and
- Calculating the impact of a density bonus (in floors).

Scenario 1: Calculating the break even from a condoization policy

The *break even* is a 0.45 density bonus, which is an equivalent to 9 additional residential units.

Policy Levers	Affordable SF	Market SF	Affordable \$	Market \$
1.0 Condo Space	30%	70%	\$0	\$40

Ex 1: HOUSING MIXED-USE

NPV	\$ 64,902,792
IRR	17.9%
NOI at Year 5	\$ 3,327,696
Retail Rev at Year 5	\$ 743,890
Retail % of NOI	22%

With Policy Lever **Condo Space** <- dropdown menu

Density Bonus	0.45 <- from above
NPV	\$ 65,457,051
IRR	17.3%
NOI at Year 5	\$ 3,408,687
Retail Rev at Year 5	\$ 520,723
Retail % of NOI	15%

Developer Gain / (Loss)	\$ 554,259
	-0.6%
	\$ 80,991

Scenario 2: Calculating the tradeoff between sqft allotment and depth of lease cap

In the same development, setting aside 30% of affordable retail space at 50% of market-rate rents is equivalent to setting aside 50% of affordable retail space at 70% of market-rate rents.

- Setting Aside 30% of Ground Floor Retail

Policy Levers	Affordable SF	Market SF	Affordable \$	Market \$
2.0 Affordable SF%	30%	70%	-	-
2.1 Affordable MV%	-	-	50%	\$40

Ex 1: HOUSING MIXED-USE

NPV	\$ 64,902,792
IRR	17.9%
NOI at Year 5	\$ 3,327,696
Retail Rev at Year 5	\$ 743,890
Retail % of NOI	22%

With Policy Lever **Affordable MV** <- dropdown menu

Density Bonus	-	<- from above
NPV	\$ 61,849,731	
IRR	17.4%	
NOI at Year 5	\$ 3,216,113	
Retail Rev at Year 5	\$ 632,306	
Retail % of NOI	20%	

Developer

Gain / (Loss)	\$ (3,053,061)
	-0.5%
\$	(111,583)

- Setting Aside 50% of Ground Floor Retail

Policy Levers	Affordable SF	Market SF	Affordable \$	Market \$
2.0 Affordable SF%	50%	50%	-	-
2.1 Affordable MV%	-	-	70%	\$40

Ex 1: HOUSING MIXED-USE

NPV	\$ 64,902,792
IRR	17.9%
NOI at Year 5	\$ 3,327,696
Retail Rev at Year 5	\$ 743,890
Retail % of NOI	22%

With Policy Lever **Affordable MV** <- dropdown menu

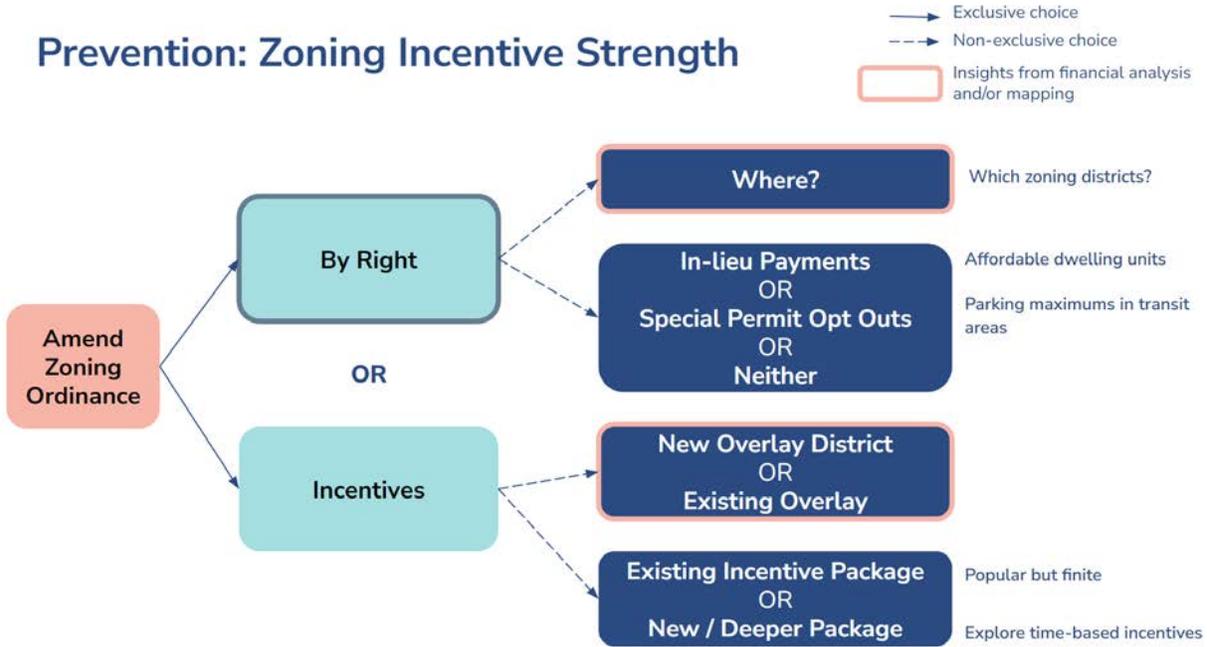
Density Bonus	-	<- from above
NPV	\$ 61,849,731	
IRR	17.4%	
NOI at Year 5	\$ 3,216,113	
Retail Rev at Year 5	\$ 632,306	
Retail % of NOI	20%	

Developer

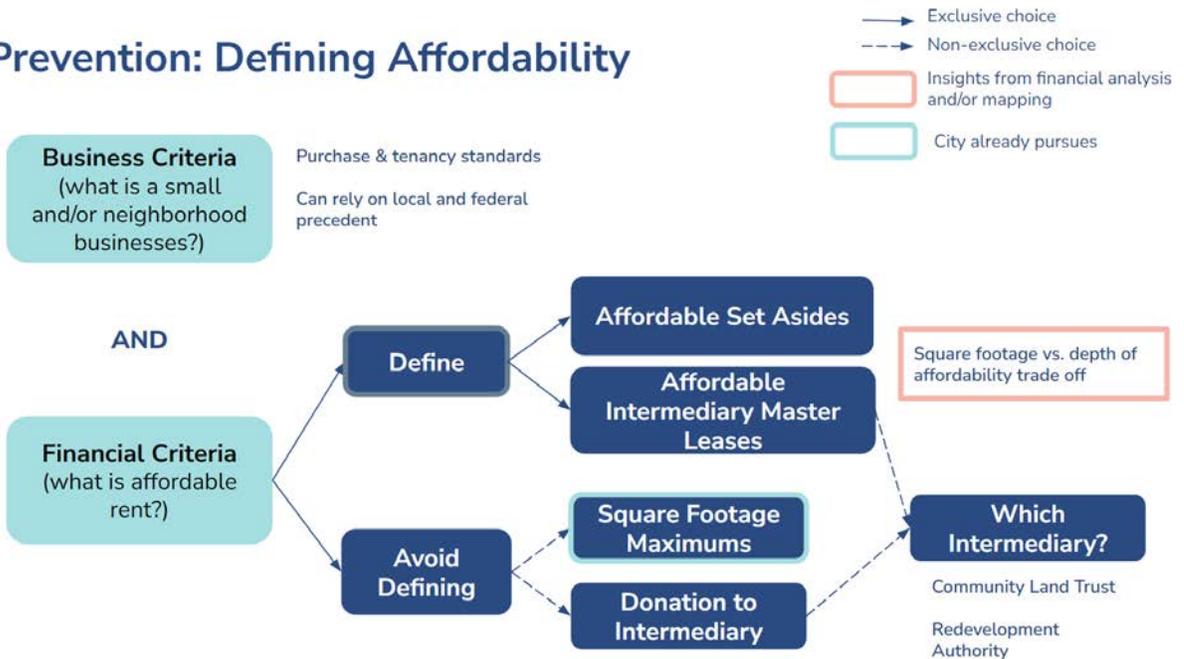
Gain / (Loss)	\$ (3,053,061)
	-0.5%
\$	(111,583)

Appendix E: Zoning Analysis

This appendix includes a visual representation—from the presentation slides provided—of the decisions outlined in the Prevention section of this memo, and should be used in conjunction with that text.



Prevention: Defining Affordability



BIPOC-Led Development Support

One of the policies the City requested an analysis of was BIPOC-led development support. The HKS concluded through preliminary research that financial support to BIPOC developers is only viable in real estate markets where small, short term loans of \$10,000 - \$250,000 are sufficient for the acquisition or substantial renovation of commercial property.²⁸ Somerville's real estate market is not amenable to such a program; the City would need millions in initial investment to make such a program feasible.

One revenue-neutral alternative the City of Somerville might pursue is the "Massport Model", also known as the "CommonWealth Development Model." This model requires developers moving through any special permit or variance process to disclose the diversity of their team and their subcontractors.²⁹ The model encourages developers to consider their internal and external diversity, and would allow the City to begin productive conversations with developers that do not currently prioritize diversity. The City could not allow the disclosures to impact permitting decisions.

Endnotes

1. https://uc5b35e894d41e2f4bb0b8b15174.dl.dropboxusercontent.com/cd/0/inline2/B7oWih5rgE1aBTdhuFtiGd5PoVZLz4Juz47EXB6Gi5t6fdEJWyFUK-B5VsPRMNPnFtxdera82pJsS5Cruvv4SV-aJ4JiP42cz4fuH1m9mWzIIF4mG0AukqpBNXdB0mtDiMI5A8utNRZhvOwu7pTBRB2JjEGAbji5erci4q5FJrwZnWp4CqPbpGXULxSHijMv8llXLfIeRsqqQ728Ikoc--fRmouslbPSbbHXriVvc6Rnru2UQ221WgqQQHCqvJjBNTbyrmMCQs65ZP4nnM2wCxEXkMMP1cIvAq3VA2M-uOKXW8hKWiagNQ_R4RC1S9JMI-daW5wX_sY8Z2LDAPxSORInhFq8t11GjLi0mPaAirwVnIwWtWKJ9uLNUFjf-1Y2AkKcmq2HxYV80gAfi0uei4OICcd5XtmfYsxUIFKy3F9upA/file
2. Dan Bartman, Interview with Staff at Planning and Zoning Division, April 25, 2023.
3. <https://www.somervillezoning.com/wp-content/uploads/sites/2/2022/01/2021-21-31-Somerville-Zoning-Ordinance.pdf>
4. <https://www.somervillezoning.com/wp-content/uploads/sites/2/2022/01/2021-21-31-Somerville-Zoning-Ordinance.pdf>
5. Dan Bartman, Interview with Staff at Planning and Zoning Division, April 25, 2023. & Kyle Vangel, Interview with Cambridge Redevelopment Authority, April 14, 2023.
6. Dan Bartman, Interview with Staff at Planning and Zoning Division, April 25, 2023. This mitigates the likelihood of legal action against the City.
7. Dan Bartman, Interview with Staff at Planning and Zoning Division, April 25, 2023.
8. For example, refer to the developer quotes in Appendix A, under “City Processes”.
9. <https://www.sandiego.gov/sites/default/files/dsdib538.pdf>. "The Expedite Program in San Diego, CA provides expedited permit processing for affordable/infill housing and sustainable development projects. The program promises a more aggressive processing timeline made possible by mandatory initial review meetings to collect early staff feedback, reduced project review cycles, funding of the environmental initial study at initial review, and priority scheduling of a public hearing. A variety of project types are eligible, including developments in which at least 10 percent of units are set aside for households at or below 65 percent of the area median income for renters or 100 percent of the area median income for homeowners."
10. <https://www.somervillezoning.com/wp-content/uploads/sites/2/2022/01/2021-21-31-Somerville-Zoning-Ordinance.pdf>
11. <https://inclusionaryhousing.org/inclusionary-housing-explained/what-are-the-downsides/is-it-legal/>
12. https://www.sba.gov/sites/sbagov/files/2023-03/Table%20of%20Size%20Standards_Effective%20March%2017%2C%2023%20%281%29%20%281%29_0.pdf
13. <https://www.somervillema.gov/departments/programs/small-business-covid-19-relief-fund>
14. <https://antidisplacement.org/tool/store-size-caps/>
15. <https://www.somervillezoning.com/wp-content/uploads/sites/2/2022/01/2021-21-31-Somerville-Zoning-Ordinance.pdf>
16. <https://anchorage.landtrust.org/>
17. <https://rondoclt.org/>
18. <https://www.inclusiveaction.org/core>
19. NAICS Categories Selected for Lifestyle Businesses: Retail Trade (44,45), Arts, Entertainment, and Recreation (71), Accommodation and Food Services (72)
20. The ArcGIS Business Analyst's DataAxle offers data on the number of employees, which serves as a cross-referencing source for assigning employee information to MAPC's business data. For the businesses where employee information is still missing (those businesses makes up 10% of lifestyle businesses), we use Google Maps to locate the business. If the business is an existing and non-chain entity, we assume it to be a small business.
21. <https://mndaily.com/205266/news/metro-state/businesses-get-loans-revenue-lost-light-rail-construction/>
22. <https://www.spmcf.org/uploads/general/What-We-Do/Files/CCFC/CCFC2016-LegacyReport-Final-Web.pdf>
23. <https://www.minnpost.com/political-agenda/2014/03/forgivable-loans-helped-central-corridor-businesses-during-lrt-work-some-st/>
24. <https://www.metro.net/about/business-interruption-fund/>
25. <https://www.masstransitmag.com/rail/infrastructure/press-release/21262447/los-angeles-county-metropolitan-transportation-authority-metro-la-metro-celebrates-closing-of-successful-construction-mitigation-programs-for-crenshaw-lax-line>
26. <https://www.metro.net/about/business-interruption-fund/>
27. https://www.dropbox.com/s/u5jesufe7ignvus/Q3_2021_PCR_BIF_Report_Final.pdf?raw=1
28. See, for example, the Northside Commercial Real Estate Revolving Loan Fund: <https://www.neon-mn.org/copy-of-business-solutions-1>
29. <https://www.bostonglobe.com/2022/03/25/business/world-big-time-development-boston-is-overwhelmingly-white-theres-growing-push-change-that/>