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Barney S. Heath
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MEMORANDUM

DATE: March 15, 2024
TO: Councilor R. Lisle Baker, Chair, Zoning & Planning Committee
Members of the Zoning & Planning Committee

FROM: Barney Heath, Director, Department of Planning and Development
Jennifer Caira, Deputy Director Department of Planning and Development
Zachery LeMel, Chief of Long Range Planning

RE: **#43-24 Quarterly update on projects using the VCOD overlay districts**
Councilors Albright and Danberg requesting updates on any potential projects brought to the Planning Department under the new Village Center Overlay District. The updates should include indications of interest and actual permits filed; for which villages and under which zoning districts; number of stories and units.

MEETING: March 25, 2024

CC: City Council
Planning Board
Jonathan Yeo, Chief Operating Officer
Alissa Giuliani, City Solicitor

Introduction

At the end of 2023, the Newton City Council approved new zoning around seven MBTA stations/six village centers (Newton Centre, Newton Highlands, Waban, Newtonville, West Newton, Auburndale, and Eliot/Route 9), known as the Village Center Overlay District (VCOD). The VCOD satisfies both the City Council's goal of allowing for concentrated development near resources and amenities and compliance with State law, known as the MBTA Communities Act (3A).

Planning shared the submission with the City Council in advance of the February 15, 2024 ZAP meeting. The submission, excluding the required economic feasibility analysis (EFA), can be found in the ZAP Report here:

https://www.newtonma.gov/home/showpublisheddocument/117169/638442823692970000

Last week, Planning received the final EFA (Attachment A) from the Metropolitan Area Planning Council (MAPC) and submitted it to the State. **All scenarios tested within the EFA came back as financially viable, meaning that MAPC is confident that Newton will be able to apply the Inclusionary Zoning Ordinance (IZ) within the VCOD.**

At this time, the City has a complete application before the State and is in interim compliance with 3A while we wait for a final determination. This informational memo serves to breakdown and summarize the submission for the City Council and provide the EFA.

Newton 3A Submission

What is included in the 3A Submission

The VCOD is made up of three distinct zones: Multi-Residence Transit (MRT), Village Center 2 (VC2), and Village Center 3 (VC3). Parcels within all three of these zones were submitted within Newton's 3A application. However, not all VCOD parcels were, or could have been, submitted to meet 3A compliance.

The breakdown between the number of parcels approved within the VCOD and 3A Submission is:

VCOD Zone	# of VCOD Parcels	# of 3A Parcels*
MRT	654	649
VC2	184	93
VC3	125	104
Grand Total	**963**	**846**

The subset of VCOD parcels submitted for 3A compliance are visualized in Attachment B.

Furthermore, the 3A submission required the further breakdown of the three VCOD zones into six districts. This is a function of the Excel Compliance Workbooks provided by the State. Each MBTA Community inputs their approved zoning information in the Compliance Workbooks, which then use embedded formulas to calculate the various 3A requirements (acreage, density, unit capacity, etc.). Each district comprises of parcels subject to the same zoning requirements. Even though Newton only has three zones, there are different zoning requirements (ex. VC3 mixed-use required vs. VC3 no mixed-use required) within these zones.

The 846 3A parcels are broken down as follows:

Residential Only (no mixed-use requirement)

3A District	VCOD Zone	# of Parcels
District 1	MRT	649
District 2	VC2	93
District 3	VC3 Resi-Only <20000 sf	59
District 4	VC3 Resi-Only >20000 sf	8
	Sub-Total	**809**

Mixed-Use Required

3A District	VCOD Zone	# of Parcels
District 1	VC3 Mixed-Use <20000 sf	32
District 2	VC3 Mixed Use >20000 sf	5
	Sub-Total	**37**

As you can see from both tables above the vast majority of parcels, total VCOD and 3A only, are made up of MRT, the least dense zoning district.

What is not included in the 3A Submission

The methodology for eliminating VCOD parcels from the 3A submission is outlined in the steps below:

1. Remove any VC2 or VC3 parcel over 30,000sf, which requires a special permit.

# of VC2 and VC3 Lots >30,000 sf*

VCOD Zone	# of Parcels
VC2	19
VC3	19
Grand Total	**38**

2. Remove any VC2 parcel the requires mixed-use and is less than 30,000 sf.*

# of VC2 Mixed-Use Parcels, <30,000sf

VCOD Zone	# of Parcels
VC2	60**
Grand Total	**60**

*See next section of the memo for reasoning on why VC2 mixed-use parcels were not included
**14 of these parcels are within Auburndale, which overall is less than 5 contiguous acres

3. Remove any remaining parcels that are non-contiguous per the State Guidelines (Sec. 5.a.ii.).

# of Non-Contiguous Parcels

VCOD Zone	# of Parcel
MRT	5
VC2	12*
VC3	2
Grand Total	**19**

*6 of these parcels are within Auburndale, which overall is less than 5 contiguous acres

Why VCOD parcels were not included in the 3A Submission

There are two reasons why not all VCOD parcels were not included in Newton's 3A submission:

1. Certain parcels did not meet the minimum 3A requirements/guidelines for submission (ex. non-contiguous areas less than 5 acres like Auburndale and parcels over 30,000 sf that require a special permit)

2. To put forward the strongest application possible. Parcels that weaken the overall application due to uncertainty of economic feasibility (ex. mixed-use required VC2 parcels) were removed.

The first reason for excluding VCOD parcels from the 3A submission is self explanatory. Simply, any parcel that doesn't meet the minimum State requirements cannot count. Planning staff regularly reminded the City Council and broader community of this point throughout the process.

The second reason requires additional explanation. Throughout the village center process, Planning staff utilized the economic analysis provided by our consultant, Landwise, to ensure that the zoning proposal created the opportunity for financially viable development. Landwise's analyses provided between 2022 and 2023 did not include a VC2 mixed-use required project. This was because, a) mixed-use required parcels originally could not count towards 3A compliance, b) the vast majority of VC2 mixed-use parcels were in locations that were not or could not be submitted for 3A compliance (ex. Upper Falls and Lower

Falls), and c) the City Council downzoned many VC3 mixed-use parcels to VC2 mixed-use parcels in December 2023 just before approving the VCOD zoning leaving no time to complete any such analysis.

Once the City Council approved the final VCOD zoning, Planning staff met with MAPC and Landwise on the financial viability of VC2 mixed-use required. While financial viability is not a base requirement for 3A compliance, it is a requirement for Newton since we plan to utilize our Inclusionary Zoning (IZ) Ordinance for VCOD development (See. State Guidelines Sec. 4.b.). In these initial meetings, both economic development consultants concluded that a VC2 mixed-use requirement, plus Newton's IZ requirements, would render development uncertain/infeasible and therefore unlikely to meet 3A compliance.

The results of this analysis can be found in the EFA, Appendix V in Attachment A. In short, this analysis finds that **the feasibility of mandatory mixed use in the VC2 district, along with Newton's current inclusionary policy, is uncertain** These results prompted City staff to exclude the mandatory mixed use in the VC2 zone from its 3A compliance application to a) present the strongest package possible, which was consistent with MAPC's recommendations or b) the State accept our submission but not allow our IZ affordability requirements to apply for these parcels. The unit capacity of the VC2 mixed-use required parcels that Planning did not submit for 3A compliance is 809 units.

Newton 3A Compliance Metrics

All compliance metrics (unit capacity, acreage, contiguity, land area in transit) can be found in the Excel Compliance Workbooks submitted to the State provided in the link above, which can be most easily found in the "Summary" tab. Because of formatting, we submitted two different Compliance Workbooks. To simplify, the table below extracts the compliance information into one table:

Newton 3A Compliance Summary

3A District	VCOD Zone	Unit Capacity	In Transit Area	Acreage	Density
District 1	MRT	2,496	100%	173.3	14.4
District 2	VC2	2,879	100%	32.9	87.9
District 3	VC3 Resi-Only <20000 sf	1,770	100%	15.2	116.6
District 4	VC3 Resi-Only >20000 sf	473	100%	5.8	81.5
District 5	VC3 Mixed-Use <20000 sf	728	100%	10.9	66.9
District 6	VC3 Mixed Use >20000 sf	186	100%	5.0	37.2
	Sub-Total Residential Only	**7,618**	**100%**	**227.2**	**33.5**
	Sub-Total Mixed-Use Only	**914**	**100%**	**N/A***	**N/A***
	Grand Total (3A Compliance)	**8,532**	**100%**	**227.2**	**33.5**
	Compliance Minimums	**8,330**	**90%**	**50**	**15**

*Mixed-use required parcels cannot be counted towards the acreage and density requirements. Mixed-use unit capacity cannot exceed 25% of Newton's minimum requirement, which is 2,082 units.

In addition, while Newton's districts are dispersed among the various village centers, 3A requires one contiguously zoned area of at least 50%. Newton's 3A submission has a contiguous zone of 53.1%, which is the area stretching from Newton Centre, Newton Highlands, and Eliot/Route 9.

Newton's Economic Feasibility Analysis (EFA) for 3A Submission

Below is the summary provided by MAPC within Newton's EFA:

In short, this analysis finds that **Newton's current inclusionary policy is economically feasible** and is unlikely to pose a risk of deterring development in its Section 3A district. While Newton's inclusionary zoning is one of the more ambitious in the state, particularly for rental development, its housing prices are also among the highest in the state and are sufficient to balance the cost of the City's inclusionary policy.

SCENARIO	UNITS	CONST.	PARKING	MIXED USE	IRR*	RETURN ON COST**	INCLUSIONARY POLICY FEASIBLE UNDER 3A ZONING
Scenario 1	7	Wood frame	Surface	No	17.5%	5.5%	**YES**
Scenario 2	12	Wood frame	Surface	No	18.4%	5.6%	**YES**
Scenario 3	21	Podium	Podium	No	18.2%	5.6%	**YES**
Scenario 4	52	Podium	Under-ground	9000 sqft.	18.0%	5.5%	**YES**
Scenario 5	62	Podium	Under-ground	No	17.6%	5.5%	**YES**

*The minimum IRR to determine profitability used in this model is 16%
**The minimum return on cost to determine profitability in this model is 5.5%

Additional summaries and analysis inputs can be found in the complete EFA, see Attachment A.

Next Steps

Planning will inform and update the City Council once the State provides its determination of compliance. The State has not provided a date when will receive this determination. For the VC2 mixed-use required areas, Planning recommends no City Council action currently. Planning is receiving inquiries about VC2 parcels, mixed-use and residential only. It is unclear if any of these will move forward with building permits, but these potential projects offer helpful data points that Planning can use for any future recommendations.

Attachments

Attachment A City of Newton Section 3A Economic Feasibility Analysis (EFA)

Attachment B 3A Parcels Map

City of Newton
Section 3A Economic Feasibility Analysis

Analysis by the Metropolitan Area Planning Council
March 8, 2024

INTRODUCTION

In 2021, Massachusetts adopted MGL Chapter 40A Section 3A, which requires that MBTA Communities have at least one zoning district where multifamily housing can be built by right. In its Section 3A Compliance Guidelines, the Executive Office of Housing and Livable Communities (EOHLC) stipulates that local inclusionary zoning policies, which require that a percentage of units in new housing be affordable, may conflict the Section 3A by-right requirement if the inclusionary policy makes new development economically infeasible. For the purposes of determining compliance with Section 3A, EOHLC considers an inclusionary policy to be consistent with by-right zoning if the policy requires that no more than 10% of new units be affordable to households earning at least 80% of area median income (AMI).

To advance housing goals and address local need, many municipalities in Greater Boston have inclusionary policies that go beyond this threshold. In such cases, the Section 3A Compliance Guidelines stipulate that EOHLC may, at its discretion, allow for affordability greater than 10% of units or deeper than 80% AMI if the inclusionary policy is supported by an Economic Feasibility Analysis (EFA).

Newton’s current inclusionary policy requires that 15-20% of new units be affordable to households in two income tiers, the first covering low-income households earning 50-80% AMI and the second covering middle-income households earning 110% AMI. This level of affordability aligns with local housing goals but goes beyond the threshold set by EOHLC in the Compliance Guidelines. As such, to apply its inclusionary policy to new development projects in its Section 3A district, the City must conduct an EFA to confirm that the inclusionary zoning is feasible. This analysis was undertaken according to EOHLC’s EFA Guidelines and is intended to satisfy the requirement for an EFA and demonstrate the feasibility of Newton’s inclusionary zoning policy in its 3A district.

SUMMARY

In short, this analysis finds that **<u>Newton's current inclusionary policy is economically feasible</u>** and is unlikely to pose a risk of deterring development in its Section 3A district. While Newton's inclusionary zoning is one of the more ambitious in the state, particularly for rental development, its housing prices are also among the highest in the state and are sufficient to balance the cost of the City's inclusionary policy.

Scenario	Units	Const.	Parking	Mixed Use	IRR	Return on Cost	Inclusionary policy feasible under 3A zoning
Scenario 1	7	Wood frame	Surface	No	17.5%	5.5%	**YES**
Scenario 2	12	Wood frame	Surface	No	18.4%	5.6%	**YES**
Scenario 3	21	Podium	Podium	No	18.2%	5.6%	**YES**
Scenario 4	52	Podium	Under-ground	9000 sqft.	18.0%	5.5%	**YES**
Scenario 5	62	Podium	Under-ground	No	17.6%	5.5%	**YES**

An explanation of the above development scenarios, details regarding model assumptions and inputs, and a discussion of the analysis results are included in the following sections.

LOCAL CONTEXT

CURRENT INCLUSIONARY POLICY

Newton first adopted an inclusionary policy in 2003 and, in the ensuing years, has made several updates as its housing market has evolved. The current iteration of the policy was enacted in 2019 and is codified in Section 5.11 of the City's zoning ordinance.

Perhaps the most notable aspect of Newton's inclusionary policy is its complexity. It incorporates tiered percentages for the number of units required, tiered target income levels, the option to average target income levels, and different requirements for rental and ownership projects. While any one of these elements is not particularly unusual, the combination of elements makes for a complex policy that is difficult to briefly summarize.

The policy requires that 15-20% of new units be affordable, with the share of affordable units increasing with project size. Units must be affordable to households in two income tiers, the first covering low-income households earning 50-80% AMI and the second covering middle-income households earning 110% AMI. A middle-income tier is uncommon in Massachusetts inclusionary policies but is not without precedent. For most rental projects, affordability in the first income tier must average 65% AMI. For ownership projects, affordability in the first income tier is simply 80% AMI. The ordinance provides a detailed breakdown of how many units must be provided within each affordability tier depending on project size and tenure, which is summarized in the table below.

The ordinance asks less of smaller projects, which is appropriate given that smaller projects generally cost more to develop per unit and are often less able to meet the requirements of an ambitious inclusionary policy than a larger project. For some small-scale projects, Newton's inclusionary policy is consistent with policy trends across the state. For example, an ownership project with 16 or fewer units would be required to provide 15% of units at 80% AMI, a very common standard in Massachusetts policies. Rental projects must provide affordability at a deeper level; 15% of units at 65% AMI (or half at 50% AMI and half at 80% AMI). This is less common though not far outside the norm; several of the strongest market municipalities in Boston's inner core have similar requirements.

Policy Component		Notes
Threshold	7 new residential units	Project size at which policy applies
Affordable units	**Rental projects** • Projects with up to 20 units: 15% of total units at Tier 1 affordability levels • Projects with 21-99 units: 17.5% of total units, including 15% at Tier 1 affordability levels plus 2.5% at Tier 2 affordability levels • Projects with 100 or more units: 20% of total units, including 15% at Tier 1 affordability levels plus 5% at Tier 2 affordability levels **Ownership projects** • Projects with up to 16 units: 15% of total units at Tier 1 affordability levels • Projects with 17-20 units: 15% of total units, including 10% at Tier 1 affordability levels plus 5% at Tier 2 affordability levels • Projects with 21-99 units: 17.5% of total units, including 10% at Tier 1 affordability levels and 7.5% at Tier 2 affordability levels	

	• Projects with 100 or more units: 20% of total units, including 10% at Tier 1 affordability levels and 10% and Tier 2 affordability levels The ordinance requires that affordable units have a mix of unit types (e.g. one-bedroom, two-bedroom) proportionate to market-rate units.	
Fractional units	Any fractional unit of 0.5 or greater is rounded up to a full unit. For fractional units less than 0.5, developers have the option of rounding up to a full unit or making a fractional cash payment equivalent to the unit fraction multiplied by $650,000, the average development cost per unit currently set by the City.	
Affordability levels	**Tier 1 Affordability Levels in Rental Projects** • Projects with up to 9 total units: 80% AMI • Projects larger than 9 units: 50% - 80% AMI; must average to 65% AMI **Tier 1 Affordability Levels in Ownership Projects** • All project sizes: 80% AMI, prices set based on 70% AMI[1] **Tier 2 Affordability Levels in Rental Projects** • All project sizes: 110% AMI **Tier 2 Affordability Levels in Ownership Projects** • All project sizes: 110% AMI, prices set based on 100% AMI See Appendix I for affordability calculations.	
Alternative methods	In-lieu fee	Permitted by right for projects with up to 9 units. Calculated as a percentage of the average total development cost for a unit in Newton, which the City currently defines as $650,000: For seven units, 70% x TDC = $455,000 For eight units, 80% x TDC = $520,000 For nine units, 90% x TDC = $585,000 For projects larger than nine units, an in-lieu fee requires a special permit and is not considered in this analysis.
	Off-site units	Off-site units are only permitted under certain circumstances and are subject to a Special Permit from the City Council. As this option is not available by right, it is not considered in this analysis.
	A project may provide fewer affordable units overall if some units are affordable to households earning 30% AMI	This option is subject to a Special Permit from the City Council and thus is not considered in this analysis.
Affordable housing bonus (codified in VCOD ordinance)	The maximum allowable building height and footprint may be increased in exchange for providing 25% Tier 1	The affordable housing bonus is available by right. However, the share of affordable units required to access this bonus is substantial. This analysis assumes that the bonus will be accessed primarily by mission-oriented developer or in other unique circumstances,

[1] This 10% difference between target income and price is consistent with state guidance in determining affordable homeownership prices.

	units in the VC2 zone or 50% Tier 1 units in the VC3 zone.	and does not include the bonus in the development scenarios.
Administration process	Administrative Review	The affordable housing requirements are administered administratively during permitting, which is consistent with the by-right requirement of Section 3A.

3A Zoning District

In December 2023, Newton City Council adopted the Village Center Overlay District (VCOD) to satisfy the requirements of Section 3A. The VCOD is comprised of three subdistricts: Village Center 3 (VC3) for commercial cores, Village Center 2 (VC2) for smaller commercial areas, and Multi-Residence Transit (MRT) to gently transition to existing residential areas. Development in the MRT subdistrict, which allows multifamily housing with a maximum of four units, will not be subject to the inclusionary policy because it falls below the 7-unit threshold and is thus not considered in this analysis.

The VC2 and VC3 zones permit by-right multifamily development on lots up to 30,000 square feet, or approximately two-thirds of an acre; development on larger lots requires a special permit. There is a maximum building footprint of 15,000 square feet in the VC3 zone and 10,000 square feet in the VC2 zone. Although there is a maximum building footprint, multiple buildings are permitted on a lot by-right so long as they can meet all the site and building dimensional requirements. Maximum allowable building heights are 4.5 stories in the VC3 zone and 3.5 stories in the VC2 zone.

There are no off-street parking requirements for new residential development in the VC2 zone. In the VC3 zone, off-street parking is not required for new residential development on lots smaller than 20,000 square feet, and on larger lots 0.5 off-street spaces per unit are required.

The VC3 zone mandates active use (e.g. retail or restaurant) on the ground floor of new development that fronts mixed-use priority streets.[2] Consistent with HLC guidance regarding mandatory mixed use, there are no parking minimums for ground floor commercial uses.

Recent Development

In the past five years, Newton has permitted thirteen multifamily projects subject to its inclusionary policy. These projects ranged in size from 7 to 800 units, though the 800-unit project is an outlier; the second largest project was 140 units and the median project size was 25 units. Collectively, these projects generated a total of 239 new affordable units, including 196 low-income units affordable to households earning 80% AMI or less, and a total of $1.38 million in fractional and in-lieu payments to the City's Inclusionary Zoning Fund.

[2] The VC2 zone, which extends beyond Newton's 3A district, also requires ground floor mixed use on parcels fronting mixed-use priority streets. However, these parcels are not a part of Newton's Section 3A district and were not included in its compliance application. Accordingly, the feasibility of mandatory mixed use in the VC2 zone is not considered here.

Address	Total Units	Total affordable units	Cash Payment	Tenure	Approval
28 Austin Street	68	23 units at 80% AMI		Rental	2018
875 Washington	140	21 units at 65% average AMI* + 14 units at 120% AMI		Rental	2018
15-21 Lexington	24	4 units at 65% average AMI* + 1 unit at 110% AMI		Rental	2019
156 Oak Street	800	120 units at 65% average AMI* + 20 units at 110% AMI		Rental	2019
1149 Walnut	25	4 units at 65% average AMI* + 1 unit at 110% AMI		Rental	2021
967 Washington	28	5 units at 65% average AMI* + 2 units at 110% AMI	$57,824	Rental	2021
1314 Washington	50	8 units at 65% average AMI* + 1 unit at 110% AMI	$195,000	Rental	2023
20 Kinmonth	24	3 units at 80% AMI + 1 unit at 110% AMI		Ownership	2019
956 Walnut	7	1 unit at 80% AMI	$55,000	Ownership	2019
1114 Beacon	34	3 units at 80% AMI + 3 units at 110% AMI	$231,295	Ownership	2021
383 Boylston	12	2 units at 80% AMI		Ownership	2022
136 Hancock	16	2 units at 80% AMI	$260,000	Ownership	2022
106 River St	9	None	$585,000	Ownership	2023

* See IZ policy for average AMI explanation

While previous development does not guarantee future project feasibility, it does indicate that the City's inclusionary policy has been viable in recent development projects, including small and mid-sized projects. Given that development in the new 3A zoning district will be permitted by-right, these recent permitting trends support the conclusion that development under Newton's current inclusionary policy will be feasible in the new 3A district.

In addition to the above, in the past five years Newton has seen several projects developed through the Comprehensive Permit process, which enables projects that provide a certain percentage of affordable units to bypass local zoning regulations.

Project	Total units	Affordable units	Year Permitted
Dunstan East	243	61 units at 80% AMI (25% of total units)	2020, amended 2021
Residences on the Charles	204	51 units at 80% AMI (25% of total units)	2020
Northland Charlemont	410	103 units at 80% AMI (25% of total units)	2023
528 Boylston	244	61 units at 80% AMI (25% of total units)	In process; comprehensive permit application submitted in 2022
78 Crafts	307	62 units at 50% AMI (20% of total units)	In process; comprehensive permit application submitted in 2023

Four of the above projects provided 25% on-site affordable units at 80% AMI, and one provided 20% on-site affordable units at 50% AMI. These projects cannot be directly compared to those built under

Newton's inclusionary ordinance because the Comprehensive Permit process differs significantly from the local Special Permit process in terms of the time required to secure approvals and the scale and type of building permitted, both of which impact project returns. All the same, the level of affordability required for comprehensive permit eligibility is a significant lift for any development project and is indicative of a strong housing market in which market-rate rents are high enough to cross-subsidize a substantial share of affordable units.

Pro Forma Analysis

MAPC's analysis utilizes a development pro forma, a tool that is typically used by a developer to understand whether a real estate project is likely to be profitable. A pro forma takes into account dozens of project-specific real estate development variables to arrive at a projected level of financial return. As each of these variables change—for example, as construction costs decrease or interest rates increase—profitability goes up or down. If the anticipated profitability falls too low, the project will be considered too risky or too unprofitable to pursue.

For policy makers, a pro forma model is a useful tool to understand how a particular policy might impact the local housing market. By undertaking a feasibility study when considering adoption or application of inclusionary zoning, a municipality is better equipped to design a policy that both meets affordability goals and minimizes the risk of dampening development. For this EFA, the intent is not to test a variety of policy options, but rather to document the viability of a policy that has already been adopted. Therefore, rather than compare the impacts of a range of different inclusionary policy requirements, this analysis will test a single inclusionary policy across several hypothetical projects likely to be developed in Newton's 3A district to evaluate whether the policy risks impeding the production of multifamily housing.

MAPC's pro forma financial model incorporates a wide range of variables, which are reviewed in detail in the following sections. These inputs form the backbone of any feasibility analysis and must be carefully researched and calibrated to reflect Newton's local development conditions to ensure an accurate analysis. This analysis derives its inputs from several sources. First, it relies on quantitative market data from industry sources, which include CoStar, Warren Group, Zillow, RS Means, and MAPC's rental listings database. These provide a picture of Newton's overall housing market, including properties of all ages, sizes, and conditions. To supplement this data, MAPC staff conducted a survey of recently developed market properties that are likely more representative of future new development. Finally, MAPC conducted interviews with real estate professionals active locally and in the region, including market-rate developers, affordable housing developers, property managers, and lenders.

In addition to the above sources, MAPC's analysis builds on that of a third-party economic development consultant that was engaged by the City throughout the VCOD planning process. The consultant worked with city staff to confirm the feasibility of the different iterations of the Village Center zoning as it evolved. Throughout the drafting of this EFA, MAPC coordinated with the economic development consultant to ensure consistency of assumptions and approach.

This analysis was grounded in the EFA guidelines provided by EOHLC and is intended to satisfy the requirement to demonstrate feasibility of an inclusionary zoning policy in a 3A district.

Model Components and Inputs

The pro forma financial model can be divided into six broad components, each of which interact with each other and can impact profitability positively or negatively:

- The type of development likely to occur (“development scenarios”)
- Characteristics of new development project (“development program”)
- How much it costs to build the new development project
- Once the project is occupied, how much revenue it generates and how much it costs to keep running (“operating”)
- Financing terms
- Whether the development project is financially feasible (“profitability metrics”)

Development Scenarios

This analysis considers five hypothetical development projects. The first two are based on thresholds in Newton’s inclusionary policy. Scenario 1 represents a small project that is just large enough to be subject to the policy but is permitted to satisfy its requirements through an in-lieu fee. Scenario 2 represents one of the smallest projects that is too large to satisfy the inclusionary requirements through an in-lieu fee and must provide affordable units on site.

The remaining four scenarios rely heavily on mock-ups developed by a third-party consultant as part of an iterative process to inform the City’s decision making the parameters of the new VCOD district evolved, with modifications to reflect the dimensional parameters of the final zoning. They are also consistent with recently permitted small- and medium scale projects in Newton.

Scenario 3 represents a hypothetical development on an 18,000 square foot lot that is typical in the VC2 zone. Scenarios 4 and 5 consider hypothetical development on a roughly 30,000 square foot parcel typical in the VC3 zone. Because the VC3 district sets a maximum building footprint area, when combined with the maximum allowable height and relevant setbacks, the building envelope on any given parcel will be similar regardless of whether the ground floor includes some commercial space, as required on mixed-use priority streets. In this example, the building envelope could accommodate either roughly 62 residential units in an entirely multifamily building (Scenario 5), or 54 residential units plus 9,000 square feet of ground floor commercial space (scenario 4). Both scenarios assume underground parking to maximize the site’s capacity for residential units.

In the VC3 zone, any development on a lot larger than 30,000 square feet requires a special permit. While parcels of this size certainly exist in Newton, multifamily housing on these parcels is not permitted by-right and therefore these parcels do not contribute towards Section 3A compliance. Accordingly, projects larger than those considered in Scenarios 4 and 5 are not evaluated here.

Scenario	Project size	Construction type	Parking type	Mixed use	Notes
Scenario 1	7 units	Wood frame	Surface	No	Seven units is the smallest project size subject to Newton's inclusionary policy.
Scenario 2	12 units	Wood frame	Surface	No	A representative small-scale project that must provide on-site affordable units.
Scenario 3	21 units	Podium	Podium	No	Representative site in the VC2 zone where mixed use is not required; 21 units is also the smallest project size subject to 17.5% affordability
Scenario 4	54 units	Podium	Underground	9,000 sf	Representative site on a mixed-use priority street in the VC3 zone
Scenario 5	62 units	Podium	Underground	No	Representative site in the VC3 zone where mixed-use is not required. Approximates the largest sized project likely to be permitted by right.

Development Program

The development program defines the physical components of the new building. Some of these are grounded in local markets: for example, parking ratios and unit sizes vary widely from municipality to municipality depending on proximity to transit, neighborhood walkability, land costs, and zoning. Other inputs, such as the amount of space devoted to common area, are generally consistent with regional industry standards.

Input	Value	Source(s)
Unit mix	10% Studios 40% One-bedrooms 45% Two-bedrooms 5% Three-bedrooms	CoStar, developer interviews
Common area	15% of residential area	Developer interviews, industry standard
Unit size	Studios: 525 sqft. One-bedrooms: 750 sqft. Two-bedrooms: 1025 sqft. Three-bedrooms: 1325 sqft.	CoStar, Developer interviews, review of recent properties on market
Parking ratio	0.7 spaces/unit	Developer interviews, recently permitted projects
In the VC2 and VC3 zones, off-street parking is not required in many areas, and at most 0.5 spaces per unit are required. However, based on conversations with City staff, developers, and review of recent projects, developers believe there is ample demand for off-street parking spaces in Newton and have provided 0.5 – 1.0 spaces per unit in recent market rate projects. Regional and national trends in urban areas well connected to transit indicate decreasing reliance on cars and less demand for off-street parking spaces, and developers in the VCOD have to option to provide less than 0.7 spaces per unit if they wish.		

Parking type	Varies based on development scenario	Recent development projects, developer interviews, third-party consultant scenario mock-ups

Development Costs

This set of inputs reflects how much it costs to build housing in Newton. In addition to the cost of the materials and labor needed to construct the building itself and its associated parking, development costs also include the cost of purchasing land (acquisition cost) and the costs associated with the non-physical aspects of developing a building (soft costs), such as architecture and engineering fees, financing and loan closing costs, and legal fees.

Input	**Value**	**Source(s)**
Acquisition	Varies based on the project scale:* $95,000 per unit (20 or fewer units) $85,000 per unit (more than 20 and fewer than 50 units) $70,000 per unit (50 or more units)	City assessor data, developer interviews
Construction	Residential wood frame: $320 per sqft. Residential podium: $340 per sqft. Ground-floor commercial: $300 per sqft.	RS Means, developer interviews
Parking	Surface: $15,000 per space Podium: $40,000 per space Underground: $75,000 per space	RS Means, developer interviews
Soft Costs	20-24% of hard costs*	Developer interviews, industry standard
Total Dev. Cost	$550,000 per unit	Developer interviews
While total development cost is not itself an input into the financial model, it is an important way to confirm consistency of inputs.		

*Some development costs are substantially lower for larger projects due to economies of scale. For example, a small parcel of land costs much more per acre than a large one; the cost of soils tests and legal documentation does not necessarily increase in proportion with project size and thus can be spread among more units. To reflect the economies of scale inherent in large projects, the pro forma decreases the acquisition costs and soft costs (within a defined range) as project size increases.

Operating

Operating inputs are comprised of two main components. The first is operating revenue, which consists primarily of income from rents but may also include parking or laundry fees. Rental income comes from both market rate units and affordable units. The second is operating expenses, which cover the costs of keeping a building running such as snow plowing, marketing and leasing, and building maintenance.

Input	**Value**	**Source(s)**
Residential vacancy	5%	Developer and lender interviews
Parking income	$75 per space monthly for surface parking space	Developer interviews

	$150 per space for covered spaces (podium or underground)	
Rental income from market-rate residential units	Studios: $2,550/mo. One-bedrooms: $3,450/mo. Two-bedrooms: $4,150/mo. Three-bedrooms: $4,750/mo.	Zillow, CoStar, MAPC Rental Listings Database, developer interviews, review of recent properties on market
See appendix for detailed documentation of market rents.		
Rental income from affordable residential units	**65% AMI:** Studios: $1,688 One-bedrooms: $1,931 Two-bedrooms: $2,171 Three-bedrooms: $2,412	U.S. Department of Housing and Urban Development Newton's ordinance offers the option to provide a range of affordability from 50% AMI to 80% AMI provided that they average to 65% AMI; this analysis utilizes the 65% average.
	110% AMI: Studios: $2,857 One-bedrooms: $3,267 Two-bedrooms: $3,674 Three-bedrooms: $4,081	U.S. Department of Housing and Urban Development, derived from 50% AMI
See appendix for detailed documentation of affordable rents.		
Operating Expenses	Varies based on the project scale: $11,500 per unit per year (20 or fewer units) $10,750 per unit (more than 20 and fewer than 50 units) $10,000 per unit (50 or more units)	Developer interviews
This equates to 25-30% of operating income depending on project size. *Similar to acquisition and soft costs as discussed above, operating costs are notably lower per unit in large buildings. For example, a larger project can sustain a full time on-site maintenance manager, while a smaller project would need to pursue a less efficient arrangement and employ a part-time off-site manager that travels between several buildings.*		
Rental income from commercial space	$35 per sqft.	Costar, review of recent properties on market, developer interviews
Unlike residential rents, commercial rents for spaces of similar quality and size can vary substantially from neighborhood to neighborhood within the same municipality, and even from block to block within the same neighborhood. This analysis uses municipal-level assumptions for commercial rent, but in reality there will be far more variation depending on project location.		
Commercial vacancy	30%	Developer and lender interviews
Like commercial rents, commercial vacancy rates can vary significantly within a municipality or neighborhood. In most healthy commercial districts such as Newton's village centers, commercial vacancy rates may be closer to 10-15%, so a developer could reasonably expect a much lower vacancy rate once a project is occupied. However, securing retail tenants for small commercial spaces can be difficult and is nearly impossible to do when a developer is seeking project financing, a year or more before building occupancy. Accordingly, small-scale retail is considered much higher risk than residential, and many lenders require developers to assume 0% occupancy of commercial spaces for at least the first year of		

occupancy. This input strikes a balance between these two competing perspectives, but should be considered an imperfect estimate.

For-sale development differs from rental development in that, rather than receiving ongoing revenue from rents, the developer receives one-time revenue at the time each condominium unit is sold.

Input	Value	Source(s)
Carrying period	10-20 months depending on project size	Lender and developer interviews
Construction interest rate	7.0%	Lender and developer interviews
Market sales prices	Studios: $450,000 One-bedrooms: $625,000 Two-bedrooms: $775,000 Three-bedrooms: $925,000	Zillow, CoStar, developer interviews, review of recent properties on market
Affordable sales prices	**80% AMI:** Studios: $197,000 One-bedrooms: $226,000 Two-bedrooms: $255,000 Three-bedrooms: $284,000	U.S. Department of Housing and Urban Development, derived from 50% AMI Executive Office of Housing and Livable Communities
	110% AMI: Studios: $307,000 One-bedrooms: $352,000 Two-bedrooms: $397,000 Three-bedrooms: $442,000	
See appendix for detailed documentation of affordable sales prices.		

FINANCING

For the most part, financing terms are set not by the developer, but by the mortgage lender and a project's equity investors.

Input	Value	Source(s)
Perm. Interest Rate	6.5%	Developer and lender interviews
Term	30 years	Developer and lender interviews
Debt Service Coverage Ratio (DSCR)	1.2	Developer and lender interviews
Loan to Value Ratio (LTV)	65%	Developer and lender interviews
Cap Rate	4.0%	Assessor data, Costar
While this cap rate is lower than is typical in the region, it reflects Newton's incredibly strong housing market and is consistent with quantitative data and interviews with real estate professionals.		
Debt Equity Ratio	70/30	Developer interviews

PROFITABILITY METRICS

Developers typically use several profitability metrics when considering whether to pursue a project and may rely more heavily on one or another depending on market conditions. To assess feasibility, this analysis relies on two different metrics that developers and lenders commonly use to determine anticipated profitability of a potential development project. The first, internal rate of return (IRR), considers project returns over an extended period of time. The second, return on cost (ROC), measures a point-in-time return at project completion.

While the metrics used here have been verified by local developers, it is important to note that a minimum IRR or ROC required to advance a project varies depending on the local housing market, the developer's requirements, those of their lenders and equity investors, and project-specific conditions.

Input	Value	Sources/Notes
Internal Rate of Return (IRR)	16.0%	Developer interviews
This IRR is higher than the more typical 15%, but it reflects Newton's incredibly strong housing market and the likelihood that equity investors will require higher returns when investing in high-cost projects in a high-cost market.		
Return on Cost (ROC)	5.5%	Developer interviews

In short, this analysis finds that **Newton's current inclusionary policy is economically feasible** and is unlikely to pose a risk of deterring development in its Section 3A district. While Newton's inclusionary zoning is one of the more ambitious in the state, particularly for rental development, its housing prices are also among the highest in the state and are sufficient to balance the cost of the City's inclusionary policy.

Scenario	Units	Const.	Parking	Mixed Use	IRR	Return on Cost	Inclusionary policy feasible under 3A zoning
Scenario 1	7	Wood frame	Surface	No	17.5%	5.5%	**YES**
Scenario 2	12	Wood frame	Surface	No	18.4%	5.6%	**YES**
Scenario 3	21	Podium	Podium	No	18.2%	5.6%	**YES**
Scenario 4	52	Podium	Under-ground	9,000 sqft.	18.0%	5.5%	**YES**
Scenario 5	62	Podium	Under-ground	No	17.6%	5.5%	**YES**

In each of the six scenarios considered, the IRR was well above the 16% threshold, and the ROC was above the 5.5% threshold. Although project returns are dependent on dozens if not hundreds of variables and cannot be attributed to any one variable, there are several factors that had a notable influence on these results. The first is land costs, which on a per-unit basis are notably high in inner core municipalities such as Newton. A second factor is market rents, which are likewise markedly high in newly constructed buildings in Newton and its peers. Even for projects utilizing more expensive podium construction, Newton's market rents effectively balance the high land prices, construction costs, and the current elevated interest rates, justifying the pursuit of new development in what might otherwise be considered a difficult market.

While at first glance, affordability as deep as 50% AMI and as high as 20% of units may seem like a substantive ask. However, the full range of affordability targets—50-110% AMI—is used in combination to lighten the lift. A requirement of 15% of units at 65% AMI (the required average for Tier 1 units) is on the progressive end of what is typical in Massachusetts but still falls within state norms, particularly for municipalities like Newton with strong housing markets and robust affordable housing goals. The additional 2.5% or 5% affordable units are required from mid- to large-size projects, which are better equipped to accommodate additional requirements, and are for middle-income units at 110% AMI, which create less of a burden than lower-income units.

For the smallest development projects subject to Newton's inclusionary policy, which are typically the riskiest and most challenging projects, feasibility is maintained due to the option for projects up to 9 units to satisfy the inclusionary requirements through a scaled in-lieu fee rather than by providing affordable units on site. The in-lieu option is almost always preferable for developers, especially smaller developers that may not have experience administering deed-restricted units.

Another component contributing to the policy's viability is the different target income levels for ownership housing, which typically requires higher rates of return than rental projects. Additionally, finding qualified buyers with the credit and down payment needed to purchase a home, even an affordable one, becomes more difficult as the target income level decreases. Newton's policy remains feasible because the income level targeted in ownership projects is 80% AMI rather than 65% AMI, and also includes a higher share of units at 110% AMI. This reduces the difference between affordable and market sales prices, allowing a projected return on cost of 8-18% depending on project size.

As discussed in the previous sections, because of the wide range of variables associated with leasing a small commercial space it is difficult to draw definitive conclusions on the viability of mandatory mixed-use. If a developer finds a long-term client within a relatively short period of time, the commercial component of a project may be as profitable as the residential component. On the other hand, a stable retail tenant is not a guarantee, and frequent turnover can quickly transform a commercial space into a net negative that must be cross-subsidized by residential rents. At a high level, this analysis demonstrates that in a strong market like Newton, where retail turnover can be expected to be moderate, a project with limited ground floor retail can be feasible even in combination with robust inclusionary requirements.

Newton is one of the few municipalities in Greater Boston where housing prices are high enough to cover the cost of underground parking, which is prohibitively expensive outside of the strongest real estate markets. While underground parking would not be feasible in smaller projects in the VC2 zone, where the lower 3.5 story height limit makes it difficult to offset the cost of underground parking, it becomes feasible in mid-size and larger projects in the VC3 zone that can benefit from economies of scale. It is also important to note that the parking ratio assumed in this analysis, 0.7 spaces per unit, is not required by Newton's zoning ordinance. A developer is free to provide no off-street parking for any residential development in the VC2 zone and for development on parcels smaller than 20,000 square feet in the VC3 zone. On larger parcels in the VC3 zone, a developer has the option of providing 0.5 parking spaces per unit, still less than the assumption used in this analysis. Given the high cost of parking, the flexibility to adjust parking ratios as needed, potentially even eliminating enough spaces to shift from underground parking to the less expensive podium parking, can offer a powerful boost to a project's profitability.

In conclusion, while Newton's inclusionary policy is an ambitious one, particularly for rental development, it is balanced by the benefits of by right density inherent in a 3A district and by some of the highest rents in the state. This analysis finds that the policy is viable across a range of development projects likely in Newton's 3A districts and that Newton can confidently apply its inclusionary policy in its 3A districts with little risk of negatively impacting new residential development.

Appendix I: Affordable Rents and Sales Prices

Income Limits

Each year, the U.S. Department of Housing and Urban Development sets a specific income amount that defines what it means to be low-income in a given region. For these purposes, Newton is part of Boston-Cambridge-Quincy, MA-NH HUD Metro FMR Area, which covers an area that stretches from the South Shore to southern New Hampshire. In 2023, the income levels eligible for housing created through Newton's inclusionary policy (50%, 65%, 80%, and 110% of area median income) are highlighted below.

Income Limit Category	1 person	2 people	3 people	4 people
50% Area Median Income	$51,950	$59,400	$66,800	$74,200
60% Area Median Income	$62,340	$71,280	$80,160	$89,040
65% Area Median Income	$67,535	$77,220	$86,840	$96,460
70% Area Median Income	$72,730	$83,160	$93,520	$103,880
80% Area Median Income	$82,950	$94,800	$106,650	$118,450
100% Area Median Income	$103,900	$118,800	$133,600	$148,400
110% Area Median Income	$114,290	$130,680	$146,960	$163,240

Affordable Rents

Housing is considered affordable if a household spends no more than 30% of its income on housing expenses. For renter households, this amount is equivalent to the affordable rental price if utilities are included in the rent.

Affordable Monthly Rent (Utilities included)	1 person/ Studio unit	2 people/ One-bdrm unit	3 people/ Two-bdrm unit	4 people/ Three-bdrm unit
50% Area Median Income	$1,299	$1,485	$1,670	$1,855
65% Area Median Income	$1,688	$1,931	$2,171	$2,412
80% Area Median Income	$2,074	$2,370	$2,666	$2,961

Affordable Sales Prices

The method for determining the sales price of an affordable unit is outlined in the Massachusetts Chapter 40B Guidelines.

80% AMI Affordable Prices

	1 person/ Studio unit	2 person/ One-bdrm unit	3 person/ Two-bdrm unit	4 person/ Three-bdrm unit
80% AMI annual household income	$82,950	$94,800	$106,650	$118,450
70% AMI "window of opportunity"	$72,730	$83,160	$93,520	$103,880
Monthly income available for housing	$1,818	$2,079	$2,338	$2,597
Real Estate Taxes*	$160	$184	$207	$231

Private Mortgage Insurance	$150	$175	$200	$225
Homeowners Insurance	$80	$90	$100	$110
Association/Condo Fee	$200	$220	$240	$260
Monthly Principal and Interest	$1,228	$1,410	$1,591	$1,771
Interest Rate**	6.85%	6.85%	6.85%	6.85%
Mortgage Amount	$187,410	$215,211	$242,744	$270,277
Down Payment	5%	5%	5%	5%
80% AMI Deed-Restricted Sales Price	**$196,781**	**$225,971**	**$254,881**	**$283,791**

* Based on Newton's FY24 residential tax rate of $9.76.

** Per the Chapter 40B Guidelines, interest rate is one quarter percent above the prevailing fixed 30-year rate as listed on Freddie Mac's interest rate survey, accessed on January 18, 2023.

110% AMI Affordable Sales Prices

	1 person/ Studio unit	2 person/ One-bdrm unit	3 person/ Two-bdrm unit	4 person/ Three-bdrm unit
110% AMI annual household income	$114,290	$130,680	$146,960	$163,240
100% AMI "window of opportunity"	$103,900	$118,800	$133,600	$148,400
Monthly income available for housing	$2,598	$2,970	$3,340	$3,710
Real Estate Taxes*	$251	$287	$323	$359
Private Mortgage Insurance	$150	$175	$200	$225
Homeowners Insurance	$80	$90	$100	$110
Association/Condo Fee	$200	$220	$240	$260
Monthly Principal and Interest	$1,917	$2,198	$2,477	$2,756
Interest Rate**	6.85%	6.85%	6.85%	6.85%
Mortgage Amount	$292,555	$335,423	$378,035	$420,522
Down Payment	5%	5%	5%	5%
110% AMI Deed-Restricted Price	**$307,183**	**$352,195**	**$396,936**	**$441,548**

Appendix II: Market rents and sales prices

Rent and sales price inputs used in this analysis were informed by data from multiple industry sources, including Zillow, CoStar, Warren Group, and MAPC's Rental Listings Database. However, these sources incorporate all units available in Newton within a given time period, including units that are old, in poor condition, or lack amenities typical of modern development. Therefore, it is important to also consider recent development in Newton that is likely more comparable to future development in the 3A district. For this, MAPC relied on conversations with locally active developers as well as a review of available units in recently-developed or recently-renovated projects. Unsurprisingly, rents in these new and renovated buildings are substantially higher than rents across Newton as a whole. The examples below provide a window into prices specific to new projects and are an important supplement to industry data.

Sample Rents for currently available units in newly constructed/renovated buildings in Newton

Unit type	Monthly rent	Size (sqft.)	Rent per sqft.
Studio	$2,652	570	$4.65
Studio	$2,867	510	$5.62
Studio	$2,869	530	$5.41
Studio	$2,912	570	$5.11
Studio	$3,076	639	$4.81
Studio	$3,084	550	$5.61
One Bedroom	$3,082	705	$4.37
One Bedroom	$3,224	735	$4.39
One Bedroom	$3,325	700	$4.75
One Bedroom	$3,370	766	$4.40
One Bedroom	$3,438	726	$4.74
One Bedroom	$3,575	825	$4.33
One Bedroom	$3,578	816	$4.38
One Bedroom	$3,593	838	$4.29
One Bedroom	$3,611	743	$4.86
One Bedroom	$3,835	924	$4.15
Two Bedroom	$3,834	1,071	$3.58
Two Bedroom	$4,023	1,117	$3.60
Two Bedroom	$4,105	1,115	$3.68
Two Bedroom	$4,155	1,125	$3.69
Two Bedroom	$4,387	1,181	$3.71
Two Bedroom	$4,440	1,103	$4.03
Two Bedroom	$4,650	1,050	$4.43
Two Bedroom	$4,863	1,042	$4.67
Two Bedroom	$4,943	1,057	$4.68
Two Bedroom	$4,984	1,123	$4.44
Three Bedroom	$4,578	1,330	$3.44
Three Bedroom	$4,778	1,390	$3.44
Three Bedroom	$4,908	1,231	$3.99
Three Bedroom	$5,336	1,329	$4.02
Three Bedroom	$5,484	1,348	$4.07

Source: Zillow.com and building websites
Buildings in the sample include: 28 Austin Street, Allee on The Charles, Avalon at Chestnut Hill, The Aven at Newton Highlands, Trio Newton, and Woodland Station Apartments.

Sample sales prices for units sold in 2023 in recently constructed buildings in Newton

Unit type	Size (sqft.)	Sales Price	Price/sf
One Bedroom	$510,000	873	$584
One Bedroom	$725,000	1,012	$716
One Bedroom	$759,000	906	$838
One Bedroom	$995,000	930	$1,070
One Bedroom	$1,065,000	932	$1,143
Two Bedroom	$639,000	785	$814
Two Bedroom	$715,000	1,083	$660
Two Bedroom	$720,000	1,258	$572
Two Bedroom	$740,000	1,239	$597
Two Bedroom	$759,000	1,066	$712
Two Bedroom	$790,000	922	$857
Two Bedroom	$845,000	1,233	$685
Two Bedroom	$900,000	1,110	$811
Two Bedroom	$1,180,000	1,140	$1,035
Two Bedroom	$1,395,000	1,260	$1,107

Source: Zillow.com
Buildings in the sample include: 193 Oak Street, 34 Prescott, 35 Commonwealth Ave, 429 Cherry Street, 68 Los Angeles Street, The Bristol at Waban, and Village Falls. Note that there are fewer examples for sales compared to rental, as only a few listings in newer buildings have come online.

APPENDIX III: EOHLC ASSUMPTIONS CHECKLIST

Revenue Sources	Input	Source
Rents by Bed Count (per SQFT)		
Studio/Efficiency	$4.86	Zillow, CoStar, MAPC Rental Listings Database, developer interviews, review of recent properties on market
One Bedroom	$4.60	
Two Bedroom	$4.05	
Three Bedroom	$3.58	
Sale Value (per SQFT)	$700-$860 depending on unit type	
Other Income		
Parking Revenue (per month per space)	$75-$150	Developer interviews
On-Site Laundry (per month)	n/a	n/a
Other (please list)	n/a	n/a

Construction Costs	Input	Source
Land Acquisition (per unit)	$70,000 - 95,000	Assessor data, developer interviews
Land Development Costs (per unit)	Included in construction costs	
Soft Costs (percentage of hard costs)	20-24%	Developer interviews
Hard Costs (per SQFT)		
Residential	n/a	n/a
Commercial Stick Built	$320	RS Means, developer interviews
Commercial Podium	$340	RS Means, developer interviews
Commercial Steel	n/a	RS Means, developer interviews
Parking Assumptions		
Parking Ratio	0.7	Recent projects, developer interviews
Parking Cost by Type		
Surface (per space)	$15,000	RS Means, developer interviews
Structured (per space)	$40,000	RS Means, developer interviews
Underground (per space)	$75,000	RS Means, developer interviews

Operations & Expenses	Input	Source
Vacancy (percentage)	5%	Developer and lender interviews
Collection Loss (percentage)	n/a	n/a
Operating Expense (% of EGI)	25-30%	Developer interviews

Financial	Input	Source
Lending Rate (Percentage)	6.5%	Developer and lender interviews
Lending Term (Years)	30	Developer and lender interviews
Debt Equity Ratio	65%	Developer and lender interviews
Cap Rate	4.0%	CoStar, assessor data
Return Expectations		
Internal Rate of Return (IRR)	16.0%	Developer interviews
Return on Cost (ROC)	5.5%	Developer interviews
Cash on Cash (CoC)	n/a	n/a

Appendix IV: Financial Pro Forma

Please see excel spreadsheet included separately in the compliance application package.

APPENDIX V: VC2 MANDATORY MIXED USE

As previously noted, Newton's Village Center Overlay District encompasses a greater land area than its Section 3A district. Newton's 3A district is comprised of the eligible VC3 zone, the portions of the VC2 zone that do **not** require ground floor mixed use, and the MRT zone.

Like the VC3 zone, the VC2 zone requires active use on the ground floor of new development fronting mixed-use priority streets. Because these parcels ultimately were not a part of Newton's Section 3A district and were not included in its compliance application, the feasibility of mandatory mixed use in the VC2 zone was not covered in Newton's EFA. However, to inform decision-making during the adoption process, MAPC conducted an analysis of mixed-use development in the VC2 zone, the results of which are documented in this appendix.

In short, this analysis finds that **the feasibility of mandatory mixed use in the VC2 district, along with Newton's current inclusionary policy, is uncertain**. These results prompted City staff to exclude the mandatory mixed use in the VC2 zone from its 3A compliance application to present the strongest package possible, which was consistent with MAPC's recommendations.

DEVELOPMENT SCENARIOS

To assess mandatory mixed use in the VC2 zone, MAPC modified two of the scenarios that were considered in the EFA to include some commercial use on the ground floor. Because the VC2 district sets a maximum building footprint area, when combined with the maximum allowable height and relevant setbacks, the building envelope on any given parcel will be similar regardless of whether the ground floor includes some commercial space, as required on mixed-use priority streets. Thus, the hypothetical development considered in Scenario 2 (twelve residential units in an entirely multifamily building) could, within the same building envelope, alternatively accommodate eleven residential units plus 1,200 square feet of ground floor commercial space (Scenario 2a). Likewise, the same building envelope that contains 21 residential units (Scenario 3) could instead contain 19 residential units plus 2,500 square feet of ground floor commercial space (Scenario 3a).

Scenario	Project size	Construction type	Parking type	Mixed use	Notes
Scenario 2	12 units	Wood frame	Surface	No	Analyzed in the EFA.
Scenario 2a	11 units	Wood frame	Surface	1,200 sqft.	
Scenario 3	21 units	Podium	Podium	No	Analyzed in the EFA.
Scenario 3a	19 units	Podium	Podium	2,500 sqft.	

MODEL ASSUMPTIONS AND INPUTS

All inputs aside from those described below are the same as what was defined in the EFA. This includes development costs, market and affordable residential rents, financing terms, and profitability metrics.

For the analysis of mixed use in the VC2 zone, two model inputs were changed: commercial rents and commercial vacancy. While the VC3 zone was designed for commercial cores, VC2 zones cover parcels in smaller commercial areas or parcels that are adjacent to a VC3 commercial core. Unlike in residential real estate, where two apartments of comparable size and quality located a few blocks apart could be expected to ask for comparable rents, commercial real estate is far more sensitive to location. A commercial space in the heart of a village center can command a far greater rent per square foot than a space located along the same commercial corridor just a few blocks away. Similarly, it will be much easier to find a tenant willing to pay asking price for a prime centrally-located space than for a space that sees even slightly less foot traffic or with slightly less adjacent commercial activity. Thus it is reasonable to assume that a commercial space in the VC2 district is likely to command comparatively lower rent and experience comparatively higher vacancy rate than one in the VC3 district. Furthermore, regardless of how quickly a developer finds a retail tenant once the space is built, lenders often require developers to assume a commercial space will be vacant its first year of operations, and are more likely to do so if the space is located in a slightly less prime location.

<table>
<tr><th>Input</th><th>Value</th><th>Source(s)</th></tr>
<tr><td>Rental income from commercial space</td><td>$30 per sqft.
(Reduced from $35 per sqft. for commercial space in the VC3 zone)</td><td>Costar, review of recent properties on market, developer interviews</td></tr>
<tr><td colspan="3">As discussed above, commercial rents differ from residential rents in that spaces of similar quality and size can vary substantially from neighborhood to neighborhood within the same municipality, and even from block to block within the same neighborhood. This analysis uses municipal-level assumptions for commercial rent, but in reality there will be far more variation depending on project location.</td></tr>
<tr><td>Commercial vacancy</td><td>35%
(Increased from 30% in the VC3 zone)</td><td>Developer and lender interviews</td></tr>
<tr><td colspan="3">In most healthy commercial districts such as Newton's village centers, commercial vacancy rates may be closer to 10-15%, so a developer could reasonably expect a much lower vacancy rate once a project is occupied. However, securing retail tenants for small commercial spaces can be difficult and is nearly impossible to do when a developer is seeking project financing, a year or more before building occupancy. Accordingly, small-scale retail is considered much higher risk than residential, and many lenders require developers to assume 0% occupancy of commercial spaces for at least the first year of occupancy. The commercial vacancy inputs used for the VC2 and VC3 zones strike a balance between these two competing perspectives, but should be considered an imperfect estimate.</td></tr>
</table>

Analysis

In short, this analysis finds that the feasibility of mandatory mixed use in the VC2 district, along with Newton's current inclusionary policy, is uncertain and will likely be dependent on the specific characteristics of individual projects. As such, MAPC is unable to draw broad conclusions regarding whether development in the VC2 is (or is not) universally feasible.

Scenario	Units	Const.	Parking	Mixed Use	IRR	Return on Cost	Inclusionary policy feasible under 3A zoning
Scenario 2	12	Wood frame	Surface	No	18.4%	5.6%	**YES**
Scenario 2a	11	Wood frame	Surface	1,200 sqft.	16.3%	5.3%	**UNCERTAIN**
Scenario 3	21	Podium	Podium	No	18.2%	5.6%	**YES**
Scenario 3a	19	Podium	Podium	3,000 sqft	16.5%	5.3%	**UNCERTAIN**

In both Scenarios 2a and 3a, the IRR is above the 16% feasibility threshold, though is significantly lower than the projected IRR for the scenarios that do not include mixed use. The return on cost in both mixed-use scenarios is below the 5.5% feasibility threshold. This indicates that the feasibility of a VC2 mixed-use project will likely vary from project to project, hinging on specific site characteristics or individual developer goals.

The lower anticipated returns for the two mixed-use scenarios is attributable to several factors. Firstly, the addition of commercial space within a set building envelope necessarily means a decrease in the amount of residential space, and commercial rents per square foot are considerably less than gross residential rents per square foot. In the scenarios considered here, a $30 per square foot annual commercial lease equates to rental income of $2.50 per square foot monthly, whereas rental income from gross residential building area (inclusive of common areas, corridors, mechanical, and other support spaces) averages $3.50 per square foot monthly across all unit types. Even when a commercial space is fully occupied, it simply generates less income per square foot than residential space.

A project's ability to accommodate mixed use is further limited by the 3.5-story height limit in the VC2 zone. The additional floor permitted in the VC3 zone, where height is limited to 4.5-stories, equates to 40% more buildable floor area than in the VC2 zone. This extra floor area allows for more residential units, which generate sufficient additional income to offset the less profitable commercial spaces or absorb the loss of income if a commercial space is vacant.

Related to the above point, smaller projects—those most likely to be developed in the VC2 zone given its dimensional requirements—are in general more difficult to develop. Even without ground floor retail or inclusionary zoning, small projects cost more to develop per unit because they lack economies of scale, and are riskier because their size makes them more sensitive to even small fluctuations in market conditions or policy requirements. Accordingly, the impact of a particular policy, whether inclusionary zoning or mandatory mixed use, can be more significant or more unpredictable for projects of the scale likely to be built in the VC2 zone.

As discussed in the EFA, the wide range of variables associated with leasing a small commercial space make it difficult to draw definitive conclusions on the viability of mandatory mixed-use coupled with a robust inclusionary zoning policy. If a developer finds a long-term retail tenant within a relatively short period of time, the commercial component of a project will likely generate sufficient income to be self-supporting or even profitable. On the other hand, a stable retail tenant is not a guarantee, and frequent turnover can quickly transform a commercial space into a net negative that must be cross-subsidized by residential rents. The results of this analysis indicate that at the very least a developer will likely be more cautious in approaching a mixed-use project in the VC2 zone.

Of course, the decision to advance a development project is not dependent on a binary yes-or-no output. Development finance is nuanced, and a potential project will not be immediately abandoned the moment that projected feasibility falls a tenth of a percent below a predefined threshold. In the mixed-use examples above, a developer may choose to move forward despite the lower-than-preferred return on cost because they are comfortable with the IRR. Or they may adjust the project parameters, for example by building smaller residential units, using less expensive finishes, or reducing the amount of parking provided.

These mixed results of this analysis indicate that a project's feasibility will likely be dependent on more nuanced variables that cannot be accounted for in a high-level citywide analysis such as this, for example whether a developer intends to sell or hold a property after occupancy, the project's equity investors and their particular return requirements, or specific project characteristics such as lot configuration or proximity to a Village Center core. In other words, it is likely that some priority mixed-use VC2 projects will be feasible, while others will not.

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