Zoning & Planning Committee Report

City of Newton
In City Council

Monday, March 25, 2024

Present: Councilors Baker (Chair), Oliver, Albright, Wright, Krintzman, Getz, Danberg, and Kalis

Also Present: Councilors Leary, and Farell

City Staff: Jennifer Caira, Deputy Director of Planning; Zachary LeMel, Chief of Long Range Planning, John Sisson, Economic Development Director; Jennifer Wilson, Assistant City Solicitor; and Jaclyn Norton, Committee Clerk

For more information regarding this meeting, a video recording can be found at the following link: 03-25-24 Zoning & Planning Committee (youtube.com)

#154-24 **Appointment of Ramzi Elfekih to the Economic Development Commission**
HER HONOR THE MAYOR appointing Ramzi Elfekih, 15 Taft Street, Newton as a member of the Economic Development Commission for a term of office set to expire on April 1, 2027. (60 Days: 05/18/2024)
Action: **Zoning & Planning Approved 8-0**

Note: Mr. Elfekih joined the Committee and noted his background in software engineering, cybersecurity in banking and startups. He hopes to bring this perspective to help the Economic Development Commission (EDC) do meaningful work. A Councilor asked how the appointee would tackle the issue of businesses being displaced by development. He noted that he would need to do more research into the topic to adequately respond. Committee members voted 8-0 on a motion to approve from Councilor Wright.

#155-24 **Appointment of Hedy Jarras to the Economic Development Commission**
HER HONOR THE MAYOR appointing Hedy Jarras, 439A Dedham Street, Newton as a member of the Economic Development Commission for a term of office set to expire on April 1, 2027. (60 Days: 05/18/2024)
Action: **Zoning & Planning Approved 8-0**

Note: Ms. Jarras joined the Committee and noted the unique perspective that she would bring to the EDC in being a small business owner for 25 years. Multiple Councilors voiced support for the appointment and a Councilor also asked how the appointee would tackle the issue of businesses being displaced by development. She responded that her desire is to keep the feel of the village centers how they currently are. Committee members voted 8-0 on a motion to approve from Councilor Danberg.

#43-24 **Quarterly update on projects using the VCOD overlay district**

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.

Zoning & Planning Held 6-0 (Councilor Albright Not Voting) on 02/15/24

Action: **<u>Zoning & Planning Held 8-0</u>**

Note: Chief of Long Range Planning Zachary LeMel described that the City has received back the Economic Feasibility Analysis (EFA) from the Metropolitan Area Planning Council (MAPC). This analysis is attached and shows that all parts of the VCOD submitted for compliance with the MBTA Communities Act are economically feasible. However, the analysis was uncertain on VC2 when ground floor commercial is required. These parcels were not submitted as part of the compliance package to the Executive Office of Housing and Livable Communities (EOHLC). Regarding potential development within the VCOD, Deputy Director of Planning Jennifer Caira stated that the department has received inquiries, and the first Design Review Team (DRT) meeting was held recently.

A Councilor asked if the Planning Department would recommend any revisions at this time to the VCOD. Ms. Caira responded that no changes are being recommended at this time, but the department will be monitoring the VCOD to see if any changes would be recommended. Two Councilors questioned why more conservative numbers were used in the analysis. The Chair noted that changing the numbers to not be as conservative would only strengthen the EFA. He also noted an interest in having all site-specific rezonings for the VCOD be referred to this Committee. Councilors voted 8-0 on a motion to hold from Councilor Krintzman.

#24-24 **Request for discussion and possible ordinance amendments relative to aiding small businesses impacted by development**

COUNCILORS ALBRIGHT AND KELLEY request the Planning Department with the assistance of the Economic Development Commission, research and develop mechanisms including ordinance changes or other means to assist local businesses impacted by development similar to the Somerville work. The goal of this docket item will be to help small commercial/retail/independent and locally-owned businesses remain in Newton as development occurs.

Zoning & Planning Held 8-0 on 01/08/24
Zoning & Planning Held 8-0 on 01/27/24

Action: **<u>Zoning & Planning Held 8-0</u>**

Note: John Sisson, Economic Development Director noted that Councilors were provided in advance of the meeting with a memo that outlined what the City currently does and ideas for what the City could do to be more business-friendly. (attached) He also noted that he is routinely in the community meeting with businesses and helping them navigate permitting processes for the City. Regarding tools to prevent displacement of existing businesses, there are some within the VCOD. These include restrictions on where banks can be along with a smaller building footprint. He also noted that if the Council would like to eventually make changes to the zoning ordinance regarding this topic it is an incremental approach. Mr. Sisson later in the discussion stated that the main way that the City can tackle this topic is through amendments to the zoning ordinance and that other ways would involve significant financial contribution from the City. During the discussion a Councilor asked if a copy of the Harvard Kennedy School Report could be shared with the Committee. (attached)

Councilors asked what the process is if a change would need to be made to the zoning ordinance. Mr. Sisson and Ms. Caira described that when these issues are identified the Planning Department will have internal conversations which can lead to recommending that the Mayor docket an item requesting this change. The Chair added that he and the Vice-Chair are engaged in routine meetings with the Planning Department and will know when these items are brought to the Mayor. Mr. Sisson noted that potentially the Department can begin looking at ways to allow administrative approval for certain signs under the sign ordinance, waiving parking requirements for establishments under a certain size, and reviewing the section of the ordinance on places of amusement.

Committee members voted 8-0 on a motion to hold from Councilor Krintzman.

#72-24 **Requesting updates on the Municipal Affordable Housing Trust**
COUNCILORS DANBERG, ALBRIGHT, HUMPHREY, LUCAS, LIPOF, FARRELL, GETZ, BIXBY, KALIS, WRIGHT, GROSSMAN, AND KELLEY requesting periodic progress reports on establishing the Municipal Affordable Housing Trust.

Action: **Zoning & Planning Held 7-0 (Councilor Kalis Not Voting)**

Note: Lara Kritzer, Director of Housing & Community Development, described that the Affordable Housing Trust was created in 2021 and that the group has worked to establish membership. She also noted that the Trust has so far received three applications and is looking at the priorities for spending their funding. A Councilor who is a member of the Trust is partnering with the Fair Housing Committee and the Newton Housing Partnership to look at relevant data. A Councilor asked if an individual would be able to sell a property to the trust with the condition that it be sold to a municipal employee. Ms. Kritzer stated that the Trust can accept property but that the individual purchasing the property from the Trust would need to meet affordability requirements. Committee members voted 7-0 (Councilor Kalis Not Voting) on a motion to hold from Councilor Krintzman.

#44-24 **Requesting re-evaluation and possible amendments to Inclusionary Zoning Ordinance**

COUNCILORS DANBERG, ALBRIGHT, KALIS, WRIGHT, OLIVER, MALAKIE, LIPOF, LUCAS, AND GETZ requesting a discussion with the Planning and Development Department and the Newton Housing Partnership about the City's Inclusionary Zoning Ordinance and possible amendments to the ordinance to include 4-6 units, including raising the requirements for the number of affordable units in large developments.

Action: **Zoning & Planning Held 8-0**

Note: Ms. Kritzer stated that the City is currently within the required 5 year lookback period and are looking to bring on RKG as a consultant. RKG was the previous consultant on the Inclusionary Zoning Ordinance. Ms. Caira added that the City will use these docket items to help frame some of the questions for RKG to look into when doing this review. Committee members voted 8-0 on a motion to hold items #44-24 and #45-24 from Councilor Krintzman.

#45-24 **Discussion and Possible Amendment to Inclusionary Zoning Ordinance to include Training**

COUNCILORS DANBERG, BIXBY, MALAKIE, DOWNS, WRIGHT, AND GETZ requesting discussion and possible amendment to require that developers and property managers provide training for their employees regarding bias toward residents of the IZ units and how to mitigate this bias.

Action: **Zoning & Planning Held 8-0**

Note: This item was discussed concurrently with item #44-24. A written report can be found with item #44-24.

#156-24 **Reappointment of Charles Tanowitz to the Economic Development Commission**

HER HONOR THE MAYOR reappointing Charles Tanowitz, 51 Harding Street, Newton as a member of the Economic Development Commission for a term of office set to expire on May 14, 2027. (60 Days: 05/18/2024)

Action: **Zoning & Planning Approved 8-0**

Note: The Chair read the item into the record. Councilors citing no objection voted 8-on a motion to approve from Councilor Kalis.

The meeting adjourned at 8:56 pm.

Respectfully Submitted,

R. Lisle Baker, Chair

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Ruthanne Fuller
Mayor

Barney S. Heath
Director

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

ANALYSIS

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.

Input	**Value**	**Source(s)**
Rental income from commercial space	\$30 per sqft. (Reduced from \$35 per sqft. for commercial space in the VC3 zone)	Costar, review of recent properties on market, developer interviews

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.

Commercial vacancy	35% (Increased from 30% in the VC3 zone)	Developer and lender interviews

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.

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.

Planning & Development

City of Newton

MEMO

DATE: March 22, 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
John Sisson, Economic Development Director

RE: **#24-24 Request for discussion and possible ordinance amendments relative to aiding small businesses impacted by development**
COUNCILORS ALBRIGHT AND KELLEY request the Planning Department with the assistance of the Economic Development Commission, research and develop mechanisms including ordinance changes or other means to assist local businesses impacted by development similar to the Somerville work. The goal of this docket item will be to help small commercial/retail/independent and locally-owned businesses remain in Newton as development occurs.

#133-24 Requesting discussion and amendments to Newton Zoning Ordinance, Chapter 30 to incentivize small businesses
HER HONOR THE MAYOR requesting discussion and amendments to the Newton Zoning Ordinance, Chapter 30, in order to incentivize and promote small businesses.

MEETING: March 25, 2024

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

Introduction

The following information was prepared to update and expand on earlier Zoning & Planning Committee discussions about the concern over local businesses, especially those located in Newton's village centers, possibly being disrupted or displaced by future real estate development.

Municipal approaches to business displacement
City councilors, business owners, and residents have expressed concern that local small businesses may be displaced by development under the recently approved Village Center Overlay Zoning. Such displacement may occur directly, as when a commercial building is razed for redevelopment, and indirectly, when there are construction/disruption impacts that impact nearby businesses.

In the recent Harvard Kennedy School study of development pressures in Somerville, one function stood out as providing the most meaningful benefit in the face of redevelopment and gentrification: communication. This function includes a large range of efforts, from large-scale communication plans utilizing multiple distribution channels to individual signs on a construction fence showing project renderings, hours of allowed operation, contact information, and promotional messages about nearby businesses.

A template for real estate development communication plans could be designed in some detail, its implementation required as part of the commercial development process, and executed by the developer or hired communications professionals, with the costs baked into the development budget.

How Newton engages commercial and industrial stakeholders
City departments have numerous processes in place to address issues related to commercial enterprises. This work may be categorized by purpose and/or department:

- <u>Regulatory</u>: Staff from Planning & Development, Inspectional Services, and other departments regularly field queries from startups and established firms which are seeking guidance for locating or expanding in Newton. The majority of these inquiries are requests for help understanding and addressing City regulations, licensing, and permitting.
- <u>Locational</u>: Staff also receive queries from people seeking available real estate and from property owners with spaces to lease. In these instances, City staff work as matchmakers.
- <u>Communication and outreach</u>: Staff maintain and update websites and printed information for distribution to commercial operators. Planning and Public Works staff often go door-to-door to contact individual business operators with alerts and updates about public construction, planning initiatives (Washington Street Pilot), and updated regulations (the commercial recycling mandate). Staff performing inspections of commercial operations also provide updates and information in the course of performing that work.
- <u>Environmental controls</u>: Inspectional services, after permitting a building project, regulates construction activities from start to finish. Along with code compliance, ISD requires contractors to follow procedures to mitigate impacts on abutters. ISD is empowered to halt construction and assess fines contractors fail to follow these procedures.

- Health: Health and Human Services educates and inspects commercial operators and responds to complaints related to food service and commercial solid waste. HHS staff also fields inquiries from businesses seeking to locate or expand in the city.
- Public safety: Fire and Police inspect storefronts, offices, and other commercial areas, working to provide personal safety, minimize crime, and the protection of private property. They respond to complaints and alarms 24 hours a day.

How can Newton be more business-friendly?
Planning & Development staff work primarily in the permitting of commercial enterprises to comply with zoning regulations. As such, our department's focus is logically on improving those regulations to reduce confusion and delays in the processing of applications.

As with other parts of the City Ordinance, zoning regulations have not kept up with the fast pace of change in commercial sectors. It stands to reason that, over time, new uses should be incorporated and obsolete ones pruned. In practice, however, zoning amendments tend to advance only as reactions to immediate needs rather than as declarations of the City's goals for economic development. Dead wood is rarely removed.

Over the past year, Commissioners and Planning staff have worked with the Council to update zoning's use table and definitions to enable animal services, craft brewing and distilling, and the bottling of alcoholic beverages within the city limits for the first time in a century.

One current effort to amend zoning include making home business regulations consistent across different residential zones. Another proposal would create a new use definition for private instruction, so that such firms would be able to locate in commercial zones and offer lessons in computer coding, musical instruction, or Irish step dancing without requiring an act of the City's legislature. The latter effort would shave at least three months off the current process, saving applicants, staff, and City Councilors many hours of time and effort.

Over many years, Planning staff have compiled a list of specific problems and gaps in the zoning ordinance. As discussed above, some of these have been addressed and others are teed up for discussion in 2024. Below, I describe two approaches to updating the zoning ordinance which could be pursued in tandem or separately.

An incremental approach
Staff discussions about the inventory of regulations that might be amended have suggested an incremental amendment of the ordinance, an approach which has demonstrated recent successes. Staff may work to address one use or use category at a time and prioritize amendments based on current impacts and potential benefits. Each problematic use identified could be evaluated based on context, options for improvement, cost-benefit analysis, and an implementation plan.

Those uses are listed in Attachment A.

A strategic approach

In tandem with incremental updates of the use table and definitions, Planning staff have also discussed the possibility of pursuing additional modifications of the zoning ordinance for the specific benefit of small businesses. Two approaches are presented separately below, but they might be implemented together.

1. Reduce regulatory burdens for small businesses. At present, small businesses have to surmount many of the same regulatory hurdles as larger and better-funded enterprises. To level the playing field, the City might apply a less stringent set of regulatory requirements for first-floor commercial uses smaller than an established threshold (perhaps square footage). This change may not benefit existing small businesses, but it should encourage new business formation. A smoother regulatory path for smaller storefronts might also make such spaces more attractive in the local real estate market—both for existing commercial buildings and new construction.

   Example: The small Bettina's Bakery in Upper Falls could accommodate and would benefit from additional seating for customers. However, the number of seats is limited by a Special Permit the City Council issued 34 years ago to a previous business in that storefront. It was subsequently amended to allow for the two tables, 8 chairs, and increased hours of operation. Additional seats in the space should still comply with the building code, fire code, plumbing code, and accessibility standards. More seats would create more revenue for the bakery. However, the addition of 2-4 seats would require amending the Special Permit and increasing the parking waiver. That process would take 3-4 months from start to finish. And, as approval would require the majority vote of a political body, the outcome would be uncertain. Most small business owners have little time to spare away from their operations to pursue such solutions.

   Staff could review zoning regulations to determine changes that might be implemented and beneficial. The City Council is empowered to accomplish such amendments. While outside of the City's control, staff could also review State building, plumbing, fire codes to identify any opportunities for making it easier to open and operate a small business.

2. Implement preferences to encourage desired, active uses. This approach would apply different regulatory requirements to desired versus undesired commercial uses, with the objective of attracting the former and discouraging the latter. The Village Center Overlay Zoning does this in relation to locating banks in village centers. Banks are not allowed as a ground-floor use in MRT and VC3 and only by special permit in VC2. This helps level the playing field for businesses in other sectors which cannot afford the lease expense financial institutions can absorb.

   City staff could use established industry categories to specify businesses in desired sectors—such as Retail Trade (NAICS 44-45) or Accommodation and Food Services (NAICS 72)—and apply certain regulations to those and other desired sectors. Regulations could be tailored to address different business sectors based on desirability for shaping the commercial mix of a village center. The use of standard categories would provide clarity for both regulators and commercial applicants.

ATTACHMENT A

Commercial uses to consider for incremental improvements

Zoning

1. Commercial signage for small businesses: Consider enabling administrative approval of small signs within a commercially zoned building's sign band rather than requiring Urban Design Commission approval of all commercial signage.
2. Places of amusement: Consider enabling by-right use for operations up to a certain size in specific commercial zones. The use is currently allowed by Special Permit in limited zones, essentially prohibiting golf simulators, and other small entertainment venues.
3. Commercial kitchen: Newer use needs to be defined.
4. Fast food restaurant: Poorly defined.
5. Manufacturing: Dated definition specifies many older processes and does not account for newer, small-scale technology or maker spaces.
6. Office: Dated definition could be updated to include shared spaces, business incubators.
7. Veterinary clinics and hospitals should be better delineated.
8. Self-storage and storage warehouse should be better delineated.
9. Small businesses operating in historically commercial buildings (pre-1945) that the City later rezoned as residential, thus requiring the business owner to obtain a Special Permit for virtually any changes to their operations.
10. Non-accessory (off-site) parking. Does the City need to regulate off-site parking which involves contractual agreements between private parties?

Other regulations

1. BYOB: Enable BYOB for small restaurants lacking liquor licenses, as in Brookline.
2. Parking: Update traffic regulations to allow for friendlier commercial loading/unloading in business districts.

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.

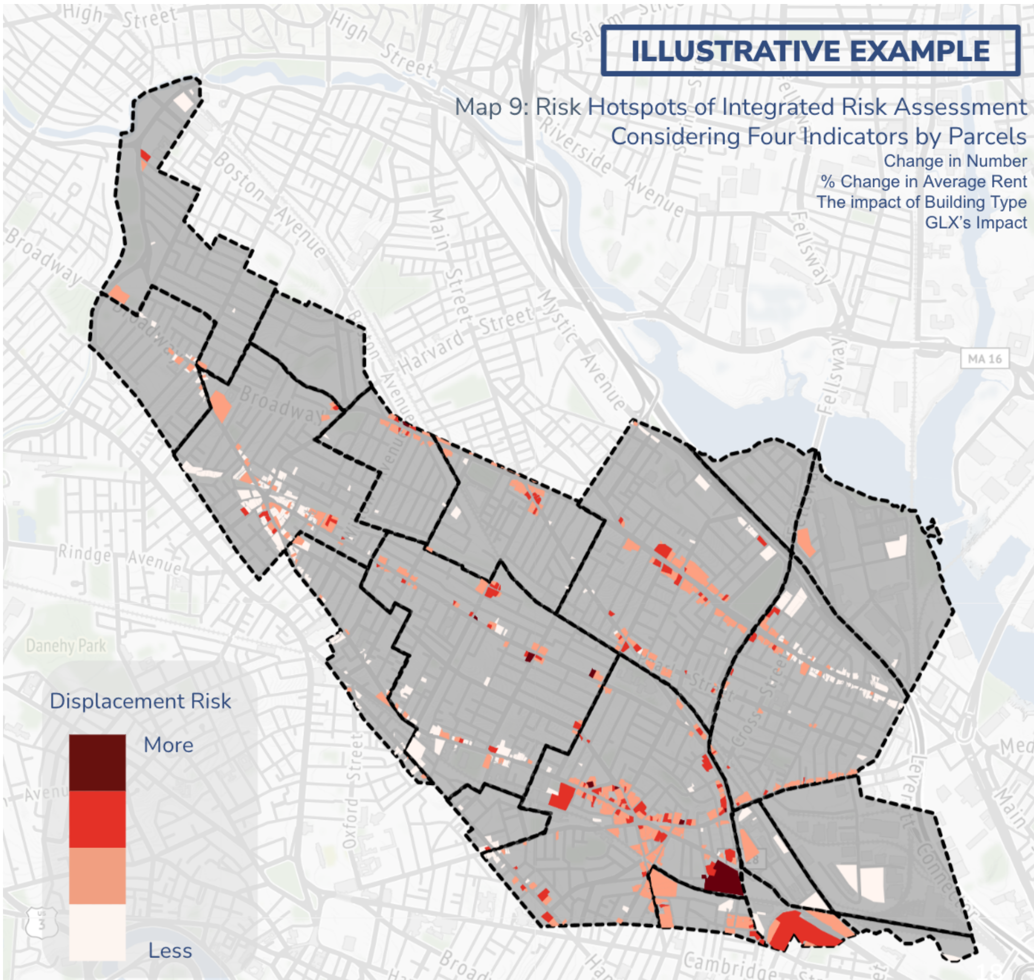
The City can consider adding additional risk indicators to an updated risk map if relevant data is available, including building age, type of landlord, and recency of building ownership turnover.

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 hotpots 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 operationally 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 that 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 needs[16]; the Rondo Community Land Trust in St. Paul prioritized Black-owned and longtime neighborhood businesses from a reparative perspective[17]; 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.

<u>Zoning Policy</u>: 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

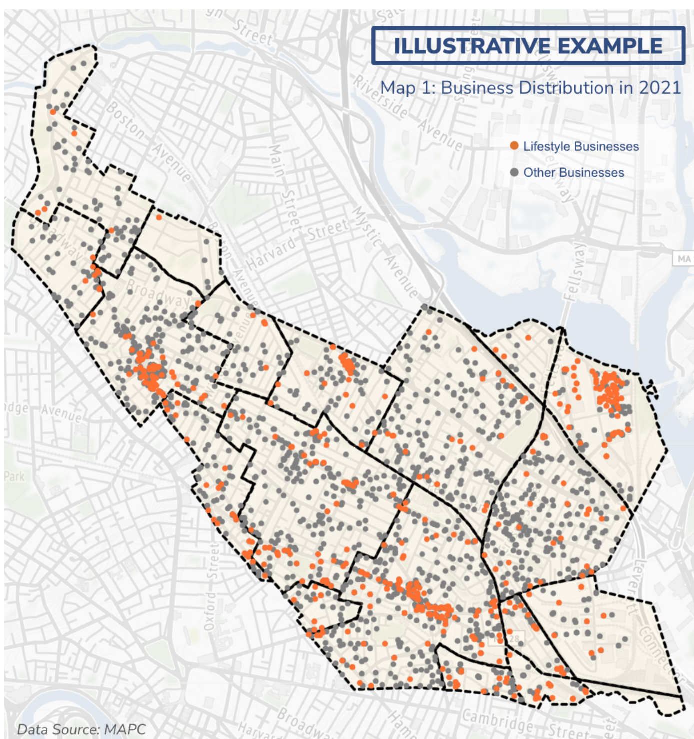
decline in the number of small businesses in the past are more likely to continue this trend in the near future.

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.

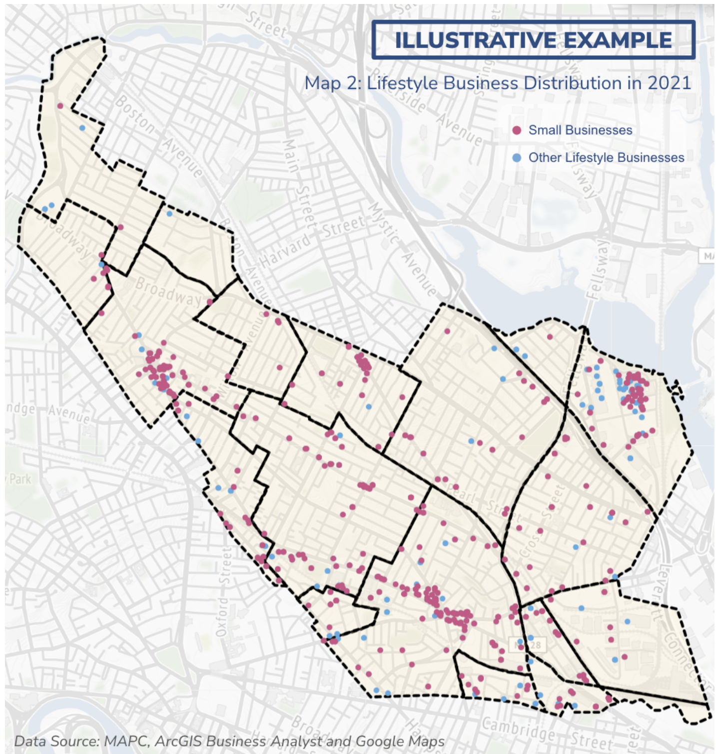
Table 2 The number of businesses in 2019 and 2021 (Data Source: DataAxle)

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

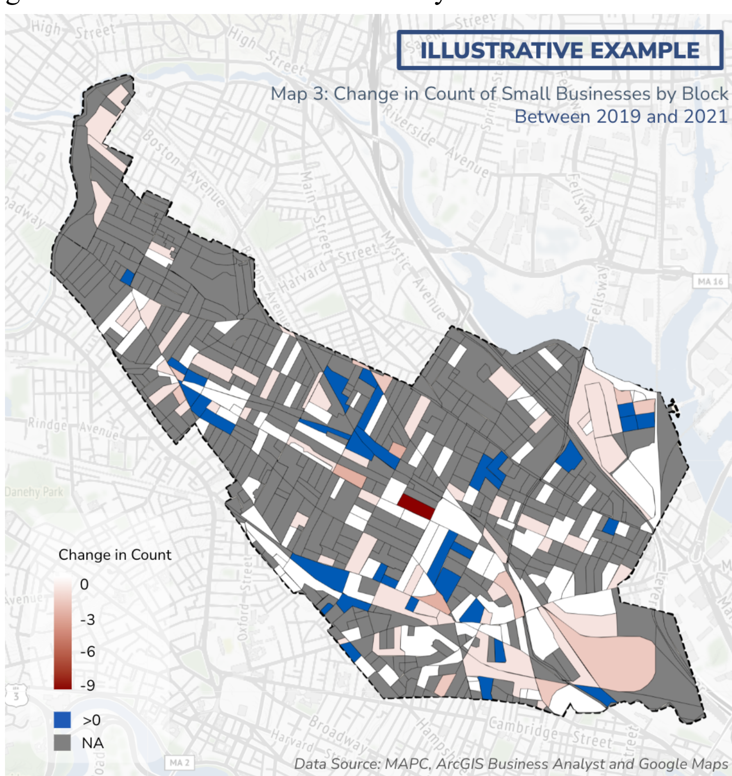
Map 1: Distribution of Business (including lifestyle businesses and other businesses) in Somerville in 2021



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



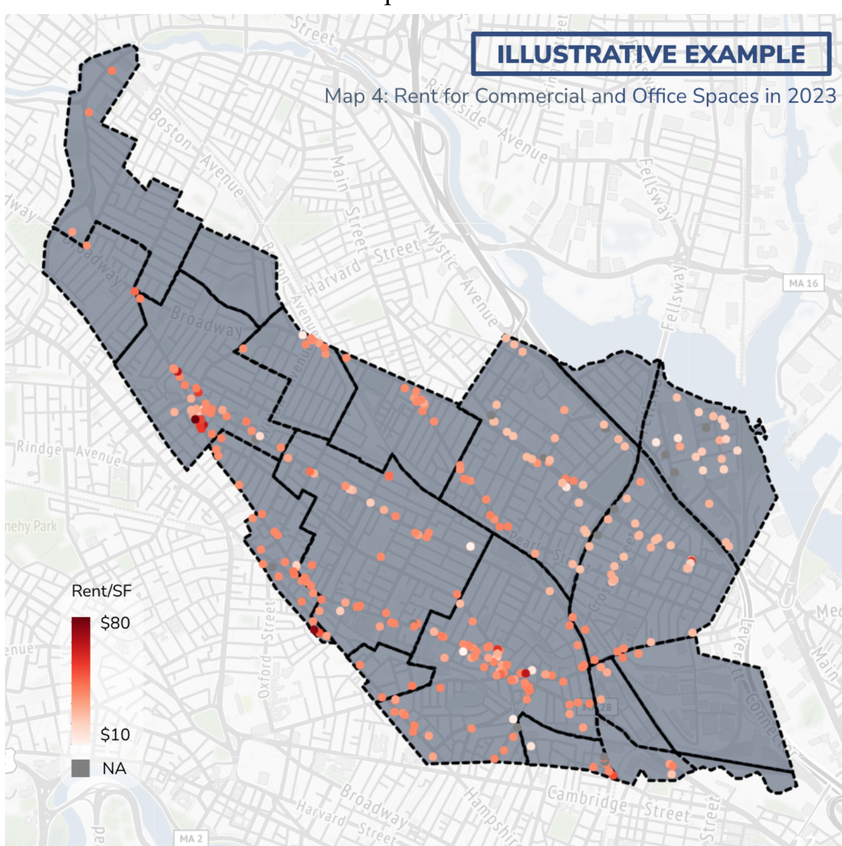
2. **Change in Small Business Rents:** Changes in rent over time serve as a significant indicator for assessing displacement risk. A continued increase in rent–often correlated with new development–imposes greater financial burdens on small businesses.

   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.

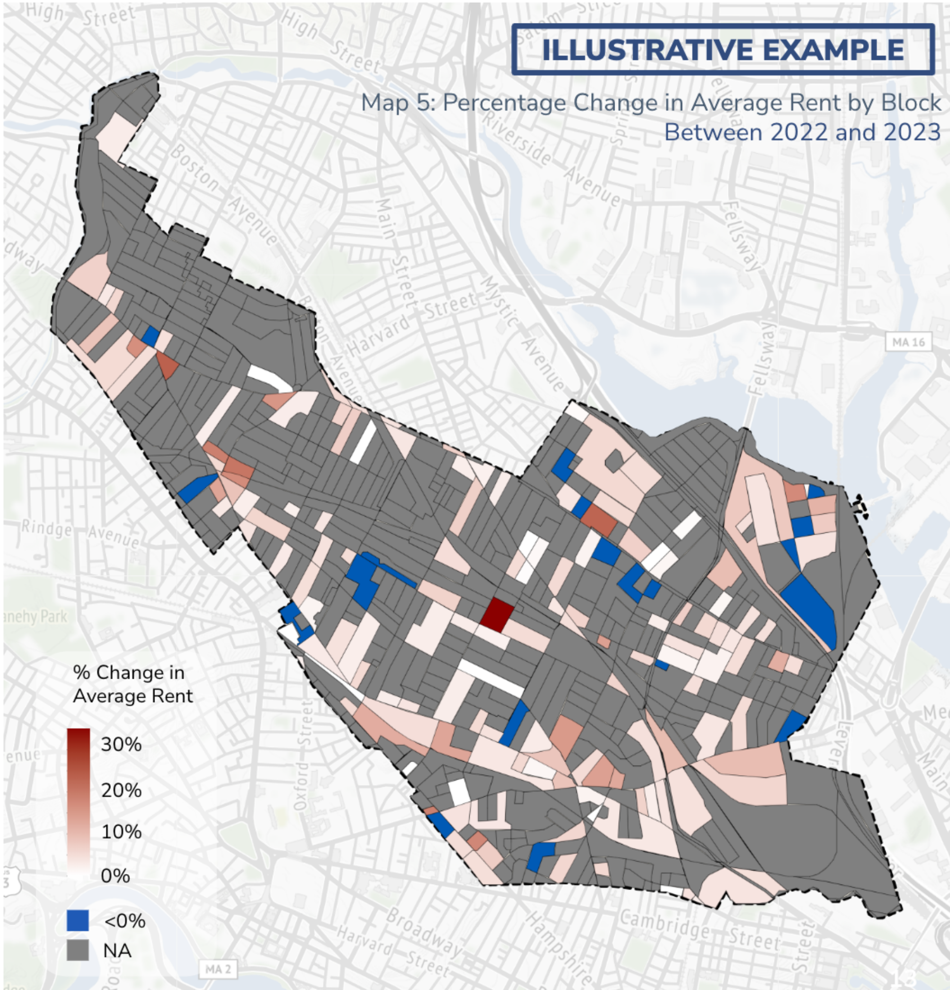
   Table 3 Statistics of Commercial and Office Space Rent in 2023 (Data Source: CoStar)

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

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



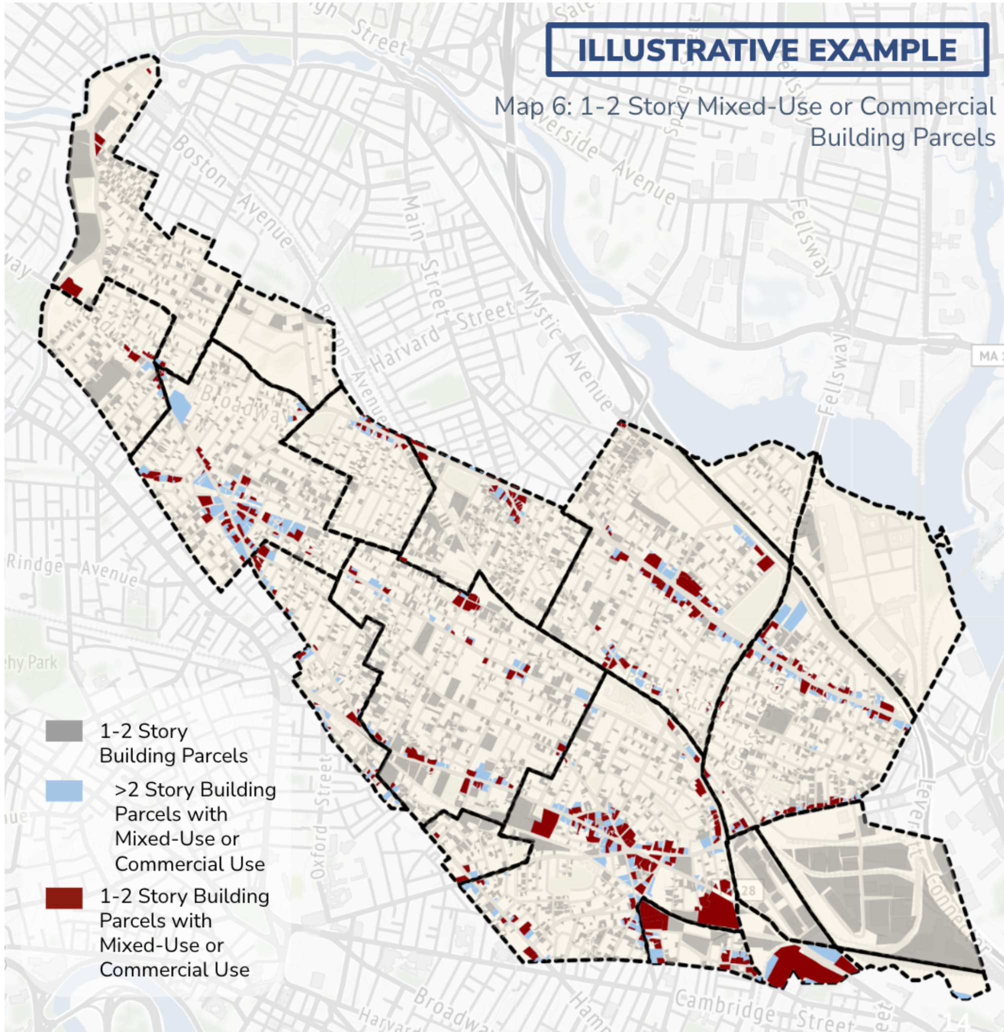
Map 5: Percentage change in average rent by block in Somerville between 2022 and 2023



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.

   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



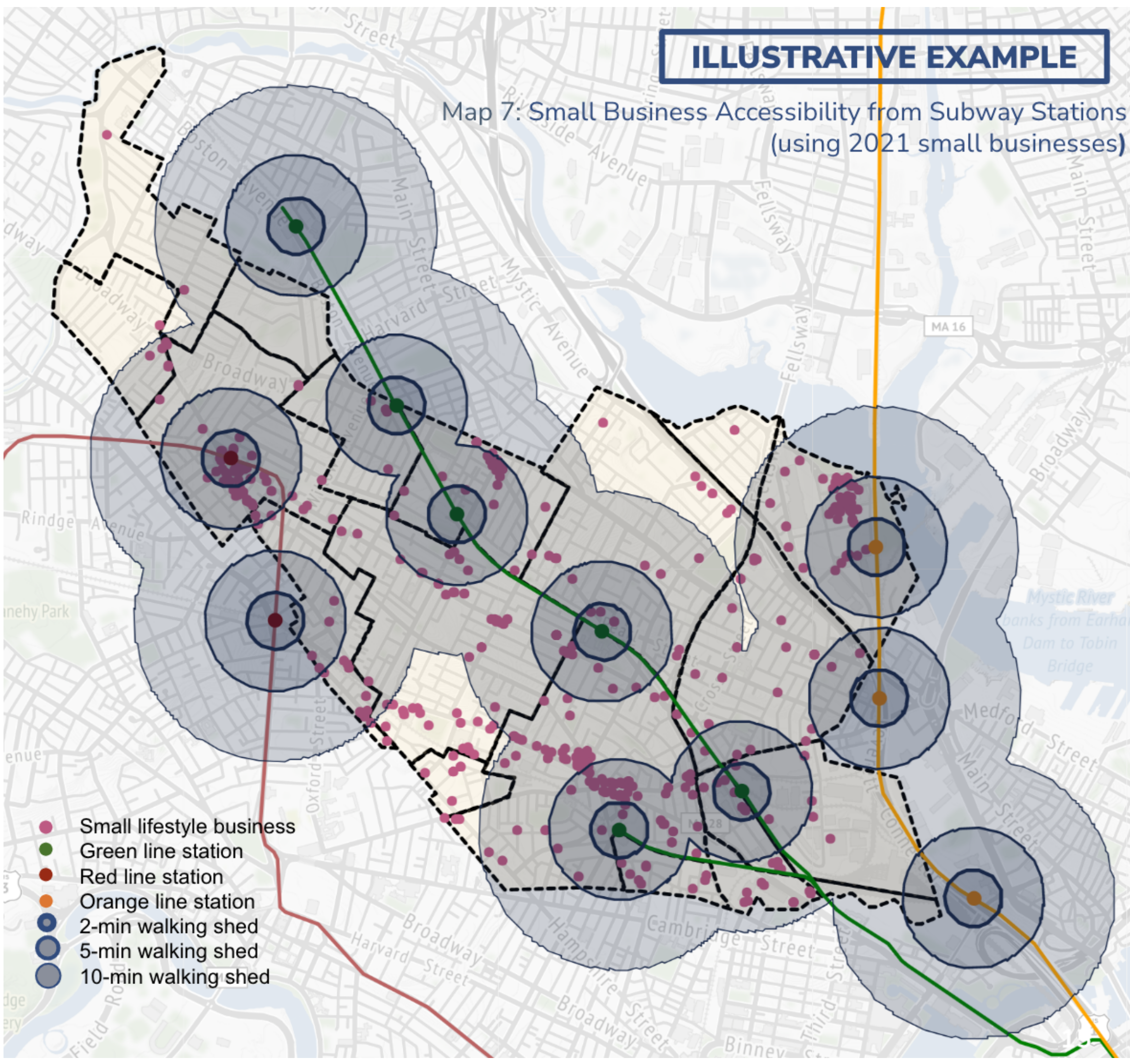
4. **Green Line Extension:** The Green Line extension (GLX) opened in 2022. Conservative estimates based on 2021 small business data indicate that the GLX has led to a significant increase of 180% in the number of small businesses within a 10-minute walking radius of the T (refer to Table 4 and Map 7 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.

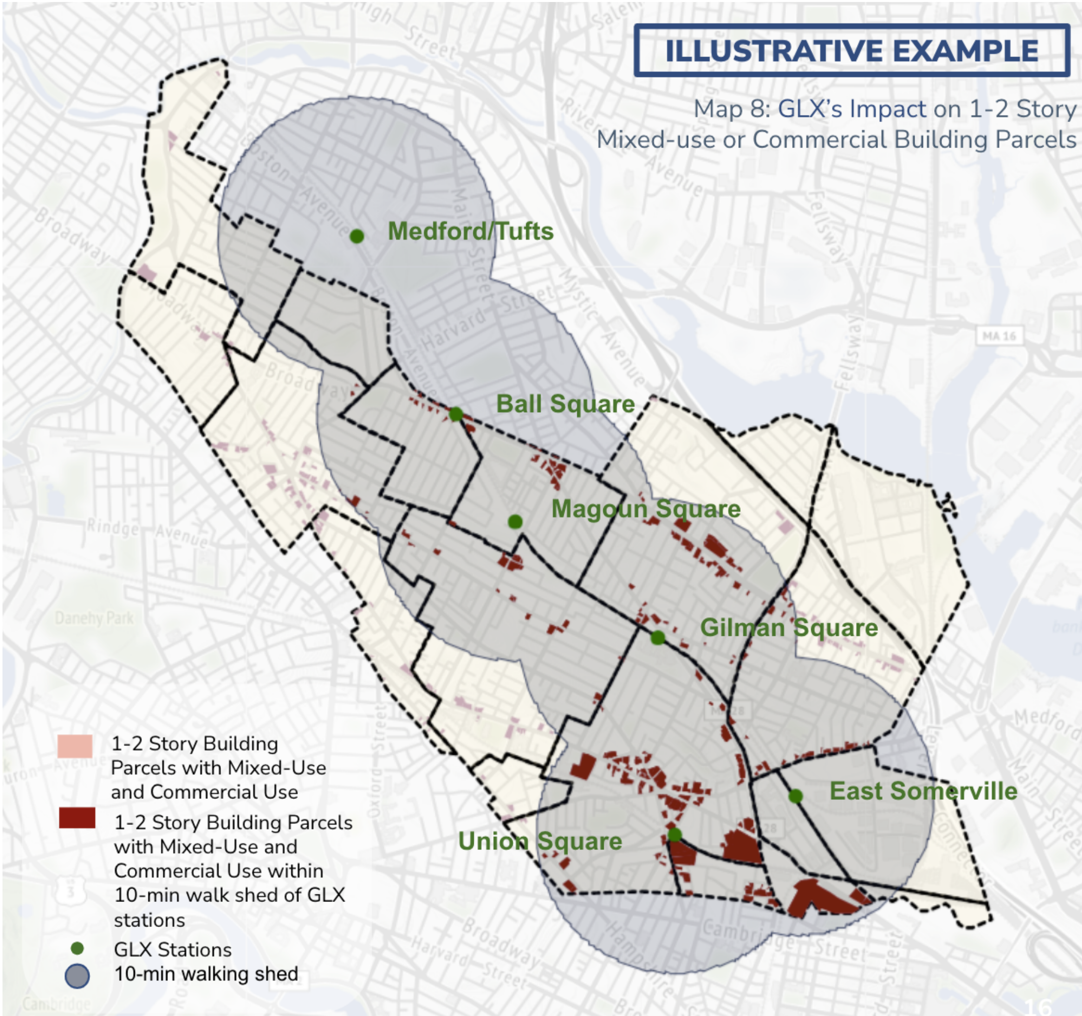
Table 4 The number of small businesses within the 2-min, 5-min and 10-min walking sheds of the T system before and after GLX (Small business Data Souce: 2021 DataAxle data)

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
• Market-Rate Rent: $3,300 / unit • Avg Unit Size: 800 sqft • Parking Requirement: 0.1 spots / unit (low)	• Lab Rent: $80/sqft (conservative) • Office Rent: $50/sqft (average) • Parking Requirement: 1 spot / 1,000 sqft (low)	• 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

<u>Scenario 2</u>: 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		With Policy Lever	Affordable MV <- dropdown menu	Developer Gain / (Loss)
		Density Bonus	- <- from above	
NPV	$ 64,902,792	NPV	$ 61,849,731	$ (3,053,061)
IRR	17.9%	IRR	17.4%	-0.5%
NOI at Year 5	$ 3,327,696	NOI at Year 5	$ 3,216,113	$ (111,583)
Retail Rev at Year 5	$ 743,890	Retail Rev at Year 5	$ 632,306	
Retail % of NOI	22%	Retail % of NOI	20%	

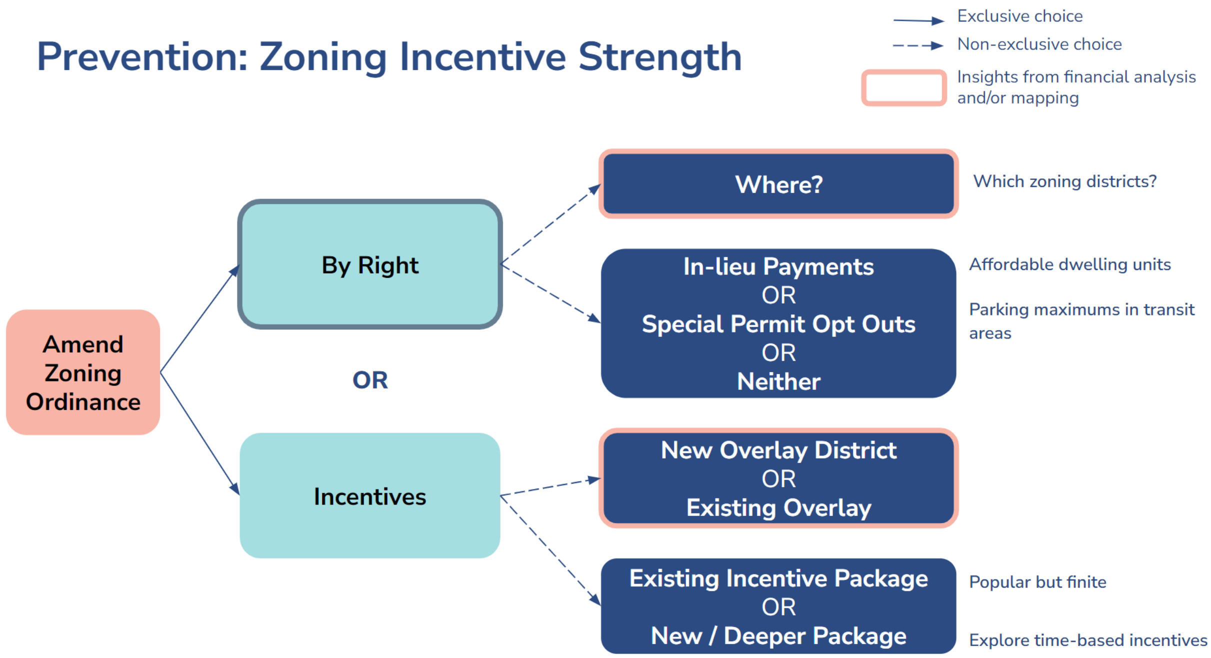
- Setting Aside 50% of Ground Floor Retail

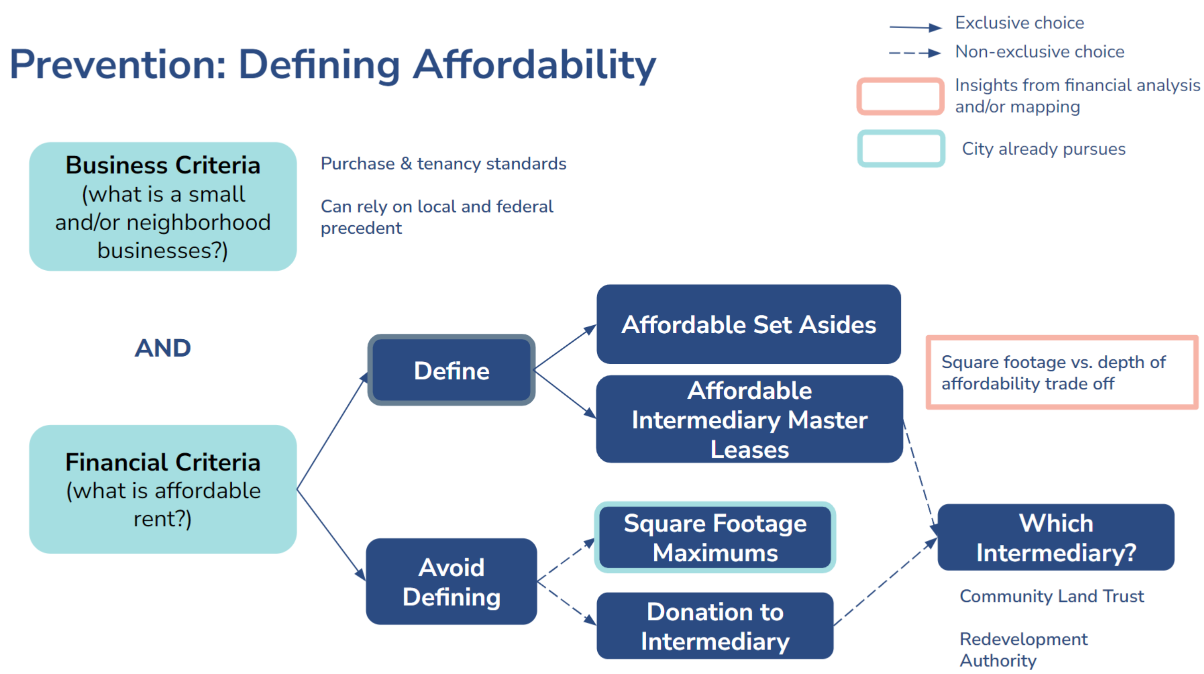
Policy Levers	Affordable SF	Market SF	Affordable $	Market $
2.0 Affordable SF%	50%	50%	-	-
2.1 Affordable MV%	-	-	70%	$40

Ex 1: HOUSING MIXED-USE		With Policy Lever	Affordable MV <- dropdown menu	Developer Gain / (Loss)
		Density Bonus	- <- from above	
NPV	$ 64,902,792	NPV	$ 61,849,731	$ (3,053,061)
IRR	17.9%	IRR	17.4%	-0.5%
NOI at Year 5	$ 3,327,696	NOI at Year 5	$ 3,216,113	$ (111,583)
Retail Rev at Year 5	$ 743,890	Retail Rev at Year 5	$ 632,306	
Retail % of NOI	22%	Retail % of NOI	20%	

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.





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-aJ4JiP42cz4fuH1m9mWzIIF4mG0AukqpBNXdB0mtDiMI5A8utNRZHvOwu7pTBRB2JjEGAbji5erci4q5FJrwZNWp4CqPbpGXULxSHijMv8llXLfIeRsqjQ728Ikoc--fRmouslbPSbbHXriVvc6Rnru2UQ221WgqQQHCqvJjBNTbyrmMCQs65ZP4nnM2wCxEXkMMP1cIvAq3VA2M-uOKXW8hKWiagNQ_R4RC1S9JMl-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%202023%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://anchoragelandtrust.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.
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