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MEMORANDUM

DATE: September 20, 2024

TO: Councilor Baker, Chair
Members of the Zoning and Planning Committee

FROM: Barney Heath, Director of Planning and Development
Jen Caira, Deputy Director of Planning and Development
Lara Kritzer, Director of Housing and Community Development

RE: **Review of Newton's Inclusionary Zoning Ordinance**

MEETING DATE: September 23, 2024

As stated in Section 5.11.13, the City is required to "conduct a reevaluation of the inclusionary zoning program at an interval of no more than 5 years from the time the inclusionary zoning ordinance was last amended and every 5 years thereafter." The previous update to Newton's inclusionary zoning program took effect on August 1, 2019. As such, the Planning Department is commencing its reevaluation of the program, to both comply with the requirements set forth in Section 5.11.13 and to ensure that Newton's inclusionary zoning program is effective in promoting the City's goal of increasing housing affordability in current market conditions. Through this reevaluation process, the Planning Department, along with RKG Associates, will conduct and establish:

- an assessment of housing development policy effectiveness
- an assessment of resident support effectiveness
- an assessment of review process
- goals and vision for inclusionary zoning policy
- draft updates based on assessment and goals

To ensure that all relevant stakeholder perspectives and expertise is incorporated into the inclusionary zoning reevaluation, members of the Planning Department and their consultants will hold numerous meetings and interviews with City Councilors, Housing and Development professionals and City staff.

Attachments include:

- RKG Associates presentation



CITY OF NEWTON

**INCLUSIONARY ZONING ANALYSIS
KICKOFF MEETING
SEPTEMBER 2024**

PREPARED BY RKG ASSOCIATES

MEETING AGENDA

Introductions – Allow the committee and RKG to introduce themselves

RKG Experience – Other locations RKG has worked with communities on IZ feasibility

Project Overview – Explanation of the purpose of the analysis

Project Timeline – Process of the project

Methodology – Presentation of what and how RKG will be doing the analysis

Outcomes – High-level demonstration of similar products

Discussion – Questions for and from Committee

INTRODUCTIONS

RKG Associates is a planning, economic development, and real estate advisory firm

- Founded in 1981
- Headquartered in Alexandria, VA with offices in Boston, Atlanta, and Dallas
- 12 full-time professionals including 4 principal

RKG completed Newton's IZ update in 2018 and review in 2019

- Have completed several IZ studies throughout Massachusetts including Boston's IDP update in 2023

RKG EXPERIENCE

In addition to working with Newton on its IZ program, RKG has recently completed several other IZ feasibility studies throughout New England and the United States

- Boston, MA
- Somerville, MA
- Brookline, MA
- Amesbury, MA
- Lowell, MA
- Lynn, MA
- Several MBTA Zoning Studies
- Nashua, NH
- Portsmouth, NH
- Providence, RI
- Alexandria, VA
- Charlottesville, VA
- Richmond, VA
- Chamblee, GA

PROJECT OVERVIEW

Assessment of IZ Housing Development Policy Effectiveness

- Quantitative assessment of current housing policy over past 5 years
- Engagement with developers to understand challenges and opportunities

Assessment of Resident Support Effectiveness

- Geographic assessment of services and IZ unit location
- Interviews with service providers to understand gaps and opportunities

Process Review

- Comprehensive review of approval process for IZ projects to identify efficiency opportunities

Goals and Vision

- Refine goals and vision statement for IZ policy through engagement...including this group

Model Update

- Update the financial feasibility to understand current market conditions
- Test current financial conditions to understand potential impacts of changes to current IZ policy

Recommendations

- Strategies that balance goals and vision with market realities for the City to consider

PROJECT TIMELINE

Milestone #1 – Project Kickoff

- Engagement with staff
- Review of data

Milestone #2 – Interviews

- Staff, developers, and service providers

Milestone #3 – Project findings review

- Summary of engagement
- Market assessment and model findings

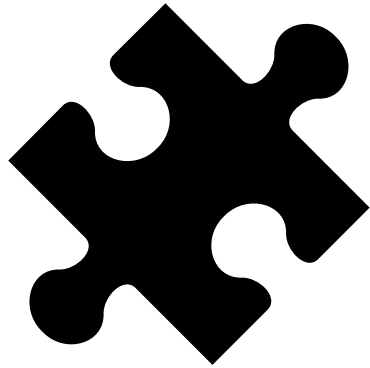
Milestone #4 – Model findings and initial strategies

- Presentation of IZ policy alternatives
- Discussion of initial options

Milestone #5 – Revised strategies

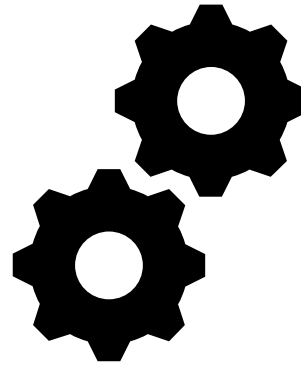
- Final engagement to garner consensus
- Presentation of results

APPROACH METHODOLOGY



Data Collection

- Review existing and proposed ordinance
- Research market data
- Interview real estate professionals



Model Building

- Construct pro forma model
- Enter raw data
- Calibrate



Analysis

- Scenario runs
- Interpretation of findings
- Recommendations

ANALYSIS METHODOLOGY

The financial feasibility model is a proforma-based Excel model that is designed to test the financial impact of potential policy changes against the financial risk/reward of a residential development. All financial feasibility modeling is based upon three principal components: construction costs, operational costs, and operational revenues.



ANALYSIS METHODOLOGY

Construction Costs

- Soft costs – design and preparation
- Hard costs – materials and construction
- Land costs – physical location

Operational Expenses

- Financing costs – debt and equity to pay for the project
- Traditional 'OpEx' categories (e.g., marketing, management, repairs)
- Real property taxes

Operational Revenues

- Rental rates and sale prices (ownership)
- Parking revenue
- Other revenues (e.g., vending/laundry)

RKG Associates will be collecting Newton-specific data for each of these categories through interviews, research, and data collection.

MODEL OUTPUTS

Development profile

- Unit Count
- Affordable Units
- Cash Contribution

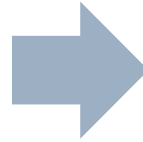
Development value

Development cost

- Land Cost
- Construction Cost

Rate of return

Affordability gap



**Is the development
proposal financially
viable?**

MAKING A FINANCIAL DECISION

Rates of return

- Return on Cost – Performance of the full asset
- Cash on Cash – Performance of equity invested
- Internal Rate of Return – Impact of the time-value of money

How does it work?

- Measure against other investment types and locations
- Reflects opportunity cost for risk-reward analysis

What can I “live with?”

- Opportunity costs for investing those dollars
- Will vary by project type

What happens when I cannot reach my goal?

- Offer less for land
- Go somewhere else
- Sit on my money
- Bite the bullet



FEASIBILITY MODEL

- Model runs on market data collected through research and interviews
- Variables allow user to select common development types, location, and affordability requirements
- Overrides allow user to customize for a unique project
- Financials deal with both financing and incentives
- RKG will run this model to determine of various potential IZ policy changes

RKG Inclusionary Zoning Model

Variables

Overrides

Financials

Proforma Assumption Options

Start Year	End Year
2024	2025

Cap Rate: 7.25%

Interest Rate: %

Discount Rate (0%): %

Discount: 13.5%

Clear All Inputs

MODEL OUTPUTS

MARKET RATE DEVELOPMENT

ROC	10-Unit	25-Unit	100-Unit
Area E/F	6.46%	6.40%	5.07%
Area G/H	7.15%	7.08%	5.62%
Area I	5.86%	5.82%	4.63%
IRR	10-Unit	25-Unit	100-Unit
Area E/F	15.78%	15.21%	2.30%
Area G/H	21.39%	20.88%	8.18%
Area I	10.42%	10.06%	-3.39%

IZ ANALYSIS

ROC	10-Unit	25-Unit	100-Unit
Area E/F	6.38%	6.13%	4.80%
Area G/H	7.02%	6.74%	5.28%
Area I	5.83%	5.61%	4.42%
IRR	10-Unit	25-Unit	100-Unit
Area E/F	15.05%	12.12%	-0.98%
Area G/H	20.40%	16.98%	4.68%
Area I	10.13%	7.56%	-6.59%

BONUS DENSITY ANALYSIS

ROC	10-Unit	25-Unit	100-Unit
Area E/F	6.38%	6.16%	4.83%
Area G/H	7.04%	6.79%	5.32%
Area I	5.85%	5.66%	4.44%
IRR	10-Unit	25-Unit	100-Unit
Area E/F	14.35%	13.06%	-0.66%
Area G/H	19.55%	18.30%	5.00%
Area I	9.82%	8.44%	-6.26%



Market feasible

May have challenges to find funding

Would require revenue/cost changes from current market thresholds

Not market viable

Requires Podium or
Steel-Frame Construction

MODEL OUTPUTS

For-Profit Developer

Set Aside	Target AMI	9% LIHTC	Vouchers	Subsidy	Subsidy/ Unit
13%	30%	Y	Y	\$4,400,000	\$98,000
87%	60%	Y	N		

Non-Profit Developer

Set Aside	Target AMI	9% LIHTC	Vouchers	Subsidy	Subsidy/ Unit
13%	30%	Y	Y	\$3,450,000	\$77,000
87%	60%	Y	N		

Q & A / D I S C U S S I O N

What are greatest challenges to finding suitable housing for low/moderate income households in Newton?

How has (or hasn't) the current IZ policy address these issues?

**How would you define success for an effective policy?
Contributing factors?**

Are there specific changes to the current policy that you would like to see?

What concerns (if any) do you have about changing the current policy?

Do you have any questions about RKG's process or approach?



Inclusionary Zoning Analysis

September 2024

