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Barney S. Heath
Director

MEMORANDUM

DATE: December 7, 2018

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

FROM: Barney S. Heath, Director of Planning and Development
James Freas, Deputy Director of Planning and Development
Amanda Berman, Director of Housing & Community Development
Jennifer Caira, Chief Planner

RE: **#187-18** DIRECTOR OF PLANNING requesting amendments to the Inclusionary Housing provisions of Chapter 30, Newton Zoning Ordinance, to increase the required percentage of affordable units; to require that some affordable units be designated for middle income households; to create a new formula for calculating payments in lieu of affordable units; and to clarify and improve the ordinance with other changes as necessary.

MEETING DATE: December 10, 2018

CC: Jonathan Yeo, Chief Operating Officer
Jonah Temple, Assistant City Solicitor
Planning & Development Board
City Council

Over the past year and a half, the Planning Department has greatly appreciated your committee's interest in working with us to craft an amended Inclusionary Zoning ordinance that more effectively meets the diverse housing needs of today's Newton. Your comments and questions, as well as those from the public, helped us focus in on specific areas in need of improvement and greater research. The productive back and forth during this time has led to what we believe is a very strong ordinance that works to accomplish multiple goals and maximize public benefit.

As you know, staff has carefully examined every section of our proposal, testing our ideas with urban planners across the region, as well as economic development consultants and local developers. Throughout our process we have tweaked the many provisions of the ordinance based on feedback from City Councilors, stakeholders, and housing development experts. Utilizing RKG's Financial Feasibility Model, developed specifically to test our inclusionary zoning proposal and assumptions, we have run hundreds of scenarios to identify percentage requirements that extract the greatest number of affordable units from a project while not rendering a project financially infeasible.

While we are sensitive and appreciative to the fact that our proposed ordinance does not meet all of Newton's affordable housing goals, particularly as they relate to extremely low-income households, our department is prepared to continue the hard work of developing additional policies and projects to serve this vulnerable population. Additionally, we are also aware of the importance of continuing to strengthen the Elder Housing with Services section of the Inclusionary Zoning ordinance. While we believe that the updated ordinance does a much better job of considering the complexities of these types of projects, we know there is more research and work to be done on this section, and on the issue of affordable housing overall.

With that in mind, once the updated ordinance passes, the Planning Department will docket the following items related to the Inclusionary Zoning ordinance:

- An alternative compliance option for those rental projects that set aside a percentage of their total units for households with annual incomes at or below 30% AMI (extremely low-income individuals and households).
- A more detailed and specific inclusionary housing requirement for Elder Housing with Services projects – a provision that is more tailored to the nuances of these types of projects and the strong differences that exist between them and other mixed-income housing developments.

While staff work is only at the beginning stage of research and development, the alternative compliance option would allow a project to greatly reduce its overall inclusionary zoning requirement if at least 2.5% of its total units are designated for extremely low-income households. Additionally, the developer would be required to partner with a City-approved agency that specializes in providing supportive services for individuals and families in this income bracket. Tenant selection and on-site case management would be provided by this agency.

In closing, we truly appreciate the insight you all have provided during this process. We hope to be able to start the new year under these updated inclusionary requirements and look forward to tracking the successes and challenges of the new ordinance as we work with it on future development projects. We fully expect to evaluate the effectiveness of this ordinance on a regular basis. While there is a five-year reevaluation requirement included in the amended ordinance, staff is prepared to recommend changes to the ordinance more frequently if need be.

Additionally, the following pages detail a handful of questions that were raised at the November 14th Public Hearing. Staff has provided concise answers to these questions and we are happy to discuss these issues further at the meeting on Monday night.

Digital Attachments / Additional Documents:

- Proposed Inclusionary Zoning Ordinance text (clean version), November 9, 2018:
<http://www.newtonma.gov/civicax/filebank/documents/92905>
- Proposed Inclusionary Zoning Ordinance Guidebook (November 9, 2018):
<http://www.newtonma.gov/civicax/filebank/documents/93001>
- City of Newton Inclusionary Zoning: Financial Feasibility Analysis, prepared by RKG Associates, Inc., March 2018 (not attached, but can be found on the City’s IZ website:
<http://www.newtonma.gov/civicax/filebank/documents/91410>)
- Further detail and additional memos and supporting documents can be found on the City’s Inclusionary Zoning website:
http://www.newtonma.gov/gov/planning/lrplan/inclusionary_zoning.asp

1.) What were the guiding objectives that staff utilized to develop the updated Inclusionary Zoning ordinance?

While the housing needs in Newton and throughout the Boston metro region are vast, inclusionary zoning should not be seen as the sole solution to our housing affordability challenges. Inclusionary zoning has become an increasingly popular tool across the country for local governments to leverage private development for the creation of affordable housing¹; however, inclusionary zoning is **market-driven**, and a successful policy must carefully consider the intricacies of housing development and finance in order to strike a careful balance between achieving a municipality’s affordable housing goals, while not suppressing residential development altogether. Further, affordable housing is one of many community benefits and requirements placed on development.

Keeping in mind that inclusionary zoning is only one of the resources in the City’s suite of affordable housing tools, staff developed a set of guiding objectives to help us focus the development of this important ordinance. Also critical to defining the objectives of the new ordinance were the key findings identified in the Housing Strategy’s Needs Assessment, including Newton’s shrinking middle-class, its declining population of younger adults and increasing population of seniors, and its lack of affordable housing options for smaller households and residents seeking to downsize.

As such, the guiding objectives that staff utilized to develop the updated Inclusionary Zoning ordinance include the following:

- To more effectively leverage private development for the creation of affordable housing throughout Newton.
- To increase the required percentage of inclusionary units from 15% up to 20%.²

¹ According to the Lincoln Institute of Land Policy’s report “Inclusionary Housing: Creating and Maintaining Equitable Communities”, “Inclusionary housing programs tend to serve low- and moderate-income households (those that earn between 60 and 120 percent of the local median income).” Page 25, <https://ihiusa.org/wp-content/uploads/Inclusionary-Housing-Report-2015-Rick-Jacobas.pdf>

² Defined as a Priority Action in the City of Newton’s 2016 Housing Strategy.

- To put forth an ordinance that considers the financial feasibility of residential development in Newton and strikes a careful balance between the City’s need for affordable housing and the nuanced economics of housing development.
- To clarify confusion and multiple interpretations around the current ordinance language.
- To introduce a tiered system of affordability requirements, including units designated for middle-income households earning between 81% - 110% AMI, to more specifically target and balance the need for affordable housing across the City’s diverse spectrum of income levels (units for low, moderate, and middle-income households).

2.) What are the trade-offs associated with increasing the percentage requirements for Tier 1 units (units affordable to households at or below 50% AMI)?

At your September 12th meeting, we explored this question and the policy decision associated with this topic. As discussed, to accomplish the goal of favoring Tier 1 units and providing a deeper level of affordability for a project, the overall number of required inclusionary units would be greatly reduced across all three tiers of affordability, and may present a number of scenarios where projects of a certain size and type are not financially feasible.

The following Policy Decision was laid out for the committee, and the committee unanimously decided to move forward with Option 2.

Policy Decision for ZAP:

Option 1: Favor Tier 1 units

- Results in fewer overall affordable units in a project
- But a deeper level of affordability for the required inclusionary units (units affordable for low-income to moderate-income households)
- Tier 1 units tend to be the hardest to produce, as they require the deepest level of subsidy

Option 2: Provide for a balance amongst all three tiers of affordability

- As demonstrated in staff’s current proposal (units for low, moderate, and middle-income households)

Option 3: Favor Tier 3 and Tier 2 units

- Provides for a greater number of required affordable units in a project, but at a higher level of affordability (moderate to middle-income versus low-income)

3.) Why do the Tier 1 and Tier 2 percentage requirements decrease when you jump from a 34-unit project to a 35-unit project?

The short answer is that at 35+ units, the RKG model assumes that stick over podium construction (\$205/sq. ft.) would be utilized, as well as underground parking. Both of these assumptions greatly

increase the costs of projects in the 35-64 units category. The percentage requirements begin to increase again at 65+ units, as the economies of scale come back into play.

Number of Inclusionary Units Required (2018 Staff Proposal)												
Tier Level	7-9 units		10-20 units		21-34 units		35-64 units		65-100 units		101+ units	
	Rental	Owner	Rental	Owner	Rental	Owner	Rental	Owner	Rental	Owner	Rental	Owner
Tier 1, up to 50% AMI	0.0%	0.0%	0.0%	0.0%	5.0%	0.0%	0.0%	0.0%	2.5%	0.0%	2.5%	0.0%
Tier 2, 51%-80% AMI	15.0%	15.0%	17.5%	5.0%	7.5%	10.0%	2.5%	7.5%	10.0%	10.0%	12.5%	12.5%
Tier 3, 81%-110% AMI	0.0%	0.0%	0.0%	10.0%	5.0%	7.5%	15.0%	10.0%	5.0%	7.5%	2.5%	5.0%
Total	15.0%	15.0%	17.5%	15.0%	17.5%	17.5%	17.5%	17.5%	17.5%	17.5%	17.5%	17.5%

As discussed in previous memos, staff contracted with RKG Associates in early 2018 to determine the financial impact resulting from the proposed changes to the City’s existing Inclusionary Zoning ordinance. To perform the analysis, RKG created a financial feasibility model based on traditional pro forma analysis standards for real estate development. The model focuses on Internal Rate of Return (IRR) calculations to determine financial feasibility. This measure is a standard approach to understanding the potential performance of a real estate investment. Boston area development industry minimum standards for a desired IRR are currently 20% for new construction ownership residential and 12% for rental residential projects. Generally, projects that do not achieve this IRR are not able to get financing.

Pro forma development modeling requires substantial market data to generate the model assumptions needed to calculate financial performance. The three primary data categories include: construction/development data; revenue/expenditure data; and finance/investment data. RKG used several tools to gather both local and regional data, including interviews with several for-profit and non-profit residential developers and commercial lending bank professionals, the City Assessors database, current rent rates and sales prices throughout Newton, and nationally-recognized secondary data sources, such as Marshall & Swift Valuation Services.

The financial model calculated the basic go/no-go decision a developer must make about a potential project, which usually comes down to overall financial return and risk exposure. If there is confidence that the desired returns will be reached, then the project will be pursued, otherwise the project will not be undertaken.

Within the model, the appropriate construction cost is applied to the development based on its type and average size. Four-unit developments are assigned townhome construction costs (\$192/sq. ft.), greater than four units but less than 35 are deemed stick construction (\$176/sq. ft.), and greater than 35 units are classified as stick over podium construction³ (\$205/sq. ft.). Additionally, within the model, three types of parking costs were included: surface, structured above ground, and underground. The types of parking have dramatically different cost estimates: \$8,000 per stall for surface, \$25,000 per stall for aboveground, and \$40,000 per stall for underground parking. The parking calculations in the model are based on the number of parking spaces required for the development scenario based on the total number of residential units.

³ Wood-framed construction over a concrete substructure.