



CITY OF NEWTON, MASSACHUSETTS

Newton Housing Partnership

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Honorable Mayor Ruthanne Fuller
Newton City Hall
1000 Commonwealth Ave
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Dear Honorable Mayor Fuller,

Let me start by thanking you on behalf of the entire Newton Housing Partnership for naming us to this important position and entrusting us with the significant job of advising you and the City Council on efforts to expand affordable housing opportunities in Newton. During our first three meetings, we have made good progress on the outlines of an ambitious agenda to advance your commitment to be a city that is welcome to all. Among our priorities, we plan to give special focus to housing strategies for those who live here but find it difficult to remain because of escalating housing costs and for those who would like to live here but cannot afford our rents and home prices.

This letter addresses recommendations to strengthen the Inclusionary Zoning provisions under Chapter 30 of the Newton Zoning Ordinance. Your visionary leadership to offer amendments that strengthen Newton's inclusionary zoning requirements could not come at a more important time for our community. Housing prices continue to escalate, while the need for housing that is inclusive and affordable to all in Newton is unprecedented. Furthermore, numerous large housing development efforts are in the planning stage, with several others already in the permitting process, and these projects offer important and immediate opportunities to create new affordable housing for our community. Additionally, as we progress closer to meeting the City's 10% affordability requirement under Chapter 40B, we will likely see more housing projects seek approval via traditional zoning and special permit procedures which will need to adhere to the City's Inclusionary Zoning requirements.

For the past several months, the Partnership has studied the Inclusionary Zoning ordinance, researching similar laws in nearby communities and considering the benefits and market impacts of changes that would support additional affordability.

On behalf of the entire Partnership, I would like to thank the Planning Staff, especially Barney Heath and Amanda Berman, for their support of the Partnership's efforts which have been nothing short of amazing. They provided us with detailed background on the inclusionary zoning amendment process to date as well as useful information that helped to inform our recommendations. Let me also applaud their diligent work over the past several years to evaluate and recommend options for strengthening the Inclusionary Zoning provisions in the Zoning Ordinance, as evidenced in the thoughtful and comprehensive memo they prepared for the June 10th ZAP hearing.

Recent 2016 data on the Newton Housing Market underscores the urgency to strengthen our Inclusionary Zoning requirements. Newton's housing stock is 70% homeownership and based on the 2016 single-family median home price of \$1.1 M, assuming a \$220,000 down payment (a level of savings out of reach for many), the minimum income required to afford a home was \$200,000. At that same time, there were only four rental units available in Newton to a family earning \$55,000, with an estimated 4,000+ households considered "housing cost burdened". An alarming 92% of single and 2-3 family homes and 62% of condominiums were affordable only to households with incomes above \$100,000, with overall housing opportunities that are affordable to households earning less than \$61,000 (which is just below 60% of area median income for a family of four) in seriously short supply.

Given the rise in housing costs since 2016, the shortage of housing that is affordable can only have gotten worse. Such a significant and immediate need will only be met by government intervention, including requirements such as inclusionary zoning. For this reason, the Partnership supports the changes to the Inclusionary Zoning Ordinance that have been proposed by the Planning Department in their June 7th memo to the Zoning and Planning Board which incorporates several recommendations put forth by Partnership (described below) that we believe will further expand affordable housing opportunities in Newton.

When considering our recommendation, we focused on 3 key provisions in the proposed ordinance and established several important goals and principles to guide our work.

Provisions of the law we focused on:

1. The baseline Inclusionary Zoning requirement as spelled out in the required units table, including an analysis of the project size that could support additional affordable units;
2. The basis for a cash payment and the fractional payment calculation;
3. The opportunity for an Alternative Compliance Option to support housing that would be affordable to households earning at or below 30% of area median income.

The goals and principles that guided our work:

1. Based on strong local housing market trends, together with several recent projects that agreed to affordability levels well in excess of the current 15% required under the current Inclusionary Zoning Ordinance, we believe the opportunity exists to expand affordability;
2. Given Newton's strong and steadily rising housing market, land values, a key driver of development, will be able to absorb additional affordability requirements without weakening Newton's robust development activity;
3. Developing predictable requirements for expanded affordability will provide clear guidelines to developers, an important tool to encourage and support continued housing development in Newton;
4. Because of the substantial barriers to development of affordable housing in Newton, it is preferable to encourage the creation of on-site affordable units over cash payments that will be difficult to use, especially while achieving the same desired affordability.

Based on these goals and principles, the Newton Housing Partnership recommends the following:

Baseline IZ requirement and the opportunity to increase the % affordable:

- The April 2019 Table strikes a reasonable balance between creating more on-site affordability in larger developments (17.5% for projects with 21+ units) and limiting the potential dampening effects that the additional Inclusionary Zoning requirement may have on the market.
- Projects with 100+ units have sufficient operational and financing efficiencies to support a 20% Inclusionary Zoning requirement.
- For rental projects with 100+ units, the requirement should be 15% at Tier 1 (50-80% AMI) and 5% at Tier 2 (110% AMI). For ownership projects with 100+ units, the requirement would be 10% at Tier 1 and 10% at Tier 2.
- Recognizing that a 20% requirement is aggressive (only Cambridge and Somerville have Inclusionary Zoning requirements this high), the Partnership recommends implementing a program review in 3 years to understand the effect of the increased requirements and adjust if necessary.

Basis for cash payment and fractional cash payment calculation:

- Having discussed alternatives to using the DHCD QAP index of \$389K/unit as the basis for the cash payment standard, which is considerably lower than the actual costs

to construct a new housing unit in Newton, the Partnership recommends that a Newton-based standard be used instead. (Note: Cambridge also uses a standard based on local costs.)

- Having analyzed data from new affordable housing developments built in Newton using City funds (CPA, CDBGHOME, etc.) and/or approved through Chapter 40B in the last 5 years, the average TDC/unit for these projects was calculated at \$550,000/unit. The Partnership recommends that this be the standard for cash payment calculations to be included in the revised Inclusionary Zoning Law.
- The \$550,000/unit payment standard should be increased annually by the Consumer Price Index. The increase should take effect on the anniversary date of the new Inclusionary Zoning Ordinance.
- After the 3rd year of the new Inclusionary Zoning Ordinance, the average TDC/unit should be recalculated based on data from new affordable housing developments completed (final closing budget or cost cert) in Newton during the previous 3 years.

Voluntary Alternative Compliance Option

Given the substantial need for and significant barriers to providing housing that is affordable to households at or below 30% of the area median income, as well as housing with supports for individuals and families experiencing homelessness, the Partnership has decided that one of our group's priorities should be to identify strategies to expand extremely low income (ELI) housing in Newton. One such strategy may be to create a voluntary alternative compliance option that would allow developers who elect to provide ELI units to have a lower overall affordability requirement.

This lower affordability requirement is necessary because creating housing that is affordable to ELI households requires a larger subsidy (in the case of inclusionary housing via fewer affordable units) to cover both a capital deficit (typical for inclusionary housing) and an operating deficit. This additional deficit stems from the ELI rent (approx. \$400 for an individual and \$560 for a family of 3, assuming the resident pays their own utilities) which is insufficient to cover the basic costs to operate the housing (e.g. pay for taxes, utilities and maintenance), and is also insufficient to support long-term debt.

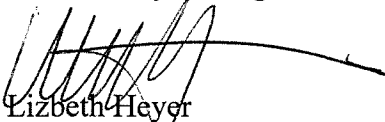
Therefore in order to support ELI housing via Inclusionary Zoning, the Partnership recommends reducing the total number of affordable units required in order to create a sufficient "market-rate subsidy" to off-set the larger capital and operating deficit. Our initial analysis of this approach indicates that in order to support 5% ELI units, the overall affordability requirement should be reduced by 5% (see required units table below).

While the partnership is inclined to support such a provision because of the desperate need for ELI units, we suggest that further analysis is necessary to confirm the feasibility of our preliminary recommendation, including the overall affordable unit count, the desired ratio among the income tiers and, consideration of the trade-off of the lower overall number of affordable units. The Partnership intends to continue our analysis of this provision, including discussing how to ensure that support services are available for formerly homeless households, and will share our conclusions with you and the Zoning and Planning Committee.

Tier Level	21-99 units	100+ units
ELI Tier, up to 30% AMI	2.5%	5%
Tier 1, 50-80% AMI	7.5%	5%
Tier 2, 110% AMI	2.5%	5%
Total	12.5%	15%

In addition to the provisions of the Inclusionary Zoning Ordinance referenced in this letter, the Partnership discussed the importance of on-going compliance monitoring, especially as the number of inclusionary units increase in the coming years. The Partnership has offered to work with the Planning Department on mechanisms to identify and develop effective compliance mechanisms, including securing the funding necessary to support implementation.

Thank you again for your leadership in recommending changes to strengthen the Inclusionary Zoning Ordinance and for considering our input in this important effort.



Elizabeth Heyer
Acting Chair, Newton Housing Partnership

CC: Planning and Development Board