



CITY OF SOMERVILLE, MASSACHUSETTS
MAYOR'S OFFICE OF STRATEGIC PLANNING & COMMUNITY DEVELOPMENT
JOSEPH A. CURTATONE
MAYOR

MICHAEL F. GLAVIN
EXECUTIVE DIRECTOR

MEMORANDUM

**DRAFT STAFF REPORT AND PRELIMINARY RECOMMENDATIONS REGARDING
INCLUSIONARY ZONING**

TO: Joseph A. Curtatone, Mayor

FROM: George Proakis, Director of Planning

DATE: February 18, 2016

SUBJECT: An ordinance amending the Somerville Zoning Ordinance Sections 13.2, 13.3.3, 13.3.7, 13.3.4, 13.4.1, 13.5, 13.6.2, & 13.6.3, to address affordable housing in the City.

In late 2015, a group of residents, many of whom have been working on affordable housing issues in Somerville for many years, submitted a zoning amendment to increase inclusionary housing percentages in Somerville and make related changes to strengthen the zoning ordinance. While the Planning Division had been working on similar efforts, in many cases in conjunction with the individuals who submitted this proposal, the Planning Division's staff understands that the ordinance was submitted to ensure that there was a timely opportunity to address inclusionary housing needs prior to the completion of the next draft of the Zoning Overhaul.

The Planning Division staff has completed this report to address this proposal, to provide background on current inclusionary housing requirements, to provide a summary of more extensive work underway to analyze and determine the most effective strategies for producing affordable housing, and to make a recommendation about the ordinance that is now in front of the Planning Board and Board of Aldermen.

The ordinance was first submitted in October of 2015, and was subsequently scheduled for a public hearing on December 9, 2015.

At the public hearing in December, staff outlined some of the challenges created by this proposal, but the Planning Division did not submit a written staff report. The Planning Board kept the hearing open for written comment through February 12, 2016. During this time, the staff worked to meet the requests of the Boards to complete ongoing studies for inclusionary zoning.

With more information from those studies now available, the Planning Division staff is submitting this



memo along with recommendations to the Planning Board. The recommendations focus on the most effective strategies for achieving the goals of the proponents of this proposal. With an extensive need for housing in our entire region, and extensive need for more affordable housing in Somerville, we've focused the recommendations on how to best strengthen our ordinance, provide a reasonable strategy that continues to produce new housing as a part of our overall SomerVision strategy, while still establishing the most advanced inclusionary housing policy in the Commonwealth.

I. Background

a. Existing Inclusionary Housing Requirements

As a starting point for reference the following section will provide a brief outline of the existing affordable housing requirements in Somerville. The inclusionary housing requirements in Section 13 of the Somerville Zoning Ordinance have been in place since 1990. The regulations have varied over time and they currently require between 12.5% and 17.5% of all new residential units in projects of certain sizes to be dedicated for permanent affordability. The current inclusionary housing policy is a strong and specific regulation that requires developers that choose to build over a certain threshold to provide affordable housing. While Section 13 allows a payment in lieu of units or off-site units, there have been few circumstances where those exceptions have been used – none in the last six years, when we've built most of the inclusionary housing Somerville has seen. The current requirement for inclusionary housing, at 12.5% and 15%, has helped produce 145 units of inclusionary housing since 2010. At the same time, public and private affordable housing developers have also built 199 units of purpose-built housing permitted since 2010.

The current regulation establishes the dwelling unit threshold and percentages of affordable units for different zoning districts as can be found in the table below.

District	Dwelling Unit Threshold	% Affordable
Residence A	Over 2 or 3	12.5% but not <1
Residence B	Over 3	12.5% but not <1
TOD 135	-	17.5%
TOD 55, 70, 100	-	15%
All other districts	8 or more	12.5%

For rental units, half of the number of affordable units are priced at HUD's Low Home Rents which are set to be affordable to households with at least 50% of area median income and the remainder are set at HUD's High Home Rents which are set to be affordable to households with up to 80% of area median income.

For sale units are set at a sale price that is split between 80% and 110% of area median income.

Inclusionary Requirement	% of dwelling units	For-sale Income Level	Rent Income Level
Low	6.25%	FMI ≤ 80%	FMI ≤ 50%
Moderate	6.25%	FMI ≤ 110%	FMI ≤ 80%
Total	12.5%		

While the ordinance has its quirks, overall it works. It's produced many units and can continue to do so. Inclusionary zoning will likely remain the best tool for producing affordable housing. When done well, developers can provide the necessary housing, and still make an adequate return that allows them to continue to operate in the marketplace and build new projects. It is predictable; set on formulas that provide the same rules for everybody. No developer is exempt from inclusionary housing requirements. All developers can know what to expect, so they can build the cost of inclusionary housing units into their project pro forma. Inclusionary housing also integrates affordable housing into all development projects, thereby distributing affordable units amongst market rate units throughout the city.

b. Housing Need

Section 13.8 of the Zoning Ordinance states that increases in inclusionary housing should occur only after an analysis of the need for such housing. To complete the zoning overhaul, the Planning Division and Housing Division of OSPCD commissioned a Housing Needs Assessment in 2015, which was completed by LDS Consulting in December.

The purpose of a Needs Assessment is "to identify the supply and demand for affordable housing within Somerville and to ascertain the need for potential revisions to the Inclusionary Housing standards of the Somerville Zoning Ordinance". The methodology used involves researching the full supply of affordable housing units in the city as well as the supply of market rate two-bedroom rentals, two-bedroom condominiums, and three-bedroom homes.

The key conclusions of the assessment are as follows:

Housing Costs:

Renters: Citywide, between September 2013 and September 2015 the average rent per square foot for a two-bedroom unit increased by 6.2%. Davis Square, Winter Hill, and the area around Central and Highland have all experienced an increase in rent per square foot over 17%.

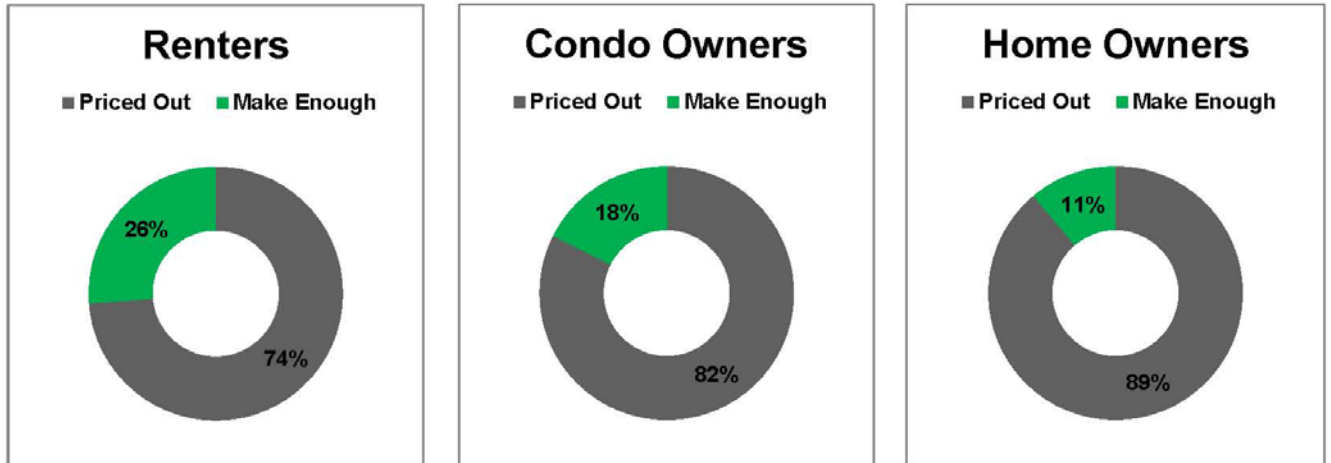
Homeowners: Since 2012, the median single-family home sale price has increased by \$145,900, or 30.5%. Condominium sale prices have increased even faster over the same period, by 35.7% or \$150,000.

Incomes & Housing Cost Mismatch

Renters: 73.8% of Somerville's existing households cannot afford the \$2,384 average monthly rent of apartments rented in the last year. The average price of an apartment rented over the last year, \$2,384, would require an annual household income of \$95,360 to be affordable, which is 1.62 times the median income of current renter households in Somerville (\$58,510).

Condo Owners: 82.5% of Somerville's existing households cannot afford the \$4,250 average monthly cost for a condominium sold in the last six months. The average condo sale price over the last six months, \$593,479, would require an annual household income of \$170,000 to be affordable, which is 1.94 times the median income of current home owner households in Somerville (\$87,295).

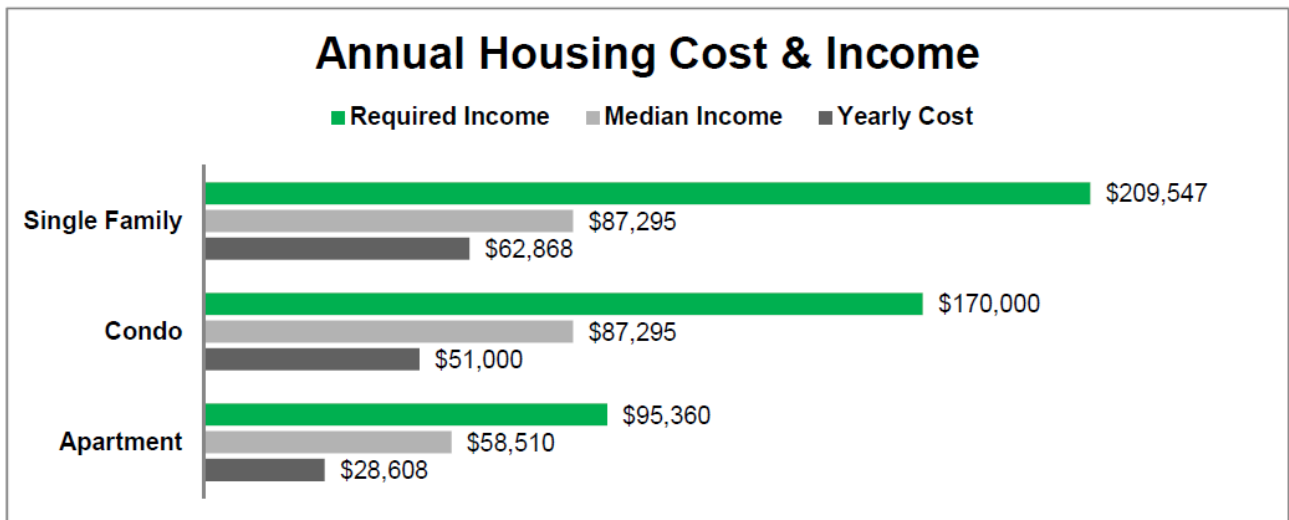
Home Owners: 88.9% of Somerville's existing households cannot afford the \$5,239 average monthly cost for a single-family home sold in the last six months. The average single family home sale price over the last six months, \$772,577, would require an annual household income of \$209,547 to be affordable, which is 2.4 times the median income of current home owner households in Somerville (\$87,295).



Cost Burden of Housing

Renters: According to the 2011-2013 ACS, 21% of Somerville renter households are rent-burdened (paying over 30% of their income towards housing costs) and 17.8% as severely rent-burdened (paying 50% or more of their incomes towards housing). This adds up to 8,114 households, or 38.7% of all renters, paying above 30% of their incomes towards housing.

Homeowners: According to the 2011-2013 ACS, 38.4% of homeowner households in Somerville were paying more than 30% of their gross income towards housing. Of those 4,318 cost burdened households, approximately half were paying between 30% and 50% of their incomes towards housing, while the other half were paying more than 50% of their income, making them severely cost burdened.



*Required Income is the annual income necessary to not be cost burdened.

Inventory of Affordable Housing Units:

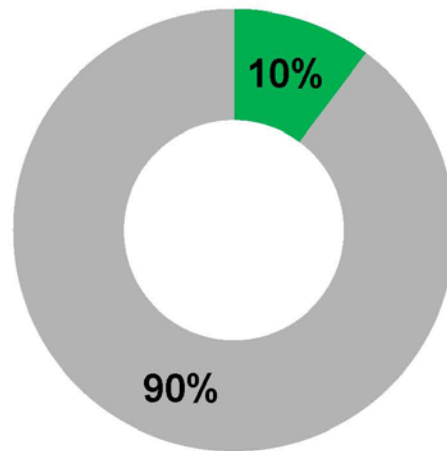
There are approximately 31,000 total housing units in Somerville. In the housing needs assessment, 3,341 affordable units were identified in Somerville. Only 112 of these units are affordable ownership units, with 3,066 available as rentals.

Of the 3,066 affordable rental units, the majority is priced for extremely low-income households (2,583; 84.24%). Only 140 units are truly affordable to those at 50% AMI level, 289 at 60% AMI, and 54 at 80% AMI.

Of the 112 affordable ownership units, over-two-thirds are for households earning at or below 80% AMI while only 35 are priced for households earning up to 110% of AMI.

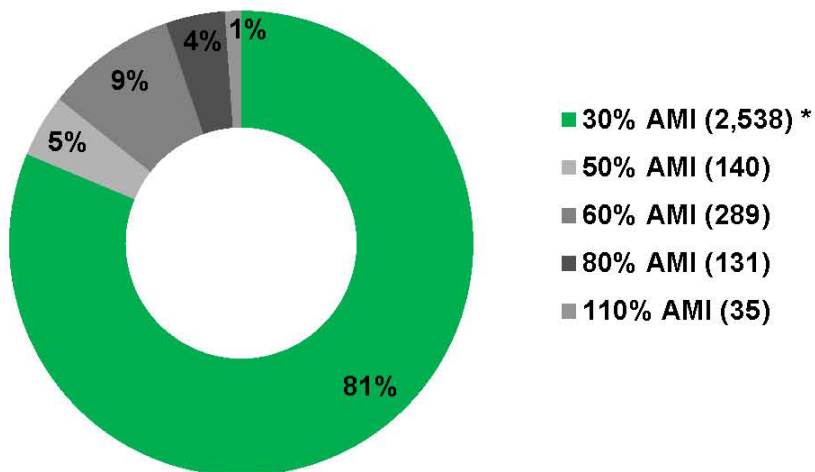
Total Housing Units

■ 3,341 Affordable Units ■ 28,214 Market Rate Units

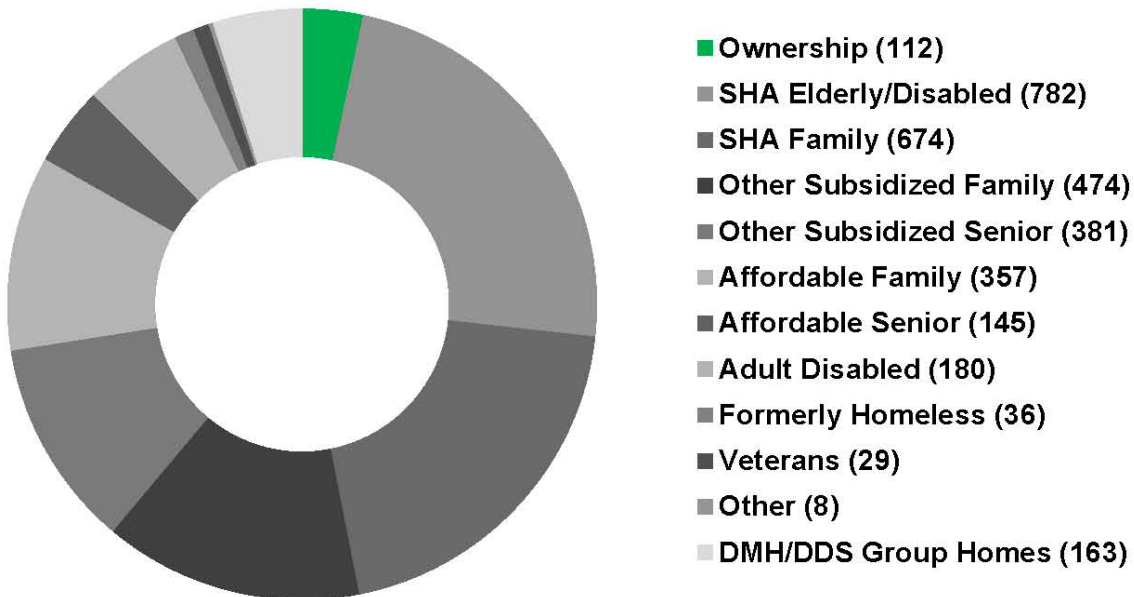


Affordable Units By Income Level

* Includes Project Based Vouchers



Affordable Units By Type



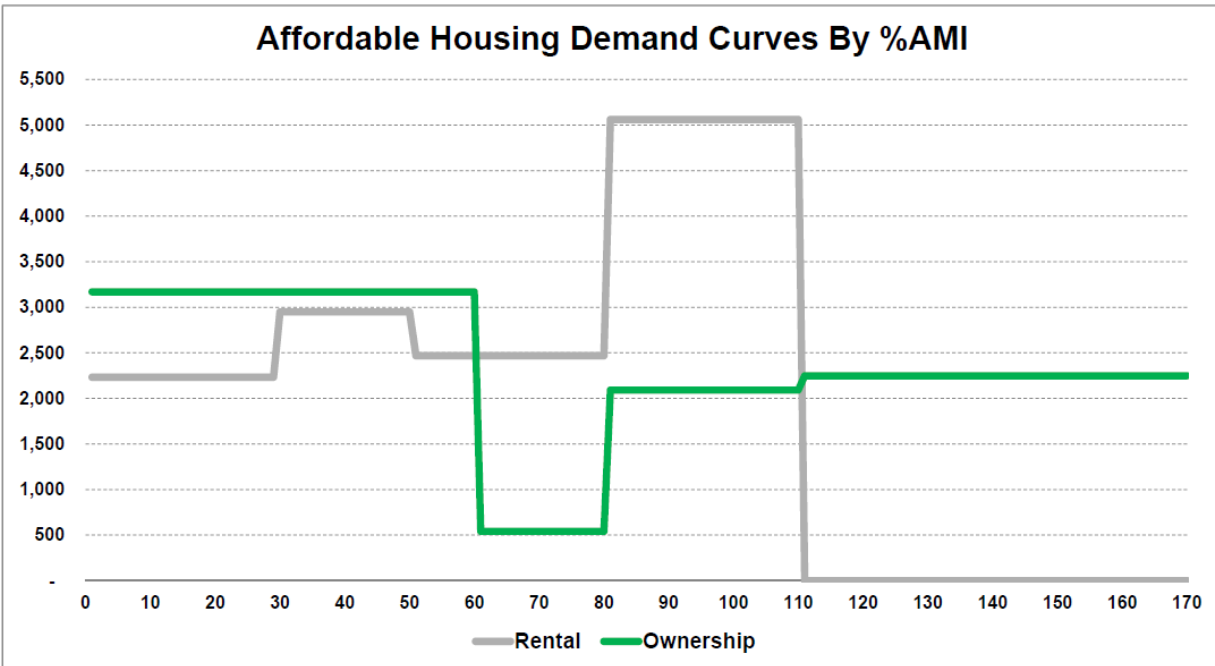
The Somerville Housing Authority owns and manages 1,456 public housing units of which 674 units are for families and 782 units are for the elderly/disabled. All family and elderly/disabled SHA owned properties are fully occupied. Of the 782 elderly/disabled units, only 95 units are specifically designated for disabled individuals.

The majority of purpose-built affordable housing projects have been produced by the Somerville Community Corporation (SCC), which has developed 204 affordable units in total, 23 ownership units and 181 rental units.

Demand:

Rental Demand: The number of existing Somerville renter households with an annual income below 110% of AMI that are not able to obtain a deed-restricted affordable unit is 12,709 (60.67% of the 20,947 renter households in Somerville). The number of households earning up to 50% AMI is 5,181 and up to 80% AMI is 2,468. The largest single group is the 5,060 households in the 80%-110% AMI bracket, for which there are no targeted affordable units created by inclusionary housing requirements in the Somerville Zoning Ordinance.

Ownership Demand: The number of existing Somerville home-ownership households with an annual income below 170% of AMI that are not be able to obtain a deed-restricted affordable unit is 8,049. The number of households earning up to 80% AMI is 3,710 and up to 110% of AMI is 2,091. Additionally, there are 2,248 households earning between 110%-170% of AMI without access to deed-restricted affordable housing, for which there are no targeted affordable units created by inclusionary housing requirements in the Somerville Zoning Ordinance.



Ownership Demand: (8,049 <170% AMI)

<60%	3,169
60-80%	541
80-110%	2,091
110-170%	2,248

Rental Demand: (12,709 <110% AMI)

<30%	2,232
30-50%	2,949
50-80%	2,468
80-110%	5,060

28% of Ownership Demand from AMI > 110%

40% of Rental Demand from AMI > 80%

Inclusionary Housing Production through Zoning:

As of August 16, 2015 the City’s inclusionary housing requirement in the Somerville Zoning Ordinance had resulted in the construction of 172 affordable housing units, excluding purpose-built affordable housing projects. (68 ownership units and 104 rental units) [11/year].

Feedback with affordable housing advocates identified a significantly greater and immediate need for rental housing affordable to households earning less than 30% AMI (extremely low income) as well as middle income households making between 80-120% AMI (middle income). Currently, the Inclusionary Housing standards of the Somerville Zoning Ordinance produce rental units for households earning up to 50% and 80% of AMI.

Inclusionary housing production through zoning is a proven way to provide affordable units, however, there are numerous other strategies for achieving resources and developing management programs and additional policies, that also produce results. The Sustainable Neighborhoods Working Group Report on affordability in Somerville produced 13 recommendations across Resources, Programs and Policies relative to affordability. One of the recommendations was to adjust portions of Somerville’s Zoning Ordinance. The following section describes these recommended adjustments in further detail.

c. Sustainable Neighborhoods Initiative

Another initiative that is currently underway is the Sustainable Neighborhoods Initiative (SNI) which started in 2014. The SNI is a comprehensive program intended to ‘broaden and deepen the City’s efforts to maintain affordability’ for the residents of Somerville. In January of 2015, Mayor Joseph Curtatone selected 29 residents from a pool of 60 interested advocates, stakeholders and professionals, to serve on SNI’s Neighborhood Working Group. The group produced focused recommendations on 3 areas with respect to affordable housing: Resources, Programs, and Policies. Overall, these policies range from a transfer fee for real estate, to policies for taxing short-term rentals, to buying homes for permanent affordability (the 100 Homes Program) to addressing condominium conversion, to financial support for families in need. In particular, a few of the proposals suggested addressing zoning, as follows:

Inclusionary Housing Percentage – Recommendation for 20% requirement city-wide pending the results of studies commissioned by OSPCD Planning Division on financial impact.

Other related items to explore:

Size of Properties: Reduce the threshold for triggering inclusionary housing requirement from eight to six units.

Size of Properties: Set a higher percent inclusionary housing requirement for developments greater than 100 units.

Incentives: Consider how incentives can be used to generate even higher inclusionary unit percent designations and to give developers some flexibility.

Density Bonuses – Recommendation for a new weighting structure to incentivize (from highest to lowest priority): affordable housing/unit size diversity, senior/disabled housing, artist space, and green space.

Accessory Structures – Recommendation to allow basement units in three-family homes as well as two family homes; allow housing in above-ground accessory structures. Recommendation also calls for outreach to owners about home rehabilitation funds available from the City to bring basement units into compliance.

Cash-in-Lieu of Inclusionary Units – Recommendation is to continue special permitting requirement for cash-in-lieu payout, and to increase pay-out ratio from current on-to-one to include cost of land acquisition.

Universal Waitlist Priorities – Recommendation on priorities, including that City and universal waitlist consultant finalize prioritization scheme.

The recommendations provided by the Sustainable Neighborhoods Working Group were not intended to represent a unitary set of recommendations, but rather a broad consensus among the members around potential strategies to improve resources, programs and policies that could support affordable housing in Somerville. As such, the report acknowledges that further study is needed, and in some cases is already underway. The report does recommend that 20% be the minimum requirement, however, it acknowledges that a study on the impacts of inclusionary percentages of projects, based on their size, is forthcoming.

d. Review of Affordability Requirements in other Communities

Inclusionary ordinances in other communities, especially those nearby, provide some insight into the strategies that are working elsewhere. The Planning Division would like to note that it's difficult to compare some ordinances to our current or proposed ordinance. For one thing, each market is different. For another, there are some communities that have used inclusionary housing as a strategy to reduce development of all housing. If we believe in building more housing (as well as commercial development, per SomerVision) and we believe in building more affordable housing, the ordinance must create formulas that work.

National Examples

Some of the written testimony submitted on behalf of the proposed amendments suggests that 20% is a commonly adopted percentage for inclusionary zoning in other communities, when in fact it is not. Inclusionary zoning first emerged in the 1970s, in Montgomery, Maryland. Today, Montgomery requires 12.5-15% affordable housing on new development projects (but only for projects over 20 units, and the homeownership units expire after 30 years); most other communities with inclusionary zoning, use rates from 10% to 12.5%, with 15% as the upper limit.

The Affordable Housing Action Committee (AHOC) noted on their webpage and in a number of comments to staff that Davis, CA, Boulder, CO, and Burlington, VT, all use 20% for their inclusionary zoning. We did some further research on these cities to understand how their versions of inclusionary zoning actually function; the results are outlined below:

Boulder, Colorado

Boulder has 20% Inclusionary Zoning, but they have a very permissive off-site buy-out option. Of the 24 eligible projects built between 2009 and 2015, only 5 have built all their units on-site, and 4 of those were built by the local CDC. The functionality of Boulder's Inclusionary Zoning ordinance is not comparable to the proposed amendments to the Somerville Zoning Ordinance.

Davis, California

Davis uses a tiered system; projects with less than 19 units are required to provide 15% Inclusionary Housing. For larger rental projects the rate increases up to 35%, but their growth management regulations may make it difficult to build any of those projects, and mixed-use projects may be exempt from the increased rate.

Burlington, Vermont

Burlington also uses a tiered system, with rates ranging from 15% to 25%, however the tiers are set based on the cost of market rate units, rather than the number of units built. This means that 'luxury' projects require a higher percentage of affordable units. Burlington does not do in-lieu payments, but does permit off-site units, and provides density bonuses as well as fee waivers. The inclusionary zoning is triggered for projects with 10 units. The income threshold for these units is 75% of the AMI.

Regional Examples

A number of nearby communities have inclusionary housing ordinances or policies:

Boston, Massachusetts

Boston adopted a new Inclusionary Development Plan (IDP) in December of 2015. Projects that are subject to the IDP include the following: projects financed by the city, projects on city or BRA property,

and projects that require zoning relief. By providing 13% of the total number of units on-site, a project fulfills its IDP obligation. Projects can also opt to provide the units off-site at higher rates, ranging from 15% to 18%; projects may also provide some of the units on-site, and some off-site, or by providing an IDP contribution or buy out. One interesting component of Boston's IDP plan is that it divides the City into three distinct zones based on market differences. The zones require different rates of contribution for off-site provision, and the zones are re-assessed every three years, or as the BRA sees fit. Because of the zone provision and the ability for the BRA to reassess, the ordinance responds to both geographic and economic constraints.

Brookline Massachusetts

Brookline has inclusionary zoning that requires any project that results in the creation of 6 or more dwelling units, to set aside 15% of the total units as affordable units. For projects that create between 6 and 15 units, a cash payment may be made in lieu of providing the units. Brookline also requires that 15% of the total bedrooms of a project with 6 or more units be in affordable units.

Cambridge Massachusetts

The Inclusionary Housing Provision of the Cambridge Zoning Ordinance defines an Inclusionary Project as a residential development containing 10,000 square feet or more of gross floor area, in which case each 1,000 square feet shall be considered a dwelling unit. The requirements for inclusionary housing require a 15% of the maximum allowed by right units to be affordable. To help facilitate this, the Floor Area Ratio (FAR) for affordable units is allowed to increase by 30% over the base zoning district, and 50% of that FAR should be allocated for affordable units. The Minimum Lot Area per Dwelling Unit, normally required, is allowed to be reduced by the amount necessary to permit up to two additional units on the lot for each one affordable unit. Cambridge requires affordable units to be provided on-site, except for in extraordinary circumstances and approval from the Planning Board.

Cambridge also has an Incentive Zoning Ordinance, where commercial developments greater than 30,000sf that seek an increase in density or intensity of use, waiver for parking requirements, or changes in dimensional requirements (essentially if they seek a special permit), are required to make a housing contribution, or create affordable units.

The Housing Contribution is currently \$4.58 for every square foot of gross floor area over 2,500 square feet of the portion of the project authorized by the Special Permit. The amount of the Housing Contribution may be adjusted annually by the Cambridge Affordable Housing Trust.

e. 2015 Proposed Zoning Overhaul

In 2012, when the City ventured into the process of developing a city-wide zoning overhaul, we started by asking the following questions: What can we do to improve on the existing success of the inclusionary zoning program in Somerville? How can we provide an ordinance that makes it possible to do even more affordable housing? And, how can we fix some of the things that don't work so well in the existing ordinance. The first thing we learned is that comprehensive inclusionary ordinances are more complicated than a single percentage of required units. The inclusionary ordinance works like a set of dials and switches, each one controlling a separate factor. These factors include: the percentage of required units, whether they are on-site, if bonuses are provided, what the income requirements are, what interior finishes are required, the size of the living units, what other factors might impact affordability (landscape, parking, design, application fees, permitting etc.), and what number of units triggers inclusionary zoning.

Some of these factors can be adjusted (percentages, Area Median Income (AMI), and finishes). Others like the on-site provision should be rare exceptions. One of the key considerations in adjusting for all of these factors is for Somerville not to sacrifice other aspects like landscaped area, open space, or design quality, all of which have been identified as desirable components of our City. The City is also restricted from reducing permit fees, as it violates ‘anti-aid’ laws at the state level. We can reduce parking requirements, which greatly impacts the ability to build more units (and this is a key feature of the proposed Zoning Overhaul). We can also determine how difficult we want to make development in general. For example, it is more difficult to increase inclusionary requirements if each project requires a special permit, and the community demands that projects become smaller when they receive these special permits. However, many community members believe that special permits for residential projects in neighborhoods and corridors are important. It’s clear to us that this is an issue that needs to have more dialogue in order to reach a balanced consensus.

Nonetheless, the 2015 draft of the overhaul looked to improve the inclusionary requirements in a number of ways, and the staff is now working to further improve and refine the ordinance before submitting a new draft this year. The following is a summary of the key components of the affordable housing requirements in the 2015 version of the proposed zoning overhaul.

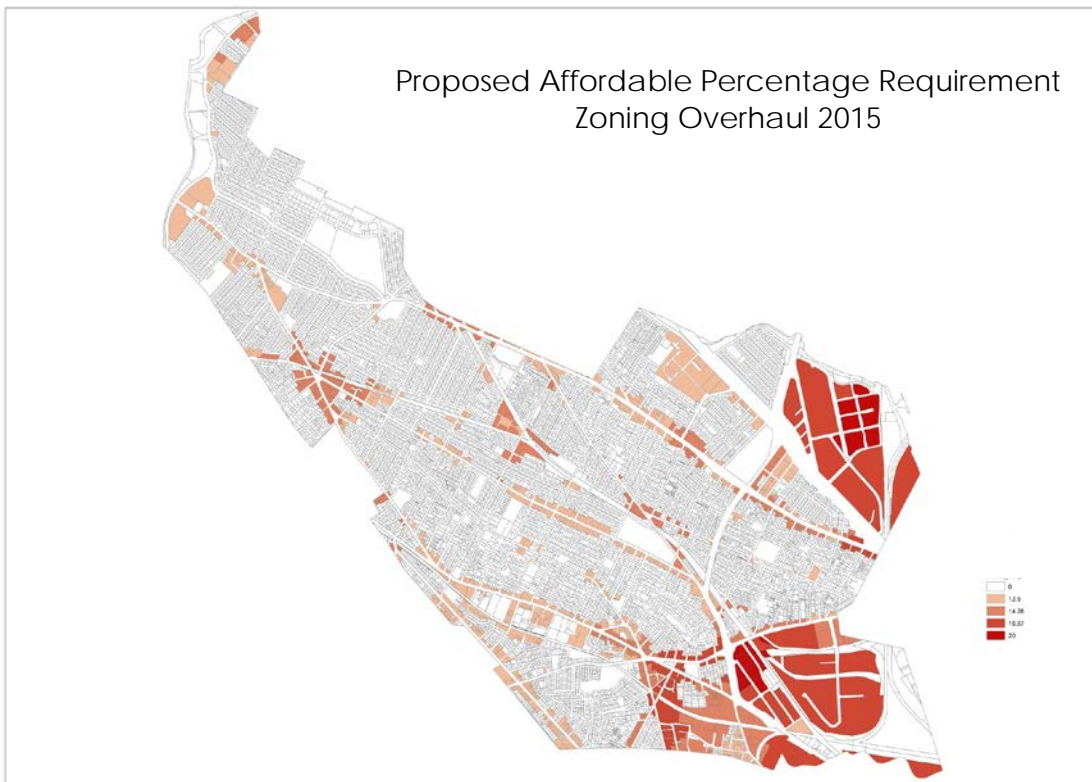
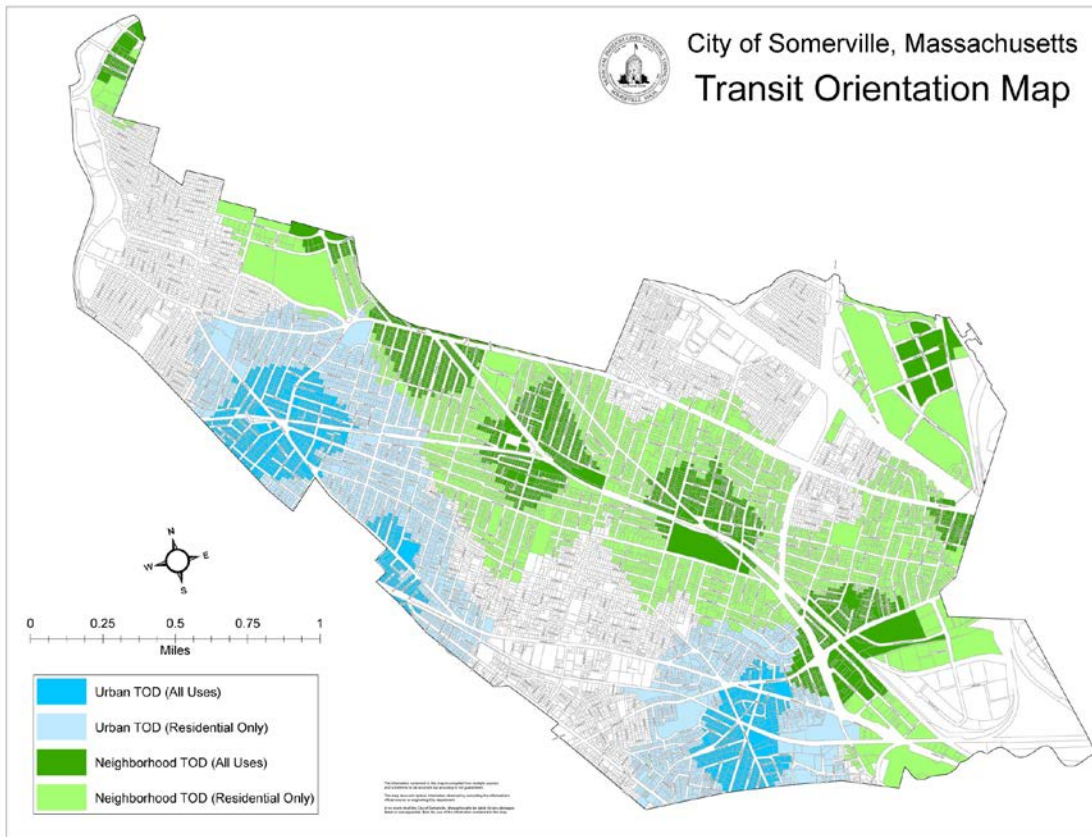
1. Percentages are adjusted to produce more Inclusionary Units

The percentage of affordable dwelling units vary from 12.5% to 20% based on the zoning district and proximity to rapid transportation. This range allows for a geographic approach based on SomerVision and development potential of the density.

TABLE 9.1 Required ADUs

	ADUs (min)	
	(All TOD Areas)	(Non-TOD Areas)
Neighborhood Residence	n/a	n/a
Urban Residence	14.28%	12.5%
3 Story Mixed Use	14.28%	12.5%
4 Story Mixed Use	14.28%	12.5%
5 Story Mixed Use	16.67%	14.28%
7 Story Mixed Use	16.67%	14.28%
10 Story Mixed Use	16.67%	14.28%
Assembly Square	20%	16.67%
Brickbottom	20%	16.67%
Inner Belt	20%	16.67%
North Point	20%	16.67%
Tufts	n/a	n/a

The transit orientation areas and resulting affordable housing percentage requirements can be found in the maps below.



2. Created the missing “Tier 3”

The ordinance creates another level of affordability to capture up to 120 percent of Median Family Income (MFI) for for-sales units and up to 100% of MFI for rental units. The proposal helps to fill the middle-income gap between the current inclusionary unit prices and current market rate. It improves this situation, but does not solve it. There is still a gap for those making 120 to 150% of MFI for for-sale units and 100 to 130% for rental units.

For example, the median family income for a household of 2 in the Boston Metro Area is \$75,280. The average sale price in Somerville in 2013 was \$474,000.

- *This requires an income of 150% MFI for 2 people (\$112,900)*
- *Inclusionary is capped at 110%*
- *Households making \$82,800 - \$112,900 are missed*

Average Rent in Somerville (2014) \$2,175

- *Requires an income of 130% MFI for 2 people (\$97,860)*
- *Inclusionary is capped at 80%*
- *Households making \$60,225 - \$97,860 are missed*

The third tier is triggered for every fifth affordable unit. The distribution of units for each tier is laid out in the table. There is a 2-2-1 relationship between the tiers.

TABLE 9.4 ADU Diversity

	Tier 1	Tier 2	Tier 3
1 st Unit	1		
2 nd Units	1	1	
3 rd Units	2	1	
4 th Units	2	2	
5 th Units	2	2	1

For example in a 30 unit building in the existing and proposed overhaul the unit breakdown would be as follows:

Existing Code

Total affordable 4
Tier 1 2
Tier 2 2

Proposed Overhaul

Total affordable 6
Tier 1 3
Tier 2 2
Tier 3 1

3. Adjusts the % of MFI used to set the price of an affordable unit to lower cost

The cost of the units is 10% lower than it is in the existing zoning code for Tier 1 and 2. The low and

moderate income households make up to 50% and 80% of area median income for rental and 80% and 110% for for-sale units. The reduction in the percentage of the cost of the units allows them to be more affordable for people that fall within the income eligibility tiers.

Target Income Tiers for Cost of Units:

TABLE 9.2 Target Income Tiers

	Rental		For Sale
Tier 1	40% of MFI max.	Tier 1	70% of MFI max.
Tier 2	70% of MFI max.	Tier 2	100% of MFI max.
Tier 3	100% of MFI max.	Tier 3	120% of MFI max.

Income Eligibility:

TABLE 9.5 Income Eligibility Tiers

	Rental		For Sale
Tier 1	31% - 50%	Tier 1	51% - 80%
Tier 2	51% - 80%	Tier 2	81% - 110%
Tier 3	81% - 100%	Tier 3	111% - 130%

4. Other considerations

The proposed overhaul draft also:

- a. Shifted all fractional units to require a payment, rather than requiring an additional unit when a fraction of a unit required was greater than 50% (thereby fixing the quirky way that some affordable units are never built in Somerville)
- b. Adjusting the language about unit finishes, allowing more flexibility

Finally, the overhaul did not just increase inclusionary percentages. It unlocked new areas for development, like Innerbelt, and Brickbottom, and it did all of it with a significant reduction in on-site parking requirements in urban transit-centered squares.

f. Response to the 2015 Proposed Zoning Overhaul

During a zoning overhaul hearing on affordable housing in March of 2015, advocates provided suggestions to staff, including rules about eviction, a lower trigger point, and different calculations for off-site units. Many suggested a higher percentage, while some well-respected members of the development community spoke against any change. Many, including members of the Board of Aldermen (BOA) suggested more study. Staff received numerous questions about overall housing demand (not just affordable), and the need for family housing vs. younger housing vs. empty nest. In response to these requests, the staff has been working on the following three items:

Market Assessment

OSPCD hired Zimmerman Volk Associates to determine the depth and breadth of the potential market for new and existing housing each year over the next five years in the City of Somerville and the potential annual absorption of new market-rate housing units in the city over the same time frame, based on annual capture rates in three potential scenarios: low growth, moderate growth, and high growth. According to Zimmerman/Volk's methodology, there are 10,950 households interested in new and existing housing within the city each year over the next five years. Of these almost 11,000 households, 4,330 have incomes

at or above 110% of the Boston-Cambridge-Quincy, MA-NH area median family income (AMI), the threshold qualifying them to potentially rent or purchase market-rate units. This level of income also disqualifies these households for any type of deed-restricted affordable housing. Zimmerman/Volk developed three absorption scenarios to estimate how many of the almost 4,500 households that make over 110% AMI might actually be expected to move to Somerville on an annual basis. For new market rate for-sale housing, the capture rates range from 10 percent for low growth; 15 percent for moderate growth; and 20 percent for high growth and for new market rate rental housing the capture rates range from 15 percent for low growth; 20 percent for moderate growth; and 25 percent for high growth. On an annual basis, using these forecast capture rates, between 543 (low-growth), 759 (moderate growth), and 975 (high-growth) new households could purchase or rent new and existing housing each year over the next five years in the City of Somerville.

Housing Needs Assessment

As noted above, the City hired LDS consultants, to complete the required needs assessment.

Financial Feasibility

We also looked to address the financial feasibility of any change to inclusionary housing, to make sure that it would continue to produce new housing in the city. We partnered with Mass Housing Partnership who provided part of the funding and contracted with RKG to complete this study. RKG has done similar analysis for other communities and will be reviewing the preliminary findings to the Board. They are completing a model of feasibility that will work with both the current and new ordinance. They submitted a preliminary memo (attached) to address the current proposal, which is further discussed in the next section about the proposed amendment.

Continued Work

As noted above, the Planning Division staff is working to provide the new draft of the overhaul to the Board of Aldermen this June. This winter, the OSPCD staff is engaging residents at evening zoning workshops focused on specific topics. The staff is then presenting the results of those meetings and any proposed adjustments to the Zoning Overhaul during BOA committee meetings on the weeks following. Planning Staff and RKG staff presented at the Attainable Housing workshop on January 11th, and scheduled a second meeting to discuss the inclusionary ordinance strategies for the overhaul in March.

II. Proposed Amendment

a. Features of the Amendment

The proposed amendments before the Planning Board and Board of Aldermen at this time would make the following changes:

- 1) Increase the inclusionary rate to 20% citywide
- 2) Reduce the threshold size of development from 8 units to 6 units
- 3) Define “affordability” in terms of all costs including water, parking, access to onsite gym and other amenities

The next two items relate to regulations and application outside of the Zoning Ordinance, although they were submitted with the zoning amendment.

- 4) Afford tenants in inclusionary units the same protections as tenants in tax credit units. This would remove tenant eviction without cause.
- 5) Create a unified waitlist for inclusionary units so that applicants can apply once for housing and

not for each new housing unit that becomes available.

b. Context: Regional Problem with Local Solutions

The proposed amendments to the Somerville Zoning Ordinance come from a group of dedicated community members who have stepped forward to address one of the most important issues facing our community: affordability of housing.

The recent increase in the cost of housing is the result of a combination of factors, including: an interest in the Boston area; regional access to good jobs; low interest rates; the perception that real estate is a ‘safe’ investment; an overall regional shortage of units; national trends towards walkable communities; and a rediscovery of the many benefits of living in Somerville. While many of these factors are positive, the reality is that the increased regional demand for housing in Somerville has made it more difficult for many families to remain in, or relocate to our City.

The City agrees that we need to maintain a diversity of housing options for various family types, and is working with the community, as well as professional consultant teams to do so.

While the residents of Somerville are directly impacted by the cost of housing, it is important to understand affordable housing as a regional issue. While we continue to challenge other municipal leaders to address these regional needs, we need to address them in our own community.

c. Market Impacts

RKG Associates was commissioned to assess the impact of the proposed amendment to Somerville’s Inclusionary Zoning Ordinance. This study is not yet complete, but RKG has provided a preliminary analysis (memo – see attached). The analysis is based on a financial feasibility model for various sizes of development and changes in market conditions. The preliminary key findings are summarized below:

- 1) Increasing the required percentage of affordable units from 12.5 percent to 20 percent city-wide produces a lower rate of return for smaller multi-unit projects. This could discourage private investment.
- 2) Smaller projects have a harder time absorbing a change in the rate of return than larger projects due to the overall size of the development budget. A 1 percent change in the rate of return on an eight-unit project could make a significant difference in the financial feasibility of the project.
- 3) Assessed land values vary widely across the City. Where land values are higher, a change in the inclusionary housing policy will have a greater impact on financial feasibility and rate of return. A city-wide increase in the inclusionary housing policy could push development to parts of Somerville where land values are lower. In addition, it could continue to escalate sale prices and rents in locations where land values are higher in order to maintain a normal rate of return.
- 4) Increasing the required percentage of affordable units could have the unintended consequence of effectively lowering property values across the City. This is because developers will not pay as much for land if they have to designate more market-rate units as affordable housing. If the assessed value of land declines, it will not only affect city tax revenue but also diminish value from private property owners.
- 5) The zoning district in which a development parcel is located has a significant impact on financial feasibility. The more restrictive the dimensional requirements, the harder it is to achieve a

residential density which provides a high enough rate of return.

- 6) Parking costs, especially if underground parking is required, create a major barrier to the financial viability of a project.

III. Preliminary Staff Recommendation

a. What's needed in an inclusionary ordinance

OSPCD is committed to getting the most affordable housing that we can get, out of a plan that meets our values. This means that any inclusionary housing ordinance must:

- 1) The result of a fair and transparent process
- 2) Provides a predictable outcome for all involved
- 3) Provides a number that does not preclude projects that we want, from the 3-story mixed use infill to the development of assembly square and Boynton yards
- 4) Provides a mix of units that meets a need for Somerville residents at different income levels.

Inclusionary housing is more complex than a % required, and needs to be understood as a set of dials. We need to be careful about turning up the dial on the percentage of units, without touching the other dials (like on-site requirements) that we have already set higher than most of our peers. We are aware of no city in the US that:

- a) *sets inclusionary zoning at 20% AND*
- b) has such a low threshold for 20%
- c) requires a subsidy starting at 50% of AMI
- d) does not offer fee waivers
- e) does not permit the vast majority of developers to use off-site and in-lieu
- f) has no additional density bonus for doing the minimum required
- g) has a special permit process that regularly reduces the size of projects
- h) has a significant parking requirement, even with transit adjacency
- i) and demands the high level of quality of architecture, open space and finishes as we do

This is not to say that 20% Inclusionary Zoning can't work; but to establish that the issue of Inclusionary Zoning is more complex and nuanced than just the percentage adopted.

b. Staff Recommendation

Therefore, the Planning Staff recommend APPROVAL of the petition to increase the affordable housing percentage to 20%, but recommend that the Planning Board review each of the recommendations below and propose each as an amendment to the proposed ordinance that is before you. While we believe that any ordinance passed today is a stopgap measure until new zoning is complete, we appreciate the interest in the community to act earlier. But, anything we do needs to work until the new zoning is approved. The one thing that is clear from the RKG report is that we cannot make such a radical regulatory change without fixing other issues as well. Today, we expect seven (7) market rate units to cover the subsidy for each affordable unit. Under the proposed ordinance we are expecting four (4) market rate units to cover

the subsidy for each affordable unit. That's a significant difference.

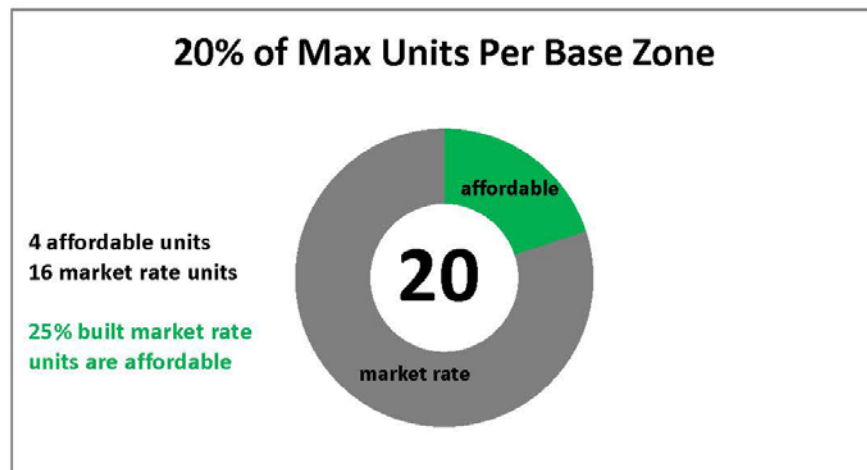
Therefore, we believe that this is a proposal that deserves support, but that it has a better opportunity to become feasible based upon the concerns raised by RKG in their memo.

Staff thereby recommends approval, subject to the following conditions:

1. Address Project Financing

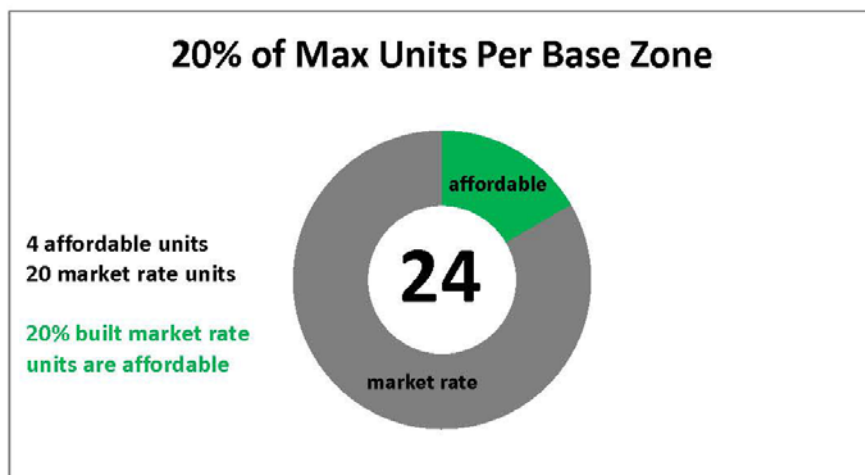
- a. Establish that the 20% requirement apply only to developments with 20 or more residential units, as RKG notes that the proposed 20% ordinance will likely to end small projects in Somerville. This change will ensure that small projects can continue to be developed in appropriate circumstances. It can be implemented by requiring:
 - i. 1-6 units exempt from Inclusionary Zoning Requirement except for 3-6 units in RA/RB which will remain at 12.5%.
 - ii. 7-19 units are required to provide 15% Inclusionary Zoning Requirement
 - iii. 20 units and greater are required to provide 20% Inclusionary Zoning Requirement
- b. Permit the number of affordable units in addition to the number of units permitted by the base district. This is the way that Cambridge and others calculate affordable units. While it changes the ratio of affordable to market rate units, the total number of affordable units produced remains the same as in this current proposal. This reduces the risk of freezing development, while maintaining the same number of units asked for under the proposed amendments.

Proposed Inclusionary Zoning Amendment:



The proposed Inclusionary Zoning Amendment would require 20% of total units to be affordable. On a 20 unit project, 4 units would be required, or 25% of the built market rate units. Based on the preliminary findings of RKG's market sensitivity analysis, Planning Staff is proposing the following adjustment:

Proposed Adjustment to Inclusionary Zoning Amendment:



On a 20 unit project, 4 units would be required, but 20 market rate units would still be permitted to be built. The 20% affordable units would be exempt from dimensional requirements in the zoning ordinance with respect to FAR and Lot Area Per Dwelling Unit. This produces the same number of affordable units as the proposed Inclusionary Amendment, but creates a less onerous financial burden on developers. Furthermore, this approach provides more total housing, which helps mitigate the overall shortage of housing.

- c. Re-adjust the percentages as follows:
 - i. Base income tiers on median family income for the Boston-Cambridge-Quincy, MA-NH HUD Metro FMR Area published annually by the U.S. Department of Housing and Urban Development.
 - ii. Establish a third income tier for projects with the 20% affordable requirement. This will work to address a portion of the middle-income squeeze (see demand curves on page 7: 28% of Ownership Demand is from AMI > 110%, and 40% of Rental Demand is from AMI > 80%). The adjusted income tiers and the breakdown of the affordability of the units according to the following table:

Recommended Inclusionary Requirement	% of dwelling units	For-sale Income Level	Rent Income Level
Tier 1	8%	MFI ≤ 80%	MFI ≤ 50%
Tier 2	8%	MFI ≤ 110%	MFI ≤ 80%
Tier 3	4%	MFI ≤ 140%	MFI ≤ 110%
Total	20%		

- d. Allow for projects with inclusionary units to apply to reduce parking requirements by special permit rather than variance. The cost of parking requirements is high, the need for parking is getting smaller, and the proposal for reduced parking in the override has generated significant support. Because the oversupply of parking is limiting project development, the Special Permit Granting Authority should have the opportunity to reduce the parking with appropriate studies in the right circumstances.

2. Timing Considerations

- a. The ordinance should be amended to provide exceptions for existing projects as follows:
 - i. The 20% adjustment should not apply to any project with an already-approved Preliminary Master Plan. This allows the city to implement the ordinance without changing the financial situation of developer partners that is trying to complete multi-year multi-phase project work.
 - ii. The 20% adjustment should not apply to any project that has received approval for a Special Permit before the approval date of the inclusionary zoning amendment. This exempts any project that was approved between November (when this amendment was first advertised) and today. This permits these projects to be completed without extensive financing challenges, and potential for them to need special permits re-issued.

3. Fix Off-site Incentives:

- a. Increase the formula for payment in lieu of units to match actual cost of developing off-site units. While staff does not typically entertain payments in lieu of units, the ordinance would benefit from a more straightforward calculation for the cost of such off-site units.

Non-zoning proposals

- a. Staff recommends that the Board review the non-zoning proposal that is attached to this petition and request further legal opinions on the status of these items, the ability for the Board to act on non-zoning ordinances written by citizen groups, and the implications on this particular zoning amendment.

As always, the Planning Division staff is available to answer questions or concerns about our recommendation.