



CITY OF CAMBRIDGE

Community Development Department

To: Planning Board

From: Community Development Department (CDD) Staff

Date: October 17, 2022

Re: **Incentive Zoning Rate Study Zoning Petition**

IRAM FAROOQ
Assistant City Manager for
Community Development

SANDRA CLARKE
Deputy Director
Chief of Administration

KHALIL MOGASSABI
Deputy Director
Chief of Planning

Overview

Petitioner: City Council

Zoning Section: 11.202, "Incentive Zoning Requirements," Paragraph (d)

Petition Summary: To amend by substitution with the following text: "(d) Reevaluation of Housing Contribution Rate. The City shall initiate a reevaluation of the Housing Contribution Rate and any other aspect of these Incentive Zoning Provisions at an interval of no less than three (3) years from the time of the previous reevaluation. Such reevaluation shall include a report provided to the City Council reviewing economic factors including but not limited to development activity, commercial rents per square foot, employment growth, housing trends measured in terms of, but not limited to, vacancy rates, production statistics, and prices for dwelling units, and the nexus between Incentive Projects and housing." [emphasis added]

Under current zoning, the reevaluation is initiated "at an interval of no less than three (3) years from the time the rate was last amended by the City Council." [emphasis added]

Planning Board Action: Recommendation to City Council

Memo Contents: Summary of the proposed zoning, background information on the topic of the Petition, and considerations and comments from staff

Summary of Petition

The Petition proposes to change how the time interval is determined for beginning a study to reevaluate the Housing Contribution Rate in the Incentive Zoning Requirements.

Incentive Zoning requires certain non-residential development to make a “Housing Contribution,” which is a monetary contribution to the Cambridge Affordable Housing Trust to mitigate the development’s impact on the need for affordable housing in Cambridge. The Housing Contribution Rate is the per-square-foot contribution applied to projects that are subject to Incentive Zoning provisions.

Currently, the zoning requires that the City wait at least three years between amending the Housing Contribution Rate and initiating a new study. This Petition proposes to alter that timeline by timing the initiation of a new study from the date of the previous study, rather than the date of the most recent rate change.

Background

The City of Cambridge first adopted the Incentive Zoning Requirements in 1988. The purpose of the requirements is to mitigate the impacts of non-residential development on the need for housing that is affordable to low-, moderate-, and middle-income households.

The initial Housing Contribution Rate was set at \$2.00 per square foot. The Rate was increased by the City Council in 1998 (to \$4.00 per square foot), 2015 (to \$12.00 per square foot, with stepped increases over a three-year period), and 2020 (to \$20.10 per square foot). Each change was preceded by a study, prepared by an economic consultant, which evaluated the impact of new non-residential development on the need for affordable housing in Cambridge, and the amount of City funding that would be needed to create that housing. The rate is also subject to annual inflation adjustments based on changes in the Consumer Price Index (CPI). The City Council is now considering a zoning petition to increase the rate to \$33.34 per square foot.

The Incentive Zoning Requirements that were first adopted in 1988 required that the Housing Contribution Rate be “subject to review and recalculation three (3) years after the effective date of this provision and every three (3) years thereafter by the Cambridge City Council.” In 2015, the zoning was amended to change the reevaluation period to “an interval of no less than three (3) years from the time the rate was last amended by the City Council.” The intent of this change was to be more specific and certain about when the reevaluation would begin.

Incentive Zoning Requirements are based on a study establishing a “nexus” between the impact of new development, in the form of workers located in Cambridge who will need affordable housing, and the amount of City funding needed to produce affordable housing for those workers, which is offset by the Housing Contribution. Regular reevaluations of the Housing Contribution Rate are an opportunity to understand how changing economic conditions impact the amount of projected commercial development in Cambridge and the corresponding need for affordable housing in the city.

Petition Effects

The overall effect of the Petition is to enable the City Council to amend the Housing Contribution Rate between iterations of the reevaluation study without affecting the timing of when the next study would start. This change would allow the City to proceed with a new reevaluation in 2023 if the City Council adopts an amendment to the Housing Contribution Rate in 2022.

The current zoning requirements effectively create a sequence in which a nexus study is completed, the Housing Contribution Rate is amended to reflect the recommendations of the study, and then the City waits at least three years before conducting another study. This sequence provides time for the impact of the amended rate to be more visible in market conditions, which would then be studied to inform future rate changes.

A potential consequence of the Petition is that a nexus study could be initiated too soon after a rate change to be able to accurately analyze its effect on the market. Three years is a short timeframe to fully assess a zoning change because most significant development projects take 2-3 years or more from permitting to completion. The 2019 nexus study recommended increasing the period between regular reevaluation of the Incentive Zoning provisions from every three to every five years.

Linking future reevaluations to the last adopted change provides some predictability to property owners and developers about when the rate is likely to change based on a new reevaluation. A potential consequence of the Petition is that property owners and developers would have less predictability about when the rate is expected to change, because there is a greater chance that changes will be adopted more often than every three years.

The Petition also does not say precisely when the study could be initiated. The proposed wording sets the timeline based on “the time of the previous reevaluation,” but the reevaluation process typically takes several months to a year. To improve clarity on the timing, the Petition could specify “the time when the previous reevaluation was received by the City Council,” or another action that can be more readily tied to a specific date.