



CITY OF CAMBRIDGE

Community Development Department

To: Ordinance Committee
From: Community Development Department (CDD) Staff
Date: August 13, 2020
RE: Affordable Housing Overlay Follow-Up Questions of Staff

IRAM FAROOQ
Assistant City Manager for
Community Development

SANDRA CLARKE
Deputy Director
Chief of Administration

KHALIL MOGASSABI
Deputy Director
Chief Planner

Overview

Following the July 8, 2020 Ordinance Committee public hearing on the Affordable Housing Overlay (“AHO”), City Councillors submitted follow-up questions for staff to provide additional information regarding the AHO. This document and its appendices provide responses to these questions.

Where two or more questions are of a similar nature or seek similar information, a single response is provided for clarity and brevity of the document as a whole.

Questions & Responses

Question #1: Could Community Development Department (CDD) staff make available an illustration/rendering to illustrate the change in proposed Section 11.207.5.2.1(b) to show the difference in setback requirements when measured from the zoning district boundary line as opposed to a parcel line?

Question #2: Could CDD staff provide a summary table illustrating the language changes between the 2019 version of the AHO petition, as amended, and the 2020 AHO petition as proposed?

Question #3: Have any changes to the 2019 initial AHO petition, other than those voted for last year by the Ordinance Committee, been added to the 2020 AHO petition? If so, what are they and why have they been added?

Response: As appended to this memo, a summary table has been created providing explanations of the language changes between the 2019 and 2020 Petitions (see attached document entitled, “Affordable Housing Overlay – Zoning Petition Comparison” dated July 28, 2020). This table includes diagrams which illustrate the differences in setback requirements when measured from the zoning district boundary as opposed to the parcel line.

Question #4: What other approaches including different zoning modifications, land trust leases, etc. were considered and why were they not pursued?

Question #5: How would a super inclusionary plan compare to the proposed AHO in terms of number of units, cost/unit and geographic dispersion? Or a plan that focuses on development on the corridors – where zoning already allows some build-up. Specifically, what if all existing zoning FAR would be doubled for affordable housing projects? E.g., a FAR of 2.0 would be 4.0; a FAR of 3.0 would be 6.0, etc.

Response: The City has investigated and implemented many different strategies to advance affordable housing production. Developing affordable housing is complex and multifaceted, and individual strategies may address one or more aspect of the endeavor. They include both zoning and non-zoning tools that are designed to work together toward common objectives.

In addition to ongoing efforts such as working with affordable housing providers to purchase buildings and land to create new affordable housing, the City has explored strategies and enhanced existing approaches to create affordable housing. In recent years, these have included:

- Increasing the annual City funding allocated to the Affordable Housing Trust (Trust)
- Continuing to allocate the maximum 80% of Community Preservation Act (CPA) funds to the Trust (this year's allocation is currently under discussion at the CPA Committee)
- Amending the Incentive Zoning Ordinance to broaden applicability and significantly increase the housing contribution
- Amending the Inclusionary Housing Ordinance to increase the amount of affordable housing provided in new market-rate residential developments

Together, these changes have addressed (1) increasing funding to the Trust to support development and preservation of affordable housing, and (2) leveraging the private housing market to develop new affordable housing through the Inclusionary zoning ordinance.

Remaining challenges include (1) uneven distribution of affordable housing across the city; (2) difficulty in competing to acquire sites for affordable housing

in the Cambridge real estate market; and (3) risk in the existing discretionary permit process.

In 2019, staff was directed by the City Council’s Housing Committee to advance an Affordable Housing Overlay zoning strategy to address the issues noted above. Strategies such as land trusts, ground leases, or super-inclusionary would not address these issues, and are not being recommended at this time. Staff research since 2015, when the overlay concept was first discussed, has revealed that there are no ready-made best practice solutions for the specific challenges to be addressed. The AHO proposal, therefore, combines strategies to create an approach customized to the Cambridge context.

In developing the AHO, the objectives were to develop a set of as-of-right zoning standards for entirely affordable housing developments and to permit a level of density that would make site acquisition for affordable housing feasible throughout the City. The work was based on an analysis of the levels of density needed in different areas to make affordable housing development feasible. Generally, a greater relative increase in density is needed in the most restrictive districts, such as Residence A-1 and A-2, because the allowed density under current zoning is very low. In order to achieve the needed densities, additional height and relief from other dimensional standards are necessary.

In discussions with community members, staff heard feedback that the additional height and size of buildings was a concern, and density metrics such as floor area ratio (FAR) are difficult to visualize. Staff developed the AHO to primarily regulate building height and stories above grade, plus dimensional standards such as setbacks and open space, because it provides the needed flexibility in density while providing certainty about height and scale of buildings. Nevertheless, the 2.0 FAR limitation in lower-density residential districts was added by the City Council during the 2019 hearings on the AHO petition due to a desire to have an overall cap on density in those areas.

Question #6: Who is responsible for the quality of design and whether or not AHO projects relate to its context?

Response: The AHO proposes an extensive design consultation process for AHO projects, which includes at least two community meetings with nearby residents, followed by two review sessions with the Planning Board. The first review session would be to present the proposal and receive feedback and suggestions for improvement, and the second would be to present any refinements or

changes made based on that feedback. The review process is non-binding because the intent is to allow as-of-right permitting that would not be subject to appeal. The process would conclude with the Planning Board making a final report that would be sent to the developer, City Staff, and the Cambridge Affordable Housing Trust.

Question #7: How many more units of affordable housing will this 2020 AHO petition generate than prior years?

Question #8: What is the range of expected additional units if the AHO passes – due to the AHO, separate from inclusionary or what would be built under current zoning? The charts in the back up documents describe the advantages in terms of certainty, carrying costs, timeframe. However, there is no estimate of number of additional units. Without that, the impact cannot be measured.

Response: We expect that the AHO will both expand our pipeline of new affordable developments and that these projects will enter construction and be completed sooner than if the AHO were not in place.

While it is not possible to predict exactly how many additional affordable units would be created if the AHO passes, we can extrapolate from historic data to make some estimates about the future.

One way to estimate the anticipated impact of the AHO is to translate the impact of anticipated cost savings. The cost of creating an affordable unit has increased consistently over time. In the early 2010s, the average cost to create an affordable unit was roughly \$425,000 per unit. At that time, acquisition costs were under \$100,000 per unit and hard costs were under \$200/square foot. Today, we often see acquisition costs well above \$100,000 per unit and construction costs well above \$300/square foot. As a result, we are seeing the cost to create that same affordable unit to be roughly \$600,000.

Given the fact that we expect these increases to continue, the sooner new units are under construction, the greater the savings. These savings can be used to create additional units. Using the above figures, we would estimate that the cost to create an affordable unit increases by roughly 3-5% each year, driven largely by increases in construction and material costs. As a result, a unit which costs \$600,000 today will cost \$618,000 or more next year. Moving housing into construction sooner will avoid these cost increases. Similarly, the AHO will allow for cost savings as holding costs, permitting costs, and financing costs will be reduced with a shortened development schedule. The combined cost savings

possible through a faster AHO development process which reduces initial development costs and avoids construction cost increases by enabling units to move to construction more quickly can be significant. For instance, if the AHO allows for savings of 5% in development costs, those savings would reduce the amount of City funds needed in AHO projects. These funds could then be used to fund other affordable housing developments. We estimate that such savings could allow for 10-15 additional affordable units to be possible with City funding each year.

It should be noted that while our goal is to create 100 City-funded affordable housing units per year, we have not seen any new construction units come into our development pipeline since FY18. While there are three affordable developments under construction this year, these were reported in earlier fiscal years when they were approved. This is due to a variety of factors including challenges in securing sites for development, and the need to have permitting approvals in place to secure state funding needed for construction.

The ability of affordable housing builders to create new housing rests largely on three components: access to feasible development sites; funding to cover development costs; and the ability to secure necessary permitting approvals. The AHO is designed to expand the number and types of sites which could be considered feasible for development and to provide predictability and timeliness to the development process which reduces costs. For instance, without the AHO, an affordable housing developer might decline to pursue a site which would require substantial zoning relief to be feasible. With the AHO in place, that developer would be more likely to pursue the opportunity as they would know what is possible under the AHO. Furthermore, by streamlining the permitting process, projects will be eligible to apply for competitive state and federal funding sooner.

We therefore expect that the AHO will enable an increased number of affordable developments to move forward more quickly, resulting in more units coming on-line sooner than would otherwise be possible.

Question #9: Does any other city have similar citywide zoning? If so, how is that working. If not, are we the first?

Response: Housing affordability has been a growing concern in cities all over the country. Cities are utilizing several zoning techniques and strategies in order to promote the production of additional affordable housing within their

communities. CDD’s review has found that zoning strategies tend to be tailored to the unique needs of each community in which they are located, and there is no “one size fits all” approach to address these types of challenges.

Nevertheless, affordable housing zoning strategies tend to incorporate similar themes of allowing greater density, relaxing other zoning restrictions, and providing a more predictable permitting process. The following is a sample of communities that have adopted zoning to promote affordable housing:

- Austin, Texas adopted a Citywide Affordable Housing Density program which provides greater height and floor area ratio provisions for projects which dedicate bonus square footage to affordable housing projects.
- Salt Lake City, Utah has considered zoning changes which provide a “toolkit” approach to producing more affordable housing, including expanded use types, modified density limits, modified lot requirements, and flexibility for adaptive reuse housing projects.
- Los Gatos, California adopted a Housing Overlay Zone (AHOZ) across approximately 60 acres of the City, which offers increased density, fast-track permitting, reductions in required parking, and setback flexibility for housing projects within the AHOZ. A set of design guidelines accompanies the housing overlay.
- Corte Madera, California adopted several different affordable housing overlay zones (an optional affordable housing zone, two exclusively-affordable housing zones, and a mixed-use affordable housing overlay zone) which require 100% of the housing built within these zones to be affordable and provide incentives such as increased density and fee waivers.
- Simsbury, Connecticut adopted a Workforce Housing Overlay Zone (WHOZ) which allows increased density and flexible dimensional requirements for housing projects with a minimum of 20% affordable units within the district.
- Arlington County, Virginia adopted a Special Affordable Housing Project District (SAHPD) which aims at retaining and upgrading existing affordable housing stock on a one-to-one basis in new development and redevelopment projects. This district is accompanied by a voluntary density bonus and parking waiver for projects that set aside between 20-35% of all units for 40-80% AMI households.

Many of these zoning strategies are relatively recent, and data is not available on how they have specifically affected affordable housing production in their communities.

Question #10: What is the per unit cost for Finch, and how much of the costs is due to passive/net zero?

Response: The total development cost for Finch was approximately \$580,000 per unit. Finch is the first Passive House-certified multi-family building in the state and meets very high-performance standards for a residential building; however, it is not certified to produce “net zero” greenhouse gas emissions. To build Finch to passive house standards increased construction costs by approximately 3%.

Question #11: What is the per unit cost of developing affordable housing by building new on City-owned land compared to building new on land that is bought since not owned by the City and compared to converting existing homes (renovation or preservation of existing units)?

Response: We estimate the cost of building on sites purchased on the open market to be in the range of \$550,000 to \$650,000 per unit, of which \$100,000 to \$200,000 might be attributable to acquisition costs. By reducing or eliminating acquisition costs, the per unit cost of building on City-owned land would be reduced. However, we would expect a portion of those savings to be offset by the added costs attributable to other public benefits such as building publicly accessible open space, subsurface parking and other site-special features which could offset any acquisition cost savings.

Converting a market-rate building to affordable housing has always been a key approach to increasing affordable housing. However, the cost to purchase existing multi-family housing has increased to a point where such conversions are rarely financially feasible, particularly when additional rehabilitation is needed. Likewise, the cost of converting non-residential structures or single-family homes to multi-family affordable housing would likely now approach or exceed the cost of building new affordable housing on an open lot, especially when creating larger units for families. Conversion of existing buildings to multi-family housing for individuals and smaller households can be cost effective, though often requires zoning relief.

Question #12: Is there a limit of per unit cost that makes any project ineligible for federal or state funding? If so, what is it, and how does that compare to our unit costs?

Response: There is no simple cost limit in place for federal and state funders. However, most will limit the amount of funds that they will provide to an eligible development, and all will look closely at development costs to be sure that costs are reasonable in the market. State affordable housing funders strongly prefer lower-cost developments so that more housing can be created with limited funding. State and other funders recognize how costly it is to create new housing in Cambridge as well as the benefits Cambridge offers to low- and moderate-income residents in access to jobs, services and education. Affordable housing providers have had great success in accessing state and other funding to create housing despite the challenges of high costs. However, as competition grows for limited resources, they will be challenged to secure this funding if costs are much higher than they are now.

Question #13: The June 21, 2019 memo discussed many potential units that could have been built if the AHO had been in place (pages 5-7). Please provide the details of financials on a rough-costs basis to understand how the AHO could have worked.

Response: The examples provided in the June 21, 2019 memo were used to illustrate two concepts: the need for adequate density to justify acquisition costs and confidence that the permitting needed to achieve that density would be able to be secured. In assessing the potential of a site for affordable housing development, an affordable developer must decide that a sufficient number of units can be created on a site to support the acquisition cost.

Historically, we have considered \$100,000 per affordable unit to be a generally supportable acquisition amount. In some cases, that figure could be lower, for example, on larger sites or those which require environmental remediation or have other development challenges. In other cases, a site might be special enough to justify a higher per unit acquisition cost.

This is particularly likely if the AHO passes and we seek to develop small projects in lower density neighborhoods where sales prices are very high. We have considered \$200,000 per unit in land costs as the limit of feasibility for viable AHO projects. This is slightly higher than the highest land cost seen for a feasible affordable housing development to-date. The examples in the June 2019 memo

provide cases studies of this feasibility test. For instance, in one noted example, an affordable housing developer assessed the potential to purchase an existing 6-unit multi-family property with a rear parking lot. The property was being offered for sale for \$4,250,000 or \$708,333 per existing unit, which was not financially feasible for affordable housing acquisition. The affordable housing providers considered whether more housing could be added to the site. Their concept involved reconfiguring and rehabbing the existing units and adding a four-story rear addition to the existing building to bring the total unit count to 21 and the acquisition price down to \$202,000 per unit. In the end, they decided not to pursue the site given the uncertainty associated with securing the necessary permitting approvals. The property sold for more than \$4,325,000. Had the AHO been in place, the affordable housing provider would have been more confident in pursuing the acquisition, as their envisioned 21-unit project would have been allowable under the AHO zoning. Even had they had to increase their offer to match the eventual sales price, their proposed 21-unit development could still have been possible with acquisition costs just above the limit used to gauge feasibility for the AHO.

Question #14: What percentage of affordable housing in Cambridge is funded through the Low-Income Housing Tax Credit (LIHTC) and the Qualified Action Plan? Through city funding? How would the AHO change Cambridge's likelihood of getting additional state and federal funding for affordable housing?

Response: The high cost of creating affordable housing in Cambridge means that substantial subsidies are needed to make development feasible. With very few exceptions, all fully-affordable housing in Cambridge is funded with a combination of federal, state and local public funding combined with other private and charitable sources. While we expect the AHO to reduce costs, we do not expect those savings to eliminate the continued need for state and other funding.

Funding accessed through the state, including the state and federal LIHTC programs, is an essential component of almost every affordable housing development in Cambridge. The LIHTC program is a federal tax credit program administered through the state which funds affordable rental housing and works best with projects of roughly 20 or more units. As a result, most medium and large-sized fully-affordable rental projects in Cambridge include tax credit equity

as a source. Affordable housing builders must demonstrate local funding commitments to be eligible for state funding.

Local affordable housing providers have a long and successful track record of working with the City and state to create quality affordable housing. We expect that the AHO would allow AHO developments to be eligible to compete for state funding more quickly, and to increase the number of developments seeking this funding. These factors combined will increase the likelihood of receiving state funding commitments in each annual funding competition.

Question #15: What is the average land acquisition cost by neighborhood? For a given parcel in different areas of the City, what is the per SF land acquisition cost?

Response: Appended below is a table of sales data by neighborhood from 2018 through 2019, provided by the Cambridge Assessing Department (the same data, from 2018, was used for the analysis provided in the June 21, 2019 Policy Order Response). The table shows the number of sales in each neighborhood during that time period with the median sales price, median price per developable unit under current zoning, and median price by square foot of land area.

Neighborhood	# of Sales (2018-2019)	Median Sale Price	Median Sale Price Per Developable Unit (Current Zoning)	Median Sale Price per Square Foot of Land Area
R1 - East Cambridge	67	\$1,168,000	\$642,500	\$633
R2 - Wellington-Harrington/The Port	32	\$1,725,000	\$685,000	\$546
R3 - Mid-Cambridge	33	\$1,905,000	\$850,000	\$610
R4 - Trowbridge Hill Area	8	\$2,036,500	\$985,750	\$800
R5 - Professor's Row	1	\$6,650,000	\$1,662,500	\$432
R6 - Washington St/Avon Hill	14	\$2,148,500	\$718,750	\$570
R7 - North Cambridge	49	\$1,425,000	\$566,667	\$375
R8 - Concord Ave/Fenno St	20	\$1,526,188	\$606,500	\$369
R9 - Coolidge Hill	0	N/A	N/A	N/A
R10 - Brattle Street Area	11	\$4,999,000	\$2,499,500	\$584
R11 - Mt Auburn St	8	\$2,475,000	\$906,250	\$708
R12 - Riverside	34	\$1,537,500	\$731,250	\$557
R13 - Cambridgeport	22	\$1,810,000	\$741,875	\$513
R14 - Huron Village	10	\$2,125,000	\$850,000	\$452
R15 - Grove St	0	N/A	N/A	N/A
R16 - Agassiz	12	\$2,100,000	\$968,750	\$698
R17 - Porter Square	12	\$1,510,000	\$763,833	\$435

Question #16: Could CDD staff create an additional illustration of an AHO project within a Residence A zoning district context?

Appended to this memo are three AHO development scenarios in a Residence A context: 1) New AHO construction with on-site parking; 2) New AHO construction without on-site parking; and 3) An AHO addition to an existing building, without on-site parking.