City of Cambridge, MA

Inclusionary Housing Ordinance:

Financial Performance Analysis & Impact Review

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EXECUTIVE SUMMARY

Study Purpose

The City of Cambridge's Inclusionary Housing Ordinance (IHO) requires market-rate residential developments with ten or more units or more than 10,000 square feet of residential floor area to reserve 20% of residential floor area for affordable units. The City engaged RKG Associates to assess the impact of the existing IHO and to test the financial performance of residential development under current market conditions. The study comprises three analyses: the impact of new market-rate units on the City's socioeconomic diversity, the need that new market-rate housing generates for affordable housing for service and construction workers, and the financial performance of IHO projects.

The first two analyses address legal standards announced in U.S. Supreme Court opinions that may or may not apply to the IHO. Under those standards, a condition imposed by government on development must bear an "essential nexus" to a legitimate governmental interest and be "roughly proportional" both in nature and extent to the development's impact. The third analysis examines how residential development performs financially under current market conditions and how changes to local policy, including the IHO requirements, could affect that performance.

Key Findings

NEW MARKET-RATE HOUSING DEVELOPMENT GENERATES A NEED FOR AFFORDABLE HOUSING

Development of new market-rate housing occupied by new residents affects the City's stated goal of maintaining socioeconomic diversity and requires that roughly 35% of new housing units be affordable to low-to-moderate income families in order to maintain that socioeconomic diversity. Recent data showing that, although nearly a quarter of the units built between 2014 and 2024 were income-controlled, the share of households earning at or below 80% of AMI declined over the decade, is consistent with this conclusion. In addition, roughly 25% of new housing units need to be affordable to low-to-moderate income workers who construct market rate housing and serve the new residents who occupy it.

CURRENT MACROECONOMIC AND LOCAL MARKET CONDITIONS ARE THE PRIMARY FACTORS AFFECTING FINANCIAL PERFORMANCE OF RESIDENTIAL DEVELOPMENT

Residential development in Cambridge faces challenges under current macroeconomic and local market conditions that vary by prototype and location. Elevated construction costs, higher interest rates, and softer regional demand are primary drivers of the challenges. The IHO obligation has a relatively lesser effect on financial performance.

TALLER BUILDINGS DO NOT PERFORM AS WELL FINANCIALLY

Building height, which drives construction methods and the materials needed to build are the most significant drivers of costs affecting financial performance. Financial modeling shows that projects up to four stories, which can use wood-frame exclusively, the least expensive construction type, work in most parts of the city. Modeling found that six-story projects, built over a concrete and steel podium that increases costs, face more financial challenges but work in many circumstances. The modeling of prototype projects with 8 stories or more that require steel or mass timber shows that these taller projects face particular challenges.

OWNERSHIP DEVELOPMENT PERFORMS COMPARATIVELY BETTER BUT FACES SIMILAR CHALLENGES

Based on data from recent sales, condominium projects perform better than similar rental projects. That said, the data is slightly misleading as most new construction condominium developments are smaller than the size that would trigger the IHO policy. Further, condominium financing for larger (20+ unit) projects continues to provide challenges due to pre-sale requirements to secure financing. Those findings aside, ownership development experiences the same relative performance as construction typology changes, with smaller buildings (wood-frame construction) performing at market expectations while taller buildings (steel frame construction) being the most challenged typology for ownership product, particularly in submarkets with lower sale prices.

NO SINGLE POLICY CHANGE IS A GAME CHANGER

The model tested how project performance would be affected by changes to the IHO and found that, under the current market conditions, no single change would significantly improve project performance. Reducing the percentage of floor area required to be set aside for affordable units from 20% to as low as 10% has a limited impact, and other tested IHO changes have even smaller effects. A graduated property tax abatement applied to the added property value created through multifamily housing development has the greatest effect among measures tested, yet even it does not result in major improvement to project performance in every submarket. Shifts in macroeconomic and local market conditions affect project performance more than any individual ordinance change, which suggests that a market correction would do more for higher-density development than policy changes.

Options to Consider

Current macroeconomic and local market conditions have made it more difficult to develop market-rate multifamily housing today than at other times. Since the IHO axiomatically depends on such market-rate development to generate IHO units, it is important to consider strategies that enhance the financial environment for such development. The following menu of options is intended to do just that, recognizing that some options will be more favored by the City than others. No single option is a panacea that dramatically changes the current environment for development. Some of these options may be combined to have a greater effect. It is important to state that if Cambridge decides to forgo any of these options and wait until exogenous conditions change, financial performance may take longer to recover further delaying development (particularly for taller buildings).

IHO REGULATORY OPTIONS

- Consider lowering the IHO set-aside percentage.
- Allow developers to satisfy up to 50% of the affordable floor area requirement through an in-lieu fee paid to the Cambridge Affordable Housing Trust. Additionally allow in-lieu fee to be paid annually over a several-year period rather than upfront.
- Conduct interval studies every one to two years so the IHO can be revisited as market conditions change.
- Create two tiers of target area median income ranges for affordable rental units.
- Allow households with incomes up to 100% of AMI to be eligible for IHO rental units.
- Consider a sliding-scale set-aside requirement based on project size or height.

- Allow IHO units to be smaller than comparable market-rate units.

FINANCIAL INCENTIVE OPTIONS

- Establish a graduated property tax abatement program for rental developments.
- Use Cambridge Affordable Housing Trust fund to provide targeted financial assistance.
- Maximize Housing Choice Voucher use, with priority for family-sized units.

I. INTRODUCTION

The City of Cambridge's Inclusionary Housing Ordinance (IHO) was established in 1998 as an amendment to the Cambridge Zoning Ordinance, with the goal of ensuring that qualifying privately developed residential buildings include units affordable to low-, moderate-, and middle-income households. In April 2017, the City Council amended the IHO to require that private residential developments of ten or more units or developments totaling more than 10,000 square feet of residential floor area reserve 20 percent of residential floor area for affordable units, with monthly costs set to avoid cost burdening. To expand options for families, the Ordinance encourages developers to provide three-bedroom units within the affordable component and requires them in residential developments of 30,000 square feet or larger. Affordable units must be provided on-site as part of new residential developments. According to the U.S. Department of Housing and Urban Development (HUD), “affordable” is defined as paying no more than 30% of gross income on housing costs, including rent, mortgage payments, and essential utilities.

The City of Cambridge engaged RKG Associates to assess the impact of its existing IHO policy and confirm the financial performance of development under current market conditions. RKG Associates conducted three analyses for this purpose:

- The Impact of New Market-Rate Units on the City’s Socioeconomic Diversity analysis,
- The Need That New Market-Rate Housing Generates for Affordable Housing for Service and Construction Workers analysis, and
- The Financial Performance of IHO Projects analysis.

II. THE IMPACT OF NEW MARKET-RATE UNITS ON THE CITY'S SOCIOECONOMIC DIVERSITY

Background

This analysis assesses the impact of new-market rate housing development on the City's goal of maintaining socioeconomic diversity. To do so, RKG investigated the following questions:

- What does Cambridge's current socioeconomic diversity look like?
- How many new households with incomes over 100% of the Area Median Income (AMI) seeking to relocate to Cambridge are accommodated in newly developed market-rate housing units in Cambridge? How many new households with incomes over 100% of AMI seeking to relocate to Cambridge are able to occupy market-rate units because of newly developed market-rate housing units in Cambridge?
- What ratio of housing units affordable to households earning at or below 80% of AMI would need to be built to maintain the City's current socioeconomic diversity level?
- How has Cambridge performed between 2014 and 2024 in terms of housing production and preservation of socioeconomic diversity?

Data Sources

This analysis relies on several primary and secondary data sources. The following list details sources used throughout the analysis. Each data source is identified by the level of specificity of the data (in parentheses).

- American Community Survey (ACS) Public Use Microdata Sample (PUMS) 2014, 2019, and 2024 1-Year Estimates – identifying household and migration pattern trends (Cambridge PUMA)
- U.S. Department of Housing and Urban Development (HUD) FY 2014 and FY 2024 Income Thresholds – translating Cambridge household incomes into Area Median Incomes (AMIs) (Boston-Cambridge-Quincy, MA-NH HUD Metro FMR Area)
- American Community Survey (ACS) 2014 and 2024 5-Year Estimates – identifying average household sizes as assumptions in translating household income to Area Median Income (City of Cambridge)
- MassGIS – identifying housing unit development trends by housing type and by period (City of Cambridge)
- City of Cambridge – identifying the development trends of housing units produced under the City's IHO policy and other publicly subsidized affordable units (City of Cambridge)

Assumptions

Based on the American Community Survey (ACS) 2014 5-Year Estimates and 2024 5-Year Estimates data on average household sizes by tenure, this analysis assumes the average household size in Cambridge is two persons for both renter and owner-occupied households.

Table 1. Average Household Size, Cambridge, MA

Tenure	2014	2024
Owner	2.18	2.21
Renter	1.99	1.98

Source: American Community Survey (ACS) 2014 and 2024 5-Year Estimates

The two-person household size assumption is used when translating household incomes from PUMS and wages from Lightcast into HUD's Area Median Income (AMI) bands. HUD's income limits are federally established thresholds used to determine eligibility for affordable housing programs.

Table 2. HUD income limits summary, FY 2024, Boston-Cambridge-Quincy, MA-NH HUD Metro FMR Area

Area	Median Income	FY 2024 Income Limit Category	Persons in Family							
			1	2	3	4	5	6	7	8
Cambridge City	$148,900	Extremely Low Income (30%)	$34,300	$39,200	$44,100	$48,950	$52,900	$56,800	$60,700	$64,650
		Very Low Income (50%)	$57,100	$65,300	$73,450	$81,600	$88,150	$94,700	$101,200	$107,700
		Low Income (80%)	$91,200	$104,200	$117,250	$130,250	$140,700	$151,100	$161,550	$171,950

Source: U.S. Department of Housing and Urban Development (HUD)

NOTE: Cambridge City is part of the Boston-Cambridge, Quincy, MA-NH HUD Metro FMR Area, so all information presented here applies to all communities in the FMR Area

Table 3. HUD income limits summary, FY 2014, Boston-Cambridge-Quincy, MA-NH HUD Metro FMR Area

Area	Median Income	FY 2014 Income Limit Category	Persons in Family							
			1	2	3	4	5	6	7	8
Cambridge City	$94,100	Extremely Low Income (30%)	$19,800	$22,600	$25,450	$28,250	$30,550	$32,800	$36,030	$40,090
		Very Low Income (50%)	$32,950	$37,650	$42,350	$47,050	$50,850	$54,600	$58,350	$62,150
		Low Income (80%)	$47,450	$54,200	$61,000	$67,750	$73,200	$78,600	$84,050	$89,450

Source: U.S. Department of Housing and Urban Development (HUD)

NOTE: Cambridge City is part of the Boston-Cambridge, Quincy, MA-NH HUD Metro FMR Area, so all information presented here applies to all communities in the FMR Area

Using the two-person household income limits for the Boston-Cambridge-Quincy, MA-NH HUD Metro FMR Area from FY 2014 and FY 2024, the corresponding income ranges were calculated. The 100% AMI and 120% AMI were calculated based on the 50% AMI limits.

Table 4. Income Limits FY 2014 and FY 2024, Cambridge, MA

Income Limit	FY 2014	FY 2024
At or Below 30% AMI	$22,600 and Below	$39,200 and Below
31% AMI - 50% AMI	$22,601 - $37,650	$39,201 - $65,300
51% AMI - 80% AMI	$37,651 - $54,200	$65,301 - $104,200
81% AMI - 100% AMI	$54,201 - $75,300	$104,201 - $130,600
101% AMI - 120% AMI	$75,301 - $90,360	$130,601 - $156,720
121% AMI and Above	$90,361 and Above	$156,721 and Above

Source: American Community Survey (ACS) 2014 and 2024 5-Year Estimates, and HUD

What does Cambridge's current socioeconomic diversity look like?

It is the City of Cambridge's goal to maintain a level of socioeconomic diversity no less than the current level. As shown in the table below, 37.4% of Cambridge's households earned at or below 80% of the AMI compared to 53.7% of the households earning above 100% of the AMI in 2024. That means for every household earning above 100% of AMI, there are 0.7 households (37.4% / 53.7% = 0.7) earning at or below 80% of AMI. Maintaining this ratio would enable the City to maintain its current income diversity level.

Table 5. Total Household Share by Income Threshold, Cambridge, MA

Income Limit	2024
80% AMI and Below	37.4%
81% - 100% AMI	8.9%
101% - 120% AMI	8.3%
121% AMI and Above	45.5%

Data source: American Community Survey (ACS) Public Use Microdata Sample (PUMS) 2024 1-Year Estimates

How many new households with incomes over 100% of (AMI) seeking to relocate to Cambridge are able to occupy market-rate units because of newly developed market-rate housing units in Cambridge?

RKG Associates used American Community Survey (ACS) Public Use Microdata Sample (PUMS) data from 2022, 2023, and 2024 to identify the level of in-migration into new market-rate units in Cambridge from outside Middlesex County. These data are then supplemented by the American Community Survey 2020–2024 5-Year Estimates, Table B07204, to add the portion of Cambridge in-movers from elsewhere outside the city but within Middlesex County.

This analysis focuses on households earning above 100% of AMI because new market-rate rental apartments recently built in Cambridge since 2023 charge rents that require incomes above 100% of the AMI, according to CoStar and Apartments.com listing data as of June 2026. In addition, except in the very limited number of middle-income affordable units (eligible to households earning up to 120% of AMI), households earning above 100% of AMI do not qualify for income-restricted units and therefore can only occupy market-rate units. Households earning below 80% of AMI may occupy market-rate housing units, but this situation is either not reflective of true socioeconomic diversity (in cases where lower income

households have significant assets or external support) or not sustainable for households overly burdened by housing costs. This analysis assumes that every added market rate housing unit created enables one new household with income over 100% of AMI to move into Cambridge, changing the socioeconomic diversity of the City unless enough low-to-moderate income housing needed to maintain socioeconomic diversity levels is added at the same time.

In 2024, one in eight Cambridge households moved to the City from outside of Middlesex County in the past year. The data show that 65% of the Cambridge households earning above 100% of the AMI who moved in the past year to market-rate housing in Cambridge came from outside Middlesex County, and 35% came from within the county (including Cambridge). Among recent Cambridge in-movers that came from within Middlesex County, 70% of them moved within rather than from outside Cambridge, and 30% came from outside the City and within the County. Adding the portion of in-migrants from outside Cambridge but within the County to the portion of in-migrants from outside the county, shows that approximately 76% of Cambridge in-migrants who earned above 100% of AMI and moved in the past year into market-rate units in Cambridge came from outside Cambridge.

Table 6. Origin of New Market-Rate Unit Households Earning Above 100% AMI, Cambridge, MA

Origin	Share
From Outside of County	65%
From Within County	35%
From Elsewhere in County	11%
From Within Cambridge	24%
From Outside of Cambridge	**76%**

Data source: American Community Survey (ACS) Public Use Microdata Sample (PUMS) 2022, 2023, 2024 data, ACS 2020–2024 5-Year Estimates, Table B07204, 2026

What ratio of housing units affordable to households earning at or below 80% of AMI would need to be built to maintain the City's current socioeconomic diversity level?

For every new market-rate unit, 0.76 is occupied by in-migrant households earning above 100% AMI. For every household earning above 100% of AMI, Cambridge needs 0.7 households earning at or below 80% of AMI to maintain the 2024 income distribution as discussed earlier. Therefore, Cambridge needs 0.76 * 0.7 = 0.53 new households earning at or below 80% of the AMI for every new market rate unit to maintain current levels of socioeconomic diversity. This means that the City would need to deliver a total of 1 + 0.53 = 1.53 new units, combining market-rate and affordable units. Correspondingly, the percentage of units set-aside for households earning at or below 80% of the AMI would be 0.53 / (1+ 0.53), or 34.6%. Based on this analysis, 34.6% of all new units created in Cambridge would need to be priced affordably to households earning 80% of AMI or less to maintain the City's current socioeconomic diversity level.

How has Cambridge performed between 2014 and 2024 in terms of housing production and preservation of socioeconomic diversity?

RKG Associates also analyzed how the City's recent housing production has impacted income diversity. The analysis focuses on the period of 2014 to 2024, as socioeconomic data is not available for 2025 or 2026.

Based on MassGIS data, a total of 4,978 housing units were built in Cambridge between 2014 and 2024. Most of the housing units built during this period are market-rate units.

According to data sourced from the City of Cambridge, affordable housing units produced under the City's IHO account for only 17.2% of the total units built during this decade. This figure includes 61 middle-income units, which serve households earning 81% to 120% of Area Median Income (AMI). The share of IHO units serving households earning 80% of AMI and below is even lower, at 15.9%, or 793 units.

Although subsidized units and IHO policy units combined account for 24.8% of the total units built during this decade, the number of renter households earning 120% of AMI and below still declined over the same period. This corroborates the finding discussed earlier that for Cambridge to maintain the current socioeconomic diversity level, for every new market-rate unit added, more than 20% of a unit affordable to households at or below 80% of AMI must also be added.

Table 7. Housing Units Built by Type, 2014-2024, Cambridge, MA

Type	Count	Percent
IHO Policy Units	854	17.2%
Subsidized Affordable Units	380	7.6%
Market-Rate Units	3,744	75.2%
Total	4,978	100.0%

Data source: MassGIS, and the City of Cambridge, 2026

INCOME DIVERSITY TRENDS

How has Cambridge's income diversity changed? According to the American Community Survey (ACS) Public Use Microdata Sample (PUMS) 2014 and 2024 1-Year Estimates, the number of renter households in Cambridge grew by 32.2% between 2014 and 2024. Despite this overall growth, the share of low- and moderate-income renter households earning 80% of AMI or below declined from 48.0% in 2014 to 42.9% in 2024, signaling a shift in the city's renter income composition.

While middle-income renter households earning 81% to 120% of AMI grew in absolute terms, the share of renter households earning between 81% and 100% of AMI still declined.

This suggests that renter household growth in Cambridge between 2014 and 2024 has been primarily driven by households earning above 100% of AMI. At the same time, income diversity among renter households in Cambridge declined during this decade.

Table 8. Change in Household Share by Income Threshold, Cambridge, MA

Tenure	Income Limit	2014	2024	Percent Point Change 2014-2024
Renter	80% AMI and Below	48.0%	42.9%	-5.1%
	81% - 100% AMI	8.8%	8.5%	-0.3%
	101% AMI and Above	43.2%	48.6%	5.4%
Owner	80% AMI and Below	22.6%	25.1%	2.4%
	81% - 100% AMI	9.1%	9.8%	0.7%
	101% AMI and Above	68.2%	65.1%	-3.2%
Total	80% AMI and Below	38.4%	37.4%	-1.0%
	81% - 100% AMI	8.9%	8.9%	0.0%
	101% AMI and Above	52.7%	53.7%	1.0%

Data source: American Community Survey (ACS) Public Use Microdata Sample (PUMS) 2014 and 2024 1-Year Estimates

Compared to renter households, owner-occupied households in Cambridge showed an increase in income diversity. However, note that these figures do not exclude the impact of senior households who may have substantial assets while reporting low current incomes. As shown in the table below, over half of Cambridge's owner households earning 80% AMI and below are senior households 65 and older, and the majority (71.7%) own their house free and clear.

Table 9. Cambridge Owner Households Earning 80% AMI or Below, 2024

Owner Type	Total Households		65+ Households		
	Count	Share	Count	Share	Share of Total
Owner Free and Clear	2,343	58.9%	1,485	71.7%	
Owner with Mortgage	1,638	41.1%	587	28.3%	
Total	3,981		2,072		52.0%

Data source: American Community Survey (ACS) Public Use Microdata Sample (PUMS) 2024 1-Year Estimates

Findings and Implications

The share of Cambridge households earning at or below 100% of AMI declined between 2014 and 2024, even though nearly 25% of all newly constructed residential units over that period were income-controlled. Under the City's current IHO policy, 17.2% of these new units built during this decade were priced affordably for owner households earning at or below 100% of the Area Median Income (AMI), and for renter households earning at or below 80% of AMI. The City's other subsidized affordable housing developments accounted for a further 7.6% of the units built between 2014 and 2024.

The IHO set-aside percentage required to maintain the City's current income diversity level alone would need to be around 34%, substantially higher than the current 20% inclusionary housing obligation. While the City has other housing programs to encourage the development of income-controlled housing units

(e.g., the Affordable Housing Overlay), these programs can only produce a limited amount of housing each year.

Table 10. Household Change Compared to Inclusionary Zoning Ordinance Units Built, 2014-2024, Cambridge, MA

Category	2014-2024
Net Change in Share of HHs Earning at or below 80% of AMI	-1.0%
Net Change in Share of HHs Earning Between 81% and 100% of AMI	0.0%
Percentage of All Units Built that are Income-Controlled through the IHO policy	17.2%

Data source: American Community Survey (ACS) Public Use Microdata Sample (PUMS) 2014 and 2024 1-Year Estimates, MassGIS, and the City of Cambridge, 2026

III. THE NEED THAT NEW MARKET-RATE HOUSING GENERATES FOR AFFORDABLE HOUSING FOR SERVICE AND CONSTRUCTION WORKERS

Background

This analysis examines how much affordable housing is needed to accommodate low-to-moderate-income workers needed [1] to build new market-rate housing, [2] to provide consumer services to new households occupying new market-rate housing, and [3] to provide local government services to new households occupying new market-rate housing. These new activities create demand for jobs, many filled by workers who would want to move to Cambridge from outside the city, some of whom earn salaries that qualify for income-controlled housing created by the City's current IHO policy.

For new housing construction activities, this analysis examines:

1) How many construction jobs are generated by the development of new market-rate units?
2) How many of those construction jobs pay wages at or below the IHO income threshold?
3) How many of those workers live outside of Cambridge and may move into the City and occupy affordable housing created through the IHO?
4) How many affordable units would be needed to house them?

For consumer services, this analysis examines:

1) What do households that move into Cambridge to occupy a new market-rate unit demand in terms of consumer services?
2) How many of these consumer service jobs pay wages at or below the IHO income threshold?
3) How many of those workers live outside of Cambridge and may move into the City and occupy affordable housing created through the IHO?
4) How many affordable units would be needed to house them?

For local government services, this analysis examines:

1) What do households that move into Cambridge to occupy a new market-rate unit demand in terms of local government services?
2) How many of those local government jobs pay wages at or below the IHO income threshold?
3) How many of those workers live outside of Cambridge and may move into the City and occupy affordable housing created through the IHO?
4) How many affordable units would be needed to house them?

This study acknowledges that not everyone who takes a job in Cambridge would want to live in Cambridge. However, the goal of this analysis is to estimate the total impact on the demand for appropriately priced housing generated by new market-rate development, not to assess individual workers' living preferences.

Moreover, Cambridge aims to maximize housing options priced appropriately for anyone who wishes to live in the city.

Analysis Assumptions

The following subsections detail the incremental steps taken to analyze how a new market-rate housing unit and its occupying household create demand for affordable housing for renters earning at or below 80% of AMI and for owners earning at or below 100% of AMI. The analysis uses several assumptions to calculate this impact. The following describes the assumptions that apply to all three events/sections (construction impacts, consumer services, and local government services).

MARKET-RATE UNIT CONSTRUCTION

Real estate development creates jobs. Construction accounts for 4.6% of all employment in Middlesex County, so building new housing units directly increases the number of construction jobs created in Cambridge. The analysis draws on U.S. Bureau of Economic Analysis data to quantify the relationship between construction spending and job creation.

CONSUMER SERVICES DEMANDED FROM NEW HOUSEHOLDS

Households that move into Cambridge to occupy newly built market-rate housing increase local consumer spending, which in turn supports additional jobs across consumer-facing sectors. The analysis focuses on how this added spending drives the need for more workers in the sectors most affected: Ground Transportation, Healthcare, Education Services, Personal/Other Services, Entertainment, Retail Goods, and Dining Out.

LOCAL GOVERNMENT SERVICE DEMAND FROM NEW HOUSEHOLDS

Like all municipalities, the City of Cambridge provides services to both households and businesses. As new residential development occurs, demand for certain local government services rises. This analysis focuses on how each new market-rate household increases the demand for municipal jobs, assuming the City maintains its current per-resident level of service.

QUALIFYING INCOMES

While the new development creates jobs across many income levels, this analysis focuses on those that would qualify households for an income-restricted unit under the City's current IHO policy. This includes jobs paying wages at or below 80% of AMI for renter households and at or below 100% of AMI for owner households.

EXISTING WORKFORCE IMPACT

Because some jobs will be filled by current Cambridge residents, each section of the assessment applies an adjustment based on the local unemployment rate by industry to exclude the share of new jobs that will be captured by existing City residents.

WORKERS PER HOUSEHOLD

Because it is not possible to know how many earners a qualifying household will have, the analysis uses ACS PUMS 2024 1-Year Estimates data to get the average number of workers per household, which is 1.58 workers.

Data Sources

This analysis relies on several primary and secondary data sources. The following lists detail sources used throughout this study and those specific to the three primary events/sections. The geographic scope of each source is shown in parentheses.

UNIVERSAL DATA SOURCES

- BEA RIMS II Multipliers – correlating market sector spending with job creation (Middlesex County: Middlesex County is the most detailed geographic level for which RIMS II multipliers are available; the data cannot be resolved below the county level)
- Lightcast Staffing Pattern and Occupational Wage Data – allocating newly created jobs by market sector wages to identify income-qualifying jobs (Cambridge Zip Code areas, which are the closest geographic level for which Lightcast data is available)
- Census PUMS Data – identifying local unemployment rates by industry sector (Cambridge PUMA, which aligns with the Cambridge City boundary)
- HUD FY2026 Income Thresholds – latest available data identifying jobs/households that would qualify for Cambridge's IHO policy (Boston-Cambridge-Quincy, MA-NH HUD Metro FMR Area)

CONSTRUCTION DATA SOURCES

- Developer Cost Census – RKG surveyed local developers to collect cost estimates for new residential construction by type of unit and construction materials

CONSUMER SERVICES SPENDING DATA SOURCES

- ESRI Household Spending Data – identifying average annual spending per Cambridge household by consumer category (City of Cambridge)

GOVERNMENT SERVICES DATA SOURCES

- Cambridge FY2025 Budget – understanding spending patterns by department (City of Cambridge)
- Cambridge FY2026 Workforce Census – allocating the City's current workforce by department, job title, and wages (City of Cambridge)
- Cambridge FY2026 Assessment Database – estimating how demand for services varies by department across use type (City of Cambridge)

Construction Jobs Impact

What is the impact of new market-rate housing units on construction activities? The construction impact analysis focuses on jobs created by the construction of new housing units. This analysis separates rental housing units and ownership housing units because the construction costs for ownership units are roughly double those for rentals (see explanation below). The analysis followed the steps below.

CONSTRUCTION JOB CREATION

RKG Associates used the U.S. Bureau of Economic Analysis RIMS II Type I (Direct Effect) multipliers, which measure the direct and indirect employment creation due to construction spending while excluding induced effects. Within Middlesex County, the RIMS II multipliers show that 2.44 jobs are created for every

$1M in spending. Construction costs[1] are estimated to average approximately $415,000 per rental unit and $821,000 per ownership unit based on average cost and unit size data provided by local developers. Because an ownership unit costs nearly twice as much to build, it generates proportionally more construction spending, and therefore more jobs, than a comparable rental unit.

Table 11. Developer Census Feedback

Tenure	Average Per Square Foot Cost for Construction ($)	Average Unit Size (SF)
Rental	$519	800
Ownership	$608	1,350

Data source: Developer Interviews Conducted by RKG Associates, Inc., 2026

INCOME-QUALIFYING JOBS

RKG used Lightcast occupational wage data to identify the share of the newly created jobs that would qualify for the City's IHO policy units. Within the zip codes that constitute the City of Cambridge, approximately 80% of construction jobs pay at or below 80% of the Area Median Income. Slightly more than 91% of those jobs pay at or below 100% of AMI. Among the newly created construction jobs, 1.942 jobs pay at or below 80% of the AMI per $1M in construction spending (2.440 * 79.6% = 1.942).

LOCAL RESIDENT JOB CAPTURE

RKG used the local construction unemployment rate to estimate how many new jobs could be filled by Cambridge residents already in the workforce, versus workers currently living outside the City. Per PUMS data, only about 2% of Cambridge-area construction workers are unemployed, implying almost all new construction jobs would go to non-residents. Accounting for local resident job capture, 1.904 jobs per $1M in construction spending will be occupied by someone currently living outside of Cambridge, earning at or below 80% of the AMI (1.942 * (1-1.96%) = 1.904).

HOUSING LIFE CYCLE ADJUSTMENT

Because construction jobs depend on the physical act of building and maintaining housing, they would end without ongoing construction work. RKG therefore applied a 10-year reinvestment cycle, reflecting that recurring housing investments such as interior remodeling (3–5 years), mechanical and infrastructure (10–15 years), and substantial rehabilitation (20–30 years) sustain construction jobs well beyond a unit's initial construction. Amortized over the 10-year reinvestment life cycle, 0.190 permanent jobs per $1M in construction spending will be held by new residents moving to Cambridge, earning at or below 80% of the AMI (1.904 / 10 = 0.190).

MODEL INPUTS AT A GLANCE

The table below consolidates the quantitative inputs behind the construction impact analysis, paired with their sources.

[1] Construction costs for this analysis include hard costs, soft costs, parking costs, and development contingency. Land acquisition and developer fees were excluded.

Table 12. Construction Impact Analysis Data Input

Source	Category	Value
RIMS II	Jobs per $1M in construction spending	2.440
Lightcast	Construction jobs earning <=80% of AMI	79.6%
Lightcast	Construction jobs earning <=100% of AMI	91.2%
PUMS	Cambridge unemployment rate – construction	1.96%
--	Repair, renovation, and rehabilitation cycle (in years)	10
Developer Census	Average qualifying construction costs per rental unit	$415,000
Developer Census	Average qualifying construction cost per ownership unit	$821,000

Data source: RIMS II, Lightcast, PUMS, and Developer Interviews Conducted by RKG Associates, Inc., 2026

HOUSING NEEDED FOR CONSTRUCTION WORKERS EARNING AT OR BELOW 80% AMI

Based on calculations from previous steps, each $1 million of construction spending supports 0.190 qualifying jobs (jobs paying at or below 80% of AMI). Applied to average construction costs, building a market-rate rental unit ($415,000) creates 0.079 qualifying jobs (415,000 / 1,000,000 × 0.190 = 0.079), and building a market-rate ownership unit ($821,000) creates 0.156 qualifying jobs (821,000 / 1,000,000 × 0.190 = 0.156).

Each qualifying job then translates into demand for housing priced at or below 80% of AMI, scaled by the number of earners/workers in the worker's household. From building a **rental** unit, a single-worker household generates demand for 0.079 price-appropriate units, while a dual-worker household generates 0.040 units (0.079 / 2 = 0.040).

From building an **ownership** unit, a single-worker household generates demand for 0.156 price-appropriate housing units, while a dual-worker household generates 0.078 units (0.156 / 2 = 0.078).

Table 13. Construction Impact Calculations (on Workers Earning at or Below 80% of AMI)

Category	Rental	Ownership
Jobs per $1M in construction spending	2.440	2.440
Construction jobs earning at or below 80% of AMI per $1M in construction spending	1.942	1.942
Construction jobs earning at or below 80% of AMI per $1M in spending occupied by someone outside Cambridge	1.904	1.904
Life cycle amortization of permanent jobs	0.190	0.190
Qualifying households created per unit (single-earner household)	**0.079**	**0.156**
Qualifying households created per unit (dual-earner household)	**0.040**	**0.078**

Data source: Calculations conducted by RKG Associates, Inc., 2026

HOUSING NEEDED FOR CONSTRUCTION WORKERS EARNING AT OR BELOW 100% AMI

Based on calculations from previous steps, each $1 million of construction spending supports 0.218 qualifying jobs (jobs paying at or below 100% of AMI). Applied to average construction costs, building a market-rate rental unit ($415,000) creates 0.091 qualifying jobs (415,000 / 1,000,000 × 0.218 = 0.091), and building a market-rate ownership unit ($821,000) creates 0.179 qualifying jobs (821,000 / 1,000,000 × 0.218 = 0.179).

Each qualifying job then translates into demand for housing priced at or below 100% of AMI, scaled by the number of earners/workers in the worker's household. From building a **rental** unit, a single-worker household generates demand for 0.091 price-appropriate units, while a dual-worker household generates 0.045 units (0.091 / 2 = 0.045).

From building an **ownership** unit, a single-worker household generates demand for 0.179 price-appropriate housing units, while a dual-worker household generates 0.089 units (0.179 / 2 = 0.089).

Table 14. Construction Impact Calculations (on Workers Earning at or Below 100% of AMI)

Category	Rental	Ownership
Jobs per $1M in construction spending	2.440	2.440
Construction jobs earning at or below 100% of AMI per $1M in construction spending	2.225	2.225
Construction jobs earning at or below 100% of AMI per $1M in spending occupied by someone outside Cambridge	2.182	2.182
Life cycle amortization of permanent jobs	0.218	0.218
Qualifying households created per unit (single-earner household)	**0.091**	**0.179**
Qualifying households created per unit (dual-earner household)	**0.045**	**0.089**

Data source: Calculations conducted by RKG Associates, Inc., 2026

Consumer Services Jobs Impact

What is the impact of new market-rate housing units on the need for affordable housing for new consumer service workers generated by the consumer spending of the households that occupy these new units? As new market-rate housing units are built and new households enter the Cambridge market, consumer spending will increase to meet the needs of these new residents. This increase in commerce will generate additional demand for retail and service workers. RKG focused this analysis on the consumer goods and service industry sectors of Ground Transportation, Healthcare, Education Services, Personal/Other Services, Entertainment, Retail Goods, and Dining Out. The analysis followed the steps below.

HOUSEHOLD SPENDING

RKG Associates used Cambridge's 2025 average annual household spending data across consumption categories from ESRI as the input for job creation estimates. The 2025 figures were then adjusted to the 2024 levels using the national CPI-U (deflator ratio of 0.9747) from the Bureau of Labor Statistics. The adjusted household spending was then applied to the U.S. Bureau of Economic Analysis RIMS II Type I (Direct Effect) multipliers (2024 numbers, which are the latest available). Note that the average annual

household spending data reflects all income levels. Because households moving into market-rate units in Cambridge would likely spend above that average, these figures are likely to understate consumer spending and therefore also understate the associated employment impact. The estimate is intentionally conservative based on the data available.

JOB CREATION

How many jobs are created because of the consumer expenditure of the households that occupy the new market-rate units? RKG used the U.S. Bureau of Economic Analysis RIMS II Type I (Direct Effect) multipliers to assess how many jobs were created by new households' consumer spending in the selected goods and services industry sectors. The impact varies by sector, ranging from 5.587 (Ground Transportation) to 15.446 (Retail) jobs per $1M in consumer spending.

JOBS HELD BY WORKERS QUALIFYING FOR AFFORDABLE HOUSING

How many of these newly created jobs will be filled by workers earning at or below 80% of the AMI and at or below 100% of the AMI? RKG used Lightcast occupational wage data to identify the share of the newly created jobs that would qualify workers for the City's IHO policy units. Within the zip codes that constitute the City of Cambridge, the share of retail/service jobs paying at or below 80% of Area Median Income (AMI) ranges from 81% to 97%, depending on the sector. Jobs paying at or below 100% of AMI make up between 90% and 99% of all jobs.

LOCAL RESIDENT JOB CAPTURE

How many of these new jobs with incomes at or below 80% or 100% of AMI created as a result of new household spending would be taken by existing Cambridge residents? RKG used current Cambridge unemployment rates by industry to estimate how many of the newly created jobs could be filled by residents already in the local workforce, versus workers moving in from outside the City. Based on PUMS data, the local unemployment rate for the selected retail/service sectors ranged from 0.5% (Ground Transportation) to 22.8% (Dining Out); the lower the unemployment rate, the fewer local workers available and the more jobs filled by new workers from outside the City.

LOCAL SALES CAPTURE

The analysis recognizes that new residents of market-rate housing will not consume all their retail goods and services within the City of Cambridge. Retail capture standards estimate that Primary Trade Areas typically capture roughly 70% of residents' retail spending. RKG adjusted the potential spending capture to reflect this sales leakage.

The table below details the data inputs used in the consumer expenditures analysis.

Table 15. Consumer Expenditure Impact Analysis Data Input

Source	Category	Ground Transportation	Healthcare	Education Services	Personal/ Other Services	Entertainment	Retail Goods	Dining Out
ESRI	Average annual spending per household	$574	$3,622	$3,082	$7,529	$1,838	$26,507	$7,512
RIMS II	Jobs per $1M in consumer spending	5.587	11.773	6.088	5.860	13.829	15.446	6.582
Lightcast	Retail/service jobs paying at or below 80% of AMI	92.0%	84.1%	81.7%	86.9%	92.0%	92.6%	97.0%
Lightcast	Retail/service jobs paying at or below 100% of AMI	95.3%	89.9%	94.1%	95.8%	98.0%	98.8%	99.6%
PUMS	Cambridge unemployment rate	0.5%	2.3%	2.2%	2.5%	9.4%	4.2%	22.8%
--	Local capture of consumer expenditures	70%	70%	70%	70%	70%	70%	70%

Data source: ESRI, RIMS II, Lightcast, PUMS, and RKG Associates, Inc., 2026

HOUSING NEEDED FOR CONSUMER SERVICE WORKERS EARNING AT OR BELOW 80% AMI

What is the demand for housing from workers earning at or below 80% of the AMI due to new market-rate household consumer spending? The table in this section details the calculation results based on the following steps.

Job Creation

Jobs created from consumer spending were calculated by applying the average annual spending per household to the RIMS II job creation ratio (per $1M consumer spending) by sector. For example, 0.0494 jobs are created per household from annual spending in Dining Out (7,512 / 1,000,000 * 6.582 = 0.0494). The results range from 0.0032 (Ground Transportation) to 0.4094 (Retail) jobs, totaling 0.5930 when combining all sectors.

Jobs with Incomes at Levels that would Qualify for IHO Housing

Income-qualifying jobs were calculated by applying the jobs created per household to the share of retail/service jobs paying at or below 80% of the AMI by sector. For example, 0.0480 income-qualifying jobs are created per household from Dining Out spending (0.0494 * 97.0% = 0.0480). Summing all the income-qualifying jobs across retail/service sectors, a total of 0.5429 jobs paying at or below 80% of the AMI are created per household.

Local Resident Job Capture

Accounting for local resident job capture involves scaling down the job creation by using the local unemployment rate by sector. For example, 0.0371 jobs from Dining Out spending are created per household (0.0480 * (1- 22.8%) = 0.0371). Summing the adjusted jobs across sectors, a total of 0.5116 income-qualifying jobs are created per household. These jobs are occupied by someone currently living outside of Cambridge.

Local Sales Capture

Applying a 70% local sales capture rate, a total of 0.3581 jobs (0.5116 * 70% = 0.3581) are created per household in Cambridge and will be occupied by someone currently living outside of Cambridge, earning at or below 80% of the AMI.

Qualifying Job Creation Per New Household

Each job with income that would qualify for IHO housing then translates into demand for housing priced at or below 80% of AMI, scaled by the number of earners/workers in the worker's household. A single-worker household generates demand for 0.3581 price-appropriate units, while a dual-worker household generates 0.1790 (0.3581 / 2) units of demand from each new market-rate household.

Table 16. Consumer Expenditure Impact Calculations (on Workers Earning at or Below 80% of AMI)

Category	Ground Transportation	Healthcare	Education Services	Personal/ Other Services	Entertainment	Retail Goods	Dining Out	TOTAL
Average spending per household	$574	$3,622	$3,082	$7,529	$1,838	$26,507	$7,512	$50,664
Jobs created per household (per $1M adjusted)	0.0032	0.0426	0.0188	0.0441	0.0254	0.4094	0.0494	0.5930
Retail/service jobs paying at or below 80% of AMI	0.0030	0.0359	0.0153	0.0384	0.0234	0.3790	0.0480	0.5429
Accounting for Cambridge unemployment rate	0.0029	0.0350	0.0150	0.0374	0.0212	0.3630	0.0371	0.5116
Qualifying households created per unit (single-earner household)	0.0021	0.0245	0.0105	0.0262	0.0148	0.2541	0.0259	0.3581
Qualifying households created per unit (dual-earner household)	0.0010	0.0123	0.0053	0.0131	0.0074	0.1270	0.0129	0.1790

Data source: Calculations conducted by RKG Associates, Inc., 2026

HOUSING NEEDED FOR CONSUMER SERVICE WORKERS EARNING AT OR BELOW 100% AMI

What is the demand for housing from workers earning at or below 100% of the AMI due to new market-rate household consumer spending? The table in this section details the calculation results based on the following steps.

Job Creation

Jobs created from consumer spending were calculated by applying the average annual spending per household to the RIMS II job creation ratio (per $1M consumer spending) by sector. For example, 0.0494 jobs are created per household from annual spending in Dining Out (7,512 / 1,000,000 * 6.582 = 0.0494). The results range from 0.0032 (Ground Transportation) to 0.4094 (Retail) jobs, totaling 0.5930 when combining all sectors.

Jobs with Incomes at Levels that would Qualify for IHO Housing

Income-qualifying jobs were calculated by applying the jobs created per household to the share of retail/service jobs paying at or below 100% of the AMI by sector. For example, 0.0492 income-qualifying jobs are created per household from Dining Out spending (0.0494 * 99.6% = 0.0492). Summing all the income-qualifying jobs across retail/service sectors, a total of 0.5800 jobs paying at or below 100% of the AMI are created per household.

Local Resident Job Capture

Accounting for local resident job capture involves scaling down the job creation by using the local unemployment rate by sector. For example, 0.0380 jobs from Dining Out spending are created per household (0.0492 * (1- 22.8%) = 0.0380). Summing the adjusted jobs across sectors, a total of 0.5470 income-qualifying jobs are created per household. These jobs are occupied by someone currently living outside of Cambridge.

Local Sales Capture

Applying a 70% local sales capture rate, a total of 0.3829 jobs (0.5470 * 70% = 0.3829) are created per household in Cambridge and will be occupied by someone currently living outside of Cambridge, earning at or below 100% of the AMI.

Qualifying Job Creation Per New Household

Each job with income at a level that would Qualify for IHO Housing then translates into demand for housing priced at or below 100% of AMI, scaled by the number of earners/workers in the worker's household. A single-worker household generates demand for 0.3829 price-appropriate units, while a dual-worker household generates 0.1915 (0.3829 / 2) units of demand from each new market-rate household.

Table 17. Consumer Expenditure Impact Calculations (on Workers Earning at or Below 100% of AMI)

Category	Ground Transportation	Healthcare	Education Services	Personal/ Other Services	Entertainment	Retail Goods	Dining Out	TOTAL
Average spending per household	$574	$3,622	$3,082	$7,529	$1,838	$26,507	$7,512	$50,664
Jobs created per household (per $1M adjusted)	0.0032	0.0426	0.0188	0.0441	0.0254	0.4094	0.0494	0.5930
Retail/service jobs paying at or below 100% of AMI	0.0031	0.0383	0.0177	0.0423	0.0249	0.4045	0.0492	0.5800
Accounting for Cambridge unemployment rate	0.0030	0.0374	0.0173	0.0412	0.0226	0.3874	0.0380	0.5470
Qualifying households created (single-earner household)	0.0021	0.0262	0.0121	0.0288	0.0158	0.2712	0.0266	0.3829
Qualifying households created per unit (dual-earner household)	0.0010	0.0131	0.0060	0.0144	0.0079	0.1356	0.0133	0.1915

Data source: Calculations conducted by RKG Associates, Inc., 2026

Local Government Service Jobs Impact

What impact do new market-rate housing units have on local government service needs for the households that occupy these new units? As with consumer spending, new households increase demand for local government services. RKG assessed how new residential development will affect demand for municipal services, with a focus on the resulting demand for municipal staffing. The analysis followed the steps below.

CURRENT CAMBRIDGE EMPLOYMENT

RKG collected the City's FY2027 employment census. The census identifies all full-time City positions by department and includes a brief description of each. RKG used this data to allocate workers into five primary categories: Community Maintenance and Development, Education, General Government, Human Services, and Public Safety.

JOBS IMPACTED BY NEW DEVELOPMENT

How many jobs are created because new resident households in the new market-rate units increase demand for local government services? Impact analyses depend on identifying which local government services are affected by growth. Positions such as Police Chief or City Manager do not increase as new development is added to the community. These positions are considered 'fixed' and are not impacted by new development. Positions such as patrol officers or teachers do increase as new developments occur, since greater use of local government services requires more positions to maintain the community's level of service. These positions are considered 'incremental' and are analyzed to determine how new development creates demand for additional positions. RKG used the City's job descriptions to determine whether each position is fixed or incremental. Only the incremental positions are considered for this analysis.

RESIDENTIAL SHARE OF NEW DEVELOPMENT IMPACT

Incremental local government service demand changes as new development is built. Demand rises from both residential and non-residential development, and public safety is one example. An impact analysis must allocate demand between these uses to estimate the impact of each use type. RKG uses the industry standard of assessment valuation to allocate impacts. Based on the City's current property and land valuation from MassGIS, residential uses account for approximately 60% of the total taxable value within Cambridge. RKG applied this ratio for shared service departments. However, services such as schools are exclusively tied to residential uses. As such, the analysis uses a 60% ratio for shared services (Community Maintenance and Development, General Government, and Public Safety) and a 100% ratio for services that are exclusive to residential uses (Education and Human Services).

INCOME-QUALIFYING JOBS

How many of these newly created jobs would be filled by workers earning at or below 80% of AMI and at or below 100% of AMI? The City's employment census provided wages for all 4,001 positions. RKG used HUD's FY2026 Area Median Income thresholds to allocate positions with wages that would qualify under the City's current IHO policy's income requirements. The following tables indicate whether the jobs under each department are 'incremental' or 'fixed'.

Table 18. Community Maintenance and Development

Community Maintenance and Development	Incremental (I) or Fixed (F)
Cable TV/22-CityView	F
Administration	F
Administration/Finance	F
Administration/Management	F
Business Services	I
Capital Building Projects Administration	F
Cemetery	F
Distribution	F
Electrical Summary	I
Engineering	F
Historical Commission	F
Housing/Administration	I
Office of Sustainability/Admin	F
Planning	I
Public Grounds	I
Service/ Public Ways	I
Solid Waste	F
Source of Supply	I
Supporting Services/Buildings	I
Vehicle & Equipment	I

Data source: City of Cambridge FY2027 Salary Budget by Department, and RKG Associates, Inc., 2026

Table 19. Education

Education	Incremental (I) or Fixed (F)
Curriculum & Instructional Support	F
Elementary School Education	I
Employee Benefits & System-Wide Accts	F
Leadership & Central Administration	F
Operations	I
School Support	I
Secondary School Education	I
Upper School Education	I

Data source: City of Cambridge FY2027 Salary Budget by Department, and RKG Associates, Inc., 2026

Table 20. Human Services

Human Services	Incremental (I) or Fixed (F)
Administration	F
Childcare	I
Community and Youth	I
Elder Services	I
Golf Course	F
Learning Center	F
Library - Branch	I
Library/Main	I
Planning & Development	I
Recreation	I
Veteran's Administration	F
Workforce	I
Youth Programs	I

Data source: City of Cambridge FY2027 Salary Budget by Department, and RKG Associates, Inc., 2026

Table 21. Public Safety

Public Safety	Incremental (I) or Fixed (F)
Animal Commission/Administration	F
Community Safety Admin	F
Emergency Communications	I
Fire - East Cambridge	I
Fire - Inman Square	I
Fire – Lafayette	I
Fire – Lexington	I
Fire - Porter Square	I
Fire - River Street	I
Fire – Sherman	I
Headquarters	F
Inspection	I
Inspectional Service Zoning Appeal	F
License Commission	F
License Commission/Consumer Council	F
Police - Leadership	F
Police -Support Services	I
Police – Uniform	I
Transportation - Parking Control	I
Transportation - Planning	I
Transportation - Support Services	F
Transportation Control	I

Data source: City of Cambridge FY2027 Salary Budget by Department, and RKG Associates, Inc., 2026

Table 22. General Government

General Government	Incremental (I) or Fixed (F)
Administration	F
Arts Council	F
Assessing	F
Auditing	F
Budget	F
City Clerk	F
City Council/Policy	F
City Council/Services	F
Communications	I
Election/Administration and Office Operations	F
Election/Policy	F
Equity & Inclusion/American Freedmen	F
Equity & Inclusion/Equity & Inclusion	F
Equity & Inclusion/Gender, Sexuality & Justice	F
Equity & Inclusion/Human Rights	F
Equity & Inclusion/Persons w/Disabilities	F
Executive/Leadership	F
Finance/General Services	F
Human Resources	F
Information Technology	F
Law/Legal Counsel	F
Mayor/Administration	F
Purchasing	F
Revenue Treasury	F

Data source: City of Cambridge FY2027 Salary Budget by Department, and RKG Associates, Inc., 2026

The following table consolidates the data inputs used to analyze the impact of new residential development on demand for municipal services and the resulting local government job creation.

Table 23. Local Government Service Impact Analysis Data Input

Category	Community Development	Education	General Government	Human Services	Public Safety
Total employment	463	1,869	237	505	927
Incremental jobs ratio	53.6%	89.0%	3.0%	75.2%	81.8%
Residential share of service demand	60%	100%	60%	100%	60%
Share of jobs earning at or below 80% of AMI	74.6%	49.0%	14.3%	92.4%	90.4%
Share of jobs earning at or below 100% of AMI	91.5%	75.2%	57.1%	97.1%	96.2%

Data source: City of Cambridge FY2027 Salary Budget by Department, MassGIS, and RKG Associates, Inc., 2026

HOUSING NEEDED FOR GOVERNMENT WORKERS EARNING AT OR BELOW 80% AMI

What is the demand for housing from workers earning at or below 80% of the AMI as a result of new market-rate households' demand for local government services? The table in this section details the calculation results based on the following steps.

Total Employment

Cambridge's FY2027 municipal jobs across the five categories total 4,001.

Incremental Jobs

Among all municipal positions across all departments, 3,056 are incremental, meaning that demand for these jobs will increase as new development occurs to maintain the community's level of service. For example, 758 (927 × 81.8%) of the 927 total Public Safety jobs are incremental.

Incremental Jobs Due to Residential Uses

As new development is built, 2,651 of the incremental jobs are tied to demand from new residential development. For example, because the residential share of service demand for Public Safety is 60%, incremental Public Safety jobs due to residential uses total 455 (758 × 60%).

Incremental Job Creation for Workers with Incomes Qualifying for IHO Units

Applying the ratio of jobs earning at or below 80% of AMI to 2,651 yields 1,689 qualifying municipal jobs, the demand for which will increase as new housing is built in Cambridge, creating additional need for housing priced for these workers.

Job Creation for Workers with Incomes Qualifying for IHO Units Per New Household

Dividing the 1,689 qualifying jobs by Cambridge's 52,998 households (ESRI 2026 data, the latest available) that are served by local government services yields an average demand of 0.0319 qualifying municipal jobs per new household. Each qualifying job then translates into demand for housing priced at or below 80% of AMI, scaled by the number of workers in the household. A single-worker household generates demand for 0.0319 price-appropriate units, while a dual-worker household generates 0.0159 units.

Table 24. Local Government Service Impact Calculations (on Workers Earning at or Below 80% of AMI)

Category	Community Development	Education	General Government	Human Services	Public Safety	TOTAL
Total employment	463	1,869	237	505	927	4,001
Incremental jobs	248	1,663	7	380	758	3,056
Residential share of service demand	149	1,663	4	380	455	2,651
Share of jobs earning at or below 80% of AMI	111	815	1	351	411	1,689
Per household job creation (single-earner household)	0.0021	0.0154	0.0000	0.0066	0.0078	0.0319
Dual-earner household	0.0010	0.0077	0.0000	0.0033	0.0039	0.0159

Data source: City of Cambridge FY2027 Salary Budget by Department, MassGIS, and RKG Associates, Inc., 2026

HOUSING NEEDED FOR GOVERNMENT WORKERS EARNING AT OR BELOW 100% AMI

What is the demand for housing from workers earning at or below 100% of the AMI due to new market-rate households' demand for local government services? The table in this section details the calculation results based on the following steps.

Incremental Jobs

Among all municipal positions across all departments, 3,056 are incremental, meaning that demand for these jobs will increase as new development occurs to maintain the community's level of service. For example, 758 (927 × 81.8%) of the 927 total Public Safety jobs are incremental.

Incremental Jobs Due to Residential Uses

As new development is built, 2,651 of the incremental jobs are tied to demand from new residential development. For example, because the residential share of service demand for Public Safety is 60%, incremental Public Safety jobs due to residential uses total 455 (758 × 60%).

Job Creation for Workers with Incomes Qualifying for IHO Units

Applying the ratio of jobs earning at or below 100% of AMI to 2,651 yields 2,195 qualifying municipal jobs, the demand for which will increase as new housing is built in Cambridge, creating additional need for housing priced for these workers.

Job Creation for Workers with Incomes Qualifying for IHO Units Per New Household

Dividing the 2,195 qualifying jobs by Cambridge's 52,998 households (ESRI 2026, the latest available) that are served by local government services yields an average demand of 0.0414 qualifying municipal jobs per new household. Each qualifying job then translates into demand for housing priced at or below 100% of AMI, scaled by the number of workers in the household. A single-worker household generates demand for 0.0414 price-appropriate units, while a dual-worker household generates 0.0207 units.

Table 25. Local Government Service Impact Calculations (on Workers Earning at or Below 100% of AMI)

Category	Community Development	Education	General Government	Human Services	Public Safety	TOTAL
Total employment	463	1,869	237	505	927	4,001
Incremental jobs	248	1,663	7	380	758	3,056
Residential share of service demand	149	1,663	4	380	455	2,651
Share of jobs earning at or below 100% of AMI	136	1,250	2	369	437	2,195
Per household job creation (single-earner household)	0.0026	0.0236	0.0000	0.0070	0.0083	0.0414
Dual-earner household	0.0013	0.0118	0.0000	0.0035	0.0041	0.0207

Data source: City of Cambridge FY2027 Salary Budget by Department, MassGIS, and RKG Associates, Inc., 2026

Findings and Implications

The analysis reveals that the construction and maintenance of new market-rate housing units, the consumer spending of new households in new market-rate units, and the demand for local government services created by these new households residing in new market-rate units generate new jobs in Cambridge that could be filled by workers moving into Cambridge from outside. The data indicate that each new market-rate housing unit, together with its occupying household, creates between 0.30 and 0.35 jobs whose wages would be at or below 80% of the AMI, qualifying the worker for a housing unit produced under the city's IHO policy.

As seen in the tables below, the job creation impact will vary based on the type of unit (ownership or rental).

RKG used the ACS PUMS 2024 1-Year Estimates data to get the average number of workers per household, which is 1.58 workers. Based on an average of 1.58 workers per household, the corresponding set-aside for households earning at or below 80% of AMI would be 22.9% for new market-rate rental units and 25.7% for new market-rate ownership units.

Table 26. 80% AMI Calculations

Category	Rental	Ownership
Construction Impact	0.050	0.099
Consumer Spending	0.227	0.227
Public Services	0.020	0.020
NET TOTAL	0.297	0.345
Corresponding Set-Aside %	22.9%	25.7%

Data source: RKG Associates, Inc., 2026

IV. THE FINANCIAL PERFORMANCE OF IHO PROJECTS

INTRODUCTION

Background

In 2017, after a study by David Paul Rosen & Associates that reassessed the IHO, the City Council amended the Inclusionary Housing Ordinance to require that market-rate developments of ten or more units or developments totaling more than 10,000 square feet of residential floor area reserve 20 percent of residential floor area for affordable units, with monthly costs set to avoid cost burdening. To expand options for families, the Ordinance encourages developers to provide three-bedroom units within the affordable component and requires them in residential developments of 30,000 square feet or larger. Affordable units must be provided on-site as part of new residential developments.

Since that time, substantial macroeconomic forces have impacted the financial performance of housing development in the greater Boston metropolitan area. Most notably, the COVID-19 pandemic has had substantial and lasting impacts on the cost of construction materials globally. Additionally, interest rates remain high due to continued inflation, among other factors. On a more local scale, the softening of the lab sector has had implications across several other market sectors, including housing demand.

Anecdotally, the City has heard from real estate development professionals that new housing development has become financially challenging within the City. Comments on this challenge have particularly focused on higher-density projects that require partial (podium developments) or full use of concrete and steel materials. This analysis focuses on testing the financial performance of residential development within the City under current macroeconomic and local market conditions. The following details the approach, methodology, and results of this analysis.

Financial Performance Model

The financial performance model is a proforma-based Excel model that is designed to test the financial impact of IHO requirements against the financial risk/reward of a real estate investment

RKG Associates developed a financial performance model that estimates financial returns of prototypical residential development projects. While several return metrics are used to assess financial performance, the financial performance model focuses on estimating the Return on Cost (ROC) and the Internal Rate of Return (IRR).

ROC is a point-in-time measure comparing a project's financial performance (Net Operating Income) against the total cost of developing it. ROC is represented as a percentage, with higher percentages indicating stronger financial returns. These percentages are measured against other, similar investment opportunities to determine whether the subject development creates sufficient financial benefit based on perceived risk.

IRR is a standard metric used to evaluate the financial performance of a potential real estate investment over time. The IRR is expressed as a percentage, with higher percentages indicating greater financial

returns for the developer. Like ROC, IRRs are measured against other, similar investment opportunities to determine whether the subject development creates sufficient financial benefit based on perceived risk.

A project does not need to achieve the expected market return on both metrics to move forward. Developers who prioritize ROC may accept an IRR below the market average. Based on interviews conducted by RKG with local developers, most prioritize the ROC metric over IRR. Additionally, other considerations beyond these financial performance metrics may affect whether a developer decides to pursue a project.

RKG Associates' financial performance model was designed to estimate the ROC and IRR while accounting for a variety of development factors. Such factors include the percentage of affordable dwelling unit floor area, targeted Area Median Income (AMI) levels, construction costs, land costs, operation costs, tenure (owner vs. renter), and several others. Each factor within the model can be adjusted to simulate a range of development scenarios. For example, the model can test different percentages of dwelling unit floor area required to be set-aside for affordable units (e.g., 10% vs. 20%), which is commonly referred to as the set-aside percentage, and various AMI targets (e.g., 60% or 80% AMI) for affordable units. This flexibility allows the City of Cambridge to evaluate how different hypothetical IHO policies may affect the financial returns of residential developments.

MODELING INPUTS

Methodology

Financial performance modeling is built on four principal components: development costs, operating expenses, financing costs, and project revenues. Each component draws on locally derived data to accurately reflect Cambridge's market conditions and ensure that development scenarios are realistic and grounded in current market realities. RKG Associates collected Cambridge-specific data for each of these categories through interviews, research, and additional data collection. The primary locally derived inputs include, but are not limited to:

Development Costs

- Soft costs – design, engineering, environmental, legal, etc.
- Hard costs – materials and labor
- Parking costs – construction costs per parking space
- Land costs – depend on the physical location within the city, when land was acquired, and whether the land is already owned by the developer

Operating Expenses

- Operating expenses – Management, marketing, repairs, property taxes, and replacement reserves

Financing Costs

- Interest on any debt incurred to develop

Project Revenues

- Rental rates and sale prices

Inputs: Development Costs

To estimate hard construction costs, RKG Associates interviewed both for-profit and non-profit developers to develop customized per-square-foot cost estimates for three building typologies: wood ("stick") frame, mass timber, and traditional steel frame construction. Parking construction costs were similarly assessed across three configurations: surface, aboveground structured, and underground parking. Additionally, a land cost analysis was conducted based on recently completed residential projects and interviews with developers to determine the land price per unit that developers have paid, assuming they did not own the land prior to development.

HARD COST, SOFT COST, PARKING COST

As noted previously, hard and soft construction cost data were gathered through interviews with local for-profit and non-profit developers. The financial performance model applied these hard costs based on the construction typology used. While there are a variety of different construction methods, the model assumes the following: wood frame (1-4 stories), wood frame over podium (5-7 stories), and concrete & steel (8+ stories). Additionally, RKG modeled mass timber, an emerging construction typology in this region, which might enable high-rise construction at lower costs. It is worth noting that construction costs can vary depending on project tenure, meaning whether it is developed as rental or homeownership housing. As shown in the table, soft costs, such as engineering and architectural fees, range from 10% to 20%, and average approximately 15% of hard costs, as reported by local developers.

Parking construction costs per space represent the third and final category of construction costs considered in the model. As indicated in the table, RKG Associates allows for different types of parking. Surface parking is the least expensive option, with a construction cost of $15,000 per space. Surface parking is more likely to be incorporated into properties with sufficient land area, typically in less dense areas of a city. Structured belowground parking, the most expensive type at $85,000 per space, will typically be incorporated into areas with more land constraints. As the City Council amended the Zoning Ordinance in 2022 to eliminate minimum parking requirements in new housing developments in Cambridge, the model also includes zero parking scenarios.

Table 27. Average Hard, Soft, and Parking Construction Cost Inputs — City of Cambridge, MA

Hard Construction Costs (PSF)	Apartment	Condominium
Wood Frame	$320	$320
Wood Frame Over Podium	$372	$372
Mass Timber	$372	$372
Steel Frame	$520	$520
Soft Costs (% of Hard Cost)		
Soft Costs	15.00%	15.00%
Parking Costs (Per Space)		
Surface	$15,000	$15,000
Structured Aboveground	$55,000	$55,000
Structured Belowground	$85,000	$85,000

Source: Data collected from stakeholder interviews, 2026

LAND COST

The amount of money a developer can pay for a piece of land is a critical component of a project's financial performance. The higher the land cost per unit, the more a developer needs to offset their costs through development factors such as higher density, lower parking rates, or increased sales prices and rents. It should also be noted that new housing development does not always require land acquisition as some developers may already own the land, often with existing buildings. Land already owned by the developer is not accounted for in RKG's financial modelling. Furthermore, zoning changes made by the City affect land values over time. This analysis assumes developers have recently purchased the land that they are developing.

RKG collected data on land acquisition costs based on recent transaction activity within the city. It was noted that rental development is financially challenging, making land acquisition unpredictable from project to project. The table below illustrates land acquisition costs for "unencumbered" projects that do not have unique development challenges (e.g., demolition, rock blasting).

Table 28. Land Cost Inputs — City of Cambridge, MA

Housing Type	Low	Model Input	High
Apartment	$60,000/Unit	$87,500/Unit	$100,000/Unit
Condominium	$120,000/Unit	$130,000/Unit	$140,000/Unit

Source: Data collected from stakeholder interviews, CoStar, and property assessment data, 2026

Inputs: Operating Expenses

Through interviews with both for-profit and non-profit developers, RKG Associates gained insight into the debt structures, operating expenses, and vacancy assumptions commonly used in developer proformas. Additionally, developers provided information on their financial return expectations for the Cambridge

market area, which served as a benchmark for the financial performance model to assess how potential policy changes may affect a project's overall financial performance.

Upon the completion of development construction, rental apartment property owners incur costs related to marketing, maintaining, and managing the property. These costs are known as operating expenses, which can include, but are not limited to, real estate taxes, insurance, marketing, property management and utilities. Ownership housing types do not generate operating expenses for developers after sales of the units.

Based on interviews with local non-profit and for-profit developers indicated that operating expenses typically range from $12,000 and $14,000 per unit annually. Those interviewed also noted that operating expenses are consistent across market-rate and IHO units. Because RKG separated real property tax expenses from the other expenses (e.g., management, maintenance, marketing…), RKG had to calculate an OPEX percentage for the costs not associated with real property tax payments. Based on the current real property tax rate ($6.67 per $1,000 of assessed value), the remaining operating expenses account for 22.0% of the total effective gross income.

Vacancy and collection loss (VACL) for new construction projects are consistent throughout Cambridge, with most uncollected rent due to turnover. Turnover is the period from when a unit is listed on the market to when a tenant moves in. Based on data collected from the developer interviews and corroborated with data from CoStar, the average VACL in Cambridge for new construction units is 4%.

Table 29. Operating Expense Inputs — City of Cambridge, MA

Operating Expenses	
Operating Expenses (Less Real Property Tax)	22.0% of effective gross income
Real Property Tax Rate (Commercial)	$6.67 per $1000 of assessed value
Vacancy and Collection Loss (VACL)	4.0% of rental revenue

Source: Data collected from stakeholder interviews and CoStar, 2026

Inputs: Financing Expenses

Development financing is a critical part of any real estate deal. The type and structure of financing available typically varies depending on the scale of the project. Residential development is financed through a combination of equity and debt. Equity is the capital that investors, often including the developer, place at risk in the project; debt is borrowed capital repaid on specified terms and secured by the property.

Debt is raised in two stages. A construction loan funds the build period and is repaid by a permanent loan once the project is complete. Based on developer interviews, RKG Associates set the construction bridge loan interest rate to 7.5% and the permanent financing interest rate to 6.5%. Obtaining long-term debt financing at affordable rates has grown increasingly challenging, as the rise in interest rates since the COVID-19 pandemic has adversely impacted the financial performance of new residential development nationwide.

RKG Associates set the equity requirement to 30% of total development cost for both ownership and rental development.

Table 30. Financing Cost and Financial Return Inputs — City of Cambridge, MA

Financing Costs	
Construction Bridge Loan Rate	7.5%
Permanent Financing Interest Rate	6.5%
Equity Required	30.0%

Source: Data collected from stakeholder interviews, 2026

DEVELOPMENT EQUITY

Equity is the at-risk capital a developer and its partners place in a project without assurance of repayment. It funds predevelopment and land costs and the share of construction cost a lender will not finance, and it sits last in the capital stack: debt is repaid first, and equity absorbs the first losses.

Equity comes in two primary forms: direct investment by the developer/owner and through an equity investment partner. The direct investment model is the most straightforward, with the project owner providing the assets (typically the land or direct cash investments) to meet the debt-equity ratio required by a lender. The equity investor model brings in a third party that offers the assets on behalf of the owner in exchange for an agreed-upon return to the partner. An equity investor is therefore underwriting a return commensurate with that risk rather than a fixed interest payment. Residential equity is typically structured as a preferred return, currently 7% to 9%, followed by a split of remaining profits with the developer. Investors judge a project on its internal rate of return, return on cost, and equity multiple.

Equity is also patient capital. It receives no distributions during construction and lease-up and is repaid only when a project stabilizes and is refinanced or sold — typically a five- to ten-year hold for rental investors, while investors in homeownership projects are repaid as units sell. Through interviews with developers within the Boston region, RKG Associates modeled an equity requirement of 30% of total development cost.

Inputs: Project Revenues

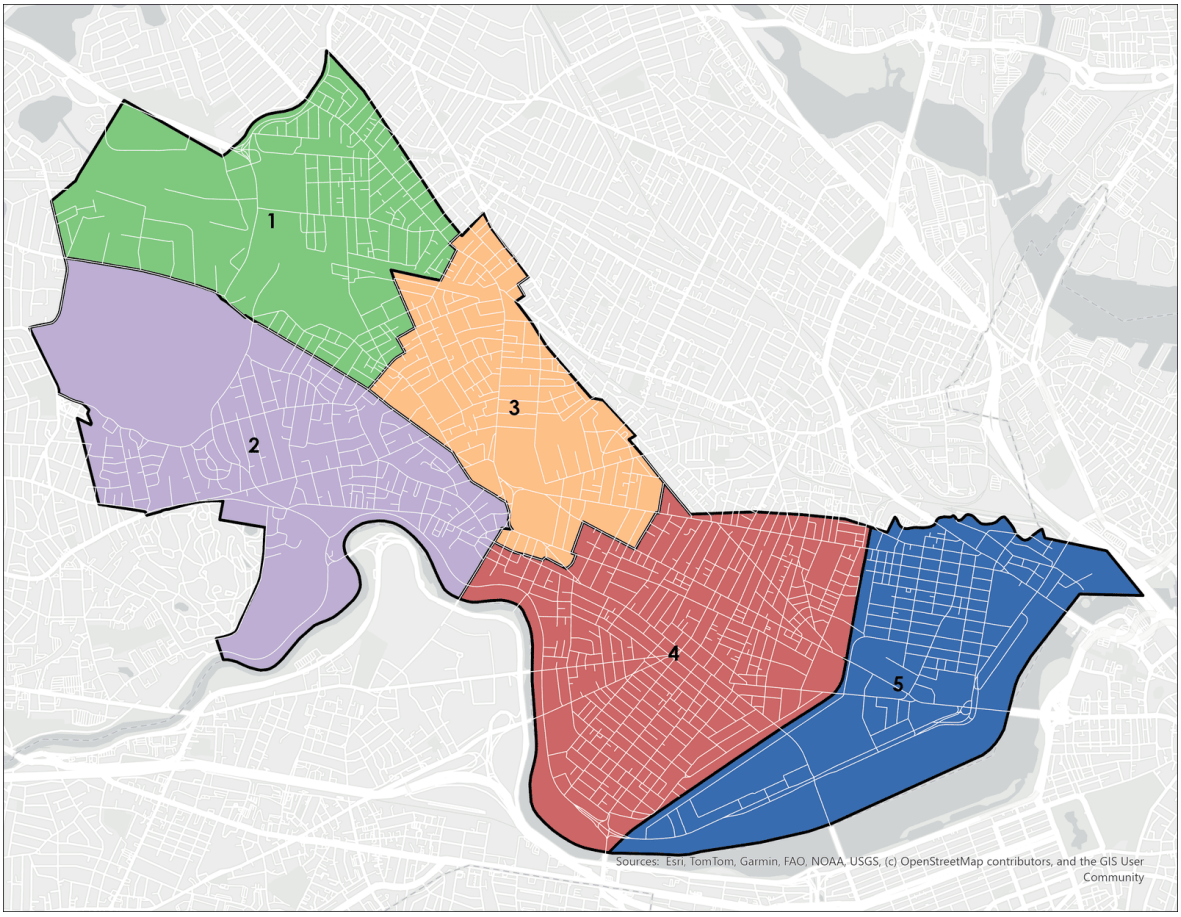
CITY SUBMARKETS

Location within the city was a key factor in modeling the financial performance of residential developments under the IHO policy. Because a project's revenue is driven almost entirely by achievable rents and sale prices, and those vary materially across Cambridge, a single citywide set of market assumptions would obscure real differences in financial performance. RKG's market research documented variation in monthly rents, home values, and household incomes between submarkets — differences large enough to affect how an otherwise identical project performs. Accounting for this variation is essential to reflecting prevailing market conditions accurately and to modeling hypothetical development scenarios.

As a result, RKG used market data on rents and sale prices to divide the city into five distinct submarkets with similar characteristics. Submarket boundaries were drawn to align with existing Census block groups rather than cutting across them to maintain data integrity. The accompanying map reflects the final boundaries, developed jointly by City staff and RKG Associates.

Modeling at the submarket level allows the City to test whether the IHO policy produces different impacts by location, in addition to impacts that vary by project type and project size. This matters because a uniform IHO requirement applied across an uneven rent landscape does not impose a uniform burden: the same set-aside is absorbed more easily where market rents are strongest and less easily where they are weakest. RKG's research found that monthly rental prices are substantially higher in central Cambridge than in north Cambridge, which means projects in lower-rent submarkets face a narrower margin between development cost and supportable value — and are therefore more sensitive to both the IHO requirement and any shift in construction costs or financing conditions.

Figure 1. Submarkets used for financial modeling, City of Cambridge, MA



Source: City of Cambridge and RKG Associates, 2026

RENTAL REVENUES

RKG collected market rental rate data for relatively new apartment developments built since 2021 in Cambridge. Limiting the sample to recent developments is deliberate: newly delivered buildings are the closest available comparables to the hypothetical new construction being modeled, and including older stock would understate the rents a new project could command. Rental rate data was compiled from CoStar and Apartments.com, which together provide asking-rent records and current listing-level pricing across newly constructed rental properties. Those sources were supplemented by stakeholder interviews.

The rental revenue for units by bedroom count consists of per-square-foot averages based on the rates observed at these developments.

The resulting market rental rates were used as a baseline for the analysis and compared against information obtained directly from developers, which provided a means of validating the modeled assumptions against actual underwriting. Rents are highest in the centrally located submarkets — particularly submarkets 4 and 5 — reflecting proximity and access to Harvard, MIT, and downtown Boston, as those areas are sustained in rental demand due to employment and institutional anchors. Studios command the highest rental income on a per-square-foot basis, a consistent pattern that reflects the fixed cost of a kitchen and bathroom being spread over less area, along with strong demand from single-person households. Across the city, per-square-foot rates for new construction range from $3.80 to $7.02 depending on submarket and unit type.

Another component of rental revenues is rent escalation, which is the periodic increase applied to the rent amount over a specified period of time, typically coinciding with the lease term. In the model, it is applied as an annual increase in asking rents that compounds over the projection period, so its effect on total revenue grows meaningfully the longer a project is held. Based on previous rent performance in Cambridge and on input gathered through developer interviews, RKG applied a rent escalator of 4.0%.

Table 31. Monthly Rental Revenue Inputs (Per Square Foot) — City of Cambridge, MA

Submarket	Studio	1 Bedroom	2 Bedrooms	3 Bedrooms
1	$5.05	$4.40	$4.00	$3.80
2	$6.35	$5.46	$5.08	$4.98
3	$6.89	$5.77	$5.28	$4.76
4	$7.02	$5.87	$5.90	$5.90
5	$6.42	$5.78	$5.12	$5.46

Source: Data collected from stakeholder interviews and CoStar, 2026

The financial performance for rental developments modeled in this analysis uses a unit mix allocation reflective of projects recently submitted to the City for development review. Summarized in the table below, RKG modeled a unit mix allocation of 10% studios, 80% one-bedrooms, and 10% two-bedrooms for all rental scenarios. To account for the IHO's Family Sized Unit provisions, in larger projects with over 30,000 Sf of dwelling unit floor area, Family-Sized, 3-bedroom units are included at a rate of one per 6000 SF of required affordable dwelling unit floor area.

Table 32. Rental Unit Allocation — City of Cambridge, MA

Unit Type	Mix Allocation (%)
Efficiency	10%
1-Bedroom	80%
2-Bedroom	10%
3-Bedroom	0%
4-Bedroom	0%

Source: City of Cambridge, 2026

OWNERSHIP SALE PRICE

RKG collected ownership rate data for relatively new developments built within the previous five years, covering one-bedroom, two-bedroom, three-bedroom, and four-bedroom condominiums. Sale price data was compiled from Zillow and Redfin, which capture closed transaction prices at the unit level and unit characteristics (e.g., square footage, bedroom type) across the City. Those sources were supplemented by stakeholder interviews. The ownership revenue inputs for each bedroom count consist of per-square-foot averages based on the rates observed at these developments.

The resulting market ownership rates were used as a baseline for the analysis and compared against information obtained directly from developers. Across the City, per-square-foot condominium pricing for new construction ranges from $735 to $1,250 depending on submarket and unit type. The highest one-bedroom rate appears in submarket 1, while submarket 2 prices below every other submarket across all four-unit types.

Because ownership revenue is realized at sale rather than accrued over a hold period, the model treats it differently from rental revenue. There is no ongoing escalation assumption analogous to the rent escalator applied on the rental side. Ownership projects also carry no operating expense for the developer, since those costs transfer to the buyer and the condominium association at closing, which means financial performance for ownership development is centered almost entirely on construction cost, absorption, and sale prices.

Table 33. Condominium Sale Price Inputs (Per Square Foot) — City of Cambridge, MA

Submarket	1 Bedroom	2 Bedrooms	3 Bedrooms	4 Bedrooms
1	$1,250	$1,123	$1,084	$862
2	$840	$912	$735	$864
3	$1,192	$1,128	$1,165	$1,207
4	$994	$1,123	$980	$1,027
5	$1,179	$1,127	$881	$806

Source: Data collected from stakeholder interviews, Redfin, and property assessment data, 2026

The number of sales of newly constructed condos in submarket 2 and 5 are comparatively lower than other submarkets in the City. The data available for those units reveal that the price per square footage is lower in submarket 2 and 5.

The financial performance for ownership developments modeled in this analysis uses a unit mix allocation reflective of recently developed condominium developments. Summarized in the table below, RKG modeled a unit mix allocation of 50% two-bedroom units and 50% three-bedroom units for all for-sale scenarios.

Table 34. Condominium Unit Allocation — City of Cambridge, MA

Unit Type	Mix Allocation (%)
Efficiency	0%
1-Bedroom	20%
2-Bedroom	50%
3-Bedroom	30%
4-Bedroom	0%

Source: Data collected from stakeholder interviews, 2026

COMMERCIAL REVENUES

RKG collected commercial rental rate data for new developments within the past 5 years to model the financial performance of a mixed-use project. The rental revenue inputs for each commercial option consist of annual per-square-foot averages based on the rates of the developments.

Across all submarkets in Cambridge, average rent for new construction commercial is approximately $52 per square foot. The commercial rents are reflective of viable locations only, meaning development sites that are market viable from an office or retail perspective, as these rents will not work anywhere in the City.

Real estate industry standards track rents differently for residential and non-residential uses. The industry convention for residential is to track rent levels on a per-month basis and for non-residential on a per year basis. This analysis reflects that convention.

Table 35. Commercial Revenue Inputs (Per Square Foot) — City of Cambridge, MA

Commercial	Annual Rent PSF
Retail	$40.56
Restaurant	$46.49
Office	$67.80

Source: Data collected from stakeholder interviews, CoStar, 2026

HUD DEFINED INCOME THRESHOLDS

Because the analysis models financial performance, where rent is determined by bedroom count rather than household size, RKG translated HUD income thresholds by household size into household income levels by bedroom count.

As it is impossible to know the size of every household that lives in all existing and future development projects in Cambridge, RKG's approach is to create average household sizes by bedroom count to simulate the likely mix of households. For example, we assume an average of 2.5 people for two-bedroom units, considering the income thresholds for both 2-person and 3-person households, from which an average income is derived and applied to calculate rent. We recognize that this is not exact, but RKG's experience shows that this approach is sufficiently accurate for this analysis. Our assumptions are as follows:

- Studios: 1 person

- 1-bedroom: 1.5 persons
- 2-bedroom: 2.5 persons
- 3-bedroom: 3.5 persons

RKG then calculates AMI levels based on these average household sizes by bedroom count. RKG has applied and tested this methodology in every IZ analysis we have conducted in the Boston metropolitan area.

Table 36. Income Thresholds by Number of Bedrooms — Boston-Cambridge-Quincy, MA-NH HUD Metro FMR Area

AMI	1-Person	2-Person	3-Person	4-Person
30% AMI	$33,795	$38,639	$43,484	$48,270
40% AMI	$45,060	$51,519	$57,978	$64,360
50% AMI	$56,325	$64,399	$72,473	$80,450
60% AMI	$67,590	$77,279	$86,968	$96,540
70% AMI	$78,855	$90,158	$101,394	$112,630
80% AMI	$90,120	$103,038	$115,879	$128,720
90% AMI	$101,385	$115,918	$130,364	$144,810
100% AMI	$112,649	$128,798	$144,849	$160,900

Source: U.S. Department of Housing and Urban Development and RKG Associates, 2026

HUD AFFORDABILITY THRESHOLDS

Rent levels for income-controlled units were calculated based on the maximum affordable rent for various AMI thresholds, as indicated in the table below. Cambridge is in the Boston-Cambridge-Quincy region.

Within Cambridge's IHO, the maximum affordable rent is calculated at 25% of the monthly gross income for a studio rental unit and 30% of gross monthly income for all other unit sizes and tenures. For instance, a 2-person household earning 80% of AMI earns $103,038 annually. The corresponding 'affordable' monthly rent for this household is $2,576 ($103,038 * 30% / 12 months + utility allowance). Market-rate rental data and income-restricted rental data were used as revenue inputs for hypothetical rental developments in the model.

RKG determined the market-rate sales prices of ownership homes through market research, supplemented by the most recent sales values by unit type from the City's property assessment and sales data. Income-restricted for-sale prices were calculated using a methodology consistent with that applied to income-restricted rental rates, while also accounting for additional costs associated with homeownership, such as mortgage payments, insurance costs, and property taxes.

Table 37. Rent Thresholds by Number of Bedrooms — (Boston-Cambridge-Quincy MSA)

AMI	Studio	1-Bedroom	2-Bedroom	3-Bedroom
30% AMI	$680	$872	$985	$1,096
40% AMI	$915	$1,174	$1,327	$1,478
50% AMI	$1,149	$1,476	$1,669	$1,860
60% AMI	$1,384	$1,778	$2,011	$2,242
70% AMI	$1,619	$2,080	$2,353	$2,624
80% AMI	$1,853	$2,381	$2,695	$3,006
90% AMI	$2,088	$2,683	$3,038	$3,389
100% AMI	$2,323	$2,985	$3,380	$3,771

Source: U.S. Department of Housing and Urban Development, and RKG Associates, 2026

Table 38. Purchase Price Thresholds by Number of Bedrooms — Cambridge Financial Performance Model (Boston-Cambridge-Quincy MSA)

AMI	1-Bedroom	2-Bedroom	3-Bedroom	4-Bedroom
80% AMI	$340,013	$385,358	$430,565	$471,388
90% AMI	$382,515	$433,527	$484,385	$530,312
100% AMI	$425,017	$481,697	$538,206	$589,235

Source: Zillow, City of Cambridge Assessor, and RKG Associates, 2026

Insights and Implications

The financial performance model is limited by its inputs.

Financial performance proforma modeling requires the use of several development, operational, financing, and market assumptions. RKG understands that, as each development project is different, costs and revenues can vary substantially, even within the same market. Unfortunately, one of the limitations of a financial performance analysis is the lack of an infinite model that covers every combination of development type, scale, and location. RKG does its best to account for unique factors (e.g., wood frame costs versus concrete and steel costs), but it is impossible to model every potential permutation. Generally, there are three approaches:

- *Best-Case Planning* – The model uses the most beneficial assumptions and may result in an unrealistically encouraging picture of project performance.
- *Worst-Case Planning* – The model uses the most challenging development assumptions to help understand how a policy decision would impact the weakest project but may underestimate actual project performance.
- *Mid-Point Planning* – The model uses means and medians to simulate the "middle of the pack".

None of these three approaches is perfect. Best-Case Planning is based on the most financially beneficial development examples and may lead to an overly encouraging view of project performance and unrealistically positive findings.

Conversely, the Worst-Case Planning approach focuses on the most difficult projects and therefore may underestimate actual performance and result in an overly negative financial performance finding.

As a result, RKG Associates uses the "mid-point" approach, balancing the extremes of development costs and revenues as fairly as possible. The numbers presented to this point reflect those mid-point values.

Regardless of which approach is used, any actual project will likely differ somewhat from the modeled assumptions. Therefore, RKG tries to remediate this limitation by interviewing for-profit and non-profit developers and using locally sourced data when creating the model.

Financial performance is just one factor in the decision-making process for developers.

It is important to acknowledge that the financial performance of a project is only one of many factors developers and investors consider. Developers also assess project risk and financial performance based on the ease of approval and permitting processes, flexibility in zoning, location and amenities, strength of the market, and strategic value. Given the variability of decision-making considerations and the difficulty of assessing all these additional factors, the model focuses primarily on the financial aspects of development projects.

FINANCIAL PERFORMANCE ANALYSIS

The financial sensitivity analysis reveals how various development scenarios affect project financial performance, measured against developer return expectations for both rental and ownership housing. Each scenario accounts for multiple variables, including, but not limited to:

- *Project Size* – The total number of units in a rental or ownership development. While the model can test an infinite number of units, the following analysis evaluates the impacts on returns based on the typical project sizes within the City of Cambridge. For both rental and ownership developments, RKG Associates modeled projects between 4 and 18 stories and 9 units and 300 units.
- *Construction Typology* – The structural building material used for a residential development, construction typology is one of the most significant drivers of project financial performance because it affects construction costs, building height, and development density. RKG Associates evaluated common rental and ownership construction types, including wood-frame, mass timber/wood-frame over concrete and steel, and steel construction, as each presents different cost structures that ultimately impact financial performance.
- *Mixed-Use* – A development that combines residential use with non-residential commercial uses, such as retail, office, or restaurant, within the same building or development lot. Mixed-use projects, when located in areas with strong demand for commercial space, can improve financial performance by generating additional revenue streams that help offset residential development costs.

As previously noted, financial performance is measured with the Internal Rate of Return (IRR) and Return on Cost (ROC).

IRR calculations are presented as percentages, and a higher percentage indicates the property will provide a greater return for the investor. IRR is compared against an investor's desired return rate, sometimes called the discount rate, to determine whether an investment meets the perceived risk level. IRR calculations are considerably more detailed than overall return calculations: they account for inflation, projected income escalators, and the reversion, or sale, of the property at the end of the study period, also referred to as the hold period. Because IRR is time-weighted, the timing of cash flows matters, which is why the duration of a permitting or lease-up process has an impact on IRR.

ROC is a point-in-time measure comparing the financial performance of a project, expressed as Net Operating Income, against the total cost of construction. It measures the value of the development against market conditions. ROC can be a simpler and more transparent test than IRR: it does not depend on assumptions about hold period, exit pricing, or the timing of cash flows, and for that reason it is often the metric a lender screens first.

Ownership financial performance is measured in a similar way to IRR, but because a for-sale project realizes its proceeds at closing rather than over a hold period, the calculation is not a direct equivalent. For this analysis, ownership financial performance is named simply "Return." ROC is not reported for the ownership product, since a condominium project does not generate ongoing Net Operating Income for the developer.

Establishing the Financial Performance Metrics

Based on the return metrics, RKG created three general categories for financial performance of projects: (1) development facing no challenges, (2) development facing moderate challenges, and (3) development facing substantial challenges. These thresholds for each category were informed by interviews with developers active in Cambridge and the surrounding Boston market.

For rental development, those interviewed suggested a minimally desired IRR of 12.50% and a preferred IRR of 15.00% and above. The minimally desired ROC was 5.75% and preferred ROC was 6.25% and above.

The ownership metrics were derived through the same interview process. Developers identified a desired minimum return of 20%, with a preferred return of 30.00% or higher.

The color-coded table below reflects these thresholds for rental and ownership development. These thresholds drive the color coding applied throughout the financial performance and sensitivity tables that follow. Orange indicates a result is substantially challenging, yellow indicates moderate challenges, and green indicates a result with no challenges. Reading the tables this way makes the pattern of financial performance visible across submarkets, building typologies, and project sizes.

Table 39. Interpreting Financial Model Results

Rental	Substantial Challenges	Moderate Challenges	No Challenges
IRR	< 12.50%	12.50% - 15.00%	> 15.00%
ROC	< 5.75%	5.75% - 6.25%	> 6.25%
Ownership			
Return	< 20.00%	20.00% - 30.00%	> 30.00%

Source: Developer feedback and RKG Associates, 2026

It is important to note that desired project returns modeled are not universal, and each developer has their own series of metrics they use to determine the 'go/no-go' for a potential development project. The same project in a similar location may have very different returns depending on its unique factors. For example, land costs can impact the returns of the same project in the same location. To this point, the analysis focuses on understanding the relative financial performance of the development prototypes, recognizing that there is no 'one size fits all' conclusion. Rather, the analysis is testing the relative performance of an average project against general market expectations.

Rental Development Prototypes

The table below summarizes the development prototype scenarios modeled in this analysis. Each scenario's financial performance assumes application of the 20% set-aside requirement under the existing IHO.

Table 40. Modeled Scenarios – Rental (Apartments)

Scenario	Stories	Lot Area (SF)	GFA (SF)	Units
A*	4	3,000-5,000	8,000-9,000	8-9
B	4	3,000-5,000	10,000-12,000	12
C	6	~5,000	20,000-25,000	20-25
D-MU	6	~10,000	40,000-50,000	40-50
E-MU, MT, S	8	~20,000	140,000-150,000	140-150
F-MU, MT, S	12	~10,000	90,000-100,000	90-100
G-MU, MT, S	12	~50,000	250,000-300,000	250-300
H-MU, MT, S	18	~20,000	250,000-300,000	250-300

Source: City of Cambridge and RKG Associates, 2026

MU = Mixed-Use, MT = Mass Timber, S = Steel (Modeled scenarios that vary by construction typology)
** This scenario is too small to trigger the IHO and is modeled without the 20% set-aside requirement*

Rental Development Returns

Table 41. Rental Development Returns

Scenario	Construction Type	Stories	GFA (SF)	Units	Submarket 1		Submarket 2		Submarket 3		Submarket 4		Submarket 5	
					IRR	ROC	IRR	ROC	IRR	ROC	IRR	ROC	IRR	ROC
A*	Wood Frame	4	8,000-9,000	9	12.96%	6.10%	17.46%	7.45%	18.44%	7.78%	19.07%	8.00%	18.57%	7.82%
B	Wood Frame	4	10,000-12,000	12	9.01%	5.34%	13.24%	6.43%	14.23%	6.69%	14.79%	6.90%	14.19%	6.74%
C	Podium	6	20,000-25,000	25	7.95%	4.98%	12.35%	6.03%	13.39%	6.30%	13.95%	6.46%	13.33%	6.31%
D	Podium	6	40,000-50,000	50	7.92%	4.92%	12.29%	5.97%	13.33%	6.24%	13.91%	6.39%	13.30%	6.24%
D,Mixed Use	Podium	6	40,000-50,000	50	9.78%	5.29%	13.49%	6.23%	14.37%	6.47%	14.88%	6.60%	14.40%	6.49%
E	Mass Timber	8	140,000-150,000	150	6.77%	4.70%	11.25%	5.66%	12.26%	5.92%	12.81%	6.06%	12.27%	5.92%
E, Mixed Use	Mass Timber	8	140,000-150,000	150	7.78%	4.88%	11.77%	5.76%	12.69%	5.99%	13.19%	6.12%	12.68%	5.99%
E	Steel	8	140,000-150,000	150	-0.98%	3.57%	4.56%	4.32%	5.76%	4.52%	6.40%	4.63%	5.69%	4.51%
E, Mixed Use	Steel	8	140,000-150,000	150	0.90%	3.79%	5.71%	4.50%	6.80%	4.69%	7.37%	4.80%	6.69%	4.67%

Source: RKG Associates, 2026

** This scenario is too small to trigger the IHO and is modeled without the 20% set-aside requirement*

Table 42. Rental Development Returns (continued)

Scenario	Construction Type	Stories	GFA (SF)	Units	Submarket 1		Submarket 2		Submarket 3		Submarket 4		Submarket 5	
					IRR	ROC	IRR	ROC	IRR	ROC	IRR	ROC	IRR	ROC
F	Mass Timber	12	90,000-100,000	100	6.78%	4.72%	11.11%	5.69%	12.25%	5.93%	12.71%	6.08%	12.24%	5.93%
F, Mixed Use	Mass Timber	12	90,000-100,000	100	7.82%	4.90%	11.66%	5.78%	12.69%	6.00%	13.11%	6.14%	12.66%	6.00%
FS	Steel	12	90,000-100,000	100	-0.91%	3.58%	4.53%	4.34%	5.79%	4.53%	6.40%	4.66%	5.70%	4.52%
F, Mixed Use	Steel	12	90,000-100,000	100	0.32%	3.72%	5.07%	4.41%	6.20%	4.59%	6.74%	4.70%	6.09%	4.57%
G	Mass Timber	12	250,000-300,000	300	6.80%	4.71%	11.23%	5.66%	12.27%	5.92%	12.82%	6.06%	12.25%	5.92%
G,Mixed Use	Mass Timber	12	250,000-300,000	300	7.69%	4.86%	11.69%	5.74%	12.65%	5.99%	13.15%	6.11%	12.61%	5.98%
G	Steel	12	250,000-300,000	300	-0.94%	3.57%	4.54%	4.31%	5.79%	4.53%	6.42%	4.64%	5.69%	4.51%
G,Mixed Use	Steel	12	250,000-300,000	300	0.11%	3.69%	5.00%	4.38%	6.14%	4.57%	6.71%	4.67%	6.03%	4.56%
H	Steel	18	250,000-300,000	300	-0.94%	3.57%	4.54%	4.31%	5.79%	4.53%	6.42%	4.64%	5.69%	4.51%
H,Mixed Use	Steel	18	250,000-300,000	300	0.11%	3.69%	5.00%	4.38%	6.14%	4.57%	6.71%	4.67%	6.03%	4.56%

Source: RKG Associates, 2026

Rental Market Analysis Summary of Findings

THE IHO IS NOT THE PRIMARY CONSTRAINT ON FINANCIAL PERFORMANCE

The analysis indicates that current market conditions present challenges for rental development in Cambridge, and the current 20% set-aside is not the primary reason some modeled projects fall short of desired financial performance. For example, scenario A is the one prototype in the set modeled that is too small to trigger the IHO, while every remaining scenario — B through H — carries the same 20% obligation, yet their results range from 13.99% IRR down to negative returns for high-rise projects. A 20% set-aside requirement applied identically across all of them cannot account for financial performance differences that large.

That spread comes instead from exogenous factors including the cost of rising construction costs at different building typologies, higher interest rates, and shifting demand now shaping development within the region. While market corrections over time likely will help to improve higher-density residential development, the duration of that adjustment is unknown.

Although regulatory updates can improve project financial performance, so can reductions in interest rates and construction prices. Larger rental developments are more sensitive to both market and policy shifts because the impacts are scaled across a greater number of units. At the same time, these projects benefit from economies of scale, allowing fixed development costs to be distributed over more units and reducing the overall cost per unit compared to smaller developments. The analysis also finds that in some locations, mixed-use developments incorporating commercial space, such as ground-floor retail, can improve overall project financial performance by generating additional revenue.

HIGH-RISE BUILDINGS ARE PARTICULARLY CHALLENGING IN CURRENT MARKET CONDITIONS

The model shows that all prototype projects taller than six stories have substantial challenges. The strongest financial performance anywhere in the taller scenarios is 11.50% IRR, achieved by the mixed-use mass timber variants of Scenarios F and G in Submarket 4, which is still roughly 100 basis points short of the 12.50% moderate challenges level. Steel-frame scenarios face even wider margins, returning between -3.24% and 5.00% across all five submarkets, with ROC landing within the 3.30% to 4.40% range. Added height brings no financial relief, as the analysis indicates development at 18 stories produces financial performance identical to development at 12 stories. Once a project exceeds the height at which light-frame construction is permitted, the cost premium for mass timber or steel overwhelms the revenue the additional floors generate, and constructing taller buildings does not create enough financial relief.

WOOD-FRAME CONSTRUCTION PERFORMS IN MOST SUBMARKETS

Model results consistently show that projects built exclusively with wood-frame construction (allowed in projects up to 4 stories) face little to no challenges, with the exception of submarkets with the lowest rents. Wood-frame construction is typically the cheapest in the industry.

6-STORY BUILDINGS WORK IN CERTAIN CONDITIONS

The model shows that 6-story development (built with a one-story concrete and steel podium over 5 stories of wood) faces moderate to substantial challenges. Two factors impact performance: the inclusion of ground-floor commercial space (where viable) and location in a stronger-rent submarket. In residential-only form, the six-story prototypes fall within the moderate challenges range in most submarkets. Adding a commercial component changes the outcome, lifting the same prototype in Scenario D into the

moderate and no challenges range in most submarkets. Adding a commercial component will only improve project performance in particular locations in the City where the market would support new ground-floor retail or office space.

CERTAIN SUBMARKETS FACE REVENUE CHALLENGES

Because construction costs do not vary by location within Cambridge, while average rents do, the revenue alone effectively determines whether a project in certain submarkets can carry its cost. For example, projects in Submarket 1 face substantial challenges in every scenario modeled, including the prototypes that perform better elsewhere. The same wood-frame prototype (Scenario A) that is too small to trigger the IHO and performs well across the rest of the city faces moderate challenges in Submarket 1. Because that prototype carries no affordability obligation, the challenges exist before any ordinance requirement is applied.

Ownership Development Prototypes

The table below summarizes the development prototype scenarios modeled in this analysis. Each scenario's financial performance assumes application of the 20% set-aside requirement under the existing IHO.

Table 43. Modeled Scenarios – Ownership (Condominiums)

Scenario	Stories	Lot Area (SF)	GFA (SF)	Units
I*	4	3,000-5,000	8,000-9,000	8
J	4	3,000-5,000	10,000-12,000	10
K	4, 6	~5,000	20,000-25,000	18
L	4-6	~10,000	40,000-50,000 (MU?)	40
MMT, S	8	~20,000	140,000-150,000 (MU?)	56

Source: City of Cambridge and RKG Associates, 2026

MT = Mass Timber, S = Steel (Modeled scenarios that vary by construction typology)

** This scenario is too small to trigger the IHO and is modeled without the 20% set-aside requirement*

Ownership Development Returns

Table 44. Ownership Development Returns

Scenario	Construction Type	Stories	GFA (SF)	Units	Submarket 1	Submarket 2	Submarket 3	Submarket 4	Submarket 5
					Return	Return	Return	Return	Return
I*	Wood Frame	4	8,000-9,000	8	72.22%	34.00%	85.57%	63.16%	56.07%
J	Wood Frame	4	10,000-12,000	10	43.68%	9.93%	53.98%	36.34%	31.90%
K	Wood Frame	4	20,000-25,000	18	45.74%	10.51%	56.57%	38.03%	32.74%
K	Podium	6	20,000-25,000	18	42.91%	7.50%	53.69%	35.15%	29.94%
L	Wood Frame	4	40,000-50,000	40	46.70%	10.54%	57.62%	38.81%	32.82%
L	Podium	6	40,000-50,000	40	43.81%	7.45%	54.65%	35.88%	29.97%
M	Mass Timber	8	40,000-50,000	56	29.83%	-6.93%	40.27%	21.57%	16.13%
M	Steel	8	40,000-50,000	56	-10.23%	-60.04%	0.37%	-20.01%	-25.27%

Source: RKG Associates, 2026

MU = Mixed-Use, MT = Mass Timber, S = Steel (Modeled scenarios that vary by construction typology)
** This scenario is too small to trigger the IHO and is modeled without the 20% set-aside requirement*

Homeownership Project Performance Analysis Summary of Findings

CONDOMINIUM DEVELOPMENT SEEMS TO OUTPERFORM RENTAL DEVELOPMENT BUT IS VULNERABLE TO THE RECENT RISE IN INTEREST RATES

Modelling shows that condominium developments in Cambridge may perform better than rental projects under current market conditions. While condo prices have remained relatively flat over the past several years, most of the modeled prototype projects reach or exceed desired financial performance levels. This may be because condominium projects are smaller in scale than many rental projects and are less likely to require more costly construction methods. For-sale projects capture the full value of the unit at closing rather than recovering it gradually through rents, meaning returns are more affected by market conditions at the time of project completion. When economic conditions are good, condo sales can bring developers big returns. However, during economic downturns, especially when interest rates go up, as they are now, condo projects become riskier.

OWNERSHIP FINANCIAL PERFORMANCE IS MORE RESPONSIVE TO LOCAL POLICY ADJUSTMENT

Because for-sale projects realize revenue through unit sales rather than long-term rental income, adjustments to local regulations register immediately in project returns rather than being absorbed across a long hold period. The modeled results bear this out: the increase in project performance between the prototype not subject to the IHO compared to the smallest prototype subject to the IHO produces a far larger movement in return than the equivalent step on the rental side. For this reason, targeted adjustments to local ordinances and development standards have the potential to produce meaningfully greater improvements in condominium financial performance than they do for rental.

STEEL CONSTRUCTION REMAINS MORE CHALLENGING

Construction typology remains a decisive driver of ownership financial performance. Holding all other factors constant, using steel imposes a consistent and substantial penalty that makes development more challenging, especially in submarkets with lower average sales prices.

FINANCIAL SENSITIVITY ANALYSIS

The previous section detailed the current market and projected the performance of projects under the existing IHO policy. This section summarizes how changing select market, policy, and financial variables impacts financial performance. The following subsections detail the variable tested, the measure of the change, and the financial performance impact of the change. RKG Associates tested variables under the following categories.

- *Regulatory Impacts* – RKG tested how different ordinance changes affect project financial performance. For this analysis, RKG Associates evaluated potential changes to the IHO policy requirements, including:
    - Reducing the IHO Set-Aside Ratio – the percentage of a project's floor area required to be set aside for affordable dwelling units
    - Increasing rents for IHO units
    - Adjusting rent calculations for studio units

  - Removing the IHO family-sized unit requirement
  - Reducing Inclusionary Housing Minimum Unit Size
  - Adjusting the project size trigger for IHO projects
  - Increasing Housing Choice Vouchers in IHO units
  - Allowing Payment In Lieu of providing affordable units on-site

- *Funding Strategies* – Financial incentives and public-sector resources can be used to improve financial performance. RKG Associates evaluated potential funding approaches, including:
  - Direct Investment
  - Tax Abatement

- *Macroeconomics* – For this analysis, RKG Associates tested key macroeconomic variables that are largely outside of local control, including capitalization rates, escalation rates, interest rates, and construction costs. These factors directly affect project value, development costs, financing costs, and overall return metrics, making them important indicators of whether rental or ownership housing projects will perform adequately under changing market conditions.
  - Capitalization Rate
  - Escalation Rate
  - Interest Rate
  - Construction Costs

Rental Sensitivity Analysis

RKG conducted a sensitivity analysis that tested possible changes to the IHO. Summarized below are the proposed ordinance changes, their definitions, and their potential impact on improving financial performance.

ADJUSTING THE SET ASIDE

RKG tested the impact of reducing the percentage of dwelling unit net floor area required to be set aside for affordable units by 2.5% increments from 20% to 10%. The table below summarizes the range of the impact on return on cost from the 20% baseline across the different prototype projects tested. For example, the 12.5% set aside impact represents a 7.5% reduction to the set aside from current ordinance.

Table 45. Set-Aside Adjustment - Rental Sensitivity Analysis

Set Aside	Min. Impact on ROC (Large Projects)	Max. Impact on ROC (Small Projects)
20%	Current ordinance	Current ordinance
17.5%	+0.04%	+0.20%
15%	+0.10%	+0.40%
12.5%	+0.13%	+0.40%
10%	+0.19%	+0.57%

Source: RKG Associates, 2026

RENTS IN AFFORDABLE UNITS

The IHO requires that rents for affordable units are set at 30% of actual income for households with income that ranges from 50% to 80% of AMI. The RKG model assumes a blended rent for affordable units in new projects that averages 55% of AMI. RKG tested the sensitivity of increasing the average affordable rent by 10% from 55% to 65% of AMI. The table below summarizes the impact on rental development.

Table 46. Increasing the Area Median Income - Rental Sensitivity Analysis

Area Median Income	Impact on IRR (Average)	Impact on ROC (Average)
65%	+0.45%	+0.10%

Source: RKG Associates, 2026

ADJUST RENT CALCULATION FOR STUDIO UNITS

The IHO requires that tenants of affordable studio units pay no more than 25% of their income towards rent and utilities. Affordable Rents in all other unit types are set at no more than 30% of tenant income. RKG tested the impact of setting affordable studio units based on 30% of tenant income. Findings from the sensitivity analysis showed that it would have a minimal positive impact on financial performance. The table below summarizes the average impact on financial performance.

Table 47. Increasing the Cost Burdening Threshold - Rental Sensitivity Analysis

Cost Burdening Threshold (studios)	Impact to IRR	Impact to ROC
25% of income	Current ordinance	Current ordinance
30% of income	+0.04%	+0.01%

Source: RKG Associates, 2026

REMOVE THE FAMILY-SIZED UNIT REQUIREMENT

Residential development projects that have a total dwelling unit net floor area greater than 30,000 square feet are required to provide one three-bedroom unit for every 6,000 square feet of required affordable floor area. RKG tested the impact that removing the three-bedroom requirement would have on financial performance. The table below summarizes the average impact that this would have on financial performance.

Table 48. Removing the Three-Bedroom Requirement - Rental Sensitivity Analysis

3-Bedroom Requirement	Impact to IRR	Impact to ROC
Yes	Current ordinance	Current ordinance
No	+0.10% to +0.30%	+0.04%

Source: RKG Associates, 2026

MINIMUM UNIT SIZE CALCULATIONS

Some Inclusionary Housing laws in other communities allow developers to make required affordable housing units only as big as the smallest market-rate unit of the same bedroom type. RKG tested an ordinance that would allow inclusionary housing units to be 80% the size of the same market-rate units for each bedroom type. The table below summarizes the average impact that this ordinance would have on financial performance.

Table 49. Inclusionary Housing Ordinance Minimum Unit Size - Rental Sensitivity Analysis

IHO Minimum Unit Size	Impact to IRR	Impact to ROC
100%	Current ordinance	Current ordinance
80%	+0.20% to +0.80%	-0.02 to +0.06

Source: RKG Associates, 2026

PROJECT SIZE TRIGGER FOR APPLICATION OF IHO

The IHO is triggered when a new residential development creates 10 or more units or 10,000 square feet of residential space. RKG tested what would happen if Cambridge lowered the minimum project size from the 10,000 square feet or 10-unit threshold. RKG tested projects at 9, 8, and 7 units. The analysis revealed that applying the 20% obligation would have substantial negative impacts on smaller projects and would create few affordable units. If the City wanted to apply the IHO for projects under 10 units or 10k sq. ft., the analysis revealed that the ordinance requirements can allow a payment in lieu valued at 60% of the current buyout value (Cambridge current ordinance uses $534 per square foot).

HOUSING CHOICE VOUCHERS (HCV)

Housing Choice Vouchers (HCV) subsidize rents by covering the difference between the full rent and 30% of tenants income. RKG tested the impact that one HCV covering the difference between tenant income and 100% of AMI rent would have on financial performance for each construction typology. The table below summarizes the impact that this ordinance would have on financial performance at different construction typologies and development scales.

Table 50. Housing Choice Voucher at 100% Area Median Income - Rental Sensitivity Analysis

1 HCV @ 100% AMI	Impact to IRR	Impact to ROC
Wood-Frame (25-units)	+0.60%	+0.15%
Mass Timber (75-units)	+0.20%	+0.05%
Steel-Frame (300-units)	+0.05%	+0.01%

Source: RKG Associates, 2026

PAYMENT IN LIEU

Many other communities allow developers to buy out of their inclusionary housing requirement by paying a fee in lieu of providing affordable units on site. Summarized in the table below, RKG tested the impact of allowing developers to pay a fee in lieu of providing 50% of the required affordable floor area on site for different construction typologies and development scales. RKG tested the impact using Cambridge's current $534 per square foot fee in lieu calculation.

Table 51. 50% Payment in Lieu - Rental Sensitivity Analysis

50% Payment in Lieu	Impact to IRR	Impact to ROC
Wood-Frame (25-units)	+0.50% to +0.60%	+0.40% to +0.50%
Mass Timber (75-units)	+0.30%	+0.45%
Steel-Frame (300-units)	+0.50%	+0.30%

Source: RKG Associates, 2026

MULTI-YEAR PAYMENT IN LIEU

Expanding on the 'Payment in Lieu' sensitivity scenario, RKG tested the impact of allowing payments in lieu of providing affordable floor area on site to be paid over a scheduled number of years (e.g., 5 years). Summarized below in the table, the analysis shows the sensitivity of this ordinance has the greatest impact on smaller projects that use a less expensive construction typology.

Table 52. Multi-Year Payment in Lieu by Construction Typology - Rental Sensitivity Analysis

Wood-Frame (Submarket 3)		
Payment In Lieu Schedule	**Impact to IRR**	**Impact to ROC**
Up-front payment	+0.50% to +0.60%	+0.40% to +0.50%
2-years	Up-front payment +0.20%	No Impact*
3-years	Up-front payment +0.40%	No Impact*
4-years	Up-front payment +0.60%	No Impact*
5-years	Up-front payment +0.80%	No Impact*
Mass Timber		
Payment In Lieu Schedule	**Impact to IRR**	**Impact to ROC**
Up-front payment	+0.30%	+0.45%
2-years	Up-front payment +0.15%	No Impact*
3-years	Up-front payment +0.30%	No Impact*
4-years	Up-front payment +0.45%	No Impact*
5-years	Up-front payment +0.60%	No Impact*
Steel-Frame		
Payment In Lieu Schedule	**Impact to IRR**	**Impact to ROC**
Up-front payment	+0.50%	+0.30%
2-years	Up-front payment +0.05%	No Impact*
3-years	Up-front payment +0.10%	No Impact*
4-years	Up-front payment +0.15%	No Impact*
5-years	Up-front payment +0.20%	No Impact*

Source: RKG Associates, 2026

** ROC is measured at project stabilization and cannot account for the impact of policies that affect the project after that time*

DIRECT INVESTMENT

A direct investment policy would mean the City would invest cash subsidies into development projects as a means of financial relief to reduce the per-unit cost of each IHO unit. RKG tested the sensitivity that a $50,000 per inclusionary housing unit direct investment subsidy would have on financial performance. For example, a 100-unit project with 19 or 20 inclusionary housing units, which will depend on the total residential square footage, would receive $950,000 or $1,000,000 in direct cash subsidy as a reduction to the total construction costs. The table below reflects the average impact this ordinance would have on financial performance.

Table 53. Direct Investment Subsidy - Rental Sensitivity Analysis

Direct Investment ($)	**Impact to IRR**	**Impact to ROC**
None	Current ordinance	Current ordinance
$50,000	+0.45% to +0.50%	+0.12%

Source: RKG Associates, 2026

TAX ABATEMENT

Another form of financial relief is the application of tax abatement. In Cambridge's case, RKG tested how a graduated tax abatement policy that incrementally increases the tax amount owed year by year until it reaches full taxation (e.g., percentage reduction) impacts financial performance over a set number of years (e.g., 5-year abatement vs 10-year abatement). For each submarket, RKG modeled a 6-story, 50-unit development as a baseline scenario to compare against a 5-year abatement and 10-year abatement. The table below shows the sensitivity a tax abatement has on financial performance. In summary, in almost every case except North Cambridge, the impact on return on cost is substantial.

Table 54. Five-Year and Ten-Year Abatement Scenarios - Rental Sensitivity Analysis

Prototype	Submarket 1		Submarket 2		Submarket 3		Submarket 4		Submarket 5	
	IRR	ROC	IRR	ROC	IRR	ROC	IRR	ROC	IRR	ROC
6-story, 50 units (Baseline)	7.92%	4.92%	12.29%	5.97%	13.33%	6.24%	13.91%	6.39%	13.30%	6.24%
6-story, 50 units (5-year)	8.32%	5.56%	12.78%	6.75%	13.85%	7.06%	14.44%	7.23%	13.81%	7.06%
6-story, 50 units (10-year)	8.60%	5.56%	13.09%	6.75%	14.15%	7.06%	14.76%	7.23%	14.12%	7.06%

Source: RKG Associates, 2026

Ownership Sensitivity Analysis

RKG ran a sensitivity analysis that tested possible changes to the ordinance for the City to consider as a myriad of means to boost financial performance for condominium developments. Summarized below are the findings from the sensitivity analysis.

ADJUSTING THE SET ASIDE

RKG tested the sensitivity of adjusting the set-aside percentage required for total dwelling net floor area in new developments for inclusionary housing units by 2.5% incremented from 20% to 10%. The table below summarizes the average of those findings, from the minimal to maximum potential impact to return on cost financial performance.

Table 55. Set-Aside Adjustment - Ownership Sensitivity Analysis

Set Aside	Impact on Return
20%	Current ordinance
17.5%	+1.50% to +3.00%
15%	+2.50% to +4.80%
12.5%	+6.00% to +8.50%
10%	+10.00% to +11.50%

ADJUST TARGET AREA MEDIAN INCOME (AMI)

Cambridge's current ordinance for ownership projects requires buyers to have incomes between 80% and 100% of AMI and sets prices equivalent to what would be affordable to a household earning 90% of AMI. RKG tested the sensitivity of increasing the affordable sales prices by 10%, so prices are set to be affordable to households at 100% of AMI. The table below summarizes the impact that increasing the AMI would have on ownership return.

Table 56. Increasing the Area Median Income - Ownership Sensitivity Analysis

Area Median Income	Impact on Return
100%	+1.00% to +1.40%

Source: RKG Associates, 2026

PAYMENT IN LIEU

Similar to the rental analysis above, RKG tested the impact that allowing developers to buy out 50% of the required inclusionary housing unit floor area would have on the financial performance of different types of ownership projects. The impact on financial performance is greatest on wood-frame construction typologies. In turn, payment in lieu would have a negative impact on financial performance for projects that use mass timber or steel. The difference in performance between wood frame construction and taller typologies results because the higher cost of construction for podium, mass timber, and steel frame reduces the difference in value between market rate units and IHO units. As a result, the current cash payment is set too high based on this lower value differential. Opting to do a payment in lieu for these projects actually creates a financial burden compared to delivering the units.

Table 57. 50% Payment in Lieu - Ownership Sensitivity Analysis

50% Payment In Lieu	Impact on Return
Wood-Frame	+0.50% to +1.50%
Mass Timber	No Impact
Steel-Frame	No Impact

Source: RKG Associates, 2026

DIRECT INVESTMENT

Similar to the rental sensitivity analysis above, RKG tested the sensitivity that a $50,000 per inclusionary housing unit direct investment subsidy would have on financial performance. The table below reflects the average impact on financial performance.

Table 58. Direct Investment Subsidy - Ownership Sensitivity Analysis

Direct Investment ($)	Impact to
None	Current ordinance
$50,000	+1.00% to +1.20%

Source: RKG Associates, 2026

MINIMUM UNIT SIZE CALCULATIONS

Some Inclusionary Housing laws in other communities allow developers to make required affordable housing units only as big as the smallest market-rate unit of the same bedroom type. RKG tested an

ordinance that would allow inclusionary housing units to be 80% the size of the same market-rate units for each bedroom type. The table below summarizes the average impact that this ordinance would have on financial performance for a condominium project.

Table 59. Inclusionary Housing Ordinance Minimum Unit Size - Ownership Sensitivity Analysis

IHO Minimum Unit Size	Impact to Return
100%	Current ordinance
80%	+0.20% to +1.60%

Source: RKG Associates, 2026

IHO Rental Market Sensitivity Summary

The following table is a summary of the rental sensitivity analysis.

Table 60. IHO Rental Market Sensitivity

Ordinance	Scenario / Assumption	IRR (%) Change	ROC (%) Change
Set Aside %	2.5% Reduction	+0.15% to 0.70%	+0.04% to +0.20%
Area Median Income	10% increase @ 65% AMI	+0.45%	+0.10%
Studio Cost Burdening	30% of Income	+0.04%	+0.01%
3-Bedroom Units	Remove 3-Bedroom Unit Requirement	+0.10% to +0.30%	+0.04%
IHO Unit Size Reduction	80% of Market Rate Unit	+0.20% to +0.80%	-0.02 to +0.06
Housing Choice Voucher	1 Voucher (100% AMI)	+0.05% to +0.60%	+0.01% to +0.15%
Payment in Lieu	50% of Scheduled Fee Owed	+0.30% to +0.60%	+0.30% to +0.50%
Multi-Year Payment in Lieu	1-Year to 5-year Extension	+0.05% to +0.80%	No Impact
Direct Investment Subsidy	$50,000/IHO Unit Subsidy	+0.45% to +0.50%	+0.12%
Tax Abatement	Entire project	+0.75% to +1.60%	+1.25% to +1.65%

Source: RKG Associates, 2026

IHO Ownership Market Sensitivity Summary

The following table is a summary of the ownership sensitivity analysis.

Table 61. IHO Ownership Market Sensitivity

Ordinance	Scenario / Assumption	Return (%) Change
Set Aside %	2.5% Reduction	+1.50% to +3.00%
Area Median Income	10% increase @ 100% AMI	+1.00% to +1.40%
Payment in Lieu	50% of Scheduled Fee Owed	+0.50% to +1.50%
Multi-Year Payment in Lieu	1-Year Extension (Paid Over 2-years)	+0.50% to +5.00%
Direct Investment Subsidy	$50,000/IHO Unit Subsidy	+1.00% to +1.20%
IHO Unit Size Reduction	80% of Market Rate Unit	+0.20% to +1.60%

Source: RKG Associates, 2026

Macroeconomic Sensitivity Summary

Outside of local ordinance changes, RKG tested the sensitivity of shifts in macroeconomic variables and their impact on financial performance. This shows the impact that more favorable market conditions might have on development projects. The table below summarizes what would happen if macroeconomic variables shifted in a favorable direction for residential development. With that said, for any scenario below, a shift in the other way will have the same negative impact on financial performance.

Table 62. Macroeconomic Sensitivity

Parameter	Scenario / Assumption	Rental IRR (%)	Rental ROC (%)	Owner Return (%)
Rent Escalation	0.5% Increase	+1.05%	+0.07%	No Impact*
Cap Rate	0.5% Decrease	+1.30%	No Impact*	No Impact*
Total Project Costs	5% Reduction	+1.80% to +2.00%	+0.35%	+7.00% to +8.00%
Construction Costs PSF	5% reduction	+0.60% to +0.85%	+0.25%	+5.50% to +6.50%
Interest Rate	0.5% decrease	+0.50%	No Impact*	No Impact*

Source: RKG Associates, 2026

** ROC is measured at project stabilization and is therefore not affected by changes that impact the long-term performance of projects*

OPTIONS TO CONSIDER

Based on the results of the financial performance modeling and zoning policy analysis, options to consider are organized around two areas: 1) IHO policy design and 2) Financial incentive strategies.

IHO Policy Options

The following options are centered around the IHO policy design.

CONSIDER ADJUSTING THE INCLUSIONARY HOUSING SET-ASIDE PERCENTAGE.

The modeling results indicate that no single ordinance change functions as a "game changer" for project financial performance, and the set-aside percentage is no exception. Reductions across the full range tested—from the current 20% down to as low as 10%—improve returns for scalable projects, but do not have a significant impact on financial performance. The set-aside should therefore be understood as one lever among several, effective in combination with other ordinance modifications rather than as a standalone remedy.

Rental Return on Cost by Prototype and Submarket

Table 63. 20% Set-Aside — Rental Return on Cost by Prototype and Submarket

Prototype	Submarket 1	Submarket 2	Submarket 3	Submarket 4	Submarket 5
4-story, 9 units	6.10%	7.45%	7.78%	8.00%	7.82%
4-story, 12 units	5.34%	6.43%	6.69%	6.90%	6.74%
6-story, 25 units	4.98%	6.03%	6.30%	6.46%	6.31%
6-story, 50 units	4.92%	5.97%	6.24%	6.39%	6.24%

Prototype	Submarket 1	Submarket 2	Submarket 3	Submarket 4	Submarket 5
8-story, 150 units (MT)	4.70%	5.66%	5.92%	6.06%	5.92%
12-story, 100 units (S)	3.58%	4.34%	4.53%	4.66%	4.52%
12-story, 300 units (S)	3.57%	4.31%	4.53%	4.64%	4.51%
18-story, 300 units (S)	3.57%	4.31%	4.53%	4.64%	4.51%

Source: RKG Associates, 2026

Table 64. 17.5% Set-Aside — Rental Return on Cost by Prototype and Submarket

Prototype	Submarket 1	Submarket 2	Submarket 3	Submarket 4	Submarket 5
4-story, 9 units	6.10%	7.45%	7.78%	8.00%	7.82%
4-story, 12 units	5.48%	6.61%	6.89%	7.09%	6.93%
6-story, 25 units	5.04%	6.10%	6.46%	6.54%	6.39%
6-story, 50 units	5.01%	6.04%	6.32%	6.47%	6.37%
8-story, 150 units (MT)	4.77%	5.74%	6.00%	6.15%	6.02%
12-story, 100 units (S)	3.62%	4.39%	4.60%	4.71%	4.57%
12-story, 300 units (S)	3.62%	4.39%	4.60%	4.72%	4.59%
18-story, 300 units (S)	3.62%	4.39%	4.60%	4.72%	4.59%

Source: RKG Associates, 2026

Table 65. 15% Set-Aside — Rental Return on Cost by Prototype and Submarket

Prototype	Submarket 1	Submarket 2	Submarket 3	Submarket 4	Submarket 5
4-story, 9 units	6.10%	7.45%	7.78%	8.00%	7.82%
4-story, 12 units	5.61%	6.79%	7.09%	7.28%	7.14%
6-story, 25 units	5.09%	6.18%	6.46%	6.62%	6.48%
6-story, 50 units	5.09%	6.15%	6.42%	6.58%	6.45%
8-story, 150 units (MT)	4.85%	5.86%	6.13%	6.29%	6.13%
12-story, 100 units (S)	3.68%	4.47%	4.68%	4.80%	4.67%
12-story, 300 units (S)	3.67%	4.46%	4.67%	4.79%	4.67%
18-story, 300 units (S)	3.67%	4.46%	4.67%	4.79%	4.67%

Source: RKG Associates, 2026

Table 66. 12.5% Set-Aside — Rental Return on Cost by Prototype and Submarket

Prototype	Submarket 1	Submarket 2	Submarket 3	Submarket 4	Submarket 5
4-story, 9 units	6.10%	7.45%	7.78%	8.00%	7.82%
4-story, 12 units	5.61%	6.79%	7.09%	7.28%	7.14%

Prototype	Submarket 1	Submarket 2	Submarket 3	Submarket 4	Submarket 5
6-story, 25 units	5.19%	6.29%	6.63%	6.74%	6.60%
6-story, 50 units	5.14%	6.22%	6.50%	6.66%	6.53%
8-story, 150 units (MT)	4.91%	5.95%	6.21%	6.37%	6.22%
12-story, 100 units (S)	3.72%	4.54%	4.76%	4.88%	4.75%
12-story, 300 units (S)	3.73%	4.53%	4.75%	4.86%	4.74%
18-story, 300 units (S)	3.73%	4.53%	4.75%	4.86%	4.74%

Source: RKG Associates, 2026

Table 67. 10% Set-Aside — Rental Return on Cost by Prototype and Submarket

Prototype	Submarket 1	Submarket 2	Submarket 3	Submarket 4	Submarket 5
4-story, 9 units	6.10%	7.45%	7.78%	8.00%	7.82%
4-story, 12 units	5.72%	6.95%	7.26%	7.44%	7.30%
6-story, 25 units	5.25%	6.38%	6.66%	6.84%	6.70%
6-story, 50 units	5.27%	6.39%	6.65%	6.86%	6.71%
8-story, 150 units (MT)	4.99%	6.04%	6.31%	6.47%	6.33%
12-story, 100 units (S)	3.77%	4.60%	4.82%	4.95%	4.82%
12-story, 300 units (S)	3.77%	4.60%	4.82%	4.94%	4.81%
18-story, 300 units (S)	3.77%	4.60%	4.82%	4.94%	4.81%

Source: RKG Associates, 2026

Ownership Return Prototype and Submarket

Table 68. 20% Set-Aside — Ownership Return by Prototype and Submarket

Prototype	Submarket 1	Submarket 2	Submarket 3	Submarket 4	Submarket 5
4-story, 8 units	72.22%	34.00%	85.57%	63.16%	56.07%
4-story, 10 units	43.68%	9.93%	53.98%	36.34%	31.90%
4-story, 18 units	45.74%	10.51%	56.57%	38.03%	32.74%
6-story, 18 units	42.91%	7.50%	53.69%	35.15%	29.94%
4-story, 40 units	46.70%	10.54%	57.62%	38.81%	32.82%
6-story, 40 units	43.81%	7.45%	54.65%	35.88%	29.97%
8-story, 56 units (MT)	29.83%	-6.93%	40.27%	21.57%	16.13%
8-story, 56 units (S)	-10.23%	-60.04%	0.37%	-20.01%	-25.27%

Source: RKG Associates, 2026

Table 69. 17.5% Set-Aside — Ownership Return by Prototype and Submarket

Prototype	Submarket 1	Submarket 2	Submarket 3	Submarket 4	Submarket 5
4-story, 8 units	72.22%	34.00%	85.57%	63.16%	56.07%
4-story, 10 units	47.74%	13.12%	58.29%	40.30%	35.68%
4-story, 18 units	50.21%	13.98%	61.46%	42.34%	36.76%
6-story, 18 units	47.21%	10.80%	58.39%	39.28%	33.80%
4-story, 40 units	47.99%	13.83%	58.95%	40.06%	34.16%
6-story, 40 units	45.20%	10.76%	56.09%	37.22%	31.39%
8-story, 56 units (MT)	32.58%	-4.93%	43.40%	24.44%	18.71%
8-story, 56 units (S)	-7.81%	-56.30%	3.20%	-17.45%	-23.01%

Source: RKG Associates, 2026

Table 70. 15% Set-Aside — Ownership Return by Prototype and Submarket

Prototype	Submarket 1	Submarket 2	Submarket 3	Submarket 4	Submarket 5
4-story, 8 units	72.22%	34.00%	85.57%	63.16%	56.07%
4-story, 10 units	50.01%	18.72%	61.25%	40.85%	34.20%
4-story, 18 units	49.59%	16.51%	61.16%	41.73%	35.64%
6-story, 18 units	46.68%	13.21%	58.19%	38.78%	32.77%
4-story, 40 units	52.41%	15.67%	63.79%	44.30%	38.10%
6-story, 40 units	49.44%	12.53%	60.75%	41.29%	35.18%
8-story, 56 units (MT)	34.82%	-1.80%	46.98%	26.59%	20.83%
8-story, 56 units (S)	-5.13%	-52.44%	6.38%	-14.78%	-20.44%

Source: RKG Associates, 2026

Table 71. 12.5% Set-Aside — Ownership Return by Prototype and Submarket

Prototype	Submarket 1	Submarket 2	Submarket 3	Submarket 4	Submarket 5
4-story, 8 units	72.22%	34.00%	85.57%	63.16%	56.07%
4-story, 10 units	54.41%	15.97%	66.19%	44.96%	37.96%
4-story, 18 units	49.76%	15.57%	66.54%	42.69%	36.37%
6-story, 18 units	47.05%	12.68%	63.36%	39.92%	33.65%
4-story, 40 units	54.92%	18.39%	66.59%	47.09%	40.63%
6-story, 40 units	51.95%	15.26%	63.56%	44.07%	37.68%
8-story, 56 units (MT)	37.31%	0.41%	48.67%	29.06%	22.77%
8-story, 56 units (S)	-2.48%	-49.33%	8.78%	-12.04%	-18.10%

Source: RKG Associates, 2026

Table 72. 10% Set-Aside — Ownership Return by Prototype and Submarket

Prototype	Submarket 1	Submarket 2	Submarket 3	Submarket 4	Submarket 5
4-story, 8 units	72.22%	34.00%	85.57%	63.16%	56.07%
4-story, 10 units	59.23%	19.72%	65.17%	49.47%	42.06%
4-story, 18 units	54.33%	19.19%	66.44%	47.15%	40.53%
6-story, 18 units	51.45%	16.14%	63.52%	44.20%	37.65%
4-story, 40 units	56.75%	19.95%	68.86%	48.75%	41.57%
6-story, 40 units	53.83%	16.89%	65.85%	45.79%	38.70%
8-story, 56 units (MT)	41.14%	2.32%	52.81%	32.63%	26.06%
8-story, 56 units (S)	-0.47%	-46.22%	11.06%	-10.22%	-16.44%

Source: RKG Associates, 2026

ALLOW PARTIAL SATISFACTION OF THE INCLUSIONARY REQUIREMENT THROUGH AN IN-LIEU PAYMENT

The City should consider allowing developers to satisfy up to 50% of their Inclusionary Housing requirement through a lower in-lieu payment made to the Cambridge Affordable Housing Trust.

Financial modeling indicates this approach improves project financial performance by reducing the revenue gap associated with income-restricted units, particularly for smaller condominium projects, while also lowering per-unit costs for larger rental developments.

For the 6-story, 50-unit prototype at the current 20% set-aside, satisfying half the requirement through a fee improves return on cost by 30 to 40 basis points across all five submarkets, while increasing IRR by roughly 35 to 80 basis points. The mechanism is straightforward: the fee is an additional cost paid early in the development period, which depresses the time-weighted return, while removing half the income-restricted units, raising stabilized income and therefore improving the point-in-time measure.

Table 73. Fee in Lieu Scenarios — 6-Story, 50-Unit Rental Prototype

Scenario	Submarket 1		Submarket 2		Submarket 3		Submarket 4		Submarket 5	
	IRR	ROC	IRR	ROC	IRR	ROC	IRR	ROC	IRR	ROC
20% set-aside (baseline ordinance)	7.92%	4.92%	12.29%	5.97%	13.33%	6.24%	13.91%	6.39%	13.30%	6.24%
20% set-aside 50% fee in lieu	7.40%	5.27%	11.70%	6.39%	12.75%	6.65%	13.28%	6.86%	12.69%	6.71%
17.5% set-aside	7.47%	5.28%	12.06%	6.39%	12.86%	6.73%	13.63%	6.87%	12.78%	6.72%

50% fee in lieu										
15% set-aside 50% fee in lieu	8.29%	5.33%	12.65%	6.49%	13.64%	6.79%	14.22%	6.98%	13.66%	6.81%

Source: RKG Associates, 2026

That trade could be favorable in practice. Developer interviews indicated that most local developers prioritize ROC over IRR, and that projects prioritizing ROC may proceed with an IRR below the market average. On the ROC measure, the fee moves Submarket 2, Submarket 3, and Submarket 5 from moderate challenges to the no challenges range.

ALLOW MULTI-YEAR SCHEDULING OF IN-LIEU PAYMENTS.

The City should consider allowing developers to pay in-lieu amounts over several years rather than requiring payment upfront. Spreading payments over time would improve project cash flow during construction and enhance overall project financial performance without reducing the total affordable housing contribution. This added financial flexibility can help offset rising development costs while enabling the Cambridge Affordable Housing Trust to receive full payment over time.

CONDUCT INTERVAL STUDIES TO PLAN AND PREPARE FOR ANY MARKET ADJUSTMENTS

Once elevated development costs, such as materials and labor, normalize and market conditions stabilize, the IHO policy can be revisited and updated to reflect a stronger development environment. RKG recommends that the City conduct interim assessments of financial performance every 1-2 years. This would allow the City to reassess how development performance changes with changes to market conditions and enable policy to be more responsive to those market conditions.

CREATE TWO –IHO UNIT TIERS WITH DIFFERENT TARGET AREA MEDIAN INCOME RANGES FOR AFFORDABLE RENTAL UNITS

The City should consider adopting a two-tier affordability structure within its IHO policy to improve development financial performance. Currently, the ordinance requires affordable rental units to serve households earning between 50% and 80% of Area Median Income (AMI) with rents set at 30% of household income. A two-tier system could require a portion of the affordable units—for example, 50% of the required affordable units—to serve households earning between 75% and 80% of AMI (or another policy-determined upper income range), while the remaining units continue to serve lower-income households. This could help project performance by making cash flow from affordable units more predictable.

ALLOW HOUSEHOLDS WITH INCOMES UP TO 100% OF AMI TO BE ELIGIBLE FOR IHO RENTAL UNITS

Instead of capping household income at 80% of AMI, the City could allow households with incomes up to 100% of AMI to be eligible for IHO rental units. This could increase the amount of rental income that developers make from affordable units, increasing project performance and expanding the City's applicant pool for IHO units.

CONSIDER A SLIDING SCALE IHO SET-ASIDE REQUIREMENT BASED ON PROJECT SIZE OR HEIGHT

Introducing a sliding scale where smaller projects would be required to set aside less floor area for affordable units than larger projects. Smaller developments often face higher per-unit costs and fewer opportunities to absorb the financial impact of income-restricted units. A sliding scale would help reduce

barriers to smaller infill developments while still maintaining strong affordable housing production from larger projects.

PROVIDE FLEXIBILITY IN INCLUSIONARY HOUSING UNIT SIZES

Cambridge should consider allowing Inclusionary Housing (IHO) units to be up to 20% smaller than comparable market-rate units. Allowing affordable units to range from 80% to 100% of the size of comparable market-rate units would decrease construction costs for income-restricted units. The resulting reduction in development costs would improve overall project financial performance and increase net returns.

Financial Incentive Options

The following options are centered around financial incentive strategies.

ESTABLISH A GRADUATED PROPERTY TAX ABATEMENT PROGRAM FOR RENTAL DEVELOPMENTS.

Projects would receive a partial property tax abatement for an initial period — five or ten years — with the tax obligation increasing incrementally until reaching full assessment. This temporary relief would improve early project cash flow, reduce financing risk, and help projects achieve financial stabilization during the critical lease-up period.

The modeled results show the effect is strongest on return on cost. Applied to the 6-story, 50-unit prototype at the current 20% set-aside, an abatement raises ROC by roughly 125 to 165 basis points, moving Submarket 2, Submarket 3, and Submarket 5 from moderate challenges to no challenges, and lifting Submarket 1 from substantial challenges into the moderate challenges range.

Table 74. Five-Year Abatement Scenarios — 6-Story, 50-Unit Rental Prototype

Scenario	Submarket 1		Submarket 2		Submarket 3		Submarket 4		Submarket 5	
	IRR	ROC	IRR	ROC	IRR	ROC	IRR	ROC	IRR	ROC
20% set-aside (baseline ordinance)	7.92%	4.92%	12.29%	5.97%	13.33%	6.24%	13.91%	6.39%	13.30%	6.24%
20% set-aside 5-year abatement	8.32%	5.56%	12.78%	6.75%	13.85%	7.06%	14.44%	7.23%	13.81%	7.06%
17.5% set-aside 5-year abatement	8.63%	5.66%	13.20%	6.84%	14.26%	7.15%	14.86%	7.32%	14.16%	7.20%
15% set-aside 5-year abatement	8.97%	5.76%	13.54%	6.96%	14.62%	7.26%	15.19%	7.45%	14.59%	7.30%

Source: RKG Associates, 2026

Extending the term from five years to ten adds approximately 50 to 60 additional basis points of IRR but does not change ROC at all, because the stabilized year on which ROC is measured falls within both abatement periods.

Table 75. Ten-Year Abatement Scenarios — 6-Story, 50-Unit Rental Prototype

Scenario	Submarket 1		Submarket 2		Submarket 3		Submarket 4		Submarket 5	
	IRR	ROC	IRR	ROC	IRR	ROC	IRR	ROC	IRR	ROC
20% set-aside (baseline ordinance)	7.92%	4.92%	12.29%	5.97%	13.33%	6.24%	13.91%	6.39%	13.30%	6.24%
20% set-aside 10-year abatement	8.60%	5.56%	13.09%	6.75%	14.15%	7.06%	14.76%	7.23%	14.12%	7.06%
17.5% set-aside 10-year abatement	8.92%	5.66%	13.51%	6.84%	14.58%	7.15%	15.17%	7.32%	14.47%	7.20%
15% set-aside 10-year abatement	9.26%	5.76%	13.85%	6.96%	14.94%	7.26%	15.51%	7.45%	14.91%	7.30%

Source: RKG Associates, 2026

Consistent with the broader finding that no single policy adjustment is a game changer, the abatement performs best in combination with other changes. Pairing a ten-year abatement with a 17.5% set-aside brings four of the five submarkets into the no challenges range on IRR — an outcome neither change achieves alone.

EXPAND MONIES FROM THE CAMBRIDGE AFFORDABLE HOUSING TRUST

The City should consider leveraging the Cambridge Affordable Housing Trust to provide targeted financial assistance that improves the financial performance of rental developments delivering Inclusionary Housing units. Gap financing or per-unit subsidies could help offset the cost of constructing required IHO units, reducing the financial burden on developers while maintaining the City's affordability objectives.

For example, the City could provide targeted financial assistance to offset a portion of the costs associated with constructing or delivering required affordable units. The subsidy program could be structured as a per-affordable-unit grant at $50,000 per IHO unit. To maximize the City's investment, subsidies could be targeted toward projects that provide deeper affordability, larger family-sized units, and/or exceed the minimum Inclusionary Housing requirements.

MAXIMIZE HOUSING CHOICE VOUCHER USE

Cambridge should continue to try to maximize the number of Housing Choice Vouchers (HCVs) in rental units. Vouchers have the biggest impact when used in family-sized units (e.g., three-bedroom). These command the lowest per-square-foot rents in every submarket, making them the most expensive component of the affordable requirement to deliver. Because the Ordinance already encourages three-bedroom units and requires them in larger developments, finding ways for to get more voucher holders in family-sized units would reinforce an existing policy goal while improving the economics of the unit type the market is least inclined to build.

APPENDIX 1 - SUMMARY OF INTERVIEW RESPONSES

RKG Associates conducted one-on-one interviews with 17 for-profit and non-profit residential developers, realtors, and other housing industry stakeholders active in Cambridge in March and April 2026. The interviews focused on current market realities, approval and permitting processes, in addition to challenges and opportunities for housing development in Cambridge. Across interviews, a consistent theme emerged: Cambridge's development challenges stem primarily from broader market conditions rather than any single local policy. While developers acknowledged the value of the City's affordable housing and sustainability goals, they emphasized that the cumulative effect of rising construction costs, local regulatory requirements, and permitting timelines has reduced project financial performance. Many suggested that improving coordination within the review process, reducing administrative delays, and providing financial or regulatory incentives would have the greatest potential to increase financial performance.

Interviewees said procedural improvements are just as important as the local ordinance requirements to ensure the IHO program functions as intended. They noted that streamlining application processes, reducing administrative burdens, and improving program and timeline transparency and predictability can meaningfully increase developer participation and help translate policy goals into actual affordable housing units. The interviews yielded the following key takeaways:

MARKET CONDITIONS AND FINANCIAL PERFORMANCE

Developers consistently identified high construction costs, elevated interest rates, rising insurance premiums (e.g., 35-40%), utility costs, and land values as the primary challenges affecting project financial performance. Several interviewees noted that market-rate projects often generate negative residual land values under current conditions, making new land acquisitions difficult to justify. Although the financial performance of condominium development faces no challenges in select high-value locations, rental projects face greater financial challenges. Affordable housing developers noted that projects perform financially with no challenges largely because they rely on public subsidies, including the Cambridge Affordable Housing Trust, Low-Income Housing Tax Credits, and other federal, state, and local funding sources. Several interviewees observed that under current market conditions, publicly subsidized affordable housing is often more financially viable than market-rate development.

LENGTHY AND COMPLEX PERMITTING PROCESS

Developers reported that entitlement and permitting timelines remain a significant challenge. Building permits can take more than a year to obtain, and projects can require approximately three years from property acquisition to the start of construction. Several interviewees also described overlapping departmental reviews and inconsistent coordination among City staff, contributing to delays and increased carrying costs.

DEVELOPMENT REVIEW TIMELINE

Developers identified the length and unpredictability of the development review process as a direct constraint on project financial performance. Interviewees reported that obtaining a building permit can take more than a year, with approximately three years elapsing between property acquisition and the start of construction. Several attributed these delays to internal review processes and to review timelines that often exceed the City’s established targets, citing sustainable design review as an example.

Interviewees indicated that holding review periods firm to their stated durations would reduce uncertainty and limit the carrying costs that accumulate while a project waits, and that greater predictability in the review schedule would itself improve financial performance even absent any reduction in the overall timeline.

ADDITIONAL LOCAL COST

Developers interviewed for this study identified requirements specific to Cambridge that raise residential construction costs above regional norms. Bike storage consumes floor area and requires larger elevators to accommodate cargo bikes. Green or solar roofs are required, and sustainability standards such as LEED certification and Passive House performance drive higher-specification building envelopes and extended air-sealing work. Projects also contribute to pedestrian improvements and the city tree fund. Together, these requirements increase the hard construction cost per square foot of residential development.

INCLUSIONARY HOUSING WAITLIST

Developers identified the Inclusionary Housing waitlist process as a source of lease-up delay. Interviewees reported that the timing of applicant processing can be inconsistent, which delays occupancy of Inclusionary Housing units and reduces project revenues during the stabilization period, when a project is sensitive to carrying costs.

Several interviewees voiced opinions that combining the studio and one-bedroom waitlists to allow greater flexibility in matching eligible households to available units. Interviewees touched on the idea of limiting applicants to a single housing offer before returning to the end of the waitlist, describing this as a way to reduce the delays caused by repeated unit selection decisions, which would create a more predictable leasing process and improve fairness for other households waiting for affordable housing opportunities.

PROCESS TRANSPARENCY AND DOCUMENTATION

Interviewees described the review process as difficult to navigate, particularly with respect to required materials, departmental responsibilities, and the sequence of approvals. Several interviewees suggested having a form of documentation that lays out the full review process, required submissions, the departments responsible for approvals, the expected review timelines, and key approval milestones. Interviewees indicated that a more transparent and coordinated process would reduce uncertainty and help City staff and applicants work from a shared understanding of procedural requirements, and that documenting timelines and expectations at the outset would support a more predictable review process and reduce administrative delay.

REVIEW COORDINATION AND PRE-OCCUPANCY PROCEDURES

Interviewees described overlapping departmental reviews and inconsistent coordination among City staff as a recurring source of delay and increased carrying cost. Several suggested that sustainable development review be conducted concurrently with other required reviews and subject to a defined maximum review period, rather than being allowed to extend the overall permitting timeline. Interviewees also suggested that qualifying Inclusionary Housing tenants prior to issuance of the Certificate of Occupancy would reduce lease-up delays and help affordable units reach occupancy sooner after construction is complete.