CITY OF CAMBRIDGE
Housing Department

Christopher Cotter
Director of Housing

MEMORANDUM

To: **Affordable Housing Trust**
From: **Chris Cotter, Director of Housing**
Alex Bob, Housing Planner
Date: **July 31, 2025**
RE: **Strategies to encourage the construction of market-rate residential development with inclusionary housing units**

Over the past several years, as interest rates and construction costs have increased, Cambridge, like other cities regionally and nationally, has seen a slowdown in new market-rate housing production. This trend presents a major challenge to the City's effort to meet the Envision Cambridge goal of creating 12,500 new housing units by 2030. While recent policy changes like the citywide multifamily zoning and the elimination of parking minimums aim to expand new housing development, factors, many of which are outside of the city's control, are limiting the impact of these policy changes. Given the importance of continued steady production of new housing units, the City is looking at new approaches to promote new housing development in the face of a challenging economic environment.

The City Council has asked that the City review current barriers to new housing production and to develop new strategies to assist in making residential development more feasible in the current economic climate. The attached memo presented to the City Council for their June 30th meeting (attached) outlines the barriers to new housing production in more detail and outlines some possible local options to help support new housing development. The attached report provided an initial overview of some of these strategies which City staff are now analyzing more fully in anticipation of providing more information to the City Council in the fall.

Strategies identified to support housing production include:

1. Amending the Zoning Ordinance to reduce to inclusionary housing set-aside ratio from 20% for a set period of time while the new Inclusionary Housing Study is completed and suggested changes are then considered;
2. tax incentives for new multifamily residential development;
3. funding inclusionary housing units through the Affordable Housing Trust;
4. a revolving loan or equity fund for multifamily residential projects similar to MassHousing's Momentum Fund or the City of Boston's Accelerator Fund; and
5. exempting multifamily projects from building permit fees.

There is interest from the City Council in acting on some of these options before the end of the year, and staff from various departments are currently working to explore the feasibility and impact of these options and provide more information to the City Council for discussion in the fall.

As part of our effort to gather information on these different policy options, we would like to update and discuss these options with the Trust.

Using Trust Funding for Inclusionary Housing

As we continue to explore the strategies identified above, we would like to discuss with you and hear your comments on the idea of using Trust funds to subsidize new inclusionary housing units. While funding inclusionary housing units has not been done before, based on a review of the Trust's governing documents, we believe it would be a permissible use of Trust funds, and are working with the Law Department to confirm that.

To help guide the discussion, we have outlined several questions for the Trust's consideration below:

1. How should the city balance its goals of increasing the supply of housing units generally with its goals of creating new income-restricted affordable housing units?
2. How do you view trust funding of inclusionary units in the context of the other options being considered?
3. If the Trust were to receive a proposal from a developer to fund inclusionary units in a market-rate project, what information would the trust need to evaluate the proposal? And how, if at all, would this differ from information requested from all-affordable projects?
4. What do you see as the benefits and drawbacks of Trust funding of inclusionary housing units?
5. Would the Trust need to set aside a separate pool of funding for inclusionary projects?
6. If the Trust were to fund inclusionary projects, should financing be structured differently than the financing of all affordable projects?

City staff have been meeting with developers to discuss challenges that are preventing new projects from moving forward. We have met with developers sponsoring two different developments that have received permitting approvals and are now encountering difficulty for many of the reasons noted in the attached memo. We are sharing some high-level information from those discussions which we think helps to illustrate to extent of the need and the type of funding request the Trust might see to assist in funding inclusionary units in new market-rate developments.

- Example 1: permitting approvals are in place for a mixed-use development that would create a new 62-unit condominium development and new retail space. The development would include 50 market and 12 affordable units under the current 20% set-aside requirement. The pro forma shows a development budget of $89 million with a $17.3 million financing gap ($1,438,750 per inclusionary unit). The project benefits from significant investment from the Cambridge Redevelopment Authority.

- Example 2: permitting approvals are in place for a 236-unit rental development that would include 47 inclusionary units under the current 20% set-aside requirement. The pro forma shows a development budget of $129 million with a $23.5 million financing gap ($500,000 per inclusionary unit).

Staff have engaged with each development team to understand the challenges and discuss ways in which the City might assist at this time. Staff have not reviewed in detail either development pro forma. The idea of Trust funding was of interest to each and both noted the new tax revenue that would be created from their new development, which would represent a return on the City's investment in financing new building. For the rental example, the developer estimates increased annual tax revenue of approximately $620,000. New tax revenue from new condominiums and retail space in the mixed-use development is estimated by the developer to generate new tax revenue of approximately $440,000 annually.

Next Steps

Staff from several departments are continuing to review approaches to tax incentives, waiving building permit fees, and to analyze public-sector equity fund models. Staff will also continue work with developers with stalled projects to review financing gaps and understand how some combination of the strategies above could assist them as we continue to prepare more information on new approaches to share with the City Council. For example, if the inclusionary set-aside requirement was reduced to 10%, the financing gaps would be reduced to the point where some form of public investment could be advisable to move projects into construction. As we do this, we can assemble more information which could be used to put together specific funding requests for the Trust to consider if the Trust sees that it can provide assistance in this way to help meet City affordable and market housing production goals.