



City of Cambridge

Executive Department

LOUIS A. DePASQUALE
City Manager

LISA C. PETERSON
Deputy City Manager

June 21, 2019

To the Honorable, the City Council:

I am writing in response to Policy Order No. 3 of 4/1/19, which requests information and analysis on the potential implications of adopting an Affordable Housing Overlay (“AHO”) that would make it easier to develop 100% affordable housing projects citywide. Staff from the Community Development Department, Assessing Department and Law Department have assisted in preparing these answers to the questions posed in the Policy Order. I will address each question as follows:

1. Provide an analysis of potential 100% affordable housing projects where affordable housing developers were outbid on properties that were on the market for sale and provide an analysis of how the AHO might have given affordable housing developers a better chance of success, as well as any other expected per-unit cost reductions from the overlay approach.

The proposed AHO is designed to help affordable housing providers create affordable housing more quickly, more predictably, and in areas of Cambridge where there are fewer affordable housing options for residents. By increasing the amount of housing which can be built on a site, affordable housing providers will be better positioned to compete with market-rate buyers for sites. Equally important, by allowing this housing to be created as-of-right, affordable housing providers will be able to purchase sites which they otherwise might be reluctant to consider due to underlying zoning which allows fewer units than needed to make affordable housing feasible.

The primary goal of the AHO is for more affordable housing to be brought on-line more quickly. A secondary benefit is that the AHO would allow housing to be created more cost effectively by reducing or eliminating certain development costs. These cost savings would allow the Cambridge Affordable Housing Trust (the “Trust”) funding to go further to create more units than otherwise could be built. The following provides examples of the types of ways the AHO is expected to impact costs:

Readiness to Proceed, Access to Favorable Funding, and Risk Reduction

There are significant advantages to allowing affordable housing providers to advance projects more quickly, so they are positioned to take advantage of opportunities which require quick action such as special funding opportunities and other time-limited benefits which are only available to projects that are fully permitted and ready to begin construction. For instance, special financing programs offered by lenders can drastically reduce borrowing costs and subsidy needs. These opportunities are unpredictable and limited to projects that are ready for

construction. Maximizing the amount of private funding in affordable housing developments to better leverage the Trust's and other public funding will result in more housing built with limited public funding.

Likewise, reducing development timelines will reduce risk and uncertainty affordable housing providers face as they budget for projects that may take several years to get into construction. Construction costs are one of the most significant cost factors, and cost increases in a busy construction market can have a huge impact. A shortened development schedule will allow affordable housing providers to hold better construction pricing rather than face costly escalators as pricing increases dramatically every year. Annual increases in labor and material costs have been consistently 3-5% over the past few years, and uncertainty about the impact of other changes in the economy, including recently introduced tariffs, is also a factor driving up construction costs. In the case of the affordable housing development currently under construction on Concord Avenue, the construction cost is \$27,238,121; if it had been delayed a year with a 5% annual increase in construction costs, that same project would have had a funding gap of \$1,361,906. For projects which suffer multi-year delays, this risk is compounded.

Specific Cost Reductions

Owning and maintaining a site while seeking permits and financing can become expensive, and shortening that period will reduce costs. The AHO is expected to reduce "carrying costs" by shortening the period between site purchase and construction start. Carrying costs include property taxes, insurance, snow removal, fencing, security, pest control, and the cost of predevelopment and/or acquisition period financing. CDD estimates that the annual cost of holding a site for an affordable rental housing development while the affordable housing provider secures permitting and assembles financing ranges from \$65,000 to \$80,000. The Trust frequently provides acquisition financing at no cost which allows a project to avoid incurring significant borrowing costs annually. If the Trust were not to provide funding for all acquisition costs, annual carrying costs could easily exceed \$200,000 with loan interest, depending on the price of the site and the terms of the financing. Affordable housing providers often must hold a site for at least a few years while permitting approvals are sought and financing is secured. In cases where approved permits are appealed, the carrying period may be much longer and the cost of defending the permit can add hundreds of thousands in additional costs. The AHO would significantly reduce the risk of incurring added costs by streamlining the permitting process so that affordable housing developments could get underway sooner and avoid costly appeals.

Furthermore, there are a number of specific costs which would likely be reduced for projects developed under the AHO. For instance, it is estimated that the AHO would reduce legal and design costs, and eliminate other costs related to comprehensive permit applications which could potentially result in significant additional cost reductions.

Affordable Housing Provider Capacity

The AHO would help affordable housing providers optimize their capacity by allowing them to use their limited staffing and organizational resources to complete new affordable housing more quickly. Affordable housing providers now must devote significant staff capacity

and resources to guide a single project through a multi-year review and permitting process. Housing providers often do not have the staffing or financial resources or capacity to take on the risks of several projects while navigating the path to construction. Under the AHO, housing providers would be able to move developments into construction more quickly. Construction start is the milestone at which housing providers can access funding for a project from non-Trust sources, and when they can recoup the substantial resources they have invested to take a development project from concept into construction. The more quickly and effectively affordable housing providers can move projects into and through the development process, the more housing they will be able to create.

Recent Examples

Affordable housing providers are continually searching in the market for opportunities to create new affordable housing. Only one in ten opportunities considered typically result in a successful purchase. In some cases, offers made by housing providers are rejected for being too low. In other cases, potential sites are determined to be not worth pursuing due to higher than feasible asking prices and/or anticipated permitting challenges which make opportunities too risky to pursue.

The AHO is intended to increase the number of sites where new affordable housing development would be feasible by unlocking potential sites which currently would be too expensive or risky to pursue. For instance, the Assessing Department looked at 2018 market sales under both the City's current Zoning Ordinance and the proposed AHO to determine which 2018 market sales would have been potentially competitive for affordable housing projects if the AHO had been in place.

The Assessing Department considered parcels to be potentially competitive if they met the following three criteria:

- market sales price was \$200,000 or less per developable unit;
- the sale property had a lot size at or above the minimum lot size for necessary development in its zoning district; and
- 6 or more units could be built on the site.

Based upon these three criteria, the analysis indicated that 45 of the 227 sales that were potentially competitive sales, or 20%, could have had an acquisition price below \$200,000 per unit, which is considered to be the maximum acquisition price to make a competitive offer as a 100%-affordable housing development. The actual acquisition price per unit that has been paid for recent affordable housing projects in the City has ranged from \$102,000 to \$168,000 per unit. Under this analysis of potentially competitive sales the median acquisition price per unit was \$134,100 per unit under the AHO, compared to \$575,000 per unit with the existing zoning applied.

The table below demonstrates the neighborhood distribution of 2018 market sales in each of the Assessing Department’s residential assessing districts. The numbered columns contain the following corresponding information:

1. **Assessing District and Description** column notes the Assessing Department’s residential assessing districts;
2. **2018 Market Sales** column notes the number of market sales within each district in 2018;
3. **Potentially Competitive Sales under AHO** column indicates the number of sales that meet the three criteria listed above and could be considered as possible affordable housing sites; and
4. **The Percent Potentially Competitive** column is the calculation of the percent of 2018 market sales that were potentially competitive under the AHO by residential assessing district.

Table 1 - Sales Analysis by Neighborhood

1. Assessing District and Description	2. 2018 Market Sales	3. Potentially Competitive Sales Under AHO	4. Percent Potentially Competitive
R01 - East Cambridge	30	1	3%
R02 - Wellington-Harrington/The Port	14	3	21%
R03 - Mid-Cambridge	24	1	4%
R04 - Trowbridge Hill Area	7	1	14%
R05 - Professor's Row	2	2	100%
R06 - Washington St/Avon Hill	9	2	22%
R07 - North Cambridge	37	9	24%
R08 - Concord Ave/Fenno St	12	4	33%
R09 - Coolidge Hill	5	4	80%
R10 - Brattle Street Area	7	4	57%
R11 - Mt Auburn St	7	N/A	0%
R12 - Riverside	18	3	17%
R13 - Cambridge Port	15	3	20%
R14 - Huron Village	12	3	25%
R15 - Grove St	1	1	100%
R16 - Agassiz	10	1	10%
R17 - Porter Square	17	3	18%
Grand Total	227	45	20%

The above analysis indicates that if the AHO had been in place in 2018, a competitive offer for 100%-affordable housing development could have been made on about 20% more potential sites where new affordable housing could have been feasible. This percentage would likely be reduced when considering site specific constraints, such as very large sites, commercial properties with leases in place and other considerations that may make potential sites infeasible. This analysis does not represent a full site review of the sale properties and does not consider site shape, historic preservation or other factors which would be part of a full development site review.

The table below shows an analysis of possible unit counts by neighborhood under different scenarios. The numbered columns contain the following corresponding information:

1. **Assessing District and Description** column notes the Assessing Department's residential assessing districts;
2. **Potentially Competitive Sales under AHO** column indicates the number of sales that meet the three criteria listed above and could be considered as possible affordable housing sites;
3. **Median Existing Residential Units** column shows the number of approximate existing residential units on the site at the time of the sale in 2018 (sales with commercial use are excluded);
4. **Median Number of Units Per Site Under Current Zoning** column gives an indication of the estimated number of potential units that could be built under the current zoning;
5. **Median Units Under Current Zoning Multiplied by Sites** column is the result of multiplying the potentially competitive sales under AHO (Column 2) by the median number of units per site under current zoning (Column 4) to give an estimation of the total number of potential units that could be created under the current zoning;
6. **Median Number of Units Per Site Under AHO** column indicates the median number of estimated units that could be built on the 2018 sales parcels that were potentially competitive under the proposed AHO zoning; and
7. **Median Units Under AHO Multiplied by Sites** column is the result of multiplying the potentially competitive sales under AHO (Column 2) by the median number of units per site under AHO (Column 6) to give an estimation of the total number of potential units that could be created by the AHO overlay.

Table 2 - Median Unit Analysis by Zoning

1. Assessing District and Description	2. Potentially Competitive Sales Under AHO	3. Median Existing Residential Units	4. Median Number of Units Per Site Under Current Zoning	5. Median Units Under Current Zoning Multiplied by Sites	6. Median Number of Units Per Site Under AHO	7. Median Units Under AHO Multiplied by Sites
R01 - East Cambridge	1	0	21	21	38	38
R02 - Wellington-Harrington/The Port	3	6	7	21	30	90
R03 - Mid-Cambridge	1	2	8	8	34	34
R04 - Trowbridge Hill Area	1	3	7	7	20	20
R05 - Professor's Row	2	1	3	6	33	66
R06 - Washington St/Avon Hill	2	1	3	6	32	64
R07 - North Cambridge	9	2	3	27	14	126
R08 - Concord Ave/Fenno St	4	2	3	12	11	44
R09 - Coolidge Hill	4	1	2	8	18	72
R10 - Brattle Street Area	4	2	3	12	36	144
R11 - Mt Auburn St	N/A	N/A	N/A	N/A	N/A	N/A
R12 - Riverside	3	5	3	9	10	30
R13 - Cambridge Port	3	2	4	12	13	39
R14 - Huron Village	3	2	3	9	13	39
R15 - Grove St	1	1	2	2	31	31
R16 - Agassiz	1	0	5	5	14	14
R17 - Porter Square	3	3	3	9	12	36
Grand Total	45	N/A	N/A	174	N/A	887

This total is estimated to be 887 potential units, as compared with 174 units under current zoning, if each of the properties noted as potentially competitive sites under the AHO were able to create the median number of units per site. It should be noted that without doing a full analysis on each sale it is impossible to give an exact number of units which could potentially be developed with the numerous intricacies of site conditions and zoning requirements. Therefore, the chart above takes a high-level view by simply reviewing the square foot land area divided by the maximum number of units allowable under the proposed AHO. In many cases, this would not be attainable when site conditions and zoning requirements such as setbacks, parking and other design requirements are considered, so it should be considered a highest density scenario.

However, the capacity of affordable housing providers and access to funding from state sources would limit the number of new developments undertaken each year. Access to state funding is extremely competitive and CDD would expect that no more than 1-2 developments might be funded by the state each year. The Trust typically expects developers to leverage Trust funds with other public and private funds to maximize the amount of new housing created.

This analysis shows that the AHO would increase the number of opportunities where new affordable housing could be feasible. Due to logistic constraints, a pragmatic estimate of the impact of the AHO is that it could assist in the creation of approximately 100 affordable units each year. This would represent a significant change from current zoning and recent experience of affordable housing providers looking for opportunities in the market.

More specifically, the following are a few examples of sites which were assessed by affordable housing providers for affordable housing development which did not go forward:

- 6,000 s.f. parcel in a main corridor with an older one-story commercial building: The City learned that the owner of this property was looking to sell this site for redevelopment with the stipulation that the ground floor be retained and redeveloped as non-residential space to be used by the current owner. The City asked a local housing provider to assess its feasibility for affordable housing. The affordable housing provider envisioned a need to create four stories of housing over the ground floor space for the project to be feasible, but determined that the amount of zoning relief, which would include significant reductions in the required parking, and the need to recreate the ground floor space, made the site too risky and complicated to pursue. Had the AHO been in place, as proposed, the affordable housing provider could have been more confident in pursuing the site as they could have been able to add additional stories over the ground floor space to support the acquisition costs (including the costs to rebuild the ground level space) and benefit from reductions in parking and other requirements. This site has not yet sold but is under contract with a market-rate developer.
- Existing 6-unit multifamily building on a 12,000 s.f. lot in a residential neighborhood: this property was offered for sale with an asking price of \$4.25 million, or more than \$700,000 per unit. The City and a local affordable housing provider looked at the feasibility of purchasing the site for affordable housing. To be feasible, the plan would have required reconfiguring the existing building and adding new units by adding to the existing building. The property is adjacent to two larger buildings and contains a large paved parking area. The affordable housing provider envisioned a 21-unit development which would involve preserving and rehabbing the existing building and building a new four-story residential building on the existing rear parking lot. The plan would have allowed for nine parking spaces. In the end, the affordable housing provider declined to pursue the site as it was deemed too risky given the level of zoning relief required. The site sold for more than the asking price. Had the AHO been in place, the envisioned project could have been feasible with acquisition costs at the selling price.
- Episcopal Divinity School (“EDS”) Residential Campus: this site contains six existing historic buildings on a large property and was offered without an asking price. The City

worked with an affordable housing provider to assess the site's feasibility for affordable housing. CDD estimated that approximately 40 affordable units would have been needed to support the acquisition assuming that existing buildings were preserved and/or relocated. A smaller development would have been feasible but would have required some demolition of existing buildings. However, in examining the extent of zoning relief that would have been needed and the concerns expressed by the public when the idea of exploring the site for affordable housing was endorsed by the City Council, the affordable housing provider deemed the project too risky given the likely challenges to permitting and uncertain development period risk associated with this project. The EDS ended up entering into a long-term lease agreement with an option to purchase with undisclosed terms. Had the AHO been in place, a feasible development could have been allowed as-of-right.

- 15,000 s.f. commercial/industrial site near Inman Square: this site was put on the market with an asking price of \$5 million. An affordable housing provider envisioned a plan to create 27 affordable units on two adjacent parcels. However, zoning limited the development potential to 9 units, which would mean an acquisition cost of more than \$500,000 per unit, making the site infeasible for affordable housing. The non-profit housing provider thought that it could reasonably obtain zoning relief to build 16 units, and made an offer of \$3.2 million for the site, or \$200,000 per unit, while also attempting to negotiate with the seller an option to increase the price if they were successful in obtaining approval for more than 16 units. However, the owner opted to sell one of the parcels to a more conventional buyer on more simple terms. Had the AHO been in place, the non-profit could have developed its 27-unit affordable at an acquisition cost of \$185,000 per unit at the asking price.
- 12,000 s.f. parcel in a main corridor with an older one-story commercial building: this site was offered without an asking price. An affordable housing provider made several offers but was unable to secure the site. Under current zoning, up to 27 units could be created on the site, while the housing provider expected to need more than 40 units to make a feasible project. While the site sold in a non-arm's length transaction, the affordable housing provider was told the offer to beat was in the range of \$7.1 million, or \$263,000 per allowable unit — more than would be feasible for affordable housing. Had the AHO been in place, the affordable housing provider could have bid in the range of the prevailing offer knowing that there could have been a feasible development to support the purchase price.

The sites which affordable housing providers have been able to secure have been either purchased for a reasonable price, and/or presented opportunities that outweighed the substantial risk of permits not being obtained. In the past 5 years, sites for 3 new developments have been acquired on the open market, Concord Highlands, Frost Terrace, and 2072 Massachusetts Avenue. The development process for affordable housing providers is lengthy, complicated, resource-intensive, and involves a certain amount of risk. As a result, affordable housing providers prefer to purchase sites which can be developed without a need for zoning relief, as protracted permitting processes can deplete their resources. Expanding the number of

opportunities where affordable housing development is feasible will allow them to better use capacity and resources to produce more housing more efficiently.

2. What are the implications of the proposed AHO on the City's housing stock, including demolition of existing homes and potential displacement of existing tenants, and what is the net number of affordable units and types of projects that will be created under the AHO per year?

Implications on Housing Stock

With the significant increase in funding for the Affordable Housing Trust, which will receive more than \$20 million annually beginning in FY2020, we now estimate that the Trust could fund the creation of 100 units of affordable housing each year. Trust funding is used to create new affordable housing through acquisition of multi-family buildings, condominium unit acquisition, and new housing development. The number of units created will be impacted by access to other public and private funding sources, financing terms, tax credit equity yields and project costs, and reduced if funds are needed to recapitalize or preserve existing affordable housing.

New housing development will continue to be a strategy CDD and the Trust will pursue with or without the AHO. The Trust has used its funding to create an average of approximately 60 new affordable units per year over the past three years. With the commitment of the additional \$20 million funding per year to the Trust and if the AHO is enacted, it would be easier for the City to reach its target goal of creating 100 affordable housing units per year with funding from the Trust. Developing new housing with the benefit of the AHO would allow for new housing to be created more quickly and cost effectively as described above. There are an estimated 54,713 housing units in the city. There are 8,117 regulated affordable units in the city. Increasing this total by 100 units each year would represent a 1.2% annual increase in the stock of deed-restricted affordable housing units.

The type of units created under the AHO will depend on particular opportunities that are available and pursued under the AHO. However, given the City's strong priority to create units for families, we would expect a significant number of new units to be two- and three-bedroom units.

Building Demolition

It is also difficult to predict whether or how many existing buildings might be demolished as part of AHO redevelopment projects. The AHO proposal contains incentives for preserving historic structures, including reductions in required parking and flexibility in the reuse of existing non-conforming buildings. Affordable housing developers have completed many successful projects in partnership with the Cambridge Historical Commission to preserve, adapt, and reuse existing historic buildings as affordable housing. This approach would continue where feasible. Where demolition of existing buildings might be preferable, affordable housing providers will be

required to follow the City's Demolition Delay Ordinance and other applicable preservation requirements as noted below.

Resident Displacement

Displacement of residents is not anticipated to be a concern for sites that are developed under the AHO. Affordable housing providers build housing to help residents who are at-risk of being displaced in the market stay in the city. When residents do need to move to accommodate building rehab or construction, affordable housing providers provide ample notice, assistance with relocation (often to other units in their portfolio), and the right for eligible residents to return when construction is completed.

3. Provide information on the urban design guidelines and form-based zoning requirements for the proposed AHO, including potential building massing and heights that would be allowed, examples of representative building and site designs, and what the scale of potential building in relation to surrounding structures would be, by zoning district.

CDD has been working to create digital 3D models illustrating the proposed development standards on prototypical sites, showing the potential scale and massing of buildings in relation to typical Cambridge contexts. This work will be presented as part of the upcoming public hearings on the zoning petition at the Planning Board and Ordinance Committee. Materials for the upcoming public hearings are posted on the web on the following site: <https://www.cambridgema.gov/CDD/zoninganddevelopment/Zoning/Amendments>. CDD is also engaged in the development of design guidelines that would supplement the proposed standards in the AHO zoning, which will continue to be discussed and refined through the work of the Planning Board and Ordinance Committee.

4. Provide information on what changes the AHO would allow in designated historic and neighborhood conservation districts.

The proposed AHO would be a citywide zoning overlay which would allow the construction of 100% affordable AHO Projects and would set the zoning requirements for these projects. However, the AHO only regulates zoning requirements, and AHO Projects would be required to comply with all other applicable federal, state and local laws, rules and regulations.

Therefore, proposed AHO Projects located within a Historic District or Neighborhood Conservation District, would be subject to Cambridge Historical Commission or a Neighborhood Conservation District Commission review, pursuant to G.L. c.40C and Chapter 2.78 of the Municipal Code. If a property that is proposed for an AHO Project is designated as a Landmark, pursuant to Chapter 2.78 of the Municipal Code, it would also be subject to Historical Commission review. Additionally, all buildings in the City which are in whole or in part fifty years or more old remain subject to the City's Demolition Delay Ordinance, Chapter 2.78, Article II of the Municipal Code. Therefore, all proposed AHO Projects that would require a demolition permit to conduct the demolition of buildings that are at least fifty years old would

need to apply to the Historical Commission for review. In all of these instances, the fact that the proposed project is an AHO Project does not alter a developer's obligation to comply with laws relating to the Historical Commission's or a Neighborhood Conservation District Commission's review.

5. Provide information on the environmental implications of the proposal, including green space, open space, tree canopy, stormwater management, urban heat island considerations, flooding, and the potential for building to net zero standards.

The AHO does not propose to change any of the current environmental performance standards in the Zoning Ordinance that would apply to residential projects, and as noted above, other codes and regulations would not be changed. Some current environmental performance standards include green building requirements, stormwater management standards, and flood protection standards. The Climate Resilience Zoning Task Force, which was formed to investigate zoning standards that could help mitigate flooding and heat impacts from climate change, will meet through the end of this year and is expected to produce recommendations that would apply to all types of development, including affordable housing.

With regard to open space, there is a proposed change in the standards for the most restrictive residential zoning districts, where the minimum percentage of open space on a lot could be reduced from 36-50% (depending on the district) to a minimum of 30%. The minimum percentage of open space could be further reduced to no less than 15% if the reduction is to facilitate the provision of on-site parking or the preservation of a historic building on the site. These tradeoffs could be evaluated further depending on the priorities of the Council.

6. Provide information on the implications of the proposed AHO on small businesses, including risk of retail/commercial tenant displacement and opportunities to prevent such displacement.

The proposed AHO would allow non-residential uses on the ground floor that are permitted in the base zoning district, so in business districts ground-floor retail could be included in an AHO Project. Moreover, AHO Projects would be required to include such ground-floor uses in business districts if there was a former retail use on the site and if there is retail on an adjacent site, in order to ensure continuity where there is a pattern of storefronts. Current zoning only requires ground-floor storefronts in a limited set of zoning districts.

Although zoning can encourage, and in some cases require, space to be made for storefronts at the ground floor, it cannot ensure that a particular retail tenant, or even any tenant at all, would find the space viable for a business. Traditional brick-and-mortar stores are facing many challenges in a changing retail market. The City's 2017 Retail Strategy recommends greater flexibility in regulations so that businesses can experiment, and new retailers can thrive with innovative formats.

Affordable housing providers have some experience in creating active ground floor retail space. In these cases, the biggest challenge has been to identify retailers to occupy the completed space. In cases where new retail space was created on a site that had a former retail

use, affordable housing providers could work with commercial tenants to explore how these businesses might return to new space.

Very truly yours,

A handwritten signature in cursive script that reads "Louis A. DePasquale".

Louis A. DePasquale
City Manager