INCLUSIONARY HOUSING STUDY GLOSSARY

AMI (Area Median Income): This is the midpoint household gross income for a specified geographic area. Determined by the US Department of Housing and Urban Development (HUD) annually. Income limits for housing programs are often expressed as a ratio of the Area Median Income (e.g. 80% of AMI).

Cap Rate (Capitalization Rate): Cap rate is a method used to evaluate a real estate investment. It is the rate of return on an investment based on the income the property produces. Between high sales prices make low cap rates. In strong markets, such as Cambridge, cap rates tend to be lower due to the strong market conditions. It is calculated as the ratio between the net operating income and the value of the property.

Cost Burden: Households are considered cost burdened when paying more than 30% of income for housing. Housing is considered affordable when a households pays 30% or less of household gross income for housing costs. Households paying more than 50% of income are considered to be severely cost burdened.

Debt Coverage Ratio (DCR): DCR is a measure of how much income is needed to pay monthly mortgage payments from the operating income generated by a property. It is calculated by dividing the property's net operating income by its debt service. A debt coverage ratio of 1.0 means that there is just enough cash flow to pay the operating expenses and mortgage payments. Banks set requirements for debt coverage ratios when approving loans for new housing developments.

Capitalized Value: The value of the property, based on the total income expected over its economic life span.

Covenant A covenant is the recorded legal document that outlines the inclusionary and affordability requirements for a property. It remains on the property for the life of the building.

Density Bonus: A zoning tool that allows developers to build more units and FAR than normally allowed, in exchanged for a public benefit, such as a percentage of affordable units.

Development Impact Fees:	A fee assessed by local governments on new development projects to pay for all or a portion of costs of providing public services for a new development.
Equity:	Equity is the difference between the market value of the property and the amount of mortgage loans owed on the property.
FAR (Floor Area Ratio):	FAR is the relationship between the total amount of useable area of a building to the size of the lot on which the building is built.
Feasiblity Study	A feasibility study or analysis assesses whether a proposed policy or requirement is practical and achievable.
FMR (Fair Market Rent) and HMFA (HUD Metro FMR):	HUD annually publishes rents estimated for modest rental units in specific Metropolitan Statistical Area looking at ratio of median rents in the area.
Hard Costs	Development costs related directly to physical construction.
HOA fees (Homeowner Association dues):	Fees that are paid monthly by owners of condominiums to fund maintenance and improvements for the property. These are also commonly referred as condominium fees.
Housing Tenure:	Tenure describes the legal status under which households have a right to occupy their unit. Most frequently, this refers to either owner-occupancy or rental housing.
Income Target:	In the context of the inclusionary study, the income target is generally the midpoint between the low and high ends of the income eligibility and is used when determining sale prices for affordable ownership units and as a benchmark for describing the overall affordable rents in a property of affordable units**.**
Low Income:	Defined by HUD as earning at or below 80% of Area Median Income (AMI) for household size.
Low Income Housing Tax Credit:	This is a federal program that is the largest source of subsidy for new affordable rental projects. Tax credits are issued by the Federal government and are awarded to states based on population. The state awards the credits to rental housing projects on a competitive basis. Credits are sold to investors who can use them to reduce their tax burden. Proceeds from the sale are used as equity for affordable housing development.

Middle Income:	While there is no standard federal definition of middle-income, it is generally defined as households earning between 80% and 120% of Area Median Income (AMI) for household size.
Moderate Income:	Earning between 60% and 80% Area Median Income (AMI) for household - size. Sometimes defined as up to 95% AMI.
NOI (Net Operating Income):	NOI is a calculation of all the income earned from the property less all operating expenses.
RLV (Residual Land Value):	RLV is an analysis method to determine the likelihood of property development by looking at the potential income of the property and subtracting the costs of the development and assumed return on equity to get the underlying value of the land. This value is compared to market land values to determine the likelihood of a feasible development.
ROE (Return on Equity):	ROE measures the amount of an assumed return from operating income as a percentage of the amount of an equity investment in a property. It is used to evaluate the profitability of a development and can be used to gauge development feasibility when compared to other available investment options.
Set Aside:	In the study, the set aside refers to the percentage of units in a property that will be designated as affordable inclusionary units.
Soft Costs:	The costs to develop a property that are not directly connected to construction. These include costs for architecture, engineering, legal, taxes, insurance, financing, and marketing.
Stabilized Net Operating Income:	Projected NOI (income less expenses) that are adjusted to reflect equivalent of stable property operations.
TDC (Total Development Cost):	The sum of all costs for the development of a property such as site acquisition, demolition, construction, soft costs, construction loan interest, and carrying charges.
Utility allowance:	An amount is deducted off a household's monthly rent for utilities that are paid by the tenant. The amount is based on a schedule that is set by the Cambridge Housing Authority.
Very Low Income:	Defined by HUD as earning at or below 50% of Area Median Income (AMI) for household.