



CITY OF CAMBRIDGE

Community Development Department

To: Planning Board

From: Community Development Department (CDD) Staff

Date: June 22, 2022

Re: **Incentive Zoning Rate Increase Zoning Petition**

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Overview

Petitioner: City Council

Zoning Articles: 11.000 (Special Regulations)

Petition Summary: To amend Article 11.000 of the Zoning Ordinance by substitution with the following text: "(b) Housing Contribution Rate. The Housing Contribution Rate effective upon ordination shall be thirty-three dollars and thirty-four cents (\$33.34) per square foot of Gross Floor Area devoted to the uses that qualify the new development as an Incentive Project. The effective rate shall be subject to annual escalation equal to annual percentage increases in the Consumer Price Index (CPI) Housing Index for Boston-Brockton-Nashua, MA-NH-ME-CT or similar index to reflect changes in dollar values over time; however, annual decreases in CPI shall not cause the contribution rate to be decreased. The table below is intended to administratively track changes to the Housing Contribution Rate as it is adjusted over time."

Planning Board Action: Recommendation to City Council

Memo Contents: Summary of the proposed zoning, background information on the topic of the Petition, and considerations and comments from staff

Summary of Petition

The Petition proposes to amend the Incentive Zoning provision in the Zoning Ordinance by increasing the Housing Contribution Rate from the current rate of \$21.02 per square foot to \$33.34. The Petition does not propose any substantive changes to Incentive Zoning provisions beyond the rate increase.

Incentive Zoning in Cambridge

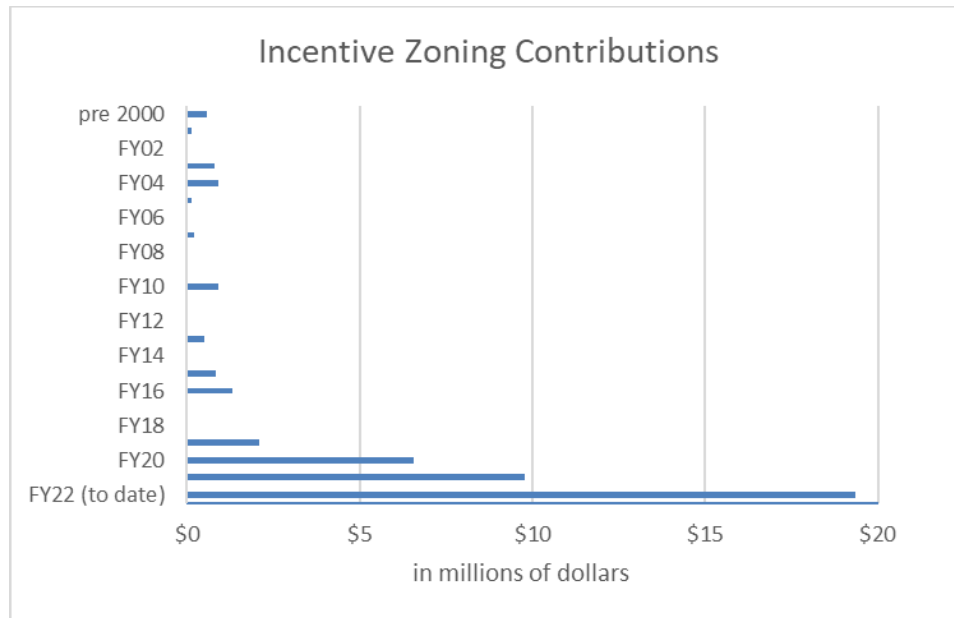
The City of Cambridge first established an Incentive Zoning Ordinance (IZO) in 1988. The purpose of the zoning is to meet the City’s goal of providing a full range of housing choices by mitigating the impacts of non-residential development on the need for housing that is affordable to low-, moderate-, and middle-income households. As such, the zoning requires developers to make a financial contribution to mitigate the impact of new office, research and development, and retail space on housing demand from low-, moderate-, and middle-income workers in these buildings who will need housing that is affordable to them.

In 2015, the City Council amended the IZO to expand its application to most non-residential development projects over 30,000 square feet, increase the housing contribution level, and clarify that an annual inflation adjustment of the contribution rate would be made based on the Consumer Price Index (CPI). This amendment also added a provision to allow for the City to review and update its housing contribution levels every three years through a nexus study. The study quantifies the impact of future non-residential development on the demand for affordable low-, moderate-, and middle-income housing in Cambridge and recommends any necessary changes to the housing contribution rate to mitigate these impacts.

Currently, the Incentive Zoning provisions apply to new development that consists of at least 30,000 square feet of Gross Floor Area devoted to non-residential uses, including hotels, offices and laboratories, retail establishments, industrial uses, college/university uses, health care facilities, social service facilities, and noncommercial research facilities. “New development” includes the construction of new buildings or additions to existing buildings, the substantial rehabilitation of existing buildings, and a change in use from an exempt use to a non-exempt use.

Incentive Zoning Funds

Financial contributions generated by Incentive Zoning are made to the Affordable Housing Trust (“the Trust”). Housing Contributions are calculated when a building permit is issued and made when developments are completed. The below chart shows the amount of money that the Trust has received from Incentive Zoning Housing Contributions per fiscal year in millions of dollars:



This chart shows that the amount of funding generated by Housing Contributions increased significantly after the 2015 Incentive Zoning amendments took effect. The first development subject to the revised Incentive Zoning provisions was completed in FY19, and the total amount of Housing Contributions made since that time are now \$44,366,047. This compares to the \$6,426,630 which was received in Housing Contributions under the provisions prior to the 2015 amendment. Since initial adoption, the Incentive Zoning provisions have generated \$50,792,677 in Housing Contributions.

2019 Nexus Study

The most recent [Incentive Zoning nexus study](#) was prepared by Karl F. Seidman Consulting Services in December 2019. The study calculates what is called a “maximum determined rate” by determining the amount of money that would be needed to subsidize the creation of affordable housing needed to meet the demand for housing among low-, moderate-, and middle-income workers created by the amount of new development projected in the city over the next 10 years. The analysis found that the rate to fully cover the City's share would be \$33.34 per square foot of new development.

The study did not recommend adopting the maximum determined housing contribution rate because it would be far higher than similar rates in Boston and Somerville, and significantly increasing development costs and rents would risk the city's regional competitiveness. Housing is a regional issue, and if more development moves to neighboring communities, Cambridge would still experience housing demand without the benefit of the financial mitigation to address that demand. The study also noted that increased development costs are passed on to tenants, meaning increased rents for businesses. The study authors write, “A recommended increase in the contribution rate involves balancing public policy goals and considering both the needs to address increased demand for affordable housing and the potential impacts of an increased rate on the city's future development.”

The study recommended increasing the housing contribution rate by \$6 over four years, with an initial increase of \$2 followed by annual \$1 increases. This would have entailed increasing the then-current rate of \$17.10 to \$19.10 in 2020 followed by \$1 increases in 2021, 2022, and 2023. The study also recommended continuing with the current practice of adjusting the rate annually to account for increases to the CPI. The study concluded that the \$6 increase combined with the annual CPI adjustments would bring the housing contribution rate close to the midpoint between the current rate and the maximum determined rate over the next several years without sacrificing Cambridge’s competitiveness in a regional real estate development market.

Following the last nexus study, in January 2020, the City Council voted to increase the Housing Contribution Rate by \$3 from \$17.10 to \$20.10. No additional increases were enacted since that time, but the rate has been CPI-adjusted twice since the last City Council amendment. The current rate as of November 30, 2021 is \$21.02 (see memo [here](#)). The following chart tracks changes in the Housing Contribution Rate since the 2015 amendment:

Effective Date	Housing Contribution Rate
September 28, 2015	\$12.00 per square foot.
September 28, 2016 (Annual Adjustment)	\$13.00 per square foot.
November 16, 2016 (CPI Adjustment)	\$13.50 per square foot.
September 28, 2017 (Annual Adjustment)	\$14.50 per square foot.
October 18, 2017 (CPI Adjustment)	\$14.95 per square foot.
September 28, 2018 (Annual Adjustment)	\$15.95 per square foot.
<i>November 30, 2018 (CPI Adjustment)</i>	<i>\$16.66 per square foot.</i>
November 18, 2019 (CPI Adjustment)	\$17.10 per square foot.
January 28, 2020 (City Council Amendment)	\$20.10 per square foot.
<i>November 30, 2020 (CPI Adjustment)</i>	<i>\$20.31 per square foot.</i>
<i>November 30, 2021 (CPI Adjustment)</i>	<i>\$21.02 per square foot.</i>

Comparison to Other Communities

The combined housing and jobs linkage fee in Boston is \$15.39 per square foot, of which \$13.00 is dedicated to affordable housing and \$2.39 is dedicated to workforce training. Boston’s incentive zoning, called the Linkage Program, only applies to large scale commercial developments over 100,000 square feet. In Somerville, the combined housing and jobs linkage fee is \$13.98 per square foot, of which \$11.23 is dedicated to affordable housing and \$2.75 is dedicated to job creation and retention. The housing linkage fee applies to non-residential development in excess of 30,000 square feet and the jobs linkage fee applies to commercial development over 15,000 square feet. Boston, Somerville, and Watertown are all currently conducting nexus studies to assess the appropriate rates for these various required contributions.

Community	Housing Contribution Rate (per square foot)
Somerville	\$11.23
Boston	\$13.00
Cambridge	\$21.02