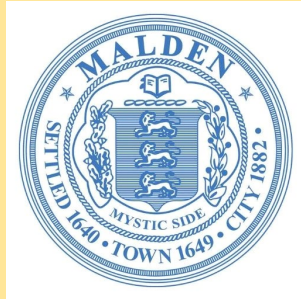


Inclusionary Zoning Feasibility Study



June 1, 2021 Overview

City Council

City of Malden

Inclusionary Zoning Advisory Group

- Craig Spadafora, Malden City Councillor, At Large
- Stephen Winslow, Malden City Councillor, At Large
- Maria Luise, Special Assistant to the Mayor, City of Malden
- Michelle Romero, City Planner, City of Malden
- Deborah Burke, Executive Director, Malden Redevelopment Authority
- Evan Spetrini, Senior Planner, Malden Redevelopment Authority
- Brian Slater, Trustee, Malden Affordable Housing Trust Fund

Definitions

- *“Affordable Housing”*: Housing that costs a households 30% or less of its overall income, generally including utilities, insurance, and other direct housing expenses. Affordable housing is often assumed to be low-income affordable housing but exists at all income levels. While household assets are not usually directly used as a measurement of affordability, the income derived from those assets is considered part of household income.
- *“Below-Market Affordable Housing”*: Affordable housing available for households below the Area Median Income. This is what is often meant when someone refers to “Affordable Housing.” Below-Market Affordable Housing is often calculated based on 50%, 60% or 80% of Area Median Income.
- *“Housing Burdened”*: A household that spends more than 30% of its income on housing costs. In other words, a household that does not have affordable housing is housing burdened.

What is Inclusionary Zoning?

- ✓ Requiring a percentage of units in a new housing development be affordable to households making below a certain income level
- ✓ Usually only applies to developments over a certain size
- ✓ Usually the units are deed restricted to remain affordable at the target income levels
- ✓ Often an option to pay a fee-in-lieu instead of providing units on site
- ✓ Research suggests that land values adjust over time to factor in the cost of a reasonable requirement

What is Inclusionary Zoning?

- ✓ An acknowledgement that new housing development should provide a proportional level of below-market affordability to address:
 - Policy goals
 - Effects on larger market
- ✓ An internal subsidy of the below-market units provided by the development
- ✓ Needs to be supportable with an expected return on investment
- ✓ Can produce units directly or, via fee-in-lieu, fund a Housing Trust to produce other housing units (takes longer, may allow leveraging of resources)

Area Median Income & Permitted Pricing

Area Median Income (AMI) for Malden (2021)

Household Size	1	2	3	4	5
AMI	\$ 84,250	\$ 96,250	\$ 108,313	\$ 120,313	\$ 129,938
80% of AMI	\$ 67,400	\$ 77,000	\$ 86,650	\$ 96,250	\$ 103,950
50% of AMI	\$ 42,125	\$ 48,125	\$ 54,156	\$ 60,156	\$ 64,969

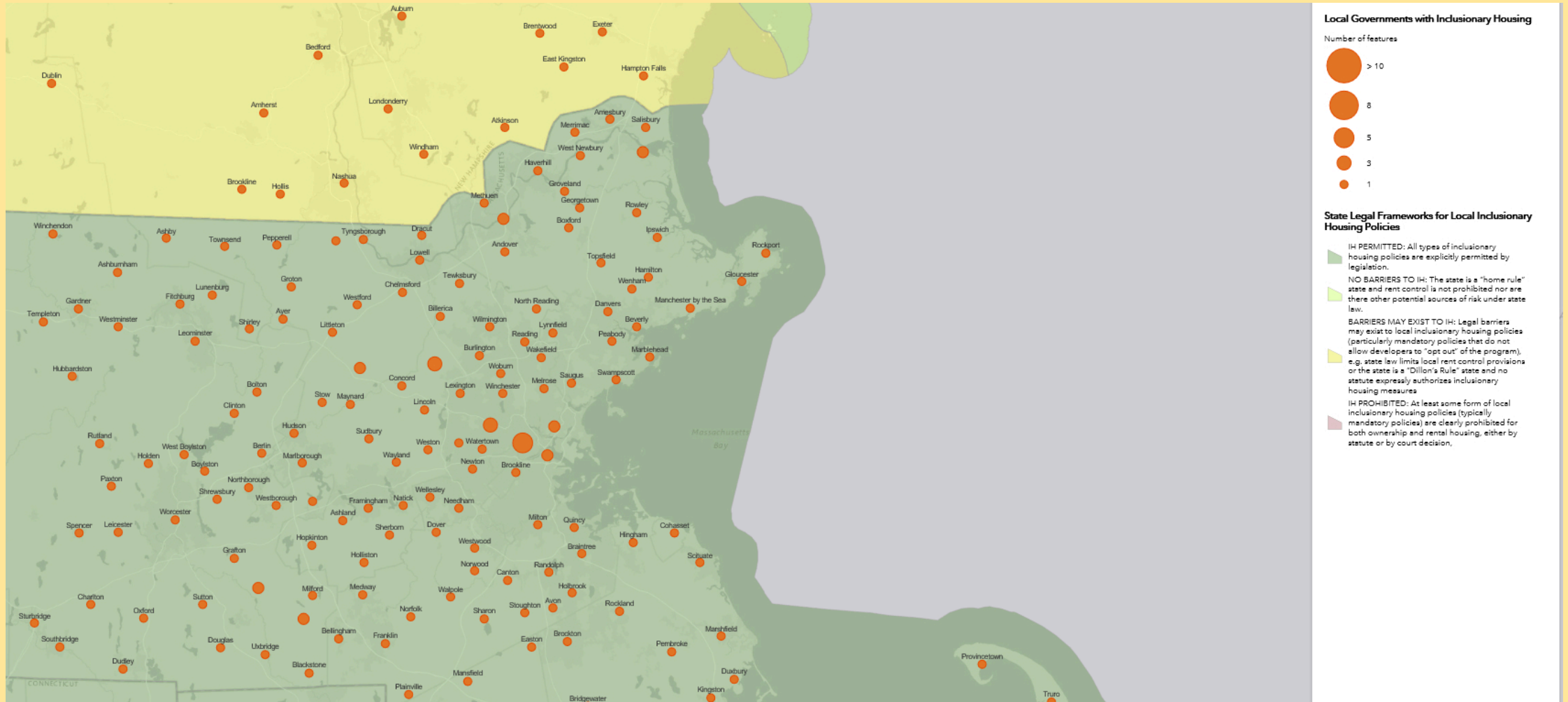
Rents Permitted for Deed-Restricted Units (2021)

Bedrooms	0	1	2	3
Maximum Rent at 100% AMI	\$ 2,106	\$ 2,406	\$ 2,708	\$ 3,248
Maximum Rent at 80% AMI	\$ 1,685	\$ 1,925	\$ 2,166	\$ 2,599
Maximum Rent at 50%AMI	\$ 1,053	\$ 1,203	\$ 1,354	\$ 1,624

Sales Prices Permitted for Deed-Restricted Units (2021)

Bedrooms	0	1	2	3
Maximum Sales Price at 100% AMI	\$ 366,199	\$ 418,357	\$ 470,788	\$ 564,783
Maximum Sales Price at 80% AMI	\$ 292,959	\$ 334,686	\$ 376,630	\$ 451,826
Maximum Sales Price at 50% AMI	\$ 183,099	\$ 209,179	\$ 235,394	\$ 282,391

Inclusionary Zoning in the Boston Region



Scope of Project

1. *Review draft ordinance*
2. *Meet with City and MRA staff to discuss*
3. *Determine study methodology:*
4. *Develop a financial model that allows for feasibility analysis of factors such as the following:*
 - a. *Minimum size of applicable developments*
 - b. *Percentage of Inclusionary units*
 - c. *Income eligibility/maximum rents/sale prices*
 - d. *Homeownership vs. rental tenure*
 - e. *Unit types (studio, 1-bedroom, 2-bedroom, etc.)*
 - f. *Offsite compliance*
 - g. *Formula for fractional in-lieu payments*
 - h. *Potential incentives, including density bonuses, parking reductions, fee waivers, etc*
5. *Draft alternatives and make recommendations to MRA and City for comment*
6. *Hold community meeting to present analysis and alternative recommendations for public feedback*
7. *Finalize report*

Stakeholder Conversations

“Development is very difficult in Malden... the parking requirement is difficult. Downtown can sustain parking garages, otherwise surface lots need to be built that cost money and take up land.” – Market Rate Developer

“The rules [of an Inclusionary Zoning ordinance] should be clear.” – Market Rate Developer

“A density bonus would help a lot” – Market Rate Developer

“Restrictive zoning and political challenges have made developing affordable housing difficult in Malden. Proximity to the T is not enough. There need to be changes to allow for higher density and less parking.” Non-profit Housing Development and Social Service Provider

“Off-site options should be considered. A fee-in-lieu might work if there are sites where the fee can be readily used.” - Non-profit Housing Development/Social Service Provider

“We never have had problems getting tenants for our units, except recently because of COVID” – Manager of Deed-Restricted Below-Market Housing Units

“The rents have gone up a lot in the past 12 years in Malden” – Non-profit Manager of Extremely Low-Income Housing

“Parking is something that all municipalities should be talking about. Today’s parking need is not tomorrow’s parking need.” – Market Rate Developer

“The Inclusionary Zoning tool is very blunt and needs flexibility.” - Market Rate Developer

“Malden wasn’t an easy sell to institutional investors, and not having an affordability requirement helped.” – Market Rate Developer

“Perhaps the overall affordability could be some percentage of overall rent structure, so you could provide a total ‘discount’ but not necessarily on specific units?” – Market Rate Developer

“We would be interested in potential work with the City to use fee-in-lieu payments to develop off-site housing if that decision is made. However, generally the units should be on site.” - Non-profit below-market affordable housing developer

“Mission driven organizations make better managers of units, and can also provide other needed services for low-income tenants.” - Non-profit below-market affordable housing developer

“It’s important to have enforcement of ordinance requirements” – Non-profit below-market affordable housing developer

Financial Model

- ✓ Looked at model proformas for four different theoretical developments:
 - A 15-unit townhouse style or low-rise rental development;
 - A 30-unit mid-rise rental development;
 - A 50-unit high-rise rental development; and
 - A 15-unit townhouse style or low-rise condominium development.

- ✓ While there are a number of variables that can be modified in this model, it is primarily designed to explore:
 - Percentage of below-market units required;
 - Target income levels for those units;
 - Fee-in-lieu options in part or in whole;
 - Varying rates of fee-in-lieu; and
 - How changing other zoning requirements, such as parking requirements, might affect the feasibility of a development.

Base Return on Investment

- **Return on Equity (ROE)** is the cash flow after financing divided by the equity investment. Basically, it is the annual interest rate you are getting as a developer on the money you put into a project. This is very similar to the concept of “return on investment.” For a rental project, the ROE should currently be about four to five percent. For a condominium project, which has a much shorter investment time frame, the return is expected to be much higher. Generally, condominium projects should have an ROE of about forty to fifty percent.
- **Internal Rate of Return (IRR)** is defined as the discount rate at which the sum of the present values of the cash inflows (or returns) exactly equals the cash outflow (or investment.) In other words, this is a way of controlling for the fact that a project may get money in future years and comparing it to money spent in the current year. For a rental project, the IRR should currently be about nine to ten percent. While the IRR is often calculated for condominium projects, it is not generally as useful a concept for the purposes of this model, so we are only evaluating the ROE for that product.

Baseline Returns

	15-unit rental	30-unit rental	50-unit rental	15-unit condominium
IRR Baseline	9.39%	9.75%	6.41%	
ROE Baseline	4.34%	4.56%	3.01%	47.71%

Model Runs

	Alternative 1	Alternative 2	Alternative 3
Percentage of units that must be below-market affordable	15%	15%	20%
Income maximums for those units	80% AMI	50% AMI	80% AMI
Is there a density bonus for inclusionary projects?	No	Yes	Yes
Is parking adjusted for the below-market affordable units?	No	Yes	Yes

Results

		Percentage IZ:		15%	15%	20%
	Baseline	<i>Income Level:</i>	80% AMI	50% AMI	80% AMI	
Density Bonus?			No	Yes	Yes	
Parking Adjustment?			No	1 space per IZ unit	1 space per IZ unit	
15 Unit Rental	9.39%	Change in IRR	-0.85%	☹️	-1.20%	0.17%
	4.34%	Change in ROE	-0.44%		-0.67%	-0.09%
30 Unit Rental	9.75%	Change in IRR	-0.85%		-1.07%	0.26%
	4.56%	Change in ROE	-0.45%		-0.62%	-0.03%
50 Unit Rental	6.41%	Change in IRR	-0.66%		-0.69%	0.23%
	3.01%	Change in ROE	-0.32%		-0.39%	-0.04%
15 Unit Condo	47.71%	Change in ROE	-12.21%		-9.99%	-6.55%
15 Unit Condo¹	47.71%	Change in ROE	-7.29%		-4.75%	0.31%

Orange indicates baseline or changed values that may challenge viability

“IRR”: Internal Rate of Return (see definition above)

“ROE”: Return on Equity (see definition above)

¹ These numbers assume higher income levels for condominium projects (80% AMI rather than 50% AMI, and 100% AMI rather than 80% AMI)



Can it go too far?

Model of 30% Requirement at 50% AMI with parking/density bonuses:

- IRR goes from 9.39% to 5.61% for 15 unit rental project
- ROE goes from 4.34% to 2.31% for 15 unit rental project
- ROE goes from 47.41% to 14.49% for 15 unit condo project
- Similar impacts for other product types
- Likely renders these models infeasible, at least in the short term

How to decide what income levels to target?

- ✓ Policy goals (gaps in the market)
- ✓ Financial feasibility
- ✓ Actual gap between market rents and maximum allowed rents
 - eg. 80% AMI 2 BR allows \$2,166/month vs. estimated market \$2,600
- ✓ Ability to transition to new requirements

Findings

- ✓ The market in Malden can sustain a reasonable inclusionary zoning requirement;
- ✓ In particular, any of the three options will work given rental market conditions:
- ✓ Consideration should be given in all three scenarios to allowing higher income limits for units that are offered for sale;
- ✓ Any new requirement should have an option to pay a fee-in-lieu instead of providing units on site, at least until the City's Housing Trust is adequately capitalized.
- ✓ Fee-in-lieu levels should be set at the approximate cost of providing units on-site unless there is a particular preference for fee-in-lieu, in which case it could be set somewhat lower than that cost;
- ✓ While there may be some initial effects on the real estate market as a result of a new requirement, over time the cost of land is likely to adjust and absorb the cost of providing the inclusionary units.
- ✓ This study looked at developments of 15 units or more. Many new inclusionary zoning ordinances use a minimum threshold of ten units, so that would be a reasonable level to set in a new ordinance for Malden.