

Housing Needs Assessment & IZ Financial Feasibility Analysis

Somerville, MA
November 2025

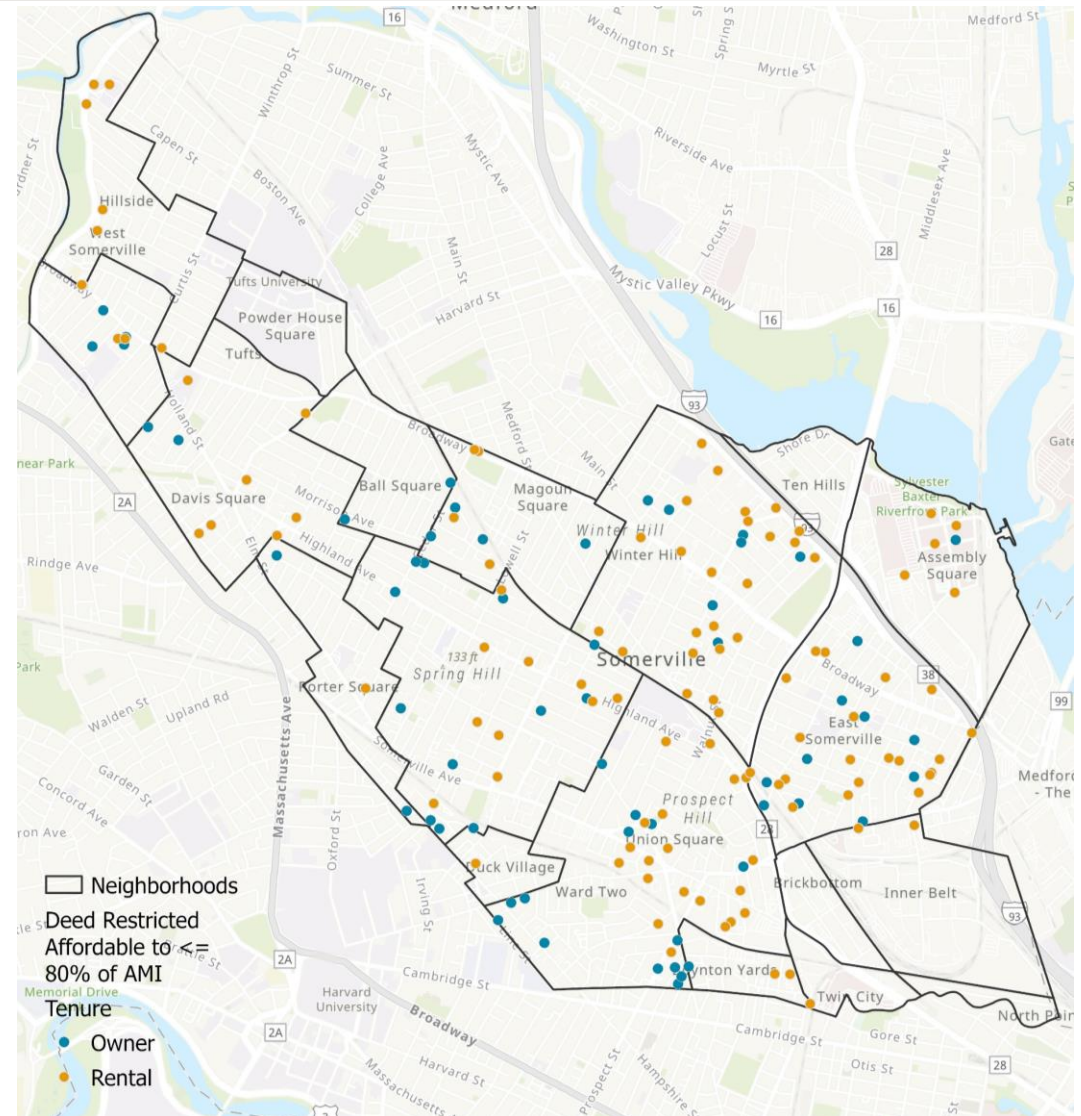
Somerville Housing Needs Assessment

Summary



Needs Assessment Key Insights

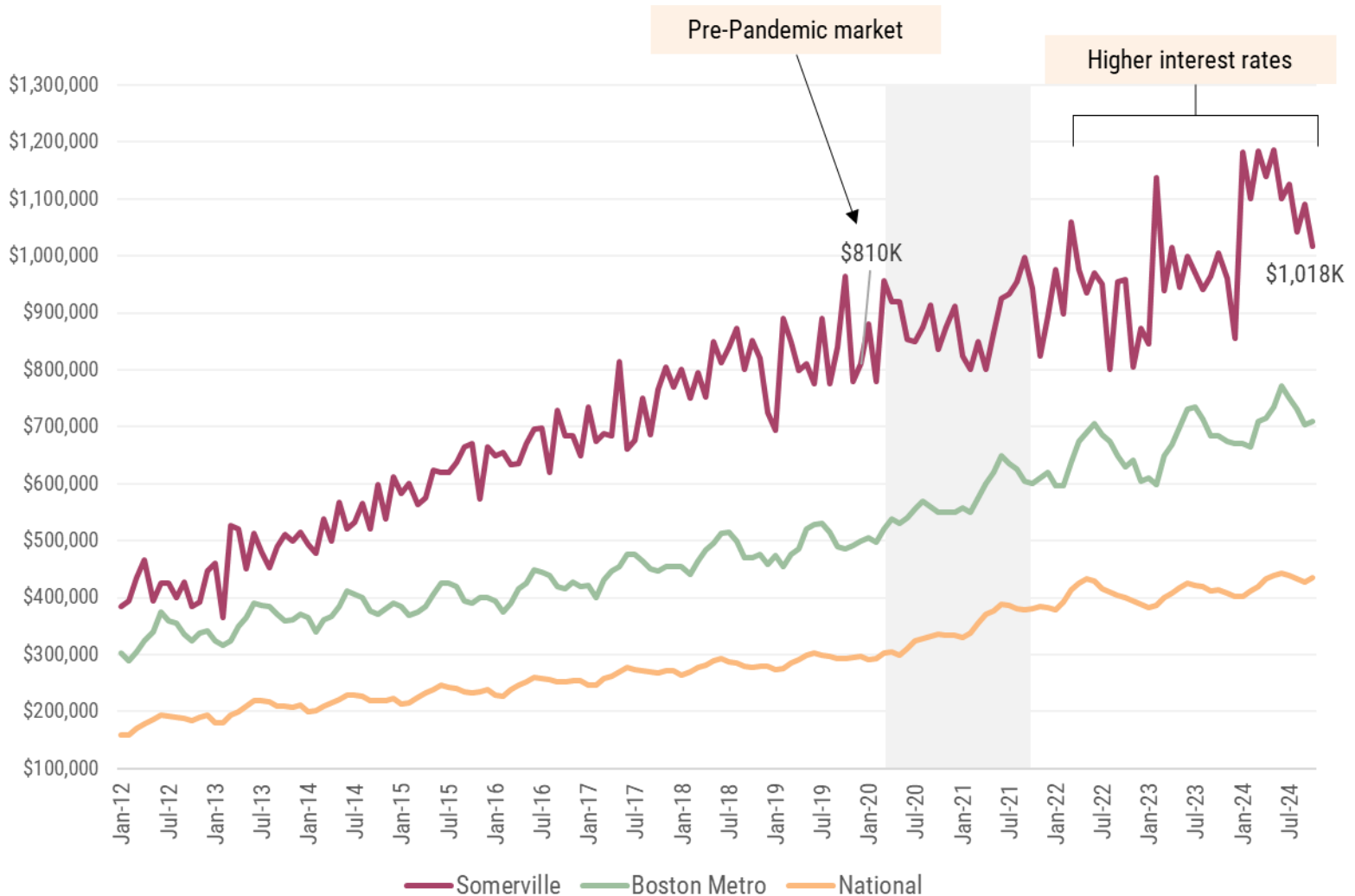
- **Somerville's Affordable and IZ units concentrated in East Somerville**
 - West/north sides underserved comparably
- **However, there are other challenges than unit distribution**
 - Several existing affordability restrictions set to expire, driving need to preserve existing affordability
 - Condo conversion of apartments and luxury development have pushed up housing prices and displacement risks



Needs Assessment Key Insights

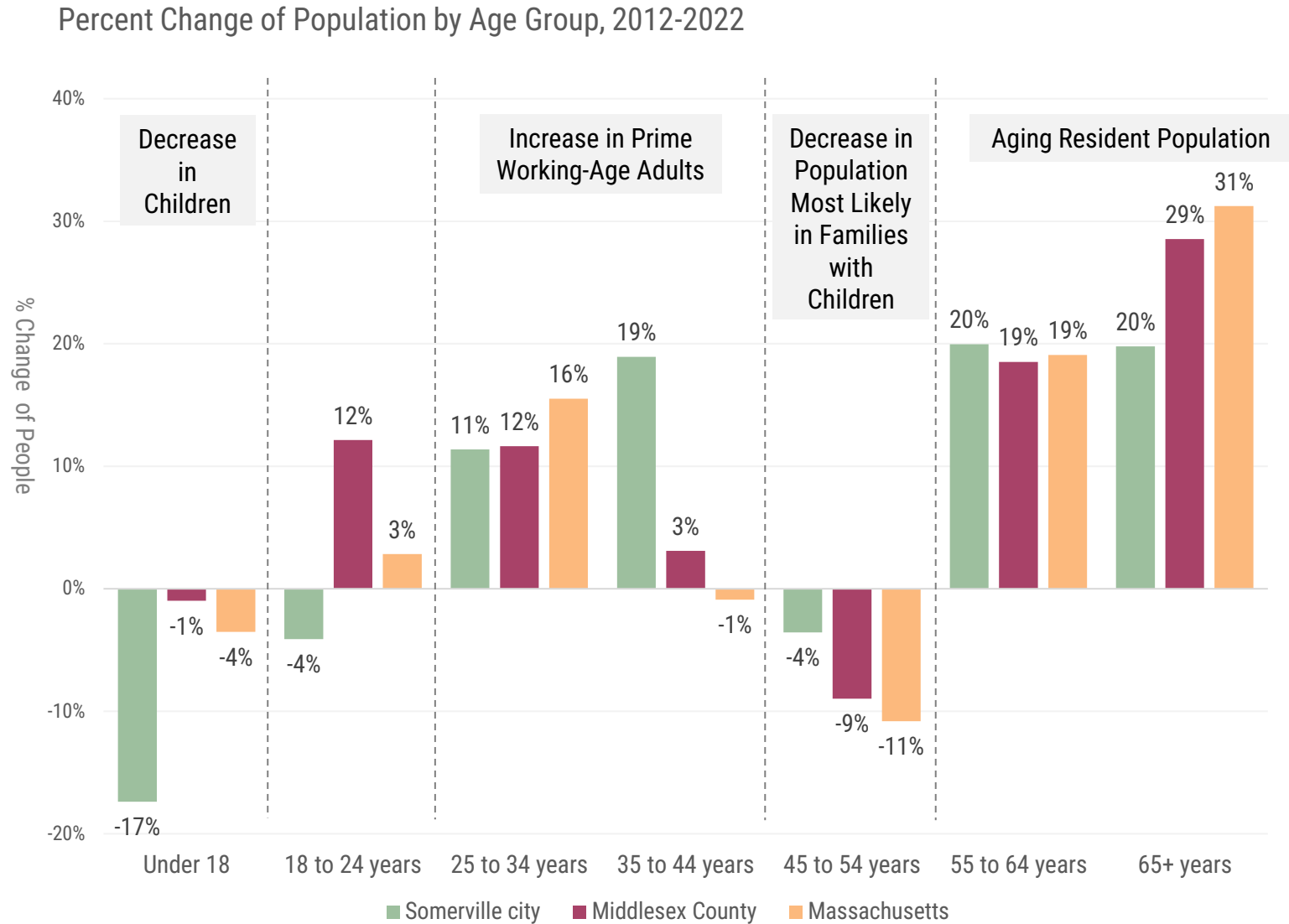
- **The imbalance of supply and demand continues to drive housing costs**
 - Ownership homes are generally out of reach for households $\leq 120\%$ AMI
 - Rent continues to increase faster than incomes
- **Largest shortages in Somerville today**
 - Affordable rentals for households $\leq 50\%$ AMI
 - For-sale homes affordable to households $\leq 120\%$ AMI

Median Sale Price for All Homes (As of Oct. 2024)



Needs Assessment Key Insights

- **Imbalance in housing supply and demand impacting the City's socioeconomic fabric**
 - Family households and households with children are declining
 - Older adults and residents with disabilities are increasing
 - Racial/ethnic diversity declining



Inclusionary Zoning

Financial Feasibility



Current IZ Policy Guidelines

- **The existing IZ policy requires 20% of all units within a new construction residential project be deed restricted**
 - Projects that have at least four units
 - Affordable units need to be provided in three tiers
 - Tier 1 – 50% of Area Median Income (AMI) for rental 80% of AMI for ownership
 - Tier 2 – 80% of AMI for rental 110% of AMI for ownership
 - Tier 3 – 110% of AMI for rental 140% of AMI for ownership
 - Formula determining how the units are divided into the Tiers is complicated, but allocates units between the different tiers
 - There is a fee-in-lieu option to ‘buy out’ of delivering units on-site based on a calculation established by the City

Summary of Findings

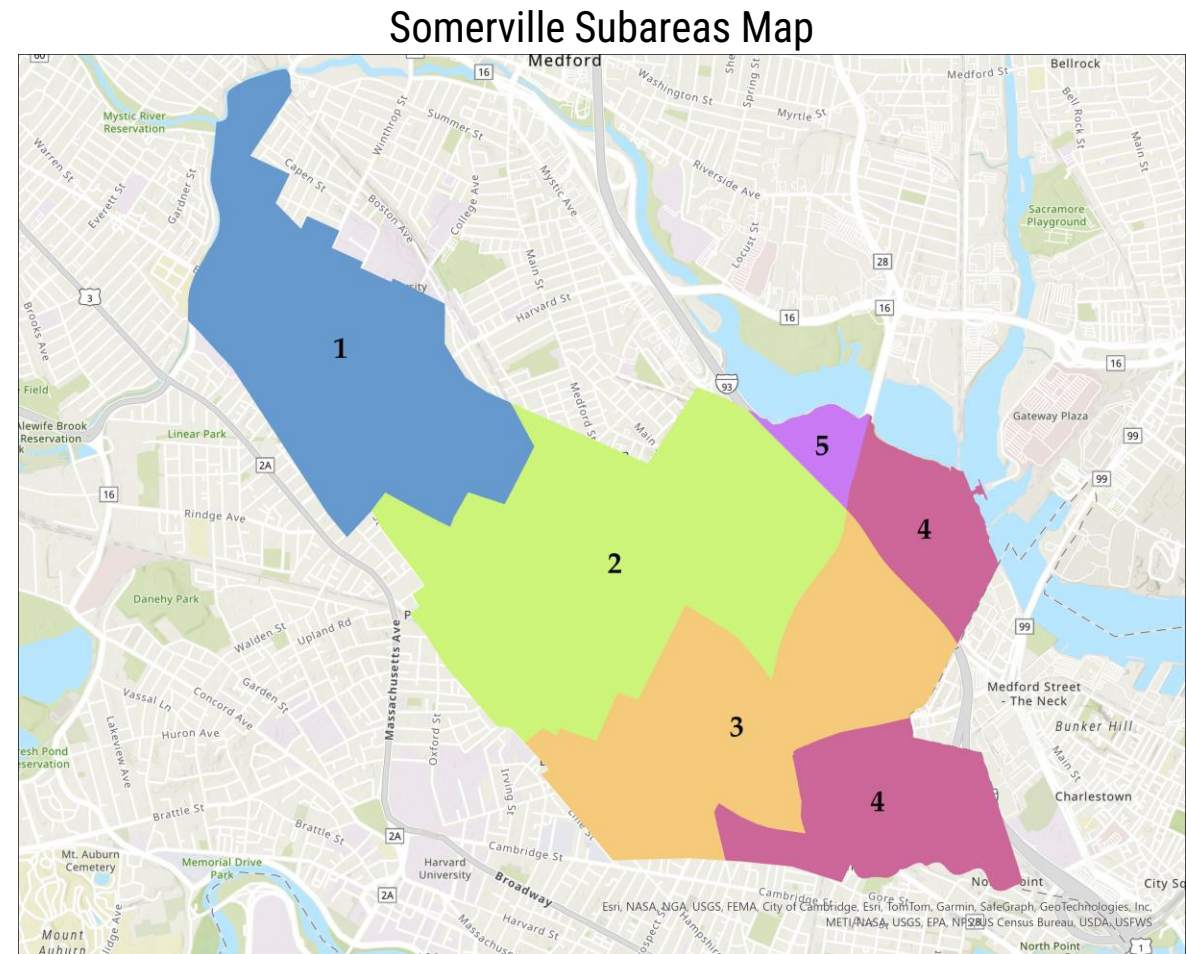
- **Market conditions in the region have made new construction residential development more challenging**
 - Cooling off life sciences industry has reduced demand through a reduction in employment growth
 - Despite demand impacts, costs of development remain high impacting feasibility
 - Strict equity investor expectations are making only the strongest projects feasible
- **Any changes to the IZ policy will require necessary countermeasures to avoid disrupting development**
 - The legacy approach of building on existing policies most likely will undermine development in the near term
 - **Policy decisions need to be made framed by <OR> rather than <AND>**
- **If changes to the IZ are to be made, RKG recommends the City determine one short-term priority and adjust the policy to accomplish that goal**

Scenario Testing

- **The Inclusionary Zoning update analysis focused on two primary questions**
 - How is the IZ policy currently performing under existing market conditions?
 - How will specific policy changes further impact the financial feasibility of development?
- **For the current policy analysis, RKG tested several scale and type scenarios across the City**
 - Market conditions (particularly income potential) vary across Somerville
- **RKG further tested the following policy considerations**
 - Deepening affordability by lowering the target AMI levels
 - Deepening affordability by serving more households earning 30% AMI
 - Expanding access for larger households

Location Definition

- **Market conditions vary within the City, necessitating an analysis that considers location**
- **This effort considered several factors to define the submarket boundaries to use for this analysis**
- **Subarea Neighborhoods**
 - Subarea 1 – West Somerville/Davis
 - Subarea 2 – Central Somerville
 - Subarea 3 – Union Square/East Somerville
 - Subarea 4 – Assembly/Brickbottom/Innerbelt
 - Subarea 5 – Ten Hills



Current Policy Analysis by Subarea

Under the current Inclusionary Zoning policy, how does new construction residential development financially perform by location within Somerville?

Findings

- Financial performance varies across the City
- Areas in west and north Somerville do not reach feasibility
 - Lower revenue potential for market rate units

Subarea	Units per project	IRR	ROC
West Somerville/Davis	15	9.33%	4.71%
Central Somerville		11.24%	5.18%
Union Square/East Somerville		13.61%	5.63%
Assembly/Brickbottom/Innerbelt		11.97%	5.21%
Ten Hills		11.61%	5.19%
Subarea	Units per project	IRR	ROC
West Somerville/Davis	75	9.64%	4.77%
Central Somerville		11.77%	5.29%
Union Square/East Somerville		14.15%	5.77%
Assembly/Brickbottom/Innerbelt		12.21%	5.27%
Ten Hills		11.99%	5.27%

IRR: Internal Rate of Return; ROC: Return on Cost

Current Policy Analysis by Subarea

Under the current Inclusionary Zoning policy, how does new construction residential development financially perform by location within Somerville?

Recommendation

- Consider lowering inclusionary requirements based on location of the project
 - 15% in Central Somerville, Assembly/Brickbottom/Innerbelt, and Ten Hills
 - 10% in West Somerville
- If reducing requirements is not an option, consider financial inducements (e.g., tax abatements, subsidies) for projects outside of Union Square/East Somerville

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Deepening Affordability by Removing Tier 3

What is the financial impact of removing Tier 3 from the City's inclusionary zoning policy to get to deeper affordability? What is a value equivalent policy that can be set?

Findings

- Tier 3 was added originally due to affordability challenges of increasing the requirement to 20% (from 12.5%)
- The development community has expressed challenges in filling 110% of AMI units, impacting financial performance
- Removing the 110% AMI tier reallocates those units into Tier 1 (50% AMI) and Tier 2 (80% AMI), creating a financial hardship for projects
 - Consistent with previous analysis

Deepening Affordability by Removing Tier 3

What is the financial impact of removing Tier 3 from the City's inclusionary zoning policy to get to deeper affordability? What is a value equivalent policy that can be set?

Recommendation

- Consider removing Tier 3 **AND** lowering inclusionary requirements from 20% to 16% on new construction rental developments to remain 'revenue neutral'
- If lowering the inclusionary requirement is not an option, consider creating a financial subsidy to close the feasibility gap
- If neither option is acceptable, do not change the policy

Deepening Affordability by Serving More 30% AMI Households

What is the financial impact of serving households earning 30% of AMI and does it require financial relief to meet market expectations?

Findings

- RKG studied two different analysis to identify ways to create more 30% AMI units
 - Replacing Tier 3 income requirement (110% AMI) with 30% AMI
 - Adding a Tier 4 requiring 30% AMI units
- Both approaches led to a decrease in financial returns
 - Adding a fourth tier had comparatively less impact but leaves the 110% AMI requirement (and its challenges) in place

Deepening Affordability by Serving More 30% AMI Households

What is the financial impact of serving households earning 30% of AMI and does it require financial relief to meet market expectations?

Recommendation

- Do not change the IZ policy to address additional 30% AMI requirement
 - Delivering 30% AMI already challenging for the for-profit market
 - Unsurety of the future of Federal funding support for housing
- If making a change is preferred, consider changing Tier 3 requirement from 110% AMI to 30% AMI **AND** allow developers to use housing vouchers **AND** allow the full value of the vouchers to be captured
 - Will impact the number of vouchers in the future compared to the current policy
 - Consider financial incentives if you do not allow the full use of the vouchers

Including Additional Family Sized Bedrooms

What is the financial impact of including additional family sized bedrooms (3-bedroom units) on new construction residential development?

Findings

- Including additional 3-bedroom units adversely impacts financial feasibility
 - 3-bedroom units consume more building space (fewer units) and lower rents (per square foot) than studios, 1-bedroom, and 2-bedroom units
 - The City's current building envelope requirements exacerbate this challenge

Including Additional Family Sized Bedrooms

What is the financial impact of including additional family sized bedrooms (3-bedroom units) on new construction residential development?

Recommendation

- Consider shifting inclusionary requirement from % of units to % of building square footage
 - Creates flexibility in the size of IZ units
 - Could reduce the net number of units yielded
- Alternatively, consider a bonus density policy that provides additional market-rate units in exchange for income-controlled family sized units
 - Requires a 3:1 ratio to reach 'revenue neutral' returns
 - Downside to a bonus density policy is that they are optional to use.
- Alternatively, consider adjusting the inclusionary zoning percentage by lowering it to accommodate more family-sized units

Review of the Fee-in-Lieu Policy

What is the impact of lowering the Fee-in-Lieu payment of income-controlled units to the City?

Findings

- Current policy uses a 2.0 (rental) to 2.5 (ownership) multiplier for the calculated fee-in-lieu payment threshold
- This approach makes the fee-in-lieu option financially infeasible compared to delivering on-site units

Review of the Fee-in-Lieu Policy

What is the impact of lowering the Fee-in-Lieu payment of income-controlled units to the City?

Recommendation

- Consider removing the multipliers from the fee-in-lieu calculation
 - Reducing the fee-in-lieu calculation aligns more closely with neighbors and can promote more buyout options
 - If the goal is to continue to prioritize on-site development, changes could adversely impact that

Process Feedback

Based on developer and stakeholder interviews, what other areas of the Inclusionary Zoning policy need improvement?

Findings

- Consensus of unpredictable timelines that carry out longer than expected
 - Lengthening processes increases risk, adversely impacting feasibility
 - Lack of predictability of result creates uncertainty, making Somerville less desirable to develop
- Disproportionately impacts small and mid-scale developers

Process Feedback

Based on developer and stakeholder interviews, what other areas of the Inclusionary Zoning policy need improvement?

Recommendation

- Streamline Processes: Limit pre-submittal meetings; simplify smaller development project reviews
- Scheduling: Expand staff capacity, enable virtual/concurrent sessions
- Public Meetings: Standardize staff-led neighborhood meetings; reduce councilor dependence
- Documentation: Eliminate dual note-taking; use summary templates to reduce workload
- Design Review: Fewer design options; better align committee input & Board expectations
- Coordination: Interdepartmental conflict-resolution to improve consistency, reduce confusion; clearer Planning Board guidance on common discretionary changes
- Inspections: Adopt risk-based or sampling models to enhance compliance and process efficiency =
- IZ Leasing: Streamline and expedite approvals