

FINANCIAL FEASIBILITY ANALYSIS

SOMERVILLE, MA

JUNE 2025

Housing Development and Permitting Process Review

RKG Associates conducted multiple meetings and interviews with various City staff in early 2025 to review the city's housing development review and permitting process. In general, Somerville's development process is complex, with specific zoning rules, extensive pre-submittal processes, and numerous requirements that apply even to small projects. Although 70% of the city is zoned for by-right development, in practice, both small and large projects face significant time, cost, and coordination challenges due to a multi-step approval system and unpredictable timelines. A lack of coordination and conflicting opinions across departments and review processes also add to the delays and uncertainties.

Process Summary and Issues

Zoning Framework

Residential development projects in Somerville are either by-right or those that need special permits. Though 70% of the city's area allows by-right development, highly specific zoning regulations, such as dimensional requirements, can lead to complexity and delays even for small by-right projects.

It was also mentioned that Somerville's stringent historic preservation requirements can add delays.

Pre-Submittal and Review Meetings

A mandatory pre-submittal meeting process is in place for all projects, regardless of size. Initially intended for complex projects, this requirement now applies universally, contributing to additional time and coordination for applicants, even those familiar with the process.

The monthly capacity for the pre-submittal meetings is also limited, with 10 slots each month, leading to a potential wait time of up to a month to schedule a meeting.

Pre-Application Review Timeline and Meeting Requirements

Projects requiring site plan approval typically go through three meetings after the mandatory pre-submittal meeting: a neighborhood meeting, an urban design review meeting, and a final neighborhood meeting. These meetings are spaced by two weeks, so it takes at least a month and a half to complete all three meetings. However, design issues can require multiple urban design reviews, usually extending the total timeline to approximately six months or more before an application can be submitted.

The timing of public neighborhood meetings also depends on the city councilors' availability and responsiveness, which often causes delays. While the public meetings are now more clearly codified in the ordinance compared to pre-2019, the existence of different versions of public meetings can still create confusion and delays.

Documentation and Staff Capacity

Both applicants and City staff are required to take notes during public and design review meetings, primarily to support transparency. However, City staff are only available to attend and take notes at neighborhood meetings every other week due to their commitments to other evening board and commission meetings. When this limited availability overlaps with delays in coordination by the city councilors, it can lead to further scheduling challenges and delays.

City staff noted that reducing the requirement for written minutes from design review and public meetings could potentially streamline the pre-application review process by reducing the number of required meetings.

Design Review Process

The Design Review Committee provides recommendations, not mandates, during design review meetings, but applicants must revise their proposals in response before moving forward, even if the Committee's recommendations may be rejected later on by the Planning Board. Each project is required to submit three different design options, and the review process often faces delays due to unresolved design concerns. Although the Planning Board can override design recommendations made by the Design Review Committee and approve site plan applications that meet zoning requirements, reaching that stage can take up to two years.

Additional Special-Interest Requirements

Projects needing site plan approval must also provide documents for special-interest requirements, such as mobility plans, green open space plans, and in some cases, mobility plans and LEED certification (particularly for larger projects with 20 units or more). While these requirements can be addressed concurrently during the pre-application design review process and public meetings, conflicting feedback between design review and departmental inputs regarding the special-interest requirements may lead to further delays.

Interdepartmental Coordination and Decision-Making

Conflicting recommendations or requirements from different departments and the Design Review Committee have been a recurring challenge. While the Planning Board ultimately makes the final decision in these cases, a significant portion—estimated at 20% to 30%—of the zoning team's workload involves helping applicants navigate and resolve these inconsistencies, according to City staff.

There is no formal dispute resolution timeline for departmental disagreements prior to application submittal, although there is a required 155-day limit for the Planning Board to decide on site plan applications once they are submitted. Many applicants choose to voluntarily extend the timeline in order to accommodate feedback and avoid denial.

Planning Board Discretion

The Planning Board has discretionary authority to adjust certain project design elements, such as setbacks, even if they differ from the zoning ordinance. Applicants are required to address these conditions before receiving a building permit, which can lead to additional delays. However, they do not have to restart the pre-application review meeting process if the design is adjusted accordingly.

Inspection and Compliance Gaps

Building inspections for design and code compliance occur only pre- and post-construction, with no enforcement during. However, City staff indicated that incorporating inspections during construction would increase both time and associated costs for the inspection team.

Post-Permitting Issues

Developers must find tenants for the Inclusionary Zoning (IZ) units on their own from a city-provided waitlist, but income verification and certification can be burdensome.

Opportunities for Improvement and Recommendations

Streamline Pre-Submittal and Review Processes

Consider limiting the pre-submittal meeting requirement to larger or more complex projects. For smaller, by-right developments, offer a simplified or optional process to reduce delays.

Improve Meeting Scheduling and Capacity

Increase meeting capacity or allow concurrent reviews where possible. Explore hybrid models or virtual sessions to expedite scheduling.

Clarify and Simplify Public Meeting Requirements

Consider establishing a standardized, staff-led neighborhood meeting process with clearly defined formats and scheduling protocols to improve consistency and scheduling efficiency, and reduce reliance on individual councilors.

Reduce Documentation Burdens

Reevaluate the necessity of dual note-taking (by both staff and applicants). Reducing this requirement or using standardized summary templates could reduce staff workload and potentially remove the necessity of one meeting from the pre-application process.

Enhance the Efficiency of the Design Review Process

Streamline the design review process by reducing the required number of design options and better aligning committee input with Planning Board expectations. Consider setting clearer thresholds for when additional design review meetings are warranted.

Address Conflicting Departmental Feedback

Establish a formal interdepartmental conflict-resolution protocol with defined timelines to improve consistency and reduce applicant confusion.

Limit Delays from Planning Board Discretion

While maintaining the Board's authority, provide clearer guidance on common discretionary changes to help applicants anticipate and incorporate them earlier in the process.

Reassess Inspection Protocols

Consider a risk-based or sampling inspection model during construction to enhance compliance and approval process efficiency without significantly increasing inspection staff burdens.

Improve Inclusionary Zoning (IZ) Leasing Efficiency

Assessment of Inclusionary Zoning Policy Impact

Based on the data provided by the City of Somerville in early 2025, a total of 137 for-sale Inclusionary Zoning (IZ) units and 480 rental IZ units have been built in the city. Owner-occupied IZ units constructed served 5.9% of the housing gap for owner households earning 51% to 80% of the Area Median Income (AMI), and 7.3% of the gap for owner households earning 101% to 120% of the AMI in Somerville. Rental IZ units built served 21.6% of the gap for renter households earning extremely low incomes to 50% of the AMI. Approximately 50% of the total owner-occupied IZ units and around 77% of the rental IZ units that served the gap for households earning extremely low income to 50% of the AMI, were built in the past decade, since 2015 (Figure 98, Figure 99; source: City of Somerville, U.S. Department of Housing and Urban Development (HUD), American Community Survey(ACS), RKG Associates, 2025).

Figure 98: Somerville Percentage of Affordability Gap Served by All IZ Units

	Current Ownership Housing Gap			IZ Owner Unit Built	% of Gap Served
	Owner Household	Current Gap	% Unserved		
Extremely Low Income and Below	1,172	(1,156)	98.6%	0	0.0%
Extremely Low Income to 50% of AMI (Very Low Income)	894	(853)	95.4%	0	0.0%
51%-80% of AMI (Low Income)	1,488	(1,297)	87.2%	82	5.9%
81%-100% of AMI	1,139	(976)	85.7%	0	0.0%
101%-120% of AMI	1,133	(689)	60.8%	54	7.3%
121% of AMI and Above	5,957	19,130		1	
Total				137	

Figure 98: Continued

	Current Rental Housing Gap			IZ Rental Unit Built	% of Gap Served
	Renter Household	Current Gap	% Unserved		
Extremely Low Income and Below	4,322	(2,176)	50.3%	0	0.0%
Extremely Low Income to 50% of AMI (Very Low Income)	2,503	(777)	31.0%	214	21.6%
51%-80% of AMI (Low Income)	3,657	3,356		208	
81%-100% of AMI	2,406	3,328		0	
101%-120% of AMI	2,393	957		58	
121% of AMI and Above	7,971	(5,127)	64.3%	0	0.0%
Total				480	

Figure 99: Somerville Percentage of Affordability Gap Served by IZ Units Built Since 2015

	Current Ownership Housing Gap			IZ Owner Unit Built	% of Gap Served
	Owner Household	Current Gap	% Unserved		
Extremely Low Income and Below	1,172	(1,156)	98.6%	0	0.0%
Extremely Low Income to 50% of AMI (Very Low Income)	894	(853)	95.4%	0	0.0%
51%-80% of AMI (Low Income)	1,488	(1,297)	87.2%	39	2.9%
81%-100% of AMI	1,139	(976)	85.7%	0	0.0%
101%-120% of AMI	1,133	(689)	60.8%	28	3.9%
121% of AMI and Above	5,957	19,130		1	
Total				68	

Figure 99: Continued

	Current Rental Housing Gap			IZ Rental Unit Built	% of Gap Served
	Renter Household	Current Gap	% Unserved		
Extremely Low Income and Below	4,322	(2,176)	50.3%	0	0.0%
Extremely Low Income to 50% of AMI (Very Low Income)	2,503	(777)	31.0%	165	17.5%
51%-80% of AMI (Low Income)	3,657	3,356		161	
81%-100% of AMI	2,406	3,328		0	
101%-120% of AMI	2,393	957		58	
121% of AMI and Above	7,971	(5,127)	64.3%	0	0.0%
Total				384	

In general, the City's IZ policy has led to the development of more rental IZ units than ownership IZ units. Rental IZ units delivered are around 3.6 times the ownership IZ units built in Somerville. Ownership IZ units that were built target households earning 51% to 80% of the AMI, as well as those earning 101% to 120% of the AMI. Rental housing affordability gap exists for households earning at or below 50% of the AMI as well as those earning above 121% of the AMI, and the city's IZ units that were delivered served some of the gap for those earning extremely low income to 50% of the AMI (Figure 98).

Affordable units for households earning at or below extremely low incomes mostly come from projects utilizing the Low-Income Housing Tax Credit (LIHTC) program. Around 70% (21 units) of the affordable units serving households earning at or below extremely low incomes are contributed by LIHTC projects in Somerville, according to data obtained from the City. This is followed by 17% (five units) from public housing properties, and the remaining 13% (four units) comes from Somerville Community Corporation and Just-A-Start projects.

Impact of Increasing the Inclusionary Zoning Percentage to 20% in 2016

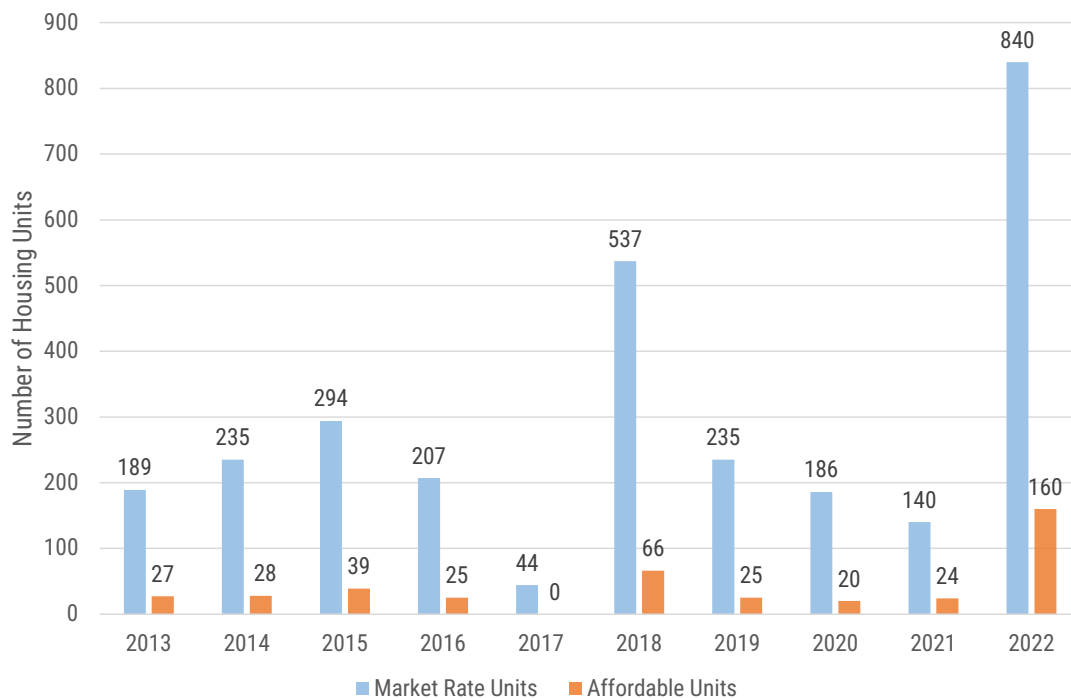
RKG obtained data from the 2022 Somerville Development Log (no data beyond 2022 is available) from the City of Somerville. Note that housing units built in 2017 and 2018 were mostly approved before 2016 (the post-approval development period is usually around two years based on industry

standards). According to the Development Log data, affordable units made up approximately 10% to 16% of all housing units built each year between 2018 and 2022 (no affordable units delivered in 2017), which is lower than the 20% new Inclusionary Zoning percentage requirement. Note that some units delivered in 2022 were contributed by the large-scale multifamily apartment projects in Assembly Square (Figure 100; source: Somerville Development Log, 2022).

This suggests that many units built since 2016 most likely come from projects grandfathered in before 2016, and that the policy change in 2016 has had a temporary adverse effect on new development interest. Although new housing developments have taken place since 2022, indicating that activity has somewhat normalized and adapted to the policy shift, interviews confirmed that the change has made development more challenging. As a result, any future adjustments to the Inclusionary Zoning policy should be incremental and gradual rather than significant or abrupt.

Figure 100

Number of Housing Units by Type Built Before and After IZ Policy Change in Somerville Based on Date of Certificate of Occupancy



Impact of Lowering the Inclusionary Zoning Threshold in 2019

In December 2019, Somerville adopted a comprehensive zoning overhaul. As part of this update, the IZ threshold was lowered—projects with four or more units became subject to the city's affordability mandate (20% affordable units). Since the infill development of small multifamily properties with three to five units is the backbone of new housing delivery in Somerville, the consultant examined how the 2019 zoning update affected the production of residential properties with four or five units (as properties with three units are not subject to the IZ policy). Note that the added third units were previously subject to the Small Property Additional Unit Program (SPAUP), which required that added third units in Neighborhood Residence (NR) districts had to be affordable. However, effective November 21, 2023, there are no new SPAUP projects per the amendment to the zoning ordinance. Anecdotally, City staff have seen a lot more condo conversion applications with an added third unit since the affordability requirement for the third unit has been removed.

According to the city's property assessment data obtained from MassGIS (Massachusetts Geographic Information System), apartments with four to eight units developed since 2010 are limited in general. Around two projects with four or five units were built between 2010 and 2018, and three projects of such size since 2019. However, four- to five-unit projects built since 2019 are located in East Somerville and Porter Square, where higher rent levels of the newer properties may help offset some of the financial challenges introduced by the lower IZ threshold. Still, the 2019 change generally reduces the financial viability of small developments of this size, as shown in the financial feasibility model discussed in later sections.

Impact of the Requirement for Family Units in 2019

Somerville's 2019 zoning change also requires that any development with 30 or more dwelling units must provide at least 20% of the affordable units with three or more bedrooms (catering mostly to families, so also referred to as "family units"). According to the IZ project data provided by the City of Somerville, IZ units permitted with three or more bedrooms between 2010 and 2018 (using building permit issuance year) average 2.2 units per year, and this increased to 4.6 units per year for those permitted between 2020 and 2024. Three-or-more-bedroom IZ units accounted for 6.9% of all the IZ units permitted between 2010 and 2018, with the share increasing to 9.1% for those permitted between 2010 and 2024.

In general, the 2019 IZ change has increased the production of IZ units with three or more bedrooms. However, one should also note that including a higher share of three-or-more-bedroom units reduces developers' revenues (as larger units have lower rent levels per square foot) but carries similar construction costs on a per square foot basis. Developer interviews conducted for the study also confirmed this point.

Inclusionary Zoning Financial Feasibility Analysis

Summary

The scope of this analysis is to evaluate the financial feasibility under the current Inclusionary Zoning requirements using existing market conditions, in addition to the impact of any policy alternatives for the City of Somerville to meet the needs identified in the Housing Needs Assessment. RKG Associates worked with City staff to narrow down a range of policy goals in terms of meeting housing needs in Somerville, and constructed a financial feasibility model to test the financial feasibility of these alternative policy scenarios for the City. The model divided Somerville into five subareas. The analysis provides both general Inclusionary Zoning (IZ) policy recommendations and specific recommendations based on the financial impact of the tested policy alternatives.

Model Introduction

To perform the analysis, RKG Associates developed a financial feasibility model that estimates a real estate developer's potential financial return. While there are several return metrics used to assess financial feasibility, the financial feasibility model for the City of Somerville focuses on estimating the Internal Rate of Return (IRR) and the Return on Cost (ROC). IRR is a standard quantitative metric used to predict the financial performance of a potential real estate investment over time. This measure is a standard approach to understanding the potential performance of a real estate investment as it accounts for the construction, operation, and eventual sale of a real estate investment. Real estate development is a risk-based venture that requires an investor to guarantee a sum of money in exchange for the potential revenue and value created by that investment. Developers seek to reduce the risk of a project (i.e., development duration and cost overruns) while maximizing the revenue potential (i.e., rent payments and refinance for a rental project and sales pricing for an ownership project).

IRR calculations are presented as percentages. A higher percentage indicates the property will provide a greater return for the investor. IRR is compared against an investor's desired return rate (or discount rate) to determine if an investment meets the perceived risk level. IRR calculations are much more detailed than overall return calculations, and account for inflation, projected income escalators and the reversion (or sale) of the property at the end of the study period (or hold period).

ROC is a point-in-time measure comparing the financial performance (Net Operating Income) against the total cost of construction. ROC measures the value of the development against market conditions. The model was created in Microsoft Excel to allow for the greatest functional flexibility and analysis transparency.

The capitalization rate is a valuation metric that is used to estimate the potential return for a real estate investment. It is calculated by dividing a property's net operating income (NOI) by its current market value. Capitalization rates have an inverse relationship to financial performance, therefore a higher cap rate reflects a lower value for an income-producing property.

There is no universally accepted return rate to judge the return-risk of a real estate project. These market thresholds are established in each market based on several factors including current and projected demand, existing market supply, current and projected employment levels, and risk tolerances of local investors. For this project, Somerville area development industry average standards for a desired IRR and ROC were set at 13.50% and 6.50% for new residential rental construction. RKG used 13.50% and 6.50%, respectively, because it is geared towards industry standard returns, and should be a measure to determine whether a project receives public incentives.

Subareas

Location within Somerville has an impact on the financial performance of a proposed new construction real estate development. For example, market rate rents vary throughout the City. Rents tend to be higher in subareas 3 and 4 due to being closer in proximity to downtown Boston. As a result, location within the City was a primary factor for modeling the financial performance of a real estate investment under a hypothetical Inclusionary Zoning policy. To this extent, the City is divided into five subareas. This effort considered several financial, market, physical, land use, and socioeconomic factors to define the submarket boundaries to use for this analysis. A limiting factor was the availability of data, which limited the creation of the subarea boundary lines to follow along U.S. Census boundaries. Testing multiple different scenarios by location allows the City to assess the impacts of financial returns for developments subjected to various hypothetical inclusionary zoning policies.

Somerville Subareas

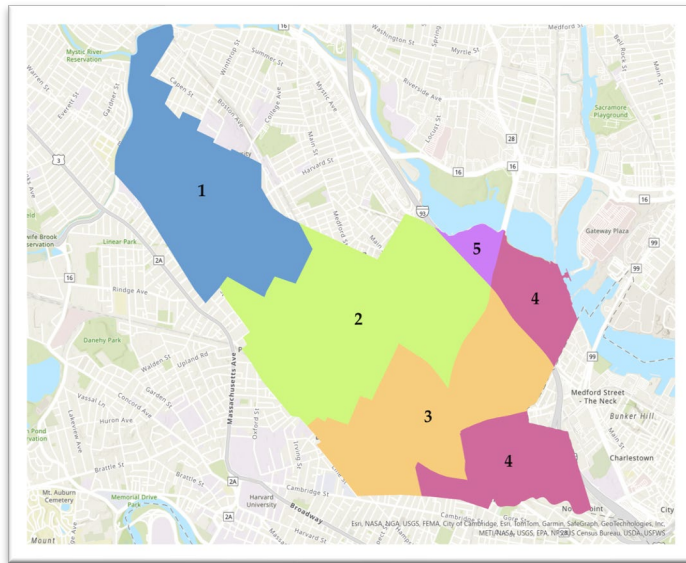


Figure 1. Somerville Subareas

Modeling Inputs

Methodology

As stated, all financial feasibility modeling is based upon the following principal components: construction costs, operational revenues, operational costs, and financial market indicators. Each component utilizes locally derived inputs to accurately reflect the City's market conditions and effectively design realistic development scenarios. To this point, RKG conducted a comprehensive analysis of all components of financial feasibility of residential development in the City of Somerville.

Construction costs

To determine hard costs for building and parking construction, RKG interviewed several for-profit and non-profit developers, as well as utilizing RSMeans to build out customized per square foot construction costs for stick, stick over podium, and steel frame construction typologies. RSMeans is a national data vendor that analyzes real estate construction cost data.

Similarly, RKG collected information on construction costs for three types of parking costs: surface parking, aboveground structured parking, and underground parking.

Lastly, a land cost analysis was conducted by RKG on recently completed residential projects to understand the land price per unit developers have paid. RKG used interview data from for-profit and non-profit developers to verify the research.

Operating revenues

As the name suggests, operational revenues include any income generated by the property. Rent revenues generated by tenants is the most substantial income source. However, other sources including parking fees, laundry fees, and vending income are included in operational revenues.

For the purposes of this analysis, RKG calculated rent rates for both market rate and income-controlled apartments. These rates vary by bedroom count (e.g., efficiency (studio), one-bedroom, and two-bedroom apartments) and whether an apartment is market rate or income-controlled.

RKG Associates used HUD Fair Market Rent (FMR) income levels for Somerville, which are part of the 'Boston-Cambridge-Quincy' metro region, to calculate corresponding rent levels. The adjoining table indicates the income thresholds ranging from 30% AMI to 150% AMI for the City. As stipulated by HUD, the maximum affordable rent would be 30% of a household monthly income. For instance, an 80% AMI household living in a 2-bedroom unit in Somerville earns \$111,029. The monthly payment for this income to avoid being cost burdened (30% of this income) calculates out to be \$2,776.

Figure 2. Somerville HUD Income Thresholds

Income Thresholds by Bedroom Count					
Boston-Cambridge-Quincy, MA-NH HUD Metro FMR Area					
AMI	Studio	1 Bedroom	2 Bedrooms	3 Bedrooms	4 Bedrooms
30% AMI	\$34,279	\$36,736	\$41,636	\$46,519	\$50,923
40% AMI	\$45,705	\$48,982	\$55,514	\$62,025	\$67,897
50% AMI	\$57,131	\$61,227	\$69,393	\$77,531	\$84,872
60% AMI	\$68,557	\$73,473	\$83,272	\$93,037	\$101,846
70% AMI	\$79,983	\$85,718	\$97,150	\$108,543	\$118,820
80% AMI	\$91,410	\$97,964	\$111,029	\$124,050	\$135,795
90% AMI	\$102,836	\$110,209	\$124,907	\$139,556	\$152,769
100% AMI	\$114,262	\$122,455	\$138,786	\$155,062	\$169,743
110% AMI	\$125,688	\$134,700	\$152,665	\$170,568	\$186,718
120% AMI	\$137,114	\$146,946	\$166,543	\$186,074	\$203,692
130% AMI	\$148,541	\$159,191	\$180,422	\$201,581	\$220,666
140% AMI	\$159,967	\$171,437	\$194,300	\$217,087	\$237,641
150% AMI	\$171,393	\$183,682	\$208,179	\$232,593	\$254,615

Source: RKG Associates Inc., 2025

Operating costs

In addition to the cost of developing a project, property owners will incur costs while owning and operating the project. Understanding the impact of traditional operating expenses (OpEx) is critical to determine financial returns. Costs including marketing, property maintenance, management, and real property taxes are part of the OpEx for a project.

Financial market indicators

Development financing is the most essential element of any real estate deal. Several types of financing are available depending upon the scale of the project. Through interviews with developers, RKG gained an understanding around debt, operational costs, and vacancy assumptions used in developer proformas.

Additionally, RKG Associates obtained information on financial return expectations through interviews. This information was used as a benchmark for the financial feasibility model to understand the impact policy changes may have on a project's returns.

Construction Costs

Hard and soft construction costs were collected through interviews with local for-profit and non-profit developers.

The financial feasibility model applied each of these hard costs based on the type of construction material used: wood-frame (stick), wood-frame over concrete and steel (stick over podium), and steel frame construction.. As indicated in Figure 4 below, soft costs, such as engineering and architectural fees, average around 20% of hard costs as learned through interviews with local developers. Interviews were conducted between January and May 2025.

Figure 3. Construction costs

Hard Construction Costs (PSF)	Apartment	Condo/Townhouse
Stick (Ownership)	\$250	\$250
Stick	\$293	\$293
Stick Over Podium	\$411	\$411
Steel Frame	\$558	\$558

Figure 4. Soft costs

Soft Costs (% of Hard Cost)	
Soft Costs	20.00%

Other construction costs include the cost to build requisite parking. In December 2024, the City removed all parking minimum requirements for new construction developments. RKG Associates collected data for three distinct types of parking: surface, structured aboveground, and structured belowground. Surface parking is the least expensive option for parking at approximately \$25,000 per space to build. Structured Belowground parking, the most expensive parking option, costs approximately \$128,000 per space to build, will typically be incorporated into areas that are more land constrained (historically downtown). Public parking garages tend to offer a variety of parking spaces, which can function as a development incentive to not have to include parking costs.

Figure 5. Parking costs

Parking (Per Space)	Average Costs
Surface	\$25,000
Structured Aboveground	\$56,000
Structured Belowground	\$128,000

The amount of money a developer can pay for a piece of land is a critical component to the financial feasibility of a project. The higher the land value, the more a developer needs to offset their costs through things like higher density, lower parking rates, or increased sales prices and rents.

The adjoining table (Figure 6) illustrates average land acquisition costs for “unencumbered” projects that do not have unique development challenges (e.g., demolition, rock blasting).

Figure 6. Land costs per housing type

Housing Type	Average Citywide Land Cost
Apartment	\$67,000/Unit

Operating Costs

Following the construction of the actual development, property owners accrue costs related to marketing, maintaining, and managing rental property. These costs are known as operating expenses which can include, but are not limited to utility, labor, and cleaning-related costs.

Operating costs do not vary for market rate or income-controlled units, as costs do not change dramatically based on a tenant. Therefore, operating expenses accounted for 23.00% of total rental revenues generated from both market-rate and income-controlled units.

Vacancy and collection loss data for new construction projects are consistent throughout Somerville, with most uncollected rent due to turnover. Turnover is the time when a unit is marketed until a tenant occupies it. The operating expenses and vacancy and collection loss are consistent with most New England communities. The real property tax rate for apartments in Somerville is consistent with neighboring New England communities.

Figure 7. Operating costs

Operating Costs (As a % of Rental Revenue)	
Vacancy & Collection Loss	4.70%
Operating Expenses (less real property taxes)	23.00%
Real Property Taxes (Commercial)	\$18.20/\$1,000
Real Property Taxes (Residential)	\$10.52/\$1,000

Financial Market Inputs

The most common approaches towards financing residential development are through equity investment and debt financing.

Equity is the initial out-of-pocket amount a developer contributes towards a real estate investment. Developers will pay less in out-of-pocket costs if they can secure financing from other sources. This is preferable to developers, since the overall project return is expected to be greater, and less investment risk is involved. Per interviews with local developers, RKG Associates set the equity requirement to 40%.

Securing long-term debt financing at affordable rates has become increasingly challenging. Recent widespread increases in interest rates, accelerated by the COVID-19 pandemic, have adversely impacted the financial performance of new residential development. Based on developers' interviews and national data, RKG Associates set the expected interest rate to a 6.50% average.

Figure 8. Financial costs

Financing Costs	
Interest Rate	6.50%
Equity Required	40.00%
Capitalization Rate	5.00%

Operating Revenues

RKG collected rental rate data for new developments built over the previous 5 years that included efficiency (studio), one-bedroom, two-bedroom, and three-bedroom apartments. The rental revenue inputs for each of the bedrooms consists of per square foot averages based on the rates of new developments.

The market rental rates seen below in Figure 9 were used as a baseline for the analysis and were compared to the information obtained from developer survey responses. Excluding studio floorplans, a new construction rental unit, depending on location and bedroom size, varies in monthly rates between \$3.03 and \$6.42 per square foot citywide.

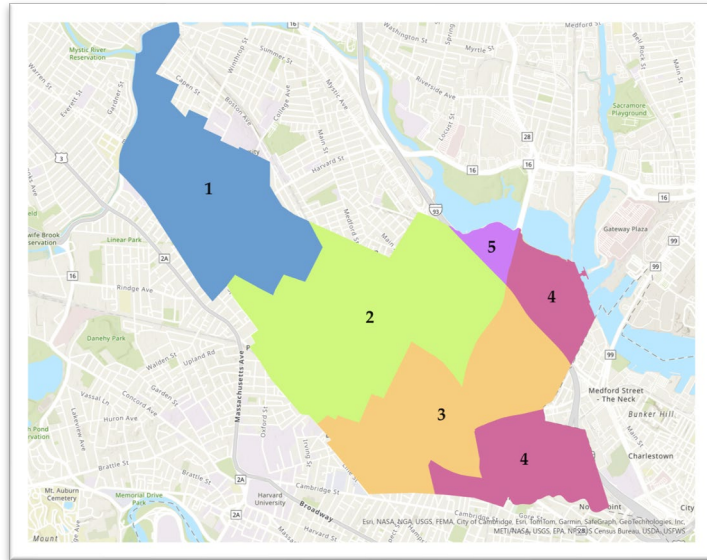


Figure 9. Monthly rental rates by subarea per square foot

Subarea	Studio	1BR	2BR	3BR
Subarea 1	\$6.59	\$5.40	\$3.82	\$3.03
Subarea 2	\$6.52	\$5.10	\$4.84	\$5.03
Subarea 3	\$6.80	\$6.42	\$5.21	\$4.86
Subarea 4	\$5.88	\$5.60	\$4.97	\$4.69
Subarea 5	\$6.20	\$5.35	\$4.91	\$4.86

Real estate industry standards track rents differently for residential and non-residential uses. The industry convention for residential is to track rent levels on a per-month basis, and for non-residential on a per-year basis. This analysis reflects that convention.

Financial Assistance

Included in the model are different forms of local, state, and federal financial funding programs such as HUD's Section 8 Housing Voucher Program, a cash subsidy, and tax abatement.

The Section 8 Housing Voucher Program is a federal housing funding program overseen by the U.S. HUD Department. Massachusetts' Executive Office of Housing and Livable Communities (EOHLC) oversees the state program and distribution of funds. The purpose of the program is to assist low-income individuals and families with a 'voucher' that subsidizes their rent and utilities. Typically, an individual or family on a voucher program pays approximately 30% of their rent, while the remaining 70% is paid for by HUD.

HUD uses three distinct types of rent calculations for voucher payments: Fair Market Rents (FMRs), 110% of Fair Market Rents, and Small Area Fair Market Rent (SAFMR). FMRs are fixed rents by bedroom size set by HUD for real estate developments that include affordable rental units. SAFMR are estimated fair market rents adjusted spatially by zip codes household incomes and typically are higher than FMRs. This enables developers and property managers to have the ability to apply for SAFMRs, which typically provides the most financial relief than the other HUD calculations. For this analysis, RKG used an average of the payment standards set by the Somerville Housing Authority, as these calculations are slightly higher than the Boston-Cambridge-Quincy PS HUD region – seen in Figure 10 below.

Figure 10. Somerville Housing Authority Payment Standards

Exceptional Payment Standards						
	Zip	Efficiency	1BD	2BD	3BD	4BD
Somerville	02143	\$2,500	\$2,680	\$3,190	\$3,860	\$4,250
	02144	\$2,720	\$2,930	\$3,480	\$4,210	\$4,630
	02145	\$2,470	\$2,660	\$3,160	\$3,820	\$4,210
	Average (model input)	\$2,563	\$2,757	\$3,277	\$3,963	\$4,363

Source: City of Somerville, 2025

Financial Assistance

A tax abatement is a financial incentive that can be offered to temporarily reduce or exempt the amount of property taxes owed for a new construction development. As part of this analysis, RKG modeled the financial impact of a 10-year tax abatement by reducing the property taxes owed by 5% year-over-year.

Cash Subsidy

As with every other community, resources at times are not sufficient to meet all housing demand. A funding strategy used by some communities across the country is to provide an additional cash subsidy in housing development, particularly under an IZ policy, therefore committing the City to

offer a general fund of resources toward an IZ policy. This analysis explores the cash funding necessary to close financial gaps for development scenarios to meet market expectation returns.

Modeling Limitations

Feasibility modeling requires use of several development, operational, financing, and market assumptions when calculating financial proformas. We understand that each project is different and will carry costs and revenues that can vary greatly, even within a single market. Unfortunately, one of the limitations of modeling is having to create a policy that covers various development types, scale, and locations. RKG does its best to account for unique issues (e.g., wood frame costs versus concrete and steel costs), but we are limited in being able to model every potential permutation. There are three approaches to this type of analysis:

Best-Case Planning – This is where the modeling uses the most beneficial assumptions that results in an aggressive IZ policy.

Worst-Case Planning – Opposite of best-case, this is where the modeling uses the most challenging development assumptions to understand how a policy decision would impact the weakest project.

Mid-Point Planning – As it sounds, use means and medians to model to the ‘middle of the pack’, trying to find a balance point between production and financial impact.

There are benefits and drawbacks to all three approaches. Best-Case Planning is based on the most financially beneficial development examples, leading to the most aggressive IZ policy thresholds (set aside requirements and target AMIs). However, it is the most financially punitive to all but these ideal projects and can adversely impact residential development potential.

Conversely, the Worst-Case Planning approach focuses on the most difficult financial projects, thus leading to lower set-aside rates and/or higher AMI targets. While the worst-case approach ensures financial feasibility impact is minimized—or even eliminated—it yields the least amount of housing price diversity and does not capture the full potential of stronger projects. RKG Associates’ uses the ‘mid-point’ analysis approach, balancing potential impact and price diversity delivery as fair as possible.

Regardless of which approach used, any individual project will likely differ somewhat from the model. This is why for-profit and non-profit organizations are interviewed, and locally based data sources are used in the model’s creation.

It is important to acknowledge that the financial performance of a project is one of many factors developers and investors consider when looking at a deal. Developers also assess project risk and feasibility based on ease of process and permitting, flexibility in zoning, location and amenities, strength of the market, and strategic value. Given the variability and difficulty of assessing all these additional factors, the model focuses primarily on the financial aspects of the project.

Financial Sensitivity Analysis

Development Variables

The financial sensitivity analysis conducted by RKG Associates provides key insights regarding the relative impact on financial feasibility resulting from several developmental scenarios. RKG Associates modeled several development scenarios to understand the impacts on developers' return expectations for rental and ownership housing. Each scenario incorporates multiple variables, including, but not limited to:

Project Size – The total number of units for a rental development. While the model can test for infinite number of units, the following analysis evaluates the impacts on returns based on the typical size of projects within the City of Somerville. For rental developments, RKG Associates modeled projects at 15, 35, 75, and 105-units.

Household Income Level – The household income level is a percentage of the City of Somerville's Area Median Income (AMI) as defined by the U.S. Department of Housing and Development (HUD). AMI levels can range between 30%-150% of the city's area median income, with 30% AMI representing the lowest earning income generating households. RKG Associates modeled projects at different AMI levels to understand the relationship between financial returns and providing a proportion of income-controlled housing units.

Percentage Set Aside – The percentage set aside is the proportion of income-controlled units in relation to market-rate units. By increasing the percentage set aside, financial returns are expected to be lower.

Financial Assumptions

The financial assumption table below presents the expected financial returns for the City with comparisons to data reflected for the New England region and nearby comparable cities. The average acceptable market expectations for an IRR to be considered financially feasible is 12.50%. The average acceptable market expectations for a ROC to be considered financially feasible is 5.75%.

Rental Analysis

The financial analysis conducted by RKG provides key insights regarding the relative impact of the existing IZ policy and hypothetical scenarios on new construction rental development. The analysis focused on Subarea 3, the subarea with the strongest market conditions that are most likely to be capable of absorbing an IZ policy in the near future without leading to financial development challenges.

The following results focus on the IRR and ROC return metrics for comparable residential rental developments located in Subarea Three. **Internal Rate of Return (IRR)** measures the financial performance of a potential real estate investment over time

- Standard approach to understanding the potential performance of a real estate investment as it accounts for the construction, operation, and eventual sale of a real estate investment

Return on Cost (ROC) is a point-in-time measure that compares the financial performance against the total cost of construction

- Standard approach to understanding the value of a development against current market conditions

The average acceptable IRR to be considered financially feasible is 12.50%. The average acceptable ROC to be considered financially feasible is 5.75%.

Figure 11. Interpreting model results

Rental	Below Market	Market Expectations	Above Market
IRR	< 12.50%	12.50% - 15.00%	> 15.00%
ROC	< 5.75%	5.75% - 6.50%	> 6.50%

Location-Based Financial Performance by Study Area

The first scenario modeled the financial performance of a 15- and 75-unit new construction rental development in each of the City's subareas using the existing policy. Figure 12 and Figure 13 below reflects the financial performance for each subarea under current market conditions. Instances where financial performance returns a lower IRR, indicates market conditions are not as strong in comparison to subareas that return a higher IRR and ROC. At different project sizes, Subarea 3 performs the strongest for new construction development, yielding an IRR of 13.60% and a ROC of 5.62% based on an average land acquisition price of \$67,000 per unit. Subarea 3 groups Union Square, Duck Village, Prospect Hill, and East Somerville neighborhoods and the average of their current market conditions. The lowest financially performing study area is Subarea 1 which yielded an IRR of 9.33% and an ROC of 4.71%. Subarea 1 is a combination of West Somerville, Tufts, Powder House Square, Davis Square and Ball Square. The same financial performance trend is also seen in 75-units project which yielded slightly higher IRRs and ROCs across subareas.

Figure 12. 15-unit project financial returns

Subarea	IRR	ROC
1	9.33%	4.71%
2	11.24%	5.18%
3	13.61%	5.63%
4	11.97%	5.21%
5	11.61%	5.19%

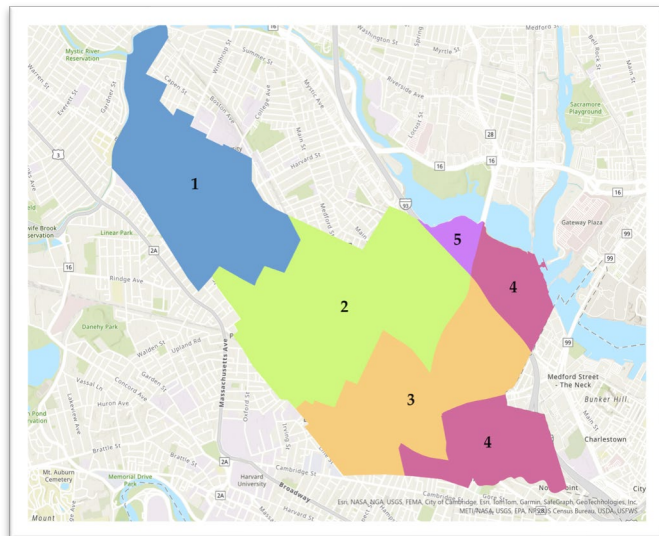
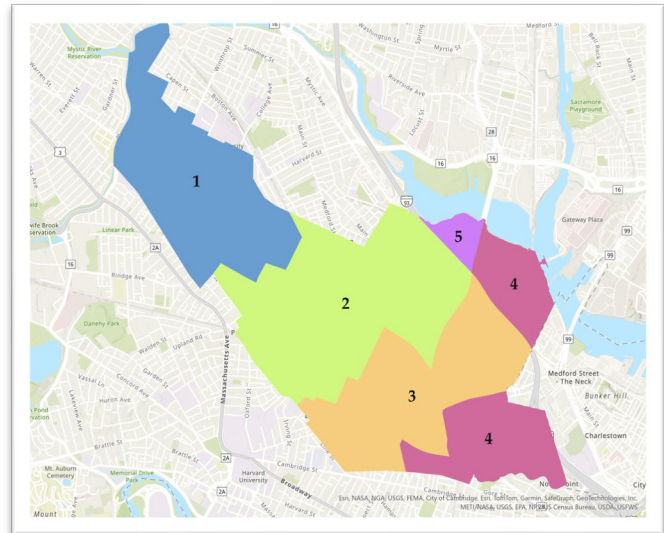


Figure 13. 75-unit project financial returns

Subarea	IRR	ROC
1	9.64%	4.77%
2	11.77%	5.29%
3	14.15%	5.77%
4	12.21%	5.27%
5	11.99%	5.27%



Removing Tier 3 – 110% AMI

The second scenario measured the impact of removing Tier 3 (110% area median income households) from the current policy. Additionally, the analysis modeled what the new policy requirements have to be in order to retain an equivalent financial performance as having the 110% AMI tier. RKG modeled the impact against a 35- and 75-unit multifamily development. Figure 14 below illustrates the financial performance and value equivalent policy requirements in order from “Current”, to “Drop 110%”, to “Value Equivalent”. “Current” is defined as measuring the financial performance under the City’s existing policy. “Drop 110%” is defined as measuring the financial performance of removing the 110% AMI tier completely. “Value equivalent” is defined as the new inclusionary zoning requirements that lead to the same financial revenue or greater as it would be under the existing policy. Results below indicate that by removing Tier 3 (110% AMI), the new inclusionary zoning set-aside percentage would need to be adjusted from the current 20% to 16% or 17%, in order to create a revenue neutral financial impact on new construction rental development. Alternatively, the financial impact would range between \$15,000 to \$20,000 per unit, which will require some form of subsidy to close that cash funding gap to remain revenue neutral (e.g., cash contribution, tax abatement).

Figure 14. Removing Tier 3 financial outcomes (Subarea 3)

	Units	Tier 1	Tier 2	Tier 3	AMI	IRR	IZ Requirements
Current	35	3	3	1	72%	13.93%	20% at 72% AMI (7 IZ units)
Drop 110%	35	4	3	0	63%	13.30%	20% at 63% AMI (7 IZ units)
Value equivalent	35	3	2	0	63%	13.98%	16% at 62% AMI (5 IZ units)
Current	75	6	6	3	74%	14.15%	20% at 74% AMI (15 IZ units)
Drop 110%	75	8	7	0	64%	13.43%	20% at 64% AMI (15 IZ units)
Value equivalent	75	6	6	0	64%	14.23%	16.5% at 65% AMI (12 IZ units)

Financial Impact of Including Family Units

The third scenario modeled the financial impact of including additional ‘family sized units’ into new construction rental developments. For the context of this analysis, ‘family sized units’ is defined as 3-bedroom units. RKG modeled multiples variations of the unit ratio mix of different bedroom sizes under the same type of development (e.g., having all 3-bedroom units). From left to right, results in Figure 15 below are broken down by the total number of units in the development, the building envelope (total square footage of the building), the total square footage of the income-controlled units and the total number of the income-controlled units, the unit mix of the income-controlled units by their bedroom size, IRR, the necessary set-aside percentage, and the funding gap for each scenario to reach the same IRR yielded from the current policy. The first line that is bolded for each development size (35- and 75-units) reflect financial performance from the existing policy and is used as a baseline for each tested scenario below it. It is important to note that each scenario cannot exceed the ‘Total SF’ of the baseline scenario, which represents the maximum building envelope. The last scenario in each development type shows the results caused by allocating all inclusionary zoning units as 3-bedrooms.

Figure 15. Financial performances of including family sized units (Subarea 3)

Units	Total SF	Total ADU SF	Eff	1BD	2BD	3BD	IRR	IZ %	Funding Gap*
35	30,059	5,721 (7 IZ units)	1	2	2	2	13.93%	20%	NA
34	29,868	5,559 (6 IZ units)	1	1	0	4	13.86%	18%	\$1.7k
34	29,935	5,616 (6 IZ units)	1	0	2	3	13.83%	18%	\$2.4k
33	29,958	5,635 (5 IZ units)	0	0	0	5	13.54%	15%	\$9.4k
75	64,355	12,012 (15 IZ units)	1	6	5	3	14.15%	20%	NA
73	64,321	11,983 (13 IZ units)	0	3	5	5	13.95%	18%	\$4.8k
72	64,185	11,867 (12 IZ units)	1	1	2	8	13.92%	17%	\$5.6k
70	63,482	11,270 (10 IZ units)	0	0	0	10	13.91%	14%	\$6k

Serving 30% AMI

The fourth scenario modeled the impact of serving households earning 30% area median income using two approaches. The first approach measured the impact of replacing the existing Tier 3 that serves households earning 110% area median income with 30% area median income. The second approach measures the impact of adding households earning 30% area median income as a new tier, Tier 4. Both approaches include exploring multiple financial means to increase financial feasibility to reach market expectation returns. These three ways include: 1) direct investment of cash funding to reach a revenue neutral or an equivalent IRR from the current policy, 2) applications

of a tax abatement applied solely on the income-restricted units over an industry standard 10-year reversion period, and 3) the impact of Housing Choice Voucher for units that reflect households earning 30% area median income.

Both scenarios modeled projects of different unit sizes of 35-, 75-, and 105-units. In approach 1, for each development size when replacing 110% area median income with 30% area median income, the trend was similar which resulted in a decrease in IRR ranging from 84 to 138 basis points – see Figure 16 below. Under the existing IZ policy, the greater the number of units in a project trends towards greater financial returns. Although, when including 30% area median income threshold into the equation by replacing the third tier, the greater the number of units, the lower the overall financial returns are. At the same time, the new blended area median income averages inversely to the existing policy, meaning as the unit ratio of the third-tier increases, the blended area median income will either increase or decrease depending on if 110% or 30% is selected.

Figure 16. Serving 30% AMI approach 1 financial returns (Subarea 3)

Units	Total 30% AMI Units	Current Policy			Tier 3 Replacement			
		Blended AMI	IRR	ROC	Blended AMI	IRR	IRR w/ Vouchers	ROC
35	1	72%	13.93%	5.71%	60%	13.09%	13.33%	5.49%
75	3	74%	14.15%	5.77%	58%	12.99%	13.49%	5.46%
105	5	76%	14.28%	5.81%	57%	12.90%	13.45%	5.44%

Housing Choice Vouchers, applied solely to the units for households making 30% area median income help improve returns, but the revenues generated are not sufficient enough to bring returns back to revenue levels consistent from the existing policy. While vouchers are not sufficient enough to cover the funding gap, they do reduce the need for cash subsidy and/or tax subsidy, when used in combination with. For example, at 75-units, vouchers would reduce the funding gap from \$2,000,000 to \$1,400,000 which is equal to \$8,000 per unit. Not in combination with other approaches, the cash funding gap for the entire project ranges from \$19,200 to \$31,000 per unit. A 10-year tax abatement applied solely to the income-restricted units improves financial performance but not sufficient enough to bring returns to financial returns consistent with the existing policy.

Figure 17. Serving 30% AMI approach 1 financial means to increase financial feasibility (Subarea 3)

Units	Funding Gap (total project)	OR Tax Abatement IRR, ROC
35	\$670,000 (\$19.2k/unit)	13.89%, 6.01%
75	\$2,000,000 (\$27k/unit)	13.80%, 5.98%
105	\$3,250,000 (\$31k/unit)	13.71%, 5.96%

For the second approach, RKG followed and applied the same pattern as the existing policy for the third tier when adding the fourth tier. By adding a fourth tier at 30% area median income, the new blended area median income average sits at approximately 65% to 70% (between 110% and 30%) and is combined with the other two tiers of 50% and 80% area median incomes. The financial implications are similar to the first approach – see Figure 18 below. In contrast to the two approaches, adding a fourth tier at 30% area median income results in a lesser negative financial impact in comparison to replacing the 110% area median income tier with 30%. The basis point drop for the first approach is approximately 111 basis points and 50 basis points for the second approach.

Figure 18. Serving 30% AMI approach 2 financial means to increase financial feasibility (Subarea 3)

Units	Total 30% AMI Units	Current Policy			Adding Tier 4			
		Blended AMI	IRR	ROC	Blended AMI	IRR	IRR w/ Vouchers	ROC
35	1	72%	13.93%	5.71%	64%	13.40%	13.60%	5.57%
75	2	74%	14.15%	5.77%	69%	13.82%	14.07%	5.68%
105	4	76%	14.28%	5.81%	66%	13.60%	13.92%	5.62%

The funding gap for adding a fourth tier to serve households earning 30% area median income is not as large as replacing the third tier. Figure 19 below details the value equivalent goal and

multiple methods of financial means to close or reduce the funding gap. One method is to shift the IZ percentage from the existing 20% to a range between 16% and 18%. Another means of financial relief is cash subsidy typically sourced from local, state, and/or federal programs, which ranges from \$7,500 per unit for a 75-unit project to \$16,000 per unit for a 105-unit project. Proven in the previous approach, Housing Choice Vouchers significantly reduce the need for further cash subsidies when used in combination. For example, a 75-unit project would need \$2,000 per unit and a 105-unit project would need approximately \$8,600 per unit in cash subsidy to reach value equivalent returns.

Figure 19. Serving 30% AMI approach 2 financial value equivalence (Subarea 3)

Value Equivalent				
Units	Value Equivalent Goal	IZ %	Funding Gap	IRR w/ Vouchers
35	13.40% → 13.93%	16%	\$420,000 (\$12k/unit)	13.60%
75	13.82% → 14.15%	18%	\$560,000 (\$7.5k/unit)	14.07%
105	13.60% → 14.28%	16%	\$1,650,000 (\$16k/unit)	13.92%

Overall, to serve households earning 30% of the area median income, adding a fourth tier has a lesser negative financial impact in comparison to replacing the third tier. One reason is that adding a fourth tier requires fewer total units priced at 30% of the area median income in comparison to replacing the third tier. Another reason is that the overall blended area median income averages are lower in the first approach (60%, 58%, 57%) than in the second approach (64%, 69%, 66%).

Policy Recommendations

Approach

The current Inclusionary Zoning policy requires residential developments of greater than 4 units to allocate 20% of the total development units as income-controlled. Residential developments of 30 units or greater require 20% of the total income-controlled units to be designated as 3-bedroom units. The current policy uses a blended average of three tiers of area median income. Tier 1 represents households earning 50% of the area median income. Tier 2 represents households earning 80% of the area median income. Tier 3 represents households earning 110% of the area median income. The blended average of area median income changes depending on the total development units (e.g., a 15-unit project has a 60% blended average of the area median income, while a 75-unit project has a 74% blended average of area median income). The distribution of required ADUs is subject to the following formula as seen in the table below:

ADU		Price Tier
1 ST ADU		Tier 1
2 ND ADU		Tier 2
3 RD ADU		Tier 1
4 TH ADU		Tier 2
5 TH ADU		Tier 3
6 TH ADU	Repeating	Tier 1
7 TH ADU		Tier 2
8 TH ADU		Tier 1
9 TH ADU		Tier 3
10 TH ADU		Tier 2
11 TH ADU		Tier 1
12 TH ADU		Tier 2
13 TH ADU		Tier 3

Each recommendation takes the approach to find a financially revenue-neutral solution in order not to create a negative incentive to the inclusionary zoning policy for new construction development. At a base level, regulatory requirements that reduce project revenue have a negative impact on financial feasibility. Communities with challenging development markets run the risk of slowing or stagnating their development pipeline by making returns untenable.

Further, financial feasibility is one of several considerations a community must address when attempting to materially change its regulations and policies. An Inclusionary Zoning policy has broader-reaching impacts on a community than financial feasibility for developers.

However, there are actions, investments, and policy options available to the City that can expedite the feasibility of an IZ policy and better position the City to address housing affordability needs with or without an IZ policy.

The following section provides recommendations for the City to consider as it advances its efforts to promote new residential development obtainable across the income spectrum. These recommendations are organized into three categories:

- Inclusionary Zoning specific recommendations (preferred vs alternative)
- Financial recommendations
- General Policy recommendations

IZ-Preferred Recommendation

Change Tier 3 to committing to the full value of voucher units where the property owner is limited to collecting 110% AMI. This provides an equivalent financial benefit as the existing policy. It allows the ability for the inclusionary zoning policy to serve households earning 30% of the Area Median Income.

IZ-Alternative Recommendation

Remove tier 3 and adjust to value equivalent percentages for tiers 1 and 2 accordingly. By removing Tier 3, the IZ percentage would need to be adjusted to 16% or 16.5% to create a revenue-neutral financial impact on new construction rental developments.

IZ-Alternative Recommendation 2

Set the inclusionary zoning percentage by each subarea's financial performance. Subarea 3 (Union Square, Duck Village, Prospect Hill, East Somerville) requires no change at the current 20% IZ percentage. Subarea 2 (Magoun Square, Powder House, Spring Hill, and Central Hill) would require a reduction from the policy set for Subarea 3. Under current policy, Subarea 2 would require changing the IZ percentage to approximately 13% for smaller-sized projects (e.g., 15 units) and to 10% for larger-sized projects (e.g., 75 units). From there, Subarea 4 (Assembly Square, Inner Belt/Brickbottom) and Subarea 5 (Ten Hills) would require an even further reduction to the IZ percentage set for Subareas 2 to approximately 8% for both small and large-sized projects. Subarea 1 (West Somerville, Tufts, Powder House Square, Davis Square, Ball Square) would need a further reduction to the IZ percentage set for Subareas 4 and 5. This provides a fair financial benefit to new construction developments. The downside would be fewer units in parts of the City (e.g., Subarea 4).

IZ-Preferred Recommendation – Family-Sized Units

Set a bonus density policy that provides market-rate units in exchange for income-controlled family-sized units. Under current market conditions, to add one family-sized income-controlled unit requires three market-rate units to reach financial revenue-neutral returns, meaning that returns are equal to or greater than the IRR without bonus density. This allows the policy to be inviting to developers to use, as it will not impact financial performance. A downside to a bonus density policy is that they are optional to use. Therefore, developers may not use it at all.

IZ-Alternative Recommendation – Family-Sized Units

Adjust the inclusionary zoning percentage by lowering it to accommodate more family-sized units. Seen in Figure 15, the lower the inclusionary percentage is, the more family-sized units are included.

Fee-in-lieu Recommendation

The City's current fee-in-lieu (FIL) calculation uses a multiplier calculated against the value gap between the market-rate and income-controlled units. This multiplier ranges from 2 to 2.5 depending upon typology and tenure. This approach makes the FIL option financially infeasible compared to delivering on-site units.

Reducing the FIL calculation presents both risks and opportunities for Somerville. On the opportunity side, aligning more closely with Boston's lower buyout standards and negotiated contributions could increase development feasibility, particularly for projects with thinner margins. This flexibility might encourage more housing production overall and create a mechanism for the City to strategically direct developer contributions toward a broader set of housing goals identified in the Housing Needs Assessment (HNA), such as preservation, rehabilitation, or deeper affordability in targeted neighborhoods. A lower FIL could also make Somerville more competitive relative to nearby markets, potentially unlocking sites that might otherwise remain undeveloped.

At the same time, lowering the FIL carries the risk of undercutting the City's inclusionary housing policy by reducing the financial resources available to create affordable units onsite. Over time, a weaker FIL standard may shift developer behavior toward buying out rather than building affordable units, which could limit mixed-income opportunities in new developments. If Somerville pursues this approach, it will be important to pair lower FIL amounts with clear guidance on how buyout funds are deployed, ensuring that those dollars are reinvested in ways that meaningfully advance the City's affordability objectives.

General Policy Recommendations

Per feedback from developer interviews, there is a consensus of unpredictable timelines that carry out longer than expected. Therefore, the City should focus on adjusting the duration of the development approval process to be quicker from start to finish. Specifically, shortening the time between applications and planning board review will allow more time for staff to communicate with developers. Reduce any multiple meetings for a single core area or combine areas into a single meeting, such as community meetings, design committee, and review meetings.

Glossary of Terms

Capitalization Rate – Ratio between the net operating income of a property and its sales value

Discount Rate – The interest rate used in discounted cash flow analysis to determine the present value of future cash flows

Density Bonus - A ordinance mechanism allowing a developer to build a greater number of units than the existing underlying zoning dictates in exchange for the creation of additional affordable units

Equity – Initial out-of-pocket investment on the part of developer that is required to obtain financing

Effective Gross Income – Gross income minus the vacancy collection loss

Family Sized Units – 3-bedroom units

Fee-in-Lieu – Payment made to City to account for fractional affordable unit not built.

Internal Rate of Return - Annualized rate of return sought by a developer based on the project discounted cashflow

IZ Percentage – Set-aside percentage required for income-controlled units in new developments

Net Operating Income – Net income after deducting operating expenses from potential gross income

Net Present Value – Net value of the initial investment and cashflows generated from a project, discounted back to the current year

Operating Expenses – Expenses related to operating the building such as maintenance, salaries, and repairs

Other Income – Income generated from the property aside from rent, this income is parking revenues for leased spaces

Potential Gross Income – Potential income generated from rental income or sale of a property. Calculated by multiplying the number of units and rent for each unit

Land Value - The price a developer pays for a piece of land

Vacancy and Collection Loss – Percent of rent that is uncollectable

Value Gap – Difference in value between a market rate unit and affordable unit