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MAPC Officers
President Erin Wortman
Vice President Adam Chapdelaine
Secretary Sandra Hackman
Treasurer Samuel Seidel

MAPC Staff Contributors
Alexis Smith, Senior Regional Housing & Land Use Planner
Francis Goyes Flor, Regional Housing & Land Use Planner
Alex Koppelman, Regional Housing & Land Use Planner II
Karina Milchman, Chief of Housing & Neighborhood Development

City of Somerville Staff Contributors
Hannah Carrillo, Sustainable Neighborhoods Initiative Coordinator
Michael Feloney, Director of Housing
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I. Introduction

In recent years, as housing costs in greater Boston have become increasingly unaffordable, middle-income households that have not traditionally struggled to find housing are finding themselves priced out of entire neighborhoods. These households earn too much to qualify for assistance, but are struggling to find affordable market housing in many areas. This situation is most pronounced in the cities that make up greater Boston’s inner core, where high demand for walkable neighborhoods with easy access to the region’s job centers has driven housing costs to record levels.

In this context, many high-cost cities both locally and nationally are increasingly interested in supporting middle-income housing opportunities. These municipalities realize that any healthy city is home to an economically diverse range of residents from across the income spectrum. A strong middle-income population prevents income polarization, bridging the gap between a city’s low-income and high-income residents. Moreover, middle-income residents are a critical part of any city’s economy. Their discretionary income supports local businesses, and many middle-income workers – including teachers, nurses, and police officers – provide valuable services to communities.

Though middle-income households play a critical role in any city, enabling housing options for this income bracket often poses a challenge. Many cities are understandably reluctant to direct resources to middle-income housing when the need for low-income housing remains acute. Furthermore, middle-income households have a greater range of housing options available to them if they are flexible in their location: a middle-income household may choose to forgo access to transit in exchange for a larger house further away from the inner core. Even though it is in a city’s best interest to maintain a strong middle-income population, living within a particular city is only one of many factors that households consider when choosing where to live.

To help understand middle-income housing need and demand, in 2015 the Metropolitan Area Planning Council (MAPC) conducted an affordability gap analysis for middle-income households in Boston’s inner core. The ensuing report, “Middle-Income Housing: Demand, Local Barriers to Development, and Strategies to Address Them in Select Inner Core Communities,” found there is indeed a shortfall of units affordable to middle-income households in the inner core, particularly lower-middle income households. Given continually increasing housing costs, the gap in middle-income housing supply has likely only increased since 2015. Building on the previous study, the City of Somerville and MAPC have partnered to undertake a second phase of this work, which considers tools for producing and preserving housing at a price point affordable to middle-income residents.

The income ranges encompassed by the term “middle-income” are themselves subjective. Unlike low-income households, which are defined by the U.S. Department of Housing and Urban Development, middle-income can mean many different things depending on context,

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particularly when it comes to housing. In many small cities and towns, a household earning 100% of Area Median Income (AMI) can find affordable options with relative ease, whereas in some of the country’s most expensive cities, such as New York and San Francisco, households earning twice that level struggle to find housing that they can afford.

Table 1: Income definitions. Low-income and subcategories of low-income households do not have a standard definition and vary by program and geography.

<table>
<thead>
<tr>
<th>Low-Income Definitions</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Extremely Low Income</td>
<td>Below 30% AMI</td>
</tr>
<tr>
<td>Very Low Income</td>
<td>30-50% AMI</td>
</tr>
<tr>
<td>Low Income</td>
<td>50-80% AMI</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Middle-Income Definitions</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Moderate Income</td>
<td>Varies; 80-110% AMI used for this report</td>
</tr>
<tr>
<td>Middle Income</td>
<td>Varies; 80-135% AMI used for this report</td>
</tr>
</tbody>
</table>

For the purposes of this report, middle-income is defined as 80-135% of Area Median Income, which is consistent with the middle-income definition used in MAPC’s previous report. Somerville’s inclusionary program differs slightly, serving households earning up to 140% AMI. In both cases, this income tier covers households that earn too much to qualify for traditional low-income housing options (typically restricted to households earning up to 80% AMI) while lacking options available on the market. However, middle-income definitions vary widely; for each of the examples discussed in this report, differing local definitions are noted in the text. Income levels for the Greater Boston area are shown in the table below.

Table 2: Income levels by Area Median Income.

<table>
<thead>
<tr>
<th>2019 Area Median Income (AMI) for Greater Boston</th>
<th>1 person</th>
<th>2 people</th>
<th>3 people</th>
<th>4 people</th>
<th>5 people</th>
</tr>
</thead>
<tbody>
<tr>
<td>80% AMI</td>
<td>$62,450</td>
<td>$71,400</td>
<td>$80,300</td>
<td>$89,200</td>
<td>$96,350</td>
</tr>
<tr>
<td>100% AMI</td>
<td>$79,300</td>
<td>$90,600</td>
<td>$101,200</td>
<td>$113,300</td>
<td>$122,400</td>
</tr>
<tr>
<td>120% AMI</td>
<td>$95,150</td>
<td>$108,750</td>
<td>$122,350</td>
<td>$135,950</td>
<td>$146,850</td>
</tr>
<tr>
<td>135% AMI</td>
<td>$107,055</td>
<td>$122,310</td>
<td>$136,620</td>
<td>$152,955</td>
<td>$165,240</td>
</tr>
</tbody>
</table>

Source: U.S. Department of Housing and Urban Development

This report focuses on income-restricted and deed-restricted affordable housing programs. Income-restricted refers to housing or programs for which households must meet certain income limits to participate, whereas deed-restricted housing involves a legal restriction that runs with the property ensuring that it is affordable to specified income levels for a set period of time. Deed restricted affordable housing is nearly always also income-restricted, but
income-restricted housing or programs are not necessarily deed-restricted; for example, many downpayment assistance programs require that participants earn less than a certain amount, but do not incorporate a deed restriction.

Deed-restricted housing is distinct from so-called “naturally occurring” affordable housing, which refers to market-rate housing that is affordable to certain income levels without subsidy. Many cities rely on naturally occurring affordable housing as one part of their middle-income housing strategy. However, it is important to note that “naturally occurring” affordable housing is not deed-restricted and may become unaffordable with the passage of time as market housing prices increase. For this reason, this report does not consider mechanisms to stimulate production of naturally occurring affordable housing, though where it is part of a city’s middle-income housing strategy it is noted.

This report first considers programs and tools that have been used locally and nationally to facilitate production and preservation of middle-income housing. It then considers challenges that local municipalities have faced in selling and leasing deed-restricted middle-income units. Finally, it considers mechanisms to reduce construction costs and existing state programs and policies that support middle-income housing. The report focuses on Somerville, Boston, and Cambridge, the three Boston metro cities that have taken the most action regarding middle income housing, but other local and national examples are included where relevant.
II. Tools and programs to create middle-income housing

This section will begin by considering municipal-level policy approaches to encouraging middle-income housing. While policy does not inherently result in housing production, it is often a critical first step that establishes overarching goals and priorities. The section then looks at specific strategies that municipalities have employed, both locally and nationwide, to support middle-income housing. These include zoning and market-based tools, production and financing programs, and preservation policies.

Local policy approaches to middle-income housing

Boston

The City of Boston’s housing strategy is laid out in *Housing a Changing City: Boston 2030*, released in 2014. The document, which includes a chapter dedicated to housing the middle class, finds that housing options, especially homeownership options, are increasingly limited for middle-income residents. Based on population projections, the plan called for the creation of 53,000 units of new housing by 2030, 20,000 of which are to be affordable to middle-income households.² Although the City is on track to meet this target, its population is now projected to grow at a faster rate than originally anticipated, and in October 2018 the City released an update to the original document. This update increased the overall production goal to 69,000 units of housing by 2030, including 26,220 units affordable to middle-income households.³

In general terms, Boston’s approach to middle-income housing is to leverage market forces rather than divert scarce housing resources from lower-income households. Accordingly, the City’s production goal includes two components: 5,520 units of deed-restricted housing that is targeted toward middle-income households, and 20,700 market-rate units that are “naturally affordable” to middle-income households.

Between 2014 and late 2018, roughly 2,600 units have been built or permitted that are deed-restricted for middle-income households. The majority of these were produced through the City’s Inclusionary Development Policy. These units mainly serve lower-middle-income households: approximately 1,800 of these units were affordable to 60-80% AMI households, 300 were affordable to 80-100% AMI households, and 500 were affordable to 100-120% AMI households. The details of the Inclusionary Development Policy will be discussed in detail later in this report.

The second component of Boston’s middle-income strategy encourages the private production of market-rate housing that is affordable to middle-income households. The City anticipates that most of these so-called “naturally affordable” market-rate units will be built in lower-cost

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² Boston defines middle-income as 60-120% AMI (Boston’s median income is 68% of AMI), so many of the units included in these numbers fall outside the definition of middle-income housing used in this report.
areas of the City, where they can be constructed at a more affordable cost without subsidies or financial assistance. These units are not deed-restricted, and are thus not guaranteed to remain affordable over time. Between 2014 and late 2018, the City saw the construction of nearly 5,300 units of market-rate housing affordable to middle-income households. These units largely serve households in the upper middle-income range, or those earning between 100-120% AMI.

Cambridge

Cambridge currently has roughly 300 middle-income units in its affordable housing inventory, the majority of which are homeownership units. However, that number is anticipated to increase due to requirements included in special zoning projects currently in the permitting process, and to a recently-revised inclusionary zoning ordinance that now includes middle-income homeownership units.4

Cambridge’s experiences with middle-income housing are illustrative of the more widespread challenges of creating middle-income housing. The observed demand for middle-income housing is relatively low compared to the near-bottomless demand for low-income housing. Even though there is generally strong community support for middle-income housing when discussed in broad terms, most ultimately find it difficult to justify devoting resources to support households that may be earning six-figure incomes. Cambridge’s approach therefore tends to be market-based, and is often tied to specific development project requirements based on community preference.

Somerville

Housing is one of the five overarching themes in SomerVision, Somerville’s Comprehensive Plan, adopted in 2012.5 The Plan calls for the creation of 6,000 new housing units, of which 1,200 should be affordable. While the plan does not specifically contemplate middle-income housing, many of the recommendations in the plan would facilitate production of market units that are generally more affordable: reducing parking requirements, encouraging multi-family housing where appropriate, and increasing density near transit. An important implementation priority in the Comprehensive Plan is a complete zoning code overhaul, currently underway, which will address many of these subjects. The plan also made several recommendations to update the City’s inclusionary zoning ordinance, many of which have been passed (discussed below and in the following section of this report). Finally, Somerville is updating its Comprehensive Plan throughout 2019 to produce SomerVision 2040, which will offer updated goals and priorities.

Middle-income housing is addressed in greater detail in a 2016 recommendations report issued in by the Sustainable Neighborhoods Working Group. The Working Group was comprised of 26 community members and housing practitioners who spent a year studying affordability issues in Somerville prior to publishing its report. The report recommended initiatives to address

4 Interviews with Cambridge Community Development Department housing staff, April 12 and 25, 2018.
5 Available at <https://www.somervision2040.com/>
housing affordability for Somerville residents and maintain the socioeconomic diversity of the City, including adding the additional, middle-income affordability tier to its inclusionary zoning ordinance that was passed in 2016. Middle-income households were identified as a specific population of concern due to limited housing opportunities available within the City.\textsuperscript{6}

While Somerville currently has relatively few deed-restricted middle-income housing units, that number will increase in the coming years as new projects are permitted under its updated inclusionary zoning ordinance, which includes middle income tiers: one of three rental tiers and two of three ownership tiers target middle-income households (up to 110% AMI for rental and up to 140% AMI for ownership). Somerville also provides support to middle-income households earning up to 110% AMI through its closing cost assistance program, funded through its Affordable Housing Trust Fund.

**National policy approaches to middle-income housing**

**Boulder, CO**

In 2016, Boulder convened a Middle Income Housing Strategy Working Group to develop a middle-income housing approach that would become a component of the City’s Comprehensive Housing Strategy. Like Boston’s strategy, it called for both development of market-rate units that are affordable to middle-income households (2,500 units by 2030), and permanently affordable deed-restricted middle-income units (1,000 units by 2030).\textsuperscript{7} Many of the strategies recommended are already in use in the greater Boston area, including a middle-income tier in the City’s inclusionary zoning policy and tying density increases – whether on a per project basis or through neighborhood zoning changes – to a middle income requirement. Other policies, such as requiring middle-income housing typologies as part of annexation, are unavailable in this area because all Massachusetts land is already within the bounds of a municipality.

Boulder’s strategy is informative in terms of process and approach. The process began with a data-based market analysis that made key findings which served to focus goals and recommendations. The final recommendations included a suite of primary and secondary strategies, acknowledging that there is no one program that will solve the issue. The process had both buy-in and participation at the highest levels of city government as the Working Group consisted of City Council and Planning Board members, was supported by city staff and built from work conducted by a previous citizen’s working group.

**San Francisco, CA**

In 2014, City residents approved an advisory ballot measure with the policy goal of creating at least 30,000 new housing units by 2020, of which half should be affordable (33% affordable to

\textsuperscript{6} Available at \url{https://www.somervillema.gov/sites/default/files/sustainable-neighborhoods-working-group-recommendations-report-2015.pdf}

\textsuperscript{7} City of Boulder Middle Income Housing Strategy, available at \url{https://bouldercolorado.gov/housing-boulder/middle-income-housing-strategy-working-group}
low- and moderate-income households and 17% affordable to middle-income households) to middle-income households with at least 33% affordable to low- and moderate-income households. Although this measure was advisory, it gave momentum to the creation of new housing programs, and in 2015 the Mayor and City Council proposed an Affordable Housing General Obligation Bond measure, which passed with nearly three-quarters of voters supporting the initiative. The $310 million bond includes $80 million for middle-income housing programs (120-175% AMI). The two main middle-income tools funded by the bond are a Middle-income Down Payment Assistance Loan Program and the Teacher Next Door program, a non-deed-restricted closing cost and downpayment assistance program. As of May 2019, nearly $6 million was spent on the various middle income downpayment assistance programs, enabling 23 households to purchase a home. Several individual development projects are also recipients of this fund.

**Zoning tools for creating deed-restricted middle-income housing**

**Inclusionary development ordinances**

Inclusionary zoning is a tool through which developments above a certain size are required to include a certain number of affordable units. While the specific provisions vary widely, many municipalities, typically those in high-cost areas, choose to use their inclusionary development policies to target moderate- and middle-income households that are not eligible for most government programs, but have limited available options on the market. Although no national examples are included here, middle-income inclusionary tiers are widespread nationally, including in San Jose and Santa Monica, CA; and Boulder, CO.

**Boston**

Boston’s Inclusionary Development Policy (IDP) has a stated goal of reaching moderate- and middle-income households that are not served by other government programs. The IDP is Boston’s primary production tool for deed-restricted middle-income housing; as of 2018, 18 years after the program’s creation, nearly 2,600 units have been created through the IDP, including both on-site and off-site units. Of these, 54% of the homeownership units and 24% of rental units serve incomes above the 80% AMI range. Under the current version of the policy, IDP rents are set at 70% of AMI (see previous note about Boston’s definition of middle-income), and homeownership unit prices are set at a mix of 80% AMI and 100% AMI. However, Boston’s entire mix of IDP units includes a broader range of incomes because the limits have changed over time.

Before revising the IDP in both 2006 and 2015, Boston conducted a “tipping point” analysis in an effort to identify the threshold at which households have considerable choice and do not need affordable housing. In 2006 it was around 80% AMI for rental units and 100% AMI for

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8 San Francisco Mayor’s Office of Housing and Community Development, <https://sfmohcd.org/dalp-details>

homeownership units. In 2015 it had moved closer to 90% AMI for rental units, but the City ultimately decided to keep the rental inclusionary requirement at 70% to continue serving this slightly lower income level.\(^\text{10}\) This illustrates the tension inherent in many middle-income programs: even when government resources are not being used to produce the housing, there is always a need for housing at lower incomes.

**Cambridge**

Cambridge’s inclusionary homeownership units are targeted toward moderate-income residents (80-100% AMI) and are priced to be affordable for households earning 90% AMI, increased from low-income (65% AMI) in 2017. As of mid-2018, no middle-income inclusionary units had been constructed since the new requirements went into effect, but based on experience the City expects there will be solid demand for the inclusionary middle-income ownership units.

When modifying its ordinance, the City considered raising the income levels for rental units as well, but ultimately opted to keep rental unit requirements at a low-income level (50-80% AMI). Although the City believes the need for middle-income rental housing is strong in Cambridge, the demonstrated interest is relatively low when compared to that for low- and moderate-income rental housing, and it consequently opted not to raise the targeted income levels for rental units.

**Somerville**

Somerville’s inclusionary ordinance was revised in 2016 to also include a middle-income bracket; the change was prompted in part by community demand for more housing affordable to middle-income residents and recommendations from the Sustainable Neighborhoods Working Group. The policy is tiered with one of three rental tiers and two of three ownership tiers targeting middle-income households (80-110% AMI and 110-140% AMI, respectively). This version only went into effect in 2016, and thus no projects have yet been built utilizing the higher income brackets.

The inclusionary ordinance previously required lower affordability levels, spread across two different tiers, but which nonetheless reached only as far as the lower end of the middle-income spectrum. To date, the program has produced a total of 78 homeownership units, with 51 units at 80% AMI and 26 at 110% AMI, and 162 rental units, of which 77 are at 80% AMI.\(^\text{11}\)

**Inclusionary Development Ordinances: Opportunities/Pluses**

- All three cities’ inclusionary policies target households that have limited market options available, but that earn too much to qualify for traditional subsidized programs. Those eligible have incomes ranging from 60%-140% AMI. Inclusionary policies are one of the most popular ways to produce housing for these income brackets nationwide. Because of the economics of real estate development, targeting higher income levels in an

\(^{10}\) Interviews with Boston Planning and Development Agency and Boston Department of Neighborhood Development staff, April 2 and 9, 2018, April 11, 2019.

\(^{11}\) Cite source
inclusionary policy often enables cities to require a higher percentage of affordable units (as opposed to fewer affordable units at a deeper affordability level).

- In municipalities where inclusionary units are required to be built on-site within the same development as market-rate units, as is required in Somerville, inclusionary development policies ensure middle-income housing exists even in more expensive areas of the city, integrated into development.

- Because inclusionary units are typically not eligible for subsidy, targeting moderate- and middle-income households – as opposed to low- and very-low income households – tends to make the ordinances more economically feasible and less likely to deter development. Targeting these higher income levels often allows municipalities to require a greater number of units (more units at higher income levels rather than fewer units with deeper affordability).

- The number of units coming out of inclusionary programs can be quite high during periods of strong development; roughly eighty percent of Somerville’s inclusionary housing stock has been built in the last ten years. Boston’s recent numbers are particularly impressive; in 2018 alone, the City’s inclusionary policy resulted in 546 affordable units, which is over 20% of its total inclusionary units.¹²

Inclusionary Development Ordinances: Challenges/Considerations

- It can be difficult to find the right balance between maximizing public benefit while not impeding development. If requirements are too high, inclusionary policies could stifle development, though in strong-market areas this has generally not been the case.

- Weak market cities may be wary of adopting or enhancing an inclusionary ordinance for fear of deterring development. However, this is generally not applicable to any of the inner-core communities in the current development climate.

- Inclusionary policies do not produce units during slow development periods, so production is not necessarily consistent from year to year.

- Inclusionary policies are most effective when revisited on a semi-regular basis, as done by all three cities discussed above, to respond to changes in market conditions and to ensure that they continue to reach the right income levels.

Density bonuses

**Boston, MA (South Boston)**

The recommendations from Boston’s 2016 PLAN: South Boston Dorchester Avenue Planning Initiative,¹³ which covers the blocks surrounding the one-mile stretch of Dorchester Ave. between the Broadway and Andrew MBTA stations, included establishing a density bonus, a zoning tool through which increases in height and/or density are allowed in exchange for a range of public benefits. In this case, one of those public benefits is the inclusion of middle-income housing units. Under the policy, developers designate 4% of a project’s total units as affordable to middle-income households (100% AMI for rental units, or 120% AMI for ownership units). These units are in addition to the low- and moderate-income units required

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¹³ Available at [http://www.bostonplans.org/planning/planning-initiatives/plan-south-boston-dorchester-ave>](http://www.bostonplans.org/planning/planning-initiatives/plan-south-boston-dorchester-ave)
under Boston’s Inclusionary Development Policy. In exchange, developers are permitted to build to density bonus heights ranging from 60’ to 300’, rather than the by-right height limit of 40’. The Plan includes a variety of setback requirements to ensure the overall project massing is appropriately scaled.

The provision for middle-income units was included due to strong community preference to include opportunities for middle-income housing in addition to low-income housing. The Plan estimates that, through this tool, up to 7% of new housing units in the Plan Area will be income restricted to middle-income households. Though it is too early for any projects to have been completed through this program, initial interest has been strong.

San Francisco, CA

Like the South Boston program, San Francisco’s Affordable Housing Bonus Program, enacted in 2017, allows developers a density bonus in exchange for deed-restricted middle-income units.14 The intent was to promote both greater density and more affordable housing in outlying areas of the City that have seen less development than the City as a whole. Like many other zoning-based programs, the goal was to provide a resource for an income bracket that had few options, but for which no funding source existed without diverting resources from lower-income programs.

The program allows developers two additional stories above allowable height limits and eliminates density controls. The latter in particular can result in a substantial increase in units. In one recent project, base zoning allowed for 18 units, but through the program the developer was able to build 41 units. In exchange, 30% of the total units in the entire building had to be made affordable to a set range of incomes at no more than 150% AMI for ownership or 120% AMI for rental. Participation in the program is granted through a conditional use permit, which requires approval by the San Francisco Planning Commission.

The City did a soft site analysis to identify underutilized lots where redevelopment is likely to occur, and determined that there were about 200 parcels that could take advantage of the program, with a potential yield of up to 15,000 units – double what would be allowed under the base zoning, and 30% of which would be affordable.15

Density Bonuses: Opportunities/Pluses

- The programs come at no cost to the City, leveraging private development without diverting funds from low-income housing programs. The middle-income units are in addition to the low- and moderate-income units required by inclusionary zoning, and are not an alternate method of compliance.
- Because the programs are not negotiated on a case-by-case basis and do not require additional subsidy, they have the potential to result in substantial unit production.

14 Program information available at <https://sfplanning.org/ahbp>
15 Interview with San Francisco Planning Department staff, April 6, 2018.
• In both examples discussed above, the bonus heights and densities serve as a substantial incentive for developers to participate given how much higher they are than what is permitted by-right.

• Because the programs are optional, they will not stifle development or increase land or development costs (and, by extension, the construction of inclusionary units).

• San Francisco’s program in particular works well because it exists in areas that currently have density controls. The program both provides affordable housing, and provides a mechanism to increase density and housing supply generally.

Despite an extensive list of challenges noted below, density bonuses are an excellent tool in strong-market areas, and are recommended for consideration.

Density Bonuses: Challenges/Considerations

• Because the programs are optional, developers may choose not to participate. In San Francisco, there have been several instances of developers who have not taken advantage of the program, despite encouragement from the City. Input from these developers, who tended to be small and with limited capacity, indicated that the bonus program did not work financially for their particular project, or that they were wary of complicating the permitting process by triggering a requirement for Planning Commission approval.

• Accordingly, cities considering density bonuses will need to make sure that program participation will not add additional time or uncertainty to the approval process, which disincentivizes participation.
  o Political and community concern over the San Francisco program required that the density bonus be available only through a conditional use permit, which in San Francisco can substantially delay project approval. Some City officials are considering the possibility of changing the density bonus to a by-right program to encourage participation.

• Density bonuses work best in areas zoned for lower density; for the incentive to be worthwhile, allowable densities and heights must be enough to cover the incremental cost of the middle-income units. In some neighborhoods, increased height limits may not be palatable. (Note: we do not recommend a strategy of keeping by-right heights unduly low simply to incentivize the use of a density bonus as limiting production tends to increase housing costs overall.)

• As with inclusionary zoning, finding the right balance is both important and difficult. San Francisco had originally proposed allowing more units at higher income levels, but ultimately lowered the income levels to make the program more politically appealing to advocates and elected officials who supported directing resources to lower-income households. This in turn meant reducing the number of required units to make the program economically feasible. 16 This once again illustrates the tension between addressing the needs of middle-income households and the even greater financial needs of low-income households.

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16 Interview with San Francisco Planning Department staff, April 6, 2018.
A challenge during the enactment of San Francisco’s program was the perception that it would divert resources from low-income housing. The City devoted substantial time marketing the program and the need for middle-income housing in order to maintain socioeconomically-diverse communities.

Planned unit development (PUD) and special project zoning

Cambridge, MA

On a project-by-project basis, Cambridge may require units for middle-income households earning up to 120% of AMI (and often for lower-income households earning less than 80% of AMI) when developers request zoning relief for phased or master-planned housing developments. Similarly, units are sometimes required as part of special permitting or other approvals. Cambridge has included middle-income units in at least one completed project (see Alexandria PUD discussion in the next section), as well as in several more projects currently in predevelopment.

Cambridge favors this production strategy for several reasons. Like the density-based zoning discussed above, this is not a choice between serving low-income or middle-income residents; the middle-income component can be in addition to the low- and moderate-income units already required. The desire for middle-income units typically comes as a request from the community for specific projects as a way to satisfy their request without directly using other housing resources. It is also a way to meet developers in the middle – when subsidies are not available, middle-income housing is more feasible than additional low-income units.  

Tyson’s Corner, VA

In 2010, Fairfax County adopted a 20-year comprehensive plan to guide high-density development in the Tyson’s Corner commercial center. The plan requires that 20% of units be affordable to lower- and moderate-income households across five income tiers, including 5% of units at 100% of AMI and 5% of units at 120% of AMI. Though the plan includes higher permitted Floor Area Ratios, this is not a voluntary density bonus; the affordability component is required. In addition, non-residential developments that take advantage of higher densities must make contributions to the county’s affordable housing trust fund.

777 Hamilton, Menlo Park CA

As part of a development agreement with the City of Menlo Park, Facebook agreed to pay $430,000 per year for five years to subsidize apartments for local teachers. Rents are capped at $1,250 for a household earning up to $50,000 a year, and $2,500 for a household earning up to $100,000 a year, in a building where rents in market units range from $3,100-$6,100 (2017$). The subsidized housing for teachers was one component of a larger development agreement that also included the required inclusionary units and contributions to city housing programs and studies.  

17 Interviews with Cambridge Community Development Department housing staff, April 12 and 25, 2018.  
resources, the Boston area is also attracting high-worth companies, and it’s instructive to see how other municipalities are piloting innovative ideas when the resources become available.

Special Zoning: Opportunities/Pluses

- This approach takes advantage of project-based opportunities as they present themselves on a case-by-case basis.
- Like other more formal programs discussed above, the middle-income housing is required in addition to existing low- or moderate-income housing requirements, so it does not take resources away from those groups.
- The project-based approach gives the City the flexibility to address its most current priorities, and to adjust the approach as needed with each new project.

Cities should keep this strategy in their toolbox for large developments, but should not rely on this as their only mechanism.

Special Zoning: Challenges/Considerations

- Large-scale developments will not provide a consistent production source of middle-income units, as these projects occur relatively rarely.
- Because this is not a policy, but is negotiated on a case-by-case basis, it should be used only for major projects that would already require negotiation between the City and the developer. For typical projects, lack of clarity about expectations and requirements results in increased uncertainty, which in turn can raise development costs and reduce general affordability.
- Housing subsidy that is only available for a finite number of years may potentially put residents in unstable living situations, if a more consistent subsidy source is not identified. A lack of additional subsidy could potentially put residents at an even greater risk of displacement after the initial funding period comes to a close.
- A project-by-project approach not only exposes the project to potential delays (as there is no model to replicate), it is arduous for those involved in the actual negotiation process.
- Lack of predictability, which is often cited as an important component of regulatory frameworks, makes this approach difficult to scale and replicate.

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Production tools for deed-restricted and income-restricted middle-income housing

Utilizing city land

**Neighborhood Homes Initiative, Boston**

The Neighborhood Homes Initiative creates single- and two-family ownership housing on scattered sites throughout Boston, targeting three income brackets: up to 80% AMI, 80-100% AMI, and market rate. It is a relatively new program, with just over 60 units completed as of 2018. It uses City-owned parcels that had been considered undevelopable or valueless due to their location or to their odd size or shape. The City bundles the parcels into small groups and sells them to small developers to develop homes affordable to middle-income households.19

The subsidy required from the City to ensure affordability is relatively small: roughly $80,000 per unit. The funds to cover this come exclusively from in-lieu fees from Boston’s inclusionary development policy that would have funded housing at a similar income level; no funds are diverted from programs for low-income housing. The projects are feasible with limited subsidy because the City makes a concerted effort to keep the program simple.20 For more information about the City’s experience selling these units, see the following chapter of this report.

**New Infill Homeownership Opportunities Program, New York City**

Under New York City’s New Infill Homeownership Opportunities Program (NIHOP), which promotes homeownership opportunities for moderate- and middle-income residents, City-owned parcels are sold to developers for $1 per lot. These are generally small sites, accommodating detached single-family units and small condominium or cooperative buildings up to 14 units. In addition to a traditional mortgage covering the cost of their unit, residents receive a subordinate mortgage based on the land’s appraised value, which declines over the course of 20 years. Preference is given to projects in which one-third of the units serve households at 80-90% AMI; projects may include additional tiers of affordability for households earning 90-110% AMI and 110-130% AMI. Subsidy of up to $70,000 per unit is available.21

Utilizing City land: Opportunities/Pluses

- If a city has a sizeable inventory of small or difficult-to-develop parcels available, a program like this appears to be highly replicable. Once a program is established, it offers a high level of community benefit with relatively few resources.
- This approach provides a productive and valuable use for parcels that might not be suitable for many other uses, including low-income housing. Because the major funding mechanisms for low-income affordable housing production do not easily lend

19 Program information available at <https://www.boston.gov/departments/neighborhood-development/neighborhood-homes-initiative>
20 Interview with Boston Department of Neighborhood Development staff, April 2, 2018.
21 Program information available at <https://www1.nyc.gov/site/hpd/developers/development-programs/new-infill-homeownership-opportunities.page>
themselves to small projects, it is difficult to develop scattered-site low-income housing from scratch and is unlikely that these small parcels would be feasible sites for lower-income affordable housing.

- The ability to produce affordable units outside of the standard subsidies means that these units do not accrue many of the costs often encountered in low-income housing (i.e. high soft costs associated with tax credit units, tax credit syndication, etc.). Methods to reduce development costs are also discussed in greater detail in a later section of this report.
- Detached housing is a typology that is less typical of affordable housing, and is likely in high demand. This makes it less likely that there will be difficulties marketing deed-restricted units, even in higher income brackets.
- The Green Line extension, currently under construction, will extend through several of Somerville’s neighborhoods. Any municipal land along the new line could offer a particularly valuable opportunity to create affordable housing near public transit.

Utilizing City land: Challenges/Considerations

- This strategy only works for municipalities that have a sufficient number of available sites. Boston has roughly 250 parcels to dedicate to the program, more than most other cities. This program works because of low or no land costs, which is typically only the case when publicly-owned land is available. If developers or the City paid market rates for land acquisition, it is unlikely the program would be financially feasible.
- While the subsidy is comparatively small, it is still dependent on strong development across the city (at least in the case of Boston, where funds come from inclusionary payments). It also may not be available for municipalities whose inclusionary ordinance is already dedicated to serving lower income levels.

Tax-defaulted properties pilot, Oakland, CA

This program takes advantage of a little-used tool in California’s tax code that allows the release of uncollectable liens on abandoned properties in exchange for public benefit – in this case, the development of deed-restricted affordable housing. The pilot program is a partnership between the City, the County tax collector, and a local nonprofit housing developer. City officials and the housing nonprofit worked together to identify abandoned tax-defaulted lots, many of which were the sites of illegal dumping. Because of back taxes and multiple liens, the properties were previously undevelopable and, as a result, were affordable to purchase. The nonprofit developer, in partnership with a mission-driven lender, acquired the parcels and worked with the City and County to clear the titles, enabling the properties to be developed.

The 2017 pilot round of the program included 26 parcels, which are to be developed into 24 single-family detached units for middle-income households earning up to 120% AMI and two apartment buildings with approximately 30 units for low-income households.22

Tax-defaulted properties: Opportunities/Pluses

22 Program information available at <https://www.hellohousing.org/oaklandpilot/>
• This program promises to achieve multiple goals: the creation of permanently affordable housing at multiple income levels; returning delinquent lots back to the City’s tax rolls; and transforming blighted properties into a community benefit.

• For municipalities that have the internal capacity and a supply of delinquent lots, this appears to be a program that could be scaled – the City is already (anecdotally) looking forward to involving additional developers in subsequent phases.

• Like Boston’s Neighborhood Homes Initiative, the program creates detached single-family affordable housing that is scattered throughout a neighborhood, a typology that is highly desirable for residents but often difficult to produce at affordable price points.

Tax-defaulted properties: Challenges/Considerations

• As with many if not all innovations, success requires multiple willing and active partners – in this case, multiple levels of government and committed lenders willing to take a chance on funding the purchase of lots with bad titles.

• The pilot was two years in the making, requiring a substantial amount of capacity from the City and its partners. However, if the pilot is successful, future rounds will likely require much less legwork.

• All the properties in the pilot had been abandoned for years. Any municipality pursuing this will need to invest time to ensure that this is truly the case for each and every property, and that the program would not result in any sort of displacement.

• Somerville is a smaller city than Oakland, and will likely have far fewer tax-defaulted properties. A first step would be to research how prevalent these properties are in Somerville, and to understand the causes of the defaults.

Development funds

MassHousing Workforce Housing Initiative

MassHousing dedicated $100 million from the state’s Opportunity Fund (a fund created by MassHousing in 2016 devoted to mission-oriented investments) to the production of moderate- and middle-income households (60-120% AMI).23 The program has the dual goals of keeping middle-income residents from leaving high-cost areas, and attracting and retaining middle-income residents in emerging markets. The funds are intended to be used to add a middle-income tier to projects that are either market-rate or affordable for low-income residents.

Most participants are affordable housing developers, though there has been some participation from developers adding a deed-restricted tier to a market-rate project. The funds come in the form of zero-interest soft debt, available for up to $100,000 per unit and limited to $5 million per development. At least 20% of units must be affordable to those earning up to 80% of AMI, and the target AMI level for the workforce housing units must be at least 10% below market. The program does not fund units that are required through an inclusionary ordinance or for a 40B project; the subsidy is only available for units that would not otherwise have been created.

23 Program information available at <https://www.masshousing.com/portal/server.pt/community/developers/204/workforce_housing>
As of early 2019, the program had committed roughly $70 million to 31 projects that created a total of 797 workforce units. It has proven to be popular with developers and with municipalities; the program pipeline is already oversubscribed, though MassHousing intends to continue to seek additional funding to support the program in the future.  

**Middle-Income Housing Program, New York State**

This program, financed through state-issued bonds, is intended to help developers of low-income rental housing add a middle-income component for households earning up to 130% AMI. The goals of the program are to both create more income diversity in affordable housing projects and to provide housing opportunity for underserved middle-income households. Between 10% and 30% of the units must be for households with incomes over 60% AMI, and half of those units must be for households with incomes over 90% AMI. The financing is soft subordinate debt in the form of a 30-year low-interest loan. This is a gap financing program: the maximum award is $140,000 per unit in greater New York City, and $95,000 elsewhere in the state. It is worth noting that New York has a state Low-income Housing Tax Credit program that subsidizes units up to 90% AMI, so there are additional state funds for these units.  

**Mixed Income Programs, New York City**

Like the state program, the New York City Department of Housing Preservation and Development (HPD)’s Mixed Income Program, or Mix and Match, encourages mixed-income development by funding additional tiers of moderate- and middle-income units (up to 165% AMI) in projects that include low-income units. The program encourages at least four different affordability tiers, and half of the units must be for low-income residents. The subsidy operates on a sliding scale that decreases as target income levels increase: $120,000 per unit is available for units at 70% AMI, whereas $10,000 per unit is available for units at 130% AMI. Higher subsidy levels are available for low-income units. The subsidy, financed through the sale of tax-exempt bonds, is in the form of a 30-year loan with partially deferred payments and a balloon payment at maturity.

HPD’s Mixed Middle-income Program, also known as M², operates on a similar model with a greater emphasis on moderate- and middle-income tiers. In this program, 20% of the units are targeted towards low-income households (earning less than 50% AMI), a minimum of 30% of the units are for moderate-income households (earning 80-130% AMI), and a maximum of 50% of the units are for middle-income households (earning 130%-165% AMI). The debt is structured similar to that in the Mix and Match program. In the highest income tier, studios rent for $1,800 and three-bedroom units for $3,150. In some areas, the middle-income rents may be at or close to market rate, but by deed-restricting them, they will remain affordable to middle-income households even as neighborhood rents rise.

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24 Interview with MassHousing staff, April 11, 2019.
25 Interview with New York State Division of Housing and Community Renewal staff, April 10, 2018.
26 Program information available at <https://www1.nyc.gov/site/hpd/developers/development-programs/mixed-income.page>
27 Program information available at <https://www1.nyc.gov/site/hpd/developers/development-programs/mixed-middle-income.page>
Montgomery County’s Workforce Housing (WFH) program promotes the construction of ownership housing that is affordable to households with incomes between 71% and 120% of AMI. New and re-sale homes have a 20-year control period, during which owners must occupy the home as their primary residence, the owner must not refinance the home based on market value, and the home can be resold for no more than the re-sale price established by the Department of Housing & Community Affairs (DHCA) to an approved WFH program participant. After the control period, should the owner sell the property, they must pay half of the sale proceeds to the County. The proceeds are calculated as the difference between the market sales price and the original WFH price, plus adjustments that include the percentage change in the consumer price index and an allowance for transfer taxes, recordation charges, and a real estate commission.

Development funds: Opportunities/Pluses

- Mixed-income development creates economically diverse buildings and neighborhoods, reducing concentrations of low-income households and increasing economic opportunity and community resources.
- The Massachusetts and New York programs leverage resources by simply adding units to projects that are already financially feasible. The program’s level of subsidy per unit would be far too low to construct a new building consisting only of middle-income housing, but it is sufficient to cover the incremental cost of adding a few extra units.
- For low-income housing in particular, the size of the building is often limited not by zoning or site constraints, but by the amount of subsidy available. Adding a small number of middle-income units to these buildings could leverage the resources going into the affordable project (for example, low-cost land) without taking resources away from low-income units. For example, if a project has already maximized its available low-income subsidy, middle-income units can still be added even if low-income units can’t.
- MassHousing’s Workforce Housing Initiative has proven attractive to both ends of the development spectrum. For mission-based developers of lower-income projects, it facilitates a mixed-income development and provides resources to add units even after the project has exhausted subsidies that have per-project maximum limits. For market rate developers, it offers a source of financing early in predevelopment, when funding is often difficult to obtain, plus the value of providing a community benefit.
- Montgomery County’s Workforce Housing program has struck a balance between enabling homebuyers to accrue equity – without which many middle-income homeowners are deterred from participating – and providing for recouping resources upon resale.

Program information available at <https://www.montgomerycountymd.gov/DHCA/housing/singlefamily/workforce/>
Development funds: Challenges/Considerations

- Both Massachusetts and New York State cover a wide range of markets and incomes. In the suburbs of Boston and New York City, middle-income housing is substantially below market rate, but in rural areas and weak-market cities, the market may be nearly equal to middle-income or even lower. Both states have acknowledged the difficulty in designing a statewide program that adequately addresses the needs of such vastly different areas. In Massachusetts, some mission-based developers have been interested in securing deed-restricted moderate or middle-income units in gateway cities in anticipation of rapidly rising rents. However, in general, these areas have been more complicated to include in the program.

- Likewise, because of these differences in housing costs, the income groups that have need for affordable housing vary widely across the state, and in some cases may not fall within the program’s income brackets. For example, a moderate-income household earning 100% AMI in a rural area may have no trouble finding market-rate housing that meets their needs, while a household in the inner core earning well above 120% AMI may have difficulty finding an affordable option.

- Although the ability to provide an affordable tier in a market-rate building is a positive, when working with for-profit developers who aren’t used to dealing with subsidies, MassHousing has found that extensive “handholding” was required. There has been a learning curve for MassHousing as well. For example, many affordable housing resources that come in the form of soft debt require repayment upon sale or refinancing. For affordable housing developers this is typically 15-30 years after project completion, but many market-rate developers’ business model involves selling the building upon reaching full occupancy. Additionally, the program requires permanent financing be through MassHousing or one of its partners, but some market-rate developers already have their own relationships that they prefer to use or that they are required to use based on other equity commitments. As with any new program, MassHousing has had to be flexible while learning how to most effectively work with market-rate developers.

- Similarly, New York State found that there is often a learning curve for nonprofit developers participating in their program. Their most successful funding recipients have had the experience to ensure the project runs smoothly (for example, most successful projects condo-ize the middle-income units to avoid complications of matching waitlist applicants with units in different income brackets). While this expertise is important, it ideally shouldn’t be a barrier to entry for smaller, community-based developers and CDCs.

- As with any subsidy, these programs’ scalability depends on a sufficient and reliable source of funds: low-income housing developers do not have the resources to add units that are not supported by subsidy, and market-rate housing developers do not have the incentive to develop units without the funding source.
Community land trusts

A Community Land Trust (CLT) is a model of ownership through which a nonprofit acquires land and removes it from the market to preserve it for community use. Although the land may be used to provide a number of public benefits, this discussion is focused on its use for the purpose of affordable housing. When used for housing, typically the CLT sells housing to an income-qualified resident but retains ownership of the land. This makes the housing more affordable – the homeowner is buying the housing unit, but not the land – and also ensures permanent affordability by capping resale prices. Because of the CLT’s involvement in the purchasing process, homeowners within a CLT are far less likely to go into foreclosure.

Many of the most successful CLTs have been in existence for decades and have acquired land during periods of divestment, the most notable local example being the Dudley Street Neighborhood Initiative in Boston. For nascent CLTs that do not have access to affordable property, acquisition is one the biggest hurdles to overcome. While this is true for all affordable housing developers, it is particularly true for CLTs, which tend to own smaller properties but which nonetheless need to operate at scale to keep their operating costs in balance. Likewise, because CLTs tend to own smaller properties throughout entire neighborhoods, per-unit development costs can also be a challenge until the CLT has reached a sustainable scale.

Despite the challenges of forming a CLT in the current market, it can be done. For example, Interboro CLT in New York, formed in 2017 by four partner organizations, has over 250 units in its pipeline. It has benefited from substantial seed funding from local and national organizations, enabling access to rich technical assistance. It was also able to leverage the expertise of its partner developer organizations to acquire development parcels, many through City RFPs. The availability of municipal land for essentially no acquisition cost was critical in establishing Interboro CLT’s viability.29

Community land trusts: Opportunities/Pluses

- In short, CLTs are an excellent affordability model that allows for both equity building and permanent affordability.
- A Somerville Community Land Trust has been officially incorporated and has already garnered support from many members of the community in addition to support from the Mayor and City Council.
- CLT networks operate at both the national and the local levels, including the Greater Boston Community Land Trust Network, and are available to provide technical assistance.

Community land trusts: Challenges/Considerations

- Like any affordable housing development tool, CLTs require substantial investment and access to public assets, which are often scare and highly competitive. In the case of Interboro CLT, the ability to acquire city-owned land at no cost – supported by the City’s expressed preference for maintaining long-term affordability, which is inherent in the

29 Conversation with Interboro CLT staff, May 21, 2018.
CLT model – was essential to helping the CLT reach quickly reach a sustainable operating scale.

- The technical challenges of structuring and operating a CLT can be substantial. Even experienced developers such as the partner organizations in Interboro CLT have reported the need for CLT-specific technical expertise.

Leveraging housing authority resources

**Missing Middle Housing Act, California**

In 2017 the California Legislature authorized a four-year pilot program that would allow the San Diego and Santa Clara County Housing Authorities to provide gap financing for middle-income housing projects.\(^3\)\(^0\) Previously the housing authorities were only permitted to assist with low-income units; now they may also provide assistance for projects in which 10% of units are affordable to middle-income households (earning up to 150% AMI) provided that at least 40% of units are affordable to low-income households.

While it is too soon to assess program results, it will be worth revisiting the program at the end of the pilot period to better understand whether it is broadly replicable.

**Tax exemptions**

**Multifamily Property Tax Exemption, Seattle**

Seattle’s Multifamily Property Tax Exemption (MFTE) Program provides a tax exemption on new multifamily buildings in exchange for setting aside 20-25% of the homes as affordable for low- and moderate-income households.\(^3\)\(^1\) Affordability levels vary based on unit size; rental units range from 65% AMI for studio units to 90% AMI for units three-bedrooms or larger. Ownership units range from 100% AMI for studios and one-bedroom units to 120% AMI for units two-bedrooms or larger. For rental projects, the property owner receives a 12-year exemption from property taxes; for ownership projects, the owner of each income-restricted unit receives the exemption. After this period of time, the units are no longer required to be affordable. The program has been through several iterations since it was first enacted in 1998.

Over 300 projects have participated in the program since its inception, the vast majority of which are rental projects. The program has resulted in 8,650 affordable units, 1,860 of which are affordable to the 80-120% AMI range.

**Assembly Bill 3152, California**

California state property tax law currently allows an exemption for low-income rental development that is owned and operated by nonprofits. Legislation was proposed in 2018 that

\(^{30}\) Legislation text available at <https://leginfo.legislature.ca.gov/faces/billTextClient.xhtml?bill_id=201720180AB1637>

\(^{31}\) Program information available at <https://www.seattle.gov/housing/housing-developers/multifamily-tax-exemption>
would have expanded this exemption to include projects for moderate-income residents (80-120% AMI) in high-cost areas, though the bill ultimately was not advanced by the state legislature’s fiscal committee.\(^{32}\)

**Boston**

Boston’s *Housing a Changing City* identifies tax incentives as one strategy to encourage private development of housing affordable to middle-income residents. The document proposes eliminating property taxes during construction and reducing property taxes during the first three years of occupancy, and anticipates that the City will work with the State's Executive Office of Housing and Economic Development to structure the program.

**Tax exemptions: Opportunities/Pluses**

- The City of Seattle, whose program has been in existence for nearly 20 years, has a detailed cost-benefit analysis of the program, and concludes that the benefit of affordability, even if not permanent, outweighs the loss of tax revenue. As of 2018, 192 projects are actively receiving the tax exemption; these represent approximately $23 million in revenue that would have been collected if not for the program. In 2018, MFTE tenants’ total rent savings will reach an anticipated $29 million in projects for which MFTE is the lone rent restriction. Any municipality considering this approach should perform a similar analysis.

- Like other tax-based programs, this is an ‘invisible’ subsidy that does not necessarily appear as a line item in a City’s budget. While this can be an advantage politically, it is important to remember that it still amounts to a subsidy.

**Tax exemptions: Challenges/Considerations**

- It is important to note that Seattle’s program does not create permanently affordable units. Since the program’s inception, the tax exemption has expired for 14 projects containing 758 total affordable units. Some of the projects have additional affordability restrictions that extend affordability, but those that do not have reverted to market rate units. Residents in these units may be eligible for relocation support from the City, but are not guaranteed affordable housing after the exemptions expire.

- Although Seattle’s program has produced a substantial number of affordable units, the loss of revenue – which amounts to a subsidy - is also substantial (though the City has calculated that benefits outweigh costs; see above section).

- The Seattle program covers a wide range of affordability levels, and the majority of affordable units serve low-income, not middle-income, households. If a municipality was interested in limiting the program to middle-income units, it could potentially offer a more limited exemption that would result in less revenue loss while remaining attractive to developers.

\(^{32}\) Legislation text available at <https://leginfo.legislature.ca.gov/faces/billTextClient.xhtml?bill_id=201720180AB3152>
Middle-income preservation tools

Although this report does not cover tenant protections (short-term rental restrictions, just-cause evictions, condominium conversion restrictions, rent control), these could also be a useful tool in retaining middle-income households. Many of these strategies are receiving increased attention, with the State of Oregon passing the nation’s first statewide rent control measure in early 2019, and legislation filed in the Massachusetts House of Representatives in spring 2019 that would enable municipalities to implement a range of tenant protections.

Removing units from the open market

**HomeBridge, Cambridge**

This is a small program through which the City offers funding for buyers to purchase a unit on the private market; in exchange, the unit becomes a permanent part of Cambridge’s affordable housing inventory and is entered into the City’s homeownership pool upon resale.³³ The funds are substantial: within price limits set by the City, program participants can receive up to 40% of the cost of a one-bedroom unit and 50% of the cost of a three-bedroom unit. Cambridge residents earning up to 120% AMI are eligible to participate. The program is funded through CPA funds for residents with incomes under 100% AMI, and through development mitigation agreements for residents with incomes between 100-120% AMI, which are above CPA limits. The program originally began as a preservation program to enable residents to purchase their units when rent control ended in 1994, but today it is more commonly used as a general purchase assistance tool.³⁴

**Acquisition Opportunity Program, Boston**

This program is intended to preserve and stabilize moderately-priced housing by supporting the acquisition of occupied rental units.³⁵ The fund enables mission-based developers to be more nimble in a fast-moving market where they often must complete with private investors who have immediate access to cash and capital. Participating developers pre-qualify for a set amount of funds, and then can use a certification from the City to make an offer on a property. Participants must set aside at least 40% of the units for low-and moderate-income households, with preference given to developments with a higher number of restricted units or units restricted to lower incomes. The program began in 2016 with $7.5 million from the City’s Inclusionary Development Policy funds.

**Small Sites Program, San Francisco**

The Small Sites Program (SSP) is an acquisition and rehabilitation loan program for multi-family rental buildings of 5-to-25 units.³⁶ The program was created in 2014 to address increasing

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³³ Program information available at [https://www.cambridgema.gov/CDD/housing/forhomebuyers/HomeBridge](https://www.cambridgema.gov/CDD/housing/forhomebuyers/HomeBridge)
³⁴ Interview with Cambridge Community Development Department housing staff, April 25, 2018.
³⁵ Program information available at [https://www.boston.gov/departments/neighborhood-development/acquisition-opportunity-program](https://www.boston.gov/departments/neighborhood-development/acquisition-opportunity-program)
³⁶ Program information available at [https://sfmohcd.org/small-sites-tenants](https://sfmohcd.org/small-sites-tenants)
market pressure on tenants that are susceptible to eviction and displacement. To participate in the program, tenants nominate their building and partner with a local nonprofit, which purchases and renovates the building with funds from the City in the form of a second mortgage on the property, with a maximum subsidy of up to $350,000 per unit depending on building size. Participating households can earn up to 120% AMI, but the building must maintain a building-wide average of 80% AMI. All the units in the building become permanently income-restricted. As of 2017, the program had closed financing on 13 buildings and had another 12 buildings pending, for a total of 137 units and 24 group housing units.

Funding comes from a variety of sources, including the City’s Housing Bond, inclusionary zoning set-aside funds, and its Housing Trust Fund.

Removing units from the market: Opportunities/Pluses

- While the per-unit subsidy to acquire an existing unit can be substantial, it is typically less than the cost to construct a new affordable unit and can be combined with the ability of the purchaser to leverage private mortgage debt.
- The Boston and San Francisco programs come with the added benefit of targeting occupied buildings whose residents are at risk of displacement. These programs meet dual goals of creating affordable housing and increasing housing stability for at-risk residents.

Removing units from the market: Challenges/Considerations

- Unsurprisingly, demand for acquisition and purchase assistance far outstrips funding availability. As is the case with most subsidies, this limits the ability to scale the programs.
- Cambridge City staff have reported that a major challenge of the HomeBridge program is that residents often have difficulty finding a unit on the market that is within the program’s price limits. There is a limited amount of inventory at this price point, and competition for those units is high. As with other acquisition-based programs, this tool may be most effective in a transition market where prices are lower.

Socially responsible investing

Austin Housing Conservancy

The Austin Housing Conservancy is a private equity fund managed by the nonprofit Affordable Central Texas. The fund invests equity from individuals, foundations, banks, and institutional investors in existing multifamily communities that are currently affordable to moderate- and middle-income households (those earning 60-120% AMI). The nonprofit then takes over management of the buildings, and preserves affordability by limiting rent increases to the rate

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37 Program information available at <https://www.austinhousingconservancy.com/>
of the area's wage growth. It was created through an Austin City Council resolution in 2014 with the goal of preserving 15,000 affordable housing units over the next 10 years. By the end of 2018, the fund had acquired three properties with a total of 792 units, and has four additional properties in its acquisition pipeline for 2019.

Property Tax Relief

Longtime Owner Occupants Program, Philadelphia

Philadelphia's Longtime Owner Occupants Program provides tax relief for residents in areas with rapidly escalating housing prices. The program is available for residents earning less than 150% AMI who have lived in their home for ten years or longer and whose property's assessed value has at least tripled from one tax year to the next. Once accepted to the program, the assessed property value is capped at triple the prior year's value, and is held there for ten years, after which the property's eligibility expires unless the owner is low-income. While there would still be a substantial jump in property taxes owed the first year in the program, the benefit comes in the ensuing years when property taxes stabilize even if property values continue to rise.

Circuit Breaker Credit, Massachusetts

The state's Circuit Breaker Credit allows seniors a tax credit (up to $1,080 in 2017) for property taxes paid on a property used as their primary residence. Eligibility is based on a statewide income limit, which in the Boston area correlates roughly with 100% AMI. The assessed value of the property must be less than $747,000, and the senior must be "overburdened" by property taxes (property tax payments plus half the household's water and sewer expense must be greater than 10% of annual income). Renters can also take advantage of the tax credit if 25% of their annual rent exceeds 10% of their annual income.

Massachusetts also allows income-qualified seniors to defer property taxes until the property is inherited or sold. Income limits differ by municipality, though the program is generally limited to low-income residents rather than middle-income residents.

Non-deed/income restricted programs

First-time homeownership programs

Downpayment assistance programs are common nationally, and in many jurisdictions are available to residents earning up to 120% AMI. Though terms differ depending on jurisdiction, commonly the programs offer a no-interest loan to partially cover downpayment and/or closing costs. Payments are often deferred for a set period of time or until the resale of the property.

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38 Program information available at <https://www.phila.gov/services/payments-assistance-taxes/income-based-assistance-programs/longtime-owner-occupants-program/>

39 Program information available at <https://www.mass.gov/service-details/senior-circuit-breaker-tax-credit>
These programs generally do not come with deed restrictions. Downpayment assistance programs are often relatively small, intended to enable homeowners to leap over the last hurdle to purchasing a home.

Local examples include:

- Somerville’s Closing Cost 110 program offers up to $3,500 to first-time homebuyers earning 80-110% AMI in the form of a no-interest, five-year forgivable loan.
- Boston’s First Time Homebuyer Financial Assistance offers a no-interest, deferred loan of up to 3% of the cost of the home, payable at sale or transfer and available for households earning up to 120% AMI.
- MassHousing recently developed a program that covers a down payment of up to 3% of the purchase price, not to exceed $400,000. The assistance comes in the form of a 15-year second mortgage at a 1% interest rate. The program is available for households earning up to 100% AMI.

Some first-time homeowner programs come in the form of below-market financing. MHP’s One Mortgage program, available to residents earning up to 100% AMI, offers a low down payment, no property mortgage insurance, and a fixed below-market interest rate. Residents earning less than 80% AMI are also eligible for an interest subsidy. The program does not come with deed restrictions, though at sale a portion of any appreciation may repay part of the lowered interest rate. These state programs are discussed further in the fourth section of this report, “Reducing Development Costs”.

**Shared equity homeownership**

Shared equity homeownership programs are similar to standard downpayment assistance programs in that they offer a no-interest loan to partially cover downpayment and/or closing costs. Payments are often deferred for a set period of time or until the sale of the property. However, some jurisdictions offer a more substantial loan in exchange for a degree of equity sharing.

Examples include:

- Los Angeles’ Moderate-income Purchase Assistance Program offers a deferred loan of up to $60,000 for first-time middle-income buyers. Repayment is due at sale or after 30 years, at which point the City shares in a percentage of the appreciation in the value of the property.
- San Francisco’s Downpayment Assistance Loan Program, which offers a deferred loan payment of up to $375,000 to middle-income households, follows a similar equity-sharing model.
- Silicon Valley Housing Trust’s Homeowner Empowerment Loan Program follows a similar model for residents earning up to 140% AMI: a deferred loan for up to 10% of the purchase price, with a share of appreciation upon resale.
While the municipality captures a share of the appreciation, homes bought through the program are not income-restricted. So while there is longer-term public benefit in that the municipality is able to reinvest its appreciated share into more affordable housing, future buyers of the properties are unlikely to be low- or middle-income.

It’s worth noting that there are also private-market versions of these programs. For example, a startup called Landed, operating out of the San Francisco Bay area, uses a shared equity model to enable public school teachers to afford homeownership.

Facilitating market solutions

Because it’s so important to not divert resources from low-income housing, enabling market solutions – market-rate housing that is affordable to middle-income households without subsidy or deed restrictions - is a key approach that many jurisdictions have included in policy documents both in Massachusetts and nationally. Although that approach is outside the scope of this report, strategies to enable market production of middle-income housing are an important tool to ensure adequate housing opportunities for middle-income households. These strategies, many of which are under consideration as part of Somerville’s ongoing rezoning efforts, include:

- Allowing for development of smaller lots by reducing minimum parcel size and/or reduced setback requirements on small infill lots
- Reducing off-street parking requirements
- Allowing accessory dwelling units
- Allowing increased unit density (by regulating building massing rather than number of units)
- Allowing smaller units
- Streamlining permitting and approvals
- Offering impact fee rebates
- General production to increase housing supply
III. Experience selling/leasing deed-restricted middle-income housing

MAPC’s previous middle-income housing report noted that “affordability may not be enough to retain these [middle-income] households when they have other options within the broader region,” and noted that income certifications and deed restrictions may be a deterrent for middle-income households who likely have other, non-restricted options outside the inner core. This section considers demonstrated demand for area deed-restricted middle-income housing, as well as the extent to which marketing techniques can be adjusted to successfully reach middle-income residents, who may not consider themselves eligible for assistance.

Boston

In general, Boston has seen strong interest in its deed-restricted middle-income housing, regardless of whether the housing is rental or homeownership, and regardless of whether it is marketed by the City or by a private developer. Developers are typically responsible for marketing their own affordable housing units per the City’s Fair Housing requirements, though in the case of certain smaller projects, the City may market the units (see Neighborhood Homes Initiative). As noted above, the bulk of Boston’s deed-restricted middle-income units are produced through the City’s Inclusionary Development program. Generally, the City has not observed any issues filling the inclusionary units, even those at the higher end of the income scale.

However, there is typically more demonstrated demand at the lower income levels. In one recent example project, the City received 133 applications for a one-bedroom unit affordable to 80% AMI and 88 applications for the same size unit affordable to 80-100% AMI. The same project saw 124 applications for a two-bedroom unit at 80% AMI, and 70 applications for the same size unit at 80-100% AMI. According to City staff, this distribution of applications across the varying income levels is typical of recent Boston projects. While this likely indicates greater need at the lower income levels, it is also important to recognize that demonstrated demand does not necessarily equate to actual need, especially given the challenges in reaching middle-income residents who may not consider themselves eligible for affordable units.

The Beverly

The Beverly is located in downtown Boston on one of the Big Dig parcels owned by the Commonwealth. All 239 units in the Beverly are income-restricted, with target incomes ranging from 30% AMI to 160% AMI. The project includes Low-income Housing Tax Credit units, off-site inclusionary units from other downtown developments, and middle-income deed-restricted units. According to the developer, interest has been strong across all income brackets, and the deed restrictions have not been a deterrent for potential tenants.

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40 Interview with Boston Planning and Development Agency staff and Boston Office of Fair Housing and Equity staff, April 11, 2019.
41 Interview with Related Beal staff, April 27, 2018.
The project assembled a wide range of resources, including: federal and state Low-income Housing Tax Credits; bond financing, much of it tax-exempt, through Mass Development; inclusionary funds from other nearby market-rate developments; funding from the state Affordable Housing Trust Fund through MassHousing; a tax stabilization plan; a lease on state-owned land; co-location with a Courtyard Marriott hotel and a market-rate parking garage, which reduce the cost of the housing by assuming the entire land cost; and no required on-site parking for the residential units.42

Selling/leasing: Opportunities/Pluses

- Downtown location. Housing costs in this area are high enough that rents set at 160% AMI are still well below market rate. The project site, adjacent to North Station and a block from the waterfront, is desirable enough to draw residents even if they have the option of similarly-priced, non-deed-restricted units further from downtown.
- Marketing. Marketing was done by the developer in compliance with City and fair housing requirements. The developer used the same marketing strategy typically used for market-rate units. In addition to promoting the project, the outreach strategy was very intentional about explaining the income restrictions and lottery process in a simple, user-friendly way. The developer stressed that this was critical in de-mystifying the income restrictions and application process for the average layperson.

Selling/leasing: Challenges/Considerations

- Downtown location. To a large degree, the project worked because it is in a high cost area where affordable middle-income rents are substantially below market rents. Even though this project was successful, it does not necessarily mean that a project with deed-restricted rents this high would be feasible in many areas outside of downtown cores with dense job centers, where market rents are much lower.
- Developer experience. The project developer, Related Beal, is experienced in affordable housing development and funding sources, and their parent company had developed a project with similar income targets in New York City. The developer was the driver behind the idea of middle-income housing; given the complexity of the deal structure, the project would have been more difficult if the developer had not had a clear goal or was not committed to developing at this income level.

Parcel P-12

This parcel in Chinatown, owned by the Boston Planning and Development Agency (BPDA), is currently being planned for development. Based on community input, one of the priorities identified in the BPDA’s Request for Proposals (RFP) to develop the site was homeownership units restricted to moderate and lower-middle-income households. The team of developers that responded to the RFP proposed 171 affordable units, 126 of which would be ownership units affordable to 70-100% AMI with an average of 80% AMI. These units are the off-site inclusionary units from another downtown development project. The proposed development

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also includes tax credit residential units for low-income households, hotel rooms and amenities connected to an existing adjacent hotel, a relocated public library branch, and a parking garage.43

- The project is still in the early stages of predevelopment, but based on the current proposal it is another example of leveraging IDP funds to build middle-income housing in a high-cost area. Like the Beverly, it is in a prime location near transit and jobs, and it also involves a complex team of partners. This seems to indicate that, despite its complexity, there is appetite on the part of both government and developers for continuing to build projects with a substantial middle-income component, at least in very expensive areas.
- This project is feasible in large part because it is providing the inclusionary units required for another large development project. Many cities, Somerville included, require that inclusionary units be provided on-site to promote economically integrated communities.

Neighborhood Homes Initiative

The Neighborhood Homes Initiative creates single- and two-family homes on scattered sites throughout Boston, with affordability across three income brackets: up to 80% AMI, 80-100% AMI, and market rate. Developers are responsible for selling the unrestricted market rate units, and the Department of Neighborhood Development (DND) markets the deed-restricted units in coordination with Boston’s Fair Housing Commission. A DND employee estimates that the applicant pool for the program is around 200 people, several times the number of units that have been created. Anecdotally, DND has never had a problem selling the units, especially now that the program is established and is gaining more attention from residents. (See previous section for a detailed description of the program itself.)44

Selling/leasing: Opportunities/Pluses

- All applicants are pre-vetted before they are included in the applicant pool. Because of this, they generally have a good understanding of what the resale restrictions are, and the deed restrictions are not a substantial deterrent.
- Detached housing is a typology that is less typical of affordable housing, and is likely in high demand. This makes it less likely that there will be difficulties marketing deed-restricted units, even in higher income brackets.

Selling/leasing: Challenges/Considerations

- While the City’s marketing plan appears to be fairly robust – in addition to the usual newspaper postings and affordable housing databases, the outreach includes the Boston Home Center, the City’s Homebuyer club, and a large network of community organizations – it is essentially the same outreach strategy that is used for low-income units. The City might not be reaching qualified households who don’t think of themselves as eligible for assistance.

43 Interview with Boston Planning and Development Agency staff, April 9, 2018.
44 Interview with Boston Department of Neighborhood Development staff, April 2, 2018.
Unlike Boston, Cambridge markets all of its income-restricted units. This is a major difference: whereas private developers typically base their middle-income marketing strategy on their market-rate strategies, Cambridge bases its middle-income marketing strategy on its low-income strategy. The City prefers this approach because it ensures consistency across all projects, and creates a single place for residents seeking housing to apply for affordable units.

It’s important to note that this is a time-intensive practice, and while it comes with the advantage of keeping the costs associated with marketing affordable units down, many cities may not have the capacity to take on this role. More importantly, the methods used to reach a low-income market may not be reaching middle-income buyers. Most middle-income residents do not think of themselves as eligible for assistance, which makes them particularly difficult to reach. This makes program assessment difficult: even though interest in a given program may appear to be low, it doesn’t necessarily mean there is not strong demand.\(^{45}\)

Layered onto the issue of reaching potential tenants is the issue of those same residents having options: the benefit of living in Cambridge must outweigh the benefit of a non-restricted further outside the city if such an approach is to be effective.

**Middle-income Rental Program, Cambridge**

Cambridge manages its middle-income rental units through the Middle-income Rental Program.\(^{46}\) Through this program, the City manages the applicant pool, determines eligibility, oversees annual income recertification, and refers eligible applicants to property owners with available apartments. The City is not involved in the lease, which is directly between the building owner and the tenant. The program is newly-created and currently only has units from one project, the Alexandria Planned Unit Development (discussed previously in the section section). However, several more projects with middle-income rental units are in predevelopment.

The City has experienced some challenges in filling its middle-income rental units, though its experience is relatively limited. As part of the Alexandria PUD, Cambridge required the developer to include 15 rental units affordable to a range of middle-income households (90-110% AMI). The City received roughly 60 applications for the lottery of these 15 units, considerably fewer than the hundreds or even thousands of applications the City often receives for its low-income units. Even though the rents were substantially below market rent for Cambridge, they approached the market rents of nearby communities, meaning that eligible households had the choice of moving further away from the City for a comparably-priced, non-deed-restricted rent. Some at the City have suggested that it may be easier to fill middle-

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45 Interviews with Cambridge Community Development Department housing staff, April 12 and 25, 2018.
46 Program information available at <https://www.cambridgema.gov/CDD/housing/forapplicants/middleincomerentalprogram>
income ownership units than middle-income rental units, because ownership is viewed as more permanent and Cambridge is a desirable place to put down roots.\textsuperscript{47}

The City marketed these units according to their typical practice, as described above. Given that studies show the demand for middle-income housing is strong, the lack of demand demonstrated here may be due to the need for a different marketing strategy. Middle-income households searching for housing may need different outreach – it may not occur to them that they might be eligible. Further study is recommended when the units currently in predevelopment are leased.

\textbf{Homeownership Resale Pool}

Generally, Cambridge has experienced more demand for middle-income homeownership units than rental units.\textsuperscript{48} Cambridge maintains a pool of applicants interested in purchasing deed-restricted units as they are sold by their current owners. This is an ongoing list that is separate from lotteries for new projects coming online. This pool is available for residents earning 50-100\% AMI.

About 20\% of the applicants in the pool are in the middle-income range (though in reality that percentage may be higher, since the pool does not pre-screen for eligibility). Although demand for middle-income homeownership units is less than that for low-income units, the City reports steady and strong interest from middle-income residents, far exceeding the supply of ownership units available.\textsuperscript{49}

\textbf{Opportunities/Challenges}

- The City reports that few people are discouraged by the resale restrictions, which allow for some equity building but are primarily geared toward preserving affordability. The City is up-front about the restrictions and when an applicant is selected to purchase an affordable unit, they have generally already considered the benefits and limitations of purchasing a home with a deed restriction. While some applicants are reluctant to buy a property that they will not be able to pass on to their children, for most people the highest priority is the ability to stay in Cambridge, which is not an option for them without a deed-restricted unit.
- This program is a very user-friendly way to help owners sell a deed-restricted unit. While the City may have shortcomings marketing to middle-income when compared to market-savvy developers, they’re probably far better equipped to market deed-restricted units than an individual owner or realtor who might not have any experience with deed-restricted resale. For potential buyers there is a level of comfort knowing that, if and when they need to sell, they will have assistance from the city.

\textsuperscript{47} Interviews with Cambridge Community Development Department housing staff, April 12 and 25, 2018.
\textsuperscript{48} Program information available at <\url{https://www.cambridgema.gov/CDD/housing/forapplicants/resalepool}>
\textsuperscript{49} Interviews with Cambridge Community Development Department housing staff, April 12 and 25, 2018.
In addition to the Homeownership Resale Pool, Cambridge’s HomeBridge program (discussed in the previous section) is available to residents earning up to 120% AMI. Resale of units purchased through program at affordability levels of 100-120% AMI are marketed individually because they exceed the Resale Pool income requirements. Roughly half the HomeBridge applications are from residents earning 100-120% AMI.

**Somerville**

Somerville employs a hybrid approach to marketing its affordable units. If a development includes less than 10 inclusionary units, the City generally oversees the marketing and lottery process. If a project includes 10 or more inclusionary units, the developer usually is responsible for the marketing and lottery, with City oversight and review of the marketing documents, information sessions, lottery, and income certifications.\(^{50}\) As in Cambridge and Boston, middle-income units marketed by the City follow the same marketing strategy as that used for low-income units. Outreach includes a press release, posting on the City website and other housing websites, flyers at public buildings and events, social media posts, newspaper advertisements, and multilingual email alerts to an Inclusionary Housing Listserv, City employees, and local housing organizations. For homeownership units, alerts are sent to lenders as well.

**Inclusionary zoning**

As discussed above, Somerville’s primary production mechanism for middle-income units is its inclusionary zoning ordinance, revised in 2016 to include additional middle-income tiers. Though no projects permitted under the current version of the ordinance have been leased to date, the previous inclusionary ordinance also included some middle-income affordability. The ordinance required two tiers of ownership units: under 80% AMI, and between 80-110% AMI. Rental units were required in two tiers as well, targeted towards 50% AMI and 80% AMI. Generally, the demonstrated demand was higher at the lower tier for both types of tenure (50% AMI for rental units and 80% AMI for ownership units).

While not as strong as that for lower-income units, demand for the middle-income units is healthy. For example, a lottery held in January of 2018 for two units at 70 Prospect Street received 30 eligible\(^{51}\) applicants for the 80% AMI unit and 19 eligible applicants for the 110% AMI unit. Six rental inclusionary units at 315 Broadway, whose lottery was held in 2017, received 206 eligible applicants for the units at 50% AMI and 78 eligible applicants for the units at 80% AMI.

As discussed above, the City’s inclusionary ordinance was revised recently in 2016, so at this time there are no built projects that include units in the higher-income brackets. There should be additional analysis to compare demand across the different tiers and different tenures, as more projects with middle-income inclusionary units reach occupancy. It will be particularly interesting to compare demonstrated demand for middle-income units marketed by the City and demand for those marketed by developers. Another area that warrants attention is

\(^{50}\) Interview with City of Somerville staff, April 10, 2018.

\(^{51}\) Note that these numbers are for eligible applicants, who have been screened by City staff and have been determined to meet eligibility requirements. The number of actual applications is generally much higher.
whether there is a difference in interest for comparable units in Somerville and Cambridge, cities whose neighborhoods and housing stock share many similarities, to further assess the effectiveness of differing marketing techniques.

Other local examples

There are many projects with middle-income units currently in development or under construction, largely thanks to MassHousing’s Workforce Housing Initiative. These will give a broad sample of units developed by a variety of developers, housing types, locations, and markets. Further study is recommended after a substantial number of these units have been completed. Somerville will also soon have experience when the developments subject to their revised inclusionary ordinance, which includes requirements for middle-income units, begin to come online.

Arlington, MA

Through the disposition of Town-owned land and inclusionary zoning, Arlington was able to require Arlington360, a 176-unit mixed-income rental apartment complex, to include 9 units leased via lottery to households earning 80-120% of AMI. Arlington was able to require affordability because the project was built on Town-owned land and inclusionary zoning stipulates that all developments over 6 units must include 15% of units affordable to low- and moderate-income households. The middle-income units have been difficult to lease because rents of $2,100-$2,300 (in 2014) are perceived as relatively high, differing only slightly from market-rate older units in town. The project was originally conceived as ownership housing, but was developed as rental due to changes in the market and financing requirements. Arlington housing staff contacted felt that the middle-income requirements would likely have been more desirable as ownership units.

National examples

Like those in greater Boston, deed-restricted housing targeting middle-income households has met with mixed success on a national level.

New York has robust funding mechanisms to support middle-income housing (because of the exceptionally high cost of living, many middle-income projects include units that are restricted at substantially higher than MAPC’s definition of middle-income for the purpose of this study – in some cases, as high as 230% AMI). There are many cases where middle-income projects have been successful and seen high demand, the largest of which is the Hunter’s Point South multi-phase development in Queens. However, there are also examples in which units at the higher end of the income spectrum have remained unfilled (see 535 Carlton Ave.), where the set rent is comparable to other options available on the market. An important takeaway is that, even in a market with seemingly bottomless demand for housing, a pitfall of middle-income housing is that other options are available.
IV. Reducing Development Costs

This section considers some of the innovative techniques that are currently being explored to reduce construction costs. Construction costs are an important piece of the middle-income housing puzzle; lower costs would enable more deed-restricted housing with fewer subsidies, while also enabling more naturally affordable housing. This section focuses on modular construction, which has garnered particular attention in recent years and perhaps shows the most potential to transform the way that multifamily buildings are constructed.

High development costs are a key factor in the current housing affordability crisis. As costs increase, developers must charge increasingly high rents or sales prices in order for their projects to be financially feasible. The impact of costs on housing prices is garnering a growing amount of attention as construction costs rapidly outpace inflation: over the course of 2017, multifamily construction costs increased by 6.7%, over twice the annual average rate of 2.7% between 1990 and 2000.  

One reason for increased costs is that people want more out of their homes. Housing in the United States has increased in size, even as household sizes decrease – whereas in 1970 the average new home size was 1,400 square feet, today it is 2,400 square feet. New homes also have amenities that were rare 50 years ago. It is almost unheard of for new housing today to lack air conditioning, and all but the smallest units typically include more than one full bathroom.

Another more recent trend is that the construction industry simply doesn’t have the capacity to build housing as quickly as is needed to address the present housing shortage. Nationwide, the construction industry has still not fully recovered from the most recent recession. Compared to 2006, the number of residential construction workers is 23% lower, and the number of skilled tradesmen is 17% lower. This shortage of workers, which is particularly felt in areas with high costs of living, increases the amount that general contractors must pay for labor.

Perhaps the most interesting theory on why costs have increased is that, in many ways, construction technology has undergone relatively little change since lightweight wood framing was developed in the 19th century. Even though there have been modern advances to systems such as plumbing and heating, basic light wood framing remains essentially the same. This hypothesis is borne out when looking at industry productivity; since 1945, productivity in other

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52 Terner Center Research Series: The Cost of Building Housing, available at <https://ternercenter.berkeley.edu/construction-costs-series>
sectors such as manufacturing or agriculture has grown by as much as 1,500%, whereas productivity in construction has remained more or less stagnant.\textsuperscript{55}

### Modular construction

While modular construction is not a new idea and is widespread in Europe, technology and efficiency gains have generated renewed enthusiasm in the United States for this technique and its potential to decrease the cost of housing production. Modular construction uses boxes or “modules,” each roughly the size of an apartment, to form a building’s structure. These modules are manufactured off-site in a factory assembly line and shipped to the project site for installation, where they are stacked in varying configurations on top of a foundation. Unlike other forms of prefabricated construction, such as panelized construction, the “modules” arrive on site with appliances, lighting, and even some finishes pre-installed.

#### Opportunities/Pluses

**Reductions in construction time.** The single biggest advantage of modular construction is the reduced construction schedule, the benefits of which are difficult to overestimate. Because the modules can be built in a factory at the same time that the foundation is being built on site, the process can result in substantial time savings. In a recent project in Boston, up to 14 modules were placed each day, with the entire structure complete in one month. The cost per square foot for modular construction isn’t necessarily less than in standard construction, but the reduction in the time it takes to build the project – as much as 30-40%, depending on the project and the location – translates to substantial savings, as high as 20% of overall project costs.\textsuperscript{56}

**Controlled conditions.** Because much of the work takes place within the controlled conditions of a factory, modular projects are less susceptible to weather-induced delays. This is particularly key in Massachusetts, where construction starts are timed to avoid winter conditions and a particularly snowy season can result in months of delay. The climate-controlled conditions also make the quality of the work easier to control, while the fine-tuned factory process minimizes construction waste.

**Building envelope.** Similarly, the controlled factory conditions allow for greater precision and make it easier to achieve a tighter, more energy-efficient building envelope than in typical construction. Additionally, the modular stacking method results in a double-walled construction that offers increased acoustic separation between units.


\textsuperscript{56} Dineen, J.K. “SF set to start process for building modular housing for formerly homeless.” San Francisco Chronicle, January 22, 2018.
Advances in design. The design of modular construction has moved far beyond simple cookie-cutter boxes. With an experienced architect and contractor, a modular building can feature façade articulation and details that make it indistinguishable from standard construction in terms of design quality.

Challenges/Considerations
As a relatively new construction method in the United States, modular construction is not without its challenges. The length of the discussion below is not meant to suggest that modular construction is not a worthwhile construction method; it merely means that there are many factors that a development team should intentionally consider before embarking on a modular project.

Learning curve for a new process. Above all else, modular construction represents a significant change from the way construction projects are traditionally structured. This means that there is a steep learning curve for the entire project team. Most professionals with modular experience emphasize the critical need for all team members to be committed to modular construction from the project outset.

General contractor and subcontractor relationship. Typically, a general contractor bids out a project to various subcontractors (plumbers, electricians, carpenters, etc.), who in turn often bid out portions of their contract to additional subcontractors. In modular construction, where much of the work happens under one factory roof, this traditional business model is upended, and the general contractor must adjust to this new project structure. Most notably, this method means that a single subcontractor (the modular contractor) is responsible for a substantial portion of the project, which can alter the dynamic between a general contractor and their subcontractors.

Design. On a standard construction project, many design decisions – from finish selection to site-specific adjustments - are made in the field during the construction process. In modular construction, these field modifications are far more costly because the modules must be built out prior to arriving on site. The need to frontload design decisions represents a change in mindset for both architect and general contractor.

Financing and lender education. Lenders and investors, who assume much of the project risk, can be wary of new technologies, and many need to be educated on how modular construction works. In one case, a tax credit investor was concerned about quality control in the off-site factory, and had their underwriter visit the manufacturing site to become comfortable with the process as well as determine how to assign risk during transport and storage. Modular construction also shifts risk and the way that cash flows: in another case, the project lender did not recognize the modules as complete until they had arrived on the site, so the up-front factory payments were financed using equity. The importance of aligning construction and financing schedules at closing, though
always important, is even more critical for a modular project; typically the modular factory has a pipeline of jobs and a scheduled window for each project, and if the closing is delayed beyond the factory production window, the project may lose its spot in the production line.

Approvals. Because of overlapping state and local regulations (see below), the development team must understand permitting requirements and where local and state regulators have jurisdiction. This is especially true when the modules are manufactured out-of-state.

Oversight. Generally speaking, opposition to modular construction has focused on a lack of oversight and conflicts with organized labor (see next paragraph). Modular construction is regulated at the state level, and in Massachusetts is overseen by the state Board of Building Regulations and Standards. As opposed to traditional on-site construction, where local inspectors come to the site many times throughout the construction process, the state only requires one on-site inspection.

The majority of modular building inspections are done in the factory by third-party inspectors hired by the manufacturer. The reduced role of local inspectors has raised some questions about the quality of modular construction; the Board of Building Regulations and Standards recently created a new subcommittee to look further into modular housing in Massachusetts.

Labor. Modular construction has many implications for hiring practices that are important to consider. In June 2018, the New York Times reported on modular construction in Northern California, and touched on the tensions between modular construction and trade unions:

“In addition to not being rained on, one of the key differences between a construction site and Factory OS [a modular factory in Vallejo, CA] is that any worker can be trained to do any job... Factory OS is not anti-union: It has a contract with the Northern California Carpenters Regional Council, which has organized other modular factories and is banking on the technology's continued growth. The issue is that builders are laid out like a Detroit auto factory, where one union represents all of the workers, and workers can be trained to do any job within the company walls. That is a huge departure from construction sites, where unions representing plumbers, electricians, carpenters and various other trades each control their piece of the building process.”

According to the report, the modular factory paid lower wages – roughly half of the wages commonly found on a traditional construction site. The tradeoff is that the factory work is more regular, and requires less commuting, which varies by job site but in the Bay Area can be up to two hours each way.

Beyond union participation, modular construction can impact hiring goals for minority-owned and woman-owned businesses. Because it represents such a large portion of the overall construction contract, if the modular subcontractor does not have high minority or female participation, it can negatively impact hiring goals or put pressure on other subcontractors to make up the difference. Additionally, because the modules are constructed off site, prevailing wage requirements do not necessarily apply.

**Manufacturing capacity.** Another major challenge for the spread of modular construction is the lack of manufacturing capacity. Locally, developers of modular projects have relied on factories as far away as Pennsylvania and Maine. In the United States, modular construction has traditionally focused on detached suburban development. As the multifamily market has picked up, many factories are expanding their focus, but committing to a single large multifamily project rather than many small single-family projects involves a shift in mindset and business model.

**Logistics.** Any developer considering modular construction must be prepared to address additional logistical questions, which can include:

- **Timing and storage.** On-site foundation work must be scheduled to align with the construction of factory-made modules. If the two fall too far out of sync, the project must pay for storage of the modules while the site is being prepared.

- **Staging.** Even when timing aligns perfectly, modular projects still require sufficient space for staging; modular construction is only time-efficient if the modules are on site or can be stored nearby and accessed quickly.

- **Transportation.** Modular construction requires close coordination with the local municipality to ensure that the delivery of dozens or even hundreds of modules, each on a flatbed truck, can be accommodated on local streets.

**Local examples**

While modular home manufacturers in Massachusetts have traditionally focused on suburban single-family dwellings, there are an increasing number of local examples of custom-designed multifamily modular buildings. Some of these include:

- The Graphic in Charlestown, a mixed-use development that includes a new 171-unit residential building, built using modular construction stacked above a parking podium. It is presently the largest modular construction building in Boston.

- The Box District in Chelsea includes one market-rate modular building and one affordable modular building financed in part with 9% Low Income Housing Tax Credits. Each building is approximately 50 units and took 6-7 months to construct.

- 28 Austin Street Apartments in Newton, a 68-unit high-end residential building currently under construction. Twenty-five percent of the units (23 units total) will be affordable.
• 30 Haven in Reading, a 53-unit mixed-income, mixed-use building located near an MBTA commuter rail station. Twenty percent of the units are affordable to low-income households, 38% are workforce units, and the remaining 42% are market rate.

• Leyden Woods, a 200-unit phased preservation project in Greenfield, MA by The Community Builders. Located in western Massachusetts, the project consists primarily of townhouse-style buildings.

• The Harvard Innovation Lab in the Allston neighborhood of Boston, a 15,000 square foot laboratory and co-working space. Though not multifamily, this building is notable in that it is a signature building on Harvard’s Allston campus and that, like the examples above, moves beyond the common perception of what modular construction looks like.

Note that this list is in no way exhaustive; these are a sampling of projects in prominent locations or that feature a strong affordable housing component.

National examples
In addition to specific building projects, some municipalities have begun promoting modular construction. In most cases this is primarily motivated by each city’s pressing need to construct as many units as quickly as possible in response to the current housing affordability crisis.

New York
The De Blasio administration has delved into modular construction through a variety of programs. The City’s Housing New York 2.0 set a policy goal of incorporating innovative construction methods, including modular construction, to reduce construction costs and time. This was followed by a Request for Expressions of Interest (RFEI) issued by the NYC Department of Housing Preservation and Development that opened a channel for discussions between the City and developers about how and where modular construction could be incorporated.\(^{58}\)

Then in 2018, the City issued a request for proposals for the design, construction, and management of a mixed-income and mixed-use affordable housing development in Brooklyn requiring modular construction - a first for the City. The selected development team included the only modular manufacturer located within New York City. Although the project is still in predevelopment, the use of a local modular manufacturer promises several advantages: the logistics of shipping modular boxes across town will be far simpler than shipping them across state lines, and the timing of their delivery can be more carefully controlled. Furthermore, the local manufacturer already had a relationship with local organized labor and had an existing agreement to pay close to prevailing wage, at least partially addressing concerns that modular factories pay lower wages.

Finally, New York City’s Build it Back program is rebuilding housing damaged by Hurricane Sandy through the use of modular construction. The City started using modular construction

\(^{58}\) Interview with New York City Department of Housing Preservation and Development staff, April 11, 2019.
through this program after falling behind schedule on replacing lost housing; the technology facilitated a quick turnaround.

**San Francisco**
The San Francisco Mayor’s Office of Housing and Community Development has also used the RFP process to promote modular construction by requiring it in a 2017 RFP for a 250-unit supportive housing project for formerly homeless residents. In addition, the city is pursuing a modular construction factory within the city’s boundaries, with involvement from the trades.

**King County, WA**
The Department of Community and Human Services in King County, WA launched a modular pilot program in August 2018. The program consists of three affordable housing projects, all to be built using modular construction: a 72-bed congregate shelter, a 20-unit “micro-unit” single-room occupancy building, and an 80-100 unit permanent supportive housing building. The projects will each be evaluated for construction speed, quality of construction, and replicability.

**Other innovative construction methods**

**Manufactured Housing**
Manufactured housing is built in a factory in standard components such as walls and floors, then shipped to its destination in pieces and assembled on site. Manufactured houses have lower labor and construction costs than traditionally-constructed houses. They also have many of the same benefits as modular construction, including shorter construction timelines.

Manufactured houses include what are commonly called mobile homes, though the industry is moving away from that term because it is historically associated with lower-quality housing. Today, manufactured houses have moved beyond this stereotype; they are available in a wide variety of styles from traditional to modern, and can be indistinguishable from site-built houses.

Manufactured housing is most often used for single-family, detached housing. In a dense, urban setting, it is most appropriate for smaller buildings such as accessory dwelling units (ADUs) rather than multifamily applications.

**Mass Timber**
Mass timber is an engineered wood product typically made by laminating and compressing multiple layers of wood into solid panels, which are used to frame a building’s walls, floors, and roofs. Because of its light weight, mass timber buildings can be erected in much less time with fewer workers; one project in Vancouver was erected at a speed of two floors per week. Its most common application is in mid-rise construction as an alternative to concrete or steel, but it has been used in buildings up to 18 stories. Its application in the United States has been
limited to date due to code constraints, though national codes are moving towards greater acceptance of mass timber in a variety of situations. Mass timber’s main advantage is as an alternative to steel or concrete; it is not yet cost competitive with traditional light frame wood construction.

3D Printed Homes
3D printing creates a physical object from a digital design using different technologies and materials. Interest in 3D printing for housing construction has increased as technology has become more accessible and printing materials have evolved. The first 3D printed house in the United States was created as part of the South by Southwest festival in Austin, TX in 2018. The 350-square-foot, one-floor, single-family house took 48 hours and cost $10,000 to print. If brought to scale, 3D printed homes have the capacity to significantly lower labor, design, and material costs, though mass application is likely many years in the future.

Reducing costs through design
In high-cost areas across the country, architects are increasingly focusing on ways to reduce housing costs through design. In some cases this means smaller, more efficient units, where well-designed layouts make up for less space. In other cases, this means rethinking assumptions about what needs to be provided in today’s housing market:

- When an amenity can be shared, provide it in a common area rather than in each individual unit.
- Simplify designs by minimizing complex construction details and custom pieces; in many high-cost cities, the location is the biggest amenity, so boutique design and high-end finishes may not be needed.
- Standardize plans and details wherever possible.
- Perhaps most of all, reduce parking to the greatest extent possible.

Reducing regulatory costs
While this analysis has focused on construction costs, those costs are only a subset of overall development costs, which increase with the number of regulatory hurdles. While many regulations are in place for the public benefit and/or protection, it is important to acknowledge their impact on housing costs. Depending on the municipality, these costs can include: excessive parking requirements; limitations on smaller unit typologies such as micro-units or accessory dwelling units; limitations on developing on small or oddly-shaped lots; density controls; extensive permitting processes, often with high levels of uncertainty; low thresholds for discretionary review; development and permitting fees; requirements such as green building or local hiring; appeals process and outsized influence of abutters. Note that Somerville is taking on many of these subjects as part of its ongoing rezoning efforts.
V. State Tools

At the state level, the Commonwealth has several tools at its disposal designed to support middle-income housing. These include MassHousing’s Workforce Housing Initiative, discussed previously in the second section of this report. Another recent addition to the state’s toolkit is the introduction of a middle-income tier to Chapter 40R. The original 40R program has been in place since 2004, and provides incentives to municipalities that create zoning to accommodate dense developments (8-20 units per acre) in smart growth locations. Municipalities receive a direct payment from the state upon the creation of a 40R zoning district, as well as additional state subsidy when developments within the district receive building permits.

The program requires that at least 20% of the units developed within a 40R district be affordable to households earning 80% of AMI. However, in 2016 the legislature updated Chapter 40R to include “starter home zoning districts,” which allow for a lower minimum density and a higher income limit of 100% AMI for the required affordable units. Regulations for this new starter home component were finalized at the end of 2017; to date no middle-income units have been created through the program.

Massachusetts also supports several programs for middle-income homebuyers, primarily through loan products. Massachusetts Housing Partnership’s (MHP) ONE Mortgage program is available to households earning 100% AMI or less. The loan involves a fixed-rate, 30-year mortgage with a 3% down payment and no private mortgage insurance. The program also includes a second subsidized mortgage, though this is only available to low-income homebuyers earning 80% AMI or less.

MassHousing’s loan program is available to households earning up to 135% AMI. The fixed-interest rate loan includes mortgage payment protection, offering assistance with mortgage payments in the event of job loss. In addition, downpayment assistance is available for households earning up to 100% AMI. The assistance is available for up to 3% of the purchase price (limited to $12,000) in the form of a 15-year, fixed-rate loan with an interest rate of 1%.

In summary, Massachusetts has a suite of state-level tools available to facilitate the production of middle-income rental housing, and to assist middle-income homebuyers in the purchase of a home. Because of the difference in housing options available to middle-income households in Boston’s inner core and in more suburban and rural areas of the state, crafting state-wide policies and programs that provide additional support for middle-income households will be challenging: the high level of need is a regional issue rather than a state issue. For this reason, any additional programs and policies to support middle-income housing beyond those described above are recommended at the local level rather than the state level.

59 Program information available at <https://www.mhp.net/one-mortgage>
60 Program information available at <https://www.masshousing.com/portal/server.pt/community/home_buyer_loans/226/masshousing_loan>
VI. Recommendations

As is the case with affordable housing generally, there is no one solution that will restore middle-income affordability to the inner core. However, there are many lessons to be learned from the actions that other municipalities have taken to foster housing solutions for this group. The recommendations below offer a framework for potential future action to support middle-income housing. The first set of recommendations outlines general recommendations that are widely applicable to any municipality considering middle-income housing programs or policies. The second is specific to Somerville.

General recommendations

1. **Local action is needed to supplement state programs.** State policies and programs are a critical starting point to address the need for middle-income housing. Massachusetts residents and housing developers are fortunate to have access to a suite of state resources that support middle-income housing opportunities. However, in extremely high cost areas like greater Boston’s inner core, state resources are not sufficient to fully address demand. Because the demand is so much greater in these areas, municipalities need to leverage state programs in conjunction with their own local resources.

2. **There is no one strategy that will single-handedly solve the issue.** The cities that have been most successful in addressing the need for middle-income housing have taken a multi-faceted approach that includes a combination of policies, programs, and funding streams. Moreover, these cities have integrated their middle-income housing approach into a comprehensive housing strategy. As phase one of the Middle Income Housing report noted, the housing market is a complex system and middle-income housing does not exist in a vacuum; successful municipalities take an inclusive approach that recognizes the interplay of all levels of housing affordability.

3. **There is a need for creativity.** Many of the programs highlighted in this report are not necessarily replicable or scalable, but are the result of municipalities taking advantage of unique opportunities as they present themselves. In order to equip cities to recognize and respond to such opportunities, policymakers should have a basic understanding of middle-income housing need and how it differs from low-income housing need. Because middle-income housing typically requires less subsidy than low-income housing, it can often work financially in cases where Affordable Housing at lower income levels cannot. Policymakers should be aware that, even if low-income housing is infeasible in a particular situation, middle-income housing units may still be a possibility.

4. **The most successful programs have demonstrated flexibility.** The real estate market can change drastically from year to year and from neighborhood to neighborhood. For a
middle-income household, these market fluctuations can make the difference between housing options being readily available, hard to find, or nonexistent. To remain relevant even as the market changes, any middle-income program should include mechanisms for regular updates and adjustments. Additionally, many middle-income programs begin as pilot programs; these innovative programs in particular require a willingness to adjust a program’s parameters as it is tested. This is important for all program aspects, but is especially critical for marketing strategies, where traditional low-income outreach practices will not necessarily reach a middle-income audience.

5. **Lead with policy, follow with implementation.** In many cases, cities that are successfully producing middle-income housing have started by clearly identifying it as a priority and then articulating specific implementation strategies. This was the case in both Boston and New York, where policy-level decisions by city decisionmakers paved the way for, and provided political support for, developing and implementing programs at the staff level.

6. **Focus on incremental financing for a middle-income tier.** Middle-income housing requires less subsidy to be financially feasible than low-income housing. Rather than finance a standalone middle-income housing development, most effective programs leverage development that’s already happening, whether by adding a middle-income tier to an affordable development or by incentivizing middle-income units in market-rate developments. In these cases a middle-income tier of affordability can be added with a comparatively small amount of subsidy.

**Somerville-specific recommendations**

1. **Include middle-income housing in planning processes.** Somerville is already engaged in dialogue around the importance of middle-income housing, as reflected in the recommendations of SomerVision and the Sustainable Neighborhoods Working Group. Future planning documents should build on this foundation. Specifically, Somerville 2040 should include support for middle-income housing as a broad goal. The plan should also lend its support to the strategies identified within this report for how middle-income goals can be achieved alongside other housing affordability goals.

2. **Gain a greater understanding of the market.** Because middle-income families have options to stay in the more expensive inner core or move further afield where market-rate housing is more attainable, simply producing middle-income housing may not be enough to attract and retain these households. Somerville has an excellent opportunity to learn more about the middle-income housing market through the affordable units above 80% AMI that will be built through its inclusionary ordinance in the coming years.
The City should track the demonstrated interest in these projects as well as project characteristics (amenities, location, building typology, tenure, marketing strategies, and terms of the deed restriction). This information will eventually help the City gain a greater understanding of what this segment of the market is seeking, how to reach them, and what they are willing to compromise on in order to live in a vibrant, desirable city like Somerville. This information could be supplemented with interviews or focus groups with residents seeking middle-income housing, or perhaps even more interesting, interviews with former Somerville residents who moved to less expensive locations, to understand why they moved and what would have persuaded them to stay.

3. **Proactively message deed-restricted housing for a middle-income audience.** As observed throughout this report, reaching prospective middle-income residents is challenging for a variety of reasons: many do not realize they are eligible for assistance; as a consequence, they may not consult more traditional affordable housing marketing venues such as city or state websites; they may be wary of the idea of a deed restriction; and they likely have other housing options further from the inner core that are naturally affordable.

To reach prospective middle-income residents, developers should expand marketing techniques to include those used by market-rate developers. The Beverly in Boston had a particularly successful marketing strategy to promote its affordable units. Secondly, any marketing should include materials to educate potential residents on the advantages of living in a deed-restricted unit. For prospective homeowners in particular, it’s important they understand that they will be able to accrue some level of equity even with a deed restriction, and that a deed-restricted unit in the inner core is an appealing alternative to a non-restricted unit further afield. The City could consider producing standard materials for use by developers.

4. **Incentivize preservation of naturally affordable middle-income housing.** Although housing costs in Somerville are high, there remain existing properties that are naturally relatively affordable. These tend to be smaller two- or three-unit buildings with longtime owners in residence who may have priorities beyond maximizing profit, such as retaining a good tenant or reducing turnover. The Office of Strategic Planning and Community Development should analyze incentives for existing property owners to preserve their tenancies at below-market rates, including both financial incentives and City support. There are many local and national examples of “good landlord” programs; a middle-income program could be structured around such preexisting programs and modified for a middle-income population. Because these units would not be deed-restricted, as a first step the City should analyze the efficacy of such a program before investing extensive resources.
5. **Maintain existing zoning tools and explore new ones.** Because zoning tools rely on the private sector to produce affordable housing with no public subsidy, these tools are particularly well-suited for middle-income, rather than low-income, housing. Somerville already has a robust inclusionary zoning ordinance in place, including middle-income tiers. At a minimum, the City should maintain and monitor its inclusionary ordinance, continuing to update it as market conditions change. Additionally, the City could consider incorporating a middle-income density bonus into its ongoing rezoning efforts. This could involve either adding additional density beyond what is currently being contemplated as part of the rezoning, or it could attach a modest middle-income requirement to any areas where an upzoning is proposed. Any consideration of a density bonus should be accompanied by an economic feasibility analysis to ensure that it is financially feasible.

6. **Look for project-specific opportunities as they arise.** Because the rents are higher, middle-income units may be economically feasible even if additional low-income units are not. As described in recommendation #3 above, an awareness of middle-income housing economics will enable policymakers to identify potential opportunities as they present themselves.

   A specific case-by-case opportunity to consider is the use of City-owned land. Somerville does not have the inventory of vacant land that many other larger cities do; however, with creativity the City may be able to leverage existing city property. As Boston and New York have illustrated, even parcels that were traditionally undevelopable could prove useful. Another approach, perhaps even more appropriate for Somerville given its lack of underutilized parcels, is combining residential use with compatible municipal uses. Many cities, including New York, Chicago, San Francisco, and Boston, are all considering or have built housing above branch libraries. The city should track planned renovations for municipal facilities that may be able to incorporate housing as part of the project.

7. **Consider a future middle-income tier in the Community Land Trust.** The CLT working group has already had discussions around the potential inclusion of middle-income units in the land trust. At present, the group’s first steps are to focus on deeper affordability levels, both because of the need at these levels and because of funding sources being more readily available to support low-income households. However, as a long-term goal, the CLT should consider incorporating a broader range of income levels as it expands and becomes increasingly self-sufficient.

8. **Explore the possibility of instituting a tax exemption for affordable housing developers, including developers of middle-income housing.** This could be structured as a program that broadly supports all levels of affordable housing, with a middle-income tier that could be either voluntary or mandatory for participation in the program. Because they do not appear as a line item in a City’s budget, tax exemptions
can make a subsidy more politically palatable (though it is important to note that they still represent a subsidy). A first step would be to conduct a financial analysis similar the City of Seattle’s program analysis to ensure full cognizance of financial tradeoffs.

9. **Promote intergenerational home-sharing for middle-income households.** Many longtime middle-income residents have excess capacity in their homes, particularly older residents whose children may no longer live at home. These longtime residents, many of whom bought their homes when costs were more affordable to middle- and even low-income households, may be in need of supplemental funds for home maintenance or rising property taxes. To that end, the City of Boston recently issued a Request for Proposals seeking a vendor to administer an intergenerational homesharing program with the goal of making 100 matches in Boston. Both Somerville and Cambridge also remain eager to engage in research that would provide insight into best practices for municipal support for an intergenerational home-sharing program; while this does not specifically address middle-income residents, they are among the population that might consider participating in and benefiting from such a program.

10. **Study the existing homeowner assistance program** to understand who it is serving and ensure that it is meeting program goals. The City’s current $3,500 downpayment assistance available to middle-income buyers is most typically used in combination with inclusionary zoning. This level of assistance may not be sufficient for broader use by residents who are not purchasing an inclusionary unit. The City should begin to track interest in the program as well as program utilization by income level, and study barriers to use – whether a lack of knowledge that the program exists, timing of funding availability relative to the speed at which market real estate transactions take place, amount of funds available per buyer, or City capacity to administer the program. Depending on the outcomes of the program assessment, consider restructuring the assistance so that it is offered in the form of a repayable loan rather than a forgivable loan, similar to that offered by the City of Boston or MassHousing. This could enable a higher level of assistance. At a minimum, encourage applicants to use the City’s assistance in combination with the state products discussed earlier in this report to leverage resources.