

Lopez, Donna

From: Nancy Ryan [nancyryan4@comcast.net]
Sent: Thursday, January 29, 2015 3:13 PM
To: City Council
Cc: Lopez, Donna
Subject: Cambridge Residents Alliance on the Nexus Study
Attachments: CResA Nexus Study 1_29_2015.pdf

Dear Cambridge City Council Members – Attached is a review of the Nexus Study prepared by the Cambridge Residents Alliance. We look forward to thoughtful discussions of how the analysis and recommendations in this study can advance significantly our efforts to build new affordable housing. We would be happy to receive any of your comments – please feel free to contact me at the address and numbers below. Nancy Ryan, for the CResA

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TO: The Cambridge Residents Alliance Members and Supporters

**RE: City Releases “Cambridge Incentive Zoning Nexus Study”
Analysis of Current and Future Affordable Housing Needs**

DATE: January 29, 2015

Tonight at the City Council meeting the Nexus Study will be presented and the discussion will begin about increasing fees and expanding the scope of the “Incentive Zoning” provision for funding affordable housing. Here is a brief explanation of the law, some highlights of the study and the Cambridge Residents Alliance position on the recommendations.

What is “incentive zoning” or a “linkage fee,” as it is often called?

Cambridge’s **Incentive Zoning** Ordinance has a “linkage fee” that requires large new non-residential developments (over 30,000 sq ft) to either make contributions to the Cambridge Affordable Housing Trust Fund or build affordable housing, in return for certain Special Permits to build a larger building. The funds are used by the Affordable Housing Trust for maintenance and creation of affordable housing. The linkage fee can be increased by the Affordable Housing Trust every year up to the rate of the Consumer Price Index; and can be recalculated and reset by the City Council once every 3 years.

As explained in the thorough *Cambridge Day* article (January 26, 2015) linked below, “the formula hasn’t been updated in Cambridge since it was set at \$3.28 in 1988, although the rate has risen to \$4.58 to reflect incremental growth in the consumer price index. The council got a 2002 study that suggested raising it to \$7.83, but never acted on it.” For the full article: <http://www.cambridgeday.com/2015/01/26/linkage-fee-study-dont-scare-builders-charge-only-up-to-12-per-square-foot/>

(Note: Linkage is distinct from the “Inclusionary Zoning,” regulation that requires new market-rate housing developments of 10 or more units to set aside 11.5% of units as affordable, in return for greater density.)

What is a “Nexus Study?”

Roughly every 10 years, cities hire analysts to conduct a “Nexus Study” to assess the impact of commercial development on housing needs. The last study in Cambridge was conducted in 2002. The current Nexus study by Karl F. Seidman Consulting Services was released on January 20, 2015 following residents’ outcry that in the midst of an affordable housing crisis, the City Council had not raised the rate in 12 years. The Council must now debate and adopt some or all of the report’s recommendations and set a new linkage rate. The report is long but well-written and fairly accessible to a lay person:

http://www2.cambridgema.gov/CityOfCambridge_Content/documents/Incentive%20Zoning%20Nexus%20Study%2001262015.pdf

Key findings from the 2015 Nexus study:

- Projected new commercial development in Cambridge over the next 10 years is estimated to be 4,595,000 square feet, generating 14,152 new jobs; most of this build-out (3.8 million square feet) is projected to be for office and research/development (lab) use.
- Projected number of new low-, moderate- and middle-income housing units needed to keep the current balance of incomes: 693 units, composed of 108 low-income (below 50% of area median income or AMI), 231 moderate-income (50-80% AMI), 354 middle-income (80-120% of Boston AMI). All types would need some kind of subsidy.
- The current incentive zoning or linkage rate is \$4.58 sq ft.

- Analysis of the need for new housing finds that a new linkage contribution rate from developers would be \$24.30 per square foot in order to construct the needed units; \$10.38 for low- and moderate-income housing and \$13.92 for middle income housing (for which there are no federal or state subsidies).
- The study authors, however, recommend a \$10 to \$12 sq ft rate to keep Cambridge competitive regionally; they express concern that a 5 times increase in the housing contribution and other fees would discourage development in Cambridge, especially for small and start-up firms. The report also states that “interviews with developers and real estate professionals confirmed the strong market demand for office and lab space in Cambridge.”
- By refusing to raise the linkage fee over the past twelve years, the City of Cambridge missed out on 10.6 million square feet of non-residential development that would otherwise have been assessed at the higher fee rate (Table 1 on page 8 and Table 25 on p.55). That represents a net loss of tens of millions in linkage fees and possibly 100 units of affordable housing.
- The study states: “Housing contributions are highly dependent on the market and should be adjusted with some frequency to appropriately mitigate the impact commercial development has on the availability of affordable housing in a community.” (p. 51)
- Currently many large developments are exempt from the linkage fee. The study recommends expanding the kinds of properties that would require the contribution – they would include Research & Development, Office, private Institutional, Hotels, Restaurants and Retail/Personal Services.
- The study recommends removing a special permit as a trigger for the mandatory contribution, and instead require it for any non-residential development over 30,000 square feet: make regular adjustments to the rate tied to the Consumer Price Index; and eliminate the 2,500 square feet that are currently exempt from the contribution. (Zoning changes must be passed by the City Council.)

Some notes on Housing in the report:

- In 1999, 19% of Cambridge households paid 50% of their income in rent; in 2012 the number rose to 23% (p. 25).
- “...land and residential construction costs are too high in Cambridge for market demand for affordable housing alone to trigger affordable housing. In fact, the high cost of housing construction in Cambridge is a barrier to development of housing affordable even for families at 120% of the AMI. Cambridge’s housing affordability gap, however, is most acute for low-income households at or below 80% of AMI.” (p. 26)
- “Given the market conditions and the costs to construct new housing, as discussed above, none of the needed affordable housing units will be supplied by either the current housing market or the new unsubsidized private development market.” (p. 27)
- The study “assumes that the affordable housing to be supplied will be a mix of rental and ownership units. The subsidy required in this analysis assumes that: 50% of middle-income units will be ownership units; 30% of moderate-income units would be ownership units; all low-income units will be rentals.” (page 29-30, see tables 11 and 12 for distribution of types.)

The Cambridge Residents Alliance position on the linkage fee:

In its 2013 Platform, the Cambridge Residents Alliance called for increasing the linkage fee from the current \$4.58 to \$50 sq ft, given that we are in the middle of one of the hottest real estate markets in the nation, and that it’s this market that has made housing in this city unaffordable. In addition to resulting in more funds to build affordable housing, a higher linkage fee will help compensate for housing being less profitable to build than commercial buildings.

We strongly supported Councilor Dennis Carlone’s 2014 proposal for a temporary increase to \$7.83 sq ft, but the Council did not pass that proposal, preferring to wait for the new study.

Specifically we support the following elements of the Nexus Study:

- We support the proposed **expansion of sizes and uses of buildings** that must pay a linkage fee.
- We support requiring **all buildings over 30,000 sq ft to pay a linkage fee**, rather than only buildings which apply for a special permit.
- Given the extreme need for funds for low-, moderate-, and middle-income housing, we support **increasing the linkage fee to \$24.30 sq ft**, the amount needed to fully fund the creation of the needed below-market-rate housing. The \$10-12 range is too low to dig us out of the hole we've dug by not raising the rate and by exempting so many of the recent large projects (see p. 55). In effect, the report says that unless Cambridge underfunds its affordable housing needs by half, letting developers off the hook for the full amount required to solve the problem, then we will lose companies to other cities. A \$24.30 fee would only help us meet the housing need generated by new commercial development -- we'd still have a big deficit of affordable housing.

Planning Before Building :

We restate our position that the city's whole housing policy needs real thought, not piecemeal development that is essentially controlled by developers. How high and fast can Cambridge's population grow? We would hit Manhattan's density at 180,000 residents. And what amount of housing do we want at each income level? An increased linkage fee needs to be part of a comprehensive plan to try to make up as much ground as possible in the housing sectors that have fallen behind over the past 25 years.

The amount of inclusionary housing required also needs to change, or else the market rate units will continue to reduce the proportion of low-, moderate-, and middle-income households relative to higher-income households. Currently, every big new residential building just makes that income distribution worse.

The Cambridge Residents Alliance
www.cambridgeresidentsalliance.org
working for a livable, affordable and diverse city