

# Multifamily Zoning Analysis



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# Scope of Analysis

## Economics of small to medium sized multifamily rental projects

- Will increased height & density improve financial viability?

## Comparing recent multifamily construction activity in Cambridge to nearby communities

- What factors are impacting multifamily housing development regionally?
- Are 20% inclusionary zoning (IZ) requirements preventing development of new projects?

# Methodology

## Three scenarios analyzed:

- Below inclusionary zoning threshold on a small lot (5,000 SF)
- Six (6) story project on a small lot (5,000 SF) with IZ units
- Six (6) story project on larger lot (10,000 SF) with IZ units

## Assumptions and methods included:

- Financial model to estimate financial returns & feasibility
- Model parameters based on market data, developer & contractor interviews
- Focus on development feasibility before land costs
- Interviews & data collection on recent multifamily (MF) development in nearby communities

# Scenario Results

No scenario is financially feasible under existing market conditions

- Financial return before land cost is below common developer threshold
- Development costs are too high for rent revenue to cover high interest rates & equity investor/developer returns

Higher density does not overcome financial barriers in current market

Analysis limited by one 'standard' financial model

- Financial assumptions do not reflect cost & rents for all projects
- Model reflects one point in time
- Analysis does not mean that a given project is not feasible, but that market conditions are not favorable for that type of development even with greater density. Developers have varied strategies, financial goals & sources of capital that impact selection and development decisions

# Multifamily Construction Trends

Compared new MF construction activity in Cambridge with nearby communities

- Arlington, Malden, Medford, Newton, Somerville & Watertown
- Focus on 2021 to 2023 and projects with five (5) or more units

Identified trends and factors impacting MF development activity

Interviews and data collection from city/town housing and planning staffs

- Comparison with Costar data for completeness

# Regional Multifamily Construction Starts

Source: Community building permit data provided by housing/planning staff with selected Costar data

PROJECTS								
	Arlington	Cambridge	Newton	Somerville	Watertown	Malden	Medford	
2021	1	6	2	5	-	-	3	
2022	1	8	2	4	1	-	2	
2023	3	3	3	2	-	-	1	
Total	5	17	7	11	1	-	6	
UNITS								
2021	21	638	92	711	-	-	49	
2022	124	432	213	116	34	-	72	
2023	72	352	230	189	-	-	22	
Total	217	1,422	535	1,016	34	-	143	

# Multifamily Development Trends & Factors

Newton, Somerville & Watertown report recent declines in MF housing construction

- High financing and/or construction costs cited in Newton & Somerville with several “stalled” projects; ability to raise debt & equity cited in Somerville
- Watertown views increase in land costs from biotech/life science projects as making MF development infeasible

Arlington & Medford are seeing an increase in MF development projects

- Recent zoning & policy changes are more supportive of MF housing
- Site & project specific factors have slowed construction on a few projects

Chapter 40B projects have facilitated some projects in Newton & Arlington

# Multifamily Construction Starts by Size

\*Newton figures are for 7-9 unit projects

PROJECT SIZE	Arlington		Cambridge		Newton		Somerville	
	# Projects	# Units	# Projects	# Units	# Projects	# Units	# Projects	# Units
5 to 9 units*	1	9	7	45	2	15	2	14
10 to 49 units	2	34	6	161	3	74	5	120
50 to 99 units	1	50	1	62	1	68	1	59
100+ units	1	124	3	1,154	2	378	3	823
<b>Total</b>	<b>5</b>	<b>217</b>	<b>17</b>	<b>1,422</b>	<b>8</b>	<b>535</b>	<b>11</b>	<b>1,016</b>

Large projects (100+ units) accounted for most new units in Cambridge (81%), Newton (71%) & Somerville (81%)

Similar number of 10-49 unit projects in Cambridge & Somerville

Few projects in the 50-99 unit range across region

Cambridge had more 5-9 unit projects than others



# Regional Inclusionary Requirements

COMMUNITY	POLICY COMPONENT			
	Unit # Threshold	Tiered?	% Affordable Units	IZ Unit Income Levels (Based on Area Median Income, AMI)
Arlington	6	No	15%	Rent: 60% AMI // Own: 70% AMI
Cambridge	10	No	20%	Rent: 80% // Own: 100%
Malden	8	No	15%	Rent: 50% // Own: 80%
Medford	10	Yes	10% for 10-24 units // 13% for 25-49 units // 15% for 50+ units	Based on state max. income levels
Newton	7	Yes	15% for 7-20 units // 17.5% for 21-99 units // 20% for 100+ units	Rent: 50-110% // Own: 80-110%
Somerville	6	Yes	1 unit for 6-7 units // 17.5% for 8-17 units // 20% for 18+ units	Rent: 50-110% // Own: 80-140%
Watertown	6	Yes	12.5% for 6-19 units // 15% for 20+ units	Rent; 65-80% // Own: 80%

# Recent IZ & Construction Activity

Cambridge & Somerville have seen continued MF construction with 20% IZ requirement

MF development has increased in Medford & Newton after increases in IZ requirements

- Medford increased from 10% to tiered requirements of 10% & 15% in 2019
  - May contribute to more projects under 10 units that avoid the threshold
- Newton raised requirement in 2019 to 17.5% for over 21 units; 20% for over 100 units with most projects at 17.5%
  - No evidence that change has slowed MF development

More challenging to meet IZ requirements in current cost & financing environment

# Current Development Context

Multiple conditions are making new MF development financially challenging:

- High construction costs
- High interest rates
- Higher equity/developer return requirements
- Investor caution about commercial & MF real estate sector

Operating economies of scale require large projects

Construction costs increase significantly with shift from wood to steel or concrete construction as buildings get taller

Underground parking adds a large cost premium to projects

Higher density alone does not overcome these financial barriers

# Improving Multifamily Feasibility

Simpler/shorter zoning approval process reduces predevelopment costs

Lower permit & related fees lower development soft costs

Examples of non-zoning financial approaches:

- Lower financing costs
- TIF or other tax agreements

# Additional Considerations

Conditions may change to improve MF financial feasibility:

- Construction costs are stabilizing; some material costs may decline
- New technologies & methods may reduce costs over time
- Interest rates will decline with lower/stabilized inflation rate
- Equity/developer returns will be lower with reduced interest rates

Zoning policies are a tool to foster longer term community housing & development goals

Zoning changes may be needed to enable more housing to be built when financial conditions improve