

Nashua Inclusionary Zoning Feasibility Analysis

Board of Aldermen Discussion

September 2021

**Prepared by
RKG Associates, Inc.**

PURPOSE OF THE ANALYSIS

- RKG performed housing market analysis for Nashua, identifying housing needs/challenges
- City's existing inclusionary zoning (IZ) policy identified as not meeting market needs
- Recommendation to reconsider IZ policy to align with market and financial realities
- RKG retained to perform a financial feasibility and policy review analysis

Content:

Demographic & Market Conditions

- Population, Age, Race/Ethnicity
- Household Composition
- Education and Income
- Employment
- Housing Stock
- Housing Tenure
- Vacancy
- Home Values
- Rents
- Cost Burden

Issues & Opportunities

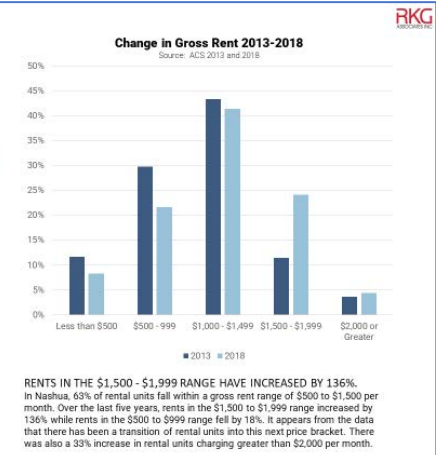
- Issue Area 1: Accommodating Growth
- Issue Area 2: Ability to Pay
- Issue Area 3: Downtown Nashua

Recommendations

Demographics & Housing Market Conditions
Rents

RENTS ARE RAPIDLY INCREASING IN NASHUA.
Gross rent, which is rent plus utilities, has increased 19% over the last five years to a high of \$1,287 per month.

2018: Median Gross Rent \$1,287 per Month



Aligning Policy and Housing Outcomes
Inclusionary Zoning

Update Inclusionary Zoning Regulations

Case Study – Inclusionary Zoning, Newton, MA

In 2018, the City of Newton, Massachusetts began a process to revise their Inclusionary Zoning policy. Housing affordability was worsening, and the City was experiencing an influx of large residential and mixed-use projects which provided ample opportunities to increase the overall number of affordable housing units.

The existing IZ policy was both confusing in its language and intention and was not leveraging private development effectively to produce affordable units. The City hired a consultant to create a financial feasibility model which could test different residential development scenarios (both owner and renter) to better understand the potential impacts of the changes the City and housing advocates were calling for.

The results of the financial feasibility model showed the City could indeed update the IZ policy to create stronger linkages between the size of the project and affordable housing requirements. For example, larger rental projects were required to set aside a higher percentage of affordable units. The new policy also created income tiers based on HUD area median income (AMI) thresholds which ranged from 50% of AMI to 110% of AMI. The City also included options for developers to provide fewer units but make them more deeply affordable to households at 30% of AMI.

The City's new IZ policy has different calculations and requirements for ownership projects and rental projects requiring different levels of affordability. Affordable ownership units are offered at 80% and 110% of AMI while rental units can go as low as 30% of AMI.

There are also calculations for cash payments and specific circumstances defining when the cash payment option may be considered favorable. Smaller projects between 7 and 9 units have the option of cash payments, the City Council can grant a Special Permit to allow cash payment, and in instances where the percentage set aside calculation results in a fraction of a unit less than 0.5. The cash payment from the development is deposited into the Inclusionary Zoning Fund which is then distributed equally to the Newton Housing Authority and the City of Newton. These funds can only be applied to affordable housing supporting households at or below 80% of AMI.

Sources: [Newton IZ Policy](#), [Newton IZ Guidebook](#), [Newton IZ Information](#)

Rental Projects: Number of Inclusionary Units Required	7-20 UNITS	21+ UNITS
Tier Level	7-20 UNITS	21+ UNITS
Tier 1: 50%-80% AMI	15%	15%
Tier 2: 110% AMI	0%	2.5%
Total	15%	17.5%

Rental Projects: Number of Inclusionary Units Required	7-20 UNITS	21-99 UNITS	100+ UNITS
Tier Level	7-20 UNITS	21-99 UNITS	100+ UNITS
Tier 1: 50%-80% AMI	15%	15%	15%
Tier 2: 110% AMI	0%	2.5%	5%
Total	15%	17.5%	20%

Ownership Projects: Number of Inclusionary Units Required	7-16 UNITS	17-20 UNITS	21+ UNITS
Tier Level	7-16 UNITS	17-20 UNITS	21+ UNITS
Tier 1: 80% AMI	15%	10%	10%
Tier 2: 110% AMI	0%	5%	7.5%
Total	15%	15%	17.5%

Ownership Projects: Number of Inclusionary Units Required	7-16 UNITS	17-20 UNITS	21-99 UNITS	100+ UNITS
Tier Level	7-16 UNITS	17-20 UNITS	21-99 UNITS	100+ UNITS
Tier 1: 80% AMI	15%	10%	10%	10%
Tier 2: 110% AMI	0%	5%	7.5%	10%
Total	15%	15%	17.5%	20%

Nashua Housing Study - 67

PREVIOUS FINDINGS

KEY FINDINGS FROM THE DEMOGRAPHIC AND HOUSING MARKET CONDITIONS

Nashua is a growing city.

Nashua's population has risen rapidly since 1970, adding nearly 30,000 new residents. Growth is projected to continue through the year 2030 with the city adding another 8,000 residents between 2018 and 2030. Nashua's fastest growing age cohort are those residents 55 years and older, while middle-aged residents 35 to 54 are shrinking.

Nashua's population is diversifying and with it comes income disparity.

The number of Black, Asian, and Hispanic/Latino residents increased between 2013 and 2018 but White and Asian households continue to earn 2.5+ times the income as Black and Hispanic/Latino households. This has impacts on affordability, ability to pay for housing, and concentrations of lower income households in certain parts of the city.

ONE- and TWO-person households are driving growth.

Single-person and two-person households increased 12% and 22%, respectively between 2013 and 2018. These two categories brought in nearly 1,500 new households to the city. Larger households are not increasing at nearly the same rate. This is translating into demand for smaller units, particularly smaller rental units.

Nashua's residents are more educated and have higher incomes than in decades past.

Nashua saw its number of households earning over \$200,000 a year increase by over 60% from 2013 to 2018. In fact, nearly every income cohort grew except those earning less than \$50,000 per year. This correlates with the rapid rise in educational attainment. Residents with Bachelor's degrees or higher increased 11%.

Household income for renters is growing at the highest income levels.

The number of renter households earning \$75,000 or more jumped significantly between 2013 and 2018. This is likely fueling demand for newer, higher priced rental units across the city and pushing prices upward as these households can afford rents at the top of Nashua's market.

Nashua's housing stock is predominately single-family.

Single family housing comprises 86% of the residential land area in Nashua. These units comprise 52% of all housing units in the city. Buildings with less than 10 units account for 93% of residential land area and 74% of all housing units.

Home values in Nashua are rising, rapidly.

The demand for owner-occupied housing units in Nashua has driven prices up significantly over the last ten years. From 2010 to 2019, home values have appreciated 19%. The median sales price for a newly constructed home in Nashua is \$407,439 while the median sales price of an existing home is \$321,198.

Rents are also increasing in Nashua.

Over the last five years, median gross rent rose 19% to a high of \$1,287 per month. The number of rental units priced between \$1,500 - \$1,999 range grew 24% in five years, the fastest of any rent range. Rent growth has been driven by demand for smaller units, typically 1-bedroom units.

Downtown Nashua should be a housing focus area.

The combination of high rental percentages, lower incomes, racial and ethnic diversity, lower assessed values, and older housing stock creates challenges for stabilizing the housing in Downtown and maintaining its general affordability. A balanced approach is required to both introduce new market rate and affordable housing, as well as strategic investments to improve the quality of existing housing in the Downtown area.

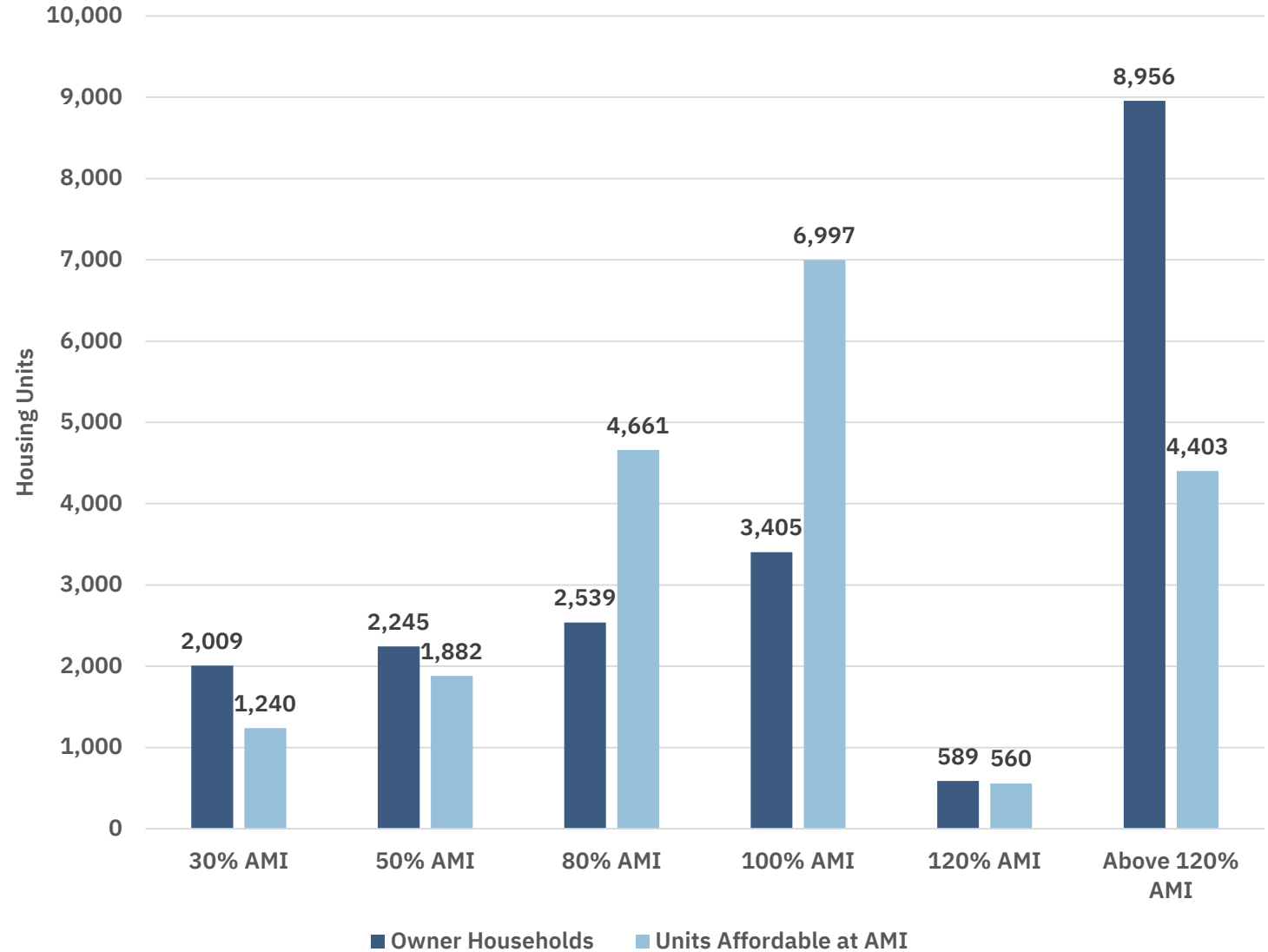
PREVIOUS FINDINGS

THERE ARE MORE POTENTIAL BUYERS IN HIGHER INCOME BRACKETS THAN THERE ARE HOUSING UNITS THAT MATCH THEIR PRICE POINTS

- For households earning at or below 30% of AMI, there are 769 more households than there are housing units
- There is a deficit of 990 units for households above 100% AMI
- This indicates a potential market for new higher priced housing that could ease the competition for moderate income units.

Supply and Demand for Affordable Homeownership Units, City of Nashua

Source: HUD 2020, ACS 2018



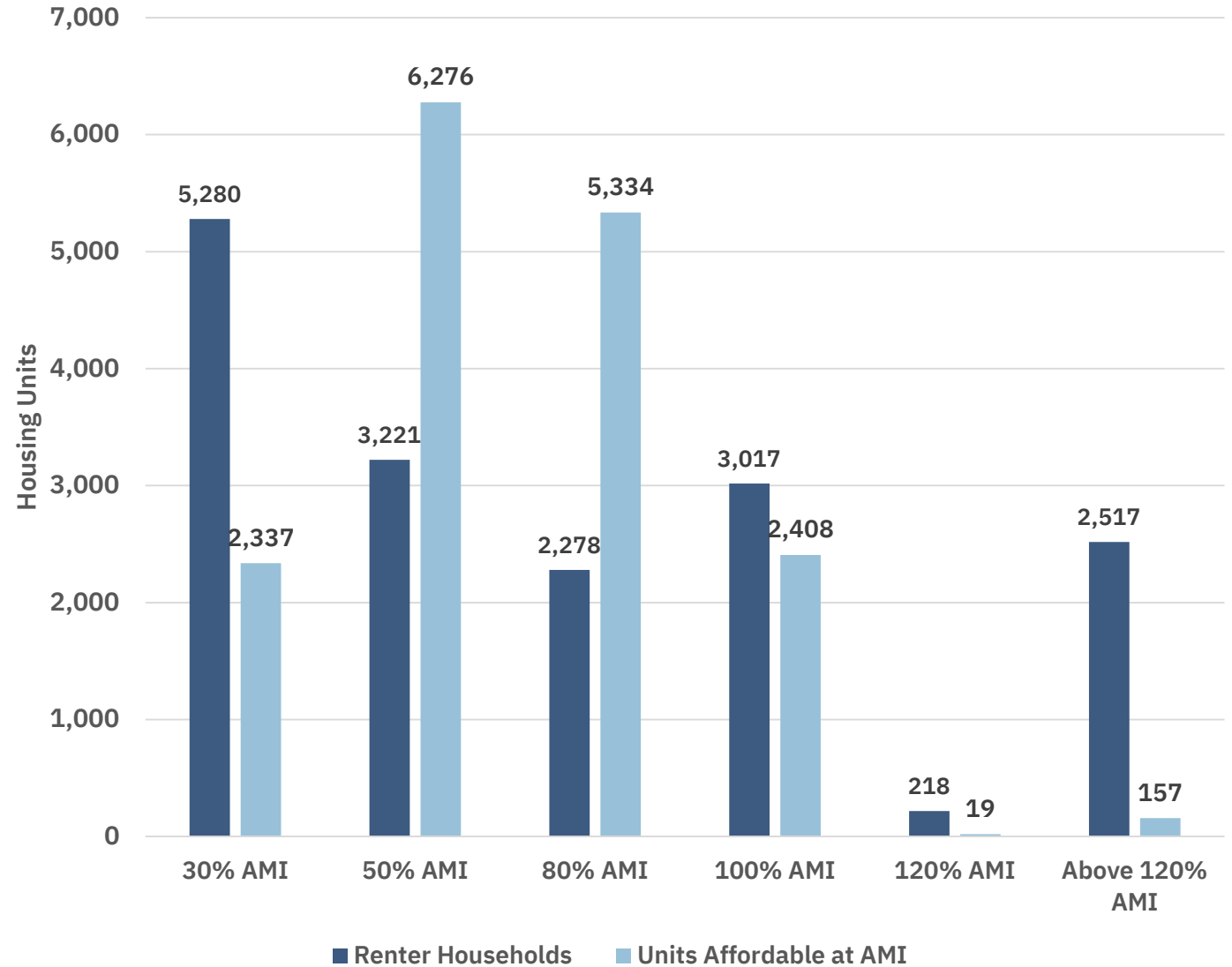
PREVIOUS FINDINGS

THE MARKET FOR AFFORDABLE RENTAL UNITS IS TIGHT AT THE LOW END OF THE INCOME SPECTRUM

- For households at or below 30% of AMI, there are 2,943 more households than available affordably priced units
- The gap between demand and supply for households above 100% AMI is 3,168 units
- The lack of higher priced rental units in Nashua puts downward pressure on the supply of housing priced for lower income households

Affordable Rental Supply and Demand, City of Nashua

Source: HUD 2020, ACS 2018, RKG Associates



PREVIOUS FINDINGS



GROWTH

The City is expected to continue to grow its population and employment base. **Today's housing stock will not accommodate this growth.** How and where does the City want to grow should be a key consideration in the upcoming Master Plan.



AFFORDABILITY

Housing prices (sales and rents) are outpacing what most Nashua residents can afford. This means households having to pay more than they should to live in the City. How does Nashua preserve its existing affordable housing stock while encouraging more to be built city-wide?



MINIMIZE DISPLACEMENT

Housing prices and incomes are rising rapidly in Nashua creating immense pressure on the lowest income households to keep up or move out. The displacement of those households may result in less racial and economic diversity in some neighborhoods and push those households further from the jobs and services they depend on. **Increasing price diversity in more locations across the City would provide more housing choice for the City's most vulnerable residents.**



DOWNTOWN




Downtown Nashua offers tremendous opportunity to add more housing, but also the greatest threats for impacting lower-income residents. **The City must employ strategies that improve the quality of the housing stock and encourage a mix of new market rate and affordable housing to improve quality life for all residents in the Downtown area.** Additional households in Downtown will also provide more spending power which will benefit local businesses too.



LEVERAGING RESOURCES

The City will need additional resources to address the housing opportunities and challenges ahead. Seeking partners who can help with housing issues will add knowledge, capacity, and funding resources to match the City's current efforts. The City should capitalize on strategic partnerships with non-profits, housing agencies, banks, and employers.

PREVIOUS FINDINGS

RECOMMENDATIONS	ISSUE or OPPORTUNITY AREA		
	 ACCOMMODATING FUTURE GROWTH	 FINANCIAL RESOURCES OF HOMEOWNERS AND RENTERS	 DOWNTOWN NASHUA
PLANNING FOR SUCCESS			
Utilize Master Plan, Land Use Policy, and Zoning to Address Housing Choice, Affordability, and Location	X	X	X
Continue to Integrate Accessory Dwelling Units	X	X	-
Leverage Public Land for Housing	X	X	-
Educate the Public on the Need for and Benefits of Housing	X	-	-
ALIGNING POLICIES AND HOUSING OUTCOMES			
Create an Affordable Housing Trust	X	X	-
Update Inclusionary Zoning Regulations	X	X	X
Phase in Rental Registry and Inspection Process	-	-	X
INVEST IN NEW AND EXPANDED HOUSING PROGRAMS			
Expand Rental and Owner Rehab Programs	-	X	X
Reintroduce First Time Homebuyer Program	X	X	X
EXPANDING PARTNERSHIPS			
Leveraging Capital from Housing Partners	X	X	X
Continue the Partnership with the Housing Authority	X	X	-
Right of First Refusal Policy	-	X	-
Working with Employers to Identify Opportunities to Partner on Employer Assisted Housing	X	X	X

PREVIOUS FINDINGS

UPDATE INCLUSIONARY ZONING REGULATIONS

Issues/Opportunities Addressed:



Timeframe for Action: **Short Term**

Inclusionary Zoning (IZ) is a policy used to create affordable housing by requiring developers to include a specific percentage set aside of below-market units as part of a market-rate rental or ownership development. The IZ policy effectively leverages private market investment to create new affordable units with very little (if any) public subsidy. IZ is also an effective way of integrating affordable units across a community to provide opportunities for housing choices in neighborhoods where lower-income households may not have otherwise been able to afford. Resource-rich areas/neighborhoods may have access to better schools, healthcare options, transportation choices, and open spaces. Diversifying the locations of affordable housing may offer new opportunities to households who previously had limited choice.

Inclusionary zoning policies are typically classified as one of two types: mandatory or voluntary. In mandatory policies, affordable units must be included in all proposed developments that fit within the parameters of the policy. Voluntary policies rely on negotiations and offsets which function as incentives to encourage developers to provide affordable units.

The City of Nashua has an IZ policy already in place within the City’s Zoning Ordinance, Section 190-48. The current IZ policy is only applicable to residential development in the Downtown Zoning District or a parcel that abuts the Downtown Zoning District and is in a residential zoning district. Table 48-1 outlines the affordable housing set-aside required by development type and location. Those percentage set asides range from 3% to 20%. The City has also included incentives such as a density bonus offset, expedited permitting, and allowing certain development types to be as of right. It is worth noting that the City’s IZ policy has never been used.

Given that the current IZ policy is only applicable to development in the Downtown zoning district, it limits the geographic distribution of new affordable units and does little to spread housing choice to other areas of Nashua. A recommendation the City should consider is revising the current IZ policy to apply to city-wide to any residential or mixed-use development that exceeds a certain number of units (e.g. any development containing 10 or more units). This would help ensure new residential development in other parts of the City are also contributing to easing the affordable housing shortages over time.

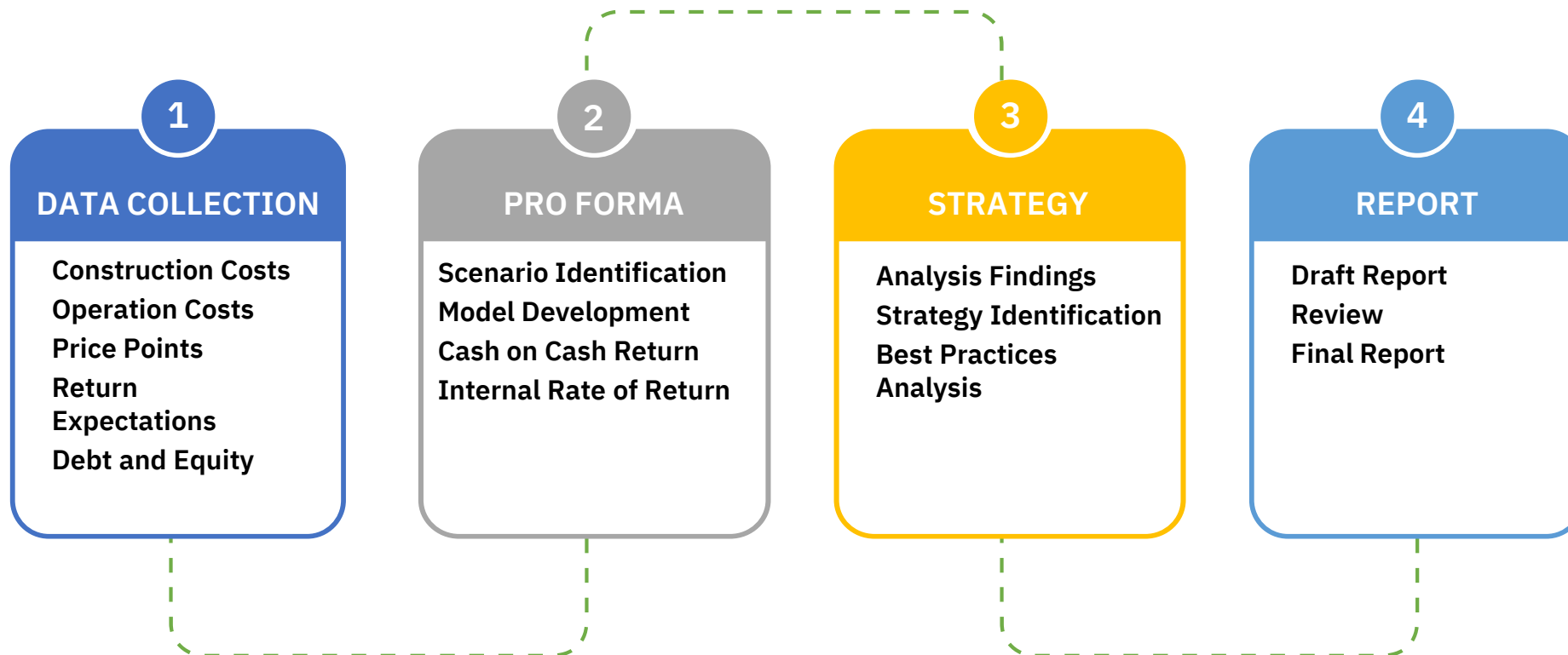
A key first step to updating the City’s IZ policy is to conduct a financial feasibility analysis of the current policy and scenario test any changes the City wishes to make. Conducting a feasibility analysis will allow the City to understand what changes could be supported by market-rate residential development and which changes may slow the pace of development. The financial modeling exercise can help in the crafting of new IZ language and should include the following considerations:

- What size development should IZ be applied to?
- Where should IZ be applied in the City?
- What percentage of units should be set aside?
- Should the policy cover both ownership and rental projects?
- Should the City have a payment in-lieu option to collect money for the Affordable Housing Trust?
- What income levels should the units target?
- Should there be a tiered system for affordable units where fewer but more deeply affordable units are required versus more units at a higher income level?
- What incentives or offsets should the City offer?

Concurrently, the City could work with the entity conducting the feasibility analysis to craft an updated IZ policy that responds to the feasibility findings. This can help ensure changes to the IZ policy will not discourage private investment thereby reducing affordable housing production.

FINANCIAL FEASIBILITY PROCESS

The process undertaken was collaborative and included engaging City staff, local and regional housing developers, local debt and equity investors, and other real estate professionals to understand the market dynamics and performance indicators unique to Nashua. RKG utilized information gained from market research and interviews to construct an adaptable financial model. The model enables the City to test prototypical developments to understand the financial implications of creating an inclusionary ordinance.

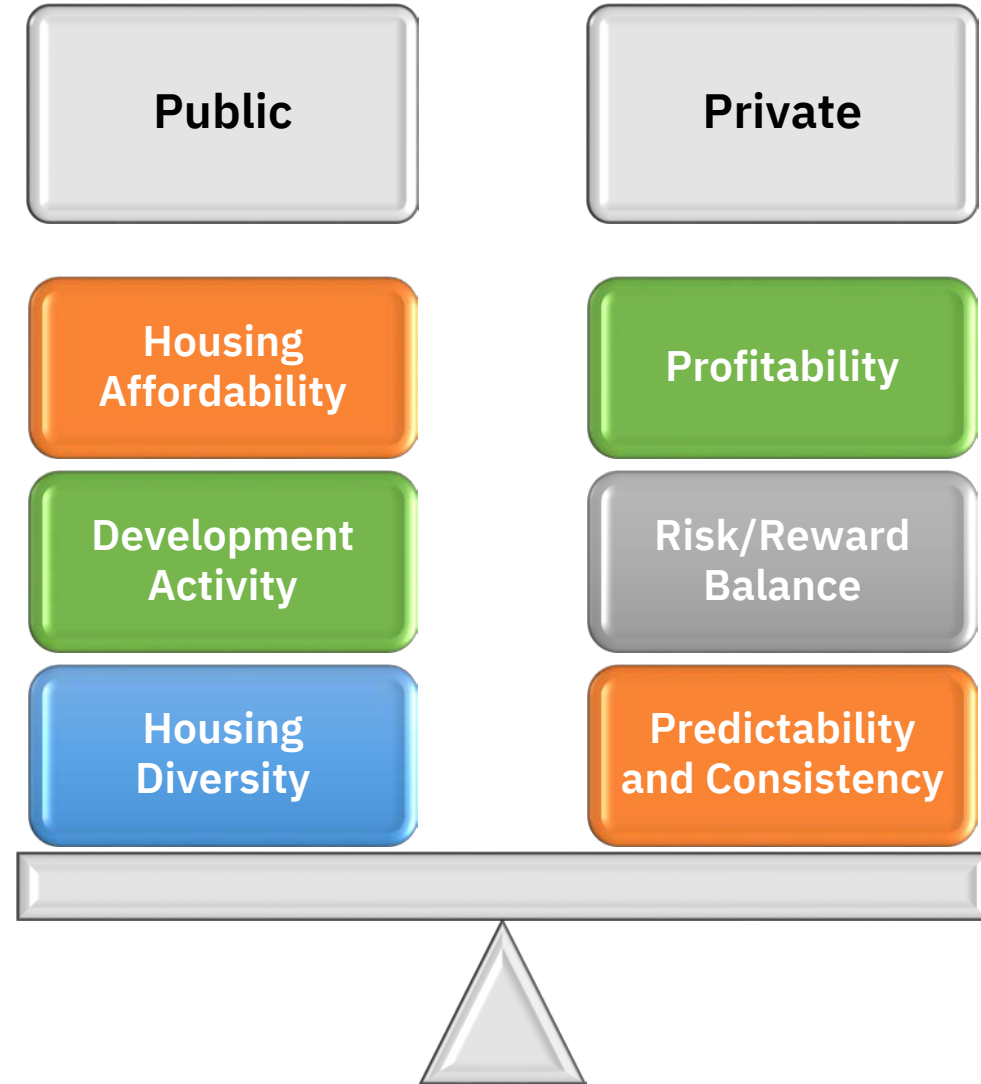


PROCESS

UNDERSTANDING THE APPROACH

- Regulatory policies control development process devoid of market and financial feasibility
- Policies can go
 - “Too far” meaning their requirements will make projects non-competitive, effectively eliminating development
 - “Not far enough” meaning they do not deliver the intended purpose due to lax requirements
 - “Just right” balance intended benefits with market/financial opportunity cost
- Process to determine “just right” is both quantitative AND qualitative
 - Analyses like this one can relate policy with market/financial performance impacts
 - However, balance is relative to perspective (i.e., City versus development community)
- Focus of the recommendation to create a “revenue neutral” IZ policy
 - Balance IZ requirements with market return expectations

Creating an Effective Policy - Considerations



ANALYSIS

SCENARIOS

- **The financial feasibility analysis was performed for several scenarios to ensure a recommended IZ policy accounted for:**
 - Housing tenure (ownership and rental)
 - Location
 - Scale of development
- **The results of the various scenarios will lead to specific recommendations on how the city should approach a new IZ policy**

Modeled Scenarios							
Scenario	Tenure	Unit Type	Location	Parking	Number of Units	AMI %	Inclusionary Percentage
1	Ownership	Single Family	Suburban	100% Surface	10	80%	10%
2a	Rental	Multifamily	Amherst/Exit 1	100% Surface	25	80%	10%
2b	Rental	Multifamily	Downtown	Podium	25	80%	10%
3	Ownership	Townhome	Suburban	100% Surface	50	80%	15%
4a	Rental	Multifamily	Amherst/Exit 1	100% Surface	125	80%	20%
4b	Rental	Multifamily	Downtown	Podium	125	80%	20%
5a	Rental	Multifamily	Amherst/Exit 1	100% Surface	200	80%	20%
5b	Rental	Multifamily	Downtown	Podium	200	80%	20%

INPUTS

- Any real estate financial model relies upon three key elements: [1] revenues, [2] expenditures, and [3] financials
- Revenues consist of income derived by the real estate investment
 - Rental income/house sales
 - Parking fees
 - Property reversion (for rental projects)
- Expenditures
 - Land acquisition
 - Construction (i.e., bricks)
 - Rental properties
 - Operation (i.e., maintenance)
 - Property taxes
- Financials
 - Equity requirements
 - Debt financing
 - Bridge loans
 - Permanent financing
 - Capitalization rates



ANALYSIS

GO / NO GO DECISIONS

- **Internal rate of return**
 - Measure of investment efficiency
 - The annual rate of investment value escalation
 - Similar to a savings account interest rate
- **How does it work?**
 - Measure against other investment types
 - Reflects opportunity cost for risk-reward analysis
- **What can I “live with?”**
 - “Typical” Market
 - Rental Housing = 12% IRR
 - For Sale Housing = 20% IRR
 - Nashua Market (Reported)
 - Rental Housing= 20%+ IRR
 - For Sale Housing = 30%+ IRR
- **What happens when I cannot reach my goal?**
 - Offer less for land
 - Go somewhere else
 - Sit on my money
 - Bite the bullet



AFFORDABILITY

WHAT IS AFFORDABILITY?

- **Housing affordability is a term of relativity, not absolute**
 - HUD defines affordability as spending 30% or less of gross income on housing and select utilities
 - A household's income (and size) affects what meets this threshold
- **The income ranges typically used for HUD housing programs (i.e., HOME funds) are based on a regional income analysis**
 - Within Nashua, it is defined by the greater Nashua- Hillsborough market

FY 2020 Income Limits Summary - Nashua, NH						
Income Level	Household Size					
	1-Person	2-Person	3-Person	4-Person	5-Person	6-Person
30% of AMI	\$23,050	\$26,350	\$29,650	\$32,900	\$35,550	\$38,200
40% of AMI	\$30,720	\$35,080	\$39,480	\$43,840	\$47,360	\$50,880
50% of AMI	\$38,400	\$43,850	\$49,350	\$54,800	\$59,200	\$63,600
60% of AMI	\$46,080	\$52,620	\$59,220	\$65,760	\$71,040	\$76,320
65% of AMI	\$49,920	\$57,005	\$64,155	\$71,240	\$76,960	\$82,680
70% of AMI	\$53,760	\$61,390	\$69,090	\$76,720	\$82,880	\$89,040
80% of AMI	\$55,950	\$63,950	\$71,950	\$79,900	\$86,300	\$92,700
100% of AMI	\$76,800	\$87,700	\$98,700	\$109,600	\$118,400	\$127,200
110% of AMI	\$84,480	\$96,470	\$108,570	\$120,560	\$130,240	\$139,920
120% of AMI	\$92,160	\$105,240	\$118,440	\$131,520	\$142,080	\$152,640
140% of AMI	\$107,520	\$122,780	\$138,180	\$153,440	\$165,760	\$178,080

AFFORDABILITY

Maximum Affordable Rents (Utilities Included)											
Unit Type	40% AMI	50% AMI	60% AMI	65% AMI	70% AMI	80% AMI	100% AMI	110% AMI	120% AMI	140% AMI	Market Rate
Efficiency	\$711	\$889	\$1,067	\$1,156	\$1,245	\$1,422	\$1,778	\$1,956	\$2,134	\$2,489	\$1,779
1BR	\$829	\$1,036	\$1,243	\$1,347	\$1,450	\$1,658	\$2,072	\$2,279	\$2,486	\$2,901	\$1,860
2BR	\$998	\$1,248	\$1,498	\$1,622	\$1,747	\$1,997	\$2,496	\$2,746	\$2,995	\$3,494	\$2,316
3BR	\$1,154	\$1,443	\$1,732	\$1,876	\$2,020	\$2,309	\$2,886	\$3,175	\$3,463	\$4,040	\$2,688

Maximum Affordable Purchase Price											
Unit Type	40% AMI	50% AMI	60% AMI	65% AMI	70% AMI	80% AMI	100% AMI	110% AMI	120% AMI	140% AMI	Market Rate
1BR	\$94,560	\$118,200	\$141,840	\$153,660	\$165,480	\$189,180	\$236,400	\$236,400	\$262,800	\$330,960	\$300,000
2BR	\$126,080	\$157,600	\$189,120	\$204,880	\$220,640	\$252,240	\$315,200	\$315,200	\$350,400	\$441,280	\$350,000
3BR	\$157,600	\$197,000	\$236,400	\$256,100	\$275,800	\$315,300	\$394,000	\$394,000	\$438,000	\$551,600	\$550,000

FINDINGS

“Missing Middle” Housing

Recent residential development has been targeted to higher level incomes (market rate) and lower level incomes (subsidized). No recent developments target middle income households (60% AMI to 90% AMI)

Policy Enforcement Challenge

The City’s current practice of offering maximum density and/or financial incentives to market rate deals creates substantial challenges for any new policy to avoid market disruption. It has created unrealistic return expectations.

Location Impacts Feasibility

The housing market in Nashua is not uniform. The location (and type) of development impacts its financial feasibility. Most notably, the Downtown area market fundamentals are different than other growth areas.

Dynamic IZ Policy Possible

The analysis reveals that a compulsory IZ policy will adversely impact return for a project. That said, a revenue neutral IZ policy is possible through use of certain incentives... if the City returns to adhering to existing regulations.

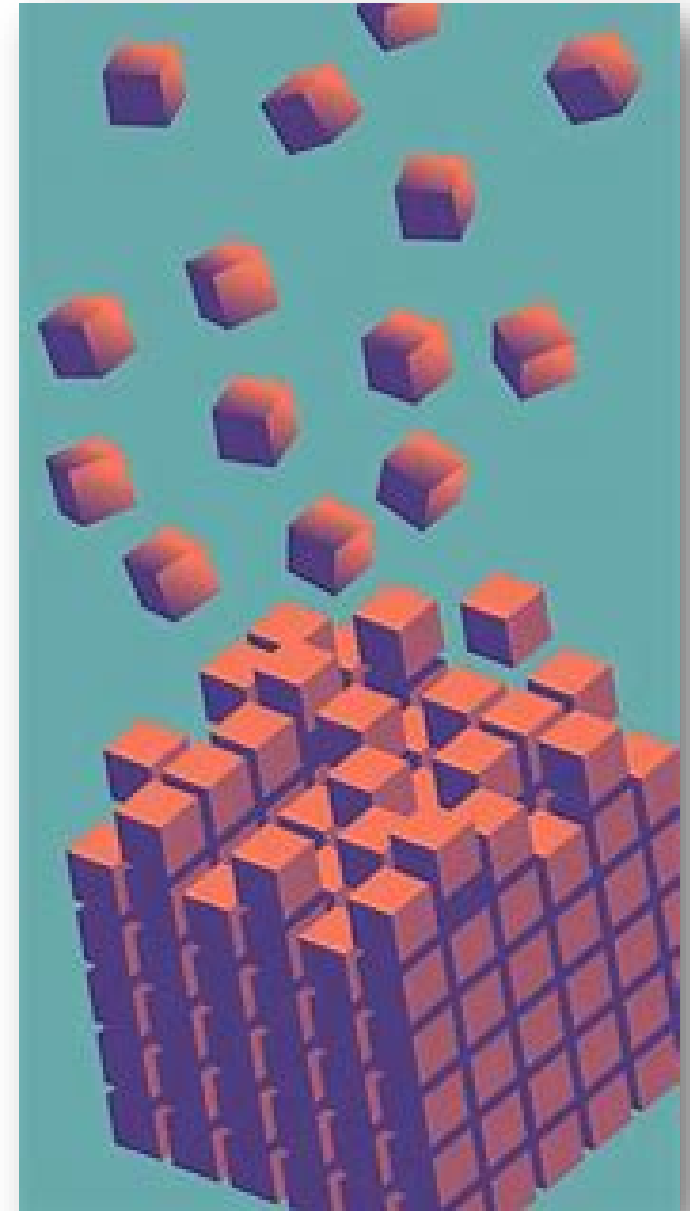
STRATEGIES

TARGET THE 'MISSING MIDDLE' IN CURRENT DEVELOPMENT TRENDS

- Recent development has focused on 100% affordable housing and 100% market rate housing
- No development has targeted the 'missing middle' incomes
- The analysis reveals that delivering to this group is financially challenging and there are no Federal programs to help
- Targeting the IZ policy to this cohort creates a stronger continuum
- 80% of AMI is recommended target
 - \$55,950 for 1-person HH
 - \$92,700 for 6+ person HH

VARY INCLUSIONARY % BASED ON THE SIZE OF THE DEVELOPMENT

- The analysis shows that larger developments have greater capacity to accommodate inclusionary units
- Smaller projects experience greater financial impact due to having fewer market rate units to compensate for the income-controlled units
- Recommended thresholds
 - Under 10 units = 0% inclusionary
 - 10-25 units = 10% inclusionary
 - 26-100 units = 15% inclusionary
 - 101+ units = 20% inclusionary



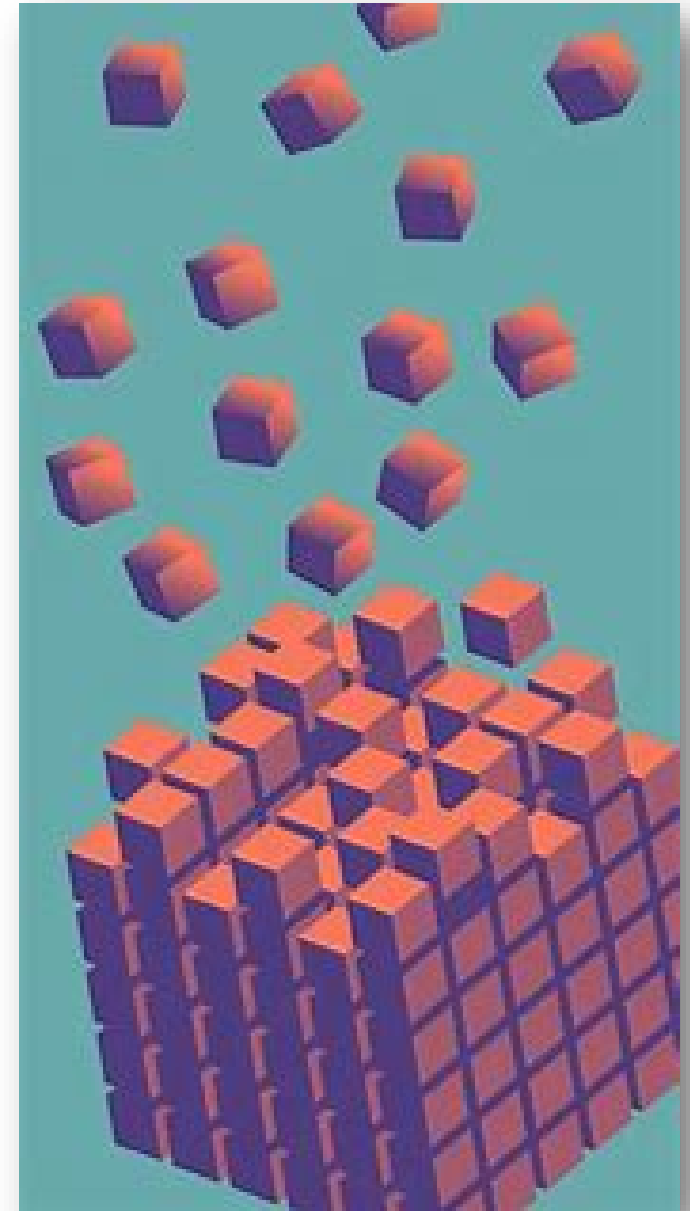
STRATEGIES

CREATE SEPARATE THRESHOLDS FOR DOWNTOWN

- City priority (from previous plan) is to increase diversity Downtown since it already has higher share of affordability than other parts of Nashua
- Cost to develop housing is higher in Downtown, particularly due to the need for structured (podium) parking
- The city should consider a lower inclusionary requirement for Downtown into the near future to continue to promote development while balancing price diversity citywide
- Recommend a lower % requirement Downtown

USE BONUS DENSITY TO MITIGATE IMPACTS ON FINANCIAL FEASIBILITY

- The analysis shows that the financial impacts of an inclusionary zoning policy can be mitigated through a bonus density program
- Effectively, the city would offer additional units to the developer in exchange for the inclusionary unit requirement
- The analysis revealed the following ratios create a financially neutral impact
 - 1:1 bonus density ratio outside Downtown
 - 2.5:1 bonus density ratio in Downtown
- This would only work if current practices of allowing maximum density without inclusionary units are halted



STRATEGIES

CONSIDER PAYMENT IN LIEU OF UNITS IN CERTAIN CIRCUMSTANCES

- A payment in lieu of units allows for the city to elect to receive a cash payment to the Housing Trust fund instead of having the units delivered
- Payment in lieu strategies oftentimes are used to avoid affordable units being concentrated in select areas
- The approach also is common to alleviate an additional financial burden when a ‘partial unit’ is calculated
 - 75-unit development with a 10% IZ requirement = 7.5 units
 - A payment in lieu allows for a cash equivalent to be paid for the 0.5 unit
- RKG recommends Nashua use payment for partial unit calculations
 - Current value differential between 80% AMI and market rate about \$36,000
- City also can consider special exception in mitigating situations
 - This would be exclusive decision of the city
 - Situations such as avoiding concentrations or to capitalize the Housing Trust fund for an impending project

UNIT VALUE DIFFERENTIAL FROM MARKET RATE UNITS

