

Brief: Improving Affordable Housing Incentives in Watertown Square

EXECUTIVE SUMMARY

A More Effective Approach to Incentivize Affordable Housing

Drawing on a review of best practices from area communities and across the country, the following proposed framework is recommended to improve the incentives in the Watertown Square Area Plan:

1. **Incentivize increased affordable housing production across the spectrum of development, from primarily market rate to 100% affordable.**
 - a. **For primarily market rate developments:** Use modest density bonuses and discretionary review streamlining to provide affordable housing beyond the required minimums
 - b. **For mixed income developments:** Use major density bonuses, zoning relief, and by-right approval processes to maximize the number of affordable developments and reduce the needed cross-subsidy from market rate units
 - c. **For 100% affordable housing developments, or projects with a 50% Housing Choice Voucher set-aside:** Provide the maximum density bonuses, most generous zoning requirements, and preferred permitting to ensure projects can meet their grant and tax credit application deadlines
2. **Incentivize increased affordable housing production at deeper affordability levels, and develop specific incentives to preserve units for Housing Choice Voucher holders.**

The Current Affordable Housing Incentives Don't Do Enough

When compared to other communities in the Boston metro area with affordability bonuses, the Watertown Square Area Plan affordable housing bonus framework misses the mark. The current bonuses allow for a single additional floor for a project where at least 50% of units are reserved at 80% of the area median income (AMI) and two additional floors for a project where at least 50% of units are reserved at 65% AMI.

The threshold for affordable developments in the Watertown Square Area Plan to receive a one-story height bonus is twice as high as in Newton, and more than three times as high as in Chelsea, and is more than ten times higher than Medford's two-story bonus.

Moreover, the current bonus framework is a single threshold, creating a "cliff effect" where a project at 49% affordable units gets no bonus, and a project at 50% gets the entire bonus. There is no incentive for a project to add affordability between the 15% inclusionary zoning requirements and the 50% bonus threshold, and no further incentive for a project to go above 50% affordable.

Watertown Residents Support Strong Affordable Housing Incentives

Throughout the Watertown Square planning process, residents emphasized their concern about the need for affordable housing in Watertown Square. This was evident in public comments and written testimony from those who favored the proposed plan as well as those who were critical of it. This clear priority culminated in the unanimous approval of an amendment to double the plan's height bonus for deeply affordable projects. Watertown's elected officials should take the clear emphasis on affordable housing seriously, and seek to implement policies that will lead to a meaningful amount of new affordable housing in the city, such as those outlined in this brief.

Proposed Affordable Housing Bonus Program

Tier	Qualifying Threshold (choose one)			By-right Height Bonus	Zoning Relief	Permit Streamlining
	Housing Choice Voucher Reserved	At or Below 60% AMI	At or Below 80% AMI			
1	5%	10%	20%	1 story	<ul style="list-style-type: none"> 25% by-right reduction of parking requirements 	
2	10%	20%	30%	2 stories	<ul style="list-style-type: none"> 50% by-right reduction of parking requirements 33% reduction in open space requirements 	<ul style="list-style-type: none"> Allowed by-right with site plan review in NMU and all WSQ zones.
3	25%	30%	50%	3 stories	<ul style="list-style-type: none"> No parking requirements No open space requirements on lots less than 30,000 sqft May require loading zone for larger projects 	<ul style="list-style-type: none"> Allowed by-right with site plan review in NMU and all WSQ zones. Site plan review trigger threshold is raised to >30,000 sqft of development or >20 units.
4	50%	60%	80% (with remainder at up to 120% AMI)	4 stories*	<ul style="list-style-type: none"> No parking requirements No open space requirements on lots less than 30,000 sqft May require loading zoning for larger projects 	<ul style="list-style-type: none"> Allowed by-right with site plan review in NMU and all WSQ zones. Site plan review trigger threshold is raised to >60,000 sqft of development or >50 units. Guaranteed 60 day review turnaround for projects under the modified site plan review threshold and provided onsite parking under 0.25 spaces/unit. 60 day decision shot clock after first site plan review public hearing.

*Tier 4 Applicants only may apply for additional height via discretionary special permit from the Planning Board.

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Framework Methodology

We used best practices from across the country to build our policy framework:

- The proposed plan is broken up into four tiers, with each tier providing a set of height bonuses, zoning relief options, and permit streamlining features.
- Each tier has a set of qualification criteria based on the number and income levels of the affordable housing provided.
- A project can only receive a bonus from a single tier and is only required to meet one of the income requirement thresholds to qualify for that tier. Qualification percentages are given as a percentage of the project as a whole, including the required inclusionary zoning requirements.
- **Watertown's inclusionary zoning requirements would still be in force, regardless of whether a bonus is earned or not, to ensure that any qualifying project provides substantial benefit above the city's minimum requirements.** For example, a Tier 1 project qualifying under the 80% AMI threshold would still have to provide a minimum of 5% of units at 65% AMI to meet the city's base inclusionary zoning requirement.

Tier Explanation

Tier 1 - Tier 1 is designed to incentivize either more affordable units or more deeply affordable units in market rate development above the inclusionary zoning requirements. As observed in Cambridge, Somerville, and San Francisco, among other cities, inclusionary zoning requirements above 15% make a range of residential developments infeasible. Tier 1 provides a bonus of one story to incentivize either more affordable units at 80% AMI (a 50% increase in 80% AMI units); or provide the baseline 15% of units but at a deeper affordability of 10% at 65% AMI (a 100% increase in 65% AMI units); or following Boston's lead, providing a set-aside percentage of units for housing choice voucher holders, an acute need as the Watertown Housing Authority is continually seeking out landlords willing to rent to voucher holders. For project developers, vouchers may make project financing easier, since they pay a higher rent than the 80% AMI restricted units. Given the underground parking requirements envisioned in the Watertown Square Area Plan, Tier 1 provides a 25% by-right parking relief to reduce the cost burden associated with providing more underground parking spaces, to avoid burdening projects that use this bonus to provide more affordable housing.

Tier 2 - Tier 2 is designed as a transition tier between market rate developments and Chapter 40b-type developments. The tier is aimed at developers interested in stretching the limits of traditional inclusionary zoning cross subsidy. To further encourage interested developers, Tier 2 includes the conversion of the special permit requirement to by-right with site plan review for qualifying projects in a WSQ or NMU zone, in addition to a height bonus and parking reduction.

Tier 3 - Tier 3 is designed as a Watertown specific Chapter 40b replacement mechanism since the city has reached safe-harbor status. Unlike 40b, which allows for an unlimited number of zoning modifications that require case by case discretionary ZBA review, Tier 3 provides generous but defined height bonuses, elimination of open space requirements for smaller projects (while still requiring publicly useable open space requirements for larger projects) and the elimination of parking requirements in exchange for by-right development in any WSQ and NMU zone. Given the public benefit of the number (majority affordable, which is two times the minimum 40b requirements) or depth of affordable units needed to qualify for this tier, the threshold for site plan review is raised to 20,000 square feet of development or 20 units.

Tier 4 - Tier 4 is designed to encourage both 100% affordable developments and new mixed income public housing developments. This tier provides the highest height bonuses and the most streamlined permitting by increasing the threshold for site plan review to 60,000 square feet of development or 50 units and copying the 60 day “permitting shot clock” from Los Angeles’ massively successful ED-1 program for smaller developments under the site plan review threshold with minimal parking (and thus minimal site circulation review). Tier 4 also adds a 60 day shot clock for the planning board to provide a final review, again in recognition of the complex funding timelines needed for 100% affordable projects.

The height bonuses for Tier 4 are modeled on Cambridge’s Affordable Housing Overlay, but scaled down due to Watertown’s lack of a subway. The 4 story height bonus would allow for 10 story buildings by-right in the WSQ3 district, with additional height allowed by Special Permit after Planning Board Review. We appreciate the economic rationale for height limits given on page 42 of the Watertown Square Area plan, but the plan’s analysis focused on market rate developments, and ignored mixed-income public housing or 100% affordable developments. There are at least 4 examples of mixed income public housing or 100% affordable projects from 7-12 stories under development right now in the Boston area (see table below), including two by Preservation of Affordable Housing (POAH), who was recently selected to redevelop the WHA Willow Park property.

Given the existence of these 100% affordable or mixed income public housing projects, it is reasonable to include a bonus that allows for up to 10 story buildings by-right in the densest WSQ3 zone for these specific kinds of affordable housing developments. All of the examples given are sponsored by government agencies and featured a robust public engagement plan beyond the standard permitting process, so there will still be multiple opportunities for public input, even if the permitting process is streamlined.

Table 1: Examples of current 100% affordable developments and new mixed-income public housing developments between 7-12 stories in the Boston Area.

Project	City	Developer/partner	Construction method	Height	Description
<u>Clarendon Hill</u>	Somerville	POAH, Gate Residential, SHA, SCC	<u>Modular</u>	7-10 stories	<ul style="list-style-type: none"> • <u>Somerville Public Housing Redevelopment</u> • Under construction, • <u>Broke ground in 2023</u>
<u>Bunker Hill Housing Redevelopment</u>	Boston	Leggat McCall Properties, BHA	<u>Mass Timber</u>	4 -10 stories	<ul style="list-style-type: none"> • <u>15 buildings</u> as part of a BHA redevelopment • Under construction, • <u>Broke ground in 2023</u>
<u>Mary Ellen McCormack Housing Redevelopment</u>	Boston	Winn Companies, BHA	<u>Mass Timber</u>	6,13 stories	<ul style="list-style-type: none"> • A 13 and 6 (<u>building B1-B2 (pg 108-116,156)</u>) story building as part of BHA Redevelopment • Permitted Dec 2023 • <u>Construction planned for June 2024</u>
<u>West End Library.</u>	Boston	POAH, Caste Capital, City of Boston	Mass Timber	12 stories	<ul style="list-style-type: none"> • A 100% affordable 12-story mixed use project redeveloping and expanding the West End Library and adding 119 units of housing (<u>see slides 11-42</u>). • RFP awarded Dec 2023 • Construction planned for 2026

What Makes an Effective Affordable Housing Bonus?

“Affordability bonuses” refer to the specific incentives provided for development projects that voluntarily provide more than the legally-required number of deed-restricted affordable housing units. Collectively, these bonuses play an important role in increasing the quantity of affordable units provided by improving the economic viability of non-market rate housing, broadening the pool of potential developers able to pursue such projects, and speeding the timeline of bringing these units to market.

Across multiple jurisdictions, affordability bonuses have increasingly been recognized as a tool that can be used to complement existing inclusionary zoning policies in ways that make more development viable, balancing out the tendency of inclusionary zoning (IZ) policies to reduce the range of viable projects by increasing the relative cost of market rate units. Specifically, affordability bonuses empower non-traditional development projects that intentionally pursue the goal of increasing the available housing stock at below-market rates, stabilizing overall prices.

Three common pillars of affordability bonuses have emerged through housing reforms nationwide: density bonuses, relaxed zoning requirements, and streamlined permitting. These pillars each play a crucial and interconnected role in the overarching goal of supporting affordable housing development, and Watertown has room for improvement across all three.

As described in more detail in the next section, **the proposed Watertown Square Area Plan affordability bonus threshold is much higher than other peer communities, and the proposed density bonus of only one or two extra floors of height (depending on the affordability level) is the smallest bonus of all the surveyed policies. This means that Watertown’s proposed zoning will do less to incentivize affordable housing developers to build here than it could, and less than what peer communities are already doing.**

Watertown should adopt a more generous affordability bonus policy as part of the Watertown Square Area Plan that operates on all three dimensions. In the final section, we propose a framework for Watertown’s affordability bonus policy, gleaned from affordability bonus best practices in other communities. First however, we will give an overview of each pillar of an effective affordable housing bonus program.

Density Bonuses

A “density bonus” is any policy that increases the buildable square footage and number of units for a given plot when the proposed development exceeds a set threshold of affordable units. This can mean increasing an explicit FAR or units-per-acre limit imposed by zoning, but it can also mean increasing the buildable height and/or reducing mandatory setbacks or stepbacks imposed by the building code. The end result is that for a given piece of property, more housing units can be built, allowing the fixed costs of land acquisition and soft construction costs to be spread among more units, proportionally decreasing each unit’s cost. In certain cases, it also allows for economies of scale in purchasing materials or hiring labor, further reducing costs.

Density bonuses are important because they both decrease the cost of individual units and increase the number of overall units supplied, which has its own impact on stabilizing costs across affordable and market-rate units. But the proposed density bonus in the Watertown Square Area Plan creates a “cliff effect” where a project at 49% affordable units gets no bonus, and a project at 50% gets the entire bonus, and once a project reaches the 50% threshold and receives the bonus, there is no further incentive to add more affordable units. **Watertown should adopt a “sliding scale” approach to density bonuses that incentivizes wider ranges of affordable developments, offering greater height allowances for a higher proportion of affordable units and deeper affordability.**

Relaxed Zoning Requirements

Similar to the density bonus, affordable development can be supported by waiving or relaxing other code and zoning-related restrictions in order to allow affordable housing developers more flexibility to make their projects work. Examples include reducing or eliminating parking minimums, modifying public space requirements, or simplifying material or design restrictions.

Relaxed zoning requirements provide a clear competitive advantage for affordable developers by not burdening them with additional regulations. This reduces costs for affordable developments, which in turn makes them more competitive with market rate developments. Additionally, relaxing these restrictions can open up to development lots that would otherwise not be feasible. For example, an oddly-shaped parcel that lacks space to provide parking could suddenly be viable for affordable development, avoiding direct competition between affordable and market rate developers.

Watertown should look to the models in Los Angeles and Cambridge to draw inspiration for ways that it can relax zoning requirements in order to incentivize additional affordable housing.

Streamlined Permitting

The complement of removing zoning-code roadblocks from affordable projects, this final pillar focuses on streamlining the process of obtaining approval for a proposed project. Large housing development projects are complex by nature, and this complexity is amplified for affordable developments when there are multiple layers and stages of approval required between securing financing, purchasing a lot, and bringing the housing to market. Uncertainty and additional paperwork compound this complexity, translating to a direct increase in costs, both for hiring outside support (legal counsel to navigate the process, e.g.) and simply through increased timeframes, which impose market risk and tangible carrying costs.

Affordable projects are especially tenuous, because their prices are limited by statute and thus cannot flex with market conditions. They are also more dependent on tax credits and grants with specific application timelines, where a missed deadline due to a permitting delay can remove an essential funding source for a project. Thus it is crucial that Watertown does everything possible to minimize complexity and delay in the permitting process. This should be pursued in several ways:

- Wherever possible, making any permits necessary “As of Right,” with a guaranteed response time, sometimes called a “permitting shot clock”. This reduces delay and uncertainty.
- Prioritizing affordable permit applications, making sure limited staff time is first applied to any outstanding affordable proposals.
- Removing steps/paperwork from the process, particularly those that require professional support to complete properly.
- Providing dedicated staff time and resources to assist and expedite affordable applications. More than just prioritizing, staff can proactively work with affordable projects to ensure their application is processed smoothly.

Conclusion

Watertown’s approach to incentivizing affordable housing in the Watertown Square Area Plan stands to be improved across three dimensions: a sliding scale of more generous density bonuses, relaxed zoning requirements for affordable developments, and a streamlined permitting process to smooth the way for affordable developments. By adopting the models set by peer communities for all three pillars, Watertown will ensure that it does everything it can to maximize the number of affordable units built in our city’s downtown. We lay out a framework for doing so later in this document.

How Does Watertown’s Affordability Bonus Framework Compare to Other MBTA Communities Act bonuses?

Chelsea, Medford, and Newton are three communities within the core Boston Metro region that have adopted significant bonuses to incentivize affordable housing:

- Chelsea** has introduced very generous density bonuses for projects in their MBTA Communities Act-compliant zone. Because the Act limits the percentage and affordability requirements for inclusionary zoning, Chelsea gives a 112.5% density bonus and a 10 story height maximum for any project that goes above the MBTA-C requirement of 10% of units at 80% AMI and meets their existing inclusionary zoning requirements of 15% of units (5% at 30% AMI, 5% @ 50% AMI, and 5% @ 80% AMI). From a technical perspective, Chelsea uses a units-per-acre density limit and a lot-area-per-dwelling-unit measure, so their density bonus increases the units per acre from 40 to 85, removes the lot area per dwelling unit restriction, and increases the maximum height from 7 stories to 10 stories.
- Medford** has introduced more modest density bonuses for the MBTA-C zone, but gives projects two tiers and two ways to qualify. Projects can qualify for a 1-story bonus if they designate 20% of the required affordable units at or below 65% AMI or provide 20% additional affordable units above the baseline requirements, or a 2-story bonus if they designate 30% of the affordable units at or below 65% AMI or provide an additional 30% affordable units above the required number. For context, Medford’s largest projects are required to provide 15% affordable units @ 80% AMI.
- Newton** has the least generous density bonuses for their MBTA-C zone. The threshold for the bonus is either 25% of units at 50-80% AMI in their middle tier zone (VC2) and 50% of units at 50-80% AMI in their highest zoning tier (VC3). The bonus only provides a single story.

All three of the examples given above provide greater affordability bonuses at lower thresholds than those included in the Watertown Square Area Plan, as summarized in the table below:

Entity	Minimum Bonus Criteria	Minimum Bonus	Maximum Bonus Criteria	Maximum Bonus
Chelsea, MA	15% of Units total:	112.5% Density Bonus plus 3 story height bonus		
	5% of Units @ 30% AMI			
	5% of Units @ 50% AMI			
	5% of Units @ 80% AMI			
Medford, MA	15% of Units total: 3% at or below 65% AMI or 18% total affordable	1 additional story	4.5% at or below 65% AMI or 19.5% total affordable	2 additional stories
Newton, MA	25% @ 50-80% AMI (VC2)	1 additional story		
	50% @ 50-80% AMI (VC3)			
Watertown, MA	50% of Units @ 80% AMI	1 additional story	50% of units @ 65% AMI	2 additional stories

The Watertown Square Area Plan proposes the highest threshold for a density bonus with the lowest rewards. The plan's threshold is twice as high as in Newton, and is more than three times as high as in Chelsea for the same single story bonus, and is more than ten times higher than Medford's for the two story bonus. The plan's single tier creates a "cliff effect" where a project at 49% affordable units gets no bonus, and a project at 50% gets the entire bonus. **Therefore, there is no incentive for a project to add affordability between the 15% inclusionary zoning requirements and the 50% bonus threshold. Similarly, once a project reaches the 50% threshold and receives the bonus, there is no further incentive to add more affordable units.** This cliff effect is magnified when looking at the affordability tiers. While a project with 49% affordable units at 80% AMI just misses out on a one story bonus, a project at 49% affordable units at 65% AMI, which is harder to fund and build, misses out on a two story bonus, complicating finances further.

Communities in other states, such as California, provide a sliding scale of bonuses smooth out the cliff effect, creating incentives for affordable housing for every kind of project, from market rate developments near the Inclusionary Zoning requirements to majority affordable housing developments. The lower bonus threshold for projects that add units at 50% AMI incentivizes construction of the most in-demand affordable housing. Taken together, scalable bonuses would preserve the goal of advantaging majority affordable projects written into the Watertown Square Area Plan while also adding incentives for projects to increase their affordable unit count, particularly in Watertown Square, where inclusionary zoning requirements are limited to 15% by the MBTA-C Law.

Special Consideration for 100% Affordable Projects

Both California (all cities state-wide) and Cambridge have bonuses that specifically advantage 100% affordable housing projects (80% at 80% AMI, no more than 20% at 100% AMI). California cities allow unlimited density and a standard 3 story height bonus for 100% affordable housing projects, while Cambridge (through its Affordable Housing Overlay) applies a differential height bonus depending on the underlying zone height, which range from 1-1.5 stories in residential neighborhoods, up to 7-8 stories in AHO Squares, for a maximum building height of 15 stories. In addition, both models remove parking requirements, in all cases for Cambridge, and a ½ mile radius in California.

Relaxed Zoning Requirements

A number of communities nationwide allow for a reduction or waiver of zoning standards to advantage affordable housing projects. In Massachusetts, affordable housing projects under section 40b can request waivers of zoning requirements if they are necessary to build the project. However, these waivers are granted on a project-by-project basis, which can often create confusion in the community as to what is and isn't allowed under zoning, and often entails a lengthy public review process. Furthermore, Watertown has reached 'safe harbor' status with section 40b, so the city is no longer required to grant these waivers. In this context, Cambridge's Affordable Housing Overlay (AHO) provides a better model of zoning relaxation for Watertown. Cambridge through its AHO, provides a by-right defined reduction in dimensional standards for 100% affordable housing projects. These by-right defined reductions provide clarity for residents, builders, and city staff during project review, reducing the confusion and contention compared to the discretionary and ad-hoc nature of a 40b project.

Permitting Streamlining

Both Cambridge and Los Angeles present models for affordable housing permit streamlining.

- **Cambridge - Shifting the tone of site plan review.** Cambridge's affordable housing overlay allows 100% affordable housing by right city wide, removing discretionary review from the permitting process. However, the ordinance does require a series of at least four meetings before building permit submission. Prior to building design, the developer is required to have at least one community meeting to explain the project and gather feedback from residents. A second community meeting is required once the preliminary design is developed to share with the community and gather feedback. Next, a third public meeting is held with the planning board to consult on the design of the building, and finally, a fourth public meeting is held after to give the developer a chance to present revised designs. As part of the process, the planning board develops a design report, which is submitted to the building department after the fourth meeting to signify compliance with the community outreach process.
- **Los Angeles - By-right affordable rentals citywide with a 60 day review attract privately funded affordable housing developments.** Under Mayor Karen Bass' ED-1 order in 2022, any 100% affordable rental housing project (80% at 80% AMI, up to 20% at 120% AMI) is entitled to ministerial review and permit approval within 60 days of submission of a completed application. Combined with the aforementioned unlimited density, removal of parking minimums, 3 story height bonus and dimensional waivers, Los Angeles saw a large increase in affordable housing production. In the first 10 months that ED-1 was in place (starting in December 2022), 9,093 affordable housing units were proposed, double the housing units proposed over the preceding 10 months. In the 20 month period since ED-1 was introduced, more than 22,000 affordable housing units have been proposed via ED-1 submission, and more than 11,500 units have been permitted. In a Watertown context, this is a proposed 100% affordable housing development the size of Elan Union Market, or permitting a 100% affordable development the size of 104 Main Street.
- By one estimate, up to 75% of ED-1 projects were completely privately financed during a time of high interest rates and limited low income tax credits. Furthermore, the program also incentivized a number of smaller 15-50 unit range projects on lots less than 1/4 acre abutting major streets, which are almost identical to the smaller parcels on North Beacon and Arsenal Streets identified as prime redevelopment sites in the Watertown Square Area Plan.

Conclusion: A More Effective Affordable Housing Incentive Framework For Watertown

Drawing on a review of best practices from area communities, the following proposed framework is recommended to improve the incentives in the Watertown Square Area Plan:

- Incentivize increased affordable housing production across the spectrum of development, from primarily market rate to 100% affordable.
 - For primarily market rate developments: Use modest density bonuses and discretionary review streamlining to provide affordable housing beyond the required minimums
 - For mixed income developments: Use major density bonuses, zoning relief, and by-right approval processes to maximize the number of affordable developments and reduce the needed cross-subsidy from market rate units
 - For 100% affordable housing developments, or projects with a 50% housing choice voucher set-aside: Provide the maximum density bonuses, most generous zoning requirements, and preferred permitting to ensure projects can meet their grant and tax credit application deadlines
- Incentivize increased affordable housing production at deeper affordability levels, and develop specific incentives to preserve units for Housing Choice Voucher holders.

A note on density bonuses:

as currently proposed, the Watertown Square Area Plan uses setbacks, step-backs, and height to control density, rather than using outdated parameters (such as FAR or lot area per dwelling unit) to control density. Through mandatory design guidelines, the plan provides clear criteria for setbacks and step-backs, so height is the major parameter that controls density and unit count. Therefore in our framework, we simplify density bonuses into height bonuses.