Watertown City Council

Committee on Human Services Meeting
Monday, June 15, 2026 at 5:30 PM
Richard E. Mastrangelo Council Chamber - Second Floor

Agenda

ACCESS INFORMATION:

A. This meeting will be held on June 15, 2026 at 5:30 P.M. Location: Richard E. Mastrangelo Council Chamber - 149 Main Street, Watertown, MA 02472 - Second Floor

B. The in-person meeting will also be televised through WCATV (Watertown Cable Access Television) on Comcast Channel 22 or RCN Channel 13 and can be streamed online at: http://vodwcatv.org/CablecastPublicSite/watch-now?site=3

C. The Public may join the virtual meeting online: https://watertown-ma.zoom.us/j/88970754795

D. Public may join the virtual meeting audio only by phone: (877) 853-5257 or (888) 475-4499 (Toll Free) and enter Webinar ID: 889 7075 4795

E. Public may comment through email: eizzo@watertown-ma.gov

F. Please Visit the Committee on Human Services Webpage here: https://watertownma.portal.civicclerk.com/?category_id=80

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1. Call to Order
2. Discussion
   A. Affordable Housing Incentives Study
3. Adjournment

ELECTED OFFICIALS

Anthony Palomba, Chair	Caroline Bays, Vice Chair	Emily Izzo, Secretary

Watertown Affordable Housing Incentives Study

Prepared by the Metropolitan Area Planning Council (MAPC) for the City of Watertown

June 12, 2026

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Purpose of Study & Methods Overview

The City of Watertown has long supported the creation of multifamily housing and deed-restricted affordable units. One of the City's primary means for creating affordable housing is its inclusionary zoning (IZ) ordinance. Watertown's inclusionary policy was first enacted in 1989 and is codified in Section 5.07 of the City's zoning ordinance. In 2016, amendments to the inclusionary policy modified the affordability requirements to their current standards. The ordinance, applicable citywide, requires that 12.5 to 15% of units in new market-rate development be set aside as affordable to households earning 65-80% of the area median income (AMI), depending on project size and tenure. The affordability requirements were intentionally set at a level that allows for robust market-rate production while adding significant numbers of affordable units. The City does allow alternative compliance methods, such as a payment-in-lieu fee available through administrative review.

Furthermore, in 2024, Watertown adopted the transformative Watertown Square Area Plan and related zoning amendments, which included incentives for affordable housing development (defined in the Watertown Square zoning as 50% or more of units affordable to households earning up to 80% AMI), such as increasing maximum height and lowering parking requirements. MAPC's 2024 Economic Feasibility Assessment (EFA) analysis found that the inclusionary zoning policy, as applied to the Watertown Square District, part of the City's 3A zoning district, was well-calibrated to Watertown's market. The current policy context, particularly the recent reform and addition of incentives offered within the Watertown Square (WSQ) district, informed the study's framework and list of incentives to be tested. One of the goals of the study was to cross-check the effectiveness of WSQ's current menu of incentives for affordable development. As such, incentives were tested holistically. In other words, the WSQ incentives informed the list of incentives tested, but additional incentives were tested, and the hypothetical development prototypes were not geographically specific.

It is important to note that the City is not currently considering amendments to its inclusionary ordinance. Instead, the intent of this project is to explore incentives for additional affordability beyond what is required by the inclusionary ordinance, not to increase the requirements themselves.

Testing Incentives Across the Affordability Spectrum

The goal of a voluntary incentives program is to attract housing developers to build more or deeper affordable housing in Watertown. There are two types of developers and housing projects that an incentive program may attract. The first is primarily market-rate projects that provide a greater amount of affordability, in number of affordable units and/or depth of income levels served, than would have otherwise been required by the City's inclusionary zoning policy. Because they are market-rate projects built by market-rate developers and would likely advance regardless of the availability of incentives, any incentive must be sufficiently attractive to prompt a developer to voluntarily provide greater affordability. Incentives for this type of project will typically involve the ability to build more units, reduce costs, or reduce the length of the approvals process. These developers' decisions are based on whether a project is profitable, so even the most robust set of possible incentives is unlikely to motivate a developer to provide affordability beyond a certain point.

The second type of project is a primarily affordable project built by a nonprofit or mission-driven developer. Such a project may include some market-rate units, but the primary intent of the project is to provide affordable housing. These developers' decisions are made not on profitability but on the ability to secure the subsidies needed to advance a project. Because of the limited amount of subsidy available, these projects typically are not more than 60-70 units, and the ability to increase the number of units is less important. Incentives that reduce costs or enable shorter approvals time will likely be more effective.

To continue to advance its housing goals[1], the City of Watertown undertook this Affordable Housing Incentives Study to assess a range of voluntary incentives that would encourage either or both:

- Market-rate developers to produce more or deeper affordability within market-rate developments relative to what is already required by Watertown's mandatory IZ policy.
- Greater production of affordable housing developments (e.g. 100% affordable projects) and attract local affordable housing developers.

This study used a holistic and systematic approach to identifying and testing a list of incentives, including the following steps (refer to **Appendix C and D** for more methodology details).

Project Phases

Phase 1: Understanding the Local Context	
	Market and submarkets assessment to understand market conditions and patterns of recent development.
	Zoning assessment to identify regulatory constraints to housing production and where zoning relief may be considered as an incentive.
Phase 2: Informing the List and Use of Voluntary Incentives	
	Interviews with market-rate developers familiar with Watertown to understand market conditions and interest in different incentives.
	Interviews with affordable housing developers familiar with Watertown to understand barriers to affordable housing production and interest in different incentives.
	Focus group with Planning and Zoning Board members to understand any barriers in the local development review process and interest in incentives.
	Case study research of voluntary affordable housing incentive programs in other municipalities to understand best practices and inform program design and implementation.
Phase 3: Testing the Incentives	
	Market-rate Financial Feasibility Analysis to understand the financial feasibility of market-rate developments providing more or deeper affordability than is currently required under Watertown's IZ policy. This includes a Pro Forma Model and a Buy-Down Model. Note that this study only considers market-rate rental projects.
	Affordable Housing Sources & Uses Model compares the impact of incentives by looking at the relative change in the funding gap in the context of typical 100% affordable housing rental projects.
Phase 4: Recommendations and Considerations	
	Summary of **recommendations and considerations** based on findings from Phases 1-3.

[1] In April 2026, the Watertown Housing Trust adopted a new Housing Plan which provides housing related goals and strategies for the City over the next 5 years. The adopted plan has been submitted to the City Council for endorsement. Watertown Housing Plan 2026-2030 ADOPTED. Available at: https://portal.laserfiche.com/Portal/DocView.aspx?id=152686&repo=r-5ece5628

Understanding the Local Context

In order to inform the incentives to be tested and/or explored in this study, MAPC first sought to understand Watertown's local context in terms of existing zoning and market conditions.

The following section will first provide a summary of findings related to the assessment of Watertown's zoning, and then findings related to the residential market and submarket conditions in Watertown. Refer to **Appendix A (Zoning Audit) and Appendix B (Market and Submarket Analysis)** for more details. Note that the final list of tested incentives is on pages 20-21.

Watertown Zoning Assessment

As part of the Watertown Affordable Housing Incentives study, MAPC reviewed the City's zoning ordinance to identify potential constraints to housing production and potential areas where zoning relief may be considered as an incentive for providing affordability.

In short, Watertown's zoning ordinance is a solid ordinance with reasonable requirements. It generally aligns with the land use goals as articulated in the City's 2023 Comprehensive Plan, and there are no major components that are likely to substantially hinder housing development. This is evidenced in practice by the number of multifamily projects that have been permitted in the past decade. Of the almost 1,400 units that have been permitted since 2015, about 89% have been for multifamily development.[2] In particular, the 2024 Watertown Square zoning stands out as a well-written ordinance that facilitates development consistent with the City's goals and needs.

Unfortunately, this means there are few obvious or easy places to use zoning to incentivize affordability. The potential incentives with the greatest potential citywide are a path to by-right permitting and waiving ground floor commercial requirements. Other incentives focused on specific neighborhoods, such as updated dimensional requirements similar to those in Watertown Square, are also promising.

Methods

As a starting point, this assessment relies on the future land use vision articulated in the City of Watertown's 2023 Comprehensive Plan. It broadly defines three categories:

- The "conserve" areas, which represent areas where context-sensitive improvements may be appropriate
- The "enhance" areas, which represent segments of the City where improvement to the built environment can be made while building on the existing character of these areas
- The "transform" areas, which represent portions of the City that are expected to change dynamically over time.

This assessment focuses on the three "transform" areas and, to a lesser extent, some of the "enhance" areas, particularly the Mount Auburn Street corridor. For each of the three key "transform" areas, this assessment considered the extent to which existing zoning aligns with the future land use vision above in terms of both allowable use and dimensional regulations. The assessment of dimensional regulations is supplemented by best practices and input from

2 MAPC's analysis of the Metro Mayor Coalition Housing Taskforce Permitting Data (2024)

developers. This analysis focused on the following geographic areas, which are the main areas in Watertown where multifamily is permitted:

- Pleasant Street Corridor
- Arsenal Street Corridor
- Watertown Square
- Mt. Auburn Street Corridor/ Coolidge Square

For each geographic area, the following zoning variables were analyzed:

- Future uses and allowable uses
- Dimensional regulations
- Requested zoning relief from past development
- Opportunities for potential zoning reform and/or considerations for incentives

The potential zoning relief assessment is grouped by geography. The first section outlines relief considerations as incentives that are likely to be attractive across the City. While referred to here as "citywide" incentives, the expectation is that these would apply only in districts that the City deems appropriate, such as multifamily and mixed-use districts, not in single-family districts. The following sections focus on potential incentives specific to different zoning districts. For more details on the Zoning Assessment, refer to **Appendix A**.

Note that the Zoning Audit does not consider what those affordability thresholds might be in order to access the incentives. Refer to the **Market-Rate Pro Form Analysis section** for a more detailed assessment of affordability thresholds.

Citywide Considerations

By-right development. Because it entails fewer regulatory barriers and greater development certainty, allowing housing to be built by-right can lead to a faster construction timeline, resulting in cost savings. Re-assessing the City's zoning district where multifamily and residential mixed-use are currently permitted by special permit (rather than by-right) can be a valuable zoning relief opportunity for both affordable housing projects and market-rate development with enhanced affordability.

Waive the ground floor commercial requirement. Several districts across the City require ground floor commercial. Interviews with developers found that commercial development is a substantial drag, especially for a nonprofit affordable housing developer, which may have no experience in developing or leasing commercial space. Assessing the neighborhood objectives and goals of each zoning district can help determine the trade-offs associated with prioritizing mixed-use development or affordable housing projects.

Pleasant Street Zoning Considerations

The Pleasant Street Corridor offers the greatest potential for incentives or for general zoning improvements. The following are potential zoning relief incentives or amendments for consideration:

- Allowing multifamily and waiving the commercial requirement in Pleasant Street Corridor District 2 (PSCD-2)
- Consider increasing height maximums
- Increasing Floor-to-Area Ratio (FAR) maximums
- Reducing parking minimums

The comprehensive plan envisions that the PSCD-2 district will be residential mixed-use, or

"corridors to enhance with higher-density multi-family development, often in larger buildings, to increase housing supply… limited amount of complementary retail or commercial use, often occupying a portion of the ground floor."

Despite emphasis on residential as a primary use and commercial in a supporting role, the current base zoning does not allow multifamily residential use to be built by-right. Instead, a special permit is required for residential and mixed-use, multifamily housing projects. Discretionary review allows for more local control, but also creates additional regulatory barriers to housing projects, increasing construction time and costs.

Additionally, 15% of total floor area is currently required to be for commercial use. Although 15% doesn't sound like much, in a five or six story building, this would encompass most of the ground floor. The City's commercial requirement was enacted in 2015, in response to single-use residential development in the area. Requiring ground-floor commercial spaces in housing development can also increase the overall construction cost. We heard from affordable housing developers that these added construction costs can be particularly burdensome for 100% affordable housing projects.

Regarding the other Pleasant Street subdistricts, the office-industrial areas generally align with the PSCD-3 district. Neither multifamily nor residential mixed-use is permitted in this district, which is consistent with Comprehensive Plan goals. Currently, PSCD-1 only allows multifamily and mixed-use development by special permit. The residential restrictions within these subdistricts can be reviewed as part of a future analysis of the overall PSCD district.

Two projects requested zoning relief in these districts, including one request for a height increase, one for a parking reduction, and one for an FAR increase. These are reasonable places to start when considering incentives. The zoning ordinance allows increased height, reduced parking, and increased building coverage by special permit. Since the ordinance essentially establishes that these increases are already acceptable under certain circumstances, the City can make these increases automatic for projects that opt for more or deeper affordability thresholds.

The lots in this district are generally large enough that the frontage and setback requirements are unlikely to pose an issue, though there could be an option for additional dimensional relief. However, the FAR stands out; it doesn't align with allowable height and building coverage. It will be hard to maximize building coverage and/or meet open space requirements with parking requirements, especially if mixed-use continues to be a priority policy objective.

Arsenal Street Corridor Zoning Considerations

Arsenal Street Corridor intersects with a few base zoning districts: three industrial zoning districts and the Regional Mixed-use District (RMUD). As such, it is industrial and commercial in nature;

however, residential and mixed-use are permitted in the Industrial-3 and RMUD districts. Across the corridor, there are opportunities to increase affordability options where residential use is permitted. The following are potential zoning relief incentives or amendments for consideration:

- Allowing by-right development where multifamily and residential mixed-use are permitted by special permit
- Consider increasing height maximums
- Increasing FAR maximums
- Reducing parking minimums

In the Industrial-3 (I-3) base zoning district, multifamily and residential mixed-use development is allowed to be built via a special permit. In the Regional Mixed-use District (RMUD) base zoning district, only residential mixed-use development is permitted through a special permit. Although discretionary review offers municipal decision-makers more local control over what is built and where, it can also slow down development. Given the range of mid- to large-sized parcels along the corridor, there are opportunities to streamline affordable housing development at scale.

Of the residential projects permitted in the Arsenal corridor, four projects requested zoning relief. A project in the I-3 district requested FAR relief, while another asked for façade length relief. In RMUD two relief requests were for allowing additional height and one was also for façade length.

The I-3 and RMUD districts have similar dimensional regulations to those of the Pleasant Street Corridor Districts. As such, the district that allows residential development along Arsenal Street can also consider increasing maximum height, increasing FAR, and reducing parking minimums as potential zoning incentives for projects that offer more or deeper affordable units.

Watertown Square Zoning Considerations

In 2024, Watertown adopted the transformative Watertown Square Area Plan and related zoning amendments. As a result of the efforts to rightsize the dimensional regulations within the Watertown Square Districts (WSQ), there were minimal opportunities for further amendments or incentives.

Watertown Square's currently provides incentives for projects that provide 50% or a greater number of affordable units:

- One additional story for developments at or below 80% AMI
- Two additional stories for developments at or below 60% AMI
- Reduced minimum parking requirement to 0.25 spaces per unit, with the option for fewer spaces requested by special permit.

Prior to the zoning reform, a few projects permitted in Watertown Square requested zoning relief. One project requested relief based on height, while another requested façade length relief. Three projects requested parking minimum relief.

Previous zoning reform efforts effectively rightsized the zoning dimensional standards for the WSQ districts. Some additional areas for improvement and consideration include increasing the height maximums, particularly in WSQ-1, WSQ-2, and NMU. Additionally, WSQ districts do not yet offer incentives for market-rate development that opt for more or deeper affordable options.

Mt. Auburn Street Corridor/ Coolidge Square Zoning Considerations

As one of the "enhance" areas identified by the 2023 Comprehensive Plan, the area along Mt. Auburn Street Corridor, within Coolidge Square, has many zoning reform opportunities that could help generate more affordable housing. The base zoning districts that regulate the area are the Residential Multifamily, Business, and Industrial districts. However, given that the area is mostly made up of small- to mid-sized parcels, opportunities are limited for 100% affordable housing developments, such as tax credit projects, which are generally larger scale (30 plus units).[3] Instead, affordable units are most likely to come from market-rate developments through inclusionary zoning. The following are potential zoning relief incentives or amendments for consideration:

- Allowing by-right development where multifamily and residential mixed-use are permitted by special permit
- Increasing density allowance for R.75 and R1.2 districts
- Increasing FAR maximums in residential and business districts
- Reducing parking minimums

Although part of the corridor is within the Residential multifamily zoning district, namely R.75, multifamily development is not allowed by-right; instead, a special permit is required. Similarly, a special permit is needed for multifamily development in Neighborhood Business (NB) and for multifamily and residential mixed-use development in Limited Business (LB) base zoning districts. While the trade-off to decreasing the ability for discretionary review is less local control over what gets built where, the advantages include the streamlining, both time and cost, of housing production.

The most opportune zoning change within this area would be to increase the allowed density of the Residential multi-family base zoning districts: R.75 and R1.2. The residential subdistricts are classified by FAR with a maximum allowed FAR of 0.75 and 1.2. Increasing the FAR for each would result in a greater but gentler density, attracting more "missing middle"- scale typologies that can be more "naturally" affordable. Similarly, maximum building coverage, maximum height, and maximum density regulations can be potential areas of improvement, recalibrating to allow for more multifamily development and the affordability opportunities that come with greater density.

Summary of Potential Zoning Opportunities

Based on the zoning assessment above, the changes that could provide value in exchange for affordability and/or promote affordable development in the geographic areas analyzed include:

- By-right multifamily development in targeted zoning districts
- Waiver of ground-floor commercial requirements
- Increase in height and/or offer height bonus

[3] Federal and state Low-Income Housing Tax Credit (LIHTC) projects are allocated tax credits that are sold to investors to generate equity. The tax credits are allocated by the state. Only units at/below 60% AMI qualify for these tax credits.

- Increase FAR maximums and/or offer density bonus
- Reduce parking minimums
- Facade and setback relief

Market and Submarket Conditions

As part of our survey of market conditions, we collected data that was available at a point in time on unit size and rents from multiple existing buildings within the City of Watertown. The buildings we surveyed were new builds or appeared to have new renovations. For this study, the qualitative assessment focused on rental developments. Data was also collected from other quantitative sources, such as the CoStar database, our MAPC Rental Listings Database, Zillow, as well as the City's 3A compliance model and permitting data. The data collected is used to inform the financial analysis assumptions. See **Appendix B** for aggregated data tables on Market Conditions.

A survey of submarket conditions was also conducted to determine if there were substantial differences in rental prices and unit sizes among Watertown neighborhoods. Using CoStar submarket and development data, a geospatial analysis was conducted to identify locations of newer developers (see **Appendix B** for map). Findings suggest minimal differences in median rent and median unit size across neighborhoods. Little variation in market conditions by neighborhood indicates no evidence of strong submarkets in Watertown. While market demand is essentially the same citywide, local zoning and neighborhood context can vary significantly. Analysis must therefore be sensitive as to which incentives can/should be offered citywide and which can/should be district-specific.

Further Informing the Incentive List

Multiple approaches were used to curate a list of incentives. Case study research detailed how other municipalities set up their voluntary incentive programs to reach more or deeper affordability, as well as which incentives appeared to be most common and/or effective. Interviews with market-rate and affordable housing developers active in or familiar with Watertown's market were important to understand the City's market conditions and gauge the attractiveness and value of incentives. A focus group with City of Watertown Zoning and Planning Board members was useful in understanding the internal perspective on potential incentives and development processes.

Case Studies of Voluntary Incentive Programs

The purpose of this case study research was to analyze affordable housing voluntary incentive programs from relevant context communities to inform Watertown's policy decisions. By assessing successes and challenges from other municipalities, this research provides qualitative insights into the pros and cons of different program approaches.

Context on Affordable Housing Incentive Programs

Voluntary affordable housing incentive programs vary along the following dimensions:

- **Voluntary or blended mandatory/voluntary**. Programs may be voluntary, stand-alone programs that developers choose to opt into. These programs are common in states where mandatory IZ is illegal. In contrast, blended mandatory/voluntary programs are when voluntary incentives are offered as part of a mandatory IZ policy. In such cases, developers voluntarily choose to go above and beyond minimum affordability requirements in exchange for incentives.
- **Type of incentives.** Incentives can take the form of zoning relief, such as a density bonus, relief from setbacks or open space requirements, reduced minimum parking requirements, or waived commercial ground-floor requirements. Incentives can also take the form financial offsets, such as property tax exemptions, permit fee waivers, or impact fee waivers. Streamlining or expediting the permit review process is another type of incentive, such as offering by-right approval or dedicating staff for expedited review.
- **Affordability requirements.** This refers to the minimum on-site affordability required in exchange for the voluntary incentives. This is usually measured in terms of a set-aside percentage of units required to be affordable, and the maximum AMI threshold for those units, and this usually varies by project tenure. Some programs offer a range of affordability requirement options (e.g., a lower set-aside at a lower AMI or a higher set-aside at a higher AMI).
- **Eligibility**. This refers to the types of projects that are eligible for voluntary incentives. In the case of blended programs, this may also refer to the types of projects that are subject to the IZ program. Eligibility (or applicability) is usually defined based on project tenure and a minimum threshold of number of units or square feet.
- **Alternative forms of compliance.** In some cases, voluntary programs offer alternative forms of compliance to building affordable units on-site. The most common alternatives are in-lieu fee payment and construction of units at an off-site location.
- **Type of affordability targeted.** Most of the programs analyzed in this work incentivize the provision of affordable units within market-rate developments. However, some programs may also provide incentives for 100% affordable projects, or focus exclusively on 100% affordable projects, such as the City of Cambridge Affordable Housing Overlay program.

Methods

This case study research was developed using the following steps:

- **Conduct a broad scan of existing voluntary incentive programs targeting deeper affordability.** MAPC scanned research reports and databases for affordable housing incentive programs meeting the following criteria: (1) fully voluntary programs, or programs that had a voluntary element built into a mandatory IZ policy; (2) programs that implemented more or deeper affordability requirements, or otherwise tackled deeper affordability in a creative way; (3) programs in municipalities with comparable market conditions to Watertown, although this proved to be difficult. Programs from both in and outside of Massachusetts were considered.
- **Refine a list of seven comparison communities based on input from Watertown staff.** After the initial scan, Watertown staff selected seven case studies to explore in-depth, covering a range of market types and policy approaches (see Figure 1). Although an effort was made to include Massachusetts case studies, a limited number of in-state examples met the criteria described in step 1.
- **Review each program's enabling ordinance or bylaw,** including a detailed summary of each program's key characteristics.
- **Conduct interviews with municipal staff** to assess program outcomes, such as affordable housing production before and after adoption and utilization of incentives.

Figure 1. List of Case Studies

Jurisdiction	Program Name	Program Type	Year Effective
Taunton, MA	Inclusionary Housing	Fully voluntary *(Note: Taunton does not have a mandatory IZ policy)*	1989
Cambridge, MA	100 Percent Affordable Housing Overlay (AHO)	Fully voluntary *(Note: Cambridge has a separate IZ policy)*	2020
Denver, CO	Expanding Housing Affordability (EHA)	Blended mandatory / voluntary	2022
Minneapolis, MN	Inclusionary Zoning	Blended mandatory / voluntary	2019
Kirkland, WA	Affordable Housing Incentives Program	Blended mandatory / voluntary	2010
Salt Lake City, UT	Affordable Housing Incentives (AHI)	Fully voluntary	2024
Iowa City, IA	Tax Exemption for Affordable Rental Housing	Fully voluntary	2019

Summary Findings

The findings below summarize the key themes that emerged from MAPC's analysis of the seven case studies, drawing heavily from interviews with municipal planning staff. Note that this does not represent an exhaustive or comprehensive evaluation of voluntary incentive programs generally. A more detailed overview of each program and its specific outcomes, challenges, and opportunities is provided in **Appendix F.**

- **There are limited examples of voluntary incentive programs that target more or deeper affordability in Massachusetts.** On the one hand, MAPC found programs targeting deeper affordability, but these were often mandatory IZ policies. For example, the cities of Somerville and Malden target various AMI levels as part of their IZ requirements, including 50% AMI. The City of Boston also targets deeper affordability in their mandatory IZ program through the utilization of Section 8 vouchers. On the other hand, MAPC found examples of voluntary programs in Massachusetts, such as in the City of Pittsfield, but these did not necessarily target very low (50% AMI) or extremely low-income units (30% AMI).
- **Some blended programs outside Massachusetts have had success in generating additional affordability beyond their mandatory IZ program.** The most notable successes were in Denver, and to a lesser degree, Minneapolis and Kirkland. It is also notable that these cities were intentional about conducting project-level tracking of affordable units and incentives offered. This allowed municipal staff to assess the outcomes of their program and monitor the effectiveness of different incentives.
- **Voluntary incentives are unlikely to spur additional affordable units if they do not offer a net financial benefit to the developer that is significantly more attractive than the no-incentive scenario.** It is generally insufficient for the added value of the voluntary incentives to simply offset the lost revenue from providing more or deeper affordability. Given the voluntary nature of these incentives, there must be a notable benefit for a developer to choose to opt-in. The case studies showed a range of program effectiveness, and this is likely the biggest factor explaining this variability.
- **Market-rate developers showed limited interest in pursuing deep affordability (below 50% AMI) even when paired with voluntary incentives.** Although it is difficult to generalize across cities and programs, it appears that developers were more willing to include a larger set-aside rather than very low-income units (at or below 50% AMI). Municipal staff said this may be due to the ongoing stigma associated with these levels of affordability, or to the perception that supportive services are needed for this type of unit. Iowa City provides an interesting example: their voluntary incentive program worked well when targeting 60% AMI, but an alternative program that targeted 40% AMI has not been utilized by any developers since its adoption.
- **Offering a menu of incentives and tiered affordability requirements was generally seen as an effective strategy**. A menu of incentives provides flexibility and optionality for different sites and developer preferences. Minneapolis and Denver are two examples in which the range of incentives offered worked well. Similarly, offering a menu of options for affordability requirements was also noted as an effective approach.
- **Expediting the permitting process was often seen very positively by developers.** In Denver, planners received a large number of inquiries from developers about this incentive, even though, in the end, staff were unable to provide this service given high demand. In Salt Lake City, this incentive was used by developers despite the small sample size. The affordable housing developers interviewed as part of this work cited Cambridge's AHO – which offers by-right

approval for 100% affordable projects – as a model tool to spur more affordable housing development.

- **Providing zoning-based incentives on a by-right basis was seen very favorably for the predictability it offers.** While offering incentives on a discretionary basis can still be attractive, it adds a layer of uncertainty from the developer's perspective. For example, Denver and Salt Lake City offer different thresholds of height bonuses by-right in exchange for more affordability. In contrast, in Kirkland's case, only financial incentives are guaranteed in exchange for extra affordability – additional zoning relief is subject to discretionary approval.
- **Height and density bonuses are common zoning-based incentives, and they are often tied to underlying zoning allowances.** Nearly all the case studies examined included some form of height or density bonus, although they were not used consistently across all the case studies. As part of the process of determining appropriate height and density bonuses, municipal staff recommended doing outreach with local developers to get their input what is most needed.
- **Educating and building relationships with developers impacts program success**, especially in the early adjustment period after program implementation as it can take time for developers to adjust to a new program. For example, planners in Minneapolis explained that developers became much more receptive to their voluntary tax increment financing incentive after they provided educational materials and revenue estimate tools.
- **Tracking program outcomes is key for ongoing program evaluation and regular recalibration.** In order to assess a program's overall effectiveness, it is essential to track project-level data on affordable units and AMI levels achieved relative to the specific voluntary incentives granted. Without this type of data, it is difficult to monitor which incentives are most impactful and adjust the program over time. Tracking incentives can be especially challenging if they are granted after long, discretionary review processes, which makes the data more fragmented or harder to track down. Staff capacity is often an issue when it comes to updating data on program outcomes. However, as market conditions change and as data is collected on the program's successes and challenges, it is essential for municipalities to regularly assess and recalibrate their programs.

Market-Rate Developer Interview Findings

The findings below are based on interviews with three market rate housing developers familiar with the Watertown market. The purpose of these interviews was to uncover current barriers to developing market-rate housing subject to the inclusionary housing requirement and understand which incentives would be most impactful from the perspective of a market-rate developer.

Parking

With the exception of the Watertown Square District, the current citywide minimum parking requirements vary by bedroom count of a development unit mix: 0.75 of a parking space per studio, 1 parking space per 1-bedroom, 1.5 spaces per 2-bedroom, and 2 spaces per 3-bedrooms or more. In the Watertown Square District, the minimum parking requirement, regardless of bedroom count, is 0.5 space per unit. As an incentive for affordable housing projects with at least 50% of units affordable at households earning 80% AMI or less, the parking minimum is reduced to 0.25 space per unit.

While developers prefer the flexibility of lower (or no) parking minimums, a lower requirement does not mean developers will necessarily build less parking or find reduced parking requirements attractive. More specifically, free to choose, developers will do their own cost-benefit analysis and provide the parking that maximizes profitability. Accordingly, preferred parking ratios vary by developer and project. Interviews with market-rate developers found that each developer had a different answer to what parking ratio they include in their current projects, ranging from 0.8 spaces, 1 space, to 1.2 spaces per unit. Overall, flexibility in parking requirements was viewed as useful to meeting market demands and accommodating construction costs. For instance, Watertown's shadow parking provision, in which 20% of the required parking can legally be built but can remain as naturally vegetated open space until needed through a special permit, was highlighted as a positive zoning bylaw.

Density Bonuses

A density bonus refers to relief given to the dimensional regulations of a building program to allow for more units. This might look like additional height or a smaller floor-to-area ratio (FAR) than what the zoning ordinance allows by-right. Whether or not density bonuses were viewed as a valuable incentive offered for more or deeper affordability varied by developer type and proposed development. Developers who were in the business of selling properties post-development were in favor of buildings with more units because this was an attractive selling point for future buyers. On the other hand, developers who owned and managed their properties in the long-term are sensitive to the cost of additional units and, therefore, did not necessarily see a density bonus as an attractive incentive.

The size and scale of a proposed development also determine how effective an incentive may be. For instance, additional height might be an offer that developers may or may not take, given its potential constraints. For instance, once a building reaches 70 feet or higher, the building is considered "high-rise" and is subjected to different building codes, adding another set of costly challenges. Market demands also determine unit sizes. Larger units are more attractive to future tenants and resale buyers, but also increase total construction costs. Between the two, offering relief to unit size and FAR appeared to be the more attractive incentive among the interview market-rate developers.

Zoning and Permitting for Development Projects

The developers viewed the City's permitting process as long and expensive. Every developer commented on the permitting and approval process, noting that both the informal and formal processes took several years. This lengthy process added costs to the overall project budget, in addition to the cost of the permits. The developers noted that clearly written requirements in the zoning code make the approval development process easier and faster. Zoning for the Watertown Square Districts (WSQ) was noted as an example of how the approval process has been easier as a result of zoning changes.

Overview of the City's Permitting Process

- Market-rate multifamily developments that are large enough to require affordable units in the project (10 or more total units) will start with several informal meetings with city staff to discuss zoning requirements, parking and transportation, stormwater requirements, and site/ building design considerations.
- When the project is nearing the application stage, it will typically do a transportation study and a stormwater study (both with peer review), participate in a design peer review, do one or two community meetings, do an affordable housing review, and participate in a "developer's conference" with members of various city departments and boards.
- Once a formal application is filed, state statutory requirements apply to the permitting process, including required public notice.
- Special permit applications in two zoning districts (Pleasant Street Corridor and the Regional Mixed Use District) go to the Planning Board as the permit-issuing authority. Applications in other districts (and variances in all districts) go to the Planning Board for an advisory report to the Zoning Board of Appeals as the permit-issuing authority.
- An application that presents few issues can be approved in one month, even when two boards are involved. However, as larger multifamily developments can present more complex issues, it is common for applications to take an additional month or more to obtain approval. Permit decisions typically include conditions relating to further review by the Department of Public Works for stormwater compliance (and, if required by state law, the Conservation Commission for wetlands compliance).
- The main difference between the special permit/variance process and "by-right" process is that by-right projects, once filed, are subject only to "site plan review" by the Planning Board and are more likely to be approved in one meeting.
- In certain cases, applications may also go to the Historical Commission (if there is a demolition of a building 50 years or older) or the Historic District Commission (if the proposed project is in the Mt. Auburn Street Historic District).

Land Acquisition and Property Tax

The developers noted that, in this current market, land acquisition costs are high. One of the challenges they face is landowners holding out for the best price, given the density of housing that could be built on their land. However, the expensive land sale price only contributes to the high cost of construction, and as a result, higher unit rents. Overall, lowering the cost of construction was noted as helpful to development. Particularly, free or discounted land was seen as a valuable incentive. Market-rate developers also noted that property tax relief would provide a real financial offset.

Affordable Housing Developer Findings

Findings below are based on interviews with two affordable housing developers familiar with the Watertown market. The purpose of these interviews was to uncover current barriers to developing 100 percent affordable housing in Watertown and understand which incentives would be most impactful from the perspective of an affordable housing developer.

Land Acquisition and Local Funding Match

The developers noted that land acquisition is often a major impediment to affordable housing development. As noted above, land costs are high, and nonprofit developers struggle to compete with market-rate developers. Developers noted that donated or discounted publicly owned land is a very impactful action for two main reasons. First, it helps close the funding gap, and it is often considered a form of local funding match by EOHLC, which is essential in order to be competitive for LIHTC. Second, having a patient land seller (such as a municipality or other public entity) is beneficial to affordable developers because it allows them to go through the pre-development and financing stages prior to formal land acquisition.

Beyond land donation, developers noted the importance of local funding sources for affordable housing more generally, such as Affordable Housing Trust or Community Preservation Act funds. Affordable housing developers face a significant funding gap, which they must fill with layered funding sources from the local, state, and federal level. Having a supportive municipality able to help with a local match is seen as a significant positive.

Zoning and Permitting Processes

Developers emphasized that discretionary review processes create significant risk and uncertainty, as affordable developers typically advance pre-development costs. Market rate developers are more able than affordable developers to absorb the cost of proposing a project that ultimately does not proceed. In addition, like market rate developers, affordable developers view the special permit process as one that can be lengthy and expensive. For affordable housing in particular – which can get more community pushback – providing the certainty that projects will be approved so long as they follow certain local zoning regulations was seen as a very meaningful incentive. Developers also noted that this could be a great way to attract new affordable housing developers to Watertown, as it helps reduce the barrier to entry. Developers highlighted the Cambridge Affordable Housing Overlay as an excellent model. Although developers noted by-right approval as most impactful, they also highlighted expedited review processes as another positive step to ease development constraints.

Relief from Zoning Standards

Developers perceived commercial requirements waivers as an impactful incentive for affordable housing development. Adding commercial space to a project increases its development costs, yet these spaces often remain vacant or do not bring in significant revenue, such that a project's public subsidies end up cross-subsidizing the commercial component. Furthermore, affordable housing lenders/funders tend to be wary of financing commercial space, as it is generally not their area of focus and adds complexity and risk to projects.

Reduced minimum parking requirements were also seen as impactful by the developers interviewed for this work. Developers adjust the amount of parking they provide for a given project based on factors such as site configuration and expected demand (e.g. population served, proximity to transit, etc.) As shown by multiple studies in Massachusetts—including one that included Watertown multifamily developments—demand for parking is significantly lower for households in affordable units.[4] Given the high cost of parking, especially podium or underground parking, having the flexibility and optionality to lower the amount of parking was seen as a meaningful local incentive.

[4] MAPC's 2023 Rightsized Parking Study in the WestMetro HOME Consortium area discusses prior MAPC studies in Massachusetts and the results in Watertown. https://www.mapc.org/wp-content/uploads/2023/07/Parking-Perfect-Fit-Memo4-July-2023.pdf

Density bonuses received more nuanced feedback from affordable housing developers. On the one hand, developers perceived them as a valuable tool that provides much-needed flexibility for different sites and developer profiles. Density bonuses also make it easier to achieve economies of scale (e.g. lower costs on a per unit basis), which is especially important for smaller sites, and which can boost a project's competitiveness for public subsidies. On the other hand, developers noted that increasing the number of affordable units on a given site increases total development costs, without changing the revenue side of the equation. In this way, it does not address the fundamental challenge of closing the funding gap faced by affordable developers. Note that this differed from the perspective expressed by market-rate developers, as described above.

Other Financial Incentives

Developers noted that permitting fee waivers can be a helpful action, but that on the whole, these represent relatively lower dollar amounts. Property tax relief was also highlighted as a potentially impactful incentive as this can help increase a project's net operating income over the long term.

Network of Affordable Developers

Developers observed that having multiple affordable developers looking for sites increases the likelihood that a project will emerge. Such an environment, they said, doesn't yet exist in Watertown. For many years, Watertown Community Housing (a community development corporation or CDC) focused solely on Watertown. The organization has since become Metro West Collaborative Development, Inc. and expanded its focus to approximately a dozen communities. Affordable developers remarked that building relationships with and growing a network of affordable developers in Watertown could be one strategy to garner more affordable development in the City.

Planning Board and Zoning Board Focus Group Findings

Development Permitting Process

As board members who contribute to the review and approval of development, we were interested in hearing their perspective on the development permitting process. In contrast to the developers' perspective, Board members viewed the approval process, at least the formal processes in which they are part, as productive, particularly when a developer meets with City staff beforehand. Although the time spent meeting with City staff and community members beforehand can appear to be "a decent chunk of time", the pre-work done shortens the time needed at Planning and Zoning board meetings. Requiring two community meetings before a development project comes before a board was noted as particularly helpful to the review process. The participating board members also noted that the discretionary review process, such as granting special permits or development reliefs, gives boards more authority to balance development and community.

Sentiment on Incentives and Affordable Units

When asked about the voluntary incentives, participants strongly favored pairing voluntary incentives with more units at deeper affordability requirements. For example, there was an expressed desire to push for more affordability if the commercial requirement were waived. Participants also noted that some incentives might be better suited for market-rate development, such as offering a density bonus. For both waiving the commercial requirement and offering a density bonus, board members highlighted that design standards should still be prioritized.

Reducing the parking ratio requirements was viewed favorably by the board members, with the acknowledgement of the ongoing tension between onsite and offsite parking. On one hand, requiring fewer parking spaces onsite lowers the cost of construction, and therefore the cost of rent. However, less onsite parking could lead to more parking congestion on residential streets, which appears to be an abiding local issue.

Board members were asked for their personal opinions about several incentives that do not involve their roles in the permitting process. Offering tax relief could help with development, but it is also a key tool for generating municipal revenue. Similarly, waiving permitting fees was also met with some hesitation, given that permitting fees contribute to the City's revenue, but noted that a study should be done on how it may impact the City's budget. Additionally, the board members offered that increased collaboration and coordination are needed between the Affordable Housing Trust and the Community Preservation Committee. Financial resources are available, and they advocated that more could be done to help with affordable housing development.

Final List of Incentives

Based on the case study research, conversations with developers, discussions with Zoning and Planning Board members, and inputs from Planning Staff, the following list of incentives was developed for further research (see Figure 2).

Note that the impact of expedited and/or by-right review processes is not tested in the financial feasibility models, given the complexity of putting a dollar value on this type of benefit. Instead, the assessment of this incentive is based on the interview findings.

Figure 2. Summary of incentives tested in the market-rate and affordable financial feasibility analyses

	Market-rate Pro Forma	Affordable Sources & Uses Model
Free Publicly Owned Land		✓
Reduced Parking Minimum (0.25 spaces per unit)*		✓
Reduced Parking Minimum (0.5 spaces per unit)*	✓	✓
Waived Commercial Requirement	✓	✓
Waived Permitting Fees	✓	✓
Waived Commercial Requirement and Permitting Fees	✓	
Density bonus (1x) **	✓	✓
Density bonus (2x) **	✓	✓

Density Bonus (1x) and Reduced Parking (0.25 spaces per unit)		✓
Density Bonus (1x) and Reduced Parking (0.5 spaces per unit)	✓	
Density Bonus (1x) and Waived Commercial Requirement	✓	
Density Bonus (1x) and Waived Permitting Fees	✓	

** Watertown's current parking requirement varies by bedroom count per unit, except WSQ where the base parking requirement is 0.5 spaces per unit. A reduced parking ratio of 0.25 per unit is offered as an incentive for affordable developments (projects with at least 50% of units affordable at households earning 80% AMI or less).*

***In both the market pro forma and affordable housing sources & uses model, the density bonus was calculated by assuming either one extra floor (1x) or two extra floors in height (2x). However, this is intended as a proxy for added density more broadly, which could be implemented in other ways, such as a set percent increase in the number of units, gross residential floor area, or Floor Area Ratio.*

Introduction to the Affordable Housing Property Tax Exemption (M.G.L. c.59 §5O)

Overview

Following the adoption of Bill H.4101 (An Act to Improve the Commonwealth's Competitiveness, Affordability, and Equity) in 2023, municipalities in Massachusetts now have the option to enact local property tax relief for affordable housing. As described in Massachusetts General Law Chapter 59, Section 5O, this new legislation allows municipalities to adopt property tax exemptions for property owners who rent to income-qualifying household at affordable rates with year-long lease(s) ("§5O exemptions"). The law gives municipalities control over the eligibility threshold for tax relief and the extent of the relief to the property owner. Under the law, municipalities must identify the following program parameters:

- **The maximum annual income of eligible households.** The municipality may set the maximum eligible household income at their discretion, not to exceed 200% of the U.S. Department of Housing and Urban Development (HUD) calculated AMI for the region.
- **Maximum affordable rent for eligible units.** The municipality may set the maximum affordable rent for eligible units at their discretion, and in accordance with HUD guidance and regulations.
- **Exemption amount.** The municipality may choose to implement a partial or total exemption for eligible units, not to exceed the total tax otherwise due for the unit.
- **Other eligibility criteria.** The municipality may adopt other eligibility criteria consistent with the intent of the law. Current guidance is limited on what criteria is considered consistent with the intent of the law.

Guidance from the Massachusetts Division of Local Services advise that municipalities may not set a cap for the total number of eligible properties, or limit the type of residential building that is eligible for the exemption. Exemptions are also not limited to deed-restricted affordable units and may apply to units that meet the eligibility criteria but do not have a deed restriction limiting the maximum rent.

The City of Watertown conducted an in-depth analysis of this new tool in 2025, which is available online for review. This analysis concluded at that time, "Watertown should wait to enact this local option exemption or start with a highly targeted pilot program."

Process for Implementation

To implement M.G.L. c.59 §5O, the City would need to follow the below process:

1. Watertown City Council votes to accept M.G.L. c.59 §5O.
2. The City establishes the parameters of the tax exemptions, including at minimum:
    a. Maximum amount of tax exemption;
    b. Maximum eligible household income;
    c. Maximum affordable rent; and
    d. Other allowable criteria.
3. Once established, property owners may submit an application including a completed State Tax Form 5O and supporting documentation to the Board of Assessors on or before the abatement deadline for the applicable Fiscal Year.
4. The Board of Assessors reviews the submitted application and determines if it meets the requirements for the tax exemption.
5. Granted abatements are charged against the municipality's overlay account.

Current Taxation of Affordable Units

Deed-restricted affordable housing units in Watertown already pay less in taxes than comparable market rate units. The Watertown Board of Assessors takes into consideration the reduced potential income of deed restricted affordable units in determining the unit's assessed value. While each property is assessed individually, affordable units typically have an assessed value between 40 and 60% of the assessed value of a comparable market rate unit. Therefore, developments with affordable units (whether 100% affordable or market rate projects with inclusionary units) are already paying significantly lower property taxes on those units.

Potential Impacts of §5O Tax Exemption

Tax relief for affordable housing can provide a direct, long-lasting financial incentive to encourage affordable housing development. A tax exemption on affordable units reduces costs without relying on economies of scale or reduced cost land. A tax exemption does not rely on competitive state and federal funds, making it more predictable. A §5O exemption applies only to affordable units in a development, meaning the greatest beneficiaries are 100 per cent affordable developments, and developments which build more affordable units than required.

However, because affordable units in Watertown already have a reduced tax burden relative to comparable market-rate units, the impact of further tax relief as an incentive to create new affordable housing is unclear. The §5O exemption would be a reduction from the already reduced assessed value of an affordable unit, rather than from the market rate assessed value. Therefore, the reduction from the existing costs may be limited. Depending on the eligibility criteria, and the amount of property taxes exempted for each unit, the reduction might not provide enough of an incentive to encourage the creation of new affordable units.

It is also important to recognize the potential impacts of tax relief on City finances. Tax exemptions for qualified property owners are funded out of the City's annual budget. If the number of tax exemptions increases, the additional cost must be accounted for in the budget. In the short-term, this can reduce the funding available for municipal services. In the long-term, the cost of maintaining the current level of services is typically shifted onto other property owners. Tax exemptions are the only tool discussed in this report that impose direct financial costs on the City that are not one-time payments or waivers. Additionally, because the tax exemption cannot be limited to deed-restricted units, the City's investment does not provide guaranteed protections on the long-term affordability of all units that can claim the exemption, as other incentives do.

Because G.L. c. 59 §5O grants municipalities wide discretion in establishing eligibility criteria and the depth of the tax exemption, it is difficult to analyze the feasibility of the tool at this time. The maximum income of eligible households, owner-occupancy requirements, and the degree of tax relief shape this tool's feasibility as an incentive. In addition, because §5O exemptions are a new tool which has seen limited implementation there are still questions about the additional criteria communities may use, which may impact the feasibility of this tool as an incentive focused on the creation of new affordable housing.

Testing the Incentives

The final phase of the study is to understand which of the voluntary development incentives would be the most attractive and impactful to the inclusion and development of affordable units.

Methods

A variety of methods were utilized to understand how offering voluntary development incentives might attract more affordable housing development in the City of Watertown. To understand the impact on market-rate developments, two methods were used: (1) a market-rate pro forma analysis and (2) buy-down analysis. To understand the impact on 100% affordable housing development, a simplified sources and uses model was created. For a more detailed description of the study's methodologies, refer to **Appendix C** for more details on the market-rate housing analysis methodologies and **Appendix D** for more details on the affordable housing analysis methodology.

Market-rate Pro Forma Analysis

Overview

MAPC's analysis utilizes a development pro forma, a tool that is typically used by a developer to understand whether a real estate project is likely to be profitable. A pro forma financial model takes into account dozens of project-specific real estate development variables to arrive at a projected level of financial return. As each of these variables changes—for example, as construction costs decrease or interest rates increase—profitability goes up or down. If the anticipated profitability falls too low, the project will be considered too risky or too unprofitable to pursue.

For policy-makers, a pro forma model is a useful tool to understand how a particular policy might impact the local housing market. By undertaking a feasibility study, a municipality is better equipped to design a policy that both meets affordability goals and minimizes the risk of dampening development. For this element of the study, the goal was to understand the impact of including voluntary development incentives in the City's existing inclusionary zoning policy, with the policy objective of generating more affordable units.

A number of variables were used as inputs for the pro forma model, including development prototypes, the list of incentives, and affordability options. Detailed assumptions about development cost and revenues are included in **Appendix C**.

Prototypes

Hypothetical development prototypes were created to represent what could be built in Watertown. Each prototype is meant to be representative of a range of development possibilities at small-, medium-, and large-scale developments. An aggregate of local market data informed the project size, construction type, and other development program elements. Because the pro forma model is used to inform policy, the prototypes are not specific.

Prototype	Project Size	Commercial Space	Construction Type	Parking Type
Prototype 1	8 units	800 sq ft	Wood frame	Surface
Prototype 2	25 units	3,500 sq ft	Wood frame	Podium
Prototype 3	60 units	5,000 sq ft	Podium	Podium

Affordability Options

Watertown's current inclusionary zoning policy offers a tiered approach, with affordability requirements increasing with the scale and size of a development project. For small-scale project, 6 to 19 units, 12.5% of the total units will be priced at rents affordable to low-income households, or those making 80% of the area median income (AMI). For development projects with 20 or more units, 10% of units will be set aside for 80% AMI households, and 5% of units will be set aside for 65% AMI households.

The purpose of this study is not to alter the City's current inclusionary zoning policy, but to add additional affordability options. For market-rate developers that opt into the voluntary development incentive program, either more affordable units should be built, or deeper affordable rents should be included.

Following the tiered approach, three alternative affordability options were tested, given the prototype size:

	Current IZ Policy	More Units	Deeper Affordability	Even Deeper Affordability
Prototype 1: 8 units	12.5% units @ 80% AMI	15% units @ 80% AMI	10% units @ 80% AMI + 5% units @ 65% AMI	10% units @ 80% AMI + 5% units @ 50% AMI
Prototype 2: 25 units **Prototype 3: 60 units**	10% units @ 80% AMI + 5% units @ 65% AMI	15% units @ 80% AMI + 5% units @ 65% AMI	10% units @ 80% AMI + 5% units @ 60% AMI	15% units @ 80% AMI + 5% units @ 50% AMI

A Note on Deeper Affordability

When considering whether inclusionary zoning can produce affordable units at deeper levels of affordability (at or below 50% AMI), our research finds that inclusionary zoning can only do so much. If deeper affordability requirements are to be incorporated into the policy design, then inclusionary zoning must be paired with financial cost offsets beyond what can be cross-subsidized. Additional considerations by market rate developers, beyond the cost of development, are the perceived impact of having extremely low-income households in the development, the perceived need for supportive services they are not prepared to offer, and potentially higher compliance costs. In contrast, affordable developers view including households needing deeper affordability as part of their mission.

Findings

Developers typically use several profitability metrics when considering whether to pursue a project and may rely more heavily on one or another depending on market conditions. To assess feasibility, this analysis relies on two different metrics that developers and lenders commonly use to determine the anticipated profitability of a potential development project. The first, internal rate of return (IRR), considers project returns over an extended period of time. The second, return on cost (ROC), measures a point-in-time return at project completion.

While the metrics used here have been verified by local developers, it is important to note that a minimum IRR or ROC required to advance a project varies depending on the local housing market, the developer's requirements, those of their lenders and equity investors, and project-specific conditions.

Metric	Value
Internal Rate of Return (IRR)	**15.0%**
Return on Cost (ROC)	**5.5%**

Because the development incentive will be voluntary, the financial benefit provided by incentives needs to be significantly greater than what the profit margin would be without the incentives and deeper or expanded affordability. In other words, it isn't enough for the incentives to simply offset the additional cost – there needs to be a net financial benefit to the developer for them to be likely to select this voluntarily. Therefore, incentives that increase the IRR metric by more than 1% and increase the ROC metric by more than 0.2% are considered feasible and attractive development incentives.

Figure 3: Range of Feasibility Legend

	IRR	ROC
Not feasible	13.9% or below	5.2% or below
Feasibility is possible	14.0% to 14.9%	5.3% to 5.4%
Feasible	15.0%-15.9%	5.5%-5.6%
Feasible + Attractive	16% or higher	5.7% or higher

More Affordable Units

For small-scale development, represented by Prototype 1, increasing the number of affordable units is more likely with some development incentives than with others. For instance, waived permitting fees have a minimal impact on the total cost of construction, and therefore do not offer a substantial cost offset when more affordable units are introduced to the development program. Similarly, in the current market, offering a parking reduction was found not to provide enough of a financial offset (see ***A Note on Parking Reduction*** for more details). Waived commercial can offer some financial offset, especially if coupled with waived permitting fees, depending on the developer. However, the goal of a voluntary incentive program is to offer more options to make it feasible.

Density bonuses not only can offer feasibility but also boost profitability in exchange for more affordable units. However, it is important to note that density bonuses can change the size and scale of the developed project, potentially scaling a small-sized project to a medium-sized project. For instance, in this affordability option scenario, the Density (1x) incentive increases the total number of units Prototype 1 from 8 to 12 units, of which 2 units would be affordable. The Density (2x) incentive increases the total number of units to 16 units, with 3 affordable units.

Figure 4. Results for Prototype 1 with 15% of units at 80% AMI

Incentive	IRR	ROC
No Incentive (baseline)	13.5%	5.3%
Waived Commercial	14.4%	5.5%
Waived Permitting Fees	13.8%	5.4%
Waived Commercial + Permitting Fees	14.8%	5.5%
Parking Reduction	13.5%	5.3%
Density Bonus (1x)	18.0%	6.0%
Density Bonus (1x) + Waived Commercial	19.1%	6.1%
Density Bonus (1x) + Waived Permitting Fees	18.3%	6.0%
Density Bonus (1x) + Parking Reduction	18.4%	6.0%
Density (2x)	19.8%	6.2%

For medium- to large-scale development, represented by Prototypes 2 and 3, adding more affordable units to the development program is more feasible overall due to economies of scale: more units mean less overall cost. However, for Prototype 2 (Figure 5), waived permitting fees and parking reduction do not offer enough of a financial offset to guarantee the feasibility of development. Similar to Prototype 1, waived permitting fees and parking reductions offer a minimal reduction in construction costs in the current market (see ***A Note on Parking Reduction*** for more details). Instead, the other incentives not only offer enough financial offset but also a boost to profitability for Prototype 2. Waiving the commercial requirement, alone and coupled with waiving development permitting fees, increases the IRR to 16.0% and 16.4%. The density bonuses increase the return metrics from 16.5% to 18.2% IRR and 5.8% to 6.0% ROC. For Prototype 2, the Density Bonus (1x) would increase the total number of units from 25 units to 33 units, with 7 units being affordable. The Density Bonus (2x) would increase to 42 units in total, with 9 affordable units.

Figure 5. Results for Prototype 2 with 10% of units at 80% AMI + 5% of units at 65% AMI

Incentive	IRR	ROC
No Incentive (baseline)	14.5%	5.5%
Waived Commercial	16.0%	5.7%
Waived Permitting Fees	14.8%	5.5%
Waived Commercial + Permitting Fees	16.4%	5.7%
Parking Reduction	14.6%	5.5%
Density Bonus (1x)	16.5%	5.8%
Density Bonus (1x) + Waived Commercial	17.8%	5.9%
Density Bonus (1x) + Waived Permitting Fees	16.8%	5.8%
Density Bonus (1x) + Parking Reduction	17.2%	5.8%
Density (2x)	18.2%	6.0%

For Prototype 3, all incentives can help make a development project 'pencil out', but the most attractive incentives include offering to waive commercial requirements coupled with permitting fees, offering a density bonus with a waived commercial requirement or parking reduction, and offering a bonus at double the allowed density. For Prototype 3, the Density Bonus (1x) would increase the total number of units from 60 units to 72 units, with 11 units being affordable. The Density Bonus (2x) would increase to 84 total units and 13 affordable units. Ranging in 16.1%-16.7% IRR and 5.7%-5.8% ROC, these incentives not only move a potential development project from possible feasible to definitely feasible, but also boost profitability in a way that can be attractive to developers.

Figure 6. Results for Prototype 3 with 10% of units at 80% AMI + 5% of units at 65% AMI

Incentive	IRR	ROC
No Incentive (baseline)	14.8%	5.5%
Waived Commercial	15.7%	5.6%
Waived Permitting Fees	15.2%	5.6%
Waived Commercial + Permitting Fees	16.1%	5.7%
Parking Reduction	15.0%	5.5%
Density Bonus (1x)	15.5%	5.6%
Density Bonus (1x) + Waived Commercial	16.2%	5.7%
Density Bonus (1x) + Waived Permitting Fees	15.8%	5.7%
Density Bonus (1x) + Parking Reduction	16.1%	5.6%
Density (2x)	16.7%	5.8%

A Note on Market-Rate Financial Analysis Finding on Parking Reductions

Reducing parking minimum requirements is a sound policy approach. Not only does it allow for greater flexibility by setting a floor, rather than a ceiling, on the amount of parking built, but it also helps reduce construction costs. Developers shared that the construction cost of parking is high and can impact the feasibility of new residential development. For example, construction costs are estimated around $15,000 per surface parking space, and $40,000 per podium parking space. At the same time, it should also be noted that developers often charge tenants for parking in new development projects ("unbundled parking"). As such, our pro forma model assumes some revenue from parking.

Our pro forma analysis seeks to test how much a 0.5 reduction in the minimum parking requirement impacts a project's financial feasibility. Our financial model shows marginal increase in potential profits — around 0.2% increase in the IRR for a 0.5 reduction.

This may be because the price charged to tenants per parking space is higher in Watertown relative to other housing markets. The parking revenue is therefore partially offsetting the high construction costs. In such cases, a parking reduction incentive may not offer as sizable of a financial offset relative to markets or projects where no or less revenue is earned from renting parking spaces.

Future parking studies should look deeper into the relationship between construction costs and revenue charged to tenants, and if/how parking revenues might offset those costs.

Deeper Affordability

Under the City's current inclusionary zoning policy, affordable units in small-scale development are offered to low-income households (80% AMI). In this section, Prototype 1 was tested with a 10% units @ 80% AMI + 5% units @ 65% AMI inclusionary policy for the voluntary program. Given that small-scale development is more difficult to build in general, offering sustainable cost offsets is needed when asking for deeper affordable options. Offering density bonuses, coupled with other incentives, not only offers enough financial offsets but also a boost to profitability that can be attractive to developers. As previously noted, offering density bonuses could alter the size of the project, which could explain the increase in profitability metrics.

Figure 7. Results for Prototype 1 with 10% of units at 80% AMI + 5% of units @ 65% AMI

Incentive	IRR	ROC
No Incentive (baseline)	13.1%	5.3%
Waived Commercial	14.0%	5.4%
Waived Permitting Fees	13.4%	5.3%
Waived Commercial + Permitting Fees	14.4%	5.5%
Parking Reduction	12.2%	5.1%
Density Bonus (1x)	17.2%	5.8%
Density Bonus (1x) + Waived Commercial	18.2%	6.0%
Density Bonus (1x) + Waived Permitting Fees	17.5%	5.9%
Density Bonus (1x) + Parking Reduction	17.5%	5.9%
Density (2x)	18.8%	6.0%

Medium- to large-scale development projects already carve out affordable units for 65% AMI households under the City's mandatory inclusionary policy. To offer greater affordability in the voluntary incentive program, affordable units for 60% AMI households were tested for Prototype 2 and 3. In both cases, all incentives made development likely feasible. Although the parking reduction incentive in Prototype 2 had a 14.8% IRR, it is still a likely viable scenario because it is 0.2 percentage points from the standard 15% (see ***A Note on Parking Reduction***). However, waived commercial requirements (16.2% IRR and 5.7% ROC), coupled with permitting fees (16.6% IRR and 5.8% ROC), were effective and attractive incentives. The most attractive incentives are the density bonus options, which had IRRs in the 17.3-18.7% and ROCs 5.9%-6.0% range.

Figure 8. Results for Prototype 2 with 10% of units at 80% AMI + 5% of units at 60% AMI

Incentive	IRR	ROC
No Incentive (baseline)	14.6%	5.5%
Waived Commercial	16.2%	5.7%
Waived Permitting Fees	15.0%	5.5%
Waived Commercial + Permitting Fees	16.6%	5.8%
Parking Reduction	14.8%	5.5%
Density Bonus (1x)	17.3%	5.9%
Density Bonus (1x) + Waived Commercial	18.7%	6.0%
Density Bonus (1x) + Waived Permitting Fees	17.6%	5.9%
Density Bonus (1x) + Parking Reduction	17.3%	5.9%
Density (2x)	18.2%	6.0%

Similarly, the most effective and attractive incentives for larger-scale development (Prototype 3 Figure 9) included waived commercial requirements coupled with the permitting fees (16.3% IRR and 5.7% ROC). Waiving the commercial requirement alone made the potential development project feasible based on the internal rate of return (15.9%) and attractive based on the return on cost (5.7%). Density bonuses were also the most attractive incentive for Prototype 3, with a range of 16.0%-16.9% IRRs and 5.7%-5.8% ROCs return metrics. The gradual increase in percent returns is likely due to the fact that larger-scale developments are already better able to absorb construction costs. Additionally, there are many more market-rate units available in a large-scale project to cover the revenue deficit of affordable units.

Figure 9. Results for Prototype 3 with 10% of units at 80% AMI + 5% of units at 60% AMI

Incentive	IRR	ROC
No Incentive (baseline)	15.0%	5.6%
Waived Commercial	15.9%	5.7%
Waived Permitting Fees	15.4%	5.6%
Waived Commercial + Permitting Fees	16.3%	5.7%
Parking Reduction	15.2%	5.6%
Density Bonus (1x)	16.0%	5.7%
Density Bonus (1x) + Waived Commercial	16.7%	5.8%
Density Bonus (1x) + Waived Permitting Fees	16.3%	5.7%
Density Bonus (1x) + Parking Reduction	16.6%	5.7%
Density (2x)	16.9%	5.8%

Even Deeper Affordability

Extremely low-income households are considered those within the 30% to 50% AMI bracket. For Watertown, the income limit for a 4-person household at 50% is $82,700.[5] Individually, small-scale developments and extremely low-income housing are difficult to develop; combined, it is very unlikely to work out financially. With a density bonus, the return metrics increase significantly, ranging from 16.4%-18.8% IRR and 5.7%-6.0% ROC. Similar to previous scenarios, density bonuses granted to small-scale development have the potential to alter the project size and scale, which could explain the jump in return metrics.

Figure 10. Results for Prototype 1 with 10% of units at 80% AMI + 5% of units @ 50% AMI

Incentive	IRR	ROC
No Incentive (baseline)	12.2%	5.1%
Waived Commercial	13.0%	5.2%
Waived Permitting Fees	12.5%	5.2%
Waived Commercial + Permitting Fees	13.3%	5.3%
Parking Reduction	12.2%	5.1%
Density Bonus (1x)	16.4%	5.7%
Density Bonus (1x) + Waived Commercial	17.3%	5.9%
Density Bonus (1x) + Waived Permitting Fees	16.7%	5.8%
Density Bonus (1x) + Parking Reduction	16.7%	5.8%
Density (2x)	18.8%	6.0%

The results for medium- to larger-scale projects concluded that asking for deeper affordability within development was more likely to be feasible. In Prototype 2, developing this project with no incentives had an IRR of 14.3% and ROC of 5.5%, signaling that a project like this could be possible but not guaranteed. The return metrics slightly increased when waiving permitting fees (14.6% IRR and 5.5% ROC), parking reductions (14.4% IRR and 5.5% ROC), and waiving commercial requirements (15.7% IRR and 5.6% ROC) were used as cost-offset incentives. However, the most attractive incentives included waiving commercial requirements coupled with waiving permitting fees (16.1% IRR and 5.7% ROC) and offering density bonuses, with the option of coupling the Density Bonus (1x) with other incentives.

Figure 11. Results for Prototype 2 with 10% of units at 80% AMI + 5% of units @ 50% AMI

Incentive	IRR	ROC
No Incentive (baseline)	14.3%	5.5%
Waived Commercial	15.7%	5.6%
Waived Permitting Fees	14.6%	5.5%
Waived Commercial + Permitting Fees	16.1%	5.7%
Parking Reduction	14.4%	5.5%
Density Bonus (1x)	16.9%	5.8%
Density Bonus (1x) + Waived Commercial	18.3%	6.0%
Density Bonus (1x) + Waived Permitting Fees	17.2%	5.9%
Density Bonus (1x) + Parking Reduction	17.7%	5.8%
Density (2x)	17.8%	5.9%

5 HUD 2025 Income Limits

For Prototype 3, requesting 50% AMI rental units is potentially feasible, but just under the standard 15% IRR return metric. As previously mentioned, larger-scale developments are better able to cover the costs of including affordable units. However, for a developer to volunteer to provide affordable units that would decrease their overall revenue, incentives should prioritize the feasible and profitable. For Prototype 3, the study found that waiving commercial requirements, coupled with waiving permitting fees (16.1% IRR and 5.7% ROC), was an effective and attractive incentive. Density bonuses also offered a boost to the profitability returns, ranging from 16.0%-16.8% IRR and 5.7-5.8% ROC, making them attractive incentives to offer in a voluntary affordability program.

Figure 12. Results for Prototype 2 with 10% of units at 80% AMI + 5% of units @ 50% AMI

Incentive	IRR	ROC
No Incentive (baseline)	14.8%	5.5%
Waived Commercial	15.7%	5.6%
Waived Permitting Fees	15.1%	5.6%
Waived Commercial + Permitting Fees	16.1%	5.7%
Parking Reduction	15.0%	5.5%
Density Bonus (1x)	15.7%	5.6%
Density Bonus (1x) + Waived Commercial	16.4%	5.7%
Density Bonus (1x) + Waived Permitting Fees	16.0%	5.7%
Density Bonus (1x) + Parking Reduction	16.3%	5.7%
Density (2x)	16.8%	5.8%

Buy-Down Analysis

Overview

Buy-down programs are an alternative way to achieve deeper or more affordability in existing market-rate projects subject to IZ. Instead of offering indirect incentives such as those explored in the previous section, a buy-down program involves a direct payment by the municipality to the developer. This can be a payment to either deepen the affordability of an existing affordable unit (e.g. "buying down" an 80% AMI unit to a 60% AMI unit) or to add a new affordable unit by "buying down" a market-rate unit to an affordable unit at a given AMI level.

A simplified buy-down methodology was developed for this study, described briefly below and in more detail in **Appendix C**.

- Buy-down fees were calculated for three different affordability options: the fee that the City would need to pay a developer to buy down a market-rate unit down to a 60% AMI affordable unit, to buy down a market-rate unit down to an 80% AMI affordable unit, and to buy down an affordable unit from 80% AMI to a deeper affordability of 60% AMI.
- MAPC used three different methods to estimate fees at these different affordability levels. MAPC followed an approach similar to that used to determine in-lieu fees. There are several established methods that can be used to determine the cost of an affordable unit for the purpose of setting an in-lieu fee, which yield notably different results. Using different methodologies helps to capture the variability and complexity in how these costs are actually estimated (see **Appendix C** for more detail). These three methodologies therefore provide an estimated ***fee range*** for each affordability option.
- For each method, calculations were applied to Prototype 3, the 60-unit podium prototype described previously. Fees were calculated for each unit type (studio, 1-bedroom, 2-bedroom, and 3-bedroom) given that the value and cost of a unit vary based on its size.
- Results were then summarized by calculating the weighted average buy-down fee, weighed by the unit mix of Prototype 3, for each methodology. Results were rounded to the nearest thousand dollar.

Note that the results below only represent a preliminary analysis. More work would be needed to refine the results and explore program design and implementation in more detail.

Findings

The exact fee to buy down a unit to a specific depth of affordability is variable due to the differences in fees between methodologies discussed above and in Appendix C, along with other considerations such as the length of restrictions and the number of bedrooms. For that reason, the costs below are presented as ranges rather than a specific dollar value. The estimated fee range required to buy down different depths of affordability are summarized in Figure 13 and below:

- It would cost the City of Watertown between $373,000 and $448,000 to buy down a market-rate unit down to a 60% AMI affordable unit.
- It would cost the City of Watertown between $215,000 and $290,000 to buy down a market-rate unit down to an 80% AMI affordable unit.

- It would cost the City of Watertown approximately $158,000 to buy down an existing affordable unit from 80% to 60% AMI.

Based on these results, a buy-down program appears to be a viable incentive, especially for buying down deeper affordability from existing IZ units, given the relatively lower fees required. However, this would require a direct subsidy from the municipality, whereas most of the other incentives described previously would not have a direct impact on the City's funds (with the exception of the permit fee waiver incentive).

Figure 13. Results of the buy-down analysis

Fee needed to buy down…	Approximate fee range
Market-rate unit to 60% AMI	$373,000 to $448,000 per unit
Market-rate unit to 80% AMI	$215,000 to $290,000 per unit
80% AMI unit to 60% AMI unit	$158,000 per unit*

**Note that the results are the same across the three methodologies for the 80% AMI to 60% AMI scenario because the difference in value between a 60% AMI unit and an 80% AMI unit is a constant value.*

Sources & Uses Model for 100% Affordable Projects

Overview

To measure the impact of incentives on 100% affordable projects, MAPC developed a simplified 'source & uses model' to represent project costs (uses) and revenues (sources) for typical 100% affordable housing developments that might be expected in a market such as Watertown. This analysis assumes a typical nonprofit affordable housing developer who does not have access to private equity and is not operating under profit expectations.

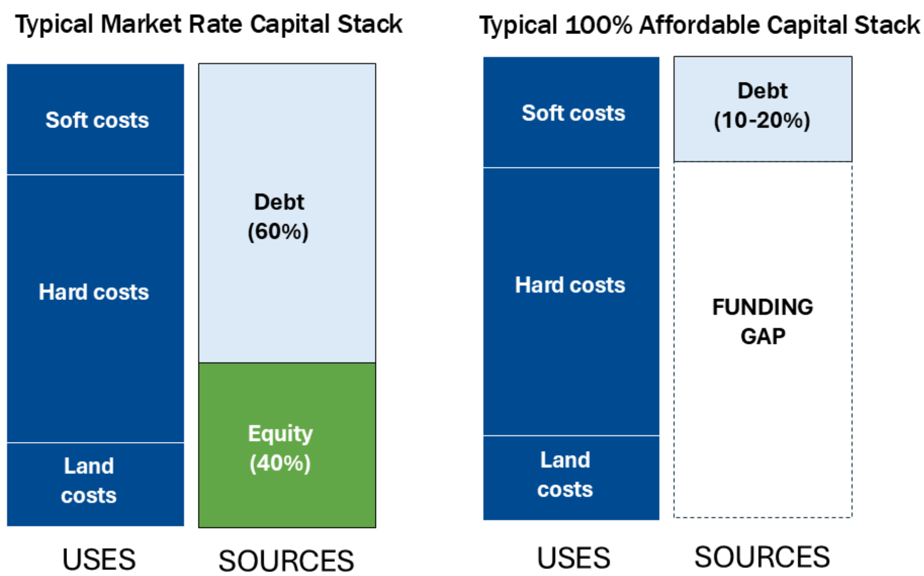
Whereas a pro forma model compares the impact of incentives on the *profitability* of different prototypes, the sources & uses model compares the impact of incentives by looking at the *relative change in the funding gap.*

The sources & uses tool models the relative change in the funding gap (total and per unit funding gap) for two prototypical buildings under different incentive scenarios. The funding gap is the difference between the total development costs (TDCs) and the permanent debt that can be raised from affordable rents. The capital stack for a market-rate project typically consists of debt (loans obtained from banks based on expected revenue, usually about 60% of TDCs) and equity (often a mix of developer equity and investor equity, typically about 40% of TDCs).

However, in the case of affordable housing, developers can only cover a small portion (10-20% of TDCs) of their total development costs with debt given the restricted rents, even though their TDCs are as high, if not higher, than market-rate projects. Furthermore, affordable housing developers often rely on tax credits to secure their equity, which is a complex and often very competitive process. As such, affordable housing developers are left with a significant *funding gap*, which they must fill by layering multiple funding sources, such as federal and state tax credits, project-based vouchers, state subsidies, or local funding sources. This funding gap can also be narrowed by reducing TDCs, or by raising expected revenues. Incentives that meaningfully close the funding gap are therefore beneficial to developers.

In this analysis, the change in funding gap is expressed as a *relative percent change* (rather than an absolute dollar amount) in order to make results comparable across prototypes and to avoid results being too sensitive to the specific assumptions used, which are provided in **Appendix D**. Detailed assumptions about development cost and revenues are also included in **Appendix D**.

Figure 14. Difference in capital stacks between market-rate and affordable projects



Source: MAPC graphic, modified from Shelterforce Affordable Housing Finance 101. Available from: https://shelterforce.org/2025/05/28/affordable-housing-finance-101/

Prototypes

Two hypothetical development prototypes were created to represent the type of 100% affordable housing projects that could be built in Watertown based on development trends (see Figure 15). Each prototype is meant to be representative of a range of development possibilities at medium and large-scale developments. In this case, a small-scale development prototype is not included, given that federal and state tax credits usually target projects with 30 or more units. These prototypes are not site-specific, as they are meant to inform policy at a high-level, rather than inform the feasibility of a particular project or site. The prototypes were developed based on aggregated data regarding typical project size and construction type.

The unit mix and the average project-wide AMI levels were set as to represent a typical affordable housing project, with, for instance, a higher share of 2- and 3-bedroom apartments than might be expected in a market-rate project.

Figure 15. Prototypes used in the Affordable Housing Sources & Uses Model

Prototype	Prototype A	Prototype B
Units	30 units	60 units
Unit Mix	30% 1-bedroom, 60% 2-bedroom, 10% 3-bedroom	30% 1-bedroom, 60% 2-bedroom, 10% 3-bedroom
Average AMI	55% AMI project-wide average	55% AMI project-wide average
Commercial Space	2,000 sq. ft.	3,500 sq. ft.
Construction Type	3 stories, wood frame	5 stories, 4 wood frame over 1 podium
Parking Ratio	1 space per unit	1 space per unit
Parking Type	100% surface parking	50% surface, 50% podium parking

Findings

The baseline results from Prototypes A and B without any incentives are shown in Figures 16 and 17. Figure 16 shows the total development costs per unit for Prototype A (about $600,000 per unit) and Prototype B (about $640,000). This is in line with recent data published by the Executive Office of Housing and Livable Communities (EOHLC), which reported an average total development cost of $650,000 per unit for EOHLC-funded new construction projects statewide.[6] Figure 17 shows the estimated funding gap on a per unit basis (between $480,000 and $515,000 per unit), which represents about 80% of total development costs.

6 Executive Office of Livable Communities, A Home for Everyone (2025). Available at: https://www.mass.gov/info-details/home-for-everyone-construction-finance-explainer#how-is-affordable-housing-financed

Figure 16. Total Development Costs Per Unit

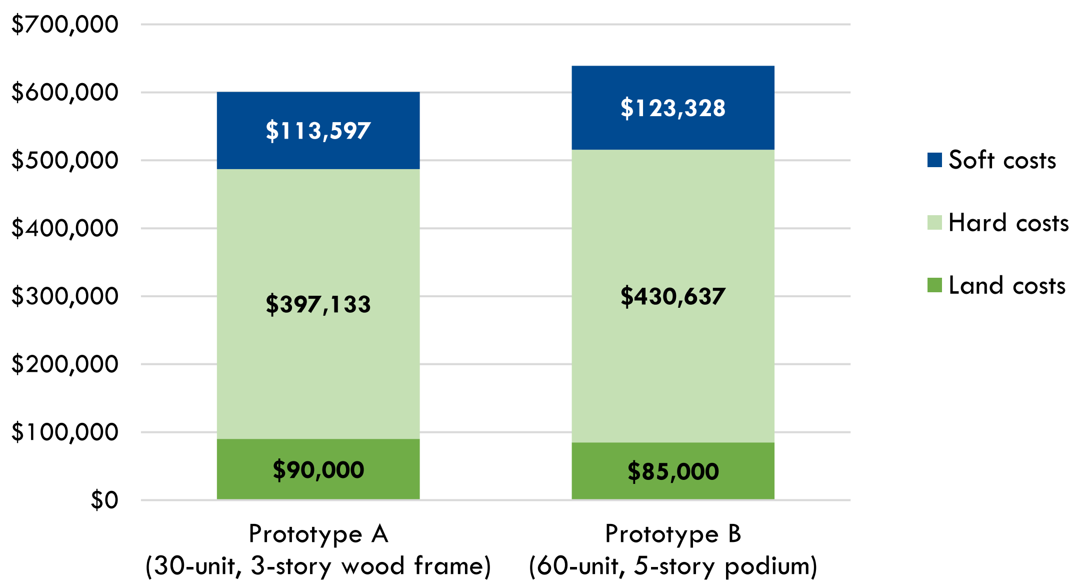
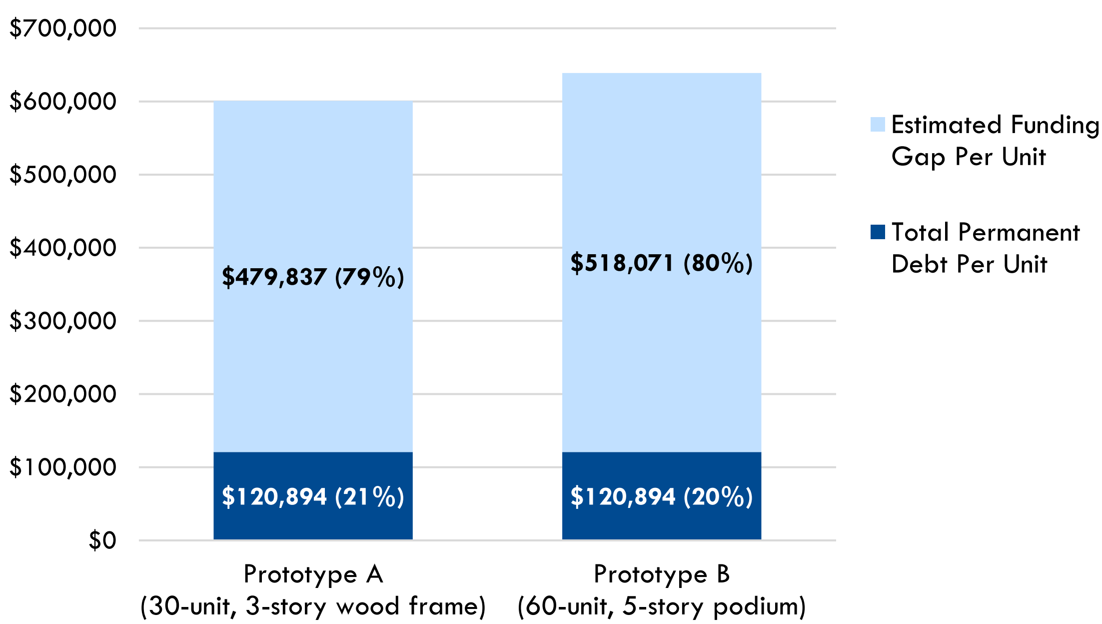


Figure 17. Funding Gap Per Unit Relative to Total Development Costs



The results of the sources and uses model are provided in Figure 18. The results are expressed as the precent change in the per unit funding gap as a result of different incentives. A greater percent reduction in the funding gap means a greater impact on closing the funding gap, and therefore a more impactful incentive. More detail on each incentive is also described below:

- Dedicating publicly owned land at no or low cost is a very impactful incentive for affordable projects. It helps reduce the per unit funding gap by 17-19%, which is substantial. In addition to financial benefits, having a patient land seller also benefits affordable developers more broadly, as it reduces their competition with market-rate developers and allows developers to go through the pre-development process with reduced pressure.
- Waiving commercial requirements also represents a meaningful incentive, estimated to reduce the per unit funding gap by 5-6%. As noted earlier in the report, it is seen as an appealing incentive by affordable housing developers given the revenue and financing challenges related to including commercial space in affordable projects.
- Reducing minimum parking can be an impactful incentive, especially for projects with more expensive podium parking as represented by Prototype B. Reducing parking helps close the funding gap by 2-5%, depending on the parking ratio and the prototype. As noted previously in the report, lowering parking minimums is seen positively by developers for the flexibility it provides them. However, because developers will ultimately choose to build the amount of parking they think is needed based on site conditions and residents' demand, reduced parking *on its own* may not necessarily help spur more affordable housing development.
- Density bonuses are an important incentive, as they provide greater flexibility and help with economies of scale. However, their impact varies based on the site and developer. Density bonuses significantly reduce the *per unit funding gap* – up to 7% or 9% depending on the prototype and bonus provided. This reflects the economies of scale that a density bonus can help unlock. At the same time, it is important to note that the *total funding gap* actually *increases* by 20-25% with a density bonus. This is because the cost to build an affordable unit is much greater than the revenue that can be generated from affordable rents. See **Appendix D** for more detailed results.
- Waiving permitting fees has a more minimal impact on the funding gap, only reducing it by about 1%. However, this type of incentive can be paired with other incentives as a way to strengthen an incentive package.

Figure 18. Relative change in the per unit funding gap relative to the baseline scenario

Incentives	Per Unit Change in the Funding Gap, Prototype A	Per Unit Change in the Funding Gap, Prototype B
Waived commercial requirement	-6%	-5%
Waived permitting fees	-1%	-1%
Reduced parking minimum (0.5 spaces/unit)	-2%	-3%
Reduced parking ratio (0.25 spaces/unit)	-3%	-5%
Free publicly owned land	-19%	-17%

Density bonus (1x) *	-6% **	-4% **
Density bonus (2x) *	n/a	-7% **
Density bonus (1x) + Reduced parking minimum (0.25 spaces/unit)	-9% **	-9% **

***The density bonus was calculated by assuming either one extra floor (1x) or two extra floors in height (2x). This is intended as a proxy for added density more broadly, which could be implemented in other ways, such as a set percent increase in the number of units, gross residential floor area, or Floor Area Ratio.*

***Although the per unit funding gap decreases with the density bonuses for both Prototypes A and B, it is important to note that the **total project funding gap** increases by anywhere between 13% and 40%, depending on the prototype and density bonus applied. See **Appendix D** for detailed results.*

A Note on Chapter 40B Development Projects

The State of Massachusetts encourages the production of affordable housing through Massachusetts General Law Chapter 40B. Chapter 40B is a state statute that requires municipalities to maintain their stock of affordable housing at 10% or more of their total housing stock, or 1.5% or more of their land area. If a municipality falls under either of these thresholds, developers may petition the local Zoning Boards of Appeals (ZBA) for a "Comprehensive Permit" for housing developments that do not fully comply with local zoning, provided at least 20-25% of units in the development are set aside as affordable.

Under Chapter 40B, the applicant can ask the ZBA to waive any zoning restriction (and many non-zoning restrictions) that are barriers to the proposed project. The ZBA has limited grounds to deny the requested waivers. In addition, the process is expedited, as consideration of many municipal permits are consolidated at the ZBA.

The City of Watertown currently meets Chapter 40B's minimum requirements for affordability via the land percentage calculation. This means that Watertown can either deny the petition when first presented or go forward under the Chapter 40B guidelines (the latter option is sometimes referred to as a 'friendly' 40B). Last year, the City issued a Chapter 40B Comprehensive Permit for the Willow Park redevelopment project.

Chapter 40B is a very attractive for affordable developers. However, when a community can reject the application (as Watertown can), an affordable developer that relies solely on the Chapter 40B path must advance significant pre-development costs before being certain that its 40B application will be considered. Accordingly, bonuses or waivers for affordable developments built into zoning (as provided in the Watertown Square districts) remain attractive to developers.

Recommendations

Based on the financial feasibility analyses and other qualitative results described previously in this report, this section summarizes MAPC's seven proposed recommendations regarding the adoption of voluntary incentives to incentivize more or deeper affordability within market-rate projects, and to incentivize more affordable developments in Watertown. These recommendations are listed below and described in more detail in the following sections.

Recommendations for market-rate housing projects:

- **Recommendation #1**: Consider adopting a voluntary incentive program for market-rate development projects that provide more or deeper affordability, available citywide, tiered by project size.
- **Recommendation #2**: Consider offering zoning standard relief incentives by base zoning district as part of the City's comprehensive zoning update, so that market-rate projects are encouraged to provide more or deeper affordability.
- **Recommendation #3**: Adopt a buy-down tool to achieve more or deeper affordability within market-rate projects subject to the City's inclusionary zoning policy.
- **Recommendation #4**: Maintain a strong commitment to other ongoing actions that the City is already pursuing, including tracking inclusionary units and incentives over time, and regularly reassessing the City's inclusionary zoning program.

Recommendations for affordable housing projects:

- **Recommendation #5**: Adopt an incentive package available to affordable developments citywide, including streamlined permitting, ground-floor commercial requirements waiver, permit fee waivers, and reduced parking minimum to 1 space per unit.
- **Recommendation #6**: Consider offering density bonuses and further parking reduction (lower than 1 space per unit) as incentives for affordable developments on a district-specific basis, to be implemented as part of the City's comprehensive zoning update.
- **Recommendation #7**: Maintain a strong commitment to other actions the City is already pursuing to incentivize affordable developments. This includes donating or discounting publicly owned land, dedicating local funding to affordable developments, tracking incentives granted to affordable developments, and growing the network of affordable developers active in Watertown.

Most of this study has focused on the effectiveness of particular incentives. Turning to recommendations, there is a need to balance what is given up (the incentive) and what is received (more or deeper affordability, or greater likelihood that an affordable development will be proposed/get funded). Such balancing is harder for Recommendations #2 and #6 because they involve value judgments--and those judgments can vary from one zoning district to another. Balancing is harder for Recommendation #1 than for #3 or #5 because the City ultimately retains control over buy-downs (negotiated on a case-by-case basis) and whether an affordable development occurs (no local funding, virtually no likelihood of a project). Recommendations #4 and #7 represent best practices that the City is already pursuing.

Recommendations for Market-rate Housing Projects

The recommendations below pertain to ways to encourage the inclusion of more or deeper affordable units in market-rate developments.

Recommendation #1: Consider adopting a voluntary incentive program for market-rate development projects that provide more or deeper affordability, available citywide, tiered by project size.

The study found that the impact of the tested incentives varied with project size. Smaller-scale developments generally encounter more financial constraints, and asking for more or deeper affordable units may not be viable without a substantial financial offset. While the financial model only found a few incentives that could help offset costs for small-scale development, all incentives were viable, with some more attractive than others, for medium- to large-scale housing projects due to the economies of scale. Similar to how the mandatory inclusionary zoning policy is designed, we recommend that a voluntary incentive program be tiered based on project size.

Recommendation #1a: Small-scale Development. Two incentive and affordability option combinations can be considered:

- For small-scale developments opting for more affordable units (15% of units at 80% AMI), consider waiving commercial requirements and permitting fees. Although this incentive does not offer guaranteed feasibility or attractive profitability, it can still be seen as valuable to the right developer. Small-scale development is particularly difficult to 'pencil out' given the current market's high construction costs. Offering to waive commercial requirements, coupled with waiving permitting fees, can help reduce construction costs for small-scale development in general and make projects feasible, especially for projects with more affordable units.
- For small-scale developments opting for deeper affordability options (10% of units at 65% AMI), they are less viable unless a density bonus is offered. However, density bonuses have the possibility of changing the scale and size of a small-scale development to a medium-scale development.

Recommendation #1b: Medium-to large-scale development. Consider offering a menu of incentives based on housing and economic goals. In contrast to the small-scale findings, all incentives were either feasible and/or attractive. The financial model showed that there can be opportunities to ask for more or deeper affordability options. Because of this, all incentives and affordable options could be considered in a voluntary incentive program.

Further discussions with decision-makers, community members, and other City stakeholders on trade-offs can help narrow down a list of incentives that align with the City's community goals. For instance, opting for more affordable units will increase the overall total number of affordable units in a given development, whereas opting for deeper affordability as a policy goal will result in the same number of units under the current inclusionary policy but targeted towards lower-income households. Additionally, each incentive comes with its own tradeoffs that should be considered when crafting a menu of incentives.

A Note on Policy Design: While it is possible to select both affordable options as a menu of options approach, it is important to caution that too many components in the design of the policy can lead to an overly saturated and complex policy. Policies that are too complicated may deter developers from opting in.

Recommendation #2: Consider offering zoning standard relief incentives by base zoning district as part of the City's comprehensive zoning update, so that market- rate projects are encouraged to provide more or deeper affordability.

Because some incentives can directly change the proposed development, it is important to tailor these incentives to local zoning and neighborhood context. Height, setback and other dimensional requirements often vary by zoning district. The impact of increased density or reduced parking can depend on neighborhood context. Accordingly, density bonuses and parking reductions should be considered as incentives on a district-specific basis. Similarly, waiving commercial requirements should be considered based on the community development goals in a given zoning district.

- **Density bonuses are not only feasible but an attractive incentive across the board.** Moreover, offering an extra density bonus above the by-right maximum is the most common development incentive. For this study, height was used as a proxy for dimensional relief, modeled after the WSQ incentive program. However, there are a few additional ways density bonuses can be configured, including increasing the floor area ratio (FAR), floor area percentage, or overall unit count. Density bonuses should be considered based on community priorities and goals. For instance, although offering density bonuses can increase the number of affordable units included in market-rate development, it can also change the scale of the project.
- **Rightsize parking ratios based on zoning and neighborhood context.** Parking reductions may not offer enough financial offsets to be an attractive incentive, but they are an important tool overall, breaking down barriers to housing development. At the same time, less on-site parking may lead to more off-street parking congestion. Developers are more likely to opt for a parking ratio that fits their perspective on market demands, which is often subjective and can vary by developer. Staff and decision makers should then consider adjusting parking ratios, both the current floor and the ceiling limits, that fit with the local context while maintaining flexible parameters for future development.
- **Consider waiving commercial requirements for medium- to large-scale projects in areas where mixed-use development is less important and/or financially challenging.** As mentioned in Recommendation #1, waiving commercial requirements was a meaningful incentive, offering substantial cost offsets across all project scales. In some cases, it can make or break a project, particularly when the goal is to increase affordable housing production. However, while such waivers may assist housing production, mixed-use development is also an important goal. The City should therefore consider waivers in those areas of Watertown where an active ground floor is less important and/or the market makes commercial development less viable.

Recommendation #3: Adopt a buy-down tool to achieve more or deeper affordability within market-rate projects subject to the City's inclusionary zoning policy.

This buy-down tool could be used on a case-by-case basis in negotiations with developers, providing the City with flexibility to adjust its negotiations depending on the specifics of a given site or project. This buy-down tool could be used for new or existing market-rate projects. The tool could involve either a permanent restriction (as with inclusionary zoning units) or a fixed-term restriction.

The tool could be used to create additional affordable units by buying down a market-rate unit to an 80% AMI unit (estimated fee of $215,000 to $290,000 per unit) or 60% AMI unit (estimated fee of $373,000 to $448,000 per unit). A buy-down tool could also be used to achieve *deeper* affordability by buying down an 80% AMI unit to a 60% AMI unit (estimated fee of $158,000 per unit). This latter approach is relatively more cost-effective and could be most promising for the City to explore.

Given that the analysis provided in this report was preliminary, the City may want to conduct additional outreach with developers active in Watertown to assess their interest and to inform the specifics of how the buy-down tool will be implemented.

Recommendation #4: Maintain a strong commitment to other ongoing actions that the City is already pursuing, including tracking inclusionary units and incentives over time, and regularly reassessing the City's inclusionary zoning program.

The actions listed below are essential to spur more affordable developments and more affordability in market-rate projects. These are impactful actions that the City is already doing, or planning to do, and should continue to prioritize.

- **Recommendation #4a: Assess and revisit the City's inclusionary zoning policy and incentives on a regular basis** to ensure that they remain in line with the community's priorities and that requirements and incentives are recalibrated as market conditions evolve over time. The City's latest Housing Plan identifies such an assessment as a "near-term" strategy.
- **Recommendation #4b: Continue to track inclusionary zoning units and incentives offered.** The City currently tracks inclusionary zoning (IZ) unit production. As the City moves forward with some or all of the recommendations above, it will be essential to track not only IZ units created through the mandatory IZ program, but also any additional affordable units created through voluntary incentives. It is also important to track the specific voluntary incentives offered or taken advantage of by developers. This will allow the City to assess over time which incentives are most impactful, and represents important data for the program's ongoing recalibration. Making this data publicly available—as it has done in the latest Housing Plan-- is also a best practice to ensure community members are aware of the program's track record.
- **Recommendation #4c: Spend time educating the development community about what incentives are available, especially after they are adopted.** Building relationships with the development community is key to a healthy housing market and ecosystem. If the City adopts a voluntary incentives program, additional outreach may be needed to bring awareness to the

new policy. Continued education may also be needed on the City's inclusionary policy as a whole, and the advantages of the voluntary incentives program.

- **Recommendation #4d: As part of the comprehensive zoning update, include consideration of the City's permitting/approval process** to understand the real-time and cost to development, and areas of improvement/streamlining. In real estate, time is money. The more time spent in discretionary review, the more a development project accrues costs. When talking with developers, City staff, and local stakeholders, there appeared to be a disconnect between developer and municipal perceptions on both the cost and value of the permitting process. A deeper investigation may be needed to determine if the permitting process creates barriers or delays development, and how improvements may streamline market and affordable development.

Recommendations for Affordable Housing Projects

The recommendations below pertain to ways to encourage more affordable projects in the City of Watertown. In this section, "affordable developments" are defined as projects with at least 50% of units restricted as affordable to households earning 80% of AMI or less, in line with how affordable developments are defined for Watertown Square (see Watertown Zoning Code Chapter 155, Section 5.08 Watertown Square/Neighborhood Mixed-use Districts).

Recommendation #5: Adopt an incentive package available to affordable developments citywide, including streamlined permitting, ground-floor commercial requirements waiver, permit fee waivers, and reduced parking minimum to 1 space per unit.

The incentives noted above were found to have some level of positive impact on affordable projects, based on either the results of the sources and uses model or based on feedback from the developer interviews. Offering them together in an incentive package also helps increase their potential impact. Each of these incentives could be applied in various ways, to be determined by the City – examples of how these incentives could be applied are provided below:

- **Streamlined permitting**. Streamlined permitting could be implemented by allowing affordable developments by-right citywide (e.g., reviewed through site plan review only, with no special permit required).
- **Waived ground floor commercial requirements.** Waiving ground-floor commercial requirements could be offered as an incentive by-right or on a discretionary basis.
- **Waived permit fees.** The range of permit fees to be considered for the waiver would need to be determined by City staff with more specificity.
- **Reduced minimum parking ratio.** The minimum parking ratio for affordable developments (other than in the WSQ districts) could be set to 1 space per unit, with the possibility of using the existing special permit process to further lower the parking requirement.

While such incentives would help incentivize affordable developments, some trade-offs are also worth pointing out. For example, waiving ground floor commercial requirements at certain key commercial nodes or along high priority commercial corridors could lead to a less activated public realm, a less engaging street façade, or fewer economic development opportunities. As another example, waiving permit fees would impact the amount of revenue generated by the City's Building and Planning Departments. Reducing these departments' revenues could impact their ability to provide efficient review processes. Streamlined permitting may also involve trade-offs, depending on what part(s) of the process are eliminated or modified. Many of the pre-application steps (e.g., community meetings and the developer's conference involving municipal departments) can expedite the process once the application is filed. Meanwhile, the board members interviewed felt that their review generally improved project quality. These trade-offs are mitigated by the fact that even a by-right process involves rigorous site plan review before the Planning Board and adherence to all local development regulations.

Recommendation #6: Consider offering density bonuses and further parking reduction (lower than 1 space per unit) as incentives for affordable developments on a district-specific basis, to be implemented as part of the City's comprehensive zoning update.

As noted previously, height, setback, parking, and other dimensional requirements vary by zoning district, and the potential impact of increasing density or reducing parking often depends on neighborhood context. Accordingly, density bonus and parking reduction incentives should be considered on a district-specific basis, rather than having them apply uniformly citywide. Furthermore, these types of incentives should be adopted as part of the City's comprehensive zoning review given that they require careful analysis of current zoning requirements by district.

Density bonuses provide important flexibility to affordable developers and tend to be most helpful in making affordable developments feasible on smaller lots, which is a particular issue in certain parts of Watertown, such as Watertown Square. Similarly, reduced parking minimums provide developers with the option to reduce their parking if the site or projected demand warrants it. These incentives would provide affordable developments with increased flexibility and would reduce some of their barriers to development, especially in the context of smaller or challenging sites.

There is already a precedent for these types of incentives in Watertown Square. In this district, affordable developments are offered a height increase of 1 to 2 stories depending on the depth of affordability, and a reduced parking minimum of 0.25 spaces per unit on a by-right basis, or even lower by special permit approval. This approach could be reproduced in other districts. Although height was used in Watertown Square, a density bonus could be applied in a number of ways, such as with residential floor area or floor area ratio (FAR) instead of height.

A potential tradeoff to consider with a density bonus incentive is the impact on surrounding properties and neighborhoods in terms of the increased scale or bulk of the new development. Density bonuses should be calibrated based on the underlying zoning and the surrounding district's context. As noted above, density bonuses can be implemented in various ways beyond just additional floors. The tradeoffs involved with further parking reduction would require a more detailed parking study in order to comment on.

Recommendation #7: Maintain a strong commitment to other actions the City is already pursuing to incentivize affordable developments. This includes donating or discounting publicly owned land, dedicating local funding to affordable developments, tracking incentives granted to affordable developments, and growing the network of affordable developers active in Watertown.

The City should continue to spotlight and prioritize these various incentives and actions. Through this report's research and analysis, they were all found to be essential to spur more affordable developments.

- **Recommendation #7a: Dedicating publicly owned land for affordable developments and offering land for free or at discounted rates** was noted by affordable housing developers as being a very meaningful way to encourage and incentivize affordable housing developments. In line with this finding, the sources and uses model also showed that offering free land as an incentive significantly helped close the funding gap. The City's latest Housing Plan includes this as a strategy.
- **Recommendation #7b: Providing City funds as a local funding match** (from the Affordable Housing Trust, Community Preservation Act funds, or other local funding sources) is an essential way for the City to support affordable developments and help them meet EOHLC's funding requirements.
- **Recommendation #7c: Tracking voluntary incentives offered to affordable developments** will be important for the City to assess the effectiveness and use of these incentives over time. If and as the City moves forward with any of incentives recommended above, it will be essential to track which incentives were offered to which projects, and what the outcomes were in terms of affordable units created. Making this data publicly available is also a common best practice to ensure community members are aware of the program's track record.
- **Recommendation #7d: Growing and educating the network of affordable developers** who could be active in Watertown is another important strategy. The Affordable Housing Trust has done outreach to affordable developers about Watertown opportunities and the latest Housing Plan includes this as a strategy. Spending time educating the development community about what incentives are available, especially in the period right after they are adopted, also increases the likelihood that they will be utilized.

Appendix A. Zoning Audit

As a starting point, the Zoning Audit assessment relies on the future land use vision articulated in the City's 2023 Comprehensive Plan. It broadly defines three types of growth areas:

- **"Transform" areas** – the plan notes here that "different types of transformative change is envisioned for three distinct areas: Watertown Square, the historic mixed-use core of the City; Arsenal Street, an emerging regional mixed-use area; and Pleasant Street, a primarily commercial-light industrial mix."
- **"Enhance" areas** – the plan notes that "enhancements are desired for neighborhood retail areas including Coolidge Square."
- **"Conserve" areas** – the plan notes that "the City's residential neighborhoods are areas with an emphasis on conserving and improving quality of life for current and future residents and only incremental change likely.

This assessment focuses on the three "transform" areas and, to a lesser extent, some of the "enhance" areas, particularly the Mount Auburn Street corridor. For each of the three key "transform" areas, this assessment considered the extent to which existing zoning aligns with the future land use vision above in terms of both allowable use and dimensional regulations. The assessment of dimensional regulations is supplemented by best practices and input from developers.

Figure 19. Future land use concept diagram, 2023 Comprehensive Plan.

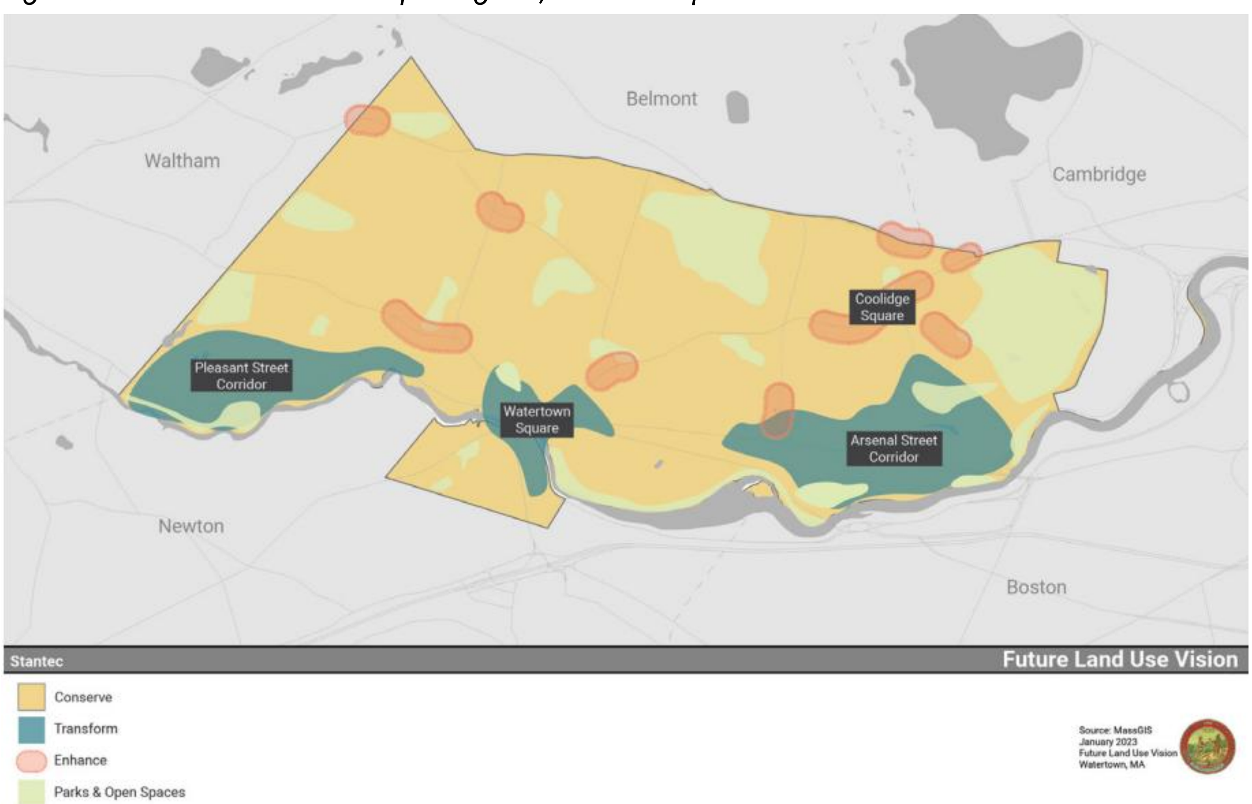
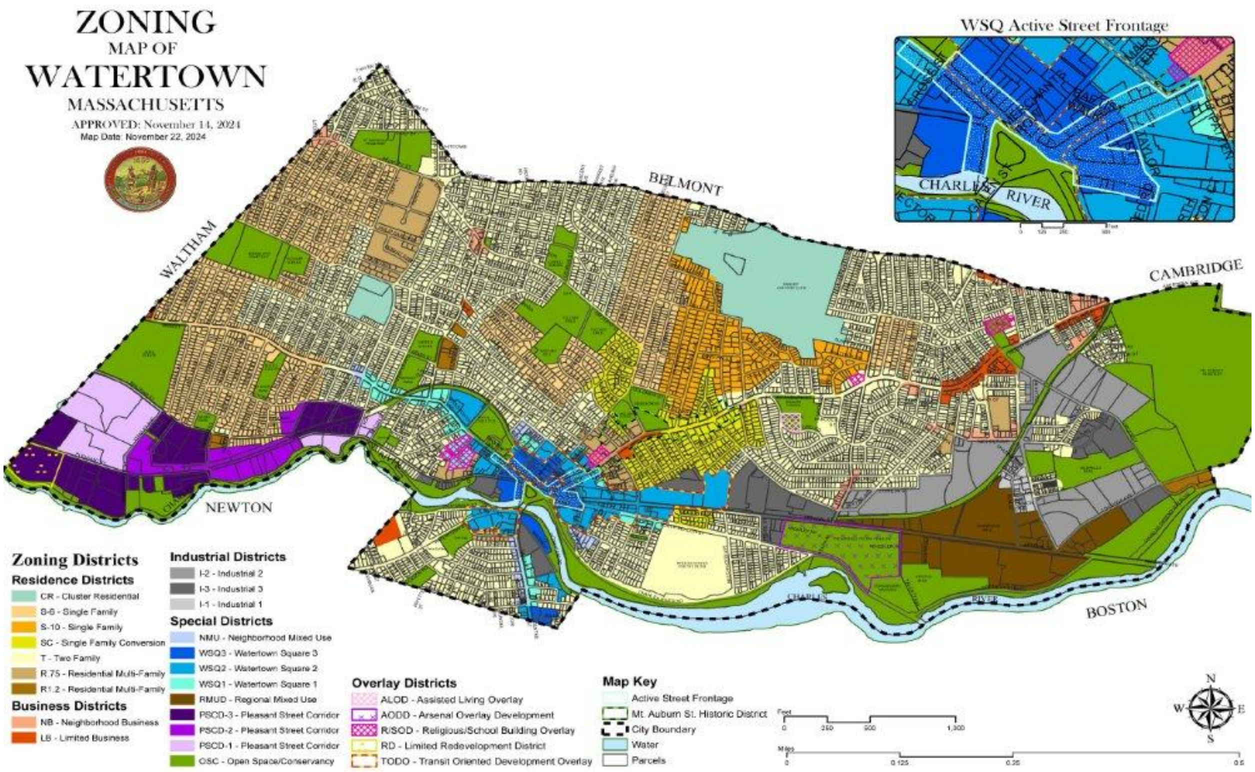


Figure 20. City of Watertown Zoning Map adopted November 2024.



Zoning Audit Results

The following section outlines the uses and dimensional regulations for the study areas. Highlighted in green are opportunities for zoning changes, while orange highlights include where relief has been requested from recent development projects.

Pleasant Street Corridor – Zoning Uses and Dimensional Regulations

Zoning Districts	Allowed Uses
PSCD-1	Multifamily allowed by special permit. Residential mixed-use allowed by special permit.
PSCD-2	Multifamily not permitted. Residential mixed-use allowed by special permit.
PSCD-3	Multifamily not permitted. Residential mixed-use not permitted.
R1.2	Multifamily allowed by special permit. Residential mixed-use not permitted.

Dimensional Requirements for PSCD	
Minimum Lot Size	10,000 sq ft
Minimum Frontage	N/A
Front build-to line	10-30’
Side setback	0’ or 18*

Rear setback	18'*
Open Space	20%
Maximum Building Coverage	50% or 60% with special permit
Maximum Height	55'/5 stories or 66'/6 stories with special permit
Maximum Density	1,000 sq ft/unit (44 units/acre)
Maximum FAR	1.0/2.0 with special permit / 2.0 for mixed-use
Residential Parking Minimums	0.75-2.0 spaces/unit
Retail/office parking minimum	1 space per 350 sq ft (ground floor)

**Setbacks or reduced heights within 40' of S-6 or T districts*

Arsenal Street Corridor – Zoning Uses and Dimensional Regulations

Zoning Districts	Allowed Uses
I-1	Multifamily not permitted. Residential mixed-use not permitted.
I-2	Multifamily not permitted. Residential mixed-use not permitted.
I-3	Multifamily allowed by special permit. Residential mixed-use allowed by special permit.
RMUD	Multifamily not permitted. Residential mixed-use allowed by master plan special permit.

Dimensional Requirements for I-3	
Minimum Lot Size	N/A
Minimum Frontage	50'
Front build-to line	10-30'
Side setback	25'
Rear setback	30'
Open Space	20%
Maximum Building Coverage	50%
Maximum Height	55'/5 stories*
Maximum Density	800 sq ft/unit
Maximum FAR	1.0/2.0 with special permit
Residential Parking Minimums	0.75-2.0 spaces/unit

**Additional setbacks or reduced heights abutting residential districts*

Dimensional Requirements for RMUD	
Minimum Lot Size	2 Acre Min.
Minimum Frontage	50'
Front build-to line	10-30'
Side setback	15'
Rear setback	20'
Open Space	20%
Maximum Building Coverage	75%

Maximum Height	55'/5 stories*
Maximum Density	800 sq ft/unit
Maximum FAR	1.0/2.0 with special permit
Residential Parking Minimums	0.75-2.0 spaces/unit

**Additional setbacks or reduced heights abutting residential districts*

Watertown Square – Zoning Uses and Dimensional Regulations

Zoning Districts	Allowed Uses
TODO	Multifamily allowed by-right Residential mixed-use allowed by-right
WSQ-1	Multifamily allowed by special permit Residential mixed-use allowed by special permit
WSQ-2	Multifamily allowed by special permit Residential mixed-use allowed by special permit
WSQ-3	Multifamily allowed by special permit Residential mixed-use allowed by special permit
NMU	Multifamily allowed by special permit Residential mixed-use allowed by special permit
R.75	Multifamily allowed by special permit Residential mixed-use not permitted
1-3	Multifamily allowed by special permit Residential mixed-use allowed by special permit
LB	Multifamily allowed by special permit Residential mixed-use allowed by special permit

Because of the City's recent zoning efforts in Watertown Square, minimal additional changes are needed. Additional relief to the maximum height regulations could be considered in WSQ-1, WSQ-2, and NMU.

Mt. Auburn Street Corridor /Coolidge Square – Zoning Uses and Dimensional Regulations

Zoning Districts	Allowed Uses
LB	Multifamily allowed by special permit Residential mixed-use allowed by special permit
NB	Multifamily allowed by special permit Residential mixed-use not permitted
R.75	Multifamily allowed by special permit Residential mixed-use not permitted
I-2	Multifamily not permitted. Residential mixed-use not permitted.

Dimensional Requirements for LB	
Minimum Lot Size	N/A
Minimum Frontage	40'

Front build-to line	N/A
Side setback	0' or 15'
Rear setback	20'
Open Space	10%
Maximum Building Coverage	80%
Maximum Height	40'/4 stories*
Maximum Density	N/A
Maximum FAR	1.0
Residential Parking Minimums	0.75-2.0 spaces/unit

**Additional setbacks or reduced heights abutting residential districts*

Dimensional Requirements for NB	
Minimum Lot Size	N/A
Minimum Frontage	50'
Front build-to line	N/A
Side setback	0' or 15'
Rear setback	15'
Open Space	10%
Maximum Building Coverage	50%
Maximum Height	35'/2.5 stories*
Maximum Density	N/A
Maximum FAR	0.5
Residential Parking Minimums	0.75-2.0 spaces/unit

**Additional setbacks or reduced heights abutting residential districts*

Dimensional Requirements for R.75	
Minimum Lot Size	5,000 sq ft
Minimum Frontage	50'
Front build-to line	15'
Side setback	20'
Rear setback	25'
Open Space	20%
Maximum Building Coverage	35%
Maximum Height	35'
Maximum Density	1,500 sq ft/unit
Maximum FAR	0.75
Residential Parking Minimums	0.75-2.0 spaces/unit

Dimensional Requirements for R1.2	
Minimum Lot Size	5,000 sq ft
Minimum Frontage	50'
Front build-to line	15'
Side setback	20'
Rear setback	30'

Open Space	20%
Maximum Building Coverage	50%
Maximum Height	45'
Maximum Density	1,000 sq ft/unit
Maximum FAR	1.2
Residential Parking Minimums	0.75-2.0 spaces/unit

Appendix B. Market and Submarket Analysis

Market Conditions

Residential

Median Rent: $2,357

Unit Type	% of Housing Stock	Average Sq ft	Median Rent
Studio	16%	626 sq ft	$2,300
1-bed	46%	782 sq ft	$2,800
2-bed	32%	1,089 sq ft	$3,400
3-bed	6%	1,501 sq ft	$3,900

Source: Costar, Zillow, MAPC Rental Listing Database

Commercial

Vacancy Rate Range: 10%-15%

Type	Market Rents per Sq ft	Average Sq ft
Office	$43.50	3,080 sq ft
Retail	$33.00	2,969 sq ft

Source: Costar

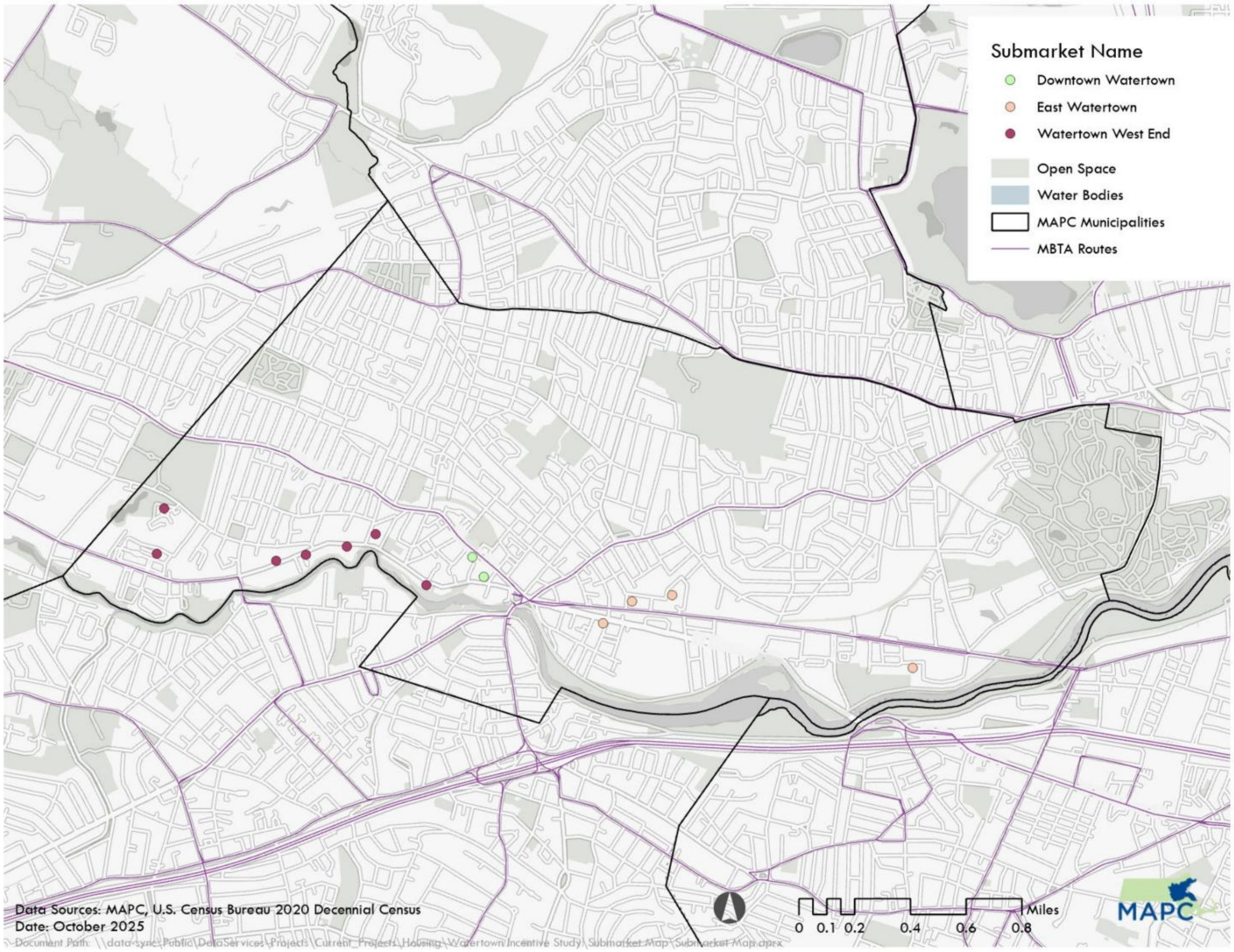
Submarket Conditions

A submarket analysis was conducted to determine if real estate conditions differed significantly by neighborhood. Informed by the City's comprehensive plan and the Future Land Use map, the following were identified as areas for transformation and tested in the submarket analysis (see **Appendix A**).

	Pleasant Street	Watertown Square	Arsenal Street
Average unit sq ft	960 sq ft	800 sq ft	940 sq ft
Average rental price	$3,300	$3,000	$3,500

Source: Costar, Zillow, MAPC Rental Listing Database

Figure 21. Map of Recent Development in Watertown by Submarket



Source: Costar

Appendix C. Market-rate Financial Feasibility Detailed Assumptions

Method: Pro Forma Analysis

Methods Overview

For this study, the intent is not to test a variety of policy options, but rather to document the viability of a policy that has already been adopted. Therefore, rather than comparing the impacts of a range of different inclusionary policy requirements, this analysis will test a single inclusionary policy across several hypothetical projects likely to be developed in Watertown's 3A districts to evaluate whether the policy risks impeding the production of multifamily housing.

MAPC's pro forma financial model incorporates a wide range of variables, which are reviewed in detail in the following sections. These inputs form the backbone of any feasibility analysis and must be carefully researched and calibrated to reflect Watertown's local development conditions to ensure an accurate analysis. This analysis derives its inputs from several sources. First, it relies on quantitative market data from industry sources, which include CoStar, Warren Group, Zillow, RS Means, and MAPC's rental listings database. These provide a picture of Watertown's overall housing market, including properties of all ages, sizes, and conditions. To supplement this data, MAPC staff conducted a survey of recently developed market properties that are likely more representative of future new development. Finally, MAPC conducted interviews with real estate professionals active locally and in the region, including market-rate developers, affordable housing developers, property managers, and lenders.

Key Assumptions

The pro forma financial model can be divided into several broad components, each of which interact with each other and can impact profitability positively or negatively:

- The type of development likely to occur ("development prototypes")
- Characteristics of new development project ("development program")
- How much it costs to build the new development project
- Once the project is occupied, how much revenue it generates and how much it costs to keep running ("operating")
- Financing terms

Development Prototypes. This analysis considers three hypothetical development projects. These were defined based on recent permitted projects, dimensional parameters of the study areas, and discussions with local planning staff. These scenarios are representative of the range of market-rate projects that may be developed in Watertown.

Figure 22. Development Prototypes

Prototype	Project Size	Construction	Parking	Commercial Space
Prototype 1	8 units	Wood frame	Surface	800 sq ft
Prototype 2	25 units	Wood frame	Podium	3,500 sq ft
Prototype 3	60 units	Podium	Podium	5,000 sq ft

Development Program. The development program defines the physical components of the new building. Some of these are grounded in local markets: for example, parking ratios and unit sizes vary widely from municipality to municipality depending on proximity to transit, neighborhood walkability, land costs, and zoning. Other inputs, such as the amount of space devoted to common area, are generally consistent with regional industry standards.

Figure 23. Development Program Assumptions

Unit Size		*Source: CoStar* *Note: Adjusted to align with affordable sources & uses model*
Studio	5%	
One-bedroom	55%	
Two-bedroom	35%	
Three-bedroom	5%	
Unit Size		*Source: CoStar, developer interviews, review of recent properties on market*
Studio	650 sq ft	
One-bedroom	800 sq ft	
Two-bedroom	1,100 sq ft	
Three-bedroom	1,400 sq ft	
Parking Ratio	1 space/unit	*Note: The WSQ zoning requires only 0.5 parking spaces per unit. However, local developers have indicated that, based on current perceived market demand, they would likely build one parking space per unit on average.*

Development Costs. This set of inputs reflects how much it costs to build housing in Watertown. In addition to the cost of the materials and labor needed to construct the building itself and its associated parking, development costs include the cost of purchasing land (acquisition cost) and the costs associated with the non-physical aspects of developing a building (soft costs), such as architecture and engineering fees, financing and loan closing costs, and legal fees.

Figure 24. Development Cost Assumptions

Acquisition	Varies based on project size:* $95,000 per unit (20 or fewer units) $90,000 per unit (between 21 and 49 units) $85,000 per unit (50 or more units)	*Source: City assessor data, developer interviews, and City staff*
Construction	Wood frame: $300 per sqft. Podium: $320 per sqft. Commercial: $320 per sqft.	*Source: RS Means, developer interviews*
Parking	Surface: $15,000 per space Podium: $40,000 per space	*Source: RS Means, developer interviews*
Soft Costs	Varies based on project size:* 22% of hard costs (20 or fewer units) 21% of hard costs (between 21 and 49 units) 20% of hard costs (50 or more units)	*Source: Developer interviews, industry standard*
Tenant fit out for commercial space	$150 per sqft.	*Source: RS Means, developer interviews*

**Some development costs are substantially lower for larger projects due to economies of scale. For example, a small parcel of land costs much more per acre than a large one; the cost of soils tests and legal documentation does not necessarily increase in proportion with project size and thus can be spread among more units. To reflect the economies of scale inherent in large projects, the analysis assumes acquisition costs and soft costs decrease (within a defined range) as project size increases.*

Operating. Operating inputs are comprised of two main components. The first is operating revenue, which consists primarily of income from rents but may also include parking or laundry fees. Rental income comes from both market-rate units and affordable units. The second is operating expenses, which cover the costs of keeping a building running such as snow plowing, marketing and leasing, and building maintenance.

Figure 25. Operating Assumptions

Residential Vacancy	5%	*Source: Developer and lender interviews*
Parking Income	$75 per space monthly for uncovered parking $200 per space monthly for covered parking	*Source: Developer interviews*
Rental Income – Market-rate	Studios: $2,700/mo. One-bedrooms: $3,300/mo. Two-bedrooms: $3,800/mo. Three-bedrooms: $4,200/mo.	*Source: Zillow, CoStar, MAPC Rental Listings Database, developer interviews, review of recent properties on market*

Rental Income – Affordable Units at 50% AMI	Studios: $1,448/mo. One-bedrooms: 1,655/mo. Two-bedrooms: $1,861/mo. Three-bedrooms: $2,068/mo.	*Source: U.S. Department of Housing and Urban Development, 2025 Income Limits*
Rental Income – Affordable Units at 60% AMI	Studios: $1,737/mo. One-bedrooms: $1,986/mo. Two-bedrooms: $2,234/mo. Three-bedrooms: $2,481/mo.	*Source: U.S. Department of Housing and Urban Development, 2025 Income Limits*
Rental Income – Affordable Units at 65% AMI	Studios: $1,882/mo. One-bedrooms: $2,152/mo. Two-bedrooms: $2,420/mo. Three-bedrooms: $2,688/mo.	*Source: U.S. Department of Housing and Urban Development, 2025 Income Limits*
Rental Income – Affordable Units at 80% AMI	Studios: $2,316/mo. One-bedrooms: $2,646/mo. Two-bedrooms: $2,978/mo. Three-bedrooms: $3,308/mo.	*Source: U.S. Department of Housing and Urban Development, 2025 Income Limits*
Operating Expenses	Varies based on the project scale:* $10,500 per unit per year (20 or fewer units) $10,250 per unit (between 21 and 49 units) $10,000 per unit (50 or more units)	*Source: Developer interviews*
Commercial Vacancy	25%	*Source: Developer and lender interviews*

**Similar to acquisition and soft costs as discussed above, operating costs are notably lower per unit in large buildings. For example, a larger project can sustain a full-time on-site maintenance manager, while a smaller project would need to pursue a less efficient arrangement and employ a part-time off-site manager that travels between several buildings.*

Financing. For the most part, financing terms are set not by the developer, but by the mortgage lender and a project's equity investors.

Figure 26. Financing Assumptions

Permanent Interest Rate	6.25%	Developer and lender interviews
Term	30 years	Developer and lender interviews
Debt Service Coverage Ratio (DSCR)	1.2	Developer and lender interviews

Loan to Value Ratio (LTV)	65%	Developer and lender interviews
Cap Rate	5.0%	Assessor data, Costar
Debt Equity Ratio	65/35	Developer Interviews

Method: Buy Down Analysis

Methods Overview

The buy-down model developed for this study is a tool to estimate the fee the City of Watertown would need to pay a developer to buy-down: (1) a market-rate unit to 60% AMI unit, (2) a market-rate unit to an 80% AMI unit, and (3) a 80% AMI unit to a 60% AMI unit. These calculations were applied to the market-rate Prototype 3 described in the previous section. The analysis generally uses the same cost and revenue assumptions as those used for the Market-rate Pro Forma Analysis, with some additional assumptions also noted below.

To determine the buy-down fee, MAPC followed an approach similar to that used to determine in-lieu fees. There are several established methods that can be used to determine the cost of an affordable unit for the purpose of setting an in-lieu fee, which may yield notably different results. For this analysis, MAPC utilized three different methods in order to capture the variability and complexity in how these costs are actually estimated. The three methods are described below:

- **Method 1. Affordability gap.** This method calculates the difference between the fair market value of a unit and the value of the affordable unit. A market-rate unit is more valuable than an affordable unit because the market-rate unit can generate greater income; this method assigns a dollar value to that difference. The lower the target affordability level, or the greater the market value, the greater the gap between the two will be; in other words, the gap between a market-rate unit and a 60% AMI affordable unit will be greater than the gap between a market-rate unit and an 80% AMI unit. In the same vein, there is also a gap between affordable units at different income levels: an 80% AMI unit is more valuable than an 60% AMI because, while both are limited in how much rent can be charged, the 60% AMI unit generates less income than the 80% AMI unit.
- **Method 2. Revenue loss over time.** This method considers the difference in rental income from a market-rate unit versus an affordable unit over a 20-year period, while factoring in the additional costs of operating a deed restricted affordable unit (e.g. annual income certifications, tenant selection lottery). As with the affordability gap method, the revenue loss method can be used to compare market-rate units to affordable units or to compare affordable units serving different income levels.
- **Method 3. Total development cost.** This method calculates the difference between the cost of building an affordable unit and the value of that unit. For a market-rate unit, the value of the unit (based on the potential to generate income) would typically be greater than the cost of building the unit. If this were not the case, the unit would not be profitable, and a developer would likely not build it in the first place. This method is useful to consider because it takes the cost of building the unit into account. However, because it generally costs the same amount to construct a unit regardless of whether that unit is

intended to serve 60% AMI or 80% AMI, it is duplicative with the affordability gap method when comparing two affordable units serving different income levels.

Key Assumptions

The revenue assumptions used to estimate the fair market value and/or affordable value of different unit types are provided in Figure 27. Figures 28 and 29 summarize additional assumptions used for Method 2 and 3, respectively.

Figure 27. Revenue Assumptions for the Buy-down Model

	General Assumptions	Market-rate units	60% AMI units	80% AMI units
Unit Mix				
Studio	5%			
One-bedroom	55%			
Two-bedroom	35%			
Three-bedroom	5%			
Unit Size				
Studio	650 sq ft			
One-bedroom	800 sq ft			
Two-bedroom	1,100 sq ft			
Three-bedroom	1,400 sq ft			
Monthly Rent Per Unit				
Studio		$2,700	$1,737	$2,316
One-bedroom		$3,300	$1,986	$2,646
Two-bedroom		$3,800	$2,234	$2,978
Three-bedroom		$4,200	$2,481	$3,308
Utility Allowance Per Unit*				
Studio		n/a	$201	$201
One-bedroom		n/a	$261	$261
Two-bedroom		n/a	$352	$352
Three-bedroom		n/a	$439	$439
Other Revenue Assumptions				
Vacancy		5%	5%	5%
Operating Expenses/Unit		$10,000	$10,000	$10,000
Cap Rate	5.00%			

**Source: Watertown Housing Authority, Allowance for Tenant-Furnished Utilities and Other Services - Rate Data, Using the Row/Garden Apartment Type. See: https://www.watertownha.org/DocumentCenter/View/164/2025-Utility-Allowance-Schedule-PDF*

Figure 28. Additional Assumptions used in Method 2 Buy-Down Model

Method 2. Revenue Loss Additional Assumptions	
Revenue loss period	20 years
Cost of compliance with affordable requirements, per IZ unit*	$60,000

**The cost of compliance estimate includes loan underwriting impact, marketing & compliance (using a third-party administrator), and additional staff time and leasing delay.*

Figure 29. Additional Development Cost Assumptions used in Method 3 Buy-Down Model

Method 3. Estimated Total Development Cost Per Unit Type*	
Studio	$457,740
1-Bedroom	$523,980
2-Bedroom	$656,460
3-Bedroom	$788,940
Weighted Average**	**$580,284**

**Total development costs were derived based on Prototype 3 and using the same development cost assumptions as explained in the Market-rate Pro Forma Analysis.*

***Weighted average based on the unit mix (5% studios, 55% 1-bedroom, 35% 2-bedroom, and 5% 3-bedroom units).*

Detailed Results

The estimated buy-down fees for different levels of affordability, based on each of the three different methodologies, are summarized in Figure 30. As noted previously, the buy-down fees are estimated assuming the Prototype 3 development prototype and rely on the assumptions above as well as those used for the Market Rate Pro Forma Analysis.

Note that the results in Figure 30 are shown for each unit type (studio, 1-bedroom, 2-bedroom, and 3-bedroom) and also calculated as a weighted average based on the unit mix assumption for Prototype 3, rounded to the nearest thousand dollar.

Figure 30. Detailed results of the buy-down analysis

	Studio	1-BD	2-BD	3-BD	Weighted Average*
Fee needed to "buy-down" a market-rate unit to a 60% AMI unit					
Method 1. Affordability Gap	$265,392	$359,100	$437,418	$492,024	**$388,000**
Method 2. Revenue Loss	$325,392	$419,100	$497,418	$552,024	**$448,000**
Method 3. Development Cost	$307,532	$330,680	$427,478	$523,364	**$373,000**

Fee needed to "buy-down" a market-rate unit to a 80% AMI unit					
Method 1. Affordability Gap	$133,323	$208,563	$267,786	$303,582	**$230,000**
Method 2. Revenue Loss	$193,323	$268,563	$327,786	$363,582	**$290,000**
Method 3. Development Cost	$175,463	$180,143	$257,846	$334,922	**$215,000**
Fee needed to "buy-down" an 80% AMI unit to a 60% AMI unit **					
Method 1. Affordability Gap	$132,069	$150,537	$169,632	$188,442	**$158,192**
Method 2. Revenue Loss	$132,069	$150,537	$169,632	$188,442	**$158,192**
Method 3. Development Cost	$132,069	$150,537	$169,632	$188,442	**$158,192**

**Weighted average based on the unit mix (5% studios, 55% 1-bedroom, 35% 2-bedroom, and 5% 3-bedroom units).*

***Note that the results are the same across the three methodologies for the 80% AMI to 60% AMI buy-down scenario because the difference in value between a 60% AMI unit and an 80% AMI unit is a constant value.*

Appendix D. Affordable Housing Sources & Uses Model Detailed Assumptions

Key Assumptions

All of the assumptions used to develop the affordable housing sources & uses model are provided below. Figure 30 provides more detail on the prototypes. Figure 31 provides a summary of development cost assumptions. Figures 32 and 33 summarize how the affordable rents were derived. Figure 34 provides additional revenue and financing assumptions used in the model.

Figure 30. Affordable housing sources & uses model prototype assumptions

Prototype	Prototype A	Prototype B
Total Units	30 units	60 units
Average AMI	55% AMI project-wide average	55% AMI project-wide average
Construction Type	3 stories, wood frame	5 stories, 4 wood frame over 1 podium
Unit Mix	1-bedroom: 30% 2-bedroom: 60% 3-bedroom: 10%	1-bedroom: 30% 2-bedroom: 60% 3-bedroom: 10%
Unit Sizes	1-bedroom: 800 NSF 2-bedroom: 1,100 NSF 3-bedroom: 1,400 NSF	1-bedroom: 800 NSF 2-bedroom: 1,100 NSF 3-bedroom: 1,400 NSF
Common Area	15%	15%
Total Residential GSF	35,880	71,760
Commercial Space GSF	2,000 sq. ft.	3,500 sq. ft.
Parking Ratio	1 space per unit	1 space per unit
Parking Type	100% surface parking	50% surface, 50% podium parking

GSF: Gross Square Feet, NSF: Net Square Feet.

Figure 31. Development Cost Assumptions

	Prototype A (30 units, 3 stories wood frame)	Prototype B (60 units, 4 stories over 1 podium)	*Notes*
Land Acquisition Costs	$90,000	$85,000	*per unit*
Construction Costs			
Residential, Wood Frame	$300	n/a	*per GSF*
Residential, Podium	n/a	$320	*per GSF*
Commercial	$200	$200	*per GSF*
Parking Costs			
Surface parking	$15,000	$15,000	*per space*
Podium parking	$40,000	$40,000	*per space*
Soft Costs			
City permitting fees	$5,200	$5,200	*per baseline units*
All other soft costs	28.0%	28.0%	*of hard costs*
Tenant Fit Out	$150	$150	*per GSF*

Figure 32. Income Limits by Household Size

	1-person HH	2-person HH	3-person HH	4-person HH
30% AMI	$34,750	$39,700	$44,650	$49,600
50% AMI	$57,900	$66,200	$74,450	$82,700
55% AMI	**$63,690**	**$72,820**	**$81,895**	**$90,970**
60% AMI	$69,480	$79,440	$89,340	$99,240
65% AMI	$75,270	$86,060	$96,785	$107,510
70% AMI	$81,065	$92,645	$104,220	$115,770
80% AMI	$92,650	$105,850	$119,100	$132,300

Figure 33. Monthly Affordable rents by AMI and Unit Type

	Studio (1-person HH)	1-BD (2-person HH)	2-BD (3-person HH)	3-BD (4-person HH)
30% AMI	$869	$993	$1,116	$1,240
50% AMI	$1,448	$1,655	$1,861	$2,068
55% AMI	**$1,592**	**$1,821**	**$2,047**	**$2,274**

60% AMI	$1,737	$1,986	$2,234	$2,481
65% AMI	$1,882	$2,152	$2,420	$2,688
70% AMI	$2,027	$2,316	$2,606	$2,894
80% AMI	$2,316	$2,646	$2,978	$3,308

Figure 34. Other Revenue and Financing Assumptions

Metric	Assumption
Vacancy rate	5%
Operating expenses	$12,000 per unit
Cap rate	5%
Loan-to-Value ratio	65%
Debt service coverage ratio	1.2
Interest rate	6.25%
Loan term	30 years
Commercial rent per sq. ft.	$0

Detailed Results

Detailed results from the affordable housing sources & uses model are provided for Prototype A (Figure 35) and Prototype B (Figure 36).

Figure 35. Detailed Model Results for Prototype A

Incentive	Total Funding Gap ($)	Funding Gap Per Unit ($)	Change in Funding Gap from Baseline (Per Unit) ($)	% Change in Funding Gap Relative to Baseline (Per Unit) (%)
Baseline (No Incentives)	**$14,395,114**	**$479,837**	n/a	n/a
Waived GF Commercial	$13,583,114	$452,770	-$27,067	**-6%**
Free Publicly Owned Land	$11,695,114	$389,837	-$90,000	**-19%**
Parking Reduction (0.25 spaces/unit)	$13,963,114	$465,437	-$14,400	**-3%**
Parking Reduction (0.5 spaces/unit)	$14,107,114	$470,237	-$9,600	**-2%**
Waived Permitting Fees	$14,239,114	$474,637	-$5,200	**-1%**
Height Bonus (1 Story)	$17,970,819	$449,270	-$30,567	**-6%**

Height Bonus (2 Stories)	n/a	n/a	n/a	n/a
Height Bonus (1 Story) + Parking Reduction (0.25 spaces/unit)	$17,394,819	$434,870	-$44,967	**-9%**

Note that the 2x density bonus was not tested for Prototype A since the full wood frame construction type would not allow for a five-story structure and would therefore bump the prototype to a higher hard cost bracket.

Figure 36. Detailed Results for Prototype B

Incentive	Total Funding Gap ($)	Funding Gap Per Unit ($)	Change in Funding Gap from Baseline (Per Unit) ($)	% Change in Funding Gap Relative to Baseline (Per Unit) (%)
Baseline (No Incentives)	**$31,084,284**	**$518,071**	n/a	n/a
Waived GF Commercial	$29,663,284	$494,388	-$23,683	**-5%**
Free City-Owned Land	$25,984,284	$433,071	-$85,000	**-16%**
Parking Reduction (0.25 spaces/unit)	$29,500,284	$491,671	-$26,400	**-5%**
Parking Reduction (0.5 spaces/unit)	$30,028,284	$500,471	-$17,600	**-3%**
Waived Permitting Fees	$30,772,284	$512,871	-$5,200	**-1%**
Height Bonus (1 Story)	$37,147,106	$495,295	-$22,777	**-4%**
Height Bonus (2 Stories)	$43,209,927	$480,110	-$37,961	**-7%**
Height Bonus (1 Story) + Parking Reduction (0.25 spaces/unit)	$35,167,106	$468,895	-$49,177	**-9%**

Appendix E. Public Engagement Summary

As part of the public engagement process for this study, MAPC conducted three public meetings during which MAPC received questions and feedback from members of the public and from board members (Planning Board, City Council, and/or Affordable Housing Trust).

The first meeting was a presentation to the Affordable Housing Trust on December 16, 2025. The second meeting was a general public meeting on March 26, 2026. The third meeting was a presentation to City Council on June 15, 2026. Following these meetings, City staff also received written public comments for a period of approximately two weeks.

Appendix F. Case Study Research

Overview

Figure 37 summarizes the program characteristics of the seven case studies selected for this task. Each case study is then explored in more detail in the following sections.

Figure 37. Overview of the seven case studies

Jurisdiction	Program Name	Program Type	Year Effective	Incentives
City of Taunton, MA	Inclusionary Housing	Fully voluntary *(Note: Taunton does not have an IZ policy)*	1989	-Density bonus
City of Cambridge, MA	100 Percent Affordable Housing Overlay (AHO)	Fully voluntary *(Note: Cambridge has a separate IZ policy)*	2020	- By-right approval - Height bonus and relief from other zoning dimensional standards
City and County of Denver, CO	Expanding Housing Affordability (EHA)	Blended mandatory / voluntary	2022	Base incentives: Building permit fee reduction; reduced parking requirements; waived linkage fees for ground-floor commercial space. Enhanced incentives: By-right height bonus; by-right floor area increase in some areas; waived parking requirements; expedited review*
City of Minneapolis. MN	Inclusionary Zoning	Blended mandatory / voluntary	2019	- Tax increment financing - Relief from certain dimensional standards
City of Kirkland, WA	Affordable Housing Incentives Program	Blended mandatory / voluntary	2010	- Property tax exemption - Impact fee waivers - Relief from certain dimensional standards
City of Salt Lake City, UT	Affordable Housing Incentives (AHI)	Fully voluntary	2024	Varies by district, but generally: -Heigh bonus and relief from dimensional standards -Expedited review
City of Iowa City, IA	Tax Exemption for Affordable Rental Housing	Fully voluntary	2019	-Property tax exemption -Height bonus

**See the detailed write-up about Denver for more information on the parking requirement and expedited review incentives.*

City of Taunton, MA

Program Overview

The City of Taunton adopted a voluntary density bonus program in 1989.[7] All new residential development projects are eligible to take advantage of this program through the special permit approval process. In exchange, projects must meet one of the following compliance options:

- Build affordable units on-site, meeting one of the following options:
    - 10% of units donated to the Taunton Housing Authority (THA) or another nonprofit housing provider, or
    - 15% of units purchased by the THA and 15% sold or rented at or below 50% AMI, or
    - 100% of units sold or rented at or below 120% AMI, with at least 25% of units sold or rented at or below 80% AMI
- Pay an in-lieu fee, in which the in-lieu fee amount is negotiated as part of the special permit approval process. The in-lieu fee payment is generally equal to the sum of construction costs for the equivalent number of on-site affordable units required.

The Planning Board is responsible for determining the 'base density' allowable under current zoning and regulations, that is, the maximum number of units that could be constructed on the site as permitted in the zoning district. Once the base density is determined, the Planning Board may then grant a density bonus between 1.75 and 2.75 the base density.

Note that this is a stand-alone voluntary program, and the City of Taunton does not have any other mandatory inclusionary zoning requirements in place.

Program Outcomes

MAPC and the City of Watertown were eager to explore this case study given its location in Massachusetts and given its unique approach to on-site affordability compliance, with an option to partner with the local housing authority or nonprofit as a means to achieve deeper affordability.

However, according to information provided by Taunton municipal staff, only five or six residential projects have utilized Taunton's density bonus program in the last 10 years, and all of them opted to pay in-lieu fees rather than build units on-site. This has generated $2.8 million in revenue since 2007 (about $510,000 per project). The average density bonus offered was two times the base density. Municipal staff observed that while this program has been helpful to have in their housing toolbox, it has not had a significant impact on new development. Furthermore, the City does not track or publish project-level data, making the effectiveness of this program difficult to evaluate.

While this program is elegant in its simplicity and innovative in its approach to achieving deeper affordability on a voluntary basis, it has not yielded on-site units, at least in the last 10 years. This may be due to the price at which the in-lieu fees are set.

[7] City of Taunton Municipal Code, Chapter 440-1402. https://ecode360.com/29008725

City of Cambridge, MA

Program Overview

The City of Cambridge adopted the 100 Percent Affordable Housing Overlay (AHO) ordinance in 2020, with major updates approved in 2023, known as AHO 2.0.[8] The AHO program is intended to facilitate the production of fully affordable projects. This case study is the only one in this report that targets solely 100 percent affordable housing. Note that the City of Cambridge also has a separate mandatory IZ policy, which requires market-rate developments to set aside a share of project units as affordable.

The AHO program is available to projects with 100% of their units affordable to households earning less than 100% of AMI, with at least 50% of units affordable to households earning less than 80% of AMI. The program applies to all zoning districts in Cambridge, except for Open Space districts.

AHO projects benefit from the following incentives:

- AHO projects do not require special permit approval and are not subject to Planning Board approval. Developers are still required to conduct at least two community meetings and participate in a non-binding design consultation process with the Planning Board following the AHO Design Guidelines,[9] but projects are essentially permitted as-of-right.
- AHO projects are also granted relief from various zoning standards, including height, density, and parking. The details of these incentives vary based on the underlying zoning district and location within the City. The most notable incentive is the height bonus. For example, for projects located in pre-identified AHO Corridors (e.g. Alewife Brook Parkway, Massachusetts Ave, etc.), AHO allows up to 12 stories in height. For projects in AHO Squares (e.g. Central, Harvard, Porter Squares), AHO allows up to 15 stories. In addition, there is no maximum floor area ratio (FAR) for projects located within AHO Squares or AHO Corridors, and there is no minimum parking for AHO projects generally.

Program Outcomes

Although MAPC staff was unable to conduct an interview with City staff, the City does publish detailed project-level data about participation in the AHO program.[10] According to the City's website and as shown in Table 2 below, there are a total of sixteen AHO projects to date, of which nine have completed the AHO process, representing about 750 affordable units. The other seven projects are currently in the AHO process, with a unit count estimated at 172 units, with some missing unit count information.

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[8] *City of Cambridge Zoning Ordinance, Article 11.207. See: https://library.municode.com/ma/cambridge/codes/zoning_ordinance?nodeId=ZOOR_ART11.000SPRE_11.200INZOHNHO*

[9] *City of Cambridge AHO Design Guidelines. See: https://www.cambridgema.gov/-/media/Files/CDD/Housing/Overlay/zngamend_aho_designguidelines_20200728v2.pdf*

[10] *City of Cambridge 100 Percent Affordable Housing Overlay. See: https://www.cambridgema.gov/CDD/housing/housingdevelopment/aho*

Overall, the AHO has helped accelerate the production of affordable housing in Cambridge. The City of Cambridge had previously produced an average of 40 to 60 units of 100 percent affordable housing per year.[11] Using the 750 affordable units that have completed the AHO process, the annual average for the 2020-2025 period is closer to 150 units per year. It should be noted that AHO 2.0 has only been in effect since 2023, so a few more years of data will help paint a better picture of the full effects of this policy.

Figure 38. Affordable Housing Overlay (AHO) projects in the City of Cambridge

#	Development Name	Description	Developer Name	# Units	Tenure
AHO process complete					
AHO-1	52 New Street	New Construction	Just A Start Corp.	106	Rental
AHO-2	Jefferson Park Federal (Jackson Place / Jackson Circle / Rindge Ave)	Preservation / New Construction	Cambridge Housing Authority	278	Rental
AHO-3	Walden Square II (21 Walden Square Road)	New Construction	Winn Development	95	Rental
AHO-4	49 6th Street	New Construction	Preservation of Affordable Housing	46	Rental
AHO-5	116 Norfolk Street	Historic Preservation / New Construction	Cambridge Housing Authority	62	Rental
AHO-6	4 Mellen St / 1627 Massachusetts Ave	Historic Preservation / New Construction	Homeowner's Rehab, Inc. (HRI)	29	Rental
AHO-7	87-101 Blanchard Road	New Construction	B'nai B'rith Housing	110	Rental
N/A	35 Cherry Street	New Construction	Just a Start Corp.	10	For-sale
N/A	37 Brookline Street	New Construction	Just a Start Corp.	13	Rental
Subtotal				***749***	
AHO process underway					
AHO-9	2072 Massachusetts Ave	New Construction	Capstone Communities + Hope Real Estate LLC	73	Rental
AHO-8	28-30 Wendell Street	New Construction	Homeowner's Rehab Inc. (HRI)	95	Rental
TBD	Corcoran Park	Preservation/New Construction	Cambridge Housing Authority (CHA)	TBD	Rental
TBD	71 Cherry Street	New Construction	Cambridge Redevelopment Authority	TBD	For-sale
TBD	240 Broadway	New Construction	Just a Start Corp. (JAS)	TBD	Rental

[11] Cambridge's Commitment to Affordable Housing Resulting in Momentum and Milestones (October 16, 2025), see: https://www.cambridgema.gov/digital/Stories/2025/housingmomentum; Harvard Joint Center for Housing Studies, February 26, 2024. "What Has Zoning Reform Accomplished in Cambridge, Massachusetts?" available at: https://www.jchs.harvard.edu/blog/what-has-zoning-reform-accomplished-cambridge-massachusetts

TBD	12-14 Laurel Street	New Construction	Just a Start Corp. (JAS)	4	For-sale
TBD	1826 & 1840 Massachusetts Avenue	New Construction	Just a Start Corp. (JAS)	TBD	TBD
Subtotal				***172***	
Total				**921**	

Source: City of Cambridge, 100 Percent Affordable Housing Overlay. Data pulled on November 11, 2025, from the following website: https://www.cambridgema.gov/CDD/housing/housingdevelopment/aho

City and County of Denver, CO

Program Overview

The City and County of Denver's Expanding Housing Affordability Ordinance was adopted in 2021 and became effective in 2022.[12] This ordinance updated both the City's inclusionary zoning policy (which applies to residential development or 10 or more units) and the City's linkage fee (which applies to non-residential development and residential development of 9 units or less). For this memo, we focus only on the inclusionary zoning portion.

Denver's IZ program is a blended program. It has a baseline mandatory affordability requirement and baseline incentives, but it also offers enhanced incentives for developers who voluntarily chose to go above and beyond the minimum requirements.

The mandatory affordable requirements vary based on project tenure and submarket area (High Market Areas, such as the central downtown neighborhoods, versus Typical Market Areas). Developers are also given two options for compliance: a larger set-aside at a higher AMI, or a slightly lower set-aside at a lower AMI. All projects that are subject to the mandatory requirements and that choose to build affordable units on-site are entitled to the following baseline incentives:

- Building permit fee reduction ($6,500 per affordable unit in Typical Market Areas and $10,000 per affordable unit in High Market Areas), with the total reduction not to exceed 50% of the total building permit fee.
- For mixed-use development projects, waiver of commercial linkage fee for street-level commercial space.
- Reduction in the minimum parking requirements to between 0.25 to 0.75 parking spaces per unit, depending on the zoning district.

Projects are incentivized to provide more than the minimum affordability requirements in exchange for additional "enhanced" incentives. The enhanced affordability requirements involve a higher percentage set-aside, as summarized in Table 3. Of note, 100 percent affordable projects are also eligible for these incentives. In exchange, developers benefit from the baseline incentives described above and the enhanced incentives described below:

[12] City and County of Denver Municipal Code, Chapter 27, Article X. See: https://library.municode.com/co/denver/codes/code_of_ordinances?nodeId=TITIIREMUCO_CH27HO_ARTXMAAFHO

- By-right height increases, which vary based on the zoning district as noted below. Some exceptions apply, for example if a site is subject to district-specific limitations such as protecting views of the Rocky Mountains.
    - 3-story zone districts: Up to 4 stories (50-55 feet)
    - 5-story zone districts: Up to 7 stories (90-95 feet)
    - 8-story zone districts: Up to 12 stories (140-150 feet)
    - 12-story zone districts: Up to 16 stories (185-200 feet)
    - 16-story zone districts: Up to 22 stories (250-275 feet)
    - 20-story zone districts: Up to 30 stories (340-375 feet)
- By-right floor area increases for certain downtown zoning districts.
- No minimum parking requirement for sites located within ¼ mile of a rail transit platform.

Interestingly, a few updates and implementation issues have occurred since the program was first adopted. For instance, the City had originally planned to offer expedited permit review as part of the menu of enhanced incentives. According to municipal staff, developers very frequently inquire about this option. However, municipal staff have been unable to provide this service to market-rate developers due to limited staff capacity, paired with strong demand from 100 percent affordable housing developers, which receive priority for this service.[13] Also, it is worth noting that in August 2025, the City of Denver eliminated minimum parking requirements citywide. This incentive (which exists in some form for both the baseline and enhanced incentives) has therefore become moot.

Projects subject to EHA also have the option of paying an in-lieu fee, rather than building units on-site. However, projects lose their eligibility for incentives (baseline and enhanced) if they select this compliance option. This is meant to encourage developers to select the on-site compliance option.

Figure 39. Summary of Denver's On-Site Mandatory and Enhanced Affordability Requirements

HIGH MARKET AREA	TYPICAL MARKET AREA
Mandatory Affordability Requirements (Eligible for Baseline Incentives)	
Option H-1B 10% of units at 60% AMI (Rental) 10% of units at 80% AMI (For-sale)	**Option T-1B** 8% of units at 60% AMI (Rental) 8% of units at 80% AMI (For-sale)
Option H-2B 15% of units averaging 70% AMI (Rental) 15% of units averaging 90% AMI (For-sale)	**Option T-2B** 12% of units averaging 70% AMI (Rental) 12% of units averaging 90% AMI (For-sale)
Enhanced Affordability Requirements (Eligible for Enhanced Incentives)	
Option H-1E 12% of units at 60% AMI (Rental) 12% of units at 80% AMI (For-sale)	**Option T-1E** 10% of units at 60% AMI (Rental) 10% of units at 80% AMI (For-sale)

13 Denver Affordable Housing Review Team (AHRT): https://www.denvergov.org/Government/Agencies-Departments-Offices/Agencies-Departments-Offices-Directory/Community-Planning-and-Development/Plan-Review-Permits-and-Inspections/Zoning-Permits/Site-Development-Plan-Review/Affordable-Housing-Review-Team

Option H-2E	Option T-2E
18% of units averaging 70% AMI (Rental) 18% of units averaging 90% AMI (For-sale)	15% of units averaging 70% AMI (Rental) 15% of units averaging 90% AMI (For-sale)

Source: City and County of Denver, 2025. See: https://www.denvergov.org/Government/Agencies-Departments-Offices/Agencies-Departments-Offices-Directory/Community-Planning-and-Development/Plan-Review-Permits-and-Inspections/Development-Fees/EHA-Ordinance-and-Affordable-Housing-Fee#section-4

Program Outcomes

According to City staff, 58 market-rate residential projects have been subject to the EHA ordinance since 2022 and have draft or final affordability agreements in place. Of this sample of projects:

- About 28% (16 projects) opted for enhanced on-site affordability requirements, thereby giving them access to enhanced incentives. Although municipal staff did not have detailed project-level available to share, they noted that 15 projects opted for the enhanced height incentive, and one project requested the enhanced parking reduction incentive (this was prior to the City changing their minimum parking requirements).
- About 60% (35 projects) chose to comply with the on-site mandatory affordability requirements. Although staff were unable to provide detailed information on the usage of the different baseline incentives requested, they noted that, anecdotally, the permit fee reduction was a popular incentive.
- The remaining 12% (7 projects) opted to pay in-lieu fees rather than build units on-site. These projects therefore did not benefit from either baseline or enhanced incentives. Municipal staff noted that the City intentionally set their in-lieu fees at a higher rate than the cost of providing units on-site, and they believed that this is why such a small share of the overall project pipeline chose the in-lieu fee option.
- Also, staff estimated that two thirds of projects that affordable units on-site opted for the lower set-aside at a lower AMI level, rather than the larger set-aside at a higher AMI). Staff heard from developers that they preferred having an overall smaller number of affordable units in their projects, given the relatively minor difference in AMIs (60 vs. 70% for rental, and 80% vs. 90% AMI for ownership).

Municipal staff intend to keep evaluating the program's successes and challenges as additional development activity occurs. For example, they noted that there was an initial adjustment period after the policy went into effect. Some developers delayed project submission, and the program's grace period was extended multiple times, such that there have been delays in some projects complying with the program. Staff also noted that the City has experienced slower residential market activity given recent economic uncertainties, and that the next residential development cycle might provide more data from which to evaluate the program's effectiveness.

City of Minneapolis, MN

Program Overview

The City of Minneapolis' Inclusionary Zoning (IZ) program went into effect in 2020. It is a blended program, with mandatory baseline requirements and a voluntary component that comes with additional incentives. All new residential projects of 20 or more units are subject to the IZ program. Developers are given various on-site and off-site compliance options. The on-site compliance options are as follows:

- 8% of units affordable at or below 60% AMI, for at least 20 years, or
- 4% of units affordable at or below 30% AMI, for at least 20 years, or
- 20% of units affordable at or below 50% AMI, for at least 30 years, and selecting this option provides eligibility for additional incentives described below.

Projects that opt for the third option become eligible for the City's IZ Revenue Loss Offset Program, which is a financial incentive in the form of tax increment financing (TIF) intended to help offset developers' revenue loss related to inclusionary zoning compliance. The state of Minnesota created a particular type of TIF district, a Housing TIF District, to encourage the inclusion of affordable housing in market-rate projects. To access the Housing TIF District benefits, a developer must provide 20% of units at 50% AMI or 40% of units at 60% AMI (mirroring Low Income Housing Tax Credit eligibility requirements). The City of Minneapolis built on this framework, using the same guidelines and thresholds to create its own complimentary Revenue Loss Offset Assistance program, which is tied specifically to the City's IZ policy. Under this program, a developer receives a pay-go note at face value of the land at the time the offset program was granted. Over the term of the TIF agreement, each year the developer pays its full annual tax liability, then receives an annual payment based on the incremental value earned on the net increase in property value. Internal calculation of how much offset financial revenue is allotted is conducted at the County level, while the City confirms that the development remains in compliance with its affordability commitments and then disperses the payment. The cost of the TIF payment is allocated as a line item in the City's budget.

In addition to financial incentives, planning staff also noted that development incentives are also available to projects that opt to build units on-site. These include increased height and floor area ratio (FAR) bonuses, as well as reductions in parking minimums. Projects that opt for the enhanced affordability option (20% of units at 50% AMI) become eligible for double the height and FAR bonus amounts.

In addition to on-site compliance options, Minneapolis' IZ program also offers three offsite compliances options, which require approval by City Council or the Community Planning and Economic Development Department. These are: (1) payment in-lieu fee, (2) offsite construction of units within a ½-mile of the original market-rate project, and (3) donation of land to the City. However, when a project opts for one of these alternative compliance options, they lose the ability to take advantage of any incentives.

Finally, another interesting component of this program is the City's approach to "missing middle" housing. For new residential projects in the 20–49-unit range, the IZ affordability requirements are allowed to be phased in, allowing a grace period of 24 months after a Certificate of Occupancy is issued. City staff will review market conditions every few years to determine if the grace period is needed for medium-scale development feasibility. In their most recent assessment, City planners recommended an extension given the post-pandemic market.

Another important part of the program that was not in the initial policy design but incorporated later on is the inclusion of student housing into the policy. Originally, student housing was going to be exempt but given high stakeholder interest and demand, the inclusionary zoning ordinance now includes a university overlay district, which counts bedroom numbers rather than units for the policy threshold and adds an eligibility provision for students who have a federal Pell grant included in their financial aid package (rather than basing their eligibility on income limits). The IZ requirements do not pertain to university housing, but rather the housing in the neighborhoods adjacent to the campus. This is both to benefit students who cannot or do not want to live on campus, and non-student residents who may not be able to compete for housing in a high-demand university-adjacent neighborhood and its associated price increases.

Program Outcomes

Overall, Minneapolis' IZ program has made significant strides in affordable housing production. During an interview with City staff, they mentioned that in the last few years the City has seen an unprecedented number of affordable units in development.

According to the City's IZ Tracker (last updated August 13, 2025), 26 projects have been subject to the IZ policy since its inception. Of this total, 21 projects opted for the on-site construction of affordable units, 4 opted to pay in-lieu fees, and 1 project opted to provide units off-site. This has generated a total of 249 affordable on-site units, 278 affordable student bedrooms, as well as $6.8 million in in-lieu payments.

Of the 21 projects that provided affordable units on-site, the vast majority (19) opted to provide 8% of units at 60% AMI. Only one project opted to provide 4% of units at 30% AMI, only generating a total of 4 units at this income level. Staff suspect that this may be due to stigma around low-income renters. And, looking specifically at the effectiveness of offering additional voluntary incentives to incentivize deeper affordability, only one project successfully opted for the third option (20% of units at 50% AMI). This project, Groove Lofts, was an office to residential conversion project located at 111 6th Street, with a total of 216 units, including 44 units set-aside as affordable to 50% AMI. The City estimates that this project will receive approximately $6.9 million from the Revenue Loss Offset Assistance program. This project benefitted from already having a complex financing structure, so adding the additional complexity of TIF financing was a relatively low lift. City staff noted that other projects with simpler or more conventional financing may be reluctant to take on the complexity of TIF financing. Another barrier to using the Revenue Loss Offset program is the requirement for prevailing wages in TIF district projects. The increased construction costs associated with prevailing wage jobs was a factor in at least one developer's decision to not participate in the program.

Overall, staff noted that there have only been a few inquiries on the Revenue Loss Offset Program. While a land value capture mechanism like TIF is a creative strategy to fill financial gaps left in the pursuit of deeper affordability, this compliance option poses a learning curve for developers. According to the City planners interviewed, developers have not taken enough advantage of this compliance option due to lack of understanding. They observed that with more conversations with developers about the program, the more interested a developer is in the cost offset compliance option. The hope is that with more educational campaigns on the benefits of a TIF to development projects, there will be a potential uptick in affordable units. Another way the City attempts to reduce barriers to using this program is by providing free-of-charge initial revenue analyses for developers, determining revenue lost from affordable units and anticipated offset revenue payment, without a fee or commitment needed.

Staff also noted that that the high share of projects opting for on-site compliance is most likely due to the alternative compliance options not being as desirable compared to the incentives that become available with on-site compliance.

One of the strengths of the Minneapolis inclusionary zoning program is the City's evaluation and tracking systems. The City has an interactive Tableau analytic dashboard, which helps City planners evaluate metrics of success and promotes transparency and accountability around program outcomes. In addition, the City reevaluates its IZ requirements every 3 to 5 years and recalibrates them if the City's policy objectives are not viable in light of market conditions. In 2025, the City conducted an evaluation of the program and found only modest edits were needed, specifically recommending to the City council additional compliance options. The evaluation also found that the inclusionary zoning ordinance was not the most effective tool to reach deeper affordability, at or below 30 percent AMI, for larger multi-family developments. As such, the City's favored approach is to focus inclusionary zoning efforts on 50 percent AMI households and utilize other programs like the City's Affordable Housing Trust Fund to support deeper affordability development that is coupled with direct services.

City of Kirkland, WA

Program Overview

The City of Kirkland first adopted its Affordable Housing Incentives (AHI) program in 2010.[14] It has gone through several rounds of revisions over the years, including most recently in 2025 with the adoption of the Middle Housing Code Amendments.[15]

This Affordable Housing Incentives program is a blended program, with mandatory requirements and baseline incentives, as well as additional incentives for going above and beyond the minimum requirements.

The program applies differently in low density residential areas compared to higher density multifamily and mixed-use zones. Effective as of January 2027, new residential units of 2,000 square feet or more in low-density residential areas will be subject to mandatory requirements, with the option of paying in-lieu fees – a compliance option which is not available to projects in multifamily and commercial zones. This means that missing middle housing types – such as single-family, duplex, or triplex buildings with units smaller than 2,000 square feet – will not be subject to any requirements.

For the rest of this section, we focus on the AHI program only as it applies in multifamily, commercial, and mixed-use zones. In these zones, the AHI program applies to all new residential projects of 4 or more units. There is a range of options for the mandatory affordability requirement. The most common is 10% of units at 50% AMI for rental projects, or 80% AMI for ownership projects. Projects also have the option of providing 13% of units at 60% AMI or 17% of units at 70% AMI for rental

[14] City of Kirkland Zoning Code, Chapter 112. See: https://www.codepublishing.com/WA/Kirkland/html/KirklandZ112/KirklandZ112.html
[15] City of Kirkland Ordinance O-4905. See: https://www.codepublishing.com/WA/Kirkland/ords/Ord4905.pdf

projects, or in the case of ownership projects, 13% of units at 90% AMI or 21% of units at 100% AMI.

Projects that are subject to the mandatory affordability requirements are eligible for certain baseline incentives. These are somewhat complex as they vary by district but generally include:

- A mix of height and/or density bonuses, as well as modest relief from other dimensional standards such as parking, setbacks, and maximum lot coverage.
- An 8-year multifamily tax exemption (MFTE)
- An exemption from certain permitting fees and school impact fees.

Projects that go above the minimum affordability requirements also benefit from additional incentives. In contrast to the Denver's EHA program, no clear 'enhanced affordability requirements' threshold is defined – it is only noted as "applicants providing a greater number of affordable housing units or a greater level of affordability than is required by this code". Those projects become eligible for the voluntary additional, voluntary incentives:

- A 12-year (instead of 8-year) multifamily tax exemption (MFTE)
- Exemption from traffic impact fees and park impact fees
- Additional relief on zoning standards on a discretionary basis.

Finally, one interesting element of Kirkland's program is that new transit-oriented (TOD) districts have what is called a "pioneer provision". Once a set number of units is approved in these TOD areas (about 600 units), the mandatory affordability requirement will increase from 10% to 15% of units required to be set aside as affordable. This is meant to encourage early residential development projects in new TOD areas, while also ensuring longer-term affordability goals as these areas develop and mature.

Program Outcomes

Based on an interview with municipal staff at the City of Kirkland, we learned that the AHI program has generated several hundreds of units over the last fifteen years. Although the City does not track detailed project-level data on what incentives were offered (whether baseline incentives or additional voluntary incentives), one of the City's partner organizations, A Regional Coalition for Housing (ARCH), does track affordable housing production from the AHI program. ARCH acts as a regional housing services office, providing shared affordable housing services and administration across multiple municipalities in King and East King Counties, WA.

According to data shared by ARCH, an estimated 40 multifamily projects have been subject to Kirkland's AHI program, generating about 460 affordable units. Of this total:

- Most projects (36 projects) opted for the mandatory affordability requirements. These projects have helped create about 310 affordable units.
- Only four projects opted for the enhanced affordability requirements, equivalent to about 150 affordable units. This includes one 100 percent affordable housing project, which accounts for most of these units, as well as three medium-sized projects that chose to voluntarily include between 17-21% of their units as affordable.

MAPC and the City of Watertown were originally interested in this case study due to Kirkland's market position as an inner ring suburb of Seattle – which may be more comparable in terms of market conditions to Watertown than, say, Denver or Minneapolis.
However, upon further examination, it appears that Kirkland's program has been more successful in terms of its mandatory IZ elements, which does target a relatively low AMI (50% for rental). Based on our interview with municipal staff and based on the data provided by ARCH, it does not appear that the additional voluntary incentives have played an outsized role in affordable housing production, though they do appear to have had limited success in encouraging a handful of projects.

City of Salt Lake City, UT

Program Overview

The City of Salt Lake City adopted its Affordable Housing Incentives program (AHI) in 2023, and the program went into effect in April 2024.[16] The AHI Program is fully voluntary – in fact, mandatory inclusionary zoning is not permitted in the State of Utah, so affordability requirements can only be required in exchange for some form of benefit.

All new residential projects, regardless of project size and tenure, are eligible to take advantage of the AHI program. It is structured around three different incentive packages, each associated with specific zoning districts. The Type A incentive package is for lower density residential zones, and the Type B and Type C packages are geared towards mid and high-density residential areas and mixed-use/commercial zones.

The AHI program is designed with significant flexibility, as summarized in Table 4. Each incentive package offers a variety of incentives – the primary ones being additional height (between 1-3 stories depending on the district), streamlined administrative review, reduced parking requirements, and additional relief from other dimensional standards. In lower-density areas, incentives allow for missing middle housing types, up to 4 units, with relief from related dimensional standards.

There is also significant flexibility in how the affordability requirements can be met by applicants. Each incentive package is associated with different affordability options to choose from, with a mix of set-aside, AMI, and unit size requirements. In particular, the Type C package, which is where most multifamily development activity occurs in Salt Lake City, includes options for deeper affordability options (as low as 30% AMI) and larger unit types (2-bedroom and 3-bedroom units).

Figure 40. Salt Lake City Affordable Housing Incentives incentive packages and affordability requirements

Incentive Package	Affordability Requirements	Incentives Available
Type A: Single- and Two-Family Zoning Districts	**Homeownership:** 50% of units at <100% AMI **Rental:** 50% of units at <80% AMI	**(1) Additional housing types allowed.** Two, three, four family dwellings, row houses, sideway row houses, cottage

[16] Salt Lake City Zoning Ordinance Chapter 21A.52 and Salt Lake City Affordable Housing Incentive Guide. See: https://codelibrary.amlegal.com/codes/saltlakeCityut/latest/saltlakeCity_ut/0-0-0-100754 and https://www.slcdocs.com/Planning/Guides/AHI_Handbook.pdf

	Provisions also exist for additions to existing buildings	**(2) Density.** Lots may contain up to four units; additional flexibility around division of lots and minimum lot area for new lots. **(3) Arrangement of dwellings.** More flexibility for new construction or adding units to an existing building. **(4) Parking.** Only one off-street parking space per unit is required. **(5) Yards.** Apply to the perimeter of the property, not the principal building.
Type B: Residential Multifamily Zoning Districts	**Homeownership:** -10% of units at <80% AMI OR -5% of units at <60% AMI **Rental:** -40% of units at <60% AMI OR -20% of units at <50% AMI OR -40% of units at an average of 60% AMI, with 80% AMI as the maximum allowable income	**(1) Density.** The qualifying provisions for density found in the minimum lot area and lot width tables for the RMF-35, RMF-45, and RMF-75 zoning districts do not apply. In the RMF-30 zoning district, the minimum lot size per dwelling unit does not apply. **(2) Unit Mix.** No more than 25% of the units in the development may be less than 500 square feet to promote a mix of unit sizes. **(3) Parking.** Only one off-street parking space per unit is required for developments with fewer than 10 units. The City's off-street parking requirements apply when there are more than 10 units **(4) Yards.** The minimum required yards apply to the perimeter of the properties in the development and not to the individual principal buildings within the development. **(5) Lot Width.** The minimum lot area and lot width identified in the zoning district tables do not apply
Type C: Other Zoning Districts (Downtown and mixed-use commercial districts)	**Homeownership:** -10% of units at <80% AMI OR -5% of units at <60% AMI **Rental:** -20% of units at <80% AMI OR -10% of units at <60% AMI OR -10% of units at an average of 60% AMI, but no more than 80% AMI of income, OR -10% of units <80% AMI and these units must be 2-BD or larger -5% of units at <30% AMI OR	**(1) Additional housing types.** For certain districts only within Type C, additional housing types are allowed such as row houses and cottage developments. **(2) Administrative design review.** For certain districts only within Type C, Planning Commission hearing is not required. **(3) Additional height.** Additional height is permitted based on the specific zoning district within Type C, generally ranging from 1 to 3 additional stories, or a maximum height specified (ranging from anywhere from 45' to 375').

	-5% of units at <60% AMI and these units must be 2-BD or larger, OR -5% of units at <80% AMI but must be 3-BD or larger	

Program Outcomes

Because the AHI program has only been active since mid-2024, municipal staff interviewed expressed that it is too early to evaluate the program's effectiveness. Furthermore, staff shared that market conditions have shifted in the last two years. While Salt Lake City experienced high levels of residential development activity through 2023, with thousands of multifamily units coming online during this time period, market activity has slowed down in 2024 and early 2025, making it harder to evaluate the effectiveness of the AHI Program. If there isn't significant market-rate development activity to begin with, it becomes difficult to evaluate the success of a voluntary program.

On the multifamily side, municipal staff estimated that, to date, seven projects have applied for AHI incentives. These projects are listed in Table 5. It is noteworthy that six of the seven projects are 100% affordable housing projects. Staff hypothesized that, though the AHI program represents a real benefit to these projects, they would have likely moved forward eventually anyway, even without the incentives. In terms of the incentives requested, five of the seven projects requested additional height, and two projects requested administrative review. Note that some of the projects listed in Table 5 are still in the review process.

More limited information was available regarding single-family and two-family zone projects. Staff estimated that, to date, two ownership projects and five rental projects have submitted AHI application requests.

Figure 41. Affordable Housing Incentives Program Applications, Multifamily (Type B and Type C)

Project Name or Address	Total Units	Affordable Units (and % of total)	Affordability Level	Status	Incentives
947 W South Temple	108	108 (100%)	< 60% AMI	Approved	One additional story
509 W 300 N (Citizens West)	52	50 (96%)	25-50% AMI	Approved	One additional story and 25% reduction in parking
1881 W North Temple (The Cooperative)	198	198 (100%)	< 60% AMI	In Process	Two additional stories
826 W Emeril	140	140 (100%)	< 60% AMI	In Process	One additional story
390 W 1300 S	96	96 (100%)	< 60% AMI	In Process	Administrative review (no Planning Commission)

2257 S 1100 E (Fairmont Heights)	110	110 (100%)	Senior housing; income averaging	In Process	Administrative review (no Planning Commission)
916 S 200 W (The Amelia)	144	29 (20%)	< 80% AMI	In Process	One additional story
Total	***848***	***721 (85%)***			

Source: Data manually collected by MAPC staff from the City of Salt Lake City Citizen Access Portal, accessed October 2025: https://aca-prod.accela.com/SLCREF/Default.aspx

City of Iowa City, IA

Program Overview

The City of Iowa City, IA, adopted the Tax Exemption for Affordable Housing program in 2019. This voluntary program provides a 10-year, 40% property tax exemption (on all property tax, including, City, county, and school district) for new rental residential projects of 6 or more units. In exchange, projects must make at least 15% of their units affordable to households earning 40% AMI or less. The original vision for this program was to encourage mixed income development. This is a fully voluntary program, as the State of Iowa does not allow mandatory inclusionary zoning.

MAPC and the City of Watertown were originally interested in this program given that Iowa City is a smaller residential market and given that this specific program is one of few fully voluntary incentive programs that we could find that target AMIs below 50% AMI. However, as described in more detail below, this program has not been effective in producing affordable units. Instead, through our conversation with Iowa City staff, we were informed of other programs that have had more success, including their Riverfront Crossing District upzoning effort, and the Tax Increment Financing for Residential Development program. Both are also fully voluntary programs, but they both target higher income levels.

The Riverfront Crossings District is a redevelopment area south of downtown Iowa City. In 2008, the Iowa River experienced significant flooding, which caused damage to the City's wastewater treatment plan. In response, the City decided to relocate the treatment plant, thereby freeing up a large swath of land for redevelopment. This was the catalyst for the redevelopment of the Riverfront Crossings District and surrounding parts of downtown. Over the following years, the City adopted a master plan for the area, and subsequently new form-based code zoning amendments.[17]

As part of this process, the Iowa City Council also established an Affordable Housing Requirement for all new residential development in the Riverfront Crossings District of 10 or more units. Although inclusionary zoning is not permitted in the state, this affordable requirement was put in place in exchange for the upzoned zoning capacity permitted by the newly adopted zoning amendments.[18] The increased heights permitted by the upzoning process vary by subdistrict but are generally 6 or 8 stories. In exchange for this height, projects must provide at least 10% of units affordable at 60% AMI (rental) or 110% AMI (homeownership) for at least 10 years. Alternative forms of

[17] Iowa City Municipal Code, Title 14 Zoning Code, Chapter 2, Article G: https://codelibrary.amlegal.com/codes/iowaCityia/latest/iowaCity_ia/0-0-0-20886

[18] Iowa City Code of Ordinances 14-2G-8.

compliance include in-lieu fee payment, land donation, or offsite construction of affordable units. The in-lieu fee is recalibrated every two years, and it is based on the difference between renting a market-rate unit and renting an income-restricted unit. In-lieu fee revenue raised by the City can only be spent in the Riverfront Crossing District area. As of 2022, the in-lieu fee was set at $112,853 per affordable unit.

The Tax Increment Financing for Residential Development program resembles a more classic TIF program and only applies to Iowa City's designated "urban renewal" areas, including the Riverfront Crossings District. In exchange for tax increment financing benefits, multifamily projects must provide at least 15% of units at 60% AMI or below for at least 20 years for rental projects (or 110% AMI for homeownership projects). Subject to discretionary review, an in-lieu payment or offsite construction of affordable units may be provided instead of building affordable units on-site.

Program Outcomes

Municipal staff from the City of Iowa City shared that the Tax Exemption for Affordable Housing (TEAH) program has not been used a single time since its adoption. A few inquiries came in from 100% affordable housing projects, but these projects ended up utilizing alternative local funding sources since they often required a larger subsidy to fill their funding gap.

Staff hypothesized that market-rate developers were uninterested in the TEAH program for two reasons: first, the 40% AMI level was generally perceived as too low for mixed-income market-rate development, as this type of income restriction usually comes with other needs such as additional operating expenses. Stigma around lower income households could have also been at play. Second, staff noted that the financial value of a 10-year property tax exemption did not sufficiently offset the loss revenue that would be incurred by 15% of units at 40% of AMI.

Municipal staff explained that their other voluntary affordable housing incentive programs – Riverfront Crossings and TIF – have had more success. As shown in Table 6, thirteen projects have taken advantage of the Riverfront Crossing upzoning and five have utilized the TIF program, which together have generated 83 affordable units and $7 million in in-lieu fees. Staff hypothesized that one of the main reasons for the success of these two programs over TEAH is that they targeted higher AMI levels – 60% AMI instead of 40% AMI.

In light of the varying success of these programs, municipal staff noted that market-rate developers seem unlikely to voluntarily provide very-low or extremely-low income units, even in exchange for incentives. Staff shared that in response to these learnings, the City is considering new strategies to achieve the creation of these types of units, such as working more closely with the Housing Authority and other nonprofit developers.

Figure 42. Riverfront Crossing District and Tax Increment Financing for Residential Development Projects

Project Name	Policy	Tenure	Affordable Units under Compliance	Fee-in- Lieu Paid
Orchard Court Lofts - 62.7 Orchard Ct	RFC	Rental	5	-
Dubuque St Apartments - 620 S. Dubuque	RFC	Rental	5	$28,396
1301 Gilbert Street	RFC	Rental	5	-
Breckenrid - 707 S Dubuque St	RFC	Rental	-	$404,360

Del Ray Ridge - 628 S. Dubuque St	RFC	Rental	3	-
1131 S. Gilbert	RFC	Rental	6	-
1121 S. Gilbert	RFC	Rental	5	-
1141 S. Gilbert	RFC	Rental	6	-
1201 S. Gilbert	RFC	Rental	6	-
225 E. Prentiss	RFC	Rental	5	-
Gilbane Development - 700 block S Dubuque	RFC	Rental	-	$2,821,325
Scannell Properties - Riverside/Myrtle	RFC	Rental	-	$2,038,439
The Edge - 314 S Clinton St	TIF & RFC	Rental	2	$323,488
Riverview West - 629 S. Riverside Dr	TIF	Rental	12	-
Augusta Place - 20 S. Gilbert	TIF	Rental	6	-
Augusta Place - 104 Westside Dr (offsite units)	TIF	Rental	12	-
The Chauncey - 404 E. college St.	TIF	Rental	5 (under HA)	-
Tailwinds - 100 block E. College St.	TIF	N/A	-	$1,805,648
Total RFC	**13**		**48**	**$5,292,520**
Total TIF	**5**		**35**	**$1,805,648**
Total	**18**		**83**	**$7,098,168**

RFC: Riverfront Crossing; TIF: Tax Increment Financing.
Source: City of Iowa City, data provided in October 2025.