MEMORANDUM

TO:	Russ Williston
FROM:	Judi Barrett
RE:	Planning Board Questions/Comments
DATE:	February 7, 2021
CC:	Deborah Dennis, Orlando Pacheco

In no particular order, I offer the following information in response to the comments and questions you forwarded to me. Any items not responded to in this memo are questions we cannot answer or questions that rely on assertions we disagree with.

- The affordable rents are correct. They are from MassHousing's 2020 Income & Rent Limits for 19 Massachusetts Income Limit Areas," selected for Eastern Worcester County. www.masshousing.com/developers/developer-library

- We have re-run our analysis twice with the adjusted Eastern Worcester County income limits and rents. The analysis is consistent and remains as presented in the updated report.

- Our pro forma models and the market rental data we use are licensed, proprietary services. If the Planning Board wants to conduct its own modeling effort, there are publicly available spreadsheet models online, notably the "OneStop" spreadsheet application developers are required to use to apply for multifamily financing approval at MassHousing and other state agencies. An interested board member could also consider registering for a multifamily pro forma analysis course with the Urban Land Institute, as it is one of the best courses we have seen. Finally, consider seeking input from a regional commercial real estate lender that has financed a few projects in your part of the state, e.g., Middlesex Savings. The lenders can tell you what has worked and what their financing requirements are, and the information they require in order to determine that a project is feasible.

- Maximum affordable housing purchase prices were estimated based on Department of Housing and Community Development (DHCD) guidelines. A higher maximum affordable purchase price can be arrived at with assumptions such as those used by MHP's OneMortgage program, but you cannot assume that OneMortgage will always be available. It is not used as a pricing formula for affordable units in new developments.

- Should you decide to adopt an analysis of your own, the most important advice we can offer is this: limit the land acquisition portion of your cost analysis to a maximum of $35,000 per unit for mixed-income rental housing, and less in an area that lacks public water or sewer service. You may be able to increase the land cost per unit somewhat for a mixed-income ownership development. The challenge in your town is the lack of construction-ready land: land with direct access to water and sewer service and effective zoning for multi-family development. As you probably know, these constraints exist in several other towns in HUD's Eastern Worcester market rent area, which largely explains why your subregion has not seen lots of Chapter 40B rental activity. In any case, we tried but could not make any pro forma work under your existing regulations.

- We have been a bit concerned that we underestimated the vacancy rate. The going-rate assumption in multifamily pro forma analysis is 5 percent, but according to CoStar today, the average vacancy rate in the Northeast Worcester area (similar to HUD's Eastern Worcester County boundaries) has been running about 9.8 percent. This could contribute to the subregion's very limited growth in rental stock, but clearly, a market study is beyond our scope. We hesitate to suggest that you use a less optimistic rate than 5 percent because newer "Class A" properties with more amenities like 92 on North Main in West Boylston appear to be performing well (0 percent vacancy). As the Northeast Worcester market comps move closer to Worcester, the rents tend to run somewhat higher and the vacancies drop.

- You have asked if the Town should consider a Chapter 40R district in the vicinity of South Lancaster. If that is where Lancaster has water and sewer service, it could be the most appropriate place to look. However, you may wish to engage Montachusett Regional Planning Commission's (MRPC) or a private planning consultant to prepare a Chapter 40R site suitability planning study if you haven't already done so. Infrastructure conditions really matter, and the Town has to decide if it wants a district that allows at least 20 units per acre as of right. We know of a very-small-town Chapter 40R district that was created in the only location in the entire community that had access to public water, and it happened to be available through a connection to the neighboring town's water system. Without water, the project wasn't feasible and DHCD could not have approved the district.

  There are many examples of mixed-income ownership and rental developments that were feasible to build without public sewer service as long as they had access to public drinking water. That said, there are also some examples of mixed-income rental developments that helped to pay for the extension of sewer service to an area where the community wanted to provide it. One of the best examples I know of is Avalon Northborough, which is next to Northborough Crossing. It was Avalon Northborough, not the commercial project, that extended sewer service through the town center and down Route 20.

- You have asked about a "fee in lieu of units" under inclusionary zoning. Inclusionary zoning "fee in lieu" formulas have been under *lots* of scrutiny lately. Boston, Somerville, Cambridge, and Newton – all early proponents of inclusionary zoning – have updated their ordinances in the past eight or nine years, including adjustments to the fee formula. Some of the formulas in use today are quite complicated and they require in-house expertise in multifamily development. We have a few suggestions:
  - Use the median household income that is appropriate for the size of the unit as a multiplier, e.g., for a one-bedroom unit, consider a fee that is twice the one-person income limit ($54,950 x 2 = $109,900)
  - Ask your assessor to provide the three-year median sale price for a range of unit types and use the most closely comparable unit as the basis for your fee in lieu on a project-by-project basis. This would mean having a fee schedule with three-year median sale price for three-

bedroom single-family homes and four-bedroom single-family homes, and one-, two, or three-bedroom condominiums. The three-year median helps because it will adjust for one-year aberrations in the market.

Both of the methods mentioned above offer the advantages of simplicity and ease of access to the required information. The result is not a fee that will cover 100 percent of the cost to build a comparable replacement unit. However, as you can probably imagine, $109,900 would be a significant boost to a non-profit trying to build a small rental project in your community. If used as a financing source, it could support much more than one unit.

- If you decide to pursue a fee-in-lieu option, be sure to establish (if Lancaster hasn't done so) an Affordable Housing Trust Fund.

Inclusionary zoning may be very helpful to you if you write it in a way that can succeed. We maintain that if you create a district (Chapter 40R or Chapter 40A is entirely your call) that allows a reasonable density bonus as of right, you could have something that works – at least for homeownership affordability if not rental. Lancaster is an exceptionally pretty town. Whatever you decide to do, we recommend that you take a geographically targeted approach where additional density can be accommodated by design.