

# CITY OF PORTSMOUTH, NH

## INCLUSIONARY ZONING FEASIBILITY ANALYSIS

RECOMMENDATION PRESENTATION  
APRIL 18, 2024

PRESENTED BY:  
KYLE TALENTE, PRESIDENT

# BACKGROUND



The City of Portsmouth seeks to better understand the financial realities of implementing an inclusionary zoning (IZ) policy

Such policies would require residential developers to set aside a percentage of income-restricted units within new construction projects

By allocating a proportion of income-restricted units, developers would experience reduced financial returns due to lower revenue streams

This analysis provides an understanding of the potential impact to financial feasibility of potential residential developments

# RECOMMENDATIONS

## TARGET SET-ASIDE AND TARGET INCOME THRESHOLD

RKG recommends an initial IZ setting of 10% unit set-aside at 80% of Area Median Income for rental development.

- Tests positively across the City
- Can build upon this threshold over time (annual, biennial reviews)
- Can consider 15% set-aside with wood-frame construction

Ownership IZ policy should target 10% unit set-aside at 120% of Area Median Income

- Financial impact greater for ownership development
- Targeting lower AMI levels can create hardship



# RECOMMENDATIONS

## SLIDING SCALE EQUIVALENCIES

Adjusting the target Area Median Income will require adjusting the set-aside rate to maintain financial equivalency

- Lower AMI targets better for well served locations
- Transportation, services, jobs, shopping
- Lesser-served areas may require a car

Changing market conditions will impact these relationships over time requiring the City to revisit these thresholds periodically (RKG recommends annually)

- Increasing/decreasing construction costs
- Increasing/decreasing operating costs
- Increasing/decreasing revenues
- Changing financial market fundamentals

FINANCIAL EQUIVALENCIES	
TARGET AMI	SET-ASIDE RATE
80%	10.0%
70%	8.0%
60%	7.1%
50%	6.7%
40%	5.8%
30%	5.3%

# RECOMMENDATIONS

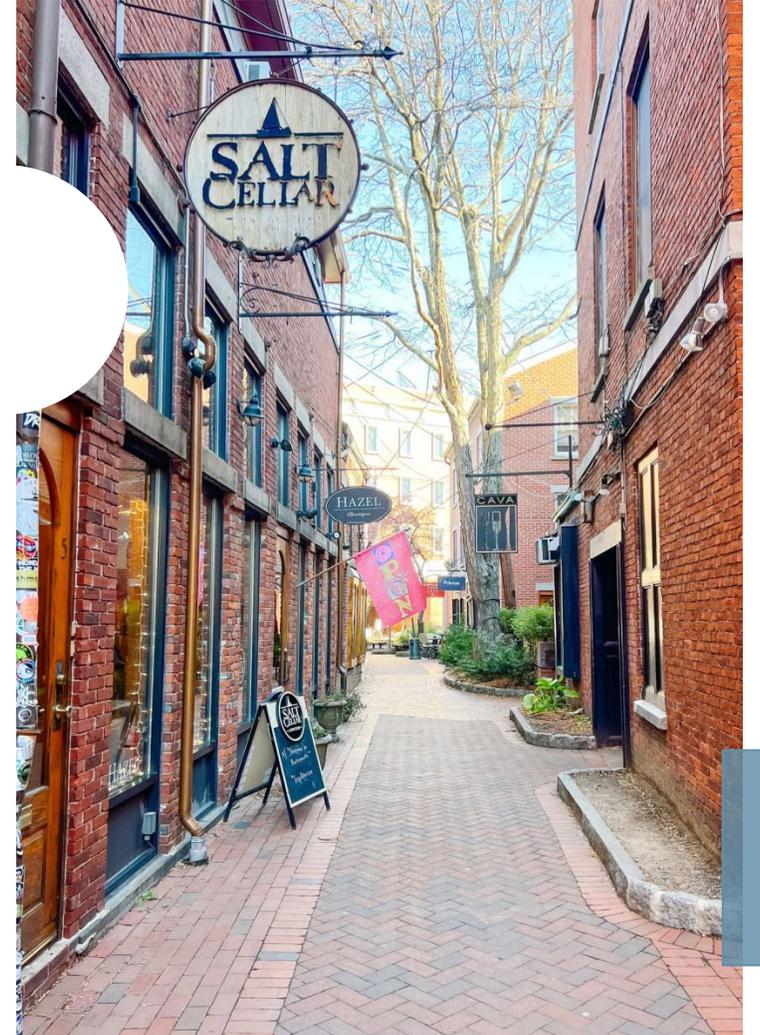
## PARTIAL UNIT RULE

RKG recommends the City establish a partial-unit rule that requires a cash contribution to a housing trust fund for partial unit calculations

- Rounding up is financially punitive
- Partial unit impacts projects the same no matter size
- Allows the IZ policy to apply to all projects – ‘fair share’

RKG recommends the City consider a minimum project size if it opts for one of the other approaches (round-up or hybrid)

- Smaller projects are more sensitive to affordability impacts
- A 4-unit project with no affordability is financially stronger than a 5-unit project with 1 affordable unit
- Will incentivize developments that do not maximize density



# RECOMMENDATIONS

## ALLOWING A FEE-IN-LIEU OF DELIVERING A UNIT

Some communities consider a cash contribution instead of delivering an income-controlled unit required under an IZ policy

- Developer makes a one-time payment to a housing trust fund

Allowing a payment-in-lieu offers flexibility for the City if there is a benefit to taking a cash payment instead of a unit

- Used to help finance other housing projects (e.g., LIHTC)
- Capitalize housing-related programs (e.g., downpayment assistance)

RKG does not recommend payment-in-lieu

- Goal of IZ is inclusion and diversity
- If City does allow payment-in-lieu, it should be at the City's discretion
- Set payment level at a rate **AT LEAST** consistent with financial gain for the developer (value gap) to avoid over use of option



# RECOMMENDATIONS

## CALCULATING THE VALUE OF A UNIT

Value gap calculation focuses on the difference in unit value between a market rate unit and an income-controlled unit

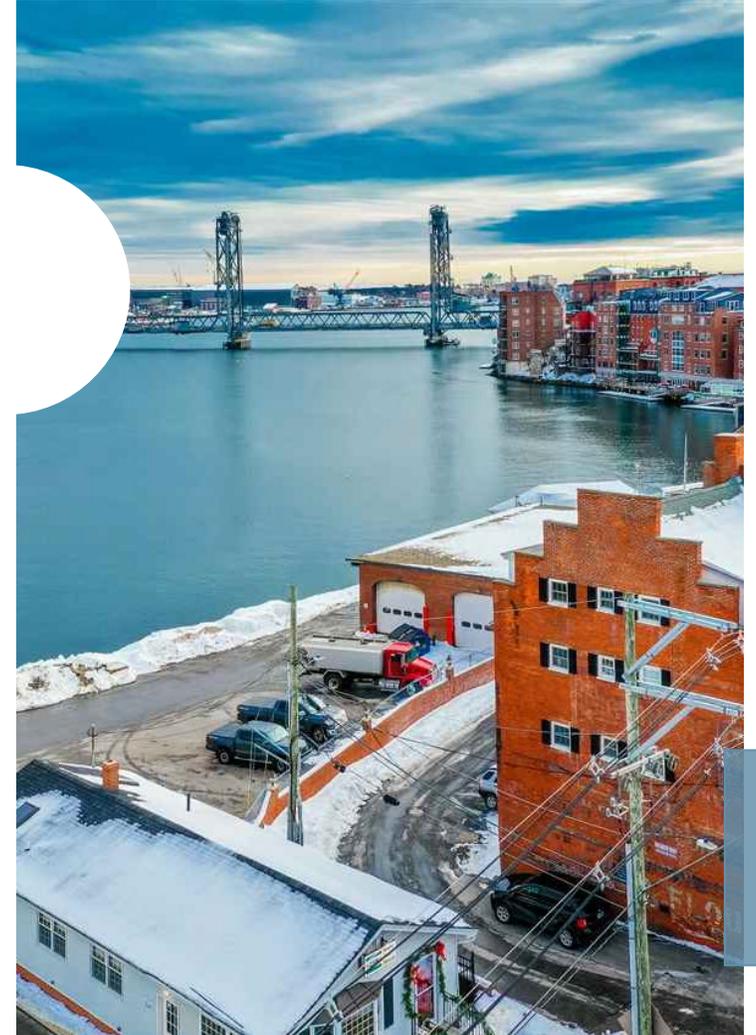
- Reflects the 'true' value creation (or loss) between a market rate unit and an income-controlled unit

Construction cost calculation returns the financial need to build a unit regardless of revenue potential (market rate or income-controlled)

- What would the cost be if I had to build this unit myself?
- More punitive to a development

Both approaches have strengths and weaknesses, and will impact how the market reacts to the IZ policy

- RKG recommends using the value gap approach for partial units
- RKG recommends using construction cost for a payment-in-lieu policy



# RECOMMENDATIONS

## OTHER POLICY CONSIDERATIONS

### Using Housing Vouchers within the IZ policy

- Some communities incorporate housing voucher units as part of the IZ unit delivery requirement
- Lowers target AMI averages while increasing revenue numbers (voucher payment subsidy)
- This is a more complex option that will require coordination with PHA
- Should consider this as part of a policy update, giving time to setup the process more thoroughly

### Recalibration of the IZ Policy Requirements

- Market conditions and community priorities can (and will) change over time
- Revisiting the City's IZ policy should be an annual (or at least biennial) occurrence
- To Do List:
  - Recalibrate requirements based on changing market dynamics
  - Consider additional options (e.g., voucher use) as City's sophistication and capabilities improve
  - Adjust policies (e.g., payment-in-lieu) if desired outcomes change OR policy is not meeting intended outcome

# RECOMMENDATIONS

## OTHER POLICY CONSIDERATIONS

### Development Approval Process

- Getting a project through the approval process takes time and money
- Establishing hard timelines for approval of an IZ project can reduce cost and improve financial feasibility
- This option should be considered with the City's other development priorities to determine appropriateness

### Incentives Tied to IZ

- Implementing an IZ policy inherently impacts the financial feasibility negatively, as income-controlled units deliver lower revenues to a developer than market rate units
- Targeting a 'revenue neutral' policy balances the delivery of income-controlled units with mitigating the potential to reduce residential development
- Considering policy and financial incentives should be part of the City's decision making for IZ
  - Density bonuses
  - Tax abatements
  - Direct investment
  - Housing trust fund

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