INCLUSIONARY ZONING FOR BELMONT:

The Public Need and the Private Exaction

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This study presents an examination of the proposed commercial dollar exaction contained in Belmont's inclusionary zoning bylaw and the impacts which new business development has on the affordability of housing in Belmont. The question to be addressed is whether there is a rational connection between the impacts that can be expected and the exaction imposed in response to those impacts.

The essential nexus between the proposed Belmont inclusionary zoning bylaw and the proposed exaction involves the upward pressure on housing prices associated with new business development in a community; the displacement of existing affordable units by new Town residents; and the exhaustion of available property on which to develop affordable housing.

The proposed Belmont inclusionary zoning bylaw presents business developers in Belmont with the option of including a designated number of affordable housing units in Belmont as a function of the number of square feet developed. The Belmont bylaw continues, however, to allow the developer the option of "buying out" the affordable housing requirement through payment of a fee (calculated on a per square foot basis) in lieu of the provision of housing units. The payment of the fee is an alternative to the provision of affordable housing units. It is an option to be exercised at the discretion of the developer.[1]

The analysis presented in Section I below considers the rationality of the number of units to be provided by developers pursuant to the Belmont bylaw. Section II considers the rationality of the optional dollar exaction. Section III presents conclusions.

SECTION I:
THE RATIONALITY OF THE AFFORDABLE HOUSING REQUIREMENTS

Belmont's inclusionary zoning bylaw proposes that business developers provide one unit of affordable housing for each 5,000 square feet of business development or proportion thereof. The first 5,000 square feet of development are exempt. Any number of units reaching 0.5 units or more is rounded to the next whole number. Hence, if a business development would result in the requirement of 1.5 units, the bylaw provides for that requirement to be rounded to two units.

Business development is generally considered to generate one job for each 250 square feet of development (or four jobs per 1,000 square feet). Given Belmont's 5,000 square foot minimum development to which the inclusionary zoning bylaw applies, a new development at the minimum size can be expected to generate 20 new jobs.[2]

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1 All inclusionary zoning requirements for business development apply only to developments requiring special permits allowing an increase in the density or intensity of use. All references in the discussion below to Belmont's inclusionary zoning bylaw should be read with the recognition of this limitation in applicability.

2 These new jobs are the direct jobs generated. As developments become larger, there will be additional indirect jobs generated, as more dollars are funneled into the area's economy. These dollars will "multiply" through the local economy thus having indirect, secondary, job generation impacts. The failure to discuss these additional impacts is not to indicate that they will not occur.

In some communities, workers might hold more than one job and an adjustment needs to be made to convert the number of jobs into the number of new workers. Multiple jobholders, however, are not a common occurrence in Belmont. Each Belmont development generating 20 new jobs will generate 20 new workers.

Not all persons who work in Belmont will live in Belmont. However, some persons who do not live in Belmont fail to do so because they cannot afford to do so rather than because they do not desire to do so. Based on Census data from the 1990 Census – data from the 2000 Census is not yet available – specific to the town of Belmont, 22% of all workers have been found to live or desire to live in Belmont. Of each 20 new workers associated with a 5,000 square foot business development, therefore, 4.3 will be additional Belmont residents.

Because Belmont households have multiple workers, each new worker will not necessarily represent an independent household. Census data indicates that Belmont households have 1.3 workers per household. Each 5,000 square feet of new business development in Belmont will thus add three new households.

Given a median home price of $440,000 as of December 2000, a household would require an annual income of $148,593 to afford to purchase and maintain a home in Belmont. Fewer than ten percent (10%) of Belmont residents have such incomes. Assuming that new Belmont households generated by the new development reflect Belmont incomes generally – this likely overstates the incomes of workers in jobs domiciled in Belmont – each of the three new households generated by the new business development would require a housing subsidy to find affordable housing in Belmont.

Belmont may, as a matter of policy, decide to offset less than the entire need for new affordable housing generated by new business development in the Town. Given the calculated need for three new affordable units for each 5,000 square feet of new business development, it is reasonable for Belmont to adopt an inclusionary zoning bylaw that requires one new unit of affordable housing for each 5,000 square feet of development.[3]

SECTION II:
THE RATIONALITY OF THE ALTERNATIVE BUY-OUT PROVISION.

The proposed Belmont bylaw provides for an alternative buyout provision of a business developer's affordable housing contribution. A developer of business property in Belmont may, at his or her discretion, exercise an option to pay a fee of $2/square foot for new development.[4] The rationality of this fee can be tested in two ways. First, it is possible to examine the subsidy needed to hold the Town harmless *vis a vis* the new number of Belmont residents generated by the development whose income would be

The quantification and consideration of these secondary impacts is simply beyond the scope of this discussion.

3 Development of 5,000 square feet or less is exempt.

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insufficient to afford housing in Belmont. Second, it is possible to examine the impact of the new development on Belmont rental prices.

A. Subsidy Needed for Affordable Ownership Housing for New Residents.

As documented above, each 5,000 square feet of new business development in Belmont will generate three new resident households requiring a subsidy in order for owner-occupied housing to be within their financial means.

The median price of housing in Belmont as of December 2000 was $440,000. Assuming a 10% downpayment, a conventional 30-year loan, and an interest rate of 8.5%, an annual income of $148,593 would be required to purchase a home at that price.

The average household income in Belmont is roughly $62,500. Assuming that the income of new Belmont residents will reflect this average income, each new Belmont resident household generated by new business development would require a subsidy of $86,086 to provide affordable housing. For each 5,000 square feet of new business development, therefore, with its three new Belmont resident households, a total of $258,214 in subsidy would be required to provide affordable housing. In the absence of such subsidy, the new Belmont resident households generated by the business development could be expected to take an affordable unit available to a current Belmont resident. The new business development would adversely affect Belmont's affordable housing mix in this regard.

To completely offset the adverse impacts of new business development on the affordability of Belmont's housing for existing residents, each new 5,000 square feet of business development would need to provide an exaction of $51.64 per square foot of new development ($258,214 / 5,000 = $51.64).

Belmont may, as a matter of policy, decide to offset less than the entire need for an affordable housing subsidy generated by new business development in the Town. Given the calculated need for a subsidy of $51.64/square foot for each 5,000 square feet of new business development, it is reasonable for Belmont to adopt an inclusionary zoning bylaw that provides the developer with the option of paying a fee in lieu of providing affordable housing units. So long as the fee is equal to or less than $51.64/square foot, the optional buyout fee can be said to have a rational relationship to the need for affordable housing created by the new development.

B. Subsidy Needed for Affordable Rental Housing for New Residents.

As documented above, each 5,000 square feet of new business development in Belmont will generate three new resident households in Belmont. It is possible to calculate the impact, which such an addition of new residents will have on rental prices in Belmont.

Belmont has 3,900 rental units. An addition of three new Belmont renters would thus represent an additional 0.1% of rental demand. Assuming that the price elasticity of demand is 1.0 – indicating that rents are inelastic, an extremely conservative estimate – *monthly* rental increases for a $1,500 unit in Belmont would equal $1.24 per each 5,000 square feet of new development (an *annual* increase of $14.88 per each 5,000 square feet of new development).

The total rental increases paid in Belmont as a result of each 5,000 square feet of new business development are thus $19,884, or $3.98 per square foot of development ($19,884 / 5,000 = $3.98).[5]

Belmont may, as a matter of policy, decide to offset less than the entire need for an affordable housing subsidy generated by new business development in the Town. Given the calculated rental affordability impact of $19,884 for each 5,000 square feet of new business development ($3.98/square foot), it is reasonable for Belmont to adopt an inclusionary zoning bylaw that provides the developer with the option of paying a fee in lieu of providing affordable housing units. So long as the fee is equal to or less than $3.98/square foot, the optional buyout fee can be said to have a rational relationship to the need for affordable housing created by the new development.

SECTION III:
CONCLUSIONS AND RECOMMENDATIONS

Belmont's inclusionary zoning bylaw has two components to it relative to new business development. The first component provides that any business development of 5,000 square feet or more must include, as part of the development, one unit of affordable housing for each 5,000 square feet of new development. The second component provides that a developer subject to this affordable housing requirement may choose, at the developer's discretion, to buy-out this affordable housing requirement through payment of an exaction into an affordable housing trust fund.

Belmont may, as a matter of policy, choose to set its affordable housing requirement at less than that which would be merited by the housing affordability impacts which new business development would generate for the Town.[6] Belmont's inclusionary zoning bylaw does precisely that.

5 A larger development would yield larger annual rent increases for each rental unit. A 30,000 square foot development, for example, would yield an annual increase in rents of $89.27 per rental unit, or $119,304 for the Town as a whole. The affordability impact per square foot of new development, however, remains the same, $3.98 ($119,304 / 30,000 = $3.98).

6 In calculating the impacts on rents and owner-occupied housing, this analysis is not intended to offer any opinion as to whether any developments generating such impacts are "good" or "bad."