

**MEMORANDUM**

To: Yi-An Huang, City Manager

From: Melissa Peters, Assistant City Manager for Community Development
Christopher Cotter, Chief of Housing

Date: October 5, 2026

Re: Inclusionary Housing Study and CDD Recommendations on the Inclusionary Housing Ordinance

CDD has received the attached study of the Inclusionary Housing Ordinance from RKG Associates, a consultant hired to assess the Ordinance and its impact on the financial performance of multifamily housing in Cambridge. We submit the following memo, which summarizes the study and its key findings as well as provides options that CDD recommends the City Council consider to promote multifamily housing development with units that are affordable to low- and moderate-income households and advance the City's goals of inclusive growth. The memo includes the following sections.

1. Inclusionary Housing Study Overview and Key Takeaways
2. Local and National Context
3. CDD Recommendations

1. Inclusionary Housing Study Overview and Key Takeaways:

The purpose of RKG's Inclusionary Housing Study is to reassess the need for the Inclusionary Housing Ordinance (IHO) and to understand the impact of the ordinance on the financial performance of different types of multifamily housing in Cambridge. Based on the findings, RKG identified options for possible amendments to the IHO and other ways the City could support multifamily housing development with inclusionary housing.

The first part of RKG's study shows that the addition of new market-rate housing, while important to satisfy overall housing demand, reduces the percentage of housing stock that is available to low-

and moderate-income households. New affordable units would need to be created at ratios at or above the current 20% inclusionary requirement to offset the effects of new market-rate development on Cambridge's income distribution.

The second part of RKG's study examines the financial performance of market-rate housing development under current market conditions and Cambridge's inclusionary housing requirements. Many economic factors are impacting new development, including the City's inclusionary housing requirements. RKG suggests and quantifies some ways that inclusionary housing requirements could be modified to improve development financial performance in the current market, as well as other financial tools the City could use to support inclusionary housing development.

This memo summarizes the report's findings and offers staff recommendations on actions the City might take to inform City Council discussion. The City Council will need to balance the benefits of inclusionary housing, both in preserving income diversity and serving the demand for new workers as new housing is built, with its impact on the financial performance of multifamily housing projects to set a policy direction that facilitates the creation of new housing that will shape the future of the city and community.

Justifying the need for the Inclusionary Housing Ordinance:

The City engaged RKG to prepare the Inclusionary Housing Study partially in recognition that the United States Supreme Court has established constitutional tests that apply to certain conditions that are imposed on development and that may or may not apply to Cambridge's Inclusionary Housing Ordinance. To satisfy the constitutional tests, certain development conditions imposed by the government must bear an "essential nexus" to a legitimate governmental interest and be "roughly proportional" to the development's impact.

As part of its study RKG conducted the following analyses:

1. An analysis of the impact of new market-rate units on achieving the City's goal of socioeconomic diversity
2. An analysis of the need that new market-rate housing generates for affordable housing occupied by income-qualifying construction and service workers

The findings of each analysis are outlined below.

The Impact of New Market-Rate Units on The City's Socioeconomic Diversity

Maintaining socioeconomic diversity is a longstanding goal in Cambridge, as stated in the purpose section of the Inclusionary Housing Ordinance and in the *Envision Cambridge* comprehensive plan.

A critical piece of this goal is ensuring that, as the City grows, it sustains the balance between market-rate housing and housing for low-to-moderate-income households. Maintaining the City's socioeconomic diversity supports our dynamic local economy and ensures that residents, regardless of economic background or circumstances, can continue to access the economic, educational, cultural, and community assets that Cambridge provides.

RKG found that between 2014 and 2024, the share of low-to-moderate income households (those earning at or below 80% of Area Median Income) declined from 38.4% to 37.4%, and for renter households from 48% to 42.9%. This decline occurred even though nearly 25% of newly developed residential units were income restricted (17.2% through Inclusionary Housing plus 7.6% through subsidized affordable housing developments).

Market-rate housing development helps the City accommodate a growing population, but the price of new market-rate units in Cambridge remains unaffordable to low-to-moderate income households. This means that without simultaneously adding housing that is affordable for low-to-moderate income households, new market-rate housing development will reduce the share of low-to-moderate income households in the city over time.

RKG found that 34.6% of all new housing units would need to be affordable to newly arriving households earning at or below 80% of AMI to maintain Cambridge's income diversity.

The Need that New Market-Rate Housing Generates for Affordable Housing Occupied by Income-Qualifying Construction and Service Workers

New market-rate housing development also creates a need for affordable housing that can be occupied by low- and moderate-income workers needed to build and maintain the new market-rate housing and provide services to its new occupants. Through an analysis of jobs created in the construction, consumer services, and local government sectors; the wages of new workers in these sectors; the amount of new income-eligible workers that may move into Cambridge for these jobs; and the number of IHO units needed to house those workers; RKG determined the amount of new affordable housing needed to meet the needs created by new market-rate housing development and the occupants of that housing. The analysis found that new market-rate developments must set aside between 22.9% and 25.7% of their units for low-to-moderate income households to meet this need.

Financial Performance Analysis

RKG developed a proforma-based model to test the financial performance of multifamily housing prototypes and the impact of IHO requirements. The analysis tested the performance of prototypical residential developments that varied in size, construction type, and location within the City under the existing IHO requirements. RKG then suggested several potential changes and other program and policy options and tested their impact on project performance. RKG collected the data

used to build the model from interviews with real estate professionals active in Cambridge, the City (e.g. property assessment data), Department of Housing and Urban Development and other federal sources, along with private real estate data aggregators including CoStar, Redfin, and Zillow.

RKG's key findings from the analysis include the following:

1. Macroeconomic and local market conditions are the biggest factor affecting the financial performance of projects. Elevated construction costs and high interest rates have made it more expensive to build.
2. Taller projects that rely more on steel and concrete and more costly construction methods face more challenges than wood-frame projects with fewer stories.
3. Homeownership projects appear to perform better than rental projects.
4. No single policy change alone makes a dramatic improvement to project performance across development prototypes, reinforcing the conclusion that macroeconomic and local market conditions are the most significant problem.
 - a. Reducing the inclusionary housing rate has an impact on financial performance, but the improvement is marginal and not enough to make all types of projects viable.
 - b. Temporary property tax abatements on the incremental value of development seem to have the largest impact on financial performance.

RKG Recommendations & CDD analysis

RKG suggested the following options organized around 1.) possible adjustments to the IHO and 2.) possible financial incentive strategies for multifamily development subject to the IHO. Each option is followed by CDD's comments.

IHO Adjustment Recommendations

Adjust the percentage of affordable dwelling unit net floor area required to be set aside for affordable units.

CDD Comments:

- Lowering the affordable floor area set-aside percentage has a limited impact on project performance but would make it easier for many projects to move forward.
- Setting the IHO percentage too low could have an impact on the goals of maintaining socioeconomic diversity and sustaining inclusive housing growth over time.
- Given that macroeconomic factors are the biggest issues challenging development, adjustments should be temporary and automatically sunset unless analysis justifies extensions.

- Development incentives such as tax abatements could be used instead of or in combination with this strategy to keep the set-aside percentage at or near the current rate.

Allow partial satisfaction of the Inclusionary requirement through an in-lieu fee that would allow developers to buyout up to 50% of affordable floor area required. Fees would go to the Cambridge Affordable Housing Trust (AHT) fund.

CDD Comments:

- This change would result in fewer affordable units built in new market-rate projects, in exchange for funding that could help support all-affordable developments in the future.
- It has a moderate impact on project performance when buyouts are allowed for up to 50% of required affordable floor area.
- Because the amount of all-affordable housing the City can build each year is limited by access to opportunities and access to other funding, a payment-in-lieu would have a delayed effect in balancing the growth in market-rate housing, and given the funding the City allocates to the AHT, may not add significantly to the pipeline of new all-affordable development given the time needed to use the funds.
- Many other cities allow buyouts like this, but many do not have well-funded AHTs like Cambridge.

Allow a multi-year scheduling of payment-in-lieu fees over a 5-year period.

CDD Comments:

- If the City decided to allow buyouts of affordable floor area, permitting payments to be made over several years would further improve rental project performance.
- Ensuring receipt of multiple payments over several years could create new administrative challenges, especially if buildings are sold during that time.

Conduct interval studies to plan and prepare for any market adjustments every 1-2 years.

CDD Comments:

- The current IHO says the City should conduct a reevaluation of the IHO requirements every 5 years.
- RKG's recommendation suggests the City should conduct interim assessments that focus on the financial performance of developments to respond to changes

in the market. Based on interim analyses, the City could then make policy adjustments as long as changes remain consistent with the need justified by the most recent nexus study.

- This approach could also facilitate temporary, sunseting policy adjustments as interim assessments could evaluate whether those temporary changes should be extended.
- 1–2-year intervals are likely too short for the real estate market to fully realize changes in economic conditions, changes in the IHO, and the prospect of an interim study that could change IHO requirements could result in developers holding off on projects; to balance responsiveness to market changes and predictability of the IHO requirements, the interval between interim assessments should likely be between 3 and 5 years.
- A periodic reassessment of the financial performance of developments is more straightforward than a full study that reexamines the nexus between new market-rate development and the IHO; that reevaluation should still be completed but could happen less frequently, for example every 10 years.

Create two IHO Unit tiers with different target area median income ranges for affordable rental units

CDD Comments:

- RKG’s analysis showed this has a limited impact on financial performance, even if it would improve the ability for developers to project income from IHO units.
- This would require shifting from rents based on actual tenant incomes to rents set to be affordable at target affordability levels in new buildings and would create a different program than the current program of nearly 1300 completed IHO units.
- This would be challenging and create confusion for applicants and residents and create a two-tiered program where residents in new buildings would no longer pay 30% of their income for housing.
- Target rents would be over 30% of income for many households
- Rents could increase significantly as HUD AMI levels change year to year (e.g. AMI increases have been as high as 10% some years).

Allow households with incomes up to 100% of AMI to be eligible for IHO rental Units

CDD Comments

- This would expand eligible applicants to include higher income households, which could help to increase the rents developers get from IHO units.
- Affordable housing for households in the 80%-100% AMI range is increasingly difficult to find in Cambridge, so this could expand opportunities for this group.

- There is less demand for IHO units which now serve households earning 80-100% AMI. Demand for IHO units remains strongest for households earning less than 80% AMI.

Consider a sliding scale IHO Set-Aside Requirement based on project size or height where smaller projects would be required to set-aside less floor area for IHO units than larger projects

CDD Comments:

- RKG's analysis seems to contradict this recommendation. Projects with 8 or more stories are shown to be facing more financial challenges in this market.
- The City may want to consider temporary adjustments that offer more benefit to taller projects given this finding.

Provide flexibility in Inclusionary Housing unit sizes by allowing IHO units to be up to 20% smaller than comparable market-rate units

CDD Comments:

- This strategy has minimal impact on project performance.
- It also would contradict the intent of the IHO to create mixed income communities where affordable units are equivalent to market-rate units.

IHO Financial Incentive Recommendations

Establish a graduated property tax abatement program for rental developments.

CDD Comments:

- This recommendation is shown to have the largest impact on project performance
- This could be implemented through project partnership with the Cambridge Redevelopment Authority (nominal ownership stake) & PILOT agreements for each project as authorized through MGL 121B
- It would delay new growth tax revenue generated by new housing development, but this tax revenue would be delayed if projects are not built until economic conditions improve, or not realized if projects are not built.
- This could allow the percentage of IHO floor area for affordable units to be kept at a higher ratio while still improving project performance.

Provide public funding from the Cambridge Affordable Housing Trust or another source to support IHO units. RKG recommended \$50,000/IHO unit.

CDD Comments:

- The impact of this recommendation at this scale is limited
- AHT discussed this approach at a meeting in 2025 and was not in favor of it.
- It could impact advancing the pipeline of fully affordable developments funded by the AHT.
- The City could further explore establishing a revolving loan fund to provide construction financing or medium-term equity investments in Inclusionary Housing projects, but this might only be able to assist some IHO developments.

Maximize housing choice voucher use

CDD Comments:

- This strategy has limited impact the financial performance of projects and would be difficult to implement.
- It would require an overhaul of waiting list policies to prioritize voucher holders for certain inclusionary units.
- Voucher rents from CHA are now being set at higher initial rents following discussions with City and CHA staff; staff are also working with properties that have not regularly requested voucher rent increases to increase voucher payments.
- Many housing voucher holders have more options than applicants earning 50-80% AMI who do not have a voucher.

In summary, CDD staff believe that of the options presented by RKG, the strategies that would have the most potential impact are:

1. Lowering the affordable floor area set-aside requirement
2. Allowing developers to buyout of a portion of the affordable floor area requirement
3. Offering a property tax abatement program

Staff would not recommend pursuing the other options suggested because they would involve substantial changes to the inclusionary program while only creating small improvement to the financial performance of multifamily housing projects.

2. Local and National Context

Cambridge is part of a regional housing market, and municipal fragmentation in the metropolitan region means that housing costs in Cambridge are affected by housing and zoning policies in other cities and towns in the region. The City's efforts to increase market-rate housing supply in Cambridge increases housing availability and mitigates housing cost increases regionally, but without intervention cannot produce new housing within Cambridge that is affordable to low- and moderate-income households. However, without new construction of housing in Cambridge, continued high demand for housing could drive housing prices up both within Cambridge and regionally. To maintain the City's socioeconomic diversity while supporting regional housing needs, Cambridge must add both new affordable housing and new market-rate housing.

Similar to Cambridge, cities in the Boston metro area as well as across the country are grappling with the challenge of balancing housing production with equitable growth, and many have explored adjustments to inclusionary housing. Below is an overview of what some other cities have done.

- Boston: The City completed a study of its Inclusionary Housing policy in 2023 and increased its affordable housing set-aside to effectively 20% (17% for low-to-moderate income households without vouchers and 3% for mobile voucher holders). Facing similar challenges with new market-rate housing development in the current economic climate, Boston has pursued other strategies to assist multifamily housing projects, such as providing equity investments through its Accelerator Fund and giving short term tax abatements rather than looking reductions in inclusionary housing requirements.
- Chelsea: After previously requiring 15% of units in projects over 10 units to be set-aside as affordable, Chelsea amended their Inclusionary Housing Ordinance in 2026 to require a set-aside of 10% of units with a step-based requirement that sets a specific number of required affordable units based on specific project size ranges for projects under 50 units. The revised policy also increased the income level affordable units must serve from an even mix of 30%, 50%, and 80% AMI households to a mix more heavily leaning toward 80% AMI households. Additionally, the change reduced the amount developers may pay per unit in-lieu of providing affordable units on site from \$400,000 per unit to \$275,000 per unit.
- Malden: After a study of its Inclusionary Housing policy in 2026, Malden's planning department recommended lowering its set-aside percentage from 15% to 10% of units and increasing the target rents for affordable units from being based on 50% of AMI to 60% of AMI. The City Council referred the policy to committee for further review.
- San Francisco: In July 2026, San Francisco amended their Inclusionary Housing policy in several ways.
 - Increased the size of projects that trigger the policy from 10 to 25 units

- Changed on-site affordable requirement 5% (down from 15%) & Off-site & Fee equivalent to 10% (down from 20.5%)
 - Carved out particular areas of concern where there are still higher rates – 8%-15% depending on the area
- Requirements for on-site affordable housing still apply for projects pursuing density bonuses under the State Density Bonus law. Affordable housing requirements under the state density bonus law are higher than San Francisco's reduced standards.

3. CDD Recommendations

In deciding how to move forward based on the results of the RKG report, Cambridge must balance its goals of promoting housing production with maintaining socioeconomic diversity. The City relies on the private market to build a majority of the housing needed to meet our housing production goals and to create new housing for residents whose incomes exceed affordable housing program income limits. However, new market-rate housing is unaffordable to low, moderate, and many middle-income households. Affordable housing is needed to support new market-rate housing and to preserve the socioeconomic diversity of the community. The IHO is an essential strategy and tool for ensuring that a significant amount of new housing that is affordable to lower income households is built alongside new market-rate units to both provide affordable homes for residents and to maintain the socioeconomic diversity of the community.

The IHO only works to create affordable units and maintain socioeconomic diversity if the market is able to produce new housing with IHO units. As the RKG study shows, largely due to macroeconomic factors out of the City's control, it has become increasingly difficult for the market to produce housing. The Multi-Family Housing Ordinance has created a new pipeline of planned and permitted IHO developments, but we continue to see developers facing challenges in the current economic climate. As demand for housing in Cambridge has not measurably declined, lack of new supply risks pushing housing costs up even further, putting additional pressure on lower income households not living in affordable units. Consequently, lagging housing development puts the City at risk of falling behind on both its housing production and socioeconomic diversity goals.

While the RKG report shows that the City does not have the ability to make every project feasible, doing nothing risks making a difficult situation worse. CDD has outlined several options based on RKG's findings that the City could pursue to improve project performance and help some projects move forward despite ongoing economic challenges. Before outlining the options, a few important considerations are worth noting.

Temporary, sunseting changes & interim review: Given the challenges faced by multifamily developers are largely related to cyclical macroeconomic factors, CDD recommends that any

changes be temporary and revert to current requirements after a period of four to five years unless reevaluation shows a continued need.

Additionally, CDD recommends changing IHO requirements under 11.203.2(c) around reevaluation of the Inclusionary Housing requirement to require a full reevaluation every 10 years, while requiring evaluation of financial performance every four to five years. This could allow the City to adjust the policy more frequently, based on the interim analysis of how market conditions are impacting the financial performance of projects.

Height and Construction Typology: The RKG report showed that given the high cost of steel and other building materials needed for high-rise construction, taller buildings face particular challenges at this time. Meeting the City's housing production goals will require taller construction along many corridors and in transformative areas, including areas where recent upzoning efforts have aimed to promote development at this scale and density. Recognizing the acute difficulties these projects face and the scale of their impact on meeting housing production goals, it may be appropriate to make additional efforts to assist taller projects.

Neighborhood Districts vs. Corridors and Transformative Areas: Significant zoning changes to promote market-rate housing development have been adopted for areas across the City in the past several years, but the Multifamily Housing changes adopted for the C-1 district have led to the most visible construction activity, despite the market challenges. Given the added development capacity brought to C-1 district, CDD recommends that IHO policy adjustments differ in that district.

Phasing in any adopted changes to the IHO: Many developers have been waiting for the completion of the RKG Study and discussion of changes to the IHO while also advancing proposals and seeking permits for new developments subject to the IHO. Permit approvals have been issued for some developments while others are now under review. Recognizing the time required to obtain building permits and the impact potential changes to the IHO could have on developments that may be subject to different IHO requirements based on when permits are issued, we recommend that any development that received its first building permit after January 1, 2026 be given the option to proceed under the revised IHO if changes to the IHO are adopted by the City Council.

Recommendation Options

The following are local policy levers the City can pull to help spur housing production and produce affordable housing.

1. Lower the percentage of floor area required to be set aside for affordable housing units
2. Offer short-term tax abatements
3. Allow projects to make a payment in lieu of providing a portion of the affordable floor area required

4. Create a revolving loan fund program that offers construction financing at below-market interest rates or low-cost equity to projects

These levers can be applied differently based on the following factors:

- Zoning district – CDD would recommend these options only be applied outside C-1 districts
- Building height, gross floor area and/or number of units – changes could be applied only to floors or units above a defined threshold
- Length of time implemented before reverting to the current requirements unless further analysis justifies extending

CDD recommends incentivizing housing production in our mixed-used corridors and squares and for projects delivering the most units. The following table outlines policy changes for discussion and considerations by the City Council:

Policy Lever	Lower IHO Requirement	Tax Abatements	IHO Buy-Out Option	Revolving Loan Program
Core Function	Reduce required IHO affordable housing set-aside	Provide temporary property tax abatements	Allow contribution to Affordable Housing Trust in lieu of providing a portion of affordable floor area on site	Provide low-interest loans
Geography Applied	Corridors & areas of higher growth, not C-1 districts			
Building Construction Type or Project Size	Lower set aside for projects 6 stories or taller, with greater reduction for projects over 8 stories* with additional reduction calculated based on floor area on stories 6 and above.	Abatements available for projects 6 stories or taller, with longer abatements or more value permitted to be abated for projects over 8 stories*. Length or portion of value abated could increase based on number of stories.	Available for projects 6 stories or taller* with greater portions of required affordable floor area permitted to be bought out based on number of stories above 6	Prioritized for largest projects**
Time Limit	Reevaluate at four years			

*Could consider floor area or unit count threshold instead of or in addition to # of stories

** The number of projects this approach could apply to would be limited by program budget