

# MASSACHUSETTS

## FINANCIAL INCENTIVES TO LOCAL GOVERNMENTS

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Housing has become increasingly unaffordable for low- and moderate-income households in Massachusetts, especially in the Boston metro area. Home prices in Greater Boston more than doubled between 1998 and 2002, and by June of 2003 the average sale price of a single-family home in the state exceeded \$400,000. Despite the recent downturn in the state's housing market, the third quarter 2007 median sales price for a single-family home in the Greater Boston area was \$501,500.

- ✓ State incentives to local governments to encourage affordable housing development
- ✓ Transit-oriented development
- ✓ Density bonuses
- ✓ Changes in zoning to encourage affordable housing

The high cost of housing in the state threatens its economic competitiveness and its ability to attract the human capital necessary to maintain its workforce. In the 1990s, the state lost nearly 20 percent of its young population between the ages of 20 and 34. Meanwhile, land-use regulations and building patterns have contributed to sprawl as more large-lot single-family homes are built away from city centers and mass transit.<sup>110</sup>

Restrictive zoning laws are the primary source of the state's housing problem, according to the Commonwealth Housing Task Force (CHTF), a diverse coalition of stakeholders in the affordable housing debate. To address this problem, CHTF designed state legislation that provides incentives to local governments to encourage denser housing production and mixed-use developments in areas near public transit, concentrated development, or in areas with existing infrastructure. In July 2004, their proposal was signed into law as the Smart Growth Zoning and Housing Production Act (40R).

Smart Growth Overlay Districts ("40R districts"), which are approved and voted on by the town, allow high-density residential development as-of-right. The zone must allow at least 20 units per acre for multifamily housing developments,<sup>111</sup> 12 units per acre for two- and three-unit buildings, and eight units per acre for single-family homes. To meet the affordability component of the law, 20 percent of units in

projects consisting of 12 or more units must be affordable, and 20 percent of total housing units in each 40R district must be affordable.<sup>112</sup>

Eleanor White, co-chair of the Commonwealth Housing Trust Fund and President of Housing Partners, Inc. emphasized the important advocacy role that their diverse

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coalition played in getting the legislation passed.

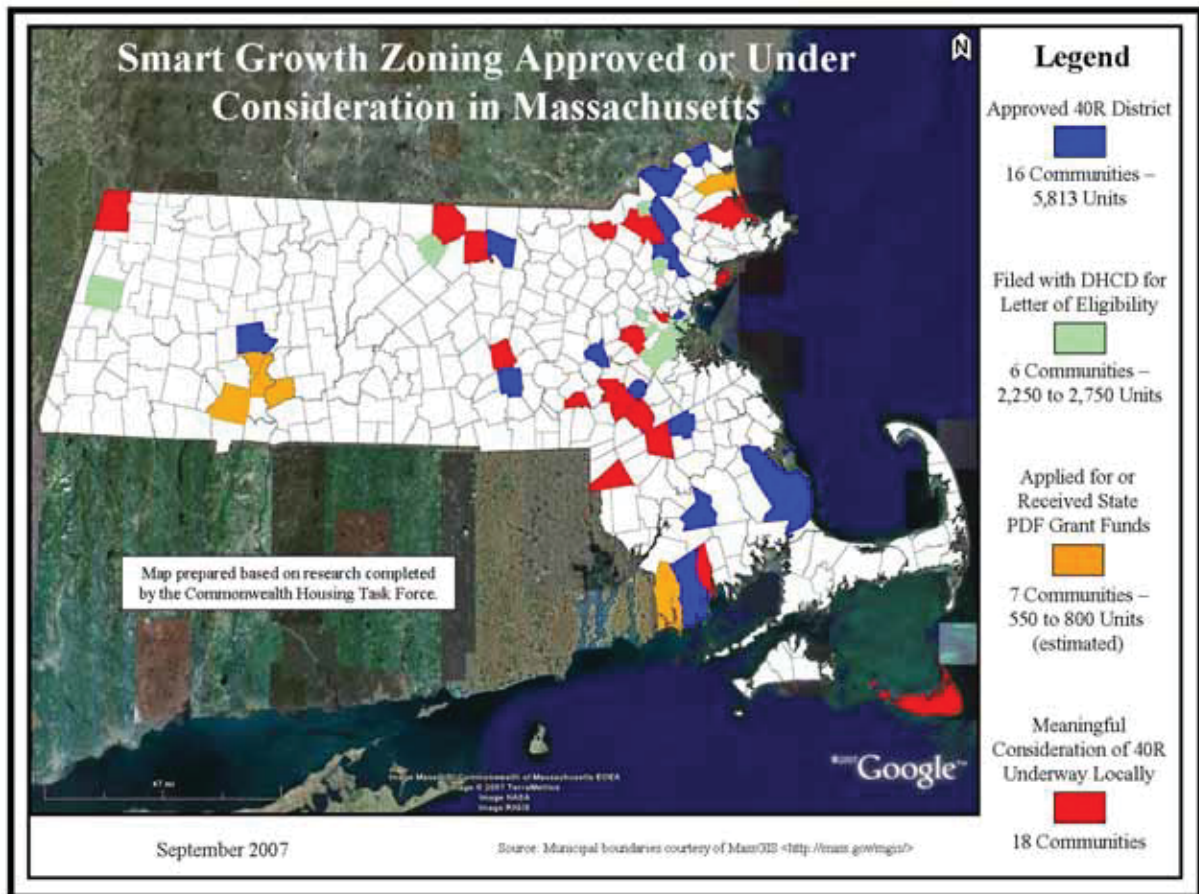
“It was the first time housing advocates sat in the same room with representatives of business, academics, labor unions, environmental groups, real estate professionals, homebuilders, and local officials.”

Her advice to other states working on similar programs: “Without a coalition, [the legislation] will die a thousand deaths.”

The goal of 40R is to add enough new housing in established growth areas to bring house prices more in line with family incomes. The CHTF estimates that the state needs to build 33,000 new market-rate and affordable housing units over the next 10 years to accomplish that goal. To put this number in context, this is about the number of units built under the state’s 40B law from 1969 to 2003. This law, which is unpopular with local governments in Massachusetts because it takes away some local control over development, allows developers to appeal denied permits to the state. If the project includes affordable housing and less than 10 percent of the housing units in the locality are affordable, the state is likely to side with the developer.<sup>113</sup>

To reach this level of housing production, 40R provides several financial incentives to make up for potential increased costs related to denser residential development. Towns receive one-time payments of up to \$600,000. The amount actually awarded is based on the number of new housing units allowed in the 40R district in excess of what was previously allowed. In addition, for each building permit issued, a town receives a “density bonus payment” of \$3,000 per additional housing unit.<sup>114</sup> The law also offers other incentives to participating communities, including priority for state funding and \$50,000 in technical assistance for the district planning process.

In November 2005 the state passed 40S, which provides full reimbursement to municipalities for all new net education costs resulting from housing units built under 40R. 40S addresses local concerns that denser housing in 40R districts will substantially increase educational costs beyond the revenue these additional households will generate.<sup>115</sup> For single-family units, these costs can be substantial: they are estimated at \$5,000 per year for each single-family home priced below \$500,000.



Contrary to conventional wisdom, net education costs for new multifamily units are modest. In more than half of communities in Massachusetts, typical mixed-income multifamily developments result in no new net education expenses; in the remainder of communities, the cost is \$320 per unit, because relatively few multifamily units house school-age children.<sup>116</sup>

Estimated annual costs of 40R and 40S include \$14 million in incentive payments and \$35 million for net education cost reimbursement, funded by a Trust Fund supported by revenues from the sale of surplus state land. Costs of 40S may be substantially lower than estimated because virtually all proposed housing units to date are multifamily; however, the source of revenue for the 40R Trust Fund already appears to be inadequate.<sup>117</sup> The state is currently working on legislation that will provide a self-funding mechanism for 40R, but the lack of funding remains one of the primary concerns of local governments considering 40R districts.

Not a single proposed 40R district has failed to pass the required local vote. As of September 2007, 16 municipalities in the State have passed 40R districts, which will create almost 6,000 rental and ownership units. Another 35 towns have district plans in the works. As hoped, the planned and proposed districts are scattered all over the state, reflecting the program's success in encouraging housing production in all communities in the Commonwealth (see figure).

While multifamily housing developers have been very proactive in pursuing 40R projects, almost none of the planned developments include single-family homes. To deal with this disappointing result, CHTF is currently working on a new incentive program that would target the production of single-family "starter homes" priced between \$250,000 and \$350,000.<sup>118</sup>

While few housing units have actually been built, development plans show that 40R districts will have a major impact on the supply of affordable housing in participating communities, especially in larger projects such as in Plymouth and Kingston, which will include almost 150 units of affordable housing. In addition, CHTF is working to ensure that development is representative of racial and economic diversity in the state and has formed an Expanding Opportunities Committee to increase participation by minority and lower-income households.

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White warns communities that even after passage, these programs require ongoing education and advocacy at the local level to encourage communities to participate. She and her two CHTF co-chairs spend a huge amount of time in cities and towns talking about the program and alleviating

concerns about density, affordability, and development. “This type of advocacy can’t be done via mailings. You have to show up physically and go back several times.”

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This document is a portion of NAHB's report  
*Research on State and Local Means of Increasing Affordable Housing.*

[Click here to view the full report.](#)

## Research on State and Local Means of Increasing Affordable Housing



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