

**MEETING OF
THE HOUSING BLUE RIBBON COMMITTEE
PORTSMOUTH, NEW HAMPSHIRE
COUNCIL CHAMBERS**

5:30 p.m.

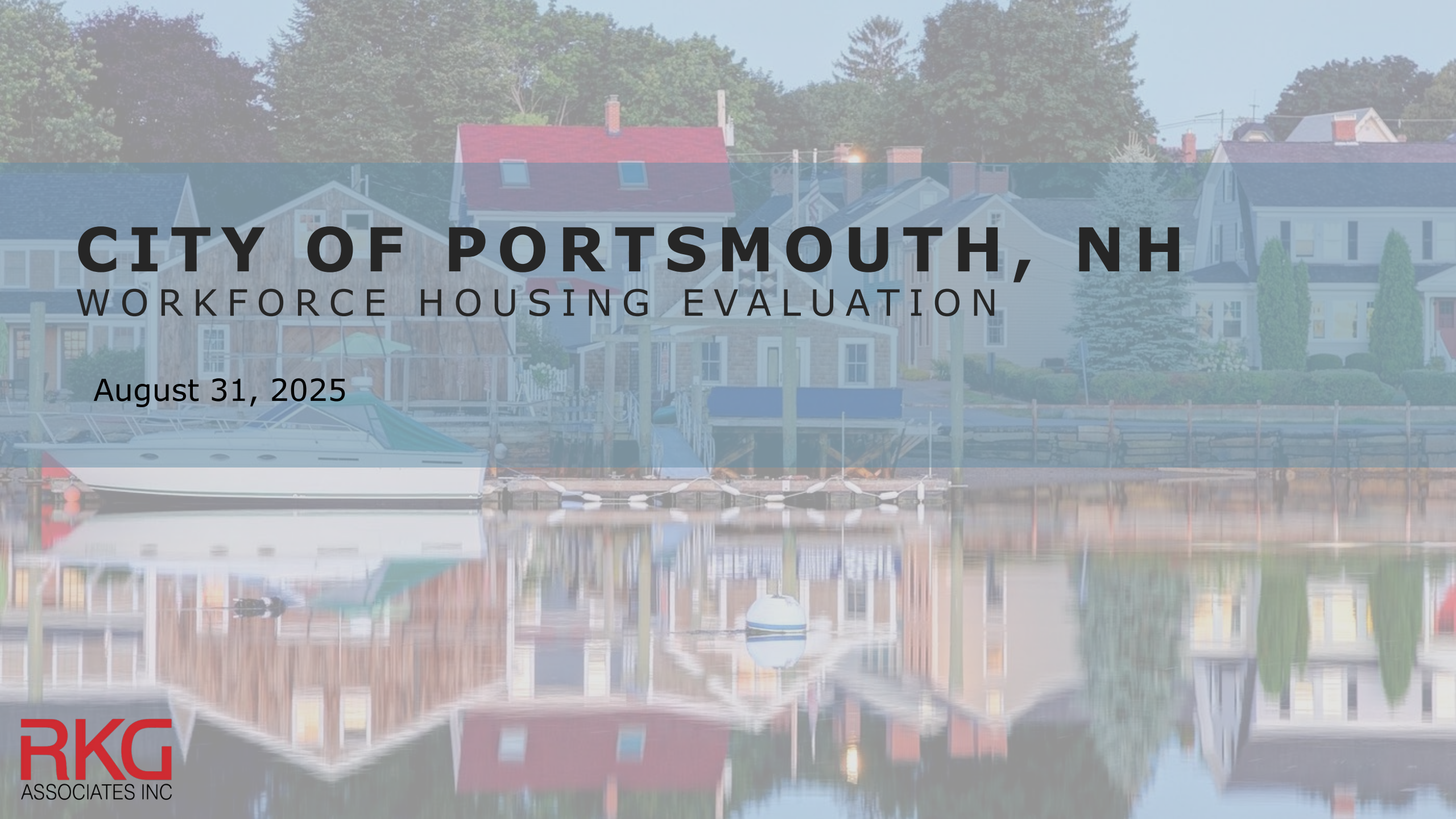
September 10, 2026

AGENDA

- I. PRESENTATION BY RKG**
- II. DRAFT HOUSING OPPORTUNITY ZONE ORDINANCE**
- III. PUBLIC COMMENT**
- IV. ADJOURMENT**

**Members of the public also have the option to join this meeting over Zoom; a unique meeting ID and password will be provided once you register. To register, click on the link below or copy and paste this into your web browser:*

https://us06web.zoom.us/webinar/register/WN_0ZTUN7u6QRitpPVwEQDu6A



CITY OF PORTSMOUTH, NH

WORKFORCE HOUSING EVALUATION

August 31, 2025

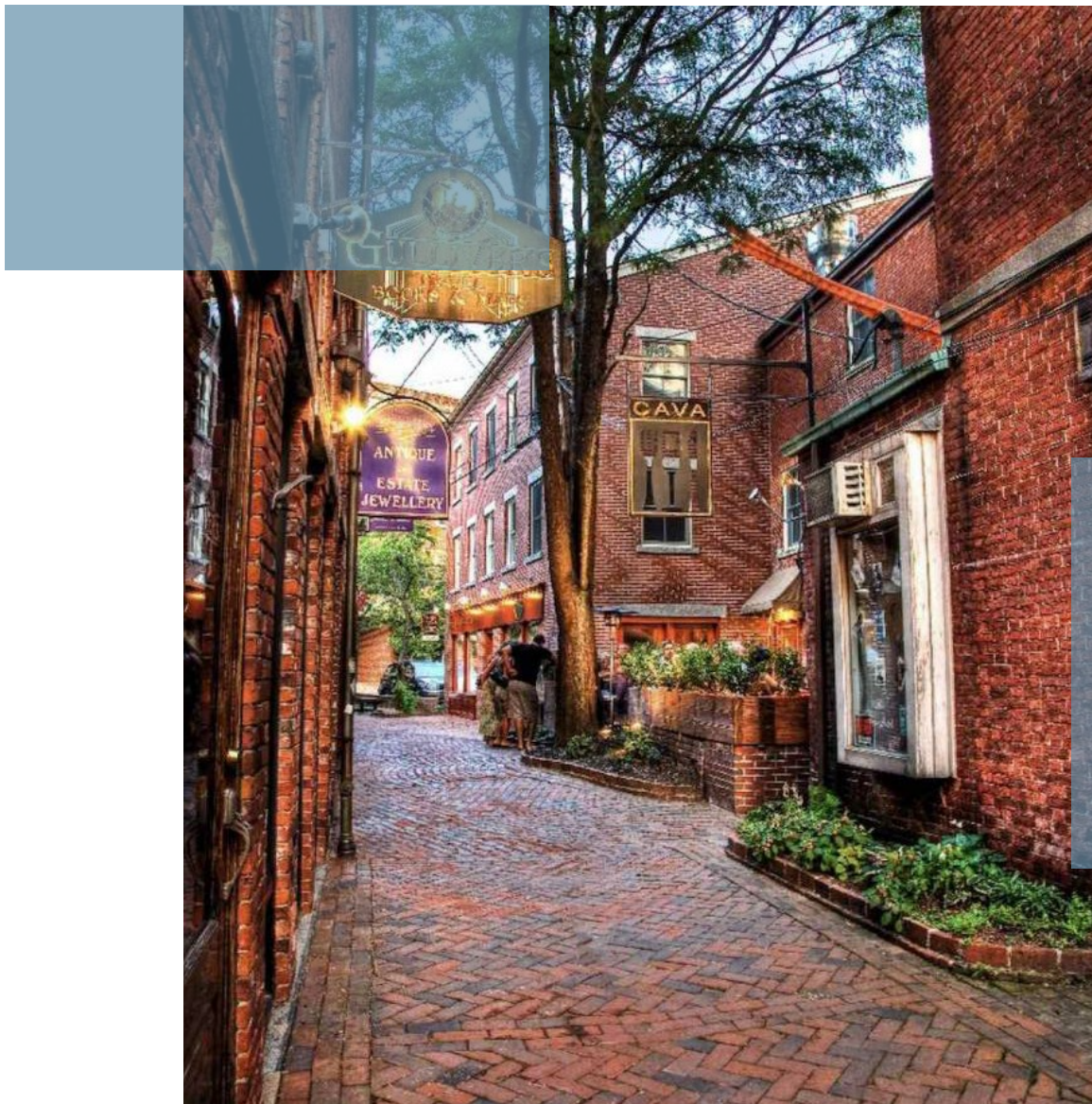


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INTRODUCTION

BACKGROUND



The City of Portsmouth has an existing Workforce Housing (WH) policy that is intended to encourage development to provide a percentage of income-controlled units priced to workforce income levels (60% area median income).

The City wants to test the existing policy under current market conditions whether it is viable. A workforce housing policy typically requires developers to provide a percentage of income-controlled units (referred to as 'set aside') priced for workforce housing (referred to as 'target income threshold'). WH policies usually have specific conditions (e.g., minimum project size) that must be met to trigger the requirements.

By allocating a proportion of income-restricted units, it is likely that financial feasibility will be adversely impacted through reduced financial returns due to lower revenue streams. Within New Hampshire, municipalities are not allowed to require developers to adhere to a workforce housing regulation. Rather, workforce housing policies must be voluntary, offering developers the choice to comply with the WH policy guidelines. Thus, a WH policy must provide a financial inducement to developers for it to be effective.

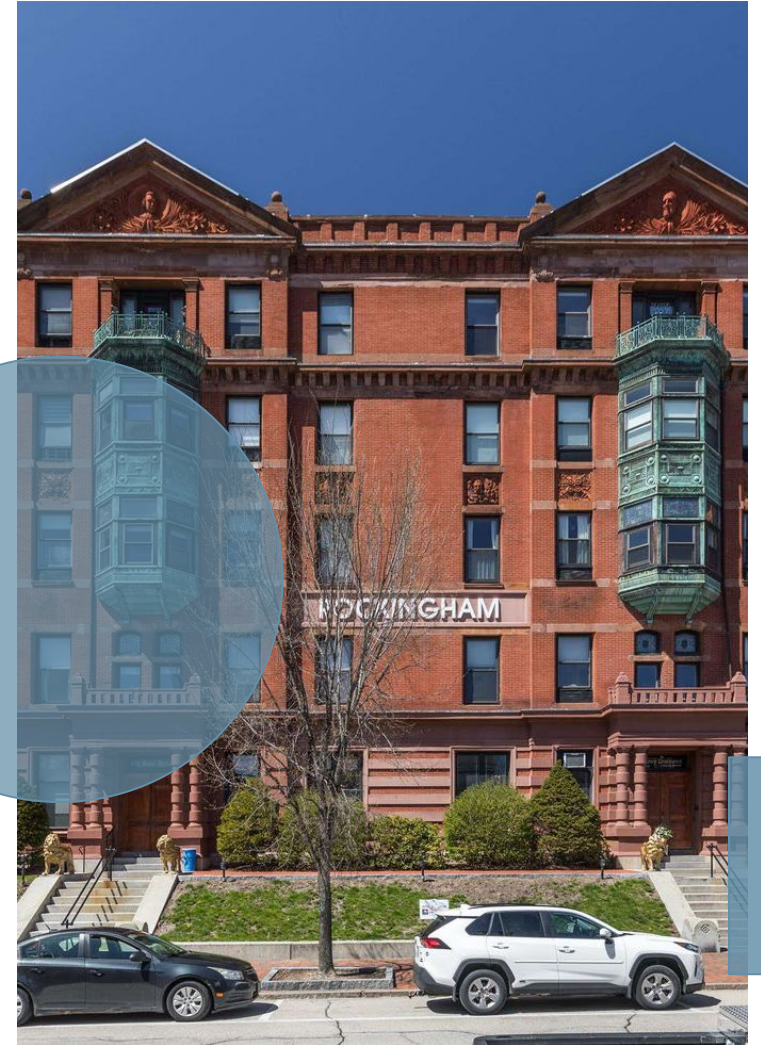
The following report details the potential financial impact the current policy has on new construction development within the City and provides potential alternatives where the policy does not meet market returns that induce price diverse housing developments.

FINANCIAL FEASIBILITY MODEL

THE FINANCIAL FEASIBILITY MODEL IS A PROFORMA-BASED MICROSOFT EXCEL PROGRAM THAT IS DESIGNED TO TEST THE FINANCIAL IMPACT OF POTENTIAL POLICY CHANGES AGAINST THE RISK/REWARD OF A PROPOSED REAL ESTATE INVESTMENT.

RKG Associates developed a financial feasibility model that estimates a real estate developer's potential financial return. While there are several return metrics used to assess financial feasibility, the Portsmouth financial feasibility model focuses on estimating the Internal Rate of Return (IRR) and the Return on Cost (ROC). IRR is a standard quantitative metric used to predict the financial performance of a potential real estate investment over time. ROC is a point-in-time measure comparing the financial performance (Net Operating Income) against the total cost of construction. ROC measures the value of the development against market conditions.

RKG Associates' financial feasibility model was designed to calculate an IRR while accounting for a variety of development factors. These factors fall within four primary categories: construction costs, finance, operational revenues, and operational costs. Some examples include land costs, rent levels, and interest rates. Each of these factors can be changed within the model to test for multiple development scenarios. For instance, the model could test for different percentages of income-controlled units set aside (e.g., 10% vs. 20%, etc.) and different targeted AMI levels (e.g., 80% AMI, 60% AMI, etc.).

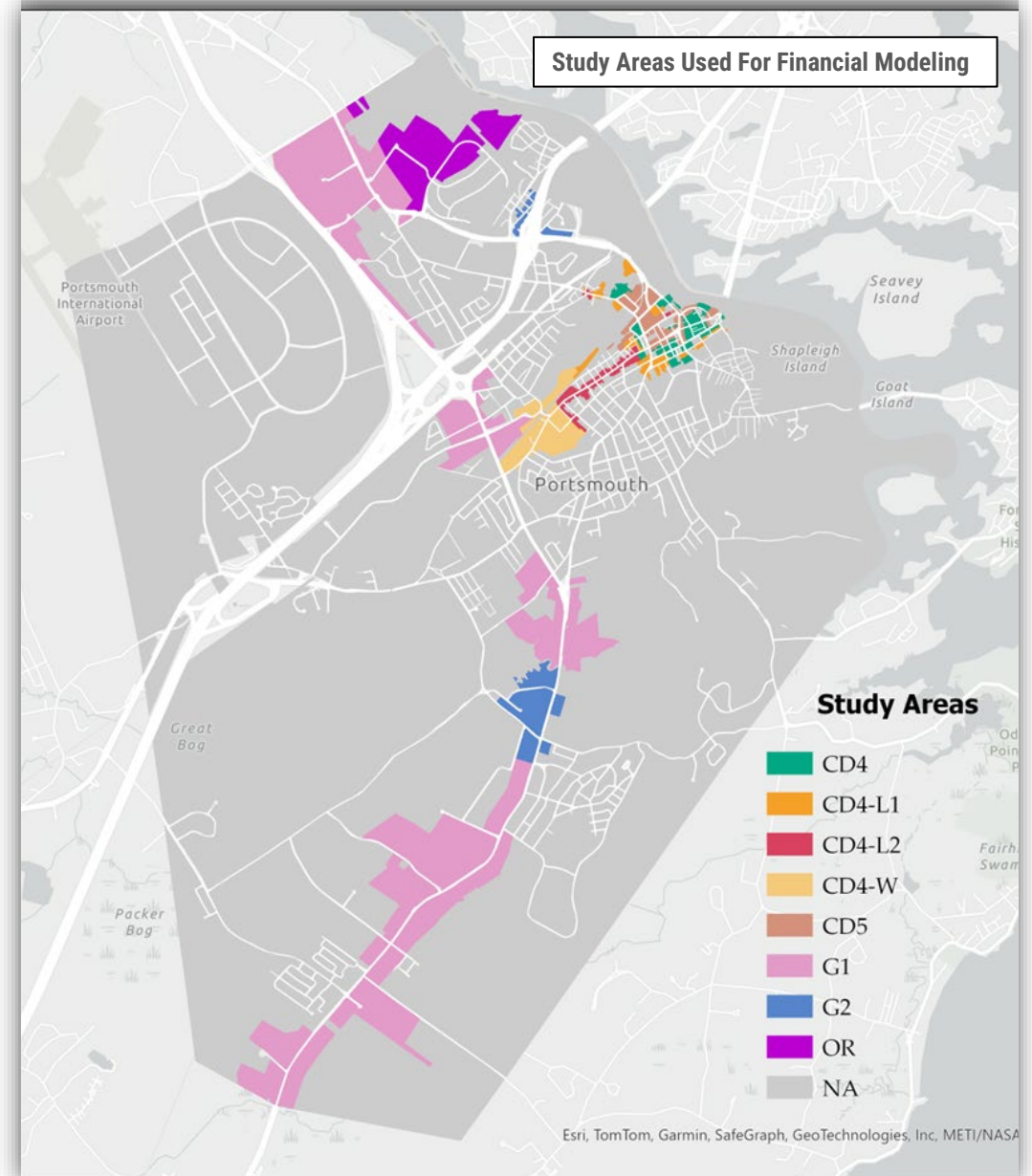


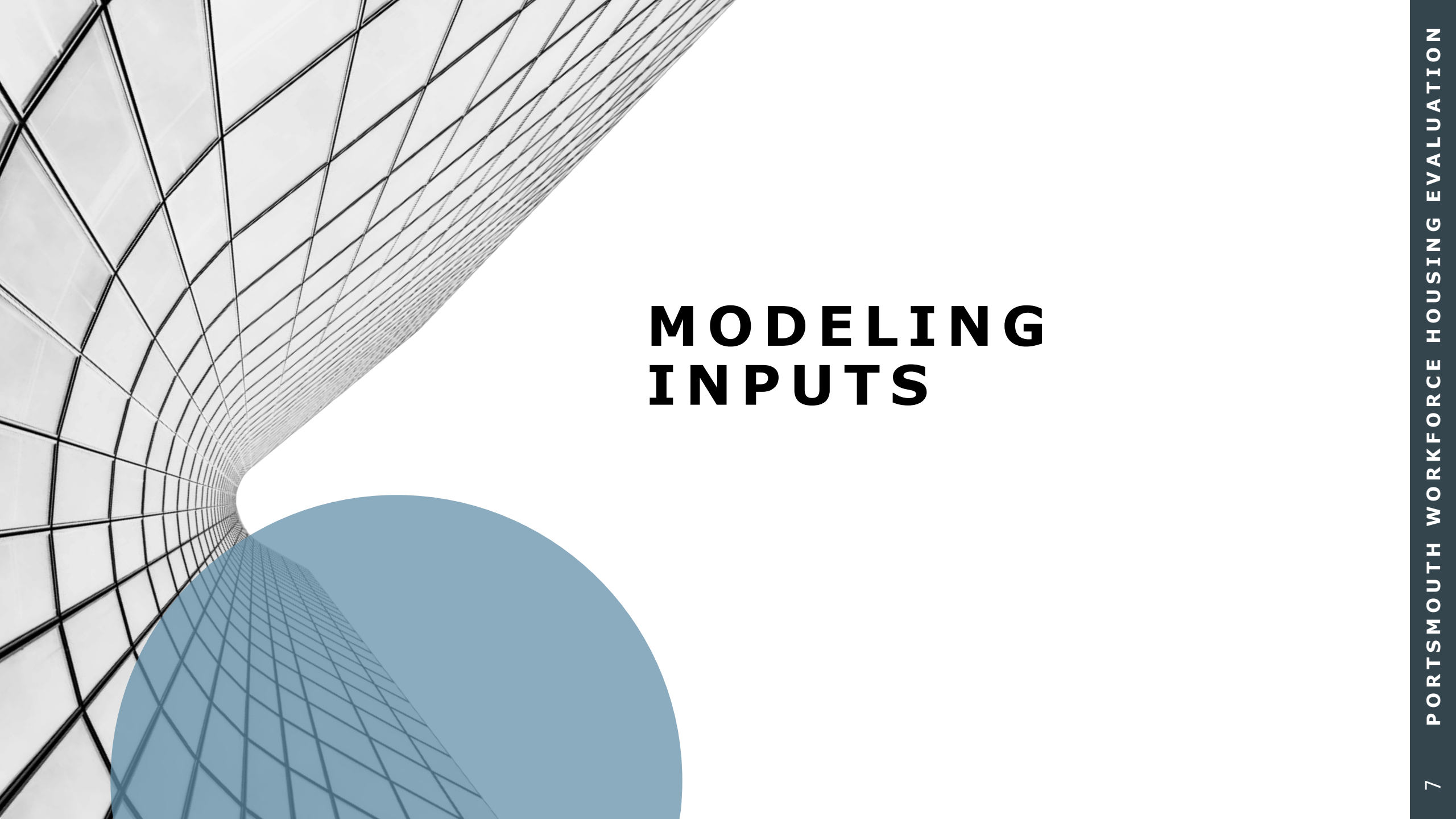
STUDY AREAS

The analysis focused on locations (study areas) zoned within Portsmouth that allows the development of workforce housing through the bonus density program. Market rate rent data was collected for the study areas. Rents tend to be higher closer to downtown due to many desirable characteristics (e.g., historic, walkable, highly amenitized). As a result, the location of where a development occurs is a primary factor for modeling the financial performance of a real estate investment under a workforce housing policy.

The boundaries for each study area follow the zoning designations where the bonus density program can be used.

Within each designated zoning area, RKG tested multiple development scenarios to understand the impacts of various development options including size of project (e.g., unit count) and type of project (e.g., apartments).





MODELING INPUTS

METHODOLOGY

As stated, all financial feasibility modeling is based upon four principal components: construction costs, operational revenues, operational costs, and financial market indicators. Each component utilizes locally-derived inputs to accurately reflect the City's market conditions, and effectively design realistic development scenarios.

To this point, RKG conducted a comprehensive analysis of all components of financial feasibility of residential development in the City of Portsmouth. The primary inputs for which local data was derived include, but is not limited to:

Construction Costs

- Soft costs – design and preparation
- Hard costs – materials and construction
- Parking costs – costs per parking space
- Land costs – physical location within the city's subarea

Operational Costs

- Marketing, management, repairs, and real property taxes

Operational Revenues

- Rental rates and sale prices

Financial Market Indicators

- Debt/Equity requirements, capitalization rates, and interest rates

Construction Costs

To determine hard costs for building and parking construction, RKG interviewed several for-profit and non-profit developers, as well as utilizing RSMeans¹ to build out customized per square foot construction costs for stick, stick over podium, and steel frame construction typologies.

Similarly, RKG collected information on construction costs for three types of parking costs: surface parking, aboveground structured parking, and underground parking.

Lastly, a land cost analysis was conducted by RKG on recently completed residential projects to understand the land price per unit developers have paid.

Operational Costs

In addition to the cost of developing a project, property owners will incur costs while owning and operating the project. Understanding the impact of traditional operating expenses (OpEx) is critical to determine financial returns. Costs including marketing, property maintenance, management, and real property taxes are part of the OpEx for a project.

¹RSMeans is a national data vendor that analyzes real estate construction cost data.

METHODOLOGY

Operational Revenues

As the name suggests, operational revenues include any income generated by the property. Rent revenues generated by tenants is the most substantial income source. However, other sources including parking fees, laundry fees, vending income are also considered in determining operational revenues.

For the purposes of this analysis, RKG calculated rent rates for both market rate and income-controlled apartments. These rates vary by bedroom count (e.g., efficiency (studio), one-bedroom, and two-bedroom apartments) and whether an apartment is market rate or income-controlled.

RKG Associates used HUD Fair Market Rent (FMR) incomes for Portsmouth to calculate corresponding rent levels. The adjoining table illustrates the income thresholds ranging from 30% AMI to 150% AMI for the City of Portsmouth. As stipulated by HUD, the maximum affordable rent would be 30% of a household monthly income. For instance, a 60% AMI 2- bedroom household earns \$63,000. Therefore, 30% of this income at the monthly rate is \$1,575 ($\$63,000 \times 30\% / 12$). RKG adjusts the monthly rate from households to bedrooms size.

FY 2025 Income Limits Summary - Portsmouth, NH				
Income Level	Household Size			
	1-Person	2-Person	3-Person	4-Person
30% AMI	\$27,570	\$31,500	\$35,430	\$39,360
40% AMI	\$36,760	\$42,000	\$47,240	\$52,480
50% AMI	\$45,950	\$52,500	\$59,050	\$65,600
60% AMI	\$55,140	\$63,000	\$70,860	\$78,720
70% AMI	\$64,330	\$73,500	\$82,670	\$91,840
80% AMI	\$73,520	\$84,000	\$94,480	\$104,960
90% AMI	\$82,710	\$94,500	\$106,290	\$118,080
100% AMI	\$91,900	\$105,000	\$118,100	\$131,200
110% AMI	\$101,090	\$115,500	\$129,910	\$144,320
120% AMI	\$110,280	\$126,000	\$141,720	\$157,440
130% AMI	\$119,470	\$136,500	\$153,530	\$170,560
140% AMI	\$128,660	\$147,000	\$165,340	\$183,680
150% AMI	\$137,850	\$157,500	\$177,150	\$196,800
Source: HUD, RKG, 2025				

Financial Market Indicators

Development financing is possibly the most important element of any real estate deal. Different types of financing are available depending upon the scale of the project. Through interviews with local real estate professionals, RKG gained an understanding around debt, operational costs, and vacancy assumptions used in developer proformas.

Additionally, information on financial return expectations was obtained and used as a benchmark for the financial feasibility model to understand the impact policy changes may have on a project's financial return metrics

CONSTRUCTION COSTS

Hard and soft construction costs were collected through interviews with local real estate professionals.

The financial feasibility model applied each of these hard costs based on the type of construction material used: wood-frame (stick), wood-frame over concrete and steel (stick over podium), and steel frame construction. The costs of stick construction can vary for ownership developments, especially single-story townhome units. As indicated in the table, soft costs, such as engineering and architectural fees, average around 15% of hard costs as learned through interviews with local developers.

Other construction costs include the cost to build requisite parking. RKG Associates collected data for three different types of parking. Surface parking is the least expensive option for parking at approximately \$15,000 per space. Structured Belowground parking, the most expensive parking option at approximately \$50,000 per space, will typically be incorporated into areas more land constrained (historical downtown).

Hard, Soft, and Parking Costs Inputs

Hard Construction Costs (PSF)	Apartment	Condo/Townhouse
Stick (Ownership)	\$200	\$240
Stick	\$280	\$330
Stick Over Podium	\$400	\$400
Steel Frame	\$475	\$475

Soft Costs (% of Hard Cost)	Average
Soft Costs	15.00%

Parking Costs (Per Space)	Average
Surface	\$15,000
Structured Aboveground	\$25,000
Structured Belowground	\$50,000

Note: Values are based on data collected from stakeholder interviews.
Source: RKG Associates, 2025

CONSTRUCTION COSTS

The amount of money a developer can pay for a piece of land is a critical component to the financial feasibility of a project. The higher the land value, the more a developer needs to offset their costs through things like higher density, lower parking rates, or increased sales prices and rents.

When RKG did the analysis, land costs can vary within the City, most notably in Downtown where land costs average at \$50,000 per unit compared to the rest of the City where land costs for development averages at \$25,000 to \$30,000 per unit depending on typology. The adjoining table illustrates land acquisition costs for “unencumbered” projects that do not have unique development challenges (e.g., demolition, rock blasting).

Land Cost Inputs	
Location	Citywide Average
Downtown	\$50,000/Unit
Rest of City	\$25,000/Unit (Rental)
	\$30,000/Unit (Ownership)

Note: Values are based on data collected from stakeholder interviews.
Source: RKG Associates, 2025

OPERATING COSTS

Following construction of the actual development, property owners accrue costs related to marketing, maintaining, and managing a rental property. These costs are known as operating expenses which can include, but are not limited to utility, labor, and cleaning-related costs.

Operating costs do not vary for market rate or income-controlled units, as costs do not change dramatically based on a tenant. Therefore, operating expenses accounted for 22% of total rental revenues generated from both market-rate and income-controlled units.

Vacancy and collection loss for new construction projects are consistent throughout Portsmouth, with most uncollected rent due to turnover. Turnover is the time between when a unit is marketed until it is occupied by a tenant.

Operating Costs Inputs

Operating Costs (As a % of Rental Revenue)

Vacancy & Collection Loss	3.5%
Operating Expenses (less real property taxes)	22.0%
Real Property Taxes	\$11.51/\$1,000

Note: Values are based on data collected from stakeholder interviews.
Source: RKG Associates, 2025



FINANCIAL MARKET INPUTS

The most common approaches towards financing residential development is through equity investment and debt financing.

Equity is the initial out-of-pocket amount a developer contributes towards a real estate investment. Developers will pay less in out-of-pocket costs if they can secure financing from other sources. This is preferable to developers, since the overall project return is expected to be greater, and less investment risk is involved. Based on data collected, RKG Associates set the equity requirement to 30% for both ownership and rental developments.

Securing long-term debt financing at affordable rates has become increasingly challenging. Recent widespread increases in interest rates, accelerated by the COVID-19 pandemic, has adversely impacted the financial performance of new residential development. Based on market research, RKG Associates set the expected interest rate to 6.50%.

Financial Market Inputs	
Financing Costs	
Interest Rate	6.50%
Equity Required	30%
Capitalization Rate	6.00%
Expected Financial Return	
Internal Rate of Return (Rental)	12.50%
Return on Cost	6.50%

Note: Values are based on data collected from stakeholder interviews.
Source: RKG Associates, 2025

OPERATIONAL REVENUES

RKG collected rental rate data for relatively new developments (previous 5 years) which included efficiency (studio), one-bedroom, two-bedroom, and three-bedroom apartments. The rental revenue inputs for each of the bedrooms consists of per square foot averages based on the rates of the developments.

The market rental rates were used as a baseline for the analysis and compared to information obtained from developers. Excluding studio floorplans, a new construction rental unit is priced between \$2.76 and \$4.34 per square foot citywide.

Rental Revenue Inputs (Per Square Foot)

Subarea	Studio	1BR	2BR	3BR
CD4, CD4-O, CD5, CD5-O	\$4.92	\$4.34	\$4.11	\$3.50
G1, G2, CD4-W, CD4-W-O	\$4.12	\$4.04	\$3.68	\$3.13
GNOD	\$3.98	\$3.71	\$3.25	\$2.76

Note: Values are based on data collected from stakeholder interviews, Apartments.com, CoStar.
Source: RKG Associates, 2024

INSIGHTS & IMPLICATIONS

The financial feasibility model is limited by its inputs.

Feasibility modeling requires use of several development, operational, financing, and market assumptions when calculating financial proformas. We understand that each project is different and will carry costs and revenues that can vary greatly, even within a single market. Unfortunately, one of the limitations of modeling is having to create a policy that covers various development types, scale, and locations. RKG does its best to account for unique issues (e.g., wood frame costs versus concrete and steel costs), but we are limited in being able to model every potential permutation. There are three approaches to this type of analysis:

Best-Case Planning – This is where the modeling uses the most beneficial assumptions that results in an aggressive WH policy.

Worst-Case Planning – Opposite of best-case, this is where the modeling uses the most challenging development assumptions to understand how a policy decision would impact the weakest project.

Mid-Point Planning – As it sounds, use means and medians to model to the ‘middle of the pack’, trying to find a balance point between production and financial impact.

There are benefits and drawbacks to all three approaches. Best-Case Planning is based on the most financially beneficial development examples, leading to the most aggressive WH policy thresholds (set aside requirements and target AMLs). However, it is the most financially punitive to all but these ideal projects and can adversely impact residential development potential.



INSIGHTS & IMPLICATIONS

Conversely, the Worst-Case Planning approach focuses on the most difficult financial projects, thus leading to lower set-aside rates and/or higher AMI targets. While the worst-case approach ensures financial feasibility impact is minimized—or even eliminated—it yields the least amount of housing price diversity and does not capture the full potential of stronger projects. RKG Associates’ uses the ‘mid-point’ analysis approach, balancing potential impact and price diversity delivery as fair as possible.

Regardless of which approach is used, any individual project will likely differ somewhat from the model. This is why for-profit and non-profit organizations are interviewed, and locally-based data sources are used in the model’s creation.

Financial performance is just one factor in the decision-making process of developers.

It is important to acknowledge that the financial performance of a project is one of many factors developers and investors consider when looking at a deal. Developers also assess project risk and feasibility based on ease of process and permitting, flexibility in zoning, location and amenities, strength of the market, and strategic value. Given the variability and difficulty of assessing all these additional factors, the model focuses primarily on the financial aspects of the project.





FINANCIAL SENSITIVITY ANALYSIS

FINANCIAL SENSITIVITY ANALYSIS

The financial sensitivity analysis conducted by RKG Associates provides key insights regarding the relative impact on financial feasibility resulting from several developmental scenarios. RKG Associates modeled several development scenarios to understand the impacts on developers’ return expectations for rental and ownership housing. Each scenario incorporates multiple variables, including, but not limited to:

- **Project Size** – The total number of units for a rental development. While the model can test for infinite number of units, the following analysis evaluates the impacts on returns based on the typical size of projects within the City of Portsmouth. For rental developments, RKG Associates modeled projects that maximized development intensity based on current zoning requirements. For the purposes of this analysis, RKG assumed a one-acre parcel. A sensitivity analysis indicated that changing the parcel had minimal impact on feasibility.
- **Household Income Level** – The household income level is a percentage of the City of Portsmouth’s Area Median Income (AMI) as defined by the U.S. Department of Housing and Development (HUD). AMI levels can range between 30%-120% of the city’s Area Median Income, with 30% AMI representing the lowest earning income generating households. RKG Associates modeled, using the existing policy, rental projects at 60% AMI and ownership projects at 100% AMI levels to understand the relationship between financial returns and providing a proportion of income-controlled housing units.
- **Percentage Set Aside** – The percentage set aside is the proportion of income-controlled units in relation to market-rate units. By increasing the percentage set aside, financial returns are expected to be lower.

Return Expectations			
Financial Indicator	Conservative	Moderate	Aggressive
Rental			
Internal Rate of Return	12.5%	13.5%	15.0%
Return on Cost	5.75%	6.00%	6.50%
Ownership			
Internal Rate of Return	20.0%	25.0%	30.0%

MAX AFFORDABLE RENT BY BEDROOM

	30% AMI	40% AMI	50% AMI	60% AMI	70% AMI	80% AMI	90% AMI	100% AMI
Studio	\$665	\$895	\$1,125	\$1,355	\$1,584	\$1,814	\$2,044	\$2,274
1BR	\$705	\$952	\$1,198	\$1,444	\$1,690	\$1,936	\$2,182	\$2,428
2BR	\$796	\$1,075	\$1,353	\$1,632	\$1,911	\$2,190	\$2,469	\$2,748
3BR	\$884	\$1,196	\$1,507	\$1,819	\$2,130	\$2,442	\$2,754	\$3,065
4BR	\$960	\$1,302	\$1,643	\$1,984	\$2,325	\$2,666	\$3,007	\$3,348

Source: Department of Housing and Urban Development

EXISTING POLICY GUIDELINES

RENTAL

The set aside and income-restricted requirements under the existing bonus density program differ by zoning designations, by typology (e.g., rental vs ownership), and development standards (e.g., units per acre, building efficiency). The adjoining table illustrates the requirements for new construction rental developments by study area.

Based on the development standards, RKG assumed the maximum units a by-right development can yield per acre ('Max. Units per Acre'). RKG calculated the maximum bonus units per acre that a development could add at no extra land cost under the bonus density program ('Bonus Units per acre'). The two combined illustrate the maximum units a developer can yield going from a by-right development to using the bonus density program. The 'Bonus Incentive Requirements' lay out the set aside and area median income requirements for each study area.

Study Area	Max. Units per Acre	Bonus Units per Acre	Max. Units w/ Bonus per Acre	Bonus Incentive Requirements	
				Set Aside	AMI
GNOD	130	33	163	20%	60%
G1	16	8	24	20%	60%
G2	16	8	24	20%	60%
CD4	117	39	156	5%	60%
CD4-O	117	39	156	10%	60%
CD4-W	78	26	104	5%	60%
CD4-W-O	78	61	139	10%	60%
CD5	124	41	165	5%	60%
CD5-O	124	41	165	10%	60%

Max unit calculations for areas other than G1 and G2 were calculated based on dimensional requirements in the zoning.

The 'O' designation represents where there is an overlay district that intersects with these study areas

RENTAL WORKFORCE POLICY

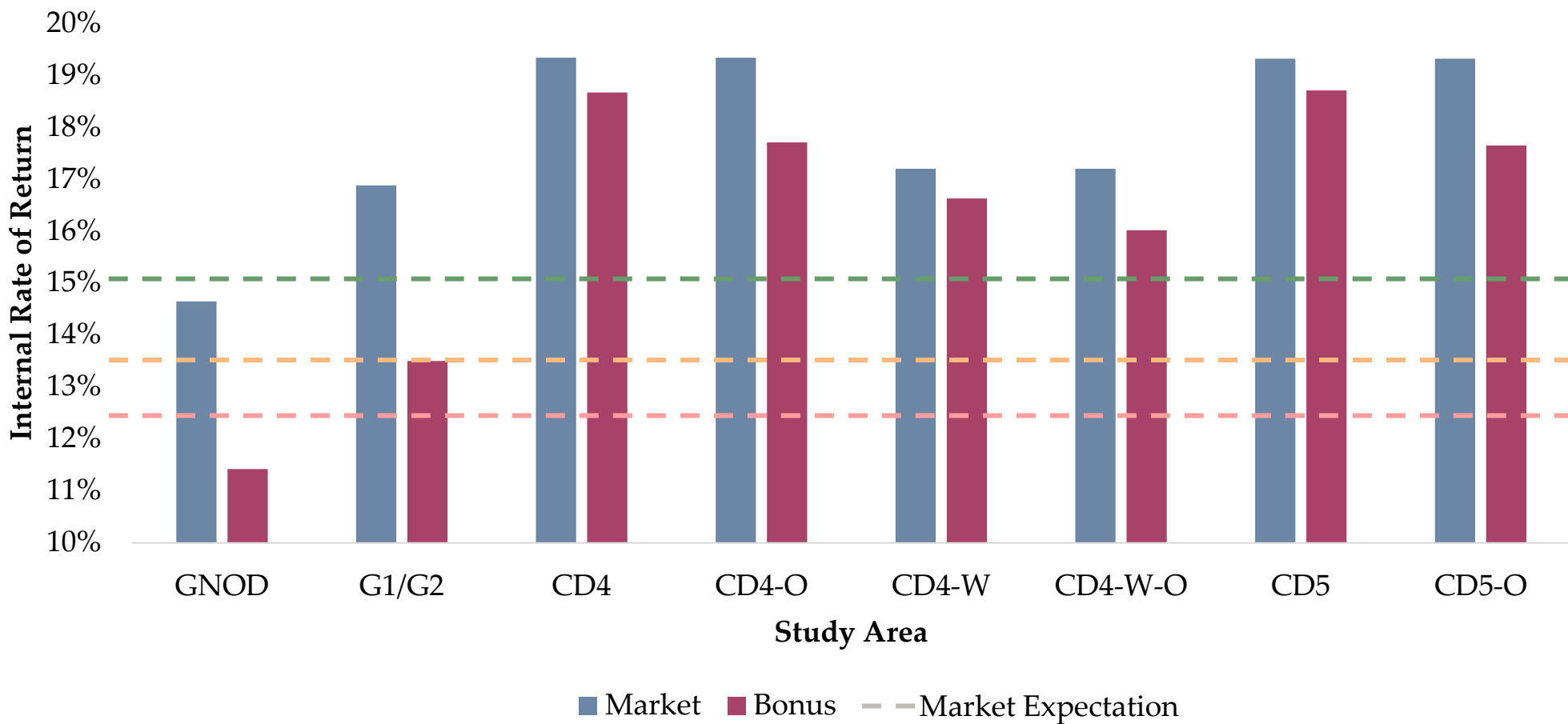
FINANCIAL IMPACTS

Development Typology: Apartment (Rental), Wood-Frame

Market: Max. units per acre by zoning

Bonus: Max. units with bonus per acre by zoning

Workforce Housing Financial Performance by Study Area



EXISTING POLICY GUIDELINES

OWNERSHIP

The set aside and income-restricted requirements under the existing bonus density program differ by zoning designations, by typology (e.g., rental vs ownership), and development standards (e.g., units per acre, building efficiency). The adjoining table illustrates the requirements for new construction ownership developments by study area.

Based on the development standards, RKG assumed the maximum units a by-right development can yield per acre ('Max. Units per Acre'). RKG calculated the maximum bonus units per acre that a development could add at no extra land cost under the bonus density program ('Bonus Units per acre'). The two combined illustrate the maximum units a developer can yield going from a by-right development to using the bonus density program. The 'Bonus Incentive Requirements' lay out the set aside and area median income requirements for each study area.

Study Area	Max. Units per Acre	Bonus Units (per Acre)	Max. Units w/ Bonus per Acre	Bonus Incentive Requirements	
				Set Aside	AMI
GNOD	130	33	163	20%	100%
G1	16	8	24	20%	100%
G2	16	8	24	20%	100%
CD4	117	39	156	10%	100%
CD4-O	117	39	156	20%	100%
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CD4-W-O	78	61	139	20%	100%
CD5	124	41	165	10%	100%
CD5-O	124	41	165	20%	100%

OWNERSHIP WORKFORCE POLICY

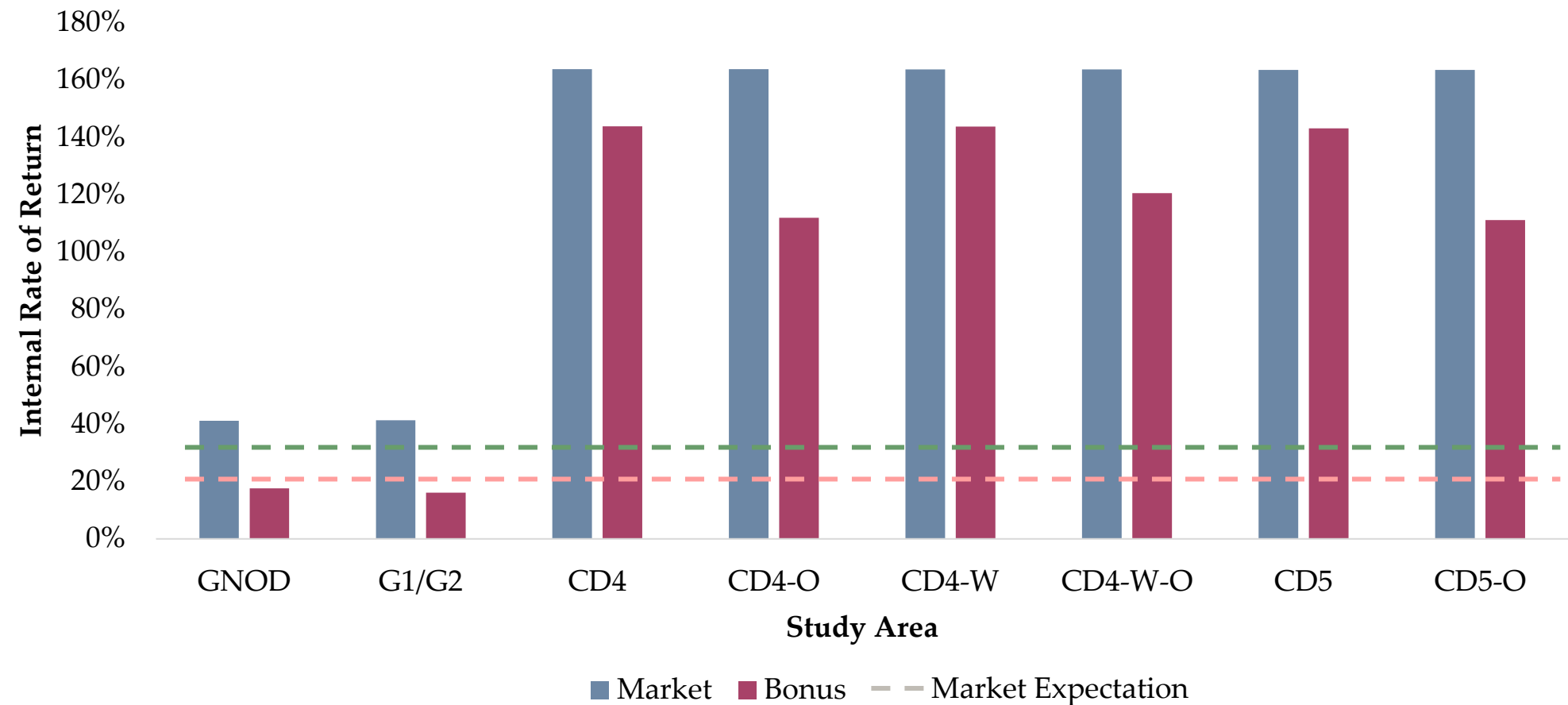
FINANCIAL IMPACTS

Development Typology: Condominiums (Owner-Occupied), Wood-Frame

Market: Max. units per acre by zoning

Bonus: Max. units with bonus per acre by zoning

Workforce Housing Financial Performance by Study Area



INSIGHTS & IMPLICATIONS

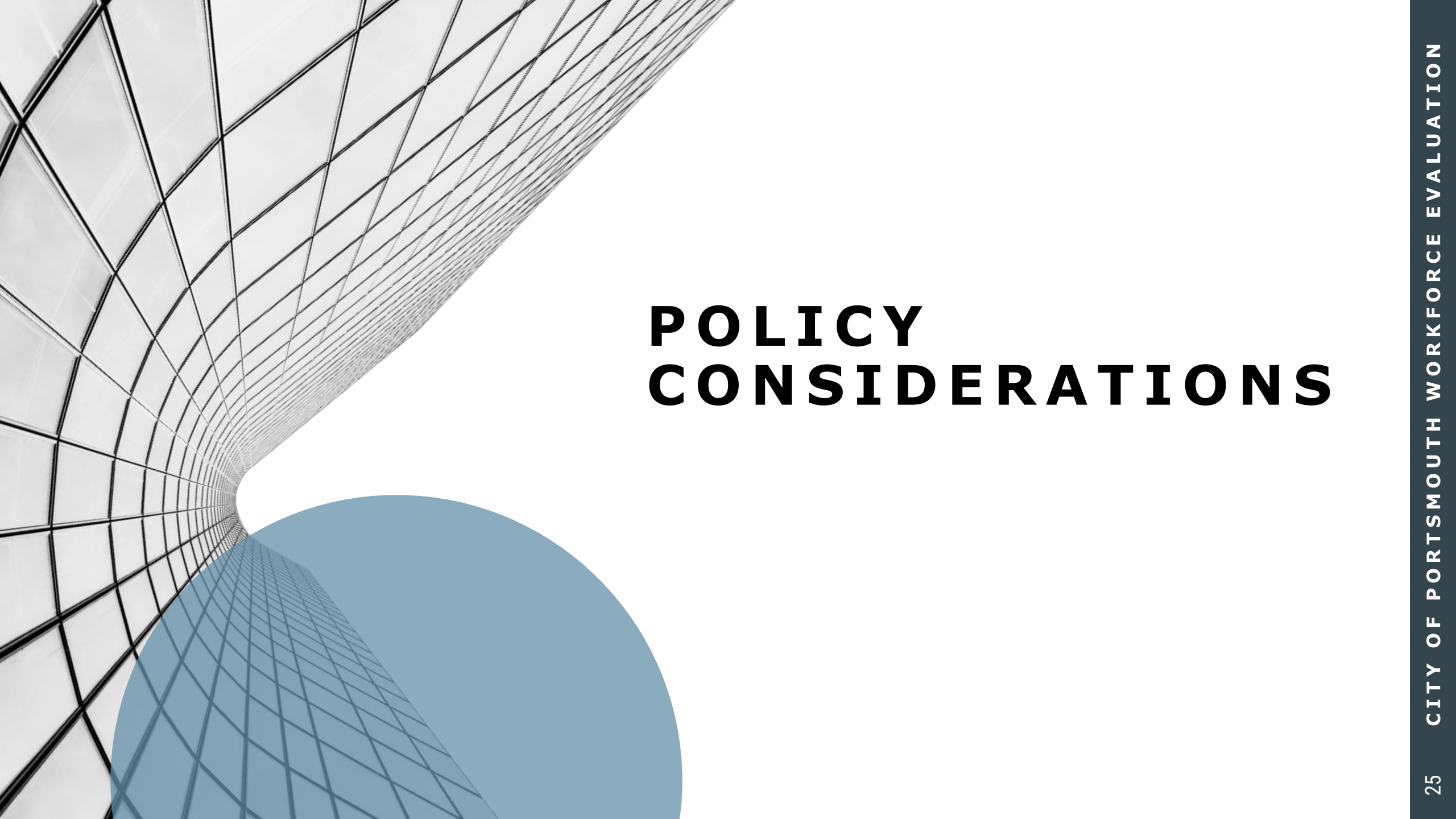
Existing policy conditions limit the opportunity for implementation.

The bonus density is not a required policy when developing in areas that allow for it, therefore the delivery of income-restricted units is optional through this program. The current language adversely impacts financial revenues thus developers do not create an incentive to use the policy. Study areas, G1 and G2, exhibit/showcases the impacts of the policy as they are hit the hardest financially with no incentive in return.

Workforce housing policy needs to be adjusted to provide a financial incentive for it to be effective.

The voluntary nature of the program will have developers avoid any program that does not financially benefit them. As such, the overlay districts (excluding CD4-W-O) essentially double the set-aside requirements without offering units in return thus only creating further financial challenges and a less inviting policy for developers to use. For a WH policy to be effective, the City will need to either provide financial assistance to make the current policy parameters feasible, or modify the current parameters to create feasibility, or a hybrid of the two. The following section details specific recommendations that address these potential approaches.





POLICY CONSIDERATIONS

CONSIDERATION # 1

Consider rewriting the zoning to limit the allowable density throughout Portsmouth.

The current zoning code allows substantial density for new development. As seen in the adjoining table, almost all the zones that allow multifamily development support development densities that exceed 100 units per acre when an owner exercises the bonus density option and nearly 80 units per acre when not using the bonus density. Simply put, the by-right level of development intensity exceeds what most developers would seek. As a result, the current bonus density program offers little incentive for developers particularly since the bonus density requires set-asides of 5% to 20% of ALL units to be income-controlled.

In other words, the city’s current zoning code allows sufficient density to make the bonus density program ineffective. The lone exceptions are in zoning areas G1 and G2, where base densities (16 units per acre) allow for the bonus density to create significant value that provides a sufficient incentive for a developer.

Study Area	Max. Units per Acre	Bonus Units (per acre)	Max. Units w/ Bonus per Acre	Bonus Incentive Requirements	
				Set Aside	AMI
GNOD	130	33	163	20%	60%
G1	16	8	24	20%	60%
G2	16	8	24	20%	60%
CD4	117	39	156	5%	60%
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CD5	124	41	165	5%	60%
CD5-O	124	41	165	10%	60%

CONSIDERATION # 2

Apply the workforce housing set aside requirement to only the bonus units.

The existing bonus density policy to build workforce housing is applied to the total development. Rather than applying the workforce requirements to total units in a development, RKG recommends to modify the existing policy to apply the requirements to the total number of bonus/incentive units being added. In almost all cases, it resulted in greater financial returns as compared to the existing policy requirements thus offering a greater incentive for developers to take advantage of. Additionally, RKG recommends to adjust the set aside requirements to 10% for zoning areas G1, G2, GNOD, and CD4-W.

RKG tested applying the workforce requirements ('Set Aside') to the amount of bonus units received ('Bonus Units') for rental and ownership project (as illustrated on the following two slides). For example, in the G2 zoning area, the 10% set aside would be applied to the 12 bonus units thus yielding 1.2 workforce units (1-unit rounded). Another example, using the CD4-O zoning area, 10% set aside would be applied to the 39 bonus units thus yielding 3.9 workforce units (4-units rounded).

Study Area	Max. Units per Acre	Bonus Units (per acre)	Max. Units w/ Bonus per Acre	Bonus Incentive Requirements	
				Set Aside	AMI
GNOD	130	33	163	20%	60%
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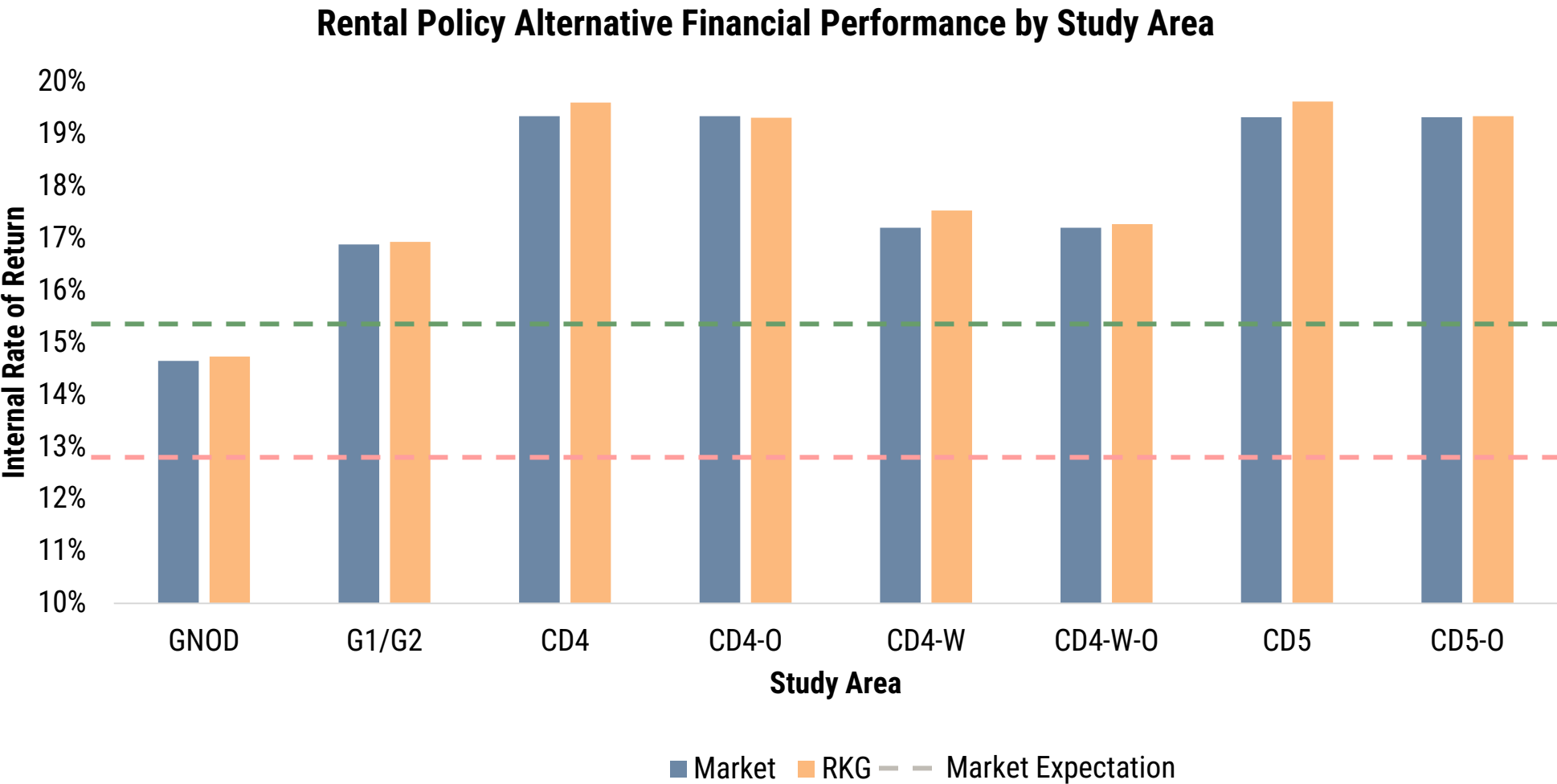
RKG recognizes there are pros and cons to this approach. The primary benefit is that financial returns are consistent or higher for projects that use the bonus density, making use of the WH policy more likely. The primary drawback is that it will deliver fewer workforce units compared to the existing policy language. That said, the current policy is highly unlikely to create any workforce units because of financial feasibility challenges.

CONSIDERATION # 2 - RENTAL

Development Typology: Apartment (Rental), Wood-Frame

Market: Max. units per acre by zoning

RKG: Workforce set aside % * Number of max. bonus units received



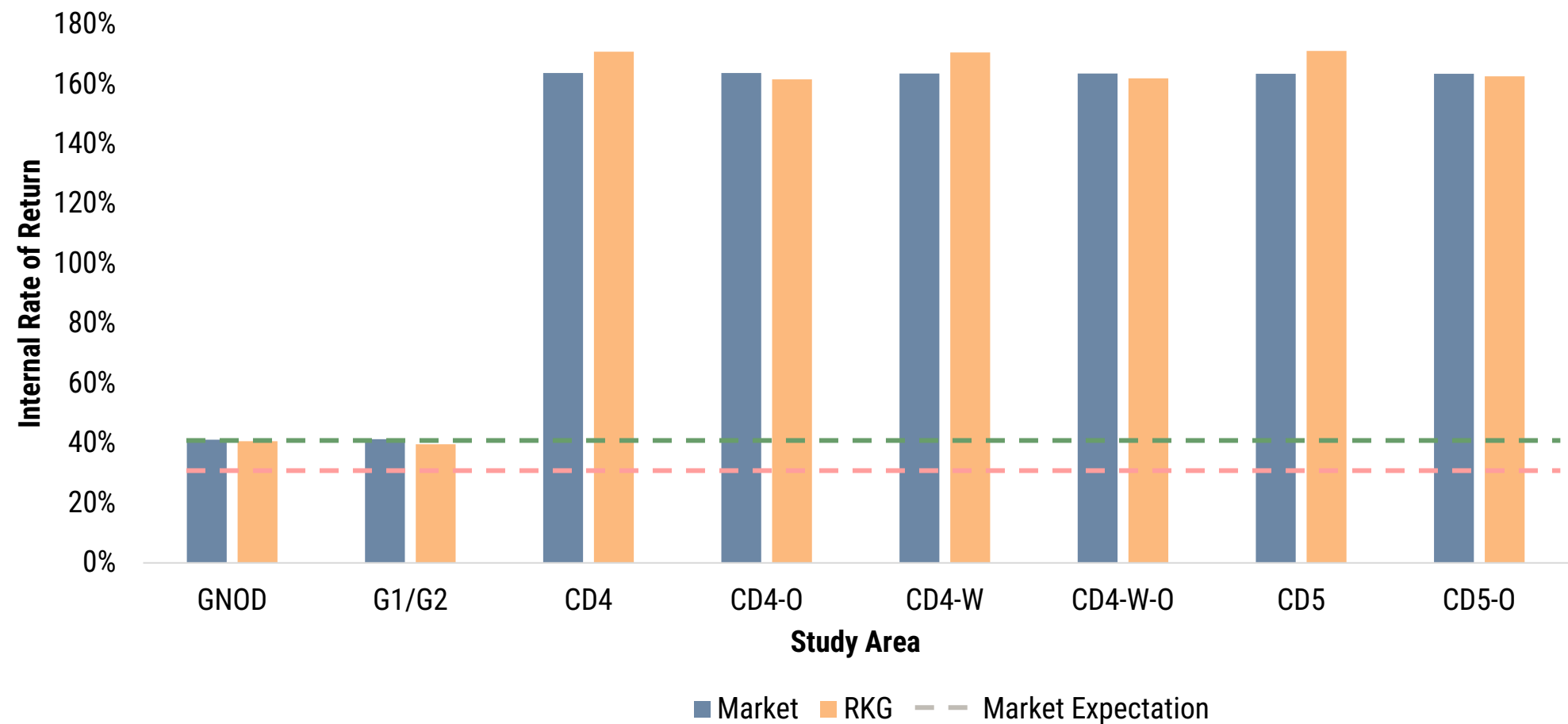
CONSIDERATION # 2 - OWNERSHIP

Development Typology: Condominium (Owner-Occupied), Wood-Frame

Market: Max. units per acre by zoning

RKG: Workforce set aside % * Number of max. bonus units received

Ownership Policy Alternative Financial Performance by Study Area



CONSIDERATION #3

Provide financial incentives to current bonus density policy.

Current market conditions indicate the existing workforce policy creates negative financial impacts on revenues; thus, developers will not take advantage of the opportunity. RKG recommends for the City to consider an umbrella of funding tools and strategies by providing different financial incentives to create feasibility. Sources of financial strategies can come from the federal, state, and/or local level.

State programs offered by New Hampshire to promote affordable housing include:

- **InvestNH – Multifamily Capital Grant Program**

A \$60 million program for nonprofit and for-profit developers and/or owners of multi-family rental housing of three (3) or more units per structure that add housing stock that will be used for long-term residential rentals only.

- **Regional Economic Development Center (REDC)'s Building Roots Home Fund.**

REDC's Building Roots Home Fund is a program to support the development of new rental properties with a minimum of five units in New Hampshire. The fund will focus on workforce housing for low- to moderate-income persons.

- **Apply local tax abatements for affordability**

In addition to State funds, the City can participate in providing financial relief through local programs. These local programs can be a form of direct investment such as committing a housing trust fund for the development of workforce housing units. A tax abatement program can further incentivize development of income-controlled units. These are used to reduce the taxable value of a property over a prescribed period (e.g., 10-year tax abatement applied to the workforce units).

Using the GNOD study area as an example, RKG tested what the amount of cash subsidy necessary to reach financial feasibility and the percentage of tax that an industry standard abatement would need to be under the current WH policy. The following page details the results of this analysis.

Benefits to this approach are it creates financial feasibility without rewriting the zoning code and helps meet housing expectations. A drawback to this approach is it requires direct investment or a deferral of new incremental real property tax revenue for the duration of the abatement.

CONSIDERATION #3

The following table details the results of the analysis. As seen, a cash program would require approximately \$50,000 per door under current policy. The financial subsidy would be reduced by approximately half if the set aside requirement is reduced from 20% to 10%.

GNOD Study Area		
Development Standards	Current Policy	Financial Benefit
130 units w/out bonus → 163 units w/ bonus	20% at 60% AMI (Apartments)	Cash program would require \$7.5M (\$46k per door) OR Tax abatement program at 60% reduction of the property's taxes owed over 10 years.
130 units w/out bonus → 163 units w/ bonus	10% at 60% AMI (Apartments)	Cash program would require \$3.5M (\$22k per door) OR Tax abatement program at 25% reduction of the property's taxes owed over 10 years.

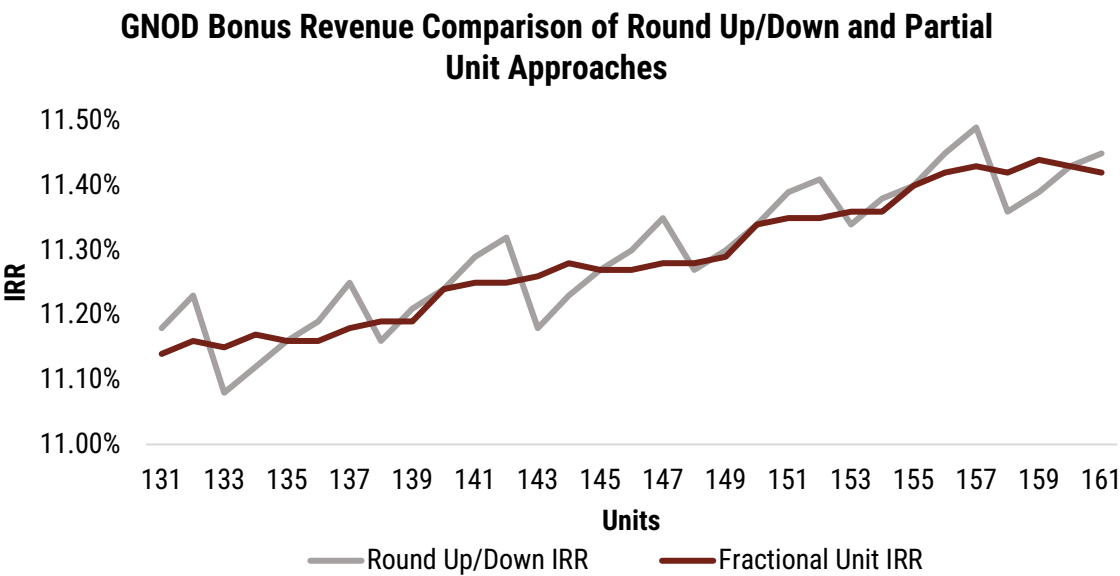
CONSIDERATION #4

Change the partial unit calculation rule.

The existing policy’s rule is defined as any fractional units at 0.5 or greater is rounded up to the nearest whole number, and any fractional units below 0.5 is rounded down to the nearest whole number. This creates financial instability based on project size (see ‘Round Up/Down IRR’ on chart). RKG recommends yielding a pro rata share of the partial unit and receiving cash payments in lieu, as this would “flatten” the variance for financial returns (see ‘Fractional Unit IRR on chart). For example, a proposed development with 52 rental units subjected to a percentage set aside of 10% would result in 5.2 income-controlled rental units. This approach is considered most fair to developers and least harmful to smaller scale developments. RKG recommends for the City to set the calculation of the payment value for a fractional unit using the value gap method.

Benefits to this approach are it flattens financial variance/gaps that can influence developer behavior, increases cash contributions to a Housing Trust Fund, and if used in combination with lowering the minimum unit threshold (recently approved payment in lieu), it would create additional cash payments to the Fund. A drawback to this approach is fractional unit calculations that are greater than 0.5 will be cash payments to the Fund rather than the delivery of a full unit.

GNOD District	
Units	Round Up/Down (Fractional Unit)
131	26 (26.2)
132	26 (26.4)
133	27 (26.6)
134	27 (26.8)
135	27 (27)
...	...
160	32 (32)
161	32 (32.2)



CONSIDERATION # 5

Consider adopting a Housing Opportunity Zone (79-E:4-c)

New Hampshire’s Community Revitalization Tax Relief Incentive (RSA 79-E) allows a municipality to temporarily exempt the increase in assessed value created by new construction or substantial rehabilitation. Land and any pre-existing improvements remain fully taxable, so the existing tax base is retained and only the incremental revenue is deferred. When the relief period ends, the property is taxed at full market value.

Portsmouth can consider adopting the Housing Opportunity Zone from RSA 79-E policy options. A Housing Opportunity Zone (HOZ) focuses on the replacement of underutilized existing buildings for new development that provides a public benefit (e.g., affordable housing).

As a charter city, the City Council may adopt the chapter by resolution or ordinance and may rescind it the same way without affecting relief already granted. Each geographic zone is adopted separately, meaning the City can have multiple HOZs.

RSA 79-E pathways		
Zone or provision	Applies to	Maximum relief
Downtown or village center: rehabilitation	Rehabilitation costing at least 15% of pre-rehabilitation assessed value, or \$75,000, whichever is less	5 years, plus 2 for new residential units, 4 for affordable housing, 4 for historic
Downtown or village center: replacement	Demolition of an existing qualifying structure and new construction on the same lot	5 years from completion of construction (RSA 79-E:5, I-a)
Housing Opportunity Zone (RSA 79-E:4-c)	New construction; at least one-third of units at or below 80% AMI	10 years from certificate of occupancy
Office conversion zone (RSA 79-E:4-d)	Office space converted to residential use	Per RSA 79-E:5; repeals January 1, 2035
Residential revitalization zone (RSA 79-E:4-b)	Homes of 1 to 4 units at least 40 years old	Per RSA 79-E:5

CONSIDERATION # 5

Considerations for HOZ zones

BENEFITS OF A HOUSING OPPORTUNITY ZONE

Drives new construction. It is the only pathway in the chapter that applies to ground-up housing without requiring an existing structure to rehabilitate, replace, or convert.

Guarantees workforce housing. Developments must guarantee that at least one-third (30%) of the units remain affordable to households making 80% or less of the AMI.

Longer financial relief. HOZ provides up to 10 years of tax relief, running from the certificate of occupancy rather than from completion of construction. Most of the other zones offer only five years.

Protects the existing tax base. Only the incremental value is exempt; land and pre-existing improvements remain taxable throughout.

Targeted and discretionary. The zone can be geographically drawn around areas of the City, and each application is approved individually.

DRAWBACKS OF A HOUSING OPPORTUNITY ZONE

Threshold mismatch. The one-third set aside requirement sits well above the current 5% to 20% set asides

Target income higher than existing policies. 80% AMI is above the 60% AMI standard in the current policy: more units, less depth.

Deferred revenue for the City. Incremental tax revenue is forgone for up to 10 years on each approved project.

Risk of over-subsidy. Relief exempts the full increment rather than a set percentage.

Grant ceiling. RSA 79-E:14 bars relief where non-repayable state or federal grants exceed half of construction costs.

Narrow reach. Using only the HOZ approach does not address rehabilitation or replacement of existing residential buildings without a net increase in units.

Multi-Year Administration. Municipalities must actively monitor compliance, execute annual income verifications for occupants, and manage legal covenants recorded at the Registry of Deeds to ensure the developer maintains the affordable units for the duration of the tax freeze.

Portsmouth Draft Ordinance – Adapted from Town of Conway Community Revitalization Tax Incentive

Purpose.

The Community Revitalization Tax Relief Incentive program permitted by RSA 79-E, allows a tax relief period intended to incentivize the substantial rehabilitation of qualifying structures; the construction of new affordable housing within Housing Opportunity Zones; and the conversion of office, commercial, or industrial buildings to residential use where such projects create affordable housing.

. The City of Portsmouth hereby adopts RSA 79-E in the manner specified under RSA 79-E:3. In addition, the City has modified the incentive program to best suit the needs of Portsmouth.

Declaration of public benefit.

It is declared to be a public benefit to create long-term affordable housing within the City of Portsmouth. A protective covenant to maintain long-term and affordable residential units, as required under this ordinance, is considered to provide a demonstrated public benefit.

Definitions.

As used in this chapter, the following terms shall have the meanings indicated:

AFFORDABLE HOUSING — A long-term, non-transient housing unit or units constructed or rehabilitated and designated for households with an income of 80% or less of the area median income as measured by the United States Department of Housing and Urban Development or designated for households with incomes as provided in RSA 204-C:57, IV.

COVENANT — A formal and legally binding agreement such as a deed restriction or other acceptable agreement recorded at the Rockingham County Registry of Deeds. The covenant may be effective for a period of time up to twice the duration of the tax relief period.

HOUSING OPPORTUNITY ZONE — An overlay district, as depicted on the Official RSA 79:E Map of the City of Portsmouth which includes all zoning districts with the exception of land within the Floodplain Conservation Overlay District or non-buildable areas as outlined in applicable zoning regulations.

Zones to consider:

CD4-W

G-1

G-2

Business

QUALIFYING STRUCTURE — A residential or mixed-use structure, or portion thereof, containing at least one affordable housing unit within a Housing Opportunity Zone. A minimum of one-third (1/3) of the total dwelling units shall be restricted as Affordable Housing. In addition, a Qualifying Structure shall include a. new construction of housing units located within a Housing Opportunity Zone; and b. any office, commercial, or industrial building or structure, in whole or in part, that is converted to residential use and that complies with the requirements of this chapter.

REPLACEMENT — The demolition or removal of a qualifying structure and the construction of a new structure on the same lot.

SUBSTANTIAL REHABILITATION — Rehabilitation of a structure which costs at least 10% of the pre-rehabilitation assessed valuation or at least \$35,000; whichever is less.

TAX RELIEF — A period of time, as determined by the City Council in accordance with this ordinance, which the property tax on a qualifying structure shall not increase pursuant to Chapter 26.

RESIDENTIAL CONVERSION — The conversion of an office, commercial, or industrial building or structure, in whole or in part, to residential use.

Community revitalization tax relief incentive.

An owner of a proposed qualifying structure who intends to: substantially rehabilitate a qualifying structure; replace a qualifying structure; construct new affordable housing units within a Housing Opportunity Zone; or convert an office, commercial, or industrial building or structure to residential use

- A. may apply to the City Council for community revitalization tax relief. The applicant shall file a complete application, including, a description of the intended rehabilitation, replacement, or construction; any changes in use of the property resulting from the rehabilitation or replacement, and associated application fee.
- B. Tax relief granted under this chapter shall be calculated on the value in excess of the original assessed value. Original assessed value shall mean the value of the qualifying structure assessed at the time the City Council approves the application for tax relief.
- C. The tax relief granted under this chapter shall only apply to substantial rehabilitation, replacement, or construction that commences after the City Council approves the application for tax relief and the owner grants to the City the covenant to protect the public benefit as required in this chapter.

Duration of tax relief period.

A. The City Council may grant such tax assessment relief for a period of up to 15 years, beginning with the completion of the construction.

- (1) For the approval of a replacement of a qualifying structure, the City Council may grant such tax assessment relief for a period of up to 15 years, beginning only upon the completion of construction. For the purposes of this section, the issuance of a certificate of occupancy shall constitute completion of construction. The municipal tax assessment of the replacement structure and the property on which it is located shall not increase or decrease in the period between the approval by the City Council for the replacement structure and the time the owner completes construction of the replacement structure and grants to the City the covenant to protect the public benefit as required by this chapter. The City Council have no obligation to grant any tax assessment relief under this chapter with respect to property and structures for which an election has been made for property appraisal under NH RSA 75:1-a, Residential Property Subject to Housing Covenant Under the Low-Income Housing Tax Credit Program.

B. Upon receipt of an application, the Planning Department will review the proposal for compliance or zoning issues.

C. The City Council will hold a duly noticed public hearing to take place no later than 60 days from receipt

of an application, to determine whether the structure at issue is a qualifying structure and whether there is a public benefit to granting the requested tax relief.

- D. Upon the determination of a qualify structure by the City Council, the property owner must consent to an inspection of the property by the Assessing Department to establish a property value prior to any proposed construction.
- E. No later than 45 days after the public hearing, the City Council shall render a decision granting or denying the requested tax relief and, if so granting, establishing the tax relief period.
- F. The City may grant the tax relief, provided:
 - (1) The City Council grant the request by a majority vote; and
 - (2) The City Council finds a public benefit as defined in this chapter; and
 - (3) The specific public benefit is preserved through a protective covenant; and
 - (4) The City Council finds that the proposed use is consistent with the municipality's Master Plan and regulations; and
 - (5) In the case of a replacement, the City Council specifically finds that the replaced qualifying structure does not possess significant historical, cultural, or architectural value, the replacement of a qualifying structure will achieve one or more of the public benefits identified in Chapter 26 to a greater degree than the renovation of the underutilized structure, and the historical, cultural, or architectural resources in the community will not be adversely affected by the replacement.
- G. If the City Council grants the tax relief, they shall identify the specific public benefit achieved under Chapter 26, and shall determine the precise terms and duration of the covenant to preserve the public benefit under this chapter.
- H. The City Council shall have no obligation to grant an application for tax relief for properties when its determined, in the Boards sole discretion, that the granting of tax relief will impede, reduce, or negatively affect the community.

Extent of tax relief.

Tax relief granted under this chapter shall pertain only to assessment increases attributable to: the substantial rehabilitation of a qualifying structure; the construction of new housing units eligible under this chapter; or the conversion of office, industrial, or commercial space to residential use;

performed under the conditions approved by the City Council

and shall not apply to increases attributable to market forces or other unrelated factors.

- A.
- B. No commercial portion of a qualifying structure shall be eligible for tax relief.

Covenant to protect public benefit.

- A. Tax relief for the substantial rehabilitation or replacement of a qualifying structure shall be effective only after a property owner grants to the municipality a covenant ensuring that the structure shall be maintained and used in a manner that furthers the public benefits for which the tax relief was granted and as otherwise provided in this chapter.

- B. The covenant shall be coextensive with the tax relief period. The covenant may, if required by the City, be effective for a period of time up to twice the duration of the tax relief period.
- C. The covenant shall include provisions requiring the property owner to obtain and maintain a certificate of occupancy for the duration of the tax relief period.
- D. The covenant shall include provisions requiring the property owner to obtain casualty insurance, and flood insurance if appropriate. The covenant may include, at the City Council's sole discretion, a lien against proceeds from casualty and flood insurance claims for the purpose of ensuring proper restoration or demolition of damaged structures and property. If the property owner has not begun the process of restoration, rebuilding, or demolition of such structure within one year following damage or destruction, the property owner shall be subject to the termination of provisions set forth in the chapter.
- E. The covenant shall restrict all residential units within a qualifying structure for long-term use with a minimum tenancy of six months.
- F. The covenant must require the leasee of any unit restricted for affordability not be the property owner, including the member or owner of any company (LLC, S-corp, C-corp, partnership of any kind or the beneficiary of any trust) with an ownership interest in the property.
- G. To protect public benefits, the City must record the covenant with the registry of deeds. It shall be a burden upon the property owner and must bind all transferees and assignees of such property.
- H. The applicant shall provide to the City a draft covenant, prepared by legal counsel, prior to recording. The applicant shall be responsible for the cost of recording the covenant.

Resumption of full tax liability.

Upon expiration of the tax relief period, the property shall be taxed at its market value in accordance with RSA 75:1.

Termination of covenant; reduction of tax relief; penalty.

- A. If the owner fails to maintain or utilize the building according to the terms of the covenant, or fails to restore, rebuild, or demolish the structure following damage or destruction as provided in this chapter, the City Council shall, after a duly noticed public hearing, determine whether and to what extent the public benefit of the rehabilitation or replacement has been diminished and shall determine whether to terminate or reduce the tax relief period in accordance with such determination. If the covenant is terminated, the City shall assess all taxes to the owner as though no tax relief was granted.
- B. At any time during the tax relief period, the City may demand current lease agreements or other applicable documents to verify the public benefit is maintained.
- C. All taxes levied pursuant to RSA 79-E:9 which are not paid when due shall be collected in the same manner as provided in RSA 80 and be subject to penalties defined in RSA 79-E:9.