CITY OF PORTSMOUTH

WORKFORCE HOUSING POLICY EVALUATION

JULY 2025

PREPARED BY RKG ASSOCIATES

RKG ASSOCIATES INC

STUDY INTENTION

The City of Portsmouth has an existing workforce housing 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. An Inclusionary Zoning (IZ) 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'). IZ 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. Given New Hampshire does not allow for IZ to be required, the housing policy needs to provide a financial inducement to developers for it to be used.

This analysis provides an understanding of testing of the 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

ANALYSIS APPROACH

Construction Costs

- Soft costs – design and preparation
- Hard costs – materials and construction
- Land costs – physical location

Operation Costs

- Financing costs – debt and equity to pay for the project
- Traditional ‘OpEx’ categories (e.g., marketing, management, repairs)
- Real property taxes

Operational Revenues

- Rental rates and sale prices (ownership)
- Parking revenue
- Other revenues (e.g., vending/laundry)

Data Sources

- CoStar, Redfin, Zillow, Apartments.com, US HUD

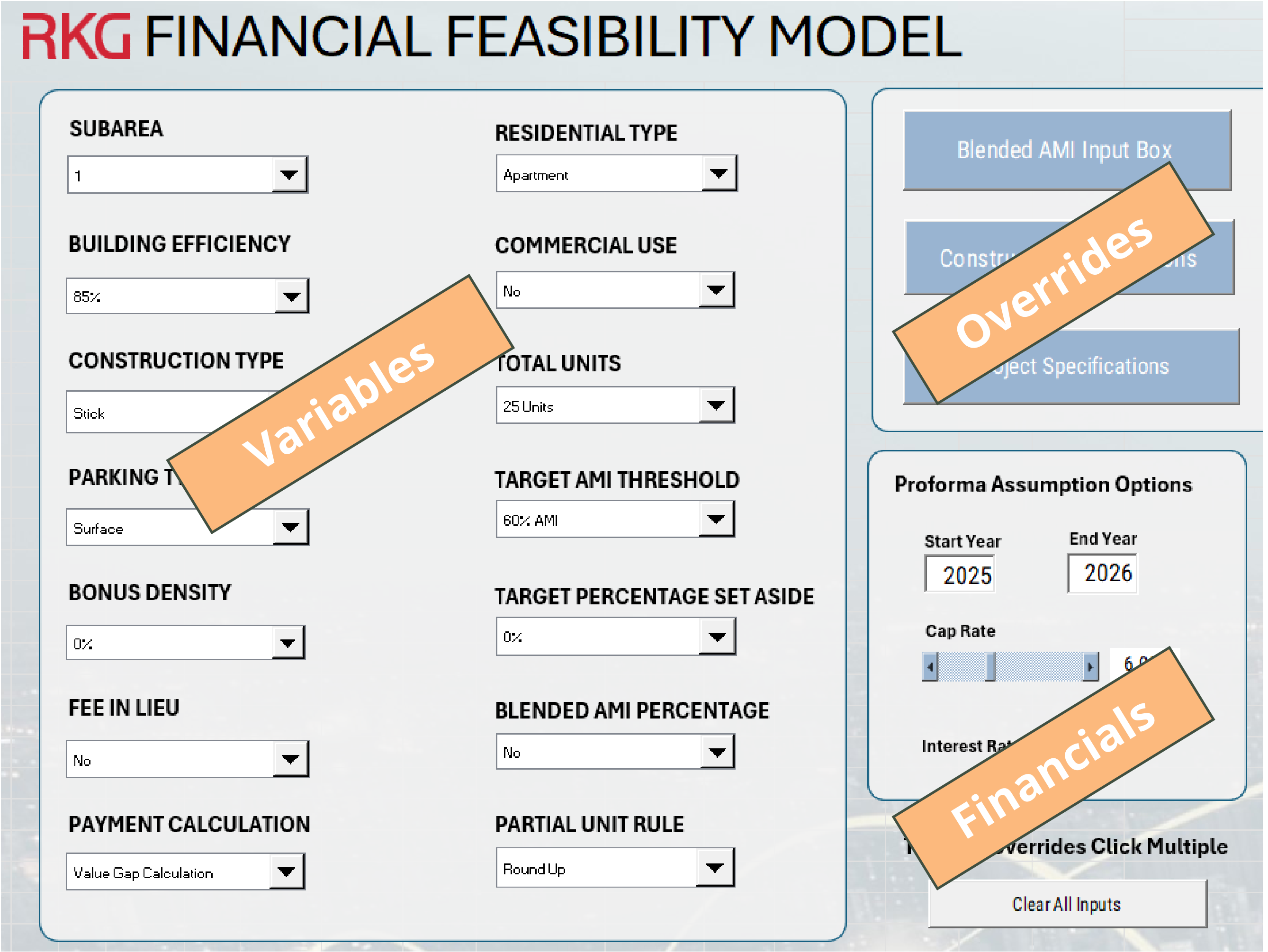
Rates of Return

- Internal Rate of Return (IRR) – Impact of the time-value of money
- Return on Cost (ROC) – Performance of the full asset

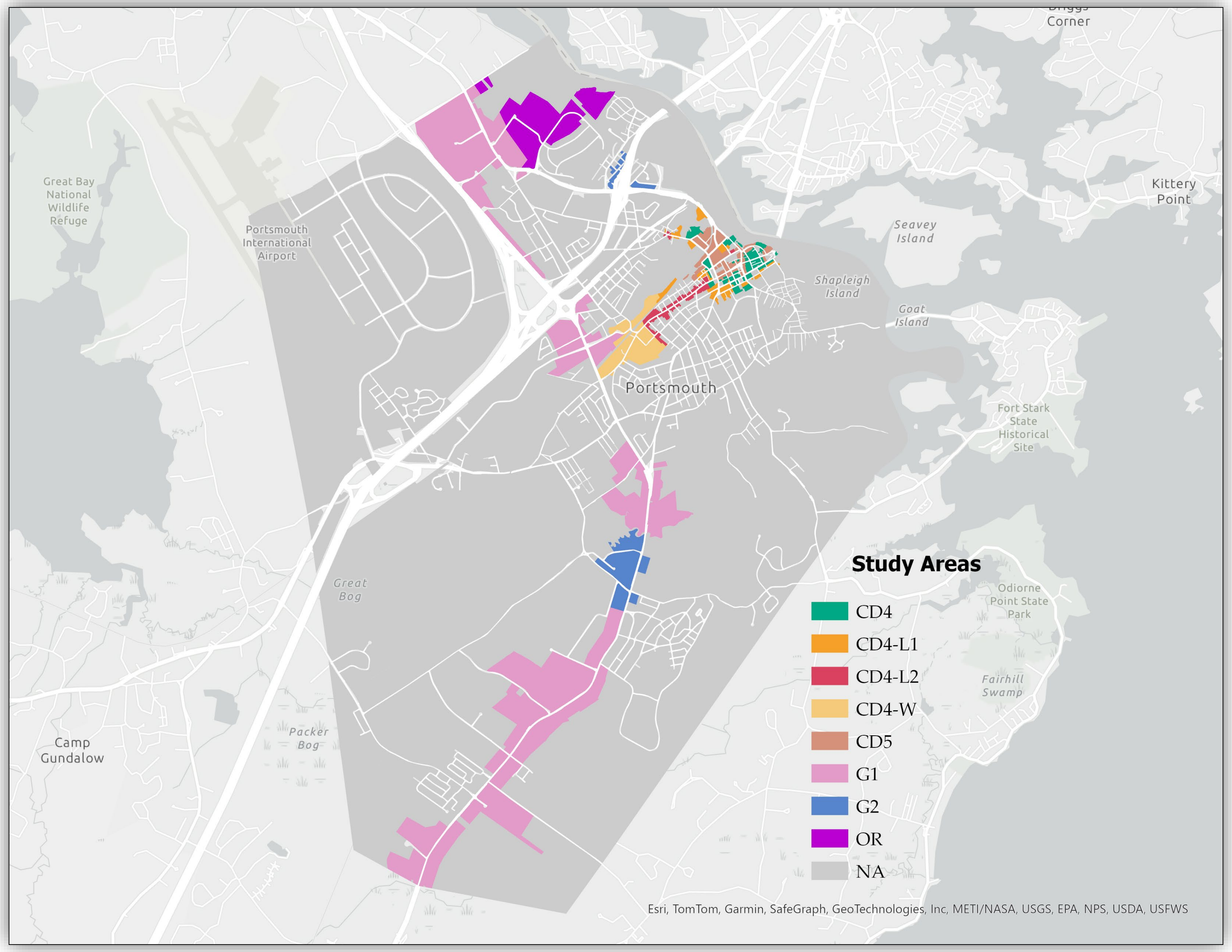
Return Expectations	Conservative	Moderate	Aggressive
Rental			
IRR	12.5%	13.5%	15.0%
ROC	5.75%	6.00%	6.50%
Ownership			
IRR	20.0%	25.0%	30.0%

FINANCIAL MODEL

- Model runs on market data collected through research and interviews
- Variables allow user to select common development types, location, and affordability requirements
- Model design allows user to customize for a unique project
- Financials deal with both financing and incentives
- RKG will run this model to determine of various potential IZ policy changes



STUDY AREAS



Corner
Kittery Point
Great Bay National Wildlife Refuge
Portsmouth International Airport
Seavey Island
Shapleigh Island
Goat Island
Portsmouth
Fort Stark State Historical Site
Study Areas
CD4
CD4-L1
CD4-L2
CD4-W
CD5
G1
G2
OR
NA
Great Bog
Odiorne Point State Park
Fairhill Swamp
Packer Bog
Camp Gundalow
Esri, TomTom, Garmin, SafeGraph, GeoTechnologies, Inc, METI/NASA, USGS, EPA, NPS, USDA, USFWS

Analysis Background

HUD INCOME THRESHOLDS BY HH SIZE

	1P	2P	3P	4P
30% AMI	$27,570	$29,535	$33,465	$37,395
40% AMI	$36,760	$39,380	$44,620	$49,860
50% AMI	$45,950	$49,225	$55,775	$62,325
60% AMI	$55,140	$59,070	$66,930	$74,790
70% AMI	$64,330	$68,915	$78,085	$87,255
80% AMI	$73,520	$78,760	$89,240	$99,720
90% AMI	$82,710	$88,605	$100,395	$112,185
100% AMI	$91,900	$98,450	$111,550	$124,650

Source: Department of Housing and Urban Development

MAX AFFORDABLE RENTS BY BEDROOMS

	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

Workforce Housing Analysis

EXISTING WORKFORCE POLICY GUIDELINES
RENTAL

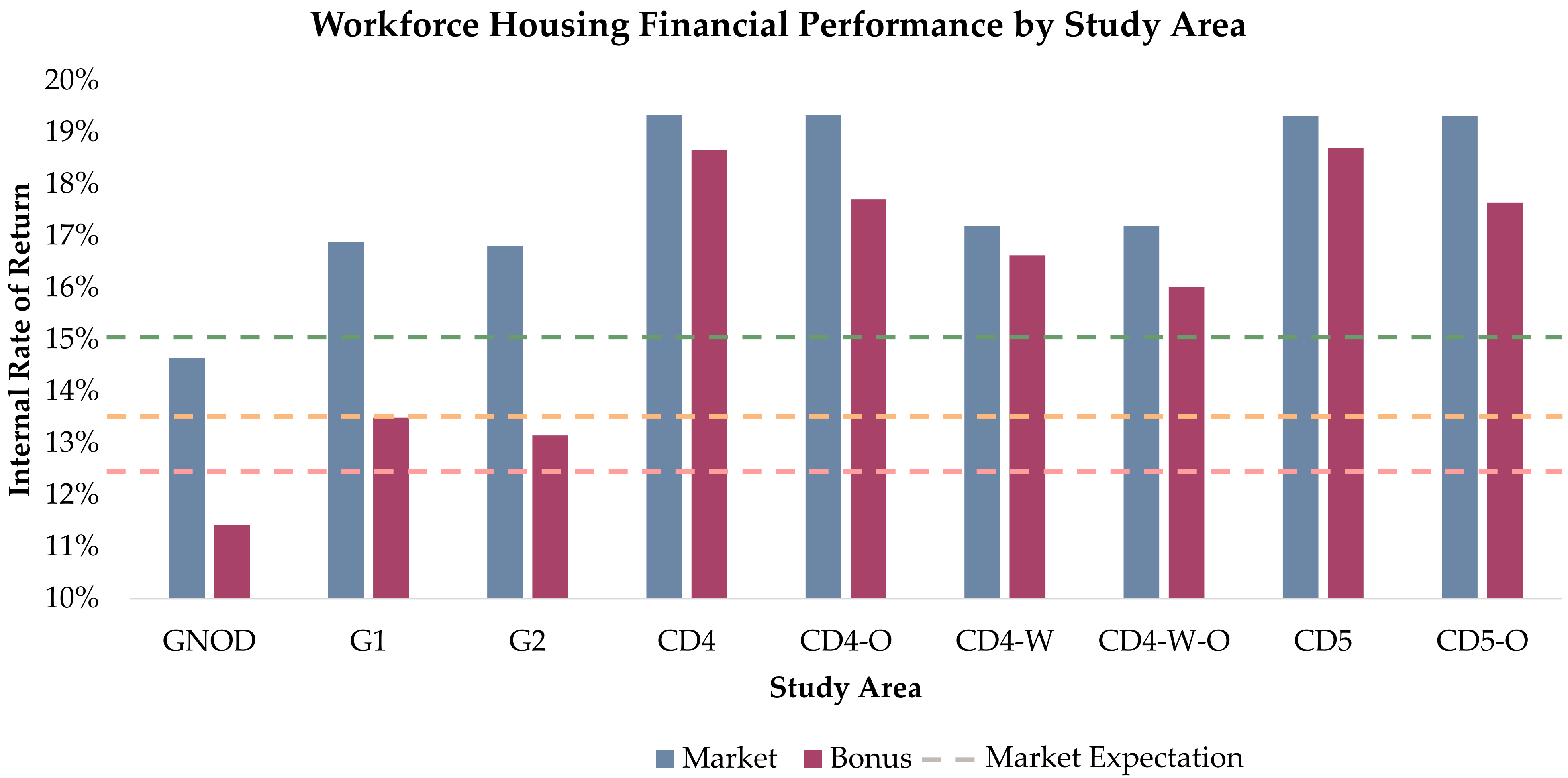
Study Area	Max. Units per Acre	Bonus Units (per Acre)	Max. Units w/ Bonus per Acre	Bonus Incentive Requirements	
				Set Aside	AMI
GNOD	130	33	163	20%	60%
G1	16	8	24	20%	60%
G2	24	12	36	20%	60%
CD4	117	39	156	5%	60%
CD4-O	117	39	156	10%	60%
CD4-W	78	26	104	5%	60%
CD4-W-O	78	61	139	10%	60%
CD5	124	41	165	5%	60%
CD5-O	124	41	165	10%	60%

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



EXISTING WORKFORCE POLICY GUIDELINES

OWNERSHIP

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	24	12	36	20%	100%
CD4	117	39	156	10%	100%
CD4-O	117	39	156	20%	100%
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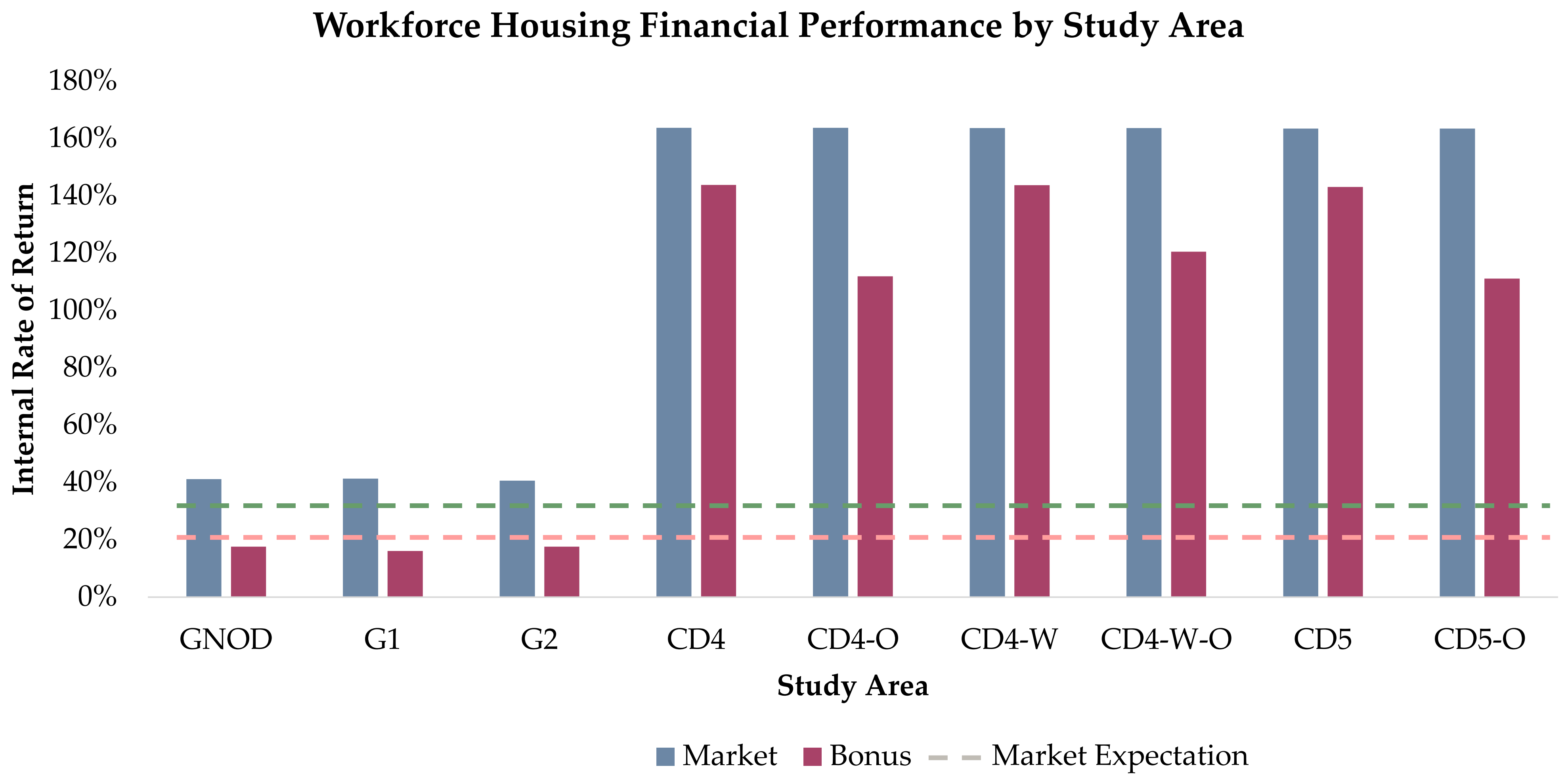
CD5	124	41	165	10%	100%
CD5-O	124	41	165	20%	100%

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



IMPLICATIONS – EXISTING BONUS POLICY

- **Existing policy conditions limit the opportunity for implementation**
  - Using the bonus density is not required therefore the delivery of income-restricted units is optional through this program
  - The current language adversely impacts financial revenues thus developers do not have an incentive to use the policy
  - G1, G2 study areas hit hardest financially

- **Overlay districts (excluding CD4-W-O) creates further financial challenges**
  - Shifting to an overlay district in the same zoning study area essentially doubles the set aside requirements (e.g., 10% → 20%) without offering more units in return

- **Workforce housing policy needs to be adjusted to provide a financial incentive for it to be effective**
  - The voluntary nature will have developers avoid any program that does not financially benefit them
  - Modifications can range from calculation adjustments to retooling requirements

PRELIMINARY STRATEGY OPTIONS

What are some of the options available to the City to transform the workforce housing policy to be financially attractive to the development community?

- **Apply the workforce housing set aside requirement to only the bonus units**
  - Rather than applying the workforce requirements the number of total units in the development, 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
- **Provide regulatory benefits or financial incentives to developments that use bonus density**
  - State subsidies (InvestNH – Multifamily Capital Grant Program, REDC – Building Roots Home Fund)
  - Federal subsidies (e.g., LIHTC)
  - Tax abatement or stabilization program
  - Additional local investments (e.g., Housing Trust Fund, direct investment)
- **Change the partial unit calculation rule**
  - Current policy is round up above 0.5 and round down below 0.5
  - This creates financial instability based on project size
  - Adopting a partial unit value payment “flattens” the variance for financial returns
  - Also enables reducing minimum unit threshold requirements

ALTERNATIVE STRATEGIES

What other options are available to create workforce housing?

- **Modify overlay district development standards**
  - The policy does not offer enough additional units to offset the financial impacts of the workforce units
  - Reducing by-right standards and increasing the bonus density incentive can mitigate the financial gap

POTENTIAL ALTERNATIVE #1

Applying current workforce housing requirements to bonus units only

- **Change the set aside so that it only applies to the bonus units and not the by-right units.**
- **Change current set asides to 10% for 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 projects
  - G2 → 10% set aside * 12 units = 1.2 units (1 unit rounded)
  - CD4-O → 10% set aside * 39 units = 3.9 units (4 units rounded)
- Pros
  - Financial returns are consistent or higher for projects that use the bonus density
- Cons
  - Lower number of workforce units delivered compared to existing policy language

Study Area	Max. Units per Acre	Bonus Units (per acre)	Max. Units w/ Bonus per Acre	Bonus Incentive Requirements	
				Set Aside	AMI
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G1	16	8	24	20%	60%
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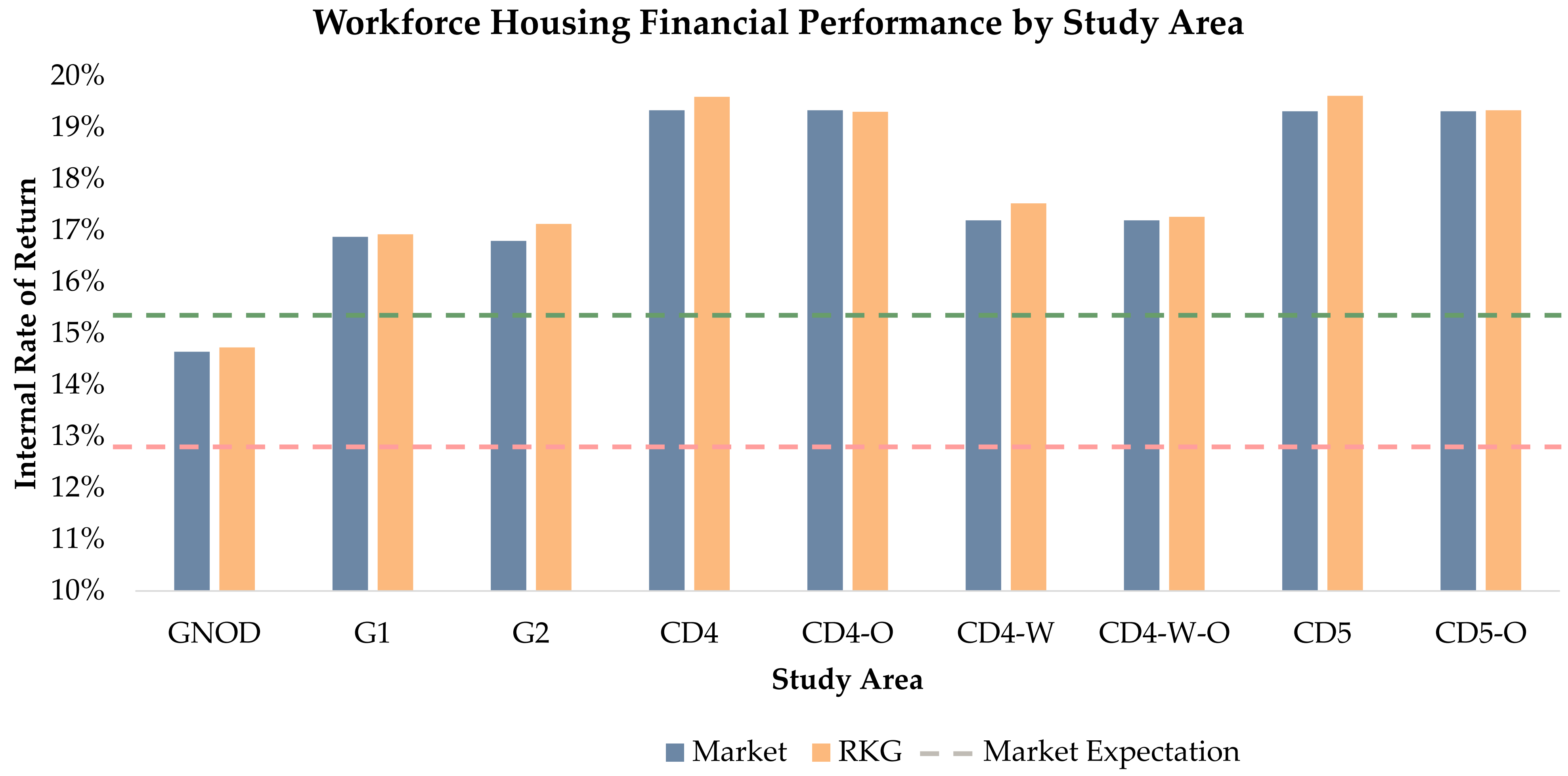
POTENTIAL ALTERNATIVE #1 - RENTAL

Development Typology: Apartment (Rental), Wood-Frame

Market: Max. units per acre by zoning

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

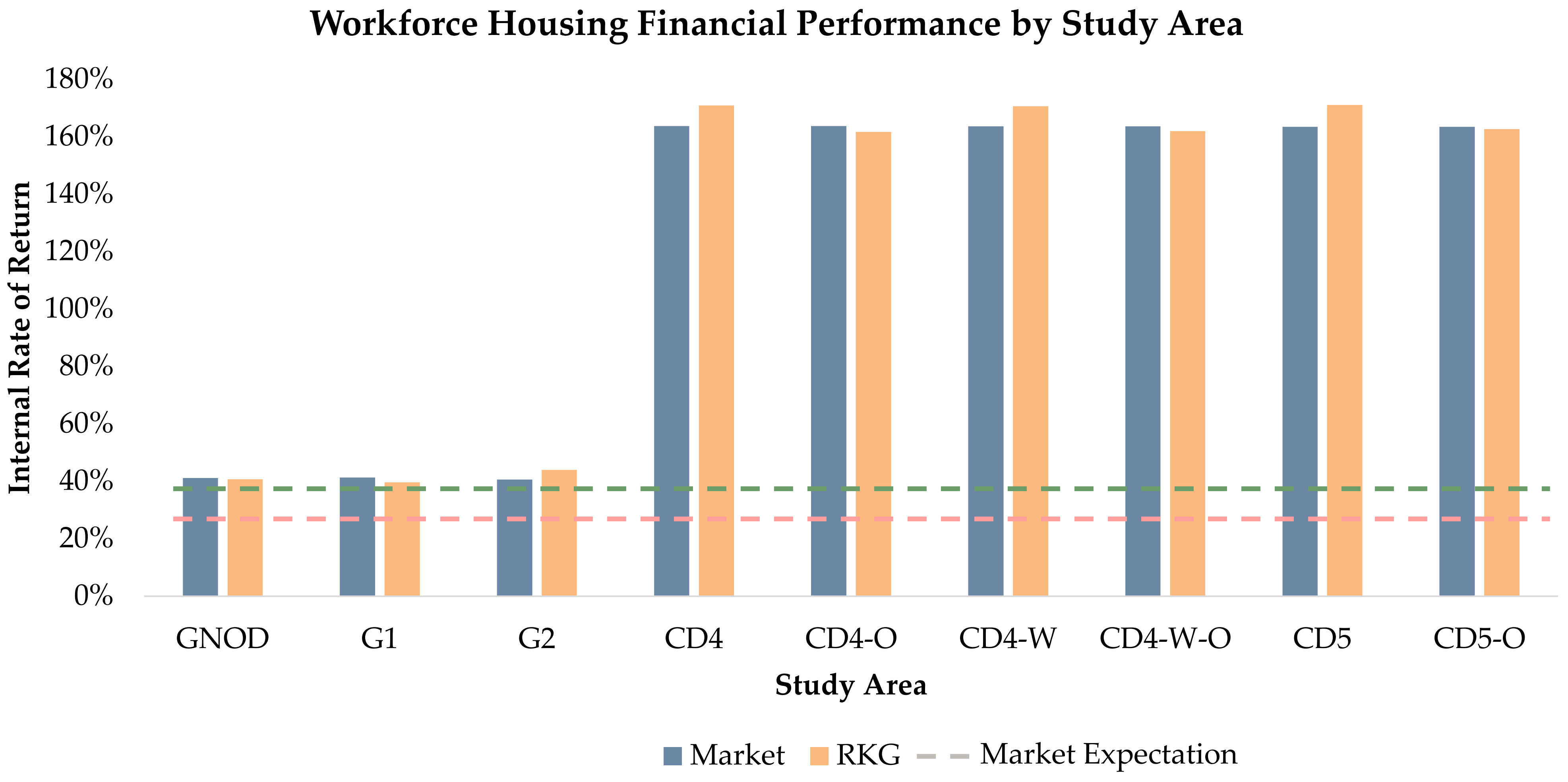


POTENTIAL ALTERNATIVE #1 – OWNERSHIP

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

Market: Max. units per acre by zoning

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



POTENTIAL ALTERNATIVE #2

Provide regulatory benefits and/or financial incentives to developments using bonus density

- **Cash subsidy program offered to reduce the unit cost per door**
- **60% Tax abatement program to reduce the real property tax owed over 10-years**
- **Pros**
  - Financially feasible without rewriting the zoning code
  - Meets housing expectations
- **Cons**
  - Requires direct investment OR reduction in real property tax revenue for the duration of the abatement

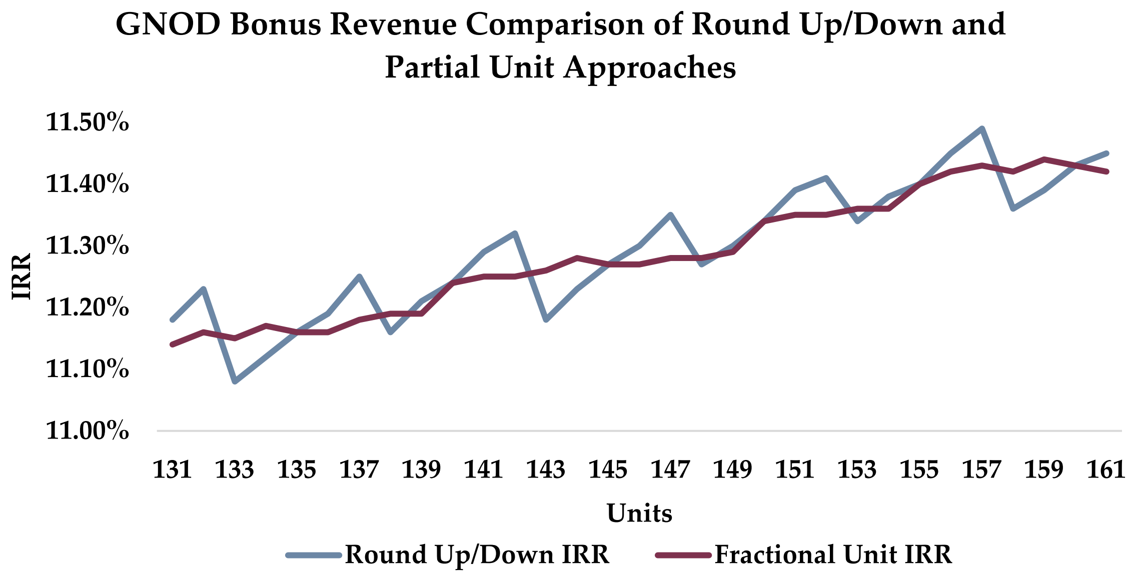
GNOD Study Area		
Development Standards	**Current Policy**	**Financial Benefit**
130 units w/out bonus → 163 units w/ bonus	20% at 60% AMI (Apartments)	Cash program would require $7.5M ($46k per door) OR Tax abatement program at 60% reduction of the property's taxes owed over 10 years.
130 units w/out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

PARTIAL UNIT RULE

Change the partial unit rule and value calculation

- **Going from round up/round down approach to fractional unit approach**
- **Calculate the payment value for a fractional unit using the value gap method**
- **Pros**
    - Flattens financial variance/gaps that influence developer behavior
    - Increases cash contributions to Housing Trust Fund
    - In combination with lowering the minimum unit threshold (recently approved payment in lieu) will create additional cash payments to the Fund
- **Cons**
    - 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)



POLLING QUESTIONS

City of Portsmouth Workforce Housing Policy Evaluation