

Combining HDIP and OZ for Transformative Transit-Oriented Development in Gateway Cities

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Introduction

MassINC's Gateway Cities Innovation Institute has launched a policy brief series digging deeper into tools and strategies for catalyzing transformative transit-oriented development (TOD) in Massachusetts' 13 Gateway Cities with current or planned commuter rail service. Our thinking is that the state's commuter rail system would receive much more use—and spur greater, more transformative Gateway City investment—if rail station areas were primed for compact TOD. The first paper, published in November 2018, examined the potential of the federal Opportunity Zone (OZ) program and proposed strategies for maximizing this new tool with state- and local-level TOD policies.¹ With the second paper in this series, we look at the potential of the state Housing Development Incentive Program (HDIP) and discuss approaches for leveraging this tool alongside Opportunity Zone incentives to generate TOD in the targeted Gateway Cities.

What is HDIP?

The state legislature enacted the Housing Development Incentive Program (HDIP) in the Massachusetts General Laws (MGL), Chapter 40V in 2010. The program provides Gateway Cities with two tax incentives to develop market-rate housing (i.e., units that are not income-restricted), thereby increasing residential growth, expanding housing stock diversity, supporting economic development, and promoting neighborhood stabilization. These incentives, described below, encourage developers to construct new housing or substantially rehabilitate existing properties as multi-unit market-rate housing for lease or sale:

- **Tax-Increment Exemption:** A local-option property tax exemption on no less than 10 percent and no more than 100 percent of the increased value resulting from improvements for a time period of between five and 20 years.
- **Expenditure Credit:** State tax credits for up to 25 percent of new construction or rehabilitation costs (except land acquisition), awarded by the Department of Housing and Community Development through a rolling application process.

To target HDIP investment, cities must designate and establish boundaries for a Housing Development (HD) zone. Only projects within these zones qualify for HDIP tax incentives.

HDIP has only recently gained serious traction. Although most cities enacted HD zones soon after the law passed nine years ago, the early legislation and accompanying regulations included barriers that made the program difficult to implement. The statute limited funding to 10 percent of overall project costs and excluded new construction. It also contained a problematic definition of market rate,² and capped project size at 62 units. In addition, the original HDIP legislation only allowed a total of \$5 million annually in state-funded tax credits. The Patrick Administration proposed, and the legislature adopted, changes in 2014, removing the project size cap, and expanding the tax credit allocation to \$10 million annually. In 2016, the Baker Administration worked further with the Legislature to expand the program, raising the project cost share to 25 percent, allowing new construction, and providing a more workable market rate definition. Regulators then raised the per-project cap to \$2 million. Municipalities



and developers welcomed these changes and began leveraging the tool in residential and mixed-use projects.

As of December 2018, 11 of the 13 Gateway Cities with current or planned commuter rail service had established HD zones: Brockton, Fall River, Fitchburg, Haverhill, Lowell, Lynn, New Bedford, Salem, Springfield, Taunton, and Worcester. Attleboro and Lawrence have yet to establish HDIP-qualifying areas.

HDIP Can Stimulate Transit-Oriented Development

While HDIP is a relatively new tool (and more powerful in its current form), it has quickly established a record of catalyzing transit-oriented development. Though the Legislature did not explicitly design HDIP as a TOD tool, it has essentially functioned in that manner. Since 2016, developers have initiated 27 HDIP projects in the 13 Gateway Cities with commuter rail; two-thirds (18) of these projects lie within a half mile of the station (Figure 1). To date, developers have completed five of these projects (See “Welcome Contributions,” p. 3).

Three-quarters of the projects completed or under construction in these station areas combine uses (Figure 2). Developers face extreme difficulty financing mixed-use developments in weak real estate markets, but these projects are vital to TOD: the combination of residential, office, retail, and services in transit station areas creates activity and ridership throughout the day. At the same time, mixed-use development minimizes dependence on vehicles, which helps Gateway Cities reduce carbon emissions and meet legal obligations as outlined in the 2008 Global Warming Solutions Act.

Lastly, HDIP has stimulated development that is unlikely to get built without subsidy—at a relatively low per-unit cost to the state (Figure 3). State incentives have averaged approximately \$20,000 per unit, attracting roughly

Figure 1: Share of Gateway City HDIP Projects Within and Beyond TOD Areas

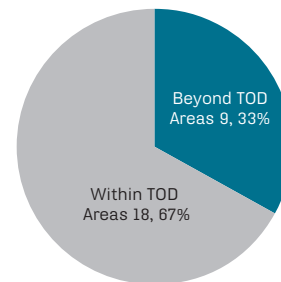


Figure 2: Share of Residential and Mixed-Use HDIP Projects in TOD Areas

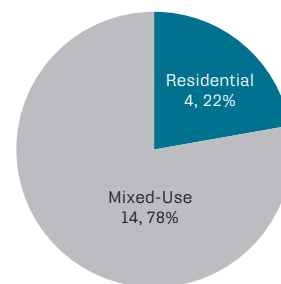
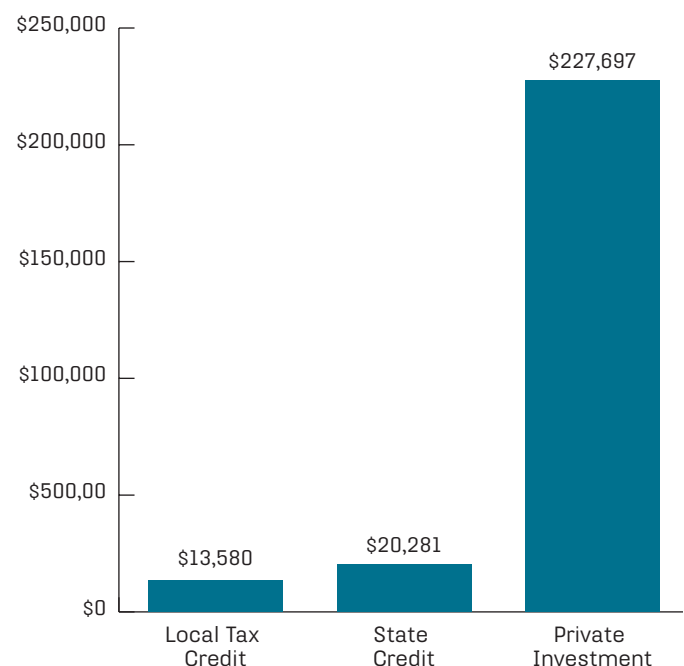


Figure 3. Investment Per Market-Rate Unit for Completed Projects in TOD Areas, 2016–2018





Welcome Contributions: Five Completed Gateway City HDIP Projects

Developers have completed five HDIP projects within TOD areas in the Gateway Cities of Fall River, Haverhill, Lynn, Springfield, and Worcester. While each has distinct qualities and unique appeal, collectively, these projects attract and create an array of housing, business, leisure, employment, and cultural opportunities, thereby rejuvenating downtown districts.

- **Commonwealth Landing, Fall River:** In July 2017, Commonwealth Landing opened at 1082 Davol Street in Fall River's Waterfront/Downtown Market Rate Housing Incentive Zone. The owners had purchased the historic cotton textile building, Mechanics Mill, in 2010, but it required years of planning and market incentives like HDIP to get the project off the ground. The developers began rehabilitating the mill building into a mixed-use project in 2016. Commonwealth Landing offers commercial space on the first two floors and 103 apartments on the upper three stories. As the city's first market-rate adaptive reuse effort and apartment complex in decades, the \$33 million rehabilitation project has attracted new residents from as far away as Boston and Providence, providing the city of Fall River with a catalyst for new tax revenues from residential and commercial tenants. Mill properties in Fall River's waterfront district have captured the attention of outside investors from around the globe.
- **JM Lofts, Haverhill:** JM Lofts at 37 Washington Street, a rehab of the 1882 Al Forno building, added 18 one- and two-bedroom lofts, and ground-floor retail and live-work space to the heart of Haverhill. The project sits in the city's Special Waterfront District Zone, requiring a special-use-change permit to introduce mixed-use development to the commercial zone. Located just a three-minute walk from the commuter rail station, the project leveraged Healthy Neighborhoods Equity Fund subsidies in conjunction with the local tax-increment exemption in the HDIP legislation. JM Lofts is one of four completed projects and two planned for the Washington Street corridor, bringing vital rehabilitation to Haverhill's old mills and industrial sites in its TOD zone.
- **The Vault, Lynn:** Just a two-minute walk from the Central Square-Lynn commuter rail station and transit center, The Vault at 23 Central Avenue was one of the first projects in Lynn to leverage HDIP in its TOD area. Lynn City Council certified the Lynn Downtown and Waterfront Housing Development (HD) Zone in January 2015: the entire TOD area falls within the HD zone. Two Lynn-focused organizations, the Economic Development and Industrial Corporation (EDIC) and Lynn Economic Advancement and Development (LEAD), coordinated efforts to convert the historic flatiron building from offices to apartments. The \$12 million rehabilitation project yielded 47 market-rate units and opened to residents in fall 2018, sparking interest in redevelopment throughout the downtown and Market Street Vision area that surrounds the rail stop.
- **SilverBrick Lofts, Springfield:** Only a six-minute walk to Springfield's Union Station, SilverBrick Lofts was one of the first HDIP projects in Massachusetts. The Springfield City Council approved its HD zone—which includes roughly 75 percent of the TOD area—in December 2013, and SilverBrick Lofts opened to residents in 2015. The \$17 million rehabilitation project of one of four former Morgan Square Apartments buildings includes 280 market-rate housing units and ground-level commercial space.
- **The Edge at Union Station, Worcester:** The Edge at Union Station (the former Osgood Bradley Building) abuts the central train station in Worcester, placing it at the heart of the city's TOD area. Rehabilitating the former Osgood Bradley railway car manufactory allowed the developer to add 80 market-rate housing units for roughly 250 students, along with commercial space, to the heart of Worcester's downtown. The city council approved Worcester's Urban Density Residential District in 2014 to diversify and intensify housing options in the center city. The Edge at Union Station was the first project to be completed in the HDIP zone, which captures 100 percent of the city's TOD area.



\$241,000 in local tax credits and private investment. Another way of putting it: each dollar in state HDIP funding per unit has leveraged approximately 12 additional dollars in investment (\$11.23 in private investment, and 67 cents in local tax abatement) for local communities.

Aligning HDIP and Opportunity Zones with Station Area Boundaries

While HDIP is performing strongly as a TOD tool, many cities could expand its reach for this purpose by simply extending their HD zone boundaries to encompass a larger share of their station areas. All 11 HD zones designated in the 13 cities with current or planned commuter rail service cover some portion of the station areas, but as the maps in the body of this brief and in the appendix indicate, considerable variation exists in how much of these station areas the HD zones actually cover. Lynn's HD zone (Map 1, cross-hatching) encompasses the entire half-mile station area radius, but over half of the cities look more like Fitchburg (Map 2), where the HD zone leaves out a considerable portion of the station area. Haverhill, Lowell, New Bedford, and Salem could all make HDIP a more powerful tool for TOD by expanding their zones to incorporate more of the half-mile radius, and Attleboro and Lawrence can attract more investment by establishing HD zones within their station areas.

Cities can further stretch HDIP incentives by ensuring that the HD zones overlap with federal Opportunity Zone census tracts. The Opportunity Zone tax incentive encourages investors to pool funds and defer returns to defer, reduce, or eliminate taxes on capital gains on qualifying investments in designated census tracts. All of Lynn's HDIP-qualified parcels within the station area also qualify for Opportunity Zone incentives (yellow shading). However, this advantage doesn't occur in every city. In Haverhill, the HD zone and OZ tracts form a mirror image (Map 3). Fitchburg, Haverhill, Lowell, New Bedford,

TOD Station Areas Relative to HD and OZ Boundaries and Projects

Map 1: Lynn



Map 2: Fitchburg



Map 3: Haverhill



- Completed HDIP project
- Proposed HDIP project
- ⊙ TDI District
- OZ census tract
- Delineation of half-mile TOD area
- ▨ Designated HDIP zone

Salem, and Springfield could all benefit from aligning HDIP zones with the OZ census tract boundaries.

Providing OZ Investors HDIP Certainty

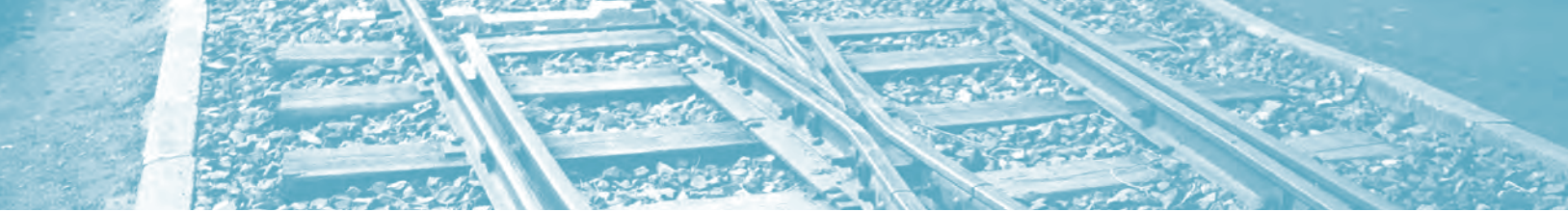
Developers utilizing OZ incentives to close financing gaps need speed and certainty because federal regulations require projects to expend OZ funds within 30 months of receipt. The \$10 million annual HDIP cap and lengthy approval processes make it extremely difficult to provide certainty that this state resource will be available in a timely manner. More than a dozen projects are currently awaiting approval for HDIP credits, and new OZ-funded deals are already surfacing that could quickly create a large backlog that will dampen enthusiasm for developing housing in Gateway Cities.

Maximizing the Power of Opportunity Zones with HDIP

Opportunity Zones complement HDIP legislation, providing cities and developers with additional incentives to maximize development. Advancing market-rate housing in designated OZs diffuses the negative effects that accompany development: it can reverse concentrations of poverty, improve the quality of housing stock in the zone, and enhance the value of developable land around new construction and rehab projects.

To maximize the power of Opportunity Zones with HDIP, we recommend that policymakers take the following actions:

- 1) Increase both the per-project allotment and the annual HDIP cap.** As noted in the Governor's Commission on the Future of Transportation report (2018),³ infill TOD in Gateway Cities has become a pressing policy priority for the Commonwealth. OZ funds provide a unique opportunity to leverage federal resources to accomplish this goal. Legislators and regulators implemented sound policy by piloting HDIP with limited funding and a relatively low per-project cap. Now that the program has proven its potential—particularly
- 2) Ensure that historically disadvantaged businesses benefit from HDIP and OZ investment.** While HDIP's policy goal of increasing socioeconomic diversity in Gateway Cities with the production of market-rate housing is sound, publically subsidizing private development that is not restricted to low- and moderate-income residents raises equity concerns. Ensuring that women- and minority-owned businesses have a larger stake in HDIP projects provides one way to make certain that the benefits of these developments are more broadly shared. Similarly, more intensive efforts to ensure that minority owners and investors benefit from OZ projects in Massachusetts would help fulfill the federal program's explicit objective to generate more equitable growth. The City of Boston and MassPort have made significant strides ensuring that historically-disadvantaged residents have access to wealth creation through Seaport reinvestment projects. Similarly, through the Transformative Development Program (TDI), MassDevelopment has begun to examine models for helping smaller Gateway City developers increase their capacity and take on more challenging projects. These recent efforts provide models to build upon as we expand HDIP to draw OZ investors.
- 3) Increase transparency and monitor performance.** As HDIP moves from a small pilot to a large program, legislators and regulators should promote transparency and require performance tracking. Information on HDIP applicants, the diversity of project development



and construction teams, project acquisition and construction costs, the number of units proposed and produced, the volume of commercial space in these developments, state credits requested and awarded, and the value of local tax abatements granted must be easily accessible to the public. For transit-oriented developments, the state should also evaluate the per-

formance of HDIP projects in terms of the rent these units generate, the source of tenants, and the travel patterns and transit use of their residents. Finally, the state should help municipalities track market dynamics and adopt appropriate policies to ensure that reinvestment does not displace people and businesses in HD zones.

Endnotes

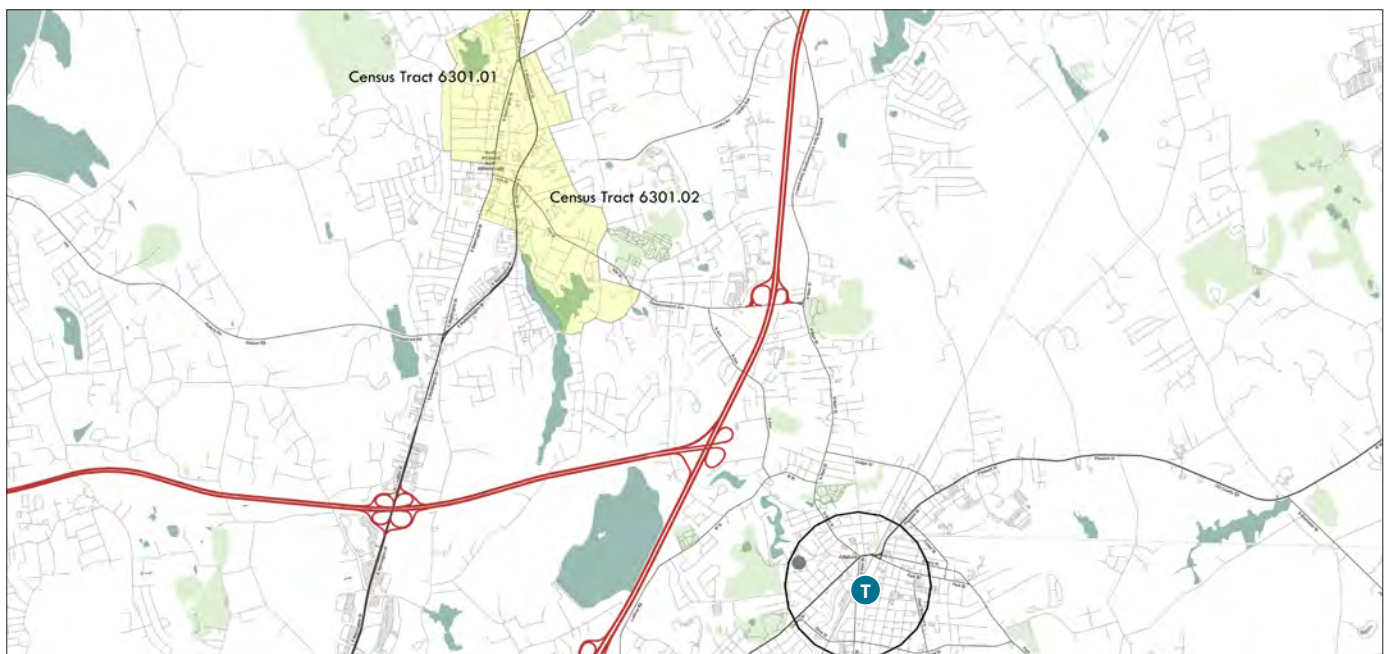
- 1 See <https://massinc.org/research/opportunity-zones-and-transformative-transit-oriented-development-in-gateway-cities/>
- 2 The Legislature changed the definition of Market Rate Residential Unit as of August 10, 2016, from “a residential unit priced for households above 110 per cent of the area’s household median income” to “a residential unit priced consistently with prevailing rents or sale prices in the municipality as determined based on criteria established by” the Massachusetts Department of Housing and Community Development.
- 3 See <https://www.mass.gov/lists/choices-for-stewardship-recommendations-to-meet-the-transportation-future>

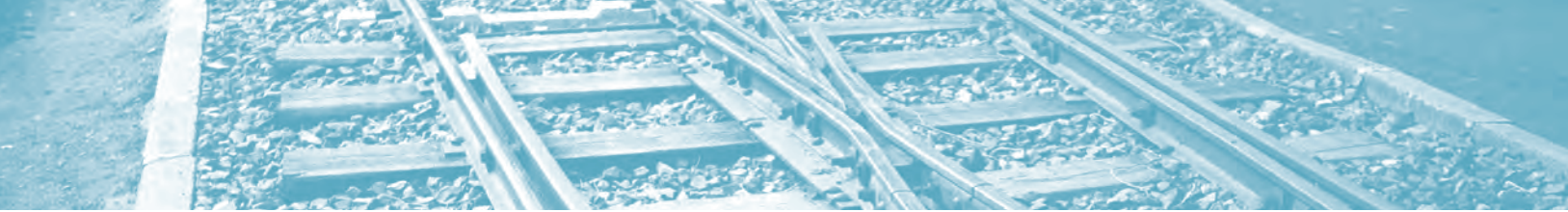
Appendix: Opportunity Zone and TOD District Overlay Maps

- Completed HDIP project — Delineation of half-mile TOD area
- Proposed HDIP project ⊗ Designated HDIP zone
- ⊘ TDI District
- OZ census tract

Note: Attleboro has no designated HDIP zone. Its Opportunity Zones lie outside its TOD area.

Map A1: Attleboro



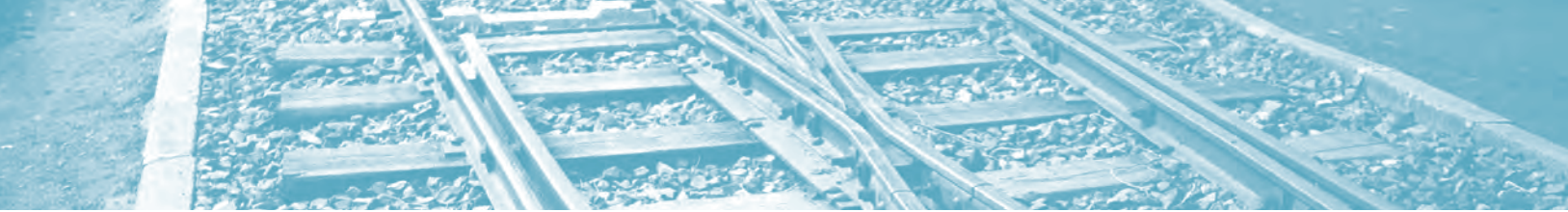


Map A2: Fall River

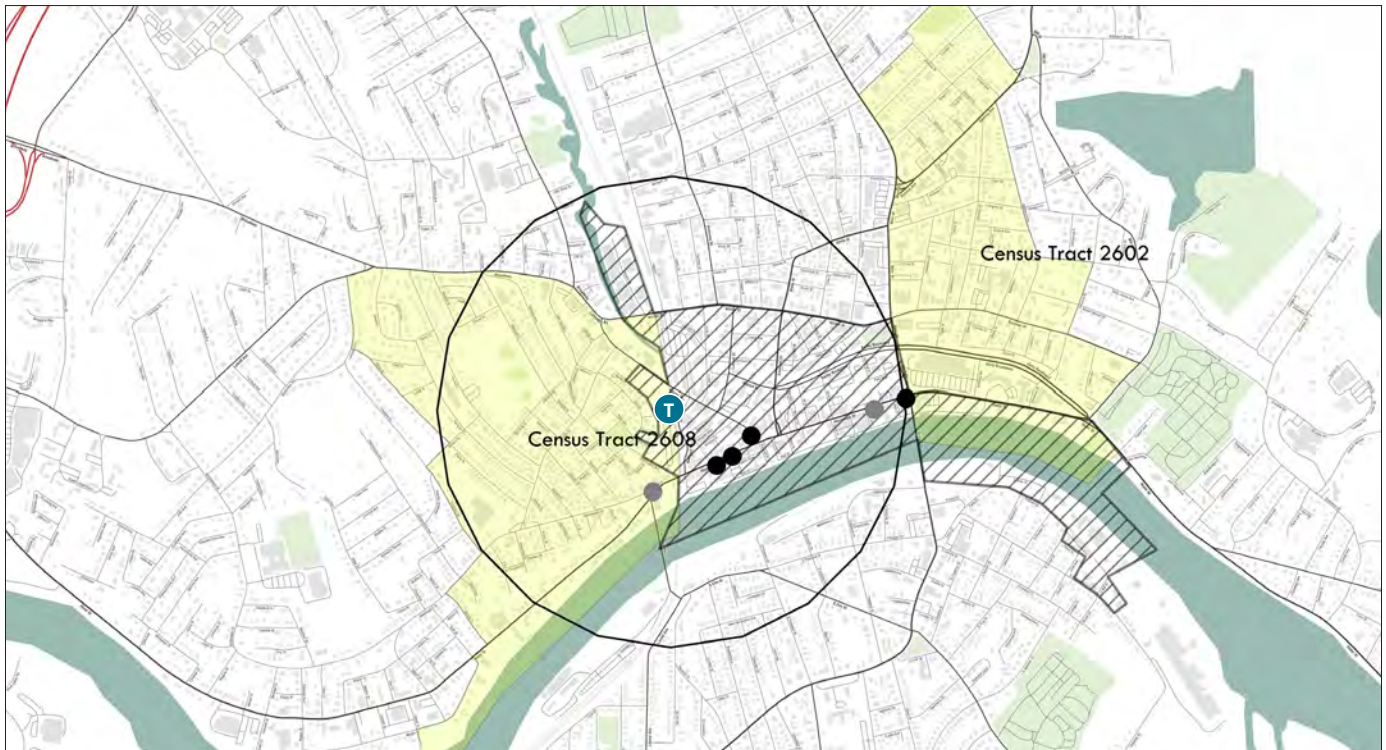


Map A3: Fitchburg





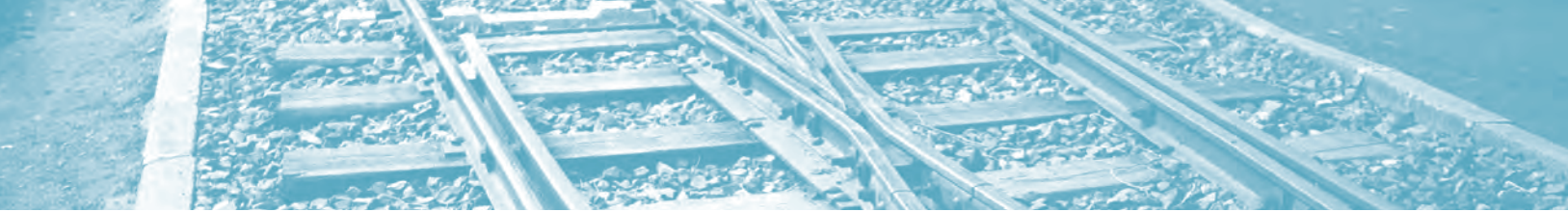
Map A4: Haverhill



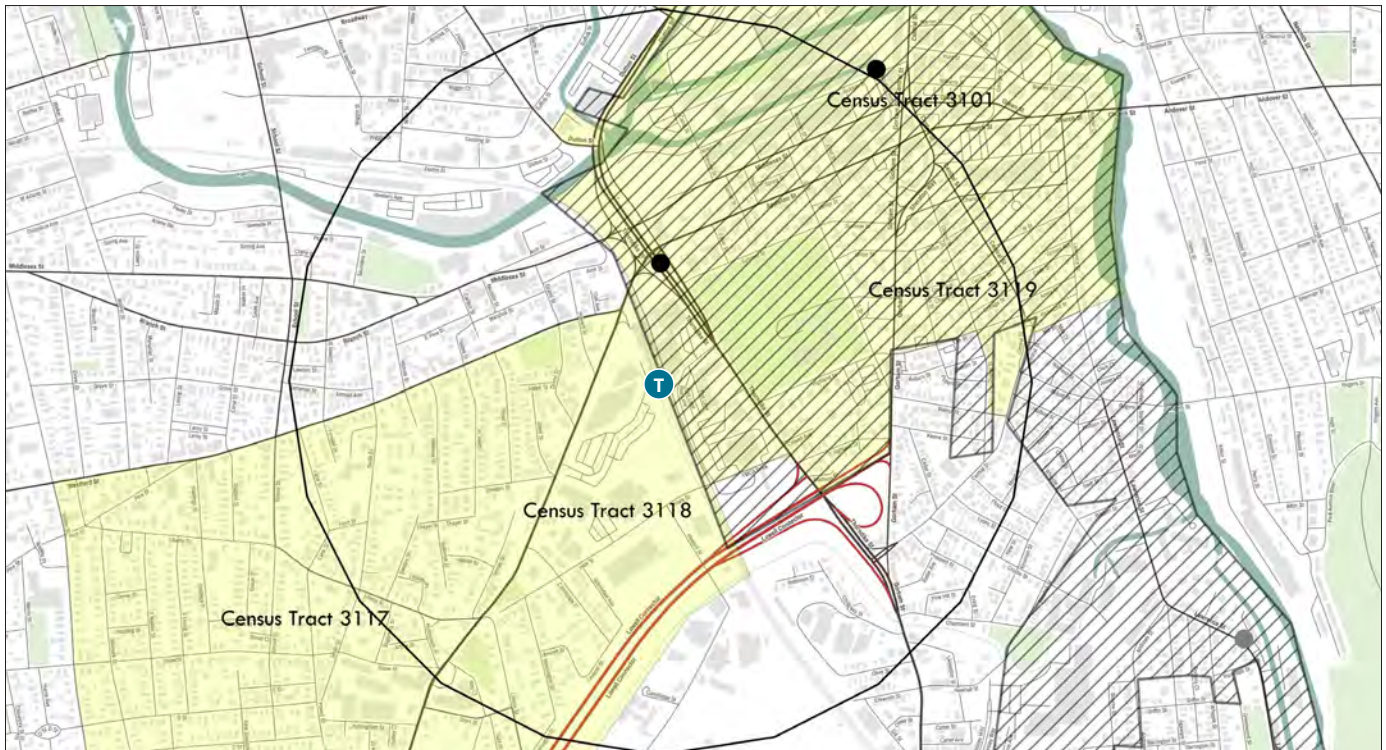
Map A5: Lawrence



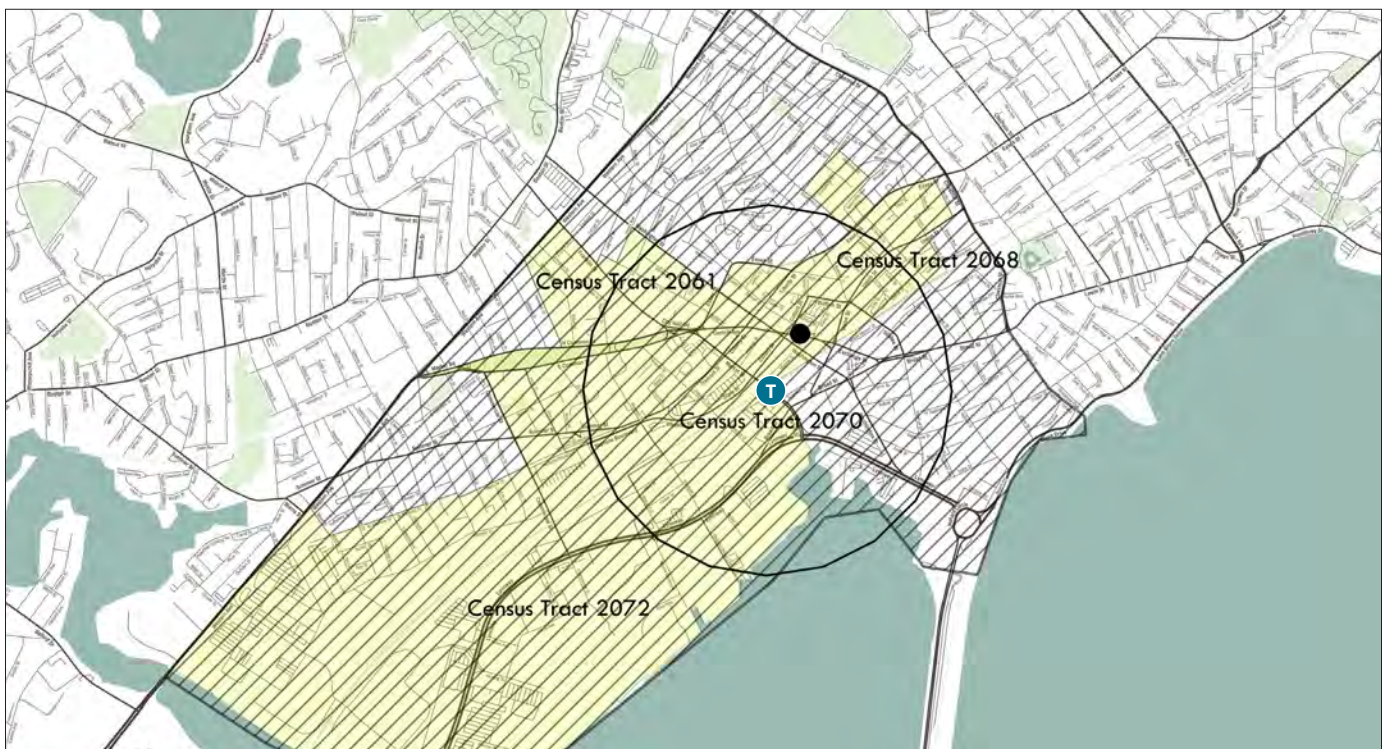
Note: Lawrence has no designated HDIP zone.



Map A6: Lowell



Map A7: Lynn

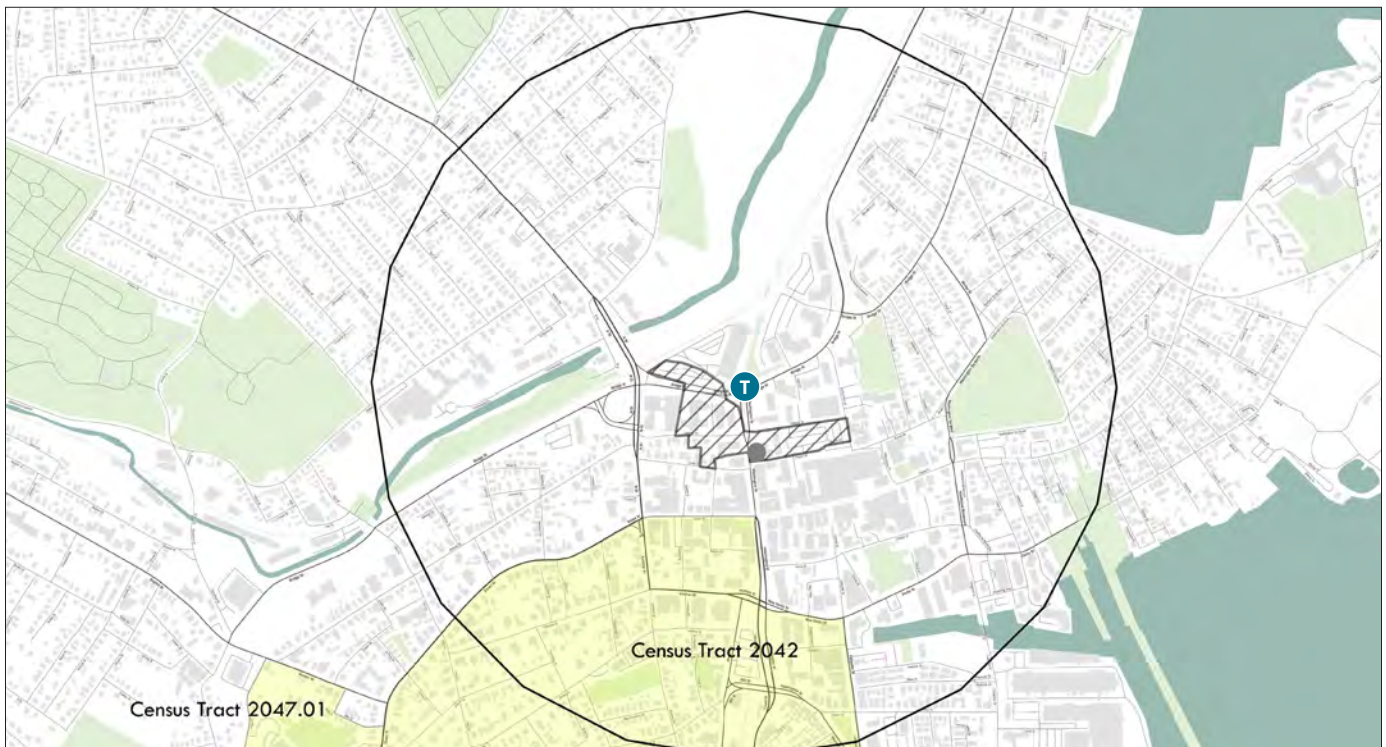




Map A8: New Bedford



Map A9: Salem

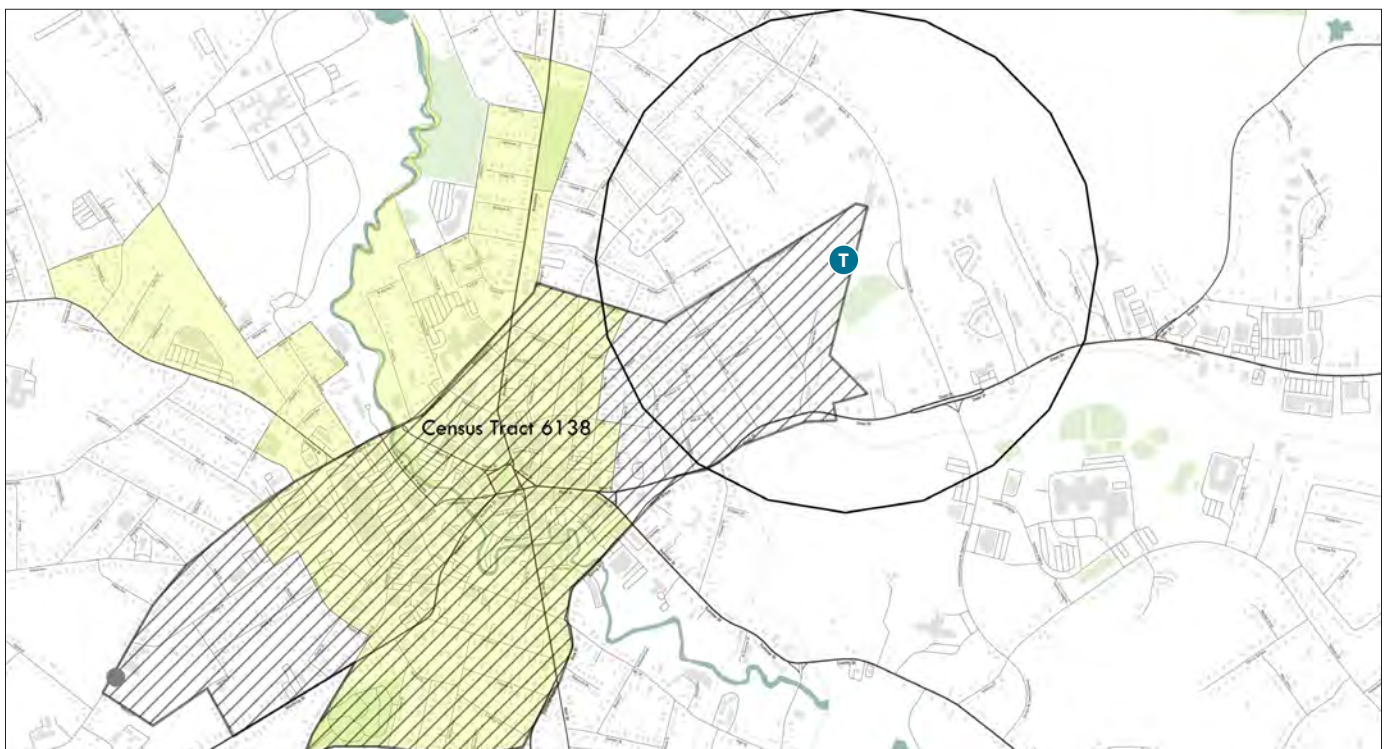




Map A10: Springfield



Map A11: Taunton





Map A12: Worcester



Map A13: Brockton





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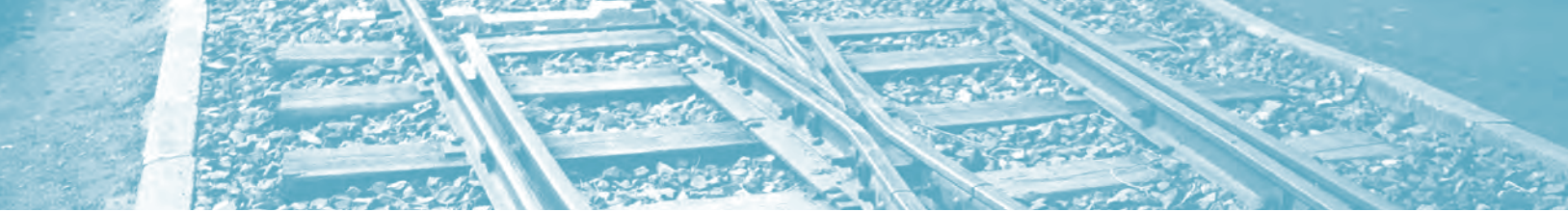
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ABOUT THE GATEWAY CITIES INNOVATION INSTITUTE

The Gateway Cities Innovation Institute works to unlock the economic potential of small to midsize regional cities. Leveraging MassINC’s research, polling, and policy team, the Institute strengthens connections across communities and helps Gateway City leaders develop and advance a shared policy agenda.

ABOUT THE TRANSFORMATIVE TRANSIT-ORIENTED DEVELOPMENT (TTOD) INITIATIVE

The Gateway Cities Innovation Institute kicked off its TTOD Initiative in April 2018 with the release of a study quantifying the potential opportunity and impact of transit-oriented development in 13 Gateway Cities with current or planned commuter rail service. Until 2021, we will expand this foundational research to test a range of strategies that improve the transit rider experience by promoting frequent, all-day, accessible service and stimulating inclusive growth and development in Gateway Cities and surrounding communities.



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