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Building in Massachusetts & Momentum Zones

Over the last three years, the Massachusetts Taxpayers Foundation has written extensively on the relationship between pandemic-induced changes in working patterns, diminished vibrancy in our downtowns, and the lack of accessible and affordable housing convenient for jobs. Combined, these three challenges pose a critical threat to the state's economic prosperity.

To address these interrelated challenges, one solution is clear: we must institute public policies that reduce barriers to housing development and create incentives for investment in downtowns that have been overly reliant on the commercial sector.

MTF is publishing two chartbooks designed to achieve two goals:

1. Identify barriers to housing in which public policy is a current contributor; and
2. Propose a new Momentum Zone pilot program to spur housing production in downtowns in a manner that is innovative, cost effective, and ultimately scalable.

Chartbook 1: Why We Fail to Build More Housing

In order to define effective policy tools to spur more housing development, we need to understand the elements of development affected by state and local policy and those beyond our control. While housing construction is a challenge everywhere, the fact that Massachusetts ranks 47th nationally in percentage of new homes built since 2020 indicates that there are greater barriers in Massachusetts than most other states.

Using reasonable assumptions for development costs both within and outside of urban areas, the chartbook estimates that development costs in urban areas increased by more than 50 percent between 2019 and 2025, meaning that many projects simply no longer make financial sense to proceed under current conditions. While policy choices are only a part of underlying development costs, the report highlights that policy decisions can make the difference in whether or not a project moves forward.

Why We Fail to Build Housing notes that some of the major development inhibitors in Massachusetts – and the Boston area more specifically – do not lend themselves to policy solutions. Wages and material costs are high and are exacerbated by persistent inflation and supply chain challenges.

However, the report makes clear that policy can directly reduce some costs or other barriers to build and have a meaningful impact on whether or not a project proceeds:

- *Zoning requirements.* Directly under local control, requirements as they relate to parking or lot size add to cost. Just as importantly, extended and uncertain timelines to adjudicate zoning issues chill investment and delay activity.
- *Energy codes.* New energy codes advance important climate and efficiency goals, but present little opportunity to adjust those goals to achieve better holistic outcomes when the constructive reuse of a property or the ability to connect housing directly to jobs and public transit is considered.
- *Affordability set asides.* The higher the percentage of affordability units set aside in a property, the higher the cost pressure for market rate units and the more challenges are created for financing projects.

The first chartbook concludes by emphasizing the role that policy choices have in creating environments in which a variety of housing development can occur.

Chartbook 2: Creating Momentum Zones

The second chartbook – *Creating Momentum Zones* – uses the findings of the first to put forward a policy proposal to pilot innovative housing solutions. The proposal is for Momentum Zones, a pilot program with the express purpose of strategically removing barriers to housing construction in areas with the highest need.

This publication opens by building on the policy challenges raised in *Why We Fail to Build More Housing* to identify examples of other states and cities that are using new techniques to spur growth. The report provides links to information on regulatory streamlining in California, more flexible use of affordability set asides in Maryland, and the use of the tax code – at both the state and local level – to incentivize smart building in Tennessee, Colorado, Washington and New Jersey.

Examples from other areas – many with some of the same cost constraints that exist in Massachusetts – demonstrate that policy action on longstanding barriers is possible if designed correctly. That premise inspires the Momentum Zone program.

Momentum Zones would be established in a select number of geofenced areas in the state that demonstrate significant housing need or opportunity. Those needs could manifest in areas like Downtown Boston or Gateway Cities, or other communities that want housing but need additional tools to make the numbers work. The challenges faced by Momentum Zones would vary, but the program would be uniquely suited to address the current issue in Boston’s financial district, where a historic reliance on office buildings and a lack of housing poses an economic and public finance threat to the City. In these zones, a variety of state

and local policy tools would be available to reduce policy barriers and create incentives to build. The chartbook lays out four key principles for the Momentum Zone program:

1. Coordination of state tools;
2. Combined state and local buy-in and participation;
3. Putting housing production first; and
4. Demonstrating proof of concept.

The pilot is designed to create a political and policy environment in which new tools are tested and other policy-driven barriers related to energy or affordability set asides are reimaged in service of needed housing production. The nature of the pilot is to see which combination of tools provides the most efficient path to more housing with a view towards replication.

The pilot envisions a number of impactful tools being brought to bear in Momentum Zones:

- *Direct financing from the state.* The program would be capitalized with \$250 million of state resources (combination of capital and operating) to provide equity investment in approved projects. The investment would come with an ROI expectation that would recapitalize the fund on a go-forward basis, but at a level less than a privately financed equity stake.
- *Set asides for priority access to existing state-level housing and development incentives.* These set asides could apply to the Commercial Conversion Credit, the Historic Tax Credit, and the Low-Income Housing Tax Credit. In each case, a portion of the credit allowance would be set aside for Momentum Zones.
- *Commitment for local policies in the zone that ease production.* This includes expedited permitting, flexible parking requirements, adjustments to energy code and affordability set aside requirements, and tax abatements or deferrals.
- *State tax relief.* Momentum Zones would receive a sales tax exemption on materials for projects in the Zone, further reducing production costs.

Combined, these tools would reduce costs to build and improve the financial outlook of projects – a combination that should provide a powerful incentive to build in priority zones. With success, the zones could be expanded to other parts of the state.

Bottom Line

The goal of these chartbooks is twofold:

1. To provide a concise overview of the challenges Massachusetts faces in meeting housing production goals and the role that policy can play in reducing those challenges or providing offsetting incentives.

2. To offer a vision for an innovative policy approach to address those challenges and provide a model to build housing in areas with acute need.

These chartbooks build on prior MTF work in this area and focus on actionable policy solutions that can be implemented in the near-term. The next step is to connect these ideas with policy action in the coming year.