

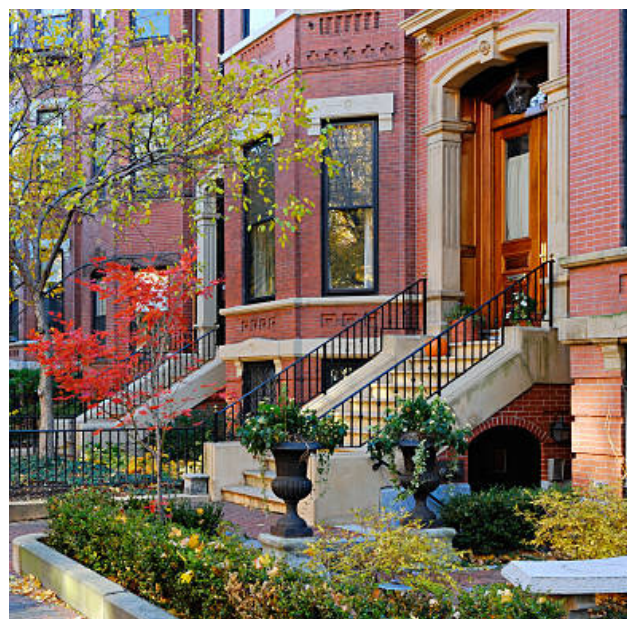
# Massachusetts HDIP:

## Housing Development Incentive Program

### *Incentivizing Development in Gateway Cities*

Housing affordability remains one of the most pressing issues in Massachusetts in 2023. Reports since the onset of the COVID pandemic indicate that the Commonwealth is currently [short approximately](#) 108,000 units and will need to [produce up to](#) 200,000 additional housing units by 2030. Unaffordable housing hurts lower-income residents and stymies economic development; as workers choose not to live in Massachusetts or are priced out, we see decreases in employment, available services, and municipal revenue, plus the loss of potential support for locally-owned businesses.

However, while much political attention gets paid to affordable housing, it is not the only missing piece of the Massachusetts housing crisis. Market-rate housing also increases the housing supply to meet the excess demand, helping keep rents in control at all incomes. Studies show affordable units are more likely to "filter up" and become unaffordable if supply is inelastic; new market-rate housing helps meet demand for new higher-income individuals. Other studies show new market-rate housing helps reduce rents of existing buildings, relative to trends.



Policies encouraging the creation of market-rate housing, especially in urban cores that cannot produce it themselves, will be beneficial to residents at all income levels. HDIP, the Housing Development Incentive Program, established in 2012, provides tax and subsidy incentives for market-rate housing in "Gateway Cities" across Massachusetts. This program helps add units to the state's housing supply at efficient subsidy amounts per unit, spurs economic development, and helps address affordability concerns in various Massachusetts municipalities. It also incentivizes development in communities near established transit options, doubling as efficient "transit-oriented development" subsidies. While there are opportunities for minor adjustments to improve transparency and study the direct benefits of the program, HDIP is a powerful state tool. This primer summarizes the program and recommends the expansion of HDIP funds.

## What is HDIP?

The Housing Development Incentive Program, known colloquially as "HDIP," is a set of tax incentives designed to encourage market rate housing in areas designated "Gateway cities." The program makes projects more affordable through two pathways:

- 1.) **Local-Option Tax Increment Exemption:** Allows municipalities to exempt some or all of the increased property value from the improvements.
- 2.) **State Tax Credits:** Awarded from the state on an application basis, covering some "Qualified Project Expenditures," or QPEs.

### Eligibility Criteria

#### Municipalities:

Projects in "Gateway cities" are eligible for HDIP funds. These cities have:

- Population greater than 35,000 and less than 250,000
- Median household income below state average
- Attainment of a bachelor's degree or above is below state average

Currently, there are 26 Gateway cities: Attleboro, Barnstable, Brockton, Chelsea, Chicopee, Everett, Fall River, Fitchburg, Haverhill, Holyoke, Lawrence, Leominster, Lowell, Lynn, Malden, Methuen, New Bedford, Peabody, Pittsfield, Quincy, Revere, Salem, Springfield, Taunton, Westfield, and Worcester

#### Development Types:

Developments that meet the following are eligible:

- Two or more housing units
- No restrictions on size, and may be mixed-use (including commercial)
- At least 80% of housing units are market rate

#### Development Activities:

The following activities are eligible for HDIP funds:

- New Construction costs
- Substantial Redevelopment, repair, and renovation
- Other hard and soft costs
- HDIP does NOT include acquisition and demolition costs

## HDIP Financial Information

HDIP currently has an annual cap of \$10 million for tax credits for all projects. At a project-level, there are individual caps, depending on the type of funds being awarded:

- If being awarded the **local-option tax increment exemption (TIE)**, localities may exempt between 10% and 100% of the incremental value on market-rate residential units. This can be awarded for between 5 and 20 years.
- If being awarded the **State Tax Credit**, individual subsidies max out at \$2 million, and they cannot exceed 25% of the Qualified Project Expenditures of market-rate units being developed.

As of February 2023, HDIP has funded 2,687 new units, at a rate of about \$23,600 public subsidy per new unit. This rate is much lower than other housing programs, including the famous Low-Income Housing Tax Credit.

Additionally, there are currently around \$40 million in shovel-ready projects waiting for HDIP approval, representing nearly another 2,000 units. Some experts estimate the potential pipeline is even more active than this number suggests, consider the Department of Housing and Community Development (DHCD) temporarily suspended applications. As such, many housing policy experts are calling for an expansion of HDIP.

Governor Maura Healey has already proposed increasing the program cap to \$50 million in 2024, and \$30 million in future years in order to capitalize on the program's success and available projects. The State House of Representatives passed their annual budget, but it did not include an increase for HDIP allocations.



# HDIP Application Process

In order to access HDIP funds, municipalities must follow the following application process:

## 1.) Designate a Housing Development (HD) Zone and an HD Zone Plan:

- (a) Designate a geographic area that is in need of multi-unit market rate residential development
- (b) Complete an application for an HD Zone. This requires that the municipality include a description of activities (public and private) that are being planned or discussed for the zone's development. These include construction projects, reconstruction plans, rehabilitation, or other activities.
- (c) Follow further written guidelines as requested by DHCD.

## 2.) Complete Multi-Step Certification Process:

- (a) **Preliminary Certification:** Initial application completed, and State verified that a project meets initial requirements.
- (b) **Conditional Certification** for a tax-increment exemption or a **filed request** for HD Tax Credit: Conditional certification asserts that if the project is completed as indicated in the application, the project will receive a certain number of tax credits or certain tax exemption.
- (c) **Final Certification with QPEs:** Certification that the project was completed as proposed, and tax credits are rewarded if applicable.

## Summary

The Housing Development Incentive Program is a powerful, cost-efficient, and effective tool in Massachusetts for creating market-rate housing in economically challenging urban cores. As the housing affordability crisis grows in Massachusetts, developing housing for all income levels helps increase the housing supply and relieves upward price pressure. Increasing market-rate housing helps meet excess demand from higher-income residents, and prevents more affordable units from "filtering up" and becoming unaffordable. Moreover, HDIP doubles as an incentive for transit-oriented development, as well; of the twenty-six eligible Gateway Cities, sixteen have MBTA transit access, indicating the overall economic and environmental benefits of market-rate construction.

Although this program has clear benefits, there are areas for improvement. Some housing analysts request that more attention is paid to project diversity. Projects should be intentionally allocated evenly across eligible cities to help bolster more local economies, and projects should be selected to have diversity in bedroom mix to benefit many different family types. We request that DHCD offer more transparency about requirements and why certain projects were selected. We also encourage further study on the impacts of the program to ensure we can maximize benefits while minimizing any displacement of low-income tenants. Finally, we recommend the funding of the Workforce Housing Production Program, passed in 2016 as an extension of HDIP, to support the renovation of historic buildings. This program provides funds to increase market-rate housing under the State Historic Tax Credit program while bringing in state revenue, estimated as more than double the initial investment.

Overall, we hope that the State does successfully expand HDIP as proposed to take advantage of the shovel-ready projects and continue to increase market-rate housing in communities that would benefit from development. We hope further expansions will be paired with the requirement of more project diversity, in terms of location and bedroom mix, as well as publications of project reviews to aid in transparency for more equitable competition for the tax credits.



**Housing Forward-MA** is a nonprofit research and education organization focused on developing and disseminating accurate data related to housing creation in Massachusetts and the broader economic impacts of housing supply and demand. By providing training, education, and model policy proposals our organization will support organizing and advocacy efforts for affordable, workforce housing across the state.

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