

STRATEGIES FOR CREATING AFFORDABLE HOUSING
IN NASHUA, NEW HAMPSHIRE:
MUNICIPAL LAND USE AND INCLUSIONARY ZONING

by

MARY ELIZABETH BRISSETTE
Bachelor of Arts, Economics, 1983
Harvard University, Cambridge, Massachusetts

and

JAMES A. FOREST
Bachelor of Science, Business Administration, 1972
Boston College, Newton, Massachusetts

Submitted to the Department of Urban Studies and Planning
in Partial Fulfillment of
the Requirements of the Degree of
Master of Science in Real Estate Development
at the
Massachusetts Institute of Technology
September 1987

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part.

Signature of Authors _____
Mary E. Brissette

_____ James A. Forest
Department of Urban Studies and Planning
July 31, 1987

Certified by _____
Michael Wheeler
Visiting Professor, Urban Studies and Planning
Thesis Supervisor

Accepted by _____
Michael Wheeler
Chairman
Interdepartmental Degree Program in Real Estate Development

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ABSTRACT

With skyrocketing housing prices and the decline of federal housing assistance, state and local governments have been forced to develop initiatives which address the issue of housing affordability. The city of Nashua, New Hampshire established a task force to study the problem and recommend solutions. This paper focuses on the development of strategies for creating affordable housing in Nashua through the use of surplus municipal land and inclusionary zoning. There are no simple solutions to the affordable housing problem. The city must commit its resources to investigate the complex set of options and implement programs to increase the affordable housing stock.

Thesis Supervisor: Michael Wheeler
Title: Visiting Professor, Urban Studies and Planning

TABLE OF CONTENTS

List of Exhibits	5
Chapter One: Introduction	6
Chapter Two: Framing the Issues	10
Understanding the Problem	10
Factors Leading the to Increased Cost of Housing	12
Government Response to Date	15
Chapter Three: State and Local Context	21
Overview	21
Housing Affordability	23
New Hampshire Initiatives	25
Chapter Four: Strategies for Creating Affordable Housing	28
Overview	28
Policy Level	29
Opportunities and Resources	30
Strategies	34
Municipal Land Use and Inclusionary Zoning	39
Chapter Five: Municipal Land Use as a Mechanism for Providing Affordable Housing	43
Overview	43
Inventory of City-Owned Land	44
Assessment of the Inventory: Development Suitability	45
The Options for Use of Surplus Land	49
Implementation and Monitoring	51
Conclusion	53
Chapter Six: Inclusionary Zoning	54
Overview	54
Inclusionary Zoning in Nashua	58
Chapter Seven: Conclusion	64

Endnotes 68
Resources 71
Acknowledgments 78

LIST OF EXHIBITS

Table One: Comparison of Population Change 22
Table Two: Planned Residential Developments 40
Exhibit One: Sample Inventory Sheet 46

CHAPTER ONE

INTRODUCTION

Like many communities across the country, the city of Nashua, New Hampshire is experiencing difficulty in meeting the housing needs of all of its citizens despite record breaking production by its building and development industry. The city has enjoyed the prosperity of dynamic growth for the past two decades and now has one of the lowest unemployment rates in the nation. However, with economic expansion has come a new and challenging problem: housing prices have skyrocketed, causing a lack of affordable housing. In light of declining federal support and the lack of any coherent housing policy on the state level, the community of Nashua is beginning to address this serious issue on its own.

The future availability of affordable housing in Nashua is important for several reasons. First and foremost, affordable housing leaves all families with the means to provide for other basic needs, such as food, heat, clothing, and health care. Aside from fostering diversity and vitality in Nashua, sheltering low and

moderate income households promotes the continuing economic stability of the city. Employees of business and industry must be able to find decent and affordable housing or companies will relocate and expand elsewhere. Finally, lack of affordable housing in the Nashua area will also exacerbate existing traffic congestion on the already overloaded highway system as employees are forced to commute farther distances from less expensive, outlying areas.

As the center of the region, Nashua must take the lead in providing affordable housing and encouraging surrounding communities to participate. Mayor James Donchess recognized the need for local initiative and established the Nashua Housing Task Force in early 1987 to review existing policies and identify priorities for the city. Composed of volunteers, the Task Force includes individuals associated with social service agencies, business and industry, financial institutions, the real estate development field, health and religious organizations, and state and city government. The diverse membership was deliberately created to focus a wide spectrum of knowledge, experience, and leadership on the formation of solidly based recommendations, and to start building consensus for policy implementation.

Meeting monthly, the Task Force has concentrated on gathering information and establishing a foundation of knowledge regarding affordable housing issues. Goals and strategies are developed through group and panel discussions. The ensuing consensus will form the basis for a more detailed report which is expected to set priorities for action, describe mechanisms to carry them out, and identify financial and other resources. The Task Force intends to send its findings to the Mayor and the Board of Aldermen by December of 1987.

Aware of the abundance of materials, studies and other technical reports on housing needs which set priorities, the Task Force has resolved to develop pragmatic local initiatives rather than add another call for action to the pile. There is no single solution to the problem of housing affordability. As such, the Task Force must consider using a combination of strategies, mechanisms, and techniques in formulating its recommendations to the city.

Affordable housing will be developed only if someone is willing to construct it. Hence, it is in the city's best interest to provide developers with incentives which

encourage their participation in the production of affordable units. In addition, the city needs to further understand what barriers have thus far discouraged developers from meeting current affordable housing demand. Solutions will be more effective if they are proposed as part of a series of steps or processes because the overall result will be greater than the effect of any single strategy. The tools are in place. It is a matter of putting them to work in a practical and efficient manner.

In cooperation with the Nashua Housing Task Force, this paper will overview the present status of affordable housing issues, particularly as they pertain to Nashua, and suggest several pragmatic mechanisms which the city can readily implement. The focus of these recommendations will be the use of surplus municipal land and voluntary inclusionary zoning.

CHAPTER TWO

FRAMING THE ISSUES

UNDERSTANDING THE PROBLEM

Housing affordability is emerging as a priority issue for the American public. Fulfilling the dream of home ownership has been an acknowledged goal of federal housing policy since the 1930's. The Housing Act of 1949 proposed "a decent home and suitable living environment for every American family".¹ Historically it was lower income groups who were "locked out" of this pursuit and to whom most federal and state support was aimed. Today, however, the average American family needs assistance as well. Despite the increase in two income families, an affordability gap of approximately \$10,000 a year, on a national level, separates the average family, earning \$28,000 annually, from buying the median priced home which costs in excess of \$86,000.² Rising housing costs in many cities across the United States have precluded a cross section of American middle class families from enjoying safe, decent, and affordable housing.

The problem is particularly severe for those first-time home buyers who enter the housing market without existing equity or the necessary down payment. Rising mortgage rates and increasing demand, coupled with high land and material costs, place unyielding pressure on housing affordability. The gap is even more severe for those outside the median income range. The poor, elderly on fixed incomes, and single people with or without children fall into a component of housing consumers seeking some form of relief from today's ever-rising housing prices.

Providing for one's housing needs is generally related to income and the ability to pay. Today the average wage-earner cannot afford to buy the average new house using the traditional measure of one-fourth of household income to be allocated for housing.

"In 1965 a household earning the national median income would have been able to purchase a new home selling at the national median house price at an annual cost of 24% of their income for monthly payments, property taxes, and insurance. By 1978, the median income household would have had to spend 36% of their income in order to buy a house at the median price. By 1981 the same household would have had to spend 50% of their gross income for the same house."³

Today, though interest rates are lower than in 1981, the median wage earner is still priced out of the housing market in many American communities. In addition, the long standing federal commitment to low and moderate income groups has waned under pressures to reduce the national deficit. After reaching a multibillion dollar peak in the late 1970's, federal housing aid has been cut by seventy percent.⁴ Furthermore, the Tax Reform Act of 1986 eliminated many of the incentives for investing in low to moderate income housing, such as accelerated depreciation. In addition, the tax code limits the amount of tax-exempt debt, a major source of financing for affordable units which state and local governments can use. In short, direct federal spending programs that provide assistance have been dramatically reduced over the past several years. A return to the high spending levels of the 1970's is unlikely.

FACTORS LEADING TO THE INCREASED COST OF HOUSING

Why have housing prices outpaced income growth to the point where the average wage earner is currently priced out of the market? The answer lies in a number of factors. In addition to the demographic considerations of

a specific region, factors crucial to housing development and affordability include the availability of reasonably priced land, sitework, and cost of approvals. Other elements include labor and materials, builder's overhead and profit, and financing. During the decade of the 1970's when housing began to move beyond the grasp of many Americans, these elements became more costly. However, three of these elements - labor, materials, and overhead and profit - decreased as a percentage of total housing cost. The other two elements, land and financing, exploded as a percentage of total housing cost. During the 1970's the cost of land went up 248 percent.⁵

One explanation for this significant escalation of land cost stems from the "growth control" mentality of many communities. Local regulators enacted ordinances and regulations which delayed development projects and added expensive, and excessive, infrastructure requirements as conditions for project approvals. In addition, exclusionary zoning and growth politics added greatly to the land component cost of housing.

"In the 1960's the victims of suburban exclusion were mainly poor people, a small and powerless minority. They are still victims of it in the 1970's. But now there are many more victims than before.

Middle-income America, in addition to the poor, is now bearing the costs of suburban growth policies."⁶

The growing scarcity of developable land is also becoming one of the most formidable obstacles to affordable housing. A national survey by Lomas & Nettleton, a Dallas based mortgage lender, shows that the cost of single family lots has risen twenty to sixty percent in one year in the Boston - Washington corridor.⁷ The same survey suggests that land costs have become an increasing component of total housing prices throughout the country, offsetting the efficiencies of new materials and innovative building techniques. On average, land costs have increased from approximately one-fifth to nearly one-third of the final cost of housing. In addition, local and other governmental regulations are purported to add significantly to housing costs (ten to twenty percent or more, depending on the way cost is defined).⁸ Long-term, the trend is likely to worsen.

Financing has also played a significant role in the increased costs of housing and the gap between market value and affordability. Although real interest rates remain high by traditional standards, the decline from a peak in 1982 has been offset by surging house prices.

Permanent financing for single family and multifamily homes remains a major component of high housing costs. Volatile interest rate markets can effectively eliminate large segments of homebuyers from the market. Factors outside the realm of national housing policy are behind these fluctuations, however. Larger national and international fiscal and monetary considerations underlie this component of housing costs which can affect interest rates and the availability of credit. While state and local tax-exempt bonding can provide below market financing, the returns to investors are still affected by forces beyond the control of local governments. Little can be done on a state or local level to stabilize interest rates at reasonable levels relative to homebuyer income and housing costs. The land component then becomes the single most identifiable factor which contributes to high housing costs, and over which state and local initiatives may have significant effect.

GOVERNMENT RESPONSE TO DATE

The establishment of the Department of Housing and Urban Development in the 1960's signified a major federal commitment to addressing the nation's low and moderate

income housing needs. In 1968 Congress enacted the Section 236 and Section 235 programs which provided a federally funded interest rate subsidy. They were also the first programs to include a *moderate income* component in housing assistance. As a result of these programs and their successor, the Section 8 program, the annual production of federally subsidized housing units rose to nearly 500,000 by 1971, and after a transitional period, returned to more than 400,000 units in 1979.⁹ Today, the federal government has virtually abandoned these subsidized housing production programs. State and local governments are unprepared to address regional and area housing needs alone, yet are increasingly pressured to do so following the withdrawal of traditional federal support.

The recent inclusion of moderate income groups in the arena of federal, state, and local housing policies raises questions about exactly what constitutes affordable housing, who is to benefit from the programs being established, and why it is important to undertake such programs. A number of state courts became interested in low and moderate income housing through the exclusionary zoning controversies of the 1970's when the terms "*affordability*" and "*housing crisis*" first entered the

vocabulary of the American middle class. The now famous New Jersey case, Southern Burlington County NAACP et al. v Township of Mount Laurel, confirmed the principle that each municipality had a responsibility to provide a *realistic opportunity* through its land use controls in meeting its *fair share* of regional housing need.¹⁰ Even though implementation of this principle has since proven difficult in New Jersey and elsewhere, there is a deepened awareness of the social and economic costs of exclusionary zoning.

Although the prior focus of public agencies was on creation of housing geared toward lower income households, the inclusion of a moderate income component in public housing policy came at a time when segments of the middle class began having difficulty meeting basic shelter needs. The Mount Laurel decision further solidified public policy in this regard.

"We conclude that every municipality must, by its land use regulations, presumptively make realistically possible an appropriate variety and choice of housing. More specifically, presumptively it cannot foreclose the opportunity of the classes of people mentioned for low and moderate income housing and in its regulations must affirmatively afford that opportunity, at least to the extent of the municipality's fair share of the present and prospective need therefore."¹¹

The U.S. Department of Housing and Urban Development defines affordable housing as *appropriate housing* that can be purchased by people for a reasonable percentage of their income. A person with an average income should be able to buy an average price new house. Generally speaking, housing is considered affordable when monthly shelter costs do not exceed approximately one-third of a person's monthly income. In the past the term *affordable housing* has been used as a general phrase to describe housing units for low and moderate income groups.

Traditional measures of housing need vary from state to state and region to region. In the Mount Laurel decision the New Jersey Supreme Court defined affordable housing in the context of low and moderate income households as follows:

"Moderate income families are those whose incomes are no greater than 80% and no less than 50% of the median income of the area with adjustments for smaller and larger families. *Low income families* are those whose incomes do not exceed 50% of the median income of the area, with adjustments for smaller and larger families."¹²

By comparison, California affordable housing legislation states that beneficiaries of affordable housing may be those households whose incomes are as high as 120% of the area median. It further defines housing

need in terms of household income using the same criteria as the U.S. Department of Housing and Urban Development:

"Income groups are defined by reference to the median income in a county (or in some cases the median income in a multi-county area). Very low-income households are those with incomes below 50 percent of the county median income. Low-income (or lower-income) households have incomes between 50 and 80 percent of the county median and moderate- (or middle) income households have incomes between 80 percent and 120 percent of the county median. Adjustments are made for family size".¹³

The difference between New Jersey and California is illustrated by their respective beneficiaries of affordable housing legislation. The type and price of affordable housing units can also vary significantly from region to region. Though public perception may hold the notion that affordable housing is synonymous with low income public housing, the term *affordable housing* is subject to widely varying interpretation. The primary goal of any affordable housing policy is to identify who will benefit and at what level of income they would qualify. The above examples are typical of the approach of other states in defining housing affordability.

Regionally, the Commonwealth of Massachusetts has taken a legislative approach rather than judicial in its commitment to meet area housing need. The enactment of

Chapter 774 of the Acts of 1969, more commonly known as the *anti-snob zoning statute*, offers a special appeal process to developers denied the right to build affordable housing in communities with less than their *fair share* of affordable housing. Massachusetts has also established and funded innovative programs such as SHARP (State Housing Assistance For Rental Production), TELLER (Tax Exempt Local Loans to Encourage Rental Housing), and CORE FOCUS (Commercial Residential Financing Options For Central Urban Sites). Local communities have worked with the Massachusetts Housing Partnership to determine local long term housing needs and develop the means to create affordable housing. Inclusionary housing programs are entering the daily vocabulary of the world of housing policy and land use regulation.

Lacking the political and social agenda of its neighbor to the south, the state of New Hampshire has begun to experience the hardships imposed on its low and moderate income residents who cannot satisfy their shelter requirements without assistance. The city of Nashua, in particular, is assuming a more active role in trying to understand the problem and find solutions to housing affordability.

CHAPTER THREE

STATE AND LOCAL CONTEXT

OVERVIEW

New Hampshire's growth rate has consistently surpassed that of other New England states throughout the past three decades. With the Atlantic coastline to the east, mountains and lakes to the north and west, and a major metropolitan area to the south - all within easy commuting distance - "scenic" New Hampshire has become a strategically desirable place to live. The state border is located within 35 miles of downtown Boston and with the expansion of the interstate highway system came a large in-migration from Massachusetts and beyond. The southern counties gained a disproportionate share of this growth. With its favorable tax climate (no sales or income tax) and its pro-business attitude, New Hampshire has attracted both industry and people seeking relief from high taxes and congestion. The state has actively pursued a policy of economic expansion which has helped to produce nearly 80,000 jobs since 1980.¹

Table One - Comparison of Population Change
1960 - 1980

YEARS	N.H.		NASHUA	
	POPULATION	% CHANGE	POPULATION	%CHANGE
1960-1970	737,681	21.5	55,820	42.8
1970-1980	920,610	24.8	67,865	21.6
	998,000 *	7.8	83,630 **	18.9

*1985 figures from Nashua Regional Planning Commission

**1987 figures from Nashua Regional Planning Commission

Source: U.S. Census of Population

While population in New Hampshire has steadily risen in the last 30 years, the city of Nashua has emerged as the state's major growth municipality. Located on the state line, Nashua continues to enjoy the economic expansion which has brought an unprecedented level of prosperity to the community. At the same time, however, the explosive growth has given the "Gate City" a variety of headaches including traffic congestion, a shortage of workers, and a lack of affordable housing. Nashua's proximity to the Route 128 area initially created local housing demand as the economic growth of the Boston metropolitan area overflowed into southern New Hampshire bedroom communities. More recently, however, growth of business and industry in Nashua and the surrounding towns has created its own local housing demand. While employees in the Route 128 area seek relief in Nashua from high Massachusetts housing costs, people employed in Nashua are forced to seek relief in Manchester and more northern New Hampshire communities.

HOUSING AFFORDABILITY

The affordable housing problem in Nashua is compounded by the lack of any coherent state policy in

support of housing needs. Recognizing the issue of housing affordability as a statewide problem, the New Hampshire Office of State Planning recently commissioned an independent analysis of New Hampshire's housing needs to provide the basis for policy options to address the housing problem.

According to the statewide study, New Hampshire faces some potentially serious housing problems:

1. The state's support of strong economic growth and expansion is on a collision course with local government resistance to rapid residential growth and related service costs.
2. Actively funded housing assistance programs in New Hampshire are insufficient to keep pace with the growth in housing need among low and moderate income residents.²

Rapid employment growth has created unprecedented demand for new housing. In a growing economy, state revenues increase faster than expenditures. Municipalities, on the other hand, view growth as a major contributor to rising property tax rates and service costs. Some communities have imposed moratoria or excessive building restrictions; others have enacted exclusionary zoning as a means of controlling growth. This artificial constraint in the supply of new housing

puts ever increasing pressure on prices as pent-up demand for housing cannot be satisfied by traditional supply side economics. Cities like Nashua, which have zoning allowing for higher densities (up to 12.5 units per acre in a conventional multifamily zone), develop more quickly and experience a greater burden than neighboring towns in addressing the housing needs of low and moderate income households from the region.

The other major housing issue facing New Hampshire is the lack of actively funded housing assistance programs available to low income households. Though the state does administer special need programs, such as Aid to Families with Dependent Children (AFDC) and Aid to the Permanently and Totally Disabled (APTD), they are funded at very low levels. The AFDC shelter allowance maximum is currently \$144 per month. This shelter allowance is based on a payment standard of need which is over ten years old. During 1986, the median gross rent in New Hampshire was just over \$500 per month.³

NEW HAMPSHIRE INITIATIVES

The New Hampshire Housing Finance Authority (NHHFA) is the principal resource today for the creation and

distribution of lower cost housing in the state. It has provided assistance to over 12,000 first-time homebuyers with low interest rate financing; it has also provided rental assistance to over 3600 low income and elderly persons. In addition, the Authority offers a mixed income rental housing program. This program's effectiveness has been reduced by the Tax Reform Act of 1986 which significantly curtailed the tax shelter benefits of investing in low to moderate income rental housing. In addition, the Authority's tax-exempt bonding limit has also been negatively affected by this act. In spite of these difficulties the NHHFA remains committed to a more aggressive and innovative course of action. Recent new programs include the Affordable Multi Family Housing Program, Farmers Home Administration/NHHFA Affordable Mortgage Program, and the Public Lands Program which will allow the Authority to use surplus state land to eliminate the land cost component of new construction and directly develop, own, and manage rental projects. Clearly this agency is the major state resource in meeting some portion of the needs of New Hampshire's low and moderate income households.

The problem on the state level is the number of households which meet criteria for housing assistance. It

has been estimated that in New Hampshire today there are approximately 85,000 persons in low income households who are spending over half of their incomes for the basic necessity of shelter. The demand for low income housing assistance continues to grow at approximately 2000 units per year, while the increase in assisted housing under current programs can provide only five to six hundred units per year. This need is particularly acute for the state's renter households having low incomes and no equity from homeownership.⁴

A survey by NHHFA in 1985 revealed that 71.5 percent of the households in the Nashua Area had incomes below that required to purchase the average home. Though a significant number of these people already own their homes and do not require housing assistance, this statistic illustrates how many Nashua households are priced out of the existing housing market. Fortunately, Nashua has recognized the serious need to develop mechanisms which will increase the production of low and moderate income housing.

CHAPTER FOUR

STRATEGIES FOR CREATING AFFORDABLE HOUSING

OVERVIEW

If the city of Nashua is committed to increasing its affordable housing stock, it will need to undertake an active, innovative, and sometimes risky effort. To ensure that the units actually get built, the city could conceivably act as developer and produce affordable housing units itself or create an agency with development responsibilities, such as a non-profit community development corporation, public development entity, or redevelopment authority. Alternatively, the city could provide incentives to developers to construct affordable units, such as low cost financing sources and expediting the permitting and approvals process. In essence, the city has a variety of mechanisms that can be employed to bring about the production of affordable housing units.

POLICY LEVEL

It would be appropriate for the Mayor to launch the city's affordable housing effort with a clear statement of housing goals and objectives. This statement must be broad enough, of course, to cover the range of possible findings and recommendations of the Task Force. Any specific policy decisions resulting from the recommendations, such as the number of affordable units to be included in a development project and the subsequent percentage increase in density to be granted, should be proposed after careful consideration of the many options.

The Task Force should study measures taken by other communities to address the affordable housing problem and draw upon the past experiences of such communities. Nationwide, the city has many resources it can look to for examples to follow - and avoid - in developing affordable housing strategies. The fact that affordable housing strategies have worked in other communities is encouraging news for Nashua. First and foremost, the city must re-examine its own existing land use policies.

A new affordable housing policy must address a wide range of issues and appeal to a diverse set of players,

such as the development community, neighborhood groups, and environmental organizations. The very composition of the Task Force is significant in that the Mayor has attempted to include all of the affected parties and build consensus for an affordable housing policy. Nashua finds itself in an advantageous position from which to launch an affordable housing campaign. As the next section illustrates, the city possesses significant resources to attack the affordable housing problem.

OPPORTUNITIES AND RESOURCES

The following factors create an excellent opportunity for the city to develop and implement affordable housing strategies. When combined, the overall effect of these resources is significant, more so than any one alone.

- **City Resources**

The Task Force has become well informed on affordable housing issues, and possesses a wealth of information and resources from other states and communities. In addition, Nashua has a professional planning and community

development staff which can carry out affordable housing policies and programs.

Outside the city, the Nashua Regional Planning Commission is readily available to provide technical assistance, and the New Hampshire Housing Finance Authority can provide below market financing for housing development. Presently, the New Hampshire Housing Finance Authority is the primary housing resource in the state of New Hampshire.

● **Public Land**

The city has substantial land holdings, some of which are not in use. This resource could be utilized to provide land at below market cost for affordable housing development. Similarly, the state of New Hampshire recently passed surplus land legislation which will enable Nashua and other communities to obtain available state-owned land for the production of affordable housing.

● **Existing Zoning Policy**

The city currently utilizes a zoning ordinance which includes overlay districts, giving the city discretionary approval over density bonuses. This flexible zoning ordinance could be easily amended to require an affordable housing component as a condition of approval for increased density allowances.

● **Thriving Development Climate**

Nashua is experiencing rapid economic growth, as is the state of New Hampshire. The development climate is booming and the demand to build is great. The city has an opportunity to turn this situation to its advantage, encompassing its affordable housing policy.

In addition, there are still several large undeveloped parcels of land in the city, as well as development projects about to enter the approvals pipeline. The city has the opportunity to implement

its affordable housing policies using these projects, taking advantage of the desirable development climate.

● **Attractive Environment**

Nashua's population is relatively wealthy and well educated, and is helping to turn Nashua into a cultural center. In addition, Nashua is a very desirable place to live, as is New Hampshire, thus keeping the demand for housing high.

Nashua is readily accessible to the city of Boston, Route #128, and the "high technology" center of the Commonwealth of Massachusetts.

The affordable housing problem is quite complex, yet Nashua is in a position to draw upon its resources and the current development climate to increase the existing stock of affordable units. As the next section illustrates, there are no simple solutions, but rather a variety of options.

STRATEGIES

Once it has established a solid housing policy, the city of Nashua must create mechanisms to implement it. Any strategy it employs to carry out the policy must occur simultaneously with consensus building. Actions promote reactions; any approach will have political implications and may prove unpopular to certain constituent groups. Properly designed, though, a cohesive set of strategies will lead to the goal of producing affordable housing units. Moreover, the city also has the ability to package incentives and rewards to encourage developers to produce what is needed. The city's *incentive package* must be assembled using relevant market data and financial analysis to assure developer participation.

The following six strategies present options that would best utilize the city's resources, given its ability to control the policies regarding them. These initiatives can be implemented by the city, and should be looked upon as mechanisms the Task Force could further study in trying to resolve the affordable housing situation. They are but a sample of the variety of affordable housing strategies implemented across the nation but are particularly

applicable to the city of Nashua. It is not an exhaustive list, but presents several important options.

1. Provide Municipal Land for Housing Development

The city possesses substantial land holdings obtained through tax foreclosures, grants, gifts, and outright purchases. The exact nature of every parcel under the control of the city has never been properly cataloged. A portion of the city's land is used to provide municipal services, such as parks, schools, and other city facilities. The city may determine that it will not utilize all of its land, however, and thus could make some parcels available for development of affordable housing.

2. Acquire Land

The city's land holdings are not static and can be increased. A long term proactive strategy to create affordable housing could involve the city's active acquisition of properties suitable for

building affordable housing, or purchase of strategically located parcels to bargain or joint venture with the private sector. Acquisitions can occur through condemnation (the taking of property by eminent domain for public purposes), tax foreclosure, gift, or outright purchase.

3. Change the Zoning Ordinance

The current city zoning ordinance allows considerable flexibility because it has discretionary components: the Planned Residential Development and Cluster districts. The ordinance can easily be amended to include an inclusionary by-law which requires affordable units as a condition of approval for certain residential developments.

4. Ease Development Standards

The city currently has strict development controls, such as requiring granite curbs, expensive utility hook-up fees, dedicated parklands, and sidewalks in development projects. While there are

benefits to many of these requirements, they can substantially increase the cost of a development project. If the city considers easing some of these controls, it can lower the costs to a developer, the result being less costly housing units. In doing so, however, the city may lessen the project's quality and health safety standards. Tradeoffs must be weighed carefully.

5. Expedite the Approval and Permitting Processes

The city could issue waivers on certain approvals or fast track them in order to cut down on the time, and hence costs to developers for projects containing affordable units. A streamlined process could cut down on lengthy and expensive red tape involved in permitting.

6. Create Financial Incentives

The city could issue tax abatements or increase property tax exemptions for

affordable units. In addition, the city could float municipal bonds to raise a pool of money to provide developers or low and moderate income households with below market loans or subsidies.

These above strategies are not the only means to solving the affordable housing situation, but represent a series of mechanisms the city can utilize. All of these actions must be approved by the Board of Aldermen and the Mayor. Several, such as zoning changes or relaxation of subdivision requirements, are also subject to public hearings. However, as the land component of housing development costs is ever increasing, the city finds itself particularly well suited to lessen this effect by utilizing municipal land and the discretionary aspects of the zoning ordinance.

In Nashua, undeveloped land is a very desirable commodity, and the city may have surplus municipal land that could be made available for the production of affordable housing. In addition, the existing zoning allows the city some discretion, especially under Planned Residential Development and Cluster districts, and can readily be amended to include an affordable housing

component. Furthermore, existing city agencies and departments have the technical expertise and capability to implement an affordable housing program.

MUNICIPAL LAND USE AND INCLUSIONARY ZONING

The following two chapters focus on the creation of affordable housing through the use of municipal property and inclusionary zoning. The city has only recently begun to update and analyze its inventory of property. Its current policy toward use of municipal land has been reactive, at best, with little emphasis on housing. It may also be time for the city to require some affordable housing component in its discretionary zoning districts. As Table Two illustrates, in the past six years, over 2500 units of market or luxury housing have been approved or built in Planned Residential Development districts. None of the units have been designated affordable. The primary basis for discretionary approval has been preservation of the environment and provision of open space and recreation facilities, rather than housing. This foregone opportunity indicates that the timing is appropriate for the city to re-evaluate its zoning by-laws.

 Table Two - Planned Residential Developments
 1981 - 1986

DATE*	PROJECT	# OF UNITS
12-15-81	SKY MEADOW	496
7-12-83	LEDGEWOOD HILLS	380
10-11-83	KESSLER FARMS	498
6-26-84	HOLDEN FARMS	160
12-12-84	LEDGEWOOD HILLS	(See above)
(no date)	MEADOWVIEW	334
11-27-85	HOLLIS CROSSING	484
1-02-86	GLEN ABBEY	175
TOTAL		2,527

Source: Planning Department, City of Nashua
 July 15, 1987

* Date represents the date the special ordinance was enacted, and not the date of Planning Board Approval

Municipal land also represents an untapped resource. The city must, therefore, formulate a policy regarding the creative use of surplus municipal land. The primary objective of this policy could be to consider the use of municipal land, whenever and where ever appropriate, for the production of affordable housing units.

The city could, in turn, adopt a voluntary inclusionary zoning policy which would encourage the construction of affordable housing units, if the policy were made attractive. Developers could be granted density bonuses in excess of the as-of-right density in exchange for providing affordable units. Given the extreme pressures on the few remaining parcels of undeveloped land in Nashua, voluntary incentives should appeal to the development community. The city has the opportunity to "capture" some of the value - in a public policy sense - of the undeveloped land.

Because the city can implement both initiatives, it can take immediate actions to amend its municipal land use policies and zoning ordinance. Both strategies attack the central problem of land cost, in the former case by providing land at no cost (or below market cost), and in the latter by increasing the number of units per acre.

And, in the absence of substantial state housing policies,
effective solutions must come from the city.

CHAPTER FIVE

MUNICIPAL LAND USE AS A MECHANISM FOR PROVIDING AFFORDABLE HOUSING

OVERVIEW

In 1985 the city of Nashua updated its masterplan; it established goals and strategies for the development of affordable housing. The city's comprehensive land use plan, embodied in its masterplan, establishes a basis for utilizing surplus municipal land to accomplish affordable housing objectives. The city now has the framework in which to carry out affordable housing policies.

Because there is no mandate from the state regarding local land disposition practices, the city has had to create its own. To date, however, no conclusive disposition policy has been established and the city has addressed requests to obtain municipal land on a case by case basis. The only mechanism to insure that municipal properties are considered for other uses prior to general disposition to interested parties is through an informal

review process conducted by the Community Development and Planning Department.

INVENTORY OF CITY-OWNED LAND

The city's inventory needs to be updated to provide a more detailed description of existing municipal land holdings, and it must identify the nature and type of property it owns. For example, the status of a number of parcels in the inventory is unclear. A majority of the parcels can be identified as schools, parks, or watershed areas, but other items on the inventory cannot be identified at a cursory glance. Hence, the first step in considering the use of surplus land for affordable housing is to improve the list to identify which parcels may be appropriate.

Specifically, the physical characteristics of each parcel of land must be identified, and should include, at a minimum, the following information:

- type of property;
- size of property;
- surrounding or adjacent zoning;

- presence of wetlands;
- environmental considerations; and
- existing deed restrictions.

Political characteristics should also be identified. The city will benefit tremendously from knowing the political context and implications of certain parcels in the inventory. Some of this information could include:

- local policies;
- neighborhood sentiment;
- community groups and organizations; and
- neighborhood leaders.

An inventory sheet could be developed to identify and describe each parcel of land. Exhibit One could serve as a model for Nashua. This information is extremely valuable, and compilation of the data is very time consuming. It is a necessary first step, though.

ASSESSMENT OF THE INVENTORY: DEVELOPMENT SUITABILITY

The city must next determine which properties, if any, could be made available for another use and declared

EXHIBIT ONE - Sample Inventory Sheet

Property Description:

Assessor's Map #:

Address:

Category:

Parcel Size:

Zoning Classification:

Present Use:

Managing Agency:

Deed Restrictions:

Environmental Considerations:

Comments:

Source: Town of Amherst, Massachusetts
"Public Land Inventory: A Review
For Housing", September 1986

surplus. That is, the city needs to identify those parcels of land for which it does not anticipate any future municipal use. This analysis should be conducted in light of the city's masterplan and long term growth needs. These *available* parcels must then be categorized according to use: the city must determine to what extent that land is suitable for housing or other development.

In order to understand the scale and the variation of parcels being considered for other uses, the parcels could be organized in a clear and concise fashion using the following information:

- the zoning of the parcels of *available* land, such as residential, commercial, or industrial;
- the context (location and adjacent uses) of the parcels: primarily residential, commercial, industrial, or recreational areas;
- the competing potential land uses: under current zoning, is more than one type of development or use allowed?;

- general expectations: has a particular parcel been "eyed" for a potential use? Does the city anticipate making capital outlays for a development or construction project for municipal purposes?; and
- the political context: environmentally sensitive areas, active community areas, or areas under extreme development pressures.

Parcels of land suitable for housing can be identified and *red-flagged* as possible sites. Parcels suitable for other types of development, such as commercial or industrial uses, could likewise be categorized and considered for other uses.

The next questions that arise involve decisions regarding what particular uses are appropriate for a given site. The city must decide if the property's zoning classification determines what gets built or if the neighborhood sentiment influences that decision making process. For example, the city must decide if all land

located in residentially zoned areas is to be used for the construction of affordable housing, or if only a portion of developable land in residential areas is to be used for affordable housing. Regardless, the city must determine its priorities for municipal land reuse. Only after these steps have been taken can the city actually utilize municipal land for housing production. Assuming the city chooses to dispose of *all* of its available land, it has several options.

THE OPTIONS FOR USE OF SURPLUS LAND

Once particular uses have been designated for *available* parcels, there are three basic scenarios the city can investigate:

1. **Conveyance.**

Disposition of municipal land can occur through an outright sale or long term lease, at or below market value, depending on the amount of *write-down* the city wishes to utilize. For example, municipal land could be sold or leased to developers at little or no cost to encourage the construction of affordable units. Alternatively, the city could grant density bonuses on

available municipal parcels if developers constructed housing with an affordable component. Such land transfers can be accomplished using a competitive Request For Proposals process with any conveyance subject to deed restrictions or leasehold constraints.

2. Development.

Through the creation of a non-profit community development corporation or a development authority, the city could actually undertake development responsibilities on surplus municipal land. Alternatively, the city could give development capacity and responsibility to the Nashua Housing Authority.

3. Public/Private Partnership.

The city could work *with* developers in a joint venture arrangement to undertake affordable housing production. For example, the city could provide surplus municipal land and the developer could provide expertise. Municipal land could be traded to developers. Subject to local zoning, developers would be free to pursue their own projects. The city could, in turn, construct affordable housing on the newly acquired properties. Moreover, a developer could set

aside a portion of land in a development project for the city to develop affordable housing in return for other municipal land.

Finally, development rights on surplus municipal land or restricted municipal land located next to a private development site could be traded to a developer in exchange for inclusion of an affordable housing component. This version of *transferable development rights* would create amenities, such as public open space and recreational areas on the *available* parcel and affordable units on the adjacent private development site.

To achieve more substantial impact from the use of municipal land, the above actions should be undertaken in conjunction with creative financing techniques, innovative design, site planning and architectural techniques, tax abatements, bond issues, relaxation of land use controls, or zoning density bonuses.

IMPLEMENTATION AND MONITORING

In undertaking a proactive land use policy, the city has several issues to further consider. The Mayor and the

Board of Aldermen must decide if they are going to create a hybrid agency or vest existing agencies with the responsibility for carrying out affordable housing policies and programs. If an agency is to be created, much work is needed to get it up and running. One option is for the city to develop a strategic plan once the priorities are established. The city must weigh its strategies and outline who is to be involved in the implementation, and then follow it up.

Hand in hand with implementing the policy goes monitoring, and the city must decide which agency will monitor any affordable housing programs. The city must also enforce any deed restrictions, conduct resale processes, maintain the properties, and finally, maintain the land inventory. Technical assistance can be provided by the existing city agencies or the Nashua Regional Planning Commission. However, the Mayor and the Board of Aldermen will ultimately shoulder the responsibility for success or failure of the affordable housing programs.

CONCLUSION

Even when the inventory of city land is completed, there is no guarantee that surplus municipal land alone can produce affordable housing. The strategy of land disposition must be considered with other approaches if its potential impact is to be fully realized. The city's *informal* land disposition process should be looked upon as an opportunity for it to begin its affordable housing program. Nashua has complete control over its land holdings, and needs first to get a clearer picture of exactly what it owns in order to be able to analyze each parcel for its highest and best use, particularly its suitability for housing production. The options and alternatives for using that land to create affordable housing next need to be explored and weighed. Finally, the city must establish an implementation and monitoring process for those policy decisions.

CHAPTER SIX

INCLUSIONARY ZONING

OVERVIEW

Inclusionary zoning is a land use mechanism for creating affordable housing which, while controversial in some of its mandatory forms such as linkage, has gained acceptance as more and more communities grapple with the issue of affordable housing. Used extensively in California and New Jersey as a means of providing for a variety of local housing needs, it has been estimated that in California the total units built, under construction, or committed for development attributable to inclusionary housing programs in 1983 was nearly 20,000 units.¹ Like other creative planning techniques which find their way east from these bellwether land use states (such as cluster zoning, planned unit development, or zero-lot line) inclusionary zoning is becoming a major element in American housing and land use policy.

Typically, under the provisions of an inclusionary zoning program, a developer provides a certain percentage of affordable housing units in return for additional density beyond what is allowable as-of-right for a given project. The zoning by-law establishes a minimum percentage of units to be provided to low and moderate income households within specific income limits. Because this tool is a local land use initiative it can easily be implemented to encourage the private housing and development industry to assist in solving the problem of creating affordable housing. While an inclusionary housing program may be mandatory, such programs are typically voluntary and *encourage* rather than *require* developers' participation.

The most successful inclusionary programs have been located in fast growing communities where there is a strong housing market and a sophisticated and committed local government which understands the public benefit derived from creating affordable housing and is willing to offer incentives to promote it. Likewise, in high growth regions many developers are aware of the dynamics of the permitting process (often involving lengthy and expensive development approval procedures) and are willing to offer to build affordable units in return for either higher

density or other incentives such as priority permit processing, waiver of fees, reduced street and dimensional requirements, or low interest financing. These incentives should generate enough savings for the developer so that he can provide affordable units. The city benefits because it obtains a public amenity without the need, in some cases, for direct public funding.

The final development project which emerges from an inclusionary zoning program should be one in which both the developer and the community benefit. For example, when the city increases the value of a developer's land by permitting higher density it expects to benefit from this *value-added* with a payment of some type of affordable housing in return. The amount of public benefit derived from creating affordable housing should correspond in some reasonable proportion to the incentives offered.

There is no consensus on what the optimum percentage of the affordable component should be. However, nearly all existing programs fall within a range of five to twenty-five percent. Ideally, these units would be integrated into the developer's project and be indistinguishable from his market rate housing. A

flexible ordinance, however, would permit the developer to build the affordable units off site.

The use of surplus municipal land as described above could play an important role in this regard. Orange County California has implemented an innovative plan of "Transfer Credits" which permits developers to purchase credits from other developers who have produced an excess of *affordable* units. By creating a market the county has increased the value of the bonus.² Other strategies which should be incorporated into an inclusionary zoning ordinance allow the developer to donate a parcel of land within the development or make an in-kind payment of funds to a public or non-profit agency.

The legal questions raised relative to inclusionary zoning are the same for any zoning or land use tools and concern the issues of "taking" without compensation, due process, and equal protection. These legal issues have been more scrupulously pursued in mandatory inclusionary zoning programs and have, as in New Jersey's Mount Laurel II³ case, survived the challenge. Inclusionary zoning, if properly drafted with careful consideration given to the above key legal issues, is a legitimate use of police power to serve the general welfare.

INCLUSIONARY ZONING IN NASHUA

If the city of Nashua wants to actively pursue production of affordable housing in the community it must seriously consider an inclusionary zoning mechanism. Developing consensus on such a program will be easier if the ordinance is voluntary and provides incentives for developers to participate. New Hampshire's zoning enabling legislation RSA 674:16-21 provides the legal framework for cities to adopt such a program if it is incorporated into the zoning by-laws through a special use permit (which presently exists in Nashua's zoning ordinance).

A review of the residential development projects in the city since 1980 reveals that developers have taken advantage of the "special exception" provision for approval of a majority of these units.⁴ The two land use mechanisms used were the Planned Residential and Cluster Development provisions, both of which are overlay districts and are permitted with a "special exception" in most residential districts in the city. In addition there is a proposal pending before the Board of Aldermen requesting a special permit, under the Planned Residential Development ordinance, to develop 3500 residential units

on 700 acres, the largest remaining undeveloped parcel in the city. Known as Halls Corner, this project is the largest single residential housing project ever proposed in New Hampshire and may provide the city with its first opportunity for the implementation of an inclusionary housing program.

The Planned Residential Development ordinance allows, by special permit from the Board of Aldermen, an alternative pattern of land use other than that permitted as-of-right. If the parcel of land is serviced by water and municipal sewer the developer can build up to 4.5 units per acre in districts where the as-of-right density can be as low as one unit per acre without such services. Presently the city allows the greater dwelling unit densities in certain areas to encourage the preservation of open space. The Planned Residential Development ordinance was originally designed to encourage a greater mixture of housing types and was amended with the following preface:

Subchapter 21. Planned Residential Developments: "The purpose of this Subchapter is to encourage the orderly and creative development of large tracts of property within the city. Its purpose is to logically allow their development without adverse impacts on the health and safety to

abutting, existing developed areas. Its purpose is also to encourage the implementation of progressive land use concepts in the protection of the environment, energy conservation, and to make use of the efficiencies in the economies of scale."5

An inclusionary housing program is a progressive land use concept and could be easily implemented in Nashua through the Planned Residential Development ordinance. The city need only include housing affordability along with the protection of the environment as the basis for approving increased density in a Planned Residential Development district. Besides having the present capacity to administer this existing zoning mechanism, the city, by grafting an affordable housing component onto this ordinance, may make it more politically palatable. A density bonus of up to four times that which may be built as-of-right should be sufficient incentive for developers to include affordable housing in their projects. The minimum size for a Planned Residential Development project is fifty acres. Integrating affordable units into a large project is easier. This mechanism is sure to increase the production of low and moderate income housing units in the community. The full extent will depend on the percentage of the affordable component, a number which must be determined through a study of other successful programs.

Inclusionary zoning could also be implemented through Subchapter 19. Cluster Residential Development. Current zoning permits the "clustering" of both single family and multifamily units in residential districts on land parcels of ten acres or larger where there is water and municipal sewer. While this density requirement is the same as the as-of-right density, the popular feature of this zoning provision is that the reduced dimensional requirements allow a developer to lower his site and infrastructure costs.

The city should consider whether an inclusionary component is appropriate for this subchapter. Density bonuses should be considered above and beyond the existing provisions to entice developers to participate in the inclusionary program. Because of the smaller size of cluster projects developers should be allowed to build their affordable units off site or contribute to a housing trust as previously suggested. The inclusionary housing program cannot work without a major commitment from the city, both in terms of assistance in the procurement of low interest rate financing (through the New Hampshire Housing Finance Authority or from the bonding capacity of

the city itself) and oversight to ensure that the units remain affordable and are properly managed and maintained.

Whatever the specific mechanism, the first step is for the Housing Task Force to evaluate the potential of inclusionary zoning to increase affordable housing production in the city. Because of the intense development climate in Nashua and the fact that there are few undeveloped tracts of land remaining, the city may want to consider adopting a policy similar to the one used in Lexington, Massachusetts which is the basis for its inclusionary plan. The policy states that:

". . .all new housing developments which gain an increase in density greater than that previously allowed by right in the zoning district in which it is located, shall provide affordable housing units."6

It would be up to the Mayor and Board of Aldermen to pursue and implement such a policy as well as to develop an inclusionary zoning ordinance which provides legitimate incentives proportional to the public benefit derived by the additional affordable units. It is the builder or developer who is most capable of delivering housing units, and without appropriate incentives the program will not succeed. The city should review the ordinances of other

communities which have resulted in successful inclusionary housing programs. These examples can provide a framework for implementation of Nashua's own program.

CHAPTER SEVEN

CONCLUSION

Once the city has committed itself to the development of an affordable housing program, it should consider local initiatives over which it has control and which can be readily implemented using existing resources. This paper has focused on the use of surplus municipal land and inclusionary zoning. The city can take a proactive approach to disposition of its land holdings; and it can amend the current zoning ordinance to include an affordable housing component as a condition of approval in certain residential districts. The Mayor has already taken the first steps toward effecting a positive change in the current affordable housing situation by creating the Task Force. Moreover, the development and economic climates in Nashua present an outstanding opportunity to undertake an affordable housing program at this time.

In order for an affordable housing program to get off the ground, the city must build consensus around the issue. This endeavor will not be easy, given the

diversity of opinions on, and the complexity of affordable housing issues.

"No single person or narrow interest group can produce affordable housing. Instead, power is held in many different hands. Elected officials may be able to commit public resources and revise land use regulations; municipal staff can provide technical expertise on legal, engineering, and financial issues. Local planning boards, conservation commissions, and zoning boards of appeal have discretion to issue important permits. . . . Private land-owners may control key parcels, and developers may be able to package an affordable housing program with a broader project. Citizen groups may have the political clout either to make things happen or to have them come to a screeching halt. . . ."1

Undoubtedly, there are many other options or strategies that can be utilized in the production of affordable housing. This paper has focused on only a few. The most effective results can be achieved through a combination of several strategies, combining and utilizing as many of the options as possible, and using all of the resources available. For example, the combination of an increased density bonus, an affordable housing component requirement, and below market financing make a project less expensive, and more attractive to a developer. Moreover, a developer is further inspired to produce affordable units if his permitting process is shortened or

his fees waived. This paper's recommendation for the city to focus on using its land and the discretionary aspect of its zoning ordinance to address the mounting concerns regarding affordable housing is only a small component of any possible solution.

ISSUES FOR FURTHER STUDY

There are numerous questions raised by the study of the affordable housing situation in Nashua. The city must commit its resources to further explore these issues:

- What agency or department will oversee and implement the affordable housing policy in the city? Will it be a newly created hybrid agency, the Nashua Housing Authority, the Community Development and Planning Department, or another agency?
- How will the city maintain the affordable housing stock, that is ensure that it remains affordable? Who will be charged with monitoring the mechanisms?
- What criteria will determine the specific amendments to the discretionary zoning ordinance, such

as the the percentage mix of affordable and market units required as a condition of approval?

- What measures or strategies would be most effective to combine with municipal land use and discretionary zoning policies?

- What further study of the issue is required? Who will be responsible for conducting the additional information gathering?

- What is the time frame for implementation of an affordable housing policy?

It is readily apparent that there is no simple solution to the affordable housing shortage. Nor did this paper make an attempt to solve the problem. Rather, it presented several options and issues for the Task Force to consider as it formulates findings and recommendations to the Mayor and Board of Aldermen. In addition, the recommendations focus on policies and ordinances over which the city has complete authority, and which it can amend or adjust immediately to promote an affordable housing policy.

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³ Ibid. page 11.

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ACKNOWLEDGEMENTS

The authors wish to dedicate this thesis to Marilyn Forest. Her encouragement, patience and support was greatly appreciated throughout its preparation. In addition, the authors would like to offer their extreme thanks to the following people who so kindly provided their time, expertise and valuable insights:

Joseph Abrams, Executive Director
Nashua Housing Authority

James Donchess, Mayor
City of Nashua

Robert Duffy, Director of Planning
City of Nashua

Joseph Freeman, Administrative Assistant
Mayor's Office, City of Nashua

Roger Hawk, Director of Community Development
City of Nashua

Sandra Lambert, Research and Education Consultant
Center for Real Estate Development, MIT

Paul McQuade, Executive Director
New Hampshire Housing Finance Authority

Jay Minkara, Planner
Nashua Regional Planning Commission

Paul Newman, Director of Development
City of Nashua

David Scott, Director of Policy Planning
New Hampshire Office of State Planning

Allan Silber, Chairman
Nashua Housing Task Force

Rachel Webb, Long Range Planner
City of Nashua

Michael Wheeler, Chairman of the Master's Program
Center for Real Estate Development, MIT

Jody Wilber, Vice Chairman
Nashua Housing Task Force