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Sent: Wednesday, June 18, 2014 6:27 PM
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Subject: Housing Study - my comments from last week

Brian and Jane-

Thank you both for hosting the community forum last week on the recently released housing study. Following is a summary of the testimony I provided:

Incentives

- The City has a limited ability to provide economic incentives to facilitate development
- Property tax stabilization does not work well here since approximately two-thirds of the total property tax revenue goes to the State education fund and is not locally controlled
- TIF is limited to the existing TIF districts and can only pay for public infrastructure, the capacity of our existing TIF districts is additionally limited
- Density bonuses have limited potential given the very real limitations of development density in our small urban environment. Redstone is pushing the envelope as far as possible in the smart growth/fewer parking spaces direction, but have found that a density of about 60 units per acre is about as dense as you can go around here. The only way I can see increasing density much beyond that is IF you have a site that is strategically located adjacent to an underutilized municipal parking garage where city owned parking spaces can be made available to residents on a monthly lease basis with some assurance that the parking resources will be available to these residents long-term.
- Regional inclusionary sounds like a great goal, but there is no real regional authority in Vermont, so all we can do is encourage surrounding towns to consider inclusionary and maybe CCRPC can encourage as well, but none have the power to create a regional inclusionary policy
- Public lands should be inventoried and a long-term plan should be created to utilize available public land strategically for development
- Regulatory changes are the best tool the City has, anything we can do to streamline the regulatory process is a move in the right direction, all about making things easier to understand and more predictable
- **Inclusionary reform** is the big item missing from the report, we need to locally reform how inclusionary works. I recommend looking at 2 pieces. The first is raising the threshold for when inclusionary requirements kick in. Right now 4 units is the threshold, the real threshold should be something much higher, perhaps 40 units. The other is what the rental rates are for the inclusionary units. Right now, inclusionary units are rented to households at or below 65% of area median income. We literally lose money on every inclusionary unit we build and we do not make enough money on the market rate units to offset the losses on the inclusionary units. If the AMI rental

rates on inclusionary units were raised to 80% of AMI, the income from those units would get us a little closer to break even. I believe there is support for this type of inclusionary housing policy reform among the non-profit housing development community as well.

Other observations:

- The appendix to the housing report is one of the most powerful pieces where it shows that there is a gap in supportable development costs of approximately $45 per square foot, making it nearly impossible to build any new un-subsidized rental housing in Burlington
- Affordable housing has to be part of our housing strategy in Burlington, but everyone recognizes that affordable housing requires subsidy. Most CHT, Cathedral Square, Housing Vermont and BHA projects are 100% funded by subsidy either through direct grants, very soft loans, or tax credits. It is not possible to build affordable housing without this subsidy, so to expect the private sector to build affordable housing without heavy subsidy is not realistic. The pool of available subsidy for affordable housing is limited at the State and Federal levels, there is only so much we can accomplish in Burlington given current funding levels. We can all continue to lobby for more funding, but need to acknowledge the reality of the situation.
- We need to be thoughtful about Pine Street to make sure that we do not lose the creative entrepreneurs that have been making cool things happen on Pine Street for the last 30 years.
- We need to be thoughtful about limited public land.

What Development Boom?:

Everyone is talking about the development boom in Burlington, but the reality is that there is not that much going on here right now, especially when it comes to new rental housing. It may seem like a boom because typically almost nothing gets built in Burlington, but relative to other cities around the country right now that really are booming, we are still kind of sleepy.

The latest edition of the Allen & Brooks report came out in early June. In the report there is a page that shows that the total new supply of rental apartments in the Chittenden County market for 2014 is 388, these are real projects either completed already or well under construction that will definitely be completed this year. **The alarming data point is that out of 388 new apartments only 29 of them will be added to the supply in Burlington. 29 units is 7.47% of the 388 total new units in the region.**

Burlington has roughly 10,000 rental housing units, almost 50% of the total rental housing supply in our region. An increase of 29 units this year means that we are adding 0.29% to the supply of rental housing in Burlington this year. This in a year when we otherwise have a perfect storm of anemic supply, stable demand, rising rents, relatively reasonable construction costs, all-time low interest rates, strong investor appetite, and lenders that are highly motivated to finance new apartment projects in our market. To keep up with our fair share and considering that all of the other projects in the region would be happening anyway, we really should be producing about 360 new units in Burlington alone this year.

Please also note that the 29 new units in Burlington are being produced in 2 projects in the Old North End, both projects that I am personally involved in. 196-202 North Street (aka Abe's Corner) took me about 10 years to put together and Stu McGowan is my partner in the deal. Silversmith Commons is the former Bushey Auto site. Silversmith was sold to some well intentioned Burlington developers that have done a lot of rehab around town, but never new construction. Realizing that they could not pull off the new construction on their own, primarily because the development cost vs. projected cash flow did not meet their typical investment return guidelines, they sold the permitted site to us. We worked together to obtain Act 250 approval and broke ground within 4 months of taking over.

CEDO has a copy of the Allen & Brooks report. The data in the Allen & Brooks report is the strongest Chittenden County real estate market data source that we have. All commercial real estate brokers, developers, and lending institutions rely on the report. Mark Brooks is the most informed market analyst and appraiser in our region when it comes to rental apartments.

Thanks for keeping me in the loop. -Erik

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