Some comments on the Housing Plan:

- This is a staggering statistic "The lack of new housing construction in the City of Burlington is all the more remarkable because it has taken place in a period during which new households in the region grew by 10 percent during the years **between 2002 and 2013**. Burlington saw only three percent growth in that same timeframe, and of the roughly 220 new units built in the downtown, **only 18 were market rate rentals**."
- The statistics on IZ unit development are a bit confusing in light of the statistic above, if 47 IZ units were developed in the same period in the downtown, either most of them were condos or most of them were created in heavily subsidized affordable housing development projects and would have been developed regardless of our IZ policy - how many IZ units were truly created because of our IZ policy?
- All of the recommendations on the list will help reduce barriers to housing development in Burlington, but the biggest issue comes down to financial feasibility of rental housing projects in the City - Stratos was converted to condo mid construction because the financial reality of maintaining that project as rental was daunting - a proposed project at 86 Main Street may die on the vine because the financial feasibility is not there - other permitted and proposed rental housing projects seem to be stalled on Riverside Ave, Pine St, and Grove St, among others and I suspect financial feasibility is a major stumbling block
- IZ is a huge financial feasibility stumbling block and while I do not think it is politically possible to eliminate IZ, we need to adjust the formula significantly
- 2,200 new beds of off-campus purpose built student housing in the next decade may not be a realistic goal - at approximately 2.5 students per unit on average this is equivalent to approximately 900 new units of rental housing in the City in close proximity to UVM and Champlain - this number of new units is a 9% increase in our exiting supply of rental housing stock - good to have a goal, but it might be better to set it at a realistic level
- Neighborhood Stabilization Strategy - we need to be realistic about this as well. In a section of the City where marginal student apartment properties are trading at prices of $250,000 per unit and higher, it is hard to imagine a financially feasible way to turn these properties into safe, decent and affordable family housing - the recommendations say that "There are some promising models nationally that involve focused efforts to attract a new mix of property owners in neighborhoods with similar characteristics", but I have not seen any examples of these models. Most of the models referenced are from heavily blighted urban neighborhoods with much lower property values where efforts are focused on reducing blight.

IZ changes to consider

- increase threshold for IZ from 5 units or more to 40 units or more
- increase rental housing AMI requirement for IZ units from 65% AMI to 80% AMI
- increase for sale housing AMI requirement for IZ units from 80% AMI to 100% AMI

Simple math on IZ rental units

- appraisals of value for rental housing are primarily based on the income approach to valuation
- a Capitalization Rate (Cap Rate) is applied to the Net Operating Income (NOI) of a rental housing unit to determine the market value of the unit
- the maximum rent on an IZ 1 bedroom apartment right now is about $865 per month - $10,380 per year
- the operating expenses associated with the same apartment are roughly $450 per month (CHT average is about $550 per month, I think) - $5,400 per year
- NOI = annual rental income - annual operating expense = $10,380 - $5,400 = $4,980 per year of NOI
- Cap Rate for Burlington apartments is about 6.8% right now
- Market Value = NOI/Cap Rate = $4,980/6.8% = $73,235
- Average total development cost of new rental housing in Burlington right now is about $225,000 per unit
- With a market value of $73,235 and a development cost of $225,000; developers are having to make up for $151,765 of lost value on every IZ 1 bedroom apartment created and market rate units are not valuable enough to offset this loss under normal market conditions
- Mark Brooks and John Vickery should be excellent resources on this valuation topic

We have been building new mixed-income rental housing in the City lately, as you know, but it is only possible thanks to a confluence of conditions including:

1. aggressive lending competition among first mortgage lenders willing to go 80% Loan to Value, 30 year amortization, and interest rates below 5% - normal market conditions would be 75% Loan to Value, 20 year amortization, interest rate of 8%
2. participation by the Vermont Community Loan Fund as second mortgage lender in support of our IZ housing units for about 10% Loan to Value, 30 year amortization, and 5.5% interest
3. investors that have confidence in the Burlington rental housing market and are willing to accept relatively modest returns - as bank interest rates on savings accounts and yields on bonds and the stock market increase, the relatively low yields on rental housing in Burlington will become less attractive

If any of these elements change, even slightly, we will be done developing new un-subsidized rental housing in Burlington.

My biggest concern is that we are missing the window on developing a significant amount of new high quality rental housing in Burlington. Rental housing development is way up in most areas of the country that have strong market fundamentals marked by low vacancy and rising rents like Burlington. Many markets are adding new rental housing at rates between 6-8% of existing supply. The average increase in the U.S. is about 3% of existing supply, see exhibit 4-11 attached from a study by pwc and the Urban Land Institute. In 2014, Burlington is adding only 29 new rental housing units to an existing supply of over 10,000 rental housing units representing approximately a 0.29% increase in supply. Our region is adding about 400 new units in 2014 to an existing supply of over 20,000 rental housing representing approximately a 2% increase in supply. This shows that our region is below the national average and that most new units in our region are being developed outside of the City in the suburbs contributing to sprawl. My worry is that by the time we make any meaningful policy changes in Burlington, the window of strong market conditions for rental housing development will be closed.

Happy to discuss further, thanks for the opportunity to comment. -Erik

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Apartments

Moderate- and high-income apartment development prospects, as well as moderate-income investment prospects, remain among the strongest of all sectors rated for 2014 by the *Emerging Trends* survey respondents. But, unlike last year, when apartment prospects outshone the prospects of all other sectors, these apartment ratings are slightly lower this year, placing them behind warehousing. And investment prospects for high-income apartments are lower than those for a wide range of commercial subsectors.

The declining appetite for investing in high-income apartments is reflected, in part, in the sharp drop in "buy" recommendations from 44 percent in 2013 to 21 percent in 2014. Moderate-income apartments show their strength with an increase in "buy" recommendations for 2014 over 2013—38 percent versus 28 percent, respectively.

Does New Supply Pose a Risk?

Many interviewees expressed a sentiment similar to the one expressed by a real estate analyst who said that apartments will be "fully supplied, not oversupplied" in 2014. The apartment sector may "flirt with overbuilding, but this industry can lay off the gas pedal fairly quickly." Even with a strengthening of the single-family housing market, many interviewees are optimistic that multifamily will adjust appropriately.

That's not to say there won't be isolated pockets of overbuilding, particularly in the luxury market. "The peak of supply is coming this year and next year," says a REIT executive. "Then what happens? If interest rates move up, can we get the rent to justify new supply? At some point, if costs are going up, how much farther can we push the rents?"

Overall, even with a slight uptick in vacancy rates projected as additional units come on the market, rates are projected to remain relatively low in 2014 and for even several years beyond, according to REIS.

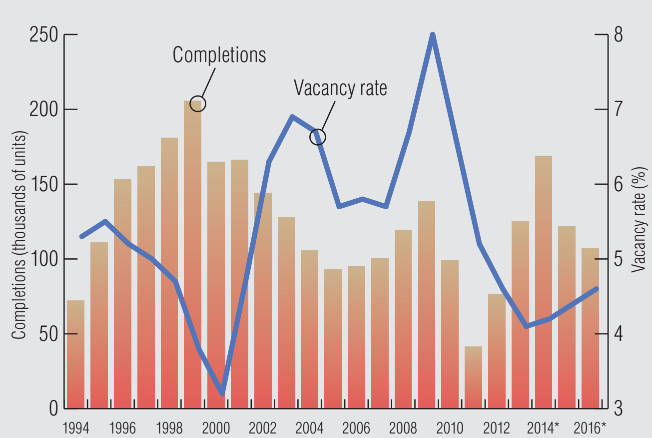
Multiple Sources of Demand

Millennials (or 'gen Yers'), who show a preference for living in a walkable, urban area, regardless of the size of the city where they live, will continue as a strong source of demand. They are less likely to buy their own homes, according to *America in 2013: A ULI Survey of Views on Housing, Transportation, and Community*. Drawing from a statistically representative sample, the study indicates that 54 percent of gen Yers rented their primary residence in 2013, compared with 32 percent of all adults in the United States. Of those gen Yers who are very likely to move within five years, 69 percent expect to rent, compared with 25 percent of all adults.

At the same time, baby boomers are selling their houses to rent apartments within walking distance of downtown areas or moving into centers for active seniors. "There is a growing demand for projects that target residents who are 55 and older. They want high 'walk scores' and access to entertainment, amenities, and quality health care," says the CEO of a commercial real estate firm.

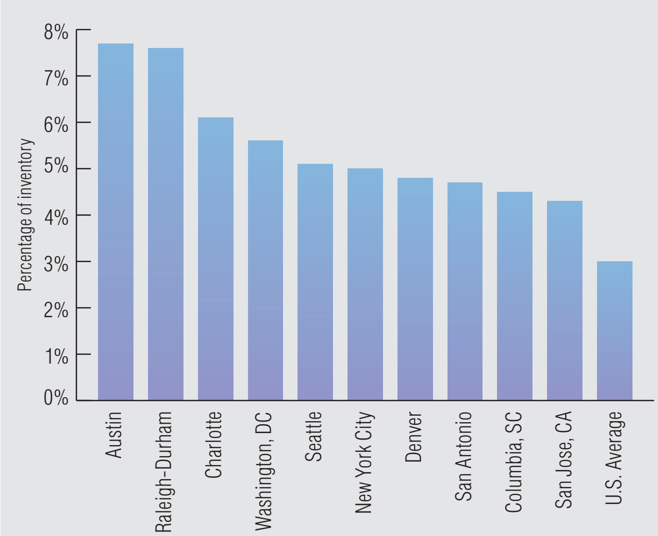
At the lower end of the age spectrum, some investors favor student housing "because it is not cyclical," says an institutional real estate adviser. "Because most colleges no longer build new dorms, the sector will remain strong."

EXHIBIT 4-10
U.S. Multifamily Completions and Vacancy Rates



Source: REIS.
*Forecast.

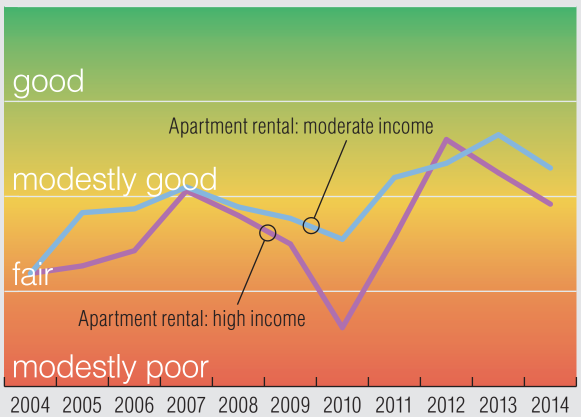
EXHIBIT 4-11
Multifamily Units under Construction



Source: Reis.
*Data as of June 30, 2013.

EXHIBIT 4-12

Apartment Investment Prospect Trends



Source: *Emerging Trends in Real Estate* surveys.

U.S. high-income apartments

2014	Prospects	Rating	Ranking
Investment prospects	5.92	Modestly good	7th
Development prospects	6.25	Modestly good	2nd

Buy	Hold	Sell
21.3%	35.2%	43.5%

Expected capitalization rate, December 2014 5.4%

U.S. moderate-income apartments

2014	Prospects	Rating	Ranking
Investment prospects	6.30	Modestly good	2nd
Development prospects	6.00	Modestly good	3rd

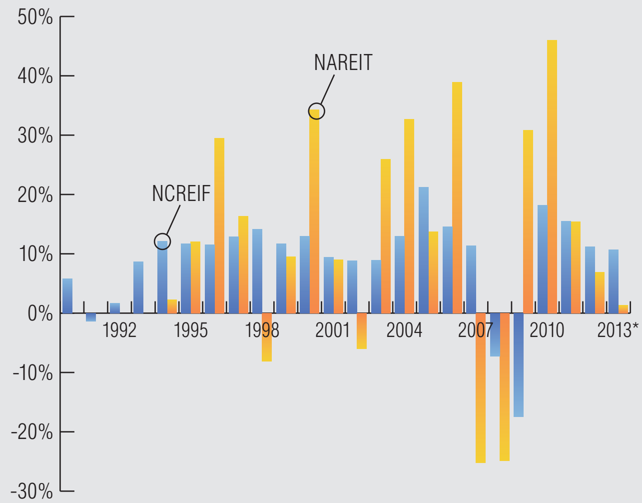
Buy	Hold	Sell
37.6%	34.3%	28.1%

Expected capitalization rate, December 2014 6.2%

Source: *Emerging Trends in Real Estate 2014* survey.
Note: Based on U.S. respondents only.

EXHIBIT 4-13

U.S. Apartment Property Total Returns



Sources: NCREIF, NAREIT.
*Data as of June 28, 2013.