

# **LDS Consultant's Report on Temple Shalom site, August 25, 2009 – Summary Comments**

The consultant's report defines its task as evaluating the financial feasibility of development options for multi-family housing, assisted living and retail uses. The Temple's goal of achieving a \$2.5M sales price and additional revenue to hold in reserve, so as to as to generate \$100,000 annual revenue is stated in the first paragraph of the report.

Note: inaccuracies in the report:

It cites proximity to a school and a park. Presumably that is a reference to the playground at the school, which is paved. There is no park in the vicinity.

The pre-school at the Temple is described as a day care facility. It is a pre- school, not a day care facility.

## **Summary of study method and conclusions**

This consultant felt that the pharmacy rents included in the pro forma reflected the current market.

The consultant accepted the pro forma numbers for the pharmacy part of the development.

**The following modifications were provided** for the developer's analysis of cost and return for the scenario where the second building was a retail building. The estimate of a vacancy rate of only 800 SF was unrealistic, given today's market. It would be unlikely that the retail would be built without a tenant under a lease agreement. The upper level of the site does not lend itself as easily to retail as a residential use due to grading/parking.

The consultant in examining the residential sales for the area market, found no comparable developments. To determine land values for these uses the consultant assumed a 12% return and from that derived possible land values.

Using this method the consultant estimated that townhouses of 1,800 SF could sell for about \$405,000 and garden style flats of 1,100 SF could sell for about \$275,000 in this area. However, the consultant then concludes that given that there are no lenders lending on new development ownership projects, other than the occasional single family home, and the fact that there are 21 condominium units at The Residences at Milton Village (these are units not yet built which have selling prices of \$500,000 to \$700,000) not yet sold, that it would be difficult or impossible for a developer to obtain construction financing for this type of project in the next several years.

*This analysis does not take into account that the housing market in Milton has remained stable, that the selling prices at this site would be much more affordable even at market prices than those at The Residences at Milton Village (she does acknowledge that lower prices would increase marketability in her conclusions), and that the development would not even begin construction for a couple of years.*

*Furthermore, since the consultant concludes that a high density 40B development is an option, that type of financing ought to be available for other densities of 40B housing as well, similar to the housing densities reviewed in this report as market rate projects.*

*If she is saying that there is no financing for housing, then the 40B option should have been taken off the table.*

*This is a major unresolved issue in the report.*

*Were the Temple property not under an option agreement, we would at least have been able to get several developers to the table to discuss their ideas for this site. The developers we spoke with refused to participate in a situation where another developer already had an option to buy the property, and refused to make public comments under these circumstances.*

## **Rental apartments**

The consultant spoke with providers of multi-family housing in the Boston area. They were interested in evaluating the site in further detail for three four story mid-rise buildings. *(none have actually looked at the site).* More than 80 units would require underground parking. But the consultant reports that developers indicated interest in building 80-120 units with some underground parking and suggested a land acquisition cost of \$3,000,000 for 100 units, taking into account costs related to ledge on the property. They felt a sloping site would allow building into the slope and that was desirable. The consultant indicated that there is funding available for loans for these types of apartment developments from HUD, Fannie and Freddie.

The consultant then lists examples of rental 40B projects with densities similar or higher to what is described in her report, on comparable size lots, in other communities in Massachusetts. She concludes that an 80-120 unit rental development is a viable option and will produce a purchase price the Temple is seeking. She does not point out that the suggested price of \$3,000,000 is \$1,000,000 less than the price for the pharmacy plus second retail building, and \$750,000 less than the price for a pharmacy/residential combination.

Also, in her report the consultant does not mention two recent regulatory changes adopted by DHCD for the 40B program.

The first is a requirement that lending agencies administering 40B financing require an independent appraisal of the land to be built upon, based upon its value under existing zoning (not the value for the new development). The maximum a developer would be able to deduct

for land acquisition costs in his pro forma to demonstrate that his project did not exceed the 10 percent cap on profit for apartments and 20 percent cap on ownership projects would be that underlying value of the land.

I corresponded by email with the consultant on this point and she indicated that it was a valid consideration. However, she stuck by her conclusion that a high density 40B apartment developer would still purchase for the higher price, because of his interest in a long term revenue stream from the apartments and his ability to absorb the additional initial cost.

The second regulatory change not reflected in the consultant's analysis is the requirement that 40B developments be consistent in style and design, although of higher density, so as to fit in with the surrounding neighborhood. It is not clear, given this requirement, that developments of the style she described could be forced upon the Town.

*None of the developments cited by the consultant as examples were subject to these new requirements.*

### **Assisted living**

Here the consultant felt that underground parking would be required to build the ideal size facility: 84 units, combination of traditional and Alzheimer's care. *Last spring a local architect provided us with a plan showing how an assisted living facility could be laid out at this site. And whether an assisted living facility must fit the "ideal" design is also not clear.*

The consultant estimated a purchase price of \$1,720,00 but felt that funding choices other than HUD were limited. The consultant concludes that "this amount is far below what the Temple would need to re-build their facility."

## **CONCLUSIONS**

The consultant concludes that the **pharmacy, residential, Temple** approach appears to be the most viable at this time. She estimates a sales price of \$3,645,000 for this option. The sale of the pharmacy land will essentially pay for the cost to build the temple. The residential development, which she thought could be built later, would offer income to fund an operating reserve to keep the temple viable in the future. In her conclusion she notes that the relatively low purchase price of the residential units may be more attractive to lenders and potential purchasers. *Is it possible that if these units were designed as 40B residential units, financing might be more readily available?*

## Summary of sales price suggested by consultant for various development options:

Pharmacy	<b>\$2,445,000</b>
Pharmacy and	
residential condos	<b>\$3,645,000</b> (increases condo land value from \$960,000 in pro forma to \$1,200,000)
36 residential Townhouses	<b>\$2,232,000</b> (increases land value from pro forma of \$1,875,000)
72 Garden style condos	<b>\$2,160,000</b> (increases land value from pro forma of \$450,000)
Pharmacy with 2 <sup>nd</sup> retail bldg	<b>\$4,000,000</b>
Assisted Living	<b>\$1,720,000</b>

All development options include building a new smaller temple on the site.

## MY COMMENTS

This study is limited in scope in that it sets as a condition meeting the financial needs of the temple. It asks for analysis of only certain development scenarios. It does not provide a full pro forma for the “high density 40B rental option”. It does not take into account recent changes in 40B regulations.

Either the Planning Board or the consultant seems to have defined 40B as “the rental option”. But 40B housing can be ownership residential housing of a size ranging from single family (three houses at market price and one house at an affordable price) to a very high unit density per acre. It is the low cost financing, the fact that a required percentage of units be marketed as affordable units, long term or permanently, and limitations on the developer’s profit that make housing eligible to be “40B” housing, and thereby waive local zoning regulations.

The residential options outlined in the LDS Report would not qualify as 40B housing because they specify too few affordable units. So for these designs it would be true that only conventional financing could be utilized and that is currently very difficult to obtain. But why were the development options for residential defined this way to begin with? Why did the Planning Board never look at lower density 40B options?

It appears that the study was defined to lead to the conclusion that the only other option than the current commercial zoning proposal is a high density 40B development.

These conditions for the study limit its value as a study of "development options" for the site.

However, the study does provide a useful critique of the developer's pro formas, and that critique leads the consultant to conclude that a mixed retail pharmacy and residential development is the one she would recommend.

The fact that the Planning Board is not recommending the development scenario endorsed by its own consultant raises questions that no one has answered to my satisfaction.

The parameters for the consultant's study are inconsistent with more recent statements by the Planning Board that the financial needs of the Temple are not the basis for their recommended zoning.

When a survey or an analysis is done, the assumptions and conditions on which the data collection or study is based will limit its conclusions. There is useful information in this report. However, it looks at a limited set of development options and in its analysis of the "much feared 40B high density apartment development option" it does not take into consideration recent changes in the regulations or other configurations of 40B developments.

Furthermore, it does not give any consideration to the availability of a 40R development process. This is a development process allowed by relatively recent legislation that enables the Town to control the permitting process by writing new zoning. The zoning could allow a site such as this to be developed as mostly housing but with some commercial serving the housing and immediate neighborhood. The temple could set aside a parcel to re-build as in the plans reviewed here. The remaining land could be defined as a 40R overlay, and the details of the overlay would be written by the Town, with the limitation that there must be some housing and the density cannot be lower than 20 units per acre as required by the legislation. The site designated, however, can be as small as the Town wants. Included in the overlay can be some mixed use (such as a small store, a coffee shop, etc.) as long as the use is predominately housing. There must be an affordability component but because the Town writes the zoning, it has much greater control than with an ordinary 40B process.

40R was written to answer concerns by Towns that they had too little control over 40B developments to do good planning and to encourage towns to do sustainable development that was close to transit. There is school impact reimbursement funding available from related legislation if the Town can document such an impact.

It is worth noting that at a Tucker Neighborhood Association meeting in August, 2009, in which DHCD provided a presentation on 40R developments, a great deal of interest was expressed by neighbors in examining such an approach at this site.