

THE BOSTON MARINER PIER 4 PROJECT:
A CASE STUDY OF BOSTON'S INCLUSIONARY HOUSING
AND LINKAGE POLICIES

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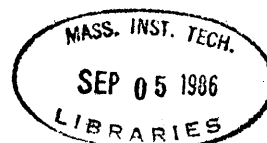
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Submitted to the Department of Urban Studies and Planning on August 15, 1986 in partial fulfillment of the requirements of the Degrees of Master in City Planning and Master of Science in Real Estate Development.

ABSTRACT

Boston is in the midst of a housing crisis, in response to which the City has incorporated two policies "linkage" and "inclusionary zoning" into its planning process. This thesis is an analysis of how the two policies impact the financial feasibility of the Pier 4 project -- a mixed-use development.

Linkage calls for commercial developers to contribute a specified amount of money towards the development of low to moderate income housing. A developer faced with this requirement can either contribute its linkage money to a housing trust fund annually for a specified amount of time or build affordable housing units of which the value of the units must equal the linkage payment.

Inclusionary housing requires residential developers, building on private land, to set aside a specified number of housing units within a project for low to moderate income household.

The Boston Mariner Company is proposing to develop a mixed-use project. As the project will include both commercial and residential uses, the City is requesting Mariner to address both the inclusionary and linkage requirements. Together, the two policies pose serious problems to the financial feasibility of the project.

The thesis evaluates the financial, political and managerial implications of the two requirements on the Pier 4 project. The thesis concludes first with recommendations to the Boston Mariner Company regarding how it should satisfy both requirements; and second, with recommendations to the City of Boston suggesting ways in which the City can improve the implementation process of both policies.

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OVERVIEW

Boston is in the midst of a housing crisis, in response to which the City has incorporated two regulatory mechanisms into its planning process which are geared to mitigate the housing shortage. Specifically, these tools are "linkage" and, "inclusionary zoning".

In essence, linkage calls for developers to contribute a specified amount of money towards the creation of low to moderate income housing, while inclusionary zoning requires developers to set aside a specified number of housing units within a housing project for low to moderate income households. Though the specifics of both regulatory mechanisms vary with individual development projects, i.e. the former tool is targeted at commercial development while the latter is aimed at residential developers, the intentions of the two are identical. Both tools are intended create additional housing units in Boston.

The thesis explores the present linkage program and inclusionary housing policy and the potential impact of the two concepts on developers and Boston's housing stock. To illustrate the ramifications of the linkage and inclusionary requirement, the thesis will focus on one particular developer, the Boston Mariner Company, which is presently faced with both a linkage obligation and an inclusionary housing requirement related to its proposed Pier 4 development. The fact that Mariner must satisfy both the requirements raises an interesting question. Do the two

policies together serve as a disincentive for developers to produce mixed-use projects?

Mariner's linkage requirement translates into approximately \$6,000,000 to be paid to the City over a twelve year period. Payments begin the year Mariner receives its final certificate of occupancy. The money will go towards the creation of low to moderate income housing.

Mariner is under pressure by both the City and the State to provide 10% of its residential units for low to moderate income households. While the linkage program has been amended into the zoning code by Boston's Zoning Commission and passed into law, inclusionary zoning is only an idea. There is no legal enforcement of the requirement - the policy is still in draft form.

The City's requirements leave Mariner with no choice but to cooperate with the City in order to obtain approvals. While Mariner accepts the linkage exaction and the inclusionary requirement, the manner in which Mariner is to satisfy them is yet to be determined.

Analytical Framework

To explore and evaluate the actions Mariner should undertake in satisfying both obligations the thesis will: 1) establish the City's ground rules within which the Boston Mariner Company must comply; 2) evaluate the financial impact of the inclusionary requirement on the Pier 4 project; 3) evaluate the financial, managerial, and

marketing feasibility of the development options available to Mariner through the linkage program; and lastly, based upon the findings, 4) propose to Mariner possible ways of satisfying both requirements.

While much of the thesis will focus on project specific decisions confronting Mariner, it is through the developers lens that the viability of linkage and inclusionary zoning will be evaluated. The analysis will serve as a focused means of looking at the impact of two innovative mechanisms on developers.

The thesis will, therefore, address the following questions in analyzing the impact of inclusionary zoning and linkage on mixed-use development projects and on the development of affordable housing in Boston: 1) What is the appropriate means by which a city can foster the development of affordable housing?; 2) Given the lack of precedent for the current linkage program and the lack of legal basis for the inclusionary housing policy, how can developers best approach the City for approvals and also be socially responsible?; 3) What does the City receive from developers in terms of linkage payments?

Chapter One establishes the context within which Mariner's Pier 4 project takes place; it is divided into two sections. The first section of this chapter focuses on the government agencies that influence the development industry in Boston. Included in this discussion, although will not be government related, will be a description of the South

Boston community, the neighborhood identified by the City as the "impacted" area.

The second section of the chapter sets forth the specific guidelines, zoning regulations, and housing policies that impact the Pier 4 project. The section will outline the linkage program and establish the context within which the inclusionary housing policy is enforced.

Chapter Two takes a close look at the City's inclusionary housing requirement. The chapter first explores the implications of the policy on the Pier 4 project. As will be revealed, by providing a specified number of below-market rate units on-site, the financial feasibility of the project is largely threatened. The inclusion of below-market rate units force Mariner to increase the price of the market-rate units by 10%.

Second, the chapter analyzes the market risks that confront Mariner and explores how the inclusionary requirement further exacerbates the risks. The Pier 4 project can not be analyzed in a vacuum; it must be evaluated within the context of the Boston's real estate economy. For example, how will increased development effect Mariner's ability to lease space and sell condominiums? What is the projected market for condominium buyers? How likely is it that the City and State will improve the infrastructure surrounding the Pier 4 site?

Much of the success of the project is contingent upon promises made by the City and State regarding infrasturcture

development. How likely is it that these promises will be delivered? In short, given these risks how volatile is the Pier 4 project given the inclusionary requirement?

Third, the chapter looks at the opportunity costs of building below market rate units offsite as opposed to onsite. While Mariner is able to physically build affordable units onsite, the cost of doing so is extremely high. At the cost of what it takes to produce affordable housing on the Pier 4 site, the City of Boston could build 250 units elsewhere.

Chapter Three focuses on the City's current linkage policy. Developers faced with linkage obligations can satisfy the requirement by either giving payments to a trust fund or by actually building units in equal value to the payment. While the options appear to be clear cut, deciding which route to take is complex. If Mariner builds, does it develop housing alone or with a partner? If Mariner builds, should it sell or rent the units? Who will manage its property? If Mariner transfers money to the trust fund, will the money sit in a blind pool or will it be directed towards the "impacted" area? The chapter identifies and discusses the complexities associated with each choice.

Chapter Four, the final chapter, synthesizes the information set forth in the linkage and inclusionary zoning analysis. Recommendations are made to Mariner regarding actions to be taken in order to satisfy both requirements. In addition, the chapter concludes with a general discussion

of the two policies and offers programatic suggestions which the City can incorporate into its administrative process.

CHAPTER ONE RULES OF THE GAME

Those wishing to build in Boston must be fit and committed to survive the arduous approval process created, controlled, and implemented by the Boston Redevelopment Authority (BRA). A recent Wall Steet Journal article commented that, "...finishing a major project in Boston takes time and sheer persistance...In Boston, a lack of written rules - not an excess - makes building so frustrating. Zoning is so outdated that every large-scale project is treated as an exception. This opens the door for what can seem like endless reviews by the BRA and local residents". (Wall Street Journal, March 21, 1986, pg.24)

To assure that development projects blend in with the fabric of the surrounding architectural, historical, and cultural environment, the City requires developers to make a rigorous journey through the BRA's approval process. For many developers, the time spent negotiating with the City and affected residents, can jeopardize the financial feasibility of a project as carrying costs can and quite often do get out of hand. However, as a trade-off for what at times appears to be an endless battle, the City, the developers and constituencies benefit.

CONTEXT

The Boston Mariner Company exemplifies what it means to be a "fit and committed" developer in Boston. Mariner is in the midst of its development review process, eager to

receive its building permit from the Inspectional Service Department (ISD) of Boston so that construction of the Pier 4 project can begin.

The proposed development will be located on a 16.4 acre parcel, (of which 7.5 acres are under water), on the Northern section of South Boston. The mixed-use project consists of office space, residential, hotel and retail, parking, recreational open space and marine related uses totalling 1,737,000 square feet.

The proposed development project will bring many public benefits to a presently underutilized section of town. During the long construction period, of three consecutive phases of 2 to 2 1/2 years each, the project will generate 1,200 person years of construction work. Once the project is in full operation, 3,000 permanent jobs will be added to Boston's labor force. In addition, substantial new real estate taxes will be added to Boston's tax base.

The project will activate an underutilized segment of Boston's waterfront. (See Exhibit 1) The proposed project will promote the use of Boston's Inner Harbor for both recreation and transportation, and extend the BRA's Harborpark Plan. The project will also provide substantial infrastructure and public amenities to the City, including a large plaza at the head of the marina. (Master PDA pg.6)

The entire project will be financed through private investment. Total development costs of the project are

projected to be \$400 million. Of this amount, Mariner expects to raise \$64 million in cash equity and contribute 8.0 acres of land valued at \$16 million. The Pier 4 project is unusual in this respect; most previous downtown waterfront projects in Boston have been assisted by the public sector through substantial subsidies such as land write-downs, tax abatements, and land carry through the start of construction.

Mariner also owns the parcel adjacent to the site which is to be ground leased to HBC Development Associates, proponents of the Fan Pier project. As it is presently scheduled, of geotechnical necessity, both Mariner and HBC will begin construction at the same time. While it has been helpful for Mariner to have HBC alongside through the approvals process, the fact that both firms will be producing residential and commercial space at the same time could hinder Mariner.

Table 1 illustrates the phasing schedule of the Pier 4 project and the overall program of the Fan Pier development. Once both developers receive their approvals, they will be competing for similar tenants to lease space and consumers to purchase condominiums. However, by varying the floor plates, the unit sizes of the condominiums, and the overall project design, Mariner will mitigate the competition to as great an extent as possible.

The development of Pier 4 will serve as a catalyst stimulating development activity for other projects being

Table 1

Specifications for Pier 4 and Fan Pier Developments

	Pier 4 (as of 7/1/86)	Fan Pier (as of 2/12/86)
PHASE I:		
Hotel	269,831 sf (290 keys)	
Office	249,450 sf	
Retail	50,827 sf	
Condominium	167,820 sf (100 unit)	
	737,928 sf	
PHASE II:		
Retail	19,500 sf	
Condominium	439,920 sf (300 unit)	
	459,420 sf	
PHASE III:		
Office	322,440 sf	
Retail	9,024 sf	
Condominium	121,000 sf (80 unit)	
	452,464 sf	
PROJECT TOTAL:		
Hotel	269,831 sf (290 keys)	854,000 sf
Office	571,890 sf	1,406,000 sf
Retail	79,351 sf	153,000 sf
Condominium	728,740 sf	834,000 sf
	1,649,812 sf	3,247,000 sf
PROGRAM PERCENTAGES:		
Hotel	16.4 %	26.3 %
Office	34.7 %	43.4 %
Retail	4.8 %	4.7 %
Condominium	44.2 %	25.7 %
	100 %	100 %

considered for the area. Therefore, anticipating future growth the City is carefully reviewing and evaluating all aspects of the Pier 4 project. What follows is a brief description of the approval procedures and policies (those relevant to the thesis) that Mariner must go through in order to begin construction.

First, before a final building permit can be obtained, specific changes with the existing land use regulations need to occur on the site and agreements need to be made between the BRA and Mariner. The proposed mixed-use project does not conform to the current zoning map which classifies the site as W-2, waterfront industrial with an FAR of 2.

Hence, Mariner is required by the Boston Zoning Commission, in accordance with the Boston Zoning Code, to either obtain a Master Planned Development Area¹ (PDA) designation or seek multiple variances for the necessary zoning changes. Mariner chose the former alternative -- to obtain a PDA designation.

1) The Master PDA designation approves the concept of a master plan. In essence, the BRA approves the density, FAR, total square footage, total square footage by use, and zoning changes. Following the BRA's approval of the specifics, the zoning commission must adopt a map amendment and the Board of Appeals must grant exceptions to the zoning code. Once the exceptions are granted and the map amended, Mariner must submit architectural renderings and schematic designs for the project to the BRA. Once again, the design of the project is subject to review. It is quite likely that during the review process deviations from the original PDA will occur.

Second, Mariner is required to enter into a housing agreement with the BRA. As the proposed development exceeds 100,000 square feet of commercial square footage, it is categorized under Boston's Zoning Code as a Development Impact Project (DIP). The DIP process is the mechanism from which Boston's housing linkage program originates.

Third, Mariner is required to respond to the City's unstated, unenforced inclusionary housing policy. This requirement pressures Mariner to provide a specified number of below market rate units as part of the overall project.

The PDA designation and the DIP agreement are just a few of steps in the approval that Mariner must recognize. In addition, the inclusionary housing requirement issue needs to be considered and resolved between Mariner and the City.

DEVELOPMENT GUIDELINES AND REGULATIONS

Development Impact Projects: The Linkage Mechanism

The DIP process was created in December 1983, when the Boston Zoning Commission amended the Boston Zoning Code by adopting Article 26. The creation of Article 26 established a mechanism by which developers of large-scale projects are required to contribute a DIP exaction - otherwise known as a "linkage" payment for the creation of low to moderate income housing.

Initially, the linkage formula required "developers of large-scale commercial projects to pay \$5 per square foot

for every square foot over 100,000 square feet of new or substantially rehabilitated commercial space." (DIP Agreement) A developer faced with a linkage requirement was given the option to transfer the payment to a Housing Trust Fund (Fund) or to directly develop housing. If a developer chose to build housing, the linkage payment would equal the difference between the cost and proceeds from affordable sales and rentals.

Under the 1983 amendment, a developer who chose the first option would have paid the linkage amount over a twelve year period, to the Fund, beginning two years after the issuance of the building permit, or upon the issuance of the certificate of occupancy - whichever came first. The second option, which was (and still is) to build the housing directly, requires a developer to submit a proposal in writing to the BRA describing the number, location, cost and design of the housing units. The proposal must satisfy all the requirements set forth in the Development Impact Project agreement.

Two years later, Article 26, which set forth the scope of the linkage mechanism was once again amended. Although the concept and purpose behind the payment were the same, the manner in which it was to be collected differed significantly. Rather than spreading the payments over a twelve year period beginning either two years after the issuance of a building permit or upon certificate of occupancy, the new formula requires developers to pay upon

issuance of a building permit and over a seven year period. In addition to the \$5 housing contribution, developers are also required to contribute \$1 per square foot in excess of 100,000 square feet of commercial space to a Job Fund.

From the City's perspective, more funding would be acquired upfront and be "available sooner for affordable housing". From the developer's perspective, the new formula imposes more upfront costs. The additional expense incurred by the developer, by shortening the linkage pay-in period, is money that could be used to fund a project's initial lease-up deficit.

The Boston Mariner's linkage payment totals \$5,586,432. It is payable over a twelve year period with the first payment due upon issuance of its certificate of occupancy. This includes the \$1 per square foot in excess of 100,000 square feet that Mariner must pay to the City's job creation fund.

Inclusionary Zoning Policy

On June 12, 1986 Mayor Flynn recommended to the BRA that it amend Boston's Zoning Code by adding a new provision entitled, "Inclusionary Zoning". Flynn's proposal "allows developers of rental and sale dwelling units to increase the density and or height of of their projects if they set aside a specified percentage of the units for rental and/or purchase by members of low to moderate income households".

(Boston Business Journal, June 30 1986 -P.G. Garrity) The City's proposal requires developers using public land to set

aside 35% of the units for low to moderate income residents while developers using private land must set aside 10% of the units. For Mariner, this means producing 50 below market rate units on the Pier 4 site.

Though inclusionary zoning may be a means of producing affordable housing, the manner in which the City is implementing the policy is vulnerable to legal challenge. For the City of Boston to incorporate an inclusionary zoning amendment into the zoning code, the Flynn administration must first have the Massachusetts State Legislature amend Boston's Zoning Enabling Law (Chapter 665). It is unlikely that the City will alter the Enabling Law by the time the Mariner project takes place. Therefore, until this measure is taken by the City, legal grounds do not exist to enforce such a requirement -- at least to developers using their own land.

If a developer faced with an inclusionary requirement challenged this policy in court, "the court would have absolutely no choice but to strike the inclusionary requirement down....unless the legislature provides its authorization by amending Chapter 665". (Boston Business Journal, 6/30/86, P.G. Garrity, pg. 24)

A similar situation occurred in the city of Newton, Massachusetts. Since 1960, Newton has required residential developers to include a certain percentage of units for low to moderate income households. In the mid 70's the housing policy was challenged by a developer. "Ultimately the

Commonwealth Supreme Judicial Court (SJC) struck the zoning down in the case of Middlesex and Boston Street Railway Company vs. Board of Alderman of Newton, 371 Mass. 849. The essence of the SJC's decision was that Newton's zoning ordinance was not specifically authorized by the Commonwealth Zoning Enabling Act (Chapter 40A) to attach such a condition to the granting of special permits". (BBJ)

Despite the fact that the policy could be easily challenged by a developer, the requirement still has a stronghold on the outcome of the Mariner project. The Flynn administration insists that if Mariner wishes to receive its final building permit, cooperating with the City in terms of the inclusionary request could expedite the process.

ACTORS

The development guidelines and policies are created, enforced and implemented by a variety of departments within Boston's City government. What follows is a brief description of those actors involved in the planning processes of the City. Also included in this section is a description of the South Boston community, the neighborhood most affected by the development project.

The Boston Redevelopment Authority

The Boston Redevelopment Authority (BRA) is one of the City's two planning agencies directly responsible for coordinating development projects and reviewing development

proposals. Projects may require zoning review initiated by a request for a building or occupancy permit, review of financing mechanisms such as chapter 121A and review of proposals for publicly owned land.

The BRA reviews proposals for the overall viability and expected benefits to the city. Review criteria may vary depending on the size of project, location and type. Design criteria, environmental concerns, and neighborhood impacts such as displacement and community participation are also considered in the review process.

The BRA is ultimately responsible for reviewing proposals and disposing land in areas that are considered within its jurisdiction. The areas that the BRA controls are specific Urban Renewal Areas (URA) located primarily in the City's central core. URA sections include the South End, North End, Back Bay, Roxbury, and Beacon Hill.

The Public Facilities Department

The Public Facilities Department (PFD), which recently merged with the Neighborhood Development and Economic Agency, is the Mayor's planning agency, the second of the City's two planning agencies. PFD is responsible for planning, designing, and rebuilding the City's public infrastructure. In addition, PFD is responsible for transferring City-owned land and buildings for housing and commercial development and to act as the conduit for the Commonwealth for the expenditure of State housing funds and to revitalize the City's neighborhood business districts.

Whereas PFD is similar to the BRA in that both are planning agencies responsible for orchestrating development, PFD's sphere of influence is outside that of the BRA. PFD operates on a small-scale, neighborhood level rather than the citywide level. Each agency has its own bastion of power from which it gains support.

Zoning Commission

The Zoning Commission adopts, amends and repeals zoning regulations. The eleven member board, appointed by the Mayor and subject to confirmation by the City Council, is comprised of three members selected by the mayor and eight representatives of various development related organizations, as specified in the zoning enabling legislation.

Actions of the Commission require a concurrent vote of not less than seven members. Amendments are subject to the approval by the Mayor , or a lapse of 15 days after presentation to the Mayor, but concurrent vote of nine members may overrule a mayoral veto.

Zoning Board of Appeal

The Zoning Board of Appeal is empowered to grant variances, conditional uses and exceptions to the zoning code and building code in response to requests from applicants who have been refused permits. The Board of Appeal consists of five members appointed by the Mayor. One member is selected solely by the Mayor and four are

appointed by the Mayor from candidates nominated by specified development-related organizations.

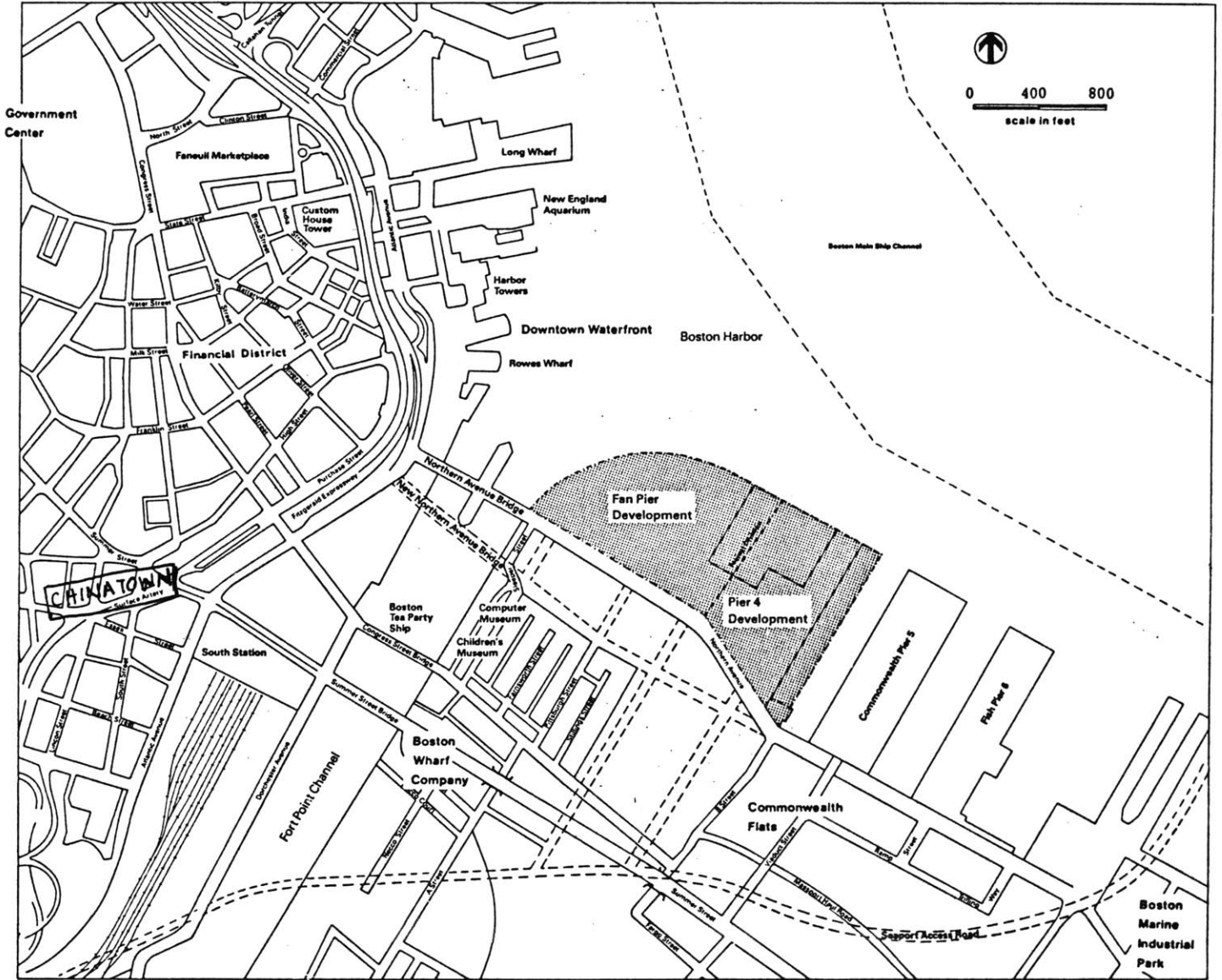
The South Boston Community

The South Boston Community is the neighborhood of Boston that will be impacted the most by the Pier 4 Development project. The impacts range from increased traffic during and after construction to increased property values as a result of the value added to the Pier 4 site. Although the increased property values is typically viewed as a positive externality, this occurrence could have a negative impact on the South Boston community.

Although the South Boston community is viewed by the City as the "impacted" neighborhood, geographically, the community is isolated from the site; it is several miles away from the proposed project. One might argue, in fact, that the impact from the Pier 4 project will be felt more by Chinatown. See Exhibit 2

The median income in South Boston is currently \$13,800 compared with \$19,250 citywide. If property values increase, the price attached to the present housing stock could become too high for long time (rental) residents to afford. Already, South Boston is being threatened by increased development. This could pose a problem to the South Boston community as its strength is derived from its strong sense of community. If the community perceives the Pier 4 project as a threat to its power structure, South Boston

EXHIBIT 2: Map of Surrounding Area



could present itself as an obstacle to the development process.

CONCLUSION

Linkage was amended into Boston's Zoning Code in 1983 when the City was experiencing enormous growth. It was a time when developers were flocking to the City to build high-rise office towers and residential living space. Inclusionary housing was recently proposed by the Flynn Administration at a time when the Dukakis Administration is taking forward strides to address the State's housing dilemma.

Each of the two policies impact two distinct types of development -- commercial and residential. Because the proposed Pier 4 project is a "mixed use" project, the City is pressuring Mariner to consider both policies. The policies enforced by the City impose financial requirements and development constraints on the Boston Mariner Company. Both linkage and inclusionary housing need to be resolved between Mariner and the City in order for Mariner to receive its final building permit.

CHAPTER TWO INCLUSIONARY HOUSING REQUIREMENT

The City is requesting Mariner to set aside 50 of its 500 residential units for low to moderate income households. Mariner can physically develop those units on site, however, the financial implications on the project, if the units are included on site are severe.

Throughout the analysis the following questions will be considered in analyzing the impact of the City's inclusionary housing requirement on the Pier 4 project: 1) To what degree is the Pier 4 project financially less viable because of the inclusionary housing policy? 2) How much of a price increase on the market rate units can the market bear in order to compensate for the loss of income incurred by selling affordable units onsite? 3) Given the inclusionary requirement make the Pier 4 project financially unfeasible what alternatives are available for Mariner to consider?

The chapter begins by calculating the financial feasibility of the inclusionary housing requirement on the Pier 4 project. First, the cost of producing affordable units on site will be calculated. The "cost" refers to not only the dollar value of producing the units but also the lost opportunities of building housing elsewhere for a significantly lower price.

Next, once the financial gap is determined, specific costs within the development pro forma will be varied in order to evaluate the sensitivity of the internal costs to

price fluctuations in the marketplace.

Table 2 sets forth the development costs for the condominiums. The costs will be used to calculate the internal gap created by including 50 below-market rate units on site. The cost of the inclusionary requirement is measured by the internal financial gap created by including below market rate units onsite.

For the developer to achieve the same return on equity and gross margin, the income that is lost by including 10% below-market rate units is either passed on to the market rate unit or foregone if the market can not absorb the additional cost.

A financial model was used to calculate the internal costs. Below is a step by step process of the calculations used to determine the amount of foregone income. The financial gap is calculated by:

1) taking the difference between the sales proceeds of the market rate units and the sales proceeds of the affordable units;

Market Sales Proceeds - Affordable Sales Proceeds=
Adjusted Net Proceeds

2) The remaining sum is divided by the number of market rate units, which yields the adjusted market rate price;

$$\text{Adjusted Net Proceeds} / \text{Market Units} =$$

Market Price Increase

3) The adjusted market price per net square is calculated by dividing the adjusted market price by the gross square footage of one unit;

$$\text{Adjusted Market Price} / \text{Gross Square per Unit} =$$

Adjusted Price per Square Foot

4) The gap is calculated by taking the difference between the adjusted and the market price per unit, times the number of units that are on the site.

$$\text{Gap} = \text{Market Price} - \text{Adjusted Market Price}$$

Therefore, based upon the calculations it would cost Mariner approximately \$20 million or \$400,000 per unit to include 50 below market rate units on the Pier 4 site. Although Mariner would attempt to pass on this cost to the purchasers of its market rate units, the market might not respond to the price increase. Increasing the price of the market rate units by an average of \$45,000 each.

The net proceeds received through selling the condominiums are crucial to the overall viability of the Pier

TABLE 2: DEVELOPMENT COSTS

DEVELOPMENT PRO FORMA FOR PIER 4 PROJECT

ASSUMPTIONS

LAND AREA (LA)	385,994
LAND PRICE (LP) per FAR SF)	\$10.74
F.A.R. (FAR)	3.00
GROSS SQUARE FEET (GSF)	728,740
EFFICIENCY (EF)	80%
NET LIVING AREA (NLA)	582,992
SITE COVERAGE (SC)	75%
AVG. UNIT SIZE (US) (GSF)	1457
AVG. UNIT SIZE (US) (NSF)	1166
NUMBER OF UNITS (NU)	500
PARKING RATIO (PR)	1
NUMBER PKG SPACE (NPK)	500
AVG. PARKING/SP COST (APC)	\$25,000
CONSTRUCTION COST(\$/GSF) (CC)	\$122.50
SOFT COST (SFT) (% of HC)	31%

DEVELOPMENT COST

LAND (LC)	\$4,145,576
(per far/sf= \$10.74	
CONSTRUCTION COST (TCC)	\$89,270,650
SITE WORK/SUBSTRUCTURE	\$20,354,130
PARKING COST	\$12,500,000
TOTAL HARD COST (HC)	\$126,270,356
CONTINGENCY @5% HC	\$6,313,518
SOFT COST (SFC)	\$29,631,092
(as % of Hard Costs) (SFT)	31%
TOTAL DEVEL COST (TDC)	\$160,047,023
(TDC/GSF)	\$220
Soft Cost as % of TDC	19%

CONDOMINIUM SALES PRO FORMA

-SALES PROCEEDS-	
ADD 39% TO TDC (GSP)	\$222,465,362
SUBTRACT 5% FOR	
SALES EXPENSE	(\$8,002,351)
NET SALES (GROSS SALES-COMM)	\$214,463,011
LESS TDC	(\$160,047,023)
GROSS PROFIT (GP)	\$54,415,988
EQUITY	10% \$16,004,702
RETURN ON SALES	25.37%
GROSS PRICE PER UNIT	\$444,931
GROSS PRICE PER NET SQ.FT.	\$382

4 project. The first phase of the project consists of 570,108 square feet of commercial related space and 167,820 square feet of residential space. Initially Mariner must pay off its construction loan of approximately \$62 million. The net proceeds from the phase-one condominium sales anticipated to be approximately \$12 million, are needed to write down the high construction costs of the commercial square footage. If the condominiums do not sell, the project will be financially threatened.

In addition, the carrying costs of commercial related space could be fatal to the project if a substantial amount of the commercial space is not (pre)leased. If Mariner is unable to find a major tenant to fill a large portion of the commercial use, then the weight placed on the sales of the condominiums will increase. The net proceeds will be needed to additionally offset Mariner's huge operating deficit.

In sum, the sales of the condominiums are crucial to the success of the project. If the burden of the inclusionary requirement proves to be great enough to threaten the entire project, then the project will not take place.

AFFORDABLE HOUSING

Definitions and Guidelines

Affordable housing refers to units that can be purchased or rented by households whose incomes meet

specific, federally established guidelines. Low income housing is defined as housing for families earning up to 50% of the Boston Standard Metropolitan Statistical Area (SMSA) median income, currently \$17,000 for a family of 4, paying no more than 30% of household income for housing. For rental housing, this includes rent and utilities, and for equity housing, this includes principle, interest, property taxes, insurance and condominium fees.

Moderate income housing is defined by HUD as housing for families earning up to 80% of the Boston's SMSA median income, currently \$27,200 for a family of four, paying no more than 30% of a household income for housing.

The Massachusetts Housing Finance Agency (MHFA) uses a slightly broader definition for first time homeowners participating in its housing programs. That is, housing is considered affordable to households earning 120% of the Boston's SMSA median income, currently \$37,000 for a family of four, paying no more than 31% of a household income for housing. See Table 3 for a more detailed description of these definitions and guidelines.

Affordability Analysis

In calculating the internal financial gap created by including 10% affordable units on site, a sales price of \$73,000 was used. A sales price of \$73,000 assumes that a household purchasing a unit will be required to contribute 5% of the unit cost as a downpayment and obtain a 30 year mortgage with a 6.5% interest rate. ² Table 4 illustrates

that this unit is affordable to a family of 4 at 80% of the median income spending no more than 30% of its income on housing.

The unit is not just limited to a family of four. Table 5 tests the affordability of the unit for specific household sizes. Using the guidelines established by HUD, the table shows the income required as a percentage of the median income. For example, a family of five qualifies to purchase the unit at \$73,500 as its income is 74% of the median income.

Table 6 illustrates the affordability of the unit at interest rates ranging from 5.0% to 9.5%. At an interest rate of 5% the unit would be affordable to a household

1) In support of the Massachusetts Housing Partnership, MHFA has an active low-interest home mortgage program designed to assist low and moderate income households in purchasing their first house. MHFA makes fixed rate long-term mortgages available at low interest rates. MHFA also offers low, five percent downpayment requirements and underwriting limits which generally are more liberal than those of conventional lenders.

TABLE 3

AFFORDABLE HOUSING - DEFINITIONS AND GUIDELINES

<u>Family Size</u>	<u>Low Income (Up to 50% of Median)</u>	<u>Maximum Monthly Housing Expense+</u>	
1	\$11,900	\$ 298 @ 30% GMI	\$248 @ 25% GMI
2	13,600	340	283
3	15,300	383	319
4	17,000	425	354
5	18,350	459	382
6	19,700	493	410
7	21,100	528	440
8	22,450	561	468

<u>Family Size</u>	<u>Moderate Income (Up to 80% of Median)</u>	<u>Maximum Monthly Housing Expense+</u>
1	\$19,050	\$476 @ 30% GMI
2	21,750	544
3	24,500	613
4	27,200	680
5	28,900	723
6	30,600	765
7	32,300	808
8	34,000	850

<u>Family Size</u>	<u>Median Income (100% Median)</u>	<u>Maximum Monthly Housing Expense+</u>
1	\$23,800	\$ 595 @ 30% GMI
2	27,200	680
3	30,600	765
4	34,000	850
5	36,700	918
6	39,400	985
7	42,200	1,055
8	44,900	1,123

<u>Family Size</u>	<u>MHFA Income Limits (Approx. 120% of Median)</u>	<u>Maximum Monthly Housing Expense+</u>
1	\$28,000	\$ 723 @ 31% GMI
2	31,000	801
3	34,000	878
4	37,000	956
5	40,000	1,033
6	43,000	1,111
7	46,000	1,188
8	49,000	1,266

+ GMI = Gross Monthly Income

* Maximum housing cost as x% of monthly income, in calculating possible purchase prices, this amount must include principal, interest, taxes and insurance and any relevant condominium fees.

TABLE 4: AFFORDABLE TO HOUSEHOLD OF FOUR

		Per Year
Unit Cost (C)		\$73,000
Percent Mortgaged (%MTG)		0.95
Mortgage Amount (MTG)		\$69,350
Interest Rate (I)		6.50%
Mortgage Payment (PMT)		\$5,311
Mortgage Insurance (INS)		\$236
Property Insurance (P_INS)		\$548
Property Taxes		\$839
Term	30	
PITI Housing Costs		\$6,933
Condo Fee (Condo)		\$1,200
Down Payment @ 5%		\$3,650
Total Housing Costs		\$8,133
30% of Median Income		\$8,133
Required Income	0.8	\$27,110
Median Income (Y)		\$34,000
Percent of Median Income		80%

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TABLE 5: INCOME ELIGIBILITY BY HOUSEHOLD SIZE FOR \$73,000 UNIT

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Household Size	Median Income	% of Median Income Required to Purchase Affordable Unit
1	\$23,800	114%
2	\$27,200	100%
3	\$30,600	89%
4	\$34,000	80%
5	\$36,700	74%
6	\$39,400	69%
7	\$42,200	64%
8	\$44,900	60%

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TABLE 6: AFFORDABILITY AT DIFFERENT INTEREST RATES

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Interest Rates	Income Req'd @ 30% +REQ Y	Income as a % of Median Income for Family of 4 +647
0.0%	\$17,113	50%
0.5%	\$17,725	52%
1.0%	\$18,365	54%
1.5%	\$19,033	56%
2.0%	\$19,729	58%
2.5%	\$20,452	60%
3.0%	\$21,201	62%
3.5%	\$21,976	65%
4.0%	\$22,776	67%
4.5%	\$23,599	69%
5.0%	\$24,445	72%
5.5%	\$25,313	74%
6.0%	\$26,201	77%
6.5%	\$27,110	80%
7.0%	\$28,036	82%
7.5%	\$28,981	85%
8.0%	\$29,941	88%
8.5%	\$30,918	91%
9.0%	\$31,908	94%
9.5%	\$32,913	97%
10.0%	\$33,929	100%
10.5%	\$34,958	103%
11.0%	\$35,997	106%
11.5%	\$37,047	109%
12.0%	\$38,105	112%

earning 72% of the median income. However, when the interest rates increase to beyond 6.5%, the same family would be unable to purchase the unit as its income prices the family out of the market.

FINANCIAL / SENSITIVITY ANALYSIS

Based upon the costs set forth in the development pro forma, by developing 50 below market residential units on the Pier 4 site, a heavy financial burden is imposed not only on the Boston Mariner Company, but also on the intended market rate purchasers.

Table 7 illustrates how the sales price of a market rate unit increases when an inclusionary requirement is calculated into the pro forma costs. Without the inclusionary requirement the sales price per unit is \$444,931. With the inclusionary requirement the sales price per unit increases to \$486,256.

Since Mariner needs to make the same returns in order to offset the extremely high construction costs of the commercial square footage, the difference between the market rate unit price and the adjusted market rate price will have to be passed on to the market rate consumer. This translates into a \$41,325 price increase per unit.

Therefore, depending upon how price sensitive the luxury condominium market is, having to increase the cost of the unit could work against the marketability of the condominiums. The consumer who might have purchased the unit at the original price may not be willing to spend an

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TABLE 7: IMPACT OF INCLUSIONARY REQUIREMENT
ON PRICE OF MARKET RATE UNIT

INCLUSIONARY REQUIREMENT	10%
NO. OF LOW/MOD UNITS	50
@ MAX. MOD. INCOME	
PURCHASE PRICE ALLOWED	\$73,000
INCOME FROM LOW/MOD UNITS	\$3,650,000
LOW/MOD PRICE PER NET SQ.FT.	\$63
NO. OF MARKET RATE UNITS	450
ADJ. MARKET CONDO PRICE	\$486,256
ADJ. PRICE PER NET SQ.FT.	\$417
GAP.....PER LOW/MOD UNIT	\$413,256
.....TOTAL	\$20,662,818
.....AS % OF TDC	13%

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additional \$41,000. Especially when the increase is due to an internal cross subsidization for affordable units.

The inclusionary requirement imposes a heavy, internal cost on Mariner. What is not apparent through this type of static analysis, is the sensitivity of the housing model to fluctuations in development costs.

The Pier 4 project has a high site premium attached to it. The engineering techniques that will be used during construction are innovative yet expensive. Unknown site costs are likely to occur once construction begins.

Therefore, to determine how sensitive the model would be to cost changes within the project, sensitivity analyses were performed on variables that are vulnerable to changes in the development industry as well as variables associated with the specifics of the Pier 4 project.

Construction Cost Increases

Table 8 illustrates that for every \$1 per square foot increase in construction costs, the financial gap created by the inclusionary requirement increases incrementally by approximately one percent. For example the construction cost per square foot is currently \$122.50. If during the first phase of construction, unforeseen engineering problems arise in building the underground (underwater) garage, costs could easily increase by \$5 per square foot. A price hike such as this would cause the internal gap created by the inclusionary units to increase by five percent.

Construction Cost Decreases

Table 9 illustrates the impact on the internal gap by reducing construction costs per square foot. This can be seen by looking at a housing project with 500 units and an inclusionary requirement of 10%.

By drastically reducing the construction costs per square foot, as revealed in Table 8, the severity of the internal costs are reduced. Whereas at a construction cost of \$122.50 per square foot, the inclusionary requirement generates a gap of \$20,662,818, or 13% of the total development costs, at construction costs ranging between \$40 to \$60, the inclusionary requirement generates an average gap of \$8,189,650, accounting for 10% of the total development cost.

Although the sensitivity table calculates the total gap at approximately \$8 million, accounting for 10% of the total development costs, in reality the internal gap generated by the inclusionary requirement should be smaller. The relationship between hard and soft costs is nonlinear. In other words, as the hard costs of a development project decrease, the percentage of soft costs attributed to the overall development project are proportionally less than the percentage attributed to a project with a high site premium such as Pier 4.

Table 8: Impact of Construction Cost Increases
on the Price of Market Rate Units

Construction Costs	Gap per Unit	Total Gap	% of Total Dev. Costs	% Change from the Base Case
\$122	\$411,536	\$20,576,796	12.90%	
\$123	\$414,977	\$20,748,840	12.92%	0.84%
\$124	\$418,418	\$20,920,884	12.94%	1.67%
\$125	\$421,859	\$21,092,927	12.95%	2.51%
\$126	\$425,299	\$21,264,971	12.97%	3.34%
\$127	\$428,740	\$21,437,015	12.99%	4.18%
\$128	\$432,181	\$21,609,058	13.00%	5.02%
\$129	\$435,622	\$21,781,102	13.02%	5.85%
\$130	\$439,063	\$21,953,146	13.04%	6.69%
\$131	\$442,504	\$22,125,189	13.05%	7.52%
\$132	\$445,945	\$22,297,233	13.07%	8.36%
\$133	\$449,386	\$22,469,277	13.08%	9.20%
\$134	\$452,826	\$22,641,320	13.10%	10.03%
\$135	\$456,267	\$22,813,364	13.11%	10.87%
\$136	\$459,708	\$22,985,408	13.13%	11.71%
\$137	\$463,149	\$23,157,452	13.14%	12.54%
\$138	\$466,590	\$23,329,495	13.16%	13.38%
\$139	\$470,031	\$23,501,539	13.17%	14.21%
\$140	\$473,472	\$23,673,583	13.19%	15.05%

Table 9: Impact of Construction Cost Decreases
on the Price of Market Rate Units

Construction Costs	Gap per Unit	Total Gap	% of Total Dev. Costs	% Change from the Base Case
\$40	\$129,384	\$6,469,213	9.49%	
\$41	\$132,825	\$6,641,257	9.59%	2.66%
\$42	\$136,266	\$6,813,301	9.68%	5.32%
\$43	\$139,707	\$6,985,344	9.77%	7.98%
\$44	\$143,148	\$7,157,388	9.86%	10.64%
\$45	\$146,589	\$7,329,432	9.94%	13.30%
\$46	\$150,030	\$7,501,476	10.02%	15.96%
\$47	\$153,470	\$7,673,519	10.10%	18.62%
\$48	\$156,911	\$7,845,563	10.18%	21.28%
\$49	\$160,352	\$8,017,607	10.26%	23.93%
\$50	\$163,793	\$8,189,650	10.33%	26.59%
\$51	\$167,234	\$8,361,694	10.40%	29.25%
\$52	\$170,675	\$8,533,738	10.47%	31.91%
\$53	\$174,116	\$8,705,781	10.54%	34.57%
\$54	\$177,557	\$8,877,825	10.60%	37.23%
\$55	\$180,997	\$9,049,869	10.67%	39.89%
\$56	\$184,438	\$9,221,912	10.73%	42.55%
\$57	\$187,879	\$9,393,956	10.79%	45.21%
\$58	\$191,320	\$9,566,000	10.85%	47.87%
\$59	\$194,761	\$9,738,044	10.90%	50.53%
\$60	\$198,202	\$9,910,087	10.96%	53.19%

Frequently, rehabilitation work is used as a means of producing affordable housing. For instance, by renovating existing structures as a means of housing production, the costs associated with development are reduced. This technique is utilized because the reduced development costs can be passed on to the unit.

It is often less expensive to undertake rehabilitating a structure because the site is already prepared for development. It is likely, that with a rehabilitation project, the foundation, superstructure and walls of a particular building are already in place. The site costs, which typically comprise a large portion of development costs are kept to a minimal. For Mariner, site costs account for 20% of the total development costs. This includes site utilities, garage service area, breakwater and a portion of the foundation (if the foundation cost is not all allocated to the garage).

Increase in Affordable Housing Prices

Sensitivity Table 10 illustrates that fluctuations in the housing prices for affordable units have very little impact on the internal gap created by an inclusionary requirement. For example, at \$73,000 per unit, the inclusionary requirement yields a gap of \$20,662,818. At \$120,000, the gap is only reduced to \$18,023,929. Therefore, an 84% price increase for an affordable unit only yields a 12% reduction in the gap. This is because the costs are spread across so few units.

The price range applicable to an affordable unit is broadly defined. While a price increase in a unit has little effect on the internal gap created by the inclusionary requirement, the increase in housing prices greatly impacts the the population it is intended to serve.

As Table 11 illustrates, under the MHFA housing affordability guidelines, a unit priced at \$120,000 is affordable to a family of 5, earning 120% of the median income. Table 12 also reveals that under HUD guidelines, a unit priced at \$30,000 is affordable to a family of 4 earning \$13,260 which is 39% of the median income. If units were included on site and sold for the highest maximum price attainable, then those who truly need the units, i.e. those in the 50% to 80% median income bracket will be priced out of the market.

Table 10: Impact of Increasing Housing Prices
on the Price of Market Rate Units

Affordable Housing Costs	Market Rate	Total Gap	% of Total Dev. Costs	% Change from the Base Case
\$73,000	\$413,256	\$20,662,818	12.91%	
\$75,500	\$410,479	\$20,523,929	12.82%	-0.67%
\$78,000	\$407,701	\$20,385,040	12.74%	-1.34%
\$80,500	\$404,923	\$20,246,151	12.65%	-2.02%
\$83,000	\$402,145	\$20,107,262	12.56%	-2.69%
\$85,500	\$399,367	\$19,968,374	12.48%	-3.36%
\$88,000	\$396,590	\$19,829,485	12.39%	-4.03%
\$90,500	\$393,812	\$19,690,596	12.30%	-4.71%
\$93,000	\$391,034	\$19,551,707	12.22%	-5.38%
\$95,500	\$388,256	\$19,412,818	12.13%	-6.05%
\$98,000	\$385,479	\$19,273,929	12.04%	-6.72%
\$100,500	\$382,701	\$19,135,040	11.96%	-7.39%
\$103,000	\$379,923	\$18,996,151	11.87%	-8.07%
\$105,500	\$377,145	\$18,857,262	11.78%	-8.74%
\$108,000	\$374,367	\$18,718,374	11.70%	-9.41%
\$110,500	\$371,590	\$18,579,485	11.61%	-10.08%
\$113,000	\$368,812	\$18,440,596	11.52%	-10.75%
\$115,500	\$366,034	\$18,301,707	11.44%	-11.43%
\$118,000	\$363,256	\$18,162,818	11.35%	-12.10%
\$120,500	\$360,479	\$18,023,929	11.26%	-12.77%

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TABLE 11: INCOME ELIGIBILITY BY HOUSEHOLD SIZE FOR \$120,000 UNIT

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Household Size	Median Income	% of Median Income Required to Purchase Affordable Unit
1	\$23,800	178%
2	\$27,200	155%
3	\$30,600	138%
4	\$34,000	124%
5	\$36,700	115%
6	\$39,400	107%
7	\$42,200	100%
8	\$44,900	94%

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TABLE 12: INCOME ELIGIBILITY BY HOUSEHOLD SIZE FOR \$35,000 UNIT

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Household Size	Median Income	% of Median Income Required to Purchase Affordable Unit
1	\$23,800	62%
2	\$27,200	55%
3	\$30,600	49%
4	\$34,000	44%
5	\$36,700	41%
6	\$39,400	38%
7	\$42,200	35%
8	\$44,900	33%

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MARKET RISKS

Site Context

Even a superficial market study of the Fort Point Channel area reveals that Mariner's development project faces many risks. The risks associated with the site are easy to identify; clearly Mariner is the pioneer developer of an underutilized section of Boston.

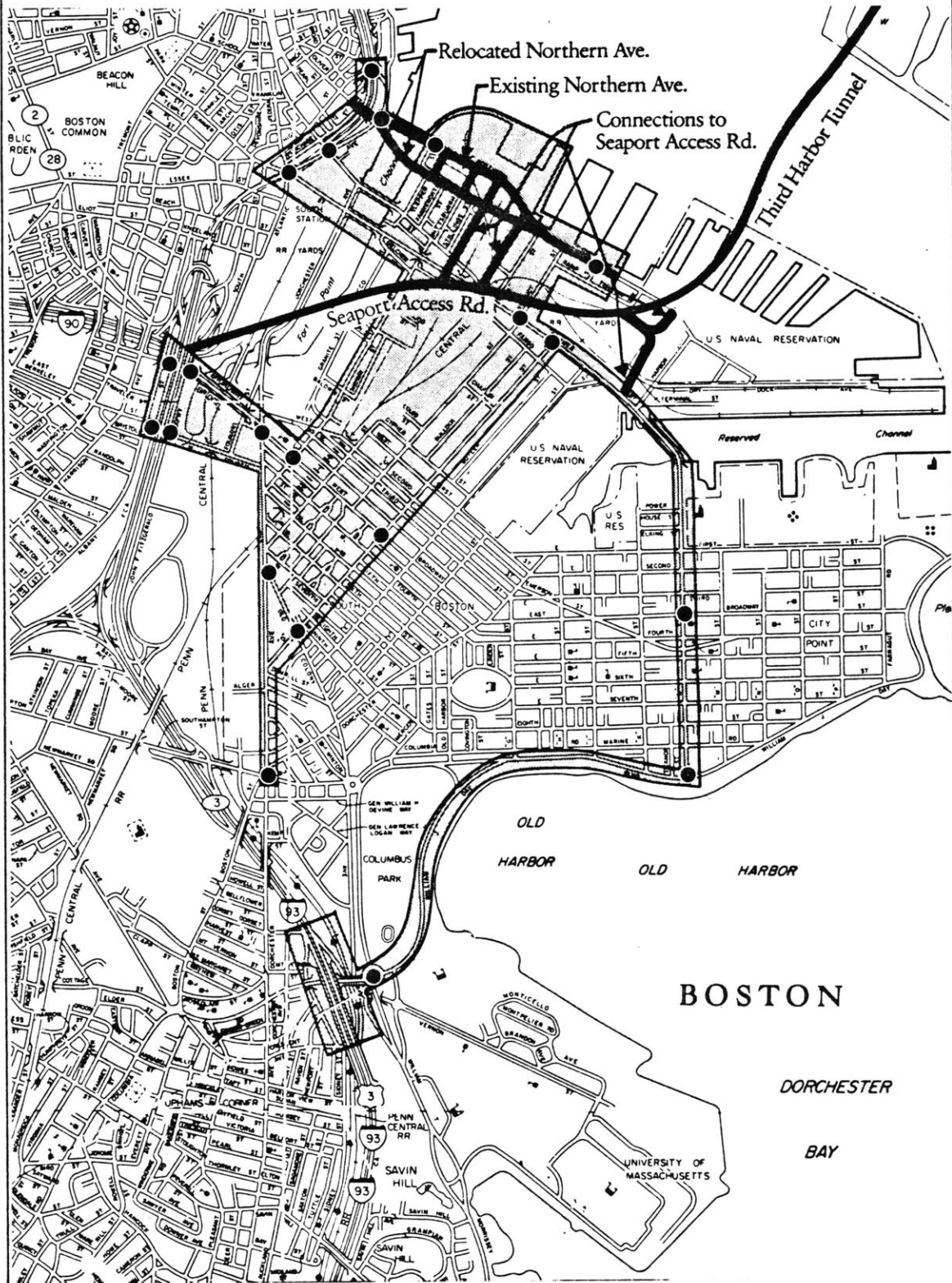
First, Atlantic Avenue, the Central Artery and the Channel itself are expansive visual barriers. How likely is someone to purchase a luxury condominium if the surrounding area is unpleasing? Second, the properties adjacent to and surrounding the area of the site are also visually unappealing. Third, the infrastructure of the Fort Point Channel area which includes bridges and roads are in very poor condition. In sum, not only is the present context of the site unattractive, but accessibility to and from the site is hampered by deteriorating infrastructure.

Although the City and State continually assure landowners with investments at risk that infrastructure improvements will be made to the area, assurance is not always translated into action. Actual improvements need to take place in order for the section of town to be recognized as a viable alternative for living and work space.

The Housing Market

The condominium market also poses serious threats to Mariner. Over the past two years Boston's condominium

EXHIBIT 3: Site Context



market has experienced a great deal of activity. According to a study done for Mariner by Pannell Kerr Forster (PKF), 3,100 condominiums in Boston were sold in 1985. The average price per square foot was approximately \$135, a twenty-five percent increase from the previous year. The average unit size was 900 square feet.

Although the condominium sale statistics are comforting, the units that are being produced by Mariner do not fit into the "average" description previously mentioned. Mariner is targeting the upper income consumer. The units the firm are marketing are oversized and the average square footage sales prices are projected to be \$350 to \$430 per net square foot, depending upon the phase, and comparable with other luxury projects in association with hotels such as the Ritz, Four Seasons, and Rowes Wharf.

Mariner's product is positioned in the market for the upper income consumer. Households that fall into this category have very specific demands. The quality, location, amenities and services offered by the developer are critical factors in determining the marketability of a unit. Also, those purchasing units would want assurance that there is a great potential for price appreciation.

The area that presently caters towards the clientele above includes the Back Bay, Beacon Hill, South End, and the downtown Waterfront. However, most of the development opportunities in the aforementioned areas are gone. The supply of units in those areas is relatively fixed and land

for luxury units is decreasing.

As the demand for luxury condominiums continue to grow, the Fort Point Channel area is a logical place for development to occur. However success in the market for Mariner will be dependent upon many factors.

First, the City's and State's must be able to deliver it promises regarding infrastructure improvements. If these improvements are not made, the willingness of people to pay top price for a project encumbered with physical and visual eyesores may be less than projected.

Second, if the condominium market softens, Mariner will be directly hit. Mariner could end up competing against many other developments much like itself. In fact, the adjacent property being developed by HBC will offer 600 luxury condominiums over three years. In addition to Mariner's 100 luxury condominiums, it is questionable if the market is ready to absorb 350 luxury condominiums in one location in one year.

Opportunity Costs

From an economic standpoint, the opportunity cost of building affordable units on the site is severe. What is most significant about the gap created by the inclusionary requirement is not the amount of money generated by the inclusionary requirement but rather the lost opportunity of building a greater number of affordable units elsewhere equal to the value of the gap.

At the expense of producing 50 affordable units on site, Mariner must substantially increase the cost of market rate units. If the value of the gap were used on its own to develop affordable housing, \$20 million unleveraged could produce 250 units. This assumes the unit costs \$80,000 to build.

By looking at a less costly project, the impact of the requirement is not as severe. In fact, as illustrated in Table 13, the internal costs of an inclusionary requirement of 20% on a project with construction costs of \$60.00 per square foot, is equal to Mariner's gap. Therefore, at half the construction cost, twice as many units could be built.

TABLE 13: OPPORTUNITY COSTS

Impact of Inclusionary Requirement and Construction Costs on the Total Gap								
Const. Costs	5%	10%	15%	20%	25%	30%	35%	
\$40	\$3,064,364	\$6,469,213	\$10,274,633	\$14,555,730	\$19,407,640	\$24,952,680	\$31,350,803	
\$45	\$3,471,836	\$7,329,432	\$11,640,862	\$16,491,222	\$21,988,296	\$28,270,666	\$35,519,554	
\$50	\$3,879,308	\$8,189,650	\$13,007,092	\$18,426,713	\$24,568,951	\$31,588,651	\$39,688,305	
\$55	\$4,286,780	\$9,049,869	\$14,373,321	\$20,362,205	\$27,149,606	\$34,906,637	\$43,857,056	
\$60	\$4,694,252	\$9,910,087	\$15,739,550	\$22,297,696	\$29,730,262	\$38,224,622	\$48,025,807	
\$65	\$5,101,724	\$10,770,306	\$17,105,780	\$24,233,188	\$32,310,917	\$41,542,608	\$52,194,558	
\$70	\$5,509,196	\$11,630,524	\$18,472,009	\$26,168,679	\$34,891,573	\$44,860,593	\$56,363,309	
\$75	\$5,916,668	\$12,490,743	\$19,838,238	\$28,104,171	\$37,472,228	\$48,178,579	\$60,532,060	
\$80	\$6,324,139	\$13,350,961	\$21,204,468	\$30,039,662	\$40,052,883	\$51,496,564	\$64,700,811	
\$85	\$6,731,611	\$14,211,180	\$22,570,697	\$31,975,154	\$42,633,539	\$54,814,550	\$68,869,562	
\$90	\$7,139,083	\$15,071,398	\$23,936,926	\$33,910,646	\$45,214,194	\$58,132,535	\$73,038,313	
\$95	\$7,546,555	\$15,931,616	\$25,303,156	\$35,846,137	\$47,794,849	\$61,450,521	\$77,207,064	
\$100	\$7,954,027	\$16,791,835	\$26,669,385	\$37,781,629	\$50,375,505	\$64,768,506	\$81,375,815	
\$105	\$8,361,499	\$17,652,053	\$28,035,614	\$39,717,120	\$52,956,160	\$68,086,492	\$85,544,566	
\$110	\$8,768,971	\$18,512,272	\$29,401,844	\$41,652,612	\$55,536,816	\$71,404,477	\$89,713,317	
\$115	\$9,176,443	\$19,372,490	\$30,768,073	\$43,588,103	\$58,117,471	\$74,722,463	\$93,882,068	
\$120	\$9,583,915	\$20,232,709	\$32,134,302	\$45,523,595	\$60,698,126	\$78,040,448	\$98,050,820	
\$125	\$9,991,387	\$21,092,927	\$33,500,532	\$47,459,086	\$63,278,782	\$81,358,434	\$102,219,571	
\$130	\$10,398,858	\$21,953,146	\$34,866,761	\$49,394,578	\$65,859,437	\$84,676,419	\$106,388,322	
\$135	\$10,806,330	\$22,813,364	\$36,232,990	\$51,330,069	\$68,440,093	\$87,994,405	\$110,557,073	

CONCLUSIONS

The purpose of this chapter was to analyze the impact and determine the financial feasibility of the inclusionary requirement on the Pier 4 project. Based upon the findings set forth it is apparent that the size of the development project, the building costs, and the housing and commercial mix, influence the financial impact of an inclusionary requirement.

The inclusionary requirement imposed upon Mariner creates a financial drain that must be absorbed within the project. The condominiums are an integral part of the commercial uses, both physically and economically. The net proceeds from the condominium sales are needed to offset the extremely high construction costs of the commercial footage. Given that a leaseup deficit is likely to occur, the proceeds from the condominiums are even more crucial. Therefore, unless the the condominiums are successful, the entire project may not take place.

Presently, without taking into account the inclusionary requirement, the condominium portion of the project will generate a 25.37% return on sales. With the inclusionary requirement, Mariner must increase the price of the market units by \$41,325 to achieve the identical 25% return on sales. Increasing the sales price on the market rate units could present major problems to the marketability of the units. Although it is impossible to determine how much of the internal costs generated by developing units on

site will be absorbed by the market, predictions can be made by looking at economic trends and then extrapolating into the future.

The market risks facing the project could present problems for Mariner. If the market softens, Mariner risks neither selling the units required nor leasing a sufficient amount of space. If the market softens and Mariner increases the prices of the market rate units, this may further aggravate the marketability of the product.

Without adjusting the prices of the market rate units to compensate for the lost income generated by the inclusionary requirement, Mariner's return on net sales would be reduced to 17.4%. At this rate of return, Mariner would be unable to obtain condominium financing from a conventional lending institution.

Therefore the inclusionary requirement exacerbates the market risks that confront Mariner. However, regardless of the inclusionary requirement the market risks are factors that Mariner must contend with -- irrespective of city policies. The assessment of the risks are in Mariner's hand -- only the firm can make the "go ahead" decision.

CHAPTER THREE
BOSTON MARINER'S LINKAGE REQUIREMENT

In accordance with the Development Impact Project agreement Boston Mariner is obligated to pay to the City of Boston, for a twelve year period, (on an annual basis), \$436,476. Mariner can either give its money to a trust fund or use the payment as equity or gap financing for the production of affordable housing in Boston.

Diagram 1 illustrates the two options Mariner must choose between to satisfy its linkage requirement. The housing creation option (HCO) requires Mariner to go through a structured review process while the Neighborhood Trust Fund (NTF) involves one step - transferring the exaction to the Fund on an annual basis.

What is not revealed within Diagram 1 are the political, financial, and managerial issues associated with each option. Diagram 2 sets the stage to take these concerns into account. However, the decision that Mariner must make regarding its linkage obligation is far more complex than either chart can illustrate. Diagram 2 establishes three additional tiers of decisions that a developer must undertake when faced with a linkage requirement. Each decision, whether it be between the HCO or NTF, or selling or renting the units, poses specific questions. Each question raises critical issues. This chapter discusses the questions and the issues.

LINKAGE OPTIONS and HOUSING CREATION PROCESS

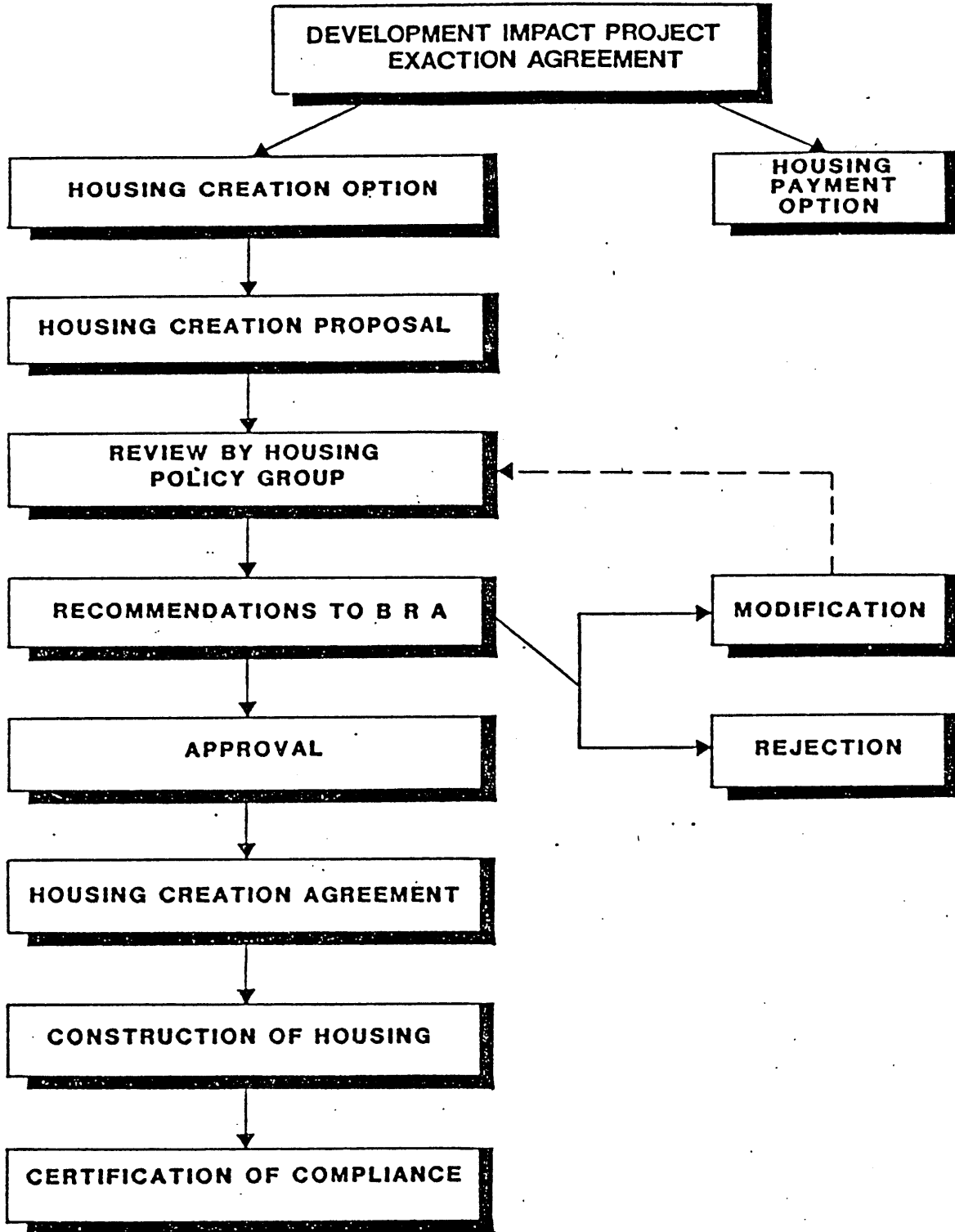
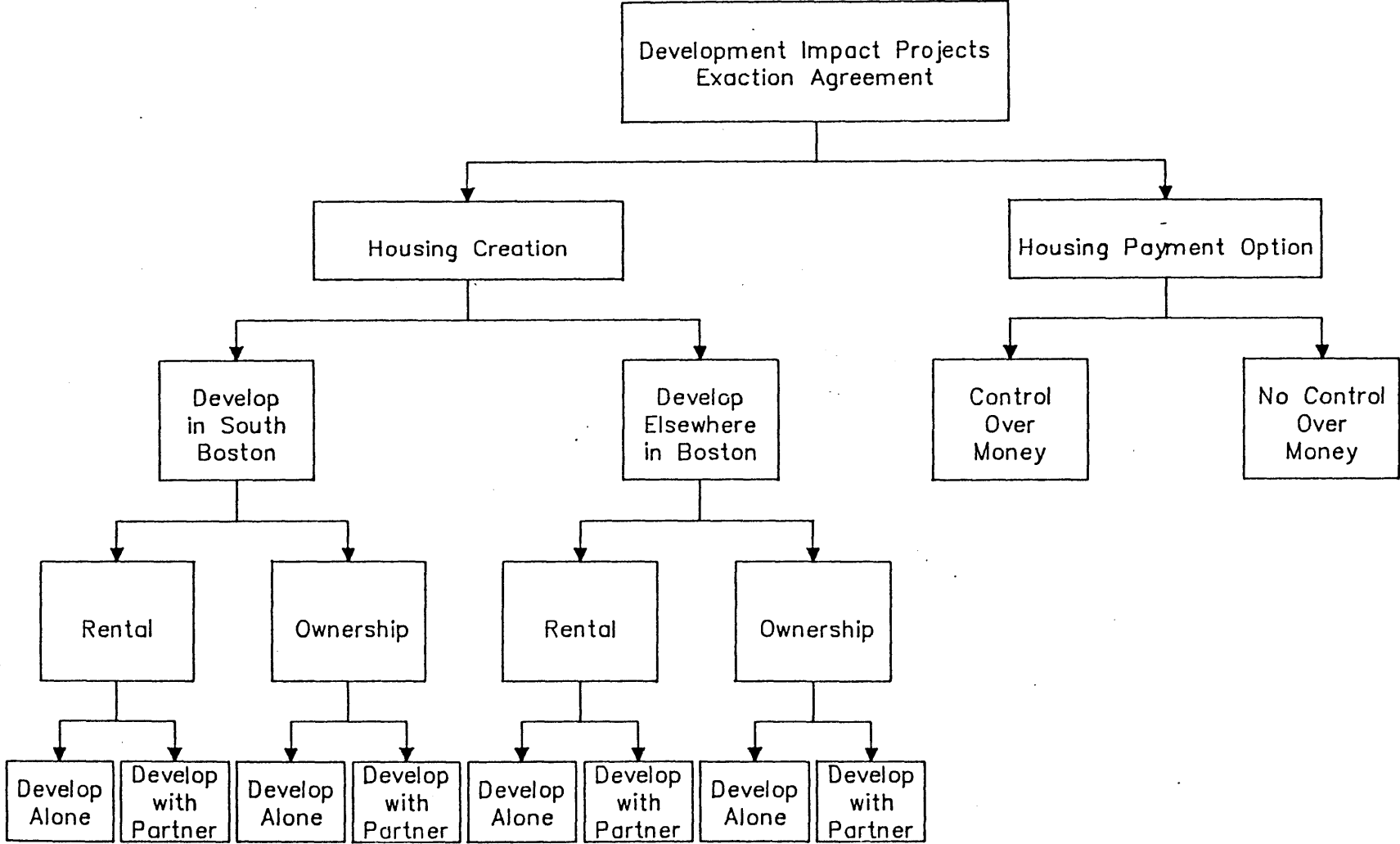


Diagram 2



To make its final decision between the HCO and the NTF, Mariner needs to determine the political and economic, and the time value of each route and the tradeoffs that exist among them. Does the City care how Mariner satisfies its linkage obligation as long as the City receives its money? What is the potential opposition from the South Boston community if Mariner chooses to give money to the NTF? Exactly how influential is the South Boston community in terms of Mariner gaining its final building approval? In sum, will the path taken by Mariner influence the rate at which the firm receives its final approval from the City?

This chapter will explore the political consequences, administrative issues, and financial implications that Mariner faces in choosing any of these options to satisfy its linkage obligation. The first section of the chapter focuses on the Neighborhood Trust Fund, and the second section centers on the Housing Creation Option.

THE NEIGHBORHOOD TRUST FUND

Through the DIP agreement, Mariner can satisfy its linkage obligation by contributing its exaction, on a yearly basis, to the Neighborhood Trust Fund (NTF). The Fund is a Massachusetts public charitable trust created under the laws of the Commonwealth on November 19, 1985. Presently, there is \$1.00 in the Fund.

Originally, when the White administration established linkage in 1983, the funds collected were to:

1. be administered by the Neighborhood Trust;
2. be used to expand the supply of decent housing for low and moderate income households;
3. support housing initiatives of community development organizations;
4. assist initiatives of public private partnerships;
5. complement city housing programs and policies.

In essence, the funds were to be used to increase the supply of affordable housing in Boston's neighborhoods. Funding would be "released in the form of both grants and loans to subsidize the financing, construction, rehabilitation, management, maintenance and operation of low and moderate income housing". (Mayors Report on Linkage, pg. 22, 1983)

As it stands today, the Flynn administration promises to carry out the goals for the NTF, which were established in the White administration. Presently, \$53 million is earmarked for the Fund, however formal plans do not exist regarding the use of the money.

For Mariner, contributing money to the Neighborhood Trust Fund is the most straightforward option for the firm to take in satisfying its linkage requirement. Payments would be made annually for twelve years. Mariner would simply write an annual check for \$436,437 to the City of Boston which would then allocate the money to housing developers for the production of affordable housing. Once the money is in the City's hands, Mariner has no control

over its usage. The firm does not need to think about its linkage payment until it is due the following year.

Financial Implications: A Net Present Value Analysis

Mariner's linkage payment totals \$5,586,432. While the amount is substantial, the overall payment is worth a lot less today than the \$5.586 million figure. Each year, as Mariner transfers its payment to the NTF, the value of the money decreases over time.

Table 14 illustrates how the value of the money diminishes. By taking the present value of each payment, discounting the money at 10%, the total NPV¹ of Mariner's \$5,586,432 equals \$3,271,121, or \$3.50 per square foot.²

In the short run Mariner's linkage payment is a financial burden on the firm; however, as each phase of the project is complete the impact of the payment becomes less significant. The declining impact of the linkage payment on Mariner is a function of increased revenues from the project and the diminishing value of the exaction over time.

1) The Net Present Value is the sum of a stream of future cash flows discounted back to the present to take into account the time value of money.

2) In actuality, the NPV of the total annuity will be less than the quoted figure. The discounted value of the linkage payment was calculated assuming Mariner begins payment today. It is most likely that Mariner will not begin payment until 1988. In this case the value of the payment stream would be \$2,457,642.

TABLE 14

NET PRESENT VALUE OF
 FUTURE PAYMENTS OF
 \$5,586,432
 @ 10%

YEAR	AMOUNT
Year 1	\$436,437
Year 2	360,691
Year 3	327,902
Year 4	289,092
Year 5	270,993
Year 6	246,357
Year 7	223,961
Year 8	203,601
Year 9	185,092
Year 10	168,265
Year 11	152,969
Year 12	139,062
TOTAL	\$3,271,121

For example, in the first phase of the project 737,982 square feet of space will be developed. Each use - condominium, parking and commercial, will generate income on an annual basis. Moreover, based upon specific escalating factors³ the income received from tenants will generate a cash flow for Mariner that will increase annually.

Therefore, as Mariner's cash flow increases per year, and the present value of the linkage payment decreases annually, the impact of the linkage payment on the overall project will be less significant than in the earlier phases.

From the City's perspective, the impact of the declining value of the linkage payment is the exact opposite. Each year the linkage payment will have less buying power in the housing market.

For example, assume Mariner has a linkage payment of \$100,000 per year for twelve years. Mariner can use these funds to write down the cost of five units so that a family of four, earning 80% of the median income, could purchase the unit.

If the unit costs \$85,000 to build but must be sold for \$65,000 in order for the household of four to afford it, Mariner can use its \$100,000 to bring the cost down to an affordable level. However, if construction costs increase at 4%, an identical unit would now cost \$99,438.

3) Mariner has incorporated the following escalating factors into its pro forma: Commercial rents 4%; Parking 7%; and Condominiums 12%.

Mariner's linkage payment could bring the price down to \$79,000. It is now questionable whether the same family could purchase the unit.

Political Issues

Mariner would like to see its linkage funds go towards the development of affordable housing in South Boston. However, as mentioned earlier, once Mariner gives the City its money, it loses control over its usage.

Losing control over the money raises an important issue. Will Mariner lose its bargaining position with the City and the South Boston community by choosing to contribute to the NTF? If Mariner elects to satisfy its linkage requirement through the NTF, can Mariner request that the funds be directed towards the South Boston community, and will the City promise to honor its (Mariner's) request? Or does Mariner, by choosing this option, relinquish all powers to directly assist the South Boston community? The answers to these questions are critical.

One reason to be skeptical over where the money will go and how the money will be spent is that the administrative body for the NTF is not yet established. There is much debate among the Mayor's staff, the City Council and the BRA regarding usage and administration of the funds. According to Mariner, Steven Coyle has suggested that through a letter of agreement between Mariner and the BRA, the firm can direct a portion of the funds to South

Boston.

From a policy standpoint, one of the major disagreements focuses on "who" or "what" should benefit from the fund. For example, it is unclear whether the funds should be used to target specific income levels, rehabilitate the existing housing stock or serve as "gap" financing for projects that would otherwise be unfeasible?

From an administrative point of view, the seven member council that will form the NTF administrative body is not established. Once again, debate exists among the Mayor's Staff, the BRA and the City Council as to who should sit on the committee, which agency should administer the funds, and what its role should be.

Based upon the status of the NTF, the likelihood of Mariner having much control over where and how the money will be spent, and thereby gaining political leverage, is highly doubtful. Therefore, it is necessary for Mariner to determine how responsive the South Boston community will be if Mariner transfers money to the NTF without any promises to the South Boston community.

THE HOUSING CREATION OPTION

The housing creation option (HCO) is broadly defined. According to Bill Whitman, Chief Legal Advisor at the BRA, the guidelines, which are still in draft form, are intentionally vague to encourage developers to be innovative deal makers. Through the housing creation option Mariner has

several development vehicles through which it can satisfy its linkage obligation.

First, Mariner can directly create affordable housing. This can be accomplished through new construction, acquisition/rehabilitation, or through the purchase of existing structures.

Second, the Boston Mariner Company can form a joint venture, general or limited partnership or similar corporate relationship with a Minority Business Enterprise (MBE), Community Development Corporation (CDC), or for-profit or non-profit organization in order to create affordable housing.

Third, Mariner can contribute the Net Present Value (NPV) of its payment stream that would have been made under the housing payment option to an entity designated by the developer and approved by the BRA. The payment stream would be discounted at a "blended" rate. The rate is equal to one half the rate at which the City borrows money plus one half the rate at which a developer borrows money from a commercial lender. The designated development entity would be responsible for the construction and operation of the units.

Fourth, Mariner can select any of the options above or any combination of the options above in full or partial satisfaction of its obligations under the DIP agreement.

If Mariner chooses the housing creation option, a development proposal must be submitted and reviewed by a housing policy group. The housing policy group is to specifically evaluate housing proposals submitted by developers in satisfying linkage obligations. Although the housing policy group has yet to be formed, a top BRA official believes that the group will consist of BRA staff housing specialists.

Following the submission of the housing proposal, recommendations from the housing policy group will be made to the BRA which will either approve, or reject the proposal or send the proposal back to the developer for further modifications. If the project is approved, then the developer enters into a Housing Creation agreement with the BRA. Once this is accomplished, construction of the housing can begin.

In sum, the options available to Mariner are many. Although the final approval for a deal rests in the hands of the BRA, Mariner is free to produce rental property or sell the units outright. It can build housing on its own, joint venture with a community group and/or developer, or designate their stream of linkage payments to a housing developer who will then use the funds towards the production of affordable housing.

What follows is a discussion of the issues that surround each development alternative. The section will begin with a discussion of the political costs and benefits of building in South Boston rather than in another neighborhood of the City. The next part is an analysis of the financial costs and benefits of producing rental and for-sale units. Special consideration will be paid to the issues of property management and resale restrictions. The final section will discuss the implications of Mariner developing housing on rather than with a community group.

The overriding issue in analyzing which option is most appropriate for Mariner, is which choice will give Mariner the most political leverage in the development arena. The questions are identical to those posed earlier in the section under the NTF scenario. Whether the NTF or HCO route is chosen, Mariner must determine how the decision will impact its relationship with the city and the South Boston community.

A Profile of South Boston

Throughout the dialogue of this thesis, the issues of influence and control over the South Boston community come into play. Although it is difficult to ascertain the level of power the neighborhood could exercise over the outcome of the project, the potential of neighborhood opposition exists. Any possible threat should not be overlooked.

In order to involve the South Boston community in the

planning and development phase of the Pier 4 project, the City created the Fan Pier /Pier 4 Civic Advisory Committee (CAC) to serve as a liason between the city and the developer, on behalf of the community. The sole purpose of the CAC is to make certain that the concerns of the community are integrated into the planning process.

According to the leaders of South Boston, the community is concerned with "maintaining its way of life." Sixty-three percent of the people living in South Boston have lived there for at least 30 years. The residents firmly believe in the extended family; the family belongs together in the neighborhood. Residents have a strong sense of territory and will protect it.

However, South Boston's tradition of proud parochialism is being threatened by political and economic forces from within the City. Over the past two years, housing and commercial real estate development in South Boston experienced a profound change. According to the BRA, last year "105 condominium deeds were filed for South Boston compared with 28 in 1984 and three in 1982. Mayor Flynn, a native of South Boston is urging "unity and cooperation" for all Boston neighborhoods. In South Boston, this policy is being met with defiance.

City Councilor James Kelly recently remarked that "the people of South Boston have strong suspicions and resentments. We don't have short memories. If we don't protect ourselves, no one else will. That was the mentality

of Southie 30 years ago and it still is. I hope the Irish sense of "us and them" will always be there." Kelly contined to state that he is "convinced South Boston will continue to be worth fighting for as long as we can control our destiny and stick together". (Boston Globe 7/30 Ethan Bronner)

Although these sentiments of "mistrust", "territorial" and "us - them" may not represent everyone's feelings in South Boston, these attitudes are felt by a majority of South Boston residents. These sentiments are not unique to South Boston. Many of Boston's neighborhoods are territorial. Many are threatened by outsiders. This ideology is a long established fact in Boston, and a difficult fabric to unravel.

If South Boston is ready to "fight" for its "control" and destiny over its neighborhood, where does the Boston Mariner company stand in light of these circumstances. Would the South Boston community want housing built in its neighborhood knowing that people from other sections of town could possibly "move in" to the neighborhood? Does Mariner want to be associated with breaking up the fabric of a well established community?

On the other hand, if the community is threatened by housing developers renovating the aged housing stock and selling the units at a premium, could Mariner assist the community in gaining control over vacant lots and dilapidated housing structures, before the neighborhood is

gentrified?

Develop Alone or with a Partner

If Mariner chooses to develop housing on its own, it must first identify an appropriate site. The criteria under which it selects a site will be based upon cost and location. From a cost standpoint Mariner must obtain land from either the City, State or private land owner for \$1. Based upon recent development projects in the City, Mariner should be able to obtain a land subsidy from the City. In terms of location, if Mariner chooses to build, the firm would prefer to do so in South Boston.

Although it is fair to assume that Mariner could receive land from the City or State, the likelihood of this happening soon is questionable. To begin with, the disposition of public land does not typically take the form of a "sole source designation".

A sole source designation occurs when the City awards a developer a site, without offering it to other developers. Typically, when the City wishes to release a parcel of land for development, it sends out a Request for Proposal (RFP) to appropriate developers. Only after all proposals are submitted to the City and reviewed, will a developer be chosen and awarded a site. Seldom does a developer submit a development proposal to the City and then awarded a site.

Secondly, Mariner can not rely heavily on the BRA to identify a site for the firm in South Boston. This is because most of the City owned land in South Boston is

controlled by the Public Facilities Department (PFD). At this point it is difficult to determine how willing PFD will be to negotiate with Mariner.

The second option available to Mariner if it chooses to build housing, but not as the main developer, is to join forces with an established housing group. The development team could be a for-profit, non-profit or a minority business organization based in South Boston or elsewhere in the City. The most likely candidate for Mariner to connect with would be a community development corporation specializing in housing development, located in South Boston.

Mariner has much to gain by working with a CDC. First, if the group is from the South Boston community, the organization could serve as a liason between Mariner and the South Boston neighborhood. The CDC will be able to marshall support from within the community in favor of the project.

If the CDC is well-seasoned in the field of housing, then Mariner's role as a partner could be kept to a minimum. In addition, by working with a local, experienced CDC they will be able to work within and around the bureaucracy of the City. This includes knowing what financial subsidies are available for housing and the agencies which sponsor them, as well as knowing which public agencies control what parcels of land. By creatively using linkage money in conjunction with state and local funding, more below-market rate units can be produced.

The flip side of this argument is if Mariner selects a community group to work with wishing to keep a low profile, and for one reason or another, the project in which they are financially committed to, fails Mariner runs the risk of being associated with a bad deal. In addition Mariner may feel compelled to "save" the project if they see their reputation on the line. This translates into additional time and energy that the developer may not have.

Rental versus Sales

In order to explore the issues that would arise if Mariner elects to develop housing on its own, this section will explore the implications of producing rental and for sale units. The section will focus on three aspects of the development process: finance, management and marketing.

Management

Mariner's level of involvement in property management is contingent upon the type of product it delivers to the market and the level of involvement and control the firm wishes to hold. The firm must question its ambitions as office developers; Is Mariner ready, willing and able to diversify within the development industry?

Assume that Mariner will develop rental property on its own. Under this scenario, Mariner can set up a management structure in one of three ways. First, Mariner can hire a property management firm to to maintain the project. Second, Mariner can manage the property on its

own, and third, Mariner can designate a tenant from the property to take on the responsibility.

The first structure -- hiring a management firm, raises issues of trust and capabilities. What criteria does Mariner use in selecting a management company? Does Mariner choose a group such as GBCD, Urban Edge, or a local CDC, all of which are driven by "missions" to encourage housing and community development. If Mariner hires a firm, the firm will most likely be viewed as an extension of Mariner. Therefore, the management company would have to be competent and reliable.

The second structure -- managing the property on its own, raises issues of time and commitment. If Mariner accepts the responsibility of managing the property, Mariner runs the risk of not being able to appropriately service the clients on the smaller scale, "affordable" project. If Mariner's in-house management firm is kept busy servicing the residents of the Pier 4 project, the "linkage" related project may be pushed aside and tended to only after the Pier 4 clients are properly serviced. Neglect of the housing project could become self-perpetuating resulting in a failing property. If the project fails Mariner would risk being labeled a negligent landlord. This type of publicity could only hinder Mariner.

The third structure suggested -- hiring someone who lives in the building, is the most logical yet risky response to the management dilemma. By hiring one of the

tenants to serve as property manager, a sense of pride in the property may be instilled in all the residents. However, if the person is neither responsible nor available to the other residents, then the overall maintenance of the property could begin to deteriorate. Once again, deterioration of the property could become a self-fulfilling prophecy.

If Mariner finds that it is more sensible from an economic and management perspective to sell the units outright, then the firm must once again decide between the product type. Specifically, should the units be sold as condominiums or housing cooperatives. In addition Mariner must establish specific resale restrictions for the units in order to keep the units affordable to buyers and or renters for a specified amount of time.

Marketing

Below-market rate housing is a highly marketable product in Boston. The demand is high yet the supply is low. Therefore, disposing the units will not present problems to Mariner; however, the manner in which the units are allocated to prospective buyers/renters needs to be carefully planned.

One of the City's most unique characteristics is the sense of pride instilled in Boston's neighborhoods. Many neighborhoods, whether it be in South Boston, Roxbury, or Charlestown can be catagorized as extended families. Many

neighborhoods would prefer to have its own residents fill vacancies and new homes that come on to the market, while other neighborhoods encourage ethnic and socio-economic mix.

Though desiring to have your "own kind" on the block may be socially accepted within certain neighborhoods, this type of action is viewed as discriminatory. As history reveals, neighborhood "preference" can be legally challenged.

This past March the Bricklayers & Laborers Non-Profit Housing Company, Inc. completed the construction of 18 brick rowhouses on Dorchester Street in South Boston. Through a land subsidy of \$1 given to the Bricklayers by the Public Facilities Department and union members performing work for time and materials only -- no profit, the Bricklayers were able to sell the units at an affordable price of \$70,000 to South Boston residents.

By specifically targeting the units to South Boston residents, the Bricklayers were accused by the Massachusetts Commission Against Discrimination (MCAD) of discrimination. MCAD filed a charge against the bricklayers for limiting the participation in the upcoming lottery for units to only South Boston residents. It was found that since only 15 residents in South Boston are black, the South Boston only designation for the project did indeed have a discriminatory effect.

There was much publicity centering around the Bricklayer case for weeks to follow. A Boston Globe editorial mentioned that "few nonwhite Bostonians may want to live in a nearly all white neighborhood. But that is not the point." As MCAD chairman Alex Rodriguez commented, "the point is access. This agreement guarantees access by requiring that the units be heavily advertised in minority dominated areas. (Globe Editorial, March 21, 1986)

The issue of housing discrimination in Boston is timely. Presently the Mayor is proposing a fair housing plan to allow up to 70% neighborhood preference in publically assisted housing. The fair housing plan is an attempt by the Flynn administration to prevent displacement of neighborhood residents when affordable housing units are built. This proposal is being challenged by MCAD as an "unacceptable" part of the City's plan.

In order to prevent a repeat episode, similar to the Bricklayers, Mariner will need to establish rental and/or ownership guidelines to clarify the manner in which tenants and owners will be chosen. The plan must comply with the Equal Opportunity and Affirmative Action standards in accordance with the Mayor's plan.

Financial Analysis

This section will analyze the financial feasibility of developing affordable housing units through the housing creation option. This section is to be viewed as an initial

feasibility study; it is a study to determine ways in which linkage money can be used to develop affordable housing. Though the examples that follow are hypothetical, the assumptions used are realistic.

The feasibility study will investigate two methods through which Mariner can leverage its linkage payment to develop affordable housing. The linkage payment can be used as an equity contribution for a rental project or to write down the purchase price of a for-sale unit. These are only two of the many development scenarios that exist for Mariner.

Rental Property

Mariner's linkage money must go towards the production of affordable housing. The rental analysis evaluates the extent to which the money can be spent to produce below-market rate units. Three examples follow which incorporate different income mixes. A discounted cash flow analysis will be used to evaluate each income mix. In addition the analysis will look at the effects of the proposed senate tax reforms. In all three rental cases, Mariner will use its first year linkage payment as an equity contribution.

The financial analysis of the rental property assumes that Mariner will obtain a 30 Year conventional mortgage at 10.5%. Though Mariner could probably obtain more favorable terms from MHFA or through various rental subsidy programs sponsored by EOCD, the firm has neither the staffing nor expertise to to creatively package its debt structure.

Rental Analysis

Income mix 1 assumes that all units will be affordable to household earning up to 80% of the median income. Based on the development assumptions and costs, this investment would yield a .22% internal rate of return (IRR) and a Net Present Value at 10% (NPV) of (\$267,107).

Income mix 2 assumes that 25% of the units will be affordable to households earning 80% of the median income. The remaining 75% of the units will be affordable to households earning 120% of the median income. Based upon the development costs of the project and the potential gross income that the project will generate, this investment will yield an IRR of 7.64% and a NPV at 10% of (\$57,923).

Income mix 3 assumes that 50% of the units will be affordable to households earning 80% of the median income, 10% of the units will be affordable to households earning 120% of the median income and the remaining 40% will be affordable to households whose incomes are in excess of 120% of the median income. Based upon the development costs of the project and the potential gross income that the project will generate, this investment yields an IRR of 9.2% and a NPV of (\$20,266).

Table 15 summarizes the three examples indicating the amount of debt each project will be able to carry, the mortgage value, the loan to value ratio of each investment and the return measures. The table reveals that regardless of the income mix the projects are not financially feasible

for Mariner to undertake.

	MIX 1	MIX 2	MIX 3
Equity	\$449,970	\$458,481	\$423,421
Mtg. Value	\$591,982	\$1,268,001	\$1,303,305
Debt Service	\$58,372	\$140,150	\$144,052
Loan:Value Ratio	57%	73%	75%
NPV @ 10%	(\$267,107)	(\$57,923)	(\$20,266)
IRR	0.22%	7.64%	9.2%

The low return measures are due to the fact that all projects are negatively leveraged. Negative leverage exists when the return on total capital and return on equity is less than the rate at which Mariner can borrow money from the bank. Therefore, whatever net operating income is earned by the project, the majority of it is going back to the bank to service the debt rather than going to the developer.

Assuming Senate Tax Changes

In the past developers were able to successfully syndicate real estate projects by selling tax shelters through limited partnerships. Now with a new tax bill soon to go into effect the extent to which losses from passive activities may be used to reduce tax liability with respect to income derived from nonpassive activities will diminish.

Much of the low income housing that was developed over the past ten years took advantage of these tax benefits. Now, with a new tax bill soon to go into effect, the tax advantages associated with syndicated properties will disappear and the production of affordable housing will decline.

A new incentive is presently being proposed to assist in the production of low-income housing; the incentive is a tax credit. The amount of the credit is claimed annually for a period of ten years. The amount of the credit is equal to 8% of the basis attributable to low income housing units and 4% of the basis attributable to moderate income housing units.

The amount of the tax credit attributed to units occupied by individuals with incomes between 50% to 70% of the area median income may not exceed 30% of the number of units in the development. At least 20% of the residential units in all buildings must be occupied by low income households.

In order to determine the impact of the proposed tax changes on the development of affordable housing, the credit was applied accordingly to Mix 1 through 3. Since the three examples were primarily targeted towards moderate income households the income mixes were adjusted.

The analyses reveal that while the development opportunities are not feasible under the present tax conditions using the proposed tax changes positively effect the investment opportunities for below-market rate housing. In fact the tax credit makes it viable to rent units to low income households.

Table 16 illustates the impact the tax credit has on the financial feasibility of developing below market rate units. What was once economically unfeasible is now worth considering as an investment opportunity.

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TABLE 16: SUMMARY SHEET OF RENTAL PROJECTS
(INCLUDING PROPOSED TAX CHANGES)

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	MIX 4	MIX 5	MIX 6
Equity	\$433,348	\$423,421	\$433,348
Mtg. Value	\$980,729	\$1,303,305	\$980,729
Debt Service	\$108,398	\$144,052	\$108,398
Loan:Value Ratio	69%	75%	69%
NPV @ 10%	\$36,330	\$124,422	\$342,800
IRR	11.50%	15.31%	23.02%

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For-Sale

The for-sale scenario is far less complex than the rental project. This example illustrates how Mariner can use its linkage payment to write down the cost of a unit so it may be affordable to a household of 4 earning 80% of the median income. The example assumes that Mariner will work with a community group and apply its payment to a project either under construction or to a project that is in the pipeline.

Based on the development cost pro forma set forth in Table 17, the sales price per unit is \$84,333. If Mariner were to take its linkage money and apply the money directly to the development costs, the price of the unit could be reduced to \$69,785 which would be affordable to a household of 4 earning 80% of the median income. A deeper subsidy could make less units available but targeted towards a lower income group.

TABLE 17: COST PRO FORMA FOR FOR-SALE UNITS

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Number of Units	30	
ACQUISITION	\$1	
HARD COSTS:		
Construction Costs		\$1,350,000
Site Preparation		\$270,000
Landscape		\$70,000
Facade		\$240,000
Bonding		\$28,950
TOTAL HARD COSTS		\$1,958,950
HC per Unit		\$65,298
SOFT COSTS		\$450,559
.23% of HC		\$15,019
CONTINGENCY		\$120,475
TOTAL DEVELOPMENT COSTS		\$2,529,984
Total COST PER UNIT		\$84,333

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Development Contributions		
MARINER's Linkage		\$436,437
Revised Development Cost		\$2,093,547
TOTAL COST PER UNIT		\$69,785

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CONCLUSIONS

When a developer enters into a DIP agreement with the City, the developer is given many options through which it can satisfy its linkage obligation. However, despite the fact that many options exist few choices are feasible for the developer.

First, a commercial developer has neither the time nor the resources to take on an additional housing project -- particularly in a foreign area of development. From a financial standpoint, it was revealed that it is not feasible for a developer to build affordable units using its linkage money as an equity contribution. The projects are negatively leveraged and yield negative returns. Although under the proposed tax scenario the three examples were favorable investments, it is hard to predict what the final guidelines for the tax code will be.

A developer would also not choose to pay its linkage payment "upfront" to either the BRA or a designated developer for two reasons. First, during the initial phases of most development projects, money is needed to fund lease-up deficits. Second, by taking the NPV of the linkage cash streams at the "blended" rate used by the BRA, a developer would end up paying more in present value terms to the City than it would pay over a twelve year period to the Fund.

Therefore, the best way to use the linkage money through the HCO would be to joint venture with a housing group that has additional housing subsidies in place. The

money could be used to lower the sales price of a unit or to offset operating costs for a rental project. This would enable both the developer and the City to leverage the linkage money and produce the maximum number of units. However the likelihood of finding a perfect "match" is slim.

Given that the development options through the HCO offer only disincentives to the developer, the developer is left with one choice but to transfer its money to the NTF. The disincentive system leads one to believe that the HCO guidelines are seemingly deliberate. It is questionable if the City will appropriately leverage the linkage funds to produce the most affordable housing that it can.

CHAPTER FOUR RECOMMENDATIONS

The purpose of the thesis was to evaluate the impact of two new City policies on the financial feasibility of a mixed-use development project. The paper closely examined the ramifications of linkage and inclusionary zoning from a political, economical and managerial point of view. Based upon the analysis and conclusions reached in each chapter, recommendations to Mariner will be made.

The criteria used to evaluate the optimal route Mariner should take in satisfying both requirements were as follows:

- 1) Political: Which choice will give Mariner the most leverage from within the City?
- 2) Economic: Which option makes the most financial sense?
- 3) Time and Management Resources: Which option will Mariner have to be least involved?
- 4) Homeownership Maximization: Which option will maximize housing in South Boston?

The recommendations begin by first eliminating the options that Mariner should not consider and conclude with the recommended path that Mariner should follow. First, recommendations for Mariner's linkage obligation will be outlined followed by recommendations for the inclusionary housing requirement.

LINKAGE

1) Mariner should not pay the linkage money upfront.

Mariner does not have the available funds to cash out of the linkage obligation. Mariner needs the funds in the earlier phases of the project to defray the high construction costs and leaseup deficit.

In addition, given the blended discount rate the City uses to calculate the payment, paying upfront is not economically sensible. The BRA's "blended" discount rate calculates a higher linkage payment that Mariner must pay in comparison to what it would pay over a twelve year period.

2) Mariner should not develop housing on its own.

Mariner is not a housing developer -- particularly an "affordable" housing developer. Whereas commercial development requires specific skills so does housing development.

Mariner is not equipped with the staff nor the resources to undertake developing affordable housing. First, packaging financially feasible housing projects for low to moderate income household is a major endeavor. Funding sources through the public sector are available but take an enormous amount of energy to obtain -- especially if Mariner is unfamiliar with public finance opportunities. Although Mariner could involve GBCD in putting together a creative financial package, this would still translate into additional time for the firm.

Second, if Mariner chose to build on its own, the firm would have to put together a development team. The time involved in selecting an architect, construction manager and trades people for the project places additional costs on Mariner not included in the linkage payment.

Considering that the logistics involved in putting the Pier 4 project in place is a major effort that must be approached with diligence and an abundance of time. Any activity added to the already overburdened operations of Mariner could jeopardize the success of the project. For the above reasons Mariner should not consider this option. Building alone could prove to be a major mistake.

3) Mariner should not joint venture with a neighborhood based housing group.

Mariner should not joint venture with a housing group unless the group is from South Boston and is ready to build. The best situation for Mariner would be to connect with a housing group that is ready to break ground (i.e. building permits are in place) but is in need of additional financial support. This route would alleviate the issues of financial deal structuring, management and construction -- Mariner would simply transfer the funds to the developer.

As illustrated in the financial analysis section of the previous chapter, Mariner's linkage money can best be used by writing down the cost of a for-sale unit. The money can either be applied to the direct development costs across

the board, or the funds can be allocated on an as needed basis. For example, a household may be eligible to purchase a unit but can not afford the closing costs and the initial five percent down payment. The money could be used to cover those additional expenses.

Lastly, if Mariner selects this route, the money should be put towards for-sale property rather than rental units. However, it is unlikely that Mariner will be able to identify a group from South Boston as there is no housing group in the community.

4) Mariner should transfer its linkage payment to the Neighborhood Trust Fund

The trust fund is the path of least resistance. However, is it the path that will provide the best results for the residents of Boston in need of housing? The issue is debatable.

If Mariner cannot identify an appropriate housing group from South Boston which it feels will provide quality work, then the NTF route should be chosen. Under these circumstances, Mariner should sign a letter of agreement with the BRA promising that at least half the linkage funds will be directed towards the South Boston community. The terms of the letter should be drafted by both Mariner and the CAC incorporating as best as it can the needs of the South Boston Community.

INCLUSIONARY HOUSING POLICY

- 1) Mariner should not build the affordable units onsite.

The costs incurred by developing the units on site are too great for the project to bear. The success of the other uses on the site become less than feasible, thus hindering Mariner's ability to find financial backing. By placing the project at risk, the city may lose out on both linkage funds for housing and increased tax revenues.

- 2) Mariner should establish a revolving loan fund to assist resident first time homebuyers in South Boston.

A revolving loan fund could be used to assist first time homebuyers in the neighborhood. If a household is unable to purchase a home due to lack of available funds, even with a MHFA below-market rate mortgage, funding could be used to further write down the cost of housing.

- 3) Mariner should establish a revolving loan fund to be used for home improvements and neighborhood reinvestment.

The income level of South Boston residents is below the median income for the City of Boston. The prototypical affordable unit mentioned throughout the paper, with the exception of the units in the rental tax scenario, is affordable to household earning 80% of the median income. South Boston residents are far below this level. Based on a median income of \$13,000, a South Boston resident could only afford a home priced at approximately \$35,000. Therefore, even if units were to be included on the Pier 4 site,

chances are the South Boston residents would not be qualified homebuyers.

The fact that the median income in South Boston is so low raises an interesting question. How will the neighborhood be able to maintain control in its community if the real estate market continues to expand into the South Boston area? Much of South Boston's housing stock is deteriorated -- South Boston is a prime target for gentrification.

Intensifying the problem of deterioration is the inability of residents to obtain home improvement loans from banks at favorable terms. If banks are unwilling to lend money to residents because incomes are low and conditions of the neighborhood are poor, then deterioration is inevitable. It is a Catch-22 that needs to be reversed.

Mariner could establish a revolving loan fund that would be administered by either the CAC or a group designated by the CAC. Low interest loans would be made to South Boston residents to improve both their homes and the surrounding neighborhood.

While the loan fund does not address the issue of increasing the housing stock by giving residents the opportunity to improve their standards of living the housing stock will improve and South Boston will gain more control of its own destiny rather than allowing deterioration to lead to gentrification.

DISCUSSION ON AND RECOMMENDATIONS FOR BOTH POLICIES

The City of Boston is looking for new ways to expand the housing stock available for low to moderate income households. Two innovative approaches have been adopted into the City's planning process --linkage and inclusionary housing. Both policies require developers, who are in the process of obtaining building permits, to pay additional money to the City or create additional housing for Boston residents.

This final section of this chapter will discuss the two policies. The dialogue that follows will outline present shortcomings that exist within the administrative boundaries of implementing the policies. The section will ultimately conclude with suggestions to the City regarding ways to make the two policies more effective.

Linkage as a Policy

Linkage was amended into Boston's Zoning Code in 1983 as a means of leveraging dollars from commercial real estate developers to produce affordable housing. Though much commercial development has occurred since then, the City neither has funds nor housing to show for it in terms of the policy. While at least two to three dozen DIP agreements have been signed by developers, only one dollar exists in the Neighborhood Trust Fund. In addition, no housing has been built.

Internal Power Struggles: Lack of Consensus

The City speaks of linkage as if it were a success. Although it may be a success in years to come, the internal conflicts that exist among various City agencies that influence development may hinder the successfulness of the program.

Both the BRA and PFD would like control over the linkage money. Each agency is responsible for orchestrating development in different segments of Boston. Each want a piece of the action. However, conversations with three BRA officials reveal that there is no consensus amongst top policy makers in the Flynn administration regarding the policy. One person stated that developers should not be allowed to exercise its linkage obligation through the housing creation option because the City loses its discretionary powers. Another housing expert at the BRA remarked that it does not matter what developers do as long as the BRA gets the money. The third person stated that the BRA would prefer developers to build as it is what they do the best. Units would be delivered to Boston residents faster than if the City were to administer the funds.

Disincentives

The housing creation option offers many possibilities to developers in terms of creative deal structuring. Developers can build alone, with a partner, designate a developer or pay the net present value of the linkage cash

stream upfront. However, after carefully outlining the political, managerial, and marketing issues surrounding each option, the options become less appealing.

If any developer chooses to build then the firm would need to locate a site, architect, and a construction team. Next, a developer would need to determine if the units would be for-sale or rental units. In both instances marketing and management strategies would need to be designed. Commercial developers faced with linkage requirements have neither the time nor the resources to undertake this endeavor.

If a developer chooses to build with a community developemnt corporation, then the firm needs to locate an appropriate partner. Joint venturing with another group would be the best alternative for a developer to choose yet finding a match that one could do business with as well as one that the City would approve is another question. Similarly, if a developer were to designate a CDC, the firm would once again need to put a lot of consideration into choosing the appropriate partner.

Lastly, a developer is given the opportunity to immediately pay the net present value of its cash stream discounted at a blended rate, to either the BRA or a designated developer . This option is unfeasible as most firms desperately need cash during the early years of the project.

Therefore, having revealed the process a developer has to undertake if the HCO option were chosen, it is no wonder that a developer would transfer money to the Fund. The management, marketing, and political issues that confront a developer choosing the HCO route are numerous and require time and much thought. A developer undertaking a major project does not have the time nor the resources to manage the additional development effort.

Loss of Discretionary Powers

The City is concerned with losing its discretionary powers. Does giving a developer the right to build affordable housing cause the city to lose its discretionary powers? If the City implemented the housing creation option effectively, there would be no concern over a loss of power. In fact, by having the developer build, there would be less internal pressure among the City agencies.

Inclusionary Housing as a Policy

The City's draft inclusionary housing policy has become the 'hot topic' of the Flynn administration. Although there is no legal basis from which this policy can be implemented, the Flynn administration has no qualms about requesting developers to abide by the policy.

The purpose of the policy is twofold. First, through inclusionary zoning below-market rate housing would be provided on sites that would otherwise not have included such units. Second, by producing mixed income housing, the

City is indirectly promoting the integration of the City's neighborhoods.

As the draft legislation reads, by cooperating with the City, developers should obtain density bonuses for the proposed projects. This is how the policy is being promoted yet it is not how the policy is being implemented.

Mariner was not given the opportunity to increase the number of condominiums to be built on the site if it obliged with the City's inclusionary request. The firm was also not given bonus space for any of the other uses. In fact, Mariner had to reduce its FAR from 4.68 to 4.26, a loss of 150,000 commercial square feet.

Private versus Public Land

Developers using private land are required to set aside 10% of the total residential units for low to moderate income households. Also, developers using public land are asked to set aside 35% of the total residential units for below-market rate housing. Therefore, the burden is felt by all residential developers.

There is however a major difference between the two types of landowners. First, when the City transfers land in residential sections of Boston to a developer, it is often for the sole purpose of producing affordable housing. The land is typically awarded to a developer for \$1. Following the dedication of the land, the developer is processed through the approvals process at a fast pace. For instance,

when PFD awarded the Bricklayers a site in South Boston for \$1, the Bricklayers received its building permit in less than three months. The fact that approvals were obtained quickly was one reason why the housing could be built at such a low cost. The carrying costs associated with the preliminary phases of a development project can literally cripple a project.

The Pier 4 site is valued at \$2 million dollars an acre. Total land costs equal \$16 million. Because of the complexity of the project, and the potential impacts the project can have on the environment and infrastructure, Mariner must go through a long approvals process. While this process is needed for the public good, there is a premium to be paid for approval delays and that price is borne by the developer. For Mariner, these costs will exceed \$5 million before construction begins.

The City should not overlook the fact that specific aspects of Mariner's project are very expensive - in particular, the construction and soft costs associated with the geotechnical difficulties of the land. Therefore, the more risks associated with a site the higher the financial burden will be on a developer. In the past the City has assisted waterfront developers in keeping the development costs low through either land writedowns or tax abatements. Pier 4 will be 100% privately financed.

Who will Purchase the Units?

Assuming that the below market rate units are built onsite how likely is it that South Boston residents will be able to afford the prices? In the housing affordability analysis, it was revealed that a unit could be sold for \$120,000 and still be affordable to a household of 5 earning 120% of the area's median income.

Although selling the units at this price would have little impact on the financial gap created by the units, Mariner would sell the units at the highest maximum price allowed by the housing guidelines. Given this fact, a South Boston resident, with a median income of \$13,000 would not be able to purchase a unit on the Pier 4 site. A South Boston resident would be required to have an income at least three times as much as the average South Boston resident presently earns.

In sum, if the City's goal is to maximize the number of units for low to moderate income households, the city is not achieving this goal by requiring Mariner to build on site. The opportunity cost of building units elsewhere reveals this fact.

Low income housing is what the City should be striving to produce. It is not difficult to produce a unit at \$70,000 - but to get the price down to a level where it is affordable to a household earning 50% of the median income

is a goal worth pursuing. Therefore, the city should evaluate the appropriateness of the requirement on a project by project basis.

The Impact of Both Requirements on the Pier 4 Project

The City should reconsider the two policies in light of mixed use developments projects. Mariner is being financially penalized by the two policies. For example, the total square footage of International Place is approximately 1.7 million. The developer's linkage requirement is approximately \$6 million. Mariner's project is also 1.7 million square and the linkage payment is close to \$6 million. However, because of the residential portion of the project, Mariner must also respond to the inclusionary requirement.

While the two policies alone are justifiable, together the impact is extraordinarily severe. If Mariner's project is threatened to the point where it will not take place, then the City will not receive any housing or cash equivalent. It is ironic that while the City is promoting commercial developers to build residential units on site, it is also requiring developers to address two housing policies that could potentially damage the economics of the projects. Based upon these conclusions the City should reconsider the financial burden it is imposing upon Mariner as well as all developers undertaking mixed-use development.

Recommendations for Linkage

1) Development Partner Matching Service

Upon entering a DIP agreement with the City, the developer in question should be given the following information: a list of city-owned parcels in the "impacted" area, a list of housing groups, and a list of projects in the pipeline that need financial assistance. The BRA and PFD have this information at their fingertips. Both agencies should use available resources to its benefit.

2) Translate Dollars into Units

Boston's linkage program was modeled after San Francisco's Office Affordable Housing Production program (OAHPP). Except for the general concept of linkage the two programs have little in common. To begin with, the program, which has been operating for five years, has leveraged \$28 million to produce approximately 5000 units. Mayor Flynn claims that the \$35 million dollars earmarked will only be able to produce 500 units.

The major difference between the two programs is that in San Francisco, when a developer enters into a linkage agreement, the development firm is told the number of units it must build. If the developer chooses not to build, then the units are translated into a dollar equivalent.

In Boston, it is the other way around. The developer is told how much money is owed to the City. The developer must then figure out the number of units to produce. If a

developer were told how many units he or she should build rather than given a sum of money to be paid to the City, housing would be produced sooner, and more efficiently.

The OAHPP program is set up so that the City will receive either the housing or the cash equivalent when the builder receives a final certificate of occupancy. San Francisco incorporated this method as a safety valve to protect itself against projects failing.

In San Francisco, if a project were foreclosed five or six years into operations, the City would have already received its money or housing equivalent. Also, in present value terms, the money is worth more than it would be five years down the line. However, as it is set up in Boston, a developer pays the City over a 12 or 7 year period, depending upon when the DIP agreement was signed.

Recommendations for Inclusionary Zoning

1) Suspend Either Linkage of Inclusionary Zoning for Mixed-Use Projects.

Developers undertaking mixed-use projects should not be required to respond to both linkage and inclusionary zoning. Similar to San Francisco, the City should indicate to the developer how many units should be produced as a result of the mixed-use project. The developer should then be given the option to either build those units on site, (and if so obtain density bonuses), transfer a cash

equivalent to the neighborhood trust fund, or build the units off site.

2) Have the City Purchase Units from Developer at Cost and Sell to Low to Moderate income Households

Inclusionary housing requirements should be based upon the costs of individual development projects. The City should determine a cut-off point when it becomes financially infeasible to build affordable units on site.

One suggestion which could determine whether or not units should be built on or off site is to have the city buy the units at cost. The City could then sell the units to first time homebuyers eligible for MHFA financing. If the mortgage amount of the unit is still too high for the household to pay, (based upon MHFA income standards), then the City should kick in the additional linkage funds to lower the housing costs. If the City finds that a unit is too expensive for it to carry, even at cost and with linkage money, then the developer of that project should be allowed to develop the units off site.

3) Create an Incentive System

Incentives should be offered to developers for building affordable units. Density bonuses could be awarded, as well as tax abatements until a project has been in full operation for one year.

CONCLUSION

Originally, when linkage was introduced by the former Mayor White as a policy, Boston's economy was strong. Developers were willing to pay the additional money for the ability to build in the City. Although some developers opposed the policy, the linkage exaction did not threaten the viability of development projects.

First, The office market was strong -- the risks were minimal. And second, in terms of Boston's building boom, linkage was not introduced at a time when the developers participating in the boom would have been affected. Most of the projects in the pipeline did not fall victim of the policy. Either permits had already been obtained (or soon to be) by developers or construction for various projects were well underway.

Now, as development is slowing down and the possibilities of the office market contracting, the policies could serve as deterrents for development. While individually linkage and inclusionary housing may be financially tolerable, together, the two policies are inappropriate. If the City is trying to encourage mixed-use development, yet pressures developers to address both linkage and inclusionary housing policies -- especially during a period when the market is questionable, the City risks losing a substantial amount of economic benefits.

The guidelines and implementation processes of the policies need to be reconsidered in lieu of market conditions, the financial impact on development projects, and the maximization of affordable housing for Boston residents. The City can utilize the private development sector by offering it incentives to build affordable housing rather than presenting developers with the disincentives mentioned throughout this paper.

In sum, the impacts of inclusionary zoning and linkage extend far beyond a developer's purse. The manner in which the City designs, implements and enforces both policies will ultimately effect not only the developer but more importantly, those people in which the programs are intended to serve -- low to moderate income households.

COST BREAKDOWN FOR RENTAL PROPERTY

(The unit costs are identical for all the rental projects)			Assumptions	
# of units (NU)	13		Land	1
Gross Living Space (GLA)	950 per unit psf		Int. Rate	0.105
Parking Area (PA)	325 per space psf		Term	30
Efficiency Factor (EFF)	0.85		Vacancy	0.05
Net Living Area (NLA)	807.5		Opex	0.25 of EGI
			Soft Costs	0.3 of HC
			DCR	1.1
ACQUISITION COSTS			\$1	
HARD COSTS				
Building (BC)	\$60 psf	\$741,000		
Parking (PC)	\$10 psf	\$42,250		
Total Hard Cost (HC)		\$783,251		
SOFT COSTS				
30% of HC		\$234,975		
TOTAL DEVELOPMENT COSTS (TDC)		\$1,018,226		
Development Costs per Unit		\$78,325		

INCOME MIX 1
HOUSING OPERATING PROFORMA

Number of Units	12	Financing	
1 BR	6	TDC	\$986,701
2 BR	6	Loan:Value	54%
Rent/Unit		Loan Amount	\$528,121
1 BR Per Month	\$544	Interest	10.5%
2 BR Per Month	\$608	Term	30
Parking Per Month	\$25	Debt Svc	\$58,372
Gross Living Space (SF)		Equity Needed	\$458,481
Parking Area (SF)	325	DCR	1.1
Net Living Area (SF)			
Vacancy	5%		
Operating Expenses (% of EGI)	25%		
=====			
OPERATING PROFORMA			
=====			
Potential Gross Revenue			\$91,728
1 BR	\$39,168		
2 BR	\$48,960		
Parking	\$3,600		
Vacancy Allowance			(\$4,586)
Effective Gross Income			\$87,142
Operating Expenses			(\$21,785)
Net Operating Income			\$65,356
Return on Asset (NOI/TDC)			6.6%
=====			

OPERATING PRO FORMA: INCOME MIX 1

Rental Income	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10	Year 11	
One Bedroom	\$39,168	\$41,126	\$43,183	\$45,342	\$47,609	\$49,989	\$52,489	\$55,113	\$57,869	\$60,762	\$63,801	
Two Bedroom	\$57,120	\$59,976	\$62,975	\$66,124	\$69,430	\$72,901	\$76,546	\$80,374	\$84,392	\$88,612	\$93,042	
Parking	\$3,900	\$4,095	\$4,300	\$4,515	\$4,740	\$4,977	\$5,226	\$5,488	\$5,762	\$6,050	\$6,353	
Potential Gross Income	\$100,188	\$105,197	\$110,457	\$115,980	\$121,779	\$127,868	\$134,262	\$140,975	\$148,023	\$155,424	\$163,196	\$1,018,226
5% Vacancy	(\$5,009)	(\$5,260)	(\$5,523)	(\$5,799)	(\$6,089)	(\$6,393)	(\$6,713)	(\$7,049)	(\$7,401)	(\$7,771)	(\$8,160)	
Effective Gross Income	\$95,179	\$99,938	\$104,934	\$110,181	\$115,690	\$121,475	\$127,548	\$133,926	\$140,622	\$147,653	\$155,036	
Operating Expenses	(\$25,047)	(\$26,299)	(\$27,614)	(\$28,995)	(\$30,445)	(\$31,967)	(\$33,565)	(\$35,244)	(\$37,006)	(\$38,856)	(\$40,799)	Gain on Sale
Net Operating Income	\$70,132	\$73,638	\$77,320	\$81,186	\$85,245	\$89,508	\$93,983	\$98,682	\$103,616	\$108,797	\$114,237	Sales proceeds \$1,142,370
Debt Service	(\$64,700)	(\$64,700)	(\$64,700)	(\$64,700)	(\$64,700)	(\$64,700)	(\$64,700)	(\$64,700)	(\$64,700)	(\$64,700)	(\$64,700)	-Net Gain on Sale (\$704,926)
Plus Sales Proceeds											\$531,123	Gain on Sale \$437,444
Less Debt Repayment											(\$523,758)	Cap. Gain Tax Rate 0.2
Before Tax Cash Flow	\$5,431	\$8,938	\$12,620	\$16,486	\$20,545	\$24,807	\$29,283	\$33,982	\$38,916	\$44,097	\$56,902	Capital Gain \$87,489
-Depreciation	(\$33,941)	(\$33,941)	(\$33,941)	(\$33,941)	(\$33,941)	(\$33,941)	(\$33,941)	(\$33,941)	(\$33,941)	(\$33,941)	(\$33,941)	Sales Price \$1,142,370
+Amortization	\$3,236	\$3,576	\$3,951	\$4,366	\$4,825	\$5,331	\$5,891	\$6,510	\$7,193	\$7,949	\$8,783	-Income Tax (\$87,489)
Taxable Income	(\$25,273)	(\$21,427)	(\$17,369)	(\$13,089)	(\$8,571)	(\$3,802)	\$1,233	\$6,551	\$12,169	\$18,105	\$31,745	-Mtg. Balance (\$523,758)
Tax (Liability)Benefit	\$12,637	\$10,713	\$8,685	\$6,544	\$4,285	\$1,901	(\$617)	(\$3,276)	(\$6,084)	(\$9,052)	(\$15,872)	Net Cash from Sale \$531,123
After Tax Cash Flow	(\$432,855)	\$18,068	\$19,651	\$21,305	\$23,030	\$24,831	\$26,708	\$28,666	\$30,707	\$32,832	\$35,045	\$41,030
After Tax Return Equity On Investment	\$432,855	4.17%	4.54%	4.92%	5.32%	5.74%	6.17%	6.62%	7.09%	7.58%	8.10%	9.48%
Net Present Value	(\$267,107)											
IRR	0.22%											

INCOME MIX 2
HOUSING OPERATING PROFORMA

Number of Units	21	Financing	
1 BR @ 80% of Median Income	2	TDC	\$1,726,726
2 BR @ 80% of Median Income	3	Loan:Value	73%
1 BR @ 120% of Median Income	4	Loan Amount	\$1,268,001
2 BR @ 120% of Median Income	12	Interest	10.5%
		Term	30
		Debt Svc	\$140,150
		Equity Needed	\$458,481
		DCR	1.1
Rent/Unit			
1 BR Per Month	80%	\$544	
2 BR Per Month	80%	\$608	
1 BR Per Month	120%	\$807	
2 BR Per Month	120%	\$956	
Parking Per Month		\$25	
Gross Living Space (SF)		1000	
Parking Area (SF)		325	
Net Living Area (SF)		850	
Vacancy		5%	
Operating Expenses (% of EGI)		25%	
=====			
OPERATING PROFORMA			
=====			
Potential Gross Revenue			\$217,536
1 BR		\$13,056	
2 BR		\$24,480	
1 BR		\$38,736	
2 BR		\$137,664	
Parking		\$3,600	
Vacancy Allowance			(\$10,877)
Effective Gross Income			\$206,659
Operating Expenses			(\$51,665)
Net Operating Income			\$154,994
Return on Asset (NOI/TDC)			9.0%

OPERATING PROFORMA: INCOME MIX 2

Rental Income	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10	Year 11
One Bedroom	\$19,584	\$20,563	\$21,541	\$22,671	\$23,804	\$24,995	\$26,244	\$27,557	\$28,934	\$30,381	\$31,900
Two Bedroom	\$32,640	\$34,272	\$35,986	\$37,785	\$39,674	\$41,658	\$43,741	\$45,928	\$48,224	\$50,635	\$53,167
One Bedroom (MHFA)	\$48,420	\$50,841	\$53,383	\$56,052	\$58,855	\$61,798	\$64,887	\$68,132	\$71,538	\$75,115	\$78,871
Two Bedroom (MHFA)	\$137,664	\$144,547	\$151,775	\$159,363	\$167,331	\$175,698	\$184,483	\$193,707	\$203,392	\$213,562	\$224,240
Parking	\$7,200	\$7,560	\$7,938	\$8,335	\$8,752	\$9,189	\$9,649	\$10,131	\$10,638	\$11,170	\$11,728
Potential Gross Income	\$245,508	\$257,783	\$270,673	\$284,206	\$298,417	\$313,337	\$329,004	\$345,454	\$362,727	\$380,863	\$399,907
5% Vacancy	(\$12,275)	(\$12,889)	(\$13,534)	(\$14,210)	(\$14,921)	(\$15,667)	(\$16,450)	(\$17,273)	(\$18,136)	(\$19,043)	(\$19,995)
Effective Gross Income	\$233,233	\$244,894	\$257,139	\$269,996	\$283,496	\$297,670	\$312,554	\$328,182	\$344,591	\$361,820	\$379,911
Operating Expense	(\$58,308)	(\$61,224)	(\$64,285)	(\$67,499)	(\$70,874)	(\$74,418)	(\$78,138)	(\$82,045)	(\$86,148)	(\$90,455)	(\$94,978)
Net Operating Income	\$174,924	\$183,671	\$192,854	\$202,497	\$212,622	\$223,253	\$234,415	\$246,136	\$258,443	\$271,365	\$284,933
Debt Service	(\$159,022)	(\$159,022)	(\$159,022)	(\$159,022)	(\$159,022)	(\$159,022)	(\$159,022)	(\$159,022)	(\$159,022)	(\$159,022)	(\$159,022)
Plus Sales Proceeds											\$1,493,439
Less Mtg. Payback											(\$1,287,309)
Before Tax Cash Flow	\$15,902	\$24,648	\$33,832	\$43,475	\$53,600	\$64,231	\$75,393	\$87,114	\$99,421	\$112,343	\$332,041
- Depreciation	(\$62,660)	(\$62,660)	(\$62,660)	(\$62,660)	(\$62,660)	(\$62,660)	(\$62,660)	(\$62,660)	(\$62,660)	(\$62,660)	(\$62,660)
+ Amortization	\$7,954	\$8,789	\$9,712	\$10,732	\$11,859	\$13,104	\$14,480	\$16,000	\$17,680	\$19,537	\$21,588
Taxable Income	(\$38,804)	(\$29,222)	(\$19,116)	(\$8,453)	\$2,798	\$14,674	\$27,213	\$40,454	\$54,441	\$69,220	\$290,969
Tax (Liability)Benefit	\$19,402	\$14,611	\$9,558	\$4,227	(\$1,399)	(\$7,337)	(\$13,607)	(\$20,227)	(\$27,221)	(\$34,610)	(\$145,484)
After Tax Cash Flow (\$441,057)	\$35,304	\$39,260	\$43,390	\$47,701	\$52,200	\$56,893	\$61,787	\$66,887	\$72,200	\$77,733	\$186,556
After Tax Return On Investment	8.00%	8.90%	9.84%	10.82%	11.84%	12.90%	14.01%	15.17%	16.37%	17.62%	42.30%
Net Present Value (\$57,923)											
IRR											7.64%

Gain on Sale	
Sale Proceeds	\$2,849,335
-Net Gain on Sale	(\$2,506,402)
Gain on Sale	\$342,933
Cap.Gain Tax Rate	0.2
Cap Gain	\$68,587
Sales Price	\$2,849,335
-Income Tax	(\$68,587)
-Mtg.Balance	(\$1,287,309)
Net Cash from Sale	\$1,493,439

INCOME MIX THREE
HOUSING OPERATING PROFORMA

Number of Units		21	Financing	
1 BR @ 80% of Median Income		5	TDC	\$1,726,726
2 BR @ 80% of Median Income		5	Loan:Value	75%
1 BR @ 120% of Median Income		1	Loan Amount	\$1,303,305
2 BR @ 120% of Median Income		2	Interest	10.5%
1 BR MKT Rate		3	Term	30
2 BR MKT Rate		5	Debt Svc	\$144,052
Rent/Unit			Equity Needed	\$423,421
1 BR Per Month	80%	\$544	OCR	1.1
2 BR Per Month	80%	\$608		
1 BR Per Month	120%	\$807		
2 BR Per Month	120%	\$956		
1 BR Per Month	MKT	\$1,000		
2 BR Per Month	MKT	\$1,300		
Parking Per Month		\$25		
Gross Living Space (SF)		1000		
Parking Area (SF)		325		
Net Living Area (SF)		850		
Vacancy		5%		
Operating Expenses (% of EGI)		25%		
=====				
OPERATING PROFORMA				
=====				
Potential Gross Revenue				\$226,348
1 BR		\$32,640		
2 BR		\$40,800		
1 BR		\$9,684		
2 BR		\$22,924		
1 BR Mkt rate		\$36,000		
2 BR Mkt rate		\$78,000		
Parking		\$6,300		
Vacancy Allowance				(\$11,317)
Effective Gross Income				\$215,031
Operating Expenses				(\$53,758)
Net Operating Income				\$161,273
Return on Asset (NOI/TDC)				9.3%

OPERATING PRO FORMA: INCOME MIX 3

Rental Income	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10	Year 11	
One BR (BMR)	\$39,168	\$41,126	\$43,183	\$45,342	\$47,609	\$49,989	\$52,489	\$55,113	\$57,869	\$60,762	\$63,801	
Two BR (BMR)	\$57,120	\$59,976	\$62,975	\$66,124	\$69,430	\$72,901	\$76,546	\$80,374	\$84,392	\$88,612	\$93,042	
One BR (MHFA)	\$19,368	\$20,336	\$21,353	\$22,421	\$23,542	\$24,719	\$25,955	\$27,253	\$28,615	\$30,046	\$31,548	
Two BR (MHFA)	\$22,944	\$24,091	\$25,296	\$26,561	\$27,889	\$29,283	\$30,747	\$32,285	\$33,899	\$35,594	\$37,373	
One BR (MKT)	\$48,000	\$50,400	\$52,920	\$55,566	\$58,344	\$61,262	\$64,325	\$67,541	\$70,918	\$74,464	\$78,187	
Two BR (MKT)	\$78,000	\$81,900	\$85,995	\$90,295	\$94,809	\$99,550	\$104,527	\$109,754	\$115,242	\$121,004	\$127,054	
Parking	\$7,800	\$8,190	\$8,600	\$9,029	\$9,481	\$9,955	\$10,453	\$10,975	\$11,524	\$12,100	\$12,705	
Potential Gross Income	\$272,400	\$286,020	\$300,321	\$315,337	\$331,104	\$347,659	\$365,042	\$383,294	\$402,459	\$422,582	\$443,711	
5% Vacancy Factor	(\$13,620)	(\$14,301)	(\$15,016)	(\$15,767)	(\$16,555)	(\$17,383)	(\$18,252)	(\$19,165)	(\$20,123)	(\$21,129)	(\$22,186)	
Effective Gross Income	\$258,780	\$271,719	\$285,305	\$299,570	\$314,549	\$330,276	\$346,790	\$364,129	\$382,336	\$401,453	\$421,525	
Operating Expenses	(\$64,695)	(\$67,930)	(\$71,326)	(\$74,893)	(\$78,637)	(\$82,569)	(\$86,697)	(\$91,032)	(\$95,584)	(\$100,363)	(\$105,381)	
Net Operating Income	\$194,085	\$203,789	\$213,979	\$224,678	\$235,912	\$247,707	\$260,092	\$273,097	\$286,752	\$301,090	\$316,144	
Debt Service	(\$176,441)	(\$176,441)	(\$176,441)	(\$176,441)	(\$176,441)	(\$176,441)	(\$176,441)	(\$176,441)	(\$176,441)	(\$176,441)	(\$176,441)	Gain on Sale
Plus Sale Proceeds											\$1,657,466	Sales Price
Less Debt Repayment											(\$1,428,316)	-Net Gain
												Gain on Sale
												\$378,290
Before Tax Cash Flow	\$17,644	\$27,348	\$37,538	\$48,237	\$59,471	\$71,266	\$83,652	\$96,656	\$110,311	\$124,649	\$368,852	Cap.Gain Tax Rate
-Depreciation	(\$67,882)	(\$67,882)	(\$67,882)	(\$67,882)	(\$67,882)	(\$67,882)	(\$67,882)	(\$67,882)	(\$67,882)	(\$67,882)	(\$67,882)	Capital Gain
+Amortization	\$8,825	\$9,752	\$10,776	\$11,907	\$13,158	\$14,539	\$16,066	\$17,753	\$19,617	\$21,677	\$23,953	
Taxable Income	(\$41,412)	(\$30,781)	(\$19,568)	(\$7,738)	\$4,747	\$17,924	\$31,836	\$46,527	\$62,046	\$78,444	\$324,923	Sale Price
Tax (Liability) Benefit	\$20,706	\$15,391	\$9,784	\$3,869	(\$2,373)	(\$8,962)	(\$15,918)	(\$23,264)	(\$31,023)	(\$39,222)	(\$162,462)	-Income Tax
After Tax Cash (\$440,112)	\$38,350	\$42,739	\$47,322	\$52,106	\$57,097	\$62,304	\$67,734	\$73,393	\$79,288	\$85,427	\$206,391	-Mtg Balance
												Net Cash from Sale
												\$1,657,466
After Tax Return On Investment	8.71%	9.71%	10.75%	11.84%	12.97%	14.16%	15.39%	16.68%	18.02%	19.41%	46.90%	
Net Present Value	(\$20,266)											
IRR	9.20%											

INCOME MIX FOUR
HOUSING OPERATING PROFORMA

Number of Units	12	Financing	
1 BR @ 50%	6	TDC	\$1,041,951
2 BR @ 50%	6	Loan:Value	57%
1 BR @ 80%		Loan Amount	\$591,982
2 BR @ 80%		Interest	10.5%
Rent/Unit		Term	30
1 BR Per Month @ 50%	\$425	Debt Svc	\$58,372
2 BR Per Month @ 50%	\$549	Equity Needed	\$449,970
1 BR Per Month @ 80%	\$544	DCR	1.1
2 BR Per Month @ 80%	\$680		
Parking Per Month	\$25		
Gross Living Space (SF)	900		
Parking Area (SF)	325		
Net Living Area (SF)	765		
Vacancy	5%		
Operating Expenses (% of EGI)	25%		
=====			
OPERATING PROFORMA			
=====			
Potential Gross Revenue			\$101,016
1 BR @ 50%	\$10,200		
2 BR @ 50%	\$13,176		
1 BR @ 80%	\$32,640		
2 BR @ 80%	\$40,800		
Parking	\$4,200		
Vacancy Allowance			(\$5,051)
Effective Gross Income			\$95,965
Operating Expenses			(\$23,991)
Net Operating Income			\$71,974
Return on Asset (NOI/TDC)			6.9%

OPERATING PRO FORMA:
INCOME MIX 4

Assumes Tax Credits for Below Mkt. Rate Units.

Rental Income	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10	Year 11	
One Bedroom LOW	\$10,200	\$10,710	\$11,246	\$11,808	\$12,398	\$13,018	\$13,669	\$14,352	\$15,070	\$15,824	\$16,615	
Two Bedroom LOW	\$13,176	\$13,835	\$14,527	\$15,253	\$16,016	\$16,816	\$17,657	\$18,540	\$19,467	\$20,440	\$21,462	
One Bedroom MOD	\$32,640	\$34,272	\$35,986	\$37,785	\$39,674	\$41,658	\$43,741	\$45,928	\$48,224	\$50,635	\$53,167	
Two Bedroom MOD	\$40,800	\$42,840	\$44,982	\$47,231	\$49,593	\$52,072	\$54,676	\$57,410	\$60,280	\$63,294	\$66,459	
Parking	\$4,200	\$4,410	\$4,631	\$4,862	\$5,105	\$5,360	\$5,628	\$5,910	\$6,205	\$6,516	\$6,841	
Potential Gross Income	\$101,016	\$106,067	\$111,370	\$116,939	\$122,786	\$128,925	\$135,371	\$142,140	\$149,247	\$156,709	\$164,544	\$1,041,951
5% Vacancy	(\$5,051)	(\$5,303)	(\$5,569)	(\$5,847)	(\$6,139)	(\$6,446)	(\$6,769)	(\$7,107)	(\$7,462)	(\$7,835)	(\$8,227)	
Effective Gross Income	\$95,965	\$100,763	\$105,802	\$111,092	\$116,646	\$122,479	\$128,603	\$135,033	\$141,784	\$148,874	\$156,317	
Operating Expenses	(\$25,254)	(\$26,517)	(\$27,843)	(\$29,235)	(\$30,696)	(\$32,231)	(\$33,843)	(\$35,535)	(\$37,312)	(\$39,177)	(\$41,136)	Gain on Sale
Net Operating Income	\$70,711	\$74,247	\$77,959	\$81,857	\$85,950	\$90,247	\$94,760	\$99,498	\$104,473	\$109,696	\$115,181	Sales proceeds \$1,151,811
Debt Service	(\$65,431)	(\$65,431)	(\$65,431)	(\$65,431)	(\$65,431)	(\$65,431)	(\$65,431)	(\$65,431)	(\$65,431)	(\$65,431)	(\$65,431)	-Net Gain on Sale (\$728,651)
Plus Sales Proceeds											\$474,032	Gain on Sale \$423,160
Less Debt Repayment											(\$529,673)	Cap. Gain Tax Rate 0.35
Before Tax Cash Flow	\$5,280	\$8,816	\$12,528	\$16,426	\$20,519	\$24,817	\$29,329	\$34,067	\$39,042	\$44,265	(\$5,890)	Capital Gain \$148,106
-Depreciation	(\$34,732)	(\$34,732)	(\$34,732)	(\$34,732)	(\$34,732)	(\$34,732)	(\$34,732)	(\$34,732)	(\$34,732)	(\$34,732)	(\$34,732)	Sales Price \$1,151,811
+Amortization	\$3,273	\$3,616	\$3,996	\$4,416	\$4,879	\$5,392	\$5,958	\$6,583	\$7,275	\$8,038	\$8,883	-Income Tax (\$148,106)
Taxable Income	(\$26,179)	(\$22,299)	(\$18,207)	(\$13,890)	(\$9,333)	(\$4,523)	\$555	\$5,919	\$11,585	\$17,572	(\$31,739)	-Mtg. Balance (\$529,673)
Tax (Liability)Benefit	\$13,089	\$11,150	\$9,104	\$6,945	\$4,667	\$2,262	(\$278)	(\$2,959)	(\$5,792)	(\$8,786)	\$15,869	Net Cash from Sale \$474,032
Credit	\$53,586	\$53,586	\$53,586	\$53,586	\$53,586	\$53,586	\$53,586	\$53,586	\$53,586	\$53,586	\$53,586	
After Tax Cash Flow	(\$449,970)	\$71,956	\$73,552	\$75,218	\$76,957	\$78,772	\$80,664	\$82,637	\$84,694	\$86,836	\$89,065	\$9,980
After Tax Return On Investment	\$449,970	15.99%	16.35%	16.72%	17.10%	17.51%	17.93%	18.37%	18.82%	19.30%	19.79%	2.22%
Net Present Value @ 10%	\$36,330											
IRR	11.50%											

INCOME MIX 5
HOUSING OPERATING PROFORMA

Number of Units		19	Financing
1 BR @ 50% of Median Income		2	TDC
2 BR @ 50% of Median Income		3	\$1,414,076
1 BR @ 80% of Median Income		2	Loan:Value
2 BR @ 80% of Median Income		3	69%
1 BR @ 120%		4	Loan Amount
2 BR @ 120%		5	\$980,729
Rent/Unit			Interest
1 BR Per Month	50%		10.5%
2 BR Per Month	50%		Term
1 BR Per Month	80%		30
2 BR Per Month	80%		Debt Svc
1 BR Per Month	120%		\$108,398
2 BR Per Month	120%		Equity Needed
Parking Per Month			\$433,348
Gross Living Space (SF)		900	DCR
Parking Area (SF)		325	1.1
Net Living Area (SF)		765	
Vacancy		5%	
Operating Expenses (% of EGI)		25%	
=====			
OPERATING PROFORMA			
=====			
Potential Gross Revenue			\$167,352
1 BR @ 50%		\$10,200	
2 BR @ 50%		\$17,820	
1 BR @ 80%		\$13,056	
2 BR @ 80%		\$24,480	
1 BR @ 120%		\$38,736	
2 BR @ 120%		\$57,360	
Parking		\$5,700	
Vacancy Allowance			(\$8,368)
Effective Gross Income			\$158,984
Operating Expenses			(\$39,746)
Net Operating Income			\$119,238
Return on Asset (NOI/TDC)			8.4%

OPERATING PROFORMA: INCOME MIX 5

Rental Income	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10	Year 11
One Bedroom (low)	\$10,200	\$10,710	\$11,246	\$11,808	\$12,398	\$13,018	\$13,669	\$14,352	\$15,070	\$15,824	\$16,615
Two Bedroom (low)	\$17,820	\$18,711	\$19,647	\$20,629	\$21,660	\$22,743	\$23,881	\$25,075	\$26,328	\$27,645	\$29,027
One Bedroom (mod)	\$13,056	\$13,709	\$14,394	\$15,114	\$15,870	\$16,663	\$17,496	\$18,371	\$19,290	\$20,254	\$21,267
Two Bedroom (mod)	\$24,480	\$25,704	\$26,989	\$28,339	\$29,756	\$31,243	\$32,806	\$34,446	\$36,168	\$37,977	\$39,875
One Bedroom (MHFA)	\$38,736	\$40,673	\$42,706	\$44,842	\$47,084	\$49,438	\$51,910	\$54,505	\$57,231	\$60,092	\$63,097
Two Bedroom (MHFA)	\$57,360	\$60,228	\$63,239	\$66,401	\$69,721	\$73,208	\$76,868	\$80,711	\$84,747	\$88,984	\$93,433
Parking	\$5,700	\$5,985	\$6,284	\$6,598	\$6,928	\$7,275	\$7,639	\$8,020	\$8,421	\$8,843	\$9,285
Potential Gross Income	\$167,352	\$175,720	\$184,506	\$193,731	\$203,417	\$213,588	\$224,268	\$235,481	\$247,255	\$259,618	\$272,599
5% Vacancy	(\$8,368)	(\$8,786)	(\$9,225)	(\$9,687)	(\$10,171)	(\$10,679)	(\$11,213)	(\$11,774)	(\$12,363)	(\$12,981)	(\$13,630)
Effective Gross Income	\$158,984	\$166,934	\$175,280	\$184,044	\$193,247	\$202,909	\$213,054	\$223,707	\$234,892	\$246,637	\$258,969
Operating Expense	(\$39,746)	(\$41,733)	(\$43,820)	(\$46,011)	(\$48,312)	(\$50,727)	(\$53,264)	(\$55,927)	(\$58,723)	(\$61,659)	(\$64,742)
Net Operating Income	\$119,238	\$125,200	\$131,460	\$138,033	\$144,935	\$152,182	\$159,791	\$167,780	\$176,169	\$184,978	\$194,227
Debt Service	(\$108,398)	(\$108,398)	(\$108,398)	(\$108,398)	(\$108,398)	(\$108,398)	(\$108,398)	(\$108,398)	(\$108,398)	(\$108,398)	(\$108,398)
Plus Sales Proceeds											\$1,062,825
Less Mtg. Payback											(\$877,502)
Before Tax Cash Flow	\$10,840	\$16,802	\$23,062	\$29,635	\$36,536	\$43,783	\$51,392	\$59,382	\$67,771	\$76,579	\$271,151
- Depreciation	(\$47,136)	(\$47,136)	(\$47,136)	(\$47,136)	(\$47,136)	(\$47,136)	(\$47,136)	(\$47,136)	(\$47,136)	(\$47,136)	(\$47,136)
+ Amortization	\$5,422	\$5,991	\$6,620	\$7,315	\$8,084	\$8,932	\$9,870	\$10,907	\$12,052	\$13,317	\$14,716
Taxable Income	(\$30,874)	(\$24,343)	(\$17,454)	(\$10,186)	(\$2,516)	\$5,580	\$14,127	\$23,153	\$32,687	\$42,761	\$238,731
Tax (Liability)Benefit	\$15,437	\$12,171	\$8,727	\$5,093	\$1,258	(\$2,790)	(\$7,063)	(\$11,576)	(\$16,343)	(\$21,380)	(\$119,365)
Credit	\$44,655	\$44,655	\$44,655	\$44,655	\$44,655	\$44,655	\$44,655	\$44,655	\$44,655	\$44,655	\$44,655
After Tax Cash Flow	(\$433,348)	\$70,932	\$73,628	\$76,444	\$79,383	\$82,449	\$85,648	\$88,984	\$92,461	\$96,082	\$99,854
After Tax Return On Investment	16.37%	16.99%	17.64%	18.32%	19.03%	19.76%	20.53%	21.34%	22.17%	23.04%	35.03%
Net Present Value	\$124,422										
IRR	15.31%										

Gain on Sale	
Sale Proceeds	\$1,942,266
-Adjusted Basis	(\$1,932,571)
Gain on Sale	\$9,695
Cap.Gain Tax Rate	0.2
Cap Gain	\$1,939
Sales Price	\$1,942,266
-Income Tax	(\$1,939)
-Mtg. Balance	(\$877,502)
Net Cash from Sale	\$1,062,825

INCOME MIX 6
HOUSING OPERATING PROFORMA

Number of Units		26	
1 BR @ 50% of Median Income		3	Financing
2 BR @ 50% of Median Income		3	TDC
1 BR @ 80% of Median Income		5	\$1,414,076
2 BR @ 80% of Median Income		5	Loan:Value
1 BR @ Market		5	69%
2 BR @ Market		5	Loan Amount
			\$980,729
Rent/Unit			Interest
1 BR Per Month	50%	\$425	10.5%
2 BR Per Month	50%	\$495	Term
1 BR Per Month	80%	\$544	30
2 BR Per Month	80%	\$680	Debt Svc
1 BR Per Month	MKT	\$1,000	\$108,398
2 BR Per Month	MKT	\$1,300	Equity Needed
Parking Per Month		\$25	\$433,348
Gross Living Space (SF)		900	DCR
Parking Area (SF)		325	1.1
Net Living Area (SF)		765	
Vacancy		5%	
Operating Expenses (% of EGI)		25%	
=====			
OPERATING PROFORMA			
=====			
Potential Gross Revenue			\$252,360
1 BR @ 50%		\$15,300	
2 BR @ 50%		\$17,820	
1 BR @ 80%		\$32,640	
2 BR @ 80%		\$40,800	
1 BR @ MKT		\$60,000	
2 BR @ MKT		\$78,000	
Parking		\$7,800	
Vacancy Allowance			(\$12,618)
Effective Gross Income			\$239,742
Operating Expenses			(\$59,936)
Net Operating Income			\$179,807
Return on Asset (NOI/TDC)			12.7%

OPERATING PROFORMA: Income Mix 6

Rental Income	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10	Year 11	
One BR (BMR)	\$32,640	\$34,272	\$35,986	\$37,785	\$39,674	\$41,658	\$43,741	\$45,928	\$48,224	\$50,635	\$53,167	
Two BR (BMR)	\$40,800	\$42,840	\$44,982	\$47,231	\$49,593	\$52,072	\$54,676	\$57,410	\$60,280	\$63,294	\$66,459	
One BR (MHFA)	\$15,300	\$16,065	\$16,868	\$17,712	\$18,597	\$19,527	\$20,503	\$21,529	\$22,605	\$23,735	\$24,922	
Two BR (MHFA)	\$17,820	\$18,711	\$19,647	\$20,629	\$21,660	\$22,743	\$23,881	\$25,075	\$26,328	\$27,645	\$29,027	
One BR (MKT)	\$60,000	\$63,000	\$66,150	\$69,458	\$72,930	\$76,577	\$80,406	\$84,426	\$88,647	\$93,080	\$97,734	
Two BR (MKT)	\$78,000	\$81,900	\$85,995	\$90,295	\$94,809	\$99,550	\$104,527	\$109,754	\$115,242	\$121,004	\$127,054	
Parking	\$7,800	\$8,190	\$8,600	\$9,029	\$9,481	\$9,955	\$10,453	\$10,975	\$11,524	\$12,100	\$12,705	
Potential Gross Income	\$252,360	\$264,978	\$278,227	\$292,138	\$306,745	\$322,082	\$338,187	\$355,096	\$372,851	\$391,493	\$411,068	
5% Vacancy Factor	(\$12,618)	(\$13,249)	(\$13,911)	(\$14,607)	(\$15,337)	(\$16,104)	(\$16,909)	(\$17,755)	(\$18,643)	(\$19,575)	(\$20,553)	
Effective Gross Income	\$239,742	\$251,729	\$264,316	\$277,531	\$291,408	\$305,978	\$321,277	\$337,341	\$354,208	\$371,919	\$390,514	
Operating Expenses	(\$59,936)	(\$62,932)	(\$66,079)	(\$69,383)	(\$72,852)	(\$76,495)	(\$80,319)	(\$84,335)	(\$88,552)	(\$92,980)	(\$97,629)	
Net Operating Income	\$179,807	\$188,797	\$198,237	\$208,148	\$218,556	\$229,484	\$240,958	\$253,006	\$265,656	\$278,939	\$292,886	
Debt Service	(\$163,460)	(\$163,460)	(\$163,460)	(\$163,460)	(\$163,460)	(\$163,460)	(\$163,460)	(\$163,460)	(\$163,460)	(\$163,460)	(\$163,460)	
Plus Sale Proceeds											\$1,548,763	Sales Price \$2,928,858
Less Debt Repayment											(\$1,323,238)	-Net Gain (\$2,644,570)
												Gain on Sale \$284,288
Before Tax Cash Flow	\$16,346	\$25,336	\$34,776	\$44,688	\$55,095	\$66,023	\$77,497	\$89,545	\$102,196	\$115,478	\$354,951	Cap.Gain Tax 0.2
-Depreciation	(\$64,502)	(\$64,502)	(\$64,502)	(\$64,502)	(\$64,502)	(\$64,502)	(\$64,502)	(\$64,502)	(\$64,502)	(\$64,502)	(\$64,502)	Capital Gain \$56,858
+Amortization	\$8,176	\$9,035	\$9,983	\$11,031	\$12,190	\$13,470	\$14,884	\$16,447	\$18,174	\$20,082	\$22,191	
Taxable Income	(\$39,980)	(\$30,131)	(\$19,742)	(\$8,782)	\$2,783	\$14,991	\$27,880	\$41,490	\$55,868	\$71,059	\$312,640	Sale Price \$2,928,858
Tax (Liability) Benefit	\$19,990	\$15,065	\$9,871	\$4,391	(\$1,392)	(\$7,496)	(\$13,940)	(\$20,745)	(\$27,934)	(\$35,529)	(\$156,320)	-Income Tax (\$56,858)
Credit	\$65,494	\$65,494	\$65,494	\$65,494	\$65,494	\$65,494	\$65,494	\$65,494	\$65,494	\$65,494	\$65,494	-Mtg Balance (\$1,323,238)
After Tax Cash	(\$456,152)	\$101,830	\$105,896	\$110,141	\$114,573	\$119,198	\$124,022	\$129,052	\$134,294	\$139,756	\$145,443	Net Cash from Sale \$1,548,763
After Tax Return On Investment	22.32%	23.22%	24.15%	25.12%	26.13%	27.19%	28.29%	29.44%	30.64%	31.88%	43.54%	
Net Present Value	\$342,800											
IRR	23.02%											