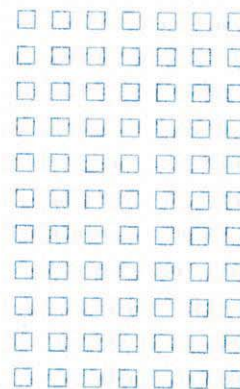




FOUNDATIONS OF OPPORTUNITY

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May 3, 2016

Alderman Lance Davis, Chairman  
Land Use Committee  
Somerville Board of Aldermen  
Somerville City Hall  
93 Highland Ave.  
Somerville, MA 02143

Dear Chairman Davis,

Thank you for the opportunity to comment on the proposed change to the City's affordable housing mandate. Housing affordability is a critical issue for communities across the country and we applaud Somerville for actively debating potential solutions.

Federal Realty Investment Trust made a major investment in Somerville in 2005, acquiring more than 60 acres of underutilized, contaminated industrial and commercial land with a history of failed development opportunities and community dissatisfaction. Since then, we have planned, permitted and constructed the first phase of a vibrant new mixed-use neighborhood wholly consistent with a master plan that was developed with community consensus and approved by the City. More than 2,000 jobs have been created at Assembly Row and another 4,500 employees will be locating at Assembly Row over the next 12 months. By the summer of 2017, approximately one of every four jobs located in Somerville will be at Assembly Row.

While implementing the master plan, Federal Realty has made significant contributions and improvements benefitting the residents of Somerville, including:

- A \$15 million contribution to design and construct the MBTA Orange Line station at Assembly Square;
- Design and construction of a \$3 million, six-acre park along the Mystic River;
- A \$1 million contribution to design and construct a pedestrian connection between Baxter Park and the Ten Hills neighborhood;
- Design and construction of a mile-long shared use path connecting Mystic Avenue to Baxter Park;
- Lighting and sidewalk improvements at Lombardi Way, creating a safe and accessible connection between East Somerville and Assembly Square;
- A \$500,000 contribution to design and construct improvements to DCR's Draw 7 Park; and
- \$3.6 million in contributions for improvements to City parks and other municipal purposes.

In addition to serving as an engine for economic growth in Somerville, Assembly Row has created economic opportunity for workers and families. Since 2014, more than 50 affordable housing units have

been built and occupied at Assembly Row. Another 73 affordable units are under construction and will become available between early 2017 and early 2018. All of these units were developed as part of the Planned Unit Development master plan approved by the City in 2006.

However, the proposed change in the requirement to develop affordable housing from 12.5% to 20% would impact Assembly Row unlike any other area of the City, changing the underlying zoning for an already-approved project and exacerbating the disparity between the cost of market rate housing and affordable housing. Devaluing a cornerstone development after approvals have been granted will likely be viewed with apprehension by the broader market.

When considering new development opportunities, developers measure a proposed project within the context of zoning guidelines (height, density and use), needed infrastructure improvements, environmental clean-up standards, inclusionary housing policies, open space goals, etc. Those variables are balanced against land price and the economic reality of the market or, in other words, what a resident will pay to rent or buy a residential unit. For example, if a site requires a large environmental remediation program, then the development group can offset the cost by modifying infrastructure improvements or reducing its purchase price for the land.

In the case of Assembly Row, we worked with the City and the Mystic View Task Force to balance all of these variables to create a Planned Unit Development master plan, that then was subject to myriad permits and approvals, including the City's Special Permit process, the State's MEPA (environmental review) process, Chapter 91 licensure, MassDOT, etc. Through these processes, we – Federal Realty, the community, the City and the State – were able to evaluate each variable against one another, as well as against the purchase price and the market conditions. Ultimately, a baseline was established which lead us to pay over \$160M to purchase the land, construct the streets, sidewalks and utilities, invest \$15M in the new T station and design and build the riverfront park. The entire \$160M investment does not include any building construction.

Given that all of the variables to balance have been set, the only way to accommodate an increase in inclusionary housing is to increase market rate rents or sales prices. In the case of a rental project, rents would need to be increased approximately 17%. In the case of a for-sale project, pricing would need to be increased approximately 19%. At that increase, rents and sales pricing would need to be at a level only being achieved in Boston's Back Bay, Beacon Hill and Seaport. We do not believe those rents or sales pricing can be achieved in Somerville.

The consultant's report from RKG Associates suggesting that large scale projects will be able to absorb the costs of an increased mandate to develop affordable housing fails to consider these factors and uses a flawed metric to as the basis for tis conclusions. Internal Rate of Return (IRR) requires that projects be similar in scale, risk, projected cash flow, time horizon and share a common discount rate and exit capitalization rate. So, a useful IRR calculation requires very specific, very similar project details. Otherwise, a general IRR model, similar to the ones provided by RKG, is based on a long set of easy-to-manipulate assumptions. Currently, there are a number of residential projects under



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construction in Somerville, all at different scales and all by different developers with different return goals. Some developers are building residential-only projects and looking to flip once the building is complete. Some developers, like us, are building mixed-use (each use has its own return metrics) and looking to hold. Broad-brush use of the IRR metric across this varied real estate spectrum can easily lead to flawed results.

Assembly Row is producing significant new affordable housing units located within walking distance of thousands of jobs newly located in Somerville and accessible to a new MBTA station constructed in concert with the Assembly Row project. At the conclusion of Phase 2, Assembly Row will have created 17 affordable ownership units, an 18% increase, and 112 affordable rental units, a 33% increase in the number of units created citywide under the existing inclusionary housing policy. We hope to continue the successful development of affordable housing at Assembly Row and therefore request that the original rules for development at Assembly Row be maintained.

We look forward to continuing to work with the City as the process of crafting a comprehensive overhaul of the zoning ordinance proceeds later this year.

Sincerely,

A handwritten signature in blue ink, appearing to read 'Don Briggs', with a stylized flourish at the end.

Don Briggs  
President, Federal Realty Investment Trust, Boston

Cc: Somerville Board of Aldermen