

May 12, 2013

Dear Members of the Planning Board (c/o George Proakis) and Members of the Board of Aldermen,

This letter reprises a letter that I sent in early April, the first time that this proposal came before you. It's still a bad idea, but with your help, this proposal can be fixed.

On Thursday, May 16, the Land Use Committee and Planning Board will be hearing testimony on a zoning proposal to allow a ground floor supermarket to exceed the 50,000 square foot cap that was put in place to preclude more big box development at Assembly Square. The proposed zoning amendment would allow a 130,000 square foot supermarket, which is what Federal Realty is proposing for a portion of the parcel it plans to acquire from Ikea, which has withdrawn from the Assembly Square development project.

I urge you to reject that amendment as it is currently written, or better yet, to amend it to allow the larger supermarket only as a first floor use in a multi-story building with a floor-to-area ratio (FAR) of at least 5. (FAR measures the ratio of total floor space to the "footprint" of the property. For example, a three story building, on average, has a FAR that is 3X the FAR of a one-story building. The current zoning allows development with a FAR = 10. By comparison, a single story supermarket has a FAR of less than 1, since the building doesn't occupy the whole lot.)

There is certainly a reasonable argument for a supermarket in Assembly Square, given the 2-3,000 units of housing and the thousands of anticipated jobs that the District is zoned to support at full build-out.

However, **a single story big box supermarket is NOT an appropriate use** of property in a district towards which taxpayers have committed \$50 million and guaranteed as much as another \$100 million to pay for infrastructure, including a new Orange Line T stop, which greatly increases the value of the developer's holdings:

- **The City has committed \$50 million*** in future municipal property tax revenues (30 years of debt service to repay a \$25.7 million DIF bond) to pay for that infrastructure. Over the short term -- and perhaps longer, if development projections are unrealized -- property tax payments from the rest of the City will be subsidizing the cost of delivering municipal services to the businesses and residents at Assembly Square.
- **The state has committed \$58 million** of I-Cubed funding, based on anticipated increases in state tax revenues attributable to development of the parcel, and based on the **City's commitment to cover the difference** between actual increases in state tax revenues and the cost of debt service for those I-Cubed bonds (upwards of \$100 million).

A single story big box is **NOT an appropriate use** for a site currently zoned for dense transit-oriented mixed use development, next to the first new subway station in Massachusetts in a generation. The 12-acre IKEA parcel where FRIT hopes to build that supermarket is zoned to allow construction of up to 5 million square feet of office space and mixed use. A development that took full advantage of that zoning would generate about \$33 million in annual property taxes and bring about 15,000 permanent jobs. By comparison, a single story 130,000-square-foot supermarket using 40% of the site would produce about 200 permanent jobs and \$320,000 in annual property taxes.

	Highest Use Zoning - full site	Highest Use Zoning - 40% site	50% of Highest Use - 40% site	One-Story 130,000 sq. ft. supermarket
Development	5 million sq. ft. office space	2 million sq. ft. office space	1 million sq. ft. office space	130,000 sq. ft. supermarket
Permanent Jobs	15,000 jobs	6,000 jobs	3,000 jobs	200 jobs
Annual Property Tax Revenues	\$33 million	\$13.2 million	\$6.6 million	\$320,000

* The \$50 million in future City tax dollars is the estimated 30-years of debt service to pay back the \$25.7 million bonds issued by the City to fund infrastructure development. The City designated a DIF - a portion of the Assembly Square District where property values are projected to increase as a result of development, and from which property tax revenues will flow directly for repayment of those bonds. Under the City's optimistic estimate about development, **for the next 30 years, at least 60% of the tax benefit of any development in Assembly Square will go towards paying off the City's contribution to fund development of that infrastructure.** (The 60% estimate is from the City's optimistic Comparison of Revenues and Debt Service Projections for FY2012-2043, reported in the March 10, 2011 memo from Monica Lamboy and Ed Bean to Mayor Curtatone on the Assembly Row DIF Bond Authorization. If property tax values don't increase as rapidly as they projected, then the repayment of the bond will eat a higher percent of property taxes generated in the district. Since full development will take many years, there is no question that the City's taxpayers will be subsidizing services in the District during the initial phases of development.)

continued

A single story big box is **NOT an appropriate use** for a parcel whose high density zoning is integral to the stated goals of Somerville's Comprehensive Plan, and would represent a dangerous precedent of letting a developer's interests override the City's carefully thought out blueprint for the future, and the product of thousands of hours of residents' time and effort at the dozens of meetings it took to develop that Plan.

Federal Realty, which has signed a purchase and sale on the former Ikea property says it needs to start generating revenue from the property quickly, and can't afford to invest in a multi-story development which also contains a first floor supermarket. So **FRIT is essentially asking the City to write off thousands of jobs and millions of dollars in annual property tax revenues that that portion of the Assembly Square District was supposed to generate.**

Somerville is one of the 10 neediest cities in the State, in terms of local aid per square mile. It has many fewer jobs than residents: a shortage of 5,000 jobs per square mile (as compared to, for example, Cambridge, Boston, Burlington, Waltham, and Woburn, which have surpluses ranging from 1,200 to 6,000 jobs per square mile).

By comparison, Federal Realty Investment Trust is a hugely profitable corporation that doesn't need the help of the City's taxpayers:

- As of December 31, 2012, Federal Realty reported approximately \$3.9 billion in assets, up about \$230 million from the previous year. For the year ending December 31, 2012, Federal Realty reported Funds for Operations (FFO) of \$277.2 million. This compares to \$251.6 million for the year ending December 31, 2011. For the year ending December 31, 2012, Federal Realty reported net income available for common shareholders of \$151.4 million. This compares to net income available for shareholders of \$143.4 million for the year ending December 31, 2011. **Federal Realty Investment Trust Announces Fourth Quarter And Year-End 2012 Operating Results** (NY Times 2/13/2013) (The calculation of net income includes depreciation, but since property does not depreciate, Funds from Operations is considered a better measure of the performance of a Real Estate Investment Trust like FRIT [www.investopedia.com/articles/04/112204.asp].)
- The value of FRIT shares has tripled since 2003-4, and are 25% higher than they were at their 2007 peak before the real estate bubble burst in 2008. http://markets.nytimes.com/research/stocks/tools/analysis_tools.asp?symbol=FRT
- Between Dec. 2011 and Dec 2012, FRIT's profit margin hovered around 25%. www.bloomberg.com/quote/FRT:US (quoted 3/24/13)
- As of March 22, 2013, FRIT had a Profits-to-Earnings (P/E) index that was 3 times the P/E Index for Standard and Poor's 500 stock average. www.bloomberg.com/quote/FRT:US (quoted 3/24/13)

Somerville taxpayers should not be saddled with the likelihood of higher debt repayment obligations and permanent reductions in revenue and job potential in order to help FRIT avoid a short-term bump in the road to profitability.

One more important note: In the deliberations leading up to its earlier recommendation to support this Amendment, the Planning Board observed that the amendment only **allows** a larger grocery store on the first floor; it would still be up to the Planning Board to approve the **actual design** of any building proposed for the site, whether it be a one-story big box or a multi-story office building.

The proposed revision to the amendment, permitting a larger grocery store only within structures with a FAR of 5 or higher, would ensure that the Planning Board is never put in the position of being asked to approve a big box, or a building which substantially undermines the intended zoning density for the site.

Thank you for your consideration.



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