

February 14, 2018 No. 18-1

Highlights

- Rental housing is preferred by developers with 72% of the 458 units being rental and only 28% ownership
- Development of city-owned land takes more time due to greater planning and financing requirements before the sale is approved
- Commercial space is mainly for mixed-use retail with no finalized pure business projects approved

A special thank you to the Research Bureau's Cabinet Members for their generous support.

Arlington Advisory Partners
 Beacon Capital Partners
 Blue Cross Blue Shield of MA
 Citizens Bank
 Comcast
 Fidelity Investments
 John Hancock
 KPMG LLP
 Liberty Mutual Insurance
 P&G Gillette
 State Street Corporation
 The Druker Company, Ltd.
 Verizon

Housing Created from Sale of City-Owned Parcels

Sale of city land expected to create \$155M in taxable value

In 2014, Boston's Department of Neighborhood Development (DND) began the Parcel Disposition Initiative to reduce the inventory of city-owned parcels to transform the parcels into productive uses such as affordable housing and adding more parcels to the City's tax rolls. In 2015, the City announced the first group or tranche of 120 city-owned parcels for disposition, which was later reduced to 102 parcels. An additional 347 parcels were included in the initiative in 2016 for a total of 449 active parcels. Of that total, 183 parcels are now in the finalized stage and are expected to produce 458 housing units, 5,400 square feet of commercial space and 7.4 acres of open space. Development of these parcels is estimated to create \$155 million of taxable value that will generate approximately \$1.4 million in annual property taxes. While the process is slow, the first phase of the city-owned parcel disposition initiative will succeed in creating additional housing and produce taxable value and tax revenue from previously tax-exempt property.

Table 1

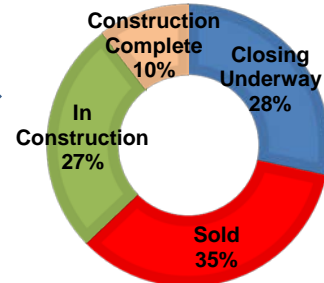
Finalized Parcels*

\$ in thousands

	Finalized Projects
Parcels	183
Housing Units	458
Open Space (acres)	7
Commercial Space (sq. ft.)	5,400
Property Value	\$155,065
Property Taxes	\$1,371

Figure 1

Finalized Parcel Stages *



* As of August 4, 2017

The remaining 266 parcels or 59.2% are in earlier stages of the development process. As these parcels move out of the pre-sale stages, their final uses, value creation and tax generation can be projected more accurately. This report summarizes the overall status of the 183 parcels currently in the finalized stages and provides a more detailed examination of the disposition of the first 120 parcels. A future report will be able to assess the results of the full 449 parcels.

Because the City owns these parcels, it is able to sell them at a discounted rate in order to subsidize affordable housing and to provide other community benefits. Selling parcels to private owners or transferring parcels to city departments such as Parks and Recreation, School, or Fire ensures maintenance and guardianship of previously empty lots. The creation of commercial space, although limited so far, as well as housing units, generate additional property value and tax revenue on previously tax-exempt land.

Parcel Disposition Process

The development process in Boston, from the creation of a project to completed construction, is comprised of a number of steps including securing financing, permitting, community approval, and in most cases variance from the zoning code. Projects built on city-owned land require additional steps than a typical development project, which lengthens the process. To ensure the parcels are successfully put into productive uses that meet identified city needs, Boston's Parcel Disposition Initiative is more prescriptive about the sale and development of these parcels than with private sales, and developers are required to provide more in-depth plans and assurances, including setting up financing, as part of their bid to buy a parcel. The Public Facilities Commission must vote twice on a project, first for a tentative designation (under agreement) and later for a conveyance vote (closing underway), in order to certify the sale of a parcel. The City's long development process and the unique steps required for development on city-owned land can result in a lengthy disposition process.

This report describes the disposition process, starting from the initial RFP to the point of transferring ownership of parcels from the City to the developer at the point of sale. Only at that point can the development of housing, commercial space, and open-space begin. In the case of city departments, parcels are transferred, not sold. When projects reach the finalized outcome stage, the project details and specifications are fixed because the conveyance, between the City and the buyer, that is voted on by the Public Facilities Commission, stipulates the exact conditions of the sale, including the number and type of housing units and other community benefits, making this stage a reasonable one for analysis of outcomes.

Figure 2

Parcel Disposition Steps

DND identifies intentions for parcels

- *Research for Disposition* – DND staff researches and considers potential uses and projects for parcels
- *Under Consideration* – Parcel projects undergo further scrutiny before the disposition process starts

Pipeline

- *Community Meeting in Process* – One or more public meetings are held
- *Request for Proposal (RFP) in Process* - DND develops an RFP
- *Proposal Review* – DND evaluates proposals on criteria including: revenue; affordability; Boston resident and diversity goals

Expected Outcomes

- *Under Agreement* – winning proposal is selected
- Developers secure financial sources and adjust project details accordingly
- Additional community meetings are held

Finalized Outcomes

- *Closing Underway (Conveyance Vote)* – Public Facilities Commission votes on conveyance. The sale is underway and the project details are set
- *Sold/Under Construction/ Construction Complete* – DND sells the parcels to the buyer. DND continues to track development progress.

A more descriptive explanation of this Disposition process can be found [here](#).

Total Finalized Status

A total of 183 parcels are in finalized stages, which represents 40.8% of all parcels identified for disposition to date. The 183 parcels consist of 56 parcels from the first group of 102 active parcels and 127 parcels from the additional 347 parcels. These projects are the definitive outcomes of the Parcel

Disposition Initiative thus far because the details of the projects, including the number and type of housing units, commercial use and the amount and type of open space have been established and the final use is permanently set.

The 183 finalized parcels are expected to produce 458 housing units, 5,400 square feet of commercial space and 7.4 acres of open space. Development of these parcels is expected to create \$155.1 million in taxable value and \$1.4 million in property taxes. Of the 458 housing units, 75 or 16.4% are low-income, 126 or 27.5% are middle-income and 257 or 56.1% are unrestricted market units. Two large market-rate projects, started before the 2015 initiative, will produce 242 units of which 210 are market-rate. Without the two projects, the housing breakdown would be 35% low-income, 43% middle-income and 22% market. The City sold 159 of the 183 parcels to private developers for a total of \$6.6 million or 24.2% of the \$27.3 million total assessed value of those properties. Of the 68 projects that make up the 159 parcels, 76.5% of the parcel sales were less than 10% of the assessed value. Land for the two large-scale market projects were sold without land subsidies for \$4.9 million. The other 24 parcels of the 183 total were primarily transferred to the Parks Department.

Affordability requirements are set based on annual HUD Area Median Income (AMI) guidelines. For 2017, low-income units in Boston are restricted to individuals making less than 60% AMI or less than \$62,050 for a family of four. Middle-income units are restricted to households earning 60%-120% AMI, which is between \$62,050 and \$124,100 for a family of four.

The 60-120% AMI middle-income definition used by the City is not universally shared by other housing developers who generally apply 80-140% AMI as the middle-income bracket in Boston, which is between \$82,700 and \$144,750 for a family of four.

Table 2

Finalized Parcels *

\$ in thousands

	Finalized Projects	% of Total	% of Total
Parcels	183		
Housing Units	458	100.0%	100.0%
Rental	331	72.3%	
Owner	127	27.7%	
Low ^[1]	75		16.4%
Middle ^[2]	126		27.5%
Market	257		56.1%
Open Space (acres)	7.4		
Commercial Space (sq. ft.)	5,400		
Property Value	\$155,065		
Property Taxes	\$1,371		

* As of August 4, 2017 ^[1]<60%AMI ^[2] 60% - 120% AMI

Status of the First Group

In 2015, the Research Bureau issued a [Bureau Update](#) summarizing DND’s plan for the first group or tranche of 120 parcels. At the time, the parcels were estimated to create 506 housing units, generate \$93.3 million in property value and \$828,000 in tax revenue. Today, 18 parcels are on hold or canceled leaving 102 active parcels. The 102 parcels are now estimated to produce 691 housing units, \$111.8 million in property value and \$1 million in property taxes. Projects are placed on hold when unexpected situations arise, like challenges from abutters and some parcels removed after being deemed not feasible for development.

Estimated property value and property tax projections are created by DND using a variety of methods based on the project type. For single-family ownership homes, the projections are based on the sale price of the home using current tax rates. Affordable rental units are assessed at \$50,000 each and property tax estimates are generated using current tax rates. Market-rate rental unit projections rely on as-complete appraisals typically from the construction lender. For pure commercial use projects, which are rare, projections rely on value comparisons to similar properties.

Table 3

First Group Status *

\$ in thousands

	Planned 2015	Planned 2017 ^[1]	% Change	Finalized 2017
Parcels	120	102	-17.5%	56
Total Housing Units	506	691	36.6%	275
Value	\$93,282	\$111,788	19.8%	\$87,605
Taxes	\$828	\$1,034	24.9%	\$704
Open Space (acres)	5.1	4.8	-6.0%	3.6
Comm. Space (sq. ft.)	63,001	58,397	-7.3%	5,400

* As of August 4, 2017 ^[1] 18 parcels on hold or canceled

Of the 102 active parcels, 61 parcels or 60% have reached finalized stages, which is closing underway or more advanced stages. That compares to 13.4% reaching finalized stages in 2015. In addition, 78.4% of the 2017 property value estimate is finalized along with 68.1% of annual taxes and 75% of open space. Once complete, the 61 finalized parcels are expected to generate \$87.6 million in new property value, \$704,000 in annual property taxes and 155,812 square feet or 3.6 acres of open space. Included in the open-space total are 18 parcels transferred to the Parks and Recreation Department to create 12 projects including parks, playgrounds, and tot lots.

Table 4

First Group Parcel Status *

	Parcels ^[1]	%
Community Meeting in Process	2	2.0%
RFP in Process	0	0.0%
Under Agreement	44	43.1%
Closing Underway	31	30.4%
Sold	16	15.7%
In Construction	1	1.0%
Construction Complete	8	7.8%
Total	102	100.0%

* As of August 4, 2017 ^[1] 18 parcels on hold or canceled

The more detailed breakdown above shows the specific status of the first group of 102 active parcels in the development process. Only two parcels or

2.0% of the 102 parcels remain in the pipeline and are currently engaged in community meetings. Thirty-nine parcels or 38.2% are under agreement with the winning bid for the parcel selected and the developer securing funding and adjusting project details. The remaining 61 parcels, or 60% of the total active parcels, are in the finalized states with the closing underway, or the parcels sold by DND, the project is under construction or the construction is completed. In the following housing, commercial use, and open-space sections, parcel totals do not add up to 102 parcels due to some parcels falling into more than one category.

Housing

Mayor Walsh's Housing Plan calls for the creation of 53,000 new units of housing by the year 2030. Facing a decline in aid from the



** Credits: Creative Common Licensing 2017

Department of Housing and Urban Development (HUD) and increasing material and labor costs, the City has deployed new strategies to create affordable housing, including selling city-owned parcels to private developers primarily for affordable housing but commercial development as well.

Planned 2017 vs. Planned 2015 – By 2017, the total of new housing units increased from 506 to 691, an increase of 185 units or 37%. Rental units had increased by 405 units or 152.8% and homeowner units dropped by 220 units or 91.3%. A few unexpected changes in projects led to these shifts. Specifically, three originally planned commercial projects changed to mixed-use developments which account for 98% of the increase in housing units, creating 172 new rental units in addition to nine owner units and 35,142 square feet of commercial space. Another notable change from the original 2015 projections is the Boston East project in East Boston that shifted 196 owner units to 200 rental units, accounting for 89.1% of the lost owner units. Boston East and the other three projects account for 372 additional rental units or 91.8% of the rental increase.

Table 5

First Group Housing Units *

\$ in thousands

	Planned 2015	Planned 2017	Variance	% Change
Parcels	67	73	6	9.0%
Total Units	506	691	185	36.6%
Owner	241	21	(220)	-91.3%
Rental	265	670	405	152.8%
Low ^[1]	206	323	117	56.8%
Middle ^[2]	90	111	21	23.3%
Market	210	257	47	22.4%
Value	\$92,712	\$104,395	\$11,683	12.6%
Taxes	\$812	\$1,027	\$214	26.4%

*As of August 4, 2017 ^[1]<60%AMI ^[2] 60% - 120% AMI

Of the 691 planned housing units, 323 or 46.7% are low-income, up from 206 low-income units in 2015, a 117 unit or 56.8% increase. Middle-income units comprise 111 units or 16.1%, up from 90 units in 2015, an increase of 21 or 23.3%. Unrestricted market-rate units make up 257 units or 37.2%. Within the market-rate total are middle-income market-rate units, which are unrestricted units initially sold below market rate to avoid developments on city-owned land driving up local market prices.

Housing units from the first group of parcels is heavily concentrated in a few neighborhoods. Dorchester, Roxbury, East Boston, and Mattapan account for 563 units or 81.5% of total. The highest concentration of housing units is in Dorchester at 172 units or 24.9%. The remaining 128 units or 18.5% are in Jamaica Plain, Mission Hill, and South Boston. The geographical distribution of units reflects the inventory of city-owned parcels, which the City has deemed suitable for development.

The City's DND sells city-owned parcels to developers far below market-value as a means of subsidizing affordable housing creation. As a condition for discounted land, developers must sell the homes through DND to first-time homebuyers with incomes at or below 100% AMI, which for a family of four is \$103,400. The home retains its affordability requirements through a 50-year

affordable housing covenant.

Sometimes parcels are sold to developers at minimum cost. For example, 556 Park Street in Dorchester was a dilapidated house assessed in fiscal 2016 at \$118,301. The City sold the parcel to Dudley Economic Empowerment Partners for \$100. The firm rehabilitated the house, creating a three-bedroom owner-occupied [home](#) for a first-time homebuyer making at or below 100% AMI.

Parcels for larger projects or those with little affordability are often sold to developers close to market price. For example, 719 Washington Street in Dorchester, which in fiscal 2017 was assessed at \$169,400, was sold to Piatt Associates for \$150,000. The project is expected to create eight owner-occupied housing units to be sold at unrestricted market-rates.

Commercial Use

The Parcel Disposition Initiative also includes the sale of city-owned parcels for development of taxable mixed-use or purely commercial space.



** Credits: James Woodward, Creative Common Licensing 11/09

Commercial development in the first group of parcels is typically first floor retail in mixed-use residential developments except for one standalone commercial project. The additional property value added to the tax rolls by commercial space creates considerably more tax revenue than residential because of the higher absolute values of commercial property and the higher commercial tax rate due to the City's application of classification. For fiscal year 2017, the commercial tax rate was \$25.37 per one thousand dollars in property value compared to the residential rate of \$10.59.

The only 100% commercial project in the first group of parcels is the Upham's Corner Comfort Station in Dorchester where Historic Boston Inc. is revitalizing a historic space to create just over 2,300 square feet

of commercial space for a bike repair and coffee shop. The Indigo Block project in Dorchester stands out as well because the 20,000 square feet of commercial space in the mixed-use project is for light industrial use, such as wholesale distributors and small-scale manufacturers. Neither project is in the finalized group of 183 parcels. Commercial development on City land is difficult because of the nature of the parcel inventory. Of all parcels owned by DND only 5.1% are zoned for commercial use compared to 87.1% for residential development. Many parcels are also in neighborhoods with weak commercial real estate markets.

Commercial projects in the first group of parcels are expected to generate \$20.8 million in taxable property value, which includes the residential components. Since 2015, commercial project projections have increased by 15,396 square feet of commercial space or 35.8%, \$6.5 million in property value or 45.2% and \$145,000 in property taxes or 103.6%.

Table 6

Commercial Use *
\$ in thousands

	Parcels	Space sq.ft.	Value	Taxes
Planned 2015	29	43,001	\$14,380	\$140
Planned 2017	35	58,397	\$20,874	\$285
Finalized	10	5,400	\$3,933	\$44

* As of August 4, 2017

Open Space

The development of parcels for open space is a third objective of the Parcel Disposition Initiative. Parcels transferred to the Parks and Recreation Department and those sold to private developers for the creation of open space expect to create a total of 4.8 acres of open space in 2017.

A total of 18 parcels totaling 2.7 acres were transferred to the Parks and Recreation Department.

This land will be used for 12 projects including parks, playgrounds and tot lots. Of the total 2.7 acres transferred, 2.1 acres are undeveloped wooded spaces and 0.6 of an acre is already developed space.

Table 7

Open Space *
(In Acres)

	Parks Dept.	Private	Total
2015	3.2	2.1	5.3
2017	2.7	2.1	4.8
Finalized as of 2017	2.7	0.9	3.6

* As of August 4, 2017

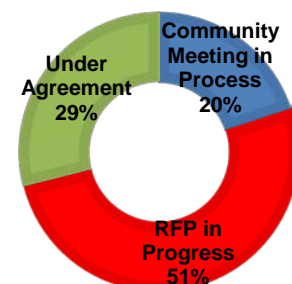
Private developers are also proposing open-space development totaling 2.1 acres both within mixed-use projects and standalone open space projects. Two mixed-use projects, in addition to housing units and commercial space, will create just over 1.0 acre of open space. For example, Cote Village in Mattapan is a mixed-use development that features a 12,000 square foot public plaza with a tot lot and dog park. The other 1.1 acres include public open space projects created by private developers, such as the Dixwell Community Garden in Roxbury.

Total Pre-Finalized Parcels

In addition to the 183 finalized parcels, 266 parcels are in pre-finalized stages, pipeline and under agreement, for a total of 449 parcels in the disposition process. Because these projects are early in the development process and details are likely to

Figure 3

Pre-Finalized Parcels



change, obtaining meaningful analysis of these parcels is not certain enough to include here.

Additional Parcel Review

DND is currently reviewing an additional 470 parcels for possible future disposition. However, 260 of these parcels are in Mattahunt Woods in Mattapan and The Grove in West Roxbury, which are less likely to be developed due to known challenges with the sites. This leaves 210 parcels with realistic potential for development. These parcels are in addition to the 449 active parcel sales. The parcels will undergo the initial screening by DND to determine their suitability for sale and their potential uses before they can be added to the parcel disposition initiative.

Conclusions

The Parcel Disposition Initiative is a slow but thorough process that attempts to identify, dispose, and develop city-owned parcels for housing, commercial use, and open space. Despite many parcels remaining in the development process, the finalized projects in the initiative have produced positive results to date with promising outcomes expected for other active parcel sales.

Changes in projects from the first group of parcels show that original plans do not always materialize. For example, three original commercial projects became mixed-use housing projects and a housing ownership project of 196 owner units was converted into a 200 rental unit development. In addition, even with the low cost of land, development of income restricted housing units is difficult. Of the 458 finalized housing units, 56.1% are market-rate units.

Finalized projects have created limited commercial space, typically through first floor retail, in mixed-use projects. Of the 183 finalized parcels, none support pure commercial development projects that create jobs in the neighborhoods. Most of the parcel inventory is zoned for residential use, which makes commercial development more difficult. However, business projects that create employment for neighborhood residents should be given more

emphasis. Looking ahead, the City should consider strategic acquisitions of land in order to have more control over where future housing and commercial development occurs.

Separate from the Parcel Disposition Initiative, but related, is the Mayor's Housing Innovation Lab's [request for ideas](#) on how capital work on selected city assets could be combined with private plans for housing or other mixed-use projects. Given the location of the identified city assets, this program, when further developed, could broaden the citywide area for housing projects and be suited for commercial development projects.

Boston Municipal Research Bureau

www.bmrb.org

- Expert Research
- Independent Analysis
- Trusted Results