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The development environment has changed a lot since last spring - by David O'Sullivan

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David O'Sullivan

Hard to believe it is already spring. Thankfully winter mostly stayed north of Boston in the ski areas of Maine, New Hampshire and Vermont. Now it is time to get outside, enjoy the warmer weather and get those construction projects going. Or is it? Do you want to start a new project now? Can you make the numbers work for a project and still have a profit? Can you find people or the materials you need to build it? Will you be able to sell it or lease it up when complete? Can you get financing for the project? All these hurdles seem to have gotten bigger and harder to overcome in the past year.

The development environment has changed a lot since last spring. The interest rate increases have affected all aspects of our industry. But that is only part of the picture. Many do not realize that the Mass Stretch Energy Code changed for all residential buildings of three stories or less on January 1st 2023. Or that there is a new Commercial Building Code and Energy Code coming on July 1, 2023. These code changes are destined to add to construction costs making project finances even more challenging.

The city of Boston presents its own set of new challenges. Mayor Michelle Wu's proposed changes to the city's inclusionary development policy would make financing for most new condo projects impossible in the city's low- and moderately-priced neighborhoods, some developers and real estate advisors say. They point to difficulties for a growing list of approved but stalled condo projects in Jamaica Plain and Readville, illustrating the already-high financial hurdles facing developers. Findings of the city's consultants, RKG Assoc., which issued a report last year concluding that condo projects in a large portion of the city wouldn't be financially feasible under the revisions. Switching a project to apartments may be the solution to get it built, but it runs contrary to the neighborhood goals and the cities of providing more home ownership to the residents. Cities need to look at allowing denser developments if they expect developers to be able to build higher numbers of affordable units into their projects, especially condominiums. Somerville and Cambridge increased their percentage of affordable units required in new developments and both saw a dramatic drop in new projects. The numbers just don't work.

Massachusetts has especially restrictive zoning laws because we leave the issue up to towns, many of which drafted their rules decades ago in an era when zoning was a tool for exclusion along racial and class lines and have hardly changed them since. That means we get a lot of single-family homes, when the demand in our region is largely for multi-family housing. There is hope on the horizon with the new law requiring cities and towns to allow denser by right development adjacent to transit hubs. This new law requires that an MBTA community shall have at least one zoning district of reasonable size in which multi-family housing is permitted as of right and meets other criteria set forth in the statute such as, a minimum gross density of 15 units per acre, located not more than 0.5 miles from a commuter rail station, subway station, ferry terminal or bus station, have no age restrictions and be suitable for families with children. Some towns have embraced this and are working towards revising their zoning but other towns are refusing and telling the state to stay out of telling them what their zoning should be. The lack of zoning for multi-family housing is a barrier for new housing development in Massachusetts. By allowing multi-family housing near transit, we can

create new housing in walkable neighborhoods closer to transit. This is not just good housing policy, it is good climate and transportation policy, too. It will take years for this law to have an effect on the housing shortage but it will present new opportunities in and around Boston for denser development.

So in summary, it is going to be an interesting spring as we see changes creating new and more difficult challenges to development of new projects. Maybe just going on vacation is a better choice!

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