February 1, 2023

Mr. James Arthur Jemison
Chief of Planning and Director of Boston Planning and Development Agency
One City Hall Square
Boston, MA 02201

RE: Linkage Policy Update

Dear Chief Jemison:

On behalf of A Better City's 130 member businesses and institutions, thank you for the opportunity to submit comments on the City of Boston's Development Impact Project (DIP) Exactions policy, more commonly referred to as the linkage policy. A Better City supports the Wu Administration's objective to create and preserve affordable housing and to enhance job training and readiness, and offers the following comments for consideration, particularly in light of broader economic trends.

1. Timing: There is a disconnect between the proposed linkage fee increases and the broader market conditions.

Recent reports suggest slowed development after years of accelerating growth, including in the lab space market. In 2022, the City of Boston approved less new housing than it has in any year since 2015. As has been widely reported, these trends are expected to worsen in response to a constricting economy, high interest rates, and proposed policy changes, including more stringent linkage requirements.

While there is optimism that Boston will retain its vibrancy and economic competitiveness—especially in life sciences research and development—burdening commercial development with additional fees at this economically tenuous time is ill advised. After the market has recovered, the question of if and how to increase linkage fees can be more prudently revisited.

2. **Rationale: The rationale for disproportionately taxing the development of lab space is unclear and fails to acknowledge the role of labs and life sciences in Boston's economy.**

   The nexus study contains a section titled "Variation of Housing and Employment Impacts by Use" that offers a case for the City considering differential impacts for different uses based on: 1) the demand for affordable housing and job opportunities for low- and moderate-income workers, and 2) differences in project economies and financial returns by primary use. The report states that three factors influence how affordable housing and job impacts vary by use: 1) the density of employees in the occupied space, 2) the share of employees with earnings at the low-, moderate-, and middle-income levels, and 3) the share of jobs in occupations not requiring a college degree.

   The analysis considered lab, office, hotel, institutional, restaurant, and retail uses. Labs had the fourth lowest employee density, and by far the lowest percentage of low income and non-bachelor's degree level employees. A conclusion to be drawn from this analysis is that lab uses do not generate a high demand for affordable housing or workforce development for their employees, and that the doubling the rate of linkage fees on labs is not consistent with the housing or training needs generated by this use. The study does observe, however, that labs "have a low supply of skills training for these jobs, which requires more linkage funding to address the training supply gap."

   The level of fees described in the nexus study is based on development costs for a projected demand for affordable housing, the level of public subsidies available to cover those costs, and the gap to be covered by a housing linkage fee. The study takes into account the impact of linkage fees on project economics and states that "Boston should set higher linkage fees for lab development projects, as their higher rents and returns allow them to make a larger contribution to mitigating impacts." The nexus between causing impact on housing and the ability to contribute toward mitigating overall impacts is not clearly demonstrated.

   In other words, linkage payments are intended to be matched with a negative externality. Lab buildings have occupancy that is 10-20% less than office, largely because lab benches have fewer staffers compared to office cubicles. This means less automobile traffic and other impacts, not more—so it is incongruous that the nexus study would link a lower impact use to a higher mitigation payment.

   Boston has become a world leader in the research and development of life saving therapies and drugs—but just two decades ago there were limited R&D facilities in the city proper. We now have a regional ecosystem that includes strong clusters across R&D, manufacturing, venture capital, and financial institutions that allow the industry to thrive. However, this ecosystem took decades to establish and the proposed linkage fee increases threaten this ecosystem, magnifying the risk of developing in Boston and enhancing the attractiveness of alternative locations.

3. **Structure: The rigid fee structure does not appear to incentivize innovation or acknowledge market conditions.**

   While the proposal includes indexing fees to the CPI to be adjusted annually, the real estate market does not necessarily track with the CPI as other factors influence development feasibility. A flat rate fee for most categories of labs over 50,000 square feet does not recognize these factors. Alternatives could include a phased approach, sliding scales linked to interest rates, and specific carrots or trades.

4. **Incentives: The proposed linkage free increases were announced alongside other actions to improve the permitting process, but those improvements are unclear and arguably insufficient.**

   In Mayor Wu's State of the City Address, she announced plans to convene a steering group of real estate and community leaders to recommend changes to the Article 80 development review process to simplify and accelerate timelines. This is of course welcome news, but the City should already be working to expedite permits—this is not an incentive, but a basic expectation of a functioning City government. Nonetheless, A Better City stands ready to assist and support these efforts to improve permitting timelines and support sustainable growth.

5. **Cumulative Impact: The cumulative impact of the proposed linkage fee changes and other proposals impacting planning and development may imperil not only the production of affordable housing but also the health of the City's budget.**

   If commercial development slows, the corresponding impact on property tax revenue could pose a major threat to city finances. Property taxes account for three-quarters of the City's annual budget, with commercial properties accounting for roughly 60 percent of the tax levy—this has offered Boston some economic stability in comparison to cities that rely on local income or sales taxes. During the pandemic, the City of Boston grew even more dependent on commercial property taxes, as collections from other revenue sources fell. Moreover, other nearby communities such as Cambridge and Watertown stand ready to attract new development and derive their own municipal revenue from these developments, some of which would have contributed to Boston's city coffers.

   It is clear that the City needs net new property tax revenue to ensure the health of the municipal budget—and creating a special disincentive for lab space, which comprises a significant segment of the development market is counterproductive to this end. Because most lab workers cannot work from home, new growth will likely come disproportionally from the lab sector. If Boston disincentivizes lab construction, it will be discouraging growth in the one sector that may be likeliest to see new construction in the near-term. The long-term pre-eminence of Boston's medical and life science hubs, including the Longwood Medical Area, depends on having lab buildings in Boston to accommodate the long-term growth of this important sector. The City of Boston should be taking steps to help expand this important employment and tax revenue source and accommodate the new companies that spin off it—not targeting it with new fees.

In conclusion, A Better City urges the City of Boston to reconsider this proposal that is poorly timed, disproportionally burdens labs with support of housing that is inconsistent with the level of impact of lab uses on housing, and endangers the ability of Boston to attract and retain fiscally beneficial lab development. Together we can build a better city for all without jeopardizing our sustainable growth or regional competitiveness.

Sincerely,

Richard A. Dimino
President and CEO