PBN 3/13/89

Financing difficutlies stall linkage in Providence

First linkage program to benefit low-income residents still in not a reality

When the India Point Club luxury condominium development, scheduled to be built on the Providence waterfront, was announced in 1987, there were many local skeptics who said it was too expensive for the Providence market. After all, selling penthouse condos overlooking the dirty Providence River for over $1 million was quite ambitious—and some said impossible.

Well, the skeptics were right, at least temporarily, because the developer has put the project on hold due to a soft condo market and the inability of the lead Rhode Island bank to come up with other lenders for the $40 million project. And the deposits that prospective buyers had made on more than half of the 126 units that had been pre-sold were returned to them. All of this after a major marketing effort that included the construction of a model unit across the street from the building site.

The 176-slip marina is scheduled to be built, but only time will tell if the India Point Club will be completed, at least in the attractive form and design that was proposed. Having gone through a lengthy permitting process and getting the approval of preservationists, including the Providence Preservation Society, the developer invested considerable time and expense to get a quality proposal on paper and into the ground.

It will be unfortunate if the project is not completed, for it could be a major cityscape feature on the Providence waterfront, but more important is the loss that will be experienced.

Who loses

It will be a loss to the prospective home buyers who had planned to live in this ideal location; it will be a loss to the city in tax revenues that would be generated; and it will be a loss of housing for low-income residents of Providence. But how is the India Point Club development related to housing for low-income persons?

This development was to be the first linkage arrangement between the city and a developer, a measure by which the city would receive $10,000 for each of the 126 units built. This money was to be used by the city to construct housing for low-income persons. But why would a developer agree to this when these costs would have to be factored into the selling price of the units?

The leverage that the city had, in this case, was ownership of an adjoining one-acre parcel of land through the Redevelopment Authority. This parcel was necessary for the project in order to provide parking and other features necessary to the development. It looked like everyone was a winner: The developer bought the parcel for development, the city would get tax revenue from the project, and poor people would get housing. The vagaries of the marketplace have temporarily halted this winning combination.

A different arrangement has been negotiated between the city and Milestone Properties of Boston, which will build a 216-unit luxury apartment complex on privately owned land in the Capital Center. Here, the leverage the city has is the desirability of the site, the Capital Center, which was enough to convince the developer to contribute $50,000. In this case, the money would go toward the construction of the $500,000 Roger Williams Day Care Center on the city's South Side.

Capitalizing on construction

These two projects, designed to leverage commercial construction in and around downtown Providence to provide for the needs of low-income residents throughout the city, are examples of what can and is being done throughout the country as cities try to capitalize on the heightened construction activity taking place, especially in their downtowns, to provide additional funding for their disadvantaged populations.

This linkage program, sometimes called a housing trust fund, typically requires commercial developers to pay a fee that is to be used for affordable housing or, in some cases, the developer provides the housing in lieu of paying the fee. The fee may be mandatory, or it may be contingent upon discretionary zoning relief or density bonuses given by the city.

Palo Alto, Calif., was the first community to institute this program just 10 years ago. Applied to all non-residential buildings of more than 20,000 square feet, the $2.26 per- square-foot mandatory fee is applied to square footage above the minimum 20,000 square feet. The $2.4 million received has assisted in the production of 200 housing units.

The first linkage program that applied only to buildings in the downtown came from San Francisco in 1980. Applied only to office buildings over 25,000 square feet, the $5.69 per-square-foot mandatory fee on square footage above the minimum has committed over $29.7 million, which has assisted in the production of 4026 new units and 1664 rehabilitated units.

Payments don't go to cities

The San Francisco case is interesting because most of the fee payments go to housing organizations that sponsor construction rather than to the city: To date, only $3.5 million has gone into the city's housing trust fund. For the whole program, contributions have averaged $5200 per square foot, which has been packaged with federal and other monies to do the construction.

The city that has garnered the most in fees under the linkage program is Boston, whose program has been in place since 1983: Commitments of $45 million have assisted production of more than 2000 units. The mandatory fee of $5 per square foot for office, retail and institutional buildings over 100,000 square feet anywhere in the city is paid over seven years if the building is in the downtown and 12 years if it is in a neighborhood.

A survey conducted by the Urban Land Institute (ULI) turned up an additional seven cities that have linkage programs in place: two other California cities, Menlo Park and Santa Monica, as well as Jersey City, N.J., Cambridge, Mass., Miami, Seattle and Hartford, Conn. Four of these confine their programs to the downtown while the other five place fees on buildings constructed anywhere in the city. Four place fees only on office buildings while six collect fees that range from selected-use buildings to all types of buildings. Five of the 10 have a minimum building size before the fee becomes operative.

The ULI survey concluded that linkage programs have not proliferated throughout the nation, based on a small number also surveyed in 1985. The problem, as stated by a housing trust member, is that "only a handful of cities have the luxury of getting away with yet another development fee. Most cities are still trying to make their downtowns attractive enough to lure office development in the first place."

Rethink linkage

With a highly desirable Capital Center in place and with Providence's national exposure in Newsweek as one of the 10 hottest cities in the country, the city needs to rethink the optional and negotiable position it is taking on linkage fees for its commercial buildings, especially in the downtown.

In its anxiety to get development going, something which most would agree is necessary, it is important to remember that the city is acquiring a stronger bargaining position, something it lost generations ago. It is a difficult balancing act in knowing when to give and when to get, but as development continues apace, the city must realize that its new- found strength needs to be used not only for new tax revenues but also for additional monies to address major housing problems that still exist. Linkage programs offer this possibility.

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