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December 17, 2013

Ms. Cindy Reid
Director of Development
Cathedral Square Corporation
412 Farrell Street, Suite 100
South Burlington, Vermont 05403

Dear Ms. Reid,

At your request, I have completed a market study in connection with a prospective development of an income- and rent-restricted housing property intended for elderly and/or people with disabilities in Milton, Vermont. A specific site for the development has not yet been selected, but is anticipated to be located in or near the village district. An inspection of the neighborhood of the proposed site was completed for the market study on November 25, 2013.

Project Description

The property has not been designed and the site has not been selected. Envisioned is a multi-story building located within walking distance of shopping that contains between 33 and 40 residential units, of which 30 to 35 would be tax credit units and 3 to 5 would be market-rate units. The tax credit units would be intended for people at or below 50% and 60% of median area income. Occupancy would be restricted to people aged 55 and older, and to disabled tenants. Common elements would include a laundry, a hair salon, an exercise room, a common kitchen and meeting area, and outside garden space. The development is intended to be used in connection with Support and Services at Home (SASH), a partnership that connects non-profit affordable housing providers and care professionals. SASH is meant to allow seniors to remain in their homes longer by coordinating care.

Location and Market Area Definition

The subject's primary market area consists of Chittenden County Census Tracts 21.1 and 21.2 and Franklin County Census Tracts 109 and 110, which include the towns of Milton, Georgia, Fairfax and Fletcher. The market area is located in northern Chittenden County and southern Franklin County. The market area is oriented to the Greater Burlington area to the south and is interconnected by Interstate 89, which trends north/south through the market area with two exits serving the area. These four towns have been selected as defining the primary market area because of the area's identity as a unique growing suburb of the Greater Burlington area. (The small town of Fletcher is somewhat more remote than the other three towns and has been included largely because it is part of the same Census Tract as

Fairfax). Milton is the largest of the four towns in population and development, and serves as the commercial center of the market area. The manager of the largest affordable housing property in the market area reported that many tenants come from Milton, but that tenants are also drawn from other nearby towns, especially from towns in western and southern Franklin County.

Population and Households

According to US Census data, the 2010 population of the market area was 20,558, an increase of 10.8% over the 2000 population of 18,560. Over the same time period, the number of households increased 17.1% from 6,467 to 7,575. This rate of growth is slower than during the previous decade when the population of the market area increased 19.1% and the number of households increased 25.8%. Of the 7,575 households, about 85% were owner-occupied and 15% were tenant occupied in 2010. The data is summarized on the following table:

Market Area – Milton, Fairfax, Georgia

	1990	2000	2010
Population			
Milton	8,404	9,479	10,352
Fairfax	3,753	4,375	4,615
Fletcher	941	1,179	1,277
Georgia	<u>2,486</u>	<u>3,527</u>	<u>4,314</u>
Total	15,584	18,560	20,558
# of Households			
Milton	2,777	3,333	3,889
Fairfax	849	1,222	1,591
Fletcher	330	428	497
Georgia	<u>1,183</u>	<u>1,484</u>	<u>1,598</u>
Total	5,139	6,467	7,575
Milton			
Owner Occupied HH	2,373 (85%)	2,897 (87%)	3,237 (83%)
Renter Occupied HH	404 (15%)	436 (13%)	652 (17%)
Fairfax			
Owner Occupied HH	708 (83%)	1,047 (86%)	1,375 (86%)
Renter Occupied HH	141 (17%)	175 (14%)	216 (14%)
Fletcher			
Owner Occupied HH	287 (87%)	378 (88%)	440 (89%)
Renter Occupied HH	43 (13%)	50 (12%)	57 (11%)
Georgia			
Owner Occupied HH	1,050 (89%)	1,333 (90%)	1,407 (88%)
Renter Occupied HH	133 (11%)	151 (10%)	191 (12%)
Total			
Owner Occupied HH	4,418 (86%)	5,655 (87%)	6,459 (85%)
Renter Occupied HH	721 (14%)	812 (13%)	1,116 (15%)

The percentage of owner-occupied households increased between 1990 and 2000 (from 86% to 87%), and decreased between 2000 and 2010 (from 87% and 85%). The decrease in the percentage of home ownership may be the result of the combination of the re-

cession and the increased supply of rental housing in the market area. The rate of household growth has exceeded the rate of population growth meaning the average household size has declined slightly over time.

A significant factor that will affect future demand is the aging of the population. According to Chittenden County Regional Planning Commission, the only segment of the Chittenden County population that is expected to grow between 2000 and 2010 are people aged 65 or older. The following estimates provided by Ribbon Demographics track and forecast the number of market area renter households by age:

Age	<u>2010</u>	<u>2013</u>	<u>'10-'13</u> <u>change</u>	<u>2018</u>	<u>'13-'18</u> <u>change</u>
15-24	103	106	+2.9%	105	-0.9%
25-34	293	272	-7.2%	268	-1.5%
35-44	245	233	-4.9%	218	-6.4%
45-54	199	195	-2.8%	179	-8.2%
55-64	119	134	+12.6%	154	+14.9%
65-74	63	91	+44.4%	124	+36.3%
75-84	64	73	+14.1%	87	+19.2%
85+	30	35	+16.7%	37	+ 5.7%

The 2013 estimates indicate that there are roughly 1,139 market area renter households, of which about 333 households, 29% of the total, are headed by people by aged 55 and older. Anticipated is that virtually all growth in the number of market area renter households between 2013 and 2018 will be those headed by people aged 55 and older. The increase in the number of renter households will approximate 69, which equates to a percentage increase of 21%.

Income Levels

The 2013 median family income in Chittenden County is \$77,500. Most renter households in the primary market area have incomes below that amount. Approximately 620 renter households (about 54%) in the primary area have annual incomes of less than \$40,000, which equates to about 52% of the market area's median household income. The following table illustrates the income level and household size of market area renters.

Market Area Renter Households by Size and Income, All Ages (2013 estimated)

	1-Person HH	2-Person HH	3-Person HH	4-Person HH	5-Person HH
\$0-\$10,000	163	1	0	40	40
\$10,000-\$20,000	59	50	27	2	0
\$20,000-\$30,000	25	23	18	5	0
\$30,000-\$40,000	34	70	48	9	6
\$40,000-\$50,000	9	54	77	3	11
\$50,000-\$60,000	17	34	1	2	5
\$60,000-\$75,000	5	71	10	55	5
\$75,000-\$100,000	6	32	13	36	18
\$100,000-\$125,000	11	1	2	0	3
\$125,000-\$150,000	10	1	2	2	0
\$150,000-\$200,000	4	2	10	2	0
\$200,000+	<u>1</u>	<u>2</u>	<u>1</u>	<u>1</u>	<u>0</u>
Total	344	341	209	157	88

A measure of housing affordability is the percentage of household income that pays for housing, with 30% or lower considered to be affordable. Vermont Housing Data indicates that 63.5% of renter households in Milton pay more than 30% of household income for housing. That percentage exceeds the percentage of both Chittenden County (57.4%) and Vermont (51.9%).

About 60% of market area renter households (685) consist of 1- and 2-person households, and this group tends to have relatively low household incomes. The following table contains income data for the market area renter households over the age of 55.

Renter Households by Size and Income, Age 55+ (2013 estimated)

	1-Person HH	2-Person HH	3-Person HH	4-Person HH	5-Person HH
\$0-\$10,000	64	1	0	0	0
\$10,000-\$20,000	58	17	3	2	0
\$20,000-\$30,000	7	2	1	2	0
\$30,000-\$40,000	31	22	2	2	0
\$40,000-\$50,000	6	3	11	1	1
\$50,000-\$60,000	6	10	1	2	1
\$60,000-\$75,000	4	17	3	21	1
\$75,000-\$100,000	5	2	4	1	0
\$100,000-\$125,000	9	1	0	0	0
\$125,000-\$150,000	9	0	1	2	0
\$150,000-\$200,000	4	2	0	1	0
\$200,000+	<u>1</u>	<u>0</u>	<u>1</u>	<u>1</u>	<u>0</u>
Total	204	77	27	35	3

About 81% of market area renter households aged 55 or older (281 total households) have 1 or 2 people and 72% of this group have incomes below \$40,000.

Area Services

The proposed development is planned to be located in the Milton village district and proximate to area services. Hannaford, a regional supermarket chain, recently opened a new 47,000 square foot store in Milton. The store relocated from the adjacent Milton Shopping Center. The center contains several units including a large pharmacy (Brooks) and a hardware store (Aubuchon Hardware). Reportedly, Aubuchon is expanding into a portion of the vacated space and a discount store (Family Dollar) will take the remainder. Located in front of the center is a post office. The Hannaford site can support 30,000 additional square feet of retail space. In addition, the property includes a fast food or retail pad site.

Other services and amenities are located in the village including a municipal recreation facility, fire and police stations, branch banks, convenience stores/gas stations, a second pharmacy, churches, and medical and dental offices. A public library is located in the municipal building. Milton Family Practice, which is part of Fletcher Allen Health Care, is located on Centre Drive. Arrowhead Senior Center is located on Middle Road. Various retail, service and restaurant uses are scattered throughout the neighborhood and are concentrated along U.S. Route 7. The municipality is located roughly equidistant between Burlington and St. Albans, both of which have medical centers about 15 miles from the subject. Big box retailers are located in the Greater Burlington area in Colchester and Williston, and to the north in St. Albans.

Most residents in the market area require automobiles. Access to and through the market area is regarded as favorable. Interstate 89 provides access to the Greater Burling-

ton area to the south and to St. Albans to the north. Exit 17 of I-89 (Chimney Corners) is located about 5 miles south of the subject neighborhood and is accessible by U.S. Route 7, a state-maintained highway. Exit 18, which is also accessible by U.S. Route 7, is about 6 miles to the north. The presence of Interstate access to Milton has contributed significantly to the growth and development of the market area.

The market area is served by public transportation including the Milton Commuter Route operated by the Chittenden County Transportation Authority. This bus service offers four daily trips between several stops in Milton Village and downtown Burlington with stops in Winooski and Fletcher Allen Hospital. CCTA also runs the St. Albans LINK Express, which includes two morning routes and two afternoon routes between St. Albans and Burlington for commuters that include stops at the Park and Ride facilities near Exits 17 and 18 of Interstate 89. Bus service is provided on weekdays only.

Existing Affordable Housing

An unusual feature of the subject market is that there are relatively few existing affordable rental housing properties in the market area. The **Meadow Lane** project in Milton consists of a 20-unit project-based Section 8, elderly- and disabled-restricted property that was acquired by the Vermont State Housing Authority around 2008. After acquisition, VSHA renovated the property and constructed 16 additional units that are also subsidized. The new units were rapidly absorbed and the property has operated at high occupancy. The property manager reported that there is currently a wait list of 66 people. People on the list are from a broad geographic area, with Milton and towns in western Franklin County and Grand Isle heavily represented. The key factor driving demand is reportedly the subsidies that require tenants pay only 30% of their income to rent. Amenities are reportedly not a significant factor driving demand.

The **Hidden Pines** property in Georgia (8 units) and the **Mountain View Apartments** in Fairfax (20 units) are both project-based Section 8 properties. Mountain View Apartments is elderly-and disabled-restricted. The elderly apartments at **30 School Street** in Milton are primarily market-rate with the exception that 6 units have Section 8 vouchers.

Development Trends

Most Milton residents commute to jobs outside of town. According to 2010 Census data, 5,464 town residents commuted to jobs with 1,022 people working in Milton and 4,442 people working outside of town. Most people travel south to work. The largest workplace destinations outside of town are Burlington (798), South Burlington (778), Colchester (738), Williston (730) and Essex (588). About 2,740 commuters travel to jobs in Milton (including 1,022 Milton residents). Approximately 1,718 people commute to Milton from other towns, with most of these commuters coming from nearby towns in Chittenden and Franklin Counties.

The market area has experienced a rate of growth that has exceeded the growth rate of most other communities in and around Chittenden County. The rate of growth of the market area has been compared with other parts of Chittenden County. The areas identified below include the Route 89 Corridor North (market area of Milton, Fairfax, Fletcher and Georgia), the Urban Core (Burlington, Colchester, Essex, South Burlington, and Williston), Eastern County towns (Bolton, Hinesburg, Huntington, Jericho, Richmond, St. George, Underhill and Westford) and South County towns (Charlotte and Shelburne).

	2000-2010 Pop. change	Total Pop. Increase	Avg Median Home Price 2012
Route 89 Corridor North	8.50%	1,787	\$212,238
Urban Core	9.50%	18,214	\$255,742
Eastern County towns	2.75%	284	\$213,663
South County towns	4.05%	385	\$368,500

After the urban core, which experienced the greatest growth rate, the highest rate of growth was in the market area (Route 89 Corridor North). This area also had the lowest median home price in 2012. The combination of favorable access features and relatively low home prices has contributed to development in the market area. The table shows that the total population growth of the market area between 2000 and 2010 of 1,787 people exceeded the total growth of both the eastern and southern county towns. This trend is anticipated to continue, although at a somewhat slower pace.

The 2013 comprehensive town plan indicates there is a perceived need to continue to expand the housing supply of the municipality. Infrastructure improvements including an expansion of sewer capacity have been put in place to accommodate additional development. Also, zoning regulations have been modified to allow dense commercial and residential development in the village center. The town plan targets an annual growth rate based on Chittenden County Regional Planning Commission recommendations of 63 housing units, of which 10% or 6.3 units should be affordable to households with incomes at or below 80% of median family income.

The rate of new multi-family housing unit development has increased substantially since 2000. According to the municipal plan, 483 potential residential units were created through subdivision, PUDs, and site plans approved by the Milton DRB between 2000 and the first half of 2012. About 30% of the approved units were single-family residences, condominiums, or duplexes, and 70% were units in multi-family residences.

While most approvals have been obtained for multi-family development, the units that have actually been built are mostly single-family residences. The following information is from municipal planning records and identifies the number of building permits issued by year for different types of housing in Milton for the fiscal years 2009 through 2013. Also shown are the number of housing units by year.

	Single-family	Duplex	Multi-family	Triplex	Total
2009 FY					
Permits	31	5	--	--	
Units	31	10	--	--	41
2010 FY					
Permits	30	2	1	--	
Units	30	4	6	--	40
2011 FY					
Permits	24	2	5	1	
Units	24	4	31	3	62
2012 FY					
Permits	15	1	2	1	
Units	15	2	16	3	36
2013 FY					
Permits	13	0	1	1	
Units	13	0	7	3	23

Over the past five years, the greatest amount of new construction in the form of single-family residences. The rate of construction has slowed over the last two years.

Planning Pipeline

Information was obtained from the Milton Department of Planning and Economic Development regarding proposed projects in the planning pipeline. Several potentially competitive projects have been approved, but are not proceeding at this time. The **Blackberry Commons** project on Haydenberry Drive had been approved for 68 residential units including 28 single-family residences and 40 units of elderly housing. This project had been deferred because of adverse market conditions. These approvals have lapsed and because of changes in zoning, it is unknown whether the same density could be achieved.

The **Bove Brothers Realty** project located at 25 Centre Drive consisted of 24 units of affordable rental housing on the site of an existing restaurant. The restaurant use has resumed and the planning department indicated that the residential redevelopment is not anticipated to proceed. A 13-unit elderly housing complex was approved for development at **61 & 69 Main Street**. The planning department reported that this project is currently inactive. There are a handful of other projects that have been approved in the past, are inactive, and are not anticipated to go forward at this time.

A project that was recently approved and partially developed is located at **50 Middle Road**. Lloyd Gilbert received approvals to develop 7 units of housing in two buildings on a small site at the entrance to the Arrowhead Senior Center. The units are restricted to people aged 55 or older and/or to people who are disabled. Mr. Gilbert reported that the first building contains 4 1-bedroom units, was completed in September 2013 and that all the units were leased prior to completion. The 3 remaining units are expected to be built in spring of 2014.

Eighty-eight units in multiple buildings in addition to commercial development known as the **Southberry Planned Unit Development** have been approved on the south side of Route 7 South. To date, approximately 33 units have been completed and 14 additional units are under construction. In previous years, the developer, William Sawyer, has built 66 2- and 3-bedroom units on **Boysenberry Drive** and 12 new units at **Beaver Creek** on Route 7. All the residential units are used for rental purposes. The introduction of over 100 rental units into the market by this developer has substantially increased the number of new units in the market. A representative of this developer reported that the remaining roughly 55 approved units at Southberry are anticipated to be developed and rented over time.

There are currently two large developments in Milton that have received sketch plan approval and that, if developed, will add large numbers of residential units to the market area. Developer David Goodrich has an approximately 11 acre parcel at 496 Route 7 South that he plans to develop with five 1- to 4-story buildings containing a mix of retail, office and multi-family residential use. The plans call for a total 104 new residential units in this development. A nearby property owned by McCormick located 414 Route 7 South contains approximately 128.72 acres, a portion of which has sketch plan approval for three 32-unit residential units (96 total) plus a 28-lot mixed PUD. Planning documents indicate the maximum number of potential residential units on the property total 516.

Occupancy/Vacancy Rates

Demand for market rate rental units in Milton is reported to be strong. During the course of completing the study the managers or owners of rental properties in Milton were interviewed in order to identify rent levels and demand. The survey included about 139 apartments. There were two properties that each had 2 vacant apartments. Most of the properties are at 100% occupancy. The indicated rate of occupancy of the sampled properties is 2.9%. Two of the vacancies are at an elderly-restricted property at 30 School Street. This property recently transferred and the vacancy may be related to the lapse in management. Strong demand is indicated by the steady absorption of new units in the market.

Alternate housing options for market area renter households are limited. About 20.8% of the renter occupied units in Milton are in mobile homes. There are roughly 400 mobile homes in Milton, most (about 320) of which are located in three parks. These units are regarded as marginally competitive with the proposed subject units.

Analysis

Anticipated is that the 30 to 35 tax credit units will be restricted to households with incomes at or below either 50% or 60% of median family income, and that the apartments would contain a mix of 1- and 2-bedroom units. Based on data published by HUD, the maximum rent allowed under the tax credit guidelines for each type of income-restricted unit is specified on the following table. Also shown is the maximum income for each household size:

	1-BR	2-BR
Maximum Income @ 50%	\$29,040	\$34,900
Maximum Rent @ 50%	\$726	\$872
Maximum Income @ 60%	\$34,900	\$41,880
Maximum Rent @ 60%	\$872	\$1,047

Next considered was the minimum income limits per household. Based on information provided by the managers of this property type, tenants may pay no more than 50% of their income on rent and utilities and typically tenants will pay no more than 45% of income on gross annual rent. Based on this information, the minimum incomes for tenants have been calculated on the following table:

Unit Type	Monthly Rent-Gross	Annual Gross Rent	Max. % of Income	Minimum Income
1-BR @ 50%	\$ 726	\$8,712	45%	\$19,400
2-BR @ 50%	\$ 872	\$10,464	45%	\$23,300
1-BR @ 60%	\$ 872	\$10,464	45%	\$23,300
2-BR @ 60%	\$1,047	\$12,564	45%	\$27,900

The income range for each of style of LIHTC units in the subject is summarized below:

	Min. Income	Max. Income
1-BR @50%	\$19,400	\$29,040
1-BR @60%	\$23,300	\$34,900
2-BR @ 50%	\$23,300	\$34,900
2-BR @ 60%	\$27,900	\$41,880

The number of age- and income-eligible potential tenants has next been estimated by summing the number of renter households consisting of two or fewer people aged 55 and older with incomes between the minimum and maximum ranges specified above. Although there may be households containing three or more people that are income-eligible, it is improbable that a three+-person household would occupy an affordable apartment in a project intended primarily for older residents. The analysis follows:

Number of Age- and Income-Eligible Market Area Renter Households
1-Person HH 2-Person HH

\$0-\$10,000	64	1
\$10,000-\$19,400	55	16
\$19,400-\$20,000	3	1
\$20,000-\$23,300	2	1
\$23,300-\$27,900	3	1
\$27,900-\$29,040	1	0
\$29,040-\$30,000	1	0
\$30,000-\$34,900	15	11
\$34,900-\$40,000	16	11
\$40,000-\$41,880	1	1
\$41,880-\$50,000	5	2
\$50,000+	38	32

The numbers of potential market area renter households that are age- and income-eligible for occupancy of the tax credit units at the subject are highlighted in the table above. Based on the household income data by tenure and age presented in this report, there are approximately 51 primary market renter households that are currently eligible for occupancy at the subject. The table also illustrates that there are 136 market renter households headed by people aged 55 and older that have incomes that are too low for occupancy at the proposed subject property. This indicates there would be greater demand if subsidies can be obtained to increase affordability to lower income tenants.

A summary of the potential income- and age-eligible market area renter households by size is presented below:

Summary of Income-Qualified Households Size
1-person 2-person
Household Household

25 26

Significant to this market segment are the limited number of competitive affordable housing options. As previously discussed, there are three other affordable housing properties in the market area, two of which are age-restricted. In addition, there are six subsidized units at a predominately market-rate elderly housing property in Milton. The Mountain View Apartments in Fairfax, the Meadow Lane units in Milton, and the subsidized units at 30 School Street in Milton contain a total of 62 units that are restricted to elderly and disabled tenants, are subsidized, and are intended for very low income tenants. These tenants pay only 30% of their income for rent, regardless of income level. These 62 units are insufficient to come close to providing affordable rental housing for the 136 market area renters age 55 and older who cannot afford the LIHTC rents of the subject.

In summary, market area affordable rental units appear to be in undersupply. This is consistent with the evidence from the interviewed property managers in Chittenden and western Franklin Counties who report strong rental demand and relatively few vacancies at affordable housing properties.

Next, the capture rate was estimated. Capture rate is defined in the Dictionary of Real Estate Appraisal, Fifth Edition as “the estimated percentage of the total potential market for a specific type of property that is ... forecast to be absorbed by proposed facilities”. Deduct-

ing the number of market area income-eligible renter households from the number of existing affordable apartments results in an indication of the number of renter households that are underserved by the existing affordable housing stock. The capture rate is then calculated by dividing the proposed number of income-restricted apartments by the number of un-served age- and income-eligible renter households. The calculations are presented on the following table:

Eligible Renter Households	# of Competing Units	Un-served Eligible Renter Households	Proposed Units	Capture Rate
51 income- and age-eligible renters only	0 (excludes subsidized units)	51	35	69%

In order to achieve full occupancy at the subject, the project must capture most (about 69%) income-eligible market area renter households in order for the property to achieve full occupancy. This capture rate is high, indicating there is the risk that the proposed development cannot be supported by the existing market area renter households.

Several factors suggest the project will be more successful than is implied by the derived capture rate. First, the sample size is small and assumes no in-migration from outside the market area. In fact, based on the experience of other new elderly-restricted affordable properties, some tenants would almost certainly come from outside the market area. The quality, condition and amenities at the subject will be more desirable than those of alternate rental properties, and the proposed rents are below market as demonstrated later in this report, resulting in a rent advantage. The combination of superior quality and condition, and the rent advantage would likely result in renters opting to move from less desirable residential rentals to the subject units.

Changing demographics favor the project. As presented earlier, the number of market area renter households headed by people older than 55 is expected to increase by 69 households between 2013 and 2018. There are also a large and growing number of market area owner households. The following table contains the number of market area owner households headed by people aged 55 and older by household size and income band:

Owner Households by Size and Income, Age 55+ (2013 estimated)

	1-Person HH	2-Person HH	3-Person HH	4-Person HH	5-Person HH
\$0-\$10,000	13	26	6	6	3
\$10,000-\$20,000	170	67	10	5	2
\$20,000-\$30,000	129	68	19	5	4
\$30,000-\$40,000	99	151	10	1	0
\$40,000-\$50,000	82	144	54	3	1
\$50,000-\$60,000	74	136	29	1	11
\$60,000+	<u>85</u>	<u>892</u>	<u>184</u>	<u>64</u>	<u>60</u>
Total	652	1,484	312	85	81

The table above shows that most owner households aged 55+ consist of one or two people and that this group includes 2,136 households. The 2018 projections show that the number of market area owner households will increase by 526 over the 2013 estimate, an increase of 20%. Anecdotal evidence suggests there are a significant number of older homeowners with relatively low incomes who would opt to move into senior rental housing if available. A property manager reported that over half of the residents of the new 25-unit

Vergennes Senior Housing moved from owned homes. Only a relatively small number of the older market area owner households would have a large impact on demand for the proposed apartments. The projected growth in the number of older market area homeowners and renters suggests sustained demand.

Market Rent Analysis

Next considered were market rents in relation to the maximum tax credit rents. The rents of market rate apartments were compared to the maximum allowed tax credit rents. The data and analysis is presented on the following table:

<u>Location</u>	<u>BR</u>	<u>Mly Rent</u>	<u>Tenant Exp.</u>	<u>Utility Adjust.</u>	<u>Physical Adjust</u>	<u>Adjsted Rents</u>
Subject	1	\$726-\$872	None	--	--	\$726-\$872
	2	\$872-\$1,047	None	--	--	\$872-\$1,047
50 Middle Road (4 units)	1	\$1,100	None	--	--	\$1,100
30 School St. (21 units)	1	\$750-\$825	Utilities	+\$111	+\$100	\$961-\$1,036
	2	\$925	Utilities	+\$150	+\$100	\$1,175
7 Southberry(2 units)	1	\$800	Utilities	+\$111	--	\$911
80-82 Herrick Ave(4 units)	2-3	\$1,250-\$1,275	Utilities	+\$150	-\$100	\$1,300-\$1,325
1 River Street (8 units)	2	\$875-\$1,200	Utilities	+\$150	+\$150	\$1,175-\$1,500
Boysenberry Dr. (24 units)	2	\$1,100-\$1,150	Utilities	+\$150	-\$100	\$1,150-\$1,200
Boysenberry Dr. (42 units)	3	\$1,200-\$1,300	Utilities	+\$189	-\$100	\$1,289-\$1,389
Southberry Dr. (33 units)	3	\$1,200-\$1,300	Utilities	+\$189	-\$100	\$1,289-\$1,389
2 Clapper Rd. (1 unit)	3	\$1,200	Utilities	+\$189	+\$150	\$1,539

The data indicate there are relatively few 1-bedroom units in town and many 2- and 3-bedroom apartments. Most of the rental comparables have rents that are the same or slightly higher than two years ago.

The elderly/disabled-restricted 1-bedroom apartments at **50 Middle Road** are rented for \$1,100 per month including utilities. The apartments are reportedly served by heat pumps that provide heat and air-conditioning. The **School Street** apartments are also restricted to occupancy by older and/or disabled residents. The units were converted from a school to residential rentals around 2000. Most of the 1-bedroom units are rented for \$825. A small 1-bedroom is currently being offered for \$750.

The 1-bedroom units at **7 Southberry Drive** are located on the second floor of a newer mixed use building. **80-82 Herrick Avenue** consist of two side-by-side townhouses duplexes with basements, garages, and decks. **1 River Street** is a renovated walk-up building. The 8 apartments are all 2-bedroom units that range in size from 720 SF to 1,200 SF. The rents range from \$875 to \$1,200 per month depending on the unit size. Most units in the building are around 900 SF to 1,000 SF in size and rent for about \$1,000 to \$1,100 per month plus utilities.

The **Boysenberry Drive** units were recently constructed. The townhouse units have basements, decks and garages. The **Southberry** units are new and similar to the Boysenberry units, except there are no basements. **2 Clapper Road** is a rented 3-bedroom home.

The comparable rents were adjusted to the subject with the results being an indication of market rent for the subject 1- and 2-bedroom units. Adjustments were applied for differences in utilities. The rents of the apartments at the subject will include heat, hot water and electricity as a landlord expense. Most of the comparables require the tenants to pay those utilities and positive adjustments were made to those comparables to account for the differences in landlord-paid utilities. The amounts of the adjustments are based on the utility allowance schedule published by the Vermont State Housing Authority. Adjustments were also made for physical differences. Assumed is that the subject will be new and have features typical of elderly-restricted LIHTC properties in the northwestern Vermont. The units at 50 Middle Road and 7 Southberry Drive are considered similar to the subject and were not adjusted. 30 School Street, 1 River Street and 2 Clapper Road are older buildings and were positively adjusted. The remaining properties are more desirable because of amenities including garages, decks, and, in most cases, basements.

The high indication of market rent for the 2-bedroom rent is from a large unit at 1 River Street. The indications of most units at that property range from \$1,175 to \$1,400. A table comparing the proposed rents to the adjusted comparable rents is contained below. The adjusted rent comparables indicate the maximum tax credit rents of the subject are below market. This advantage will help absorption and aid in maintaining occupancy.

<u>Size</u>	<u>Maximum LIHTC Rent</u>	<u>Concluded Market Rents</u>
1 Bedroom	\$670-\$804	\$911-\$1,100
2 Bedroom	\$872-\$1,047	\$1,150-\$1,500

Absorption Rate

The absorption of the proposed units was next considered. Given the limited amount of relevant data in the subject market area, the rates of absorption of similar newly developed tax credit rental properties in the larger geographical area were analyzed. The data are summarized in the following table:

Location	Marketing Period	# Res. Units	Absorption Rate
Middlebury South Village Middlebury	Mid-2007 to 1/08 7 months	30	4.3/month
Willard Mill St. Albans	11/07 to 2/08 3 months	27	9.0/month
Sylvan Woods Stowe	8/07 to 1/08 5 months	28	5.6/month
King Street Apartments Burlington	8/15/08 to 2/28/09 6.5 months	20	3.1/month
Town Meadow Senior Housing Essex	2/1/09-6/30/09 5 months	48	9.6/months
Cedar's Edge Essex	6/11 to 10/11 5 months	30	6.0/month
Stanislaus Apartments West Rutland	6/11 to 12/11 6 months	21	3.5/month
Vergennes Senior Housing Vergennes	1/12 to 3/10/12 2.5 months	25	10/month
Brandon Scattered Sites Housing Brandon	4/14/13 to 9/27/13 5.5 months	18	3.3/month

The most recently developed LIHTC property are family units in a completely renovated building at the former Brandon Training School. Marketing of the units preceded the building completion by two months. Once the building was completed, the 18 units were absorbed in 3.5 months, a rate of just over 5 units per month. Reportedly, the absorption of the units was slowed somewhat by an effort to find tenants needing an accessible unit.

The two projects that have been most rapidly absorbed since 2009 were both elderly and disabled-restricted properties. The Essex and Vergennes properties were both absorbed at the rate of about 10 units per month.

Based on the data above and with consideration given to local market conditions, the rate of absorption is estimated at roughly 4 or 10 units per month and assumes marketing of the property will precede completion of construction by two or more months.

Summary

The market area has seen moderate growth in population and housing units, and this trend is anticipated to continue. Growth appears to be the result of favorable access features and relatively low housing costs. Residential rental demand in Milton has been adequate to support the development of an average of about 40 residential rental units per year over the last 5 years.

There is an ample supply of land approved for multi-family residential development in the Town of Milton. Several projects have been approved for elderly housing development, but have not proceeded possibly because of some combination of factors including adverse market conditions, a lack of funding, and/or the inability to create new rental housing profita-

bly. There are three proposed and approved or partially approved projects that if completed, would introduce a large number of units in the market. There appears to be a risk is that the number of units created in the coming years may result in an oversupply of rental housing.

To date, rental demand has been sufficient to maintain high rates of occupancy and to absorb dozens of new units. Based on rent surveys completed over the last two or three years, rents appear to be either stable or increasing only moderately. The market area is characterized by market rents that exceed the maximum allowable tax credit rents, resulting in a rent advantage for the proposed subject apartments. Fewer than 20 modern 1-bedroom apartments were identified for use in the conclusion of market rent. There are about 685 market area renter households (all ages) that contain either 1 or 2 people suggesting there is an undersupply of this unit size.

A significant risk to the feasibility of the project is that to achieve stabilized occupancy, the property must capture a large percentage of income- and age-eligible market area renter households. However, the defined market area is characterized by few affordable housing options and none that are aimed at households at the 50% to 60% of area median income. If developed, the proposed property would likely draw from a larger geographic area and would also draw from the large number of age- and income-eligible market area households that are currently homeowners. A recently developed affordable senior housing property in Vergennes drew half of its tenants from owned housing. Risk could be reduced by making the apartments as affordable as possible either by charging less than the maximum allowable rents or by obtaining rent subsidies.

New LIHTC properties have been well-received as indicated by fast absorption and high levels of occupancy. The rates of absorption typically range from 4 to 10 units per month, with faster absorption experienced by age-restricted properties. Managers of both affordable and market-rate residential rental properties report that tenants have a strong preference for new apartments. New affordable LIHTC properties typically provide ample proximate parking, common areas such as meeting and/or exercise rooms and elevators. The coordination of care through the SASH program and the anticipation of being within walking distance of shopping are expected to enhance the marketability of the units.

In summary the risks are that there will be an oversupply of competitive housing and too few eligible market area tenants. Conversely, the increasing numbers of older residents, the rent advantage of the tax credit apartments, the limited number of competitive LIHTC properties in the market and the successful introduction of new LIHTC properties in similar market areas suggest that if developed, the subject apartments would be absorbed and a high rate of occupancy would be maintained.

I hope this adequately addresses your concerns. If you or any authorized user of the study have questions or require additional information, let me know. I can be reached at 658-1053 ext. 5.

Sincerely,

A handwritten signature in blue ink, appearing to read "Kurt J. Kaffenberger". The signature is fluid and cursive, with a long horizontal stroke at the end.

Kurt J. Kaffenberger, MAI

CERTIFICATION

I certify that, to the best of my knowledge and belief:

- the statements of fact contained in this report are true and correct.
- the reported analyses, opinions, and conclusions are limited only by the reported assumptions and limiting conditions and are my personal, impartial, and unbiased professional analyses, opinions, and conclusions.
- I have no present or prospective interest in the property that is the subject of this report, and I have no personal interest with respect to the parties involved.
- I have performed no services, as an appraiser or in any other capacity, regarding the property that is the subject of this report within the three-year period immediately preceding acceptance of this assignment.
- I have no bias with respect to the property that is the subject of this report or to the parties involved with this assignment.
- my engagement in this assignment was not contingent upon developing or reporting predetermined results.
- my compensation for completing this assignment is not contingent upon the development or reporting of a predetermined value or direction in value that favors the cause of the client, the amount of the value opinion, the attainment of a stipulated result, or the occurrence of a subsequent event directly related to the intended use of this appraisal.
- the reported analyses, opinions, and conclusions were developed, and this report has been prepared, in conformity with the Code of Professional Ethics and Standards of Professional Appraisal Practice of the Appraisal Institute.
- the reported analyses, opinions, and conclusions were developed, and this report has been prepared, in conformity with the Uniform Standards of Professional Appraisal Practice.
- I have made a personal inspection of the property that is the subject of this report.
- no one provided significant real property appraisal assistance to the person signing this report.
- the use of this report is subject to the requirements of the Appraisal Institute relating to review by its duly authorized representatives.
- as of the date of this report, I have completed the requirements of the continuing education program for Designated Members of the Appraisal Institute.



Kurt J. Kaffenberger, MAI

December 17, 2013

Date

QUALIFICATIONS OF THE APPRAISER

Kurt J. Kaffenberger, MAI

- I. Education: Year
Bachelor of Arts, History, University of Vermont 1980

- II. License:
Licensed as Certified General Real Estate Appraiser, #80-12, State of Vermont,
6/1/13-5/31/14

- III. Technical Training:
Numerous and on-going appraisal courses and seminars beginning in 1978. Challenged and passed Society of Real Estate Appraisers Courses 101 and 102 in 1987 and Appraisal Institute's Capitalization Theory and Techniques, Parts I and II in 1991.

- IV. Experience and Current Status:

December 2006-present	Partner O'Brien, & Kaffenberger, Inc. Real Estate Analysts & Appraisers
July 1985 – November 2006	Independent Fee Appraiser, Partner Keller O'Brien, & Kaffenberger, Inc. Real Estate Analysts & Appraisers
May 1983 – July 1985	Staff Appraiser, George Silver & Associates Real Estate Appraisers & Analysts
June 1980 - January 1982	Staff Appraiser, Karl G. Kaffenberger, MAI

Professional experience includes completing appraisals of a wide range of commercial, industrial, residential development and apartment properties for local and regional commercial lenders, attorneys, individuals, non-profits and governmental entities.

- V. Professional Membership:

Member Appraisal Institute - MAI Designation

Currently certified under the Appraisal Institute Continuing Education Program

Sources

US Census

Ribbon Demographics

Vermont Housing Data Profiles

Directory of Affordable Rental Housing

Chittenden County Regional Planning Commission documents

Milton Planning Department

Area developers, landlords and property managers

DEFINITIONS

PURPOSE

The purpose of this appraisal is to conclude an opinion of the prospective market rents of the subject property herein described as part of the market study. The appraisal pertains to the property's leased fee interest or estate.

MARKET RENT

Market rent is defined as "The most probable rent that a property should bring in a competitive and open market reflecting all conditions and restrictions of the specified lease agreement including term, rental adjustment and revaluation, permitted uses, use restrictions, and expense obligations; the lessee and lessor each acting prudently and knowledgeably, and assuming the price is not affected by undue stimulus. Implicit in this definition is the consummation of a lease as of a specified date and the passing of leasehold from lessor to lessee under conditions whereby:

1. lessor and lessee are typically motivated;
2. both parties are well informed or well advised, and acting in what they consider their best interests;
3. a reasonable time is allowed for exposure in the open market;
4. the rent payment is made in terms of cash in United States dollars and is expressed as an amount per time period consistent with the payment schedule of the lease contract;
5. the rental amount represents the normal consideration for the property lease unaffected by special fees or concessions granted by anyone associated with the transaction."

The market rent opinion is based on the hypothetical condition that the improvements have been completed as described. The highest and best use of the property is a rent- and income-restricted residential rental property. This conclusion is based on the restrictions associated with the anticipated land use restriction agreement. The results are presented in a summary report format.

PROPERTY RIGHTS APPRAISED

The property rights appraised herein relate to the leased fee interest or estate. Leased fee estate is defined as "An ownership interest held by a landlord with the rights of use and occupancy conveyed by lease to others. The rights of the lessor (the leased fee owner) and the leased fee are specified by contract terms contained within the lease."

INTENDED USE AND INTENDED USERS

The "intended use" is defined in the Uniform Standards of Professional Appraisal Practice (USPAP) as "the use or uses of an appraiser's reported appraisal,..., as identified by the appraiser based on communication with the client at the time of the assignment." The "intended user" is defined in the USPAP as "the client and any other party as identified, by name or type, as users of the appraisal,...by the appraiser on the basis of communication with the client at the time of the assignment." The appraisal of market rent is part of the market study. The client and intended user is Cathedral Square Corporation. The intended use of the study is to aid in decision-making. The appraiser is of the understanding the study

may be used by VHFA and other permanent lenders in connection with funding of the proposed development.

EFFECTIVE DATE OF THE APPRAISAL AND DATE OF REPORT

The effective date of the appraisal is November 25, 2013. The report was completed on the date shown on the letter of transmittal. The last date of inspection was November 25, 2013.

SCOPE OF WORK

The appraiser was engaged by Cindy Reid, Director of Development, Cathedral Square Corporation to complete a market study of a contemplated income- and rent-restricted development intended for elderly and disabled tenants in Milton, Vermont. The client requested a market study in order to judge the demand of the proposed development. The study includes an opinion of market rent, which is an appraisal subject to USPAP.

The site of the contemplated project site has not been selected, although the client indicated the site would be in or near Milton Village. The proposed building and site improvements have not been designed. Reportedly, the buildings will incorporate features similar to other properties developed by Cathedral Square Corporation. A brief description of the probable features of the building was provided. During the course of completing the study, the neighborhood was inspected. The comparable rent information was obtained and confirmed with owners and managers. The analysis completed is described in this report.