

To: Senate Committee on Economic Development, Housing and General Affairs  
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Date: February 10, 2023  
RE: Housing Bill Draft 6.1

**Narrative:** I was asked to provide testimony on what appraiser's refer to as external (economic) obsolescence in new market-rate residential construction; what is commonly referred to in Vermont as the 'Missing Middle'. This testimony is based upon my 17 years of experience as a commercial and residential real property appraiser in 'rural' Vermont and represents only my personal experience, views, and opinions.

Despite an increase in single-unit residential sales pace and median sales price during the COVID pandemic, inflation in residential construction costs; all sources; has outpaced market value upon completion. There is no evidence of financial feasibility in new prospective single-unit construction in 'rural' Vermont, simply defined as those portions of the state outside of the Burlington MSA. Those new single-unit homes being built are in direct response to the needs and desires of an owner-occupant and for their own use as a primary or vacation home. At completion there is economic obsolescence between 5% and 30% depending on the size, quality, and customization of the home.

Construction of new multi-unit residential properties in rural Vermont is also not financially feasible as, despite recent increases in market rent, it is well below the feasibility rent required to support new construction due to inflation in multi-unit residential construction cost. While a few micro-neighborhoods of superior residential demand (e.g. White River Junction, Manchester, Morristown, Stowe, ...) have evidence of new private market-rate multi-unit residential construction, since 2020 these projects are completed at rate to their equity below the rate to the mortgage. This simply means that the mortgagee makes a better return on their investment (mortgage capital) than the developer makes on their much-riskier investment (equity capital). This is 'upside-down' and discourages new market-rate private investment. Without exception, the private developers that do ultimately engage in new market-rate multi-unit residential construction plan to increase the return on their equity investment by holding the asset, managing the property over the foreseeable future, and taking rent increases as quickly as the market will allow without risking an above-market vacancy rate. Furthermore, and almost without exception, these developers limit their projects to 9 units or less to avoid the costs, delays, and uncertain outcomes of the Act 250 process with the current definition of 'Development' at 10 units.

### **Important Provisions to Retain**

- Section 13 (Page 14 of 43) redefining 'Development' in 10 V.S.A. § 6001 from 10 to 20 units
- Section 31 (Page 31 of 43) capping the Missing Middle subsidy at 35%

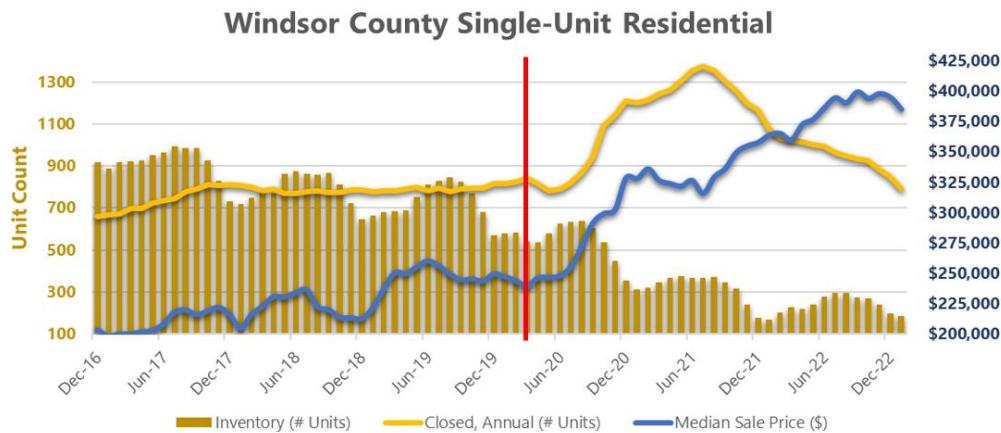


## Suggested Revisions

- Section 25 (Page 28 of 43) further define limits for the Department of Housing and Community Development on 'design and implement' a program where the State subsidizes employer-created housing for its workforce. After decades in a system where health care was tied to employment Vermonters (and the Federal Government...) created a more equitable system divorcing the two. Funding a new system where housing is tied to employment should be carefully considered and debated by the Legislature prior to 'design and implementation'.
- Section 31 (Page 31 of 43), raise the cap on households eligible for Missing Middle subsidies from 120% to 150% area median income based on the affordability metrics presented below.

## Addenda

Typical (Windsor County as an example) single-unit residential market metrics pre- and post-COVID: Median Sale Price is + 69% post COVID.



Affordability of single-unit housing ~pre- and post-COVID by County

Affordability Ratio: Year End 2020		Affordability Ratio: Year End 2022	
County	Ratio	County	Ratio
Orange	90%	N.E.K.	152%
Franklin	98%	Washington	152%
Rutland	99%	Orange	153%
N.E.K.	111%	Grand Isle	154%
Addison	116%	Franklin	158%
Washington	118%	Rutland	162%
Grand Isle	128%	Addison	168%
Windsor	129%	Bennington	186%
Windham	131%	Windham	195%
Bennington	134%	Windsor	208%
Chittenden	138%	Chittenden	208%
Lamoille	165%	Lamoille	230%

**Affordability Ratio = Median Household Income required to Purchase the Median Priced Single-Unit Home**