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100 Westminster Street, Suite 1700  
Providence, Rhode Island 02903

401.274.6611 // phone  
401.751.7088 // facsimilie

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March 12, 2024

The Honorable Stephen M. Casey  
Chairman  
House Committee on Municipal Government and Housing  
82 Smith Street  
Providence, RI 02903

Written Testimony Expressing Concerns Re: H 7651

Dear Chairman Casey:

I am writing to express my strong opposition to H 7651 and the proposed changes to the 8-law statute. I have converted two downtown historic buildings from office use to residential/retail mixed use as part of RI Housing's Workforce Housing Innovation Challenge Loan Program ("WHIC"). I fully agree with RI Housing's statement that "a thriving community has a mix of housing types offered at a variety of price points." I also agree with RI Housing that "the high cost of land, energy, labor and materials...make it just as expensive to build in Rhode Island as it is to build in Massachusetts. With lower rents in Rhode Island, the math on these projects doesn't work."

The 8-law is legislation that encourages development of affordable housing and without legislation such as this, as RI Housing points out, the math simply doesn't work. I support the closing of the loophole that allowed certain landlords to argue that income from commercial tenants should also be calculated under the 8-law. However, I am firmly opposed to any further restrictions of the application of the 8-law and in fact believe it should be expanded to include not only buildings that were converted to residential, but also new buildings built from the ground up.

With the existing housing crisis, the goal is clearly to encourage building more housing, not to take away existing programs that help achieve that goal. In exchange for the 8-law tax treatment, an owner must record a restrictive covenant requiring a certain percentage of units (20% in the case of the WHIC program) to be income restricted for thirty (30) years. This restrictive covenant recorded in the land records reduces the value of the building, makes financing more complicated and ties the owner's hands with respect to the current and future use of their property. This is therefore not a "freebie" windfall for developers, but rather a carefully calculated trade-off between the government and the property owner.

In my two small buildings, we now have over 20 income restricted units in fully renovated downtown buildings that otherwise would have none, because without the 8-law tax treatment, I would be forced to make all units market rent in order to make the projects viable. If the income used to calculate the tax treatment is based only on the income yielded from the restricted units, the projects would not make economic sense. If a greater number than 20% of units have to be income restricted, the projects don't make economic sense. The 8-law encourages the development of *both* market rate and affordable housing units, the scarcity of which is causing the current housing

crisis. Unless the government wants to get into the business of developing real estate, the only solution is for the government to foster an environment and create programs, such as those developed by RI Housing, which support the development of housing in our state. Without these programs, the glut of vacant buildings due to post-pandemic work trends, will continue to grow and leave us with a future of urban blight leading to a reduction in tax revenue that far exceeds any reduction caused by the application of the 8-law.

Sincerely,

  
Joseph R. Paolino, Jr.