

**Subject:** Premiums: a continued trim

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**From:** Abdulrahman Ateya

**Sent:** Monday, November 27, 2023 9:55 PM

**To:** Planning <[Planning@a2gov.org](mailto:Planning@a2gov.org)>

**Subject:** Premiums: a continued trim

Hello,

I am writing today to discuss D1/D2 premiums, which are an unfortunate and failed attempt at trying to extract "community benefits" from private developers, which comes from a theoretical misunderstanding of the basis of how value capture functions.

1. It must be stated that the burden of affordability and inclusivity cannot be passed on to the private market. Ann Arbor, being the openly liberal and progressive city it is, must know that. The best way to solve a market failure is to simply solve the market failure yourself, instead of trying to create convoluted regulations to get someone else to do it. You can see this ethos in who Ann Arbor votes for in State & Federal primary elections.
2. Affordability premiums force the entire burden of solving the affordability problem onto new development. New developments are not the only kind of development that cause unaffordability, as that is a function of demand. A new apartment in Ann Arbor is more expensive than one in Novi, simply as a function of demand for an apartment as compared to supply here versus Novi. We correctly recognized that burdening only new housing with the cost of bringing "affordable housing" was a bad plan and passed the affordable housing millage, which taxes every property in the city at 1.0mils. On that note, new construction in downtown will pay a lot of money into this fund, every year!
3. We have a housing shortage. Not an affordable housing shortage, as many people like to call it, but just a raw shortage of housing. If you are able to find a halfway decent apartment in Ann Arbor between the months of July and December, please let me know, as I would like to know your magic. Building more housing is proven to fix shortages. If the city did not build more housing from the A2D2 study, we would have significantly more problems with housing as the student population growth would not have been absorbed. A housing shortage manifests as an "affordable housing shortage", because the people at the bottom of the market are most negatively affected.
4. The issue with the basis of the affordability premiums is that they believed that land costs would go down because the income of the highest and best use would go down. Unfortunately, the price of land is not completely based on the highest and best use, because that is subject to change. It is based on the highest and best use when utilizing comparable properties in the area. This means that if you add premiums to an area, and there is a landholder right by a new high rise, the landholder won't sell their property for a capital loss. We have this situation downtown. First Martin has no incentive to sell or develop their downtown parking lots, because they can't unlock their full potential. Also, since our taxes are based on property and improvements, there is no incentive to develop something to pay for the property taxes, which are minimal. Land value tax would fix this.
5. Affordability premiums don't depend on low land values to function. They depend on high land values to function. The places with the most units built from inclusionary zoning are places with incredibly high land values. This sounds counterintuitive, but it is true. You can get around this issue by using subsidy or tax abatement or other methods, but the higher the land value, the higher the ability to rent out the physical property above the land. IZ depends on the ability of the market rate rents to subsidize the affordable rents, which means that if a property can command \$5psf+, it is more likely to pay the difference of the affordable units. That high psf rent is only possible in places with insanely high land values, because demand is for land,

which is the main determinant of property value, rather than property, which physically has the same value regardless of where it is placed.

6. Affordability premiums absolutely blow up any kind of pro forma analysis. Attached is a pro forma of a fake property in downtown Ann Arbor. <https://docs.google.com/spreadsheets/d/1mPWMBVMnOrM7stypmjdcGvHGQ---wZyClyGmJWh-sYg/edit?usp=sharing> I would be happy to discuss it and any assumptions. It is automatic so you should be able to make a copy and play with it.
7. "Affordable" units in luxury buildings also come in the form of an indirect subsidy. The money

Thank you for reading, and I hope the planning commission gets rid of these counterproductive and inefficient ideas.

Best,  
Abdul

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