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Connecticut's Urban Housing Policy:

A New Approach Focused on Sustainable Neighborhood Revitalization

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Introduction

This paper is part of a series of Connecticut Policy Institute policy papers outlining recommendations for how Connecticut's state government can improve the direction of its struggling cities. The project includes government interventions in four areas of urban policy: jobs, education, housing, and crime. This paper is focused on urban housing policy.

Connecticut's cities developed in the 19th and early 20th centuries as manufacturing centers, and their current crises began in the 1970s and 80s with the exodus of manufacturing companies from the northeast United States. This exodus not only reduced the number of manufacturing jobs available; it eroded the tax base that supported urban infrastructure, education, policing, and other government services, while adding to the costs of those services. Employers and middle-income families remaining in cities were faced with higher tax rates and less value from government in return for those taxes – unsurprisingly many left for the suburbs.

Falling income levels led housing stocks to deteriorate and crime rates to rise. Poor housing quality leads to health and other quality of life problems for neighborhood residents, and neighborhoods perceived to be in decline struggle to attract private investment. This further erodes community wealth and clusters disadvantaged populations in deteriorating neighborhoods, contributing to a cycle of impoverishment and neighborhood deterioration.

Over the past several decades, Connecticut's government – assisted by the federal Department of Housing and Urban Development (HUD) – has tried to address this challenge by spending hundreds of millions of dollars subsidizing the construction of new housing. Government-assisted units currently constitute 18.7% of the housing stock in Hartford, 14.9% in New Haven, and 9.8% in Bridgeport, far more than in surrounding areas.[1] Yet the neighborhoods that contain this subsidized housing remain characterized by vacant lots, abandoned and blighted properties, and the all-to-common social ills that are often evident in areas of blight and abandonment.

Connecticut's subsidized-construction approach towards urban housing policy has failed for two reasons.

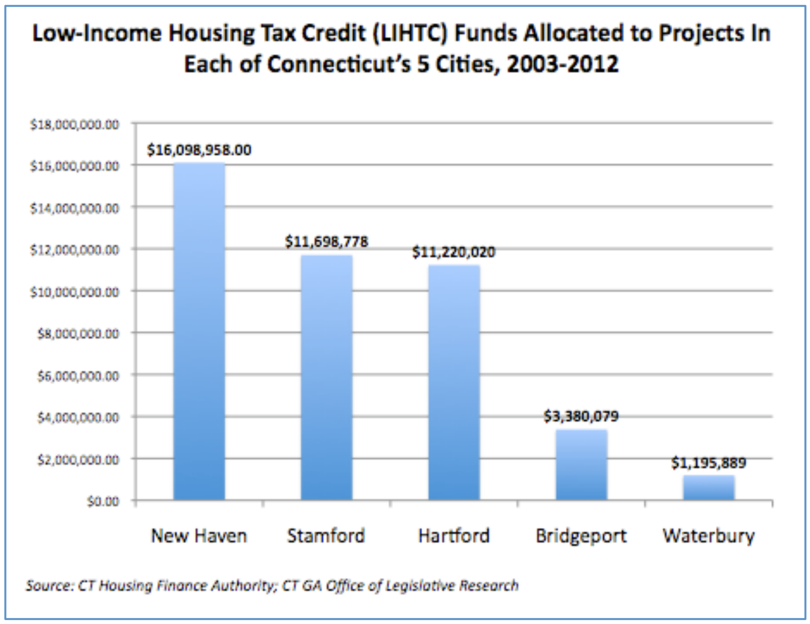
First, adding housing supply to a deteriorating neighborhood with stagnant demand can make things worse rather than better by exacerbating the underlying causes of neighborhood deterioration. Higher vacancy rates drive down housing prices, leading private investment to flee, reducing community resources available for neighborhood upkeep, and concentrating disadvantaged residents in deteriorating neighborhoods.

[1] Data from Partnership for Strong Communities Housing Profiles. Includes only government-assisted housing units, not all affordable housing (e.g. section 8 tenant assistance vouchers not included).

Instead of simply funding new housing, government must work to understand the market behaviors that have resulted in little or no demand and intervene in ways that reposition weak-market neighborhoods into vibrant and self-sustaining communities that can compete for private investment.[2] These interventions might include financial assistance to homebuyers, grants to homeowners for upkeep projects, improvements to public sidewalks and landscaping, and other programs to build resident and community capacity to manage threats and improve image.[3]

Second, housing funding as been allocated inequitably amongst Connecticut's disadvantaged cities. The big "winner" of this inequity is Hartford, the beneficiary of a number of state-funded redevelopment programs dedicated exclusively to the state's capital – most recently the Capital Region Development Authority, a $60M state-funded project to subsidize new housing construction in downtown Hartford.

But even funding streams nominally available to the entire state have been allocated disproportionally and inequitably to certain areas. For instance, the chart on the right shows the value of Low-Income Housing Tax Credit (LIHTC) subsidies the Connecticut Housing Finance Authority (CHFA) allocated to projects in each of the state's five cities from 2003-2012. All five cities have roughly the same population – there is no reason grounded in sound policy that New Haven, Stamford, and Hartford should each receive more than 3 times as much funding as Bridgeport and about ten times as much funding as Waterbury.



Both the ineffectiveness and inequity of government housing funding is built into the structure and processes of Connecticut's housing programs. The purpose of this paper is to explain in greater detail some of the shortcomings of current housing policies in Connecticut and recommend concrete ways the state can reorient housing programs to more effectively and equitably improve neighborhoods where disadvantaged populations live and provide low-income families with greater economic opportunity.

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[2] David Boehlke, Great Neighborhoods, Great Cities, Goldseeker Foundation, 2004.

[3] Donald Poland, 'Healthy Neighborhoods: Creating Neighborhoods of Choice in Weak-Market Cities. http://www.donaldpoland.com/site_documents/Healthy_Neighborhoods_-_Creating_Neighborhoods_of_Choice_in_Weak-Market_Cities.pdf.

Summary of Policy Recommendations

1. The Connecticut General Assembly should require that state, regional, and local Plans of Conservation and Development include a housing needs assessment to inform the proper mix of affordable housing interventions. The needs assessment should include the current state of the area's real estate market (demand and price trends, vacancy rates, neighborhood appearance, community wealth, private investment levels, etc.), a site inventory and assessment of available sites, and an assessment of housing programs available locally and regionally for housing and access to housing.

2. Connecticut must reposition its affordable housing programs so that they no longer concentrate low-income families in distressed neighborhoods. Specifically,

   - The Connecticut Housing Finance Authority (CHFA) should change the point system for the low-income tax credits it administers so that they no longer prioritize affordable housing development in existing low-income neighborhoods.

   - The Connecticut Department of Housing should conduct a comprehensive review of all state housing programs with a view towards expanding funding eligibility to households earning between 80% and 120% area median income (AMI) for use in neighborhoods with AMI's below 80%.

3. The Governor and General Assembly should change the mandate of the Capital Regional Development Authority (CRDA) from building as many units of housing as possible in downtown Hartford to improving image, market, physical conditions, and social connections of the entire Hartford real estate market, especially distressed neighborhoods. As part of this, the state should require and allow for 5-7% of the $60 million lending pool (or future funding) to be used and allocated for market research, program planning, strategy development, and post-development housing support initiatives.

   The General Assembly should also consider creating similar funds to the CRDA for New Haven, Bridgeport, Waterbury, and other low-income urban areas, as long as these funds are charged with strategic interventions to rebuild real estate markets across the city and region, and not simply with constructing new housing units.

4. The General Assembly should remove regulatory barriers to private investment in low-income neighborhoods. At a minimum, the legislature should allow municipal land use commissions to voluntarily reorganize themselves into separate planning and permitting commissions; and it should prohibit permitting

commissions from applying review criteria beyond zoning requirements for developments on land zoned for "as-of-right" approval.

Rationale and Details of Policy Recommendations

1. Require Plans of Conservation and Development to Include Assessments of Housing Market Conditions and Affordable Housing Needs

Housing interventions aimed at repositioning weak-market neighborhoods into vibrant self-sustaining communities can involve a number of tools, including financial assistance to homebuyers, grants to homeowners for upkeep projects, improving public sidewalks and landscaping, building resident and community capacity to manage threats and improve image, and, in some cases, subsidizing the construction of new housing. The proper mix of interventions for a given city or neighborhood depend on the current state of that city's and neighborhood's real estate market – demand and price trends, vacancy rates, neighborhood appearance, community wealth, private investment levels, and so on.

Unfortunately, Connecticut state and local governments have typically failed to make use of these considerations when planning housing interventions. A good example of this is a recent neighborhood housing development in Hartford funded by HUD's Neighborhood Stabilization Program (NSP) but administered by the local government. In this case, NSP funding was used to construct 16 new housing units on Wyllys Street in Hartford as means of providing home-ownership opportunities to low- and moderate-income households. The Wyllys Street development cost $3,824,000, or $239,000 per unit.[4]

Providing more home-ownership opportunities to low- and moderate-income households is an important and valuable goal. But in the context of the overall Hartford housing market, constructing new homes is not the best way to achieve that goal. Hartford's housing vacancy rate increased from 11.1% in 2000 to 15% in 2011, reflecting a weak and weakening housing market where supply outpaces demand. Adding new supply to a market already suffering from oversupply further increases vacancy rates, undermining neighborhood stability and revitalization.

A better approach would have been to acquire and rehabilitate existing single-family homes that have been adversely impacted by the housing market crash and increase in foreclosures. The median single-family home sales value in Hartford is approximately $140,000, nearly $100,000 less than the per unit subsidy for the new production units. So the same $3.8 million could have been used to acquire 20 foreclosed single-family homes while still leaving $41,200 per property to allocate for new roofs, furnaces, electrical services, or other needed renovation.

The lesson here is that when deciding how to make housing more affordable to low-income residents, government needs to think critically about housing markets,

[4] Gosselin, Hartford Courant, March 25, 2013

submarkets, and the specific needs of a given location before deciding how best to intervene for maximum long-term impact.

One way to achieve this is through state, regional and municipal planning processes. Connecticut law currently requires state and local governments to develop periodic Plans of Conservation and Development to guide land use, zoning, and government-funded development.[5] But these plans rarely include any rigorous analysis of existing market conditions as a way to strategically guide intervention, particularly affordable housing subsidies and government-sponsored development more generally. The Connecticut General Assembly should amend the Connecticut General Statutes related to State (16a-30), Regional (8-35a), and Local (8-23) Plans of Conservation and Development to require that they include a housing needs assessment that includes the following:

- An assessment of existing and future need for housing by income level, including elderly, affordable, and supportive housing. The local needs assessment should include a regional context and how the local housing market relates and fits into the regional housing market.

- Trends in market indicators such as vacancy rates, population levels, income and employment levels, real estate prices, and housing permits.

- A site inventory and assessment of available sites—greenfield and redevelopment sites—including but not limited to zoning classifications, permissible use and density, available infrastructure, and environmental constraints.

- An analysis of regulatory housing constraints, including but not limited to land use controls, fees and exactions, on and off-site improvements, building codes, enforcement, permits, approvals, and administrative processes.

- An assessment of housing programs available locally and regionally for housing and access to housing.

- Quantified objectives of the number of units, by income level, to be constructed, rehabilitated, and conserved over the planning period to move towards addressing need. Where possible this plan should prioritize the rehab of existing structures and units over new construction and in-fill development.

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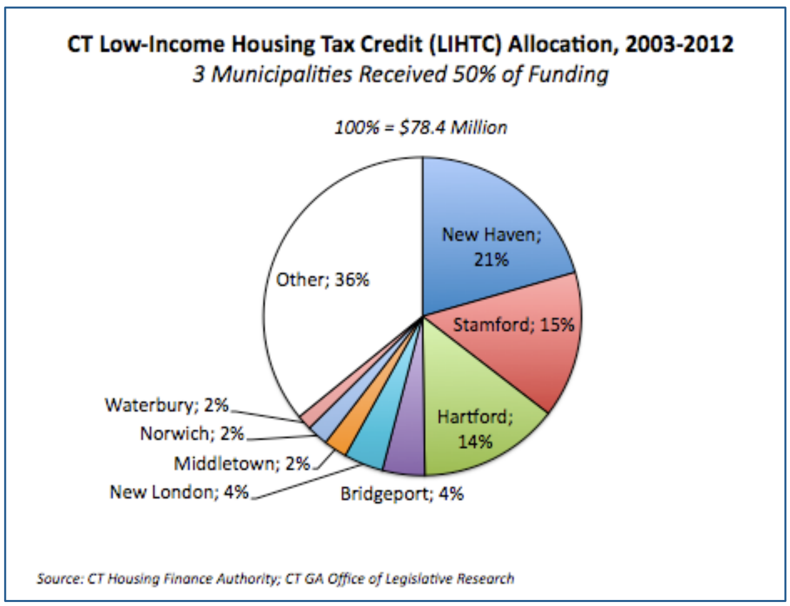
[5] See Connecticut General Statutes 16a-30 (state), 8-35a (regional), and 8-23 (local).

2. Reposition State Affordable Housing Policies That Prioritize Certain Geographies & Concentrate Low-Income Families in Distressed Neighborhoods

Another problem with Connecticut's supply-side affordable housing programs is that they have tended to cluster low-income households in poor neighborhoods, contributing to a cycle of poverty and neighborhood deterioration.

An example of this clustering can be seen in Hartford's Frog Hollow neighborhood. In recent years, many redevelopment projects have been clustered together in a very small geographic area. Park Terrace I (42 units), Park Terrace II (72 units), Brick Hollow (50 units), and the Zion Street project (24 units) have created close to 200 units of low-income housing in a very small six-block area. In addition, these 200 units of housing have cost millions in federal, state, and local government dollars. While these projects have succeeded in providing affordable housing, they have not resulted in an improved—redeveloped—neighborhood capable of attracting meaningful private investment without government subsidies.[6]

A major reason for this clustering is the policies of the Connecticut Housing Finance Authority (CHFA), which administers and sets eligibility guidelines for programs that provide significant tax relief to investors and developers involved in Connecticut low-income housing developments.[7]



CHFA awards tax credits based on a point system that gives priority to core urban communities and neighborhoods.[8] This results in the continued clustering of low-income households into our largest, most distressed, and weak market cities and

[6] Poland, 2009 'Healthy Neighborhoods: Creating Neighborhoods of Choice in Weak-Market Cities. http://www.donaldpoland.com/site_documents/Healthy_Neighborhoods_-_Creating_Neighborhoods_of_Choice_in_Weak-Market_Cities.pdf
(include full citation info)

[7] The programs are the federal "Low-Income Housing Tax Credit" (LIHTC) program and the state "Housing Tax Credit Contribution" (HTCC) program.
See
http://www.chfa.org/Rental%20Housing/for%20Developers%20and%20Sponsors/Funding%20Initiatives/Tax%20Credit%20Programs/default.aspx.

neighborhoods. Low-income housing is most needed in strong-market communities where housing is not affordable and the diversity of housing stock is limited.

CHFA's point system also gives priority to existing affordable housing providers, commonly non-profit community development corporations with relationships concentrated in certain cities and geographic areas.[9] This helps explain why half of all LIHTC funding has arbitrarily gone to three cities that constitute only 10% of the state's population (see chart on previous page). Additionally, the priority given to existing provides keeps entrepreneurial and innovative builders out of the affordable housing market.

The CHFA should make the following specific changes to its point system to alleviate these problems:

- Eliminate points awarded for priority locations that favor regional centers and qualified census tracks.

- Eliminate points awarded for neighborhood conservation areas.

- Limit points awarded for vacant and abandoned properties historic and brownfield properties.

- Restructure the point system for Qualifications and Experience. As designed, the point system favors existing providers, limiting completion, and preventing new developers/providers in to program.

- In addition to providing points for communities below the 10% affordable housing threshold, provide additional points for communities who provide a housing plan and implementation strategy and those that can demonstrate year-over-years success in producing units.

In addition to administering low-income tax credits in a way that does not concentrate low-income households in distressed neighborhoods, Connecticut should seek targeted ways to encourage middle-income households to move into weak-market cities and neighborhoods.

This process, often known as "gentrification," can be problematic if it serves to simply displace low-income residents into new, distressed neighborhoods. However, attracting some middle-class residents to weak-market neighborhoods can be economically advantageous to those neighborhoods' disadvantaged residents by attracting affordable commercial retail like grocery stores and affordable restaurants; stabilizing home prices without costs becoming prohibitively expensive; and more generally promoting a higher

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[8] http://www.chfa.org/Rental%20Housing/for%20Developers%20and%20Sponsors/Funding%20Initiatives/Tax%20Credit%20Programs/HTCC%20Program.aspx.

[9] *Id.*

quality of community life as the neighborhood becomes more attractive to private investments.

The Connecticut Department of Housing should therefore conduct a comprehensive review of all state housing programs with a view towards

- Expanding funding eligibility to households earning between 80% and 120% area median income (AMI) for use in neighborhoods with AMI's below 80%.

- Expand housing funding and programs to include low interest rehabilitation loans for both owner occupied homes and rental properties up to six units in core urban areas. Increase income qualifications for owners and renters to include households up to 120% AMI.

3. Add Market-Based Strategic Planning to Downtown Redevelopment Programs And Expand These Programs to Low-Income Neighborhoods

Just as government programs have generally failed to take sufficient account of market impacts when intervening in distressed low-income neighborhoods, government has similarly failed to sufficiently incorporate strategic thinking about markets into housing interventions targeted at downtown redevelopment.

Since the 1920s, most of Connecticut's urban downtowns have, to some degree, been in a state of decline, as manufacturing, retailing, and – more recently – commercial office space have been shifting away from small and mid-sized New England cities towards suburban areas and other regions of the country.[10] Since the early 1950s cities across the country have employed various downtown redevelopment schemes intended to arrest downtown decline and to create new kinds of uses for downtowns in the hopes of attracting new economic activity.[11] Generally speaking, these schemes have focused on government-subsidized construction of new residential and commercial buildings such as offices, sports stadiums and arenas, convention centers, parking facilities, high-rise housing, and entertainment districts[12] – all familiar strategies to Connecticut's downtown redevelopment efforts (for example, the construction of the New Haven Coliseum in 1972, the Hartford Civic Center in 1974, and the Bridgeport Harbor Yard ballpark in 1998 and arena in 2001).

Not all of these projects have been abject failures, but collectively five decades of supply-side revitalization projects have failed to revitalize Connecticut's downtowns. The reality is that most of Connecticut's downtowns, especially Downtown Hartford, still struggle to compete for population, jobs, investment, and wealth.

[10] (Mumford, *The City in History*, 1961; Jackson, Crabgrass Frontier, 1985).
[11] (Kaplin, et al, 2009; Miles, et al, *Real Estate Development: Principles and Process*, 2007)
[12] (Kaplin, et al, 2009; Miles, et al, *Real Estate Development: Principles and Process*, 2007)

In recent years, downtown redevelopment projects have focused particularly on government-subsidized housing projects.[13] In the case of downtown Hartford, the state recently allocated $60 million in housing funds to the quasi-public Capital Regional Development Authority (CRDA) to produce 2,000 government-funded housing units over the next five years in Downtown Hartford.[14] The CRDA "seek projects that are 80% market rate and 20% affordable." The CRDA will allocate the money on a first-come basis any developer that meets criteria aimed at producing as many new housing units as is economically possible with the available funding.[15]

There is nothing inherently wrong with a program that bridges the gap between construction costs and weak market rents (returns on investment) that don't justify or cover the risk of private sector investment. However, this alone is not a redevelopment strategy. It is a program solely designed to produce housing units—as many housing units as possible—as an end in and of itself. Little to know consideration given to how such an intervention will interact with or influence the greater market.

There are several reasons to believe the influence on the Hartford housing market will not be wholly positive. On the one hand, the market for existing downtown housing appears strong with occupancy rates reported near 95%.[16] At the same time, the demand for new housing appears to be limited. As the chart on the right snows, two thousand units is more than three times the total number of multi-family (5 units or more) units produced in the city of Hartford from 2005-2011. Looking forward, metropolitan Hartford's overall demand indicators – such as population trends, job growth, household formations, and income growth – are generally weak. And a recent presentation on the Hartford North Park Downtown redevelopment plan estimates a new housing absorption rate of approximately 10 units per month or 120 units per year,[17] far less than the rate needed to fill up 2,000 units in five years.

Multi-Family Housing Production		
Year	**Hartford County**	**Hartford**
2005	621	303
2006	494	199
2007	446	0
2008	276	0
2009	197	50
2010	143	34
2011	110	0
Total	**2,287**	**586**
Source: DECD		

Even if the new units do fill up, we have to ask where the people filling these units will be coming from. As a recent Urban Land Institute publication noted, in "many slow-growth cities, the residents who are moving into downtown housing are not new residents but residents coming from other neighborhoods in search of a different lifestyle."[18] Adding supply without a strategy to grow demand runs the risk of siphoning residents

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[13] For instance, 360 State St. in New Haven and Hartford 21, Trumbull on the Park, and The Lofts at Main and Temple in Hartford.
[14] Gosselin, *Hartford Courant*, Oct. 13, 2013
[15] (CRDA, Website, Housing Programs).
[16] (Bordonaro, *HBJ*, June 1, 2012).
[17] http://www.hartford.gov/images/Planning/2013-10-15_Public_Presentation_DRAFT_compressed.pdf
[18] Miles, Mike E., Berens, Gayle L., Eppli, Mark J., and Weiss, Marc A., (2007): *Real Estate Development: Principles and Process*. Fourth Edition. Urban Land Institute. Washington, D.C. Page 259.

and market share from other properties and neighborhoods through a rental-shift, where savvy residents move to newest and most competitive lifestyle units but no new arrivals fill the void they leave behind in the market. With vacancy rates in Hartford as a whole having grown from 11% in 2000 to 15% in 2011, massive amounts of new, subsidized housing in downtown Hartford could further drive up vacancy rates in neighborhoods, including lower-income neighborhoods outside downtown, contributing to those neighborhoods' deterioration and undermining efforts to revitalize them.

The problem of adding supply where there is little demand can be compounded by other interventions that distort competition. For example, a recently approved downtown housing development that received CRDA financing also received a tax abatement package from the City of Hartford, an incentive package that includes fixing the tax rate at the reduced residential Mill rate of 29 Mills.[19] The result is that the newest property with the most modern amenities will owe 60% less in taxes than older existing multi-family properties, including the last round of state sponsored downtown housing, that pay 72 Mills. This creates an uneven playing field that pits new housing units against existing housing units—include previous state-sponsored Downtown housing—in a weak market with little demand.

The goal of this analysis is not to single out the CRDA or the City of Hartford for criticism, but rather to illustrate the more general problems with an approach to downtown revitalization that focuses on the quantity of new units created rather than the overall impact on housing markets across a city. This problematic approach has been used for decades in Connecticut and throughout the United States with little to show for it.

To enable the CRDA to make more effective use of the $60M it has been allocated, the state should expand the Authority's scope so that it can engage in more strategic redevelopment interventions. Specifically, the governor's office and the legislature should:

- Review and amend, as need, the legislative authority for CRDA to allow the implementation of additional programs and strategies that target rebuilding the real estate market by improving image, market, physical conditions, and social connections.

- Require and allow for 5-7% of the $60 million lending pool (or future funding) to be used and allocated for market research, program planning, strategy development, and post-development housing and neighborhood support initiatives.

Once its scope and authority have been sufficiently expanded, the CRDA should take the following steps:

[19] http://www.hartford.gov/images/assessment/Historical_Tax_Rates.pdf

- Initiate a comprehensive metropolitan housing market analysis and needs assessment, including submarket supply and demand by housing type, age, and income; market and submarkets, including strong, soft, weak, and distressed housing markets; and housing needs across submarket typology.

- Initiate a comprehensive metropolitan commercial office and retail market analysis needs assessment similar to the housing assessment discussed above. A market-based approach must target office and retail, in addition to housing—all three sectors need to be recognized in a collective strategy to build market demand.

- Develop a comprehensive strategy for Hartford focused on targeted interventions in downtown and outer neighborhoods that build demand and attract unsubsidized private investment. This can include some new housing construction, but the strategy should be based around outcomes, not outputs. These outcomes should include image, public perception, quality of life, affordability, and market stability. The strategy should develop metrics for each of these outcomes and measure intervention success based on those metrics.

Another problem is that Hartford is the only city with a state-designated and -funded development agency. Similar agencies do not exist in New Haven or Bridgeport, not to mention the dozen or more smaller urban centers, such as Groton, New London, Manchester, New Britain, Norwich, Torrington, Waterbury, and Willimantic. In addition, CRDA as Capital Region entity is a misnomer in that its authority is primarily concentrated in downtown Hartford and East Hartford's Rentscheler Field and the Capital Region is narrowly defined as the towns contiguous to the city of Hartford (see PA-12-147).

Agencies and programs such as the CRDA need to be more inclusive in their membership and larger in their authorized geography. Housing markets are organized at the metropolitan scale and government programs and strategies need to be administered at the scale of those markets. Therefore, the state should:

- Develop a more comprehensive Regional Development Authority structure and administration that provides state support for all the state's core urban areas.

- Broaden the definition of the Capital Region to include all communities within the Capital Region Council of Governments area and reorganize the membership of each Regional Development Authority to include all communities within the region.

4. Remove Regulatory Barriers to Private Investment in Low-Income Neighborhoods

The three previous recommendations have all addressed ways state housing funding can be more effectively used to build market demand and revitalize distressed neighborhoods and cities. But this alone will not be enough. The state must also remove a number of state-imposed obstacles that impede private investment in urban housing markets even where there is demand.

Along with financial risk, real estate professionals and developers consistently cite lengthy and uncertain administrative permitting processes as the greatest challenge to weak-market housing and urban redevelopment. In order to remove these administrative barriers to private investment in distressed neighborhood, Connecticut government should at a minimum take the following steps:

- Allow municipal land use commissions to be voluntarily reorganized in two commissions, one with authority over planning and the creation of regulations, the other with authority over applications, permits, and approvals. This would allow the planning, policy, and regulatory commission to focus on just that, while the administrative commission would be able to assess and process applications much more efficiently. Proposed Senate Bill 1084 from the 2007 Legislative Session provided a model for how to do this. It should be reconsidered for passage.

- By statute, prohibit the use of subjective regulatory language and conditional requirements from as-of-right (administrative site plan) applications and approvals. As-of-right zoning is specifically intended to allow any development that confirms to the zoning ordinance to proceed without additional review. Permitting commissions should not be able to add additional requirements – for instance, consistency with the 'character of the neighborhood or community' – to developments in as-of-right zoning areas.

- Encourage and incentivize distressed- and weak-market communities to streamline land use approvals and permitting, including one-stop application processes. Distressed and weak-market communities tend to have application and approval processes that are more cumbersome and less predictable than strong-market communities. The state government could set up a competition involving a small financial reward for distressed-market municipalities to develop streamlined regulatory approval processes. The state government could also use its enterprise zone program to provide a state-run streamlined permitting approval process for developments in distressed neighborhoods, as proposed and detailed in the CPI's paper on urban jobs policy.

Conclusion

For too long, Connecticut's housing and urban development policies have been focused on constructing new housing as an end in and of itself. Success has been defined and measured by the number of new units created, not by the net impact of the government intervention on low-income neighborhoods. And government has too often failed to think imaginatively and strategically about interventions beyond new construction that improve neighborhood image, market, physical conditions, and social connections, while also increasing the availability of affordable housing.

The result is that, in spite of decades of well intentioned efforts, Connecticut's cities continue to have multiple neighborhoods with housing stocks characterized by vacancies, structural deficiencies, and lagging upkeep. The recommendations in this paper provide a set of concrete ways for the state to begin addressing these problems. None of the recommendations involve spending more or less money than the state currently does on support for urban housing. Rather, they involve repositioning programs so that they not only provide affordable housing for disadvantaged populations, but do so in ways that improve neighborhoods where disadvantaged populations live and provide them with greater economic opportunity.