Town of East Lyme, Connecticut

Affordable Housing Plan

Housing and Affordable Housing Incentives Assessment Report

GOMAN+YORK

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Section I. Introduction

This report is aimed at exploring and presenting potential housing incentive tools and programs that the Town of East Lyme may want to consider implementing as part of its Affordable Housing Plan. Housing incentives can typically be conceptualized in three broad categories: incentives that reduce or remove impediments, incentives that increase demand for housing, and incentives that increase supply of housing.

The first category, incentives that reduce or remove impediments to housing were mostly addressed in the *Review and Analysis: Recommended Modifications to the Zoning Regulations* report issued on July 8, 2022. The second category of incentives, housing demand-side incentives are typically programming that increase the income or housing cost capacity of the renter or homebuyer (e.g., voucher programs). Such programs are typical administered at the federal and state levels of government since their costs exceed the financial capacity of municipal government. That leaves the third category, housing supply-side incentive programs as the primary focus of this report. Housing supply-side incentives are tools, strategies, and programs aimed at increasing the supply of housing, specifically the supply of affordable housing, within the community.

Housing supply-side incentives typically include zoning density bonuses, expedited permitting processes, reduced/waived permitting fee, property tax abatements (including tax increment financing), land banks, and housing trust funds. The organization of this report seeks to inform, guide, and recommend incentive programs. Starting with Section II, this report will address housing as a commodity and how housing differs from other commodities. Section III then presents a discussion of affordable housing and financial feasibility—the challenges of developing financially feasible affordable housing developments. Section IV will explore each of the housing incentive programs (i.e., zoning density bonuses, expedited permitting processes, reduced/waived permitting fees, property tax abatements, land banks, and housing trust funds) and provide recommendations as to their applicability in East Lyme and specific considerations for the utilizations of such incentive programs in East Lyme. Section V discusses the misplaced concern of affordable housing having negative impacts on property value. Last, Section VI provides a brief conclusion.

Section II. Housing as a Commodity

Housing is unique and, in many ways, different than other commodities. Understanding these differences helps to inform us as the specific challenges regarding housing costs and housing affordability. Housing is fixed in locations, durable, temporal, subject to creative destruction, and as a result, subject to becoming functionally obsolescent. The following are brief discussions and explanations of each of these unique characteristics:

- Fixed Location: Real estate, parcels, buildings, and specifically, housing units are fixed in locations—they are non-moveable. Therefore, the utility and value of housing are tied to their location and neighborhood conditions. Most important, location and conditions are subject to change. What was

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a desirable location or a well-maintained neighborhood yesterday, may not be as desirable or well-maintained today. As a result of this, the value of housing can be influenced by investment behaviors in each neighborhood. If owners are investing in their properties, then property values are likely rising—the opposite is also true.

- Durable: Housing is long lasting and expensive to construct. Housing requires continuous investment to maintain quality and value. In addition, housing is highly susceptible to changes in investment behavior, the location of investment, and consumer preferences. Unlike other commodities, housing remains on the landscape for long periods of time, while investor behaviors and consumer preferences change over time.
- Temporal: Housing is constructed at specific moments in time (and space/location), often in large numbers (i.e., large developments or neighborhoods), and designed to meet the specific consumer preferences at that moment in time. Unfortunately, this means that the moment a housing unit is completed, the housing unit is competing with newer housing product aimed at better serving the everchanging preferences of consumers. This temporal change in housing is most evident in housing size, amenities, and materials/technology.
- Creative Destruction: Is the phenomenon and process of innovation (i.e., new methods, materials, techniques, designs, and amenities of housing) that creatively destroys (make obsolescent) the housing product that was previously provided. Housing are continually being creatively destroyed by newer/modern product (and locations). For example, the 1950s 1,000 square foot ranch, on a quarter acre lot, with one bathroom, three bedrooms, small closets, and a one car garage has been creatively destroyed by 2,000 square foot Colonials and Capes on half-acre (or more) lots, with two and a half baths (one en-suite with the master bedroom), three or more-bedrooms, large closets, and two car or more garages.
- *Functional Obsolescence: The four characteristics of housing as a commodity above, can and often do coalesce into functional obsolescence. The moment a housing unit or housing development are constructed/completed, the housing is competing with newer product aimed at everchanging consumer preferences.* Therefore, without continuous investment (i.e., maintenance, upgrades, and amenities) housing can depreciate in utility and value. This depreciation in utility and value may result in housing units that become functionally obsolescent.

Most commodities are not fixed in location and as durable as housing. However, most commodities are temporal and susceptible to creative destruction. For example, when the Sony Walkman is creatively destroyed by the MP3 player, the Walkman goes away, while the 1950s house remain as part of the landscape and housing market, forced to compete with newer housing product and face the threat of functional obsolescence. This also means that older housing can be a source of housing that is more affordable (i.e., less expensive) than newer housing. While this *naturally occurring affordable housing* is not *qualified affordable housing*, it does serve households at various incomes. New housing is costly and time consuming to produce, making it a challenge to serve all households, incomes, and consumer preferences, while keeping pace with demand.

The hard costs of housing (i.e., land, materials, and labor) are high. The soft costs of housing (i.e., engineering and design, entitlements, fees, and taxes), especially in Connecticut, are also high. While local government has little or no influence on the hard costs of housing (other than land supply by use and density), local government can influence some of the soft costs of housing, and therefore, positively impact the total cost of housing and the likelihood of increasing housing supply and the affordability of housing.

Section III. The Challenge of Affordable Housing and Financial Feasibility

It is important for East Lyme to have a basic understanding of the economic/financial challenges of developing housing, specifically affordable housing. Unfortunately, it is too often assumed that developers are greedy and unwilling to build housing that is more affordable. However, such a perspective often misunderstands the high-risk nature of speculative real estate development and the actual costs and impacts that affordable housing units can have on the overall financial feasibility of a development. Therefore, it is important to address how public policies impact housing costs as part of the greater discussion of housing incentives. To accomplish this, I present for this section an abridged version of an article I wrote for *Connecticut Planning Magazine,* titled "Affordable Housing and Financial Feasibility." The article is intended to provide context and understanding as to the dynamics and challenges of housing and affordable housing development.

"Affordable Housing and Financial Feasibility"

> This article's aim is to focus on the perspective and challenge that receives the least attention in our planning efforts to address housing affordability. That issue is the economics of housing, affordable housing, and the financial feasibility affordable housing developments.
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> Housing markets function in accordance with the laws of supply and demand. Scarcity of housing overall—and at specific price points—results in higher housing costs. Demand drives scarcity when demand outpaces supply. Therefore, if we are to understand the challenge of affordable housing, it is critical that we understand the economics and financial feasibility of developing affordable housing. While 8-30g is a well-intended policy, it has fallen short of performing as it was intended—producing an inadequate supply of affordable housing in underserved higher-income communities. Unfortunately, growth in two of the three demand drivers (jobs and population) has been anemic since 8-30g was adopted—household formations being the third demand driver with moderate growth. Affordable housing aside, the economics of speculative real estate development has been sluggish at best across all real estate asset classes since 8-30g was adopted three decades ago. The result: soft-to-weak market demand with high costs and low returns that challenge the financial feasibility of most real estate developments.
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> While some communities resist development (i.e., resist change, growth, and affordable housing) others have embraced development. However, even those communities that embrace development are often confronted with the challenges of soft- to weak-market conditions and marginally feasible developments that often require public participation in the form of subsidies, the most common

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being tax abatements. Developers would develop more real estate, including housing and affordable housing, if there were ample demand and stronger returns (i.e., if more developments were financially feasible). However, anemic demand, modest returns, and unpredictable land use approvals undermine market confidence, predictability, and increase risk.

The development of affordable housing poses even greater risks (e.g., community opposed and denied applications) than market rate housing, and lower returns (e.g., below-market rents). While density can be an incentive to aid in overcoming higher costs, when confronted with the realities of soft- to weak-market conditions, it is challenging at best to design and develop a financially feasible affordable housing.

The reason for this is the many variables that determine financial feasibility—the unique financial dynamics of all real estate developments. These variables include market strength, land cost, labor cost, site development cost, utility connection fees, utility user fees, permitting fees, interest rates, tax rates, and achievable market rents. Most important, each of these variables influences both the upfront development costs and long-term operation costs. Cost vs Returns = Financial Feasibility.

To understand how financial feasibility works, let us explore some basic economics of developing a 2-bedroom multi-family housing unit in the Hartford region. To accomplish this, I compare the costs and returns of a market rate unit, and affordable units at 60% and 80% AMI. In addition, I extrapolate the per unit calculations to a 100-unit market rate and an 8-30g qualified affordable development. In doing so, I use generalized market values and development costs based on recent market research to provide reasonable representation of an actual development costs and returns in the Hartford region.

For the market rate unit, we assume that the occupants are a 3-person household with the median household income of $88,100. At 30% of their income, the household's housing budget is $26,430/year (or $2,202/month), enough to pay the market rate rent for a 2-bedroom of $2,070 (or $1.97/sq. ft.). Typically, as the starting point for determining financial feasibility, a return of approximately $2.00/sq. ft. is required to cover costs. Therefore, the return of $1.97/sq. ft. is deemed reasonably feasible.

Table 1. Market Rate Rent

Household/Income	Unit Sq. Ft.	Rent @ 100% AMI	Market Rent	Market Rent/ Sq, Ft.
3-person at $88,100	1,050	$2,202	$2,070	$1.97

The feasible return of $1.97/sq. ft. is assumed to cover the development construction costs and the operation costs spread over an 8-year development proforma, including a 12% return on investment (ROI). The reason the $2.00/sq. ft. is a starting point for feasibility is that costs and returns are not fixed values for all developments. The values may vary, often between $1.85 and $2.40/sq. ft. depending on the actual costs and the attainable rents.

Let us explore one variable cost, property taxes, as an example of how variable costs impact financial feasibility. In our first example, the $1.97/sq. ft. includes taxes on an assessed value of $105,000 (70% of appraised value) at a mill rate of 2 mills. An identical unit in a neighboring community with a mill rate of 33 mills would raise the per-square-foot rent required by four cents to $2.01. While such a small increase sounds insignificant, the difference, extrapolated over 100 units or 105,000 square

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feet, results in an additional $4,200 per year in property tax and operating expenses (or $33,600 increase over the 8-year proforma). The same would be true of marginal increases in other variable costs (e.g., land cost, site improvements, utility connections, permits, etc.). If each of these costs increased by 4 cents per square foot, the identical unit in the neighboring community would require a rent of $2.16 per square foot to be financially feasible. However, if the maximum achievable market rent remains equal to $1.97/sq. ft. the development would not be financially feasible. Hopefully, the reader is seeing not only the effects of marginal variations in costs, but that excessive municipal fees (e.g., sewer connections, land use application, building and zoning permits, etc.) can and do impact feasibility and the cost of affordable housing.

Table 2. Taxes Per Square Foot

Unit Sq. Ft.	Appraised Value	Assessed Value	Mill Rate	Taxes	Monthly Taxes Per Sq. Ft.
1,050	$150,000	$105,000	28	$2,940	$0.23
1,050	$150,000	$105,000	33	$3,465	$0.27

Now let us consider the same 2-bedroom unit and 3-person household adjusted for affordable rents. Table 3 shows that the maximum affordable rent at 80% AMI is $308 less per month than the market rate rent (or $3,696 less per year). The maximum affordable rent at 60% AMI is $762 less per month (or $9,144 less per year). However, qualified affordable rents must also adjust for utility costs since total housing costs cannot exceed 30% of household. Conservatively adjusting for utility costs further reduces the maximum affordable rents by $200 per month, as shown in the table. As a result, the yearly decrease in unit rental income increases to $6,096 at 80% AMI and $11,544 at 60% AMI.

Table 3. Affordable Rents

Unit Sq. Ft.	Market Rent	Rent @ 80% AMI	Rent @ 60% AMI	Market Rent/ Sq, Ft.	Rent/Sq. Ft. 80% AMI	Rent/Sq, Ft. 60% AMI
1,050	$2,070	$1,762	$1,308	$1.97	$1.68	$1.25
Utility Adjusted Rent		$1,562	$1,108	$1.97	$1.49	$1.05

The loss in rental income for the affordable units is substantial and the cumulative effect extrapolated over 100-units significantly impacts financial feasibility. Table 4 shows the gross income of a fully market rate development versus an affordable qualified mixed-income development. The 100 market rate units (assuming 100% occupancy) gross $2,484,000/year. The affordable mixed-income development, with 70 market rate units, 15 affordable units at 60% AMI, and 15 affordable units at 80% AMI, has a gross income of $2,219,840/year. That is $264,160 (or 11%) less in yearly income than the market rate development. While an 11% decrease may not sound significant, it is important to understand that most costs are fixed (e.g., debt, utilities, taxes, insurance, management, etc.) and remain the same for the operation and management of both the market rate and affordable development—the debt service alone likely accounts for up to 50% of yearly gross revenue. The result, the 11% decrease in revenue, directly impacts the profitability or return on investment, substantially decreasing the financial feasibility of the project.

Table 4. Gross Incomes of Hypothetical Market-Rate and Mixed-Income Developments

	Units	Per Month Rent	Gross Income Per Unit	Gross Income Total Units
Market Rate Development	100	$2,070	$24,840	$2,484,000
Mixed-Income 8-30g Development	70 Market Rate	$2,070	$24,840	$1,738,800
	15 (80% AMI)	$1,562	$18,744	$281,600
	15 (60% AMI)	$1,108	$13,296	$199,440
	100	*Total*		*$2,219,840*

Developing a financially feasible market rate housing development is challenging enough with anemic demand and marginal returns. Add to the development a requirement for 30% qualified affordable units and it can become near too impossible. While increases in density reduce the cost of land per unit, most of the other costs remain constant. Therefore, the benefits of density are marginal in the context of total cost—land costs typically account for only 6-10% of total costs. The many variables and marginal variation in their costs have meaningful impacts on financial feasibility. In addition, since such costs vary across different geographies, understanding these costs helps to better understand locational variation and challenges in the production of affordable housing. By providing incentives aimed at reducing or waving fees and abating taxes on affordable units, municipalities could meaningfully and positively impact the financial feasibility of affordable housing development.

Section IV. Supply-Side Incentive Programs

As discussed above, supply-side incentive programs typically include zoning density bonuses, expedited permitting processes, permitting fee reductions or waivers, property tax abatements (including tax increment financing), land banks, and housing trust funds. The following is a summary review, recommendations, and considerations for such programs for the Town of East Lyme.

1. **Density and Density Bonuses:** Density bonuses are regulatory (zoning) incentives that allow land to be developed at a higher density than is allowed by zoning. The increased density (or greater housing unit yield) allows for the cost of land to be spread over more units, effectively reducing the per unit land costs and the total per unit housing cost. That said, land costs are typically a small percentage (6% to 10%) of total development cost. In addition, increases in density may be factored into and be accounted for in property value/land costs. Regardless, density bonuses do provide an incentive, even if a marginal one, to the developer to produce housing.

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- **Finding:** There are many methods to provide density bonuses or to increase density and housing unit yield. In fact, many regulatory provisions directly impact density and housing unit yield—see the *Review and Analysis: Recommended Modifications to the Zoning Regulations* report, which addressed some of these methods and provisions related to density and housing unit yield. For example, the provisions for mixed use dwellings, multi-family parking requirements, and missing-middle housing, all impact, directly or indirectly, the density of development or housing unit yield.
   - **Recommendation:** The primary recommendation for density is to implement the recommendations of the *Review and Analysis: Recommended Modifications to the Zoning Regulations* report. Each of those recommendations will go a long way to increasing housing diversity, supply, opportunity, and improving affordability.
   - **Considerations:** Consider the creation of specific Affordable Housing or Inclusionary Housing provision that provide specific density bonuses for affordable housing. Such a provision may be in the following form:
      - Create an Affordable Housing Overlay Zone for areas served by public water and public sewer that allows multi-family (including mixed-use developments) housing an additional market rate unit for each deed restricted qualified affordable unit (in accordance with CGS 8-30g qualified affordable housing for household incomes up to 80% AMI).
      - Create an Affordable Housing or Inclusionary provision that is applied to all residential zones and development over 10 units. For example, a minimum of 5% or 10% qualified affordable for single-family and 10% or 15% for qualified affordable for multi-family.

2. **Efficient Permitting – Swift, Simple, and Certain:** Also discussed and recommended in the *Review and Analysis: Recommended Modifications to the Zoning Regulations* report, we believe it critical that East Lyme work to ensure its land use approval process maintains fairness and predictability. Simply put, East Lyme should continuously strive to provide a land use approval process that is simple, swift, and certain.
   - **Finding:** The recommendations in *Review and Analysis: Recommended Modifications to the Zoning Regulations* report focuses on creating a swift, simple, and certain land use approval process. This is based on two axioms in real estate development, '*time is money*' and '*time kills deals*.' The greater certainty and predictability that can be provided in the land use approval process, the more likely housing will be built, including affordable housing.
   - **Recommendation:** Our primary recommendation for efficient permitting related to housing is for East Lyme to reduce overreliance on conditional uses (Special Permits) and

to allow more housing uses, via as-of-right (Site Plan) approvals. This will go a long way to encourage greater housing diversity, supply, opportunity, and improving affordability.

- **Considerations:** No further considerations.

3. **Permitting Fee Reductions or Waivers:** Local government can (and does) collect reasonable fees to offset the cost associated with land use, building, and other permits. In East Lyme, these permitting fees, are reasonably priced and not as excessive as is common in some communities. While such fees do provide revenue for the Town budget, the percent of total revenue is typically very low compared to other sources of revenue. For example, in the East Lyme 2022-2023 budget, we estimate land use and building fees account for less than 1.0% ($492,850) of total revenues. In addition, most of staff for the permitting related departments is required/needed regardless of permitting activity or permitting fees. Therefore, providing reductions or waivers on permitting fees as an incentive for housing or affordable housing, will have little impact on Town revenues.
   - **Finding:** Permitting fees can and do add meaningful costs to development projects, commercial and residential. Based on our research and experience with permitting fees in East Lyme, we estimate that such fees total as much as $2,000 per housing unit for multi-family residential housing development. Permitting fees of $2,000 per housing unit likely equal approximately 5% to 6% of soft costs and nearly 1.75% of total development costs. This translates to approximately $25 per month per unit over the first 8 years of the development. Therefore, a reduction or waiver of such fees could reduce the cost of new affordable housing.
   - **Recommendation:** East Lyme may want to consider implementing a fee reduction or waiver program for housing developments, specifically for multi-family, mixed-use, and/or affordable housing. Such reductions or waivers could be structured to specifically address end-user housing costs.
   - **Considerations:** The following are specific considerations or recommendations as to how such a program could be structured and implemented:
     - Amend the Fee Schedule to provide a reduced (or waived) fee structure for multi-family, mixed-use, or affordable housing units.
     - Amend the Fee Schedule to provide a waiver of permitting fees for all qualified affordable housing units.
     - Amend the Fee Schedule to provide a reduced fee structure (or waiver) for affordable housing units—a reduced fee and/or waiver could be on a sliding scale based on the number or percent of affordable units.

     Providing reductions or waivers will reduce housing costs. East Lyme must determine what it is comfortable with in terms of reductions and waivers. However, we recommend the consideration of total fee waivers for qualified affordable units.

4. **Property Tax Abatement:** Local government has the authority to enter into an agreement with a property owner to fix the assessment of real property (grant a tax abatement) for up to 10 years. A tax abatement can be granted to multi-family developments consisting of four or more dwelling units and mixed-use developments (a development consisting of one or more multifamily or single-family dwelling units and one or more commercial, public, institutional, retail, office, or industrial uses). Historically, tax abatements have primarily been utilized for commercial and industrial development—as economic development incentives. However, over the past decade, tax abatements have become increasing popular and common with multi-family residential development. In recent years, we (G+Y) have been involved in many multi-family and mixed-use tax abatement agreements—as consultants to both developers and municipalities entering into such agreements—in the communities of Bloomfield, Manchester, West Hartford, East Hartford, and Wethersfield, to name a few. The popularity of multi-family tax abatements has mostly been driven by the high costs and marginal returns of multi-family and mixed-use development—the result of weak demand drivers—and local government recognizing that if the community wants specific developments or redevelopments to occur, it must participate in the development. Another driver of this shift to granting tax abatements for multi-family developments has been the recognition by municipal government that housing is important to economic development—the need to provide a diversity of housing for a diverse workforce.
   - **Finding:** As with permitting fees discussed above, local property taxes contribute to operating expenses/costs of multi-family and mixed-use developments. Therefore, the granting of a tax abatement reduces costs, increases returns, and can result in developments that otherwise would not be financially feasible—would not get built, contribute to the grand list, or pay taxes. As discussed earlier, the returns on affordable housing developments are reduced because of the need to fix rents at affordable levels (80% AMI or less)—below market rents and the minimum return required for a financially feasible rent. For example, we recently assisted the Town of West Hartford review and structure their first ever tax abatement agreement for a 295 residential unit development that included both the redevelopment of an existing historic structure and new construction on the same site. Most notable, 10% of the units were required by the Town to deed restricted as affordable at 80% AMI. The tax abatement was needed for and aimed at assisting with higher costs related to the redevelopment and preservation of a historic structure and loss of return on rents for the affordable units (approximately $300 per month per affordable unit or $3,600/unit/year). Our experience with market research and financial feasibility for housing developments has taught us that property taxes for multi-housing units typically run between $3,000 and $3,900 per unit—an amount coincidentally similar to the loss in revenue on units rented at 80% AMI. This demonstrates the real cost associated with taxes and how a tax abatement can be employed as an incentive to encourage affordable housing development.
   - **Recommendation:** East Lyme may want to consider implementing tax abatement policy in accordance with Section 12-65b (Agreements between municipality and owner…of real

property…fixing the assessment of such property…) of the Connecticut General Statutes to provide the opportunity for tax abatements to incentivize multi-family housing, mixed-use development, and affordable housing.

- **Considerations:** The following are some considerations for the implementation of a tax abatement program:
  - A tax abatement policy should be structured as flexible as possible to avoid binding the Town or the applicant to a structure that may not work.
  - Abatements for housing, especially affordable housing, should be granted for a minimum of 7 years, or 10 years, if needed.
  - As a minimum, 100% abatements are typically needed in the first 2 years while the development stabilizes. Abatement percentages can then be determined and decreased for the remainder of the abatement period based on need.
  - Abatement agreements can be structured for the whole development or limited to the housing units or the affordable housing units. Abatements of 100% for affordable units for 7 or 10 years could be a strong incentive—with or without abatements for all housing units or the whole development in the context of mixed-use developments.
  - Typically, abatements are structured to maintain the current taxes paid so that the municipality does not lose taxes and it is the future value based on the new development that is abated.
  - Tax abatements could be used as an incentive to encourage owners of naturally affordable housing units to deed restrict those units as *qualified affordable units*.
  - Tax Increment Financing (TIF) is another powerful tool, similar, yet different from tax abatements. TIF agreements utilize the future tax value of a development to secure bonds that help fund the upfront development costs. Therefore, the TIF funding helps finance the construction costs of a development (often infrastructure), whereas a tax abatement provides the most benefit to the operation costs of development because they reduce the taxes to be paid once the development is complete. In 2015 the State of Connecticut authorized (Public Act 15-57) municipal government to create TIF districts and administer TIF programs locally. Since then, many CT communities have enacted TIF District programs. East Lyme may want to explore the creation of one or more TIF Districts as both a housing and economic development incentive program. Most important, TIF Districts are a powerful tool to target investment into well-defined areas.

5. **Land Bank:** Land banks are typically created to acquire, hold, manage, sell, and redevelop properties. A land bank can be a municipal agency or not-for-profit organization. Land banks are

most often utilized in weak- and distressed-market communities as a tool to address vacant and abandoned properties. Such properties are often acquired through tax foreclosures. However, land banks have also been utilized for redevelopment strategies and to provide development parcels as a low or no cost to incentive to develop of affordable housing.

- **Finding:** Land banks are more common in communities that are more distressed than East Lyme. We rarely see land banks in stronger market communities such as East Lyme. That said, a land bank could be a useful tool for encouraging affordable housing. For example, if East Lyme, had vacant or abandoned properties or substantial number of tax delinquent properties, the creation of a land bank as a means of acquiring properties and making them available for affordable housing development, may be a viable approach.
- **Recommendation:** East Lyme may want to further research the number of properties (vacant, abandoned, and/or tax delinquent) plausibly available to supply/fund a land bank to encourage affordable housing development. If there are dozens of parcels that are plausibly available, a land bank approach may be viable. However, if the numbers are small, less than three dozen, then the time, energy, and money required to create and manage a land bank probably renders the endeavor not feasible.
- **Considerations:** The most significant consideration when creating a land bank is the organizational structure. Will the land bank be a public government agency or an independent non-profit organization? What governance structure is best suited for the community?

6. **Housing Trust Fund:** In accordance with the Connecticut General Statutes, Chapter 98, Section 7-148(c)(2)(K), a municipality can “Create a sinking fund or funds or a trust fund or funds or other special funds, including funds which do not lapse at the end of the municipal fiscal year.” This provision would allow East Lyme to create an Affordable Housing Trust Fund. Such a fund can be an effective tool for encouraging, funding, and supporting affordable housing in the community.
    - **Finding:** Providing such a Trust Fund can be a powerful tool for supporting affordable housing. This is especially true for a wealthier community such as East Lyme whose housing market better serves a higher income population than a lower income population—a community that struggles to meet the 10% fair-share affordable housing requirement in 8-30g. As discussed above, it is costly to build, maintain, and manage affordable housing. In addition, based on both the challenges of financial feasibility and the limited availability of public water and sewer, such a Trust Fund could provide a means to raise affordable housing revenues from developments that cannot provide affordable housing due to well, septic, or other limitation. This would allow East Lyme to utilize the Affordable Housing Trust Fund to provide direct assistance to affordable housing developments. Such a Trust Fund, if creatively designed, could also capture other sources of revenue to help fund and support affordable housing (i.e., permitting fees,

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budget line item, etc.). Most important, creating an Affordable Housing Trust Fund will demonstrate that East Lyme is serious about addresses housing affordability and is being a proactive partner in the development of affordable housing.

- **Recommendation:** East Lyme may want to consider creating an Affordable Housing Trust Fund. In doing so, East Lyme should consider targeting the funds raised in the Affordable Housing Trust Fund at affordable housing for households at or below 50% AMI. Households at incomes at or below 50% AMI is where there is the greatest need for affordable housing. In addition, as the percent AMI goes down, the more challenging it is to build housing that is financially feasible. Targeting direct investment through the Affordable Housing Trust Fund at housing aimed at 50% AMI and below would go a long way to serve the greatest need for affordable housing.
- **Considerations:** The following are some considerations for the creation of an Affordable Housing Trust Fund:
    - Pair the Trust Fund with an *inclusionary zoning provision* (see sample provision from Tolland) that requires a fee-in-lieu of affordable housing for all housing developments of 10 units or more that do not provide affordable housing units. It is important to note that additional research will be required to legally structure such fee and to determine what is an appropriate and feasible amount for such a fee to ensure that is does not create financial feasibility issues for market rate developments.
    - Designate an Affordable Housing Advisory Committee to oversee and administer the fund.
    - The fund can be used to support both private and non-profit developers.
    - Promote the fund for tax deductible donations, including hosting fundraiser events and drives. (Under the IRS code Section 170(c)(1) contributions to a state or a political subdivision "made for exclusively public purposes" qualify as a tax-deductible charitable donation.)
    - A sample Affordable Housing Trust Fund Ordinance from the Town of Fairfield has been provided below. Please note this is a sample ordinance, not a recommended ordinance. If East Lyme is willing to be creative and innovative can produce a more elegant and effective ordinance to promote affordable housing. For example, the ordinance could allow the Town to provide direct housing subsidies, in the form of grants, to the lowest income households.

Section V. Property Value and Affordable Housing

Too often communities fear affordable housing and believe that affordable housing will have negative impacts on the community. Most common is the concern that affordable housing will negatively impact property values, specifically single-family property values. Such concerns are common in the land use approval process. In fact, one of the foundational concepts of zoning is that "such regulations shall be made with reasonable consideration…to the character of the district…with a view to conserving the value of buildings" (Zoning Enabling Act, 1922). The concept of *a view to conserving the value of buildings* needs to be contextualized to the time when it was written and the problems that zoning was designed to solve. The 1920s context was the harsh conditions of the industrial city and the lack of regulatory provisions to deal with incompatible uses and the negative consequences of proximity. In addition to the *character of the district* and *conserving the value of buildings*, zoning was intended to protect us from *fire, panic, and other dangers*, conditions that no longer threaten us in the ways they did in the 1920s industrial city. Simply stated, zoning (along with other policies and regulations) has successfully solved the problem of the industrial city and has created stability and predictability in real property markets.

Today, the way in which we need to conceptualize *conserving the value of buildings* has changed. That is, the dissimilarity in uses has been greatly reduced. In addition, the negative impacts on adjacent and proximate property have been mostly reduced to the most undesirable land uses. For example, undesirable land uses such as airports, landfills, superfund sites, etc. and their impact on residential and other proximate uses have been extensively studied and documented as having negative impacts on property values (Bell, 1998, 2001; Findlay and Phillips, 1991; Cartee, 1989; Hurd, 2002; Simons, 1997).

However, such concerns and claims of the negative impact created by other dissimilar uses have persisted in the land use approval process, especially concerns regarding multi-family and affordable housing development adjacent and proximate to existing residential properties. It is even common to hear claims that new single-family residential development will negatively impact the value of existing single-family residential properties. Fortunately, such concerns and claims have led to academic and industry research on the impacts of new (residential and commercial) development on existing residential property values. Most important, the abundance of academic research has shown that such claims are not substantiated.

For example, a notable and comprehensive longitudinal study by the MIT Center for Real Estate of seven high-density affordable housing developments adjacent to medium- and low-density single-family residential areas in six communities spread across Metropolitan Boston. The researchers stated that the findings "in all seven case study towns lead us to conclude that the introduction of larger-scale, high-density mixed-income rental developments in single-family neighborhoods *does not* affect the value of surrounding homes. The fear of potential asset-value loss among suburban homeowners is misplaced" (Pollakowski, et. al, 2005: ii). A 2003 study by Harvard's Joint Center for Housing Studies found that *apartments posed no threat to surrounding single-family house values* (Hoffman, 2003).

The findings of the MIT and Harvard studies are further substantiated in a recent study by Kem C. Gardner Policy Institute at the University of Utah. The study, *The Impact of High-Density Apartments on Surrounding Single-Family Home Values in Suburban Salt Lake County*, analyzed the construction of 7,754 units between 2010 and 2018 and the impact of these multi-family rental developments on single-family home values within a half mile of the new apartments. The researchers found:

> …apartments built between 2010 and 2018 have not reduced single-family home values in suburban Salt Lake County. In response to accelerating housing prices over the last decade, the market continues to shift to denser development to slow this trend. However, denser development continues to be a politically controversial topic on city council agendas as existing residents often bring up negative impacts on home values. Single-family homes located within 1/2 mile of a newly constructed apartment building experienced higher overall price appreciation than those homes farther away (Eskic, 2021: 1).

Overall, academic research shows that multi-family development, which is most often of a higher density than single-family residential development, either has no impact or a positive impact on adjacent and proximate single-family residential property values. For example, a "study in King County, Washington, shows an increase in single-family home values for those located near denser development" (Eskic, 2021: 2).

The National Association of Homebuilders found that single-family residential property values within 300 feet of multi-family rental housing increased by 2.9% (NAHB, 2001). Researchers at Virginia Tech University conducted a study that concluded, multi-family rentals that were well-designed, attractive, and well-landscaped, increased the value of proximate single-family residential housing (Eskic, 2021). What was most interesting about the Virginia Tech study, as explained by Eskic (2021: 2), were the researchers three possible reasons to explain their findings:

1. new construction serves as a potential indicator of positive economic growth;
2. new apartments increase the pool of future homebuyers for current homeowners; and
3. apartments with mixed-use development often increase the attractiveness of nearby communities as they provide more housing and amenity choices.

These three possible explanations are important. They highlight the importance of continuous investment in a community, providing a modern, diverse, and competitive housing stock—the positive economic growth, the need to attract newcomers to the community to create a pool of future homebuyers, and the amenity value diverse housing stock that offers housing alternatives for other residents already in the community—retaining young adults and empty nesters who seek to remain in the community but need and want housing other than larger single-family homes.

While claims of negative property value impacts are likely to persist in the local land use approval process, the unbiased academic research is clear in its findings, "apartments posed no threat to surrounding single-family house values (Hoffman, 2003) and "the fear of potential asset-value loss among suburban homeowners is misplaced" (Pollakowski, et. al, 2005: ii). This is important for communities, especially land use boards and commissions, to understand and embrace. New housing development, including multi-family and even affordable housing, when well designed and aesthetically pleasing, does not negatively impact the value of adjacent or proximate residential development. These findings are consistent with Goman+York's own experience and research related to the property values and development. The fact is, in communities and neighborhoods with more than 50% of housing stock as single-family and more than 50% owner-occupied housing, multi-family housing—affordable or not—does not have negative impacts on property values.

Section VI. Conclusion

This report on housing incentives demonstrates that the Town of East Lyme has many tools (policies and programs) at its disposal to proactively encourage and incentivize affordable housing. Most important, the more tools the Town employs to address affordable housing, the greater the likelihood that East Lyme can and will overcome the impediments to affordable housing. Furthermore, the regulatory modifications and recommendations discussed in *Review and Analysis: Recommended Modifications to the Zoning Regulations* report (and further discussion above) will create more opportunities for a greater diversity of housing and serve a greater diversity of households. The creation of an Affordable Housing Trust Fund, from our perspective, is East Lyme's best opportunity and likely the most effective incentive East Lyme can proactively implement to support the production of affordable housing, especial affordable housing serving the households of greatest need—at or below 50% of AMI. We encourage East Lyme to consider all of the recommended incentives and for East Lyme to implement as many of the incentives as is prudent and feasible.

Sample Ordinance – Town of Fairfield, Connecticut
Affordable Housing Trust Fund

§ 7-1. Purpose.

Pursuant to C.G.S. § 7-148(c)(2)(K), the Town of Fairfield does hereby create a special fund to provide affordable housing for the Town of Fairfield. The Fund shall be known as the "Affordable Housing Trust Fund," hereinafter the "fund." Such fund shall not lapse at the end of the municipal fiscal year.

§ 7-2. Sources of funding; investments; limitations on use of fund.

A. In addition to such sums as may be directly appropriated by the Town for deposit into said fund (if any), the Town is authorized to and shall deposit all other monies received by it for the purposes of affordable housing, from whatever source such monies are received (the "sources"). The sources may include, but are not limited to, Building Department fees, inclusionary zoning fees, monetary gifts, grants, loans, and monies received from state and federal agencies.

B. Said fund shall be in the custody of the Town of Fairfield. All or any part of the monies in said fund may be invested in any securities in which public funds may be lawfully invested. All income derived from such investment shall be placed into the fund and become a part thereof. The monies so invested shall at all times be subject to withdrawal for use as hereinafter set forth.

C. No sums contained in said fund, including interest and dividends earned, shall be transferred to any other account within the Town budget. However, in the event that work is performed by departments of the Town of Fairfield pursuant to this chapter, the cost of said work may be reimbursed from the fund under § 7-3B. No expenditures shall be made from said fund except in accordance with the provisions of this chapter. No expenditures shall be made from the fund in excess of the available balance in the fund.

§ 7-3. Expenditures from fund.

A. The continuation of the fund shall be perpetual, notwithstanding that from time to time said fund may be unfunded.

B. Expenditures shall be made from the fund only in accordance with the following procedures and requirements:

    (1) Said expenditures shall be made exclusively for the costs associated with the investigation, appraisal, acquisition, constructing, rehabilitating, repairing, administration, fees and maintenance costs relating to parcels of land, both improved and unimproved, or development rights, easements, deed restrictions, options, interests or rights therein, the use of which shall be limited to retention or designation of parcels for their long-term use in providing affordable housing within the meaning of C.G.S. § 8-30g.

    (2) Recommendations for any and all proposed expenditures from the fund shall be submitted to the Affordable Housing Committee (AHC) and the Director of Community and Economic Development for approval. Recommendations from AHC and the Director

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of Community and Economic Development for expenditures from the fund shall be submitted, including the sum to be expended, to the Fairfield Board of Selectmen for the approval of the Board of Selectmen.

(3) The AHC will provide an annual report of the amount in the Housing Trust Fund and the expenditures to members of the

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Sample Zoning Provision – Town of Tolland, Connecticut
Inclusionary Zoning

Section 16-17. Affordable (Inclusionary) Housing

To forward the recommendations of the Plan of Conservation and Development, to promote the development of affordable housing to meet local and regional housing needs as required by Connecticut General Statutes (CGS) Section 8-2 and Section 8-23, and to promote and increase housing choice, housing diversity, and economic diversity in Tolland, this section requires the inclusion of affordable housing units in all residential developments.

In accordance with CGS, Section 8-2i (Inclusionary Zoning), all residential development of five unit or more that requiring site plan, special permit, or subdivision approval shall include a minimum of 5% of the proposed units as Qualified Affordable Housing. Said Qualified Affordable Housing shall be sold or rented to households with incomes at or below 80% median household income as determined and defined in CGS Section 8-30g and RCSA (Regulations of CT State Agencies) 8-30g-8.

Any application including affordable housing shall be accompanied by a Housing Affordability Plan, prepared in accordance with CGS 8-30g and RCSA 8-30g-7. The Plan shall provide all the necessary information and documentation to ensure the construction and continued operation of the Qualified Affordable Housing units.

In accordance with CGS, Section 8-2i (Inclusionary Zoning), the applicant can satisfy the inclusionary affordability requirements by:

1. Providing 5% of the total proposed units as Qualified Affordable Housing units.
2. Paying a fee-in-lieu of affordable housing equal to $50,000 per each required unit of Qualified Affordable Housing that will not be constructed. Said fee shall be deposited in the Town of Tolland Affordable Housing Trust Fund.
3. Providing more than 10% of the total proposed units as Qualified Affordable Housing to receive a density bonus equal to one additional market-rate unit for each unit of Qualified Affordable Housing provided.

If a minimum of 10% Qualified Affordable Housing units are to be constructed, the applicant may request to purchase a density bonus up to an additional 10% of the total proposed units, by paying a fee-in-lieu equal to $50,000 per unit for each additional market rate unit. The Commission reserves the right not to accept a fee-in-lieu of affordable housing or not to grant a density bonus and require that the 5% Qualified Affordable Housing units, as required by this Section, be constructed. The amount (percent) of affordable units shall be evenly distributed throughout the development and evenly

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distributed across phases. Affordable units shall proportionate to each phase, and the fee-in-lieu shall be paid before the Certificates of Occupancy are issued more than 50% of the units in the phase or the affordable units shall receive a Certificate of Occupancy before such Certificates are issued for more than 50% of the units in the phase.

In the interest of Fair Housing and the need to promote and encourage affordable housing, the Commission may modify specific requirements of the Zoning Regulations, as part of an application for site plan, special permit, or subdivision, that would otherwise prevent the density bonus from being realized. In doing so, the applicant must make specific request for the necessary modification and list said modifications on the approved plans of the density bonus is accepted.

This inclusionary zoning provision, once adopted by the Zoning Commission, shall become effect once the Tolland Town Council establishes an Affordable Housing Trust Fund or on July 1, 2022, whichever comes first.