

Concord Square Development Company, Inc.

Memorandum

To: Interested Parties

From: Ted Carman

Date: November 29, 2002

Subject: Draft of Ideas on Housing Policy, V.5

Note: This version of the paper reflects insights from housing conferences at MIT and CHAPA, as well as comments from a number of readers: Michael Hicks, Aaron Gornstein, George Fantini, and others.

The Problem:

The Essence of the Problem – Element # 1:

During the 1990s the number of households in Greater Boston increased by 129,265. The number of housing units increased by only 91,567. The amount of new supply of housing did not meet the demand. The shortfall in construction was 38,000 housing units – 41% more than were actually built.

The shortfall in production was 41% of the number of housing units actually built.

Economic theory says that when there is a shortage of supply in relation to demand, prices go up. They did. The average rent for a 2-bedroom apartment went up to \$1,700. The price of a single-family home increased by 50% from 1998 to 2001. By 2001, families earning the local median income could not reasonably afford the median priced single family home in 112 of 161 Greater Boston Communities (Boston Globe editorial, 10/2/02).

The fundamental housing problem is a problem of supply. To solve the problem the development community must build substantially more housing.

Element # 2

Current zoning regulations make it very difficult to build high-density housing, whether in the form of apartments or single family homes, or a combination of the two. In fact, communities do everything they can to limit the number of homes with children in order to protect against increases in their school budgets and other infrastructure costs. Communities can't afford to build new sewer and water facilities, or new roads. A typical response is for the community to require large lots for new homes. As a result, most housing developments end up being relatively low density, have a high price, use more land than necessary, and require an increasing use of automobiles.

This creates more sprawl, devalues the quality of communities, and engenders opposition from abutters and other community residents to development proposals. Environmentalists help lead the opposition.

The opposition to new housing production has a rational component. It recognizes that the benefits to the community of a new housing development may not offset the costs to the community. There are economic costs, such as the cost of schools, and the costs of water, sewer and transportation improvements. There are also intangible costs, such as the deterioration of the environment from the impact of more "sprawl", increases in traffic, and increases in automobile created pollution.

The benefits to higher density projects are regional. Unfortunately, the costs are local, and, in Massachusetts, the control is local. Given the structural realities of how our communities work, it is not surprising that production lags demand by 40 %. Bill McLaughlin of Avalon Properties calls this a "structural disequilibrium between supply and demand."

Harvard Economics Professor Ed Glaeser has done research demonstrating that the high cost of land on which housing can be built is almost entirely attributable to restrictive zoning and other regulations, which limit its supply. It is **not** a function of an absolute "shortage" of land (as is implicit in the notion that there is a shortage of land because "they aren't making any more land").

It is a structural problem, and requires, therefore, a structural solution.

Element # 3

Most of the public debate with regard to housing focuses on the need for more affordable housing. The debate often does not address the fundamental problem, which is the need for 40% more production. For instance, the Globe editorial quoted above in the first paragraph lists some "obvious conclusions". Not one of the "obvious conclusions" includes or even hints at finding ways to build 40% more housing units.

Element # 4

The lack of adequate housing at reasonable prices puts a substantial damper on the ability of the economy in Massachusetts to continue to expand. An expanding economy is required to provide more jobs for everyone, particularly the poor, who are the first to lose out when there is economic stagnation.

Therefore, a solution to the housing production problem is a critical element in making it possible for everyone, including those in the bottom 20% of the income distribution curve, to better themselves and have more economic and housing opportunities.

Any new housing, whether it has “affordable” units or not, will contribute to the solution of the problem. This is not conventional wisdom. It should become conventional wisdom.

New housing created at the top of the price range attracts tenants and buyers from the top of the income group looking for housing. All of these renters or buyers have the financial ability to obtain housing from the existing market. To the extent that they go into new units, they come out of the pool of buyers / renters competing for the existing units. Therefore, as new units are built, and occupied, the upward pressure on rents and prices in the existing housing stock is reduced, and **housing costs are lower, throughout the entire housing marketplace.**

Housing policy should have as its goal the production of enough rental housing to maintain a 5% to 8% vacancy rate throughout the rental marketplace. In order to stimulate adequate production, zoned land must be made available. If there is enough zoned land to meet demand (and, preferably a surplus of land available), there will be price competition among the land owners who want to sell. This will make land prices more reasonable – and will lead to reduced housing costs.

Element # 5:

In Greater Boston, there are hundreds of thousands of students who live off campus. Usually doubling or tripling up, they can afford relatively high rents, and make few demands on owners. Their presence in the housing marketplace drives up the rental costs for everyone in the marketplace.

Student housing is relatively easy to finance, because the students can often afford the costs. Public subsidies aren't required. Massachusetts Development Finance Agency has a low interest rate financing program for developers. Again, the problem is finding land zoned appropriately.

Proposed Solution

The Basic Concept – Element # 1:

The problem, defined above, is a structural problem. Because of restrictive zoning and other regulations, land costs are high, contributing to high housing costs. Further, it is almost impossible to find land that is "as of right" zoned for apartments.

The proposed structural solution is one that makes it, under certain circumstances, fiscally advantageous for a local community to enact zoning provisions that allow high-density, mixed-use development.

The proposal is to transfer a portion of the cost of the infrastructure and municipal services for new high-density housing to a regional funding source, and thereby eliminate the disproportionate financial burden otherwise placed on the local community. The key components of the proposal are:

- State legislation that would enable communities to adopt overlay zoning districts that would allow significantly increased development density and mixed use to occur (1) within a specified radius of any MBTA or Commuter Rail station, (2) at certain industrial buildings or sites (such as historic mills), and (3) in the vicinities of colleges and universities in order to allow student housing.
- All communities that adopt such overlay zoning districts would be eligible for increased school reimbursements, increased cherry sheet payments, plus state participation in paying for the costs of water, sewer, and transportation improvements.
- Communities that adopted such districts might also be authorized to pass more restrictive zoning regulations and zones in other parts of the community that would serve to maintain open space and reduce the amount of "sprawl" development.

The goal of this legislation would be to make it in the financial interest to participate in the program for each community that has a public transit station, suitable industrial sites, or a need for student housing. For instance, the program might immediately increase the school funding and cherry sheet percentages to be received once the overlay zoning was passed, even before additional development took place in the community. This would make it possible to generate early support in the community from a wide range of people with varying interests.

The regulations should be designed to more than cover the incremental costs incurred by the community upon the development of additional housing. As development takes

place, there would be formulas to increase cost reimbursements. If new water and sewer systems need to be built to accommodate increased demand, the state would assume the major cost. From a local property tax point of view, it should be possible to demonstrate that the local community would be financially better off after the development is completed than before.

Element # 2:

Change the debate. Work to achieve a widespread public understanding that in order for the Massachusetts economy to continue to expand, the level of housing production must be increased by 30% to 40%. The goal should be to have the supply and demand of housing is in equilibrium.

Nothing will make housing more affordable **for everyone** than to have the amount of supply exceed the demand for a period of time.

Speakers at an MIT Conference on Housing Costs on November 7th, and at the annual Housing Conference of the Citizens Housing and Planning Association (CHAPA) agreed, almost without exception, that production of a sufficient housing supply is the key element in the overall equation.

Element # 3:

Provide requirements and incentives for communities and developers to include affordable housing in the new mixed use, high-density overlay zoning districts. This might include enabling legislation for tax increment financing for housing within the new zoning districts. Such legislation could be structured to help stimulate the production of market rate housing, and to reward additional affordable housing. It could also include an expansion of the rental housing voucher programs already in existence in Massachusetts.

Element # 4:

Find ways to make it possible for Developers to build large-scale projects in relatively short periods of time. When 500 or 1,000 units are built at once, there are substantial economies of scale that are realized. Once supply and demand reach a more balanced equilibrium, these economies of scale will be translated into lower selling prices and lower rents.

The State owns large undeveloped parcels of land, such as the old State Hospitals, and closed-down military bases. More emphasis should be placed on the development of thousands of units of market rate housing on these parcels, as well as a sense of urgency towards moving the projects forward to being under construction.

Commentary:

The regulations and provisions of the Overlay Districts should incorporate the concepts of the “New Urbanism”. This city planning movement emphasizes a scale of development that is people oriented, that minimizes the amount of automobile use, that allows for varying levels of density, and that encourages a mixture of commercial and residential development. By centering the Overlay Districts on existing public transportation stations, a key element of the New Urbanism, in fact, its most expensive element, can be provided **at no initial capital cost whatsoever.**

New Urbanism planning concepts can also be adapted to high density, mixed use developments of existing industrial buildings and sites.

There are many commuter rail stations that are located in low-density communities, and that have minimal development around them. For instance, the Littleton station is surrounded by woods, fields and a few homes. It is at the intersection of Route 495 and Route 2. What better location for a high-density residential development could possibly exist? Yet (it is assumed that) local zoning allows little to be built there. Even if it did, there are no public sewers, so high density development is not likely to be economically feasible.

The Wakefield stop is another example. It is close to and inside Route 128, and surrounded by down-at-the-heels low-rise commercial development, some vacant lots, and modest, low-density housing.

There is currently a proposal from Pembroke, Fidelity Investment’s real estate arm, for building over 500 units next to the Oak Grove T stop, at the end of the Orange Line in Melrose and Malden. It is a creative proposal. It is an ideal example of where new housing should be located. The developer, of course, is experiencing opposition from the neighbors. It has not been getting high-level support from either the Boston Globe, or state politicians or other leaders. It should.

The regulations should allow both housing and commercial development. To the extent that new office and other commercial buildings can be built by commuter rail and T stops, the workers and customers will be able to get to their jobs without an automobile. It will make the communities more diverse and interesting.

A good deal of thought must be given to the details of the enabling legislation for the Overlay zoning districts. It probably will be necessary to have multiple options from which communities can choose. What is appropriate for T stops in Somerville or Dorchester or Brookline will not be appropriate for the commuter rail station in Wakefield, or the one in Littleton. A one-mile radius may make sense for some stations, a shorter distance in others. For instance, a more focused high-density area may be appropriate in places like Wellesley or Hamilton or Concord where there are established, built-up surrounding communities that have very distinctive character that no one will

want to change substantially. There might be four to six options from which communities are able to choose.

Part of the thinking behind these proposals is the recognition that the most desirable housing locations in New England are those that are the most dense – that is Beacon Hill, Back Bay, and the South End in Boston. Part of the attraction is the quality of the historic architecture, part of the attraction is the location near downtown Boston, the Common and the Garden, and all the business and cultural activities. Yet, a big part of the attraction is the density itself.

Further, some of the most attractive one and two family residential areas of the region are those located in Cambridge, Newton and Somerville. These are characterized by large one, two, and three family houses on small lots. There are often modest sized apartment buildings in the mix. These neighborhoods are highly desirable places to live.

And public transportation makes a big difference. When the Red Line came to Davis Square in Somerville, the most densely populated city in New England, property values went up and new investment increased dramatically – further and faster than in other parts of Somerville. At such time as the Green Line is extended to Union Square, a current proposal, the increased accessibility will undoubtedly result in higher values and increased investment in Union Square as well.

Thus, the dense development of housing, when done well, results in highly desirable places in which to live. The Somerville experience demonstrates that combining public transportation with dense development results in communities that are even more desirable and attractive (values go up when public transportation is available). Finding ways to encourage high-density development around existing transportation nodes will reduce developmental pressures on open space throughout the region. For Greater Boston, it is a particularly efficient strategy because the transportation nodes already exist and are well served by current train schedules.

One of the goals should be to modify zoning to make it possible for responsible developers and their architects / planners to create housing communities of the quality and substance of those built in the 19th and early 20th century.

It is basically not possible, with today's zoning regulations, to create such high quality living environments.

The tax increment financing can be structured to give higher benefits to those projects that produce more affordable units. In addition, Massachusetts has pioneered and developed to a high degree of sophistication many special financing techniques to provide affordable housing. The use of these financing techniques should be prominently encouraged in the provisions and regulations of the new zoning districts. The reimbursement formulas should have built-in requirements and incentives for the production of affordable housing and for family housing.

In order to “sell” the concept to the state legislature it will be necessary to work out a compelling set of reasons why it is in the State’s overall best interest to give these target communities a larger share of state tax revenues. This will require a good deal of thought, creativity and education.

This program could offer a positive, pro-active response of the development / real estate community to counter-act growing pressure for rent control. It would emphasize the need for more housing production in an environmentally sound way.

It may be possible to organize a committee to work together in developing the details of such a program. Such a coalition might consist of Citizens Housing and Planning Association (CHAPA), the Boston Society of Architects, the Greater Boston Chamber of Commerce, the Real Estate Finance Association, The Rental Housing Association, the Metropolitan Area Planning Council, the Conservation Law Foundation, the Massachusetts Homebuilders Association, and other interested groups.