

Executive Summary

Building on our Heritage A Housing Strategy for Smart Growth and Economic Development

Report and Recommendations for

The Commonwealth Housing Task Force

from

The Center for Urban and Regional Policy

Northeastern University

by

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tBf The Boston Foundation

**The Commonwealth
Housing Task Force**

**Center for Urban
and Regional Policy**
 **Northeastern**
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Commonwealth Housing Task Force
c/o The Boston Foundation
75 Arlington Street --10th Floor
Boston, MA 02116

Dear Members of the Commonwealth Housing Task Force:

As commissioned by the Task Force, I am pleased to enclose the attached report that includes recommendations for a new and highly innovative program for increasing the supply of housing for households at all income levels in the Commonwealth.

The finished product represents work by many members of the Task Force over the last six months, building on the creative ideas of Ted Carman and the vast housing experience of Eleanor White of Housing Partners, Inc. When implemented, this proposal is expected to lead to the construction of nearly 30,000 new housing units over the next decade, including a substantial amount of affordable housing. The program aligns the economic development interests and housing needs of the Commonwealth with the fiscal needs and local concerns of individual municipalities.

The report is a testament to the powerful coalition that the Commonwealth Housing Task Force has become. Born of the conflict surrounding the campaigns for and against the Community Preservation Act in Boston, the Task Force now includes active participation by representatives from business, labor, higher education, the health care sector, housing advocacy and environmental groups, housing and real estate development companies, and many elected and appointed officials. The Boston Foundation has served as the convener of the task force. All have worked together to forge a set of recommendations that are both visionary and practical.

Ted, Eleanor, and I thank the many people who have helped inform this report, and especially to those who will work in the future to see that its promise is fulfilled.

Sincerely yours,

A handwritten signature in black ink, appearing to read "Barry Bluestone".

Barry Bluestone
Director

Executive Summary

The Commonwealth of Massachusetts has a housing problem. Despite the recent weakness in the economy, housing continues to be excessively expensive for its citizens, for the adult children of families who already live here, and for workers and their families who wish to move to Massachusetts to find or take jobs. For businesses who are hiring, the high cost of housing poses a potentially serious barrier to attracting workers from outside the state. Home prices continue to escalate so that as of June 2003 the average sale price exceeded \$400,000.¹ In a recent poll of representative citizens, 25 percent of the respondents expressed a wish to relocate to a less expensive area.²

The Commonwealth Housing Task Force is an ad hoc group that has been meeting since 2001 to develop solutions to this problem. Its members represent housing organizations, the business community, organized labor, the Urban Land Institute, The Boston Foundation, Citizens Housing and Planning Association ("CHAPA"), academic institutions, elected and appointed officials, and many others. Its co-chairs are Jerry Rappaport, Jr., President of the New Boston Fund; Eleanor White, President of Housing Partners, Inc. and CHAPA; Larry DiCara, Partner at Nixon Peabody; and Thomas Hollister, President of Citizens Bank, Massachusetts and Chairman of the Greater Boston Chamber of Commerce. Paul Grogan, President and CEO of the Boston Foundation, served as the convener of this Task Force.

The Task Force recommends that:

- 1. The state provide financial and other incentives to local communities that pass Smart Growth Overlay Zoning Districts that allow the building of single-family homes on smaller lots and the construction of apartments for families at all income levels.**
- 2. The state increase its commitment to fund affordable housing for families of low and moderate income.**

This report, prepared for and submitted to the Commonwealth Housing Task Force, describes a proposed initiative that uses the concept of Overlay Zoning

Districts to direct higher density growth into Smart Growth locations. Communities that voluntarily participate in the new housing program will be substantially rewarded for their participation. The program is designed to allow the Commonwealth to increase funding for affordable housing, to reduce development sprawl, to increase the amount of open space, and to enhance opportunities for historic preservation and neighborhood revitalization. This strategy builds on the unique heritage of all our communities.

Background: There is a high price to be paid for the state's housing shortage. The housing crisis in the Commonwealth is not just an affordability issue for low and moderate-income families, but also an economic issue that affects the well-being of all residents of the state.

The human capital of the area – a unique and essential asset because of Boston's high tech businesses and its educational, research, and medical institutions – is being compromised because young scientists, engineers, doctors, and business people find it difficult to afford, even with substantial salaries, the purchase price on homes that meet their family needs. Therefore, an increasing number choose not to come to Massachusetts and seek jobs in other regions of the country. The future economic expansion for the Commonwealth is therefore at risk.

At the same time, land-use regulations and building patterns are pushing housing further out from Boston and the employment centers. The typical new home is

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a substantial single-family house built on a large lot far from city centers and mass transit. The quality and character of the New England countryside is in jeopardy from accelerating sprawl.

This occurs despite the fact that many people want just the opposite. The housing most in demand by homeowners and renters is located in the densest developed neighborhoods in the state. Per square-foot prices for both home purchase and rental are the highest in the Back Bay, Beacon Hill, Cambridge, and other in-city locations.

In other parts of the country, particularly in the Midwest and the South, housing prices have tracked the inflation rate in construction costs. This does not happen in Boston and other East and West Coast built-up, urbanized areas where housing prices have escalated at rates double and triple the rate of underlying inflation. Economists agree that an imbalance of supply and demand causes these escalations. Not enough housing is being built to meet the demand, and as a result, housing markets in such areas come into balance only by means of substantial price increases.

This report concludes that neither a “lack of land”, a shortage of competent developers, nor a lack of financing can account for the shortfall of construction experienced throughout Boston. None of these factors exists here. Instead, the report identifies restrictive zoning as the root cause. It further concludes that a primary reason for this is the adverse impact on town finances from new housing development. *Therefore, the report believes that addressing the lack of housing production requires producing an adequate supply of land zoned for housing by changing the underlying fiscal constraints facing local communities.*

The Recommendation for Producing More Housing and Moderating Housing Costs

This report proposes that the state enact legislation that will reward communities for passing Overlay Zoning Districts in Smart Growth locations. All communities in the state will be eligible to participate on a voluntary basis. Smart Growth locations are those near public transit stations, town centers, and underutilized industrial, commercial and institutional buildings and sites.

The proposed incentives to communities are:

- Density Bonus Payments upon passage of the Districts equal to \$2,000 for each apartment unit and \$3,000 for each single family home that is allowed in the District
- State assumption of 100% of the cost of providing K-12 education for each child in public schools living in a new housing unit built in the District
- Priority for receiving capital investments from the state for infrastructure improvements.

In order to be eligible for the above incentives, we recommend that Overlay Zoning Districts allow mixed-use development with a density for apartment buildings of at least 20 units per acre, and for single-family homes of at least 8 units per acre. They would encourage the development of housing on infill lots and the conversion of underutilized commercial, industrial, and institutional sites or properties.

Each District would also require that in all projects containing more than 12 units, 20 percent of the units be affordable to those with incomes at 80% of median income.

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Communities will be encouraged to include design standards in the provisions of the Overlay Zoning Districts such that the Planning Board will be able to ensure that what is built in the District is compatible with and reflects the character of the immediate neighborhood. It is further recommended that the state Department of Housing and Community Development (DHCD) be designated to administer the specifics of the program and review the overlay district and accompanying build-out analyses produced by municipalities desiring to participate in this new housing program.

The State Legislature is considering reforms to Chapter 40B, the legislation that allows developers to override local zoning ordinances under certain conditions. Once this legislative work is completed, it is anticipated that the Commonwealth Housing Task Force will propose ways in which Overlay Zoning Districts can be integrated with the new provisions of Chapter 40B. The success of the recommendations in this report depends upon the continued existence of a strong Chapter 40B.

Projections: This report estimates that implementing the Overlay Zoning District program is likely to result in the construction of 33,000 new housing units – both market rate and affordable – within the Overlay Zoning Districts over the next ten years. Of this amount, approximately 19,000 units will be the construction of incremental new units in the Commonwealth. (The remaining 14,000 units are ones that we project would have been constructed by developers, but in areas outside of Overlay Districts.) In addition, provisions in this report will support the production of an additional 10,000 units of affordable housing outside Overlay Districts.

The net increase in production should be sufficient to moderate housing price inflation in the Commonwealth to the point where housing price increases will not appreciably exceed the increase in family incomes. Over time, this will provide housing more in line with what families can afford. Moreover, the units “transferred” into the Districts around transit stations and near town centers from other locations will help reduce congestion and urban sprawl and will preserve valuable open space.

It is assumed that to stimulate and accommodate the 33,000 new units, zoning for 50,000 units must be put in place during the next ten years.

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It is estimated that the cost to the state for the Density Bonus Payments for the new zoning will start at \$11 million and grow to \$14 million per year by the tenth year. The additional state costs for public schooling is estimated to start at \$3 million in the second year and rise to approximately \$60 million by the tenth year. To put this \$60 million number in context, ten years from now, after building 33,000 new units in Overlay Zoning Districts, the annual increased schooling cost of this new initiative is estimated to be only 2.1% of the 2001 state reimbursement for school expenditures under Chapter 70 (\$3.0 billion).

Further, building in Overlay Zoning Districts is expected to generate state revenues from two sources. First, from the sales and income taxes paid pursuant to the construction. Second, from tax revenues created by new jobs from business expansion attributable to increased housing affordability. When these revenues are offset against the costs of this program, and excluding the funding required for increased housing affordability, the net cost to the state over ten years will be approximately \$110 million. This amount is approximately twice the \$50 million that the Governor has proposed be appropriated to provide incentives to communities to increase housing production, but is spread over a 10 year period and is expected to generate significantly more housing construction.

The Recommendations for Housing Affordability:

The Commonwealth has a wide array of programs to assist with affordability for its citizens, as well as a highly developed delivery system of state agencies and non-profit and for profit developers. Still, the affordability problem is not being met in the state. Recent studies name Massachusetts as the least affordable state for housing in the United States.³

This report recommends that in order to increase housing affordability for those earning up to 80% of the median income, as well as to assist the least well-off citizens of the Commonwealth, state funding for affordability assistance should be increased by \$670 million over the next ten years. A portion of this amount would be utilized within the Districts; the majority of the amount would be utilized outside the Districts. To offset these costs, it is recommended that

surplus state land be sold during this period in the amount of \$400 million.

The specific recommendations of this report include:

1. Maintain or increase the allocation for housing under the Private Activity Bond Cap at the current level.
2. Gradually increase the housing portion of the State Annual Bond Cap from its current level of 9.1% to 15%
3. Gradually increase annual state outlays for housing to \$120 million. In the next decade this will add about \$670 million for housing affordability
4. Sell surplus state property, with a priority for housing and mixed use (where appropriate). Use the funds for increasing state assistance for housing affordability.

In order for the State to be successful in selling surplus land in the amount of \$400 million over the next ten years, it is recommended that:

1. all disposition responsibilities be delegated to the Division of Capital Asset Management and Maintenance ("DCAMM"),
2. dispositions take place pursuant to an auction system, and
3. auctions occur prior to obtaining necessary local approvals.

Conclusion: These proposals offer an avenue for dramatically changing future development patterns of the Commonwealth. Instead of sprawl, communities can choose to have development take place in already built-up areas, in ways that are consistent with the quality and character of their surroundings. Communities will be able to extend and revitalize their town centers and build

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new neighborhoods that have the charm of traditional New England communities. This housing strategy builds on the heritage of the Commonwealth.

It is believed that encouraging local communities to pass Overlay Zoning Districts will result in a substantial increase in land zoned for apartments and single-family homes on small lots. The increase in zoned land will allow land costs to go down and reduce the costs of development, allowing housing markets to clear efficiently at more modest prices. If implemented, the recommendations in this report will substantially lower one of the critical barriers to further economic development in the state and provide for affordable housing specifically targeted to help Massachusetts households that are struggling on low and moderate incomes.

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Endnotes

¹ *Boston Globe*, Real Estate Section , July 26, 2003,.

² "The Pursuit of Happiness," *MassINC Survey on the Quality of Life in Massachusetts*, February 2003 (see endnote 7 below).

³ CHAPA Press Release and News Stories on 9/8/03

