ISSUE BRIEF:
THE ECONOMIC CASE FOR ZONING REFORM

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In 2020, DesegregateCT formed to advocate for more equitable, affordable, and environmentally-sustainable land use policies in Connecticut. In pursuit of this mission, our pro-homes organization has spoken with thousands of people across the state:

**Young people** who can’t afford to live in the towns where they grew up.

**Seniors** without options to downsize or find housing in walkable, senior-friendly areas.

**Employers** struggling to attract and retain talent due in part to a lack of housing opportunities.

**Homerenters** with few options to choose from, and no path to homeownership.

**Homeowners** with high property taxes and mortgage costs.

And so many other people who – knowingly or unknowingly – are harmed by Connecticut’s byzantine approach to zoning.

As we listened to their stories, we realized the bottom line: we must change zoning laws to make it easier to build diverse types of housing in cities and towns across the state. This paper lays out the economic case for reform.
Before we begin, let’s frame the economic problem caused by exclusionary zoning and the economic benefits that a pro-homes zoning-reform solution can bring.

Here’s the problem as we see it: Restrictive zoning and costly land use review processes have stopped housing production and driven up prices. The high price of housing means essential workers can’t afford housing, small businesses and manufacturers can’t fill jobs, and young families and minority homeowners are priced out of homeownership.

Wow, this sounds bad. So how can zoning reform help? Zoning reform that makes it easier to create diverse housing can stimulate the economy by creating construction jobs and by indirectly supporting jobs in nearby shops and offices. New housing adds to the property tax base – and multi-family housing contributes more taxes on a per-unit basis than single-family housing.

A bill passed during the 2021 legislative session will start to create this new housing. It legalized accessory dwelling units, capped parking mandates, created new standards for fair housing, and made the zoning process more efficient. National experts said the legislation enacted “modest changes that will make a real difference.” What’s more? The 2021 reforms will be virtually costless to the State and its taxpayers. You can find out more information on our website at www.desegregatect.org/hb6107.

Unfortunately, these changes aren’t enough to totally reverse troubling economic consequences of exclusionary zoning.
If we want to unlock inclusive economic growth, we must build on the 2021 zoning reforms. In this section, we connect you with the latest research showing that restrictive land use policies result in higher housing costs, more cost-burdened households, lower property values, reduced economic growth, lower municipal tax revenues, job loss, population decline, and segregation. And we show how pro-homes zoning reform can help us reverse these troubling economic trends.

A. Housing Supply & Affordability

Connecticut is one of the least affordable states in the country, with a shortage of 86,717 affordable units compared to current demand. With less housing to choose from, housing costs have risen dramatically over the last four decades.

As a result, one in six Connecticut families devote more than 50% of their monthly income to housing. The vast majority of cost-burdened households are concentrated in the poorest communities in the state. One study estimates that a teacher living in New Haven must use 47% of their income to afford a 2-bedroom apartment.

Money spent on housing leaves households with less disposable income to spend elsewhere. After paying the rent and utilities, the average renter is left with only a modest amount of money for discretionary spending, as a recent Harvard study revealed. This makes saving for a house out of the question.

The American dream of homeownership has become further out of reach over the last two years because of spiraling prices, which we have seen across the state since early 2020. And realtors estimated a 7.8% increase in home prices in areas like Fairfield County for 2021. As prices increase, fewer and fewer people are able to qualify for
mortgages. Modest increases in monthly mortgage payments have the potential to price out thousands of Connecticut households from qualifying for a mortgage.

Economists agree that producing more market-rate housing improves affordability. In 2018, the NYU Furman Center for Real Estate published a groundbreaking study by three of the nation’s foremost housing experts, which found that “adding new homes moderates price increases and therefore makes housing more affordable to low- and moderate-income families.”

Since then, cutting-edge empirical work has further confirmed that conclusion. A major 2019 study tracked the occupants of 802 new multifamily developments in North American cities, finding that for every 100 new market-rate units built, approximately 65 units are freed up in existing buildings, accommodating up to 48 moderate- and low-income families. A similar study published by Harvard and MIT this year found that new buildings decrease rents in nearby units by about 6% relative to farther away units.

Zoning reforms will increase affordability. Connecticut made a start on zoning reform by enacting statewide legislative reforms in 2021. Among other things, the legislature legalized accessory apartments, which are smaller units of housing on the same lot as a single-family home. This is smart policy. In California, within three years of legalizing accessory apartments, permits increased 11-fold in Los Angeles alone, with statewide accessory apartment rents on average considered to be affordable. Similarly, in Portland, Oregon, the average accessory apartment monthly rent is $850 — hundreds below the average rent for all dwellings.

In 2021, Connecticut also capped minimum parking mandates, which often add significant expense to housing costs. The American Planning Association found that after reducing multi-family parking mandates in Minneapolis, new studio apartments, which typically went for $1,200 per month, were being offered for less than $1,000 per month.

As long as individual towns ensure the state’s reforms on accessory apartments and parking mandates is well-implemented, Connecticut could see hundreds or even thousands of units of new housing in the coming years.
To further improve housing affordability, Connecticut should consider policies that “upzone” for multifamily housing. The Victoria Planning Policy Institute has suggested that the best way to increase affordability and economic opportunity is upzoning in accessible, high-opportunity neighborhoods.

B. Property Values

Restrictive zoning laws reduce property values by limiting property owners’ ability to maximize the economic utility of their land. While zoning that separates industrial and residential uses may protect residential property values, zoning that prevents more diversity in residential uses dampens them. Today, regulations barring duplexes, triplexes, and other multifamily housing depress the value of property by limiting its economic potential.

Studies reviewing trends from Arkansas, Minnesota, Virginia, Wisconsin, and nationally, among many others, show that allowing different housing types (such as accessory apartments, duplexes, triplexes, and other small-scale density options) has a neutral or even positive effect on the value of nearby property. In Minneapolis, modestly upzoning single-family homes to allow triplexes drove a 3-5% increase in the price of affected housing units compared to similar unaffected properties in surrounding cities. Homes near multifamily housing appreciate faster on average than homes in single-family neighborhoods.

Connecticut’s 2021 zoning reforms started the process of improving residential property values by legalizing accessory apartments. Studies show that when homeowners add an accessory apartment, they can increase their property value by up to 50%. Low-income and moderate-income homeowners and seniors on fixed incomes particularly benefit. Setting uniform rules and streamlining approvals for accessory apartments will be a valuable tool for low and moderate income homeowners to build equity, and an excellent way for homeowners to earn extra income by renting out the accessory unit.

If Connecticut accelerates zoning reforms in the coming years, we can both provide new housing opportunities and enhance property values.
C. Economic Growth & Job Creation

Extensive research documents how restrictive zoning laws constrain economic growth and job creation. In 2019, researchers from Chicago and UCLA found that housing supply constraints, including zoning, lowered aggregate US economic growth by 36% from 1964 to 2009. They observed that workers could not move around very easily to start new businesses or find new jobs, because of a limited supply of housing nationally.

Connecticut exemplifies this problem. The Connecticut Business and Industry Association reports that businesses across the state have jobs to fill, but the lack of suitable workforce housing means businesses cannot attract or retain workers. The lack of housing inhibits business expansion and job growth.

At the same time, the lack of housing options also impacts the kinds of jobs that are being produced. As of October, over 277,000 Connecticut residents had lost their jobs and since the start of the COVID-19 pandemic, and over a half a million residents filed for unemployment.

Zoning reform that enables new housing could help Connecticut meet the needs of existing business and create new jobs and new economic activity. The National Association of Home Builders reports that if 1,500 units of multifamily housing were built next year in Connecticut, that state would see the creation of 3,200 jobs immediately and 921 permanent service jobs annually. The right kind of zoning reform could unlock this kind of economic growth at no cost to the State and its taxpayers.

D. Tax Revenues

Constraints on housing supply, including zoning, mean less housing is built. That results in a smaller grand list and higher taxes for all current residents. The DesegregateCT Zoning Atlas has demonstrated that there are particularly onerous constraints on multifamily housing. These constraints diminish Connecticut’s tax base. Connecticut’s tax revenue fell 17.3% from its peak in 2013 through 2019, when adjusted for inflation.
Zoning reform can help facilitate new housing creation that helps us rebuild our tax base. According to the National Association of Homebuilders, the construction of 1,500 new multifamily units would increase Connecticut’s state and local tax revenues by $39.8 million in the first year, and $16.4 million annually thereafter. In Trumbull, the addition of 600 new multi-family units generated far more tax revenue than they cost the town in services and education expenses. A study in North Carolina found that two-to-four-story apartment buildings generate more than twice the tax revenue of a mall or “big-box” store.

The 2021 zoning reforms were a good start to facilitating new housing. But if Connecticut makes housing easier to build, we will have more property owners sharing our costs.

E. Population Decline

The latest Census data revealed that Connecticut had the slowest population growth in the Northeast, of just 1% over the past ten years. A State of Connecticut report cited the top reason people leave Connecticut is the lack of housing options.

Connecticut lags in building the housing needed to accommodate existing and new populations. During the pandemic, Connecticut was last in providing housing. For example, in March 2021, housing permits were up 24% nationwide compared to March 2020, but they were down 20% in Connecticut.

This stagnation is not due to a lack of demand. We have seen rising demand across the state, including places like the Naugatuck Valley. Yet we have failed to build more housing in response. Instead, this spike in demand has translated into higher prices, limiting the inflow of new arrivals and pricing out existing residents.

Beyond general supply constraints, onerous zoning thwarts the construction of diverse housing types that would allow our state to attract and retain population. Multifamily housing and single-family homes on small lots provide more affordable and attractive options for young people, renters, first-time homebuyers, and seniors looking to

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downsize. Unfortunately, zoning rules bar this type of housing on the vast majority of Connecticut’s residential land.

Advocates for seniors, young people, and the generations in between recognize the need for both more supply and greater housing diversity – failing to heed their calls risks driving them out of state or never attracting them here at all.

F. Segregation

Connecticut is among the most racially and economically segregated states in the country. Fairfield County is the most segregated metropolitan area in the country by income, with Greater Hartford and New Haven County not far behind. Among school-aged students, Fairfield County ranked first, Greater Hartford fourth, and New Haven County seventh in residential segregation by income.

From a racial segregation standpoint, Connecticut’s metropolitan areas likewise stand out as more segregated than the lion’s share of comparable areas throughout the country.

Restrictive zoning laws play a large role in driving and entrenching residential segregation throughout the country. Connecticut is no exception. Fair housing experts and civil rights scholars point to exclusionary zoning as one of the foremost causes of segregation in our state. Indeed, according to the Brookings Institute, Connecticut has the most restrictive land use laws in the country; the highest rates of zip code segregation by income; and the highest test score gap between students in high opportunity versus low opportunity areas.

Racially segregated areas have much larger income gaps by race. Racial minorities often inhabit neighborhoods without sufficient access to grocery stores, child care, and vital health services.

These consequences reverberate across generations, as children who grow up in low-income, segregated neighborhoods make less money and pursue higher education at lower rates than those who grow up in integrated neighborhoods. Consequently,
southwest Connecticut has the largest racial wealth gap in the country. Even among households with enough wealth to own a home, the average Black family's home is worth just $131,000, compared to $784,000 for an average white family's home. Connecticut Voices for Children reports that in 2016, 33.5% of Latino children and 30.5% of Black children lived in poverty, compared to just 5.6% of white children.

While we have started the process of zoning reform with some significant statewide changes in 2021, we have not done nearly enough. We must do more. Connecticut’s pervasive segregation is not just a moral issue. It is an economic one.
Through our discussion of six economic issues, we hope we have shown the consequences of zoning reform. Connecticut has the opportunity to curb these economic costs, create more housing, and boost its stagnant population by adopting land use reforms.

The inclusive growth enabled by zoning reform doesn’t just help those at the top. It knocks down walls of exclusion by providing access to high opportunity areas and puts us on the path toward more integrated, diverse communities.

Connecticut can gain millions in state and local tax revenue, boost local businesses and jobs, start to reverse equity and affordability issues, all at zero cost to the public. Across the country, other states are taking action to bring their land use laws into the twenty-first century.

To keep up with and surpass its competitors as an engine of dynamic growth, a destination for businesses and people, and a vibrant state we are proud to call home, Connecticut must address the high costs of exclusionary zoning and continue to reform our land use laws.

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