

Exhibit A

Lipe, Michele

From: Christopher Smith <csmith@alterpearson.com>
Sent: Wednesday, February 22, 2023 11:51 AM
To: Lipe, Michele
Cc: Don Poland
Subject: [External]RE: PZC text amendments - assisted living and independent living facilities - D. Poland Report re: affordability requirement
Attachments: EW - PZC zone text amendments - D. Poland Report - 2.22.2023.pdf

CAUTION: This email originated from outside your organization. Exercise caution when opening attachments or on clicking links from unknown senders.

Michele,

Attached is a Report from Dr. Donald J. Poland, dated February 22, 2023, concerning the above-referenced zone text amendment relative to the potential adverse effects associated with requiring an affordable component for an assisted living or independent living facility use. We hope that this Report and the information provided therein will be useful to the Commission and you when reviewing this proposed provision for these two unique housing uses in South Windsor. Dr. Poland should be available for the Commission's continued public hearing on February 28, 2023.

Please let me know if you have any questions.

Thank you.

Best,
Chris

Christopher J. Smith
Attorney at Law
Alter & Pearson, LLC
701 Hebron Avenue
P.O. Box 1530
Glastonbury, CT 06033
csmith@alterpearson.com
860.652.4020 telephone
860.652.4022 facsimile



This communication, along with any document(s), file(s), or attachment(s), is intended only for the use of the addressee(s) and may contain legally privileged information. If you are not the intended recipient, you are hereby notified that any dissemination, distribution, or copying of any information contained in or attached to this communication is strictly prohibited. If you received this message in error, please notify me immediately and destroy the original communication and its attachment(s) without reading, printing, or saving in any manner.

Please consider the environment before printing a copy of this email.

February 22, 2023

Bart Pacekonis, Chair
Town of South Windsor
Planning & Zoning Commission
Town Hall
1540 Sullivan Avenue
South Windsor, CT 06074

RE: Proposed zone text amendment by the Planning and Zoning Commission: in particular, Section 7.3 "Assisted Living Facilities / Independent Living Facilities", proposed new Subsection 7.3.10, "Affordable Units."

Dear Chairman, Pacekonis:

I submit this report as expert testimony for the Planning and Zoning Commission's proposed text amendment to require affordable units as part of assisted living and independent living facilities. I want to start by applauding the Commission on its efforts to address the need for affordable housing. In addition, I applaud the Commission's creation of the *2022-27 Affordable Housing Plan* and current efforts to codify the recommendations of the *Affordable Housing Plan* in the Zoning Regulations. These are meaningful steps toward creating inclusion and providing affordable housing in South Windsor.

According to the State Department of Housing, *Affordable Housing Appeals List (2021)*¹, South Windsor has 698 qualified affordable housing units, or 6.81% of South Windsor's total housing units (10,241).² That means, any inclusionary provision established in the Zoning Regulations that require more than 7% affordable housing units will work to increase the share of affordable housing and ensure the South Windsor's percent of affordable housing units does not decrease.

The Commission's proposed text amendment to Section 7.3 (Assisted Living Facilities / Independent Living Facilities) for a new Subsection (7.3.10) seeks to require that all Assisted Living Facilities and Independent Living Facilities provide 15% of the total units as affordable units. This proposed amendment is the same as the other proposed amendments to Section 3.4 (Multifamily Residential Zone), Section 5.6 (Center Core Overlay Zone), Section 5.7 (Center North Overlay Zone), and Section 5.10 (SAMUD Overlay Zone). However, Section's 3.4, 5.6, 5.7, and 5.10 are all aimed at conventional market-rate multi-family housing, either as standalone developments or as part of mixed-use developments. Section 7.3 (Assisted Living Facilities / Independent Living Facilities) deals with housing units that are not conventional multi-family units and have nuanced differences in terms of market-rate housing. To be honest, I am surprised that Assisted and Independent Living Facilities are included as part of this package of text amendments and the codification of the *Affordable Housing Plan*

¹ The 2021 Affordable Housing Appeals List is the most recent year available.

² The 6.81% qualified affordable housing units is based on the 2010 Census and the percent affordable is expected to go down when the State Department of Housing updates the total housing units based on the 2020 Census. See page 9 of the *South Windsor 2022-27 Affordable Housing Plan*.

recommendations. The fact is, Assisted and Independent Living Facilities are unique forms of housing that are functionally different from other forms of housing. This is especially true in the context of affordable housing.

For example, Assisted Living Facilities have substantial support services, such as on-site 24-hour nursing services, social and recreational services, linen services, food services, and often provide assistance with activities of daily living. Independent Living Facilities also provide many services and amenities to offer comfort, community, and safety to their residents—services typically not provided by other forms of housing.³ The key differentiator between Assisted Living and Independent Living Facilities is that Independent Living Facilities do not provide on-site or 24-hour nursing services.

The robust amenities and services provided by Assisted and Independent Living Facilities result in pricing structures that include not only rents for the units, but also fees for services—this is especially true with Assisted Living. In addition, even when there are no additional fees for services at Independent Living Facilities, the rent structures account for the more robust amenities and services that are provided—this is what differentiates Assisted and Independent Living Facilities from conventional market-rate forms of housing. The result is unique and niche housing products that function differently within the housing market and cost more to provide because of the amenities and services offered. Therefore, it is not reasonable to apply the same measures of housing affordability to Assisted and Independent Living Facilities as would be applied to conventional multi-family housing.

The differences spill over into other aspects of how Assisted and Independent Living Facilities perform differently in the housing market. For example, the primary drivers of demand for housing are job growth, populations, and household formations. If jobs and population are growing, then new household formation will be created and drive demand for new housing construction. However, most of the occupants in Assisted and Independent Living Facilities are no longer in the workforce, nor are they commonly new to the area (new population), and nearly all of households moving into such facilities are already existing households. Therefore, the primary housing demand drivers have less or little impact on the Assisted and Independent Living Facilities market.

The primary demand driver for Assisted and Independent Living Facilities is demographics, specifically demographic structure by age. To say it another way, the driver of demand for Assisted and Independent Living Facilities is number of persons/households over the age of 55. South Windsor, like many Connecticut communities, is aging. In 2000, South Windsor’s median age was 39, increasing to 42.3 in 2020—well above the national and state median age (Table 1).⁴

Table 1. Median Age

	USA	CT	South Windsor
2020	38.3	40.6	42.8
2010	37.2	40.0	42.0
2000	35.3	37.4	39.0

The Age Pyramids (Figure 1) below provide a comparative graphic representation of South Windsor’s population structure by age cohort for 2010 and 2021. South Windsor’s population, as shown in the age

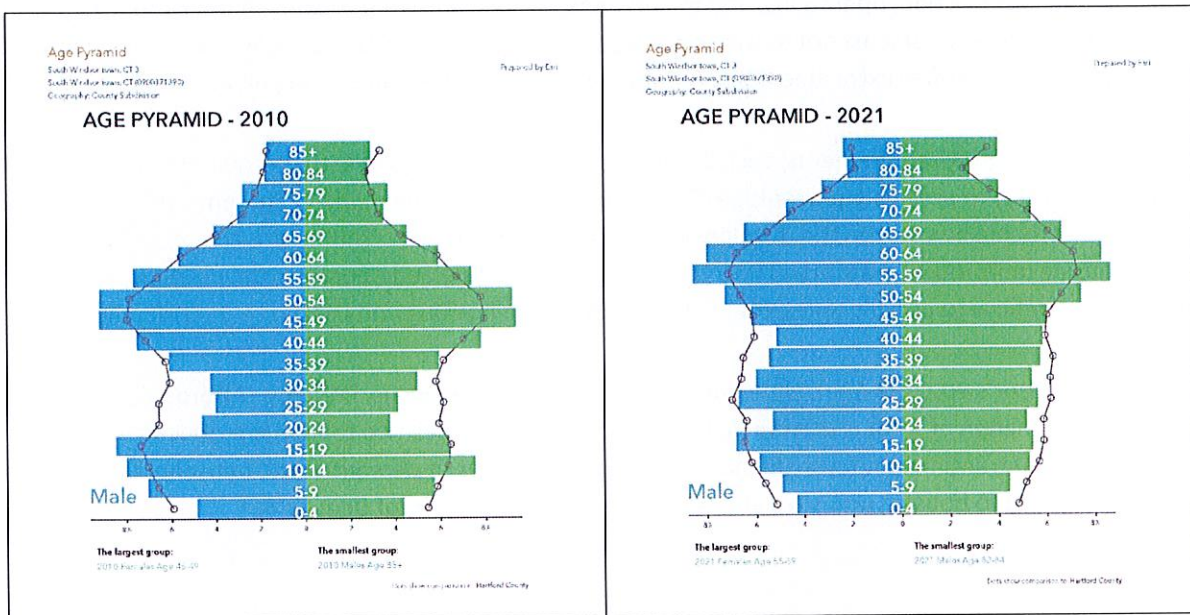
³ The level of services provided by Independent Living Facilities can vary greatly across facilities.

⁴ U.S. Census, (2020) and U.S. Census 2000 and 2010 (historical).

pyramids, is top heavy in both 2010 and 2021 because the population is aging. (The same is true of Hartford County, shown in the dotted lines on each side of the pyramids.) Specifically, in 2010, the largest age cohorts were 45-49 and 50-54 age cohorts who represent the back-half of the Baby-boom generation. By comparison, the two largest age cohorts in the 2021 age pyramid are the 55-59 and 60-64 cohorts, again the back-half of the Baby-boom generation moving up the age pyramid. By 2030, all the Baby-boom generation will have reach retirement age, over 65 years old. It is this demographic process of the population aging and the large size of the Baby-boom generation that is (and will continue to be) the driver of demand for Assisted and Independent Living Facilities. This clearly demonstrates that South Windsor has a need for Assisted and Independent Living Facilities/housing.

However, as stated and explained above, population age is not a typical housing market demand driver. Therefore, the pricing mechanism for Assisted and Independent Living Facilities are not the result of the conventional housing market forces of growth in jobs, population, and household formations that drive demand. It is the intersection of supply and demand, where price (the value/cost of housing) is established. When demand is high and supply is scarce, prices are high—the inverse is also true. The affordable housing challenge in Connecticut is mostly the result of scarcity, household formations outpacing the supply of housing.

Figure 1. South Windsor’s Population Structure



Since the conventional drivers of housing demand play little roll in demand for Assisted and Independent Living Facilities, the Assisted and Independent Living Facilities housing product functions at margins of the housing market as a niche market. While an aging population and increasing number of older households provide demand and a growing consumer market for Assisted and Independent Living Facilities, the pricing mechanism is less dependent on housing market demand drivers and more resulting from competitive locations, robust amenities, and ample and quality services offered by the facility. That means that the pricing (or cost) of Assisted and Independent Living Facilities housing is less about the intersection of supply and demand, and the

impact of scarcity. For example, market penetration for Assisted and Independent Living Facilities is relatively low (around 10%)⁵. This is evidenced by the average age of a “person entering an assisted-living facility is 85 years old, not 65.”⁶ In addition, persons (households) moving into Assisted and Independent Living Facilities often use proceeds from the sale of their previous home—this means the ability to afford access to such facilities is not simply about income, it is also about assets and net wealth.

Net wealth is different from income, especially how income is measured by the US Census. The fact is, many, if not most household 55 and older (especially 65 and older) will qualify for affordable housing at or below 80% AMI. This due to how income is measure. For example, social security, pensions, and interest earned on investments are measured as income, while the total value of investments (i.e., pensions, mutual funds, and other) are not included in the measures. Therefore, an age qualified household’s income is typically far less than their net worth. This has been a common argument against 8-30(g) and its actual benefit to households of need—that older retired households can qualify for affordable housing, regardless of age restrictions, occupying units that may better serve households in need.

Compared to conventional multi-family housing (putting aside nursing services), Assisted Living and Independent Living Facilities are more costly to construct, operate, and maintain. For example, providing communal areas for residents to gather, socialize, and recreate (including the recreation facilities, furnishings, etc.) adds costs to construction, operations, and maintenance when compared to conventional multi-family housing that do not have, or at least not to the same degree, as robust amenities, and services. This means that “for facilities that need to offer extra amenities, the cap on rents [for affordable units] means the owners can’t recover costs.”⁷

Affordable housing requirements, such as inclusionary zoning provisions, that require the private market (the developer/owner) to provide a percentage of housing units at less than market rate rents, place the burden of subsidizing affordable housing on the developer/owner and development. This means the cost of providing affordable housing units must be absorbed into the cost of constructing and operating the development. Therefore, it is beneficial to provide an example of how affordable housing units impact a multi-family development.

South Windsor’s *2022-27 Affordable Housing Plan*, on page 2 explains, “What is ‘Affordable Housing?’” As part of the explanation of *what is affordable housing*, the Plan provides two tables (reproduced, in part, below) as a means of translating household income (based on number of persons in the household) at 80% Area Median Income (AMI) to housing unit sizes and rents based on the number of bedrooms.⁸

⁵ “Top Senior Housing Trends for 2023.” <https://seniorhousingnews.com/2023/01/02/top-senior-housing-trends-for-2023/>

⁶ “The Rising Tide of Seniors Housing: This Niche Strives to Stay on Course Until the Baby Boomer Wave Comes Ashore.” <https://www.ccim.com/cire-magazine/articles/rising-tide-seniors-housing/>

⁷ “The Rising Tide of Seniors Housing: This Niche Strives to Stay on Course Until the Baby Boomer Wave Comes Ashore.” <https://www.ccim.com/cire-magazine/articles/rising-tide-seniors-housing/>

⁸ The second table also translates unit size to Estimated Maximum Sales Price at 80% AMI.

Table 2.

Household Size	Income Threshold @ 80% AMI
1-person	\$62,600
2-person	\$71,550
3-person	\$80,500
4-person	\$89,400
5-person	\$96,600

Table 3.

Unit Size	Average Household Size	Max. Monthly Gross Rent @ 80% AMI
Studio	1 person	\$1,038
1 BR	1.5 people	\$1,265
2 BR	3.0 people	\$1,562
3 BR	4.5 people	\$1,931
4 BR	6 people	\$2,288

What the 2022-27 *Affordable Housing Plan* does not provide in the explanation, is how affordable rents relate to market rents and the impact that affordable housing units have the income of (or cost to) a development. Table 4 below provides the comparison of the affordable rents to market rate rents based on per square foot pricing. The unit size in square feet and the pricing per square foot used in this example are based averages of new construction market rate multi-family rental housing in the Greater Hartford market.⁹

Table 4.

Unit Type	Unit Size (Sq. Ft.)	Per Sq. Ft. Rent \$	Household Size	Market Rate Rent	Gross Rent @ 80% AMI	Rent Lost/ Month (Year)
Studio	550	\$2.40	1 person	\$1,320	\$1,038	\$282 (\$3,384)
1 BR	725	\$2.30	1.5 people	\$1,667	\$1,265	\$402 (\$4,824)
2 BR	1,050	\$2.10	3.0 people	\$2,205	\$1,562	\$643 (\$7,716)
3 BR	1,325	\$1.95	4.5 people	\$2,583	\$1,931	\$652 (\$7,824)
4 BR	(No Data)	(No Data)	6 people	(No Data)	\$2,288	(No Data)

Table 4 demonstrates the substantial difference in market rate rents and the affordable rents at 80% AMI. Most important, the last column on the right provides the loss of income per affordable unit per month and year. The losses per unit per year range from \$3,384 for Studio's to \$7,824 for 3-bedroom. To demonstrate the impact of the lost income from affordable units on the operation of a multi-family development, Table 5 provides a hypothetical 200-unit development with 100 one-bedroom units (50%) and 100 two-bedroom units (50%) and no affordable units. The 200-unit market rate development would generate approximately \$4,646,400 in yearly income at 100% occupancy.¹⁰

⁹ Source: Goman+York monitors and tracks market rents for new construction apartments in the Hartford Region.

¹⁰ In a strong housing market, such as South Windsor, a multi-family development will typically operate at approximately 95% occupancy, the 5% vacancy being the natural turnover in units. Assisted and Independent Living Facilities often have

Table 5.

Unit Mix	Per Unit Rent Per Month	Gross Rent Per Month	Gross Rent Per Year
100 – 1-BR	\$1,667	\$166,700	\$2,000,400
100 – 2-BR	\$2,205	\$220,500	\$2,646,000
			\$4,646,400

Table 6 below is the same development with 15% (or 30 units) as affordable at 80% AMI qualified rents. Based on the rents being capped at 80% AMI for the affordable units, the 200-unit development now generates approximately \$4,458,300 in yearly income, \$188,100 less per year than the same development with no affordable units. The \$188,100 in lost income, equals approximately 4% of total income.

Table 6.

Unit Mix	Rent	Gross Rent Per Month	Gross Rent Per Year
85 1-BR	\$1,667	\$141,695	\$1,700,340
15 1-BR	\$1,265 80% AMI	\$18,975	\$227,700
85 2-BR	\$2,205	\$187,425	\$2,249,100
15 2-BR	\$1,562 80% AMI	\$23,430	\$281,160
			\$4,458,300

While 4% in total income does not sound like much, it impacts the financial feasibility, including the long-term operations of the development. A 200-unit development would likely have debt service totaling between 55% and 60% of total income. In addition, operation costs would typically total between 35% and 40% of total income. Therefore, let’s assume debt service is 56% of total income and operation costs are 37% of total income, that leaves approximately 7% or approximately \$325,248 for contingency and profits.¹¹ However, more than half of 7% (\$325,248) remaining, 4% (\$188,100), would be lost due to the affordable rents. This simple exercise shows how small the margins are and how substantial the impact of the affordable rents is on the financial feasibility of a conventional multi-family development.

Returning to the discussion above on the differences between conventional market rate multi-family developments and Assisted and Independent Living Facilities—specifically the more robust amenities and services—and the higher construction and operation costs, and it becomes

higher turnover than other multi-family developments. Therefore, in a strong market, an occupancy rate of 92% is more likely, meaning that income will always be 5% to 8% less than what is assumed in this hypothetical development.

¹¹ It is often assumed that profits on multi-family developments are high and that developers are getting rich off land use approvals. However, the fact is, such developments operate on small margins and profits (returns on investments) are not guaranteed. More important, real estate is a high-risk investment asset class when compared to other investment asset class. It requires large upfront investment, has long waits for returns during construction and lease-up, and during the 2 to 4 years from land use approvals to stabilization, is subject to market fluctuations that can undermine financial feasibility. For example, based on hypothetical development above, an increase in vacancy from 5% to 10% could reduce income by \$230,000 per year—in the 15% affordable scenario such an increase in vacancy would result in negative income.

understandable how burdensome an affordability requirement could be on Assisted and Independent Living Facilities. More robust amenities and high construction costs will likely result in higher debt service, while more robust services and the robust amenities will likely result in high operation costs. Therefore, the 7% contingency and profits would likely be reduced to 5% or less. Therefore, the 4% loss in total income from the 15% affordable units could undermine the financial feasibility of the development. For example, the worst-case scenario, the Assisted or Independent Living Facilities development never gets built because it is not financially feasible and cannot attract equity investment. In this case, South Windsor is not able to provide Assisted and Independent Living Facilities for its aging population. Best case scenario, the Assisted and Independent Living Facilities is marginally financially feasible—attracts equity investment—is constructed, yet from the start of operations, cost saving measures in staffing and maintenance dominate the operations model. This results in poor services (poor facility reputation) and deferred maintenance. In this case, South Windsor ends up with underperforming Assisted or Independent Living Facilities that struggle to compete and are maintained to less desirable standards.

As demonstrated by the demographic analysis, specifically the age pyramids, South Windsor has a large older population that will continue to grow for the next decade or more. This aging population creates meaningful demand for Assisted and Independent Living Facilities. In addition, South Windsor is a prime location for such facilities based on its location in the region, the vast commercial amenities, and its high quality of life. Therefore, South Windsor should be encouraging Assisted and Independent Living Facilities for its aging residents. Unfortunately, the proposed amendment to require affordable housing units in Assisted and Independent Living Facilities is likely working as a barrier to investment—increasing risk and undermining financial feasibility.

In my professional and expert opinion, I recommend that South Windsor not include Assisted and Independent Living Facilities in the affordable housing inclusionary requirements by withdrawing the proposed amendment to Section 7.3 (Assisted Living Facilities / Independent Living Facilities) for a new Subsection (7.3.10) that requires all Assisted Living Facilities and Independent Living Facilities to provide 15% of total units as affordable. The provision will likely work against South Windsor's need to provide housing for its aging population.

I thank you for your time and I look forward to discussing this with you and the Commission at the public hearing. If you or any of the Commission members have any questions regarding my testimony, please feel free to ask me any questions you or the Commission may have.

Respectfully submitted,



Donald J. Poland, PhD, AICP
Planning Consultant

