



GETTING A HANDLE ON AFFORDABLE HOUSING

A MORE HONEST WAY TO EVALUATE
CONNECTICUT'S HOUSING NEEDS
BY FRANCIS PICKERING AND DAVID FLEMMING

FUTURE

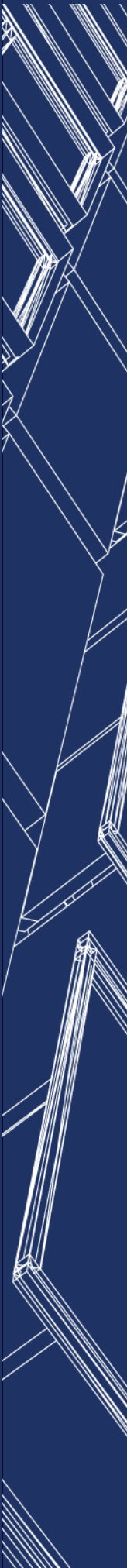
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Getting a Handle on Affordable Housing

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I. Executive Summary

Municipalities and developers across the state struggle with 8-30g implementation.

What is the solution?

It's virtually impossible to attend a local government zoning meeting or listen to a housing policy debate at the Capitol without hearing the terms "8-30g" and "affordable housing." This paper examines the role the legislation plays in Connecticut's market for "affordable housing." The role that 8-30g plays in this market is enormous, as we will show.

The stated intent of 8-30g is to increase the amount of "affordable housing" across Connecticut, with affordability roughly defined as a housing unit costing less than 30% of median income. To achieve this aim, 8-30g allows developers to build housing units without the approval of a local zoning commission in any municipality where less than 10% of existing units are deemed "affordable" under the statutory definition.

The statute's definitions, however, are often convoluted. Municipalities and developers across the state have issues with its implementation. For example, only certain types of narrowly defined housing qualify as "affordable" for the purposes of 8-30g: 40-year "deed-restricted" housing, Section 8 federally subsidized housing, rental

assisted households and Connecticut Housing Finance Authority assisted mortgages.

It is worth noting that 8-30g does not actually measure how much housing in a particular community is within economic reach for people of modest means. Nor does it gauge how expensive a housing market is, or the impact local zoning has on prices. Yet if municipalities — who have very little control over many of the factors that often determine housing prices — fail to reach 8-30g's uniform, arbitrary 10% threshold, they are punished by losing control over their own zoning.

Together, these factors suggest 8-30g is poorly suited to achieve its primary purpose: to ensure that housing-burdened residents can find homes that are economically within reach. Instead, 8-30g measures only one type of lower-cost housing: subsidized housing.

By limiting the definition of "affordable" only to units that receive taxpayer subsidies, 8-30g disregards so-called "naturally occurring affordable housing," which is plentiful and is another important option for meeting the needs of housing-burdened residents. 8-30g operates at cross-purposes with housing market forces, resulting in a reduced variety and quantity of economical housing. And it creates

needless distrust between state policymakers, local officials and housing developers.

A series of recommendations within 8-30g could mitigate its shortcomings:

- Count naturally occurring affordable housing, starter homes and single-room occupancies towards the 10% threshold.

- Bring income limits into line with federal guidelines.

- Make subsidies transferable across municipalities.

If the legislature's goal is to put economical housing within reach of residents of modest means — as opposed to simply increasing the stock of housing defined as “affordable” under 8-30g — other factors must also be considered. Reducing supply and labor costs would help make housing more affordable. Accepting out-of-state credentials for trade workers and waiving hiring restrictions for apprenticeships would bring more talented individuals into Connecticut's workforce. The elimination (or substantial reduction) of expensive “prevailing wage” requirements and pruning onerous building codes (which reflect special interest input but are unrelated to health or safety) would also reduce artificially inflated construction costs.

Above all, focusing on free-market policies that foster economic growth would also make the poorest households wealthier and do more to solve affordable housing issues than anything centrally designed in Hartford.

Finally, this paper should be considered the beginning of a wider-ranging discussion about 8-30g and its ultimate purpose. It is important for lawmakers to be honest and transparent about the purpose of the “affordable” housing laws they draft. Policies designed exclusively “to ensure access to convenient and economical housing for those who need it” may look very different from policies “designed to produce other social outcomes deemed desirable by policymakers.” We must be clear about the ends of legislation to produce laws that are effective in securing them.



II. Introduction

The “solution,” invariably, is to weaken local democracy for centralized control.

In recent years, land use policies have encountered sustained criticism across the United States. Critics argue that local governments — like Connecticut’s zoning commissions — have adopted policies that impose unnecessarily onerous requirements on housing development, creating an artificial housing shortage.¹ The “solution,” invariably, is to weaken local democracy in favor of (presumably more enlightened) centralized control.²

In Connecticut, such arguments prompted the state’s landmark “affordable” housing law. The General Assembly enacted 8-30g in 1989, mandating that all municipalities construct or designate 10% of their housing stock as “affordable.”

Section 2 of 8-30g requires Connecticut’s Commissioner of Economic and Community Development to “promulgate, annually, a list containing each municipality in the state and identifying those municipalities in which at least 10% of all dwelling units in the municipality” are one of the following:³

Assisted housing (of which) “the housing unit must be occupied by persons receiving either state rental assistance” or “it must be receiving or will receive financial assistance under a governmental program, which assistance may come from federal, state, or local government, or any combination of these levels of government”.

Key Statistic

10%

of housing stock must be designated “affordable” according to 8-30g.

Key Statistic

11%

of Connecticut’s total housing stock qualifies as “affordable” under the law.

Key Statistic

1989

The General Assembly enacted 8-30g in 1989.

Currently financed by Connecticut Housing Finance Authority (CHFA) mortgages.

Subject to deeds containing covenants or restrictions that require that such dwelling units be sold or rented at, or below, prices which will preserve the units as housing for individuals or families whose annual income is less than or equal to 80% of the median income and limiting assumed annual household expenditures for housing to no more than 30% of such household annual income.⁴

Mobile manufactured homes located in mobile manufactured home parks or legally approved accessory apartments which homes or apartments are subject to a covenant or restriction substantially in compliance with section 8-30g-10 of these regulations.

By these terms, 11.6% of Connecticut's total housing stock qualifies as "affordable" under the law, but few municipalities have met the mandate. According to the 2022 Affordable Housing Appeals List, 29 of Connecticut's 169 municipalities have reached the 8-30g 10% threshold, leaving 140 towns at the mercy of legislators eager to fulfill statewide affordable housing quotas with little to no input from local residents and officials.⁵

In 2023, Yankee Institute published *Failure by Mandate*, which focused on how 8-30g actually hurts many Connecticut residents by distorting the state's housing market. This paper examines the specific housing requirements within (and slightly outside) 8-30g. It offers a series of reforms that would be more useful in determining whether (and how much) affordable housing actually exists, and whether municipalities are helping households find it.

Short of a complete overhaul or outright repeal, there are two main options for reform to 8-30g that would enable struggling municipalities to reach the legally required threshold. First, Connecticut could reduce the 10% requirement for subsidized affordable housing, as it is currently defined. But the optics of such a reduction would be so politically difficult that few legislators would have the stomach even to attempt it. What's more, even if Connecticut were to cut the threshold in half (to 5%, or the subsidized portion of the total housing stock), over 90 municipalities would remain out of compliance.

This leaves Connecticut with only one real reform option: re-examining the statutory qualifications for dwellings to qualify as affordable, which would have the effect of

reforming how the 10% threshold is calculated. This approach would more accurately reflect the good work on affordable housing many municipalities are already doing and encourage others to focus their energy on building more housing, rather than simply meeting an overly restrictive legislative mandate that has little to do with ensuring residents' housing needs are being met.

Although 8-30g may intend to make housing more affordable, the law does not permit any type of analysis about whether a local housing market is unaffordable, let alone whether high sales and rent prices are a result of local actions (and not, say, regional or national factors, such as the availability and cost of financing, labor, materials, and federal and state regulations). Rather, the law gauges affordability based only on a community's incidence of certain flavors of housing subsidies. These include:

Rent subsidies

Subsidized mortgages

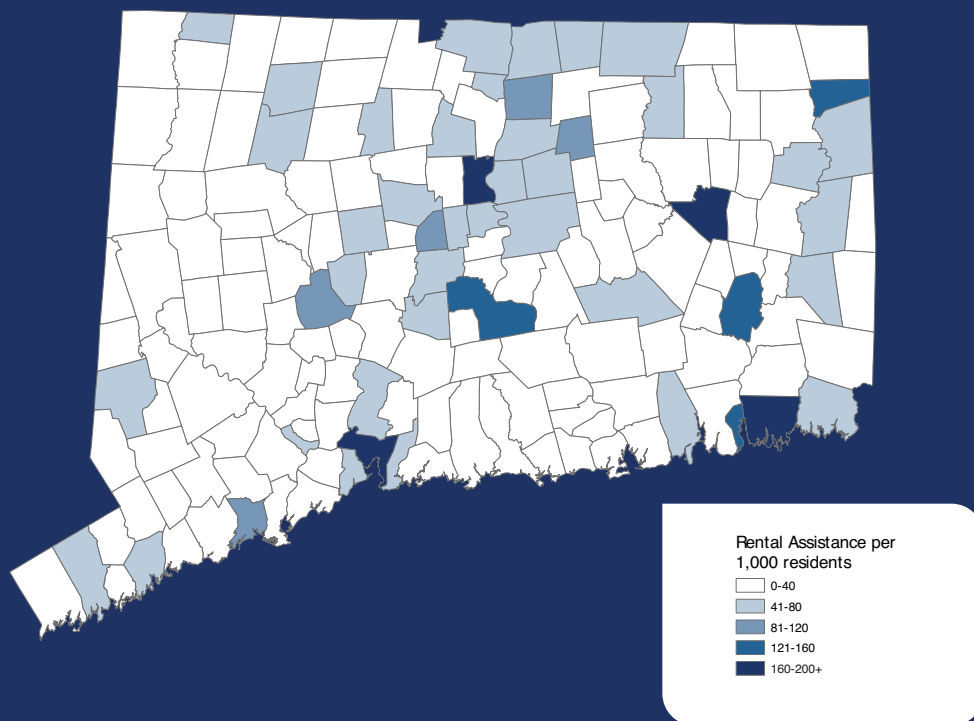
USDA loans

Deed-restricted housing units

Rent subsidies

These cash payments to tenants come in the form of federal Housing Choice (aka Section 8) Vouchers and state Rental Assistance Program Vouchers. The federal and state governments control the allocation of these vouchers (i.e., to which public housing authority and thus municipality these are sent). Although the vouchers are portable, they tend to remain in the communities where they are initially allocated. Federal and state vouchers are disproportionately concentrated in a few urban municipalities, north-central Connecticut and the I-395 corridor, with municipalities in the rest of the state receiving few to no vouchers (See Map 1).

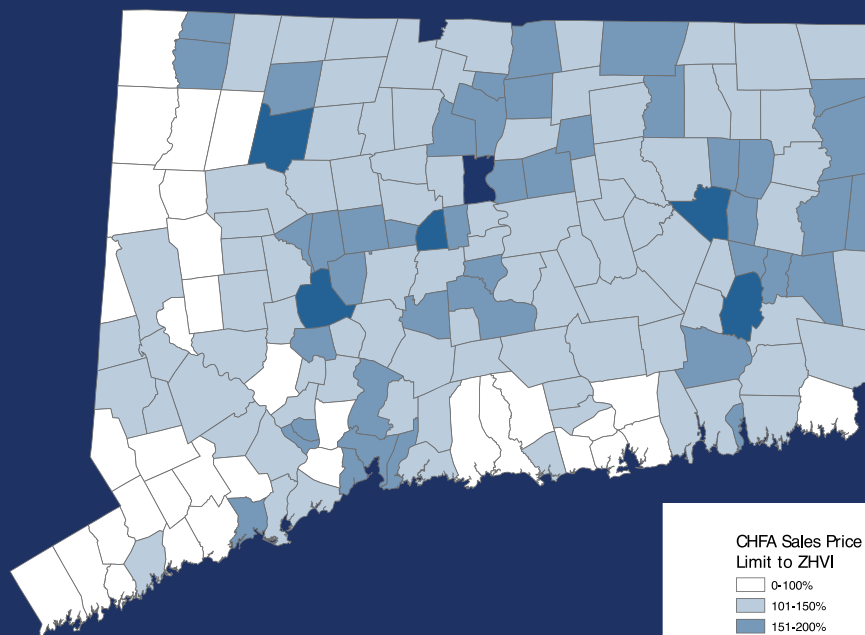
Map 1.



Subsidized mortgages

These public home loans are issued by the Connecticut Housing Finance Authority (CHFA) and the U.S. Department of Agriculture (USDA). CHFA loans are available to households making up to 100% of area median income, subject to purchase price limits. These restrictions do not vary proportionally with local home prices, which limits the applicability of these loans in municipalities with high-cost real estate markets, such as municipalities that fall within the New York City metropolitan area (See Map 2). CHFA mortgages can be applied to most homes in central and eastern Connecticut but are only available for a minority of homes in metro New York and coastal areas.

Map 2.

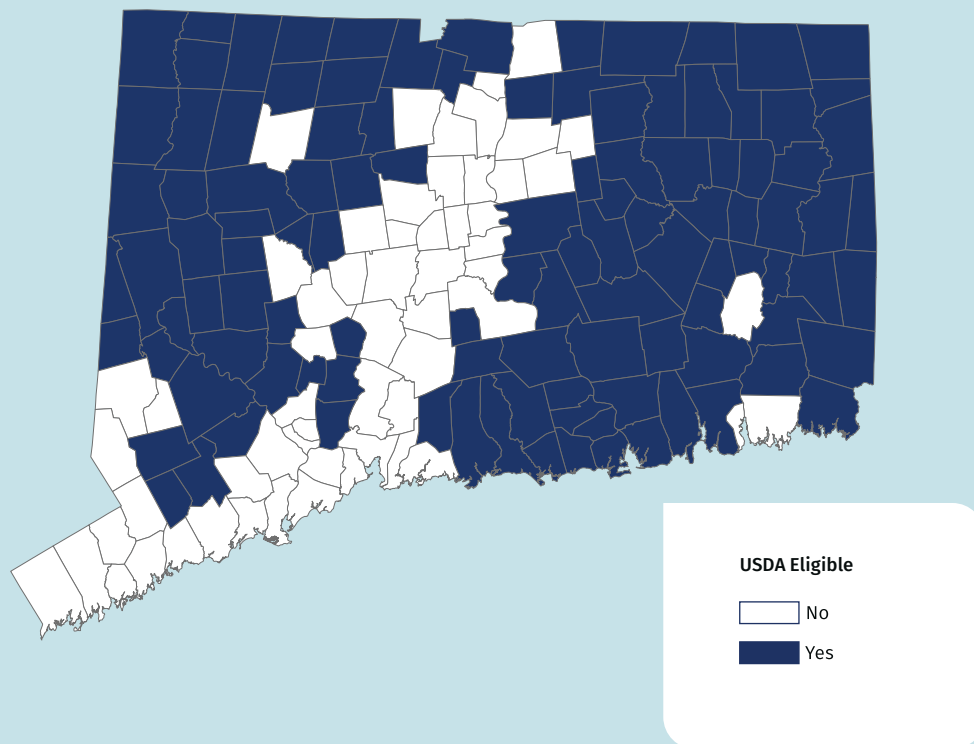




USDA loans

USDA loans are available to households making up to 115% of area median income in any municipalities the USDA deems “rural” — which includes most towns in Connecticut. USDA mortgages are unavailable in southwestern Connecticut and on the I-91 corridor (See Map 3).

Map 3.



Deed-restricted housing units

USDA loans are available to households making up to 115% of area median income in any municipalities the USDA deems “rural” — which includes most towns in Connecticut. USDA mortgages are unavailable in southwestern Connecticut and on the I-91 corridor (See Map 3). Section 2 of 8-30g explains deed-restricted housing units: “To be counted as housing subject to deed covenants or deed restrictions, the covenants or restrictions must provide that the housing units must, at time of initial occupancy by each new household, be occupied by persons and families whose annual income does not exceed eighty percent (80%) of the median income; and for whom the maximum cost of such housing has been calculated by limiting assumed annual household expenditures for housing to no more than thirty percent (30%) of such household annual income.”

In other words, the deeds attached to these units limit the sales or rental price to no more than 30% of the income of a household making no more than “80%” of the lesser of either the area or the state median income for at least a forty-year period. While such restrictions may be subsidized directly (e.g., public funds used to buy down the price), they are generally indirect, as a private cross-subsidy from market-rate units in the same housing complex. These privately subsidized units, whose construction is often required by local zoning, are concentrated in southwestern Connecticut — precisely the towns that are disproportionately excluded from and disadvantaged by the federal and state subsidies that account for the majority of 8-30g qualifying units statewide (See Map 4 on the following page).

III. Connecticut's Housing Market Since 2010

Connecticut's housing market does not exist in isolation. It is profoundly influenced by the national economy, including key factors such as interest rates, materials costs and market psychology.

Over the last twenty-five years, Connecticut's housing history has been consistent with that of the northeast (outside of the urban centers of New York City and Boston). The demand for housing has been driven less by population growth (up 19% between 1970 and 2020) than by the population splintering into increasingly smaller households

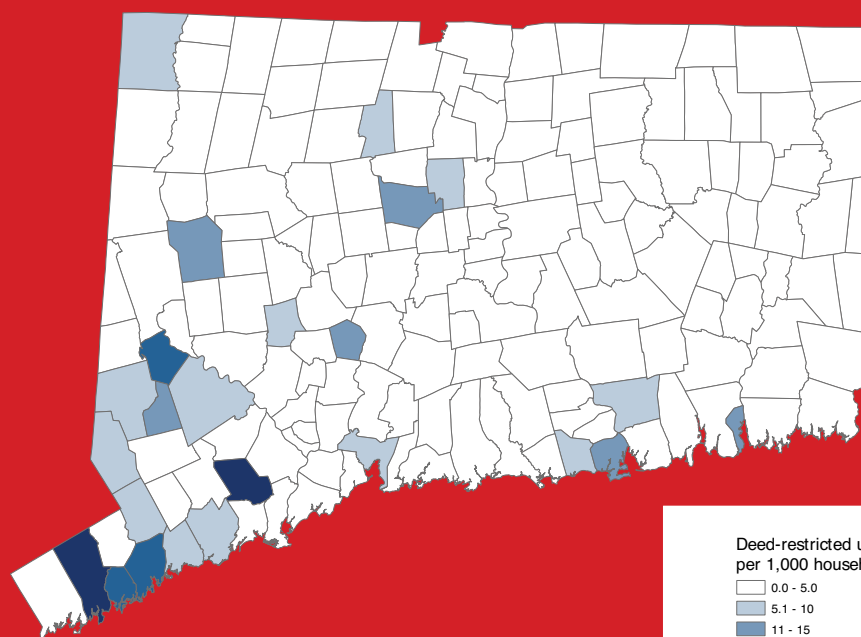
(households up 52%) over the same period.

Until recently, the market met this demand. The number of housing units grew 56% over the last 50 years, outpacing both population growth and household formation.

Under 8-30g, a total of 5,477 deed-restricted units have been

built since 1990.¹ Counting those, about 167,000 Connecticut units receive some sort of state or federal housing subsidy, or rental assistance. Since census estimates are that the number of households eligible to receive a housing subsidy is a little over 600,000, fewer than one in three Connecticut households that qualify for affordable housing

Map 4.



Deed-restricted units per 1,000 households

- 0.0 - 5.0
- 5.1 - 10
- 11 - 15
- 16 - 20
- 21 - 25



Scan the QR code to view:
Connecticut Municipalities
that Meet 10% 8-30g
Subsidized Threshold, with
Median Household Income
and Percent Housing
Burdened (Chart)

have actually received it.² To see each municipality's progress in meeting the 8-30g mandate and alleviating resident housing burdens, please scan the QR code to the left.

Officially, 8-30g has two "levels" of housing eligibility. The first is for households that earn 80% or below of Connecticut's household median income, and the second is for those that earn 60% of the median or below. As this paper will demonstrate, maximum income levels apply unevenly throughout the state. In some places, households earning up to 115% of the area median income are eligible, while in others, only households at 65.8% of the area median income are eligible. These disparities create an uneven playing field for municipalities and for households in need.

The U.S. Census Bureau's American Community Survey uses income brackets to show the percentage of cost-burdened households for states, counties and municipalities from 2010-22.³ The U.S. Department of Housing and Urban Development (HUD) defines "cost-burdened" as households that spend at least 30% of their annual income on housing including rent, mortgages, home insurance, utilities and property taxes.⁴ While not a perfect measure, identifying municipalities where housing needs are greatest (and often where subsidies are scarce) is superior to 8-30g's current calculation.

The highest Census bracket in the cost-burdened data set (see Figure 1) consists of households that make over \$75,000. This may include a few households that qualify for 8-30g, but it is unhelpful for understanding how Connecticut's affordable housing policies impact middle-income household needs. The second bracket (consisting of households that made between \$50,000 to \$74,999 in 2022) is most likely to overlap with a sizable stock of 8-30g eligible units for two reasons:

87.7% of all households that make over \$75,000 are ineligible for 8-30g housing, because they earn incomes above Connecticut's median.⁵

Bankers, developers and landlords generally prefer to sell or lend affordable housing units to households with higher and more stable sources of income, within the affordable housing income limits.⁶

From 2010 to 2022, Connecticut households at all income levels grew by 5.2%, but this average contains some highly disparate income groups. From 2010-22, the number of households making at least \$75,000 increased by 28.3%, the number of those making \$50,000-74,999 fell by 17.8%, and those making less than \$50,000 fell by 28.5%.

Although it is encouraging to see household incomes growing in the past 12 years, there are a few caveats. First, inflation complicates the picture of households jumping into the top income level. In 2022, \$1 could have bought about \$1.34 worth of goods in 2010, though inflation would not impact the number of households considered burdened.⁷

Next, after accounting for inflation, Connecticut's Real Median Household Income has not remained consistently above the 2007 pre-recession high point in the past five years. This reflects the fact that Connecticut has experienced some of the lowest levels of income growth since the 2008-09 recession in the United States.⁸

The Census Bureau did not track the housing burden before 2010,

and groups Connecticut's \$75,000 households (some of which are eligible for 8-30g housing) with the state's billionaire households. The housing burden chart therefore does not fully reflect the reality of Connecticut's housing situation.

Households making over \$75,000 are not struggling, including those eligible for 8-30g housing. The number of over-\$75,000 households that aren't cost-burdened increased by more than 230,000 since 2010, compared to about 2,200 fewer cost-burdened households. Adopting free-market reforms more broadly, which is congruent with higher incomes, will result in more households being able to afford market-rate homes where they no longer have to rely on the luck and gamesmanship currently

necessary to secure an affordable home. A freer market will result in economic growth and more housing being built organically which will reduce costs for everyone.⁹


Finally, Connecticut's middle-income households (making \$50,000-74,999 annually) have seen their housing burdens increase to the largest degree of the three groups (See Figure 1). That said, this group has decreased in number overall, with many 2010 middle-income households moving up to the over \$75,000 group. Middle-income households stand to benefit most from 8-30g reform.

Figure 1. Housing Burdened Connecticut Households by Income Threshold. Increase/decrease from 2010-22.

Household Income	Housing Burden	Households (#), 2022	Households change, 2010-22	Owner HH change, 2010-22	Renter HH change, 2010-22
All Income	All Households	1,433,635	74,826	26,222	48,604
	Paying 30%+ of \$ on Housing	488,163	(70,605)	(90,098)	19,493
	Paying 0-29% of \$ on Housing	945,472	145,431	116,320	29,111
\$75,000+	All Households	814,700	230,378	153,534	76,844
	Paying 30%+ of \$ on Housing	86,147	(2,264)	(16,359)	14,095
	Paying 0-29% of \$ on Housing	728,553	232,642	169,893	62,749
\$50,000-74,999	All Households	194,339	(34,500)	(44,095)	9,595
	Paying 30%+ of \$ on Housing	89,725	(986)	(22,357)	21,371
	Paying 0-29% of \$ on Housing	104,614	(33,514)	(21,738)	(11,776)
>\$49,999	All Households	424,596	(121,052)	(83,217)	(37,835)
	Paying 30%+ of \$ on Housing	312,291	(67,355)	(51,382)	(15,973)
	Paying 0-29% of \$ on Housing	112,305	(53,697)	(31,835)	(21,862)

Source: Census ACS B25106 (1-year)

IV. What 8-30g Does NOT Do



It is surprising, however, that a law that measures neither home prices themselves nor the impact of zoning on prices is being used to justify calls to revoke local zoning on the grounds that such zoning has unduly elevated home prices.

Despite how it is often presented, 8-30g does not measure a housing market's affordability. Rather, the law simply tallies the households and housing units built in each municipality using the subsidies listed previously, which are largely driven by federal or state policy, or else private sector investment.

In fact, 8-30g includes zero measure of market-rate housing prices. The most common form of affordable housing — unsubsidized housing, also known under the retronym “naturally occurring affordable housing” — is not even contemplated under 8-30g.

In other words, 8-30g largely reflects how federal and state subsidies play out in municipalities. As these policies are not under local control and the resources behind them are limited — neither the federal nor state government can fund all the need everywhere — it is unsurprising that, under the current measuring system, few municipalities reach the 10% threshold under 8-30g. It is surprising, however, that a law that measures neither home prices themselves nor the impact of zoning on prices is being used to justify calls to revoke local zoning on the grounds that such zoning has unduly elevated home prices.

Restricting the definition of “affordable housing” only to homes that are federally- or state-subsidized, as 8-30g does, does nothing to increase the supply of housing that is, in fact, more affordable. But allowing sufficient market forces to operate to incentivize developers to build, and then granting them relief from onerous and unreasonable local regulations (with proper precautions) could grow the housing supply. This is known as the “builder's remedy,” which acknowledges the reality that markets are an efficient mechanism for delivering commodities at low cost; that housing is a commodity; and that there is a need for housing at lower cost.¹

If 8-30g is to remain legislators' tool of choice in addressing the housing needs of Connecticut residents, its focus should change. At present, the law exists primarily as a tool to measure the incidence of subsidized housing across the state — and reward communities for increasing their stock of subsidized housing. A better approach would be to focus less on whether housing is subsidized and more on meeting the real needs of housing-burdened people across our state.

V. Bringing 8-30g into the 2020s

8-30g is the housing policy equivalent of a patient — who may or may not be sick — being examined by a doctor with no tests and biased diagnostic criteria, who is given a prescription that may not be appropriate to the condition. This is not a formula for correctly diagnosing a condition, let alone effectively treating it. Given this, one should not be surprised that 8-30g has failed to meet the real-life needs of Connecticut's housing-burdened residents — it was never set up to do that.

As noted above, 8-30g counts how many housing units or households receive certain types of housing subsidies. When this figure falls below 10% of the total dwelling units in a municipality, an applicant may request a court to set aside local zoning.

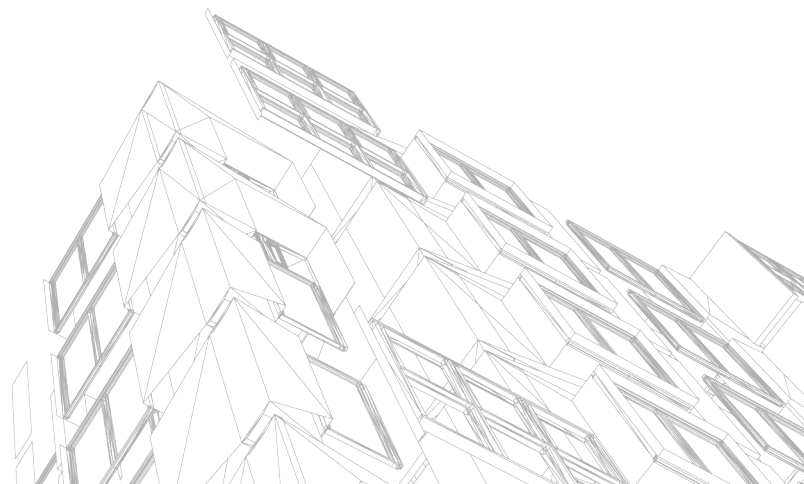
Although 8-30g is called the state's "affordable housing appeals process," it does not measure how many affordable homes actually exist in a locality; how "affordable" those homes actually are; or determine whether and to what degree local zoning impacts local housing affordability — let alone whether such regulation is appropriate and reasonable. Finally, the relief it grants (exemption from local zoning) does not necessarily relate to the factors that contribute to rising housing costs.

Meeting (or failing to meet) the 10% 8-30g benchmark has little correlation with reducing the housing burden on Connecticut households. Hartford has met this benchmark four times over, at 40.8%, and is one of only two municipalities in the state with over 30% 8-30g qualified housing. Yet the most recent 2022 Census data shows that 51.1% of Hartford households are housing burdened, the highest mark in the state. Housing burden is more closely related to a municipality's median income levels, rather than achievement of the 8-30g mandate.²

Existing federal and state housing subsidies are inadequate to reach the 10% threshold under 8-30g statewide. Although increased subsidies could certainly help more towns approach this threshold, the levels of subsidy needed to get all municipalities to 10% is politically and financially infeasible, given existing high public debt levels and tax rates. (A competing housing proposal, Fair Share, would force Connecticut municipalities to take on tens of billions of dollars in new debt, exploding property taxes and potentially resulting in the bankruptcy of local governments.)

The only way to ensure a steady supply of affordable housing is through the market — first, through the "builder's remedy" outlined above. And under an 8-30g rubric, the threshold can only be met through the naturally occurring affordable housing that 8-30g ignores and that it arguably disincentivizes (because each such unit of housing that is created in a municipality counts against the municipality in meeting the 10% threshold).

The following sections propose remedies for the problems surrounding 8-30g. No proposal would move any municipality further from the 10% mandate. The effectiveness of each proposal at moving a municipality closer to compliance will vary by municipality. The proposals will have greater impact if adopted simultaneously.



8-30g Reform: Including Naturally Occurring Affordable Housing

In its definition of “affordable housing,” 8-30g only includes subsidized housing and households built after 1990. This means that 8-30g omits the least burdensome — and the most truly “affordable” — type of affordable housing; homes that receive no subsidy, whether public or private.

Yet only subsidized homes increase the percentage of a municipality’s building stock that qualifies as “affordable” under 8-30g. In contrast, every home

that is, in fact, affordable but not subsidized actually decreases this percentage.

In mathematical terms, subsidized homes increase both the numerator and the denominator of the fraction used to calculate where a municipality stands with respect to the 10% threshold below which an applicant may have zoning waived; unsubsidized homes — even if affordable — only add to the denominator:

$$\text{Percent "Affordable" Under 8-30g} = \frac{\text{Subsidized affordable homes}}{(\text{Subsidized affordable homes} + \text{market-rate homes} + \text{naturally affordable homes})}$$

$$\text{Percent "Affordable" Under NEW 8-30g} = \frac{(\text{Subsidized affordable homes} + \text{naturally affordable homes})}{\text{Municipality's Housing Stock} \text{ (Includes: Subsidized affordable homes} + \text{market-rate homes} + \text{naturally affordable homes)}}$$

Consequently, 8-30g creates a perverse incentive for municipalities not to permit the type of housing that increases the affordable housing building stock the fastest — unsubsidized but affordable housing — in favor of subsidized housing units. Because housing subsidies are limited, this may impede the growth in affordable housing and reduce overall affordability.

Consider two hypothetical Connecticut towns (See Figure 2). Affordaville has five fewer 8-30g subsidized homes than Mandateford, and the same number of market-rate homes. However, Affordaville has 20 naturally affordable homes, which gives it 15 more total homes. As a result of having five fewer 8-30g subsidized homes and 15 more homes total, Affordaville would not meet the 8-30g mandate, despite providing residents with twice as much truly affordable housing as Mandateford. Meanwhile, Mandateford would be eligible for an exemption from forced affordable housing development.

Including natural housing in the 8-30g formula would not hurt towns like Mandateford (which would remain at 15.8% affordable housing under both scenarios). Under a revised 8-30g formula, the Legislature could simply recognize the different ways in which some municipalities like Affordaville are meeting the affordable housing needs of residents (moving from 9.1% to 27.3%).

Figure 2. How ignoring naturally affordable homes prevents towns from meeting 8-30g mandate

Town	AFFORDAVILLE	MANDATEFORD
Naturally affordable homes	20	0
8-30g subsidized affordable homes	10	15
Market-rate homes	80	80
Total homes	110	95
Current 8-30g affordable (%)	9.1%	15.8%
Meets current 8-30g 10% mandate?	NO	YES
New 8-30g affordable (%)	27.3%	15.8%
Would meet new 8-30g 10% mandate?	YES	YES

Recent legislative proposals have sought to induce the production of more unsubsidized housing; however, these proposals are undermined by the failure of 8-30g to a) recognize the central role that unsubsidized housing must play in solving affordability challenges, and, even more importantly, b) credit (or at least not penalize) municipalities that expand it.

Although conducting an inventory of all naturally occurring affordable housing may not be practical, certain types of homes that tend to be affordable lend themselves to counting. Including these housing types in 8-30g would replace a disincentive for these types of naturally occurring affordable housing with an incentive for their creation.



8-30g Reform: Count Starter Homes

Moderating home sizes may be an effective way to improve housing affordability.

This policy, like the other proposals, would also help municipalities meet 8-30g criteria without hurting any municipality's ability to fulfill the quota.

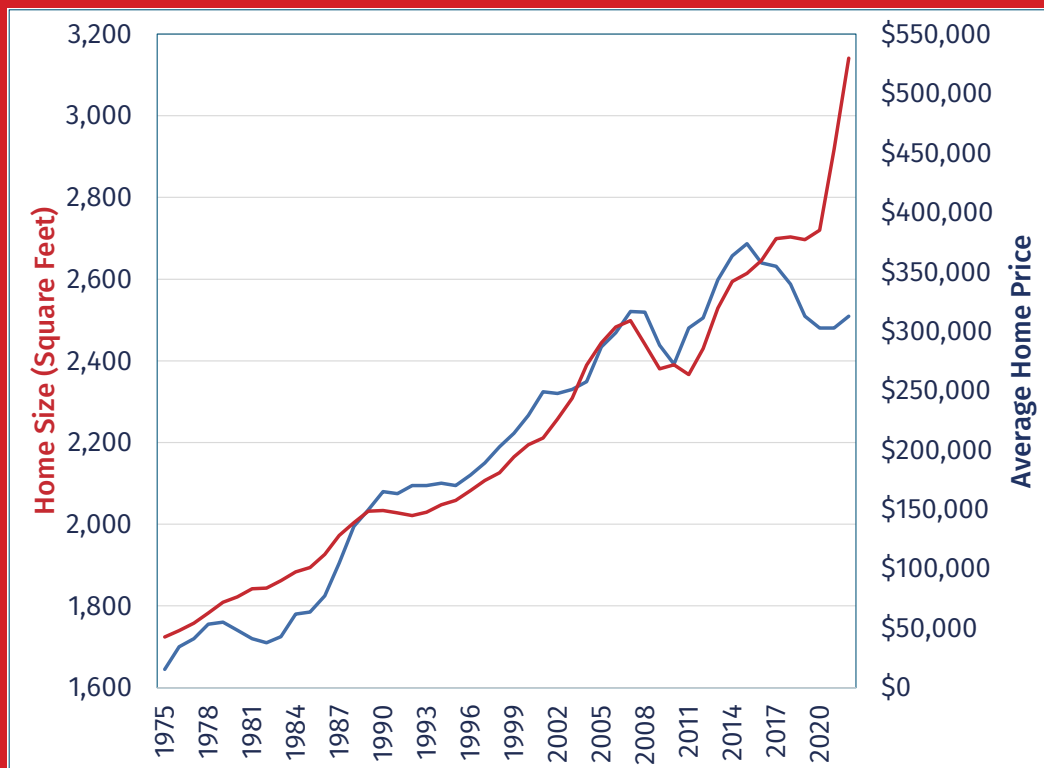
Between 1970 and 2020, household sizes in Connecticut fell by a quarter, going from a median of 3.25 persons to 2.54 persons. During the same period, home sizes nearly doubled (+73% in the Northeast). Today, each resident of a typical new home has more than twice the living space to him- or herself as a typical new home resident of 50 years ago. As the size of homes has risen, so, too, has their

cost. In fact, the growth in home prices tracks almost perfectly the growth in home size (See Figure 3).

This suggests that moderating home sizes may be an effective way to improve housing affordability. Such a strategy takes on added importance in an era of high materials and labor costs – with current costs, for each ten square feet a home is smaller, it can be \$3,000 or more affordable.

While the growth in home sizes has not been driven by local regulation, there has been little attention to

Figure 3. Relationship between Home Price and Home Size in U.S.



the potential for small homes in Connecticut. This is an oversight. The expansion in home sizes far beyond what is needed for health or safety has produced an explosion in home prices; smaller homes could dramatically reduce housing costs.

Small housing units can be far less expensive to build than the conventional subsidized units that qualify under 8-30g.

Reforming 8-30g to count these homes toward the 10% quota and toward a moratorium would produce two benefits.

First, it would replace a disincentive for the creation of naturally occurring affordable housing — the most common type of affordable housing — with an incentive for it. Second, and more importantly, it provides a pathway to affordability that is

not dependent on the availability of subsidies. By counting only subsidized homes as “affordable,” 8-30g effectively imposes a ceiling on how much such housing may be created. Liberating housing creation from dependence on — and the limitations imposed by — scarce subsidies could result in the creation of substantially more affordable housing and lower taxpayer burdens.

$$\frac{\text{Percent "Affordable" Under NEW 8-30g = (Subsidized affordable homes + naturally affordable homes, including starters)}}{\text{Municipality's Housing Stock}}$$

The simplest method to identify small housing units for qualification under an expanded 8-30g could be unit area (square footage) caps (See Figure 4). Setting the maximum area appropriately will ensure that only starter homes are counted and not compact market-rate housing units. Caps could be varied by the number of bedrooms to allow for a mix of unit types. An owner-occupant deed restriction could be considered should there be concern that these units may be used as pieds-a-terre or weekend cottages.

Figure 4. Hypothetical square footage limits to qualify as affordable

BEDROOMS IN UNIT	SINGLE-FAMILY	MULTI-FAMILY
0	400	350
1	550	500
2	750	700
3	900	850

8-30g Reform: Count Single-Room Occupancies

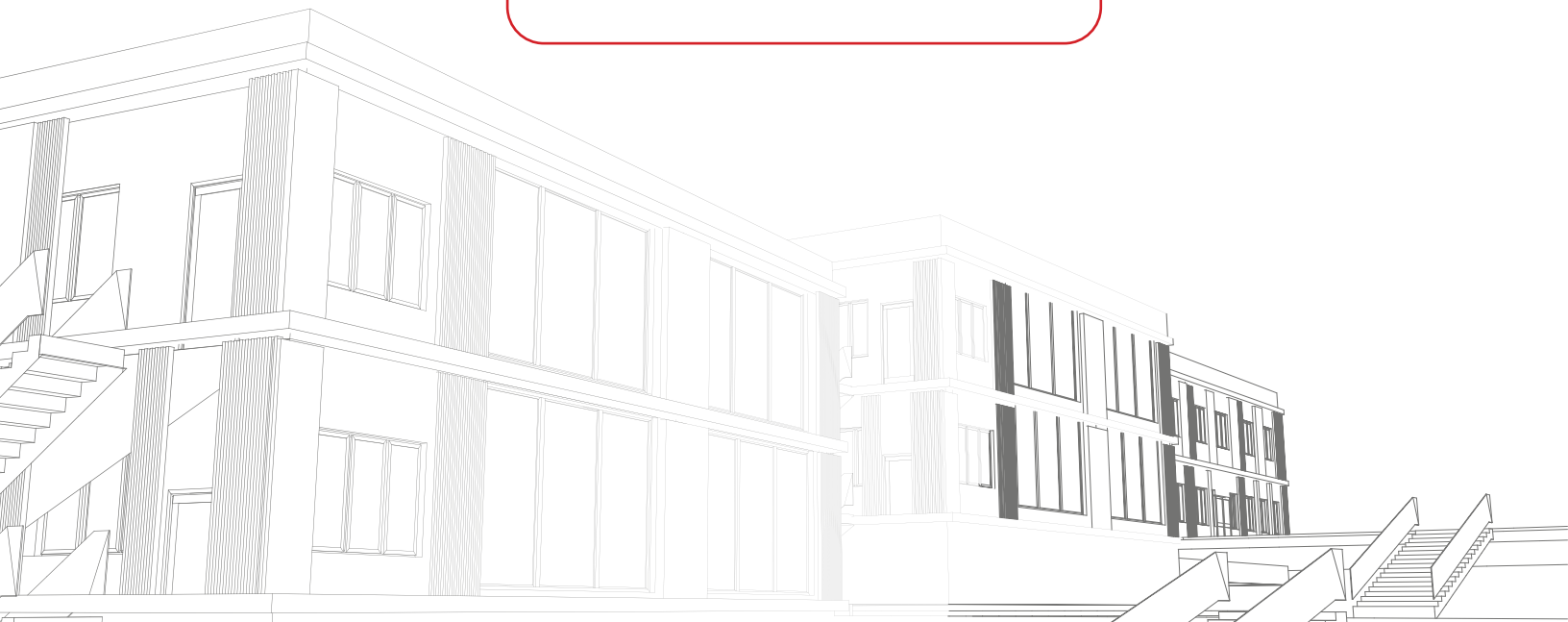
Historically, the most affordable type of housing has been — not the purchase or rental of full homes — but the letting of single rooms. This can be an informal arrangement with homeowners renting out a spare room, or in commercial boarding and rooming houses, or single-room occupancies (SROs), as such housing operations are technically called.

SROs can play a critical role in meeting the housing needs of single individuals, who may not have the resources or desire to buy or rent a full housing unit of their own. SROs come in many forms, with variations on which services are provided, and which facilities are individual or common. They are more affordable — typically 40% to 60% lower cost — than even “affordable” apartments and can make a significant difference to housing availability to lower-income individuals.

In Connecticut, many SROs have closed over time, and local regulations often limit new SROs, unless residents are seniors or disabled. Consequently, this valuable housing option has largely disappeared from the state’s landscape.

While SROs may not be appropriate to every location, expanding 8-30g to count SROs would give municipalities a “carrot” to enact policies supportive of them. Specifically, each bed in an SRO should qualify as a fractional housing unit toward the 10% threshold. Since each SRO room accommodates one person and Connecticut’s median household size is 2.54 people, each SRO room should count as at least 25% of what an affordable home would count as under 8-30g.

$$\text{Percent "Affordable" Under NEW 8-30g} = \frac{[\text{Subsidized affordable homes} + \text{naturally affordable homes} + (\text{single-room occupancies} * 0.25)]}{\text{Municipality's Housing Stock}}$$





8-30g Reform: Count Middle Housing

In municipalities where federal and state housing subsidies are largely unavailable, discussions on making progress toward 8-30g thresholds largely focus on the concept of “inclusionary zoning.” This is where affordable units in a housing development are privately cross-subsidized by market-rate units in the same complex because their sales or rental prices are insufficient to cover their building costs. Although this arrangement creates affordable units in the absence of public subsidy, it suffers from two flaws.

First, it raises the price (and thus diminishes the affordability) of the market-rate units, since the losses incurred on the affordable units must be made up for in

the sales or rental prices of the former. Second, such a cost shift is only viable in larger developments, where the ratio of market-rate to affordable units is large enough to absorb the losses without outpricing the market.

The share of a housing development that can be cross subsidized under inclusionary zoning varies by local conditions, but often falls in the range of 10% to 20% in favorable markets. In these cases, the smallest housing development that includes at least one “affordable” unit and can be viably developed without public subsidy is between five and ten units. For smaller developments, such as the two-, three-, and four-family homes that are often termed “middle housing,” it is

generally uneconomical to build new and include any units that qualify as affordable under 8-30g.

A back-of-the-envelope calculation illustrates the squeeze that 8-30g puts on middle housing. Using conservative assumptions (1,500 square foot units, \$200 per square foot construction costs, \$350,000 sales prices, an 8% interest loan with a 10% down payment, private mortgage insurance, \$6,000 in taxes and \$3,600 monthly in utilities annually per unit), none of the “middle housing” developments breaks even if they include even a single unit that qualifies as affordable under 8-30g. Only the ten-plex earns an adequate rate of return (See Figure 5).

Figure 5. Hypothetical net returns of market-rate and affordable housing

NUMBER OF UNITS IN DEVELOPMENT				FINANCES			
Total	Market-rate	Affordable	% Affordable	Cost to build	Sale price	Net	Return
2	1	1	50%	\$600,000	\$485,000	(\$115,000)	-19%
3	2	1	33%	\$900,000	\$835,000	(\$65,000)	-7%
4	3	1	25%	\$1,200,000	\$1,185,000	(\$15,000)	-7%
10	9	1	10%	\$3,000,000	\$3,285,000	\$145,000	10%

That is, not only does middle housing fail to count toward a moratorium or toward the 10% threshold under 8-30g, it actually counts against municipalities working toward a moratorium or the 10% threshold.

This also makes clear the cost increase that including a single “affordable” unit has on the affordability of market-rate units: had the ten-plex been built without this unit, the \$350,000 price of the market-rate units could have dropped to \$328,500 at no cost to the builder. In other words, each buyer of one of a market-rate unit paid an extra \$21,500 so that their development could have a single “affordable” unit — a hidden cross-subsidy.

Unfortunately, in squeezing out middle housing, 8-30g also squeezes out the housing that is intrinsically most affordable. Two-, three- and four-family homes tend to be less expensive per unit than a comparable detached, single-family home. Costs such as land, lot, utilities, foundation, floors and walls can be spread over multiple units. In addition, compliance with state regulation is generally less

costly for middle housing than for larger developments. For instance, two-family homes are treated similarly to single-family homes under Connecticut’s State Building Code.

However, because two-, three- and four-family homes do not have enough market-rate units to compensate for the losses on a deed-restricted “affordable” unit, middle housing projects rarely include “affordable” units. Consequently, even though per-unit costs are less in middle housing, and units in these complexes tend to sell or rent for substantially less than comparable single-family homes, middle housing only contributes to the denominator of the fraction used to determine the percentage of the local housing stock that is affordable.

That is, not only does middle housing fail to count toward a

moratorium or toward the 10% threshold under 8-30g, it actually counts against municipalities working toward a moratorium or the 10% threshold.

Again, this is an example of how 8-30g creates a local disincentive for the creation of housing that is naturally more affordable.

Although townhouses the size and price of a single-family home are common in some places, the disincentive for more-affordable middle housing created by 8-30g should be addressed. A sensible approach would be to include middle housing in the numerator of 8-30g.¹

$$\begin{aligned}
 &\text{Percent “Affordable” Under NEW 8-30g =} \\
 &\frac{\text{(Subsidized affordable homes + (SRO's} \times 0.25) \\
 &\text{+ naturally affordable homes, including middle} \\
 &\text{housing}}{\text{Municipality's Housing Stock}}
 \end{aligned}$$

VI. Remove Arbitrary Definitions and Apply Subsidies Fairly

Housing is a national concern, but the definitions used by 8-30g are particular to Connecticut: they do not align with federal programs nor, apparently, with any other state. Although these definitions result in deeper subsidies, lowering the cost of the relatively few units that receive them, they also increase the financial hurdles that private affordable housing projects must overcome. This ends up reducing the number of projects that generate an acceptable return, which means fewer projects ultimately are realized. Such policies would therefore seem likely to be counterproductive in addressing housing costs through the stimulation of new supply.

Align 8-30g with Federal Income Standards

The U.S. Department of Housing and Urban Development (HUD), which funds affordable housing throughout the country, defines income limits relative to “area median income” (AMI), as estimated by the American Community Survey of the US Census Bureau. HUD programs, and those of other states, generally refer to housing affordability at various percentages of AMI. For instance, a home that is affordable at “80% of AMI” is a home that sells or rents at a price that results in a household that earns 80% of area median income expending no more than 30% of that income on housing.

However, 8-30g defines “affordable” differently, using the lesser of state or area median income. The rationale for this unique definition is unclear. It is inconsistent with federal standards and makes financing for the development of affordable housing unnecessarily more difficult in areas where median incomes exceed those of the state. Building costs tend to be higher in areas with higher median incomes, so 8-30g puts developers in a bind, facing higher building costs but unable to recoup those costs through regionally appropriate sales or rent prices.

Costs vary by region, with homebuilders earning 20.5% more in Fairfield County than the state average (See Figure 6). HUD data mirror this, with an AMI for the Stamford-Norwalk area that is 121.7% of the state. Despite these higher building costs, “affordable” homes in Fairfield County may not charge buyers and tenants any more than similar homes in the Milford-Ansonia-Seymour, Southern Middlesex County or Colchester-Lebanon areas. Consequently, “affordable” housing in the Stamford-Norwalk area, for instance, is effectively capped at 65.8% of area median income, rather than the conventional 80%, creating a larger financial hole for a builder to fill.¹

Because 8-30g does not allow sales and rent prices by incomes typical for the area, the result is either fewer such homes being built (since more federal resources must be used for each home) compared to neighboring states, or else the homes that are built do not qualify under 8-30g (since the homes only meet AMI and not SMI). Neither is a good outcome. 8-30g should be reformed to follow the lead of HUD and consistently use area median income.

Building costs tend to be higher in areas with higher median incomes, so 8-30g puts developers in a bind, facing higher building costs but unable to recoup those costs through regionally appropriate sales or rent prices.

Figure 6. Construction wages and HUD Area Median Incomes

COUNTY	AVERAGE ANNUAL PAY IN RESIDENTIAL CONSTRUCTION	80% AREA MEDIAN INCOME	HUD FAIR MARKET RENT AREA
	(all workers)	(2-person household)	
Fairfield	\$85,460	\$95,200	Stamford-Norwalk
		\$82,900	Danbury
		\$75,000	Bridgeport
New Haven	\$63,155	\$74,350	New Haven-Meriden
		\$78,250	Milford-Ansonia
		\$73,100	Waterbury
Hartford	\$64,204	\$78,000	Hartford
Tolland	\$62,329	NA	
Middlesex	\$77,195	\$78,250	So. Middlesex County
New London	\$63,008	\$73,100	Norwich-New London
Litchfield	\$62,743	\$78,250	Colchester-Lebanon
Windham	\$51,362	\$73,100	Windham County
STATE	\$70,894	\$78,250	State of Connecticut





Implement Subsidies Equitably

As explained in this report, 8-30g does not measure municipalities' success in zoning to promote housing affordability; it does not even measure housing affordability itself. It merely reflects where subsidies (largely federal and state) are distributed. Yet even though these programs are beyond any sort of local control, municipalities are often faulted for failing to meet the 10% threshold under 8-30g. Local control is then threatened with abrogation by the state. Being penalized for failing to meet criteria largely outside one's control is the quintessence of unfairness.

How many housing units or households in a municipality receive a subsidy is largely determined by the parameters of the program in question. For instance, rent subsidies (vouchers) are allocated to municipalities by federal and state governments. Vouchers largely go to poor, urban communities. Middle- and higher-income municipalities — where housing cost gaps may be the greatest — receive few to no vouchers; with the addition of restrictions on voucher portability, this means that households in higher-cost municipalities may have little to no access to voucher programs.

Similarly, housing that is affordable at up to 115% of median income qualifies under 8-30g if it is subject to a USDA mortgage, but such loans are only available in "rural" municipalities. Homes that are under a CHFA mortgage qualify, but due to sales price limits, these may only be available in municipalities where home values are low to moderate. Households in urban and suburban municipalities with higher housing costs have little to no access to either program.

Being penalized for failing to meet criteria largely outside one's control is the quintessence of unfairness.

Lastly, deed-restricted affordable units may be created by a developer cross-subsidy. Although units may qualify under 8-30g if they are built at 80% of the local area median income in most of Connecticut, in the municipalities with the highest construction costs, they qualify only if they are built to as little as 65.8% of area median income. (This is due to Connecticut's peculiar definition of affordable as the "lesser" of state or median income, as set forth above.)

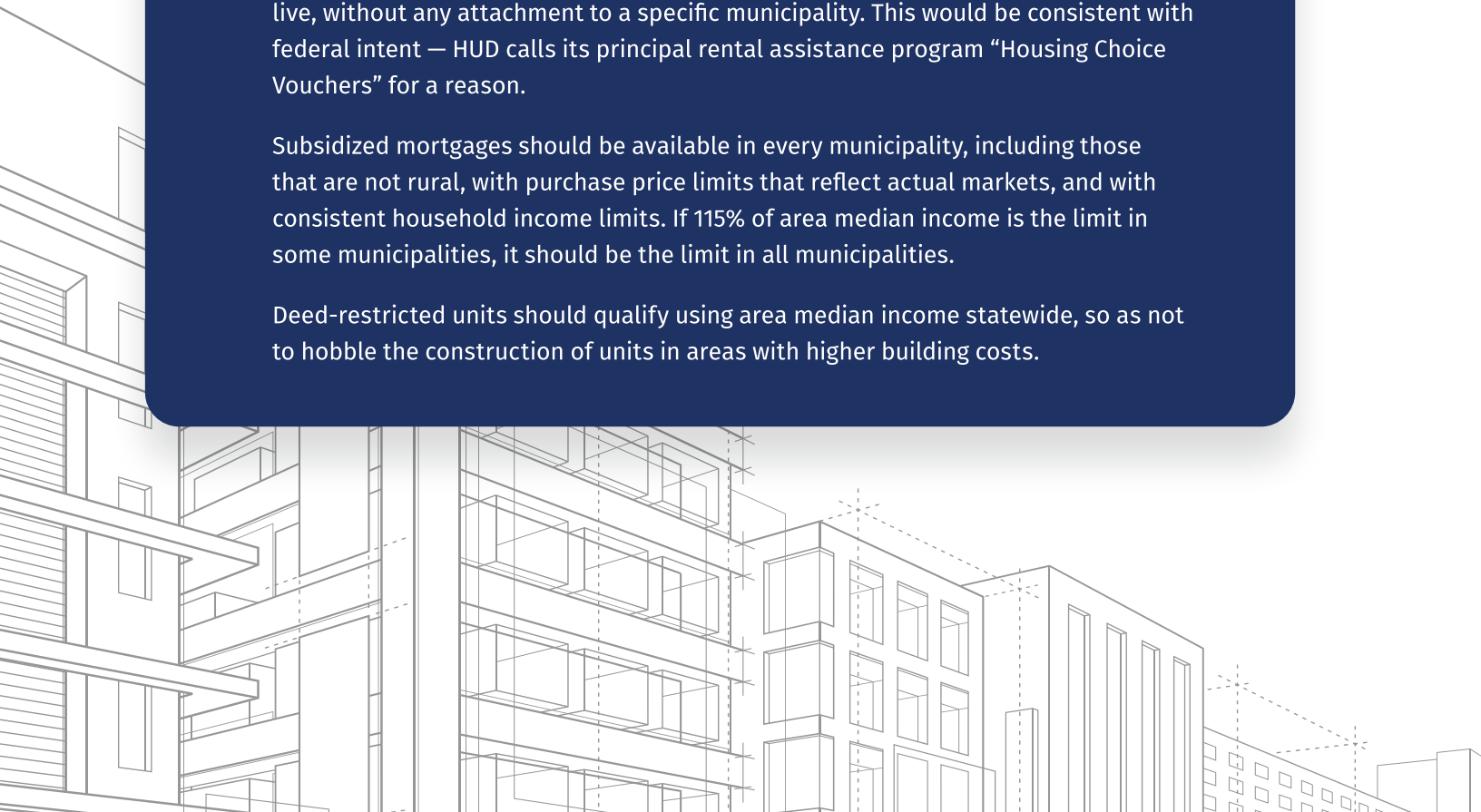
In other words, none of the subsidies whose receipt counts for purposes of 8-30g is available equally across the state's municipalities. In every case, subsidies are either partly or fully unavailable in the communities where housing costs are highest — and where the need for them is arguably greatest. And yet municipalities are effectively penalized for not receiving subsidies that they are less able or fully unable to receive based on the biased policies underlying those subsidies.

If the state intends to hold municipalities accountable for the receipt of housing and household subsidies, it should make these subsidies available statewide on a nondiscriminatory and equitable basis:

Housing vouchers should be made available to needy households wherever they are, consistent with their intent to empower households to choose where they wish to live, without any attachment to a specific municipality. This would be consistent with federal intent — HUD calls its principal rental assistance program "Housing Choice Vouchers" for a reason.

Subsidized mortgages should be available in every municipality, including those that are not rural, with purchase price limits that reflect actual markets, and with consistent household income limits. If 115% of area median income is the limit in some municipalities, it should be the limit in all municipalities.

Deed-restricted units should qualify using area median income statewide, so as not to hobble the construction of units in areas with higher building costs.



VII. Construction Costs and 8-30g

8-30g only preempts local regulations; it does nothing to provide relief from any other housing cost driver.

There are many costs that go into constructing a home, with local regulation only one factor alongside labor, materials, land, federal and state regulation, taxes and financing. Many of these factors have inflated substantially in the last few years:

Changes to state building codes between 2006 and 2021, which Connecticut has adopted, have added between 6% and 13% to the cost of a typical home.¹

Labor and material price increases between 2019 and 2022 raised building costs 55%, according to Marc Friedlander of the Insurance Information Institute.²

The rise in interest rates between 2022 and 2024 has caused mortgage payments to rise 80%.

Compared with this instability, local regulation has been relatively stable over the last several years — indeed, new home costs associated with building lots have fallen 25% nationwide since 1998, according to the National Association of Homebuilders.³ 8-30g only

preempts local regulations; it does nothing to provide relief from any other housing cost driver. Such narrow relief is destined to fail, especially when zoning is not a primary factor driving the escalation in home prices.

Although some of these factors may resist easy solutions (e.g., inflation in the macro-economy), a wide array of cost drivers is under state control. Accordingly, it is worth extending 8-30g to apply to these cost drivers in cases where they have become onerous, unreasonable, and a barrier to affordable housing. Examples where such targeted relief may be merited include:

Construction Costs: Workforce Expansion

Labor is a necessity for building projects; without construction workers, there is no construction. Typically, labor accounts for 40% to 50% of construction costs. However, this amount can vary substantially based on conditions in the labor market. Where demand for tradespeople exceeds the supply of such workers, projects will face higher labor costs, delays (which also

result in cost) and potential cancellation. As a result, less housing gets built; what does get built costs more.

In recent years, concerns have grown about the future of Connecticut's workforce, especially in the building trades, whose workers are among the oldest in the nation. Although age has its benefits — including valuable experience — this reality suggests that Connecticut will see a wave of retirements in the coming years. Such retirements will reduce the ranks of construction workers, who are already in short supply, even as additional manpower is needed to address ballooning demand (as more millennials buy homes and more homeowners take advantage of federal subsidies to upgrade and decarbonize their homes). Without a course change, Connecticut's labor shortages will severely hamper its ability to provide housing at affordable prices and achieve its environmental goals.

There are two important steps Connecticut could take to head off this bottleneck:

Recognize out-of-state credentials. Allowing tradespeople from states with certification requirements similar to Connecticut's to work here would expand the pool of workers available to build and upgrade homes. This is a commonsense move, especially in a region (New England) where labor markets are fragmented by state lines.

Waive hiring restrictions. For safety reasons, Connecticut limits the ratio of apprentices to licensed tradespeople on a job site to one-to-one. While this is a reasonable policy, the state also limits firms to hiring one apprentice per three licensed tradespeople. This hiring restriction has nothing to do with safety and impedes the ability of firms to increase hiring when demand grows and complicates succession planning. For every three retiring tradespeople, a firm may only hire one apprentice to replace them.

8-30g should be amended to provide a builder's remedy to state building trades regulations when housing affordability falls below a specific threshold. This remedy should a) provide for recognition of credentials from states with similar licensing to Connecticut's and b) waive all hiring restrictions

Construction Costs: Stop Padding Wages

In recent years, Connecticut laws have operated to increase the cost of the labor that goes into a home. Policies that have inflated labor costs included: raising the minimum wage far above the federal base; adding requirements for employer-paid sick leave to cover construction workers; and forcing any project that receives as little as \$100,000 in state funding to pay "prevailing wage" — which often substantially exceeds market rate.⁴ In New York, prevailing wage requirements have been estimated to increase total construction cost by between 13% and 25%.⁵

These policies increase the cost of doing business. When the business is homebuilding, fewer homes are built as a result, and any housing built is more

expensive. The impact, especially of prevailing wage, can be profound for very low-income households. These households are so poor that few (if any) developers may cater to them; their only chance at a home may be in public housing. Yet the state's requirement that all public construction projects use prevailing wage — with no exemption for affordable housing — means the very units that are designed to be lived in by society's poorest often cost more to build than high-end market-rate units.

By subordinating the basic need for shelter for society's most vulnerable to labor price-fixing, the few public dollars available for housing the poor have even less impact, fewer units get built and more poor households struggle to find a decent place to live.

Amending 8-30g to provide a builder's remedy to prevailing wage (especially when such requirements limit the amount of affordable housing that can be built) would correct misallocation of priorities and allow scarce public resources to stretch farther in building much-needed housing.

Construction Costs: Building Code Mission Creep

In the early 20th century, local governments started to adopt building codes en masse. These codes, which specify how buildings are to be constructed, often arose in response to tragedy or disaster, such as great fires, contagion and structural collapse, and sought to protect life and property (and avoid insurance claims).

As local codes spread, complaints grew that these requirements were driving up the cost of housing. In response, the federal government funded research into the development of effective and efficient designs for structural integrity, fire safety and reliable building systems. This research informed the development of regional building codes. These codes gave direction to homebuilders on how to create safe, sound homes at affordable prices (i.e., homes were neither under- nor overbuilt). Many states adopted these codes and required



Taxpayer-funded environmental mandates and goals often make other people-centric priorities like affordable housing more difficult to achieve.

compliance with them in all new developments within their boundaries, overriding local authority over building specifications.

In 2000, the regional codes were superseded by a single code, the International Residential Code (IRC), under the auspices of a new International Codes Council (ICC). This merger addressed concerns from national builders about having to design two different codes and was intended to promote consistency and efficiency in building. The ICC set into motion an ongoing development process, with version updates to its codes every three years. Since the release of the initial IRC in 2000, the IRC and its associated partners have undergone seven version updates.

Although there are legitimate reasons for updates — correction of errors, lessons learned, incorporation of new technologies — the IRC has expanded dramatically between its original release in 2000 and its latest release in 2021. The impact of this growth has been added cost. According to estimates by the National Association of Homebuilders, IRC changes made from 2006-2021 would add between \$18,445-\$43,272 to the cost of a typical single-family home in Connecticut's climate zone (in inflation-unadjusted dollars).

A major cost driver has been the expansion of the codes beyond practical questions of safety and soundness into energy efficiency. These requirements are often considered regardless of their impact on affordable housing. Therefore, we should not be surprised when they create substantial new materials and equipment costs in homebuilding, exacerbating housing affordability challenges.

Taxpayer-funded environmental mandates and goals often make other people-centric priorities like affordable housing more difficult to achieve. Some of these changes have resulted from special interests hijacking the code approval process.

This building code mission-creep — extending far beyond its initial function of protecting health and safety — has the potential to put affordable housing beyond broad public reach. What is the benefit of an energy-efficient home if a household cannot afford to buy or rent it?

It also suggests the need for renewed focus on the financial impact to households of building codes themselves. Although Connecticut cannot rewrite national codes, the state can a) deviate from aspects of the code that diminish affordability and b) empower courts to set aside parts of the building code are irrelevant to health, safety, or soundness.

VIII. Conclusion

An affordable housing regime that efficiently and effectively meets the needs of Connecticut's housing-burdened residents should be the objective of state policy.

As it currently exists, however, 8-30g stands at cross-purposes with housing market forces, resulting in stagnation in the variety and quantity of the affordable housing being built. To reverse this trend, the General Assembly must recognize that doubling down on a centrally planned approach that punishes affordable housing innovators will only hurt residents struggling to find a place to live.

For too long, state legislators, local officials and housing developers (who broadly agree that more affordable housing would strengthen Connecticut's communities) have been forced to view each other with distrust. As currently written, 8-30g's unique set of incomprehensible incentives are largely responsible for this phenomenon. A reformed 8-30g must align the incentives of all three groups, enabling the construction of housing in challenging geographic areas where collaboration is essential.

None of the recommendations for reforming 8-30g in this paper will make it more difficult for any municipality to meet the law's 10% benchmarks. Some may reduce the cost of affordable housing only for a few households in any one municipality. But taken together, such reforms to 8-30g will go a long way toward putting homes within reach for the middle-income residents who can least afford to wait for the housing situation to improve.

Undergirding this study is one simple insight: giving Connecticut municipalities creative license to meet the 8-30g 10% benchmark can only help our state meet its affordable housing needs, while allowing each community to protect the unique character it has spent centuries building.

IX. Policy Recommendations

Start counting naturally occurring affordable housing favorably (rather than unfavorably) under the mandate.

Recognize starter homes and single-room occupancies to help towns meet the 8-30g mandate long term.

Count middle-housing under 8-30g.

Bring 8-30g's income limits into line with federal guidelines to reduce regulatory complexity, allowing developers to build in areas that exceed Connecticut's median income levels.

Make housing vouchers and subsidized mortgages readily available to residents of every municipality.

Start recognizing out-of-state credentialed workers and waiving hiring restrictions on apprenticeships, allowing more workers to sell their labor where it is most valued.

Pay a larger number of qualified individuals a market-rate wage (rather than the union-imposed "prevailing wage") for publicly funded affordable housing projects, to allow more such projects to be completed more quickly.

Make statewide building codes less onerous so that individual affordable housing units cost about \$30,000 less to build each, thereby allowing more units to be built with taxpayer dollars.

Foster the free-market conditions regionally and statewide that are conducive to households finding opportunities to earn higher incomes. This allows households to move out of affordable housing and into market-rate homes.



X. About the Authors

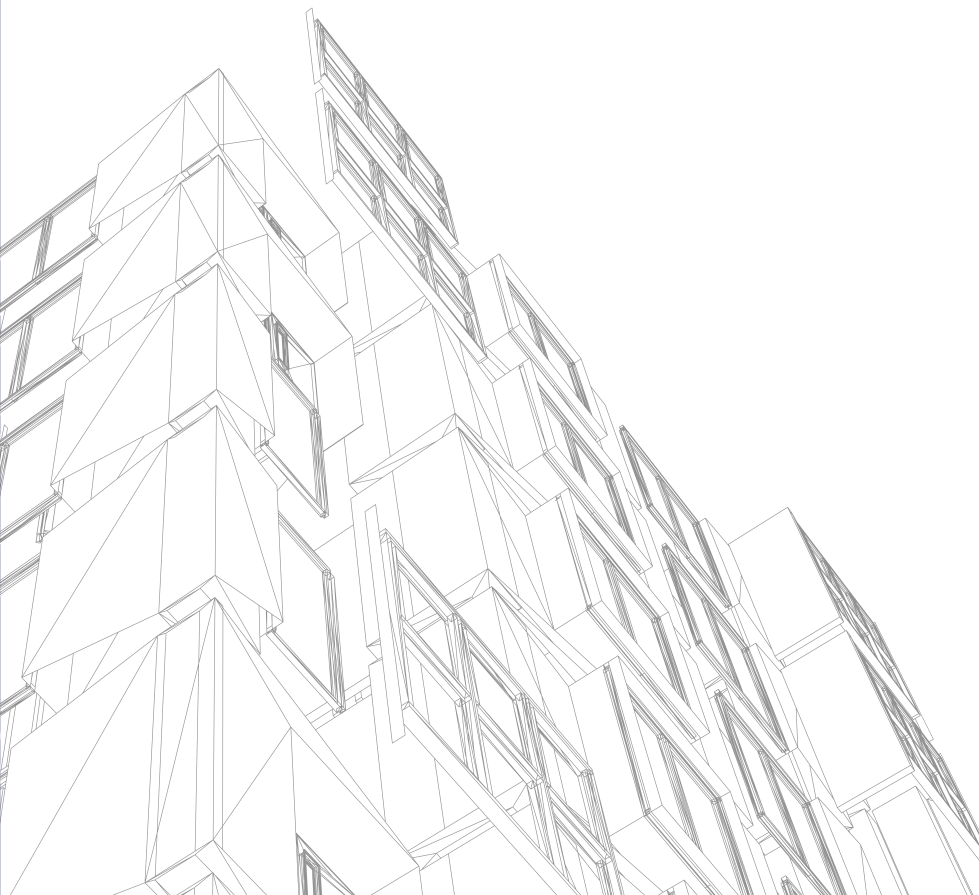
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*The views and opinions expressed by Mr. Pickering in this paper are those of the author and do not necessarily reflect the views or positions of the Western Connecticut Council of Government.



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