

# **Diversity of Downtown Housing Improves a Region's Economic Success**

*by Dan Carmody*

The strength of downtown has always centered on its diversity of uses and its role as the heart of the community. Housing can play a key role in preserving the diversity of downtown by enabling the artful recycling of Class C office and white elephant buildings such as former department stores or hotels. Such buildings can be converted to mixed-income housing. Using affordable housing finance tools reduces the financial risks of reinventing these key historic buildings. A healthy mix of modern, competitive office space and mixed-income housing in vintage buildings also helps to spur retail development. It is estimated that the typical downtown resident annually spends between three and four times what the typical downtown employee spends on goods and services. Repopulating downtown with both workers and residents helps to fuel retail sales growth.

While mixed-use/mixed-income development is a natural for downtowns there are often many barriers that exist. Securing financing for this type of development is very difficult, local zoning regulations and building and fire safety codes act more as confusing and costly impediments rather than supportive guidelines and local and state economic incentives typically go toward single-use developments in suburban locations with no existing infrastructure. Such is the case in Connecticut.

## **Growth in Residential Development**

Over the past twenty years residential development has become an important growth sector for downtowns regardless of their size. Three elements have contributed to the growth of residential use in our downtowns:

### **1. Congestion**

In metro areas, more households and more vehicles traveling from the suburbs to central cities have greatly increased traffic congestion. Much of the demand for housing within or near major downtown employment centers is the result of intolerably long commute times.

### **2. Demographics / Lifestyle**

The 2000 census states that more than two-thirds (67.2%) of all households do not have children under the age of 18 living at home. For these households the traditional suburban paradigm of safety, streets and schools is not as important, and the detached single-family home is not as appropriate as it is for the traditional family with school-age children.

Closely, linked to smaller households are lifestyles with greater emphasis on such amenities such as the arts, entertainment, and culture that urban areas can better provide than suburban or rural areas. Bohemian enclaves, gay and lesbian neighborhoods and arts colonies have sprung up in most markets. The popularity of downtown living, as characterized by the popularity of such shows as *Sex and the City* and *Friends*, indicates a full turning from the post-war flight to the suburbs back to downtown living.

### **3. Supply of Obsolete Structures or Low Density Fringe Areas**

The third and last factor is the availability of a large supply of obsolete structures of all types and sizes in downtown and downtown fringe areas in cities of all sizes. The residential boom in older cities began when demand generated by congestion and/or demographic/lifestyle considerations met the supply of low-cost, obsolete buildings. New construction typically followed as market dynamics were tested by conversion of obsolete structures to residential use.

#### **Housing's Link to Economic Development**

The locus of economic development has shifted from considerations of transportation and raw materials to a focus on the workforce. Those cities that have successfully grown downtown housing markets also seem to be those that are most economically vibrant. Lifestyle gurus, such as Rebecca Ryan and Richard Florida, have detailed the correlation between a region's economic success and its ability to attract and retain young and talented workers. Creative people want to live in creative places and the interesting urban neighborhoods in and around downtown are the preferred neighborhoods for many of the most talented members of the work force.

#### **Residential Development Prerequisites**

During the 1970's when downtowns were in their worst condition, it was difficult to attract daytime workers, let alone permanent residents. Downtowns that have experienced housing growth first worked to make downtown cleaner and safer then conceived strategies that mobilized civic investment in downtown. Such elements as streetscapes, waterfronts and cultural amenities added sizzle to the downtown. Once minimum safety and cleanliness standards are achieved and a demonstrable, long-term civic commitment to downtown is in place, it becomes possible to attract housing developers, homebuyers, and higher-income renters.

### **Tools to Spur Housing Development**

Downtown organizations have a variety of roles to play in stimulating housing development including conducting market research on the housing market, marketing housing opportunities to developers, expediting and packaging assistance to developers, or serving as a community-based developer.

Understanding the financial incentives available to spur housing development is critical because these incentives often determine how much and what kind of housing will be developed in the downtown.

### **Housing Market By Sector**

The four components of an urban housing market are Affordable Rental, Market Rate Rental, Affordable Owner-Occupied, and Market Rate Owner-Occupied. Developing a sustainable downtown requires a strategy for participating in all four quadrants. While most cities would like to have nothing but upper-end, owner-occupied housing, interesting and exciting urban neighborhoods have a dynamic mix of uses and incomes. Struggling artists and musicians, entry-level workers, hospitality and service sector employees all contribute energy to a successful downtown but need affordable housing options. If affordable housing is not integrated into an overall strategy, poorly designed projects may serve to dampen market rate interest and continue the pattern of economic segregation that has been the curse of central cities. Also, from a market development standpoint, it is often difficult to go from no housing market to high priced condominiums. Mixed-income projects that utilize favorable financing to assist affordable housing development can help to grow the market in incremental fashion, starting with more moderately priced units.

### **Affordable Housing**

There are many funding sources to assist with affordable housing development. The important point is that affordable housing programs can offer profound financing tools to both improve housing opportunities for people with few options and can help build market rate housing in areas that have little urban housing.

The tools available to build affordable housing can be used in very creative ways to build mixed-income and mixed-use projects. In most cities, however, affordable housing development is conducted by either social service agencies or by for-profit developers, neither of which may have as their goal the sustainable evolution of a downtown residential neighborhood. Learning the nuances of affordable housing development enables downtown groups to advocate for projects that support the creation of a viable

downtown neighborhood *in addition to* the need to provide shelter (the focus for most housing advocates) or maximizing developer fee income (the focus of most for-profit developers).

While affordable housing can have a bad image, it can be used to provide housing for a much wider spectrum of incomes. Section 42 housing tax credits (of the Tax Reform Act of 1986) and other affordable housing production tools have been used in many communities to build mixed-income projects including market rate units even when the private sector considered the risk of building market-rate housing in downtown too great.

Since, under federal guidelines, housing cannot discriminate between market-rate and affordable units, all units must be built and maintained to compete for market-rate customers. Therefore, by having to appeal to the highest income tenants, such projects feature better units than traditional 100% affordable projects.

### **Development is a Team Sport**

Housing development is a team sport. Assembling a strong team is a critical step. Architectural and engineering, construction, financing, marketing, and property management are the required skills. While building owners, investors, and primary tenants often lead such teams, many communities are increasingly undertaking community-led development processes to accomplish projects that for-profit developers cannot or will not tackle.

### **Conclusion**

As downtowns have been repopulated with residents there have been some great side benefits. Downtowns have become safer with more sets of vested eyes keeping a close tab on things 24 hours a day. Downtowns have a profound new political weapon as their voter bases expand. Lastly, it becomes easier to attract employers and retailers because the environment improves with fewer blighted buildings and more people on the street. Many downtowns have experienced a tipping point where residential development takes off and our urban areas become more vibrant than they have been in several generations.

*Dan Carmody, President of the Downtown Improvement District in Fort Wayne (IN), is the former executive director of Renaissance Rock Island (IL), a consortium of non profits that has helped to revive that community. He is the featured speaker at "Mixed-Use / Mixed-Income Development in Downtown", presented by Connecticut Main Street Center in cooperation with HOMEConnecticut, on Friday, September 22<sup>nd</sup> at 8:45 am at The Lyceum Center in Hartford.*