

# How to Rapidly Increase the Supply of Smaller-Sized, Lower-Rent Apartments: Our favorite idea

## Allow the private rental market to adjust unit sizes in existing buildings

In August 2018, we circulated to all Cambridge residential owners the idea of allowing owners to subdivide existing large apartments into two smaller units with naturally lower rents, no subsidies required. The potential supply of such subdivided, lower-rent units is huge, far more than any tax-funded, so-called “affordable” housing could ever supply.

In this very housing-conscious city, however, our proposal was met with complete silence. The idea of using the private rental housing market to create a substantial new supply of lower-rent housing is just never considered. The only ideas they have for “affordable housing” are inclusionary zoning (require all new rental housing construction to set aside a minimum percentage of “affordable” housing) and taxpayer-funded new or newly rehabbed housing by nonprofit organizations, at a cost of \$1 million per unit!

## We are over-housed

Today’s renter households are much smaller than they used to be, and they often live in large units built originally for the wealthy or for large immigrant households.

Today in Boston, for example, 37% of all households consist of just one person, the most common household size. Another 27% are two-person households, making almost two-thirds (64%) of Boston households composed of just one or two people (U.S. Census Bureau data, 2017). Consequently, today’s smaller households, including many three-person households, are “over-housed.” One of the best ways for any household to lower its rent is to move into smaller space, become more efficient, and get rid of all the junk – which can easily be a positive experience in relationships.

The easiest way for today’s small households to economize on rent is to move into smaller-sized units with lower rents. Yet, the supply of existing studio and one-bedroom apartments is limited, demand is high, and zoning prevents any more from being built.

## How we got here

Most of Massachusetts rental housing was built between 1840 and 1920, architecturally beautiful and well-built. Zoning began in 1904, with the intent to exclude lower-income, minority, and immigrant families. We no longer share this value today.

In Cambridge (MA), for example, zoning achieved this exclusionary goal by requiring 1,500 square feet of lot area (or a similar number) for **each dwelling unit**. All our historic rental housing instantly became illegal and non-conforming, and is allowed only by being “grandfathered.” This zoning approach effectively stopped all new rental housing construction without costly and often impossible-to-get special permits. Only luxury housing in high-rise buildings gets built, which does not help most renters.

## The solution:

### Create smaller-sized units within EXISTING housing

The solution, the way to create substantially more units at lower rents, is to change zoning and require – as of right – **a given amount of square footage of LIVING SPACE** for each 1,500 square feet of lot area (or other measure), thus allowing the **size** of units to adjust to market demand. Or, alternatively, to allow owners – as of right – to subdivide any **existing** twobedroom or larger apartment into two, or even three, smaller units. And allow existing unused spaces in basements and attics to be converted, as of right, into accessory dwelling units. All of these options as of right, if building code and other requirements are met. Owners could then create any of the following unit sizes in existing unused spaces in basements or attics or by subdividing large units (such as triple-decker units) into two, and possibly even three, smaller units:

## **Micro-units**

### **Studios**

### **One-bedroom units**

### **Smaller two-bedroom units** (e.g., two bedrooms + large eat-in kitchen)

For example, Boston has about 14,000 three-unit buildings (mostly historic triple-deckers), or roughly 42,000 units in its three-unit buildings. If **just one unit** per three-unit building is allowed to be subdivided into two smaller-sized units, the city could gain potentially 14,000 **additional** new smaller-sized units and 14,000 **existing units made smaller**, a total of 28,000 smaller units all with “naturally” lower rents. The potential supply of these subdivided smaller units is truly quite large.

## **THE KEY IDEA:**

### **More smaller units will RELEASE larger units**

If we are able to add a substantial number of new smaller units, people will move into them, which will immediately release their former larger units for larger households. Thus, **creating more smaller units will increase the supply of both smaller and larger units**, which, as economists say, will lower rents broadly.

This approach makes far more sense to us than somehow trying to make more costly, new, large-sized units for which there is almost no undeveloped land to build on in large cities. To get around this lack of empty lots, tenant advocates in Boston’s City Life/Vida Urbana typically organize tenants to do rent strikes – everyone stops paying rent – which quickly crushes small landlords and gets them to sell at a steep loss to “affordable housing” groups. Literally, they steal older housing from private owners.

Our solution uses the efficiency of private rental housing and of small landlords to create a substantial supply of new rental units.

## **Use existing, older housing**

- **Allow large units to be subdivided**

By far, the greatest supply of smaller-sized units exists in Massachusetts’ large number of multifamily properties, most of them with large units, such as triple-decker units, that could be easily subdivided into two smaller units. Single- and two-family homes can also be divided into smaller units. Again, no empty lots are needed.

- **Cheap to build, no tax subsidies needed**

All these new smaller units are quite cheap to build, much cheaper than allowing accessory dwelling units to be built in unfinished spaces in attics and basements or in garages. Using existing apartments, at least half the work has already been built: foundations, floors, walls, ceilings, roofs, and all utilities are on site. A few new partitions and doors would be needed, and the utilities extended to each new unit to create new kitchenettes and bathrooms. Owners can build these smaller units with their own financial resources or small loans, and will build them for the extra income they will receive. No tax subsidies are needed. All new units must be built with permits and according to codes.

- **Naturally lower rents**

Smaller in size, with modest (not luxury) amenities like the amenities in other units in the same building, these units would have “naturally” lower rents. Restricting their rents by requiring them to be “deed-restricted and permanently affordable” is unnecessary – and would inhibit or completely stop their creation. The modest increase in rental income is what will motivate small owners to create these units.

- **Preserves historic appearance**

All these units would make little or no change to the exterior appearance of our beautiful historic older housing. A second means of egress is often needed, but basement entrances on the sides or backs of the houses and exterior staircases on the backs will scarcely be noticeable. Roof dormers might help enlarge attic space, but are already a common feature in older housing.

- **Only zoning changes, more property tax revenue**

Many present zoning rules prevent accessory units, subdividing large apartments, or creating any new multifamily housing at all. Hence, only zoning changes are needed to make these additional units possible. The zoning for smaller units should be “as of right,” without any need for a special permit that requires neighbor input. The delay in getting a special permit would stop many new units from being created. Moreover, all these smaller new units will increase valuations and assessments and increase both property tax and income tax revenues at all government levels.

- **Transit-oriented, no parking requirements**

One way to phase in this subdivision idea and monitor its impacts is to allow subdivision only along a city or town’s main transit routes, perhaps one or two house lots deep on either side of the main street. In this way, the occupants of subdivided units will have easy access to public transit, both bus and train, and can also use bicycle and pedestrian modes – with the result that no new parking spaces would need to be required, again facilitating subdivision. The issue of locating lower-income housing in single-family zones is complex, but subdivision along transit routes would place this lower-rent housing adjacent to residential areas and close to commercial zones that might have good job opportunities for moderate-income people living nearby. Yet, serious impact on nearby residential areas is eliminated.

### **The fashionable trend to smaller units**

Our subdivision idea here is similar to the recent idea of “micro-units,” very small, compact units. Such micro-units are cheaper than other new construction, but still relatively costly. They are perfect for millennials and people who work from home.

In 2014, Boston created a Housing Innovation Lab to test “innovative housing models” to improve affordability. The Lab’s key focus is accessory dwelling units, “great as naturally affordable housing,” not income-restricted. Our proposal, then, to add micro-units, studios, and one-bedroom units does not involve far-out ideas.

### **The fire sprinkler issue**

A major obstacle likely is a costly requirement to install fire sprinklers in all units when a fourth unit is added. Fire sprinklers save lives and property. Every new unit adds a stove and usually a furnace, both fire sources. The sprinkler requirement is reasonable to save lives and property, but the cost (at least \$30,000 for a three-unit building) would stop owners from adding a unit or two.

This issue needs to be confronted head-on. Requirements could be relaxed. Cheaper options might be found. Most effective might be tax credits to bring costs down – far more cost-efficient with tax dollars than building “affordable housing” from scratch. (So-called “affordable housing” costs at least \$1 million **per unit** – according to MIT professor of affordable housing.)

Another possible issue is accessibility for the handicapped. Because of these issues, Massachusetts and other states, and even the U.S. Department of Housing and Urban Development (HUD), may need to convene a Task Force on Rental Housing Policy to sort out the various issues.