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Addressing the undersupply of housing due to surging needs - by Brian Royce

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With apartment vacancy rates low, rents high, home-ownership out of reach for many residents and homelessness rising year after year, many communities in the Northeast are experiencing a housing crisis.

According to Connecticut lawmakers, the state has one of the most constrained housing supplies in the nation, with only about a 7% vacancy rate despite an overwhelming demand for more supply. By some estimates, the state requires a minimum of 110,000 more units to meet the existing need.

During the pandemic, there was an uptick in household creation in Connecticut as people stopped living with roommates or family and moved to the state from New York and Boston. As the number of households grows, so does the need for more housing.

More households does not necessarily mean population growth. Household growth can also occur when couples divorce, children become adults and move out, or when people decide to live alone rather than with roommates.

In January 2025, researchers from the consulting firm ECOnorthwest presented to key lawmakers on the Housing and Planning and Development committees an early draft of their findings about Connecticut's housing needs. The presentation was done in response to a law passed in 2023 (Public Act No. 23-207) that directed the Connecticut Office of Policy and Management (OPM) to initiate a statewide study on a "Fair Share" zoning policy.

Fair Share Zoning Policy is a method of supporting more affordable housing by assessing the housing need regionally, then dividing that need among municipalities. Under this policy, towns would be required to plan and zone for a predetermined number of units.

The ECOnorthwest's draft report's estimates focus solely on the current need for housing in Connecticut, i.e., the units that should have been built to better balance supply and demand. The preliminary estimates range from 115,000 to 372,000 housing units depending on the selected methodology and the focus on different target household income ranges.

The Baseline Approach: 136,246 units statewide. Focuses on housing needs for households earning less than 30% of area median income (AMI) who are severely cost burdened (spending more than 50% of their income on housing costs).

•Alternative Approach 1: 110,702 units statewide. Considers current housing underproduction and a focus on housing needs for households earning less than 80% of AMI.

•Alternative Approach 2: 358,900 units statewide. Considers current housing underproduction and identifies housing needs for all income levels.

Regardless of the chosen approach, the Capitol and Metropolitan and Western regions require the highest number of units. The Metropolitan and Western regions, which are connected by transportation hubs, include the southeastern region of Connecticut from Bridgeport to Greenwich and north to New Milford. The Fair Share bill (H.B. No. 6944) is working its way through the state legislature this year.

While there is considerable disagreement among lawmakers on the best approach for addressing current and future housing needs and whether Fair Share is the most appropriate path, they are in agreement that the State's needs have reached critical levels.

During a news conference in January 2025, leaders of the state legislature indicated that addressing the State's persistent housing shortage would be among the year's top priorities. At the center of these discussions is exploring the various methods of increasing housing supply, including adaptive reuse of existing buildings that are no longer operationally viable, such as office buildings and hotels.

Since the beginning of the pandemic, the City of Stamford has initiated some modest text amendments to its zoning ordinance to further simplify the development review process for office-to-residential conversions. At the state level, a number of ambitious bills have been introduced to make policy and financial changes that would ease or encourage office-to-residential conversions, but most have not passed the legislature due to resistance from residents concerned about the addition of multifamily units in low-density residential areas. However, the demand for housing in Stamford remains so great that seven office to residential conversions of over 50,000 s/f have proceeded since 2020, despite Stamford's many policy challenges.

While the idea of converting office buildings into residential spaces holds promise, particularly in areas with high office vacancy rates, only a small percentage of existing office buildings are realistically suitable for such conversion. This is due to factors like structural limitations, costly renovations and regulatory hurdles. Industry estimates suggest that only a fraction of office buildings, perhaps 10-15% nationally, can be successfully converted.

Though not without its challenges, hotel-to-residential projects can generally be completed faster and at a lower cost than office building conversions. This is due in part to already existing floor plans, water systems, and waste lines that are relatively easier to modify.

A proposed bill (H.B. No. 7063) aimed at addressing Connecticut's housing crisis would encourage the conversion of empty motels into multi-family housing. The proposed bill is being considered by the state's Planning and Development Committee. Under the bill, empty motels can be converted to multi-family housing statewide as-of-right. This means the developer would not need a special permit or approval by the local zoning board.

The trend of increasing hotel-to-apartment conversions in Connecticut is driven by factors like increased demand for housing and the pandemic's impact on the hospitality industry. This trend is particularly noticeable in cities like Danbury and Hartford, where developers are converting hotels into micro-studio and apartment complexes.

The lack of affordable housing in the U.S. has made micro-unit living much more popular and accepted. Micro apartments generally run between 100 and 500 s/f. Renters are willing to do with less when it comes to apartment space if it comes at a price they can afford, especially if multiple amenities are available onsite and nearby.

When hotel-to-multifamily conversions first gained momentum as a viable idea over the last few years, securing financing was challenging. Most lenders needed to gain experience participating in this type of project. Recently, construction lenders, bridge lenders, and even permanent lenders have become more amenable to the idea. They know attainable housing is in high demand, and they can underwrite the cashflows and absorption. Since many of these conversion opportunities are of assets that have become functionally obsolete as hotels, the acquisition costs are significantly below replacement costs. This provides for an excellent basis as long as the sponsor has thoroughly underwritten their capex conversion costs.

Within the last 2-4 years, there have been several examples of conversions from extended stay hotels to rental apartment communities within the State of Connecticut. Typically their adaptive reuse from commercial to multifamily was accomplished under zoning guidelines via special permit. Two struggling hotel properties, containing approximately 80,000-90,000 s/f and 100-150 rooms, acquired with the intention of conversion to multi-family residential reported conversion timelines of approximately 8-12 months and conversion costs of $50-60 per s/f of gross building area. Comparatively, developers of similarly-sized office conversions reported conversion timelines of approximately 12-24 months and conversion costs of $200-250 per s/f of gross building area.

Every property will have unique circumstances, but those properties well positioned for a hotel to multifamily conversion may find an extended life and better cash-flow potential. With the right adaptive reuse plan, hotel to multifamily conversions may be a welcome solution for owners/developers of functionally obsolete lodging properties and help address the broader housing supply demands of the community.

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