# Come Home to Downtown

## 2015 Final Report | Norwich

How Connecticut can enliven its Downtowns by redeveloping under-used buildings into a blend of housing and retail, entertainment or office space.


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# Come Home to Downtown

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The time is right for housing in downtown Norwich.

Downtown Norwich has many attributes attractive to people interested in living, working and visiting downtown, including walkability and historic buildings

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# Acknowledgements

The following people were instrumental in the successful completion of Norwich's Come Home to Downtown pilot program.  We at Connecticut Main Street Center would like to acknowledge their participation, dedication and hard work.

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*This project was made possible through a contract with the Connecticut Housing Finance Authority with funds from the State of Connecticut Community Investment Act.*

# Come Home to Downtown

**A mixed-use real estate planning pilot program**

## Introduction

Connecticut's downtowns are at a critical turning point. For decades, communities around the state embraced single-use zoning and sprawling development patterns as their default development option. Today, however, downtowns and town centers across Connecticut are reconsidering these strategies. The state's $1.5 billion investment in new public transportation, including new commuter rail service and the new CTfastrak busway, along with many other factors have played an important role in this change of priorities. Communities are increasingly concerned about their own fiscal and environmental sustainability. There is also a shift in demographic trends and the living preferences of certain groups. Millennials and Baby Boomers especially are interested in living in mixed-use communities where they can walk to jobs and amenities.

As evidence of this, four recent surveys have confirmed a renewed interest in walkable communities. A 2014 survey by the American Planning Association found that Millennials, Gen X-ers and Active Boomers have more in common than in conflict. All three groups showed declining interest in traditional auto-oriented suburbs, with fewer than 10% desiring this model for the future, even though 40% live there today (American Planning Association 2014). This discrepancy is even larger in Connecticut where a similar study was recently conducted. While 47% of Connecticut residents currently live in suburban communities, only 8% want to live in car-dependent environments in the future (CT Commission on Aging 2015).

A 2014 Pew Research Study had similar findings, noting that "While young adults are disproportionately in favor of walkable neighborhoods, the most favorable group is people 65 and older — led by women in that age category." (Stueteville 2014). Additionally, the number of people wanting to live in walkable communities has grown significantly over the last 10-15 years. Whereas a decade ago only 25-30% preferred this type of living, both the Pew Study and a 2013 survey by the National Association of Realtors found that roughly half the respondents would prefer to live in a walkable community over a conventional suburb, a dramatic increase of 15-20%:

- 50% of the National Association of Realtors respondents prefer to live in walkable communities, while 45% prefer conventional suburbs.
- 49% of the Pew Study respondents preferred low density development, while 48% preferred walkable neighborhoods.

Beyond the increasing demand for walkability, municipalities today also understand the importance of growing sustainably. This means finding ways to both increase the tax base and reduce costs while ensuring a good quality of life and preserving the environment for generations to come.

Fortunately, most of Connecticut has potential solutions readily available downtown. That's because focusing growth in downtowns and town centers where the infrastructure is already in place and where development can enhance a walkable, mixed-use setting with housing choices for workers and families is generally more sustainable than low density development, generates revenue and saves money. In fact, according to a report by the U.S. Environmental Protection Agency (EPA), the infrastructure costs to service compact, dense development – like the mixed-use development found in most downtowns – is 32% to 47% less than for lower density suburban development (Ford 2009).

As we noted in our first Come Home to Downtown report (CMSC 2013), the return on investment for a municipality that directs its growth in its downtown is impressive. The City of Raleigh, NC, commissioned a study to compare compact, mixed-use development with big box development. The results demonstrated that on a per acre basis, mixed-use development provided a significantly better return to the municipality (Smart Growth America 2013):

**Return on Investment Comparison**
Compact, Mixed-Use Development vs. Big Box
Raleigh, North Carolina

| | Big Box | Compact, Mixed-Use |
|---|---|---|
| Property taxes/acre | $2,837 | $110,461 |

A study commissioned by the downtown business improvement district in Asheville, NC (Minicozzi 2012) had similar results:

**Return on Investment Comparison**
Downtown Development vs. Big Box
Asheville, North Carolina

| | Big Box | Downtown |
|---|---|---|
| Property taxes/acre | $6,500 | $365,000 |
| Retail sales tax/acre | $47,500 | $83,600 |
| Jobs/acre | 5.9 | 73.7 |
| Residents/acre | 0 | 90 |

More recently, a study conducted by the National Trust for Historic Preservation's Green Lab found that there are 36.8% more jobs per square foot in older, smaller, more diverse buildings in Seattle neighborhoods when compared to areas with newer and larger buildings (Preservation Green Lab 2014).

**Jobs Per 1,000 sq. ft. Comparison**
Oldest, Most Diverse Buildings vs. Newest, Largest & Least diverse Buildings
Seattle, Washington

| **Buildings** | **Jobs Per 1000 sq. ft.** |
|---|---|
| Oldest & most diverse | 4.39 |
| Newest, largest & least age-diverse | 3.21 |

A 2015 study developed by Smart Growth America looked at why hundreds of companies across the country are moving downtown. This study found that there are six common themes explaining why companies are moving downtown. They include:

- To attract and retain talented workers
- To build brand identity and company culture
- To support creative collaboration
- To be closer to customers and business partners
- To centralize operations
- To support triple-bottom line (social, environmental and financial) business outcomes (Smart Growth America 2015)

Luckily, many of Connecticut's town centers still have "good bones," providing us with exceptional foundations for mixed-use development. While some may be struggling with high vacancies, most of Connecticut's downtowns are well-designed – compact, walkable, and often centered around town greens and/or waterfronts that provide development opportunity. A revitalization effort that takes advantage of these features is called "place-based development" and it creates authentic places of human scale in the historic hearts of our communities.

It is typical to find three- and four-story buildings that are family-owned downtown, where the family business may be thriving on the ground floor but the upper floors remain vacant. These underutilized spaces can be converted to apartment homes to satisfy the demand for downtown housing that's close to jobs, services and entertainment. Moreover, the redeveloped space can also provide the property owners with additional income while injecting increased spending into the local economy as residents take advantage of nearby shops and services.

**More Downtown Housing = Increased Spending Downtown**

A study recently completed for Main Street Iowa by economist Donovan Rypkema calculated that ***every new unit of downtown housing has the potential to spend $20,000-$39,000 in the downtown annually.***

**Vacant First Floor Space = Negative Downtown Revenue**

Conversely, ***vacant first floor commercial space has a tremendous negative impact*** on the community. Mr. Rypkema calculated a vacant storefront with a modest $250,000 in lost annual sales costs the community over $222,000 annually in terms of lost rents, property and sales tax, and utilities, supplies, services and salaries not paid (Rypkema 2012).

## COME HOME TO DOWNTOWN

### Overview of Years 1 & 2

It was out of this context that the **Come Home to Downtown** (CHTD) pilot program was born in the spring of 2012. The culmination of a successful collaboration between Connecticut Main Street Center (CMSC) and the Connecticut Housing Finance Authority (CHFA), Come Home to Downtown directly addresses a need found in many of Connecticut's underutilized downtowns: redeveloping vacant or under-utilized small downtown properties into housing above commercial space.

In order to achieve the successful completion of the Come Home to Downtown program, CMSC set forth the following goals:

- **Recommend specific solutions for accommodating mixed-use development** such as changes to zoning, streamlined permitting and other financial incentives.
- **Grow the relationship between communities and property owners** by educating them about the benefits of redeveloping vacant and underutilized space.
- **Perform a Model Building Analysis and provide technical assistance** to guide property owners (many of whom have little or no development experience) in the redevelopment of their properties.
- **Provide the community with an increased understanding of the downtown's value** and potential.
- **Create or enhance the downtown management's function**.
- **Analyze lessons learned**, and use them to inspire other property owners and municipalities.
- **Have the respective pilot communities embrace downtown mixed-use development** and support property owners pursuing downtown redevelopment.

In the first year of the Come Home to Downtown program (2012-2013), CMSC selected Middletown, Torrington and Waterbury as the pilot communities. In the second year, CMSC continued to assist the first year property owners identify possible funding sources, in addition to selecting two new pilot communities: Meriden and New Britain. Working with these property owners, municipal officials and key stakeholders, CMSC provided redevelopment options, performed an assessment of the downtown's walkability (Year 1 only), and engaged the community on the demand for downtown living. CMSC provided a report on its activity, identifying seven key findings:

1. **There is a substantial amount of potential for accommodating mixed-use development** – which both saves and generates monies – in Connecticut's downtowns.
2. **Mixed-use development is one of the most difficult types of development to accomplish.**
3. **This type of development is hindered by a lack of financing - both private and public.**
4. **The vision and development skill of property owners are key ingredients of success**. In many cases the property owners are business owners rather than developers and education and outreach are needed. Many owners are unprepared for the complex process and cost of redevelopment, and may not see the potential benefit of redeveloping their asset/building.
5. **Market-rate rents for these buildings are often the same as HUD affordable rate rents.** However, owners must agree to restrict rents to these levels for a period of time in order to access most state and federal programs. The additional time and cost of using these programs may make them infeasible for small projects.
6. **Lower rents contribute to a larger gap.** Lower rents mean a lower building value and lower mortgage, which increases the financial gap for redevelopment.
7. **Regulatory and zoning policies must allow flexibility for mixed-use growth.** Even when zoning regulations promote redevelopment, they are often not enough to enable mixed-use development, the hardest type to accomplish.
8. **Downtown Management capacity is critical to the success of mixed-use development.**

### Overview of Year 3

In Year 3 of the program, CMSC continued to assist the Year 1 and 2 property owners identify funding options and other assistance needed to move forward with redevelopment. The CHDT projects in Waterbury and New Britain are moving forward. The Waterbury project has received funding support from CHAMP (Competitive Housing Assistance for Multifamily Properties). The New Britain project received CHDT predevelopment funding and is applying for State Historic Tax Credits.

Two new projects in Meriden and Norwich were selected for Year 3. When choosing these communities, CMSC considered several factors, among them the willingness of the municipality to encourage mixed-use development, an engaged property owner and a building style common to many Connecticut downtowns.

The CMSC team, comprised of CMSC staff and consultants with expertise in historic architecture and community financing, provided an analysis of the following four individual components:

- Downtown Development Audit – Addresses impediments and incentives to promoting redevelopment in a downtown.
- Model Building Analysis – Focuses on redevelopment plans designed to bring housing back to the upper floors of the model building.
- Project Financing & Assistance to Property Owners – Property owners received a financial pro forma identifying the shortfall between the rehabilitation costs and what traditional lenders will typically finance. This section includes potential funding sources to address those "gaps". Recommendations are also provided to the property owners, as needed, to assist with the building redevelopment and management.
- Downtown Management Assistance – Strengthens the organizational capacity of the downtown management function to address the area's constantly evolving housing and economic needs.

In addition to these components, community engagement is also a critical element of any planning process. CMSC took care to engage the community at various levels throughout this program. Local Project Liaisons and Advisory Teams were designated and offered guidance and local input. A Public Meeting will be used to present preliminary project findings and get feedback from the larger community. Traditional and social media were also engaged to spread the word to an even larger audience.

### Come Home to Downtown Communities

After an extensive selection process, Meriden and Norwich were chosen to participate in Year 3 of the Come Home to Downtown Program. Both communities have positive aspects such as walkability and a range of services and amenities. While each faces individual challenges and successes, collectively they represent downtowns with the type of housing stock and infrastructure typically found throughout Connecticut.

### Come Home to Downtown Property Owners & Model Buildings

Just as important as the downtowns themselves are the individual property owners and their buildings. CMSC selected owners who wanted to be engaged in Come Home to Downtown; who demonstrated a commitment to the neighborhoods where they were located; and who had the capacity to undertake redevelopment of their buildings.

With regard to the buildings, CMSC felt it was important to choose a variety of styles indicative of those commonly found throughout the state. CMSC views this program as a learning process, and one from which the lessons learned can be used by property owners to replicate and encourage mixed-use development in other Connecticut downtowns.

# Findings & Recommendations

## FOR PROPERTY OWNERS

Norwich is uniquely located just off Interstate 395 at the head of the Thames River in southeastern Connecticut. This creates important opportunities for existing and new residents of Norwich, including easy access to New London and other coastal communities. Norwich is located between 45 minutes to an hour away from Hartford, Providence, RI and Worcester, MA.

**Figure 1: Aerial View Downtown**

Downtown Norwich also has many attributes attractive to people interested in living, working and visiting downtown. This walkable downtown has most, if not all, of the building infrastructure already in place to increase its availability of housing. Implementing the recommendations highlighted in this report will help the City, the Norwich Community Development Corporation and other stakeholders more fully integrate and utilize their many assets.

## NORWICH MODEL BUILDING

**Owner: City of Norwich, Option: Norwich Community Development Corporation**
**Location: 193-201 Main Street**

Figure 2: Reid & Hughes Building

The Reid and Hughes building is 27,340 square feet total and consists of two separate structures that function as one. The larger building is four stories high and the smaller building is three stories high (NCDC 2013).

This building is owned by the City of Norwich with a purchase option to the Norwich Community Development Corporation (NCDC) who has significant economic development experience but has not redeveloped a building downtown. NCDC was looking for technical assistance and strategies for addressing the financial gap. They understand the importance and value of this building to their downtown and the larger community. Redevelopment of this building for residential use on the upper floors and retail on the street level is critical to jump starting redevelopment of other downtown structures. The building is completely empty and in very bad condition. Time is of the essence. If the building isn't stabilized soon, it may not make it through the next winter.

Previous studies have shown the negative impact vacant buildings have on the value of adjoining properties as well as the value lost to the community. The Reid and Hughes Assessment and Options report (NCDC 2013) analyzed the challenges and options for redevelopment of the building, as well as identified the significant costs related to demolition. The report recommends that the City Council take these next steps:

1. Commit to the Effort
   a. Provide Funding – A funding commitment from the City Council is needed for whichever option (see below) is selected
   b. Delegate Responsibility – A project manager will be needed and the City Council should assign that responsibility
   c. Provide Resources – The project manager should be given the resources (e.g., time, staff, funding for administration) to complete the task
2. Start the Process
   a. Establish a timeframe for project completion
   b. Plan the Work
   c. Work the Plan (NCDC 2013)

The options analyzed in the Assessment and Options Report include:

1. Selective Demo – Selective demolition (demo) would likely involve the removal of the three-story addition portion of the building.
2. Save Façade – Saving the Building Façade involves a selective demolition of the building and saving the historic features of the building for reuse at a later date.
3. Complete Demo – Complete demolition (demo) is exactly what it reads to be, the complete demolition of the Reid & Hughes building.

For more information go to http://www.askncdc.com/wp-content/uploads/2013/07/Reid__Hughes_Assessment_Report_8_19_2013.pdf

### Challenge

The redevelopment of the Reid and Hughes Building would be a pioneering step in strengthening the residential and retail market of downtown Norwich. By rehabilitating the building with high quality standards, the project can build value in the downtown market. The project can be positioned to attract the first and most enthusiastic residents to a newly renovated building with attractive amenities and a convenient location.

The challenge comes from being the pioneer. Although a couple of redevelopment projects have been completed in Norwich, including the Wauregan, there is still not a significant mass of redeveloped buildings. Signature projects like this one can have a positive impact on the market, causing quality of life and market improvements for residents and property owners. However, at this stage, the project will need the support of the local municipality, business community and other partners in order to build confidence in completing the project.

Another challenge is helping the building owners evaluate the feasibility of redeveloping and investing in the property. The return on the redevelopment investment may be seen over a longer term as the market improves, but most owners would be inclined to focus on the near term cash flow rather than the long term appreciation of their asset.

### The Cost of Demolition vs. Rehabilitation

The Reid and Hughes Assessment & Options Report (NCDC 2013) identified the various options available for this building. The CHDT team considered the recommendations put forth, looked at the cost of demolition and compared it to the cost of rehabilitation. Perhaps the most important thing that came out of this analysis was the understanding that the costs associated with demolishing the Reid and Hughes building or letting the building sit vacant were more than financial. The loss of irreplaceable, existing, historic building fabric and the loss of continuity in the streetscapes mean a loss of intangible value, which cannot be quantified. When historic buildings are demolished we lose our ability to revitalize communities and maintain the visual quality of our neighborhoods.

The building site slopes toward the south so that the north elevation is four stories and the south (rear) elevation is five stories. If the building were to be demolished, a giant void would be left to the south of the sidewalk. As a result the cost of demolition would include sidewalk repairs, construction of a retaining wall, installation of a railing, and trash removal. Further, the loss of a building means potential lost tax revenue for the city.

Rehabilitating the Reid and Hughes building would help increase security in the downtown area by increasing the number of eyes on the street. The historic streetscape would remain intact, maintaining a sense of place, which would strengthen community connectivity. Based on the Rypkema study noted earlier in this report, each apartment in the downtown area has the potential to spend approximately $25,000 dollars in the community (20 renters x 25,000 = $500,000 dollars invested into the local economy). There are also costs to adjacent properties of a vacant building. The National Vacant Properties Campaign determined that properties in close proximity to vacant buildings may lose more than $7,500 in value (Morely, David 2015).

## MODEL BUILDING ANALYSIS

The model building at 193 – 201 Main Street has redevelopment potential, is an important structure for the City of Norwich and represents a good example of a building commonly found in Connecticut's downtowns.

The Model Building Analysis conceptually demonstrates how the model building can be redeveloped to accommodate housing on the upper floors and commercial uses on the ground floor and is intended to be useful to property owners in any town with a similar building type.

The building at 193-201 Main Street was selected based on the following criteria:

- Mixed-use with ground floor commercial uses and underutilized upper floors.
- Location on Main Street/pedestrian-oriented area.
- Motivated and committed option holder.
- Obstacles/challenges that make it difficult for current owner to develop the upper floors.
- Represents a good example of a typical building found in Connecticut's downtowns.

The Reid and Hughes Building and the Williams and Chester Building (known collectively as the Reid and Hughes Building) are located on the south side of Main Street. The four-story Reid and Hughes building was originally built in 1869. The single story Williams and Chester building was added later and subsequently renovated to three stories in 1898. The building is listed on the National Register of Historic Places as part of the Downtown Norwich Historical District. The building has been vacant for approximately 20 years.

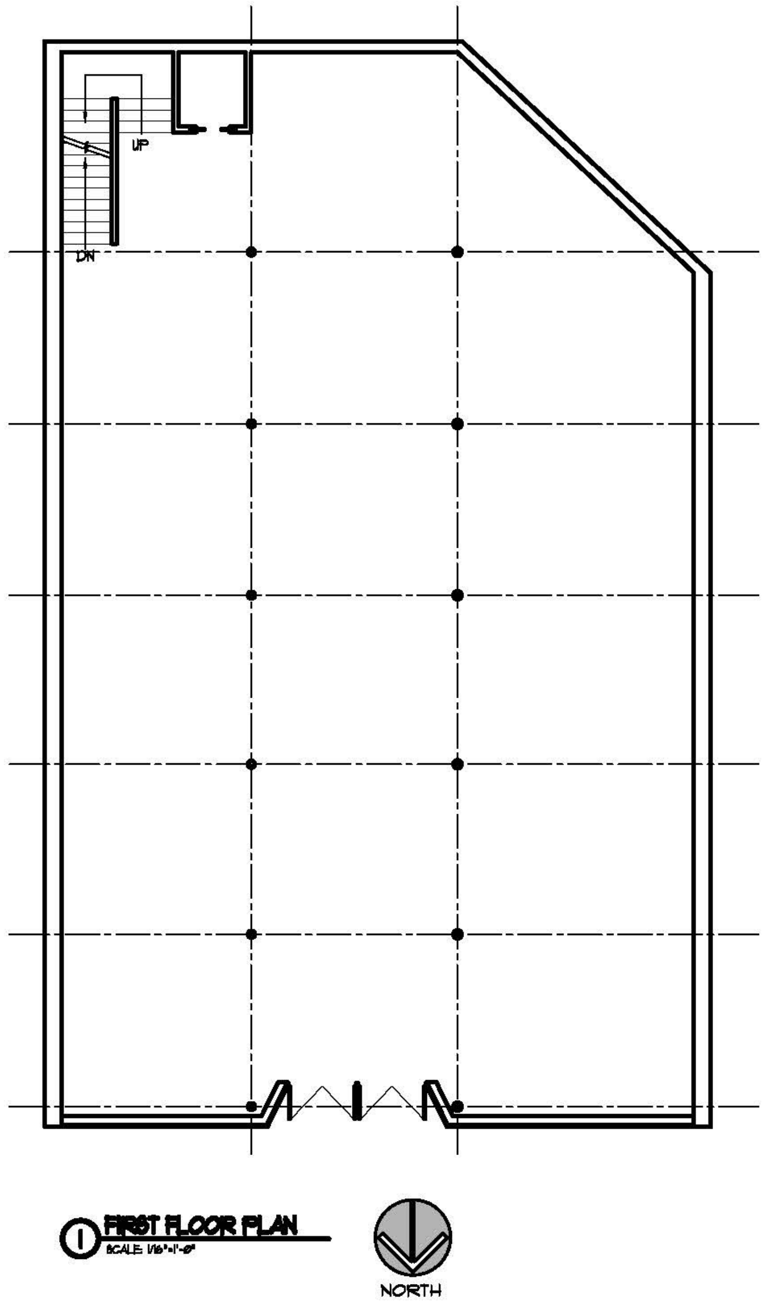
The building is an excellent candidate for redevelopment as a mixed-use property. It is centrally located downtown, which is good for pedestrians. Given the economic climate and current market conditions, residential use is recommended for the upper floors, which have high ceilings and many windows, desirable for residential use.

*For a detailed Model Building Conditions Assessment see the Appendix.*

### Building Plans

#### *Existing Building Schematic*

The following plans show the existing footprints of the buildings.

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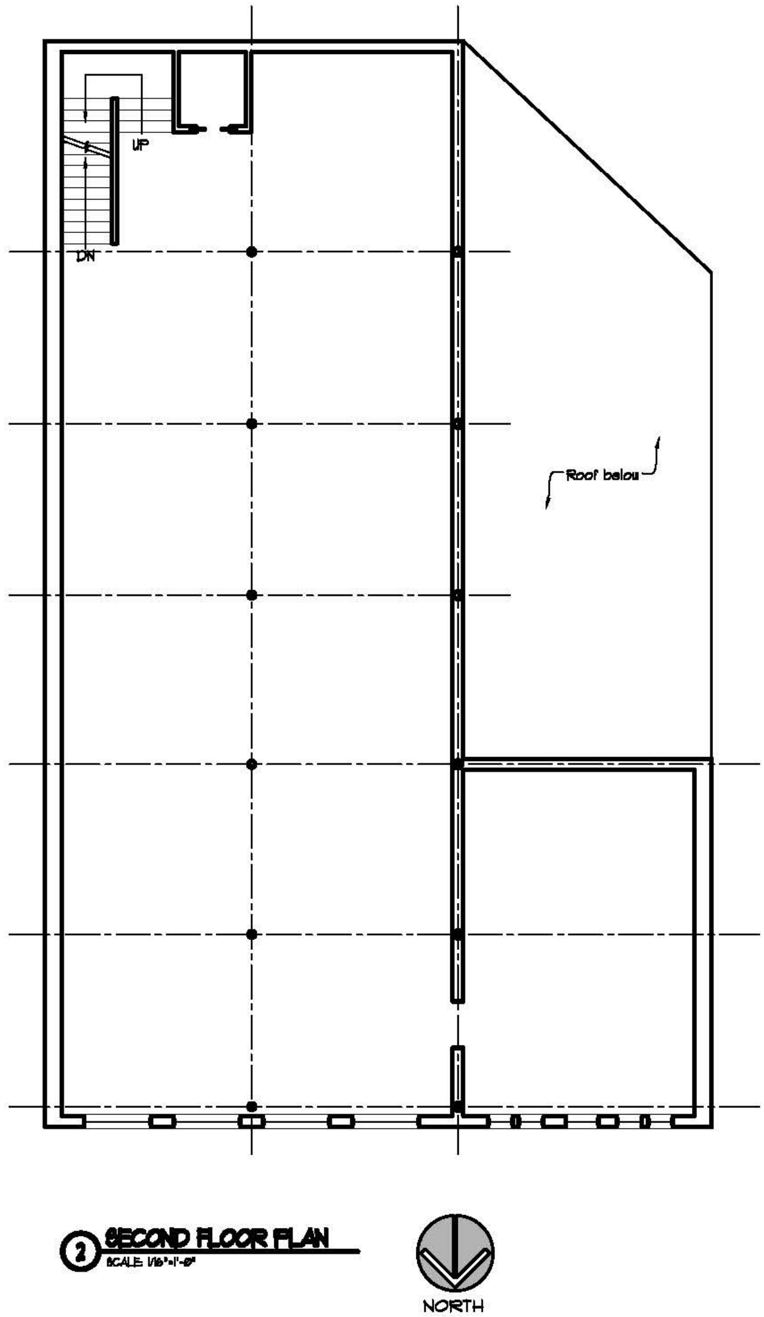
Existing First Floor Plan

**Figure 3: Existing 1st Floor Plans**

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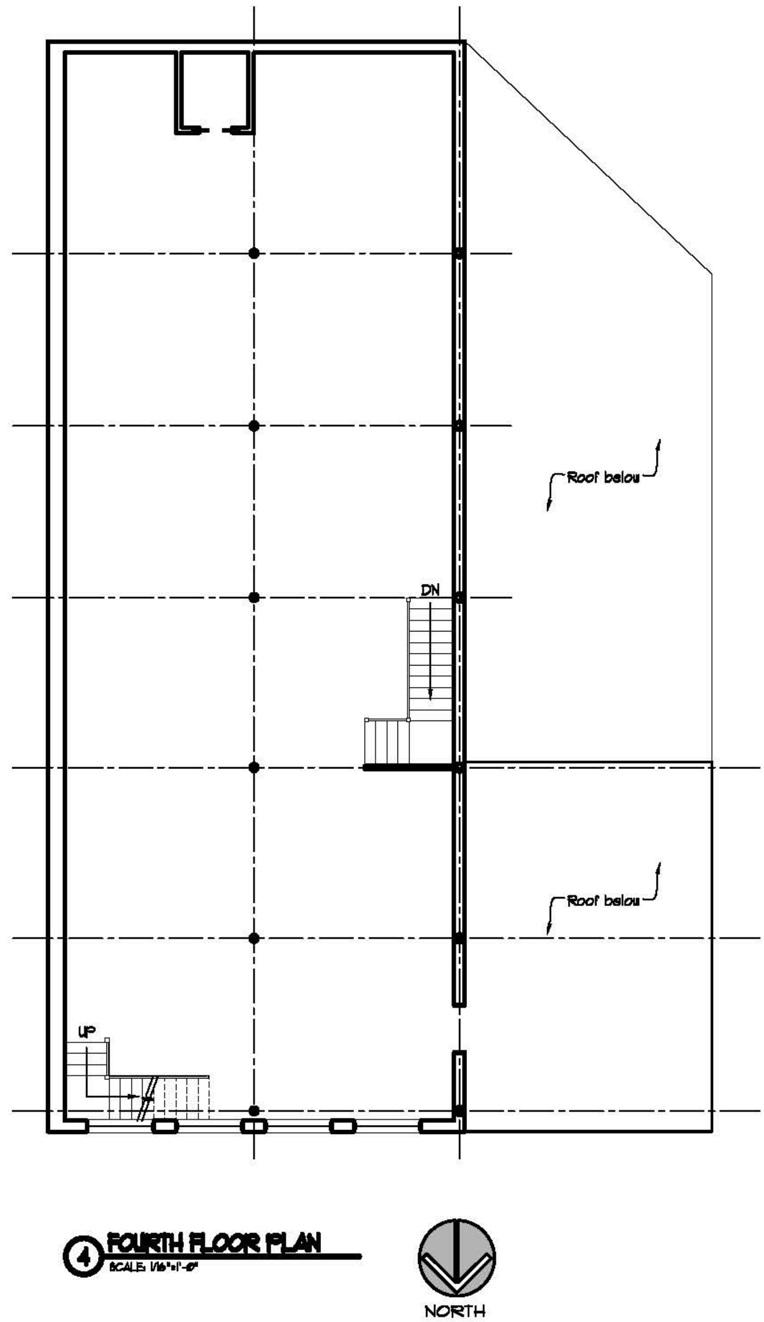
Existing Second Floor Plan

**Figure 4: Existing 2nd & 3rd Floor Plans**

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Existing Fourth Floor Plan

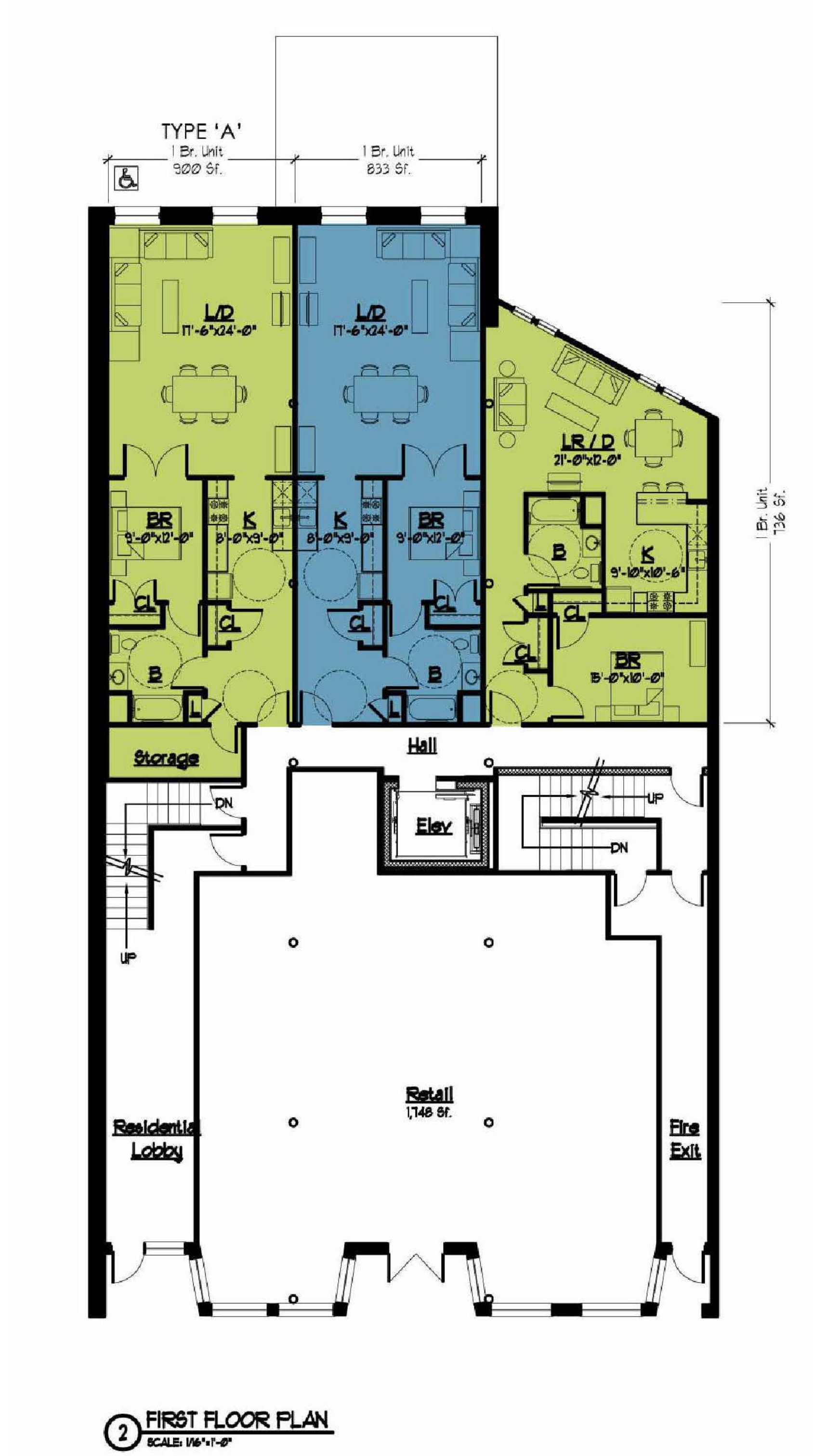
**Figure 5: Existing 4th Floor Plans**

### *Proposed Schematic Design Plans*

Based on the existing building configuration and the need for more apartments in the downtown, the CMSC team redesigned the building into the following mix of units. The 1st floor will have three units.  The second and third floors will have six apartments per floor and the fourth floor will have five units. Units are a mix of studios and 1-bedroom apartments ranging in size from 539 to 900 square feet.

Access to the second, third, and fourth floors is through the residential lobby, entered from street level Main Street. The main staircase, elevator and secondary stair have been moved to the core of the building. A second means of egress, fire exit corridor, is provided on the first floor. A new “L” shaped hallway on the upper floors has been created to center circulation. The secondary stair serves as a second means of egress.

| PROJECT UNIT MIX INFORMATION | | | | |
|---|---|---|---|---|
| Floor | No. of Units | Unit Mix | | SF. |
| | | Studio | 1-Br. | |
| BASEMENT | Ø Units | Ø | Ø | 6,38Ø SF. |
| 1ST FLOOR | 3 Units | Ø | 3 | 6,Ø45 SF. |
| 2ND FLOOR | 6 Units | 3 | 3 | 5,23Ø SF. |
| 3RD FLOOR | 6 Units | 3 | 3 | 5,23Ø SF. |
| 4TH FLOOR | 5 Units | 3 | 2 | 4,455 SF. |
| Total | 2Ø Units | 9 | 11 | 27,34Ø SF. |

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Proposed
First Floor
Plan

**Figure 6: Proposed 1st Floor Plan**


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Proposed Second & Third Floor Plan

**Figure 7: Proposed 2nd & 3rd Floor**


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Proposed Fourth Floor Plan

**Figure 8: Proposed 4th Floor Plan**

## Design & Construction in the Redevelopment Process

Every effort has been made to provide the most practical alternative with a level of quality that will be long-lasting and attractive to renters. The development team (suggested below) should be fully involved in this process, including the five steps of the Architectural Process (outlined below).

Detailed construction costs were provided to the owners and every attempt was made to provide realistic estimates including contingencies and set asides for replacement reserves. The cost estimate includes the following typical interior finishes:

| | Floor | Wall | Ceiling |
|---|---|---|---|
| Living/Dining | Wood | Sheetrock/exposed brick | Sheetrock |
| Bedroom | Wood | Sheetrock/exposed brick | Sheetrock |
| Bath | Ceramic tile | Sheetrock | Sheetrock |
| Kitchen | Ceramic tile | Sheetrock | Sheetrock |
| Lobby | Wood | Sheetrock | Sheetrock |
| Hallway | Wood | Sheetrock | Sheetrock |
| Stairway | Metal pan | Sheetrock | Sheetrock |

Interior trim – paint grade wood
Kitchen cabinets – wood
Counters – Plastic laminate
Doors – 6 panel embossed solid core hardboard

Below are photos of finished apartments with similar finishes.

We recommend that the owners utilize the detailed designs and financial pro formas provided to ask two general contractors to provide their own detailed cost estimates to further confirm these numbers. Contractors, especially local ones, will often provide these estimates free of charge.

## PROJECT FINANCING & ASSISTANCE TO PROPERTY OWNER

Redeveloping older mixed-use buildings in a downtown is one of the most challenging real estate deals to finance and accomplish. This is even truer for the building in this report which represents a pioneering effort for both the City of Norwich and the Norwich Community Development Corporation if successfully redeveloped.

This kind of redevelopment suggested in the Model Building Analysis requires three distinct sets of expertise: 1) project financing, 2) design and construction, and 3) ongoing property management. If the property owner decides to move forward with residential units on the upper floors the development of a team should include:

- **A real estate development consultant** experienced with mixed-use development and financing, including historic tax credits and other financing available from state agencies.
- **A preservation architect** experienced with historic buildings and historic tax credits, who may also be able to assemble other professionals including structural and mechanical engineers.
- **A general contractor**, if the owner does not feel capable of overseeing the ongoing construction directly.
- **A property management professional** to help determine how to best manage the property once it is complete, if the owner feels unable or does not want to perform this function.
- **A real estate professional** to help market the apartments and the first floor commercial use.

CMSC can provide information on where to find the type of team members listed above. Additionally, the Connecticut Trust Historic Preservation maintains a list of qualified preservation architects and consultants at http://cttrust.org/services/architects-preservation/a-z

### Project Financing

In markets like Downtown Norwich, the cost of rehabilitating buildings at this scale typically exceeds the amount of debt and equity that can be raised through traditional private sources. The cash flow these buildings generate simply cannot provide a high enough return to support the investment (total project cost). The difference between the total development cost and the amount of private equity or debt the cash flow could support is the project “gap”. This gap can be addressed by:

1) Bringing in additional financing sources from nontraditional public and/or private sources, and/or

2) Identifying potential reductions in construction or operating costs that can be made without compromising quality or marketability.

In this case, the property owner is provided with a detailed analysis of where the sources of funds could come from to finance the total project costs, along with a detailed analysis of the total development costs.

## Operating Revenue & Project Value

Once complete, Reid & Hughes will contain nine studio and eleven 1-bedroom apartments, and 1,735 square feet of retail. We have assumed the studio apartments will rent for $650/month, the 1 bedrooms for $825/month and the retail space for $6/square foot/year. These estimates are based on discussions with downtown property owners and brokers, and listing data from CoStar (http://www.costar.com ). We estimated operating expenses by looking at comparable properties in Norwich as well as our own experience with other similar properties in the Hartford and New Haven area. The resulting NOI (Net Operating Income) based on these figures is $68,000.

Based on this NOI and an 8% cap rate, we estimate that once the project is complete, the building will be worth $849,000. This means that the projected NOI (see below) would provide an investor with an 8% cash-on-cash return if they purchased and redeveloped the property for a total of $849,000 in cash. Using the cap rate is a simple way to estimate the future property value at this early stage in the development process, but the owner should revise this initial estimate through a formal appraisal and discussions with lenders as they move forward with the project.

### Annual Operating Pro forma Summary

| | |
|---|---|
| **Revenue** | |
| Residential Rents | $179,100 |
| Retail Rents | $10,400 |
| Total (Gross Income) | $189,500 |
| **Less: Vacancy & Credit Loss** | |
| Residential | 7% |
| Retail | 10% |
| Total Vacancy & Credit Loss | $13,500 |

| | |
|---|---|
| **Less: Expenses** | |
| Operating | $74,500 |
| Real Estate Taxes | $24,500 |
| Capital Reserves | $9,000 |
| Total Expenses | $108,000 |
| **Net Operating Income** | **$68,000** |

## Development Costs

The total development cost (TDC) includes all of the hard construction costs, design fees (architects, engineers), financing costs (loan origination fees, construction loan interest, etc.), other fees & expenses (lawyers, accountants, etc.), developer fee and capital reserves needed to complete the building's rehabilitation into 20 apartments and 1,735 square feet of retail. The costs shown here are based on construction estimates put together by the architect and a general contractor as well as the development consultant's experience with similar projects in Connecticut. Altogether, the TDC is equal to $228/square foot, which is high for mixed-use, historic rehabilitation projects in Connecticut. This is the result of the building's very poor condition, which requires extensive reconstruction and new construction in order to make it usable once again.

### Total Development Costs (TDC)

| | |
|---|---|
| Construction Hard Costs | $4,060,000 |
| Construction Contingency | $812,000 |
| Architectural/Engineering | $248,000 |
| Finance & Interim Costs | $280,000 |
| Fees & Expenses | $179,000 |
| Capitalized Reserves | $75,000 |
| Site Acquisition | $1 |
| Developer Fee | $558,000 |
| **Total Costs** | **$6,225,001** |

## Sources of Funds

To determine the amount of equity and debt the project might be able to support, we talked to NCDC, the potential option holder, in order to determine the amount of investment they would be willing to make in the project. We also estimated the amount a bank might loan the project, and assumed that the owner would take advantage of State Historic Tax Credits as an additional equity source, since the project as designed would undoubtedly qualify for the program.

| Sources of Funds | |
|---|---|
| **Equity** | |
| Private Equity | $300,000 |
| State Historic Tax Credits | $1,218,000 |
| **Financing (Debt)** | |
| First Mortgage Loan | $637,000 |
| **Gap** | |
| Additional Funds Needed | $4,070,001 |
| **Total Sources** | **$6,225,001** |

- We assumed a private equity investor, in this case the owner, would be willing to invest $300,000, likely as a deferred developer fee, in exchange for a 10% internal rate of return on their investment.
- The State Historic Tax Credit is a State of Connecticut program that provides owners of historic properties with tax credits equal to 25% of hard construction costs for rehabilitation projects. The National Development Council's financing arm recently committed to purchasing tax credits for another project in Norwich. If NDC or another organization will then buy the credits for 100 cents on the dollar, this could provide $1,218,000 of additional equity for this project.
- We assumed a bank would be willing to lend 75% of the estimated building value, which is $637,000.

## The “Gap”

Our financial analysis indicates that an additional $4,070,001 of debt, equity and/or reduced expenses is needed to have a financially viable project. This is typical for neglected mixed-use buildings in Connecticut’s post-industrial town centers where rents often cannot justify the cost of construction.

### *Potential Gap Financing Sources*

As defined above, the “gap” is the amount of project cost in excess of the amount of income that can be generated through cash flow or sale. While this may not make economic sense on its own, it does make sense where: a) the property is a significant community asset; b) its redevelopment has the potential to stimulate positive economic growth in the area; and c) there are funding sources with grant and equity available that can fill or reduce the gap.

In the case of the Reid and Hughes Building, its historic character and its strategic location in Downtown Norwich make it a priority for funding programs with historic preservation or community revitalization as a goal. In addition, funding programs for affordable housing may be used to the extent that this goal is consistent with those of the developer and the community.

The following is a list of programs that currently offer funding that could be used for the Reid and Hughes building:

***State and Federal Historic Tax Credits***
Given the historic character of the building, these tax credits could be used to provide equity toward the rehabilitation. The pro forma above includes the use of State Historic Tax Credits. The Federal Historic Tax Credits could offer an additional amount of equity, but with one caution: the Federal program is more complex to use. Because of this, it can be difficult to utilize the federal historic tax credits for smaller projects. However, there are examples of local investors or property owners who have benefited from these tax credits because they have a sufficient amount of taxable passive income.

- *Federal Historic Rehabilitation Tax Credits* - A 20% federal tax credit is available for the rehabilitation of “certified historic structures”. The building is certified by the State Historic Preservation Office (SHPO). For larger projects, these credits are usually syndicated to attract an investor. However, the credit may be used by the owner in some cases. To see if this will work for the Reid and Hughes Building, it is important to have an accountant review the requirements of the credit. For more information, visit: http://www.nps.gov/tps/tax-incentives/before-you-apply.htm

- *The Connecticut Historic Rehabilitation Tax Credit Program* - This program provides a 25% tax credit on the Qualified Rehabilitation Expenditures associated with the rehabilitation of a Certified Historic Structure for either: 1) residential use of five units or more; 2) mixed residential and nonresidential use; or 3) nonresidential use consistent with the historic character of such property or the district in which such property is located. A 30% tax credit is available for projects that include affordable housing with at least 20% of the units affordable.

  The project plans must be reviewed by the State Historic Preservation Office (SHPO). Once the project is approved for the tax credit, SHPO will provide a letter reserving the credits for the project. The developer then finds a corporation to provide funding in return for the tax credit. When the project is completed and approved by SHPO, the funding is provided to the developer.

  For a for-profit, there may be a tax implication of receiving the tax credit equity. It is important to review the program with an accountant to be sure. More information on the program can be found at: http://www.ct.gov/cct/cwp/view.asp?a=3933&q=430786

***Community Investment Act - Historic Preservation and Affordable Housing***
The Community Investment Act provides state funding for historic preservation, open space, farmland preservation, affordable housing and dairy farming. The source of funds is a recording fee on real estate transactions that is shared between municipalities and the State of Connecticut. These funds are administered through state departments including the Department of Economic and Community Development for historic preservation and Department of Housing for affordable housing. The Reid and Hughes building may be eligible for these funds. The use of the funds for affordable housing will require the developer to designate some of the units for tenants with incomes at or below 80% of the area median income. The historic preservation funds are accessed through the Connecticut Trust for Historic Preservation and SHPO. CMSC can advise on how to access funds from both organizations.

***Commercial and Industrial Property Assessed Clean Energy (C-PACE)***
This program is administered by the Connecticut Clean Energy Finance and Investment Authority allowing building owners to finance energy efficiency and clean energy projects by placing a voluntary assessment on their property tax bill. This program can provide 100% upfront financing for qualified energy upgrades. The financing is structured to be cash-flow positive, which means the monthly energy costs are reduced by more than the cost of financing the improvements. See also: www.c-pace.com

***Norwich Downtown Revitalization Program***
The Reid and Hughes building is located within the city's Downtown Revitalization Program boundaries. The property may be eligible for up to $100,000 in Code Correction grant assistance, up to $100,000 in Revolving Loan Program debt and Retail and Residential tenants of

the property may be eligible to receive quarterly rebates on paid leases. See the NCDC website for more details: http://www.askncdc.com/programs-incentives/revitalization-program/

***Norwich Enterprise Zone***

The Reid and Hughes building is located within the city's Enterprise Zone. The property may be eligible for a seven-year real property tax exemption on any increase in real property taxes that comes as a result of a building rehabilitation. The requirement for rental property is that any dwelling unit must be rented to a person whose income is less than 200% of the median family income for the City. The standard abatement schedule is as follows:

| Year | Percentage of Assessment Deferred |
|---|---|
| Year 1 | 100% |
| Year 2 | 100% |
| Year 3 | 50% |
| Year 4 | 40% |
| Year 5 | 30% |
| Year 6 | 20% |
| Year 7 | 10% |

Abatement requests require approval of the City Assessor. The brochure for the program can be found at the Norwich Community Development Corporation (NCDC) website: http://www.askncdc.com/wp-content/uploads/2013/07/Norwich-Urban-Enterprise-Zone-Brochure-Reduced.pdf

***U.S. Department of Housing & Urban Development (HUD) - Section 108 Loan Guarantee Program***

Under this program, HUD offers communities a source of financing for certain community development activities, such as housing rehabilitation, economic development, and large-scale physical development projects. As an entitlement community, the City of Norwich can apply for a loan equal to an amount up to five times their annual CDBG grant for projects in these categories . Developing a Section 108 loan guarantee program requires a good deal of advance work. The City would have to apply to HUD, and a specific program would need to be structured for the property. Some cities have used Section 108 loan guarantees to create a community development loan pool. Worcester, Massachusetts has a $29 million loan guarantee program in place to assist projects that conventional lenders may consider as too high a risk to move forward. More information on the Section 108 program can be found online at the HUD's website:
http://portal.hud.gov/hudportal/HUD?src=/hudprograms/section108

***Urban Action Grant Program***

The State of Connecticut can provide these discretionary grants to municipalities meeting certain statutory criteria. The program is open to towns designated as:

1) Economically distressed (as defined by CGS § 32-9p(b)),
2) Public investment communities, or
3) Urban centers under the state's Plan of Conservation and Development.

Eligible projects include economic development, transit, recreation, solid waste disposal, housing, day care, elderly centers, emergency shelters, historic preservation, and various urban development (CGS § 4-66c). Norwich is eligible for these grants. They are typically accessed through the State legislator with input and support from the city. It is difficult to use this program for a single building, particularly a small one. However, the building could perhaps be combined with others for a request. If the city has recently received an Urban Action Grant, it may be difficult to receive another at this time. The advantage of the program is that it has the flexibility to do mixed-use buildings and does not carry income restrictions.

***Affordable Housing Programs***

There are several affordable housing programs that could potentially provide gap financing if the developer is willing to designate some of the units as "affordable" and agrees to charge rents that are affordable to tenants with incomes at or below 80% of the area median income. Some programs enable the restriction to be at or below 100% of the area median.

***Connecticut Department of Housing (DOH)***

DOH has several programs that might be a source of gap financing for the Reid and Hughes building. Most of these require a competitive process and the completion of the State Consolidated Application. The schedule of these funding rounds can be found at the DOH website: http://www.ct.gov/doh/lib/doh/funding_schedule_fy_2016.pdf. The applications for these programs are rigorous and detailed, so some specialized consulting help will likely be necessary.

- *Competitive Housing Assistance for Multifamily Properties (CHAMP)* - This program provides funding for the development of affordable multi-family rental housing. This program has periodic competitive rounds. It is a highly competitive process with a scoring system of points for particular aspects of the project, including points for Transit Oriented Development (TOD), mixed-income development, track record of the developer and readiness to proceed. Points are also earned by projects that serve households with lower incomes, such as 50% or 30% of the area median. The next round is CHAMP 8 with the deadline of December 2, 2015. The NOFA is expected to be released in September.

- *Affordable Housing Innovations – Small Projects* - This program offers funding for projects that incorporate innovative approaches with respect to design, location, construction costs, operating costs, environmental sustainability, affordability,

and/or the incorporation of support services, and have the potential to be replicated on a larger scale. The DOH schedule shows that there is a round for small projects scheduled for October 15, 2015. The Reid and Hughes building project would be considered to be a small project.
http://www.ct.gov/doh/lib/doh/doh_housing_innovations_round_nofa_8-31-15.pdf

- *Just In Time Project Funding* - This new program provides funding for developers of market-rate residential or mixed-use rental projects for which all necessary funding and discretionary approvals have been obtained and who are interested in a subsidy to enable them to restrict a portion of the units at an affordable level. Affordable units must be affordable to persons with incomes no higher than 80% of the Area Median Income, but lower affordability thresholds are strongly encouraged. All affordability restrictions must remain in the project for a minimum of 15 years. Requests should be for $500,000 to $1,500,000. Applications are accepted on a rolling basis and funding is still available. This funding will require verification of tenant incomes and other monitoring for the full 15 year period. Some property management firms can provide this service along with standard property management.The Notice of Funding Availability (NOFA) can be found on the DOH website: http://www.ct.gov/doh/lib/doh/just_in_time_nofa.pdf

For these programs, it is best to meet directly with DOH staff to discuss the project and the potential of these programs. The CHDT team can advise on staff contacts.

***Federal Low Income Housing Tax Credits (LIHTC)***
These federal credits are available to for-profit and non-profit developers to acquire, rehabilitate and/or build low- or mixed-income housing. The credits are allocated to the developer and then are sold to an investor who can take the credit off of their tax liability. The proceeds of the investor sale are used by the developer as equity in the project. The investor takes an ownership stake in the project for a 15 year period along with the developer. There are substantial compliance requirements during that period.

The program is administered in Connecticut by the Connecticut Housing Finance Authority (CHFA). It is a highly competitive process. Developers with no LIHTC experience are not likely to compete successfully, so this would be a source most likely used if a development partner was available to NCDC. As with some of the DOH sources, this is a complex program and the engagement of a consultant would be advisable. More information is available on the CHFA website:
http://www.chfa.org/Rental%20Housing/for%20Developers%20and%20Sponsors/Funding%20Initiatives/Tax%20Credit%20Programs/LIHTC%20Program.aspx

***State Housing Tax Credit Contribution Program (HTCC)***

CHFA also offers state tax credits for affordable housing to non-profit developers to create housing for low- and moderate-income families. A non-profit corporation can receive up to $500,000 annually in state tax credits which can then be sold to state business firms in return for cash contributions to the non-profit corporation's housing program. In contrast to the Federal LIHTC, the State HTCC is a tax credit for a charitable contribution and does not require an ownership stake for the investor who purchases the credit. Each year CHFA allocates up to $10 million in state HTCC tax credits on a competitive basis to non-profit corporations. For more information, see CHFA's website: http://www.chfa.org/Rental%20Housing/for%20Developers%20and%20Sponsors/Funding%20Initiatives/Tax%20Credit%20Programs/HTCC%20Program.aspx

***Federal Home Loan Bank of Boston***

The Federal Home Loan Bank (FHLB) offers funding through the Affordable Housing Program (AHP). This program offers grants to developers and offers subsidized loan capital to participating banks who are providing financing to projects with AHP grants. As with DOH, these funds are offered through periodic competitive rounds. Support of a participating FHLB lender is required. The scoring for the program does require specialized expertise, so consulting help is recommended. The deadline for the current round of AHP was September 15, 2015. However, these rounds occur every year, so it is not too early to begin to speak with banks for next year. More information can be found on the FHLB of Boston website: http://www.fhlbboston.com/communitydevelopment/ahp/index.jsp.

***Tax Increment Financing (TIF)***

During the past Legislative Session, the General Assembly unanimously approved new legislation for Tax Increment Financing. The new legislation enables a municipality to use the projected new tax revenue from an improvement to finance that improvement up front. It allows for the use of TIF for a much broader range of community expenses than previously allowed and does not require state approval, although a district master plan must be created and approved locally. This newly adapted tool will make it easier for localities such as Norwich to provide gap financing and implement other downtown revitalization strategies. CMSC can provide more information on the new program.

In addition to these incentives, there is another new financing source that was developed specifically for this program and can provide financing for the redevelopment for the Reid and Hughes building.

***Come Home to Downtown Revolving Loan Pool***

CMSC has secured $1 million from the Connecticut Housing Finance Authority (CHFA) through the Community Investment Act to provide specialized financing for projects in the CHDT program. This fund will provide predevelopment, bridge, construction and mini-perm financing for projects. The purpose of this financing is to assure project completion and to leverage other financing to support the project.

- *Predevelopment Project Investments* - Up to $50,000 is available at 2% for 18-24 months for predevelopment expenses that are necessary to secure financing commitments. These investments are unsecured.
- *Project Loans* - Loans are secured and have an interest rate of 6%. Predevelopment, bridge and construction loans will have a term of up to 24 months. Mini-perm loans may have a 3-5 year term. The mini-perm loans are intended to be repaid through a refinance when the project is at stabilized occupancy.

  CMSC contracts with Local Initiatives Support Corp. (LISC) to underwrite, close and service these loans. CMSC and LISC can provide more detail on this fund.

*See also Development Tools and Incentives in the Appendix.*

## REAL ESTATE DEVELOPMENT

### Developer Capacity

The Norwich Community Development Corporation (NCDC) has expressed an interest in being the developer of last resort for the Reid & Hughes building. NCDC is uniquely positioned to develop this building. Real estate development is part of their mission and they have some experience. They also act as an intermediary between the city and the business sector of Norwich. NCDC also has in-depth knowledge of the property from their previous efforts to market the Reid & Hughes Building to developers.

As NCDC assesses this opportunity, there are some aspects of developer capacity to consider. A developer is most likely to be successful when there is both technical and financial capacity to support the development of the project. The technical capacity is made up of the developer's experience and knowledge along with that of the development team (architect, engineer, attorney, development consultant). The developer also needs the financial capacity to secure project financing and support the project through to completion, occupancy and operation. Financial capacity does not mean that the developer has all of the financing in hand. It simply means that the developer has an organization with enough working capital and the financial strength to take on debt and equity commitments.

There are several ways to expand developer capacity, if necessary:

1) Hire a development consultant who has expertise with similar projects and financing sources.

2) Work with a partner who has a track record and/or financial strength to secure the financing and complete the project.
3) Identify an investor who is willing and able to lend their financial strength to leverage other financing.

Each of these options should be negotiated and formalized with a written legal agreement reviewed by NCDC's attorney.

The CHDT team can assist NCDC in assessing their options and preparing to be the Reid & Hughes developer.

### Real Estate Development Process

The real estate development process varies slightly depending on the type of project, but there are several basic steps that occur in most projects. These are: project concept, feasibility assessment, predevelopment, construction and occupancy/operation. The chart on the following page describes typical phases of development relevant to CHDT properties. The work of the CHDT program focuses on the Development Concept phase (see also the chart below) of the process. In that phase, CHDT helps the owner to evaluate the building, develop schematic designs, and create possible financing scenarios.

With expertise from the CHDT team architect and financing consultant, the owner will have a preliminary design, rough cost estimates and potential sources of financing. The CHDT goal in the concept phase is to provide the owner with sufficient information to make the decision about whether or not the project is possible.

Once the development concept is refined and acceptable to the owner, the next step is to determine if the project is physically and financially feasible. During the Project Feasibility Assessment phase, the CHDT team can help the owner to look at physical conditions (including environmental conditions), assess the potential market for the completed property, and examine the availability and likelihood of project financing. The CHDT team can also help the owner to identify consultants as well as potential funding sources to pay for feasibility analysis, if that is required.

During the Project Feasibility phase the owner should identify and engage the project development team and define any regulatory actions that will be required to proceed (variances, special permits, etc.). By the end of this phase the owner should have refined the design and costs to the point where a preliminary development and operating budget can be created showing specific financing and funding sources. With this information, the owner should have enough information to make the decision to proceed with the project or to take another path.

As the project moves into the Predevelopment portion of the process, more of the project is defined and applications for financing are finalized. CHDT can provide predevelopment financing to pay for a portion of the work required to secure financing and regulatory approvals. By the end of the predevelopment phase, the design drawings and specifications and the financing commitments have to be in place in order for construction to proceed. The predevelopment phase is often the major part of the project, even before there is construction.

During the Construction phase, the main task for the owner is to insure that the project is being completed according to designs, on time and within budget. However, it is also time to begin the marketing of residential units so that there is not a large gap between project completion and occupancy. By the end of construction the owner must be able to demonstrate to investors and regulators that the project has been completed according to the design plans and within the financing plan. If the project has used subsidy sources (tax credits or grants) the owner/developer must show that the completed project fulfills all of the requirements of those subsidy sources.

The official threshold for occupancy is the certificate of occupancy provided by the municipality. Once this has been given, tenants can move in and the property moves to operation.

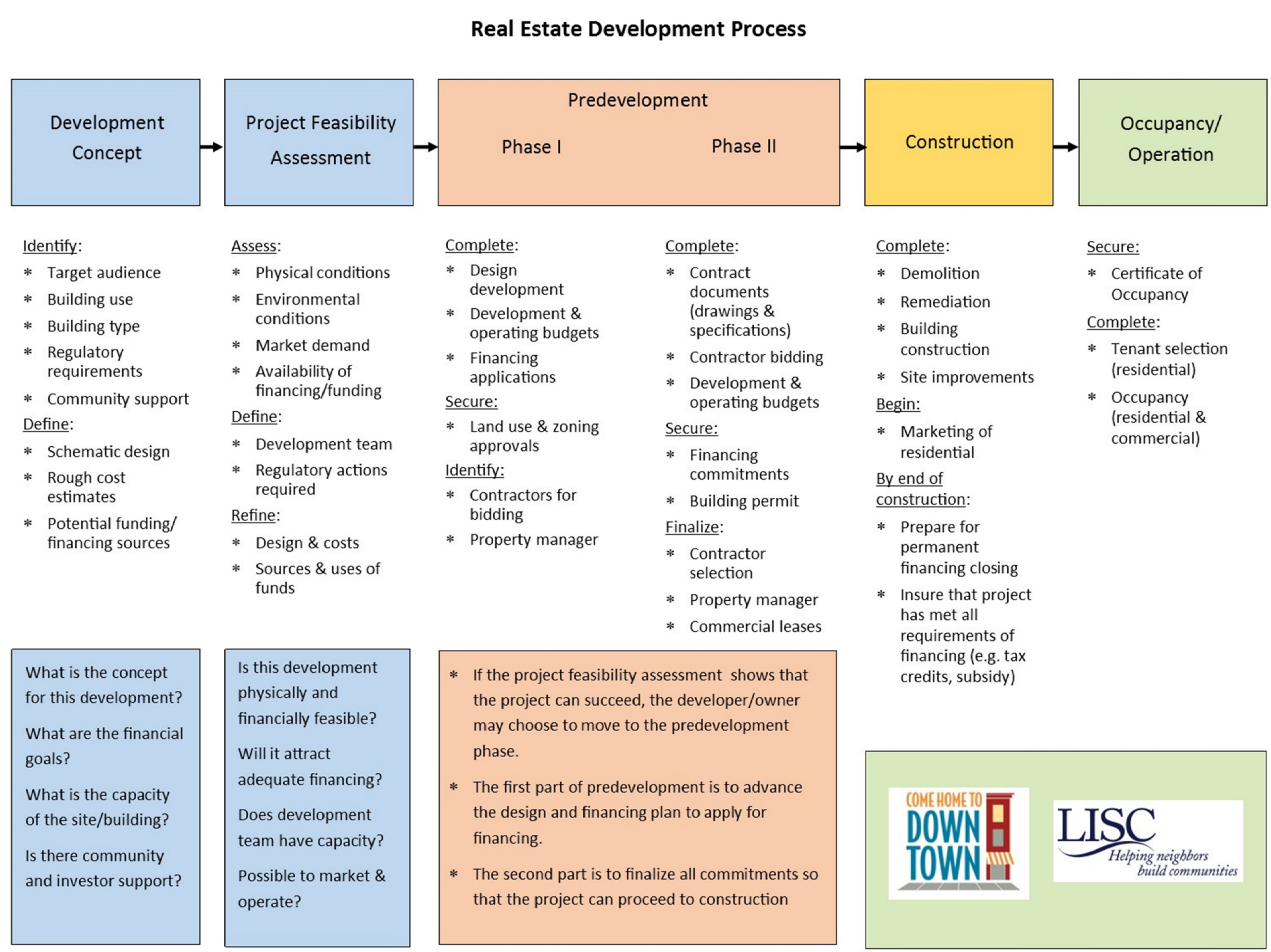
Real Estate Development Process
Development Concept
Project Feasibility Assessment
Predevelopment
Phase I
Phase II
Construction
Occupancy/ Operation
Identify:
* Target audience
* Building use
* Building type
* Regulatory requirements
* Community support
Define:
* Schematic design
* Rough cost estimates
* Potential funding/ financing sources
Assess:
* Physical conditions
* Environmental conditions
* Market demand
* Availability of financing/funding
Define:
* Development team
* Regulatory actions required
Refine:
* Design & costs
* Sources & uses of funds
Complete:
* Design development
* Development & operating budgets
* Financing applications
Secure:
* Land use & zoning approvals
Identify:
* Contractors for bidding
* Property manager
Complete:
* Contract documents (drawings & specifications)
* Contractor bidding
* Development & operating budgets
Secure:
* Financing commitments
* Building permit
Finalize:
* Contractor selection
* Property manager
* Commercial leases
Complete:
* Demolition
* Remediation
* Building construction
* Site improvements
Begin:
* Marketing of residential
By end of construction:
* Prepare for permanent financing closing
* Insure that project has met all requirements of financing (e.g. tax credits, subsidy)
Secure:
* Certificate of Occupancy
Complete:
* Tenant selection (residential)
* Occupancy (residential & commercial)
What is the concept for this development?
What are the financial goals?
What is the capacity of the site/building?
Is there community and investor support?
Is this development physically and financially feasible?
Will it attract adequate financing?
Does development team have capacity?
Possible to market & operate?
* If the project feasibility assessment shows that the project can succeed, the developer/owner may choose to move to the predevelopment phase.
* The first part of predevelopment is to advance the design and financing plan to apply for financing.
* The second part is to finalize all commitments so that the project can proceed to construction
COME HOME TO DOWN TOWN
LISC
Helping neighbors build communities

Figure 10

## Understanding the Architectural Process

The Architectural Process is part of the Real Estate Development Process and there is overlap between the two. The project architect is a key member of the development team. For instance, during the CHDT process the architect has taken the lead in assessing the design environment and in developing preliminary design and cost estimates.
There are five steps involved in the building rehabilitation process, as outlined below. The information provided in this report completes the first phase, Schematic Design, for 193-201 Main Street. The next step for these buildings is to assemble the project consultant team and continue with phases two through five.

1. **Schematic Design** - During this phase, the architect evaluates the owner's program, schedule, and budget. The building's existing conditions will be documented with floor plans. These drawings will form the basis for the new schematic site plans, building plans, and elevations. The architect will develop a preliminary code analysis of the building and a statement of probable construction cost.

2. **Design Development** – The next design phase, Design Development, is a more in-depth study of the schematic design with respect to materials, construction, and detailing. The schematic design is refined and brought into focus in preparation for the Contract Document phase. During Design Development the site plan, building plans, apartment unit plans, and exterior elevations are finalized, along with structural, mechanical and electrical concepts. The code evaluation and statement of probable cost are updated. We recommend contacting two contractors to verify the costs at the conclusion of Design Development. Local builders may be willing to provide this service pro bono.

3. **Contract Documents** – Once Design Development is complete, documentation of the project's design will be completed in the form of drawings and specifications: the Contract Documents. These documents, produced by the architect and engineers, are used to obtain competitive bids from contractors and necessary permits. The architect will assist the owner and contractor with submission of documents for approval to the Building Department, Fire Marshal, and utility companies.

4. **Bidding** – During the bidding phase, general contractors are invited to submit pricing for the project. The architect will prepare the invitation to bid, issue addenda and clarifications as required, and review bids with the owner. If necessary, the architect will meet with the bidder to discuss value-engineering items and prepare addenda modifying the scope of the contract documents. The architect will assist the owner with awarding of contract and will also assist the owner and the contractor with submission of documents for approval.

5. **Construction** – During construction, the architect will make visits to the site and meet with the contractor to review progress of the work on the owner's behalf. The

architect's construction services generally include periodic site visits and job meetings, job meetings minutes, processing of shop drawings, submittals, change orders, application for payment, and preparation of the final punch list (list of tasks/items necessary for the completion of the project).

## ONGOING PROPERTY MANAGEMENT

Typically, property owners can benefit from assistance with marketing and managing the property. It is very important that the property owner considers the plans for property management early on in the development process. The property might be self-managed or management can be contracted out to a third-party management entity. The property manager assists the owner with identifying tenants, securing leases, collecting rents, providing reports to the owner and overseeing and managing property maintenance. Property management typically includes the following functions:

- Marketing
- Tenant Qualification & Selection
- Rent Collection
- Bookkeeping and financial management
- Payment of bills including: utilities, taxes, insurance, maintenance, etc.
- Management of maintenance and repair
- Compliance (if required)
- Preparation of reports to the owner

For smaller properties, it may be difficult to attract a quality property manager. It is best to begin with those that already manage like properties in the community. This way, the owner can see the local results of the property manager's work and the manager can achieve economies of scale by combining these properties with others nearby.

When working with a property manager, the owner's job is to oversee the manager to be sure that the asset (the property) is performing. The owner should expect regular financial and management reports, with regular communication from the property manager.

If public subsidies are used in the project, there is usually some level of compliance and reporting required after the occupancy of the property. Some property managers have this expertise and can provide that service.

The CHDT team can provide model scopes of work for property managers and assist the owner with model scopes of work for property managers and guidelines in choosing a property manager.

There are property management firms and networks of property owners in Connecticut that can be of help.  Some networks offer workshops on how to be a good landlord, screen tenants and manage property. CMSC can provide contact information for these property owner networks and resources.

# Findings & Recommendations

## FOR THE CITY OF NORWICH

The City of Norwich is moving in the right direction, taking steps to support and encourage downtown revitalization. Come Home to Downtown's Downtown Development Audit has identified a number of recommendations that Norwich should implement in order move forward with revitalizing their downtown.

## DOWNTOWN DEVELOPMENT AUDIT

The purpose of the Downtown Development Audit is to identify the assets, challenges, and opportunities for redevelopment in Norwich. Our findings can help develop strategies to attract development that adds economic value consistent with the community's values. The audit is intended to provide guidance to enhance the municipality's ability to organize and seek out growth potential, especially regarding mixed-use development in downtown.

During the audit process, we examined the City of Norwich's regulations for land use, development and buildings and looked at how they encourage and/or restrict redevelopment. The following is a discussion of our findings.

### Regulatory Environment & Land Use Controls

The City of Norwich Zoning Ordinance is broken down into three categories and subdivided accordingly (City of Norwich Zoning Regulations 2003). The Reid and Hughes building is located in the Chelsea Central District (CC). The purpose of this zoning district is to ensure that development within historic downtown Norwich complements and preserves the city's historic character, that it improves economic conditions, and promotes development that is consistent with the goals and objectives of the downtown plan of development. The zoning regulations are clear, comprehensive and amenable to sustainable development, redevelopment and adaptive reuse of the existing building stock. The Chelsea Central District section illustrates the city's intent to foster the redevelopment of existing buildings of significant historic and architectural character. This accounts for the existing historic fabric and conditions found downtown, including building setbacks, building coverage/lot occupancy, residential density, and parking among other factors.

#### *Zoning*

From a developer's point of view, zoning regulations need to be clear, well defined, and practical. The zoning review process needs to be predictable so that developers can calculate their risk. Zoning regulations should make allowances for pre-existing conditions such as the higher density and pedestrian environment of the Downtown District. Norwich's Zoning Regulations address many of these concerns very well with the exception of the required minimum square footage (see below). The current zoning regulations recognize the varied existing conditions of the Chelsea Central District.

The Chelsea Central District requires a special permit for residential use on first floor and requires a two-thirds vote of the Commission on the City Plan. The regulations also require that each unit be a minimum of 600 square feet. A site plan is required for any change in use, however this requirement can also be waived (City Norwich Zoning Regulations 2003).

The regulations also allow the Commission to waive parking requirements in this zone if adequate parking is provided in nearby public or private lots, close proximity of public transit, or request is based on a project rating high on the historical system that include projects renovated to reflect the historic character of a building such as this one (City Norwich Zoning Regulations 2003).

*See also Development Tools and Incentives in the Appendix.*

### *Zoning Recommendations*

Based on the requirements above, two changes are recommended that would help to further encourage redevelopment of buildings in the Chelsea Central District. The following recommendations consider economic feasibility:

1. Change the one bedroom minimum floor area to 525 square feet.
2. Continue to allow for residential use on the first floor that does not immediately abut a public street or sidewalk provided that is the most economical use of space. Include a clarification that would exclude buildings with a raised rear elevation from obtaining a special permit.

A new draft zoning ordinance has been proposed and may be passed later in October 2015. The new regulations would support this proposed redevelopment plan. However, since the draft ordinance has not yet been adopted, the team has made the above recommendations. As provided by the City of Norwich Zoning Enforcement Officer (August 2015), the proposed zoning ordinance will remove the minimum floor area requirements and establish a density requirement of one unit per 300 square feet of lot area. The City Assessor indicates the property is 0.21 acres (9148 SF/300 SF= 30 units).

### *Building & Fire Code*

As in most states, buildings built or renovated in Connecticut are regulated by the International Building Code or the International Existing Building Code, respectively, as modified by the State of Connecticut, and become the State of Connecticut Building Code. The governing fire code is the Connecticut Fire Safety Code. Local officials are tasked with enforcing the codes and cannot modify them. Modifications to the code or interpretations of the code can only be provided by the State of Connecticut Building Official's Office and/or the State of Connecticut Fire Marshal's Office.

Based on the schematic design for the Reid and Hughes building, we have reviewed the building code requirements to determine compliance. The building needs to comply with the International Existing Building Code as a Level 3 Alteration (i.e. a project with a work area that exceeds 50% of the aggregate area of the building). As with many older structures, this building does not meet the requirements of today's building and fire safety codes. Compliance with all codes should be strived for during renovation, but due to the construction and the configuration of the existing building we may not be able to comply with some requirements. The code allows, through Article 12 Compliance Alternatives, some of these existing non-compliant items to remain non-compliant by providing additional safety features. If the mandatory safety scores can be met, it is not necessary to comply with all the code requirements.

The CMSC team evaluated the proposed renovated building's safety using Article 12's compliance chart, (See the Appendix) from the International Building Code (International Building Code Council 2012). In order to meet the minimum safety scores, the building will need a new central alarm system that includes voice/alarm with fire command station, revisions to, or replacement of, the existing automatic sprinkler system, smoke detectors, a two-hour separation between the corridors and stairways, and emergency lighting.

### *ADA Compliance*

The Connecticut building code does not require apartments on the upper floors of buildings to be accessible unless the building has an elevator. There is no requirement for a multifamily building to have an elevator, but if it does, then all units must be Type A or B accessible. Two of the proposed units for this building are Type A units, completely accessible. The remaining units are Type B, which means they could be easily upgraded to Type A units.

## BUILDING DOWNTOWN MANAGEMENT CAPACITY

Looking beyond the model building itself, the downtown management function can have a strong impact on promoting mixed-use development. For the past 50 or more years, downtowns throughout the country have experienced a cycle of disinvestment while suburban shopping malls have flourished. One of the reasons for this is that malls have single owners and robust management teams in place. In the past two decades, more and more downtown leaders came to the realization that their downtowns would continue on a downward spiral unless they developed a unified management team and/or partnership. Creating a downtown management entity is even more critical considering that downtown is comprised of many property and business owners with very diverse opinions and levels of commitment.

Downtown management programs come in many forms. The two most common programs are: 1) the Main Street Approach to Downtown Revitalization™ developed by the National Trust for Historic Preservation and utilized by the Connecticut Main Street Center; and 2) Business Improvement Districts or Special Service Districts. Both concepts utilize a comprehensive approach to downtown revitalization that focus on:

1) Building the capacity to implement initiatives on an ongoing basis.
2) Marketing the downtown.
3) Ensuring the public realm is safe and inviting especially for pedestrians.
4) Improving the downtown economy with the right mix of uses for the given market.

### Creating a Norwich Downtown Partnership

The Norwich Community Development Corporation (NCDC) has expressed the desire to both redevelop the Reid and Hughes building (with the appropriate development team) and to take on the management function for downtown Norwich. Connecticut Main Street Center strongly supports both initiatives and recommends that these activities be integrated into a downtown partnership concept.

To assist in this effort, and as part of the Come Home to Downtown services offered, CMSC brought consultants Dan Carmody and Brian Hollenback to Norwich to meet with municipal officials, NCDC, downtown stakeholders and community leaders. They will then make recommendations regarding:

- Opportunities for, and barriers to, creating a Downtown Partnership Organization
- Description of the tasks and responsibilities of each entity within the Partnership
- Legal structure for the Partnership
- Board composition for each component and any umbrella entity
- Key funding sources to sustain such an entity

The two men have decades of downtown development, neighborhood development and community-based real estate development experience. They have led umbrella partnership organizations comprised of multiple legal entities dedicated to place-based revitalization. Each has created community-based development entities to undertake a wide variety of commercial, industrial, housing adaptive re-use and mixed-use projects.

A number of cities have developed new downtown partnerships. These entities include the downtown management functions (described in more detail below) while creating functions that will provide the added capacity to enable more development to occur in a downtown.

The model recommended by CMSC is a partnership with three main areas of focus:

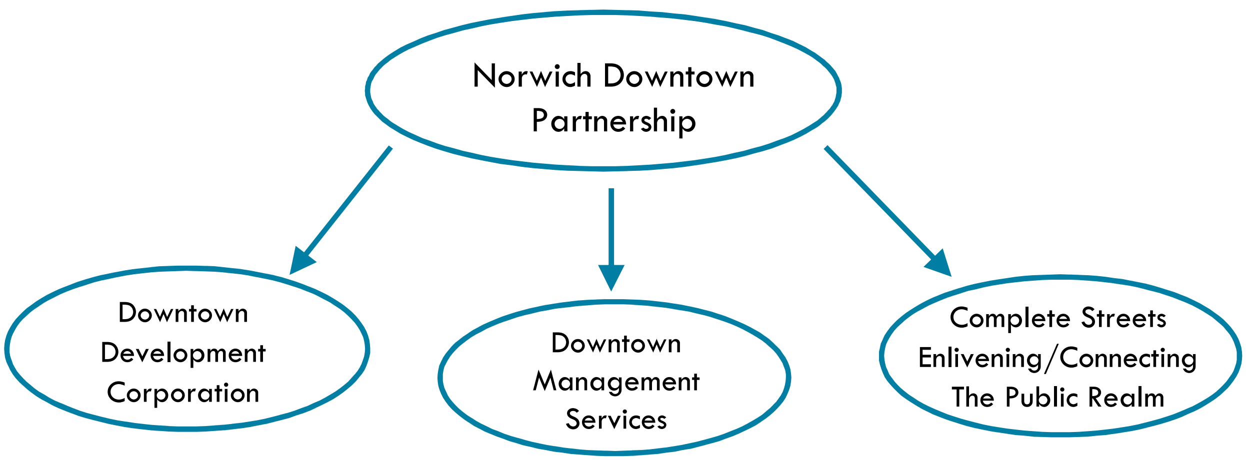


**Figure 11: Norwich Downtown Partnership**

To address the opportunities and challenges facing downtown, a new and robust organization like the above Downtown Partnership is essential – one that has the capacity, vision and collective support of both the public and private sectors – to transform downtown Norwich into the preeminent city center for the region.

The Partnership must be able to engage public and private leadership as well as property and businesses owners and residents in a meaningful and equitable way to build the consensus and develop the capacity to make success possible.

## Components of the Norwich Downtown Partnership

### *Downtown Development Corporation*

Redeveloping the vacant and underutilized properties in downtown requires a robust multi-function partnership. The Downtown Development Corporation (DDC) can assume many of the required roles right up to being an active developer. Other roles needed include:

- Convener of key stakeholders to build consensus and implement priorities
- Education and public relations
- Data collector and information center
- Coordinator of development incentives

### *Convener of Key Stakeholders*

Downtown stakeholders, agencies and commissions must work together to encourage and incentivize mixed-use development in Norwich. Many building owners do not have redevelopment experience and are in need of assistance. For most lay people the permitting process to get the necessary approvals for a mixed-use project can be hard to understand, intimidating and costly.

The Downtown Development Corporation can act as a conduit between property and business owners and City officials, facilitating the growth of buildings with a mix of uses by relaying what is required for permitting approval. By doing so, property owners, residents and business leaders have a direct point of contact for their questions and concerns, and the City is able to focus on reviewing more complete and accurate permit requests.

### *Education and Public Relations*

Property owners and developers are not going to risk investment in downtown unless they see an entire community working together to make this kind of development possible. Just like the old adage “it takes a village to raise a child,” it takes a town to bring an older vacant building back to life. Investors want to see community planning, market potential and public leadership. The DDC can help galvanize local leaders to meet with potential investors and property owners to build the trust and lines of communication that must come first.

Property owners, especially those whose upper floors have been vacant for a long time, may need help understanding there is a market for people wanting to live downtown. This may also be true for municipal leaders and potential lenders. To bolster confidence and educate the owners and city officials about the market’s true demand, the DDC should hold workshops that present examples of successful mixed-use projects in similar communities. A range of speakers providing expertise from attorneys, lenders, developers and state and local officials can answer questions and dispel doubts about whether these types of initiatives can be successful and generate revenue. Tours of buildings with the potential to be successfully remodeled, or that have already been redesigned, provide concrete examples of what is possible.

Furthermore, the Downtown Development Corporation should begin to package downtown Norwich as a place where people interested in living downtown want to go. The CHDT team recommends that the DDC consider developing a focused marketing program. This can include the creation of an aspirational brand of a community in transition with significant and in-demand assets not found in many Connecticut towns. Downtown Norwich is an incredible location – at the confluence of two rivers with the downtown rising abruptly from the water's edge with most of its beautiful historic buildings intact, offering spectacular views. The hills, water and buildings provide a compelling and unique location from which to restore downtown Norwich's vitality and economic prosperity.

Creating a list of potential developers interested in smaller downtown properties is another priority the Downtown Development Corporation should pursue. As a property owner looks to either sell or redevelop their property, the DDC can then reach out and market the opportunity among the developer list. In the case of a property owner looking to redevelop their property but not sell, the DDC can assist the property owner in drafting a Request for Proposals to send out to potential developers or help them develop their own redevelopment team.

### *Data Collector and Information Center*

While the demand for downtown living has grown significantly, it still needs to be quantified. Who wants to live in downtown Norwich? What are they looking for? And what are they willing to pay?

A housing absorption study should be conducted. This study can be done by highly qualified consultants and/or it can be done through local networks, including colleges and universities.

The Downtown Partnership can help define the market and its potential in a number of ways:

- Develop a well-crafted survey for downtown employees, senior citizen groups and young professional associations.
- Engage local property owners and commercial realtors to build a database of current rents in downtown and in adjacent neighborhoods and towns.
- Build a database of case studies from comparable downtowns to provide guidance and inspiration on what can happen in downtown Norwich.

- Inventory and promote the upper floor space and determine the maximum potential for residential units in downtown if completely built out. This would provide a sense of what the ultimate goal could be for residents in the downtown core.

### *Coordinator of Development Incentives*

In city and town centers throughout the country case study after case study demonstrates that financing this kind of mixed-use development is complicated and generally requires many layers of debt and equity. The Downtown Development Corporation can provide potential projects with information regarding resources that are currently or potentially available. Some of these incentives may require the municipality to adopt new ordinances and/or regulations - so a certain amount of advocacy may also be required. See also the Project Financing section above.

There is a complex array of incentives that can be applied to making these projects feasible. These options will likely increase as more mixed-use development is built. The Downtown Development Corporation can serve not only as the repository of information, but also help property owners learn what options are best for their projects and how to use these resources.

### *Downtown Management Services*

To develop the overall management capacity for downtown Norwich, CMSC recommends the Four Point Approach to Downtown Revitalization™, currently utilized in over 2,000 communities. Developed by the National Trust for Historic Preservation, the program advances economic and community development within the context of historic preservation, and advocates public-private partnerships to ensure lasting success. The Four Point Approach™ is about increasing the value of your downtown:

1. ***Organization*****: Improving the civic value** by focusing on consensus and cooperation, building a framework for sensible, community-driven programming – matching a community's assets to its potential.
2. ***Promotion:* Improving the social value** by enhancing the image of downtown through retail promotions, special events and branding. Increasing the social value of downtown will increase the economic value of the district.
3. ***Design:* Increasing the physical value** and appeal of downtown through both new construction and rehabilitation of historic and under-utilized buildings. We encourage design of public spaces for walking and gathering.
4. ***Economic Restructuring*****: Increasing the economic value** by encouraging diversity among current and new businesses and uses suitable to the unique needs of a particular marketplace.

The Main Street Approach also relies on *8 Principles* to produce fundamental change in traditional commercial business districts:

1. ***Comprehensive*** – A single project cannot revitalize a downtown – an ongoing series of initiatives builds community support and creates lasting progress.
2. ***Incremental*** - Small projects make a big difference. They hone the skills and confidence of program participants and demonstrate that things are happening on Main Street.
3. ***Local commitment*** – Local leadership, and community involvement are necessary for long-term success.
4. ***Public / Private Partnership*** – Each sector has an important role to play, and each must understand the other's needs, strengths, and limitations so that an effective partnership can be created.
5. ***Existing Assets*** – A crucial first step is to identify the assets that make a particular downtown unique. Capitalizing on these assets provides the solid foundation for a successful Main Street initiative.
6. ***Quality*** – Must be the goal in every aspect of renewal, from storefront design to promotional campaigns. Quality builds respect and confidence.
7. ***Change*** – Bringing back Main Street requires changing people's attitudes and behavior as well as the environment. Community members must learn to see Main Street as a viable center of commercial and civic activity and then must incorporate Main Street into their regular routines.
8. ***Implementation-Oriented*** – Frequent, visible changes in the look and activities of the commercial district reinforces the perception of positive change. Small, but dramatic improvements early in the process will remind the community that the revitalization effort is under way.

CMSC will work with NCDC and any evolving Downtown Partnership entity to launch this Four Point Approach. This is the basic clean, safe and marketing function that provides the foundation for more complex initiatives like Downtown Development and Complete Streets (described below).

### *Complete Streets – Enlivening/Connecting the Public Realm*

Historically, downtown was a physically engaging place. Buildings and signs communicated style and detail. Sidewalks, lighting and public spaces created a comfortable, attractive streetscape. Downtown emphasized pedestrian activity but accommodated vehicular traffic.

However, downtown's physical environment in many communities has deteriorated: buildings have been poorly maintained and/or inappropriately remodeled; streetscape elements have been neglected; and cars have displaced pedestrians. As its character has diminished, downtown has been become less inviting and, therefore, less competitive.

Restoring downtown's character and identity is the foundation for restoring downtown's commercial competitiveness, because these physical qualities are what differentiate downtown from all other commercial districts. Ultimately, downtown's marketability depends on its unique "sense of place."

This sense of place will only happen with careful and ongoing stewardship. Despite the physical assets of location and historic architecture mentioned above, downtown Norwich, like many places, is the victim of auto-oriented development that has disconnected much of downtown physically and visually from the waterfront. The one-way streets are difficult for cars and pedestrians to navigate and Chelsea Harbor Drive (CT RT 2) makes downtown more of a pass-through than a destination.

Fixing these barriers to creating an enticing public realm teeming with people and activity is a key priority and a significant challenge. These kinds of changes are costly and require a steadfast political will and clarity of vision – exactly the kind of attributes a Downtown Partnership can bring to the table.

## Conclusions

Norwich has invested time and money setting the stage for downtown revitalization. Now it needs to make the most important investment of all – creating a downtown management capacity to insure the return on this investment. This report has highlighted numerous ways to encourage mixed-use development, both for the Reid and Hughes building and for downtown Norwich as a whole. NCDC has committed to increasing capacity for downtown management.

Although the potential demand for the type of housing discussed in this report is tremendous, without additional financing options and the support of municipalities and pioneering property owners willing to take on more up-front risk for long-term gain, we will continue to see under-utilized buildings and a lack of residents living in our town and city centers.

Even though the Reid and Hughes building is a signature downtown property and a significant redevelopment opportunity, its condition is so deteriorated that if efforts aren't made to stabilize the building immediately, it may not make it through the next winter. Time is of the essence! The City would see a much greater return on their investment by putting their resources into stabilizing and rehabilitating this building than by demolishing it.

Property owners and city officials need to be part of a committed team of public and private partners all working together to bring mixed use downtown properties back to life. Although developing and financing a mixed-use building is currently riskier than a single-use building, it's a risk with great rewards for the entire community, and therefore worth the community's investment of time and resources.

Downtown Norwich is ripe with the potential to be a thriving center of commerce, housing and more. Our experience working with City officials, NCDC and other key stakeholders on the Come Home to Downtown program leaves us even more strongly convinced of the need for more financing mechanisms for mixed-use development and the tremendous economic and social benefit of capitalizing on this ready infrastructure. Education and technical assistance programs specifically designed for the owners of these small properties will help ensure they are prepared for both the financial and landlord responsibilities they face. Although it will admittedly be difficult at the outset, it is imperative that these efforts begin now if we are to have fully integrated, vibrant downtowns that sustain us today and into the future.

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