

# Expanding Housing Affordability

*LUTI Informational Update: Mandatory Housing  
February 15, 2022*



# Meeting Purpose and Timeline

**Public Review Draft** including refinements in response to feedback released **February 2, 2022**

Public comments through **March 14, 2022**

Last week: Review the **linkage fee** draft proposal

Today's purpose: Review the **Mandatory Affordable Housing** piece of the draft proposal

LUTI 2/22: Review the **enhanced incentives & negotiated agreements** as a part of the draft proposal

# Historical Context

**1981:** State of Colorado bans rent control

**2000:** CO Supreme Court's "Telluride Decision" limits inclusionary housing to for-sale

**2002 – 2016:** Denver's Inclusionary Housing Ordinance (revamped in 2014) applies to for-sale units in buildings of 30+ units

**2017:** Linkage Fee replaces inclusionary ordinance and applies to all new development

**2021:** State HB21-1117 passes, enabling Denver to adopt inclusionary housing on all new housing for-sale and for-rent (includes local requirements)

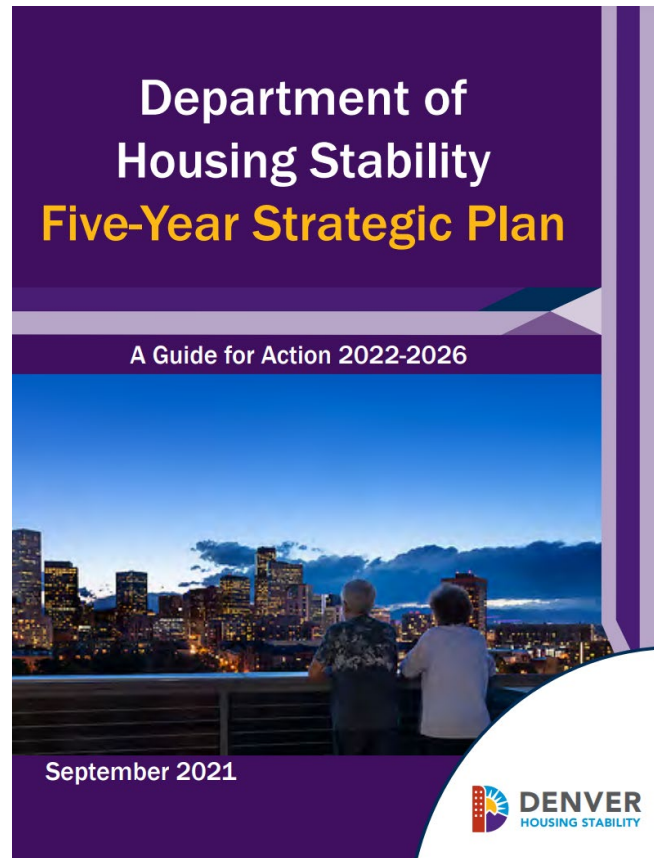
# Incomes have not kept pace with housing costs



Housing costs have increased at  
**2x** the rate of incomes

1 in 3 households are  
cost burdened

This policy is part of a larger strategy to **create and preserve** affordable housing.



Currently **2,000** units are in the pipeline for creation or preservation via existing tools and programs





The city is proposing a new requirement that would ensure that **as new housing is built, new affordable housing is created too.**

This will be done through the creation of a **Mandatory Housing Program** with **Incentives** and a **Linkage Fee** update.

# Policy Applies to New Construction of...

**All new development will contribute to creating more affordable housing.**

Last Weeks Discussion

 **1-9** Units



Linkage Fee

 **10+** Units

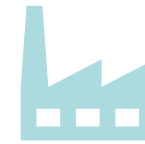


Requirement to build affordable units onsite

Alternative option to comply with state law

And zoning and financial incentives

Last Weeks Discussion



Office  
Retail  
Industrial



Linkage Fee

<- Today's Discussion

<- Next Week's Discussion

# Mandatory Affordable Housing



**10+ Units**

- Applies to NEW development of 10 or more units
- Does not apply to...
  - renovations of existing developments,
  - areas with pre-existing housing agreements, or
  - affordable housing developments.



# Mandatory Affordable Housing

## Program Priorities

As new housing is built, new affordable housing is also built by...

- Creating mixed-income housing throughout the city
- Increasing funding to support the creation and preservation of affordable housing via fee-in-lieu

# Project Outreach & Feedback: July – December 2021

1 Open House

2 Council Budget and Policy Meetings

(Aug: Feasibility & Housing Needs, Oct: Draft Policy)

2 Planning Board Meetings

3 Advisory Committee Meetings

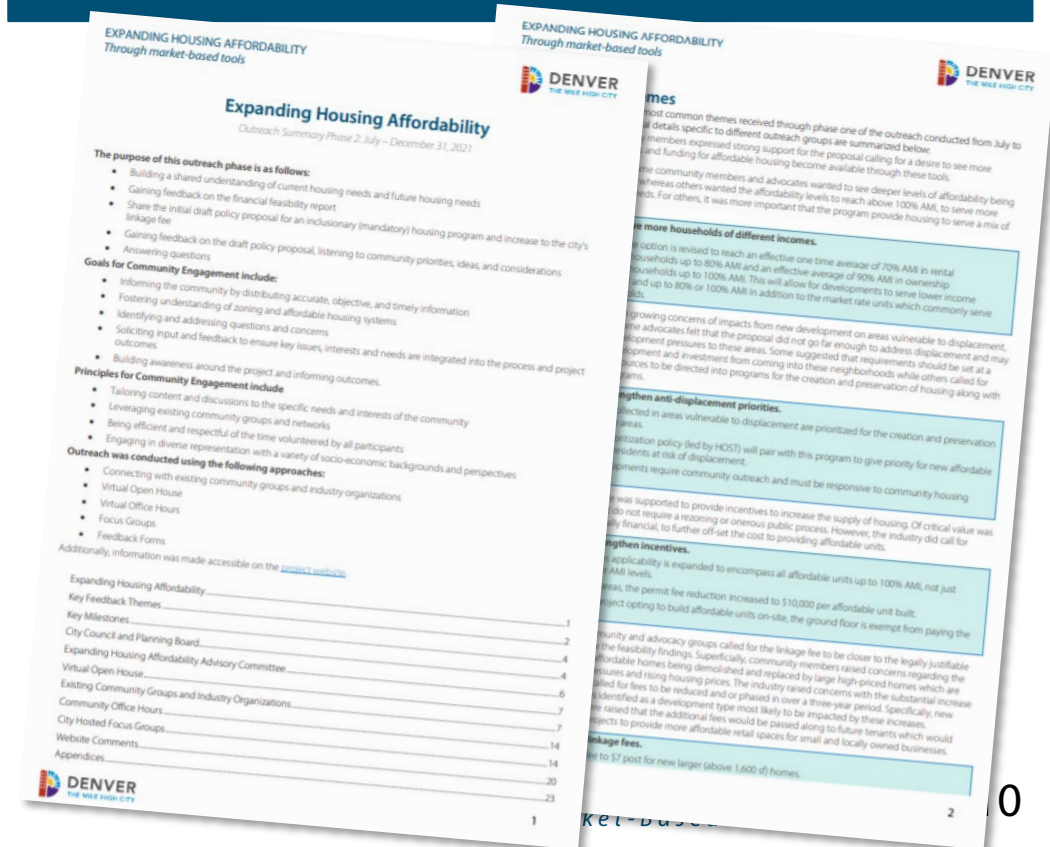
19 Community groups or industry organization presentations & discussion

3 Community Office Hours



10 Focus Groups

75 individual comments + 18 questions





8 letters representing multiple industry and community organizations and ongoing discussions








# Addressing Key Comments: Mandatory Affordable Housing

<b>What we heard</b> 	<b>How we addressed</b>
Require more affordable housing in all developments	Strengthened incentives to promote more affordable housing by: <ul style="list-style-type: none"> <li>• expanding the permit fee reduction</li> <li>• increasing the permit fee reduction amount in high-cost market areas</li> <li>• exempting ground-floor commercial (in mixed-use buildings) from the linkage fee if affordable units are built on-site</li> </ul> 
Remove barriers to creating (affordable) housing and create more incentives	
Remove high-cost market area distinction	

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Remove barriers to creating (affordable) housing and create more incentives	
Remove high-cost market area distinction	
Promote homeownership opportunities	Promoted homeownership opportunities by: <ul style="list-style-type: none"> <li>• creating parity in the for-rent and for-sale affordable units required</li> <li>• increased policy applicability to 10 or more units</li> <li>• lowered the fee-in-lieu for townhomes</li> </ul> 

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Greater accountability, tracking and transparency on program outcomes and market impacts	The DRMC <u>requires annual reporting</u> of city housing programs and outcomes. Supplementary dashboard will be created specific to these tools' outcomes and metrics. 

# Build On-Site Summary



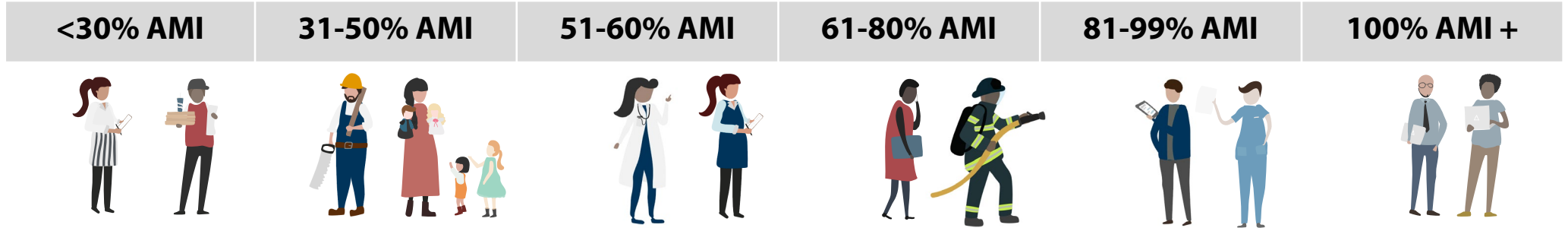
		Typical Markets (All Other Areas of the City)	High-Cost Markets (Downtown, Cherry Creek)
Option #1	On-Site <b>Rental</b>	<b>8%</b> of total units at <b>60% AMI</b>	<b>10%</b> of total units at <b>60% AMI</b>
	On-Site <b>Ownership</b>	<u><b>8%</b></u> of total units at <b>80% AMI</b>	<u><b>10%</b></u> of total units at <b>80% AMI</b>
Option #2	On-Site <b>Rental</b>	<b>12%</b> of total units <u>averaging <b>70% AMI</b></u> serving households up to 80% AMI	<b>15%</b> of total units <u>averaging <b>70% AMI</b></u> serving households up to 80% AMI
	On-Site <b>Ownership</b>	<u><b>12%</b></u> of total units <u>averaging <b>90% AMI</b></u> serving households up to 100% AMI	<u><b>15%</b></u> of total units <u>averaging <b>90% AMI</b></u> serving households up to 100% AMI

**Changes made in response to feedback:**

To promote more homeownership opportunities > aligned ownership and rental percentages for how many units are required  
 To serve a greater range of incomes > changed Option #2 to a one-time average

# How does a one-time average provide flexibility to serve more incomes?

30 total units required at an average of 70% AMI



All possible outcomes for Option #2

2 @ 30%	2 @ 40%	5 @ 50%	5 @ 60%	5 @ 70%	11 @ 80%
4 @ 30%			10 @ 60%	6 @ 70%	10 @ 80%
			15 @ 60%		15 @ 80%
				30 @ 70%	

# Base Incentives

## Base Incentives: By-Right

Incentives promote greater affordable housing and create more housing overall while providing moderate cost off-sets

	<b>Fee Reduction</b> \$6.5K – \$10K per affordable unit	<b>Parking Reduction</b> Reduction of 0.5 spaces per unit	<b>NEW - Linkage Fee Ground-Floor Exemption</b> For commercial, sales, service uses
Applicability	Citywide	Citywide	Citywide
Build On-Site	✓	✓	✓
Fee-In-Lieu	✗	✗	✗
Affordable Projects	✓	✓	✓

✓ - Incentive available; ✗ - Incentive not available

### **Changes made in response to feedback:**

To promote more affordable housing > increased permit fee reduction for all affordable units

To address market distinctions > increased permit fee reduction in high-cost market areas to \$10K per unit

To create more incentives and promote active ground floor uses > created a new incentive to exempt ground-floor commercial from the linkage fee when building affordable units on-site



# An Example

**New 5-story residential building with 85 total units available for rent and 5,500 sf of retail**

**Option 1:** Build 8% of units at 60% AMI = **7 affordable units**

**Option 2:** Build 12% of units averaging 70% AMI = **10 affordable units**

## **Plus Base Incentives:**

- Exemption from Linkage Fee = \$33,000 value
- Permit Fee Reduction: up to \$65,000 (50% cap on commercial construction permit fee)
- Parking Reduction of 0.5 spaces per unit

**\$98,000 in financial incentives**

**+ a parking reduction**



# Alternative Option: Fee-in-Lieu

# Fee-in-Lieu



## Proposed Fee-In-Lieu

	High-Cost Markets	Typical Markets
	Per affordable unit required at <u>10%</u> of total units	Per affordable unit required at <u>8%</u> of total units
<b>Rental</b>	\$311,000	<u>\$250,000</u> - Developments of 1 – 7 stories <u>\$295,000</u> - Developments of 8+ stories <u>\$250,000</u> - Townhome Developments
<b>Ownership</b>	\$478,000	\$408,000 - All other developments <u>\$250,000</u> - Townhome Developments

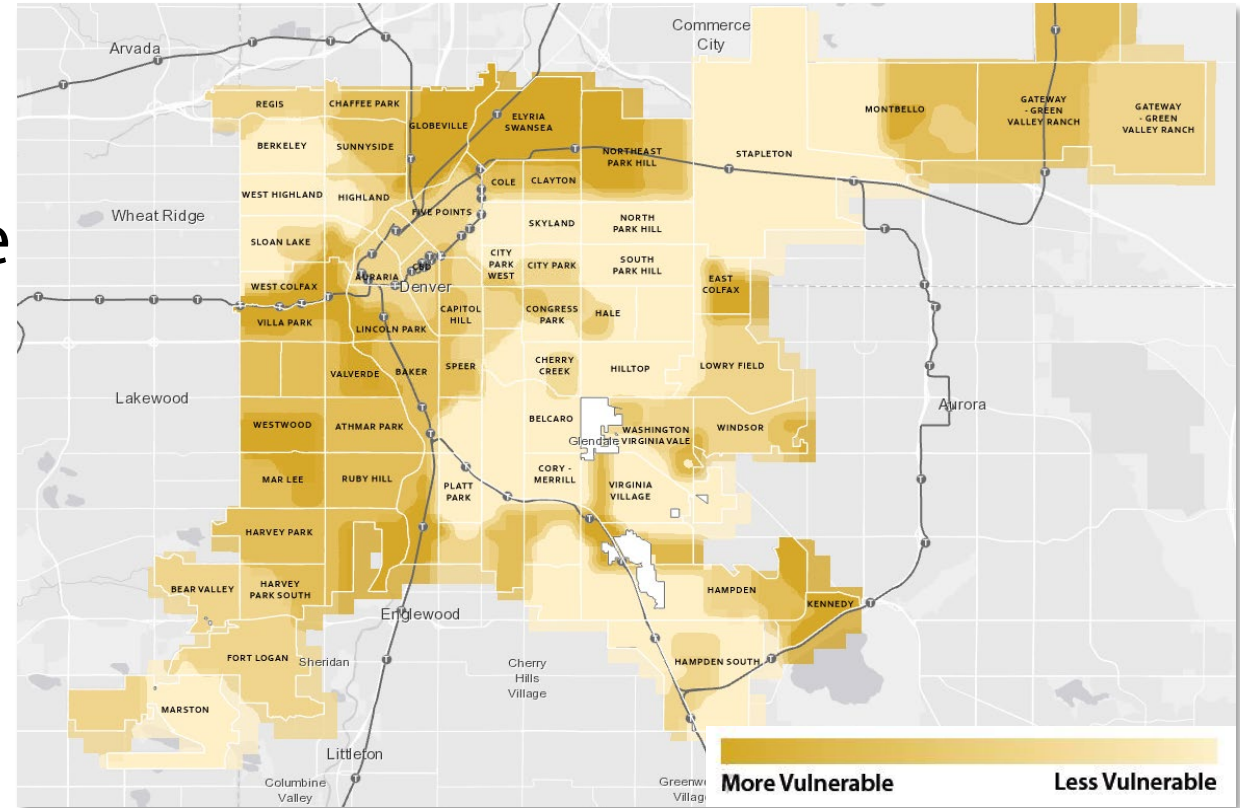
### Changes made in response to feedback:

To promote homeownership opportunities > lowered the fee-in-lieu multiplier for ownership and lowered the fee-in-lieu for townhomes

To tailor fees to development costs > created further calibration for rental fee-in-lieu in typical markets

# Addressing Anti-Displacement

Fee-In-Lieu funds collected in neighborhoods identified as Vulnerable to Displacement will be prioritized for spending in these areas toward affordable housing creation and preservation.



# Summary of Voluntary Housing Agreements with Rezoning

## From 2017 – 2021, 31 agreements completed

- All were associated with an increase in entitlement
- Average of **12%** of units restricted with majority restricted up to **80% AMI**
- Length of affordability ranges from 30 – 99 years

## How does that compare?

- 12% of units at 80% AMI is the same economic impact as 8% of units at 60% AMI.
- The Expanding Housing Affordability proposal would apply to all development, not just rezonings.
- The new proposal prioritizes depth of affordability.

# Next Steps

- February: Release Public Draft; Public Outreach; LUTI (~~2/8~~, 2/15; 2/22); Planning Board (2/16); Advisory Committee Meeting (~~2/10~~); Open House (2/17); Office Hours; Organization outreach and follow up
- March: **Public comments close (3/14)**; final Advisory Committee Meeting; identify and make final revisions; publish Planning Board Review Draft
- April: Planning Board and LUTI public hearings
- May: City Council First Reading
- June: City Council 2<sup>nd</sup> Reading and public hearing; R&R public meeting

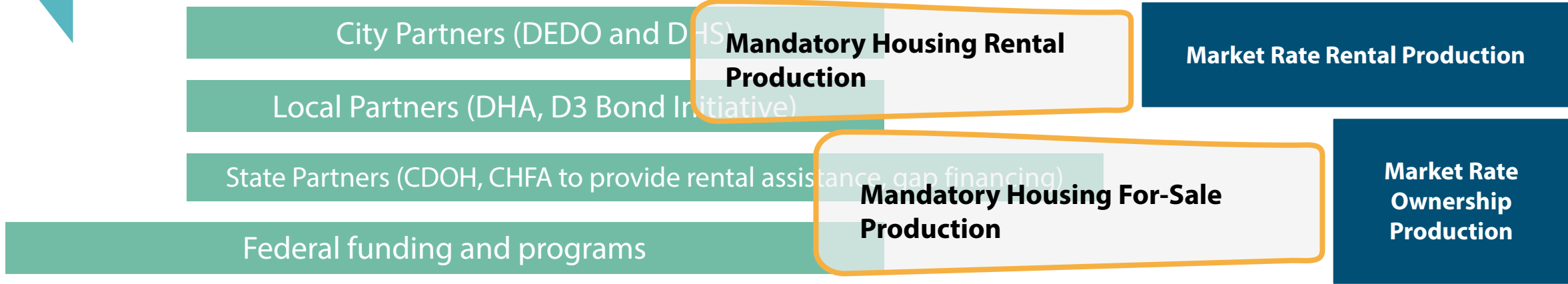
# Appendix (not planned for presentation)

# Developing Complementary Tools to Create Affordable Housing

Unsheltered	<30% AMI	31-50% AMI	51-60% AMI	61-80% AMI	81-99% AMI	100% AMI +
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Funds and programs are prioritized **Linkage Fee** those with the greatest housing needs.



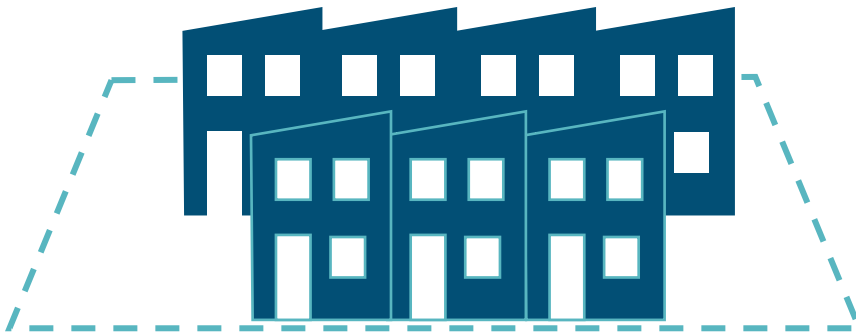


# Mandatory Housing: Other Cities

	On-Site Build Requirement
<b>Atlanta, GA</b>	10% of units at 60% AMI or 15% of units at 80% AMI
<b>Austin, TX</b>	Incentive Only Programs: 10% of units affordable to 60 – 120% AMI
<b>Boston, MA</b>	13% of units at 70% AMI
<b>Longmont, CO</b>	12% of all units at 60% AMI rental and 80% AMI ownership
<b>Los Angeles, CA</b>	Rental: 10% of units at 40% AMI; 15% of units at 65% AMI; 20% of units at 80% AMI. Ownership: 5 – 20% of units of 135% AMI
<b>Minneapolis, MN</b>	8% of units at 60% AMI; or 4% of units at 30% AMI; or 20% of units at 50% AMI
<b>Portland, OR</b>	8-10% of units at 60% AMI or 15-20% of units at 80% AMI
<b>San Jose, CA</b>	Total of 15% of units with 5% at 100% AMI; 5% at 60% AMI; and 5% at 50% AMI; or 10% at 30% AMI
<b>Seattle, WA</b>	5 – 11% of units at 40 – 80% AMI

# Why increase policy applicability from 8 to 10 units?

7,500 sf Lot



Developer will build 7 larger more expensive units to stay eligible to pay the linkage fee.

7,500 sf Lot



Developer will build 9 smaller, more attainable units to stay eligible to pay the linkage fee.

## Other Cities' Thresholds:

- San Jose: 10 + units
- Atlanta: 10 + units
- Portland: 20 + units
- Minneapolis: 20+ units
- Denver IHO (old): 30+ units

Other cities only apply to some geographies or processes (e.g., variance).

Regardless of the threshold, developers will always build under.

Therefore, it's better to create more attainable homes, which increase overall supply and provide similar and/or more funding to the Affordable Housing Fund (via the linkage fee).

# What are Typical City Permit Fees?

Fees vary by review cycles, project valuation and other factors. The following are some examples from recent projects:

- **Townhomes 12 units: ~\$90,000** total fee
  - \$6,500 reduction
- **8-Story Multi Unit** of 103 units + ground floor retail: **\$82,000** total fee
  - \$41,000 (50% cap hit)
- **5-Story Multi Unit** 94 units in high-cost Area: **~\$214,000 total fee**
  - \$90,000 - \$140,000 (deepening on on-site build option selected)
- **Single Unit: ~\$3,300 per unit**

# How do the options relate to feasibility?

## **Policy options are calibrated to drive program priorities**

1) Creating units serving the greatest need

Option #1: Maintains expected economic returns

2) Creating more units serving a mix of incomes

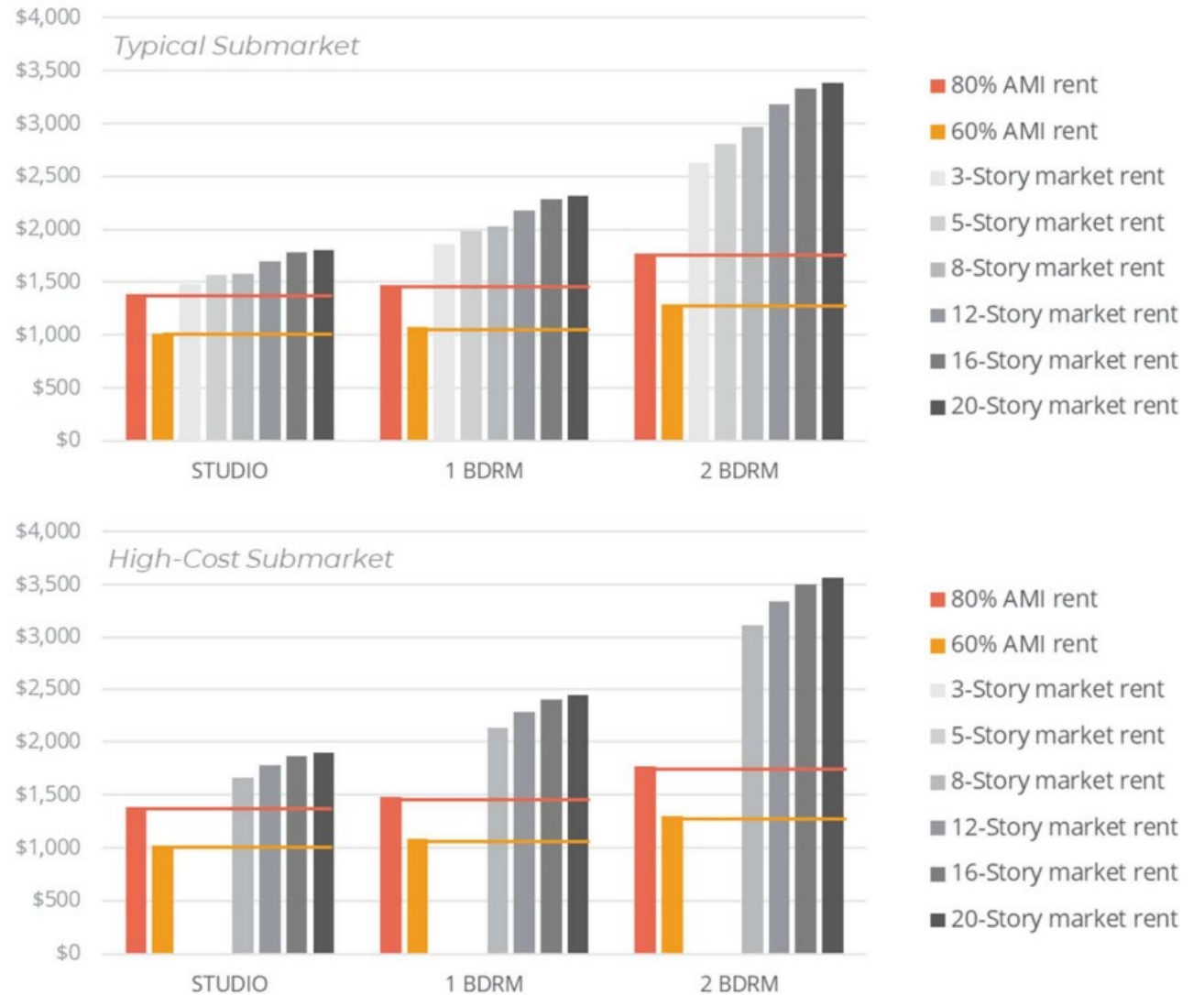
Option #2: Falls just below expected economic returns

2) Generating funding for affordable housing

Fee-In Lieu: Does not meet expected economic returns

# How do the build-on site requirements impact feasibility?

**Figure III-2.**  
**Market-Rate Rents and Affordable Rent Limits by Bedroom and Building Height**



Note: High cost markets only applicable to mid- and high-rise structures (exceeding 7 stories).  
 Source: CHFA and Root Policy Research.

# Build on-site option #1 maintains feasibility

# How do the build-on site requirements impact feasibility?

**Figure III-5. Inclusionary Housing Feasibility at 60% AMI, Rental Residential**

Note:  
 Orange shading indicates output that falls below feasibility threshold.  
 Green checks indicate financial feasibility for specified affordability target and prototype.  
 High Cost Submarket includes 5% price premium on market-rate units and sale prices.

Source:  
 Root Policy Research.

Return Metric	Target	Typical Submarket						High Cost Submarket			
		3-Story Rental Residential	5-Story Rental Residential	8-Story Rental Residential	12-Story Rental Residential	16-Story Rental Residential	20-Story Rental Residential	8-Story Rental Residential	12-Story Rental Residential	16-Story Rental Residential	20-Story Rental Residential
<b>Affordable Income Target of 60% AMI</b>											
<b>5% @ 60% AMI</b>											
Return on Cost	>5.5%	5.6%	5.6%	5.6%	5.6%	5.6%	5.6%	5.7%	5.7%	5.8%	5.8%
Cash on Cash Return	>6%	5.0%	5.0%	5.0%	5.1%	5.1%	5.1%	5.3%	5.5%	5.6%	5.6%
Internal Rate of Return	>=10%	11.3%	11.5%	11.4%	11.5%	11.7%	11.6%	12.1%	12.5%	12.8%	12.9%
ROE (year 5)	>6%	6.2%	6.3%	6.2%	6.3%	6.4%	6.4%	6.7%	7.0%	7.2%	7.3%
<b>8% @ 60% AMI</b>											
Return on Cost	>5.5%	5.5%	5.5%	5.5%	5.5%	5.5%	5.5%	5.6%	5.6%	5.6%	5.6%
Cash on Cash Return	>6%	4.6%	4.7%	4.6%	4.7%	4.7%	4.7%	4.9%	5.1%	5.2%	5.2%
Internal Rate of Return	>=10%	10.4%	10.6%	10.5%	10.6%	10.8%	10.6%	11.2%	11.6%	11.9%	11.9%
ROE (year 5)	>6%	5.6%	5.7%	5.7%	5.8%	5.8%	5.8%	6.1%	6.3%	6.6%	6.6%
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ROE (year 5)	>6%	5.3%	5.4%	5.3%	5.4%	5.4%	5.4%	5.7%	5.9%	6.1%	6.2%
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Internal Rate of Return	>=10%	9.2%	9.4%	9.3%	9.4%	9.5%	9.3%	10.0%	10.3%	10.6%	10.6%
ROE (year 5)	>6%	4.9%	5.1%	5.0%	5.0%	5.1%	5.0%	5.4%	5.5%	5.7%	5.7%

# Build on-site option #2 falls just below feasibility

# How do the build-on site requirements impact feasibility?

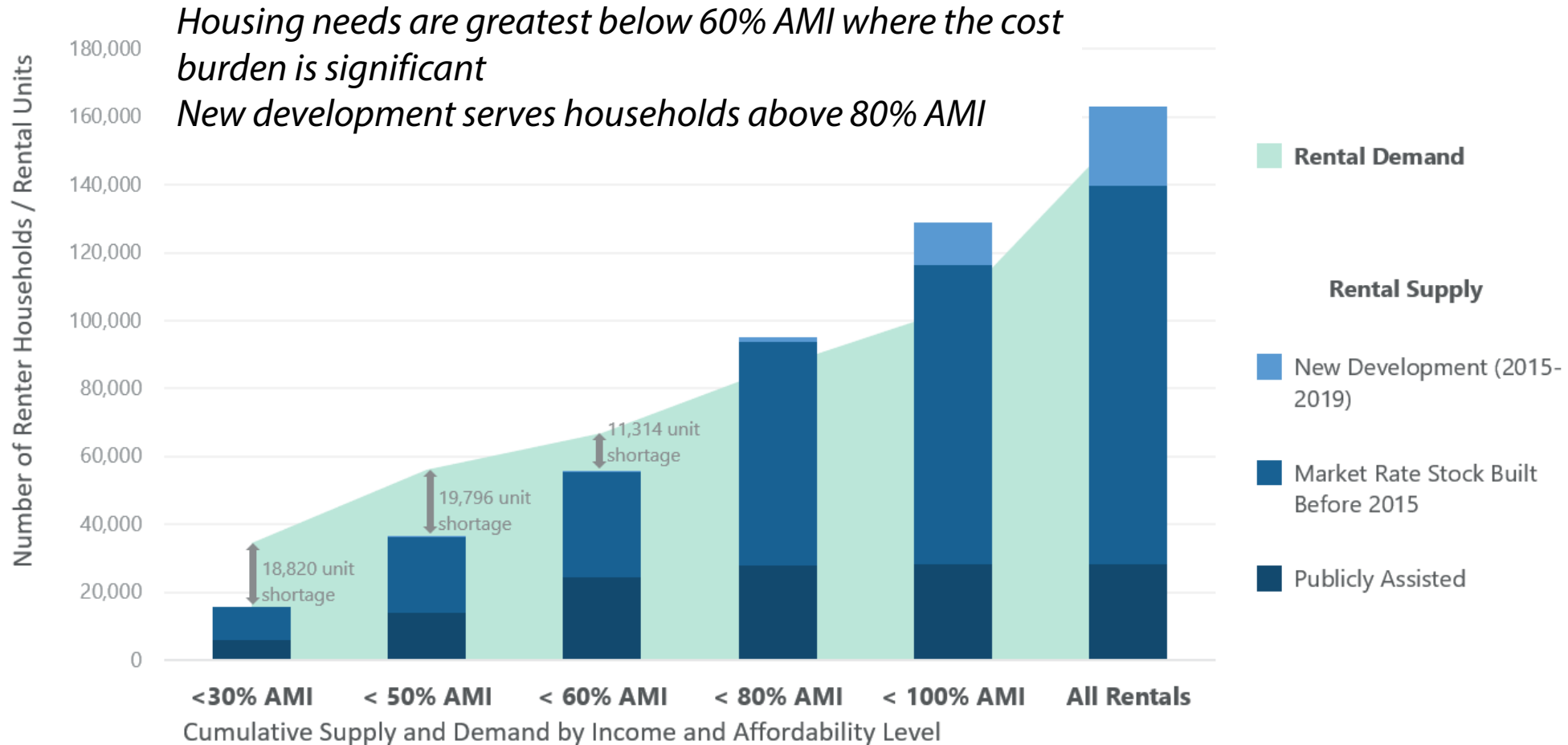
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ROE (year 5)	>6%	5.7%	5.7%	5.6%	5.7%	5.7%	5.7%	6.1%	6.3%	6.4%	6.5%
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ROE (year 5)	>6%	5.4%	5.5%	5.3%	5.4%	5.4%	5.3%	5.7%	5.9%	6.1%	6.1%
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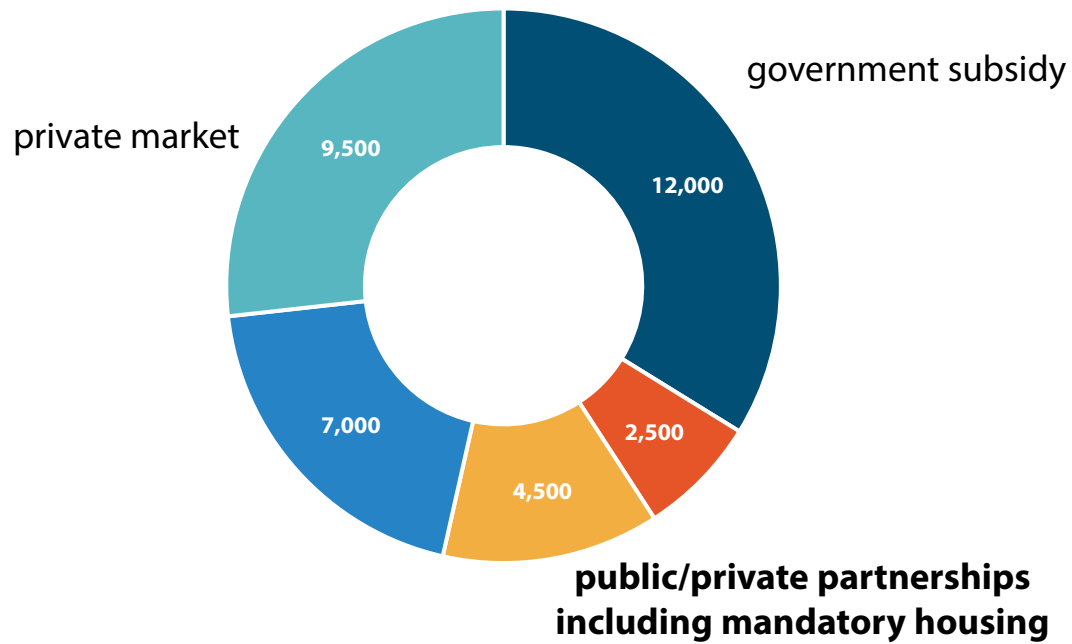
# Current Housing Needs: Rental





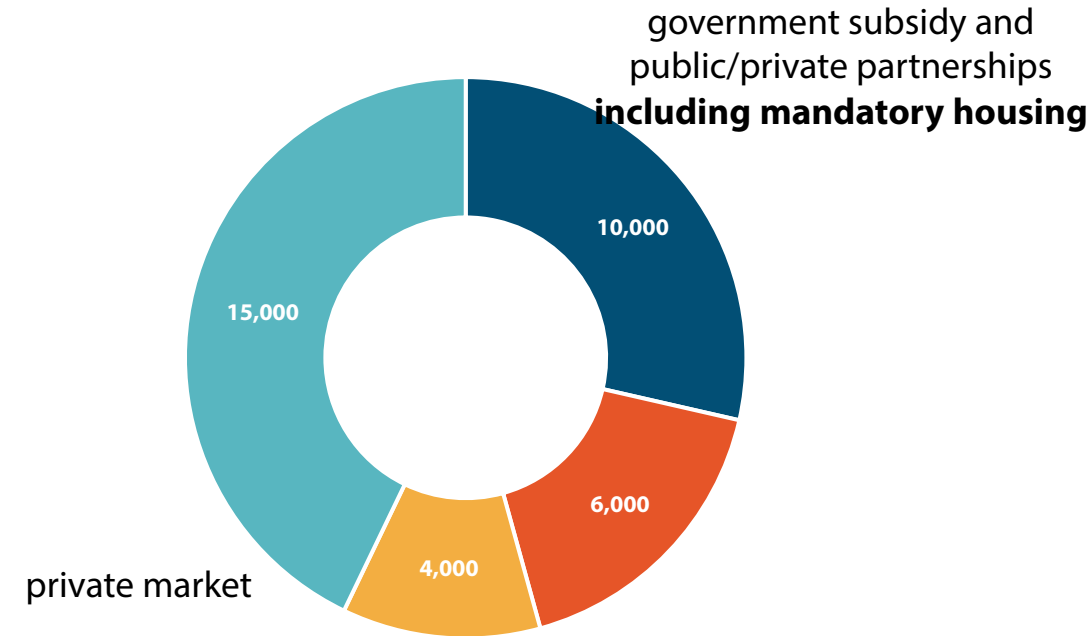
# Future Housing Needs

## Denver 20-Year Rental Needs



■ 50% AMI and below ■ 51 - 60% AMI ■ 61 - 80% AMI ■ 81 - 120% AMI ■ 121% AMI and above

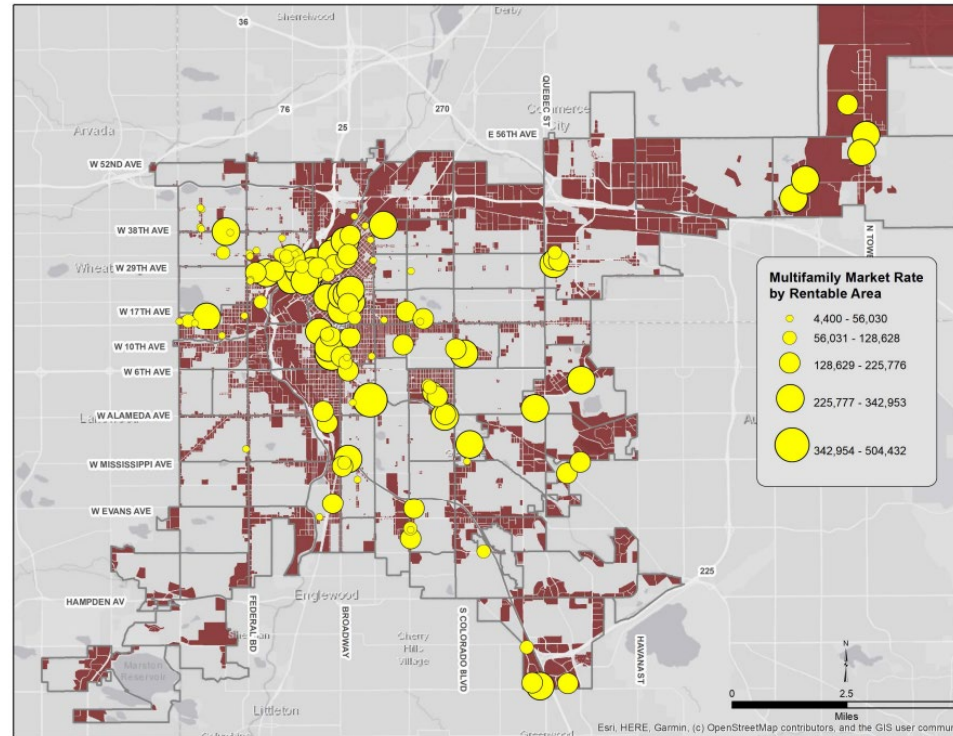
## Denver 20-Year Ownership Needs



■ 80% AMI and below ■ 81 - 120% AMI ■ 121 - 150% AMI ■ 151% AMI and above

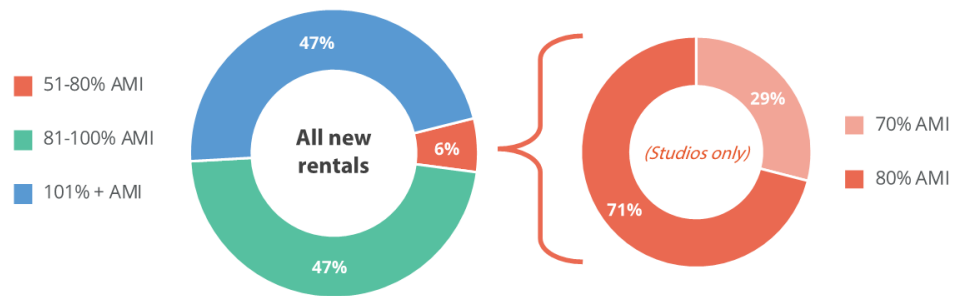
# Historic Development Data

**Figure A-1.**  
Multifamily Market-Rate Rental Developments, Built 2015-2019



Source: Denver County Assessor's Office and ArLand Land Use Economics.

**Figure 1.**  
Market Rate Rental Development, by AMI



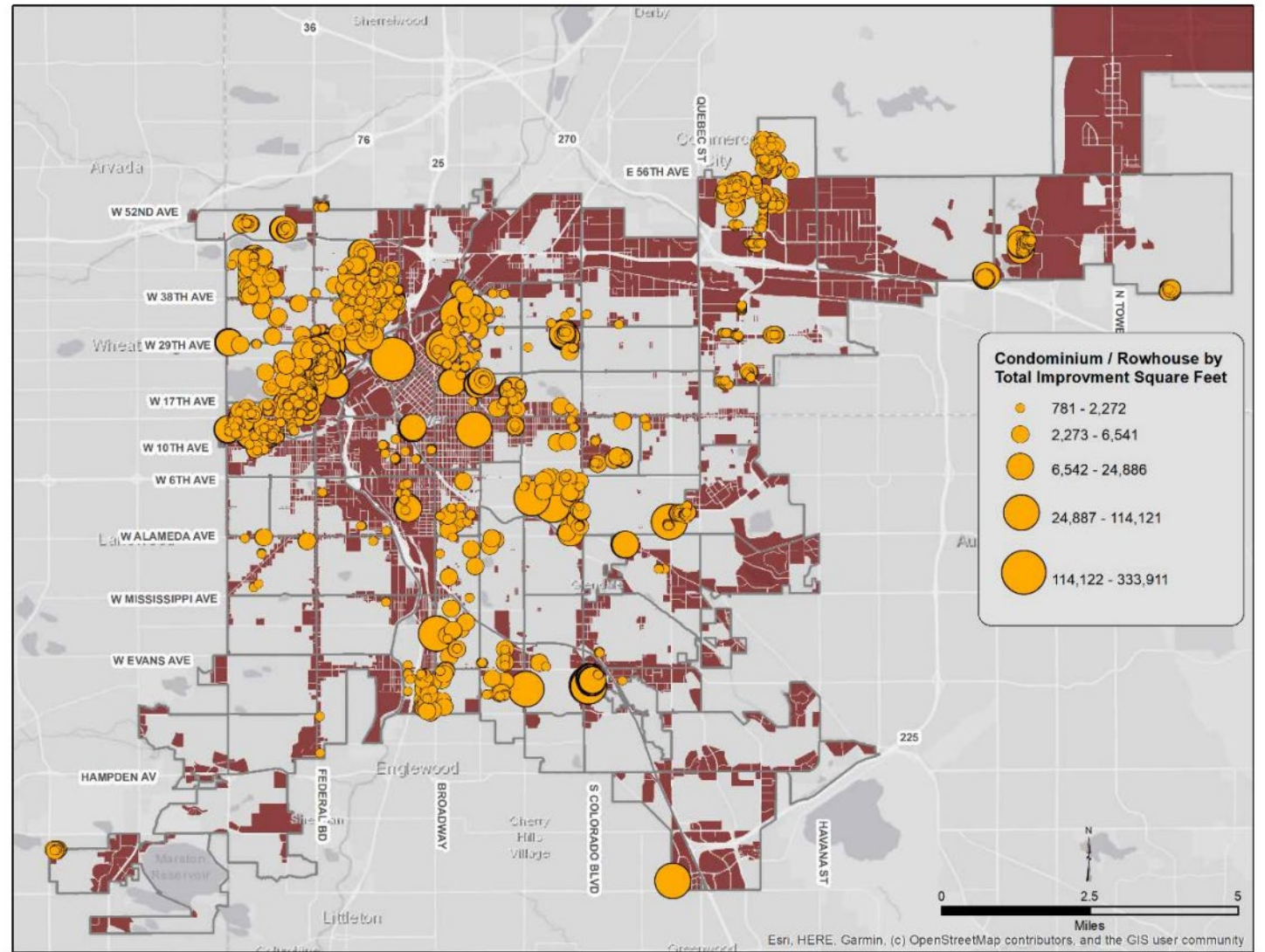
Note: The 2020 HUD AMI for a two-person household of \$80,000 was used.

Source: CoStar, and Root Policy Research.

# Historic Development Data

Figure A-3.

Multifamily Market-Rate For-Sale Developments, Built 2015-2019



Source: Denver County Assessor's Office and ArLand Land Use Economics.

# Affordable Housing Production

**Figure 2. Units Created or Preserved with HOST Funding 2018-2020**

Note:  
Based on year of HOST funding allocation; percentages reflect anticipated outcomes as some units are still in the pipeline for development.

Excludes affordable housing without HOST funding.

Source:  
Affordable Housing Dashboard (HOST) and Root Policy Research.

