

# Expanding Housing Affordability

*LUTI Informational Update: Linkage Fee  
February 8, 2022*



# Meeting Purpose and Timeline

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

Public comments through March 14, 2022

Today's Purpose: Review the **linkage fee** draft proposal

LUTI 2/15: Review the **Mandatory Affordable Housing** draft proposal

LUTI 2/22: Review the **incentives** as a part of the Mandatory Affordable Housing draft proposal



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

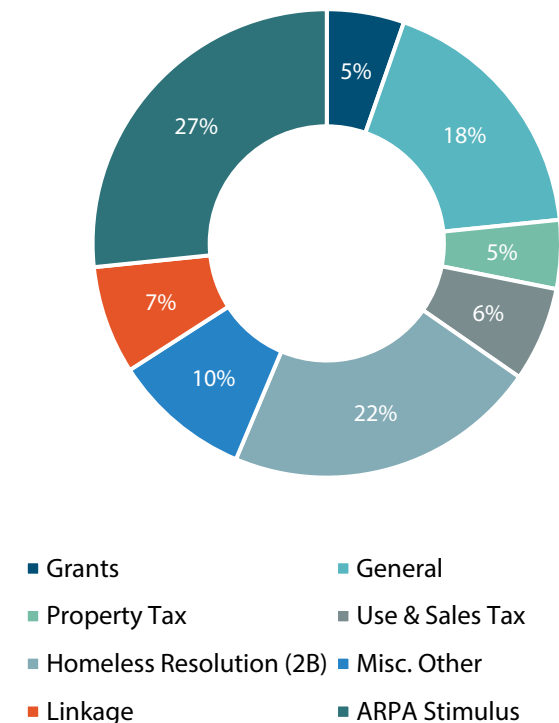
This will be done through the creation of a **Mandatory Housing Program** with **Incentives** and a **Linkage Fee** update.

# Part of a larger strategy

## Funding Sources: 2022 HOST Budget

- **Federal, State and Private Grants \$10M**  
(e.g., Community Development Block Grants (CBDG), HOME Investment Partnership Program)
- **Local Funds**
  - General Fund (\$34M)
  - Property Tax (\$8.9M)
  - Sales & Use Tax (\$12.3M)
  - Homeless Resolution Fund (\$40.9M)
  - Other Community and Econ Dev Funds (\$14.3M)
  - **Linkage Fee (\$14.1M)**
- **ARPA Stimulus - \$50.3M**

To date, the Linkage fee has produced **\$33M** in revenue. This funding along with MJ sales tax, property tax have supported the creation of **3,200** affordable homes.

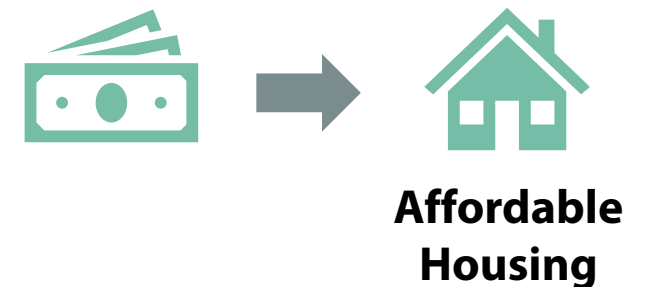


# Why did the City conduct a Nexus Study?

To understand the link between new market-rate housing and non-residential development in the city and the demand for affordable housing.



**Because... development does NOT meet the housing needs of low-wage employees, a linkage fee is justified to help create affordable housing.**



# Denver's First Linkage Fee

- Informed by a Nexus Study and Feasibility Study
- Effective in 2017
- Generated over \$33M in funds to support the creation of new affordable housing
- Conservative fees adopted
  - Fees below feasibility, and
  - Lower than peer cities
- Did not have an adverse impact on development


Adopted Linkage Fee	
Use	Fee per/sf
Residential Uses, International Residential Code (SU, TU)	\$0.60
Residential Uses, International Building Code (Multi-Family)	\$1.50
Commercial, Sales, Service Repair	\$1.70
Industrial, manufacturing, wholesale, agricultural.	\$0.40

# Peer Cities Commercial Linkage Fee

City	Fee per/sf
Austin, TX	\$12 – 18
Boston, MA	\$15.29
Cambridge, MA	\$12
Los Angeles, CA	\$3.11 – 5.19 *
San Jose, CA	\$3 – 15 *
Seattle, WA	\$5.58 – 17.50 *
<b>Denver Current</b>	<b>\$1.83</b>
* Fees vary based on market area with higher fees in high-cost areas (e.g., downtown)	



# Proposed Applicability

 **1-9** Units

 **Linkage Fee**

 **10+** Units

 **Mandatory Housing**

Enabling for  
**Alternative Compliance**

And providing  
**Incentives**

   **Office  
Retail  
Industrial**

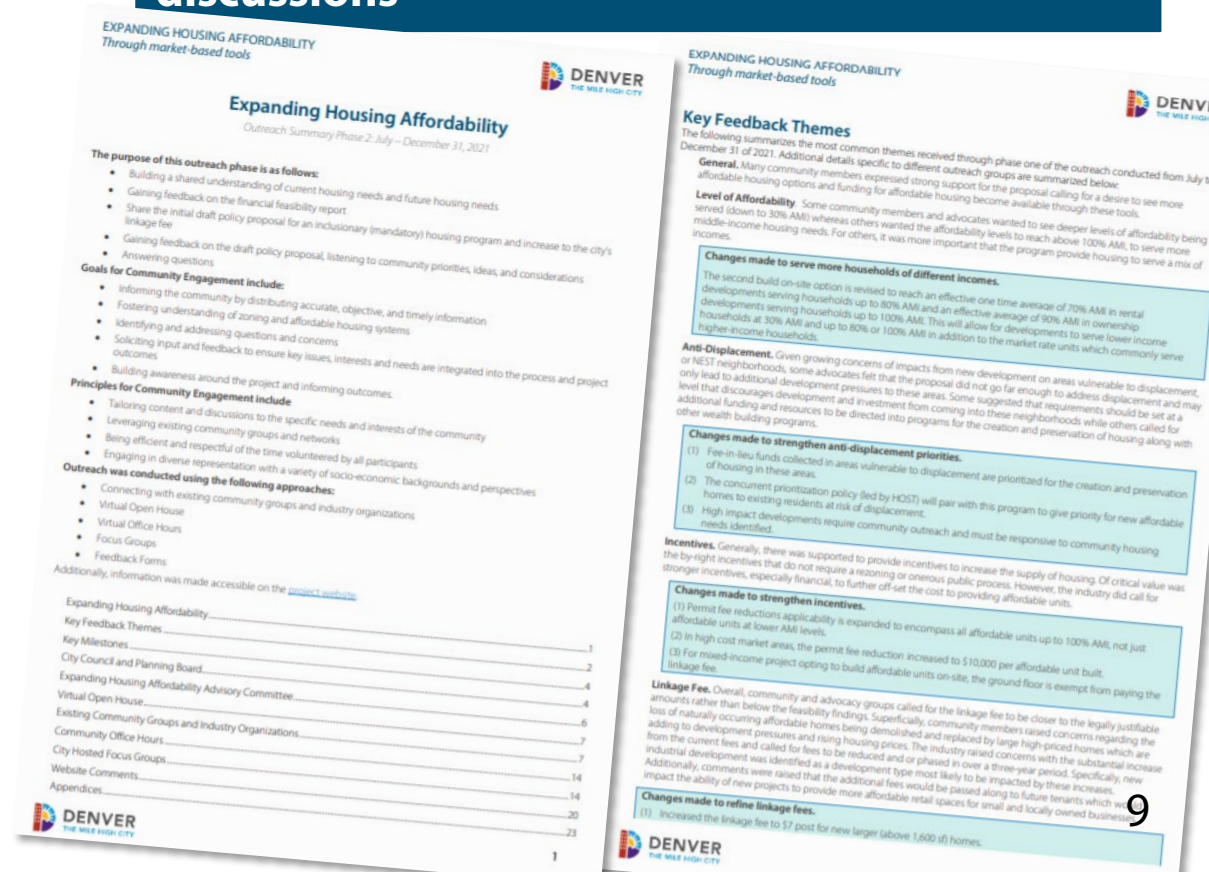
 **Linkage Fee**



# 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



# Key Comments: Linkage Fee







Consider impacts to industries hindered by COVID

- Three year phased-increase
- Exempt ground floor retail (in mixed-use buildings)
- Increase funding for affordable housing
- Increase linkage fees, especially for scrapes and rebuilds

Fees should serve lower-income households and persons experiencing homelessness

# How we are addressing this feedback with a revised, stronger proposal

# Key Comments: Linkage Fee

<b>What we heard</b> 	 <b>How we addressed</b>
Disincentivize loss of attainable housing, especially via scrapes and rebuilds of homes	Increased the linkage fee on larger homes to \$7 psf 
Consider impacts to industries hindered by COVID	Three year phased-increase (2022-2024) 
	Exempt ground floor retail (in mixed-use buildings) when building affordable units on-site 
	Decreased the linkage fee on industrial development to \$2 psf 
Serve lower-income households and persons experiencing homelessness	Linkage fee <u>already</u> serves households from 0 – 80% AMI and is legally limited to “increase the supply” of new affordable housing

# Proposed Linkage Fee



**1-9**Units



**Office  
Retail  
Industrial  
Hotel**

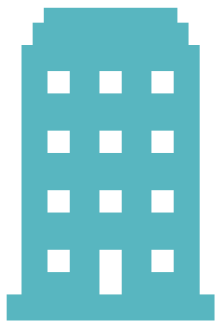
Use	Current Fees	Effective July 1, 2022	Effective July 1, 2023	Effective July 1, 2024	Feasibility Findings	Legally Justifiable Max
1-9 units, up to 1,600 sf per unit	\$0.66	<b>\$1.77</b>	<b>\$2.88</b>	<b>\$4.00</b>	\$9.60-14	\$9.60-14
1-9 units, units more than 1,600 sf	\$0.66	<b>\$2.77</b>	<b>\$4.88</b>	<b>\$7.00</b>	\$9.60-14	\$9.60-14
Other residential uses	\$0.66	<b>\$2.44</b>	<b>\$4.22</b>	<b>\$6.00</b>	\$9.60-14	\$9.60-14
Commercial, Sales, Service – Typical Market	\$1.86	<b>\$3.24</b>	<b>\$4.62</b>	<b>\$6.00</b>	\$7-9	\$56.74-119.29
Commercial, Sales, Service – High Market	\$1.86	<b>\$3.90</b>	<b>\$5.95</b>	<b>\$8.00</b>	\$10	\$56.74-119.29
Industrial, manufacturing, wholesale, agricultural.	\$0.44	<b>\$0.96</b>	<b>\$1.48</b>	<b>\$2.00</b>	\$6	\$28.51

Annual adjustments for inflation will resume in 2025

# Why not increase fees to the legally justifiable fee?

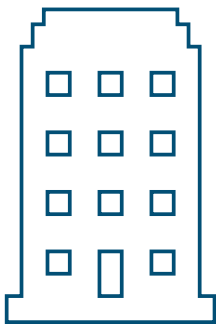
The fee applies to new development

New development only occurs when return expectations are met and projects are profitable



If projects maintains expected returns, development is built

260,000 sf of new development X \$8sf fee  
= **\$2,080,000 for affordable housing**



If costs are too great, nothing gets built

0 sf of new development X \$56sf fee  
= **\$0 for affordable housing**

& no new jobs

# Why do larger homes pay a larger fee?

## Intent:

Incentivize the development of more moderately sized/attainable housing when possible.



**2,800 sf new build single-unit**

**2,800sf X \$7 = \$19,600  
total**



**Triplex with 1,550 sf units**

**1,550sf X \$4 = \$6,200 per unit**

**\$16,200 total**

# How does the proposed fee (2024) affect feasibility?

Use	Current	Proposed	Difference
Office (3-Story)	<b>\$1.86 psf</b> ROC: 6.1% COC: 6.6% IRR: 11% ROE: 9%	<b>\$6.00 psf</b> ROC: 6.0% COC: 6.3% IRR: 10.2% ROE: 8.4%	<b>\$4.14 sf</b> ROC: (0.1%) COC: (0.3%) IRR: (0.8%) ROE: (0.6%)
Office (16-Story) High Market Area	<b>\$1.86 psf</b> ROC: 6.0% COC: 6.5% IRR: 10.7% ROE: 8.8%	<b>\$8.00 psf</b> ROC: 6.0% COC: 6.2% IRR: 10.0% ROE: 8.3%	<b>\$6.14 sf</b> ROC: 0.0% COC: (0.3%) IRR: (0.7%) ROE: (0.5%)
Industrial Warehouse	<b>\$0.44 psf</b> ROC: 6.1% COC: 6.6% IRR: 12.2% ROE: 9.0%	<b>\$2.00 psf</b> ROC: 6.0% COC: 6.4% IRR: 11.9% ROE: 8.7%	<b>\$1.66 psf</b> ROC: (0.1%) COC: (0.2%) IRR: (0.3%) ROE: (0.3%)

Short Term Return Metrics: Return on Cost (ROC): >6% Cash on Cash (COC): >6%

Long Term Return Metrics: Internal Rate of Return (IRR) > 10% : Return on Equity (ROE): >6%

All prototypes can be found in figure II-2 and II-3 of the feasibility analysis



# Will the linkage fee increase rents for tenants?

- Linkage Fee is a ONE-TIME fee (not a tax) on NEW development (not tenant finishes)
- Market rents are a result of market and local economics that are responding to constant changes in land values, construction and labor costs, development amenities, loan rates, investor expectations, etc.
- Therefore, changes to cost are not likely to be fully passed on to the tenants.
- However, if the linkage fee (one time cost) was passed on fully to the tenants, it would result in a 0.85% rent increase for office, hotel, retail.

# Next Steps

- **February:** Outreach via Advisory Committee Meeting (2/10); Open House (2/17); Office Hours (multiple); Organization outreach and follow up
  - LUTI Informational Updates: 2/15: Mandatory (inclusionary) Affordable Housing; 2/22: Incentives
  - Planning Board Informational Item (2/16)
- **March: Public comments close on March 14;** identify and make final revisions; publish final draft for legislative process
- **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

All dates and links to register are on the website:

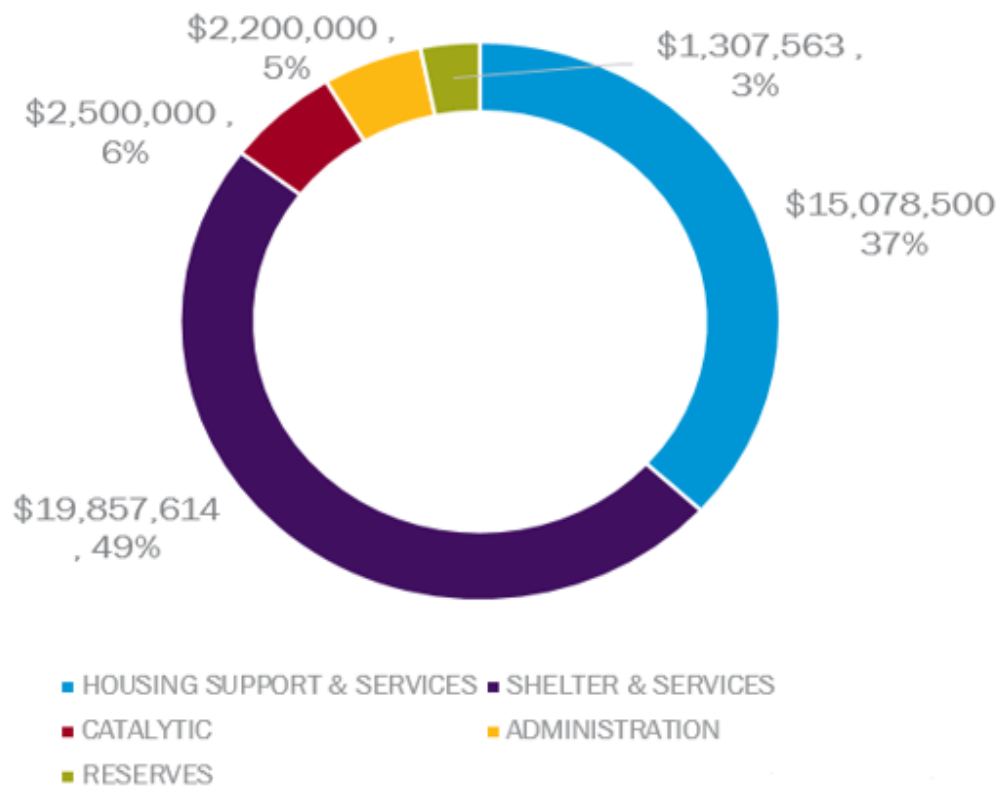
[www.denvergov.org/affordabilityincentive](http://www.denvergov.org/affordabilityincentive)

# Appendix (not planned for presentation)

# What HOST resources are currently dedicated to homelessness resolution?

## The Homelessness Resolution (2B) Fund in 2022

- Approximately **\$41M** budgeted for investment:
  - **180+** supporting housing units
  - **585** households in rehousing and other housing supports
  - Sustaining support for **24/7 shelter**
  - Expanding operating support for **non-congregate** shelter



# What is exempt from the linkage fee?

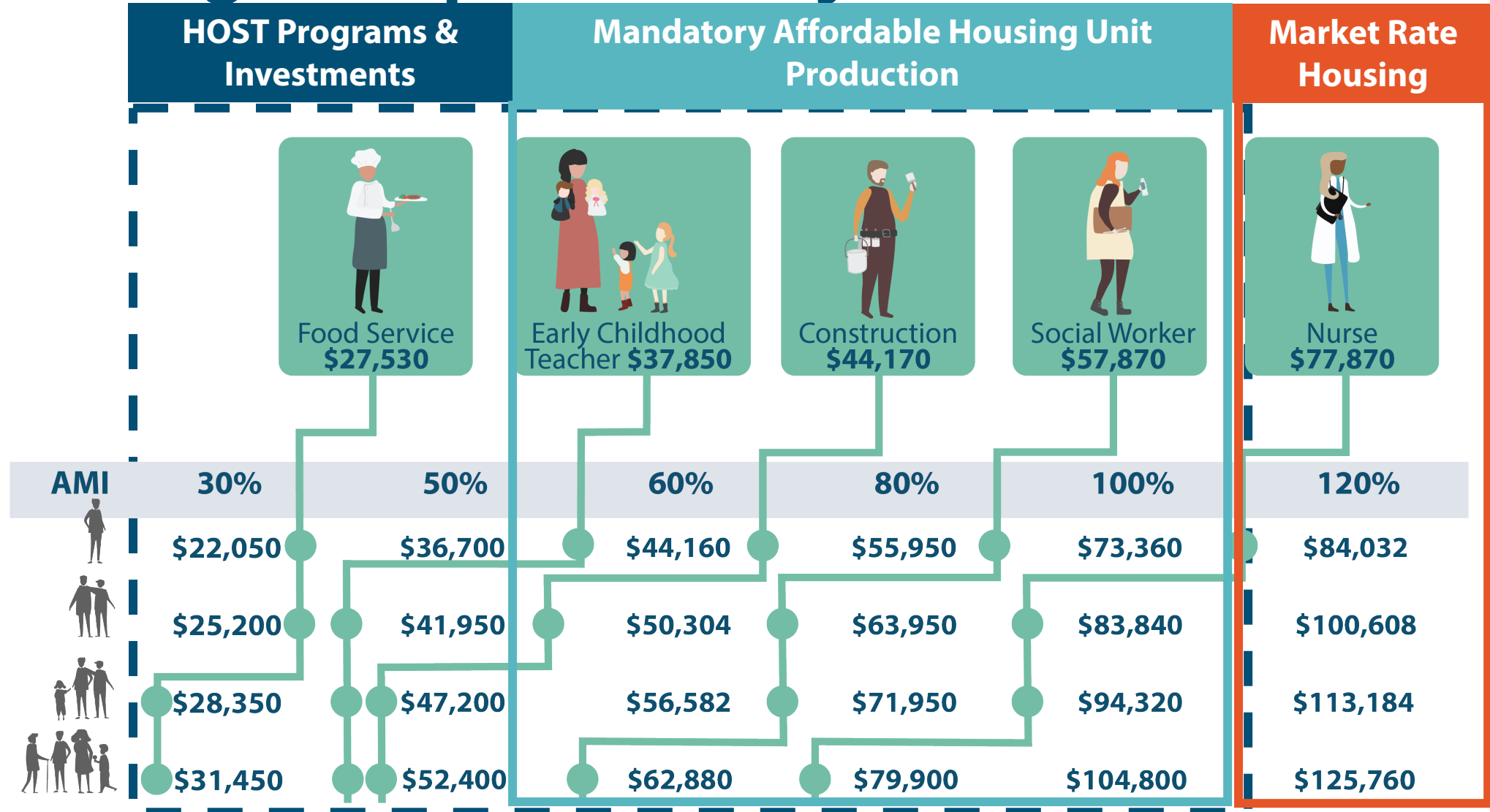
## Existing Exemptions:

- Project is subject to a pre-existing contractual agreement to provide affordable housing.
- Projects that has an affordable housing obligation as a part of its zoning (e.g., conditions of zoning)
- Project that is built by a charitable, religions or non-profit entity that is deed restricted to ensure affordability
- Affordable housing project
- Project that is built by a charitable, religions or non-profit entity that is deed restricted to provide housing shelter or housing assistance
- Development by a government for education or governmental use
- Reconstruction of a structure that was destroyed by a disaster
- Addition of 400 sf to an existing single-unit or two-unit structure
- Project is an accessory dwelling unit (ADU)

**NEW Exemption:** Project is an educational use

**NEW MAH Incentive:** exempt ground floor commercial uses - when building affordable units on-site

# Creating Complementary Tools



Source: HOST 2021 Income Limits  
 Bureau of Labor Statistics - Colorado (2020 Data)  
 35-2015 Cooks, Short Order; 25-2011 Preschool Teachers; 47-2141 Painters, Construction and Maintenance; 21-1022 Healthcare Social Workers; 29-1141 Registered Nurses