

Keeping Denver Diverse:

Revising the Inclusionary Housing Ordinance to Create More Affordable Housing Opportunities for Moderate Income Families

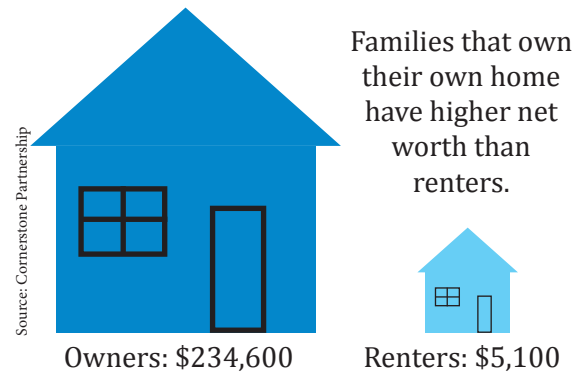


Summer 2014 Memo from Robin Kniech, Denver City Council At-Large

Homeownership is an integral part of stable and thriving neighborhoods.

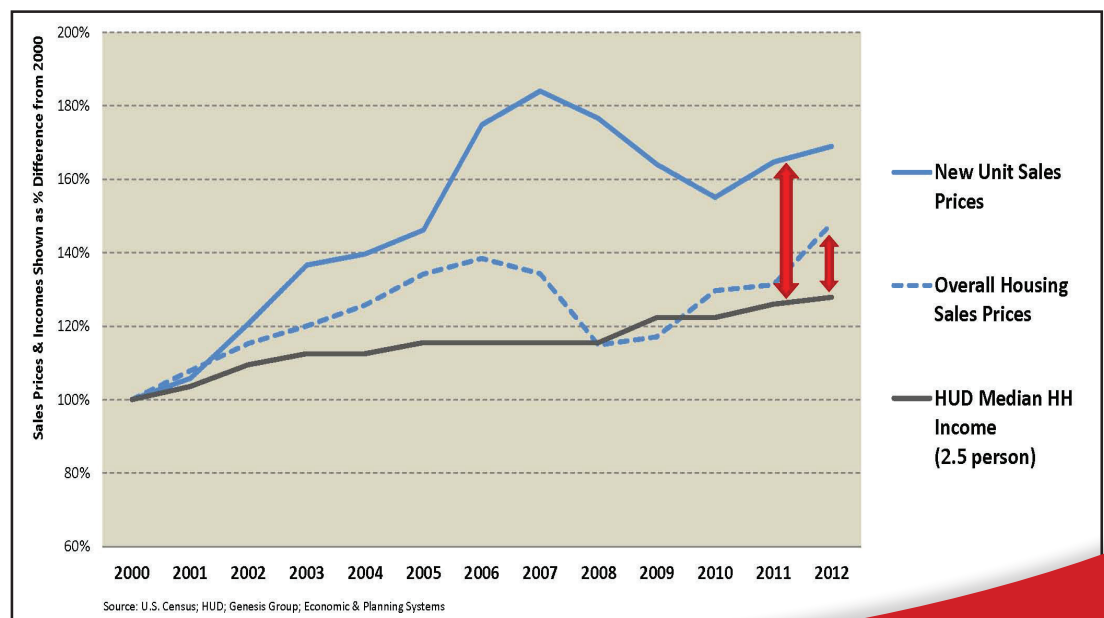
Homeownership:

- Gives a family a long-term and stable investment, and is the greatest contributor to wealth-building for most Americans.
- Has wealth building potential that spans generations, and is associated with higher educational achievement.
- Helps to build “social capital” and can foster safe and connected communities.



But, homeownership is becoming harder for working families to attain in Denver. Housing prices are rising as the economy recovers, but incomes are staying stagnant, so working families are struggling to save enough money to buy a home. Furthermore, when affordable homes are available for working families, they tend to be older, and more expensive to maintain, even if the sale prices are lower.

GAP BETWEEN HOUSING PRICES AND FAMILY INCOME IN DENVER



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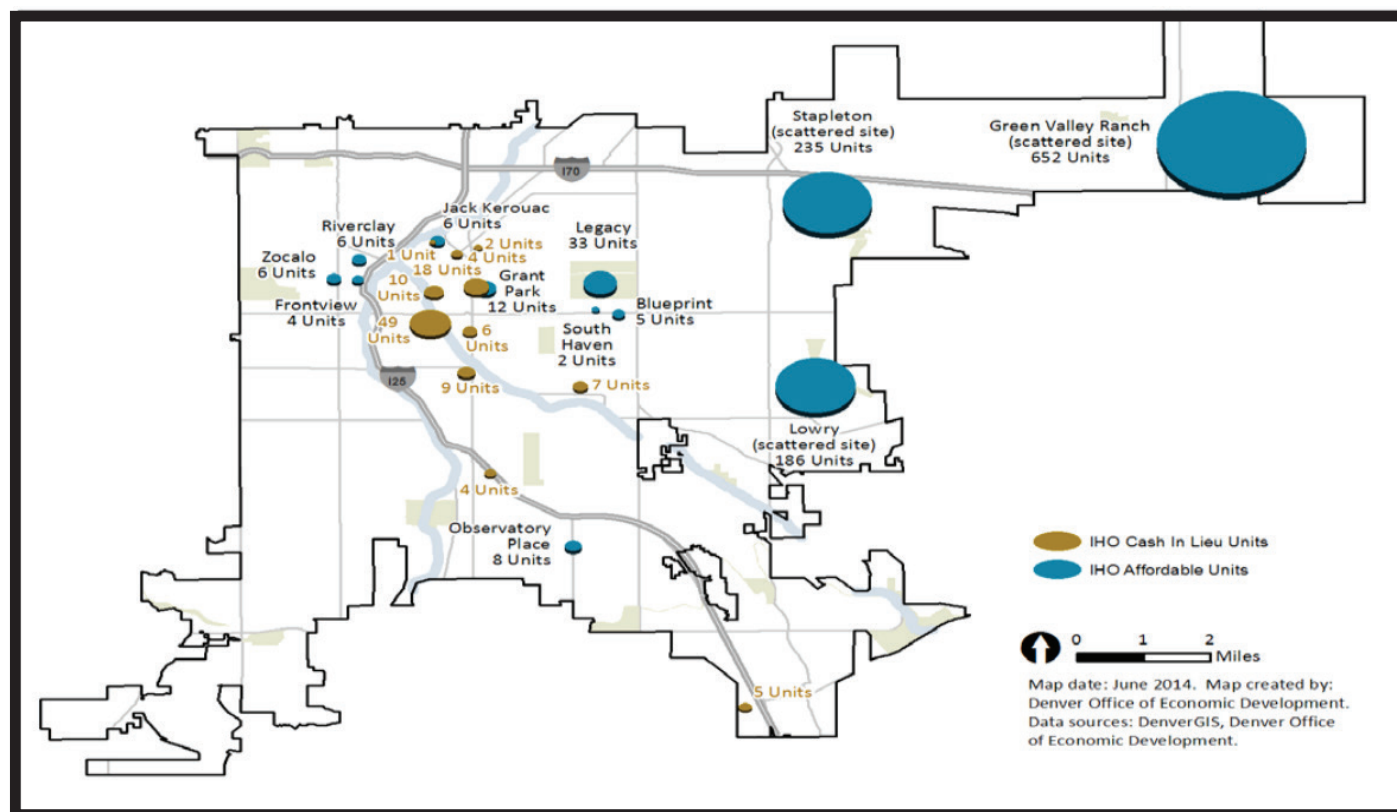
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What is the Inclusionary Housing Ordinance, and why should it be updated?

Programs like Denver's Inclusionary Housing Ordinance (IHO) balance affordability with wealth creation, and help working families overcome barriers to homeownership. The IHO, originally passed in 2002, requires for-sale housing developments of more than 30 units to make 10% of their homes affordable to moderate income families earning between \$42,950 and \$61,350 annually (for a family size of 1 to 4).

While the current ordinance has created some affordable homes, most have been built because of large development agreements such as those at Stapleton, Green Valley Ranch, and Lowry, and most have been in lower cost areas where they are more likely to compete with similarly priced homes without any affordability restrictions. Very few homes have been built in higher costs areas, like downtown and central Denver, where market prices are high and the need for affordability is greater. In these higher-cost, higher-need areas, developers have largely chosen to pay “cash in lieu” of building affordable homes. Denver uses those cash payments to pay other developers who do build their units a modest \$5,500/per home cash incentive, or invests the funds directly in mixed-income affordable housing developments. The current ordinance does not address the varying economics of different areas of the City.

DEVELOPMENTS IN DENVER THAT HAVE BUILT VS. BOUGHT OUT UNDER THE CURRENT ORDINANCE

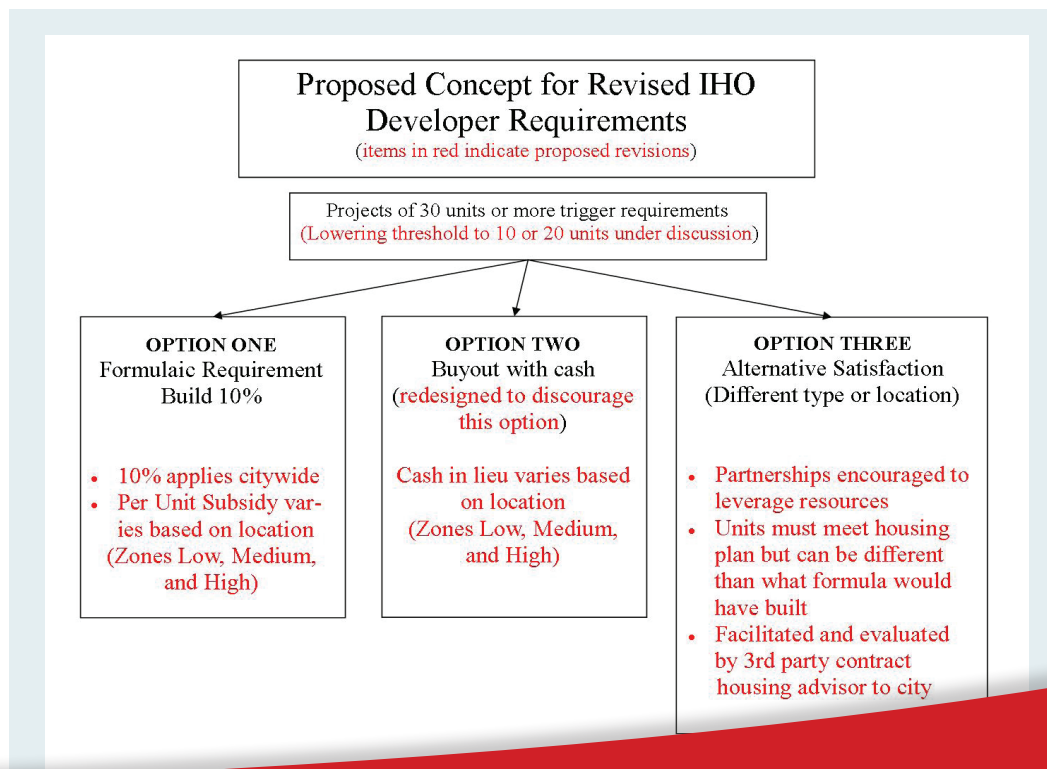


As just one piece of Denver's overall affordable housing strategy, Councilwoman Robin Kniech has been working over the last year and a half with a broad coalition of stakeholders to revise the ordinance to create more affordable housing opportunities for moderate income families. In 2013, City Council approved a first round of amendments to add flexibility for owners of affordable homes created under the ordinance. Guided by an economic study of Denver's housing needs and best practices across the nation, this round of amendments will recalibrate the developer requirements to help build more homes and work in closer partnership with developers on a range of flexible options for doing so.

How would a revised ordinance help create more affordable homes for moderate income families?

KEY FEATURES OF THE REVISED ORDINANCE:

- 1) **An enhanced culture of flexibility, providing developers more options to create different size, type or affordability of homes on-site, or even off-site through partnerships with other developers.** Most cities have a larger array of incentives available to help developers absorb the economics of providing affordable homes than Denver does, so flexibility is intended to increase the chances for real homes to be built rather than paying cash. To foster creative partnerships and “outside the box” solutions to Denver’s housing needs, an independent advisor would provide technical assistance and support for developers to explore these options.
- 2) **Variable incentives/cash in lieu levels to mirror the variation in housing prices across Denver’s neighborhoods.** The requirement to build 10% of homes as affordable in medium to large for-sale development projects will remain the same in the new ordinance. But the incentive payments or cash in lieu amounts will change based on the “zone” where the project is located.
 - Sixty percent of neighborhoods are identified as “medium” zones and will see virtually no change to the economic factors. It will cost developers the exact same to pay cash in lieu of building, and they will receive about the same in cash incentives if they build the affordable homes as part of their project.
 - Using median home prices and proximity to transit to identify higher-cost, higher-need neighborhoods where the cost of building affordable homes might be higher and therefore less likely, approximately 15% of the city has been identified as a “high” zone. In these “high” areas, the revised ordinance will more strongly encourage building of homes by raising the amount of cash a developer has to pay if they opt not to build affordable homes, while at the same time providing a much higher incentive of \$20,000 per unit to improve the economics of building homes.
 - Areas where home prices are lowest and there is no transit access, about 25% of the city, will be in a “low” zone where the ordinance lowers both the amount of cash in lieu fees and incentives, simply allowing market forces to play a greater role in determining which choice a developer makes.



How would the proposed revisions to the ordinance address Denver's economically diverse housing markets?

Since the price of housing in Denver can vary widely by neighborhood, proposed revisions to the Inclusionary Housing Ordinance would introduce variable incentive/cash in lieu (CIL) levels to mirror the variation in housing markets across the City.

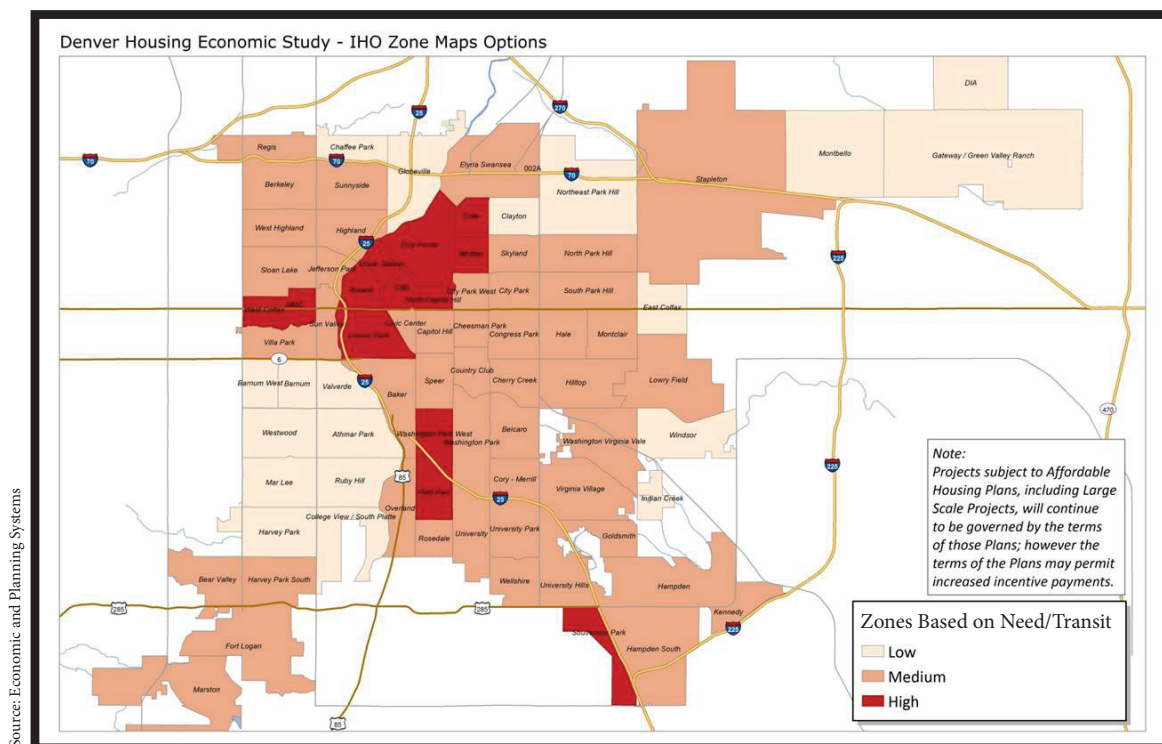
Based on median home prices and proximity to transit, three “zones” would determine incentive/CIL levels for a project:

HIGH ZONE: higher-cost, higher-need neighborhoods where the housing market is less likely to create affordable homeownership opportunities for moderate income families.

MEDIUM ZONE: moderately priced neighborhoods where older homes may be more affordable, but new construction is unlikely to be, and there is still a need for affordable housing.

LOW ZONE: lower-cost neighborhoods where the housing market is more likely to create affordable homeownership opportunities for moderate income families.

PROPOSED “ZONES” FOR VARIABLE CASH IN LIEU AND INCENTIVE LEVELS UNDER REVISED ORDINANCE



TIERED CASH IN LIEU AND INCENTIVE LEVELS BY “ZONE” UNDER REVISED ORDINANCE

*PROPOSED LEVELS AS OF JUNE 2014

Zone	*Cash In Lieu	*Cash Incentives
High	75% of Sales Price	\$20,000 per unit
Medium	50% of Sales Price (Existing)	\$6,500 per unit (Existing adjusted by inflation)
Low	25% of Sales price	\$2,500 per unit* * Except within ½ mile of transit, which receives the medium incentive