Expanding Housing Affordability

Budget and Policy Committee Meeting
July 29, 2021

DENVER
THE MILE HIGH CITY

Expanding Housing Affordability
Through Market-Based Tools

Project Objective

To establish market-based programs for new development that complement existing tools and resources, enabling the city to address housing needs for low-to-moderate income households in every neighborhood.

The city is exploring the following complementary tools through the **Expanding Housing Affordability** project

- Linkage Fee Updates
- Inclusionary Housing
- Incentive Zoning Expansion

Guiding Principles

- An **equitable** program that addresses housing needs for households in every Denver neighborhood
- A **predictable** program that provides clarity and transparency of process, requirements, and outcomes
- A **market-based** program that responds to varied market feasibility conditions and partnership opportunities

Context Setting

Denver's growth has not benefited everyone

Denver has added **56,000** more households since in 2010

But not everyone has benefited from that growth

The **cost of housing** has increased **2x** the **rate of incomes**

Less than $50,000

$50,000 – 80,000

$80,000 or higher

Who needs affordable housing?

Preschool Teacher
$37,850

Construction Laborer
$39,110

EMT/Paramedic
$42,900

Flight Attendant
$51,010

Social Worker
$57,870

Firefighter
$63,160

31 – 50% AMI
Max income $41,950

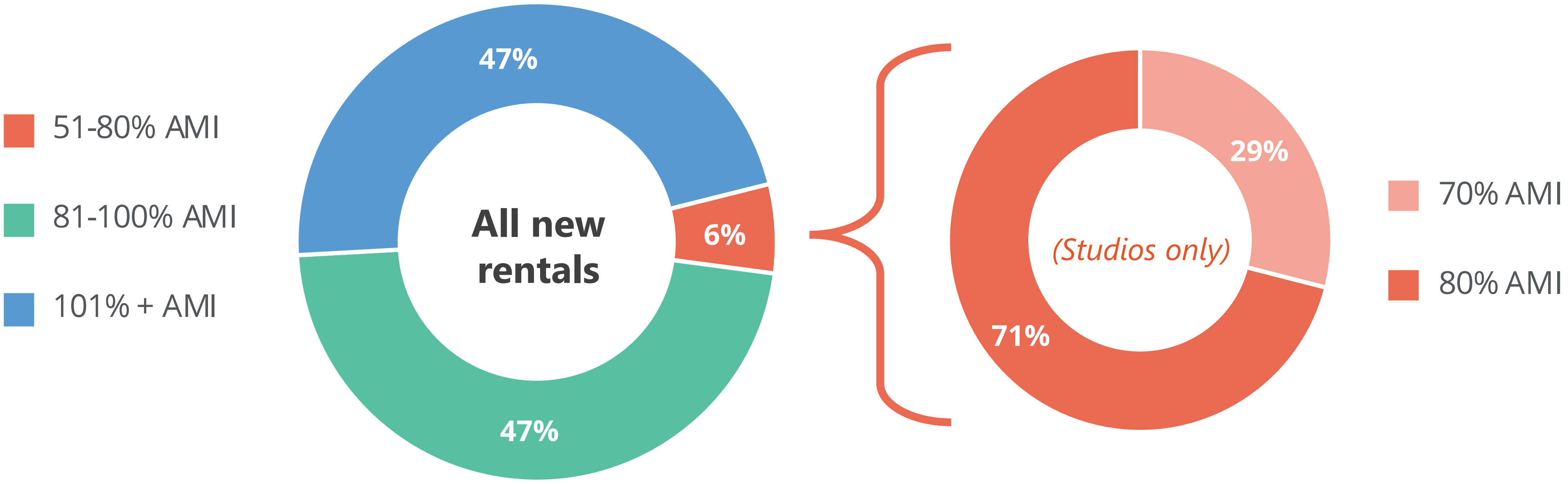
51 – 60% AMI
Max income $50,340

61 – 80% AMI
Max income $67,120

Source: Bureau of Labor Statistics 2020;
2021 HUD Income Limits 2-person Household

New Rental Development Is Typically above 80% AMI

Market Rate Development by AMI, Built 2015-2019



Source:
CoStar, Root Policy Research.

Regional Effects on AMI

	2010	2020
HUD AMI 2-person household	$60,800	$80,000
Income Thresholds		
0-50%	$30,400	$40,000
51-60%	$36,480	$48,000
61-80%	$48,640	$62,800
81-100%	$60,800	$80,000
101-120%	$72,960	$96,000
121-150%	$91,200	$120,000

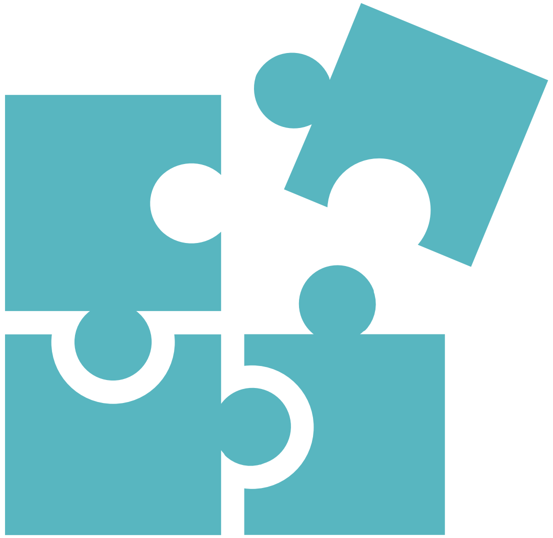
Source: HUD, HOST, Root Policy, US Bureau of Labor Statistics

Income growth in the metro region has led to a notable increase in AMI over the past 10 years.

How is Denver addressing housing need?

Department of Housing Stability (HOST)

- Stabilize residents at risk of involuntary displacement and connect residents to housing resources
- Support residents experiencing a crisis and connect them to overnight shelter, services, and short-term and permanent housing
- Create and preserve existing affordable housing and connect residents at any income level to new housing opportunities
  - These tools can support the creation of affordable housing



Developing Complementary Tools to Create Affordable Housing

<30% AMI	31-40% AMI	41-50% AMI	51-60% AMI	61-80% AMI	81-99% AMI	100% AMI +

Funds and programs are prioritized to serve homeless residents and those with the greatest housing needs.

City Partners (DEDO and DHS)

Local Partners (DHA, D3 Bond Initiative)

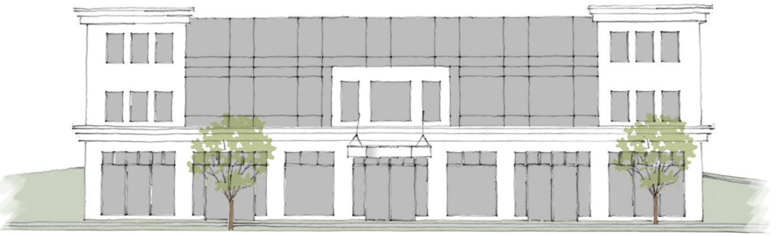
State Partners (CDOH, CHFA to provide rental assistance, gap financing)

Federal funding and programs

Market Rate Rental Production

Market Rate Ownership Production

Expanding Our Tools



	Current	Proposed
New residential 7 units or less	**Fee $0.65 per/sf**	**Increased fee of $XX per/sf**
New residential 8 units or more	**Fee of $1.61 per/sf** or ~1% of units at 80% AMI	**Required X% of unit's restricted at XX% AMI** + **Incentives** create greater affordability (deeper AMI and/o more units) & Off-Sets
Non-Residential (e.g., office, retail, industrial)	**Fee $1.83 per/sf**	**Increased fee of $XX per/sf**

Note: Current Linkage Fees differentiate by building code (IBC/IRC), not the number of units.

Financial Feasibility

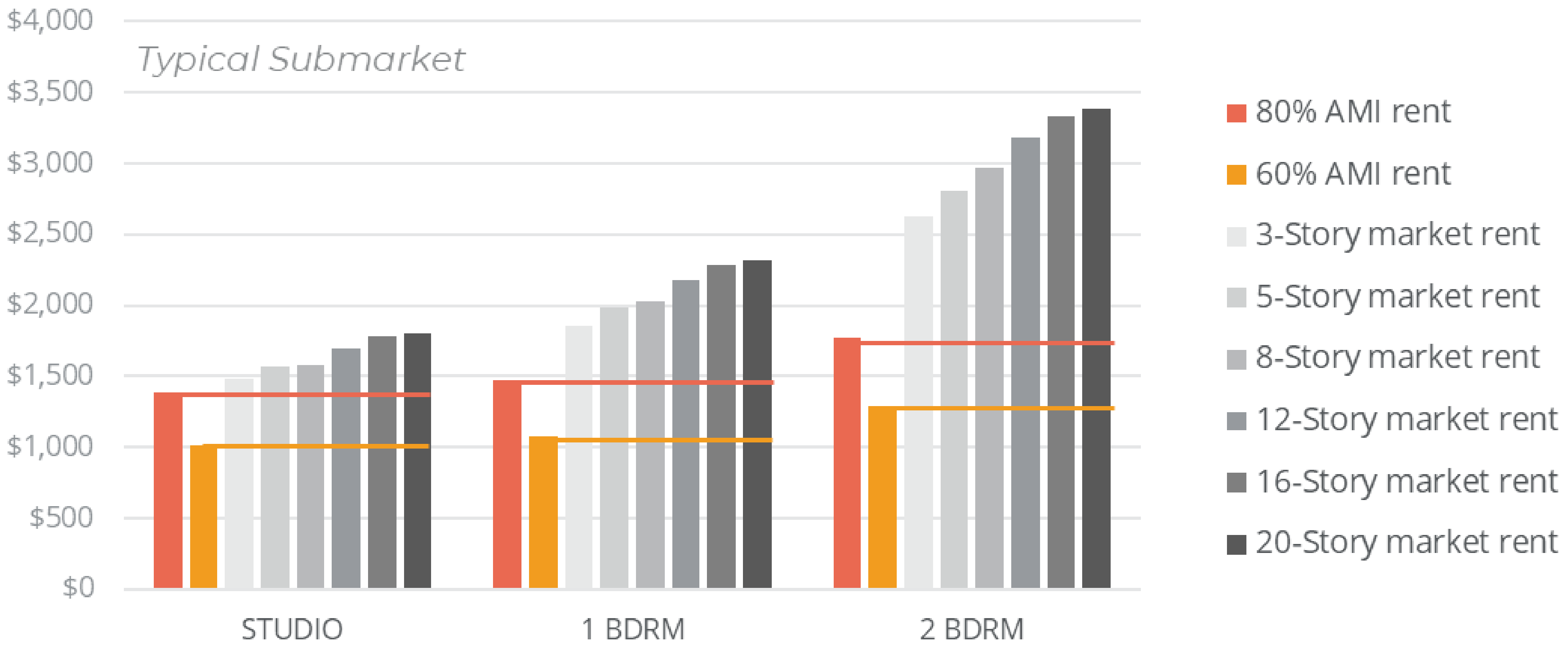
Why is financial feasibility important?

Ensures that market-rate housing and non-residential development can continue while creating affordable housing.

- Without new, market-rate units, the inclusionary program will not create any new affordable units.

- Without new commercial/industrial development, the linkage fee will not generate funds for affordable housing.

How do affordable requirements and incentives impact feasibility?



Results Context

The findings of this report do not include the in-depth analysis of incentives or off-sets.

- Incentives and off-sets will be a part of the inclusionary program and will ultimately increase feasibility.

The findings of this report do not account for typical market adjustments that occur after significant regulatory changes.

- After significant regulatory changes, the market will adjust (e.g., land prices lower) to accommodate for changes and likely lead to increased feasibility a few years after implementation.

Inclusionary Findings: Rental

% AMI	Feasible Inclusionary Requirement		Contract Rent for 1-bdrm at specified AMI
	Typical Submarket	High Cost Submarket	
Rental Residential			
50% AMI	5% of units	8% of units	$886
60% AMI	8% of units	10% of units	$1,082
70% AMI	10% of units	12% of units	$1,279
80% AMI	12% of units	15% of units	$1,476

Inclusionary Findings: For-Sale

% AMI	Feasible Inclusionary Requirement: Typical Submarket	Feasible Inclusionary Requirement: High Cost Submarket (high rise condos)	Home price for 2-person household at specified AMI
For-sale Residential			
60% AMI	8% of units	10% of units	$188,500 - $232,000
80% AMI	10% of units	12% of units	$251,300 - $309,300
100% AMI	12% of units	15% of units	$314,100 - $386,600
120% AMI	15% of units	18% of units	$377,000 - $463,900

Linkage Fee Findings

Typical Submarket:
Commercial: $7-$9
Industrial: $6

High Cost Submarket:
Commercial: $11

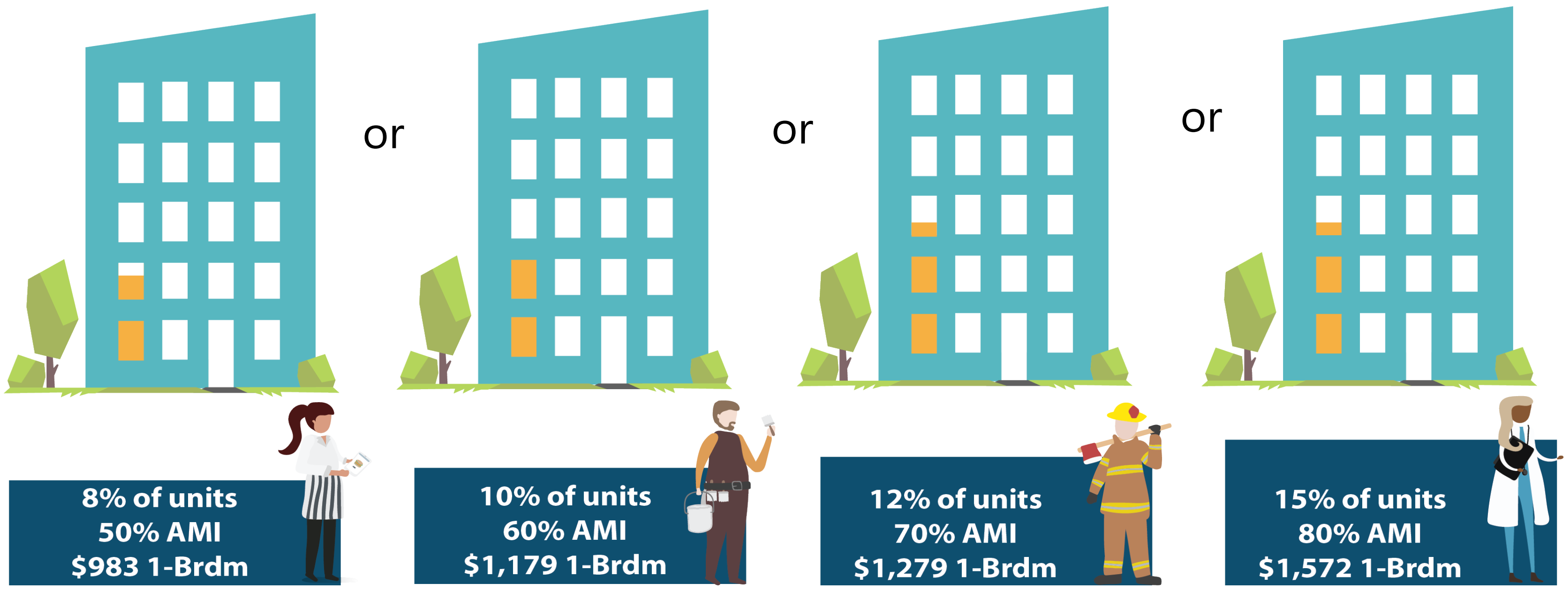
Prototype	Max Justifiable Nexus Fee	Current Linkage Fee	Feasible Linkage Fee	
			Typical Submarket	High Cost Submarket
Commercial			**$7 / GSF**	**$11 / GSF**
Office under 8 stories	$56.74 / GSF	$1.83 / GSF	$8 / GSF	n/a
Office over 8 stories	$56.74 / GSF	$1.83 / GSF	$9 / GSF	$11 / GSF
Hotel under 8 stories	$83.02 / GSF	$1.83 / GSF	$9 / GSF	n/a
Hotel over 8 stories	$83.02 / GSF	$1.83 / GSF	$9 / GSF	$11 / GSF
Retail (1 story)	$119.29 / GSF	$1.83 / GSF	$7 / GSF	n/a
Industrial			**$6 / GSF**	**n/a**
1-Story Warehouse	$28.51 / GSF	$.43 / GSF	$6 / GSF	n/a

Inclusionary Program Priorities

Trade-Off Discussion:

Should the inclusionary program focus on serving fewer households with greater housing needs, serving more households with moderate needs, or find a balance in between?

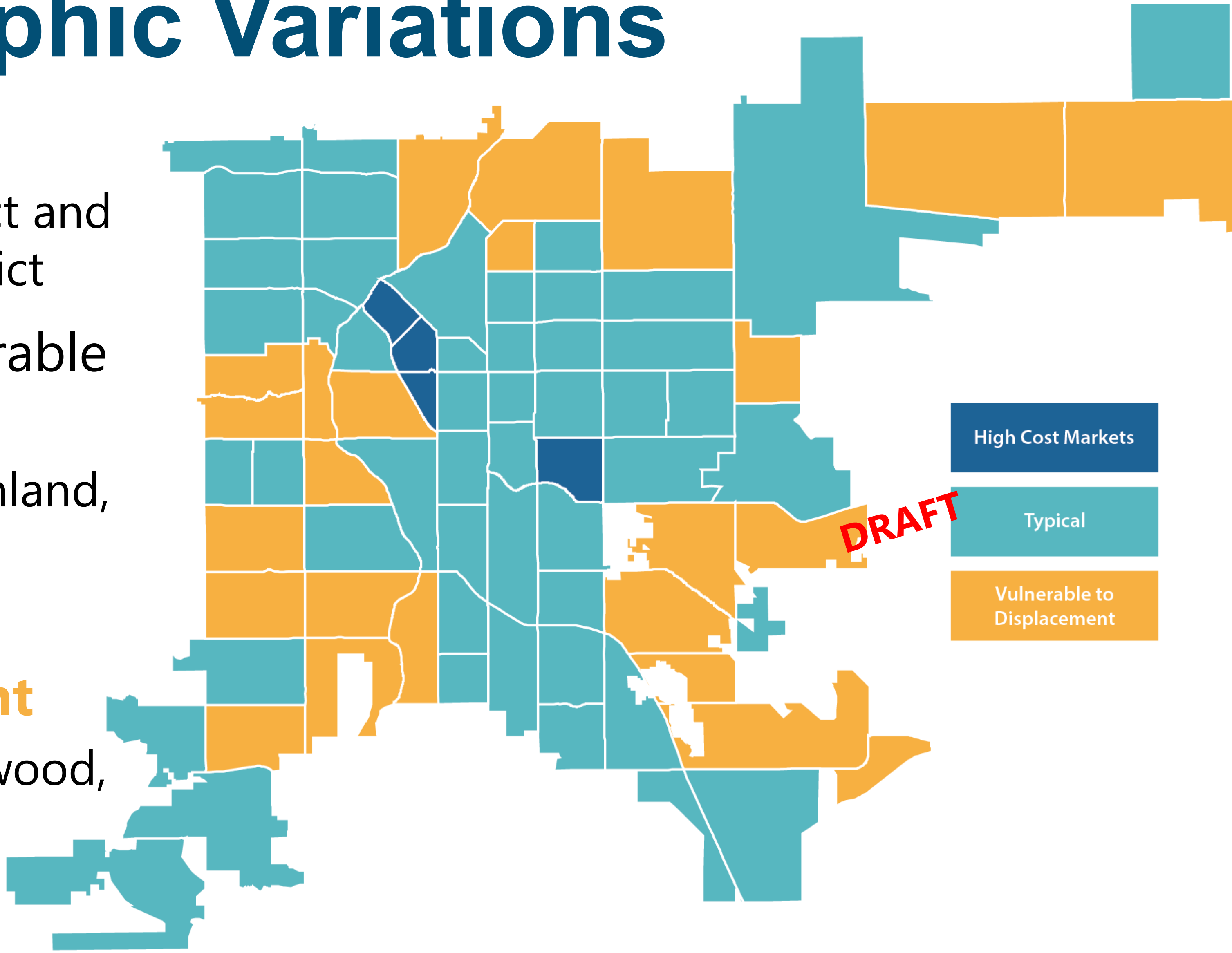
Typical market feasibility findings:



*Note, these percentages and AMIs focus on rents in typical markets, which is the largest proportion of new development.

DRAFT Geographic Variations

- **High-Cost Markets**
  - E.g., Central Business District and Cherry Creek Business District
- **Typical Markets** less vulnerable to displacement
  - E.g., North Capitol Hill, Highland, Sloan Lake, Lowry, etc.,
- **Typical markets more vulnerable to displacement**
  - E.g., GES, East Colfax, Westwood, Montbello, Sun Valley, etc.



Off-Sets & Incentives

Off-Sets

Intended to reward those for building affordable units on-site rather than fee-in-lieu.

- *Meets the on-site requirement*

Incentives

Intended to meaningfully change the economics to make greater affordability (increase in percent affordable units and/or depth of affordability) beyond the minimum required more feasible.

- *Exceeds the on-site requirement*

*Note, fully affordable projects (all units are income restricted) will be able to access both off-sets and incentives.

Geographic Tailoring Discussion

Should the inclusionary program vary program requirements by geography? Potential standards to vary include:

- Percent of affordable units required
- AMI level served
- Buy-out amount (Fee-in-lieu)
- Off-sets/incentives

Next Steps & Upcoming Topics

Supplement to feasibility report:

- Alternative compliance and buy-out fees
- Incentives & offsets

Effective date/project cut-off:

- Policy discussion balancing affordable housing needs, market impacts and staffing/infrastructure resources

Next Steps:

- Individual council briefings
- Return to B&P in August/September
- Continued outreach

Additional slides for reference

Will not be presented

State Law Changes

With the passing of HB21-1117, Denver and other communities across the state may require affordable housing (including rental) on all new housing.

Specifically, the bill…

- Enables "local governments to regulate the use of land to promote the construction of new affordable housing units"
- Requires a "choice of options… and creates one or more alternatives to the construction of new affordable housing units on site."
- It also requires that local governments demonstrate their commitment to "increase the overall number and density of housing units… or create incentives to the construction of affordable housing units."
- Does NOT authorize a local government to adopt or enforce any ordinance or regulation that would have the effect of controlling rent on any existing private residential housing unit in violation of the existing statutory prohibition on rent control.

Expanding Our Tools

Linkage Fee

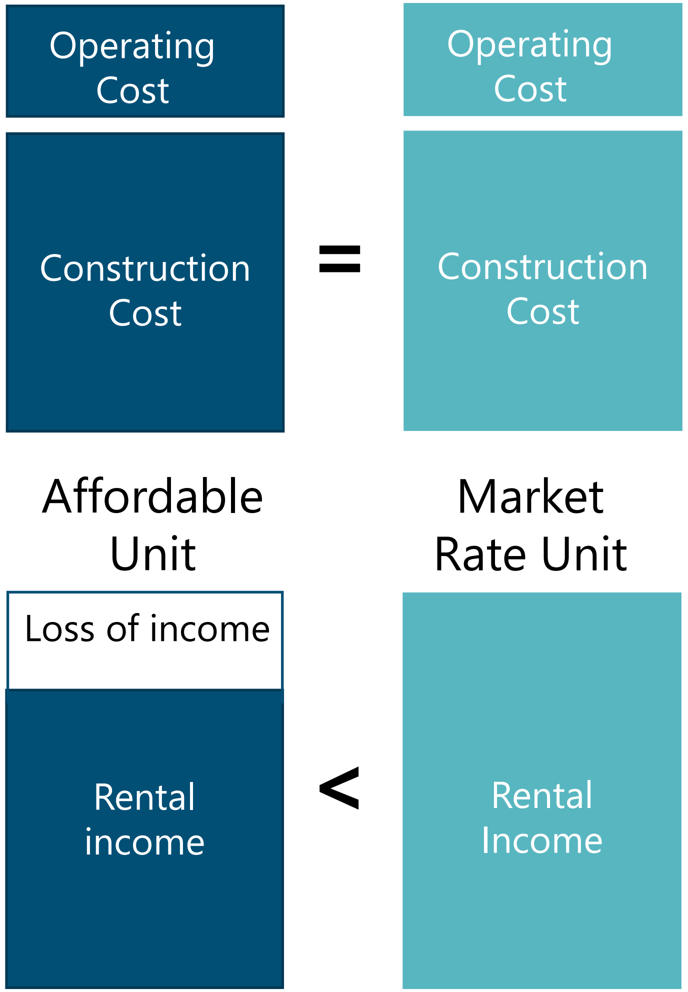
- What: One-time fees imposed on new development on a per square/foot basis and are designed to offset the impact of new developments demand for affordable housing.
- Intent: Increasing the existing fee on commercial and low-scale residential within financial feasibility to incase funds for affordable housing.

Inclusionary Housing

- What: Requires new residential development to include a portion of affordable housing units on-site and create mixed-income housing.
- Intent: Create a requirement for new residential development to provide a portion of units as affordable at a particular AMI level.
    - Will also provide alternative compliance options as required by HB-1117.

How do affordable requirements and incentives impact feasibility?

When affordable unit construction is required in rental developments, the income restricted units reduce the potential net operating income (though the per-unit cost of constructing affordable units and operating them is typically the same as market-rate units). In a for-sale context, affordable units reduce the expected sale revenue.



Report Process & Assumptions Testing

Prototypes

- Based on previous feasibility reports (e.g., Linkage fee nexus study) and recent development trends.
- For-sale and rental residential (from single family to 20-story); Office (3-16 stories); Hotel; Retail; Warehouse

Proforma assumptions

- Market data on building costs and rents.
- Variations by geographic submarket and development prototype/height.
- Extensive stakeholder vetting.

17 interviews; 4 focus groups; actual project data sharing

Financial Feasibility

- Return on Cost (6.5%)
- Cash on Cash (5%-10%)
- Internal Rate of Return (20% year 7)
- Return on Equity (6% year 5)

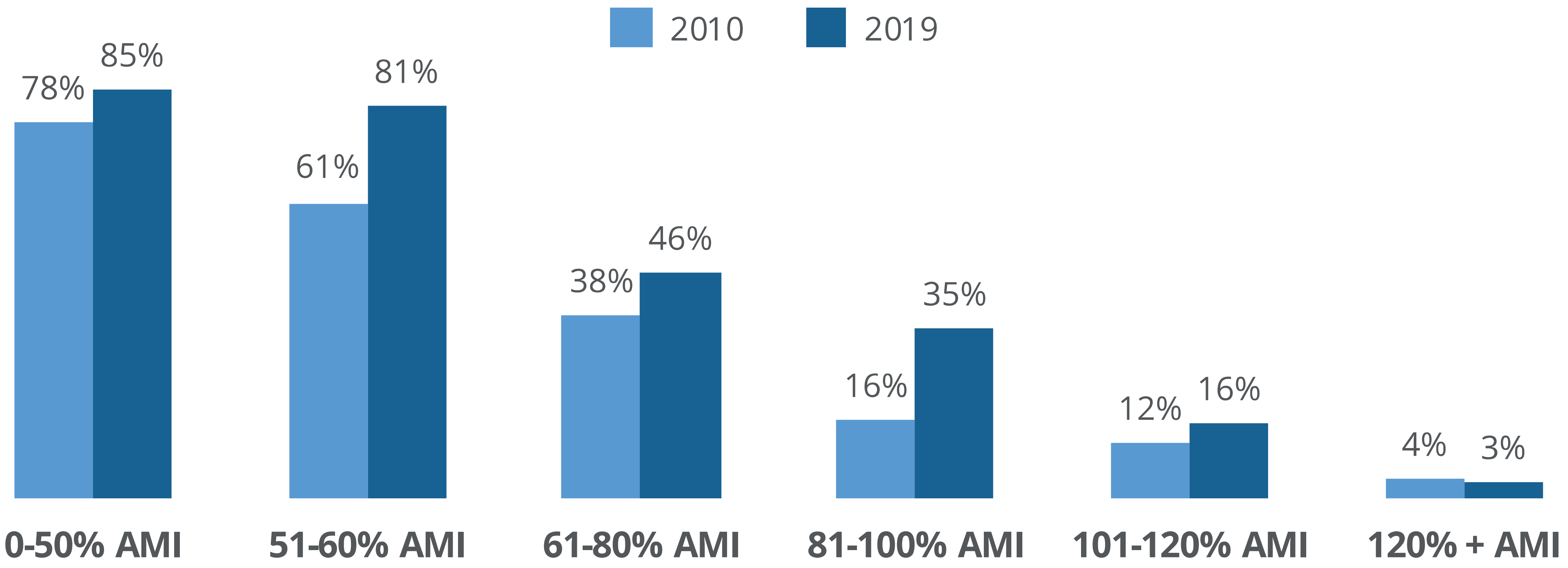
Affordability requirements

- Linkage Fee increases (non-residential, and low residential)
- Inclusionary (for-sale and rental residential)

Changes in Outcomes

- Actual change in output metrics (ROC, COC, IRR, ROE)
- **Must meet minimum targets on at least 1 short-term and 1 long-term metric across prototypes**

Cost Burden is Growing Among Renters



Inclusionary Requirements: Peer Cities

AMI level served ranges from 30 – 120% AMI

- Most programs focus around 60 – 80% AMI

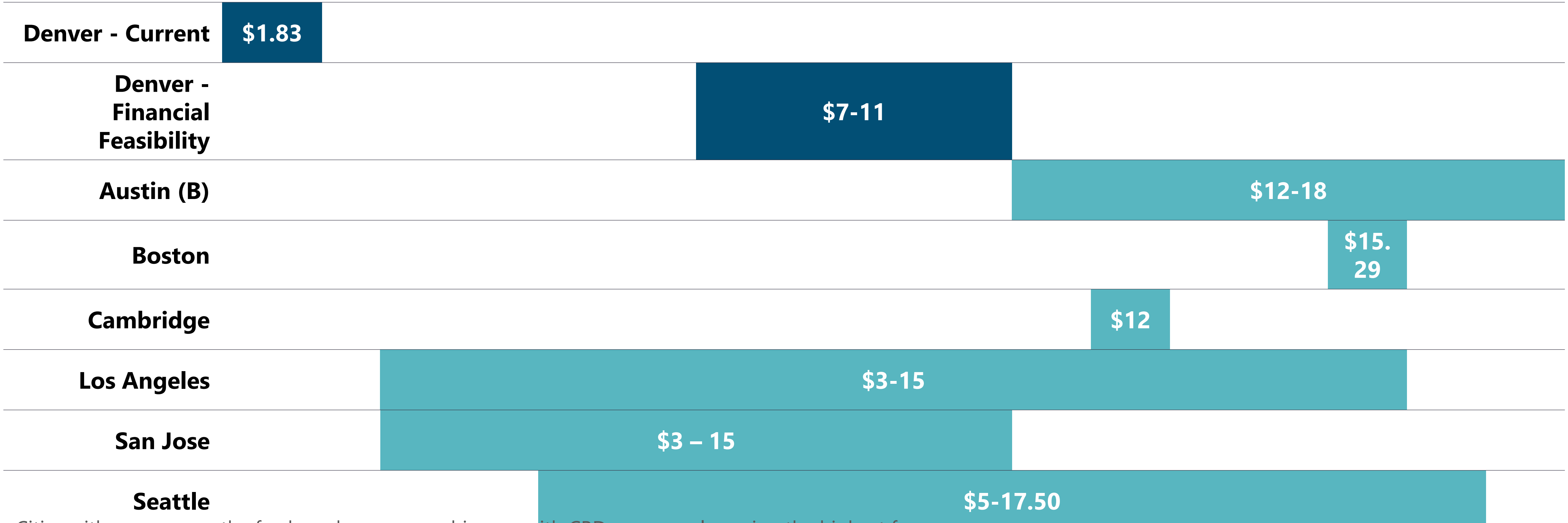
Required affordable units range from 5-20%

- Most programs focus around 12%
- Programs with higher AMI requirements have greater percent requirements and vice versa.

All programs offer some incentives such as density bonus, tax abatement, expedited review, zoning variance, reduced parking, and direct subsidy.

- Most common incentives include density bonus and zoning variance.

Commercial Linkage Fee Peer Cities Context



Cities with ranges vary the fee based on geographic area with CBDs commonly paying the highest fees