

# Expanding Housing Affordability

*City Council Budget and Policy Meeting  
October 18, 2021*



# Agenda Outline

- Context Setting
- Key Policy Priorities
- Key Program Recommendations
  - Mandatory (Inclusionary) Housing and Incentives
    - On-Site Build Requirements
    - Alternative Compliance
    - Incentives
  - Linkage Fee
- Next Steps
  - Outreach Opportunities and Partnerships

# Project Scope

**What:** Creating new and predictable requirements for affordable housing contributions as part of new development.

- **Mandatory (Inclusionary) Housing:** Requires a portion of new housing units to be affordable and provides incentives.
- **Linkage Fee:** Requires a fee on new development to fund new affordable housing.

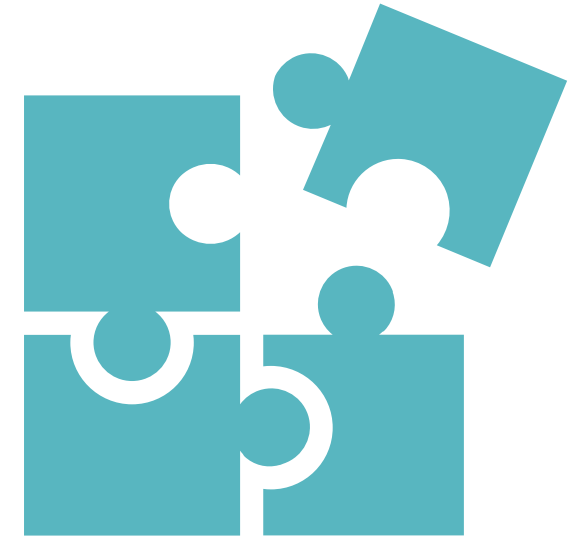
**Why:**

- Housing needs are growing, and new housing and programs aren't meeting needs
- New tools are possible given state law changes
- Implementing our plans to create an equitable, affordable and inclusive Denver

# Part of a Larger Housing Strategy

## Department of Housing Stability (HOST)

- Stabilizing people at risk of involuntary displacement and connecting them to housing resources
- Supporting people experiencing a crisis and connecting them to shelter services and short-term and permanent housing
- **Creating** and preserving existing affordable housing
- Connecting residents at any income level to new housing opportunities



# What is Affordable Housing?



**Dedicated affordable housing** are income-restricted units that are created through public assistance or market-based programs to ensure that no household pays more than 30% of their income on housing.



**Naturally occurring affordable housing (NOAH)** are units that may rent or sell at affordable levels, but do not have legally binding affordability requirements.

# Where have we been?

## Community Engagement

- Ongoing community and industry outreach since February of 2020 (AHZI) since February of 2021 for EHA
- EHA steering committee
- Focus groups
- Financial feasibility released in July followed by industry outreach on feasibility

## City Council

- **Budget & Policy** March of 2021
  - Project purpose, scope, outreach, other cities best practices
- **Budget & Policy** August of 2021
  - Denver housing needs, financial feasibility process and outcomes, update on HB21-1117
- Council one-on-one briefings August – September

# Outreach Approach



# Outreach Approach





# Advisory Committee Role



## Advisory Committee

The EHA Advisory Committee will provide input throughout the process to ensure key issues and interests are considered and to promote buy-in from a wide range of stakeholders on the proposed approach.

### Includes...

- City Council and Planning Board
  - City Council members: CW Sandoval and CW Kniech
- Community Members – Recommended by Council
  - Housing and Community Advocates
- Industry Experience
  - Affordable Housing Developers
  - Market Rate Developers (with various experience, residential/multi-family/commercial, etc.)
  - Finance
  - Housing Policy
- Meetings are open to the public and in English /Spanish
- Complete list [online](#).

# Key Feedback Priorities

Based on peer city analysis, evaluation of Denver's 38th & Blake density program, and extensive stakeholder feedback, the following key considerations have been identified:

- Create mixed-income housing
- Increase funding for affordable housing
- Promote clarity and predictability
- Create market-based requirements
- Pair incentives with mandatory requirements
- Complement existing programs and funding sources for affordable housing
- Create long-term affordability

## Program Priorities

**Create a clear and predictable program to promote...**

**On-site unit creation:** generate mixed-income housing on-site with new residential development, both rental and for-sale.

**Increased funding:** increased generation of fees through increased linkage fees on low density residential and non-residential development.

# Creating a Balanced Proposal

The proposed policy recommendation seeks to balance:

- Current and future housing needs
- Analysis of other cities programs and successes
- Past/current Denver program lessons learned
- Financial feasibility
- Extensive stakeholder feedback

# Mandatory Housing: On-Site Build Requirement

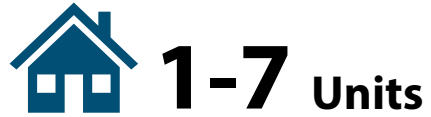
## Policy Objective

Create a **clear and predictable program** to **promote on-site unit creation** resulting in **mixed-income housing** and therefore mixed-income neighborhoods.

- Top Priority: New affordable housing should serve those with greatest housing needs where existing programs and resources are insufficient. It should also be available to serve renters and those who want to own a home.
- Secondary Priority: Affordable units should serve a mix of incomes and complement existing programs and resources.

# Program Applicability

## New Construction of...



**Linkage  
Fee per/sf**



**Mandatory  
Housing**

Enabling for **Alternative  
Compliance**

And providing  
**Incentives**



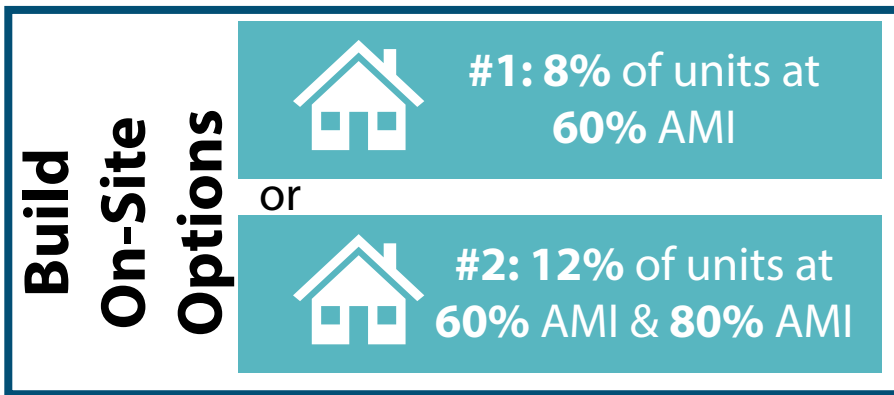
**Office  
Retail  
Industrial**



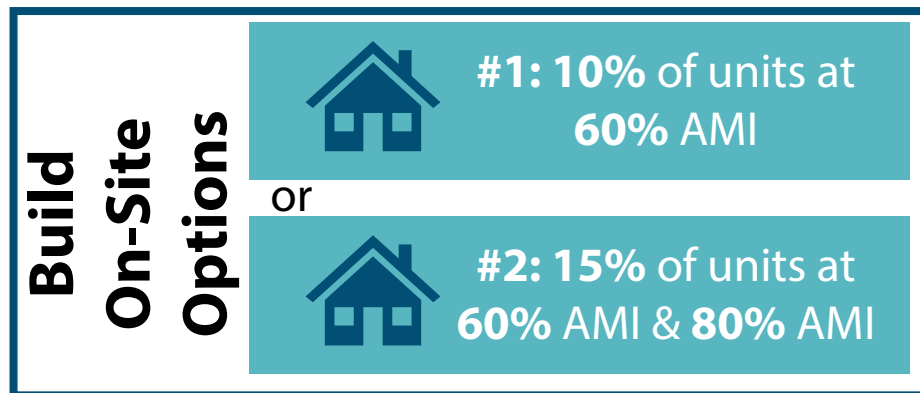
**Linkage  
Fee per/sf**

# Mandatory Housing On-Site (rental)

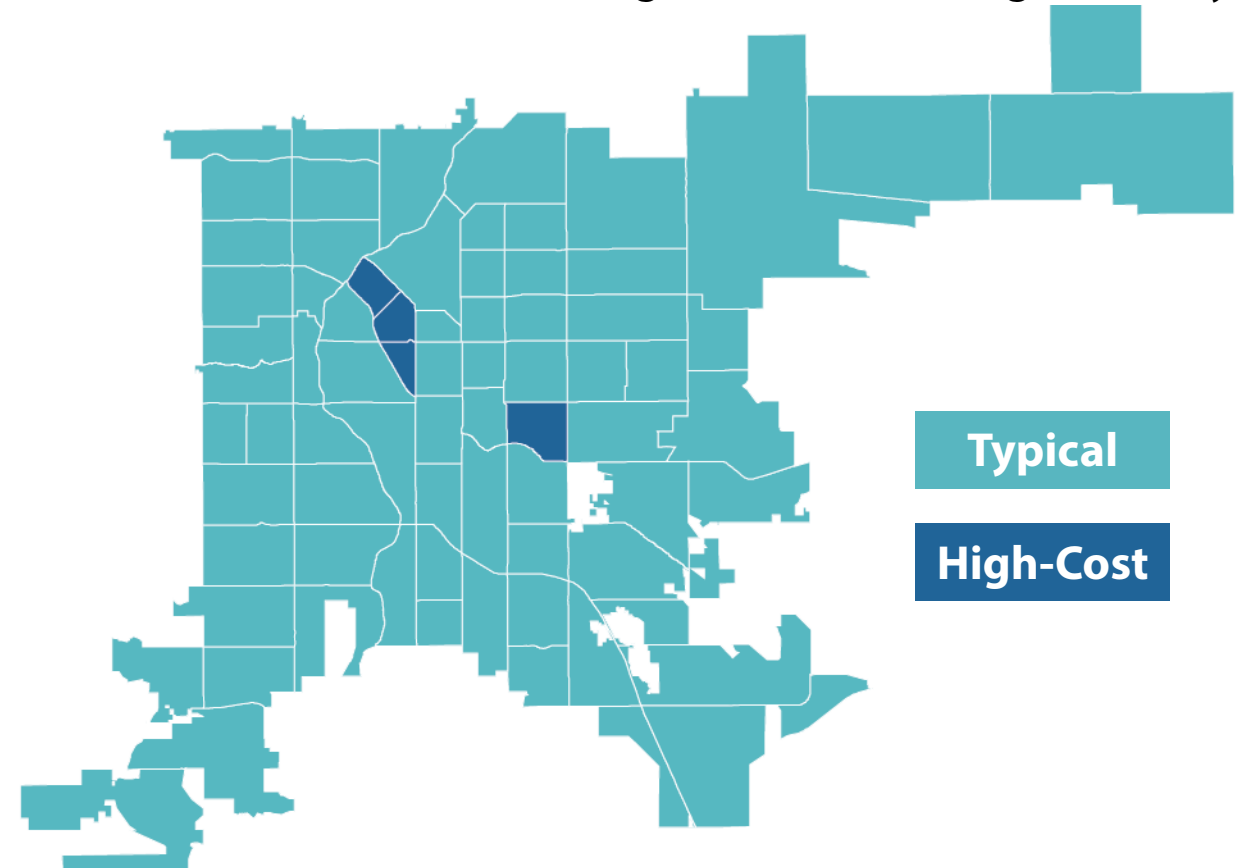
 **8+** units in a **typical market areas**



 **8+** units in a **high-cost market areas**





High-cost market areas can contribute a greater proportion of affordable housing while maintaining feasibility.




# Mandatory Housing: Alternative Compliance



**8+** units in a **typical market areas**


<b>Build On-Site Options</b>	 <b>#1: 8% of units at 60% AMI</b>	or
	 <b>#2: 12% of units at 60% AMI &amp; 80% AMI</b>	

<b>Alternative Compliance</b>	 <b>\$268K per affordable unit required</b>
	<b>Negotiate Alternatives</b> (land dedication, family housing, lower AMI)



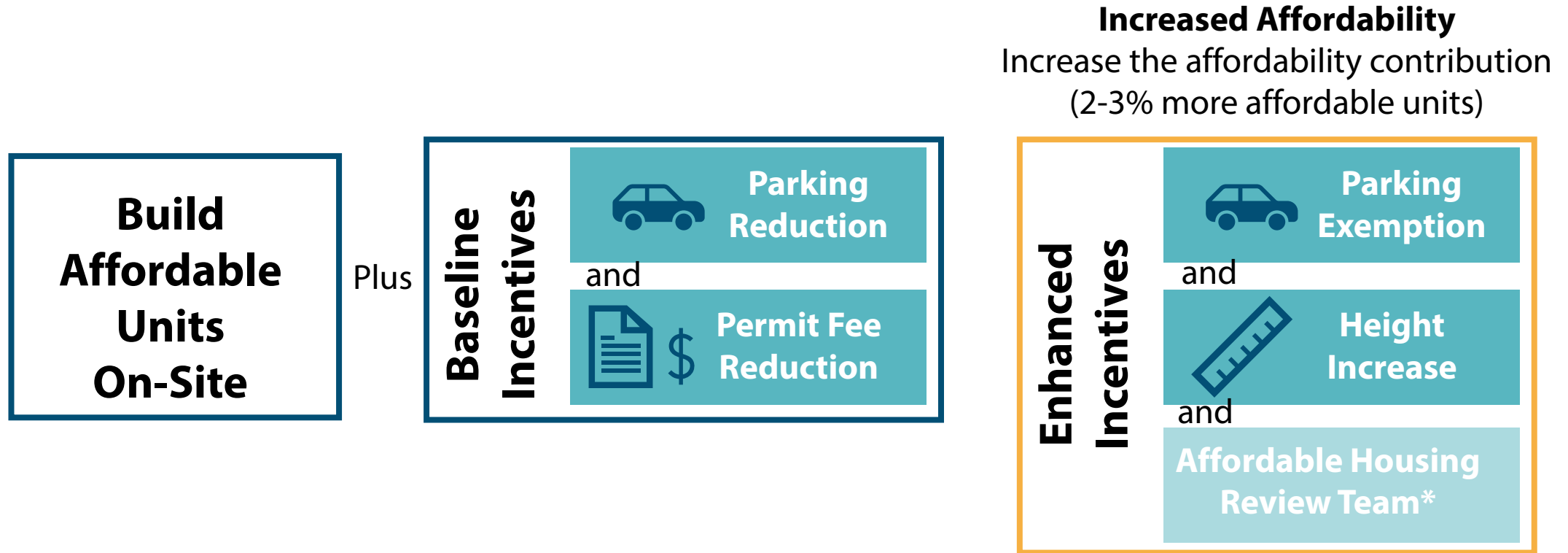
**8+** units in a **high-cost market areas**

<b>Build On-Site Options</b>	 <b>#1: 10% of units at 60% AMI</b>	or
	 <b>#2: 15% of units at 60% AMI &amp; 80% AMI</b>	

<b>Alternative Compliance</b>	 <b>\$311K per affordable unit required</b>
	<b>Negotiate Alternatives</b> (land dedication, family housing, lower AMI)



# Mandatory Housing: Incentives



Note: Incentives not available when paying the fee in-lieu

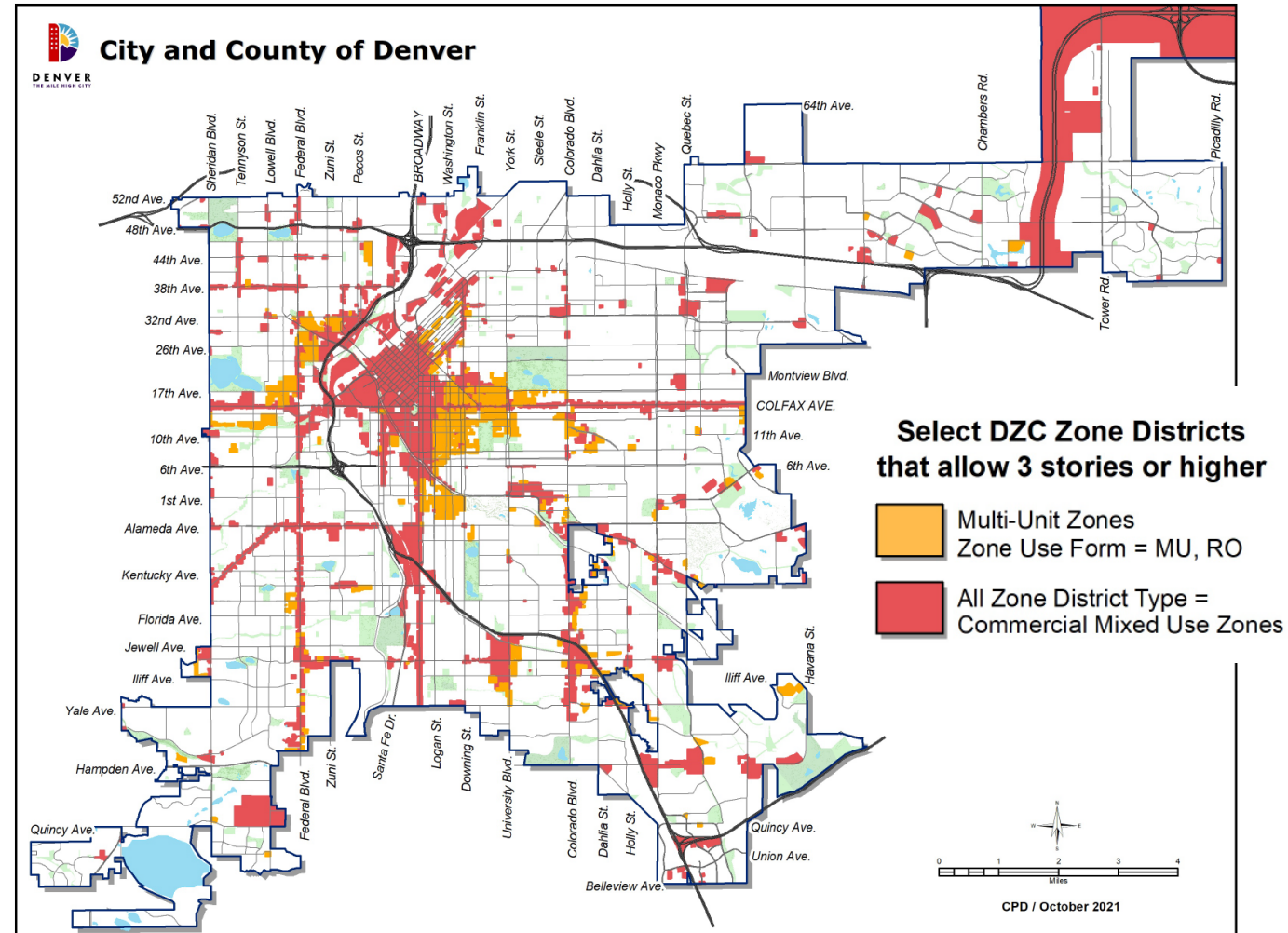
Enhanced incentives subject to geographic applicability



# Enhanced Incentives: Height Increase

**Applicability:** Available in DZC  
**Commercial Mixed Use** or **Multi  
Unit Zone Districts** of 3+ stories

Existing Height	Incentive Height	Height with Incentive
3	1	<b>4</b>
5	2	<b>7</b>
8	4	<b>12</b>
12	4	<b>16</b>
16	6	<b>22</b>
20	10	<b>30</b>
Note: FAR based zone districts and high-cost market areas will require further analysis		



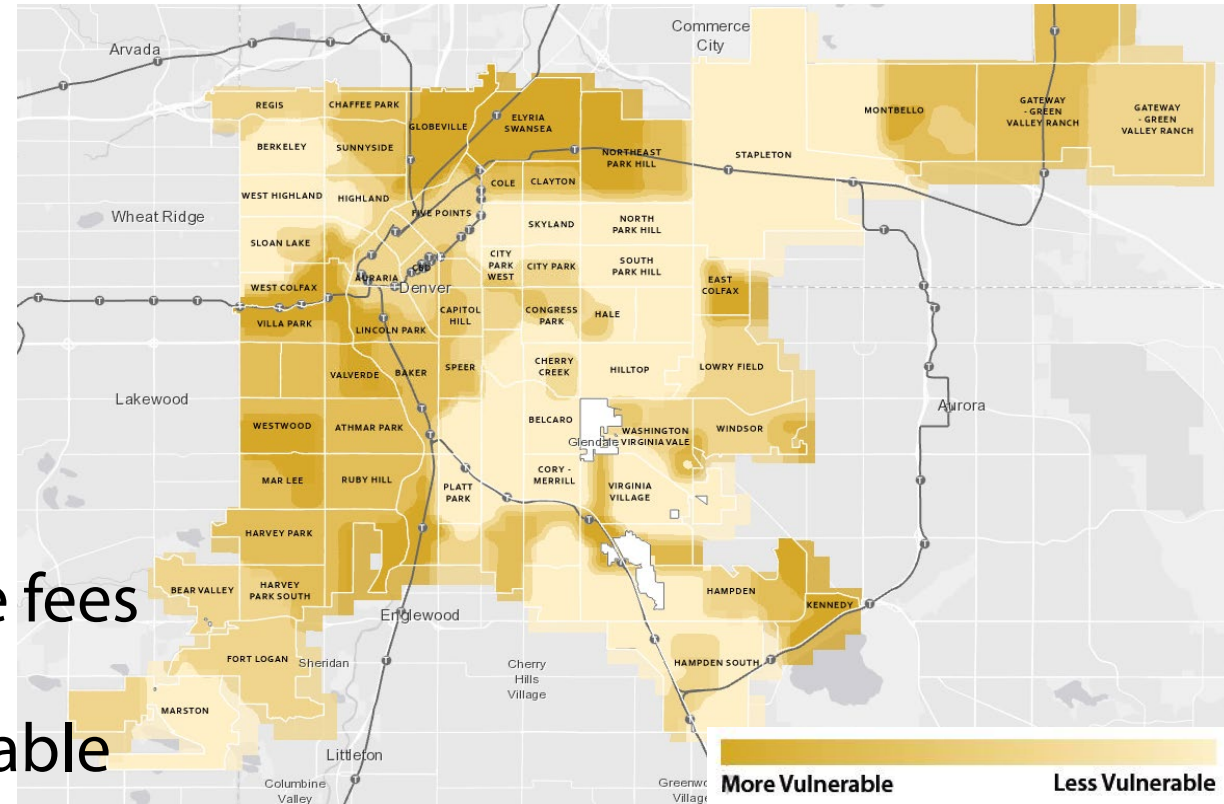
# Mandatory Housing: Addressing Areas Vulnerable to Displacement

Alignment w/ HOST Prioritization Policy (in development):

- Affirmative marketing requirements
- Potential set-aside for a portion of affordable units

Exploring additional opportunities:

- Potential set-aside of some/all linkage fees and/or fees-in-lieu collected in areas vulnerable to displacement for affordable housing investments in those same areas.



# Mandatory Housing Summary

## Build On-Site



High-cost market: Build On-Site Option #1 or #2



Typical -cost market: Build On-Site Option #1 or #2

or

## Alternative Compliance



Fee per affordable unit required

or

**Negotiate Alternatives**

(land dedication, family housing, lower AMI)

&

## Baseline Incentives



**Parking Reduction**

and



**Permit Fee Reduction**

&

## Increased Affordability

Increased affordability contribution  
(2-3% more affordable units)

## Enhanced Incentives



**Parking Exemption**

and



**Height Increase**

and

**Affordable Housing Review Team\***

Enhanced incentives subject to geographic applicability

# Mandatory Housing: On-Site Example

New 5-story rental residential with 85 total units and 5,500 sf retail.

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

Or

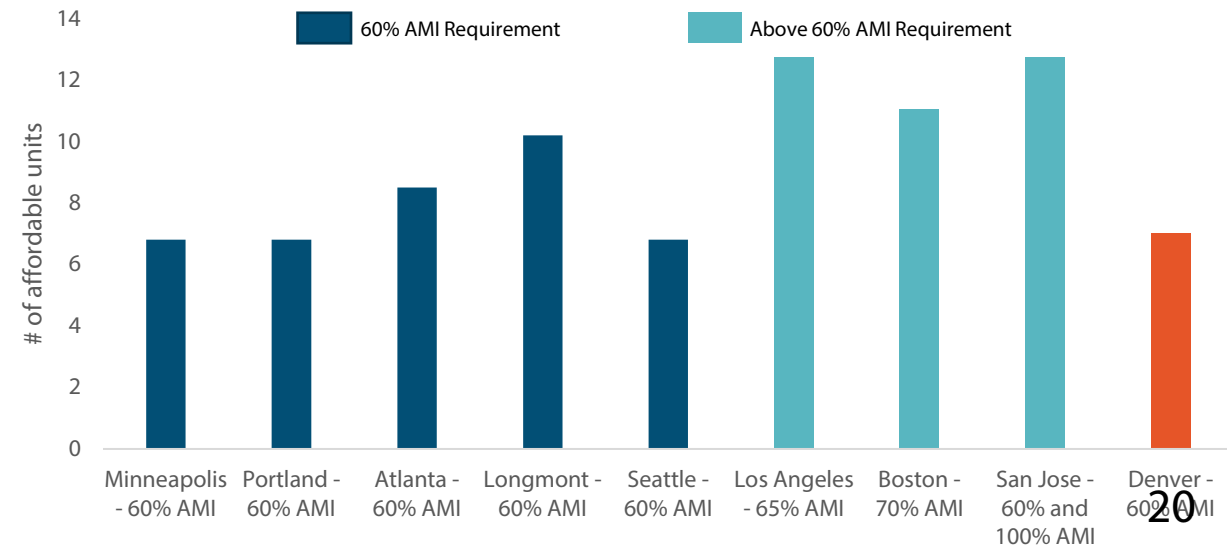
- Build On-Site **Option 2**: 12% of units averaging 70% AMI = **5 affordable units at 60% AMI** and **5 affordable units at 80% AMI**

Plus

- Linkage Fee for retail:  $5,500 \times \$6 =$   
**\$33,000**



Other City Comparison of Comparable Requirement of Option #1





# Mandatory Housing: Fee-In-Lieu Example

New 5-story rental residential  
(typical market) with 85 total units.

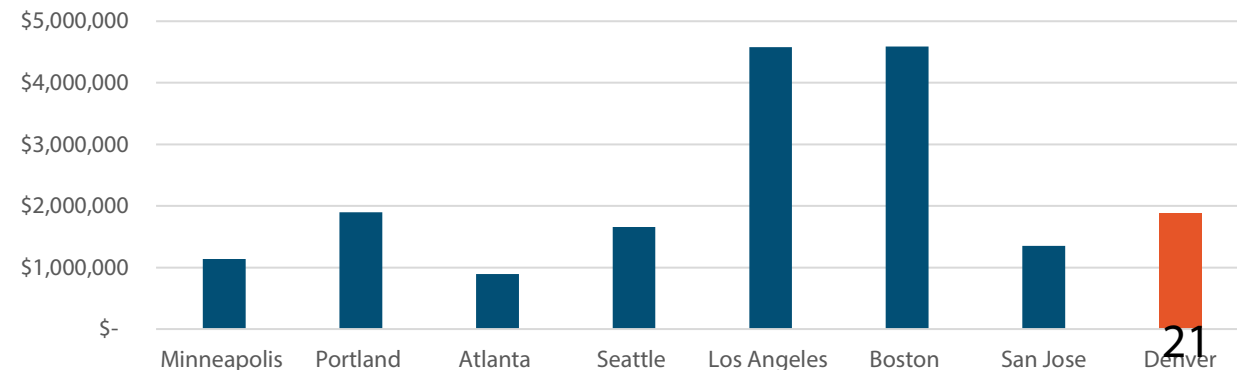
- Fee In Lieu: 7 affordable units  
required multiplied by \$268,000 =  
**\$1,876,000**

Plus

- Linkage: 5,500 sf X \$6 (proposed fee)  
= **\$33,000**



Other City Comparison of Fee-In Lieu



# Mandatory Housing: Example Incentive Development

New 7-story rental residential (typical market) with 130 total units and reduced parking (0.5 per space) and 5,500sf ground floor retail.

- Build On-Site **Option 1 + Incentives:** 10% of units at 60% AMI = **13 affordable units at 60% AMI**

Or

- Build On-Site **Option 2 + Incentives:** 15% of units averaging 70% AMI = **10 affordable units at 60% AMI** and **10 affordable units at 80% AMI**

Plus

- Linkage Fee for retail:  $5,500 \times \$6 = \$33,000$



*Note: Given Denver's form-based code – a reduction in parking allows for more market rate and affordable units.*

# Linkage Fee: Proposal

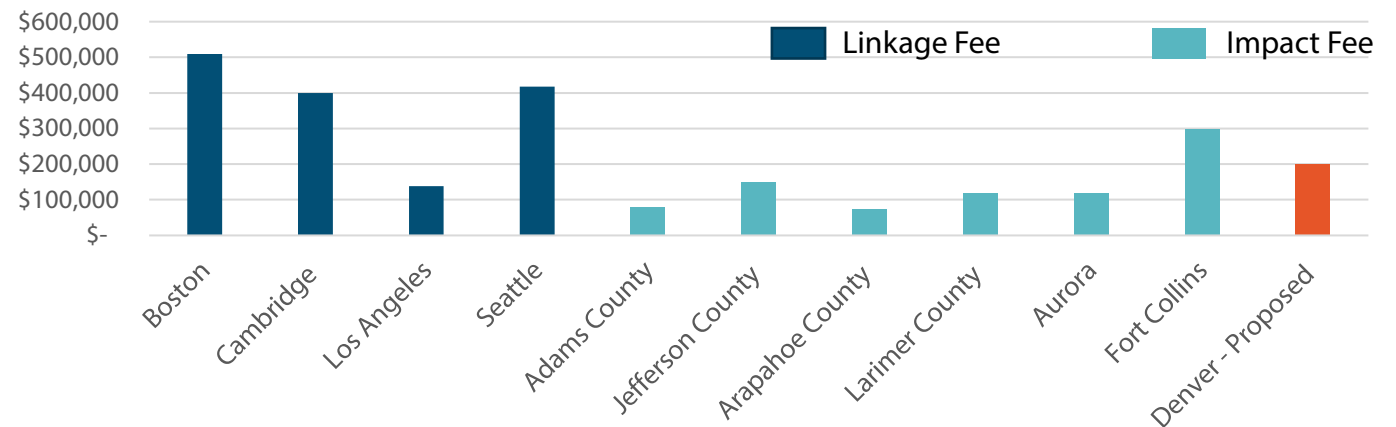
	2016 Linkage Fee Study		2021 Feasibility Study		Recommendation
	Nexus Max Fee (2016)	Prior Financial Feasibility (2016)	Typical Market	High-Cost Market	
<b>Single Unit, Two-Unit, or Multi-Unit - Less than 1,400 sf per unit</b>	\$9.60 per/sf	\$6 per/sf	\$9.6 - \$14 per/sf	N/A	<b>\$4 per/sf</b>
<b>Single Unit, Two-Unit, or Multi-Unit - More than 1,400 sf per unit</b>	\$9.60 per/sf	\$6 per/sf	\$9.6 - \$14 per/sf	N/A	<b>\$6 per/sf</b>
<b>Commercial, Office, Sales Services &amp; Repair</b>	\$56.74-119.29 per/sf	\$7 per/sf	\$7-9 per/sf	\$10	<b>Typical Cost: \$6 per/sf    High Cost: \$8 per/sf</b>
<b>Industrial, Manufacturing, Wholesale &amp; Agricultural</b>	\$28.51 per/sf	\$7 per/sf	\$6 per/sf	N/A	<b>\$4 per/sf</b>
<b>Note: Not Applicable (N/A) is indicated for most uses in high-cost markets as these development types will not occur in these high-cost markets and therefore feasibility was not evaluated.</b>					

# Linkage Fee: Example Development

- New 3-story office (Typical Market)
  - 33,000 Gross Floor Area (excludes parking)
  - Denver Proposed fee at \$6 per/sf (proposed) = \$199,800
- Supporting Affordable Housing Needs
  - Would support the creation of approximately 4 units serving households below 50% AMI



Other Cities and Denver Metro City/County Commercial Fee Development Example Comparison





# Implementation Effective Date

Balancing...

- Immediate housing needs
- Market impacts; and
- Program staffing and systems needed to effectively implement.



## SDP Review Metrics

### Concept SDP Overview:

- Median Review Cycles: 2
- Median Duration: 3.6 months

### Formal SDP Overview:

- Median Review Cycles: 4
- Median Duration: 9.8 months

### Combined:

- 8 review cycles
- 13.4 months

# Implementation Recommendation

## **For Mandatory Requirement or Linkage Fee (projects under SDP review)**

- Concept site development plan submitted by June 30, 2022
- Must have final SDP approved by August 30, 2023 (14-month window)

## **For Linkage Fee (projects under residential review)**

- Building permit submitted by June 30, 2022
- Must have building permit approved and issued by December 30, 2022 (6-month window)

*Note: June 30<sup>th</sup> date assumes council adoption prior.*

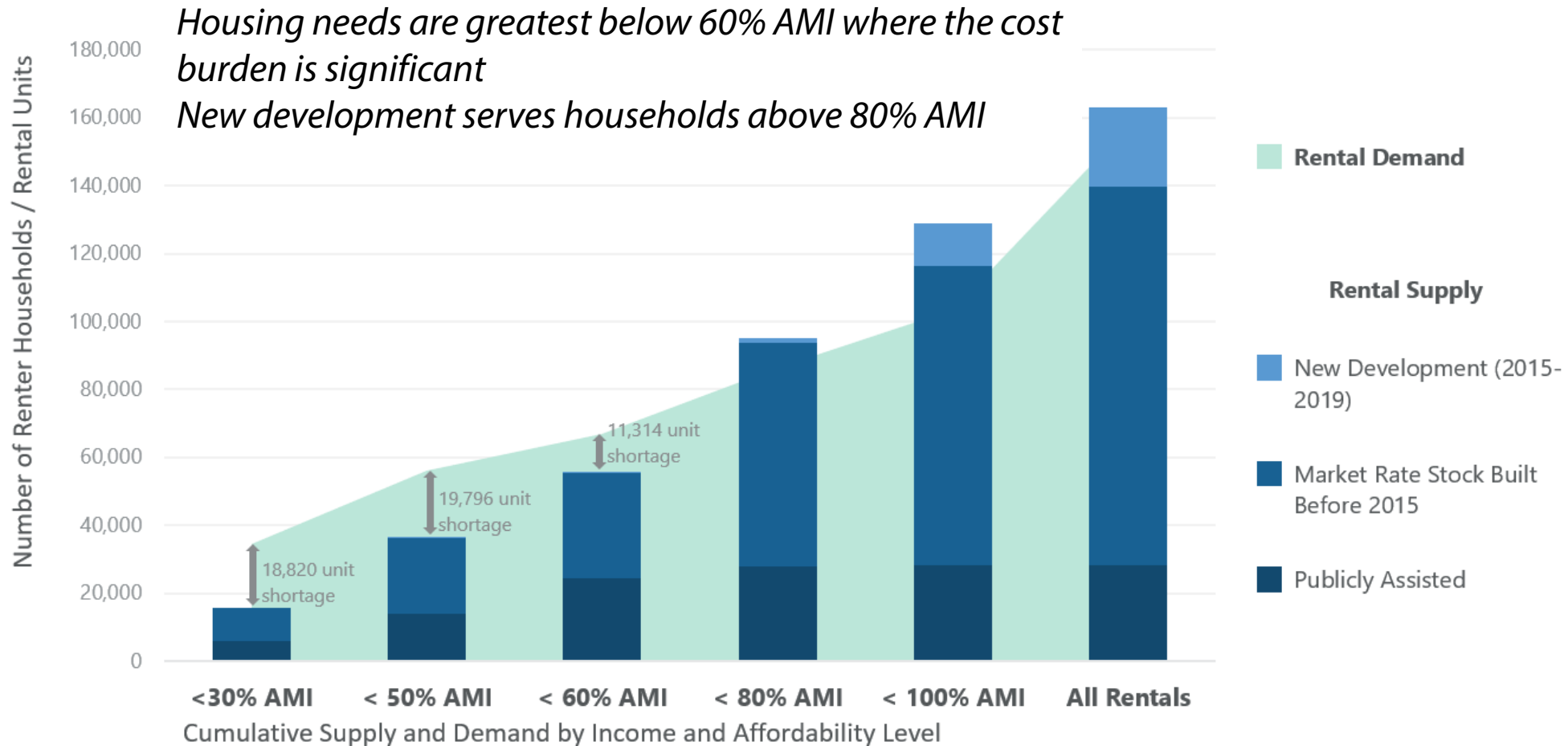
# Next Steps

## Outreach Dates

- **Office Hours** – October 28<sup>th</sup> at 5:30 pm & November 9<sup>th</sup> at 5:30 pm
- **Community Open House** – November 4<sup>th</sup> at 5:30 pm
- Topic specific **focus groups** will be posted online:
  - Incentives, linkage fee, NEST neighborhood, people accessing affordable housing, industry, implementation, etc.
- Council office outreach partnerships
- Ongoing - Staff presenting and soliciting feedback at industry and community groups
- **Public Draft in January 2021**

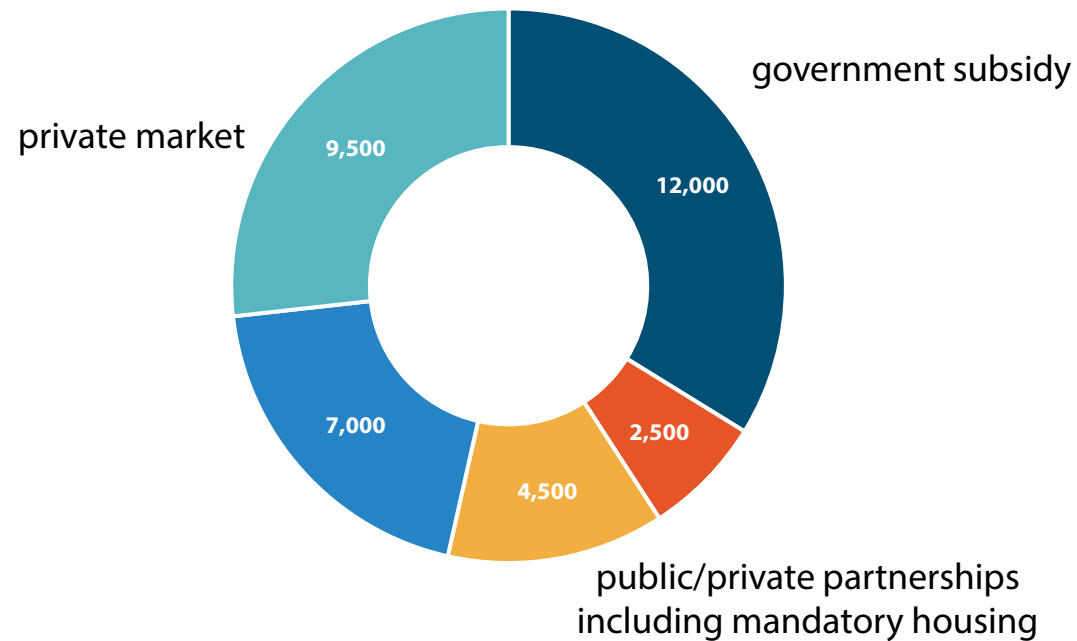
# Appendix Slides (will not be presented)

# Current Housing Needs: Rental

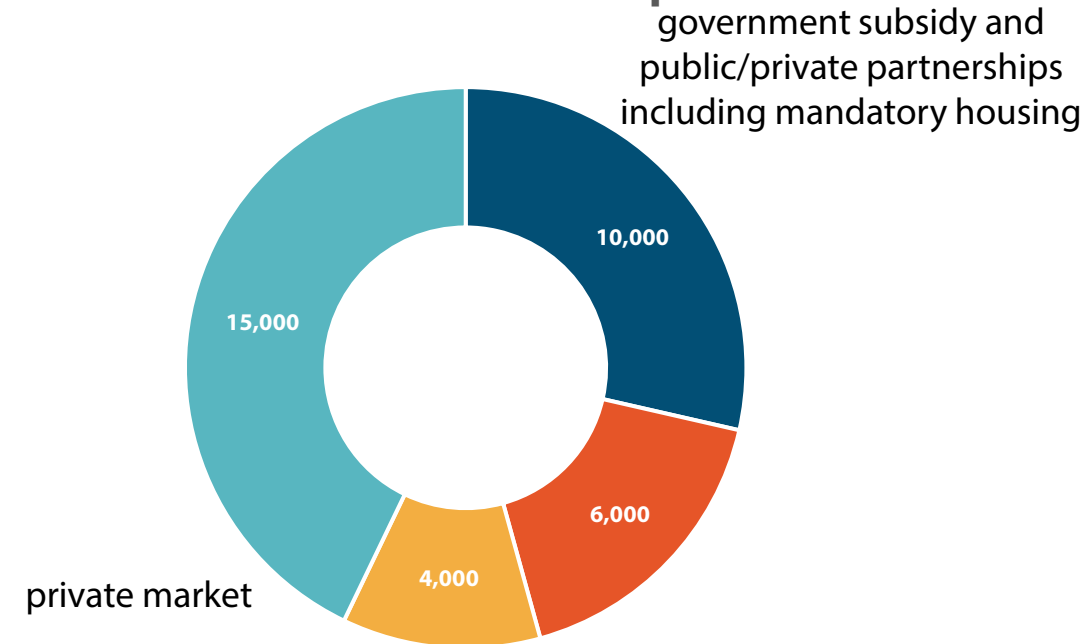


# Future Housing Needs

## Denver 20-Year Rental Needs



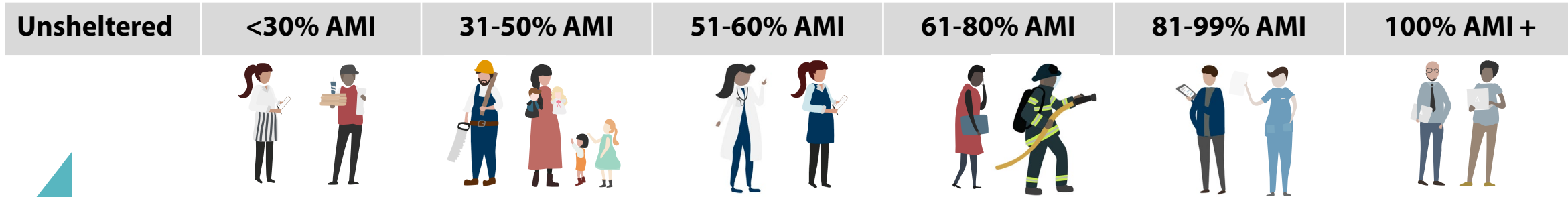
## Denver 20-Year Ownership Needs



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

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

# Developing Complementary Tools to Create Affordable Housing



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

City Partners (DEDO and DHS)

Local Partners (DHA, D3 Bond Initiative)

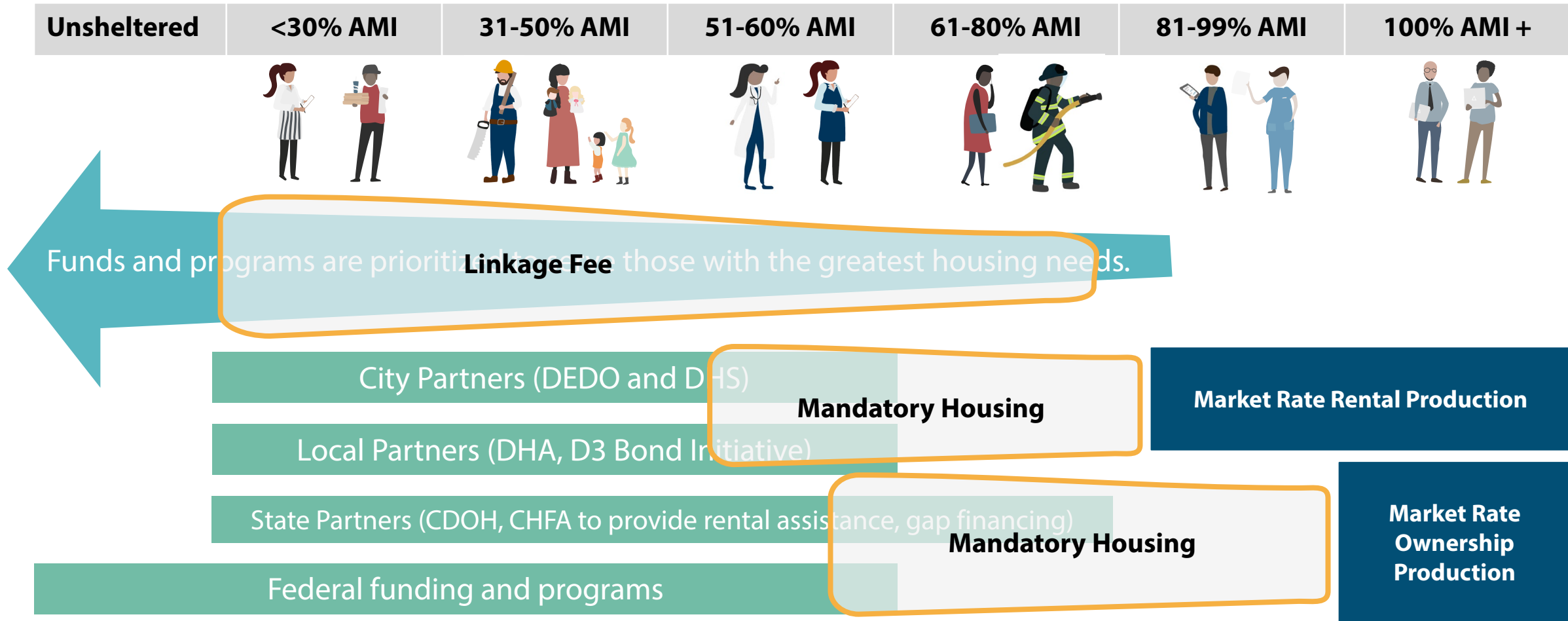
State Partners (CDOH, CHFA to provide rental assistance, gap financing)

Federal funding and programs

Market Rate Rental Production

Market Rate  
Ownership  
Production

# Developing Complementary Tools to Create Affordable Housing





# 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
<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

# Mandatory Housing: On-Site Options

		High-Cost Markets	Typical Markets	
Top Priority	Build Onsite Option #1	On-Site <b>Rental</b>	<b>10%</b> of total units at <b>60% AMI</b>	<b>8%</b> of total units at <b>60% AMI</b>
		On-Site <b>Ownership</b>	<b>12%</b> of total units at <b>80% AMI</b>	<b>10%</b> of total units at <b>80% AMI</b>

**Top Priority:** Affordable housing should serve those with greatest housing needs where existing programs and resources are insufficient. It should also be available to serve renters and those who want to own a home.

- Rental housing needs remain the greatest at/below 60% AMI and ownership at/below 80% AMI.

**Relation to Feasibility:**

- The proposed percent of units and AMI **meet feasibility** across all prototypes

# Mandatory Housing: On-Site Options

		High-Cost Markets	Typical Markets	
Secondary Priority	Build Onsite Option #2	On-Site <b>Rental</b>	8% of total units at <b>60% AMI</b> and <b>7%</b> of total units at <b>80% AMI</b> ( <b>15% total</b> )	6% of total units at <b>60% AMI</b> and <b>6%</b> of total units at <b>80% AMI</b> ( <b>12% total</b> )
		On-Site <b>Ownership</b>	9% of total units at <b>80% AMI</b> and <b>9%</b> of total units at <b>100% AMI</b> ( <b>18% total</b> )	8% of total units at <b>80% AMI</b> and <b>7%</b> of total units at <b>100% AMI</b> ( <b>15% total</b> )

**Top Priority:** Secondary Priority: Affordable units should serve a mix of incomes and complement existing programs and resources.

- Future rental housing needs will grow to 80% AMI and below and ownership to 100% AMI and below.

## Relation to Feasibility:

- The proposed percent of units and AMI mix **is within a few basis points of reaching feasibility**

# Mandatory Housing: Build On-Site Summary

		High-Cost Markets		Typical Markets	
Top Priority	Build Onsite Option #1	On-Site <b>Rental</b>	10% of total units at <b>60% AMI</b>		8% of total units at <b>60% AMI</b>
		On-Site <b>Ownership</b>	12% of total units at <b>80% AMI</b>		10% of total units at <b>80% AMI</b>
Secondary Priority	Build Onsite Option #2	On-Site <b>Rental</b>	8% of total units at <b>60% AMI</b> and 7% of total units at <b>80% AMI</b> (15% total)		6% of total units at <b>60% AMI</b> and 6% of total units at <b>80% AMI</b> (12% total)
		On-Site <b>Ownership</b>	9% of total units at <b>80% AMI</b> 9% of total units at <b>100% AMI</b> (18% total)		8% of total units at <b>80% AMI</b> 7% of total units at <b>100% AMI</b> (15% total)

# Build On-Site Option #1: Relation to Feasibility

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
Affordable Income Target of 60% AMI												
5% @ 60% AMI			✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
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%
8% @ 60% AMI			✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
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%
10% @ 60% AMI			✗	✗	✗	✗	✗	✗	✓	✓	✓	✓
Return on Cost	>5.5%		5.4%	5.4%	5.4%	5.4%	5.4%	5.4%	5.5%	5.5%	5.6%	5.6%
Cash on Cash Return	>6%		4.3%	4.4%	4.4%	4.4%	4.5%	4.4%	4.7%	4.8%	4.9%	4.9%
Internal Rate of Return	>=10%		9.8%	10.0%	9.9%	10.0%	10.1%	10.0%	10.6%	10.9%	11.2%	11.3%
ROE (year 5)	>6%		5.3%	5.4%	5.3%	5.4%	5.4%	5.4%	5.7%	5.9%	6.1%	6.2%
12% @ 60% AMI			✗	✗	✗	✗	✗	✗	✗	✗	✓	✓
Return on Cost	>5.5%		5.3%	5.3%	5.3%	5.3%	5.3%	5.3%	5.4%	5.4%	5.5%	5.5%
Cash on Cash Return	>6%		4.1%	4.2%	4.1%	4.2%	4.2%	4.2%	4.4%	4.5%	4.7%	4.7%
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%
15% @ 60% AMI			✗	✗	✗	✗	✗	✗	✗	✗	✗	✗
Return on Cost	>5.5%		5.2%	5.2%	5.2%	5.2%	5.2%	5.2%	5.3%	5.3%	5.4%	5.4%
Cash on Cash Return	>6%		3.7%	3.8%	3.8%	3.8%	3.8%	3.8%	4.0%	4.1%	4.2%	4.3%
Internal Rate of Return	>=10%		8.2%	8.5%	8.4%	8.4%	8.4%	8.3%	9.0%	9.3%	9.5%	9.6%
ROE (year 5)	>6%		4.4%	4.5%	4.5%	4.5%	4.5%	4.4%	4.8%	5.0%	5.1%	5.1%

# Build-On Site Option #2: Relation to Feasibility

		Typical Submarket						High Cost Submarket			
Return Metric	Target	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
		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
Affordable Income Target of 70% AMI											
5% @ 70% AMI		✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Return on Cost	>5.5%	5.6%	5.6%	5.6%	5.6%	5.6%	5.6%	5.7%	5.8%	5.8%	5.8%
Cash on Cash Return	>6%	5.1%	5.1%	5.1%	5.2%	5.2%	5.2%	5.4%	5.6%	5.7%	5.7%
Internal Rate of Return	>=10%	11.6%	11.8%	11.6%	11.8%	11.9%	11.8%	12.3%	12.7%	13.1%	13.1%
ROE (year 5)	>6%	6.4%	6.5%	6.4%	6.5%	6.6%	6.5%	6.9%	7.1%	7.4%	7.4%
8% @ 70% AMI		✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Return on Cost	>5.5%	5.5%	5.5%	5.5%	5.5%	5.5%	5.5%	5.6%	5.7%	5.7%	5.7%
Cash on Cash Return	>6%	4.8%	4.9%	4.8%	4.9%	4.9%	4.8%	5.1%	5.2%	5.3%	5.4%
Internal Rate of Return	>=10%	10.9%	11.1%	10.9%	11.1%	11.1%	11.0%	11.6%	12.0%	12.2%	12.3%
ROE (year 5)	>6%	5.9%	6.0%	5.9%	6.0%	6.1%	6.0%	6.4%	6.6%	6.8%	6.8%
10% @ 70% AMI		✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Return on Cost	>5.5%	5.5%	5.5%	5.5%	5.5%	5.5%	5.5%	5.5%	5.6%	5.6%	5.6%
Cash on Cash Return	>6%	4.6%	4.7%	4.6%	4.6%	4.7%	4.6%	4.9%	5.0%	5.1%	5.1%
Internal Rate of Return	>=10%	10.5%	10.6%	10.4%	10.6%	10.6%	10.5%	11.1%	11.4%	11.7%	11.8%
ROE (year 5)	>6%	5.7%	5.7%	5.6%	5.7%	5.7%	5.7%	6.1%	6.3%	6.4%	6.5%
12% @ 70% AMI		✗	✗	✗	✗	✗	✗	✓	✓	✓	✓
Return on Cost	>5.5%	5.4%	5.4%	5.4%	5.4%	5.4%	5.4%	5.5%	5.5%	5.5%	5.6%
Cash on Cash Return	>6%	4.4%	4.5%	4.4%	4.4%	4.5%	4.4%	4.7%	4.8%	4.9%	4.9%
Internal Rate of Return	>=10%	10.0%	10.2%	10.0%	10.0%	10.1%	9.9%	10.6%	10.9%	11.1%	11.2%
ROE (year 5)	>6%	5.4%	5.5%	5.3%	5.4%	5.4%	5.3%	5.7%	5.9%	6.1%	6.1%
15% @ 70% AMI		✗	✗	✗	✗	✗	✗	✗	✗	✗	✗
Return on Cost	>5.5%	5.3%	5.3%	5.3%	5.3%	5.3%	5.3%	5.4%	5.4%	5.4%	5.4%
Cash on Cash Return	>6%	4.1%	4.2%	4.1%	4.1%	4.1%	4.1%	4.4%	4.4%	4.5%	4.5%
Internal Rate of Return	>=10%	9.2%	9.4%	9.2%	9.2%	9.2%	9.1%	9.8%	10.1%	10.3%	10.3%
ROE (year 5)	>6%	4.9%	5.0%	4.9%	4.9%	4.9%	4.9%	5.3%	5.4%	5.5%	5.6%

# Mandatory Housing: Length of Affordability

Policy Objective:

- Create long term affordability
- Support the city's preservation goals

Recommendation:

- 99-years of affordability (both rental and sale) with no Right of First Refusal (ROFR)

# Mandatory Housing: Alternative Compliance

Per the requirements of HB21-1117, the **city must also provide at least one alternative to building affordable units on site.**

- **Top Priority:** Meet the requirements of House Bill-1117 while still encouraging the creation of on-site affordable units.
- **Secondary Priority:** Increase funding for affordable housing creation, preservation and administration through the collection of monetary fees assessed in-lieu of providing units on-site.



# Mandatory Housing: Alternative Compliance

- **Fee In-Lieu** per affordable unit required based on-site option #1
  - Varies by tenure (rental/ownership) and market area (typical/high)
- **Discretionary Agreements** to enable creative outcomes that align with HOSTs 5-Year Strategic Plan such as:
  - Land dedication for new affordable housing development
  - Units restricted at a greater depth of affordability
  - Developments providing larger unit formats and associated family-friendly amenities.
  - Concurrent off-site development of affordable housing

# Mandatory Housing: Fee-In-Lieu

- Require a set fee per affordable unit required based on-site option #1
- Use the **affordability gap method** to determine proposed fees
  - fee based on the difference in value between market-rate units and affordable units (if the market rate home sold for \$800,000 and the affordable price at 80% AMI was \$350,000, the difference in price would be \$450,000).

Proposed Fee-In-Lieu		
	High Cost	Typical
<b>Rental</b>	<b>\$311,000</b> per affordable unit required (10% of units)	<b>\$268,000</b> per affordable unit required (8% of units)
<b>Ownership</b>	<b>\$478,000</b> per affordable unit required (12% of units)	<b>\$408,000</b> per affordable unit required (10% of units)

# Mandatory Housing: Incentives

## Policy Objective

- Pair incentives with mandatory requirements to promote the construction of affordable units on-site and use enhanced incentives to increase the supply of both market rate and affordable housing.
- **Baseline Incentives – Available when building units on-site**
  - Encourage on-site affordable housing, over payment of fee-in-lieu
  - Create incentives for the construction of affordable housing (per HB21-1117)
  - Create incentives for fully-affordable housing projects
- **Enhanced Incentives – Available when exceeding percent of affordable units on-site**
  - Promote the construction of more affordable and market rate housing units
  - Create incentives for the construction of affordable housing (per HB21-1117) including incentives for fully-affordable housing projects
- Incentives are not available for fee-in-lieu

# Mandatory Housing: Baseline Incentives

**Baseline Incentives:** In exchange for building required affordable units on-site

- Permit Fee Reduction: \$6,500 per affordable unit at 60% AMI (\$7,500 in high-cost market areas) up to 50% of the commercial construction building permit
  - The permit fee reduction modestly improves feasibility metrics
- Parking Reduction: 0.5 parking spaces per unit
  - The parking reduction modestly improves feasibility metrics

# Mandatory Housing: Enhanced Incentives

## Enhanced Incentives: In exchange for 2-3% more affordable units

- Height increase\*
- Parking exemption\*
- Affordable Housing Review Team\*\*

## Relation to Feasibility

- Incentives need to be meaningful enough to make the incentive “attractive” and maintain feasibility and often improve profitability

*\* Geographically limited*

*\*\*AHRT to be established in early '22, this incentive will be available if there is capacity amongst the team.*

# Mandatory Housing: Other City Incentives

On-Site Build Requirement	
<b>Atlanta, GA</b>	FAR Bonus, or Reduced Parking, or Streamlined Project Meeting
<b>Austin, TX</b>	Fee Waivers
<b>Boston, MA</b>	Zoning Variance
<b>Longmont, CO</b>	Density bonus, zoning variance, fee reductions, water/sewer subsidy
<b>Los Angeles, CA</b>	Density Bonus; Reduced Parking; Zoning Variance
<b>Minneapolis, MN</b>	Direct Subsidy, TIF, Property Tax Reductions
<b>Portland, OR</b>	Property tax exemption; Density FAR bonus; other tax exemptions; parking exemptions
<b>San Jose, CA</b>	Density bonus, streamlined development process
<b>Seattle, WA</b>	Reduced parking, multi-family tax exemption
Note: Colorado state law limits our ability to provide tax exemptions (an incentive provided in Seattle and Minneapolis under certain circumstances)	

# Alternative Compliance: Other Cities

On-Site Build Requirement	
<b>Atlanta, GA</b>	Fee-In-Lieu: \$124,830 – 131,950 per affordable unit required at 15%
<b>Austin, TX</b>	None – Incentive only program.
<b>Boston, MA</b>	Off-Site: 15-18% at 70% AMI Fee In-Lieu: \$200,000 – \$380,000 per affordable unit required applied to 18% of units
<b>Longmont, CO</b>	Fee In-Lieu: \$1.90 psf rental; \$7.90 ownership; Off-Site; Land Dedication; or Voluntary Alternative Agreement
<b>Los Angeles, CA</b>	Fee In-Lieu: \$53,233 - \$69,927 per market rate unit
<b>Minneapolis, MN</b>	Fee-In Lieu: 1-7 stories \$15 psf of residential area; 8+ stories \$22 psf of residential area; off-site; land donation
<b>Portland, OR</b>	Off-Site; Designate existing units; Fee In Lieu: \$23 – 27 gsf
<b>San Jose, CA</b>	Fee In-Lieu: \$18.70 psf (Moderate market); \$43 psf (Strong Market)
<b>Seattle, WA</b>	Fee In Lieu: \$5.58 – \$35.75

# Mandatory Housing: Geographic Variants

## **Policy Objective**

- In alignment with the findings of the financial feasibility analysis, calibrate affordability requirements and fees-in-lieu to the market.

## **High-Cost Market Areas**

- Neighborhoods with the highest rents (top quartile) and land values (top quartile) in the city.

## **Typical-Cost Market Areas**

- All other areas of the city that are not high cost are considered typical cost.



# Mandatory Housing: Applicability

## **Applicability**

- New residential development of 8 or more units (both ownership and rental)

## **Why**

- A large proportion of new development in the city is smaller scale infill (commonly 1-6 units)
- To capture as many new developments as possible with this tool while not applying undue pressure to small redevelopment projects

# Incentives Summary

Baseline Incentives – in exchange for building required affordable units on-site			Enhanced Incentives – in exchange for 2-3% more affordable units		
	<b>Fee Reduction</b> \$6.5 – 7.5K per affordable unit at 60% AMI	<b>Parking Reduction</b> minimum of 0.5 spaces per unit	<b>Incentive Height</b> Increased height ~25 – 50% increase	<b>Parking Exemption</b>	<b>Affordable Housing Review Team</b>
Applicability	Citywide	Citywide	Specific Zone Districts	Transit-rich areas	Citywide
Build On-Site	✓	✓	✓	✓	✓
Fee In Lieu	✗	✗	✗	✗	✗
Affordable Projects (e.g., LIHTC)	✓	✓	✓	✓	✓
✓ - Incentive available; ✗ - Incentive not available ✓ - incentive available based on capacity					

# Mandatory Housing: Example Development

- New 3-story rental residential (typical market) with 50 total units.
  - Build On-Site Option 1: 8% of units at 60% AMI = 4 affordable units at 60% AMI
  - Build On-Site Option 2: 12% of units averaging 70% AMI = 3 affordable units at 60% AMI and 3 affordable units at 80% AMI



# Mandatory Housing: Example Development

- New 3-story rental residential (typical market) with 50 total units.
  - Fee In Lieu: 4 affordable units required x \$268,000 = \$1,072,000

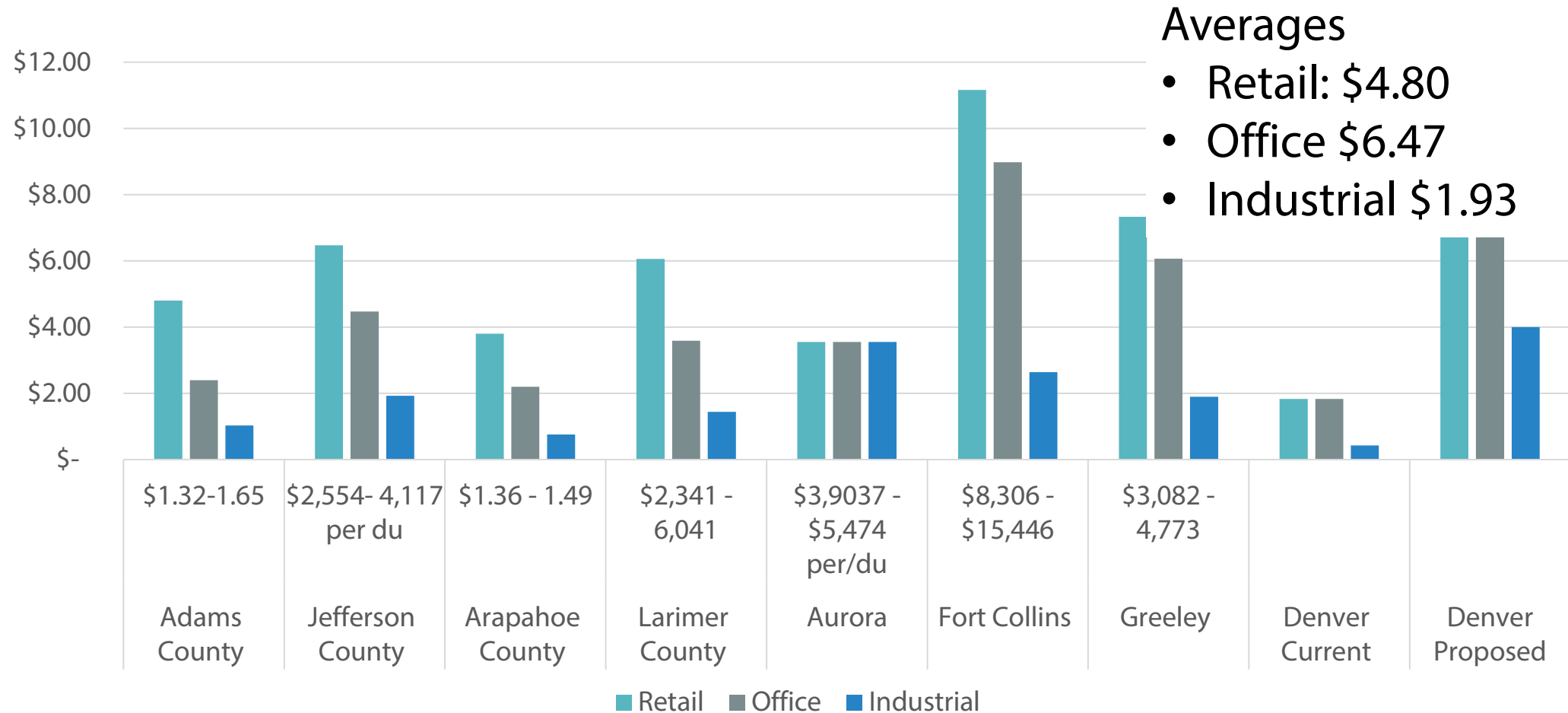


# Mandatory Housing: Example Development

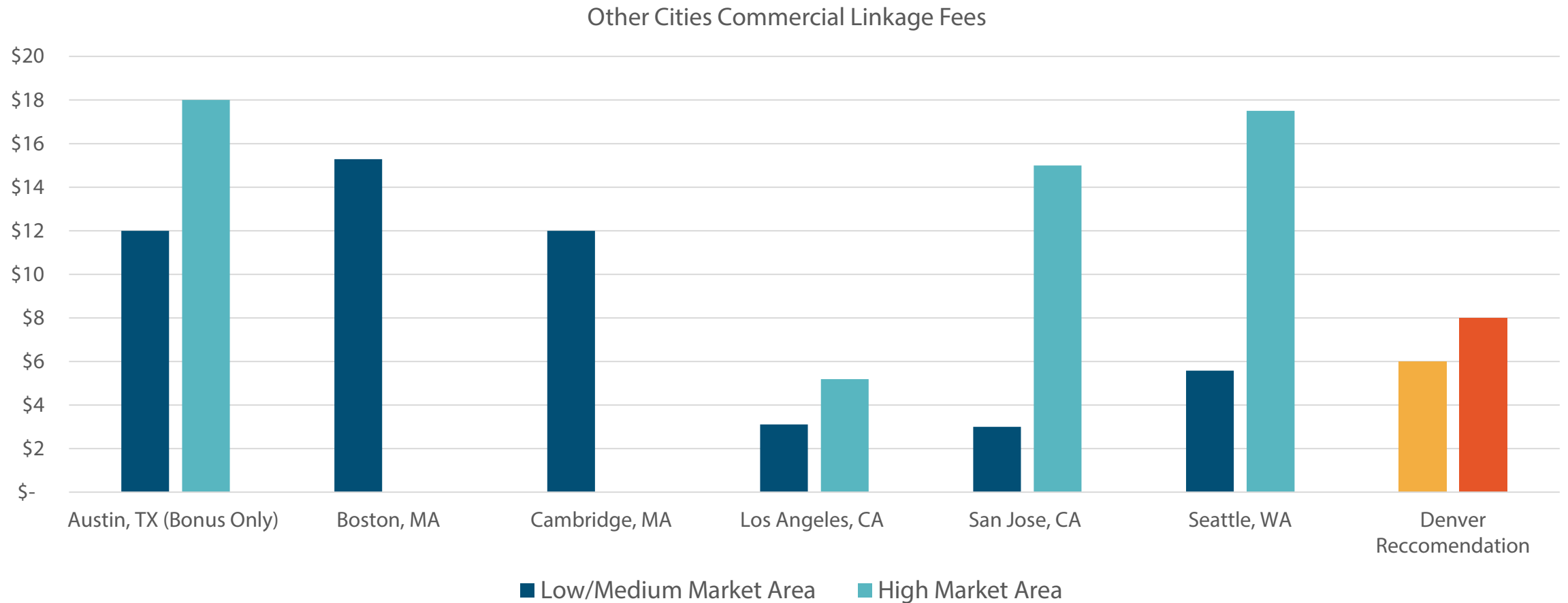
- New 4-story rental residential (typical market) with 65 total units.
  - Build On-Site Option 1 + Height Incentive: 10% of units at 60% AMI = 7 affordable units at 60% AMI
  - Build On-Site Option 2 + Height Incentive: 12% of units at Averaging 70% AMI = 4 affordable units at 60% AMI and 4 affordable units at 80% AMI



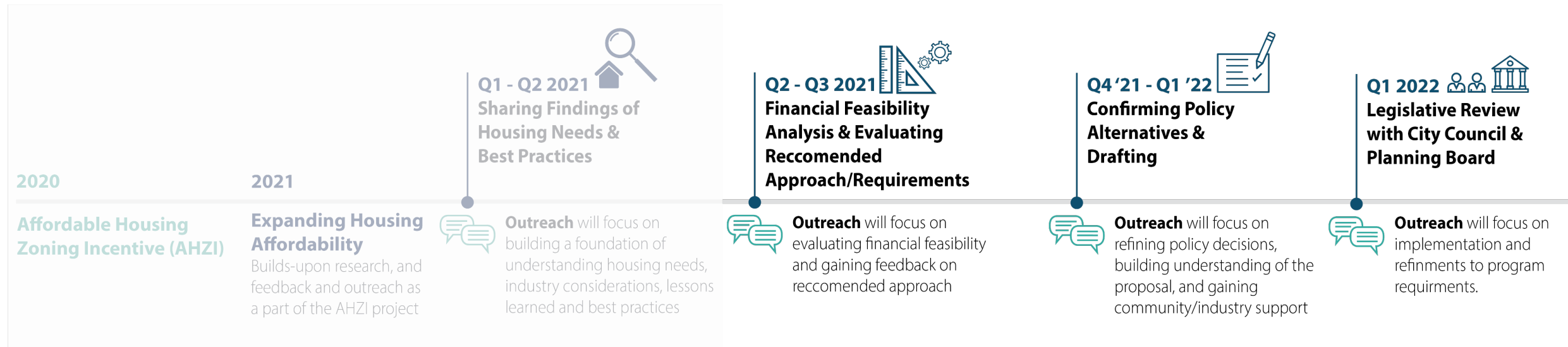
# Impact Fee: Denver Metro Comparison



# Linkage Fee: Other Cities Comparison

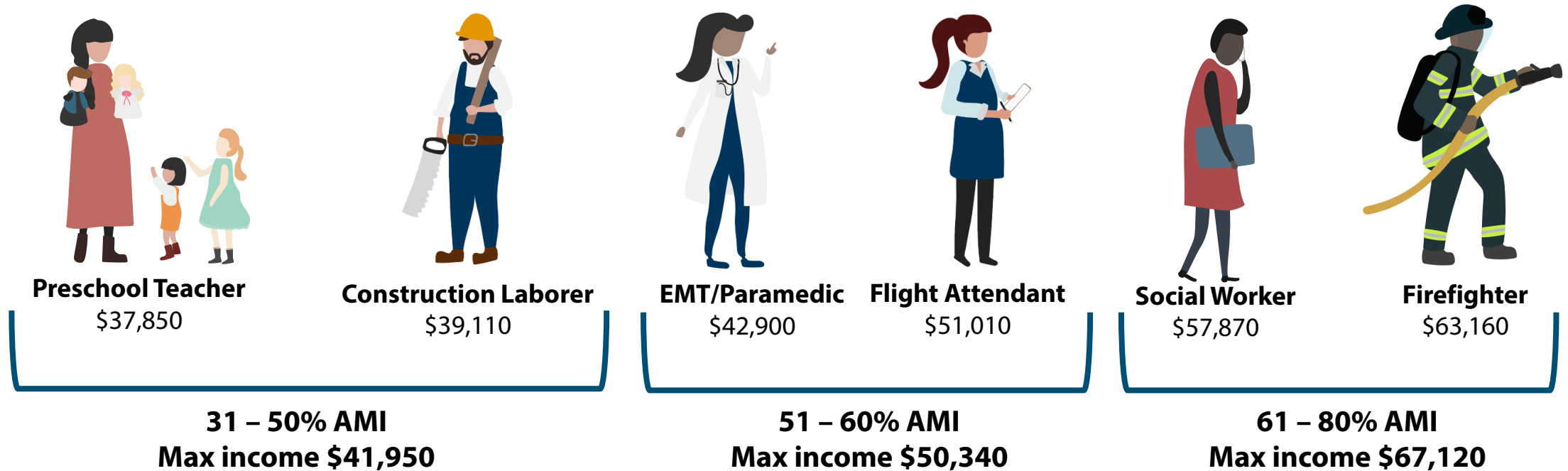


# Project Timeline





# Who needs affordable housing?



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