Affordable Housing Zoning Incentive

Advisory Committee Meeting #3B - Market
– June 18, 2020 via Zoom
Online Meeting Courtesy

- **Mute** yourself when you are not speaking
- **“Raise your hand”** via the participant list and the facilitator will call on you
- **Help us manage the chat** - add “D” for discuss before your comment if you want to ensure we integrate it into the conversation (as opposed to reviewing it later)
Agenda Review

4:00 – 4:10 pm
Agenda: Market

• Market Conditions Overview
• Review Alternatives for Testing
• Next Steps
Market Conditions:
COVID Impacts and Future Forecasts
4:10 – 4:25 pm
Macroeconomic Conditions

• Economics and analysts forecast a “severely impacted 2020” due to COVID-19, followed by strong recovery activity in 2021 and 2022
• Jobs lost during 2020 will not be fully restored as the economy recovers
• The unemployment rate is estimated to range between 9% and 11% in 2020, 8% in 2021, and 6% in 2022. By comparison, the 2019 rate was 3.5%.
Apartment Industry—National Outlook

Apartment assets will post a negative return in 2020 before turning positive—and will perform better than commercial real estate assets.

[ диаграмма ]

Sources: 1999-2019, National Council of Real Estate Investment Fiduciaries (NCREIF); 2020-2022, ULI Real Estate Economic Forecast.

*indicated directions (+, -) refer to the current forecast relative to the previous ULI Real Estate Economic Forecast. The previous forecast (released in October, 2019) projected 5.0% for 2020 and 5.5% for 2021.
Apartment Industry—National Outlook

Pre-COVID-19, vacancy rates were at a record low of 4%. Vacancies should increase in 2020 and remain around 5%. Rents are expected to drop by 2% in 2020 and then grow by 2% to 3% annually in 2021 and 2022.
Commercial Real Estate—National Outlook

The forecast for commercial real estate varies by use:

- Industrial uses: 2% estimated return in 2020, recovery during 2021
- Retail: -12% return in 2020; -5% in 2021. No positive returns until 2022
- During 2022: positive rental growth is forecast for all commercial sectors, ranging from 4% in the industrial sector to 1% in the retail sector
Denver Specific Findings

The Denver residential market appears to be performing better than in the U.S. overall:

• April residential rent delinquencies range from 8% to 10%;

• Higher-rent buildings with tenants in professional services and other non-affected employment sectors have experienced very low delinquencies. Lease renewals are strong;

• Properties with public subsidies, such as Housing Choice Vouchers, also have low delinquencies, although tenants have needed more time to pay rent;

• Properties in the middle, providing housing to tenants without tenant based rental assistance, have the highest delinquencies, and may be the most troubled in the short term;

• Single family home purchases remain strong;

• Commercial properties differ, with rent delinquencies high across property and tenant type (e.g., large chains and small locally owned stores).
Check-In

Any clarifications or questions on COVID impacts to the market?

Does anyone on the have a different perspective or additional considerations?
Market Trends:
2015 - 2019
4:25 – 4:40 pm
Pre-COVID Development Trends: Building Heights
Pre-COVID Development Trends: Geographic Dispersion, Market Rate
Pre-COVID Development Trends: Geographic Dispersion, Affordable
Pre-COVID Development Trends: Geographic Dispersion, Office
Pre-COVID Development Trends: Geographic Dispersion – Retail
**Average Multifamily Development**

- 5 Stories
- 195 units
- 1-Bedroom
- 751sf
- $1,764
Average Affordable Development

- 4 Stories
- 100 units
- 1-Bedroom
- 558sf
- $1,021
Market Considerations for AHZI

Market condition considerations, as applied to the AHZI project:

• The incentive must be predictable and easy to execute;

• The incentive must work for small- to moderate-height buildings and for modest height increases. Developers may be hesitant to depart from the development models that have been successful in Denver’s market;

• Additional community benefit requirements on commercial and retail development—e.g., specifying commercial uses or tenancies—may render the incentive unfeasible as applied to those uses. First floor commercial uses produced very low returns prior to COVID-19 challenges.
Discussion Point

Are there additional market considerations for the AHZI?
Alternatives for Testing

4:40 – 5:15p
Alternative Components for Review and Discussion

1) Unit requirement (% of total units)
2) Target income level and tenant income mix
3) Context-based application (submarket geographies, consistency with Blueprint)
4) Additional incentives
Unit Requirement

Proposal for testing:

• Range of 10-25% of total units. Residential will not be based on square feet in development
  • Reevaluate current 5% average output of the 38th & Blake Incentive Overlay
### Tenant Income Target and Mix

<table>
<thead>
<tr>
<th>Rental Development</th>
<th>Ownership Development</th>
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<tbody>
<tr>
<td>50% AMI and below *</td>
<td>---</td>
</tr>
<tr>
<td>51 – 60% AMI</td>
<td>---</td>
</tr>
<tr>
<td>61 - 80% AMI</td>
<td>61 - 80% AMI</td>
</tr>
<tr>
<td>81-100% AMI</td>
<td>81-100% AMI</td>
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<tr>
<td>---</td>
<td>101-120% AMI</td>
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</tbody>
</table>

*Note: This income level will be tested for the incentive, however it is likely that serving “very low income” households may not be feasible for market-rate developments, especially without additional city subsidy*
Check In: Unit Requirement and Income Mix

Confirmation that these are the appropriate ranges to test for the unit requirement and income mix
Context Based Application

A context-based system acknowledges that both the value of the bonus and the cost of the obligation may vary across market areas and typologies. Maintaining proportionality between increased value and cost is an important factor in the efficacy of the program. To that end, we propose testing the following:

1) Developments in high cost submarkets can take on a greater proportion of affordable units.
Context Based Application

2) Affordable units are created in areas that Blueprint Denver equity maps identify as having vulnerability to displacement.

3) The system will work in the majority of Blueprint Denver Neighborhood Contexts—i.e., the incentive produces feasible outcomes across a number of neighborhood contexts v. only working in one context. The outcomes of the system also align with Blueprint Denver’s growth strategy.
Discussion: Context Based Application

Staff would like feedback on potential approaches to ensure equitable application across neighborhood contexts:

1) Requiring higher contributions in high cost submarkets, where the valued added of the density bonus is greater

2) Allowing deeper affordability levels for fewer units in vulnerable neighborhoods

3) Allowing larger units sizes for fewer units in vulnerable neighborhoods
Provide Multiple Incentives

Permitting and Review Process Improvements:
• Expedited SDP review
• Expedited Building/Fire review and permitting.
• Waived or reduced fees such as rezoning, development review fees (e.g. Building Permit, SDP, SUDP)

Revisions to Parking:
• Waive or reduce required parking ratios

Breaking down silos:
• Explore with city partners other reduced or waived fees (e.g. Denver Water tap fees)
Discussion: Provide Multiple Incentives

Do these incentives add value? Are they the right incentives to explore further?

Which incentives are you most likely to select? Why?

Are there other potential incentives that should be considered?
Next Steps

5:15 – 5:30p
Next AC Meeting

• August, 2020 (likely online)
• Objectives:
  (1) Review the outcomes of the alternatives testing including an evaluation of the criteria for successful solutions
  (2) Provide guidance on incentive system requirements and applicability
Upcoming Outreach

• Planning Board Informational Item
• Additional Focus Groups Continuing
• Updates to community groups/RNOs as requested
AC Homework

- Staff will be sending follow up surveys via email – these are important to keep the project going and maintaining the feedback loop
- Talk with members of your representative organizations to inform them of the project and gain feedback to bring back to the AC
- Identify opportunities for staff to attend existing meetings (e.g. RNOs, Neighborhood orgs) to provide updates and gain feedback
Thank you.