

ADVISORY COMMITTEE SUMMARY

Videoconference Sessions on Equity and Market Considerations, Thursday, June 18, 2020

Meeting Highlights

This summary describes feedback from two separate sessions, one focused on equity considerations and one on market considerations. Advisory Committee members were encouraged to attend at least one session, and many people attended both. The primary purpose of both sessions was to 1) obtain feedback on the testing model that CPD will use to test potential alternatives and 2) to provide initial feedback on how the City should balance some anticipated tradeoffs. More information is available in the Draft Alternatives Report shared before the meeting. CPD and Root Policy also provided an overview of Denver market conditions over the past few years and anticipated changes due to COVID-19.

Action Items

Advisory Committee members:

- Respond to a follow-up survey to inform technical work. This will be sent by Analiese Hock.
- Inform constituents about the project and obtain their feedback to integrate into future Advisory Committee meetings and conversations with the CPD team.
- Contact Analiese Hock about any opportunities for CPD staff to attend existing meetings (e.g., RNOs, neighborhood organizations) to provide updates and gain feedback.
- CPD will be leading some small group outreach and may reach out to individual Advisory Committee members to support efforts.

Next Meeting – likely August 2020, date TBD

The next meeting is anticipated to be a videoconference in August 2020. CPD and Root Policy will share outcomes from the alternatives testing, including a preliminary evaluation of the criteria for successful solutions. The Advisory Committee will provide feedback on the incentive system requirements and applicability.

Advisory Committee members are encouraged to submit any questions to Analiese Hock, CPD Project Manager (720-865-2926, analiese.hock@denvergov.org), and to share any process feedback with Laura Sneeringer, CBI Facilitator (720-251-9842, lsneeringer@cbi.org).

AHZI materials are available on the project website: https://www.denvergov.org/content/denvergov/en/community-planning-and-development/zoning/text-amendments/Affordable_Housing_Zoning_Incentive.html

Market Conditions

Heidi Aggeler, Root Policy, provided an overview of anticipated market conditions due to COVID impacts and Denver market trends from 2015-2019. See the Draft Alternatives Report pages 6-10.

Questions

What is the source on the delinquencies? Is it the Apartment Association? If so I'm concerned that this data does not represent class B or other older, smaller properties, or single-family homes where many of our renters in areas at risk of displacement live. National delinquencies is Urban Land Institute; local is from developers (based on their experience). Apartment Association delinquencies covering second quarter 2020 will not be available until late summer or early fall.

Is this retail map all new development (i.e., not renovations)? Does it include mixed-use? It is newly constructed retail.

What about considerations for the need for affordability during COVID-19 and the current high risk of mass displacement? We are looking at a larger AMI range and considering displacement impacts.

Is there any evidence of moderating construction costs yet? The development community has not seen any price increases in 2020. They do anticipate labor cost decreases (maybe up to 10%) related to COVID. SA+R Architects has not seen the immediate impacts on construction costs yet, but there is an expectation that costs will begin to go down. Many

AFFORDABLE HOUSING ZONING INCENTIVE

contracts were already signed which held at previous levels. Once those run their course, it is expected that costs will begin to soften.

Is Denver's increasing population being considered in the analysis of future trends? Developers are anticipating that people are still moving to Denver and the City may absorb more people who can work from home; it's more affordable to live in Denver than places like California and New York. There is not a clear sense of how this impacts different races and ethnic groups.

Are first-floor commercial developments proving to be neutral or a drag on the project economics? Yes; the developers interviewed for the study mentioned that first-floor commercial is rarely profit-generating.

Advisory Committee Feedback

Advisory Committee members were asked if they agree with the following market condition considerations. Seven people said yes and others did not respond.

- 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.

The Advisory Committee was asked to share any additional market considerations that are relevant for AHZI. One person noted that they are seeing leasing being deferred.

Equity Considerations for Alternatives Testing

Analiise Hock, CPD Principal Planner, reviewed draft equity-related criteria for successful solutions to inform the evaluation of incentive ideas during future meetings and potential approaches for applying equity to the incentive system. See the Draft Alternatives Report pages 3 and 11-12.

Questions

How will you be measuring community needs? AMI.

What is the cost to build a studio versus a larger unit (e.g., a three-bedroom)? The overall cost-per-square-foot is less for three bedrooms, but the rent per square foot is significantly less.

Advisory Committee Feedback

Should we include fee-in-lieu within the incentive system? No.

Should we include fee off-site build alternatives within the incentive system? Generally no, with the caveat that there should still be some flexibility for large projects especially if they are not occurring in an area with less opportunity.

Should we test the viability for different requirements (AMI levels and affordability contributions) for different parts of the city? Yes (9 people said yes in the poll; there were no comments).

Unit Contribution (% of units as affordable) - How do we balance increasing the number of affordable units in historically lower-income neighborhoods while also improving access to opportunity?

- This should be reframed as “supporting equity in place” instead of reducing vulnerability to displacement. There is value in staying in neighborhoods to maintain social networks, etc.
- It may be helpful to consider these questions:
 - What is the goal of this policy when new development is proposed in an area vulnerable to displacement (maybe promote resident stability and access to newer housing stock)?

AFFORDABLE HOUSING ZONING INCENTIVE

- What is the goal when it is proposed in a strong market area of opportunity (expand access, inclusivity in areas that may not have as much racial integration).
- Blueprint Denver says each community should serve people with affordability at all ranges.
- We should test this, not just because of the desirability of differing areas, but because the economics of market rents that can be charged in some areas might increase the amount those projects can bear to provide and still be viable.

Income Level Served (AMI) - Do we prioritize a deeper affordability requirement or an increased number of affordable units?

- It's important to provide deeper affordability in "support equity in place" areas (ideally 30-40% AMI, maybe 50%). People that are getting displaced are mostly in the 30-40% AMI range. There need to be units at that range, even if it means sacrificing the number of units.
- Recommend a target of 50%-60% AMI for this incentive and for the city to spend public dollars on lower AMIs. It is rare for this type of incentive to reach low AMIs because of 1) the cost and desire for more units, and 2) these units don't come with services. When we get close to 30% of AMI we're more likely to be serving families who might need other services.
- We need to consider the reality of what this incentive system can deliver and how it compliments goals for projects that use public subsidies. This incentive system can't solve all affordable housing problems; it's one piece of the puzzle.

Unit Size/Bedroom # - Do we prioritize providing larger units or more affordable units?

- More rooms are needed even for non-families; it's too expensive to live alone these days. Having roommates is a way to get at affordability.
- We are losing families in this city and we are losing numbers in Denver Public Schools. We need family size units and extra incentives for family housing. DPS research shows we need more 3+ bedroom units at lower AMIs - <https://www.dpsk12.org/wp-content/uploads/SRA-Fall-2019.pdf>.
- In high opportunity areas, we don't see a lot of larger units being built. Incentivizing development of larger units for families would allow more choice across the city.
- I think focusing on lower AMI is more important than trying to add units for families with kids into a building that wasn't built for them and where they won't be among other kids.
- We need deeper affordability and larger units. Families grow over time, so both are important.

Are there any other variables that we should be evaluated from an equity perspective?

- Consider integrating additional, deeper incentives in lower opportunity neighborhoods.
- Focus on location. For example, consider incentives that could help ensure affordability near schools.
- Include Preference Policy. This is being included (see page 11 of the Draft Alternatives report).
- All projects should be making a minimal contribution even without a zoning incentive. We can consider these high-level priority/values conversations as input for a "contingent" proposal, pending change in state legislation.

Considerations

- It depends on the neighborhood context.
- Need to ensure the system incentivizes what Denver needs and that it is economically viable.
- The City needs to determine equity priorities and make it clear to developers. The developers need predictability.
- It's not a one size fits all and there may be a need for different defined "tiers" of incentives depending on the needs. We need to balance incentivizing for new units and not harming existing stock. The outcome we want is more units for the highest level of need in for sale and rental without harming the existing stock.
- The zoning code doesn't fix the affordable housing need comprehensively. There are other tools and it would be good to know what those tools are when it comes to equity and affordable housing.

Market Conditions Considerations for Alternatives Testing

Heidi Aggeler, Root Policy, provided an overview of recommendations for testing market conditions. See the Draft Alternatives Report pages 13-18.

Questions

Will you test in a land trust model? No, land trusts are not part of this effort.

Advisory Committee Feedback

Should we test a range of 10-25% of the total units?

Poll results were 6 yes, 1 no, 2 not sure. One person noted that 25% seems very high. Another person recommended a "baseline" of 10%-15%.

Are we testing the right AMI levels (see draft Alternatives Report page 14)?

Poll results were 8 yes, 1 not sure. There is a desire by some to test lower AMIs (some would like to see testing as low as 30% AMI, see equity discussion above).

Should we require higher contributions in high-cost submarkets, where the valued added of the density bonus is greater?

- We don't want to discourage affordable housing developers in high-cost suburban markets. Tread lightly and don't include this if it disincentivizes development. If it doesn't disincentivize and we can get more affordable housing units, it's worth it.
- This comes down to pro forma. More details are needed.
- We may need to double-check assumptions that high value corresponds to areas with high opportunity and lower values correspond areas vulnerable to displacement. When you change requirements/approaches for vulnerability or opportunity, you're changing land value markets too.
- A challenge is that if you build more density, the cost for building taller is more and the land is more expensive. I am not sure it will be possible to build more affordable units.

Should we allow deeper affordability levels for fewer units in vulnerable neighborhoods?

- We have to find the right balance. If we provide additional, more discounted units there should be a sliding scale of some sort.

Should we allow larger units sizes for fewer units in vulnerable neighborhoods?

- It's all about balance. The gaps in costs are much smaller for studios than larger units. A sliding scale would make sense if it can work.
- This argument applies across the board, not just for vulnerable areas.

Do incentives related to permitting and review process improvements, revisions to parking, and breaking down silos add value (see draft Alternatives Report page 18)? Are they the right incentives to explore further? Which incentives are you most likely to select? Why?

- It may be helpful to include streamlining of the Denver's Department of Transportation & Infrastructure (DOTI) review process.
- Streamlined processes and reduced fees make a difference in developing affordable housing.
- In the past, we've heard city-only waivers aren't very valuable without the partner fees that Denver can't waive, such as water.
- Are there staffing additions considered at the City level for expediting processes? What about support for doing affordable housing management and support services (i.e., partnership making)?

Are there other potential incentives that should be considered?

AFFORDABLE HOUSING ZONING INCENTIVE

- Cash subsidies, otherwise you've captured the major ones. Note that cash incentives are unlikely to get community or Council support.
- Fee waivers could be on the table, though they can't delay the process or you lose the benefit.
- Incentives that offer predictability to surrounding areas are important (e.g., be cautious around parking reductions in already established neighborhoods).

Other Considerations

- Be cautious about competing goals for the incentives. If you can get the same incentive for either green building or doing affordable housing, we might find developers choose one consistently over the other.
- Several project types tested out as "infeasible" under the linkage fees we proposed, but they are being built. Markets are adaptable to a point, and in some cases, land prices or other approaches adjust to change something that was infeasible (assuming no change) to feasible (by changing other factors).

Participants

Equity Session

Advisory Committee Members

City Council, At Large - Robin Kniech
City Council, District 1 - Amanda Sandoval
Enterprise Community Partners - Jennie Rodgers
GES Coalition - Nola Miguel
INC-ZAP; Colorado Latino Coalition - Ean Tafoya
McWhinney - David Jaudes
Shears Adkins Rockmore - Jesse Adkins
Urbina Strategies - Molly Urbina
Urban Ventures - Susan Powers
West Colfax RNO - Jessica Dominguez

Observers

Alfonso Espino, GES Coalition
Naomi Grunditz, Amanda Sandoval Aid
Joel Noble, Denver Planning Board

City Staff

Analiese Hock, Project Manager, CPD
James Van Hooser, Project Team, CPD
Chris Gleissner, CPD
Melissa Thate, Housing Policy Officer, HOST
Debra Bustos, HOST
Andrew Johnston, HOST

Consultant Team

Consensus Building Institute: Laura Sneeringer
Root Policy: Heidi Aggeler, Mollie Fitzpatrick

Market Conditions Session

Advisory Committee Members

City Council, At Large - Robin Kniech

AFFORDABLE HOUSING ZONING INCENTIVE

Denver East Neighborhoods First - Caroline Carolan
GES Coalition - Nola Miguel
INC-ZAP; Colorado Latino Coalition - Ean Tafoya
Northeast Denver Housing Center - Dominique L. Acevedo
Palisade Partners - Paul Books
Shames-Makovsky - Dorit Fisher
Wells Fargo - Shelley Marquez
West Wash Park RNO - Sherri Way

Observers

Alfonso Espino, GES Coalition
Naomi Grunditz, Sandoval Aid
Christine O'Connor – INC-ZAP

City Staff

Analiese Hock, Project Manager, CPD
James Van Hooser, Project Team, CPD
Tina Axelrad, CPD
Melissa Thate, Housing Policy Officer, HOST
Debra Bustos, HOST
Andrew Johnston, HOST

Consultant Team

Consensus Building Institute: Laura Sneeringer
Root Policy: Heidi Aggeler, Mollie Fitzpatrick
ArLand Land Use Economics: Arleen Taniwaki