Affordable Housing Zoning Incentive

Advisory Committee Meeting #3A Equity

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
8:00 – 8:10 am
Agenda: Equity

• Market Conditions Overview
• Review Application of Equity Criteria
• Next Steps
Market Conditions: COVID Impacts and Future Forecasts

8:10 – 8:20 am
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.

*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.
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?
Market Trends:

2015 - 2019

8:20 – 8:30 am
Pre-COVID Development Trends: Building Heights

- Multi-Family Market Rate
- Multi-Family Affordable
- Office
- Industrial Flex
Pre-COVID Development Trends: Geographic Dispersion, Market Rate
Pre-COVID Development Trends: Geographic Dispersion, Affordable
Pre-COVID Development Trends: Geographic Dispersion, Office

Office by Number of Stories:
- Red: 0 - 2
- Orange: 3
- Green: 4 - 5
- Yellow: 6 - 8
- Blue: 9 - 12
- Brown: 13 - 16
- Gray: 17 - 20
- Silver: 21 - 40

Mixed Use Commercial Zone Districts
Pre-COVID Development Trends: Geographic Dispersion – Retail
## Average Multifamily Development

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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.
Check-In

Any points of clarification?
Applying Equity

8:30 – 9:15am
Revised Equity Criteria

- The incentive system will use the Denver Comprehensive Plan 2040 equity definition and Blueprint Denver equity concepts. Key equity concepts include:
  - improving access to opportunity,
  - reducing vulnerability to displacement, and,
  - expanding housing and jobs diversity.
- The incentive system should work to expand access to those who have been historically disadvantaged in accessing affordable housing and opportunity. System outcomes will be designed to maximize benefit to these communities and not increase the problem of housing or involuntary displacement.
- Additionally, the incentive system will consider the different needs and contexts of Denver’s neighborhoods to produce equitable outcomes.
Improving Access to Opportunity

- Increase access to opportunity by increasing the development of affordable housing through the incentive in neighborhoods with:
  - high quality educational environments;
  - high levels of labor market engagement;
  - low poverty levels;
  - employment opportunities;
  - access to health care and supportive services;
  - and ample recreational opportunities.
Improving Access to Opportunity

- Expand opportunities for residents who have historically been denied access to opportunity and/or are living in low opportunity neighborhoods to relocate to high opportunity neighborhoods, should they choose to do so.
- The system should be applied and effective in areas where there is high access to opportunity.
- A fee-in-lieu or off-site build alternative should not be allowed.
Reducing Vulnerability to Displacement

- The system should not incentivize development that leads to involuntary displacement.
- The system should provide affordable housing at the level of existing community need.
Expanding Housing Diversity

• The system should provide a mix of unit size/types (studio, 1-bedroom, 2-bedroom, 3-bedroom).
• The system should be effective in for-sale and rental developments.
Discussion: Geographic Balance

While is it important that new housing is at an income level that meets the needs of the existing community, continuing to place low income households in historically low-income neighborhoods with low access to opportunity may perpetuate historic inequities.

• Should we test the viability for different requirements (AMI levels and affordability contributions) for different parts of the city?
Discussion: Tradeoffs

• Given the below tradeoffs, what is most important to you from an equity perspective? Why?

• 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?

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

• Unit Size/Bedroom # - Do we prioritize providing larger units or an increased number of affordable units?

• Are there any other variables that we should be evaluating from an equity perspective?
Next Steps

9:15 – 9:30 am

Market focus meeting today at 4pm
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 and staff team

• Identify opportunities for staff to attend existing meetings (e.g. RNOs, Neighborhood Organizations) to provide updates and gain feedback
Thank you.