

Expanding Housing Affordability

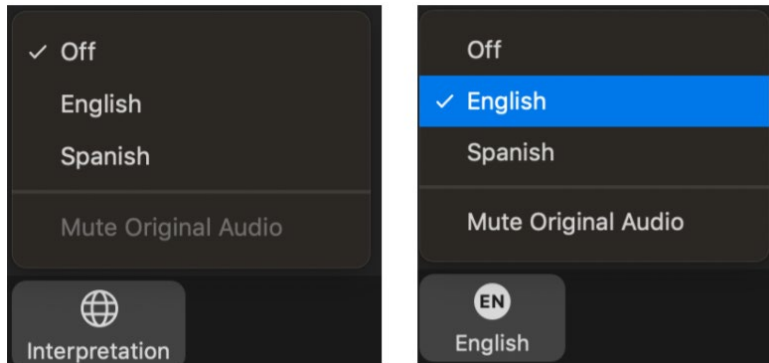
*Advisory Committee Meeting
June 15, 2021*



Welcome.

Zoom Logistics

Interpretation will be provided. Click the globe on the bottom of your screen and select language of choice



Chat should only be used for technical needs

Raise hand to participate in conversation

Stay on **mute** when not actively talking

If possible, keep your **camera on**

Land Acknowledgement

We honor Elders past, present, and future, and those who have stewarded this land throughout generations. We also recognize that government, academic and cultural institutions were founded upon and continue to enact exclusions and erasures of Indigenous Peoples. May this acknowledgment demonstrate a commitment to working to dismantle ongoing legacies of oppression and inequities and recognize the current and future contributions of Indigenous communities in Denver.

Agenda

- Welcome, Introductions and Agenda Review (20 minutes)
- Advisory Committee Charter (15 minutes)
- Phase 1 Outreach Summary (10 minutes)
- Key Considerations (25 minutes)
- Phase 2 Planned Outreach (15 minutes)
- Understanding Development Summary (20 minutes)
- Public Comment and Questions (10 minutes)
- Next Steps (5 minutes)

Meeting Objectives

- Review and confirm advisory committee charter along with member expectations
- Review outreach summary and provide suggestions on additional outreach methods and/or groups to connect with in the next phase
- Review key considerations, add as necessary
- Review basics of development

Meeting Norms

- Remain open-minded and avoid judging ideas prematurely.
- Be open and candid with ideas, needs, and concerns.
- Encourage participation from all members.
- Be concise and speak to the point. Encourage others to contribute.
- Listen to understand.
- Be respectful. Avoid side conversations. Refrain from interrupting.
- Be future-focused. Do not reopen previous discussions unless the information and circumstances have substantially changed.
- Be present during discussions.

Introductions (20 min)

- Name
- Organization/company
- Share one personal or work life change during the pandemic that would you like to carry forward.

HB21 1117 Updates

Local Government Authority Promote
Affordable Housing Units

Bill Summary

The bill clarifies that the existing authority of cities and counties to plan for and regulate the use of land includes the authority to regulate development or redevelopment in order to promote the construction of new affordable housing units. **The provisions of the state's rent control statute do not apply to any land use regulation that restricts rents on newly constructed or redeveloped housing units as long as the regulation provides a choice of options to the property owner or land developer and creates one or more alternatives to the construction of new affordable housing units on the building site.** The bill clarifies that the existing authority of cities and counties to plan for and regulate the use of land includes the authority to regulate development or redevelopment in order to promote the construction of new affordable housing units. The provisions of the state's rent control statute do not apply to any land use regulation that restricts rents on newly constructed or redeveloped housing units as long as the regulation provides a choice of options to the property owner or land developer and creates one or more alternatives to the construction of new affordable housing units on the building site. **The bill also states that it should not be construed to 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 .**

Source: <https://leg.colorado.gov/bills/hb21-1117>

Bill Summary

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.

Therefore...

- Denver will continue to explore inclusionary housing policies that would apply to new rental and for-sale development.
- Potential program requirements will be discussed at the July meeting.

Advisory Committee Charter

15 min

Committee Charter Revisions

- Changing name from Affordable Housing Zoning Incentive to Expanding Housing Affordability
- Changing the scope to include tools beyond zoning incentives
- Added zero tolerance policy
- Minor wording clarifications

Reminder of Committee Member Expectations

- Share ideas and feedback throughout the process.
- Constructively engage in discussions with people holding a different viewpoint.
- Come to all meetings prepared for discussion by reading meeting materials in advance.
- **Commit time and energy to the effort. If members must arrive late or miss meetings, it is their responsibility to get up-to-speed on discussions. Members should let CPD know in advance if they will miss a meeting. Members can send an alternate from their organization who has been updated on project progress. CPD also strongly encourages members to set up a meeting with CPD staff to get up-to-speed on technical conversations.**
- Represent and communicate with a larger constituent group. Share information about the project with your constituent group and obtain their input.
- Provide feedback on community engagement activities and support specific implementation activities, as requested.

Committee Charter Revisions

Any further revisions or clarifications?

Phase One Outreach Summary

10 min

Phase One Outreach Purpose

- Informing the community of the project purpose, timeline, and opportunities to participate
- Building a shared understanding of current programs, outcomes, and lessons learned from peer cities and Denver programs
- Listening to community priorities, ideas, and considerations
- Answering questions

Phase One Outreach Approach

- Connecting with existing community groups and industry organizations
- Office Hours
- Partnering with council offices to share information and co-host community events
- Community Connector information sessions
- Focus Groups
- Feedback Forms
- Robust website with multiple information formats

Key Feedback Themes

- Need for innovative solutions to address housing needs
- Program impacts to overall housing market
- On-site construction of units and mixed income housing and neighborhoods
- Incentives are critical to a mandatory program
- Involuntary displacement concerns
- Provide realistic alternative-compliance
- Timing of implementation questions and concerns
- Cumulative impacts to development



Reminder, the complete 12-page summary provides far more detail to comments received

Additional Feedback Outside the Scope of EHA

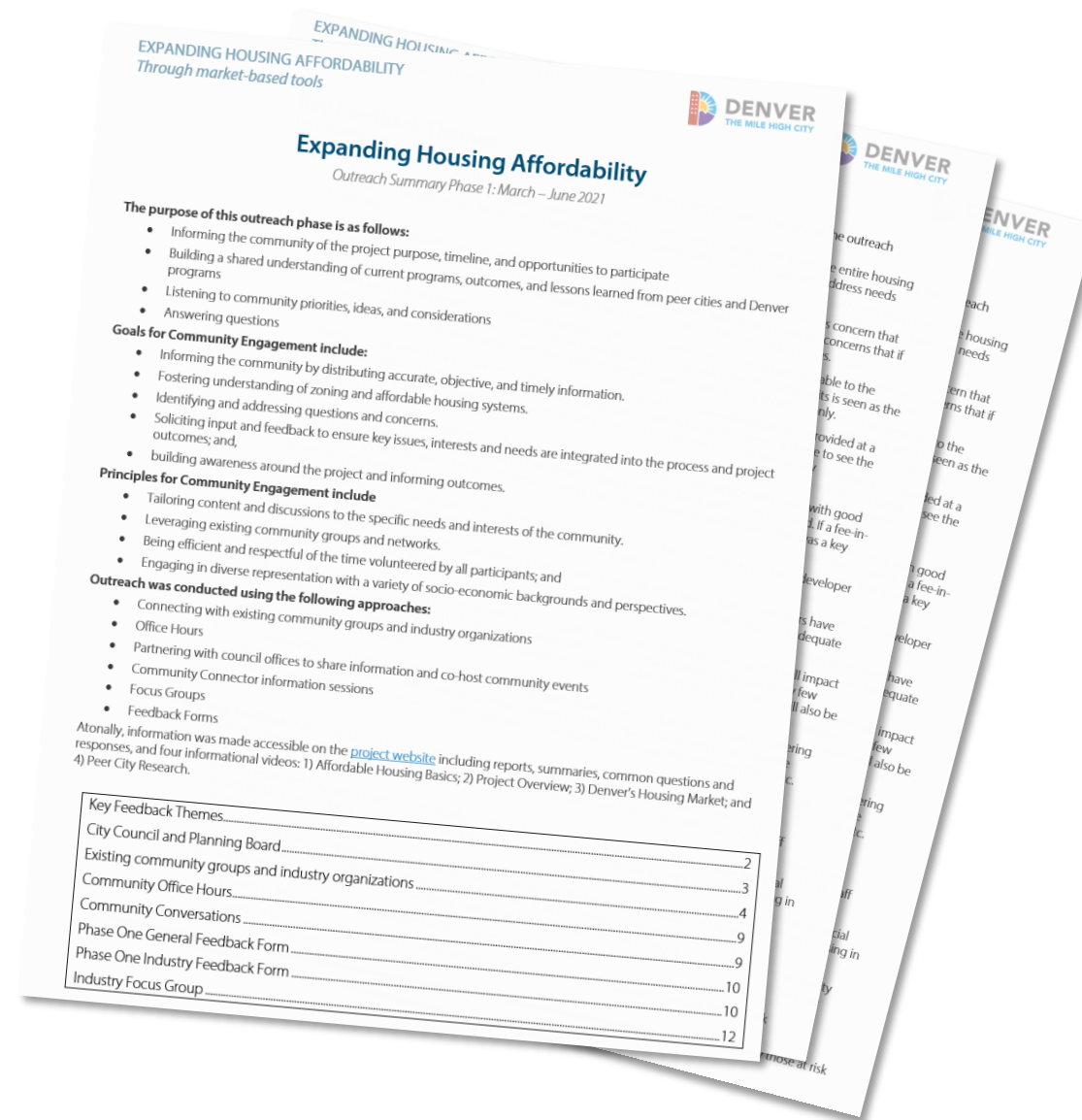
- Need for more educational programs related to housing and financial literacy to promote upward mobility
- Need to increase housing options (e.g., ADUs, small lot housing, fourplexes, etc.)
- Focusing more on expanding “attainable” housing options over “affordable”
- Focusing more on housing for those at risk of involuntary displacement



Reminder, the complete 12-page summary provides far more detail to comments received

Phase One Outreach

Any questions or clarifications on comments received?



Key Considerations

25 min

Key Considerations for EHA

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

Discussion

Are there other considerations or priorities that should be considered as staff develops draft policy?

- What did we miss?

Phase 2 Planned Outreach

15 min

Phase 2 Objectives

July – August

Explore policy alternatives for the following three tools:

- Linkage Fee
- Inclusionary Housing
- Incentive Zoning

Policy alternatives will be informed by the financial feasibility analysis provided in July

Inclusionary Housing Policy Discussion Points

- Project threshold size for build-requirement
- Percentage of units that must be affordable
- Affordability level of rental and ownership units
- Affordability terms
- Geographic variants
- Options for alternative satisfaction of requirements
- Development incentives
- Implementation/effective date
- Exemptions

Linkage Fee Policy Discussion Points

- Fee per square foot assessed by use
- Options for alternative satisfaction of requirements
- Implementation/effective date
- Exemptions

Incentive Zoning Policy Discussion Points

- Geographic applicability
- Incentives available and amount
- Percentage of affordable units that must be affordable
- Affordability level of rental and ownership units
- Affordability term
- Additional zoning incentives
- Implementation/effective date

Phase 2 Outreach Purpose

- **Gain feedback on policy alternatives for each tool to understanding trade-off priorities**
- Build a shared understanding of financial feasibility measures and outcomes
- Listen to community concerns, ideas, and considerations
- Answering questions

Phase 2 Outreach Approach

- Connecting with existing community groups and industry organizations
- Focus groups to deep-dive into topics or community needs
 - Under-represented populations
 - People living in affordable housing
 - Industry specific (Multi-family, ownership, commercial, etc.)
 - Others as identified
- Listening sessions through staff office-hours
- Partnering with council offices to share information and participate in existing meetings
- Potential joint events with HOST
- Online surveys
- Planning Board and City Council Meetings

Discussion

Reminder. As an advisory committee member, you are expected to represent and communicate with a larger constituent group. Share information about the project with your constituent group and obtain their input.

- How will you support outreach?
- What did we miss? How can we better connect with the community to inform policy recommendations?

Specific groups/organizations can be shared in the chat or via email to staff

Understanding Development and Feasibility

20 min

Why does development occur?

Similar to many other businesses, development is a business that reacts to demand.

And developers must cover their costs as well as provide an acceptable return to their investors.

Constraints to meeting demand:

- Land availability (land entitlement)
- Building costs (materials, labor, etc.)
- Ability to borrow from lenders

When do projects move forward?

Operating Income

- Rental Income
- Parking Income
- Pet Fees
- Misc. Income

>
Is greater
than

Operating Expenses

- Staffing
- Taxes & Insurance
- Utilities
- Maintenance
- Property Management
- Administrative



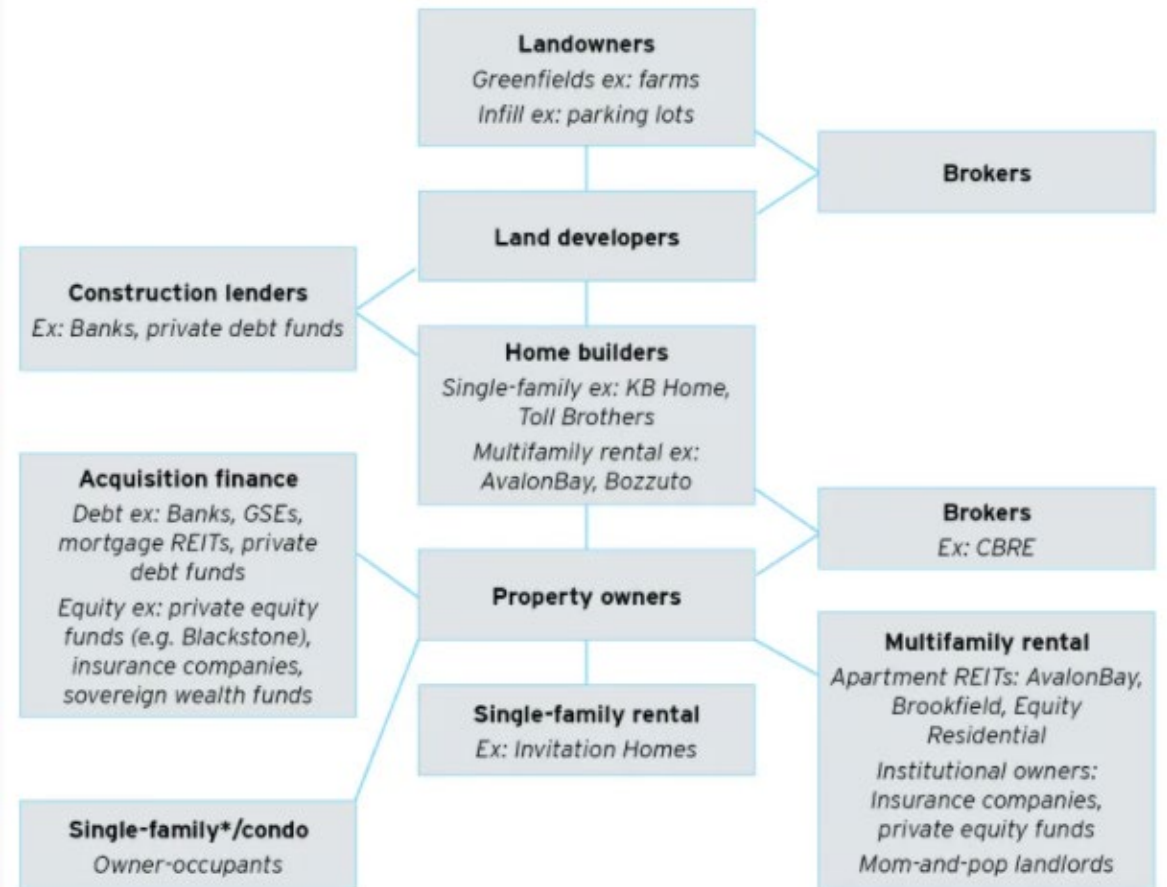
Financing Costs

- Debt Service
- Investor Return Requirements

Housing Development Ecosystem

Different investors have different priorities

- Short term vs long term
- Profit vs mission
- Risk tolerance
- Market alternatives



* Single-family includes 2-4 family properties with at least one owner-occupant.

How is Project Return Calculated?

COMMON VALUATION METRICS

- Return on Costs
- Cash on Cash Return
- Return on Equity
- Internal Rate of Return

Each provides a different way of evaluating the relationship between
REVENUE & COSTS.

WHAT FACTORS MATTER MOST WHEN CALCULATING RETURNS?

- Net operating income
- Market value of project
- Total development cost
- Debt service on development

Developers and Lenders use Pro Formas to Evaluate Project Returns

Contents of a Pro Forma

- Project details
- Development costs
- Operating revenue
- Operating expenses
- Project value and returns

		Inputs	\$ Budget		
Development Cost					
Land Cost					
Land Acquisition (Land SF / \$ Land SF)		202,410			
Closing Costs (% of Land \$)	3.0%		\$ 30,000		
Land Due Diligence (% of Land \$)	0.5%				
Total: Land Cost				\$ 6,072,300	
Hard Cost					
Building Costs (GSF / \$ GSF)		202,410		182,169	
Parking - Below Grade (Spaces/ \$ Space)		0	\$ 166.51	30,362	
Parking - Above Grade (Spaces/ \$ Space)		288	\$ 40,000		
Subtotal: Direct Costs				\$ 6,284,831	
GC Overhead & Margin (% of Direct)					
Subtotal: Construction				6,336,000	
Developer Contingency (% of Construction)	7.0%			40,039,922	
Total: Hard Cost				2,802,795	
Soft Cost					
Architecture & Engineering (GSF / \$ GSF)		202,410	\$ 10.00		
Residential Marketing (Units / \$ Unit)		180	\$ 1,500		
Organizational, Legal & Professional (% Hard Cost)				2,024,100	
Permit Fees (Units / \$ Unit)	2.0%			270,000	
Impact Fees (Units / \$ Unit)		180	\$ 700	899,697	
Lease-up Reserve (Months / \$ Stabilized NOI)		180	\$ 1,350	126,000	
Commercial Leasing Commissions	2.0		\$ 329,898	243,000	
Commercial TI (RSF / \$ RSF)				659,796	
Real Estate Tax Reserve	see Commission calcs			65,537	
Subtotal: Soft Cost		7,830	\$ 35.00	274,050	
Developer Contingency (% of Subtotal)	5.0%			300,000	
Total: Soft Cost				4,862,181	
Project Fees					
Development Mgmt Fee (% Hard + Soft)				243,109	
Construction Mgmt Fee (% Hard)					
Total: Project Fees				\$ 5,105,290	
NET DEVELOPMENT COSTS					
Financing Costs					
Financing Fees (% of loan / \$ Construction Loan)					
Interest Reserve (Int Rate / # Months)	1.5%		\$ 42,536,002	638,040	
Total: Financing Costs			see Financing calcs	2,250,000	
TOTAL DEVELOPMENT COSTS				\$ 2,888,040	
				\$ 60,765,717	

		Inputs	\$ Budget		
Housing					
Total Units					
Average Unit Size					
					180
					890
					160,170
					\$ 2.95
					\$ 2,625
					\$ 5,670,029
STABILIZED NET					
Per Month					
					\$ 472,502
					23,625
					\$ 496,128
					(24,806)
					\$ 471,321
Per Month					
					\$ 13,348
					20,021
					10,011
					16,017
					59,396
					14,140
					80,085
					3,337
					2,670
					\$ 159,628
					\$ 311,693
					\$ 18,205
					\$ 329,898

The Development Process

Pre-Development (High Risk Phase): 6-36 months

- Market analysis and feasibility studies
- Rezoning*
- Land acquisition or securing options
- Assessment and surveys
- Site planning, permitting and city review
- Construction Financing

Development/Construction: 12 – 24 months

- Infrastructure Improvements
- Vertical Construction Post Development
- Permanent Financing

Post Development

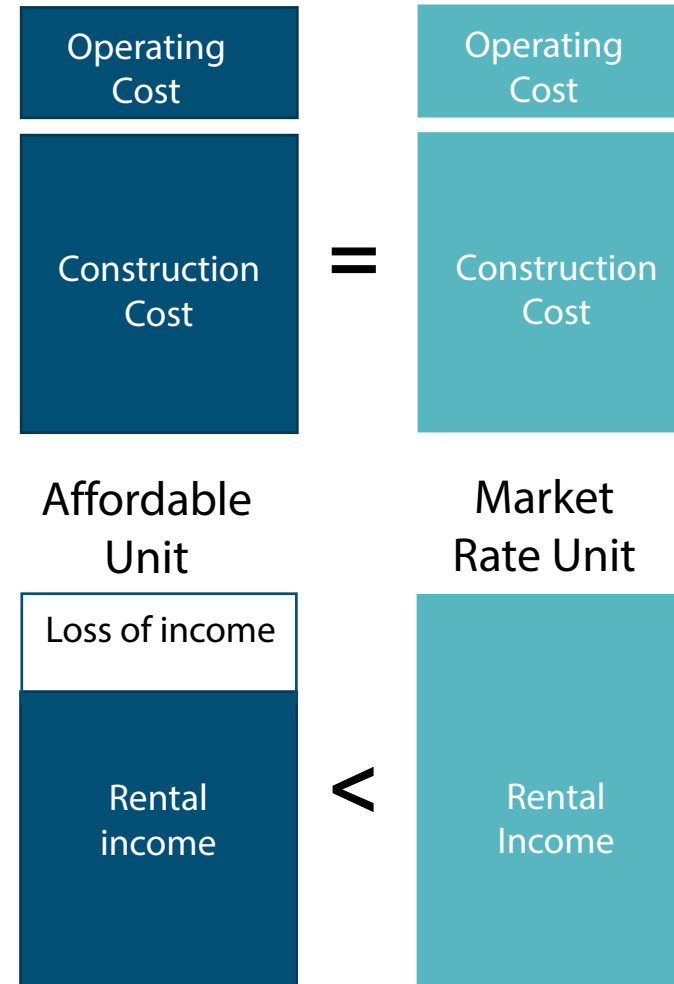
- Marketing and Leasing
- Holding or selling of property

Feasibility Modeling to Inform Policy Options

To ensure the recommended policy alternatives are financially feasible across a variety of development projects, the Feasibility Model examines changes in valuation metrics resulting from changes in linkage fees, inclusionary policies, and incentives.

How do affordable requirements and incentives impact feasibility?

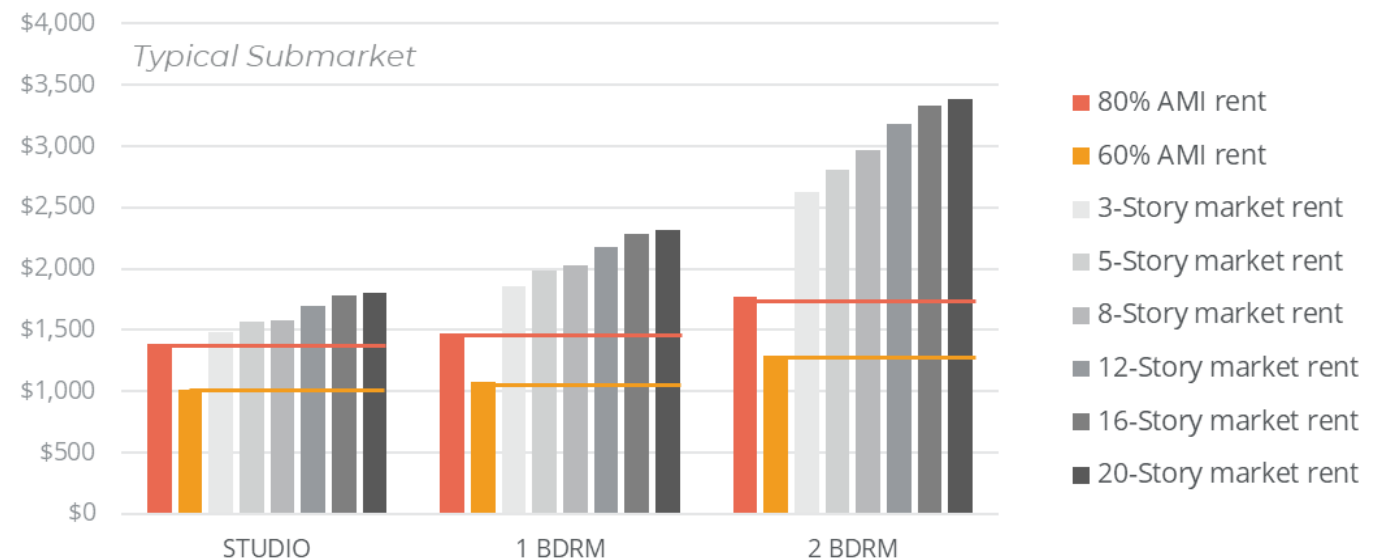
When affordable unit construction is required in rental developments, the income restricted units reduce the potential net operating income (though the per-unit cost of constructing affordable units and operating them is typically the same as market-rate units). In a for-sale context, affordable units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



How do affordable requirements and incentives impact feasibility?

The deeper the AMI, the greater the impacts to the income.

Additionally, as buildings get taller, the market rents increase, but the affordable rents remain the same widening the gap.



Public Comment (10m)

Next Steps

Next Steps

July – August

- Finalizing financial feasibility analysis for Phase 2
- Creating policy alternatives for Phase 2
- Advisory Committee Meeting in July to review policy alternatives
- Continued Outreach