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.
Meeting Objectives

• Gain understanding of current housing needs
• Gain understanding of financial feasibility metrics and outcomes
• Identify program priorities given program trade-offs
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 (5 min)

• Name
• Organization/company
Denver’s growth has not benefited everyone

Denver has added **56,000** more households since in 2010

But not everyone has benefitted from that growth

- Less than $50,000
- $50,000 – 80,000
- $80,000 or higher
Housing Costs Are Outpacing Wage Growth

The **cost of housing** has increased **2x** the **rate of incomes**
Cost Burden is Growing Among Renters

- 0-50% AMI: 78% in 2010, 85% in 2019
- 51-60% AMI: 61% in 2010, 81% in 2019
- 61-80% AMI: 38% in 2010, 46% in 2019
- 81-100% AMI: 16% in 2010, 35% in 2019
- 101-120% AMI: 12% in 2010, 16% in 2019
- 120% + AMI: 4% in 2010, 3% in 2019
New Rental Development Is Typically above 80% AMI

Market Rate Development by AMI, Built 2015-2019

Understanding Housing Needs

Who is someone that could qualify for 50% AMI housing?

Preschool Teacher
Annual Income $37,850

Construction Laborer
Annual Income $39,110

83,422 Denver households earn less than 50% AMI

85% of renters are cost burden

Max Rent $886 for 1-Bedroom

2019 1-year ACS, Root Policy Research
Rent limits from CHFA, Utility Adjustments from DHA.
Understanding Housing Needs

Who is someone that could qualify for 60% AMI housing?

- **Flight Attendant**
  - Annual Income $51,010
- **EMT/Paramedic**
  - Annual Income $42,900

15,864 Denver households earn 51% - 60% AMI

81% of renters are cost burden

Maximum rent for 1-bedroom $1,082

2019 1-year ACS, Root Policy Research
Rent limits from CHFA, Utility Adjustments from DHA.
Understanding Housing Needs

Who is someone that could qualify for 80% AMI housing?

<table>
<thead>
<tr>
<th>Occupation</th>
<th>Annual Income</th>
</tr>
</thead>
<tbody>
<tr>
<td>Firefighter</td>
<td>$63,160</td>
</tr>
<tr>
<td>Reporter/Journalist</td>
<td>$63,050</td>
</tr>
</tbody>
</table>

- 34,437 Denver households earn 61% - 80% AMI
- 46% of renters are cost burden
- Max. rent for 1-bedroom: $1,476
- Max. 1 person HH Price: $219,855

2019 1-year ACS, Root Policy Research
Rent limits from CHFA, Utility Adjustments from DHA. HUD (assumes 10% down, 30-yr fixed interest, 4% rate.)
Understanding Housing Needs

Who is someone that could qualify for 100% AMI housing?

Building Inspector
Annual Income $71,980

Registered Nurse
Annual Income $77,860

31,811 Denver households earn 81% - 100% AMI

35% of renters are cost burden

Max. rent for 1-bedroom $1,869
Max. 1 person HH Price $247,818

2019 1-year ACS, Root Policy Research
Rent limits from CHFA, Utility Adjustments from DHA, HUD (assumes 10% down, 30-yr fixed interest, 4% rate.)
# Regional Effects on AMI

<table>
<thead>
<tr>
<th>Income Thresholds</th>
<th>2010</th>
<th>2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>HUD AMI 2-person household</td>
<td>$60,800</td>
<td>$80,000</td>
</tr>
</tbody>
</table>

**Note:** The geographical area used by HUD for AMI calculations includes the Denver-Aurora-Lakewood MSA. It excludes the Boulder Valley. 2010 data not adjusted for inflation.

**Source:** HUD, Denver Department of Housing Stability, and Root Policy Research.
Expanding Housing Affordability

Through Market-Based Tools

Project Objective

To establish market-based programs for new development that complement existing tools and resources, enabling the City to address housing needs for low-to-moderate income households in every neighborhood.
The City is exploring the following complementary tools through the **Expanding Housing Affordability** project:

- Linkage Fee Updates
- Inclusionary Housing
- Incentive Zoning Expansion
Tool Summary and Applicability

Linkage Fee

• What: One-time fees imposed on new development on a per square/foot basis and are designed to offset the impact of new developments demand for affordable housing.

• Intent: Increasing the existing fee on commercial and low-scale residential within financial feasibility to increase funds for affordable housing.

Inclusionary Housing

• What: Requires new residential development to include a portion of affordable housing units on-site and create mixed-income housing.

• Intent: Create a requirement for new residential development to provide a portion of units as affordable at a particular AMI level.

  • Will also provide alternative compliance options as required by HB-1117.
Guiding Principles

• An **equitable** program that addresses housing needs for households in every Denver neighborhood

• A **predictable** program that provides clarity and transparency of process, requirements, and outcomes

• A **market-based** program that responds to varied market feasibility conditions and partnership opportunities
Revisions to Project Timeline

Previously anticipated to end in 2021, will now end by Q2 of 2022

Why: To enable more stakeholder and community conversations and engagement around financial feasibility, program requirements, and program off-sets before drafting formal changes

• Advisory Committee Meetings anticipated in September, November, January and March

• Continued outreach with large push in October and winter of 2022 prior to legislative process
Financial Feasibility
Why is financial feasibility important?

Ensures that the program requirements (percent of affordable units, level of affordability) enable market-rate housing and non-residential development to continue while contributing to affordable housing needs.

- Without the creation of new market-rate housing, the Inclusionary program will not create any new affordable units.

- Without new commercial/industrial development, the linkage fee will not produce any funds for affordable housing.
• Based on previous feasibility reports (e.g., Linkage fee nexus study) and recent development trends.

• For-sale and rental residential (from single family to 20-story); Office (3-16 stories); Hotel; Retail; Warehouse

• Market data on building costs and rents.

• Variations by geographic submarket and development prototype/height.

• Extensive stakeholder vetting.

• Return on Cost (5.5%-7%)

• Cash on Cash (5%-10%)

• Internal Rate of Return (20% year 7)

• Return on Equity (6% year 5)

• Linkage Fee increases (non-residential)

• Inclusionary (for-sale and rental residential)

17 interviews; 4 focus groups; actual project data sharing

• Actual change in output metrics (ROC, COC, IRR, ROE)

• Must meet minimum targets on at least 1 short-term and 1 long-term metric across prototypes
## Prototype & Assumptions Overview

- Parcel and building size
- units/SF
- bedroom mix
- parking ratio and mix
- Land costs
- Building costs
- Parking cost
- Tenant Improvements
- Site Costs
- Soft Costs
- Contingency
- Financing
- Sales and rent revenue
- Parking and misc. revenue
- Vacancy
- Operating expense
- Reserves
- Marketing cost
- Cap rates

### Table: Cost Breakdowns

<table>
<thead>
<tr>
<th>Prototype</th>
<th>Building Cost per Square Foot (excl parking)</th>
<th>Parking Cost per Square Foot</th>
<th>Tenant Improvements / Upgrades</th>
<th>Site Costs (as a % of Building Cost)</th>
<th>Soft Costs (excl. Linkage and Financing)</th>
<th>Linkage Fee (as of June 2021)</th>
<th>Contingency</th>
</tr>
</thead>
<tbody>
<tr>
<td>Single Unit Infill</td>
<td>$800.00</td>
<td>$200.00</td>
<td>5%</td>
<td>7%</td>
<td>2%</td>
<td>$200.00</td>
<td>5%</td>
</tr>
<tr>
<td>Townhomes</td>
<td>$630.00</td>
<td>$200.00</td>
<td>5%</td>
<td>5%</td>
<td>2%</td>
<td>$200.00</td>
<td>5%</td>
</tr>
<tr>
<td>S-Story</td>
<td>$628.00</td>
<td>$200.00</td>
<td>5%</td>
<td>5%</td>
<td>2%</td>
<td>$200.00</td>
<td>5%</td>
</tr>
<tr>
<td>12-Story Condo</td>
<td>$930.00</td>
<td>$200.00</td>
<td>5%</td>
<td>5%</td>
<td>2%</td>
<td>$200.00</td>
<td>5%</td>
</tr>
<tr>
<td>3-Story Residential</td>
<td>$2.34 / SF</td>
<td>$2.267 / Unit</td>
<td>150 per Spc/Mo</td>
<td>2 / Unit</td>
<td>5%</td>
<td>$7,073 / Unit</td>
<td>5%</td>
</tr>
<tr>
<td>5-Story Residential</td>
<td>$2.57 / SF</td>
<td>$2.195 / Unit</td>
<td>150 per Spc/Mo</td>
<td>50 / Unit</td>
<td>5%</td>
<td>$7,046 / Unit</td>
<td>5%</td>
</tr>
<tr>
<td>8-Story Residential</td>
<td>$2.68 / SF</td>
<td>$2.273 / Unit</td>
<td>150 per Spc/Mo</td>
<td>75 / Unit</td>
<td>5%</td>
<td>$7,359 / Unit</td>
<td>5%</td>
</tr>
<tr>
<td>12-Story Residential</td>
<td>$2.89 / SF</td>
<td>$2.256 / Unit</td>
<td>150 per Spc/Mo</td>
<td>80 / Unit</td>
<td>5%</td>
<td>$7,553 / Unit</td>
<td>5%</td>
</tr>
<tr>
<td>16-Story Residential</td>
<td>$3.03 / SF</td>
<td>$2.240 / Unit</td>
<td>150 per Spc/Mo</td>
<td>80 / Unit</td>
<td>5%</td>
<td>$7,751 / Unit</td>
<td>5%</td>
</tr>
<tr>
<td>20-Story Residential</td>
<td>$3.08 / SF</td>
<td>$2.449 / Unit</td>
<td>150 per Spc/Mo</td>
<td>80 / Unit</td>
<td>5%</td>
<td>$7,751 / Unit</td>
<td>5%</td>
</tr>
<tr>
<td>Office</td>
<td>$3.75 / SF</td>
<td>$50 per Spc/Mo</td>
<td>$2.25 / NSF</td>
<td>7.5%</td>
<td>$13/NSF</td>
<td>$1/NSF</td>
<td>5.75%</td>
</tr>
<tr>
<td>3-Story Office</td>
<td>$4.00 / SF</td>
<td>$50 per Spc/Mo</td>
<td>$2.25 / NSF</td>
<td>7.5%</td>
<td>$13/NSF</td>
<td>$1/NSF</td>
<td>5.75%</td>
</tr>
<tr>
<td>5-Story Office</td>
<td>$4.85 / SF</td>
<td>$50 per Spc/Mo</td>
<td>$2.25 / NSF</td>
<td>7.5%</td>
<td>$13/NSF</td>
<td>$1/NSF</td>
<td>5.75%</td>
</tr>
<tr>
<td>8-Story Office</td>
<td>$4.25 / SF</td>
<td>$50 per Spc/Mo</td>
<td>$2.25 / NSF</td>
<td>7.5%</td>
<td>$13/NSF</td>
<td>$1/NSF</td>
<td>5.75%</td>
</tr>
<tr>
<td>12-Story Office</td>
<td>$4.75 / SF</td>
<td>$50 per Spc/Mo</td>
<td>$2.25 / NSF</td>
<td>7.5%</td>
<td>$13/NSF</td>
<td>$1/NSF</td>
<td>5.75%</td>
</tr>
<tr>
<td>16-Story Office</td>
<td>$4.00 / SF</td>
<td>$50 per Spc/Mo</td>
<td>$2.25 / NSF</td>
<td>7.5%</td>
<td>$13/NSF</td>
<td>$1/NSF</td>
<td>5.75%</td>
</tr>
<tr>
<td>Other Commercial</td>
<td>$175 ADR</td>
<td>$13/NSF</td>
<td>28%</td>
<td>50% of GI</td>
<td>$1/NSF</td>
<td>$1/NSF</td>
<td>5.75%</td>
</tr>
</tbody>
</table>

### Table: Financing Assumptions

- 4-Story Hotel: $175 ADR, $13/NSF, 28%, 50% of GI
- 12-Story Hotel: $215 ADR, $13/NSF, 28%, 50% of GI
- 1-Story Retail: $41.50 / SF, 4%, $5/NSF, $2.25/NSF
Model Calibration – Latest changes in response to industry feedback

- Reduced sale price of single unit and townhomes
- Changed target return on ROC
- Increased building costs and parking costs
- Increased rents
- Increased tenant finish costs
- Increased building costs
- Increased OPEX and replacement reserves
- Increased land cost for 4-8 stories (low and mid rise)
- Increased development financing interest rate to 4.15%
### Feasibility Testing

- Actual change in output metrics (ROC, COC, IRR, ROE)
- Must meet minimum targets on at least 1 short-term and 1 long-term metric across prototypes
Results Context

The findings of this report do not include the in-depth analysis of incentives or off-sets.

• Incentives and off-sets will be a part of the inclusionary program (upcoming report supplement) and will ultimately increase feasibility.

The findings of this report do not account for typical market adjustments that occur after significant regulatory changes.

• After significant regulatory changes, the market will adjust (e.g., land prices lower) to accommodate for changes and likely lead to increased feasibility a few years after implementation.
## Inclusionary Findings: Rental

<table>
<thead>
<tr>
<th>% AMI</th>
<th>Feasible Inclusionary Requirement</th>
<th>Contract Rent for 1-bdrm at specified AMI</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Typical Submarket</td>
<td>High Cost Submarket</td>
</tr>
<tr>
<td>Rental Residential</td>
<td></td>
<td></td>
</tr>
<tr>
<td>50% AMI</td>
<td>5% of units</td>
<td>8% of units</td>
</tr>
<tr>
<td>60% AMI</td>
<td>8% of units</td>
<td>10% of units</td>
</tr>
<tr>
<td>70% AMI</td>
<td>10% of units</td>
<td>12% of units</td>
</tr>
<tr>
<td>80% AMI</td>
<td>12% of units</td>
<td>15% of units</td>
</tr>
</tbody>
</table>
# Inclusionary Findings: For-Sale

<table>
<thead>
<tr>
<th>% AMI</th>
<th>Typical Submarket</th>
<th>High Cost Submarket (high rise condos)</th>
<th>Home price for 2-person household at specified AMI</th>
</tr>
</thead>
<tbody>
<tr>
<td>60% AMI</td>
<td>8% of units</td>
<td>10% of units</td>
<td>$188,500 - $232,000</td>
</tr>
<tr>
<td>80% AMI</td>
<td>10% of units</td>
<td>12% of units</td>
<td>$251,300 - $309,300</td>
</tr>
<tr>
<td>100% AMI</td>
<td>12% of units</td>
<td>15% of units</td>
<td>$314,100 - $386,600</td>
</tr>
<tr>
<td>120% AMI</td>
<td>15% of units</td>
<td>18% of units</td>
<td>$377,000 - $463,900</td>
</tr>
</tbody>
</table>
Inclusionary Requirements

Peer City Context

AMI level served ranges from 30 – 120% AMI.

• Most programs focus around 60 – 80% AMI

Required affordable units range from 5-20%.

• Most programs focus around 12%

• Programs with higher AMI requirements have greater percent requirements and vice versa.

All programs offer some incentives such as density bonus, tax abatement, expedited review, zoning variance, reduced parking, and direct subsidy.

• Most common incentives include Density bonus, and zoning variance.
# Linkage Fee Findings

**Typical Submarket:**
- Commercial: $7-$9
- Industrial: $6

**High Cost Submarket:**
- Commercial: $11

<table>
<thead>
<tr>
<th>Prototype</th>
<th>Max Justifiable Nexus Fee</th>
<th>Current Linkage Fee</th>
<th>Feasible Linkage Fee</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td>Typical Submarket</td>
</tr>
<tr>
<td>Commercial</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Office under 8 stories</td>
<td>$56.74 / GSF</td>
<td>$1.83 / GSF</td>
<td>$8 / GSF</td>
</tr>
<tr>
<td>Office over 8 stories</td>
<td>$56.74 / GSF</td>
<td>$1.83 / GSF</td>
<td>$9 / GSF</td>
</tr>
<tr>
<td>Hotel under 8 stories</td>
<td>$83.02 / GSF</td>
<td>$1.83 / GSF</td>
<td>$9 / GSF</td>
</tr>
<tr>
<td>Hotel over 8 stories</td>
<td>$83.02 / GSF</td>
<td>$1.83 / GSF</td>
<td>$9 / GSF</td>
</tr>
<tr>
<td>Retail (1 story)</td>
<td>$119.29 / GSF</td>
<td>$1.83 / GSF</td>
<td>$7 / GSF</td>
</tr>
<tr>
<td>Industrial</td>
<td></td>
<td></td>
<td>$6 / GSF</td>
</tr>
<tr>
<td>1-Story Warehouse</td>
<td>$28.51 / GSF</td>
<td>$.43 / GSF</td>
<td>$6 / GSF</td>
</tr>
</tbody>
</table>
## Commercial Linkage Fee

### Peer Cities Context

<table>
<thead>
<tr>
<th>City</th>
<th>Fee Range</th>
</tr>
</thead>
<tbody>
<tr>
<td>Denver - Current</td>
<td>$1.83</td>
</tr>
<tr>
<td>Denver - Financial Feasibility</td>
<td>$7-11</td>
</tr>
<tr>
<td>Denver - Starting Discussion</td>
<td>$6-8</td>
</tr>
<tr>
<td>Austin (B)</td>
<td>$12-18</td>
</tr>
<tr>
<td>Boston</td>
<td>$15.29</td>
</tr>
<tr>
<td>Cambridge</td>
<td>$12</td>
</tr>
<tr>
<td>Los Angeles</td>
<td>$3-15</td>
</tr>
<tr>
<td>San Jose</td>
<td>$3 - 15</td>
</tr>
<tr>
<td>Seattle</td>
<td>$5-17.50</td>
</tr>
</tbody>
</table>

**EXPANDING HOUSING AFFORDABILITY Through Market-Based Tools**

[Logo: Denver The Mile High City]
Clarifying questions on feasibility approach or outcomes?

*Technical comments can be submitted to the project website: www.denvergov.org/affordabilityincentive*
Inclusionary Program Priorities
Menti Survey and Discussion

Should the inclusionary program focus on serving fewer households with greater housing needs, or serving more households with moderate needs or find a balance in between? (select one)

A. 8% of units
   50% AMI
   $983 1-Brdm

B. 10% of units
   60% AMI
   $1,179 1-Brdm

C. 12% of units
   70% AMI
   $1,279 1-Brdm

D. 15% of units
   80% AMI
   $1,572 1-Brdm

*Note, the percent's and AMI's shown focus on rental in typical markets which is the largest proportion of new development
EXPANDING HOUSING AFFORDABILITY Through Market-Based Tools

DRAFT Geographic Variations

• High-Cost Markets
  • E.g., Central Business District and Cherry Creek Business District

• Typical Markets not vulnerable to displacement
  • E.g., North Capitol Hill, Highland, Sloan Lake, Lowry, etc.,

• Typical markets vulnerable to displacement
  • E.g., GES, East Colfax, Westwood, Montbello, Sun Valley, etc.
Menti Survey and Discussion

Should the inclusionary program vary program requirements by geography? *(Check all that apply)*

- No, the program should have the same requirements regardless of market opportunity or housing needs
- Yes, percent of affordable required
- Yes, AMI level served
- Yes, buy-out amount *(Fee-in-lieu)*
- Yes, off-sets/incentives
- I’m not sure. I need more information
Off-Sets & Incentives

**Off-Sets**
Intended to reward those for building affordable units on-site and minimize the choice of cash-in-lieu.

- *Meets the on-site requirement*

**Incentives**
Intended to meaningfully change the economics to make greater affordability (increase in percent affordable units and/or depth of affordability) beyond the minimum required more feasible.

- *Exceeds the on-site requirement*

*Note, fully affordable projects (all units are income restricted) will be able to access both off-sets and incentives.*
Off-Sets & Incentives

Incentives or off-sets could include:

• Vehicle Parking Reductions
• Density Bonus
• Zoning Form Relief
• Cash Subsidy
• Permit Fee Reduction

Will be addressed along with cash-in-lieu with next section of the feasibility report.
Public Comment
(10m)
Use raise hand feature and staff will promote you
Next Steps

July – September
• Budget and Policy July 29
• Planning Board August 4
• September Advisory Committee Meeting
• Continued Outreach