Centennial

Housing Study and Policy Development

Centennial Housing Strategy Policy Development

MARCH 2023

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Section 1: Introduction

Project Overview

This report, the Community Housing Strategies Outline, is the start of the third report in the Centennial Housing Study and Policy Development project (Housing Project). Background on this project is provided on the Housing Cost and Availability in Centennial website, and includes two prior studies, Centennial Housing Needs Assessment [HNA] and Centennial Housing Strategies Report, included in this packet, which serve as the basis for this work.

Priority Strategies

In early 2023, based on the process described in the Centennial Housing Strategies Report, the City Council advanced four affordable housing strategies for policy or regulatory drafting and community consideration. Summarized briefly, the four strategies are:

1. **Accessory Dwelling Units:** Allow homeowners to add smaller scale, on-site housing options by authorizing Accessory Dwelling Units (ADUs) in some areas of the City.
2. **Expedited Review:** Reduce the amount of start-up time and cost for affordable housing developments by streamlining the development review process when the project meets specific City design and development standards.
3. **Inclusionary Zoning:** Include affordable units and housing opportunities in a range of locations by requiring some percentage of affordable housing (either for-sale or for-rent) be included in new housing developments of a certain size, such as 10 units or more.
4. **Land Banking:** Plan for longer-term community housing needs by establishing a land donation or land banking program that can buy, acquire, and hold land to help make future housing development more affordable.

All of these strategies are described in greater detail in the Centennial Housing Strategies Report included in this packet.

Purpose and Organization of the Annotated Outline

This outline is intended as a starting point for further discussion about each of the chosen affordable housing strategies. Each strategy includes the following sections:

- **Overview**
- **Land Development Code Updates**
- **Drafting Considerations**
- **Big Picture Questions**

Section 2: Priority Strategies Outline Drafts

Accessory Dwelling Units

Overview

Accessory Dwelling Units (ADUs) are small, secondary ("accessory") residential structures located on a lot with an existing primary home. ADUs can be created separate from the primary house or within the house, such as in an attic, basement, or addition. They are commonly known as "granny flats," "mother-in-law apartments," "alley houses," "secondary dwellings," or "carriage houses.".

More information about the DOLA ADU Strategy and ADUs in general can be found in the Centennial Housing Strategies Report.

Land Development Code Update Outline

The outline identifies the high-level content topics and organization, along with preliminary descriptions of standards that can be reviewed and discussed prior to the creation of a full draft.

Edits to LDC locations: Sec. 12-3-603 – Accessory Buildings and Structures, and Table 12-2-302 Residential, Home, and Institutional Uses (create A = Accessory Use category). Review the zone districts and use-standards to identify barriers to constructure different types of ADUs including dimensional standards (e.g., minimum lot size, maximum lot coverage, or setbacks) in existing residential zoning districts.

1. **Intent.** Identify the local intent of the ADU regulations, such as:
    a. Permanent residential use to supply affordable housing units;
    b. Promote the efficient use of land;
    c. Ensure the adequacy of infrastructure required to support accessory dwelling units; and,
    d. Preserve the general character of established neighborhoods in Centennial.
2. **Applicability**. Identify where ADUs are allowed, such as:
    a. Primary dwelling unit type (e.g., single-family detached and duplex units)
    b. Location in the City

Drafting Consideration: Applicability

Most of the community members participating in this project have expressed enthusiastic support for ADU regulations, frequently asking when the City will allow this use. Almost immediately, the conversation moves to how the LDC can be amended to allow the ADUs that would be considered appropriate in Centennial's many neighborhoods. Early ADU discussions will need to identify the zoning districts or other geographically defined locations where ADUs would be appropriate.

Recommendation

We recommend making ADUs broadly available. Current limitations, such as HOA restrictions, can change over time and should not be the guiding factor in drafting the standards.

3. **Units Allowed.** Identify the maximum number of units allowed and baseline conditions for construction, such as:
    a. Number of ADUs permitted per lot.
    b. An ADU shall not be permitted on a lot unless a primary dwelling currently exists or is under construction.
    c. An ADU is considered accessory and shall not be included in any density calculations.
    d. Define those units that are not allowed to be used as ADUs, such as mobile homes and sheds.
4. **Definitions (move to Article 16 following adoption).** Define all terms associated with accessory dwelling units, including:
    a. *Accessory Dwelling Unit*: an additional independent living area separate from the primary dwelling unit. An ADU may be located within or detached from the primary dwelling unit.
    b. *Attached ADU*. An ADU that is located within the principal dwelling such as in a finished basement or attic, in an attached addition, or in an attached garage.
    c. *Detached ADU*. An ADU that is separated from the principal dwelling typically at ground level or above a detached garage or other similar structure.
5. **Dimensional Standards.** Incorporate preferred dimensional requirements, Typically between 500 and 900 square feet, or a maximum percentage of the primary dwelling unit (e.g., no more than 40 or 50% of the sf of the primary dwelling) These standards can be varied based on location. (Examples include the following, which can also be tailored for attached ADUs and detached ADUs):

a. Maximum size for the unit

b. Applicable setbacks

c. Maximum height for detached units or additions

d. Building coverage ratios, potentially with bonus coverage for ADUs

6. **Design.** Design standards typically apply to detached units and additions to the primary structure to ensure neighborhood compatibility, regulating topics such as:

   a. Architectural Style,

   b. Windows ,

   c. Access (including a requirement for separate access to both the primary unit and ADU),

   d. Exterior Stairs, and/or

   e. Lighting.

Drafting Consideration: ADU Design Requirements

Neighborhood fit is an important consideration for ADU regulations. The LDC update conversation will explore what aspects of ADU design are important to fit within the neighborhood. The most important regulations identified during public outreach are maximum occupancy limitations, limitations on the maximum height and size, and setbacks from neighboring properties.

Recommendation

We recommend simple design requirements that address key local concerns, such as height, size, and location on the lot. Public comments highlighted the importance of allowing creativity and flexibility by not placing too many regulations on ADU styles.

7. **Additional Requirements.** This section regulates other site features and can be used to place limitations on the use of the ADU, including:

   a. Parking (identified as an important issue during community outreach): amount and location.

   b. Outdoor Areas: private open space for the ADU.

   c. Home-Based Business: whether the occupant of an ADU can operate a home-based business and sometimes whether a sign is allowed.

8. **Utilities.** This section provides instructions about complying with the design requirements of utility service providers to the principal dwelling, particularly for water and sewer connections to the ADU.

Drafting Consideration: Impact on Infrastructure and Utilities

Because ADUs exist in the same space as accessory uses, different communities have different views on how ADUs should be counted as density and different infrastructure and utility providers have different requirements and costs for connecting ADUs to their systems. These requirements can impact both the cost of construction and potentially the number of ADUs that can be built in a service area. While it is typically not a part of the regulatory drafting process to account for fees or requirements imposed by other jurisdictions or service providers, concerns about utility impacts were raised during public input. One of the drafting considerations will be to consider the availability of water and the cost of water tap fees and determine whether those considerations require any changes in the City's draft regulations.

Recommendation

9. **Impact Fees.** This section describes what circumstances, such as new construction, will trigger the application of an impact fee.
10. **Occupancy.** occupancy requirements are included in this section.
    a. Maximum occupancy, typically linked to the unit size and building code requirements.
    b. Owner occupancy

Drafting Consideration: Occupancy Requirements (and Short-Term Rentals)

Recommendation

Occupancy requirements are incorporated in regulations for a variety of reasons, but enforcement of an occupancy requirement can be both challenging and, ultimately, not a beneficial use of City resources. We recommend drafting the ADU regulations without an occupancy requirement.

11. **Deed Restriction.** Some communities require the recordation of a deed restriction that prevents the ADU from being subdivided or sold separately from the primary home.
12. **Review and Approval.** ADUs can be approved administratively, like most other accessory uses. Some communities require an additional level of review, such as a Conditional Use Permit, which adds time and cost to the process.

Drafting Consideration: Review and Approval
Most communities review and approve accessory uses administratively. ADUs, however, are sometimes sent through a higher level of review by the local governing body to allow for neighborhood comment. The review process established will determine how challenging it is to get an ADU approved.
Recommendation
established in the LDC. Community feedback can be gathered through a written comment process that can be used to inform the administrative approval.

Big Picture Questions

- Is it possible to start simple with the ADU regulations and not create standards that are too detailed or complex? What would that process look like?
- What metrics should be established to determine whether the ADU regulations are successful or should be tweaked?
- What are the impacts of HOA restrictions on ADUs or secondary dwelling units on a single property and how should the City consider these restrictions when making regulatory choices?

Expedited Review

Overview

Expedited review is designed to allow affordable housing projects, including the conversion of some underused commercial properties into affordable housing (adaptive reuse), to be processed in an expedited manner to help minimize project timelines and unexpected processing costs that can have significant impacts on the final cost of housing construction.

More information about the DOLA Expedited Review Strategies and expedited review in general can be found in the Centennial Housing Strategies Report.

Land Development Code Update Outline

Recommendation: Create an Affordable Housing Administrative Review Process

Currently, the Community and Economic Development Department processes all applications in a timely and consistent manner following established review periods. Most residential projects require a development review process in which staff reviews an application, Planning and Zoning Commission makes a recommendation, and City Council makes the final decision. The scheduling, preparation, and noticing of each Public Hearing must be done weeks to months in advance, which typically extends project decision dates by one to three months. To further expedite this process, the City should consider allowing residential projects that provide affordable units and that meet specific, pre-approved standards supported by the community to follow the Site Plan process that allows to the Director to make the decision to reduce the number of steps and public hearings required for affordable housing projects. View a summary of the City's current Land Development Process here. Community Meetings would still be required based on the criteria in this process.

Centennial can create an administrative review process for affordable housing development through the following changes across multiple LDC sections:

Section 12-14-304, Threshold Review (determining whether a community meeting is required)

New Affordable Housing Thresholds. Add thresholds for residential development that provides affordable housing, considering:

a. Amount of affordable housing included in the project (either by total number of units or percentage of overall project)

b. Anticipated unit prices or rents

c. Project location

Section 12-14-401 Amendment of Development Orders

Changes to Existing Approvals that Include Affordable Housing. Specify how existing projects that add affordable housing qualify for the administrative approval process, including:

a. Site Plan
b. Pattern Book

Section 12-14-203, Administrative Development Orders (generally identifying plans and permits that are approved administratively) **and**
Section 12-14-504.B., Administrative Approval (Site Plans and Plats) (identifying site plans that can be approved administratively)

1. **Include Affordable Housing.** Add residential development that provides affordable housing, addressing the following objective criteria:
   a. Amount of affordable housing included in the project (either by total number of units or percentage of overall project)
   b. Anticipated unit prices or rents
   c. Project location
2. **Ratification.** Eliminate P&Z ratification requirement.

Drafting Consideration: Identify Priority Commercial Sites for Conversion to Residential

Centennial's expedited review strategy includes two types of projects: development of affordable housing and conversion of underused commercial sites for affordable housing. Due to the variety of locations and surrounding scales of neighborhood of commercial development sites in Centennial, the City might consider identifying specific zone districts or types of parcels or shopping centers that could be "affordable housing ready" where residential units may be supported and/or appropriate.

Recommendation

As part of the LDC update process, the project team should choose a real or hypothetical commercial conversion site and illustrate how expedited review would impact the creation of affordable housing.

Section 12-14-603, Pattern Book

Add Affordable Housing. Revise applicability provision in Pattern Book to reflect the administrative option for affordable housing projects.

Administrative Pattern Book

There is a potential for expediting the review and approval of affordable housing projects using an administrative version of the Pattern Book process in Section 12-14-603. An affordable housing project would be reviewed by staff using affordable housing-specific standards with Director decision. The affordable housing standards would be limited to ensure the Director's ability to make object determinations about the proposed project. If needed, a send-up/call-up provision could be added that would allow either the Director or the Planning and Zoning Commission to elevate the application review to the next level when specific criteria are met.

Recommendation

Objective criteria for the review of affordable housing will need to be created as part of the LDC update process. The creation of an Affordable Housing Pattern Book can be done as the first step in this process and then the project team can make a further recommendation about whether to incorporate the pattern book or take a different approach to including the standards in the LDC.

Section 12-14-203, Administrative Development Orders and Section 12-13-204, Public Hearing Development Orders

Add Affordable Housing Administrative Pattern Book to Section 12-14-203, Administrative Development Orders, and remove from Section 12-14-204, Public Hearing Development Orders.

Drafting Consideration: Impact on All Development Applications

During the strategy review process, there was consistent community feedback that moving affordable housing projects to the "front" of the review process should not negatively impact all other development applications. Application review does not actually work in a linear process; different applications move at different speeds based on location, complexity, and an applicant's responsiveness. The goal of Centennial's expedited review update will not be to allow housing development to jump the line. Instead, this drafting process will be focused on finding barriers in the LDC and application process that can be addressed in ways that shorten the path of bringing a housing application to completion and moving it into City review.

Recommendation

As part of creating the expedited review process, prepare an amended review process timeline to help illustrate the impact of expedited review for affordable housing versus standard application review.

Drafting Consideration: Affordable Housing Project Expediter

As a supplemental element to or a stand-alone approach to further expediting applications, the City may designate a specific planner or group of planners to be responsible for reviewing and processing affordable housing applications. Affordable housing is a relatively new form of development for Centennial and providing a dedicated and knowledgeable resource for assistance with processing applications can decrease the amount of additional pre-submittal or mid-process meetings with the applicant. This would potentially allow for the creation of a shorter standard review period for affordable housing applications.

Big Picture Questions

- Should Centennial offer different review processes for market-rate and affordable units? Why or why not?
- What are the metrics for expedited review so the community can gauge the success of this approach?
- If Affordable Housing design and review criteria are established as part of this process, what aspects of a development would trigger additional community input for specific projects? Centennial NEXT, size of the project, location of the parcel, something else?

Inclusionary Zoning

Overview

Inclusionary zoning is a program that expands the locations and availability of affordable housing by establishing a requirement that new housing developments include a percentage of affordable housing as part of the project. Inclusionary zoning can also include incentives to developers to help offset the costs of providing affordable housing. Based on an analysis of existing market conditions in Centennial, Root Policy concluded that it is feasible and recommended to pursue an inclusionary zoning program paired with incentives (See Feasibility Analysis in Appendices).

More information about the DOLA Inclusionary Zoning Strategy and inclusionary zoning in general can be found in the Centennial Housing Strategies Report.

Preliminary Drafting Consideration: Voluntary or Mandatory Program

Inclusionary zoning policies can be mandatory (required for all residential development) voluntary, relying on incentives to encourage developer participation, or sometimes a combination of mandatory and voluntary. The following table summarizes the benefits, challenges, and legislative requirements of each policy option. The table also provides a description of the program ("basics") and whether application of incentives and options is common.

	Mandatory	Voluntary
The Basics	Residential developers are required to include affordable units in their development or pay a fee in lieu of building affordable units. Can be combined with incentives or offsets, but program participation is not optional.	Residential developers are offered zoning or land use incentives in exchange for including affordable units in their development. Participation is optional.
Incentives and Options	Can be paired with incentives and offsets but program is not reliant on incentives. Typical compliance options are fee in lieu and/or off-site build. Fees can be set low if a city desires to minimize impact on developers.	Must have incentives in order to encourage participation in the program. Developers typically have a menu of incentive options but programs do not usually offer alternative compliance pathways (e.g., fee in lieu or off-site build)
Benefits	Mandatory programs are one of the most effective ways to generate affordable units without public subsidy (in markets that are actively developing new housing). Flexibility in program design allows communities to tailor programs to their specific needs/priorities.	Easier political alternative to mandatory inclusionary because does not receive industry opposition. Can be structured to benefit City partners such as housing authorities and other affordable housing specialists, even if it does not attract private-sector developer participation.
Challenges	Generally faces opposition from development community (though academic research shows minimal impact to actual market metrics). Outcomes vary based on policy priorities and	Program must be well-calibrated to entice developers to participate. Voluntary programs typically result in fewer units than mandatory programs. They do not typically offer a vehicle for

	program design (e.g., production vs revenue generation) so clear direction up front is important to program success.	revenue generation (fee in lieu is not typically a part of voluntary programs).
Legislative Requirements in Colorado	Must offer a compliance "option" (such as fees in lieu) and demonstrate past or current actions that increase density or promote affordable housing (see HB21-1117 for details)	No legal requirements or challenges.

Currently, inclusionary zoning is not prohibited in Centennial and is effectively voluntary (but without incentives) for residential developers to provide affordable, or income-restricted units in Centennial. With no current incentives, the City has not seen residential developers voluntarily elect to provide affordable units within their projects.

Recommendation

projects voluntarily, adopting a mandatory inclusionary zoning program is recommended.

Land Development Code Update Outline

The inclusionary zoning program requirements would be established in and administered through both an Affordable Housing Poli the LDC. The new regulations could be located either within Division 3-6, Supplemental Residential Development Standards or in a new Division 3-10 at the end of Article 3. For the purpose of this outline, a new Division 3-10 and associated section/paragraph numbering are provided with basic headings and brief descriptions of the content that will appear in that portion of the regulations. When the new standards have been drafted, the rest of the LDC will be reviewed to address potential conflicts or barriers to implementation, as well as to adjust existing modifications, such as Section 12-9-301(d), Modification of Building Coverage.

Affordable Housing Policy

Affordable Housing Thresholds. This policy will establish the City's thresholds for identifying a unit as affordable housing.

Division 3-1 – Purpose and Application of Article

Affordable Housing. Review and amend this section to incorporate affordable housing purposes and clarify application of article as needed.

Division 3-10 – Inclusionary Zoning

Sec. 12-3-1001 Findings

Describes generally why inclusionary zoning is important to the City, the relationship to HB21-1117, and can include alignment with adopted affordable housing goals, if applicable.

Sec. 12-3-1002 Applicability

New Development. Establishes when the inclusionary zoning requirements apply to proposed development (e.g., size of development, location(?), etc.).

Amendments to Existing Development Approvals and Redevelopment. Establishes when amendments to existing development approvals (such as PUDs, A&D agreements, and regulating plans) will trigger the applicability of the inclusionary zoning standards.

Drafting Consideration: Applicability

For those communities that have adopted an inclusionary zoning program, there are a variety of approaches to determining the type and size of residential projects subject to the inclusionary requirements as well as which projects are exempt. A common approach is to set a basic threshold determined by the number of proposed dwelling units in a project that exempts small-scale and/or infill development (e.g., 4 or fewer units).

Recommendation

Sec. 12-3-1003 Requirements by Unit Type

Includes the required set-aside, income targets, and associated incentives for residential development based on housing type.

Drafting Consideration: Income Targets

Affordability requirements include both a set-aside (the number or proportion of units designated affordable) and an affordability level, generally defined by an Area Median Income (AMI) target. Considerations for AMI targets in inclusionary policies include alignment with local housing needs, as well as consistency with existing housing program and funding definitions. For example, the Low-Income Housing Tax Credit (LIHTC) program (the largest contributor to affordable rental housing nationwide) targets 60 percent AMI households or less. State funding sources, including Private Activity Bonds (PAB) target 60 percent AMI or less for rental and 115 percent AMI or less for owners. Habitat for Humanity's ownership units target households

earning 55% to 80% of AMI. The Centennial Housing Needs Assessment identified an affordability gap for renter households earning approximately 40% AMI and ownership households earning approximately 90% AMI.

Recommendation

Sec. 12-3-1004 Quality, Size, and Amenities of Affordable Units

Ensures that income-restricted units are constructed with the same quality, size, and access to amenities as those units that are being sold or rented at the market rate.

Sec. 12-3-1005 Incentives and Options to Satisfy Requirements

Describes the various ways in which an applicant may comply with the inclusionary zoning requirements.

Drafting Consideration: Incentives

In the Feasibility Analysis, Root Policy tested the following incentives in conjunction with either a five or ten percent set-aside requirement for affordable units.

Fee waivers: Fee waivers or reductions can be applied to City development fees (e.g., planning application and building permit fees) and potentially other development fees for affordable housing applications such as water and sewer tap fees. This requires both identifying the particular fees that could be waived or reduced as well as which funds from other City sources would replace the fees that would otherwise be paid at application. *NOTE: during the strategy review process, the Planning and Zoning Commission deprioritized fee reductions because the amount of reduction was not considered meaningful. This recommendation may need to be revisited as part of inclusionary zoning.*

Expedited review: Expedited review is discussed in the previous section of this document. In order to offer expedited review, the City must have clear regulations that are simple to apply and calculate. This includes any policies and incentives offered along with Inclusionary Zoning.

Density Adjustments: Density is a measurement of the number of units in a specified area. Bonus density allows the creation of a specified number of additional units, so the sale price or rental return of the "additional" units can offset the cost of constructing affordable units. For density bonus to work, base density for all zone districts must be established: Bonus = Base + Something More. Currently, the LDC maintains maximum density standards for the AG, RS, RA,

RU, CG, and AC districts, but otherwise residential density is effectively limited by other lot and building requirements (e.g., maximum lot coverage and minimum setbacks).

Establishing a density bonus will require adjustments to these standards or to some other regulatory limitation on the lot, such as height or parking, described below. Because of the very flexible nature of the LDC, residential projects often include variations to the base standards using the Pattern Book process, making a "bonus" hard to standardize.

Percentage Density and Setback Adjustments: Rather than making site-by-site density determinations followed by dimensional standard adjustments, a percentage density increase could be allowed for affordable housing development that meets the City's applicability standards. Using a method similar to Pattern Book adjustment, dimensional standards such as setbacks could be administratively adjusted on a per project basis.

Height bonus: A height bonus would allow for a developer to build additional units in a multifamily development to offset the cost of constructing affordable units. Allowing a height bonus may require the City to establish transitional height standards to avoid adverse impacts to adjacent low-density residential neighborhoods (e.g., buildings close to property lines would need to step down to 35 feet for a certain distance).

Parking reductions: Off-street parking requirements significantly increase the cost of development as well as limit the number of dwelling units that can be built on a site. Reducing the current off-street parking requirements for multifamily (1.5 spaces per studio or 1 bedroom dwelling unit + 2 spaces per 2- or 3-bedroom dwelling unit + 2.5 spaces per 4 bedroom dwelling unit + 1 guest space per 4 dwelling units) to 1.5 spaces per unit, regardless of type (as recommended by local affordable housing developers), would increase the amount of space and therefore the total number of dwelling units on the site. Though the Feasibility Analysis only tested a parking reduction for multifamily housing types, the City may also consider reducing the parking requirement for single-family housing types to one parking space per dwelling unit, instead of the two currently required.

Recommendation: Incentives

We recommend drafting an inclusionary zoning program that includes:

- An expedited review process;
- A fee rebate (up to $2,500 per affordable unit);
- A 25% increase in the allowed dwelling units per acre on single-family and townhome developments;
- Parking reductions (down to 1.5 spaces per unit) for multifamily rental developments; and
- Height bonus up to x stories or y feet within certain distance of I-25 corridor (appropriate amount to be determined).

Drafting Considerations: Options for Alternative Compliance

HB21-1117, the Colorado legislation that allows communities to implement inclusionary zoning, specifies that communities must provide a choice of options to the developer and creates one or more alternatives to the construction of new affordable housing units on the site. Common options include:

Fee-in-lieu: A fee-in-lieu is a sum of money paid to the City in exchange for not providing the required percentage of affordable units in a residential development. In lieu-fees are generally paid into a housing trust or other dedicated fund and used (often along with other local funding sources) to finance affordable housing developed off site. If the City pursues a fee-in-lieu option, establishing the associated formula (nexus study) for calculating the fee will need to be explored in more detail.

Off-site location: This option allows developers to build required affordable units on another site separate from their market-rate projects. This option would be challenging in Centennial given the limited availability of developable land.

Land dedication: This option allows developers to donate land for affordable housing development to the City or to a nonprofit agency approved by the City. This option is particularly challenging to implement because the proposed dedication site cannot be entirely up to the private developer; the City must carefully assess the site before accepting it in lieu of on-site units.

Nonprofit partnerships: Encouraging off-site production through partnerships with nonprofit housing developers facilitates implementation and may produce more affordable housing. Nonprofit developers often have considerable expertise in both building and managing affordable housing.

Recommendation

Due to difficulty administering off-site locations and land dedication, we recommend drafting an inclusionary zoning program that includes:

- On-site Units; and
- Fee-in-lieu buyout option.

Sec. 12-3-1006 Sale or Lease of Restricted Units

Ensures affordable units are sold and/or leased to qualified residents (those that meet the targeted AMI) and describes requirements for verifying the eligibility of residents.

Sec. 12-3-1007 Violation and Penalty

Describes the penalties and remedies for projects that do not comply with inclusionary zoning requirements (e.g., leasing affordable units to residents that do not meet the eligibility requirements).

Big Picture Questions

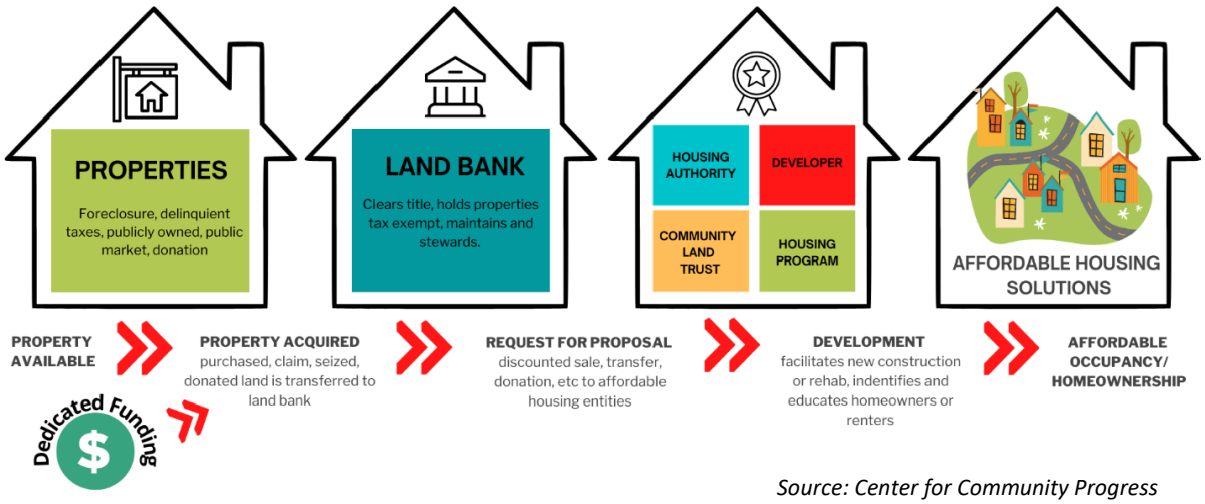
- The community is generally in favor of inclusionary zoning. What concerns should this drafting process address to keep the community educated about inclusionary zoning? What community priorities, such as locational preferences, do the Planning and Zoning Commission and City Council want to explore further for better understanding of the reasons for community support?
- Are there recommendations or details in this analysis that are unclear?
- If a fee waiver is offered at the level recommended, which fees would/could the City apply the $2,500 waiver to and should that waiver be supported by the fee in-lieu applied to market rate housing projects?
- Are there other incentives or options that should be presented/explored?
- What metrics should be established to determine whether an inclusionary zoning program is successful or should be adjusted?

Land Donation, Dedication, and Banking

Overview

A land banking program is a tool used by local governments to lower the land costs of developing affordable housing. In a strong housing market, communities tend to make strategic land acquisitions in areas that are redeveloping to hold room for future affordable housing development. In a softer housing market, communities tend to focus on purchase of vacant and abandoned properties for clean-up and beneficial reuse. Land banking programs work by:

- Acquiring, assembling, and holding land to be used for affordable housing;
- Reducing land ownership holding costs for affordable housing developers;
- Maintaining the property owned by the bank; and/or
- Negotiating the sale or donation of the property.



Source: Center for Community Progress

More information about the DOLA Land Banking Strategy and land banking in general can be found in the Centennial Housing Strategies Report.

Land Development Code Updates

Preliminary Drafting Consideration: Land Bank Governance

There are several options for establishing and operating a land bank, split between options for a program managed by the City or by a separate entity(ies), or jointly managed. Options in which the land bank is managed by City staff with the direction of City Council include:

Buy and Sell: This form of land bank would allow the City to acquire property and then sell the property for specific purposes under established criteria. Property could be sold or donated to an organization or developer when the City wants to dispose of the property, or the property could be held for a period of time until a specific project is identified that meets specific criteria – such as through a direct request or a Request For Proposals (RFP) process .

Buy for Specific Land: This form of land bank would allow the City to purchase property on a specific project-by-project basis to enable another organization/developer to build affordable housing. The City would not take the title of the property but would purchase property on behalf of another organization or entity. This option can be effective for clearly identified projects but less effective for acquiring land for taking advantage of market fluctuation impacting the cost of land over a longer time period.

Buy and Lease: This form of land bank would allow the City to utilize existing City-owned land, or purchase land in the future, for the specific purpose of housing, but the City would not be able to sell the land without each property going to the vote of the people. The land would be available for lease to affordable housing entities and the City would establish a limit on the term of the lease (entities such as the Colorado Housing and Finance Authority (CHFA) typically look for a minimum of 35 years, but more commonly up to 99 years).

Combined Approach: A land bank may use a combination of the above, either buying to sell or buying to lease.

Alternatively, the land bank may be managed by a separate entity. This is typically a non-profit entity. This option may allow for purchasing, holding, leasing, selling, or distribution of resources with the highest degree of flexibility, since the land bank could operate on its own terms without many governmental restrictions. This type of land bank also allows for property rental, development, and operation of the property if the entity so chooses.

Recommendation

We recommend three preliminary steps to start framing this conversation: (1) continue this drafting process as if the City were going to manage the land bank to identify key decision-points, (2) explore partnering opportunities with existing land banks and detail advantages and disadvantages of a partnership, and (3) explore land banking resources to identify baseline thresholds for operation, such as recommended amount of property owned, period of time for ownership, and outside funding opportunities.

Centennial-Managed Land Bank

If the City moves forward with a land banking option in which the City manages the acquisition and selling of properties, an ordinance establishing the land bank would be required. Typically, such ordinances appear in the section or chapter of the Municipal Code where regulations for public property are described (Title 11 of the Centennial Municipal Code). An ordinance establishing a land bank commonly includes the following provisions:

1. **Purpose**: Establishes the intent of the land bank and relationship to any affordable housing goals set by the City (whether as a separate stated goal or within the Comprehensive Plan).
2. **Authority:** Establishes the City's authority to acquire land that meets the purpose and criteria set forth in the ordinance. The Center for Community Progress lists five core powers that should be granted to land banks in order for them to be effective:
    a. Obtain property at low or no cost through the property tax foreclosure process;
    b. Clear title and/or extinguish back taxes on properties;
    c. Hold land tax-free;
    d. Lease properties for temporary uses; and
    e. Negotiate property sales based on community needs without seeking additional approvals from other levels of local government.
3. **Criteria:** Limits the type of property able to be acquired for a land bank based on considerations including, but not limited to: cost of land, location of land and access to services/adequate public facilities, and other geographic or physical requirements (e.g., areas zoned primarily for multifamily or commercial properties).

Drafting Consideration: Property Acquisition

There are a variety of approaches to determining the type of properties the land bank has the authority to pursue based on existing land inventory, goals and priorities related to housing, and existing land development limitations (e.g., zoning regulations). Properties most commonly included in land banks include:

- Tax-delinquent or abandoned properties for redevelopment;
- Existing City-owned properties;
- Vacant properties; and/or
- Valuable properties that should be strategically held until they can develop as affordable housing.

Some land banks also receive properties through voluntary donations from private owners, non-profit entities, or via transfers from other municipal governments. Additionally, some communities place additional limits on the type or location of land that can be purchased by the land bank. For example, the City of Fort Collins limits purchase of land to within the designated Growth Management Area and the land must be within ½ mile of at least 3 identified public amenities (e.g., park, school, or commercial center) within 10 years. In public comments, underused commercial properties and land near transit were the most supported locations for land bank investment.

Recommendation

We recommend creating a list of preferred acquisition criteria and exploring what types of purchase or transfer opportunities that would create.

4. **Funding:** Describes how the land bank is funded (e.g., General Fund or dedicated Affordable Housing Fund). The City of Centennial does not currently maintain a dedicated Affordable Housing Fund, but if an inclusionary zoning policy is adopted, the City may consider establishing such a fund where fees in lieu may then be used to buy property.

Drafting Consideration: Funding

Similar to property acquisition, there are many options for how to fund a land bank. Some communities already have an Affordable Housing Fund in place to cover initial operating costs, but if such fund does not exist (as in Centennial), the City may also pursue the following:

- Appropriating funds from the annual budget (e.g., General Fund);
- Bonds or loans;
- HOME Investment Partnership Program (HOME) and Community Development Block Grant (CDBG) funding for certain activities if there is a plan in place for the property which includes a CDBG/HOME eligible end use (e.g., demolition and rehabilitation in target neighborhoods) within the time frame permitted by those programs;
- Philanthropic foundation grants and private sector donations from organizations interested in affordable housing;
- If an inclusionary zoning policy is adopted, the City may consider dedicating all or a portion of collected fees in lieu to a land bank;
- A delinquent tax revolving fund (DTRF) that can enable a land bank to borrow funds to pay off delinquent property taxes owed to the City and in exchange the land bank receives the right to enforce the tax liens, and receive the interest and penalties on such liens if paid back.

A DTRF allows a land bank to either acquire properties by foreclosing on their tax liens or receive the revenue from interest and penalties to pay off the initial loan and fund other land bank operations; and/or

- Proposition 123 funds (see discussion below).

Once a land bank has acquired a sizeable inventory of properties, the land bank can generate its own revenue by selling or leasing properties, and receiving a portion of the tax revenue for land bank properties that are conveyed (sold or given) to new owners.

Recommendation

We recommend a next step of exploring the requirements of each of these funding types and creating a list of those sources that will be appropriate for a land bank in Centennial.

Drafting Consideration: Proposition 123

Colorado voters passed Proposition 123 in the November 2022 election. Fifty-one percent of Centennial voters voted “yes” on Proposition 123. This "yes" vote supported creating the State Affordable Housing Fund and dedicating one-tenth of one percent (0.1%) of state income tax revenue to fund housing programs, including providing grants to local governments and loans to nonprofit organizations to acquire and maintain land for the development of affordable housing (land banking).

If the City chooses to participate and opt-in to the Proposition 123 funding, establishing a land bank would allow the City to receive and use those funds to acquire land. Such funds would not require the distribution of money from a different City revenue source which is particularly important if the City does not pursue an inclusionary zoning program where fees in lieu would provide supplementary funding.

Recommendation

in a land bank, it should explore additional funding options provided by the State.

5. **Disposition of Property:** Establishes the terms by which the City can sell and/or convey property acquired by the land bank. Depending on whether the City establishes a formal definition of affordable housing, this section would either reference that definition or clarify the parameters of “affordable housing” related to the land being sold to ensure it is meeting the purpose of the land bank (e.g., homeownership units must be sold at or below 80% AMI).

Big Picture Questions

- Would the City have adequate capacity to administer a land banking program at current staffing levels? Would additional staff with specific expertise be needed?
- Are there any existing organizations to partner with to administer and manage a land bank (e.g., Arapahoe County Housing Authority)?
- Should a land banking program be managed by the City or by a separate board?

Appendix

Inclusionary Zoning Feasibility Analysis (following page)

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Inclusionary Housing Feasibility Analysis

PREPARED FOR:

City of Centennial, Colorado

CREATED

10/12/2022

This memo furthers the discussion set forth in the June 13, 2022 Inclusionary Housing Policy Considerations memo. The 6/13 memo highlighted key considerations of inclusionary housing policy options and outlined key decision points for policy direction.

This memo provides additional context for those decision points by conducting a feasibility analysis of potential inclusionary structure and paired incentives/offsets.

Overview of Inclusionary Policy Considerations (6/13 Memo)

Inclusionary housing—also called inclusionary zoning—policies rely on a jurisdiction's zoning authority to require or encourage new residential development to set aside a portion of units as income-restricted (affordable). Such policies can be mandatory (required for all residential development) or voluntary, relying on incentives to encourage developer participation.

It is important to note that inclusionary housing policies are just one tool in the suite of strategies available to help address housing needs. This specific tool applies only to new housing development and typically focuses on low to moderate income affordability. On its own, an inclusionary or incentive policy does not typically supply housing that meets the needs of very low or extremely low income households (households earning less than 50% Area Median Income, or AMI) unless paired with other subsidies or programs.

Inclusionary housing in Colorado. In May 2021, the Colorado state legislature opened the door for mandatory Inclusionary Housing (also called Inclusionary Zoning or IZ) policies to apply to both rental and for-sale development in Colorado. Prior to the passage of HB21-1117, mandatory inclusionary was considered to be "rent control" and therefore was limited to for-sale development application.

Municipalities that wish to enact mandatory inclusionary housing policies (under HB21-1117) are required to:

1) Offer a compliance alternative to on-site construction of the required affordable units (e.g., a fee in lieu); and

2) Demonstrate current or previous actions intended to increase density or promote affordable housing (e.g., zoning changes that increase density or support affordable housing; or fee reductions or other variances or regulatory adjustments for affordable housing).

Currently there are five municipalities with active mandatory inclusionary or linkage policies in the Denver Metro including the City and County of Denver, the City and County of Broomfield, and the Cities of Boulder, Longmont, and Superior. Many more communities offer development incentives for affordable housing, though very few refer to these policies as "voluntary inclusionary" programs—in part due to the historic legal challenges with mandatory inclusionary housing in Colorado. In addition, a recent DRCOG survey indicates that at least 10 Denver metro municipalities are currently considering implementation of inclusionary housing programs in response to the state legislative changes in 2021 (HB21-1117).

Market conditions and feasibility—Will inclusionary work in Centennial? The hallmark of inclusionary policies in general is that they leverage

private sector residential development to create affordable housing. As such, existing market conditions (and the feasibility of specific policy components) are critical factors in whether an inclusionary policy is likely to be effective. As discussed in detail in the 6/13 memo, **the market conditions in Centennial are favorable for an effective inclusionary policy. Based on current development trends, a 5% inclusionary policy could return 11 units per year, and a 10% policy could return 22 units per year** if residential permitting trends stay the same. Most units would be in multifamily or mixed use developments.

Market responses to inclusionary policies. Though every development operates under unique circumstances, affordability requirements and/or incentives most commonly impact developments by imposing constraints on revenue—either ongoing operating revenue for rentals or sales revenue of for-sale products. Fees—including inclusionary in-lieu fees—have no impact on revenue but do impact up-front costs. Specific development proforma impacts are described below:

- 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.
- When developers pay a fee-in-lieu, initial development costs (and therefore ongoing debt service) increase due to the fee, but revenue continues to reflect market-rate potential.
- Incentives that impact the development scale (e.g., height, density, parking, open space), when offered in exchange for construction of affordable units, serve to increase the number of market-rate units in order to offset the lower operating income of affordable units.

As with all regulatory and market-driven changes, local development economics would likely need to adjust should an affordability requirement be imposed via mandatory inclusionary housing. These adjustments commonly include shifts in land values. Additionally, construction labor costs, development amenities or finish level, unit size/configuration, market-rate rents, and/or investor expectations may also shift in response to new requirements. Some developers may also seek alternative sites in lower cost jurisdictions. Academic research on the impact of inclusionary requirements is mixed but generally shows no impact on housing supply and little to no impact on housing market pricing. In other words, **in most cases, inclusionary does not slow development but it could result in marginal increases to market rate rents** (0%-3%, less than a typical annual increase).[1]

[1] Economics of Inclusionary Housing Policies: Effects on Housing Prices, Grounded Solutions Network, 2016. Available online at: https://inclusionaryhousing.org/wp-content/uploads/2016/09/Economics-of-Inclusionary-Housing-Policies-Effects-on-Housing-Prices_a.pdf

Setting affordability targets for inclusionary policies. Area Median Income, or AMI, is the typical metric by which households qualify for various housing programs. HUD sets AMI annually by market area and household size; Centennial is included in the broader Denver Metro AMI (which includes Adams, Arapahoe, Broomfield, Clear Creek, Denver, Douglas, Elbert, Gilpin, Jefferson, and Park counties.)

Figure 1 shows the 2022 Denver Metro AMI income limits which guide housing program qualification in Centennial. Affordable home prices and affordable rents are each AMI are also included for reference.

Figure 1.
HUD AMI, Denver Metro, 2022

Note:

Affordable home price calculation assumes 10% down on a 30-year fixed rate mortgage with 5.0% interest; assumes 20% of monthly costs are non-mortgage.

Source:

HUD, CHFA rent and income limits, and Root Policy Research.

	Persons in Family				
	1	2	3	4	5
Income Limit					
30% AMI	$24,650	$28,150	$31,650	$35,150	$38,000
50% AMI	$41,050	$46,900	$52,750	$58,600	$63,300
60% AMI	$49,260	$56,280	$63,300	$70,320	$75,960
80% AMI	$62,600	$71,550	$80,500	$89,400	$96,600
100% AMI	$82,100	$93,800	$105,500	$117,200	$126,600
120% AMI	$98,520	$112,560	$126,600	$140,640	$151,920
Affordable Home Price					
30% AMI	$101,021	$115,364	$129,708	$144,052	$155,731
50% AMI	$168,231	$192,205	$216,180	$240,154	$259,416
60% AMI	$201,877	$230,646	$259,416	$288,185	$311,299
80% AMI	$256,547	$293,226	$329,905	$366,379	$395,886
100% AMI	$336,462	$384,411	$432,360	$480,309	$518,832
120% AMI	$403,754	$461,293	$518,832	$576,370	$622,598
Affordable Rent	**Studio**	**1 Bdrm**	**2 Bdrm**	**3 Bdrm**	**4 Bdrm**
30% AMI	$615	$659	$791	$914	$1,020
50% AMI	$1,026	$1,099	$1,318	$1,523	$1,700
60% AMI	$1,231	$1,319	$1,582	$1,828	$2,040
80% AMI	$1,642	$1,759	$2,110	$2,438	$2,720
100% AMI	$2,052	$2,198	$2,637	$3,047	$3,400
120% AMI	$2,463	$2,638	$3,165	$3,657	$4,080

Considerations for AMI targets in inclusionary policies include alignment with local housing needs, as well as consistency with existing housing program and funding definitions. For example, the LIHTC program (the largest contributor to affordable rental housing nationwide) targets 60% AMI households or less. State funding sources, including Private Activity Bonds (PAB) target 60% AMI or less for rental and 115% AMI or less for owners. Habitat for Humanity's ownership units target households earning 55% to 80% of AMI. For the subsequent feasibility anlaysis, **Root assumes inclusionary AMI targets would focus on 60% AMI for rentals and 80% AMI for ownership units.**

Feasibility Analysis

Feasibility analyses are designed to calibrate inclusionary requirements to specific markets and evaluate the cost of affordable unit set-asides alongside the financial benefits of incentives or offsets (if offered).

Financial feasibility models are based on development proformas typically used in the real estate industry to determine whether a project is financially feasible. A proforma is comprised of a development budget (i.e., construction and other costs associated with building development); an estimate of income as units are sold or rented; and an estimate of project value based on project income at stabilization and the estimated value of the entire development at sale.

Home prices and rents. As noted previously, inclusion of affordable units (either as a result of incentive programs or inclusionary programs) lower the expected revenue of a project by restricting sale prices or rental monthly rents of a small proportion of the units. Figure 2 shows the differential between market-rate and affordable home prices and rents in the Denver Metro at 80% AMI and 60% AMI, respectively. (Since AMI is a regional standard, the affordable rents/home prices below would apply to income restricted, affordable units in Centennial).

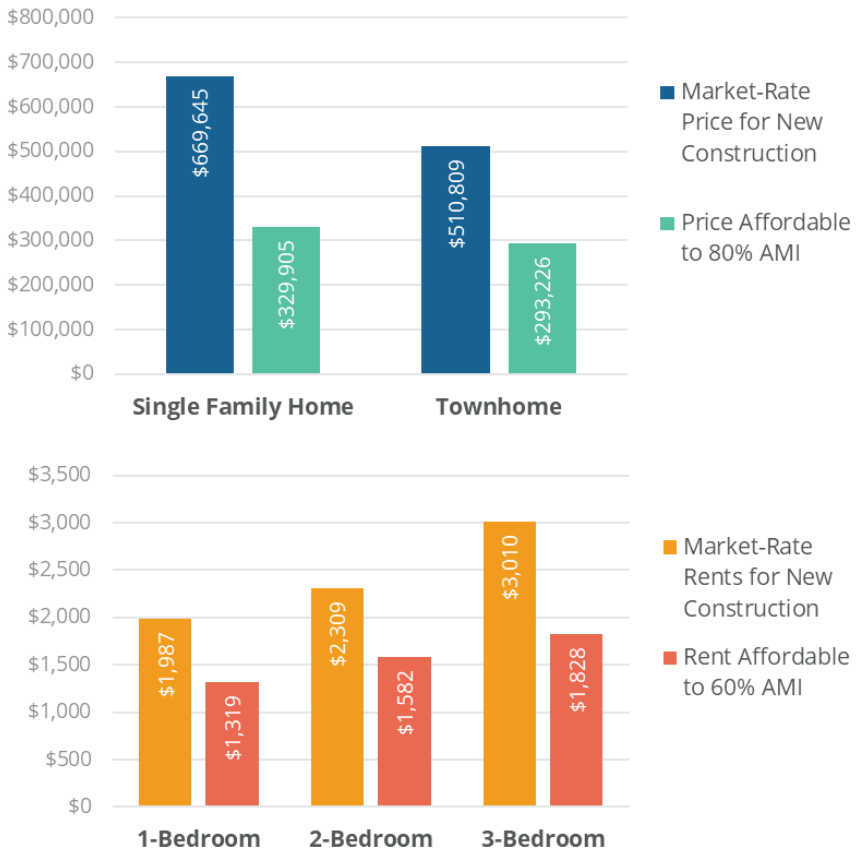
Figure 2. Market-Rate and Affordable Price/Rent Comparison, Denver Metro

Note:

Affordable home price for single family assumes 3-person household while townhome assumes 2-person household.

Source:

CHFA Income and Rent Limits, Denver Metro Rental Vacancy Survey, ZONDA, and Root Policy Research.



Value of development incentives. Development incentives are inherently part of voluntary incentive programs, and it is common for mandatory inclusionary housing policies to include development incentives that help offset costs of the affordability requirements. Financial benefits of common incentives are described below.

- **Parking reduction**—Parking costs vary from about $5,000 per space for surface lots to $45,000 per space for structured parking (and more for underground garages). **Reducing parking ratios from 2.0 to 1.5 spaces per unit would save $22,500 in development costs for structured parking and $2,500 per unit for surface parking.** This analysis assumes the parking reduction would apply across the entire development, not just to affordable units. In addition to the direct savings, reduced parking may also allow a developer to include additional residential units with the saved space.

- **Fee rebates**—typical fee rebates range from $5,000 to $15,000 per affordable unit and are often capped at a certain threshold. These incentives are usually extended only to the affordable units within a development. A $5,000 per affordable unit fee rebate in association with a 10% affordability set-aside would effectively **lower the per-unit cost of the entire development by $500 per unit.**

- **Density bonus and open space reduction**—Both density bonuses and open space reductions serve to increase the number of units that can be constructed as part of an overall development. As long as the increase in unit capacity does not change the construction type (e.g., from lumber to steel) then the cost per unit does not change significantly. The developer may realize **some overall cost savings in per unit land costs, but the bigger benefit is in increased total revenue for the project.**

- **Fast-track or administrative approvals**—Process-oriented incentives are **highly valued by developers but are not quantifiable** in the same way as other incentives. Evens so, these types of incentives are often a key driver in success of incentive programs.

Existing development conditions. The feasibility model starts with base case scenarios that reflect current development conditions in Centennial. It is important to note that under Centennial's current zoning code, **multifamily developers often opt for a PD to negotiate specific standards as a work-around for the complexity and rigidity of Centennial's code.** The base case prototypes below reflect by right options (without a PD):

- Single-household unit with a 4,000 square foot lot size and a maximum density of 4.9 units/acre;
- For-Sale townhome with a with a 2,600 square foot lot size and a maximum density of 11.6 units/acre; and
- 3-story multifamily rental with surface parking (max building coverage ratio of 25% and a parking ratio around 2.25 spaces per unit).

It should be noted that the height limits in Centennial's multifamily zones (50 ft) technically allow for a 4-story residential building but the limits on dwelling units per acre (30 du/a), lot size (1,800 SF per unit), and lot coverage (25%) make these prototypes financially infeasible. As such, these types of developments require a variance of one or more of the standards listed above in order to pencil and are therefore indirectly required to use a PD process.

Figure 3 shows the base case proformas under current development conditions and by-right zoning standards. Both the single family and townhome prototypes assume 20 units in the development. Key financial feasibility metrics are summarized under valuation detail.

Figure 5. Base Case Development Conditions

	Single Family	Townhome	3-Story Multifamily
Base Zoning Standards			
Minimum lot size (per unit)	4,000	2,600	1,800
DU/Acre	4.9	11.6	30.0
Max height	30 ft	35 ft	50 ft
Max building coverage ratio	50%	60%	25%
Parking per unit	2.00	2.25	2.25
Site and Prototype Characteristics			
Parcel Size (acres)	4.20	1.75	3.00
Lot size per unit (SF)	9,148	3,812	1,815
Total Units	20	20	72
Avg SF per unit	2,450	1,800	1,050
DU/Acre calculation from lot size	4.76	11.43	24.00
Parking type	2-car garage	1-car garage	surface
Parking ratio	2	2.5	2.25
Development Costs			
Land Costs	$2,900,000	$1,900,000	$3,960,000
Hard Costs	$7,900,000	$6,500,000	$15,570,000
Soft Costs	$1,422,000	$1,170,000	$2,736,000
Total Development Cost	$12,222,000	$9,570,000	$22,266,000
Total Development Cost per Unit	*$611,100*	*$478,500*	*$309,250*
Revenues and Operating Expenses			
Sales Revenue	$14,100,000	$10,900,000	
Sale Price Market Rate (per unit)	$705,000	$545,000	
Annual Rental Revenue			$1,887,840
Market-Rate Rent (per unit /mo)			$2,300
Vacancy Rate			5%
Operating/Sales Expenses			
Cost of sale/marketing (2% of revenue)	$282,000	$218,000	
Annual operating cost			$576,000
Valuation Detail			
Net Sale Value or Net Op Income (NOI)	**$13,818,000**	**$10,682,000**	**$1,311,840**
Return on Cost	**13.1%**	**11.6%**	**5.89%**

Note:

Proforma assumptions are based on Marshall & Swift Commercial Cost Estimating software and supplemented with interviews with developers, architects, and contractors active in the local market. Revenue and operating cost data include input from developers as well as market data.

Source:

Marshall and Swift Estimator, Developer Interviews, and Root Policy Research.

Inclusionary feasibility results. Root then adjusted the base case scenarios to include affordability requirements (with and without incentives) and compared the returns to developers/investors on the *base case* to returns on *inclusionary* developments.

- Modest declines in returns can generally be absorbed by a project and still maintain financial feasibility; however substantial declines in returns could result in the relocation of a proposed project to a different jurisdiction.
- Improved returns suggest the benefit of the incentive package outweighs the cost of the affordability set-aside.

Root tested two different inclusionary requirements: one with a 5% set-aside and one with a 10% set-aside. In both cases, Root used 60% AMI as the max affordable rental target and 80% AMI as the max affordable for-sale target.

The feasibility analysis also accounts for the value of potential incentives of an inclusionary program that could be used to help offset the cost of affordable unit set asides. Specific incentives tested include:

- A fee rebate (up to $2,500 per affordable unit);
- A 25% density bonus on single-family and townhome prototypes, measured as an increase in the allowed dwelling units per acre;
- Parking reductions (down to 1.5 spaces per unit) for multifamily rental developments; and
- Height bonus applied to the 3-story multifamily rental, resulting in a 5-story prototype and a 7-story prototype. It is important to note that these height bonuses result in different construction approaches, including structured parking and, for the 7-story, a change from wood to steal construction.

As discussed previously, process-oriented incentives are highly valued by developers but are not quantifiable in the same way as other incentives and are therefore not included in the feasibility analysis.

For-sale prototype results. Figures 6 and 7 show both a 5% and 10% inclusionary policy applied to the single family and townhome projects. As expected, an inclusionary program with no incentives results in marginal declines in the return metrics (net sale value and return on cost), compared to the base case scenarios. However, **when incentives are paired with the potential inclusionary requirements, they fully offset the cost of the affordable units under the 10% set-aside and improve net returns under the 5% set-aside.**

Figure 6.
For-Sale Prototypes with 5% Inclusionary at 80% AMI

	Single Family		Townhome	
	No Incentives	Density Bonus & Fee Rebate	No Incentives	Density Bonus & Fee Rebate
Base Zoning Standards				
Minimum lot size (per unit)	4,000	4,000	2,600	2,600
DU/Acre	4.9	6.0	11.6	14.3
Max height	30 ft	30 ft	35 ft	35 ft
Max building coverage ratio	50%	50%	60%	60%
Parking per unit	2.00	2.00	2.25	2.25
Site and Prototype Characteristics				
Parcel Size (acres)	4.20	4.20	1.75	1.75
Lot size per unit (SF)	9,148	7,318	3,812	3,049
Total Units	20	25	20	25
Affordable Units	1.00	1.25	1.00	1.25
Avg SF per unit	2,450	2,450	1,800	1,800
Parking type	2-car garage	2-car garage	1-car garage	1-car garage
Parking ratio	2	2	2.5	2
Development Costs				
Land Costs	$ 2,900,000	$ 2,900,000	$ 1,900,000	$ 1,900,000
Hard Costs	$ 7,900,000	$ 9,875,000	$ 6,500,000	$ 8,125,000
Soft Costs	$ 1,422,000	$ 1,774,375	$ 1,170,000	$ 1,459,375
Total Development Cost	**$ 12,222,000**	**$ 14,549,375**	**$ 9,570,000**	**$ 11,484,375**
Total Development Cost per Unit	*$611,100*	*$581,975*	*$478,500*	*$459,375*
Revenues and Operating Expenses				
Sales Revenue	$13,761,379	$17,201,723	$10,684,905	$13,356,131
Sale Price Market Rate (per unit)	$705,000	$705,000	$545,000	$545,000
Income Restricted Sale Price (per unit)	$366,379	$366,379	$329,905	$329,905
Operating/Sales Expenses				
Cost of sale/marketing (2% of revenue)	$ 275,228	$ 344,034	$ 213,698	$ 267,123
Valuation Detail				
Net Sale Value	$13,486,151	$16,857,689	$10,471,207	$13,089,008
Return on Cost	**10.3%**	**15.9%**	**9.4%**	**14.0%**

Source: Root Policy Research.

Figure 7.For-Sale Prototypes with 10% Inclusionary at 80% AMI

	Single Family		Townhome	
	No Incentives	Density Bonus & Fee Rebate	No Incentives	Density Bonus & Fee Rebate
Base Zoning Standards				
Minimum lot size (per unit)	4,000	4,000	2,600	2,600
DU/Acre	4.9	6.0	11.6	14.3
Max height	30 ft	30 ft	35 ft	35 ft
Max building coverage ratio	50%	50%	60%	60%
Parking per unit	2.00	2.00	2.25	2.25
Site and Prototype Characteristics				
Parcel Size (acres)	4.20	4.20	1.75	1.75
Lot size per unit (SF)	9,148	7,318	3,812	3,049
Total Units	20	25	20	25
Affordable Units	2.00	2.50	2.00	2.50
Avg SF per unit	2,450	2,450	1,800	1,800
Parking type	2-car garage	2-car garage	1-car garage	1-car garage
Parking ratio	2	2	2.5	1
Development Costs				
Land Costs	$ 2,900,000	$ 2,900,000	$ 1,900,000	$ 1,900,000
Hard Costs	$ 7,900,000	$ 9,875,000	$ 6,500,000	$ 8,125,000
Soft Costs	$ 1,422,000	$ 1,771,250	$ 1,170,000	$ 1,456,250
Total Development Cost	**$ 12,222,000**	**$ 14,546,250**	**$ 9,570,000**	**$ 11,481,250**
Total Development Cost per Unit	*$611,100*	*$581,850*	*$478,500*	*$459,250*
Revenues and Operating Expenses				
Sales Revenue	$13,422,757	$16,778,447	$10,469,809	$13,087,262
Sale Price Market Rate (per unit)	$705,000	$705,000	$545,000	$545,000
Income Restricted Sale Price (per unit)	$366,379	$366,379	$329,905	$329,905
Operating/Sales Expenses				
Cost of sale/marketing (2% of revenue)	$ 268,455	$ 335,569	$ 209,396	$ 261,745
Valuation Detail				
Net Sale Value	$13,154,302	$16,442,878	$10,260,413	$12,825,517
Return on Cost	**7.6%**	**13.0%**	**7.2%**	**11.7%**

Source: Root Policy Research.

Rental prototype results. Figures 8 and 9 show both a 5% and 10% inclusionary policy applied to the multifamily prototype. As expected, an inclusionary program with no incentives results in marginal declines in the return metrics (NOI and return on cost). **The parking reduction and fee rebate help offset the costs under the 3-story prototype, but still result in slight decreases to return on cost. The height bonuses result in substantial increases in nominal NOI, but percentage returns are lower than the 3-story scenario.** This is driven by the change in parking (to structured from surface) and the change in building code and construction type.

Figure 8. Rental Prototypes with 5% Inclusionary at 80% AMI

	3-Story Base Height		Up to 5-Story Bonus Height		Up to 7-Story Bonus Height	
	No Incentives	Parking Reduction & Fee Rebate	Height Bonus Only (to 5 Stories)	Height Bonus, Parking Reduction, & Fee Rebate	Height Bonus Only (to 7 Stories)	Height Bonus, Parking Reduction, & Fee Rebate
Base Zoning Standards						
Minimum lot size (per unit)	1,800	1,800	512	792	402	792
DU/Acre	30	30	85	55	108	55
Max height	50 ft	50 ft	70 ft	70 ft	112 ft	112 ft
Max building coverage ratio	25%	47%	67%	39%	50%	23%
Parking per unit	2.25	1.50	2.00	1.50	2.00	1.50
Site and Prototype Characteristics						
Parcel Size (acres)	3.00	3	3.00	3	3.00	3
Lot size per unit (SF)	1,815	1,815	512	792	402	792
Total Units	72	72	255	165	325	165
Affordable Units	3.60	3.60	12.75	8.25	16.25	8.25
Avg SF per unit	1,050	1,050	950	950	875	875
Parking type	surface	surface	structure	structure	structure	structure
Parking ratio	2.25	1.50	2.00	1.50	2.00	1.50
Development Costs						
Land Costs	$ 3,960,000	$ 3,960,000	$ 4,356,000	$ 4,356,000	$ 4,791,600	$ 4,791,600
Hard Costs	$ 15,570,000	$ 15,300,027	$ 76,500,000	$ 45,787,500	$ 105,007,500	$ 49,599,000
Soft Costs	$ 2,736,000	$ 2,727,000	$ 10,200,000	$ 6,579,375	$ 13,000,000	$ 6,579,375
Total Development Cost	**$ 22,266,000**	**$ 21,987,027**	**$ 91,056,000**	**$ 56,722,875**	**$ 122,799,100**	**$ 60,969,975**
Total Development Cost per Unit	*$309,250*	*$305,375*	*$357,082*	*$343,775*	*$377,843*	*$369,515*
Revenues and Operating Expenses						
Annual Rental Revenue	$ 1,858,373	$ 1,858,373	$ 6,926,945	$ 4,482,141	$ 9,127,198	$ 4,633,808
Market-Rate Rent (per unit /mo)	$ 2,300	$ 2,300	$ 2,425	$ 2,425	$ 2,510	$ 2,510
Income Restricted Rent (per unit /mo)	$ 1,582	$ 1,582	$ 1,582	$ 1,582	$ 1,582	$ 1,582
Vacancy Rate	5%	5%	5%	5%	5%	5%
Annual operating cost	$ 576,000	$ 576,000	$ 2,167,500	$ 1,402,500	$ 2,762,500	$ 1,402,500
Valuation Detail						
Net Operating Income	$1,282,373	$1,282,373	$4,759,445	$3,079,641	$6,364,698	$3,231,308
Return on Cost	**5.76%**	**5.83%**	**5.23%**	**5.43%**	**5.18%**	**5.30%**

Source: Root Policy Research.

Figure 9. Rental Prototypes with 10% Inclusionary at 80% AMI

	3-Story Base Height		Up to 5-Story Bonus Height		Up to 7-Story Bonus Height	
	No Incentives	Parking Reduction & Fee Rebate	Height Bonus Only (to 5 Stories)	Height Bonus, Parking Reduction, & Fee Rebate	Height Bonus Only (to 7 Stories)	Height Bonus, Parking Reduction, & Fee Rebate
Base Zoning Standards			Requires PD or variance		Requires PD or variance	
Minimum lot size (per unit)	1,800	1,800	512	792	402	792
DU/Acre	30	30	85	55	108	55
Max height	50 ft	50 ft	70 ft	70 ft	112 ft	112 ft
Max building coverage ratio	25%	47%	67%	39%	50%	23%
Parking per unit	2.25	1.50	2.00	1.50	2.00	1.50
Site and Prototype Characteristics						
Parcel Size (acres)	3.00	3	3.00	3	3.00	3
Lot size per unit (SF)	1,815	1,815	512	792	402	792
Total Units	72	72	255	165	325	165
Affordable Units	7.20	7.20	25.50	16.50	32.50	16.50
Avg SF per unit	1,050	1,050	950	950	875	875
Parking type	surface	surface	structure	structure	structure	structure
Parking ratio	2.25	1.50	2.00	1.50	2.00	1.50
Development Costs						
Land Costs	$ 3,960,000	$ 3,960,000	$ 4,356,000	$ 4,356,000	$ 4,791,600	$ 4,791,600
Hard Costs	$ 15,570,000	$ 15,300,027	$ 76,500,000	$ 45,787,500	$ 105,007,500	$ 49,599,000
Soft Costs	$ 2,736,000	$ 2,718,000	$ 10,200,000	$ 6,558,750	$ 13,000,000	$ 6,558,750
Total Development Cost	**$ 22,266,000**	**$ 21,978,027**	**$ 91,056,000**	**$ 56,702,250**	**$ 122,799,100**	**$ 60,949,350**
Total Development Cost per Unit	*$309,250*	*$305,250*	*$357,082*	*$343,650*	*$377,843*	*$369,390*
Revenues and Operating Expenses						
Annual Rental Revenue	$ 1,828,907	$ 1,828,907	$ 6,804,415	$ 4,402,857	$ 8,955,309	$ 4,546,542
Market-Rate Rent (per unit /mo)	$ 2,300	$ 2,300	$ 2,425	$ 2,425	$ 2,510	$ 2,510
Income Restricted Rent (per unit /mo)	$ 1,582	$ 1,582	$ 1,582	$ 1,582	$ 1,582	$ 1,582
Vacancy Rate	5%	5%	5%	5%	5%	5%
Annual operating cost	$ 576,000	$ 576,000	$ 2,167,500	$ 1,402,500	$ 2,762,500	$ 1,402,500
Valuation Detail						
Net Operating Income	$1,252,907	$1,252,907	$4,636,915	$3,000,357	$6,192,809	$3,144,042
Return on Cost	**5.63%**	**5.70%**	**5.09%**	**5.29%**	**5.04%**	**5.16%**

Source: Root Policy Research.

Summary of project returns on all prototypes. Figure 10 summarizes the feasibility analysis return metrics under base case and inclusionary scenarios (with and without incentives).

Figure 10. Summary of Project Returns for all Prototypes Under Varying IZ and Incentive Scenarios

Source: Root Policy Research.

	Net Sale Value or NOI	Return on Cost
Single Family		
Base Case (no IZ)	**$13,818,000**	**13.06%**
Inclusionary: 5% of units at 80% AMI		
No Incentives	$13,486,151	10.34%
Density Bonus & Fee Rebate	$16,857,689	15.87%
Inclusionary: 10% of units at 80% AMI		
No Incentives	$13,154,302	7.63%
Density Bonus & Fee Rebate	$16,442,878	13.04%
Townhome		
Base Case (no IZ)	**$10,682,000**	**11.62%**
Inclusionary: 5% of units at 80% AMI		
No Incentives	$10,471,207	9.42%
Density Bonus & Fee Rebate	$13,089,008	13.97%
Inclusionary: 10% of units at 80% AMI		
No Incentives	$10,260,413	7.21%
Density Bonus & Fee Rebate	$12,825,517	11.71%
3-Story Multifamily		
Base Case (no IZ)	**$1,311,840**	**5.89%**
Inclusionary: 5% of units at 60% AMI		
No Incentives	$1,282,373	5.76%
Parking Reduction & Fee Rebate	$1,282,373	5.83%
5-Story Height Bonus (no other incentives)	$4,759,445	5.23%
5-Story Height Bonus, Parking Reduction, & Fee Rebate	$3,079,641	5.43%
7-Story Height Bonus (no other incentives)	$6,364,698	5.18%
7-Story Height Bonus, Parking Reduction, & Fee Rebate	$3,231,308	5.30%
Inclusionary: 10% of units at 60% AMI		
No Incentives	$1,252,907	5.63%
Parking Reduction & Fee Rebate	$1,252,907	5.70%
5-Story Height Bonus (no other incentives)	$4,636,915	5.09%
5-Story Height Bonus, Parking Reduction, & Fee Rebate	$3,000,357	5.29%
7-Story Height Bonus (no other incentives)	$6,192,809	5.04%
7-Story Height Bonus, Parking Reduction, & Fee Rebate	$3,144,042	5.16%

Summary of Findings

- A 5% inclusionary set-aside is almost fully offset by the proposed incentives under all prototypes. Without incentives, a 5% set-aside has only a modest impact on returns.
- A 10% set-aside is offset by incentives only on the for-sale prototypes and has a more substantive impact on returns than the 5% set-aside when imposed without incentives.
- Though multifamily height bonuses do improve NOI, the diminishing return on cost means these incentives will be attractive to some developers but may not entice all developers to build at higher heights.
- Since most multifamily developers use PDs as opposed to by-right zoning, any inclusionary policy should automatically apply to all PD developments as a matter of course.

Based on the results of the analysis, Root does recommend the City consider an inclusionary housing policy paired with incentives. Determination of a **potential inclusionary structure should balance the feasibility results with the City's housing goals and other strategies being considered by the City**—it is not a "silver bullet" to addressing all needs but does have the potential to create new affordable units while also clarifying incentives for developers.

If the City decides to pursue and inclusionary policy, Root also recommends that the City engage the City of Littleton in a regional discussion about potential policy alignment. The City of Littleton is pursuing an inclusionary policy with a 5% set-aside paired with incentives and regional policy alignment could improve transparency for developers and minimize development competition between the jurisdictions.